U.S. DEPARTMENT OF THE TREASURY

Transcript of Press Conference from Secretary of the Treasury Janet L. Yellen as Part of 2022 IMF-World Bank Annual Meetings

October 14, 2022

Good afternoon, everyone. Let me start by thanking the IMF and the World Bank for this week's meetings. Thank you also to Germany and Indonesia for their leadership of the G7 and G20.

We've had a very productive week. Before I take your questions, I'd like to touch upon our progress in four areas.

First, I spoke this week to my counterparts in the G7 and the broader community about the diverse and difficult challenges that face the global economy today. Many of these challenges stem from Russia's terrible war in Ukraine and the continued recovery from the pandemic. Inflation is elevated in many countries. Growth is slowing globally. We are also seeing swings in capital flows and strong movements in financial markets. But we are taking strong action both in the United States and globally to contend with these headwinds.

In the United States, our economy remains resilient, bolstered by President Biden's economic plan. But we are highly attuned to the risks of global headwinds. That includes those contributing to the high inflation we've seen in much of the world. Bringing down elevated inflation remains President Biden's top economic priority, even as we know the Federal Reserve plays the primary role in maintaining stable prices.

Yesterday's CPI report shows that we have more work to do to get price increases under control. While some leading indicators show hopeful signs, working families are continuing to feel the pain of high inflation. Our Administration is continuing to take a broad range of actions to boost energy supply, address housing constraints, and provide cost relief in areas like healthcare. It can take time to see the impact of these actions, but we know that they have and will continue to make a meaningful difference.

The global community also came together this week to address the array of urgent challenges before us. I — along with my counterparts from the major economies — agreed that while each country face unique challenges, we must take decisive action. That includes tackling inflation, securing our energy supply, and addressing other economic pressures. We are also attentive to the spillovers of macroeconomic tightening from advanced economies to the rest of the world. I had the opportunity to speak with counterparts from a broad range of countries about the way global macroeconomic forces are affecting their countries. This week has left us better informed and better coordinated. We are determined about the jobs we have to do at home. And we are united around our collective effort to tackle our shared challenges.

Second, the United States and our partners continue to mount an unprecedented and coordinated response to Russia's illegal and immoral war. Today, at Treasury, we met with counterparts on efforts to degrade Russia's military-industrial complex. The world's swift and multilateral response against Russia's aggression has worked. Russia has been forced to turn to suppliers of last resort like Iran and North Korea for low-quality military equipment. We've also deeply weakened Russia's finances. Foreign investors have left in droves. And projections indicate contractions in their economy for at least this year and the next.

I also had an opportunity to meet with Ukrainian Finance Minister Serhiy Marchenko. I reiterated our admiration for the bravery and our support of the Ukrainian people as they defend their homeland. The United States is providing another $4.5 billion in grants for Ukraine, bringing our total direct economic assistance to $13 billion. This assistance will support critical government operations and bolster Ukraine's resistance to Putin's war of aggression. The United States is committed to working with Ukraine, our partners, and the international financial institutions, as Ukraine defends itself and rebuilds in the coming months and years.

Third, energy costs and supply have been key topics during my bilateral engagements, especially with leaders from Europe. Putin's decision to wage war in Ukraine has sharply elevated energy prices. That has hurt consumers around the globe. In response, the United States and its partners recently committed to finalize and implement a cap on the price of Russian oil. It's an innovative policy that aims to cut Putin's revenue while keeping Russian oil flowing onto global markets at low prices. This policy has particular benefits for developing countries. A price cap will help stabilize global energy prices. It will also provide developing countries with greater leverage to negotiate better prices for Russian oil.

