

**Remarks by Alicia Bárcena
Executive Secretary
Economic Commission for Latin America and the Caribbean,
at the annual meeting of the
Board of Governors of the
Inter-American Development Bank**

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I would like to thank the Inter-American Development Bank and its President Luis Alberto Moreno for the kind invitation to speak at this fifty first meeting of the Board of Governors of the IDB. Especially, I want to express my gratitude to the Minister of Finance and Public Credit of Mexico, Ernesto Cordero Arroyo, and to Jacques Rogozinski, General Manager of the Inter-American Investment Corporation.

I also want to thank the beautiful city of Cancún, the people and the government of México for their warm hospitality. It is a pleasure to be back at the place where the Latin American and Caribbean Heads of State recently wrote a new chapter in the history of integration of Latin America and the Caribbean.

ECLAC and the IDB have shared more than six decades of accomplishments and frustrations. Our histories have been intertwined with the ups and downs of the history of development of the region. Both institutions are called by the mission of a constant creation and reinvention of politics and utopias to serve the people of Latin America and the Caribbean.

When the Board of Governors met one year ago in Medellín, the global economic situation was fraught with uncertainty and danger, and the forecasts did not give much hope.

However, our region stood up to the challenge relying on three core principles, good macroeconomic management, progressive social policies and greater collective action, which offer three lessons:

First, good macroeconomic management is no longer the exclusive domain of a few economies. Most governments in the region were able to respond to the crisis in a timely, effective and comprehensive manner, pursuing a variety of countercyclical policies.

Second, that it is very important not to let our guard down in regards to social protection policies. ECLAC studies have shown that, in earlier crises, social recovery took more than twice the time and effort than economic recovery. And, experience shows that the social balance is not fully restored.

Third, a new equilibrium between the state, markets and society has emerged. The prudent, timely and collective action mitigated the impacts of the crisis, **strengthening the role of politics and that of the state** in the region.

It is important to highlight that the international financial community also responded in a more comprehensive and adequate manner to this crisis, perhaps because the epicenter was located at the neuralgic core of the contemporary economic system.

Notwithstanding the aforementioned, the region's economy shrank 1.8% in 2009.

However some of the measures have begun to take effect and there is currently a more encouraging economic outlook for most countries in the region. Growth in the region is projected to be 4.3% in 2010 with slightly lower rates for the Caribbean, which presents additional vulnerabilities.

The unemployment rate is a cause for concern since it rose from 7.5% in 2008 to 8.3% in late 2009. Nonetheless, had governments not taken appropriate measures the damage would have been greater. What has not been possible to contain is the precariousness of job security and the specter of more poverty, which has a greater impact on women and youth.

According to our estimates, poverty increased from 33% to 34.1%, while extreme poverty from 12.9% to 13.7%, which means that nine million people fell into poverty in the region. However, without strong measures and additional social protection and targeted programs, the increase in poverty would have been greater.

Undoubtedly, the region will need resources to meet future challenges, in particular it is imperative to remain vigilant on social issues and thereby safeguard the achievements in fighting poverty, it is urgent to pursue active public policies that address the lags in productivity and technology as an essential platform to create decent jobs, and achieve sustainable development with lower carbon content.

Therefore, the continued support of international financial institutions and multilateral development banks - the IDB for our region - is required; hence it is crucial for the international community to make sure that these institutions have sufficient resources.

In turn, the regional financial architecture will have a central role in addressing two latent and present dimensions that have been added to this crisis, which are risk management for natural disasters and climate change.

Recent evaluations coordinated by the Haitian Government with the support of ECLAC and the IDB show that in Haiti the damage and losses from the earthquake exceeded \$7.7 billion dollars. This is equivalent to 121% of the GDP in 2009, which is the accumulated growth of two generations of Haitians and represents a 10 year social regression by having once again 70% of the population living in extreme poverty.

It is also estimated that a socially and environmentally sustainable reconstruction will require about 11,200 million dollars over the next five years.

In the case of Chile the impact of the recent earthquake provides important lessons. On the one hand, it highlights the urgency of implementing early warning systems. On the other hand, it shows how good urban governance, with solid building codes, and the strong institutions of the Chilean State prevented more serious damage in the face of an event that was at least 100 times that of Haiti in magnitude and extension.

