

U.S. DEPARTMENT OF THE TREASURY

Press Center



Statement by Secretary Timothy F. Geithner at the International Monetary and Financial Committee (IMFC) Meeting

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Outlook and Challenges

A year ago, trade was plunging by more than a third, global output was contracting at an annual rate of 6 percent, financial markets were frozen, and people were losing their jobs at an alarming rate. A year ago, we acted with unprecedented force and speed to pull the global economy back from the abyss. Together, we injected \$5 trillion of global fiscal stimulus and mobilized an additional \$1 trillion for international financial institutions to raise global output, support growth, and restart international trade.

In the United States, the \$787 billion American Recovery and Reinvestment Act (ARRA) was put in place to support incomes and demand. While controversial at the time, our decision to subject large financial institutions to stress tests through the Supervisory Capital Assessment Program (SCAP) and make the results fully transparent marked a turning point in global financial markets. Since that time, U.S. banks have raised more than \$150 billion in high-quality capital.

Because of our decisive and coordinated measures at home and across the G-20, the world economy is growing and the financial system is healing. Last April, the International Monetary Fund (IMF) was projecting global growth in 2010 of just 1.9 percent. It is now projecting growth of 4.2 percent, an increase of 2.3 percentage points. Trade has risen more than 25 percent, and finance is flowing again to emerging markets.

But much remains to be done. Although the economic recovery is gathering momentum, the pace of expansion still remains uneven across countries and regions and unemployment is still unacceptably high.

Transitioning to Strong, Sustainable and Balanced Growth

As we work to reinforce a recovery led by private demand, we need to rebalance the global economy. In the United States, we are moving to stimulate private investment and job creation and to strengthen the foundation for future growth. Private savings have increased significantly. President Obama has outlined a series of proposals that will reduce the deficit from more than 10 percent of GDP in FY 2010 to just below 4 percent in FY 2014. Our current account deficit, as a share of the economy, has fallen by more than 3 percentage points since its peak in 2005.

For countries with large external surpluses and high savings rates that are lagging the recovery, there is a strong case for policy reforms that will strengthen domestic demand, promote consumption growth, and reduce the reliance on exports for growth.

In large emerging economies, we have seen encouraging signs of a shift toward more rapid consumption growth that needs to be sustained and reinforced by a return to market-oriented exchange rates, where appropriate.

Financial Reform

We all agree on the need for a strong global framework of financial reforms to provide for a more stable global financial system, with consistent rules enforced more evenly across countries.

Achieving such a framework will require both continued international coordination and bold efforts at the national level. Next week, in the United States, the Senate will begin consideration of strong and comprehensive financial reform legislation. That legislation, consistent with the reforms put forward by the Administration and passed by the House of Representatives, imposes strong constraints on risk taking;

limits the size of institutions; brings transparency and robust oversight to the derivatives market; provides strong protections for consumers and investors; and gives us the tools to wind down large, failing financial firms without putting the rest of the financial system or the taxpayers at risk.

Taken together, these reforms will lay the foundation for a more stable, resilient financial system, less prone to panic and collapse.

Global Financial Integrity

We must also continue to safeguard the international financial system from the ongoing threat of illicit finance. As agreed by G-20 Leaders last year, the Financial Action Task Force (FATF) – the premier international body for combating money laundering and the financing of terrorism (AML/CFT) – has initiated an ongoing process to comprehensively review, and as appropriate, identify countries with strategic AML/CFT deficiencies. In February, the FATF identified 28 such countries.

The FATF's review has already produced positive results. But there must be consequences for the few countries that refuse to rectify their deficiencies. The FATF has called for countermeasures against just one jurisdiction – Iran – due largely to the terrorist financing threat emanating from that country. We must work together to take strong action to implement this call, both to protect the financial system from abuse and to maintain the integrity and effectiveness of the FATF process.

IMF Reform and Mandate

We have committed to modernize the IMF's governance structure to reflect global economic realities and have set a January 2011 deadline for concluding the quota review. As a critical first step, I call on all members to ratify the 2008 quota deal. The IMFC has provided clear guidance on the need for a shift in quota share to dynamic emerging markets and developing countries of at least 5 percent, using the existing quota formula as "a basis to work from." The goal is to achieve legitimate representation based on countries' economic weight in the world. The current quota formula, however, falls short of this objective.

Among other governance reforms, we need to consider measures to make the Executive Board more representative and effective. We support a reduction in the size of the Board that preserves the existing number of emerging market and developing country chairs, including a move to all-elected chairs.

Recognizing that the IMF is a quota-based institution, the appropriate size of the Fund should take into account all resources available to the Fund, including the recently expanded New Arrangements to Borrow (NAB). We urge all NAB participants to move quickly to finalize their participation.

Ultimately, the effectiveness of the Fund depends on how new quota resources would be used. As we revisit the Fund's crisis prevention toolkit to address potential gaps in the global financial safety net, we should consider ways to build on recent successes – such as the Flexible Credit Line. We need to better understand country motivations for building reserves and the extent of demand for new forms of IMF insurance. The IMF's core mandate of promoting the stability of the international monetary system, including through firm surveillance over members' exchange rate policies, remains paramount.

Supporting economic stability in low-income countries (LICs) is among the most critical missions of the Fund. Last year, the IMF underscored its importance by revamping the LIC lending toolkit and taking extraordinary measures to increase resources available to the poorest countries. Yet January's horrific earthquake in Haiti revealed an important gap in the Fund's framework for assisting its most vulnerable members. I look forward to the IMF quickly reaching agreement on a new framework to address catastrophic shocks in low-income countries and associated sudden deteriorations in debt sustainability.

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