Statement by Andy P. Baukol,
Performing the Duties of Under Secretary for International Affairs,
U.S. Department of the Treasury

Senate Foreign Relations Committee
U.S. National Security and Economic Statecraft: Ensuring U.S. Global Leadership for The Twenty-First Century

July 27, 2022

Chair Menendez, Ranking Member Risch, and Members of the Committee, thank you for the opportunity to discuss the Department of the Treasury's international economic tools.

Let me state at the outset that the Biden Administration stands firmly with the people of Ukraine as they defend their lives, their homes, and their country. We are resolute in our commitment to hold the Putin regime accountable for its unprovoked and unjustified war against Ukraine and the atrocities it has committed. America and our allies will continue to confront, condemn, and constrain Russia at every turn.

This hearing occurs at a key juncture for economic statecraft. Together with our allies, we have levelled some of the strongest and most effective sanctions in history—and the Russian economy has been left reeling. Just last month, Russia's Central Bank Governor said Russia's economy "won't be as it was before" because of the strength of our unified sanctions. The IMF projects Russia's economy to contract by about 6% this year. Critically, due to our collective work to deny Russia key technologies for its armaments industry, we've been able to significantly weaken Russian military capabilities on the battlefield—resulting in the shuttering of tank factories and Russian frontline troops using increasingly outdated equipment and weaponry. We are also working with the G7 and other partners around the world to explore a price cap on Russian oil that would limit revenue used by Putin's war machine while preventing price spikes in global oil markets. Our multilateral response demonstrates that the international financial system and economic marketplace are not open to those who violate the core principles of territorial integrity and self-determination.

And we are leading the way among our partners—thanks to action by Congress—in delivering the financial support needed to sustain Ukraine's economy. Already, the U.S. government has disbursed $4 billion in direct budget support to the Government of Ukraine and aims to disburse an additional $4.5 billion by the end of September. These funds are critical in maintaining basic government functions, including the provision of education and health care.

Five months in, Russia's illegal war against Ukraine has created significant global economic and humanitarian challenges. We are seeing higher commodity prices feed into global inflationary pressures and pose threats to energy and food security, trade flows, and external balances across many countries. Just yesterday, the IMF again cut its forecast for global growth this year, citing spillovers from Russia's war against Ukraine as a principal reason. Emerging market economies and low-income countries are particularly vulnerable to the fallout. These shocks are stretching already thin public balance sheets, increasing their borrowing costs, and exacerbating their pre-existing debt vulnerabilities with direct impacts on the most vulnerable households in these countries. The sooner Russia puts an end to this unnecessary war, the sooner we can stem the damage to the U.S. and global economy.

At Treasury International Affairs, much of our focus over the last two years has been on how we can better support developing countries as they weather the pandemic and now the spillovers of Russia war on Ukraine. These global crises have clearly underscored that the international financial institutions (IFIs) are essential complements to U.S. foreign policy. The multilateral development banks (MDBs) have approved around $130 billion in financing to address the pandemic's health, economic, and social impacts, and the International Monetary Fund (IMF) has approved $220 billion in financial support to help low-income and developing countries stabilize their economies in the face of these two global shocks. The IFIs are playing vital roles in responding to food and energy shocks and addressing a growing refugee crisis in Europe. They will be essential, too, in helping to rebuild an independent Ukraine.

As Chair Menendez's Economic Statecraft for the 21st Century Act highlights, the IFIs are a force-multiplier for our values and interests. Stronger, more stable growth abroad means a stronger economy here at home. As other economies prosper, demand for U.S. exports of goods and service increases, creating U.S. jobs. Treasury is committed to working with Congress, IFI managements, and likeminded shareholders to enhance the IFIs' responsiveness to U.S. priorities.

In the current crisis, we are asking the IFIs to step up their efforts to help Ukraine and to respond to the devasting global economic impacts of Russia's war. The most vulnerable economies will need support from the international community to fill their financing gaps, address their heightened debt risks, and undertake the needed adjustments and reforms to recover. We are also deeply concerned about the impact of Russia's war on food and fertilizer prices and supply, particularly on poor households. This spring, Secretary Yellen convened the IFIs for a call-to-action to redouble their efforts in tackling food insecurity. As a result of that meeting, the IFIs released an Action Plan and are directing significant funding to tackle the short-term shocks as well as address the underlying vulnerabilities in food systems. We continue to engage the IFIs and encourage them to surge and scale their activities in response to rising food insecurity.

