

A large, modern conference room with a curved wooden table and tiered seating. The room is illuminated with warm, recessed lighting. The ceiling features circular light fixtures. The walls are made of wood paneling. The seating is arranged in a semi-circle around the table. The overall atmosphere is professional and sophisticated.

## Global Fiscal Policy and Debt Sustainability

Secular Forum 2026

Peder Beck-Friis

### IMPORTANT NOTICE

Please note that the following contains the opinions of the manager as of the date noted and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

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# Summary

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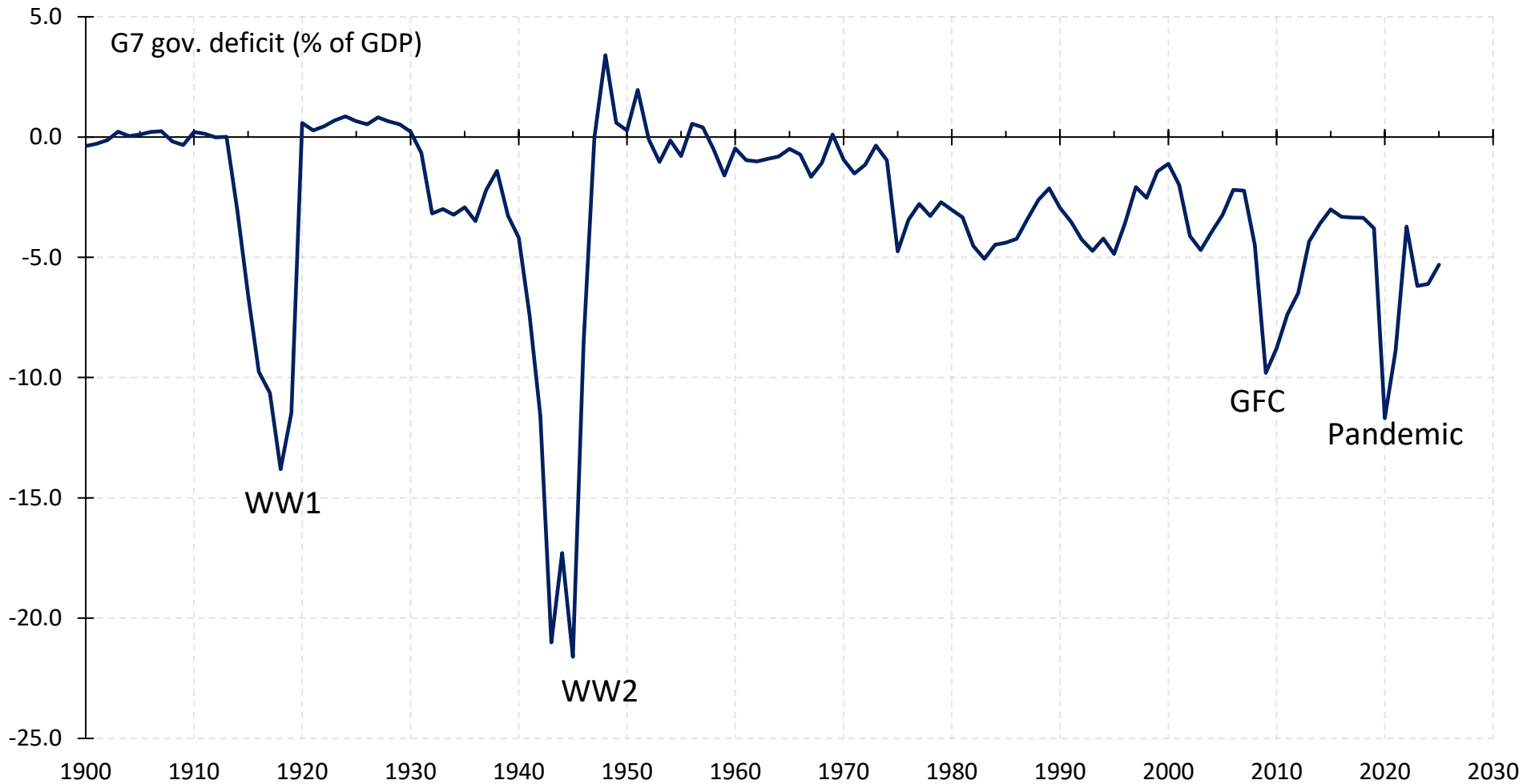
- The fiscal outlook remains uncertain, and a prolonged U.S.-Iran shock could widen deficits cyclically. But the structural picture is unchanged from last year: debt is near record highs, and fiscal space is limited – likely constraining active fiscal easing in the next recession and shifting more of the burden to central banks.
- Absent a major downturn, fiscal policy is likely to stay broadly neutral ahead, though with more cross-country divergence than before. Japan and Germany plan to ease, most of Europe looks to tighten, and the U.S. plans to keep its structural deficit neutral at 6-7%. Future recessions will likely push deficits to historically high levels, close to ~10% in the U.S.
- Despite the sell-off in global yields, debt remains sustainable in most developed countries. The U.S. (and Belgium) still stand out with unsustainable paths. France looks better than last year, but only conditional on uncertain tightening. The UK, Italy, and Japan remain vulnerable to new shocks but are sustainable under current fiscal plans.
- Fragile fiscal balances raise the risk of steeper curves. However, markets have repriced accordingly: higher-debt countries now have steeper curves (unlike before the pandemic), and based on simple debt dynamics alone, curves look broadly fair across most countries.
- We outline five scenarios for U.S. debt, unchanged from recent years. In the baseline, debt rises but credibility remains intact given loose Laffer curve constraints and the dollar's continued reserve status. Tail risks (debt crisis or financial repression) remain low, though a bit higher under Trump administration. Stronger growth is also unlikely to flatten the debt path, though AI raises the odds slightly.
- Some form of fiscal consolidation is likely beyond the secular horizon. While political willingness for that remains low, the interest burden is rising sharply and may change attitudes over time.

As of 8 May 2026.

## **Fiscal deficits and the policy outlook**

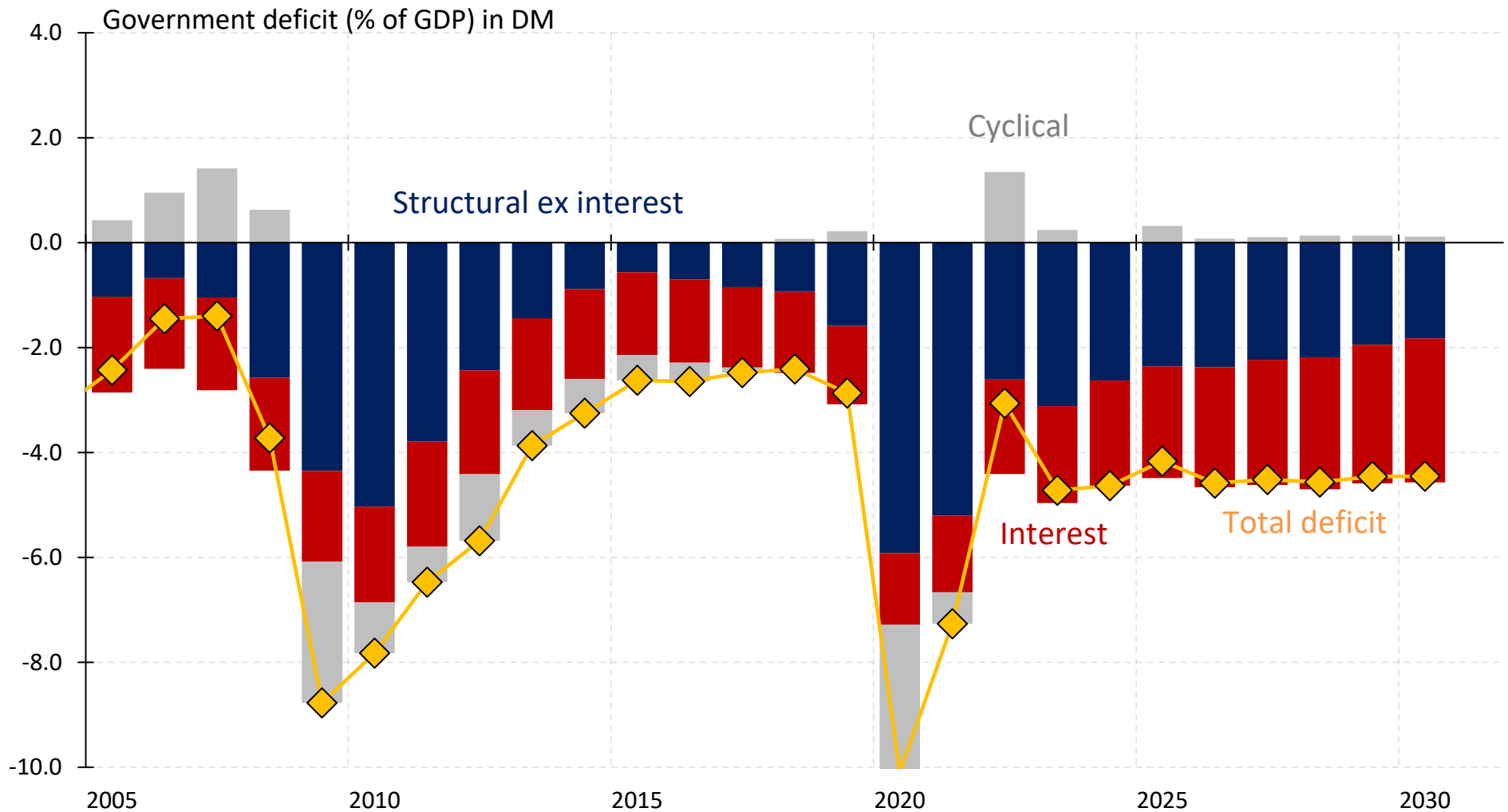


# Deficits remain high, at least outside wars and other crises...



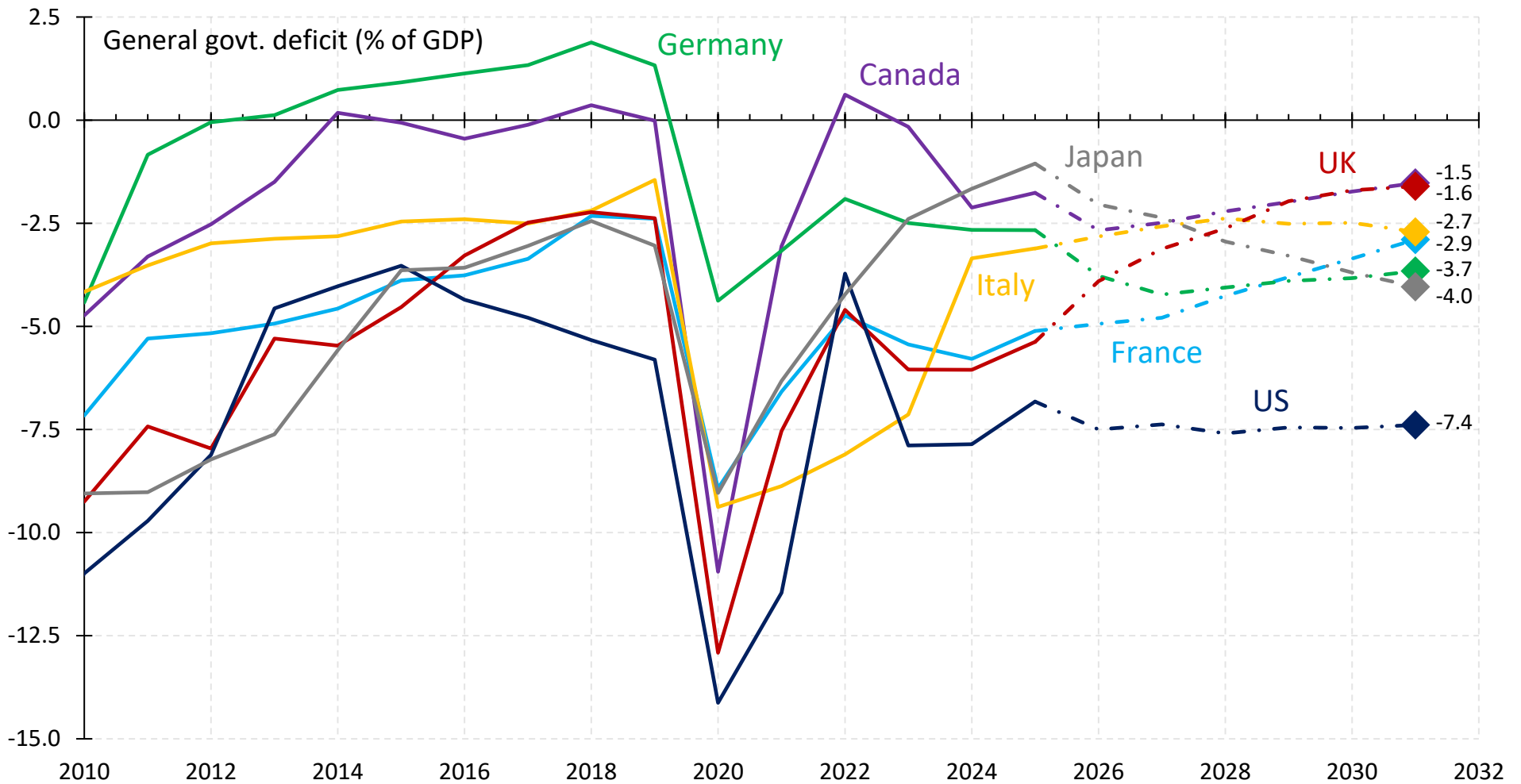
Note: Chart shows G7 deficit-to-GDP (GDP-weighted). Last data point is 2025. Source: IMF Public Finances in Modern History; JST Macro-History Database; IMF WEO (April 2026); PIMCO calculations. Refer to Appendix for additional outlook and risk information.

