

**EXECUTIVE
BOARD
MEETING**

SM/20/119
Correction 1

July 28, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **United States—Staff Report for the 2020 Article IV Consultation**

Board Action: The attached corrections to SM/20/119 (7/17/20) have been provided by the staff:

Evident Ambiguity

Page 22

**Factual Errors Not
Affecting the
Presentation of Staff's
Analysis or Views**

Pages 7 and 32

Typographical Errors

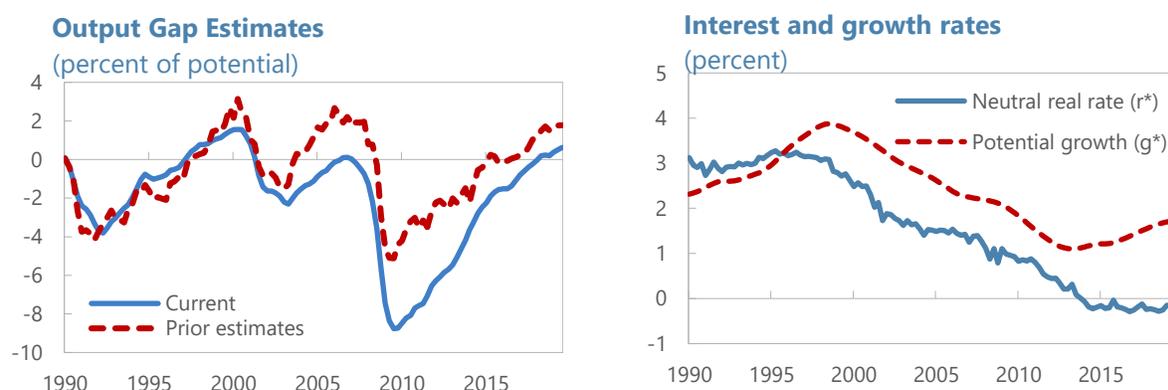
Pages 11, 15, 27, 49, 50, 58, 59, 63, 64,

Questions: Mr. Chalk, WHD (ext. 34506)

Box 1. Reading “the Stars”

The objective of this modeling exercise is to estimate a consistent parameterization of the steady state equilibrium for the U.S. (i.e., with inflation at 2 percent, wage growth equal to trend productivity growth plus long-run inflation expectations, the federal funds rate at the neutral rate, unemployment at the NAIRU, and output equal to potential). The model incorporates an IS-relationship to describe the business cycle, a Philips Curve that relates inflation to the output gap, and a Taylor Rule describing movements in the federal funds rate. It uses a factor approach to incorporate a broader range of indicators of activity, inflation, underutilization of labor, and wages than in similar approaches. The structural relationships and additional data generate more precise estimates, with similar or lower degrees of instability in real-time use, than similar models.

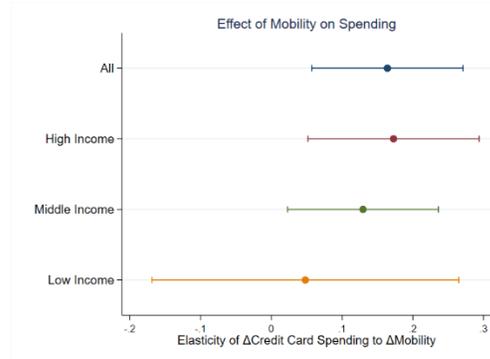
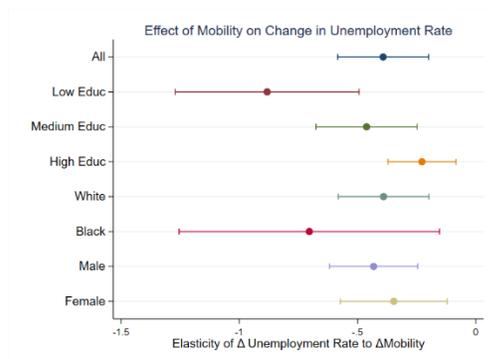
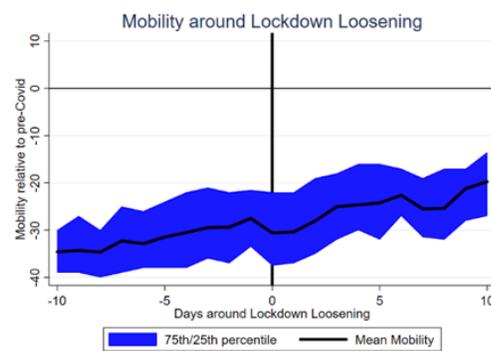
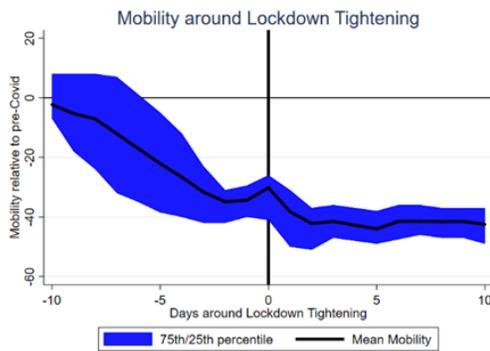
The results suggest that, since 2000, the U.S. economy has consistently operated below full capacity. Following the 2008-9 recession, it moved further away from potential than is typically assessed and only reached full employment in late 2018. This is corroborated by a lack of wage and price pressures, even at very late stages in the cycle. Since the mid-1990s, the neutral rate of interest has declined substantially in inflation-adjusted terms. Potential growth has experienced a secular decline after the dot-com bust (but saw some modest increase in the last few years as investment picked up and labor force participation rose). Taken together, these estimates suggest that prior to the COVID-19 pandemic, the U.S. economy can be characterized as being close to its balanced growth path.



