RAPID RESPONSE
ECONOMICS
6

CEPR PRESS

The Economic Consequences of the Second Trump Administration: A Preliminary Assessment

CHAPTER 2

Fiscal policy and debt sustainability

Antonio Fatás and **Ugo Panizza**
INSEAD and CEPR; Geneva Graduate Institute and CEPR

1 INTRODUCTION

In the years leading up to Donald Trump's second presidency, concerns over the sustainability of US government debt became increasingly pronounced. Public debt had been on a steadily rising trajectory, one that was steeper than in many other advanced economies. The situation deteriorated significantly during the COVID-19 crisis, as emergency fiscal measures led to a sharp increase in deficits and overall debt levels. Although the inflationary spike that followed the pandemic contributed to a partial reduction in the real debt burden, projections continued to indicate that US debt would grow at a pace exceeding pre-pandemic trends (IMF 2025a).

Between 2020 and 2024, rising interest rates closed the gap with GDP growth rates, bringing the differential close to zero. This shift imposed new constraints on fiscal policy, making it clear that stabilising the debt-to-GDP ratio would require future administrations to maintain deficits within tighter limits. A concrete demonstration of these concerns is Moody's recent downgrade of US debt, resulting in a situation where no major rating agency assigns it the highest possible rating.

As the second Trump administration begins, significant uncertainty surrounds the fiscal outlook. A range of proposed policies could materially affect the trajectory of public debt. These include potential revenue increases from tariffs, the extension or expansion of tax cuts, adjustments to Inland Revenue Service (IRS) enforcement capabilities aimed at reducing tax evasion, and efforts by the Department of Government Efficiency (DOGE) to reduce public spending. Beyond their direct fiscal impact, these policies may also influence macroeconomic variables such as GDP growth and inflation, which in turn would affect fiscal outcomes.

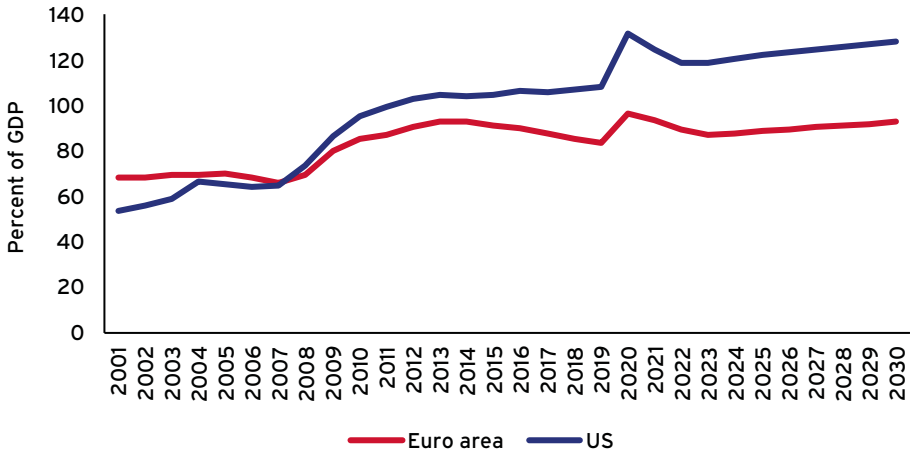
This chapter analyses the current state of fiscal sustainability in the US and assesses the potential implications of policy initiatives proposed during Trump's second term. It begins with a brief overview of the evolution of US fiscal policy and public debt in the years preceding the new administration. It then examines the key features of fiscal policy under Trump's first term and presents projections for the main fiscal variables and the debt-to-GDP ratio under plausible policy scenarios for the current term. As all projections point toward a continued increase in the debt ratio, we then discuss possible strategies to stabilise public debt over the medium to long term.

2 THE PRE-TRUMP2.0 TRENDS

In recent decades, both advanced economies and emerging markets have followed a trend towards higher debt-to-GDP levels. For many advanced economies, the levels of government debt reached by 2024 represented some of the highest, if not the highest, in the post-WWII period. While these trends are quite broad, they have been steeper in some countries than others. The US not only presents a profile that is steeper but it also fails to display periods where debt is visibly decreasing in the last 24 years.

Figure 1 compares gross debt of governments as a percentage of GDP for the US and the euro area since 2000, with a projection for the coming five years. The overall increase in the last 24 years has been significantly larger in the US than in the euro area. While outside of crises, the euro area displays years where debt is stable or decreasing, in the case of the US this pattern is absent except for the recent inflationary episode, where higher inflation boosted nominal GDP and reduced the ratio. IMF forecasts for the next five years suggest that the gap between these two economies will widen further. IMF (2025a) estimates that, under current policies, US public debt will fail to stabilise, rising from 121% of GDP in 2024 to 130% of GDP in 2030.

