International Monetary and Financial Committee

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Secretary of the Treasury, United States

On behalf of United States

STATEMENT BY HENRY M. PAULSON, JR.
SECRETARY OF THE TREASURY OF THE UNITED STATES OF AMERICA

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE MEETING
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As we meet today, risks to the global economic environment are the most serious and challenging in recent memory. The financial turmoil over the last year, coupled with significant ongoing financial deleveraging, commodity price shocks, and necessary adjustments in housing and other markets are causing a sharp slowdown in economic growth. The largest advanced economies are feeling this most acutely. Emerging market countries have made impressive strides in strengthening fundamentals, enabling their economic growth to accelerate and their economies to be better cushioned against external shocks. Nevertheless, emerging markets are not immune from the global financial stress, and policymakers need to be especially attentive to implementing measures to support non-inflationary growth, enhance economic resilience, and ensure sound financial systems.

This is a very challenging period for the United States, as well as the global economy. In recent weeks, financial market turmoil intensified throughout the world and credit markets froze, causing a chain reaction resulting in non-financial companies experiencing difficulty in financing normal business operations. These extraordinary events require a global response and financial officials from around the world are working together, taking action individually and collectively as necessary, to address these challenges. Our current actions focus on five areas: liquidity, capital, protecting investors, macroeconomic response and the regulatory environment.

- First, the Federal Reserve, along with other central banks, has acted to provide additional liquidity. Supplementing these actions, Treasury has implemented a temporary guaranty program for U.S. money market mutual funds.

- Second, financial authorities are acting swiftly to strengthen our financial institutions. Recently-approved legislation has created a $700 billion program in the United States to purchase or insure mortgage assets, and to purchase equity in financial institutions as Treasury and Federal Reserve deem necessary to promote financial market stability.

- Third, to protect investors, the SEC and its counterparts around the world have taken action to address market abuse. Separately, the United States and members of the European Union have increased deposit insurance coverage.

- Fourth, to facilitate tackling the turmoil and the economic slowdown, macroeconomic policy toolkits can and should be used as appropriate according to each country's individual circumstances.

- Finally, we have worked with market participants and regulators globally to address the current challenges and to restore stability and confidence to financial markets around the world. The President's Working Group on Financial Markets (PWG) in the United States, for example, has coordinated with the Financial Stability Forum on developing and implementing key policy recommendations that are designed to strengthen market transparency and disclosure, risk awareness and risk management, capital and regulatory policies, processes for and practices regarding the use of credit ratings, and market infrastructure for over-the-counter derivatives products.

Once we are past this difficult period, we must turn our attention to longer-term reforms to modernize our outdated financial regulatory structure and address other weaknesses. The interdependence of our global economy makes this challenge more complex, and it also makes our work with international counterparts to promote growth and financial stability all the more important.

Our economies draw significant strength from their openness to international trade and investment. The United States remains committed to resisting protectionist pressures and pressing for openness globally.

IMF Reform

As a key force for multilateralism on global economic issues, a strong and effective IMF is firmly in the interest of the United States and the international community. In recent years, the Fund has initiated reforms to update its framework for foreign exchange surveillance, become more representative of the global economy, and revise its financing model. The United States remains committed to working with the U.S. Congress on legislation to implement quota and finance reforms. But the Fund cannot stop here.

- To strengthen surveillance, the IMF must focus on implementing its new decision on exchange rate surveillance. This will require IMF staff to apply its considerable technical expertise to make tough judgments, and the Board to ensure IMF assessments are clearly and candidly conveyed. In addition, the Fund must place greater focus on integration of financial and macroeconomic analysis into the Fund's broader surveillance.

- The Fund must build on last spring's quota reform agreement, modernizing the IMF to reflect the world economy of the 21st century and to refocus the role of the Board. We have called on other chairs to join us in supporting a reduction in the number of Board chairs to 22 in 2010 and 20 by 2012, while protecting the chairs of emerging and developing countries.

- The IMF, along with the OECD, must continue to facilitate multilateral efforts to resist protectionism and maintain an open and stable international financial system. The recent agreement by the International Working Group of Sovereign Wealth Funds on a set of Generally Accepted Principles and Practices (GAPP), facilitated by the IMF, is a major step forward. We also welcome the OECD's work on investment policy principles to promote open, transparent, and predictable inward investment regimes.

- As it reviews its lending role, the Fund must keep its core mission in mind, and resist seeking "creative" ways to boost lending for its own sake. We are skeptical of proposals to significantly increase access levels for lending. IMF lending's relevance comes from defining adjustment paths and playing the role of catalyst, not by filling a constant proportion of financing gaps. With respect to new instruments, we have long advocated that the Fund needs a short-term stabilization instrument (like a Standby Arrangement) for low income countries, based on an "actual" balance of payments need. We remain open to creating a well-designed liquidity instrument for middle income countries.

- Finally, through policy advice to low income members and outreach to emerging creditors, the Fund must promote broader implementation of the Debt Sustainability Framework and help low-income countries avoid a return to debt distress.

Other Issues

We support continuing global efforts to combat money laundering, terrorist financing, weapons of mass destruction proliferation finance, and other forms of illicit finance, in order to protect the international financial system from abuse and to support global financial stability and economic development. We support the work of the Financial Action Task Force (FATF) to safeguard the global financial system from these threats, and we call for continued close cooperation between the FATF, the IMF and the World Bank in assisting countries in implementing international standards to combat these risks.

We remain particularly concerned about risks of illicit finance emanating from Iran. We urge all nations to fully implement the financial provisions of UNSCR 1803 by exercising enhanced vigilance over the activities of their financial institutions with Iranian banks – including their branches and subsidiaries abroad – and particularly with respect to Bank Saderat and Bank Melli. We further underscore the recent statements by the FATF highlighting the money laundering and terror financing risks to the international financial system emanating from Iran, and urge the FATF to take further action to safeguard the global financial system.