

**INTERNATIONAL MONETARY FUND
WORLD BANK GROUP**

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INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. RODRIGO DE RATO FIGAREDO ,
Governor of the Fund and the Bank for SPAIN,
at the Joint Annual Discussion

STATEMENT BY MR. RODRIGO DE RATO FIGAREDO,
VICE PRESIDENT AND MINISTER OF ECONOMY AND FINANCE OF SPAIN,
TO THE ANNUAL MEETINGS OF THE INTERNATIONAL MONETARY
FUND AND THE WORLD BANK

Washington, D.C., October 7, 1998

Managing Director of the IMF,
President of the World Bank,
Mr. Chairman,
Governors,
Ladies and Gentlemen:

The circumstances in which these Annual Meetings of the International Monetary Fund and the World Bank are being held are certainly very different from those that existed during our meetings last year in Hong Kong. In most countries at that time, growth rates were high and inflation was low, even though financial problems in South East Asia suggested that international economic trends might be viewed with a certain caution.

Such caution was justified; in fact, more countries are now affected by the upheavals in the international financial situation. The seriousness of events in the Russian Federation has increased the risks that this instability will impact other economies that -- until very recently -- were on the move and showed good prospects. The outlook for growth in the world economy has now diminished, even though the basic elements in many economies are in a better state than they have been for years.

Over the year, most of the more advanced economies have achieved satisfactory results; in particular, I wish to draw your attention to the economic recovery in the member countries of the European Union.

This year, after successfully completing the convergence process required by the Treaty, eleven of the members embarked upon what is perhaps the most ambitious monetary project in the Union's recent history: adopting the euro as a single currency.

Indeed, the international financial community is even now welcoming the new European currency as a decisive contribution to stability and growth in the world. At the same time, this monetary union entails assuming new responsibilities and participating more actively in the international arena.

Over the last few years, Europe has focused its efforts on achieving the necessary internal coordination for completing the project of establishing a single currency, but the international events now occurring require us to concentrate our attention on the process of international monetary cooperation. Europe, and the euro countries, must play an active part in defining the future international financial architecture.

Spain in particular is satisfied with the economic policies that have enabled it to become a full EMU member from the very outset. This has been achieved through large-scale fiscal consolidation measures that have imposed firm controls on public spending, especially as regards the structural component, reducing the government deficit from 7.3% of GDP in 1995 to 2.1% this year. Spanish society as a whole has joined in these efforts, and supports Spain's role in the process of European integration.

The credibility of this economic policy, the independence of the Bank of Spain, and a determined privatization policy have all helped control the inflation rate, which is currently about 2%.

In response to the new situation created by the single European currency, Spain has undertaken an extensive process of market deregulation and liberalization. Similarly, efforts have been made to promote investment in human capital, together with active employment policies.

This series of economic policy measures, and the resulting confidence on the part of markets, has made it possible to substantially reduce interest rates, thus benefiting Spanish economic agents. As a consequence, growth is increasing, and employment is being created at a rate exceeding the European average.

The good results achieved so far enable us to look forward with a reasonable amount of optimism. Nevertheless, developments in the international financial arena are making us prudent and moderate in our projections, and requiring us to speed up the process of stabilizing and liberalizing the Spanish economy.

Certainly, we can see some positive signs emerging in Thailand and Korea; however, instability in countries of the region may continue unless the Japanese economy begins to show signs of recovery. It is therefore the earnest wish of Spain, and of so many other countries, that the Asian nations should make progress along the path to economic recovery, and we are convinced that Japan must reform its financial system, increasing its transparency, and liberalize its markets, opening them up to competition. Japan is an essential element in the attempts to solve the international financial crisis.

The impact of the Asian crisis on world trade and commodity prices, together with the decline in confidence resulting from the Russian crisis, have damaged other emerging economies.

In the case of Latin America, economic adjustment and political democratization have transformed economic life, setting the region on the path toward sustainable growth, without inflationary tendencies, and opening the way to the increased prosperity of its people. However, the contagion effect from the current financial crisis is reducing the availability of the financing necessary for the economies of Latin America. Spain believes that the international institutions must respond to this danger by providing the necessary liquidity for those countries that are implementing policies designed to achieve stability, economic liberalization, and financial transparency.

