INTERNATIONAL MONETARY FUND

UNITED STATES

June 24, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The Western Hemisphere Department

CONTENTS

FUND RELATIONS

(As of May 31 2016)

Membership Status: Joined 12/27/1945; Article VIII

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	82,994.20	100.00
Fund holdings of currency	77,343.98	93.19
Reserve Tranche Position	5,651.38	6.81
Lending to the Fund		
New Arrangements to Borrow	6,224.58	

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	35,315.68	100.00
Holdings	35,858.57	101.54

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to the Fund:

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

			Forthcoming		
	2016	2017	2018	2019	2020
Principal					
Charges/Interest		1.24	1.24	1.24	1.24
Total		1.24	1.24	1.24	1.24

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 June 3, 2016.

Article IV Consultation. The 2015 Article IV consultation was concluded on July 6, 2015 and the Staff Report was published as IMF Country Report No. 15/322. A fiscal Report of Observance of Standards and Codes was completed in the context of the 2003 consultation.
The 2016 Article IV discussions took place May 23–June 9, 2016. Concluding meetings with Chair Yellen of the Board of Governors of the Federal Reserve System, and Treasury Secretary Lew occurred on June 20 and June 21 respectively. The Managing Director, Ms. Lagarde, the Deputy Managing Director, Mr. Zhu, and WHD Director, Mr. Werner, participated in the concluding meetings. A press conference on the consultation was held on June 22, 2016. The team comprised Nigel Chalk (head), Yasser Abdih, Ali Alichi, Ravi Balakrishnan, Stephan Danninger, Emanuel Kopp, Andrea Pescatori, Damien Puy (all WHD), Christian Henn and Stefan Laseen (SPR), Thornton Matheson (FAD), and Emmanuel Mathias (LEG). Mr. Sabharwal (Executive Director), Mr. Haarsager (Senior Advisor) and Mr. Hall (Advisor) attended some of the meetings. Outreach included discussions with Congressional staff, U.S. Chamber of Commerce, AFL-CIO, 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 has subscribed to the Special Data Dissemination Standard (SDDS) and its metadata are posted on the Dissemination Standard Bulletin Board (DSBB).

United States: Table of Common Indicators Required for Surveillance
(As of June 23, 2016)

	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]	2016 M5	May 26	M	M	M
Reserve/base money	June 23	June 23	W	W	W
Broad money	June 23	June 23	W	W	W
Central bank balance sheet	May 26	May 26	W	W	W
Interest rates[3]	Same day	Same day	D	D	D
Consumer price index	2016 M5	June 16	M	M	M
Revenue, expenditure, balance and composition of financing[4]—general government[5]	2016 Q1	May 31	Q	Q	Q
Revenue, expenditure, balance and composition of financing[4]—central government	2016 M5	June 10	M	M	M
Stocks of central government and central government-guaranteed debt	2016 M5	June 6	M	M	M
External current account balance	2016 Q1	June 16	Q	Q	Q
Exports and imports of goods and services	2016 M4	June 3	M	M	M
GDP/GNP (2nd release)	2016 Q1	May 27	Q	M	M
Gross External Debt	2015 Q4	March 31	Q	Q	Q
International Investment Position[6]	2015 Q4	March 31	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. 16/332
FOR IMMEDIATE RELEASE
July 12, 2016

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

IMF Executive Board Concludes Article IV Consultation with United States

On July 8, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the United States.[1]

The U.S. is in its seventh consecutive year of expansion. The unemployment rate has fallen to 4.9 percent and household net worth is close to pre-crisis peaks. Nonetheless, the economy has gone through a temporary growth dip in the last two quarters. Lower oil prices led to a further contraction in energy sector investment and a strong dollar and weak global demand have weighed on net exports. On the upside, real household disposable income is growing at 3 percent, the housing market is growing at a healthy clip, and the current fiscal and monetary policy mix is supporting the economy.

With activity indicators for the second quarter of this year rebounding, the economy is expected to grow at 2.2 percent and 2.5 percent in 2016 and 2017, which is above potential. Over this period, the remaining labor market gap should close before growth begins to steadily decline to 2 percent over the medium term. Inflation has remained subdued and wage indicators on the whole have shown only modest acceleration. As the output gap closes, personal consumer expenditure (PCE) inflation is expected to slowly and moderately rise above 2 percent in 2017–19, before returning to the Federal Reserve's medium-term target of 2 percent.

