



# UNITED STATES

April 2026

## 2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE UNITED STATES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with the United States, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 1, 2026 consideration of the staff report that concluded the Article IV consultation with the United States.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 1, 2026, following discussions that ended on February 25, 2026, with the officials of the United States on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 17, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United States.

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**International Monetary Fund**  
**Washington, D.C.**



## IMF Executive Board Concludes 2026 Article IV Consultation with the United States

FOR IMMEDIATE RELEASE

- *GDP growth reached 2% in 2025 despite major policy shifts and a Q4 government shutdown, supported by strong productivity. Inflation was flat as tariff-driven goods inflation offset declining services inflation; the fiscal deficit narrowed slightly, though debt and the current account deficit remained elevated.*
- *Growth is projected to rise to 2.4% in 2026, while fading tariff effects and lower oil prices should bring core PCE inflation back to 2% during the first half of 2027. Employment growth is slowing but unemployment should stay near 4%.*
- *Near-term risks to growth and unemployment are balanced, but rising energy prices pose upside inflation risks.*

**Washington, DC – April 2, 2026:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the United States<sup>1</sup> on April 1, 2026.

The U.S. economy has performed well in 2025. Growth reached 2 percent in 2025 despite major shifts in the policy environment and the government shutdown in the fourth quarter. Strong, broad-based productivity growth has underpinned buoyant economic activity while employment growth has slowed, in part due to sharply lower immigration flows. Inflation has moved sideways during 2025 as tariffs boosted goods prices while services inflation moderated. The federal fiscal deficit fell from 6.3 percent of GDP to 5.9 percent of GDP in fiscal year 2025. General government debt rose to 123.9 percent of GDP, and the current account deficit remained large at 3.7 percent of GDP.

GDP growth is expected to accelerate modestly in 2026 to 2.4 percent (on a q4/q4 basis). The inflationary impulse from tariffs is expected to wane and oil prices to come down from their currently elevated levels, allowing core PCE inflation to fall back to 2 percent during the first half of 2027. The near-term risks to activity and unemployment are broadly balanced but the outlook for global energy prices creates upside risks to inflation. Employment is expected to grow at less than one-half of the pace seen in the five years prior to the pandemic. However, given the ongoing slowing of working-age population growth, the unemployment rate should remain close to 4 percent in 2026–27. The tax and spending changes that were legislated in 2025 are expected, in the near term, to provide a modest boost to activity and to raise the deficit. The general government deficit is

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<sup>1</sup> 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.

expected to remain in the 7–7 ½ percent of GDP range with debt exceeding 140 percent of GDP by 2031. The applied effective tariff rate on imports to the U.S. is expected to settle at 7–8.5 percent after recent changes to tariff authority take effect. The net effect of higher tariffs and fiscal policy changes for the current account deficit is a modest decline over the medium-term to around 3½ percent of GDP, well above levels prevailing prior to the pandemic.

Actions are underway to recalibrate or eliminate certain financial regulatory requirements, tailor supervision to the underlying risk of the activity, and introduce a regulatory framework for digital assets. The Federal Reserve has discontinued the runoff of its balance sheet, started to undertake reserve management purchases, and enhanced standing repo operations.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors welcomed the strong performance of the U.S. economy supported by exceptionally strong broad-based productivity growth, expansionary fiscal policies, and the impact of policy rate cuts. At the same time, Directors expressed concerns about the heightened domestic and global uncertainties posed by the significant ongoing policy shifts and the war in the Middle East. Against this background, they emphasized the need for determined actions to address fiscal imbalances and monitor upside risks to inflation and financial vulnerabilities, anchored in the credibility of the U.S.'s strong institutional framework, which remains a key asset.

Directors stressed the importance of maintaining the Federal Reserve's careful calibration of monetary policy in a data-dependent and well-communicated manner. They agreed that the reductions in the federal funds rate in 2025 were appropriate to guard against a further weakening of the labor market. With the policy rate close to neutral, Directors cautioned that there is little room to cut interest rates in 2026, particularly given the rise in energy prices, the likely passthrough to core inflation, and the upside risks to global commodity prices that are likely to further delay the return to the inflation target. They emphasized that a monetary policy easing would only be appropriate in the event of a material worsening in labor market prospects alongside a decline in inflationary pressures.

Noting persistently high fiscal deficits, the continued rise in debt-GDP ratio and an increasing share of short-maturity debt, Directors stressed the pressing need to address the U.S. longstanding fiscal imbalances through a frontloaded fiscal adjustment. They emphasized that the fiscal trajectory creates a growing financial stability tail risk for the U.S. and for the global economy, given the importance of the U.S. Treasury market for the global financial system. Directors underscored that achieving the needed fiscal

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chair 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>.

realignment will require both an increase in federal revenues and a rebalancing of entitlement programs. Directors also pointed to the need, alongside strong and sustained economic growth, to improve social assistance to raise living standards for lower-income households.

Directors reaffirmed their view that international trade has fostered growth and job creation in both the U.S. and abroad. However, they recognized that more needs to be done to eliminate the various policy distortions—both in the U.S. and in other countries—that have led to external imbalances. Directors expressed concern about the shift in U.S. trade policy, noting that the increase in tariffs and in trade policy uncertainty are expected to reduce U.S. activity and create sizeable negative spillovers on its trading partners. They urged the authorities to work constructively with trading partners to address their concerns over the fairness of the global trading system and to agree on a coordinated reduction in trade restrictions, industrial policy and other distortions. A number of Directors also called for greater consideration of global climate objectives in the administration's energy policies.

Directors expressed concern about the size and persistence of the U.S. current account deficit and agreed with the staff's assessment that the U.S. external position was moderately weaker than implied by fundamentals and desirable policies. They noted that the likely further decline in the net international investment position raises the risk of an eventual disorderly external rebalancing, which could be precipitated by an abrupt shift in portfolio preferences by foreign investors. To lessen these vulnerabilities, Directors advised that a substantial fiscal adjustment, accompanied by a range of other policies to raise private saving, would be essential.

Directors called on the authorities to strengthen their oversight over the financial system to manage vulnerabilities associated with elevated asset valuations and a lack of visibility into nonbank financial intermediation. They recommended a cautious approach to further reducing bank capital and stressed the importance of U.S. regulatory requirements remaining consistent with international minimum standards. Directors welcomed recent legislation to clarify regulatory treatment of stablecoins and other crypto-assets, and continued reforms to improve the functioning of the Treasury market. They encouraged the authorities to implement a comprehensive regulatory and supervisory framework for digital assets, with due attention to potential new risks—including to financial integrity—posed by the integration of these digital assets into the existing financial system. Directors called on the authorities to fully implement the final components of the Basel III agreement, increase regulatory requirements for mid-sized banks, and further strengthen supervisory oversight and practices. They encouraged the U.S. authorities to take advantage of the upcoming FSAP to undertake a comprehensive assessment of the framework for financial oversight and the potential sources of systemic stability risks.

### United States: Selected Economic Indicators, 2024–31

	2024	2025	Projections					
			2026	2027	2028	2029	2030	2031
Real GDP (annual growth)	2.8	2.1	2.5	2.2	2.1	1.9	1.8	1.8
Real GDP (Q4/Q4)	2.4	2.0	2.4	2.1	2.1	1.8	1.8	1.8
Output gap (% of potential GDP)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unemployment rate (Q4 average)	4.1	4.5	4.3	4.1	3.9	3.9	3.9	3.9
Current account balance (% of GDP)	-4.0	-3.7	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6
Fed funds rate (end of period)	4.4	3.6	3.4	3.1	3.1	2.9	2.9	2.9
Ten-year government bond rate (Q4 average)	4.3	4.1	3.9	3.8	3.8	3.8	3.7	3.7
PCE Inflation (Q4/Q4)	2.6	2.8	2.8	2.0	2.0	2.0	2.0	2.0
Core PCE Inflation (Q4/Q4)	3.0	2.9	2.6	2.0	2.0	2.0	2.0	2.0
Federal government								
Federal government fiscal balance (% of GDP)	-6.3	-5.9	-6.1	-6.0	-6.3	-5.9	-6.0	-5.8
Federal government debt held by the public (% of GDP)	97.4	99.4	100.6	102.6	104.9	107.0	108.7	110.1
General government								
General government fiscal balance (% of GDP)	-7.9	-6.8	-7.5	-7.3	-7.5	-7.3	-7.3	-7.2
General government gross debt (% of GDP)	122.3	123.9	125.8	128.7	132.1	135.3	138.5	141.5

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



# UNITED STATES

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

March 17, 2026

### KEY ISSUES

**Outlook.** The U.S. economy has performed well in 2025, quickly adapting to a significant shift in policies with growth reaching 2 percent (on a Q4/Q4 basis) even though the government shutdown took a bite out of activity in the fourth quarter. Strong, broad-based productivity growth over the past few years has set the U.S. economy apart from its peers. Growth is expected to accelerate modestly in 2026, supported by expansionary fiscal policy, a waning drag from tariffs, and the impact of policy rate cuts in 2025. As the passthrough of tariffs to consumer prices wanes, core PCE inflation is expected to fall to 2 percent by 2027H1, but headline PCE could be somewhat higher, impacted by world oil prices. Risks around the near-term outlook for activity and unemployment are balanced while risks to inflation are to the upside. The external position in 2025 was moderately weaker than implied by medium-term fundamentals and desirable policies.

**Monetary policy.** With slowing job growth and few signs of second round effects from tariffs, it was appropriate for the Fed to remove monetary policy restraint during the course of 2025. Balanced risks to the Fed's maximum employment mandate and upside risks to the price stability mandate mean there is little scope to lower the policy rate over the coming year. A larger monetary easing would need to be predicated on a material worsening in labor market prospects and an absence of increasing inflationary pressures, including from higher near-term inflation expectations due to rising oil and commodity prices. Future changes in the policy rate will, though, need to be attentive to incoming information, particularly given the uncertainties posed by the conflict in the Middle East.

**Fiscal policy.** The federal and general government deficit declined in 2025, but the general government deficit is expected to remain in the 7–7½ percent of GDP range over the medium-term with debt exceeding 140 percent of GDP by 2031. Persistently high fiscal deficits, the upward path for the public debt-GDP ratio, and increasing levels of short-term debt-GDP represent a growing tail risk to the U.S. and global economy. In line with staff's longstanding policy advice, a clear, frontloaded fiscal consolidation plan is needed to put debt-GDP ratio on a downward trajectory and minimize these financial stability risks. As argued in previous Article IV consultations, this will require an adjustment of around 4 percent of GDP relative to the current baseline. Achieving this needed realignment of the fiscal position will require both an increase in federal revenues and a rebalancing of entitlement programs (notably social security and

Medicare). To protect poorer households and prevent a worsening of the income distribution, improvements in the social safety net will also be needed.

**Trade policy.** International trade has fostered growth, job creation, and resilience in both the U.S. and abroad. However, there is broad recognition that more needs to be done to eliminate the various policy distortions—both in the U.S. and other countries—that have led to high external imbalances, to increase supply chain resilience, and to ensure that the benefits of trade are broadly shared across society. In this regard, higher tariffs create costs and spillovers by distorting the allocation of productive resources, reducing supply chain efficiency, and undermining the benefits of global trade. The U.S. should work constructively with its trading partners to address concerns over the fairness of the global trading system and agree on a coordinated reduction in trade restrictions and industrial policy distortions that have negative cross-border effects. Where trade and investment measures (including tariffs and export controls) are put in place for national security reasons, such policies should be applied narrowly, so as to minimize their negative effects at both home and abroad.

**External imbalance.** Despite the administration's policy efforts, the U.S. current account deficit is expected to remain large in the coming years (at around 3½–4 percent of GDP). The U.S. negative net international investment position (NIIP) is also expected to continue widening due to nonresident inflows into U.S. risk assets and increased external borrowing by the general government. This worsening of the NIIP, alongside a shift in the nonresident investor base toward nonbank private investors, represents a potentially important source of vulnerability. An abrupt shift in portfolio preferences could lead to a disorderly external rebalancing. A substantial fiscal adjustment, accompanied by a range of other policies to raise private saving, will be essential to reduce these vulnerabilities. Action by trading partners, to address distortions that contribute to external imbalances, will also be critical.

**Economic institutions.** The U.S.'s strong institutional framework for economic and regulatory policymaking has benefited the economy and should be maintained.

**Financial stability.** As outlined in the 2024 Article IV consultation, there is a need to fully implement the final components of the Basel III agreement, apply similar regulatory requirements to all banks with US\$100 billion or more in assets (including supervisory stress tests), further strengthen supervisory oversight and practices, re-examine the coverage of deposit insurance, and recalibrate bank liquidity requirements and liquidity stress tests. Recent improvements in the clarity of treatment of stablecoins and other crypto-assets are welcome. However, further actions will be needed to effectively manage the potential risks to financial stability. In this regard, work is underway to develop a regulatory and supervisory framework for digital assets, and these efforts will need to remain attentive to a range of potential new risks—including to financial integrity—posed by the integration of these digital assets into the existing bank and nonbank financial system.

Approved By  
**Nigel Chalk (WHD)**  
**and Mark Flanagan**  
**(SPR)**

Discussions with government agencies took place from January 20 to February 2, 2026. The team comprised Nigel Chalk (head), Julien Acalin, Anahit Aghababayan, Jaebin Ahn, Mai Chi Dao, Carlos Guevara, Niels-Jakob Hansen, Jing Zhou (WHD), Li Liu (FAD), Philippe Wingender (RES), Oliver Exton and Adam Jakubik (SPR). Concluding meetings were held with Secretary Bessent and Chair Powell on February 25, 2026.

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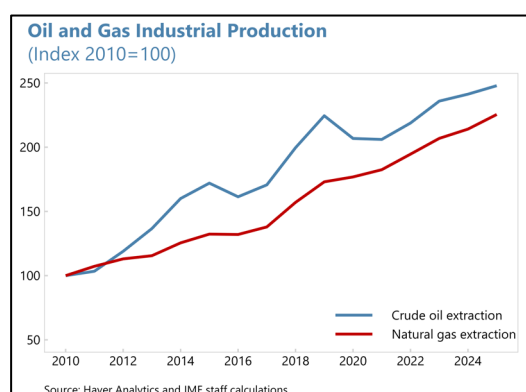
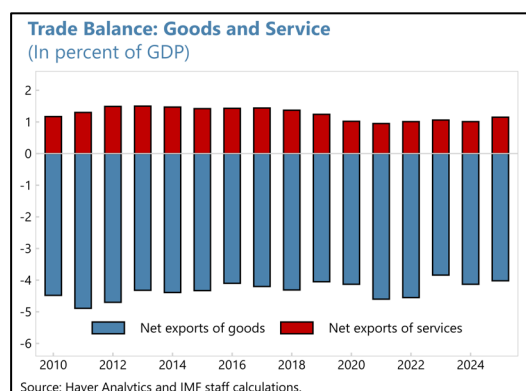
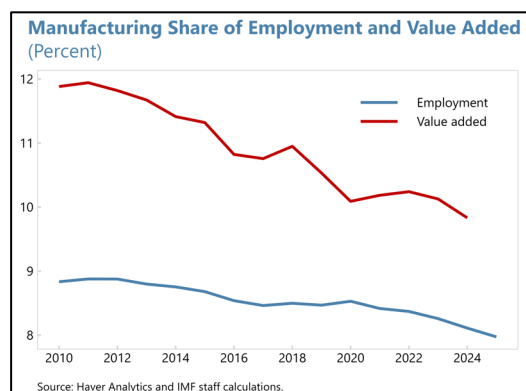
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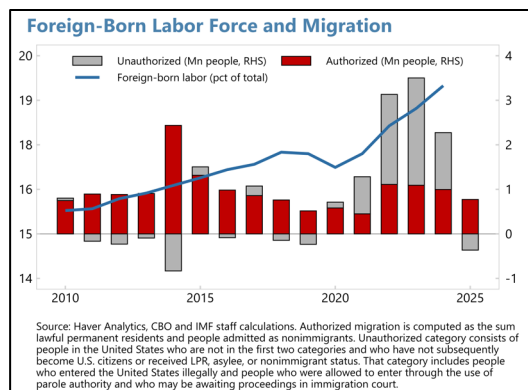
## CHANGING POLICY PRIORITIES

1. **U.S. policymakers have embarked on a systemic reorientation of the U.S. economy with the overarching goal to increase economic self-reliance and, in doing so, to boost the living standards of American workers.** This has manifested in the administration's objectives to:

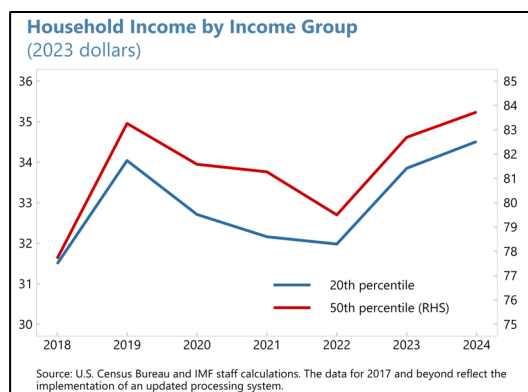
- Increase domestic manufacturing capacity.** The share of manufacturing employment has been on a secular downward trend, a product of an ongoing structural transformation driven by technology and trade. Concerned about this decline in the manufacturing share of employment and value added, the administration has prioritized the onshoring of manufacturing capacity, particularly in sectors (e.g. steel, autos, and semiconductors) deemed by the authorities to have national security implications.
- Reduce the trade deficit and the U.S.'s reliance on foreign-produced goods.** The U.S. has faced a longstanding goods trade deficit that has averaged over 4 percent of GDP, with imported goods meeting a growing share of U.S. final demand. The administration believes that, due to distortions in key trading partners' economies, domestic and foreign producers are not competing on a level playing field.
- Increase domestic energy output.** In 2019, the U.S. became a net exporter of energy and increases in U.S. proven hydrocarbon reserves have outstripped increases in production. The U.S. energy surplus is predicted to continue to rise, particularly as new LNG projects come online. Higher world prices as a result of the Middle East conflict may further incentivize U.S. energy production.



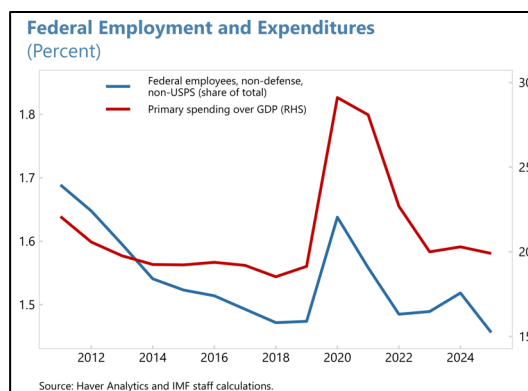
- Reduce the reliance on immigrant workers.** Since the pandemic, foreign born workers have risen as a share of the labor force, with the inflow of unauthorized immigrants<sup>1</sup> being particularly pronounced in 2022–24.



- Raise the real income of American workers.** The real income of households has stagnated between 2019 and 2024 for households earning at or below the median.



- Reduce the federal government’s role in the economy.** During the previous administration, federal employment rose by around 5 percent (after stagnating in the decade prior to the pandemic).<sup>2</sup> Federal primary spending in FY24 was 1 percent of GDP higher than it was prior to the pandemic (even after the expiration of various pandemic measures).



2. The 2026 Article IV consultation focused on the macroeconomic effects of the shift in the trajectory of policies that was undertaken in 2025 and the impact this change has had on the U.S., on trading partners, and on the global economy more broadly.

<sup>1</sup> Unauthorized immigrants include individuals who entered the United States illegally and those who were allowed to enter with parole authority and are currently awaiting proceedings in immigration court (including various programs for citizens from Cuba, Haiti, Nicaragua, Ukraine and Venezuela).

<sup>2</sup> The jump in federal employment in 2020 reflects the temporary hiring of workers for the decennial Census.

## RECENT ECONOMIC DATA

**3. The U.S. economy performed well in 2025.** Growth ended the year at 2 percent on a Q4/Q4 basis, modestly slower than in 2024 despite significant swings in trade and inventories during the year and the government shutdown taking a bite out of activity in the fourth quarter. This solid performance was despite concerns about increased policy uncertainty and against a backdrop of somewhat slower growth in global demand.

**4. The return to 2 percent inflation has been delayed.** PCE inflation moved sideways during the course of the year, with trade disruptions boosting goods inflation even as services inflation slowly fell. At end-year, core PCE inflation was 3 percent, the same level as at end-2024.

**5. The federal fiscal position improved in FY25.** The federal deficit fell from 6.3 to 5.9 percent of GDP, largely a product of the reversal of federal student loan relief (the present value of which was 0.4 percent of GDP and was recorded as a reduction of spending in FY25). The federal debt was 99 percent of GDP at end-2025.

**6. Immigration actions are reshaping the labor market.** Revisions in the official data and incoming information point to a pronounced slowdown in employment growth. Indeed, outside of a recession, employment growth in 2025 was at the slowest pace seen since 2003. Measures of slack indicate a modest shortfall from full employment (with unemployment at 4.4 percent in February). The absence of significant wage pressures suggests that the slowing supply of labor is coinciding with falling demand for labor, in part as businesses adopt new labor-saving technologies (see below). Labor market dynamism has diminished significantly with relatively low levels of job-to-job transitions and firms reluctant to hire or fire workers.

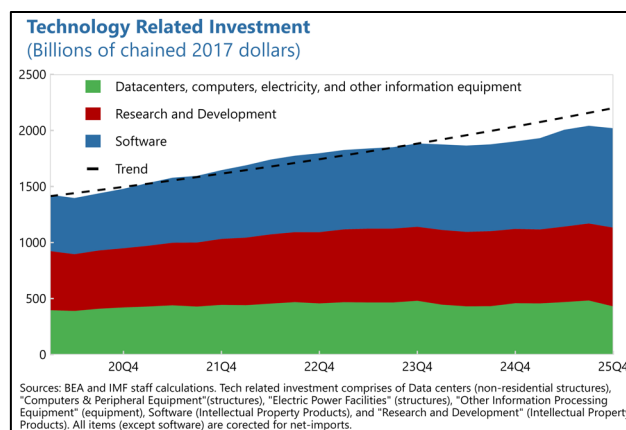
**7. Gains in labor productivity have been very strong.** Cumulatively over the past three years, output per hour grew 2.7 percent per year, above both the growth rate seen in the U.S. prior to the pandemic as well as that experienced by other advanced economies over the same period. As highlighted in the 2024 Article IV, these gains appear to be concentrated in a range of service industries (with manufacturing productivity making only minor gains over the past decade). Industries with higher intellectual property investment and with greater worker and firm dynamism have experienced the strongest productivity growth.<sup>3</sup> Reflecting these gains, corporate profits are at historically high levels, despite the pressures on some firms' margins as a result of higher tariffs. This has been reflected in all-time highs having been reached in U.S. equity markets and corporate spreads having approached all-time lows.

**8. Technology-related investment has created an important growth impulse.** Such investment, which includes (but is far broader than) artificial intelligence spending, added around 0.5 percentage point to growth in 2025. However, this recent rise in technology-related outlays appears, so far, to be mostly a return of software investment to its historic trend (following a

<sup>3</sup> See Dao, M. and Platzer, J. "Post-Pandemic Productivity Dynamics in the United States", [IMF Working Paper 2024/124](#).

slowdown in 2024). At an aggregate level, investments in data centers and power facilities, which have received significant attention, appear to be relatively small.

**9. The current account deficit has widened.** The current account deficit was around 2 percent of GDP in 2013–19. Following the pandemic, the deficit appears to have settled at close to 4 percent of GDP, a product of both a higher fiscal imbalance and a lower personal saving rate.



## THE IMPACT OF THE SHIFT IN POLICIES

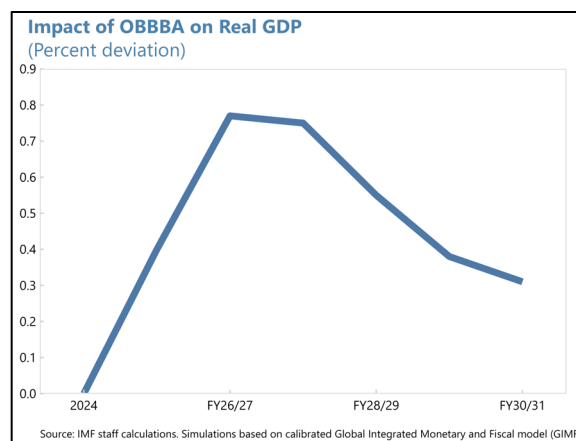
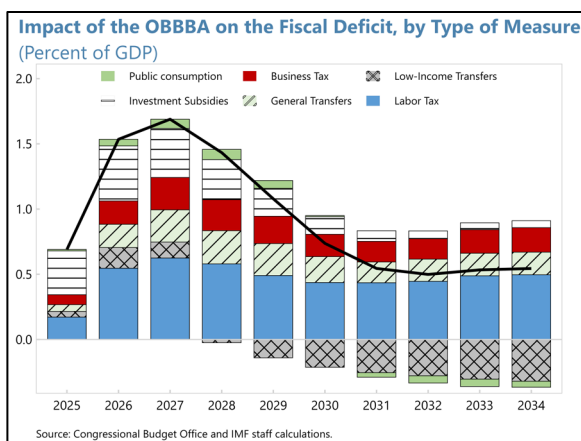
### A. Fiscal Policies

**10. There was an important shift in tax policy and spending priorities in 2025 (Box 1).**

- Taxes.** Relative to a baseline without these policy changes, around two-thirds of the revenue losses from the legislation passed in 2025 will be driven by a renewal (or expansion) of the tax changes that were put in place in 2017 (i.e., making permanent the prevailing personal income tax rates and temporarily increasing the deduction for state and local taxes, the exemption from the alternative minimum tax, and the child tax credit). In addition, there are losses in individual income tax revenue from lower taxation of tips and overtime pay. Businesses will continue to benefit from the reduced taxation of passthrough income and reduced taxation of foreign-sourced income. The Act also puts in place a more generous treatment of corporate capital spending, partly offset by the cancellation of a range of green tax credits (e.g. for electric vehicle purchases, investments in clean energy, and improvements in energy efficiency).
- Spending.** Reductions in outlays include a tightening in the eligibility for Medicaid and food assistance and a reduction in means-tested subsidies to purchase private health insurance. In addition, the Act scales back income-contingent student loan repayment plans, needs-based grants for tertiary education, and foreign aid. Spending on both defense and border security have, though, been increased. Beyond the legislative policy changes, efforts have been made to reduce federal government activities resulting in a significant reduction in federal employment (of around 13 percent, excluding the postal service) bringing it to levels that were last seen in 2009.

**11. The tax and spending changes described above are expected, in the near term, to raise the federal deficit by around 1½ percent of GDP and provide a modest boost to activity.** DSGE

model<sup>4</sup> simulations indicate that these changes in fiscal policy will add around  $\frac{3}{4}$  percent to the level of GDP in 2026–27. The bulk of the near-term boost to activity is due to a more generous tax treatment of capital spending (particularly in manufacturing) which should catalyze private investment. The lower income tax burden should also support household consumption. This stimulus moderates over time as tax provisions expire and spending cuts—notably to Medicaid and food assistance—rise.



## 12. Some of the legislated tax measures lessen distortions to resource allocation and simplify the tax system, but they also come with a significant fiscal price tag.

- Personal income.** Making permanent the lower marginal tax rate on labor and capital income, maintaining a higher standard deduction (which helpfully reduces the incentive to itemize), and having a less binding Alternative Minimum Tax should serve to increase predictability, support work, and simplify the personal tax system. However, there is little justification for allowing state and local taxes or mortgage interest to continue to be deductible. In addition, the lower taxation of tips and overtime pay creates an unwelcome differential rate for similar types of labor income (opening up avenues for tax avoidance). A preferred approach would be to provide targeted support for lower income workers—including those paid in tips—by increasing the generosity of the Earned Income Tax Credit (a proven policy that incentivizes work) and raising the Child Tax Credit and making it fully refundable (which has had a demonstrable impact in improving living standards for low income families). The recent fiscal legislation also represents a missed opportunity to raise revenues while increasing the progressivity of the tax system (e.g., by eliminating both loopholes (such as the exclusion of capital gains at death and employer contributions to health and long-term care insurance) and special regimes for high income earners (notably for carried interest)).

<sup>4</sup> See M. Kumhof, D. Laxton, D. Muir, and S. Mursula, *The Global Integrated Monetary and Fiscal Model (GIMF)—Theoretical Structure*, [IMF Working Paper 10/34](#) and D. Anderson, B. Hunt, M. Kortelainen, M. Kumhof, D. Laxton, D. Muir, S. Mursula, and S. Snudden, *Getting to Know GIMF: The Simulation Properties of the Global Integrated Monetary and Fiscal Model*, [IMF Working Paper 13/55](#).

