International Monetary and Financial Committee

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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

Treasury Secretary Jacob J. Lew's IMFC Statement
October 2015

Favorable underlying fundamentals suggest that U.S. economic growth will remain strong during the latter part of 2015 and through the end of 2016. Consumer confidence is near an eight-year high, and improvements in labor market conditions continue to boost incomes. Household balance sheets have strengthened, reflecting growth in home and equity prices as well as considerable progress in deleveraging. Fiscal policy is no longer a drag on economic activity, and inflation is low and stable. While developments abroad are acting as a headwind, most forecasters continue to expect the U.S. economy to expand at a solid pace. A consensus of private forecasters is projecting GDP growth of roughly 2¾ percent on average through the end of 2016.

Against the backdrop of a strengthening economy, the U.S. federal fiscal position continues to improve. In FY 2014 the budget deficit fell to 2.8 percent of GDP—a seven-year low—and it is projected to narrow to 2.6 percent of GDP in FY 2015. President Obama's policies will put federal finances on a sustainable path while laying the foundation for durable economic growth and broadly-shared prosperity.

Moreover, following this week's success on concluding negotiations on the Trans Pacific Partnership (TPP) agreement, we expect reductions in trade barriers across a large swath of the Pacific region promise to raise growth prospects for the United States and our trading partners.

The United States Congress must build on these strengths and avoid self-inflicted wounds. As immediate priorities, Congress must quickly increase the debt limit and fund the government in a way that invests in economic growth that flows to middle class families, and pass IMF quota reform.

Lackluster growth among some of our major trading partners has had a negative effect on U.S. economic growth, though, and the external sector is challenging. A strong U.S. economy requires a strong global economy.

The IMF's latest projections underscore that global economic growth remains too weak. The global economy faces challenges which present two questions – do we have the capacity to deal with those challenges and do we have the political will? It is clear that the major economies have the capacity and policy tools to address challenges but our policy makers need to demonstrate the political will to address pressing issues. The global community has relied too much on a single policy lever—monetary policy—to boost economic growth. Monetary policy, alone, cannot lead to balanced growth. As the IMFC meets, I call on key member economies to more effectively deploy all policy levers—fiscal, monetary, and structural—to boost domestic demand.

Following on modest growth in 2013 and 2014, global economic activity in the first half of 2015 has been anemic and sub-par. The euro area is doing slightly better, but other large economies, including Brazil and Canada, are faltering and several emerging market economies, notably China, are slipping. There is little doubt that insufficient demand is driving subpar growth.

Policymakers in advanced and emerging economies have multiple tools and space available to help stimulate global growth.

While economic activity in the euro area overall has improved, growth remains too weak and uneven, and downside risks persist. The European Central Bank has implemented measures to support growth and combat downward price pressures; monetary policy action alone, however, will not suffice to generate a sustainable increase in euro area domestic demand. Policymakers in several countries have additional space for fiscal and structural policy responses to more forcefully boost domestic demand. They should use it. In Germany, for example, where the IMF forecasts the current account surplus will reach nearly 8.5 percent of GDP this year. Such a policy mix would reduce the risk that growth becomes even more reliant on the external sector at a time of elevated uncertainty in key export destinations, including China and other emerging markets.

In Japan, negative second quarter growth and soft incoming data for the third quarter further highlights the need for a vigorous application of all three arrows of Prime Minister Abe's economic program. A fiscal strategy calibrated to ensure economic growth would be consistent with the Abe administration's goal of employing a "flexible fiscal policy," and would provide room for monetary stimulus and structural reform to have the maximum impact. In addition, structural reforms to boost labor supply are urgently needed and should include policies to reduce the labor force participation gender gap, and retain older workers. A stronger Japanese recovery will provide meaningful support to the global outlook.

Emerging market growth, including in China, has slowed. As a group, emerging market economies are growing considerably more slowly than they did before the crisis against the backdrop of lower commodity prices, and the growth rate has fallen every year since 2010. And China's growth is slowing as it transitions to a more consumption-oriented economy, but continued focus on market-oriented reforms and boosting domestic demand will help to support this transition and fuel stronger growth.