Risks to the growth outlook are tilted to the downside. Given uncertainty surrounding the implications of the U.K. referendum, continued financial market volatility or a further appreciation of the U.S. dollar are possible. There are, however, upside risks from oil—both in terms of a delayed effect on consumption and a lessening drag from oil-related investment. A more complex and harmful downside risk is the possibility that potential growth rate is lower than estimated and a smaller output gap than previously estimated. If true, this would mean the U.S. economy could soon bump up against capacity constraints that would slow growth and generate domestic inflationary pressures with negative global spillovers.

Over the longer term and despite the ongoing expansion, the U.S. faces a confluence of forces

[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.

that may weigh on the prospects for continued gains in economic well being. A rising share of the US labor force is shifting into retirement, basic infrastructure is aging, productivity gains are scanty, and labor markets and businesses appear less adept at reallocating human and physical capital. These growing headwinds are overlaid by pernicious secular trends in income: labor's share of income is around 5 percent lower today than it was 15 years ago, the middle class has shrunk to its smallest size in the last 30 years, the income and wealth distribution are increasingly polarized, and poverty has risen. If left unchecked, these forces will continue to drag down both potential and actual growth, diminish gains in living standards, and worsen poverty.

The consultation focused on the medium-term challenges of an increasingly polarized income distribution, high levels of poverty, falling labor force participation, and weak productivity growth, and policies to combat these trends.

Executive Board Assessment[2]

Executive Directors welcomed the continued recovery of the U.S. economy, on the back of strong fundamentals and supportive macroeconomic policies. Directors noted that, while the outlook remains broadly favorable, there are important downside risks and uncertainties, in particular slower potential growth, a strengthening of the U.S. dollar further away from levels justified by medium-term fundamentals, and sustained investor risk aversion following the outcome of the referendum in the United Kingdom. Meanwhile, longstanding issues on the supply side continue to weigh on economic prospects, including low productivity growth, falling labor force participation, and rising poverty and wealth inequality.

Directors agreed that the pace of interest rate normalization should remain data-dependent, proceeding cautiously along a gradual upward path. While there may be some merits in accepting a temporary overshooting of the medium-term inflation target until the economic expansion is solidly established, many Directors were concerned over the risks of de-anchoring inflation expectations and eroding monetary policy credibility. Directors welcomed the authorities' commitment to monitor closely economic and financial developments, both domestic and global, and their implications for the Federal Reserve's objectives of maximum employment and price stability. They also underscored the importance of maintaining clear, effective communication of the approach to interest rate adjustment.

Directors noted that near-term fiscal policy remains appropriately geared toward supporting growth and job creation. However, lasting institutional solutions are still needed to enhance the budget process and minimize fiscal uncertainties. Directors also highlighted the urgency of addressing the challenges posed by demographic trends, entitlement spending, and deteriorating infrastructure. In this context, they saw value in calibrating a credible medium-term consolidation plan to help guide the path of fiscal policy toward debt sustainability.

[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 stressed the need to take a broad range of measures to tackle longer-term challenges. Priorities include boosting federal infrastructure spending; further reforming the health care and pension systems; and reaching agreement on skill-based immigration reform. Directors called for concerted efforts to advance pro-poor policies, particularly expanding tax credits to low-income households, raising the federal minimum wage, and expanding paid-family leave and childcare assistance. Complementary measures to boost long-term growth include a comprehensive reform of the U.S. corporate income taxation, and further progress on trade integration.

Directors noted that recent regulatory reforms and improved capital positions have strengthened the U.S. banking system. Nevertheless, there remain pockets of vulnerabilities that warrant continued vigilance, particularly in the asset management and insurance industries, although at the current juncture risks are unlikely to be systemic. To preserve hard-won gains on financial stability, Directors called on the authorities to continue implementing the recommendations of the 2015 Financial Sector Assessment Program. It will be particularly important to complete the regulatory reforms under the Dodd-Frank Act. Directors also recommended close monitoring and placing the insurance sector under consolidated national regulation and supervision. They supported efforts to improve data collection and reporting in the nonbank sector, strengthen requirements on beneficial ownership, and maintain dialogue and support capacity building in countries affected by the withdrawal of correspondent banking relationships.