We’ve also made progress in our longer-term efforts to tackle the climate crisis. We’ve been reminded of the toll of extreme weather events by the recent devastation of Hurricanes Fiona and Ian here at home — along with the floods in Pakistan and other disasters abroad. We must accelerate our development of a clean energy economy. Here in the United States, our government has just enacted the Inflation Reduction Act. It’s our nation’s most aggressive domestic action on climate. And it puts us on a strong path to meet our emissions reduction goals. We are also helping accelerate the clean energy transition in developing countries. We are raising the climate ambitions of the multilateral development banks and boosting U.S. international public climate finance.

Lastly, we must support vulnerable countries as they navigate the immediate economic challenges. It’s crucial that we tackle the food security crisis. All major official bilateral creditors, including China, should also deliver on our G20 commitments to provide debt relief for low-income countries. We must advance our broader development agenda. I reinforced these priorities at my dinner with the African Finance Ministers, G20 engagements, and my meetings with leaders from developing and emerging markets.

We have also made significant progress this week to better position the multilateral development banks to tackle our growing global challenges while maintaining their existing development priorities. And we look forward to discussing more details on this project in the coming weeks.

We have much more progress to report. But in the spirit of time, I’ll now take your questions.

Q and A

REPORTER: There's been a lot of conversation here at these meetings about the focus and emphasis on the war in Ukraine. Some African countries have expressed frustration that this may be happening to the exclusion or to the in diminished help for their own war worries and sorrows. At the same time, you are fighting to bring onboard more people in the coalition against Russia and that's had limited success. We have seen the OPEC production cuts we have had. So I guess I want to ask you, how you assess that and what tools you have left now to put pressure on Russia, but also to sort of keep an eye on the global balance?

YELLEN: So, let me start with the first part of your question. You mentioned the stresses that African countries and other low-income countries are feeling. Let me tell you that an important source of stress, although not the only source is higher energy and food prices directly reflect Russia's invasion of Ukraine. At our discussions in the G20, on the global macro economy, there was wide agreement when we think about what the appropriate economic policy responses we should be undertaking. It's obvious what the most important is and everyone agreed Russia should stop its war on Ukraine, and that would address the most significant problems that Africa faces.

But of course, in a new environment with high inflation, tightening monetary policies, capital outflows from emerging markets, and pressures on currencies. Debt problems are growing more and more acute for African countries. We discussed these problems in many sessions in my dinner with the G7 finance ministers. I had a meeting with the African finance ministers, and we recognize the importance of making progress and having a better and more effective framework for resolving excessive debt.

And really, the barrier to making greater progress is one important creditor country namely China. So there has been much discussion of what we can do to bring China to the table and to foster more effective resolution of their problems.

But the second part of your question concerned, the price cap, and you mentioned an attempt to get countries into the coalition. So let me, I want to likely correct if you don't mind, the way the way you put that. The coalition is essentially the G7, the European Union, and Australia is signed up as a member of our coalition. All of these countries have agreed to ban the provision of services that are involved that our country's firms in our countries supply for the transport of Russian oil, and the EU sanctions package includes shipping.

Beyond that we're not trying to sign up additional countries to a coalition. None of the coalition countries are buying Russian oil or will buy Russian oil. And none of the countries outside the coalition are really important suppliers of any of those financial services. So, we the members of the coalition, we will implement the price cap once it's adopted, and make sure that the suppliers of insurance, trade, finance and other financial services that may be provided throughout the world can only be provided if the purchase of oil by whichever country occurs at a price below the price cap. What we really need in the rest of the world is simply for potential purchasers' firms in those countries in some cases, governments but usually it's firms in countries throughout the world to simply understand how the price cap is going to work, that when they negotiate purchase contracts with Russia, that they're subject to the cap.

They can have access to the premium surfaces provided by Western insurance firms and banks as long as they purchase at a price below the cap. We need them to understand that that's the condition they face for access to those services.

We will be making sure that Western firms abide by that, but we honestly are not asking other governments to do anything and of course, companies and governments can fight with subject to the cap if they can find ships. insurance, trade, finance and so forth, which provided by nine coalition members that's fine with the very existence of this price cap really raises the leverage that countries even that are like using Western services have when they negotiate with Russia.