- **Corporate income.** The permanent and full expensing of capital spending will incentivize investment in the U.S. However, the higher limits for interest deductibility convey an overly generous benefit (effectively subsidizing debt-financed capital spending) and continues to make the effective corporate tax rate dependent on the firm's capital structure (further incentivizing corporate leverage). The qualified business deduction for passthroughs reduces the equity of the system<sup>5</sup> and provides scope for higher income individuals to avoid tax by recharacterizing their income as passthrough income. Furthermore, the withdrawal of green energy tax credits and the more generous tax treatment for fossil fuel investment will create headwinds to previous efforts to decarbonize the economy.
- **International provisions.** The U.S. will continue to take a different approach than other countries in taxing the cross-border income of multinationals and in disincentivizing base erosion and profit shifting behavior. Recent legislation modifies this framework by taxing all foreign income<sup>6</sup> at a modestly higher rate than under current policy (albeit still at a lower effective rate than domestic-sourced income) and allows for a more generous use of foreign tax credits. This approach to the taxation of U.S. headquartered multinationals will operate side-by-side with the OECD Global Anti-Base Erosion (Pillar Two) Rules.<sup>7</sup> However, this independent approach by the U.S. could change other countries' incentives to adopt the global minimum tax rules and adds to the complexity of the international tax system.

**13. Authorities' views.** The Trump administration's Working Family Tax Cuts (also known as the One Big Beautiful Bill Act) represents a once-in-a-generation piece of legislation that puts America First and provides the largest tax cut in history for middle- and working-class Americans. The tax bill disproportionately benefits workers and families making less than US\$50,000 per year, in part by eliminating taxes on certain tips, overtime, and income of seniors, as well as by increasing the Child Tax Credit. The tax exemption for tips and overtime along with new work requirements for social transfer programs should also boost labor supply. The Act will lower energy costs and facilitate an expansion of domestic oil and gas production capacity, promoting robust growth. Finally, the Act strengthens Medicaid by eliminating waste, fraud, and abuse and blocking illegal immigrants as recipients.

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<sup>5</sup> There is a differential tax rate on business income depending on ownership form and whether the business is eligible for the qualified business income deduction. This is a material distortion given that the share of net business income represented by passthroughs is estimated to be around one half of the corporate tax base. See [Peterson Foundation](#), 2023.

<sup>6</sup> Previously the tax had applied only to deemed intangible income which unhelpfully encouraged firms to locate more of their tangible assets abroad.

<sup>7</sup> See the OECD Base Erosion and Profit Shifting Project [Side-by-Side Package](#), January 2026.

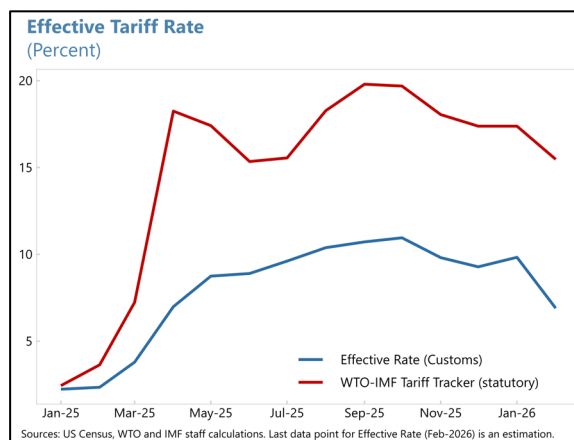
**Box 1. Main Provisions of Recent Fiscal Legislation**

	10-year static cost (US\$ trillion)
<b>Individual Tax Provisions</b>	
Lower marginal tax rates	2.2
Child tax credit	0.8
Replace personal exemptions with standard deduction	-0.4
Alternative Minimum Tax exemption	1.4
Higher cap for state and local tax deduction*	-0.9
Estate and gift tax exemption	0.2
Exemption for overtime and tips income*	0.1
Charitable contributions deduction	0.1
Reduced eligibility for tax credits for purchasing private health insurance	-0.1
<b>Business Tax Provisions</b>	
Deduction for qualified business income of passthroughs	0.7
Bonus depreciation for plant and equipment	0.1
Higher caps on interest deductions	0.1
Expensing of structures investment in certain industries	0.4
Expensing of R&D spending	0.1
Reduced taxation of foreign-sourced income	0.2
<b>Energy</b>	
Elimination of tax credit to purchase EVs	-0.1
Elimination of tax credit for businesses investing in clean energy	-0.2
Elimination of tax credit for homeowners for energy efficiency and clean energy	-0.1
Reduced vehicle energy efficiency standards	-0.1
Sale of leases for oil and gas on federal land	-0.1
<b>Spending Reductions</b>	
Reduced eligibility for Medicaid	-1.0
Reduced eligibility for health insurance premium tax credit	-0.2
Reduced eligibility / increased cost sharing with states for food assistance	-0.2
Less generous student loan repayment plans / reduced student grants	-0.3
<b>Spending Increases</b>	
Defense	0.2
Border security	0.1
<b>Other Provisions</b>	
<b>Total</b>	<b>3.4</b>

Source: Congressional Budget Office and IMF staff calculations. The static cost is relative to current law prior to the passage of the bill (i.e., not current policy since it takes into account that some provisions of the 2017 Tax Cuts and Jobs Act would otherwise have expired). \* indicates provisions are temporary and will be phased out within the 10-year budget window.

## B. Tariffs

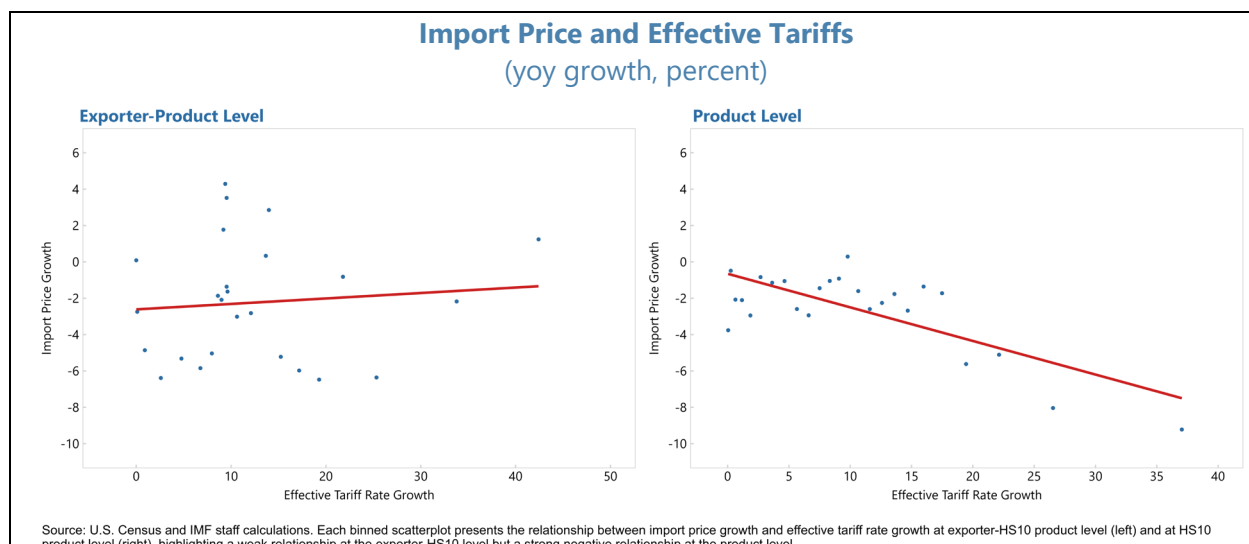
**14. The most visible shift in economic policy under the new administration is in international trade.** The administration has raised tariffs on most of its trading partners, imposing measures using a range of legal authorities, some motivated by national security concerns. At the same time, the U.S. has announced bilateral trade deals (including with the EU, Japan, Korea and the U.K.) that institutionalize higher U.S. tariffs but reduce tariff and non-tariff barriers on these countries' imports from the U.S. Some of these bilateral deals include agreements to make sizable foreign direct investments in the U.S. and commitments to purchase certain U.S.-produced goods. In February, following a ruling by the Supreme Court, an Executive Order was issued to end those tariffs that were imposed under the International Emergency Economic Power Act (IEEPA). The administration then implemented a 10 percent import surcharge (with certain specific exemptions) under section 122 of the Trade Act of 1974 which will remain in force for 150 days. After that period, the administration has indicated it will use other legal authorities in the coming months to replicate the range of tariffs that had been put in place under IEEPA.



**15. Taking into account recent changes under section 122 of the Trade Act, the average applied effective tariff rate on imports into the U.S. is assumed to remain at around 7–8.5 percent.** The statutory rate is higher (at 13.5 percent at end-February 2025) but is reduced by various exemptions (importantly those linked to the USMCA) and an ongoing reallocation of trade patterns across partners and products.<sup>8</sup> These tariffs will likely generate around 0.7 percent of GDP in additional revenues in FY25/26 (with a gradual decline in revenues over time as trade reallocation and domestic import substitution grow).<sup>9</sup>

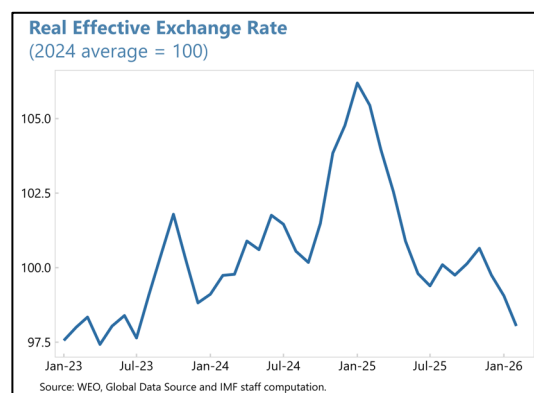
<sup>8</sup> The removal of IEEPA tariffs and the introduction of Section 122 tariffs reduced the statutory effective tariff rate from 16.9 percent to 13.5 percent according to the [WTO-IMF Tariff Tracker](#), with heterogeneous effects to the bilateral effective tariff rate faced by trading partners. Higher tariffs issued on the basis of IEEPA that were institutionalized as part of the bilateral deals are not in force as of end-February 2026.

<sup>9</sup> The [CBO](#) estimates tariff revenues of around 1 percent of GDP in 2026 and beyond. Staff estimates do not include the potential revenue impact of the refunding of IEEPA tariffs given the uncertainties in the size and timing of these potential refunds.



**16. Evidence suggests that the tariffs are, so far, largely being paid by U.S. firms and, to a lesser extent, consumers.**<sup>10</sup> The tariff burden on U.S. firms and consumers is being partially alleviated by a substitution to lower cost and/or lower tariffed goods.<sup>11</sup> By end-2025, tariffs are estimated to have added around 0.5 percent to the PCE price index.<sup>12</sup> This would imply that, so far, much of the tariff burden has been absorbed within the profit margins of those onshore companies that are part of the goods supply chain. However, this may not be the final incidence of the tariffs as foreign and domestic firms are still adjusting their pricing to the evolving tariff regime.

**17. Contrary to expectations, the increase in tariffs was not accompanied by an appreciation of the U.S. dollar.** After appreciating by around 6 percent in the last three months of 2024, the dollar unwound these gains in 2025H1, ending the year down 7 percent relative to end-2024. Nonetheless, the average level of the dollar in 2025 (in real effective terms) was the same as that in 2024. The dollar depreciation in the first part of 2025 was accompanied by an erosion of the convenience yield on dollar assets. However, this subsequently reversed, indicating a still-strong preference for U.S. dollar safe assets.



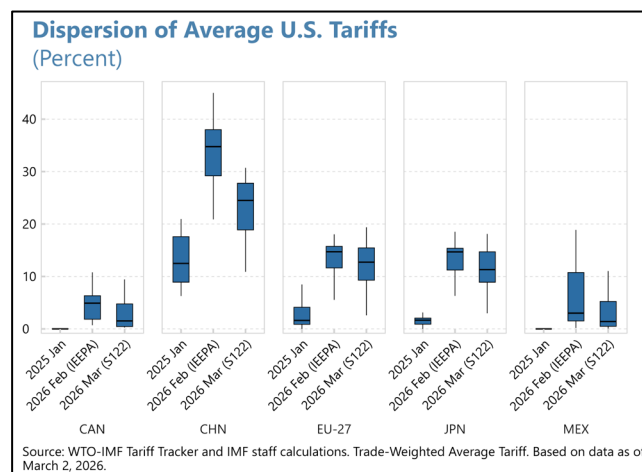
<sup>10</sup> See, for example, G. Gopinath and B. Neiman, "The Incidence of Tariffs: Rates and Reality", [NBER Working Paper 34620](#), 2026, or M. Amiti, C. Flanagan, S. Heise and D. Weinstein, "Who is Paying for the 2025 U.S. Tariffs?", [New York Federal Reserve](#), 2026.

<sup>11</sup> Not surprisingly, given the highest average tariff is on Chinese goods, the share of U.S. goods imported from China has declined markedly (from 13.2 percent in 2024 to 7.7 percent by end 2025). This substitution effect is evident in the fact that there is little correlation between the change in the tariff and in import price at the disaggregated exporter-product level. There is an apparent negative relationship when aggregated across exporting countries but this reflects shifting purchase patterns across countries and the quality of the imported good. See J. Ahn, L. Rotunno, and M. Ruta, "Tariff Pass-through and Import Reallocation", IMF Working Paper, forthcoming.

<sup>12</sup> See for example, the Harvard Business School Pricing Lab [Tariff Tracker](#).

**18. High tariffs are expected to reduce U.S. activity and create sizeable negative spillovers to trading partners.**

The tariffs imposed by the U.S. are expected to modestly reduce the level of global GDP in 2026–27, including a 0.6 percent reduction in the level of U.S. GDP. Given the costs and time needed to reshape supply chains in the face of these tariffs, the negative growth effects are likely to be largest in the near-term but are expected to be persistent (Box 2). The dispersion of tariff rates across goods and producers add to the inefficient allocation of resources with estimates from a range of models pointing to a long run decline in global output of close to ½ percent.<sup>13</sup> These tariffs are expected to have a relatively modest impact in reducing the U.S. trade deficit.<sup>14</sup>



**19. The administration has changed its approach to industrial policies, rolling back a range of subsidies but introducing new distortions.**

Subsidies introduced in the Inflation Reduction Act (e.g. to support purchases of EVs, energy efficiency, or adoption of renewables), some of which included discriminatory domestic content provisions, have been largely eliminated. However, at the same time, the administration has moved to take ownership stakes in specific companies (e.g. in U.S. Steel and Intel) and has loosened restrictions on the export of semiconductors by certain companies (in return for a 25 percent tax on revenues from these sales) while imposing a 25 percent import tariff for semiconductor producers that are viewed as not supporting the expansion of the U.S. technology supply chain. Such firm-specific policies are distortionary and risk creating inefficiencies and a misallocation of resources.

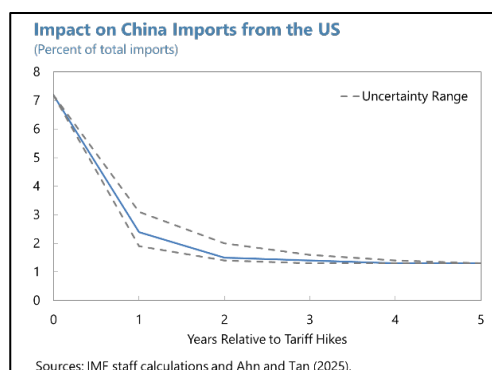
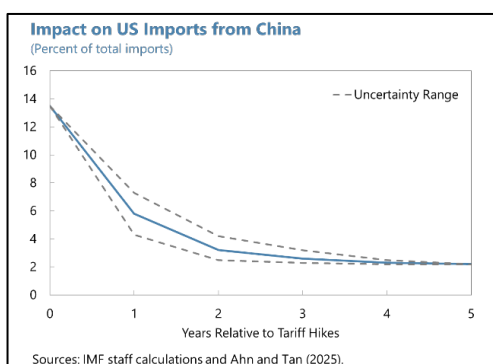
<sup>13</sup> See D. Cerdeiro et al., Recent Trade Policy Actions: Insights From Multiple Models, [VoxEU](#), 2025.

<sup>14</sup> Gourinchas (2025) [Global Current Account Balances Widen, Reversing Narrowing Trend](#).

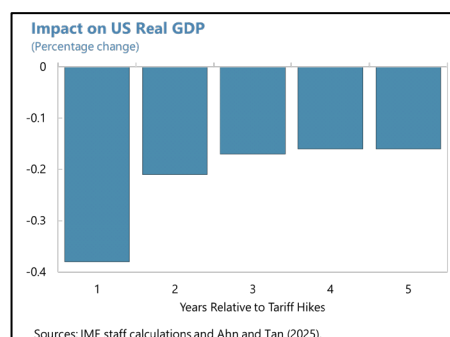
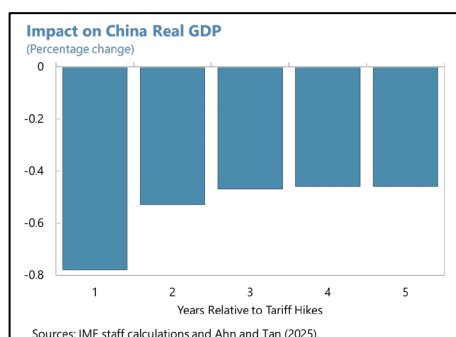
### Box 2. Implications of Tariffs When There Are Adjustment Frictions<sup>1</sup>

To assess the dynamic effects of tariffs and how the global economy may adjust to higher tariffs in the face of search and matching frictions (e.g., difficulties in finding new suppliers or buyers), a multi-country quantitative trade model was developed that captures the short- and medium-term elasticities of adjustment (both in switching between global suppliers and in shifting domestic resources across sectors in response to relative price changes). The main findings are:

- Even in the face of a very high tariff rate, it will take the global system a prolonged (4–5 year) period to fully reconfigure supply chains. For example, in the face of a 100 percent tariff between US and China goods, China’s share of U.S. goods imports immediately falls from 13 to 6 percent and U.S. share of China goods imports falls from 7 to 2 percent. This differential impact reflects the greater difficulty for the U.S. to quickly substitute away from Chinese-produced goods. However, over the next few years as corporates reconfigure supply chains and alternative producers are identified, bilateral trade between the two countries virtually disappears.



- The negative impact on GDP of tariffs is most pronounced in the first year and declines over time as supply chains adjust and firms find ways to avoid high tariffs. The economic loss from a 100 percent tariff between the U.S. and China is estimated at 0.4 and 0.8 percent of their respective GDPs. These output losses are, though, halved over the medium-term as supply chains reconfigure.



It is worth noting that, while the model aims to capture the empirical differences in substitutability across goods, factors and producers, it may not fully capture non-linearities associated with specific inputs or technologies (e.g. rare earth minerals or advanced semiconductors). Similarly, uncertainty about the level and distribution of future tariffs is not captured. These effects are likely to further disrupt the adjustment process and increase the economic costs of trade distortions.

<sup>1</sup> See J. Ahn and B. Tan, “Supply Chain Diversification and Resilience”, [IMF Working Paper WP/25/102](#), 2025.

**20. The recent increase in tariffs creates costs by distorting the allocation of productive resources, reducing supply chain efficiency, and undermining the benefits of global trade.** It is broadly recognized that there is a need to modernize multilateral trade rules to equip the system to address distortions associated with industrial policies and other non-market practices.<sup>15</sup>

Furthermore, open trade has not benefited all members of society equally. However, international trade has created important benefits, fostering growth, job creation, and resilience in both the U.S. and abroad. As such, U.S. trade actions have adverse spillovers to the global economy. Furthermore, the bilateral agreements reached with various trading partners have the potential to create distortions by offering preferential treatment to U.S. products, locking in higher tariffs, relying on a broad use of national security motivations for tariffs, and having an uncertain legal basis.

**21. The U.S. should work constructively with its trading partners to address its concerns over the fairness of the global trading system and agree on a coordinated reduction in trade restrictions and industrial policy distortions.** Efforts should be made to strengthen the WTO, support progress on WTO plurilateral agreements such as those on e-commerce and services domestic regulation, and take action to minimize industrial policy distortions that have negative cross-border spillover effects. Where trade and investment measures are put in place for national security reasons, including tariffs and export controls, they should be applied narrowly so as to minimize their negative effects at home and abroad. External imbalances should be addressed through recalibrating macroeconomic policies and eliminating the systemic distortions that drive these saving-investment imbalances.

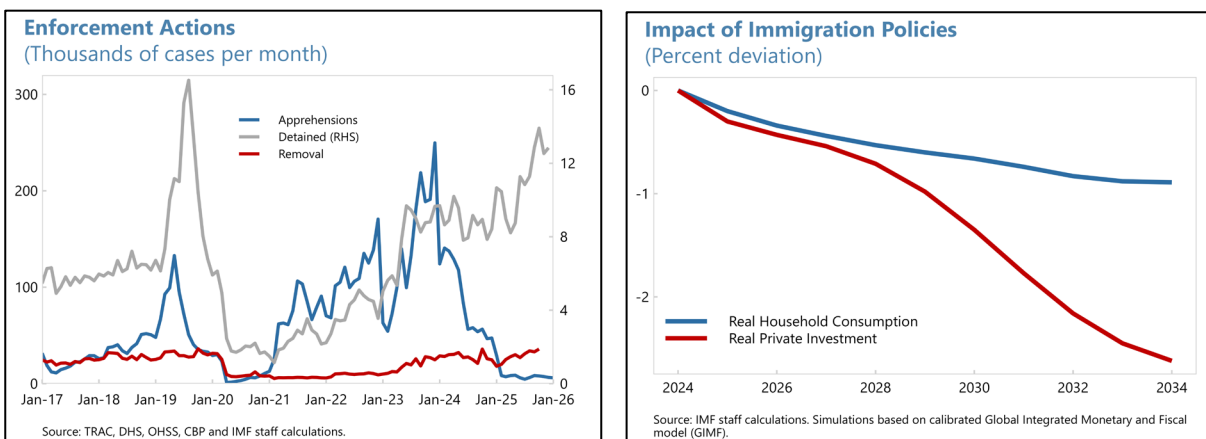
**22. Authorities' views.** Large and persistent trade deficits, driven by the absence of reciprocity in U.S. trade relationships and other harmful policies, have threatened the U.S. economy and national interests. Consequently, the administration has taken action to protect American workers and American businesses, rebalance U.S. trade relationships, and strengthen the international economic position of the United States. The recently negotiated trade agreements are bringing certainty and stability to the global trading system and will also lead to substantial inward investment. The administration retains broad authority to impose tariffs in the interest of its national and economic security.

## C. Immigration

**23. The U.S. had been experiencing high levels of immigration.** Prior to the pandemic, the number of new immigrants entering—as either temporary or permanent lawful residents, or humanitarian and unauthorized immigrants (including those under Temporary Protected Status, parolees and asylum seekers)—was broadly constant at around 1 million persons per year. However, starting in 2021, the U.S. saw an increase in new entrants under asylum and refugee programs that raised the share of the foreign-born population and reshaped the U.S. labor market.

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<sup>15</sup> See, for example, the agenda outlined in [Review of the Role of Trade in the Work of the Fund](#), 2023.



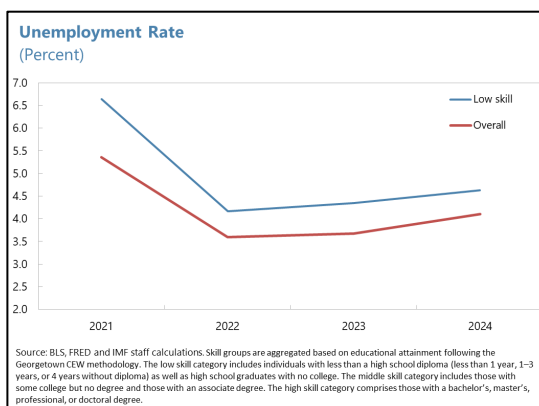
**24. Under the new administration, stricter border enforcement has effectively halted the inflow of unauthorized migrants and the number of removals has increased.** This tightening of enforcement is expected to reduce the size of the foreign-born labor force in the coming years. As this lower labor supply filters through to the broader economy it should raise wages of lower skilled workers, add modestly to inflation (Box 3), and slow activity. In particular, dynamic general equilibrium model simulations suggest immigration changes will reduce the level of GDP by around 0.4 percent by 2027, with the headwind to activity growing over the medium term.

**25. Authorities' views.** The administration is committed to faithfully execute the immigration laws of the country to restore order, deter illegal entries, and protect communities from the threats posed by unchecked illegal immigration. This is a security issue and a means to enforce the existing laws and combat transnational crime. The administration's strategy includes more assertive border enforcement, ending temporary protected status programs for nationals of 10 countries, and removing more than 2.5 million illegal aliens. These policies have succeeded in lowering housing costs and will reduce the strain on public services in cities with the largest immigrant populations. It is also expected to allow for higher wages in sectors with high numbers of foreign-born workers which, in turn, will incentivize native-born workers to rejoin the labor force.

### Box 3. Impact of Immigrant Flows on Inflation Dynamics<sup>1</sup>

A panel of 306 metropolitan areas was used to disentangle the supply and demand effect of immigration inflows and triangulate their net effect on consumer prices. The methodology takes advantage of the variation in the pace and composition (both in terms of national origin and education levels) of immigrant inflows across localities. The analysis finds:

- **Reductions in inward migration tend to be mildly inflationary.** From 2022–24, the increase in immigration inflows during that period served to lower the level of consumer prices by around 1.1 percent. Conversely, the reduction in immigration that is expected to take place between 2024 and 2025 (from a 2.8 million person inflow in 2024 to around 0.4 million in 2025, based on leading indicators of border encounters, removals, visa issuances, and parolees) should be expected to add approximately 0.3 percent to consumer prices by end 2026.
- **The near-term effect on consumer prices is most pronounced for changes in the numbers of less-educated migrants.** The main mechanism by which lower immigration appears to effect inflation is through a tightening in the labor market for less skilled workers. Regressions of immigration inflows on wages find that the post-pandemic increase in the numbers of foreign workers was instrumental in loosening the labor market and slowing wage increases for non-college educated workers. Inflows of more educated workers, though, appear to have little overall impact on consumer prices (suggesting that labor supply and consumer demand effects broadly offset each other for this segment of the labor market).
- **Lowering the inflows of non-college educated workers is found to raise the cost of goods but, perhaps surprisingly, have little effect on service prices.** Past changes in the flow of less educated workers appear to make little difference in housing costs (presumably with demand and supply effects broadly offsetting each other). However, increases in the inflow of more educated workers do appear to push up house prices (although with little effect on rents).



<sup>1</sup> P. Barrett and B. Tan, "Immigration and Local Inflation", [IMF Working Paper 25/5](#), 2025.

## D. Regulatory Changes

**26. The new administration is undertaking a re-examination of the U.S. approach to regulation.** The administration has implemented regulatory actions which aim to boost U.S. economic growth by reducing compliance costs and streamlining regulations. It has also instituted a rule requiring that every new regulation is accompanied by the elimination of ten existing regulations.

**27. The administration has been particularly focused on boosting the energy sector by making it easier to develop fossil fuel, geothermal, biofuel, nuclear and hydroelectric assets.** This has been supported by repealing limits on power plant greenhouse gas emissions and emission standards for vehicles. Various provisions of the Inflation Reduction Act—that incentivized investments in renewable energy, subsidized the purchase of EVs, and provided resources to expand

the EV charging network—have been repealed and more rights are being auctioned for oil and gas drilling on federal lands. Finally, the U.S. withdrew from the Paris Climate Accord. These policy changes should tilt the relative incentives away from renewables and toward the production and consumption of higher carbon energy sources. This could potentially have a significant impact on U.S. emissions (although the complicated interaction between federal and state-level regulations makes it very difficult to assess the overall size of these effects).

**28. The U.S. bank regulatory agencies have adopted changes that reduce the level of capital that Globally Systemically Important Banks (GSIBs) are required to maintain.** For some banks, the enhanced supplementary leverage ratio (eSLR) has become the binding constraint for bank capital (rather than risk-based capital requirements). This has disincentivized low risk, low return activities (notably broker dealers’ intermediation of the Treasury market). Instead of submitting GSIBs to a 2 percent buffer of tier 1 capital (on top of the 3 percent total leverage ratio that applies to all banks), the new rule equates this buffer to half of the GSIB risk-based surcharge, capped at 1 percent. This change is estimated by the regulators to lower aggregate Tier 1 capital requirements for the GSIBs by around US\$13 billion. It is unclear to what extent this change will incentivize GSIBs to increase market making activity and support better Treasury market functioning. Potentially, the regulatory change will incentivize capital distributions and share buybacks. However, following this change the U.S. is more closely aligned with the capital requirements of the Basel framework. [Proposed changes](#) that would fully implement the final components of the Basel III agreement have not yet been finalized.

