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Statement by Mr. Haddad 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 Fernando Haddad
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
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Closer to a soft landing, medium-term challenges, and the need for multilateral cooperation

The global economy has moved closer to the hoped-for soft landing, with growth resilient and inflation losing steam. Global growth was stronger than expected in 2023 – led by higher growth in several major advanced and emerging market economies – and the outlook for 2024 is being revised upward. Meanwhile, inflation has continued to decline globally. These developments reflect both resilient demand and responsive supply, as labor markets continue their robust post-pandemic recovery. While risks to the outlook are now somewhat more balanced, it would be premature to celebrate a soft landing for the global economy. Furthermore, performance has been highly uneven across countries. The unwinding of post-pandemic supply shocks contributed to the fall in headline inflation, but this process may have run its course. With core inflation still above target in many jurisdictions, central banks must sensibly calibrate the timing and pace of monetary easing to ensure that inflation converges to targets, in line with their mandates.

Fiscal consolidation is expected to support monetary policy easing as needed, underpinning fiscal sustainability while preserving fiscal space for priority spending in social investments and green transition. To open fiscal space, a range of policy instruments must be used – such as spending reviews, evaluation of tax exemptions, and progressive taxation – to better calibrate a policy mix consistent with convergence of inflation to targets while mitigating potential social costs. Gradual fiscal consolidation within a credible fiscal policy framework can help ensure medium-term fiscal sustainability while preserving fiscal space for targeted fiscal measures to reduce poverty, protecting the most vulnerable. It is also key to enabling the required public investment to facilitate structural transformations and global convergence in the challenging context of a weaker medium-term global growth outlook and increasing demands from climate change and the green transition.

Renewed multilateral cooperation is needed to tackle multiple global challenges, including the fight against hunger and poverty, and coordinated strategies to address climate change. Debt vulnerabilities in the wake of a sequence of recent shocks that resulted in elevated public debt levels in many low-income and emerging market economies continue to be a major concern, demanding decisive action from the international community to avoid the emergence of a new debt crisis. It will also take a concerted international effort to effectively mitigate climate change, support adaptation in emerging market and developing economies (EMDEs), and facilitate just

transitions around the world, including through establishing the free flow of low-carbon technologies to EMDEs. The global dialogue on fair and progressive taxation must continue, not only to ensure the conclusion and implementation of the base erosion and profit shifting (BEPS) agenda, but also to tackle other issues that require international tax cooperation, including the taxation of the wealthiest individuals and the development of new sources of revenue to cope with global challenges. Dealing with the climate emergency and achieving the Sustainable Development Goals (SDGs), in particular SDGs 1 and 2, requires a volume of resources that cannot be fully mobilized domestically in EMDEs. Indeed, the global community needs to work together to ensure a steady and predictable flow of finance to EMDEs, at a multiple of the current level. The search for cooperative solutions to these global challenges is the backbone of the Brazilian G20 Presidency.

Brazil: resilient activity amid falling inflation, fiscal policy, and sustainable development

Brazil's economic performance in 2023 was marked by strong growth amid falling inflation. GDP grew 2.9%, well above initial market expectations of 0.8%. As a result, Brazil rejoined the group of the ten largest global economies at market rates. While the agricultural sector led the way with a record grains harvest, growth was broad-based, extending to both the industry and the services sector. Demand was propelled by a strong labor market, with the addition of 1.4 million formal-sector jobs, lower unemployment, and higher real wages. The strong harvest also contributed to the highest exports on record, leading to a trade surplus of almost US\$100 billion. Inflation fell from 5.8% in 2022 to 4.6% in 2023, within the tolerance interval of the inflation-targeting monetary policy framework. Moreover, inflation expectations have continued to converge towards the target. In that context, the Central Bank of Brazil began to ease monetary policy, having cut the policy rate by 300 basis points since August.

Steady implementation of the new fiscal framework has increased confidence in the fiscal outlook. The new fiscal framework approved by Congress in 2023 constrains expenditures' growth to a fraction of the growth in revenues, thereby guaranteeing long-term debt sustainability. At the same time, it also includes important counter-cyclical mechanisms, such as a minimum real spending rate increase and a minimum investment commitment as a percent of GDP, guaranteeing fiscal space for priority spending. The administration remains committed to primary fiscal balance results consistent with the new fiscal framework. Despite challenging circumstances, the primary deficit in 2023 was in line with the goal set by the government. Furthermore, Congress approved important measures to revamp revenue sources that had been eroded due to loopholes, temporary exemptions, and other factors. The full impact of these and other revenue measures currently under discussion will occur from this year onwards, providing support to the goal of a balanced primary budget result already in 2024. Overall, confidence in Brazil's fiscal sustainability has improved and several major rating agencies upgraded Brazil's debt rating in 2023. Furthermore, high demand for Brazil's largest-ever long-maturity sovereign bond issuance resulted in lower-than-expected spreads.

