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2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED STATES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with the United States, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2024, consideration of the staff report that concluded the Article IV consultation with the United States.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 17, 2024, following discussions that ended on June 13, 2024, with the officials of the United States on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United States.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR24/281

IMF Executive Board Concludes 2024 Article IV Consultation with the United States

FOR IMMEDIATE RELEASE

Washington, DC – July 17, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the United States.

The U.S. economy has turned in a strong performance over the past few years. Hysteresis effects from the pandemic did not materialize and both activity and employment now exceed pre-pandemic expectations. Real incomes were diminished by the unexpected rise in inflation in 2022 but have now risen above pre-pandemic levels. Job growth has been particularly fast with 16 million new jobs created since end-2020. However, income and wealth gains have been uneven across the income distribution and poverty remains high, particularly following the expiration of pandemic-era support.

The ongoing disinflation has taken a relatively light toll on the economy. The Federal Reserve responded to record-high inflation by raising the policy rate by 525bps which bolstered policy credibility, provided an anchor for wages and prices, and helped guide inflation back toward the FOMC’s 2 percent goal. Wealth gains and limited refinancing needs have bolstered household and corporate balance sheets against the contractionary impact of higher interest rates. Monetary policy tightening was also supported by important supply-side gains, including an expansion of labor supply from immigrant inflows. PCE inflation was 2.7 percent in April (down from a peak of 7.1 percent in 2022) and is expected to return to 2 percent by mid-2025.

The general government fiscal deficit and debt, as a share of GDP, are both projected to remain well above pre-pandemic forecasts over the medium-term. Specifically, under current policies, the general government debt is expected to rise steadily and exceed 140 percent of GDP by 2032. Similarly, the general government deficit is expected to remain around 2½ percent of GDP above the levels forecast at the time of the 2019 Article IV consultation.

Several steps have been taken to strengthen the functioning of the Treasury market and to better insulate money market funds from liquidity shortfalls. The pace of shrinking of the Federal Reserve’s balance sheet has begun to taper. However, concrete actions have been lacking in mitigating the banking system vulnerabilities that came to light in 2023.

Executive Board Assessment[2]

Executive Directors welcomed the remarkable performance of the U.S. economy over the past few years and noted that the ongoing disinflation process, aided by higher productivity growth and expanded labor supply, including through immigration, has taken a relatively light toll on economic activity. While the outlook remains positive, Directors emphasized that upside risks

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

to inflation need to be monitored and determined actions will be necessary to address fiscal imbalances, financial vulnerabilities, as well as the increased inequality and poverty, which has risen back to pre-pandemic levels.

Directors commended the authorities for their commitment to price stability and successful disinflation. Nevertheless, given salient upside risks to inflation and strong performance of the economy, they noted that the Federal Reserve should not reduce its policy rate until there is clearer evidence that inflation is sustainably returning to its 2 percent target. Clear communication, including forward guidance, will help guide market expectations in line with the Fed's intended policy path.

Directors noted that high fiscal deficits and the ongoing increase in the U.S. public debt to GDP ratio pose risks not only for the U.S. but also the global economy. They stressed the pressing need for a frontloaded fiscal adjustment, through both revenue and spending measures, while redirecting some of the fiscal savings to programs to alleviate poverty. A structural and long-term solution to address the issues related to the debt ceiling would also be beneficial.

Directors welcomed the decrease in financial risks since 2023 and the implementation of critical reforms, in particular those aimed at improving the Treasury market functioning. They noted that concrete actions are needed to mitigate the remaining banking system vulnerabilities and called on the authorities to fully implement the final components of the Basel III agreement, increase regulatory requirements for mid-sized banks, and further strengthen supervisory oversight and practices. Directors encouraged the authorities to address the remaining FSAP recommendations.

Directors welcomed the U.S. voluntary assessment of transnational aspects of corruption and encouraged the authorities to implement the remaining OECD Working Group on Bribery phase IV recommendations. They also highlighted the significant role of migrant inflows in easing supply-demand imbalances and noted that a more orderly approach to immigration would be desirable. Continuing to address climate related challenges also remains important.

Directors noted the ongoing intensification of trade restrictions as well as the domestic content provision in various fiscal programs, which create a risk for both the U.S. and global economy. They urged the authorities to unwind obstacles to free trade and instead bolster competitiveness through investment in workers and infrastructure. Working with international partners to address the core issues that risk undermining the global trade and investment system, including through concerted efforts to strengthen the WTO and ensure a robust and modern multilateral rules-based system, will be critical.

