U.S. DEPARTMENT OF THE TREASURY

Remarks by Deputy Secretary of the Treasury Wally Adeyemo at the Peterson Institute for International Economics

April 18, 2022

As Prepared for Delivery

Thank you so much to Adam and the Peterson Institute for International Economics for hosting me today. This week's Spring Meetings of the IMF and World Bank come at a pivotal moment for the international financial system and the global economy. Russia's brutal and unprovoked war in Ukraine has catalyzed the kind of coordinated and multilateral response not seen since the terrorist attacks of September 11. The multilateral coalition President Biden has helped assemble is animated by the idea that you cannot violate the sovereignty of another country and continue to enjoy the privileges of integration into the global economy—a position reflected in our swift and decisive actions to counter Russia's aggression.

The effects of our actions are already evident. Russia's economy is expected to contract 10 percent or possibly more in 2022, their worst contraction since Russia's economic crisis over 20 years ago.[1] Russia has seen inflation spike, with the World Bank estimating inflation will reach 22 percent over the course of the year.[2] Analysts forecast that imports could fall as much as 37 percent and that domestic demand could decline over 11 percent.[3] The economic crisis Russia faces will leave the Kremlin with fewer resources to prop up the Russian economy, pursue its invasion in Ukraine, and project power in the future.

We have taken pains to mitigate the impact of our actions on the global economy. This includes permitting energy market payments, as well as providing broad carveouts for humanitarian, medical, and agricultural transactions. Despite our efforts, however, Russia's invasion of Ukraine, its disruption of shipping lanes, and other destabilizing activity is the most significant headwind for the global economy since the initial pandemic-induced economic shock in March of 2020.

It is against this backdrop that we gather this week. There have been few times in the last century when the operations and details of the international financial system have been so salient, especially during a military conflict. Today, I would like to share my thoughts on how we can continue to invest in a principled-based international financial system while also denying its benefits to Russia.

In response to U.S. sanctions after Russia's 2014 invasion of Crimea, the Kremlin made the strategic decision to attempt to reduce Russia's dependence on the dollar and the U.S. financial system. The Russian Central Bank moved $80 billion in assets outside of the United States, made changes to its exchange rate regime, and built up its central bank reserves to approximately $600 billion.[4] Despite these attempts to reduce reliance on the U.S. financial system prior to the invasion the dollar was used in more than 80 percent of Russian financial institutions' foreign exchange transactions.[5]

Yet the actions we have taken in response to Russia's invasion of Ukraine are less about the centrality of the dollar and more about the impact of multilateral action. The financial sanctions, trade restrictions, and export controls put in place against Russia are being implemented by a coalition that includes more than 30 countries from around the globe who represent more than fifty percent of the global economy, issuers of the world's most widely used convertible currencies, and producers of the world's cutting-edge technologies.

The set of actions to constrain Russia's Central Bank are a great example of the multilateral approach President Biden and Secretary Yellen have taken. The vast majority of Russian Central Bank assets were held outside the United States, which meant building a coalition was essential to immobilize the Kremlin's reserves. The depth and breadth of this multilateral coalition also strengthens our ability to enforce our sanctions. The leaders of the G-7 have made clear that we will take decisive actions to stop countries, companies, and individuals from helping Russia evade our sanctions. We expect these actors will choose to follow our sanctions because the economic benefits of doing business with the countries in our coalition, which represent more than half of the global economy, far outweigh the value of doing business with Russia's shrinking economy.

Russia's actions do not only threaten the peace and stability of Europe. They are having a global impact. As you know, Russia and Ukraine are major exporters of critical commodities. Russia's war of choice is disrupting supply chains, destroying Ukrainian crops, and creating uncertainty for energy markets. While we can take steps in the United States and other advanced economies to mitigate the impact of Russia's invasion on our citizens, developing economies are forced to pay a high cost for Russia's invasion of Ukraine as they face rising food and energy prices. This is why Secretary Yellen plans this week to call on policy makers to take steps to address the challenges Russia's invasion of Ukraine is creating for developing economies around the world. We cannot allow Russia's invasion of Ukraine to further burden countries still struggling to deal with a global pandemic.

Our ability to address Russia's invasion, by using sanctions and providing support to those negatively impacted, is only possible because of the investments we have made in the global financial system. And the only way to ensure the system becomes stronger is by continuing to invest in it. In the midst of World War II, a coalition of nations came together to do something unprecedented. They sought to build a true system for international economic exchange, one with rules that would promote fairness and shared global prosperity. While that system certainly has had its challenges, the results it has delivered have been nothing short of inspiring. For example, from 1955 to 2018, the global extreme poverty rate fell from about 50 percent to just 10 percent.[6]

The legacy of this effort is why we are all here today—the institutions created to safeguard this system and expand its scope by bringing new nations into this global economic coalition include the IMF and World Bank. The IMF came into formal existence in December 1945 with 29 members. That number has expanded in waves to reach 190 today. We are all here this week because we believe in the principles these institutions represent and the critical role economic cooperation will continue to play in promoting global prosperity.

In the last few weeks, we have heard criticism from some quarters that the sanctions-based response to Russia's actions risks fracturing the international economy—that by demonstrating the stark consequences of isolation from this system, we are encouraging our adversaries to accelerate their efforts to build a separate one.

My takeaway is the opposite. That we have shown not only how indispensable this system is and how costly it is to be excluded from it, but also the futility of trying to avoid it. Russia's efforts to insulate itself from sanctions have failed because of the strength of the financial system we have collectively built. Like our predecessors who built the Bretton Woods system during a moment of global conflict and crisis, now is the time to double down on our investment in a shared financial architecture, capable of promoting shared prosperity and holding rogue actors accountable.

Let me conclude with a few words about where we go from here. As long as Russia's invasion continues, our sanctions will continue. Even as we continue to pursue rigorous financial sanctions against Russia and its key financial institutions, the next phase of our work will be to take apart Russia's war machine, piece by piece, by disrupting their military industrial complex and its supply chains. Russia's war against Ukraine has taken far longer than Russia anticipated, due in large part to the heroic efforts of the Ukrainian people and the support we have provided. That delay means that Russia's military will need to restock, resupply, and rebuild. To stop that from happening, we are continuing our efforts to use sanctions and export controls to deny Russia the critical inputs it needs, targeting key sectors like aerospace, electronics, and others related to the defense sector.

As we work with this coalition to address Russia's threat, now is the time to cement our cooperation and reinvigorate the international economic coordination on which the 20th century economy was built. If this conflict has taught us anything, it is that the dividends our shared economic system pays come not only in the form of prosperity, but in the ability to defend our most sacred principles when we need to most.

Thank you again. Adam, I'm looking forward to our discussion.

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[1] https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update

[2] https://www.worldbank.org/en/region/eca/publication/europe-and-central-asia-economic-update

[3] Russia, *J.P. Morgan Research* (April 7, 2022)

[4] https://cbr.ru/Collection/Collection/File/39685/2022-01_res_en.pdf

[5] https://home.treasury.gov/news/press-releases/jy0608; data referenced: https://www.bis.org/statistics/rpfx19_fx.pdf

[6] https://www.oecd-ilibrary.org/sites/e20f2f1a-en/index.html?itemId=/content/component/e20f2f1a-en#endnotea9z4