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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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We offer our condolences to countries affected by natural disasters and climate change-induced extreme weather events. We are deeply saddened by the devastating effects of recent earthquakes in Morocco and Afghanistan and floods in Libya. We commend the Moroccan government for successfully hosting the Annual Meetings under very trying circumstances.

Stronger than expected growth, medium-term challenges, and the need to reinforce multilateralism

The global economy has surprised on the upside, but risks continue tilted to the downside. Supported by resilient labor markets, economic growth in the first half of 2023 was higher than expected, while inflation came in below expectations. These developments are consistent with the unwinding of the major negative supply shocks of the past years, as supply chains have been restored and commodity prices have fallen. However, a soft landing for the global economy is still not assured. Core inflation has fallen but is still above target in many jurisdictions. Economic activity seems to have lost momentum in recent months. Moreover, debt has risen to very high levels and buffers have been run down, narrowing the policy space. As higher interest rates for longer will continue to stress financial systems and highly indebted countries, policymakers need to remain vigilant and nimble to keep downside risks at bay.

Fiscal policy should ease the burden on monetary policy in the short run and ensure debt sustainability in the long run, while preserving social spending and priority investment, particularly in the context of transition to net zero. In the current inflation environment, more restrictive fiscal policy can aid monetary policy in rebalancing supply and demand, reducing the need for higher rates for longer and therefore the risk of financial instability. From a longer-run perspective, given high debt levels in the aftermath of the pandemic and other recent shocks, fiscal consolidation may be needed in some countries to ensure that public debt remains on a sustainable path. At the same time, public spending for protecting the most vulnerable must be safeguarded. Resources for essential public investment should also be preserved, especially considering the need to strengthen the weak medium-term global growth outlook and the transition to net zero greenhouse gas emissions.

To fight geoeconomic fragmentation and address global challenges such as climate change, it is necessary to strengthen and update multilateralism. Despite a broad consensus among policymakers about its potential costs, the tendency towards greater fragmentation continues to

gather steam. Global economic growth has slowed since the 2008 financial crisis and is expected to slow further in the coming years, with emerging markets and developing economies (EMDEs) as a group showing a slower rate of convergence. In part, this reflects increasing trade restrictions and slowing capital flows. Further concentration of trade and investment among geopolitically aligned countries and national industrial and technological policies in central economies could cause even greater damage to the growth prospects of EMDEs.

We must work together for a rules-based international economic order that fosters economic integration, diversification of production, and knowledge-sharing, and reduces poverty and inequality. In this regard, an essential step is to ensure that the representation of EMDEs—where the largest share of the world’s population lives—in the governance of key multilateral organizations reflects their growing weight in the global economy. A similar spirit of cooperation is needed in the fight against climate change, biodiversity loss, hunger and inequality. 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, in line with the principle of common but differentiated responsibilities. Furthermore, it is critical to streamline access to green funds, and connect them to innovative mechanisms of blended finance to increase real impact on the ground. Speeding up and coordinating the work of Multilateral Development Banks (MDBs) as a system in delivering development and climate financing must also play a strategic role in addressing climate imperatives.

Brazil: advancing the economic, social, and environmental agendas

Brazil’s economy has outpaced expectations, with resilient growth and falling inflation. GDP grew 3.7% in the first half of 2023 relative to the same period last year, with agriculture leading the way driven by a record grain harvest and productivity gains. Brazil is one of the few major economies where output has returned to its pre-pandemic path. The favorable harvest also contributed to a trade surplus of over USD 63 billion in the year to August. With other economic sectors and the labor market also proving more resilient than many had expected, analysts have increased their 2023 GDP forecast to 2.9%, from 0.8% projected in January, while the IMF staff forecast was revised up from 0.9% in April to above 3% now. Inflation has also been declining faster than expected; headline inflation fell to 4.6% in the twelve-month period up to August. Core inflation has declined steadily since mid-2022.

A new fiscal framework and a set of proposed revenue measures have reinforced confidence in Brazil’s fiscal sustainability. Under the recently enacted fiscal framework, expenditures will be constrained to grow at a pace that is lower than revenues and is subject to a ceiling, although there is a countercyclical element which establishes a minimum spending growth rate of 0.6% in order to maintain the current spending per capita level. Furthermore, primary fiscal balance targets will be set in a way consistent with the objective of maintaining debt sustainability. The central government’s primary fiscal balance will gradually improve towards a surplus of one percent of GDP in 2026, the last year of the current administration. To reach the interim target of a zero primary deficit in 2024, the government sent to Congress additional revenue measures together with the proposed budget. These measures come on top of several other initiatives that, together, will close loopholes in financial and corporate taxation, align our tax legislation with international

best practices, and strengthen the tax arbitration process. The purpose of these measures is not to increase the tax burden, but rather to recover the federal government revenue to GDP ratio of 19% which prevailed in recent years. As a result of these and other measures, confidence in Brazil's debt sustainability has improved, with two out of the three major credit rating agencies upgrading Brazil's debt rating or outlook this year.

