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**Statement by Mr. Peter and Mr. Kuth on United States
(Preliminary)
Executive Board Meeting
July 11, 2022**

The U.S. economy has recovered strongly but faces inflationary challenges and downside risks to growth. The COVID-19 shock was overcome rapidly thanks to an unprecedented policy response and a highly flexible economy. However, the rebound has been accompanied by sharp increases in public debt, prices, and nominal wages. With price pressures turning out to be stronger and more persistent than originally thought, tackling inflation without causing a recession will require all the skills monetary policy makers are able to mobilize.

The policy priority is to expeditiously slow price growth. Staff rightly points out that returning to price stability will be challenging, as misjudging the policy mix could trigger either a recession or a prolonged period of high inflation that would necessitate an even stronger monetary policy response in the future. The task is further complicated by the uncertainties related to international geopolitical and economic developments and the ongoing drawdown of households' pandemic savings.

We are skeptical about staff's proposed new monetary policy communication device. The costs that would come along with such a device may be substantial, as projections would become more difficult and complicated with increased external communication aimed at strengthening the impact of forward guidance. It is unclear to us whether the benefits of such projections would outweigh the associated costs. Moreover, it seems important to remember that already today, the Federal Reserve's quarterly Summary of Economic Projections provides a good overview of the assumptions and expectations of FOMC members. We do, however, agree that it would be useful for the Federal Reserve to clarify how the policy framework applies in an environment where inflation is well above the targeted two percent.

We concur with staff on the importance of implementing the FSAP recommendations.

We welcome the work that is underway to improve the resilience of money market funds. We also see merit in strengthening the budgetary autonomy of supervisory authorities and in ensuring the consistency of bank regulation with the Basel framework. On market-based finance, we note the recent rapid growth of non-bank financial institutions, which is partly driven by less burdensome regulatory constraints compared to banks. *Could staff elaborate whether they see any systemic risks in the current environment of rising interest rates and asset market corrections, especially for highly leveraged institutions?*

The administration's reform agenda to energize the supply side of the economy should be strengthened.

While the adoption of the Infrastructure Investment and Jobs Act is welcome, further reform efforts are needed to address the long-pending supply-side constraints, raise productivity, support labor force participation, and incentivize investment and innovation. We also encourage the authorities to strengthen the social safety net to mitigate the effects of a slowing economy and rising inflation on poorer households.

The recent spike in energy prices and concerns about the reliability of energy supply should accelerate the transition to a carbon-neutral economy.

We share staff's concern regarding subsidies for gasoline and other fuel products, and we note that the U.S. remains a large CO₂-emitting country where gasoline prices are still lower than they were in Western Europe prior to the war in Ukraine.

An open and rules-based trading system serves the U.S. economy best.

We concur with staff that a roll-back of tariffs and other trade distortions would have a positive effect on U.S. economic performance by supporting growth and reducing inflation. We encourage the authorities to constructively work with trading partners to strengthen the rules-based multilateral trading system. We also encourage them to identify and address the macro-structural distortions that cause the imbalances in the U.S.' external position.