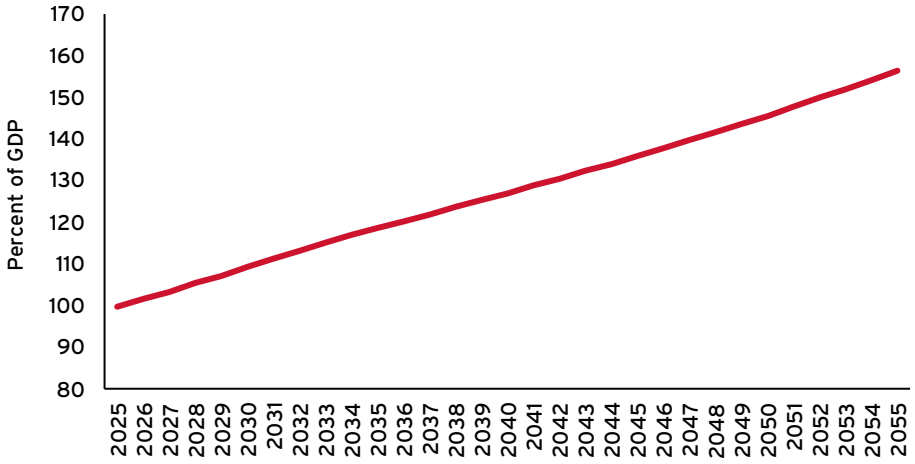
FIGURE 1 EURO AREA AND US GOVERNMENT DEBT



Note: Gross debt, general government, percent of GDP.
Source: IMF World Economic Outlook, April 2025.

Projections from the Congressional Budget Office (CBO 2024a, 2024b) over a much longer horizon suggest that if the US government were to follow current law, it will not be able to address the ongoing structural imbalance of US fiscal policy as debt levels increase further. CBO forecasts made using the law implemented as of 6 January 2025 portray a steady increase of US government debt to reach a level above 156% of GDP by the year 2055 (Figure 2).

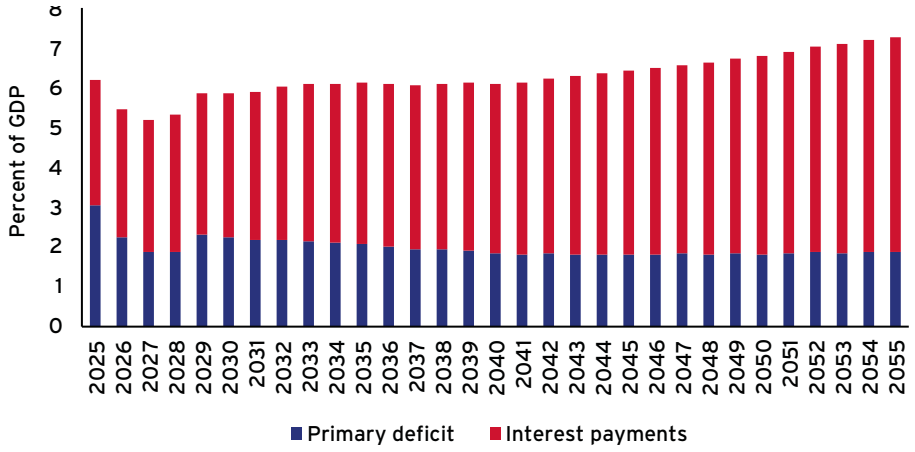
FIGURE 2 FEDERAL DEBT HELD BY THE PUBLIC, 2025-2055



Note: Projection of federal debt held by the public, percent of GDP.
Source: Congressional Budget Office, March 2025.

This increase in the debt-to-GDP ratio is driven by an increase in the deficit (as a percentage of GDP) over the coming decades. Interestingly, this increase does not come from increasing primary deficits but is the result of increasing spending on interest payments. While primary deficits are predicted to stay at around 2% of GDP, interest payments are likely to almost double from 3% to around 5.5% by 2055 (Figure 3).

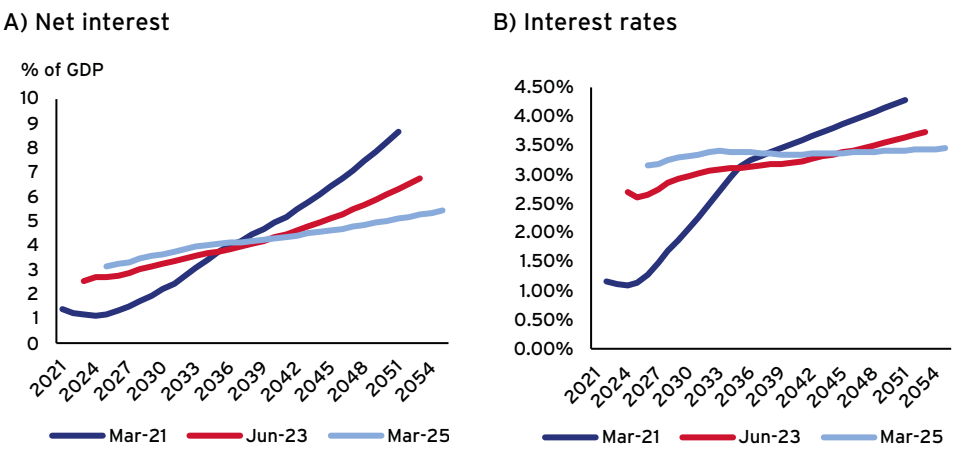
FIGURE 3 DRIVERS OF INCREASING BUDGET DEFICITS



Note: Projection of primary balance and net interest, percent of GDP.
Source: Congressional Budget Office March 2025.

