

Message from the Spanish authorities

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Ladies and Gentlemen,

Welcome to Madrid, all of you, we are delighted to have such a remarkable group of representatives during these days in our beautiful and modern region, and I hope you have the time as well to enjoy it. The current financial crisis was triggered in 2007, first in the United States banking system. Since then it started to spread and lead to the collapse of large financial institutions, the bailout of banks by national governments and downturns in stock markets around the world. It is considered by many economists to be the worst financial crisis since the Great Depression in the 1930s. It has caused the failure of key businesses, a decline in consumer wealth, substantial financial commitments incurred by governments and a significant decline in economic activity. The collapse of a global housing bubble, which peaked in 2007, caused the values of securities tied to real estate pricing to plummet thereafter, damaging financial institutions globally. Questions regarding bank solvency, decline in credit availability and damaged investor confidence had an impact on global stock markets, where securities suffered large losses since then. Economies worldwide slowed during this period as credit tightened and the international trade declined as well. New debates have appeared: debates on credit rating agencies and investors failing to accurately price the risk involved with mortgage related financial products, debates on governments not adjusting their regulatory practices to address the real 21st century financial markets. Governments and central banks have responded with unprecedented fiscal stimulus, monetary policy expansion and institutional bailouts. In short, the picture is overwhelming and we all know that we are facing unprecedented scenarios that will require a new way of understanding, revisiting and designing the responses to it. Both market-based and regulatory solutions have been implemented, or are under consideration, but again significant risks remain for the world economy over these years 2010 and 2011. Public governance and economic authorities have now an enormous responsibility because individual efforts are proving to be much less inefficient in a global context. Therefore global thinking, coordinated actions and cooperative responses are required, because we should not forget that one of the worst consequences of the crisis is confidence

damage and it will take time to re-establish it. In this sense, investors as consumers of financial products need clear and understandable rules and un-compromized and trustable financial advice, which I am sure is on top of your priorities. Your professional role in this area is key as you are essential in contributing to the environment of trust, confident, transparency and safety required by investors in financial transactions. And now more than ever. This forum will address many of these issues and your conclusions will undoubtedly enrich the debate for regulatory authorities, governments and generally speaking the society as a whole.

Ladies and Gentlemen, we are very much aware of the important role that the financial sector plays in any economy and this sector is specially important for our region, the region of Madrid. Madrid is today the fourth financial center of the world, just after New York, London, and Paris. On a general basis, it has proved to be strong and to behave steadily during the economic crisis. And a great number of financial institutions, insurance companies and other important firms have even become stronger during the international financial crisis. The exceptional position of Madrid in the global financial sector ranking confirms the attractiveness of our region as an investment and business centre in the financial sector. Madrid stands out for the relevant position of its financial institutions worldwide. The regulation and supervision actions carried out by the Bank of Spain have enabled the Spanish financial system to acquire on a general basis a very solid situation. The regional government of Madrid is devoted to maintain and consolidate this strength, doing so through the Madrid international financial association, an initiative that was promoted by us in 2007 and were currently the most relevant national and international private actors are present.

Our support from the regional government to consolidate and set this positive path for Madrid is undertaken on the basis of a coherent and predictable economic and fiscal policy in the limited scope and competences that we maintain on a regional basis. Which is always designed to generate confidence in all agents: companies, investors, markets and citizens. In short, our government works to be a business friendly region and a region for business. Three cornerstones are always behind our current political action: austerity, budget equilibrium, and a strict control of public expenses to avoid generating a deficit in public accounts. As a matter of fact, we are the only regional administration which has achieved public budget equilibrium in 2009 and 2010 as determined by the Spanish Tax and Financial Policy Board. Second cornerstone: to increase market competition, removing administrative obstacles and barriers and simplifying procedures. We want to consolidate Madrid as an attractive place to invest. In summary, more market and less regulation, but better and more efficient regulation. And

in third place, friendly tax policy. We are reducing regional taxes for individuals and companies, as we understand they are the best decision makers to assign resources. As a result of this, Madrid is having much better parameters and indicators in terms of economic growth since last quarter 2009, we are one of the four Spanish regions posting a positive figure for economic growth, as well as for unemployment, we are 4% below Spanish average, and in general we are showing leadership in wealth, investments, innovation and prosperity indicators in Spain. But obviously our limited competences in terms of economic and fiscal policy only produce limited effects. It is the Spanish central government the real policy maker in our country, and the bad news is that the Spanish government has a lot homework to do. Because all actions taken up to now by them has been done in the wrong direction. Needless to say, the regional government of Madrid is extremely worried about it. And I have read we are not just the only ones. President Zapatero refused to admit until very recently that Spain was facing an economic crisis because as he said, pessimism does not create jobs. Spanish government has worked assiduously to put the blame for Spanish economic difficulties on outside forces, calling it an imported problem. An even blamed Spain's problems on radical liberalism, i.e. the free market. At a certain point in time Zapatero said "criticizing the economy is unpatriotic".

All experts and international bodies are repeating, Spain is unfortunately living the worst economic crisis in our recent history. Posting seven consecutive quarters of negative growth, according to the latest figures released by our national statistics agency, Spain's GDP fell 3.6% in 2009. The International Monetary Fund says that there will be no positive GDP growth in Spain until 2011, at which point it will still be below 1%. And it is even more worrying, Spain now has the highest unemployment rate in the European Union, nearly 20% of working-aged population was without a job at the beginning of 2010. That compares with an average rate, as you will know, of 10% the Euro area. And Spain is also facing an exploding budget deficit. The collapse of the labor market, which has resulted in a steep drop in tax collections, and the central government's policy response of increasing unproductive public sector spending, has driven deficit to nearly 12% of GDP. The last reaction has the decision to increase taxes, in particular now the VAT, punishing again the already depressed demand and probably feeding the dramatic evolution of unemployment.

Deep reforms have to be taken. Labor market reforms to introduce flexibility, drastic cut in public deficit by cutting public expenses and public debt, reform of the financial system, because it is true we have problems with some savings banks, reforms leading as well to a sustainable pension system, reforms for a better and more simple

regulation, and of course tax reductions to promote competitiveness for our companies. I also want to convey an important message, and that is that Spain is not Greece. We are sure of that. There is margin to react, to implement the reforms I just mentioned. We don't blame any other thing on the Spanish government but to respect some principles: responsibility, consistency and predictability. In Madrid, this has worked out. Many countries are already in the path of recovery because actions have been taken in these directions.

Ladies and Gentlemen, the suggestive title you have chosen for the forum, the topics on which presentations and discussions will focus, the high level of the speakers and the excellent representation will make these days of utmost interest for everybody, and of course for the regional government of Madrid. I would like to thank once again all the organizers of this important forum, and also thank them for choosing Madrid.
