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Comparing America's National Debt to Its Peers

Economist(s)

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Summary

- The fiscal challenges facing the United States government are top of mind for decision makers. The federal government's debt-to-GDP ratio is near its highest level since World War II, and the federal budget deficit is much larger than the long-run average over the past half century, raising questions about the sustainability of the U.S. public debt on its current trajectory.
- Yet, many of the drivers of America's fiscal imbalance are not unique. Other countries face similar or even bigger public finance headaches. In this report, we compare the U.S. fiscal position to some of its largest advanced economy peers.
- There is no one single metric that fully encapsulates a country's public finances, and differences in accounting and methodology can make a perfect apples-to-apples comparison elusive. That said, by looking at a variety of measures largely put together by the International Monetary Fund, we can get a feel for the general government fiscal positions across the Group of Seven (G7) nations.
- The United States has a general government debt-to-GDP ratio that is near the middle of the pack across the G7. The public debt burden is larger in places like Japan and Italy but smaller elsewhere, such as Germany and Canada. This is true when looking at both “gross” and “net” public debt. In short, the United States is not much of an outlier when looking narrowly at accumulated public debt.
- In addition, the current U.S. debt burden is not unprecedented. The U.S. government's debt-to-GDP ratio was similar during and shortly after World War II.
- However, other fiscal indicators look less favorable for the United States. The U.S. appears likely to run the largest structural budget deficit in the G7 at 6.7% of GDP in 2024. The U.S. government has the shortest weighted-average maturity of its public debt across the G7, and its net interest spending is also on the high side. In addition, the Federal Reserve holds a smaller share of the U.S. debt relative to central banks in other G7 nations.
- The good news is that the United States government has some unique advantages relative to its peers. The U.S. dollar is the world's reserve currency and is backed by the world's largest and most diversified economy. The market for U.S. Treasury securities is the deepest and most liquid bond market in the world with a long history of strong creditworthiness.
- That said, the U.S. fiscal outlook is concerning given debt levels that are high by historical standards and a budget deficit that is large relative to both its peers and history. Furthermore, net interest costs have climbed substantially amid the rise in interest rates from the low levels that prevailed in the 2010s. In our view, the problem is not so much the *previous* debt accumulation in the United States, which is large but manageable, but rather the *outlook* for sizable budget deficits as far as the eye can see.
- An aging population, elevated interest rates and heightened national security concerns amid mounting geopolitical tensions will make fiscal consolidation a difficult task. That said, the optimal time for fiscal consolidation is during a period of wide budget deficits, low unemployment and elevated inflation. Deficit reduction via higher revenues, lower spending or some combination of the two would help set U.S. fiscal policy on a more sustainable path.

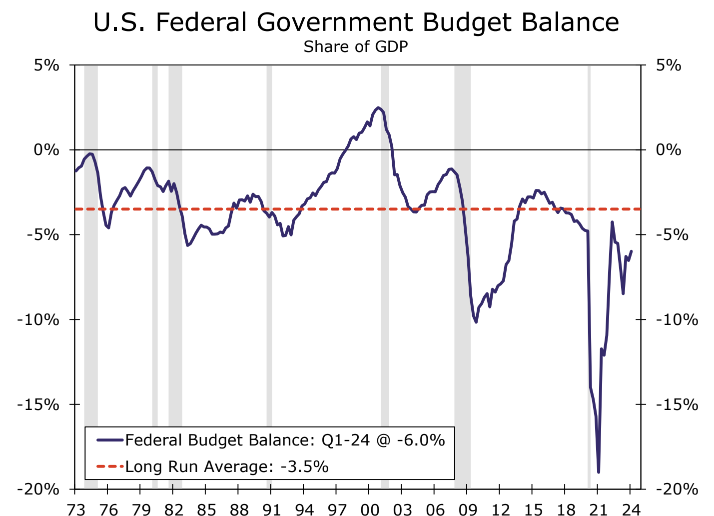
"Blessed Are the Young, for They Shall Inherit the National Debt" - Herbert Hoover

