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Opening remarks

VIIth Emerging Market Workshop

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First of all, I would like to welcome you to Madrid and to our premises at the Banco de España.

We are celebrating the Seventh edition of this Emerging Market Worskshop organized by the Eurosystem. This event was originally devised by the BOFIT at the Bank of Finland in 2003. Since then, our Directorate General has closely collaborated with BOFIT in the organization of the successive editions. In November 2005 we celebrated its third edition in this very same venue – some of you were here at that time, [although we have now a more pleasant weather].

The workshop has gained relevance throughout the years and some other banks of the Eurosystem- as the Austrian Central Bank- have been engaged in the organization of this event. With hindsight, we can affirm that it has become a useful forum for researchers and policy makers of the Eurosystem and the emerging markets economies to interact. Here we have been able to discuss in-depth economic issues and share research which can be useful to adopt in other economies.

I would also like to underline the increasing geographical scope of the workshop. It started with just European Union members, both from the Eurosystem and new EU members but in last years, researchers from, mainly, the rest of Europe, and Latin America have attended this conference. Thus, I would like to welcome the representatives of Brazil, Chile, Colombia, Russia and Turkey, for the special interest and effort they have made to attend this Conference.

The topic of this year workshop is, not surprisingly, "The fallout of the global financial crises in emerging markets economies". Just before the Lehman's failure concepts like "resilience" and even "decoupling" were used to analyze the performance of emerging markets, but in March when the workshop was being organised and the call for papers was sent out a sinking feeling was widespread: the economy was in free fall and the risk of global financial meltdown was high. Nowadays the dominating feeling is one of relief and even, relative optimism. However, this relief cannot conceal that the damage done to the economies is severe, persistent and it will have long lasting consequences.

In relative terms, emerging economies, have, in the aggregate overcome the crises relatively well, with key exceptions on which I will focus below, to the point that the 'D' word –decoupling- has sprung out again in certain discussions. The costs in terms of output and financial volatility have been large and a promising period of strong growth and financial stability has been interrupted, at least transitorily. But the dominant perception in emerging economies can be summed up in two statements: i) the crises was an exogenous event inflicted upon them by advanced economies; and ii) emerging economies have weathered the storm relatively well.

Relative to the first statement, there is no doubt that financial excesses in advanced economies are the main culprits of the crises, but it is fair to recognise that, in that context, the massive flows of capital from emerging economies –in particular China and commodity producers- gave even more impetus to those excesses.

Regarding the performance of emerging economies, it is indeed remarkable the difference with the recent past:

-first, the reversals of capital flows have been intense, but there are signs of a certain reflux;

-second, exchange rate and financial volatility has reached record highs but it has retreated hardly causing major exchange rate and/or financial crises.

-third, a numerous subset of countries have been able to implement effective policy measures and react countercyclically.

These are not small achievements and it is widely recognised that this resilience has been based on improving economic and financial fundamentals and institutions to provide macro stability.

Probably some of the countries represented in this room will not recognise themselves in this somewhat rosy assessment. As I mentioned above, there are important exceptions in this picture, mainly in Europe. The impact of the crises in Eastern Europe –both within and outside the boundaries of the European Union is being particularly severe and threatening.

This is one of the nasty surprises of the crises, since the accession of new Eastern European members to the European Union in 2004 and 2007 had been considered as a boost to the economies and their process of economic convergence within the EU. In this context, the path towards the euro seemed –to many- well underway.

The prospects were so favourable that keeping the label 'emerging' for these countries was the object of some controversy. But the stress they are enduring is typical of emerging market economies: intense capital flows, with high exposure to foreign currency lending feeding into a intense economic and financial boom plagued by economic imbalances. This is followed by a sudden stop of capital inflows which –for some of them- has to be managed under the rigidity of exchange rate pegs.

Interestingly, other emerging region very well represented in this workshop –Latin America- not so long ago went, once and again, through the same problems. Indeed, from the last bout of crises at the turn of the centuries they drew some important lessons which were put into practice in the last years and that have served them well now. In this context, I think that this forum gives a very useful opportunity to compare the experiences of the different areas, not only in the aftermath of the crises, but also in the runup to it. As a matter of fact we are devoting a session this afternoon to compare these experiences.

I will conclude by briefly reviewing the program. In the opening session we are going to analyse the conditions that have made this recent crisis the most global turbulence since 1929. The rest of the morning will assess how the crises has impacted on different countries. This afternoon will include the session I have just mentioned and the keynote lecture by Jaume Ventura of CREI, who is one of the leading economist in international macro and finance. Tomorrow morning there will be two sessions. The first will mostly deal with monetary policy and the second will mostly analyse the effect of the crises on capital flows and financial prices.

We expect a very fruitful and lively discussions and I encourage everybody in the room to participate actively in the sessions. Thank you so much for coming to Madrid, and I hope you enjoy this Conference and also your leisure time outside the Bank.

Let me give now the floor to Mr. Jorge Toro to chair the opening session.