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Statement by Mr. Snow

STATEMENT BY THE HONORABLE JOHN W. SNOW
SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA
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We meet today at a time when the world economy is growing faster than it has in a quarter century. Across many of our economies, including many that have faced recent challenges, growth is strengthening and prospects are bright. No major economy is in recession or facing high inflation, and there are no major financial crises to discuss. Interest rate spreads between emerging market bonds and U.S. Treasuries are at historically low levels, and volatility in many financial markets remains low. But we cannot rest on our laurels -- risks remain, notably from oil prices.

The United States is doing its part to support and sustain this growth path. Real GDP growth in the second quarter was up more than 4 ½ percent over the previous year. Capital spending, manufacturing output, and job growth are very strong. Economic fundamentals are sound as strong productivity growth continues and inflation remains modest. And the President is committed to cutting the deficit in half within the next five years.

All the major economies need to continue to focus on increasing economic potential. I am pleased with the progress the G-7 are making through the Agenda for Growth on structural policies to increase flexibility and boost productivity growth and employment. This effort will be broadened as the OECD's Working Party 3 begins to assess more fully the cross-border impact of structural reforms as part of its normal discussions.

Free trade is key to spreading the benefits of growth. The U.S. applauds the Geneva WTO agreement and calls for an ambitious outcome in further talks, focusing on agriculture, industrial and consumer goods, and services, including financial services. We welcome the IMF's support for these efforts.

An IMF for the Future

The IMF plays a key role in helping to improve the global economic environment. To help ensure that the IMF is able to continue this role and serve its members effectively, we need to persist in advancing institutional reforms, building on recent progress. This is the reason that I called for a Strategic Review of the IMF, along with the World Bank, and I am grateful for the interest that the Managing Director has taken in this effort.

It is worth remarking on the progress that has been made in updating the IMF's policies and practices to meet the challenges of today's world economy. A few examples:

- The creation of clearer limits and criteria for exceptional access allows the IMF to respond robustly to a country's financing needs and at the same time providing increased predictability to borrowers and the markets. Strong implementation of this framework is important and will help solidify the longer-term strategy of the official sector in dealing with crises.

- Tightening of the focus of IMF, emphasizing its central expertise in monetary, fiscal, financial market, and exchange rate policies.
- Collective action clauses are the market standard in New York. Since Mexico led the way a year and a half ago, CACs are now included in 42 percent of the stock of external sovereign debt issued by emerging markets.
- The publication rate for country staff reports has topped 76 percent. Transparency is absolutely essential to reinforce accountability of economic policies, and I urge all countries to publish IMF surveillance and lending papers.
- The IFIs have enhanced financial sector surveillance, including by evaluating observance of key standards in over 100 countries and jurisdictions. The FATF anti-money laundering and counter terrorist-financing standard is now integrated into the IMF's efforts to protect the integrity of the international financial system.

Further steps are needed to help the IMF engage effectively with its members on the macroeconomic policies needed to achieve and sustain growth and stability. This year we have benefited from the IMF's Biennial Review of Surveillance. The U.S. strongly concurs with the conclusion that the IMF needs to be more candid and direct in exercising firm surveillance over exchange rates. I welcome the increased focus on balance sheet and currency mismatches and debt sustainability assessments. To reduce vulnerabilities in all countries, the IMF needs to put these tools to work more systematically. Financial sector analysis needs to be stronger, including through better integration of the views of capital markets staff into the Fund's work.

The IMF should also strengthen its engagement with members by introducing a new vehicle to support countries' own sound reform agendas when IMF financing is not needed. Thus, we are pleased to see the IMF initiate work on a Policy Monitoring Arrangement (PMA). Such an arrangement should be entirely voluntary, promote country ownership and support high quality standards, while better filling the gap between lending and surveillance. I hope that the Board will agree to operationalize the proposed PMA by year-end.

Of course, IMF financing remains central for countries facing short term balance of payment needs, so that these members are afforded time for policy implementation and economic adjustment. When it lends, the IMF needs to set a high bar for reforms. But the IMF should not rely solely or even primarily on lending to influence economic policies.

IMF Role in Low Income Countries

Macroeconomic stability is a necessary but not sufficient condition for growth in all countries, including the poorest. Thus, the IMF has a central role to play in fostering sound macroeconomic policies in low income countries through its policy advice, technical assistance and lending. Enhancing the Fund's toolkit to allow for stronger surveillance and clear signaling will be an important step in the near term.

Since we last met, the G-8 heads of state committed to consider measures that can further help the poorest countries address the sustainability of their debt. Empirical evidence shows that unsustainable debt burdens reduce private sector investment which is essential for economic growth and poverty reduction. We must do more to look at ways the international financial institutions can end the destructive cycle of lend-and-forgive, and to increase debt relief to the poorest.

Action is urgent and vital. I believe we should be guided by several key principles. First, debt must be sustainable; economic growth and poverty reduction requires private investment, which will not come in the context of unsustainable debt burdens. Second, loans should not be made when it is highly probable that they will be forgiven. Third, grants and debt relief must be significantly increased for the heavily indebted poor countries. This effort extends beyond the IMF; the international community must join together to bring change.

Assisting Iraq

I welcome the decision of the Executive Board earlier this week to provide financial support to Iraq under the IMF's facility for Emergency Post-Conflict Assistance. This timely support will help the Interim Iraqi Government push forward with an ambitious program to strengthen the economy, and in so doing reinforce the foundation on which Iraq and the international community build a better life for the Iraqi people.

Moving Forward Together

We have the opportunity to build on a shared view of the need for reform and more importantly to act decisively to bring change. I attach particular urgency to helping the poorest countries achieve a sustainable footing.

Before closing, I want to touch on representation in the IMF. The IMF is a financial institution of shareholders. Over time, the world economy has evolved, and the Fund's governance should evolve accordingly so that countries' positions better reflect their global weights and so the Board can continue to discharge its duties effectively. Already, change has outpaced that at the IMF. Many fast growing emerging markets clearly are playing roles in the world economy that far exceed their current IFI weights. Many parts of Europe have joined a currency union, while European representation accounts for roughly one-third of the Board's seats, and we are all watching moves toward further European integration. And, while many emerging markets are now a much larger share of the global economy, other countries have fallen behind. We will need to consider how to address these interrelated issues in the coming years.

I feel very positive about the international cooperation we have seen thus far in bringing reform to the international financial institutions. I look forward to moving forward together.