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ADDRESS BY THE GOVERNOR FOR URUGUAY
AT THE SECOND PLENARY SESSION

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1. It is an honor and a privilege to take part in the Bank's Annual Meeting this year in Chile, our sister nation. I am grateful to the Chilean authorities and to the Management of the Bank for the work that has gone into organizing this year's gathering, and to the city of Santiago and its people for their warm welcome.
2. Once again we can look back on a year of strong Bank performance. Our institution's achievements are all the more impressive when we consider the adversities that some of our countries had to weather in the course of 2000. They now are emerging from recession thanks in no small measure to the Bank's catalytic role in bolstering reforms to put their economies back on a growth path.
3. The member countries are not alone in recognizing the Bank's solid operating performance. That the Bank's securities continue to earn solid triple-A ratings in the capital markets is a testimony to investors' confidence in our institution. The largest bond issue in the Bank's history has been well received, with several basis points' improvement in secondary trading.
4. Looking at the Bank's internal workings, we were pleased to see some significant moves in 2000 to put the institutional strategy into practice. A key step was the creation of an Evaluation Office independent of the Bank's Management, reporting to the Board of Executive Directors, with a mandate to monitor and evaluate Bank policies, programs, and projects. By virtue of one recently launched initiative, the Bank's performance will be gauged against its country work programs, by reference to benchmarks set out in country papers.

5. Another in-house step to implement the institutional strategy was the approval of the human resources strategy, setting criteria to update and guide the Bank's personnel recruitment and exit procedures and other issues pertaining to Bank employees' career paths in the institution.

6. Yet another significant development within the Bank was the apposite decision to freeze the 2001 budget in real terms, an exercise in spending discipline along the lines of the ones that our countries, the Bank's shareholders, are requiring of ourselves. This measure, the first in the Bank's history, was no doubt a difficult one. It will require internal efficiency improvements to enable the Bank to continue supporting the region's countries in an era of mounting demands.

7. The four pillars of the institutional strategy are competitiveness, regional integration, modernization of the State, and social development. It is gratifying to see that, on balance, the IDB Group's efforts and achievements on all four fronts have been positive this past year. On the issue of competitiveness, and particularly the nurturing of private enterprise, we firmly believe that there is a need to expand direct lending to the private sector to see infrastructure projects carried through and capital markets developed. The Bank adopted that lending mode in 1995; in 2000 it added some important innovations like guarantee facilities. This shows how well equipped the Bank is to identify the need for, and put together, operations that can have a strong catalytic effect and additionality, bringing private capital into public services delivery. We therefore affirm our support for raising the current 5 percent ceiling for such operations, in tandem with efforts to bolster risk management capacity and tighten coordination with other areas within the Bank.

8. On the subject of Bank support for the private sector generally, I would like to underscore how much the MIF is doing to create an enabling environment for private enterprise, spurring regulatory and institutional reforms and providing direct support through operations chiefly to equip small and mid-sized enterprises (SMEs) to compete more successfully—these smaller businesses being a cornerstone of our economies. The year 2000 was an important one for MIF support, one highlight being the approval of the project cluster on technical standards, especially to help SMEs move into the global markets. We also would mention the MIF's key role in helping Uruguay with coordinated efforts on issues of the new economy and market operations. These are areas of strategic moves for our emerging software industry, information technology and communications business incubators, venture capital funds, the use of e-commerce technologies to modernize the government procurement system, and strengthening and supporting deregulation of the communications and energy industries.

9. Regional integration is another facet of the institutional strategy, this being an objective spearheaded by the Bank since its inception. In 2000 we saw a productive regional policy dialogue launched and the ensuing active regional programming exercise. We hope to see the Bank continue its firm support in this field, as evidenced in its assistance for the FTAA Secretariat and manifested at the Fortaleza meeting and

subsequently at the Montevideo meeting of transportation ministers, where the Bank pledged its support for physical integration in the region.

10. As for the institutional strategy's other two pillars, social development and modernization of the State, we are gratified at the progress made in 2000, with operations that accounted for 72 percent of all Bank approvals that year, totaling US\$3.756 billion. Bringing to bear its distinct comparative advantages in these areas, the Bank has been an able partner, providing strong support not just in quantitative terms but through dialogue.

