



PROPUESTA DE INTERVENCIÓN PARA EL VICEPRESIDENTE SEGUNDO DEL GOBIERNO EN EL SEMINARIO “DOLLARS, DEBT AND DEFICITS- 60 YEARS AFTER BRETTON WOODS” ORGANIZADO POR EL BANCO DE ESPAÑA Y EL FONDO MONETARIO INTERNACIONAL

I. Introducción.

Dear Governor, dear Managing Director, ladies and gentlemen:

Let me first welcome you all to this seminar on the sixtieth Bretton Woods anniversary, which I have the pleasure to introduce. I would like in the first place to thank the Spanish Central Bank and the International Monetary fund for their efforts in organising the event.

As you know, the Bretton Woods Meeting in 1944 gave birth to an economic, monetary and financial system which has, beyond doubt, played a vital role in promoting both economic and financial stability while contributing to global welfare and poverty alleviation. As a matter of fact, international economic and financial events over the past years cannot be analyzed without considering the leading role of the Bretton Woods institutions.



So first and foremost I would like to express my congratulations to the World Bank and the International Monetary Fund. Thanks to them we have learnt important lessons from economic globalization and crisis resolution, let alone the strong relationship between economic growth, macroeconomic stability and poverty reduction.

I am quite sure that this seminar will provide us all with a good opportunity to better understand the evolution and changes within the structure of the international financial architecture. I am also convinced it will allow us to gain insight into the future global response that should help avert the perverse effects of systemic crises in the world economy. I will focus my intervention on three aspects that I consider specially relevant. First I will very briefly share with you my views about the evolution of the world economy and the Bretton Woods Institutions in these last 60 years. Second, I will briefly address the role my country has played within the Bretton Woods Institutions; a role that we intend to intensify in the future. Third, I will refer to the challenges that, in my opinion, still lie ahead of us.



II. Evolución de la economía mundial y de las instituciones de BW.

When the 44 country-delegations met some 60 years ago, private financial flows were much more limited, in both scope and importance, than they are now. Then, the financial events which occurred from the 1960s onwards and, in particular, the emergence of the Eurodollar and other offshore financial markets and the continuous globalization of capital movements hammered out a quite different financial system. And, by the 1990s, international capital flows had already become an essential source of finance for both industrial and emerging market economies.

Today, financial markets are much more interconnected than they were in the central decades of the twentieth century and this clearly improves resource allocation in terms of the so called intertemporal trade. At the same time, however, it also increases concerns about contagion effects and reversal of capital flows.



This new framework brought about various effects on the way the Bretton Woods Institutions do their job. I will mention just a few: first, a stronger relationship between the Bretton Woods institutions and the private sector in terms of what we know today as “private sector involvement”; second, the introduction of new financing policies, able to provide the emerging market economies with faster and more powerful responses to external shocks and potential coordination failures linked with systemic crises; and finally, the consideration of a new approach on the relationship between economic growth and macroeconomic stability.

III. El papel de España en las instituciones de BW.

But let me also briefly refer to the role that my country has played in the Financial Institutions that emerged from Bretton Woods.

In 1958 Spain joined the Bretton Woods institutional system and became member of both the International Monetary Fund and the International Bank for Reconstruction and Development. Spain was then an isolated and developing nation, about to start



a process of liberalisation of its economy and its trade. A process that, one could say, ended in 1986 with our accession to the at that time called Common Market of the European Union.

It is easy to understand that the role of Spain in the international financial architecture has changed significantly since 1958. Such a transformation is related to two main factors: Firstly, the already mentioned evolution of the international financial architecture and the role of the multilateral institutions; secondly, the overhauling process within the Spanish economic structure, coupled by a prolonged period of growth. According to the latter, in the early 1980s Spain became a creditor country and, since then, it has intensified its participation in the global financial system.

The Spanish quota in the World Bank and the Fund is well below its theoretical value and we are all aware of the problems this poses. But our contribution to some initiatives, such as the Highly Indebted Poor Countries, is quite higher. In fact, Spain is, in global terms, the seventh donor country under the HIPC Initiative, just behind six G-7 countries.



In the last few years it has assumed a debt relief burden which represents some 3,89% of the total debt relief provided by the industrial countries and our per capita contribution ratios are even higher than those of the main G-7 countries. Besides, Spain has undertaken bilateral debt relief actions beyond the relief provided under the Cologne treatment within the Paris Club framework. Along the same line, the Spanish Contribution to the Poverty Reduction and Growth Facility Trust Fund amounts to 4,5%, being the fifth among the donor countries.

Spain has also provided regular funding to other World Bank Group Institutions such as the International Development Association, and to other key initiatives, such as the Global Environment Facility and the Global Fund to Fight AIDS, Tuberculosis and Malaria. Other important contributions have also been made to the International Financial Corporation and the World Bank Institute, while three Consultancy Trust Funds have been opened within the same group. Moreover, similar actions have been carried out in other regional development banks.

