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Treasury Secretary Jacob J. Lew
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Introduction

Chairman Hensarling, Ranking Member Waters, and Members of the Committee, thank you for the opportunity to testify today.

Economic conditions continue to improve in most advanced economies, led by the United States. We have now experienced nearly five years of growth. A stronger private sector is helping grow the economy and drive deficits lower. Over the past 50 months, the private sector has created 9.2 million jobs. The housing market has improved. Home prices are rising, and millions of homeowners are no longer under water on their mortgages. Household balance sheets continue to heal, exports are growing, and manufacturing is making solid gains. And health care costs are growing at the slowest rate in 50 years. Yet there is more to be done to create jobs and accelerate growth. While corporate profits have been hitting all-time highs and the stock market has been vibrant, too many in the middle class and those striving to get into the middle class, are struggling to make ends meet.

The President's Budget addresses these challenges. It puts forward proven, pro-growth initiatives to expand opportunity for all Americans. And it fulfills the President's pledge to make this a year of action, while offering a framework for long-term prosperity and competitiveness.

Part of my job is to work to create the most favorable external environment for U.S. workers and businesses. The international financial institutions—the International Monetary Fund (IMF) and multilateral development banks (MDBs)—are critical partners in this endeavor. Our investments in these institutions foster a more stable and vibrant global economy, which is critical to a growing U.S. economy. Working within these institutions is a powerful way to promote our national security, support the next generation of export markets, and address key global challenges such as environmental degradation and food insecurity, while fostering private sector development and entrepreneurship.

Thanks to bipartisan support, U.S. leadership at the MDBs is strong and enables us to influence how and where resources are deployed—often on a scale that we cannot achieve unilaterally. And, as the largest shareholder in the IMF and the only country with veto power over major IMF decisions, we have a great deal of influence within this critical institution. Yet, the failure to pass IMF quota and governance reforms legislation is undermining our international credibility and threatening to undermine our influence. The reforms are necessary to put the IMF's finances on a more stable long-term footing, help modernize the IMF's governance structure, and enable the United States to preserve its strong leadership role in shaping the institution.

The IMF and Ukraine

The United States has been at the forefront of the effort to support Ukraine during this fragile period. Our goal continues to be for Russia to deescalate the situation. However, since Russia has thus refused to follow through on its Geneva commitments, last week we imposed additional targeted sanctions on a number of Russian individuals and entities and restricted licenses for certain U.S. exports to Russia. Working closely with our partners in the international community, we are prepared to impose still greater costs on Russia if the Russian leadership continues its illegal intervention and provocative actions in Ukraine.

It is in all of our interests to have a stable and prosperous Ukraine. The international community's support for the Ukrainian government's efforts to restore economic stability has been vital as the country prepares for elections later this month.

The situation in Ukraine highlights the important role of the IMF. Over the years, Ukraine has struggled to put in place sound market-oriented policies. Dependence on Russian assistance has kept Ukraine vulnerable to Russia's energy stranglehold and cessation of flows, while corruption and poor governance have impeded reforms.

An alternative is needed if Ukraine is to achieve growth and stability, and the IMF is a critical element of that alternative. The $17 billion IMF support package approved last week represents the only viable way to offer Ukraine a path forward to a stable market-led economic future, rather than remaining dependent on Russia. As the world's first responder in an economic crisis of this kind, the IMF is best equipped to provide a substantial financial package and the technical expertise to work with the Ukraine government to design its economic reform package.

In order to support Ukraine as it undertakes the work needed to return to economic stability, the amount of resources necessary were substantially greater than what could be provided through bilateral assistance. Only the IMF, in partnership with other international financial institutions, can meet these pressing demands. That is why the economic engagement strategy for Ukraine centers on the IMF. Moreover, an IMF program was a prerequisite to unlocking bilateral and multilateral support, as others look to the assurance of an IMF reform program before committing their own funds.

The IMF Quota Reforms and U.S. Influence

Our failure to approve the IMF quota and governance reforms is causing other countries, including some of our allies, to question our commitment to the multilateral institutions that we worked to create and that advance important U.S. interests around the world. At the recent G-20 and IMF spring meetings, other countries pushed to move forward on quota reforms without the United States.