In the face of disappointing growth prospects across many countries, we need to redouble our efforts to boost global demand. In particular, policymakers should use fiscal resources, where available, to stimulate domestic demand. The United States cannot be seen as the consumer of first and last resort. Boosting global demand is also essential for reducing global imbalances. Several countries that have built up significant current account surpluses also have the fiscal space to take measures to boost consumption.

Falling global oil prices offer an optimal opportunity for policymakers to roll back inefficient fossil fuel subsidies and instead offer other targeted ways to support people in need—using this newly opened fiscal space to further support domestic demand. At the same time, as we continue to underscore, structural reforms in both advanced and emerging market economies will provide crucial support for business growth, investment, and ultimately a growth in demand.

As I meet with my colleagues this week I will emphasize how important it is that economies move in an orderly way toward more market-determined exchange rate systems, avoid persistent exchange rate misalignments, and not target exchange rates for competitive purposes.

There have been some positive developments over the past six months. Progress on Greece, for instance, offers a welcome development. Stability, growth, and debt sustainability in Greece are important for the people of Greece and for stability in Europe more broadly. The August 2015 agreement between Greece and its European partners provides a solid outline for much needed growth-supporting reforms, and the potential for meaningful debt relief. In my meetings this week I will encourage our European partners to be prepared to meet their commitment to provide meaningful debt relief, while emphasizing that Greece needs to continue to implement reforms. I will also urge the IMF to remain engaged with all parties.

Ukraine offers an example of positive international cooperation. Strong support—centered upon robust financial and technical assistance from the IMF—remains crucial to helping Ukraine restore economic stability, pursue urgently needed economic reforms, strengthen governance and the rule of law, and limit hardship among the Ukrainian people. Policymakers are making solid progress on reforms and the recent agreement on Ukraine's debt restructuring is an important step in the right direction. Risks to program success—and sustainable growth—remain, largely in the form of an uncertain security situation, and continued implementation of the IMF program remains critical to securing Ukraine's economic future. So long as Ukraine stays on the path of reform, the international community will stand squarely behind Ukraine and provide support. Ukraine and Russia must constructively resolve bilateral security and economic issues in the interests of sustainable growth.

Turning to the global financial system, I believe the global financial regulatory reform process has been successful and is yielding significant results, but we must continue to press for full implementation of our reform commitments. By the Antalya Summit, we look forward to the finalization of a common international standard on total loss absorbing capacity (TLAC) to facilitate the orderly resolution of large, interconnected global banks. The proposed TLAC standard is a major advance in our efforts to credibly address "too big to fail," and, in particular, to deal with the cross-border interlinkages of such banks. It is important that the TLAC standard calibration is high, and that all global systemically important banks (G-SIBs) from all jurisdictions—including emerging markets—implement the TLAC standard as rapidly as possible. In addition, we look forward to the finalization of a first version of higher loss absorbency (HLA) requirements for global systemically important insurers (G-SIIs) by the Antalya Summit. The HLA requirement is an important milestone for the IAIS and will be a key tool to strengthen the resilience of large, global insurers.

U.S. authorities continue to monitor rigorously and, where needed, address financial stability issues both at home and abroad. This year, a key focus has been on central counterparties (CCPs). Domestically, the Financial Stability Oversight Council continues its work to monitor potential financial stability risks that could arise from CCPs and assess whether existing standards are sufficiently robust to mitigate any such risks. Internationally, this work is complemented by the Financial Stability Board's efforts to review and, where necessary, improve global standards for CCP resiliency, recovery planning, and resolvability. We look forward to advancing work on these issues, and others, in 2016.

The IMF remains the preeminent global institution for building cooperation on and responding to crises that impact the international monetary and financial system. The United States continues to be a staunch advocate of the institution's mandate and activities, which includes encouraging relevant and necessary reforms to individual economies and to the global monetary and financial system.

A well-resourced IMF is critical to its ability to act decisively as the lender of first resort during crises. The United States believes in the effectiveness and value of the IMF in helping create a more stable and well-functioning global economy, and we remain strongly committed to the IMF as a quota-based institution. We continue to believe that the 2010 quota and governance reforms are critical to U.S. leadership in the world and a matter of U.S. economic and national security that requires immediate action in Congress. The President and I remain dedicated to finding a legislative vehicle for their implementation as soon as possible.