INTERNATIONAL MONETARY FUND

# UNITED STATES

July 1, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department (in consultation with other departments)

## CONTENTS

# FUND RELATIONS

(As of April 30, 2024)

**Membership Status:** Joined: December 27, 1945; Article VIII http://www.imf.org/external/pubs/ft/aa/aa08.htm

| **General Resources Account:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 82,994.20 | 100.00 |
| IMF's Holdings of Currency (Holdings Rate) | 60,424.18 | 72.81 |
| Reserve Tranche Position | 22,570.07 | 27.19 |

| **SDR Department:** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 114,861.89 | 100.00 |
| Holdings | 125,575.44 | 109.33 |

**Outstanding Purchases and Loans:** None

**Financial Arrangements: None**

**Projected Payments to Fund** 1/

**(SDR Million; based on existing use of resources and present holdings of SDRs):**

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | 2024 | 2025 | 2026 | 2027 | 2028 |
| Principal | | | | | |
| Charges/Interest | | 0.88 | 0.88 | 0.88 | 0.88 |
| **Total** | | 0.88 | 0.88 | 0.88 | 0.88 |

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

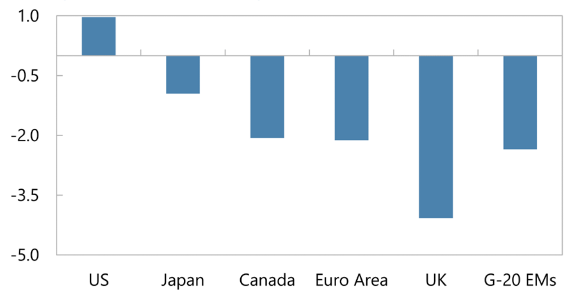
**Exchange Rate Arrangement**. The de jure and de facto exchange rate arrangement in the United States is classified as free floating. The exchange rate of the U.S. dollar floats independently and is determined freely in the foreign exchange market. The United States has accepted the obligations under Article VIII, Sections 2(a), 3 and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, except for those measures imposed for security reasons. The United States notifies the maintenance of measures imposed for security reasons under Executive Board Decision No. 144–(52/51). The last of these notifications was made on Feb 26, 2024.

**Article IV Consultation**. The 2024 Article IV consultation was concluded on June 27, 2024, and the Staff Report was published as IMF Country Report No. [24/232]. A fiscal Report of Observance of Standards and Codes was completed in the context of the 2003 consultation. The 2024 Article IV discussions took place during May 28–June 13, 2024. Concluding meetings with Chair Powell of the Board of Governors of the Federal Reserve System and Treasury Secretary Yellen occurred on June 24 and 27 respectively. The Managing Director, Ms. Georgieva, participated in the concluding meetings. A press conference on the consultation was held on June 27, 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). Ms. Elizabeth Shortino (Executive Director) and Mr. David Wright (Advisor) attended some of the meetings. Outreach included discussions with private sector representatives and think tanks. Unless an objection from the authorities of the United States is received prior to the conclusion of the Board's consideration, the document will be published.

# 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:

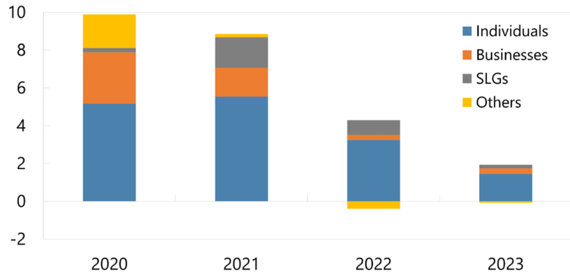
- Federal transfers to households (through stimulus checks, food assistance, child and earned income tax credits, and unemployment insurance), combined with foregone consumption and debt rescheduling (e.g., of mortgages and student loans), added an estimated 10 percent of GDP to household savings by 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.

**Federal Government Spending**[1]

(percent of GDP; relative to the 2019 level)

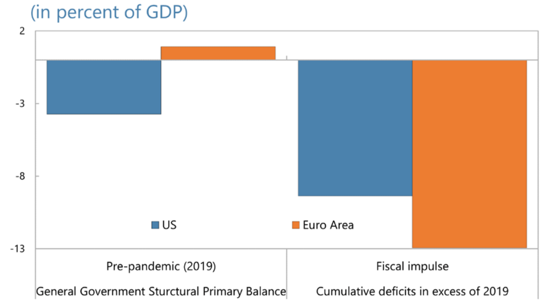



Source: U.S. Department of Tresury; Small Business Administration; Congressional Research Services; Office of Management and Budget; IMF staff calculation.

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.

**General Government Structural Primary Balance**

(in percent of GDP)



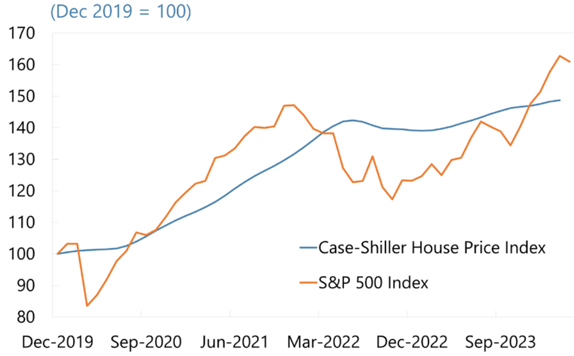

Source: IMF World Economic Outlook.

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).

**Asset Price Indices**

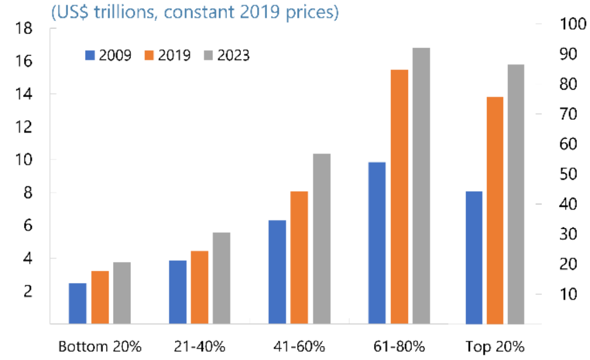
(Dec 2019 = 100)




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

**Net Worth across Income Quintiles**

(US$ trillions, constant 2019 prices)

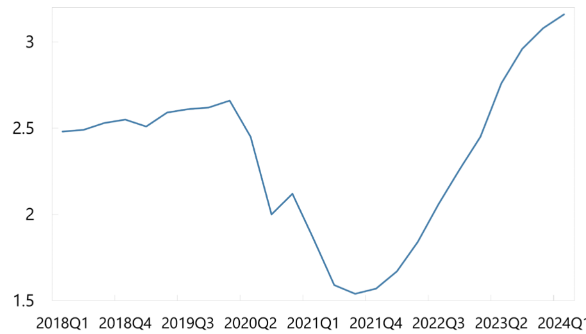



Source: Federal Reserve; Bureau of Economic Analysis.

[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.

**4. This strength in aggregate consumption, however, masks an upswing in poverty and rising signs of economic distress among low-income households**. During the recovery from the pandemic, labor shortages lifted real wages at the bottom of the income distribution and led to a compression of wage inequality.[2] Despite these gains, poverty increased by 4.6 percentage points in 2022 and the child poverty rate more than doubled.[3] This rise in poverty can be directly attributed to the expiration of pandemic-era assistance, particularly changes that had been made to the Child Tax Credit and the Earned Income Tax Credit (EITC). The increased pressure on lower income households is becoming more visible in an upswing in delinquencies on revolving credit. Furthermore, worsening housing affordability has aggravated access to shelter, particularly for the young and lower income households. This is evident in the number of people experiencing homelessness, which has risen to the highest level since data began to be compiled in 2007.[4]

**Deliquency Rate on Credit Card Loans - All Commercial Banks**
(percent, seasonally Adjusted)



Source: Federal Reserve.

**5. Both households and corporates have been insulated from the impact of higher interest rates**.

- During the pandemic, both corporate and household borrowers locked in low rates at long maturities, paying down higher cost, floating rate debt. Around one half of mortgages reset at lower rates during 2020–21 (either through refinancing operations or when the mortgage refreshed through home sales). As a result, by end-2021, over 95 percent of mortgages were at low, fixed rates.[5] Similarly, the average duration of investment grade corporate bonds rose during 2020–21 with new debt being contracted at relatively low yields.

- Firms and households were able to increase their holdings of short duration financial assets. Households extracted around US$0.5 trillion in home equity during 2020–21 which, alongside the higher savings described above, increased their holdings of bank deposits and money market funds by almost 3 percent of GDP. Similarly, nonfinancial corporates now hold 2.3 percent of GDP more in bank deposits and money market funds than they did at end-2019.

Together, these two dynamics have resulted in a muted impact of higher interest rates on consumption and corporate investment.[6] Indeed, over the past two years, the combination of low-

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[2] See, for example, Autor, Dube and McGrew (2023).

[3] As measured by the supplementary poverty measure that accounts for income and payroll taxes, tax credits, and non-cash transfers while using geographically adjusted poverty thresholds (Census Bureau, 2023).

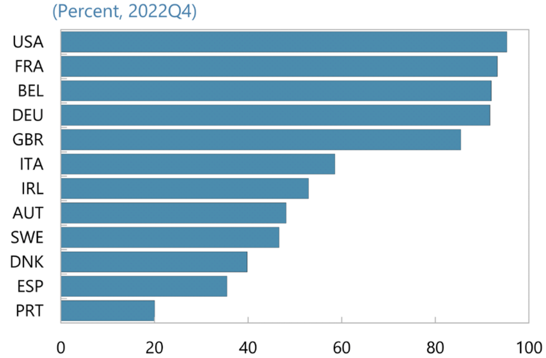
[4] See Annual Homelessness Assessment Report, December 2023.

[5] See A. Haughwout et al., "The Great Pandemic Mortgage Refinance Boom", Federal Reserve Bank of New York.

[6] Higher interest rates did though have a clear impact through other channels, notably subtracting around ½ percent from growth in both 2022 and 2023 as a result of the decline in residential investment.

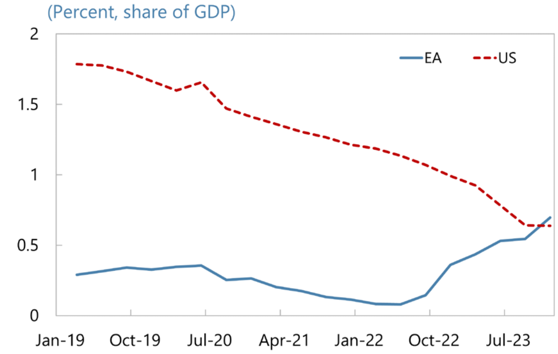
cost liabilities at a fixed rate and a floating rate on liquid assets actually led to a substantial *decline* in net interest payments for nonfinancial corporates (in contrast with those in the Euro Area) and only a small increase for households due to rising payment obligations on auto loans and revolving credit (Box 2). This could suggest that monetary policy transmission has potentially been somewhat less impactful than in past tightening cycles[7] (Box 3).

**Share of Fixed-Rate Mortgages**
(Percent, 2022Q4)




Sources: ECB, FHFA, World Economic Outlook Chapter 2 (IMF, April 2024).

**Net Interest Payment of Nonfinancial Corporates**
(Percent, share of GDP)




Sources: Bureau of Economic Analysis; Eurostat.

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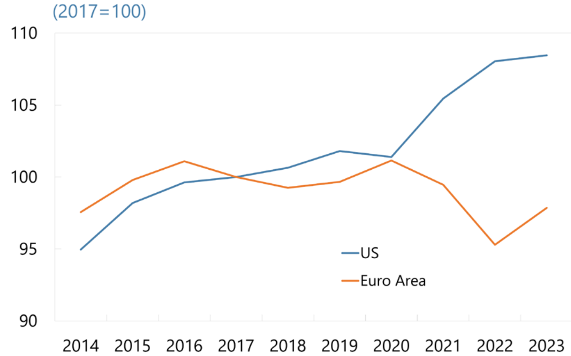
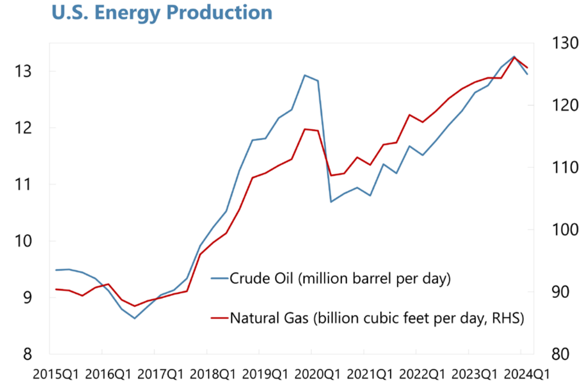
**6. The U.S. has seen a material improvement in its terms of trade since end-2019 which supported aggregate demand**. In large part, this was a product of the U.S. already being a net exporter of natural gas, crude oil, and petroleum products prior to the pandemic. When global energy prices rose as economies reopened and, particularly, after the Russian invasion of Ukraine the U.S. was a net beneficiary. In contrast to much of Europe, high world energy prices appeared to do little to dent consumer demand in the U.S. but did catalyze higher oil and gas production (which are now at record levels).

**Terms of Trade**
(2017=100)




Source: IMF World Economic Outlook.

**U.S. Energy Production**



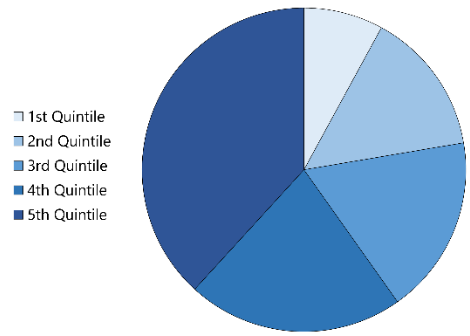

Source: U.S. Energy Information Administration.

[7] The World Economic Outlook (April 2024) found higher policy rates were likely to be less effective where fixed rate mortgages were common and levels of household indebtedness was low.

## Box 1. Why Has Consumption Been So Strong?[1]

Private consumption rebounded swiftly from its pandemic trough and returned to the pre-COVID trend by early 2021. The strength in consumption was visible across all income groups, although higher income households contributed the most to aggregate consumption growth (the top quintile accounted for about 40 percent of total consumption growth).

**Contribution to Aggregate Consumption Spending Growth**
(Percent, by quintile, 2019-22)

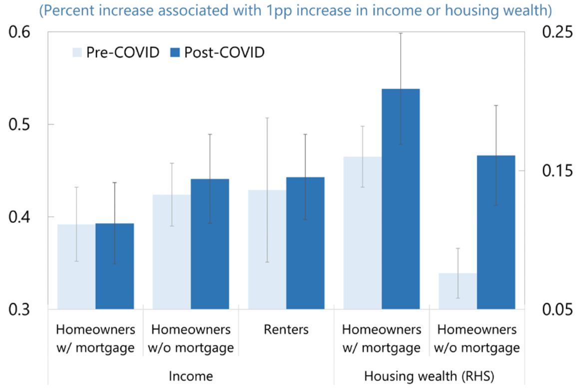



Solid real incomes and the boost to savings during the pandemic helped support consumption. However, the large increase in housing wealth was quantitatively the most important factor. This is borne out by analysis of both state and household level data.

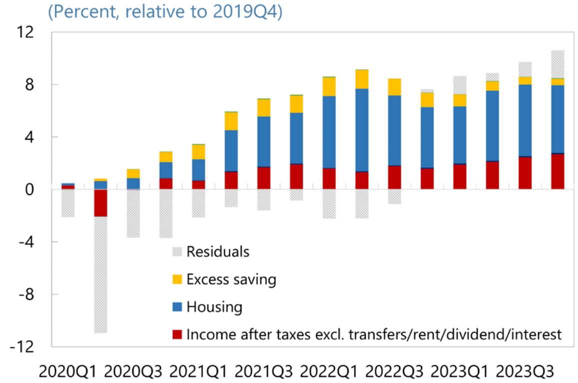
Not only were the wealth gains large but the elasticity of consumption with respect to housing wealth actually increased after the pandemic. This increase in consumption elasticity to wealth gains was most pronounced for homeowners, especially those without a mortgage. On the other hand, the propensity to consume out of real income has been relatively stable throughout the pre- and post-pandemic periods.

Quantitatively, higher housing wealth accounted for more than half of the increase in consumption relative to end-2019 levels. Gains in real wages explained around one-quarter of the increase. The savings accumulated during the pandemic bolstered consumption during 2022 but the impact has waned during 2023 (as savings were run down by liquidity constrained households).

**Elasticity of Consumption to Income and Housing Wealth**
(Percent increase associated with 1pp increase in income or housing wealth)




**Contributions to Real Consumption Growth**
(Percent, relative to 2019Q4)

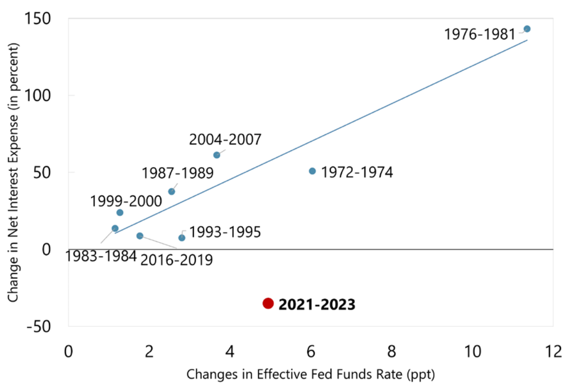



[1] See Dao, M. C., Jirasavetakul, L. F., Zhou, J. "Drivers of Post-COVID Private Consumption in the U.S.", IMF Working Paper 2024/128.

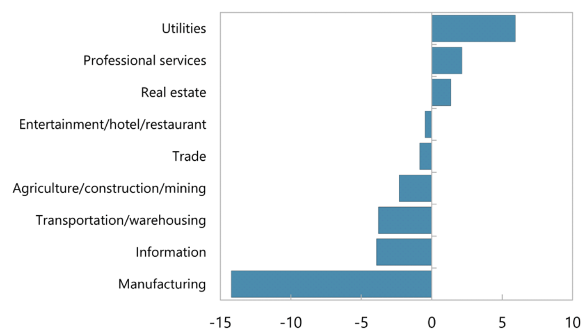
## Box 2. How Have Higher Interest Rates Affected U.S. Corporates?

Unlike in previous monetary tightening episodes, net interest payments made by U.S. corporates actually halved (as a share of GDP) even as the federal funds rate moved higher (past cycles had typically seen a broadly proportional increase in net interest payments). Firm-level data (from Capital IQ) shows this decline to be common across most sectors, but with more pronounced declines for companies in manufacturing, transportation, and information technology. This decline in net interest payments has been a combination of (i) higher corporate cash balances and (ii) more long duration, fixed rate liabilities so that, as the policy rate moved higher, interest income rose but interest expenses were little changed. As an illustration, if firms' cash-to-asset ratio had remained at pre-pandemic average levels, corporate net interest costs would have been around one third higher than was actually recorded.

**NFC's Net Interest Payments during Monetary Policy Tightening Cycles**



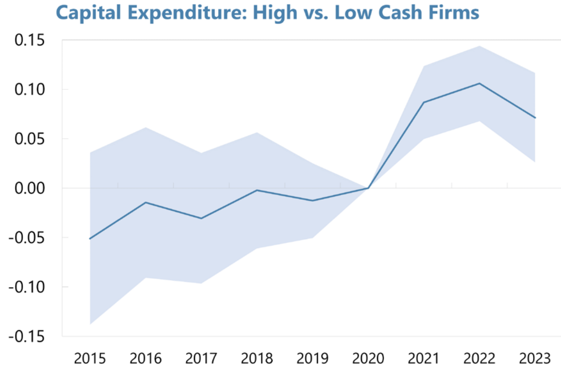

**Change in Net Interest Payments**
(Billions of US Dollar, change between 2023 and 2021)



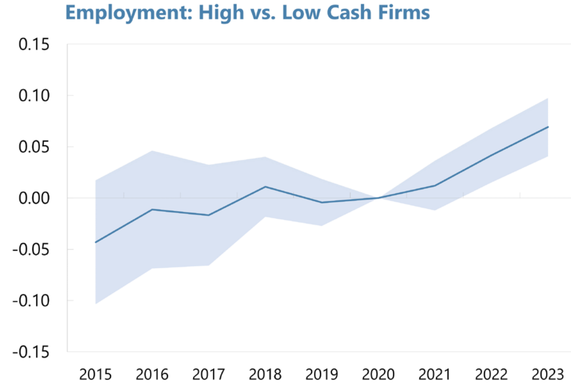

Sources: S&P Capital IQ.

The negative correlation between the policy rate and firms' net interest costs has had important consequences for monetary transmission and the real economy. Since 2020, firms with high levels of cash holdings increased their capital spending and hired more workers relative to similar firms with lower levels of cash[1]. This suggests that both corporate investment and hiring were insulated from the increase in the federal funds rate (and broader tightening of financial conditions) due to the build-up of corporate cash balances that occurred during the pandemic.

**Capital Expenditure: High vs. Low Cash Firms**



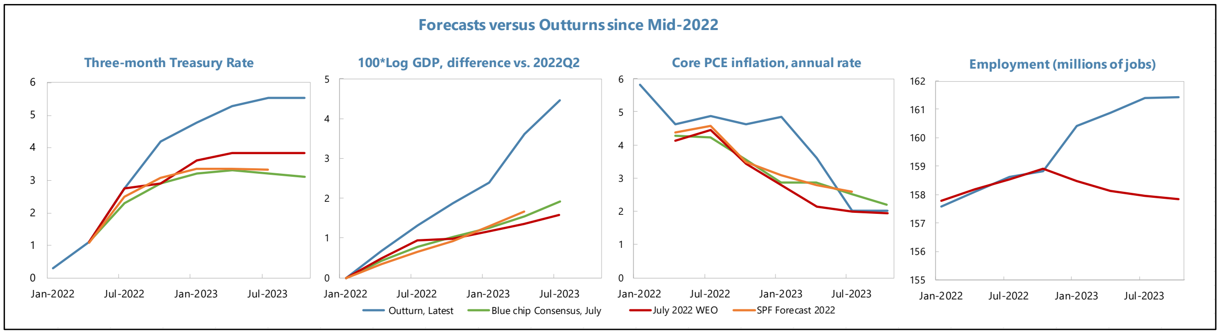

**Employment: High vs. Low Cash Firms**




[1] High and low cash firms are categorized based on their cash-to-asset ratio relative to the median at the two-digit North American Industry Classification System. The solid line represents the estimated coefficient resulting from the interaction between the year and high cash firm dummy variables (2020 as the baseline year). Shaded areas indicate the 95% confidence interval.

### Box 3. Has Monetary Transmission Changed?[1]

In March 2022, the Federal Reserve began the fastest and largest series of interest rate hikes since the early 1980s. At the start of the tightening cycle, many expected a contraction in output and higher unemployment. However, despite a larger-than-expected increase in the policy rate, output and employment both outperformed.




To disentangle this question of whether the federal funds rate was less impactful in dampening demand (or whether other countervailing shocks have offset the monetary effects), a model was estimated on pre-pandemic data to determine how surprise changes in interest rates—triangulated by estimating from equity and bond market pricing in short windows around Federal Reserve meetings and speeches—impact the economy. This dynamic structure was then used to back out the monetary policy shocks that would have been consistent with the activity and inflation outturns that were subsequently seen post-pandemic (assuming no change in monetary transmission). These implied shocks were then compared with the *actual* measured shocks and used as a test of whether the monetary transmission had changed post-pandemic. This approach explicitly accounts for the possibility that non-monetary shocks are also simultaneously affecting outturns (even though those shocks are not directly observable).

The results show that between February and July 2022 (around the time the Federal Reserve started to shift its approach on monetary policy), the impact of rate increases on the macro-economy appeared to be considerably weaker than it had been pre-pandemic. This implies that larger interest rate increases would have been necessary during that period to generate similar downward pressure on activity and inflation as would have occurred in the pre-pandemic period. The lower impact of higher policy rates can partly explain why demand was more robust in the pandemic recovery despite the abrupt monetary tightening that took place. Evidence after the initial phase of tightening suggests, though, that the transmission of policy was broadly consistent with the pre-pandemic period.

[1] P. Barrett and J. Platzer (2024) "Has the Transmission of U.S. Monetary Policy Changed Since 2022?", IMF Working Paper, 2024/129.

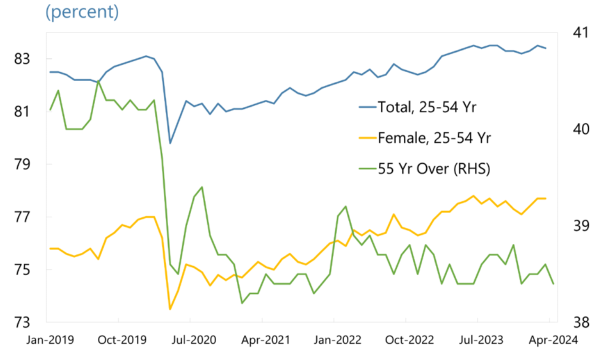
## B. How Has Supply Responded?

