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ADDRESS BY THE GOVERNOR FOR MEXICO
AT THE SECOND PLENARY SESSION

Francisco Gil Díaz

1. It is an honor for me to participate in this Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation. Like those who have spoken before me, I wish to thank the Government of Chile for the warm welcome we have received and for the excellent organization of the events. I particularly wish to thank the authorities and citizens of Santiago for their courtesy and hospitality, which will assuredly contribute to the successful exchange of ideas on the future of our Bank and our Corporation.

2. Today, the Government of Mexico is facing the momentous responsibility of consolidating the political, economic, social and institutional reforms we have launched with the resolute purpose of achieving comprehensive, long-term develop to benefit Mexicans.

3. In 2000, the Mexican economy outperformed the original growth forecasts. This good performance was influenced positively by internal and external factors that helped to give a strong boost to production. GDP grew by 6.9 percent, setting a record for the last 20 years.

4. Growth in production in the recent past has been accompanied by a gradual reduction in inflation. After rising to over 50 percent a year in the mid-1990s, inflation fell to single digit levels in 2000. Even more importantly, efforts to consolidate solid macroeconomic foundations were reflected in more new jobs, a higher standard of living, and better human development prospects for Mexicans.

5. The administration of President Fox is committed to making every effort to consolidate these advances and to lay the groundwork for sustainable growth, which will allow more leeway for attending to the pressing need to overcome the social backwardness and marginalization that still exists in our country.

6. Our economic strategy for 2000-2006 has the goal of boosting the potential capacity of the productive plant to grow at a vigorous and sustained pace, stimulate investment, create jobs, pay higher real wages, and alleviate poverty, all under a regime of price stability. The following are fundamental aspects of this strategy:

- Obtaining fiscal surpluses, to which end we will propose measures to Congress in the coming days to establish Mexico's "new public finances" program.
- Strengthening the financial system, to which end we have already begun reforms in the sector; and
- Boosting domestic savings.

7. It will be difficult to achieve these goals unless economic strategy goes hand-in-hand with consolidation of structural reforms. Although Mexico has made significant progress in this field, laying the foundations to consolidate growth, it is also clear that sustained growth over the long term requires additional reforms to buttress the structural changes.

8. This new phase of adjustments is based on fiscal and financial sector reform. Reforms in basic infrastructure and social safety nets will be an indispensable complement to the projected economic momentum.

9. Comprehensive fiscal reform calls for increased revenues, diversification of the tax base, discipline in public spending and higher private savings. The government plans to take steps to broaden the tax base, promote taxpayer confidence by combating tax evasion, establish transparent public management procedures, and introduce clear mechanisms for public information and accountability. It is worth underlining that the ultimate goal of the "new public finances" in Mexico is to protect the very poor, precisely by obtaining revenues that can be channeled into covering their needs.

10. For its part, financial reform will focus on reactivating financial intermediation on solid bases, reducing its costs, promoting higher capitalization, and improving the efficiency of the payment and savings system.

11. While promoting fiscal discipline, the federal government is committed to raising the historical levels of spending to combat social backwardness and marginalization, particularly in the fields of health care, education, nutrition and rural development.

12. We are working hard to achieve all these objectives.

13. Over the years, the Government of Mexico and the IDB have maintained an open and frank dialogue, which we are certain will continue to produce fruitful results during the administration of President Fox.

14. The IDB has supported Mexico in areas as diverse as energy, education, health care, housing, reform of the State, hydraulic infrastructure, agricultural projects and scientific and technological development. In future, we will focus our efforts on consolidating programs to modernize state and municipal governments, combat poverty in the countryside and the cities—with special attention to bypassed indigenous communities—and programs to strengthen the institutional capacity of the public and private sectors.

15. In this setting, the Puebla-Panama Plan, an initiative recently proposed by President Fox, which seeks to promote the economic and social development of nine of Mexico's southern states and regional integration of the seven Central American countries with our own, is particularly significant. The IDB and the region's governments are ready to support this program and to begin discussions on its design, financing and execution. The Bank's experience and knowledge will be highly important for achieving the goals and objectives of this major initiative.

