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Statement by Mr. John W. Snow
Secretary of the Treasury, United States of America
On behalf of the United States of America

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of Mr. John W. Snow
Secretary of the Treasury of the United States of America
at the Meeting of the International Monetary and Financial Committee
of the Board of Governors of the International Monetary Fund
on September 24, 2005, Washington D.C.

I welcome the opportunity to meet with colleagues today to discuss world economic prospects and the role of the IMF in today's global economy. We would like to take this opportunity to express our great appreciation for the generous response of the international community to Hurricane Katrina and its aftermath.

Since our last meeting, the global economy has continued its strong expansion, and the outlook for continued solid growth remains favorable. Nonetheless, there are risks that require attention. The disparities in industrial country growth rates are not closing and in some cases have widened, adding to the challenge of unwinding global imbalances. Rising energy costs also pose challenges. There is work ahead for all of us to strengthen growth.

Despite the challenges of recovery from Hurricane Katrina, economic growth in the United States remains solid, with core inflation pressures under control. The significant progress made on fiscal consolidation – shaving almost a full percentage point of GDP from the budget deficit over the past year – puts us in a position of strength from which to absorb the impact of the hurricane, and we remain well on track to meet our 2003 commitment to halve the fiscal deficit by 2009.

Our collective goal should be to unwind global imbalances while maintaining financial stability and a healthy sustained pace of global growth. Exchange rate flexibility has an important role to play in this process, and we are encouraged by initial steps by China and Malaysia to adopt more flexible exchange rates, though greater flexibility is still needed. Also necessary for smooth global adjustment is a shift from export-led to domestic demand-led growth. In Europe, this means structural reform in labor and product markets, while in Asia the focus should be on financial and corporate sector reform. Further trade liberalization being advanced in the Doha round -- including greater opening of financial services sectors and reduction of trade-distorting policies – can provide impetus to growth-enhancing reforms. Further fiscal consolidation is also important, and U.S. efforts are proceeding apace. To ensure that global growth is sustained, growth-enhancing reforms abroad should proceed vigorously alongside efforts to increase savings in the United States.

Oil prices remain a significant risk to global growth. Increased investment to bring forth additional supply and reduction of subsidies that artificially encourage energy use are both needed to help ease tight global supply conditions.

International trade has an important role to play in improving economic competitiveness and spurring growth. As President Bush underscored last week, the United States places a very high priority on an ambitious outcome from the Doha Development Round, reducing barriers to trade in goods, including agriculture, and substantial progress in liberalizing services, including financial services. The benefits of liberalizing trade in goods are well known. World Bank research shows that liberalization in services can multiply these gains, and that countries with fully open financial services sectors on average grow faster than other countries. We urge countries to use the run-up to the WTO Ministerial meeting in December to make substantial progress in these areas.

Strategic Directions of the IMF

It is appropriate that last year's 60^{th} anniversary of the Bretton Woods Institutions has generated serious reflection on the purposes and functions of the IMF. Periodic stock-taking is crucial to ensure that the IMF adapts effectively to address the needs and challenges of a rapidly evolving international monetary system. Rather than responding to global developments by expanding its mandate and making its efforts more diffuse, we believe the IMF needs to adapt and refine its core mission of promoting international financial stability and balance of payments adjustment. The Fund has a unique role in identifying the macroeconomic and financial policies that will allow each member to attain the benefits of globalization while successfully managing the attendant risks.

Firm surveillance over exchange rates and related macroeconomic policies is the cornerstone of the IMF's crisis prevention function, and we see a number of areas that merit strengthening.

- First, given that lack of exchange rate flexibility in large economies and protracted misalignment can contribute to global imbalances and increase external vulnerabilities in individual countries, we believe the IMF needs to exercise significantly greater ambition in its surveillance of exchange rates.
- Second, greater attention is needed to public debt dynamics, which are increasingly a major source of crisis vulnerability in emerging markets, despite high reserve accumulation. The time to reduce vulnerabilities is now, while the external environment remains relatively benign.
- Third, the IMF has a critical role to play in understanding the interplay of financial flows, macroeconomic policies and financial sector health. We welcome efforts to better integrate financial expertise into surveillance and to enhance monitoring of financial stability issues through assessment of compliance with financial standards and codes.

- Fourth, the IMF's long-term commitment to assessing the observance of FATF anti-money laundering and counter terrorist financing standards in its financial sector surveillance work, and to coordinated, prioritized, and effective technical assistance, is key to protect the integrity of the international financial system.
- Finally, increasing the candor of surveillance is an on-going challenge which deserves continued effort.

An effective IMF also needs a modern governance structure that legitimately represents its members. The IMF is a <u>shareholder</u> institution, and its governance needs to evolve to reflect developments in the global economy such as the growing weight of emerging markets – particularly emerging Asia – and monetary union in Europe. We welcome the attention that quota reform has received in the months since we last met. This is an important start to an effort that will require a concerted, cooperative effort.

With IMF liquidity at an historic high, a general quota increase remains unnecessary. In our view, members need to develop a plan for a voluntary transfer of quota shares from some of the most overweight to the most underweight large emerging market countries, while protecting the shares of the poorest countries. EU integration also needs to be better reflected in the governance structure. Addressing these issues will take time and will require leadership. For our part, the United States is not seeking additional quota, even though our quota share is quite small relative to our weight in global GDP. Increasing the quotas of underweight countries alone would raise the size of the IMF and result in a share reduction for all countries, whether merited or not; this is not an appropriate path.

Debt Relief and the IMF's Role in Low-Income Countries

We look forward to implementation of the proposal, endorsed by the G-8 leaders in Gleneagles, to provide full debt cancellation for Heavily Indebted Poor Countries (HIPCs), and end the lend-and-forgive approach to development assistance. The G-8 proposal will provide significant support for countries' development efforts, promote lasting sustainability, and improve balance of payments positions. Close monitoring and greater use of grants will be essential to preventing a renewed buildup of debt. It is our hope that the G-8 proposal will lay the basis for a more productive partnership between the IFIs and their low-income members.

We look forward to the adoption of a Policy Support Instrument (PSI), which will provide a framework for IMF policy advice and technical assistance for countries without a balance of payments financing need. A number of countries have indicated interest. Maintaining high-quality program standards under the PSI will be necessary to ensure the PSI becomes an effective tool not only for borrowers, but also for donors and markets for whom it is intended to provide a credible signal.

We welcome the stronger growth performance of many low-income countries in recent years, as economies have benefited from a combination of improved policies, debt relief, and a relatively benign external environment. The IMF has an important role to play in low-income countries through the full range of its activities – surveillance, technical assistance, and lending when appropriate. However, studies of prolonged use of IMF resources, and more recent analysis of PRGF program design, have revealed that, too often, PRGFs have not aimed squarely at achieving fiscal or external viability, and that serial PRGFs can undermine development of domestic policy institutions and processes. We believe the PRGF ought to be more flexible, more directly responsive to actual balance of payments needs, and aim more directly at achieving fiscal and debt sustainability. It is also important to maintain a distinction between the role of the IMF in promoting macroeconomic stability and sustainability and providing exceptional balance of payment supports and the World Bank's role for providing longer-term project and budgetary financing.

We attach a high priority to working together to ensure that the IMF remains relevant and responsive to the needs of its members. Thank you.