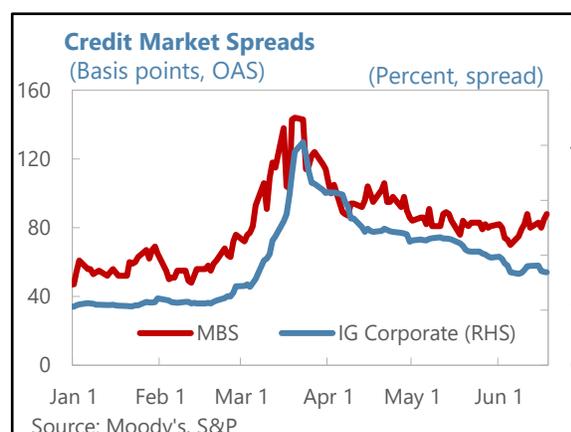
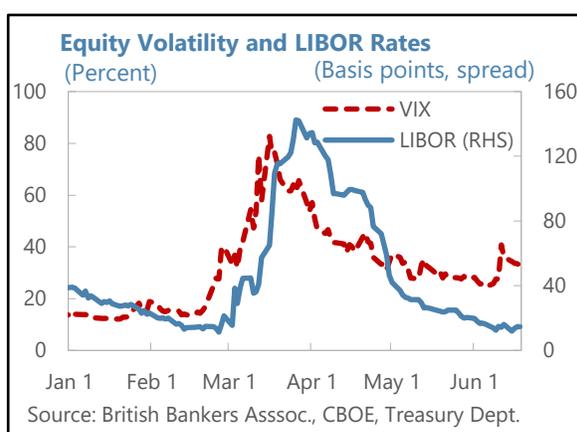
¹ See P. Williams, Y. Abdih, and E. Kopp “Reading the Stars” IMF Working Paper [\(forthcoming\) No. 20/136](#).

Box 2. The Impact of Re-opening on Activity—A State-Level Perspective

Mobility—a *de facto* measure of reopening—has picked up at a relatively steady pace. Mobility linked to retail and recreation activity declined by around 40 percent during the full-lockdown period, largely occurring *prior* to governments issuing stay-at-home orders (a similar pattern emerges looking at reservations on Opentable). More recently, mobility started rising even before restrictions were loosened. This suggests that individuals’ changing concerns about their health or their economic well-being—rather than statutory decisions—have been a key constraint in determining the pace at which activity returns (although it remains unclear how expectations about changes to stay-at-home orders are influencing mobility behavior).¹ Corroborating other data, the decline in mobility has had particularly large effects on the employment of low income workers and on discretionary consumption (such as elective health care, hotels, and restaurants), particularly of higher income households.



13. During the second half of March, the Fed announced new facilities to support credit markets and to directly lend to non-financial entities. Section 13(3) of the Federal Reserve Act permits the Fed, in unusual and exigent circumstances, to provide liquidity to the financial system by discounting the liabilities of individuals, partnerships, and corporations. Supported by funding from the CARES Act, the emergency lending facilities that were introduced (Box 4) were structured around either (i) a Fed standing facility providing liquidity to financial institutions, collateralized by specific assets; (ii) providing Fed liquidity to a special-purpose vehicle which, in turn, provides collateralized loans to financial institutions or purchases bonds and loans outright; or (iii) direct lending through the Main Street Lending program to smaller companies and nonprofit organizations. Congress appropriated US\$454 billion to the Treasury to backstop these facilities and to absorb potential credit losses. The announcement effect of these programs served to boost liquidity in a range of credit markets.



