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If Enrique Iglesias had invited us to a forum like this only 30 months ago, we would no doubt have discussed Latin America's debt. Today we discuss her opportunities. Isn't that a revolution? Don't we see the fall of another Wall, the fall of a wall of distrust, of a lack of self-confidence, and the emergence of new governments and societies that are eager to join the competitive market system? It is with such questions in mind--well-documented by the strong programs that the IMF now has with 22 Latin American countries--that I started two weeks ago to visit five countries in the region (Uruguay, Argentina, Chile, Brazil, and Colombia). And because it accords with my responsibility, I went armed with all the doubts of doubting Thomas, as well as a reasonable degree of Cartesian doubt. I came back with two striking impressions; firstly the fresh evidence that many Latin American countries are approaching their problems and opportunities with realism, and secondly the growing confidence about their prospects. Really a new Latin America is emerging. A few years ago there was a general perception that many countries in the region were mired in high inflation, stagnation, and seemingly intractable debt overhangs. By contrast, there is now a widespread conviction that the problems of Latin America are manageable. This translates into greater confidence by investors--both domestic and foreign--in the ability of many countries to realize their enormous potential. The tangible evidence of this optimism is that several countries are again starting to benefit from spontaneous, although still small, capital inflows. Moreover capital flight from the region appears to have been reversed.

Is this optimism justified? Yes, definitely yes, even if with some conditions.

Yes, because important elements of the Latin American environment are now brand new and more favorable. I want to emphasize four.

First and above all is the welcome extension of political democracy. There are now elected governments in the vast majority of countries in the region. Although the headlines tend to focus on the triumph of democracy in Eastern Europe and in the Soviet Union and its republics, we should not forget that Latin American countries were among the first to show that these changes, which really constitute a social revolution, can produce genuine progress. We are all convinced that a move toward more pluralistic and

accountable forms of government, with less arbitrary forms of decision-making, can contribute to the success of economic reforms. Not only can progress toward political democracy be happily wedded to economic reform, the two are mutually sustaining. The IMF's experience is that strong economic policies succeed best when the political leadership strives to build a popular consensus in support of its economic strategy through a broad dialogue with all parties concerned, explaining what is at stake and both the temporary costs of the programs and their potential for bringing about lasting improvement in living standards.

Second, the debt strategy is being implemented effectively in a growing number of countries. It has reduced a serious crisis--which if unchecked would have jeopardized the growth prospects of the debtor countries for decades, and harmed the international system--to the dimension of a manageable problem, although still a difficult one. We will need to persevere with this strategy for several years. But it is producing good results for all the countries that are carrying out strong growth-oriented adjustment programs with the support of the international community. And in this respect I want to pay tribute to the special effort of the U.S. to reduce their claims on a number of countries that are following satisfactory adjustment policies. Several countries have made major progress toward re-establishment of balance of payments viability. The external debt burdens of Bolivia, Chile, Costa Rica, Mexico, Uruguay, and Venezuela have been lightened by comprehensive packages of debt and debt-service reduction. These arrangements have freed resources for investment, and as I mentioned, many of these countries are experiencing renewed capital inflows.

Third, and more generally, many countries of the Latin American and Caribbean region have recently shown a much stronger economic performance than only a few years ago. This includes Argentina, Bolivia, Colombia, Costa Rica, Chile, El Salvador, Jamaica, Mexico, Paraguay, Uruguay, and Venezuela. These countries are at different stages of the adjustment process. For example, Colombia's prudent management of its economy has made it unnecessary for it to rely on Fund support for its adjustment program. Chile, also, no longer needs the Fund's financial support, and is in a position, while deepening its adjustment process, to root out the remaining inflation and to give increased emphasis to investment in human capital. The authorities of all these countries are managing their macroeconomic policies prudently while introducing comprehensive structural reforms. These reforms include trade and financial liberalization, the opening of the economy to foreign capital and technology, tax measures, deregulation of markets, reduction of labor market rigidities, and privatization of public enterprises. They are helping to make the economies more efficient, more competitive, and ultimately more productive. Moreover their programs are designed with a special emphasis on poverty alleviation, and on cushioning the more vulnerable members of society from the most severe impact of unavoidable adjustment measures. And the governments of several countries are tackling the difficult issues of the environment.

