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Economic Insight

Factsheet US government debt

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For three years, the US economy has been at or near full employment. Nevertheless, the US federal budget continues to show high deficits; an improvement is not in sight. What does this mean for government debt? We provide an overview.

Public debt: $42 trillion – or 'only' $28 trillion?

It is not so easy to answer the question about the amount of US public debt. Or, to be more precise, there are several answers:

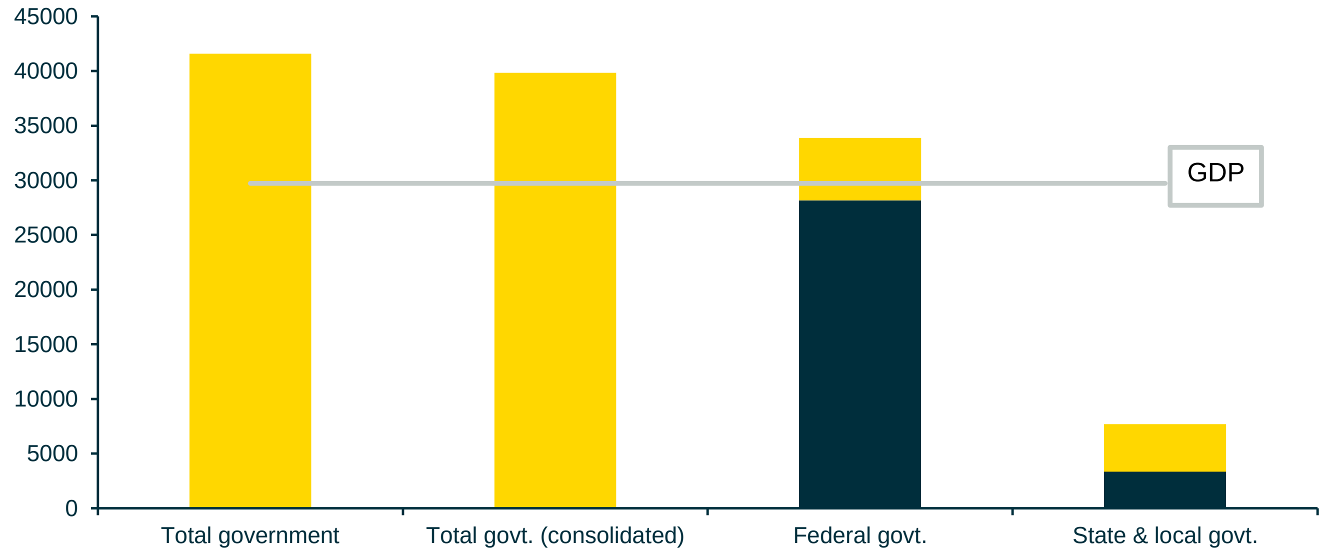
- The Fed's financial accounts show total public debt of $41.6 trillion (140% of GDP) at the end of 2024. The federal government accounts for the lion's share of this, or $33.9 trillion, while the states and local governments have liabilities of $7.7 trillion. If the national debt were consolidated, the liabilities of one level of government towards the other would be eliminated, leaving $39.8 trillion (Chart 1).

- The financial markets focus on the debt of the US federal government, and here the outstanding public debt and money market securities – Treasury Notes and Bonds and T-bills (we will summarize these under “Treasuries” from here on) – are the center of attention. At the end of 2024, these amounted to around $28 trillion (94.7% of GDP). The Federal Reserve is included as part of the public, although it is a government institution. At the end of 2024, the Fed still had $4.3 trillion Treasuries in its portfolio.

- In its Monthly Statement of the Public Debt (MSPD), the US Treasury records not only the Treasuries but also the “intragovernmental” debt, which is essentially the debt that the US government has with Social Security. For many years, this program generated surpluses, which it made available to the Treasury and for which it was credited with non-marketable Treasury securities. If Social Security's revenues are no longer sufficient to pay the pensions, these bonds will be returned to the Treasury and Social Security will receive money in return (which the Treasury must then borrow on the financial market by issuing securities). This intra-governmental debt amounts to over $7 trillion.