The fiscal challenges facing the United States government are top of mind for decision makers. The federal government's debt-to-GDP ratio is near its highest level since World War II, and the federal budget deficit is much larger than the long-run average over the past half century (Figures 1 & 2). An aging population, elevated interest rates and heightened national security concerns amid mounting geopolitical tensions have raised questions about the sustainability of the U.S. public debt on its current trajectory. Yet, many of the drivers of America's fiscal imbalance are not unique. Other countries face similar or even bigger public finance headaches. In this report, we compare the U.S. fiscal position to some of its largest advanced economy peers.

Figure 1

Source: Congressional Budget Office and Wells Fargo Economics

Figure 2



Source: U.S. Department of the Treasury, U.S. Department of Commerce and Wells Fargo Economics

Debt-to-GDP: A Bread and Butter Measure

Assessing the fiscal health of a government is not a simple task and involves examining a wide variety of different indicators. One of the most common and well-known measures is a government's debt-to-GDP ratio. Dividing a government's debt burden by GDP helps contextualize the debt load by comparing it to a country's total economic output in a given year. In a sense, a country's GDP represents the entire flow of income available to service the public debt.

For this analysis, we will focus on the debt and deficit projections from the International Monetary Fund (IMF). A country's general government “gross” debt includes all debt liabilities at the central, state and local levels of government. This is in contrast to “net” debt measures, which we will examine shortly. Gross debt-to-GDP effectively measures all the debt that has to be refinanced or repaid and has the advantage of being a relatively more straightforward comparison relative to net debt. Figure 3 compares the gross debt-to-GDP ratios across the G7 nations. Japan and Germany stick out as the outliers, with Japan carrying a national debt that is a sizable 252% of GDP and Germany possessing a relatively light debt load at 64% of GDP. The United States is on the higher side at 122% of GDP but is still relatively close to France, the latter being the median G7 value at 111%.

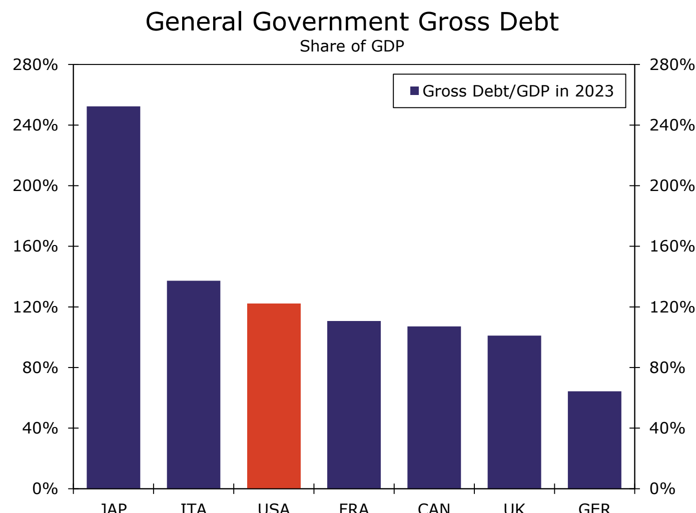
Debt-to-GDP indicators suggest that the accumulated public debt in the United States is middle of the pack compared to the other major advanced economies of the world.

A drawback of “gross” measures of debt is that they typically do not consider the asset side of the government's balance sheet. General government “net” debt attempts to account for the financial assets a government holds. Governments may hold considerable financial assets via their cash holdings, pension funds, social security funds and foreign exchange reserves, among other possibilities. For example, in the United States, the Treasury holds a nearly $1 trillion cash reserve at the central bank, and the federal government holds more than $2 trillion of loans, mostly student loans. The IMF's net debt measure is gross debt minus these types of financial assets. Figure 4 compares net debt-to-GDP across the G7. Here the U.S. is the median country in the G7, below Japan, Italy and France but above the U.K., Germany and Canada. Japan's net debt ratio is much lower than its gross debt ratio due

to its government's sizable financial asset holdings, but even after accounting for these assets, Japan remains the most debt-burdened nation in the G7. Canada's net debt is also much lower than its gross debt, attributable in large part to the outsized asset holdings among its various pension funds.

