U.S. DEPARTMENT OF THE TREASURY

Press Center

Statement by Secretary Geithner at the G8 Finance Ministers Meeting

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I want to thank Minister Tremonti for bringing us here to this beautiful city of Lecce.

We meet at a time of transition in the global economy. The force of the economic storm is receding. There are encouraging signs of stabilization across many economies.

The rate of decline in GDP growth in the major economies has slowed, and growth is accelerating in some emerging economies like China. Global trade is starting to show signs of life. Financial markets reflect greater confidence in the stability of banking systems, with particularly pronounced improvements in the United States. And greater confidence has been reflected in lower borrowings costs, increased credit flows, and reduced risk premia in general.

Where we have seen improvements, they are the result of the unprecedented scope and intensity of policy actions to support demand and financial repair. The coordinated recovery programs set in motion in the context of the G-20 meetings helped stem the sharp erosion in business and consumer confidence and have begun to turn the global economy around.

The improvement in conditions is a tribute to the power of cooperation. Central banks moved together, helping to dampen liquidity pressures. Fiscal programs were more effective because they were done on a broad scale across the major economies.

The stabilization of conditions in the major financial centers has helped underpin improvements in the flow of capital to emerging economies. The agility and creativity shown by the IMF and the World Bank have released financial resources to those countries where the pressures were most acute, helping mitigate the loss of capital and external demand. Markets for trade and investment have generally remained open because of the commitments made by the G-20 leaders to each other.

This has been a remarkable period of global economic cooperation – with a common strategy, more effectively applied – than we have seen in any of the crises of the past few decades.

These early signs of improvement are encouraging, but the global economy is still operating well below potential, and we still face acute challenges.

Growth should remain the principal focus of policy among the G-8 and the broader G-20 economies. We need to reinforce the improvement in global demand and continue to lay a foundation for a durable recovery. It is too early to shift toward policy restraint.

Economic and financial recovery, however, will be stronger and more sustainable if we make clear today how we get back to fiscal sustainability when the storm has fully passed. That is why in the United States, the President outlined in February a commitment to bring our fiscal deficits down quickly to a sustainable level, starting in 2011. And that is one reason why we are moving so quickly to reform the health care system. Reducing the rate of growth in health care costs is critical to reducing our long-term deficits.

Our programs to repair the credit markets and the financial system are designed to be temporary and quickly reversible.

We are making steady progress on financial reform. Next week, we will outline comprehensive proposals for regulatory reform in the United States. Because risk does not respect borders, we will put forward several international proposals in our reform package that will help to raise standards globally.

We aim to put in place more conservative standards for financial oversight of internationally active financial institutions and global markets such as derivatives. To that end, we are proposing that the international group of banking regulators responsible for setting capital requirements take forward its work on reforming capital ratios to constrain future increases in leverage. More broadly, we will call on the international banking regulators to develop proposals by the end of this year for countries to have the necessary tools to quickly resolve failures of cross-border financial firms.

Because markets are increasingly global, the financial rules of the game we are responsible for at the national level need to converge toward higher standards. Risk and leverage will always tend to migrate to where the constraints are weakest. We need a level playing field globally, or the effectiveness of our national safeguards against risk will be undermined.

We are also seeing progress toward mobilizing resources and realizing reform of the international financial institutions . In the U.S., legislation is under consideration that will increase our contribution by up to $100 billion to the augmented New Arrangements to Borrow (NAB) at the International Monetary Fund and provide for using a portion of agreed gold sales to support low-income countries. We also want to ensure the Multilateral Development Banks (MDBs) have the resources, tools and expertise to adequately address needs over the medium term and have proposed a set of core principles that should underpin the capital resources reviews. In addition to bolstering resources, there must be a process of comprehensive reform of all the IFIs to bring about real change in their governance and increase their effectiveness.

Because we continue to face the unacceptable reality that one billion people live with chronic hunger, President Obama has pledged through the G-20 to double U.S. assistance to fight hunger. To address the critical issue of food security, we will pursue a comprehensive approach designed to improve coordination of all stakeholders and make a sustained commitment of resources and technical assistance in support of policy reforms. We will do this by working together through multilateral mechanisms, including the World Bank and the African Development Bank.

Finance ministries in both developed and developing countries should play a lead role in designing a new financial framework for the Copenhagen agreement on climate change that will mobilize private and public funds required to meet the post-2012 financing needs for adaptation, mitigation, and land use activities in developing countries. Countries should evaluate the relative strengths and coordination among existing funding sources and financing channels and their capacity to scale up, as well as the enormous potential of carbon markets to mobilize private sector finance.

Finally, I want to emphasize the importance of protecting the integrity of the international financial system from threats of illicit finance. We strongly support the continuing work of the Financial Action Task Force (FATF) in raising international standards and improving their global implementation in order to reduce the vulnerability of the financial system to those who would seek to abuse it for criminal or terrorist purposes.

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