# ...and will likely stay higher than pre-pandemic, because of higher interest costs and other spending



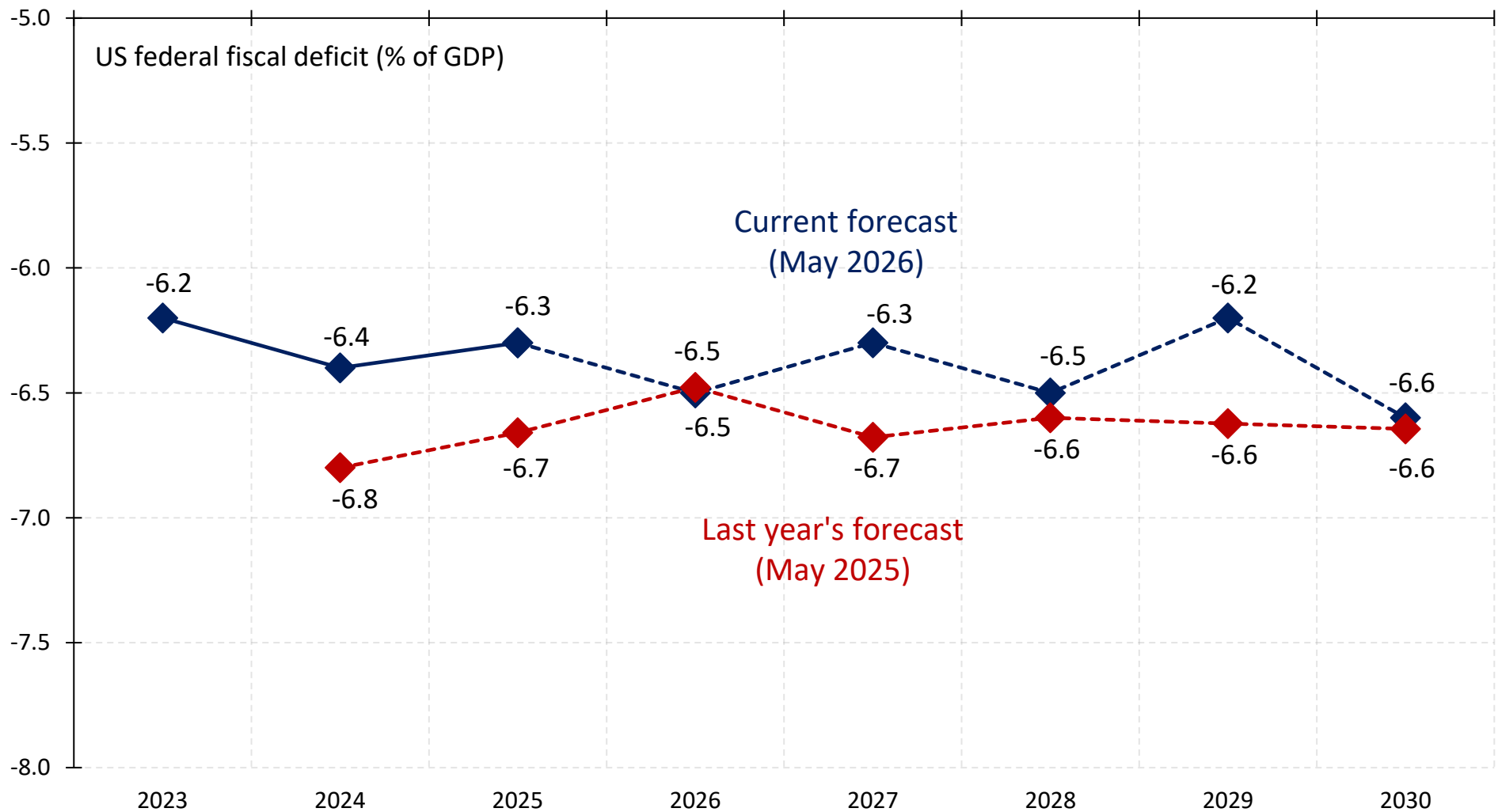
Note: GDP-weighted average of the largest 33 developed countries. All projections based on IMF forecasts. Source: IMF WEO (April 2026); PIMCO calculations. Refer to Appendix for additional forecast, outlook and risk information.

# The deficit outlook is particularly concerning in the U.S....



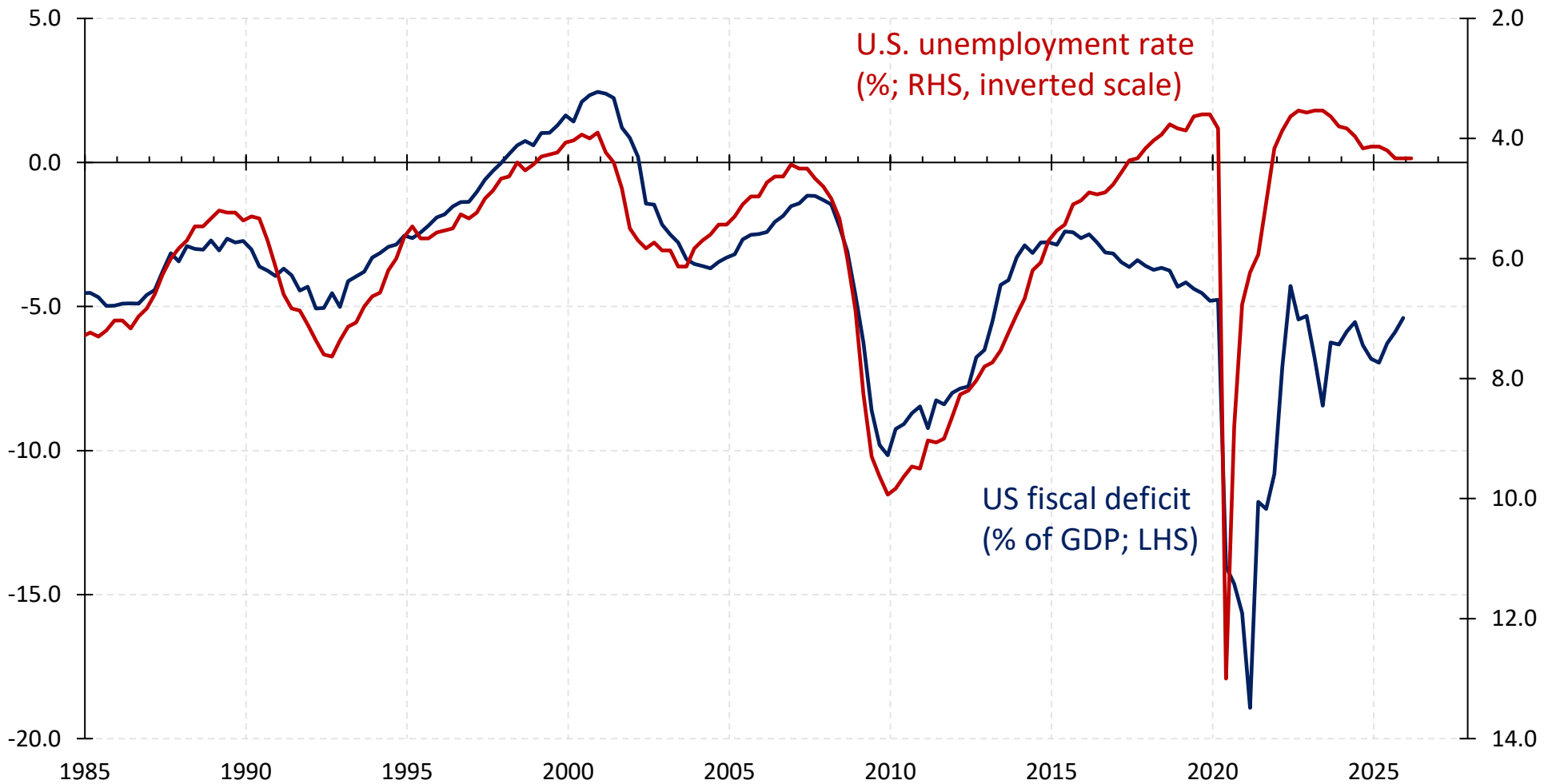
Note: Government deficit-to-GDP for G7 countries, plus IMF projections in dashed lines. Source: IMF WEO (April 2026); PIMCO calculations. Refer to Appendix for additional outlook and risk information.

# ...where the federal deficit is set to remain around 6-7%, broadly unchanged from last year



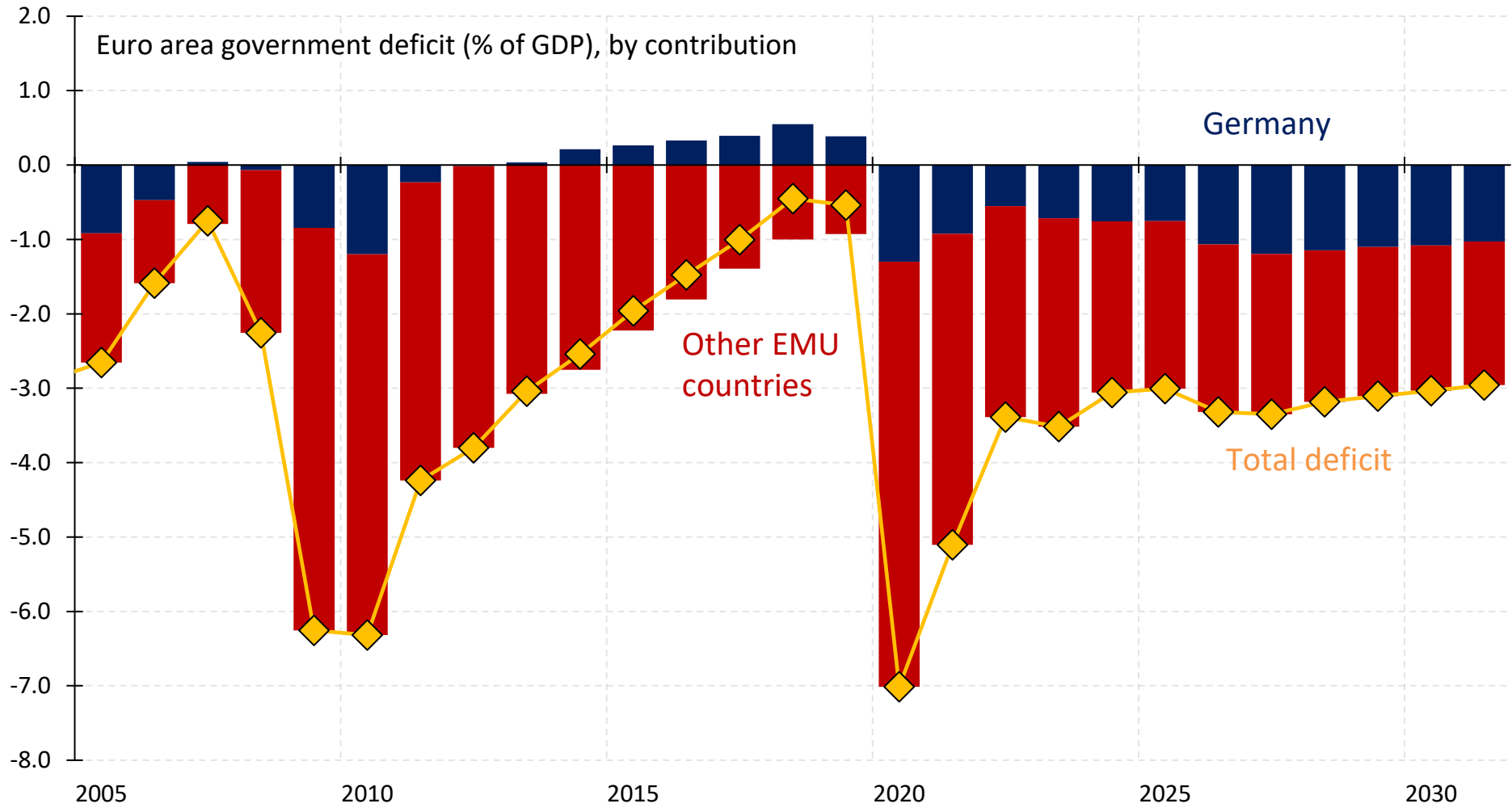
Note: US federal structural deficit (% of GDP). Current forecast is from CBO (February 2026) adjusted for policy changes and revisions, plus an estimate of Iran War cost. Last year's forecast is from CBO (March 2025), adjusted for the extension of 2017 Trump tax cuts. Source: CBO; PIMCO calculations.

# Future downturns could cyclically push the U.S. deficit close to 10%



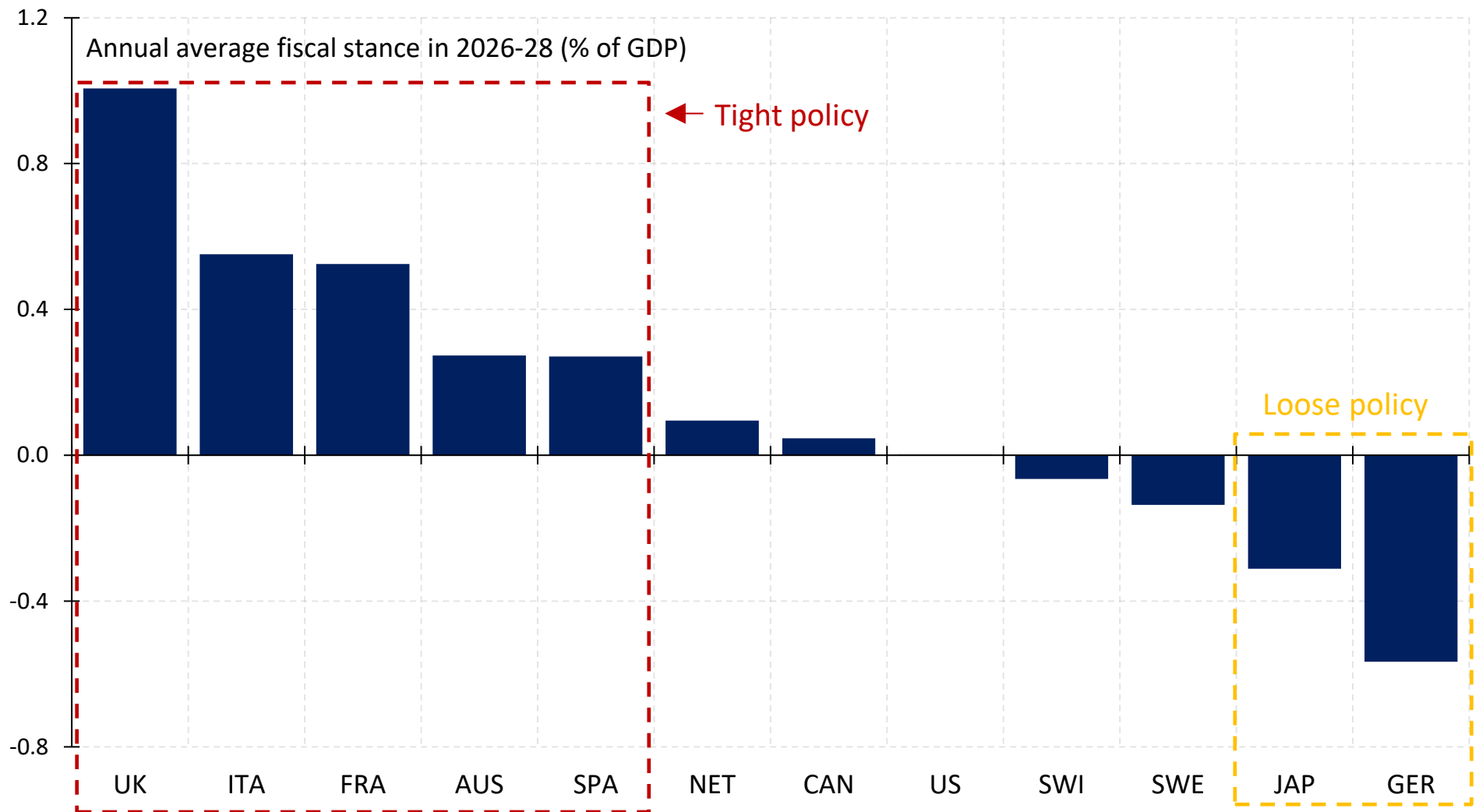
Quarterly data. Unemployment rate as of 1Q26. Fiscal deficit as of 4Q25. Note: Deficit refers to the US federal government only. Source: BEA; US Treasury; BLS; PIMCO calculations.

