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ADDRESS BY THE GOVERNOR FOR SPAIN
AT THE SECOND PLENARY SESSION

Rodrigo de Rato y Figaredo

1. Let me first thank the Government of Chile for its splendid organization of this annual meeting, and the Chilean people for their warm welcome and hospitality.

Latin America and the Caribbean

2. Latin America and the Caribbean are now recovering from the difficult situation that they experienced in early 1999, and that affected their economies throughout that year.

3. In 2000, the region posted an average growth rate of 4 percent, although with significant differences between countries, to be sure: Mexico and the Dominican Republic grew by more than 6 percent, Chile by over 4 percent, while Peru and Ecuador suffered severe recessions, and Argentina grew by barely 0.3 percent.

4. Net private capital inflows rose substantially, from US\$51 billion in 1999 to US\$67 billion in 2000, for an increase of 30 percent. Macroeconomic policy has on the whole been orthodox and rigorous and has been reflected in price stability and shrinking fiscal deficits. Bond issues remained very active, and for the first time in its history the region had five countries with investment-grade risk ratings. This progress needs to be generalized, since large parts of the region are still shut out from private capital inflows and have no access to capital markets.

5. The performance of Latin American economies will be determined by economic developments in the United States, Europe and Asia. Although the United States

economy is fully adapted to the information age and has ample maneuvering room for fiscal and monetary policy, it will experience a slowdown year throughout that will vary in its impact on the different countries in the region.

6. This morning we have heard a number of very interesting speeches, including that of President de la Rúa, which was particularly timely. We are all anxious to see economic policy designed by the President of Argentina and his government prove successful. The Spanish government fully supports the economic adjustment program worked out with the International Monetary Fund, the World Bank and Inter-American Development Bank, and considers it essential to achieve broad-based political backing for that policy within Argentina, to ensure its implementation. This is the only way to maintain market confidence in the Argentine economy and ensure its recovery, an outcome that will have a positive impact on all the economies in Latin America and the Caribbean.

7. This morning, President Iglesias reminded us of the basic issues for comprehensive development in Latin America and Caribbean. In the first place, combating poverty remains one of the most important challenges in the region. Today, Latin America and the Caribbean have among the greatest income inequalities of any region in the world. The region needs to grow faster and better, and it must be able to distribute the benefits of growth more equitably, focusing major efforts on helping to lift some 200 million people out of poverty. It needs growth to offset its still rapid demographic growth rate, growth that is more regular and more evenly distributed across all countries of the region. And lastly, it needs growth that is more equitable. All of this calls for active, effective policies to fight poverty.

8. President Iglesias also recalled the importance of enhancing Latin America's economic competitiveness so that it can take advantage of the phenomenon of globalization. It is therefore essential to continue to make progress in structural reforms and liberalization of markets so as to create a competitive environment that will foster greater productivity. In this context, I believe that it is crucial that special attention be paid to tax reform in order to guarantee fair, efficient collections to finance public spending.

9. In this respect, the Bank has a historic responsibility. There is still much room for improvement in implementing the mandate from the Eighth Replenishment.

10. We need to take a close look at ourselves and devise solutions within our own countries to change the current situation. We need to make economic development compatible with a better distribution of income. This means that we must supplement orthodox macroeconomic policies with effective social policies. Macroeconomic stability is ultimately a prerequisite for achieving greater economic growth and a more just society.

Spain and Latin America and the Caribbean

11. Never in the last 200 years has Spain been so firmly committed to the destiny of the Americas. Our companies have developed a decisive stake in the region. The figures speak for themselves. Spanish investment last year exceeded US\$30 billion, making our country the largest foreign investor in the region for the second year running. I am speaking of direct, long-term investment, made in the midst of difficult times, and it demonstrates clearly the firm commitment of the private sector to the region's development.

12. These investment flows have significantly heightened the mutual dependence of our societies, through greater integration of real and financial markets between Spain and Latin America and the Caribbean. There is no doubt that financial stability and the conditions of economic growth in our countries constitute a common reality to which our interdependence gives substance.

13. This process highlights the need for policy coordination in order to address this common economic and financial reality, this Latin American Economic Area. Given these common interests, now is an excellent time to establish greater coordination in the international financial context. Such cooperation will be beneficial to all our countries. We need to move forward on a proposal that I made in New Orleans: to consolidate the discussion forum initiated last September, where Latin American countries can establish their own strategies for designing a "new international financial architecture", given that the Bretton Woods institutions, for historical reasons, do not reflect the real economic weight of our region.

14. Spain is also committed to the fight against poverty in the region. Our country has resolutely supported the HIPC Initiative, far beyond our quota in multilateral financial institutions. Spain's contribution already stands at US\$1.013 billion. Furthermore, Spain has attempted to compensate for the relatively low weighting that Latin America and the Caribbean have in the overall HIPC Initiative by making additional efforts on both the multilateral and bilateral fronts. Of the US\$70 million that we announced in New Orleans as our contribution to the HIPC Trust Fund, at least US\$50 million will be dedicated to Latin American countries, and we will also be supporting the Subregional Institutions involved in it. Spain has consistently called for a comprehensive solution to country indebtedness problems, regardless of the institution that holds their liabilities.

