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LATIN AMERICA'S CHALLENGES BEYOND THE GLOBAL CRISIS

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P R O C E E D I N G S

MR. CARDENAS: Good morning and welcome to Brookings. It is a great pleasure to introduce this session. We're starting a little bit late, it's 11:15, and we should finish by 12:30, so I'm going to be very brief in this introductory remark.

We're very happy to have as a main lecturer, Dr. Enrique Garcia. Enrique is a good friend from many years, and he's the President of the Corporacion Andina de Fomento, CAF. He has been president for CAF since 1991. He's a very well-known person in political and financial circles not just in the region but I would say globally.

Enrique and Strobe Talbott just signed a few moments ago an agreement between CAF and this institution that I think it's going to have a tremendous impact in the work we here at Brookings at the Latin American Initiative do for our region. Our main goal is to improve the quality of public policies in the region, and with this partnership I'm sure we're going to have, you know, a progressively greater spectrum of activities, and we're very happy for that.

We're going to listen to Enrique's presentation and then we'll have a panel where each one of the panelists, including myself, will make 10-minutes' comments, and the members of the panel are the Minister of

Finance of Colombia, Oscar Ivan Zuluaga, also a very good friend. Mr. Zuluaga has been minister of finance since 2006. Before that he was a senator in Colombia, and before entering politics he was a very successful businessman.

Minister Zuluaga has done a remarkable job in terms of bringing economic momentum to Colombia and is showing also great leadership. I like to commend him for is very recent decision of seeking a $10.4 billion facility from the IMF. I think that that shows the character of Minister Zuluaga and his readiness to make decisions that are good for the country.

And I'm also very happy to have in this panel Danny Kaufman. Danny Kaufman is a very well-known name. Danny is the person behind the governance indicators of the World Bank. He recently left the World Bank, and he is now here at Brookings. And I think Danny is probably the person that he's more associated in the world with the measuring of the set of indicators on governance and, of course, he continued to have and to keep a very close eye on events in this country.

So without further ado, let me welcome President Enrique Garcia for his introductory remarks, and then we'll go to the panel. I guess we'll be self-moderated. So --

DR. GARCIA: That's dangerous, huh?

MR. CARDENAS: Uh?

DR. GARCIA: That's very dangerous, that's very dangerous.

MR. CARDENAS: Thank you very much. Enrique.

(Applause)

DR. GARCIA: Well, thank you very much, Mauricio. It's certainly a great pleasure to be here this morning at Brookings, and as Mauricio indicated we got signed a very important partnership agreement with the Brookings so that in the future I think we'll have a chance to work together in development issues that are related to Latin America. And I'm so honored and pleased to have a distinguished panel with my good friend, the Minister of Finance of Colombia, Oscar Ivan and to see Danny, also, whom I've known for many years. I'm glad he's in Brookings now, and I think this should be a very interesting discussion.

I'm sure that all of you have the chance to listen every morning bad news about the world, and, of course, that means expense, and you never know whether growth in the morning is positive and midday the chance to be negative. Indeed, and then it's a tragedy the banks seem to be moving in the right direction, and then it fluctuates one day to another.

What I'll try to do is to make some reflections in the context of what is going on, and perhaps I would start by saying why (inaudible) scenario are removing. I think that first I think that Latin America has had five years of outstanding years in performance and economic currency until the end of last year. This good performance in part is due to the fact that most governments have been very careful in macroeconomic management and in discipline, fiscal discipline, in solving issues of the financial sectors, and also the other thing we have to admit is that also in this period we had an outstanding performance in the world economy, and particularly in the fact that China and India and countries of that region has had performance that has had a very great impact in Latin America.

So part of the success doesn't clearly go to good policies, but a very important component is related to exogenous factors is something to keep in mind. We know that we are in a very severe, traumatic global crisis, and also I would like to put the scenario that we live in a global and regional geopolitical geography than what we had about 20 years ago. Now we have different players, we have, you know, the fact that China has become so important in the region, in general, and we have the new stars of the Soviet Union we have in our region in a country like Brazil, for instance, is moving and playing in the big leagues.

And we now also have a new U.S. administration. I think that's a very important element, and the feeling in, as you know, that perhaps for many valid reasons in the last few years the feeling -- I don't know if it's true or not -- is that the U.S. has neglected Latin America. I'm not sure whether it's true or not, but that's the perception.

And definitely, I would like to also relate the new administration to something that I was a witness of. There was the comment last week and which I think was a very, very important component in any discussion of relationships between the United States and Latin America.

Let me start by saying that this crisis which is so severe, one thought I want to impress upon you is that it should not overshadow the crucial structure of issues and challenges that Latin America has immediate long term. And let me, in point of time of these things, sometimes in Latin America we have the tendency to congratulate ourselves because of a successful story, and you have the -- everybody's very happy because of the fact that Latin America has a rate of growth in average close to five percent; that you did it in a remarkable way with the fiscal management, with surplus, primarily surplus in many of the countries; other than fiscal surplus you carries accounts in surplus, in some countries surplus that goes to 12, 14 percent of GDP, a high level of reserves for $160 billion as better profile of debt. All these things are very positive. We congratulate ourselves.

Let's go to the facts. How to compare Latin America today to what it was maybe 20, 35 years in the world in the values? Latin America has lost relative importance in the world. I'd like to give you a couple of figures. The first one is the (inaudible) GDP per capital in purchasing power prior to terms in Latin America represented 25 years ago, approximately 35 percent of the per capita income of the all the rest of the countries . Today it represents around 25 maybe.

If you go to exports, there's sportswear is representative of a growth of 10 percent of world exports, and today represents less than 5 percent. If you take that a foreign investment to measure that, it's very important for the nation but in relative terms you have that we lost importance in the world.

The second element I would like to emphasize is that notwithstanding the important cushions that half the region ended, the good news, of course, is that to say okay, this crisis finds Latin America in a much better position than ever. And you can that if this had happened 10 years ago, probably today we would be in a very severe recession and political and social problems in the region. But I don't think we have to compromise with that, and I think that let's remember the structure of issues that are more in the immediate and long-term perspective. And the first one I could like to mention is that Latin America, in relative terms, as long savings and relatively long investments.

I would like to give you an idea of the average savings in Latin

America is around 20 percent of GDP. Maybe in the last two years you had -- you went up to 22, 23, but the average is about 20 percent. Well, if you're compared to Asia it's half, almost half, of what they sell (phonetic.) I don't imply that we should do the same, but 20 percent is not sufficient.

And the other thing is investment. The region invests around 21, 22 percent on average. That's not sustainable. If you want to have rates of growth of, you know, in the long term, you have to invest more, at least 25, 27 percent.

The second element that the vulnerability, there's been a lot of shocks. Notwithstanding all the things that we have done, still the region has very high export concentration, and it’s very vulnerable to the shocks, and we are looking at this because of right now the appearance of play effect which would help us with this to most of the countries now is turning around. Another element, if how do we fit in competitiveness productivity while the balance of the region is not doing very well?

Just to illustrate the industriousness of the world economic forum, out of 135 countries, the average for Latin America is about position 80. There is only one country in Latin America below 30 which is Chile. They have four countries below position 50, 60, and most of the countries are in there between that and (inaudible). Colombia's (inaudible) since the minister is here, that has move ahead very importantly in the process. But, please, you have the same countries with industries of competitiveness that are able position 90. These are perceptions, okay, it's not solid, but anyway it's an indicator, and this has to do a lot with not macroeconomic aspects but more with issues of infrastructure, of institutions, on the quality of education, things of that nature.

