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Statement by Mr. Rosen, Mr. Grohovsky, and Mr. Shenai on United States Executive Board Meeting July 31, 2020

The United States welcomes IMF surveillance over members' economies and continues to encourage IMF staff to present their analysis in a forthright and objective manner. This Article IV consultation was unusual given the economic context of the COVID-19 pandemic and the related logistical constraints on our engagement. We agreed with staff early on to focus this consultation on the impact of COVID-19 on the U.S. economy and the policy response. The Article IV report itself, however, is broader and covers a range of issues that staff did not raise in the actual consultations, such as those related to social issues, and to which our authorities did not have a chance to respond. This dynamic detracts from the usefulness and impact of the report.

U.S. Economy and Crisis Response

Heading into 2020, U.S. economic growth was strong and inclusive. The economy, in its longest expansion in history, was breaking multi-decade records along many dimensions. The unemployment rate was at levels not seen since the 1960s. Gains were reversing the polarization in economic outcomes seen in previous years. Poverty rates were declining. The unemployment rate for African Americans and Hispanic Americans fell to all-time lows. Weekly earnings for the lowest wage earners were rising strongly and rising faster than for those at higher income levels. The progressive nature of the Tax Cut and Jobs Act (TCJA) and elimination of deductions primarily used by higher income taxpayers made these improvements in the after-tax distribution of wage growth even stronger.

The COVID-19 outbreak was an unforeseen and systemic global health shock, which despite the U.S. economy's enviable initial conditions resulted in previously unfathomable adverse economic consequences. Our public health response required mass lockdowns and quarantines to limit community spread of the virus and protect vulnerable populations, resulting in a sudden stop in economic activity for firms and households. Contact-intensive sectors and vulnerable populations were particularly hard hit. The unemployment rate quickly went from a 50-year low to the highest rate in the post-war period, and the economy entered a deep recession.

With the economy facing a sharp contraction, our fiscal and monetary authorities responded promptly. Fiscal policy enabled a robust public health response, addressed liquidity strains facing vulnerable households and firms, and preserved the web of economic relationships in our society. These actions were unprecedentedly strong, broad, and fast. As the report notes, our actions provided "essential life support" for the U.S. economy and American workers and thus cushioned the impact from necessary public health measures. Or, as IMF staff put it, "In the face of this unprecedented shock, U.S. policymakers acted quickly and assertively to protect livelihoods and businesses and to mitigate the lasting economic costs of the pandemic."

Our actions were tailored to lower income individuals and families and were thus highly progressive. For instance, our authorities' signature fiscal program for employees of small businesses, the Paycheck Protection Program (PPP), targeted businesses with fewer than 500 employees. The PPP supported over 80 percent of eligible small business employment, covering more than 50 million workers. Despite the surge in unemployment, personal income growth was over 10 percent in April 2020, reflecting the scale and breadth of transfer payments to households as well as unemployment insurance replacement rates that provided funds in excess of their previous income for roughly two-thirds of workers. June retail sales increased about 1 percent year-on-year, indicating the countercyclical measures were taking effect and encouraging a V-shaped recovery in consumer spending.

The virus caused a violent repricing of risk assets that could have led to a disorderly unwinding of asset prices and credit, with serious consequences for the real economy. In this context, monetary policy responded forcefully to support economic demand and, complemented by emergency lending facilities, restore normal functioning of markets. The staff report rightly credits the Federal Reserve's (Fed) "well-designed" actions with restoring market functioning. Indeed, faced with this market turmoil, the Fed quickly cut its policy rate to near zero and made clear that rates will remain at this level until there is evidence that the economy is on track to meet the Fed's dual mandate of maximum employment and price stability. The Fed broke records on both the quantity and speed of asset purchases, which continue at a robust pace today. Over the course of a few months, the Fed and Treasury announced and operationalized several emergency lending programs, many anchored by equity injections from the Treasury, designed to restore functioning in short-term funding markets and support private-sector intermediation, including for small and midsized businesses. These programs strongly complemented the Fed's easing and provided timely, broad-based support to stressed markets, helping to preserve the flow of credit to the real economy. The corporate credit and municipal lending facilities provided a needed backstop, restoring confidence and facilitating, to date, more than a trillion dollars in issuance since the end of March.