The IMF will play a critical role in helping vulnerable countries stabilize their economies, particularly in the face of elevated food and energy prices, heightened financial risks, and rising debt levels. In the Fiscal Year 2023 Budget Request, the Biden Administration is seeking Congressional authorization to provide up to $21 billion in financing to bolster two critical IMF facilities that will support the poorest and most vulnerable countries through these exceptional global shocks: the Poverty Reduction and Growth Trust, or PRGT, and the newly created Resilience and Sustainability Trust, or RST.

Through the PRGT, the IMF has provided $19 billion in zero-interest financing to the world's poorest countries over the last few years. This unprecedented action by the PRGT has left it in need of additional funding to be able to support the recovery of the poorest countries in the future. Through the RST, the IMF will provide targeted financing alongside IMF programs to support efforts by countries to increase their resilience to the macroeconomic challenges posed by energy shocks, pandemics, and climate change.

These IMF trust funds do not represent development aid. Rather, they leverage the IMF's unique role and capacity to provide critically needed financing, and help countries undertake reforms to address governance weaknesses, promote growth, and improve macroeconomic sustainability, consistent with the IMF's core mission. All other G7 partners and most of the G20 countries, including China, have already provided financing to these IMF trust funds, which are undertaking lending critical to supporting a global recovery. Treasury looks forward to working with the Chair and Ranking Member and members of this Committee on this important request so that the United States can continue to lead in the global economy.

We are also working hard on how the IFIs need to continue to evolve to meet the challenges of our times. Many of the biggest challenges in our world today—such as pandemics and health, climate change, fragility, migration and refugee flows—these challenges cross borders and disproportionately affect the poorest, most vulnerable populations. Going forward, we need the development finance system to better mobilize private capital and finance solutions to these global challenges at scale. And because the multilateral development banks alone will never meet the scale of financing needed, we also need to revisit our strategies for making capital markets work for people in developing countries. At the Inter-American Development Bank Group, for example, we are in the process of pursuing reforms at the institution to drive climate ambition, digital technology, social inclusion, and private sector development. We are also ready to support beginning negotiations on providing additional capital for IDB Invest, the Group's private sector financing arm, in line with a broader reform agenda for the Group.

Bolstering the IFI system is also critical to tackle serious long-term challenges to the international order—such as those posed by China. For example, IMF financing through trust funds such as the PRGT and RST, as well as MDB financing, provide credible high-quality alternatives to China's approach to development financing, including the Belt and Road Initiative. In contrast to non-concessional and opaque Chinese official financing, these IFI instruments are transparent and consistent with debt sustainability. Project loans adhere to high quality infrastructure investment principles and include social and environmental safeguards that promote long-term growth and development in recipient countries. Enhancing U.S. leadership in the IFIs is an important component in the U.S. economic toolkit to push back against economic actors that can harm the United States and the global economic system. Indeed, they have an important role to play in delivering on the ambitions of the Partnership for Global Infrastructure Investment (PGII), and Secretary Yellen has directly engaged the MDBs to step up financing, policy dialogue and technical assistance for infrastructure development. This requires meeting our financial obligations to these institutions, providing new resources when needed, and having confirmed Executive Directors.

In addition to promoting transparent and sustainable financing, we need to respond in a timely and meaningful manner to requests for debt restructuring from developing countries with unsustainable debt levels. Around 60 percent of low-income countries are at high risk or are already in debt distress. Three countries—Chad, Ethiopia, and Zambia—have requested debt treatments under the G20 Common Framework. We could see more requests for debt treatments as debt risks worsen among developing countries. In Treasury's international engagements, including at the G7 and G20, we are pressing all countries including China to uphold their commitment to provide the necessary debt treatments to the requesting countries as quickly as possible. Together with our like-minded partners, we continue to reiterate that tackling debt distress in low-income countries requires full cooperation from all creditors, though that is currently not the case. Treasury is also working through the IFIs and with like-minded partners to enhance debt transparency and sustainability to help facilitate debt restructurings and prevent future debt crises.

Finally, let me note a small, inexpensive, and effective bilateral tool in Treasury's international economic toolkit that complements the critical multilateral work of the IFIs. Treasury's Office of Technical Assistance (OTA) deploys expert advisors to help developing and transitional countries build their capacity to implement reforms in support of transparency and accountability in government finances, debt management, financing for infrastructure development, financial inclusion, and combating economic crimes.

As Secretary Yellen highlighted in her speech at the Atlantic Council in April, the world is evolving, and our tools of economic diplomacy must evolve with it. I look forward to working with you to continue to advance U.S. international economic leadership abroad and create opportunities for Americans at home.