International Monetary and Financial Committee

Thirty-Fifth Meeting
April 21–22, 2017

Statement No. 35-17

Statement by Mr. Meirelles
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 Henrique de Campos Meirelles
Minister of Finance, Brazil

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

International Monetary and Financial Committee
April 2017

Global Economic Outlook

1. Growth momentum has intensified since the second half of 2016, particularly in advanced economies, and the outlook remains positive for the near term. Growth seems to be more disseminated and coming from different sources, which suggests a particularly favorable cyclical alignment. Nonetheless, the global recovery is still forecasted to be slow and risks remain tilted to the downside. In such context, it is important to caution against premature withdrawal of policy support in advanced economies where output gap looms large and reflation is still tentative.

2. While emerging markets and developing countries (EMDCs) continue to contribute to the bulk of global growth, revisions since October have been mixed, reflecting country-specific factors. China’s policy support has been an important pillar for global activity and a main factor upholding commodity prices. Commodities have also benefitted from supply conditions and expectations of increased infrastructure spending in the United States. A rebound in investment by commodity exporters and more intense manufacturing activity augur well for more active international trade. Fiscal reforms and adjustment in response to still-low commodity revenues are underway in many emerging markets. In the coming years, we expect this effort to translate into stronger fiscal and current account balances and more robust debt sustainability.

3. Policy uncertainty has been on the rise globally and there seems to be a disconnect with respect to the level of risk assessed by markets. Similarly, short-term optimism contrasts with sober medium-term expectations, which are affected by the dim prospects for global productivity growth. If downside risks come into play, the current optimism could unwind swiftly, generating bouts of volatility and sharp rises in risk premia across the globe – potentially posing threats to financial stability. In such circumstances, timely policy adjustment is a must. Accordingly, exchange rate flexibility has been proven an effective tool, as it provides leeway for policy makers to accommodate shocks. In addition, macroprudential regulation and measures to manage capital flows, where warranted, can help prevent the building up of fragilities, complementing banking regulation and supervision, which remain key to ensure financial stability.

4. Another tangible risk stems from a disorderly retreat from the global regulatory agenda. Such backlash could jeopardize advances made since the global financial crisis. Therefore, a strong commitment by the membership to finalize the Basel III reform agenda remains crucial to tackle already known weaknesses, safeguard system-wide financial stability, and ensure a level playing field in the global banking industry. In general, we are glad to note that emerging market economies have enhanced their financial resilience with bank capital ratios steadily improving over time.

Brazilian economy

5. Confidence has been picking up in Brazil and there are signs that the long recession is bottoming out. Growth should gather momentum towards the end of the year supporting net jobs creation and real income. Disinflation has proceeded at a fast pace, opening space for significant monetary accommodation, which will facilitate the recovery.

6. In the past few months, a new fiscal framework has been put in place to ensure a sustainable path for the public debt. A constitutional amendment was enacted establishing a ceiling for primary expenditures, which will be kept constant in real terms for, at least, the next ten years. The other key piece is the proposal sent to Congress to reform the pension system, averting an explosive trajectory for social security liabilities and enabling a sensible application of the spending ceiling. Ensuring proper fiscal consolidation is not only a requirement for sustainable growth, but is also fair to future generations, precluding the transfer of an undue legacy of high debt burden. Finally, the Government has been pursuing an important agenda of reforms to make labor market more flexible and stimulate private investment, fostering growth and productivity.

7. Amidst the deepest recession recorded in Brazilian history, the financial system has proven its resilience, passing well this real-life stress test. Prudent regulation and active supervision contributed to financial sector soundness. Although deleveraging has not been completed, as monetary conditions ease and growth starts to accelerate, improving profitability and real labor income, the financial system, which remains robust and dependable, should be ready to contribute sustainably to the upswing cycle.

Multilateralism and global integration

8. Multilateralism remains the best way to coordinate policies and make global integration work for all. The multilateral framework, which has evolved since the mid-twentieth century, has facilitated the impressive expansion of international trade and finance – and this has generated large and unprecedented welfare gains around the world. However, even with benefits greatly outpacing costs, this framework needs improvement and it is important to acknowledge that under its auspices, globalization and technological progress did not equally benefit all segments of the population.

9. Such developments gave rise to a perception of unfairness which has, in some countries, fed movements supporting inward-looking and protectionist policies. Action should be taken by member countries not only individually, but also multilaterally to ensure that people along the income spectrum and all over the globe feel included in the economic progress. This is a valuable goal in itself, but it is also crucial to garner political support for furthering global integration and productivity. More integration and technological progress, not less, is the key to address poverty and inequality.

10. The risks in the current scenario, even as growth momentum picks up steam, pose greater responsibility for the Fund, as the centerpiece of the Global Financial Safety Net. Tighter financial conditions, as US monetary policy normalizes, or any problems in the ongoing transition in China to a more consumption-intensive growth, as well as difficulties in implementing policies that have already been priced in could unleash a reversal in capital flows and affect parts of the membership that are more vulnerable to such shocks.

11. For the Fund to fulfill its role it is critical that the 15th General Review of Quotas (GRQ) is successfully concluded in its new timeframe. For too long the Fund has relied on borrowed resources to keep its firepower in line with the potential needs of the membership. At this round, we should recompose the IMF's own resources, retaining its quota-based nature, and advancing the rebalancing of its governance structure. A new quota formula that better reflects the economic weight of the members and favors a transfer of shares to dynamic emerging and developing economies is a legitimate expectation of this process. We also support further work to devise an enhancement of the facilities toolkit, filling gaps in the current framework, as a complement to the 15th GRQ agenda.

12. Countries rely on Correspondent Banking Relationships (CBRs) as financial conduits to the global economy. They facilitate trade in goods and services, remittances and all other types of international transactions. Withdrawals of CBRs, an issue particularly relevant to smaller economies, may jeopardize the global drive towards financial inclusion, have humanitarian effects, and pose risks to financial stability. While it has been, to a large extent, originated by the increased regulatory requirements regarding Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), uncertainty stemming from these requirements, as well as profitability considerations have also played a role. We acknowledge the role the Fund has played to date through surveillance and providing technical assistance to help members strengthen their AML/CFT frameworks. To further enhance such role, Financial Sector Assessment Programs (FSAPs) should be provided on a more frequent basis to small states and countries in fragile situations affected by CBR withdrawals.