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GRAY/22/1961

July 7, 2022

**Statement by Ms. Lim and Mr. Dacharux on United States
(Preliminary)
Executive Board Meeting
July 11, 2022**

We thank staff for the well-written report and Ms. Shortino, Ms. Medearis, and Mr. Sturm for the helpful Buff statement. We broadly agree with the thrust of staff's appraisal and offer additional comments as follows.

The U.S. economy rebounded strongly from the pandemic, thanks to decisive and effective policy responses to contain fallout from Covid-19 and support the recovery. However, rising and broad-based wage and price pressures, have added to the probability of high inflation expectation being entrenched. Careful calibration and avoiding misstep are thus paramount for both fiscal and monetary policy normalization, especially against the possibility of further negative shocks from new Covid variants, prolonged war in Ukraine and impact on commodity markets, as well as recession fears. We appreciate the outline of U.S. sanctions on Russia and Belarus described in Box 1, and *staff's additional elaboration on the estimated economic costs of these measures is welcome.*

To preserve price stability, monetary policy actions have been accelerated and intensified in response to inflation dynamics. We acknowledge the Federal Reserve's strong and unconditional commitment to curb price pressure and their well-telegraphed decisions. Boxes 3-5 are helpful in building understanding on interactions between labor markets and monetary policy as well as wage-price dynamics currently at play. We note the complementary measures by the Administration to protect vulnerable households and businesses while building resiliency against supply disruptions. Nonetheless, *some broad-based measures could risk being counterproductive by fueling even greater demand and consumption, especially during this period of strong recovery. Could staff comment on the proposed gas tax holidays, including in relation to the potential impacts on the oil and gas industry's investment and output as highlighted in Box 2? While we note authorities' plan for a diverse and healthy ecosystem of suppliers with special focus on strategic allies, what is staff's view on "Friendshoring" in term of economic welfare and efficiency?*

There is scope for public investment to step up infrastructures, productive capacity and climate resiliency, as articulated in the staff report. On protecting the most vulnerable, we

welcome the focus of the American Rescue Plan on low-and-middle income households, especially for the child tax credit. Relatedly, pandemic long-run learning loss particularly in lower income households has also been an outstanding concern for human capital formation across countries. *Could staff share any lessons from the U.S. authorities in addressing this issue?* We also note the authorities' continued commitment in the Build Back Better agenda and look forward to the passing of reconciliation bill as noted in the Buff.

Financial stability risks remained contained against multiple shocks, thanks partly to the effective implementation of the post-financial crisis reforms, including in the housing market. We also appreciate authorities' commitment to ensure smooth functioning of domestic and global financial markets by establishing dollar liquidity facilities. Continued efforts are needed to address the remaining gaps in FSAP recommendations, as emphasized in detail in Appendix IV. *The risks of some crypto and digital assets experiencing large volatility and full-fledged crashes are increasingly notable, warranting close monitoring; staff's comments in relation to regulatory framework and consumer protection are welcome.*

Open multilateral trade is beneficial for both the U.S. and the world. We positively note the productivity-enhancing and worker-centered trade policy which strengthens the competitiveness of the U.S. export sector and labor force. We underscore staff's recommendation in removing the trade restrictions and tariffs earlier introduced, which would further enhance the U.S. economic welfare and performance, and would welcome efforts to actively work with trading partners to strengthen the rules-based multilateral trading system.