Board Meeting of June 2, 1998
Statement by Andrei Bugrov

Brazil CAS Progress Report

I am pleased to note that the recent adverse external shocks have not derailed the program of Brazilian reforms. Indeed, the resilience of the economic policy framework in the country in the face of the Asian crisis points to its strength and robustness. The strong access to financial markets, in particular, demonstrates the confidence that the reforms inspire in the international community, and as such is likely to contribute to their sustainability.

I am also happy to hear that the Bank’s lending program in Brazil remains on track, and that the CAS priorities we discussed last year remain valid. What I find particularly gratifying is the flexible and active approach taken by this institution in monitoring the developments and adjusting the lending program. Due to external reasons, Brazil could not meet the base-case benchmarks in fiscal performance, yet we did not mechanically hang on to the numbers, but instead recognized the change in circumstances and gave the authorities due credit for their commitment. The authorities were able to achieve significant progress in many key areas – macroeconomic stabilization; banking sector reform; education and poverty reduction. The proposed social security and public sector employment reform will substantially improve the fiscal balance and contribute to the long-term sustainability of the economic program. More work needs to be done to stabilize the sub-national fiscal situation, and I am glad that both the Bank and the country see it as a top priority.

In this connection I think that the reinforced emphasis on non-lending services in support of critical areas of reform must be very useful – although of course it would be interesting to hear the reaction of the Brazilian authorities on this subject. Do we have any feedback from the client agencies in Brazil regarding the quality and applicability of advice they received through the non-lending services?

Improved portfolio performance is another example of how the active and flexible approach by the Bank can enhance the quality of the operations. I hope that the experience gained in Brazil will not be lost or confined to just one country. In particular, better planning, increased quality at entry, decentralization and tying new
lending to portfolio performance look like the kind of measures which could be applied very broadly.

In summary, I would like to thank the staff for preparing this useful and informative report, and I wish the country further success in implementing its ambition reform program.