7. **The U.S. has seen important supply gains in the past few years from a significant inflow of foreign-born labor** (Box 4). In the past three years, new immigrants have expanded the labor force by 4.6 million workers (almost 3 percent of the labor force). This represents a significant acceleration from the 1.7 million increase in foreign-born workers that took place in the three years prior to the pandemic. These workers have been concentrated in relatively lower income jobs which

had experienced the greatest supply-demand imbalances in the labor market (and where wages were going up fastest). Immigration appeared, therefore, to have been an important factor in alleviating labor shortages and moderating wage growth, particularly at the lower end of the income distribution.

**8. Labor force participation responded positively to the strong demand for workers.** Rising wages and a tight labor market (as exemplified by the rapid decline in unemployment and the high levels of quits, hires, and job openings in 2021-22) led to a strong rebound in labor force participation, particularly among female, black and Hispanic workers. Participation by prime age workers is now at levels not seen since the early 2000's and the overall participation rate is just shy of its 2019 levels. However, the pandemic-induced decline in participation by older, more educated workers appears to be a more permanent change.

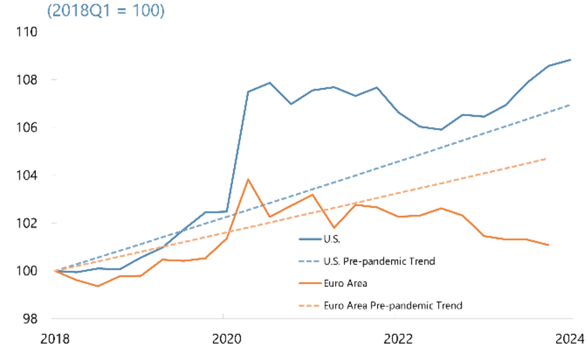
**Labor Force Participation Rate**
(percent)




Source: Bureau of Labor Statistics.

**9. In contrast with weaker productivity outturns in the Euro Area, U.S. productivity was back to its pre-pandemic trend by late 2023.** There have been multiple forces at work in supporting productivity over the past few years although it is too early to have a clear view on their order of importance (Box 5):

**Output per Hour**
(2018Q1 = 100)

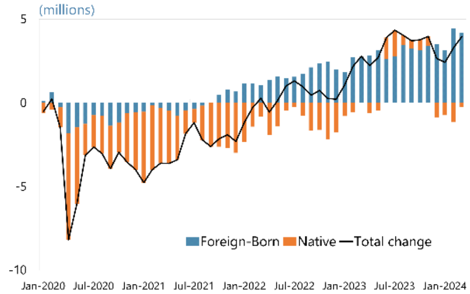



Source: Bureau of Economic Analysis; Bureau of Labor Statistics; European Central Bank.
Note: Latest observations are 2024 Q1 for the U.S. and 2023 Q4 for the Euro Area.

- The resolution of the various supply chain restrictions that were present, particularly in the goods sector, as the economy reopened.
- Strong private-sector investment which, in turn, has been driven by various forces including a need to alleviate binding capacity constraints, substitute capital for scarce labor, increase the resilience and depth of supply chains, accommodate shifts in the demand for electric vehicles and other green technologies, and take advantage of the investment incentives embedded in the Inflation Reduction Act and the CHIPS Act.
- An ongoing boost to public infrastructure investment from the Infrastructure Investment and Jobs Act.
- A broad-based reallocation of workers across the economy, catalyzed by the pandemic, which improved employer-employee job matches and incentivized firms to more efficiently utilize workers' human capital.
- A burst in new business formation.

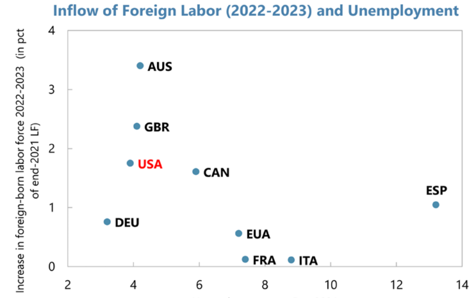
## Box 4. The Facts on Immigration Inflows

Cumulative change in labor force since December 2019
(millions)




Source: Bureau of Labor Statistics.

Inflow of Foreign Labor (2022-2023) and Unemployment



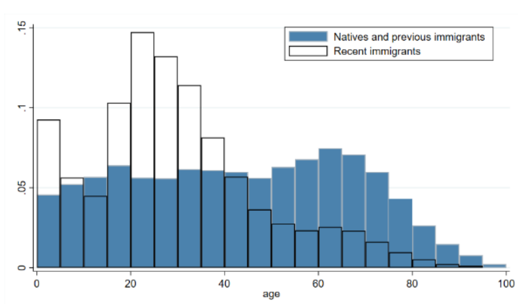

Source: U.S. Census Bureau; Eurostat; Statistics Canada; U.K. Office for National Statistics; Australian Bureau of Statistics; IMF World Outlook.

As the economy re-opened after the pandemic, immigration inflows picked up sharply (CBO estimates 2.7 million new immigrants arrived in 2022 and 3.3 million in 2023). The increase was driven by higher inflows of undocumented individuals (the inflow of refugees and those with visas or green cards has been broadly in line with past years). The CBO projects a further sizable addition to the labor force from new immigrants of around 2.5 million persons per year in 2024–26.[1] Since end-2019, foreign-born workers have accounted for *all* of the growth in the labor force. Across counties, a higher share of foreign-born persons in the working age population has been generally associated with faster job growth.

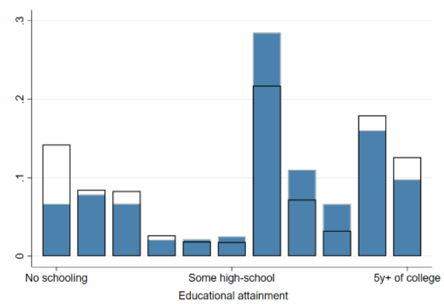
The net immigrant inflows in the U.S. were exceeded only by those in Australia and the U.K. The low level of unemployment in the U.S. has facilitated the rapid absorption of these workers into the labor market.

The recent immigrant cohort skews younger and less educated than the native and more established immigrants. Employment of this inflow of foreign-born labor has been concentrated in industries that were most affected by the post-pandemic labor shortage (i.e., restaurants, manufacturing, agriculture and, especially, construction). Wages of new immigrants are typically well below those of both native-born workers and immigrants that have at least two years in the country. This suggests that the presence of these new workers helped moderate wage growth in these sectors.

Age Distribution of Immigrants and Natives



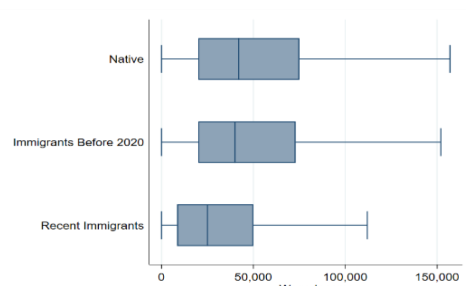

Distribution of Educational Attainment




Distribution of New Immigrants across Industries
(percent)


Source: U.S. Census Bureau

Wage Income of Natives and Immigrants



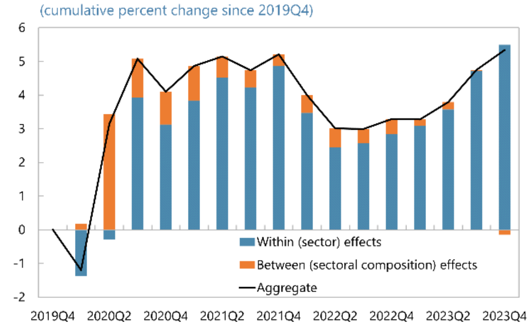

Source: American Community Survey 2022.

[1] Undocumented workers are, in principle, unable to work. However, the CBO assumes some share of them become eligible for employment authorization (e.g., those with pending asylum claims or with temporary protected status) while some share of the remainder work illegally.

## Box 5. The Post-Pandemic Shifts in Productivity[1]

The pandemic and associated shutdowns led to large swings in aggregate productivity. Initially, this was a composition effects (as output shifted between high and low productivity sectors). As the economy reopened, within industry productivity increases became the main driver. Around one third of the increase in labor productivity since 2020 was due to higher total factor productivity.

**Within vs Between Sector Decomposition of Non-farm Private Sector Output per Hours Worked**
(cumulative percent change since 2019Q4)



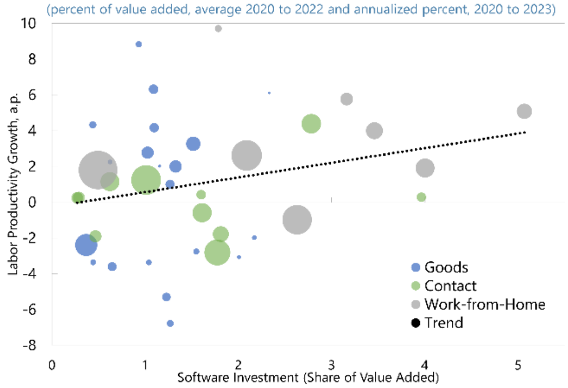

Source: Bureau of Economic Analysis ; Bureau of Labor Statistics; IMF staff calculation.

An industry-level panel regression points to several forces behind the post-pandemic rise in productivity:

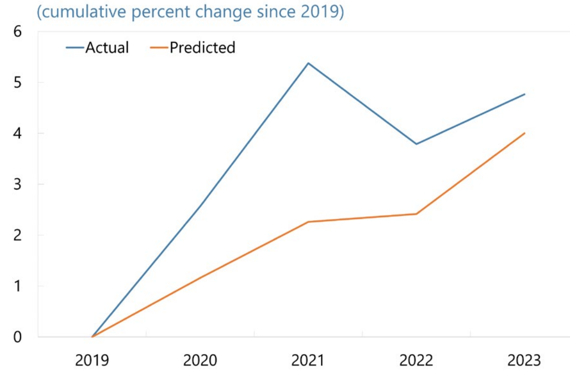
- Investment in intellectual property products (IPP) increased during the pandemic. The association of high IPP investment with productivity growth was particularly strong for information technology and manufacturing.
- Greater dynamism in the labor market through an increase in job-to-job reallocations that was catalyzed by the pandemic and led to improved employer-employee matches which, in turn, boost TFP. The increase in labor reallocation from 2020–23 can explain more than 80 percent of the cumulative increase in labor productivity over that period.
- Increased new business formation, a notable structural shift since the pandemic, should also boost labor productivity in the future.

These encouraging productivity dynamics have persisted throughout 2023 although it is too early to tell how sustained they will be going forward.

**Software Investment vs. Labor Productivity Growth, by Industry**
(percent of value added, average 2020 to 2022 and annualized percent, 2020 to 2023)




**Labor Productivity: Actual vs. Implied by Job-to-Job Seperation Rates**
(cumulative percent change since 2019)




[1] M. Dao and J. Platzer "Post-pandemic Productivity Dynamics in the United States", IMF Working Paper 2024/124.

# IMPLICATIONS FOR THE OUTLOOK AND FOR MONETARY POLICY

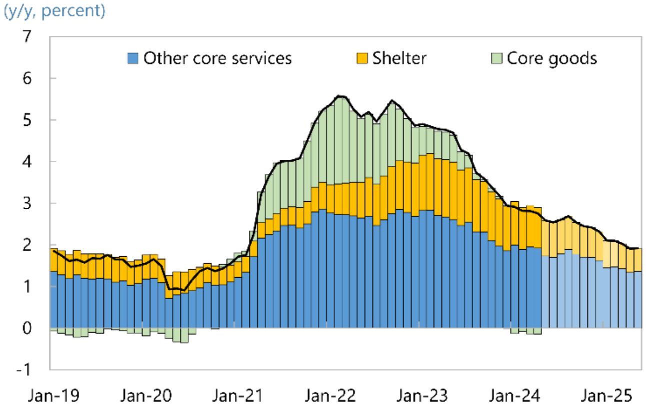
**10. Continued robust demand, ongoing supply side gains, and the carryover from the acceleration in activity in 2023H2 are expected to result in annualized growth of 2.6 percent in 2024**. Despite these tailwinds, the economy is expected to slow in sequential terms, lowering the 2024Q4/Q4 growth rate to close to the growth in potential output. Unemployment is expected to gradually rise to around 4¼ percent by mid-2025.

**11. PCE inflation fell from its peak of 7.1 percent in mid-2022 to 2.7 percent in April 2024**. Dynamics varied across the various components of the consumption basket:

- After the rapid rise in first auto and then energy prices in 2021, goods prices abruptly leveled off in mid-2022 and have since contributed little to sequential headline and core inflation.
- Shelter inflation rose rapidly throughout 2022–23 but over the past several months has been falling, albeit at a somewhat slower-than-expected pace.
- Non-shelter services prices were driven upwards in 2022 by increases in labor costs and second round effects from past energy price increases (e.g., feeding through to transportation costs). Since 2023, price increases in services have softened and are now close to, but modestly above, the level implied by the expected pass-through from wages to prices.[8]

**Contributions to Core PCE Inflation**

(y/y, percent)




Sources: BEA, Haver Analytics, and IMF staff calculations.

Overall, the lagged effects of a tight labor market continue to push inflation above target, but this is being partly offset by a modest deflation in energy costs.

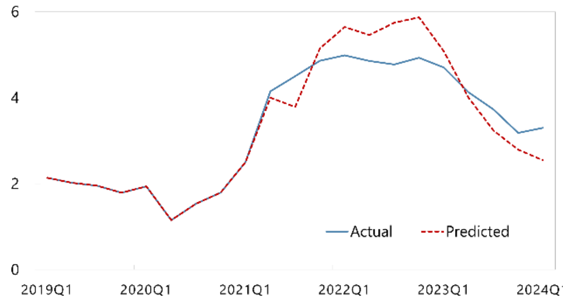
**12. Headline and core PCE inflation are expected to fall to the Federal Reserve's 2 percent medium-term target by mid-2025, albeit with important upside risks to this path.**[9] An ongoing disinflation of shelter costs, near-zero goods inflation, and a slowdown in non-shelter services inflation should all support a downward path for inflation. Nonetheless, there are important upside risks. The expected decline in shelter inflation may materialize more slowly or reverse more quickly than expected. Also, even with the sizable expansion in labor supply described above, nominal wage growth remains relatively high which could forestall the expected softening of non-shelter services

[8] See M. Chin and L. Lin, "The Pass-through of Wages to Consumer Prices in the COVID-19 Pandemic", IMF Working Paper, 2023.

[9] Baseline forecasts assume the same rate path as in the median forecast of the Federal Reserve's June Summary of Economic Projections.

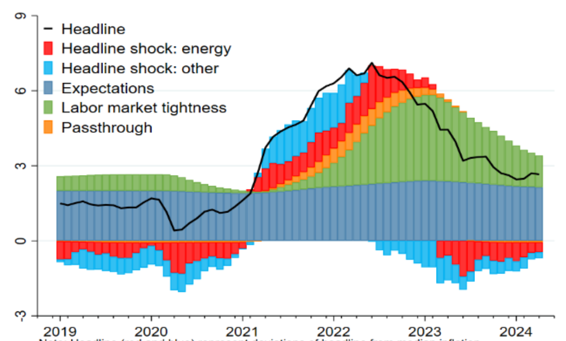
inflation. An escalation of geopolitical tensions (e.g., from the Middle East conflict or war in Ukraine) could add to energy costs which would subsequently pass-through to wages and core inflation.

**Actual vs. Predicted Non-Shelter Services PCE Inflation**
(percent change, y/y)




Source: Chin and Lin (2023).
Note: predicted values are derived from post-COVID services wage passthrough estimation from Chin and Lin (2023).

**PCE Inflation Decomposition**
(percent change, y/y)




Note: Headline (red and blue) represent deviations of headline from median inflation (due to energy and other shocks), which are passed through into median inflation over time (orange). See Ball at el. (2022) and Dao et al. (2023)

**13. Authorities' views.** The U.S. economy is performing well with the strongest labor market that the country has seen in the past 50 years. While activity data in the first quarter was weaker than in 2023, this did not fully reflect the strong underlying growth in consumer demand and private capital formation. Inflation continues to fall back to more normal levels and there is little sign that the U.S. economy is overheated, although growth is expected to slow moderately from the very fast pace seen in 2023. The high cost of living and the increases in poverty seen in the most recent (2022) data are important concerns, but the administration has made policy proposals, notably in the context of the President's FY2025 Budget, to address these problems (including by reducing healthcare costs, making housing more affordable, increasing Pell grants for lower income college students, relieving the burden of student debt for middle and lower-income households, expanding free community college, and restoring the child tax credit expansion).

**14. Given the upside risks to inflation, the Fed should wait to reduce its policy rate until at least late 2024.** The current forward guidance—of having a policy rate that returns to close to neutral by 2026—appears consistent with PCE inflation returning to the Fed's 2 percent medium-term target by mid-2025. However, with the economy operating modestly above full employment[10] and with salient upside risks to inflation, risk management considerations argue for delaying the start of the loosening cycle until the data shows more clarity that inflation is firmly returning to the FOMC's 2 percent goal. This is borne out by a range of model simulations (Box 6) and is consistent with the median policy path in the June Summary of Economic Projections. If upside risks to inflation materialize in the coming months, serious consideration may have to be given to removing the

[10] Current estimates based on Blagrave et al. suggest that the economy is currently operating around ½ percent above potential with the potential growth rate over the next few years expected to be around 2.1–2.2 percent. This approach uses a multivariate filter to model potential output as driven by a combination of permanent shocks to its level and transitory but persistent shocks to its growth rate. The output gap is then linked to inflation via labor market slack.

loosening bias in Fed communications and, potentially, even further raising the federal funds rate. Once policy loosening is underway, the next challenge will be to assess where the neutral policy rate is likely to be. This will be complex given potential changes triggered by the pandemic. Policymakers will, therefore, need to be attentive to the behavior of employment and inflation as rates approach neutral levels and use that incoming information to better triangulate the appropriate medium-term policy setting.

**15. Continuing to clearly communicate the FOMC's interpretation of incoming data, and adjusting forward guidance accordingly, should ensure that needed shifts in the monetary stance are well understood and smoothly absorbed.** Communications should continue to underscore that the FOMC's guidance is not set in stone and that actual policy decisions will (and should) depend critically on incoming data. To strengthen the communications toolkit, the Federal Reserve could begin publishing, at each policy meeting, an internally-consistent economic projection and rate path—produced by Fed staff and potentially endorsed (or otherwise recognized) by the FOMC. This central forecast could be supplemented with a few alternate, quantified scenarios to show the range of views on the FOMC and the distribution of risks around the baseline. Such a communication device would be preferable to the current reliance on the quarterly Summary of Economic Projections to convey FOMC members' expectations of policy and the macro outlook.

**16. The ongoing shrinking of the Fed's balance sheet is not expected to have a salient impact on inflation or employment in the months ahead**. Nonetheless, there are important uncertainties surrounding the right level of reserves that would be consistent with an ample reserves operating regime (Box 7). As such, the May decision to reduce the speed of balance sheet run-off should help to more slowly tighten liquidity conditions and provide more time for policymakers to assess the impacts of a smaller balance sheet. The decision on when to stop the shrinking of the balance sheet will need to be handled carefully so as to prevent inducing volatility in short-term funding markets.

**17. Authorities' views.** The economy has made good progress toward maximum employment and stable prices but there is still some way to go. Inflation has fallen, particularly during the second half of 2023, but inflation is still too high and greater confidence needs to be gained that inflation is moving sustainably toward 2 percent before it is expected that it will be appropriate to reduce the target range of the federal funds rate. Policy is viewed as being restrictive which is helping to put downward pressure on activity and inflation. As yet, there are few signs of a material change in the transmission of monetary policy. Policymakers are carefully attuned to incoming data, the evolving outlook and the balance of risks in determining the course of policy and will continue to communicate clearly their assessment of the data and the implications for policy. While it seems unlikely at this point that there will be a need to further raise the policy rate, policy decisions will be taken meeting-by-meeting based on the totality of the data. The reduced pace of decline in the Federal Reserve's securities holdings will allow the balance sheet to shrink to its ultimate level more gradually, reducing the possibility of stress in money markets as the system approaches the appropriate level of ample reserves.

## Box 6. Possible Paths for the Federal Funds Rate

Simulations from the Fed's semi-structural FRBUS model show that a range of potential paths for the federal funds rate would be consistent with PCE inflation returning to 2 percent during 2025. Optimal rate paths are derived based on:

***(i) different policy objectives***:

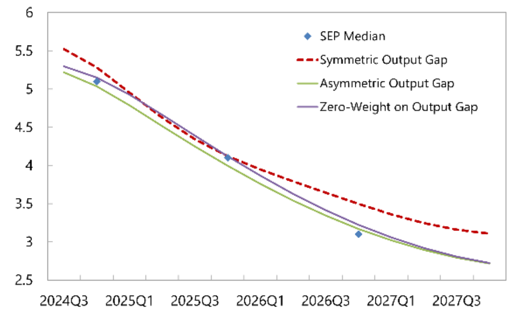
- A baseline objective function that minimizes the sum of squared deviations of inflation from the 2 percent target and of unemployment from NAIRU.
- An asymmetric objective on unemployment only insofar as it is *below* NAIRU (consistent with the Fed's current framework).
- An objective function that puts zero weight on the unemployment gap.

The asymmetric employment objective tracks closely the Fed's "dots" in 2024–26, with a lowering of the policy rate only once inflation is decisively heading back to target.

***(ii) different parameterization*** of FRBUS:

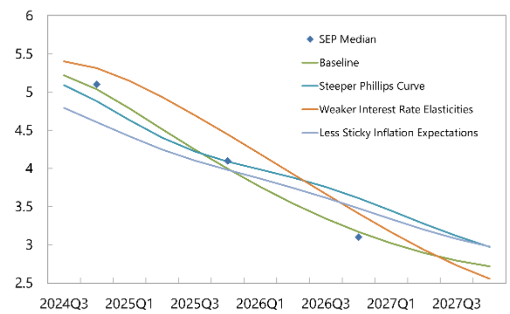
- A Phillips curve that is ten times steeper than in the baseline.
- Inflation expectations that are formed with half as much inertia.
- An elasticity of domestic demand to interest rates that is 10 percent smaller than in the baseline.

**Federal Funds Rate by Policy Rule**
(In percent)




Sources: IMF staff calculations.

**Federal Funds Rate**
(In percent; Asymmetric output gap policy rule)



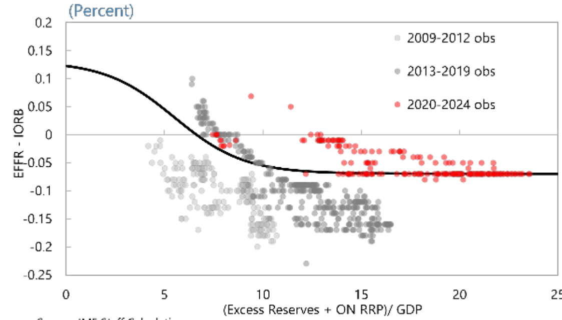

Sources: IMF staff calculations.

Not surprisingly, a steeper Phillips curve or more responsive inflation expectations would result in a faster disinflation. This would, in turn, allow for a more front-loaded reduction in the policy rate. On the other hand, if domestic demand is less sensitive to higher interest rates, then monetary policy would need to remain tighter throughout the next few years, with the first reduction in the policy rate being deferred until the first half of 2025.

## Box 7. The Longer Term Size of the Fed's Balance Sheet

To shine a light on what would be a reasonable range for the target level of the Fed's balance sheet that ensures a smooth implementation of the ample reserves regime, a nonlinear reserve demand curve was estimated based on weekly data during 2009–24.[1] Relative to the pre-pandemic period, the most recent data points to an outward shift in the reserve demand curve toward higher levels of bank reserves as a share of GDP.

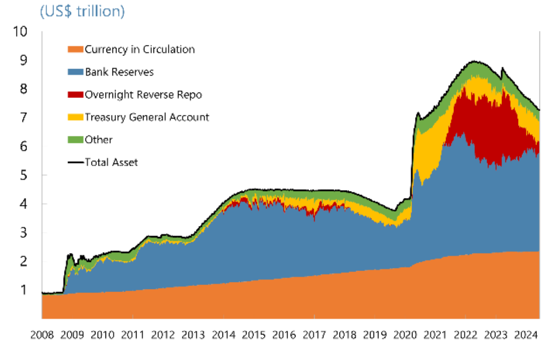
**Estimated Reserve Demand Curve**
(Percent)




Source: IMF Staff Calculations
Note: ON RRP stands for overnight reverse repo operations, EFFR for effective federal funds rate, IORB for interest on reserve balances. The reserve demand curve shown is for the median shock realization, allowing for a shift in the curve since March 2020.

Drawing on this estimated demand for reserves and the historic pattern of stochastic shocks around that demand curve, a target level of reserves was chosen to ensure that the supply of reserves is sufficiently large so as to reduce the probability—to 25 (10) percent[2]—that shocks to liquidity would cause a 5bps or larger gap between the interest rate on reserve balances and the effective federal funds rate. Achieving this outcome would require a supply of reserves of US$2.1 (3.2) trillion.

**Size of the Federal Reserve's Balance Sheet**
(US$ trillion)




Source: Federal Reserve; Federal Reserve Bank of New York.

