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Statement by the Hon. ANTONIO DE SOUSA FRANCO,  
Governor of the Bank for **PORTUGAL** ,  
at the Joint Annual Discussion

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Governor of the Bank for PORTUGAL  
Annual Meeting, Hong Kong  
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Mr. Chairman,

It is an honor and a pleasure for me to address these Annual Meetings of the World Bank Group and the International Monetary Fund. First allow me to recognize the unique opportunity that all of us have in meeting in Hong Kong at this time and thank the Government of China and the People of Hong Kong for their very warm welcome and magnificent hospitality in this vibrant part of the world. What a better place on earth to further strengthen global integration, competitiveness and international cooperation? China has a unique role with its spectacular achievements in this global setting. As President Wolfensohn put it this morning and I quote "the big five will achieve unprecedented growth which, over a longer period of some 25 years, will fundamentally alter the balance of power between countries and the rules of international trade " unquote. Three of the big five are in this region of the world. Their growth prospects are a major factor in the positive global economic outlook we are facing.

Last week, in Bangkok, on the occasion of the first Asia - Europe Finance Ministers Meeting, the objective of a new comprehensive Asia-Europe partnership for greater growth was emphasized and we had the opportunity of exchanging views on the macroeconomic situation and outlook and on the developments in the foreign exchange markets and the EMU. We also recognized then that the globalization of financial markets while creating opportunities for a better functioning of the global economy poses challenges for financial supervisors and reinforces the need for sound macroeconomic policies. I am confident that the initiatives we agreed in Bangkok, in particular at the level of financial supervision and regulation, customs cooperation and fighting money laundering, will contribute decisively to strengthen cooperation between these two important parts of the world and consequently will influence decisively the financial world. The global economy makes vain and counter productive the attempts of administrative intervention, but needs partners, cooperation and exchange of information between states and regional areas.

The main event in Europe is the third stage of Economic and Monetary Union, which is being carefully prepared will start on January 1, 1999. At this moment, a large part of the European Union will have a single currency: the euro. The introduction of the euro, as a low inflation currency with large economic weight, will be a strong additional step in the process of consolidation of the global economy. Ever since the ratification of the Treaty on European Union by the Parliament in 1992, Portugal has been committed, at the highest

political level, to adopt economic policies consistent with the creation of a single European currency. In this context, the sustainability of the process of debt and budgetary consolidation, desinflation and exchange rate stability is a prime objective for the Portuguese authorities, both as a result of the aim to be among the core of the EMU founder countries and because it is essential to the preservation of a stable macroeconomic environment which is the base to sound growth and job creation. Progress made by the Portuguese economy towards convergence with the other EU economies has been substantial, both at the monetary and budgetary level and so Portugal is now prepared and committed to participate fully in the third stage of EMU from the start. We welcome this major change in the world economic scenery as a decisive step to consolidate development, growth and free markets.

After some years of slowdown recently, in 1997, as already last year, Portugal is estimated to grow well above the EU average. Growth and real convergence with the other EU economies are sustained by continued buoyancy in private investment and supported by public investment. Moreover, this process has been sustained by the exchange rate stability, favorable external price trends, continued moderate growth and the non inflationary behavior of demand, and is positively influenced by reforms under way in fields such as taxes, labour market, social security and health services.

Remarkable opportunities for countries to enhance their development are clearly available and increasingly reachable as a result of the globalization and integration. But at the same time governments are confronting a broad range of policy challenges. Markets' growing sensitivity to domestic and external imbalances has added a new dimension to these challenges, while the discipline markets impose is a powerful incentive to implement sound macroeconomics policies and pursue structural changes. The agenda of our Assembly today addresses some of these challenges.

Promoting private investments in developing countries and undertaking actions to combat corruption and improve governance are some of the challenges. The emphasize on sound financial systems is of crucial importance. In fact these topics are complementary and part of the only way to promote and sustain growth. We greatly support the emphasis our Bretton Woods institutions are putting on these aspects of the development agenda.