The Fed also took significant measures to reduce strains in global dollar funding markets, with large positive spillovers to the global economy. The Fed adopted large bilateral dollar swap lines and launched a repo liquidity facility for foreign central banks with adequate collateral, which strongly bolstered international monetary and financial stability. These actions signal our authorities' strong commitment to global stability and willingness to lead despite challenging circumstances.

We agree with staff that the United States has ample fiscal space to deal with the pandemic. Our authorities disagree, however, that they should use available fiscal space to "broadly remake" the U.S. economy. Economies are neither made nor remade but emerge from millions of citizens' independent decisions, and *dirigisme* runs contrary to the spirit of free enterprise that undergirds the U.S. economy. We note that last year, staff concluded that the U.S. economy exceeded IMF expectations and performed favorably relative to other advanced economies with much larger state footprints, but staff now sees the need to fundamentally "remake" the economy. Throughout the report, staff give very little credit to the dynamism, flexibility, and ingenuity of the U.S. economy, which have driven recoveries from previous crises.

Despite the fog of uncertainty caused by the global pandemic, we will use all tools at our disposal to support the recovery and facilitate the public health response. Much will depend on the trajectory of the virus, which is uncertain. Still, we now believe economic activity will recover as states reopen and the virus trajectory improves, but we acknowledge considerable uncertainty to the outlook with large downside risks. We think staff is too pessimistic in their outlook, possibly because they have assumed limited additional stimulus. Given a high degree of uncertainty, we do not place much confidence in point estimates of GDP growth. We recognize that we have medium- and long-term challenges, such as implementing pro-growth policies, closing our infrastructure gap, and addressing the buildup of explicit and implicit fiscal liabilities. There remains a robust ongoing debate on how best to address these challenges, and we welcome continued staff engagement on issues within their domain of expertise.

Trade Policy

U.S. trade policies seek to achieve free and fair trade that will set the stage for long-term economic growth both in the United States and globally. The United States-Mexico-Canada Agreement (USCMA), which came into effect earlier this month, is a 21st century trade agreement that sets high standards in areas crucial to the region's continued growth, including manufacturing, digital trade, financial services, agriculture, and small business. The United States is also currently pursuing trade agreements with the United Kingdom and Kenya. We want to build a better multilateral trading system, but reform is needed, particularly in the areas of dispute settlement, transparency, and the application of special and differential treatment for developing countries. The United States is eager to work with likeminded countries to build a global economic system that will lead to higher living standards here and around the world.

The currency CVD regulation is one aspect of a comprehensive legal regime of antidumping and countervailing duties administered by the Department of Commerce. As noted in the final rule modifications, the assessment of undervaluation will take into account the impact of government action on the exchange rate, which would not include monetary and related credit policy of an independent central bank. Commerce's proceedings provide ample opportunities for parties to comment, and Commerce maintains a public record of their proceedings online.

Financial Sector Assessment Program (FSAP)

We welcome and agree with staff's assessment that the U.S. financial system is generally resilient to an array of severe shocks and entered the current crisis stronger due in part to our regulatory reforms. We also appreciate staff's recognition that our financial regulatory framework remains advanced in implementing the agreed G-20 financial regulatory reforms. These findings are a result of the substantial efforts undertaken by our regulatory authorities. We concentrate our FSAP comments on the following areas of thematic focus.

Systemic Risk Oversight

As a starting point, and at a critical time for economies and financial systems around the world, we welcome staff's favorable assessment of our systemic risk oversight framework. This positive assessment includes the adoption of an activities-based approach and the ability of the Financial Stability Oversight Council to identify and respond to potential financial stability risks. We also continue to develop and refine macroprudential tools and enhance data gathering and analysis to improve systemic risk surveillance in both the banking and nonbank sectors.