In addition to maintaining a sufficient supply of reserves, the Fed's balance sheet will need to accommodate other post-pandemic changes. Most notably, the swings in the Treasury General Account (TGA) have been much larger post-pandemic (due to shifts in fiscal policies during that period and the cash management complications created by a periodically binding debt ceiling). As such, the Fed would need a "cushion" of around US$750 billion to the balance sheet to accommodate increases in the TGA. Furthermore, currency demand has grown alongside the nominal increase in GDP and currency in circulation is expected to be around US$2.4 trillion by end-2024. Finally, reverse repo agreements with foreign official accounts are likely to remain at around US$350bn, a similar level as a share of GDP as prior to the pandemic.

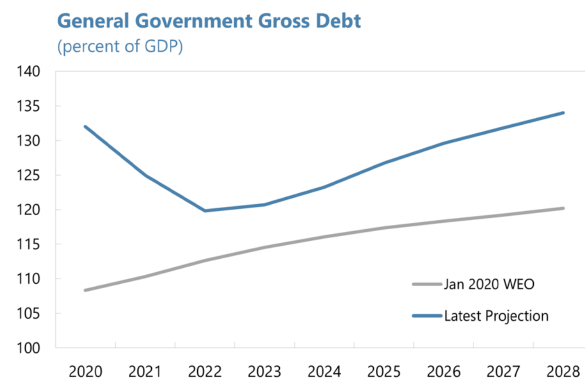
All in all, it would seem like a balance sheet of US$5.6-6.7 trillion would be consistent with an ample reserves regime that avoids undue volatility in short-term interest rates. At end-May, the balance sheet was US$7.3 trillion and, based on current monthly redemption caps, the balance sheet would be expected to reach the upper end of this range by the first quarter of 2025.

[1] Reserve demand estimation is based on Chen, Z., Kourentzes, N., Veyrune R. M. (2023) "Modeling the Reserve Demand to Facilitate Central Bank Operations", IMF Working Paper No. 2023/179. The estimation treats bank reserves and the overnight reverse repo as close substitutes and controls for the level of M2, the VIX, the inflation rate, the 10-year UST yield, the sovereign credit default swap rate for the U.S., and the USD/EUR exchange rate, forward rate, and exchange rate implied volatility.

[2] This is in the spirit of the advice in Gagnon and Sack (2019) to "steer well clear" of the minimum level of reserves. Copeland, Duffie and Yang (2021) suggest a different approach to measuring reserve ampleness focusing on the largest repo-active bank holding companies. It is worth also noting that the introduction of the standing repurchase (repo) facility in July 2021 could imply a smaller balance sheet is needed than is estimated here (although there is no historical experience to identify the potential impact of this facility on reserve demand and interest rate volatility).

# A CHRONIC FISCAL IMBALANCE

**18. The general government fiscal deficit and debt, as a share of GDP, are both projected to remain well above pre-pandemic forecasts.** After the unprecedented fiscal response to the COVID-19 outbreak, the budget deficit fell significantly in 2022 as pandemic-related fiscal measures unwound. However, the deficit rose again in 2023, driven by lower non-withheld income tax revenues, higher interest costs, new outlays on student loan relief (the net present value of which is booked in the current fiscal year), and increases in mandatory spending on income security. The combined effect was a 3.5 percent of GDP widening of the general government deficit in 2023. The composition of this fiscal loosening, though, suggests that it provided a relatively small boost to aggregate demand. Despite legislative efforts to restrain federal spending (e.g., the Fiscal Responsibility Act of 2023), the federal deficit is expected to rise by around ½ percent of GDP in FY2024, resulting in a 0.2 percent of GDP increase in the general government deficit between 2023 and 2024.



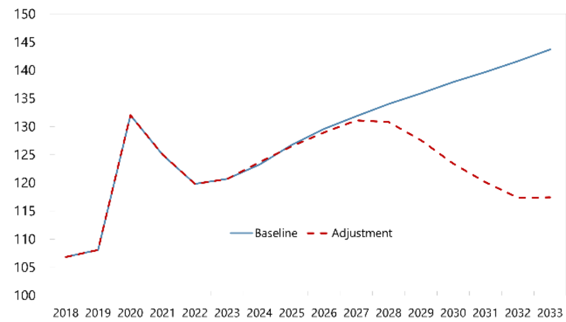
Source: IMF World Economic Outlook.

**19. The steady upward path for the public debt-GDP ratio represents a growing risk to the U.S. and global economy, potentially feeding into higher fiscal financing costs and a growing risk to the smooth rollover of maturing obligations.** Based on standard IMF tools, the risk of sovereign stress in the U.S. is low, public debt is sustainable, and the government has some fiscal space (Annex II). Nonetheless, under current policies, the general government debt-GDP ratio is expected to exceed 140 percent of GDP by 2032 and 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. Such chronic fiscal deficits—stemming in large part from growing outlays on health and social security associated with an aging population—represent a significant and persistent policy misalignment that needs to be urgently addressed.

**20. The large fiscal deficit is also putting upward pressure on the current account deficit**. The 2023 current account was 0.7 percent of GDP larger than the norm (Annex III) with almost all of the difference being accounted for by a larger-than-desirable fiscal deficit. The impact of the fiscal dissaving on the external position in 2023 is, though, being partially offset by an increase in corporate net saving arising from higher after-tax profits (see below) and a modest decline in corporate investment as a share of GDP.

**21. Putting debt-GDP on a clear downward trajectory will require a shift to a general government primary surplus of around 1 percent of GDP.** This implies an adjustment of around 4 percent of GDP relative to the current baseline. Various measures have been proposed in the president's budget that would reduce the federal deficit by around 1¼ percent of GDP by 2033. However, these policies have not been enacted by Congress. Making the case for a substantive fiscal adjustment is difficult given the current weak societal support for taking action on debt and deficits and the complex political economy dynamics around fiscal policy more broadly.

General Government Debt
(percent of GDP)




Source: IMF staff calculations.

**22. Achieving the needed realignment of the fiscal position will require going beyond finding efficiencies in discretionary, non-defense federal spending (which makes up only 15 percent of total federal outlays)**. Instead, the burden of adjustment will need to be borne by progressive increases in the federal tax burden and a rebalancing of entitlement programs (notably social security and Medicare). A range of policy options—some of which are already included in the president's budget proposal—are outlined in Box 8. Putting these measures in place will, though, necessitate taking difficult political decisions over the course of multiple years.

**23. Some of the fiscal savings from these efforts should be deployed to increase spending on programs to alleviate poverty**. This should include reinstating a more generous, fully refundable Child Tax Credit and raising the income threshold for eligibility for the EITC for workers without children. These programs have already proven the important impact they can have on poverty outcomes—particularly for children—but they should be more carefully targeted to lower income households. Expanding such social assistance would be particularly important if there were to be an increased reliance on indirect taxes.

**24. The proposed medium-term adjustment would be expected to have a relatively small effect on U.S. growth**. If much of the adjustment can take place through higher indirect taxation, accompanied by improvements in the social safety net and gradual changes to entitlement programs, the multipliers would be expected to be relatively small. Also, any drag to growth would be partly offset by somewhat lower interest rates—from both a lower path for the policy rate and smaller term premia—as well as a somewhat weaker dollar. By reducing fiscal vulnerabilities, lowering interest rates, and weakening the dollar, the adjustment would create positive outward spillovers, particularly for countries with sizable dollar financing needs.

**25. The upcoming expiration of provisions of the 2017 Tax Cuts and Jobs Act provides an opportunity to engage in a broader societal discussion about tax reform and the need for**

**additional sources of revenue**.[11] Provisions such as the reduction in the top individual income tax rate (from 39.6 to 37 percent), the deduction of 20 percent of qualified business income for pass-throughs (i.e., partnerships, sole proprietors and S-corporations), and the higher minimum threshold for the estate and gift tax should all be allowed to expire as scheduled. However, the increase in the standard deduction and limits on itemized deductions (for state and local taxes and mortgage interest) should be maintained as a permanent feature of the personal income tax. This would increase equity and simplify the tax code. Consideration could also be given to allowing for the permanent full expensing of a range of corporate capital spending. In the event that some of the revenue-losing provisions are renewed, they should be offset with other measures that raise revenues by a comparable amount.

**26. There should be an effort to address the shortcomings in fiscal institutions that periodically lead to political stand-offs over the debt limit and the funding of the federal government.** These create systemic risks to the U.S. and global economy that are entirely avoidable. Institutional changes should be designed to ensure that, once appropriations are approved, the corresponding space is added automatically to the debt ceiling. Similarly, in situations where the funding of federal agencies lapses because of an inability to approve appropriations, provisions should be made to automatically fund the federal government at some fraction of previous year's funding until a full-year appropriations bill can be signed into law.

**27. Authorities' views.** Even with enactment of the CHIPS Act, the Infrastructure Investment and Jobs Act, and the Inflation Reduction Act, the administration has lowered the federal deficit by over US$1 trillion and has enacted policies to raise revenues including through sizable investments in modernizing the Internal Revenue Service, a minimum tax on the profits of the largest corporations, and a surcharge on stock buybacks. The President's 2025 Budget has proposed measures to reduce the federal deficit by an average of around 1 percent of GDP over the next decade, including by raising the corporate tax rate and increasing the tax burden for those earning over US$400,000 per year. The budget also made the case to make permanent an expanded refundable Child Tax Credit and a more generous EITC for workers without dependents. While persistently higher long-term interest rates could create a challenge to debt sustainability, the administration is committed to maintaining a credible and sustainable fiscal path that stabilizes the real net interest burden as a share of GDP. The repeated bouts of debt limit standoffs and possible government shutdowns represent an unnecessary economic headwind and have the potential to seriously harm business and consumer confidence.

[11] Staff's fiscal forecast assumes that these provisions will sunset as scheduled. If all of the expiring provisions of the 2017 Act were to be renewed, this would add around 1.7 percent of GDP to the federal budget deficit (see Congressional Budget Office).

### Box 8. Options to Lower the Federal Debt

A combination of options will be needed on both the revenue and expenditure side of the budget to bring the debt-GDP ratio down over the medium term. These include:

- *Scaling back poorly targeted tax expenditures*. These include not taxing the value of employer-provided health care, capital gains exemptions for individuals selling their principal residence, and income tax deductibility for mortgage interest and state and local taxes. Together these tax expenditures account for around 1.4 percent of GDP per year.
- *Closing the "carried interest" provision* whereby income earned from partners in an investment fund can be treated as capital gains and taxed at a 23.8 percent rate (rather than at the 37 percent top marginal rate).
- *Eliminating "step up basis" for capital gains* which allows the value of inherited assets to be reset at the date of death so that any capital gains that has accrued during the life of the original owner are effectively never subject to capital gains tax.
- *Phasing in a federal consumption tax and/or a carbon tax*. Such an increase in indirect taxes would generally be regressive and so would need to be combined with a well-designed social assistance program to cushion the impact on poor households. As an example, a 10 percent, broad-based VAT would yield around 2 percent of GDP per year.
- *Raising the federal excise tax on gasoline and diesel*. The federal tax on gasoline and diesel is not subject to indexation and has remained unchanged in nominal terms since 1993 (at 18.4 cents for gasoline and 24.4 cents for diesel). Doubling the tax on both gasoline and diesel would yield around 0.15 percent of GDP per year.
- *Raising the corporate tax rate and moving toward a cashflow tax*. If combined, such a change in the corporate tax system could both raise revenue and reduce the marginal disincentive to invest. Each 5 percent increase in the corporate income tax rate would yield around 0.3 percent of GDP per year (although allowing for full expensing of capital expenditure would backload these potential revenue gains).
- *Reducing imbalances in the social security system*. Indexing social security benefits to chained CPI would save around 0.1 percent of GDP per year. Subjecting earnings greater than US$250,000 to social security payroll taxes would yield around 0.4 percent of GDP per year.
- *Containing health care costs*. Technological solutions that increase efficiency, greater cost sharing with beneficiaries, and changing the mechanisms for remunerating healthcare providers would all help. Efforts have already been taken for Medicare to negotiate prescription drug prices; expanding this program to a broader range of drugs could save around 0.1 percent of GDP per year.
- *Legislating the globally coordinated agreement on a minimum corporate tax*. This would help counter profit shifting and base erosion.

# IS THE U.S. ECONOMY BACK IN BALANCE?

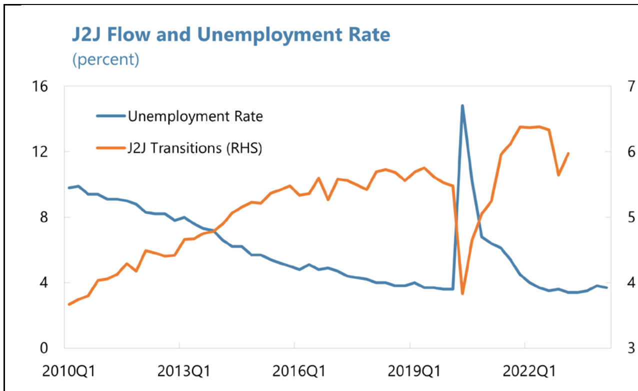
**28. There has been an impressively rapid repair of the economy following the turmoil caused by COVID-19.** As the U.S. emerged from the pandemic there were important concerns about the potential hysteresis effects arising from declines in labor force participation (particularly among women, older workers, and lower income households), the tragic loss of life and talent during COVID, long-term health effects, widespread bankruptcies (particularly among smaller businesses), and education losses suffered by students. Now, with the benefit of time, it has become clear that the active deployment of a range of policies during the pandemic has allowed the U.S. to avoid many of these possible downsides. This is also a testament to the flexibility, dynamism and innovativeness of the U.S. economic model.

**29. It is difficult to be definitive about whether the U.S. economy is fully back in balance.** Any assessment is complicated by the uncertainty surrounding the degree to which the pandemic materially changed the underlying steady state (e.g., relative to that which prevailed in 2018-19 when the economy appeared to be close to potential, at full employment, with inflation close to target, and policy broadly at neutral settings). Also, a number of secular transitions—lower carbon intensity, greater penetration of digital technologies, different modalities of work, and an aging population—are underway.

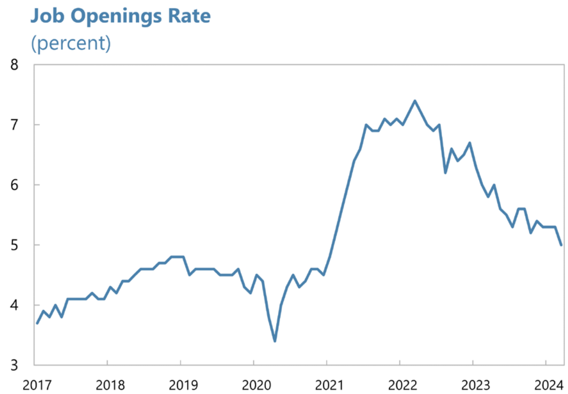
**30. Nonetheless, a stock-taking of the various dimensions of this important question seems worthwhile as the pandemic moves into the rear-view mirror**:

- ***The signs of supply-demand imbalances in the labor market have mostly dissipated***. Levels of hiring, quits, layoffs, unemployment, measures of labor underutilization (e.g., U6), and the level of job-to-job transitions have, in broad terms, returned to levels seen in 2018-19. The rate of employment growth remains very high (2.8 million jobs were created over the past 12 months) but this appears to be consistent with recent sizeable inflows of foreign-born labor. While the job opening rate is modestly above pre-pandemic levels, structural changes in the hiring process (notably the increased recourse to electronic platforms) meant that the openings rate had an upward trend even prior to the pandemic. This would imply the economy will settle at a somewhat higher rate of job openings than prevailed in 2019. Finally, nominal wage growth remains above levels consistent with 2 percent inflation. However, due to strong productivity, the recent growth in unit labor costs has actually been at lower rates that were seen in 2018-19. Furthermore, the post-pandemic increase in corporate margins (see below) suggests that there is space for real wages and the labor share of income to rise without an increase in inflation.

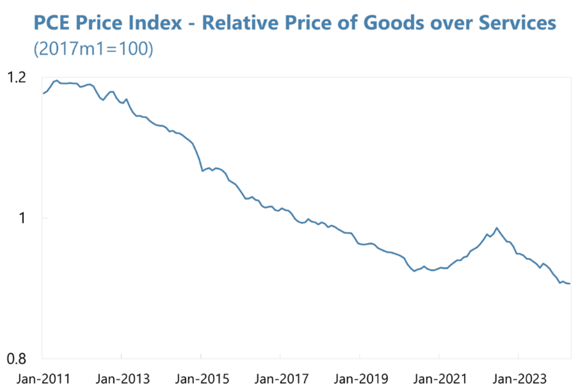
- ***The share of consumption accounted for by goods remains above pre-pandemic levels***. The pandemic triggered a marked shift in consumer demand from services to goods that has subsequently reversed. However, even prior to 2020 there was an ongoing increase in the relative share of goods in consumption—particularly durables—driven by rising incomes and a secular decline in the relative price of goods versus services. After accounting for this prior trend, it appears that the swing back from goods to services consumption is largely complete.



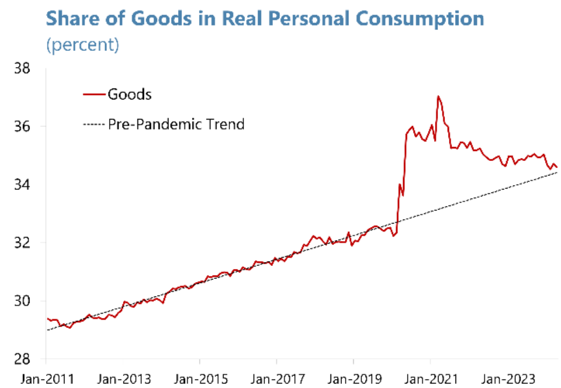
Source: U.S. Census; Bureau of Labor Statistics.



Source: Bureau of Labor Statistics.

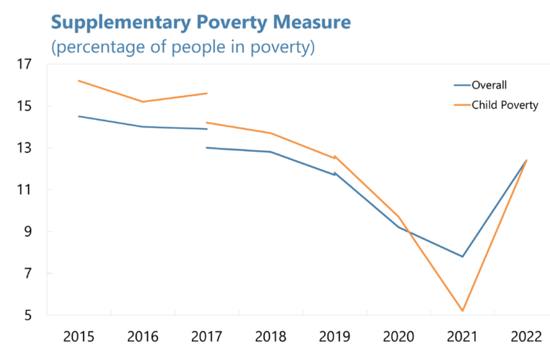


Source: Bureau of Economic Analysis.



Source: Bureau of Economic Analysis.

- ***Poverty rates are high but have broadly returned to levels prevailing prior to the pandemic***. The extraordinary interventions during the pandemic were successful in not only preventing an increase in poverty but actually significantly lowering the poverty rate (to 7.8 percent, 5.2 percent for children). With the expiration of these support measures in 2022, poverty rose and is now back to levels that are similar to those seen prior to the pandemic.



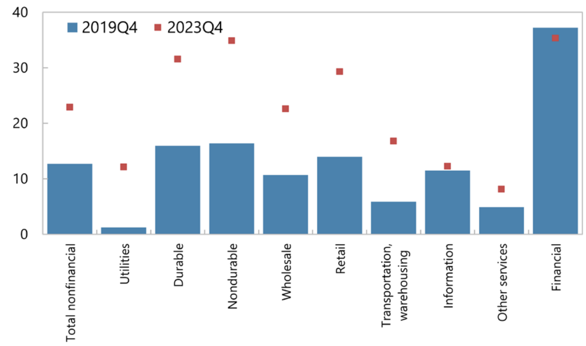
Source: U.S. Census Bureau.
Notes: The Supplemental Poverty Measure (SPM) estimates for 2019 and beyond reflect the implementation of revised SPM methodology. The data for 2017 and beyond reflect the implementation of an updated processing system.

- ***The external position is broadly in line with the level implied by medium-term fundamentals and desirable policies*** (Annex III). While the current account deficit (at 3 percent of GDP in 2023) is somewhat above the norm, this is largely due to the effects of a larger-than-desirable fiscal position. Similarly, while the U.S. dollar is around 10 percent above its pre-pandemic levels, these gains can largely be accounted for by the strong cyclical position of the U.S. and improvements in the terms of trade (as the U.S. has become a net energy exporter). A medium-term fiscal consolidation—undertaken by both the U.S. and its trading partners—would be expected to bring the current account even closer to its medium-term norm and modestly weaken the dollar.

- ***The real policy rate is well above neutral***. With inflationary pressures remaining a concern, it is appropriate for the ex ante real federal funds rate to be above estimates of the neutral policy rate (although there is significant uncertainty about what the neutral rate will be once inflation is decisively back at 2 percent). However, it is expected that the gap between the policy rate and estimates of neutral will diminish in the coming months as inflation falls back to 2 percent.

- ***Corporate margins rose markedly during the pandemic***. Average profit margins for the economy as a whole rose from around 13-14 percent in the decade prior to the pandemic to over 20 percent by end-2023. This increase was common across a range of sectors. On average, around 2 percentage points of this higher margin can be accounted for by gains in corporate net interest income (discussed above). However, the rapid rise in wage and production costs over the past few years also catalyzed a repricing of outputs that allowed firms to also build higher producer margins. Looking forward, it is unclear whether or not these profit margins are going to return to pre-pandemic levels. Increasing market power could underpin a permanent widening of margins. On the other hand, competitive pressures and the entry of new firms may, over time, push margins lower. Also, if high interest rates persist, firms will increasingly face higher net debt outlays as they refinance maturing debt.

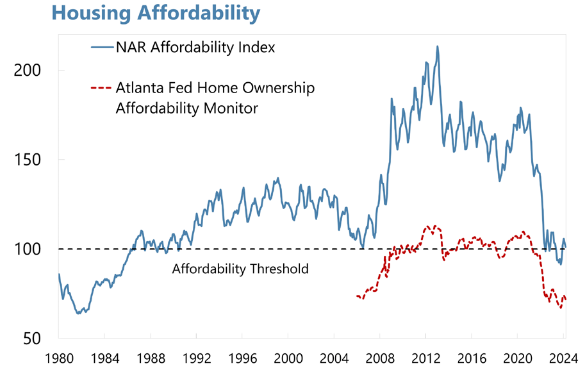
**Profit Margin by Industry**
(Corporate profits with inventory adjustment as percent of real value added)




Sources: Bureau of Economic Analysis

- ***Imbalances in the housing market remain sizable***. One of the largest shifts in relative prices following the pandemic was from a surge in housing costs. On average, prices are now around 50 percent higher than prior to the pandemic and housing has not been this unaffordable since the mid-1980s (when mortgage rates were in the double digits). Today, the median household would need to spend over 40 percent of their monthly income to cover the costs of owning the median home. Turnover in the housing market has dropped to levels last seen in the aftermath of the global financial crisis and the inventory of homes for sale is at all-time lows. This reflects both the marked drop in residential construction (as interest rates rose) as well as a lock-in effect (with

**Housing Affordability**




Source: National Association of Realtors; Federal Reserve Bank of Atlanta households reluctant to move and give up their low, fixed-rate mortgage).[12] As supply constraints bind and interest rates fall, construction and turnover should both pick up. Nonetheless, the increase in the relative price of shelter may well be a lasting feature of the post-pandemic economy. If that proves to be true, in the coming years we should expect to see a decline in rates of home ownership (and increase in rentals), slower rates of household formation, and a shift of demand toward smaller homes. Younger and lower-income households would be most affected by these trends.

- ***The public debt and deficit, as a share of GDP, are larger than prior to the pandemic***. The general government deficit is expected, over the medium-term, to remain around 2½ percent of GDP higher than prior to the pandemic (split evenly between higher interest payments and a looser primary balance). The public debt-GDP ratio is also well above levels expected just a few years ago. This worsening of the fiscal position is perhaps the most visible and lasting imbalance caused by the various policies undertaken during the pandemic. When combined with a likely increase in financing costs (e.g., relative to the very low interest rates of the 2010's), the upward shift in debt and deficits is particularly troubling. As discussed above, developing a clear strategy for reducing the debt and deficit over time will be essential. Such an adjustment would likely lead to lower interest rates, a weaker currency, and a CA deficit that is closer to the medium-term norm.

**31. All in all, the evidence suggests the U.S. economy has largely returned to balance.** Many of the imbalances that were catalyzed by the pandemic have unwound (notably with respect to labor markets, the composition of consumption, and the external position). Inflation is expected to soon return to target which will subsequently allow the monetary stance to normalize. There is significant uncertainty surrounding the prospects for corporate profitability and the relative price of housing. However, the fiscal deficit remains much too large and will require decisive policy efforts to address (see above). Addressing this fiscal imbalance through higher indirect taxes, increased taxation of high-income individuals, eliminating poorly targeted tax expenditures, and making gradual parametric changes to entitlement programs should be expected to have relatively small multiplier effects. However, such a change in the policy mix would allow for lower public debt-GDP, a smaller CA deficit, and would put downward pressure on market interest rates. As such, it would lessen macroeconomic vulnerabilities and create positive outward spillovers (particularly to those with sizable dollar financing needs).