# In the euro area, Germany will ease but others mostly tighten, keeping the deficit broadly stable at 34%



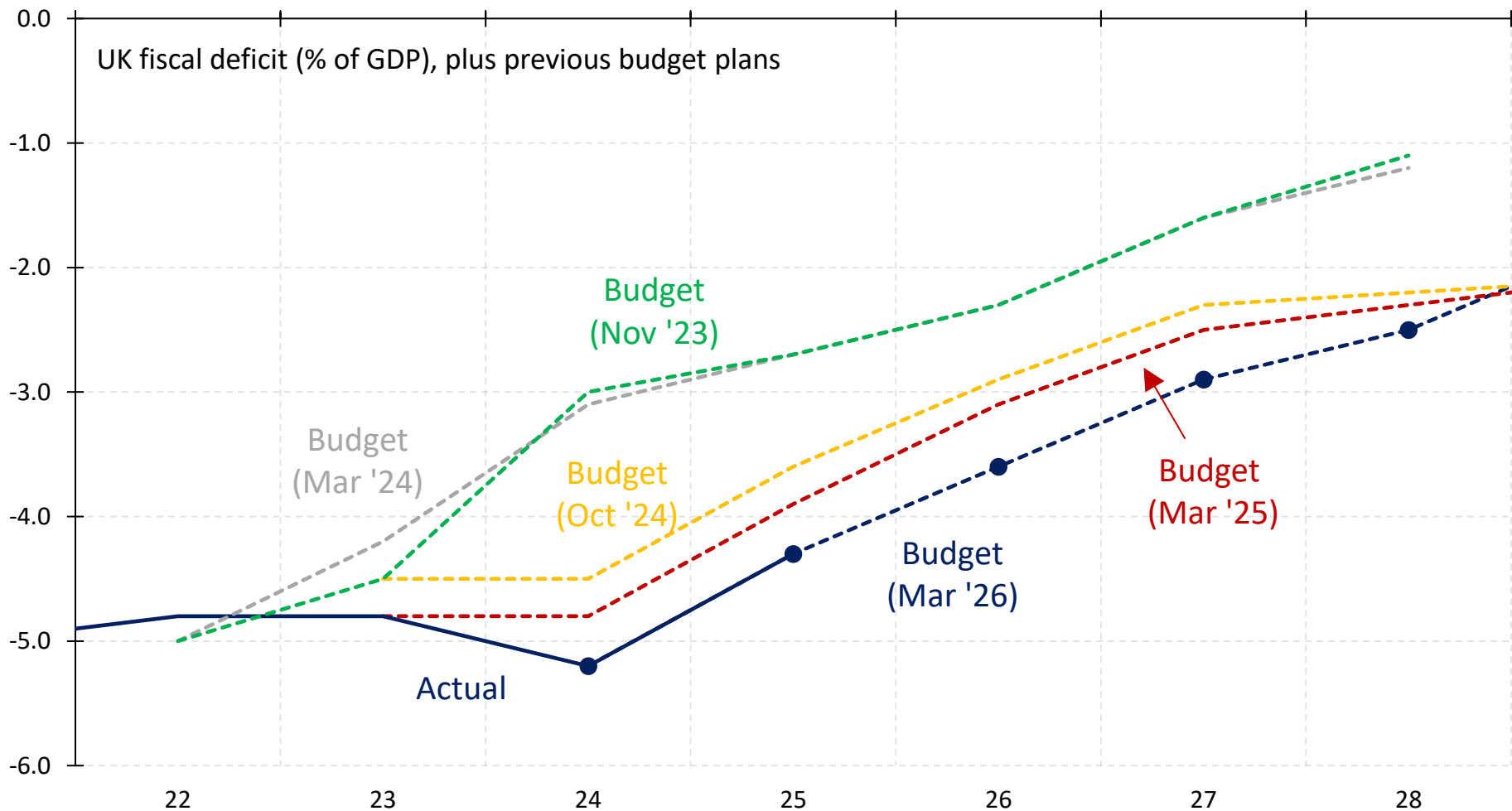
Source: IMF WEO (April 2026); PIMCO calculations.

# Lots of fiscal divergence across countries: Most plan to tighten, some to remain unchanged, and some to ease



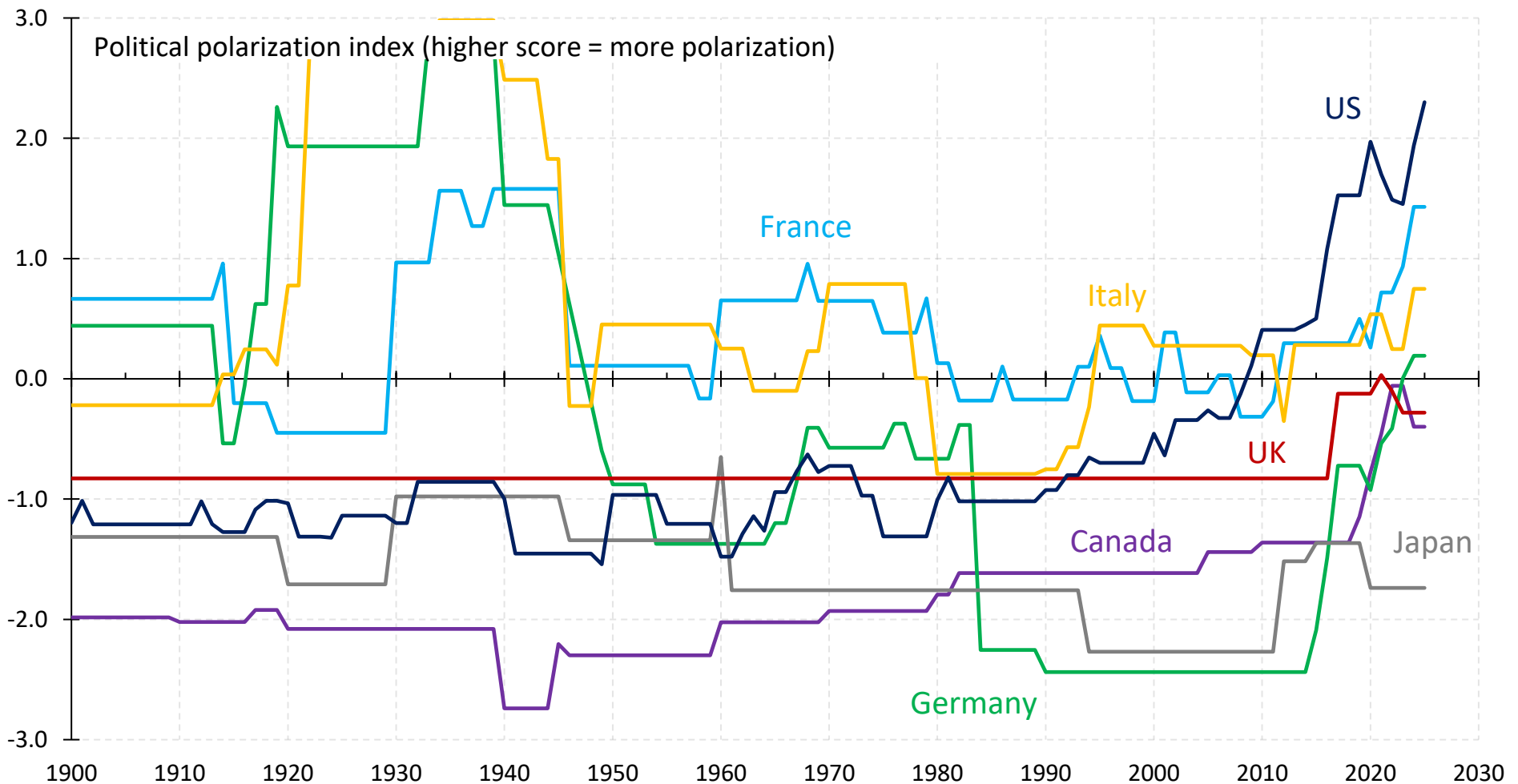
Note: Twelve largest developed countries. The fiscal stance is defined as the average annual change in the structural primary balance in 2026-28 based on IMF projections. Source: IMF WEO (April 2025); PIMCO forecasts.

# Tightening is politically difficult, as the UK experience shows, and prone to U-turns and delays



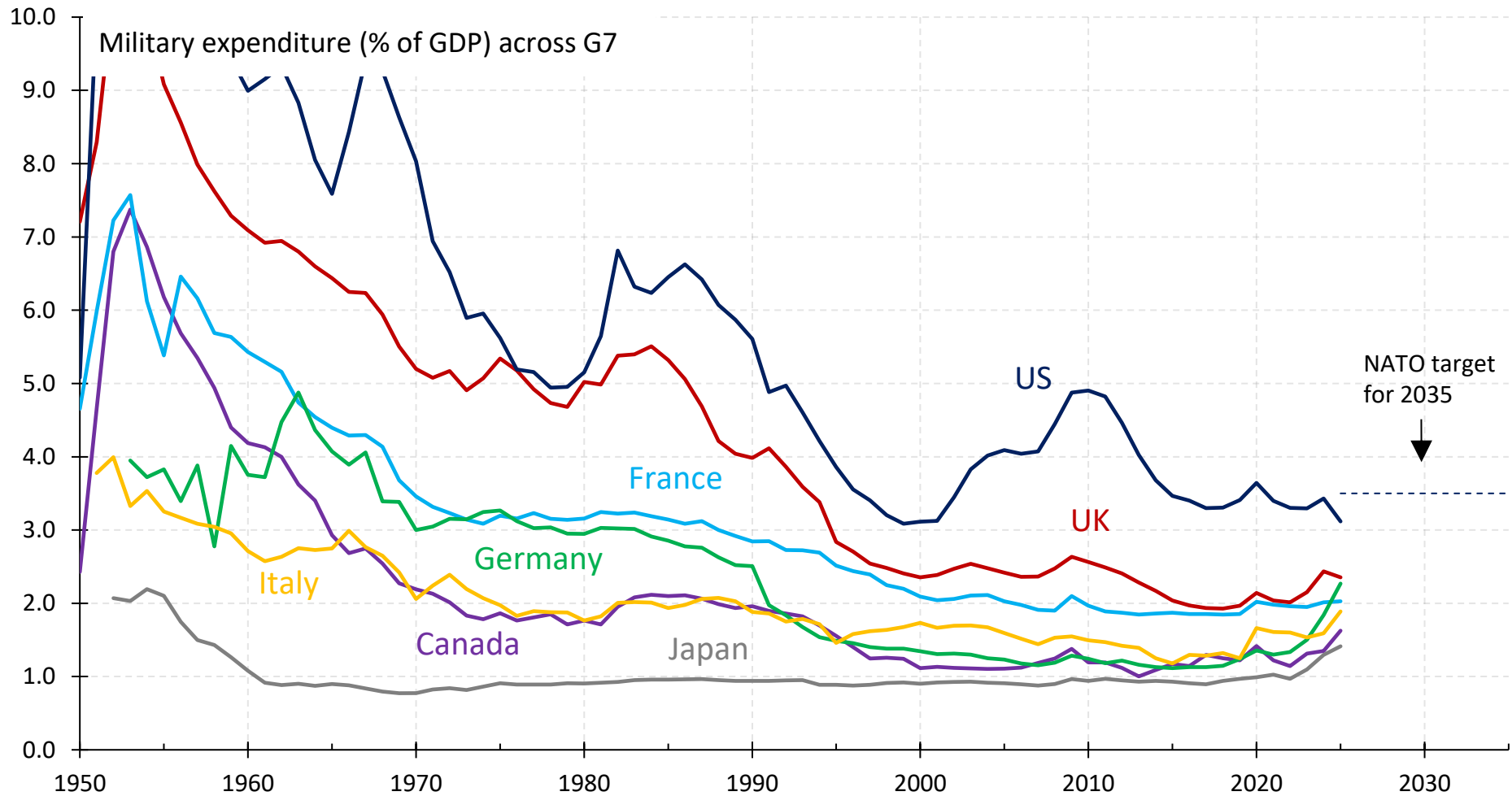
As of 8 May 2026. Note: Previous plans are OBR projections at the time of each budget. Source: OBR; ONS; PIMCO calculations.

# This is especially true in a divided political landscape, as now. Polarization is linked to higher deficits across countries and time



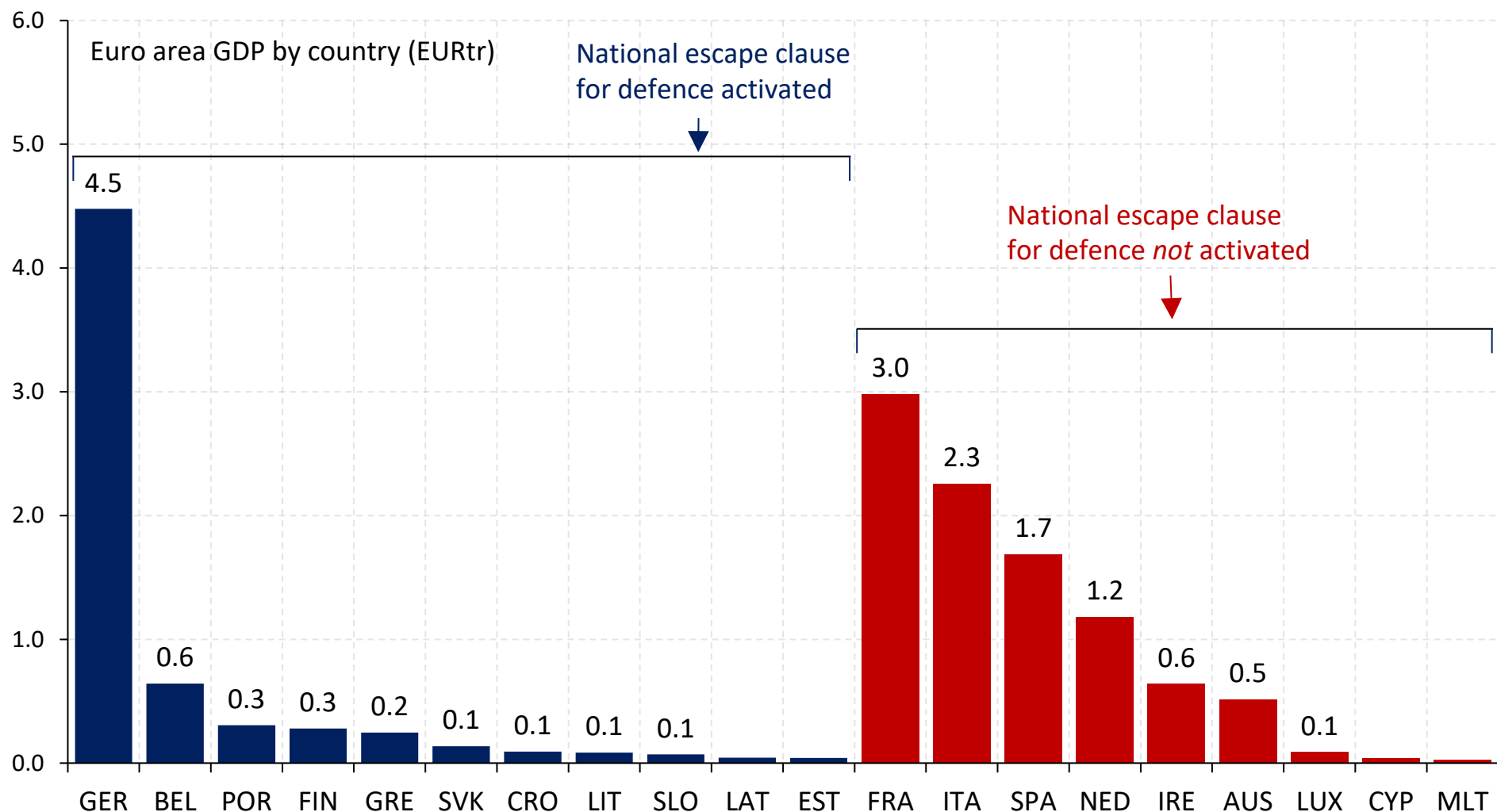
Source: V-Dem database; PIMCO calculations. Note: Annual data through 2025. Expert estimates of the extent to which society is divided into hostile political camps, and political differences that undermine social relationships and discourage interaction across ideological lines. A score of 0 is approximately the average across all countries and years.

