INTERNATIONAL MONETARY FUND

UNITED STATES

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 14, 2018

Prepared By

The Western Hemisphere Department (in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2018)

Membership Status: Joined: December 27, 1945; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	82,994.20	100.00
IMF's Holdings of Currency (Holdings Rate)	74,462.41	89.72
Reserve Tranche Position	8,540.17	10.29
Lending to the Fund		
New Arrangements to Borrow	3,773.36	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	35,315.68	100.00
Holdings	36,439.53	103.18

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				
	2018	2019	2020	2021	2022
Principal					
Charges/Interest		0.59	0.59	0.59	0.59
Total		0.59	0.59	0.59	0.59

[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 Arrangements. 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 January 10, 2018.

Article IV Consultation. The 2017 Article IV consultation was concluded on June 16, 2017 and the Staff Report was published as IMF Country Report No. 17/239. A fiscal Report of Observance of Standards and Codes was completed in the context of the 2003 consultation. The 2018 Article IV discussions took place in New York (April 25-27) and Washington D.C. (May 1-17). Concluding meetings with Chair Powell of the Board of Governors of the Federal Reserve System, and Treasury Secretary Mnuchin occurred on June 6 and June 7, respectively. The Managing Director, Ms. Lagarde, the Deputy Managing Director, Mr. Zhang, and WHD Director, Mr. Werner, participated in the concluding meetings. A press conference on the consultation was held on June 14, 2018. The team comprised Nigel Chalk (head), Yasser Abdih, Ali Alichi, Emanuel Kopp, Daniel Leigh, Suchanan Tambunlertchai, Peter Williams (all WHD), Celine Rochon and Russell Green (SPR). Mr. Mauricio Claver-Carrone (Executive Director), Ms. Patricia Pollard (Senior Advisor), and Mr. Stephan Vitvitsky (Advisor) attended some of the meetings. Outreach included discussions with Congressional staff, U.S. Chamber of Commerce, 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.

STATISTICAL ISSUES

Statistical Issues. Comprehensive economic data are available for the United States on a timely basis. The quality, coverage, periodicity, and timeliness of U.S. economic data are adequate for surveillance. The United States adheres to the Special Data Dissemination Standard Plus and its metadata are posted on the Dissemination Standards Bulletin Board.

United States: Table of Common Indicators Required for Surveillance
(As of June 8, 2018)

	Date of latest observation	Date received	Frequency of data[1]	Frequency of reporting[1]	Frequency of publication[1]
Exchange rates	Same day	Same day	D	D	D
International reserve assets and reserve liabilities of the monetary authorities[2]	2018 M5	May 18	M	M	M
Reserve/base money	May 31	May 31	W	W	W
Broad money	May 31	May 31	W	W	W
Central bank balance sheet	May 30	May 31	W	W	W
Interest rates[3]	Same day	Same day	D	D	D
Consumer price index	2018 M4	May 10	M	M	M
Revenue, expenditure, balance and composition of financing[4]—general government[5]	2018 Q1	May 30	Q	Q	Q
Revenue, expenditure, balance and composition of financing[4]—central government	2018 M4	May 10	M	M	M
Stocks of central government and central government-guaranteed debt	2018 M4	May 4	M	M	M
External current account balance	2018 Q1	May 30	Q	Q	Q
Exports and imports of goods and services	2018 M4	May 11	M	M	M
GDP/GNP (2nd release)	2018 Q1	May 30	Q	M	M
Gross External Debt	2017 Q4	March 31	Q	Q	Q
International Investment Position[6]	2017 Q4	March 30	Q	Q	Q

[1] Daily (D), Weekly (W), Biweekly (B), Monthly (M), Quarterly (Q), Annually (A); NA: Not Available.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Press Release No. 18/274
FOR IMMEDIATE RELEASE
July 3, 2018

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Article IV Consultation with the United States

On June 29, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the United States.[1]

The near-term outlook for the U.S. economy is one of strong growth and job creation. Unemployment is near levels not seen in 50 years, and growth is set to accelerate, aided by a fiscal stimulus, a recovery of private investment, and supportive financial conditions. These positive outturns have supported, and been reinforced by, a favorable external environment. The balance of evidence suggests that the U.S. economy is beyond full employment.