For us, success is going to be not how many countries raise their hand to say we endorse what you're doing and we are part of the coalition. We're not looking for that. What we want to see is Russian oil continues to flow into the market and that countries are using the leverage provided by the existence of this cap to bark and lower prices that's what's going to effectively reduce crashes revenue. So, we want to reduce Russia's revenue and keep that oil flowing. And, you know, we're not benefiting from the cheap Russia oil. We hope countries in Africa and Latin America and Asia that will buy oil. Remember that on December 5, I think it is, the European Union is essentially going to cease their purchases which will make a substantial amount of oil available at low prices for countries around the world.

REPORTER: Hi there. Thank you, Secretary Yellen. Could you tell us what your reaction is to the latest financial and economic turmoil in the UK including the resignation of Chancellor Kwarteng, who was just here yesterday and the new fiscal plans announced by the Prime Minister Liz Truss that today, Commissioner Gentiloni said this morning that there were lessons to be learned in terms of fiscal prudence in this environment do you share that belief.

YELLEN: Well, let me just say that I had the opportunity to meet with former Chancellor Kwarteng this week and appreciate his service to his country. I don't want to comment on British politics or economic policies. We have a deep and long-standing important relationship with the UK. We cooperate across a range of issues and including support for Ukraine and global challenges. I would say more generally a theme that many participants expressed in our discussions during these meetings is that fiscal policy generally in countries where there's high inflation, many especially advanced countries are trying to tame eye inflation. It's important for fiscal policy to play not the primary but a supportive role.

REPORTER: Hi Secretary Yellen, Neil Irwin from Axios. I wondered, you said a moment ago that this week has led to better informed and better coordinated on the global economic picture. Can you elaborate on the tone of the concerns we're hearing from counterparts about dollar strengthening and how greater risk do you see a global recession or U.S. recession?

YELLEN: Well, you know, I certainly have looked at the most recent forecasts in the World Economic Outlook, the IMF report, and their prognosis, their forecast for the global economy, has weakened. Europe faces particularly serious trains because of what's happening to energy prices there, particularly natural gas prices. And many emerging market countries, as I said, face a host of, have very little fiscal space, and face a host of significant problems, including higher energy and food prices that are driving, you know another seventy-five million people this year into at risk of starvation. So, we you know, we certainly discuss those challenges.

And, you know, I see the appreciation of the dollar relative to many other currencies is largely reflecting differences in shocks that we face and differences in our positions in terms of what we're doing, what our economic policies are, and what we're focused on. So, you know, my position would be that market determined exchange rates are the best regime for the dollar. That's what we are supportive of. And I think that exchange rate movements, by and large, have been a response to economic shocks and other fundamentals.

Nevertheless, there are spillovers from tightening monetary policy in advanced countries dealing with inflation to developing economies, high interest rates and weaker currencies tend to exacerbate debt problems, and that's one of the reasons were so focused on providing relief. We've discussed food insecurity and what we can do when the United States is provided $10 billion to a set of agencies to try to address food insecurity in low-income countries. But there are there are spillovers and as a global community we want to provide the support that's necessary for countries to address it.

REPORTER: Hi, Secretary Yellen. I want to ask on oil, the price cap again. Sounds like discussions are now focused on the price – what the price of the cap will be. You said earlier this week that something in the sixties could be something that would, a level that would allow Russia to maintain an incentive to produce. I'm curious, just because at the high sixties, the low sixties, what where, you know, where you are on the price.

YELLEN: I want to be very clear about what I said and what's happening with this. The coalition of countries that are imposing these services bans will jointly decide on what the appropriate price is. It's also a price that can be adjusted over time once a decision is made about the level, and no decisions have been made. I did not say that under consideration is a price in the sixties. I simply said there are several bench– what I meant to say is that there are several benchmarks that are relevant in deciding what the price should be.

