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Statement by the Hon. **FERNANDO TEIXEIRA DOS SANTOS**,
Governor of the Bank for **PORTUGAL**,
at the Joint Annual Discussion

WB/IMF ANNUAL MEETINGS 2005

Statement by the Minister of State and Finance and Governor of the Bank for Portugal

Fernando Teixeira dos Santos

Chairmen, Governors, Ladies and Gentlemen.

It is a great pleasure for me to address you on this meeting. Let me start by thanking the staff of both the Bank and Fund for all the effort put in organising this year's Annual Meetings.

First of all, I would like to stress that Portugal has started in 2005 a three year program of fiscal consolidation, based on structural reforms aiming at the core of our budgetary problem, which lies on the expenditure side. A consolidation that will rely, not on one-off and temporary measures, but on the elimination of the sources that, in the medium and long term, build up the pressure for the continuous increase of expenditures.

Since this vigorous program is being undertaken in a climate of bleak economic growth, it requires strong support from the Portuguese tax payers as well as from the international community.

The recent expression of institutional support from our European Union partners at the European Council level, in the context of the Stability and Growth Pact, is proving to be extremely important to the conduct of the program.

Portugal also has to rely on its European partners for the recovery of economic growth and convergence towards higher standards of living and social justice. Being a small open economy, Portugal's domestic economic prospects are largely determined by the external demand, namely from by the major European Union countries.

However, the recovery of economic growth in Europe is not just a question of cyclical fluctuation. It is a structural problem: improvements in Europe's competitiveness depend significantly on structural reforms aimed at increasing the flexibility of all the markets (goods, labour and financial markets).

This is a sustainable way to face the challenges of increased globalization, together with the challenges to European social cohesion. The continuous increase in productivity is the only sustainable path to create the wealth necessary to help the people and regions that are more exposed to the destructive side of globalization.

At the world level, answering positively to globalization challenges requires improvements in the governance of institutions, both national and international. We therefore welcome and support the strategic review that the current IMF leadership is promoting, with a view to better prepare the institution to the rapid economic and social changes implied by globalization.

The achievement of the Millennium Development Goals come in line with that strategic review, and Portugal is strongly committed to cooperate in order to obtain better results in fighting poverty, namely through the multilateral debt relief of those Highly Indebted Poor Countries who have reached the completion point.

In this regard, Portugal shares the view of those who consider that this G8 initiative should be implemented without weakening the financial position of the IFIs.

Mr Chairman, fellow Governors, I would like to highlight another important issue. Portugal fully supports the ongoing effort to promote the smooth functioning of global financial markets, through a systematic compliance with international standards and best practices. In this way, we are committed to continue strengthening the ability to fight against the abuse of these markets to finance terrorist acts and to launder the gains from criminal activities.

Finally, 2006 will be a particularly important year for Portugal in its relationship with the IMF, as it will evaluate Portuguese financial institutions in its Financial Sector Assessment Programme. It will provide us a great opportunity to identify enhancements in our financial system. Also, an opportunity to show how our institutions comply with the recommended standards, based on principles of independence, on a modern legal framework and strong international cooperation.

We look forward to welcoming you with the usual warmth and sympathy widely recognised as a typical Portuguese landmark.