

*Prepared Testimony for House Financial Services Subcommittee Hearing,  
December 2018*

Thank you for holding this hearing and for inviting me to testify.

My testimony a year ago to Congress addressed the topic of achieving faster U.S. and global growth in ways that improve after-tax wages for American workers. While there has been substantial progress in the United States, growth abroad has softened materially, causing challenges for international economic policy. In this context, I would like to provide an update on some of the major policies we implemented over the past year, and describe our policy direction for 2019. I will also present a detailed explanation of our policies on the International Financial Institutions (IFIs).

***Major Policy Developments in 2018***

In 2018, we worked to orient better the G20, G7, International Monetary Fund (IMF) and multilateral development banks (MDBs) toward growth and accountability. With engagement by the World Bank, IMF, and other partners, Secretary Mnuchin has pushed forward an initiative on debt transparency that will, in the near term, significantly increase public disclosure and broaden the existing definition of international debt beyond traditional bonds and loans. This will reduce the frequency and severity of developing country crises and help push back on China's over-lending to fragile developing nations, including those with weak governance. The World Bank and IMF have focused on more comprehensive and transparent reporting of public sector liabilities of borrowers to assist with our initiative.

We engaged repeatedly with China on our trade and investment concerns and the problems caused by their One Belt, One Road (OBOR) initiative, which often leaves countries with excessive debt and poor-quality projects. If countries default on these debts, China often gains influence over the host government and may take ownership of the underlying assets. We have built a common awareness of these concerns in the G7 and G20. In lending, China often fails to adhere to international standards in areas such as anti-corruption, export credits, and finding coordinated and sustainable solutions to payment difficulties, such as those sought in the Paris Club. With evidence mounting in Asia and Africa that OBOR has undermined domestic institutions and economic strength in borrowing countries, countries such as Malaysia are re-examining the costs and benefits of OBOR-related projects.

With Congress's bipartisan support, we have enhanced America's national security through the enactment and ongoing implementation of the Foreign Investment Risk Review Moderation Act of 2018 (FIRRMA), which has strengthened and modernized the Committee on Foreign Investment in the United States (CFIUS).

We have worked multilaterally to forge a new currency consensus in the G20, including in the latest G20 communique, recognizing the growth and investment benefits of currency stability. The Administration recently concluded the U.S.-Mexico-Canada Agreement (USMCA), which included the first currency chapter in a trade agreement, consistent with congressional directives promulgated under Trade Promotion Authority. We also reached an understanding with South Korea on currency stability and transparency at the time of the update to the U.S.-Korea Free

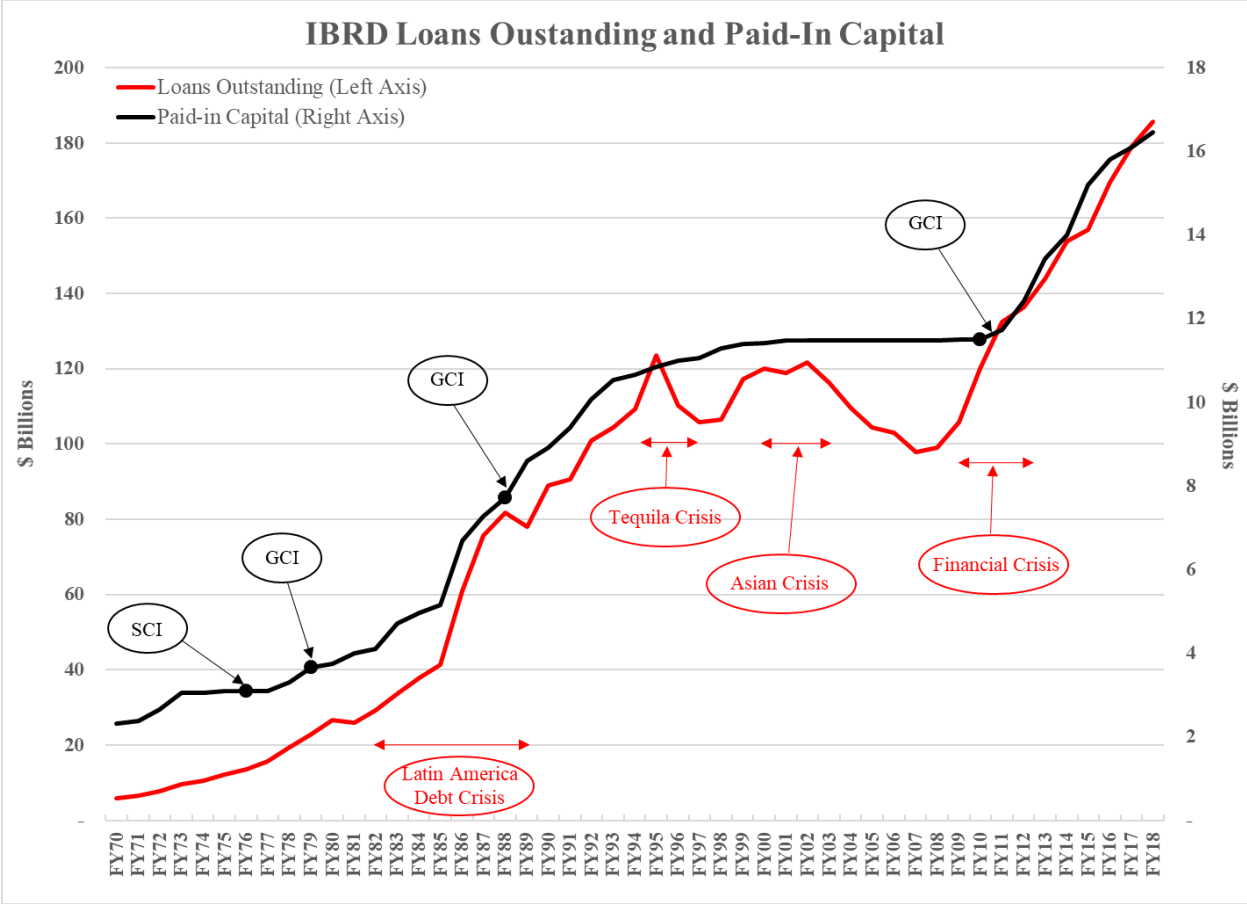
Trade Agreement (KORUS). Argentina's new IMF program includes a nominal monetary anchor and an important commitment to leaving currency intervention unsterilized, policies that quickly stopped Argentina's mid-2018 currency crisis and are dramatically reducing the rate of inflation.

