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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Statement by the Hon. **FERNANDO TEIXEIRA DOS SANTOS,**
Governor of the Bank for **PORTUGAL,**
at the Joint Annual Discussion

Statement by the Hon. Fernando Teixeira dos Santos,
Governor of the Bank for Portugal,
at the Joint Annual Discussion

H.E. The President of the General Assembly,
Mr. Strauss-Khan, Managing Director of the IMF,
Mr. Zoellick, President of the World Bank,
Distinguished Governors,
Ladies and Gentlemen,

It is a great pleasure for me to be here at the annual meetings in Istanbul and I would like to thank the Turkish authorities for their warm hospitality and the Bank and Fund Staff for their efforts in organizing the Annual Meetings.

Over the last year and a half, the coordinated response to the global financial and economic crisis has come to reinforce the central role of the Bretton Woods institutions to recover and sustain confidence and global macroeconomic stability and mitigate the social and economic impacts of the crisis worldwide.

Despite some positive signs in the last months, it will take some more time before robust economic growth can pick up in the world economy. Policy makers and international institutions must remain vigilant and active to assure a complete recovery and a subsequent orderly and coordinated exit from the financial and economic rescue measures taken by governments.

The Portuguese economy, within the euro zone and the European Union, was obviously not immune to the impacts of the global crisis. Recent data indicates that Portugal reached the lowest point in the economic cycle in the first quarter of 2009 and is now in the process of gradual recovery, expected to continue in 2010, translated already into a significant upward revision of growth forecasts.

These recent positive signs in Portugal reflect already the beginning of world trade recovery, combined, at the national level, with the measures taken by the Portuguese authorities. In fact, supported on a resilient domestic financial sector and on the structural reforms and unprecedented fiscal consolidation implemented in the years just prior to the crisis, we have taken, within the context of a coordinated European Union response, a set of measures to reinforce financial stability and launched an anti-crisis program in the beginning of 2009—the Initiative for Investment and Employment (with a budget impact of around 0.8 per cent of GDP). International financial markets seem to share a positive evaluation of these economic and financial policies, as public debt markets have shown very favorable dynamics over the year, actually with lower spreads for Portugal than for other higher rating countries.

Looking ahead, the signs of recovery, reinforced now by the more favorable outlook released by the reference international institutions, suggest the need to start coordinating exit strategies in terms of financial and economic policies.

The first component of a successful exit is that public support measures should not be withdrawn until uncertainty is substantially reduced and the economy recovery proves to be sustained.

The second key component is the subsequent return to sustainable public finances, which will require a swift correction of budget deficits and a gradual correction of the public debt ratio. The correction must be sustained by improvements in the quality of public finances, with increased efficiency and effectiveness, and by continuing to pursue structural reforms, fostering potential output growth. Following this path will be the best way to avoid aggravating macroeconomic imbalances and, in that sense, our best contribution to the "Framework for Strong, Sustainable and Balanced Growth," recently agreed at the G20 summit.

The third, but not the least, component for successful exit is the reform of the international financial system. We have been working hard, namely at the European Union level, in advancing with the necessary institutional changes in regulation and supervision.

In conjunction with the political leadership headed by the G20, the IMF played a commendable role as the crisis unfolded, namely when it clearly started to spread from the financial system to the general economic activity. It showed an adequate response capacity on financing, including by coordinating efficiently with other regional institutions.

In a joint effort with other European countries, Portugal will contribute to the increase in IMF resources with a total of up to 1.77 billion euro, representing about 1.2% of our GDP, in the context of the European Union pledge to the NAB.

This engagement in responding to the financing needs of the IMF cannot be separated from the wider reform in the governance and the role of the IMF. In addition to the continued efforts to increase the legitimacy of the Fund through the Quota and Voice reform, Portugal fully supports the recent G20 commitment to reinforce the IMF role on macro-prudential surveillance at the global level.

The IMF, in close coordination with the Financial Stability Board and other national and international relevant institutions, like the soon to be implemented European Systemic Risk Board, should play an important role in assessing macro-financial risks and financial system vulnerabilities, and by issuing effective risk warnings.

In this context of macroeconomic surveillance, I would like to stress, in particular, the importance of continuing to pursue and improve, in practice, the crucial coordination established between European institutions and the Fund.

The events of the past year produced and threaten to continue producing devastating effects on poverty, seriously jeopardizing the achievement of the Millennium Development Goals.

We commend therefore the World Bank Group's rapid and vigorous response to the global crisis, translated into the tripling of its lending to up to USD 100 billion until 2012, thus helping governments to set in place essential counter-cyclical efforts.

The fight for poverty eradication and sustainable and inclusive growth stands as the most important priority of the World Bank. Honoring our long-lasting commitment to Africa's future, namely as an IDA donor, Portugal calls on the international community to explore alternatives to mobilize funding for the poorest countries in the world. We urge the World Bank Group to lead this effort.

In this context, the role of the private sector as an engine of growth and sustainable job creation remains paramount. We recognize this role not only on our domestic policy but also elsewhere, and therefore we have recently established the *IFC-Portugal Lusophone Advisory Services Trust Fund*.

It is also our challenge here today to help shape a World Bank Group which reflects more closely the current international economic panorama.

Portugal actively supports the ongoing process of reform of the Voice and Participation of Developing and Transition countries towards building not only a more legitimate but also a more representative global institution.

In addition to the stronger and improved participation of emerging economies, we particularly welcome the creation of the third African chair. It is of the utmost importance the commitment by all parties to achieve an agreement in Voice and Participation by the next Spring Meetings, which reflects not only countries´ economic weight in the world economy but also their longstanding contribution to the Bank´s mandate.

I would like to conclude by thanking the Bank's and Fund Staff and Management for their excellent work during these difficult times, and Managing Director Strauss-Khan and President Zoellick for their vision and leadership.