# There are growing spending pressures too, especially in defence and especially in Europe



As of 8 May 2026. Note: NATO 2035 target is 3.5% of GDP for “core” defence (e.g. personnel, equipment) and 1.5% of GDP for broader defence/security (e.g. cyber, infrastructure). Annual data through 2025. *Source:* SIPRI Military Expenditure Database; PIMCO calculations.

# But so far, market discipline binds: Apart from Germany, no large euro area country intends to use fiscal leeway to fund defence

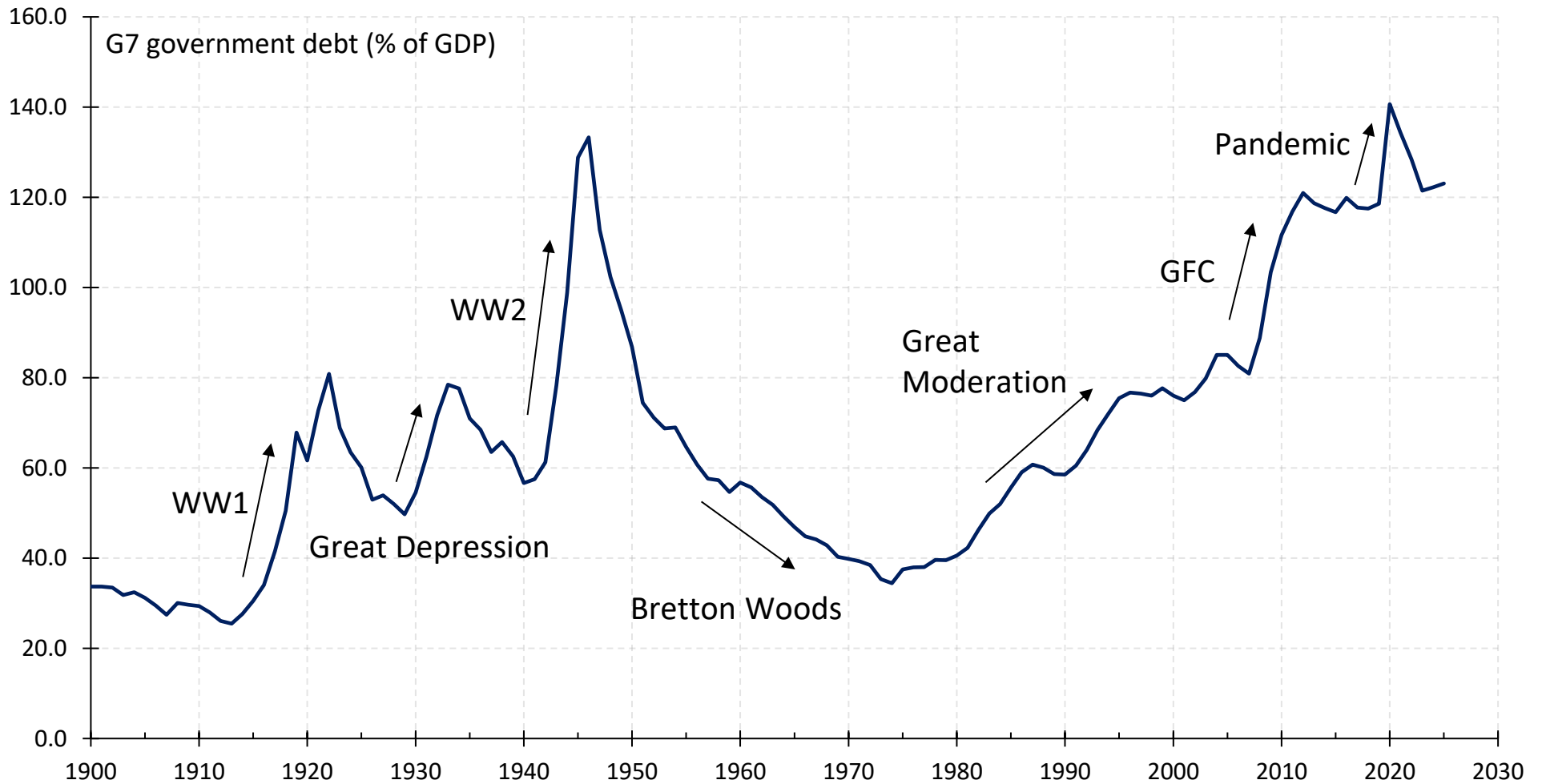


Note: Euro area national escape clause (2025) allows member states to temporarily ease fiscal deficit targets to finance higher defense spending. Source: Eurostat; European Commission; PIMCO calculations.

**Is government debt sustainable?**

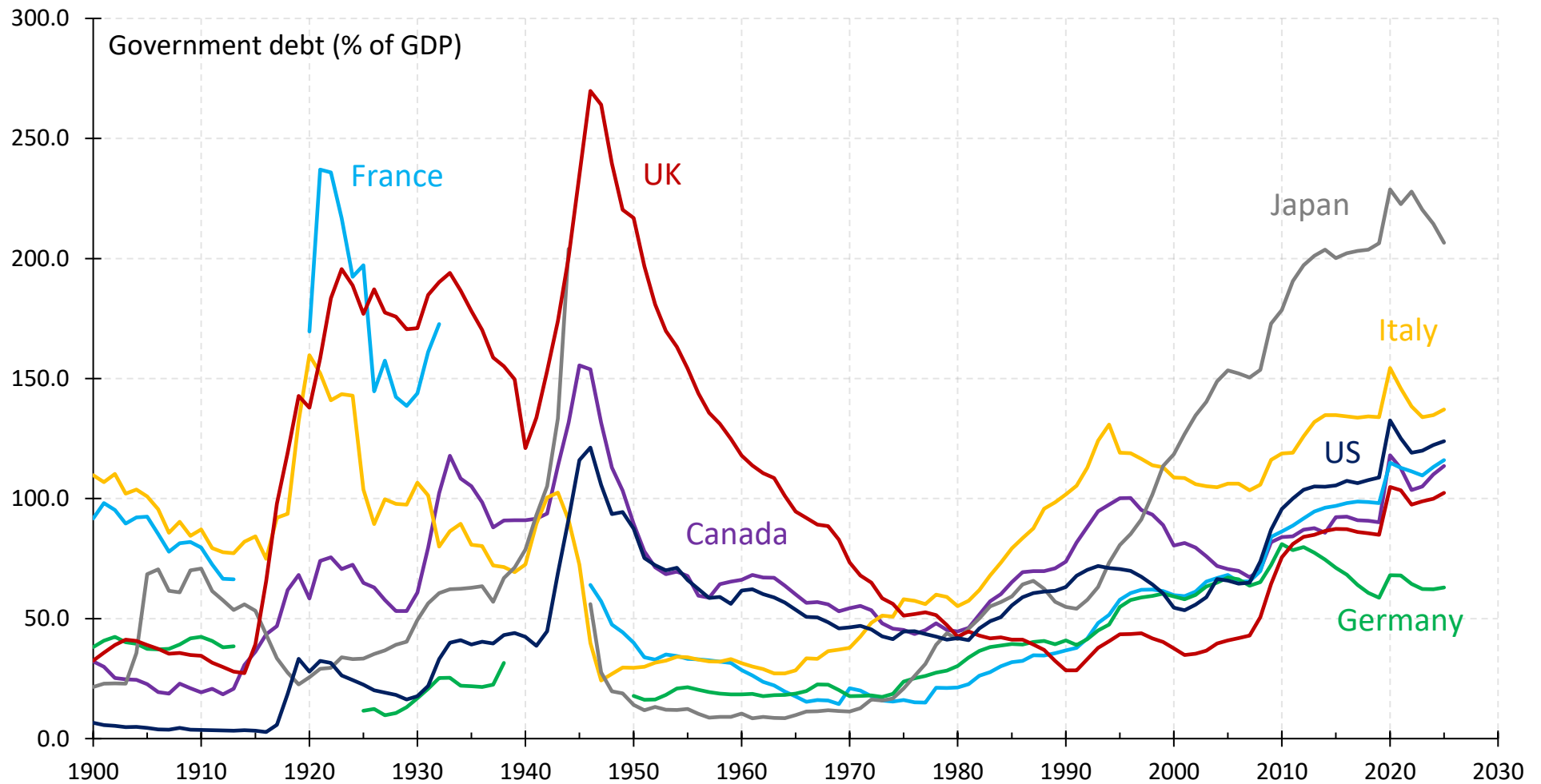


# Public debt levels are close to record highs...



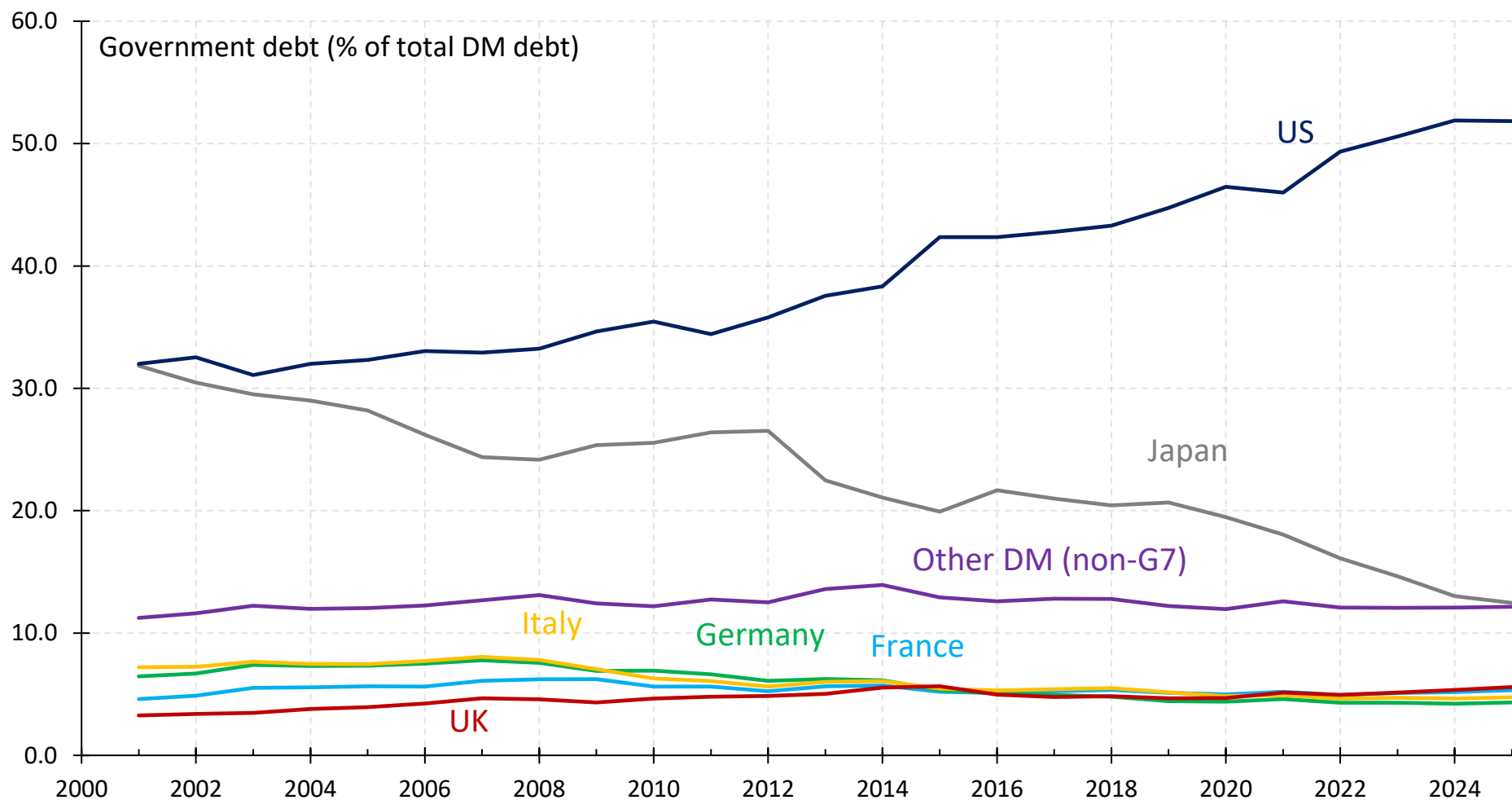
Note: G7 debt-to-GDP (GDP-weighted). Last data point is 2025. Source: IMF Public Finances in Modern History; JST macro-history database; IMF WEO (April 2026), PIMCO calculations.

# ...but still way below the peak seen in many European countries last century



Note: G7 debt-to-GDP. Last data point is 2025. Source: IMF Public Finances in Modern History; IMF WEO (April 2026); PIMCO calculations.