Chart 1 - US government debt: federal liabilities dominate

Government debt at end-2024. Consolidated debt excludes federal debt held by states and local governments and federal loans to S&L governments. Debt securities of Federal and S&L governments shaded in black. Grey line: nominal GDP



Source: BEA, Fed, Commerzbank Research

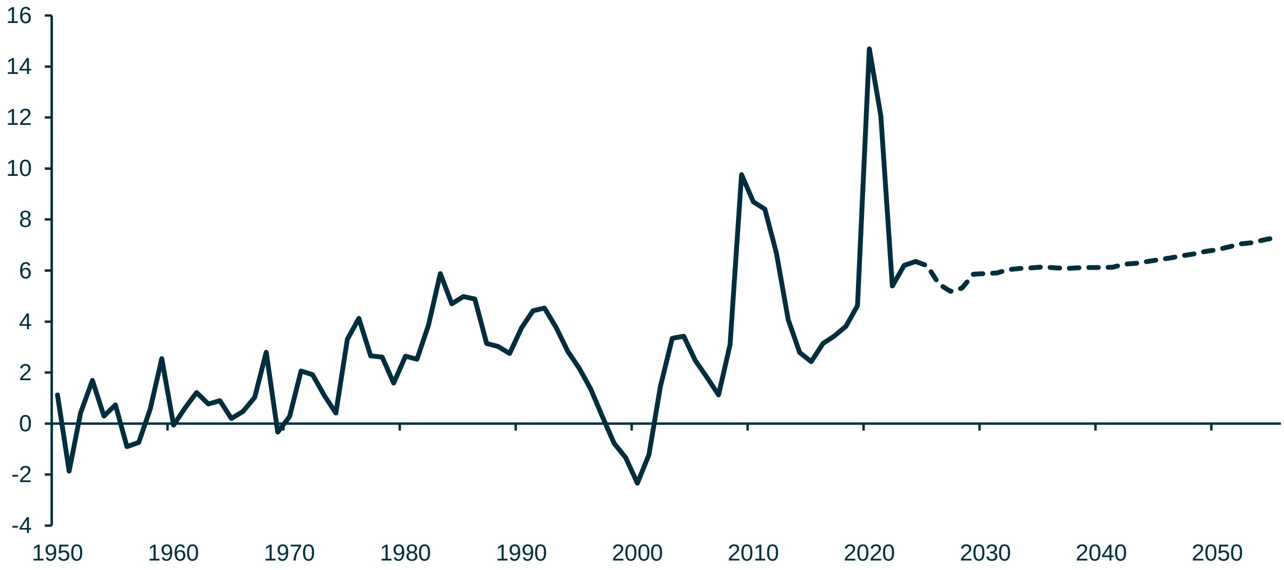
The US federal government runs permanently high deficits...

In the first decades after World War II, the US federal budget was almost balanced. Only once, at the end of the 1990s, the government recorded surpluses in the wake of the 'new economy' boom.

In the last fiscal year, [1] the US federal government ran a deficit of $1.832tn (6.4% of GDP). The Congressional Budget Office (CBO) expects the deficit to average 5.8% of GDP over the next decade and to increase further in the long term (Chart 2). These are still rather favorable projections, since the CBO calculates on the basis of current law – and current law, for example, stipulates that the income tax cuts implemented in Trump's first term will expire as scheduled at the end of the year. An extension of the tax cuts or an economic downturn would drive up deficits.

Chart 2 - US federal government: "deficits don't matter"

Deficit (+) or surplus (-) of the federal government in % of GDP, fiscal years. After 2024: CBO baseline projection



