Macro Roundup Artcile

Headline: Interest Expense: A Bigger Impact on Deficits than Debt

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Tweet: A @GoldmanSachs analysis notes that the rise in real interest expense as a percentage of US GDP requires primary (ex-interest) deficit reduction comparable to the 1993 fiscal adjustment to stabilize the debt-to-GDP ratio.

Summary: The greater challenge facing US fiscal policy is not new: the US is running a primary (ex-interest) deficit much larger than has been the case historically, and it is happening at a point in the business cycle when the deficit would normally be smaller than usual. When interest expense rose sharply in the 1980s, fiscal policymakers reacted by shrinking the primary (ex-interest) deficit. The largest fiscal adjustment from that period, enacted in 1993, would be sufficient if enacted now to offset the additional interest expense we project (relative to 2021) after 5 years. The average interest rate on federal debt is likely to remain at or below the rate of nominal GDP growth for the next decade, and this relationship is likely to be more benign than the historical average over the next five years. Related: Maxing Out and Resilience Redux in the US Treasury Market and Living with High Public Debt

Primary Topic: Fiscal Deficits

Topics: Business Cycle, Fiscal Deficits, Fiscal Policy, GDP, Politics, Weekly

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