One question is, what is the marginal cost for Russia of producing oil? And so there will certainly, to charge a price less than that would certainly cause Russia to want to shut in oil. They don't want to sell oil at a loss. So that's one benchmark for discussion. Another benchmark is, let's look at history and see what prices has Russia earned in the past and found acceptable and profitable to produce and sell oil.

One thing we want to be clear about is that Russia should not profit from having started this atrocious war in Ukraine, and shouldn't be benefiting from profits resulting from those, those atrocities. So we're looking historically at what have oil prices been that Russia has earned. And it was in that context that I mentioned a specific number or range. But no decision has been made. And I did not say that that's what the price that's under contemplation, no decision has been made.

REPORTER: Thank you, Secretary Yellen. You mentioned meeting with the African finance ministers. It's our understanding that a lot of them have been asking about an additional allocation of Special Drawing Rights. Did they bring that up to you? And what's your response if they did? It’s our understanding is that Treasury is not really seriously entertaining that. You have addressed the fiscal space considerations here, and sort of quite why not, if that’s a potential means to address that. Thank you.

YELLEN: So, I mean, an SDR allocation is intended to address shortages of global liquidity. We had a substantial SDR allocation and we do not see another SDR allocation as appropriate at this time.

It was decided by the G20 that it would be appropriate for countries that received SDR allocations and didn't really need the liquidity to consider lending some of those SDRs or other resources back to the IMF for use in lending in structured ways to countries with need. One fund is the Poverty Reduction in Growth Fund that can provide assistance to low-income countries. And the IMF has also created a Resilience and Sustainability Trust that can lend for things like investments in health to address and prepare for future pandemics or strengthen health systems, as well as energy security and to address climate change. And we think that's an appropriate way to address some of the issues that low-income countries face. We have asked Congress to allow us to lend $21 billion to the IMF for these two funds. We haven't yet received approval but are hoping that's something that we'll be allowed to do, and other countries will as well.

But we have certainly worked with the World Bank and with dedicated food organizations like IFAD and GAFSP to add to their resources to be able to address food insecurity. The IMF has resources to lend to countries with difficulties. We've talked about debt restructuring where that's necessary. And all those things are tools we have to address the needs of low-income countries we want to mobilize, but in SDR allocation isn't what we're contemplating.

REPORTER: Good afternoon, Secretary Yellen. Very recently, based on analysis of productivity, growth in the U.S. labor force participation gains, both of which are quite disappointing, the staff at the Federal Reserve significantly downgraded their estimates for the level of potential output in the U.S. economy, and in fact projected that over the next few years, all the way through 2025, actual output would exceed potential output, which bodes poorly for the fight against inflation. I'm wondering, first—does this perhaps help explain the surprising persistency of high inflation in the U.S.? And number two—would it make the fight against inflation, to bring inflation back down to around two percent, much more difficult than many currently assume it would be? Thank you.

YELLEN: So I must say I haven't – I haven't – was this in the minutes or? So, I mean, I haven't seen the details of that. I didn't review the minutes carefully.

But a manifestation of that is that labor markets are very tight and to say that labor markets are extremely tight is another way of saying the economy, that output, is at or above its potential. We've been looking and hoping that labor force participation would fully rebound from the pandemic, and it's rebounded to some extent, but it hasn't fully rebounded. And that's a factor that does tend to depress potential output. So, I think we have seen some meaningful reduction in the amount of pressure in the labor market. The most recent JOLTS report shows that job openings are coming down and that can take some of the heat out of the labor market that may be contributing to high rates of core inflation. But yes, the labor market is tight and it's a manifestation in part of what you're talking about.

But look, the Federal Reserve is obviously very committed to doing what it takes to bring inflation down and as I said, the Administration is trying to complement that through targeted measures like lower prescription drug costs, lower premiums for affordable care, interventions to hold down, whether its strategic petroleum reserves or the price cap on

Russian oil, to hold down energy prices in the United States. The Fed, we leave it up to the Fed to take the primary role here.

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