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Statement by Ms. Mahasandana and Mr. Srisongkram on United States (Preliminary)
Executive Board Meeting
July 31, 2020

We thank staff for the comprehensive set of reports. We also thank Mr. Rosen, Mr. Grohovsky, and Mr. Shenai for their helpful buff statement.

The US economic outlook has been turned around by the COVID-19 pandemic. Economic activities came to a halt following lockdown measures put in place to curb the rising number of cases which are now highest in the world, with the impact of the crisis most deeply felt by the poorest and most vulnerable groups in the population. The authorities have responded decisively to provide life support to the economy with an array of fiscal measures appropriately aimed at support lower-income households and small businesses, as well as accommodative monetary policy and liquidity measures which also eased strains on global dollar funding conditions. As the country gradually re-opens, it will be important to take a measured approach so as to balance between supporting economic recovery and preventing a sharp resurgence in infection rates. Meanwhile, we agree with staff that trade protectionism remains a key risk to the global and, by extension, the US economic outlook, and encourage the authorities to work constructively with trading partners to address policies and underlying factors that distort trade flows and investment decisions. Overall, we agree with the broad thrust of staff's appraisal and would like to the make the following comments.

The fallout of the COVID-19 pandemic calls for an ambitious fiscal stimulus package to achieve a speedy recovery and presents an opportunity to improve social outcomes. The authorities' focus on tailoring its policy package to support lower-income households and small businesses, encourage rehiring, and facilitating worker's return to work, among others, is appropriate. The stimulus so far has been ambitious in terms of the amount, and we would like to see more analysis from staff on the effectiveness of current measures and wonder if there is room to strengthen the measures to ensure well-targeted support while not overburdening the fiscal position. *Do staff see any challenges or gaps in the existing package that could inform future stimulus?* Meanwhile, the pandemic has exposed longstanding issues within the US healthcare system. Here, we see merit in staff's recommendations such as to ensure that health insurance programs for lower-income families (e.g. Medicaid) can meet potential demand from newly unemployed especially as the crisis may last longer than expected with persistent impact on unemployment. Over the longer-term once the economy re-gains a firmer footing, the authorities should resume efforts to return the primary balance to a modest surplus position and bring public debt to sustainable levels. We note staff has proposed several revenue measures to achieve this, and some of which were raised in the previous Article IV. *Did staff have the opportunity to discuss with the authorities the proposed revenue measures or, more generally, the way forward in addressing long-standing issues of public debt sustainability? If so, what were their views?*

Further monetary easing as well as potential introduction of new policy tools, if any, should be clearly communicated to avoid creating more uncertainties and negative spillovers. The Fed's monetary easing has been timely in helping to ease global financial conditions when the pandemic struck. We note that further easing may be warranted, and policy options such as Yield Curve Control are being discussed. As the current level of monetary policy accommodation is already unprecedented, further easing would be moving deeper into uncharted territories. It is thus important for financial markets to comprehend the actions taken and the rationale behind. We encourage the authorities to continue providing clear guidance on the course of its policy going forward. *What is staff's assessment of the potential spillovers (both positive and negative) from further easing by the Fed in the current crisis context? Staff's views on the likely course of action are also welcome.* The Fed's experience with credit facilities and direct lending could impart useful lessons for other central banks that have embarked on similar endeavors. *Could staff share some insights on how the Fed is managing the credit risks of these facilities, including through the use of SPVs?* The Fed's decision to reactivate swap lines and launch repo facilities with central banks was highly welcome as it provided an important backstop especially for emerging markets. *Given the uncertain trajectory of the pandemic and risk of financial market volatility, do staff see a need to further expand the coverage of central bank swap lines and what is the Fed's thinking in this regard?*

We note the FSSA's findings that the US financial system remains resilient in the face of unprecedented shock brought about by the COVID-19 pandemic, and that the authorities will continue to make further progress in strengthening systemic oversight and the regulatory framework, taking staff's recommendations into careful consideration. Meanwhile, high corporate leverage is a key vulnerability that could be exacerbated by the ongoing economic disruption, which remains highly uncertain with no clear end in sight. It is therefore imperative that the authorities closely monitor risk developments and undertake necessary precautions including ensuring financial institutions preserve strong capital buffers and developing macroprudential tools to address vulnerabilities in the nonbank sector. The latter is also critical for mitigating risks from sharp asset price corrections as equity and bond valuations are already stretched. *We invite staff to elaborate further on the implications of high corporate debt on economic recovery and the policy recommendations to deal with high indebtedness in the US corporate sector, for instance through debt restructuring.* In addition, we observed that the authorities' view the more streamlined / less structured approach to FSAP this year has led to discussions of issues that may not be necessarily aligned with the authorities' current priorities, such as non-systemically important financial institutions, fintech and climate-related issues. *We invite staff to further elaborate on whether and how these topics are macro-critical in the US context?*

We share staff's concerns on the imposition of countervailing duties on imports from countries determined to have an undervalued currency. Determining whether a currency is under- or overvalued is highly uncertain and subjective, requiring a comprehensive knowledge of country-specific circumstances. Undertaking such assessment unilaterally and posing threats of trade penalties could impinge monetary policy decisions and risk escalating trade tensions at a time when multilateral cooperation is most needed. *We note from the Buff statement that 'the assessment of undervaluation will take into account the impact of government action on exchange rate, which would not include monetary and related credit policy of an independent central bank'. Could staff elaborate on what constitutes government action in this context?*