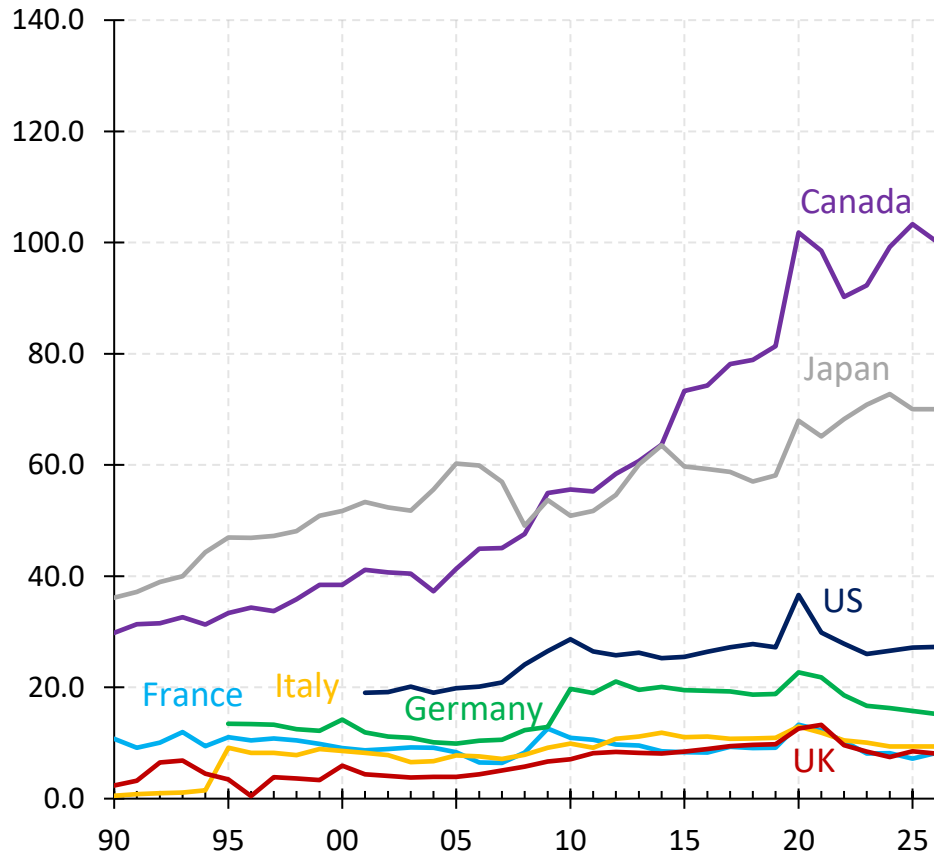
# US debt now exceeds the combined debt of *all* other advanced countries



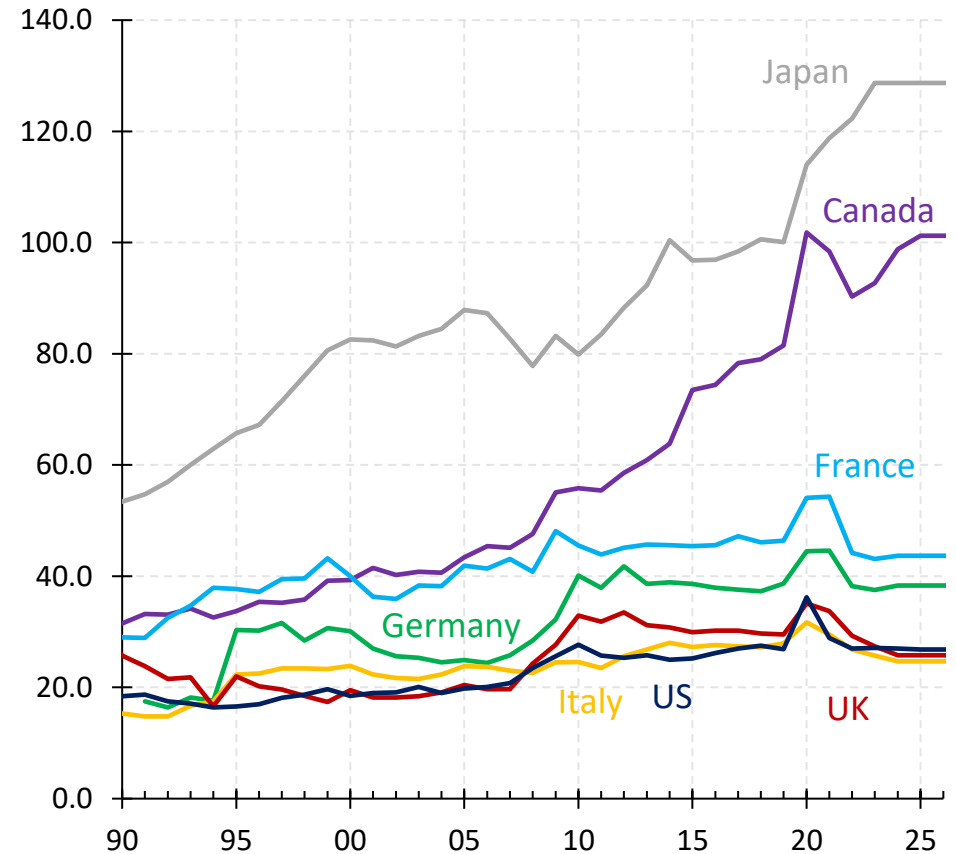
Note: Country debt shown as share of total developed market debt, based on IMF definition. Source: IMF WEO (April 2026); PIMCO calculations.

# Governments also own interest-bearing financial assets, especially Japan and Canada

Gross financial assets (% of GDP) - IMF def.

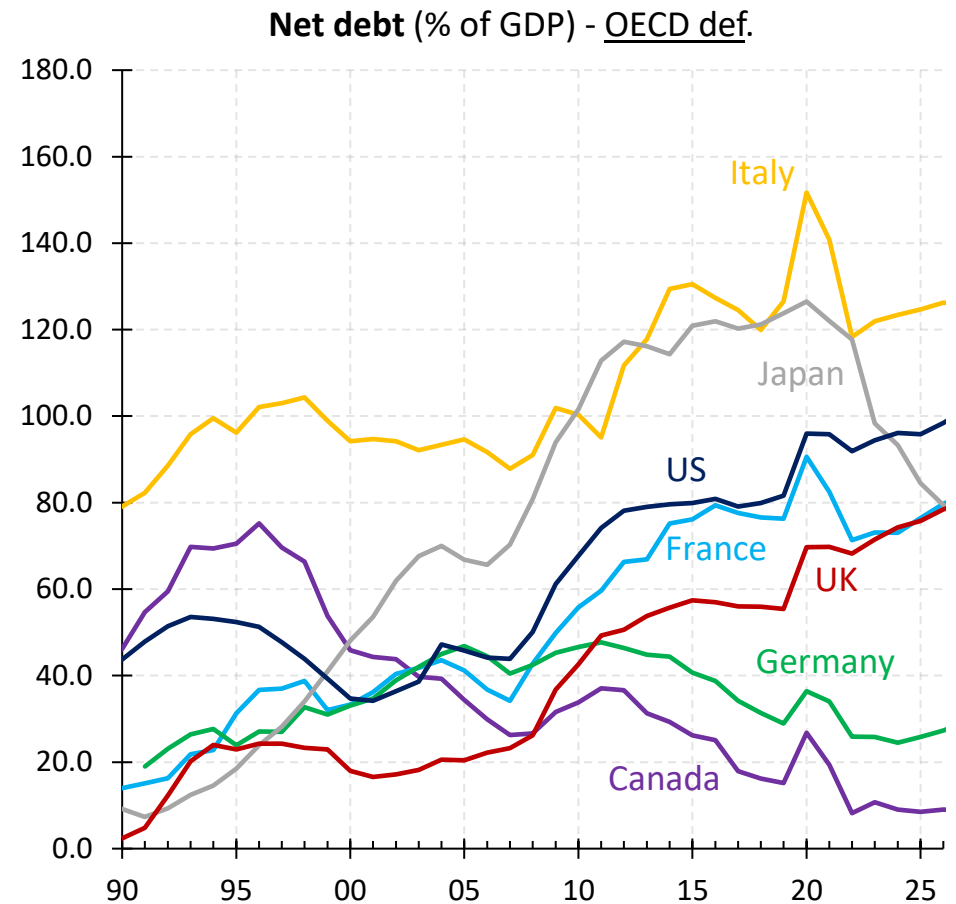
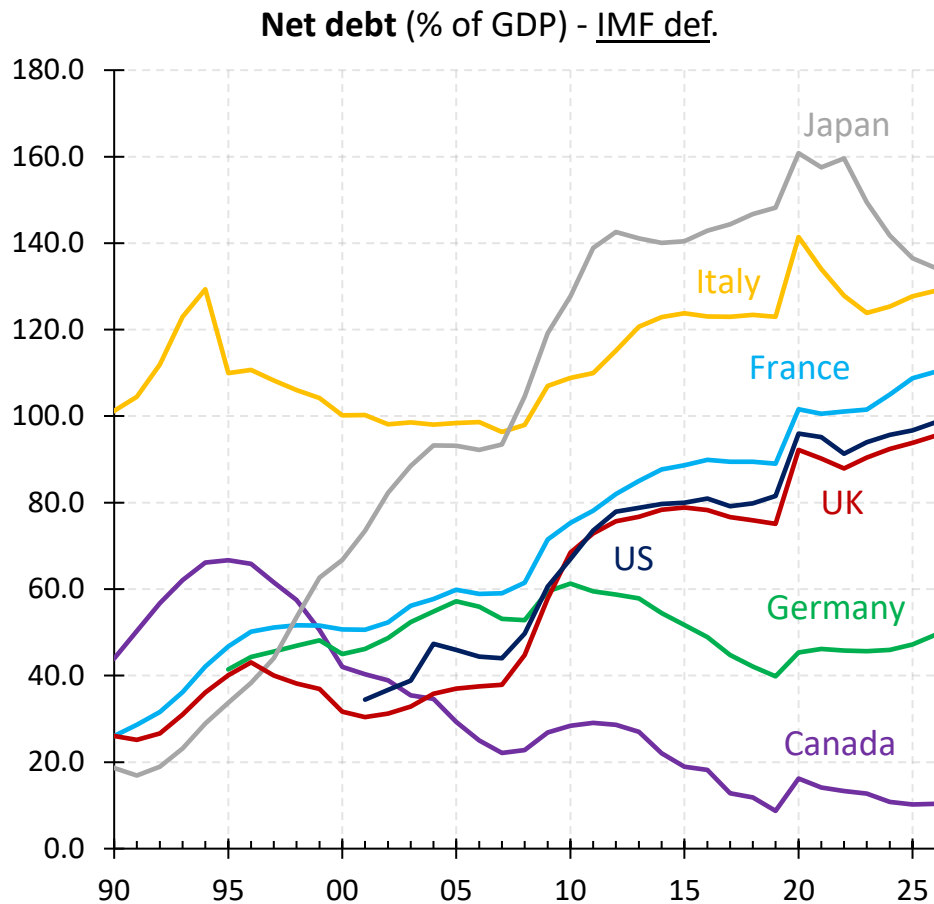


Gross financial assets (% of GDP) - OECD def.



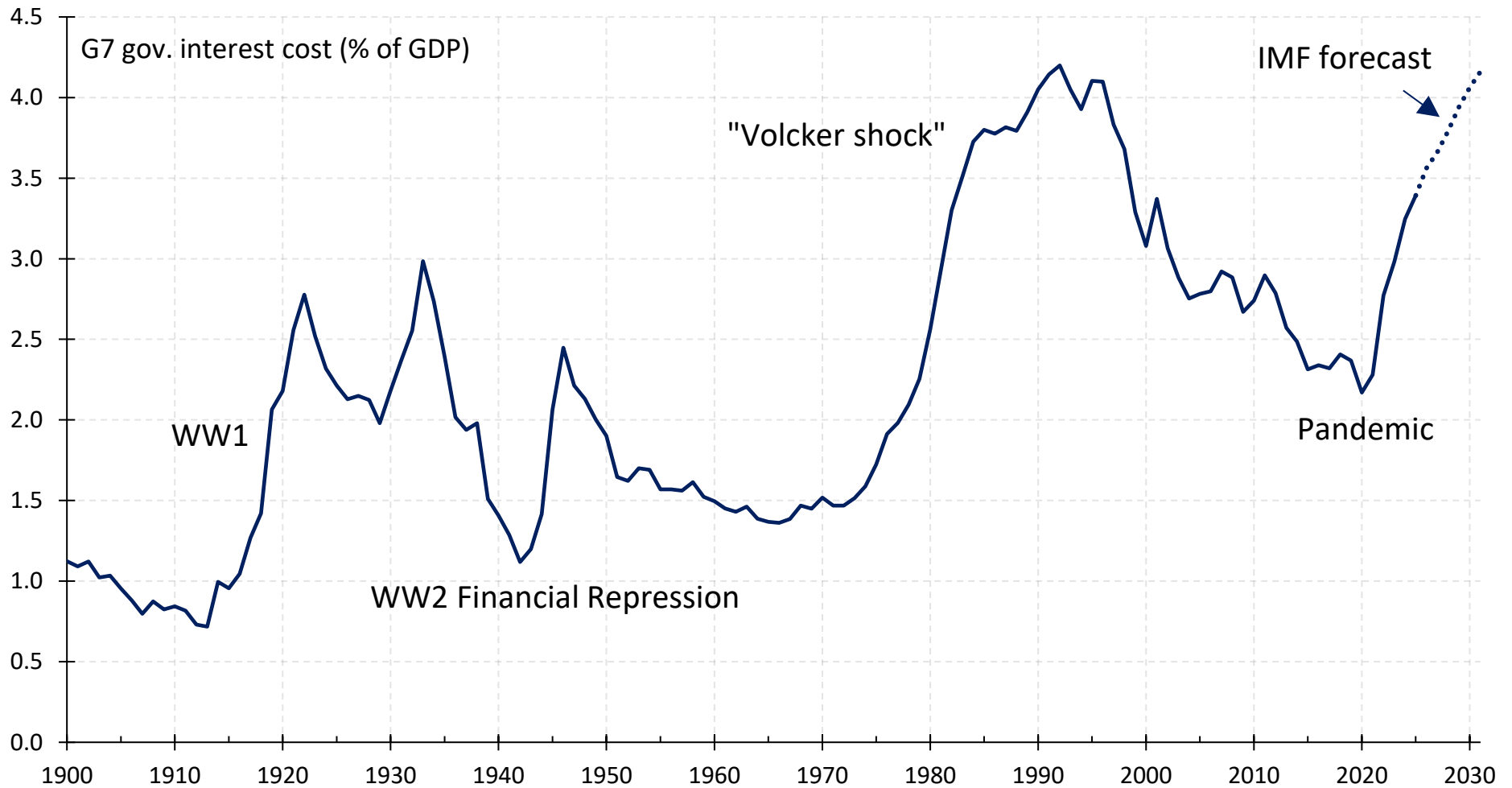
Note: G7 debt-to-GDP. Last data point is 2025. IMF defines gross financial assets as “debt-like” assets, including currency, debt securities, and loans. OECD also includes equity and other financial assets. Source: IMF WEO; OECD; PIMCO calculations.

# On a net basis – gross debt minus gross financial assets – Japan looks less of an outlier



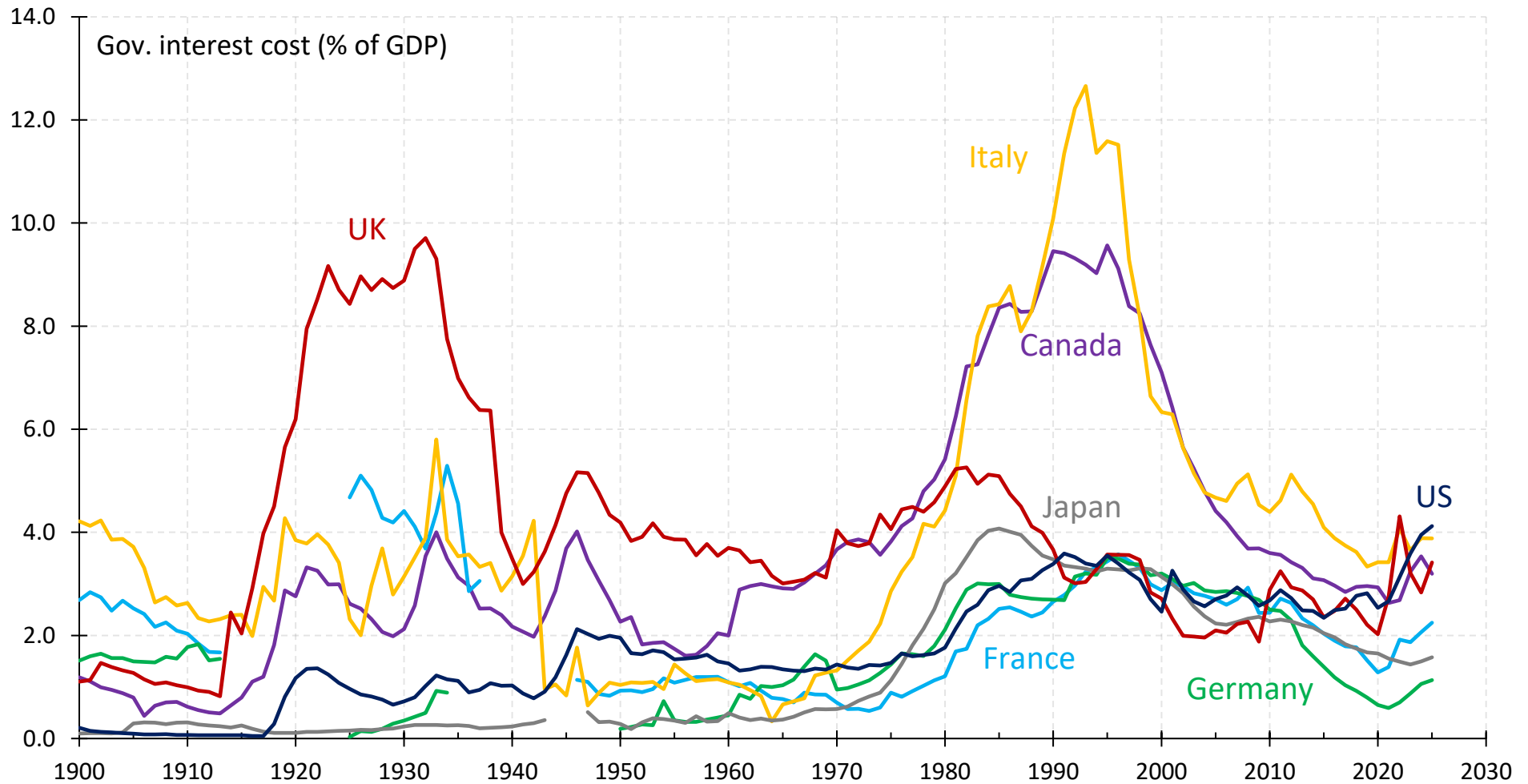
Source: IMF WEO (April 2026), OECD, PIMCO calculations. IMF defines gross financial assets as “debt-like” assets, including currency, debt securities, and loans. OECD also includes equity and other financial assets. For debt, the IMF uses nominal (face) value, whereas OECD uses market value.