The large increase in net interest payments is the result of combining increasing debt (an additional 60% in these years) with a projected increase in the average interest rate from 3.1% to 3.4% during this period. [1] The average interest rate on US government debt has increased dramatically in recent years, leading to much larger interest payments (Figure 4). Back in 2021, interest payments represented just 1% of GDP and were expected to remain at those levels in the five years that followed. Increases in inflation and interest rates during 2021-2023 led to a sharp increase in interest payments to levels above 3% due to the tripling of average interest rates relative to the 2021 forecast. Interestingly, over the long term, assumptions made by the CBO in 2021 about interest rates have been revised downwards and the latest forecast in March 2025 assumes interest rates will stay more than 0.5% below the levels assumed in 2021. This significantly reduces the interest payments associated to the increasing amount of debt.

FIGURE 4 LONG-TERM FORECASTS OF NET INTEREST (LEFT) AND INTEREST RATES (RIGHT)



Note: Projection of net interest, percent of GDP, and average interest rates.
Source: Congressional Budget Office, March 2021, June 2023 and March 2025.

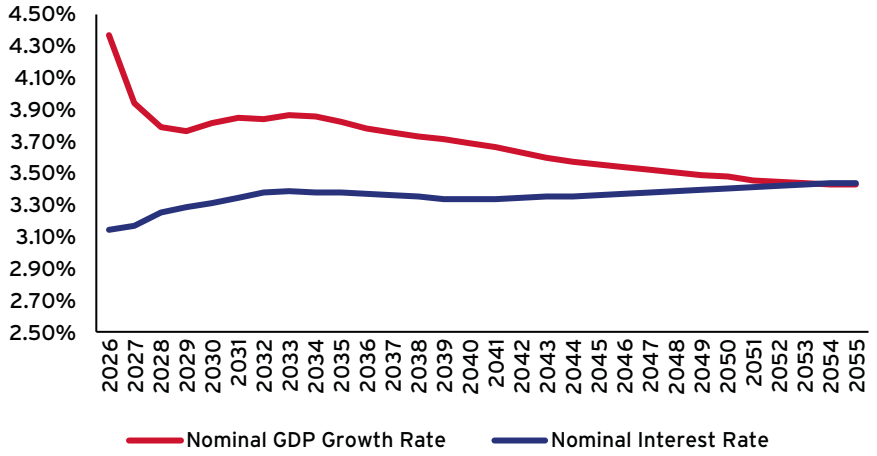
Interest rates over recent years have caught up with levels that are close to those included in the long-term forecasts of CBO. This has a major influence in any calculation of the sustainability of US government debt, as the difference between interest rates and growth rates of GDP (r-g) is expected to become less and less negative over the coming years, heading towards zero by 2050 (Figure 5).

1 Average interest rates are calculated as net interest divided by debt at the end of the previous year plus half of the forecasted deficit for the year.

These trends translated into the need for a larger fiscal adjustment to bring budgetary outcomes onto a sustainable path. As a result, there have been increasing concerns that the US debt trajectory is on an unsustainable path.[2]

What constitutes a sustainable path is typically based on criteria such as stabilising either the debt-to-GDP ratio or net interest as a percentage of GDP (Furman and Summers 2020). While, depending on the specific criteria being used, the adjustment to bring fiscal policy onto a sustainable trajectory could be different, in all cases the adjustment that the US needs is large both from an economic and political point of view. The IMF (2004a), while classifying the US at low risk of sovereign stress, highlighted the medium- and long-term risks of such a steep debt profile concluding, that there is a "pressing need to reverse the ongoing increase". Ascari et al. (2024) discussed several scenarios and concluded that unless annual GDP growth were to accelerate to levels around 4%, fast-track consolidations to stabilise debt would require "politically unfeasible hikes in tax rates and spending cuts, with harsh consequences on the economy".

FIGURE 5 NOMINAL GDP GROWTH AND AVERAGE INTEREST RATE ON US GOVERNMENT DEBT



Source: CBO (2025) and authors' calculations

3 FISCAL POLICY DURING THE FIRST TRUMP ADMINISTRATION

To provide context, this section offers a brief overview of the fiscal policy actions undertaken by the first Trump administration during the period 2017–2019. Fiscal developments in 2020 are deliberately excluded, as they were driven primarily by the emergency response to the COVID-19 pandemic.

2 We are aware that not everyone agrees with the use of the label "unsustainable", but, at a minimum, there is universal recognition that something needs to change. In the words of Eichengreen (2024), "US debt is both sustainable and a problem".

The centrepiece of the administration's fiscal policy was the Tax Cuts and Jobs Act (TCJA), enacted in December 2017. The TCJA permanently reduced the corporate income tax rate from 35% to 21% and temporarily lowered individual income tax rates, with the latter provisions set to expire on 31 December 2025. The reform also broadened the tax base by limiting several deductions and transitioned the US toward a more territorial tax system for multinational profits.

