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Statement by the Hon. **JOSE ANTONIO OCAMPO GAVIRIA**,
Governor of the Bank and Temporary Alternate Governor of the Fund for **COLOMBIA**,
at the Joint Annual Discussion

Statement by José Antonio Ocampo
Minister of Finance and Public Credit of Colombia
On behalf of the Latin American Governors of the World Bank

It is a great honor for me to address these Annual Meetings of the World Bank and the International Monetary Fund on behalf of Latin America, and my own country, Colombia.

Let me start, Mr. Chairman, by expressing our gratitude to the Government of the People's Republic of China and to the authorities of the Special Administrative Region of Hong Kong for their hospitality and outstanding organization of this forum.

Latin American Growth and Capital Volatility

The year since the last Annual Meetings has been a period of acceleration of economic growth in our region. The strong recoveries in Mexico and Argentina, after their 1995 recession, have been accompanied by more rapid economic growth in Brazil. More recently, among medium-size economies, Perú and Colombia have shown clear signs of acceleration after their 1996 slowdown, as Venezuela recovered from her recession. Chile has continued, in turn, on her solid expansion path. Projected growth rates for Latin America, of 4% or more for 1997, reflect a generalized improvement of economic performance in the region.

Medium-term prospects have also improved. The new *Global Economic Prospects* projection for the region for 1997-2006, 4.2% a year, is a clear demonstration of this fact.

However, this rate of growth remains below that which the region achieved prior to the 1980s, and that which is necessary to overcome the pressing economic and social problems we face. The region must thus continue to build, through structural reforms, the conditions to accelerate economic growth.

An essential element of this process was the rapid normalization of capital flows after the Mexican peso crisis in late 1994. The renewal of private capital flows has been accompanied by improved spreads and country rating upgrades. It is important to emphasize that the recovery in the region in the aftermath of the Mexican crisis, as opposed to the devastating effects of the debt crisis of the 1980s, was largely determined by the rapid intervention of multilateral agencies. This stresses the crucial role these agencies play in avoiding sharp fluctuations in capital flows. We thus welcome the timely response of the Fund to the recent problems faced by some Southeast Asian countries.

Capital volatility will continue to be a major source of instability for the region and for the developing world as a whole. It is true that domestic policy weaknesses have sometimes contributed to such instability. This is not the full story, however. It is clear that the Mexican peso crisis in 1994 was worsened by the panic behavior of short-term capital flows, which blew the crisis out of proportion with regards to its initial fundamental factors. Speculative behavior has played again a destabilizing effect in the recent Southeast Asian events. In both cases, contagion effects spread the crisis to other countries, including those with sound macroeconomic management.

This is the background on which the issue of capital market liberalization should be analyzed. For several Latin American countries, price-based capital controls have proven to be an efficient mechanism to discourage short-term capital flows and to reduce the volatility of domestic credit and exchange rates. They provide, in turn, incentives for long-term capital inflows and restore some degree of autonomy that policy makers may have lost in the process of economic and financial liberalization. This is why we fully support the G-24 declaration which emphasized that “precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.”

Moreover, financial liberalization must be accompanied by stronger multilateral institutions, capable of effectively compensating the instability of private capital flows. In this regard, as well as that of MIGA and the HIPC Initiative, there has been a wide gap between the increased responsibilities given to multilateral agencies and the willingness of some shareholders to effectively provide them with an adequate capital or quota base.

World Bank Initiative

Let me use this opportunity to congratulate the World Bank for its 1997 *World Development Report*, as well as for its recent reform agenda for Latin America, which was issued under a very Chinese title, “*The Long March*”. They deal, no doubt, with very controversial subjects but will, nonetheless, become crucial references to the ongoing debates on the redesign of the state.

The reform process underway in the Bank is, no doubt, essential to guarantee a more effective client-oriented institution, though its risks should not be disregarded. Loans denominated in single currencies, adjustable loans, portfolio management, decentralization and support to private infrastructure are moves in the right direction. Much more remains to be done, however. To mention just two crucial issues, project approval continues to be cumbersome and national government guarantees are increasingly paradoxical for an institution which wants to give direct support to local governments and to the private sector.

Let me focus my attention on three issues which are central to the discussions going on at these Annual Meetings: World Bank involvement in efforts to combat corruption, the Highly Indebted Poor Countries Initiative (HIPC), and support to private sector infrastructure.

