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

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My address comes to you at a difficult time for the global economy. It is also a time at which our coordination is of vital importance in order to face the common problems we are experiencing, together.

International Economic Prospects

Global economic prospects have deteriorated since the last Annual Meetings, with a global growth projection of 3.9 percent, which is sharply declining. While industrialized countries have been hardest hit by this economic slowdown, the crisis is increasingly spreading to emerging economies as well.

Financial Crisis

In light of the developments in recent weeks, the international financial crisis has entered a critical phase, with a sharp decline in confidence, the consequence of which is the virtual paralysis of credit and interbank markets.

As a result of the financial interdependence and the interconnectedness of banks, countries are being affected by the turmoil, hence the need, now more than ever, to coordinate the policies we must implement to avoid a worsening of the impact on the real economy.

Against this backdrop, consideration of how best to tackle the difficult situation without losing sight of the long term is needed. Macroeconomic policies must regain their effectiveness and maintain stability – achieving these objectives entails, first and foremost, the re-establishment of confidence. To this end, a broad-based, comprehensive action plan with the highest level of coordination and participation possible is necessary.

In the short term, therefore, it is critical to avoid an exacerbation of problems related to the credit squeeze, which result in solvency problems that would not otherwise have arisen. It is critical that ordinary financial channels rebound, and the public sector has a key role to play in this difficult task.

Europe

The European financial and banking system is reeling from the impact of the crisis and the effects on the real economy will be felt. Under these circumstances, Europe has demonstrated the capacity to take unified and coordinated action. The staging of the first summit of Heads of State and Government of the Euro Zone in Paris yesterday is a demonstration of the unequivocal commitment to act in a coordinated manner when facing systemic problems. The action plan agreed will help restore confidence and stability in markets.

Also, the participation of the European Central Bank in the recent coordinated slashing of interest rates is another example of an effort to provide joint solutions to common problems.

Spain's Economy

Inevitably, Spain's economy is also being affected by the turmoil discussed. Based on our projections, the decline in activity will last into the coming quarters, with a major adjustment in the housing sector.

Nevertheless, Spain's economy has structural strengths owing to the economic policies implemented during years of robust economic growth, which gives us reason to believe that Spain will return to its potential growth path in the medium term.

These strengths include substantial capital accumulation in recent years, with significant improvements in infrastructure, human capital, and research and development; a very open economy, with companies capable of competing on international markets; healthy government accounts; and a robust financial system.

Spain's financial system is solvent, efficient, and profitable, and we believe that it is well placed to weather the global financial crisis. Despite robust credit growth in recent years, lending practices have remained prudent under the strict supervision of the Bank of Spain. Provisions set aside in boom periods have been generous and have been bolstered by a counter-cyclical system of requirements imposed by the regulator.

To avoid liquidity problems, the Government approved the establishment of a fund of up to EUR 50 billion to buy healthy assets from financial institutions, in accordance with market criteria. This fund supplements the measures adopted yesterday by the Eurogroup heads of government, which were approved today by the Government of Spain. These measures include the possibility of temporarily guaranteeing the debt of banks for periods longer than six months which, for 2008, may amount to EUR 100,000 million, as well as

the possibility of providing capital contributions to financial institutions. While the latter measure is being adopted in conjunction with the decisions adopted in Paris, it is not expected to be implemented at this time.

IMF Reform

The most important item on the IMF agenda must be the response to the crisis, which poses challenges of a magnitude not seen in many years. It is important to review the best short- and long-term economic policy responses, as well as the lessons to be learned from the financial crisis. We firmly believe that the IMF is in an ideal position to face these challenges, without jeopardizing collaboration with the international institutions in question.

The IMF's comparative advantage is derived from its supranational and multilateral character. Specifically, it is the best-placed institution to identify overall inconsistencies when the sum of individual decisions may not be advantageous at the collective level.

It is for these reasons that we believe that it is important to give the IMF a clear mandate, assigning it a key role as the multilateral organization tasked with supervising and monitoring international financial stability. Furthermore, the credibility of its supervision must be burnished, thus enhancing its financial outlook and regional and multilateral prospects.

Lastly, the Fund must be mindful of its role as financier and adapt it to the current situation.

World Bank

I would now like to discuss the World Bank's agenda.

In an international context where changes are occurring at a rapid pace, the World Bank must prioritize its strategic guidelines and seek to promote coordinated actions among the various World Bank Group institutions and with other IFIs.

We endorse the voice and representation process in which the World Bank Group is currently engaged. It is necessary to continue moving this process forward without delay, thereby enhancing the representation of the developing and transition countries. However, I also believe that the World Bank's capital structure and the representation of its members must be adapted to reflect their weight in the global economy and their commitment to development. We therefore welcome the progress already achieved in the reform process, and will continue efforts to reach an agreement as quickly as possible.

Esteemed colleagues, we are confident that joint efforts will enable us to meet these challenges.