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ADDRESS BY THE GOVERNOR FOR BRAZIL  
AT THE SECOND PLENARY SESSION

*Martus Tavares*

1. First I would like to express how honored I am to be representing Brazil in the beautiful city of Santiago, Chile, at the Annual Meeting of the Boards of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation.
2. I return to this forum to highlight Brazil's achievements over the last year.
3. We were able to overcome the crisis and restore market confidence in our country. Economic growth has resumed on a sustained basis.
4. The recovery of growth in a stable environment was the hallmark of the Brazilian economy in 2000, with growth at 4.2% and inflation kept firmly within the set target of 6%. The industrial sector was at the forefront of this recovery, with 5.5% growth in 2000.
5. Three main tracks were followed towards the successful conduct of Brazilian economic policy: fiscal austerity, monetary policy based on inflation targets, and an exchange fluctuation regime.
6. Fiscal policy is focused on achieving primary surpluses compatible with sustainability of the debt/GDP ratio.
7. Monetary policy has played an essential part in the economy's favorable performance, through the consolidation of the inflation-target regime.
8. The result of this successful strategy was sustainability of the economy in a context of growth without inflationary or exchange pressures.

9. The fiscal stabilization program, instituted in 1998, represented a landmark in the process of changing the Brazilian fiscal system. Few countries in the world have seen as rapid and successful a transformation in the conduct of fiscal policy.

10. With support from the National Congress, we have been able to implement structural reforms. The most notable of these was the approval, last year, of the Fiscal Accountability Act, which is a code of conduct for public officials from the three branches of government, establishing a set of principles, guidelines, and limits to be observed.

11. It is also worth noting that the Act stipulates management transparency as a means for social control.

12. Clearly, stability and fiscal discipline are essential to guarantee sustainable growth. In addition, however, a strategy is needed to ensure sustainable development. In Brazil, this strategy is based on building a partnership with the private sector.

13. We need to expand and modernize the transportation, energy, and telecommunications infrastructure and invest more in the social sectors. This is a challenge of enormous proportions that will only be overcome if we add public investment to private, financed with internal and external savings.

14. Opportunities abound in the recovery and in the expansion of economic infrastructure. The multiyear plan for the 2000-2003 period, known as *Avança Brasil*, estimates that its economic infrastructure programs will require resources on the order of US\$108 billion.

15. We are looking for foreign partners for these undertakings. By the way, the country has been breaking records in attracting foreign investment over the last few years. Inflows of foreign direct investment have remained at about US\$30 billion since 1998, bringing Brazil to the forefront among emerging countries in this regard.

16. In addition, I would mention another recent fact that measures the level of effort undertaken by the Brazilian government to build an economic environment that promotes growth with stability and attracts foreign capital: research by the international consulting firm of A.T. Kearney showed that Brazil is the third most attractive country to foreign investment, after the United States and China.

17. Having made these observations regarding the Brazilian economic environment, I would remind you that Brazil is not the only country in the Americas to be making progress of this type.

18. In this spirit, the Brazilian government took the initiative to organize the South American Summit in Brasilia in mid-2000. As a concrete result of that meeting, the member States and associate members of MERCOSUR made a commitment to a

cohesive and integrated South America, inasmuch as integration is essential to economic development and social prosperity.

19. Expanding economic integration requires strengthening the physical integration of the countries.

20. The world's major economic blocks—the European Union, NAFTA, and Southeast Asia—grew and fused in the wake of a modern and integrated infrastructure.

21. The process of physical integration in South America has taken some significant steps forward. We have made progress in identifying and establishing axes of development and key physical integration projects.

22. Despite this progress, fulfillment of the commitments assumed by our Heads of Government at the meeting in Brasilia is imperative.

23. There is no time to lose.

24. The task we have before us requires effective measures to take advantage of the potential that each of our countries has to offer.

25. The Heads of Government of South America gave the IDB—which throughout the last four decades has contributed to all the regional integration efforts—the mandate to head up the preparation of a study that will contribute significantly to the planning effort.

26. We must therefore attach priority to the effort to move forward with this difficult assignment. Our objective is the construction of an overall project that will provide South America with a modern and efficient infrastructure that will help attract new investment to the region.

27. Over the last decade, Latin America has been implementing an extensive program of reforms that include issues related to the role of the State.

28. These reforms have contributed to changing the region's socioeconomic outlook and have resulted in significant changes in the requests for involvement by the multilateral development institutions. In particular, fiscal constraints have curtailed the demand for traditional investment loans.

29. At the same time, recent international financial crises have showed that the region's economies are still significantly vulnerable to external shocks and that we need to have mechanisms to prevent and manage emergency situations.

30. A new financing matrix is needed that takes into account the enormous fiscal adjustment effort undertaken by the region's countries. New products and instruments with countercyclical characteristics need to be designed, which can serve in particular to

prevent crises, improve the quality of public spending, and establish and strengthen social safety nets.

31. The Bank's profile therefore needs to be adjusted so that it can expand its contribution to addressing the new challenges facing the region. In this context, it is essential that policy-based lending, which was limited to 15% of the cumulative lending program under the Eighth Replenishment, be made more flexible.

32. Expanding lending to the private sector is also a basic requirement for regional development and vital to consolidating the privatization processes under way in a number of countries. In this regard, the Brazilian government enthusiastically supports the conclusions of the External Review Group, particularly the recommendation that the 5% cap on private-sector operations as a proportion of total IDB lending be abolished, provided the risk management of that loan portfolio is strengthened.

33. In my view, the hypothesis that member countries could be involuntarily graduated should be rejected since, in practice, it would prevent the Bank from continuing to play a part as an important instrument in the region's development processes.

34. In 2002, Brazil will have the privilege of hosting the next Annual Meeting of the Boards of Governors of the IDB and the Corporation. It will be a pleasure to welcome you and we will do all we can to ensure that you will enjoy Brazilian hospitality.

35. The meeting will take place in Fortaleza, which is in the state of Ceará, in the Brazilian Northeast. This is a region in which the IDB has played an important part as the engine of economic and social development. The Brazilian government will do everything to make sure that the meeting is a success.