At the G20 summit, President Trump promoted economic prosperity in the Western Hemisphere through the *America Crece* (The Americas Grow) initiative. One key element of this initiative is to deepen U.S. commercial ties with Latin America in energy and infrastructure. In 2018, the United States signed energy framework arrangements with Panama, Chile, Jamaica and, most recently, Argentina during the G20 summit. Looking forward, we are working with Colombia and have identified other attractive partners. These energy framework arrangements seek to achieve a high degree of energy development, integration, faster economic growth, and security with our partners through heightened and impactful trade, investment, and finance transactions that rely primarily on private capital.

We have refocused the Financial Stability Board (FSB) on its systemic risk mandate, including the adoption of an activities-based approach for insurance activities, the wind-down of work streams unrelated to stability issues, and the evaluation of the effectiveness of existing policies before developing new policies. I served on the nominations committee for FSB leadership and was pleased with the recent announcement of Federal Reserve Vice Chair Randy Quarles as the FSB's next Chair, the first American to serve in this role.

We prepared and published a number of reports including: the MDB Evaluation Report, the Foreign Exchange Report, the report of the National Advisory Council on International Monetary and Financial Policies, the Export Credit Negotiations report, the Technical Assistance report, and the Exchange Stabilization Fund report.

My testimony before Congress last year discussed the role of multilateral development finance in global growth and prosperity. Since then, we have been successful in getting the World Bank to commit to meaningful reforms to focus lending on countries in need, enforce its graduation policy, implement differential pricing, and agree to other reforms that would enhance accountability. As discussed further below, a 2018 package for a World Bank capital increase focuses on these areas and includes a new financial discipline mechanism that constrains annual lending levels to stop the pattern of recurrent capital increases.



**Policy Direction for 2019**

Looking into 2019, we are again aiming our initiatives at improving U.S. and global growth. We will follow through on the ongoing initiatives and push forward with new ones that will contribute to our economic and national security. As a key part of this effort, we maintain active economic and financial dialogues with like-minded countries around the world in order to exchange views on and assess systemic vulnerabilities and to support democratic principles and institutions.

Here in the Western Hemisphere, we have emphasized the risks and challenges posed by ‘The Troika of Tyranny,’ namely Venezuela, Cuba, and Nicaragua. This ‘Troika’ has actively subverted democratic institutions, looted its people’s assets and engaged in economic malfeasance, which has resulted in one of the world’s gravest migration crises, creating serious fiscal burdens and both security and public health risks for its neighbors in Colombia, Ecuador, Brazil, Peru, Panama, and Costa Rica. There are nearly 50,000 Venezuelans per day crossing into Colombia. Secretary Mnuchin has already held four meetings of finance ministers to review the crisis in Venezuela and the impact on its neighbors and support the broad coalition pressing for democratic change. In Nicaragua, we have built a strong consensus of donor countries to stop the multilateral development banks from lending to the Ortega regime, which perpetuates itself through the death, imprisonment, and exile of its many opponents.

A high priority in 2019 will be the continued implementation of FIRRMA. Pursuant to that legislation, CFIUS launched an innovative pilot program on November 10, which includes requiring declarations for certain foreign investments in U.S. businesses involved in critical technologies in 27 specific industries.

There will be substantial work to deepen our major initiative on debt transparency. And we will continue to challenge China's unfair trade practices and lack of reciprocity in trade, lending, and investment. We will continue our work in the G7, G20 and other forums to discuss the challenge to our market system from China's non-market policies. There is already widespread acknowledgement of the problems in many key countries, but more work needs to be done on strengthening the debt transparency and financial resiliency of market-oriented countries.

As Brexit approaches, Treasury is analyzing risks to the international financial system and working with the EU and the UK to ensure continued market access for U.S. firms, including financial services firms, and to avoid cliff-edge risks. We are working toward an improved trade arrangement with the EU and would like to pursue a bilateral trade agreement with the UK. The Administration notified Congress on October 16, 2018 of its intent to start trade negotiations with the U.K. once it leaves the EU in March 2019.

Supporting the Administration's trade agenda remains another high priority in 2019. We will continue to increase reciprocity and market access, particularly for U.S. financial services firms. The financial services chapter of the USMCA will protect U.S. firms from unnecessary foreign data localization requirements. A number of countries continue to erect such barriers, and we are continuing to engage with finance ministries and central banks to achieve their regulatory objectives through other means.

Treasury's Office of Technical Assistance (OTA) will continue its work to improve financial processes, including transparency, accountability, financial sector security and private sector-led growth. OTA works to improve budget and tax systems, while strengthening institutions charged with combating terrorist financing and financial crimes. For example, in Colombia, Indonesia and Uganda, Treasury's OTA helped governments strengthen public-private partnerships to finance infrastructure development in ways that mobilize private capital.