Of course the picture is complex and varied. Not all countries are doing so well. Some delayed the implementation of stabilization programs, and their difficulties were intensified as a result. In others there has been slippage in the execution of programs, which reduced their effectiveness. But it is impressive how many Latin American countries have reduced the fiscal deficits that were one of the root causes of their problems. Fiscal consolidation has made it more possible for monetary policy to fulfill its anti-inflation function more effectively. Inflation in most of these countries has been brought down to annual rates in the range of 10 percent to 35 percent This is encouraging, but it will be important to bring inflation dow further, to rates that are consistent with sustained economic growth and external viability. In this respect, the brilliant performance of Argentina, strongly reinforced by radical structural adjustments, is particularly encouraging.

And fourth, I expect the better performance to be continued and extended in the next few years. Our latest projections show a real growth rate for Latin America and the Caribbean of about two and a quarter (2 1/4) percent in 1992, after sluggish growth this year, and this should be accompanied by a further reduction in inflation and progress in consolidating the external payments position. Moreover several countries will register higher growth.

These favorable features all reflect, I think, the growing consensus in Latin America, as in virtually every part of the globe, that an economic strategy must be pursued that includes, as basic elements, a greater openness to foreign trade and investment, strict macroeconomic discipline, and a greater reliance on market mechanisms. In many Latin American countries the State intervenes less in the allocation of resources, and governments see that their best contribution to sustained long-term growth is to maintain a stable economic framework. Now governors recognize that they have to concentrate on the tasks for which they are best qualified, such as education, health, income security, and infrastructure.

And last but not least. What we see in Latin America are governments that stick to their guns and are delivering the reforms they pledged, and if anything most of them are trying to accelerate the speed of change, and to create more supportive conditions for the private sector to flourish.

But governments are not alone, and they can't do it alone. The most striking changes--and indeed the most promising ones--are the changes in societies. Now we see societies where the so-called "alternative strategies," or populist promises no more find much support, and which accept to pay the short term human price--sometimes a very high one--of adjustment for growth. And for example the Argentine government is even making a distinct electoral success out of its very bold structural reforms. I am particularly interested to observe the striking change of attitude by many trade union leaders in this respect, and of course not only in the five countries I have just visited.

But my yes was a conditional one. What are the conditions? Let me mention three which are important if Latin America is to maximize the positive effects of the exciting developments I have just mentioned.

First condition. The underlying problems, including structural imbalances, were so large that it will take many years of sustained application of sound policies to enable the countries of Latin America to realize their full potential. They will require firm and inspired--perhaps I should say inspiring--political leadership, to build and keep a consensus in favor of a courageous and far-reaching medium term strategy, and to persevere with its implementation.

Second condition. The best efforts of the governments and peoples of Latin America could be frustrated if the global economic environment is not sufficiently supportive. The IMF is constantly recommending that the industrial countries pursue policies that will be conducive to sustained growth over the medium term. With respect to the prospects for trade, it will clearly be essential for the countries of Latin America to enjoy ready access to markets for their exports. This is a sine qua non for the success of any outward-looking economic strategy, or for any country that needs to expand its exports as part of its debt strategy. A successful Uruguay Round is a must. In addition, of course, I see significant potential gains from regional free trade arrangements including MERCOSUR and NAFTA.

The third condition is adequate availability of savings. There is no need here to underline the adverse impact to Latin America and the Caribbean if we cannot prevent the increase in real interest rates that would occur without an early and sizable increase in global savings. The industrial countries, in particular, need to improve their fiscal performance and reduce public dissaving. There is ample scope to reduce unproductive public spending. I have recently tried to focus attention on two targets--military spending and protectionist subsidies.

The need for vigorous action applies to all countries. Clearly there is considerable scope in many Latin American countries for vigorous action to reduce waste (including by cuts in military spending in several countries), to increase domestic savings, improve efficiency, and ensure that markets operate effectively.

I have stressed the importance of strong policies in individual countries--both industrial and the countries of Latin America and the Caribbean, but we should not underestimate the important contributions of the World Bank, the IDB, and the IMF itself. Our international institutions are doing this job. Speaking for the IMF, we are fully determined to make every effort to help Latin America to succeed.

In conclusion, I would stress that the outlook for Latin America and the Caribbean is favorable. I see excellent growth potential for the more dynamic and vibrant economies in the region if they pursue appropriate policies with determination and perseverance.