International Monetary and Financial Committee

Twenty-First Meeting
April 24, 2010

Statement by Guido Mantega
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Brazil

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

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Economic Outlook

1. Since the last IMFC meeting in Istanbul in October 2009, the world economic situation has continued to improve. However, the pace of recovery is strikingly uneven among major groups of countries. In advanced economies, where the downturn started, the growth outlook remains fragile and the recovery is not yet self-sustaining, depending on continuing fiscal and monetary stimuli. In most emerging market and developing countries—where the downturn was relatively short, albeit intense—the growth outlook is more robust and self-sustaining.

2. The main current threat to the recovery stems from fiscal weaknesses in several advanced countries. In a few European countries, these weaknesses have already translated into financial instability. It is true that an early exit from fiscal support may prove to be premature from the standpoint of recovery. Nevertheless, uncertainties about debt sustainability could force countries into fiscal consolidation sooner than planned. In major advanced economies, a detailed consolidation strategy seems to be indispensable to avoid further turbulence and risks of contagion to other areas of the globe.

3. The stance of monetary policy is likely to remain accommodative in advanced economies for an extended period, as long as capacity utilization and inflation pressures remain subdued. However, the lessons from the last decade should not be forgotten. A long expansionary monetary cycle, especially if combined with lax regulation, can generate new bubbles and financial crises.

4. A side effect of the accommodative monetary policy in advanced countries is the surge in capital flows to emerging markets. Several emerging economies, including some in our constituency, are experiencing large capital inflows that can cause excessive credit and demand growth, currency appreciation, and current account imbalances. Prudential measures and capital controls are increasingly becoming necessary to mitigate these harmful effects. We welcome the Fund's increasing recognition of these instruments as part of the tool-kit that countries can resort to when facing surges of capital inflows.

5. We have to remain watchful to avoid the build-up of new disequilibria. In this respect, the slow progress of financial reform in the advanced countries that were at the epicenter of the crisis remains a source of concern. One of the worse outcomes would be to emerge from the crisis with a largely unreformed financial system in advanced countries.

Quota Reform and Other Governance Issues

6. The Fund's legitimacy depends on a substantial redistribution of decision-making power. Legitimacy has to be the number one issue on the institution's agenda. This should have been a core lesson from the crisis. Apparently, it was not clear or loud enough for all, as we keep seeing the issue being either delayed or pushed to the margins of the agenda.

7. We must clearly redress the disconnect between the relative weights in the present world economy and quota distribution in the IMF. That is why Brazil and other developing countries have called for a shift of the order of 7 percentage points from advanced to emerging market and developing countries.

8. We are dismayed by the contrast between the ambition shown by Management and staff when speaking of possible new future roles of the Fund in terms of lending and surveillance and the lack of ambition shown in the recent staff papers on quota review and rebalancing. Lack of ambition in speed and substance.

9. From 2004 to 2009, emerging market and developing countries contributed more than three fourths of global GDP growth in purchasing power parity (PPP) terms. These countries will continue to have an active role as engines of world growth. However, this role has yet to be translated into larger representation in the Bretton Woods institutions.

10. Realigning quota and voting shares in favor of emerging market and developing countries to reflect the new economic realities is more than urgent. In Pittsburgh, G-20 leaders committed to a shift in quota share to dynamic emerging markets and developing countries of at least 5 percentage points from over-represented countries to under-represented countries. There are convincing arguments to target a shift of the order of 7 percentage points from advanced to emerging market and developing countries, as I mentioned. This shift would make the overall share of emerging market and developing countries in the IMF correspond roughly to their share in world GDP.

11. The current quota formula includes distorted variables with little or no economic significance. In 2008, we decided to review the formula before using it again. Insistence on not reviewing this deficient formula—which we decided in Pittsburgh and Istanbul was merely a basis to work from, i.e., to advance from—is a demonstration of unjustifiable resistance to change.

12. We see scope for several improvements. In particular, GDP in PPP terms should be given a much more relevant role, as it is a more stable variable, less affected by temporary exchange rate fluctuations and the economic cycle. We should consider eliminating—or substantially reducing—the weights of variables that have become increasingly questionable and irrelevant, such as openness and variability. We could also include a factor to contemplate contribution to global growth. An ad hoc increase in quotas based on GDP PPP may be required to achieve a more realistic distribution of quota shares.

13. The next quota review should also at least double the overall size of the Fund's quotas. A significant shift in quota shares can be achieved more easily if there is a large overall quota increase. Such an increase is consistent with the expansion in world GDP, trade and financial flows since the last general quota review in 1998.

