International Monetary and Financial Committee

Twenty-Third Meeting
April 16, 2011

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

On behalf of United States

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The IMF projects that the world economy will grow at about four and a half percent in 2011, but the world still faces very significant economic policy challenges.

Oil prices have risen, driven by political developments in the Middle East and North Africa, rapidly rising demand in emerging markets, and a muted supply response. In the near-term, spare capacity is sufficient to meet any disruption in supply. In the longer term, we must create better incentives for energy efficiency.

Fiscal and banking strains in the euro-area periphery continue to generate headwinds, and European officials are working to assist the most affected countries. In the wake of the tragic events of last month in Japan, we stand ready to do all we can to help the Japanese people in their reconstruction efforts, and we have full confidence in the capacity of Japan to address the additional economic challenges it faces during its difficult times.

The challenge in emerging economies is to deal with rising commodity and energy prices—and, for some, volatile capital flows—in a manner that allows for sustainable growth and does not exacerbate global imbalances.

For the United States, the outlook has improved substantially since we last met in October. We are encouraged by signs of self-sustaining growth in consumer and business spending, along with a quickened pace of hiring in recent months. Yet too many Americans are not yet back to work, and many are still struggling due to losses in their savings and the value of their homes.

We must now work to deepen the recovery at home and to ensure that the U.S. economy is a source of dynamism and stability over time. The Administration is charting a course to achieve these ends. We are working to improve the long-term competitiveness of our economy through targeted investments in education, research and development, and infrastructure. And we are committed to fiscal reforms that will restrain spending and reduce deficits while not threatening the economic recovery.

This week, the President proposed a comprehensive fiscal framework that would reduce deficits to two and a half percent of GDP in 2015 and put the nation's debt-to-GDP ratio on a declining path toward the end of this decade. The President's framework represents a balanced approach to deficit reduction, with three dollars of spending cuts and interest savings for every one dollar from tax reform. It would be backed by a debt failsafe that would trigger across-the-board spending reductions if public debt as a share of the economy is projected in 2014 to not be stabilized and declining by the end of the decade.

Even as we make progress on this pressing work at home, we must continue to collaborate with our partners abroad to place the global economy on a more stable and resilient foundation.

Since the annual meetings in October 2010, we have made significant progress on reforms to the international financial architecture. We bolstered available IMF resources through ratification of the 2008 quota reform, activation of the New Arrangements to Borrow, and an agreement to further double quotas. We also secured significant reform of the Fund's governance structure and voting rights in order to better reflect today's global economy and enhance the Fund's legitimacy and effectiveness going forward. And the expansion of the global financial safety net with the introduction of the Flexible Credit Line and Precautionary Credit Line has served to bolster resilience against future crises.

We welcome the progress in the G-20 in developing indicative guidelines to reduce excessive imbalances and maintain current account balances at sustainable levels. The IMF contributes critical analytical and policy advice to this process. The United States will do its part to address our external deficit and repair our public finances, which is all the more important given our role in the international monetary system. And we welcome continued IMF surveillance of our fiscal and monetary policies. However, others, especially those whose fundamentals call for greater exchange rate flexibility, must also contribute.

The IMF also needs to take a stronger role in fulfilling its surveillance responsibilities with regard to exchange rates, reserve accumulation, and capital flows.

The current system of exchange rates is an obstacle to effective international cooperation on imbalances. On the one hand, most advanced and emerging market economies operate largely flexible exchange rate regimes with open capital accounts. On the other, a few emerging markets run tightly managed currency regimes, deploying extensive capital controls and accumulating excess reserves well beyond precautionary levels. This asymmetry magnifies capital flows into emerging markets with open capital accounts, heightening upward pressure on exchange rates that are flexible and fueling inflation in economies with managed, undervalued exchange rates. Facilitating rebalancing requires broad consensus that major economies—advanced and emerging—need to allow their exchange rates to adjust in response to market forces.

The IMF has the capacity and responsibility to play a critical role in solving this problem and should do so by significantly strengthening its surveillance. The Fund has the requisite tools within the existing framework of the IMF Articles of Agreement—but they have not been sufficiently utilized, as suggested by the IMF's Independent Evaluation Office.

Stepped-up surveillance should include greater independence to publish IMF analysis, such as the Fund's estimates of equilibrium exchange rates, recommendations for how to preempt the emergence of large imbalances, and advice on the appropriate use of prudential tools.

The Fund's recently proposed framework to provide coherent and transparent advice to members on managing capital inflows is a good start. We agree with the guidelines' articulation of a hierarchy of policy measures to be employed in the face of inflows before turning to capital controls as a temporary and inefficient last resort. The Fund could increase capital account coverage in its bilateral and multilateral surveillance and build consensus on a framework for managing capital inflows that would inform Article IV consultations.