International Monetary Fund

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United States

Presented by

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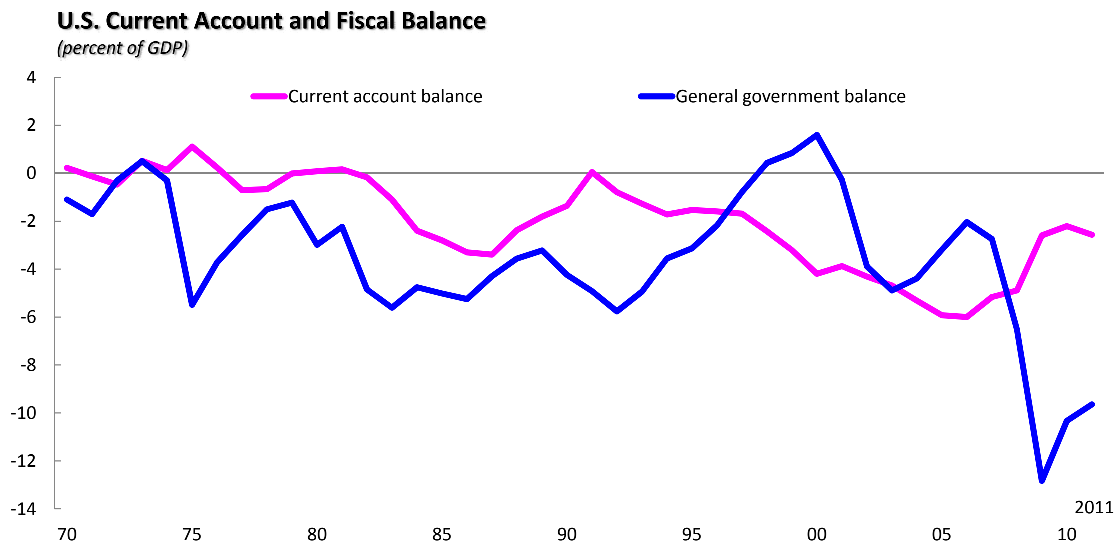
Fiscal and Current Account Deficits Have Been a Persistent Feature of the U.S. Economy

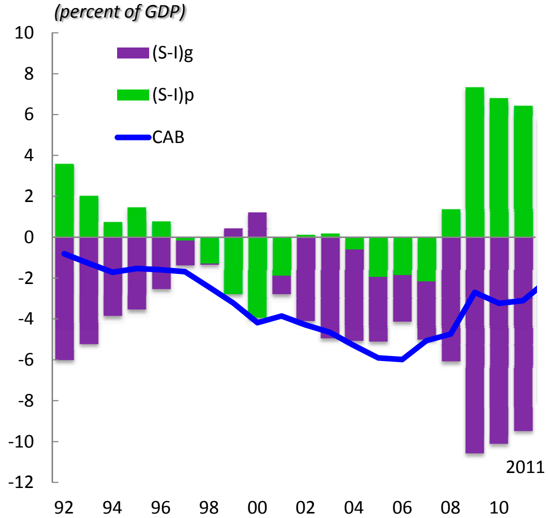


Source: IMF, *World Economic Outlook.*

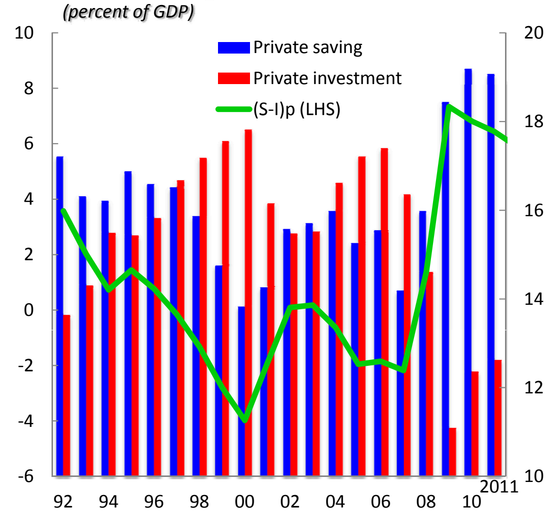
2

U.S.: Saving and Investment Balances

Private and Public Saving Investment Balances
(percent of GDP)



Private Saving and Investment
(percent of GDP)