By the end of 2019, the TCJA had led to a reduction in general government revenues of approximately 1% of GDP relative to 2016, and 1.5% of GDP compared to the 2019 revenue forecasts issued at the end of 2016 (see left panel in the first row of Figure 6). Given that actual GDP in 2019 was 1.3% higher than projected in 2016 – largely due to stronger than expected real GDP growth, with inflation slightly undershooting forecasts (see mid and left panels in the top row of Figure 6) – the revenue shortfall relative to pre-TCJA expectations amounted to approximately 2.8 percentage points of GDP. Federal revenues, as opposed to general government revenues, stood at 16.5% of GDP in 2019, compared to the 18.1% of GDP projected by the CBO prior to the enactment of the TCJA. This indicates that the overall drop in general government revenues was fully driven by the decline in federal government revenues (which account for less than half of general government revenues).

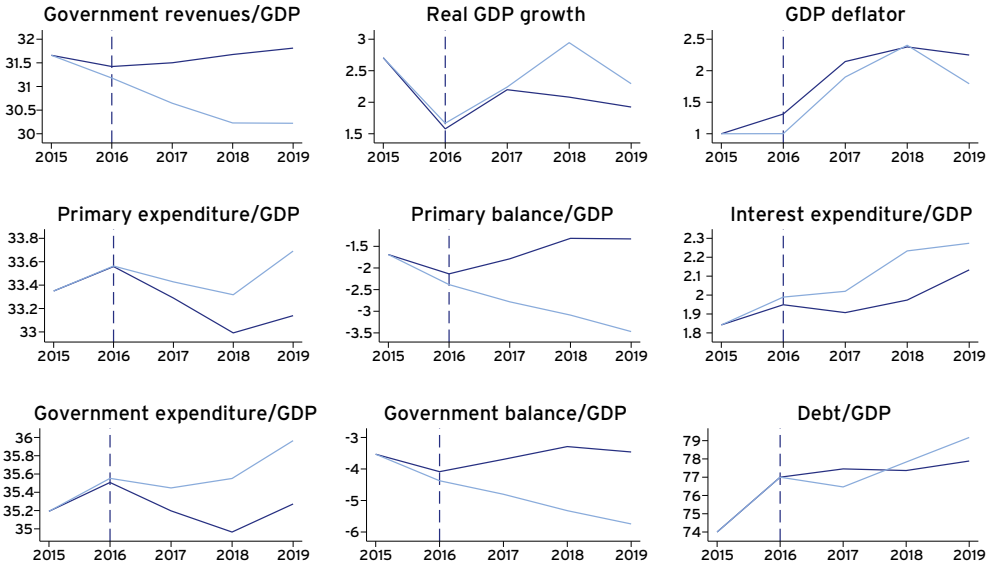
On the expenditure side, fiscal policy during 2017–2019 was marked by increases in both discretionary and mandatory spending. A large portion of the increase in discretionary spending went to defence expenditure, although non-defence discretionary spending also increased. These increases reversed a prior trend of flat or declining discretionary spending. Meanwhile, mandatory expenditures, particularly for Social Security and Medicare, continued to rise due to demographic pressures and healthcare cost inflation. No major reforms were enacted to curb this trajectory. Overall primary expenditure in 2019 was about half a point of GDP higher than expected (see left panel in the second row of Figure 6), and the primary deficit was two points higher than expected (see mid panel in the second row of Figure 6). Additionally, interest payments exceeded projections during this period, contributing further to elevated spending levels (see right panel in the second row of Figure 6). By the end of 2019, overall general government expenditure was 0.8% of GDP higher than end-2016 forecasts (left panel of the bottom row of Figure 6).

The combined effect of significant tax cuts and spending increases was a widening of the overall budget deficit. While the deficit for 2019 had been projected at approximately 3.5% of GDP, it instead reached nearly 6%, up from 4.5% in 2016 (see mid panel of the bottom row of Figure 6).

Despite this marked fiscal deterioration, the increase in debt held by the public was more muted than expected. Over the 2016–2019 period, the debt-to-GDP ratio rose by only 2 percentage points, and in 2019 it was just 1 percentage point higher than projected

in 2016 for that year (see right panel of the bottom row of Figure 6). This discrepancy between fiscal flows and debt accumulation is explained by changes in the Treasury's cash balances, intragovernmental financing, and off-budget financial operations.

FIGURE 6 FISCAL VARIABLES DURING THE FIRST TRUMP ADMINISTRATION



Note: This figure plots the actual (in light blue) and forecasted (in dark blue) values of key fiscal variables, along with the components of nominal GDP growth, during the first three years of the Trump administration. For most variables, forecasts are taken from the October 2016 edition of the IMF World Economic Outlook database, while actual values are from the October 2022 edition. The World Economic Outlook data are for general government (as opposed to federal government) revenues and expenditure. Data for the debt-to-GDP ratio refer to debt held by the public and are sourced from the Congressional Budget Office.