ECLAC is deeply committed to tasks related to natural disaster assessment and climate change. I would like to highlight the fruitful collaboration with the IDB in the analysis of the economic costs of climate change.

Governors, I believe you are making history in this region.

Today, a historic event for the IDB takes place in Cancun where a major recapitalization of the Bank is set up.

Congratulations.

But from the perspective of ECLAC, I tell you frankly that we expected a bit more of your deliberations, in both quantitative and normative terms.

Because we believe that this region and its governments have done their homework with responsibility and macroeconomic maturity;

Because there is consensus in our societies that while macroeconomic prudence is a necessary condition it is not sufficient for development, and therefore additional instruments are required;

Because with few exceptions between 2002 and 2008 Latin American and Caribbean societies were able to reduce inequality for the first time in the history of the region;

Because we need clear signals to build financial governance to strengthen the architecture of a regional development bank system formed by the IDB, the Andean Development Corporation (CAF), the Bank of the South, the Caribbean Development Bank and the Central American Bank for Economic Integration to finance productivity, infrastructure, innovation and the transition to low carbon economies.

Six strategic areas for development for the future:

Once the emergency is over, exit strategies from the crisis should include, among other things, a commitment to fiscal responsibility and public debt sustainability.

But experience also shows the importance of providing a macroeconomic environment that stimulates productive investment, innovation and employment:

Therefore, coherence and coordination between monetary, exchange rate, fiscal and capital account policies is required. The following are 6 areas of strategic action:

First, macroeconomic strategies should attempt to place economies closer to their production frontier, protect them from external volatility, and make them more robust through the proactive use of financial, fiscal, and exchange rate instruments. This leads us to consider greater control of the capital account in some cases without ruling out that foreign capital can play a valuable role in complementing domestic savings. To do this, the composition and stability of flows is crucial, as well as to differentiate foreign investment that generates new productive capacity of purely speculative and strongly pro-cyclical financial flows.

Second, we must rethink the concept of stability to go beyond price stability and look at growth variables, employment and productive investment. The type of investment matters and economic agents should contribute to generate productive structures that progressively involve more equitable markets.

Third, a clear desire to expand the countries' fiscal capacities is needed, leading in most cases to an increase in tax burdens. The region is characterized by poor and inefficient tax collection. Poverty reduction and income distribution will not improve significantly and steadily in Latin America and the Caribbean without active fiscal policies that positively affect the efficiency and distributive power of the markets. Thus today more than ever the figure of the Fiscal Pact emerges as the best instrument to reach consensus on a series of social public policy goals and institutionalize a set of mechanisms to improve and preserve the levels of social cohesion.

Fourth, monetary and exchange rate policy should be aligned with these general objectives, demanding macro prices that encourage stakeholders' investments that tend to diminish the structural heterogeneity, in effect, investments that spread assets among the entire production system.

Fifth, the design and construction of an inclusive financial system oriented towards productive development requires the expansion and development of the instruments available to manage risk, diversify access, and extend the terms of financing. This is an essential ingredient for growth with equity. The capital market reform in that direction involves strengthening public banks and, in particular, development banks, as a tool to enhance and democratize access to credit, especially long-term and investment-oriented financing.

Sixth, humanity is at a crossroad. The financial crisis, its social effects and the threat of climate change invites us to review the productive and economic paradigms that have predominated in previous decades. Given this, we propose taking up again a "long-term" strategic vision to rethink development in an integral manner with the goal of

equality and achieving better off societies. This requires a better state architecture, more inclusive markets and systems of accountability; in effect, to redesign a new balance in the state-market-society equation tailored to the needs of each country.

To conclude, I reiterate the continued support of ECLAC to the governments of Latin America and the Caribbean in their efforts to respond to these challenges, and lay the groundwork for a more equitable and sustainable economic growth.

ECLAC, with its deep Latin American and Caribbean soul, is willing to continue supporting the governments of Latin America and the Caribbean and the Inter-American family (the OAS and the IDB) in their attempts to respond to the current global crisis, safeguard the region's social achievements social and build the foundations for a more equitable and environmentally sustainable economic growth.

By facing these objectives, society migrates from the individual to the collective. It aims to suture the wounds of inequality threading the thread of social cohesion through investment, competitiveness, and economic progress that ensures welfare thresholds and protects employment.

Growth for equality and equality for growth: this is the vision that ECLAC holds, which we offer to you:

Thank you very much.