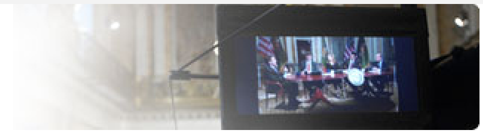

Remarks by Treasury Under Secretary Nathan Sheets on an Evolving IMF at the Center for Strategic and International Studies

10/18/2016

As Prepared for Delivery

WASHINGTON – Thank you Tim, for that kind introduction, and to the Center for Strategic & International Studies, for hosting me today. During my tenure as Treasury's Under Secretary for International Affairs, I have had the privilege to work on a wide range of issues having global implications, but perhaps no other issue is as important to international cooperation as effective U.S. leadership at the IMF. As we just completed the annual IMF/World Bank meetings, it's a fitting time to reflect on what has been accomplished in the years since the global financial crisis.

The IMF, together with the World Bank, is the cornerstone of the international economic system that the United States helped design in the wake of World War II. The purpose of this system was to prevent the beggar-thy-neighbor exchange rate policies that deepened and prolonged the Great Depression and to foster close international relationships that, among other benefits, can be called upon in times of crisis. The global economic system in general, and the international financial institutions specifically, remain indispensable to U.S. interests.

The Importance of the IMF

The IMF plays a unique and central role in this global system. Through its surveillance of the economic policies of its members, and as the first responder to financial crises, the IMF has been essential to economic growth and stability over the last 70 years.

The Fund works to prevent financial crises by assessing the economic health of member countries, encouraging transparency and strong governance, and providing critical policy advice. And when crises do develop, IMF adjustment programs reduce their severity and limit contagion to other countries, helping to preserve global growth. As an important example, earlier this decade, when the IMF approved large programs for several euro area countries, there was a severe risk of European and global contagion. This contagion would have had damaging consequences for the global economy, including the United States. Fund programs were critical in preventing a destructive downward spiral.

The IMF, along with the multilateral development banks, also supports key U.S. allies and interests in a variety of ways around the world. Over the past few years alone, we have worked with partners in these institutions to marshal billions of dollars in financial and technical assistance to advance goals essential to U.S. interests. And for every dollar the United States contributes to the IMF and the multilateral development banks, other countries provide at least four dollars more, multiplying the impact of our contributions.

IMF support for Ukraine's recent reform efforts is a timely reminder of how important the IMF is to our national security and economic interests. In recent years, the IMF has also provided critical loans to Jordan and Iraq, countries that are struggling to combat terrorism and manage swelling numbers of displaced people.

In a similar vein, the IMF assists countries in strengthening their financial sectors, helping to reduce the likelihood of financial crises and to improve anti-money laundering and counter terrorist financing regimes. The IMF also responds to a broad range of other shocks that threaten the global economy. It was at the suggestion of the United States that the IMF became a first responder to the fiscal stress caused by the Ebola epidemic in West Africa in 2014.

The 2010 Quota and Governance Reforms

To protect the U.S. economy and our national security interests, it is critical that we continue our efforts to strengthen the IMF and enhance its ability to perform its important mission. In 2009 and 2010, the United States led an effort to push for a comprehensive package of quota and governance reforms, in order to put IMF resources on more solid footing, and in recognition of the rising importance of the emerging markets. Spurred by this U.S. leadership, the global community decided on a package of reforms that doubled the IMF's permanent resources and gave a greater voice to emerging markets and other underrepresented countries.

These governance reforms preserved U.S. voting share, but our influence in the institution also requires having a strong advocate as our Executive Director.

President Obama has nominated Mark Sobel, a career civil servant who is highly regarded both domestically and internationally, for this position. Mr. Sobel's confirmation would give the United States a more powerful voice inside the institution.

We have recently witnessed what can happen if there is a perception that the United States is turning its back on international institutions. Although we advocated for the 2010 IMF quota and governance reforms, during the five years that the United States failed to ratify the reforms many countries, including some of our close allies, questioned our commitment to the international system.

If the United States leaves a leadership vacuum, or we drag our feet when it comes to necessary reforms, countries will look outside the IMF and the international system we helped design, and beyond the norms and rules that we value.

With this issue in mind, some have suggested that the United States saw institutions such as the Asian Infrastructure Investment Bank as threats to U.S. influence in the international financial system. But we have been clear that the United States stands ready to welcome new institutions into the international architecture, provided that they share the international community's strong commitment to sound governance principles and high social and environmental standards.

Indeed, the existing institutions themselves continue to evolve, enhancing their efficiency and raising their standards to match the dynamic global economy.

The IMF Reform Legislation

In December 2015, Congress passed the necessary legislation for the United States to consent to the quota and governance reforms. Completing the 2010 reforms was a watershed moment for the IMF and the global economy. I would now like to take a few minutes to highlight two important aspects of Congress' authorizing legislation, relating to the repeal of the "systemic exemption" and to the New Arrangements to Borrow.

First, before the United States could consent to the reforms, the legislation required Secretary Lew to report that the United States had taken all necessary steps to secure repeal of the systemic exemption to the exceptional access framework's debt sustainability condition. The systemic exemption had allowed the IMF to lend to countries in cases when the Executive Board assessed that a debt restructuring, which would otherwise have been necessary, was too big a risk for the global economy.

We worked diligently to satisfy this requirement. Through December 2015 and January 2016, our representatives at the IMF met with every Executive Director's office, and with many of them on multiple occasions, to compare notes on this contentious issue. I myself had numerous discussions with my counterparts in Europe, India, Canada, and Japan.