United States: Selected Economic Indicators

			Projections					
	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP (annual growth)	1.9	2.5	2.6	1.9	2.0	2.1	2.1	2.1
Real GDP (q4/q4)	0.7	3.1	2.0	1.8	2.1	2.1	2.1	2.1
Output gap (% of potential GDP)	0.4	0.6	0.6	0.2	-0.2	-0.2	-0.2	-0.1
Unemployment rate (q4 average)	3.6	3.7	4.2	4.3	4.2	4.1	4.0	3.9
Current account balance (% of GDP)	-3.8	-3.0	-2.9	-2.8	-2.5	-2.2	-1.9	-1.6
Federal funds rate (end of period)	4.4	5.4	5.1	4.1	3.1	2.9	2.9	2.9
Ten-year government bond rate (q4 avg.)	3.8	4.4	4.1	3.5	3.2	3.2	3.2	3.2
PCE inflation (q4/q4)	5.9	2.8	2.4	1.8	1.9	1.9	1.9	1.9
Core PCE inflation (q4/q4)	5.1	3.2	2.5	1.9	2.0	2.0	2.0	2.0
Federal government fiscal balance (% of GDP)	-5.4	-6.3	-6.8	-6.6	-6.1	-5.4	-5.6	-5.3
Federal government debt held by the public (% of GDP)	95.8	97.3	99.2	102.1	104.7	106.3	108.1	109.5
General government fiscal balance (% of GDP)	-4.1	-7.6	-7.8	-7.6	-7.2	-6.7	-6.7	-6.5
General government gross debt (% of GDP)	119.8	120.7	123.2	126.7	129.6	131.8	134.0	135.9

Sources: BEA; BLS; Haver Analytics; and IMF staff estimates.

INTERNATIONAL MONETARY FUND

UNITED STATES

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

July 1, 2024

KEY MESSAGES

Activity and jobs. The U.S. economy has turned in a remarkable performance over the past few years. Hysteresis effects from the pandemic did not materialize and both activity and employment now exceed pre-pandemic expectations. Real incomes were diminished by the unexpected rise in inflation in 2022 but have now risen above pre-pandemic levels. Job growth has been particularly fast, with 16 million new jobs created since end-2020. However, income and wealth gains have been uneven across the income distribution and poverty remains high, particularly following the expiration of pandemic-era support. The outlook is for a continued healthy rate of growth with balanced risks around the baseline forecast.

Inflation. The ongoing disinflation has taken a relatively light toll on the economy. PCE inflation peaked at 7.1 percent in mid-2022, the highest level since the early 1980s. The Federal Reserve responded by raising the policy rate by 525bps which bolstered policy credibility, provided an anchor for wages and prices, and helped guide inflation back toward the FOMC's 2 percent goal. Policymakers were also fortunate that their efforts were accompanied by important supply gains as supply chains repaired, the labor force expanded, and labor productivity picked up. PCE inflation was 2.7 percent in April and is expected to return to 2 percent by mid-2025. There are, though, important upside risks to the outlook for inflation.

Monetary policy. Despite the important progress in returning inflation towards its 2 percent goal, the Federal Reserve should wait to reduce its policy rate until at least late 2024. With the economy humming along at an impressive rate the U.S. has not paid a high cost to current monetary policy settings (i.e., in terms of slower growth, job losses, or reduced labor force participation). This provides significant room for maneuver within the Fed's mandate of price stability and maximum employment. Given salient upside risks to inflation—brought into stark relief by data outturns earlier this year—it would be prudent to lower the policy rate only after there is clearer evidence in the data that inflation is sustainably returning to the FOMC's 2 percent goal. Continuing to clearly communicate the FOMC's interpretation of incoming data, and adjusting forward guidance accordingly, should ensure that the needed shifts in the monetary stance are well understood and smoothly absorbed. The decision to reduce the pace of run-off of the Fed's holdings of Treasuries will usefully provide more time to judge the appropriate long-term size of the Fed's balance sheet.

Fiscal policy. There is a pressing need to reverse the ongoing increase in public debt. The general government fiscal deficit and debt are both projected to remain well above pre-pandemic forecasts over the medium-term. Such high deficits and debt create a growing risk to the U.S. and global economy. To put debt-GDP on a clear downward trajectory, a frontloaded fiscal adjustment will be needed that shifts the general government to a primary surplus of around 1 percent of GDP (an adjustment of around 4 percent of GDP relative to the current baseline). There are various options to achieve this adjustment over the medium-term including raising indirect taxes, progressively increasing income taxes (including for those earning less than US$400,000 per year), eliminating a range of tax expenditures, and reforming entitlement programs. Some of the fiscal savings from these efforts should, though, be deployed to increase spending on programs to alleviate poverty.

