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

On behalf of the United States of America

STATEMENT BY SECRETARY JACOB J. LEW AT THE INTERNATIONAL MONETARY FINANCIAL COMMITTEE (IMFC) MEETING

WASHINGTON – During these meetings, we discussed the key priority for the global economy – promoting growth and creating jobs. Growth has been the top priority for the United States and must continue to be at the top of the global economic agenda.

The United States recovery continues to gain strength, while other countries continue to adjust and reform. The U.S. economic recovery strengthened in 2013, despite substantial fiscal headwinds. Real GDP grew at an annualized rate of 2.6 percent in the fourth quarter, and employment, income, and spending continue to rise. Over the past 49 months, American businesses have created 8.9 million new jobs. The expansion is expected to strengthen further this year as private-sector demand increases, the fiscal drag lessens, and household balance sheets and the housing market continue to improve.

Yet while we are optimistic about the near-term U.S. outlook, we remain concerned that too many Americans are unemployed and far too few American families are not yet sharing in the benefits of the recovery. For this reason, the President's FY 2015 Budget includes investments that will foster stronger growth and a faster pace of job creation in the near term. At the same time, the United States is committed to building on our substantial progress toward stabilizing the country's fiscal outlook, putting the debt-to-GDP ratio on a declining path without jeopardizing the economic progress we have achieved so far. The federal budget deficit has fallen from 10.2 percent of GDP in 2009 to 3.4 percent of GDP in 2013 and is continuing to fall. More needs to be done to support growth – in fact, the most important thing we can do now to improve our long term fiscal outlook is make investments that will improve our growth trajectory. The global economy is expected to strengthen somewhat this year, and this is welcome news following nearly six years marked by economic and financial volatility, uncertainty, and adjustment. However, global economic activity remains uneven, and downside risks are still present, including new geopolitical risks. We must remain focused on working collectively and individually to support growth and job creation, and to accomplish a durable rebalancing of global demand. This is no time for complacency, and we must not succumb to accepting subpar growth and high unemployment rates.

Although the euro area economy has started to expand, we remain concerned by inflation rates consistently below target and weak demand. More needs to be done to support growth and guard against further disinflation in the euro area. This will help reduce the burden of adjustment in the periphery and promote demand rebalancing in the euro area – but will also benefit Europe's individual member countries because it will boost growth, investment, and employment at home. In the same vein, we welcome the progress toward banking union. An asset quality review and stress test of European banks, which markets find convincing and credible, are very important next steps toward increased confidence and boosting credit in the economy. Still, more needs to be done. Priority also should be given to robust euro-area wide institutions which are capable of addressing systemic banking crises, without undermining the financial stability of national governments. While the recent agreement on the Single Resolution Mechanism and Single Resolution Fund represent improvements, we believe these steps leave a need for more action to avoid a repeat of the fallout from the euro area banking crises into sovereign borrowing markets.

Over the past two years, Japan's recovery from nearly two decades of entrenched deflation has been driven largely by domestic demand. With the outlook for domestic demand more uncertain, it is important that the Japanese authorities remain committed to calibrating all three arrows of Japan's economic policy to sustain a healthy rate of domestic demand growth. In addition to planned fiscal stimulus measures to support demand and cushion the impact of the increased consumption tax, Japan must remain prepared with policies that ensure that overall fiscal consolidation is not too rapid, while pursuing long term structural reform measures to increase trend growth and domestic demand.

The forward-looking reforms set out in China's Third Plenum hold promise for a shift to a more balanced economy that delivers higher living standards to its population, as well as continued economic stability and growth that have characterized China's remarkable economic progress. The timing and specifics of China's reform agenda will be important to that economic transition. Rebalancing the Chinese economy will require further exchange rate appreciation so that consumption, rather than investment, drives domestic demand. It is critical that China demonstrate that they are committed to moving toward a market-determined exchange rate, and that progress continues on a steady basis. This is very important for preserving a level playing field for world trade.

Volatility in emerging markets over the past few months has receded recently. Many emerging market countries have taken important actions to strengthen their macroeconomic and institutional frameworks, which will increase their growth prospects and resilience. Stronger growth in the United States will benefit emerging markets and the entire global economy. Emerging market economies can best manage potential spillovers from an upturn in growth in advanced economies, led by the U.S. through policies that support strong economic fundamentals, including flexible exchange rates.

While some global rebalancing has occurred, we have not yet seen sufficient support for demand growth in countries with excessively large external surpluses. Restoring full employment globally and achieving a durable rebalancing of global demand will require more domestic demand growth from surplus countries, as well as market-based exchange rates that facilitate, rather than frustrate, the international adjustment process.

The situation in Ukraine has highlighted the IMF's unique role as first responder in a crisis of this kind, providing substantial financial support and technical expertise to assist the Ukrainian government in designing crucial economic reforms. The United States supports the proposed elements of an IMF program for Ukraine, including maintaining a flexible exchange rate, strengthening the banking system, stabilizing fiscal policy, increasing energy tariffs, and implementing structural reforms to improve governance and the business climate. The IMF program represents a multi-year commitment to stability and reform and we are encouraged by the Ukrainian authorities' resolve to take the necessary steps so secure this support. The United States is bolstering the IMF program through a complementary aid package, which includes a $1 billion loan guarantee and additional technical assistance. It is critical that the international community – multilateral development banks and bilaterals – take immediate steps to also support the IMF program by providing financing support, given the sizeable financing needs.

We understand that IMF membership entails benefits and responsibilities, and we are working to fulfill our pivotal responsibility with respect to the implementation of the 2010 quota and governance reforms. We are deeply disappointed that Congress failed to include the IMF reforms in the Ukraine assistance package. Despite this major setback, the Obama Administration remains fully committed to securing legislation to back the IMF and update the Fund's governance to reflect the global economy. While the legislation has not passed, there is important bipartisan support for taking action. We have included proposed legislation in the President's FY15 budget request, and we will continue to work actively with Congress to enact the necessary legislation this year.

The importance of the IMF's surveillance role only grows as economic and financial flows continue to deepen. As such, we call on the IMF to strengthen its assessments of exchange rates and reserve accumulation policies by establishing the External Sector Report as a key IMF surveillance product. We also reiterate our call on all IMF members to fulfill their bilateral surveillance obligations and submit to Article IV reviews on a timely basis. We encourage the Fund to explore more meaningful actions to address these delays.