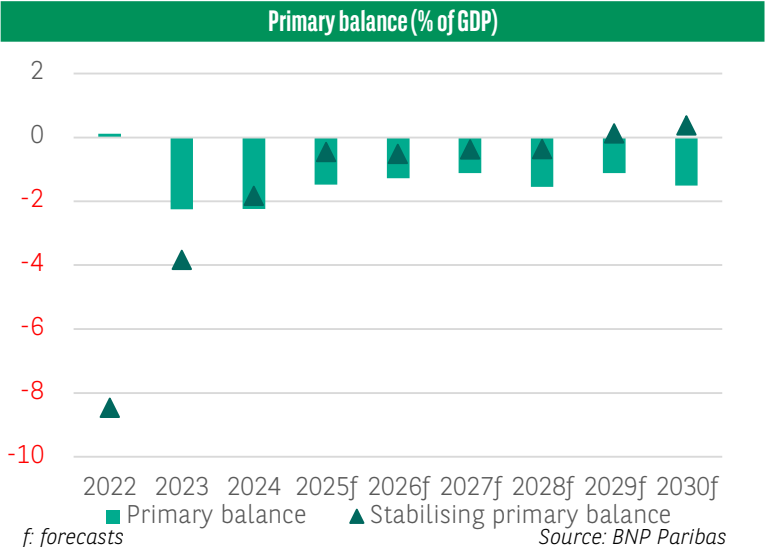
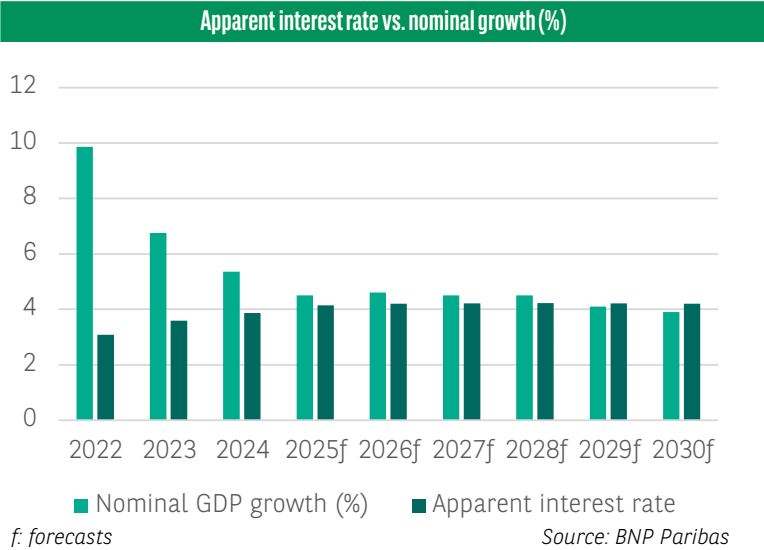


UNITED STATES: High interest rates will prevent any reduction in the budget deficit (1)

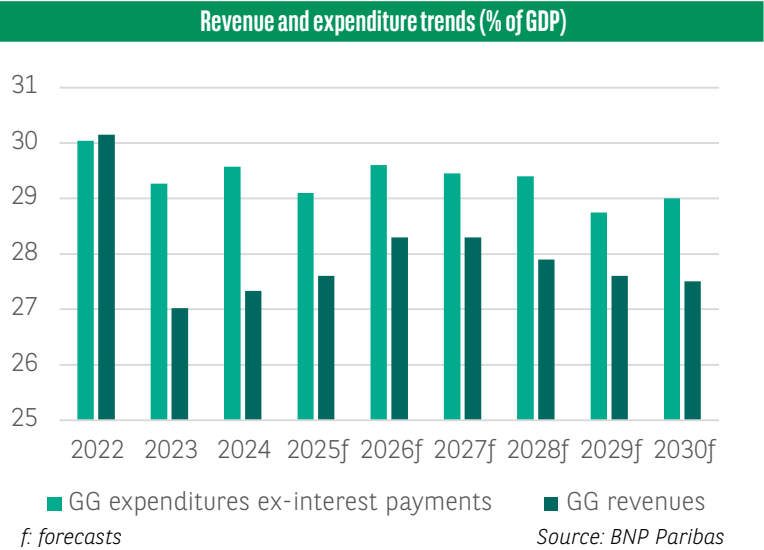


The US primary deficit is expected to narrow in 2025 and stabilise at around 1.0–1.5% of GDP in the coming years thanks to higher customs revenues.

However, the deficit would not fall below the level needed to stabilise public debt, mainly due to relatively high interest rates.



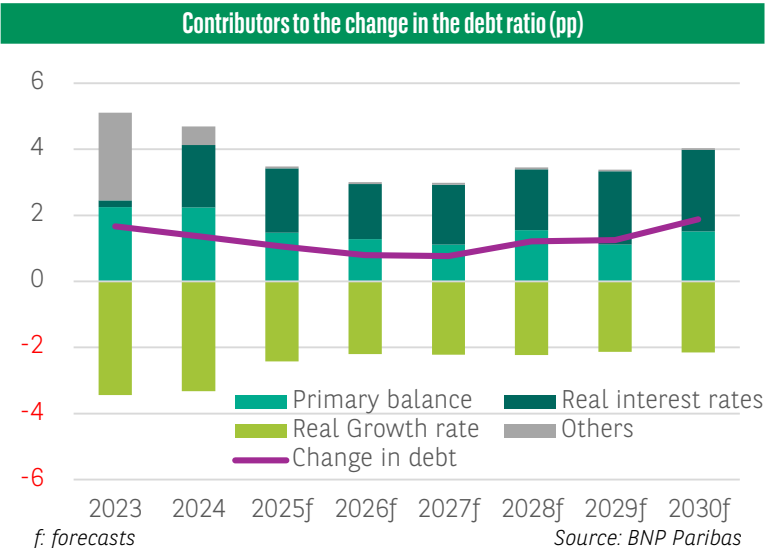
The excess growth relative to the apparent interest rate is expected to dissipate. This is the main consequence of the end of above-average growth from 2025 (1.9%) onwards (1.9% until 2027). In the short term, nominal growth will remain buoyed by persistent inflation (between 2.5% and 3.0%), a phenomenon that is likely to erode by the end of the decade.