On balance, the debt-to-GDP indicators suggest that the accumulated public debt in the United States, although high by historical standards, is middle of the pack compared to the other major advanced economies of the world.

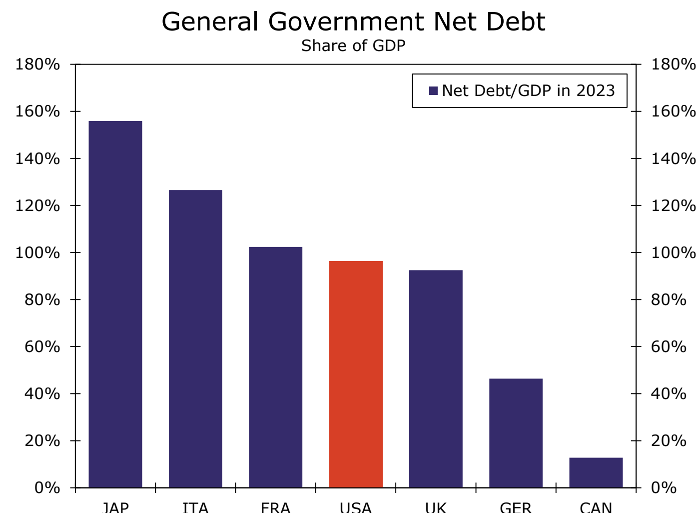
Figure 3



Source: International Monetary Fund and Wells Fargo Economics

2023 actual values for Italy, Canada, the U.K. and Germany. IMF projected values for France, Japan and the U.S. based on latest available data for 2023.

Figure 4



Source: International Monetary Fund and Wells Fargo Economics

2023 actual values for Italy, Canada, the U.K. and Germany. IMF projected values for France, Japan and the U.S. based on latest available data for 2023.

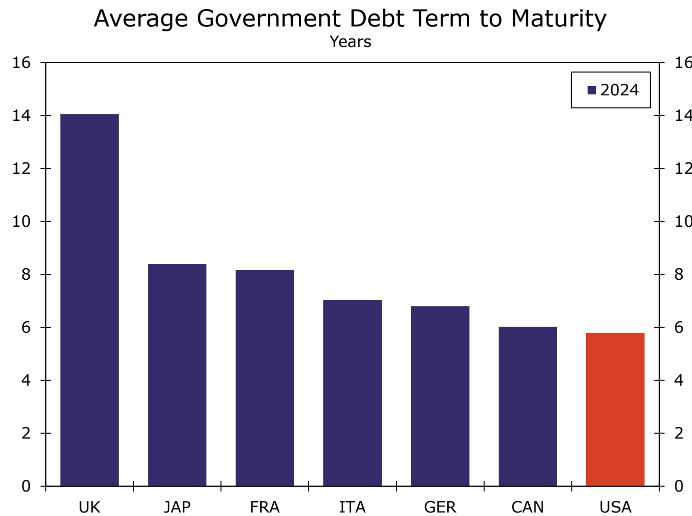
Average Maturity: Locked In or Locked Out of Low Rates?

Another factor to consider in this fiscal analysis is the weighted-average maturity of each country's sovereign debt. A country's debt managers make decisions about how to structure the maturity composition of their debt. A debt mix that is more heavily tilted toward shorter-dated liabilities affords more flexibility and may not involve paying as much term premium. But, a debt load that is skewed toward short-dated maturities would be more costly to refinance in a rising rate environment relative to a country that has locked up its funding for a longer period of time.

The weighted average maturity of U.S. public debt is the shortest in the G7.