And, finally, of course, is that notwithstanding the fact that if you look at the indicators of reduction of poverty, Latin America has done a very good job in the last few years, very, very importantly. But if you go to income distribution, still has the worst income distribution in the world. And if you look at the figures as a region, you have that instead of improving that, you have deteriorated in the last few years. So these things, I think to be very present in any analysis.

Now another thing that I would like to emphasize is that today Latin America presents, as I said at the beginning, a differentiated ideological (inaudible) . And the issues of that have to do with crucial elements like, for instance, what's the role of the market and the role of the state? What's the role (inaudible) check to investment of direct foreign investment? What type of policies you like to have in terms of insertion in the world economy? Are you emphasizing outward policies or inward strategies? And, of course, the issues of regional integration, how it (inaudible) later into these references because it's very difficult to move ahead in a coherent way in some of the main areas of integration, mainly in the community of Americas when you have some fundamental differences on the issues I mentioned.

And, of course, these are elements that are not short-term elements but elements that we have to have in our minds.

Now, let's go completely to the crisis, reference to the crisis. As I said before, we are much better prepared. Many things are in recent months, things have turned around. Even if you went to in September, some of our leaders of the region were still thinking that Latin America could decapital. In globalization, there is no decapital, and we are looking at the situation right now. And there are -- what are the effects?

The third one is, of course, (inaudible) . As I said before, with lower demands the prices of main commodities and main products are going down. So the second element is capital flows. Capital flows there is aversion to risk. It has translated itself into difficult access to the market, higher spread, a difficult situation. There are limits for many countries, remittances are very crucial because of the policies in overall situations of Europe and the United States that, obviously, is going down. And they have trends with situations which it thought is protectionist.

But protectionism in not only in the traditional meaning of trade in goods and services but also protectionists, what I call people, which means immigration, regulations, rules, attitudes that we have here in United States and in Europe.

And, finally, if the concern is about excessive nationalization and nationalities in the financial sector concern -- I don't know if this is going to help them -- but in the context of the contracyclical policies, they correctly are being followed by the U.S. government -- for instance, in some of the European countries one of the concerns is whether this support, probably sector support, in one way or another will be linked to sort of a condition to use the funding, use the resources essentially within their own economy and not to try to have the flow of resources all over the world.

And, finally -- and I'm glad that this, we can have discussions in the IMF, in the World Bank, in what comes out from the G-20 will be how you distributed the public sector resources in the world. One concern lucky America has is that they have too much concentration to SALT, for instances the issues of Central Europe, and perhaps Latin America being considered a medium-size, middle-income region is not receiving sufficiently. But we're glad that the minister is here. I think he's going to fight with others to try to see that the IMF and World Bank and the other -- the original banks will move in the right inside of that issue.

Now, what are the challenges for the future, really? In addition to, obviously, to work in the short term like, unfortunately, not most of the countries are reacting in a very concrete and positive way in terms of fiscal countercyclical policies, because there is some space, the thing that we didn't have before, you know. If you have a sever deficit in the public sector, you cannot have public sector countercyclical policies. Fortunately, now the conditions in most of the countries have been positive in this sense, and this is meeting in that a (inaudible) policy in several items.

But the important thing is, let's not overshadow the medium term, and the medium term is the question, the relevant question is, how do we ensure a sustained rate of growth that will be good quality growth in the medium to long term? A good policy growth implies that it is efficient, and I wish them very good.

Secondly, the greatest productive employment.

Third, that if inclusive, in other words the benefits of this growth has spread to the majority of the citizens, and that is respective of diversity, cultural and environmental diversity. That's the challenge. And definitely, there is the need in the sense -- and this comes to the issue, the political issue in this -- you cannot do that just by the actions of the government, of the, let's say, the executive power in the country. You need to have a means, a way, to get consensus on certain fundamental issues of a long-term, I think, and responsibility of this, of course, goes beyond the executive branch. It has to deal with the opposition, the different branches of government. It has to do with the private sector; it has to do with labor unions; it has to do with political parties. How do you build up the mechanism so that there is an agreement on certain things that cannot be solved in the short run?

In illustration: education. You cannot solve education in two years, three years, it's a long-term. 20-year program. But then it has to be in agreement. You cannot push the government to go back to a macro -- that it's liberal in a sense of stimulating high deficits that then at the end will create hyperinflation now, with things going like in America we have a lot of experience on that, in that still in the minds of most of the people.

So one condition is we've said that macroinstability that has cost so much. And then comes what is important: investment. Investment in all forms of capital, not only in the infrastructure and productive sectors, investment in human capital; investment in social capital which is how you create the institutional framework to create trust and confidence in society. And, of course, the environment is a very important element in which the region has a high potential, and doesn't treat growth comes only from two ways: One is you increase investments or you increase productivity, or recommendation of both.

So to tackle these issues is, as you can see, not in a problem exclusively you'll find in its ministries; it's an issue of the whole group because you are talking here about microeconomics at in growth. I think macroeconomic elements are a necessary condition but not sufficient for growth, but growth, in essence, comes from the micro side, from the enterprises, from the quality of institutions, from the debts of financial sectors, things of that nature.

You know, what if a message that we always try to give, give it in a context of the one we are living now, it's very, very important that countries, independently of the ideological beliefs are thought in (inaudible), I would take a very pragmatic approach in terms of the actions they take in the context of especially democracy. And this has to do with the issues that today sometimes have differences, very crucial differences in what's the role of the state, what's the role of the market, how you insert in the world economy, what's the balance between economic and social aspects.

And in these, as I said before, it implies accelerating microeconomic reforms, and you have to insert the economies in the global (inaudible), and to do that we should be realistic and in terms of an intelligent insertion, the different ways. And this is one of the differences that we still have in Latin America. For instance, part of the problems that we have seen in the Andean community, or we see in the even America, so it is the difference in our cultures. And that has force in the fact, okay, to 12 countries, like the case of Colombia, the case of Panama, the case of Peru to negotiate bilateral trade agreements with the United States, and now there are difficulties, for instance in negotiating, let's take the Andean community with Europe to negotiate because of differences.

So the message is let's be pragmatic, let's not be dogmatic because unless you insert yourself into the world economy, it's difficult to comply with the desires of most people to have a better life of the majority of the cities.

Now, the strengthening of U.S.-Latin America I think is a very important point I would like to emphasize. And in this sense, let me briefly mention that I personally was very -- not only myself -- everybody was very impressed with Latin America with the way, especially when Obama managed the interaction with the Latin American leaders last week I was present there, and I could see and I admire, quite frankly, the impression that Obama has shown talent, has shown charisma, patience, wit, and I think this has opened a new way of discussing.

I was in a meeting in Miami yesterday, and some of the participants who were not in the summit, by the way, they were criticizing very severely President Obama because he was saying hello to persons in -- Chavez or was joking with, especially, Morales. Well, on the contrary, you should be happy because if you are going to find ways to interact, notwithstanding differences, of course, you wouldn't -- you don't think of that person in charge were seeing some of his failure, no, he wouldn't , but let's find a way to work together, and I think this is a very element, and I think that there are three points that I think that President Obama mentioned in which we are weak entirely, you have to recognize adversity, you have to take account of asymmetry, and relationships are based on mutual respect. I think these elements are indeed a very, very crucial element.

Let me finally give you an idea of why (inaudible) the IDD, the World Bank, (inaudible). Well, as I said in the Conference two days ago, where the bankers who provide an umbrella when it is raining, because when in sunny days you don't need an umbrella? In the sunny days, you go to in a city, and you will have in the corner the poor guys trying to sell umbrellas, and nobody will buy on a sunny day. Everything's on sale, but remember on a rainy day, if you need an umbrella and in addition you need a taxi because you have to go to the airport in New York or in Buenos Aires, but it is raining, there is no taxi. So we are a combination of providers or suppliers of umbrellas and taxis. We provide the umbrella to go from the hotel to the car, and there you pay the taxi. And not only the important thing is not only that you present the taxi but also that you are able to move fast to get to the airport on time and don't miss the flight.