14. The steps taken by the Federal Reserve Reserve were well-designed, forceful and instrumental in supporting demand and restoring the normal functioning of financial markets. In light of the significant uncertainties facing policy makers in March, it was appropriate to tackle the burgeoning problems in market functioning through multiple points of entry, backing a broad range of institutions and asset markets. Deploying large and front-loaded purchases of Treasuries and mortgage-backed securities alongside the various credit facilities allowed spreads on investment grade corporate bonds to fall by 200 basis points, equity markets to rebound, and both market volumes and bid-ask spreads to return to more normal levels. The expansion of swap lines with other central banks, and the easing of the terms for accessing these resources, helped to mitigate strains in global dollar funding markets. In addition to the positive effects on the U.S. economy, these programs had positive spillovers to many other countries, helping to maintain market functioning in global credit and dollar funding markets and—in conjunction with the various actions taken by other countries—facilitating a broad-based loosening of global financial conditions.

will take time for many of them to return to active job search or employment. Furthermore, the drop in demand for a range of activities, could lead to a wave of corporate bankruptcies as well as necessitate a significant reallocation of capital and labor across the economy.⁵ There are frictions associated with such an economic restructuring which will inevitably take a toll on the pace of recovery. Finally, pervasive excess capacity is likely to dampen prospects for new investment in many sectors.

23. Additional policy efforts or rapid progress on vaccines or therapeutics would have important effects in accelerating the pace of recovery. Staff's outlook does not incorporate any future monetary or fiscal policy stimulus beyond that which has already been put in place (while it seems likely that another fiscal package will be legislated, it is difficult at this stage to predict the size or composition of that stimulus). The forecasts also does not assume a vaccine discovery is imminent. Additional policy efforts to stimulate demand or rapid progress on vaccines or therapeutics would have important effects in accelerating the pace of recovery. Beyond these policy efforts, it is worth emphasizing that the U.S. has proved time and again that it has the flexibility to adapt to shifts in the economic environment as well as the talent and human capital to innovate in new and unexpected ways. The new innovations necessary to achieve a restructuring of the U.S. economy could potentially drive a revival in productivity and investment in new industries and (at least temporarily) boost potential growth.

24. The very large amount of slack in the economy increases the risk of an extended period of low, or even negative, inflation. Persistently high levels of unemployment are likely to put downward pressure on wages and the global excess capacity in tradable goods and commodities is likely to present a source of imported disinflation.⁶ There could be countervailing forces that will push up costs (e.g. from a potential need to re-shore production in certain industries or adaptations that will be needed to ensure customer safety). However, these pressures are likely to manifest as shifts in relative prices but not through a generalized upswing in core or headline inflation. If inflation remains low, or even negative, for an extended period, this would mute the impact of monetary policy loosening (given the effective lower bound) and could lead businesses and consumers to delay their purchases (further weakening demand). A disinflationary path would be particularly problematic in the face of the expected increase in public, household, and corporate indebtedness that lies ahead (potentially giving rise to balance sheet stress and necessitating debt write-downs by creditors).

⁵ Recent legislation may help facilitate faster and less expensive small business bankruptcies. In February 2020, the Small Business Reorganization Act (SBRA) entered into force, which introduces a simpler version of Chapter 11 for small and medium enterprises. The CARES Act raises the applicable thresholds for the SBRA, so that it now covers a much larger number of enterprises (firms with debt of up to US\$7.5 million). There are ongoing discussions in Congress regarding a budget increase for the bankruptcy courts, including an increase in the number of judges and a recall of retired judges.

⁶ Although signs point to the demand downturn being stronger than supply contractions, there are also concerns that inflation is no longer properly measured due to rapid changes in the consumption bundle, disappearing goods, and sharp changes in the quality of goods (Cavallo 2020).

temporary expensing of equipment investment which complemented the existing tax incentives for R&D investment (resulting in around 80 percent of total investment being expensed). These provisions should be made permanent and expanded to ensure that the cost of all new investments could be immediately expensed. This would allow the ~~deductability~~deductibility of interest costs associated with the financing of such investments to be gradually phased out (which would have the benefit of lessening the debt bias currently built into the tax system). Full expensing would target tax relief to new investments (rather than the existing capital stock) and would provide greater tax certainty (i.e., avoiding cliff effects associated with the scheduled expiration of existing expensing provisions)⁸. The tax benefit for new investments could either be made creditable against other tax obligations or refundable in order to increase the liquidity benefits to firms (particularly for those with limited income or taxable losses). Gradually phasing-out interest deductions would provide a temporary net subsidy to the returns on new investments which could help accelerate some investment decisions. Considerations to “border adjust” this cashflow tax (i.e., to move the business tax to a destination-based cashflow tax) should take into account issues related to the compatibility of such a tax regime with WTO obligations as well as other potential outward spillover effects (e.g. due to ensuing exchange rate adjustments and implications for the corporate tax systems of other jurisdictions).⁹

B. Tackling Poverty and Supporting Displaced Workers

33. In the coming months, poverty looks set to rise. The tax credits described above will help but should be complemented by a permanent expansion in the eligibility for, and size of, social assistance. Such policies will also mitigate the racial inequities in economic outcomes (although it should be recognized as representing only one step in addressing these complex socioeconomic issues). Measures should focus on increased funding for the Supplemental Nutrition Assistance Program and a temporarily suspension of work requirements that have been attached to this program. Consideration could be given to increasing direct cash aid to poor families (e.g. through the Temporary Assistance for Needy Families program) and temporarily expanding the Section 8 housing voucher program (to ensure poor families are able to cover their rent).