In Latin America, we will be building relationships with newly elected governments, including in Brazil and Mexico. We have engaged with Mexico on strengthening donor cooperation with the Northern Triangle, which is an area that the incoming Mexican government has also stressed as a priority.

We continue to work to streamline the G20 and make it more effective. In 2019, Japan will chair the G20 while France will chair the G7. We will also start preparing for the United States to host the G7 in 2020.

Through Treasury's seats on the boards of the Overseas Private Investment Corporation (OPIC), the Millennium Challenge Corporation (MCC), and the U.S. International Development Finance Corporation (DFC) (the new organization to be established under the Better Utilization of Investments Leading to Development Act of 2018 that will encompass OPIC), Treasury seeks

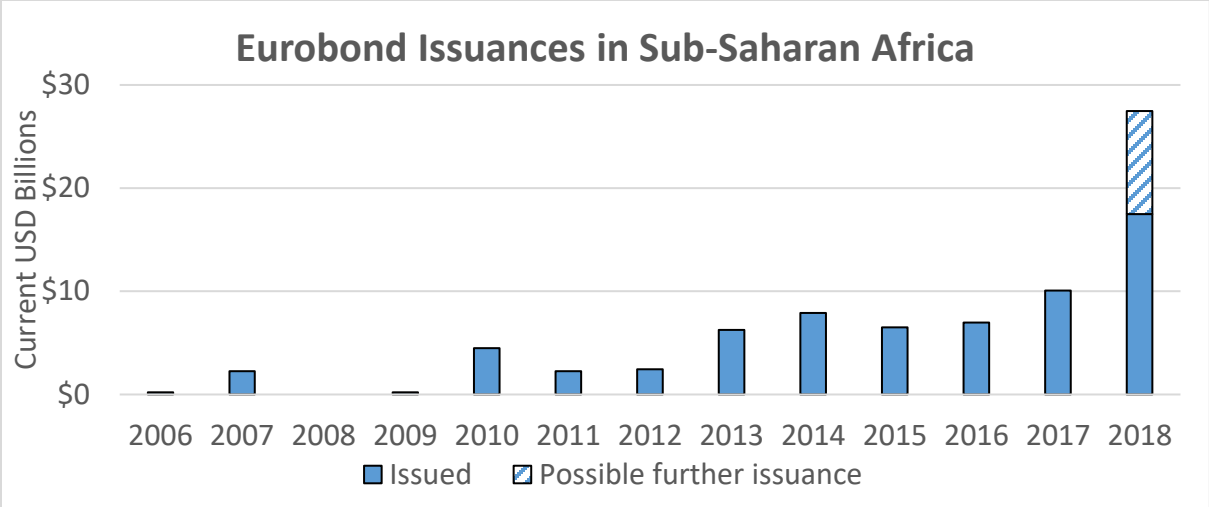
policies that provide strong financial coherence, further the national interest, and promote the effective use of taxpayer resources. Treasury is also leading U.S. efforts in the International Working Group on Export Credits, and working with the interagency on reforms in connection with the Export-Import Bank, to pursue relevant reforms.

We have been in discussions on the World Bank's request for a capital increase. We are seeking to improve the quality of IMF programs through existing cases and upcoming conditionality reviews. We will be notifying Congress of negotiations related to the IMF's request for a quota increase under the 15th Quota Review (where we are in discussions to review the IMF's funding needs and the makeup of their resources) and have notified Congress of negotiations related to the International Development Association (IDA) and the African Development Bank (AfDB). These IFI topics are discussed in more detail below.

### *Seismic Shifts in Global Finance*

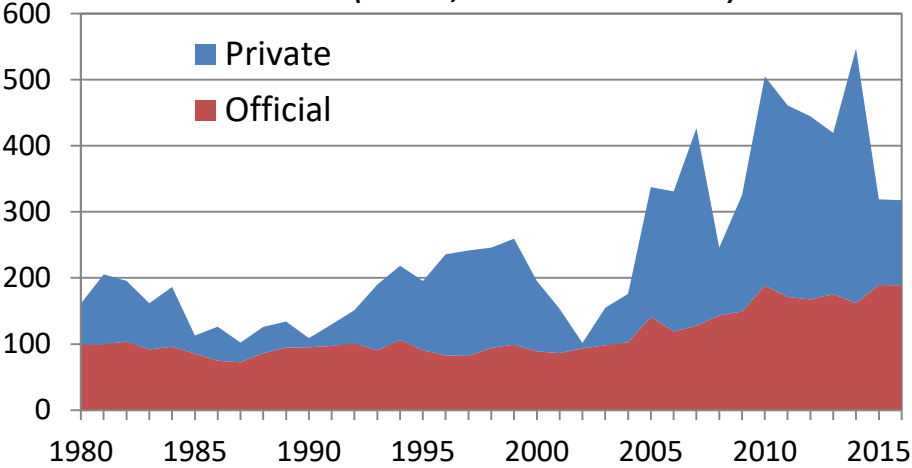
My testimony a year ago discussed the seismic shifts that have occurred in the global financial landscape and that are challenging the relevance of the international financial institutions (IFIs). The structure of global interest rates has moved substantially lower after the inflation peaks of the late 1970s and early 1980s. Large inflows of private sector capital at increasingly affordable interest rates have materially added to growth and prosperity in many developing countries and dwarfed the resources of the IFIs. Similarly, emerging markets have gained far more access to external private capital, including directly from the capital markets as well as through global banks that borrow on the capital markets, resulting in private capital flows dwarfing official flows.