And that's very important message I want to give, because there are four C's that I always ever since about the multilaterals:

One is to be contracyclical, that I mentioned.

Second is to be catalytic, because there we have a chance to attract others because we mitigate -- we can invite others who will not be able.

The third thing is we have to be creative. It's not business as usual. We have to move into products and services that respond precisely to the specific needs of the regions and the countries in a given moment. And we have to be playing to (inaudible), the other thing. What's (inaudible)? You have to ask the countries -- countries know better than we do what they want. Maybe we don't like what they do, but let's try to adapt ourselves to their needs and try to respond in a very constructive way to those needs.

So and then finally, we have to be conservative, which is unless we have financial policies that will be adequate, and we need to keep our investment ratings, and we have access to the markets, obviously, we cannot have a success.

Finally, let me tell you a deep brittle commercial. In CAF, which as many of you know, CAF was essentially was a small Andean community back about 15 years ago today is a big player in the region. We have 18 countries. We have an average lending of $8 billion a year. We are in all sectors, and in this particular moment one thing I would like to remark it is very outstanding that it's a multilateral, and I talk about the World Bank, especially the World Bank, IDD, ISE Group, and also we are coordinating efforts in a way we have never done before.

I don't know if you read, but two days ago we had in the World Bank with (inaudible) and Mona (inaudible) and Pamela (inaudible) representing Bob Zoellick and Vice President (inaudible). We announced a total commitment of support for Latin America in the next three years of $90 billion which is important. In our case, we are talking about $20 billion, which implies that (inaudible) program that under normal circumstances would be about
$14-$15 billion we're looking to make to (inaudible) and with different (inaudible).

This is very important element, and so I think that one of the things I hope will happen these days is, for instance, that especially the U.S. and some of the other countries who support in the instruments of capital as of the case of the IDD, as I think it's a very crucial element. The minister has the responsibility because he is the chairman of the Commission. And also we have to hear very much why the excuse for supporting also, and that's for the instrument of capital, yeah.

So to conclude I would say that this is a very critical moment. The future of the region in terms of probably the short term depends a lot on what happens in this country. If the crisis sees a light at the end of the tunnel like, say, in the second semester, things will be okay for us in America with, of course, negative growth, but the revision on the fiscal accounts moving to better (inaudible) accounts, difficulties in access of Americas, but we can live with it in (inaudible) . If, on the contrary, the resolution, the U.S. prolong themselves, and Europe then, of course, next year will be and the two following years will be very complicated. Resources should be equitable channel, and I think that we have to do whatever it is that will be (inaudible) to convince the governments both in the region and outside the region to avoid protectionists in all the senses. And, of course, the final thing is let's advocate pragmatic realists as an element necessary in situations like this.

I thank you for your attention.

(Applause)

DR. GARCIA: Thank you. Thank you very much, Enrique.

Let me now turn to Minister Zuluaga for his remarks. I don't know, maybe you want to stand?

MINISTER ZULUAGA: Yes.

DR. GARCIA: And if you could keep them to 10 minutes, that would be ideal.

MINISTER ZULUAGA: Okay, thank you, Mauricio. My regards to Enrique, and the other colleague which is we have today. This is my first time in Brookings Institution, so it's an honor and thank you for this kind invitation.

I'm going to talk only no more than 15 minutes in order to share with you what is happening with Colombia as a clear sign and a response to what Enrique explained in details. I have five different main statements that I want to introduce. The first one is that in the case of the Colombian economy, the Colombia preserve is from fundamentals to confront the crisis, and that is the results of basically three things:

The first one is that we have made many structural reforms during the last six years. That is something that is something in particular in most of Latin American countries, so that is a clear explanation of why we feel we are different at this time of the issues of external shock.

The second issue is that when you see in the case of Colombia and probably is very similar in many other Latin American countries, the balances on the real sector, the financial sector, and the government, most of them have one particularity in common is that we have reduced external vulnerability, which probably was one of the main issues in the past for Latin American crises. We suffered so much in the '80s and the '90s. Now we have learned the lessons, and in the case of Colombia we feel very comfortable because we have reduce, essentially, external vulnerabilities, and that is something which is very interesting when you see in general the balances from the private -- I say again private, the final subsector and the government sector.

And the third issue, which is very important in the case of Colombia to reserves is from fundamentals is that we still keep confidence. And this is a crisis of confidence in most of the developing nations. It is a crisis for investors' confidence, for consumers' confidence, and in the case of Colombia, and probably it happens in many other Latin American countries, confidence is still there. We still have confidence, and you'll see the reaction in our financial existence, in the banks, and in the way that most of the figures in the macroeconomic side are behaving during this time.

So that is the starting point. We have the strong fundamentals in the case of Colombian employees; that is something that is happening in many other Latin American countries.

The second is time in the case of Colombia that we have designed a very successful financing strategy, which is a clear sign of flexibility in the case of the Colombian economy, and the progress successful of the economy. We are using domestic funds. Now we are linked 70 percent -- you know, we total debt to domestic sources, which is a change.

In the past it was 40 percent only, so that is something which is very important.

Even in this external shock, we are seeing huge progresses in our domestic market in terms of domestic debt, which is something in particular very important for us. For some, for private sector, corporate bonds are now in the domestic market. It couldn't happen one or two years ago. It's actually what it's doing now in this very difficult time, and that means the liquidity, financial conditions, and confidence in general of domestic investors which are critical in this part of the external shock is important.

We have been very active on multilateral side. Colombia has been one of the most strategic (inaudible) for all of the multilateral banks, not only the CAF but also and IDD, and that is one of something which is very important for us. And at this time it's a clear sign that we can diversify the risks. We are with domestic markets, we are with multilateral banks and institutions, and that is a clear sign of how change could be an economy.

We have been very active on the sovereign debt. This year we have two different transactions. The first one was in January for 2009 financial needs. And last week we had a prefinancing 2010, which is a clear position for the country. We issued a $1 billion, and we had a demand of $3.8 billion. We had very reasonable financial conditions according with the circumstances of the external markets, but that means that we can combine a different sources of financing which took us some point in the case of Colombia and, in general, for most of the Latin American countries.

And, finally, this week we made a very important and strategic analysis for Colombia which is our official requirement for the IMF flexible credit line. We see this like insurance for economy. This is like an insurance to protect for what we have done during the last years. It's very important we consider for investor expectations, for the private sector expectations, and for the market that they know clearly the Colombia has like a (inaudible) in terms of prevent future up-flows in a war scenario in order to secure our currency, because it's something which is very important. This is the first time that we can have a floating exchange right, so that kind of decision with least preserves that is a strategic decision and that is a strong improvement in the case of the Colombian economy.

So we feel very confident with that, and we believe that that is the kind of things that at this time it's very useful for a strong economies as the Colombian is at this time.

The third statement is that we have designed a countercyclical fiscal policy with three different elements. The first one is that sustainability. It's probably the most important thing for us for t he fiscal policy during the last five years. Now we have a very reasonable and a very comprehensive position in terms of that, and we want to preserve it. So this is like one of the main companies, our contracyclical fiscal policy is not to waste or make expenditure (inaudible). It's based on that sustainability. We cannot lose, but we have a shielder in these five years, and we need to think in terms of middle and long-term basis because nobody can assure you that things could be worse in the years ahead. So we have to be prepared in order to react positively and try to protect the economy on that very important achievement.