34. The COVID-19 outbreak has brought to the forefront existing weaknesses in the decentralized and fragmented U.S. health system. The U.S. system predominantly delivers health coverage through employer-provided insurance, overall costs are high, and 25.6 million Americans lack health coverage. The pandemic has provided a dramatic new backdrop for the longstanding public policy debate over how, or whether, to remake the current structure of the U.S. health system.

⁸ It is worth noting that the evidence over the past few years has, however, not pointed to particularly large supply-side effects arising from either the lower statutory rate or the expensing provisions included in the Tax Cuts and Jobs Act (see E. Kopp, D. Leigh, S. Mursula, and S. Tambunlertchai, “U.S. Investment since the Tax Cuts and Jobs Act of 2017,” IMF Working Paper 19/120, 2019). However, the relatively modest impact on long-term investment decisions could, in part, be a result of concerns over the scheduled expiration, or potential future reversal, of some of the provisions of the Act.

⁹ See A. Auerbach, M. Devereux, M. Keen and J. Vella, “Destination-Based Cash Flow Taxation”, Oxford Legal Studies Research Paper No. 14, 2017.

undertaken through discretionary programs—such as the Better Utilizing Investments to Leverage Development scheme—which would avoid automatic apportionment of funds and allow for a more competitive process in allocating federal resources. The direct infrastructure spending would likely have large demand effects and energy efficient investments would help speed up the reduction in carbon emissions. Since much of this investment would take place at the state and local level, federal support would mainly serve to co-finance infrastructure priorities identified by subnational governments.

F. Boosting Consumption

41. When the pandemic fades and localities can safely reopen, consideration could be given to offering temporary vouchers to incentivize consumption. Such vouchers could be targeted at sectors that are most affected by the crisis (e.g. airlines, travel, or restaurants) or at energy-efficient goods. They can help bring forward consumption plans and provide a front-loaded, temporary demand boost when it is most needed. A gradual phase-out would avoid creating an “air pocket” in consumption as vouchers expire. Alternatively, consideration could be given to offer federal incentives to states to encourage them to temporarily reduce their sales tax on certain goods which would also boost consumption (although that approach would lead to more uneven effects across states since sales tax rates vary and five states have no sales tax at all).

G. Transparency and Accountability

42. To maintain transparency and build public support, federal and state governments should establish platforms to provide clear and timely information on the use of public monies. The CARES Act creates three new oversight bodies: (i) the Pandemic Response Accountability Committee, comprised of an Inspector General’s panel, to conduct oversight of the COVID-19-related relief funds; (ii) a Special Inspector General for Pandemic Recovery, within the Treasury Department with responsibility for monitoring the Treasury’s US\$500 billion fund for targeted loans to businesses; and, (iii) a Congressional Oversight Commission. These new bodies should be fully operationalized and have the tools, access to information, and resources to fulfil their mandates and to coordinate with other oversight institutions. It is particularly important at the current juncture—given the size of the federal taxpayer-funded resources being deployed—that oversight bodies actively investigate potential fraud, waste or abuse and provide ongoing analysis and monitoring of COVID programs (both to undertake ex-post assessments of program effectiveness and help with the design of subsequent fiscal measures). In addition, there should be transparency about the distribution of relief funds and loans (including publishing names and beneficial ownership information of recipients and using open public procurement processes). Such provisions would complement the important analysis and accountability function that is already being undertaken by the Congressional Budget Office and [General Accounting Government Accountability](#) Office.

Table 2. United States: Balance of Payments

(annual percent change unless otherwise indicated)

