International Monetary and Financial Committee

Twenty-Fourth Meeting
September 24, 2011

Statement by Guido Mantega, Minister of Finance, Ministerio da Fazenda, Brazil

On behalf of Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, Trinidad and Tobago

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On behalf of the Constituency comprising Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname and Trinidad and Tobago

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International Economic Outlook

1. In October 2008, when the IMFC met in Washington, we launched a coordinated and forceful international response to the largest threat to economic and financial stability in seven decades. Nearly three years later, the world economy has again entered a dangerous phase, as recently stated by the IMF's Managing Director. Exceptional turbulence in financial markets and weakened confidence may lead to another recession, especially in the United States and the euro zone. Absent a strong response from policy-makers, the best scenario for these countries seems to be prolonged stagnation with high unemployment. All countries will be affected to a smaller or greater degree.

2. The current world situation is similar to that of 2008. Close international cooperation is again of fundamental importance. The seriousness of recent events is leading us to one of those points in time where cooperation is absolutely indispensable.

3. Both the IMFC and the G20 have a role to play in overcoming this new phase of the crisis. The G20 is the premier forum for international economic cooperation, as agreed in 2009, since it brings together emerging market and advanced economies around the same table. The IMFC does the same. I value the IMFC and the G20 because they are consensus-based mechanisms that do not suffer from the skewed voting power of bodies like the IMF and the World Bank.

4. Advanced countries can no longer handle by themselves the risks to global stability. Emerging market and developing countries are responsible for the larger share of world economic growth. A revival of global demand will depend to a large extent on these countries. Moreover, some of them, notably the BRICS, have been a source of financial support to the IMF through quotas, bilateral agreements and their participation in the New Arrangements to Borrow (NAB). A considerable portion of the resources that the IMF has been lending in recent years is coming from international reserves provided by China, Brazil, India, Russia and other emerging market countries. In the last meeting of the BRICS Ministers of Finance and Central Bank Governors, held this week here in the IMF, we indicated that we are open to consider, if necessary, providing support through the IMF or

other international financial institutions in order to address the present challenges to global financial stability.

5. The deterioration of the outlook for advanced economies is to a large extent caused by the legacies and unsolved problems of the 2008 financial crisis, including high unemployment, especially among the young, the unfinished reform of the financial sector, the incomplete repair of household balance sheets and, in many countries, weak housing markets. These unsolved problems have combined with sovereign debt sustainability concerns, notably in some euro area countries, to generate acute volatility in financial markets and depress economic activity.

6. In our last meeting in April, I stressed that the major short-term risks to the global economy stemmed from the vulnerability of Europe, particularly the periphery of the euro area. Events have confirmed this perception. Joint IMF, ECB and European Union programs for some euro area countries have failed to stabilize public debts, restore competitiveness and calm financial markets. It is the responsibility of European policymakers to ensure that their actions stop contagion beyond the euro periphery. Europe has a crucial role to play and needs to act swiftly and boldly. As time goes by, overcoming the crisis will be more difficult and more expensive for the euro area. Contagion risks to other countries and regions will tend to rise.

7. The prospects for advanced economies in the short and even medium-term remain highly problematic. Fiscal consolidation along with the worsening of business and consumer confidence and the deterioration of credit conditions have been weighing heavily on growth. Fiscal retrenchment, expected to prevail over the medium-term, tends to be particularly harmful to economic activity when implemented simultaneously in several countries. We recognize of course that the room for Keynesian countercyclical fiscal policies has now diminished considerably, compared to 2008/2010. A considerable number of advanced countries are, on the contrary, being forced by market pressures to revert to pro-cyclical contractionary fiscal policies – and this does not apply only to countries that have requested emergency support from the IMF and the European authorities.

