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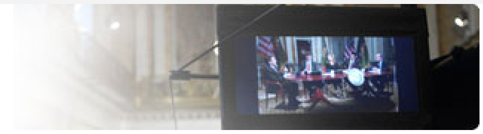

Under Secretary for International Affairs Lael Brainard Remarks to the Institute of International Finance

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As Prepared for Delivery

It is a pleasure to be here on what I expect will be the first of many visits to help translate President Obama's vision of economic partnership between the United States and India into tangible results.

Let me share one immediate example. Yesterday, I visited a hybrid solar-powered cell phone tower. This innovative design was made possible by a fusion of technologies from both the United States and India that was underwritten by equity investments from Indian and American partners along with U.S. export financing. By helping to bring households in remote rural villages into the circle of economic opportunity, and doing so in a way that promises to be both cost-effective and green, this partnership is creating opportunities that have potential well beyond India's vast market.

We are committed to working with the Indian finance ministry, the central bank, and the regulatory agencies to advance our partnership bilaterally and on global economic challenges.

Today the world economy is on its firmest footing since the start of the crisis. But the recovery is proceeding at different speeds, and we are carefully monitoring risks, such as volatility in oil prices associated with events in the Middle East and North Africa.

While the overall picture is encouraging, the three-speed recovery presents some policy challenges.

First, alongside continued projections of strong growth, many emerging market economies are facing inflationary pressures and associated risks of overheating.

Second, Europe continues to face challenges rooted in economic divergence between countries at the "core" that are recovering strongly and those at the "periphery," such as Greece and Ireland. The periphery countries face difficult challenges of high public debt levels, large budget deficits, persistent external imbalances, and contingent liabilities in the banking sector.

European leaders have said that they will do whatever it takes to make sure the affected nations and their banks have access to financing as they implement very challenging, multi-year programs of fiscal, structural and financial reform. European officials are now at work on a longer-term framework to strengthen and redesign the financial mechanisms put in place to support economic reform. We look forward to an agreement on a comprehensive solution with adequate resources and flexibility to decisively address the challenges.

In the United States, we are seeing increasing signs of a self-sustaining recovery in consumer and business spending. Consumers and businesses are expressing more optimism, real consumer spending has grown at a solid pace since last fall, and business investment has continued to expand.

Of course, we still face substantial economic challenges. Too many Americans are not yet back to work, and many are struggling due to losses in their savings and the value of their homes.

Accordingly, we seek a policy path that strikes the right balance between supporting growth and job-creation in the short term, and putting in place a credible medium-term framework for fiscal consolidation.

The fiscal package that President Obama and Congress agreed upon in December is delivering on the first aspect of this careful balance, injecting support into the economy that private sector analysts expect to add between 0.5 and 1.25 percentage points to growth in 2011.

The President's Fiscal Year 2012 Budget will deliver on the second, offering concrete steps, such as an overall five-year freeze on non-security discretionary spending, which will cut more than $1 trillion from fiscal deficits over the next 10 years. The path set out in the budget meets the G-20 Toronto commitment to cut deficits in half by 2013 and stabilize debt-to-GDP ratios by 2016. The budget achieves this while also pursuing investments in our long-run economic growth.

The unfolding events in North Africa and the Middle East and the associated volatility in oil markets have underscored the important issue of rising global commodity prices.

Rising commodity prices are having a serious impact on inflation and the living standards of the lowest-income groups in emerging market economies, where fuel and food tend to comprise a larger share of consumption. This underscores the importance of expanding investments to enhance agricultural productivity in lower income countries, a high priority for the US and G-20.

In the United States, the impact of commodity prices on broader inflation is likely to remain muted due to the high level of slack in the labor market.

The world economy is now considerably better positioned to cope with these higher prices than it was even a few months ago. Moreover, there is sufficient spare capacity among major producers in the Middle East to offset the impact of oil supply disruptions, and we and other major economies possess substantial strategic reserves, which could be mobilized to mitigate the effects of a severe sustained supply disruption.

As Egypt and Tunisia manage the careful transition to more democratic and inclusive systems of governance, we look forward to working with them as they undertake the economic reforms that will be necessary complements to political reform and that will be vital to addressing the economic aspirations of their young populations.

We are also working together to build consensus on reforms that will make global growth more sustainable and the global financial system more stable.

First, with global capital flows to many emerging market economies now in line with historical averages after having rebounded from crisis lows, we should work together on a better framework to help countries manage volatility in capital flows without imposing undue adjustment burdens on others.

Such a framework would recognize that capital flows to emerging markets primarily reflect strong growth and relatively attractive rates of return in these economies, and also that they have the potential to help fill the substantial investment needs of these economies. But it would also acknowledge that capital surges can complicate macroeconomic management, contribute to credit booms and busts, and risk sudden reversals.

The challenge, then, is to reduce the risk that capital flows contribute to excess growth in credit or asset prices, and leave domestic financial systems vulnerable—without undermining the real benefits they can bring or market signals they reflect.

The first line of defense should be the classic mix of monetary and fiscal restraint, and countries with undervalued currencies should allow appreciation. But when emerging market countries with overvalued currencies face undue burdens of adjustment, there may be scope for the deployment of carefully designed macro-prudential measures.

Second, we need strengthened policies to promote external sustainability and reduce the risk that large trade and current account imbalances re-emerge. The three-speed recovery raises the specter of widening imbalances with the attendant risks of destabilizing movements in capital flows and exchange rates. This is of particular concern to emerging market economies.

In the G-20, we are moving gradually to build consensus on ways to measure external imbalances and identify their causes. The IMF will play a key role in this process, providing independent assessments of the impact of each country's policies on global economic stability and growth.

It is critical to develop stronger norms for exchange rate policies that will facilitate and not impede economic adjustment. There is broad consensus that all major economies –emerging as well as advanced--need to allow their exchange rates to adjust in response to market forces to avoid the risk of shifting an undue burden of adjustment onto others.

Since June 2010, China's authorities have allowed their currency to appreciate against the dollar at a pace of about six percent a year in nominal terms, and more than ten percent a year in real terms, given faster inflation in China than in the United States.

Nonetheless, China's currency remains substantially undervalued, and its real effective exchange rate -- the best measure to judge its currency against all of its trading partners -- has not moved much. We will continue to engage bilaterally and multilaterally on this important issue.

And finally, we are working to ensure a stronger and more resilient financial system. The United States has moved quickly in this regard with the enactment of the Dodd-Frank Act.

But one of the fundamental lessons of the crisis is that national efforts, by themselves, while necessary, may not be sufficient: globally synchronized financial markets require globally convergent financial standards.

International coordination through the Financial Stability Board and G-20 is critical to ensure that efforts to promote safety and soundness in one major financial jurisdiction are reinforced and not undermined elsewhere, that globally active institutions are overseen by globally coordinated authorities and that financial activity does not migrate to jurisdictions where standards are weaker or less rigorously applied due to an unlevel playing field.

We have agreed with our international counterparts to impose tougher restraints on risk taking and leverage, to bring oversight to the derivatives markets, and to improve our capacity to contain the damage caused by the failure of large financial institutions. We must move ahead on the agreed steps to increase capital and limit leverage, and put in place the mechanisms needed to wind down complex, globally active institutions, while recognizing that it is important to provide clarity so that market participants have time and opportunity to adjust.

The prospects for stronger global growth and stability depend in large part on our ability to partner effectively, both bilaterally and multilaterally, to get right these key policy challenges and create a favorable environment for your firms to invest, hire, and excel.

We look forward to continued collaboration with the Indian government in this regard, and with all of our partners in the G-20.

Thank you.