Banking

Our regulators have strengthened our standards by requiring large, internationally active financial institutions to improve the quality and quantity of capital, maintain higher levels of liquidity, and adopt robust risk management practices to address banking sector vulnerabilities. As a result, U.S. banks – especially Global Systemically Important Financial Institutions (G-SIB) – entered the current crisis in a strong position, with substantial capital and liquidity buffers.

Our regulators have also made progress in enhancing our world-class recovery and resolution planning framework. Firms now reflect resolution planning concerns into day-to-day business decisions related to structure, capital and liquidity allocation, and governance. The applicable banking agencies have strengthened coordination and supervisory cooperation on resolution planning. Revised rules reflect the progress made by both the agencies and firms with respect to resolution planning issues.

In recent years, our authorities have reviewed regulation and supervision and have made carefully considered changes to maintain safety and soundness while better aligning enhanced requirements to the risks that specific banks pose to the financial system. This tailoring considers not only asset size but also a number of risk indicators, including cross-jurisdictional activity, reliance on short-term wholesale funding, and off-balance sheet exposures. With this context, we disagree with staff's focus on and interpretation of standards regarding non-internationally active banks. Subjecting these banks to G-SIB requirements would impose restrictions that are disproportionate to their lower risk and impede their ability to facilitate credit to the domestic economy.

Capital Markets and Financial Market Infrastructures

We welcome staff's observation that our supervisory and regulatory frameworks for securities markets, commodities markets, and financial market infrastructures are robust.

Since our last FSAP, our regulators have implemented significant reforms to the fund management sector, enhanced equity market structure and the regulation of trading, and progressed in implementing post-crisis reforms to OTC derivatives markets. Regarding financial market infrastructures, our various regulatory agencies maintain a high level of cooperation and interaction on risk management standards and resolution planning. These cooperative efforts will continue to promote robust risk management practices by U.S. central counterparties (CCPs), considering differences between markets.

Insurance

We welcome staff's finding that supervision of the insurance sector has been significantly strengthened as a result of federal and state level efforts. We also appreciate the recognition of the International Association of Insurance Supervisors' work on comparability for the aggregation method being developed by the United States and other jurisdictions, and our authorities continue to make progress on their respective group capital approaches.

AML/CFT

The United States places a high priority on financial integrity. As staff acknowledged, we have strengthened our regime since the last FSAP, especially in the area of beneficial ownership identification and verification of customers by financial institutions. We also appreciate the recognition that our framework is consistent with the updated FATF standard regarding virtual assets and virtual asset service providers.

Future FSAP Reviews

As we performed well in our 2015 FSAP and our financial regulatory framework remains advanced, we agreed to a streamlined FSAP review this year without Detailed Assessment Reports. We found the less structured format resulted, however, in a review that often went beyond international standards and into topics that are not an immediate priority for financial stability, including a focus on non-systemically important institutions, fintech, and climate-related issues. While we are strong supporters of the FSAP program, going forward, we hope there is a renewed effort to maintain the focus of the FSAP program on financial stability issues, with assessments based on international standards set forth by the relevant standard setting bodies. Such standards provide a consensus foundation for assessments and help ensure consistency across FSAPs.

In the context of the forthcoming review of the FSAP program, we hope that staff will consider alternative approaches to assessing the quality of a country's stress testing in jurisdictions with advanced practices rather than conducting its own, which is naturally based on less detailed, incomplete data. Additionally, we would note that the FSAP remains a resource-intensive process, and we look forward to proposals from staff on how to streamline the exercise to make better use of staff and national governments' resources. Finally, we found a disconnect between the tone of the FSSA, which acknowledged substantial progress in reforms and resiliency in our system, and the Article IV, which took a far more negative (and in our view, unwarranted) position. This disconnect highlights the continued need to better integrate FSAPs with Article IVs in bilateral surveillance.