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Statement by Mr. Durigan
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 Dario Durigan

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

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The Global Economy: Resilience and Unevenness

The global economy is showing resilience after a number of shocks, although increasing unevenness is cause for concern. Over the past two decades, the world withstood a major financial crisis, a pandemic, wars, supply chain disruptions, and growing trade fragmentation, not to mention more frequent and destructive extreme weather events, triggered by a looming climate crisis. We are now in the position to look back at this sequence of shocks and take stock of their cumulative impact. The global economy has shown remarkable resilience and has continued to grow, but this growth is becoming increasingly lopsided, and the Sustainable Development Goals look ever more distant. Against this backdrop, aggregate resilience increasingly reflects powerful investment trends concentrated in a few economies, rather than a broadly shared improvement in global economic conditions. The energy price shock caused by the ongoing war in the Middle East is redistributing growth between energy importers and exporters, while the technology cycle disproportionately benefits economies well positioned in the AI value chain. Trade, production, and commodity markets have quickly adapted to the new conditions, although buffers have been depleted and aggregate debt levels have come up. Importantly, most low-income countries have been on the losing side of the forces currently shaping the global economic outlook. Persistent development divergence can generate spillovers that ultimately affect all countries, including through weaker global demand, heightened fragility, and renewed migration pressures. In a nutshell, the lukewarm global aggregate picture should not obscure the consequences of increasing unevenness.

In the context of geoeconomic fragmentation, rapid AI adoption, and climate change, near-term risks remain tilted to the downside. Future shocks are likely to occur amid more constrained policy space, creating increasingly difficult trade-offs for policymakers around the world. For that reason, we welcome the IMF's emphasis on protecting growth, equity-enhancing spending, and well-targeted social protection while rebuilding fiscal buffers. Adequate multilateral support will be critical to avoid unnecessarily procyclical and socially costly adjustment processes, particularly in low-income countries. We also welcome the IMF's attention to AI, a potential driver of productivity in the near term, and call for a comprehensive IMF AI strategy that takes into account the new set of risks created by the current technology cycle. Even successful and rapid AI adoption could entail significant transition costs through labor-market disruption and widening distributional disparities, both within and across countries. The ongoing Super El Niño represents

a major source of risk and is likely to trigger extreme weather events around the globe, putting additional pressure on constrained national budgets.

Enhanced international cooperation is an essential component of global resilience. As highlighted by President Lula and several other world leaders, multilateralism is not idealism, it is a necessity. In a world that is simultaneously more interconnected and more fragmented, multilateral cooperation is inescapable. Challenges related to trade restrictions, energy security, financial conditions, AI safety, extreme weather events, and migration cannot be effectively addressed by any country acting in isolation. Multilateral financing to help countries facing liquidity pressures preserve essential imports and avoid abrupt demand compression continues to be a global public good. We call for renewed efforts to make sovereign debt resolution faster and more predictable, including through stronger creditor coordination and fair burden-sharing. We continue to value the IMF's unique role in translating multilateral cooperation into concrete support for the members in need, strengthening the global financial safety net and helping ensure that adjustment to global shocks does not fall disproportionately on countries with the least policy space, thereby aggravating unevenness.

Brazil: Progress on Many Fronts

Notwithstanding external shocks, the Brazilian economy continues to perform well. Even under the impact of wars and unilateral trade restrictions, aggregate growth since 2023 has exceeded all expectations and is firmly above our pre-pandemic path. The labor market has been particularly strong, characterized by the lowest unemployment level in the historical series and increasing formalization. Rising income and well-targeted social policies helped reduce poverty and inequality. Brazil left the United Nations Hunger Map and achieved very high human development status according to the latest UNDP data. Inflation is hovering near the upper band of the target range despite the global energy price shock caused by the war in the Middle East. Overall, Brazil has been proactively and successfully managing the fallout from the war, considering its remarkably clean energy matrix and position as a net oil exporter.

We are committed to ensuring a sustainable path for the primary fiscal balance and public debt. A significant fiscal effort has been undertaken over the past few years, in line with the fiscal framework approved in 2023. The draft budget guidelines published in April set out an indicative target path for the primary balance that will place public debt on a downward path in due course. Temporary fuel tax exemptions and subsidies to mitigate the impact of global shock on the economy and protect the most vulnerable are more than fully financed by windfall revenues and have been reassessed regularly. Because of that, some of the measures undertaken to offset the oil shock have already been discontinued. Further enhancing spending efficiency continues to be a priority. Significant progress has been made recently, including a few spending reviews packages, the introduction of a medium-term budget framework, and enhanced transparency of parliamentary amendments. We have also tackled ineffective and regressive tax expenditures. The budget-balanced personal income tax reform increased progressivity through the introduction of a minimum tax on high incomes while exempting millions of Brazilians from income tax. From January 2027, the implementation of the landmark VAT reform will boost productivity by removing distortions in the tax code while increasing progressivity through the cashback mechanism for low-income households.

