International Monetary and Financial Committee

Nineteenth Meeting
April 25, 2009

Statement by Mr. Timothy F. Geithner,
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On behalf of United States

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

FOR IMMEDIATE RELEASE **Contact: Treasury Public Affairs**
April 25, 2009 **(202) 622-2960**

Statement by Secretary Tim Geithner at International Monetary and Financial Committee (IMFC) Meeting

WASHINGTON -- I'm pleased to join you today at my first IMFC Meeting as U.S. Governor.

We meet at a consequential time for the global economy. We as IMF Governors have an important responsibility to take bold actions – collectively and within our respective economies – to address a global economic crisis greater in magnitude than we have seen in our lifetimes. The path forward has been illuminated by the commitments made by G-20 Leaders in London. We have important work here today to advance our near-term response to the global crisis, and to initiate forward-looking reforms to equip the IMF to play its central role in promoting global growth and international financial stability.

Global Outlook and Risks

Over the last six months, the financial crisis has taken a serious toll on the global economy. The advanced economies contracted at an annualized rate of over six percent in the fourth quarter of last year, unemployment rates continue to rise in all advanced economies, and data from the first quarter suggest that a further steep contraction occurred. Emerging market economies have been significantly adversely affected as well. Growth rates for all countries have slowed or, as for the advanced economies, are in a contraction phase. Exports have plummeted and capital flows have reversed. There are recent signs, however, that the concerted actions taken by numerous governments and central banks are beginning to have some positive effects. Recent data suggest that the pace of decline in our economies has slowed and tentative signs of improvement are emerging, amid a continued weak outlook. Still, downside risks remain.

While the current crisis demonstrates that interdependence has both benefits and risks, it also highlights that in a crisis of the kind we are now experiencing our policy response must be quick, forceful and global in nature. In London, G-20 Leaders set the stage for coordinated action in several key areas aimed at restoring global growth: commitments to deliver sustained stimulus on a scale necessary to restore growth, actions to strengthen financial systems and restore the flow of credit, and increased support for international financial institutions. The United States is committed to this agenda and to doing its part, while recognizing that our recovery is dependent on world recovery.

The U.S. economy faces serious challenges, and it will take time for underlying economic conditions to improve, but there are some positive signs and efforts to restore financial market stability and stimulate growth are well underway. The U.S. economy has been in recession since December 2007, with the downward trend accelerating sharply in the second half of 2008, reflecting developments in the housing market, high energy prices, and credit disruptions from mid-September. Our unemployment rate reached a 26-year high of 8.5% in March and is destined to rise further before the recession is over. But housing activity may have stabilized in February and other indicators also suggest that the pace of the downward slide may be abating. The Administration is committed to returning deficits to sustainable levels and addressing our serious structural budgetary issues, particularly health care costs, and ensuring continued fiscal sustainability.

In recent months the U.S. has taken a number of steps to stabilize and strengthen our financial system and to lay the foundations for economic recovery. The American Recovery and Reinvestment Act, which was passed in mid-February, is already putting resources into the hands of consumers and business, and is expected to create or save between 3 million and 4 million jobs by the end of 2010. In addition, we announced our Financial Stability Plan in early February and are moving forward on its implementation. It includes the following elements:

- The Capital Assistance Program is designed to ensure that major financial institutions have adequate capital to lend even in a worse-than-expected economic environment.

- The Public-Private Investment Program will use private and government capital to purchase legacy assets in order to help jumpstart the market for the private real-estate-related assets that are at the core of our financial crisis.

- The Making Home Affordable Plan will support lower mortgage rates and help millions of homeowners refinance and avoid foreclosure.

- The Consumer and Business Lending Initiative will help restart activity in the secondary markets for securitized loans, lower borrowing costs and restore the flow of credit.

Supporting trade and investment flows will be critically important to restoring global growth. Trade volume has been declining due to the economic decline and frozen financial markets, which are impeding the availability of short-term trade finance in private markets. The G-20 members strengthened their collective commitment to resist protectionism, pledging to refrain from raising new barriers to trade and investment through 2010, and underscored the importance of an ambitious and balanced Doha result. To help facilitate trade flows, the G-20 members and multilateral development banks will work to ensure the availability of at least $250 billion in short-term trade financing over the next two years, through a variety of national and multilateral mechanisms. The U.S. strongly supports this important initiative, which will increase official financing to counter declines in private financing, help stem the decline in global trade, and promote economic growth and employment.

