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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **RODRIGO DE RATO Y FIGAREDO**,
Governor of the Fund and the Bank for **SPAIN**,
at the Joint Annual Discussion

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To begin with, I would like to greet the IMF's new Managing Director and to express my support and my wishes of success at its helm. I hope the joint initiatives of the Fund and the Bank will enable us to reach the objectives we all want.

1. During last year's Annual Meetings, general opinion was that the worst of the international financial crisis was already over. We were correct then, but we were far from realizing that, as could have been foreseen, we would now find ourselves in a global economic boom.

2. I would like to stress two positive aspects of this scenario. First, the envisaged growth will occur in all geographical regions of the world. Second, we are pleased because our **economy is playing a prominent role in this phase of prosperity.**

3. We share the view of the IMF and other institutions on the objectives for continuing global growth this year and next. Thus, the gradual **deceleration** of the external imbalance of the **U.S. economy,** which seems to be affecting world growth, should be more than offset by the **expected expansion in European and Asian economies,** and notably by the recovery in **Japan.**

4. Both this year and next, the **Latin American** economies—which were so **afflicted** in the past by the contagion of a **financial crisis** that was not justified by their macroeconomic fundamentals—can expect to **join in that growth,** and Spain wished to stress the responsibility demonstrated by Latin American societies in adopting policies that make them stronger.

5. Nevertheless, **these good prospects are not free of risk.** In our view, the greatest risk in this context is the adverse impact that the **continued rise in world oil prices** may have on growth. A worldwide increase in inflationary pressures which required the adoption of **severe adjustment measures** could force the U.S. economy to cool down faster than expected while limiting the expansion in Europe, with the consequences that entails for the rest of the world. Accordingly, we stress that domestic policy measures must be accompanied by coordinated action on the short-term demand for oil, in which the strategic reserves can play an important role.

6. In this context, **the Spanish economy** will continue to follow **the path of sustainable growth without macroeconomic imbalances.** This does not imply that our economy is immune to the higher international price of oil. We are indeed **in a good starting position** to cope with this increase, but, of course, **changes are occurring in relative prices, which we believe will have but limited consequences. Reduction of the inflation differential vis-à-vis the EU is an essential objective for continued growth in Spain.**

7. This favorable starting position **will not be used to set aside the multiyear fiscal consolidation strategy now being pursued.** Much to the contrary, to prevent the increases in the more volatile prices from spreading to the rest of the economy and to increase domestic saving, it is envisaged that **the objective of reaching a budgetary balance will be reached in 2001, for the first time in 24 years.** This bold fiscal adjustment will restrain demand in order to keep temporary price hikes from becoming structural increases. This strategy will be complemented by **full implementation of the structural reforms in the goods and services markets** which were approved last June, leading to the complete elimination of the monopoly situations that had traditionally weighted down on the Spanish economy. The modernization of the labor market should continue to reduce structural unemployment.

8. **The** combination **of these high rates of economic growth** in the past four years **with historically low interest rates** has placed **Spanish firms in such a sound financial position** as to enable Spain, from 1997 on, **to become a capital exporting country. Thus,** last year our firms' direct investment abroad made Spain the fifth largest investor country, and the first in Latin America, with investment equivalent to 5 percentage points of GDP, 70 percent of which destined to Latin America, roughly $24 billion.

9. We are very much aware **of this international takeoff of Spanish firms.** In fact, **it obliges and encourages us** to play an active role in the ongoing **reform of the international institutional framework,** to which I would now like to turn.

10. Mr. Chairman, there has been **criticism of the international institutions that make up the international financial system,** including in particular the IMF, for their lack of leadership in **preventing the spread of a crisis** like the one of two years ago. The institutional arrangement derived from the Bretton-Woods agreement was the object of much criticism.

11. We think that this **arrangement remains valid,** provided the **appropriate adjustments** are made in response to the profound changes in the world economy. Accordingly, we attach great value to the initiatives now being designed by the IMF to enhance its **surveillance function,** basically by designing codes adn standards of conduct for voluntary implementation.

    Nevertheless, one must not lose sight of countries' **different levels of development** and **institutional capacity constraints.**

12. The **legitimacy** of the institutions has also been the object of criticism. The changes now being discussed within the multilateral financial institutions should be pursued, in order to achieve a truer representation of countries in their management bodies and decision-making, reflecting their responsibilities in the global economy.

13. The IMF has continued to work toward **reviewing its financial instruments** with a view both to adapting their design and use to the Fund's mandate and purposes and to make them more effective for borrowers and more suited to the new market circumstances. We still believe that the **fundamental objectives of the IMF** are to **ensure international economic and financial stability** and thus to help achieve sustained and balanced overall growth, which is the basis for poverty reduction.

14. **To this end, official development aid and growth suport policies should not be limited solely to the financing of specific investment projects.** Since macroeconomic stability is a prerequisite for growth, **financial support for the prevention and management of potential crises** is, in our view, **the basis of the strategy for that aid.** Accordingly, the instrumentos for **short-term** financial assistance should be retained at the same time as **medium- and long-term financial resources** are made available both the allow implementing the needed structural reforms and to obtain the results expected from them.

15. In spite of this, official resources are no longer sufficient. Private capital flows are many times larger than official ones in financing the external needs of countries. We must continue to work in seeking mechanisms that will make it possible to **bring the private sector into the prevention and resolution of potential future crises,** and guarantee instruments can play a catalyzing role in this regard.

16. The reform proposals should aim simultaneously at greater **overall stability in the financial system** and to assure that **economic growth will reach that part of the world's population** that still lives in **poverty.** Attaining both these objectives requires close cooperation between the Fund and the Bank. To this end, the HIPC Initiative is a good strategy, which should be based on the **principle of equitable burden-sharing,** leading to an effective reduction of poverty rather than simply redistributing it.

17. We appreciate the work being done jointly by the two institutions to enable as many countries as possible to **start receiving debt relief by the end of this year,** if their circumstances so allow.

18. **Spain, for its part, expects to make a bilateral contribution of $772 million to the HIPC Initiative, to which must be added the $55 million it has already forgiven under the HIPC framework, for a total contribution of $179 million at the multilateral level. This means that Spain has contributed and expects to contribute more than $1 billion for the debt of the most indebted poor countries.**

19. In addition to this joint strategy, the World Bank **should strengthen its actions** to provide relief to the most disadvantaged people, both in the world's poorest countries and in middle-income countries, where in fact most of them live.

20. For all these reasons, we are concerned by the **sharp drop in lending** by the World Bank, which declined to one fifth the envisaged amount.

In our view, the World Bank has the financial capacity to once again inject into the developing world much higher amounts than it is furnishing this year. We believe this is essential, not so much because of its direct effect, but because of its impact on the quality of the economic and structural reform policies of the borrowing countries.

21. Lastly, the new topic of **global public goods** now under discussion also merits our full recognition, especially insofar as it will allow the institutions to adopt strategies of regional scope.