**29. There have been important changes in the legal and regulatory framework for crypto-assets.** The Genius Act became law in July 2025, requiring all domestic payment stablecoin issuers to maintain 1-to-1 backing for the assets they issue (either in cash, reserves held at the Federal Reserve, government money market funds, or short duration Treasuries and repos/reverse repos backed by short-duration Treasuries). Reporting and audit requirements of the Act aim to ensure compliance with this backing requirement and to protect consumers. The Act also specifies the oversight roles of federal agencies, making the Office of the Comptroller of the Currency the principal federal supervisor for nonbank issuers as well as federally chartered banks and foreign banks with no deposit insurance coverage. The Digital Asset Market Clarity Act, which has passed the House and is awaiting a Senate vote, specifies the market structure for the listing and trading of digital assets and defines the jurisdiction of the Securities and Exchange Commission and Commodity Futures Trading Commission in supervision and regulation. Together, these two Acts should serve as a useful basis for future innovation in digital asset markets. However, it is unclear at this point how the regulatory and supervisory framework will be implemented and what additional controls will be required to counter the risk of illegal activities (like tax evasion and money laundering) in these markets and to ensure that increased usage of such assets does not add to financial stability risks. At this point, it is difficult to gauge how the growth of U.S. dollar stablecoins will impact the structure of the Treasury market and financial stability.

**30. Recent anti-money laundering efforts of the administration have focused on strengthening enforcement against compliance failures and disrupting fentanyl-related illicit**

**finance.** In October 2024, TD Bank agreed to a US\$3 billion settlement for money laundering and bank secrecy violations. In March 2025, the Corporate Transparency Act’s Beneficial Ownership Information reporting rule was suspended for domestic U.S. entities and their beneficial owners. In June 2025, the suspension of the Foreign Corrupt Practices Act ended, with the development of new enforcement guidelines. The anti-money laundering rules for investment advisers are planned to be established in January 2028. Ahead of the conclusion of the AML/CFT mutual evaluation by the FATF in October 2026, and the forthcoming FSAP, the authorities continue to make efforts to manage risks related to illicit financial flows. Given the attractiveness of the U.S. financial system and broader economy to foreign illicit proceeds, sustained risk-based supervision of emerging vulnerabilities posed by gatekeepers and real estate agents, alongside effective beneficial ownership transparency, remains important.<sup>16</sup>

**31. Authorities’ views.** Complex federal regulation imposes significant costs, restrains economic growth and innovation, and weakens U.S. competitiveness. The administration is in the process of significantly reducing the costs of complying with federal regulations through a sweeping, multi-agency deregulatory agenda. The Office of Management and Budget assesses that, during the course of 2025, federal agencies finalized 646 deregulatory actions (in areas of energy, financial and red tape compliance) and instituted only 5 new regulatory actions. This effort is estimated to have generated over US\$200 billion in cost savings. In addition, the administration has frozen all regulatory proposals that were in the approval process at the start of 2025, which is estimated by the Council of Economic Advisers to have avoided at least US\$180 billion in costs.

## THE OUTLOOK

### A. Activity and Inflation

**32. The combination of the changes in tax, spending and tariffs, alongside reduced immigration inflows, will create a modest drag on activity over the medium term.<sup>17</sup>**

- In the **near term**, the negative supply effects from lower immigration and higher tariffs are broadly offset by the positive demand impulse from stimulative fiscal policy. There is an up-front boost to investment from the expensing of capital spending that is partially offset by the headwind to investment from expected lower future demand.<sup>18</sup> Real household income is modestly reduced by this combination of policies which, in turn, weighs on consumption.

<sup>16</sup> The United States volunteered for the coverage of transnational aspects of corruption, and last year’s Article IV recommendations remain applicable.

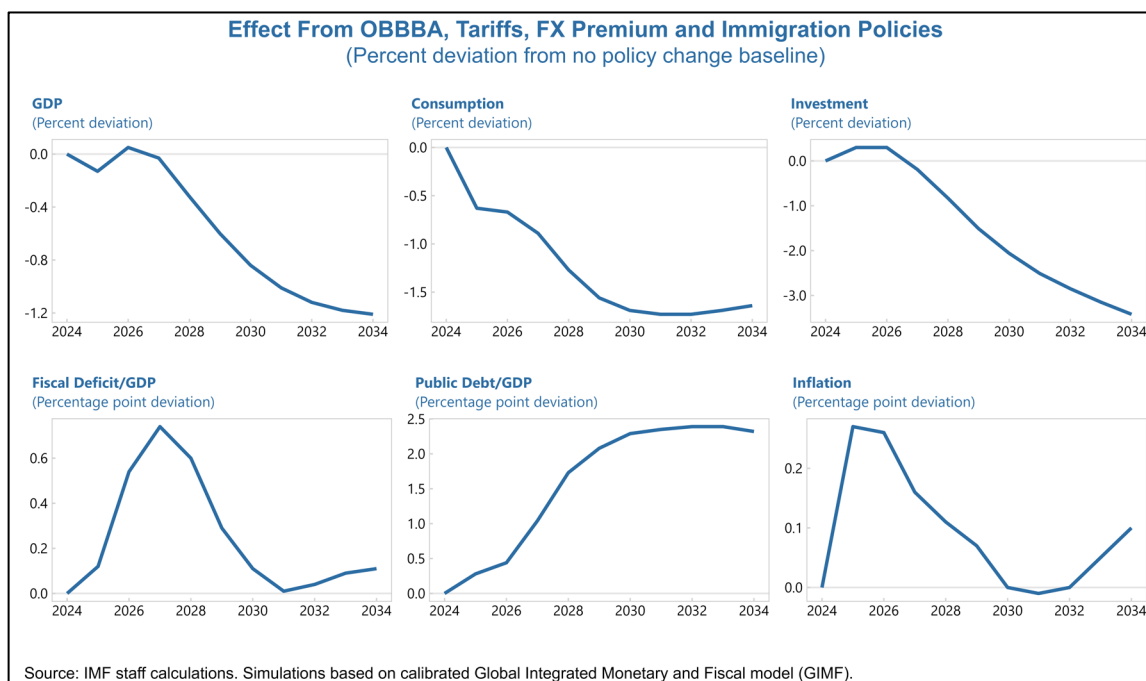
<sup>17</sup> Calibrating the effects of the changes to the regulatory system outlined above is highly uncertain and is not attempted here. Qualitatively, the regulatory changes already undertaken by the administration are likely to increase activity but potentially at the expense of slowing the reduction in greenhouse gas emissions and adding to financial stability risks. However, a change in the risk premium associated with U.S. dollar assets is incorporated so that the simulation output matches the path of the real exchange rate that has been observed in 2025 (and maintains a broadly constant real exchange rate over the medium-term).

<sup>18</sup> This is consistent with empirical assessments of the 2017 tax policy changes (see [Chodorow-Reich et al](#), 2024).

- Over a **longer horizon**, the contractionary effects from smaller immigration inflows becomes more visible. In addition, as tax provisions expire and reductions in Medicaid and food assistance become more pronounced, household disposable income and consumer demand will further weaken. Simulations suggest the level of output will, by 2030, be around 1 percent lower as a result of this combination of policies.

**33. Baseline forecasts incorporate the effects of the policy changes outlined in Box 1, the recent changes in tariff policies, and reduced immigration (which is assumed to slow labor force growth to around 0.3–0.4 percent per year).** The forecasts further assume the conflict in the Middle East has a significant impact on commodity prices and somewhat tightens financial conditions.

- The Q4/Q4 **growth** rate is expected to accelerate in 2026 to 2.4 percent and remain at 2.1 percent in 2027–28. Staff’s growth forecast is broadly in line with the Fed’s December Summary of Economic Projections and the latest CBO forecast. The impact from higher oil prices should slow private consumption but add to investments in the energy sector with a neutral impact on overall growth (given the U.S. position as a net energy exporter).



<b>Staff Forecasts and Comparators</b>					
	IMF	CBO	Fed (SEP)	OMB	SPF
<b>2026</b>					
GDP, q4-on-q4 (percent)	2.4	2.2	2.3	3.2	1.7
PCE inflation, q4-on-q4 (percent)	2.8	2.7	2.4	2.0	2.6
Core PCE inflation, q4-on-q4 (percent)	2.6	2.8	2.5		2.7
Unemployment rate, Q4 level (percent)	4.3	4.6	4.4	3.9	4.5
<b>2027</b>					
GDP, q4-on-q4 (percent)	2.1	1.8	2.0	3.1	
PCE inflation, q4-on-q4 (percent)	2.0	2.3	2.1	2.0	2.2
Core PCE inflation, q4-on-q4 (percent)	2.0	2.3	2.1		2.3
Unemployment rate, Q4 level (percent)	4.1	4.5	4.2	3.7	

Notes: GDP growth estimate from SPF is calculated from projected quarterly growth rates.  
Sources: IMF Staff Calculation; CBO's "The Budget and Economic Outlook: 2026 to 2036" (February, 2026); OMBs "Technical Supplement to the 2026 Budget" (September 5, 2025); FOMCs Summary of Economic Projections (December 10, 2025); "Fourth Quarter 2025 Survey of Professional Forecasters" (SPF) (November, 2025).

- **Employment** is expected to grow at less than one-half of the pace seen in the five years prior to the pandemic as the very high labor productivity gains of the past three years slowly dissipate. The reduction in immigration will reduce labor supply which should allow the labor market to remain at, or close to, full employment in 2026–27 (i.e. an unemployment rate close to 4 percent).<sup>19</sup>
- **Labor productivity** gains are assumed to slow from the very high rates seen in 2023–25 but remain modestly above those experienced in the decade prior to the pandemic as ongoing technology adoption is expected to have lasting effects on productivity.
- Medium-term **potential growth** has been lowered—by around ¼ percent relative to the 2024 Article IV—as gains in labor productivity are expected to be more-than-offset by the slower growth of the labor force.
- **Core PCE inflation** is expected to fall to 2 percent by 2027H1 as tariff effects wane, goods price inflation slows, oil prices fall from their currently elevated levels, the economy expands in line with potential output, and services inflation continues to slowly decline toward pre-pandemic levels.

<sup>19</sup> Recent data points to some remaining slack in the labor market: U-6 at end-January was around 1 percent higher than its pre-pandemic level and the ratio of job openings to unemployment is modestly lower than that in 2019.

- The **fiscal deficit** is expected to remain large over the next five years at around 6 percent of GDP for the federal government and 7–7½ percent of GDP for the general government. This should steadily increase the general government debt to exceed 140 percent of GDP by 2031.
- The **current account** deficit is expected to remain in the 3½–4 percent of GDP range in the coming years.

## B. Near-Term Risks

**34. The near-term risks to activity and unemployment are broadly balanced but the outlook for global energy prices creates upside risks to inflation** (Annex I). Key risks to the macroeconomic outlook include:

- **The conflict in the Middle East.** In the event of a deeper or more prolonged conflict in the Middle East, the disruption of major transit routes and supply chains would further add to world energy, fertilizer and food prices. This would add to headline inflation in the U.S. with increased potential to create second round effects on wages and a broader range of service prices. These higher prices would put downward pressure on consumption but, at the same time, should further incentivize energy investments in the U.S. Given the U.S. status as a net energy exporter and the relatively small share of food and energy in the consumption basket (i.e., equivalent to 10 percent of real PCE), the overall impact on output is likely small. However, if such an extended conflict were accompanied by higher global risk aversion it would likely create a further tightening of financial conditions which, in turn, would weigh on investment (by raising the cost of capital) and consumption (through wealth effects), exerting a drag on growth.
- **Deregulation.** There are potential upsides to growth from the ongoing and proposed deregulatory efforts which could serve to loosen financial conditions, spur investment, release supply constraints, and reduce energy costs.<sup>20</sup> However, this deregulation will also have implications for distributional outcomes, carbon emissions, and financial stability risks.
- **Tariffs.** There are two-sided uncertainties surrounding the impact of tariffs on the economy. The passthrough of tariffs to consumer prices could be lower-than-expected which would lead to a more front-loaded disinflation and better activity outturns. On the other hand, a further increase in tariffs and/or uncertainty around trade policies as the administration moves ahead with new trade actions on a range of countries could result in a more lasting and pronounced impact on prices and output, particularly if the reconfiguration of supply chains proves difficult in the near-term.
- **Fiscal.** There are two-sided risks to activity from recent fiscal policy changes. The multipliers associated with reductions in corporate and personal income taxes could be larger or smaller

<sup>20</sup> The [Council of Economic Advisers](#), for example, estimates significant positive growth effects from deregulatory efforts, albeit it abstracts from environmental and financial stability externalities inherent in some large deregulation actions.

than assumed in the baseline (given that there is a wide range of estimates in the empirical literature).

- **Labor productivity.** In the baseline forecast, the surge in labor productivity seen over the past three years is expected to fade, albeit with productivity gains remaining modestly higher than the 2010–19 average. However, this high level of productivity could endure if ongoing technology adoption accelerates and the ongoing investments in infrastructure and intellectual property bear fruit. Alternatively, if the promise of ongoing technology investments disappoints this could lead to tighter financial conditions, more binding supply side constraints on activity, and higher inflation.<sup>21</sup>
- **Labor markets.** The uncertain interaction between slowing labor demand and slower labor supply growth creates two-sided risks to inflation. Higher labor force participation, smaller-than-expected reductions in immigrant inflows, or more sustained gains in labor productivity could allow for a higher level of activity without putting upward pressure on wages and consumer prices. However, a more pronounced shortage of labor (particularly in sectors reliant on immigrant workers like agriculture and construction where productivity gains may be harder to achieve) could lead to sectoral disruptions that lower growth and propagate through a relatively tight labor market to boost services inflation.
- **Housing.** There may be some upside risks to inflation from continuing imbalances in the housing market. Over the past two years, residential investment and home sales have been at low levels with high interest rates creating a lock-in effect for homeowners and dissuading new construction. As interest rates decline and the lock-in effect lessens, there may be a renewed surge in the demand for housing which could, in turn, boost shelter inflation and have ripple effects through wages and other prices. On the other hand, slower-than-expected population growth could put downward pressure on rents. Recent measures to increase housing affordability—including reductions in red tape and efforts to boost supply—may help lessen shelter inflation.

**35. Authorities' views.** Efforts by the administration have been successful in creating private sector jobs for U.S. workers and in bringing down high prices for a range of goods and services. New inward investment commitments exceed US\$18 trillion and there is an increased desire by companies to build in America, which will boost growth and support manufacturing industries in particular. In 2026, the largest tax cuts in U.S. history will increase many families' disposable income by tens of thousands of dollars. The Council of Economic Advisers estimates that the Working Family Tax Cuts will raise the level of real GDP by close to 5 percent over the next four years. The near-term growth outlook is expected by the authorities to be considerably stronger than that projected by IMF staff (the authorities expect growth of 3 percent in 2026–27) and the administration believes growth risks to be to the upside as the positive impacts of fiscal, deregulatory, immigration, and tariff policies are increasingly realized and new investment commitments are deployed.

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<sup>21</sup> See January 2026 [World Economic Outlook Update](#).

## MONETARY POLICY

**36. The Federal Reserve faces a complex balancing act given the risks outlined above to both sides of their maximum employment and price stability mandate.** The U.S. could face a more pronounced weakening in the demand for labor—arising from both slowing consumer demand and larger productivity gains that substitute for labor—which then leads to layoffs and rising unemployment. Such an eventuality would argue for a further reduction in the policy rate. On the other hand, the negative supply-side effects from tariffs, a sharper and more prolonged increase in oil and other commodity prices as a result of the conflict in the Middle East, a smaller labor force, and fading productivity growth could raise wages and unit labor costs, put upward pressure on prices, and morph what currently appears to be a transitory burst of goods inflation into something that is more ingrained. The task ahead for policymakers will be to continually assess and balance these risks in determining the appropriate path for the policy rate.

**37. On balance, staff see little scope to lower the policy rate over the coming year.** Under staff's baseline outlook, the federal funds rate is expected to reach 3¼–3½ percent by end-2026. This would allow the economy to return to full employment and 2 percent inflation by 2027H1. Such an interest rate path would be consistent with the Federal Reserve's revised policy framework (Box 4). A larger monetary easing would need to be predicated on a material worsening in labor market prospects and an absence of increasing inflationary pressures, including from higher near-term inflation expectations due to rising oil and commodity prices.

**38. As always, future changes in the policy rate will need to be attentive to incoming information.** Continuing to clearly communicate the FOMC's interpretation of incoming data should ensure that any needed shifts in the monetary stance are well understood and smoothly absorbed. The Fed's policy credibility represents a highly valuable asset which should be carefully guarded, including by ensuring the Fed's monetary policy decisions remain independent and firmly focused on achieving its statutory mandate of price stability and maximum employment.

**39. The Fed has rightly discontinued the runoff of its balance sheet and started to undertake reserve management purchases.** Balance sheet reduction proceeded smoothly during 2025, but signs of moderate strains in the money market started to emerge toward the end of the year. This appeared to be mostly driven by the reserve draining effect of a build-up of deposits in the Treasury General Account during the federal government shutdown.<sup>22</sup> Bank reserves now appear to be close to levels that were previously viewed by staff as consistent with the smooth implementation of an ample reserves regime.<sup>23</sup> Looking forward, the Fed's predictable, periodic asset purchases should be geared to ensuring an ample level of bank reserves so as to mitigate potential volatility in money market conditions.

<sup>22</sup> See Dao, M. Tan, B. and Zhou, J. (2025), "Repo Market Volatility and the U.S. Debt Ceiling", [IMF Working Paper 2025/127](#).

<sup>23</sup> See Box 7, [United States Article IV Consultation](#), 2024.

#### Box 4. The Fed's Review of Monetary Policy Strategy, Tools, and Communications

In its quinquennial review of its policy framework, the Fed made the following changes to its Statement on Longer-Run Goals and Monetary Policy Strategy:

- *Employment objective.* Defines maximum employment as the highest level of employment that can be achieved on a sustained basis in the context of price stability. The Statement makes clear that there are situations when pre-emptive policy action would be warranted even if there are not yet clear signs of inflation running above target. Furthermore, the revised statement moves away from the asymmetry whereby policy decisions are informed by “shortfalls” of employment from its maximum level. Instead, policy will be calibrated to reduce deviations (in both directions) from maximum employment. However, the statement also recognizes that employment may, at times, run above its maximum level without necessarily creating risks to price stability, offering some flexibility to policymakers given the uncertainties in assessing maximum employment.
- *Inflation objective.* The statement eliminates the “makeup strategy” contained in the previous framework (whereby, following periods when inflation has been persistently below 2 percent, policy will aim to achieve inflation above 2 percent for some time). Policies would, instead, view the 2 percent objective as symmetric and be focused on ensuring longer-term inflation expectations remain well-anchored (without an intention to moderately overshoot the inflation objective if the economy, even after a period of low inflation).
- *Effective lower bound.* The statement is less focused on the difficulty of operating at the effective lower bound. Instead, the framework is intended to be relevant for a broad range of economic conditions, informed also by the burst of inflation seen since the last framework review.
- *Communication.* No explicit changes were made to either the modalities or strategy for communication.
- *Tools.* While the statement emphasizes the Fed is prepared to use its full range of tools, particularly when at the effective lower bound, there were no explicit changes in the tools or the framework for their use. In particular, there was no effort to outline the conditions when recourse to balance sheet policies would be appropriate and how long such policies would remain in place.

**40. Authorities' views.** Given a shift in the balance of risks—particularly linked to increased concerns over downside risks to the labor market—the FOMC decided, during the course of 2025, to lower the policy rate to a level that is within the range of estimates of the neutral rate. This policy stance leaves the FOMC well positioned to determine the extent and timing of additional adjustments based on incoming data, the evolving outlook, and the balance of risks. On the balance sheet, there is a significant variation in the supply of reserve balances. As a result, to maintain reserves at an ample level, the FOMC has initiated reserve management purchases to ensure effective interest rate control. This is not intended to influence the yield curve or broader financial conditions by removing duration risk from the system. These purchases do not have any implications for the stance of monetary policy.

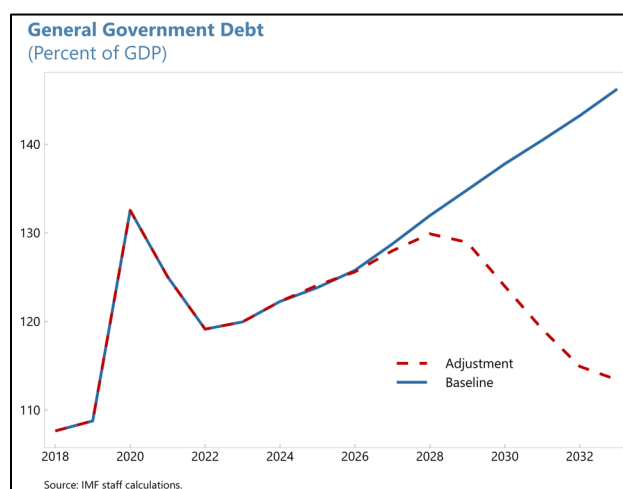
## FISCAL POLICY

**41. The combined tax, spending, tariff, and immigration changes are expected to result in a broadly neutral fiscal position in 2026–28 and a modest tightening of the fiscal stance from 2029 onwards (as measured by the primary structural balance).** The fiscal deficit of around 7–7½ percent of GDP is expected to add around 3 percent of GDP per year to the general

government debt over the medium-term. The increase in the fiscal deficit as a result of this combination of policies is expected to peak at around  $\frac{3}{4}$  percent of GDP in 2027. After that point, various tax provisions will expire and social assistance cuts become larger. There is, though, a strong possibility that some of the expiring tax provisions will be renewed which creates upside risks to the medium-term path for both the federal deficit and debt.

**42. The administration and Congress have missed an opportunity to arrest the persistent upward path for debt-GDP.** Under current policies, the general government debt is expected to exceed 140 percent of GDP by 2031. The risk of sovereign stress in the U.S. is low due to the depth and liquidity of Treasury markets and the dollar's status as a reserve currency. The government has some fiscal space (Annex II). Nonetheless, the continuation of a steady upward path for the public debt-GDP ratio and increasing levels of short-term debt as a share of GDP represent a growing stability tail risk to the U.S. and global economy.

**43. As argued for in previous Article IV consultations, a clear, frontloaded fiscal consolidation plan is needed to put debt-GDP on a downward trajectory.** Such an adjustment would help lessen risks to financial stability in the US and globally. As already laid out in past staff reports, this will require a shift to a general government primary surplus of around 1 percent of GDP (an adjustment of around 4 percent of GDP relative to the current baseline). The strong cyclical position of the economy offers an opportune time to undertake this adjustment. Achieving this needed realignment of the fiscal position will require going beyond the ongoing efforts to identify efficiencies in discretionary, non-defense federal spending (which makes up only 15 percent of total federal outlays). Rather, the bulk of this adjustment will need to be borne by increases in federal revenues and a rebalancing of entitlement programs (notably social security and Medicare). A range of policy options to achieve this adjustment are outlined in Box 5 and Box 6.



**44. Authorities' views.** The combination of the Working Family Tax Cuts, tariffs, increases in U.S. energy production, deregulation, and efforts to reduce wasteful spending have reduced the federal deficit by around  $\frac{1}{2}$  percent of GDP in FY25 (to 5.9 percent of GDP). It is expected that the federal deficit will continue falling in the coming years to reach 1.9 percent of GDP by 2035, largely based on curtailing non-defense discretionary spending growth and an average expected real GDP growth rate of 3 percent over the next decade. According to analysis by the Council of Economic Advisors, the combination of the Working Family Tax Cuts, spending reductions, growth effects from tax cuts and deregulation, and tariff revenues, are expected to reduce the deficit by up to US\$11 trillion over the next ten years. This is estimated to allow the federal debt to fall steadily and significantly as a percentage of GDP by 2034.

### Box 5. Potential Tax and Spending Policies to Lower the Federal Debt

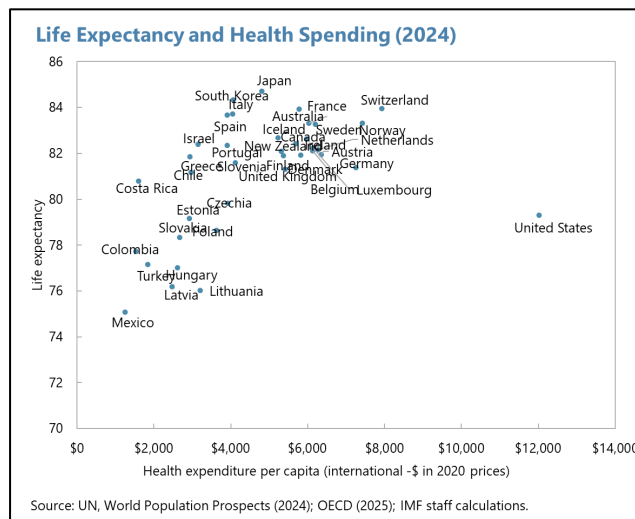
A combination of options will be needed on both the revenue and expenditure side of the budget to bring the debt-GDP ratio down over the medium term. These include:

- *Scaling back poorly targeted tax expenditures.* These include not taxing the value of employer-provided health care, capital gains exemptions for individuals selling their principal residence, and income tax deductibility for mortgage interest and state and local taxes. Removing these tax expenditures would increase progressivity and generate around 1.4 percent of GDP per year in revenues.
- *Closing the “carried interest” provision* whereby income earned from partners in an investment fund can be treated as capital gains and taxed at a 23.8 percent rate (rather than at the 37 percent top marginal rate).
- *Eliminating “step up basis” for capital gains* which allows the value of inherited assets to be reset at the date of death so that any capital gains that has accrued during the life of the original owner are effectively never subject to capital gains tax.
- *Phasing in a federal consumption tax.* Such an increase in indirect taxes would generally be regressive and so would need to be combined with a well-designed social assistance program to cushion the impact on poor households. As an example, a 10 percent, broad-based VAT would yield around 2 percent of GDP in revenues per year.
- *Raising the federal excise tax on gasoline and diesel.* The federal tax on gasoline and diesel is not subject to indexation and has remained unchanged in nominal terms since 1993 (at 18.4 cents for gasoline and 24.4 cents for diesel). Doubling the tax on both gasoline and diesel would yield around 0.15 percent of GDP per year. A carbon tax could also be considered.
- *Raising the corporate tax rate and fully moving to a cashflow tax.* If combined, such a change in the corporate tax system could both raise revenue and reduce the marginal disincentive to invest. Each 5 percentage point increase in the corporate income tax rate would yield around 0.3 percent of GDP per year.
- *Reducing imbalances in the social security system.* Indexing social security benefits to chained CPI would save around 0.1 percent of GDP per year. Subjecting earnings greater than US\$250,000 to social security payroll taxes would increase progressivity and yield around 0.4 percent of GDP per year.
- *Lowering public healthcare outlays.* A range of policies to mitigate the impact of population aging on the federal healthcare deficit have the potential to significantly reduce Medicare outlays and increase the program’s efficiency (see Box 6).

### Box 6. Policies to Mitigate the Implications of Aging on the Federal Healthcare Deficit

U.S. public healthcare spending makes up 8.5 percent of GDP even though health outcomes are relatively poor when compared to other OECD countries. This spending includes government programs like Medicare, Medicaid, and the Children's Health Insurance Program but also encompasses tax credits to purchase private insurance as part of the Affordable Care Act. In addition, state and local spendings add a further 1.5 percent of GDP to the total.

Technological solutions that increase efficiency and expand the ability of Medicare to negotiate prescription drug prices to a broader range of drugs could help reduce costs. In addition, options have been identified by academic and policy researchers to increase cost sharing with beneficiaries to mitigate the fiscal implications of an aging population and generate savings from improvements in medical technology.<sup>1</sup> These could include:

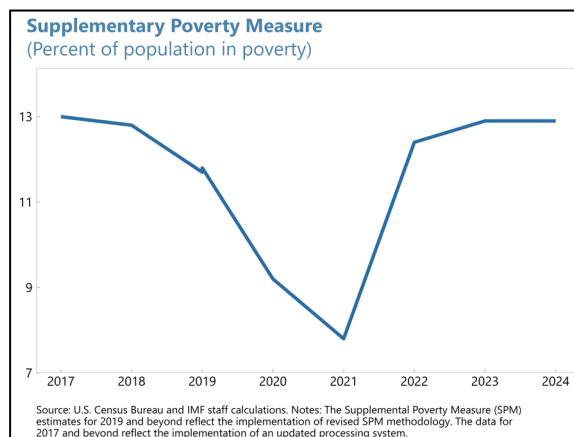


- *Increase the payroll tax rate and raise maximum copayments under Medicare.* The contributions for outpatient care (Part B) and prescription drugs (Part D) under Medicare cover only 25 percent of the expected costs per enrollee. These programs are far from actuarially fair insurance. A doubling of these premia (i.e., to cover 50 percent of costs) and a modest increase in the Medicare payroll tax (by 0.5 percent) would save around 0.9 percent of GDP per year and better reflect the level of expected benefits. Similarly, the annual limit on copayments for services could be raised.
- *Increase the premium for the Medicare Advantage program.* Half of Medicare beneficiaries are enrolled in a (privately run) Medicare Advantage plan. The government matches a fixed premium for each beneficiary and the purchased plan then provides coverage for a broad range of health services. Raising the individual's share of this premium by 10 percent would save around 0.2 percent of GDP per year.
- *Increase federal spending on Medicare savings programs.* The increase in cost sharing and premiums proposed above would be burdensome on lower income elderly individuals. There would, therefore, be a need to combine such changes with an increase in resources for Medicare savings (a program which provides help with premiums, deductibles and coinsurance for those on limited income).
- *Expand health programs that use "value-based" models (rather than fee-per-service).* Making bundled payments that cover all of Medicare Part A and Part B services (while incentivizing communication and coordination among providers) could reduce spending by 10 percent, or around 0.4 percent of GDP per year.
- *Incentivize reductions in administrative costs.* Technological solutions that improve the efficiency of service provision (including through immediate payment assurance and greater automation) could yield savings of around 0.2 percent of GDP per year.

