

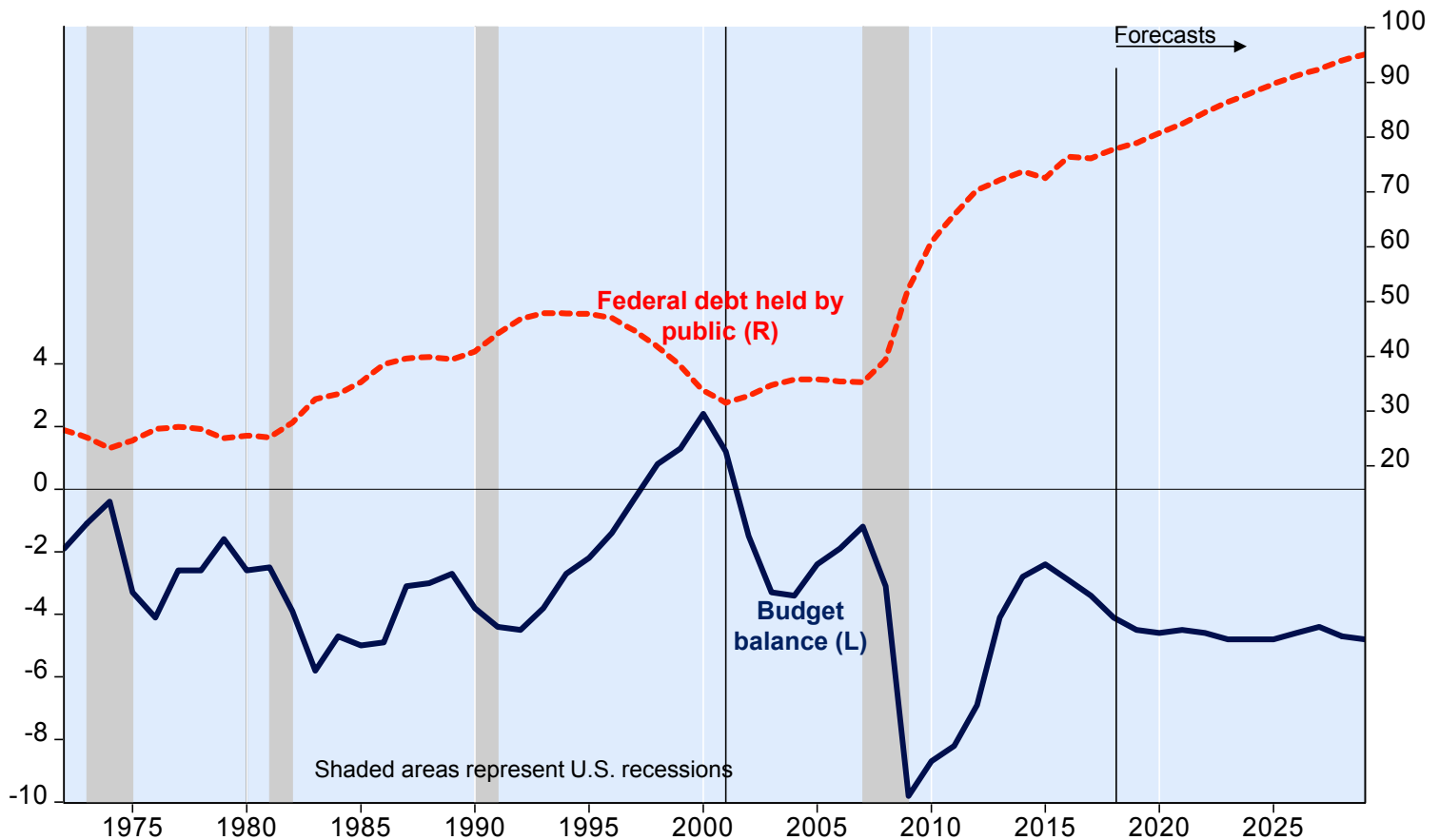
U.S. Watch

By Krishen Rangasamy

With U.S. policymakers focused on boosting near term growth ahead of next year's elections, fiscal rectitude has been put on the back burner. The recent decision by Congress to cancel automatic spending cuts slated for 2020 and approve spending increases (as part of a broader deal to suspend the debt ceiling until 2021) will help support U.S. economic growth next year but at the expense of the budget whose deficit is now projected by the Congressional Budget Office to be \$809 bn larger than it estimated just last May over the period 2020-2029. The CBO now expects the deficit will surpass US\$1 trillion as early as next fiscal year and remain above that mark over the forecast horizon. As today's *Hot Chart* shows, the budget deficit is projected to average roughly 4.7% of GDP over the next ten years, well above the pre-2019 average of 2.9%. With so much budgetary red ink, federal debt held by the public is estimated by the CBO to reach 95% of GDP by 2029, the highest since 1946. Note those deficit and debt projections assume no recession and no additional stimulus over the forecast horizon (e.g. the payroll tax cut that is currently being floated by the White House), meaning that the fiscal situation is likely to be worse than what is currently being estimated.

U.S.: Unsustainable fiscal path

Budget balance and Federal debt, as % of GDP



NBF Economics and Strategy (data via Congressional Budget Office)



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