Board Meeting of March 17, 1998
Statement by Pieter Stek

Argentina: Country Assistance Strategy – Progress Report

I welcome the opportunity to discuss the CAS Progress Report for Argentine Republic. The document highlights several important points which I would like to reiterate:

- The economy recovered more quickly than anticipated from the 1995 crisis and seems to be weathering the current turmoil in Asia successfully. The resilience showed by Argentina is clearly to be credited to the bold and deep reforms initiated in the beginning of the decade. Nevertheless, the risk of reduced access to international financial markets as a result of exogenous factors still exists. I commend Bank’s Management for working on a contingency plan in case of deepening of the Asian crisis spillover effects on Argentina;

- I am glad that both the Government and the Bank reconfirmed the objective of deepening the reform effort and the sector priorities associated with the second generation of reform. This inevitably involves more complex measures and operations with less certain outcomes. This, however, seems to me a risk that is worth taking if Argentina is to build on its successes. Moreover, part of the complexity of the second generation reforms stems from the involvement of more local players such as the provincial governments and the civil society. While taking time to develop, ownership of reforms at the local level ideally should serve to mitigate general risks of electoral cycles;

- I am pleased to note the good portfolio performance in Argentina. I also endorse Management’s plans to emphasize monitoring and supervision, including greater reliance on the resident mission.

The unemployment rate remains high in Argentina although the most recent statistics show that it has decreased substantially from the peak of 1995. In that respect enhancing social development and poverty alleviation is high on the agenda, so is supporting small and medium enterprises and removing the remaining rigidities of the labor market. It has been noted in the CAS that “weak borrower ownership and poor implementation capacity” were the main problems of the Bank’s provincial portfolio. I wonder what have been the developments on that
front in the short period after the Board discussion of the CAS for Argentina last May.

I can also support the project which accompanies the CAS progress report for the contribution its implementation is expected to have on reducing the costs of poor infrastructure. In particular, it is expected that upon completion the “national highway network would have reached a steady state with respect to its physical condition”. The strong participation of the private sector in road rehabilitation and maintenance as well as the institution strengthening component of the project are among its other positive features.