International Monetary and Financial Committee

Twenty-Seventh Meeting
April 20, 2013

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

On behalf of United States

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Secretary of the Treasury
United States of America
To the International Monetary and Financial Committee
Washington, D.C.
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This is not a time for complacency. Tail risks have receded recently, but global growth remains weak, and unemployment is still too high. Strengthening global demand is imperative and must be at the top of our agenda. Much more needs to be done to promote effective global rebalancing, which requires stronger demand in surplus countries and continued progress toward greater exchange rate flexibility, as well as continued efforts in deficit countries to raise national saving.

The U.S. economy remains resilient and is gathering strength. It has now expanded for 14 consecutive quarters, and private sector indicators point to a gradual recovery across sectors, including housing, manufacturing, and energy. Private employers have added nearly six and a half million jobs over the past 37 months. U.S. banks are in much stronger condition than before the crisis and are in a better position to provide support to businesses and consumers. While our economy is stronger today, we recognize that more work must be done to help create jobs and accelerate growth.

The U.S. remains committed to bringing our deficits down to a sustainable level while building a foundation to promote economic growth. Over the past three years, we have made considerable progress in reducing the size of the federal deficit, which fell by an average of more than one percentage point of GDP per year. President Obama's Budget takes a balanced approach that builds on these efforts while making targeted investments to strengthen the economic recovery, create jobs, and lay the foundation for long-term growth. We are committed to working with Congress to achieve our fiscal goals while protecting the recovery in the near-term, and we believe that an agreement is within our reach.

Our recovery and the global recovery more broadly, remain inextricably tied to economic conditions in other parts of the world.

Stronger demand in Europe is critical to global growth. Weak domestic demand has undercut euro area growth for six consecutive quarters and output continues to contract. This has slowed the global economy by over a third of a point in 2012. There is a welcome debate in Europe on how better to support demand through an appropriate mix of macro tools, recalibrating the pace of fiscal consolidation, reducing financial fragmentation, and rebalancing. In light of the reality that countries representing one-third of euro area GDP are shrinking their budgets and restructuring their economies, it is vital to see rebalancing within the euro area with surplus economies contributing more to demand in order to ease the periphery's adjustment process, avoid austerity fatigue, and renew Europe's economic vibrancy.

Recent events in Cyprus also highlight the importance of efforts toward a full banking union. It is important that the Single Supervisory Mechanism be accompanied by euro area authority for resolution with an appropriate backstop, and that there be euro area safeguards for deposit insurance so as to build a framework for oversight and risk sharing across the euro area that is commensurate with the cross-border reach and scale of the banking sector.

The transition to stronger and more sustainable global growth will also require greater progress on global rebalancing. There is now broad agreement that we cannot return to a pattern of global growth that is built on U.S. households being the world's importer of first and last resort.

While current account positions globally have narrowed, the adjustment thus far has relied too heavily on demand compression in deficit economies. The United States is doing its part – households are saving more, and improving our fiscal situation will raise national saving further. But in the absence of offsetting demand growth from surplus economies, overall global growth will remain weak. In addition to measures to boost domestic demand, one key to this effort is a strong commitment by many countries, especially in emerging Asia, to adhere firmly to the G-20's exchange rate commitments – namely, to move more rapidly toward market-determined exchange rate systems and exchange rate flexibility to reflect underlying fundamentals, avoid persistent exchange rate misalignments, and refrain from competitive devaluation of currencies. Countries must also fulfill their commitment not to target exchange rates.

Some progress has been made. China already recognizes the need to transition away from excessive reliance on domestic investment and exports to a new model with Chinese consumers playing a growing role in driving demand. China's current account surplus has fallen from 10.1 percent of GDP in 2007 to 2.3 percent in 2012. Exchange rate appreciation has played an important role in reducing China's surplus. But the process of exchange rate adjustment in China remains incomplete and more progress is needed. Sustaining this progress will require further efforts to boost household demand and reinvigorate the move to market determination of the exchange rate and interest rates.

The path to stronger global demand will also require similar efforts from other surplus economies both in Asia and elsewhere.

Strengthening the international financial regulatory reform agenda remains imperative. Given the realities of national regulation and global markets, we must all remain committed to the efforts underway at the G-20 and the Financial Stability Board (FSB) to make financial reforms around the globe conform to the highest standards. The United States is committed to implementing fully enhanced liquidity, leverage and capital safeguards, as agreed under Basel III. We have demonstrated leadership advancing comprehensive regulation of OTC derivatives markets as the first country to introduce cross border proposals to strengthen the transparency and oversight of the OTC market, and we continue to work hard with regulators from other jurisdictions to find practical compromises to put in place a regime that meets the G-20 Leaders' ambitious reforms. Finally, we are putting in place a liquidation framework, and recovery and resolution plans, so that the largest most complex financial institutions can be wound down in an orderly manner without burdening taxpayers.

The United States has strongly supported efforts to strengthen the international financial architecture over the last four years – particularly in giving the International Monetary Fund (IMF) a stronger financial base, better tools, and a governance structure that better reflects the global economy.

IMF quotas are the fundamental building block of the Fund, and it is important that quotas truly reflect countries' weight in the global economy. We are actively working with Congress to secure legislation implementing the 2010 IMF quota reforms. And we will continue to support the IMF as it adapts to a rapidly changing world because a modern, effective, and representative IMF is strongly in our national interest.

The IMF must do its part in implementing rigorous surveillance over members' exchange rate policies, which remains at the core of the Fund's mandate. While the IMF's legal framework for surveillance has been updated over time, one constant is that the IMF staff have been tasked to closely monitor for protracted large-scale, one-way foreign exchange interventions, as well as large and prolonged current account deficits or surpluses. In this regard, the publication of the pilot External Sector Report is a welcome step, and we would strongly encourage more frequent editions, at least twice a year, that are comprehensive, candid and fully transparent. There continues to be a need for a more rigorous emphasis on excessive foreign exchange intervention and reserves accumulation in bilateral surveillance. We encourage all IMF members to be transparent with respect to foreign exchange intervention and reserves composition.

We encourage vigilant implementation of the IMF's new institutional view on capital flows, which recognizes that while there may be a role for capital flow measures and macroprudential measures under certain circumstances, they cannot substitute for necessary macroeconomic adjustment and should not be used to maintain undervalued exchange rates. It also reminds us that such measures can impose costs and distortions on the domestic economy and the international monetary system.

Finally, we continue to strongly support the Fund's role in promoting macroeconomic stability in low-income countries. We welcome the recent decisions to use the remaining windfall gold sales profits to support low-income countries and to extend zero-interest rates on Poverty Reduction and Growth Trust (PRGT) loans for two more years. We support the Fund's efforts to ensure that its programs for low-income countries are aligned with poverty reduction objectives and protect social spending on critical needs such as health and education.