The Latin American nations have made laudable efforts to modernize their economies. Those recurring episodes of hyperinflation, economic isolation, import substitution, excessive regulation, and inefficient monopolies have been left behind. Practically all the countries in the region have achieved a high degree of stability, openness, and competitiveness, and have implemented in-depth structural reforms, both in their financial systems and in their main productive sectors. It is essential for markets to appreciate the differences between these and other emerging countries.

All of these efforts cannot – and must not – be swept away by the indiscriminate effects of the spreading international financial crisis. Spain regards coordinated joint support for the Latin American economies as a priority, and therefore the Spanish Government presented to the recent meeting in Vienna of the Council of Economic and Finance Ministers of the European Union an initiative reasserting the need to strengthen coordination among the countries of the euro area so as to develop a joint response to the challenges presented by the international economy.

The Spanish initiative also emphasizes our confidence in the economies of Latin America and their capacity to overcome market volatility. Spain supports the establishment of a new financial mechanism in the IMF that would provide additional support for these economies. We are making a firm political and financial commitment to this effort, and the Government of Spain has already decided what our own contribution to it will be.

Mr. Chairman, we are living in times of profound change. The existing architecture of the international monetary system was designed over fifty years ago, and must be overhauled and revitalized.

Spain believes that the International Monetary Fund and the World Bank must continue to be the main actors in the international monetary system. Both institutions – and particularly the IMF – need to be strengthened and provided with sufficient resources to enable them to carry out their functions in a globalized financial system. Moreover, we must ensure that participation in the governing bodies of these institutions is commensurate with the financial support provided by each member country.

Yesterday, the Managing Director of the IMF proposed five principles for transforming the international financial system, and two amendments to the Fund's Articles of Agreement. Spain is ready to play an active part in these changes, which we must all cooperate in achieving.

We all agree on the urgent need to strengthen the banking systems in many countries, through the adoption of clear regulations and sound financial practices. We trust that the Fund, the Bank, and the other multilateral financial institutions will find ways to combine their efforts and coordinate their activities in order to address this most important issue.

In order to prevent future crises, it will be necessary to devise alarm signals for identifying risk factors, so that the necessary measures can be adopted in a timely manner. To this end, it will be necessary to further develop the specialized mechanisms that are already available to the Fund and the Bank, and those that have recently been established, such as the units for short-term surveillance and the monitoring of financial-sector operations.

To resolve crises, joint action by both institutions is necessary, with the Fund focusing on macroeconomic equilibrium and the World Bank concentrating on the social impact of programs and on structural reforms -- that of the financial sector being a priority. The Bank needs to design new products and to devise imaginative funding formulas in order to help countries carry out these reforms.

We hope that international capital movements will be liberalized in an orderly manner, and that the process will provide for at least elementary prudential standards. We are concerned to see that certain countries have unilaterally imposed restrictions on capital movements, and we trust that the Fund will soon be given effective jurisdiction to deal with this issue, so as to ensure that any interruption in the normal flow of financing will be the result of multilateral agreements that include clear provisions and precise schedules.

However, the implementation of economic programs also requires that countries continue to apply their policies for maintaining social cohesion and microeconomic modernization. Economic transformations are impossible without the support of men and women. This is why Spain supports the three-pillared approach presented by the President of the World Bank, Mr. Wolfensohn, for strengthening programs designed to maintain social cohesion and promote microeconomic activities in emerging economies. We must support the efforts of governments to make their economies more stable and open, but we must also ensure that schooling is provided for children, and that -- in the emerging economies -- small and medium-sized enterprises can expand.

We acknowledge the progress that has been achieved in disseminating economic data and increasing transparency in the activities of the Fund and the Bank. Nevertheless, we recognize that there is still much to be done, and we urge both institutions to redouble their efforts. In order for international financial markets to operate properly, they need a continuous flow of specific and relevant information.

Mr. Chairman, it will certainly be necessary to make great efforts to establish a stable and transparent international monetary system. Whatever activities you undertake in order to achieve this objective, you can count on the support and encouragement of the Spanish Government.