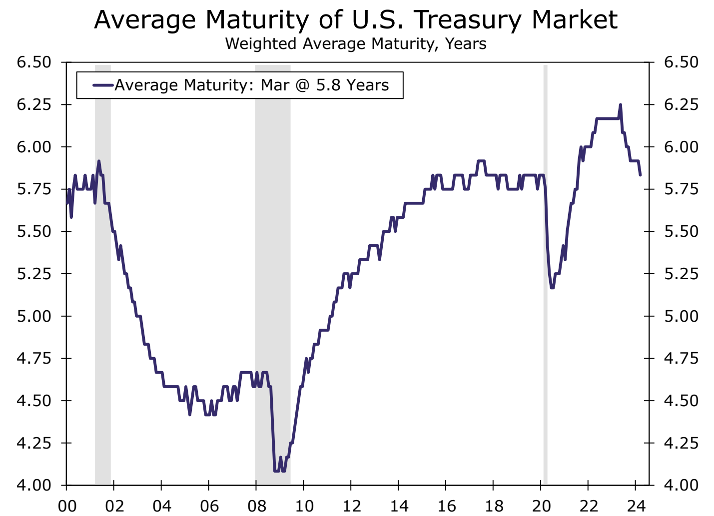
Figure 5 shows the weighted-average debt term-to-maturity for each country. The United Kingdom stands out as an outlier, with much longer-dated liabilities than its G7 peers. The United States sits at a weighted-average maturity just shy of six years, the shortest in the G7 and a little below the median nation, Italy, at seven years. The U.S. Treasury spent much of the 2010s terming out its debt (see Figure 6), but even with those moves the U.S. national debt will be refinanced at today's higher prevailing rates a bit sooner than is the case for most of its peer nations.

Figure 5



Source: International Monetary Fund and Wells Fargo Economics

Figure 6



Source: U.S. Department of the Treasury and Wells Fargo Economics

Deficit-to-GDP: A Measure of Where Debt Is Headed

A drawback of debt-to-GDP ratios is that they are a backwards looking indicator. If a country has a large debt burden from past policy decisions but has started running annual budget surpluses, this bodes well for an eventual reduction in debt-to-GDP, all else equal. Similarly, if a country has a small debt burden but is running sizable annual budget deficits, this suggests debt-to-GDP will rise in the foreseeable future.

Figures 7 and 8 compare the general government budget balances and structural budget balances across the G7. For those unfamiliar, structural budget balance estimates attempt to adjust for the current state of the economy and other one-off budgetary factors. For example, a country may run a large budget deficit for a short period of time due to a weak economy and one-off fiscal measures. This is in contrast to deficits that are driven by recurring spending that is not financed by recurring revenue sources. In theory, the structural budget balance should offer a clearer read on the fundamental, underlying trend in public finances.

Figure 7

General Government Budget Balance
Share of GDP

	2019	2024
Canada	-0.02	-1.13
France	-3.07	-4.89
Germany	1.53	-1.53
Italy	-1.50	-4.62
Japan	-3.05	-6.54
United Kingdom	-2.48	-4.58
United States	-5.81	-6.54

Note: 2024 values represent IMF projections

Source: International Monetary Fund and Wells Fargo Economics

Figure 8

General Government Structural Budget Balance
Share of GDP

	2019	2024
Canada	-0.23	-0.80
France	-2.11	-4.33
Germany	1.32	-0.88
Italy	-0.84	-4.80
Japan	-3.33	-6.58
United Kingdom	-2.37	-2.89
United States	-6.04	-6.68

Note: 2024 values represent IMF projections

Source: International Monetary Fund and Wells Fargo Economics

The U.S. is projected to have the largest structural budget deficit of the G7 in 2024.

