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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **JOHN W. SNOW**,
Governor of the Bank and the Fund for the **UNITED STATES**,
at the Joint Annual Discussion

Statement by the Hon. John W. Snow,
Secretary of the Treasury for the United States,
at the Joint Annual Discussion

Chairmen, Governors, Mr. de Rato, Mr. Wolfowitz. I want to welcome all of you to Washington.

We meet at a particularly challenging time for the United States. I want to take this opportunity to thank all those from around the world who have responded with solidarity and offers of support in the wake of Hurricane Katrina.

The U.S. economy is strongly positioned, even in the face of the economic impacts of the hurricanes, to continue on a path of growth and deficit reduction. Growth in the first half of 2005 was a solid 3.5 percent. The unemployment rate fell to 4.9 percent in August, the lowest rate in four years. Although the immediate outlook has softened slightly, recovery efforts are likely to boost growth early next year. The vitality, flexibility, and resilience of the U.S. economy will be tremendous assets as we move forward.

The world economy, too, has continued to expand strongly since we met last year. The outlook is favorable. Nonetheless, we must be mindful of the risks of higher oil prices and persisting global imbalances. We all share responsibility for managing these challenges.

The United States has made clear that we will reduce our fiscal deficit. Although recovery from the hurricane will expand spending in the near term, we remain on track to cut the deficit in half by FY 2009.

But one country's efforts are not enough. Fiscal consolidation in the United States without action elsewhere will yield slower global growth, higher unemployment, and less progress on poverty reduction. Slower growth in the United States is clearly not the answer, and would be in no one's best interest. As I have said, addressing global imbalances is a shared responsibility. We welcome the actions taken by China, and also by Malaysia, to adopt a more flexible exchange rate. This is a step forward, but greater flexibility is still needed. And throughout East Asia efforts need to be undertaken to spur the growth of domestic demand and reduce reliance on exports. In addition, structural reforms in labor and product markets are essential in Europe to boost domestic demand and growth, as are reforms to enhance productivity growth and the flow of resources among sectors in Japan. In other parts of Asia, financial and corporate reforms are needed to put growth on a solid path.

A vibrant global economy is in all of our interests. Making the benefits of growth available to each and every one of our countries depends on free trade. Tariffs, subsidies and trade barriers are unnecessary impediments to growth. President Bush laid out a very clear message on trade last week at the United Nations. A successful conclusion of the Doha Round will bring benefits for every country – and particularly for the developing world. Trade in services in particular can greatly benefit developing countries, providing knowledge and infrastructure to facilitate economic growth and create jobs. This is especially true in the case of financial services. An efficient, well-regulated financial sector is a key element for achieving economic growth and stability in developing countries.

The IMF and World Bank remain central to the task of promoting growth and stability in the world economy. We want these institutions to be as effective as possible. Together we have made progress on reform. But the United States believes that there is more to accomplish.

In the IMF, ongoing evolution is needed to keep the institution relevant and effective for all its members in the modern global economy. In our view, this means an IMF that is tightly focused on its core mission of promoting international financial stability and balance of payments adjustment. The IMF must set high standards for strong policies, both in its lending programs and through surveillance. It must not shy away from tough judgments – including on exchange rate regimes. The IMF also has an important, but limited, role to play in promoting strong policies in low-income countries whether through the new Policy Support Instrument, technical assistance, or lending in cases of actual balance of payments need. For all members, a modern governance structure is vital to preserve the IMF's centrality. It is time to begin the process of making both quotas and representation reflect the realities of today's world economy.

In the World Bank, we have seen improvements over the past few years as the Bank has strengthened its focus on measurable results at the project and country level. Now the Bank needs to adopt the results approach for the institution as a whole, including evaluating staff on project results rather than volume. The fight against corruption – both in recipient countries and within the institution – must continue unabated. The Bank, too, should stay focused on its core mission - reducing poverty through private-sector-led economic growth. The Bank needs to identify an appropriate role in middle-income countries, whose success means they no longer need the Bank to finance their development needs. This will involve thinking through what the Bank can offer these countries in ways that both fill unmet needs and preserve the Bank's focus on its core mission.

To make growth achievable and future aid more likely to bolster success, we simply must confront unsustainable debt burdens in the poorest countries. We believe it is essential now proceed with implementation of the proposal, endorsed by the G-8 leaders in Gleneagles, to provide full debt cancellation for Heavily Indebted Poor Countries (HIPCs), and conclusively end the lend-and-forgive approach to development assistance. The G-8 countries have collectively pledged to ensure that debt cancellation will not diminish the resources of our institutions, and I personally repeat that pledge today. I call on each of you to join this effort and make debt relief a reality.

I look forward to advancing our shared agenda. Thank you.