This underscores why it is so important that Congress act to pass the IMF legislation. Completing the IMF reforms is a national security and economic policy priority for the United States. This reform package will advance vital institutional reforms to modernize the IMF, strengthen its financial integrity, and preserve America's leadership role in this institution.

The Administration has requested legislation in our budget request to implement the reforms. Specifically, the legislation reduces U.S. participation in the New Arrangements to Borrow

(NAB) and simultaneously increases the size of the U.S. quota in the IMF by the same amount. The legislation will also enable the United States to support an amendment to the IMF's Articles of Agreement to facilitate changes in the composition of the IMF Executive Board while preserving U.S. influence on the Board.

Let me be very clear: These reforms change the composition, but not the level, of our financial commitment to the IMF. The U.S. quota increase will be matched by an equal and permanent reduction in U.S. financial participation in the NAB, for **no net change** in overall U.S. financial participation in the IMF.

We look forward to working with Congress on approaches to get legislation passed as soon as possible.

The IMF and the U.S. Economy and National Security

The IMF supports U.S. jobs, exports, and financial markets. During financial crises abroad, the IMF serves as the first responder to stresses, and thus helps protect our domestic economy by promoting global growth and stability. Continued strong U.S. leadership in the IMF will help ensure that the IMF has the tools it needs to help prevent and resolve financial crises that threaten the health and prosperity of our economy.

Likewise, when foreign economies falter, they import less from U.S. businesses and they invest less in the United States. U.S. exports accounted for roughly 14 percent of U.S. GDP in 2013, and American export industries supported nearly 9.8 million U.S. jobs. Foreign economic crises can also damage our financial markets, hurting the savings and retirement investments of American households.

The IMF has provided crucial assistance for decades. It played a critical role supporting Europe during its financial crisis, protecting a market that accounts for over one-quarter of our exports from collapse. The IMF has provided financial and technical assistance in the Middle East that helped protect our allies and kept governments out of the hands of extremists. And, during the Asian financial crisis, the IMF helped protect export markets for our farmers and businesses.

The IMF is a force multiplier, which helps support U.S. national security, diplomatic, and economic interests. Just as we seek coalition partners in cases of military action abroad and United Nations peacekeeping missions, the IMF helps marshal global resources to respond to global economic threats.

Safety of Our Participation in the IMF

Our participation in the IMF is safe and smart. When the IMF lends, it does so subject to appropriate conditions and with safeguards to assure that it is repaid. And its repayment record is spotless. When the IMF draws on U.S. resources, the United States is exposed to the IMF's balance sheet – not to the borrowing countries – and the IMF's balance sheet is rock solid. The IMF is regarded as the world's preferred creditor, meaning that the IMF's member countries acknowledge and agree that it gets repaid first. Since the IMF was established 70 years ago, it has never defaulted on any U.S. reserve claims on the IMF, even after the worst financial crisis since the Great Depression. **And every dollar from the United States that is part of the U.S. quota or NAB participation is matched with at least four more from other countries around the globe.**

Multilateral Development Banks (MDBs)

The MDBs are focused on long-term, sustainable development and poverty reduction. Since the institutions were created, the MDBs have helped nurture emerging economies, which have become key export markets for the United States. MDB financing and policy assistance have reduced trade barriers, improved private sector development, increased educational access, built infrastructure, promoted open markets, and provided stability and security.

MDBs and the U.S. Economy and National Security

U.S. military leaders have consistently praised the MDBs for containing emerging national security threats by helping to alleviate poverty and spur broad-based, private sector-led economic growth. In Afghanistan and Pakistan, the MDBs are indispensable partners in our efforts to help establish stability and growth. In concert with U.S. development agencies, the MDBs are investing in transportation links, energy sources, manufacturing centers, and financial services to help build interconnections across South and Central Asia that are vital to helping the region reach its full growth and investment potential.

The MDBs are also vital partners in fragile states, where nearly 1.5 billion poor people live, many in extreme deprivation. Such circumstances precipitate conflict and violent extremism, putting greater demands on U.S. security resources. In these difficult environments, the MDBs have the resources and expertise needed to help improve the lives of millions of people giving them a stake in stability.

