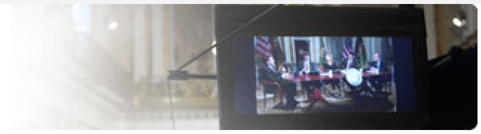

Statement by Secretary of the Treasury Tim Geithner at the "High-level Seminar on the International Monetary System"

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Remarks as Prepared for Delivery

I welcome this seminar on reform of the international monetary system. This is a good time to assess the strengths and limitations of the current system, because the world economy is going through very substantial changes.

Among the major forces shaping the global economy are the enormous opportunities created by the rise of China, India, Brazil and other dynamic emerging economies; slower growth in the advanced economies; a shift in the balance of global economic power and dynamism from the G-7 to the G-20; rising capital mobility across borders, combined with rapid financial modernization and deepening in emerging economies; and rising demand for energy and food, currently coupled with supply disruptions.

These historic changes create the potential for large swings in capital flows, large moves in exchange rates, and more volatile economic growth.

At the national level, the imperative is to build a resilient institutional framework more capable of absorbing future economic and financial shocks:

- Stronger institutions for economic policy management: independent central banks; fiscal policy rules that help deliver sustainability; strong, independent oversight of financial institutions and markets.
- Flexible exchange rate policies that can help countries better absorb shocks and enable monetary policy to be tailored to national circumstances.
- Financial rules that limit leverage, funding risk, and currency mismatches in banks.
- Economic reforms that foster greater balance in the composition of growth within and among the major economies to avoid the buildup of large external imbalances.
- Stronger investments in improving agricultural productivity, and incentives to improve efficiency in the use of energy and other supply-constrained commodities.

At the international level, we have made a lot of progress in building a more powerful and more agile framework of institutions and financial instruments to deal with this changing global economy.

The past two years have been an extraordinarily productive period of international financial reform. We tripled the lending capacity of the IMF and negotiated capital increases for the World Bank and the multilateral development banks (MDBs). We built a rapidly deployable safety net with a network of financial instruments, including multilateral swap lines among central banks and the IMF's new precautionary credit facilities, which were decisive in containing the financial crisis and then in restarting the capital flows necessary to revive trade and economic growth. We built new institutions for cooperation in the G-20 and the Financial Stability Board. We modernized the governance structures and the balance of voting rights in the international financial institutions and the international standard-setting bodies to give emerging and developing economies a greater voice. We launched new global rules to limit risk from major global banks and global financial markets. And we demonstrated just a few weeks ago the willingness of the major economies to engage in concerted intervention in the major currencies, when we acted to help Japan avoid a disorderly move in the yen that threatened to undermine its economic recovery.

This record of accomplishment compares very favorably to any period of financial reform and international cooperation over the past few decades.

The question is, where next? What are the most promising avenues for future reform that can accommodate the huge changes now washing across the global economy?

The most compelling gaps in the present system are the weaknesses and inconsistencies in the approaches that govern exchange rate policy and the use of capital controls, and in the incentives for cooperative policy action to limit economic imbalances. The major currencies are all flexible, with essentially full capital mobility. Most major emerging economies now operate largely flexible exchange rate regimes, with very open capital accounts. Some emerging markets run tightly managed exchange rate regimes with very extensive capital controls, though this is starting to change.

This asymmetry in exchange rate policies creates a lot of tension. It magnifies upward pressure on those emerging market exchange rates that are allowed to move and where capital accounts are much more open. It intensifies inflation risk in those emerging economies with undervalued exchange rates. And, finally, it generates protectionist pressures.

This is the most important problem to solve in the international monetary system today. But it is not a complicated problem to solve.

It does not require a new treaty, or a new institution. It can be achieved by national actions to follow through on the work we have already begun in the G-20 to promote more balanced growth and address excessive imbalances. It can be achieved by building a stronger set of international norms and standards that will hold for the future.

We have been engaged in a careful multilateral effort in the G-20 to establish stronger norms for exchange rate policy and the use of prudential measures to limit risk from large capital flows, and to identify and mitigate sources of future economic imbalances.

This effort has a lot of support, and we hope to see it gain more traction over time.

As part of this effort, we would support reforms to change the composition of the SDR.

Over time, we believe that currencies of large economies heavily used in international trade and financial transactions should become part of the SDR basket, and that to achieve this objective, the concerned countries should have flexible exchange rate systems, independent central banks, and permit the free movement of capital flows.

We would also support giving the IMF a greater capacity to help influence the policy choices made by the major economies, including greater independence to publish its analysis, such as its estimates of equilibrium exchange rates, recommendations for how to preempt the emergence of large imbalances, and advice on the appropriate use of prudential tools, rather than capital controls, to limit the risks that large capital inflows imperil domestic financial stability.

We support the emerging framework of financial tools to help contain the spread of financial shocks.

We demonstrated in this crisis that the careful use of swap facilities by central banks and the rapid response facilities of the IMF and MDBs can be very powerful, more powerful in some ways than the large reserves maintained by many of the recipients of those facilities.

This conditional safety net has the potential to help reduce the incentive for excess accumulation of reserves by emerging economies, though we have not seen evidence of that yet.

There has been more progress in modernizing the financial power of the IMF than there has been on the crisis prevention front. To address this moral hazard risk, it is important that access to large scale financial assistance comes with strong conditions. Those conditions can be established ex ante, for the limited number of countries with more mature institutions and strong policy track records, or ex post, in the context of an IMF program.

In conclusion, it is important to recognize that most of the solutions to the problem of how to create a more resilient and stable financial system lie at the national level.

And in this context, I want to reiterate that we recognize the important role the United States plays in the global financial system. Our policy failures caused a lot of damage in this crisis. We have made a lot of progress in fixing those problems, but we have more work to do. We are committed to improving the longer term competitiveness of our economy and to fiscal reforms that will reduce deficits as a share of the economy to three percent over the next several years so that we stabilize the ratio of debt to GDP at a level that will not threaten future economic growth. We want to make sure that the American economy in the future is a source of growth and stability, not the cause of instability.