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Statement by Mr. Guedes
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 Paulo Guedes
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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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Continued progress in vaccination is the most important factor behind a strong and lasting economic recovery.

<u>Policy support remains critical, but focus should gradually shift towards fiscal sustainability</u>

The global economy continues to recover, despite concerns with a resurging pandemic. Renewed pandemic-related restrictions combined with a strong rebound in demand have led to global supply bottlenecks, dampening the pace of recovery (notably for EMEs) and putting upward pressure on inflation. On the positive side, commodity-exporting countries initially benefited from improved terms of trade, a situation which has partially reversed. The vaccination gap between advanced economies (AEs) and emerging market economies (EMEs) is closing, potentially reducing scarring in EMEs. While we take note of the upward revisions in potential growth for some AEs, we call attention to the dynamic impact of structural reforms in many EMEs, where the focus is shifting from emergency assistance to well-targeted support and medium-term fiscal frameworks. That said, low-income countries (LICs) still face sizeable vaccination rollout challenges, including from limited access to vaccines, and should receive full support from the international community to improve both their economic and health prospects, ultimately impacting global resilience to the pandemic.

Labor market performance is expected to improve. Enhanced vaccination coverage and better targeted income support will boost labor market participation and open employment opportunities in the services sector. As mobility increases, informal labor markets in EMEs and LICs will likely recover at a strong pace, leading to a reduction in unemployment. Consequently, with the labor market improving more consistently, governments should pursue structural reforms to close the gap between informal and formal markets, boost fiscal revenues, and enhance the coverage of social protection schemes. Indeed, better targeted spending and higher revenue collection will improve economic fundamentals and strengthen buffers, which will be critical once the global economy shifts towards tighter financial conditions.

Inflation pressures have been persistent in many countries, raising the stakes for monetary policy in the context of a still fragile recovery. Goods and food price inflation has been significant and encompasses core items in the consumption basket. The marked rise in energy prices is adding to the inflationary pressures. The lagged response of labor market participation could also add pressures to services sector inflation down the road. Several central banks in EMEs are tightening monetary policy, as needed, to anchor inflation expectations and ensure that potential growth is not affected by adverse inflationary dynamics. Central banks in major AEs have so far stressed the temporary nature of the inflation acceleration while signaling the intention to taper large-scale asset purchase programs sooner than earlier expected. Tapering and the removal of quantitative support in major AEs should be carefully calibrated and communicated to avoid disruptive market dynamics and spillovers. However, policymakers must remain mindful of potential disorderly movements as the world economy transitions away from a prolonged period of extremely easy financial conditions.

We agree that global financial conditions have not worsened since our previous meeting. Indeed, financial conditions remain accommodative on the back of continued policy support to cope with a resurging pandemic. While credit conditions have not deteriorated, tail risks continue elevated. Easy financial conditions could be feeding excessive leverage and unsustainable asset prices, particularly in nonbank financial institutions. On the other hand, the resilience of the banking sector has so far been key to cope with the pandemic.

Commitment to medium-term fiscal sustainability remains critical to increase the credibility of policy frameworks, enhance market confidence, and facilitate access to financing. This approach requires mapping out medium- and long-run strategies to preserve (or in some cases restore) public debt sustainability. While we understand the risk of premature withdrawal of fiscal support, especially in countries that are experiencing a weak recovery, public spending profligacy must be avoided.

Brazil: a strong rebound calls for well-calibrated policies

Brazil's swift, comprehensive, and forceful policy response was key to mitigate the impact of the Covid-19 shock and set the stage for a strong economic recovery. To fight the social and economic fallout from the pandemic, the government launched a host of fiscal, monetary, and financial support measures that stood out among peers. As a result, in 2020, the Brazilian economy shrunk by less than half of what was projected by the Fund mid-year, and a strong recovery has been under way since the second half of last year. Although a second wave of Covid-19 in the first quarter of 2021 posed additional challenges, a new round of policy support measures effectively countered the social and economic impact of this second shock. Among the actions undertaken, a new, better targeted round of emergency aid was provided, the job-retention program was relaunched, measures to secure sufficient budgetary outlays were taken, an expeditious process for the acquisition of health equipment and inputs was adopted, import tariffs on some essential items were waived until the end of the year, and the program to support 5.3 million micro and small businesses was made permanent.

With an effective vaccination rollout and the second wave of Covid-19 now under control, Brazil is well positioned for robust economic growth this year. Vaccination in Brazil has picked up steam and, as of October, more than 90 percent of the adult population was at least partially inoculated, a level higher than in many AEs, and more than 60 percent of the adult population was fully vaccinated. Brazil may soon have one of the highest rates of fully vaccinated population among the largest countries, given the increased supply of vaccines, capillarity of the public health sector network, and very low vaccination hesitancy. Coverage of immunization in Brazil is becoming an important factor behind the country's strong economic performance.

The drive to implement structural reforms has been sustained, even under adverse crisis conditions. We have continued to pursue our agenda to remove obstacles for higher and more inclusive growth in Brazil. Among the many measures taken, the following stand out: the central bank autonomy; a new bankruptcy law; fiscal expenditure triggers; a new sanitation legal framework, which led to successful public service concessions; the consolidation of the investment partnership program, which has already accomplished 114 auctions and projects, with investment commitments of over US$110 billion over the next years; an approved legal framework for privatizing Eletrobras, the largest electricity company in Latin America; a new natural gas law, which will enhance competition, increase investments and reduce prices; a sequence of ease of doing business laws, to further align our practices with best international standards; trade facilitation measures; a new export processing zone law; the startup and innovation law; and a new procurement law. Despite the ongoing successful implementation of our ambitious reform agenda, we remain focused on pushing further measures, with several important bills already sent to congress such as the tax reform, the public administration reform, the modernization of the electric sector, the regulation for issuance of infrastructure debentures, a new cabotage law, and the new legal framework for rails, as well as other measures to further improve the business environment.

