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Statement by the Hon. **PEDRO SOLBES M.**,
Governor of the Fund and the Bank for **SPAIN**,
at the Joint Annual Discussion

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

World Economic Outlook

The current recovery phase of the world economy is consolidating. Throughout this year, the recovery of growth rates will be evident in most areas and indicators suggest that this situation will be sustained in the very near future. This will be more feasible as progress is made towards the correction of the main imbalances that impinge on the international financial order: gradual correction of the current account disequilibria (of vital importance to emerging countries) and, hence, gradual and firm adjustment of the public deficit in those cases in which it constitutes an important determinant in the accumulation of external liabilities.

It is acknowledged that all areas face important challenges. Allow me to make particular reference to the ones faced by the Spanish economy.

The Spanish Economy. Over the last years the Spanish economy has been satisfactorily growing, being capable of creating employment; however with a major weakness that has become increasingly acute: the little contribution of productivity to growth. Therefore, the Spanish economy needs a balanced and durable economic growth pattern, based on productivity and employment increases, which fosters its competitiveness in an increasingly open framework.

Under these premises, the economic policy which has been designed by the Government will be articulated around three fundamental axes: budget stability, productivity boosts and transparency and quality of the regulatory framework.

The benefits of the budget stability in the short and long run functioning of the economy are obvious. Thus, the government has expressed its most determined commitment towards the achievement of the stability objective, which has been captured in the first budget presented towards the end of last month.

Productivity driven policies will tackle several areas, as this is the outcome of multiple factors which refer to the framework in which economic and social agents operate and develop their activity. Hence, measures which reinforce the liberalization process in the goods, services and productivity factors markets will be undertaken; improvement in the

antitrust institutional framework will be fostered, endowing authorities with enhanced independence and action capacity; due to their direct impact on productivity, special attention will be given to education, innovation, and infrastructures, both from a budget and regulatory perspective; and entrepreneurial environment in which entrepreneurial activities take place will be improved.

Finally, the third economic policy axis will seek a profound reform in the government's action, aiming at making it more transparent and efficient.

Surveillance and crisis prevention

Surveillance. Going into more specific issues related to the International Monetary Fund, we welcome the improvements that have been introduced in the Fund's surveillance activities during the last biennial review. I also judge that it is interesting to maintain the debate related to a possible reinforced supervision without associated financing facility, which will enable those countries that wish to, signal their commitment to implement sound economic policies without the need to neither increase their indebtedness nor alert markets on possible liquidity tensions. Likewise, I would like to insist on the need to count on exceptional access to the IMF's resources framework sufficiently predictable to the markets, which includes clear and realistic related to when it is possible in the precautionary framework.

Low income countries

IMF's role. The IMF fulfills an irreplaceable role in low income countries, through a macroeconomic and microeconomic analysis, as well as, in the event, the design of the necessary programs for the simultaneous achievement of growth and balance of payment's structural tensions relief. To that end, technical assistance as well as surveillance, creditor signaling and financing are of utmost importance and none of them should have a subsidiary position with respect to the others. All of this, without prejudice that, in the event that debt sustainability conditions in those countries entail serious risks, adequate concessionality graduation on external funding is achieved, as well as on its origin.

Millennium goals. Spain is a determined supporter of the Millennium Development Goals, as long as poverty eradication must constitute a moral imperative in a developed and increasingly prosperous world. We believe that important volumes of additional financing will be necessary in order to progress on their achievement that it must be supplied to the beneficiary countries in parallel to the evolution of their absorption capacity. The materialization of this progress will crucially depend on the identification of new sources of financing, based on concessional credit (basically of multilateral origin) as well as other alternatives that are being studied. The Initiative against Hunger and Poverty is a first step forward in this sense, with proposal that must be examined thoroughly in order to guarantee their compatibility with growth, economic stability and financial viability.

ODA. Nonetheless, it is essential to stress that the objective to increase ODA flows must be something that accompanies and supports country macroeconomic stability and policy compromise, institutional strength and good governance. Both elements must be closely linked as, regardless of the relevant role that the ODA may play under adequate circumstances, experience reveals that the key to success is that developing countries, especially poorer ones, achieve higher growth rates that can be sustained in time. It is by these means that the most important resources upon which development depend on, may be mobilized: domestic resources and foreign direct investment.

Trade and development. Trade openness and market access are also a necessary condition in order to consolidate economic growth and to reduce poverty. To that end, we insist on the importance of the prompt conclusion of the Doha Round. Developing countries must establish the necessary conditions in order to take advantage of the benefits that the trade liberalization will bring about.

World Bank

We definitely support the work carried out by the World Bank Group aimed at promoting private sector development as an engine for growth and the revitalization of its strategy in support of the infrastructures services provision. The World Bank has experience and knowledge in order to play a crucial role in the mobilization of public and private necessary financing in order to ensure that stable, predictable and transparent regulatory frameworks are established.

Abuse of the financial system and fighting against terrorism

We welcome the collaboration and coordination of the IMF/World Bank and the FATF (Financial Action Task Force on Money Laundering) to evaluate the situation of the countries in the fight against the money laundering and the terrorist financing. We consider that this fight is essential to combat a very serious threat for the democracy, the human rights and the stability of the financial systems. IFIs cannot forget these issues, and we want to remark the essential role of the IMF/World Bank.