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Statement by Mr. Goldfajn
Brazil

On behalf of
Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Democratic Republic of Timor-Leste, and Trinidad and Tobago

Statement by Ilan Goldfajn
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On behalf of the Constituency comprising Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

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1. **Since April, when we last met, global growth became more uneven. While the overall outlook remains robust, financial conditions in emerging markets are tightening.** Growth in the US, backed by a substantial fiscal impulse, continues strong and is projected to remain so through next year. China has so far managed to rebalance its economy to a measuredly lower growth. Key emerging economies are recovering from recessions or decelerations, albeit generally at more modest rates than expected. Notwithstanding this still largely benign scenario, evolving risks call for a more cautious view of the outlook.

2. **First and foremost, global financial conditions may change.** The global economy is transitioning from a period of exceptionally supportive monetary policy in the major advanced economies to more normal policy stances. The US Fed leads this process by gradually raising its policy rate and reducing the size of its balance sheet in a paced manner. Such repositioning has been data dependent, well communicated and highly anticipated. Nonetheless, with normalization of monetary policy in the US moving steadily, financial conditions tend to change in the same direction. Throughout this transition, market sentiment will probably behave in a more jittery way, veering towards less risk appetite. Therefore, tighter financial conditions and bouts of volatility should be expected during this move to a new equilibrium.

3. **Second, the long duration of expansionary policies and the corresponding easy financial conditions have concealed policy inconsistencies and engendered high levels of debt that require adjustments.** While this was generally a worldwide development, vulnerabilities accentuated in countries with high currency mismatches and external financing needs.

4. **Third, in many parts of the world globalization and multilateralism lack social and political support.** Frequently, the benefits of greater global integration have not trickled down to the whole population – segments were left behind unattended or social policies have been funded in an unsustainable way, fueling imbalances that require strong and urgent correction. Along similar lines, support to multilateralism has been waning, compounding at the global level with the pervasive domestic political hurdles. The ongoing trade tensions, which feed on the disbelief in globalization, aggravate the difficulties, adding to the uncertainties and may ultimately lead to a lower growth equilibrium, as the global economy loses efficiency.

5. **The recent episodes of volatility in some emerging markets are part of this changing environment.** Idiosyncratic factors play a role in defining the specifics, but the driving causes are global in nature, as the world liquidity and financial conditions transition to a normal stance. Given the common nature of the shock, emerging market economies may be affected as an asset class, even as individual economies continue to be differentiated by their perceived strength. The materialization of risks, such as an inflationary surprise in the US or a prolonged escalation of trade disputes, could lead to a deterioration in global financial conditions.

6. Although this challenging scenario is currently more concerning to the emerging market economies, as the monetary policy normalization process in advanced economies moves forward, other countries' sovereign and high-yield assets may also be affected. Should this scenario materialize, the IMF will need to be well funded and prepared to prevent undue international volatility.

7. **Such an outlook calls for a vigilant attitude and resolute action, both at the national and the multilateral level.**

8. **Countries' defense starts on the domestic front, with the recalibration of policy stances within a consistent framework and, where applicable, exchange rate flexibility to absorb shocks.** For most emerging markets, the more adverse global financial scenario will have to be confronted with reforms and adjustments, in order to ensure confidence on fiscal sustainability and engender higher growth.

9. **In addition, buffers, especially in the form of international reserves, help smooth out the adjustment path.** Countries should continue to build buffers and enhance resilience, although the conditions for that may be less favorable now than before. Moreover, many countries will find it difficult to raise defenses to the needed levels in time for the critical period when policy normalization in the US is proceeding and its effects being mostly felt.

10. **Against this backdrop, it is clear that the international community cannot afford to let the IMF become ill-funded and have its ability to perform its mission undermined.** A successful completion of the 15th General Review of Quotas is ever more important and urgent. The bilateral borrowing agreements, even if they get extended next year, will expire in 2020, reducing IMF's lending capacity. It is high time for the IMFC to send a clear, reassuring message that the Fund will not lose resources in such a critical global juncture. While the bilateral borrowing agreements played a very important role in providing the Fund with the needed resources after the global financial crisis, those are temporary arrangements that could, if let endure, distort the governance structure of the IMF. Quotas are the reliable, permanent resources, that establish a clear link between rights and obligations. At this point in time, there should be no questions whatsoever about the robustness of the Fund's financial capacity.

11. **In Brazil, the recovery from the deep recession proceeds, albeit at a slower pace than expected.** The country's resilience to external shocks is well tested. A robust balance

of payments position, a floating exchange rate, adequate levels of reserves, low current levels of inflation and well-anchored inflation expectations uphold the capacity of Brazil to withstand shocks. The combination of balanced current account while FDI remained vigorous is an advantage. In spite of the progress on the reform agenda in the past couple of years, the decisive step of reforming the pension system is yet to be taken. Amid the electoral cycle, there seems to be a rising consensus that reforms and adjustments must continue in order to increase sustainable growth in Brazil.

12. **I welcome the joint IMF and World Bank "Bali Fintech Agenda", whose principles are aligned with our views and provide well-balanced high-level guidance.** By stimulating competition and financial inclusion, fintech presents great opportunities for consumers, including many that have remained out of reach of conventional financial service providers. We hope that the joint "Bali Fintech Agenda" will help foster an ever more fruitful engagement of the IMF with Standard Setting Bodies (SSB), other International Financial Institutions (IFI) and the membership as a whole.

13. **The policy agenda proposed by the Managing Director is comprehensive and relevant.** In addition to the points already mentioned above, I would like to underscore the importance of the continued engagement of the Fund with the WTO and the World Bank in support of greater global trade integration. The recently launched joint report – "Reinvigorating Trade and Inclusive Growth" – provides an encompassing and well-founded case for the continued pursuit of greater trade openness as the foundation of more inclusive and vibrant growth. The revision of low-income countries facilities offers a great opportunity for the Fund to better meet the needs of this important group of our membership. The focus on improving the effectiveness of program engagement and the traction of capacity development activities with small states and countries in fragile and conflict situations is most welcome. Finally, our Chair attributes great importance to the full and timely implementation of the recommendations by the Independent Evaluation Office (IEO) to enhance the IMF focus and support to countries in fragile and conflict situations.