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# Statement by Mr. Mahlinza and Mr. Abdullahi on United States (Preliminary) Executive Board Meeting July 31, 2020

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

Prior to COVID-19 pandemic, the United States' economy was experiencing its longest expansion in history. With the outbreak of the pandemic, the economy is now faced with a deep recession with serious socio-economic repercussions. The containment measures aimed at containing the spread of the virus have upended the growth trajectory and underscored the need to tackle pre-existing vulnerabilities. As such, real GDP growth is projected to contract by 6.6 percent in 2020 before rebounding to 3.9 percent in 2021, subject to a gradual reopening of the economy during the second half of 2020. Despite positive signs that the economy will stabilize in the second quarter, the number of confirmed cases has rebounded with direct implications for the pace of economic recovery.

**Response to the pandemic**

We commend the Federal Reserve (Fed) for the decisive actions to support the economy, complemented by a sizeable fiscal stimulus package. The Fed has played an instrumental role not only in supporting the domestic financial system through liquidity provision but has also supported several central banks to mitigate strains in global dollar funding markets through swap lines. In addition, the fiscal response to support affected households and businesses and prevent a deeper economic fallout, has been appropriately large. We believe that the response has laid the foundation for faster recovery by attempting to preserve employer-employee relationships and prevent higher corporate bankruptcies. However, with the continued surge in confirmed COVID-19 cases and possible disruption in the reopening plans in different states, we agree with staff on the need for a further stimulus package in the short to medium-term at least until the recovery is on a solid footing. We also believe that the stimulus package should contribute to addressing the prevailing socio-economic challenges.

**Socio-economic impact of the pandemic**

Despite a robust economic growth, which saw the lowest unemployment rate in 50 years, rising real wages and improvements in living standards for many, the poverty levels and inequality remain high. We take note that the crisis has disproportionately impacted the poor and minority groups by exacerbating existing racial inequities. The table on page 6 of the report which shows selected socio-economic indicators by race and ethnicity is sobering and underscores the need to appropriately and decisively address the disparities through improved targeted interventions. That said, we positively note that the stimulus package which included direct cash transfers, expanded unemployment benefits, and food assistances has bolstered family incomes and cushioned vulnerable households. We also agree with staff that policies aimed at addressing the COVID-19 fallout and the next stimulus package should also address the long-standing socio-economic ills.

**International Trade**
We applaud the entry into force of the improved U.S., Mexico and Canada Trade Agreement. We are however concerned about the continuing uncertainty and ongoing trade disputes between the United States and its major trading partners. These tensions could delay the recovery of the global economy from the COVID crisis. We, therefore, reiterate our support for strengthening the rules-based international trading system, with the World Trade Organization (WTO) at its center. We also urge countries to resolve trade disputes through negotiations. In this regard, we encourage the US authorities to support efforts to reform the WTO, including strengthening its dispute resolution mechanism and appointments to the WTO Appellate Body. That said, we note the US government's efforts to pursue a comprehensive trade agreement with Kenya and other African countries. It is our hope that these agreements would be an improvement over the current African Growth and Opportunity Act.

Further, we are concerned about the new Department of Commerce's rule that allows the application of countervailing duties on countries found to have an undervalued currency. We consider that this could potentially lead to a new round of trade tensions and undermine monetary policy decisions and discourage exchange rate flexibility. The application of this rule could have negative spillover effects to other countries. *Could staff elaborate on the proposed methodology for determining overvaluation including overvaluation thresholds, if any.*

**Worsening Debt Dynamics**
We note staff's assessment that the United States' public debt is on an unsustainable path and encourage the authorities to address the worsening debt dynamics, once the crisis abates. Under a baseline scenario, the general government debt will continue to rise from 109 percent of GDP in FY2019 to 148 percent of GDP in FY2029, as spending on entitlement programs continues to rise due to the aging population. Clearly, stronger efforts are warranted to put the fiscal position on a sustainable path. In this context, we agree with staff that entitlement reforms and new tax measures such as the introduction of Federal VAT and Carbon tax as well as increase in corporate tax rate.

**Governance and transparency**
We commend the authorities' commitment to the high level of transparency and accountability on COVID-19 related public expenditures. We note that the three oversight bodies created to guard against fraud and waste of COVID-19 related public spending are not yet fully operational. In this context, it is imperative that these bodies be adequately resourced and allowed to effectively discharge their functions. Furthermore, we support staff recommendations to the US authorities and to other Fund members to ensure transparency in the distribution of relief funds and loans including the disclosure of names of beneficial owners.

We applaud the authorities for their voluntary participation in the assessment under the framework for enhanced engagement on governance. We are encouraged by the findings that the US is substantially effective at investigating and prosecuting money laundering and cooperating with other jurisdictions over corruption proceeds in the US. Nevertheless, we impress on the need to resolve identified shortcomings including entity transparency and identification of politically exposed persons.

**Financial Stability Assessment**

We welcome the recent FSAP assessment and recommendations, which affirm the resilience and flexibility of the US Financial system despite the challenging environment. We are, however, concerned that a deeper recession and delayed recovery could severely strain the financial sector despite being adequately capitalized with ample liquidity at present. In this regard, we see the Fed's temporary prohibition of share buybacks and limits on dividend payout to preserve bank capital, as steps in the right direction. That said, we agree with staff on the need to further tighten the limits on dividend payouts and expand the binding period well into 2021.

Despite the high interconnectedness of the financial system and complexity of the regulatory architecture, we note that the regulatory framework remains sound but has gaps relative to international standards. To address potential systemic risks, we agree on the need to give the financial stability mandate to all federal Financial Stability Oversight Council members; develop macroprudential tools to manage systemic risks in non-banks; and increase the budgetary independence of the Commodity Futures Trading Commission, Securities and Exchange Commission and state-level insurance regulators.

With these comments, we wish the authorities and people of the United States all the best during these difficult times.