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July 29, 2020

Statement by Mr. Raghani and Mr. N'Sonde on United States
(Preliminary)
Executive Board Meeting
July 31, 2020

We thank staff for the set of comprehensive reports as well as Mr. Rosen, Mr. Grohovsky and Mr. Shenai for their insightful Buff statement.

It is unfortunate that the Covid-19 pandemic has brought an end to an extended expansion of the U.S. economy. Following a decade-long period of steady growth, which has led to historically low unemployment levels, rising real wages and general improvement in living standards, the U.S. economy is experiencing a shock of unprecedented proportions. Fiscal deficit and public debt which were already on the rise prior to the pandemic will increase further. While the banking sector has been well-capitalized and largely liquid, significant corporate leverage raises financial stability issues. In addition to labor-intensive services, the transportation sector is significantly affected by the health crisis, with long-term adverse consequences for a large share of U.S. oil sector. Moreover, the pandemic situation has brought to the forefront long-standing racial inequities, notably regarding access to health care and insurance, employment, education, wealth and criminal justice, all having large immediate and long term economic and social implications.

US policymakers should be commended for the remarkable set of economic policies deployed in response to the crisis, which overall has helped minimize economic losses and carried important spillovers to the global economy. We share the view that the Federal Reserve has acted swiftly and adequately to stem the impact of the shock on the US economy through effective actions to provide liquidity to U.S. financial institutions and SMEs, facilitate market functioning and ease global financial conditions. It has also shown solidarity by extending swap lines with several central banks and a temporary repo facility for other monetary authorities. On the fiscal front, the U.S. authorities should also be praised for the rapid, broad-range provision of assistance to households, businesses and state and local governments.

While projections point to a gradual recovery starting in the second half of 2020, the uncertainty surrounding the duration and ultimate impact of the pandemic and the important risks to the outlook warrant the pursuit of supportive macroeconomic policies until the public

health crisis clearly abates. We very much hope for a fast and robust recovery of the US economy, in line with the V-shaped rebound in consumer spending highlighted in the Buff statement. In addition to accommodative policies, efforts should be focused on making progress on vaccines and therapeutics for the benefit of all. We also agree that care should be given to attenuating the procyclicality of state and local governments' policies induced by their balanced budget requirements. This implies providing them with adequate support to tackle the spread of the Covid-19 virus in their respective jurisdictions.

We broadly agree with the direction of fiscal policy discussed with the authorities and the specific areas of intervention laid out in the report. These include notably strengthening the public health system, promoting supportive tax measures, addressing poverty and social inequities, enhancing infrastructure, leveraging digitalization and transitioning to lower-carbon production while progressively curbing public debt. We agree that fiscal measures should be geared at supporting small businesses, lower-income households and activities that generate larger multipliers. On the poverty issue, we see merit in a permanent expansion in the eligibility for social assistance, including Medicaid and public insurance programs, commensurate with the share of the US population living in poverty and social inequities. We would also favor making permanent the recent changes to unemployment insurance eligibility, just like most developed economies. Moreover, we view access of low-income families to quality education as central to closing gaps in social opportunities. Greater emphasis should be put on investing on college entrance and retention for students from those families as the figures in the text table under paragraph 3 of the report suggest that divergence in educational outcomes occurs after high school. Regarding health care coverage, *we would welcome staff's elaboration on discussions held with the Congress, if any, regarding the preservation of employer-employee relationships since the authorities emphasized that the contours of such policies would have to be designed by the Congress.*

The size of the ongoing and potential fiscal stimulus warrants increased transparency and accountability. We share staff's emphasis on the need to make the three oversight bodies created under the CARES Act fully resourced and operational and to ensure transparency about the use of relief funds and loans. We welcome the authorities' commitment to such transparency and accountability.

We welcome the Fed's readiness to act more to help stem the impact of the pandemic as needed, including potentially through a large-scale liquidity provision to financial markets, and to alleviate any longer-term damage to the economy. We note its projection that inflation and employment will remain below its medium-term goals for an extended period, which calls for additional monetary stimulus down the road. That said, caution should be exercised in implementing additional asset purchase programs considering the financial stability risks posed by such extended policies, notably through increased financial risk-taking, augmented leverage and investors' search for more risky activities. Regarding the forward-guidance, we agree that clarity on how the Fed will ultimately normalize its balance sheet would be helpful.

While the US financial system is resilient and flexible, we welcome the authorities' priority on mitigating the risks to nonbank financial institutions. This should be achieved through improving macroprudential tools, enhancing money market resilience and reinforcing liquidity backstops. Further efforts are also needed to ensure continued strong capital buffers. We share the recommendation to provide greater independence and resources to the Commodity Futures Trading Commission and the

Security and Exchange Commission to help them meet their mandate. Furthermore, there is room for enhanced supervisory and regulatory frameworks for different categories of banks.

Regarding trade and other policies that carry spillovers to the global economy, we continue to call for a multilateral approach and direct dialogue to reform the WTO, resolve disputes, promote trade and advance the international taxation agenda. Reviving trade should be a central part of the concerted strategy to foster a robust global recovery. We welcome the US authorities' stated commitment to pursuing open international trade and investment, the new United States-Canada-Mexico Agreement (USCMA), and the ongoing negotiations towards trade agreements with the United Kingdom, Kenya and potentially other African countries. We encourage the pursuit of dialogue to resolve the perceived or actual shortcomings in the existing trading system. Finally, we appreciate the US authorities' engagement on forming an international consensus on taxation of multilateral corporations and on curbing illicit financial flows.