The second element of this contracyclical fiscal policy is infrastructure, but if the infrastructure base on two different pillars, one is competitiveness of the country which means long-term project, important projects, which are not very enticing-intensive, really, in jobs. But it's very important from the competitiveness of the economy.

And the other -- the other pillar is the job creation, and that means a short-term program to effect, positively, the job creation within the economy.

And the third confidence of our contracyclical fiscal policy is protecting the social safety net. That is something which is very important for us because we believe that even in these very difficult times, we need to create adequate balances between economic stability and political and social governance. The experience in the past, it's very important for Latin America, and we need to preserve government, otherwise we are going to lose this external shock, and we are going to see not only higher rates of unemployment but higher social pressures that are more difficult to handle at this time of globalization.

So in the case of the Colombia government, it's very important that balance to preserve as well that level of the government trying to effect, for example, the government expenditure, the poorest in the country with programs like Familias and Accion, which not only are important in terms of economic recovery but is important in terms of social effect for the poorest in the country. And we believe that if we do that, we preserve the confidence in our democratic institutions.

The third statement that I want to introduce is the role of the multilateral institutions that Enrique mentioned before. We are convinced that we need to move ahead in the capital inquiries. They need even before this external shock. Now it's more precise that the role of the multilaterals is definitely to guarantee and to ensure the financing of the most of the economies in the emerging countries and, as well, the multilateral is important, the multilateral institutions are important because of the private sector as well.

It's not only a question for the public sector, we have to shrink in the private sector and the access to get funds; they are not in a very easy time. They are suffering as well. The transmission of the crisis through the real sector is just starting to a period in most of the economies, and we need to preserve because we have made very important progresses during the last five, six years in Latin American in terms of private activity, the investment of the private sector, the neo-development projects, the FDI, so from that point of view, it's very important to think in terms of the role of multilateral institutions.

And we believe that, as well, multilateral institutions in these new roles, they have to work so hard in transparency and institutional strengthening, especially at these national levels. We think that we have to be real strong because we cannot lose our long-term agenda, and we believe that, in general, Latin America had made huge progress in some economic size and infrastructure, but we need to work very hard and continue to work in transparency and institutional restraints.

And finally, I want to make some statement about the dangers of protectionism and the economic population, which is one of the main issues for Latin America. We need to reserve from our point of view that globalization. It's something which has been very important for Latin American economies. We have been very successful, we have been important players on this last part of the economic cycle during the last five years, and we need to preserve it. Protectionism is a danger, it's a threat for a long-term basis, and we believe as well that we have to be very careful with the economic population because we need to preserve what we have achieved during the last five years in terms of macroeconomic indicators, in terms of their (inaudible), in terms of the size of the states, in terms of efficiencies. So that is something which have to be considered for the governments, for the regions, and that is one of the most important and critical issue on a long-term basis.

These all five comments I want to contribute to this debate, and thank you, Mauricio, again for your kind --

MR. CARDENAS: Thank you very much, Minister, especially for keeping the time and also for making very concise statements on issues that I think we should engage in a conversation once we finish with these initial rounds.

(Applause)

Let me now turn to Danny Kaufman, and who I am not sure will talk about the governance issues, and I think he can connect with one of the points that the minister was making.

(Long pause)

MR. CARDENAS: Let me just say before they do that, or while they do that I very much want to encourage you to participate in a conversation at the end, so I'm going to make sure that we have enough time before 12:30 to open up for a Q&A session.

So let me make my comment while they fix this. I also had a power point presentation, but -- (laughter) -- I'm not going to use it, I'm just going to look at it. I'm going to make very few points, more in the spirit of basically providing food for thought so that we can debate. I think we have the privilege of having a minister and the president of a very influential multilateral to really discuss these issues, and I think it is the time for discussion because no one has definite answers, and so some statements I don't think are at the right tone.

Let me -- let me make five points. The first point is that if anyone is counting on a V-shape recovery, I think that that person should bet on that as being deliverable on a personal level but not if has government or public responsibility. I think what the correct assessment of the recovery for someone with public responsibilities is that this is going to take longer; that this is not going to be a V-shape recovery.

And let me illustrate this with two facts. The IMF really, last Wednesday, its latest world economic outlook, and there are two charts in that report that really impressed me: One measures the number of countries that will be in a recession this year. And that number goes to 75. So that means that this is truly a global recession. So when 75 countries of the world are experiencing at the same contraction, because remember the definition of a recession, it's not just something that happens one quarter. It has to be -- it means that this is not just a U.S. recession, it's global.

And the second chart that interests me is the chart that showed the growth projections for Latin America, and according to the pessimistic outlook, including some of the downside risks are growth in Latin American will remain negative until the last quarter of 2010. That means that we'll go through the entire year and next year with negative growth. That is under the more pessimistic scenario.

So first point, governments should prepare for a long and protracted recession. The recent projections just show how rapid things are changing. Last January, the IMF and others made projections of growth for Latin America for this year of essentially zero growth. That was considered by some governments as very pessimistic.

Last Wednesday, the IMF projected a contraction of 1.5 percent for Latin America. The day before someone who's becoming basically a point of reference in the debate, Julio Draveni, 4 percent according to the IMF.

So point No. 1, this is deeper, and it's going to take longer, and it's not that we're at the beginning of the end; it's more that we're just about at the beginning. So we have to prepare for that.

Point No. 2. Undoubtedly, we're better prepared this time around than we were a decade ago, and this is not just semantics, this is fact; and I would just say two way to illustrate this is by looking at international reserve and by looking at the levels of external debt. External debt of the region is only 20 percent of GDP where it was higher than 50 percent of GDP at the beginning of these figures. So that's my point No. 2, we're very (inaudible).

Point No. 3, precisely because of that and precisely because of the sound fiscal management, the region is in better shape now to adopt contracyclical fiscal policy. In an under realistically large fiscal expansions, the deficits of the region are going to be moderate, and under these scenarios we're talking about deficits of about 2-1/2 percent of GDP which are manageable. So on the fiscal ground there is a space for the ministers of finance to really provide stimulus to the economy, maybe not in the amounts that are being prescribed by the IMF and Secretary Geithner but by significant amount that could be 1 percent of GDP.

You know, the set of prescription now is 2 percent of GDP. I think the countries in the region could do 1 percent of GDP easily. So that's my point No. 3.

My point No. 4 is that there is a great source of uncertainty, and that great source of uncertainty is associated with capital slows. We don't know what's going to happen with capital slows. No one knows what's going to happen with capital slows. If we look at what has happened in the last six months, it is true what the minister of finance said that some governments have been able to tap the financial market and place their debt, and not only place their debt but do it at very reasonable terms that, you know, 10-year maturity, low threats , lot interest rates.

But that has not been the case of the private sector. The private sector's access to the financial market is much more constrained, and the private sector has a significant number of external obligations maturing this year and the next. Whether the Latin American corporations are able to refinance their obligations is a question mark. If they do have access to financial markets, I think we're in very good shape. If they don't have access to financial markets, we are talking about the hundreds of billions of dollars, and that would pose a significant problem.

My point No. 5 -- I am getting ready to conclude -- is that we should balance the pessimism from Washington with the optimism from Brazil. I was in Brazil last week and I heard President Lula speak with tremendous optimism about the future of the Brazilian economy. I said, well, I have to discount that, you know, the president's speaking. So I went on and I spoke with the Brazilian bankers and Brazilian economists, and they all say the worst is over.