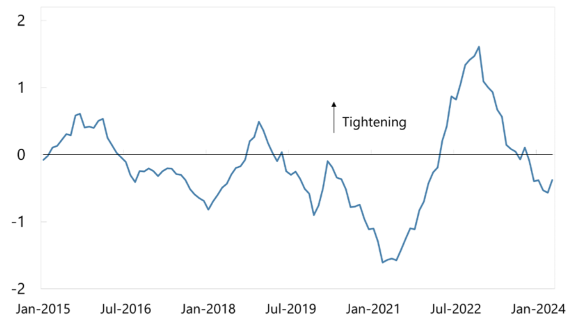
**32. Authorities' views.** Significant progress had been made in returning the economy to balance after the extraordinary shocks experienced with the pandemic and the Russian invasion of Ukraine. Based on a range of indicators, labor supply and demand had come into better balance over the past year. Supply chain disruptions had been largely resolved. Inflation is on a downward path and is expected to soon return to more normal levels. The child tax credit contained in the administration's budget proposal, if enacted, would be an impactful tool to reduce poverty. Finally, supply side reforms, including those legislated in the Inflation Reduction Act, Infrastructure,

[12] Estimates from the Federal Home Finance Agency point to lock-in effects leading to a 57 percent reduction in home sales in 2023Q4 which reduced activity, created constraints on mobility, and boosted housing prices.

Investment, and Jobs Act, and CHIPS Act, are working to relieve bottlenecks, increase labor productivity, and address climate challenges. This should help ensure the U.S. remains on a path of strong, sustained and balanced growth.

# RISKS AHEAD

Financial Condition Index
(1-year look back)




Source: Ajello et al. Federal Reserve.

**33. There are balanced risks to the near-term outlook for activity and employment.** Both consumption and investment could exceed expectations, driven by a healthy labor market, rising real incomes, wealth gains, and abundant sources of relatively low cost financing. Similarly, supply side gains from higher productivity and the inflow of foreign labor could persist. On the other hand, downside risks could arise from the complex global geopolitical environment or from a slower path of disinflation and the resulting higher path for interest rates. There are also important risks linked to the elections, financial stability, and the ongoing increase in trade and subsidy distortions.

### Political Risks

**34. The upcoming national elections create significant uncertainties about the economic policy mix that would be pursued in 2025 and beyond.** It is possible that the US could see changes in fiscal policy (both on taxation and spending), financial and environmental regulations, immigration and trade policies. Depending on the combination of policies, there could be significant effects on growth, inflation, interest rates, and debt dynamics. This could have varied spillover effects across countries. For example, in the case of a stronger dollar and more trade restrictions, countries with large current account deficits, that are reliant on dollar financing, or whose exports are dependent on the U.S. market, would likely face the largest negative outward spillovers.

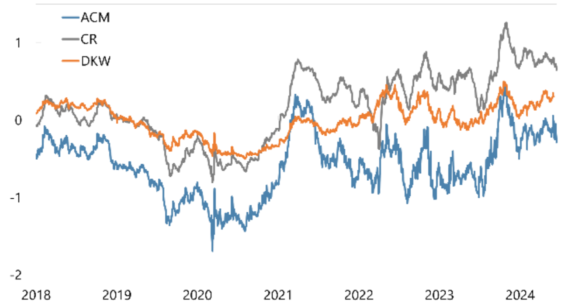
### Financial Stability Risks

**35. Overall, financial stability risks have diminished since the time of the 2023 Article IV but important pockets of vulnerability remain.** Over the past year, the financial stability risks highlighted by the failures of SVB and Signature banks have receded. Outflows from bank deposits into money market funds have been smoothly absorbed. In addition, a process is well underway to work out the worsening credit quality of office commercial real estate (CRE) debt. On the other hand (as highlighted in the 2023 Article IV) there is a continuing need to increase the resilience of nonbank mortgage companies, particularly given the critical role they play in servicing a sizable share of U.S. mortgages.[13] A range of FSAP recommendations remain to be implemented (Annex V).

[13] See FSOC Report on Nonbank Mortgage Servicing, 2024.

**36. Potential shortcomings in Treasury market functioning-under-stress continue to represent a systemic risk.** Over the past year, the Treasury market has smoothly absorbed significant swings in pricing of both the term premium and future path for the federal funds rate. This has been good news. Nonetheless, given the U.S. Treasury market's global status, any potential malfunction in this market would create globally-relevant effects, including spilling over into the dollar funding capacity of global banks.

**10-year Treasury Term Premia**
(percent)




Source: FRBSF; FRBNY; Federal Reserve Board.
Note: ACM: Adrian, Crump, and Moench (2013); CR: Christensen and Rudebusch (2012); DKW: D'amico, Kim , and Wei (2018)

**37. Conscious of past episodes of an abrupt deterioration in market functioning, the U.S. authorities formed an interagency working group to examine options to increase the resilience of this key market.** To lessen market vulnerabilities, a Treasury buyback program of off-the-run securities has been put in place, oversight over key market participants has increased[14], better data is being collected, and rules have been established to expand the scope of central counterparty clearing for a range of secondary markets. These steps go in the right direction and, when combined with other proposals (Box 9), should help strengthen the current primary dealer-based system.

**38. The vulnerabilities in the banking system that came to light in 2023—including failings in bank supervision and risks created by the regulatory "tailoring" undertaken in 2018—have not yet been addressed**. Public comments were requested on proposed changes to bank capital requirements based on Basel III standards[15] and on a requirement for large, non-GSIB banks to maintain a minimum amount of long-term debt.[16] Internal processes are being updated at the regulatory agencies, including to more-quickly escalate supervisory concerns. However, concrete actions to decisively remedy these known vulnerabilities have been lacking.[17] Options that had been floated to strengthen the deposit insurance system[18] have not been acted upon, no changes have yet been made to bank capital or liquidity requirements, medium-sized banks continue to be subject

[14] Proprietary or principal trading firms that assume dealer-like roles will be required to register with the SEC, be a member of a self-regulatory organization, and be subject to similar regulatory requirements as dealers.

[15] The goal of the changes are to simplify risk-based capital requirements, use standardized approaches in modeling credit and operational risk, and change the measurement of market risk and credit valuation which will extend the scope of application of Basel III and increase capital requirements for banks.

[16] To improve the resolvability of certain larger banking organizations and insured depository institutions that are not subject to the Total Loss Absorbing Capacity Rule, they would be required to have long-term debt outstanding that exceeds 6 percent of risk-weighted assets, 2.5 percent of the supplementary leverage ratio, or 2.5 percent of total consolidated assets (whichever is largest).

[17] Earlier this year there was a reminder of vulnerabilities when strains became evident in one mid-sized bank that had been expanding rapidly and had material weaknesses in its internal controls. This prompted downgrades by ratings agencies, a reduction in dividends by the bank, an injection of capital by an investor group, and changes in the Board and management of the bank.

[18] See "Options for Deposit Insurance Reform", FDIC (2023). On average, uninsured deposits are around one half of total system deposits but with significantly higher shares for some banks (including some GSIBs).

to the Fed's supervisory stress test only every other year, and it is unclear the degree to which supervisory actions are becoming more assertive. To address these vulnerabilities, consideration should be given to fully implementing the final components of the Basel III agreement, applying similar regulatory requirements (including annual supervisory stress tests) to all banks with US$100 billion or more in assets, further strengthening supervisory oversight and practices, re-examining the coverage of deposit insurance, and recalibrating liquidity requirements and liquidity stress tests (to better take account of the potential for fast-moving deposit outflows and the potential losses that could be realized when long duration assets are liquidated).

### Box 9. Recent Reforms to the Treasury Market

Over the past year, there have been several reforms to strengthen the resilience of the Treasury market and improve data:

- A buyback program for off-the-run Treasuries was introduced with a goal of bolstering secondary market liquidity and improving the Treasury's cash management operations (i.e., during periods of seasonally high tax receipts buying back securities that mature at times of seasonally high outflows).
- After a phase-in period, required central clearing of secondary market transactions will be expanded to include (with some exemptions): all repo/reverse repo trades collateralized by Treasury securities with members of the Fixed Income Clearing Corporation (FICC); all cash trades between interdealer brokers and between FICC members and a registered broker-dealer or a government securities broker/dealer. The rule also requires FICC to collect margin for its members and their customers' transactions separately.
- Requiring firms that act like dealers—e.g., principal trading firms and private funds that are assessed to be de facto market-makers in the Treasury market—to register with the SEC, become members of a self-regulatory organization, and comply with the same regulatory requirements as dealers.
- Broker-dealers that are SEC-registered but were exempt from FINRA membership—because they carried no customer accounts and conducted their principal trading through a registered broker-dealer—are now required to join FINRA and report their Treasury transactions to FINRA's Trade Reporting and Compliance Engine.
- After completing a pilot program and publishing a report on non-centrally cleared bilateral repo, the Office of Financial Research has proposed a rule establishing ongoing data collection of transactions in this market.
- FINRA has begun to publish daily aggregate data on Treasury transactions and is collecting data on the time of transaction at the finest increment allowed by their members' execution systems. FINRA has begun publishing trade-by-trade data for on-the-run securities at the end of each day.
- Money market funds are required to report additional information about the composition and concentration of their shareholders that hold 5 percent or more of shares outstanding in each class of shares. Regulatory disclosures were also increased for large liquidity fund advisers that manage at least US$1 billion in liquidity and money market fund assets.

39. **A realignment in the CRE market, notably for office space, represents a continuing risk to asset quality for both banks and nonbanks**. CRE loans total around US$6 trillion, of which around one fifth represents exposure to office space (of this amount, around one half of office CRE exposure is believed to be held on bank balance sheets). Structural changes in work practices catalyzed by the pandemic have caused office occupancy rates to decline and for maturing leases to

reset at lower prices. At the same time, the costs of new financing for office properties have risen steeply. As a consequence, the credit quality of the liabilities associated with office CRE has deteriorated and there is an ongoing process to restructure this debt. Stress tests suggest that the potential impact on banks of a significant write-down of CRE loans would be concentrated in relatively small regional banks (Box 10). However, the combination of a high share of uninsured deposits and unrealized losses on holdings of longer duration securities and loans represents an additional channel of vulnerability. If losses on CRE exposures—or potentially on other forms of bank credit—are sufficiently concentrated, they have the potential to trigger a meaningful outflow of uninsured deposits. This, in turn, could crystallize losses on bank balance sheets as the banks liquidate their Treasury and mortgage-backed security holdings, potentially creating financial stability problems across a broader range of institutions. .

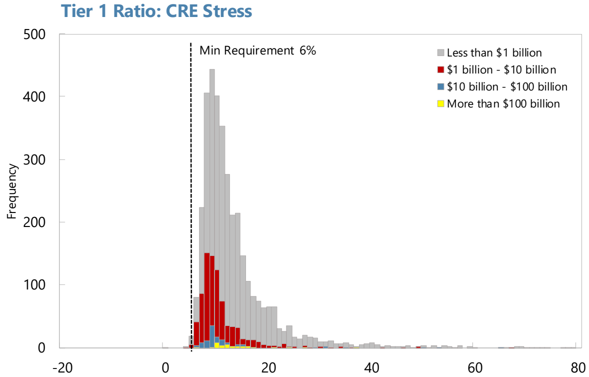
## Box 10. Potential Bank Losses from Commercial Real Estate

Banks hold around half of all outstanding CRE loans, with smaller banks holding a larger share of their assets in CRE. Top-down stress tests[1] show that losses on CRE assets could deplete the capital of some highly exposed banks but these are very small banks. In particular, 16 banks would exhaust their tier 1 capital buffer. However, these banks represent 0.1 percent of system assets. Losses could, though, be larger if banks have a greater-than-assumed concentration of office loans in their CRE holdings.

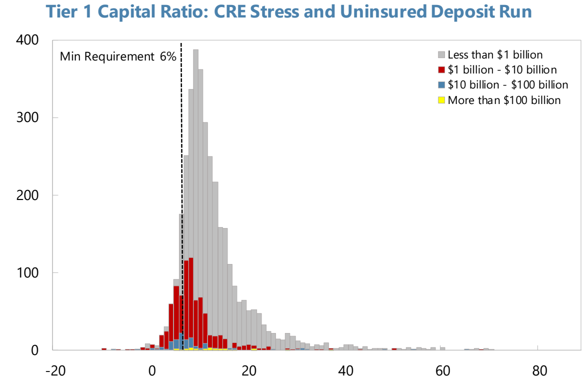
| **Bank by asset size** | No of banks | Share of total banking sector assets | Tier 1 capital ratio | Share of total CRE loans in banking sector | CRE loan (% of RWA) | Uninsured deposit (% of RWA) | Mark-to-market loss from securities (% of RWA) |
|---|---|---|---|---|---|---|---|
| >=$100bn | 33 | 71 | 15 | 33 | 9 | 49 | 3.7 |
| [$10bn, $100bn) | 125 | 14 | 15 | 30 | 31 | 41 | 3.1 |
| [$1bn, $10bn) | 836 | 10 | 16 | 27 | 35 | 34 | 2.6 |
| <$1bn | 3647 | 5 | 21 | 10 | 21 | 27 | 3.0 |
| Total | 4641 | | 20 | | 24 | 29 | 2.9 |

Sources: FDIC Call Reports 2023Q4.
Note: Missing risk weighted assets (RWA), mostly banks with less than $1bn total assets, are proxied by total assets. Banks with less than $1bn total assets don't report uninsured deposit, and their uninsured deposit is estimated as deposit and retirement accounts with balances greater than the standard maximum deposit insurance amount, currently $250,000, minus the portion that is insured.

**Tier 1 Ratio: CRE Stress**




**Tier 1 Capital Ratio: CRE Stress and Uninsured Deposit Run**




Tier 1 Capital Ratio, Percent

Source: FDIC Call Reports 2023Q4; IMF staff calculations.
Note: Top 2 percentile truncated.

Assuming CRE losses trigger a full outflow of the bank's uninsured deposit (which would then cause the affected banks to liquidate their Treasury holdings) would result in broader stress. 558 banks (10 percent of system assets) would deplete their tier 1 capital buffer. This would include a small number of banks with over US$100 billion in assets. As such, it is the combination of credit losses and the vulnerability created by a sizable share of uninsured deposits which would undermine bank capitalization under an extreme stress scenario.

[1] The stress test is conducted on 4641 banks based on 2023Q4 Call Reports, representing 99.8 percent of total bank assets. Office loans are assumed to constitute 40 percent of total CRE loans and there is a 30 percent default rate and 50 percent recovery rate on such loans (considerably worse than following the 2008–09 recession). The minimum tier 1 requirement is 6 percent (i.e. does not include the GSIB surcharge). Results are similar to Jiang et al., "Monetary Tightening, Commercial Real Estate Distress, and US Bank Fragility", (2023).

40. **Efforts have been taken to mitigate potential liquidity risks in money market funds.** Money market funds have expanded rapidly in recent years, both due to the expansion of liquidity in the system during the pandemic and, more recently, as resources have moved out of bank deposits in search of higher rates of return. During 2023 alone, US$1.1 trillion moved into money market funds, with most of this increase appearing to come from household savings. Money market fund assets are almost 60 percent larger today than prior to the pandemic. To lessen vulnerabilities in this

critical sector, the Securities and Exchange Commission (SEC) has increased minimum liquidity requirements for these funds, required funds to impose liquidity fees if their liquid assets become sufficiently eroded, and removed the ability of funds to temporarily suspend redemptions (i.e., through gates or fees). These efforts should lessen the vulnerability of money market funds to run dynamics without detracting from the important role they play as intermediaries. The changes are also likely to lead to a migration of assets away from institutional prime funds to government-only funds (which already make up over 80 percent of the total). In addition to changes to money market funds, amended rules have been proposed (but not yet implemented) to improve liquidity risk management and require swing pricing for open-end funds. However, collective investment funds—which are estimated to have US$7 trillion in assets, largely in retirement accounts—are exempt from SEC oversight and not subject to these rule changes.[19] This potentially creates a regulatory gap that may incentivize resource to migrate from SEC-regulated funds to these collective investment funds as standards are tightened on money market and open-end funds.

**41. The Financial Stability Oversight Council (FSOC) has taken several steps to improve risk monitoring and coordination among the various regulators.** The council has established a climate-related financial risk committee that is developing a framework for assessing such risks and developing risk indicators for banks, insurers, and financial markets. In addition, a risk-monitoring system has been put in place to assess potential financial stability risks associated with hedge fund activities. The FSOC has developed a new analytical framework to formalize how to assess and address financial risks and has provided updated guidance on the procedures whereby the FSOC may designate nonbanks to be subject to Federal Reserve supervision. Actions have also been undertaken to address data gaps including as relates to non-centrally cleared bilateral repo transactions and increased disclosure to the SEC by certain SEC-registered private funds.

**42. Authorities' views.** The U.S. financial system has proven itself to be resilient and the U.S. banking system is, in aggregate, sound and well-capitalized. The appropriate level of bank capital is being reviewed as part of the implementation of Basel III. Bank regulators are updating their practices to improve supervisory risk identification, ensure proper escalation of supervisory findings, and strengthen the process and culture of supervision. Supervisors have been reviewing liquidity risk management practices among supervised institutions, and have worked with firms to address gaps in practices, where appropriate, and discount window collateral pre-positioning has increased substantially over the last year. Supervisors were attuned to remaining vulnerabilities—particularly in smaller regional and community banks—including those related to exposure to commercial real estate loans. Recent SEC rules should help reduce structural vulnerabilities in money market funds. The combination of new SEC rules on central clearing, increased oversight of principal trading firms, more comprehensive data collection, and the introduction of regular buyback operations could help improve liquidity of Treasury markets. Finally, the FSOC's new analytical framework for financial stability risks and updated guidance on its nonbank determinations process will both increase

[19] These funds are bank-administered trusts with the Office of the Comptroller of the Currency having supervisory responsibility for their activities. In addition, these funds are subject to minimum standards of the Employee Retirement Income Security Act which requires certain disclosure standards to be met and provides fiduciary responsibilities for the banks who manage and control the funds' assets.

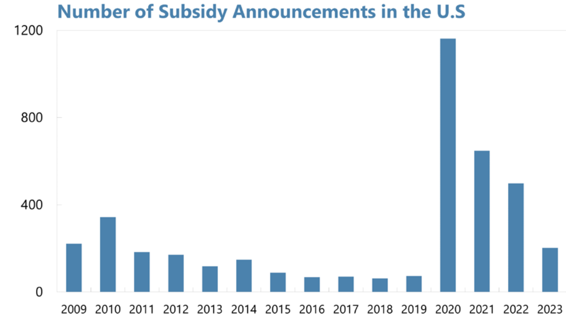
transparency into how FSOC considers risks irrespective of their source and improve FSOC's ability to address risks to financial stability.

## Trade Risks

**43. The ongoing intensification of trade restrictions and the increased use of preferential treatment of domestic versus foreign commercial interests represent a growing downside risk for both the U.S. and the global economy.** The U.S. maintains a range of import tariffs that distort resource allocation and increase trade costs, including in strategic sectors. For national security reasons, export controls have been extended on advanced computing chips and a new outbound investment mechanism will scrutinize certain categories of outbound investments of advanced technologies. The U.S. has also in place—through the Inflation Reduction Act, the CHIPS Act, and the Build America, Buy America Act—discriminatory policies that favor domestic producers over imports.[20] Finally, rather than rolling back tariffs, the recent review of the Section 301 tariffs on imports from China recommended expanding tariffs on certain products, including steel, aluminum, semiconductors, electric vehicles, batteries, critical minerals, solar cells, ship-to-shore cranes and medical products.[21] The evidence suggests these tariffs will largely be borne by U.S. firms and, to a lesser extent, consumers (Box 11). The cumulative impact of these various tariff and domestic content provisions is to distort trade and investment decisions, disrupt global supply relationships, and risk triggering retaliatory responses by trading partners. They should be removed.

**44. Industrial policies in the U.S, and the retaliatory actions they trigger, have the potential to contribute to fragmentation risks.** Since the start of the pandemic, the U.S. has intensified the use of various forms of preferences for commercial interests, as have other countries. For example, between 2009–22, the U.S. put in place over 3,000 subsidy measures, covering 63 percent of U.S. exports.[22] These subsidies increase exports in targeted products relative to products that do not receive subsidies, with similar effects found for the U.S. as in other countries.[23] In

**Number of Subsidy Announcements in the U.S**




Source: Global Trade Alert.

Note: Potential cross-country differences in transparency, data availability and policy preferences should be considered when interpreting this data. The compilation process introduces judgement in some borderline cases and judgement-based approaches reduce comparability. Counts of measures can be heterogeneous in their economic significance.

[20] China has initiated a WTO dispute linked to the domestic content provisions of the Inflation Reduction Act and there is an ongoing WTO dispute concerning U.S. export restrictions on semiconductors.

[21] The USTR found that China continues to maintain technology transfer-related acts, policies or practices that impose a burden or restriction on U.S. commerce. On the basis of this review, the president has increased the level and scope of the tariffs. Further section 301 investigations are also underway related to Chinese practices in the shipbuilding, maritime, and logistics sectors. In addition, President Biden has argued against the proposed sale of U.S. Steel to a Japanese investor and legislation has been signed into law giving TikTok's Chinese parent company 9 months to either divest from the company or face a national ban.

[22] See Global Trade Alert coverage of announcements of corporate subsidies introduced and in force 2009–22.

[23] See L. Rotunno and M. Ruta, "Trade Spillovers of Domestic Subsidies", IMF Working Paper, 2024.

addition, recent data shows that the introduction of subsidies in either China, the European Union or the U.S. have, on average, a 74 percent probability of being reciprocated in the same product group by one of the other trading partners.[24] Industrial policies should be confined to specific objectives where externalities or market failures prevent effective market solutions and, even then, they should minimize trade and investment distortions, be consistent with international obligations, and avoid discriminating between domestic and overseas producers. Rather than maintaining a complex network of preferences and incentives, U.S. competitiveness would be better bolstered through policies such as investments in worker training, apprenticeships, and infrastructure.

**45. The U.S. should actively engage with all 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.** This would mean engaging fully with efforts to strengthen the WTO, including through the restoration of a well-functioning dispute settlement system by end-2024, finding common ground in areas such as tariffs, farm and industrial subsidies, and services trade, and concluding new WTO-based market-opening agreements. Negotiations have advanced in some areas including the Indo-Pacific Economic Framework for Prosperity (with thirteen partner countries) and the Critical Minerals Agreements with the EU, Indonesia, and the U.K. However, the trade pillar of the Indo-Pacific agreement has yet to be agreed and benefits may be constrained by a lack of market access commitments. Such trade initiatives and agreements should be used to advance open and free trade, not as discriminatory tools that create incentives for fragmentation.

**46. Authorities' views.** The goal of the administration's trade agenda is to strengthen the middle class, ensure inclusive and sustainable economic growth, and deliver benefits to a broad range of communities, including workers. Steps have been taken to ensure supply chains are more resilient, reliable, diversified and sustainable, particularly with regard to critical goods and technologies. National security considerations have led to the use of other tools such as controls on exports and outbound investment. Following an in-depth review, the USTR determined that Section 301 tariff remedies were needed to combat unfair, non-market policies and practices in China linked to forced technology transfer and the theft of intellectual property. To encourage China to eliminate these practices, the U.S. has chosen to both maintain existing tariffs and impose new, carefully targeted tariffs on strategic sectors. The U.S. continues to maintain channels for dialogue with China and hopes to encourage a change in a range of practices in China that encourage or facilitate systemic, non-market policies and practices.

[24] See S. Evenett, A. Jakubik, F. Martin and M. Ruta. "The Return of Industrial Policy in Data", IMF Working Paper, 2024.

### Box 11. Impact of U.S. Tariffs

In May 2024, the U.S. announced recommendations to maintain Section 301 tariffs that were initially imposed on China in 2018 and 2019, and to add or increase tariffs for certain products. Evidence on the impact of these measures shows that tariffs reconfigured supply chains, raised import prices and, overall, had modest negative effects on the U.S. economy.

U.S. firms and importers bore the brunt of the tariffs imposed on imports from China through a one-for-one increase in import prices.[1] However, the pass-through to retail prices was small with costs apparently absorbed in corporate margins.

On balance, increased trade restrictions had a negative effect on U.S. welfare. The tariffs negatively impacted sectors that were exposed to the tariffs (e.g., through imported inputs), reducing export growth (Handley, Kamal, and Monarch, 2020) and lowering employment in those sectors (Flaaen and Pierce 2019). Overall, there was an estimated negative effect on U.S. welfare equivalent to 0.1 percent of GDP (Fajgelbaum and Khandelwal, 2022). Similarly, Boer and Rieth (2024) argue that reversing the 2018-19 tariffs would raise output by 0.4 percent after three years.

The tariffs have prompted a reconfiguration of supply chains, although links to China remain strong. U.S. imports from China dropped in sectors exposed to the tariffs, replaced by imports from other countries (particularly in strategic sectors). However, this may not have reduced reliance on China in U.S. supply chains as those countries that increased their exports to the U.S., on average, imported more from China (Freund et al, 2023). Gopinath et al (2024) highlights the emergence of connector countries where greater Chinese presence—measured either through exports or announced greenfield investments—has been correlated with higher exports from that country to the U.S.

