# International Monetary and Financial Committee

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October 12, 2013

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

On behalf of the United States of America

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**Secretary of the Treasury of the United States of America**
**at the 28th Meeting of the International Monetary and Financial Committee**
**Washington, D.C.**
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Five years ago, the world economy was faced with a devastating crisis. Together, our countries committed to and implemented a swift and aggressive emergency response that helped calm financial markets, repair and reform our financial systems, and put the global economy back on the path to stability and growth.

Today, our work is far from done, and we cannot afford to be complacent. Global growth is not robust, and we face headwinds from fiscal drag, private sector deleveraging, and inadequate global rebalancing. Now is the time for action to achieve, strong, sustainable, and balanced global growth.

Our work begins at home. We recognize that the United States is the anchor of the international financial system. With the deepest and most liquid financial markets, when risk rises, the flight to safety and to quality brings investors to U.S. markets. But the United States cannot take this hard earned reputation for granted. The President has called on Congress to reopen the government and increase the statutory debt limit. Prior to the government shutdown, all signs pointed to the strengthening recovery of the U.S. economy. If Congress acts quickly, this will continue to be the case. Private employers have added 7 and a half million jobs since February 2010, and businesses added more than 2 million jobs over the last year. Manufacturing is expanding while the housing market continues to improve, posting gains in sales, prices, and residential construction. Substantial progress has been made in addressing the imbalances that triggered the financial crisis.

Significant progress has been made in bringing our deficit down. This year we are on track to reduce the United States' fiscal deficit by more than half from 9 percent in 2009. Over the last three years our deficit has fallen faster than at any point since the demobilization after World War II. It would be better policy to replace sequestration with a more balanced approach that strengthens our economy and supports greater job creation for middle class America. We remain committed to working with Congress to achieve our fiscal goals while building a foundation to promote economic growth.

In Europe, leaders have made significant efforts to restore financial stability and remove tail risk from the markets over the past year. However, the recovery remains weak, unemployment is high and fiscal contraction along with deleveraging in the banking and business sectors will continue to act as headwinds to growth. This highlights the importance of developing a plan to boost demand and employment, including by rebalancing demand in the euro area. Further progress is also needed in moving toward a full banking union, which includes not only a single supervisory mechanism but also resolution authority, recapitalization capacity, credible deposit insurance, and some degree of risk sharing among members. The upcoming asset quality review and stress tests are an important opportunity and it will be critical for the integrity of the exercise to have a common euro-area backstop in place. We welcome continued International Monetary Fund (IMF) focus on these needed policy changes in the euro area.

As the world's third largest economy, it is imperative that Japan achieves durable and robust growth. In order to support a stronger economic recovery and increase potential growth, it is important that Japan take fundamental steps to increase domestic demand. Careful management of the overall pace of fiscal consolidation is needed to support private sector growth, including additional fiscal measures to cushion the short-term impact on demand of the increase in the consumption tax. Structural reform is needed to improve economic potential.

The global economy and job creation are still being hurt by insufficient aggregate demand growth. More efforts by surplus countries to support the expansion of domestic demand are needed to offset weakened demand in deficit countries. It is not enough for domestic demand growth to rise in surplus countries. Rather, domestic demand growth must exceed GDP growth. In many cases, this also includes adhering 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 not to target exchange rates. IMF assessment of this progress is a top priority and should include assessments of exchange rates and intervention. We encourage all IMF members to be transparent with respect to foreign exchange intervention and reserves composition.

In China, further efforts are needed to achieve a durable shift from export- and investment-led growth to sustainable consumption-led growth, including more decisive actions on structural reform and moving more quickly towards a market-determined exchange rate. The declining efficiency of credit and investment suggests that China needs to transition to a new growth model. Further progress in rebalancing growth toward consumption could help mitigate the buildup of risks to the financial sector.

To build the resilience of the global financial system, we must continue to move forward on the international financial regulatory reform agenda. Over the past five years, significant and successful efforts have been made to strengthen the resilience of the global financial system, with the help of the G-20 and the Financial Stability Board (FSB). The passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act in the U.S. was a watershed event in this process. The United States is committed to implementing fully enhanced liquidity, leverage, and capital requirements, as agreed under Basel III. The United States also took the lead in advancing comprehensive regulation of OTC derivatives markets, and already, clearing and reporting of interest rate swaps and credit default swaps have commenced. We have also introduced cross border proposals to strengthen the transparency and oversight of the OTC market. We are acting to ensure that shadow banking activities are supervised and regulated. Finally, the challenges posed by the largest, most complex financial institutions through robust recovery and resolution planning and the establishment of an orderly liquidation framework allows authorities to wind down systemically important financial institutions without imposing losses on taxpayers.

The United States has strongly supported efforts to strengthen the international financial architecture over the last four years – particularly in giving the IMF a stronger financial base, and a governance structure that better reflects the global economy. We are actively working with Congress to secure legislation implementing the 2010 IMF quota reforms. IMF quotas are the fundamental building block of the Fund, and it is important that quotas reflect countries' weight in the global economy.