Statement by Henry M. Paulson, Jr.
Secretary of the Treasury, United States

On behalf of United States
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.