Board Meeting of March 17, 1998  
Statement by Jan Piercy

ARGENTINA: Country Assistance Strategy – Progress Report

1. This is a challenging period for the Argentine economy. The full long-term effects of the Asian financial crisis on the economy (and on other regional economies) and capital flows are not yet clear; the trade and current account deficits remain high; and the domestic political environment may be less conducive to pending reforms. Nevertheless, there is a strong basis for optimism. Since discussion of the CAS last May, the results of Argentina’s steady and broad-based implementation of macroeconomic and structural reforms continue to be impressive, with more than 8 percent economic growth in 1997, inflation virtually zero, and a substantial decline in the still-high level of unemployment. The government also remains committed to addressing both structural reform and the difficult but essential social development issues. Thus despite major domestic and international uncertainties, Argentina still appears well positioned to solidify and deepen the policy foundation for sustained growth and poverty reduction.

2. We believe the CAS emphasis on poverty alleviation/social development and provincial reform remains appropriate and we are pleased that the Bank’s lending program remains on track, while also recognizing the increased risks which the progress report notes could jeopardize Bank support for labor, tax and health insurance reform. We also welcome the fact that recent improvement in overall portfolio performance have been sustained even as the portfolio expands rapidly. The beneficial results of Bank programs in social protection — including improved targeting and efficiency — are particularly encouraging. We will be very interested to see the results of the Bank’s provincial adjustment loans, and their impact on the provision of public health and education services. We continue to support the Bank concentrating these loans on the poorest of Argentina’s performing provinces. Do staff have any preliminary updated indications of how these operations are faring?

3. We strongly endorse the increased emphasis to be placed on pilot and other programs which have demonstrated their effectiveness and on efforts focused on improving governance. We understand there is now widespread public concern over both the widespread extent of corruption and the serious weakness in both the taxation and judicial systems. We therefore strongly encourage the government’s expanding efforts to improve governance and public ethics and welcome the increased Bank support these crucial areas will receive. Bank plans
to support taxation reform are also very welcome. We also commend
the increased attention which the Bank and Argentina will be giving to
expanding participatory approaches in developing lending and non-
lending services. The Bank’s experience continues to demonstrate the
beneficial role such approaches can have in improving the prospects
for success.

4. Despite the significant reduction in unemployment over the past
year, Argentina’s structural unemployment problem is serious and is
closely linked to the incidence of poverty. We believe increased
flexibility in the labor market is crucial for the economy’s
adaptability to changing markets and for long-term employment
generation. At the same time, we recognize that the issue -- and the
possible difficulties in achieving local consensus -- poses a serious
economic and political challenge. While we appreciate the
sensitivity of this issue, we continue to hope that the government
will be able to sustain its efforts to reduce the institutional
rigidities that discourage labor force expansion.

5. While Argentina may not experience the acute environmental
problems found in many countries, the CAS pointed out that it is still
in the early stages of establishing appropriate environmental
regulations and standards. We therefore encourage a more
comprehensive approach to environmental issues, and note the problem
of water contamination as one requiring an integrated approach. We
believe that increased Bank support for provincial capacity building
in the water sector could have important development benefits and
still be consistent with the Bank’s selective provincial strategy.

6. The state of the financial sector and the banking system has been
dramatically reformed. The improvements which have taken place in
banking regulation and supervision and liberalization of restrictions
on foreign ownership have clearly contributed to substantial
strengthening in the balance sheets, the operations, and the
transparency of Argentina’s financial institutions. The growing
public confidence in the financial system is well justified.
However, we also believe that continued efforts are required to
strengthen the system further. We therefore welcome the fact that
a Financial Sector Review is underway to assess the current situation
and hope that the Bank, in collaboration with the Fund and IDB, will
remain constructively engaged in encouraging and supporting
government efforts in this area.

7. As members are well aware, this chair has been a strong proponent
of increased collaboration among the MDBs and we look forward to
highlighting the critical importance of such collaboration at the
upcoming meeting of the Development Committee. In this context, we
hope that the current efforts by the Government, the World Bank, and
the IDB to harmonize administrative procedures and structures will
result in some “best practice” lessons which could be replicated
elsewhere.

8. In conclusion, we encourage the contingency planning underway
to increase the Bank’s capacity to respond -- in concert with the IMF
and the IDB--to mitigate risks in the event of adverse external
conditions. While we do not expect such support will be needed,
such advance planning should serve to improve the speed and quality of
any Bank response. We would also appreciate being kept informed of
the Bank’s work with the Government to develop a set of monitorable measures, including social sector indicators, relevant to graduation.