We fully support international efforts to combat transnational bribery, asset laundering, and other forms of economic crime. My own country, Colombia, has been deeply involved in encouraging international treaties and domestic legislation to combat corruption and asset laundering, and thus strongly support World Bank involvement in the fight against corruption and its transnational dimensions. At a national level, such involvement must obviously be based on objective analysis and established facts, and should be concerned with systematic corruption rather than with isolated cases.

We are deeply concerned about the slow progress in the implementation of the Highly Indebted Poor Countries Initiative (HIPC), which basically reflects the financial uncertainties it faces. Let me also express this point of view in the name of the Non-Aligned Movement, which Colombia currently chairs. It is urgent that full funding be guaranteed to the HIPC Initiative as well as to the Enhanced Structural Adjustment Facility (ESAF). This includes the adequate funding for regional multilateral institutions by their members, and, in the particular case of the African Development Bank, by special contributions from industrialized nations. Moreover, this process should not weaken the financial strength of multilateral institutions. In this regard, we view with increasing concern the additional use of the IBRD's net income for this purpose, and prefer mechanisms in which the required resources are explicitly provided by its members. We are willing to share in such costs, as well as in those of other multilateral institutions to which we belong, following equitable sharing and transparent rules.

We strongly support the action program on private infrastructure presented to the Development Committee. Obviously, involvement in this area should complement and not substitute traditional support to public sector investment in infrastructure, which will continue to be essential. Collaboration between Colombia and the Bank in private infrastructure has been very productive, as the action program recognizes. Based on that dialogue, let me refer to six areas which are essential to the success of this initiative.

The first is the close collaboration between The World Bank, IFC, and MIGA in this area. The design of Country Assistance Strategies must emphasize this coordination among

Bank Group institutions. Second, although adequate project design should minimize or even eliminate altogether in some cases the use of government guarantees, contingencies assumed by governments should be adequately estimated and budgeted. Third, the adequate weight of guarantees vs. loans in the determination of overall World Bank financial support to a specific country must be urgently analyzed, for otherwise guarantees will become an unattractive alternative. Fourth, guarantees should not necessarily be the major source of IBRD financial support. The Bank should also support the design of infrastructure financial facilities which guarantee the rollover of project financing when it matures, and national and regional infrastructure funds, particularly those which participate in the financing of medium-size projects. This should be complemented by programs to develop local capital markets which should provide an increasing proportion of financing in this area. Finally, private financing of infrastructure is a clear case in which the Bank should consider the elimination of government counter guarantees as a condition for Bank financing.

The Colombian Economy

Let me finish with a brief statement on the Colombian economy. GDP growth slowed down in 1996 to 2.1%. Although several factors contributed to this process, a major reason was the contractionary monetary policy implemented by the Central Bank to face a clear overheating of the economy at the end of the 1992-94 boom, during which aggregate domestic demand increased at unsustainable levels: an average of 11% a year, compared to a GDP growth rate of 5%..

Since the second quarter of this year, economic conditions have significantly improved. GDP grew 3.7% during the quarter, seasonally adjusted. Preliminary third quarter data indicates that this process has continued. We can expect rates of growth of over 3% for 1997 as a whole and close to 5% for 1998. Inflation has come down simultaneously, though much more should be done in this area over the next few years. Annual inflation came down from 21.6% in December 1996, to 18.0% in August--this year's Central Bank target. The trade and current account deficits are simultaneously decreasing, and we have been able to correct part of the undesired real appreciation which we faced during the second semester of 1996. This has been consistent, moreover, with unprecedented levels of foreign direct investment, which could reach US\$5 billion this year, equivalent to 5% of Colombia's GDP.

Finally, economic recovery and the austerity measures adopted for 1997 have been reflected in stronger fiscal accounts than originally projected. This process will continue in 1998, as the austere budget before Congress indicates. Central government expenditure, net of interest payments, will fall by more than one percentage point of GDP between 1996 and 1998. Tax revenues have simultaneously increased 14% in real terms over the past four months. This will allow a reduction of the operational deficit of the consolidated public sector to 1.5% of GDP this year, and to return to an equilibrium operational position in 1998. This shows our strong commitment to a sustainable recovery and to traditional orthodox standing in fiscal policy.