4 FISCAL POLICY DURING THE SECOND TRUMP ADMINISTRATION

As discussed in Section 2, US public debt is currently at a historically high level and on a rising trajectory, even under the assumption that the temporary provisions of the 2017 Tax Cuts and Jobs Act (TCJA) will expire as scheduled at the end of 2025. In this section, we analyse how some of the proposals being discussed by the Trump administration as well as some initiatives that are already being implemented could affect the budget deficit and the debt trajectory.

4.1 Fiscal variables

Expenditures

The newly created Department of Government Efficiency (DOGE) has started with large ambitions about a large reduction in government spending. Initially, Elon Musk suggested that it would be possible to reduce federal expenditure by up to $2 trillion.[3]

3 More recently these estimates of potential saving have been substantially reduced to figures as low as $150 billion.

Table 1 shows why the potential reduction in public expenditure associated with this initiative might be much smaller. When it comes to the magnitude, $2 trillion represents nearly 30% of total federal spending in fiscal year 2024 and exceeds the entire annual discretionary budget of the federal government. In addition, approximately 50% of total discretionary spending goes to defence (see Table 1), and another significant portion is allocated to veterans and homeland security – areas the Trump administration has pledged to expand (Dynan and Elmendorf 2025).

A key DOGE strategy involves reducing the non-defence portion of discretionary spending by downsizing the federal bureaucracy through hiring freezes and layoffs. Total federal civilian compensation is about $250 billion per year; even eliminating 25% of non-defence federal jobs would save only around $60 billion per year (CFRB 2025a). This is approximately 0.24% of GDP and 0.8% of total federal expenditure. Given that previous administrations have already captured many easier savings, further deep cuts risk degrading public services while yielding only modest improvements to the deficit (Donahue 2025). Even if fully implemented, these savings would be insufficient to close the current fiscal gap, let alone offset the revenue loss associated with making the 2017 tax cuts permanent (see below for estimates of the fiscal cost of this policy).

The largest federal outlays are mandatory programmes such as Social Security, Medicare, and Medicaid. Since President Trump has committed not to cut Social Security or Medicare benefits, DOGE is not targeting these programmes. Smaller social safety nets – such as food assistance and welfare – could be considered for cuts. For example, a recent House Republican proposal suggested a 22% reduction in the Supplemental Nutrition Assistance Program (SNAP) through tighter eligibility rules. However, even aggressive reductions in food stamps would result in relatively limited savings. Major entitlement reforms – like raising the retirement age or reducing benefits – could yield substantial fiscal savings, but there is no indication that the current administration intends to pursue such politically unpopular measures. Therefore, meaningful savings from social programmes remain limited unless these core entitlements are addressed.

DOGE also aims to boost government productivity by modernising federal IT systems. Improved software and better inter-agency data sharing could reduce redundant tasks and prevent administrative errors. For instance, upgraded systems might help reduce the estimated $175 billion in annual federal overpayments. However, these gains would materialise slowly and require significant upfront investment. Moreover, the removal of Inspector Generals – key figures in identifying waste and fraud – may ultimately be counterproductive (Dynan and Elmendorf 2025).

DOGE has targeted politically contentious spending areas such as diversity programs, climate initiatives, and research grants. While these measures receive public attention, the actual budgetary savings are relatively minor. A potentially more impactful target is

corporate subsidies (or 'corporate welfare'), which totalled approximately $181 billion in 2024 (Edwards 2025). Nevertheless, these subsidies have largely been left untouched by DOGE, likely due to political resistance and lobbying pressure.

In sum, while there is a long history of attempts to 'reinvent government' – from the Hoover Commission in the 1940s, to President Reagan's Grace Commission, to Vice-President Al Gore's initiative in the 1990s – there is broad consensus that achieving trillions in genuine savings through efficiency alone is unrealistic without confronting the core drivers of federal spending.

TABLE 1 COMPOSITION OF FEDERAL EXPENDITURE IN FISCAL YEAR 2024

	Amount (billion USD)		Share of total
Mandatory expenses			
Social Security	1,458		21.5%
Medicare	875		12.9%
Medicaid and CHIP	585		8.6%
Other mandatory	1,166		17.2%
Total mandatory		4,083	60.2%
Net interest	881		13.0%
Mandatory + interest		4,965	73.2%
Discretionary expenses			
Defence	853		12.6%
Other discretionary	962		14.2%
Total discretionary		1,815	26.8%
Total	*6,780*	*6,780*	*100%*

Source: Own elaborations based on CBO data https://www.cbo.gov/publication/61181

Revenues

Tax revenues are likely to decrease through the implementation of tax cuts proposed by the Trump administration, particularly the extension of TCJA provisions. The Committee for a Responsible Federal Budget estimates that extending the expiring TCJA provisions could add nearly 50 percentage points of GDP to the federal debt over the next 30 years (CFRB 2025b). Similarly, Auerbach and Gale (2025) estimate that making the temporary TCJA provisions permanent would increase the debt-to-GDP ratio to 134% by 2035 and to 209% by 2055.