To maintain private sector confidence and attract private sector investment require the appropriate environment including *inter alia* an efficient and accountable public sector, a transparent and stable legal, fiscal, and policy framework, more coordination of tax rules and policies, and a healthy and sound financial sector. Much remains to be done to relieve the constraints that are limiting private sector participation in crucial sectors of the economy, such as that of infrastructures.

Let me share with you few features of our experience in this area. After years of wrong state-commanded policies, now, in the context of an ambitious program of modernization and restructuring, an ambitious privatization program carried out so far created the appropriate conditions for ensuring an increasing role of the private sector, while the public sector could focus on strengthening the human capital, which is for us an absolute

priority. The driving force of this program has been to increase the efficiency of the allocation of resources and competitiveness of Portuguese firms. Although privatization operations are complex, we have come a long way. Banking, insurance, cement, chemical, tobacco, food processing, oil, telecommunications and energy are sectors from which the dominance of the public sector has been removed. No sector is now closed to the private initiative. Public utilities where state monopolies were common are today liberalized and regulated by independent bodies. In infrastructure sector the Government has adopted a legal framework for harnessing private initiative and resources. Competition has been introduced in constructing and operating roads and highways. The second Lisbon bridge is a case of BOT (build, operate, transfer) which has been successful in keeping costs as budgeted and should be ready on time next Spring. As a result of sound macroeconomic policies and strong growth, our domestic financial market evolved in 1997 from emergent to developed, as a recognition of the sound conditions of our economy.

We welcome the World Bank Group action program to eliminate the bottlenecks and barriers to private sector involvement in infrastructure. Among these are worthy to mention the initiatives to reduce or eliminate the political risks that private investors face by expansion of guarantees. Those can greatly contribute for an increase in capital flows to the developing countries. Therefore we appreciate recent initiatives taken by the World Bank in this area. Furthermore we welcome progress made towards reaching a consensus on a capital increase for MIGA. As shareholders we are willing to renew our commitment towards the institution, and can join the consensus reached on the funding package. We expect a renewed commitment to further promote the international and diversified vocation of MIGA in order to achieve a more balanced portfolio.

Sound and healthy financial systems are another crucial if not the most important factor to maintain macroeconomic stability and to promote economic growth and poverty reduction, which remain the ultimate objective of our institutions as well as of our governments. We strongly endorse the call for a renewed effort from the Bretton Woods institutions in strengthening financial sectors of developing countries. Several weaknesses of the banking systems have been exposed recently. Supervision of the banking system has to be revamped and subject to demanding and efficient patterns and concepts. Quality of credit portfolio has to be monitored closely to avoid unmanageable levels of non-performing loans. We call again on the international financial institutions to play their part in contributing to the prevention of the occurrence of this type of crisis. We welcome the emphasis on strengthening the Bank and Fund partnership in this field.

The issue of corruption and good governance also deserves great attention; a market economy based on private sector involvement can optimally allocate resources only if decisions on how to allocate resources are undertaken without interference. We welcome the Bank and Fund strategies and guidelines to assist member countries to address poor governance and corruption issues. The International Financial Institutions bear great responsibility in promoting a transparent, accountable and anti-bribery business environment, starting with measures to protect their own portfolio. We strongly encourage the Bank to play its role in strengthening international cooperation in this crucial area.

Public confidence is a hard commodity to obtain and to maintain but it is essential to stability and to social and economic progress. Portugal for its part is ready to implement the Convention on International Bribery currently being negotiated at the OECD, when ratified.

Last but not least let me comment on one major achievement: the implementation of the Debt Initiative. As envisaged from the outset the Initiative requires the continuing close collaboration among creditors to effectively deliver the debt relief that eligible countries need to face the demanding agenda for economic and social development. We support those who stand for the expeditions implementation of this process, essential to justice and growth all over the world, praising all the efforts the World Bank, the IMF and Member States are doing with this purpose.

I am pleased to announce here today, that, Portugal, as a partner in this process, and a main creditor of eligible and potentially beneficiary countries will contribute to the Initiative Trust Fund. We expect others to do so.

Thanks Mr. Chairman