In addition, the MDBs complement U.S. bilateral assistance. We have secured strong support from the World Bank and the African Development Bank for President Obama's Power Africa Initiative, which aims to bring energy to at least 20 million new households and businesses in sub-Saharan Africa. These institutions play indispensable roles, deploying their technical expertise to promote difficult, yet crucial, reforms necessary to encourage private sector investment in Africa's energy sector, and providing financing for electrification infrastructure projects.

As we continue to protect our economic recovery, increase exports, and create jobs at home, support for the MDBs remains critical. Having nurtured some of our largest trade partners, such as India, Brazil, and Turkey, the MDBs are laying the groundwork for the next generation of strong U.S. export markets, like Indonesia, Vietnam, and Colombia. These last three emerging markets, which accounted for $8 billion of U.S. goods exports in 2000, now account for $31 billion – a four-fold increase.

Addressing Global Challenges

At a time when government must do more with less, Treasury is determined to use our resources as efficiently as possible. The multilateral institutions are highly effective at multiplying the impact of taxpayer dollars. Treasury's international development investments will leverage nearly $100 billion in multilateral institution development assistance, by combining resources from other donors. This support will reach poor people in urban slums, rural villages, and small cities around the world. When it comes to global challenges such as food security, the environment, and gender imbalances, the world continues to rely on multilateral institutions and strong U.S. leadership within them to confront these issues.

For example, the Global Agriculture and Food Security Program is helping the world's poorest farmers produce more food and earn higher incomes, reducing poverty and hunger in 25 countries. The selection of projects is based on a transparent and competitive process that incentivizes results.

Investments in the Climate Investment Funds (CIFs) and the Global Environment Facility (GEF) support the President's Climate Action Plan and help create open, fair, and well-functioning markets for technologies where American companies excel, including in industries such as wind, solar, and geothermal. Working with the MDBs, these trust funds leverage contributions from other donors, and attract significant co-financing from the private sector.

While the MDBs are frequently at the forefront of best practice policies in the countries in which they operate, Treasury has a long track record of engagement to continuously update and improve these policies. At the urging of the United States, all of the institutions are taking a more prudent approach to budgetary and financial management. The MDBs are continuing to implement new disclosure policies, providing more access than ever before to policies and decisions. This level of transparency increases accountability and improves outcomes. In addition, Treasury has long been engaged in a better results agenda with these institutions. Each of the MDBs has an independent office that objectively evaluates performance and effectiveness. These assessments, which are made public, give both the institutions and those who support them the kind of information that improves and increases results.

As leaders in global standard setting, the MDBs have strong social and environmental safeguards, which we are committed to protecting and enhancing. The MDBs help foster a more level playing field for firms competing for MDB business opportunities by requiring the use of fair and transparent procurement rules. They promote policy reforms to create more business-friendly environments, including by publishing global benchmarking through the World Bank "*Doing Business*" rankings.

Acting now to safeguard our leadership in the MDBs and the IMF

Thanks to bipartisan support, U.S. leadership at the MDBs is strong and enables us to influence how and where resources are deployed—often on a scale that we cannot achieve unilaterally.

Similarly, safeguarding our leadership is why it is so important that Congress acts to approve IMF quota and governance reform. Approving these reforms puts us in a stronger position to influence IMF decision-making on a host of issues critical to our economic and national security. At the moment, our ability to influence decisions is diminished by the fact that other IMF members think that the United States is retreating from our leadership role at the IMF.

Since the creation of the IMF after World War II, successive U.S. administrations and Congresses have supported our participation in this institution. In fact, five of the eight quota increases in the IMF's history took place under Republican Presidents. Every living Treasury Secretary from James Baker on has gone on record urging Congress to approve the IMF quota and governance reforms. As President Ronald Reagan said in a 1983 radio address to the nation calling on Congress to pass IMF legislation: *"The IMF is not foreign aid … it creates jobs because it keeps the wheels of world commerce turning … The IMF and its programs help keep Americans at work. This is important legislation for international economic stability, and I hope you'll support it."*

I look forward to working with you on these critical issues and welcome your questions.

Thank you.