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**Statement by Mr. Villar, Mr. Guerra, and Ms. Arevalo Arroyo on United States
(Preliminary)
Executive Board Meeting
July 31, 2020**

We thank staff for its set of comprehensive papers and Mr. Rosen, Mr. Grohovsky, and Mr. Shenai for their insightful Buff statement. To confront an unprecedented crisis, the United States authorities have responded forcefully with a broad set of policy measures to support households and firms and face the COVID-19 pandemic. The US economy has been adapting to the required health lockdown measures in a flexible way and some signs of incipient recovery have emerged. Nevertheless, the authorities should continue the implementation of a robust policy and health strategies given the concerning short-term evolution of the pandemic and the important medium-term challenges that will have to be addressed in order to reduce the considerable increase in public debt.

With the economy facing a sharp contraction, and high uncertainty regarding the evolution of the pandemic, fiscal policy should be focused on supporting the strength of the recovery. As stated in the Buff, fiscal policy has enabled a robust public health response and effectively helped in addressing liquidity strains faced by vulnerable households and firms.

- As staff and the authorities, we agree that the US still has fiscal space. Nevertheless, the substantial, but necessary, fiscal impulse along with the economic contraction, will bring to the forefront the need to address the buildup of explicit and implicit fiscal liabilities in the medium term. In this regard, we note staff proposes a series of tax-related and other measures to reverse the increase in public debt. *Could staff comment on which of these measures are being considered by the authorities?* From what is stated in the report, the position of the authorities regarding these proposals is unclear.
- We recognize the important role that public expenditure at state level will have in supporting—or hindering—economic recovery, as well as in securing adequate health, education, and social

assistance coverage. Nevertheless, we concur with the authorities that assistance to state and local governments should provide adequate policy incentives.

- Staff proposes several measures to decrease fiscal pressures coming from social security trust funds—accelerating the increase in retirement age, among others—that would, if implemented, have a considerable effect on reducing the fiscal deficit. Nevertheless, staff puts forward policy recommendations to increase medical coverage for low-income households and to make increased coverage permanent to unemployment insurance recently legislated. *Staff's comments on the fiscal costs of these measures are welcome.*

A resolute monetary policy response was enacted to restore financial market functioning and to protect employment and price stability. The Federal Reserve reduced interest rates, increased asset purchases, and put in place several emergency lending programs to restore functioning in short-term funding markets and support private-sector intermediation, including to small businesses.

- Major central banks have played an instrumental role in alleviating the effects of the crisis in financial markets. In particular, the Federal Reserve implemented additional measures to ensure global financial stability during very challenging circumstances, including through bilateral dollar swap lines and a repo liquidity facility for foreign central banks. Nevertheless, going forward, it will be important to have a balanced mix of monetary and fiscal policy, complemented with structural reforms to increase productivity and address a range of deep-rooted social and economic challenges, in particular in the case that the pandemic has more protracted effects on economic activity or on potential growth.
- US monetary policy has had a potent, effective and strategic effect in sustaining domestic activity and financial stability (including in global markets). In this regard, given its relevance and broad reaching implications, changes to the monetary policy framework should be analyzed in a comprehensive manner, including by assessing their potential spillover effects on other economies. Although we appreciate the monetary policy proposals by staff, we believe that there should be additional analysis on how these proposals, including yield curve control, will fit and interact with the current monetary policy framework and toolkit. In this regard, does *staff have any views they would like to highlight regarding the review of the FED's monetary policy framework?* As stated by the authorities, this may have an impact on the its monetary policy strategy and long-run goals.

Cooperative engagement with other countries to address distortions that affect trade flows and investment decisions is crucial in the current context. Putting in place a substantial multilateral effort to reverse existing trade restrictions is warranted.

- We concur with staff that the adoption of currency-based countervailing duties can lead to retaliation and to increased trade tensions. It is instrumental to secure a safer path for the recovery of the world economy to diffuse the retaliatory trade engagement process between China and the US.

- The Mexico-US-Canada trade agreement will play a constructive role in reducing trade uncertainty and can serve as a model for future agreements.
- As reported, the US has not made use of trade restrictions on medical and other key supplies to fight the pandemic, which is laudable. Going forward, we believe that guaranteeing adequate health supplies globally and working with other countries to develop a strategy for production, purchase, and distribution of therapeutics and vaccines will be essential, preferably as part of a multilateral effort.

The Financial Sector Assessment Program (FSAP)

The US financial system showed resilience in facing a major global shock. Systemic financial stability concerns have been relatively muted and, in contrast with the previous crisis, the US financial system has been part of the solution and not part of the problem during this episode. We broadly support staff's appraisal that covered in depth a wide range of topics and we will provide some specific comments only for emphasis.

Banks' capital seems to be resilient even under major stress scenarios. Although staff finds that the banking system is compliant with international standards, the report does point out that relaxation of prudential requirements has led to fewer banks being subject to full Basel standards. *Could staff elaborate on this point? How does the US compare to other developed financial systems in terms of regulatory requirements for non-internationally active banks?*

On stress tests, we support the authorities' view that in the case where member countries already are implementing full-fledged stress tests exercises, the IMF could use those results for its analysis. The IMF could play a role in comparing stress test methodologies across countries and in supporting member countries that lack this important tool to develop an adequate methodology. On the other hand, we support staff's view on the need to develop a more comprehensive system-wide supervisory stress test for central counterparties.

The IMF has been following for some time developments in the increase in corporate leverage. We believe that this is an important topic that should continue to be followed carefully given that vulnerabilities in the corporate sector can also play an important role in amplifying the effect of the COVID-19 shock. *In this regard, which policy advice would staff highlight to face corporate sector risks? More broadly, which of the key recommendations of the FSAP would staff highlight under the COVID-19 context?*

Article IV consultations under COVID-19 context

The COVID-19 crisis will without doubt complicate our supervisory efforts during the Art. IV consultation process. Authorities are currently focused on facing the diversity of challenges related to the crisis, and we believe that our policy advice efforts under the current circumstances should reflect this fact. We consider this as an important aspect to secure policy advice effectiveness during these challenging times.