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Board Meeting of March 17, 1998
Statement by Joaquim Carvalho

Argentina: Country Assistance Strategy-Progress Report

We are particularly pleased to review this progress report on the Country Assistance Strategy for Argentina. We find the report to be a good overview of recent developments in the country and we share the staff's judgment that the implementation of the CAS remains appropriate and on track. We commend the Government of Argentina for its continued commitment to its economic reform programs. This is clearly evident in the impressive growth rate of 8 percent, zero inflation, declining unemployment and investment/GDP ratio reaching pre-1994 crisis levels. However, a number of economic and social challenges still remain to be addressed.

We are pleased to note that the Federal Government is taking the opportunity of the recent economic recovery to consolidate and deepen its economic reforms. The performance of the provincial entities is, however, still a cause of concern. We hope that the implementation of the four provincial adjustment operations already approved by the Board this year will improve the fiscal performance of these provincial governments. In this connection, we note with satisfaction the Bank's assistance in the areas of poverty alleviation and social development. We are however of the opinion that the Bank's interventions would be more effective if staff could engage the provincial entities in more strategic policy dialogue and make more efforts to increase non-lending services to the non-performing provinces to encourage them to embrace the reform process. The importance of provincial governments in addressing poverty in Argentina cannot be over-emphasized, as more than 80 percent of social expenditures in the country are borne by these entities, while many of them have recently taken up the responsibility of infrastructure provision. We would like to know to what extent the newly approved instrument for loans to sub-national governments can enable the Bank to focus more effectively on the provincial governments in Argentina.

We are also pleased to note the improvement in portfolio management, especially the increase in resources allocated to monitoring and supervision. We hope that this will strengthen the institutional capabilities of portfolio monitoring and project supervision. We expect that the decentralization to the field will enhance project supervision and policy dialogue in the country. In this connection, the client survey, summarized in Box 2, is worth noting. We hope that staff will take appropriate steps to address complaints raised by the respondents in the exercise. We also expect to see more of it in LAC as well as in the other regions.

On the financial sector, we note that Argentina has thus far been able to weather the effects of the Asian crisis. The analysis in the report on the potential negative effects of the Asian crisis on the Argentine economy is noted. We wonder whether there may not be a need to explore further appropriate precautionary measures to insulate the economy from the contagion effects of such crises. As this is not clearly spelled out in the progress report, we would appreciate some elaboration by staff on the Bank's strategy and policy in this area.. The report of the Financial Sector Review, which we understand is underway, may be of great value for formulating the appropriate strategy.

We welcome the Bank's collaboration with the IDB and IMF. We hope that the Bank will continue to concentrate on areas where it has a comparative advantage. We also endorse the IFC's role in SMEs, especially its lending program through the banking system, its institution-building for capital markets and its advisory services. IFC also has a large exposure in the financial sector and is providing valuable support to health services and poor provinces. We are also pleased with the level of MIGA's activity in the country.

On the volume and composition of lending to Argentina, we have no difficulty in supporting the base case lending program as we believe that it is consistent with the government's agenda.

With regard to the proposed loan for the National Highways Rehabilitation and Maintenance project, we find it in line with Argentina's CAS objectives of building and upgrading the road infrastructure, enhancing public infrastructure in the provinces and promoting private sector investment in the transport system. The project will also improve the road network, thereby reducing the cost of tradeable products. We therefore lend our support to the proposed loan.

Finally, we wish Argentina every success in its endeavor to deepen its reform programs, and commend staff for their work in support of this effort.