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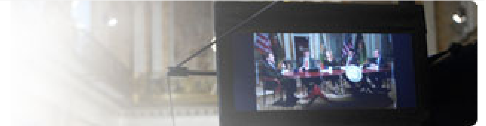

Statement by Secretary Geithner at the IMF/World Bank Annual Meetings in Istanbul

10/3/2009

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Let me thank Prime Minister Erdogan, Mr. Strauss-Kahn and Mr. Zoellick, as well as the staff of the IMF and the World Bank, for hosting the Annual Meetings in Istanbul.

Traditionally recessions that are caused by financial crises tend to be longer, deeper, and more destructive. And the recoveries that follow tend to be weaker and more fragile. We are trying to break that pattern. The unprecedented, coordinated global response to the crisis has limited the depths of the downturn, and we are working to raise the trajectory of future growth. We said we would act together. We acted. And the strategy worked and helped pull us back from the brink.

We are seeing signs of recovery sooner and stronger than we had expected. Financial conditions, particularly in the U.S., have improved dramatically. The U.S. housing sector is showing early signs of stabilizing.* *Global trade is expanding again. Emerging markets have demonstrated remarkable resilience, in part because of the mobilization of substantial resources by the international financial institutions. Forecasts among private-sector economists and by the IMF are being revised upwards significantly, with the Blue Chip now forecasting 2.4 percent U.S. real GDP growth next year, up from their 1.8 percent forecast in April. The IMF now projects 3.1 percent growth for the world economy in 2010, well above the 1.9 percent forecast in April.

Despite this progress, we are still only in the early stages of recovery. Unemployment is unacceptably high. The financial sector remains damaged. Conditions for a sustained recovery led by private demand are not yet fully established. We face challenging risks ahead.

As we move from crisis to recovery, we need to focus not just on strengthening growth, incomes, and employment, but also on how we grow. Let me highlight a few key priorities that will guide that new growth strategy going forward.

First, it is important we sustain support for global demand and growth. We need to avoid the mistakes made in past crises when policy makers stepped on the brakes too soon. Planning for an eventual exit is the responsible and necessary thing to do, but we are not yet in the position where it would be prudent to begin to withdraw fiscal and monetary policy support. Exit will not be like flipping a switch. Instead, as conditions stabilize and growth strengthens, we will unwind the extraordinary policy measures we've taken, phasing them out carefully to avoid a damaging cliff.

Second, in order to make sure we have strong growth in the future, we need to pay more attention to where that growth comes from, its composition, and its quality, both within and across countries. We need a shift towards growth that is more balanced and sustainable, less prone to distortions and to crises.

This shift is already underway. After years of taking on too much debt, Americans are starting to save again, and we have reduced what we are borrowing from the rest of the world dramatically. That's a necessary and very healthy adjustment for us. But as we save and invest more as a country, the world will not be able to rely as much on U.S. spending to drive future growth. So if we want the world to grow at a higher rate, this shift must be offset by a broad structural shift to domestic demand-led and less export-intensive growth in the rest of the world.

And this isn't a hard case to make. Because we've all suffered from the fallout of this imbalance--both American consumers who borrowed too much and the countries who depended on those consumers to drive their growth. We've seen growth fall sharply. And so we all have a strong interest in making this fundamental shift.

To achieve this growth, we also need to make the investments that will drive productivity and innovation in the future. And that's why this Administration is making significant investments in education, infrastructure, clean energy and health care reform. These are critical economic imperatives. It is encouraging that productivity growth in the U.S. has stayed so strong throughout this crisis. American companies are at the frontier of innovation and technology. However, for us to sustain that, we need to make greater investments in research and development, improve the quality of education, and reduce the burden of health care costs. At this point, with financial markets more stable and growth reemerging, it is time to give new energy to the multilateral effort to lower trade barriers. Expanding trade with a more level playing field is a key component of any strategy to rebalance global growth.

Third, we need financial reform so that our global financial system is more stable and more efficient in allocating resources. We want our financial institutions to fund the most productive and innovative investments, not booms in real estate or the modern equivalent of tulips. Growth should be driven by new ideas and inventions, not by distorted incentives that produce financial bubbles.

And that won't work if we let huge amounts of leverage and risk build up in the system or if failure in one institution can threaten the health of the system overall. We need stronger capital requirements and constraints on leverage. We need to make the system resilient enough to allow institutions to fail without collateral damage, so we don't force taxpayers to bear the burden of putting out financial fires caused by excess risk-taking by banks.

Over the course of the last year, in London, Pittsburgh, and now in Istanbul, you've seen the countries of the world act together to tackle the most damaging economic crisis in generations. And the challenges we face going forward--from expanding trade to combating climate change and reducing poverty to confronting terrorism and nuclear proliferation--require the same level of cooperation and aggressive action. The devastating consequences of inaction, and potential for catastrophic damage, demand the same force, urgency, and collective leadership that you've witnessed over the last year.

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