Brazil's financial sector remains resilient, supported by strong capital and liquidity buffers. Our 2026 FSAP confirmed that even under severe adverse macro-financial scenarios, capital adequacy ratios remain above prudential thresholds. The banking sector holds ample liquidity buffers, with a median Liquidity Coverage Ratio of 205 percent, more than double the Basel minimum requirement. Our prudential regulatory and supervisory frameworks are well aligned with Basel III reforms. Banking supervision has strengthened significantly since the 2018 FSAP and benefits from modern regulatory and supervisory practices, supported by extensive use of technology, sophisticated analytics, and risk-based supervision. The macroprudential policy framework has also been strengthened since 2018. Brazil has a modern regulatory framework for crypto-assets and we are committed to continue developing this framework as the market evolves.

Brazil's economic policy agenda continues to support sustainable, resilient, and inclusive development. New trade agreements with the European Union, the European Free Trade Association, and Singapore have come into force. Negotiations are ongoing with additional jurisdictions. Continuing to implement initiatives to reduce the cost of doing business, including through the use of digital technologies, is a priority. The reduction in the workweek currently under discussion in Congress will help reduce inequalities and increase productivity. Our ambitious Ecological Transformation Plan continues to move forward, representing a fundamental shift in Brazil's historical relation with our abundant natural resources.

The IMF: Time to Renew Our Ambition

We welcome the Comprehensive Surveillance Review (CSR) and see its implementation as a key opportunity to ensure that Fund surveillance continues to adapt to current challenges. We strongly support a more systematic integration of distributional analysis into bilateral surveillance, particularly in the assessment of fiscal policy. At the same time, we caution against an overly narrow interpretation of macrocriticality. Climate ambition and domestic policies spillovers should remain part of multilateral surveillance and the IMF 2021 Climate Strategy should be upheld, including its numerical targets. Moreover, in setting priorities, the Fund should consider the medium-term costs of reducing engagement in non-traditional areas, including the potential erosion of institutional expertise and analytical capacity. Limiting engagement to a narrow set of circumstances risks a gradual erosion of institutional expertise and could weaken the Fund's ability to respond rapidly when new risks become macro-critical.

We welcome the Review of Program Design and Conditionality (ROC), which will help strengthen the effectiveness of IMF programs. We support the emphasis on fiscal realism, attention to the composition of adjustment, and more nuanced recognition that fiscal consolidation should be used with caution where fiscal imbalances are not the underlying source of balance of payment pressures. Unfortunately, in IMF programs adjustment has often been achieved through cuts in public investment, with adverse consequences for growth and welfare. We note with concern the decline in the share of fully successful programs and the growing number of countries engaging in recurrent or successive Fund arrangements. In our view, this suggests that more needs to be done to help members address the structural drivers of external vulnerabilities. The recommendation to run *ex ante* distributional impact analysis for countries entering programs is clearly a step in the right direction, and we look forward to a meaningful implementation. We also welcome the progress achieved under the revised Low-Income-Countries Debt Sustainability Framework and the FSAP Review.

Taking into account the environment of heightened risks, we call for an ambitious agenda to strengthen the IMF's crisis-fighting capabilities. We support the IMF's role as an institution at the center of the global financial safety net. To fulfill this role and support the members' sustainable development endeavors, the IMF must remain strong, agile, and well-equipped. We call for continued work on macrocritical issues that are particularly relevant for the vast majority of the membership, such as climate change, social inequality, gender disparities, and progressive taxation. We encourage enhanced engagement with civil society and academia, which is fundamental to increase the Fund's legitimacy and reduce stigma. The Fund must mobilize the budget resources it needs to rise to the occasion and continue to provide highly valued capacity development to the membership.

We continue to call for urgently needed governance reforms. To date, all the twelve Managing Directors that the IMF have ever had have been recruited from the same region of the world. This contrasts with the regional rotation principle followed by all other International Organizations with near-universal membership, as well as the IMFC. We call for more inclusive decision-making processes at the IMF in order to strengthen the Fund's legitimacy in a world increasingly affected by geoeconomic fragmentation. Concretely, we support regional rotation for the top management positions in the Bretton Woods institutions and enhanced representativeness for Deputy Managing Director positions. We remain hopeful that the 17th GRQ will deliver meaningful quota realignment and governance reforms, and we call for a timely beginning of negotiations.