11. One feature of the Bank that has proved to be extremely useful for support to these sectors is its flexibility in coming up with new products and facilities. A case in point is the set of flexible lending instruments it unveiled, which have already shown how well they can deliver support for lower-cost initiatives to sectors that need innovation capacity. These loans can be processed more quickly and their design provides for carefully phased borrowing as the underlying concepts prove themselves to be workable. We have only to look at the activity in this area since 2000—23 projects totaling US\$230 million—to see how well this new lending approach has been received.

12. Keeping its products and facilities up to date is crucial if the Bank is to remain relevant. Over the past decade, as Latin America carried through sweeping structural reforms, the Bank's sector loans provided crucial support. During the Eighth Replenishment talks the Governors, particularly from their position as representatives of borrowing member countries, thought fit to pare back the need for that type of loan operations, which at times were perceived as imposing onerous reforms. Hence the decision to lower the 25 percent ceiling for such lending to 15 percent. But events have shown that we need to give continuity to the reforms and make sure they are fully implemented. For this new generation of State reforms it is once again crucial that we address such issues as transparency and efficient social programs, and we need instruments to help us through the process. For that reason we see as necessary, and firmly support, the development of new anticyclical products and facilities to cushion the adverse fiscal impacts of periods of recession by way of improvements in the quality of spending and the strengthening of social safety nets.

13. Uruguay's economy again found itself in difficulty last year. In late April 2000, after two consecutive quarters of growth (the four quarter of 1999 and first of 2000) the situation began to deteriorate rapidly. The difficulties stemmed from various MERCOSUR trade problems and world developments such as interest-rate and oil-price hikes, the euro's depreciation against the dollar, and a sharp 8.8 percent decline in our terms of trade from the previous year. Not surprisingly given the uncertainty created by this combination of factors at home and abroad, the private sector deferred consumption and capital spending decisions. This put a halt to the growth in domestic output with which the year had begun. By year-end GDP had slipped 1.1 percent and unemployment climbed to an annual average of 13.7 percent, the highest rate since the painful chapter that followed the financial crisis of the early 1980s.

14. Today the Uruguayan economy is seeing an orderly favorable adjustment in relative prices. The exchange rate remained without pressure within the flotation band and, even with a more than 40 percent domestic increase for petroleum fuels, year-end inflation stood at around 5 percent. The real exchange rate is recovering despite the euro depreciation I mentioned earlier, and the par of exchange has recovered much of the ground lost following the Brazilian devaluation.

There are three other positive notes:

- a. Export performance: exports of goods, in particular, rose almost 9 percent in real terms, shipped to a good variety of destination markets.
- b. Stability of the official and commercial banking systems: the financial system made it through a second year of recession with little strain and on a sound footing.
- c. Healthy public finances. Though revenue intakes were down and borrowing increased, risk indicators are still manageable in absolute terms, so our securities still carry an investment-grade rating.

15. For these and other reasons, we believe that the economic policy pursued in 2000 has prepared the terrain for rapid growth. Major strides have been made on deregulation and dismantling monopolies in the energy and telecommunications industries, ports, rail transport, and water and sanitation sectors. Toward the end of February this year we renewed our IMF arrangement. That agreement makes standby support available in extreme scenarios; we hope not to need to draw on it. Even more important, the agreement bespeaks our firm commitment to the program announced in the context of economic adjustments in Uruguay and externally.

16. In light of these events we are forecasting modest growth of 2 percent in total output this year, premised on increased exports and investment. We expect that the real exchange rate will continue to improve, with a 7.5 devaluation of our currency and inflation slightly above 4 percent. As for the public accounts, the forecast is for a 2001 deficit far smaller than the 2000 shortfall, based on a revenue upturn and continued spending restraint. We intend to continue with the legal process of deregulation and monopoly removal in various sectors, which we see as fundamental to lay foundations for sustained growth in the future.

17. As for the medium-range horizon, I would mention that toward the end of 2000 the parliament approved a five-year public revenue and expenditure budget. Assuming normal external conditions, expenditure and debt as a percentage of GDP will definitely trend down. This augurs well for the future since, as all of us understand, healthy fiscal accounts are the foundation of stable economies, stable economies the foundation of growth, and growth the foundation of employment and prosperity.

18. In closing, I would like to highlight the valuable support Uruguay has been receiving from the Bank to implement the government's agenda, notably to put the economy back on a fast growth path by strengthening competitiveness and through regional integration and reforms in the health and education sectors and to modernize the workings of government.

19. We commend President Iglesias and the Management and staff of the Bank for their dedication and professionalism that helped the institution achieve so much in 2000.