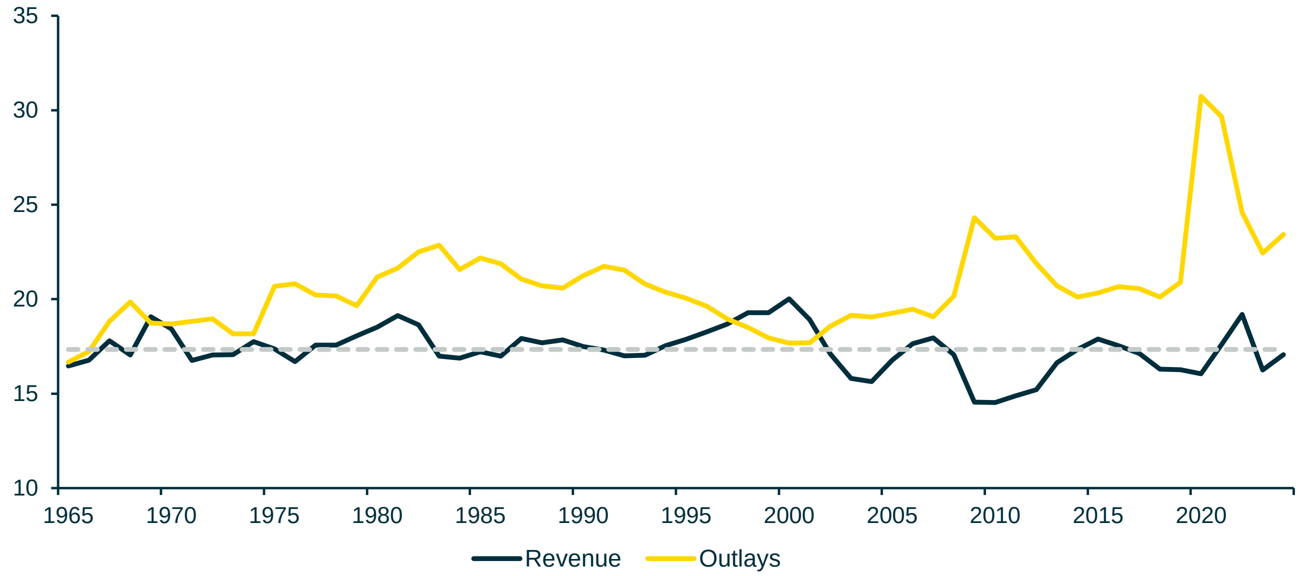
Source: CBO, Commerzbank Research

… also because it prevents the tax burden from rising

Government spending has been on an upward trend since the beginning of the 21st century, even if the crisis-related spending in 2008/09 and 2020/21 is excluded. By contrast, the US federal government's revenue ratio in 2024 was 17.1%, which is almost exactly in line with the average of recent decades (Chart 3). Since 2000, whenever a prolonged economic upswing boosted tax revenues, politicians have always implemented extensive tax cuts (as happened in 2001 and 2016). By contrast, no savings were made on the expenditure side.

Chart 3 - Politics put a lid on government revenue

Revenue and outlays of the federal government in % of GDP. Dashed line: average revenue ratio 1965-2024



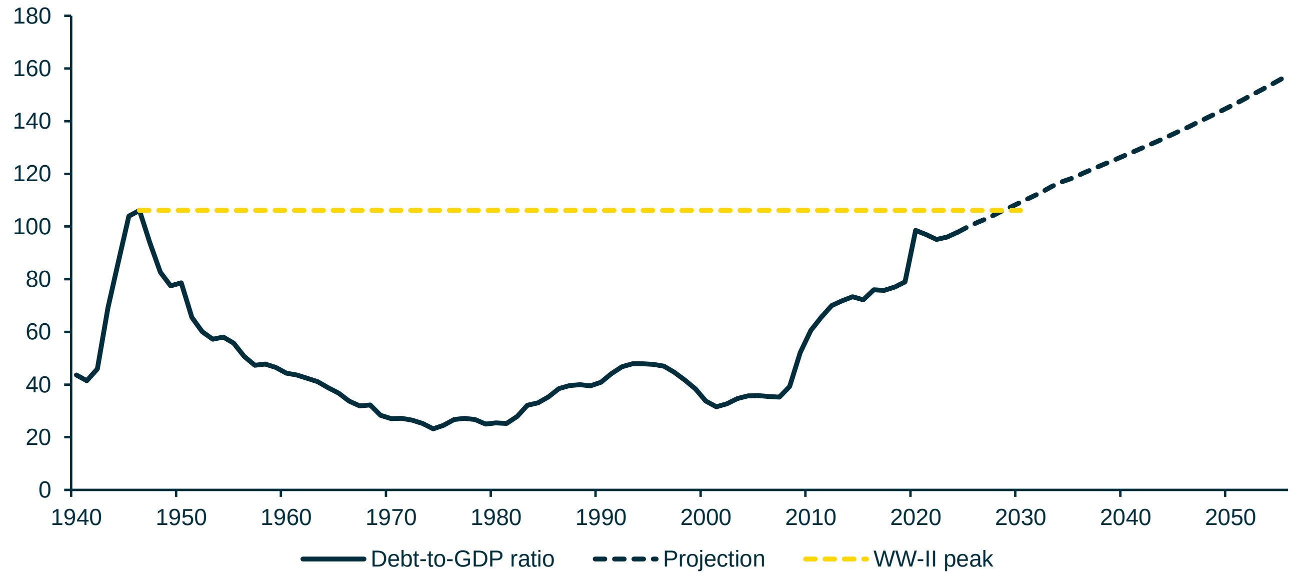
Source: CBO, Commerzbank Research

Debt ratio on the way to new highs...