Additionally, Spain provides some emerging and poor countries



with technical assistance accounts, which will contribute to promote economic growth and strengthen the poverty reduction strategies in the destination countries. Along this line, it is worth mentioning the aid planned to some Central American countries under a Special International Monetary Fund Technical Assistance Account for Costa Rica, El Salvador, Guatemala, Honduras Nicaragua and Panama.

To put an end to my intervention, let me finally address the issues I think will be pivotal in the near future. The first would be the need to continue improve the work of the international financial institutions, developing a more pre-emptive stance and developing new and better targeted financial instruments. The second relates to low income countries and how we can improve their financial conditions.

IV. Retos futuros.

In the future the multilateral financial institutions will need to deepen into the reforming process as a reaction to the new challenges posed by the size and speed of global capital flows, especially with respect to those issues related to emerging



market economies and low income countries.

The systemic changes within the international capital markets have underscored the role of emerging market economies as destination of capital flows, both in the short and in the long term. Thus, multilaterals must now focus not only on crisis resolution but also on enhanced prevention mechanisms. To this end it is my view that surveillance must be strengthened, in particular in those areas related to external and public debt sustainability. This approach should be coupled with the implementation of stronger transparency criteria and with wider surveillance on the financial sector.

Let me also say that in my view there is a clear need for multilateral institutions to intensify efforts in terms of both transparency and accountability. By doing so they will be allowing the general public to better understand the vital role these institutions play in the international financial system. A role, let me remind you, that is specially crucial for low income countries and emerging economies.

On the one hand, and concerning crisis prevention and



resolution, I feel that the international community must define a predictable framework for exceptional access to IMF resources. The debate about exceptional precautionary access must also be firmly dealt with.

In this respect I understand that, in order to prevent currency markets from speculative attacks, an ex-ante or ex-post financial support from the IMF could make a difference. Of course, in order to avoid potential moral hazard problems it is important that some conditions are met. Namely: first, the country concerned should not have debt sustainability problems and therefore should be in a good position to fulfil its obligations with respect to the IMF . Second, a clear definition of the exceptionality criteria is also of great importance. And third, it would also be necessary to retain some degree of tailored level of access so the IMF continues to be able to help the countries concerned in the design of their macroeconomic policies.

In this very same vein, I think that the debate about future reforms should take into account the possibility to reward the implementation of sound economic policies in circumstances where the threat of contagion is present. In this sense, the



discussion on a new policy framework aimed at replacing the already expired Contingent Credit Line and at providing correct incentives in favour of sound policies might also bear some interesting fruits in the future.

On the other hand, crisis resolution mechanisms must be strengthened via promotion of both Collective Action Clauses in sovereign emissions, the use of which should be broadened, and the Code of Conduct. Nonetheless, both tools have their shortcomings, too, and I believe that further analysis of some other options should not be let aside.

Undoubtedly crisis resolution is strongly related to macroeconomic stability, but surveillance on microeconomic and structural reforms must not be weakened. This is particularly true given the strong relationship between flexible and competitive internal markets on the one side, and economic growth together with better response to shocks on the other.

Finally, technical assistance should be included as a key plank of the multilateral institutions policy framework, since good governance and institution building-related assistance does have



a very positive effect on credibility. This would, in turn, ease country access to international markets. Moreover, those reforms would help restore market confidence and trigger new External Direct Investment inflows, the benefits of which are known by all of us.

As I mentioned before, the second challenge of the future financial architecture will be to address the financing of development in low income countries. In this regard, I would distinguish three main aspects.

- i) First, debt sustainability analysis should be a key issue of the Multilaterals strategy. In this sense, the access to fresh international credit, even under concessional conditions, should be graduated in order to avoid feeding an unsustainable progress. From this perspective, the latest initiative by the International Monetary Fund and the World Bank aimed at developing new instruments to set reference thresholds on a case-by-case basis is worth mentioning. When it comes to the outstanding stock of debt, there is little doubt that its size must be adjusted when necessary



through debt relief in order to permanently eliminate the burden on growth for these countries. On the other hand it is important that a pre-emptive stance is adopted also here in order to avoid possible incentives to excessive indebtedness stemming from implicit bail out clauses.

Having this in mind, I think that the global volume of grants by the Multilateral Financial Institutions should probably increase, especially for low income countries. This increase, of course, should always be accompanied by a serious study of the debt position of the countries involved in order to avoid the adverse incentives already mentioned.

- ii) Second, we should bear in mind that even if we consider the exit for the debt burden problem of low income countries one of our main priorities, these countries do also, in many cases, lack solid and credible institutional and regulatory systems. Consequently, the Bretton Woods Institutions should



enhance their approach on technical assistance and keep refining their conditionality in these areas.

- iii) Finally, the technical assistance activities of the Multilaterals should continue to converge in order to maximize progress in the area of trade liberalization. This is a basic step towards a realistic elimination of external financing gaps in low income countries. And it should all come together with an important effort in developed countries to deepen into the removal of trade barriers and subsidies, culminating the Doha Round and allowing for renewed impulse in the fight for growth and poverty alleviation. In this sense I would like to finish my intervention by inviting other developed countries to follow the example of the European Commission and show enough flexibility so that we can indeed culminate the Doha Round in a successful manner.

Thank you.