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**Introduction**

1. Let me thank President Maduro for being here with us this morning and for his kind and insightful words. It is an honor for me to address such a distinguished group of leaders from the region. Although I have had the opportunity to meet and work with many of you before, this is my first visit to Central America as Managing Director of the IMF—an indication of the importance of this region for the Fund, and, of course, a most welcome opportunity to renew old friendships, and make new ones.

2. Our annual regional conference on Central America has become a key anchor of the IMF's work in this region. I would like to thank the Honduran authorities and the Central American Monetary Council for hosting this year's event. The topics you have chosen for this year's conference—growth and banking reforms—are central to the region's policy agenda, both for individual countries and for Central America as a whole. Indeed, growing economic integration—here as in other regions of the world—is both a fact of life and a policy imperative. It is the close interaction among policy makers at events like this which ensures that integration is well managed and benefits all countries.

**Central America's promise**

3. Central America can be proud of its achievements over the past decade. Democracy and peace have been firmly established, after years of conflict and economic dislocation. Strong macroeconomic policies and reforms have raised growth rates, reduced inflation, and strengthened external balances. A growing emphasis on trade liberalization, export-led growth, and financial sector reforms have transformed Central America into one of the most open regions in the world, as befits a region at the crossroads between North and South America, and the Atlantic and Pacific Oceans.

4. The reforms implemented since the early 1990s have placed Central America in a strong position to partake in the ongoing global recovery. And while the strong global

recovery that took place in the first half of this year is expected to moderate somewhat in the second half, we project that the world economy will grow at a robust 4 percent next year. In Central America, we are seeing growth rates accelerate throughout the region, beyond our expectations just a few months ago. While there are still some downside risks such as from high oil prices and rising world interest rates, these have by now been well anticipated and the region is much better prepared to deal with uncertainties and shocks than a few years ago.

5. Looking ahead, I firmly believe that Central America has the potential to sustain rapid growth and social development, making the best of its location, natural beauty, and human resources. The region's firm commitment to outward-oriented growth and continued regional and global integration promises many benefits, but as experience has shown, it also poses new challenges. For Central America to continue competing successfully in the global market place for jobs and investment, countries will need to persevere on four fronts:

- First, macroeconomic stability needs to be consolidated, to strengthen economies' resilience to shocks. In particular, this will require further reducing fiscal deficits and public debt levels.
- Second, it is important to arrest and, to the extent possible, begin to reverse the declining trend of investment in infrastructure to avoid possible deleterious effects on the longer term growth potential of the Central American countries. To ensure that this objective is consistent with the needed sustained fiscal adjustment, it will be important to strengthen revenue mobilization efforts, reduce unproductive current spending and ensure, through sound technical assessment of proposed public investment projects, that budgetary resources are concentrated on those with high rates of economic return.
- In particular, the scope for promoting increased private sector involvement in infrastructure needs to be fully exploited, including through any needed changes in the relevant regulatory frameworks. In this context, to improve the investment climate and raise productivity, reforms are needed that strengthen the institutional framework of private sector activity.
- And fourth, reducing poverty and achieving greater social equity is critical to maintain and strengthen domestic consensus on the policy framework.

6. Our research has clearly shown that small open economies benefit enormously from globalization, as long as they are well prepared for it. In particular, we have found that poverty declines in response to global integration when economies are flexible, allowing resources to shift into areas of growth—flexible labor markets are particularly important in this context. Also, there is clear evidence that robust and efficient financial markets are a powerful engine of the “virtuous cycle” that characterizes rapidly growing economies.

7. The countries in Central America have already made good progress with this agenda. I commend the strong reform program being implemented by President Maduro in Honduras

which is already producing very positive economic results—similar to the program in neighboring Nicaragua. New governments in the Dominican Republic, El Salvador, Guatemala, and Panama are working to put together their growth-enhancing reform strategies, and Costa Rica, a model for the region in achieving sustained improvements in social indicators, is also further strengthening its policy framework. With the global recovery, this is the time to carry forward the needed reforms to reduce exposure to future downturns and shocks, raise productivity and growth, and reduce poverty.

### **The IMF as a strong partner in this effort**

8. In recent years, the IMF's dialogue with member countries has put increasing emphasis on three aspects of economic policies: (1) crisis prevention and debt sustainability, (2) the institutional underpinnings of sound policies and growth, and (3) the political economy aspects of reforms. All this is being done to help countries achieve *lasting* growth and social development, rather than one interrupted by policy reversals or financial crises, or constrained by lack of private sector response. Let me make some observations in key related areas.