Since 2001, when the public debt ratio – the ratio of US federal government debt held by the public to GDP – stood at 31.5%, the debt ratio has been on a steep upward trajectory. In 2024, it reached almost 98% of GDP. The debt ratio is now only just below the high reached in the immediate aftermath of the Second World War (106%). This peak is likely to be exceeded in the next few years (Chart 4).

Chart 4 - Debt level: Up, up and away

Federal debt held by the public in % of GDP. After 2024: CBO baseline projection.



Source: CBO, Commerzbank Research

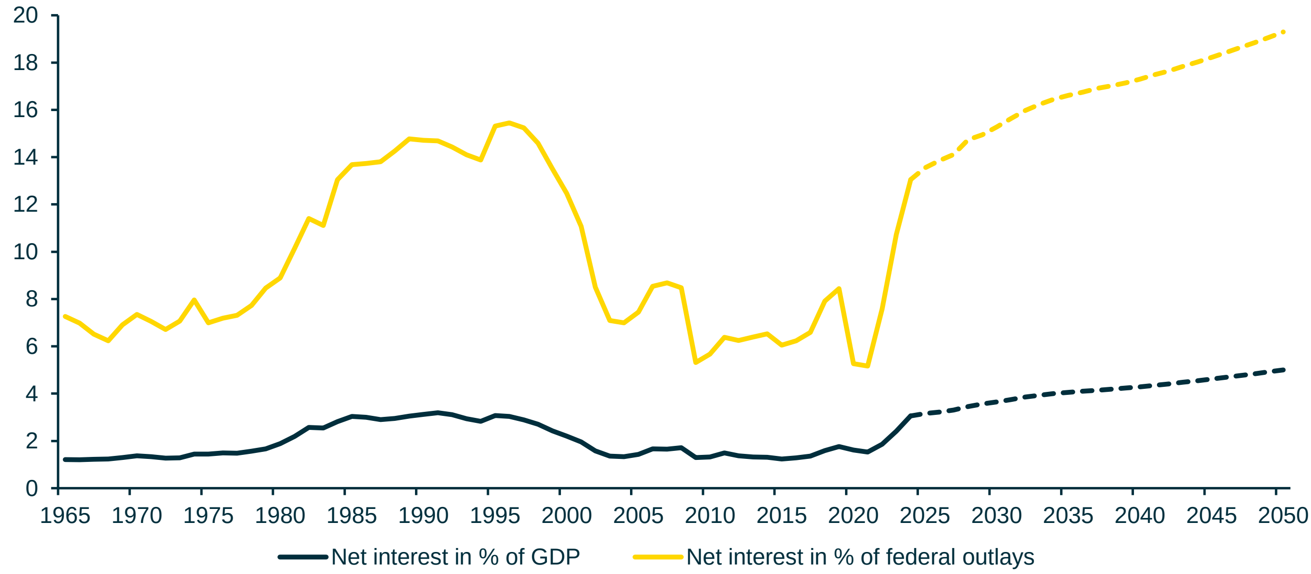
... and the interest burden is rising sharply

Interest on the US federal debt amounted to around 13% of all budget expenditures (3.1% of GDP) in 2024. This burden was only higher in the late 1980s and in the 1990s (Chart 5). The high interest payments at that time were the consequence of the very high interest rates in the 1970s and 1980s; the yield on ten-year Treasuries averaged 9% during those 20 years. By comparison, in 2024 these securities yielded 4.25%.

The interest burden will continue to rise in the coming years. The CBO assumes that the ten-year yield will be $3\frac{3}{4}$% (this estimate is based on assumptions about long-term growth and, above all, on the Fed consistently achieving its 2% inflation target). Significantly higher yields would naturally cause the interest burden to rise much more rapidly. In the early 1990s, the pressure to consolidate the budget at interest burden ratios roughly comparable to the current ones was great enough to force a change of course.

