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

On behalf of the United States and our delegation, I'd like to thank Turkey and the people of Istanbul for hosting this year's Annual Meetings.

We meet as the global economy makes a critical transition away from crisis and toward recovery. Less than one year ago, with the global economy facing serious and unprecedented challenges, countries put in place significant and extraordinary measures to stabilize financial markets and support the global economy.

The United States has been a leader throughout this period, with the Administration:

i-Enacting a sizeable stimulus plan;

ii-Restoring confidence in the financial system and

iii-Flowing of credit to consumers and households through the Financial Stability Plan; and

iv-Helping marshal resources for emerging markets and developing countries through President Obama's call for large scale resources to backstop the global financial system.

v-Conditions have improved considerably.

vi-Stresses in financial markets have declined vii-Confidence has improved,

viii-International trade is recovering, and

iX-Economic growth has resumed in most countries and globally.

While global growth is forecast to accelerate in 2010,

i-Output gaps will persist

ii-unemployment may rise further and

iii-Downside risks remain.

For this reason, Leaders in Pittsburgh agreed

i-To sustain their strong policy responses and

ii-Not prematurely withdraw fiscal, monetary and financial sector support measures

Until durable, private sector-led growth is firmly achieved.

When the time is right, credible exit strategies will be prepared to begin gradually withdrawing public sector support in a way that is cooperative and coordinated but does not jeopardize the recovery.

In Pittsburgh, G-20 Leaders reached an historic agreement to put the G-20 at the center of their efforts to work together To build a durable economic recovery while avoiding:

i-The fragilities and

ii-Excesses of the past that led to the crisis.

They pledged to adopt the policies needed to lay the foundations for a healthy global economy:

i-By Creating a Framework for Strong, Sustainable, and Balanced Growth;

ii-By building a robust system of financial supervision and regulation; and

iii-By modernizing the international financial institutions to take on the challenges of the 21st century.

As IMF Governors, we have an important responsibility to work collaboratively:

i-To advance the reform agenda

ii-To support a durable recovery and

iii-Head off future crises.

Forging a Framework for Strong, Sustainable, and Balanced Growth

The crisis revealed critical weaknesses in the pattern of global growth, in which:

i-Some countries consumed well beyond their incomes and

ii-Others relied heavily on exports to generate growth

And, in the process, accumulated vast amounts of foreign exchange reserves.

This pattern of demand growth and global capital flows was excessively unbalanced and ultimately unsustainable.

To manage the transition to a more balanced and sustainable pattern of global demand, Leaders have created a new framework for economic cooperation, the Framework for Strong, Sustainable, and Balanced Growth, in which G-20 Finance Ministers and Central Bank Governors will work together, through mutual assessment, to help ensure that our individual policies are collectively consistent and more balanced, within a forward-looking framework.

We are committed to seeing this cooperative process of mutual assessment work so as to help prevent unsustainable trajectories of debt, credit, leverage, demand, and reserve accumulation becoming forces of destabilization in the future. We look to the IMF to play a key role in assisting the assessment of G-20 economic and financial policies and in providing its view on the likely balance and sustainability of the global economy. We expect that the IMF will report regularly to the G-20, in addition to the IMFC.

Strengthening Financial Sector Supervision and Regulation

Perhaps most dramatically, the crisis revealed gaps in our regulatory system that allowed the build-up of excess leverage and risk within and alongside the banking system. In the United States, we are working to implement reforms designed to protect consumers and investors and create a more stable, more resilient financial system.

In Pittsburgh, G-20 Leaders advanced an ambitious agenda to create a seamless web of financial regulation and supervision – addressing the deficiencies in our financial regulatory framework that contributed to the virulence and global spread of the financial crisis. Strengthening firms' capital must be at the core of this effort. The United States is committed to specific deadlines for implementation of more and higher quality capital, stronger liquidity, a simple leverage ratio to constrain excess risk-taking and building buffers that firms can draw down in periods of stress.

Compensation reform is also critical, and the United States has shown leadership in this area by already taking a number of actions to reform compensation practices to support financial stability. Since the April G-20 meeting, we have put in place tough new restrictions for firms receiving public assistance, including restrictions on bonuses and golden parachutes and a requirement that boards of directors review the relationship between compensation and risk; appointed a Special Master for Executive Compensation, empowered to review compensation structures for the top 100 employees at firms receiving exceptional assistance; and proposed legislation, already passed by the House, that will require all public companies to permit shareholders to cast an annual "say on pay" vote and make their compensation committees independent in fact, not just in name.

The U.S. has also moved to strengthen the transparency and the functioning of the over-the-counter derivatives market, and is working to develop tools to effectively resolve large failed financial institutions.