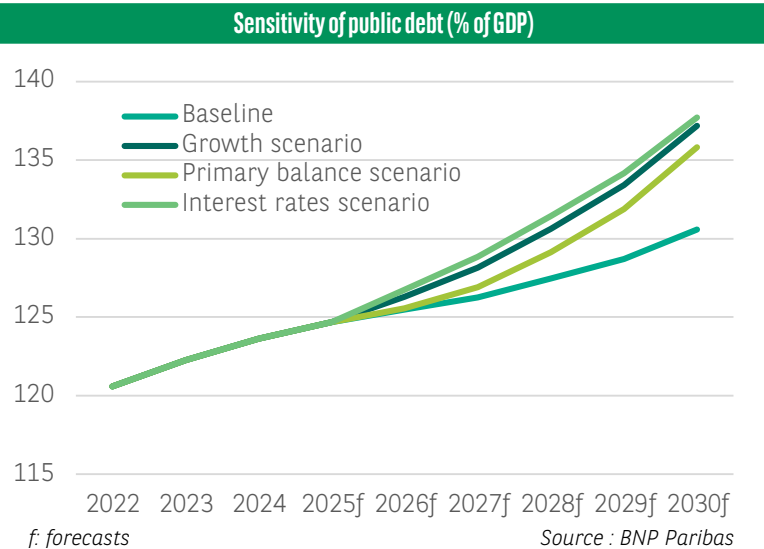
Primary public expenditure in the United States is expected to remain relatively stable until 2030, within a range of 29–30% of GDP. The variations are due to the provisions of the One, Big, Beautiful Bill Act (OBBBA), notably the reform of student loans, whose downward effect on expenditure is concentrated in 2025, followed by increased security and defence spending from 2026 onwards.

On the revenue side, the tax structure inherited from the Tax Cuts and Jobs Act (TCJA, 2017) is preserved, with the addition of revenue from additional customs duties. As a result, the share of revenue in GDP is expected to grow by one percentage point to 28.3% between 2024 and the end of Donald Trump's term of office.

UNITED STATES: High interest rates will prevent any reduction in the budget deficit (2)

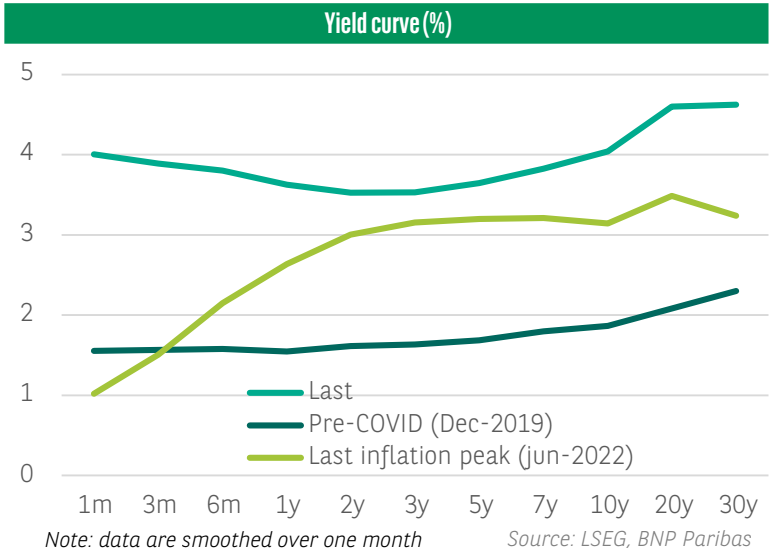


The increase in the public debt-to-GDP ratio is expected to continue but will be limited by continued high nominal growth. The real interest rate is the main cause of the increase in public debt due to its impact on interest charges, even though this effect remains lower in absolute terms than that exerted by real growth. As these effects increasingly neutralise each other over time, it is the level of the primary deficit that is expected to lead to a moderate increase in public debt.



Please note: the "growth" and "primary balance" scenarios incorporate a negative shock to growth and to the deficit of 0.5 pp of GDP per year compared to the central scenario, respectively; the "Interest rate" scenario incorporates a 1 pp increase in the apparent interest rate.

Alternative scenarios could lead to a more pronounced increase in US public debt (relative to GDP). An interest rate shock would be damaging given the already growing and predominant share of debt servicing in the baseline outlook. The same argument also applies to the alternative scenario of lower growth, which would leave growth below the apparent interest rate. With the US economy close to full employment, a larger fiscal stimulus, leading to a widening of the primary deficit, would not stimulate growth enough to stem the rise in public debt.



Interest rates have risen significantly in recent years for several reasons: post-pandemic inflation, deteriorating public finances and monetary tightening. The relative steepening of the current yield curve on longer maturities reflects new or greater concerns about the sustainability of US debt. For the time being, the large budget deficit and the lack of reduction are keeping debt at a high level, which fuels its sensitivity to a possible interest rate shock on short maturities.

