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IMFC Statement by Fernando Haddad
Minister of Finance
Brazil

On behalf of

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

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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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Brazil deeply regrets the continuation of the war in Ukraine. It is cause of humanitarian suffering, and a source of disruption in the global economy, affecting disproportionately the poor and vulnerable populations. We renew our call for an immediate ceasefire to allow for a peaceful solution of the conflict.

Greater uncertainty clouds the horizon and calls for firm and nimble policies

Financial stability episodes in advanced economies exacerbate uncertainty in a slowing global economy. Greater uncertainty leaves policymakers with a narrower path to restore price stability while avoiding a recession and maintaining financial stability. In times of high uncertainty and market volatility, the premium for policy actions that restore confidence and anchor expectations enhances exponentially. The recent financial events in the U.S. have shown that, despite strong policy actions in support of the banking sector, bank equity and liquidity have come under extreme pressure. For these reasons, it is paramount that policymakers closely monitor the situation and proactively manage risks. The Fund must continue to provide agile and tailored policy advice and be available to step in with financial assistance when required.

Central banks in advanced economies must continue to calibrate their monetary policy stance to fight persistently high inflation. A relatively tight labor market in some key economies, together with high and broad-based headline and core inflation, suggest a protracted period of inflationary pressures, particularly in the services sector. Under these circumstances, we agree that reaching price stability will likely be a multiyear process. Having said that, higher interest rates for longer will increase financial sector vulnerabilities, requiring stronger frameworks and resolve from financial sector regulators and supervisors. Central banks and financial supervision authorities should continue observing the principle of separation of objectives and instruments in implementing monetary and macroprudential policies, while paying due attention to their interactions.

Fiscal policy should ensure debt sustainability and support monetary policy in taming inflation, while protecting the most vulnerable and avoiding stifling essential investments. Private and public debt have reached levels not seen in decades in most economies, increasing the risks of banking sector turmoil and sovereign debt distress as monetary policy normalizes. Accordingly, governments have announced further withdraws of fiscal stimulus in 2023 and 2024, including by scaling back measures designed to alleviate the effects of energy price spikes in 2022. Most countries have very limited fiscal space and are striving to prioritize spending and find efficient sources of additional revenue. Fiscal space is particularly constrained in many low-income countries that are estimated to be either in debt distress or at a high risk of debt distress. A responsible fiscal policy everywhere will be important to use wisely existing policy space and reduce the likelihood of disruptive events.

Economic fragmentation is an important risk, which must be faced with resolve. The increasing concentration of trade and investment flows among geopolitically aligned countries, especially in strategic sectors, is extremely concerning. National industrial and technological policies in central economies further contributes to this process. This could lead to welfare losses for emerging market and developing economies (EMDEs) in need of diversification and integration with high value-added production chains. Reduced global activity, less vertical integration of firms, open or disguised protectionism and diversion of investment could aggravate the situation. We are convinced that ensuring a rules-based international economic order that fosters economic integration, diversification of production, knowledge sharing and less poverty and inequality is the best way to avoid further fragmentation.

Fighting climate change, and its already devastating effects on more vulnerable countries and communities, requires close international cooperation. The pandemic has shown the potential and shortcomings of global cooperation in the face of an overwhelming global challenge. The authorities all over the world reacted promptly, following different strategies and approaches. The Fund played a particularly constructive role in that period. However, we are convinced that closer international cooperation would have yielded a much better result, particularly for poorer countries and more vulnerable populations. Climate change poses a similar challenge, which requires steadfast commitment and contributions from every country. Progress in implementing the Paris Agreement agenda requires that advanced economies step up climate finance to support the mitigation, adaptation, and transition efforts of EMDEs. This is in line with the principle of common but differentiated responsibilities.

Brazil: reconciling the economic, social, and environmental agendas

Brazil's new administration is determined to demonstrate that responsible macroeconomic management is compatible with social justice and environmental sustainability. After one

hundred days, the government has proven its firm commitment to ensure macroeconomic stability in a challenging environment, while creating room to deliver on a broad agenda. At the outset, the main priority is to maintain fiscal and debt sustainability, while strengthening social programs and support for the poorest. The administration is dealing with important repressed social demands that need to be addressed in a fiscally responsible manner. Moreover, the pressing challenges posed by climate change require bold and resolute actions. Therefore, sound economic management must, at any point in time, be consistent with social and environmental requirements, while being politically viable.