8. We are of the view, however, that those countries that still have some fiscal space should adopt stimulus polices, especially measures that can have a significant impact on activity, such as further support for the unemployed, infrastructure spending, and steps to facilitate refinancing of mortgages. We welcome therefore the recent policy proposals made by the US government. We agree with the IMF's assessment that fiscal policy stimulus, combined with credible medium and long term adjustment measures and plans, can be instrumental in avoiding, or at least mitigating, a recession in the advanced economies. At the very least, some countries could consider scaling back or slowing down their fiscal consolidation plans.

9. We are much less sympathetic to further loosening of monetary policies in advanced economies. We would of course welcome the increase in liquidity if this could be channeled to support consumption and investment. However, the advanced economies, at least some of them, seem to have fallen into a liquidity trap. The effectiveness of monetary policy has diminished substantially. Further monetary expansion would help them mostly in so far as it depresses the external value of their currencies – one of the weapons of the "currency war" I referred to last year. Persistently loose monetary policies in the reserve currency issuing countries have done little to support their economic recovery but have caused considerable headaches for emerging market countries that are forced to manage the international spillovers from these policies.

Quota and Voice Reform in the Fund

10. Quota and voice reforms are crucial for the legitimacy and effectiveness of the IMF. Emerging market and developing countries need to have a larger share of quotas, in line with their continuously growing weight in the world economy. The 2008 and 2010 agreements on quota and governance reforms were steps in the right direction. However, we need to achieve a larger shift of voting power from advanced to developing countries.

11. The implementation of the 2010 quota and governance reforms is progressing slowly. As agreed by the Board of Governors, these reforms should come into force no later than the Annual Meetings of 2012. Nine months have gone by since the Board of Governors approved these reforms by an overwhelming majority. However, many IMFC members, including the IMFC chair, have yet to ratify the reforms. Our constituency is relatively well advanced in this respect. Out of our nine countries, four have completed all steps required to ratify the reform – the Dominican Republic, Guyana, Haiti and Suriname. Brazil and Colombia have consented to their quota increase.

12. We must also move forward on the implementation of the forward-looking elements of the 2010 agreement, namely the comprehensive review of the quota formula to be completed by January 2013 and the commitment to complete the next general review of quotas by January 2014. This was an important part of the 2010 quota and governance agreement.

13. Countries like Brazil, Russia, India, and China, only agreed to the 2010 reform, with its limited progress in terms of overall shift in voting power to developing countries, in exchange for these forward-looking commitments. We reiterate our view that the present flawed quota formula does not reflect the relative economic weights of member countries. Many of the components of the formula are designed to justify large quotas for small and medium advanced open economies, especially in Europe. GDP, with a compression factor, should be the main or even the only variable to guide quotas. It should not be forgotten that G20 leaders and IMFC members signed up to communiqués which stated that "the

distribution of quota shares should reflect the relative weights of the Fund's members in the world economy, which have changed substantially in view of the strong growth in dynamic emerging market and developing countries". There can be no back-tracking on this point.

14. Once the 2010 quota increase becomes effective, Brazil for instance will be the tenth largest quota holder in the Fund. However, Brazil is currently the seventh largest economy in the world, measured by GDP at either market exchange rates or purchasing power parity. In the next quota review, Brazil expects to move up in the ranking in terms of quota share and voting power in the Fund. The same is valid for Colombia, the second largest economy in our constituency. Colombia is currently the 28th largest in the world in terms of GDP PPP, and 34th in terms of GDP at market exchange rates. After the entry into effect of the 2010 reforms, its quota share in the Fund will only rank 41st.

15. The next stage of quota and voting power realignment cannot be treated at close doors inside the Fund. The 2010 quota and governance reforms were concluded, to a large extent, due to the efforts of the G20. We expect the G20 to continue to play a central role in this matter. We also call on the G24, academia and outside experts to continue to take an active part in this discussion, which has to be open and transparent.

