



International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

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

On behalf of the United States of America

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

WASHINGTON – Our meetings this week provide a good opportunity to assess the progress of the global economy and the policies needed to support strong, sustained, and balanced growth. In some countries, including my own, growth has strengthened but the global economy continues to underperform and the recovery remains highly uneven.

In the United States, the economic recovery has gained traction this year, with growth accelerating sharply in the second quarter. The September U.S. employment report confirmed that America's businesses extended the longest streak of private-sector job gains on record, and favorable underlying fundamentals suggest the economy will continue to grow at an above-trend pace through this year and next year. Labor market conditions have improved notably in recent months, with the average pace of job growth picking up sharply and the unemployment rate falling below six percent, its lowest level in more than six years.

We expect the housing market recovery to continue despite recent slowing as labor markets continue to strengthen, incomes rise, and household formation moves back toward historical norms from its current low level. Meanwhile, firms are well positioned to invest, and the manufacturing sector is expanding. Fiscal drag on economic activity is diminishing and is expected to be negligible over the next several years. Our comprehensive response to the economic crisis — including through macroeconomic and structural policies — has laid the foundation for strong growth.

Some other advanced economies such as Australia, Canada, and the United Kingdom have also seen robust growth this year.

However, the global economy is now forecast to expand by just 3.3 percent in 2014 — well below what is needed to materially boost global employment and improve the living standards of our citizens. Weak demand growth is the principal culprit for chronic economic under-performance from many countries. What is needed globally is a comprehensive set of both macroeconomic and structural policies that forcefully support global demand. It is especially incumbent upon countries with external surpluses and fiscal flexibility to bolster their support for global adjustment.

The euro area's recovery has substantially lagged that of other advanced economies, and recent data suggest the pace of the current recovery is slower than expected earlier this year. Euro area policymakers have taken steps to put in place firewalls, enhance monetary policy transmission, and remove tail risks from the markets, but significant macroeconomic and financial headwinds persist, including from a prolonged period of excessively low inflation. European leaders should focus on recalibrating policies to address persistent demand weaknesses in the near-term and boost potential growth over the medium to long term; demand and structural supply side reforms should go hand-in-hand to catalyze stronger growth. Indeed, at the recent G-20 meeting of Finance Ministers and Central Bank

Governors in Australia, members intensified their call for boosting domestic demand in Europe, as part of an appropriate policy mix — fiscal, monetary, and structural.

Japan's economic outlook is also uncertain, with growth projected to remain weak this year and next. The country has faced the twin challenges of deflation and weak growth for some time. External shocks, including the 2011 tsunami and nuclear power plant disaster, presented further challenges. The Bank of Japan's monetary policy is breaking the deflationary cycle and supporting growth; however, policymakers need to carefully calibrate the pace of overall fiscal consolidation and to move decisively to implement requisite, growth-boosting structural reforms.

Turning to emerging markets, growth in China has downshifted but remains strong. Risks to the Chinese economy, however, have risen and the country still confronts the challenge of rebalancing the economy to consumption-led growth. China has ample space to adjust policies to support growth if needed. It is critical that Chinese leaders implement reforms that move the country toward a market-determined exchange rate and address financial sector risks. Growth in some emerging markets has faltered this year, and in those economies facing inflationary pressures and financial market vulnerabilities, the capacity of monetary and fiscal policy to cushion a growth slowdown is limited. At the same time, many emerging economies also need to move forward with structural reforms to support potential growth. In addition, greater exchange rate flexibility could provide some support in the face of external shocks.

The persistent weakness in domestic demand growth has also made the goal of achieving strong, sustainable, and balanced global growth elusive. Though global current account imbalances have declined in recent years as a share of global GDP, part of the decline reflects a demand contraction on the part of current account deficit countries rather than strong domestic demand growth in current account surplus countries. A continued absence of stronger domestic demand in the larger surplus economies will continue to negatively impact global growth.

In light of the weakening global backdrop, it is especially important that all G-7 and G-20 countries adhere steadfastly to their exchange rate commitments. G-7 countries should stand by their commitment to orient fiscal and monetary policies toward domestic objectives using domestic instruments and not target exchange rates; G-20 members should move more rapidly toward more market-determined exchange rate systems and exchange rate flexibility reflecting underlying fundamentals, avoid persistent exchange rate misalignments, refrain from competitive devaluation, and not target exchange rates for competitive purposes.

Sustained global growth also depends on a well-functioning global financial system. As such, we reiterate the importance of continuing to move forward with the full regulatory agenda. We believe that further progress is critical to global financial stability, particularly with respect to the consistency of bank capital rules and risk weights, resolution regimes, and derivatives reform. And, while policymakers are increasingly focused on the potential systemic risks from the shadow banking sector, we must also remain vigilant regarding the traditional banking sector.

I want to highlight the progress we have made this year on the proposal for Total Loss Absorbing Capacity (TLAC) to facilitate the orderly resolution of systemically important banks. By coming to a broad consensus, we achieved a major advance in our efforts to tackle Too Big to Fail internationally and protect taxpayers from bearing the burden of any global bank's failure.

Over the past year, the IMF has continued to play an important role in helping stabilize the global economy and provide support to countries in crisis. The Fund has taken a lead role in financial support and policy advice to Ukraine, and more recently has been working to support countries hard hit by Ebola. The IMF has also provided leadership on the issue of sovereign debt restructuring. This month, member economies endorsed a strategy, backed by the IMF and others, to promote the adoption of new model "collective action clauses," including contractual revisions designed to facilitate orderly future debt restructurings. U.S. Treasury staff facilitated this work.

Finally, let me emphasize the deep commitment of the United States to the IMF and the multilateral system. The Obama Administration recognizes the need to continue to reinforce the strength and effectiveness of the international financial institutions, and that IMF quota reform and governance reform play a key part in achieving this goal. As the world's first responder to financial crises and economic threats, the IMF promotes global growth and stability, and protects our national security and the health of our own economy. The IMF played a key role in helping stabilize the euro area and limiting the negative effects on the global economy, and is providing critical support to fragile economies in the Middle East and Africa that are facing threats from extremism and terrorism, undergoing political transitions, and battling the Ebola virus. We share the IMFC's frustration with the continued delay in implementation of the 2010 quota and governance reforms, and President Obama and I are strongly committed to securing congressional approval of the reforms as soon as possible.