We are committed to fiscal and debt sustainability within a credible rules-based framework. In these first three months, we have started prioritizing immediate spending needs, and have reverted some tax exemptions, including on fuel, which had been granted last year. The overarching goal is to bring the poor into the budget and the wealthy into the tax system. Primary fiscal balance outturns surprised on the upside in the first two months this year, and, with the new fiscal framework, we are on track to a significantly lower primary deficit than what was projected in the budget at the beginning of the year. Furthermore, we have presented to congress and the society a new fiscal framework that can credibly stabilize the public debt over time and subsequently put it on a clear downward path. Expenditures will be constrained to grow below revenues and primary fiscal balance targets will be set in a way consistent with the objective of maintaining debt sustainability. Within this new framework, the central government will be able to post a primary fiscal surplus of one percent of GDP in 2026, the last year of the administration's term.

Reforming the tax system to make it simpler and fairer is another immediate priority. The new administration is fully engaged with congress to enable the approval of a long-overdue tax reform to establish a VAT, simplify procedures, avoid tax wars among subnational entities, and increase transparency and fairness in the system. The main objective is not to increase revenue but to improve the quality of revenue mobilization. Brazil's tax system is overly complex, regressive, distortive, and cumbersome. It unduly burdens businesses and accentuates regional and social inequalities. The envisaged tax reform includes a comprehensive review of tax expenditures to address perverse and regressive features of our tax regime and tackle state capture. While not a panacea, tax reform will be a major step forward to establish a simpler and fairer system that will bolster efficiency in the economy. Recently, all the 27 state governors expressed their support to the proposed tax reform under consideration in congress, and we expect to have it enacted by the end of this year.

A tight monetary policy stance has started to bring inflation down. Brazil was the first large economy to start tightening monetary policy early in 2021, when it became clear that inflationary pressures were broad-based and persistent. After peaking at above 12 percent in early 2022, the

inflation rate has halved and is comparatively lower than in most advanced economies. In the meantime, credit contracted, and economic activity continues to soften, with the labor market showing signs of moderation. Moderate growth is expected next year, as the overall macroeconomic scenario improves. According to market expectations, inflation would gradually fall to around 4% in 2024, within the tolerance band, but still above the inflation target. With increased confidence in the fiscal framework and a fiscal consolidation path consistently affecting inflation expectations and anchoring them closer to the target within the relevant horizon, there will be space for accommodation in the policy rate.

We are committed to structural reforms that further a growth model that is socially just and environmentally sustainable. We are revisiting the programs and policies to steer economic development to resolutely reduce poverty and inequality and make our energy matrix even greener, contributing to a new reindustrialization cycle in the context of the environmental transition. Moreover, we are fully conscious of our global responsibility to halt deforestation and restore degraded land in Brazil and are taking steps towards this goal. While we are working to recover the capacity of the public sector to invest, we understand that a significant share of the needed investments will be met by enhancing the participation of the private sector. Regional integration mechanisms and international partnerships will play an important role to advance those objectives.

IMF engagement with our constituency members

The engagement of our constituency members with the Fund has been very constructive since October. In **Cabo Verde**, the first ECF review was concluded in January, with very strong performance, and the preparatory work for the Article IV consultation, the second ECF review, and a possible RSF arrangement is currently underway. The **Dominican Republic**, which continues to display very strong economic performance, completed a staff visit in October and will receive the Article IV mission in May. In the case of **Ecuador**, the Executive Board approved in December the final review of the 27-month EFF-supported program, which was instrumental in helping the country overcome one of its most difficult economic moments in history. **Guyana** received IMF technical assistance to strengthen revenue collections and hosted an IMF workshop on AML/CFT issues. Despite an extremely challenging situation, **Haiti** completed successfully the first SMP review in December and is poised to successfully conclude the second SMP review shortly. Also, it was one of the first countries to benefit from the newly-created Food Shock Window under the RCF. In **Nicaragua**, the economy has resumed growth, and, despite downside risks, the outlook remains broadly favorable; the Article IV consultation was successfully concluded in January. **Panama**'s Article IV consultation was completed in February, following the successful conclusion of its PLL; the authorities are currently implementing the few remaining measures to exit FATF's gray list. The EFF-supported program with **Suriname** faced significant challenges last year, due to severe shocks to the economy; however, the authorities are committed

to implementing the program and achieving the primary fiscal balance that is required to put the country on a sustainable fiscal adjustment path. In the case of **Timor-Leste**, there was a staff visit in February to reach out to key stakeholders on possible ways of strengthening further the engagement with the Fund. Finally, **Trinidad and Tobago** received a staff visit in November and the Article IV consultation mission in March; the Article IV consultation, for approval on a lapse-of-time basis, is scheduled for May.