The Central Bank of Brazil (BCB) has reacted in line with its mandate to bring inflation back to the target by end-2022. With economic activity gathering pace and the combination of higher commodity prices and exchange rate depreciation, price pressures proved more persistent than expected, leading inflation expectations for 2022 to start moving upwards. More recently, volatile components, such as electricity tariffs and food prices, have also been affected by adverse climate conditions in Brazil, adding further pressure to inflation. In March, a tightening cycle was launched, with the policy rate increasing by 425 bps since then to a level above the one prevailing previous to the pandemic. Given the asymmetry in the balance of risks, the BCB assessed that, assuming no changes in the conditioning factors, a series of interest hikes (up to a level above the neutral rate) is required for inflation to converge to the target by end-2022.

In sum, Brazil has withstood the Covid-19 shock much better than many expected and is well positioned for a robust and lasting recovery. Swift, forceful, and effective policy response is at the root of this performance. Despite the challenges posed by the global pandemic, we have remained fully committed to implementing our reform agenda to enhance competition, efficiency, and fairness in the economy.

The IMF has a key role to play in the global economic recovery

We welcome the new general allocation of SDRs equivalent to US$650 billion and commend the ongoing efforts to re-channel some of these resources to LICs and small and mid-sized middle-income countries (MICs). The Poverty Reduction and Growth Trust (PRGT) is a natural beneficiary for such an effort, and we call for a broader base of contributors to the PRGT, as demand from LICs for Fund concessional resources is expected to continue rising in the aftermath of the pandemic. We welcome the proposed Resilience and Sustainability Trust (RST), which would play an important role in supporting many developing countries that, with the pandemic, are facing greater challenges. Together with LICs, small developing states (SDS) and small and mid-sized MICs would benefit from additional Fund support to their reform efforts, helping them to achieve their sustainable development goals. Access to longer-maturity, lower-interest resources from the IMF would leverage structural reform commitments in the context of regular financial or non-financial IMF arrangements, fostering long-term economic transformation. Such resources would be particularly helpful to the so-called "forgotten middle," comprised by IMF members with little access to grants or concessional loans and often with no consistent access to international capital markets.

The challenges posed by the recovery from the pandemic shock require that the Fund keep its focus on supporting countries' macroeconomic adjustment and structural reforms. Threats to macroeconomic and financial stability, including to fiscal sustainability, have heightened with the pandemic crisis. The IMF has a unique role in the global financial architecture in providing in-depth macro-financial analysis and policy recommendations, focused on its core areas of expertise. While new challenges clearly within the IMF's core mandate should be taken on board, stretching beyond the Fund's capacity to deliver high quality work and trying to cover subjects that are under the purview of other specialized agencies and international fora would likely compromise the quality of IMF analysis and advice. Specifically, in the case of climate change, the Fund should direct its efforts to the macroeconomic and financial implications of mitigation, adaptation, and transition issues, where they are clearly macro-critical. Stepping outside its mandate and taking sides on controversial issues that are being negotiated by members in other international fora would be highly counterproductive.

Several members are dealing with high debt levels and the Fund should be able to support their efforts. Debt sustainability concerns and loss of market access by several countries in recent months bring a sense of urgency to the Fund's sovereign debt work program. We agree that this entails accelerating the work on the structural aspects of the existing debt resolution architecture and, especially, on improving Fund policies in support to sovereign debt operations. In this regard, it is very concerning that the implementation of the G-20 Common Framework has been facing many obstacles, calling for prompt action from all concerned. Relatedly, the Fund appropriately requires, to provide finance, specific and credible assurances on debt relief and/or financing from official bilateral creditors. This is an important safeguard for the IMF's resources. However, the requirements, in the current format, may be preventing member countries that are undertaking important adjustment and reform programs to obtain much-needed IMF financial assistance and call on the Fund to swiftly address this issue.

We place a very high priority on strengthening the IMF work on fragile and conflict-affected states (FCS). The new strategy being envisaged is a most welcome step in the right direction, tailoring IMF advice, capacity building, and financial assistance to the extremely challenging circumstances of those members. Flexibility is of the essence to promote proper IMF engagement with FCS. We welcome the proposals to tailor financing approaches in a way that is more amenable for FCS and look forward to concrete steps in that direction.

A successful and timely conclusion of the 16th General Review of Quotas (GRQ) that restores the role of IMF own resources and addresses the issue of underrepresentation of emerging market and developing economies (EMDEs) is crucial. The IMF's role at the center of the global financial safety net requires sufficient financial capacity and undisputable legitimacy and credibility. We are concerned that, in a significant range of scenarios, Fund resources are not adequate to deal with future crises. Recent developments (such as swap lines, easy monetary policy in major AEs, and the new SDR allocation) may have contributed to stabilize the global economy and momentarily reduced the demand for Fund lending. However, capital flows have not necessarily moved into countries that need it the most, and the global outlook is still marked by uncertainty and high volatility. Relatedly, IMF quota shares are out-of-line according to a broad range of formulas and relevant indicators, most importantly with the relative economic weight of members. This shows the urgent need to address quota misalignment to enhance the Fund's legitimacy and credibility, by correcting the under-representation of EMDEs at the Fund while protecting the quota share of all PRGT-eligible members and small developing states. We call on the IMF Executive Board to work on a feasible roadmap and define concrete milestones and deliverables along the process to ensure that a successful result will be reached by the established deadline.