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Statement by the Hon. **ELENA SALGADO**,
Governor of the Bank and the Fund for **SPAIN**

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During the summer, prospects for global growth and financial stability have deteriorated and downside risks have increased.

International Financial Institutions, national and regional authorities need to react quickly and forcefully to address these challenges, to strengthen the recovery and advance on two key objectives: reducing unemployment and fighting poverty.

We need to look beyond short term financial market volatility, and base our assessments on underlying economic fundamentals and policy decisions. So let me provide some examples of key recent advancements in Europe and in Spain.

In the Euro Area, July 21st agreement of the Heads of State and Government contains a set of comprehensive measures to address the root causes of the sovereign debt crisis. First, it improves the debt sustainability outlook for Greece. Second, it gives the EFSF new and more effective tools to ensure financial stability and prevent contagion.

The European Financial sector has also undergone a process of repair and recapitalization. The EBA stress test has shown that the bulk of the banking system is sound enough to withstand an adverse scenario. Spain has participated for two consecutive years in the stress tests exercise with full transparency, including our entire banking sector.

As the Fiscal Monitor highlights, the Euro Area has continued to make progress on fiscal consolidation, long term fiscal sustainability and fiscal rules. Since 2010, Spain has accelerated its public deficit reduction and we have passed a pension reform that improves long term fiscal sustainability. Furthermore, Parliament has just approved a reform of Spain's constitution introducing a commitment to structurally balanced budgets and moderate debt. We have also addressed flaws in the labour market, raised bank capital standards and accelerated the savings banks' restructuring. Further efforts are needed, but with these policies, and with the economy growing, although modestly, thanks to strong export performance, we are laying the ground for higher growth, and lower unemployment, under a more sustainable economic model.

We all need to react in order to protect the global recovery, and ensure that the tough measures that we have implemented, start yielding income and job gains. We should stick to our medium term fiscal targets, taking into account national circumstances. In the financial sector, we need to continue strengthening our banks, keeping a close eye on financial market stability, to avoid costly dislocations.

In short, policymakers should continue to address the unresolved structural problems from the crisis, while preserving the role of Government, as insurer of last resort against the threat of uncertainty. The contribution of the IMF to this endeavour is crucial.

In the first place, the Fund is uniquely placed to provide the fundamentals based assessment. Surveillance has improved substantially but there are still important lessons to be learned. In my view, the Fund should continue to act mainly as a policy advisor, promoting countercyclical policies, and basing its guidance on careful analysis of country-specific fundamentals, and their interaction in the complex global economy.

Secondly, the IMF can make a very important contribution through its lending role. Recent events have highlighted the importance of solid liquidity provision arrangements, as insurance against systemic shocks. Expanding the IMF's lending toolkit, to include a short-term liquidity provision facility, could strengthen the global financial safety net, by building on the much needed flexibility introduced by Fund instruments, such as the FCL and PCL.

Thirdly, the IMF should continue to provide excellent analytical support to help us advance in the International Monetary System reform. I am glad to announce that the Spanish Parliament has just ratified the 2010 Quota and Governance reform.

Finally, in the area of development, a slowdown in advanced economies, and further financial turbulence may have an impact on the progress towards the Millennium Development Goals. This could add to the difficult issues posed by rising food prices and volatility in commodity prices.

Spain has always supported a strong countercyclical role in the Multilateral Development Banks that needs to be strengthened. We have already approved our country's participation in the general and selective capital increases of the IBRD, as well as the disbursement of the first tranche of paid-in capital.

We welcome the focus of this year's World Development Report 2012 on Gender Equality and Development. Spain views the issue of gender as a major political priority, as evidenced by the approval of a comprehensive gender equality law in 2007.

I hope that during these Annual Meetings we will be able to address these issues and to find coordinated approaches for all of them.

Thank you very much.