So I came back to Washington, I asked my Brazilian assistant, Julia, to put together some data from Brazil, and she put who's got the truth? And I just indicate that auto sales increased by 17 percent on an annual basis this past March. Consumer confidence which was down in January to 96 -- this is an index -- was up in February to 99. And, most importantly, retail sales have been increasing on a month-to-month basis, on an annual basis as well. Up until February that is the latest data.

So all these is suggesting that the optimism in Brazil is founded on the fact that Brazil's domestic market has kept growing and that the fiscal stimulus measures, including a reduction in taxes for the purchase of durable goods is working well.

And let me conclude by saying that even though there are deep signs of optimism in Brazil, I think the prudential and the prudent attitude under this very high uncertainty is that our governments in the region should actually hope for the best but expect the worst. And in preparing for the worst, I would advise five points:

First, do as Colombia and act as soon as possible the IMF flexible credit line. This is like getting an insurance policy with a very low premium that you only have to pay if the accident occurs. And I think that's very attractive.

Second, do not use all your fiscal firepower at once because you may need some reserve. These may not be a 100-meter sprint; it's more a marathon so you need energy for the later part of the situation.

Third, practical political advice, capitalize the regional development back. That's not just the U.S. and the rest of the shareholders of the IDD; it's also institutions like us that with more capital are going to be better prepared to extend loans to the region.

Fourth, recommendation: We need to keep a closer eye on the private sector. We don't have good data on the obligations of the private sector. We don't have good data on the cash flows of the private sector. We need to understand what's happening in the private sector.

The thing is that we in Latin America with the responsible fiscal policies of the past got too used to just look at the government and the fiscal account, and those are in good shape. So we now need to look at the private sector, and we need to understand what are -- what are their needs and how are they accessing the market? Are they being successful; are they not being successful? And therefore we have to prepare for that. The probably this time around, it's not going to come from the public sector, it's going to come from the private sector.

And my last point, No. 5, is I think fiscal stimulus packages are relying excessively on infrastructure, and they're following the U.S. model. And I don't think that's the correct assessment for Latin America for two reasons:

1) Because our bureaucracy works very slowly, and putting together infrastructure takes a lot of time. Not to say that t he bureaucracies here are also slow, but in the case of infrastructure projects in our region, the lags are tremendous.

But that's not the main reason. The main reason is that to make sure that the recession does not heat up as strongly as in other parts of the world, we need to keep a dynamic domestic market, and the best way to keep the dynamic domestic market is to make sure that people's incomes do not suffer. And the way to do that is with social policies, so I put the emphasis of the stimulus packages on the social front. I'm not going to say it has to be a specific type of program like conditional cash transfers or subsidies for employment; that's up for everyone, each country, to determine. But I think it should be the social component that plays the key role for the recovery under the current situation, so I'll put more emphasis on that than on infrastructure on the stimulus bill.

So those are my points just to promote the debate, and, of course, I'm sure that all the other panelists have a lot to say about these issues.

So now, Danny, I hope that the (inaudible) is in good shape, and I think it's also fitting that we conclude with a broader and more fundamental look on the issues of governance.

MR. KAUFMAN: Don't hold your breath as to the fundamental. I have a challenge here because each one of you had such a good five-point each, and Mauricio had five plus five with the recommendations. So I am left without points because I tend to agree. But perhaps the only added value I bring in addition to the fact that I am not part of a large official institution, so maybe I can say certain things that would be otherwise politically incorrect. But you can also do that, Mauricio, but Minister Oscar Ivan Zuluaga, it may be more difficult than for Enrique, so I, for the sake of debate, I will backstop with data and let the data speak very quickly. You'll have to trust me for the sake of time. In the debate, you can question the data and then finish with some conclusion and points, some which we'd backstop, but you'll save some that will try to push the debate to the next stage.

First, one of the things that the data brings is a more comparative sense, and, yes, there has been improvement in Latin America, and we'll go very quickly through what they are, but the picture is very sobering when it comes to governance, when it comes to the quality of institutions, and it is basically in the middle, basically second from the left you see like in America six different governance dimensions, which is why we cut some of the aggregate level, particularly challenging in terms of rule of law and in terms of activity, lack of violence and so on. But overall, it's significantly below in other regions of the world which I think are proper comparators.

I'm not looking at the proletariats of the world like Africa. But I think a very relevant comparison are the new countries in Europe, the ones from which (inaudible) which have been accessed. But essentially over a period of 15 years, those countries, the new countries of Europe leapfrog like in America in terms of a quality of institutions. That's, of course, an average, and the problem with all these regional approaches is that it masked enormous variance, and that's the next main message that comes out from the data that we have to very quickly move away from giving generalizations about a continent where the variance across countries within the continent is almost as large as the variance around the world in that context.

I'm illustrating this here that with one of the six dimensions of governance that's a quality of a rule of law, we have the whole spectrum between the most challenged countries in terms of government at the bottom, the very red -- red light who -- and all the way up to Costa Rica, Uruguay, and to Chile at the top.

Similarly, if one starts looking at the different dimensions in terms of trends, yes, some countries have improved over the past decades, and here for each dimension is very small, But trust me again, we hear a dumb voice in democratic accountability in terms of Peru, Brazil, Chile has made -- and they've tried in terms of political stability and absence of violence in Paraguay, in Chile and Uruguay, Colombia enormous improvement in terms of a government effectiveness, and we see Uruguay and we just -- we see a third similarity in El Salvador and in Honduras.

The problem is that for every country that has made a significant improvement you have another that has gone in the opposite direction, and then there are quite a few that have been in the moderate middle. And here we have Colombia again, and because I was particularly interested, given that both of you were here, and we see basically the top bar is always the most current. The middle in this case I chose to (inaudible), and three for comparator and the bottom for each variable is 2007, and in every dimension there has been improvement, even in terms of the absence of violence, political stability from a recent 2003 is in the right direction, but very much so in the case of government effectiveness on total corruption and rule of law and so on, one sees the movement in the right direction.

Flip these slides around and what do you get? Unfortunately, the neighbor. Maybe Pearl will illuminate us later, but this is what the data is suggesting. There's always a margin of error, but we're not going to get into that; that's what the very thin line associated with each bar suggests what the margin of error, select not getting to very fine horse races that "I beat you by a nose." Only the large changes are what are significant in this context.

But Colombia has been a country that has made significant changes in the right direction, but there are other things in the other direction. People look at another dimension now like government effectiveness, and we only focus on the changes just to illustrate, and also to illustrate a point that we have to move away from elevator economics and overinterpret any change. There are significant changes and there are insignificant changes. The green and the red in these cases in the opposite direction have more significance for magnitude than the yellows are not to be overinterpreted.

(inaudible) -- government, that is the case: Colombia, China -- just a computer shows that -- Indonesia, El Salvador very much in contrast with again Venezuela, Nicaragua, Ecuador, Puerto Rico, (inaudible) a measure, and Bolivia. And the bottom line of this -- and this is the last graph before I just put the points for debate over -- it's very much along the lines of Enrique's presentation. At the end of the day, one is going to thing about the medium term and what happens beyond the crisis. Competitiveness, productivity is absolutely crucial, and we know from the evidence that there is a very, very significant link between the policy of governors in a country, the quality of its institutions, and the medium or longer term prospects in terms of competitiveness of their country and therefore a problem.

We see very clearly aligned just in this type of graphs. There are many other factors, too -- we're not claiming the governance is the only ones, but in this case a control of corruption, one does it with rule of law, government effectiveness or the other dimension, you see such a clear light.

As Enrique already suggested, there's a real challenge I'm proud of with competitiveness in our region, so we start thinking ahead. You mentioned in the '80s out of 134 countries where we are ranked on average. But again, if we look at the variance, it's very, very telling. You are Chile number 28. What you did not mention is China is 30th, why they are where Chile is?

