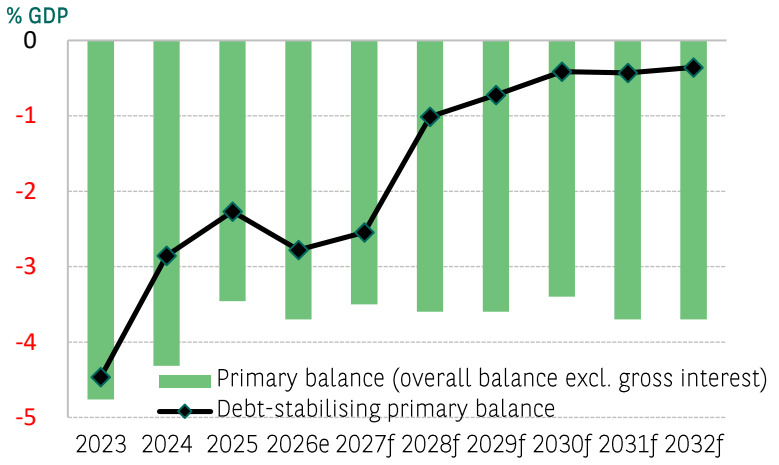
United States: Public debt on an upward trajectory, with no turnaround in sight (1/2)

Persistent primary deficits, with no fiscal consolidation in prospect

Primary balance and debt-stabilising primary balance

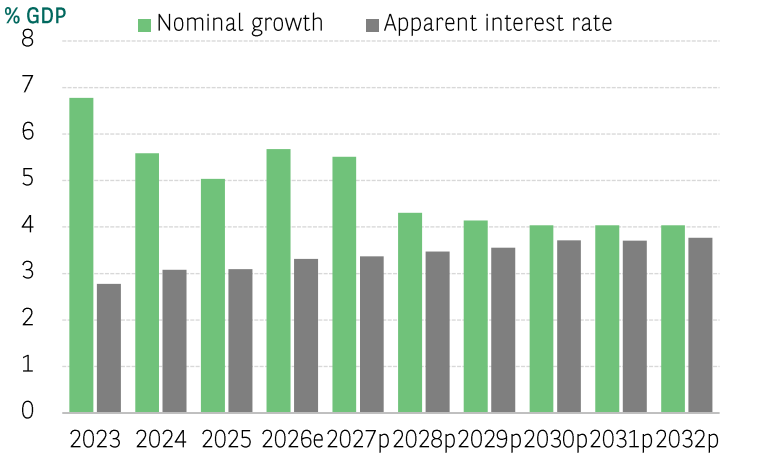


Source: IMF, BNP Paribas

The US primary deficit is projected to remain sizable through to 2032. Population ageing exerts structural pressure on mandatory health and pension spending, while fiscal consolidation does not appear to be on the policy agenda. The primary deficit is estimated to have widened to -4.2% of GDP in 2026, from -3.2% in 2025. This primarily reflects a shortfall in tariff revenue, as reciprocal-tariffs are being refunded and gradually replaced. This volatility is expected to dissipate in 2027, with the primary deficit narrowing modestly to -3.5% of GDP.

An increasingly unfavourable interest rate-growth differential

Apparent interest rate vs. nominal growth

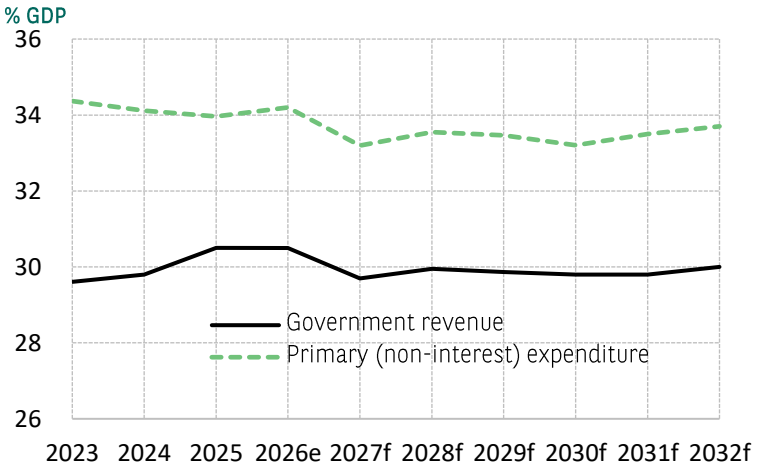


Source: IMF, BNP Paribas

The interest rate-nominal growth (r-g) differential remains favorable for now, but the gap is expected to close almost entirely by 2032. Two factors are at play. First, real growth and inflation should normalize towards their long-term levels, bringing nominal growth down from nearly 6% to about 4%. Second, the effective interest rate is rising as maturing debt is refinanced at a higher rate. The larger share of short-term issuance accelerates the pass-through of market rates to debt service costs.

