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Opening Remarks
III High Level Seminar of the Eurosystem and Latin American Central Banks: Monetary and Financial implications of globalisation

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Good morning,

Welcome to our Seminar, focused on the *Monetary and Financial Implications of Globalisation*. The accelerated path of economic and financial integration that we are witnessing at the global level is introducing substantial changes in the behaviour of variables that are crucial for monetary policy and is bearing intensely on the factors and relationships that guide our decisions. The issue of integration was already present in the first edition of the seminar, although from a more parcial perspective, as we then discussed only about regional integration –both in Europe and Latin America-.

To better understand why globalisation is now at the forefront of the economic debate and what are the challenges for policymakers that it entails, it would be useful to look at the developments in the world economy over the past four years and hint how increased integration has contributed to a period of rather successful economic performance.

In 2002 the world economy was recovering from a slowdown driven by a mild recession in the U.S, after the stock markets had experienced a sharp correction. That year the global economy posted a growth rate of 3% and was on its way to reach the growth rates of around 5% that we are experiencing now. The prospects today are supportive for the continuation of this solid global growth, despite the fact that some uncertainties remain regarding the depth of the expected US slowdown –driven this time by the adjustment in the housing sector– and the extent to which the euro area, Japan and the emerging economies will be resilient to such developments.

Once again, the United States has played a leading role as an engine of the global economic expansion over the last years, but the most remarkable aspect has been the key contribution made by emerging market economies. 2006 will be the fourth year in a row in which this group of economies achieves average rates of growth over 6.5%, which is specially telling given the fact that economic performance in emerging markets has been rather volatile in the past. Indeed, their contribution to global growth and their share in global output have been increasing for several years now.

Of course, this high average growth masks large differences between countries and areas. When looking at individual performances what really stands out is the consolidation of very high rates of growth in China and, with a certain lag, in India and other smaller Asian economies. The impact of Asia -and of China in particular- on international exchanges has also increased dramatically even though its weight in world trade is still low compared to its potential in terms of output and population. Given this spectacular economic dynamism what is really surprising is the low prominence given to China in the reports on international economy only four years ago. No doubt, the emergence of China as a global player and the efforts made by the international community to

come to terms with this new reality have probably been one of the most dramatic transformations in the global economy.

When we turn to the performance of the euro area and Latin America in those four years we find instead that for different reasons both regions seem to have been lagging somewhat in the global context.

The euro area started a cyclical recovery in 2002 but until very recently it has only shown a rather disappoining growth record. Although there have been some exceptions -Spain would be one- the overall figures have been dragging due to the weakness of the larger economies in the area. Only in 2006 is activity picking up strongly, to around 2.5%. The observed recovery in domestic demand is particularly welcome, since its weakness has been weighting heavily on growth in the last years. In fact, one of the factors identified behind the lacklustre behaviour of domestic consumption have been precisely globalisation forces -acting mainly through the reallocation production and labour and reinforced by the paralel process of European enlargement-. This has contributed to contain wage pressures and labour costs, but has also underlined the need to reinforce the basis for euro area growth.

On the other hand, Latin America has been one of the emerging regions which delayed its incorporation to the current expansionary cycle. Between 2001 and 2003 the region underwent strong economic turbulences which slashed growth and even generated deep economic crises in some of the countries which are present here today. The financial vulnerability of the region exacerbated the impact of the financial turbulences, but once the recovery took hold, there has been a sustained effort by the authorities to reduce these vulnerabilities, as we will have time to discuss today in the second session. One element which has contributed to this reduction in vulnerability has been the accumulation of reserves, the topic of the afternoon session. Here, the assessment has experienced a U-turn: four years ago Latin America and other emerging countries were concerned about the depletion of reserves; now, driven in some cases by the rapid increases in commodities prices, the debate focuses on excessive reserves, mainly in Asia, but also in Latin America.

Our discussion here today will focus around some of the new developments that have characterised this recent period of economic expansion and globalisation. The favourable behaviour of inflation over the last years has surprised policy makers. Inflation has only slightly increased in the average of industrialised countries from the low levels recorded in 2001 to rates around 2.5%. In most emerging markets inflation has fallen after 2003 and even more markedly in

Latin America where it is setting historical lows. But I prefer to put this figure in the context of the parallel and dramatic increase in commodities prices. The price of oil has increased from less than 20$ per barrell in 2002 to around 60$ today. Jointly with the economic recovery, this was feared to put strong inflationary pressures on the economies and has become a recurrent concern in policy discussions. All in all, I would dare to say that none of us would have thought that these risks to inflation would have been dodged so well. We, central bankers, could be tempted to take the full credit for this remarkable achievement. To be fair, however, we must admit that globalisation, again, has greatly helped through the reduction of the import prices of manufactured goods and the disciplinary effect on domestic production costs.

Developments around global imbalances have been less favourable. This issue was already a concern four years ago –when US current account deficit was heading towards 5% of GDP-. Today it is even more so as the US external imbalance will be around 6.5% of GDP this year despite the 20% real effective depreciation of the US dollar. Not only have the imbalances widened but their accumulating impact has increased the scope for a disorderly adjustment in the future. It is true that the deeper financial integration associated to globalisation -which, for instance, reduces the home bias of investors- contributes to make current account imbalances more persitent and maybe more sustainable, but their magnitude remains rather worrisome.

I do not want to extend further in these opening remarks. I would like to conclude by saying that in the last years the world economy has dealt quite successfully with some important shocks, that in other circumstances could have seriously impaired its dynamism. Globalisation has in certain aspects helped to overcome these risks, but in others it has generated new challenges that we need to face. I think that the open discussion we are having today will contribute to this task.

Let me now give the floor to Mr. Trichet to make the introduction to the Seminar. Thank you very much and welcome again to Madrid.