The next one from Latin America is in the 50s. This is at Costa Rica. Brazil is 64, and then we're not going to talk about that are below 100, so there are four or five of our (inaudible). So they (inaudible). You mentioned this is a factor, but I would suggest institutions and governance in terms of determinants for this is absolutely crucial.

So let me just finish so we get the debate. I'll make seven points, except that three or four already made them, so I can spend like just

10 seconds in just summarizing the enormity of the challenges that are still pending in governance and institutions, particularly regarding the quality of rule of law, security and control of corruption by these enormous variants, both in terms of levels and in terms of strength, sometimes doing relatively well already in terms of level. The Uruguay, Costa Rico, Chile, Colombia is moving in that direction, but Colombia is the most marked in characteristics. Obviously, they're trends in the right direction. So there's enormous variance.

Third, in the question -- and Mauricio asked me the question just before the seminar if I can say something. (inaudible) impair countries that have improved governance such as that they would have better results during the crisis. My analysis and answer is it's mixed: yes and no. We cannot expect -- one cannot expect that governance which is a long-term institutional feature is going to be the nondominant determinant of the growth rate of a particular Latin American country in 2009. If you take -- and he mentioned why Brazil made no better than other ones because of a very large market? Chile with excellent government that (inaudible) more market has had such good governance in the past that was completely integrated to the world economy, so it's going to suffer very significantly, being so open and so smart. So some countries are going to suffer in terms of growth in the very short term in ways that would not be necessarily predicted by the quality of governance.

However, a) in terms of a -- and the Minister mentioned it very well, and you, Mauricio -- in terms of the ability to get socioeconomics, better socioeconomics results in the very short term, and protected vulnerable that the government countries are going to do better in terms of basically social protection, safety nets, and reaching the most vulnerable part of the population, irrespective of what happens with very short-term (inaudible).

And b) in terms of their recovery process leading to 2010, you mentioned the average prediction for the continent. But I would expect for those countries that the governments are going to begin recovering a bit faster, and most importantly are going to have a more sustained recovery. That is a major lesson learned from the East Asia financial crisis where there was massive contagion affecting all the countries. But the flexibility and quality of the institutions to basically address that crisis back to normalcy in Southern Malaysia, from the South Korea recovering in a much faster and sustained fashion than, of course, Indonesia, that suffered the most. I would expect that we can -- we can see something like that. But let's not expect a magic link between governments and the growth rate in 2009; but look in 2010 and beyond, that's important.

Very quickly now, in terms of the stimulus and what's already hinted, but a lot of focus goes to -- has gone to what other country will have a stimulus or not, and there is a lot of push in other directions. I think much more interestingly in the next phase will have to be paid in term of the quality of the stimulus, in terms of what it's going -- even I will even beyond whether it's infrastructure versus others, but to unbundle that. If the average quality of institutions within the Ministry of Finance is such that cost benefit analysis is being done like it is done in some countries, so this type of investment makes sense versus those that don't.

What the content of "pork" in the fiscal stimulus, which in the U.S. is nontrivial, although there are efforts to minimize it. In the case of Chile which has looked at "pork," it's minimal, and it's being managed very well. So I'm increasing attention to the quality of that and the content of that stimulus plan, and that's very much related to governance issues.

Fifth, there's a lot of talks, and there we could have perhaps a debating point about the importance of increase in the B-funds part of the solution. Of course, there are methods to come in over which about the UIMF is right. NBDs, including the World Bank are going to give more money. But the first impression in (inaudible) certain courts is that that could be the solution. That could be a best temporary and very, very partial compared with a trade protectionism cloud, the reduction in cyclicals of the crisis compared with what's happening with SDI , with remittances, and with good government. I mean we ought to be very careful that nothing can (inaudible) any way we replace that. At best, it will be complimented, but in a very partial and temporary, very temporary sense. And again, an eye on institutions and on trade is crucial.

Let's keep in mind that the point before last that in terms of major determinants, that study after study, and your last investor, major determinants of SDI, also domestic advancement, and go by competitiveness yet with a rule of law, corruption control, security and other related governance and management.

And last but not least, there was one mentioned before, but I think we should highlight it even more in that the conduct for Latin America is a major problem of (inaudible) inequality, and that's not only in the economics traditional fear, but is major issue of political inequality that has been reflected in the power and undue power of elites sometimes basically -- (inaudible) policies for the benefit, which are (inaudible) Wall Street, so the U.S. is no exception -- indeed because of what has happened in the U.S. and the crisis, really.

I expect a major (inaudible) that's coming in the U.S, in terms of the issue of share growth into the future, and I would expect that that could add to the discussion and the debate in Latin America as to the whole issue of political inequality, the power of elites -- these issues of capital which are very much at the core of spending governance challenges. Thank you.

MR. CARDENAS: Thank you very much, Danny.

(Applause)

The time is 12:30, so I guess we're not doing any better than the banks in terms of self-regulation.

MR. KAUFMAN: I told you.

MR. CARDENAS: Yeah, we still have a couple of minutes for two or three comments and questions. I very much encourage you to -- so we'll have the lady in the red shirt, and the one in the blue dress.

LADY: (inaudible).

MR. CARDENAS: Wait for -- and you can listen to these yourself and -- shout your name.

MS. PRUAN : Pria Pruan , I'm an attorney-at-law from Trinidad and Tobago specializing in sort of the regulatory issues that have contributed to the crisis. And I would like to argue that one of the medium and the long-term issues that (inaudible) confront is the issue of financial reservation. And both from a pessimistic point of view and an optimistic point of view, from an optimistic point of view I'm speaking here more of the Caribbean countries maybe than the South American and the Latin American nations.

I feel that we have been in crises for two conditional models of lending. This crisis is a crisis, as we all know, of the developed countries. It's a question of commerce and financial development that's out of regulatory control; it's a question of ensuring and managing the converged and regulatory institutions and frameworks not really being able to provide an adequate measure of control and supervision to see what the level of risk management is.

So I believe that for there to be any level of sustainable economic development in the region there needs to be a regional approach to regulatory development. Regulatory institutions, both structurally and cross-country -- on a cross-country basis that will have data consistency and harmonization and regulation (inaudible) something in regulation (inaudible) . Qualities that are probably more comprehensive from a regional perspective. Now there is a lot of talk about macroprudential supervision. I think that there's an issue over the region, as you know very well, to develop and to start initiative because, you know, we're not building up regulatory capacity in many countries in the region.

MR. CARDENAS: All right.

MR. PRUAN: And I feel that this is really an important issue.

MR. CARDENAS: Good, I think the point has been made, so I'm going to collect a few questions and then I'll open to the floor again.

Trudy Thals, coming at this from the IMF.

MS. THALS: (Inaudible.) I would just like for you answer a little bit to the point of, you know, the fiscal state, basically for -- I certainly agree with the fact that it is important, not only the Quantity but also the quality of the fiscal stimulus, no question about that.

But I also think that perhaps we should be a bit more nuanced as to the scope for -- throughout the region. I mean, I am struck by the diversity of the starting positions. I mean in some countries they've really made a lot of progress. And also, as President Zuluaga said, by (inaudible) favorable extent of circumstances that boosted revenues, but, you know, many have also (inaudible) a lot of expenditures in the last few years, so they've really not taken fully advantage of, you know, the rule that there was (inaudible) . And there is no question that (inaudible) .

But even so, but still many times in the region he made a large borrowing required, so there is a problem of, you know, longer-term (inaudible) , but there is also of problem of short-term. And if I look at even some of the countries, you know, like Brazil, (inaudible) , you know, from borrowing the requirements for those years. This is not exactly the condition of great comfort.