Retaliation by China amplified the negative impact of the U.S. policies. In response to the 2018-19 tariffs, China introduced its own restrictions on imports from the U.S., raising tariffs to around 21 percent on almost 60 percent of imports from the U.S. These retaliatory tariffs reduced U.S. employment (Waugh, 2019). Caceres et al. (2019) assess that a 25 percent uniform tariff on Chinese imports, that is reciprocated by China, would reduce U.S. output by 0.2 percent.

[1] See Amiti, Redding, and Weinstein (2019), Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020); Cavallo, Gopinath, Neiman, and Tang, 2021; Flaaen, Hortaçsu, and Tintelnot (2020), USITC (2023).

# VOLUNTARY ASSESSMENT OF TRANSNATIONAL ASPECTS OF CORRUPTION

**47. The United States[25] has continued to bring significant enforcement actions against legal and natural persons and take steps to address its high exposure to foreign bribery risks.** Key risk factors include the size of the economy, scale of outward FDI, leading position in global trade and financial services, and the large number of companies operating in high-risk jurisdictions and sectors (e.g., arms and defence equipment, oil and gas, technology, aerospace, medicinal and

[25] The United States volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance for purposes of determining whether it: (a) criminalizes and prosecutes the bribery of foreign public officials; and (b) has an effective AML/CFT system that is designed to prevent foreign officials from concealing the proceeds of corruption.

pharmaceutical products).[26] In the 2022 Follow-up Report, the OECD Working Group on Bribery (WGB) highlighted the various steps taken by the authorities to implement the majority of the WGB Phase 4 recommendations. In particular, the WGB recognized their efforts to enhance the transparency and efficiency of foreign bribery enforcement, such as by providing information regarding detection sources, evaluating the effectiveness of the DOJ Corporate Enforcement Policy, issuing recidivism guidance, and publicizing the extension or completion of non-trial resolutions, which confirms the country's leading enforcement role within the WGB. However, the authorities should continue to address the remaining recommendations of the Phase 4 evaluation, including those calling for enhancing whistleblower protections, further addressing corporate recidivism, and considering possible alternative ways of collecting data on debarment decisions against businesses based on foreign bribery (see Annex VII).

48. **The U.S. continues to face risks from illicit proceeds of crime, including corruption.** The 2024 national money laundering risk assessment (NMLRA) examines the most significant money laundering crimes in the U.S., including corruption, which remains among the largest proceeds-generating predicates.[27] The NMLRA highlighted the U.S. government's growing concerns about the illicit finance risks associated with so-called 'gatekeepers'[28] to the U.S. financial system. The U.S. has identified instances where corrupt foreign officials have used investment advisers as an entry point to invest in U.S. securities, real estate, and other assets. In response, in February 2024, Treasury issued two proposed rules that would apply AML/CFT requirements to certain investment advisers and real estate professionals. Subsequently, in May 2024, FinCEN and the SEC jointly issued a separate proposed rule that would require certain investment advisers to implement reasonable procedures to identify and verify the identities of their customers. In addition, the enactment of the Corporate Transparency Act (CTA) in 2021, and its implementing regulations, is meant to address a significant and longstanding gap in the U.S.' AML/CFT regime related to beneficial ownership.[29] Staff note that the continued implementation and enforcement of the CTA is important in ensuring that U.S. companies are not misused for money laundering, corruption, and other illicit financial flows.

# STAFF APPRAISAL

49. **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

[26] Out of the 500 largest multinational enterprises (MNE) in the world, 237 are headquartered in the United States, with many operating in high-risk sectors and jurisdictions, according to the OECD- UNSD Multinational Enterprise Information Platform.

[27] Money laundering methods commonly associated with illicit foreign corruption proceeds include the misuse of shell companies and other legal entities, cash purchases of real estate and luxury or high-value goods, and virtual assets.

[28] These include sectors like attorneys, real estate professionals, trust and company service providers, and investment advisers that may be involved in forming and managing legal entities, providing financial advice, and structuring transactions, but that have not been subject to comprehensive or consistent AML/CFT obligations. The misuse of these 'gatekeepers' is a recurring typology associated with the laundering of foreign corrupt proceeds.

[29] Certain companies are now required to disclose to Treasury their beneficial ownership information when they are formed (or, for non-U.S. companies, when they register with a state to do business in the U.S.) or when there are changes in beneficial ownership.

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 continued healthy rate of growth with balanced risks around the baseline forecast.

**50. 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.

**51. Migrant inflows have represented an important safety valve to ease supply-demand imbalances in the labor market and facilitate the ongoing disinflation.** The inflow of foreign-born workers has expanded the workforce by almost 3 percent over the past three years. This has been accompanied by an increase in participation by the native-born population, particularly female, black and Hispanic workers. Despite these positive outturns, the growing share of undocumented workers in the labor pool points to a critical need for the U.S. to put in place a more orderly approach to immigration.

**52. 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.

**53. There is a pressing need to reverse the ongoing increase in public debt-GDP ratio.** 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. 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.

54. **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.

55. **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.

56. **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 is well above prudent levels. Implementing the policy mix proposed in this report would help preserve macroeconomic balance going forward.

57. **It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

**Table 1. United States: Selected Economic Indicators, 2020–29**
(Percentage change from previous period, unless otherwise indicated)

| | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| **National Production and Income** | | | | | | | | | | |
| Real GDP | -2.2 | 5.8 | 1.9 | 2.5 | 2.6 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 |
| Real GDP (q4/q4) | -1.1 | 5.4 | 0.7 | 3.1 | 2.0 | 1.8 | 2.1 | 2.1 | 2.1 | 2.1 |
| Net exports 1/ | -0.2 | -1.3 | -0.5 | 0.6 | -0.2 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 |
| Total domestic demand | -1.9 | 6.9 | 2.3 | 1.9 | 2.6 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 |
| Final domestic demand | -1.5 | 6.6 | 1.7 | 2.3 | 2.7 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 |
| Private final consumption | -2.5 | 8.4 | 2.5 | 2.2 | 2.3 | 1.5 | 1.4 | 1.6 | 1.6 | 1.6 |
| Public consumption expenditure | 2.9 | 0.3 | -0.9 | 2.7 | 2.0 | 1.5 | 1.3 | 1.3 | 1.3 | 1.3 |
| Gross fixed domestic investment | -1.0 | 5.3 | 0.9 | 2.1 | 4.5 | 3.1 | 3.6 | 3.2 | 3.1 | 3.1 |
| Private fixed investment | -2.1 | 7.1 | 1.3 | 0.6 | 4.0 | 2.9 | 3.7 | 3.8 | 3.8 | 3.8 |
| Public fixed investment | 4.3 | -2.8 | -1.1 | 9.4 | 7.1 | 3.9 | 3.4 | 0.5 | 0.0 | 0.0 |
| Change in private inventories 1/ | -0.5 | 0.3 | 0.6 | -0.3 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Nominal GDP | -0.9 | 10.7 | 9.1 | 6.3 | 5.1 | 3.9 | 3.9 | 4.0 | 4.0 | 4.0 |
| Personal saving rate (% of disposable income) | 15.3 | 11.3 | 3.3 | 4.5 | 3.8 | 3.7 | 3.4 | 3.3 | 3.8 | 4.2 |
| Private investment rate (% of GDP) | 17.6 | 17.9 | 18.5 | 17.7 | 17.7 | 17.8 | 17.9 | 18.1 | 18.3 | 18.4 |
| **Unemployment and Potential Output** | | | | | | | | | | |
| Unemployment rate | 8.1 | 5.4 | 3.6 | 3.6 | 4.0 | 4.3 | 4.3 | 4.2 | 4.0 | 3.9 |
| Labor force participation rate | 61.8 | 61.7 | 62.2 | 62.6 | 62.6 | 62.6 | 62.5 | 62.4 | 62.3 | 62.2 |
| Potential GDP | 1.2 | 2.2 | 2.3 | 2.4 | 2.5 | 2.4 | 2.3 | 2.1 | 2.1 | 2.1 |
| Output gap (% of potential GDP) | -2.6 | 0.8 | 0.4 | 0.6 | 0.6 | 0.2 | -0.2 | -0.2 | -0.2 | -0.1 |
| **Inflation** | | | | | | | | | | |
| CPI inflation (q4/q4) | 1.2 | 6.8 | 7.1 | 3.2 | 2.8 | 1.9 | 2.1 | 2.1 | 2.1 | 2.1 |
| Core CPI Inflation (q4/q4) | 1.6 | 5.0 | 6.0 | 4.0 | 3.1 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 |
| PCE Inflation (q4/q4) | 1.2 | 5.9 | 5.9 | 2.8 | 2.4 | 1.8 | 1.9 | 1.9 | 1.9 | 1.9 |
| Core PCE Inflation (q4/q4) | 1.4 | 4.9 | 5.1 | 3.2 | 2.5 | 1.9 | 2.0 | 2.0 | 2.0 | 2.0 |
| GDP deflator | 1.3 | 4.6 | 7.1 | 3.6 | 2.5 | 2.0 | 1.8 | 1.8 | 1.8 | 1.8 |
| **Government Finances** | | | | | | | | | | |
| Federal balance (% of GDP) 2/ | -14.7 | -12.1 | -5.4 | -6.3 | -6.8 | -6.6 | -6.1 | -5.4 | -5.6 | -5.3 |
| Federal debt held by the public (% of GDP) | 98.7 | 97.1 | 95.8 | 97.3 | 99.2 | 102.1 | 104.7 | 106.3 | 108.1 | 109.5 |
| General government budget balance (% of GDP) | -13.9 | -11.1 | -4.1 | -7.6 | -7.8 | -7.6 | -7.2 | -6.7 | -6.7 | -6.5 |
| General government gross debt (% of GDP) | 132.0 | 125.0 | 119.8 | 120.7 | 123.2 | 126.7 | 129.6 | 131.8 | 134.0 | 135.9 |
| **Interest Rates (percent; period average)** | | | | | | | | | | |
| Fed funds rate | 0.4 | 0.1 | 1.7 | 5.1 | 5.4 | 4.7 | 3.7 | 2.9 | 2.9 | 2.9 |
| Three-month Treasury bill rate | 0.4 | 0.0 | 2.1 | 5.3 | 5.4 | 4.8 | 3.8 | 3.0 | 3.0 | 3.0 |
| Ten-year government bond rate | 0.9 | 1.4 | 3.0 | 4.0 | 4.2 | 3.7 | 3.3 | 3.2 | 3.2 | 3.2 |
| **Balance of Payments** | | | | | | | | | | |
| Current account balance (% of GDP) | -2.8 | -3.5 | -3.8 | -3.0 | -2.9 | -2.8 | -2.5 | -2.2 | -1.9 | -1.6 |
| Merchandise trade balance (% of GDP) | -4.3 | -4.6 | -4.6 | -3.9 | -3.8 | -3.5 | -3.2 | -3.0 | -2.7 | -2.4 |
| Export volume (NIPA basis, goods) | -10.0 | 7.6 | 5.8 | 2.6 | 2.8 | 3.6 | 3.0 | 3.0 | 2.9 | 2.8 |
| Import volume (NIPA basis, goods) | -5.9 | 14.6 | 6.8 | -1.6 | 2.5 | 1.0 | 0.5 | 0.5 | 0.3 | 0.1 |
| **Net International Investment Position (% of GDP)** | -69.0 | -79.6 | -62.8 | -72.2 | -71.6 | -71.7 | -71.5 | -71.0 | -70.2 | -69.2 |
| **Saving and Investment (% of GDP)** | | | | | | | | | | |
| Gross national saving | 18.5 | 17.8 | 18.3 | 16.4 | 16.3 | 16.7 | 17.2 | 17.7 | 18.2 | 18.6 |
| General government | -10.9 | -7.8 | -1.1 | -3.8 | -4.2 | -4.3 | -3.9 | -3.5 | -3.5 | -3.4 |
| Private | 29.4 | 25.6 | 19.3 | 20.3 | 20.6 | 21.0 | 21.1 | 21.2 | 21.7 | 22.0 |
| Personal | 12.6 | 9.0 | 2.4 | 3.3 | 2.8 | 2.7 | 2.4 | 2.4 | 2.7 | 3.0 |
| Business | 16.8 | 16.6 | 16.9 | 17.0 | 17.8 | 18.3 | 18.7 | 18.9 | 19.0 | 19.0 |
| Gross domestic investment | 21.4 | 21.4 | 21.9 | 21.3 | 21.5 | 21.6 | 21.8 | 21.9 | 22.0 | 22.1 |
| Private | 17.6 | 17.9 | 18.5 | 17.7 | 17.7 | 17.8 | 17.9 | 18.1 | 18.3 | 18.4 |
| Public | 3.8 | 3.5 | 3.4 | 3.6 | 3.8 | 3.8 | 3.9 | 3.8 | 3.8 | 3.7 |

Sources: BEA; BLS; FRB; Haver Analytics; and IMF staff estimates.
1/ Contribution to real GDP growth, percentage points.
2/ Includes staff's adjustments for one-off items, including costs of financial sector support.

**Table 2. United States: Balance of Payments, 2020–29**
(Annual percent change, unless otherwise indicated)

| | | | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| **Real Exports Growth** | | | | | | | | | | |
| Goods and services | -13.1 | 6.3 | 7.0 | 2.6 | 2.0 | 2.5 | 2.7 | 2.9 | 2.9 | 2.8 |
| Goods | -10.0 | 7.6 | 5.8 | 2.6 | 2.8 | 3.6 | 3.0 | 3.0 | 2.9 | 2.8 |
| Services | -18.7 | 3.8 | 9.6 | 2.5 | 0.5 | 0.4 | 2.1 | 2.7 | 2.9 | 2.9 |
| **Real Imports Growth** | | | | | | | | | | |
| Goods and services | -9.0 | 14.5 | 8.6 | -1.7 | 2.9 | 1.6 | 1.1 | 1.0 | 0.8 | 0.6 |
| Goods | -5.9 | 14.6 | 6.8 | -1.6 | 2.5 | 1.0 | 0.5 | 0.5 | 0.3 | 0.1 |
| Nonpetroleum goods | -5.3 | 15.1 | 7.6 | -2.1 | 2.9 | 0.9 | 0.5 | 0.6 | 0.4 | 0.2 |
| Petroleum goods | -14.1 | 7.9 | -1.0 | 2.1 | -1.1 | 2.1 | 0.4 | -0.8 | -0.9 | -0.9 |
| Services | -21.9 | 13.9 | 17.5 | -1.7 | 4.3 | 4.4 | 3.3 | 2.9 | 2.5 | 2.3 |
| **Net Exports (contribution to real GDP growth)** | -0.2 | -1.3 | -0.5 | 0.6 | -0.2 | 0.0 | 0.1 | 0.2 | 0.2 | 0.2 |
| **Nominal Exports** | | | | | | | | | | |
| Goods and services | 10.1 | 10.8 | 11.6 | 11.1 | 10.8 | 10.8 | 10.9 | 10.9 | 11.0 | 11.0 |
| **Nominal Imports** | | | | | | | | | | |
| Goods and services | 13.0 | 14.4 | 15.4 | 14.0 | 13.8 | 13.6 | 13.4 | 13.2 | 13.0 | 12.7 |
| **Current Account** | | | | | | | | | | |
| Current account balance | -2.8 | -3.5 | -3.8 | -3.0 | -2.9 | -2.8 | -2.5 | -2.2 | -1.9 | -1.6 |
| Balance on trade in goods and services | -3.1 | -3.6 | -3.7 | -2.9 | -2.9 | -2.7 | -2.5 | -2.2 | -1.9 | -1.6 |
| Balance on income | 0.3 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Capital and Financial Account** | | | | | | | | | | |
| Capital account balance | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial account balance | -3.1 | -3.3 | -3.1 | -3.3 | -2.9 | -2.8 | -2.5 | -2.2 | -1.9 | -1.7 |
| Direct investment, net | 0.7 | -0.4 | 0.1 | 0.4 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 |
| Portfolio investment, net | -2.5 | 0.4 | -1.7 | -4.2 | -1.1 | -0.8 | -0.8 | -0.6 | -0.4 | -0.2 |
| Financial derivatives, net | 0.0 | -0.2 | -0.3 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other investment, net | -1.3 | -3.7 | -1.3 | 0.6 | -1.5 | -1.6 | -1.4 | -1.3 | -1.2 | -1.1 |
| Reserve assets, net | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Errors and Omissions** | -0.3 | 0.2 | 0.7 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Net International Investment Position** | -69.0 | -79.6 | -62.8 | -72.2 | -71.6 | -71.7 | -71.5 | -71.0 | -70.2 | -69.2 |
| Direct investment, net | -11.8 | -16.8 | -11.6 | -14.9 | -14.4 | -14.1 | -13.8 | -13.5 | -13.2 | -12.9 |
| Portfolio investment, net | -50.5 | -53.6 | -41.5 | -48.8 | -47.7 | -46.9 | -46.0 | -45.0 | -43.7 | -42.4 |
| Financial derivatives, net | 0.0 | 0.1 | 0.3 | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other investment, net | -9.6 | -12.3 | -12.7 | -11.4 | -12.4 | -13.5 | -14.3 | -15.1 | -15.7 | -16.2 |
| Reserve assets, net | 2.9 | 3.0 | 2.7 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 | 2.2 |
| **Memorandum Items** | | | | | | | | | | |
| Current account balance (US$ billions) | -597 | -831 | -972 | -819 | -829 | -822 | -776 | -706 | -644 | -574 |
| Non-oil trade balance (% of GDP) | -3.0 | -3.6 | -3.8 | -3.0 | -3.1 | -2.9 | -2.6 | -2.4 | -2.1 | -1.8 |
| Foreign real GDP growth | -4.8 | 6.3 | 3.7 | 2.2 | 2.1 | 2.4 | 2.4 | 2.3 | 2.3 | 2.2 |
| U.S. real GDP growth | -2.2 | 5.8 | 1.9 | 2.5 | 2.6 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 |
| U.S. real total domestic demand growth | -1.9 | 6.9 | 2.3 | 1.9 | 2.6 | 1.8 | 1.8 | 1.9 | 1.9 | 1.9 |

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

## Table 3. United States: Federal and General Government Finances, 2019–33

(Percent of GDP)

| | | | | | | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| **Federal Government** | | | | | | | | | | | | | | | |
| Revenue | 16.3 | 16.1 | 17.6 | 19.4 | 16.5 | 17.2 | 16.9 | 17.5 | 18.0 | 18.0 | 17.9 | 17.8 | 18.0 | 18.0 | 18.0 |
| Expenditure | 20.9 | 30.8 | 29.8 | 24.8 | 22.7 | 24.0 | 23.6 | 23.5 | 23.4 | 23.6 | 23.2 | 23.6 | 23.6 | 23.8 | 24.2 |
| Non-interest | 19.2 | 29.2 | 28.2 | 22.9 | 20.3 | 20.8 | 20.1 | 20.1 | 20.1 | 20.3 | 19.9 | 20.2 | 20.2 | 20.3 | 20.7 |
| Interest | 1.8 | 1.6 | 1.5 | 1.9 | 2.4 | 3.2 | 3.4 | 3.4 | 3.3 | 3.3 | 3.3 | 3.4 | 3.4 | 3.5 | 3.6 |
| Budget balance 1/ | -4.6 | -14.7 | -12.1 | -5.4 | -6.3 | -6.8 | -6.6 | -6.1 | -5.4 | -5.6 | -5.3 | -5.7 | -5.6 | -5.8 | -6.2 |
| Primary balance 2/ | -2.9 | -13.1 | -10.6 | -3.6 | -3.8 | -3.7 | -3.2 | -2.6 | -2.1 | -2.3 | -2.0 | -2.3 | -2.2 | -2.3 | -2.7 |
| Primary structural balance 3/ 4/ 5/ | -2.9 | -10.4 | -9.7 | -4.4 | -5.2 | -3.8 | -3.2 | -2.6 | -2.0 | -2.3 | -2.0 | -2.3 | -2.1 | -2.2 | -2.6 |
| Change | -0.7 | -7.5 | 0.7 | 5.3 | -0.8 | 1.3 | 0.6 | 0.6 | 0.5 | -0.2 | 0.3 | -0.3 | 0.2 | -0.1 | -0.4 |
| Federal debt held by the public | 79.0 | 98.7 | 97.1 | 95.8 | 97.3 | 99.2 | 102.1 | 104.7 | 106.3 | 108.1 | 109.5 | 111.2 | 112.6 | 114.1 | 116.0 |
| **General Government** | | | | | | | | | | | | | | | |
| Revenue | 30.0 | 30.7 | 31.7 | 32.7 | 29.6 | 30.3 | 30.5 | 31.1 | 31.6 | 31.5 | 31.4 | 31.4 | 31.6 | 31.6 | 31.6 |
| Expenditure | 35.8 | 44.6 | 42.8 | 36.8 | 37.2 | 38.1 | 38.1 | 38.2 | 38.2 | 38.2 | 37.9 | 38.1 | 38.1 | 38.3 | 38.6 |
| Net interest | 2.3 | 2.1 | 2.3 | 2.8 | 3.5 | 4.0 | 4.2 | 4.2 | 4.1 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.1 |
| Net lending 1/ | -5.8 | -13.9 | -11.1 | -4.1 | -7.6 | -7.8 | -7.6 | -7.2 | -6.7 | -6.7 | -6.5 | -6.7 | -6.6 | -6.7 | -7.0 |
| Primary balance 2/ | -3.5 | -11.9 | -8.8 | -1.3 | -4.1 | -3.8 | -3.4 | -3.0 | -2.6 | -2.8 | -2.5 | -2.7 | -2.6 | -2.7 | -2.9 |
| Primary structural balance 3/ 4/ 6/ | -3.7 | -8.6 | -8.2 | -3.7 | -4.1 | -4.1 | -3.4 | -2.9 | -2.5 | -2.7 | -2.5 | -2.6 | -2.5 | -2.7 | -2.9 |
| Change | -0.8 | -4.9 | 0.4 | 4.6 | -0.5 | 0.1 | 0.6 | 0.6 | 0.4 | -0.2 | 0.2 | -0.2 | 0.1 | -0.1 | -0.2 |
| Gross debt | 108.1 | 132.0 | 125.0 | 119.8 | 120.7 | 123.2 | 126.7 | 129.6 | 131.8 | 134.0 | 135.9 | 137.9 | 139.7 | 141.6 | 143.7 |
| incl. unfunded pension liab. | 135.1 | 158.1 | 146.5 | 137.7 | 136.2 | 140.6 | 144.6 | 147.9 | 150.7 | 153.4 | 155.8 | 158.3 | 160.4 | 162.7 | 165.2 |

Sources: Congressional Budget Office; Office of Management and Budget; and IMF staff estimates.

Note: Fiscal projections are based on Congressional Budget Office forecasts adjusted for the IMF staff's policy and macroeconomic assumptions. Projections incorporate the effects of enacted legislation at the time of the publication of this table. Fiscal projections are adjusted to reflect the IMF staff's forecasts for key macroeconomic and financial variables and different accounting treatment of defined-benefit pension plans and are converted to a general government basis. Data are compiled using SNA 2008, and when translated into GFS this is in accordance with GFSM 2014.

1/ Includes staff's adjustments for one-off items, including costs of financial sector support.
2/ Excludes net interest.
3/ Excludes net interest, effects of economic cycle, and costs of financial sector support.
4/ Percent of potential GDP.
5/ Includes staff's adjustments for the cancellation of the student debt relief program in 2023 and one-off surge in capital gains taxes in 2022
6/ Includes staff's adjustment for the one-off surge in capital gains taxes in 2022.

**Table 4. United States: Depository Corporations Survey, 2020–23**
(In billions of U.S. dollars unless otherwise indicated, eop)

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| **Net foreign assets** | 283 | 238 | 47 | 194 |
| Claims on nonresidents | 3120 | 3318 | 3370 | 3825 |
| Central Bank | 66 | 47 | 38 | 38 |
| Other Depository Corporations | 3054 | 3270 | 3332 | 3787 |
| Liabilities to Nonresidents | -2837 | -3079 | -3322 | -3631 |
| Central Bank | -231 | -288 | -343 | -356 |
| Other Depository Corporations | -2607 | -2791 | -2980 | -3275 |
| **Net domestic assets** | 24361 | 29253 | 30467 | 29358 |
| Net Claims on Central Government | 5458 | 8411 | 7344 | 7245 |
| Claims on State and Local Government | 719 | 755 | 709 | 673 |
| Claims on Public Nonfinancial Corporations | 0 | 0 | 0 | 0 |
| Claims on NBFIs | 8215 | 9176 | 8685 | 8930 |
| Claims on private sector | 11481 | 11891 | 13299 | 13633 |
| Corporates | 1938 | 1957 | 2426 | 2451 |
| Households | 9543 | 9935 | 10873 | 11182 |
| Capital and Reserves (-) | 2271 | 2410 | 2272 | 2390 |
| Other items, net (-, including discrepancy) | -759 | -1430 | -2702 | -1267 |
| **Broad Money** | 23714 | 27178 | 26948 | 27426 |
| Currency in Circulation | 1939 | 2096 | 2170 | 2210 |
| Transferable Deposits | 4133 | 6299 | 6590 | 6066 |
| Other Deposits | 17642 | 18783 | 18188 | 19150 |
| Securities | 0 | 0 | 0 | 0 |
| **Other Liabilities** | 930 | 2313 | 3566 | 2126 |
| | | **(Annual percentage change)** | | |
| **Net foreign assets** | 18.4 | -15.7 | -80.2 | 310.3 |
| **Net domestic assets** | 15.8 | 20.1 | 4.2 | -3.6 |
| Claims on private sector | 2.1 | 3.6 | 11.8 | 2.5 |
| Corporates | 6.5 | 1.0 | 24.0 | 1.0 |
| Households | 1.3 | 4.1 | 9.4 | 2.8 |
| **Broad Money** | 17.3 | 14.6 | -0.8 | 1.8 |
| **Memorandum items:** | | | | |
| Velocity (GDP/Broad Money) | 0.9 | 0.9 | 1.0 | 1.0 |

Sources: IMF Integrated Monetary Database and Standard Report Forms.