Tariffs could be a potential source of additional income for the government, but it is unlikely that they would contribute to a large increase in revenues on two grounds. First, Clausing and Obstfeld (2024) and McKibbin and Shuetrim (2025) argue that the

potential revenues associated with tariffs are limited because of the existence of Laffer curve-type dynamics.[4] Higher tariffs lead to lower imports and therefore lower revenues. This effect can be magnified if tariffs have a negative effect on GDP. Second, the initial reciprocal tariff rates have been put on pause until negotiations with individual countries on trade deals are finalised, so there is a large amount of uncertainty over the actual tariffs that will be in place during 2025 (IMF 2025b). Finally, the US administration has presented tariffs as a potential replacement of other revenues such as income taxes rather than as a way to increase the overall revenues of the government.

What about the potential growth effects of the proposed tax changes? Estimates from the Yale Budget Lab (2025) indicate that the proposed tariffs could reduce annual GDP growth by approximately 0.35 to 0.56 percentage points. Similarly, Goldman Sachs (2025) projects that, although the expansionary fiscal package may yield a modest positive net effect on growth in the short term, this would not be sufficient to offset the negative impact of the tariffs. The Penn Wharton Budget Model (2025) provides long-term projections for the Trump campaign's proposed tax and spending plan – excluding the effects of tariffs – and finds that, if the measures are temporary, they would increase real GDP growth after 2023–2024 by only 0.3–0.4%, primarily through supply-side mechanisms. However, if the tax cuts were made permanent without corresponding offsets, the model suggests that the long-term effects on growth would become negative due to a rising debt burden and upward pressure on interest rates. This suggests that any short-term gains from fiscal stimulus may ultimately be outweighed by longer-term fiscal constraints.

Putting together taxes and spending proposals

Table 2 summarises the potential impact on the budget of some of these possible changes in spending and tax revenues. Tax cuts could reduce revenues by as much as 1.7% of GDP. And even under the most optimistic assumptions, compensatory measures identified so far could yield at most 1% of GDP annually. This upper bound assumes substantial reductions in the federal workforce and optimistic projections for revenue from the tariffs proposed for implementation in 2025 – tariffs that might not be implemented (at least in their original form). Given these estimates, to maintain the debt at its current share of GDP under the Trump campaign's proposed tax policy, Auerbach and Gale (2025) estimate that compensatory measures – either in the form of revenue increases or expenditure reductions – equal to 3.7% of GDP per year would be required if implemented in 2026, or 4.4% if delayed until 2031. To limit the debt ratio to 150% of GDP by 2055, the required annual adjustment would still range between 1.9% (if implemented in 2026) and 2.3% (if implemented in 2031).

4 Preliminary data indicate that tariffs revenues increased by $6 billion in April 2025 because of a sudden increase of imports. But even an increase of $300 billion per year, which is the upper bound estimate of McKibbin and Shuetrim (2025), would be enough to compensate for the reduction in revenues brought about by the extension of the TCJA.

TABLE 2 FISCAL IMPACT OF PRESIDENT TRUMP'S PROPOSED POLICIES (% OF GDP)

	Annual cost		Annual savings or revenue increase
Extension of TCJA	1.22%	Laying off federal employees	0.1%-0.4%
Reinstate phased-out business investment incentives	0.17%	DOGE	0.15%-0.3%
New proposal from Trump campaign*	0.33%	Tariffs announced in 2025 (including retaliatory tariffs)	0.4%-0.8%
Total	1.72%		0.65%-1.5%

Note: *no income tax on tips and part of overtime wage, Expanded SAL deduction, and 15% corporate rate for domestic production. The table shows estimates of the budgetary implications of some of the main policy proposals put forward by the Trump administration. The data are from Goldman Sachs (2025) and the Yale budget lab.[5] All values are in percent of GDP.

4.2 Potential fiscal effects of macroeconomic changes

Interest rates

As discussed in the previous section, the explosive path of public debt is partly due to higher interest payment. Building on the framework introduced by Poszar (2024), Miran (2024) argues that it is possible to have low US financing costs while deliberately weakening the dollar. This approach, often referred to as the Mar-a-Lago Accord, can be pursued either through international cooperation or a series of unilateral US policy actions.

In the 'cooperative' version of the accord, Miran envisions the US using its geopolitical leverage to pressure its security and trade partners into reducing their dollar reserves and converting the remainder into long-duration US Treasury securities ('century bonds' with low yields).[6] Miran presents this as a realignment of global risk, in which foreign reserve holders take on interest rate risk previously borne by US taxpayers.

One version of the unilateral approach envisions a 'user fee' on foreign official holdings of US Treasuries – effectively a partial withholding of interest payments. Miran argues that such a measure would compensate the US for the burden that foreign reserves place on its export sector by inflating the value of the dollar. Miran acknowledges that this is a risky approach, potentially leading to a large-scale sell-off of Treasuries, sharply rising interest rates, and a disorderly decline in the dollar. He advocates gradualism and the implementation of country-specific fees, with higher rates for geopolitical adversaries. The market turmoil of April 2025 confirmed that these concerns were well-founded.

5 https://budgetlab.yale.edu/research/where-we-stand-fiscal-economic-and-distributional-effects-all-us-tariffs-enacted-2025-through-april

6 The 'carrot' in this arrangement is continued access to the US defence umbrella, while the 'stick' consists of potential tariffs or other trade barriers.

