

**Remarks by Alicia Bárcena, Executive Secretary of the Economic
Commission for Latin America and the Caribbean (ECLAC), at the fifty-third
Annual Meeting of the Board of Governors of the Inter-American
Development Bank (IDB)**

Montevideo, 19 March 2012

I would like to thank the Inter-American Development Bank and its President, Luis Alberto Moreno, for kindly inviting me to participate in the fifty-third Annual Meeting of the Board of Governors.

I would also like to thank and offer my warm regards to the people and the Government of Uruguay, represented here by Fernando Lorenzo, Minister of Economic Affairs and Finance, for their infinite warmth and hospitality.

I extend special greetings to Enrique Iglesias, Secretary-General of the Ibero-American Secretariat (SEGIB), and to José Miguel Insulza, Secretary-General of the Organization of American States (OAS).

Honourable Governors,

Once again, we find ourselves confronted by an uncertain and fragile international situation.

The international crisis has produced deep fiscal deficits in developed countries, forcing the authorities to embark on a series of painful cutbacks. The hardest-hit countries have been plunged into recession, with serious consequences for their societies; unemployment rates are approaching or exceeding the highest levels of recent decades. For those countries, the priorities in the years ahead will be reducing public debt, fiscal consolidation and the recovery of growth.

In Latin America and the Caribbean, meanwhile, the difficult task of consolidation was tackled in prior decades and our management of public finances and debt sustainability have become important assets today. In 2011, there was even a partial recovery of fiscal space in the region: public debt shrank once again and its composition continued to show improvement.

Thanks to this, and despite the uncertainty at the international level, we are cautiously optimistic regarding the outlook for growth in the region.

Although growth in Latin America and the Caribbean slackened in relation to 2010 – down from 5.9% to 4.3% – the region performed well in a complex international

scenario: world growth rallied post-crisis but has since slowed sharply, and the second half of 2011 was characterized by heightened volatility and uncertainty.

As in previous years, economic performance has been uneven from one subregion to another: GDP growth in 2011 was 4.6% in South America, 4.1% in Central America and 0.7% in the Caribbean.

Poverty fell from 31.4% in 2010 to 30.4% in 2011, but the same cannot be said for indigence. Estimates indicate that rising food prices led to a 0.5% increase in this indicator over the same period bringing it to 12.8% in 2011.

A further slowdown in the global economy is expected in 2012, together with considerable uncertainty and volatility in the financial markets. Against this backdrop, ECLAC forecasts a regional growth rate of 3.7%.

Although the region has weathered the economic crisis well so far, this remains the most unequal continent in the world and structural heterogeneity is one of the main hurdles to be overcome.

The economic resilience we have demonstrated makes this an ideal moment to tackle our goals relating to development and productive convergence, within the context of rising equality. The time has come, therefore, to ask ourselves how we can make headway on closing productive and social gaps, while also pursuing and consolidating fiscal discipline.

At ECLAC we have been working very hard to analyse the macroeconomic policies and performance of recent decades, in order to evaluate their interaction with the production structure of our countries, specifically, how macroeconomics can drive and sustain growth processes over time and create virtuous cycles and how growth can be harnessed to address the region's historical challenges, such as structural heterogeneity, productivity gaps, lack of investment and social inequality and exclusion.

This is the kind of macroeconomics we need and want, and which we have dubbed "macroeconomics for development".

We believe that development requires a new State structure. The State has a non-delegable role in planning and promoting public policies – by which we mean those that improve the general welfare of its citizens – regardless of the public-private mix adopted at the implementation stage.

During the 1990s, many of the key functions of the State were delegated to the market, in the belief that this was the right path. States as they stand today are suffering from a serious deficiency: they do not have the necessary credibility as providers of public goods, tax collectors, guarantors of social protection, or promoters of productivity and employment.

The challenge is therefore to redesign and reposition the State, reserving a more active role for it in the future in ensuring the general welfare of its people and implementing development strategies. In other words, a new State-market-society equation must be devised.

In terms of public finances, the main challenge may be to strike the right balance between sustainable public finances, productive development, the redistributive capacity of fiscal policy, and more comprehensive social investment, the ultimate objective being to achieve universal coverage.

The social and fiscal covenant on which we have placed so much emphasis in recent years is therefore becoming a political covenant for financing development that includes equality and environmental sustainability.

The international financial crisis demonstrated that fiscal policy must consist of more than quantitative public finance management – that is, more than a purely numerical approach to public debt, the deficit or spending, since this is not enough to ensure proper State management of the economy and does not take into consideration the impact of public finances on the key development goals: long-term growth and the distribution of well-being. Indeed, the great challenge is to build a fiscal covenant and a social covenant in Latin America and the Caribbean that will enable us to achieve these goals.

The region is strongly placed to reform its public sector and build States that can achieve true equality. Our economies are growing, our public finances are less volatile, and there has been significant progress and innovation in social, infrastructure and productive development policies.

This does not mean, however, that we should become complacent or underestimate the magnitude of the challenges still facing the countries of the region.

Honourable Governors, seldom in recent history have the right conditions been in place to simultaneously make progress on the many challenges of sustainable development and overcome the obstacles and the false dichotomies we have struggled to eradicate. At ECLAC we are convinced that we need growth to achieve equality and we need equality to be able to grow.

We believe this is a key point when discussing the future. We know that this represents a long-term task, but a plan for the future cannot be based on short-term considerations. A long-term plan must consist of more than just crisis management.

To conclude, I would like to reiterate the ongoing commitment of ECLAC to support the Governments of Latin America and the Caribbean and their efforts to respond to these long-term challenges.

I thank the President of the Inter-American Development Bank once again for his kind invitation, which has given me the opportunity to stand on this important podium and share my thoughts with you all.

Working with the Governments of the region and the inter-American family (the Organization of American States and the Inter-American Development Bank), ECLAC will continue to develop proposals to respond to the remaining challenges, aiming to build societies that are more dynamic and more egalitarian.

Thank you very much.