A few facts are noticeable from this comparison. Budget balances have deteriorated across the G7 relative to 2019, with all seven countries expected to see wider deficits in 2024 compared to the pre-pandemic period. The United States is tied with Japan for the largest projected deficit in 2024 at 6.5%. Turning to the structural budget balance, the U.S. and Japan are once again outliers, while Canada and Germany emerge as the most fiscally disciplined. If realized, the United States' general government

structural budget deficit of 6.7% would signal that the new borrowing done this year is not due to a weak economy or other one-off factors, but rather a fundamental gap between outlays and revenues. This in turn suggests that the U.S. debt-to-GDP ratio will continue to rise for the foreseeable future in the absence of an acceleration in potential GDP or a fiscal consolidation.[1]

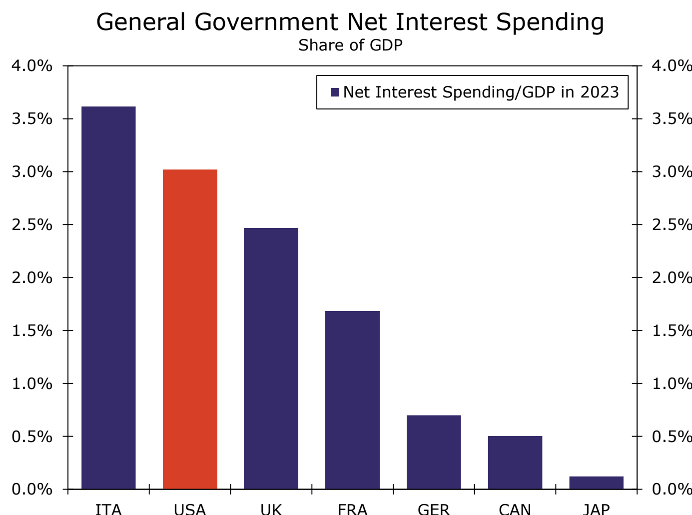
Interest Spending: The Cost of Debt

Elevated public debt burdens in advanced economies are not a new topic. Analysts spent much of the 2010s concerned about the U.S. debt and deficit outlook, while the European sovereign debt crisis and ongoing fiscal challenges in Japan also kept the topic front and center. However, the 2010s were generally marked by historically low interest rates in advanced economies, and this in turn helped to keep debt service costs in check despite high public debt in some countries.

Today, interest rates have risen across the world, creating a new fiscal challenge to consider. Figure 9 compares general government net interest costs across the G7.[2] Interest spending on the public debt in the United States was high in 2023 relative to the rest of the G7, with just Italy spending more on debt service costs. Relatively low public debt and smaller budget deficits have helped keep debt service costs low in Canada and Germany, while years of zero interest rates have restrained Japan's net interest costs. General government interest payments as a share of tax revenues are on the rise in the United States, and the IMF projects that U.S. interest costs by this measure will be closer to what is typical in emerging market economies over the next few years (Figure 10). In short, debt servicing costs are increasingly becoming a new source of budgetary pressure in the G7, and this is especially true in the United States.

The IMF projects that U.S. interest costs as a percent of revenues will be closer to what is typical in emerging market economies than advanced economies over the next few years.

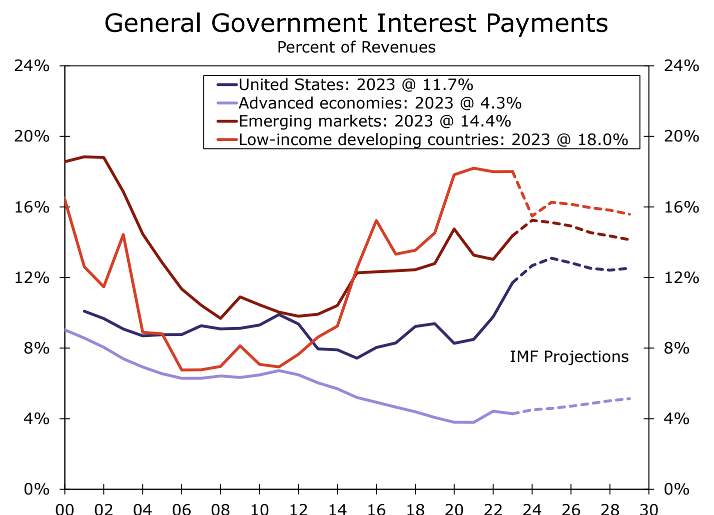
Figure 9



Source: International Monetary Fund and Wells Fargo Economics

2023 actual values for Italy, Canada, the U.K. and Germany. IMF projected values for France, Japan and the U.S. based on latest available data for 2023.

