CONSEJO MONETARIO CENTROAMERICANO

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Conclusions of the XVI Regional Conference on Central America, Panama, and the Dominican Republic


On November 14 and 15, was held a conference that gathered presidents of central banks, finance ministers and superintendents of banks from Central America, Panama and the Dominican Republic, and the International Monetary Fund (IMF) officials for the dialogue on policy measures met in Punta Cana necessary to address the main main structural problems facing the region.

The conference was opened by the President of the Dominican Republic, His Excellency Danilo Medina; the governor of the Central Bank of the Dominican Republic and the host of the conference, Héctor Valdez Albizu; and the deputy managing director of the IMF, Mitsuhiro Furusawa. Here the main conclusions of the event as reported by the IMF:

"https://www.imf.org/es/News/Articles/2019/11/15/pr19419-conclusions-xvi-regional-conference-on-central-america-panama-and-the-dominican-republic".

"Participants concurred that the global economy is now in a synchronized slowdown and acknowledged the downward revisions to global growth for 2019 to 3 percent, its slowest pace since the global financial crisis. Uncertainties—driven by trade, but also by Brexit and other geopolitical tensions—are holding back growth. Participants expressed concern that trade tensions could have a significant impact on the level of global growth. A modest improvement is projected in global growth to 3.4 percent in 2020. However, this recovery is not broad-based and remains precarious, as growth is also being weighed down by country-specific factors in several emerging market economies, and by structural forces, such as low productivity growth and aging in advanced economies.

"Mirroring global conditions, the outlook for Central America, Panama, and the Dominican Republic (CAPDR) is marked by increased uncertainty. Regional growth was revised downwards to 3.3 percent in 2019 (from 3.8 percent earlier this year), as growth momentum decelerated in the first half of 2019, reflecting the synchronized global slowdown and several idiosyncratic factors. Participants agreed that the key downside external risks to the outlook for CAPDR are a tightening of global financial conditions and a further escalation in global trade tensions. Moreover, since the region is highly integrated with the United States given trade and financial flows, CAPDR remains vulnerable to U.S. economic and political developments. In terms of policy responses, participants agreed on the importance of institutional strength and clear communication to legitimize envisaged reforms.

"Turning to the thematic sessions, participants tackled the impact of dollarization and policy implications. Several countries in the region have adopted or are transitioning towards inflation targeting, yet financial dollarization remains relatively high. Participants explored lessons from successful de-dollarization and monetary policy framework transitions, especially against the current backdrop of a synchronized global slowdown and policy uncertainty. Participants also debated the need for buffers to maintain financial and fiscal stability in fully dollarized economies. Participants concluded that a coherent policy mix could support economies in reducing partial financial dollarization and increase the effectiveness of monetary policy.

"In the second thematic session, participants looked at the efficiency of tax incentives from a multi-country perspective, especially in terms of promoting investment. Poorly targeted and inefficient tax incentives can lead to rent-seeking behavior, corruption, tax avoidance, distorting tax rates and a complex tax system that is difficult to administer. There was consensus among participants, however, that tax incentives have a role to play in attracting FDI that promotes innovation and technology transfer, R&D, high-quality employment, and the use of clean energy. For this to materialize, best practice in operating a system of tax incentives involves accountability and transparency, an emphasis on rules over discretion, and effective monitoring and evaluation. Participants agreed that despite demands for business tax incentives, more important drivers of investment decisions include: the availability and quality of workers; the legal and regulatory environment; infrastructure; and security and public safety.

"Finally, participants analyzed the role Fintech can play in facilitating cross-border transfers, especially remittances. Remittances are an important source of foreign currency income in the CAPDR region, exceeding tourism receipts and foreign direct investment in several countries. Alliances between traditional and Fintech players are helping develop cutting-edge initiatives to reduce the cost of

Tel: (506) 2280-9522 ~ Internet: www.secmca.org ~ E-mail: secmca@secmca.org ~ Apartado Postal: 5438-1000 ~ San José, Costa Rica

remittances and improve their transparency, reliability and accessibility. In this regard, fintech solutions can promote financial inclusion. Participants highlighted the importance of a regulatory framework that favors the entry of new actors; the role of Fintech and regulation in facilitating "know your customer" requirements; enhancing interoperability; and appropriate risk management.

"Participants thanked the IMF for the support provided in the organization of the event and stressed the importance of maintaining a frank and fluid policy dialogue between the region and the IMF. Participants expressed their deep appreciation to the Dominican authorities for their hospitality and superb organization of the conference."

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