United States: Selected Economic Indicators 1/

(percentage change from previous period, unless otherwise indicated)

		Projections					
	2015	2016	2017	2018	2019	2020	2021
National production and income							
Real GDP	2.4	2.2	2.5	2.3	2.0	1.9	2.0
Net exports 2/	-0.6	-0.3	-0.5	-0.3	-0.2	-0.2	-0.1
Total domestic demand	3.0	2.4	2.9	2.5	2.2	1.9	2.0
Final domestic demand	2.8	2.5	2.8	2.5	2.2	2.0	2.0
Private final consumption	3.1	2.7	2.7	2.3	2.0	2.0	2.0
Public consumption expenditure	0.4	1.2	1.4	1.4	1.5	1.0	1.3
Gross fixed domestic investment	3.7	2.4	4.3	3.8	3.1	2.5	2.3
Private fixed investment	4.0	2.5	5.0	4.2	3.1	2.3	2.2
Equipment and software	3.1	0.5	4.4	3.8	3.1	2.4	2.4
Intellectual property products	5.7	2.0	4.1	3.8	3.1	2.4	2.0
Nonresidential structures	-1.5	-1.9	4.2	3.4	2.2	1.8	2.2
Residential structures	8.9	10.0	7.3	5.9	3.7	2.4	2.0
Public fixed investment	2.3	2.2	1.3	1.7	3.1	3.8	3.1
Change in private inventories 2/	0.2	0.0	0.1	0.1	0.0	0.0	0.0
Nominal GDP	3.5	3.2	4.4	4.6	4.2	4.0	4.2
Personal saving rate (% of disposable income)	5.1	5.4	5.1	4.7	4.4	4.5	4.6
Private investment rate (% of GDP)	16.8	16.7	17.1	17.3	17.3	17.3	17.4
Unemployment and potential output							
Unemployment rate	5.3	4.9	4.8	4.6	4.7	4.9	5.1
Labor force participation rate	62.6	62.8	62.9	62.7	62.5	62.3	62.1
Potential GDP	1.8	1.9	1.9	1.9	2.0	2.0	2.0
Output gap (% of potential GDP)	-1.1	-0.8	-0.3	0.2	0.2	0.1	0.0
Inflation							
CPI inflation (q4/q4)	0.4	1.1	2.5	2.6	2.4	2.4	2.3
Core CPI Inflation (q4/q4)	2.0	2.2	2.4	2.5	2.4	2.4	2.3
PCE Inflation (q4/q4)	0.5	1.0	2.2	2.3	2.1	2.1	2.0
Core PCE Inflation (q4/q4)	1.4	1.8	2.1	2.2	2.1	2.1	2.0
GDP deflator	1.0	1.0	1.8	2.2	2.2	2.1	2.2
Government finances							
Federal government			(budget, fiscal years)				
Federal balance (% of GDP)	-2.6	-3.0	-2.8	-2.5	-3.0	-3.2	-3.4
Debt held by the public (% of GDP)	73.6	76.0	76.0	75.6	75.9	76.4	77.0
General government			(GFSM 2001, calendar years)				
Net lending (% of GDP)	-3.4	-3.8	-3.6	-3.4	-3.7	-3.7	-3.9
Primary structural balance (% of potential GDP)	-1.0	-1.6	-1.5	-1.4	-1.6	-1.5	-1.5
Gross debt (% of GDP)	105.7	107.9	107.8	107.4	107.5	107.7	107.8
Interest rates (percent)							
Fed funds rate	0.1	0.5	1.0	1.8	2.6	2.9	2.9
Three-month Treasury bill rate	0.1	0.3	0.8	1.6	2.4	2.7	2.7
Ten-year government bond rate	2.1	1.9	2.2	2.8	3.1	3.3	3.3
Balance of payments							
Current account balance (% of GDP)	-2.6	-2.9	-3.5	-3.8	-4.0	-4.0	-4.1
Merchandise trade balance (% of GDP)	-4.2	-4.3	-4.6	-4.7	-4.8	-4.8	-5.0
Export volume (NIPA basis, goods)	-0.2	1.2	5.8	6.1	5.3	5.1	3.9
Import volume (NIPA basis, goods)	4.8	3.2	8.2	6.4	5.6	5.6	5.1
Net international investment position (% of GDP)	-41.0	-44.2	-47.9	-51.7	-55.8	-59.4	-63.0
Saving and investment (% of GDP)							
Gross national saving	18.8	17.6	16.9	16.8	16.7	16.7	16.7
General government	-1.1	-1.3	-1.1	-0.9	-1.1	-1.1	-1.2
Private	19.9	18.9	18.0	17.8	17.8	17.9	17.9
Personal	3.8	4.1	3.8	3.5	3.3	3.4	3.4
Business	16.1	14.8	14.2	14.2	14.5	14.5	14.5
Gross domestic investment	20.2	20.1	20.4	20.6	20.7	20.7	20.8
Private	16.8	16.7	17.1	17.3	17.3	17.3	17.4
Public	3.4	3.4	3.3	3.3	3.3	3.4	3.4

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

1/ Components may not sum to totals due to rounding

2/ Contribution to real GDP growth, percentage points