Figure 10



Source: International Monetary Fund and Wells Fargo Economics

Central Bank Holdings: Who Holds the Biggest Share?

A final consideration is the role that a central bank plays in holding sovereign debt. In the United States, the Federal Reserve holds $4.5 trillion of Treasury securities. However, unlike a private investor, the Federal Reserve is generally not a price sensitive buyer, and the income earned by the Federal Reserve on its security holdings is remitted back to the U.S. Treasury.[3] Thus, there can be some narrow fiscal benefits from a central bank holding domestic sovereign debt.

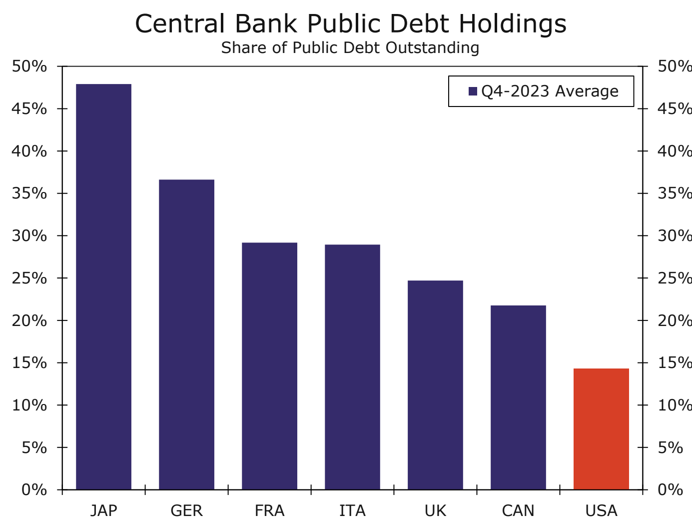
Of course, outsized central bank asset purchases can overstimulate an economy and/or lead to concerns about debt monetization. These factors in turn could lead to elevated inflation, an undesirable outcome for a nation's economy. This is one main reason central bankers are often laser-focused on remaining independent of the political process, and the G7 central banks increase/reduce the size of their balance sheets in response to economic conditions rather than fiscal conditions. For

example, the Federal Reserve purchased $3.3 trillion of Treasury securities between March 2020 and March 2022 when the U.S. economy was suffering from the economic fallout from the COVID-19 pandemic. But, once the U.S. economy rebounded and inflation began to spike, the Fed reversed course. Since March 2022, the Federal Reserve's Treasury security holdings have shrunk by $1.3 trillion amid the central bank's ongoing quantitative tightening (QT) program.

The Federal Reserve holds a relatively small share of the American public debt.

