

short-term shocks. However, if these situations were to prevail over longer periods, other macroeconomic policy variables would need to be adjusted. Failure to pursue the structural reforms decisively in areas such as the financial sector, further trade liberalization, public enterprise reform and an enhanced program of privatization would also slow down future economic growth.

12. Government's Policy Agenda. To consolidate the stabilization and pursue the reform effort, Government aims to: (a) provide an enabling environment for private sector development which is increasingly seen as the engine of growth for the economy and the only practical way to reduce unemployment; (b) improve performance on the social front; and (c) enhance the efficient use of natural resources in a sustainable manner. The realization of these objectives will require improved public sector management and the preservation of the fiscal balance.

13. Private Sector Development. The private sector already accounts for close to 75 percent of manufacturing output and almost all of agricultural production. There is a clear commitment to further promote private enterprise as the engine of growth; moreover, after a slow start, the outlook for the privatization process is now promising. An ad-hoc Committee, co-managed by the private and the public sectors, is actively preparing a program of structural and incentive reforms to foster private sector growth and to improve the regulatory framework for private sector operations. These reforms should be coupled with investments to help promote a reliable supply of power, industrial zoning, infrastructure, services, and institutional support to private investors. The reform agenda also includes (a) issuing labor regulations to promote labor mobility and employment creation; (b) regulatory and institutional reform to improve management of public enterprises; (c) the launching of a concession policy that would permit greater private sector involvement in the production of goods and services hitherto reserved for the public sector, and (c) readying an enhanced program of privatization.

14. In the financial sector, the reforms since 1993 have included a new banking law with rigorous regulation and supervision and stricter prudential regulations, the enactment of stock exchange and capital market laws, while current account convertibility has been achieved. The next phase of financial sector reform will need to focus on increasing domestic savings and achieving greater efficiency in its utilization. This will require strengthening the capital market,