And also there is the risk that some additional support measures have to be taken for the financial. So, you know, so far the region has done relatively well with responding, but it's not sure that it will continue if, say, for instance, there is a lot weakening of the (inaudible) .

So it's just to, a little, qualify sort of, deviant restrictions that basically as shared, but I think in some cases more so than others.

MR. CARDENAS: Thank you. Thank you very much. We going to continue with you, Enrique. And then you in the back, sir.

DR. GARCIA: Yes, that girl give very fast comment, The crisis might have been occurring in the developing countries, but the fact is that most of our people live in a continued state of crisis, so let us not forget that point.

And, yes, Daniel mentioned about the "pork" in the spending, and I think that it is a big danger because there's sort of worldwide wave of stimulus packages that everyone is jumping on with no restrictions, and that is going to be very dangerous. Before stimulating, you have to be very certain you get rid of the depression -- the depressions -- and there are a lot of depressions still there. So, yes, to stimulate here will probably lead our next generation to inherit a tremendous debt bomb that might explode anyhow.

So and in the explosion, just a little question: The IMF, we have not heard from the IMF in a long time, job on debt resolution, multilateral solving debt resolution proceeding. And that is something that could be sort of timely around the corner.

MR. CARDENAS: Thank you, Enrique.

MR. FRANK: Thank you. I'm Richard Frank. I have a long-term investment firm in the merging markets, and I just want to respond to Mauricio's interesting point about too much infrastructure emphasis and do it in the context of what Enrique said and Minister Zuluaga, who -- they have a very good program in Colombia. And the point being that if infrastructure is seen as either too slow or maybe not giving enough stimulus, particularly as a social safety net provider, I, too, think that my own experience is that it depends a great deal on the type of infrastructure first of all, the mood of the country in terms of confidence, and what is the interest to attract foreign investment to the country?

And taking those one by one, if the type of infrastructure is importing in large capital goods, I think the statistics show that doesn't create very much employment. On the other hand, if it's expanding road systems, it produces two things: One is it produces jobs, and I think the dollar is spent to produce something like 1.2 GNP benefit. So I think the nature of the infrastructure investment is very important. Is it "shovel ready" sort of expansion of a bottleneck.

Too, I think the stimulus that people have seen and have tried from more of a fiscal direct tax rebates, for example, have been basically wasted. I mean in this country certainly, if the confidence level is still very low and falling, people who get a tax rebate save, or they put it on a credit card. They don't spend.

Now, if you're an optimistic economy and society in Brazil, maybe you'll go out and spend it. But I think it depends a lot on where you are in the confidence level or which type of stimulus produces the most bang for the buck.

And finally, I think in foreign direct investments, if you see shorter-term infrastructure projects that produce sooner results rather than big, long-term hydrostreams , I think there will be a lot of demand for that. So I was just interested in your very interesting comment there.

MR. CARDENAS: Very good point. We will have the last comment in the back.

MS. LECHI : Hello. My name is Teresa Lechi, and I'm an international consultant. I live here in Washington, D.C. I have a question in regards what is was -- what are your words of wisdom and in terms of the trend and the impact of all the -- not all, but many public institutions being privatized in the hemisphere, especially in Latin America, and the impact this is causing in domestic policy because a lot of people are just feeling that this is, when institutions are being privatized, there is disparity of not too much regulation, and then there is a little bit of a fear factor by many countries in the hemisphere about the tendency which in the beginning sounds like a very good idea, but now the tendency is just becoming just out of control. So I just want to hear someone's --

MR. CARDENAS: Thank you. All right, so I don't know if you want to go first or last?

PANELIST: Well, (inaudible) you are the boss. You are regulating this.

MR. CARDENAS: Well, that's you for the last word, so that you can (inaudible) . So let's start with the Minister, if you want to make some comment.

PANELIST: You can come here to -- some of you are not to --

MINISTER ZULUAGA: Let me make some points, probably, about the regulatory framework. I think one of the most important things of the last G-20 meeting was the point about the offshore financial institutions, slowly that is something which is going to change definitely, and it could help to create better conditions, you know, you know, yet to be (inaudible) , assistance Bolivia, Chile information, and (inaudible) . They were created in the offshore in many cases, out of control of any country without any information, and now there is a dilemma because developing countries are using taxpayer money to solve the financial institutions, and probably that is the opportunity to change and to create on that aspect a specific condition.

I agree with the point of that's a tenable issue. Just otherwise we are going to lose the middle and the long-term deal, and it's going to affect for a long period of time the system-ability of the economy in the world because, I agree with you, it's not a question of solving a short-term problem, because you have to pay the debt on any time, and we have many lessons from that.

For example, Japan, with the financial crisis in 1998, it had 10 years of inflation and not recovered at all, and that is something which has to be taken into mind because you are not responsible, we cannot lose the North , and need to accept that this is a deeper and a more difficult time, and it will take now one to three years. Yet I'm thinking in terms of that employment right in the United States, if you -- if that is 10 percent, how many years of economic growth will it need to have against 5 percent unemployment rate? Five? Six? Seven years?

So, the think [sic] is on that, and it is not a question of one or two years; it's a long-time position, and I agree on that.

In terms of privatization in the case of Colombia, for example, we have done something which is very important: We have very (inaudible) that, but we have reduced all of the (inaudible) in terms of that. (inaudible) were paying benefits for July for the society. We don't want you have their (inaudible) , but we are trying to sell it and trying to repay and to issue that debt, so from that point of view, economically, it has been something very effective for the society at this time, and we have been very active, for example, from an economic point of view. Probably Danny could refer from some political point of view.

So I would say that the general comments to some of the questions.

MR. CARDENAS: Thank you very much. I don't know if -- Danny, do you want to make some comment?

MR. KAUFMAN: Very quickly, maybe, to sort of a very good point by Teresa. If I had more time, I would have made it, I think, the way the stimulus times are funded are very important. Mauricio said we are in much better position nowadays in Latin America, yes, but are weak, and again the barrier is so large.

One year ago -- just one, and then I go to Richard, another (inaudible) -- one year ago about the most unpopular person in all of Chile was the minister of finance, because he would hold on and not release a penny for the stabilization reserve fund in spite of so many pressures from the other ministries, and (inaudible) population and today (inaudible) .

And I think -- correct me if I'm wrong -- but I think Chile's the only country in the world that during this crisis its credit ratings have just got an up-rate, right, that's gone up, and totally self-financed, totally self-funded stimulus plan, and what the contrast would enable -- we just raided the pension plan. So how this is done is absolutely crucial.

In two anecdotes, one minute to reach a very good point on infrastructure, but I'm curious to hear what Mauricio has to say. If I'm not mistaken, at the Port of Bona Ventura they have just decided to mothball or delay the major reconstruction and upgrading, or the questions about that I would suggest that, well, yes, the clouds in the horizon about what's happening with protectionism in trade, one has to look out for, again, about all the port investment.

By sharp contrast, recently "up in IT" conference I met the 25-year-old entrepreneur of Egan origin, running a Silicon Valley small firm, who found out about from Chile and was very proud. They had just come back from a little town in the south of Chile, Chipan , and he said for $10,000 -- Enrique, Francisco can correct me for that feasible -- $10,000 he wired the whole town for Internet, and nowadays the technology exists to basically wire entire towns for $10,000. The mayor of San Francisco is doing it for the whole city, and so on, so this is an example of absolute investments that are short-term to make imminent returns of the cost benefit, if rate -- I mean it's close to Internet rate of return.

