

U.S. DEPARTMENT OF THE TREASURY

Press Center



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

4/15/2016

WASHINGTON — As we meet this week, the global recovery remains uneven and there is a need for timely action by all to support global economic growth. Achieving a sustained recovery with solid growth requires a comprehensive approach that employs all levers of economic policy—monetary, fiscal, and structural—to support the recovery. We are pleased that the IMF is in a strong position to continue to play its central role in promoting growth and stability following implementation of the 2010 quota and governance reforms, which put its finances on a more stable footing. Thanks to bipartisan Congressional support for the IMF quota and governance reforms, the United States has reaffirmed its commitment to a strong IMF. Full implementation of the IMF governance reforms, including agreed changes to the Executive Board, will further increase the credibility of the institution. The IMF also has a strong leadership team in place with the welcome reappointment of Madame Lagarde to a second term as Managing Director and of David Lipton as First Deputy Managing Director.

The United States remains one of the bright spots in the global economy, expanding at a solid pace, led by strong growth in private domestic demand. Real GDP is nearly 10 percent higher than at its pre-recession peak in late 2007, and the unemployment rate is approaching its pre-recession level. The combination of labor market improvements, low and stable inflation, the decline in the federal budget deficit, and the positive near-term growth outlook reflect a broad based recovery.

The near-term outlook is for U.S. economic growth to remain solid. A consensus of private forecasters is projecting real GDP growth to expand at a solid, above-trend pace of 2.3 percent over the four quarters of 2016, propelled in part by strong growth of consumer spending. Projections from the FY 2017 Budget, which include a number of pro-growth policies, show the economy expanding at an above trend rate of 2.5 percent on average from 2016-2018.

Against the backdrop of a strengthening economy, the federal fiscal position has improved considerably. The budget deficit as a share of GDP has narrowed by three quarters from a peak of 9.8 percent in FY 2009 to 2.5 percent in FY 2015. The Administration's FY 2017 Budget would build on this progress, returning the deficit to a sustainable level and stabilizing the debt-to-GDP ratio at around 75 percent for the coming decade.

Turning to the global economy, policymakers need to work together to ensure that weakness in global growth does not become entrenched. It remains imperative that countries around the world use all available policy tools to support growth and job creation—monetary, fiscal, and structural—as monetary policy alone cannot achieve balanced global growth. In the near term, the global economy needs more demand. Achieving this objective requires countries to use all available fiscal space, to get credit flowing to the real economy, and to create an environment that encourages businesses to hire and grow.

Growth in Europe, while improving slightly, remains sluggish and could be held back by geopolitical risks, including the potential of a UK withdrawal from the European Union. We encourage euro-area countries with fiscal space to stimulate domestic demand while continuing to tackle structural reforms.

Japan continues to confront soft economic growth and low inflation, and faces continued recession risks, against the backdrop of persistently weak domestic demand. Japan should deploy a flexible fiscal policy in the near term that provides a supportive fiscal impulse, while accelerating the implementation of structural reforms, including labor market reforms and opening the service sector to increased competition.

A smooth rebalancing of the Chinese economy toward consumption-led growth continues to be one of the most important global economic challenges and priorities of the coming years. China should prioritize reforms that strengthen its social safety net, reduce industrial over-capacity, open up the services sector to competition, tackle rising corporate leverage, confront the associated challenges to the banking system, and allow for a market-determined allocation of credit. Despite the risks and challenges to a smooth transition, China has the tools to support domestic demand, particularly by using budgets to support consumer-friendly fiscal stimulus.

The uneven distribution of the world's weak demand is mirrored in continuing, and to a certain extent, rising global imbalances. Lower oil and other commodity prices have played a role, especially benefitting oil importing countries and boosting current account surpluses in Europe and Asia. External surpluses are especially large in Germany and Korea and rising in China and Japan. At the same time, different rates of demand growth and monetary and fiscal policy settings have caused a rise in capital flows, inducing a significant realignment of exchange rates. At a time of slow and uneven global growth, avoiding beggar-thy-neighbor exchange rate policies is particularly important. All countries should abide by their exchange rate commitments, including commitments to refrain from competitive devaluation, to not use monetary policies to target exchange rates for competitive purposes, and to consult closely on exchange markets. Surplus countries especially have a responsibility to adopt stronger adjustment measures to avoid reliance on the exchange rate to support demand.

Since the global financial crisis, the international financial regulatory community has taken important steps to foster a more resilient financial system through shoring up bank balance sheets, developing tools to resolve failing institutions, assessing risks from non-bank financial institutions, and strengthening derivatives markets and central counterparty clearing. While the heavy lifting on some of these reforms has been completed, more work remains to be done, particularly as we seek to implement the committed measures. Policymakers and regulators in all the major financial centers and emerging markets, the Financial Stability Board (FSB), and the international standard-setting bodies need to remain focused on this important work.

There is a growing concern that some large banks are terminating their correspondent relationships and restricting the access of money service businesses to bank accounts—both of which are often referred to as “de-risking.” The United States is committed to addressing this concern in a way that accomplishes our joint goals of supporting financial connectivity and inclusion and protecting the financial system from abuse. We will continue working with our international partners, including the FSB, the Financial Action Task Force (FATF), IMF, and World Bank to address challenges related to de-risking, including by prioritizing technical assistance aimed at helping countries address deficiencies in their financial sector supervision and by clarifying regulatory expectations.

Tax evasion and tax avoidance hurt government budgets, reduce the equity of our tax systems and hinder global growth. The effective implementation of international standards is a key issue for the United States. To combat the misuse of companies, we are finalizing a rulemaking that would require financial institutions to identify the beneficial owners of new customers that are companies. In addition, we are about to propose a regulation that would require the beneficial owners of single-member limited liability companies to identify

themselves to the Internal Revenue Service, thus closing a loophole that some have been able to exploit. We fully support the call for all countries to automatically exchange financial account information. The United States led the world in automatic exchange with the enactment of FATCA in 2010. We also are committed to implementing the OECD/G-20 BEPS project, including the requirement that large multinationals report to tax authorities certain financial and tax information on a country by country basis.

Achieving strong sustainable and balanced growth is the key to strengthening the international monetary system. It is in our collective interest to maintain a strong IMF that is capable and adequately resourced to provide timely and effective surveillance, assist countries in building capacity, and help prevent crises and respond to country needs when economic crises arise. With the doubling of quotas, the IMF's core funding is ample and well-resourced. But the IMF must also be modernized on an ongoing basis to reflect the current realities of the global economy. We welcome the progress so far in adjusting the representation at the IMF Board, and look forward to further implementation this year.

We see the benefits of a strong, engaged IMF in times of difficulty around the world. The IMF has been a first responder in Ukraine, providing financial assistance at a key moment and supporting much-needed economic and anti-corruption reforms. Additionally, IMF support, technical assistance, and policy advice are helping Iraq address the large fiscal gap resulting from the oil price shock and the fight against ISIL. Looking forward, the IMF has a vital role in helping countries, particularly those that are commodity-exposed, set a strong macroeconomic framework that reinforces economic growth, investment and the effective use of external support, including from the MDBs.

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