IMF deepens dialogue with Central American legislators

Domestic support is essential to the successful implementation and maintenance of sound macroeconomic policies and structural reforms. But how do governments convince citizens of longer-term benefits when short-term sacrifices are involved? Legislators and journalists from six Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama, plus the Dominican Republic—joined IMF officials on May 18–20 to discuss the region's policy priorities and the role legislatures and the media play in shaping public debate and in building understanding of the trade-offs that policymakers confront. Also on the agenda was the importance of greater regional integration and cooperation to Central America's ability to compete successfully in the global economy.

The discussions—structured around twin seminars in San Jose, Costa Rica—broke new ground by bringing together lawmakers who hold key positions on finance, economic, and banking committees, and who approve budgets and legislation on taxation, trade, and banking matters.

IMF Deputy Managing Director Agustín Carstens explained that the institution is keenly aware of legislators' crucial responsibilities in passing budgets and advancing economic reforms, which is why it is so important that "the IMF knows your views." Carstens also noted that poverty reduction strategies, to be successful, need to be designed by the countries themselves and must reflect a broad consensus across society. He saw a two-way street in which "as the people's representatives, legislators have an important part to play in formulating these strategies and in building consensus for reforms." And, the IMF seeks robust and constructive relationships with policymakers, legislators, and other stakeholders to "better tailor our advice and assistance to the most pressing needs of the countries," Carstens said.

Earlier communication, and more of it

Legislators expressed support for greater and earlier communication with the IMF. Topmost among their concerns were economic growth, poverty and social conditions, debt, the budget process, and the quality of expenditures. They stressed their own need to develop greater technical capacity, the potential benefits of regional integration, and the importance of promoting transparency and fighting corruption. They also raised the issue of equal treatment of IMF member countries and wanted to know what the IMF says to the United States about its fiscal deficits.

Several legislators encouraged the IMF to intensify its outreach efforts with national legislatures to explain, in accessible language, the organization's activities and bring key political forces into the policy formulation process at an early stage. Legislators explained that they had had very different levels of contact with the IMF. While some had recent contacts with IMF mission teams during country visits, one legislator declared that in 12 years on the finance committee, this was his first encounter with IMF officials.

As one legislator put it: "At the end of the day, almost everything ends up in Congress. I have always thought the IMF was missing a step by not explaining itself, so this is a good step." Another noted that lawmakers have an important role in promoting structural reforms, though "Congress doesn't participate in negotiations to design economic programs." IMF officials agreed that legislators need to be part of the consultation process and explained that missions have been intensifying their dialogue with legislators. Carstens recognized that this was a complex issue, adding that country negotiations must be held primarily with the central bank and the executive branch, "which should be the nexus with the legislative branch."

Seminar participants broadly agreed there has been significant progress in transparency in both the IMF's own operations and those of governments and central banks. The journalists seconded an observation by Markus Rodlauer of the IMF's Western Hemisphere Department that transparency and communication are now commonly viewed as an integral part of designing and implementing policies, and the media "play a critical role in the process of consensus building, policy design, and policy implementation in your countries." Governments, the IMF, and the media, he added, "need each other more than ever before."


Alfredo Sequeira J. for IMF

Participating from the IMF were (from left) Moises Schwartz (Executive Director), Jesus Seade (Fiscal Affairs Department), Olav Gronlie (Western Hemisphere Department), and Adolfo Barajas (Institute).

Meeting the challenges ahead

Seminar participants agreed broadly on the main economic policy challenges confronting Central America in its quest for sustained rapid growth and poverty reduction. Legislators placed particular stress on strengthening national budgets and making them more responsive to development and social priorities, improving financial systems and enhancing the investment climate. They wondered, however, why some economies were stagnating even after "doing all the IMF wanted." They also asked what lessons the IMF had learned and whether the programs of the 21st century should present new approaches.

Other voices from Latin America lent comparative perspectives. Beatriz Paredes (former member of Congress and State Governor in Mexico), Roberto Junguito (former Finance Minister of Colombia and IMF Alternate Executive Director), and Alejandro Atchugarry (former Finance Minister and Senator of Uruguay) all underscored the importance of national ownership of economic policy programs; the need for longer-term strategies that are supported by a broad domestic consensus and resilient through political cycles; and the need to consult with all major stakeholders.

Alfredo Sequeira J. for IMF

Beatriz Paredes of Mexico stressed national ownership of economic policy programs.


Alfredo Sequeira J. for IMF

Minou Tavárez, from the Dominican Republic's Liberation Party, was among the lawmakers attending the seminar.

Paredes called for Latin America itself to generate a "new dynamic" with "greater rationalization and efficiency in its economies." She appealed for countries to look more closely at how they are spending public money because "when people don't see that taxes are well spent, they are reluctant to pay." Some legislators agreed that poor-quality spending and "acrobatics to hide it" are a major worry, as is growing debt without more to show for it. One legislator suggested creating a mechanism for legislative committees to consult on common problems related to budgets, transparency, and expenditure quality.

IMF speakers stressed that the region's main economic challenges are to enhance regional coordination; continue fiscal reforms, thus reversing the rise of debt-to-GDP ratios in most countries; fortify financial systems; strengthen the overall investment and business climate; and improve transparency and governance. Carstens underscored the uniqueness of each country's circumstances, noting that the IMF's advice takes full account of these factors. "What is encouraging," he added, "is that support and consensus have already been growing throughout the region for fundamental economic principles such as macro discipline and low inflation."

Moises Schwartz, IMF Executive Director, summarized the Executive Board's messages for Central America over the past decade, concluding that fiscal reforms are still at the top of the agenda. In offering insights to his work representing a constituency that includes five Central American countries, Schwartz reminded participants that "all countries—large, medium, or small—have the same right to voice their views" in the IMF's Executive Board.

Regional integration and CAFTA-DR

Prefacing a discussion of regional integration, Alfred Schipke of the IMF's Western Hemisphere Department noted that in the financial sector, integration is already well under way, with intraregional banking activity expanding rapidly—increasingly requiring a regional approach to supervision and regulation so that risks and possible cross-border contagion can be monitored and avoided.

The IMF's work with Central America, he explained, occurs at both the country and regional levels. Annual regional conferences are organized for finance ministers, central bank governors, and bank superintendents, and the IMF recently cosponsored, with Guatemala, a seminar on tax coordination. The IMF has produced analytical studies on exchange rate regimes in the region, financial system integration, and the macroeconomic and fiscal consequences of the free trade agreement proposed with the United States.

That agreement—the Central American and Dominican Republic Free Trade Agreement (CAFTA-DR)—would, Carstens said, allow the region to compete more successfully in the global economy. CAFTA-DR has rightly raised the region's expectations, he said, urging expeditious ratification in those countries, including the United States, where it is still pending. ■

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