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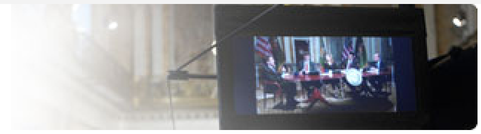

Under Secretary Brainard Remarks at the 2010 Brazil Economic Conference

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As Prepared for Delivery

Let me start with a quote from 2008: "Many experts believe Brazil will be one of the engines that will help pull the global economy out of recession in the coming years."

That is what I wrote about Brazil two years ago for a book entitled *Brazil as Economic Superpower*, and it is one of the few times I have been proven right.

Today, I'll discuss the Brazilian economy through the lens of a partner. Over the course of my tenure in government, the United States and Brazil have worked together to address some of the toughest challenges facing the global economy. Let me focus on three: first, the aggressive response to the financial crisis; second, ongoing efforts to promote global growth; and third, the pursuit of governance reforms in the international financial institutions.

Partners in the Global Economic Recovery

Two years ago, the world economy was thrust into the grips of a crisis on a scale not seen since the Great Depression. Trade plunged by more than a third, global output contracted at an annual rate of six percent, financial markets froze, and people lost their jobs at an alarming rate.

The United States and Brazil joined forces with other leading economies to mount a rescue that was a dramatic and unprecedented feat of peacetime coordination. In the spring of 2009, leaders representing 85 percent of the world's economy gathered at the G-20 Summit in London to develop a joint response of overwhelming force.

The central role of Brazil and other emerging market nations in the G-20 has proven essential to our achievements. Together, we have delivered $5 trillion of stimulus to our economies and mobilized an additional $1 trillion through the international financial institutions. We committed to keeping markets open to trade and investment. We embraced a common framework for reform of the global financial system.

These efforts were bolstered by ambitious--and in some cases unconventional--responses on the part of the Federal Reserve and the world's leading monetary authorities, including a $30 billion swap line between the Federal Reserve and the Central Bank of Brazil.

In Brazil, strong policy decisions over the previous decade bore fruit as policymakers were able to respond quickly and forcefully to contain the crisis. Macroeconomic reforms, including years of adherence to a fiscal surplus requirement and inflation-targeting monetary policy, provided space for countercyclical policy stimulus.

The central bank was able to reduce the Selic rate to a historic low of 8.75 percent, reduce reserve requirements to stimulate credit growth, and provide foreign exchange liquidity to the market through an innovative swap facility to facilitate payments and prevent capital flight.

The Brazilian government also used its considerable resources to stimulate demand from the emerging middle class. It did so through tax incentives and by expanding public investment in infrastructure to reduce bottlenecks and accommodate higher growth. Effective public debt management--extending debt maturities and reducing the stock of net public debt--meant that the government had no problem financing the stimulus.

Critically, Brazil's flexible exchange rate insulated the real economy from the global shock in the fall of 2008, and rapid depreciation encouraged domestic substitution away from imports, further stimulating domestic production.

Innovative social programs protected the most vulnerable. The *Bolsa Familia* conditional cash transfer program provided vital income support as the poor confronted job loss and price shocks.

The coordinated actions of the United States, Brazil, other G-20 countries, and the international financial institutions required considerable resolve and at times, required steps that were politically unpopular. But these actions proved essential. They put the global economy on a path to recovery, cushioned the poorest from the worst impacts of the crisis, and restarted growth. But much work remains.

Building a Stronger Global Economy

We now face a fundamental policy question: how do we strengthen the pace of growth in a way that is more balanced, and therefore more sustainable, for the global economy?

The global economy is on the mend but recovery remains fragile. The IMF's recent *World Economic Outlook* notes the fragility of the recovery, and identifies the need to maintain focus on growth, jobs, and encouraging private sector investment.

The interests of the United States and Brazil are closely aligned as we address these challenges.