Surveillance

16. The Fund suffers from insularity of perspectives and vulnerability to pressures from the largest shareholders. For surveillance to be effective, the Fund needs to promote the emergence of independent views and foster more diverse internal debate, particularly on strategic questions. Staff diversity needs to be at the forefront of efforts to strengthen surveillance and improve governance. In this context diversity refers to both academic background and work experience. The most important positions in the Management and staff continue to be held by nationals of a few advanced countries.

17. Evenhandedness in surveillance is essential for the Fund to gain stronger traction. The institution should strive to foster more balanced decision-making so as to eradicate the widespread perception that the major developed countries often subordinate the Fund to their own national and regional agendas. We realize of course that this crucially depends on further redistribution of quotas and voting power in favor of developing countries.

18. We welcome the recognition by the Fund that there is a need for adequate coverage in surveillance of problems such as unemployment, poverty and inequality. However, the IMF will have to build capacity to address these issues. Stronger collaboration may be needed with institutions such as the World Bank and the International Labor Organization.

Reform of the International Monetary System

19. The international monetary system does not reflect an increasingly multi-polar world. The SDR could play a larger role in the international monetary system, especially if its basket is enlarged with the inclusion of emerging market currencies, and the SDR markets become deeper and more liquid.

20. We support the issuance of a significant volume of SDRs by the Fund in the coming years. The SDR allocation of 2009, at the peak of the crisis, was useful in alleviating countries' needs for international liquidity and facilitating the diversification of reserves. We regret that the majority of the IMF Executive Board has so far opposed a new allocation of SDRs, even to merely maintain their relative share in international reserves.

Lending Facilities

21. The Flexible Credit Line, created in 2009 and enhanced last year, and the Precautionary Credit Line, created in 2010, complemented the Fund's lending toolkit. Although there is always room for improvement, we are relatively comfortable with the current toolkit. We see any attempt to reform these facilities as premature, as they need to face the tests of time and utilization before any substantial modification.

Small States

22. Every Fund member is important, and in order to better engage with each one of them the Fund needs to do a better job in listening to the views of authorities and in understanding the circumstances of each country, big or small. Ensuring adequate voice for small countries is a key concern, as we have previously stated. Since the crisis, small states, including those from the Caribbean, have been facing specific challenges that deserve greater attention from this institution. Financing facilities for small states are still inadequate. Too much attention is given to the level of GDP per capita in establishing criteria for access to concessional facilities, and not enough to high levels of fragility and vulnerability to natural and economic shocks to which small states are often acutely exposed. In the current global environment, the search for new and innovative financing mechanisms has become even more urgent.

23. The recent crisis has shown that advanced economies are experiencing some of the challenges that emerging market and developing countries have successfully confronted in the past. In this context, we welcome the call by the Managing Director for the sharing of experiences among the membership in building better shock absorbers and increasing the resilience of economies. Small states can certainly contribute to and benefit from this exchange of experiences.

24. Small states are spread across several constituencies in the IMF. Three of them – Guyana, Suriname and Trinidad and Tobago – are part of our chair. Consideration could be given to establishing an informal Executive Board committee, where chairs that include

small states would be represented, to discuss the specific needs and concerns of these states, elaborate proposals and present them to rest of the Board, Management and staff.

Haiti

25. Haiti is about to welcome a new Cabinet. The unanimous approval of President Martelly's designated Prime Minister by the Lower Chamber of Parliament sends a strong signal to all of us that time is ripe for action.

26. We urge Haiti's friends in the international community to reactivate their portfolios and deliver the pledges made more than a year ago after the ravaging earthquake. Despite several external shocks, the country has managed to increase its exports and maintain inflation in single digits as well as boost its fiscal revenues. The global slowdown and the increase in commodity and oil prices are menacing Haiti's hard won and fragile macroeconomic stability. With our support and the authorities' determination, this decade could be a game changer for Haiti. Foreign investors around the world should take note of the opportunities offered by the country. We call on the Fund and the World Bank to ensure that they play a key role in strengthening donor engagement and in promoting country ownership of policies and programs.