	2018	2019	Projections					
			2020	2021	2022	2023	2024	2025
Real exports growth								
Goods and services	3.0	0.0	-10.8	6.7	4.7	4.0	2.8	2.4
Goods	4.3	0.2	-11.2	6.3	5.5	4.6	2.9	2.3
Services	0.7	-0.4	-10.1	7.3	3.3	2.8	2.7	2.6
Real imports growth								
Goods and services	4.4	1.0	-9.3	6.7	4.3	3.5	2.3	2.1
Goods	5.0	0.3	-9.2	6.9	4.6	3.7	2.4	2.1
Nonpetroleum goods	6.0	1.0	-9.4	7.5	5.1	4.2	2.7	2.4
Petroleum goods	-4.9	-7.0	-7.1	-3.8	-3.2	-3.2	-3.2	-3.2
Services	1.6	4.2	-9.8	5.9	2.8	2.3	2.1	2.1
Net exports (contribution to real GDP growth)	-0.3	-0.1	0.1	-0.2	-0.1	0.0	0.0	0.0
Nominal exports								
Goods and services	12.2	11.7	10.7	10.8	10.9	11.0	11.1	11.1
Nominal imports								
Goods and services	15.3	14.6	13.6	13.7	13.7	13.8	13.9	13.8
Current account								
Current account balance	-2.2	-2.2	-2.2	-2.1	-2.1	-2.1	-2.0	-2.0
Balance on trade in goods and services	-2.8	-2.7	-2.7	-2.6	-2.6	-2.6	-2.5	-2.5
Balance on income	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Capital and Financial Account								
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-2.0	-1.8	-2.2	-2.1	-2.1	-2.1	-2.0	-2.0
Direct investment, net	-2.0	-0.8	-0.8	-1.0	-1.0	-0.9	-0.9	-1.0
Portfolio investment, net	0.2	-0.6	-0.2	0.6	0.8	0.2	0.4	0.6
Financial derivatives, net	-0.1	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment, net	-0.1	-0.3	-1.1	-1.7	-1.7	-1.4	-1.4	-1.5
Reserve assets, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net International Investment Position								
Direct investment, net	-47.0	-51.6	-61.2	-59.8	-58.8	-58.5	-58.3	-58.2
Portfolio investment, net	-4.7	-8.2	-9.4	-9.8	-10.4	-10.8	-11.3	-11.9
Financial derivatives, net	-36.0	-37.4	-43.6	-40.6	-37.8	-36.1	-34.4	-32.7
Other investment, net	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Reserve assets, net	-8.7	-8.5	-11.0	-12.0	-13.1	-14.0	-14.9	-15.9
Reserve assets, net	2.2	2.4	2.7	2.5	2.4	2.3	2.2	2.1
Memorandum items								
Current account balance (US\$ billions)	-450	-480	-436	-447	-478	-496	-500	-510
Non-oil trade balance (% of GDP)	-2.8	-2.8	-3.0	-3.0	-3.0	-3.0	-3.0	-3.0
Foreign real GDP growth	2.6	1.6	-7.3	4.7	3.3	2.7	2.6	2.5
U.S. real GDP growth	2.9	2.3	-6.6	3.9	3.3	2.3	1.9	1.8
U.S. real total domestic demand growth	3.1	2.4	-6.5	4.0	3.3	2.3	1.9	1.8

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

Table 3. United States: Federal and General Government Finances
(percent of GDP)

	2018	2019	Projections										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Federal government													
Revenue	16.4	16.3	13.1	15.2	17.3	17.5	16.9	17.0	17.5	17.9	17.8	17.8	17.8
Expenditure	20.2	21.0	31.1	25.6	22.7	22.0	21.7	21.9	22.1	22.2	22.7	22.2	22.4
Non-interest	18.6	19.2	29.4	23.9	21.2	20.7	20.5	20.9	21.1	21.1	21.6	21.1	21.3
Interest	1.6	1.8	1.7	1.7	1.5	1.3	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Budget balance 1/	-3.8	-4.6	-18.0	-10.4	-5.4	-4.5	-4.7	-4.9	-4.6	-4.3	-4.9	-4.3	-4.6
Primary balance 2/	-2.2	-2.9	-16.2	-8.7	-3.9	-3.2	-3.6	-3.9	-3.6	-3.2	-3.8	-3.2	-3.5
Primary structural balance 3/ 4/	-2.2	-3.0	-13.9	-7.6	-3.5	-3.0	-3.4	-3.7	-3.4	-3.0	-3.5	-3.0	-3.2
Change	-0.5	-0.8	-10.9	6.3	4.1	0.5	-0.4	-0.3	0.3	0.4	-0.5	0.5	-0.2
Federal debt held by the public	77.4	79.2	99.6	107.4	106.8	106.8	107.4	108.3	108.8	109.0	109.8	109.9	110.4
General government													
Revenue	29.6	29.4	25.5	28.4	30.4	30.4	30.0	30.3	30.9	31.2	31.1	31.1	31.1
Expenditure	35.4	35.7	48.3	40.0	37.7	36.9	36.5	36.6	36.6	36.7	36.9	36.5	36.6
Net interest	2.2	2.2	2.4	2.2	2.0	1.8	1.6	1.5	1.3	1.3	1.3	1.3	1.3
Net lending 1/	-5.8	-6.3	-22.8	-11.5	-7.4	-6.5	-6.5	-6.3	-5.7	-5.5	-5.7	-5.4	-5.6
Primary balance 2/	-3.6	-4.1	-20.5	-9.3	-5.4	-4.8	-4.9	-4.9	-4.4	-4.2	-4.4	-4.1	-4.3
Primary structural balance 3/ 4/	-3.4	-4.4	-16.9	-8.1	-5.0	-4.5	-4.6	-4.6	-4.1	-3.9	-4.0	-3.7	-3.9
Change	-1.2	-1.0	-12.5	8.8	3.1	0.5	-0.1	0.0	0.5	0.2	-0.2	0.4	-0.2
Gross debt	107.1	108.7	138.2	142.2	142.8	143.9	145.3	146.6	147.4	148.0	148.8	149.2	149.8
incl. unfunded pension liab.	136.6	135.4	164.5	168.1	168.2	168.9	169.9	170.9	171.2	171.4	171.8	171.8	172.0