# Interest costs are rising but remain lower than in the 80s and 90s, for now



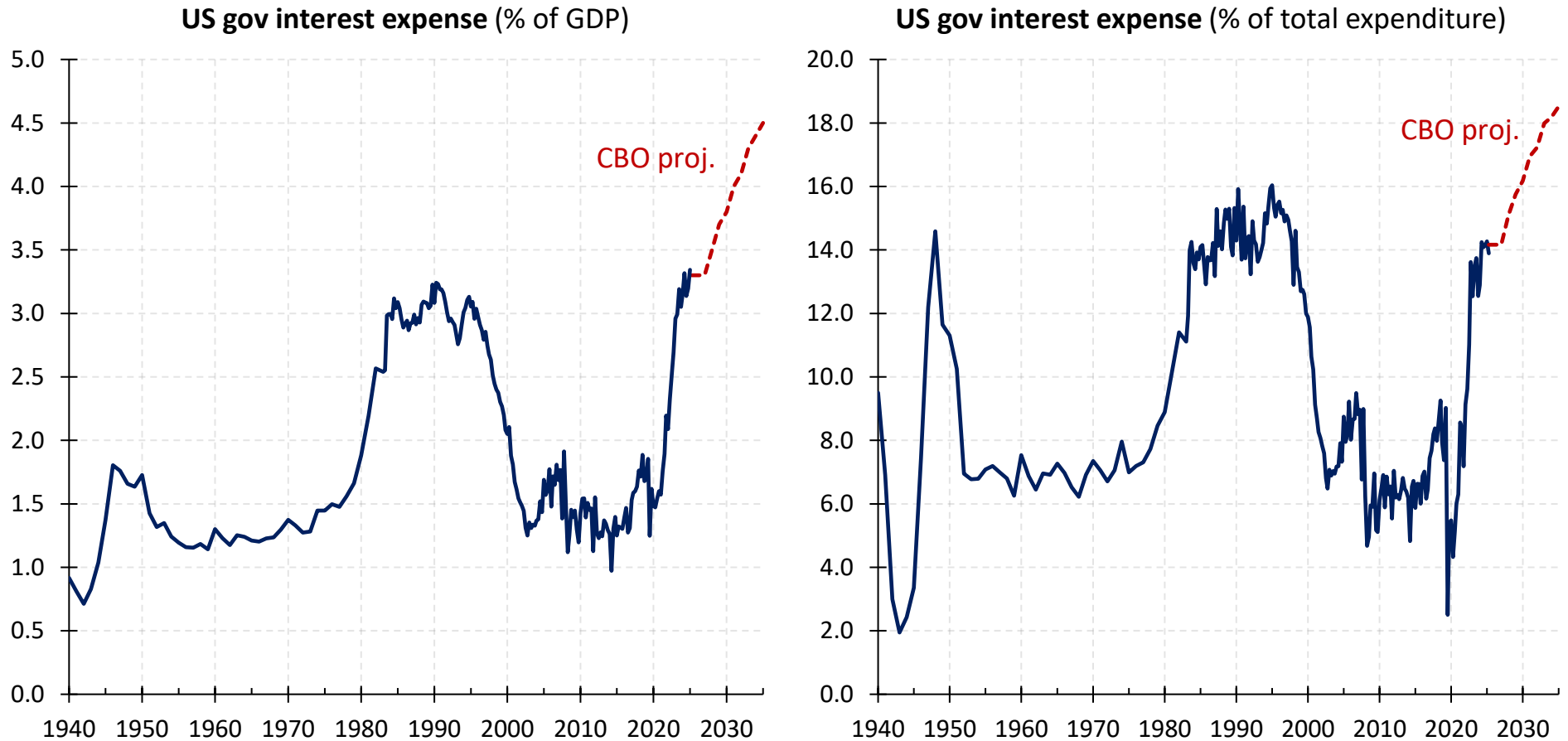
Note: G7 government interest cost (% of GDP; GDP-weighted). Last data point is 2025; dotted line shows IMF forecast. Source: IMF Public Finances in Modern History (up until 2024); JST macro-history database; IMF WEO (for 2025-31), PIMCO calculations.

# And some countries have dealt with a *much* higher interest burden in the past



Note: G7 government interest cost (% of GDP). Last data point is 2025. Source: IMF Public Finances in Modern History (until 2024); IMF WEO (for 2025); PIMCO calculations.

# But in the US, the interest burden is rising sharply and is now close to a record high



Source: US Treasury, CBO (Feb 2026), PIMCO calculations. *Note:* Actual data are quarterly through 1Q26; annual projections thereafter.

# Debt sustainability depends in large part on the interest-growth differential (“R-G”)

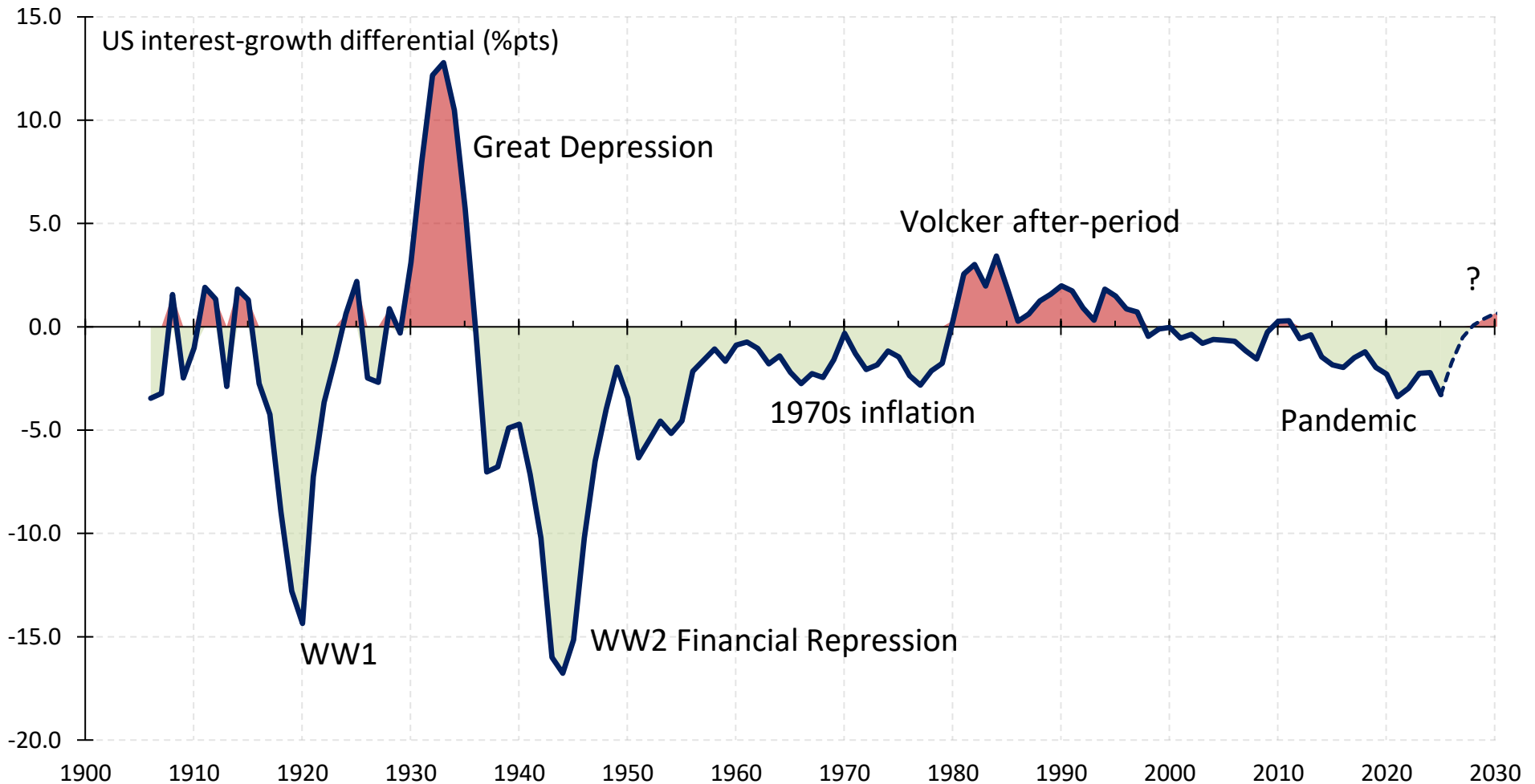
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$$\begin{array}{c} \text{Net debt-to-GDP} \\ \downarrow \\ \Delta D_t = D_t - D_{t-1} \approx (r - g)D_{t-1} - S_t \\ \begin{array}{ccc} \downarrow & & \downarrow \\ \text{Avg. nom. interest rate on net debt} & & \text{Nom. GDP growth} \\ \uparrow & & \uparrow \\ & & \text{Primary surplus-to-GDP} \end{array} \\ \end{array}$$

Steady state  $\rightarrow D \approx S / (r - g)$

Source: PIMCO. For illustrative purposes only. Net debt defined as gross debt minus gross financial assets.

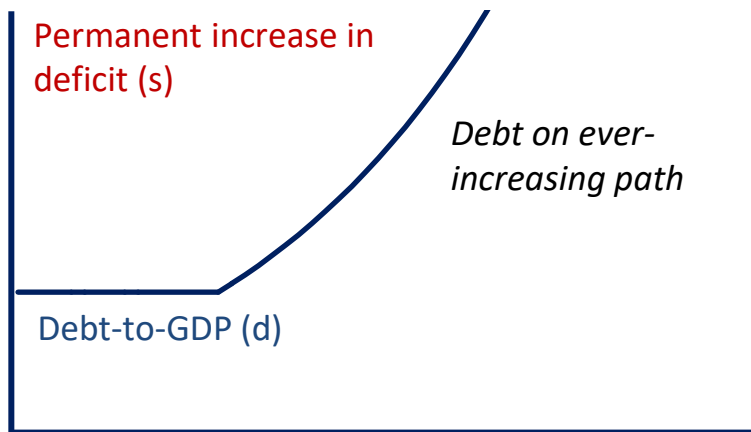
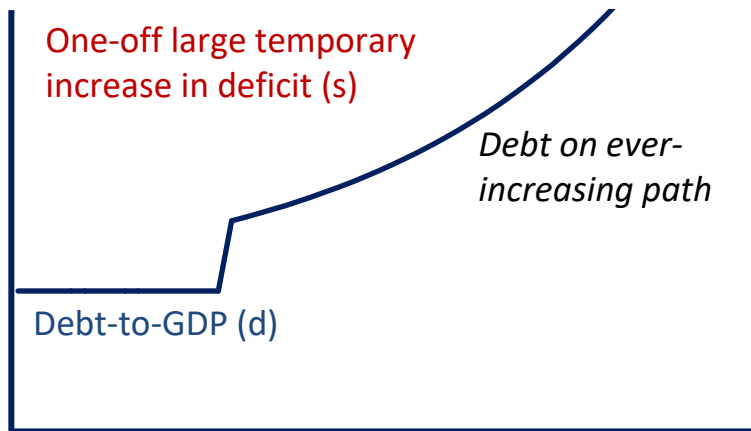
# And interest rates (“R”) may soon exceed GDP growth (“G”) in the US, for the first time since the ‘90s



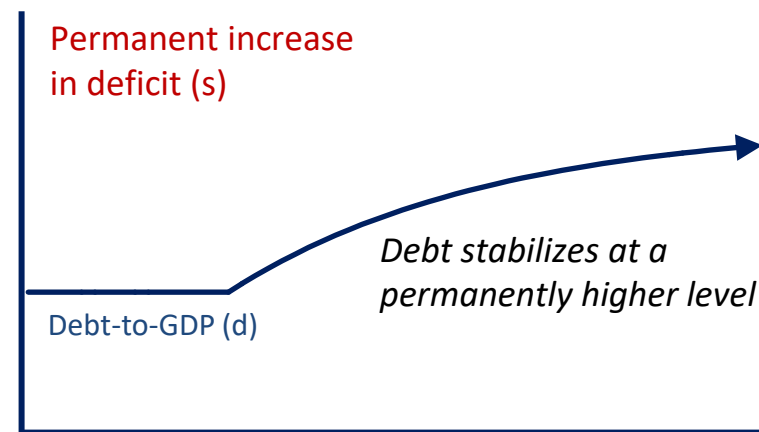
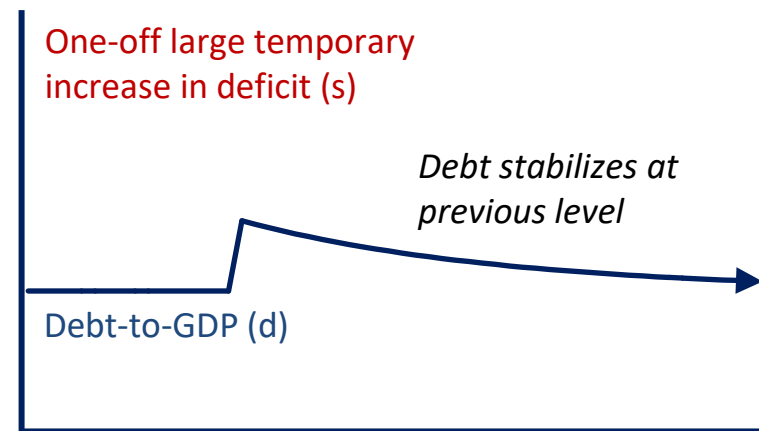
Note: Difference between US 10y yield (%) and GDP growth (% 5y). Projection assumes 10y yield stays at current level (4.4%) and GDP growth returns to trend (3.75% = 1.75% real + 2% inflation). Source: BEA; Historical Statistics of the US; OECD; PIMCO calculations. Refer to Appendix for additional outlook, forecast and risk information.