Near-Term Priorities for IMF Action

Macroeconomic Stimulus and Financial Repair

With the global economy facing serious and unprecedented challenges, macroeconomic stimulus and efforts to repair our financial sectors are essential to ensure recovery, restore confidence and lending. Countries around the world have taken bold actions. They have put in place significant macroeconomic stimulus, and they have also provided liquidity to markets, extended guarantees to inter-bank lending to unclog credit markets, recapitalized financial institutions and acted to resolve legacy assets.

At the G20 Finance Ministers meeting in Horsham and the G-20 Leaders meeting in London, the G20 committed to taking whatever action is necessary to restore trend growth and to deliver the scale of sustained effort necessary to do so. They also called on the IMF to regularly assess "the actions taken and the global actions required." We ask the IMF to provide a comprehensive report to its membership and the G20 in June, assessing the progress being made and whether further measures are needed.

Deploy Resources to Meet Emerging Market and Developing Country Financing Needs

In order to ensure recovery, the IMF must also have adequate resources and instruments to respond forcefully to address the needs of its emerging market and developing country members hard hit by the global crisis.

MD Strauss-Kahn has acted quickly to secure temporary resources from Japan, and additional resources from the EU and other countries have been offered. We welcome these contributions. The G-20 Leaders also called for an increase in the New Arrangements to Borrow (NAB) by up to $500 billion, and expansion of participation to additional financially strong IMF members. Doing so will provide an insurance policy for the international financial system to guard against downside risk in the face of the ongoing heavy withdrawal of capital confronting emerging markets and developing countries.

Significant progress toward the goal of NAB expansion by $500 billion must be an important outcome of these meetings. The international community should act quickly to put in place this backstop of supplemental resources and the temporary resources now being mobilized should be rolled over into the NAB. For our part, the U.S. has committed to seek Congressional approval for up to $100 billion in our additional contributions to the NAB. We urge current NAB members to consider substantial additional contributions and potential new members to demonstrate their growing role in the global economy by committing to contribute at a level commensurate with the strength of their external position.

The IMF has reformed its lending toolkit in an effort to be more responsive to member country needs, including doubling of access limits, introduction of a Flexible Credit Line with ex ante conditionality for strong performing countries, High Access Precautionary Arrangements, and a more flexible approach to structural conditionality. We welcome Mexico's, Poland's, and Colombia's interest in the Flexible Credit Line.

While we are ensuring that the IMF has adequate resources, we urge the IMF to make sure the resources are accessible to members and are targeted to the most pressing problems. Much of the recent innovation has been focused on precautionary instruments, but we also see scope for further innovation in how resources in drawing programs are actually deployed. In the context of the current crisis, we support the use of IMF resources to support the fiscal needs of countries with solid medium-term fiscal prospects. We also urge the IMF – working as appropriate with the MDBs – to carefully analyze the special situations countries may face – such as the need to recapitalize banks or facilitate rollovers of corporate exposure – and to target these, as needed, with financing.

We strongly support the G-20's call for a general SDR allocation of $250 billion, which would provide supplemental liquidity and help emerging market and developing countries, in particular, cope with crisis impacts. IMF analysis suggests that substantial pockets of illiquidity will persist for some time. Prompt action on such an SDR allocation would demonstrate the international community's willingness to take bold steps in support of a global recovery.

Meet the Financing Needs of the Poorest

Low-income countries are increasingly tied to the global economy through rising flows of trade, remittances and foreign direct investment. This is the good news. The bad news is that they have become more exposed to fluctuations in the global economy and financial system. The G-20 has called for additional concessional and flexible finance, and for the use of excess profits from agreed gold sales along with surplus income, to support low-income countries during the crisis. The IMF stands ready to provide $6 billion in concessional finance over 2009-2010. A new, concessional Standby Arrangement could provide greater flexibility of access for low-income countries facing temporary balance of payments financing needs. PRGF access levels are also being raised– a step which will provide needed resources during this crisis period. However, additional borrowing should be done in a manner consistent with debt sustainability and longer-term growth prospects and this responsibility must be taken seriously. We recognize that many important low-income country needs (i.e. infrastructure finance, grants for social support) are not and should not be addressed by IMF lending. For these needs, highly concessional financing from bilateral donors or the multi-lateral development banks remains most appropriate.

