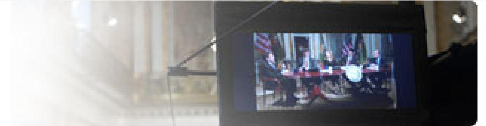

Statement of Secretary Lew for the International Monetary and Financial Committee (IMFC) Meeting

4/17/2015

WASHINGTON – These meetings provide an important opportunity to take stock of the global economy and our efforts — both individually and collectively — to achieve strong, sustainable, and balanced growth. While the U.S. economy continues to show strength, global activity is still falling short and becoming increasingly uneven. Policy makers in advanced and emerging economies alike must redouble efforts to boost domestic demand so we can realize our economic potential. Surplus countries in particular are best positioned to do so.

The U.S. economy continued to strengthen last year, underpinned by strong private demand. Real GDP increased at an above-trend 3.9 percent pace over the last three quarters of 2014. Labor market conditions have improved notably over the past year, and inflation remains low. Although recent data indicate that growth slowed in early 2015 — in part due to temporary factors such as severe winter weather — the near-term outlook remains favorable.

An array of economic indicators suggests that the underlying momentum of the U.S. recovery continues, with growth expected to remain strong through the end of this year. Improved labor market conditions, along with the recent sharp decline in energy prices, have been a boon for consumers, helping to lift consumer confidence to its highest level in a decade. After being a drag on growth for the last several years, federal and state and local outlays are likely to provide a modest boost to growth in 2015. While developments abroad are weighing on U.S. economic performance, most forecasters continue to predict strong U.S. economic growth in 2015. A consensus of private forecasters projects 2.7 percent real GDP growth this year.

Against the backdrop of a strengthening economy, the U.S. federal fiscal position has improved considerably, and in FY 2014 the budget deficit fell to 2.8 percent of GDP — a seven-year low. The Administration's FY 2016 budget builds upon this progress, further lowering the deficit and putting the debt-to-GDP ratio on a declining path as early as next year. The President's policies will put federal finances on a sustainable path while fostering durable economic growth and broadly-shared prosperity over the longer run.

In contrast to the strong recovery in the United States economy, global economic growth has been less robust over the past year. In addition, global imbalances are poised to rise again, with many countries looking to exports rather than domestic demand to drive growth. Many advanced economies appear stuck in a pattern of low domestic demand growth and excessively low inflation. Emerging markets, which have led the recovery since the 2008/2009 crisis, have seen growth slow. Of greater concern, the growth slowdown may reflect structural rather than cyclical factors. Adoption of a comprehensive mix of macroeconomic policies to boost domestic demand in key economies would raise global growth.

After softening for much of 2014, economic activity in the euro area appears to be tentatively picking up. In the face of ongoing disinflation, the European Central Bank (ECB) has taken forceful steps to support growth and combat downward price pressures. Going forward, there is scope for policy responses that better calibrate the path of fiscal adjustment, including substantial increases in infrastructure spending, to support domestic demand. This is particularly true in Germany, where the current account surplus is projected to reach nearly 8.5 percent of GDP this year. We also believe that demand-enhancing structural reforms are critical for boosting euro area growth in the medium term. Looking to Greece, we urge the authorities to quickly and fully commit to technical negotiations with their international partners. Not reaching agreement would create immediate hardship for Greece, and uncertainties for Europe and the global economy more broadly.

Japan has emerged from a brief recession triggered by an increase in the consumption tax last April, and is expected to return to growth this year. Nonetheless, the Japanese domestic demand outlook remains concerning. Despite significant monetary stimulus aimed at lifting the economy out of long-standing deflation, an emphasis on a near-term reduction in the fiscal deficit is a drag on growth. Moving forward, policymakers need to deploy all three policy levers — fiscal, monetary, and structural — to secure a balanced and durable recovery and to boost domestic demand.

China faces a significant transition away from heavy investment to a consumption- and services-based economy. By using the appropriate policy tools, China can achieve higher quality growth and advance domestic rebalancing over the medium term. China should allow the market to play a greater role in determining prices, particularly the exchange rate and interest rates. While China's exchange rate intervention has declined, a number of factors indicate that the RMB exchange rate remains significantly undervalued. China should build on the recent reduction in intervention and durably curb its activities in the foreign exchange market, including at times when there is market pressure for appreciation.

