INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Eighth Meeting
October 13–14, 2023

Statement No. 48-17

Statement by Mr. Villar
Colombia

On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

Statement by Mr. Leonardo Villar
Governor of the Central Bank of Colombia
On behalf of
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The global economy has shown resilience against sequenced extreme shocks in recent years. A soft landing is not completely assured, but near-term prospects have improved over the past months as systemic financial risks have receded. Despite the uneven paths of economic recovery among countries, macroeconomic stability has prevailed at the aggregate level. Sounder economic policy responses, anchored to improved macroeconomic frameworks, have played a critical role in many countries.

In the case of LAC, the estimated scarring effects are much smaller than initially expected. Understandably, conventional models predicted much lower performance because less sizable shocks led to significant crises in the past. We are convinced that the stronger economic institutions that the region has developed in recent decades have facilitated the ability to react more swiftly and decisively to challenging junctures, such as the current one. We acknowledge the IMF's Surveillance and Capacity Development roles, which have helped shape some of these outcomes and have served the global economy beyond its lending toolkit.

Completing successful macroeconomic adjustment is a top priority, but we concur that authorities must also carry out structural reforms to counter anemic medium-term prospects. Controlling inflation and maintaining financial stability are essential. The fight against inflation remains a top priority, and central banks are acting accordingly, following a data-dependent approach and closely monitoring the financial sector. Emerging Markets (EMs) are in a better position to implement a prudent normalization of policy rates, but the potential need for even higher-for-longer interest rates in some major Advanced Economies (AEs) carries volatility risks worldwide. Despite heterogeneity, fiscal stimulus has been withdrawn at a faster pace in LA5 than in other regions, facilitating the convergence of inflation towards the target. However, public debt will continue to face significant upward pressures everywhere, including AEs, reflecting the urgent need to rebuild buffers amid a shock-prone world. On this front, the new generation of fiscal institutional arrangements and frameworks adopted by some LA5 economies should be a reference in other latitudes, including AEs. We highlight the outstanding performance of Central America, where GDP recovery, inflation convergence, and fiscal consolidation compare positively with other regions.

Prioritizing longer-term objectives is warranted to avoid divergent patterns between AEs and EMDEs. Elevated risks have clouded the medium-term macroeconomic outlook, calling for decisive action to unlock output capacity, build resilience, and fight poverty. We highlight that the widespread collapse of the investment rate, labor force participation, and productivity are worrisome and deserve attention. Geo-economic fragmentation is not only a risk but a growing reality that is triggering adverse spillovers in terms of global trade and capital flows. A renewed focus on unifying countries into free trade-resilient flows would mitigate disruptions to food and mineral markets, which are dampening growth, inflation, and green transition perspectives. We share the view that social safety nets should continue to be strengthened with adequately targeted policies.

Against this backdrop, we welcome the Managing Director's Global Policy Agenda, as it mirrors the IMF's differentiated role as the heart of the Global Financial Safety Net. Although we all know the stakes, we remain convinced that reaching a pragmatic agreement to increase quotas to at least maintain the Fund's lending capacity is the single most immediate and consequential challenge facing the institution. As the GPA rightly states, the IMF is unique because of its near-universal membership and its "quota-based financing model that allows it to pool a portion of its members' reserves efficiently, at very low cost, and in a manner that ensures fair and transparent burden sharing". The first duty of a safety net is to be able to withstand shocks. The Annual Meetings will be the last moment the Fund´s governors assemble before the December deadline. As the constituency that represents the IMFC Chair, we urge all members, management, and staff to go the extra mile to reach an agreement. The IMF's reputation relies in many ways on the outcome of the current review of quotas, and the results will be on us.

Our priority is to facilitate consensus on quotas. Among available options at this stage, our first preference is a combination between equiproportional and a small Ad-Hoc realignment, subject to consensus, protecting the poorest countries, and subject to fair burden sharing; if consensus cannot be achieved, our second-best option will be a pure equiproportional increase, postponing realignment to later. We believe that a package that includes a 50% quota increase that at least maintains the Fund's lending capacity would bring the 16th General Quota Review to a successful conclusion. In any case, we underscore that realigning quota shares is a pending and necessary task if the aim is to protect the reputation of this institution. Therefore, we call that the way be paved now, including by defining a schedule to review the current quota formula. We support increasing the voice of sub-Saharan Africa on the Executive Board. Our constituency will continue to contribute its part through quota resources, the New Agreements to Borrow, and the Bilateral Agreements.

We welcome the review of precautionary facilities, which enhances the Fund's ability to help prevent crises. The refined toolkit of precautionary instruments enables swifter, broader, and more predictable coverage against external risks in eligible countries while maintaining high qualification standards that provide important signals for countries with access. The approved package acknowledges that very often external shocks combine short-term and protracted balance of payments effects, for which concurrent use of the FCL and SLL allows adequate protection.

The IMF must continue to evolve to meet the changing needs of its membership. We echo the Managing Director's call to close the financing gap of the RST and the PRGT subsidy account and look forward to the planned reviews of these important pillars of the Fund's lending toolkit. We underscore that our constituency will be closely engaged, as we represent users and contributors of both trusts, while acknowledging the importance of responding adequately to the social, climate, and, more broadly, resilience agendas of the wide membership. Furthermore, we support the review of surcharges, charges, and GRA access limits in the context of a holistic analysis of the entire IMF balance—not only the precautionary balances. Finally, we encourage the Fund to continue facilitating coordination among creditors to help countries facing debt restructuring processes address their vulnerabilities in a durable manner. All in all, we reiterate that the inability to help members in need represents a reputational risk to the Fund.

In Colombia, as in other countries in our constituency, inflation is still well above target, but a strong monetary tightening response in the context of coordination with prudent fiscal and financial policies is already bringing inflation back down. Central bank independence and a strong macroeconomic framework have been and will continue to be key to meet our goals.

The Central Bank of Colombia—Banco de la República—celebrates its centenary this year, and may this be the time to associate its slogan "100 years building trust" with the essence of the IMF. We will enthusiastically celebrate the IMF´s 80th anniversary next year.