# In such a world (“ $R > G$ ”), the cost of running deficits is much higher

$R > G$  (unstable debt dynamics)

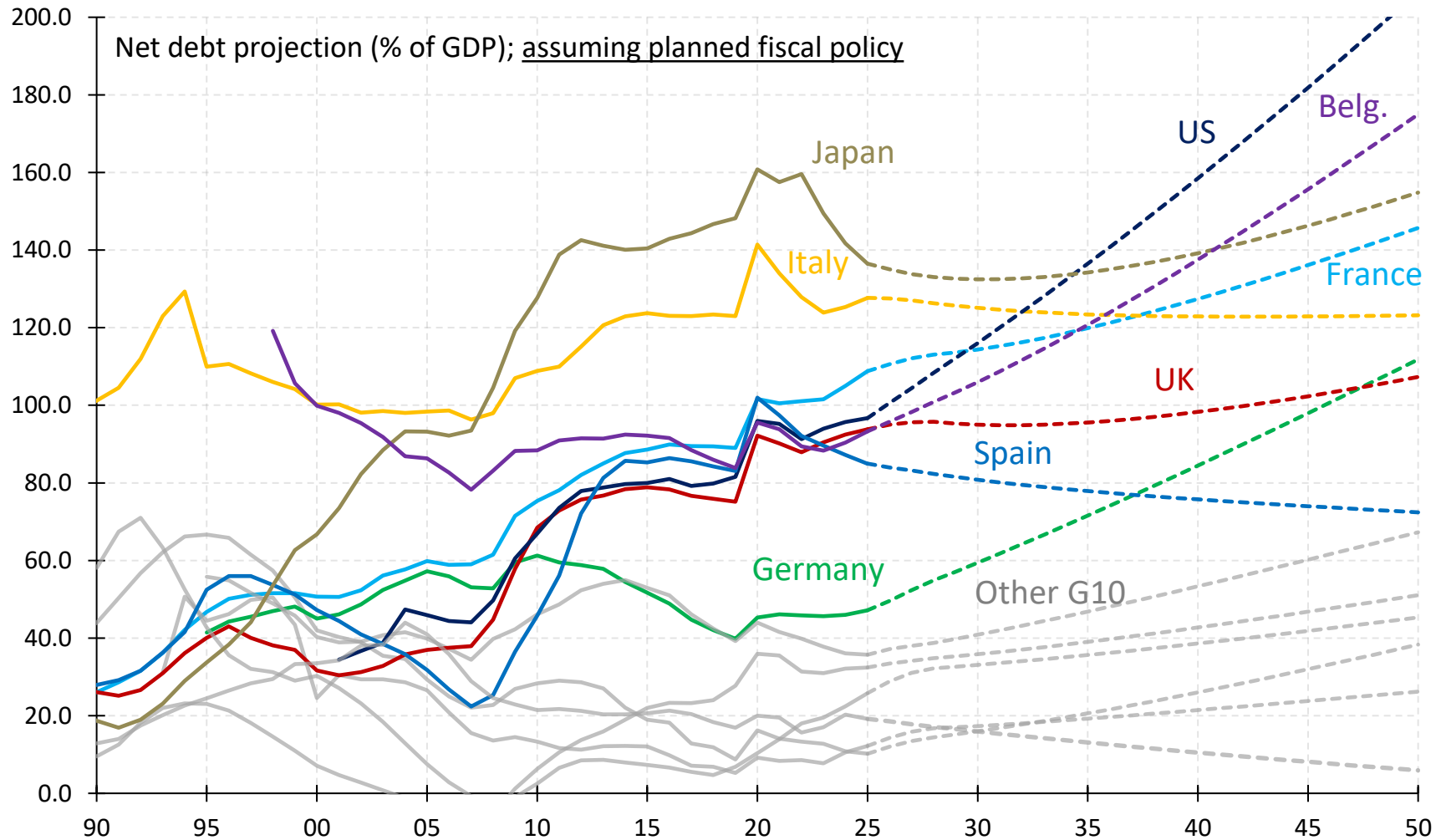


$R < G$  (stable debt dynamics)



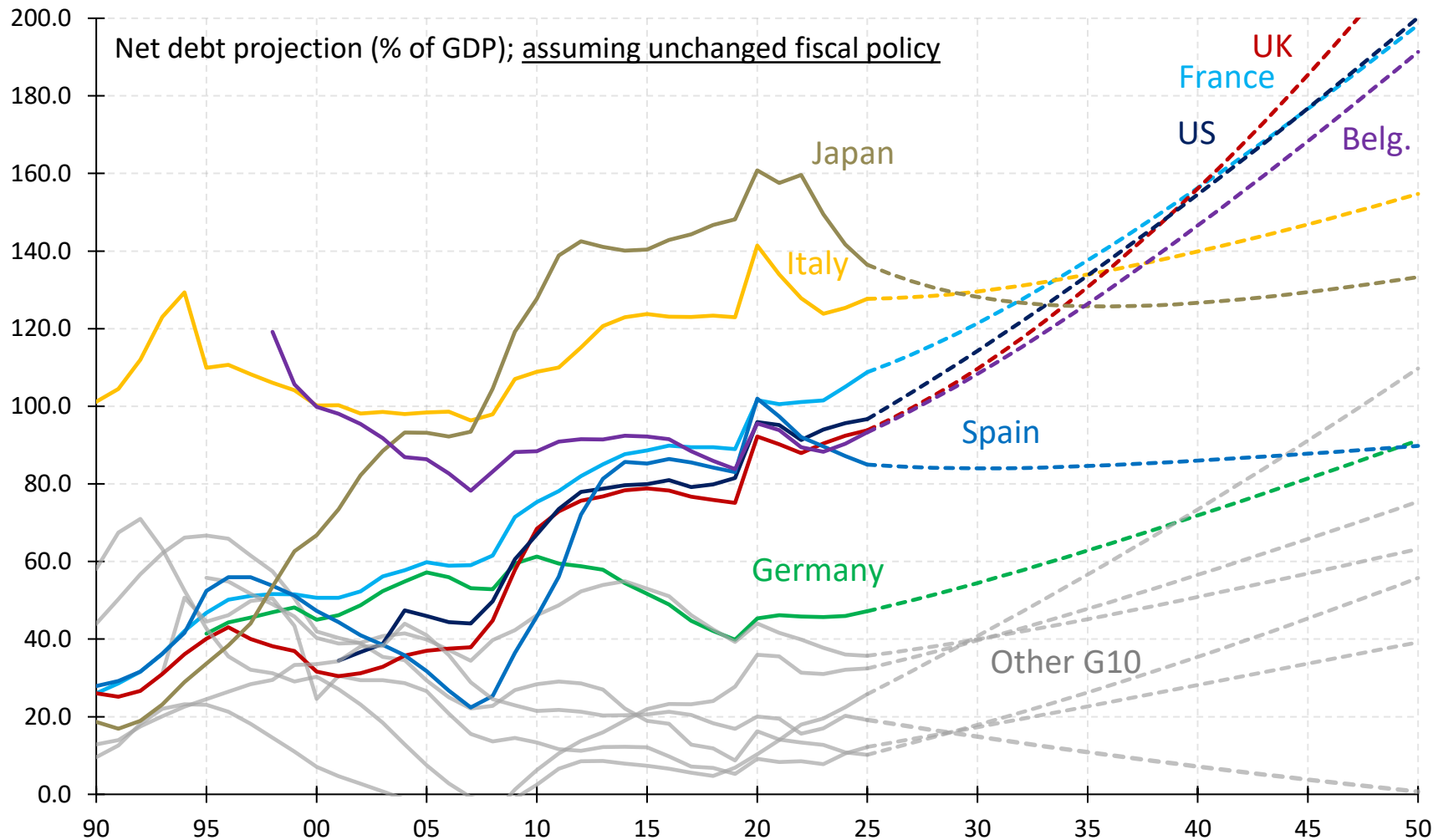
Source: PIMCO. For illustrative purposes only, *holding* everything else equal. Hypothetical scenario in top panel involves a one-off temporary increase in the deficit, which is not offset by future primary surpluses. Refer to Appendix for additional outlook, forecast and risk information.

# Based on planned policy, the US and Belgium continue to stand out with sharply rising debt...



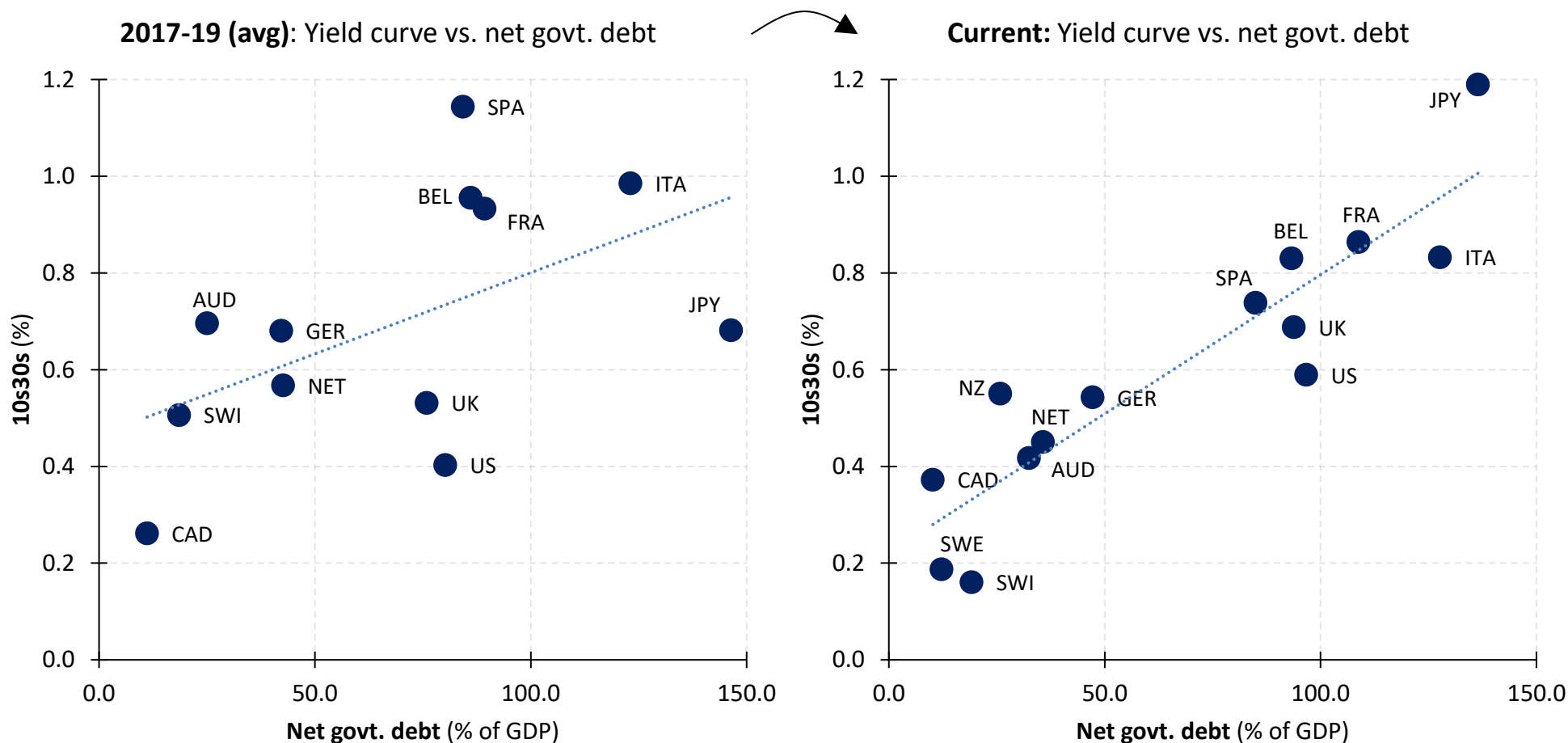
Source: PIMCO calculations, BBG, IMF WEO. *Note:* Simple debt-to-GDP projection for G10 countries (+ Australia, New Zealand, Spain). The projection assumes the primary balance follows IMF path to 2029 and then remains constant; inflation is at target; real GDP growth at trend; and interest rates evolve along the forwards priced into financial markets (on April 29, 2026), assuming WAM of 7y across countries.

# ...but without future tightening, debt is on an increasing path in more countries, notably France and the UK



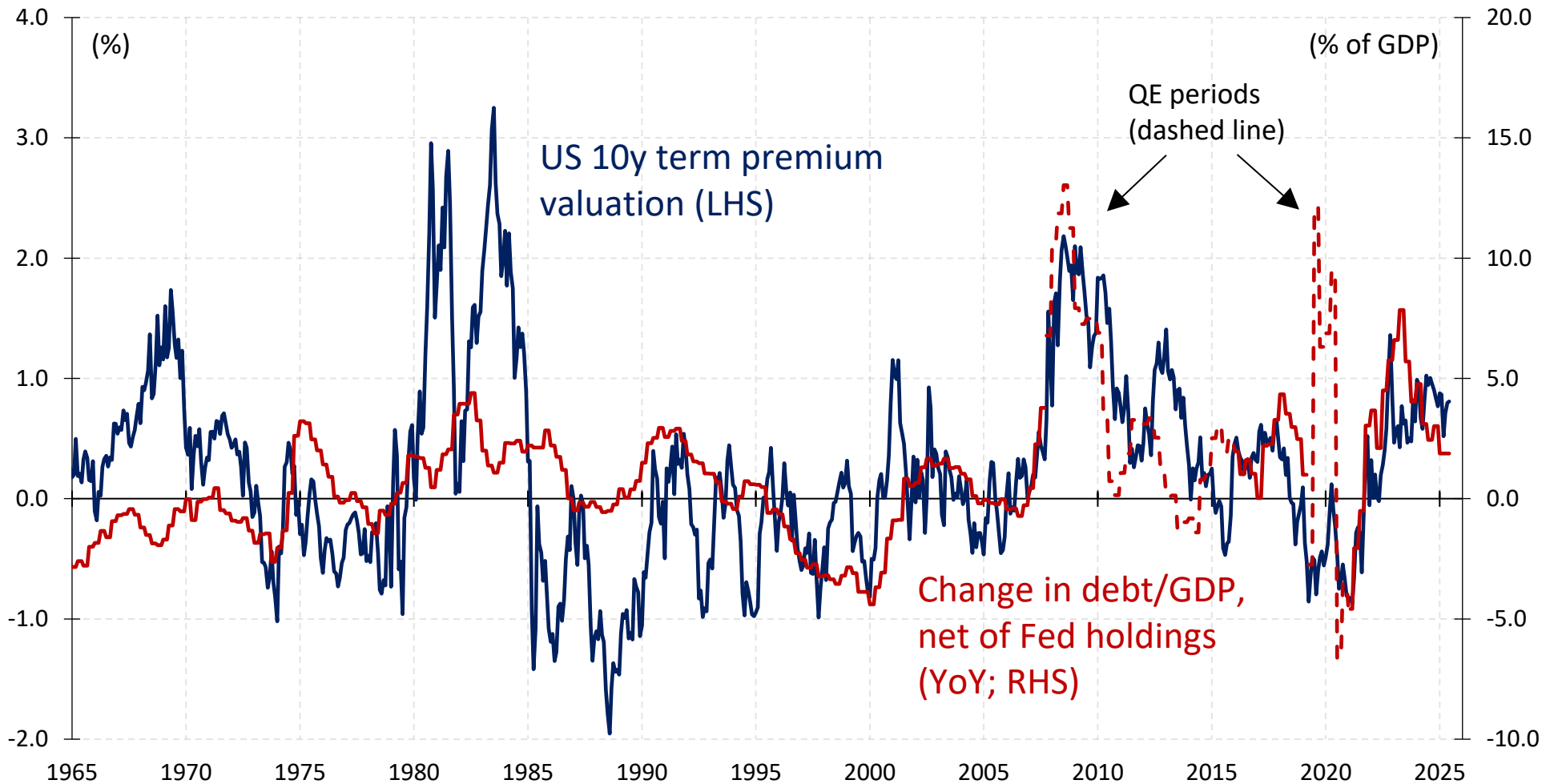
Source: PIMCO calculations, BBG, IMF WEO. *Note:* Same framework as previous slide, but primary balance held constant at 2025 levels.

