Board Meeting of Thursday, March 26, 1998
Statement by Joaquim Carvalho

**Mexico: Country Assistance Strategy - Progress Report**

1. We welcome the opportunity to discuss this Progress Report on Mexico’s CAS and commend staff for their efforts in preparing a useful and informative paper.

2. A number of encouraging developments have taken place since 1996 when the Board approved the current CAS. GDP growth is rebounding and is expected to be at comfortable levels in the medium-term, while inflation rate is declining to controllable levels. In all major areas, some degree of improvement has been achieved, despite the contagion effects of the East Asia Crisis on the economy. Improvements in the social sectors, particularly in health, education, pension and protection of the most vulnerable groups of society, as well as the quality of Bank’s portfolio have been impressive. We are also encouraged by the resurgence of private capital flows. We would like to congratulate the Mexican authorities for their resolve to address the aftermath of the 1994 crisis.

3. To protect the country from the risk of the reoccurrence of such a crisis, more needs to be done on the structural front during the medium- to long-terms. Strengthening the financial sector, particularly the commercial banks, with adequate loan-loss provisions, meeting capital adequacy requirements, and reforming the legal and regulatory framework are areas critical for restoring investors’ confidence. In this connection, we believe that transferring the oversight responsibility to the CNBV and enhancing its autonomy are steps in the right direction.

4. Another main area of concern is the lack of progress in the privatization of the energy sector. In this regard, the Bank should continue its dialogue and close consultations with the authorities to reivate the 1995-energy sector reform program.

5. The impact of the crisis on poverty particularly in rural areas, income distribution, levels of income and employment cited in paragraph 9, is worrisome. We believe that the task of reversing this situation is enormous and needs the support of other development partners. We would appreciate more information about the role of the partners in redressing these problems.
6. Heavy dependence on oil revenue is a cause for concern, as it induces both internal and external volatility. Therefore, broadening the tax base by tapping new sources of revenue is of crucial importance, particularly at times when world oil prices are under severe pressure, as currently witnessed.

7. On the decentralization issue, while we are pleased with the proposed Bank’s strategy that focuses on the provision of public services and enhancing sub-national government’s institutional capacities, we wonder how the Bank can assist Mexico, given the prohibition by the Constitution of contracting foreign debt by states, referred to in paragraph 18. On what legal basis can the Bank provide loans to sub-national entities, for example?

8. We endorse the focus of the CAS on the structural sources of risks with respect to low productivity rates, competitiveness, efficiency of factor markets and inequity. To ensure the ownership of programs designed to mitigate these risks, we believe that the initiation of these programs should rest with the Mexican authorities.

9. Finally, the determination demonstrated by the Mexican authorities so far to get the country out of the crisis makes us confident that the momentum of the reform programs will be maintained. We wish them success in their endeavors.