International Monetary and Financial Committee

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Statement by Timothy F. Geithner, Secretary of the Treasury, Department of the Treasury, United States

On behalf of United States

Statement by Secretary Timothy F. Geithner at the International Monetary and Financial Committee (IMFC) Meeting

As we meet this weekend, we should recognize the recent historic accomplishments of the countries gathered here. Two years ago, the world economy was in the grip of an economic crisis on a scale not seen since the Great Depression. Together, we committed to and implemented an aggressive, unprecedented response to the crisis. That response calmed markets, stabilized and initiated reforms to our financial systems, and put the global economy on a path to growth.

But we should also recognize that our work is far from done. As the IMF highlights in its current *World Economic Outlook*, the global economy continues to mend. But we face a series of challenges that require collective will and commitment to meet effectively. The most important of these is how to strengthen the pace of growth and repair, and to do so in a way that provides the basis for a more balanced—and therefore more sustainable—global recovery.

More balanced growth is fundamental

The IMF forecasts the world economy will grow at a respectable annual rate of around four percent in 2011. Growth is very strong in many of the major emerging economies. In the major advanced economies, however, output and employment are still substantially below pre-crisis levels, and growth is now running at a pace not rapid enough to quickly repair the substantial economic damage remaining from the crisis.

The greatest risk, therefore, to the world economy today is that the largest economies underachieve on growth. We must continue providing well-targeted support for the recovery in the near term even as we put in place plans to help ensure fiscal sustainability over the long term.

For the recovery to be sustainable there must also be a change in the pattern of global growth. For too long, many countries oriented their economies toward producing for export rather than consuming at home, counting on the United States to import many more of their goods and services then they bought of ours.

The United States is doing and will do its part to achieve this adjustment towards more balanced growth. We have taken steps to raise national savings. Private savings have increased significantly. And we will bring down our fiscal deficit to a sustainable level as the recovery strengthens. But as America saves more, countries overly reliant on exports for their own growth will need to change their policies, or else global growth will slow and all of us will be worse off.

Countries that chronically run large surpluses need to undertake policies that will boost their domestic demand. And it is critical to see more progress by the major emerging economies to more flexible, more market-oriented exchange rate management. This is particularly important for those countries whose currencies are significantly undervalued.

Each of us has agreed that these adjustments are necessary to the future health and stability of the global economy, and yet global rebalancing is not progressing as well as we believe is necessary. We must collectively make this a priority.

Reforming the IMF

One of the IMF's core functions is to undertake rigorous surveillance of the international monetary system. In the current environment, the IMF has an important role to play to help ensure that progress toward rebalancing strengthens and that the international adjustment process is permitted to work. It is ultimately the responsibility of countries to act, but the IMF must speak out effectively about challenges and marshal support for action. Meaningful reform of IMF surveillance is a core challenge for the institution.

Specifically, the IMF must strengthen its surveillance of exchange-rate policies and reserve accumulation practices. We recognize that precautionary reserve accumulation is appropriate to a point and may well have helped several emerging market economies cope with the adverse effects of the recent global financial crisis. However, excess reserve accumulation on a global scale is leading to serious distortions in the international monetary and financial system, and is inhibiting the international adjustment process. We look forward to the IMF's upcoming discussion of reserve adequacy and urge the development of new reserve metrics. An upgrade of the analytical tools for evaluating reserve holdings is long overdue.

More broadly, the IMF must increase the candor of its surveillance. At the same time, the IMF membership must embrace further transparency reforms, such as universal publication of Article IV reports, so that IMF analysis can more freely enter the public domain.

On the governance front, we are now making progress toward agreement on a very important set of reforms to create a stronger, more legitimate IMF. We look forward to reaching agreement on a governance package that will give the fastest growing emerging economies greater weight in the institution and a greater share of seats on the Executive Board. Quota reform should bring us closer to the goal of achieving legitimate IMF representation based on countries' economic weight in the world. The quota review should also achieve an appropriate rebalancing between the IMF's quota and borrowed resources, including the New Arrangements to Borrow (NAB).

We want to make sure these changes go far enough in rebalancing both the rights and the responsibilities of the members of the institutions. And for this reason, an agreement to modernize the governance of the IMF needs to be accompanied with more progress by countries, particularly the surplus countries, towards more market-oriented exchange rate policies and policies that will reduce reliance on exports and strengthen domestic demand.

Finally, we welcome recent actions to strengthen the global financial safety net. The reform to the Flexible Credit Line and the creation of the Precautionary Credit Line will give the IMF the necessary tools to respond more quickly and forcefully to future crises.

Strengthening global financial integrity

We must also continue to work together to protect the integrity of the international financial system from abuse by illicit actors. At the request of the G-20 Leaders, the Financial Action Task Force (FATF) launched last year a comprehensive review of countries with strategic deficiencies in combating money laundering and the financing of terrorism (AML/CFT). The FATF's public identification of 28 countries with strategic AML/CFT deficiencies has already encouraged most of those countries to take concrete steps to strengthen their AML/CFT regimes.

However, there must be consequences when countries refuse to address their weaknesses. Due to the substantial unresolved deficiencies in Iran's AML/CFT regime and the considerable terrorist financing threat emanating from it, Iran is the sole country subject to FATF's call on all jurisdictions to apply countermeasures. Maintaining the integrity of the international financial system requires all of us to work together to rigorously implement these countermeasures against Iran.

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As we gather in Washington, we should look to the challenges ahead with recognition of all we have achieved together over the past two years. Our record of recent accomplishment should remain our mandate for continuing to work together to meet the challenges of growth, rebalancing, and reform. By addressing these challenges together, we can build a better economic future for our countries and for the world.