But these inflows have presented challenges, including renewed debt sustainability risks in more vulnerable countries with weaker institutions and macroeconomic policies. Consequently, the availability of increased financing must be accompanied by a dramatically increased level of debt transparency, the capacity to manage liabilities prudently, and the capability to deploy resources toward their most productive use.



Note: Kenya (\$2.5 billion), Ghana (\$7.5 billion), and Tanzania (\$0.7 billion) have discussed publicly plans for possible Eurobond issuances before the end of 2018.

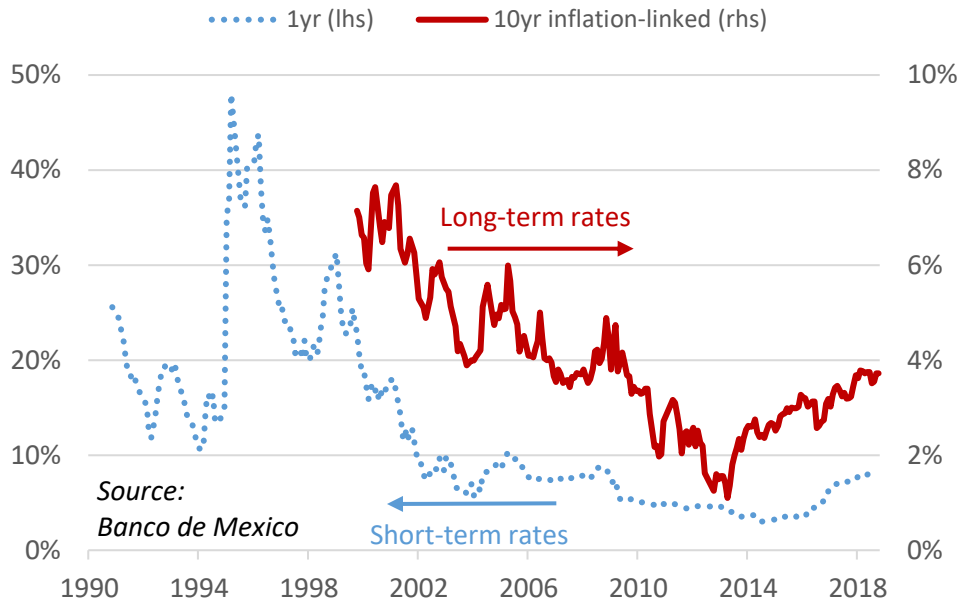
**Total Official and Private Flows from Donor to Developing Countries  
1980-2016 (USD bn, constant 2014 dollars)**



Note: Chart depicts flows from OECD Development Assistance Committee countries to developing countries in constant 2014 U.S. dollars.  
Source: OECD

Many emerging economies—particularly larger middle-income and upper middle-income economies—have gained access to longer maturity debt, increasingly in local currency. This has allowed these countries to build domestic yield curves, providing a solid foundation for ongoing market-sourced borrowing.

## Mexico: Local Currency Yields (% p.a.)



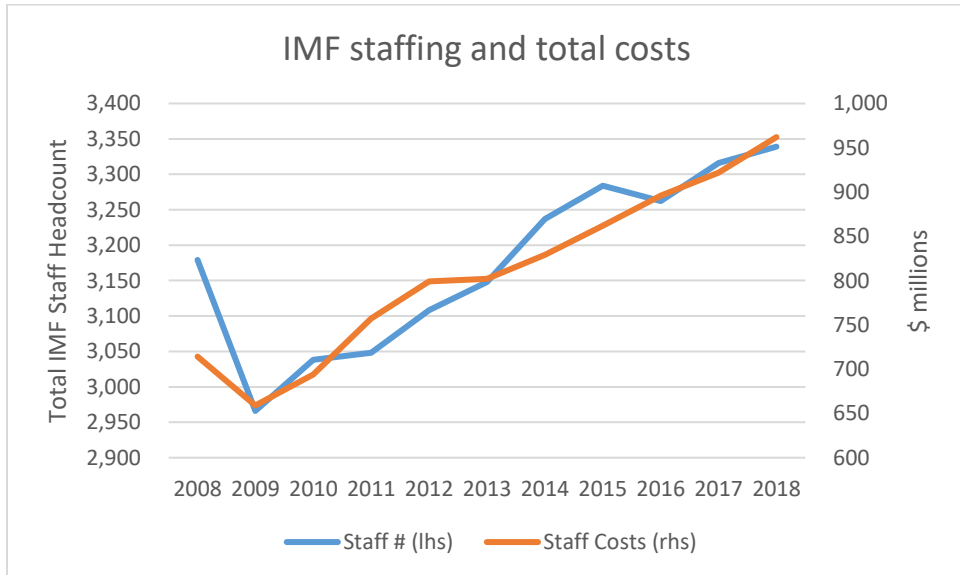
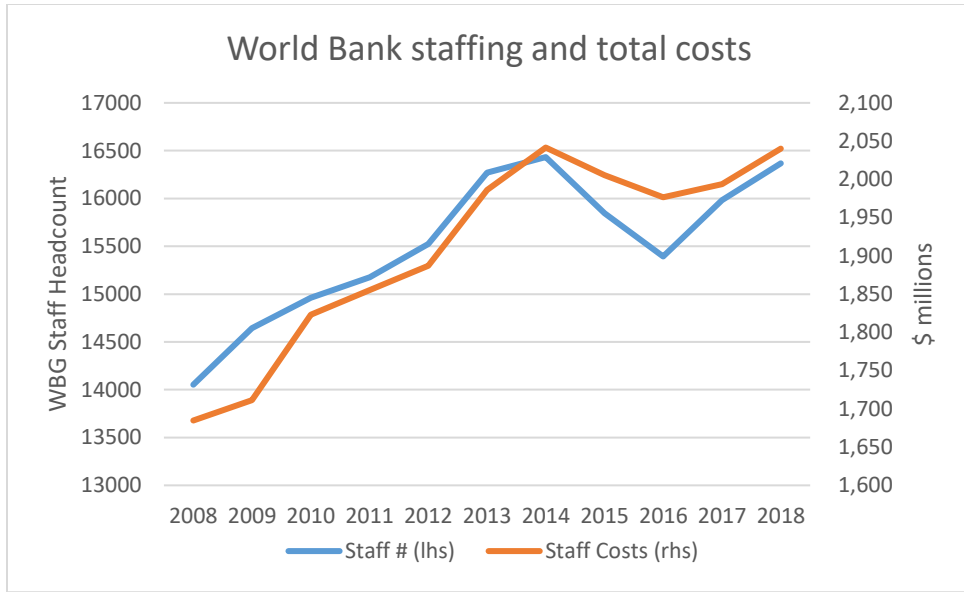
In addition to greater private capital flows, there is another important feature in the creditor landscape: developing economies are grappling with significant and growing inflows from non-traditional official creditors such as China. While Chinese financing may fill some gaps in financing for infrastructure investment in developing countries, there are often negative repercussions associated with Chinese lending. China’s use of non-market export credits, opaque financing, and exclusive procurement practices often benefits the donor more than the recipient and undermines debt sustainability, domestic institutions, and environmental and social standards. China, for example, does not adhere to legally binding international standards to criminalize bribery of foreign public officials in international business transactions. Its financing also often includes conditions that do not show up on the government balance sheet but burden borrowing countries with future liabilities such as commodity deliveries.