15. From the bilateral viewpoint, Spain has taken an active role in resolving the problem that the HIPC Initiative has created in Central America. Specifically, Spain has made an additional commitment to assume Guatemala's debt to Nicaragua: the cost of canceling that debt on HIPC terms is US\$351 million, according to the IMF. With this contribution, Spain's total support for the HIPC Initiative will amount to US\$1.364 billion. At the same time, debt conversion programs have been undertaken with many countries in the region. These programs include a significant debt forgiveness element (Honduras, Costa Rica, Dominican Republic, Ecuador, Peru, El Salvador, Bolivia).

16. Spain intends to continue its cooperation with initiatives to promote financial and macroeconomic stability in the region. From the financial viewpoint, we contributed US\$1 billion to the aid package for Brazil two years ago, and were part of the package for Mexico six years ago, and I may remind you that in 2000 we participated with US\$1 billion in the aid package for Argentina coordinated by the IMF. As well, in the area of technical assistance, we have cooperated in such areas as financial sector regulation, economic decentralization, judicial and administrative reform, and modernization of tax systems.

17. Within this framework, we believe that subregional financial institutions have an important role to play in channeling additional resources to Latin America and in consolidating the various regional integration processes underway. In fact, negotiations are at an advanced stage for Spain to participate in the capital of the Central American Bank for Economic Integration and the Andean Development Corporation.

1. We are solidly committed to the social and economic development of the Americas. To this end, we have already agreed on a new and more effective framework for cooperation with the Bank. Yesterday, here in Santiago, we signed an ambitious and innovative agreement whereby Spain will contribute €50 million to the Bank Group for undertaking projects and other activities to enhance the region's social and economic development.

19. Since the last annual meeting, Spain has hosted a number of events relating to the region. Last October we had the honor of welcoming to Barcelona the Third International Microenterprise Forum, a highly successful event for which we congratulate the Bank. This year, the meeting of the nonregional Governors was held in Las Palmas, and just 10 days ago two important consultative groups met in Madrid.

20. El Salvador has been devastated by two earthquakes over the last two months. El Salvador deserves special praise for its courage and vision. It has refused to ask for debt forgiveness: the only assistance it has requested is that the international community should open its markets and maintain its confidence. El Salvador will overcome this tragedy and will continue to set an example for other developing countries.

21. The Consultative Group on Central American Integration also met in Madrid. I want to congratulate the Bank for its role in organizing that event, which represents an essential step in fulfilling one of the Bank's original mandates. Integration is a long-standing issue in the region, and one that has yet to be resolved. Indeed there is still a long way to go. Our great challenge for the next meeting, two years from now, is to achieve real coordination between SICA and SIECA. Central America needs support, but above all, its future demands that it be able to demonstrate its advantages and attract sound investment, starting today.

22. Finally, Las Palmas, we celebrated in January the 25th anniversary of Bank membership for the "nonregional" countries, so called because they are geographically

distant, although they have much in common. Europe and Japan have brought “new blood” to the Bank, and new ideas and approaches, and they have certainly helped to strengthen the Bank's role in the region. I believe that the nonregional presence has made an important contribution to the Bank.

The Bank Group in the year 2000

23. We have examined with great interest the work accomplished by the Bank Group in recent months, and the challenges now facing it. We welcome the proposal to focus our efforts in coming years on four broad areas of priority (social reform, competitiveness, regional integration, and reform of the State), but we must remember that the strategies must all be targeted at reducing poverty and inequality and ensuring sustainable growth, compatible with environmental protection.

24. Like other multilateral financial institutions, the Bank is immersed in a process of internal change, of adaptation to a more globalized and interdependent economy. In this context, we need to review the key role of private finance as a tool for promoting growth in many developing countries, to make it more selective and effective. We therefore support a review of the current financial instruments, and of the validity of the limits that we have placed on the institution's various policies and instruments. Because these issues are so important, we propose that a working group of the Committee of the Board of Governors be set up to decide how to handle them in the most effective and responsible manner.

25. We believe it essential to maintain standing coordination with other institutions, both the Bretton Woods and the subregional bodies. As well, we encourage the Bank to examine its role in financial emergencies and natural disasters.

26. The Corporation is on the right road. The fact that it earned a profit last year, even if minimal, is good news. Moreover, it earned an AA credit rating. We extend our welcome to the new members.

27. The MIF has shown itself, through a valuable analysis of its first years, to be a highly promising, innovative and open instrument for promoting private sector development in the region. We hope to see it continue, and we urge all members of the Bank to join the fund and participate in it fully.

28. In closing, let me stress the need to revitalize our model of development on the basis of our own experience. I assure you that Spain is firmly committed to the region, and we believe that the Bank Group is and must be capable of addressing the challenges I have indicated and restoring the region to its proper place in the vanguard of the century now beginning.