Statement by Federico Ferrer
Date of Meeting: June 8, 1999

Mexico- Country Assistance Strategy

I. Introduction

The previous Bank strategy for Mexico was considered by the Board of Executive Directors three years ago. In my opinion, the strategy conceived at that time was an adequate framework for supporting Government efforts to consolidate macroeconomic stability, promote growth and attract greater attention to poverty reduction and environmental protection during the middle years of the current Administration.

One important dimension of this CAS is its role as a bridge between the Bank and the new Administration, which will take office in December 2000. Under these circumstances, this CAS is broader in scope, since it has to identify a larger number of areas of action for the Bank. Flexibility is required for the Bank to adapt itself to the priorities of the new Government.

II. Lessons of the previous CAS

The strategy implemented for the period FY97-99 incorporated three main priorities: i) growth with stability; ii) social development, and, iii) modernization of the State. By and large, the results achieved in these three areas have been satisfactory.

i) Growth with stability

In 1997, Mexico experienced an economic growth rate of almost 7%, the highest in sixteen years. In 1998, despite the acute instability of the international financial markets, as well as the sharp drop in international oil prices, adequate economic policies allowed Mexico to continue its favorable growth trend, reaching a GDP growth of 4.8 percent, one of the highest rates worldwide. The same path is estimated for 1999, notwithstanding the expected international environment, including a slow down in the rate of growth of the United States and the still depressed oil prices.
During 1997, inflation dropped to 15.7 percent, compared to 27.7 percent in 1996. In 1998, the inflation rate fell beneath the 1997 level despite the negative consequences of the financial markets turmoil over a flexible exchange rate regime. Currently, inflation is expected to continue its downward trend. During the first three months of the year, inflation was 4.87 percent, the lowest figure for a first quarter in the last five years.

This macroeconomic performance has been based on the implementation of sound macroeconomic policies and a significant program of structural reforms. The fiscal policy implemented this year has established adequate conditions to promote a stable environment that sustains long-term growth. It has also allowed the Mexican economy to create an important number of new jobs: around 800,000 in 1998 and 143,653 in the first three months of this year.

Since oil revenues are a very important source of public income, it is worth mentioning that in spite of the sharp decline in oil prices and the adverse conditions in international financial markets, the fiscal deficit was in line with its target. In order to achieve this goal and to counterbalance a loss in fiscal revenues of 1.3 percent of the GDP, an equivalent cut in the budget had to be implemented.

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<th>1997</th>
<th>1998</th>
<th>1999 (proje)</th>
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<tbody>
<tr>
<td>GROWTH RATE ( % )</td>
<td>6.8</td>
<td>4.8</td>
<td>3.0</td>
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<tr>
<td>INFLATION ( % )</td>
<td>15.7</td>
<td>18.6</td>
<td>13.0</td>
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<tr>
<td>UNEMPLOYMENT ( % ) *</td>
<td>3.7</td>
<td>3.2</td>
<td>2.7 **</td>
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<td>FISCAL DEFICIT ( % ) ***</td>
<td>0.7</td>
<td>1.25</td>
<td>1.3</td>
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* Open unemployment rate for urban areas.
** April.
*** As % of GDP

ii) Social development

The Federal Government is investing more resources than ever before in health care and nutrition; education and training; social security and welfare; basic services such as potable water, sewerage and electricity; and roads and support for rural areas. In 1998, almost 60 percent of federal spending was allocated to social programs. Ten years ago the figure was 33 percent. Social spending accounted for 9.1 percent of GDP. A decade ago it accounted for 5.8 percent.

In the past four years, nine million more Mexicans have gained access to running water. This will bring coverage to 86.5 percent of the population. At the same time, about 11 million people who did not have sewerage in 1994, now have it. Today, 95 percent of the Mexican population is supplied with electricity.

In 1998, health care services were extended to approximately 93 million Mexicans. This is the highest level of coverage in Mexico's history. The PROGRESA program was put in place to address the causes of extreme poverty by using a comprehensive approach based on education, health care, and
nutrition. In 1998, PROGRESA was already assisting approximately two million families, 56 percent of them in indigenous communities. In the communities where it is being implemented, visits to health-care providers have increased by 40 percent. The program is also helping to bring back into the classroom children and adolescents who had dropped out of school. Enrollment increased by 32 percent last year in secondary schools attended by young people with PROGRESA granted scholarships.

The Federal Government recognizes that achieving conditions of full equality between men and women is an essential element of a just and fair nation; therefore, it has increased its efforts to achieve this goal. In 1998, the National Program for Women (PRONAM) was created, representing an important achievement of Mexican women. In this sector, the importance of NGO participation and the civil society has to be emphasized, since they have contributed to the formulation, compliance and supervision of policies and governmental programs designed to improve living conditions and the welfare of women.

