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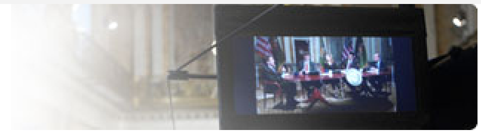

Remarks by Assistant Secretary Ramin Toloui at the Peterson Institute for International Economics

3/15/2016

WASHINGTON - Thank you to Fred and the Peterson Institute for hosting this discussion today.

Secretary Lew and several of us on the international team at Treasury recently returned from the G-20 Finance Ministers and Central Banks Governors meeting in Shanghai—the first ministerial-level meeting under China's G-20 presidency. Meetings of the G-20 offer a platform to address a full range of short- and long-term economic priorities, from financial regulation, to infrastructure development, to counter-terrorist financing, to financial inclusion. Given that global growth continues to fall short of expectations—and against the backdrop of significant financial market volatility at the start of the year—this G-20 meeting placed a particular focus on the policies needed to strengthen global economic prospects.

Today, I would like to provide some context on the discussions that took place in Shanghai, including how to interpret two important commitments reflected in the G-20 communiqué. I will keep my remarks brief, to allow maximum time for your questions.

The Global Economic Outlook

Let me start by providing Treasury's perspective on the state of the global economy as context for this G-20 meeting. As many of you know, global growth remains modest, with 2015 likely marking the weakest global growth rate since 2009. In January, the IMF marked down its forecast for 2016 global growth by 0.2 percentage points to 3.4 percent, with continued downside risks.

There are bright spots in the global outlook—the most notable of which is the U.S. economy. While headline GDP growth was 1.9 percent during 2015, U.S. private final demand grew a healthy 2.7 percent last year. Job growth in 2015 also was strong, with 2.7 million new jobs created during the year, adding to the 3.0 million created in 2014. The unemployment rate has fallen to below 5 percent, its lowest rate since the beginning of 2008.

The main factor holding back the topline growth number for the United States is the persistent headwind that the United States has faced from economic performance abroad. That headwind shaved 0.6 percent from overall U.S. GDP growth in 2015, and is likely to continue to subtract from U.S. growth this year.

The pace of demand growth abroad is not just very important to the U.S. economy, but also critical to the overall health of the global economy. The growth of foreign demand has been too weak for several years to generate the kind of job and income growth the world needs.

Growth in the euro area improved to 1.5 percent in 2015, which is the highest growth rate for the euro area since 2011. But the unemployment rate is still above 10 percent, indicating that substantial untapped economic potential remains in the euro area. Persistently weak growth of demand is reflected in a core rate of inflation in the euro area that is half that of the United States. Progressively longer tenors on the yield curve in negative territory are indicative of deflationary risks. Such risks are of particular concern given the euro area's high leverage in the corporate sector.

Japan continues to confront soft economic growth and low inflation. It has experienced economic contractions in four of the last seven quarters, and the level of personal consumption is below that of two years ago. Achieving the Bank of Japan's goal of 2 percent inflation is proving to be especially difficult against the backdrop of persistently weak domestic demand.

Finally, weakness in emerging market is a key reason for the underperformance of global growth. The IMF estimates that these economies grew 4.0 percent in 2015, down from 4.6 percent in 2014 and marking the fifth consecutive year of slowing growth. China garners the most attention in this group, as it undertakes the necessary but difficult transition from an investment- and export-led economy to one that is more consumer- and services-led. Other countries in the emerging world must navigate the economic and financial pressures accompanying the decline in commodity prices and reversals in capital flows.

The Shanghai Commitments

Global growth was thus front-and-center when the G-20 ministers met in Shanghai, especially since the meetings came in the wake of considerable volatility in financial markets at the start of the year. In reviewing the state of the global economy, the G-20 participants felt that the magnitude of market volatility early in the year did not reflect the underlying fundamentals in the global economy, and indeed we have seen stabilization in financial markets in recent weeks. At the same time, however, there was clear recognition of rising downside risks and vulnerabilities, and acknowledgement that more needed to be done to achieve growth objectives.

The discussions in Shanghai, as well as during the weeks leading up to the meeting, led to two specific elements in the G-20 communiqué that reflect an evolving global consensus on what needs to be done to respond to current global challenges.

First, G-20 members strengthened their commitment to take the actions required to boost global growth, pledging for the first time to use "all policy tools—monetary, fiscal, and structural—individually and collectively" to preserve and strengthen the global economic recovery.

The message of the United States has been consistent throughout the post-crisis recovery period: policy support is essential to ensure a strong recovery until private sector growth is on a robust, self-sustaining trajectory. The United States has consistently advocated use of a comprehensive approach that marshals all levers of economic policy—monetary, fiscal, and structural. In particular, deploying available fiscal resources where available supports domestic demand while complementing structural reforms to boost growth down the road. Secretary Lew elaborated on this approach in detail in November 2014 in his speech to the World Affairs Council in Seattle, and Treasury has consistently argued for the comprehensive approach many times since.

The new commitment by the countries of the G-20 to use all policy tools reflects a shift in the parameters of the discussion within the G-20 in favor of more action to strengthen near-term demand. It also reflects a consensus that monetary policy—while an essential component of the policy response—cannot alone lead to balanced growth. In particular, there is more recognition that fiscal policy has an important role to play to support demand. As IMF First Deputy Managing Director David Lipton said last week: "fiscal policy has to take a more prominent place in the policy mix." Public infrastructure investment is particularly valuable in this regard, providing support to the economy in the near term, while laying the foundation for higher potential growth in the future. Such investments complement structural reforms aimed at boosting potential growth.

Second, the G-20 members strengthened their commitments in the area of currency policy, pledging to refrain from competitive devaluations, not to target exchange rates for competitive purposes, and to consult closely on exchange markets.

In embracing an expanded set of policy tools to boost growth, there is one that the G-20 explicitly ruled out: competitive currency devaluation. It is particularly important at a moment of concern about the size of the global pie that G-20 nations have reaffirmed their commitment to grow the overall pie rather than to seek a larger slice at the expense of others through unfair currency practices.

In addition to ruling out competitive devaluation, all G-20 countries further committed to "consult closely on exchange markets"—an important component of G-7 communiques in the past, but never before included as a G-20 commitment. The efforts of G-20 members to consult with each other and compare notes regarding foreign exchange markets are an important way for us to exchange information on the developments in our respective markets, keep each other informed of our policy intentions, and avoid surprises. We will be conducting such consultations among ourselves as well as through the IMF, in its role conducting surveillance and providing advice on the international monetary system.

The strengthening of the currency commitments by G-20 further reinforces global norms prohibiting unfair currency practices, helping deter those who would use currency policies for commercial advantage and providing a forum for addressing these issues.

Conclusion

The Shanghai Commitments mark important progress, but clearly alone are not sufficient to achieve strong, sustainable, and balanced global growth. It is ultimately up to member countries to design and implement policies in accordance with these commitments. The G-20 work under China's presidency will culminate with the Leader's Summit Meeting in early September in Hangzhou. Between now and then, it is our responsibility as G-20 members to identify and execute policies that will enable and sustain the global economic recovery this year and into the future.

So let me stop there, and I look forward to our discussion.

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