International Monetary and Financial Committee

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October 9–10, 2015

Statement by Joaquim Levy
Minister of Finance, Brazil

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

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World economy

1. Since the last IMFC meeting, uncertainties about the resilience of global growth were somewhat dissipated. However, the world economy continues to face several challenges to raise potential growth, partly reflecting the fact that most economies have not yet fully overcome the legacies of the financial and fiscal crisis. Important sources of vulnerability remain, negatively affecting the degrees of freedom of policymakers in most countries, especially emerging market and developing economies.

2. The growth prospects of advanced and developing countries are insufficient to meaningfully reduce the gap between rich and poor. Overall, advanced countries are expected to grow 2.0 percent in 2015 and 2.2 percent in 2016. For emerging market and developing countries (EMDCs), IMF growth forecasts have been revised down recently to 4.0 percent in 2015 and 4.5 percent next year. These rates are well below the average growth of 5.7 percent achieved by EMDCs in the 2010-2014 period.

3. In the Euro area, some countries that faced severe fiscal crisis have been able to successfully carry out fiscal adjustments. The Euro area has also succeeded in containing deflation risks, thereby facilitating the resumption of economic activity and debt sustainability. However, slow growth may suggest the need for additional stimulus measures by those countries with policy space and especially large external surpluses. Stronger demand in Europe will help overcome the serious and persistent problem of unemployment, especially among the youth.

4. In relation to monetary policy in the United States, we believe that the Fed has been reducing the uncertainties related to expectations about the future path of short-term rates, mainly by adopting a direct and clear communication strategy. Normalization of monetary policy in the U.S. can be a predominantly positive event as long as it reflects stronger domestic economic growth. However, continued uncertainties stemming from policy implementation, the increased volatility in international financial markets and the consequent rise in global risk aversion can affect the growth prospects and the financial stability of emerging market economies.

5. In China, the slowdown associated with a more consumption-driven economy is welcome but seems more intense than initially expected. The high indebtedness of non-financial companies, the high credit ratio of the economy and the uncertainty over the size of shadow banks are affecting confidence, the stock market and household income. Although the direct link between stock prices and consumption is historically low, the decline of the former may lead to an increase in corporate defaults with adverse spillovers on the banking system and, thereafter, on the level of economic activity and employment. We trust that the Chinese authorities will continue to implement their announced reform agenda.

6. The recent drop in oil prices leads to a major reassessment of investment and consumption of energy sources. Fossil fuel became relatively cheaper. Nevertheless, policymakers worldwide must maintain the commitment to increase the use of renewable energy sources, which are more efficient and environmentally sustainable. Further, the drop in oil prices creates space for many countries to reduce fiscal costs related to fuel subsidies. For oil producer countries, the fall in oil prices has reduced the pace of expansion of economic activity, adversely affecting the fiscal balance, complicating public debt management and weakening investment prospects. Luckily, most oil producers have accumulated large buffers in recent years to face the new adverse environment.

The Brazilian economic strategy

7. Since last spring, Brazil has carried out a strategy centered on fiscal consolidation with a view to stabilizing the trajectory of the public debt to GDP ratio and boosting confidence about a new cycle of higher investment and growth. Although spending by the consolidated public sector this year has been revised down to the real level of 2013, a larger-than-expected fall in revenues coupled with budget rigidities – mainly on social security and other social outlays – is likely to reduce the originally projected primary surplus target. A package of budget cuts and new tax increases has been proposed to Congress to ensure the necessary fiscal balance in 2016. A thorough expenditure review will help increase the quality and effectiveness of public sector spending, with the first results to be announced by the end of this year.

8. The Brazilian government has also been addressing structural constraints in order to increase potential GDP and allow for strong and sustainable growth ahead. In particular, a policy of price realignment and elimination of distortionary benefits in the credit and labor markets has been implemented since the beginning of the year. The launch of a national investment program in logistics will increase by about USD 50 billion capital expenditures in roads, railways, ports and airports. An overhaul of the regulatory environment is underway to help minimize regulatory risks and attract more private sector funding through capital markets. Inflation expectations have been converging to the target range despite the depreciation of the exchange rate and the realignment of administered prices. The Central Bank remains vigilant towards meeting the inflation target in the next two years while following closely the exchange rate market. As Brazil is a net external creditor, currency depreciation reduces the net public debt of the general government. The external sector has been adjusting and the current account deficit is expected to

fall below 3 percent of GDP in 2016. Market expectations for the trade balance this year have increased threefold since we last met in April and FDI is likely to surpass last year´s robust result, reaching USD 64 billion according to market expectations.

SDR Basket

9. We welcome the ongoing discussion at the Fund on the composition of the Special Drawing Rights (SDR). The review of the basket of currencies included in the SDR will enhance its attractiveness as an international reserve asset. Global trade and financial flows have changed dramatically since the decision, adopted in 2000, on the current composition of the SDR as a basket of four currencies (U.S. dollar, euro, British pound and Japanese yen).

10. In the 2010 review, China already met the gateway export criterion but the renminbi was not included in the basket as it was not considered to be freely usable. Since then, the international use of the Chinese currency has increased significantly. In the current circumstances, we appreciate the Fund's concern that SDR users have enough time to adjust their portfolios and to hedge positions before the possible inclusion of the renmimbi in the basket.

IMF reforms

11. We remain deeply disappointed with the lack of progress of the Fund in implementing the 2010 quota and governance reforms. The Fund's quota-based nature, legitimacy and credibility continue to be at risk. We also remain disappointed that work on the 15th General Review of Quotas has not yet started. We urge the Fund's Executive Board to begin this work immediately, including a new quota formula, so that it can be concluded by mid-December, as mandated under the Articles of Agreement.

Countries in post-conflict and fragile situations

12. The IMF continued to advance its engagement with countries in post-conflict and fragile situations. We strongly support this closer engagement and recall that two countries in our constituency – Haiti and Timor-Leste – have taken a leading role in promoting this agenda. We believe that the Fund has a major role to play with respect to these countries, particularly in the areas of concessional lending, capacity building and policy support. We reiterate our expectation that the IMF will continue to act as a catalyst for development partners and donors to also strengthen their support to these countries.

Small states

13. As a constituency that includes five small states – Cabo Verde, Guyana, Suriname, Timor-Leste, and Trinidad & Tobago – we welcome the growing attention that this group of countries has been receiving in Fund's surveillance, technical assistance and training. In particular, we recognize the importance of the Fund's decision to increase access to concessional and non-concessional resources for countries hit by natural disasters, among other shocks. We

recommend the Fund to be flexible enough to ensure timely and sufficient assistance in response to severe natural disasters suffered by this group of countries.