These major developments—the increase in developing country access to global capital markets and the surge in their official inflows from state-directed capital (mainly from China)—not only have profound consequences for developing countries, but also for the MDBs.

To deliver on their policy goals—positively shaping the conditions for growth and higher median incomes in developing countries—the MDBs need to focus more on the quality of their project loans rather than the quantity and on helping developing countries get their policy environment right for using private capital inflows effectively. The MDBs must ensure that they themselves do not displace private capital or lower their lending standards to compete with China’s.

**Role of MDBs**

For the MDBs to effectively deliver on these goals, they must conduct sweeping reforms: Refocus assistance on poorer and more vulnerable countries. Strengthen institutions in those countries, and work with them to implement sound policies that attract private investment, deepen private markets, and accelerate economic growth. Potential reforms include limiting lending to defined needs and existing resources, introducing mechanisms to promote financial discipline including through budget and salary constraints, differentiated loan pricing, graduation of borrowers, and sustainable lending practices.





### *Treasury's Reform Agenda at the MDBs*

The U.S. Treasury Department will push for reforms such as the following:

1. Create lending limits that will end the cycle of capital increases and promote financial discipline, including through budget and salary constraints;
2. Graduate borrowers, especially China; shift the allocation of non-concessional sovereign and private sector lending away from higher income countries toward lower income countries;
3. Seek differentiated loan pricing (i.e., higher rates for higher-income borrowers);
4. Reduce U.S. contributions to replenishments while pursuing reforms;
5. Enhance discipline and incentives on debt sustainability, including by improving debt transparency;
6. Reverse the trend toward complex and expensive derivatives, the securitization of assets, and exposure swaps that circumvent governance;
7. Improve accountability and safeguard mechanisms;
8. Work with Congress to reduce mandates and expensive reporting requirements that reduce our influence in the MDBs without achieving a policy goal;
9. Avoid crowding out private capital;
10. Measure the economic impact of projects both ex ante and ex post; and
11. Advocate for better coordination of country programs and best-practices across the MDBs.

We are working in the G-20 and G-7 to reform the IFIs, including to increase coordination in order to avoid duplication. The G-20 has agreed on a set of principles whereby the IFIs will coordinate with each other, particularly regarding budget support lending. This helps ensure that the MDBs are not competing with the IMF to lend into difficult situations where the macroeconomic framework is inadequate. The MDBs are also striving to coordinate better at a strategic and operational level. One approach, coordinated country strategies, would help the MDBs and other donors avoid duplicating their efforts in a particular country and respond more effectively to the challenges it faces.

With regard to China's excessive lending, the IFIs must be a more effective tool in helping vulnerable countries better understand the risks and implications of such lending. The MDBs present a better source of development finance with higher environmental, social, procurement, and debt sustainability standards. They can also help countries constructively channel bilateral loans toward growth-positive projects that serve the borrower, not just the lender. Finally, the MDBs and IMF can help countries build capacity to negotiate transparent, non-corrupt terms for infrastructure projects with foreign financiers, taking into account the macroeconomic consequences of new non-concessional debt.

But it is worth noting that China has made substantial inroads into the MDBs that are worrisome. It co-finances with the Inter-American Development Bank (IDB), for instance, giving it access and influence over financial officials throughout Latin America. IDB is planning to hold its 2019 meeting in Chengdu, China, even though China is a small shareholder of the IDB. World Bank President Jim Kim has complimented China's infrastructure techniques. A large trust fund at the World Bank coordinates with, and will be producing a major report on, OBOR in 2019 in order

to help promote and shape it. The Beijing-based Asian Infrastructure and Investment Bank (AIIB) has conducted major co-financing with the Asian Development Bank as it learns MDB financing techniques. The AIIB has recently taken steps to increase its funding through U.S. financial markets, the world's largest and deepest. In combination, China is absorbing decades of financial knowhow into its institutions in a few short years, a similar pattern to its absorption of manufacturing technology.

