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ADDRESS BY THE TEMPORARY ALTERNATE GOVERNOR FOR ARGENTINA  
AT THE SECOND PLENARY SESSION

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1. It is a great honor for me to address this Annual Meeting of the Inter-American Development Bank and Corporation, and I wish to extend my greetings to all the Governors, authorities, and participants attending this important event in the life of our institution. Permit me also to express special thanks to the Government, President, and authorities of Chile and to the wonderful Chilean people. This occasion provides us with the delightful opportunity to visit this noble city of Santiago in the company of old friends.
2. But let us get down to business. As we near the end of the first quarter of the year, the latest prognoses from the International Monetary Fund indicate world economic growth of nearly 3.5 percent for the year 2001. This figure reflects a favorable panorama, but also represents a decline from the 4.75 percent recorded at the end of 2000. The timely reduction of interest rates in the United States should help to moderate declining production in that country, but external balance difficulties remain for the major industrial economies as a result of persistently high oil prices at a time when the Japanese recovery appears to be faltering.
3. In this international context, the anticipated growth rate for Latin America and the Caribbean is around 4 percent. This forecast is subject to a number of assumptions: a soft landing for the American economy, a slightly downward trend in prices for the region's export products, investor confidence, and access to credit markets. Another key assumption, obviously, is the application of sound macroeconomic policies by countries in the region, with fiscal results conducive to growth in private investment. It is also assumed that the structural reforms now well advanced in the region will continue.

4. This world and regional economic situation provides an encouraging panorama for Argentina. Our policies are designed to create the conditions necessary for production and employment to increase on a sustained basis. National savings and investment are rising, and we are making every possible effort to modernize the State and enhance the competitiveness of the Argentine economy.

5. During the course of 2000, our country was unable to emerge from the prolonged recession now over 30 months old. A variety of negative factors has been at work. In terms of the external environment, the rise in U.S. interest rates in the first quarter of 2000 and financing difficulties faced by most of the emerging markets were particularly significant. Internally, President De la Rúa's administration, immediately upon taking office a little over a year ago, was obliged to implement an initial package of policies, particularly with respect to the budget, provincial finances, and an agenda of reforms necessitated by the economic situation at that time. Those measures were effective in correcting the earlier trends, but did not produce the expected response from consumers or international investors.

6. Despite the difficulties, the Argentine economy has proven to be flexible, with a reduction in internal costs, a decline in consumer prices, and a moderate rise in wholesale price indices stemming from a recovery in traded goods. As a result of this improved competitive position, manufactured exports rose by 12 percent relative to 1999. A positive trade balance of more than US\$1.1 billion not only erased the red ink from the previous year but also helped to offset increases in the foreign debt interest account. The fiscal situation was kept under control. Although the fiscal deficit could not be reduced to the extent desired, because of lower-than-expected revenues and higher interest on the public debt, the imbalance of 2.4 percent of GDP was similar to that in 1999. During 2000, primary spending by the national government declined and the primary surplus rose by the equivalent of half a percentage point of GDP. Provincial governments, to markedly varying degrees, also reduced their deficit by 0.4 percent of GDP, and their primary expenditures by 3.6 percent since 1999. This situation can be attributed to provincial policies promoted by the national government and the responsibility demonstrated by a good number of governors, who acted appropriately given the difficult circumstances imposed by the recession.

7. To get the Argentine economy growing again we need to move quickly to restore sustained internal and external confidence. We need to continue enhancing our competitiveness and productivity as a means to create desperately needed jobs. We are convinced that this general course of action will depend on three central factors: preservation of the convertibility regime, sustained application of policies to consolidate fiscal solvency in the short and medium term, and the expansion and acceleration of structural reforms to modernize the state, deregulate vast sectors of productive activity, as appropriate, and open up our economy.

8. The measures announced by the Minister of Economic Affairs last Friday are designed to achieve these objectives and represent an intensification of this

administration's policies. We have not altered our diagnosis of the situation or our commitment to the strategic solutions we have been applying. This program is consistent with the agreements Argentina signed with the International Monetary Fund last January. In that respect, I want to express our appreciation to the Bank and its President for the institution's participation in this process, as well as the countries that have expressed their support through the multilateral agencies. We wish to make particular mention of the support provided by Spain to this program. The Bank's role in this so-called "armor-plating" process is helping to advance the reforms that will be essential to meet our targets.

9. I would now like to share some reflections on institutional matters, which represent the main focus of this Annual Meeting. Once again, the Bank has turned in a fruitful effort in Latin America and the Caribbean. Its watchful presence and involvement in the challenges we face are emblematic of the institution. This has unquestionably been a result of the leadership provided by President Enrique Iglesias and a harmonious partnership between the Board and Management. And we are confident that this dynamic pace will be maintained.