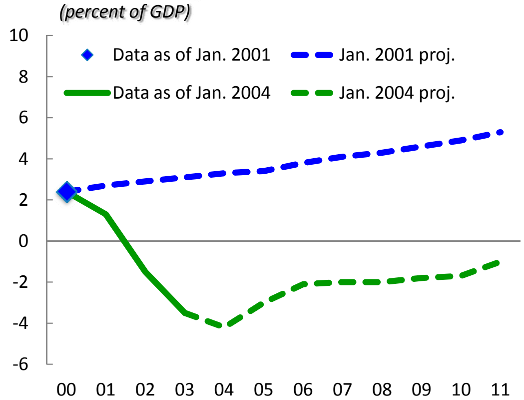
Source: IMF, *World Economic Outlook.*

3

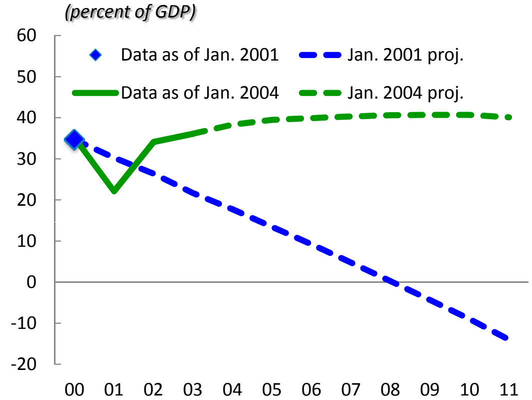
Reasons for Fiscal Imbalances

- Early 2000s tax cuts
- Security-related spending commitments
- Underfunded entitlement obligations
- Impact of financial crisis
- Lack of budgetary discipline (lack of federal anchor)
- Inability to reach political agreement on deficit reduction

Federal Budget Balance
(percent of GDP)



Debt Budget Balance
(percent of GDP)



Source: Congressional Budget Office.

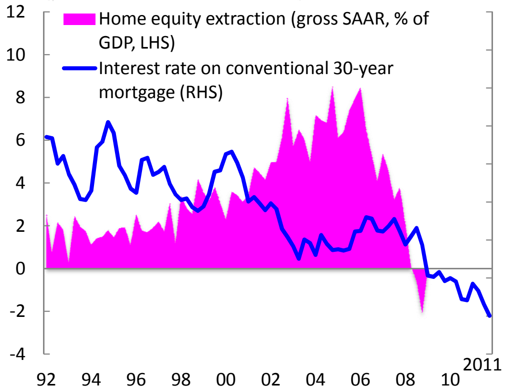
4

Reasons for External Imbalances

- Weak fiscal balances
- Strong credit growth, driven by low interest rates, securitization /structured finance, and lax regulation
- High foreign demand for U.S. assets, reflecting financial attractiveness; dollar pegs and reserve accumulation
- High oil prices

Home Equity Extraction and Mortgage Rate

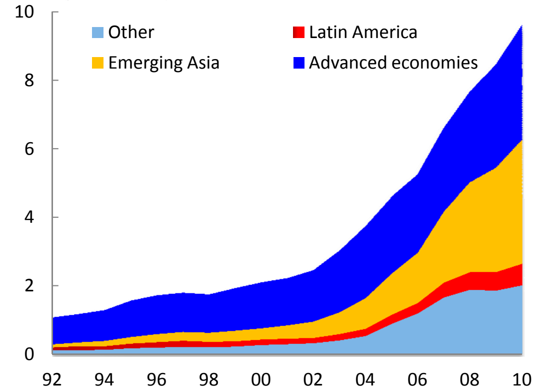
(percent unless otherwise noted)



Source: Haver Analytics.

International Reserves

(US$ trillions)



Source: IMF, *International Financial Statistics*.

5

Are U.S. Imbalances a Problem?

Domestic Perspective

- High public debt burden can crowd out private investment once the economy recovers from the crisis
- Increasing external indebtedness may carry attendant vulnerabilities, with possible confidence effects for the dollar
- Lower household saving, high leverage (particularly in the financial sector), and precarious fiscal situation could again give rise to financial stability risks

Global Perspective

- Disorderly resolution of unsustainable imbalances could have global repercussions, including through a collapse of the dollar
- Risks associated with large financial imbalances could have large spillovers
- Demand rebalancing would help sustain stronger and more balanced growth

6

How to Address the Imbalances

Fiscal Consolidation

- Agreement on a comprehensive and credible medium-term consolidation
- Placing entitlements on a sustainable footing
- Revenue-raising measures
- Budgetary rules
- Structural policies

Strengthening Current Account

- Fiscal consolidation
- Financial regulation and supervision

Coordinated Global Action Would Facilitate Rebalancing

7