The landmark, long-awaited tax reform approved in 2023 will provide an important boost to productivity and economic growth in the medium run and beyond. The Constitutional Amendment reshapes Brazil's consumption tax system by replacing a myriad of national and subnational taxes with a dual VAT, as well as an excise tax on goods and services that are harmful to health or the environment. This long-overdue tax reform – the most significant since the approval of the Constitution in 1988– will eliminate distortions, avoid race-to-the-bottom tax wars between subnational entities, substantially reduce compliance costs, increase transparency, and reduce litigation. While revenue-neutral on aggregate, the reform will lower the tax burden on the consumption basket of the poor and help reduce social inequality through a targeted personalized VAT refund mechanism. Efficiency gains from the reform are estimated to be large. Additional GDP growth in the fifteen years following the reform is currently estimated at between 12% and 20%. Implementing legislation will be sent to Congress soon and the gradual phase-in of the new tax system will begin in 2026.

The Ecological Transformation Plan, a key piece of the government's economic and social development agenda, has started to generate significant results. Brazil is already a green economy leader, producing more than 90% of its electricity from clean sources. The plan aims to promote decarbonization and the green transition, by boosting productivity, fostering technological enhancement and creating jobs with social inclusion, in close alignment with the government's new industrial policy. The Plan's first year already produced tangible results, such as Brazil's first sustainable sovereign bond issue, a record financial contribution to the Climate Fund, earmarked credit for low-carbon agriculture, a redirection of tax-advantaged infrastructure bond issuance towards social and environmental infrastructure, and significant progress in the proposed carbon market legislation and in the establishment of a national sustainable taxonomy. In addition to the final approval of the carbon market legislation, actions planned for 2024 include important measures related to renewable energy, green fuels, transportation, forests, and foreign exchange hedging solutions for green transition investments.

Another important focus of Brazil's growth agenda is reducing the cost of credit for firms and households. One strand of this agenda focuses on improving recovery of delinquent loans. In 2023, legislation was approved to increase the efficiency and availability of collateral. For 2024, priority projects in this strand include, among others, a law to improve the liquidation of assets in bankruptcy, which has been approved by the lower house of Congress. Another strand focuses on increasing competition in the provision of finance. Priority projects include legislation to protect the rights of capital market investors and to develop the private credit market. To ensure that this cost-of-credit agenda generates the broadest possible benefits, the government implemented the *Desenrola* program to help low-income households restructure their debts, including overdue loans and other past-due obligations such as utility bills. In a little more than six months, the program has helped over 15 million people reorganize their finances and rejoin the formal credit market through the renegotiation of R\$ 50 billion in overdue obligations.

The Fund must become more representative and adapt to a changing global economic landscape

The Fund's toolkit must adjust to continue providing a strong financial safety net for its members in a shock-prone global economy. Vulnerable low-income countries are most at risk in a global economic context marked by higher debt, higher interest rates, and slower growth. This underscores the importance of the reviews of the Fund's concessional facilities: the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust (RST). While the international community has provided strong support through donations, demand from low-income member countries for concessional resources to support their adjustment and reform agendas and tackle their structural balance of payments needs has increased. Therefore, we should maintain a higher access level on a permanent basis and mobilize the IMF's own resources, especially through the sale of a small fraction of IMF's sizable gold stock, as done in the past, to complement donor's contributions and help fund these initiatives. The review of the RST also provides an opportunity to enhance the scope of its mandate, which would help make the RST more responsive to the needs of eligible member countries.

Revising existing access limits, the rate of charge, and surcharges should be a priority. In the current high interest rate environment, which could prevail for a considerable period, the interest rate structure has become a heavy burden for countries seeking IMF assistance through the General Resources Account. The purpose of the rate of charge is to cover the IMF's financing costs and help accumulate reserves, while surcharges support the build-up of reserves and serve as a risk management device. With the precautionary balances target having been met, we should not waste time and must seize the opportunity to recalibrate the levels of charges and surcharges to better support member countries. The level-based surcharge policy has become particularly burdensome because for many years access limits have not kept up with the evolution of the global economy. This issue will only be partially ameliorated with the agreed quota increase, so updating access limits should also be on the immediate agenda.

