



Press Release No. 07/57
FOR IMMEDIATE RELEASE
March 20, 2007

International Monetary Fund
Washington, D.C. 20431 USA

Remarks by Mr. Anoop Singh, Director of the IMF's Western Hemisphere Department, on the Publication of "Economic Growth and Integration in Central America"

The following remarks were issued today by Mr. Anoop Singh, Director of the International Monetary Fund's (IMF) Western Hemisphere Department in Guatemala City:

"I am very pleased that we are able to take the opportunity of the IDB meetings being held in Guatemala this year to launch a publication on "Economic Growth and Integration in Central America." As you know, as part of our work on the hemisphere as a whole, we have in recent years been giving increasing prominence to regional issues in Central America. I am especially pleased that we are joined today, at this event, by the Governor of the Central Bank of Guatemala, Ms. de Bonilla, and the Presidents of the two regional councils, Ms. De Portillo and Mr. Bengoa. Indeed, this publication would not have been possible without the cooperation of these and other regional authorities for allowing us the exchange of views that has importantly underpinned our economic work.

"This is an important time for Central America. As Mr. Portugal has just outlined, there has been a deepening of Central America's global and regional integration that is opening new investment and growth opportunities. At the same time, the Central American countries have been showing greater economic strength in recent years, as reforms in many areas have been sustained, and additional efforts are being made by governments in the region to ensure that the benefits of growth are shared by all.

"Against this background, our publication identifies the policy areas that figure prominently in the reform agendas of countries in the Central America region. The publication also draws from the lessons of reform and growth experiences in other parts of the world that could be valuable to the region. Let me just give you just a few highlights.

- **Role of Institutions.** Our economic work suggests that strong institutions (such as the rule of law, control of corruption and violence, low levels of regulatory burden, etc.) are key to benefiting fully from external opening and sustaining growth. For example, if countries of the region were to bring its institutions up to the level of those in Chile, growth could increase significantly in the region, perhaps up to 2–3 percent per year for some countries.

- **Fiscal Reforms.** Countries in the region have generally adopted ambitious fiscal reform agendas, such as broadening the tax base and better targeting spending, so as to be more supportive of infrastructure development and poverty reduction, while ensuring debt sustainability. Some countries face a particular challenge of reforming pension systems—especially as the ratio of the working-age population will fall in the coming decades—so that they can remain consistent with fiscal sustainability. These issues are explored in more detail in the publication.
- **Public Debt.** Our study reveals that much progress has been made in recent years toward safer debt structures. At the same time, there is room to do more. Additional fiscal reforms will help, as well as further steps to lower the share of foreign currency debt, and strengthen local (and regional) debt markets.
- **Monetary Policy.** Our publication also reveals that significant progress is being made by countries in the region in strengthening the institutional underpinnings for formulating and executing monetary policy. International experience strongly suggests the importance of enhancing Central Bank autonomy for bringing down inflation. The region is in an important transition phase in this respect, elevating the objective of domestic price stability in the mandate of central banks.

“In concluding, let me again thank our counterparts in governments and regional bodies for the rich dialogue that has allowed our staff to prepare the publication we have today. I hope it will stimulate further discussion in the important areas of macroeconomic stability, sustaining growth, and poverty reduction.”