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June 12, 2023

**The Chair's Summing Up
United States—2023 Article IV Consultation
Executive Board Meeting 23/46
June 12, 2023**

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the continuing resilience of the U.S. economy in the face of the significant tightening of monetary and fiscal policies in 2022. Directors noted, however, that resilient demand and strong labor market outcomes have contributed to more persistent inflation. Going forward, bringing inflation down remains a priority. Efforts to tackle longer-term issues—including bringing down public debt, and addressing supply-side constraints and decarbonizing the economy while avoiding protectionism—also remain necessary.

Directors emphasized that bringing inflation back to target will require an extended period of high interest rates. Nevertheless, Directors also highlighted the potential risks to global activity and financial stability from a prolonged period of tight monetary policy, especially in light of recent bank failures, and careful monitoring will be necessary. Directors stressed the importance of clear communication of the Federal Reserve's assessment of incoming data and its implication for the path of the policy rate.

Directors recognized that in the short term, a tighter fiscal stance would ease some of the burden shouldered by the Federal Reserve in reducing demand and inflation. Over the medium term, more determined action will be needed to put public debt on a decisively downward path, including tax increases and tackling structural imbalances in social security and Medicare. Directors also called for a permanent solution to the debt ceiling.

Directors commended the authorities' prompt response to recent bank failures but observed that the bank failures illustrate the systemic risks posed by even relatively small financial institutions. Directors called for improved stress tests, more stringent requirements for mid-sized banks, including aligning capital and liquidity requirements with the Basel framework, and for a more assertive supervisory stance. Directors encouraged the authorities to address remaining FSAP recommendations. They welcomed their governance and anticorruption efforts in the financial sector, including plans to close gaps in the AML/CFT framework.

Directors noted that the U.S. external position remains moderately weaker than implied by medium-term fundamentals and desirable policies. Noting that "Made in America" policies in recent legislation include provisions that favor goods and services produced in the U.S. or North America, Directors urged the authorities to maintain open

trade policies and work to strengthen a rules-based multilateral trading system. Directors welcomed the proposed supply-side policies including expanding access to healthcare and education and incentivizing labor force participation, but recommended that these policies be implemented in a manner that supports a downward path for public debt.

Directors welcomed the climate provisions in the Inflation Reduction Act as a means to decarbonize the U.S. economy. They noted that the U.S. climate goals could be achieved without introducing domestic content requirements. They also noted the need for additional efforts to ensure emission reductions reach the U.S. objective, which could include building consensus on carbon pricing. Training and financial support for the most affected workers would facilitate a faster reallocation of labor and lower societal costs of the transition.

It is expected that the next Article IV consultation with the United States will be held on the standard 12-month cycle.