16. Throughout its history, the IDB has demonstrated an unparalleled capacity to mobilize financial resources and provide assistance and technical training for the countries of Latin America and the Caribbean. I congratulate you, President Iglesias, because during your term at its helm the Bank has consolidated itself as the main source of multilateral financing and the cornerstone for the region's development.

17. Today, one of the main challenges for international lending agencies is to renew the efficiency and effectiveness of their capacity to respond to the needs of their member countries in a globalized setting. I would like to underline the need for international lending agencies to promote crisis-prevention strategies with greater determination. Mexico's experience clearly shows that the adoption of prudent macroeconomic policies is the best option. Nonetheless, support from those agencies is indispensable in the face of external onslaughts and the risk of contagion.

18. The IDB must modernize its financing mechanisms in order to provide novel and flexible instruments that will reduce the vulnerability of our countries in a more interdependent world and smooth the path to comprehensive and inclusive development in the region, which will give priority to the needs of the most neglected sectors of society.

19. It is more timely than ever today to reaffirm the fundamental mission and commitment of multilateral development banks to complement national efforts to combat poverty and lay the groundwork for comprehensive, sustainable, long-term development.

20. Multilateral development banks have seen a change in the needs for public sector financial support in most of their member countries. There is less demand for loans and technical cooperation for investment projects in physical infrastructure and more demand for funds for programs in the fields of social development, institutional strengthening, and structural reforms on the federal, state and municipal levels.

21. If the Bank is to adequately serve these development priorities, we must make its lending policies more flexible and create new financial products that respond more effectively to the credit requirements of our countries.

22. It is of particular interest to countries like Mexico for the Bank to continue working to develop facilities to reduce the vulnerability of their economies to external disturbances. I am referring to new products such backstop credit facilities, exchange coverage instruments, and the program operations it is currently studying. Additional efforts to introduce natural disaster insurance would also be very useful for the entire region.

23. We also propose to examine some of the restrictions that currently limit the IDB's loan portfolio, such as the 15 percent for fast-disbursing loans, the matrix for distributing loans among groups of countries, the local counterpart matrix and the 5 percent for private sector projects.

24. To enable it to serve as a suitable complement to private sector financing, we urge the Inter-American Investment Corporation to carry the plan of operations made possible by its recent capital increase to a successful conclusion. We are convinced that in the coming years the Corporation will be consolidated as a relevant source of financing for the region's private sector.

25. I would like to underline the efforts of the Bank's member countries, particularly the relatively less developed, to obtain the funds necessary to cover the requirements of the Heavily Indebted Poor Countries Initiative. Those funds will facilitate debt alleviation for some of the countries through the IDB and subregional entities. We urge the Bank to continue its involvement in this process, since its participation will assuredly be important in continuing to channel those funds in an adequate and timely fashion.

26. Furthermore, I would like to highlight the work done by the Bank to facilitate and promote cooperation for reconstruction in the Central American countries affected by different natural disasters.

27. Through this forum, I once again transmit the solidarity of the Mexican people and government with the people of El Salvador, in the aftermath of the recent earthquakes that have caused large human and material losses.

28. The subjects I have touched on during my remarks reflect Mexico's interest in the current and future strategy of the Inter-American Development Bank, whose main aim is to facilitate attainment of the development goals of Latin America and the Caribbean.

29. The Bank faces a double challenge. Without abandoning its concessional lending to the least-developed countries of the region, it must adjust its financial instruments and create new products to expeditiously and efficiently serve the credit requirements of the other member countries.

30. We are convinced that these challenges will be addressed by Management and the Board of Executive Directors in their redefinition of the institutional strategy that will guide the IDB's future path.

31. Mexico is ready and willing to work for a shared vision of inter-American development, whose best ally is the IDB in designing novel and effective means of sharing experiences, technical cooperation and financing, as complementary support for our respective national projects.

32. I would like to convey Mexico's offer to host a future annual meeting of the Bank and the Inter-American Investment Corporation. We would be very pleased to see all of you in our country soon.

33. The challenges are many, but the ideas and capacity to change of an institution that has been present in the development of our countries for over 40 years are equal to them. The path has not been easy and there is still a long way to go. However, we are certain that under the leadership of President Iglesias, the IDB will be able to make the changes demanded of it today.