Unfortunately, not enough governments do the serious cost (inaudible) but I think we're beyond the era of paying more interest, lesson for structural more education, it's what do we educate? What do we invest in the infrastructure is why do it, and how to avoid "pork."

MR. CARDENAS: Thank you. Let me make just a couple of points very quickly.

On the issue of fiscal stimulus, yes, I think when we talked here and we talked in very general terms, and we have to be much more careful. We have to talk about the specific situation. And when you look at the region, one thing is the situation of Chile -- Danny just referred to it -- the fiscal stimulization, almost 3 percent of GDP, even more than the (inaudible) prescription today.

The next country that is able to produce a significantly large fiscal stimulus is Peru. Brazil could do about 2 percent of GDP. Mexico announced -- was the first country to announce a fiscal stimulus in December of last year, and I think the reality that Mexico is not going to be able to deliver that, and the Mexican authorities will have to basically change that because of the limitations of financing, because of the (inaudible) given the amount -- given the size of the contraction of the Mexican economy.

So I think, you know, the (inaudible) is very different depending on the country you look at. However, it is true, as (inaudible) is true, there are some countries that just don't have any fiscal space at all, zero. So the question is how are we going to handle those cases? Those are the countries that will require some concessional lending, and I think one of the big decisions that has to be made this week, and it is: How much money are you going to give them, and at what rate? If you ask me, I'd say it's better to make sure that those countries get loans that they are able to repay, (inaudible) that you give them a low rate rather than a lot of money. That would be my advice for those countries. And there are a lot of them in the region.

Second point on Brazil: Yes, Brazil has a lot of external obligations, but it also has a lot of reserves, not just in central banks but also in the foreign (inaudible) . In fact, what Brazil is thinking is not to basically ask the IMF for money but rather to lend the IMF money. So they're just in a very different channel.

One of the (inaudible) that we're going to see this week is to see whether Brazil becomes a member of the new arrangements to borrow from the IMF, and therefore would lend money to the IMF and later on will become a larger shareholder. So Brazil is in a different mode. I don't know if correctly or incorrectly, but that's the (inaudible) .

A last point on infrastructure. I think that Richard said, he's right. So let me -- let me -- let me just add this: It's very difficult at this point to do very detailed costs benefit analysis to compare one project with the other. You know, these countries, the governments are reacting very fast.

So I would take Richard's words of advice one point: (inaudible) -- that pour into a country, pour in capital, do it, and just use a simple rule of thumb. One dollar of government invests in this project that brings one dollar of foreign investment, I think the project should go ahead because that's the market that's for the project, and it also helps in these other forms that I mentioned is a great vulnerability, which is foreign financing. If we make sure that we get foreign investments throughout this cycle, we're going to be in better shape. So I'd say yes if the (inaudible) passed that simple test.

Let me give you an idea of what I'm thinking is like the ideal component of the stimulus package, and I'll take it from the Colombian reaction. Colombia just had a couple weeks ago, three weeks ago, to subsidize mortgages, new mortgages for new housing. The current rates are about 15 percent in the middle term. The government is going to pay for 3 percent at this point of those. I think that's a good program. Why? Stimulates demand for housing, stimulates employment in the housing sector, and you don't have to pay the bill at once; you have to pay the bill, you know, throughout the life of these loans which makes it less of a burden from the fiscal point of view.

So all I'm saying is let's make sure that this fiscal stimulus (inaudible) are designing a way that give us the greatest bang for the buck and at the same time do not create problems of sustainability.

So, Enrique, you have to close this event.

MINISTER ZULUAGA: It was very interesting, and to have family in which basically I think we agreed with different tones. This is not common. Maybe we are all of us right or completely wrong. Well, I hope we are right.

Maybe our -- a couple of points. The first thing is the savings/investment gaps, in other words, what the region (inaudible) , and you compare what I said in my presentation. You can take for the investment needs to have a rate of growth in the future of to (inaudible) 4 or 5, or 3 percent implies there's a cap, requires at least net flows for capital outside, coming from outside the region that at least of between $150-to-$200 billion a year (inaudible) .

I emphasize this because I have heard in many circles, even the (inaudible) some of the pressures is about thinking that Latin America had or has enough resources to (inaudible) . This has implications in that institutional settings to attract foreign resources, it implies direct investment as a crucial element as the base source of external funding, to build up the necessary condition, and it has to do with the privatization question that came up. The states alone won't be able to do all what is necessary. You need private capital. For that, you have to create the (inaudible) .

Second comment is that I think that (inaudible) here have created very high socialist case. Many of the countries have advocated and have proceeded with very interesting social programs that's easy to handle them when you have very (inaudible) in towns and prosper fiscal situations that measures how they're sustainable. And then comes an issue that can become (inaudible) if this crisis continues, you'll have social tension. And social tensions have political implications, so this is something that one has to have in mind.

Only infrastructure, I agree with you -- and here we can (inaudible) . The essence is infrastructure, obviously, is upon (inaudible) government, but for the short term contracyclical role to think about the need projects and to normally realistic. What is realistic is to accelerate projects that already are under execution. There is an issue that some of the private/public projects now, because of changes in prices and many things, are stopped. So we have to find ways now to bridge the -- and, secondly, to have projects in the infrastructure the activities that's not labor intensive, very simple, maintenances that create employment.

And, of course, that's contracyclical in the slow-run. And one concern, very few one, is that taking into account the savings/investment gaps, the need for resources, is the crowding out of money investments. If you have the contracyclical efforts of the U.S., you'll have a 12 percent (inaudible) . I look at the issue when I was minister, I imagine what will happen to me if I came to you with the idea that in my country we have not 12 percent, 7 percent there.

So if you are that, plus you are (inaudible) requirements of you, well, where is that money coming from? It comes from those who have surplus. So those who have a surplus will decide in the future whether to put the money in treasury bonds, in (inaudible) , or they will put it in Latin America. I'm afraid that many of those funds -- pension funds, old ladies in Japan, whatever -- will preserve the security of treasuries or things like that.

So the message is that with the exception of countries that are showing a very good track record -- Rick I congratulate, and in the case of Gorman , I think you're the ambassador of Peru who was a former minister of economy and finance approved , well, countries like that will not fail, will be appealing, and (inaudible) provincial -- well, they will have an easier way, possibly. It's not going to be something to be concerned .

And finally, I think it's an advice also -- not an advice but a comment. I think the ideal of the IMF of going with this strong excellence , and I congratulate Maxi Kuntz for only for opening the door. What I have found at the political level, and this comes even from the comments, that some of the leaders, they have a very biased and negative view of the role of the IMF. They look at it like the devil.

Now, the devil is very necessary. I love him, you know that. The devil is very necessary, so it is very important in my opinion for the IMF to have the way to show that the quality of the things, the requirements of the countries, that assistance of the IMF. But this is something that I see in many of the countries in the political speech very, very strong, and they was in the Summit. I won't -- I'm not going to mention who said that, but there were many presidents that include in their comments, very strong comments on that account.

And, finally, I think the issue at the end of the day is the political issue. I think that the institutional framework of most of the countries in the region -- I don't know -- but there are some that have a very good framework, but I think democracy has witnessed (inaudible) . And when I talk about democracy, I'm not talking exclusively on the concept of government and political-party support, I'm talking about corporate governance, I'm talking about the way to interact and to have the ability to risk consensus or to be sent in a civilized way. And when you have difficult times, the tensions become very difficult.

And, finally, we have several elections coming in the next -- this year and the next one. That's very dangerously, because it's very difficult for those who are running for election to be brave enough to take some of the measures necessary at the (inaudible) .

MR. CARDENAS: Thank you very much.

(Applause)

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