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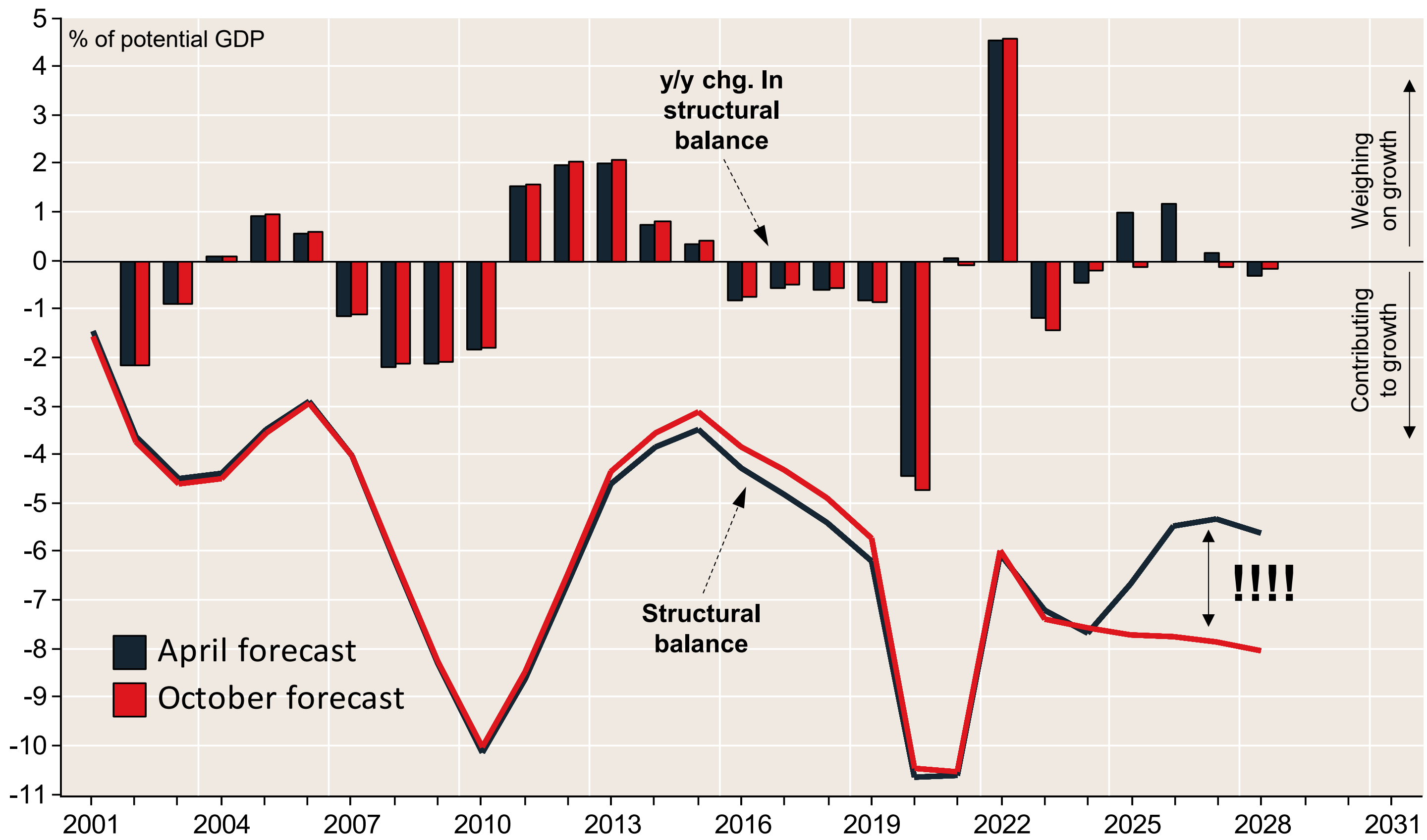
U.S. Watch
By Jocelyn Paquet

In the third of four Hot Charts aimed at explaining the resilience of the U.S. economy in a context where uncertainty has led to a deterioration in certain economic indicators such as employment (see the **first** and **second** one), we examine the role of fiscal policy. As with most countries, the United States opened the fiscal floodgates when the pandemic struck, in order to prevent the economy from sliding into a deep recession. In fact, the response was one of the most significant worldwide, with the IMF estimating that the deterioration in the general government structural balance represented no less than 4.5% of potential GDP in 2020 alone. At the time, economists generally agreed that once the crisis was over, the government's structural deficit would return to roughly the same level as before the arrival of the virus. For a while, this indeed seemed to be the case. However, the structural deficit began to expand again in 2023, 2024 and 2025, reaching levels not seen outside of recession periods before (around 7.7% of potential GDP this year). Nevertheless, some economists remained optimistic that 2026 would see the return of more frugal fiscal policy. The IMF certainly kept the faith, predicting as recently as April 2025 that a significant reduction in the deficit would reduce U.S. GDP growth by around 1.0% in 2025 and by 1.2% in 2026. This was prior to the passing of the One Big Beautiful Bill (OBBB) in July 2025, which promised further tax reductions for individuals and businesses. After incorporating this new law into its model, the IMF now sees fiscal policy contributing slightly to growth in both 2025 and 2026. What a turnaround! It is therefore not so much the deterioration in the government's structural balance that will contribute to growth going forward, but rather the complete lack of consolidation. And while one could debate the merits of expansionary fiscal policies at a time when public finances are already under strain and inflation remains comfortably above the Federal Reserve's target, it goes without saying that less consolidation will translate into more growth this year and next, all other things being equal.

U.S.: From bad to worse on the fiscal front
General government structural balance



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