Financial oversight. Financial stability risks have diminished since the time of the 2023 Article IV consultation and some critical financial sector reforms are being implemented. For example, welcome steps have been taken to strengthen the functioning of the Treasury market and to better insulate money market funds from liquidity shortfalls. However, concrete actions have been lacking in mitigating the banking system vulnerabilities that came to light in 2023. There is a need, therefore, to fully implement the final components of the Basel III agreement, apply similar regulatory requirements to all banks with US$100 billion or more in assets (including supervisory stress tests), further strengthen supervisory oversight and practices, re-examine the coverage of deposit insurance, and recalibrate bank liquidity requirements and liquidity stress tests to better take account of the potential for fast-moving deposit outflows. Other pockets of vulnerability—notably as relates to nonbank mortgage companies and the possible migration of assets to collective investment funds—also warrant attention.

Trade. The ongoing intensification of trade restrictions and the increased use of preferential treatments for domestic versus foreign commercial interests represent a growing downside risk to both the U.S. and the global economy. The U.S. should actively engage with its major trading partners to address the core issues—including concerns over unfair trade practices, supply chain fragilities, and national security—that risk undermining the global trade and investment system. Tariffs, nontariff barriers, and domestic content provisions are not the right solutions since they distort trade and investment flows and risk creating a slippery slope that undermines the multilateral trading system, weakens global supply chains and spurs retaliatory actions by trading partners. These policies are ultimately bad for U.S. growth, productivity and labor market outcomes and the evidence suggest their costs are largely borne by U.S. firms and consumers. The U.S. should unwind obstacles to free trade and seek instead to bolster competitiveness through investments in worker training, apprenticeships and infrastructure.

Macroeconomic imbalances. The evidence suggests that the U.S. economy has largely returned to balance. Labor markets imbalances have been mostly resolved with the economy now appearing to be operating slightly above maximum employment. By mid-2025, inflation is expected to return to the FOMC’s 2 percent goal which will, in turn, allow the policy rate to return to a neutral setting. The external position is assessed to be broadly in line with the level implied by medium-term fundamentals and desirable policies. However, as discussed above, the fiscal deficit is much too large and public debt-GDP ratio is well above prudent levels.

Approved By
Rodrigo Valdés (WHD) and Mark Flanagan (SPR)

Discussions were held with non-government counterparts in New York and Washington, DC in April and May and with government agencies from May 28 to June 13, 2024. The team comprised Nigel Chalk (head), Anahit Aghababyan, Jaebin Ahn, Euihyun Bae, Philip Barrett, Mai Dao, Josef Platzer, Brandon Tan, Jing Zhou (WHD), Zhuohui Chen (MCM), Oliver Exton, Fah Jirasavetakul, and Elizabeth Van Heuvelen (SPR). Concluding meetings were held with Chair Powell on June 24 and Secretary Yellen on June 27.

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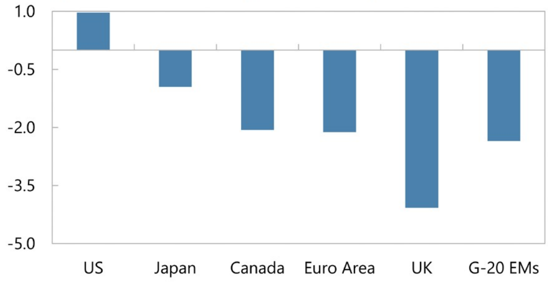
A RESILIENT ECONOMY

1. The U.S. economy has turned in a remarkable performance over the past few years. Rather than facing lasting negative hysteresis effects from the pandemic, the U.S. is the only G20 economy that is now operating above the levels of output and employment expected prior to the pandemic. Q4/Q4 growth in 2023 (at 3.1 percent) was almost three times that expected at the time of the last Article IV and core PCE inflation was almost 1 percentage point lower. The rebound has been characterized by important gains on both the demand *and* supply side which has allowed inflation to head back to the FOMC's medium-term target without a major dislocation in the real economy. The strength of the U.S. economy and the relatively quick disinflation have had large, positive spillovers to the world economy.

2023 Real GDP
(percent deviation from pre-crisis trend)



Sources: IMF World Economic Outlook.
Note: Bars show the difference in real output in 2023 and anticipated output for the same period prior to the crisis (January 2020 WEO).

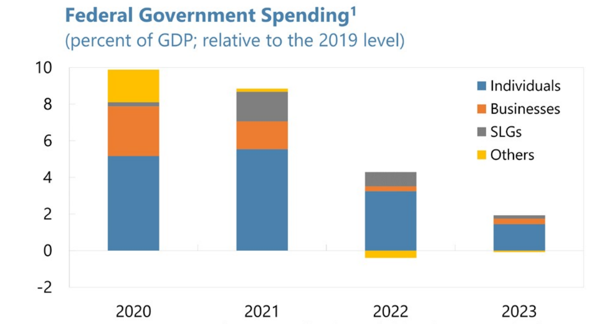
A. What Has Underpinned the Post-Pandemic Strength in Demand?

