International Monetary and Financial Committee

Eleventh Meeting
April 16, 2005

Statement by the Honorable John W. Snow
U.S. Secretary of the Treasury
On behalf of the United States of America

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As we meet today, the global economic expansion remains on track and the outlook is favorable. Growth remains strong overall, and inflation is moderate. But the world economy faces challenges: high oil prices are a headwind, and global growth is not sufficiently broad-based. This is a time of opportunity for all of us – to act to strengthen growth in our own economies and the international financial system as well.

The United States continues to do its part. Economic growth was 4.4 percent last year, the strongest in five years. The economy has created 3.1 million new jobs since May 2003. Manufacturing production is on the upswing, and a revival in U.S. exports begun in mid-2003 is also contributing to rising output.

The President has made clear the U.S. commitment to strengthen our economy further. This includes reducing the budget deficit – as well as reforming Social Security and the tax system, reducing the regulatory burden on business, and passing energy legislation. We expect the deficit to total 3.5 percent of GDP this fiscal year. Tight controls on discretionary spending and increased revenue as a result of economic expansion are expected to cut the deficit by more than half, to 1.5 percent of GDP, by fiscal year 2009.

But the challenge of strengthening growth is one that we all must take up. The major economies, particularly continental Europe and Japan, need to act more resolutely to increase economic potential. The G-7 Agenda for Growth has helped boost the priority on structural reforms and supply-side policies. Progress is being made, but far more remains to be done. Such steps to increase growth, along with deficit reduction in the United States, and greater and more widespread exchange rate flexibility, particularly in emerging Asia, are key to fulfilling the international community's shared responsibility to promote global adjustment. In this latter regard, through its mandate to exercise surveillance over members' exchange rate policies, the IMF has a continuing central role to play.

Free trade is an essential component of the drive for stronger global economic growth. Completion of the Doha Development Round before the end of 2006 is an important, though challenging, goal. We need to intensify the pace of the negotiations and commit to meeting key milestones along the way. Developed and developing countries alike need to be prepared to reduce their trade barriers and subsidies. Financial services liberalization offers particular promise, and I look for good offers in this area as a key ingredient for a successful conclusion of the Round.

The IMF's Strategic Direction

We are very pleased to see the IMF undertaking a review of its role and strategy for the medium-term. Like any other institution, maintaining the Fund's vitality depends on self-assessment and planning to ensure that it remains sharp and well-focused on its core competencies. The IMF's mission is clear – to foster international monetary cooperation and balance of payments adjustment to support international financial stability and economic growth.

The IMF has a unique opportunity through its surveillance to assess risks, influence policy and prevent crises. The IMF can and must do better in carrying out this function. Surveillance needs to be more focused on the Fund's core areas of expertise – monetary policy, fiscal policy, the balance of payments, exchange rates, and the financial sector. Integrating capital market and financial sector analysis more fully into the daily life of the Fund will also be important to executing more effective surveillance. And for the debt sustainability assessment framework to make its full contribution, this analysis must be separate and distinct from lending decisions.

The United States strongly believes that there is a need for a new tool between surveillance and funded programs to provide for structured engagement with the IMF in the absence of a need for borrowing. Such a policy monitoring arrangement would be voluntary and country-led and would allow for close engagement between IMF staff and authorities as they work to enhance the macroeconomic policy framework and strengthen macroeconomic institutions. I understand a number of countries have expressed interest in such a tool and urge the Committee to endorse creation of a policy monitoring arrangement today.

The IMF and World Bank's Financial Sector Assessment Program (FSAP) has been very successful, helping authorities become better aware of potential vulnerabilities and contributing to improved financial sector supervision in a number of countries. We look forward to further improvements in coordination on this issue. We also underscore the importance of the ongoing work on standards and codes, including the provision of technical assistance to facilitate adherence, as part of the work to strengthen surveillance. We welcome the recent review of remittances issues in the World Economic Outlook. Remittances provide a stable flow of funds that impact development, and we urge continued Fund attention to this issue.

The strategic review is an important exercise for refining the IMF's role and priorities. This will help guide the effort to modernize the IMF's operations and help align its limited resources to deliver results. We welcome the progress being made in updating the IMF's compensation and personnel management systems and look forward to further work in this area. The review of IMF finances that is now underway is also critical to our shared goal of equipping the Fund for the future. Accelerated accumulation of IMF reserves remains appropriate, given today's modern capital markets. Increased incentives for rapid repayment of the Fund would be a step forward.

The IMF's Role in Low-Income Countries

The Bush Administration believes that good economic policy is the fundamental prerequisite for economic growth and poverty reduction, and we are committed to working with low-income countries to develop strong policies. All of us support these goals. The international debate should focus on how to achieve results.

We are convinced that the IMF has a critical role to play in low-income countries. Macroeconomic stability is a necessary but not sufficient condition for growth, and engaging low-income countries to achieve this goal – through policy advice, technical assistance, surveillance, and lending – is a vital part of the IMF's mission.

However, we believe that the rationale for IMF engagement in low-income countries needs to be better articulated with a view to achieving better results. The standards for reform need to be higher. Moreover, the distinction between macroeconomic support and development finance must be far better clarified, for example to permit the PRGF to address short-term adjustment needs, as the General Resources Account meets such needs for middle-income country borrowers. The IMF's existing financing facilities could be sufficient to meet the diverse needs of low-income borrowers if the PRGF were made more flexible. We believe that the proposed policy monitoring arrangement could be particularly helpful for low-income countries that have progressed through stabilization and no longer need to rely on IMF financing. Countries with a PMA would be well-positioned to have access to PRGF financing should country circumstances change.

Helping low-income countries depends on ending the lend-and-forgive cycle and moving into an era of sustainable debt. We applaud the implementation of the new debt sustainability framework (DSA), and encourage the Fund and other lenders to consider how to integrate the goals of the new framework into their own operations. Effective implementation of the new DSA framework, along with increased use of grants in IDA and the AfDF, as well as further bilateral and multilateral debt relief in those institutions for the HIPC countries, can provide a clear path to end the cycle of repeat lending and debt problems holding back the poorest countries. We are not persuaded by arguments for IMF debt relief, and we do not believe market or "off-market" gold sales are necessary or warranted.

Modernizing the IMF's Governance

Last fall in my statement to this group I emphasized that the IMF is a financial and shareholder institution whose governance should evolve along with the world economy so that countries' positions better reflect their global weights and so that all members are more effectively represented. At that time, I underscored the reality that change in the world economy has outpaced that at the IMF, particularly given fast-paced GDP growth in emerging market economies and the advent of currency union in Europe. The IMF should recognize the enormous strides made by many fast-growing countries, particularly in Asia.

We believe the time is ripe to start considering how to address these inter-related issues. The IMF's liquidity is at an all-time high. But the fact that the IMF does not need an increase in its resources need not impede change. A rebalancing of quotas from "over-represented" countries to the "under-represented" within the existing total could yield substantial progress. This will not be an easy task, but it can be achieved with boldness and vision to help modernize the Fund.

These are clearly complex issues, and careful consideration and consultation is needed to address the full range of concerns. This is important to preserving the global character of the IMF, so that all countries feel they have a rightful stake in the institution.

Thank you.