International Monetary and Financial Committee

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April 22, 2006

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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I welcome the opportunity to meet with colleagues over the weekend to review the global economy, discuss potential risks, and consider fundamental reforms to IMF operations in the context of the Managing Director's medium-term strategy.

The global economy continues to generate impressive growth results. It grew well above four percent in 2005 for the third straight year and is anticipated to grow almost five percent in 2006. This is among the most impressive growth performances in the last 30 years. I sometimes worry that these highly commendable outcomes get lost in the steady drumbeat of more negative news. And although growth has been unusually strong and energy prices have risen substantially, inflation is contained in most economies and inflationary expectations are well anchored. In addition, financial conditions remain benign, supporting growth and job creation. Nonetheless, we need to be vigilant about risks from oil market developments, the unwinding of global imbalances, protectionist pressures, and balance sheet vulnerabilities.

Global imbalances are being manifested in disparate economic growth rates and differences in the relative attractiveness of investment climates. Imbalances inherently reflect multilateral conditions and thus their adjustment cannot be anything other than a shared responsibility. The United States, by itself, cannot and should not be expected to resolve the problem, but we, like other major participants in the global economy have an important role to play. However, the United States does not have a specific current account target in mind.

On the positive side, the distribution of growth across countries has improved recently, with a broadening recovery in Japan. Europe is witnessing a cyclical upswing, but the outlook for future growth is modest and reforms to strengthen domestic demand-led growth and improve long-run growth potential are still needed. Emerging economies with current account surpluses also need to play a more active role in managing global imbalances by adopting policies that allow for greater exchange rate flexibility, promote sustained increases in domestic consumption, and accelerate the pace of financial sector reform. Greater growth-enhancing spending by energy exporters, and, where appropriate, exchange rate flexibility, could also play a useful role.

The United States is prepared to do its part. The U.S. economy remains on a sustained upward growth track, with strong job growth and contained inflation. Although a small and temporary increase in the federal budget deficit is anticipated for 2006 due largely to spending in response to the hurricanes spending, significant progress toward deficit reduction was made in 2005 and the Administration remains committed to, and on track toward, halving the fiscal deficit by 2009. Still, the best contribution the United States can make to its own citizens and to the world economy is to continue achieving strong and sustained growth with low inflation.

Buoyant trade growth has contributed to strength in the global economy. We remain committed to opening markets and resisting protectionism. The United States places a high priority on an ambitious outcome from the Doha Development Round, encompassing agriculture, manufactured goods, and services. To achieve the growth and development potential of the round, both developed and developing countries need to reduce their trade barriers and provide real, additional market access in goods and services. We urge countries to re-double their efforts to make substantial progress in key areas, especially in the financial services sector.

Continued terrorist attacks remind us of the urgency and importance of implementing our commitments to fight terrorist and illicit finance. We have been at the forefront of a concerted effort with our allies around the world - public and private sector alike - to collect, share, and analyze all available information to track and disrupt the activities of terrorists. Finance ministries and central banks play a key role in this effort, as financial intelligence is among our most valuable sources of data for waging this fight. Thus, we must draw upon all available financial information to detect and disrupt terrorist money flows.

Indeed, the IMF's and the World Bank's work on terrorist finance and money laundering is a priority in this fight, and we call for closer collaboration with the Financial Action Task Force in these efforts.

We have a duty to citizens around the globe to explore and utilize all avenues to protect ourselves from terrorists driven by agendas of hate.

Strategic Directions

The international monetary system needs a strong IMF. The Managing Director has set out a medium-term strategy that recognizes the need for fundamental reforms to strengthen the institution and ensure its continued strength and relevance in a global economy dramatically different from that which existed when the Fund was created.

We applaud his efforts and the proposed strengthening of the IMF's surveillance role. We strongly endorse greater attention to the Fund's core mandate of firm surveillance of exchange rate policies and their consistency with domestic policies and the international system. This is the most basic responsibility of the IMF. We support proposed multilateral consultations on global imbalances, provided they are small, informal and take place at senior management levels.

The Fund needs to retain the current clarity of its existing policies on Exceptional Access. While further work will continue, we remain unconvinced that proposed new instruments to support emerging markets are necessary and appropriate. On low-income countries, the United States welcomes the Managing Director's deliberately sharper focus on the IMF's core mandates and aversion to taking on expansive unfunded mandates.

The United States strongly supports the effort to realign quotas and Board representation at the IMF in order to reflect changes in the global economy.
Comprehensive, fundamental reform is needed if the IMF is to remain legitimate and relevant to its membership. For this effort to succeed, members need to look beyond their immediate narrow interests and support changes necessary to preserve an effective multilateral institution for monetary policy cooperation and for resolving payments imbalances.

We believe a two-step approach could be adopted to tackle the challenge.
The first step could consist of approval at the Annual Meetings in Singapore of a limited ad hoc increase for the most under-represented members. But for this approach to work, it must be credibly linked to a second step that delivers fundamental reform, including revising the IMF's quota formulas with GDP as the predominant variable; broadening the number of emerging market countries receiving increases in quota shares; and taking concrete actions to rationalize Executive Board representation. In effecting fundamental reform, members also should take into account the need to give poor countries adequate voice in the Board. In this regard, the United States could consider an increase in Basic Votes as part of the second step.

To be clear, an ad hoc quota increase by itself is inadequate to resolve the quota and representation issues that are steadily eroding the IMF's legitimacy and effectiveness. The United States can only support a limited ad hoc quota increase in Singapore if it is credibly linked as a down payment on near-term fundamental reform.

A clear vision of the Fund's priorities will be essential to ensure budget discipline in the context of declining IMF income. While recent income trends need to be taken seriously, the Fund's strong reserve position means there is no need to rush to judgment on potentially very important changes to the Fund's finances.

Debt Relief and Debt Sustainability in Low-Income Countries

Debt relief provided by the Multilateral Debt Relief Initiative (MDRI) and greater flexibility in IMF support offered by the Policy Support Instrument and the Exogenous Shocks Facility provide an opportunity for more constructive IMF engagement with poor countries going forward. Debt sustainability needs to be a central focus in programs and surveillance.

To ensure that hard-fought gains from HIPC and MDRI are not squandered, it is essential that the Debt Sustainability Framework is robust enough to deter rapid re-accumulation of debt for post-MDRI countries. Limiting the pace of debt re-accumulation is necessary to provide a cushion against exogenous shocks and to create time to establish credit cultures. We favor a rules-based approach, which could ensure consistency while also permitting differentiation, just as countries' debt distress thresholds are differentiated based on the Country Policy and Institutional Assessment (CPIA).

Free-riding presents a major challenge to the benefits of MDRI. By supporting MDRI, debtors and creditors alike agreed to a new framework designed to end the lend-and-forgive cycle. The IMF and World Bank play a key role in reinforcing this framework. For countries approaching or in the midst of debt relief, there should be a presumption of zero non-concessional borrowing.