As we in the United States strengthen our system, we urge other nations to take steps to strengthen their own systems and ensure that the global financial system is safer and more stable. 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. The IMF's work, through annual surveillance, the FSAP, Global Financial Stability Reports, new early warning exercises, and intensified cooperation with the expanded Financial Stability Board (FSB), is making an important contribution to strengthening financial systems around the world. IMF-FSB collaboration is essential to a stronger, more resilient global financial system.

Modernizing the IMF

Enhanced Resources

The IMF's actions since the crisis began have stabilized markets and boosted confidence, winning broad support and underscoring the Fund's central role in crisis response. A critical component of the response was ensuring the IMF has adequate resources to address the needs of members hard hit by the global crisis. To this end, countries delivered on commitments to renew and expand the IMF's New Arrangements to Borrow (NAB) by over $500 billion to backstop the IMF. Dynamic emerging economies contributed a critical share to an expanded NAB, and the U.S. moved quickly to pass legislation enabling our $100 billion contribution. The IMF's action to supplement members' reserves and boost global liquidity through an allocation of Special Drawing Rights (SDRs) also demonstrated the international community's willingness to take bold steps in support of a global recovery.

We welcome IMF approval of a package of extraordinary measures to sharply increase the resources available to low-income countries. Resources from the planned sale of IMF gold and other internal sources will more than double the Fund's medium-term concessional lending capacity and frontload these resources over the next two years. In addition, the new Standby Credit Facility will fill a longstanding gap in the concessional facilities architecture, by providing maturing low-income countries with an instrument specifically designed for intermittent Fund engagement. These welcome and ambitious measures will allow the IMF to help meet the needs of the poorest countries through the crisis and beyond.

Mandate

Resources are only part of the equation. The tools available to the IMF, and the institution's capacity to identify potential vulnerabilities and appropriate policy responses, are equally important to restoring and maintaining confidence.

The Fund recently enhanced its lending toolkit to provide countries with contingent finance to guard against sudden stops. The newly created Flexible Credit Line (FCL) is proving to be an effective crisis prevention instrument for the strongest performing emerging market countries. Both the FCL and the

High Access Precautionary Arrangement (HAPA) have helped restore confidence in countries that have used them during the current crisis. We continue to support the Fund's efforts to strengthen its capacity to help its members cope with financial volatility, reducing the economic disruption from sudden swings in capital flows and the perceived need for excessive reserve accumulation.

The IMF's role in the newly announced Framework highlights the importance of candid surveillance assessments, especially when individual country policies have systemic implications. The crisis underscored the importance of strengthening financial sector surveillance, including linkages between the financial sector and the real economy. Effective exchange rate surveillance for all members remains at the core of the IMF's duties. The Fund should complement its unique role on exchange rate surveillance with stepped-up engagement in making the international system less prone to crisis. Moreover, greater transparency is critical to underpin the credibility and effectiveness of IMF surveillance. Since the crisis has taught us that no nation is immune, we call upon all IMF members to allow the publication of their annual Article IV reviews.

Governance Reform

A more representative, responsive and accountable governance structure is essential to strengthening the IMF's legitimacy, ensuring that it remains at the center of an evolving international monetary and financial system. Agreement in Pittsburgh to reform the global architecture to meet the needs of the 21st century was a watershed event. In addition to designating the G-20 as the premier forum for international economic cooperation, G-20 Leaders committed to a shift in IMF quota share to dynamic emerging market and developing countries of at least 5% from over-represented to under-represented countries. Attention must now shift to implementing this agreement, and we call on the IMF to facilitate this process by providing scenarios of how the quota shift could be implemented in the very near-term.

Reform of the Executive Board remains an essential component to modernizing the IMF's governance structure to better reflect the 21st century global economy. The United States has called for reducing the size of the Board while preserving the existing number of emerging market and developing country chairs. Further, the past six months have plainly demonstrated the benefits of securing stronger Ministerial engagement in setting strategic policies and priorities of the International Financial Institutions. To sustain this level of Ministerial engagement, we must find a way to enhance the effectiveness and efficiency of the IMFC. I look forward to discussion of concrete proposals to achieve greater involvement of the

Fund's Governors in providing strategic direction to the IMF.

Global Cooperation to Combat Illicit Finance

We strongly support the cooperation among the Financial Action Task Force, the IMF, the World Bank, the FSB and the Global Forum to strengthen compliance with international standards. For example, global cooperation to address cross-border tax evasion has led to more tax information exchange agreements being signed in the last ten months than had been signed in the prior ten years. We continue to emphasize the importance of global efforts to combat money laundering, terrorist financing, financing of proliferation of weapons of mass destruction, and other forms of illicit finance.

We underscore our concerns over illicit finance emanating from Iran and the severe deficiencies in its regulatory regime. We emphasize FATF statements calling upon the international community to implement countermeasures to protect the international financial system from money laundering and terror financing risks emanating from Iran, and we urge all nations to respond appropriately. 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 financial institutions – including branches and subsidiaries abroad – and particularly with respect to Bank Saderat and Bank Melli.