Statement by Yahya Alyahya
Date of Meeting: June 21, 2001

**Mexico: (1) Country Assistance Strategy Progress Report; (2) Bank Restructuring Facility Adjustment Loan; (3) Third Basic Health Care (Procedes) Project**

Mexico made an impressive recovery since the 1994-95 macroeconomic crisis. Economic growth accelerated to reach about seven percent in 2000, inflation decelerated to single digits, and the balance of payments current account deficit remained manageable at just over three percent. In addition, prudent debt management policy reduced the ratio of foreign debt of the public sector to GDP from 35 percent in 1995 to 15 percent in 2000. The markets rewarded such performance by a significant increase in foreign direct investment and a decline in spreads to just over half of the LAC average. I want to commend the authorities for their efforts.

However, I want to make the following comments:

First, as the Government recognizes, the reform agenda ahead remains difficult. This is made more complicated by the economy’s vulnerability to the external environment, by the high expectations that have been generated during and after the recent elections, and by the new momentum for decentralization.

Second, the 1994-95 macroeconomic crisis has reversed the gains against poverty, which in spite of possible improvements since 1999 remains high. Of equal concern is the fact that the national income inequality showed a worsening trend since 1984, with the exception of 1996. It is clear that reducing poverty through growth alone will take a long time. Social and distributional policies will contribute to the acceleration of poverty reduction. I am pleased to note that both the Government and the Bank recognize this.

Third, improving agricultural productivity must be an urgent priority for the Government. The incident of extreme poverty is highest in the rural areas, and under NAFTA the sector will be exposed to competition from the US and Canada in 2008. I have noted the commendable efforts made to date by the authorities to reform the sector, and the Bank’s contribution to these efforts. I have also noted that a Rural Finance SECAL is planned during the period leading up to May 2002 when the next CAS period begins. Perhaps staff can inform us about the status of preparation of that operation and briefly explain how it will contribute to addressing remaining challenges.

Fourth, as the report indicates and as mentioned by Andrei Bugrov, progress in
implementing the CAS is satisfactory but uneven. However, as explained in OED’s Country Assistance Evaluation for Mexico, which the CODE sub-Committee discussed on June 6, the Bank’s assistance strategy for FY97-00, may have been too ambitious. Nonetheless, it seems that the Bank was able to provide the necessary financial and analytical support at critical reform junctions. This may have increased the relevance and effectiveness of such support. Going forward, however, I agree with Andrei on the difficulty of providing investment loans, given that these are considered as part of the regular budgetary allocation provided to the line ministries and not additional to it. I also agree with him that the quality of the Bank’s non-lending services and knowledge transfer will be decisive in determining the overall success of the Bank’s activities in Mexico. This is a point that was also stressed in the CAE.

Fifth, I can support the lending level and composition for the period leading up to the next CAS period, which begins in May next year. I also support the planned ESW. I have, however, noted the projected Bank exposure in FY04, which leaves relatively little headroom for lending thereafter. Like Terrie O’Leary and Franco Passacantando, I believe this exposure should be monitored carefully and that the implications for the Bank’s strategy in Mexico be treated more fully in the new CAS. In doing so, the Bank may want to consider the two options provided in OED’s CAE.

Turning to the two proposed operations, I can fully support them. Both build on previous operations, which were successfully implemented, and both deepen the reform in their respective areas. Regarding the Bank Restructuring Facility Adjustment Loan, I find the sequencing of conditionality and tranching of disbursements appropriate. However, I was wondering whether the findings of the FSAP, which was conducted jointly by the Bank and the IMF, have contributed to the design of this operation. I would like staff’s response.

Regarding the Third Basic Health Care (PROCEDES) Project, I support the project’s objectives, which are described on page 2. It is clear from the report that Mexico has made significant improvements in the health status of the population over the last three decades. However, there remain substantial regional discrepancies, which the project aims to address. The project’s institutional and implementation arrangements would benefit from the experience gained under the previous two operations. This would ensure its successful implementation.

In conclusion, I want to commend the staff in the field and at headquarters for their good efforts, and wish the authorities every success in meeting the challenges of their development agenda.