A historical reform of the indirect tax system—to make it simpler and fairer—has been approved in the Lower House. The long-overdue tax reform, which has been discussed for over three decades, will establish a value-added tax (VAT), merging different taxes, simplifying procedures, and taxing goods and services at destination instead of origin. The reform will enhance efficiency by eliminating distortions, avoiding race-to-the-bottom "tax wars" among subnational entities, reducing compliance costs, and increasing transparency and fairness in the system. The reform is planned as revenue-neutral, aiming to improve the quality of revenue mobilization. Brazil's tax system is overly complex, regressive, distortive, and cumbersome. Efficiency gains from the reform are estimated to be large, well above 5 percent in the level of GDP over the long run. While implementation will be phased in over a long period, the final approval of the reform will have an immediate impact on the economy by improving sentiment and expectations.

Interest rates are beginning to fall as inflation expectations converge towards the target. Twelve-month headline inflation peaked in April 2022 and fell to 4.6% this August, well below that of several advanced economies. Inflation expectations have also decreased, in both the short and long run, reflecting two main factors. First, greater confidence in the new fiscal framework and the fiscal consolidation path. Second, the decision in late June by the National Monetary Council (CMN) to reaffirm the 3% inflation target and make it permanent and continuous, in line with international best practices. With inflation outcomes and expectations improving, the Central Bank has begun a welcome gradual cycle of monetary policy easing.

The Ecological Transformation Plan is a key piece of the government's economic development agenda. Brazil is already a leader in the green economy, producing more than 90% of its electricity from clean sources. As soon as it took office, the new administration acted to combat deforestation in the Amazon, achieving a 48% reduction in the first eight months of the year compared to 2022. The Brazilian government sees the transition to net zero as an opportunity to create jobs, raise incomes and improve the lives of millions of Brazilians. To that end, the government's Ecological Transformation Plan is structured around six broad themes: sustainable finance; technological deepening; the bioeconomy; energy transition; the circular economy; and infrastructure and public services for climate adaptation. The plan is already underway, and the first landmark measure will be the creation of a carbon market, followed by the establishment of a sustainable taxonomy. Meanwhile, the process for issuing the first sustainable sovereign bond to help fund the transition is advanced. The strategic aim of the Plan is to reconcile robust economic growth and social progress with environmental protection. While a significant share of the needed investments will be met with private sector capital and government funds, that is not enough.

Another focus of Brazil's growth agenda is deepening credit and capital markets in order to improve the provision of financial services to households and the productive sector. This goal has been advanced through a robust financial innovation strategy, involving an open finance

initiative, the *Pix* instant payments system, and now the *Drex*, central bank digital currency (CBDC), which is in the pilot stage. To ensure that financial deepening benefits the broadest possible range of households, the government implemented the *Desenrola* program to help low-income households restructure their debts, including both overdue loans and other past-due obligations such as, for example, utility bills. In its first stage, the program had already helped six million people rejoin the formal credit market.

However, financial deepening also requires improvements to financial sector legislation and institutions. To further this goal, the Ministry of Finance, together with the Central Bank and other financial regulators, recently launched the *Financial Reforms Agenda* initiative, which brings together the public and private sectors to debate reforms to improve the efficiency and increase access to credit and capital markets, the insurance sector, and the complementary pensions system.

The Fund needs to continue to evolve to remain relevant

Compelling progress on the quota and governance reform is critical for the IMF's effectiveness and legitimacy. A successful completion of the 16th General Review of Quotas (16th GRQ) requires an increase in quotas to restore their dominant role in the IMF resource base, as well as further realignment in quota shares so that they better reflect the current reality of the global economy. Such realignment must enhance the overall participation of EMDEs, while protecting the quota share of other EMDEs, including low-income economies and small developing states. At this stage, with very dim prospects of devising a new and less-distortive quota formula that commands sufficient consensus among members in a timely fashion, the way to successfully complete the 16th GRQ by the initially defined deadline, restoring the predominance of quota and advancing some realignment, is to combine an equiproportional increase with a smaller ad hoc increase to partially attend to the most blatantly underrepresented members. **Not making any progress towards quota realignment and a more representative IMF governance would set a dangerous precedent and send a very negative signal about the membership's commitment to bolster multilateralism.** It would be better to give the IMF the opportunity to continue building consensus around a solution that fosters the governance agenda than prematurely close a deal that halts the process of IMF governance reform and sends the wrong signal. Separately, we continue to support the long overdue third chair for Sub-Saharan Africa in the IMF Executive Board.