10. We would now like to share a number of particular thoughts which, together with those expressed by the other Governors present, will help to guide the daily work of our institution. First, we attach great importance to the Bank's regional dimension, which ensures its relevance for each and every one of our countries. We imagine a Bank active in the process of integrating Latin America and the Caribbean, and we cannot conceive of such a role without the inclusive character this institution has maintained since its inception. To put this in clearer terms, let me say this: the "graduation" concept, in our view, will only divert us from our objectives.

11. That said, it remains clear that the Bank faces a challenge in working with strikingly different national situations. We believe the institutional strategy represents an apt instrument with which to concentrate the Bank's activity on key issues for the future. But the strategy must be practically and fruitfully embodied in our daily work and shaped through a process of fluent dialogue which above all else must characterize relations between the Bank and its member countries. The strategy must generate results in the short and medium term and enable countries to derive the greatest benefit from the institution's financial and nonfinancial products.

12. Third, we believe it is time to think creatively about the application of our new lending instruments. We must frankly recognize that traditional investment projects, the Bank's main financing vehicles since its creation, have served their purpose. Their use today is confined to situations no longer as general as they once were. New needs have arisen and require new approaches. If our Bank is to remain relevant, supported by the active commitment of its members, we must calmly review the situation. Economic and social reform policies, which with slight variations represent a common theme in the region, call for new financial products. Perhaps with greater emphasis now than in the past, the Bank must combine programs and reform policies designed to create better

conditions for economic growth and social development. In that vein, I believe there are several initiatives requiring our attention.

13. Since their creation in the 1990s, policy reform loans have applied mechanisms centered on the prerequisites for such reforms. We believe it is time to think about linking financial resources to the specific results of policies and programs. It could also be useful to design mechanisms for allocating Bank support to the prevention of crises, preserving our identification with the commitment to social realities in the region. We could also be more imaginative in finding ways to use multilateral financing for the design and operation of social safety nets. We have noted with satisfaction that over the past year the Bank has applied new operational modalities, such as multiphase loans and sector modernization facilities. We must also point out, however, that the pilot guarantee program has still not resulted in concrete operations, a situation which calls for attention to the program's design and suggests that adjustments may be advisable.

14. In this same vein we would suggest that the Bank's private-sector window expand its operations to meet the growing demand for new infrastructure projects, taking the obvious precautions with respect to risk and the organization of such operations.

15. In short, the Bank cannot and must not act as a substitute for functions performed by the financial markets. And we are fully aware of the complexities introduced by the so-called new architecture of the international financial system in the context of the globalized economy. We simply wish to point out that the Bank has a singular function, with its own value-added, which derives from the limits established in the Agreement Establishing the Bank. These ideas, as well as others that may be identified and that we would like to analyze, do not signify an abandonment of the principles underpinning the Eighth Replenishment. What is required, rather, is a healthy reassessment of lending policies adopted many years ago in order to adapt them to current needs.

16. Since the last Annual Meeting, as we all know, the Bank has been seeking financial resources for the Heavily Indebted Poor Countries Initiative and attempting to apportion them among the members—no minor task. A general solution, based on the resolutions adopted at last year's Annual Meeting, is now near. As a member country of the Latin American and Caribbean group (GRULAC) we are pleased that the respective contributions have been decided upon. However, we wish to stress that Bank participation in the remaining stages is indispensable to a comprehensive solution, encompassing the situation of the subregional organizations. On the other hand, the lessons learned must be applied to the future. Given the regional character of our institution, these initiatives have a significant impact on the Bank's portfolio and require it to perform a function for which it is not properly equipped. Our opinion is that an objective such as the one pursued by the Initiative calls for different instruments that the Bank is not in a position to offer.

17. As regards the Inter-American Investment Corporation, we are pleased to know that we have been joined by new members. The capital increase we have agreed to will

provide a welcome opportunity to revitalize the Corporation on a new scale of operations, with particular emphasis on developing the productive potential of small and medium-sized enterprises in the region. This expansion of activities, however, calls for a review of the activities conducted and the preparation of internal organizational programs and resources adapted to the new times. Let me say now that we are prepared to provide support to initiatives designed for this purpose. In the same vein, we support the expansion of activities using our other instrument for supporting innovative private-sector initiatives: the MIF. But here, as well, we believe an assessment of past experience is in order to enable the Fund to draw on the support provided for specific projects and transform it into an instrument for broader policy and institutional development.

18. To conclude, the message we wish to convey to this Annual Meeting of Governors is Argentina's determined commitment to the work and objectives of the Inter-American Development Bank. It is our aspiration to expand the presence of an institution already relevant to the lives of our countries, but which, to remain so, must take action proportionate to the realities we face. We must therefore work to ensure that the Bank can offer the instruments and services needed to meet the demands of this complex but worthy effort: the modernization and transformation of Latin America and the Caribbean.