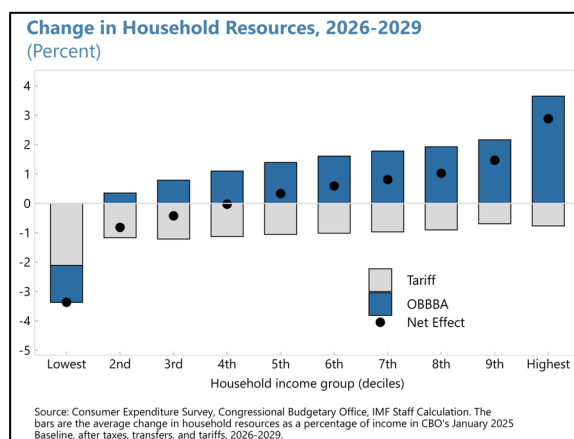
<sup>1</sup> See for example the [Congressional Budget Office](#), [the Peterson Institute](#), and [Sahni et al. \(2023\)](#), among others.

## DISTRIBUTIONAL EFFECTS

**45. Poverty in the U.S. has been increasing over the past three years.**<sup>24</sup> The U.S. saw a significant reduction in poverty during the pandemic, a product of the federal resources put into social assistance programs (including the child tax credit, unemployment benefits, food assistance, and direct transfers to households). However, as these interventions expired, there has been an upswing in the number of Americans living in poverty (starting in 2022 and continuing in the subsequent years) which has returned the poverty rate to that prevailing in 2017. More than one in eight Americans currently live in poverty with higher rates for children, the elderly, non-citizens, female-headed households, and for black, Native and Hispanic households. Furthermore, real income for the median household was hit hard by the post-pandemic burst of inflation which stands in contrast to the average 4 percent yearly growth in real median incomes experienced in the five years prior to the pandemic (Box 7).



**46. The administration's tax and tariff policies, combined with cuts to social assistance programs, could contribute to an increase in poverty.** In the near-term, the reduction in taxes on tips and overtime and increases in the child tax credit will support lower income Americans. However, based on a static costing,<sup>25</sup> these changes are likely to be more-than-offset for the bottom third of the income distribution by the increase in tariffs and reductions in social assistance programs. After 2029, when the more progressive income tax provisions are scheduled to expire, real disposable incomes are expected to fall for the bottom five deciles.<sup>26</sup> After accounting



<sup>24</sup> There are different ways to measure poverty, depending for example on income or consumption-based poverty thresholds, and the choice of consumer price index for different segments of households and geographic zones. The supplemental poverty measure cited here incorporates the effect on household incomes of government cash and noncash support programs and necessary expenses (like taxes). See [Census, 2023](#) for details of the methodology. The official poverty rate, which does not incorporate the effect of government programs, was lower at 10.6 percent in 2024.

<sup>25</sup> See distributional estimates by the [Joint Committee on Taxation](#) and the [Congressional Budget Office](#). Estimates of the distributional impact of tariffs are calculated using the 2023 Consumer Expenditure Survey Public Use Microdata and assuming the tariff pass-through to consumer prices of 50 percent. Larger negative effects on household income are found by other analysts (e.g. [Yale Budget Lab](#), November 2025).

<sup>26</sup> J. Ahn and L. Liu, "The Distributional Impacts of the 2025 Tariffs", IMF Working Paper, forthcoming.

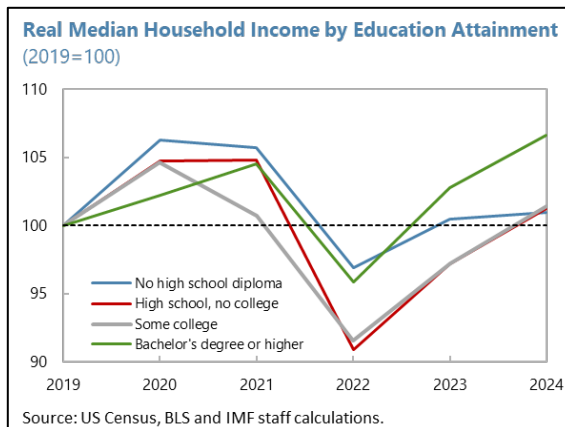
for positive supply-side effects and shifts in consumption patterns, these adverse distributional effects are likely to be somewhat larger than under the static costing (Box 8).

**47. Authorities' views.** The administration's policies have reversed the decline in household incomes with factory worker wages rising significantly in 2025. For the economy as a whole, wages are rising much faster than inflation and employment gains are strong, both of which should serve to reduce poverty. Furthermore, in 2026, households—especially middle-income working families—are expected to receive the largest tax refund of all time. Measures have been taken to strengthen guardrails around enrollment and eligibility for Medicaid and social assistance and the administration is committed to preventing fraud and abuse in federal programs. In addition, stronger work requirements will increase labor force participation and improve accountability for both Medicaid and social assistance programs.

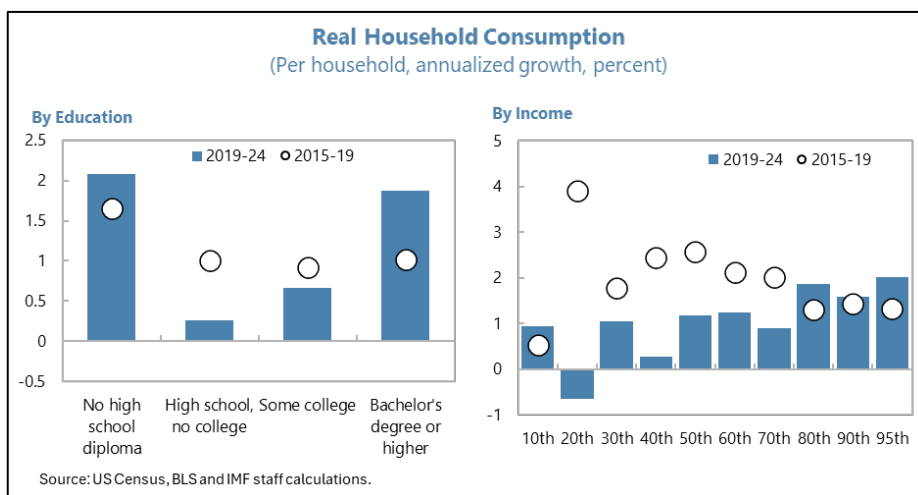
### Box 7. The Erosion of Real Household Incomes During the Post-Pandemic Recovery

The post-pandemic recovery had a very heterogenous impact across households due to unequal effects on labor market outcomes and variations in the consumption basket across household characteristics. Using the Consumer Expenditure Survey and disaggregated price data we find that:

- Lower-income and non-college-educated households saw a significant decline in their real incomes in 2022–23. Despite relatively high increases in nominal wages, these households also faced higher inflation rates (particularly for housing). By end-2024, their real incomes were broadly the same as prior to the pandemic.
- College-educated households saw a much smaller erosion of real wages during the post-pandemic burst of inflation and, by end-2024, real incomes for this group were back on their pre-pandemic trend.
- The lowest income decile did see an increase in real income over the past 5 years but most lower- and middle-income households have seen considerably slower real income gains than in 2015–19.
- Consumption outturns were also very unequal. Government transfers and rapid wage growth for unskilled labor supported solid gains in consumption for those without a high school degree. However, consumption growth slowed markedly for those in the middle of the income distribution. This slowdown was particularly salient for renters.



On the other hand, the top quintile of the income distribution saw even faster gains in living standards and consumption than they had experienced prior to the pandemic. Much of this group owns their own home and saw both wealth gains and a decline in housing outlays as a result of being able to refinance their mortgages at a lower, fixed rate.



### Box 8. Model Simulations of the Distributional Effects of Tax, Tariff and Spending Policies<sup>1</sup>

The new administration's policy package was assessed using a heterogeneous household general equilibrium model that differentiates workers by skills and features a broad set of intersectoral linkages in production. This model helps derive the dynamic distributional effects of the policy mix (of tax, transfers, tariffs and immigration) which complement the static costing undertaken by staff. These effects represent the long run impact (i.e. after the various temporary provisions expire and the effective tariff rate settles to the longer run level after supply chains adapt).

- After accounting for general equilibrium effects, the regressivity of the policy package increases (relative to the static costing). The model points to a moderate decline in consumption of the median college-educated households but a sharp contraction in consumption of unskilled workers.
- Across income deciles, the erosion of real consumption is particularly pronounced for those earning below the median income (with declines of 1.6 to 3.5 percent on average per year).
- The regressive incidence of the policies leads the poverty rate to increase by 5 percentage points by 2035. The cuts to social assistance programs (notably Medicaid and SNAP), lower income workers' disproportionate exposure to tariff-induced job losses, and the substitution of capital for less-specialized labor are the main drivers of higher poverty. This occurs even after incorporating sizeable positive effects on the wages of low-skilled workers as relative price changes catalyze a shift in demand from goods to services and lower immigration lowers the availability of lower skilled labor.

Change with Respect to June 2025 (Effect over 10 year period)		
	OBBBA + Tariffs 2026-27	OBBBA + Tariffs 2028-
Consumption Unskilled Workers	-2.81	-3.29
Consumption Skilled Workers	0.23	0.29
Consumption Medium Skilled Work	0.09	-0.24
GINI Net Income Households	4.10	5.22
GINI Market Income Households	-0.31	0.45
GINI Consumption Households	3.98	5.10
Poverty Rate	4.10	5.04

Source: IMF staff calculations. Consumption changes are reported as yearly average percentage changes; Gini changes in basis points; and poverty rate changes in percentage points.

Percentage Change in Consumption with Respect to June 2025 (Effect over 10 year period)		
Deciles	OBBBA + Tariffs 2026-27	OBBBA + Tariffs 2028-
1	-3.07	-3.49
2	-2.94	-3.42
3	-2.83	-3.31
4	-1.89	-2.34
5	-1.15	-1.58
6	-0.77	-1.19
7	-0.56	-0.96
8	-0.43	-0.79
9	-0.19	-0.48
10	-0.07	-0.26

Source: IMF staff calculations. Consumption changes are reported as yearly average percentage changes

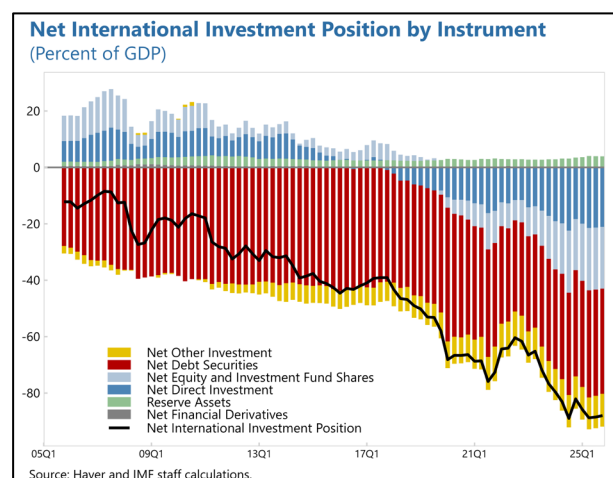
<sup>1</sup> S. Lizarazo, A. Peralta-Alva, and D. Puy, "Macroeconomic and Distributional Effects of Personal Income Tax Reforms: A Heterogeneous Agent Model Approach for the U.S.", [IMF Working Paper](#) 17/192.

## THE EXTERNAL POSITION AND SPILLOVERS

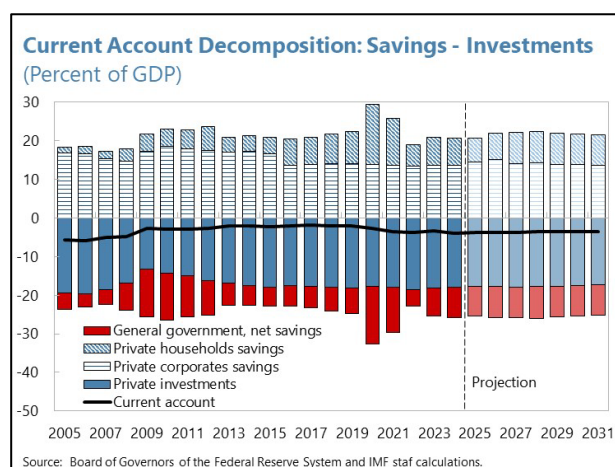
**48. In 2025, the external position was moderately weaker than implied by medium-term fundamentals and desirable policies (Annex III).**<sup>27</sup> In large part, this misalignment is a result of the chronic federal deficit which serves to weaken the current account and appreciate the U.S. dollar. The U.S. external stock imbalance continues to widen sharply, with the NIIP now exceeding - 80 percent of GDP due to increased external borrowing by the general government and

<sup>27</sup> The final 2025 external assessment will be published in the 2026 External Sector Report.

nonresident inflows into U.S. risk assets (notably equities and corporate debts, especially since mid-2024). The increased nonresident holding of risk assets in large part reflects the increasing differential between productivity growth in the U.S. and the rest of the world, combined with the fact that much of these productivity gains are accruing as returns to capital (with the U.S. labor share of income continuing to decline). In addition, there has been an important change in the nonresident investor base with increased participation of non-bank financial institutions whose investment behavior may prove to be more price- or risk-sensitive (i.e., relative to official sector inflows which had previously dominated). This worsening NIIP position, alongside the shift in the nonresident investor base, represents a potentially important source of external vulnerability. An abrupt shift in portfolio preferences could lead to a disorderly external rebalancing.



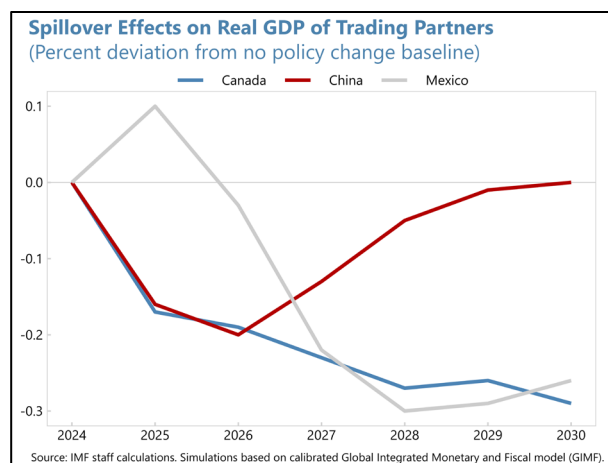
**49. The net effect of the increase in tariffs and the fiscal policy changes undertaken in 2025 is to keep the current account deficit at around 3½–4 percent of GDP over the medium-term.** Household and corporate saving are expected to rise modestly more than the expected increases in fiscal dissaving and private investment. Undertaking a fiscal consolidation of around 4 percent of GDP over the medium term, as proposed above, accompanied by a range of other policy actions by trading partners,<sup>28</sup> would help facilitate a reduction in this current account deficit to its medium-term norm of around 2 percent of GDP.



**50. The important shift in U.S. policies that occurred in 2025 is expected, on balance, to create negative spillovers to other countries.** In the near-term, the combination of tariffs and a higher risk premium for dollar assets are expected to more-than-offset the positive demand effects arising from the change in U.S. fiscal policies. This should result in a modest headwind to global growth in 2026–27 that will be most impactful for the U.S.'s largest trading partners (i.e., Canada, China and Mexico). These spillovers are also shaped by variations in exchange rate policies. China is assumed to manage its exchange rate closely to the U.S. dollar which leads to a gradual depreciation of its real exchange rate. As a result, after an initial negative impact in 2026 from tariffs,

<sup>28</sup> See "Global Imbalances in a Shifting World", [External Sector Report](#), July 2025.

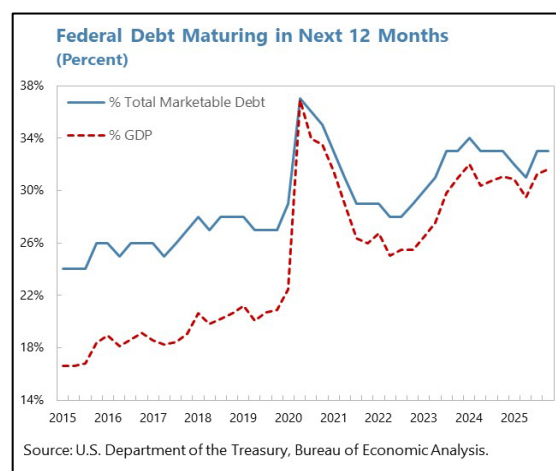
China's net exports and growth would be expected to recover in 2027–28. The net decline in immigration flows will have an important effect on the various source countries (mostly in South and Central America and the Caribbean) which lack sufficient labor demand to employ these additional workers and are reliant on remittance flows from the U.S.<sup>29</sup> The U.S. tariffs also have the potential to create unpredictable trade diversion effects—particularly for goods produced in China where the effective tariff is highest—that may prove difficult for other countries to absorb. Finally, broader adoption of U.S. dollar stablecoins by global financial market participants could create increased incentives for dollarization in other countries, particularly those with weak policy frameworks, or could further facilitate capital outflows from countries that are facing balance of payments pressures.



**51. Authorities' views.** Given the sizable shift in trade and investment patterns that is underway, it is difficult at this point to assess the net impact of policies on the U.S. external position. However, over the medium-term it is expected that the combination of tariffs and Working Family Tax Cuts incentives to invest in the U.S. should reduce imports as supply chains increasingly move onshore and lower the trade deficit. However, it will be important also that policies in trading partners are adjusted to reduce industrial policy subsidies for manufacturing, boost consumption, and raise productivity.

## VULNERABILITIES AHEAD

**52. The increasing levels of U.S. public debt, and the rising rollover needs of the federal government, represent a systemic stability risk.** Over the past decade, Treasury issuance has shifted toward shorter maturities (where there is significant demand, including from institutional investors that are limited to holding short duration Treasury assets) which has led to almost one-third of the stock of Treasuries now having a residual maturity of less than one year. At the same time, the intermediation capacity of the broker-dealer system has declined, especially when compared to the size of the Treasury market (which has doubled over the last eight years). Despite the mismatch between market size and intermediation capacity, there has fortunately not been a repeat of the Treasury



<sup>29</sup> See "Journeys and Junctions: Spillovers from Migration and Refugee Policies", [April 2025 World Economic Outlook](#).

market functioning problems that were seen during the pandemic. Nonetheless, debt levels are high, rollover needs are significant (the general government gross financing need is 45 percent of GDP), and the systemic stability risks highlighted in previous Article IVs remain. Any potential malfunction in this critical market would quickly feed into the underlying debt dynamics (due to the significant gross financing need) and create globally-relevant negative spillover effects across a range of international financial markets. Beyond the risks arising from the growing sovereign debt, short-term funding markets are also vulnerable to abrupt swings in the size of the Treasury General Account (including that triggered by repeated brinkmanship over the debt ceiling).<sup>30</sup>

**53. Efforts to mitigate risks to Treasury market functioning are bearing some fruit.** The Treasury put in place a buyback program for off-the-run securities (Box 9), there has been increased oversight of key market participants, various agencies are collecting better data on the Treasury and related markets, and there are new rules to expand the scope of central counterparty clearing for a range of secondary markets. The changes that have been proposed by regulatory agencies to redefine the enhanced supplementary leverage ratio could also create additional capacity for broker-dealers to intermediate the market (although the extent of that impact on market dynamics is uncertain).

**54. Systemic financial stability risks are moderate and broadly similar to those prevailing at the time of the 2024 Article IV.** Household, corporate and bank balance sheets are healthy, the labor market is relatively strong and real incomes are rising. Household debt-GDP is at 20-year lows (although there are credit segments with increased delinquency rates on credit cards, student debt, and auto loans), corporates are highly profitable (notwithstanding the impact of tariffs on firm margins), and comprehensive stress tests point to significant capital and liquidity buffers in the banks. There are, though, important pockets of vulnerability which will be examined in more detail in the upcoming Financial Sector Assessment Program:

- As was noted in the 2024 Article IV consultation, the vulnerabilities in **the banking system** that came to light in 2023—including failings in bank supervision and risks potentially created by the regulatory “tailoring” undertaken in 2018—have not been addressed. The prospects for fully implementing the final components of the Basel III agreement are uncertain, medium-sized banks continue to be subject to the Fed’s supervisory stress test only every other year, and it is unclear whether supervisory oversight is sufficiently assertive.<sup>31</sup>
- [Options](#) that had been floated to strengthen the **deposit insurance** system—and that recognize the degree to which technological change can create accelerated movements in bank deposits—have not been acted upon.

<sup>30</sup> See Dao, M. Tan, B. and Zhou, J. (2025), “Repo Market Volatility and the U.S. Debt Ceiling”, [IMF Working Paper 2025/127](#).

<sup>31</sup> See, for example, concerns flagged in “[Review of the Federal Reserve’s Supervision and Regulation of Silicon Valley Bank](#)”, April 2023.

- **Valuations** for equities and other risk assets are stretched<sup>32</sup> with gains (particularly in equity markets) concentrated in large technology firms (which account for around one third of market capitalization). This raises the risk of an abrupt correction of asset prices, particularly if expected gains in productivity and profitability (e.g. arising from ongoing investments in technology) are not realized. Such a price correction could also trigger a disorderly unwinding of external imbalances as foreign investors reduce their large exposure to US risk assets.
- **Nonbank financial intermediaries** have expanded rapidly (with NBFIs assets surpassing 300 percent of GDP), deepening systemic linkages (especially with banks), and expanding their role in core sovereign bond and corporate debt markets. Such interconnectivity raises the potential for larger feedback effects—through both banks and a range of financial markets—in the event that the system comes under stress. There are also relatively high levels of leverage among life insurance companies and hedge funds, with the former becoming more reliant on FHLB advances, funding agreement backed notes, securities lending, and repo transactions.
- The expansion of **private credit and equity** (with assets under management reaching 14 percent of GDP), in combination with increasing participation of retail investors and ETFs in this asset class, has created a more complex investor base that could increase the risks of market stress. Limited visibility into this fast-growing market segment and the potential for opaque funding arrangements creates financial stability concerns (although regulators are actively monitoring the risks associated with banks' rising exposure to business development companies). Though growing fast, it is worth noting that private equity and private credit still account for a relatively small fraction of nonfinancial corporate financing (i.e., 4 percent of U.S. equity market capitalization and 9 percent of outstanding nonfinancial corporate debt).
- Recent changes to the treatment of **crypto-assets and stablecoins** have improved regulatory clarity but could potentially give rise to a range of new vulnerabilities as this asset class grows and becomes more integrated into the financial system. Depending on the eventual size of the stablecoin market, runs on these assets could disrupt the Treasury market (e.g. as large redemptions of stablecoins overwhelm dealer intermediation capacity). Internationally, the rising use of U.S. dollar stablecoins and tokenized money market funds could increase incentives for dollarization (especially in emerging markets with relatively weak policy frameworks). This would magnify channels for spillovers, underscoring the need for cross-border regulatory coordination in the oversight of crypto-assets.
- In addition, a range of the **2020 FSAP recommendations** remain to be implemented (Annex VI).

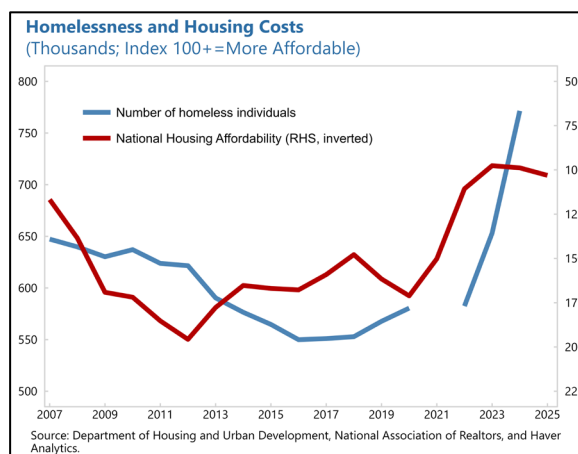
**55. The shifts in trade and investment policies increase the risk of persistent trade uncertainty and resource misallocation.** The broad range of tariff actions, combined with the increasing use of economic emergency and national security motivations to implement these tariffs,

<sup>32</sup> The [October 2025 Global Financial Stability Report](#) finds the forward price-to-earnings ratio for the S&P500 to be at the 95 percentile of the historic distribution, an overvaluation of about 13 percent relative to fair value models, with U.S. markets trading at a premium relative to other advanced and emerging economy equity markets.

could disrupt corporate planning, dissuade capital formation, and open the door to emulation by other countries. Furthermore, the uncertain framework for the imposition of FDI restrictions, export taxes (or other conditions for specific companies to export), and requirements that private companies provide equity stakes to the federal government deepen uncertainty, raise the possibility for rent seeking, and, over time, reduce productivity and growth.

**56. More broadly, a depreciation of institutional quality could weaken investment, reduce capital inflows, and complicate macroeconomic management.** The U.S. economy has benefited from a strong institutional framework across a range of areas. This is a precious commodity that should be carefully safeguarded, including by respecting existing institutional protections and fully resourcing the agencies that are responsible for key federal functions (particularly revenue administration, financial oversight, and the provision of economic statistics). Political brinkmanship over the debt ceiling and recurring lapses in passing congressional appropriations—including the disruption caused by the lengthy government shutdown in 2025—create avoidable risk to the macroeconomic and fiscal outlook. Changes to the institutional framework for fiscal policy that help avoid these risks would be welcome.

**57. Housing affordability has become a pressing economic and social problem.** Since the pandemic, average house prices have risen by more than 50 percent and metrics of housing affordability have fallen to all-time lows. Together with high mortgage rates, this has slowed the pace of household formation and contributed to a 36 percent increase in the number of Americans experiencing homelessness between 2019 and 2024.<sup>33</sup> Despite the apparent supply-demand imbalances in the housing market, real residential investment is at a similar level to that seen in 2018–19, dissuaded by high interest rates, a shortage of skilled labor, the unavailability of land, and rising costs of construction materials. As such, efforts to increase housing supply—which largely take place at the local level—will be critical to mitigating this risk (Box 10).



**58. Authorities' views.** The potential risks associated with increasing levels of sovereign debt and the changing structure of that debt were viewed as moderate and unlikely to lead to systemic financial stability concerns. While there were some typical concerns about elevated asset valuations and leverage in the financial sector, overall systemic financial stability risks were seen as moderate and broadly unchanged over the past year. The administration is focused on improving housing and had proposed a number of measures to reduce demand from corporate investors and lower mortgage rates. More broadly, the post-GFC tightening of financial regulations had led to a significant migration of activity outside of the regulated system. A sensible recalibration of

<sup>33</sup> See the [Annual Homelessness Assessment Report to Congress](#), 2024.

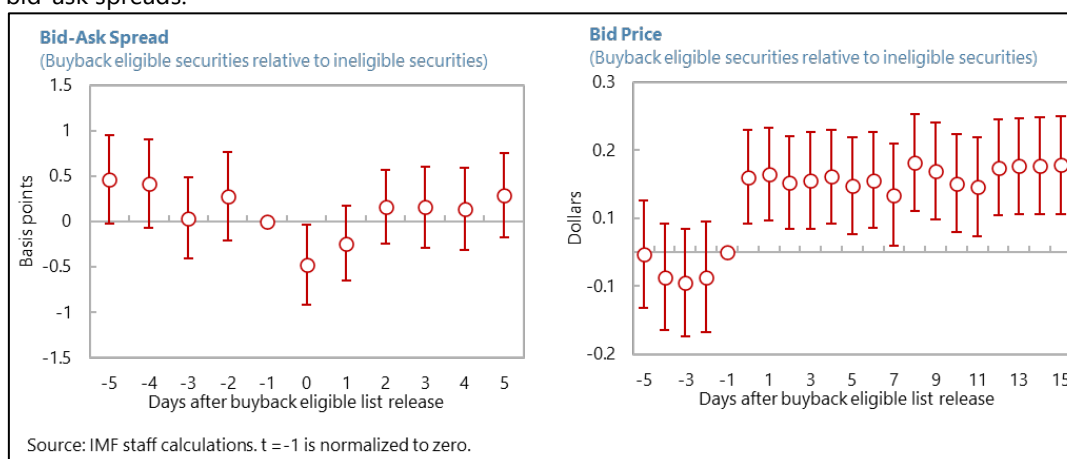
regulatory policy should incentivize a reversal of these trends and lessen incentives for regulatory arbitrage. The administration is prioritizing digital financial innovation, including digital assets, in support of a vibrant digital economy and broad economic growth. The administration is committed to financial stability and ensuring adequate capital to safeguard against potential risks to the regulated financial system. The administration was highly attentive to preventing digital assets from facilitating illicit activity.