9. In response to requests by several member countries, especially in Latin America, we are exploring ways of promoting sustainable increases in public investment. Thus, the staff is developing approaches to fiscal analysis and the design of Fund-supported programs that would provide greater flexibility to accommodate additional high quality public investment, when consistent with macroeconomic stability and fiscal sustainability; allow commercially run public enterprises to be excluded from fiscal indicators and targets, and clarify the accounting treatment of public-private partnerships. Pilot case studies have commenced (including in Brazil, Chile, Colombia, and Peru) to test and refine these proposals. The Fund's Executive Board held an initial informal seminar on these issues in April of this year, and is expected to discuss the results of the pilot studies in the first quarter of next year. These results will also be discussed with experts of member countries before final decisions are made on the proposed approaches.

10. Moving to other areas, as you know, the Fund provides a broad range of technical assistance to help strengthen institutions and policy implementation. Central America has made consistent good use of our services in this area. For example, by now all countries in the region have completed financial sector assessment programs (FSAPs), except for Panama, where an assessment of the offshore banking center has been done. I understand that you will discuss some of the results of those FSAPs at this conference today. I believe that such technical assistance is a very important aspect of our work that we need to enhance further.

11. We are, of course, actively engaged with financial arrangements in several countries in the region. How we meet the challenge of helping member countries make difficult policy choices, while ensuring that their programs are appropriately financed, is probably the hardest test of how useful an organization we are. Here, too, our work must be finely tuned to the individual circumstances of each country, the regional and global implications of their

policies, and the realities of budget constraints, domestic and external. This is indeed the balance that has been struck—successfully, I believe—in our programs with Nicaragua, Honduras, Guatemala, and the Dominican Republic.

12. Globally, the Fund has been, and will remain, a strong and vocal advocate for early multilateral trade liberalization in the context of the Doha Round—and in particular for the clear responsibility of the advanced economies to reduce their trade-distorting subsidies and improve market access for developing country exports. At the same time, we are also supporting Central America in its own integration and in preparing for CAFTA. Key in this context will be countries' efforts at improving the investment climate and reducing the cost of doing business, to attract the private investment needed to compete and grow in the increasingly integrated environment.

13. Regional cooperation can greatly enhance the benefits of globalization for individual countries, and it is key to managing the risks that come with greater integration of goods, labor, and capital markets. The experience in Europe has shown the important role that greater regional dialogue and surveillance can play in staying the course with a sound economic policy agenda. Central America already has made substantial progress with such regional cooperation, and this augurs well for the future. For example, it is well-advanced in reaching trade agreements, including, most recently, CAFTA; and the Central American Monetary Council has long anchored the collaboration on monetary and financial sector issues in the region. However, much scope remains for tapping the large benefits that further economic cooperation can bring. To mention a few areas, a regional approach will help coordinating investment rules, commercial laws and codes, tax and pension systems, and financial sector supervision. To assist in these efforts, the Fund is also strengthening the regional perspective of its work on Central America, taking into account the growing regional inter-linkages and the cross-country experiences on policy issues of common concern.

#### **How can the IMF do more?**

14. But the Fund can, and wants to do more. I hope that in the course of this conference, or when we next meet on other occasions, you will tell us how we can enhance the effectiveness of the Fund's activities in the region. You are the owners of the Fund, and we can only become better if you tell us what is working and what is not,.

15. **Domestic ownership.** A key challenge we jointly face is to broaden country ownership of the policy agenda—especially in areas where institutional change is necessary but often politically controversial. In many countries, the Fund is increasingly emphasizing contacts with national parliaments and a more continuous dialogue with civil society. This can foster better understanding on the part of policy makers and civil society about the policies recommended by the Fund and other international institutions. And it can help us understand better the constraints that exist within the countries to secure implementation of those recommendations. I would ask you, the key leaders in the region, what room you see for us to engage in such a dialogue in this region? How should this dialogue be structured,

and what risks and limits do you see in it, given the primary responsibilities you have as the elected governments?

16. **Institution building.** How can we best use our resources to assist in building the institutional foundations for sustained macro stability, growth, and poverty reduction? I am very pleased to confirm that we intend to further increase our technical assistance program in Central America, and we are grateful to the government of Spain for its generous commitment to support this effort. Here again, we look very much to your guidance in telling us what your priorities are, and in helping us evaluate the technical assistance we provide.

17. **Regional integration.** As I noted, there are many areas where regional efforts can yield important benefits. For example, a regional approach seems warranted in supervising increasingly integrated financial markets, in coordinating tax policies and administration, and in strengthening rules and standards in goods, labor, and financial markets. We have stepped up our work on regional issues to provide you with the best advice in these areas, and I strongly welcome this conference as part of our joint efforts to strengthen the regional dialogue on economic policies. How the Fund can be a useful partner in furthering this regional integration and managing the many challenges that come with it? In which areas would such an increased regional focus be most useful, and how should we best structure our work and dialogue in these areas?

18. In conclusion, I see great potential for Central America, and the IMF wants to be a partner in your success. I am optimistic that continued strong policies and strengthened regional cooperation will allow you to seize this potential, and hope you will tell us how we can best assist you in this effort.

Thank you.