**Table 5. United States: Financial Soundness Indicators, 2020–23**
(Percent unless otherwise indicated, eop)

| | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| **Core FSIs** | | | | |
| Regulatory capital to risk-weighted assets | 16.28 | 16.39 | 15.54 | 15.90 |
| Tier 1 capital to risk-weighted assets | 14.55 | 14.85 | 14.52 | 14.88 |
| Nonperforming loans net of provisions to capital | -5.05 | -3.43 | -4.46 | -4.73 |
| Capital to assets (leverage ratio) | 8.61 | 8.62 | 8.58 | 8.68 |
| Nonperforming loans to total gross loans | 1.07 | 0.81 | 0.72 | 0.85 |
| Provisions to nonperforming loans | 184.71 | 178.77 | 202.44 | 191.39 |
| Return on assets | 0.93 | 1.52 | 1.37 | 1.31 |
| Return on equity | 7.34 | 12.25 | 12.15 | 11.39 |
| Interest margin to gross income | 64.43 | 63.45 | 68.79 | 69.86 |
| Noninterest expenses to gross income | 61.36 | 62.19 | 59.45 | 60.28 |
| Liquid assets to total assets | 35.46 | 34.68 | 28.71 | 29.18 |
| Liquid assets to short-term liabilities | 363.09 | 436.28 | 247.95 | 175.90 |
| Liquidity coverage ratio | | | | |
| Net stable funding ratio | | | | |
| Net open position in foreign exchange to capital | | | | |
| **Additional FSIs** | | | | |
| Large exposures to capital | 1.76 | 1.78 | | |
| Gross asset position in financial derivatives to capital | 12.71 | 8.31 | 9.74 | 7.48 |
| Gross liability position in financial derivatives to capital | 8.89 | 5.92 | 9.03 | 7.12 |
| Trading income to total income | 8.30 | 6.80 | 4.46 | 4.98 |
| Personnel expenses to noninterest expenses | 48.78 | 50.06 | 49.38 | 47.36 |
| Customer deposits to total (noninterbank) loans | 157.79 | 168.55 | 144.06 | 138.07 |
| Residential real estate prices (percent change, y/y) | 9.49 | 15.88 | 9.91 | 2.64 |
| Residential real estate loans to total gross loans | 28.24 | 28.34 | 28.10 | 28.43 |
| Commercial real estate prices (percent change, y/y) | 4.33 | 16.00 | -0.98 | -7.53 |
| Commercial real estate loans to total gross loans | 16.4 | 17.1 | 18.2 | 18.4 |
| Nonfinancial corporations: total debt to equity | 89.8 | 76.6 | 86.7 | 84.2 |
| Nonfinancial corporations: external debt to equity | 13.8 | 12.8 | 14.1 | 12.1 |
| Nonfinancial corporations: total debt to GDP | 114.8 | 107.3 | 105.0 | 101.4 |
| Nonfinancial corporations: return on equity | 5.6 | 5.9 | 6.2 | 6.6 |
| Nonfinancial corporations: earnings to interest expenses | 455.0 | 620.2 | 697.6 | 674.0 |
| Household debt to GDP | 81.7 | 80.9 | 78.4 | 76.2 |
| Household debt service and principal payments to income | 9.4 | 9.5 | 9.9 | |
| Househod debt to household disposable income | 99.3 | 102.6 | 104.1 | 100.0 |

Sources: IMF Financial Soundness Indicators.

# Annex I. Risk Assessment Matrix[1]

| Risks | Likelihood | Expected Impact | Policy Response |
|---|---|---|---|
| **Global Risks** | | | |
| **Intensification of regional conflicts.** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. | **High** | **Medium.** Trade disruptions, tighter financial conditions and weaker consumer confidence could weigh on domestic activity. Shortages in critical supply chain components and higher energy costs could raise inflation and inflation expectations. | Make investments to increase resilience of financial intermediation and supply chains. Adjust monetary policy to steer inflation and inflation expectations back to target. Stand ready with targeted fiscal and financial support measures, if needed. |
| **Commodity price volatility.** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability. | **High** | **Medium.** Rising commodity prices could reduce corporate profit margins, weaken household consumption, increase poverty, and increase inflationary pressures. | Facilitate the expansion of domestic production of food and fuel. Increase the provision of food assistance to lower income households. Accelerate the transition to a low carbon economic model. Monetary policy responds assertively to any de-anchoring of inflation expectations. |
| **Deepening geoeconomic fragmentation.** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. | **High** | **Medium.** Distortions in investment decisions lower potential growth. Trading partners reduce external demand for U.S. exports. Domestic producers limit supply-chain networks, potentially increasing vulnerability to external shocks. | Increase international competitiveness by investing in worker training and infrastructure. Engage with major trading partners to maintain open trade policies. Avoid introducing further tariffs, nontariff barriers, and domestic content provisions. |
| **Abrupt global slowdown.** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. In China, sharper-than-expected contraction in the property sector weighs on private demand, further amplifies local government fiscal strains, and results in disinflationary pressures and adverse macro- | **Medium** | **Medium.** Slower growth by trading partners reduces external demand for U.S. exports. Tighter financial conditions and weaker consumer confidence weigh on domestic activity. | The pace of monetary policy easing could be accelerated if incoming data provide strong evidence of a sharp disinflationary force. Fiscal policy should let automatic stabilizers operate. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline "low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

| Risks | Likelihood | Expected Impact | Policy Response |
|---|---|---|---|
| financial feedback loops. In Europe, Intensifying fallout from Russia's war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn. | | | |
| **Cyberthreats.** Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability. | **Medium** | **High.** Cyberattacks could lead to widespread disruptions in economic activity including in the supply of essential goods, payments systems, and financial market infrastructures. | Strengthen defenses to prevent cyberattacks and take steps to build resilience to ensure continuity of operations when attacks occur. |
| **Extreme climate events.** Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability. | **Medium** | **Medium.** Damage to infrastructure and wealth weakens economic activity. Inflationary pressures could arise from supply disruptions. | Continue to push for green investment, combined with well-sequenced climate change mitigation strategies. Invest in climate change adaptation to increase resilience in vulnerable communities. Stand ready to provide targeted fiscal support to affected sectors. Adjust monetary policy, if needed, to steer inflation and inflation expectations to target. |
| **Domestic Risks** | | | |
| **Premature loosening of monetary policy.** The Fed loosens its policy stance prematurely, hindering disinflation and weakening the Fed's credibility. | **Medium** | **High.** Continued growth in nominal wages pushes up unit labor costs and prevents a decline in non-shelter services inflation. Inflation expectations are de-anchored. | Adjust monetary policy to steer inflation and inflation expectations back to target. |
| **Tight for longer monetary policy.** Amid tight labor markets, supply disruptions and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in dollar strengthening, a more abrupt financial and housing market correction, and "hard landing". | **Medium** | **High.** Tight financing conditions could cause stress in leveraged corporates, financial institutions, and treasury markets. Higher financing costs and lower credit availability may constrain investment and employment growth, slowing activity with negative outward spillovers. | Tighter financial conditions will be necessary for the monetary transmission but if market functioning is compromised then targeted measures (such as providing liquidity in specific markets) could be considered. |
| **Systemic financial instability, including deposit outflows in regional banks spreading to the overall banking system.** High interest rates and risk premia and asset repricing (including losses on commercial real estate exposures) amid economic slowdowns and policy uncertainty (e.g., from elections or failure to raise or extend the debt limit before it expires) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. | **Medium** | **High.** Financial instability will weaken confidence and create uncertainty in monetary policy's response to inflation. Lower credit availability may constrain investment and employment growth, slowing activity. | Strengthen prudential framework. Provide adequate and timely emergency lending to shore up financial institutions. Ensure functioning of key markets, but targeted measures (such as providing liquidity in certain markets) can be provided to address periods of financial instability. Develop an institutional change to avoid the recurrent debt limit brinkmanship. |

# Annex II. Sovereign Risk and Debt Sustainability Assessment

*Following the unprecedented fiscal response to the COVID-19 outbreak, the budget deficit returned to pre-pandemic levels in 2022, only to be reversed in 2023 mainly due to lower income tax revenue and increasing interest rates. Under the baseline scenario, public debt is projected to rise as a share of GDP over the medium-term as aging-related expenditures on health and social security feed into the debt dynamics. Gross financing needs are large, albeit manageable given the global reserve currency status of the U.S. dollar. A credible medium-term fiscal adjustment featuring reprioritization of budget programs and revenue-gaining tax reform is needed to put public debt on a downward path. Nonetheless, the risks of debt distress are low, and debt is viewed as sustainable.*

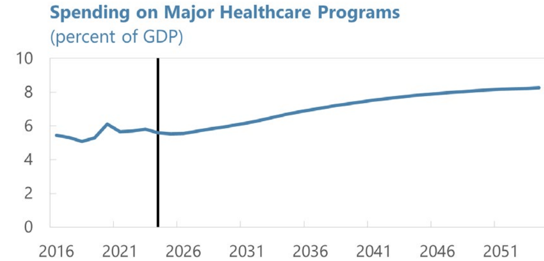
**1. Background.** An unprecedented level of fiscal expansion was introduced in response to the COVID-19 pandemic, leading to an increase in the fiscal deficit by over 8 percent of GDP. The subsequent fiscal consolidations in 2021–22, as pandemic-related extraordinary measures were phased out, contributed to narrowing the budget deficit. However, the American Rescue Plan (enacted in March 2021), the Infrastructure Investment and Jobs Act (enacted in November 2021), along with the Inflation Reduction Act and the CHIPS and Science Act (both enacted in August 2022) slowed the pace of fiscal contraction, while weaker-than-expected income tax receipts widened fiscal deficits substantially.

**2. Baseline.** The staff's baseline is based on current and likely-to-be-passed laws. Under this baseline, public debt is expected to rise over the medium-term as age-related spending pressures on entitlement programs assert themselves. Federal debt held by the public is projected to increase from about 97 percent of GDP in FY2023 to around 116 percent of GDP by 2033, with general government gross debt rising from about 121 percent of GDP to 144 percent of GDP over the same period.

**3. Adjustment scenario.** The general government primary deficit was 4.1 percent of GDP in 2023 and is projected at 3.8 percent of GDP in 2024. Gradually raising the primary general government surplus over the medium-term to around 1 percent of GDP (1.4 percent of GDP for the federal government) would put the debt-to-GDP ratio on a declining path. Staff views this adjustment as feasible. The target primary surplus would have to be larger to bring the debt ratio closer to pre-Great Recession levels.

**4. Debt servicing costs.** The debt projections have been adversely affected by the current and projected deterioration in interest rate– growth differential, despite the safe-haven status of the United States. Under staff's baseline, the effective nominal interest rate is projected to stabilize at 3.3 percent by 2033 after peaking at 4.0 percent in 2024. Government interest payments are expected to rise with higher interest rates.

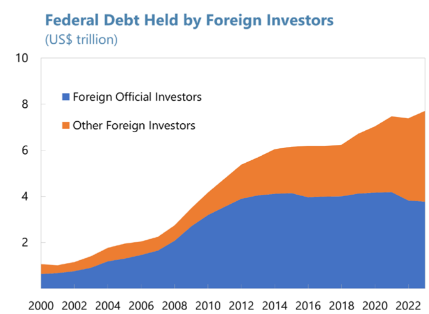
**5. Long-term risks: health expenditures.** Due to the ongoing aging of the population, public healthcare expenditures are expected to rise considerably. The CBO projects net federal spending on major health care programs to increase from 5.6 percent of GDP in 2024 to 8.3 percent of GDP in 2054, driven primarily by a two-thirds surge in health care costs, with the remainder attributed to population aging. Rising healthcare expenditures will considerably increase deficit and risk of sovereign stress in the long-term. Increasing efficiency, greater cost sharing with beneficiaries and changing the mechanism of remunerating healthcare providers will help contain health care cost. As such, a slower-than-expected growth in health care costs and/or population aging would lead to a lower-than-projected health spending.




**6. Long-term risks: Social Security spending.** Aging of the population also contributes to growth in spending on Social Security, particularly in the first decade from now, from 5.2 percent of GDP in 2024 to 5.9 percent of GDP in 2034. According to the CBO, the number of Social Security beneficiaries is projected to rise significantly by 12 million from 68 million in 2024 to 80 million in 2034. Subsequently, over the following two decades, this upward trend persists, albeit at a slower pace. By 2054, the beneficiary count is forecasted to grow by an additional 16 million, totaling 96 million beneficiaries, equivalent to 25 percent of the population.

**7. Realism.** Baseline economic assumptions are generally within the error band observed for all countries. The baseline fiscal projections and implied near-term adjustment are realistic, well within the median range of adjustment in historical and cross-country experience.

**8. Mitigating factors.** The depth and liquidity of the U.S. Treasury market, its safe-haven status, lack of foreign currency debt, and large institutional investor base represents a mitigating factor for the high external and gross financing requirements. While foreign official holdings of U.S. Treasuries remain stagnant, an increase in the overall foreign ownership, backed by nonofficial foreign investors, suggests robust demand and reflects the stability of the Treasury market.



Source: Treasury International Capital System.

## Annex II. Figure 1. United States: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | Low | Staff's assessment of the overall risk of sovereign stress is low. Mitigating factors include the strength of institutions, the depth of the investor pool, and the role of the US dollar in the international system. |
| **Near term 1/** | | | |
| **Medium term** | Moderate | Moderate | Staff's assessment on the medium-term risk is "moderate", which is aligned with the mechanical signal. The mechanical medium-term signal for the fan chart indicates a marginally "high" risk, driven by the probability of debt non-stabilization and the large uncertainty along the path. |
| Fanchart | High | ... | |
| GFN | Moderate | ... | |
| Stress test | | ... | |
| **Long term** | ... | Moderate | Long-term risks are moderate as aging-related expenditures on health and social security feed into debt dynamics. |
| **Sustainability assessment 2/** | | | Not required for surveillance-only countries. |
| **Debt stabilization in the baseline** | | | No |

### DSA Summary Assessment

Commentary: United States is at a low overall risk of sovereign stress and debt is sustainable. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. However, debt is expected to rise for several years before stabilizing. Medium-term liquidity risks as analyzed by the GFN Financeability Module are moderate. Over the longer run, United States should continue with reforms to tackle risks arising from population aging on the social security fund. However, the long time horizon at which these risks would materialize and the authorities' planned measures will help contain risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

## Annex II. Figure 2. United States: Debt Coverage and Disclosures

**1. Debt coverage in the DSA: 1/**

| CG | GG | NFPS | CPS | Other |
|---|---|---|---|---|
| | ✔ (chosen) | | | |

**1a. If central government, are non-central government entities insignificant?** n.a.

**2. Subsectors included in the chosen coverage in (1) above:**

| | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|
| 1 | Budgetary central government | Yes | Not applicable |
| 2 | Extra budgetary funds (EBFs) | No | |
| 3 | Social security funds (SSFs) | Yes | |
| 4 | State governments | Yes | |
| 5 | Local governments | Yes | |
| 6 | Public nonfinancial corporations | Yes | |
| 7 | Central bank | Yes | |
| 8 | Other public financial corporations | Yes | |

(CPS: 1–8; NFPS: 1–6; GG: expected: 1–5; CG: 1–3)

**3. Instrument coverage:**

| Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |
|---|---|---|---|---|
| chosen | chosen | chosen | missing | missing |

**4. Accounting principles:**

| Basis of recording | | Valuation of debt stock | | |
|---|---|---|---|---|
| Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |
| | chosen | chosen | | |

**5. Debt consolidation across sectors:**

| Consolidated | Non-consolidated |
|---|---|
| | chosen |

**Color code:** chosen coverage ■ Missing from recommended coverage ■ Not applicable

**Reporting on Intra-Government Debt Holdings**

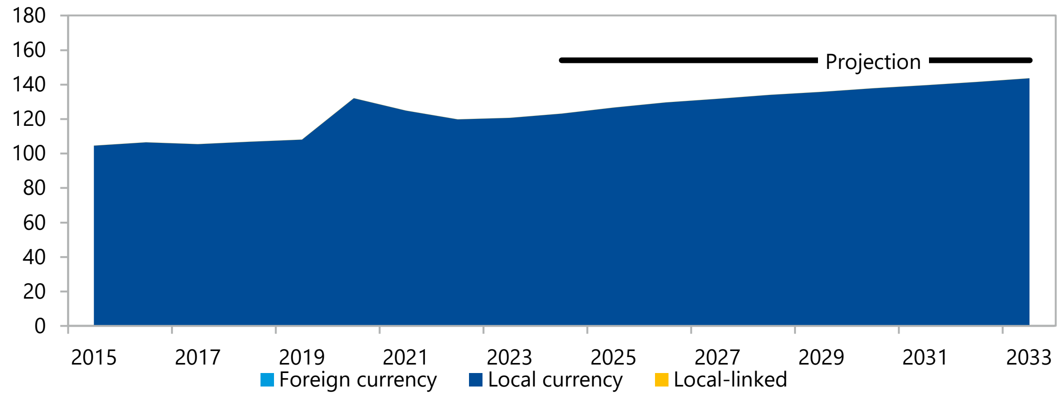
| Issuer \ Holder | | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Budget. central govt | | | | 23.283 | | | | | 23.283 |
| 2 | Extra-budget. funds | | | | | | | | | 0 |
| 3 | Social security funds | | | | | | | | | 0 |
| 4 | State govt. | 1563.267 | | | | | | | | 1563.267 |
| 5 | Local govt. | | | | | | | | | 0 |
| 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| 7 | Central bank | | | | | | | | | 0 |
| 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | Total | 1563.267 | 0 | 0 | 23.283 | 0 | 0 | 0 | 0 | 1586.55 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government. The cross holdings are cancelled out in the general government data, and only the cross holdings that were netted out of the public debt calculation are shown in the table.

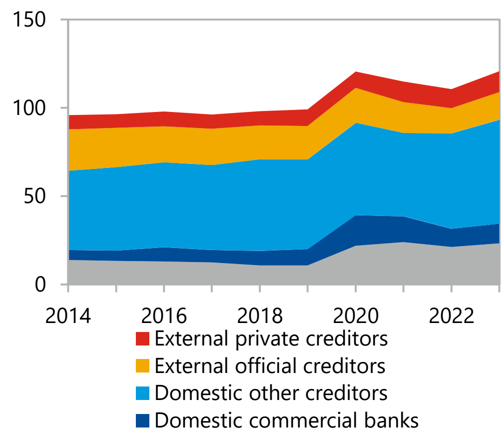
## Annex II. Figure 3. United States: Public Debt Structure Indicators

**Debt by Currency (Percent of GDP)**



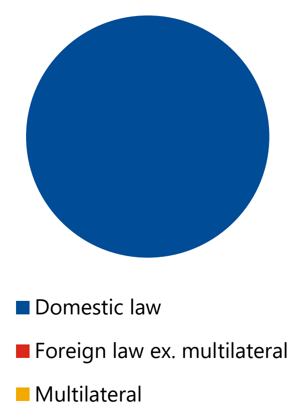

Note: The perimeter shown is general government.

**Public Debt by Holder (Percent of GDP)**



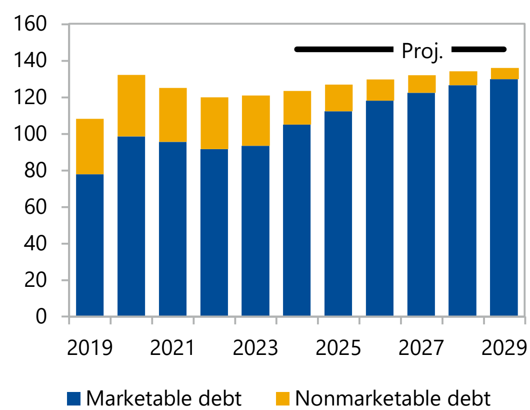

Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2023 (percent)**



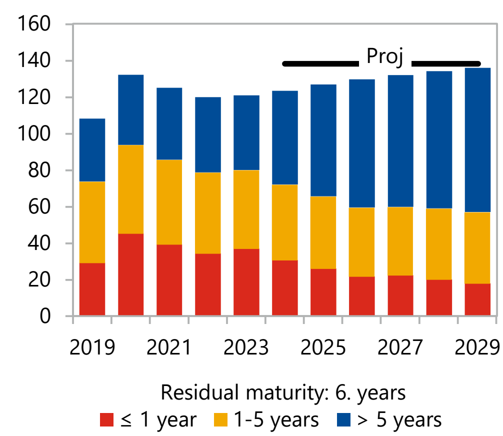

Note: The perimeter shown is general government.

**Debt by Instruments (Percent of GDP)**




Note: The perimeter shown is general government.

**Public Debt by Maturity (Percent of GDP)**




Note: The perimeter shown is general government.

Commentary: The maturity is expected to lengthen with the issuance gradually converging to the historical recommendation for 15-20% T-bill share.

