International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

IMFC Statement by Jacob J. Lew
Secretary of the Treasury, United States

On behalf of United States

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As we gather in Washington this week, we should take a moment to celebrate our many cooperative achievements while not losing sight of the remaining challenges we face in boosting and sustaining balanced and inclusive global growth.

Eight years ago we were in the midst of the worst crisis to hit the global economy since the Great Depression. Prospects for the global economy and financial system looked bleak, but we worked together to come through the crisis and stabilize the global economic system. We successfully averted global depression. Through our cooperative efforts, and admittedly, sometimes strident debates, we have arrived at a place where we have committed, individually and collectively, to pursue growth via all available policy levers—monetary, fiscal, and structural. This is an important cooperative commitment, which was backed up almost immediately through new fiscal policy measures in several countries. We also share the view that monetary policy is being overburdened. We must work together, now, to translate this consensus into action, and significantly, into more inclusive growth that reaches all countries and all people.

Thanks to our mutual efforts on financial regulatory reform, the global financial system is significantly stronger and more resilient. In 2008 and 2009, the G-20 established a financial-sector reform agenda and created the Financial Stability Board (FSB). This effort has largely succeeded in promoting a "race to the top" and raising global regulatory and supervisory standards. The reforms we have implemented are already having a positive effect on the global financial system. For example, I believe that the orderly market reaction to the UK's EU referendum in June was due, in no small part, to the stronger regulatory and supervisory environment that we have fostered collectively.

As my colleagues know, the global financial crisis and subsequent euro area sovereign debt crisis highlighted the need for a well-resourced IMF. Recognizing the vital role the IMF should play in supporting economies through the global crisis, and recognizing changes in the global economy, the United States pushed for an immediate beefing up of the Fund's emergency resources and then a comprehensive package of quota and governance reforms. These 2010 reforms doubled IMF quota resources, and provided a greater voice to dynamic emerging markets. While it took some time—and a lot of sweat equity—to get this deal approved in the United States, I strongly believe that a well-resourced IMF should be at the forefront of global economic and financial stability.

Notwithstanding our achievements, we should also focus on outstanding challenges. Chief among these is continued underwhelming global growth. Economic growth across countries has not picked up as expected, and as needed. I believe the IMF should more boldly and forcefully advocate for strong, sustainable, balanced and inclusive growth by exhorting member countries to utilize all available policy levers to boost demand. With monetary policy overburdened, countries – particularly countries with budget or external surpluses –

need to use available fiscal space more vigorously, alongside necessary structural reforms to achieve this goal. IMF individual country recommendations on this issue must be consistent with the institution's top-down global message on the three-pronged approach, and must underscore that fiscal and structural policies are complementary. At the same time, member economies must pursue more open trade and investment policies, which we know help drive growth. The IMF's upcoming stock-taking of country experience with the Institutional View on Capital Flows is an opportunity to reflect on the benefits of capital flows in support of open trade and investment, and on the most effective policy responses to capital flows volatility.

As we work to bolster economic growth, we must prioritize policies that support growth for all countries and all of our citizens. Decades-long trends of rising inequality and low middle-class wage growth and its implications for consumption and growth merit further analysis. We believe that more inclusive and broadly shared growth can help promote the necessary political support for reforms that sustain and further this growth. That includes investments in infrastructure, education and training, child care, as well as policies to promote tax fairness. The United States firmly believes that the benefits of global economic integration should reach everyone. We must not close ourselves off to the world, but rather redouble our commitment to ensuring shared growth.

Around the world, we also need to see a more concerted effort to provide a level playing field for fair, competitive, and broad growth. Excess capacity in some industrial sectors is another challenge we must tackle globally. Excess capacity distorts global markets, adversely impacts the environment, and hinders our efforts to achieve strong, sustainable, and balanced growth. I urge the IMF to be more vocal in pressing countries with excess capacity to pursue fiscal measures that smooth the transition away from excess production while maintaining demand.

While we have significantly improved the global financial regulatory system, the reform agenda remains incomplete. Most urgently, we must intensify our focus on implementing the agreed reform agenda, particularly in the area of OTC derivatives. We also must finalize Basel III to achieve more consistency in measures of the risk-weighted assets of banks and hold all internationally active banks to the same high standards; address unmitigated risks in central counterparties; and enhance monitoring for systemic risks in shadow banking. We must not let distance from the financial crisis lessen our resolve, or allow ourselves to fall into a race to the bottom in financial regulation. Finishing the job of financial-sector reform remains critical to securing both a level playing field and the confidence in the sector that is necessary for it to support growth. We must avoid complacency as we put the financial crisis further behind us.

Broader access to, and participation in, the financial system can directly help people manage risk, absorb financial shocks, and build assets. It also has positive impacts on issues like growth and inequality, and improving access to the financial system remains a critical priority of the United States, the global financial community and the IMF. Together, we are working to address the withdrawal of correspondent banking relationships in a number of countries, including working with countries to improve their AML/CFT regimes, in line with global standards. We are committed to addressing the issue in a way that both supports financial inclusion while protecting the financial system from abuse. Domestically, we are working to further clarify regulatory expectations, and as part of that effort, Treasury and the U.S. banking regulators recently issued a joint Fact Sheet that describes the supervisory and enforcement posture taken by the U.S. government regarding AML/CFT and sanctions in the area of correspondent banking. Alongside our own increased technical assistance to affected countries, we urge the IMF and World Bank to increase their own internal resources to support members impacted by withdrawal of correspondent banking relationships from countries committed to enhancing their AML/CFT regimes.

Identification and verification of the beneficial ownership of legal persons by financial institutions and disclosure of this information to governments is essential to combating their misuse by illicit actors and protecting the financial system. The focus should be on effective implementation of the existing FATF standards on financial transparency, including on beneficial ownership.

It is important for us to reflect upon where we have come from over the past eight years, and revisit the spirit of 2009. At that time, in the depth of the global crisis, we came together to overcome economic and financial instability, and to lay the groundwork for recovery. The IMF has helped play a critical role in reframing the global economic and financial landscape over this period. Our task now, as a global community, is to further strengthen this landscape and adapt it to new challenges. In part this requires continued modernization of the IMF's system of governance and improvement of its capacity to deal with evolving challenges. In line with the 2010 reforms, which gave under-represented countries a greater stake in the IMF, more voting power needs to be accorded dynamic emerging markets. Also, advanced European members agreed to cede two Executive Board seats to emerging market members. While this transition is nearly complete, it is important that our European colleagues fully and immediately implement this important effort, which will render the Board more representative of the changing global economy. The IMF remains the critical first-responder during international financial crises and it is vital that it has the resources it needs to address those crises and a modern governance structure that reflects both emerging and developed economies.

Finally, I would like to challenge the IMF to more pointedly advance its core mission of promoting efficient operation of the global economy. To be effective in this mission, the IMF must intensify analysis of and become more vocal on key issues that impact growth and stability of the global economic system: exchange rates, current account imbalances, and shortfalls in global aggregate demand, for instance. Sometimes this will make the IMF unpopular. But vocal advocacy in the name of its core mandate is likely to make the IMF a more effective institution over the long term.