



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Herrera
Mexico**

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

**Statement by Mr. Arturo Herrera
Secretary of Finance of Mexico
On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico and Spain**

We express our sympathy for the loss of human lives caused by the COVID-19 pandemic. We will continue to work together with the international community to mitigate the health and economic toll and to support a strong, inclusive, and sustainable recovery.

Global outlook and recovery prospects

After the great lockdown to counter the COVID-19 crisis last year, the global economy has started to show signs of recovery. This has been possible thanks to the unprecedented national and international response put in place by the membership. Further to the substantial policy efforts, medical developments have allowed swift progress in vaccine production and rollout. However, these efforts have not been enough to ensure that all countries have access to vaccines in a timely manner. Going forward, it will be instrumental to ensure broad vaccination to end the pandemic and support the economic upswing.

While the outlook shows promise as economic prospects seem to have improved and vaccines are being deployed, the path to recovery appears uneven as uncertainty remains high and access to vaccines is not equal. In this juncture, to secure an inclusive and sustainable recovery, no member can be left behind – everyone will need to have a fair shot. If we want to achieve a truly global recovery, we must have a broad vision of the membership’s needs and what is required to support it appropriately. While the pandemic has significantly increased poverty levels and deepened inequality in many countries, it is notable that most of the population that has fallen back into poverty due to this crisis live in middle-income countries (MICs). More so, MICs are still grappling to counter the virus and secure vaccines. Even after exiting the pandemic, the path to recovery will not be straightforward. MICs will face higher levels of indebtedness, limited fiscal space and even broader social gaps in the aftermath of the crisis. In order to give a fair shot to the segment of the membership that is most in need, it is of utmost importance to include MICs in these efforts and not leave them “*lost in the middle.*”

The IMF’s continued role in securing the recovery and avoiding divergence

While the crisis was unfolding, the Fund responded swiftly and flexibly to address the membership’s needs by mobilizing financial and technical assistance in hand with timely policy advice. As the recovery takes hold, the Fund must continue to have a leadership role in the multilateral response to the challenges presented by the pandemic.

The Fund has effectively used its toolkit to support the immediate liquidity needs of the membership. For our constituency, instruments such as the emergency facilities have been fundamental as an integral aspect of the crisis response of our Central American middle-income countries. Moreover, the Flexible Credit Line has continued to play a strategic and effective role for our constituency by providing additional buffers to cope with the current crisis and beyond.

Now, as the critical stage of emergency assistance has subsided, engagement with the Fund will transition to upper credit tranche programs in order to secure the recovery and avoid divergence. Continued financial support will be crucial to help countries tackle the legacy of the health and economic crises and to boost growth.

The role of the Fund as a trusted advisor gains more relevance at this juncture. Country-specific and tailored policy advice will be fundamental in the final stages of the emergency phase and will set the policy path to secure the recovery, build resilience and safeguard sustainability in the medium term.

An approach aimed at ensuring sustainability is required to invest in the future while tackling the social gap challenges

Beyond the immediate effects of the pandemic, the scarring consequences will deepen many countries' earlier vulnerabilities and cause further divergence in their recovery prospects. Hard-won developmental gains in the past years have already been lost, which will backtrack countries in their efforts to achieve the sustainable development goals and broaden the social gaps that already existed.

To secure a truly transformational recovery, the Fund needs to support the membership with comprehensive and country-specific advice to address climate, digital, and related social challenges. We welcome the focus of the Managing Director's *Global Policy Agenda* in this regard. Resumption of bilateral surveillance is also very welcome. This, in hand with the upcoming completion of the Comprehensive Surveillance Review and the Financial Sector Assessment Program Review, will allow provision of effective advice to the membership in the post-COVID world as the recovery takes place.

