



OECD FORUM 2008
Climate Change, Growth, Stability
3-4 June 2008, Paris

Opening Session

Augustín Carstens, Secretary of Public finance and Credit, Mexico

Mr. Angel Gurría, OECD Secretary-General,

Ladies and gentlemen,

It is an honor for me to address this distinguished audience in the occasion of the 2008 OECD Annual Meeting. This represents a very important and timely opportunity for gathering government officials, business and labor leaders, media and other representatives of a broad range of sectors to discuss current world issues, exchange experiences and join efforts to find solutions to shared challenges present today.

The Forum provides an excellent opportunity for the OECD and Ministers to hear and reflect on the ideas and opinions that a variety of actors bring to bear on the core issues that will be discussed at the Annual Meeting. Your views help us to identify and shape possible solutions, and to take into account the concerns of business and labor leaders and civil society to tailor public policies better.

It is also a privilege to be able to welcome you at the newly inaugurated OECD Conference Center. This building symbolizes in many ways the renovation that the Organization seeks by transforming itself into the de facto hub for globalization. Its facilities will allow the OECD to bring together, under a single roof, a broad range of events and policy discussions, fostering greater networking opportunities among delegates and closer cooperation between the different Committees and working groups.

As the Organization prepares to expand again, offering Chile, Estonia, Israel, Slovenia and Russia membership, and puts into place an enhanced engagement program with the largest emerging economies (Brazil, India, Indonesia, China and South Africa), I have no doubts that this modern meeting space will prove invaluable in carrying out the OECD outreach activities.

The OECD must preserve its core focus on promoting growth, cooperation, and a better understanding of domestic and international policies, while at the same time providing an effective response to emerging priorities. Just as this new building is seamlessly linked to the beautiful Chateau above us -seat of the OECD since its foundation- the Organization must continue working in favor of open trade and stronger economic growth while helping countries address global challenges.

Our discussions take place amidst intricate economic conditions. The global economy has entered into a pace of slower economic growth. This year, global growth is projected to decelerate in the face of lower consumption growth in the US a result of the bursting of the mortgage bubble and higher commodity prices, as well as the losses observed in financial institutions in industrial countries which are leading to a credit crunch. In addition, there is significant uncertainty about the prospects for next year given that the adjustment the balances of American households and international financial institutions could take longer than expected.

Moreover, soaring commodity prices have placed central banks in both industrial and emerging markets in a situation where their ability to respond to a slowing global economy is curtailed. At the same time, while producer countries have benefited from higher prices, many households in the poorest countries might experience sharp deteriorations in their standards of living, leading to serious humanitarian crises.

Middle income countries have been resilient thus far. However, systemic concerns remain and policy challenges arise to mitigate the risk and to be prepared should global financial conditions deteriorate further, and commodity prices continue to rise , with the need to mitigate the effect of higher food prices on the poorest segments of the population.

In previous episodes of global turmoil, the Mexican economy was ill equipped to sort it out without much damage. When the US economy sneezed, Mexico used to catch a cold. Today, the Mexican economy has much stronger foundations to confront a less favorable international environment.

Several sources are accountable for the strengths of the Mexican economy:

- i) Major reforms were approved in 2007: the public sector worker's pension system reform, the fiscal reform, and a number of reforms to the financial system, among others. All of them are meant to increase the potential growth rate of the economy.
- ii) A robust domestic demand and a dynamic non-tradable sector. In particular, the housing sector has grown at an average rate of 15.5 per cent in the last four years. It is projected that by the end of the year the housing investment as a percentage of GDP will be more than double the levels of 2000.
- iii) A well capitalized and active financial sector. Credit to the private sector has kept growing at high rates, especially to business, both large and small. As a percentage of GDP, credit to the private sector has increased 80 per cent in the last eight years. Credit to small and medium size firms has been particularly dynamic, increasing in 60 per cent as percentage of GDP in the last four years.
- iv) Increased competitiveness and diversification of exports. During 2007 and the first quarter of this year, Mexican non-oil exports to countries different from the US have been growing at more than 20 per cent, compared with close to 5 per cent to the US. While this is partly due to the fact that the Mexican peso is following the

trend of. the depreciation of the US dollar against other major currencies, productivity in manufacturing grew by twice the level observed in the US.

- v) Higher investment in infrastructure. For the current year, largely due to the public finance reform that was approved last year, public investment will grow 24.6 per cent reaching its highest level in 20 years. PEMEX, highway, port and irrigation infrastructure will account for a significant amount of the public investment growth. The strategy for promoting higher investment in infrastructure is based on higher government revenues and the creation of the National Infrastructure Fund, which seeks to leverage government resources with higher private sector participation. The goal is to reach an investment/GDP ratio of 25 per cent by the end of the current administration.

Macroeconomic discipline, together with higher oil prices, has allowed Mexico to implement a counter cyclical fiscal policy to boost economic growth and to overcome increasing food prices. On this front, a few days ago President Calderon announced a full package of measures to reassure the supply of food, promote agricultural production and productivity and support the poorest households to cope with increasing food prices. Among other elements, it is worth to highlight the additional income that will be granted to five million poor Mexican families through the "Vivir Mejor" Program.

With all those elements in place, the Mexican economy is well prepared to maintain a positive growth path. Growth for 2008 is projected at 2.8 per cent and at 4 per cent in 2009.

Going forward, one of the main concerns for a sustainable growth is climate change. This year the 2008 OECD Annual Meeting will provide an opportunity for Ministers to discuss the economic aspects of climate change and to reflect on the costs and benefits of adopting more climate-conscious policies.

Climate change has been identified as the single greatest threat to long term global economic growth and stability. In focusing the work of the Forum to continue exploring the linkage between growth and the environment, the OECD again plays a critical role in helping to connect the technical aspects of the discussion over levels of Green House Gas emission with a better assessment of its overall impact on economic welfare.

The resulting picture gives cause for concern. Not only are environmental risks considerable and increasing, but it is becoming clearer that the costs of mitigation will continue to grow if we fail to act soon, and in a coordinated and comprehensive manner.

The social dimension of the environmental challenge also presents stark choices, with the poorest and more vulnerable population bearing a disproportionate share of the risk. In this context, climate change mitigation has to go beyond the transition of our economies to low carbon growth paths, and also look into the design and provision of specific assistance for the most vulnerable groups that will suffer the greatest consequences from global warming such as low-income agricultural producers whose livelihood will depend on more volatile climate patterns. In analyzing policy options we

must guarantee that mitigation will be closely tied to the goal of sustainable growth and macroeconomic stability, and will not unduly impose additional sacrifices on poorest households.

Since we all are responsible for the preservation of the environment, collective decisions and actions in this regard are needed. Although we all emit Green House Gases, our obligations to mitigate climate change differ according to each country's capabilities and availability of financial resources. For emerging economies, mitigation efforts should not imply diverting resources out from other high priority productive and social programs. Therefore, national efforts need to be supplemented by global financing mechanisms.

In this regard, based on the principle of common but differentiated responsibilities, President Calderon has proposed the creation of the "Green Fund". All countries would contribute to as well as receive resources from the Fund. Developed countries would receive less than their contributions. In this way, the Fund would be a mean to transfer resources to developing countries.

I extend an invitation to governments and private investors to endorse this initiative that would become the financial arm of a post-Kyoto agreement.

I am certain this year's Forum will be as successful as in the past, and look forward to your active participation during the discussions to advance our common understanding of the link between climate change, growth and stability.

Thank You.