Our persistence paid off, and in January 2016 the Executive Board voted overwhelmingly to repeal the systemic exemption.

As part of the legislation, Congress also included a new reporting requirement for exceptional access programs. As a result, the United States will not support exceptional access unless Treasury sends a report to Congress describing the program, including a debt sustainability analysis and an assessment of the program's likely success. The legislation also required Treasury to submit to Congress an assessment of ways to improve the effectiveness and mitigate the risks of U.S. participation in the IMF. This report was completed in June, and is now available on Treasury's website.

Second, the legislation imposed two new requirements on how Treasury handles participation in the IMF's New Arrangements to Borrow, or NAB. The NAB is the IMF's main backstop support for quota resources, through which 38 countries stand ready to lend additional resources to the Fund. The 2010 IMF reforms boosted our quota and reduced the size of our commitment to the NAB by roughly similar amounts. Other countries also reduced their commitments as their quotas increased.

Given the higher level of quotas, IMF management and the Executive Board took immediate steps to deactivate the NAB. Going forward, only quota resources will be used to fund new IMF programs, consistent with our conviction that quotas should be the primary source of funding for the IMF.

Nevertheless, the NAB continues to provide an essential insurance policy for the international economy. In the event that another severe global crisis threatened to swamp the IMF's quota resources, the NAB holds $250 billion of firepower that could be reactivated. In order for the United States to support such re-activation, however, the recent legislation requires the Treasury Secretary to submit to Congress a report confirming that the Fund's lending capacity is expected to fall below 100 billion SDRs and that re-activation is in our strategic economic interest.

Let me pause to emphasize that ending U.S. participation in the NAB would create uncertainty about the IMF's finances at a time when the global economy continues to face sizeable risks.

The long-delayed adoption of the 2010 quota reform boosted confidence in the international monetary system, and the NAB helps maintain this confidence.

The legislation imposed another requirement regarding how Treasury handles participation in the NAB. Separate from activating the NAB, which makes NAB resources available for IMF programs, the IMF Executive Board renews the NAB every five years, which allows countries to confirm their commitment to providing resources if the NAB is activated. Treasury will support the next NAB renewal later this year, which will extend the NAB until November 2022. Notably, as part of the quota legislation, Treasury's authority to agree to NAB renewal would end around that time, unless extended by Congress.

Going forward, Treasury will work closely with Congress to consider the proper size of the IMF in terms of quota and supplemental resources, such as the NAB. The work we have undertaken in recent months to implement the letter and the spirit of the quota legislation provides an important predicate for that discussion. Although I believe the IMF is now well resourced, we will continue to monitor both the size and the composition of IMF resources to ensure that they remain sufficient.

Continuing to Strengthen the IMF

The 2010 reforms made important progress, but we are not finished reforming the Fund. The United States is working to further modernize the IMF's system of governance and improve its capacity to deal with evolving challenges. As emerging economies grow, they desire and deserve a greater stake in the institutions at the center of the global economy. We believe that further enhancing the voice of emerging markets at the IMF is necessary to preserve the legitimacy and effectiveness of the institution. Emerging markets comprise an increasing share of the global economy, and we should incentivize them to embrace greater responsibility to contribute to global economic prosperity through cooperative policies.

To this end, as part of the 2010 quota and governance reforms, advanced European countries agreed to reduce their chairs on the Executive Board by two, to provide more seats for emerging markets and developing countries. Europe needs to make some further changes in its Board representation structure to fully implement this important reform.

To advance its core mission of promoting the efficiency of the global economy, the IMF must also intensify its engagement on such critical issues as exchange rates, current account imbalances, and shortfalls in global aggregate demand. For example, the IMF must strengthen its analysis of fiscal space and press countries to effectively use this space to boost demand. The IMF also needs to use its voice to advocate for a more symmetric adjustment of global imbalances.

The IMF, at our urging, has become a far more transparent organization over the past fifteen years. The publication of Board minutes, the creation of the Independent Evaluation Office, and the presumption that IMF country reports will be published have all been steps forward.

The IMF also should push its members toward greater transparency when it comes to economic and financial data, especially data about foreign reserves. The Fund established strong data standards initially through the General Data Dissemination Standard (GDDS) and subsequently through the more rigorous Special Data Dissemination Standard (SDDS) and SDDS Plus. Now, more than 97 percent of IMF member countries adhere to one of these data standards, with China having moved to SDDS reporting in 2015.

Conclusion

Making the case for global engagement requires taking a long-term view of the nature of U.S. economic power in a rapidly changing world. History has shown that U.S. global economic leadership is vital to the well-being of American workers and businesses, as well as to the ability of the United States to project its values and achieve its larger foreign policy objectives. Sustaining U.S. leadership in the international financial system and adapting it to the challenges of our time remains indispensable. Our leadership at the IMF and the World Bank is vital to maintaining support for an open and rules based global system.

While these institutions must remain firmly grounded, they must also adapt to the challenges and opportunities of the future, including by recognizing the rising role of the emerging market economies. We can either lead these changes or we will be left behind.

As Keynes remarked about the formation of the IMF and the World Bank in 1944, "We have shown that a concourse of 44 nations are actually able to work together at a constructive task in amity and unbroken concord. Few believed it possible…" Seventy years later, I am happy to report that 189 IMF members are continuing the task. Thank you.

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