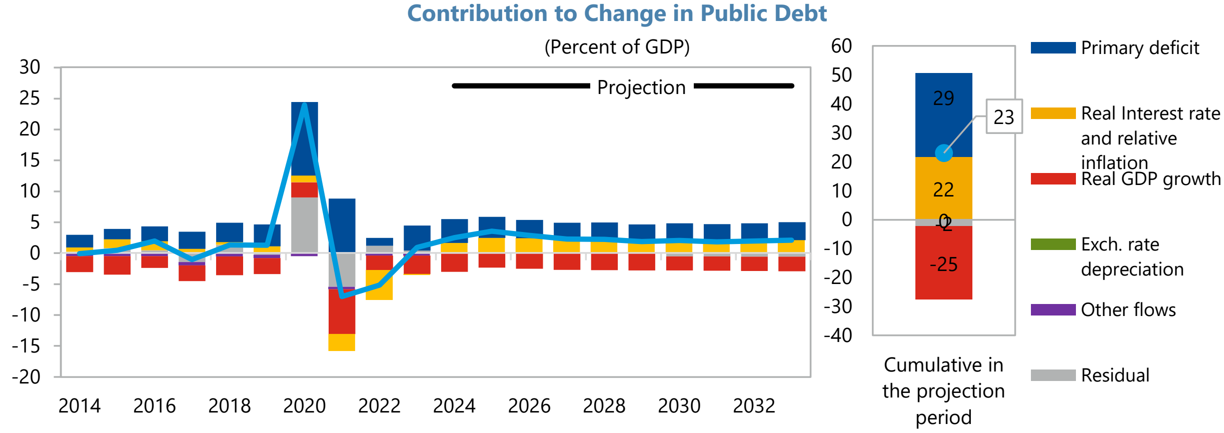
## Annex II. Figure 4. United States: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Public debt | 120.7 | 123.2 | 126.7 | 129.6 | 131.8 | 134.0 | 135.9 | 137.9 | 139.7 | 141.6 | 143.7 |
| Change in public debt | 0.9 | 2.5 | 3.5 | 2.8 | 2.2 | 2.2 | 1.9 | 2.0 | 1.8 | 1.9 | 2.1 |
| Contribution of identified flows | 0.5 | 2.5 | 3.5 | 2.8 | 2.2 | 2.2 | 1.9 | 2.5 | 2.4 | 2.5 | 2.6 |
| Primary deficit | 4.1 | 3.8 | 3.4 | 3.0 | 2.6 | 2.8 | 2.5 | 2.7 | 2.6 | 2.7 | 2.9 |
| Noninterest revenues | 29.2 | 29.7 | 30.0 | 30.6 | 31.1 | 31.0 | 30.9 | 31.0 | 31.1 | 31.1 | 31.1 |
| Noninterest expenditures | 33.3 | 33.6 | 33.4 | 33.6 | 33.7 | 33.8 | 33.4 | 33.7 | 33.7 | 33.8 | 34.0 |
| Automatic debt dynamics | -3.2 | -1.3 | 0.1 | -0.1 | -0.4 | -0.6 | -0.7 | -0.2 | -0.2 | -0.2 | -0.3 |
| Real interest rate and relative inflation | -0.2 | 1.7 | 2.5 | 2.4 | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Real interest rate | -0.2 | 1.7 | 2.5 | 2.4 | 2.3 | 2.2 | 2.1 | 2.1 | 2.1 | 2.1 | 2.1 |
| Relative inflation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Real growth rate | -3.0 | -3.0 | -2.3 | -2.5 | -2.7 | -2.7 | -2.8 | -2.3 | -2.3 | -2.3 | -2.4 |
| Real exchange rate | 0.0 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Other identified flows | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | -0.4 | -0.6 | -0.5 | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 |
| Other transactions | 0.0 | 0.6 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Contribution of residual | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -0.5 | -0.5 | -0.6 | -0.6 |
| | | | | | | | | | | | |
| Gross financing needs | 55.0 | 42.4 | 37.1 | 34.6 | 32.0 | 32.3 | 31.0 | 30.4 | 30.6 | 30.8 | 30.4 |
| of which: debt service | 51.4 | 39.1 | 34.2 | 32.1 | 29.9 | 30.0 | 29.0 | 28.2 | 28.5 | 28.6 | 28.0 |
| Local currency | 51.4 | 39.1 | 34.2 | 32.1 | 29.9 | 30.0 | 29.0 | 28.2 | 28.5 | 28.6 | 28.0 |
| Foreign currency | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 2.5 | 2.6 | 1.9 | 2.0 | 2.1 | 2.1 | 2.1 | 1.7 | 1.7 | 1.7 | 1.7 |
| Inflation (GDP deflator; percent) | 3.6 | 2.5 | 2.0 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| Nominal GDP growth (percent) | 6.3 | 5.1 | 3.9 | 3.9 | 4.0 | 4.0 | 4.0 | 3.9 | 4.0 | 4.0 | 4.0 |
| Effective interest rate (percent) | 3.5 | 3.9 | 4.0 | 3.8 | 3.7 | 3.5 | 3.5 | 3.4 | 3.4 | 3.4 | 3.3 |

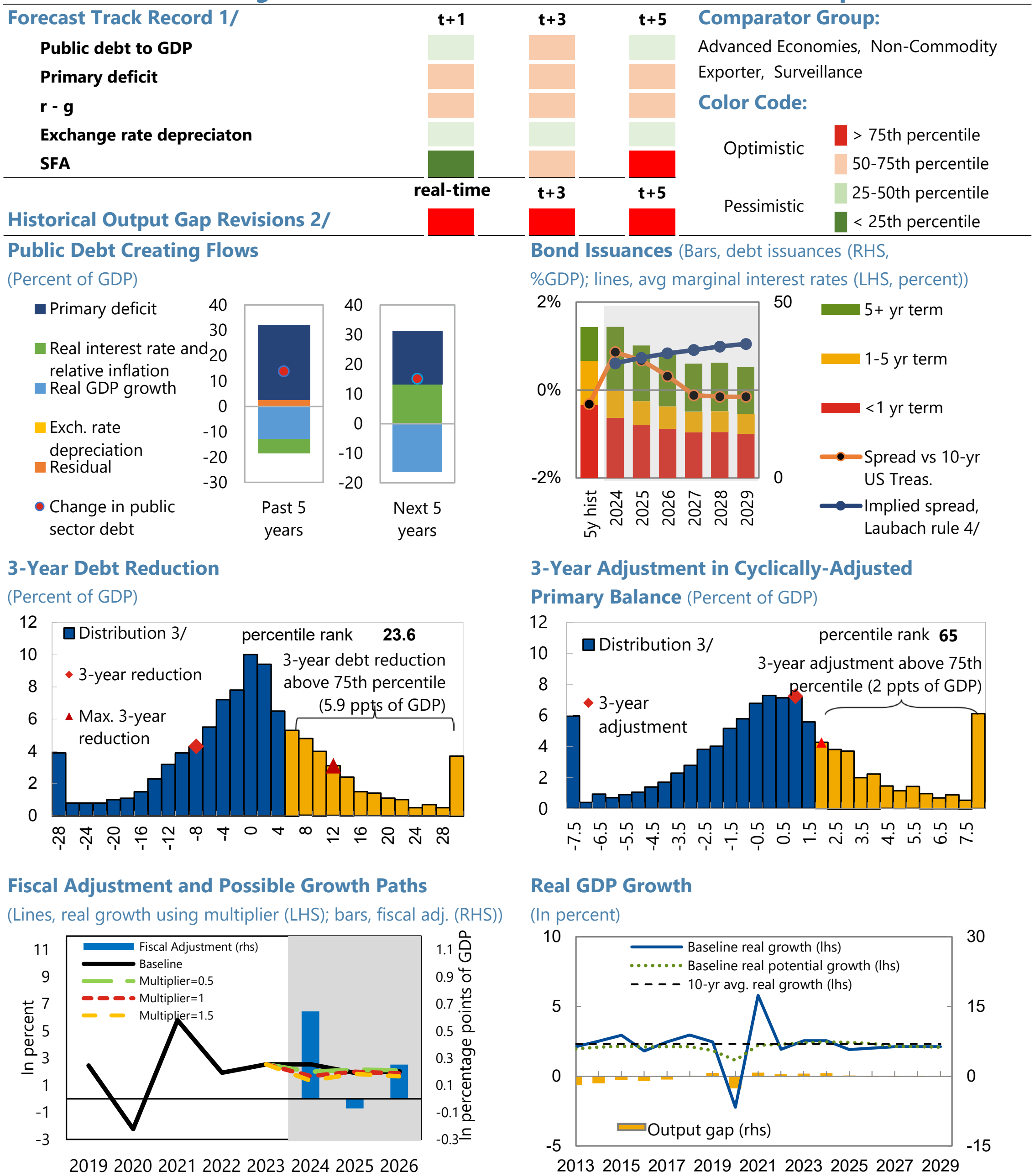
### Contribution to Change in Public Debt

(Percent of GDP)




Commentary: Public debt does not stabilize over medium-term, primarily due to ongoing primary deficit, while real GDP growth serves as a key mitigating factor.

### Annex II. Figure 5. United States: Realism of Baseline Assumptions




Commentary: Realism analysis points to consistently upward revisions of historical output gaps. Other analyses do not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

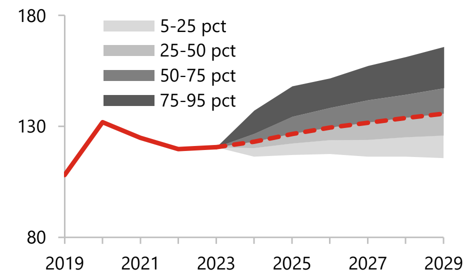
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies.

Percent of sample on vertical axis.

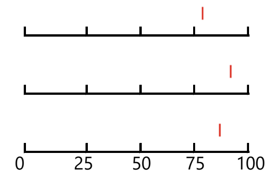
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

## Annex II. Figure 6. United States: Medium-Term Risk Analysis

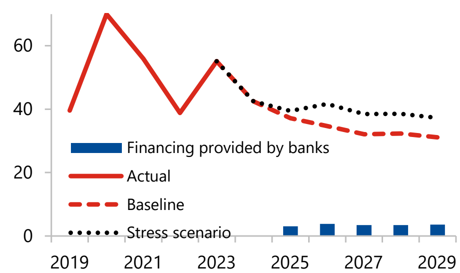
**Final Fanchart (Percent of GDP)**



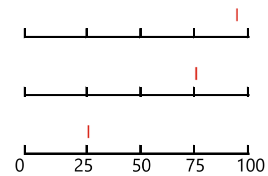

| Debt fanchart module | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| Fanchart width *(percent of GDP)* | 50.2 | 0.7 | |
| Probability of debt non-stabilizaiton *(percent)* | 88.4 | 0.7 | |
| Terminal debt-to-GDP x institutions index | 32.7 | 0.7 | |
| **Debt fanchart index (DFI)** | | 2.2 | |
| **Risk signal: 3/** | | **High** | |




**Gross Financing Needs (Percent of GDP)**



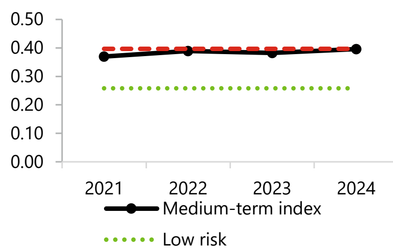

| Gross financing needs (GFN) module | Value | Contrib 1/ | Percentile in peer group 2/ |
|---|---|---|---|
| Average baseline GFN *(percent of GDP)* | 34.9 | 11.9 | |
| Initial Banks' claims on the gen. govt *(pct bank assets)* | 10.4 | 3.4 | |
| Chg. In banks' claims in stress *(pct banks' assets)* | 1.6 | 0.5 | |
| **GFN financeability index (GFI)** | | 15.8 | |
| **Risk signal: 4/** | | **Moderate** | |




Triggered stress tests (stress tests not activated in gray)

Banking crisis · Commodity prices · Exchange rate · Contingent liab. · Natural disaster

**Medium-Term Index (Index Number)**




Medium-term risk analysis

| | Value | Value (normalized) | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 2.2 | 0.5 | 0.5 | 0.2 |
| GFN finaceability index | 15.8 | 0.3 | 0.5 | 0.2 |
| **Medium-term index** | | 0.4 | | |
| **Risk signal: 5/** | | **Moderate** | | |
| **Final assessment:** | | **Moderate** | | |

Prob. of missed crisis, 2024-2029, if stress not predicted: 45.5 pct.

Prob. of false alarms, 2024-2029, if stress predicted: 10.2 pct.

Commentary: Of the two medium-term tools, the Debt Fanchart Module is pointing to a marginally high level of risk due to debt not stabilizing in the medium term, while the GFN Financeability Module suggests lower, but still moderate, level of risk.

Source: IMF staff estimates and projections.

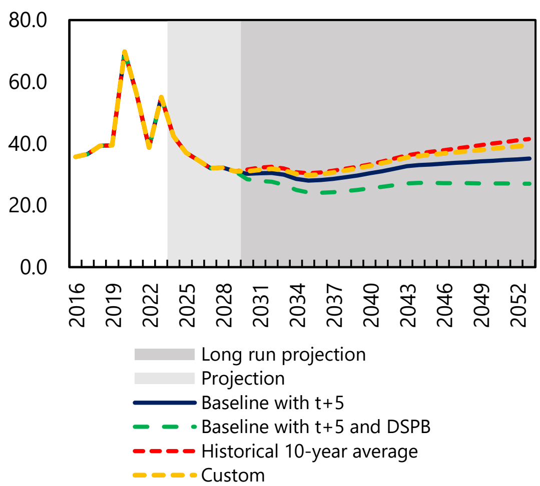
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

## Annex II. Figure 7. United States: Long-Term Risk Analysis

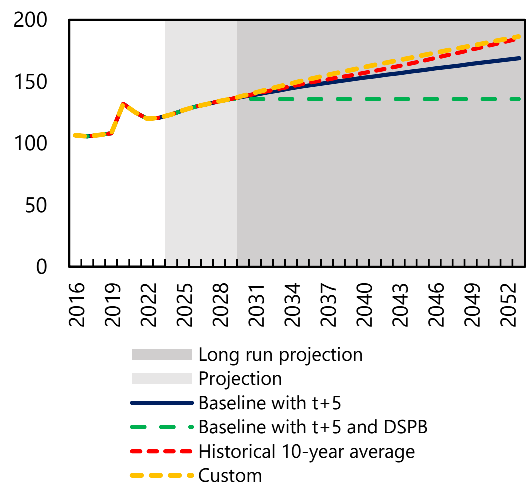
| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Medium-term extrapolation with debt stabilizing primary balance | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Historical average assumptions | GFN-to-GDP ratio | |
| | Amortization-to-GDP ratio | |
| | Amortization | |
| Overall Risk Indication | | |

| Variable | 2029 | 2033 to 2037 average | Custom Scenario |
|---|---|---|---|
| Real GDP growth | 2.1% | 1.7% | 2.1% |
| Primary Balance-to-GDP ratio | -2.5% | -2.8% | -3.3% |
| Real depreciation | -1.8% | -1.8% | -1.8% |
| Inflation (GDP deflator) | 1.8% | 1.8% | 1.8% |

**GFN-to-GDP Ratio**



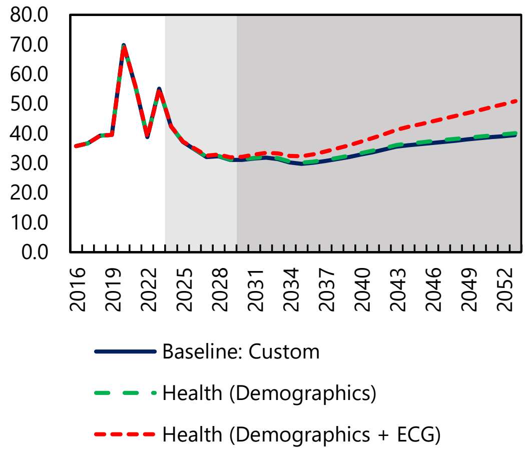

**Total Public Debt-to-GDP Ratio**



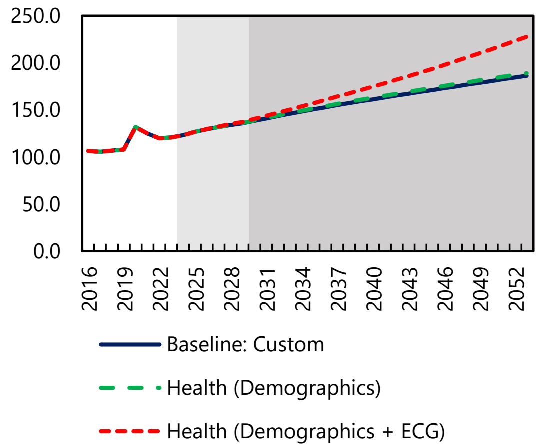

**Commentary:** The long-term amortization module does not trigger an overall risk indication. Long-term projections show a steady increase in the debt-to-GDP ratio and GFN-to-GDP ratio. The primary balance-to-GDP ratio of the custom baseline is calibrated to match the average increase over the projection horizon as projected by the Congressional Budget Office (CBO).

## Annex II. Figure 8. United States: Demographics: Health

**GFN-to-GDP Ratio**




**Total Public Debt-to-GDP Ratio**




**Commentary:** Demographic trends project an steady increase in GFN-to-GDP ratio and Debt-to-GDP ratio. Should additional excess cost growth (ECG) occur at the standard 1.4 percent, GFN and Debt-to-GDP ratio would be about 7 pp and 25pp higher by 2052, respectively.

# Annex III. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies. An improvement in the trade balance was led by a decline in the goods deficit, primarily driven by reduced imports of goods, resulting in a current account (CA) deficit of 3.0 percent of GDP (versus 3.8 percent of GDP in 2022). The CA deficit is projected to decline to about 2¼ percent of GDP over the medium term based on an increase in net public saving due to fiscal consolidation and a slow convergence of private saving to its steady state after years of excess saving drawdowns, reflected in a lower trade deficit.<br><br>Potential Policy Responses: Over the medium-term, suggested fiscal consolidation aimed at a medium-term general government primary surplus of about 1 percent of GDP should broadly stabilize the debt-to-GDP ratio and maintain an external position consistent with medium-term fundamentals and desirable policies. Structural policies to increase competitiveness while maintaining full employment include upgrading infrastructure; enhancing the schooling, training, apprenticeship, and mobility of workers; supporting the working poor; and implementing policies to increase growth in the labor force (including skill-based immigration reform). Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and avoid favoring domestic producers over imports. Tariff barriers and other trade distortions should be rolled back, and trade and investment disagreements with other countries should be resolved in a manner that supports an open, stable, and transparent global trading system.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP stood at –70.7 percent of GDP at end 2023, weakening from –61.2 percent of GDP in 2022 and compared to the 2016-19 pre-pandemic average of about –46½ percent of GDP. About a quarter of the NIIP decline was attributed to net transactions, while the main driver of change was valuation adjustments stemming from a significant rise in U.S. stock prices compared to foreign stocks which led to an increase in the market value of U.S. liabilities more than U.S. assets. At the same time, the small depreciation of the U.S. dollar (around 1.7 percent) raised the value of foreign-currency denominated U.S. assets in dollar terms, thereby marginally offsetting (about 10 percent of) the negative impact of rising stock prices on the NIIP. Under the IMF staff's baseline scenario, the NIIP is projected to remain broadly unchanged through the medium-term on the back of improvements in net portfolio investment position as the CA balance reverts to its pre-pandemic average and valuation gains persist.<br><br>Assessment. Despite the widening negative trend in the NIIP, the U.S. external debt declined to around 87 percent of GDP in 2023 (down from its mid-2020 peak of nearly 110 percent of GDP and the 2016-19 average of 94 percent of GDP) driven by a strong post-pandemic economic rebound. In addition, the investment income balance remained positive as the yield on assets has consistently surpassed that of its liabilities. Importantly, the substantial share of external assets denominated in foreign currencies (which has increased to around 70 percent by 2020)—combined with an even larger share of U.S. dollar denominated external liabilities—remains a relevant channel for exchange rates to affect NIIP through valuation changes, with a depreciation generally improving the NIIP. Nonetheless, financial stability risk could surface in the form of an unexpected decline in foreign demand for U.S. fixed-income securities, which is a main component of the country's external liabilities. The risk, which could materialize, for example, as a result of a failure to reestablish fiscal sustainability, remains moderate given the dominant status of the U.S. dollar as a reserve currency. Strong institutions, a predictable policy framework, and attractive diverse investment opportunities further mitigate the likelihood of such risk materializing. About 60 percent of U.S. assets are in the form of FDI and portfolio equity claims.</td></tr>
<tr><td>2023 (% GDP)</td><td>NIIP: –70.7</td><td>Gross Assets: 123.6</td><td>Debt Assets: 37.9</td><td>Gross Liab.: 194.3</td><td colspan="2">Debt Liab.: 87.2</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit was 3.0 percent of GDP in 2023, down from 3.8 percent in 2022 (moving from 3½ to 2.6 percent of GDP in cyclically adjusted terms) and compared with the 2016-19 pre-pandemic deficit of around 2 percent of GDP. In 2023, the trade deficit notably contracted relative to 2022 (-2.8 versus -3.7 percent of GDP), reversing the trend of deterioration observed since 2016 primarily due to a reduced deficit in goods. Additionally, the service surplus increased slightly. Meanwhile, income accounts remained broadly stable. From a savings-investment perspective, the CA deficit reflected the public sector's savings-investment deficit, partly offset by private sector's savings-investment surplus. The CA deficit is expected to gradually decline to about 2¼ percent of GDP over the medium-term.<br><br>Assessment. The EBA model estimates a cyclically adjusted CA balance of -2.6 percent of GDP against a CA norm of -1.9 percent of GDP, with a standard error of 0.7 percent of GDP. This implies a model-based CA gap of –0.7 percent of GDP for 2023, with an estimated contribution of identified policy gaps of –0.7 percent of GDP. The identified policy gaps primarily reflect the more expansionary fiscal policy in the U.S. relative to the rest of the world (resulting in -0.8 percent of GDP contribution from the fiscal policy gap). The IMF staff assesses a CA gap in a range of -1.4 and 0 percent of GDP with a midpoint of -0.7 percent of GDP.</td></tr>
<tr><td>2023 (% GDP)</td><td>CA: –3.0</td><td>Cycl. Adj. CA: –2.6</td><td>EBA Norm: –1.9</td><td>EBA Gap: -0.7</td><td>Staff Adj.: 0</td><td>Staff Gap: –0.7</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. After appreciating by 8.3 percent in 2022, the REER depreciated by 0.5 percent in 2023 (when yearly averages are compared). As of April 2024, the REER was about 2 percent above the 2023 average.<br><br>Assessment. The IMF staff CA gap implies a REER that is overvalued by 5.8 percent in 2022 (with an estimated elasticity of 0.12 applied). The EBA REER index model suggests an overvaluation of 8.3 percent, and the EBA REER level model suggests an overvaluation of 16.7 percent. Considering all the estimates and their uncertainties, consistent with the CA gap, the IMF staff assesses the 2023 midpoint REER overvaluation to be 5.8 percent of GDP, with a range of 11.6 to 0 percent, where the range is obtained from the CA standard error and the corresponding CA elasticity.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. In 2023, the financial account balance stood at approximately –3.0 percent of GDP, a slight improvement from the –3.1 percent of GDP recorded in 2022. This shift primarily stemmed from an increase in net other investment and, to a lesser degree, an increase in net financial derivatives, though it was partly offset by declines in net portfolio investment and net direct investment.<br><br>Assessment. The U.S. has an open capital account. Vulnerabilities are limited by the U.S. dollar's status as a reserve currency, with foreign demand for U.S. Treasury securities supported by the status of the dollar as a reserve currency and, possibly, by safe haven flows.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Assessment. The U.S. dollar has the status of a global reserve currency. Reserves held by the U.S. are typically low relative to standard metrics. The currency is free floating.</td></tr>
</table>

# Annex IV. Progress on Past Policy Recommendations

| Previous Article IV Policy Recommendations | Actions Taken |
|---|---|
| Raise the policy rate to around 5¼-5½ percent and maintain it at such levels until end-2024. | Policy rates were increased rapidly to 5¼ percent by July 2023. |
| Improve Treasury market functioning through central clearing, modifying the supplementary leverage ratio, liquidity stress tests for asset managers, lock-in provisions for funds, swing pricing, gates, and/or allowing in-kind redemptions. | Changes made to increase oversight of principal trading firms, require central clearing of UST-collateralized repo/reverse repo transactions, improve data, and increase liquidity requirements for money market funds. |
| Supply side reforms including childcare subsidies, providing paid family leave, removing cliffs in social benefits, increasing access to healthcare, education and vocational training, immigration reform. | Health insurance premium subsidies renewed. Little progress in other areas (although the president's budget proposes similar policies in some areas). |
| Tax reform including higher corporate tax, removing loopholes (e.g., carried interest and step-up basis), reducing estate tax minimum, global agreement on minimum tax. | No progress (although the president's budget proposes similar policies in some areas). |
| Improve safety net by expanding SNAP, improving TANF and Medicaid, making the refundable child tax credit permanent, and expanding the EITC. | No progress (although the president's budget proposes similar policies in some areas). |
| Putting debt-GDP on a downward path through a 1 percent of GDP general government primary surplus (i.e., a 5 percent of GDP adjustment). | The general government primary deficit expected to remain around 3 percent of GDP over the medium-term. The president's budget proposes around a 1¼ percent of GDP reduction in the federal primary deficit over the medium-term. |
| Roll back tariffs and other trade distortions introduced over the past 5 years, avoid steps to fragment global system (including domestic content rules), restore functioning dispute settlement at WTO | Domestic content requirements remain in various laws. Recent increases in tariffs represent a step backwards. No progress on WTO reforms. |
| Climate action including pricing of carbon, regulatory restraint on emissions, feebates, eliminating subsidies for fossil fuels and carbon-intensive agriculture, reprioritize spending to mitigation and adaptation goals. | Inflation Reduction Act provides US$391 billion for emissions reduction, transition and adaptation. No pricing of carbon proposed. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| **Systemic Risk Oversight and Macroprudential Framework** | | |
| Provide an explicit financial stability mandate to all federal FSOC members. | **Congress** | |
| Prioritize the development of macroprudential tools to address risks and vulnerabilities in the nonbank sector | **FSOC** | The Financial Stability Oversight Council (FSOC) has identified nonbank financial intermediation as one of its four key priorities related to significant vulnerabilities in the financial system.<br><br>In November 2023, FSOC issued its Analytic Framework for Financial Stability Risk Identification, Assessment and Response (Analytic Framework) and its updated Interpretive Guidance for Nonbank Financial Company Determinations (Nonbank Designations Guidance).<br><br>FSOC's Analytic Framework offers a detailed explanation of how the Council monitors, assesses, and responds to potential risks to financial stability, whether they come from widely conducted activities or from individual firms. The Analytic Framework details the vulnerabilities and transmission channels that most commonly contribute to financial stability risks, and it explains the range of authorities the Council may use to address any particular risk including interagency coordination, recommendations to regulators, or the designation of certain entities. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| | | The revised Nonbank Designations Guidance establishes a durable process for FSOC's review of nonbank financial companies for potential designation under section 113 of the Dodd-Frank Act |
| Intensify efforts to close data gaps, including reporting disclosures of holdings of collateralized loan obligations (CLOs) and repo markets, to reinforce market discipline. | **OFR** | As noted in 2023, in February 2019, the OFR promulgated 12 CFR Part 1610, a rule regarding "Ongoing Data Collection of Centrally Cleared Transactions in the U.S. Repurchase Agreement Market". Data collection from financial companies deemed "covered reporters" began in October 2019. This data collection requires the submission of information by central counterparties with average daily total open repo commitments of at least $50 billion.<br><br>On May 6, 2024, the OFR promulgated a rule regarding "Ongoing Data Collection of Non-centrally Cleared Bilateral Transactions in the U.S. Repurchase Agreement Market" (part of 12 CFR 1610). Non-centrally cleared bilateral repo (NCCBR) transaction data is the last segment of repo data in the U.S. for which U.S. financial regulators have not had access to transaction-level data. This rule requires certain financial companies to report transaction-level NCCBR data on a daily basis. Companies that meet reporting thresholds have at least $10 billion in average daily total outstanding commitments to extend guarantees on and borrow cash through NCCBR transactions over all business days during the prior calendar quarter.<br><br>Aggregated data from the cleared repo transaction OFR data collection, together with triparty repo data transaction data collected by the New York Federal Reserve Bank feed into the OFR's Short-Term Funding Monitor, which was launched in 2020. The Short-Term Funding Monitor includes the cleared repo and triparty repo daily preliminary and quarterly final aggregated data series and is available for download by the public via an application programming interface. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| | | In 2023, the OFR launched the Joint Analysis Data Environment (JADE). JADE is an OFR-hosted platform designed for Financial Stability Oversight Council (FSOC) member agencies to analyze risks to financial stability. JADE is designed to support a wide array of financial stability research by combining public, proprietary and non-public government data in a single platform, accessible to researchers, analysts and support staff within OFR and FSOC member agencies. To facilitate collaborative research, JADE offers scalable, high-performance computing with analytical software and support for programming languages such as R and Python in a cloud-based environment with analysis-ready data. The platform is extensible and will expand as new financial risks are identified and new data becomes available.<br><br>Because it was identified as a data gap by FSOC, climate-related financial risk is the first use case FSOC identified for JADE. As a result, JADE has been designed with analytical capabilities broader than has been typical of past financial data analytical platforms. As much of the data housed within JADE is non-public, JADE is available for use only by researchers, analysts, and support staff from OFR and FSOC member agencies. |
| **Banking Regulation and Supervision** | | |
| Review prudential requirements for non-internationally active banks (Category III and IV) | **FRB, FDIC, OCC (S&R/FBAs)** | The Board, FDIC, and OCC, continue to evaluate capital and liquidity requirements for these institutions. |

