Jaime Caruna

Speeches by the Governor

Madrid, Palacio de Congresos, 11 de Octubre de 2002

GOVERNOR'S OPENING SPEECH LACEA

Ladies and Gentlemen,

It is a great honour for me to welcome you to the Annual Meeting of LACEA. I do so in my dual capacity as Governor of the Banco de España and President of the Board of Trustees of the Centro de Estudios Monetarios y Financieros (CEMFI), the organiser of this event whose efforts and dedication have been crucial for ensuring the staging of the meeting.

LACEA is a relatively young association, created only 10 years ago, but it has already established its credentials in the academic world. I was impressed by the variety, quantity and quality of the papers presented this weekend.

The rapid and successful development of LACEA over this short period of time is indicative , in my view, of two facts: the interest among economists in the Latin American region (whose experience and problems are often paradigmatic among emerging markets), and the high calibre of Latin American researchers, whether located in the region or elsewhere.

Latin American economies seem to be at a crossroads. After a decade of progress in trade and financial integration, of reforms aimed at enhancing efficiency and of substantial progress in ensuring economic stability, recent crises have introduced some uncertainty to the road ahead in some countries. The crises were a result of domestic shocks in some cases, of external shocks in others, or more frequently of a combination of both. The impact of these shocks was exacerbated by structural vulnerabilities in a number of countries, reflected basically in a strong dependence on foreign capital flows.

We should however not overreact to recent crises, serious and painful as they may be. If we look at the sub-continent as a whole taking a longer view, the progress in certain areas over the last decade is remarkable. Macroeconomic stability has, in contrast to a long period of instability, been achieved and maintained in many countries, favoured by sound monetary and fiscal policies; the soundness and efficiency of financial systems have been reinforced; and gains in efficiency, in general, have been observed in many sectors, a process related inter alia to privatisations.

Some countries in Latin America seem to be moving remarkably smoothly towards economic integration -in some cases with industrial countries as partners-, a sound macroeconomic setting and progress in welfare. Identifying the key features and factors underlying recent experiences, successful or otherwise, in certain countries is a key contribution researchers can make towards a better understanding of economic development in Latin America.

When we look at Latin American economic policies from a European perspective, there is a risk of an insufficient understanding of the environment in which such policies are adopted and implemented. There is perhaps a natural tendency to apply the institutional framework with which we are more familiar to economies that are much more complex from a political, social and institutional standpoint. I have sometimes had the impression that there is some lack of understanding on the European side of the difficulties economic policy-making faces in Latin America, and in emerging markets in general for that matter. The problems related to social inequality; the inadequacy of infrastructures; the weak institutional and political setting; the dependence on raw materials as a source of external income; the exposure to shocks of a varied nature, and the vulnerability to changes in the mood of global capital markets, all have a profound impact on the way economic policies are designed and pursued in such countries, and on the related room for manoeuvre. Without acknowledging these particularities, it is difficult to understand Latin American economic policies.

You would not be surprised if I stress, as a central banker, that these difficulties should in no way cast doubt on the desirability of the key objectives of macroeconomic stability and financial system soundness, a message we need to make particularly clear at times of distress like these.

Latin American countries have too often paid a high price for monetary laxity and fiscal profligacy. They are therefore well aware of the importance of macro-stability as a prerequisite for growth. The Latin American experience clearly shows that only countries that persevere with sound policies are able to obtain the confidence and credibility of domestic economic agents and the endorsement of global financial markets needed to enter a virtuous circle of economic growth, sustained capital inflows and macroeconomic stability. Experience in the region also shows that there are no short cuts to replacing persistent political resolve aimed at that objective, and no magic devices to deliver such stability without any cost. But an appropriate institutional setting, including central bank independence and rules for fiscal discipline, can certainly reduce such cost substantially.

Turning to the financial system, the link between its development and broader economic development has been highlighted by country experiences as well as by the economic literature. Although there are deep-seated differences among Latin American countries, the region as a whole shows a remarkable dependence on foreign capital flows for its investment and development, in contrast to other emerging regions. This dependence, combined in some countries with relatively low degrees of trade openness, a lack of reputation for sound macroeconomic policies and a poor record in the observance of property rights, has created a situation in which changes in the direction of capital flows ("sudden stops") entail a very high cost for a number of Latin American economies in terms of volatility of growth and output loss. The fostering of domestic saving is a high priority in many countries in the region, whose achievement is closely related to the development of sound and efficient financial systems, both as concerns the banking sector and financial markets. The relationship between economic development and financial sector development is bi-directional: growth and economic development stimulate financial deepening, and a sound and resilient financial system helps increase potential economic growth. In particular, a deep financial system acts as a buffer to absorb shocks generated in global financial markets. But financial sector development and a higher level of saving require a legal and institutional framework in which economic agents can operate under the assumption of a lasting and deep-rooted respect of the basic rules of a free market economy, including in particular the protection of property rights, something that is unfortunately not always guaranteed in some countries in the region.

Latin America is a fascinating region, with formidable potential, but one in which economic policies face complex challenges. Policy-makers in the region are particularly in need of high-quality economic research, aimed at shedding light on the difficult choices they face. Such well-founded analysis is indeed especially necessary at this crucial juncture, at which economists and the public at large look at recent crises with apprehension and a certain degree of uneasiness. I am glad to observe that this high-quality research is flourishing, as this LACEA Annual meeting confirms.

Let me add a few thoughts on the role I consider Spain is playing and can play in fostering mutual understanding between Europe and Latin America. As you know, in Spain we tend to see ourselves as a bridge between Latin America and Europe, a view reinforced over recent years as a result of a considerable deepening of our links with both areas. We also believe that although the experiences of European and Latin American countries differ in many respects, there are interesting lessons to be drawn from the comparison between both areas, in their similarities and differences. And we believe Spain is particularly well placed to contribute to such a debate, because our economic policy objectives in recent decades have many similarities with those of Latin American countries: achieving and maintaining macro-stability, increasing the efficiency of our economy and ensuring successful integration into a wider market, both in the trade and financial spheres.

Interestingly, although Latin America is normally seen as an area particularly linked to the US, for geographical, political and historical reasons, the trade and financial relations of many Latin American countries with the European Union are even stronger than those with the US, particularly so in South America. Within Europe, Spain has traditionally had particularly deep ties with Latin America, and these have been reinforced over recent years, specifically as concerns direct investment.

It is in this regard very gratifying for Spain that the deepening of our EU dimension over recent years has not been at the expense of our Latin American links. On the contrary, Spain was able to progress remarkably strongly on both fronts, which tends to show that regional integration processes, if carried out properly, do not take place at the cost of lessening links with third countries but rather have the potential to foster international links with a wider array of partners. This was certainly the case for Spain, which witnessed an intensification of its international projection in parallel with deeper integration into the EU.

Naturally, as a result of these increasing links with Latin America, the community of Spanish economists developed great interest in economic research in the region. This LACEA meeting provides an excellent opportunity to foster links between Latin American researchers and their European and -in particular- Spanish counterparts. I hope we will all enjoy this opportunity.

Thank you.