### Box 9. Impact of the U.S. Treasury Buyback Program<sup>1</sup>

As part of a broader effort to enhance Treasury market functioning, the Treasury launched a buyback program in May 2024 which was aimed at bolstering market liquidity by establishing an opportunity for market participants to sell off-the-run securities back to the Treasury.

The impact of this program was assessed empirically using detailed, security-level data that differentiates between those bonds and notes eligible to be purchased and those that are ineligible. The main findings are:

- Buybacks improve the liquidity of those securities that are included in the buyback eligible list, regardless of whether they are eventually repurchased or not. Specifically, after the announcement of the list, there is a persistent boost in the price of eligible securities and a temporary narrowing of their bid-ask spreads.



- The liquidity effects are more pronounced when primary dealers hold large inventories of the specific security and for securities with shorter duration (presumably reflecting strong desire from dealers to offload these particular holdings).
- The buybacks serve to temporarily open up balance sheet space of the primary dealers. For every US\$1 billion in buybacks executed, dealers lower their holdings of similar securities by around US\$0.2 billion. However, the overall impact on aggregate holdings is insignificant, indicating portfolio reallocation with Treasury securities.

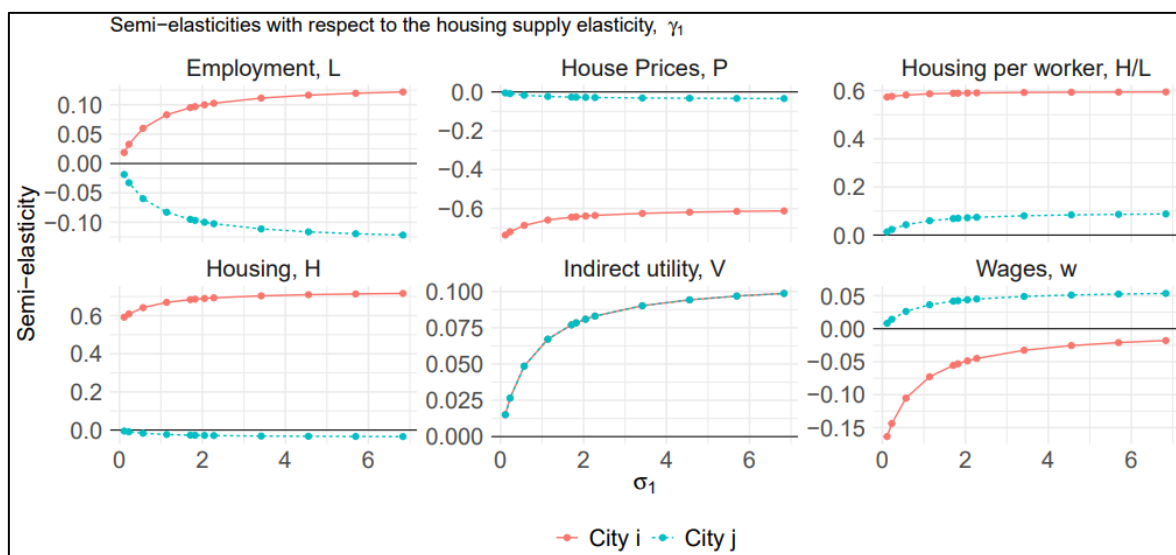
Despite buybacks being of a relatively small scale, they have had a measurable and statistically significant effect on both the liquidity and pricing of off-the-run securities (although the absolute size of these effects is similarly small). This is consistent with dealer feedback (see [Treasury Assessment](#)) that the program is moderately supportive of off-the-run market liquidity and functioning. Nonetheless, these findings do suggest that buybacks could potentially be deployed, at a larger scale and as a first line of defense, in the event that Treasury market functioning becomes compromised.

<sup>1</sup> See J. Zhou, "Testing the Liquidity Support Effects of the U.S. Treasury Buyback Program", [IMF Working Paper 25/88](#), 2025.

### Box 10. Impact of Local Efforts to Increase Housing Supply<sup>1</sup>

A model with local labor and housing markets is used to illustrate how policies that increase the elasticity of housing supply can affect real wages, employment, activity, construction, and investment and how these effects change from the short to the long run. The paper makes four key predictions:

- In the short run, policies that increase the price elasticity of housing supply in a particular local area (e.g. through more flexible zoning requirements) lead to increases in the availability of housing and higher levels of employment and activity in that area. While nominal wages fall, workers end up better off (i.e., the lower cost of shelter more than offsets the decline in wages).
- A higher substitutability of capital and labor in the local industry (e.g. because the region specializes in agriculture or manufacturing) would increase the relative magnitudes of the effects on activity and reduce the impact on wages and house prices.
- In the long run, real house prices and wages return to the levels prevailing before the increase in housing supply elasticity. However, there is a permanent increase in investment (including construction), employment, and activity. These long-run effects are largely unaffected by differences in the substitutability of capital and labor.
- Local housing reforms can have widespread national benefits. Because of inter-regional labor mobility, a greater availability of housing in one local area has positive spillovers that increase wages, reduces house prices, and increase housing availability in all areas.



Source: IMF staff calculations. Each figure plots the semi-elasticity of outcome variables in city i and j with respect to the housing supply elasticity in city i, varying the elasticity of labor demand,  $\sigma_1$ . This housing supply elasticity measures the responsiveness of housing supply with respect to housing price changes, which policy can affect.

<sup>1</sup> P. Barrett, M. Dao, C. Johns and B. Tan, "Housing Supply and Local Industrial Composition", IMF Working Paper, forthcoming.

## AN ALTERNATIVE POLICY PROPOSAL

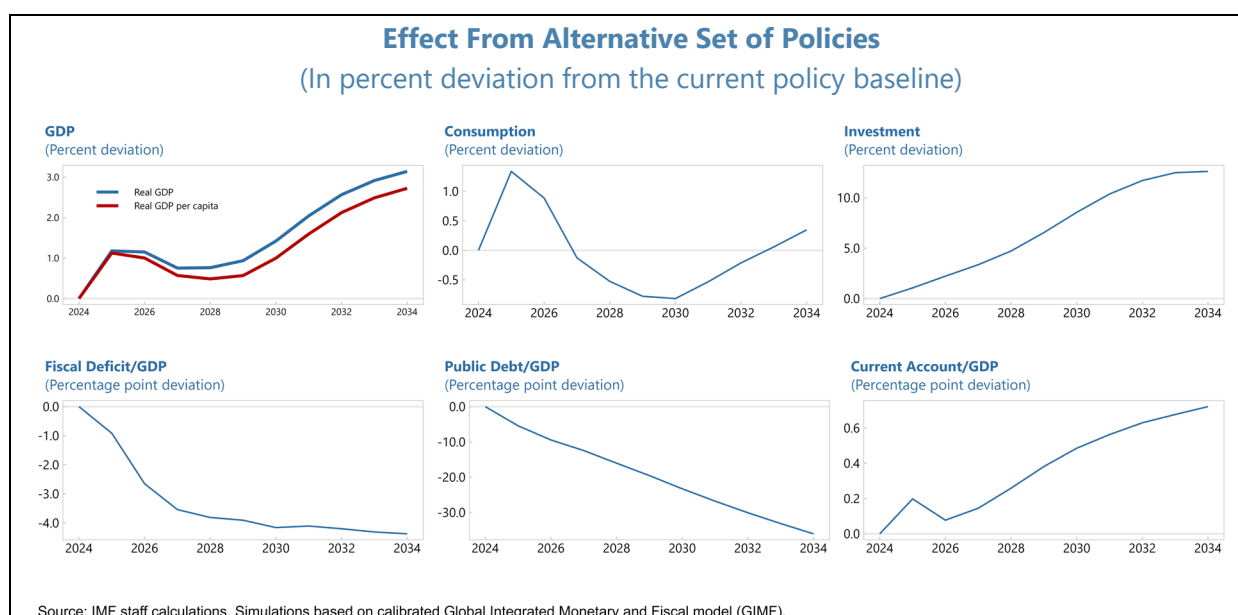
**59. The policy changes that were undertaken during the course of 2025 may not fully achieve the administration's economic goals.** Changes in the corporate income tax and higher tariffs should increase the incentive for firms to relocate their supply chains back to the U.S. However, it is unclear if this will materially boost U.S. manufacturing share of output and it seems even less likely that it will reverse the secular decline in manufacturing's share of employment. The combined effect of policies should modestly lower the trade deficit but will not materially change the U.S.'s reliance on foreign-produced goods. Restrictions on immigration are already reducing the share of foreign-born workers which should raise wages, particularly in those occupations that are disproportionately reliant on immigrant workers. However, over the medium-term cuts to social assistance and healthcare programs, combined with higher tariffs, are expected to more-than-offset potential gains in after-tax-wages for the bottom five deciles of the income distribution. Most critically, the combined effect of fiscal, tariff and immigration policies is expected to lower national income over the medium-term (although some of this decline could be offset by the effects of deregulation).

**60. An alternative set of policies could better achieve the administration's policy goals and create positive spillovers.** One such policy combination could be:

- Introducing a federal, destination-based VAT at a rate of 10 percent (to both generate revenue and incentivize household saving).
- Permanently allowing the expensing of all corporate capital spending while limiting interest deductibility (to support capital formation).
- Increasing the tax advantages of defined contribution retirement plans for those earning below the median wage (to boost household savings).
- Reversing the tariff increases put in place over the past decade (to improve resource allocation and raise productivity).
- Putting in place a new skills-based immigration system and increase targeted social spending on education and health for lower income households (to expand the labor force, raise human capital, and boost labor productivity).
- Subsidizing childcare for those in the bottom three deciles of the income distribution and increasing the phase-out threshold for the Earned Income Tax Credit (to boost labor force participation).
- Increase the Child Tax Credit for those in the bottom three deciles of the income distribution and make the credit fully refundable (to reduce poverty).

- Eliminate deductions for state and local taxes and mortgage interest, eliminate step-up basis and carried interest provisions, implement measures to contain the federal healthcare deficit and eliminate the income cap on social security contributions (all of which will simplify the tax system, increase progressivity, and generate federal revenues).

**61. Simulations indicate that such a policy combination would raise output, put debt-GDP on a downward path, and lower the current account deficit.** Relative to the current policy baseline, the alternative set of policies would reduce the federal deficit by around 4 percent of GDP and encourage household saving. As a consequence, relative to the staff's current baseline, public debt would, by 2034, be 36 percent of GDP lower and the current account deficit would decline by 0.7 percent of GDP (even in the absence of action by other countries to address imbalances). Under this policy package, the level of real output would be considerably higher over the medium-term (by almost 3 percent relative to the current baseline). Corporate investment would rise, as would real median household income.



**62. This alternative policy mix would result in lower poverty and increased household income for the lower deciles of the income distribution.** Better targeting of social spending and incentives to increase labor supply will benefit lower income households. In particular, simulations using the heterogeneous household general equilibrium model shown in Box 8 for this alternative policy plan find a reduction of around 6.5 percentage points in the poverty rate relative to the policies in staff's baseline forecast. Higher inflows of mid- and high-skilled workers, together with increased education spending, will boost productivity, incentivize investment, increase the manufacturing share of output, and support higher GDP per capita. Finally, the more progressive structure of taxes and transfers would, relative to the baseline forecast, lower the Gini coefficient by 2.7 points and boost consumption of lower income, unskilled workers by around 6 percent.

## STAFF APPRAISAL

**63. The U.S. economy has performed well in 2025, quickly adapting to a significant shift in policies with GDP growth reaching 2 percent (on a Q4/Q4 basis) even though the government shutdown took a bite out of activity in the fourth quarter.** Strong, broad-based productivity growth over the past few years has set the U.S. apart from its peers. Growth is expected to accelerate modestly in 2026, supported by expansionary fiscal policy, a waning drag from tariffs, and the impact of policy rate cuts in 2025. As the passthrough of tariffs to consumer prices wanes and commodity prices come down, core PCE inflation is expected to fall to 2 percent by 2027H1 but headline inflation could be somewhat higher, impacted by world prices. Risks around the near-term outlook for activity and unemployment are balanced while risks to inflation are to the upside. The external position in 2025 was moderately weaker than implied by medium-term fundamentals and desirable policies.

**64. With slowing job growth and few signs of second round effects from tariffs, it was appropriate for the Fed to remove monetary policy restraint during the course of 2025.** Balanced risks to the Fed's maximum employment mandate and upside risks to the price stability mandate mean there is little scope to lower the policy rate over the coming year. A larger monetary easing would need to be predicated on a material worsening in labor market prospects and an absence of increasing inflationary pressures, including from higher near-term inflation expectations due to rising oil and commodity prices. Future changes in the policy rate will, though, need to be attentive to incoming information, particularly given the uncertainties posed by the conflict in the Middle East.

**65. Persistently high fiscal deficits, the upward path for the public debt-GDP ratio, and increasing levels of short-term debt-GDP represent a growing stability tail risk to the U.S. and global economy.** The federal and general government deficit fell in 2025 but the general government deficit is expected to remain in the 7–7½ percent of GDP range over the medium-term with debt exceeding 140 percent of GDP by 2031. In line with staff's long-standing policy advice, a clear, frontloaded fiscal consolidation plan is needed to put debt-GDP ratio on a downward trajectory and minimize risks to financial stability. As argued in previous Article IV consultations, this will require an adjustment of around 4 percent of GDP relative to the current baseline. Achieving this needed realignment of the fiscal position will require both an increase in federal revenues and a rebalancing of entitlement programs (notably social security and Medicare). To protect poorer households and prevent a worsening of the income distribution, improvements in the social safety net will also be needed.

**66. International trade has fostered growth, job creation, and resilience in both the U.S. and abroad.** However, there is broad recognition that more needs to be done to eliminate the various policy distortions—both in the U.S. and other countries—that have led to high external imbalances, to increase supply chain resilience, and to ensure that the benefits of trade are broadly shared across society. In this regard, higher tariffs create costs and spillovers by distorting the allocation of productive resources, reducing supply chain efficiency, and undermining the benefits of

global trade. The U.S. should work constructively with its trading partners to address concerns over the fairness of the global trading system and agree on a coordinated reduction in trade restrictions and industrial policy distortions that have negative cross-border effects. Where trade and investment measures (including tariffs and export controls) are put in place for national security reasons, such policies should be applied narrowly, so as to minimize their negative effects at both home and abroad.

**67. Despite the administration’s policy efforts, the U.S. current account deficit is expected to remain large in the coming years (at around 3½–4 percent of GDP).** The U.S. negative net international investment position (NIIP) is also expected to continue widening due to nonresident inflows into U.S. risk assets and increased external borrowing by the general government. This worsening of the NIIP, alongside a shift in the nonresident investor base toward nonbank private investors, represents a potentially important source of vulnerability. An abrupt shift in portfolio preferences could lead to a disorderly external rebalancing. A substantial fiscal adjustment, accompanied by a range of other policies to raise private saving, will be essential to reduce these vulnerabilities. Action by trading partners, to address distortions that contribute to external imbalances, will also be critical.

**68. The U.S.’s strong institutional framework for economic and regulatory policymaking has benefited the economy and should be maintained.**

**69. Financial stability risks are moderate but there is scope to strengthen oversight.** Key stability risks are centered around elevated asset valuations, a lack of visibility of nonbank financial intermediation and the interconnections with the rest of the financial system, rising leverage in hedge funds and life insurers, and increasing delinquencies on credit cards, auto loans and student debt. As outlined in the 2024 Article IV consultation, there is a need to fully implement the final components of the Basel III agreement, apply similar regulatory requirements to all banks with US\$100 billion or more in assets (including supervisory stress tests), further strengthen supervisory oversight and practices, re-examine the coverage of deposit insurance, and recalibrate bank liquidity requirements and liquidity stress tests. Recent improvements in the clarity of treatment of stablecoins and other crypto-assets are welcome. However, further actions will be needed to effectively manage the potential risks to financial stability. In this regard, work is underway to develop a regulatory and supervisory framework for digital assets, and these efforts will need to remain attentive to a range of potential new risks—including to financial integrity—posed by the integration of these digital assets into the existing bank and nonbank financial system.

**70. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.**

**Table 1. United States: Selected Economic Indicators, 2020–31**  
(Percentage change from previous period unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	Projections					
							2026	2027	2028	2029	2030	2031
<b>National Production and Income</b>												
Real GDP	-2.1	6.2	2.5	2.9	2.8	2.1	2.5	2.2	2.1	1.9	1.8	1.8
Real GDP (q4/q4)	-0.9	5.8	1.3	3.4	2.4	2.0	2.4	2.1	2.1	1.8	1.8	1.8
Net exports 1/	-0.2	-1.3	-0.4	0.5	-0.4	-0.2	0.0	-0.2	0.2	0.0	0.0	0.0
Total domestic demand	-1.8	7.2	2.8	2.4	3.1	2.3	2.4	2.3	1.8	1.8	1.7	1.7
Final domestic demand	-1.4	6.9	2.2	2.9	3.1	2.4	2.6	2.3	1.8	1.8	1.7	1.7
Private final consumption	-2.5	8.8	3.0	2.6	2.9	2.6	2.4	2.3	2.0	2.0	1.9	1.9
Public consumption expenditure	3.0	0.5	-1.3	3.0	3.3	0.6	1.5	1.2	1.3	1.3	1.3	1.3
Gross fixed domestic investment	-0.8	5.6	1.9	3.8	3.5	2.7	3.7	2.8	1.8	1.5	1.5	1.5
Private fixed investment	-1.9	7.3	2.5	3.4	3.0	2.7	4.0	3.3	2.1	1.8	1.8	1.8
Public fixed investment	4.8	-2.5	-0.9	5.6	5.9	3.2	2.1	0.5	0.0	0.0	0.0	0.0
Change in private inventories 1/	-0.5	0.3	0.7	-0.5	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
Nominal GDP	-0.8	11.0	9.8	6.7	5.3	5.0	5.5	4.4	3.8	3.7	3.6	3.6
Personal saving rate (% of disposable income)	15.2	11.4	3.4	5.6	5.5	4.7	5.5	6.6	6.6	6.7	6.5	6.5
Private investment rate (% of GDP)	17.6	17.9	18.6	18.1	18.0	17.8	17.7	17.8	17.7	17.6	17.4	17.3
<b>Unemployment and Potential Output</b>												
Unemployment rate	8.1	5.4	3.7	3.6	4.0	4.3	4.3	4.2	4.0	3.9	3.9	3.9
Labor force participation rate	61.7	61.7	62.2	62.6	62.6	62.4	62.3	62.3	62.2	62.0	61.9	61.8
Potential GDP	1.4	2.4	2.5	2.8	2.7	2.5	2.5	2.2	2.1	1.9	1.8	1.7
Output gap (% of potential GDP)	-3.4	0.1	0.1	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Inflation</b>												
CPI inflation (q4/q4)	1.2	6.8	7.1	3.2	2.7	2.8	3.0	2.2	2.2	2.2	2.2	2.2
Core CPI Inflation (q4/q4)	1.6	5.0	6.0	4.0	3.3	2.8	2.9	2.3	2.3	2.3	2.3	2.3
PCE Inflation (q4/q4)	1.2	5.8	6.0	2.8	2.6	2.8	2.8	2.0	2.0	2.0	2.0	2.0
Core PCE Inflation (q4/q4)	1.5	4.8	5.2	3.3	3.0	2.9	2.6	2.0	2.0	2.0	2.0	2.0
GDP deflator	1.3	4.6	7.1	3.7	2.5	2.8	3.0	2.1	1.7	1.8	1.8	1.8
<b>Government Finances</b>												
Federal balance (% of GDP) 2/	-14.7	-12.1	-5.4	-6.2	-6.3	-5.9	-6.1	-6.0	-6.3	-5.9	-6.0	-5.8
Federal debt held by the public (% of GDP)	98.5	96.7	94.9	95.8	97.4	99.4	100.6	102.6	104.9	107.0	108.7	110.1
General government budget balance (% of GDP)	-14.1	-11.5	-3.7	-7.9	-7.9	-6.8	-7.5	-7.3	-7.5	-7.3	-7.3	-7.2
General government gross debt (% of GDP)	132.5	125.0	119.1	120.0	122.3	123.9	125.8	128.7	132.1	135.3	138.5	141.5
<b>Interest Rates (percent; period average)</b>												
Fed funds rate	0.4	0.1	1.7	5.1	5.2	4.2	3.6	3.3	3.1	2.9	2.9	2.9
Three-month Treasury bill rate	0.4	0.0	2.1	5.3	5.2	4.2	3.6	3.3	3.1	2.9	2.8	2.8
Ten-year government bond rate	0.9	1.4	3.0	4.0	4.2	4.3	4.0	3.8	3.8	3.8	3.7	3.7
<b>Balance of Payments</b>												
Current account balance (% of GDP)	-2.8	-3.6	-3.8	-3.3	-4.0	-3.7	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6
Merchandise trade balance (% of GDP)	-4.3	-4.6	-4.5	-3.8	-4.1	-4.1	-4.4	-4.7	-4.7	-4.7	-4.6	-4.6
Export volume (NIPA basis, goods)	-10.1	7.7	6.1	2.2	2.0	1.8	0.5	2.3	2.4	1.7	1.8	1.7
Import volume (NIPA basis, goods)	-5.9	14.5	6.7	-1.9	5.2	2.5	1.4	4.8	0.3	1.0	1.5	1.3
<b>Net International Investment Position (% of GDP)</b>												
Net International Investment Position	-68.9	-79.4	-62.0	-73.4	-90.6	-90.4	-89.5	-89.4	-89.7	-90.1	-90.5	-90.9
<b>Saving and Investment (% of GDP)</b>												
Gross national saving	18.2	17.6	18.2	17.0	16.5	16.7	17.5	17.6	17.6	17.4	17.2	17.1
General government	-11.1	-8.3	-0.8	-3.9	-4.3	-4.0	-4.4	-4.4	-4.6	-4.5	-4.4	-4.4
Private	29.4	25.8	19.0	20.9	20.8	20.7	21.9	22.0	22.1	21.9	21.7	21.4
Personal	15.5	12.2	5.6	7.2	7.1	6.4	7.1	8.0	8.0	8.1	8.0	8.0
Business	13.9	13.6	13.4	13.7	13.7	14.3	14.8	14.0	14.1	13.8	13.7	13.5
Gross domestic investment	21.4	21.4	22.0	21.6	21.5	21.4	21.3	21.3	21.2	21.0	20.8	20.6
Private	17.6	17.9	18.6	18.1	18.0	17.8	17.7	17.8	17.7	17.6	17.4	17.3
Public	3.8	3.5	3.4	3.5	3.6	3.6	3.6	3.5	3.5	3.4	3.4	3.3

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.

**Table 2. United States: Balance of Payments, 2020–31**  
(Annual percent change unless otherwise indicated)

	2020	2021	2022	2023	2024	Est.	Projections					
						2025	2026	2027	2028	2029	2030	2031
<b>Real Exports Growth</b>												
Goods and services	-12.6	6.5	7.6	2.8	3.6	1.6	2.0	3.5	3.1	2.3	2.1	2.1
Goods	-10.1	7.7	6.1	2.2	2.0	1.8	0.5	2.3	2.4	1.7	1.8	1.7
Services	-17.3	4.0	10.9	4.1	6.7	1.2	4.6	5.4	4.1	3.2	2.6	2.7
<b>Real Imports Growth</b>												
Goods and services	-8.8	14.6	8.5	-0.9	5.8	2.7	1.6	4.0	0.8	1.4	1.7	1.4
Goods	-5.9	14.5	6.7	-1.9	5.2	2.5	1.4	4.8	0.3	1.0	1.5	1.3
Nonpetroleum goods	-5.2	14.9	7.5	-2.3	5.8	3.2	1.7	5.3	0.4	1.1	1.7	1.5
Petroleum goods	-14.2	8.1	-1.1	2.0	-1.6	-5.6	-1.1	-1.0	-1.0	-1.0	-1.0	-1.0
Services	-21.0	15.1	17.1	3.8	8.2	3.5	1.9	0.9	2.8	3.1	2.4	1.8
<b>Net Exports (contribution to real GDP growth)</b>	-0.2	-1.3	-0.4	0.5	-0.4	-0.2	0.0	-0.2	0.2	0.0	0.0	0.0
<b>Nominal Exports (% of GDP)</b>												
Goods and services	10.1	10.8	11.7	11.1	11.0	10.8	10.3	10.3	10.3	10.1	10.0	9.8
<b>Nominal Imports (% of GDP)</b>												
Goods and services	13.0	14.4	15.3	13.9	14.0	13.8	13.7	13.7	13.6	13.4	13.2	13.1
<b>Current Account (% of GDP)</b>												
Current account balance	-2.8	-3.6	-3.8	-3.3	-4.0	-3.7	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6
Balance on trade in goods and services	-3.0	-3.5	-3.5	-2.8	-3.1	-3.1	-3.2	-3.3	-3.2	-3.1	-3.1	-3.1
Balance on income	0.2	-0.1	-0.3	-0.6	-1.0	-0.6	-0.6	-0.5	-0.4	-0.4	-0.4	-0.4
<b>Capital and Financial Account (% of GDP)</b>												
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account balance	-3.1	-3.5	-3.4	-3.9	-3.9	-4.3	-3.8	-3.7	-3.6	-3.6	-3.6	-3.6
Direct investment, net	0.7	-0.6	-0.1	0.0	0.1	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Portfolio investment, net	-2.5	0.4	-1.7	-4.3	-3.3	-3.8	-2.2	-2.3	-2.2	-2.3	-2.4	-2.4
Financial derivatives, net	0.0	-0.2	-0.3	-0.1	-0.1	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment, net	-1.3	-3.6	-1.3	0.5	-0.5	-0.1	-1.2	-1.1	-1.0	-0.9	-0.8	-0.8
Reserve assets, net	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Errors and Omissions (% of GDP)</b>	-0.3	0.1	0.5	-0.5	0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
<b>Net International Investment Position (% of GDP)</b>	-68.9	-79.4	-62.0	-73.4	-90.6	-90.4	-89.7	-89.9	-90.1	-90.5	-90.9	-91.3
Direct investment, net	-11.8	-16.9	-11.9	-15.6	-22.8	-21.8	-21.0	-20.5	-20.0	-19.6	-19.2	-18.8
Portfolio investment, net	-50.4	-53.4	-40.6	-49.3	-59.3	-61.0	-60.2	-60.1	-60.2	-60.4	-60.8	-61.2
Financial derivatives, net	0.0	0.1	0.3	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-9.6	-12.2	-12.5	-11.3	-11.7	-11.7	-12.4	-13.0	-13.5	-13.9	-14.2	-14.6
Reserve assets, net	2.9	3.0	2.7	2.8	3.1	4.0	3.8	3.7	3.6	3.4	3.3	3.2
<b>Memorandum Items</b>												
Current account balance (US\$ billions)	-593	-859	-993	-928	-1185	-1127	-1219	-1261	-1258	-1306	-1341	-1386
Non-oil trade balance (% of GDP)	-2.9	-3.5	-3.6	-2.9	-3.2	-3.1	-3.6	-3.7	-3.7	-3.7	-3.8	-3.9
Foreign real GDP growth	-4.6	7.0	4.2	2.3	2.2	2.5	2.4	2.4	2.4	2.3	2.2	2.2
U.S. real GDP growth	-2.1	6.2	2.5	2.9	2.8	2.1	2.5	2.2	2.1	1.9	1.8	1.8
U.S. real total domestic demand growth	-1.8	7.2	2.8	2.4	3.1	2.3	2.2	2.1	1.8	1.8	1.7	1.7

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

**Table 3. United States: Federal and General Government Finances, 2019–33**  
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	Projections							
								2026	2027	2028	2029	2030	2031	2032	2033
<b>Federal Government</b>															
Revenue	16.3	16.0	17.6	19.2	16.2	17.0	17.2	17.2	17.3	17.1	17.1	17.1	17.2	17.2	17.2
Expenditure	20.9	30.7	29.6	24.5	22.4	23.3	23.1	23.4	23.2	23.3	22.9	23.1	23.0	23.1	23.6
Non-interest	19.1	29.1	28.1	22.7	20.0	20.3	19.9	20.1	20.0	19.9	19.4	19.5	19.4	19.4	19.8
Interest	1.8	1.6	1.5	1.9	2.4	3.0	3.2	3.3	3.3	3.4	3.6	3.6	3.6	3.7	3.8
Budget balance 1/	-4.6	-14.7	-12.1	-5.4	-6.2	-6.3	-5.9	-6.1	-6.0	-6.3	-5.9	-6.0	-5.8	-5.9	-6.5
Primary balance 2/	-2.9	-13.1	-10.5	-3.5	-3.8	-3.3	-2.7	-2.8	-2.7	-2.8	-2.3	-2.4	-2.1	-2.2	-2.6
Primary structural balance 3/ 4/ 5/	-2.8	-10.2	-9.5	-4.2	-5.0	-3.4	-3.1	-2.8	-2.7	-2.8	-2.3	-2.4	-2.2	-2.2	-2.7
Change	-0.7	-7.4	0.7	5.2	-0.8	1.6	0.3	0.3	0.1	-0.1	0.5	-0.1	0.2	0.0	-0.5
Federal debt held by the public	78.9	98.5	96.7	94.9	95.8	97.4	99.4	100.6	102.6	104.9	107.0	108.7	110.1	112.1	114.5
<b>General Government</b>															
Revenue	30.0	30.6	31.8	33.1	29.6	29.9	30.9	30.4	30.5	30.4	30.4	30.6	30.7	30.7	30.7
Expenditure	35.8	44.7	43.2	36.8	37.5	37.7	37.7	37.9	37.8	37.9	37.7	37.9	37.9	38.1	38.5
Net interest	2.3	2.0	2.3	2.7	3.1	3.5	3.6	3.8	3.8	3.9	4.0	4.0	4.1	4.2	4.3
Net lending 1/	-5.8	-14.1	-11.5	-3.7	-7.9	-7.9	-6.8	-7.5	-7.3	-7.5	-7.3	-7.3	-7.2	-7.4	-7.8
Primary balance 2/	-3.5	-12.1	-9.2	-1.0	-4.8	-4.4	-3.2	-3.6	-3.5	-3.6	-3.3	-3.2	-3.1	-3.2	-3.5
Primary structural balance 3/ 4/ 6/	-3.5	-8.5	-8.4	-3.3	-4.7	-3.9	-3.6	-3.6	-3.5	-3.6	-3.3	-3.2	-3.1	-3.2	-3.5
Change	-0.8	-5.0	0.1	5.1	-1.4	0.7	0.4	0.0	0.1	-0.2	0.3	0.1	0.2	-0.1	-0.3
Gross debt	108.8	132.5	125.0	119.1	120.0	122.3	123.9	125.8	128.7	132.1	135.3	138.5	141.5	144.5	147.9
incl. unfunded pension liab.	135.8	158.5	146.8	136.9	135.8	136.1	138.5	141.2	144.9	149.1	153.2	157.2	160.8	164.5	168.5

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

Note: Fiscal projections are based on Congressional Budget Office forecasts adjusted for the IMF staff's policy and macroeconomic assumptions. Projections incorporate the effects of enacted legislation at the time of the publication of this table. Fiscal projections are adjusted to reflect the IMF staff's forecasts for key macroeconomic and financial variables and different accounting treatment 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.