We both recognize the importance of creating new sources of demand in the global economy. And we both encourage the sustained economic expansion taking place in Asia and Latin America because it is critical to supporting growth as the advanced economies take more time to recover.

In Latin America, the IMF forecasts growth of 5.7 percent in 2010, with Brazil accounting for nearly 40 percent of the regional total. Years of good policies have put Brazil in a strong position to recover quickly from the crisis and be an engine of growth in the region.

It is no accident, then, that Brazil is receiving attention from investors throughout the world. At a time when growth in the major advanced economies is modest and macroeconomic policies are of necessity highly accommodative in order to support recovery, capital continues to flow to countries such as Brazil in search of higher yields. This presents Brazil with opportunities for rapid advancements in productivity and innovation.

But efforts to resist exchange rate appreciation in other emerging markets further accelerate the flow of capital to Brazil. Recently, Brazil's financial authorities have pointed out the difficulties of some countries attempting to maintain flexible exchange rates while other emerging economies are engaging in policies to resist appreciation in line with market forces. They have pointed to the inevitable negative spillover effects from policies of competitive non-appreciation.

Managing capital flows in such circumstances is not an easy task. It requires the sound policies and macroeconomic stewardship that Brazil has exhibited. But it also requires complementary actions from other emerging markets to ensure the strong, sustainable, and balanced growth we all seek. That is why Brazil and the United States are working together, and with our partners in the G-20, to address these issues.

All major economies must deliver on our commitment to rebalancing, and to each doing our part--surplus and deficit countries; advanced and emerging--to foster sustainable growth. We share a common interest across borders in achieving our objectives.

Brazil is providing both leadership and an example to others in doing its part to foster a rebalancing of global growth. Brazil's growth is well-balanced, with strong domestic demand as well as rising integration with global trade and finance with a robust domestic economy.

Such growth provides large gains in the living standards of Brazilian citizens, while expanding opportunities for Brazil's firms and those of its economic partners.

Modernizing the International Financial Institutions

Working together with Brazil and the other leading economies, we are also focused on modernizing global governance, especially at the international financial institutions.

This weekend in Washington, finance ministers from around the world will gather for the Annual Meetings of the World Bank and the IMF. A key focus of discussions will be IMF governance reform. Brazil, in partnership with the United States, has been a powerful and effective advocate for strengthening and reforming the Bretton Woods institutions to better reflect 21st century realities.

We are making considerable progress in strengthening the Fund. Brazil joined us in supporting large increases in its resources, as well as the introduction of new, more flexible lending instruments that carry less stigma for borrowing nations. The United States also supports boosting the voice and Board representation of dynamic emerging market and developing countries to make the Fund's governance reflect the 21st century global economy.

As dynamic emerging market economies assume an increased role in global financial governance reflecting their rising significance in the global economy--as we believe they should--they must take their share of responsibility for the overall health and stability of the global financial and trade system. For that reason, we must ensure that progress on governance reform goes hand-in-glove with progress towards the policy changes needed to underpin the world economic recovery and the stability of the financial system as a whole. For our part, the United States recognizes we have a special responsibility to help safeguard the system and to ensure more balanced and broadly shared growth.

Conclusion

Let me conclude by noting that the United States and Brazil have shared an historic partnership to meet both domestic and global economic challenges.

Over the past two decades, the pace of U.S. investment in Brazil has doubled and continues to accelerate in both directions. This economic integration encourages close collaboration on economic issues and a commitment to ongoing dialogue between our finance ministries.

Brazil has joined the United States in pursuing many important issues. We have partnered on a global effort on financial inclusion. We have cooperated to cancel Brazil's remaining bilateral debt in exchange for the preservation of tropical forests in Brazil. And we have worked together to extend our hands, and the support of the region, to the people of Haiti.

Our two great countries have great challenges ahead of us, along with a robust bilateral agenda for cooperation. We congratulate Brazil on its enviable position of managing through its success, and we welcome Brazil's support in addressing the challenges ahead.

Thank you.

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