2. The unprecedented increase in the fiscal deficit during the depths of the pandemic provided significant fuel to demand. The cumulative increase in federal spending in 2020–21 was around 19 percent of GDP. While somewhat smaller than that of the Euro Area, the extraordinary breadth of this (relatively untargeted) fiscal support is providing a material boost to aggregate demand in 2023–24 through multiple channels:

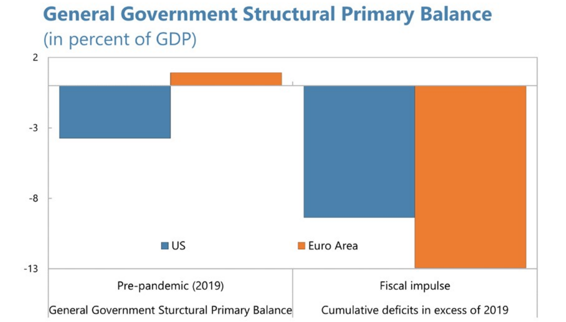
- Federal transfers to households (through stimulus checks, food assistance, child and earned income tax credits, and unemployment insurance), combined with foregone consumption and debt rescheduling (e.g., of mortgages and student loans), added an estimated 10 percent of GDP to household savings by end-2021. These resources were then subsequently available to support consumption even as real disposable income fell (due to the post-pandemic burst of inflation).

- Large transfers to state and local governments prevented a drawdown of rainy-day funds in the pandemic, providing subnational governments with sizable buffers which, in turn, allowed them to maintain their spending above pre-pandemic levels.

- Around 3½ percent of GDP in federal loans provided through the Payroll Protection Program were subsequently forgiven, bolstering corporate balance sheets. Other targeted pandemic measures (e.g., for airlines) also supported the corporate sector.

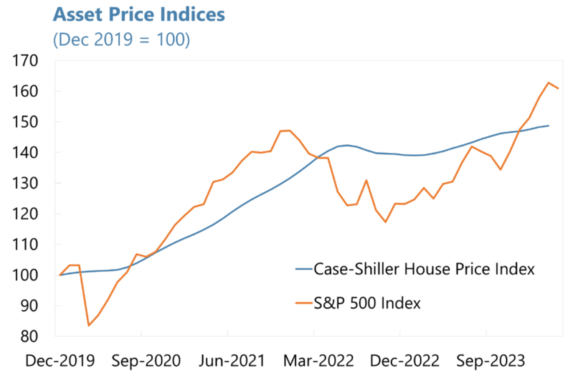


Source: U.S. Department of Tresury; Small Business Administration; Congressional Research Services; Office of Management and Budget; IMF staff calculation.
Note: [1]Federal spending is measured as the increase relative to the 2019 level; Others included defense spending, capital investment, interest spending, and other items not directly attributable to firms, households, or subnational governments.

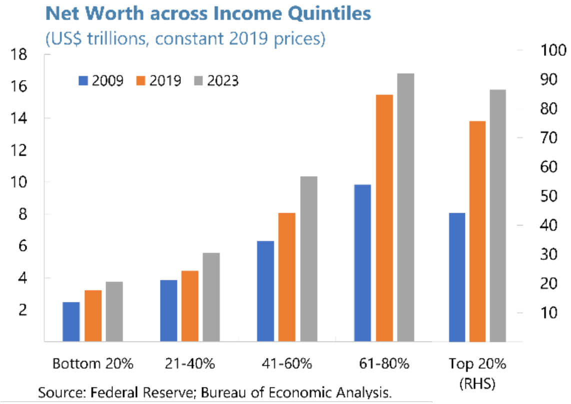


Source: IMF World Economic Outlook.
Note: Fiscal impulse is calculated as the cumulative sum of general government structural primary deficits exceeding 2019 levels over the period 2020-2023.

3. **Rising household wealth has been a key determinant in supporting consumer demand** (Box 1). The significant build-up of savings during the pandemic (described above) allowed households to pay down costly revolving credit, build-up financial assets, and subsequently benefit from the post-pandemic run-up in asset prices. In addition, homeowners benefited from an almost 50 percent increase in the average house price since end-2019. As a result, real median net wealth in the U.S. has grown by 34 percent since 2019 (compared to a 5 percent increase in the Euro Area over the same period).[1] Notably, wealth rose across the whole income distribution (albeit with much larger gains for the highest income households).



Source: S&P Dow Jones Indices LLC; Haver.



Source: Federal Reserve; Bureau of Economic Analysis.

[1] Data on net wealth is drawn from the Survey of Consumer Finances and Financial Accounts of the United States produced by the Federal Reserve Board, and the Household Finance and Consumption Survey and Quarterly Sector Accounts produced by the European System of Central Banks. The change in real median net wealth is calculated from 2019Q3 to 2022Q3.