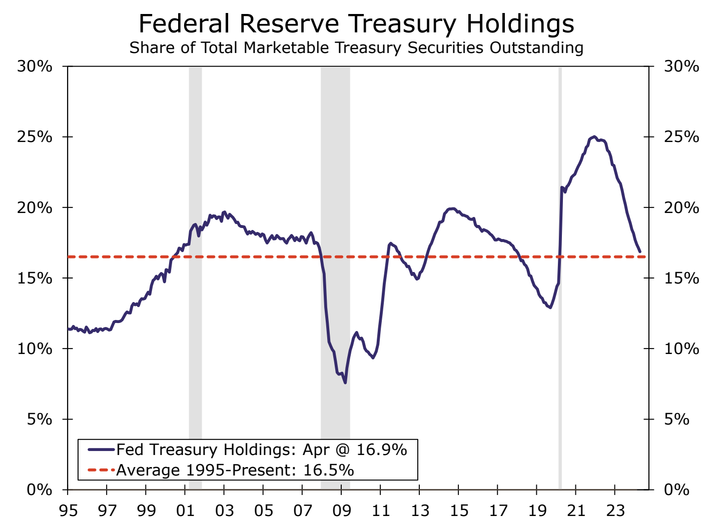
The optimal size and composition of each central bank balance sheet across the G7 is beyond the scope of this report. That said, we present the share of public debt held by each central bank in Figure 11. Unsurprisingly, the Bank of Japan tops the chart with holdings that amount to nearly 50% of Japan's public debt. At the other end of the spectrum, the Federal Reserve holds a relatively small share of the American public debt. At present, the Federal Reserve's share of the U.S. Treasury market is not historically elevated and sits effectively at its average over the past 30 years (Figure 12). Relative to 20 years ago, the biggest change is the Fed's accumulation of mortgage-backed securities (MBS), which have gone from zero before the 2008 financial crisis to $2.4 trillion today.

Figure 11



Source: Bloomberg Finance L.P., Banco De Espana, INSEE, Bundesbank and Wells Fargo Economics

Figure 12



Source: U.S. Department of the Treasury, Federal Reserve Board and Wells Fargo Economics

Some Concerning Trends, but the Problem Is Solvable

Fortunately, the United States government has some unique advantages relative to its peers.

High U.S. government debt and wide budget deficits have led analysts, investors and many others to worry about the sustainability of American public finances. However, these conversations are not only happening in the United States, and this report helps contextualize the U.S. position vis-à-vis some of its peers. When it comes to debt that already has been accumulated, the U.S. government's debt-to-GDP ratio is high, but compared to the rest of the G7, U.S. public debt is relatively middle of the pack. Furthermore, the current U.S. debt-to-GDP ratio is not without historical precedent. A similar debt burden prevailed during and shortly after World War II.

However, the U.S. is more of an outlier in other areas. The budget deficit of its general government is among the highest in the G7, and its debt servicing costs are also elevated relative to the median G7 nation. Furthermore, the wide budget gap is not driven by a weak economy or one-off, temporary factors. Rather, the U.S. government has a persistent and fundamental gap between its revenues and expenditures. It is likely these factors played a role in FOMC Chair Jerome Powell asserting in a recent interview that the United States is on an “unsustainable fiscal path” in the long run.[4]

Fortunately, the United States government has some unique advantages relative to its peers. The U.S. dollar is the world's reserve currency and is backed by the world's largest and most diversified economy. The U.S. Treasury market is the deepest and most liquid bond market in the world with a long history of strong creditworthiness. Fiscal consolidation via higher revenues, lower spending or some combination of the two would involve policy trade-offs but help set U.S. fiscal policy on a more sustainable path to help ensure these advantages are maintained.

Endnotes

1 – An economy's rate of potential economic growth—the rate at which it can grow over a long period of time at a constant inflation rate—is determined by the growth rate of its labor force and its underlying rate of labor productivity growth. In an ongoing series of five reports, we are analyzing the outlook for potential economic growth in the United States. These reports can be found on our website here: Economic Special Reports. (Return)

2 – We calculated the net interest spending for each of the G7 countries as the difference between each nation's general government primary net lending/borrowing (i.e., the budget balance excluding net interest expense) and general government net lending/borrowing (i.e., the total budget balance) using data from the IMF. (Return)

3 – For more detail on the Fed's remittances to the U.S. Treasury, see "The Fed's Remittances to the Treasury: Explaining the 'Deferred Asset'." Federal Reserve Bank of St. Louis. November 2023. (Return)

4 – See the full transcript of Chair Powell's 60 Minutes interview with Scott Pelley. The interview took place on February 1, 2024 and was aired on February 4. (Return)

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