Emerging market growth was weaker than expected in 2014, raising concern about downside medium-term risks. To counter weaker external demand from some advanced economies and geopolitical shocks, emerging markets should pursue policies that reduce vulnerability to external shocks, including structural reforms. For instance, oil importers should follow the examples of India, Indonesia, and Malaysia, which have taken advantage of lower commodity prices to scale back fuel subsidies. For their part, commodity exporters should work to diversify their economies. All emerging markets could benefit from business climate improvements to boost foreign and domestic direct investment. And, as we continue to underscore, increased exchange rate flexibility could increase resilience to external shocks.

Globally, our efforts to achieve real global rebalancing are at risk. Some key surplus economies appear increasingly dependent on external demand to boost growth, rather than pursuing more balanced policies to catalyze domestic demand. We are concerned that the global economy is reverting to the pre-crisis pattern of heavy reliance on U.S. demand for growth. As we all know, such a pattern will not lead to strong, sustainable, and balanced global growth. Achieving that goal requires advanced and emerging economies to pursue a policy mix that includes using available fiscal space as a complement to monetary policy accommodation — and structural reforms — to stimulate domestic demand. Significantly, economies projected to record rising current account surpluses, including Korea, Germany, China, and Japan, should move expeditiously to pursue domestic-demand boosting policies.

It is therefore imperative that countries adhere to their G-7 and G-20 exchange rate commitments, including more rapidly pursuing more market-determined exchange rate systems, with exchange rate flexibility that reflects economic fundamentals, avoids persistent exchange rate undervaluation, refrains from competitive devaluation, and does not target exchange rates for competitive purposes.

Turning to the global financial system, I believe the global financial regulatory reform process has been successful and is yielding important results. The international scope of the reform agenda is lifting global standards to the U.S. level, while avoiding arbitrage. We continue to advance our work on a common international standard on total loss absorbing capacity (TLAC) to facilitate the orderly cross-border resolution of large, interconnected global banks. The proposed TLAC standard is a major advance in our efforts to tackle Too Big to Fail internationally and protect taxpayers from bearing losses generated by the failure of such banks.

United States authorities continue to rigorously monitor and, where needed, address financial stability issues, including those that may fall outside the regulatory perimeter. Most recently, the Financial Stability Oversight Council has been analyzing whether and how asset management products and activities could pose risks to U.S. financial stability. Internationally, this is complemented by the Financial Stability Board's international efforts to promote the development of resilient market-based finance while monitoring any related potential systemic risk.

Over the past few days, we reaffirmed our commitments to the international financial institutions and discussed the importance of making room for new institutions that are committed to high standards. Even as new institutions emerge, I would like to underscore that the IMF remains the foremost international institution for promoting global economic stability. A well-resourced IMF is critical to its ability to act decisively as the lender of first resort during crises. We saw this most recently in Ukraine, where IMF support has been crucial to helping Ukraine in its efforts to restore economic stability, pursue urgently needed economic reforms, strengthen governance and the rule of law, and limit the hardships facing the Ukrainian people.

The IMF continues to innovate to serve its members, including through the welcome revision of the Post-Catastrophe Debt Relief (PCDR) Trust to create the Catastrophe Containment and Relief (CCR) Trust to provide debt relief for low-income countries affected by epidemics. This has provided support to Guinea, Liberia, and Sierra Leone to help counter the economic impact of the Ebola epidemic. The IMF has also been instrumental in helping develop new model collective action clauses and encouraging their adoption.

Let me reiterate that we remain strongly committed to the IMF as a quota-based institution. We are committed to securing legislation to implement the 2010 quota and governance reforms. President Obama has requested approval for the reforms in his current budget request and at the same time we are seeking every possible legislative opportunity to implement the reforms as soon as possible. We continue to believe that Congress will soon pass legislation to implement the 2010 reforms, which are critical to U.S. economic and national security and global economic stability.

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