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GRAY/21/2079  
Revised

July 15, 2021

**Statement by Mr. Tanaka, Ms. Kashima, and Ms. Ogihara on United States  
(Preliminary)  
Executive Board Meeting  
July 19, 2021**

We thank staff for the informative report and Ms. Shortino, and Mr. Sturm for their insightful buff statement.

While the U.S. economy is rapidly and strongly recovering from the COVID-19 crisis, the outlook of the domestic economy and future policies will have a significant impact on the global economy. We welcome staff's comprehensive analysis which gives a valuable insight for the future U.S. and the global economy under great uncertainty.

We commend the authorities for their prompt and large-scale fiscal policies, accommodative monetary policy, the adoption of market stabilization measures, and the swift vaccination rollout. Going forward, **the authorities will need to implement targeted policies, and steadily address mid- and long-term issues such as increasing budget deficits, widening poverty and inequality, and promoting climate-change issues.** Addressing these challenges will be key not only for the U.S. economy but also for the stable growth of the global economy.

While we generally agree with the staff's analysis and policy recommendations, we would like to give comments on the following points.

***Economic Outlook***

**The prompt vaccine rollout and appropriate policy responses enabled the rapid recovery of the U.S. economy, which further contributed to the recovery of the global economy.** We also thank the authorities for their support to facilitate vaccine rollout in other countries. In 2021, the U.S. economy is expected to grow at 7.0%, supported by strong growth in private consumption and investment. With cumulative economic stimulus measures and the monetary policy stance, growth rate is expected to remain high until 2023, after which the potential growth rate is expected to increase somewhat due to infrastructure investment and the implementation of social security and employment measures.

### *Fiscal policy*

**We commend the authorities' prompt stimulus measures, which have helped vulnerable groups and businesses and prevented economic and social disruption.** That said, considering the size of cumulative \$6 trillion spending and further plans for the future, the authority should closely monitor its economic effects, multiplier effects of infrastructure spending, and the impact of increased spending on revenue growth. The series of fiscal stimulus package is expected to increase the PB deficit to 14% by 2021 and increase the debt-to-GDP ratio to 105% by end-2021. **In order to ensure sustainable growth, it is essential to reduce the fiscal deficit in the medium term.** While interest payments are currently suppressed due to the low interest rate environment, the authorities should avoid being complacent, and steadily proceed with fiscal consolidation, bearing in mind the possibility of increased interest payment in the case of rise in interest rates.

On the expenditure side, **government spending should continue to support vulnerable households and most affected people.** We support staff's recommendation that government spending should not disincentivize labor participation **but focus on more targeted area to promote higher productivity and efficient resource reallocation, which would lead to a sustainable growth over medium term.** *We would like ask staff to elaborate on staff's recommendations regarding the medical sector on efficiency innovations, price transparency, market approaches for healthcare providers, and drug pricing, including their future prospects and fiscal implications.*

On the revenue side, **we commend the authorities for the tax reform plans, including the international agreement on corporate taxation and the tax hike on firms and high-income households.** Such measures will contribute to preventing tax

loopholes and evasion and moving towards fiscal consolidation and would be beneficial for both the US and global economy.

### *Monetary Policy and External Sector*

**We commend the FRB's swift policy measures including the establishment on various facilities in response to the pandemic.** The new framework adopted in August last year has significantly contributed to the normalization of financial markets by managing disinflationary risks and building up market inflation expectations.

**On the other hand, under the current rapid recovery, the authorities should also be mindful of multiple factors that could impact inflation dynamics, such as labor mismatches, supply shortages and expansionary fiscal policies.** The increase in asset prices, including the housing market, also needs close attention. We agree with staff that the risk of sustained inflation is low. That said, if such risk materializes, it could have a major impact not only on the U.S. economy but also on the global economy. The FRB needs to keep a close eye on future price trends and communicate carefully regarding price developments and its monetary policy stance. In addition, we commend staff's efforts on analyzing the different effects of monetary policy on heterogenous agents, as analyzed in Box 2. We expect the FRB to continue to carefully communicate its monetary policy keeping such issues in mind as it pursues its mandate of price stability and maximum employment.

**We take note of the uncertainties that may arise as the U.S. economy transitions to a recovery state and monetary and fiscal policies normalize,** such as increase in dollar funding costs and risk premiums and the impact on highly leveraged corporate and non-bank sectors. Furthermore, significant repricing in various financial markets could arise as a result of increase in long-term interest rates due to higher inflation expectations. The risk of zombification related to corporate debt markets and the associated spillover risks of repricing to emerging economies should also be noted. In addition, as noted by staff, the authorities need to address the vulnerabilities in the U.S. Treasury Market exposed by the pandemic through establishing central clearing and permanent repo-facilities.

With regard to the external sector, although a large increase in the budget deficit was offset to some extent by private savings in 2020, the current account deficit is likely to widen further in 2021. In this regard, **we agree with staff that the authorities need**

**to strengthen fiscal consolidation and make use of the rules-based multilateral trading system to contribute to employment and productivity.**

### ***Structural Policies***

**As the economy recovers from the pandemic, the authorities should address medium- and long-term issues such as climate change, digitalization, and demographic changes and inequality, which were also pre-pandemic challenges.** At the same time, as pointed out by staff, structural reforms consistent with the post-crisis situation are required, to address changes in consumer preferences, social modalities and necessary skills, as well as inequalities in access to healthcare services and education that were further exacerbated by the pandemic.

As for climate change policies, we welcome the return of the U.S. to the Paris Agreement. Also, with regard to sustainability investment, we commend the authorities' comprehensive plan including disaster prevention as well as climate change mitigation. Authorities need to closely monitor the impact of environmental regulation on firm activities and price developments, as such regulations could broadly impact industries and lead to human and capital resource reallocation. We note the different views between staff and the authorities regarding the benefits of carbon tax. Besides explicit policy like carbon tax, the authorities could adopt other measures including regulatory approaches, preferential political treatment for renewable energy or other measures to achieve "Net Zero by 2050". Appropriate and applicable combination of policies should be determined according to each country's specific situation.

**As for the labor market, we are concerned about the scarring effect of the pandemic and the long-term impact of COVID-19 on structural changes in the labor market;** in particular, the impact on women who were forced to leave their job due to the closure of schools and students who missed out on educational opportunities. *Could staff comment on various measures taken by the authorities to facilitate the accumulation of human capital and participation in the labor force?*