With the effects from the sequence of major shocks to the global economy still lingering, the IMF's role in providing financial assistance remains essential. We celebrate two years since the substantial allocation of SDR, which had an overall positive impact on the global economy, but also supported many members in difficulty, especially LICs. That said, the SDR allocation replicates the underrepresentation of EMDEs in the quota structure of the Fund, and in order to make it more impactful, further channeling of SDRs to initiatives such as the PRGT and the RST, as well as to MDBs, would be helpful. While we appreciate the fact that the USD 100 billion target for the channeling of SDRs has been reached, the long-term sustainability of the PRGT is still not guaranteed. In our constituency, Trinidad and Tobago has made a pledge, and Brazil, a historical contributor to the PRGT, is seeking ways to participate in this new round of fundraising. However, more concessional or long-term resources are needed to continue effectively supporting member countries in their adjustment and reform agendas, hence we should explore the possibility of using

the IMF's own resources, including gold sales, to complement donor's contributions and help fund these initiatives.

Precautionary arrangements are key instruments to foster global prosperity and financial stability. We welcome the review of the IMF's precautionary facilities, which may promote a broader use of these instruments, benefiting the membership at large. Precautionary facilities help align incentives towards good policies and reinforce solid institutions. The changes that were recently adopted by the IMF Executive Board constitute a very important step in the right direction, by making the use of these facilities more attractive, without lowering the qualification criteria, so as to not weaken the signal. In particular, the concurrent use of the FCL and the SLL and the non-presumption of exit from low-access FCL will help make these facilities an integral feature of a more effective global financial safety net, with a stronger focus on prevention rather than remediation.

IMF policy on charges and surcharges should be revised to adjust to the changed international environment. Tighter global financial conditions and higher financing costs continue to pose macroeconomic and debt sustainability challenges to countries that rely on external credit. In the wake of the major global economic shocks, many member countries resorted to the Fund to support their adjustment and reform efforts. Higher interest rates are becoming a heavy burden for many countries, some of which came to the Fund to meet their balance of payments needs. The purpose of the IMF's 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 key risk management device. This general framework remains valid, but the levels of the charges and surcharges should be calibrated to avoid overburdening those members that had to seek IMF assistance. Moreover, with the increasingly large gap between quotas and the size of the economies – not to mention the increasing magnitude of shocks – the level-based surcharge has become particularly unfair. We hope that a sensible and balanced solution can be found for this issue in a timely manner.

Global Challenges and the Brazilian G20 presidency

The world economy is at a critical juncture. Growing geoeconomic fragmentation, a weakened multilateralism, a looming debt crisis in a number of countries of the Global South, lingering poverty and hunger, increasing wealth and income inequality, and the climate crisis pose significant downside risks to the global economy. Policymakers must find the determination to face these global challenges and develop the right policy tools to do so.

The priorities announced by Brazilian President Lula in the New Delhi Summit for the upcoming G20 Brazilian presidency are directly related to those challenges. The G20 will work to foster social inclusion and fight hunger and poverty around the world. The group will also focus on energy transition and sustainable development in its three aspects – social, economic and environmental. And it will advance in the reform of global governance institutions. These three priorities are summarized in Brazil's G20 motto: **“Building a just world and a sustainable planet.”**

Brazil's G20 agenda focuses on the key issues of our time. We believe it is realistic and necessary. The world urgently needs to improve international financial institutions, devise international tax mechanisms for global social justice, address the looming debt burden in a growing number of countries, and effectively mobilize public and private resources towards a greener and more sustainable global economy. Failure to do so is what is unrealistic.

The G-20 is a global forum with the capacity to foster 21st Century multilateralism. This is critical because the global solutions we need will only emerge from enhanced dialogue, beyond like-minded countries. The world needs to recover its faith in multilateral solutions. Brazil has a long tradition of facilitating dialogue and consensus among different groups of countries. We will be glad to work once again to help build much-needed consensus on the pressing issues on the global agenda.