Chart 5 - Interest burden is steadily increasing

Net interest outlays of federal government in % of GDP and in % of outlays, fiscal years. After 2024: CBO projections



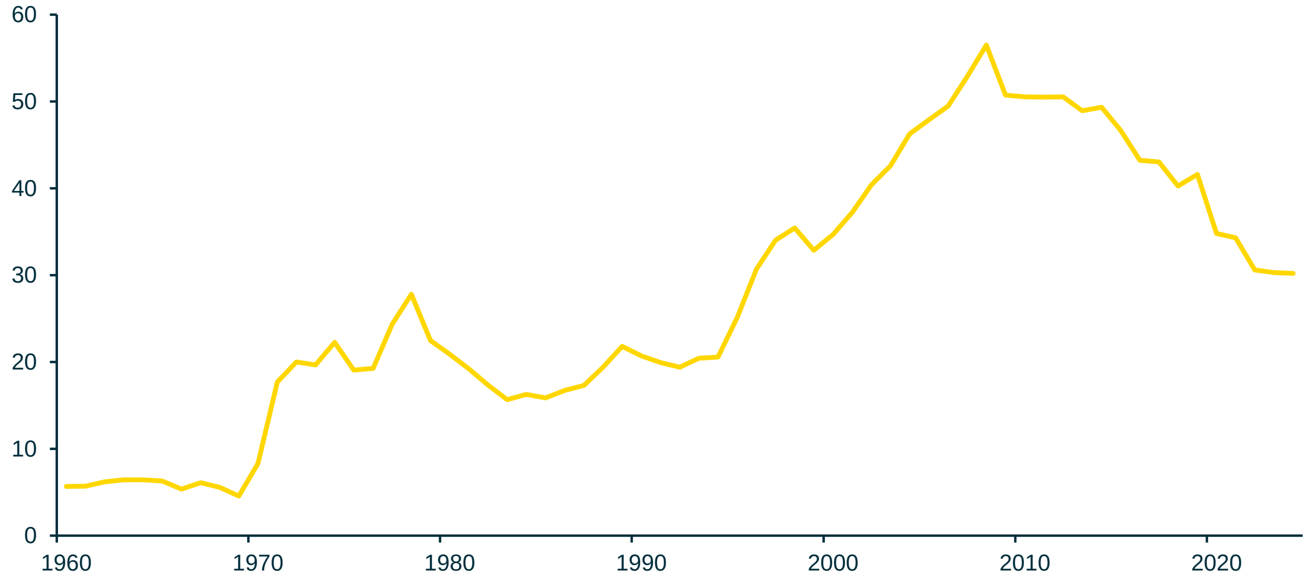
Source: CBO, Commerzbank Research

How important are foreign buyers of Treasuries?

The question of whether the Americans can find enough buyers for their Treasuries keeps coming up (see also our Economic Insight **"Fed and Treasuries: Let someone else buy them"**, April 2024). The focus is often on foreign buyers. From the second half of the 1990s until the global financial crisis of 2007-09, foreign buyers became increasingly important. Their share of outstanding US government securities rose from 20.6% (1994) to 56.5% (2008). Foreign central banks, which massively increased their currency reserves, played a decisive role here. Since 2008, however, the foreign share has been falling again (Chart 6). Most recently, around 30% of Treasuries were still held by foreign investors.

Chart 6 - US Treasuries: Rest of world's share is declining

Share of Treasury securities owned by foreigners in %, annual data



Source: Fed, S&P Global, Commerzbank Research

Conclusion: government debt trend unsustainable, ...

The trend towards ever higher government deficits and debt relative to economic output is unsustainable. This is true not least in view of the fact that two factors that have long dampened the burden on public finances are changing. Firstly, the period of low interest rates is likely to be over and, secondly, the less favorable demographics suggest higher social spending with lower economic growth. At the same time, expectations of increased growth through technological innovations such as AI have so far been more of a pipe dream.

...but the political will is still lacking

Ultimately, a debt crisis can only be avoided if there is the political will to make painful policy adjustments. So far, this is lacking. It may take a worsening of the situation for the necessary pressure to arise.

[1] The US fiscal year begins on October 1 and ends on September 30 of the following year. The fiscal year 2025 thus runs from October 1, 2024 to September 30, 2025. Before 1974, the fiscal year began on July 1 and ended on June 30 of the following year. (back to text)

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