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

Note: Fiscal projections are based on Congressional Budget Office forecast adjusted for the IMF staff's policy and macroeconomic assumptions. Projections incorporate the effects of legislations in responses to the COVID-19 outbreak (Coronavirus Preparedness and Response Supplemental Appropriations Act, Families First Coronavirus Response Act, Coronavirus Aid, Relief and Economy Security Act and Paycheck Protection Program and Health Care Enhancement Act), tax reform (Tax Cuts and Jobs Act, signed into law end-2017) as well as the Bipartisan Budget Act of 2018 passed in February 2018. Fiscal projections are adjusted to reflect the IMF staff's forecasts for key macroeconomic and financial variables and different accounting treatment of financial sector support and 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. Due to data limitations, most series begin 2001.

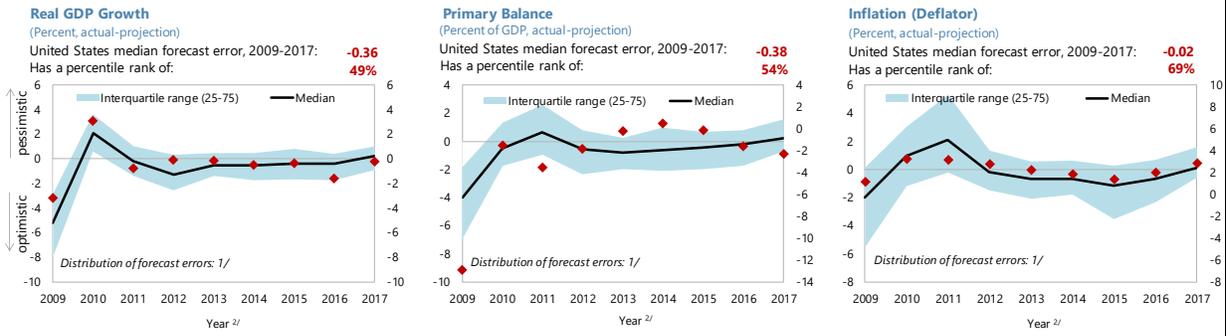
1/ Includes staff's adjustments for one-off items, including costs of financial sector support.

2/ Excludes net interest.

3/ Excludes net interest, effects of economic cycle, and costs of financial sector support.

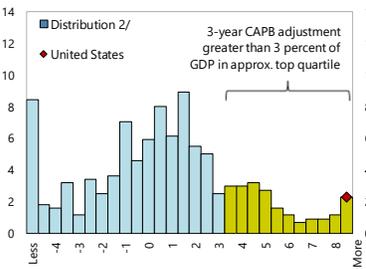
4/ Percent of potential GDP.

Appendix III. Figure 2. United States: Public DSA–Realism of Baseline Assumptions

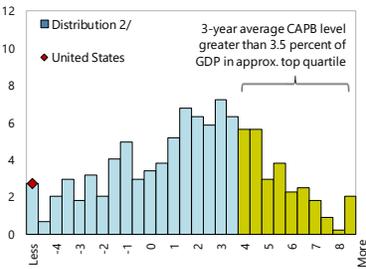


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis

Real GDP growth
(Percent)



Source : IMF staff

1/ Plotted distribution includes all countries, percentile rank refers to all countries. Projections made in the spring WEO vintage of the preceding year