IMF Surveillance

Effective surveillance for all members remains at the core of the IMF's duties and the current crisis has underscored this essential reality. As noted, we have called upon the IMF to assess whether the macroeconomic policy responses of its members are commensurate with the enormous challenges of the current global economic crisis. The IMF, through its Global Financial Stability Reports, new early warning exercises and intensified cooperation with the expanded Financial Stability Board (FSB), is making an important contribution to our understanding of our efforts on financial sector repair. The United States is undergoing an IMF Financial Sector Assessment Program, reflecting our commitment to accept the obligations and responsibilities of being an IMF member.

IMF policy advice also has an important role to play looking forward to when the crisis subsides and the global economy begins to recover. Will the post-crisis global economy return to one characterized by large global imbalances and reliance on a single or a few engines of growth, or will countries around the world rebalance their economies and put in place sound frameworks for domestic demand? The IMF needs to ensure going forward that the distribution of global demand is far better balanced. In this regard, it is also critical that the IMF exercise greater candor and clarity on exchange rate issues and follow through on the 2007 Surveillance Decision.

Forward-Looking IMF Reforms

The IMF's mission of international monetary cooperation and promoting multilateral approaches to global economic problems is central to a well-functioning global economy. This is as true today as when the IMF helped support liberalization and reform after WWII, addressed the debt crises of the 80s and 90s, and supported the transformation of ex-Soviet countries. But reform and modernization of the IMF's governance structure and continued attention to strengthening surveillance are needed to ensure the Fund remains legitimate and effective in the evolving international monetary and financial system.

Governance

The IMF needs a more representative, responsive and accountable governance structure. This is essential to strengthening the IMF's legitimacy, ensuring that it remains at the center of the international monetary system, and reflects the realities of the 21st century. The Obama Administration is strongly committed to ensuring that IFI governance is as modern as the world economy in which we live.

The U.S. strongly endorses the G-20's call for accelerating the conclusion of the next general quota review to January 2011. Early review of the IMF's quotas is a resource issue, but also fundamentally a governance issue. Much bolder action is required to realign quotas toward dynamic emerging market economies, and the next general quota review is an opportunity that must be seized. Minor adjustments around the edges are inadequate to an IMF for the 21st century. The composition of the Board must also better reflect the realities of the global economy, and I support reducing the size of the Board from 24 to 22 chairs by 2010 and 20 chairs by 2012, while preserving the existing number of emerging market and developing country chairs. Finally, Board effectiveness must be strongly enhanced – an effective Board must step back from its current day-to-day routine and provide stronger and more independent strategic oversight of the Fund.

In implementing reforms to the IMF, I pledge my country's support. The Obama Administration is moving forward quickly with legislation to implement the increased participation of the United States in the expanded and larger NAB as well as to put into effect the 2008 quota and income deal and the Fourth Amendment of the IMF Articles. We have commenced Congressional consultations on the general SDR allocation. We will do our part.

Other Issues

We support global efforts to combat money laundering, terrorist financing, the financing of proliferation of weapons of mass destruction and other forms of illicit finance, as part of ongoing work to improve transparency across the international financial system and to promote international cooperation to safeguard market integrity. The Financial Action Task Force (FATF) is a central component of these efforts, and we strongly support its ongoing work. In particular, we urge the FATF to clarify and facilitate implementation of its standards promoting transparency of legal entities and payment systems. We further urge the FATF to strengthen and apply its procedures to identify and address those jurisdictions whose deficiencies in combating illicit finance introduce substantial vulnerabilities to the international financial system. We call for the continued close cooperation among the FATF, the IMF, the World Bank and the Financial Stability Board in order to facilitate greater international cooperation and assist countries in implementing international standards to combat illicit financial activity.

We remain particularly concerned about risks of illicit finance emanating from Iran. We underscore the recent statement by the FATF calling upon the international community to implement countermeasures to protect the international financial system from the money laundering and terror financing risks emanating from Iran, and we urge all nations to respond appropriately to this call. We further urge all nations to 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.

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