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.

5/ Includes staff's adjustments for the cancellation of the student debt relief program in 2023 and one-off surge in capital gains taxes in 2022

6/ Includes staff's adjustment for the one-off surge in capital gains taxes in 2022.

**Table 4. United States: US Federal reserve and Commercial Banks, 2018–25**  
(US\$ billions)

	2018	2019	2020	2021	2022	2023	2024	2025
<b>Federal Reserve 1/</b>								
Total Assets	4123	4214	7411	8806	8601	7763	6937	6691
<i>Of which:</i>								
Securities held outright	3880	3751	6731	8270	8145	7225	6557	6269
US Treasury	2241	2329	4689	5652	5501	4791	4309	4228
Mortgage-backed securities	1637	1420	2039	2615	2641	2432	2245	2039
Other	2	2	2	2	2	2	2	2
Loans to Depository Inst.	0	0	57	35	16	142	10	10
<b>Commercial Banks 2/</b>								
Assets	16753	17344	19669	21637	22748	22962	23403	24257
Bank Credit	12773	13516	14718	15687	17112	17353	17698	18500
Securities	3422	3689	4244	5255	5723	5199	5262	5548
Treasury & Agency	2555	2861	3363	4217	4581	4124	4261	4565
Other Securities	867	829	881	1038	1142	1075	1001	984
Loans and Leases	9351	9827	10474	10431	11389	12154	12435	12951
Cash	2146	1731	2741	3841	3397	3313	3383	3212
Other Assets	1835	2097	2210	2109	2239	2296	2323	2546
<b>Memorandum Items 2/</b>								
M1 3/	3680	3845	12788	19360	20398	18502	18083	18759
M2 4/	14115	14837	17666	20516	21571	20825	21097	21968
<b>Memorandum items</b>								
<b>Federal government deficit</b>								
President's latest budget	-3.8	-4.6	-14.7	-12.1	-5.4	-6.3	-6.6	-6.3
CBO budget assessment	-3.9	-4.6	-4.9	-12.4	-4.2	-3.5	-3.4	-4.0
CBO baseline (current law)	-3.8	-4.6	-14.7	-12.0	-5.4	-6.2	-6.3	-5.8
<b>Federal government debt</b>								
President's latest budget	77.1	79	98.7	97.2	95.8	97.3	99.1	101.2
CBO budget assessment	77.8	79.2	80.7	81.6	83	83.9	84.6	85.7
CBO baseline (current law)	77.1	78.9	98.5	96.7	94.9	95.8	97.4	99.4

Sources: US Federal Reserve and IMF staff estimates.

1/ End of period.

2/ Year average.

3/ M1 includes currency, demand deposits and other liquid deposits.

4/ M1 plus small-denomination time deposits and balances in retail money market funds.

**Table 5. United States: Financial soundness Indicators, 2022–25**  
(Percent unless otherwise indicated, eop)

	2022	2023	2024	2025Q1	2025Q2	2025Q3
<b>Core FSIs</b>						
Regulatory capital to risk-weighted assets	15.54	15.90	16.26	16.34	16.84	16.86
Tier 1 capital to risk-weighted assets	14.52	14.88	15.28	15.34	15.89	15.91
Nonperforming loans net of provisions to capital	-4.46	-4.73	-3.96	-3.99	-3.86	-3.74
Capital to assets (leverage ratio)	8.58	8.68	8.91	8.82	9.14	9.19
Nonperforming loans to total gross loans	0.72	0.85	0.97	0.95	0.93	0.94
Provisions to nonperforming loans	202.44	191.39	167.75	169.83	170.96	168.31
Return on assets	1.37	1.31	1.35	1.42	1.37	1.41
Return on equity	12.15	11.39	11.06	11.53	11.15	11.36
Interest margin to gross income	68.79	69.86	69.04	68.86	68.53	68.78
Noninterest expenses to gross income	59.45	60.28	58.71	58.35	57.90	57.39
Liquid assets to total assets	28.71	29.18	29.98	31.04	31.22	30.90
Liquid assets to short-term liabilities	247.95	175.90	187.75	198.41	193.30	191.44
<b>Additional FSIs</b>						
Gross asset position in financial derivatives to capital	9.74	7.48	8.25	7.50	8.17	7.29
Gross liability position in financial derivatives to capital	9.03	7.12	6.66	5.58	6.02	5.41
Trading income to total income	4.46	4.98	6.10	5.73	6.28	6.48
Personnel expenses to noninterest expenses	49.38	47.36	49.00	50.22	49.99	49.68
Customer deposits to total (noninterbank) loans	144.06	138.07	138.11	139.18	137.41	136.70
Residential real estate prices (percent change, y/y)	9.91	2.64	2.63	2.06	0.45	
Residential real estate loans to total gross loans	28.10	28.43	28.46	28.27	27.96	27.91
Commercial real estate prices (percent change, y/y)	-1.89	-7.09	-2.73	-3.01	-7.01	
Commercial real estate loans to total gross loans	18.15	18.39	18.23	18.11	17.84	17.79
Nonfinancial corporations: total debt to equity	93.10	93.90	90.71	91.81	89.59	
Nonfinancial corporations: external debt to equity	14.25	12.22	12.06	12.02	12.27	
Nonfinancial corporations: total debt to GDP	108.24	106.56	102.40	99.04	99.87	
Nonfinancial corporations: return on equity	6.27	7.06	7.31	7.32	7.22	
Nonfinancial corporations: earnings to interest expenses	602.95	608.84	619.98	2365.48	1120.78	
Household debt to GDP	76.37	73.51	70.99	67.95	68.55	
Household debt service and principal payments to income	10.78	11.23	11.29	11.25		
Household debt to household disposable income	102.34	97.75	94.86	93.47	93.14	

Sources: IMF Financial Soundness Indicators.

Annex I. Risk Assessment Matrix<sup>1</sup>

Risks	Likelihood	Expected Impact	Policy Response
<b>Global Risks</b>			
<p><b>Geopolitical Tensions and Intensification of Conflicts.</b> Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.</p>	<b>High</b>	<p><b>Medium.</b> Supply chain disruptions, tighter financial conditions and weaker consumer confidence could weigh on domestic activity. Shortages in critical components and higher energy costs could raise inflation and inflation expectations.</p>	<p>Make investments to increase the resilience of financial intermediation and supply chains. Adjust monetary policy to steer inflation and inflation expectations back to target. Stand ready with targeted fiscal and financial support measures, if needed.</p>
<p><b>Trade-related Risks</b></p> <ul style="list-style-type: none"> <li>• <b>Protectionism and Trade Disruptions.</b> Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.</li> <li>• <b>New Trade Agreements.</b> Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.</li> </ul>	<p><b>High</b></p> <p><b>Low</b></p>	<p><b>Medium.</b> Distortions in investment decisions create sizable misallocation of resources and lower potential growth. Trading partners reduce external demand for U.S. exports. Higher levels of tariffs and associated uncertainty could create a larger-than-expected impact on prices and greater efficiency losses, particularly if the reconfiguration of supply chains proves difficult in the near term or if trade friction deepened due to retaliation from trading partners.</p>	<p>Engage with trading partners to address concerns over the fairness of the global trading system and agree on a coordinated reduction in trade restrictions and industrial policy distortions that have negative cross-border effects. Avoid introducing further tariffs, nontariff barriers, and domestic content provisions. Increase international competitiveness by investing in worker training and infrastructure.</p>
<p><b>Commodity Price Volatility.</b> Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.</p>	<b>High</b>	<p><b>Medium.</b> Rising commodity prices could reduce corporate profit margins, weaken household consumption, increase poverty, and increase inflationary pressures.</p>	<p>Facilitate the expansion of domestic production of food and fuel. Increase the provision of food assistance to lower income households. Accelerate the transition to a low carbon economic model. Monetary policy responds assertively to any de-anchoring of inflation expectations.</p>
<p><b>Cyberthreats.</b> Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.</p>	<b>High</b>	<p><b>High.</b> Cyberattacks could lead to widespread disruptions in economic activity including in the supply of essential goods, payments systems, and financial market infrastructures.</p>	<p>Strengthen defenses to prevent cyberattacks and take steps to build resilience to ensure continuity of operations when attacks occur.</p>

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline. Likelihood reflects staff's subjective assessment: "low" (below 10 percent), "medium" (10-30 percent), and "high" (30-50 percent). The RAM captures staff views on the source of risks and overall concern as of the time of discussions with the authorities. Risks may interact and materialize jointly. The conjunctural shocks reflect shorter-term risks (12-18 months) while structural risks are more persistent.

Risks	Likelihood	Expected Impact	Policy Response
<b>Global Risks</b>			
<p><b>Fiscal Vulnerabilities and Higher Interest Rates.</b> Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus.</p> <p><b>Disorderly AI Correction.</b> An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.</p> <p><b>Climate Change.</b> Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.</p>	<p style="text-align: center;"><b>High</b></p> <p style="text-align: center;"><b>High</b></p> <p style="text-align: center;"><b>Medium</b></p>	<p><b>High.</b> The continuation of a steady upward path for the public debt-GDP ratio represents a growing risk to the U.S. and global economy. An increasing share of U.S. debt must be rolled over in the short-run, putting pressure on financial intermediaries' balance sheets and creating the risk of a disorderly repricing, with important spillovers, in case of a weak auction event or an abrupt shift in investor sentiment.</p> <p><b>High.</b> The large concentration in equity markets and the worsening of the net international investment position, alongside a shift in the nonresident investor base toward non-bank private investors, create the risk of a disorderly external rebalancing in case of an abrupt shift in portfolio preferences. The growing interdependence between the bond and equity markets may lead to higher volatility through feedback loop effects.</p> <p><b>Medium.</b> Damage to infrastructure and wealth weakens economic activity. Inflationary pressures could arise from supply disruptions.</p>	<p>Put debt-GDP on a clear downward trajectory by implementing a frontloaded fiscal adjustment through increases in revenues and reductions in mandatory and discretionary spending. Closely monitor vulnerabilities in the Treasury market.</p> <p>Implement a fiscal adjustment accompanied by a range of policies to raise private savings. Discuss actions with trading partners to address distortions that contribute to external imbalances.</p> <p>Continue to push for green investment, combined with well sequenced climate change mitigation strategies. Invest in climate change adaptation to increase resilience in vulnerable communities. Stand ready to provide targeted fiscal support to affected sectors.</p>
<b>Domestic Risks</b>			
<p><b>Slower Growth and Stronger Price Pressures.</b> Economic momentum slows down rapidly as stringent immigration policies create labor shortages in some sectors and the disinflation process reverses as the pass-through from commodity prices and tariffs is more persistent than expected.</p>	<p style="text-align: center;"><b>High</b></p>	<p><b>High.</b> A significant reduction in both the labor force and employment growth, driven by the decline in immigration, could lead to shortages, fueling inflation, and reduce potential output. Inflation remains elevated above the Fed's target, leading to second-round effects of rising goods prices and de-anchoring of inflation expectations.</p>	<p>Put in place a new skills-based immigration system that would serve to expand the labor force, raise human capital, and boost labor productivity. Continue to monitor early indicators and the Fed should remain data dependent when setting interest rates.</p>



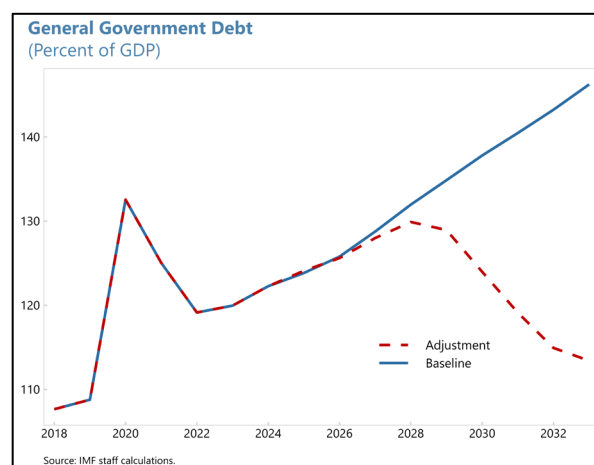
## Annex II. Sovereign Risk and Debt Sustainability Assessment

Following the unprecedented fiscal response to the COVID-19 outbreak, the U.S. budget deficit returned to pre-pandemic levels in 2022, before widening again from 2023 onwards. The budget reconciliation enacted on July 4, 2025, is expected to widen fiscal deficits, only partially offset by additional revenues from the administration's new tariff policy. Under the baseline scenario, public debt is projected to rise as a share of GDP over the medium term as aging-related expenditures on health and social security feed into the debt dynamics. While solvency risks remain low, reflecting strong institutions, the size and depth of the U.S. economy, and the dollar's global reserve currency status, gross financing needs are large and reliance on short-term debt has increased, raising exposure to liquidity and market-functioning risks. A credible medium-term fiscal adjustment featuring reprioritization of budget programs and revenue-gaining tax reform is needed to put public debt on a downward path. Reducing reliance on short-term debt over time would help bolster investor confidence and limit liquidity risks. Nonetheless, the risks of debt distress are low.

**1. Background.** An unprecedented level of fiscal expansion was introduced in response to the COVID-19 pandemic, leading to an increase in the fiscal deficit by over 8 percent of GDP. The subsequent fiscal consolidations in 2021–22, as pandemic-related extraordinary measures were phased out, contributed to narrowing the budget deficit. However, the American Rescue Plan (enacted in March 2021), the Infrastructure Investment and Jobs Act (enacted in November 2021), along with the Inflation Reduction Act and the CHIPS and Science Act (both enacted in August 2022) slowed the pace of fiscal contraction, while weaker-than-expected income tax receipts widened fiscal deficits substantially. Going forward, the budget reconciliation enacted on July 4, 2025, with a total fiscal cost of about \$3.4 trillion over the next decade, is expected to be only partially offset by additional revenues from the administration's new tariff policy, implying wider deficits in the near term. While solvency risks remain low, elevated gross financing needs and reliance on short-term debt may heighten exposure to liquidity and rollover risks under stressed market conditions.

**2. Baseline.** The staff's baseline is based on current laws. Under this baseline, public debt is expected to rise over the medium term as age-related spending pressures on entitlement programs assert themselves. Federal debt held by the public is projected to increase from about 97.4 percent of GDP in FY2024 to around 117.0 percent of GDP by 2034, with general government gross debt rising from about 122.3 percent of GDP to 150.9 percent of GDP over the same period.

**3. Adjustment scenario.** The general government primary deficit was estimated at 3.2 percent of GDP in 2025 and is projected at 3.6 percent of GDP in 2026. Gradually raising the primary general government balance over the medium-term to around 1 percent of GDP would reduce debt and gross financing needs over time, strengthening resilience to shocks, and put the debt-to-GDP ratio on a declining path. The target primary surplus would have to

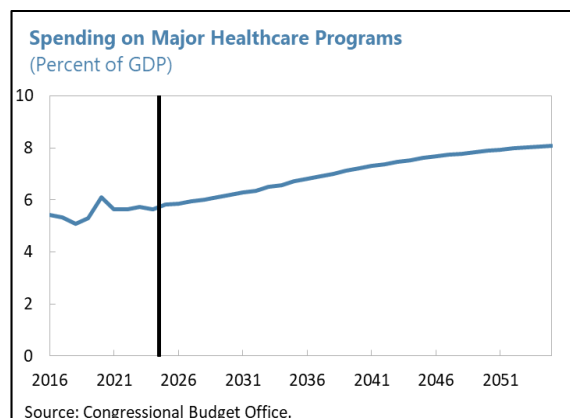


be larger to bring the debt ratio closer to pre-2008 levels. Accordingly, the benign assessment of sovereign stress risk is contingent on maintaining policy credibility and addressing medium-term fiscal imbalances.

**4. Debt servicing costs.** The debt projections have been adversely affected by the current and projected deterioration in interest rate– growth differential, despite the safe-haven status of the United States. Under staff’s baseline, the effective nominal interest rate is projected to gradually decline, stabilizing at 3.5 percent by 2034. Given the large share of debt rolled over each year, higher interest rates would transmit primarily through refinancing costs and auction conditions in the near term, reinforcing the importance of managing maturity and rollover risks. Alternatively, there is a risk of larger gross financing needs if the high reliance on short-term debt issuance persists. For example, keeping the current maturity structure could raise the GFN-to-GDP ratio from the current baseline projection of 45.4 percent to 60.9 percent by 2034.

**5. Long-term risks: health expenditures.** Due

to the ongoing aging of the population, public healthcare expenditures are expected to rise considerably. The CBO projects net federal spending on major health care programs to increase from 5.8 percent of GDP in 2025 to 8.1 percent of GDP in 2055, driven primarily by a two-thirds surge in health care costs, with the remainder attributed to population aging. Rising healthcare expenditures will considerably increase deficit and risk of sovereign stress in the long term. Increasing efficiency, greater cost sharing with beneficiaries and changing the mechanism of remunerating healthcare providers will help contain health care cost. As such, a slower-than-expected growth in health care costs and/or population aging would lead to a lower-than-projected health spending.



**6. Long-term risks: Social Security spending.** Aging of the population also contributes to growth in spending on Social Security, particularly in the first decade from now, from 5.2 percent of GDP in 2025 to 5.9 percent of GDP in 2034. According to the CBO, the number of Social Security beneficiaries is projected to rise significantly by 12 million from 70 million in 2025 to 82 million in 2035. Subsequently, over the following two decades, this upward trend persists, albeit at a slower pace. By 2055, the beneficiary count is forecasted to grow by an additional 14 million, totaling 97 million beneficiaries, equivalent to 26 percent of the population.

**7. Realism.** Baseline economic assumptions are generally within the error band observed for all countries. The baseline fiscal projections and implied near-term adjustment are realistic, well within the median range of adjustment in historical and cross-country experience.

**8. Mitigating factors.** The depth and liquidity of the U.S. Treasury market, as well as its safe-haven status, represents a mitigating factor for the high external and gross financing requirements. However, given the evolving composition of the investor base—toward more price-sensitive private nonbank investors—for Treasuries, maintaining investor confidence will critically depend on the clarity and strength of the policy framework.

## Annex II. Figure 1. United States: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>Low</b>	Staff's assessment of the overall risk of sovereign stress is low. Mitigating factors include the strength of institutions, the depth of the investor pool, and the role of the US dollar in the international system.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>High</b>	<b>Moderate</b>	Staff's assessment on the medium-term risk is "moderate". While the mechanical medium-term signal for both the fan chart and GFN indicates a marginally "high" risk, driven by the probability of debt non-stabilization and elevated level of gross financing needs, rollover risk remains limited given the deep and sustained demand for T-bills in domestic and global financial markets.
Fanchart	<b>High</b>	...	
GFN	<b>High</b>	...	
Stress test		...	
<b>Long term</b>	...	<b>Moderate</b>	Long-term risks are moderate as aging-related expenditures on health and social security feed into debt dynamics.
<b>Sustainability assessment 2/</b>			Not required for surveillance-only countries.
<b>Debt stabilization in the baseline</b>			No

## DSA Summary Assessment

Commentary: United States is at a low overall risk of sovereign stress. However, debt is expected to rise for several years. Medium-term liquidity risks, as analyzed by the GFN Financeability and Debt Fanchart Modules, indicate a "high" risk. Over the longer run, United States should continue with reforms to tackle risks arising from population aging on the social security fund. However, the long time horizon at which these risks would materialize will help contain risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

### Annex II. Figure 2. United States: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments					
	CG	GG	NFPS	CPS	Other						
1a. If central government, are non-central government entities insignificant?						n.a.					
2. Subsectors included in the chosen coverage in (1) above:											
Subsectors captured in the baseline						Inclusion					
CPS NFPS GG: expected CG	1	Budgetary central government				Yes	Not applicable				
	2	Extra budgetary funds (EBFs)				No					
	3	Social security funds (SSFs)				Yes					
	4	State governments				Yes					
	5	Local governments				Yes					
	6	Public nonfinancial corporations				Yes					
	7	Central bank				Yes					
	8	Other public financial corporations				Yes					
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:						Basis of recording		Valuation of debt stock			
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:						Consolidated		Non-consolidated			

Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable

#### Reporting on Intra-Government Debt Holdings

Issuer	Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1 Budget. central govt					25.482					25.482
2 Extra-budget. funds										0
3 Social security funds										0
4 State govt.		1980.293								1980.293
5 Local govt.										0
6 Nonfin pub. corp.										0
7 Central bank										0
8 Oth. pub. fin. corp										0
Total		1980.293	0	0	25.482	0	0	0	0	2005.775

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

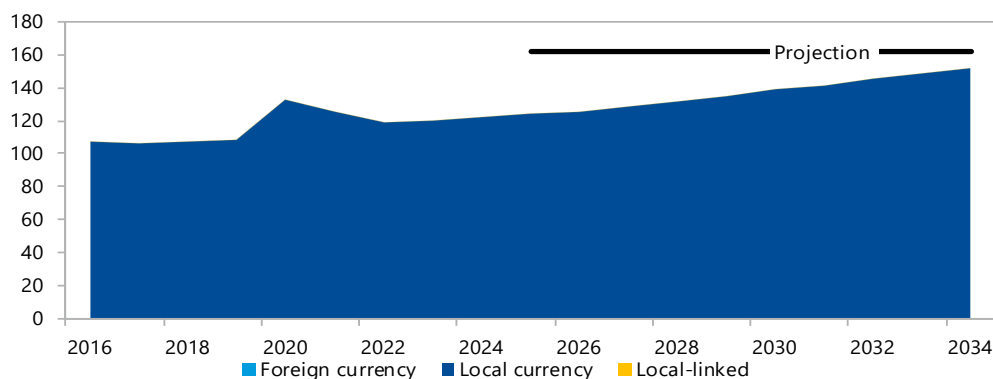
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government. The cross holdings are cancelled out in the general government data, and only the cross holdings that were netted out of the public debt calculation are shown in the table.

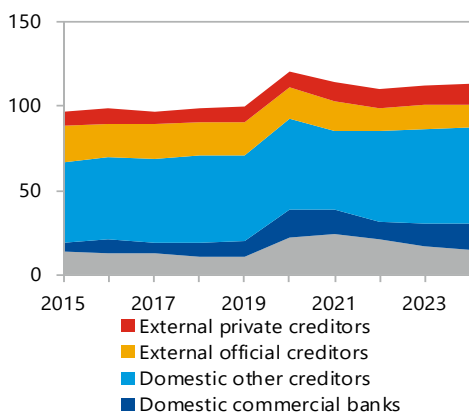
### Annex II. Figure 3. United States: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



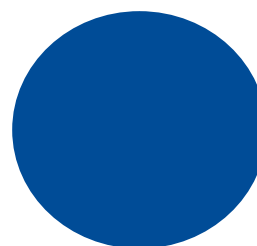
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



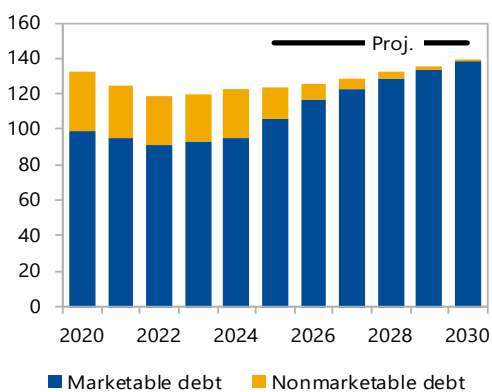
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



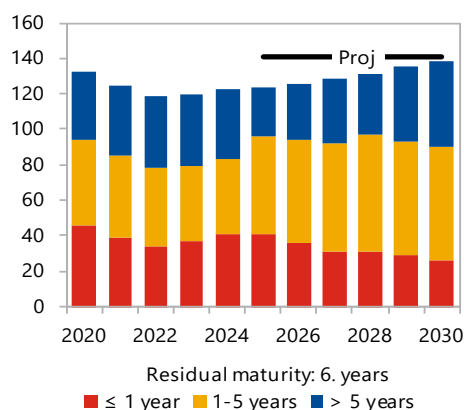
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



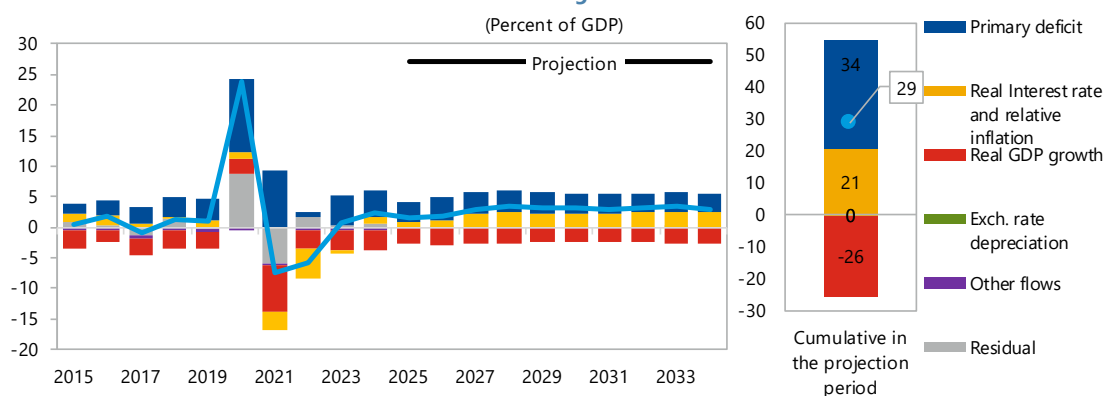
Note: The perimeter shown is general government.

Commentary: The maturity is expected to lengthen over the medium term, with the issuance gradually converging to the historical recommendation for 15-20% T-bill share.

