Research Report on USA

15th of January, 2015

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Introduction

The United States of America is the world's largest economy, representing 22,4% of nominal global GDP and 16,6% of global GDP measured in PPP. Additionally, the U.S. dollar is the most used currency for international transactions and is the world's leading reserve currency. The 2007-2008 financial crisis, which had its origins in the US subprime market[1], had significantly negative effects on the overall country's economy, especially the financial sector. While the debt load of the country soared in recent years reaching the value of 104% of GDP in 2013, a number of measures were put in place by the government in order to preserve financial stability, to reduce fiscal imbalances and to bring the economy back to a growth path.

Main Economic Indicators of USA

Macro indicators	2011	2012	2013
Gross pub. debt, bill USD	15366	16570	17472
Nominal GDP, bill USD	15518	16163	16768
Nominal GDP growth, %	3,7	4,2	3,7
Gross gov. debt/GDP,%	99,0	102,5	104,2
Deficit (surplus)/GDP,%	-9,9	-8,6	-5,8
Inflation rate,%	3,1	1,8	1,3
Curr. Account balance/GDP,%	-3,0	-2,9	-2,4

Development indicators	2013
Inequality adj. HDI	0,82
GDP per capita (Thou. of USD)	53,0

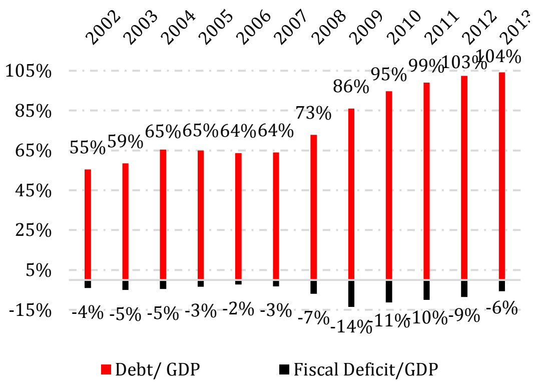
Sources: RAEX (Europe) calculations using data from World Bank, IMF, Bloomberg

Gross government debt showed an upward trend as a consequence of persistent deficit figures. During pre-crisis years, the U.S gross government debt/GDP remained almost flat with small fluctuations between 55% and 65%. The years after 2007 saw this figure increase at a constant pace as a result of larger fiscal deficit figures (see graph 1). Post-crisis fiscal deficit was mainly triggered by the economic recession which began in 2007. In the years which followed, fiscal deficit declined as a result of higher revenues (thanks to healthy growth in the taxable income of households and businesses). In 2013, the U.S ended up with almost twice as much debt (as % of GDP) than it had a decade before.

A large and diversified economy stands as one of the major strengths of the U.S. The U.S has a highly diversified economy (see graph 2), plenty of natural resources, a highly developed industrial base and one of the deepest and largest financial markets in the world.

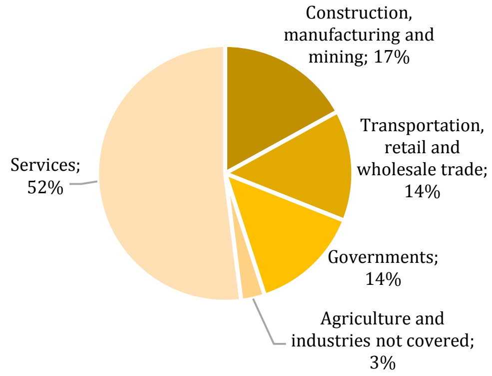
[1] The market for lenders and borrowers of subprime credit includes credit that is lent to people of questionable or limited credit histories. This market involves the business of subprime mortgages, subprime auto loans and subprime credit cards, as well as various securitization products that use subprime debt as collateral.

