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Statement by Mr. Chodos, Mr. Lischinsky, Mr. Corvalan Mendoza, and Mr. Vogel on United States (Preliminary) Executive Board Meeting July 31, 2020

We thank staff for the reports and Mr. Rosen, Mr. Grohovsky, and Mr. Shenai for their helpful Buff statement.

First of all, we would like to express our sympathy to the United States and its people for the losses suffered during this pandemic.

In 2019 the U.S. economy had a GDP growth rate of 2.3 percent, continuing the longest economic expansion in its history and the IMF's January GDP projection for 2020 was 2.00 percent. Unemployment and poverty rates were declining, particularly for the large minorities groups. The Covid-19 pandemic, which required a quick response of lockdown and quarantine to lessen the spread of the virus transformed the situation in the country and the rest of the world, braking economic activity for firms and households. We are confident that the United States will be rapidly exiting from this crisis, considering, among other things, its ample fiscal space, as rightly underlined by Mr. Rosen, Mr. Grohovsky, and Mr. Shenai, and the timely and appropriate reactions that the Fed has traditionally undertaken in complicated times.

Generally, acute shocks make countries' fragilities much more visible. The 2008-09 financial crisis revealed severe anomalies in the United States' financial system, for example, in its regulatory and supervisory frameworks. Currently, the COVID-19 pandemic has revealed preexistent vulnerabilities in the social area and the country's social safety net. Policies aim to critically reinforce the health system and substantially broaden its coverage, especially to the most vulnerable groups of society, while avoiding a temporary shock which could aggravate fragilities and have the potential of becoming a more permanent crisis. Looking forward, the country should implement bold reforms aimed at addressing poverty, inequalities of opportunity, and declining socioeconomic mobility which, as underlined in the report, have long afflicted the U.S. The table on socio-economic indicators (by race/ethnicity) is eloquent in this regard.

According to the report, the country´s GDP will contract by 6.6 percent this year. We would appreciate further elaboration from staff on what the main factors are that could explain the revision of projections, from -8 percent expected a month ago, at the time of the WEO update. Meanwhile, the component of total domestic demand that would post the largest decline this year is private final consumption. We note the significant increase of household saving (23 percent in May, compared with around 8 percent prior to the pandemic), and, in this regard, we would like a further explanation from staff on the reasons behind this behavior.

We are encouraged by the swift responses from Congress, providing substantial assistance to households, businesses, and state and local governments, as well the decisive actions from the Federal Reserve, which have been key not only for the United States itself, but also at global levels, and for emerging markets in particular. We are also encouraged by the Fed's expansion of its swap lines with more convenient conditions for receptor countries. These kinds of examples show the positive leadership that the United States could exercise along with other key players to help the world deal with the pandemic and its effects.

As noted in the report, the dramatic rise in unemployment fractured many employee-employer relations, which will take time to repair. It will be essential to consider—of course, not only in this country, but globally—what the policies to face this fracture will be, developments that may be magnified by the substantial acceleration of previous trends, like digitalization of works. The adaptation to the new and uncertain circumstances will require, among other things, a further expansion of unemployment insurance, and to address existing weaknesses in the U.S. health system. The report underlines that 25.6 million Americans lack health coverage, and many others have lost or may lose their employer-provided health insurance in the near future.

In this regard, we observe that according to the Centers for Disease Control and Prevention (CDC), the overall cumulative COVID-19 hospitalization rate is 120.9 per 100,000, with the highest rates in people aged 65 years and older (338.2 per 100,000), and hospital stays are often several days. While we note that a US$ 150 bn Coronavirus Relief Fund is expected to offset expenses directly related to the pandemic, we would like more details on how expenses associated with COVID-19 hospitalizations will be covered and whether the amount is enough to offset all expenses, especially those linked to the most vulnerable groups. Otherwise, we may see an important number of personal bankruptcies with a consequent impact on poverty, consumption, etc. In sum, we share the staff's suggestion that greater efforts will be needed to ensure that the whole population has access to quality and affordable healthcare.

Looking forward in the fiscal area, we agree with staff that the priority should be to design (and, we would like to stress, the need to build a political consensus around, as underlined in the report) a package of fiscal policies to accelerate the post COVID-19 recovery, and note that the fiscal package would need to be large. In general, we agree with staff on the recommendations regarding tax policies and expenditures. On the latter, we would especially like to emphasize the imperative necessity of increasing poor families' access to quality education, as a key factor to boost equality of opportunity.

Once again, we welcome the Fed's critical actions, which were set up a day before and after its interventions in the financial markets. At the same time, we share the staff's views that, especially if they continue over a long period of time, these policies are likely to provide additional incentives for financial risk taking, increased leverage, and a shift of resources toward more risky activities. We also share the comments on the eventual introduction of negative policy rates in the U.S. Therefore, the authorities will have to carefully monitor future developments.

On trade, we share the report's comments on the importance for the country to work actively with others on WTO reforms and to reverse trade restrictions and tariff increases while working with partner countries to address the policies that distort trade flows and investment decisions, as underlined in the report. We should remember that, over the course of history, trade restrictions and protectionism in reaction to crises have only resulted in aggravating the situation.

FSSA

The Fed's response to market dysfunction during the lockdown was appropriate. The aggressive and timely monetary policy easing helped alleviate liquidity and solvency risks in the system. We found the parallels provided between the still-evolving COVID-19 pandemic and the Global Financial Crisis (GFC), with respect to the triggers of the underlying risks, as well as the behavioral changes of the different financial agents, very informative. The good news is that banks in the U.S. entered the lockdown well prepared, and the financial positions of the G-SIB's remain strong (according to all stress tests' results). The latter becomes relevant to the rest of the world, given the spillover effects they might exert on other jurisdictions in situation of stress.

Overall, the lessons drawn in the U.S. from the GFC were sufficiently capitalized for the current crisis, with regulatory innovations and enhanced supervision, where FSOC is playing a central role as a forum established in 2010, for the regulators to collectively identify and mitigate risks. Tools to confront structural vulnerabilities in the banking sector are assessed to be appropriate. Nevertheless, for the rest of the financial system there is room for improvements. For the medium term, the situation might be problematic due to uncertainties on when and how the pandemic will end, while pockets of risks are clearly on the rise in clearly identified areas according to the FSSA. Challenges in the insurance sector and capital markets will require close attention going forward, as well as the rising risks stemming from high corporate leverage thanks to non-bank financing. *Could staff share more information on the ability of the FRB to provide liquidity backstops to systemically designated non-banks?*

With these comments, we wish the United States and its people every success during these difficult times.