14. The IMF is a quota based institution and should continue to be so. Therefore, the new and expanded NAB (New Arrangements to Borrow) that the IMF Executive Board has just approved, and that Brazil will contribute to, should be seen as a backstop against extreme scenarios. Its activation must remain the exception, not the rule. Part of the next quota increase may come from a conversion of NAB contributions into quotas.

15. The IMF needs to establish as soon as possible a truly open and merit-based selection of Management. The Managing Director, as well as the President of the World Bank, should be selected irrespective of nationality or regional preferences. Of course, it will be difficult to achieve that objective in the absence of a substantial realignment of quotas and voting power in favor of emerging market and developing countries. Nevertheless, if there is willingness to make immediate progress, clear IMFC and Development Committee statements against informal understanding on nationalities among major shareholders would be an important step forward.

Future Financing Role of the Fund

16. Reserve accumulation is often presented as an inefficient form of insurance and as contributing to global current account imbalances. Although accumulation of reserves can result from current account surpluses, in many cases it is a response to large capital inflows in countries with current account deficits. This response is a way of minimizing the potential macroeconomic imbalances associated with these inflows. Therefore, the idea that reserve accumulation contributes to global imbalances is fallacious. In the absence of large capital inflows, there would be no reserve accumulation in deficit countries or, at least, not of the same magnitude.

17. International reserves provide an adequate buffer against capital outflows and other shocks. Capital inflows resulting from loose monetary conditions in advanced countries are a source of global instability—not the accumulation of international reserves per se.

Macroprudential frameworks in countries where capital flows originate need to be strengthened to avoid excessive risk-taking and volatility in asset prices.

18. IMF lending is no substitute for international reserves. Stigma associated to IMF programs remains a major concern. Not only stigma in terms of market perceptions, but also political stigma. Considerable progress has been made recently by focusing conditionality and introducing the concept of ex-ante conditionality in the Flexible Credit Line (FCL). However, the problem remains and will not go away until the Fund's legitimacy deficit is effectively addressed.

19. Therefore, we are skeptical that countries can be dissuaded from accumulating reserves by changes in the Fund's lending toolkit. Brazil, for one, is not ready to relinquish its international reserves, at a level it considers adequate, in exchange for any sort of multilateral safety net. High reserves were a very relevant factor in our capacity to weather the recent crisis in comparatively good shape—comparatively both in international terms and even more so relatively to our own past experience. In this respect, Brazil is not an isolated case. Countries should not be expected to ignore their own history and other national experiences.

Surveillance

20. There is still no confidence that the Fund's surveillance is or will become evenhanded, although some progress has been made in that direction. The IMF has recently shown more openness to plural thought. But there is still a long way to go. The Fund still has to overcome the great divide in terms of ownership of the institution which separates advanced countries, on the one side, and emerging and developing nations, on the other. A rebalancing of voting power and representation in the institution would help achieve evenhandedness in surveillance.

21. A major goal should be to strengthen surveillance of advanced economies. The current crisis makes this an obvious requirement. The Fund should be able to identify, in bilateral and multilateral surveillance, imbalances in these economies that may have repercussions in the rest of the globe.

22. Another area where improvements are necessary is the treatment of cross-border capital flows. There is a need to revise analysis as well as policy prescriptions in this area, building on progress made by the Fund in recent months. Member countries have faced large inflows of foreign capital with strong effects on their economies, leading in most cases to an increase in their vulnerability to reversals of capital movements.

23. This chair is not in favor of transforming the Financial Sector Assessment Program (FSAP) into an obligation of members, nor do we favor mandatory publication of its results.

We continue to see the FSAP as a potentially useful instrument to strengthen the financial sector of member countries, but it should remain a voluntary exercise. A severe crisis in the financial sector of major advanced economies is no reason to create new obligations for the entire membership.

Haiti

24. As we all know, the Haitian people and government have been struggling under extremely severe circumstances since the earthquake of last January. We call on the international community to stick to its commitments to help rebuild the country, under the guidance of the Haitian government. In our constituency, Ecuador, Guyana, and Trinidad and Tobago have already disbursed funds for budget support. The Dominican Republic is giving considerable help to Haiti. Brazil has pledged an amount of US$172 million for the long-term recovery of Haiti. Colombia has also pledged budget support.

25. We welcome the fast disbursement by the IMF of US$114 million immediately after the earthquake, and the proposal made by the Fund to provide exceptional debt relief for countries faced by catastrophic shocks.