We are, therefore, working with allies and like-minded countries to guide the MDBs away from what could be viewed as endorsement of China's geopolitical ambitions.

### ***World Bank Capital Increase***

Regarding the World Bank's request for a capital increase, we secured commitments on most of the reforms discussed in my testimony before Congress a year ago. Though it will take time to implement, it is a solid reform package that better aligns the World Bank with U.S. national security, foreign policy, and economic priorities.

Treasury pushed hard for the adoption of a new mechanism to limit World Bank lending and ensure the durability of this capital increase. Based on this push, the International Bank for Reconstruction and Development (IBRD) will adopt a new financial sustainability framework that restricts annual lending commitments to those that can be sustained in real terms over the next 10 years through organic capital accumulation alone. The framework also includes a buffer to allow for a crisis response without the World Bank having to approach the United States and other shareholders for a capital increase. This new framework is aimed at achieving financial discipline and avoiding future capital increase requests. IBRD Governors will review the framework every five years, providing them an opportunity to push for any needed enhancements to ensure the IBRD continues operating within its existing financial resources.

As a direct result of the reform package, the IBRD committed to directing a bigger share of its lending to poorer countries, with the share of lending going to countries below the IBRD graduation income threshold increasing to 70 percent (from the current level of 60 percent); and to applying its graduation policy more rigorously, freeing up resources for countries that most need them. The reform package introduced differentiated loan pricing, making it the first MDB to adopt differentiated pricing for non-concessional sovereign lending. This will provide better-off, more creditworthy countries with an incentive to pursue market financing, rather than IBRD financing.

The World Bank will also constrain the growth of staff salaries, which are the biggest driver of increases in its administrative budget. Beginning with the World Bank's FY 2020 budget, the annual general salary adjustment for staff salaries will be capped. Management will also conduct a study of recruitment and retention, strengthen performance management, and undertake efforts to remove low performers. With these changes, staff compensation and World Bank administrative costs will grow at a slower rate than in past years.

The IBRD capital increase is packaged with an increase in the capitalization of the International Finance Corporation (IFC), the part of the World Bank Group that focuses on lending to and investing in the private sector in developing countries. We declined to participate in the IFC capital increase based on our assessment that the IFC did not need more capital to be impactful.

Other countries wanted to expand the IFC on their own, and packaged their support for the IBRD reforms to an IFC expansion. Our voting power will be diluted to 16.4 percent from 21.0 percent, but we maintained our veto through a reduction in the IFC's veto threshold, which will be adjusted from 20 percent to 15 percent. However, we succeeded in negotiating that shareholders will, in parallel, seek an amendment to the IFC Articles of Agreement to reduce the threshold that allows the United States to maintain our veto over any future IFC capital increases from 20 percent to 15 percent. We will also be seeking Congressional authorization to vote for such an amendment.

We will work with Congress regarding the subscription to the IBRD capital increase. Supporting the GCI would lock in the reforms, improve the effectiveness of World Bank programs, and complement U.S. assistance for strategically important partners. In short, the package will encourage countries to be more self-sufficient in financing their development, focus official development resources on needier countries with less access to other sources of finance, and create a more financially-disciplined World Bank whose lending growth is constrained and therefore more sustainable. The reform package will also advance other U.S. foreign policy objectives, including offering developing countries development finance based on transparency and high standards to counter Chinese over-lending.

### ***IMF's Role in Growth***

We are pursuing policies at the IMF to help make the institution both more effective and more focused on its core mission, including the purposes laid out in Article 1 of the IMF's Articles of Agreement, to promote high levels of employment and real income, promote exchange stability, maintain orderly exchange arrangements among members, and avoid competitive exchange depreciation.

We have pressed the IMF to prioritize this core mission in its analysis of exchange rates and global imbalances. As mentioned above, the IMF has, in its communiqués starting in October 2017, highlighted that sound policies and strong fundamentals are essential to the stability of exchange rates, contributing to robust and sustainable growth and investment.

With strong U.S. support, the IMF approved in April 2018 a new enhanced framework for assessing corruption in its member countries. Under the new framework, IMF staff will assess the extent to which corruption is a macro-critical issue and propose policy recommendations to member countries. IMF lending programs may also include steps aimed at reducing endemic corruption.

As countries approach the IMF for support, the United States has stepped up its engagement in shaping program design. We prefer programs with design elements that prioritize the potential for broad-based growth (i.e., increases in real median income, not just GDP) and allow countries to pivot away from policies that have not worked. This involves three major changes to the IMF's current approach. First, fiscal policy changes need to be growth oriented. The projection of a reduction in the fiscal deficit cannot be an end in itself, because spending reductions often fail to materialize and recessions often derail deficit reduction based on tax increases. Second, IMF programs have often measured the success of a privatization in terms of the projected proceeds for the government, which often means continued monopoly power. That is a mistake

since de-monopolization of critical sectors generally has a more lasting growth impact. Third, monetary policies that provide sound money are at the core of a successful growth program.

The last point was recently illustrated by Argentina's first IMF program earlier this summer that neglected the exchange rate, which weakened precipitously. At the heart of the revised IMF program for Argentina is a commitment to a strong nominal anchor to recover confidence in the currency. By expressly limiting the growth of the monetary base, a policy that the United States strongly supported, the central bank was able to arrest the precipitous decline in the exchange rate, and the authorities there are on track to reduce interest rates and inflation very significantly (which had reached 6.5 percent per month in September and 5.4 percent in October), which will allow interest rates to support credit and growth. We support President Macri's vision for economic reforms, and believe that the monetary and structural reforms in the IMF program, if implemented, will place the Argentine economy on a path of sustainable growth.

