

U.S. DEPARTMENT OF THE TREASURY

Press Center

Prepared Statement by Treasury Secretary Tim Geithner at the Inter-American Development Bank's Annual Meeting of the Boards of Governors

3/29/2009

TG-75

Medellin, Colombia -- President Moreno, ministers, ladies and gentlemen, I am delighted to be able to join you today.

I would like to thank the Government of Colombia for hosting this important meeting in this historic city of Medellin.

We meet at a critical time, for this hemisphere, for the global economy, and for the Inter-American Development Bank.

We now face extraordinary challenges. This is a global crisis and it requires a global response.

We are moving quickly in the United States to address these challenges, and we are committed to working closely with countries around the world and with the international financial institutions.

We recognize that recovery around the world depends on recovery in the United States. And we understand how closely our fortunes are tied to those of the global economy.

This is a time for the world to come together.

In just two months, President Obama has worked with Congress to pass the largest program of support for growth in the post war period. We are moving quickly to implement that program. And we are moving aggressively to stabilize and repair our financial system and restore the credit the businesses and consumers depend on. In the United States, as in all our nations, economic recovery requires financial repair and recovery.

These actions will help lay the foundation for growth. And, alongside these efforts, we need to act to make sure that the world never again faces a crisis of this severity.

Last week, I presented the major elements of the Administration's financial reform proposals. These reforms are designed to reduce systemic risk by creating a more stable financial system that is better able to withstand recession and dampens rather than amplifies future economic cycles. This will require stronger standards for capital and liquidity for all institutions that could pose risk to financial stability. It will require bringing derivatives markets, payments systems, and hedge funds with a framework of oversight. And it will require stronger tools for the resolution and management of future financial crises.

Later this week, President Obama will join the heads of state of the Group of 20 to form a global consensus on actions for sustained economic growth, financial stability, and significant reform to the international financial system. And next month President Obama will travel to the Summit of the Americas where the importance of global cooperation in addressing our current economic challenges will be a central theme.

I want to outline the four critical elements of an effective coordinated global response to this crisis.

First, we need to make sure that we each commit to substantial and sustained macroeconomic policy support for demand, using all available tools. Substantial policy actions are already in the pipeline. These need to be sustained on a scale that is proportionate to the challenges we face in each of our economies. And they need to be complemented by continuing actions to strengthen our financial institutions so that our banks and credit markets are able to support recovery.

Second, we need to reaffirm our commitment to maintain open policies toward international trade and investment and to avoid protectionist measures that could threaten recovery. This will be a challenge for all of us, given the severity of the pressures we each face

domestically. But this is critical.

Third, we need to make sure the international institutions are able to deploy substantial resources quickly to help emerging and developing countries adjust to the sharp fall in global growth and the dramatic reversal in private capital flows. We are seeing this around the world, even in this region and even in countries with strong external positions and strong records of prudent financial management.

In this context we are prepared to support a very substantial increase in the short term resources available to the IMF and the multilateral development banks, and to support targeted use of those resources in new and innovative ways.

The IMF will play a central role in this process, and we have proposed the enlargement of the New Arrangements to Borrow (NAB) by up to \$500 billion along with an expansion of its membership. And we are open to other steps to expand liquidity by the IMF in this moment of exceptional global needs.

Fourth, we need to build consensus on a strong set of reforms to the international financial architecture. Our markets are global and risk does not respect national borders. So we are committed to working with countries around the world to raise financial standards and to encourage a race to the top, to the highest standards of supervision and oversight, rather than a race to the bottom.

And in this context, we need to strengthen and reform the governance of the international financial institutions. We should commit to a clear roadmap to agreement on changes that would increase the voting shares and financial roles of the dynamic emerging market economies in the international financial institutions. The United States will support substantial reforms to make these institutions more representative of the changes in the balance of economic strength in the global economy and more effective in encouraging stronger economic and financial policies across all members.

The Inter American Development Bank will have to play a critical role in this global effort to confront the crisis.

There is no simple or uniform prescription to the challenges we each face at the national or regional level. And the IDB has a unique ability to help countries implement tailored programs to restore sustainable growth. The IDB was the first multilateral development bank to create a crisis-response facility through the Liquidity Facility for Growth Sustainability. Bank management also moved swiftly to expand its trade finance facility to fill the gap created by the withdrawal of private trade finance from the region.

The damage of financial crises falls most heavily on the most vulnerable. And the IDB has a special role to play in addressing the special needs of its poorest members, those suffering from the affects of sharp reductions in exports, remittances, and foreign investment. We welcome the actions to increase assistance to Haiti, and we will strongly support additional actions to mobilize support for the poorest countries.

In this context, I would also like to welcome China as a member of the IDB and to recognize China's substantial contribution to the Fund for Special Operations, the Bank's concessional window.

We would like to see the IDB move further. To help address the region's demand for finance this year and next, we encourage the IDB to expand its existing resources, alongside the World Bank and the other regional development banks. We believe there is additional room to expand your balance sheet and deploy additional resources to help governments in the region compensate for the sharp reduction in private finance. The IDB should set to work immediately to identify prudentially sound ways to further ramp up its lending in 2009 and 2010, reviewing its capital adequacy model and existing policies on lending limits. Part of this effort must be directed at providing the poorest countries with crisis response tools.

This is the most pressing immediate priority.

In the context of these efforts, the United States is also prepared to begin a formal review of the capital needs of the Bank to assess the merit of an increase in the bank permanent capital base.

As shareholders across the IFIs consider the need for additional resources, I want to outline some broad principles that should help guide these reviews.

First, we need to reexamine the relative roles of the International Financial Institutions both in more normal economic conditions and in crisis. I believe the regional development banks have a very important role to play in an effective global response to future financial crisis, alongside the IMF and the World Bank, but we need a clearer division of labor, that reflects the relative strengths of each institution, both in the low income countries and in those countries with strong external reserves and more developed national financial systems.

Second, in examining the case for an expansion of the capital base of the institution, we will evaluate whether each institution has shown its ability to demonstrate flexibility in their balance sheets under current resource constraints, and an ability to effectively leverage both public and private finance. The IDB has been working to expand its private financing arms. This work will be even more critical in the months ahead.

Third, we expect a commitment to good governance. This includes efforts to combat fraud and corruption and to strengthen the institution's risk management capacity and procedures to ensure sound investment of resources provided by the shareholders. This Bank, along with all the IFIs, needs to demonstrate adherence to the highest standards.

Fourth, we will look at the capacity of these institutions to adapt to change in the needs of its members, to demonstrate an ability to innovate and a capacity to achieve results with any increase in permanent capital, to continue to add value to the policy challenges of its members, and to deliver an ongoing commitment to reform. Just to cite one example, a key focus of any additional resources for the IDB should be for critical infrastructure, with appropriate risk sharing and engagement with new private and sub-sovereign partners. Another focus should be to promote environmentally sound policies and projects.

Finally, for those institutions with concessional and grant windows, we want to see greater focus on the needs of the poorest countries.

We will work with you. We will listen to your proposals with an open mind. We will engage with respect and appreciation for the different challenges confronted by all your members and the different solutions that will be necessary to address those challenges.

We should all be encouraged by the strength of the global response to this crisis. We need to all act together, and we need to make sure we sustain that commitment for the duration of the crisis.

It has been an honor for the United States to serve as Chair of the Board of Governors of the Inter-American Development Bank and Inter-American Investment Corporation over the last year.

I congratulate you on 50 years of support for development.

###