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

We thank staff for a balanced and comprehensive report and Ms. Shortino, Ms. Medearis, and Mr. Sturm for their insightful Buff statement. We commend the authorities for the unprecedented effective measures throughout the pandemic and in supporting the recovery, which has resulted in a strong recovery in the U.S. economy in 2021 with a quick return to full employment, as well as positive global spillovers. Indeed, the American Rescue Plan played a central role in restoring growth, protecting the most vulnerable households, and mitigating potential economic scarring from the Covid-19 pandemic. We are in broad agreement with staff analysis and policy recommendations and wish to offer the following comments:

Outlook and Risks

As warranted by the economic outlook, the authorities have appropriately shifted their policies from pandemic-era accommodation to tightening. However, the current tightening cycle is clouded by risks and uncertainties related to the supply-side constraints, the Russian invasion of Ukraine, and a possible resurgence of new COVID variants. We agree with staff that a slowdown in demand in the U.S. economy, as financial conditions tighten and monetary and fiscal support is withdrawn, should facilitate a steady reduction in price pressures. However, there are growing concerns about the materialization of recession risks as the possibility of further tightening could weigh even more on both domestic and global economic activities. *In the event that downside scenarios materialize, we would be interested to hear from staff what are the contingency plans if economic data released for the second quarter and onward continue to signal a deeper downturn than expected without a commensurate easing in inflation. Moreover, we would be interested in staff's further elaboration of the negative outward spillover effects on the global economy and emerging markets in case a recession occurs.*

Monetary Policy

Inflation continues to surprise on the upside and is now running at its fastest pace in more than 40 years. We agree with staff that taking the steam out of the wage and price inflation without precipitating a recession should be the top priority, and take note that the wage-price feedback loop remains relatively weak in the U.S. The tricky challenge for monetary policy will be to bring inflation under control while avoiding a recession and a large increase in unemployment. We welcome the Federal Reserve's commitment in this regard to keep the anchor of price stability, and we positively note from the Federal Open Market Committee's minutes that it stands ready for further tightening if elevated inflation pressures were to persist.

Financial Stability

Even though the U.S. financial system has remained resilient in the context of multiple shocks over the past two years, a close monitoring of developments in the financial markets is warranted given the risks posed by rising interest rates and ongoing challenges in the commercial real estate market. The prospect of a recession in the U.S. has sent financial markets swooning and U.S. stocks have posted the worst half to any year since the 1960s. Moreover, the prolonged volatility and contagion in the crypto markets over the past few months is also worrisome. We welcome the establishment of two new facilities by the Federal Reserve to maintain the smooth functioning of financial markets in response to future shocks. We also encourage the authorities to implement outstanding FSAP recommendations to further increase the sector's resilience. It will also be important to develop macroprudential tools to address risks and vulnerabilities in the non-banking sector. *Given that a significant amount of households' wealth is estimated to have been wiped out from the stock and cryptocurrency markets, we would be interested to hear from staff about the impact of the destruction of wealth could have on consumption and growth?*

Fiscal Policy

We agree that unprecedented fiscal support has been deployed through the American Rescue Plan, the American Jobs Plan, and the American Families Plan to secure the recovery, protect the most vulnerable households, and mitigate potential economic scarring. These policies, however, came at the cost of a considerable worsening of the debt path and higher twin deficits. We commend the authorities for making fighting inequality a key pillar of their agenda, including through increased progressivity in the tax system and closing tax loopholes, and deploying programs and investments in underserved and marginalized communities. We take note in this regard of the administration's commitment to tax reforms that will provide incentives for renewable energy sources and to support programs that have the biggest impact on productivity, labor force participation, especially amongst women, and reducing poverty. Over the medium term, we agree with staff that determined efforts will be needed to bring down the public debt ratio. It will also be important to contain rising health care costs as it will likely add additional fiscal strains.

Climate change

The focus of policies is rightly placed on achieving a sustainable, green, and modernized economy. We commend the authorities for the considerable progress achieved over the past eighteen months and their focus to ensure a sustainable transition by providing tangible benefits to disadvantaged and underserved communities. We welcome, in this regard, the Bipartisan Infrastructure Law, which will help improve the country's electric grid, incentivize, and accelerate the switch to electric vehicles, and reduce methane emissions. We also take note that the authorities are exploring multiple pathways by which the U.S. goals for a reduction in emissions could be achieved. Moreover, we welcome the progress made by the Financial Stability Oversight Council in improving the financial sector climate resiliency.

International Trade

Finally, we support stronger global efforts to promote international trade and investments and look forward to progress towards strengthening the multilateral trading system in the context of a rules-based multilateral trading system and take positive note from the Buff that the administration is considering a reform agenda at the WTO to address these issues.

With these remarks, we wish the U.S. authorities continued success.