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

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TEXT AS PREPARED

Good morning, and welcome to Washington. Thank you Chairman, Mr. Wolfensohn, Mr. Rato.

Each year, we gather to review the state of the world economy and discuss how to carry forward our shared mission of promoting growth and stability, advancing development, and improving the lives of all our peoples. Today, we meet at a time when global growth is stronger than it has been in three decades -- a time that gives us the opportunity and the obligation - to build on what has been accomplished. We cannot be complacent - too many people depend on us. We must do all we can to ensure that all people can enjoy the benefits that come from sound economic policy.

The U.S. economy has been an strong engine of growth in the global economy, so I am pleased to report that the U.S. economy is on a very positive path. Although growth slowed slightly in the second quarter this year, real GDP was up more than 4 ½ percent over the past year. Capital spending has risen at a double digit pace over the last year. Manufacturing output is strong. And the economy has now added more than 1.7 million jobs over the last year. This recovery didn't occur by accident. It occurred because the U.S. economy is open, dynamic and flexible, and because of the implementation of sound fiscal and monetary policy -- including implementation of President Bush's Jobs and Growth Plan.

U.S. economic fundamentals are sound: productivity growth continues; inflation remains modest; interest rates remain low; and job creation is continuing. And at a little over 3 ½ percent of GDP in the current fiscal year, the federal deficit remains low compared to the levels in the 1980s and 1990s. But deficits are always too high and so we expect to reach the President's goal of cutting the deficit in half over the next five years.

In the global economy, we still want to see growth be more broad-based. The G-7 countries are working to increase economic potential through their commitment to structural policy reforms under the Agenda for Growth. We are already seeing results from this effort. For our part, President Bush has introduced a plan to make tax cuts permanent, make health care costs more affordable and predictable, reduce the lawsuit burden on the economy, ensure an affordable and reliable energy supply, and streamline regulations and reporting requirements. Other G7 countries are implementing reforms appropriate to their own economic conditions.

The international financial institutions are vital agents in delivering the resources and advice necessary to achieve broad-based growth and raising living standards. It is a key priority of President Bush that the institutions are focused and prepared to achieve these goals. President Bush's delivered this message, and innovative proposals, when

addressed the World Bank in the summer of 2001. I am proud to have worked with our fellow shareholders and the leaders of the IMF and World Bank to achieve an important policy shift in the institutions - bringing tighter focus, more predictability and transparency, and greater emphasis on delivering measurable results.

Specific changes - including greater use of grants instead of loans to the poorest countries, the introduction of limits for exceptional access to the IMF's financial resources, and the advent of collective action clauses as the market standard in sovereign external bond issues - are already making a tremendous difference in individual countries and the system as a whole.

The successes we have had together thus far should inspire and embolden us to extend our drive for reform. We all know that we must continually strive for excellence at the IMF and World Bank so that they can work more effectively in the modern global economy. I hope we can work together to make it happen.

In my view, there are several particularly key areas for reform.

In addition to strengthening the analysis and advice provided all members, I support introduction of a new tool facilitating the active policy engagement of the IMF with countries that seek such a relationship but do not need financial support. Such a policy monitoring arrangement should serve to increase the emphasis on countries' own policy programs and maintain a high standard for reforms.

The World Bank must maintain its focus on areas critical to economic growth and poverty reduction. Greater priority on the private sector, particularly small and medium-sized enterprises is important. Good progress has been made in introducing results-based programs; these tools need to be more fully integrated within the World Bank and other development banks to help us measure and learn from successes.

Finally, President Bush and the G-8 Leaders in Sea Island reiterated a strong commitment to the HIPC initiative and to helping the heavily indebted poor countries achieve sustainability. We must do more to prevent the build-up of unsustainable debts in poor countries. Increased reliance on grants is an important first step. But we need to do more to put these countries on a path to the future. Employing both grants and debt relief together would give the poorest countries a chance to reach their international development goals of the Millennium Declaration without adding to debt burdens. I am working with my colleagues in the G7 and other donors, with the institutions, and with recipient countries to achieve a consensus on the best way to solve the debt sustainability problem and ensure that our reforms only result in greater, not fewer, resources to poor countries.

I hope that we can all work together - shareholders, donors, and institutions -- to succeed in achieving these goals.

Thank you.