| FSAP Recommendations | Responsible Authority | Developments |
| --- | --- | --- |
| and ensure they are and continue to be broadly consistent with the Basel capital framework and appropriate concentration limits; and consider extending the full liquidity coverage ratio (LCR) to them. | | The agencies issued the Basel III endgame proposal in July 2023 that would apply elements of the international standards to Category III and IV firms, including Basel's definition of capital (including the AOCI flow through) and the risk-based capital framework. The agencies are currently reviewing comments on the proposal, which include recommendations on the scope of applicability. |
| Streamline regulatory requirements and consider rewriting key prudential guidance as regulation. | **FRB, FDIC, OCC (S&R/FBAs)** | Board, FDIC, and OCC staff continue to revise or make inactive previously issued guidance that has become outdated, has been superseded by subsequent guidance or regulations, or is no longer relevant to the supervision program. In some cases, guidance has been made inactive because more comprehensive guidance on the topic is available in the examination manuals. Additionally, the FBAs have published legal interpretations regarding several regulations.<br><br>In February 2024, the Board, FDIC, and OCC announced their first of a series of requests for comment to reduce regulatory burden. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires the Federal Financial Institutions Examination Council and federal bank regulatory agencies to review their regulations every 10 years to identify – with public input – any outdated or otherwise unnecessary regulatory requirements for their supervised institutions. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| Introduce heightened standards on the governance of large and complex bank holding companies (BHCs), enhance the related-party framework, introduce rules on concentration risk management, and include more quantitative standards regarding interest rate risk in the banking book. | **FRB, FDIC, OCC (S&R/FBAs)** | The Board introduced guidance on the governance of large and complex BHCs (those with total consolidated assets for $100 billion or more). The guidance ("Supervisory Guidance on Board of Directors' Effectiveness") describes the key elements of effective boards at such institutions and provides illustrative examples of effective board practices.<br><br>The agencies previously issued guidance on sound practices for banking organizations on expectations for managing funding and liquidity risk, including concentration risks and contingency planning. In August 2023, an addendum was attached to the guidance to reinforce that depository institutions should maintain actionable contingency funding plans.<br><br>The Board, FDIC, and OCC continue to evaluate the supervision and regulation of interest rate risk management. |
| **Insurance Regulation and Supervision** | | |
| Increase independence of state insurance regulators, with appropriate accountability. | **States (NAIC)** | |
| Require all in-force life insurance business be moved to principles-based reserving (PBR) after a five-year transition period, adjust asset | **NAIC** | |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| period, adjust asset valuation approach to ensure consistency between assets and liabilities, and recalibrate risk-based capital (RBC) to the revised valuation approach. | | |
| Develop a consolidated group capital requirement similar to GAAP-Plus insurance capital standard (ICS) for internationally active groups and optionally for domestic groups in parallel with the development of aggregation approaches by the Board and NAIC. | NAIC and FRB | In March 2023, the IAIS decided not to advance GAAP with Adjustments "GAAP Plus" for inclusion in the ICS. While the IAIS may revisit this decision, it is not currently possible to implement ICSV2.0 with GAAP Plus. The Federal Reserve Board (the Board) and NAIC developed and are implementing their aggregation approaches (the Building Block Approach and the Group Capital Calculation, respectively). In October 2023, the Board adopted a final regulation implementing the Building Block Approach capital requirement, and the regulation became effective on January 1, 2024. The United States—along with other interested jurisdictions—is developing an Aggregation Method at the IAIS. The NAIC adopted the Group Capital Calculation in 2020 and over half the states now require the GCC to be filed, with all states expected to adopt the GCC by January 1, 2026, when it becomes an Accreditation Standard. The IAIS has developed high-level principles and criteria to assess whether the Aggregation Method provides comparable outcomes to the ICS by the end of the monitoring period. The Board and NAIC believe that the Aggregation Method is comparable to the ICS such that it should be considered by the IAIS and its member jurisdictions to be an outcome-equivalent approach for implementation of the ICS. No U.S. regulator intends to adopt the ICS in its current form. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| **Regulation, Supervision, and Oversight of FMIs** | | |
| Increase CFTC resources devoted to CCP supervision and strengthen rule- approval process to an affirmative approval with a public consultation. | **CFTC** | On December 28, 2020, March 15, 2022, December 29, 2022, and March 8, 2024 Congress approved additional resources to the CFTC. |
| Collaborate to analyze differences in outcomes of CCP risk management practices and adopt an appropriately consistent, conservative implementation of risk management standards across CCPs. | **FRB, SEC, CFTC** | The Board, SEC, and CFTC have implemented regulatory frameworks as mandated by Title VIII of the Dodd-Frank Act and that are consistent with the PFMI. The authorities also continue to actively cooperate, coordinate, consult, and collaborate on oversight of CCPs, including risk management practices. For example, the authorities continue to coordinate and collaborate on examinations of CCP risk management practices as well as on reviews of proposed changes to those frameworks, including rulemaking. As noted in the 2020 FSAP, authorities continue to analyze key risk management issues and work to address material differences in the outcomes of risk management practices at CCPs, taking into consideration the markets in which CCPs operate and the potential impacts to financial stability. Additionally, the FMU Committee process within the FSOC allows authorities to continue the periodic review of designated financial market utilities (DFMUs) and conduct ongoing monitoring of risks related to FMUs and payments, clearing, and settlement activities. The FMU Committee work is a critical part of the FSOC effort. *See* https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/fsoc/council-meetings (referring to May 10, 2024 FSOC meeting). |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| Develop and execute more comprehensive systemwide CCP supervisory stress tests. | **FRB, CFTC, SEC** | Preparatory work to conduct a joint supervisory stress test of CCPs began in 2019. Progress was paused to address unprecedented COVID-related developments, and more recently, work related to geopolitical events, but engagement will resume. During the pandemic, the authorities endeavored to address the aggregate effect of COVID-volatility, including on CCPs. The SEC developed a COVID-19 Market Monitoring Group to assist in the SEC's efforts to coordinate with and support the COVID-19-related efforts of other federal financial agencies and other bodies, including the President's Working Group on Financial Markets, Financial Stability Oversight Council and the Financial Stability Board, among others. The CFTC co-chairs an international working group, with the Board and SEC participating, that focuses on the effects of margin demands on the financial system during recent periods of extreme market stress (e.g., early COVID-19 period, early 2022); the relevant standard-setting bodies published a consultative report in late 2021, a final report near the end of 2022, and a supplemental report in 2023, with further work on mitigating system risks currently in progress across a number of international groups. See also U.S. FSAP Technical Note: Supervision of Financial Market Infrastructures, Resilience of Central Counterparties and Innovative Technologies (July 2020) ("FMIs appeared so far sufficiently robust to manage surges in volumes and volatility in financial markets during the COVID-19 crisis."). |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| **Securities Regulation and Supervision** | | |
| Give CFTC and SEC greater independence to determine their own resources, with appropriate accountability. | **Congress** | |
| Assess financial stability risks related to mutual funds and stable net asset value (NAV) money market funds (MMFs), including through SEC-led liquidity stress testing. | **SEC** | On July 12, 2023, the SEC adopted MMF reforms and amendments to Form PF reporting requirements for large liquidity fund advisers. The amendments are designed to improve the resilience and transparency of MMFs by: increasing minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions; removing provisions from the current rule that permit a MMF to temporarily suspend redemptions and removing the regulatory tie between the imposition of liquidity fees and a fund's liquidity level; requiring certain MMFs to implement a liquidity fee framework that will better allocate the costs of providing liquidity to redeeming investors; and enhancing certain reporting requirements to improve the SEC's ability to monitor and assess MMF data. Final Rule: Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1 (sec.gov).<br><br>On February 8, 2024 the CFTC and SEC jointly adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, to: enhance reporting by large hedge fund advisers regarding qualifying hedge funds to provide better insight into the operations and strategies of these |

| FSAP Recommendations | Responsible Authority | Developments |
| --- | --- | --- |
| | | funds and their advisers and to improve data quality and comparability; enhance reporting of hedge funds to provide greater insight into hedge funds' operations and strategies, to assist in identifying trends, and to improve data quality and comparability; amend how advisers report complex structures to improve the ability of the FSOC to monitor and assess systemic risk and to provide greater visibility for both FSOC and the Commissions into these arrangements; and remove aggregate reporting for large hedge fund advisers to lessen the burden on advisers and to focus Form PF reporting on more valuable information for systemic risk assessment purposes. See Form PF; Reporting Requirements for All Filers and Large Hedge Fund Advisers (sec.gov).<br><br>On May 3, 2023, the SEC adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The final amendments require current reporting by large hedge fund advisers regarding certain events that could indicate significant stress at a fund that could harm investors or signal risk in the broader financial system. The amendments also require quarterly event reporting for all private equity fund advisers regarding certain events that could raise investor protection issues. Finally, the amendments require enhanced reporting by large private equity advisers. The reporting requirements are designed to enhance FSOC's ability to monitor systemic risk as well as bolster the SEC's regulatory oversight of private fund advisers and investor protection efforts. See Final rule: Amendments to Form PF to Require Event Reporting for Large Hedge Fund Advisers and Private Equity Fund Advisers and to Amend Reporting Requirements for Large Private Equity Fund Advisers (sec.gov). |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| | | On November 2, 2022, SEC proposed enhancements to the open-end fund liquidity framework to better prepare OEFs for stressed conditions and to mitigate dilution of shareholders' interests. The rule and form amendments would enhance how funds manage their liquidity risks, require mutual funds to implement liquidity management tools, and provide for more timely and detailed reporting of fund information. See Proposed Rule: Open-End Fund Liquidity Risk Management and Swing Pricing; Form N-PORT Reporting (sec.gov). |
| Conclude implementation of new broker-dealer capital rules; finalization of market-wide circuit breakers, and delivery of the Consolidated Audit Trail. | **SEC** | Implementation of new broker-dealer capital rules. On June 21, 2019, the SEC adopted final rules addressing the Title VII requirements for, among other things, capital and segregation requirements for broker-dealers; the compliance date for this rulemaking was October 6, 2021 See https://www.sec.gov/news/press-release-2019-105.<br>Finalization of market-wide circuit breakers MWCBs. The MWCBs were triggered four times in March 2020, providing the self-regulatory organizations (SROs) and the SEC with an opportunity to assess its performance. Following completion of an analysis of the MWCBs' operations, the SROs' MWCB rules were made permanent in March and April 2022 without modification to how they operate. The SROs, however, added requirements relating to testing of the MWCBs and identification of circumstances (e.g., a market decline that falls just short of triggering a MWCB) that warrant review by the SROs and reports to the SEC. See, e.g., https://www.sec.gov/rules/sro/nyse/2022/34-94441.pdf.<br>Delivery of the Consolidated Audit Trail. The SEC charged the SROs with developing and building a Consolidated Audit Trail. For information on the SROs' progress, links to the CAT Implementation Plan, which was filed with the Commission on July 22, 2020, as well as the quarterly progress reports QPRs see https://www.catnmsplan.com/implementation-plan |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| Increase scrutiny of new registrants and reduce reliance on self-attestations where applicable. | **SEC, CFTC, NFA** | Whether a registered investment adviser is a newly registered firm is one of the risk factors that the SEC Division of Examinations considers in selecting firms for examination. On March 27, 2023, the Division of Examinations published a Risk Alert discussing observations from examinations of newly-registered investment advisers. See https://www.sec.gov/files/risk-alert-newly-registered-ias-032723.pdf.<br><br>Newly CFTC registered commodity pool operators (CPOs) immediately become eligible for examination by the NFA utilizing NFA's risk assessment/model function. There are a number of factors that, if present, may result in a newly registered CPO being scheduled for examination including background of firm personnel. |
| **AML/CFT** | | |
| Legislate to collect beneficial ownership information on formation of U.S. corporations, maintain it, and ensure timely access for authorities. | **Congress** | |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| Ensure that investment advisers, lawyers, accountants, and company service providers are effectively regulated and supervised for AML/CFT in line with risks. | **Treasury (TFFC)** | In February 2024 the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) issued a proposed rule that would require certain investment advisers to apply anti-money laundering/countering the financing of terrorism (AML/CFT) requirements pursuant to the Bank Secrecy Act (BSA), including implementing risk-based AML/CFT programs, reporting suspicious activity to FinCEN, and fulfilling recordkeeping requirements. Subsequently, in May 2024, FinCEN and the SEC jointly issued a separate proposed rule that would require certain investment advisers to implement reasonable procedures (commonly known as Customer Identification Programs or "CIPs") to identify and verify the identities of their customers. Treasury aims to finalize these rulemakings expeditiously while also addressing other AML/CFT vulnerabilities—including relating to the U.S. real estate sector, lawyers, and trusts—in preparation for the United States' upcoming fifth-round mutual evaluation by the Financial Action Task Force (FATF). |
| **Systemic Liquidity** | | |
| Promote the fungibility of Treasury Securities and Reserves by adjusting assumptions about firms' access to the Discount Window in liquidity metrics. | **FRB (S&R with MA)** | No changes have been made since the FSAP was conducted. |
| Continue to operate regular fine-tuning OMOs. | **FRB** | In the current operating environment, in which reserves are in excess of $3 trillion, no fine-tuning or reserve management OMOs are needed. |

| FSAP Recommendations | Responsible Authority | Developments |
| --- | --- | --- |
| Advance arrangements for providing liquidity to systemic nonbanks and CCPs under stress, and reconsider restrictions on bilateral emergency liquidity assistance (ELA) to designated systemically important nonbanks. | **FRB, Treasury** | No changes have been made since the FSAP was conducted.<br>The Federal Reserve has the ability to provide liquidity to systemic nonbanks under stress through broad-based liquidity facilities under Section 13(3) of the Federal Reserve Act. In addition, for a CCP that the FSOC has designated as systemically important, the Federal Reserve is authorized to provide liquidity on a bilateral basis in unusual or exigent circumstances (among other restrictions). (The recommendation to reconsider restrictions on bilateral emergency liquidity assistance to systemic nonbanks should be directed to Congress.) |
| Develop robust and effective backup plans in the event the sole provider, Bank of New York Mellon (BNYM), is not able to settle and clear repo transactions. | **FRB (S&R with NY and RBOPS)** | The Federal Reserve has engaged with market participants on the development of robust plans in the event that BNYM is not able to settle and clear repo transactions, including at an industry level. Market participants offered widespread interest and support for this effort, and have taken steps to improve and inform their own contingency planning. The industry has also advanced its preparedness for communicating with various parties during an event. The Federal Reserve continues discussions to support industry implementation of these plans. |
| Enhance arrangements to provide liquidity support in foreign currencies to banks and designated systemically important CCPs. | **FRB** | No changes have been made since the FSAP was conducted. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| **Crisis Preparedness and Management** | | |
| Intensify crisis preparedness. | **FSOC, FRB, FDIC, OCC (S&R/FBAs)** | FSOC plays an important role in promoting information sharing and collaboration to address potential risks to financial stability. When the Council discusses potential responses to mitigate potential risks to financial stability, it seeks to collaborate regarding agencies' crisis-management planning and tools that are relevant to those risks.<br><br>The FBAs led and participated in 2023, and continue to maintain, significant principal and staff-level engagements, both interagency and with foreign jurisdictions, to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIB, including in the context of ongoing trilateral work with U.S., UK, and European financial regulatory authorities. In addition, the FBAs work with staff from the U.S. financial regulatory authorities, and with foreign supervisors and resolution authorities and within international groups, to understand risks, identify resolution options, and address related CCP resolution planning issues. |
| Continue to use agency discretion actively to subject a wider array of firms to RRP. | **FRB, FDIC, OCC (S&R/FBAs)** | Through operation of the revised resolution plan rule issued by the FDIC and Board in 2019, several firms have become subject to the Title I resolution plan requirement since the effective date of the rule.<br><br>The OCC recently completed recovery plan reviews at all banks subject to 12 CFR 30 Appendix E. As part of this work, the OCC hosted an industry roundtable with active participation from all covered banks. |

| FSAP Recommendations | Responsible Authority | Developments |
|---|---|---|
| Continue to undertake, at least yearly, Dodd-Frank Act (DFA) Title II plans, resolvability assessments, and crisis management group (CMG) discussions of RRPs and assessments. | **FRB, FDIC** | The FBAs continue to review RRPs submitted by firms with an increasing focus on testing a range of firms' capabilities that support resiliency, recoverability, and resolvability.<br>The FDIC and the Board also continue to co-chair annual Crisis Management Group (CMG) meetings for U.S. G-SIBs, with the participation of the OCC and SEC, as applicable, and relevant host authorities, to discuss home-and-host resolvability assessments for the firms to facilitate cross-border resolution planning.<br>Further, the FDIC has undertaken institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The FDIC continues to build out process documents to facilitate the implementation of the framework in a Title II resolution. In April 2024, the FDIC published a paper titled "Overview of Resolution under Title II of the Dodd-Frank Act," a comprehensive report discussing how the FDIC expects to manage the orderly resolution of a large, complex financial company under Title II of the Dodd-Frank Act. |
| Extend OLA powers to cover FBOs' U.S. branches; ensure equal depositor preference ranking for overseas branch deposits with domestic deposits; introduce powers to give prompt and predictable legal effect to foreign resolution measures. | **Congress** | |

*This assessment was prepared by the U.S. authorities for the purposes of the IMF's Article IV review and is non-binding, informal, and summary in nature. The updates contained herein do not represent rules, regulations, interpretations, or official statements of the U.S. authorities.*

# Annex VI. Data Issues

## Annex VI. Table 1. United States: Data Adequacy Assessment for Surveillance

**Data Adequacy Assessment Rating 1/**

A

Questionnaire Results 2/

| Assessment | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral Consistency | Median Rating |
|---|---|---|---|---|---|---|---|
| | A | A | A | A | A | B | A |

Detailed Questionnaire Results

| Data Quality Characteristics | | | | | | |
|---|---|---|---|---|---|---|
| Coverage | A | A | A | A | A | |
| Granularity 3/ | A | | A | A | A | |
| | | | A | | A | |
| Consistency | | | A | A | | B |
| Frequency and Timeliness | A | A | A | A | A | |

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| | |
|---|---|
| A | The data provided to the Fund is adequate for surveillance. |
| B | The data provided to the Fund has some shortcomings but is broadly adequate for surveillance. |
| C | The data provided to the Fund has some shortcomings that somewhat hamper surveillance. |
| D | The data provided to the Fund has serious shortcomings that significantly hamper surveillance. |

**Rationale for Staff Assessment:** Staff assesses the overall data quality to be adequate for Fund surveillance. The economic and monetary statistics from the FRB, the BEA, and the BLS are comprehensive and of high quality. The dates for main data releases are published well in advance. There is a need to reconcile the saving-investment balance in the national accounts with the current account balance in the BOP as the discrepancy has widened significantly. This re-alignment of intersectoral consistency would help with the assessment of external imbalances. In addition, to align with BPM6, trade of goods should be recorded based on residency; goods imported by nonresident construction companies should be included as goods in the balance of payments; and values of illegal or smuggled activities should be estimated and included.

**Changes since the last Article IV consultation**. The authorities have taken steps to further strengthen data collection, e.g., the improvement in financial market data as listed in Box 9 and Appendix V.

**Corrective actions and capacity development priorities**. None

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** Staff does not use any data and/or estimates in the staff report in lieu of official statistics.

**Other data gaps**. Staff encourages continued efforts to advance financial sector statistics including banks' holdings of CLOs, CRE loan holdings by types of properties, and linkages to nonbanks.

## Annex VI. Table 2. United States: Data Standards Initiatives

United States adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

## Annex VI. Table 3. United States: Table of Common Indicators Required for Surveillance

As of June 19, 2024

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives through the National Summary Data Page | | | |
|---|---|---|---|---|---|---|---|---|
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expected Frequency[6,7] | United States[8] | Expected Timeliness[6,7] | United States[8] |
| Exchange Rates | Same Day | Same Day | D | D | D | ... | ... | ... |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | 2024 M4 | May 31 | M | M | M | W | 1W | NLT 7D |
| Reserve/Base Money | 2024 M4 | May 28 | M | M | M | W | 2W | NLT 1W |
| Broad Money | 2024 M4 | May 28 | M | M | M | W | 1M | 10D |
| Central Bank Balance Sheet | Jun 13 | Jun 13 | W | W | M | W | 2W | NLT 1W |
| Consolidated Balance Sheet of the Banking System | 2024 Q1 | Jun 14 | Q | Q | M | W | 1M | 10D |
| Interest Rates[2] | Same Day | Same Day | D | D | D | ... | ... | ... |
| Consumer Price Index | 2024 M5 | Jun 12 | M | M | M | M | 1M | 2W-NLT 1M |
| Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4] | 2024 Q1 | May 30 | Q | Q | A/Q | A | 2Q/12M | 2Q |
| Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government | 2024 M5 | Jun 11 | M | M | M | M | 1M | 1M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | 2024 M5 | May 31 | M | M | Q | M | 1Q | 1W |
| External Current Account Balance | 2023 Q4 | Mar 21 | Q | Q | Q | Q | 1Q | 11-12W |
| Exports and Imports of Goods and Services | 2024 M4 | Jun 06 | M | M | M | M | 8W | NLT 52D |
| GDP/GNP | 2024 Q1 | May 30 | Q | Q | Q | Q | 1Q | NLT 31D |
| Gross External Debt | 2023 Q4 | Mar 29 | Q | Q | Q | Q | 1Q | 1Q |
| International Investment Position | 2023 Q4 | Mar 27 | Q | Q | Q | Q | 1Q | 90D |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

# Annex VII. Transnational Aspects of Corruption

## Supply-Side of Corruption[1]

1. The OECD WGB commended the authorities' efforts to further enhance the transparency and efficiency of the enforcement approach and tools, keeping the United States at the forefront of the fight against foreign bribery. Since the 2020 Phase 4 evaluation, the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) have undertaken sizeable enforcement actions against legal persons. More specifically, at the time of the October 2022 Follow-up Report, the DOJ had resolved new supply-side enforcement actions regarding at least 11 legal persons in 9 foreign bribery schemes (imposing $4.7 billion in monetary penalties); while the SEC had brought at least 13 enforcement actions in relation to 10 schemes (imposing $1.3 billion in civil or administrative penalties). In addition, both the DOJ and SEC reported their maintenance of sufficient data on detection sources in foreign bribery matters. Moreover, the DOJ developed internal guidance on corporate recidivism in its enforcement approach, where prosecutors are instructed to consider all prior wrongdoing by the company itself and related corporate entities.[2]

2. The WGB encouraged the United States to continue addressing the Phase 4 recommendations on whistleblowers, corporate recidivism, and data on debarment decisions. While whistleblowers protections and incentives for issuers who report to the SEC violations of the Foreign Corrupt Practices Act (FCPA) are commendable as good practice, whistleblowers who report only to the DOJ or whose reports concern FCPA violations by non-issuers have very limited protections. While the authorities recognized that legislative reforms may be required, they did not provide additional guidance on the variations in protections depending on the agency to which a whistleblower makes a report. Although DOJ instituted comprehensive guidance regarding recidivism and publicized such guidance, the WGB recommended that the authorities continue to enhance public awareness of corporate recidivism's impact on the level of sanctions or the choice of resolution. Finally, further consideration should be made by the authorities of possible alternative ways of collecting data on debarment decisions against businesses based on foreign bribery.

[1] Information relating to supply-side corruption in this annex draws on the WGB's Phase 4 Follow-Up Report of the United States (October 2022). The IMF staff and the United States have provided additional views and information whose accuracy have not been verified by the WGB or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

[2] At the time of the October 2022 Follow-up Report, it remained too early to assess what impact this new guidance would have in practice, while the SEC had not developed any express guidance.