Graph 1: Government Debt/GDP vs. Fiscal Deficit/GDP



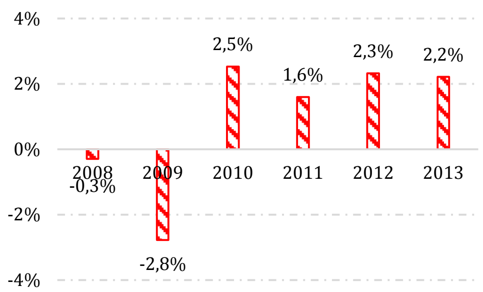
Source: RAEX (Europe) calculations based on data from IMF

Graph 2: U.S. GDP by industry in 2010



Source: RAEX (Europe) calculations based on data from U.S. Census Bureau and World Bank

Graph 3: U.S GDP growth rate (%)



Source: RAEX (Europe) calculations based on data from IMF

Temporary easing of the after-crisis monetary policy proved beneficial in boosting economic growth. As the Federal Reserve's (Fed) most important monetary policy tools reached their limits after the Fed funds rate and the discount rate were cut to zero, quantitative easing (QE) became the central bank's primary mechanism to boost economic growth. During the whole QE program, the Fed purchased debt such as mortgage-backed securities (MBS), consumer loans and Treasury bills, bonds and notes for a total amount of 4,5 trillion of USD (see table 1). While its final outcome was highly questioned since the beginning, quantitative easing contributed significantly to the recovery of the U.S Economy (see graph 3).

Table 1: Quantitative Easing in the U.S.

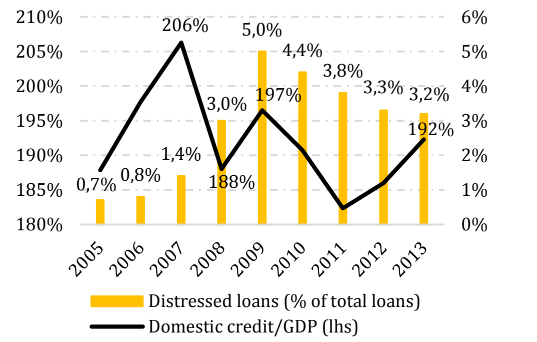
Stage	Start	Amount (trillions of USD)	Types of bonds purchase
QE1	November 2008	1,5	Agency debt securities[2] and mortgage-backed securities
QE2	November 2010	0,6	Treasury securities
QE3	September 2012	2,4	Mortgage-backed securities

Source: RAEX (Europe) calculations based on data from IMF, Morgan Stanley and NASDAQ

In recent years, the U.S. financial market showed a noticeable recovery from its post-crisis figures. As a consequence of a number of financial reforms and a temporary relaxation of the U.S. monetary policy, the country's financial sector was able to recover substantially from the 2008 financial crisis. Apart from the real estate market, the banking industry was the sector which suffered the consequences of the crisis the

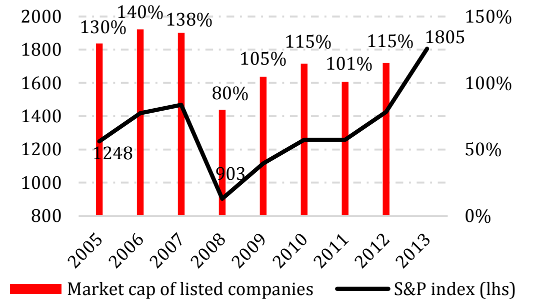
[2] Agency debt also known as an Agency bond is a security, issued by a U.S. government-sponsored agency or federal budget agency. The offerings of these agencies are backed but not guaranteed by the US government.

Graph 4: U.S Banking sector performance



Source: RAEX (Europe) calculations based on data from World Bank

Graph 5: U.S Stock market performance



Source: RAEX (Europe) calculations based on data from S&P

most. While domestic credit to GDP showed a slight improvement during the period 2008-2013, the share of distressed loans followed a constant decline from 5% in 2009 to 3% in 2013 (see graph 4). The stock market was also a sector which was temporarily affected by the financial crisis. The sharp decline observed in the market capitalization of listed companies and the S&P 500 index in the aftermath of the crisis was promptly overcome in the following years (see graph 5).

Conclusion

As a result of a number of reforms and a transitory relaxation of the monetary policy, the financial markets are regaining strength and the U.S economy is back to the growth path, as shown by the banking sector and stock market performance, as well as the GDP growth rate. Despite gross government debt having reached values above 100% in recent years and fiscal deficit being in place for more than a decade, this situation is unlikely to affect the potential issuance and/or roll-over of U.S debt. This is possible due to the overall high creditworthiness of the U.S government and the position of the US dollar, which is used internationally as a reserve currency.