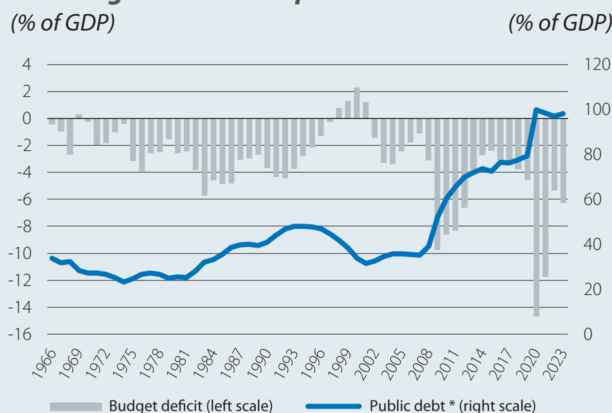
The US national accounts: current situation and future outlook

The US federal government deficit for the fiscal year ended 30 September 2023 increased from 1.4 trillion dollars to 1.7 trillion, or from 5.3% to 6.3% of GDP.[1] These deficit levels are among the highest in advanced economies, and in the US since the 1960s they have only been exceeded during the Great Recession (2009-2012) and the pandemic (2020-2021). The figures are rather alarming, and in this article we will try to shed light on the reasons for this increase in 2023, the impact it could have on the US economy, and the medium-term outlook for the sustainability of US public (federal government) debt.

As can be seen in the table, the increase in the deficit compared to the years prior to the pandemic can be explained in part by lower tax revenues, but above all by a marked increase in public spending. This increase is especially visible under the categories of Health and Medicare (+0.6 pps) and Interest payments (+0.9 pps). The increase in this latter category is to be expected in the current context of high interest rates, which has led the 10-year treasury interest rate to average 3.9% in 2023, compared to an average of 2.25% between 2015 and 2019. On the other hand, the slight increase in the Other expenses category from 2.6% to 2.9% hides the accounting effect of the cancellation of student loans, which increases the portion allocated to the 2022 fiscal year (hence the rebound to 5.1%) and decreases that attributed to 2023. If we were to undo this accounting effect, we would see that the fiscal deficit relative to GDP would be 1.5 pps lower in 2022 (–4.5%) and 1.2 pps higher in 2023 (–7.5%). On the income side, the fall between 2022 and 2023 is primarily explained by a normalisation of revenues from the collection of taxes on capital, which in 2022 were unusually high due to the significant gains recorded in the stock market in the previous year.

US: budget deficit and public debt

(% of GDP) (% of GDP)



Note: ** Excludes intergovernmental debt.*
Source: *CaixaBank Research, based on data from the Federal Reserve Bank of St. Louis and the Congressional Budget Office.*

US: fiscal revenues and expenditure by source

(% of GDP)

	Average for 2015-2019	2022	2023
Personal income taxes	8.3	10.5	8.1
Business taxes	1.4	1.7	1.6
Social security	5.9	5.9	6.0
Other revenues	1.5	1.4	0.8
Total fiscal revenues	**17.1**	**19.6**	**16.5**
National defence	3.2	3.1	3.0
Health and Medicare	5.8	6.7	6.4
Social security	7.5	8.3	7.9
Interest payments (net)	1.5	1.9	2.4
Other expenses	2.6	5.1	2.9
Total fiscal expenditure	**20.6**	**25.1**	**22.7**
Fiscal deficit	**–3.5**	**–5.5**	**–6.3**

Source: *CaixaBank Research, based on data from the US Department of the Treasury, Final Monthly Treasury Statement.*

The impact on GDP has been positive in 2023 but this may not be the case going forward

This increase in the deficit has made a positive contribution to GDP growth so far in 2023. In fact, public consumption in the last four quarters has grown at an average rate of 1.1% quarter-on-quarter, contributing almost one third of total GDP growth despite only accounting for 17% of GDP. Going forward, however, public consumption is expected to cease acting as a tailwind for GDP growth, having a neutral impact at best. The latest projections by the Congressional Budget Office (CBO) estimate that the budget deficit as a percentage of GDP will remain above 5.5% throughout the entire projection horizon, decreasing by just 0.1 pp in 2024 before increasing again by 0.4 pps in 2025. However, the contribution of the deficit to GDP growth depends less on its level and more on its rate of change.[2] Therefore, the CBO's projections actually imply a somewhat neutral contribution to GDP growth in the coming years.