Obviously, protecting the nation's natural resources and the environment is a pivotal issue in Mexico's development strategy. In recent years, installed wastewater treatment capacity increased by almost 70 percent. Important efforts are also being made in the forestry sector, where a program in conjunction with the World Bank aims at strengthening the capacity of ejidos and communities for the sustainable use of natural resources. In conjunction with the states and municipalities, the Administration is implementing programs to prevent and reduce air pollution in the country's largest metropolitan areas. Today, there are more than 100 Protected Natural Areas covering about 12 million hectares where they are beginning to employ management programs, resources and specialized personnel.

iii) Modernization of the State

One of the first priorities of the federal government is to strengthen and pursue its efforts concerning structural reform. Decentralization is one of the most important means of achieving this objective. In recent years, a comprehensive decentralization process was implemented geared to improve Mexico's development. More than ever before, decision-making responsibilities and resources have been transferred from the federal government to state governments and municipalities. The final goal of the new federalism is to achieve a genuine redistribution of both economic and political power among the three levels of government.

In 1998, a mechanism to transfer funds from the Federal Government to sub-national governments based on certain criteria such as population and poverty was established. This mechanism has become law, reducing discretionary decisions on budgetary allocations. Nowadays, for every peso the federal government spends, state governments and municipalities are spending 1.31 pesos. In 1994, the proportion of state and local government spending was 78 cents, and in 1988, it was 51 cents. Now, for the first time in Mexico's history, state and local governments have direct control over more resources than the federal government does. Most of these funds are used for social programs.

The positive outcome obtained in the three core areas identified by the last CAS are the result of the great efforts made not only by the Mexican Government, but also by The World Bank Group in a strategic framework of close collaboration which responds to the current conditions and needs of the country.
III. Current Strategy

The strategy presented in the current CAS is seeking to assist the Mexican efforts to consolidate socially sustainable growth and lay the grounds for a smooth transition towards the new Administration.

The Government has redoubled its efforts not only to achieve the highest economic growth during the 1999-2000 biennium, but also to bring about the most favorable environment for the next President at the start of the new administration. In spite of international conditions, the economic program for 1999 establishes a goal for GDP growth of 3% for this year and 5% for the year 2000. In achieving those goals, the Mexican Government is strictly committed to maintaining sound economic policies, particularly in the context of an electoral period. At the same time, a great attention on social, and anti-poverty spending will be maintained, specially in areas such as education, agriculture, environment and decentralization.

One element that contributes to the Government’s confidence on the good economic performance is the repayment schedule of external debt, which in the next three year period is consistent with the availability of external financing. For 1999, a significant amount of public Debt maturities will be non-market credit and loans (IMF, IDB, Eximbanks and World Bank), meaning that efforts are being made to find new projects that will allow its refinancing. This situation compares favorably to the conditions experienced at the end of the past Administration.

The ratio of total net public sector debt to GDP decreased from 27.9 per cent in December 1998 to 27.2 per cent at the end of March 1999. The outstanding stock of public net external debt in March 31, 1998 was US$ 81.7 billion; that is, US$0.57 billion lower than the stock in December 1998. The ratio of total gross public debt to GDP compares favorably with other OECD economies.

In order to set the basis for improving the situation of the banking system, the Administration sent to the Congress a series of reform initiatives regarding the financial sector. These initiatives propose strengthening the regulatory and supervisory functions. Similarly, these initiatives seek to speed and encourage more favorable conditions for loan repayments and the sale of assets given as guarantee under the banking support programs. In order to promote greater efficiency and responsibility of banks, the reform initiatives were designed to gradually and progressively make the insurance of deposits entrusted to banks more transparent and rational. These reforms were recently approved by the Congress, giving place to the creation of the IPAB, a new institution for the protection of bank deposits.

As a continuation of the Government’s efforts to consolidate structural reforms in key sectors, some weeks ago the Executive Branch submitted to Congress a Bill to reform the electricity industry. These amendments are intended to further open the industry to private sector participation and to increased competition, and will ensure an adequate supply of reliable, high quality and low priced electricity. With these actions, the overall competitiveness of the Mexican economy will be enhanced and the strong commitment of the Mexican Government towards structural reform is once again reiterated.

One of the most serious challenges that Mexico faces is the need to increase productivity in its private sector as well as to obtain the most from the general frame of NAFTA. While removing obstacles is mostly in the hands of the Government, the need for adequate financial means is large, and the WBG, specially the IFC, has an important role to play, as a catalyst of foreign private sources until the domestic financial sector increases its supply of funds. IFC should take into account when formulating its policy not only the employment creation, but also regional development goals.
IV. Final Remarks

The current Administration is making all possible efforts to assure a smooth transition, which will allow the consolidation of democratic institutions while preserving economic and social stability. In this context, the economic authorities endeavour to build the necessary conditions to allow the people of Mexico to face the elections free of concerns on economic instability.

It is imperative to mention the importance of the Bank's support towards Mexico in order to help it face the new millennium with a sound political and economic basis that will allow more and more Mexicans to enjoy the benefits of economic and social progress.

Finally, on behalf of the Mexican Authorities, I would like to express this chair's acknowledgment to the Bank team in charge of preparing this CAS report.

Thank you