**Annex II. Figure 4. United States: Baseline Scenario**  
(Percent of GDP unless indicated otherwise)

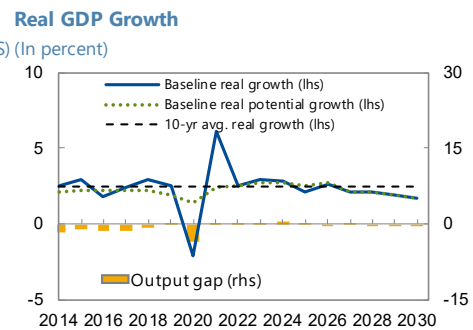
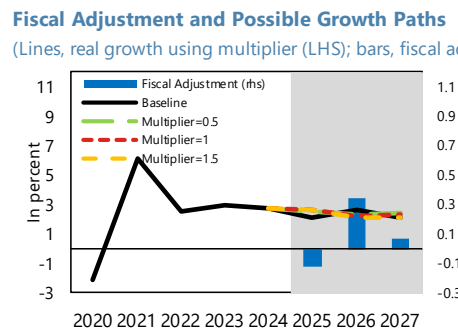
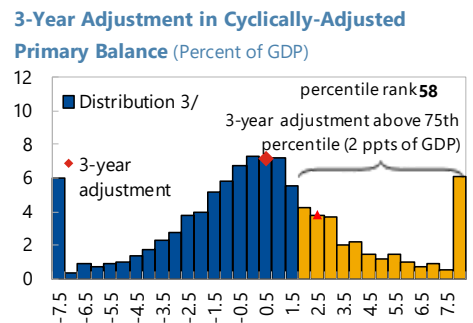
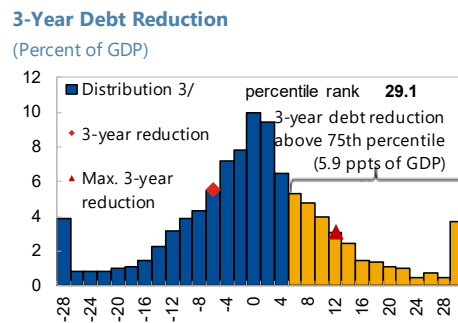
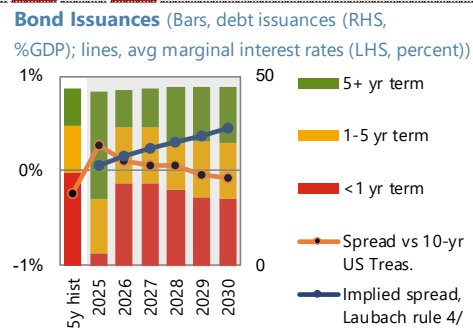
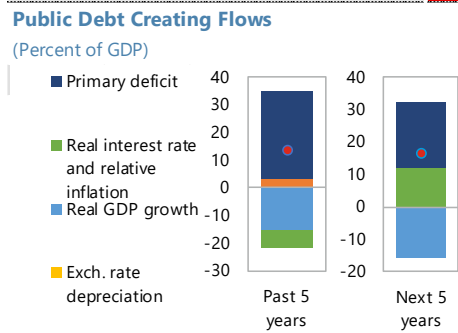
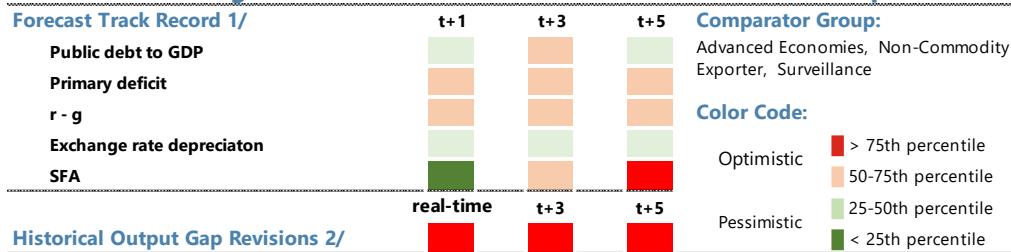
	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
Public debt	122.3	123.9	125.8	128.7	132.1	135.3	138.5	141.5	144.5	147.9	150.9	
Change in public debt	2.3	1.6	1.9	2.9	3.4	3.2	3.2	3.0	3.1	3.3	3.0	
Contribution of identified flows	1.8	1.6	1.9	3.0	3.4	3.2	3.2	3.0	3.1	3.3	3.0	
Primary deficit	4.4	3.2	3.6	3.5	3.6	3.3	3.2	3.1	3.2	3.5	3.2	
Noninterest revenues	29.3	30.3	29.8	29.9	29.7	29.7	30.0	30.1	30.1	30.2	30.2	
Noninterest expenditures	33.7	33.4	33.5	33.4	33.4	33.1	33.2	33.2	33.3	33.6	33.4	
Automatic debt dynamics	-2.1	-1.6	-1.8	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	
Real interest rate and relative inflat	1.2	1.0	1.2	2.2	2.4	2.3	2.3	2.3	2.4	2.4	2.4	
Real interest rate	1.2	1.0	1.2	2.2	2.4	2.3	2.3	2.3	2.4	2.4	2.4	
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Real growth rate	-3.3	-2.5	-3.0	-2.7	-2.6	-2.4	-2.3	-2.4	-2.5	-2.6	-2.6	
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...	
Other identified flows	-0.5	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	
(minus) Interest Revenues	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6	
Other transactions	0.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
Contribution of residual	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	
Gross financing needs	36.5	45.4	45.9	46.1	46.6	46.6	46.3	44.4	43.5	42.9	42.6	
of which: debt service	32.6	42.9	42.8	43.3	43.5	43.9	43.6	41.9	40.9	40.0	40.0	
Local currency	32.6	42.9	42.8	43.3	43.5	43.9	43.6	41.9	40.9	40.0	40.0	
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memo:												
Real GDP growth (percent)	2.8	2.1	2.5	2.2	2.1	1.9	1.8	1.8	1.8	1.8	1.8	
Inflation (GDP deflator; percent)	2.5	2.8	2.7	2.0	1.7	1.8	1.8	1.8	1.8	1.8	1.8	
Nominal GDP growth (percent)	5.3	5.0	5.2	4.2	3.8	3.7	3.6	3.6	3.5	3.5	3.5	
Effective interest rate (percent)	3.5	3.7	3.7	3.7	3.6	3.6	3.6	3.5	3.6	3.5	3.5	

**Contribution to Change in Public Debt**



Commentary: Public debt does not stabilize over medium-term, primarily due to ongoing primary deficit, while real GDP growth serves as a key mitigating factor.

### Annex II. Figure 5. United States: Realism of Baseline Assumptions

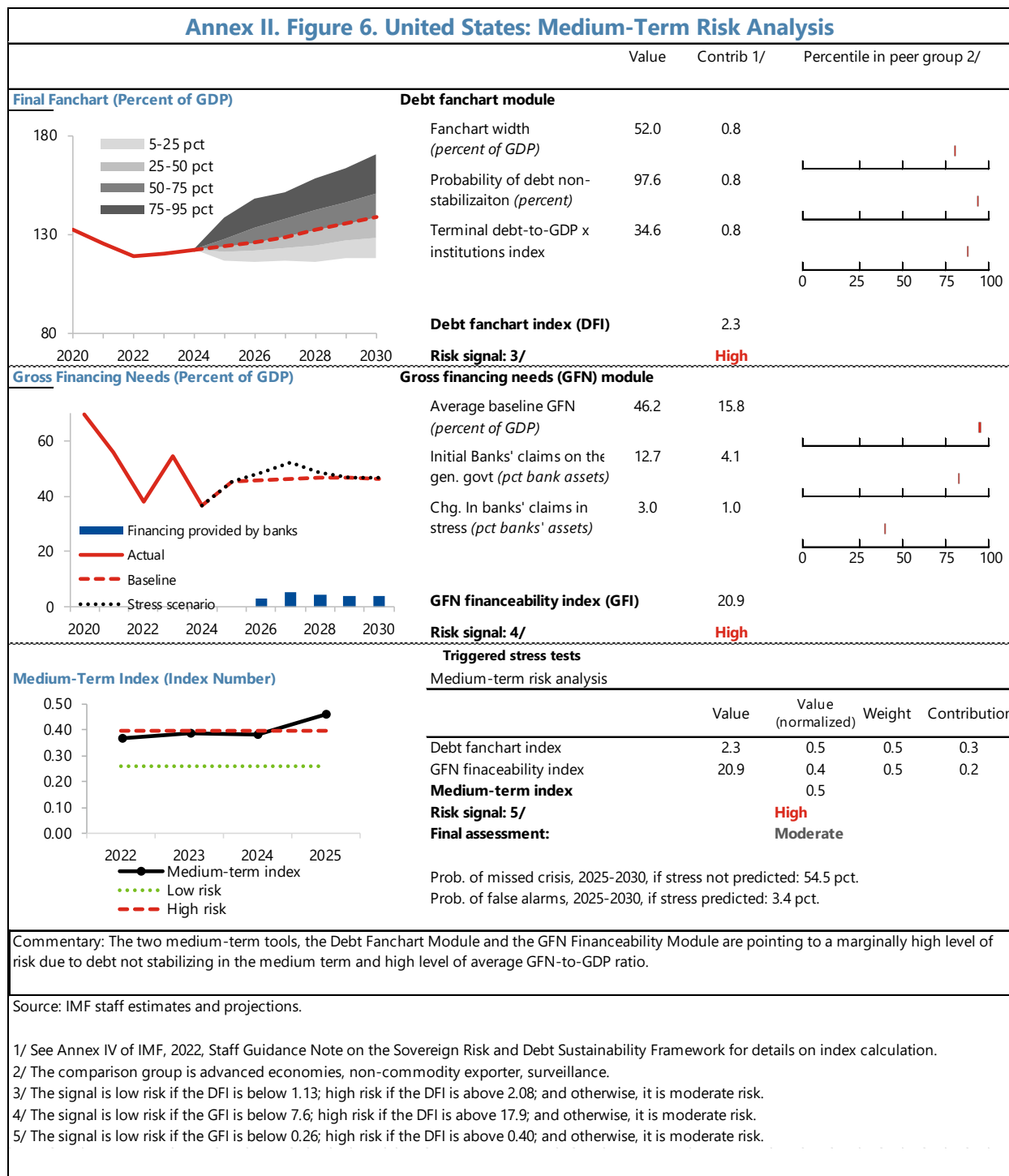


Commentary: Realism analysis points to consistently upward revisions of historical output gaps. Other analyses do not point to major concerns: past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Source: IMF Staff.

- 1/ Projections made in the October and April WEO vintage.
- 2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)
- 3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies.  
Percent of sample on vertical axis.
- 4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

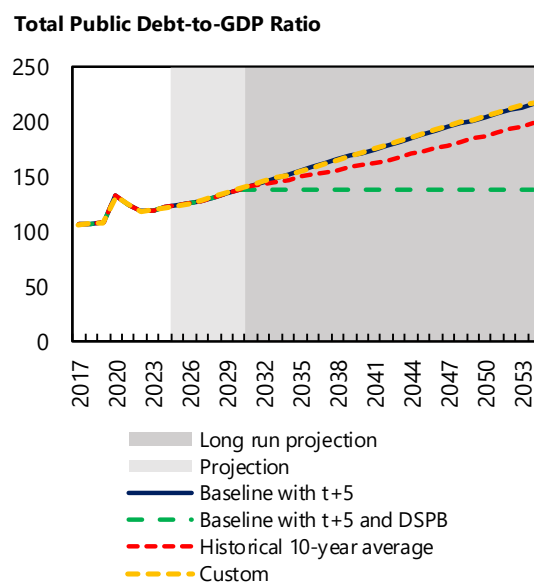
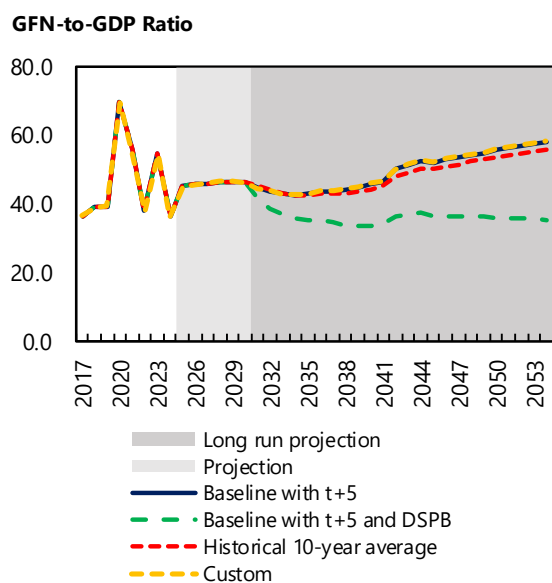
### Annex II. Figure 6. United States: Medium-Term Risk Analysis



### Annex II. Figure 7. United States: Long-Term Risk Analysis

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Green
	Amortization	Red
Overall Risk Indication		Green

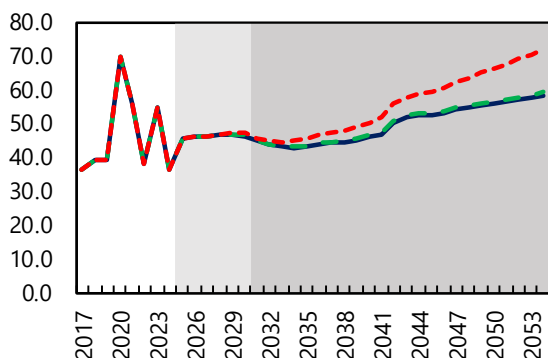
Variable	2030	2034 to 2038 average	Custom Scenario
Real GDP growth	1.8%	1.8%	1.8%
Primary Balance-to-GDP ratio	-3.2%	-3.2%	-3.3%
Real depreciation	-1.7%	-1.8%	-1.7%
Inflation (GDP deflator)	1.7%	1.9%	1.7%



**Commentary:** The long-term amortization module does not trigger an overall risk indication. Long-term projections show a steady increase in the debt-to-GDP ratio and GFN-to-GDP ratio. The amortization-to-GDP ratio is projected to rise from 2040, with the scheduled maturation of current longer-term debt. The primary balance-to-GDP ratio of the custom baseline is calibrated to match the projection by the Congressional Budget Office (CBO).

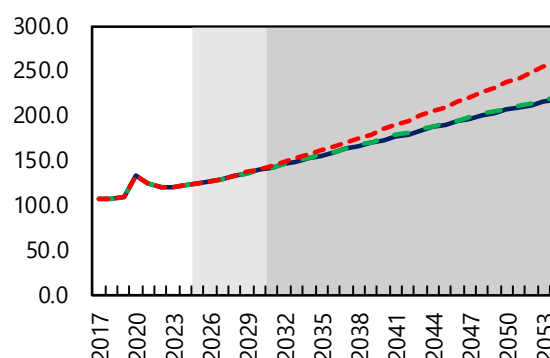
Annex II. Figure 8. United States: Demographics: Health

GFN-to-GDP Ratio



- Baseline: Custom
- - - Health (Demographics)
- - - Health (Demographics + ECG)

Total Public Debt-to-GDP Ratio



- Baseline: Custom
- - - Health (Demographics)
- - - Health (Demographics + ECG)

**Commentary:** Demographic trends project an steady increase in GFN-to-GDP ratio and Debt-to-GDP ratio. Should additional excess cost growth (ECG) occur at the standard 1.4 percent, GFN and Debt-to-GDP ratio would be about 11 pp and 40pp higher by 2052, respectively.

## Annex III. External Sector Assessment

<p><b>Overall Assessment:</b> <i>The projected external position in 2025 is moderately weaker than the level implied by medium-term fundamentals and desirable policies.</i><sup>1</sup> The trade deficit in 2025 is expected to be unchanged from the previous year despite large within-year upswings related to frontloading amid tariff hikes, while the modest improvement in the primary income balance leads to a CA deficit of 3.7 percent of GDP (versus 4.0 percent of GDP in 2024). The CA deficit is projected to stabilize at about 3½ percent of GDP over the medium term, reflecting a gradual rise of private savings that is expected to modestly offset the expected increases in fiscal dissaving and private investment.</p> <p><b>Potential Policy Responses:</b> Over the medium term, fiscal consolidation aimed at achieving a general government primary surplus of about 1 percent of GDP should put the debt-to-GDP ratio on a downward path and adjust the external position to the level implied by medium-term fundamentals and desirable policies. Industrial policies should remain narrowly targeted to specific objectives where externalities or market failures prevent effective market solutions and avoid favoring domestic producers over imports. To promote external stability, policies should seek to constructively resolve trade tensions, promote a clear, stable and predictable trade environment, and pursue pragmatic cooperation and deeper integration through regional/cross-regional trade agreements or nondiscriminatory reduction of trade barriers.</p>						
<b>Foreign Asset and Liability Position and Trajectory<sup>2</sup></b>	<p><b>Background.</b> The NIIP stood at –88.8 percent of GDP as of the third quarter of 2025, broadly unchanged from –89.0 percent at the end of 2024 but significantly weakened from the pre-pandemic (2016–19) average of about –46½ percent. The valuation adjustments stemming from a significant rise in US stock prices compared to foreign stocks (which led to a larger increase in the market value of US liabilities than US assets) was largely offset by a substantial depreciation of the US dollar since end-2024 that raised the US dollar value of foreign-currency-denominated assets.</p> <p><b>Assessment.</b> Despite the declining NIIP, the US gross external debt has stabilized well below the 2016–19 average of about 95 percent of GDP (down from its 2020 peak of nearly 100 percent), driven by the post-pandemic rebound in output and a strengthening of the dollar. About 60 percent of US assets are in the form of FDI and portfolio equity claims. The investment income balance returned to positive after turning negative in 2024 (as the 2024 surge in dividend and interest payments amid strong domestic stock market performance and an increase in US yields has moderated in 2025). Importantly, the substantial share of external assets denominated in foreign currencies (which was about 70 percent in 2024)—combined with an even larger share of US-dollar-denominated external liabilities—remains a relevant channel for exchange rates to affect NIIP through valuation changes. Financial stability vulnerabilities could arise from an unexpected decline in foreign demand for US fixed-income securities. However, this risk is mitigated by the dominant status of the US dollar as a reserve currency, strong institutions, deep and liquid asset markets, and diverse investment instruments.</p>					
	2025 (% GDP)	NIIP: –88.8	Gross Assets: 132.7	Debt Assets: 37.4	Gross Liab.: 221.5	Debt Liab.: 88.1
<b>Current Account</b>	<p><b>Background.</b> The CA deficit is projected at 3.7 percent of GDP in 2025, slightly down from 4.0 percent in 2024 (the 2016–19 average deficit was about 2 percent). In 2025, the trade deficit is expected to remain at a similar level to 3.1 percent of GDP in 2024, despite large within-year upswings amid tariff hikes. In the first quarter of 2025, the CA deficit surged to 5.9 percent of GDP, mainly driven by the import frontloading ahead of the announced tariff hikes, but subsequently normalized to 2.9 percent of GDP through the rest of the year. The income balance is expected to improve by 0.4 percent of GDP. From a saving-investment viewpoint, increased public and private savings are narrowing the saving-investment gap.</p> <p><b>Assessment.</b> The EBA model estimates a cyclically adjusted CA balance of –3.6 percent of GDP against a CA norm of –2.5 percent, with a standard error of 0.7 percent. This implies a model-based CA gap of –1.1 percent of GDP for 2025, with an estimated contribution of identified policy gaps of –0.6 percent. The identified policy gaps primarily reflect the more expansionary fiscal policy in the US relative to the rest of the world (resulting in –0.5 percent of GDP contribution to the imbalance from the fiscal policy gap). IMF staff assesses a CA gap in a range of –1.8 to –0.4 percent of GDP, with a midpoint of –1.1 percent.</p>					
	2025 (% GDP) <sup>3</sup>	CA: –3.7	Cycl. Adj. CA: –3.6	EBA Norm: –2.5	EBA Gap: –1.1	Staff Adj.: 0
<b>Real Exchange Rate</b>	<p><b>Background.</b> The annual average REER appreciated by 0.5 percent in 2025, although it depreciated by 4.3 percent at end-2025 relative to end-2024. Over the past five years, the REER has appreciated by over 10 percent.</p> <p><b>Assessment.</b> The IMF staff CA gap implies a REER that is overvalued by 10 percent in 2025 (with an estimated elasticity of 0.11 applied). The EBA exchange rate index model suggests an overvaluation of 10.8 percent, and the level model suggests an overvaluation of 22.4 percent. Considering all the estimates and their uncertainties, consistent with the CA gap, staff assesses the 2025 midpoint REER overvaluation to be 10 percent, with a range of 3.6 to 16.4 percent (the range is obtained from the CA standard error using the estimated CA elasticity of 0.11).</p>					
<b>Capital and Financial Accounts: Flows and Policy Measures</b>	<p><b>Background.</b> In 2025, the financial account balance is projected at –4.3 percent of GDP, up from –3.9 percent in 2024, as higher inflows of net portfolio investment more than offset lower net other investment inflows.</p> <p><b>Assessment.</b> The United States has an open capital account. Vulnerabilities are limited by the US dollar's status as a reserve currency.</p>					
<b>FX Intervention and Reserves Level</b>	<p><b>Assessment.</b> The US dollar has the status of a global reserve currency. Reserves held by the United States are typically low relative to standard metrics. The currency is free floating.</p>					
<p><sup>1</sup> The final external assessment for 2025 will be presented in the 2026 ESR.</p> <p><sup>2</sup> The 2025 figure is based on data through 2025 Q3 and the quarterly annualized GDP measure is used for the ratio.</p> <p><sup>3</sup> This is based on staff projections.</p>						

## Annex IV. Data Issues

**Annex IV. Table 1. United States: Data Adequacy Assessment for Surveillance**

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	B	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
Consistency			A	A		B	
Frequency and Timeliness	A	A	A	A	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p><b>Rationale for staff assessment.</b> Staff assesses the overall data quality to be adequate for Fund surveillance. The economic and monetary statistics from the FRB, the BEA, and the BLS are comprehensive and of high quality. The dates for main data releases are published well in advance. There continue to be a need to reconcile the saving-investment balance in the national accounts with the current account balance in the BOP as the discrepancy has widened significantly. This re-alignment of intersectoral consistency would help with the assessment of external imbalances. In addition, to align with BPM6, trade of goods should be recorded based on the change-of-ownership principle; and values of illegal or smuggled activities should be estimated and included. Moreover, also as per BPM6, FDI equity by counterpart economy should be reported at market value or its proxy.</p>							
<p><b>Changes since the last Article IV consultation.</b> The Office of Financial Research (OFR) has adopted a Final Rule establishing a data collection for certain non-centrally cleared bilateral transactions in the U.S. repurchase agreement market. OFR's Short-Term Funding Monitor has included aggregated data from the cleared repo transaction and triparty repo data transaction data collected by the New York Federal Reserve Bank.</p>							
<p><b>Corrective actions and capacity development priorities.</b> None.</p>							
<p><b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Staff does not use any data and/or estimates in the staff report in lieu of official statistics.</p>							
<p><b>Other data gaps.</b> Staff encourages continued efforts to advance financial sector statistics including banks' holdings of CLOs, CRE loan holdings, and linkages to nonbanks. Staff also encourages efforts to provide revisions of historical data after the annual benchmarking of the Current Population Survey, which would allow for more consistent tracking of labor market performance.</p>							

**Annex IV. Table 2. United States: Data Standards Initiatives**

United States adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Annex IV. Table 3. United States: Common Indicators Required for Surveillance

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>5</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	United States <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	United States <sup>8</sup>
	Exchange Rates	Same Day	Same Day	D	D	D	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	2026 M1	27-Feb-26	M	M	M	W	1W	NLT 7D
Reserve/Base Money	2027 M1	24-Feb-26	M	M	M	W	2W	NLT 1W
Broad Money	2027 M1	24-Feb-26	M	M	M	W	1M	10D
Central Bank Balance Sheet	26-Feb-26	26-Feb-26	W	W	M	W	2W	NLT 1W
Consolidated Balance Sheet of the Banking System	2025 Q3	16-Jan-26	Q	Q	M	W	1M	10D
Interest Rates <sup>2</sup>	Same Day	Same Day	D	D	D	...	...	...
Consumer Price Index	2026 M1	13-Feb-26	M	M	M	M	1M	2W-NLT 1M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	2025 Q3	Feb-26	Q	Q	A/Q	A	2Q/12M	2Q
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	2026 M1	11-Feb-26	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	2026 M1	11-Feb-26	M	M	Q	M	1Q	1W
External Current Account Balance	2025 Q3	14-Jan-26	Q	Q	Q	Q	1Q	11-12W
Exports and Imports of Goods and Services	2025 M12	19-Feb-26	M	M	M	M	8W	NLT 52D
GDP/GNP	2025 Q4	20-Feb-26	Q	Q	Q	Q	1Q	NLT 31D
Gross External Debt	2025 Q3	14-Jan-26	Q	Q	Q	Q	1Q	1Q
International Investment Position	2025 Q3	14-Jan-26	Q	Q	Q	Q	1Q	90D

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru,

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

## Annex V. Progress on Past Policy Recommendations

<b>Previous Article IV Policy Recommendations</b>	<b>Actions Taken</b>
Wait to reduce the policy rate until at least late-2024.	Loosening cycle started in September 2024.
Improve Treasury market functioning through central clearing, modifying the supplementary leverage ratio, liquidity stress tests for asset managers, lock-in provisions for funds, swing pricing, gates, and/or allowing in-kind redemptions.	Changes made to increase oversight of principal trading firms, require central clearing of UST collateralized repo/reverse repo transactions, improve data, and increase liquidity requirements for money market funds.
Childcare subsidies, providing paid family leave, removing cliffs in social benefits, increasing access to healthcare, education and vocational training, passing comprehensive immigration reform.	Little progress.
Tax reform including higher corporate tax, federal consumption tax, carbon tax, higher fuel exercises, removing loopholes (e.g., carried interest and step-up basis), reducing estate tax minimum, joining the global agreement on the minimum corporate tax.	Little progress. Reached agreement with side-by-side system for the minimum tax.
Improve safety net by expanding SNAP, improving TANF and Medicaid, making the refundable child tax credit permanent, and expanding the EITC.	Little progress. Recent fiscal legislation reduced funding for SNAP and Medicaid.
Putting debt-GDP on a downward path through adjusting the fiscal path to a 1 percent of GDP general government primary surplus.	General government primary deficit is expected to remain around 3-3½ percent of GDP over the medium term.
Roll back tariffs and other trade distortions introduced over the past 5 years, avoid steps to fragment global system (including domestic content rules), restore functioning dispute settlement at WTO.	Tariffs and other trade distortions have been increased.
Fully implement the final components of the Basel III agreement, apply similar regulatory requirements to all banks with US\$100 billion or more in assets (including supervisory stress tests), further strengthen supervisory oversight and practices, re-examine the coverage of deposit insurance, recalibrate bank liquidity requirements and liquidity stress tests to better take account of the potential for fast-moving deposit outflows, and address vulnerabilities in nonbank mortgage companies and the possible migration of assets to collective investment funds.	Little progress.

FSAP Recommendations	Responsible Authority	Developments
<b>Systemic Risk Oversight and Macroprudential Framework</b>		
Provide an explicit financial stability mandate to all federal FSOC members.	<b>Congress</b>	
Prioritize the development of macroprudential tools to address risks and vulnerabilities in the nonbank sector.	<b>FSOC</b>	Secretary Bessent stated that the Council will revisit the guidance and analytic framework that the Council adopted in 2023.
Intensify efforts to close data gaps, including reporting disclosures of holdings of collateralized loan obligations (CLOs) and repo markets, to reinforce market discipline.	<b>OFR</b>	Developments Secretary Bessent stated that the Council will revisit the guidance and analytic framework that the Council adopted in 2023. The Office of Financial Research (OFR) has adopted a Final Rule establishing a data collection for certain non-centrally cleared bilateral transactions in the U.S. repurchase agreement (repo) market (NCCBR). The NCCBR data collection, which started in December 2024 and expanded to a more complete set of financial institutions active in the market in July 2025, helps to fill in the final large data gap in the U.S. repo market. This rule requires certain financial companies to report transaction-level NCCBR data on a daily basis. Companies that meet reporting thresholds have at least \$10 billion in average daily total outstanding commitments to extend guarantees on and borrow cash through NCCBR transactions over all business days during the prior calendar quarter.