Miran also discusses alternative forms of unilateral intervention, including the accumulation of foreign exchange reserves through the Treasury's Exchange Stabilization Fund (ESF). His most radical option involves the Federal Reserve directly purchasing foreign assets through its System Open Market Account. This proposal is fraught with risk. If such purchases are sterilised – offset by selling domestic assets to prevent inflation – the fiscal cost could be significant. If they are not sterilised, the expansion of the money supply would likely be inflationary.

As discussed in Section 2, in the absence of the radical policy measures envisioned by Miran, borrowing costs are expected to rise. In recent months, real yields on US government bonds have risen notably, and updated IMF projections suggest a growing risk of further interest rate hikes. The IMF (2025b) warns that mounting debt levels could place additional strain on long-term interest rates and the cost of government borrowing. For example, a 10 percentage point increase in US public debt as a share of GDP between 2024 and 2029 could push the 5-year forward 10-year rate up by 60 basis points. A comparable impact is seen on the 10-year Treasury nominal yield.

Inflation

In terms of inflation, the administration's policies may generate a positive demand shock due to the large budget deficit, combined with a negative supply shock stemming from the imposition of tariffs and increased deportations. The interaction of these two shocks raises the risk of a return to stagflation. Additionally, the need to finance a growing public debt could place pressure on the Federal Reserve and potentially threaten its independence, further elevating inflation expectations.

The IMF (2025a) has raised it inflation forecasts for 2025 by 1.0 percentage point with respect to its October 2024 forecast. This revision is driven by ongoing price increases in the services sector and the potential impact of newly announced tariffs. The most recent data show that the likelihood of US headline inflation surpassing 3.5% in 2025 has climbed to over 30% – more than double the 13% probability estimated in October 2024.

High unexpected inflation could contribute to reduce the deficit but could also increase borrowing costs and possibly lead to higher real interest rates – unless one believes that the financial repression mechanisms spelled out in Miran (2024) can be effective.

While it is early to assess the inflationary impact of Trump's policies on inflation, some key measures of inflation expectations, such as those collected by the University of Michigan survey, increased in March 2025 to levels that are higher than during the inflationary spike after 2021. Other measures of expected inflation, such as the 5-year breakeven inflation derived from TIPS, have not reached similar levels but they have been consistently increasing since Trump's inauguration.

GDP growth

As highlighted by Ascari et al. (2024), fast growth rates could reduce the need for a fiscal adjustment to control stabilise the debt-to-GDP ratio. But the rate of GDP growth required to stabilise debt without budgetary adjustments will be in the order of 4%, a number that is more than double the forecasted potential growth rate by most analysts.

Recent productivity figures have shown that the US is delivering a faster growth rate than other advanced economies, but the pace of labour productivity growth is not much higher than 2%, falling short of what is needed.

TABLE 3 LABOUR PRODUCTIVITY

	Euro area	US
1996Q1-2007Q4	1.30%	2.71%
2008Q1-2019Q4	0.72%	1.50%
2020Q1-2024Q4	0.24%	2.10%

Note: Labour productivity calculated as GDP per hour worked for the whole economy (euro area) and nonfarm business sector (US).

Sources: ECB and Fred.

Looking at long-term trends, many advanced economies are beginning to experience demographic shifts marked by a shrinking working-age population, which directly impacts labour supply and productivity. In contrast, the US has so far been better positioned, largely due to robust immigration inflows (IMF 2025a). However, the administration's increasingly restrictive immigration policies could undermine this advantage, potentially reversing the positive demographic dynamics that currently set the US apart from its peers.

The latest IMF estimates have revised down short-term US growth forecasts, lowering the 2025 projection from 2.7% to 1.9% and the 2026 forecast from 2.1% to 1.7% under the baseline scenario – declines of 0.9 and 0.4 percentage points, respectively. These adjustments reflect growing policy uncertainty and escalating trade tensions. Additionally, the updated projections indicate a 37% probability of a US recession in 2025, up from 25% in the October 2024 forecast (IMF 2025a).

5 CONCLUSIONS

Projections from both the IMF and the Congressional Budget Office indicate a structural imbalance in US fiscal policy under current trajectories, with public debt unlikely to stabilise within a 30-year projection horizon. These imbalances reflect persistent deficits and rising interest payments that outpace economic growth.

The policy proposals put forward by the Trump administration are expected to further strain public finances. Tax cuts remain central to the administration's agenda, and they are unlikely to be offset by revenues from proposed tariffs or by only modest reductions in primary expenditures. As a result, government revenues may fall short of what is needed to support fiscal sustainability.

Short-term growth prospects appear increasingly fragile, with downside risks dominating the outlook. At the same time, inflation is expected to remain above the Federal Reserve's target. This combination of sluggish growth and elevated inflation could worsen the US fiscal position. Low growth directly weakens revenue collection and raises the debt-to-GDP ratio, while the impact of inflation depends heavily on the trajectory of real interest rates.