The IMF must continue to deliver on its mandate

The Fund's role in supporting sound policies and reform efforts in member countries is invaluable. This is even more so in the current juncture, as countries around the globe struggle to bring high and persistent inflation down in a context of heightened uncertainty, including on the financial stability front. In this regard, we expect the Fund to play its role as a steady reference in macroeconomic and financial policies, as well as a global lender of last resort. IMF's surveillance, capacity development, and lending should be directed to meet the needs of our membership. While we acknowledge the importance of some emerging issues, we call on the Fund not to get distracted from focusing on its core mandate, where it is unique and has a clear comparative advantage and can deliver better results.

We underscore the importance of precautionary arrangements and look forward to the forthcoming review of IMF policy in this area. Precautionary arrangements have played a critical role in fostering macroeconomic and financial stability not only in the direct beneficiaries, but also regionally and globally. Providing support on a precautionary basis for countries to keep robust policies and frameworks is the one of the best ways for the Fund to preempt the occurrence of crises. We welcome the recent increase in the number of countries engaging in precautionary arrangements but believe that a much larger network of such arrangements would be highly beneficiary to the global economy. Hence, we expect that the forthcoming review of the IMF policy on precautionary arrangements will address the shortcomings that may have prevented further use of these instruments by the membership.

We call on the Fund to continue playing a constructive role in the dialogue among stakeholders to cope with rising debt. After a long period of low interest rates and abundant liquidity, rising public debt has pushed several vulnerable countries to the brink. Debt treatments may be needed to restore sustainability for those countries in which the required level of adjustment would be excessively costly or not feasible at all. In these cases, debt restructuring should proceed as smoothly and swiftly as possible, preferably under an IMF-supported program. The G20 Common Framework is a promising attempt to lay the ground for a more harmonized action among stakeholders but with limited results so far. Unfortunately, what we have seen up to now is insufficient coordination leading to lengthier than warranted processes and posing a heavier

burden in already strapped debtor countries. We hope the recently launched Global Sovereign Debt Roundtable—in which Brazil, Ecuador and Suriname in our constituency participate—will constitute an effective forum to build understanding, including on the perspective of debtor countries, so that every part can contribute to faster debt treatment where needed.

Mobilizing additional resources for the IMF concessional windows remains a high priority. In a moment of elevated uncertainty, in which global growth is decelerating and financial conditions tightening, and many of our poorest members are facing rising debt vulnerabilities, lending under the PRGT should not be constrained by lack of resources. We encourage those members with strong external positions that have not yet contributed to the PRGT to step up. Rationing PRGT resources or increasing the costs for low-income countries should not be an option. Furthermore, given the emergency of the climate agenda for our developing member countries, the RST must be fully funded to properly address its already strong demand. In this spirit, Brazil remains open to consider further contributing to the PRGT, as well as to the RST. That notwithstanding, we urge the Fund to explore alternative ways of mobilizing internal resources, including through the sale of a small fraction of its gold holdings, to address more urgent needs.

An extremely challenging global environment requires a successful and timely conclusion of the 16th General Review of Quotas (GRQ), moving the governance agenda forward. The Fund has a unique role at the center of the Global Financial Safety Net. It has shown over its long history remarkable effectiveness in fulfilling its mandate. Indeed, having an IMF that is well-resourced, quota-based, and truly representative of its diverse membership would be an important step to mitigate the risk of geoeconomic fragmentation. The global economy today is highly interconnected and has evolved profoundly over the last several decades, with greater relative weight of EMDEs. Regrettably, there has been no significant corresponding change in the IMF balance of power. We continue to favor a significant increase in quotas, to reestablish the predominance of quotas in funding the IMF's lending capacity, while making progress in rebalancing the IMF governance structure towards EMDEs. We are willing to play a pragmatic and constructive role to help build the necessary consensus. If no new quota formula that effectively represents the relative economic weight of members can be agreed upon, we favor an equiproportional increase, with a smaller *ad hoc* allocation to reduce out-of-lineness of underrepresented EMDEs. We call on the Committee of the Whole to redouble its efforts to reach a timely and successful conclusion of the 16th GRQ.