Statement by Andrei Bugrov  
Date of Meeting: June 21, 2001

Mexico - Country Assistance Strategy Progress Report FY01

We are glad to notice a substantial progress achieved by Mexico in restoring macroeconomic stability, accelerating economic growth and reducing external financial vulnerability that placed the country among the best performers in LAC region. These factors created necessary preconditions for a sustainable poverty reduction. We are also impressed by the smooth path of a rapid and profound political transformation that, as we hope, will substantially improve the political climate for an accelerated socio-economic progress in the future. We are pleased to see that the Government places utmost priority on social development and the fight against poverty. We are also encouraged by the fact that financial sector restructuring strategy adopted by the previous administration and continued by the present one is beginning to bear fruit in terms of achieving a healthy and adequately capitalized banking system. Substantial progress is achieved in the area of structural reforms with the effect of enhanced competitiveness and productivity of the Mexican economy.

But at the same time, the document clearly shows the challenges ahead such as high incidence of extreme poverty, income inequalities and wide regional disparities requiring increase in broad-based social expenditures as well as targeted investments into country’s human capital and physical infrastructure in order to expand employment opportunities and improve living conditions of the people. In this situation the continued support of the Bank along the lines outlined in the CAS (social sustainability, removing obstacles to growth and maintenance of macroeconomic stability and effective public governance) seems to be crucial especially in the situation where the new administration is looking for expanded cooperation with WBG. Needless to say that many middle-income countries are facing similar challenges and Bank Group success in Mexico can validate new business model developed for this group of Bank’s clients.

The overall progress of the CAS implementation is satisfactory though uneven. The Bank was able to deliver a necessary support in such important areas as decentralization and increasing financial discipline at the federal and state level, strengthening financial sector. On the other hand, some CAS envisaged activities such as pension and electricity sector reforms did not yet materialized. The institutional capacity of some Government agencies still does not correspond to the requirements dictated by the increasingly competitive and dynamic environment. The impediments to private sector development and competitiveness as well as infrastructure bottlenecks are still substantial. With due respect we would like to encourage the Mexican Government to step up its reform efforts although the overall reform agenda is rather complex.
We believe that CAS progress report identifies well the sectors and areas that require special attention and indicates the Bank Group support to be provided to the Government in order to address those issues. The role of the Bank in assisting Mexico in terms of investment loans is especially challenging due to the fact that in the existing fiscal management framework the financial resources provided to the sector ministries are non-additional to regular budgetary allocations. The quality of Bank non-lending services and knowledge transfer is the decisive factor that will determine the overall success of Bank's activities in the country. We also learned during the Mexico CAE discussion about the importance of a continued policy dialog and fully-pledged ESW program that can bring about a rapid and solid progress in some important areas under the appropriate political circumstances.

In our opinion, the present situation in Mexico is extremely appropriate for expanding Bank support to the new administration. In fact, it represents a window of opportunity, have a high value added in terms of development impact and increased relevance in the country development agenda. On the other hand, the country's prudent external debt management strategy and headroom considerations preclude the expansion of Bank's lending to Mexico. With this respect, we agree that the future Bank's program will continue to require flexibility in terms of timing and instruments used. The broad reform agenda indicated by the Government in the fiscal decentralization context speak in favor of some combination of high-quality non-financial advisory services and some programmatic adjustment lending. On the other hand, in view of potential threats to macroeconomic stability mentioned in the paper the deferred drawdown option is also worth exploring. Finally, we would like to wish Mexican Government and the people of Mexico successes in building a viable modern economy with a social justice to everybody.