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

STATEMENT BY VICE-PRESIDENT

Rodrigo de Rato y Figaredo, Governor of the International Monetary Fund and World Bank for Spain

IMF and WB Annual Meetings, Dubai, September 23, 2003

Greetings,

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

I. The world economic outlook: risks and economic policy responses

After dispelling some of the macroeconomic and geopolitical uncertainties of the past months, the latest economic indicators point to a recovery of the global economy, albeit with marked geographic imbalances.

The most recent data on the U.S. economy already suggest a significant upturn. However, it is important to note that the role of the United States as the engine of growth of the world economy may not be effective if other areas do not join the process, correcting the imbalances that have been emerging. In any event, the U.S. economy still harbors some elements of risk that merit attention; the size of the fiscal deficit and the indebtedness of the domestic economies are reflected in a current account imbalance and leave growth vulnerable to the dampening effect of the foreseeable rise in interest rates.

On the other hand, interest rate adjustments in response to the depreciation of the dollar are occurring asymmetrically, with the euro assuming the lion's share of the adjustment, Meanwhile, some Asian economies, which are among the strongest in the world, maintain artificially low exchange rates, thereby preventing adjustment.

As other developed economies are weaker, especially in Europe, international growth will be overly dependent on growth in the U.S.. The virtual stagnation of the major economies in the area has been disappointing. In our opinion, Europe is realizing that the systematic implementation of growth policies alone is not sufficient to provide the necessary thrust. Furthermore, we have recently been involved in what I consider to be a sterile debate on the functioning and implementation of the Stability Pact. This error has been diverting our attention from the real challenge facing the European economies: growth. We understand that it is not possible to realize an acceptable growth potential without implementing far-reaching structural reforms that would remove the rigidities in our markets and add flexibility to our supply.

In Europe, the Spanish economy has increased its positive growth differential vis-à-vis the euro zone, which will exceed 1.5 percent of GDP this year. Continued fiscal surpluses and further development of the structural reforms of recent years will help consolidate the economic recovery, capping a decade of sustained growth and creation of over four million jobs.

In Latin America, improvements in the international economy, reorientation towards responsible macroeconomic policies, and firm support from the Fund have enabled economic and financial conditions to improve in recent months. This week, we held the Fifth Meeting of Iberian-American Ministers of Economy and Finance in Madrid, which highlighted the need for further market integration in the countries of the region. This must lead to an intensification of integration efforts, both in multilateral processes and in regional agreements. The region must also win the confidence of the international markets. To do so, it must continue the process of fiscal consolidation and public debt reduction. The needed recovery of the demand for investment, whether domestic or international, requires a reliably stable legal and institutional framework regulating the economic environment.

The signing of the arrangement between the Fund and the Argentine Government, supported by Spain, offers this friendly nation a great opportunity to begin that vital process of structural and institutional reform, based on its renewed credibility, while honoring its commitments, which will enable it to once more attract capital to the country.

II. The role of the IMF in the promotion of international financial stability

The International Monetary Fund plays a key role in the promotion and development of financial stability and the application of economic policies that lay the groundwork for sound, sustained growth and contribute to an improvement in living conditions and to poverty reduction for all citizens and countries.

For this task to be accomplished, countries must have an adequate say and representation in the decision-making bodies of the IMF, based on their respective importance and responsibilities in the global economy, which secure and strengthen the legitimacy of the institution. The Fund should continue working to make the participation of the various countries in the institution more meaningful, in keeping with these principles. In this context, the quota review takes on special importance as one of the main examples of representativeness, and in particular the correction of the situation of countries with misaligned quotas.

On the role that the IMF plays in the area of crisis prevention, I wish to highlight a number of factors.

For supervision to be effective, steps must first be taken to correct the economic and institutional weaknesses identified in member countries. In the case of the less advanced economies, it is necessary to foster the complementary role played by the Fund in providing technical assistance to help consolidate their economic and institutional environment.

On the other hand, the availability of sufficient quality data is key to this preventive policy. The policies of providing and publishing those data have strengthened transparency, which has also been encouraged with the creation of the Independent Evaluation Office, whose first three reports have already demonstrated its usefulness in identifying areas of possible improvement in Fund policies. The strengthening of the transparency policy will lead to improvements in the effectiveness of supervision and the external image and credibility of our institution.

In the area of crisis resolution, the conditionality of the Fund's financial assistance should clearly identify the macroeconomic adjustment path and the structural reforms needed to ensure economic stability. In

addition, we should applaud the practical, voluntary progress made in the design of resolution mechanisms such as the collective action clauses that have been used by Mexico and other emerging countries. Spain has undertaken to introduce clauses of this type when issuing foreign currency instruments.

Another tool that we feel to be of great interest for crisis resolution in middle- and low-income countries is the so-called Evian approach. In this regard, we are in favor of the introduction of flexibility in the procedures for the restructuring of these countries' external debt, so that appropriate solutions can be sought. Spain will therefore continue to support the current Paris Club efforts to define and profile the main characteristics of this system.

A noteworthy development of this past year was the implementation of the action plan to combat money laundering and the financing of terrorism. The action taken to combat terrorism in the financial context is key, and its success depends on broad international collaboration. Spain firmly supports this process.

We appreciate the very positive way in which the Fund's Managing Director has offered on this occasion to help developing countries facing difficulties as a result of trade liberalization. This is a positive contribution to the advancement of the Doha objectives, after the failure of Cancun.

III. The World Bank and poverty reduction

Spain reaffirms its commitment to work with the international community to ensure that the developing countries achieve the Millennium Development Goals (MDGs). We feel certain that success in this endeavor will depend on the joint effort of developing countries to apply an adequate mix of economic policies, good governance, and institutional capacity building. Developed countries should also provide greater access to their markets and adequate financial assistance in support of the relevant policies. Such assistance should go toward achieving the priorities set by the recipient countries and should be designed in such a way that they can be effective for each particular case.

With this conviction, Spain undertook, in Monterrey, to increase its ODA from 0.23 percent to 0.33 percent of GDP and stands ready to consider any mechanism that can serve to mobilize additional resources. The World Bank should play an important role in the search for alternatives, and we urge it to do so.

Although we are convinced of the essential role that ODA can play, it is important to put it into perspective, especially by comparison with the role that should be played by the internal resources of developing countries.

Spain remains committed to the complementary roles of the two institutions for achieving the objective of reducing extreme poverty in sound economies that are capable of attaining and maintaining high levels of development.

Thank you.