

Brazil Refuses to Be "Mere Coffee Drinker" at G-7 Meetings, Says Minister

Contributed by Alexandre Rocha
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Governments of the main emerging nations decided this Friday, November 7, to coordinate their actions in the formulation of policies to face the global financial crisis and promote reform of the international financial system.

Dialogue between the ministers of Finance and governors of central banks of the so-called BRIC (Brazil, Russia, India and China), plus Mexico and South Africa, was detailed at the end of the afternoon by the minister of Finance, Guido Mantega.

"The BRICs have decided to coordinate their actions, improve their economic relations, exchange information and expand the potential of their activities," stated the minister in a press conference.

He pointed out that the existing rules to inspect international finance and the institutions responsible for this task, like the International Monetary Fund (IMF) and the World Bank (IBRD), did not manage to identify the problems and avoid the crisis.

According to him, more solid rules are lacking to control international financial crises, greater inspection and transparency in institutions. Apart from new rules, Mantega pointed out that emerging nations want reformulation of multilateral organizations that operate in the sector so that these countries may gain greater weight.

"The BRICs and the G-4 (South Africa, Brazil, China and India) do not have an active choice, they have been managed by institutions from the 1940s and 1950s, when the United States and the European countries represented the bulk of the global economy. Today the emerging nations represent 75% of global growth, but we have minority representation," he said.

In this sense, he added that Brazil and other nations may expand their participation in the IMF, for example, through injection of greater funds and expansion of their responsibilities. "None of the BRICs said they are not prepared to put funds in, they have money, they have reserves. They only want greater participation," he said. "It is currently the Fund that does not want to give us a greater share," he added.

More than restructuring the IMF and the IBRD, Mantega defends the creation of other organizations, like a kind of global SEC, or the strengthening of organizations that are already in existence, like the G-20 itself, which includes the 20 main economies of the world and could have its powers expanded to operate in a similar way as the G-7, which includes just the richest nations.

"The G-20 could have more important action, more direct in crises, it could stop being just a reflection," he said.

This is the position Brazil and other emerging nations are going to defend in the meeting between ministers of Finance and central bank governors of the G-20, to take place this weekend in São Paulo. According to Mantega, the transformation of the group into a bloc of heads of state may also be discussed, so that it may gain greater autonomy in decision-making.

"The crisis can only be fought with coordination between the countries, not in an individual manner," stated the minister. "We refuse to participate in the G-7 or G-8 (G-7 plus Russia) as mere coffee drinkers," he added.

The emerging nations concluded that those to blame for the crisis are the United States and the European countries, which did not take the necessary steps to prevent it, but now the turbulence has spread around the globe and threatens developing nations. Mantega stated that the emerging countries want wealthy nations to adopt additional measures to re-establish international credit lines and restore trust in the global economy.

"Correct measures have already been adopted, however they have not been sufficient to re-establish credit and confidence, so that the economy may resume its growth," he said.

Among the measures he highlighted the purchase of "toxic assets" that are still circulating, so as to restore confidence in the financial system. "It takes swifter action in order to single out and isolate these assets," he said.

Only in this way, according to Mantega, will the financial institutions know which banks still own subprime bonds and which ones do not, making it possible for banks to resume interbank loans. In other words, banks must know that they are borrowing to solid institutions.

Another topic is the adoption of "anti-cyclic" measures to counteract the "wave of economic slowdown". This includes the loosening of fiscal and monetary policies so as to ensure, or even increase, public investment, as well as to lower interest rates.

The minister stated that wealthy countries have expressed interest in adopting measures, supporting the creation of new rules, and increasing the participation of emerging nations in international ruling courts.

One such example, according to him, was the attendance of the United States president, George W. Bush, in the last extraordinary meeting of the G-20 and Bush's initiative of calling a meeting of the bloc's heads of state and government for November 14th and 15th, in Washington. "Due to the seriousness of the crisis, wealthy countries have shown a greater willingness to increase the participation of emerging countries," he said.

Another proof, according to Mantega, was the reduction of the basic interest rate from 4.5% a year to 3%, announced this week by the Bank of England, as well as the European Central Bank's rate reduction from 4.25% to 3.5%. "There is a trend worldwide for reducing interest rates, which translates into an expansionistic monetary policy," he said.

In the case of Brazil, he declared that the latest indicators show that economic activity is still going at a "fast pace," but that in case of a slowdown, a change in monetary policy is not out of the question. The Central Bank had been increasing interest rates, but in the last meeting of the Monetary Policy Committee the rate was maintained.

To the minister, such convergence between emerging and wealthy countries regarding the measures that should be adopted had never happened before. "So far, everyone is headed in the same direction. There might be a divergence when the time comes to define the issue of regulatory institutions. But we are not going to rush," he said. "Now is the time for global pragmatism," he stated.

He also claimed that the election of senator Barack Obama for the presidency of the United States should provide the United States government with new breath, so that it may face the crisis, due to his broad electoral support and the team of competent economists that he is putting together.

For Mantega, one of the measures that can be adopted consists of providing aid to United States citizens who are losing their houses for lack of mortgage payment. "That alone would already reduce the amount of toxic assets," he said.

Mantega also spoke for the continuation of the Doha Round of trade liberalization. "We must keep the trade open, encourage competition and resume the Round. Now is the time. This will be an antidote against the protectionist movement," he said.

The proposals discussed by the ministers this weekend will be taken by the heads of state and government, so that they may proceed with the implementation of measures on the 14th and 15th in Washington.

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