Digitalization, another aspect that we consider will be crucial for the medium-term recovery prospects, as it should be a transversal element in all public policies in the future. Digital services contributed to mitigate some of the negative impacts caused by lockdowns. Thus, a genuinely transformational recovery should harness the gains from a faster than expected pace of digitalization, an unintended, but favorable, consequence of the pandemic. We welcome the Fund's focus on the benefits of digitalization for financial inclusion, and for enhancing public financial management and revenue administration through the digital transformation of governments.

Closing social gaps becomes more critical in the post-pandemic phase. A transformational recovery requires making growth truly inclusive and sustainable, particularly for low- and middle-income countries. Populations significantly affected by the crisis cannot be left behind. We thus welcome the efforts to find ways in which macroeconomic and financial policies can support the membership in addressing financial inclusion, gender and income equity, and wealth inequality.

To address the pandemic's economic scarring, the IMF should support member countries to confront their debt sustainability risks. In particular, the Fund should continue to assess countries' debt sustainability and debt restructuring needs while also providing debt service relief to the poorest members. Instrumental in this strategy will be coordinating with the World Bank to secure an effective implementation of the G20 Common Framework for debt treatments and the G20 Debt Service Suspension Initiative. Likewise, in the post-COVID world, as MICs and LICs will face increased pressures from pandemic-related public sector financing needs, the Fund should stand ready to assist these members with substantial capacity development on debt management.

The Fund should remain engaged with the membership to support their medium-term transformation efforts with adequate capacity development and technical assistance. Capacity development and technical assistance are crucial for our constituency in their relationship with the Fund. This involvement will become more relevant as our countries request and initiate upper credit tranche programs with the Fund. In this vein, we welcome the efforts to deepen the integration of CD with surveillance and lending given CD's relevance to underpin program performance. Going forward, the IMF should ensure that adequate resources are budgeted for CD and technical assistance activities, including for RTACs.

An effective and timely SDR allocation will be a strong signal of international cooperation. We support a new SDR general allocation to help countries to address the long-term liquidity needs by supplementing existing international reserves and bolster financial resilience while enhancing transparency and accountability in the reporting and use of SDRs. We regard an allocation of SDRs as a timely mechanism of international collaboration that should help avoid the risks of additional social costs and economic scarring in the aftermath of the COVID-19 pandemic. The proposed allocation of around US\$650 billion is appropriate to support members in need with swift liquidity, help them boost buffers and allow a smooth adjustment according to countries' particular circumstances.

New mechanisms to support Middle-Income Countries will allow for more effective use of SDRs allocations. Our constituency fully supports the GPA in its call for exploring ways for countries with strong external positions to voluntarily on-lend their SDRs to support recovery efforts. The Fund must seize this opportunity and build upon the growing consensus for a new substantial general SDR allocation. In this vein, we believe the creation of a new dedicated vehicle should be considered to enable members in position to voluntarily lend part of their SDRs to support middle-income countries pursuing their SDGs and tackling significant vulnerabilities such as increased poverty levels, climate related risks, and refugees and displaced populations. Moreover, it could also support the objective of securing access to vaccines and their distribution.

To effectively deliver on its mandate, the IMF needs to evolve and adapt to the membership's challenges and be capable to act accordingly. As the global economy and its challenges evolve, the IMF must cover new areas of macro-critical impact to assist the membership adequately. The crisis has underscored the relevance of a strong IMF that can effectively deliver on its mandate. To support the membership going forward, the Fund needs adequate expertise and resources to have the capability and agility to act. Thus, to address the challenges of our membership, the IMF should consider an appropriate increase in budgetary resources to equip the institution with the human resources and expertise much needed after a decade of a flat real budget. Going forward, maintaining the longstanding commitment to budget discipline while fully collaborating with partners and focusing on areas of comparative advantage should be preserved.

We express our full appreciation of staff's hard work. In closing, on behalf of the authorities of our constituency, we would like to wholeheartedly commend the Managing Director, Management and Staff for their hard work and professionalism under the current extraordinary circumstances.