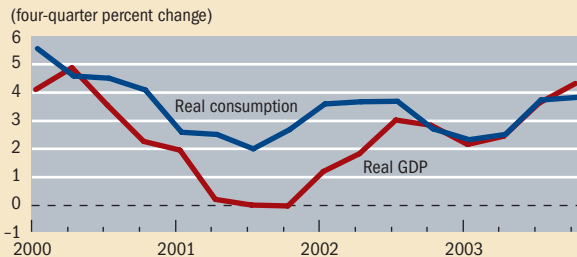


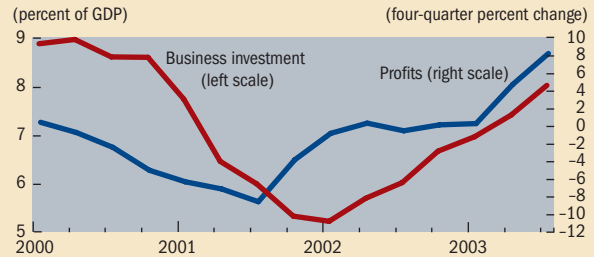
The United States

Near-term prospects for the U.S. economy are favorable, but the fiscal deficit poses long-term challenges.

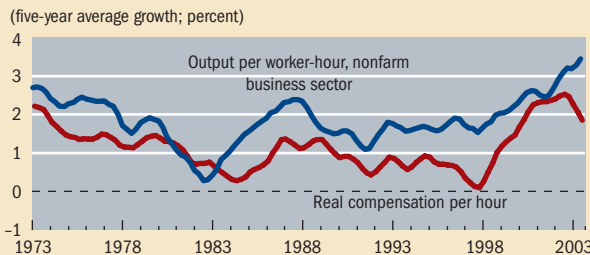
The U.S. recovery has been led by household consumption . . .



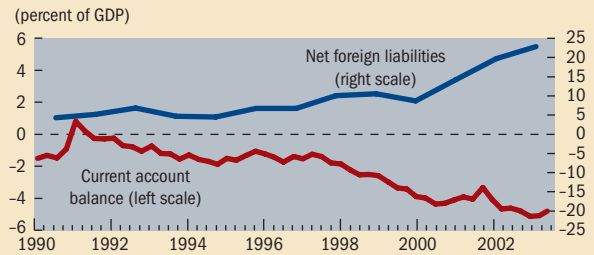
but business investment has begun to rebound, partly because of a recovery in corporate profits.



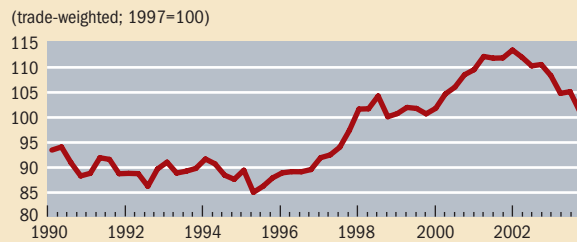
Growth of labor productivity has surged, which should help support real wage growth.



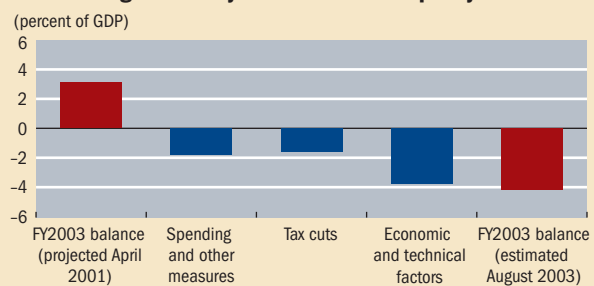
The current account deficit has widened, net foreign liabilities have risen sharply . . .



and the real exchange rate remains high, despite its recent depreciation.

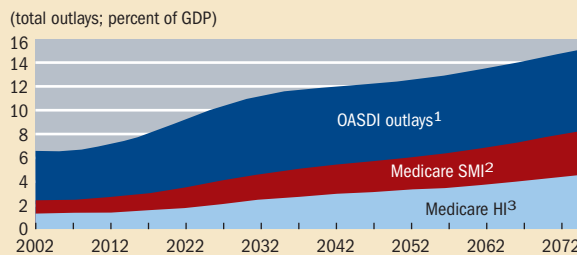


The federal budget balance has worsened since early 2001 owing to both cyclical factors and policy action.



Source: U.S. Office of Management and Budget.

The biggest fiscal challenge will be to address the impending pressure on the Social Security and Medicare systems as the baby-boom generation retires.



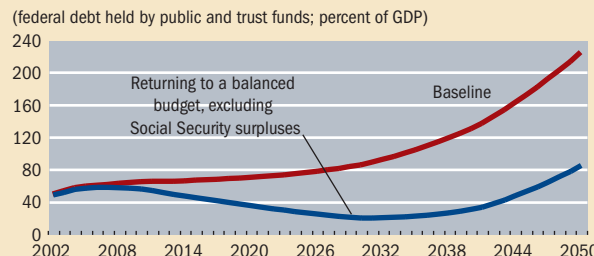
Sources: Haver Analytics; Congressional Budget Office; Office of Management and Budget; and IMF staff estimates.

¹OASDI = Old-Age and Survivors and Disability Insurance (Social Security).

²SMI = Supplemental Medical Insurance.

³HI = Hospital Insurance.

Balancing the budget before the baby boomers retire would lower the debt ratio and thus help in coping with impending demographic pressures.



Source: IMF staff estimates.