1. Fiscal years in the US run from October to September (for example, the 2023 fiscal year runs from October 2022 to September 2023). Throughout the article we will refer to the federal deficit and debt, excluding state and local government accounts.
2. For example, if an economy with a fiscal deficit of 1% of GDP increased its deficit by 2 pps to 3%, that year (t+1), assuming a fiscal multiplier of 1, GDP growth would be 2 pps higher. The following year (t+2), maintaining the deficit at 3%, GDP would remain at the same level, but growth would be 2 pps lower than the previous year.

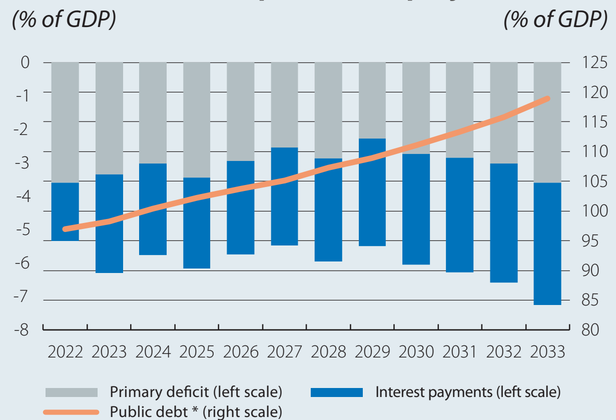
As can be seen in the last chart, according to these projections by the CBO, which are based on a scenario with no changes in fiscal policy, US public debt as a percentage of GDP would follow an upward trend, climbing from today's 98% to almost 120% by 2033. This increase reflects relatively stable but high primary deficits (of around 3%), while the projections envisage nominal GDP growth (4.2% on average between 2023 and 2033) above the cost of debt (3.1%), which helps to ensure the sustainability of public debt. Specifically, of the 20-pp increase in debt projected by the CBO, the accumulation of deficits explains 33 pps, while the gap between rates and GDP growth (i – g) would tend to reduce it by around 13 pps. However, in a context marked by high interest rates and a gradual withdrawal of the Federal Reserve as a holder of treasuries (through quantitative tightening), the financial burden of this debt will become heavier: for instance, while the CBO projects that the gap (i – g) will tend to reduce debt levels by an annual average of 1.7 pps during the period 2023-2027, this support factor would drop to 0.6 pps by 2033.

Beyond the impact that high interest rates may have, the increase in public debt relative to GDP in the CBO's forecasts is also explained by a sustained increase in public spending that is not offset by an equivalent increase in tax revenues, which in fact are projected to remain stable throughout the forecast horizon. According to the CBO itself, this increase in expenditure is primarily due to the rise in items related to health and social security, and with the expected ageing of the population this trend is expected to continue beyond 2033.

In addition to these headwinds, we must also consider the current complex political situation in the US, with a political polarisation that increases the frequency of potential federal government shutdowns given the difficulties in reaching agreements to fund the government,[3] and with the debt limit being reached. In an extreme scenario, this could even lead to the Department of the Treasury being unable to pay its obligations. In this regard, and following the difficulties in the latest negotiations in June to reach a bipartisan agreement to suspend the debt ceiling, Moody's maintained its rating of US sovereign debt at the top of the scale (Aaa), but downgraded its outlook from «stable» to «negative». In addition to the political situation, the rating agency also mentioned the high-interest-rate environment and the absence of fiscal measures to reduce the budget deficit as factors behind its downgrading of the outlook.

US: CBO deficit and public debt projections

(% of GDP) *(% of GDP)*



Note: ** Excludes intergovernmental debt.*
Source: *CaixaBank Research, based on data from the Congressional Budget Office.*

Therefore, we believe that the US national accounts will remain on analysts' lips for the next few years and will continue to generate noise in the financial markets whenever key dates for the funding of government budgets or for avoiding a breach of the debt ceiling approach. Moreover, there will be no shortage of voices rightly warning of the dangers of maintaining high primary deficits that cause public debt as a proportion of GDP to steadily rise.

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3. The most recent agreement, reached at the last minute on 14 November, extended government funding until 19 January 2024 for some measures and until 2 February for others. New agreements must then be reached in order to avoid a government shutdown.