FOR AGENDA

SM/10/189
Supplement 2

July 21, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **United States—Staff Report for the 2010 Article IV Consultation—Draft Public Information Notice**

Attached for consideration by the Executive Directors is the background section of the draft Public Information Notice relating to the staff report for the 2010 Article IV consultation with the United States (SM/10/189, 7/12/10), which is tentatively scheduled for discussion on **Monday, July 26, 2010**. 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. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Estevao, WHD (ext. 36038).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank and the WTO Secretariat forthwith; and to the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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

IMF Executive Board Concludes 2010 Article IV Consultation with the United States

On [July 26, 2010], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the United States.[1]

Background

Thanks to a massive policy response, the U.S. economy is recovering from the worst financial crisis since the Great Depression. Monetary policy has maintained a highly accommodative tilt, with policy rates near zero and asset purchases that have helped to ameliorate financial strains. Fiscal policy has been very stimulative, with the American Recovery and Reinvestment Act imparting stimulus of about 5 percent of GDP during 2009–2011, supplemented by measures targeted to housing, labor and auto markets. Meanwhile, measures to stabilize financial markets, capital injections, guarantees, and stress testing dramatically improved financial conditions. As a result, GDP grew an average 4 percent (saar) in the second half of 2009 before slowing to 2.7 percent (saar) growth in the first quarter of 2010. The U.S. current account deficit shrank on the back of weak domestic demand, lower oil prices, and the cumulative effect of the depreciation trend in the dollar since early 2002.

However, the economic recovery has been slow by historical standards—consistent with past experience in the aftermath of housing and financial crises—and the outlook remains uncertain. In particular, private demand has been sluggish, while the unemployment rate has receded only

[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. At the conclusion of the discussion, the [First Deputy Managing Director], as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

modestly from near post-Depression highs. As a result, inflation has remained contained, with core inflation easing amid wide economic slack. Recent market volatility from the sovereign crisis in Europe has tightened financial conditions somewhat despite safe-haven flows that have reduced Treasury yields. Looking ahead, risks are elevated and tilted to the downside (as clear from the most recent batch of economic indicators), with particular risks from a double dip in the housing market and spillovers if external financial conditions worsen.

Macroeconomic policies are set to remain accommodative in the near term. The draft FY2011 budget proposes reductions in the primary deficit beginning only next year, with the aim of stabilizing public debt at just over 70 percent of GDP, and includes placeholders for possible additional targeted spending. Most of the special liquidity facilities have been phased out and the Fed ended its MBS purchase program without disrupting markets, while signaling continued low policy rates for an extended period.

Progress has been made in addressing long-term challenges. The health care reform widens coverage and introduces cost-containment measures. The financial regulation reform, which is broadly consistent with proposals in the IMF’s Financial Stability Assessment Program, includes a broadening of the regulatory perimeter to all systemic institutions and markets, a new council of regulators to improve systemic risk detection and resolution, tighter prudential regulation parameters, and stronger resolution mechanisms for nonbank financial institutions.

Executive Board Assessment

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Table 1. United States: Selected Economic Indicators
(annual change in percent, unless otherwise indicated)

						Projections	
	2005	2006	2007	2008	2009	2010	2011
National production and income							
Real GDP	3.1	2.7	2.1	0.4	-2.4	3.3	2.9
Net exports 1/	-0.3	-0.1	0.6	1.2	1.2	-0.3	-0.5
Total domestic demand	3.2	2.6	1.4	-0.7	-3.4	3.5	3.3
Final domestic demand	3.3	2.5	1.7	-0.4	-2.7	2.1	3.0
Private final consumption	3.4	2.9	2.7	-0.2	-0.6	2.3	2.1
Public consumption expenditure	0.6	1.0	1.4	3.0	1.8	0.8	-2.0
Gross fixed domestic investment	5.3	2.5	-1.2	-3.6	-14.5	2.8	12.3
Private fixed investment	6.5	2.3	-2.1	-5.1	-18.3	3.1	15.0
Residential structures	6.2	-7.3	-18.5	-22.9	-20.5	0.7	19.9
Public fixed investment	-0.8	3.3	3.2	3.4	1.9	1.7	3.0
Change in private inventories 1/	-0.1	0.1	-0.3	-0.4	-0.9	1.3	0.3
GDP in current prices	6.5	6.0	5.1	2.6	-1.3	4.1	4.1
Employment and inflation							
Unemployment rate	5.1	4.6	4.6	5.8	9.3	9.7	9.2
CPI inflation	3.4	3.2	2.9	3.8	-0.3	1.6	1.1
GDP deflator	3.3	3.3	2.9	2.1	1.2	0.8	1.2
Government finances							
Federal government (budget, fiscal years)							
Federal balance (percent of GDP)	-2.6	-1.9	-1.2	-3.2	-11.3	-11.0	-8.1
Debt held by the public (percent of GDP)	36.9	36.5	36.2	40.2	53.0	64.0	69.0
General government (GFSM 2001, calendar years)							
Net lending (percent of GDP)	-3.2	-2.0	-2.7	-6.6	-12.5	-10.7	-8.0
Structural balance (percent of potential nominal GDP	-2.3	-1.9	-2.3	-4.7	-7.1	-8.0	-6.2
Gross debt (percent of GDP)	61.6	61.1	62.1	70.6	83.2	92.1	97.2
Interest rates (percent)							
Three-month Treasury bill rate	3.2	4.8	4.5	1.4	0.2	0.1	0.3
Ten-year government bond rate	4.3	4.8	4.6	3.7	3.3	3.6	4.7
Balance of payments							
Current account balance (billions of dollars)	-748	-803	-718	-669	-378	-482	-531
Percent of GDP	-5.9	-6.0	-5.1	-4.6	-2.7	-3.2	-3.4
Merchandise trade balance (billions of dollars)	-784	-839	-823	-835	-507	-651	-735
Percent of GDP	-6.2	-6.3	-5.8	-5.8	-3.6	-4.4	-4.8
Balance on invisibles (billions of dollars)	36	37	105	166	129	168	204
Percent of GDP	0.3	0.3	0.7	1.1	0.9	1.1	1.3
Saving and investment (percent of GDP)							
Gross national saving	15.1	16.2	14.5	12.6	10.8	12.5	14.2
Gross domestic investment	20.3	20.5	19.5	18.2	15.0	16.0	17.6

Sources: Haver Analytics and Fund staff estimates.
1/ Contribution to real GDP growth, percentage points.