FSAP Recommendations	Responsible Authority	Developments
		<p>Aggregated data from the cleared repo transaction OFR data collection, together with triparty repo data transaction data collected by the New York Federal Reserve Bank feed into the OFR's Short-Term Funding Monitor, which was launched in 2020. The Short-Term Funding Monitor includes the cleared repo and triparty repo daily preliminary and quarterly final aggregated data series and is available for download by the public via an application programming interface. OFR is actively working to bring the first set of official statistics from the NCCBR collection to the public through the Short-Term Funding Monitor.</p>
<b>Banking Regulation and Supervision</b>		
<p>Review prudential requirements for non-internationally active banks (Category III and IV) and ensure they are and continue to be broadly consistent with the Basel capital framework and appropriate concentration limits; and consider extending the full liquidity coverage ratio (LCR) to them.</p>	<p><b>FRB, FDIC, OCC (S&amp;R/FBAs)</b></p>	<p>The Board, FDIC, and OCC continue to evaluate capital and liquidity requirements for large banking organizations, including Category III and IV firms, with consideration to maintaining a risk-focused regime, recognizing the statutory mandate to tailor requirements to the risk profile and complexity of banking organizations, and acknowledging the primary applicability of Basel agreements to internationally active firms with a framework for non-internationally-active firms that is "broadly consistent" with Basel.</p>
<p>Streamline regulatory requirements and consider rewriting key prudential guidance as regulation.</p>	<p><b>FRB, FDIC, OCC (S&amp;R/FBAs)</b></p>	<p>Board, FDIC, and OCC staff continue to revise or make inactive previously issued guidance that has become outdated, has been superseded by subsequent guidance or regulations, or is no longer relevant to the supervision program. In some cases, guidance has been made inactive because more comprehensive guidance on the topic is available in the examination manuals. Additionally, the FBAs have published legal</p>

FSAP Recommendations	Responsible Authority	Developments
		<p>interpretations regarding several regulations.</p> <p>In July 2025, the Board, FDIC, and OCC announced their fourth and final notice of a series of requests for public comment to reduce regulatory burden, with the first notice published in February 2024. The agencies are also soliciting more comments on banking rules through public outreach meetings that will continue into 2026. The Economic Growth and Regulatory Paperwork Reduction Act of 1996 requires the Federal Financial Institutions Examination Council and federal bank regulatory agencies to review their regulations every 10 years to identify – with public input – any outdated or otherwise unnecessary regulatory requirements for their supervised institutions.</p>
<p>Introduce heightened standards on the governance of large and complex bank holding companies (BHCs), enhance the related-party framework, introduce rules on concentration risk management, and include more quantitative standards regarding interest rate risk in the banking book.</p>	<p><b>FRB, FDIC, OCC (S&amp;R/FBAs)</b></p>	<p>The Board is committed to ensuring that their regulatory requirements are appropriately tailored to account for the size, complexity, and business model of the banks they regulate.</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Insurance Regulation and Supervision</b>		
<p>Increase independence of state insurance regulators, with appropriate accountability. Require all in-force life insurance business be moved to principles-based reserving (PBR) after a five-year transition period, adjust asset valuation approach to ensure consistency between assets and liabilities, and recalibrate risk-based capital (RBC) to the revised valuation approach.</p>	<b>NAIC</b>	
<p>Develop a consolidated group capital requirement similar to GAAP-Plus insurance capital standard (ICS) for internationally active groups and optionally for domestic groups in parallel with the development of</p>	<b>NAIC</b>	<p>In March 2023, the IAIS decided not to advance GAAP with Adjustments “GAAP Plus” for inclusion in the ICS. In December 2024, the IAIS completed its comparability assessment and found that the Aggregation Method (AM) developed by the United States provides a basis for implementation of the ICS.</p> <p>The Federal Reserve Board (the Board) and NAIC developed and are implementing their aggregation approaches (the Building Block Approach and the Group Capital Calculation, respectively). In October 2023, the Board adopted a final regulation implementing the Building Block Approach capital requirement, and the regulation became effective on January 1, 2024.</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Insurance Regulation and Supervision</b>		
aggregation approaches by the Board and NAIC.		The NAIC adopted the Group Capital Calculation in 2020 and 48 states now require the GCC to be filed, with all states expected to adopt the GCC by January 1, 2026, when it becomes an Accreditation Standard. In March 2025, the NAIC created the Aggregation Method Implementation Working Group which will oversee the implementation of the ICS for US insurance groups.
<b>Regulation, Supervision, and Oversight of FMIs</b>		
Increase CFTC resources devoted to CCP supervision and strengthen rule-approval process to an affirmative approval with a public consultation.	<b>CFTC</b>	Congress approved additional resources to the CFTC on: <a href="#">December 28, 2020</a> , <a href="#">March 15, 2022</a> , <a href="#">December 29, 2022</a> , <a href="#">March 8, 2024</a> , <a href="#">September 26, 2024</a> , <a href="#">December 21, 2024</a> , and <a href="#">March 15, 2025</a> .
Collaborate to analyze differences in outcomes of CCP risk management practices and adopt an appropriately consistent, conservative implementation of risk management standards across CCPs.	<b>FRB, SEC, CFTC</b>	The Board, SEC, and CFTC continue to actively cooperate, coordinate, consult, and collaborate on oversight of CCPs, including risk management practices. In addition, the SEC and CFTC held a joint roundtable on September 29, 2025, exploring joint harmonization efforts including potential areas of regulatory alignment between their frameworks such as the supervision of CCPs.

FSAP Recommendations	Responsible Authority	Developments
<b>Regulation, Supervision, and Oversight of FMIs</b>		
Develop and execute more comprehensive systemwide CCP supervisory stress tests.	<b>FRB, CFTC, SEC</b>	<p>CFTC staff have conducted a number of cross-CCP supervisory stress tests. In addition to previous supervisory stress tests, the results of which were previously published in <a href="#">2016</a>, <a href="#">2017</a>, and <a href="#">2019</a>, CFTC staff published, in 2024, <a href="#">Supervisory Stress Test of Derivatives Clearing Organizations: Reverse Stress Test Analysis and Results</a>, covering 11 clearing services at nine individual CCPs.</p> <p>However, there have been no developments on joint systemwide CCP supervisory stress tests of all systemically important CCPs in the US since the last Article IV update. Since the last Article IV update, an international workgroup co-chaired by the CFTC, with the Board and SEC participating, published a report on transparency and responsiveness of initial margin in early 2025.</p>
<b>Securities Regulation and Supervision</b>		
Give CFTC and SEC greater independence to determine their own resources, with appropriate accountability.	<b>Congress</b>	
Assess financial stability risks related to mutual funds and stable net asset value (NAV) money market funds (MMFs), including through SEC-led	<b>SEC</b>	On July 12, 2023, the SEC adopted MMF reforms and amendments to Form PF reporting requirements for large liquidity fund advisers. The amendments are designed to improve the resilience and transparency of MMFs by increasing minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions; removing provisions from the current rule that permit a MMF to temporarily suspend redemptions and removing the regulatory tie between the imposition of liquidity fees

FSAP Recommendations	Responsible Authority	Developments
<b>Securities Regulation and Supervision</b>		
liquidity stress testing.		<p>and a fund’s liquidity level; requiring certain MMFs to implement a liquidity fee framework that will better allocate the costs of providing liquidity to redeeming investors; and enhancing certain reporting requirements to improve the SEC’s ability to monitor and assess MMF data. <a href="#">Final Rule: Money Market Fund Reforms; Form PF Reporting Requirements for Large Liquidity Fund Advisers; Technical Amendments to Form N-CSR and Form N-1 (sec.gov)</a>.</p> <p>On February 8, 2024 the CFTC and SEC jointly adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, to: enhance reporting by large hedge fund advisers regarding qualifying hedge funds to provide better insight into the operations and strategies of these funds and their advisers and to improve data quality and comparability; enhance reporting of hedge funds to provide greater insight into hedge funds’ operations and strategies, to assist in identifying trends, and to improve data quality and comparability; amend how advisers report complex structures to improve the ability of the FSOC to monitor and assess systemic risk and to provide greater visibility for both FSOC and the Commissions into these arrangements; and remove aggregate reporting for large hedge fund advisers to lessen the burden on advisers and to focus Form PF reporting on more valuable information for systemic risk assessment purposes. See <a href="#">Form PF: Reporting Requirements for All Filers and Large Hedge Fund Advisers (sec.gov)</a>. The Commissions extended the compliance date to Oct. 1, 2026. The Form PF amendments were adopted in February 2024, and the original compliance date was March 12, 2025. The compliance date was previously extended to June 12 and then October 1, but this further extension will provide time to complete a substantive review of Form PF in accordance with a Presidential Memorandum and take any further appropriate actions, which may include proposing new amendments to Form PF.</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Securities Regulation and Supervision</b>		
		<p>On May 3, 2023, the SEC adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds. The final amendments require current reporting by large hedge fund advisers regarding certain events that could indicate significant stress at a fund that could harm investors or signal risk in the broader financial system. The amendments also require quarterly event reporting for all private equity fund advisers regarding certain events that could raise investor protection issues. Finally, the amendments require enhanced reporting by large private equity advisers. The reporting requirements are designed to enhance FSOC's ability to monitor systemic risk as well as bolster the SEC's regulatory oversight of private fund advisers and investor protection efforts. See <a href="#">Final rule: Amendments to Form PF to Require Event Reporting for Large Hedge Fund Advisers and Private Equity Fund Advisers and to Amend Reporting Requirements for Large Private Equity Fund Advisers (sec.gov)</a>.</p> <p>On August 28, 2024, the SEC adopted amendments to certain registered investment company (fund) reporting on Form N-PORT. The amendments improve the Commission's oversight of the asset management industry and enhance public transparency by: • Requiring timelier reporting of funds' monthly portfolio holdings and related information to the Commission to promote more effective regulatory monitoring and oversight of the fund industry for the benefit of fund investors; • Providing for more frequent public disclosure of funds' portfolio holdings to help investors make more informed investment decisions; and • Requiring information about service providers that open-end funds use to comply with liquidity risk management program requirements to allow tracking of certain liquidity risk management practices. On April 22, 2025, the SEC delayed the effective and compliance dates for amendments to Form N-PORT that require most registered investment companies to report monthly portfolio holdings and related information</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Securities Regulation and Supervision</b>		
		<p>more frequently to the SEC and the public. The SEC extended the effective and compliance dates by two years, generally until November 17, 2025, for larger fund groups and until May 18, 2028, for smaller fund groups. The extension is intended to provide time for the SEC to complete its review of the amendments in accordance with the 2025 Presidential Memorandum, "Regulatory Freeze Pending Review," and to take any further appropriate action, which may include additional amendments.</p>
<p>Conclude implementation of new broker-dealer capital rules; finalization of market-wide circuit breakers, and delivery of the Consolidated Audit Trail.</p>	<b>SEC</b>	<p>Implementation of new broker-dealer capital rules. On June 21, 2019, the SEC adopted final rules addressing the Title VII requirements for, among other things, capital and segregation requirements for broker-dealers; the compliance date for this rulemaking was October 6, 2021 See <a href="https://www.sec.gov/news/press-release-2019-105">https://www.sec.gov/news/press-release-2019-105</a>.</p> <p>Finalization of market-wide circuit breakers MWCBS. The MWCBS were triggered four times in March 2020, providing the self-regulatory organizations (SROs) and the SEC with an opportunity to assess its performance. Following completion of an analysis of the MWCBS' operations, the SROs' MWCBS rules were made permanent in March and April 2022 without modification to how they operate. The SROs, however, added requirements relating to testing of the MWCBS and identification of circumstances (e.g., a market decline that falls just short of triggering a MWCBS) that warrant review by the SROs and reports to the SEC. See, e.g., <a href="https://www.sec.gov/rules/sro/nyse/2022/34-94441.pdf">https://www.sec.gov/rules/sro/nyse/2022/34-94441.pdf</a>.</p> <p>Delivery of the Consolidated Audit Trail. The SROs have represented that implementation of the Consolidated Audit Trail was completed on July 15, 2024. See <a href="https://catnmsplan.com/sites/default/files/2024-07/CAT_Q2-and-Q3-2024-QPR.pdf">https://catnmsplan.com/sites/default/files/2024-07/CAT_Q2-and-Q3-2024-QPR.pdf</a>.</p>

FSAP Recommendations	Responsible Authority	Developments
<b>AML/CFT</b>		
Legislate to collect beneficial ownership information on formation of U.S. corporations, maintain it, and ensure timely access for authorities.	<b>Congress</b>	The Financial Action Task Force is currently assessing the steps that the United States has taken related to beneficial ownership. Pursuant to past practice and to avoid duplication of effort, future Article IV coverage will benefit from the findings of the upcoming FATF mutual evaluation (scheduled for adoption in October 2026).
Ensure that investment advisers, lawyers, accountants, and company service providers are effectively regulated and supervised for AML/CFT in line with risks.	<b>Treasury (TFFC)</b>	The Financial Action Task Force is currently assessing steps that the United States has taken to expand its AML/CFT regime. Pursuant to past practice and to avoid duplication of effort, future Article IV coverage will benefit from the findings of the upcoming FATF mutual evaluation (scheduled for adoption in October 2026).
<b>Systemic Liquidity</b>		
Promote the fungibility of Treasury Securities and Reserves by adjusting assumptions about firms' access to the Discount Window in liquidity metrics.	<b>FRB (S&amp;R with MA)</b>	No changes have been made since the FSAP was conducted.
Continue to operate regular fine-tuning OMOs.	<b>FRB</b>	In the current operating environment, in which reserves are about \$3 trillion, no fine-tuning or reserve management OMOs are needed.

FSAP Recommendations	Responsible Authority	Developments
<b>Systemic Liquidity</b>		
Advance arrangements for providing liquidity to systemic nonbanks and CCPs under stress, and reconsider restrictions on bilateral emergency liquidity assistance (ELA) to designated systemically important nonbanks.	<b>FRB, Treasury</b>	<p>No changes have been made since the FSAP was conducted.</p> <p>As previously reported, the Federal Reserve has the ability to provide liquidity to systemic nonbanks under stress through broad-based liquidity facilities under Section 13(3) of the Federal Reserve Act. In addition, for a CCP that the FSOC has designated as systemically important, the Federal Reserve is authorized to provide liquidity on a bilateral basis in unusual or exigent circumstances (among other restrictions). (The recommendation to reconsider restrictions on bilateral emergency liquidity assistance to systemic nonbanks should be directed to Congress.)</p>
Develop robust and effective backup plans in the event the sole provider, Bank of New York Mellon (BNYM), is not able to settle and clear repo transactions.	<b>FRB (S&amp;R with NY and RBOPS)</b>	There have been no material developments since the last Article IV update.
Enhance arrangements to provide liquidity support in foreign currencies to banks and designated systemically important CCPs.	<b>FRB</b>	No changes have been made since the FSAP was conducted.

FSAP Recommendations	Responsible Authority	Developments
<b>Crisis Preparedness and Management</b>		
Intensify crisis preparedness.	<b>FSOC, FRB, FDIC, OCC (S&amp;R/FBAs)</b>	<p>FSOC plays an important role in promoting information sharing and collaboration to address potential risks to financial stability. When the Council discusses potential responses to mitigate potential risks to financial stability, it seeks to collaborate regarding agencies' crisis-management planning and tools that are relevant to those risks. In addition, FSOC is coordinating with its member agencies to enhance crisis preparedness, including by hosting an interagency tabletop exercise focused on crisis preparedness and critical market infrastructure.</p> <p>In 2024 and 2025 the FBAs led and participated in, and continue to maintain, significant principal and staff-level engagements to discuss cross-border issues and potential impediments that could affect the resolution of a G-SIB. These interagency efforts include bilateral work with foreign jurisdictions, ongoing trilateral work with U.S., UK, and European financial regulatory authorities and multilateral work (e.g. Financial Stability Board). In addition, the FBAs work with staff from the U.S. financial regulatory authorities, and with foreign supervisors and resolution authorities and within international groups, to understand risks, identify resolution options, and address related CCP resolution planning issues.</p>
Continue to use agency discretion actively to subject a wider array of firms to RRP.	<b>FRB, FDIC, OCC (S&amp;R/FBAs)</b>	<p>Through operation of the revised resolution plan rule issued by the FDIC and Board in 2019, several firms have become subject to the Title I resolution plan requirement since the effective date of the rule.</p> <p>The OCC, in coordination with other FBAs, assessed recovery plans of banks with assets exceeding \$250 billion to gauge compliance with regulatory guidelines during mid-2022 through fall 2023. These reviews exposed gaps in the current Guidelines. In March 2023, several insured depository institutions with total consolidated assets of \$100 billion or more experienced large withdrawals of uninsured deposits and</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Crisis Preparedness and Management</b>		
		<p>ultimately failed, highlighting the risk and interconnectedness of banks in the \$100 billion to \$250 billion range—entities previously outside the Guidelines’ scope. This underscored the need for those banks to maintain credible recovery plans to manage severe stress.</p> <p>To address this, on July 3, 2024, the OCC published a proposal to expand the Guidelines to banks with average total consolidated assets of \$100 billion or more, introduce a testing standard, and clarify the role of non-financial risk (including operational and strategic risk) in recovery planning. The final Guidelines were issued on October 24, 2024, and became effective on January 1, 2025, with staggered compliance dates.</p>
Continue to undertake, at least yearly, Dodd-Frank Act (DFA) Title II plans, resolvability assessments, and crisis management group (CMG) discussions of RRP and assessments.	<b>FRB, FDIC</b>	<p>The FBAs continue to review RRP submitted by firms with an increasing focus on testing a range of firms’ capabilities that support resiliency, recoverability, and resolvability.</p> <p>The FDIC and the Board also continue to co-chair annual Crisis Management Group (CMG) meetings for U.S. G-SIBs, with the participation of the OCC and SEC, as applicable, and relevant host authorities, to discuss home-and-host resolvability assessments for the firms to facilitate cross-border resolution planning.</p> <p>Further, the FDIC has continued its work on institution-specific strategic planning to carry out its orderly liquidation authorities with respect to the largest G-SIBs operating in the United States. The FDIC continues to build out process documents to facilitate the implementation of the framework in a Title II resolution. The FDIC engaged in multiple bilateral and multilateral discussions of its 2024 paper titled “<a href="#">Overview of Resolution under Title II of the Dodd-Frank Act.</a>” These discussions enhance</p>

FSAP Recommendations	Responsible Authority	Developments
<b>Crisis Preparedness and Management</b>		
		understanding of how the FDIC expects to manage the orderly resolution of a large, complex financial company under Title II of the Dodd-Frank Act and enhance cooperation on cross-border resolution planning.
Extend OLA powers to cover FBOs' U.S. branches; ensure equal depositor preference ranking for overseas branch deposits with domestic deposits; introduce powers to give prompt and predictable legal effect to foreign resolution measures.	<b>Congress</b>	
<i>This assessment was prepared for the purposes of the IMF's Article IV review and is non-binding, informal, and summary in nature. The updates contained herein do not represent rules, regulations, interpretations, or official statements of the U.S. authorities.</i>		



# UNITED STATES

March 17, 2026

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department  
(in consultation with other departments)

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## FUND RELATIONS

(As of February 28, 2026)

**Membership Status:** Joined: December 27, 1945; <http://www.imf.org/external/pubs/ft/aa/aa08.htm>  
Article VIII

<b>General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
<u>Quota</u>	82,994.20	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	59,918.52	72.20
<u>Reserve Tranche Position</u>	23,075.69	27.80

<b>SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	114,861.89	100.00
Holdings	126,686.24	110.29

**Outstanding Purchases and Loans:** None

**Financial Arrangements:** None

**Projected Payments to Fund <sup>1/</sup>**

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

	Forthcoming				
	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>
Principal					
Charges/Interest	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>
<b>Total</b>	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>	<u>0.54</u>

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 de jure and de facto exchange rate arrangement in the United States is classified as free floating. 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, 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 on [Feb 26, 2024].

**Article IV Consultation.** The 2026 Article IV consultation was concluded on February 25, 2026, and the Staff Report was published as IMF Country Report No. 26/76. A fiscal Report of Observance of Standards and Codes was completed in the context of the 2003 consultation. The 2026 Article IV discussions took place during January 20–February 2, 2026. Concluding meetings with Treasury Secretary Bessent and Chair Powell of the Board of Governors occurred on February 25. The Managing Director, Ms. Georgieva participated in the concluding meetings. A press conference on the consultation was held on February 25, 2026. The team comprised Nigel Chalk (head), Julien Acalin, Anahit Aghababyan, Jaebin Ahn, Mai Chi Dao, Carlos Guevara, Niels-Jakob Hansen, Jing Zhou (WHD), Li Liu (FAD), Philippe Wingender (RES), Oliver Exton and Adam Jakubik (SPR). Ms. Shannon Ding (Executive Director) and Megan Leary (Advisor) attended some of the meetings. Outreach included discussions with 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.

**Statement by Ms. Ding, Executive Director for the United States, and  
Ms. Leary, Advisor to the Executive Director  
April 1, 2026**

We thank the U.S. mission team, led by Nigel Chalk and Mai Chi Dao, for their policy advice and robust analysis. **We concur with staff's assessment that the U.S. economy performed well in 2025, and that economic activity will expand further in 2026, thanks to President Trump's America First economic agenda of tax cuts, energy abundance, and regulatory modernization.** Since taking office, the Trump Administration has aggressively pursued pro-growth policies that unlock Americans' potential and promote their freedom to save, invest, and build businesses. The Trump Administration is prioritizing investments aimed at boosting productivity, restoring industrial capacity, reinforcing technological leadership, expanding economic opportunity, and strengthening resilience. Under President Trump's leadership, we are fundamentally resetting the framework in which the United States participates in the global economy, prioritizing economic security rooted in productive capacity, resilience, and long-term, durable growth.

**The U.S. economy was strong and resilient in 2025, with real GDP growth of 2 percent in 2025 despite the effects of a government shutdown that reduced growth in the fourth quarter, and growth is poised to pick up steam this year.** Growth has been driven by strength in consumer spending as well as strong technology-related investment. Moreover, U.S. productivity growth continues to trend above the levels of other advanced economies, with the United States' post-pandemic recovery having been uniquely characterized by rising productivity, high levels of labor mobility, and business investment. The labor market remains near full employment, with the prime age employment population ratio near all-time highs, and stabilized in 2025 amid a reduction in labor supply and net immigration following a previous surge. Inflation has eased significantly from its highs in 2022 but remains above the Federal Reserve's 2 percent target. Importantly, however, the inflation rate of rented and owner-occupied housing has moderated substantially, and fears of inflation from the tariffs have not materialized.

**Looking into the future, the Trump Administration is prioritizing policies to drive economic growth and industrial and technological strength through a revitalized private sector.** This includes passing landmark tax legislation in July 2025 that raises real incomes for families and increases incentives for business investment; securing a resilient

and reliable energy supply; and undertaking regulatory modernization while cutting down on wasteful government spending. As the global economy is undergoing a period of rapid transformation with breakthrough advances in artificial intelligence and advanced manufacturing, the Administration seeks to sustain American innovation in leading technologies, which we see as crucial to both economic growth and national security in this next industrial revolution.

## **Fiscal**

**The U.S. budget deficit fell to 5.9 percent of GDP in 2025 from 6.3 percent in calendar year 2024.** In addition to expenditure control from the reversal of federal student loan relief, we saw strong growth of receipts from individual income tax withholdings and capital gains realizations, as well as higher tariff revenues.

**The Trump Administration's fiscal strategy centers on growing the United States out of debt and into prosperity.** The 2025 Working Families Tax Cut (WFTC) provides provisions for long-term investment in the productive capacity of the American economy and provides more certainty by making permanent provisions of the 2017 Tax Cuts and Jobs Act that were scheduled to expire. By allowing full expensing for investment in factories, equipment, farm structures, and permanent expensing of domestic R&D, WFTC lowers the cost of capital and makes it cheaper to build in America. As a result, the United States saw a 12 percent surge in business investment in the first three quarters of 2025—the largest non-pandemic increase in over a decade. The Administration projects that the combination of President Trump's economic policies—WFTC measures, additional growth from deregulatory and energy policies, discretionary spending reductions, and tariff revenues—will raise investment by 7 to 10 percent over the next four years, boost real growth by over 1 percentage point per year over the same period, and puts the debt-to-GDP ratio well below 100 percent in 2034 under its baseline scenario.

**We strongly disagree with IMF staff's assessment that President Trump's tax and tariff policies could contribute to an increase in poverty.** The WFTC allows Americans to keep more of the money that they earned, makes permanent the expanded child tax credit, and benefits lower- and middle-income households through reductions in taxes on overtime, tips and Social Security income. The WFTC also creates new tax-advantaged savings accounts for children, with every American child born between 2025-2028 eligible to receive an initial deposit of \$1,000 from the federal government. The Administration estimates that real take-home pay for a median-income family with two children will increase by up to about \$10,000. In addition, struggling and previously left-behind communities will benefit from the surge of investment, jobs, and housing supply enabled by the permanent extension of Opportunity Zones.

## **Monetary Policy**

**The Federal Reserve remains squarely focused on achieving its dual-mandate goals of maximum employment and stable prices for the benefit of the American people.**

**Recent indicators suggest that economic activity has been expanding at a solid pace.**

Consumer spending has been resilient, and business fixed investment has continued to expand. While job gains have remained low, the unemployment rate has been little changed in recent months. A good part of the slowing in the pace of job growth over the past year reflects a decline in the growth of the labor force, and other indicators, including job openings, layoffs, hiring, and nominal wage growth, generally show little change in recent months.

**Inflation remains above the longer-run goal of 2 percent**, however, with the data suggesting that total PCE prices for the 12 months ending in February rose 2.8 and core PCE prices, excluding the volatile food and energy categories, increased 3.0 percent. These elevated readings largely reflect inflation in the goods sector. The implications of events in the Middle East for the U.S. economy are uncertain. In the near term, higher energy prices will push up overall inflation, but it is too soon to know the scope and duration of the potential effects on the economy. Near-term measures of inflation expectations have risen in recent weeks, but most measures of longer-term expectations remain consistent with the Federal Open Market Committee's (FOMC) 2 percent inflation goal.

**The FOMC has maintained its target rate for the federal funds rate at 3½ to 3¾ percent so far this year**, after reducing it by ¾ percentage point in the final 4 months of 2025. With a reduction of now 175 basis points over the past 18 months, the federal funds rate is now within a broad range of plausible estimates of its neutral value. The Committee feels that this should continue to help stabilize the labor market while allowing inflation to resume its downward trend toward 2 percent. Furthermore, the FOMC is well positioned to address the risks that it faces on both sides of its dual mandate.

**Financial Sector**

**U.S. financial markets and institutions performed well in 2025, supporting the smooth provision of credit to businesses and households.** Core markets and institutions, including short-term funding and Treasury markets, and payments, clearing, and settlement systems, remained operational and resilient in the face of a short-lived bout of market volatility in early April 2025. Although this volatility caused a temporary but significant tightening of financial conditions, asset prices have since rebounded, reflecting strong investor risk appetite. Aggregate measures of household and corporate debt remained stable and fundamentals in both sectors have generally shown resilience. Conditions in the commercial real estate market, which had deteriorated notably in the post-pandemic period, showed signs of stabilization.

**Against the backdrop of a well-functioning financial system, important changes to financial regulation were finalized.** Capital requirements form the foundation of our prudential regulatory framework, and U.S. financial regulators proposed rules to implement the final phase of Basel III in the United States. These changes result in more efficient regulation and banks that are better positioned to support economic growth, while preserving safety and soundness. Following the 2008 financial crisis, regulators implemented reforms that substantially increased bank capital and strengthened financial system resilience. While

these initial reforms were necessary, experience shows requirements that overly calibrate low-risk activities produce unintended consequences. It constrains credit availability, pushes activity into the less-regulated nonbank sector, and layers on complexity and costs without meaningfully enhancing safety and soundness. The proposal brings us closer to implementing the 2017 Basel III agreement and completes the first step of our comprehensive review of the capital framework.

**The U.S. Treasury market is the deepest and most liquid market in the world and was also the best-performing developed bond market in 2025.** Lower Treasury borrowing costs meant lower corporate borrowing costs, lower mortgage rates, and lower consumer credit rates—which all translated to greater affordability for all Americans. We continue to see robust demand at Treasury auctions from a wide range of investors, including foreign investors whose holdings of Treasury securities are at record levels. Daily trading volume for U.S. Treasuries averages around \$1 trillion per day in cash securities, while volumes in derivatives represent another major source of liquidity. Our main policy goal is to ensure a robust and resilient Treasury market that can withstand volatility when it inevitably arrives. To that end, we are pushing several forward-thinking initiatives to strengthen the Treasury market. This includes the Treasury buyback program, which is an important tool in supporting market liquidity. We are also advancing reforms to the enhanced supplementary leverage ratio to eliminate distortions that deter banks from engaging in low-risk activities, such as Treasury intermediation. Expanding central clearing is another key priority, and we are implementing this tool in the Treasury market to enhance resiliency, expand netting opportunities, and standardize risk management.

**As staff note, we have taken important and leading steps to improve regulatory clarity for stablecoins and other crypto assets.** The GENIUS Act (2025) provides the fast-growing payment stablecoin market with the regulatory clarity it needs to grow. This will generate increased demand for U.S. debt and strengthen the U.S. dollar's status as the global reserve currency by requiring dollar stablecoin issuers to back their assets with Treasuries and other U.S. dollar-denominated assets. In parallel, the Administration has been engaged with Congress and U.S. financial regulators in support of developing a fit-for-purpose digital asset market structure framework to support growth and innovation, protect consumers, and keep the United States at the forefront of digital assets development. This will attract digital asset activity to return to the United States.

## **Trade**

**The United States is finally taking long-needed action to address persistent structural imbalances that have made the global trading system unsustainable.** We firmly believe that the conditions underlying our large trade deficit are not compatible with stability or healthy economic growth for the United States, nor for the rest of the world. Our actions to rebalance trade are necessary to address longstanding tariff and non-tariff barriers to U.S. competitiveness, counteract distortions that harm the U.S. domestic economy, support American workers and producers, and promote national and economic security. It has become clear that persistent surplus economies, particularly those that rely on non-market policies and practices to sustain those surpluses, will not take sufficient steps on their own to

boost their domestic demand to a level that can resolve global imbalances, nor take proactive actions to roll back unfair trade policies and practices that contribute to industrial overcapacity. Adjustment that relies only on fiscal consolidation in deficit economies—without measures to boost demand elsewhere—would be negative for the U.S. and global economy.

**A trade policy focused on increasing domestic manufacturing is essential for American workers and the American economy.** Manufacturing is foundational to our national and economic security. However, American manufacturers have long faced unfair competition from persistent surplus nations using non-market policies and practices. Today, U.S. manufacturing directly contributes about 10 percent of GDP, as well as 20 percent of capital investment, 35 percent of productivity growth, over 60 percent of exports, and 70 percent of business research and development spending. Our trade policy reflects a decisive shift in priorities towards strengthening U.S. supply chains, encouraging increased U.S. productivity and innovation, and delivering prosperity for the American people. Growth in American manufacturing will drive growth across the economy—supporting robust agricultural development and broad-based demand for innovative services.