A revenue-expenditure gap that is unlikely to narrow

Revenue and primary (non-interest) expenditure



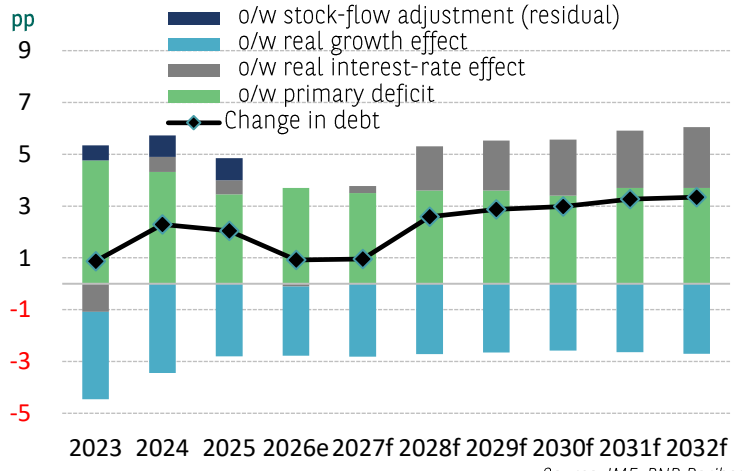
Source: IMF, BNP Paribas

Primary spending is subject to structural upward pressure over the medium term. Population ageing raises mandatory outlays on healthcare and pensions. Scope for savings on federal discretionary spending is limited. On the revenue side, tax increases appear unlikely at this stage.

United States: Public debt on an upward trajectory, with no turnaround in sight (2/2)

Debt growth set to accelerate from 2028

Contributions to the change in debt, baseline scenario

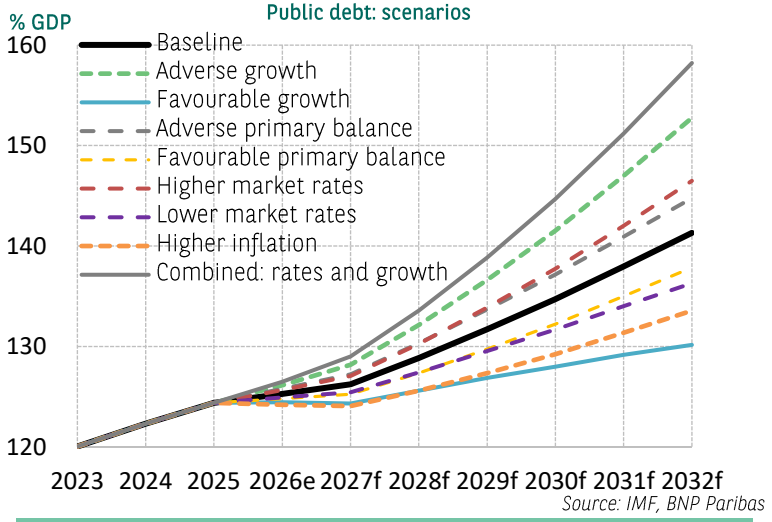


Source: IMF, BNP Paribas

The debt-ratio is set to keep rising throughout our projection horizon, and at an accelerating pace. From less than 125% of GDP in 2025, it is projected to exceed 140% in 2032. Limited to 1pp per year in 2026 and 2027, the annual rise in the ratio is expected to exceed 3pp from 2030 onwards. Persistent primary deficits would be the main driver, while the offsetting contribution of growth would fade. Higher real interest rates, as inflation normalizes and the cost of debt rises, would add further to the ratio.

Rising debt in all scenarios

Public debt: scenarios



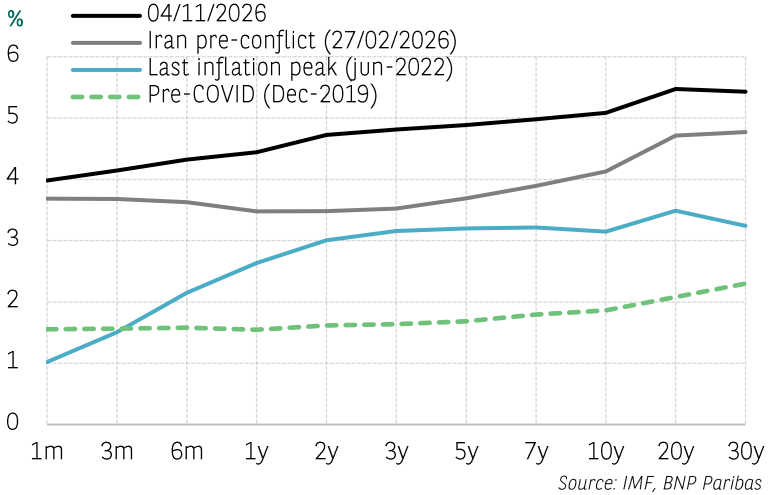
Source: IMF, BNP Paribas

Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

The US debt ratio is clearly exposed to upside risks; it rises under every scenario considered. Even the most favorable growth and inflation scenario would push debt above 130% of GDP by 2032. At the other end, a combined growth and interest rate shock would push it towards 160% through lower nominal GDP and a weaker primary balance. Debt is also highly sensitive to interest rates, exceeding 145% under a rate shock. The relatively short maturity of US debt speeds up the transmission.

Long-term rates pushed higher by multiple factors

US yield curve



Source: IMF, BNP Paribas

The yield curve has shifted sharply upwards and is now positively sloped across all maturities. At the short end, the 2-year reflects expectations of tighter monetary policy fueled by the conflict in Iran. Further out, several factors, not all of them fiscal, are pushing long-term yields higher. Strong US growth is one. Another is intensifying competition for capital, with the AI boom creating large investment needs. Finally, a shift investor base, with institutional investors giving way to short-horizon buyers, is amplifying the trend.