2/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis

Appendix III. Figure 3. United States: Public DSA–Baseline Scenario

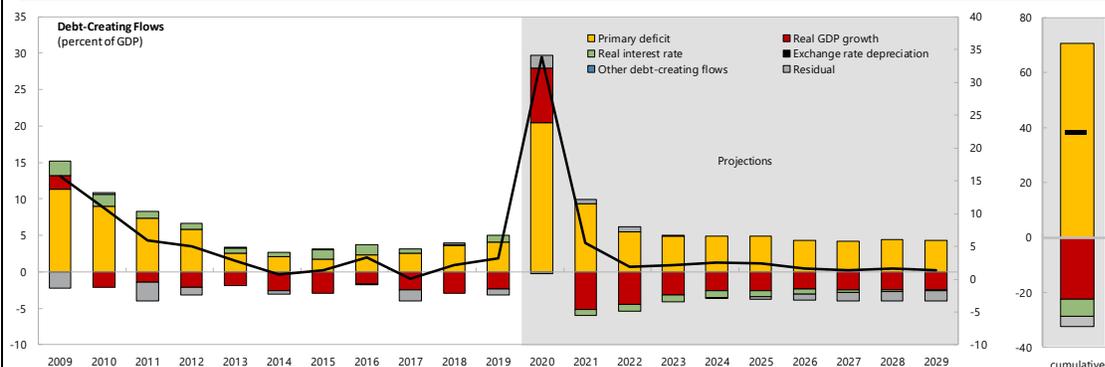
(percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections										As of July 08, 2020		
	2009–2017 2/	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	Sovereign Spreads		
Nominal gross public debt	101.3	106.9	108.7	138.2	142.2	143.0	143.9	145.2	146.3	146.8	147.1	147.5	147.8	Spread (bp) 3/	111	
Public gross financing needs	39.7	41.4	41.6	59.1	48.2	42.4	41.8	43.8	42.3	40.3	36.3	29.8	26.8	CDS (bp)	3	
Real GDP growth (percent)	1.7	2.9	2.3	-6.6	3.9	3.3	2.3	1.9	1.8	1.7	1.7	1.7	1.7	Ratings	Foreign	Local
Inflation (GDP deflator, percent)	1.5	2.4	1.7	1.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	Moody's	Aaa Aaa	
Nominal GDP growth (percent)	3.2	5.4	4.1	-5.4	6.1	5.4	4.4	4.0	3.9	4.0	4.0	4.0	4.0	S&P's	AA+ AA+	
Effective interest rate (percent) 4/	2.8	2.7	2.7	1.0	1.6	1.4	1.4	1.5	1.5	1.7	1.8	1.9	2.0	Fitch	AAA AAA	

Contribution to Changes in Public Debt

	Actual			Projections										Cumulative	Debt-stabilizing primary balance 9/
	2009–2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029		
Change in gross public sector debt	3.6	1.0	1.8	29.5	4.0	0.7	1.0	1.3	1.1	0.5	0.3	0.5	0.3	39.1	-2.6
Identified debt-creating flows	4.4	0.8	2.6	27.8	3.4	0.1	0.8	1.4	1.5	1.4	1.4	1.7	1.7	41.2	
Primary deficit	5.0	3.6	4.1	20.5	9.4	5.5	4.9	4.9	4.9	4.4	4.2	4.4	4.3	67.3	
Primary (noninterest) revenue and grants	29.7	29.1	28.9	25.0	27.9	29.8	29.9	29.6	29.9	30.4	30.6	30.6	30.1	293.8	
Primary (noninterest) expenditure	34.6	32.7	33.0	45.5	37.3	35.3	34.8	34.5	34.7	34.7	34.8	35.0	34.4	361.0	
Automatic debt dynamics 5/	-0.6	-2.7	-1.5	7.3	-5.9	-5.4	-4.1	-3.5	-3.4	-3.0	-2.8	-2.7	-2.6	-26.1	
Interest rate/growth differential 6/	-0.6	-2.7	-1.5	7.3	-5.9	-5.4	-4.1	-3.5	-3.4	-3.0	-2.8	-2.7	-2.6	-26.1	
Of which: real interest rate	1.1	0.2	0.9	-0.2	-0.8	-1.0	-1.0	-0.9	-0.8	-0.6	-0.4	-0.2	-0.2	-6.1	
Of which: real GDP growth	-1.7	-2.9	-2.4	7.5	-5.1	-4.5	-3.1	-2.6	-2.6	-2.4	-2.4	-2.4	-2.4	-20.0	
Exchange rate depreciation 7/	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net privatization proceeds	0.0	0.0	0.0	0.0	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	0.0	0.0	0.0	
Other liabilities (bank recap. and PSI sweetener)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	-0.8	0.1	-0.8	1.7	0.6	0.6	0.2	-0.1	-0.4	-0.9	-1.1	-1.3	-1.4	-2.1	



Source: IMF staff

1/ Public sector is defined as general government

2/ Based on available data

3/ Bond Spread over German Bonds

4/ Defined as interest payments divided by debt stock at the end of previous year

5/ Derived as $[r - p(1+g) - g + ae(1+r)] / (1+g+p+gp)$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation

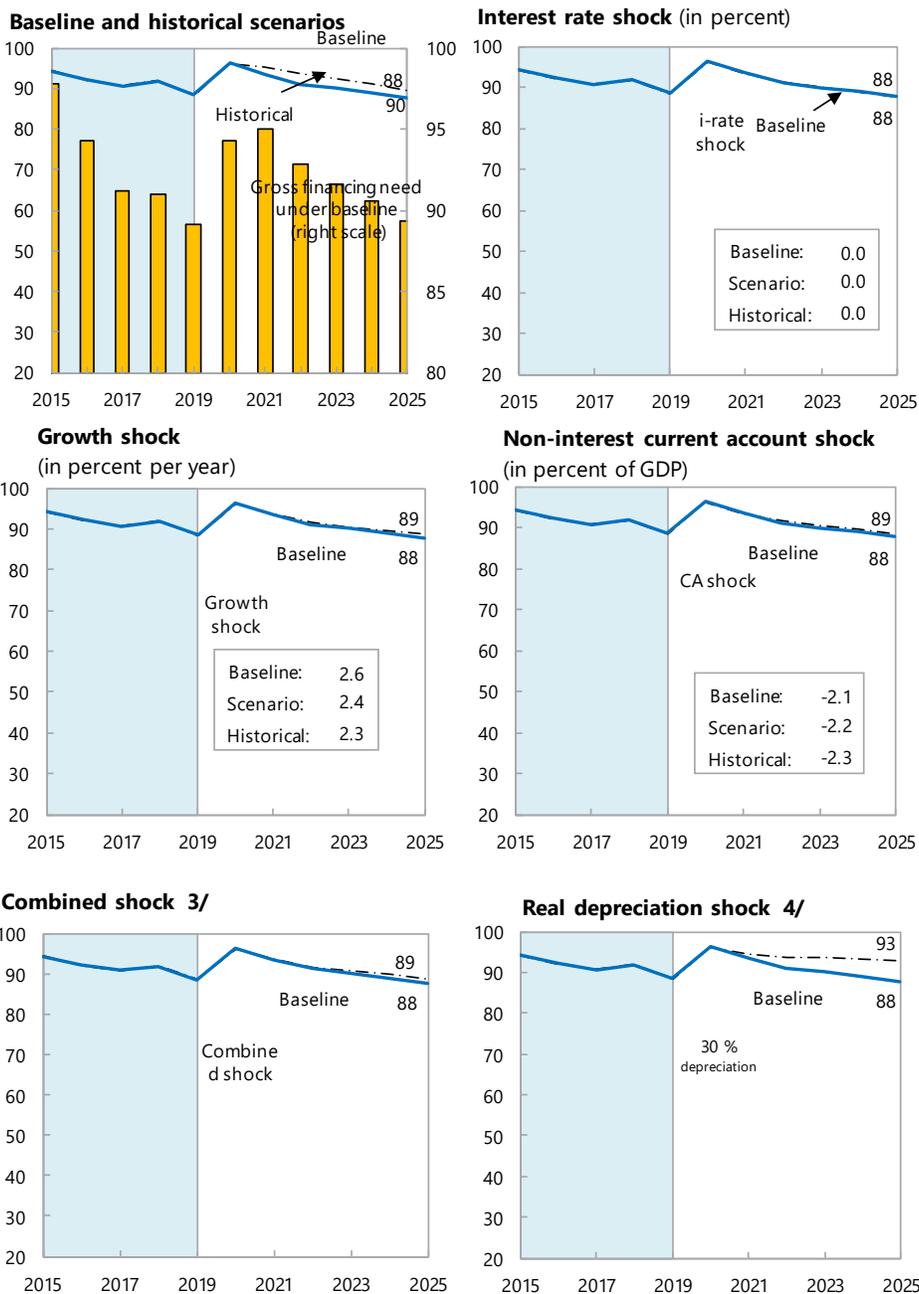
6/ The real interest rate contribution is derived from the denominator in footnote 4 as $r - p(1+g)$ and the real growth contribution as $-g$

7/ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$

8/ For projections, this line includes exchange rate changes during the projection period. Also includes ESM capital contribution, arrears clearance, SMP and ANFA income, and the effect of deferred interest

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year

Appendix IV. Figure 1. External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2020.



Appendix V. Draft Press Release

IMF Executive Board Concludes 2020 Article IV Consultation with United States

FOR IMMEDIATE RELEASE

WASHINGTON, DC – July 31, 2020 the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with United States.

The economic outlook has shifted dramatically with the rapid spread of COVID-19. [135,000] Americans have tragically lost their lives and many more have become seriously ill. The sudden-stop in activity, arising from the shutdown, has caused an abrupt contraction in activity and a surge in unemployment. The unemployment rate now stands at 11.1 percent and ~~fifteen~~15 million Americans have lost their job over the past four months. These job losses have disproportionately affected lower income households, those without a college education, women, African Americans and Hispanics, many of whom have insufficient buffers to cope with the unprecedented size of the economic shock. The economy is expected to contract by around 6½ percent in 2020 and expand by around 4 percent in 2021.

There has been a strong and proactive response to this unprecedented shock to the economy. Congress moved swiftly to provide substantial assistance to households, businesses and state and local governments. These important fiscal efforts have, however, come at a substantial cost. The federal government primary deficit is expected to rise from around 3 percent of GDP in FY2019 to 16 percent of GDP in FY2020 and the federal debt is expected to approach 100 percent of GDP by end-2020. State and local government deficits are also expected to more-than-double in size this year.

The Federal Reserve also reacted quickly as the scale of the burgeoning pandemic became clear. In an unscheduled meeting on March 15, the Federal Open Market Committee (FOMC) lowered the federal funds target range to 0 to ¼ percent and indicated it would maintain rates at this level until it is confident

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.