A more representative governance structure is critical for the IMF's effectiveness and legitimacy; this requires urgent and tangible progress on quota realignment. We welcome the increase in quotas agreed in the 16th General Review of Quotas (GRQ), which will restore the dominant role of quotas in the IMF resource base. While we took a principled decision to not support a quota increase without any realignment, we are undertaking all the necessary measures for the timely implementation of the 16th GRQ and call on other members to do the same. However, the Fund's governance urgently needs to adapt in order to reflect the significant changes in the global economy since the last quota realignment took place, more than a decade ago. This entails a quota realignment that increases the overall share of EMDEs and better reflects the relative economic weight of members in the global economy, while protecting the quota share of other EMDEs, including low-income economies and small developing states. In order to avoid a frustrating outcome to the forthcoming 17th GRQ, which could be very detrimental to the Fund's legitimacy, it is essential to establish a clear and detailed timeline with interim deliverables. Meeting the June 2025 deadline to develop possible approaches for quota realignment, preferably based on a new, more representative quota formula, would send an important message to the international community. We look forward to the 25th chair at the Executive Board, increasing the number of sub-Saharan African chairs and enhancing their ability to effectively represent the large number of member countries from the region.

Global challenges and the Brazilian G20 presidency

The overarching priorities of the Brazilian G20 Presidency address the pressing global challenges of our time. As announced by President Lula, the Brazilian priorities for the G20 in 2024 are (i) the fight against hunger and poverty and the reduction of inequalities; (ii) energy transition and sustainable development, with a balance among its three dimensions; and (iii) the reform of global governance institutions. To enhance global cooperation to seek urgent solutions for these key issues, the Brazilian G20 Presidency has created the G20 Task Force for the Establishment of a Global Alliance against Hunger and Poverty and the G20 Task Force for a Global Mobilization against Climate Change.

The G20 Finance Track agenda for 2024 follows from these priorities and the shared goals of promoting strong, sustainable, balanced, and inclusive economic growth and accelerating progress towards achieving the Sustainable Development Goals. Since the beginning of our G20 Presidency, Brazil has convened more than a dozen Working Group and Task Force meetings, three Finance and Central Bank Deputies meetings, one Finance Ministers and Central Bank Governors Meeting in São Paulo, and another one here during the Spring Meetings. The topics so far discussed include the building of a Roadmap for Better, Bigger, and More Effective Multilateral Development Banks; ways to strengthen the Common Framework and tackle global debt vulnerabilities; macroeconomic policies to tackle inequality; enhancing cross-border payments while deepening the understanding of macro-financial impacts; working to promote resilient capital flows to EMDEs; pandemic prevention, preparedness and response; inclusive infrastructure; and just transitions along with social, economic and environmental dimensions of sustainable development. We have invited some of the world's most renowned experts to propose innovative solutions to contemporary global challenges. Going forward, we are looking forward to hosting G20 Finance Ministers and Central Bank Governors for another FMCBG Meeting in July, in Rio de Janeiro.

Two key topics for the Brazilian G20 Presidency Finance Track are mainstreaming inequality as a key economic policy concern and advancing the international tax cooperation agenda. We believe that inequality should not be viewed merely as a social policy issue, but rather as a fundamental element of economic policy analysis. In order to achieve this goal, the G20 Framework Working Group is discussing data cooperation initiatives and suggesting a menu of policies to mitigate inequalities within and between countries. On taxation, we intend to finalize the two-pillar solution, including reaching a timely agreement on the Pillar 1 Multilateral Convention, and foster a global dialogue on fair and progressive taxation. Recent analytical work shows that there are options to increase tax progressivity globally, making the wealthiest individuals pay a fair share and contributing to mobilize resources for global challenges, such as the fight against poverty and climate change. We welcome the very valuable analytical contribution the IMF has been offering to this agenda.

In a global context marked by increasing geoeconomic fragmentation, the G-20 is more needed than ever. The solutions to the global challenges we face can only be attained through

open and frank dialogue in a spirit of global cooperation. Brazil has a long tradition of helping to build consensus in a multilateral context. We will continue to champion global cooperation and strive to build a just world and a sustainable planet.