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July 15, 2021

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

We thank staff for the well-written report and Ms. Shortino and Mr. Sturm for the informative buff statement. We broadly agree with the thrust of staff's appraisal and would limit ourselves to the following comments.

The US authorities' decisive policy responses, including on the fiscal, monetary and vaccination fronts, have placed the economy on a strong recovery path. That said, the pandemic has taken a heavy toll on the nation, with an elevated fatality rate and a sharp drop in average life expectancy. Policy responses have also not been costless, and in some respects exacerbated long-standing trends including high public debt, current account deficit and corporate leverage. The current administration's ambitious policy proposals to address some of these structural challenges, which broadly align with past IMF policy advice, is welcome. Staff also presented multiple recommendations for better targeting of policies to strengthen macroeconomic and distributional outcomes and support a sustainable uplift in living standards for all Americans. We urge authorities to consider the recommendations carefully also considering the strong positive outward spillovers of a healthy and stable US economy on the global economy.

On monetary policy, the Federal Reserve's policy response has been very effective both during the depths of the crisis and in supporting the recent recovery. We commend the Federal Reserve for the bold decision to introduce the new monetary framework, which is consistent with past IMF advice, in the midst of the COVID-related uncertainty. The new framework has been timely, enabling the Federal Reserve to appropriately provide more accommodation over a longer horizon in response to a negative shock. We echo staff's call for the Federal Reserve to sensitively manage any future withdrawal of monetary accommodation, with due consideration for spillover effects on global financial conditions especially given highly divergent recoveries out of the pandemic globally. The authorities' stated commitment to be cognizant of spillover effects and clear communication is very welcomed. We also appreciate staff' analysis on the topic of inflation, including the well-nuanced policy advice on how monetary policy should adapt differently, depending on whether upside risks to

inflation materializes owing to (a) relative price adjustments and/or front-loaded impact of fiscal stimulus or (b) persistent supply-demand mismatches and an associated de-anchoring of inflation expectations. *Staff highlighted that “there is significant uncertainty about how inflation expectations are formed in the US”. Staff’s further comments on this topic is welcomed.*

On the fiscal front, we echo staff’s commendation for the size and ambition of authorities’ fiscal response to the crisis, which have also generated substantial positive spillovers to the world economy. Staff identified multiple ways in which various policy measures under the American Rescue Plan, American Families Plan and American Jobs Plan could have been better targeted and/or calibrated to enhance their impact both on macroeconomic and distributional outcomes. Authorities’ responses to these calls appear to be fairly light. *Staff’s comments on whether there are specific structural, institutional impediments that inhibit better policy-targeting, and whether there are lessons to be learned for future crisis responses, is welcomed.* In addition, staff highlighted that plans to close tax loopholes, raise taxes on corporates and higher-income households will partially fund the intended increases in federal spending. Nevertheless, the feasibility of US’ domestic corporate tax increases hinges on progress in remaking the international corporate taxation system, a process fraught with difficulties whether in garnering domestic political consensus or overcoming international coordination hurdles. *Could staff comment on the downside risks to the US’ fiscal balance and public debt trajectories if the necessary reforms cannot be achieved?*

On structural issues, we welcome staff’s detailed assessment of, and commend authorities’ ambitions across, various aspects of the US’ “Building Back Better” agenda, spanning healthcare, greening the economy, trade policy and a more equitable society. We especially appreciate authorities’ emphasis, as conveyed in Ms Shortino and Mr Sturm’s buff statement, that these are not spending programs aimed at stimulus – rather they are public investments to modernize the economy, prepare US businesses and workers to be more productive at home and competitive internationally, and build support and increase security for children and families. We take particular note of staff’s coverage on healthcare cost developments in Box 6, identifying structural, market-power based issues that contribute to the exceptionally high levels of US healthcare spending. Left unchecked, these developments will have a substantial impact on fiscal spending especially given the aging population profile. Structural reforms on this front will have to be multi-pronged and accordingly, take a long time to implement and bear fruit. We urge authorities to proactively review these issues, which would have important implications for the country’s medium- to long-term fiscal sustainability even if the current assessment is for public debt to be sustainable.

Lastly on the financial sector, we welcome staff’s detailed assessment of financing stability risks emanating from systemically important US markets and institutions, elevated asset price valuations, rising corporate and non-bank leverage, house price inflation and developments in the Federal Reserve’s overnight reverse repo facility. In our view, this analysis is a good demonstration of a close integration of macrofinancial surveillance into Article IVs. We also welcome Ms. Shortino and Mr. Sturm’s emphasis on the Administration’s robust agenda to enhance financial stability, including the FSOC’s work to address vulnerabilities in the US Treasury securities market and risks arising from non-bank financial intermediation and money market funds. On the 2020 FSAP, we note that a range of recommendations have not been addressed, although this is in part understandable given authorities’ priority on crisis response. We urge authorities to proactively address the findings in due time.