A slow but steady rise in wage and price inflation is expected as labor and product markets tighten. Core PCE inflation is expected to rise modestly above 2 percent by mid-year. Wages have been growing broadly in line with (relatively weak) labor productivity growth, leaving unit labor costs virtually unchanged over the past 2 years. In the next several months, wages and unit labor costs are anticipated to increase at a modest pace.

Despite good near-term prospects, a number of vulnerabilities are being built-up. The planned expansion in the federal deficit at this stage of the cycle could trigger a faster-than-expected rise in inflation. That would be accompanied by a more rapid rise in interest rates that could increase market volatility both in the U.S. and abroad. There is a risk of a marked reversal of capital flows, particularly from emerging markets with weaker macroeconomic fundamentals. The net effect of U.S. budget and tax policy choices will exacerbate an already unsustainable upward dynamic in the public debt and leave few budget resources available to invest in a range of urgently needed supply-side reforms, including infrastructure spending. It will also contribute to a rise in global imbalances. These risks are added to by recent actions by the U.S. to impose tariffs on imports.

The consultation focused on the policies needed to address these risks, rebuild fiscal space,

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

preserve financial stability, support low- and middle-income households, incentivize work, and raise medium-term living standards.

Executive Board Assessment[2]

Directors welcomed the strong performance of the U.S. economy, with accelerating growth, low unemployment, and muted inflation. They also welcomed the favorable near-term outlook and the prospect of marking the longest economic expansion in its recorded history. At the same time, Directors observed heightened policy uncertainty and medium-term vulnerabilities, including rising public debt, trade tensions, and income inequality. They stressed that developments and policy actions in the United States have significant implications for the rest of the world, and encouraged the authorities to take that consideration into account in their policy decisions.

Directors recognized the objectives of the fiscal strategy and tax reform, with its many positive features, in supporting growth and promoting structural changes to unleash the economic potential. They observed that, at the current stage of the business cycle, the expansionary fiscal policy stance, while boosting U.S. and global output in the near term, could increase risks and uncertainties in the medium term. Specifically, Directors cautioned that the procyclicality of the budget and tax policy plans would adversely affect the fiscal deficit, debt sustainability, and global imbalances. They encouraged the authorities to rebalance fiscal policy, increase the revenue-to-GDP ratio through a greater reliance on indirect taxes, and prioritize infrastructure spending. Directors also saw scope for targeting personal income tax relief at lower-income households, and improving the compliance of tax provisions with the international obligations.

Directors commended the Federal Reserve for pursuing monetary policy normalization in a gradual, data-dependent, and well-communicated manner. They stressed the importance of continued adherence to these principles, while being mindful of potential global spillovers as monetary policy tightens. Directors concurred that, given the sizable fiscal stimulus, achieving the dual mandate of maximum employment and price stability would likely require a faster pace of policy rate increases. They pointed to an inflation surprise as an important risk that, if realized, could create volatility in financial markets, with negative global consequences.

Directors raised significant concerns over recent trade policy proposals that could have damaging effects beyond the U.S. economy, trigger retaliatory responses, and undermine the open, fair, rules-based multilateral trading system. Directors urged the authorities to work constructively together with their trading partners to reduce trade barriers and resolve trade and investment disagreements without resorting to harmful unilateral actions.

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

Directors noted medium-term risks to financial stability, including those related to high equity market valuations, rising leverage, weakened underwriting standards, and cyber risks. Managing these risks would require high-quality and independent supervision. Directors stressed the need to preserve the current risk-based approach to regulation, supervision, and resolution; strengthen the oversight of nonbank financial institutions; and remain committed to agreed international standards. They looked forward to further progress in implementing the remaining recommendations of the 2015 FSAP.

