US Fact Sheet in Advance of G-20 Finance Ministers and Central Bank Governors Meeting

March 11, 2009

Economic Recovery and Financial Reform

The G-20 countries together must take aggressive action on two fronts – first, to ensure economic recovery and restart global growth, and second to reform supervisory and regulatory framework to prevent economic crises from occurring in the future. The United States will work with its G-20 counterparts in forging this global two-part response.

I. Economic Recovery

Macroeconomic stimulus is essential to stimulate demand, restore stability in our financial system, keep markets open and minimize the spread of the crisis and impact of it on emerging and developing markets.

- It is essential that G-20 countries as a group boost and sustain aggressive fiscal actions because common action magnifies the favorable impacts of fiscal stimulus for all countries.
- Global growth is now projected to be negative in 2009. We welcome other countries' fiscal actions to date, while acknowledging that countries have differing scope and capacity for action.
- The IMF has recommended a fiscal stimulus objective of 2 percent of aggregate GDP each year sustained over 2009-2010. This is a reasonable benchmark. According to the IMF the G-20 countries are currently falling short of this objective and there will be a withdrawal of discretionary fiscal stimulus in 2010.
- The IMF should put in place a quarterly mechanism to report on progress on fiscal stimulus and whether the G-20 countries are achieving what they set out to do – restore economic growth close to potential.
- Monetary policy—both conventional and unconventional means—is also crucial to the recovery effort. This should also be part of the IMF's quarterly reporting process.

Helping Emerging Market and Developing Economies is important because a healthy global economy is key to a healthy U.S. economy and vice versa.

- The United States will propose a substantial increase in resources to backstop the International Monetary Fund through a significant expansion of the New Arrangements to Borrow (NAB). The NAB should be increased by up to $500 billion and membership should be enlarged to include more G-20 countries.
    - The International Monetary Fund (IMF) is an organization of 185 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

    - The NAB is a set of credit arrangements between the IMF and 26 members and institutions. Following the Mexican financial crisis in 1994, concern that substantially more resources might be needed to respond to future financial crises prompted participants in the 1995 G-7 Halifax Summit to call on the G-10 and other financially strong countries to develop financing arrangements. Current NAB resources total approximately $50 billion.
- We welcome the international effort to raise temporary resources for the IMF.
- We should consider further ways to strengthen the IMF's capacity to provide support to emerging markets and the poorest.
- We will soon resubmit to Congress legislation to mobilize IMF gold to help cover some IMF administrative expenses along with an amendment to the IMF Articles of Agreement to authorize a one-time allocation of Special Drawing Rights (SDR).
- The World Bank and other Multilateral Development Banks must more effectively leverage existing resources by being flexible in using their balance sheets to meet financing needs and deploying instruments designed to counter and mitigate the effects of the financial crisis.
- We will expect the international financial institutions to help countries devise approaches to address their individual problems and to access resources.
    - Resources should be used to support a resumption of growth and could be targeted for recapitalizing banking systems as necessary, mitigating the impact of a cutoff in capital to the private sector, enabling governments to roll over their sovereign obligations, and bolstering trade finance.

Trade: The U.S. remains committed to open trade and investment policies, which are essential to global economic growth and prosperity. The U.S. economy will be boosted by a resumed expansion of world trade and at the same time we must minimize the spread of the crisis and its impact on developing countries. The U.S. will propose a global trade finance initiative bringing together bilateral and multilateral institutions to attack risk and liquidity issues that are impeding the flow of trade finance.

Immediate Financial Sector Actions are critical to rebuild confidence, restore market functioning, get credit flowing and bring stability to the global financial system. We should commit to the following framework:

- Provide liquidity and funding, including through the provision of guarantees, in order to stabilize and restore market functioning.
- Increase confidence in financial institutions' balance sheets by recapitalizing firms as necessary, transparently disclosing assets and facilitating resolution.
- Undertake innovative actions to get capital markets going again.
- Address the problem of legacy assets, using a range of options such as asset purchases, guarantees and cooperation between private and public capital.
- Reaffirm our commitment that no systemically significant institution will fail.

II. <u>Financial Reform</u>

Financial Stability Forum : A strong and effective mechanism is needed to allow national authorities, standard setting bodies and international financial institutions to collaborate to address financial vulnerabilities and to develop and implement strong regulatory and supervisory policies. In the present crisis, a general consensus has emerged towards enhancing the role of the Financial Stability Forum (FSF) in the global financial system by expanding its membership and putting it on stronger institutional ground. The FSF was first convened in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country, thus destabilizing the world economy.

- We support a significant elevation of the FSF's institutional standing in the international financial system alongside the Bretton Woods institutions—the International Monetary Fund and the World Bank.
- We endorse FSF membership for all G-20 countries.
- We support endowing the FSF with a stronger mandate that allows it to promote best practices in regulatory standards and better work with standard setting bodies, such as the Basel Committee on Banking Supervision.
- Over time, the standard setting bodies need to be regrouped to reflect such key objectives as prudential oversight, market conduct and integrity, and macro-prudential oversight.

Current FSF membership

Member Countries: Australia, Canada, France, Germany, Hong Kong SAR, Italy, Japan, The Netherlands, Singapore, Switzerland, United Kingdom, United States of America

International Organizations: Bank for International Settlements (BIS),
European Central Bank (ECB), International Monetary Fund (IMF),
Organization for Economic Coordination and Development (OECD), The World Bank

International Standard-setting Bodies and other groupings: Basel Committee on Banking Supervision (BCBS), Committee on the Global Financial System (CGFS), Committee on Payment and Settlement Systems (CPSS), International Association of Insurance Supervisors (IAIS), International Accounting Standards Board (IASB), International Organization of Securities Commissions (IOSCO)

Financial Sector Reform: We must take action to ensure a crisis of this magnitude never happens again. Our economies are inextricably linked – as are our financial systems. Yet, supervisory and regulatory authorities stop at nations' borders. The U.S. will lead in this effort and, prior to the April Summit will lay out critical elements of our regulatory reform program.

We will urge G-20 countries to act now to adopt broad reforms of the supervisory and regulatory framework. No longer can any systemically significant financial institution, market or product escape proper oversight.

- We must ensure that all systemically significant financial institutions that operate globally are subject to strong standards of supervision and regulation.
- We should exercise effective oversight of markets critical to the functioning of the financial system, such as derivatives.
- We need to put in place a stronger framework of capital requirements that provides better protection against future crises and ensures financial institutions can build up capital in good times and draw capital down as a buffer in bad times.
- We must strengthen cooperation to fight money laundering and terrorist financing and to crack down on those who use offshore tax havens to escape paying their share of taxes.
- We need to have a standing cooperative framework for actions in a crisis to provide better tools for crisis resolution that keep pace with the changes in the international financial system.

Governance of the international financial institutions must be modernized to reflect today's world economy. Dynamic emerging economies should have greater representation.

- The U.S. will call for the international community to negotiate a roadmap with a timeframe to boost the voice and representation of dynamic emerging market economies in the international financial institutions.
- At the same time the full range of international financial institutions governance issues should be addressed.
- As part of this package we support acceleration of the conclusion of the next IMF quota review to January 2011 and aligning the process in the World Bank with that of the IMF.

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