Most current estimates suggest that, in the absence of financial repression – such as policies possibly associated with the so-called 'Mar-a-Lago Accord' – real interest rates are unlikely to return to the low levels of previous years. This would compound the challenge of debt stabilisation by increasing debt servicing costs and undermining the potential benefits of inflation on public finances

REFERENCES

Auerbach, A J and W G Gale (2025), "The Fiscal Outlook at the Beginning of the New Administration", Brookings Institution, 25 February.

Ascari, G, G Corsetti, T Horvath, and R Trezzi (2024), "The U.S. Fiscal Mess: Some Unpleasant Fiscal Simulations", VoxEU.org, 26 July (https://cepr.org/voxeu/columns/us-fiscal-mess-some-unpleasant-fiscal-simulations).

CBO – Congressional Budget Office (2021), *The 2021 Long-Term Budget Outlook*, Washington, DC.

CBO (2023), *The 2023 Long-Term Budget Outlook*, Washington, DC.

CBO (2024), *The Long-Term Budget Outlook: 2024 to 2054*, Washington, DC.

CBO (2025), *The Long-Term Budget Outlook: 2025 to 2055*, Washington, DC.

Clausing, K and M Obstfeld (2024), "Can Trump Replace Income Taxes with Tariffs?", PIIE Blog, 20 June.

CRFB – Committee for a Responsible Federal Budget (2025a), "Potential Savings from Shrinking the Federal Workforce", 7 March.

CRFB (2025b), "Tax Cut Extensions Would Add $3.7 Trillion to Debt by 2054", 24 March.

Donahue, J D (2025), "The Soft Targets Fell Long Ago: HKS Experts on Prospects for a Radical New Initiative Reductions", Harvard Kennedy School (https://www.hks.harvard.edu/faculty-research/policy-topics/public-finance/what-awaits-department-government-efficiency-hks).

Dynan, K and D Elmendorf (2025), "Don't Look to Efficiency for Big Deficit Reductions", in What Awaits the Department of Government Efficiency?", Harvard Kennedy School (https://www.hks.harvard.edu/faculty-research/policy-topics/public-finance/what-awaits-department-government-efficiency-hks).

Eichengreen, B (2024), "America's Debt Is Both Sustainable and a Problem", Project Syndicate, June.

Furman, J and L Summers (2020), "A Reconsideration of Fiscal Policy in the Era of Low Interest Rates", Harvard University and Peterson Institute for International Economics.

Edwards, C (2025), "Corporate Welfare in the Federal Budget", Policy Analysis No. 990, Cato Institute.

Goldman Sachs (2025), "U.S. Economics Analyst: Fiscal Policy Won't Offset the Drag from Tariffs", 27 March.

IMF – International Monetary Fund (2024), "Article IV Consultation: United States", July 2024, Washington, DC.

IMF (2025a), *World Economic Outlook, April 2025*,Washington, DC.

IMF (2025b), *Fiscal Monitor, April 2025*, Washington, DC.

McKibbin, W J and G Shuetrim (2025), "The U.S. Revenue Implications of President Trump's 2025 Tariffs", PIIE Briefing 25-2.

Miran, S (2024), *A User's Guide to Restructuring the Global Trading System*, Hudson Bay Capital.

Penn Wharton Budget Model (2025), "The Economic Effects of President Trump's Tariffs" (https://budgetmodel.wharton.upenn.edu/issues/2025/4/10/economic-effects-of-president-trumps-tariffs).

Pozsar, Z (2024), "Money and World Order", *Ex Uno Plures* 2(8).

Yale Budget Lab (2025), "State of U.S. Tariffs" (https://budgetlab.yale.edu/research/state-us-tariffs-april-15-2025).

ABOUT THE AUTHORS

Antonio Fatás is the Portuguese Council Chaired Professor of Economics at INSEAD, a Senior Policy Scholar at the Center for Business and Public Policy at the McDonough School of Business (Georgetown University, Washington DC), Vice President, Research Fellow and VoxEU Associate Editor at the CEPR (London) and a Senior Fellow at ABFER (Singapore). He has worked as an external consultant for the International Monetary Fund, the World Bank, the Board of Governors of the US Federal Reserve, the European Parliament, the OECD, and the UK government. His research interests are in the area of macroeconomics. His research focuses on the causes and shape of business cycles, the determinants of long-term growth, and the impact that economic policies (monetary and fiscal) have on economic outcomes.

Ugo Panizza is Pictet Chair in Finance and Development, Department Head, and Professor of International Economics at the Geneva Graduate Institute. He is the Director of the International Centre for Monetary and Banking Studies, Deputy Director of the Centre for Finance and Development, Vice President and Fellow of CEPR, Fellow of the Fondazione Einaudi, and Editor-in-Chief of *Oxford Open Economics*. He was Chief of the Debt and Finance Analysis Unit at the United Nations Conference on Trade and Development (UNCTAD) and worked at the Inter-American Development Bank, the World Bank, the American University of Beirut, and the University of Turin. He served as an external consultant for the World Bank, the International Monetary Fund, the Inter-American Development Bank, the United Nations, and the European Court of Auditors. He has extensive work and research experience in Latin America and the Middle East and North Africa. His research focuses on international finance, sovereign debt, fiscal policy, and banking.