### *IMF Quota Review*

The IMF is undertaking its 15th General Review of Quotas, with the goal of completing the review no later than the Annual Meetings in October 2019. The review will both assess the adequacy of the IMF's resources and determine whether or not to adjust members' quotas and quota shares. The IMF has requested a buildup in its quota resources and claims that it needs to be the center of the global financial safety net. We will be seeking a constructive size for IMF resources that contributes fully to the stability of the international financial system, but recognizes that the IMF is just one part of the global financial system and its various support mechanisms. We are opposed to changes in quotas given that the IMF has ample resources to achieve its mission, countries have considerable alternative resources to draw upon in the event of a crisis, and the post-crisis financial reforms have helped strengthen the overall resiliency of the international monetary system.

<b>Current IMF Resources</b>		
	SDR billions	USD billions
<b>Quota</b>	476	\$661
<i>Of which: U.S.</i>	83	\$115
<b>NAB (40)</b>	182	\$253
<i>o.w. U.S.</i>	28	\$39
<b>Bilateral loans (40)</b>	314	\$436
<i>o.w. U.S.</i>	0	0
<b>Total</b>	972	\$1,349
<i>o.w. U.S.</i>	111	\$154

Pursuant to Section 41 of the Bretton Woods Agreement Act, we will shortly send a notification that IMF negotiations related to quota will begin in 2019 to provide you with formal advance notice of discussions. As the IMF conducts its quota review, we will work closely with it to improve the approach to conditionality in lending programs in order to make them more growth oriented. We will be heavily engaged in an upcoming review of IMF compensation and benefits with the goal of making IMF operations less costly and inefficient. And we will ensure that the IMF is sufficiently and efficiently resourced to carry out its mission and role.

### ***MDB Authorization Topics and Specific MDB Objectives***

We have notified Congress of the launch of negotiations on fund raising efforts by IDA and the AfDB.

The negotiations for the 19th replenishment of IDA (IDA-19) were launched on November 15, 2018 and will be carried out over the course of 2019. Under discussion is the donor funding for IDA's fiscal 2021-2023, running from July 2020-June 2023. Substantial changes were made to IDA's financial model and policy agenda before and during the current replenishment period. As a result, we expect IDA-19 to focus on taking stock of the IDA-18 reforms and IDA's ability to implement productive projects. We also have several reform priorities. First, we will work with other donors to ensure IDA-19 addresses rising debt levels among low-income countries. Second, we will seek to review and better target the support the World Bank provides for countries as they grow wealthier and transition from concessional financing under IDA to less-concessional financing through the IBRD. Third, we will seek to ensure that IDA retains a strong focus on fragile and conflict-affected countries, gender and development, and good governance, including in the area of debt management and transparency.

The Governors of the AfDB, over a U.S. objection, have decided to commence negotiations on the AfDB's capital needs in December 2018. Given Africa's enormous development challenges, we want a strong AfDB to serve the continent. However, new capital alone will not achieve a stronger institution. The AfDB needs to make greater progress on ongoing institutional reforms and agree on a set of further reforms that would accompany any new capital to ensure that it uses such funds more prudently and effectively. Among other items, we hope to see the AfDB fill critical vacancies in its accountability functions, better focus its lending on areas where it is most impactful, improve the readiness of projects before seeking board approval, strengthen project supervision and monitoring, and put in place a framework for financial discipline.

As with IDA, replenishment negotiations for the African Development Fund (AfDF), the AfDB's concessional arm, will occur in 2019. We intend to notify Congress of the launch of this negotiation in 2019. We are seeking many of the same improvements that are needed for the AfDB. In particular, given its relatively small scale, we want the AfDF to increase the selectivity of the areas it works in, with an emphasis on regional transport and trade facilitation, electricity access, and water and sanitation. As a majority of AfDF recipient countries are now classified as fragile, heavily affected by conflict in neighboring countries, or otherwise at high risk of debt distress, we also expect the AfDF to maintain a strong emphasis on addressing fragility, conflict, and violence and helping countries improve their debt management.

We are strongly committed to enhancing growth and development within the U.S.-Mexico border region. We continue to support the North American Development Bank (NADB). The Administration has requested in our FY2019 budget that Congress authorize the United States to subscribe to \$10 million of paid-in shares at the NADB. We and our Mexican partners in the NADB think that the NADB can do even more to improve the wellbeing of people in communities along the border. To that end, we included the NADB in our *America Crece* initiative and are exploring ways to boost the NADB's capabilities. The goal is to improve infrastructure along both sides of the border and create economic opportunities that increase median real incomes. We are also assessing whether the NADB has the right strategic and financial tools. We look forward to continuing these discussions once President-elect Lopez Obrador takes office and working with his administration and Congress to realize these goals.

The European Bank for Reconstruction and Development (EBRD) and the Asian Development Bank (AsDB) are both currently well capitalized. Our paramount objective at both institutions is to ensure they remain focused on project quality rather than using their existing capital to grow more quickly without due regard for development outcomes. At the EBRD, this is all the more important given that most of its traditional countries of operation in Central and Eastern Europe have gained ample access to capital markets since the EBRD was created in 1991. We want the EBRD to focus on priority countries with less access to capital—such as Egypt, Jordan, and countries in Central Asia and the Balkans—while resisting calls to expand its existing geographic footprint. At the AsDB, our principal objectives are to develop a path to graduation, reduce its engagement in upper middle income countries such as China, and introduce higher loan prices for countries with more access to private capital. We also seek to introduce an enhanced financial sustainability mechanism to ensure that we do not encounter future unplanned requests for shareholder capital.

