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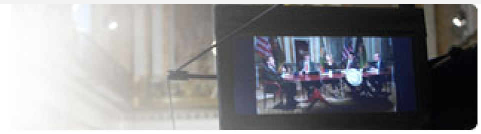

G-20 Statement by Treasury Secretary Timothy F. Geithner

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As Prepared for Delivery

This was a meeting to set the G-20 agenda for this year of the French presidency.

G-20 Ministers and Governors met against a backdrop of rising confidence about the sustainability of the global economic recovery.

The recovery is advancing at different speeds. The IMF forecasts that emerging markets will grow by an average of 6.5 percent this year and expects growth in Europe and Japan to be 1.5 percent.

The U.S. recovery stands in between, with growth gathering momentum and inflation risks modest, but with unemployment still far too high.

The global recovery faces several major challenges in the near term. A few observations on each:

First, we welcome the progress European officials are making to strengthen and redesign the financial mechanisms put in place to support economic reform. European leaders have made it clear they will do whatever it takes to make sure the nations affected and their banks have access to financing as they implement these very challenging, multi-year programs of fiscal and financial reform.

Second, the largest emerging market economies are facing the usual pressures associated with strong growth. Inflation is accelerating. The prospect of future growth is naturally attracting foreign investment, putting upward pressure on exchange rates. Emerging market economies with flexible exchange rates have seen substantial appreciation. The upward pressure on those exchange rates is being accentuated by the fact that other major emerging markets are holding their exchange rates at undervalued levels and tightly limiting capital inflows, which serves to exacerbate price pressures within their own economies and shift the burden of adjustment to others.

Third, rising global commodity prices – including for food and oil – are causing hardship in many parts of the world. The IMF estimates that commodity prices increased 20 to 30 percent in 2010. This has a serious impact on inflation and the living standards of the lowest income groups in emerging markets, where food and fuel tend to comprise a larger share of consumption.

An effective response requires increasing long-term investments in agriculture in low-income countries, through mechanisms such as the Global Agriculture and Food Security Program. This program is designed to raise agricultural productivity and improve rural infrastructure to help farmers connect to markets. We also support measures to limit the potential for market abuse and price manipulation through increased transparency and oversight of commodity markets and the associated derivatives markets. And these pressures on global commodity prices will be reduced as the rapidly growing emerging economies act to tighten policy.

Fourth, the durability of the expansion will depend in part on the ability of advanced economies to deliver credible multi-year reforms to restore fiscal sustainability, including in the United States.   G-20 Leaders committed in Toronto last June to halve fiscal deficits by 2013 and to stabilize debt-to-GDP ratios by 2016. The budget that President Obama submitted to Congress this past week meets these commitments, while protecting the key investments in education, infrastructure, and innovation necessary to strengthen future economic growth.

Beyond these immediate challenges, we will be continuing to build consensus on reforms to make global growth more sustainable and the global financial system more stable in the future. There are a lot of ideas on the table for reform. We believe the most promising and important areas for progress are the following:

First, the world needs to establish stronger norms for exchange rate policies that will help accommodate the changes in economic forces ahead for the global economy. There is broad consensus that the major economies, not just Europe, Japan and the United States, but also the large emerging economies need to allow their exchange rates to adjust in response to market forces.

Since June 2010, China's authorities have allowed their currency to appreciate against the dollar at a pace of about six percent a year in nominal terms, and more than ten percent a year in real terms, given faster inflation in China than in the United States.

Nonetheless, China's currency remains substantially undervalued, and its real effective exchange rate – the best measure to judge its currency against all of its trading partners – has not moved much in this latest period of exchange rate reform.

Second, we need a better set of incentives to promote external sustainability and reduce the risk of the re-emergence of large trade and current account imbalances.

We are moving gradually to build consensus on ways to assess measures and causes of external imbalances. This is the necessary foundation for effective international cooperation on policy actions that can help pre-empt or diffuse such imbalances. This process will take time, but it will happen because all countries, particularly the emerging economies in the G-20, have a strong interest in reducing the risk that their future growth and financial stability is undermined by large global imbalances.

Third, we need a stronger consensus on policy measures that can help emerging economies manage the risks that can come with large flows of capital. These economies have very substantial investment needs, and many are seeing very substantial inflows of foreign capital.

The challenge is to reduce the risk that these flows contribute to excess growth in credit or asset prices, and leave the domestic financial system vulnerable to exchange rate risk. This requires carefully designed prudential measures in the financial sector, as a complement to the classic mix of monetary and fiscal restraint and flexibility in the nominal exchange rate.

Finally, a more stable international monetary system requires stronger oversight of the major global financial institutions and markets. We have agreed to impose tougher restraints on risk taking and leverage, to bring oversight to the derivatives markets, and to improve our capacity to contain the damage caused by the failure of large financial institutions.

This is a very complicated undertaking, and we need to be very careful to make sure we create a more level playing field across countries so that financial activity does not migrate to jurisdictions where standards are weaker or less rigorously applied. We also need to provide participants with as much clarity as we can about the reforms so that the markets have time and opportunity to adjust to them.

These priorities for international monetary reform require agreements on principles, norms and standards for behavior, as well as stronger incentives for encouraging countries to observe those standards. The IMF has to play a central role in this process, providing independent and public assessments of progress toward these objectives.

The stability of the international monetary system depends largely on the policies of national governments. Most of the key reforms that we need to build a more robust and resilient global economy are in our own hands. But we have to move together. And the G-20 has a critical role to play in establishing norms and cooperation that will help produce more balanced and therefore more sustainable economic growth and more stable financial systems.

Before I conclude, I want to emphasize, in view of the historic events of the last few weeks in North Africa, the commitment of the United States to work with the international community to help support a peaceful and orderly transition in Egypt and Tunisia and support the economic reforms necessary to promote broader gains in living standards. I know that commitment is shared by the G-20.

Thank you.

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