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Statement by Ms. **ELENA SALGADO**,
Governor of the Fund and the World Bank for **SPAIN**,
to the Joint Annual Meetings

**Statement by Ms. Elena Salgado,
Governor of the Fund and the World Bank for Spain,
to the Joint Annual Meetings**

October 6, 2009

International Economic Outlook

I am speaking to you at a difficult time for the world economy—an economy that is starting, after a very turbulent period, to show a few signs of recovery due to unprecedented government intervention that has shored up demand and reduced the uncertainty and the systemic risk directly associated with the financial markets.

Our economic policy actions continue to be essential. It is not yet time to withdraw the fiscal stimuli or the measures supporting the financial system. However, we do need to design coordinated exit strategies that address not only the withdrawal of these measures, but also the development of instruments that can help generate the confidence and the environment needed to promote growth that is sustainable, balanced, and conducive to job creation, as well as the strengthening of public accounts in the medium term.

In the case of the financial sector in particular, it is crucial that governments that have intervened directly take into account the necessity and the importance of restoring fair and open competition, as well as furthering restructuring and the quest for solutions by the private sector. It is in this context that the new regulation of the sector must be designed, to ensure that the problems that led us into this situation never recur.

The Spanish Economy

The Spanish economy has begun to show signs of improvement. Although the main indicators of growth, consumption, and investment remain in negative territory, their rate of decline has slowed. This development is in line with the forecasts of gradual recovery leading to positive growth from the first half of 2010.

We expect that the external sector will continue to play an important role in stabilizing our economic variables. The imbalance in the Spanish current account is very quickly correcting itself, and our external financing requirement is decreasing significantly.

The rapid rise in unemployment is what differentiates the crisis in Spain from the situation of our neighboring countries. It is also our greatest concern. The destruction of jobs in Spain is fundamentally linked to the ongoing adjustment in the real estate construction sector, where there

was a high level of surplus capacity. Furthermore, the characteristics of our labor market are such that the burden of adjustment falls on the number of jobs more than on other adjustment mechanisms, such as wages or the partial reduction of working hours.

Despite this, the labor market has not seized up; over a million contracts are being signed each month, and more than 800,000 unemployed persons found jobs in the last quarter. Nevertheless, it will still be several more quarters before we see net job creation.

The Spanish government's policy is therefore focused on restoring sustainable growth as quickly as possible, while laying the foundations for stable job creation in the future. In the meantime, we will continue to combat job destruction and protect the unemployed. In view of the steep rise in unemployment, we considered it urgent to adopt additional measures to support the unemployed, related to vocational education and training. In the short term, such measures have a high budgetary cost that must be reconciled with the health of our public accounts in the medium term.

This is the setting for the start of the fiscal consolidation effort reflected in our 2010 budgets, including a moderate increase in some elements of taxation and, on the expenditure side, a decrease in discretionary current spending as well as the decision to reduce various support measures adopted at the very beginning of the crisis that have already served their purpose. We continue to believe in the need to maintain investment in infrastructure, education, and innovation. We are also working on structural reforms to promote the recovery and a new era of sustainable future growth. We are promoting the rental market and housing refurbishment, which will help to reorient the construction sector without the risk of creating new bubbles. We are also maximizing competition in the service sectors, which account for two thirds of our GDP. Finally, the government is working to prepare a Sustainable Economy Law that will set the stage for the development of a new productive model that is environmentally, socially, and economically more sustainable.

IMF Reform: Its Mandate and Governance Structure

The international crisis has highlighted the need to reform the functions and structure of the International Monetary Fund. We have made significant progress in adapting the Fund's lending instruments and increasing its resources. However, there is still much to be done in two areas: surveillance and governance structure.

High-quality surveillance capable of influencing the economic policy decisions of all members requires a far-reaching review of the institution's mandate. In my opinion, it is necessary to do away with the separation of the financial and macroeconomic areas and to incorporate them fully into the bilateral and multilateral surveillance instruments. Achieving this should be our main

priority, and it will consequently be necessary to strengthen the financial area of the IMF and provide it with the required resources.

Moreover, it is imperative to carry out a substantial reform of the Fund's governance structure, and in particular, a change in the quota structure to increase the voice of the most under-represented members, such as Spain. A significant increase in capital would facilitate consensus and enable the emerging and developing countries to be more fully and better represented.

World Bank

The World Bank has also had a difficult year. We applaud the Bank for the role it has played in helping emerging and low-income countries mitigate the impact of the crisis. Thanks to its solid capitalization at the outset of the crisis, the Bank was able to increase its lending considerably and to set in train new initiatives. The latitude that these measures afford is limited, however, and we believe it is time to inject additional resources by means of an increase in capital.

The World Bank should be prepared not only to meet the needs of its clients, but also to play a countercyclical role to ward off potential shocks while continuing to take the lead in the provision of global public goods, particularly with regard to climate change and food security.

Spain favors a selective capital increase that will enable emerging and developing countries to increase their voice and representation in the institution while at the same time opening up an opportunity for other countries, such as Spain, to correct their underrepresentation.

I would like to close by reiterating the support that Spain has always given to these two institutions that are essential for the stability and sound development of the world economy. As we strive toward sustainable growth, the strength of our commitment to the reform and improvement of both institutions is all the greater as Spain prepares to assume the presidency of the Council of the European Union in January 2010.

Finally, allow me also to express my gratitude for the hospitality of the city of Istanbul and the host country, Turkey, which joined with Spain in sponsoring the Alliance of Civilizations initiative.