### ***Mandates Can Complicate the Goal of High-quality MDB Programs***

Treasury is proud to have the statutory lead in representing the executive branch in the IFIs. This is a serious task and we execute it faithfully. That said, we coordinate closely with interagency colleagues, and we benefit from the input provided by other parts of the government so that we can present a whole-of-government approach. For example, our State Department colleagues actively keep us abreast of key foreign policy priorities in countries where the IFIs are active; the Commerce Department informs American companies about procurement opportunities that come about as a result of MDB projects; and USAID provides technical advice regarding the soundness of individual projects and linkages to our bilateral assistance. As we consider individual projects at the MDBs, we systematically solicit input from any agency that is interested, and we seek to synthesize information so it can be provided as useful feedback to the MDBs.

The U.S. government seeks high quality MDB projects that not only address the important development needs of recipient countries but that are also well-designed, technically sound, growth-enhancing, and based on strong consultation with the recipient government, affected communities, civil society, and other donor partners. We want to see strong monitoring of MDB projects, robust evaluations of completed projects, and thorough results measurement frameworks baked into every project so we can systematically track whether projects are performing well or not.

We continue to press the MDBs to achieve high standards regarding transparency, procurement, and environmental and social safeguards, with the goal of having our funds used correctly, fairly, and transparently. These high standards set the MDB projects apart from projects financed by other lenders who may provide funding, but without transparency and other protections.

The MDBs have substantially improved their projects over the years, often with significant help from Congress, including leaders on this Committee. And while we work to avoid situations in which people are hurt or abused in a project funded through the MDBs, there are instances when something goes wrong with an MDB project. Hence, we are advocating for robust independent mechanisms that improve MDB accountability and enable relief and redress.

Treasury follows numerous congressional mandates by using its voice and vote in international organizations. However, implementing the plethora of mandates is expensive, consumes significant staff time, and often ends up reducing the U.S. ability to influence policy in the direction Congress desires. Treasury is implementing a large number of legislatively required mandates in the IFIs. At last count, there are well over 100 congressional policy and directed vote mandates on the books. In addition, while mandates are added year by year, few are ever removed. We diligently follow these mandates from Congress. But as we seek to improve and reform the MDBs, we also invite Congress' attention to streamlining the number of legislative directives. Mandates require considerable time and resources to implement, and can detract from other important tasks related to loan quality. They can occasionally inadvertently undermine U.S. leadership in the MDBs, as other member countries pay less attention to the U.S. position because our votes and positions on a given loan are pre-determined. Many mandates and reporting requirements are simply outdated. As we seek to reform the MDBs, we look forward to having a dialogue with members about how we can ensure voting mandates and reporting

requirements have the impact that Congress intends but do not impede U.S. efforts to advance our broader strategic objectives in the MDBs. We appreciate the dialogue that we have had with the committee, not only on legislative mandates, but also on US engagement at the MDBs as a whole. We look forward to continuing this dialogue today and into next year.

### ***Debt Transparency Initiative***

Treasury has encouraged an initiative at the IMF and World Bank to develop, and disseminate to the public, information on international borrowing. One of the principal thrusts of the initiative is to modernize official debt data in line with market developments over the last 20 years. Government debt obligations are no longer limited to traditional loans and bonds. New liabilities ranging from derivative operations to pre-paid forward sales of commodities impose the same calls on government budgets. If the burden on taxpayers is the same, the disclosure, accounting and fiscal treatment must be the same. Investors will then have more and better data to make decisions, allowing markets to function more smoothly and crises to be less frequent and less severe.

Over the next two years, this new standard of debt disclosure should be defined and endorsed by the official sector. In the case of the IMF, this practice is consistent with Section 42 of the Bretton Woods Act, which specifically directs the Secretary of the Treasury to support procedures to collect, and disseminate publicly, information on international borrowing.

The IFIs—including the IMF and World Bank—have a key role to play in enhancing debt transparency in, and supporting sustainable borrowing and lending practices by, their member countries. Developing countries need investment to grow, including in infrastructure. But lending to low-income countries (LICs) that is non-concessional, non-transparent, and funneled into poor quality projects will raise debt burdens without boosting productivity and growth. This, in turn, results in countries diverting scarce budget resources to service high levels of debt and poses a threat to countries' growth prospects and overall economic stability and development.

On the borrower side, the IMF and World Bank are making efforts to obtain a comprehensive picture of members' debt positions in both IMF bilateral surveillance and as part of their lending programs, with the goal of improving debt sustainability. In particular, we are working with both institutions to improve the public disclosure of a broad range of sovereign debt statistics, including publicly guaranteed contingent liabilities and forward sales of commodities, by member countries to reduce debt surprises. This will improve policy making and reduce the frequency and severity of financial crises. We also strongly support the IMF and World Bank's efforts to build borrower countries' capacity in public debt management and disclosure.

On the creditor side, the IMF and World Bank also have roles to play, in particular with emerging, non-traditional creditors such as China. The IMF and World Bank are engaging in more structured outreach to non-Paris Club and multilateral creditors, including preparing and providing workshops on debt sustainability analyses, lending frameworks, and external coordination in debt resolution. At the same time, they are planning reviews of their respective debt limit policies to strengthen data provisions and simplify conditionality. All of these steps reflect our shared priorities with the IFIs in promoting debt transparency, debt sustainability, and



responsible burden sharing in debt resolution, which in turn will help reduce opportunities for corruption.

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In conclusion, while U.S. growth has accelerated, growth in many other countries has slowed. This gives rise to new challenges in international economic policy that we are working to meet through new initiatives. I appreciate the opportunity to present this Committee with a description of our major activities in 2018 and policy direction for 2019 and beyond, and I invite your views and questions.