United States: Selected Economic Indicators 1/

(percentage change from previous period, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023
		Projections					
National production and income							
Real GDP	2.3	2.9	2.7	1.9	1.7	1.5	1.4
Net exports 1/	-0.2	-0.4	-0.6	-0.5	0.0	-0.1	0.0
Total domestic demand	2.4	3.3	3.2	2.3	1.7	1.6	1.3
Private final consumption	2.8	2.8	2.5	1.9	2.1	2.1	1.9
Public consumption expenditure	0.1	1.3	3.0	1.4	0.1	-0.3	-0.6
Gross fixed domestic investment	3.4	5.7	6.0	4.3	1.3	0.8	0.7
Private fixed investment	4.0	6.3	6.9	4.6	1.0	0.4	0.2
Public fixed investment	0.1	2.7	1.6	2.6	2.8	3.2	3.1
Change in private inventories 1/	-0.1	0.1	0.0	0.1	0.0	0.0	0.0
Nominal GDP	4.1	5.4	5.6	4.0	3.8	3.7	3.5
Personal saving rate (% of disposable income)	3.4	2.5	2.5	2.7	3.0	3.3	3.7
Private investment rate (% of GDP)	16.6	17.2	17.7	18.1	18.0	17.8	17.6
Unemployment and potential output							
Unemployment rate	4.4	3.8	3.5	3.4	3.6	3.6	3.8
Labor force participation rate	62.8	62.8	62.6	62.4	62.2	62.0	61.8
Potential GDP	1.8	2.0	2.0	1.9	1.8	1.7	1.7
Output gap (% of potential GDP)	0.3	1.2	1.9	1.9	1.8	1.5	1.2
Inflation							
CPI inflation (q4/q4)	2.1	3.2	2.7	2.3	2.2	2.2	2.3
Core CPI Inflation (q4/q4)	1.7	2.4	2.6	2.5	2.3	2.3	2.3
PCE Inflation (q4/q4)	1.7	2.8	2.4	2.0	1.9	1.9	2.0
Core PCE Inflation (q4/q4)	1.5	2.0	2.3	2.2	2.0	2.0	2.0
GDP deflator	1.8	2.4	2.8	2.0	2.1	2.2	2.1
Government finances							
Federal government							
Federal balance (% of GDP) 2/	-3.5	-4.1	-4.6	-4.5	-4.7	-5.0	-4.8
Federal debt held by the public (% of GDP)	76.5	76.9	77.2	78.5	80.5	82.5	84.6
General government							
Primary structural balance (% of potential GDP)	-2.7	-3.5	-3.8	-3.3	-3.2	-3.0	-2.3
General government budget balance (% of GDP) 2/	-4.5	-5.3	-5.5	-5.3	-5.4	-5.4	-4.9
General government gross debt (% of GDP)	105.6	106.0	106.5	108.1	109.9	111.6	113.1
Interest rates (percent; period average)							
Fed funds rate	1.0	1.9	3.0	3.6	3.2	2.9	2.9
Three-month Treasury bill rate	0.9	2.0	3.0	3.4	3.0	2.7	2.7
Ten-year government bond rate	2.3	3.0	3.5	3.8	3.7	3.6	3.6
Balance of payments							
Current account balance (% of GDP)	-2.4	-3.0	-3.2	-3.6	-3.4	-3.2	-3.0
Merchandise trade balance (% of GDP)	-4.2	-4.6	-4.7	-5.2	-5.1	-5.1	-5.0
Export volume (NIPA basis, goods)	4.5	5.2	2.7	2.1	3.5	2.9	4.4
Import volume (NIPA basis, goods)	4.3	7.2	7.0	5.9	3.3	3.6	2.9
Net international investment position (% of GDP)	-40.5	-41.4	-42.5	-44.4	-46.2	-47.8	-49.2
Saving and investment (% of GDP)							
Gross national saving	17.5	17.3	17.6	17.6	17.7	17.8	17.8
General government	-1.6	-3.6	-4.1	-4.0	-4.0	-3.7	-3.2
Private	19.0	21.0	21.7	21.6	21.7	21.5	21.1
Personal	2.5	1.9	1.8	2.0	2.2	2.4	2.8
Business	16.5	19.1	19.9	19.6	19.5	19.1	18.3
Gross domestic investment	19.8	20.4	20.8	21.2	21.1	21.0	20.9
Private	16.6	17.2	17.7	18.1	18.0	17.8	17.6
Public	3.2	3.2	3.1	3.1	3.1	3.2	3.2

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.