# Yield curves have repriced to better reflect debt differences across countries. Japan stands out as relatively steep



Note: 10-30s (%) curve vs. net debt for G10 countries plus Australia, New Zealand, Spain. LHS shows 2017-19 averages and excludes Sweden and New Zealand (no 30y issuance). RHS uses 2025 debt. Market levels as of May 6, 2026. Sweden uses 25y bond as 30y proxy. Source: PIMCO calculations; BBG; IMF WEO.

# US term premium valuations do not screen rich relative to debt dynamics, though the historical link is weak



Note: US 10y term premium valuation equals the difference between the 10y yield and its fair value. The fair value of the 10yr Treasury equals expected inflation [Bloomberg survey, converging to Fed target] + expected real rate [Taylor rule, converging to 1%  $r^*$  over time] + fair term premium [Higher with higher bond-equity covariance]. Last data point is May 2026. Source: PIMCO calculations (Andrew Nowobilski).

## **Secular outlook for US debt: Five scenarios**



# Summary: Five scenarios for US debt over next five years (*Note: same as last two years*)

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Debt higher

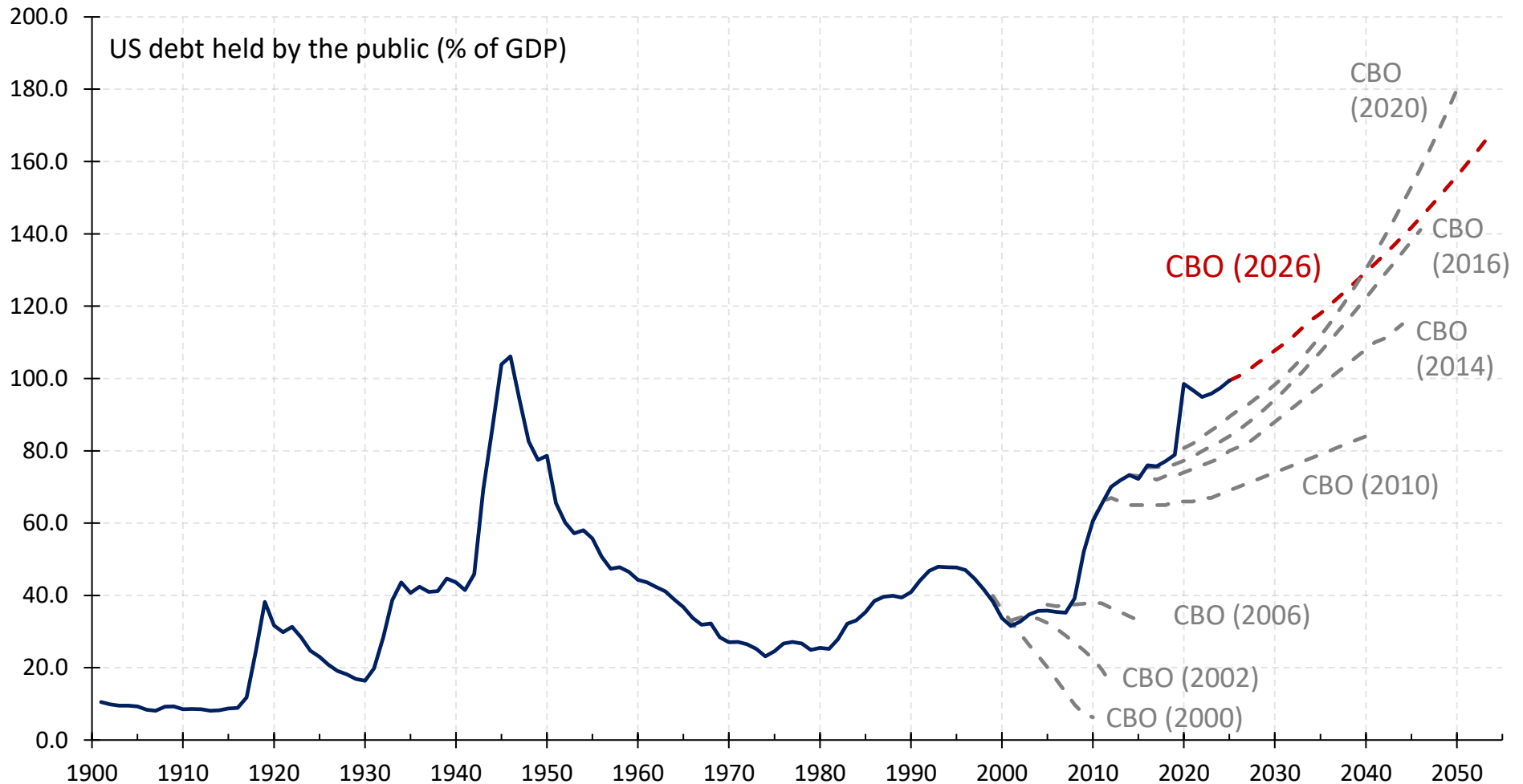
- **Scenario 1: "Status Quo".** Debt trends higher with no/modest (and orderly) rise in the term premium. Fiscal credibility is intact. *Example: US post-GFC. **Very likely***
- **Scenario 2: "Crisis".** Debt trends higher with a sharp disorderly rise in the term premium. No fiscal credibility. *Example: UK under Truss. **Unlikely, but a bit higher under Trump***

Debt stable/  
falls

- **Scenario 3: "Fiscal consolidation".** Debt stabilizes because of fiscal tightening. *Example: US mid-90s. **Unlikely near term; likely further out***
- **Scenario 4: "Financial repression".** Debt stabilizes because of high inflation + low interest rates. No monetary policy credibility. *Example: Post-WW2. **Unlikely***
- **Scenario 5: "Growth revival".** Debt stabilizes because of rising real GDP growth. *Example: Australia 1930s. **Unlikely, but AI raises odds slightly***

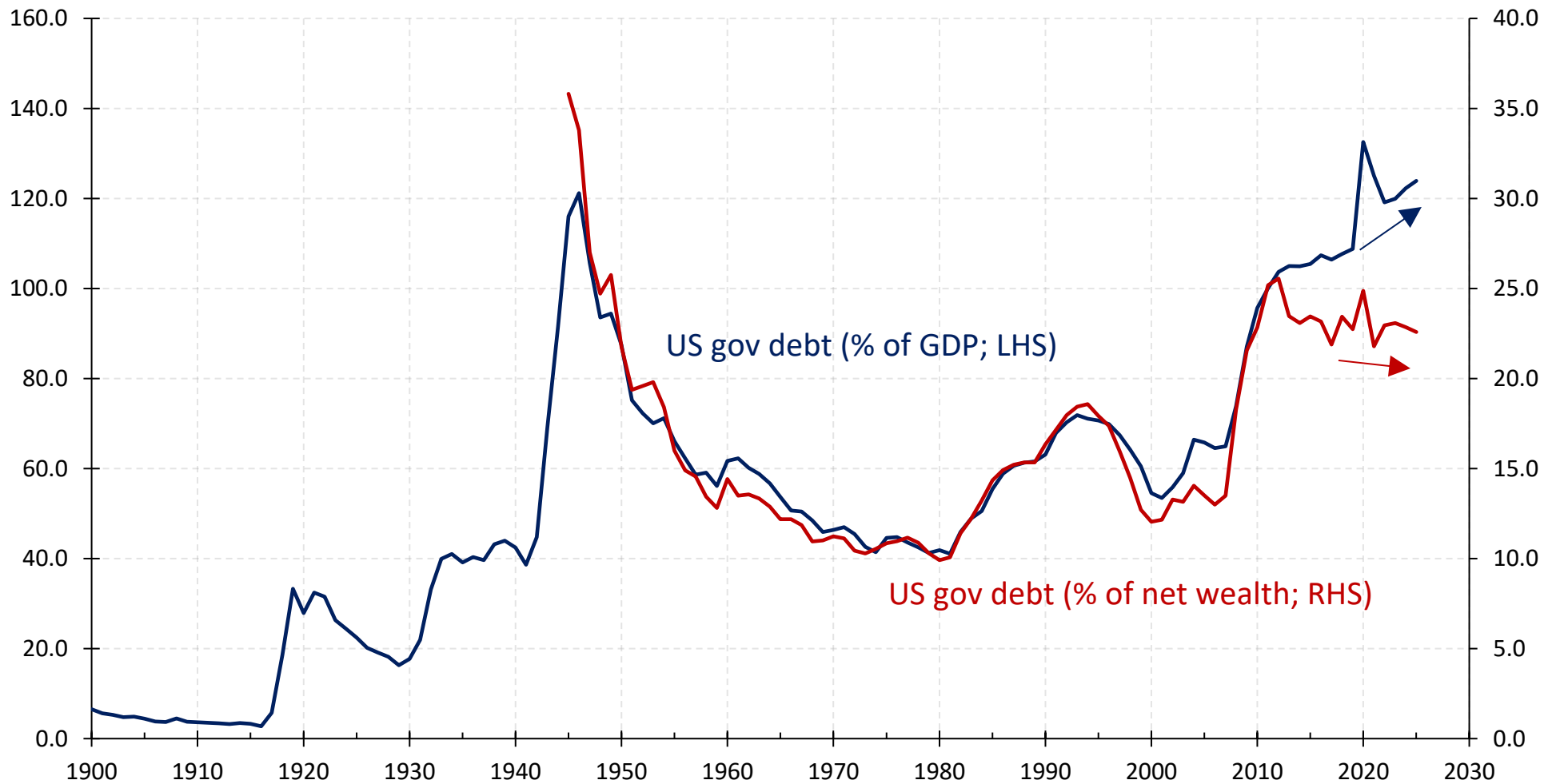
As of 8 May 2026.

# The US debt has been “explosive” for over a decade, and the market has been largely undisturbed



Note: CBO projections of US debt over time. Debt held by the public is smaller than total government debt. Source: CBO Long-Term Budget Outlook (latest: February 2026); PIMCO calculations.

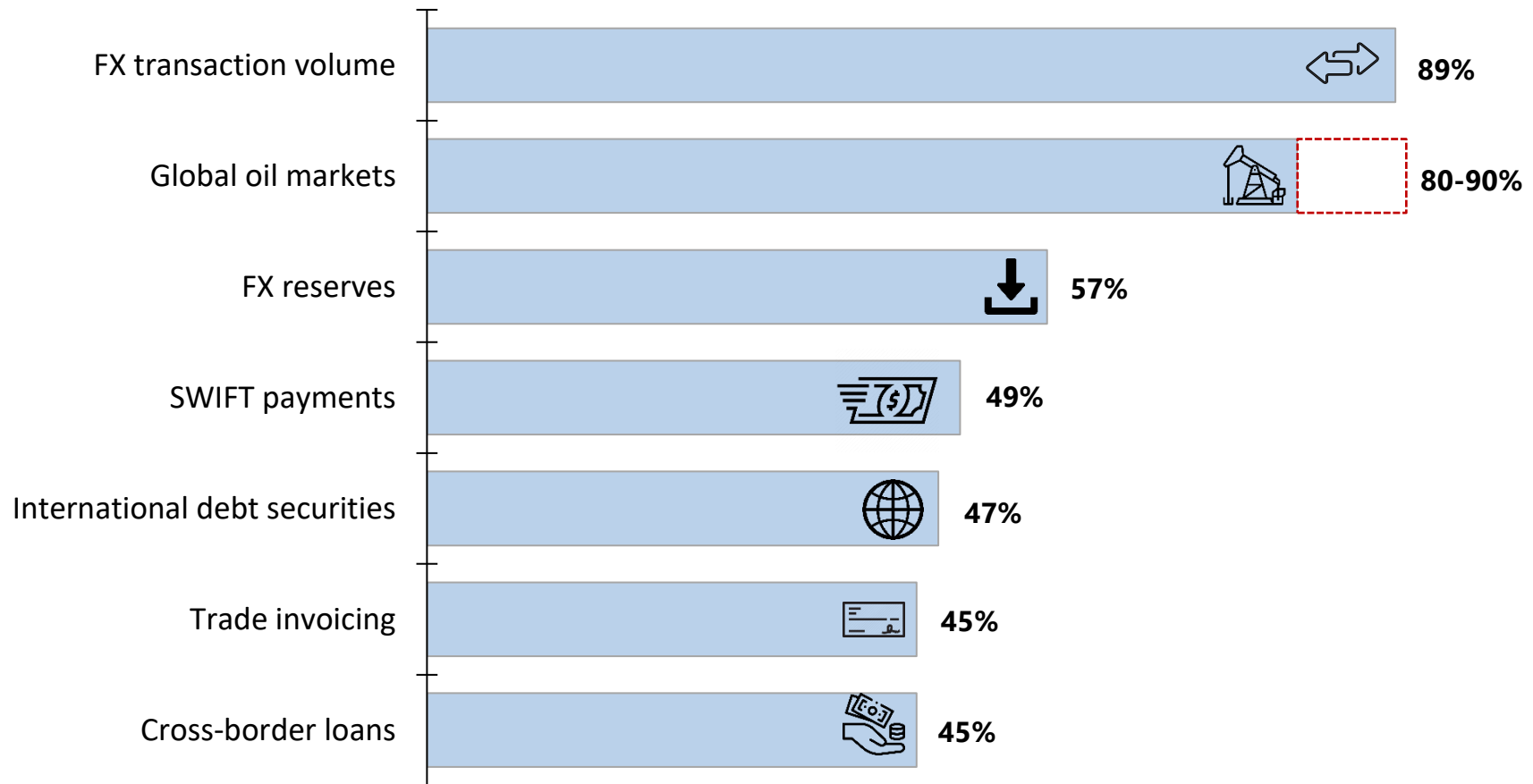
# Plus: While US debt is rising relative to GDP, the picture is far less alarming relative to national wealth



Note: US net national wealth is the sum of non-financial assets of households, corporates, the government, plus net financial claims on the RoW. Last data point is 2025. Source: IMF Public Finances in Modern History; IMF WEO; Federal Reserve; PIMCO calculations. Refer to Appendix for additional outlook, forecast and risk information.

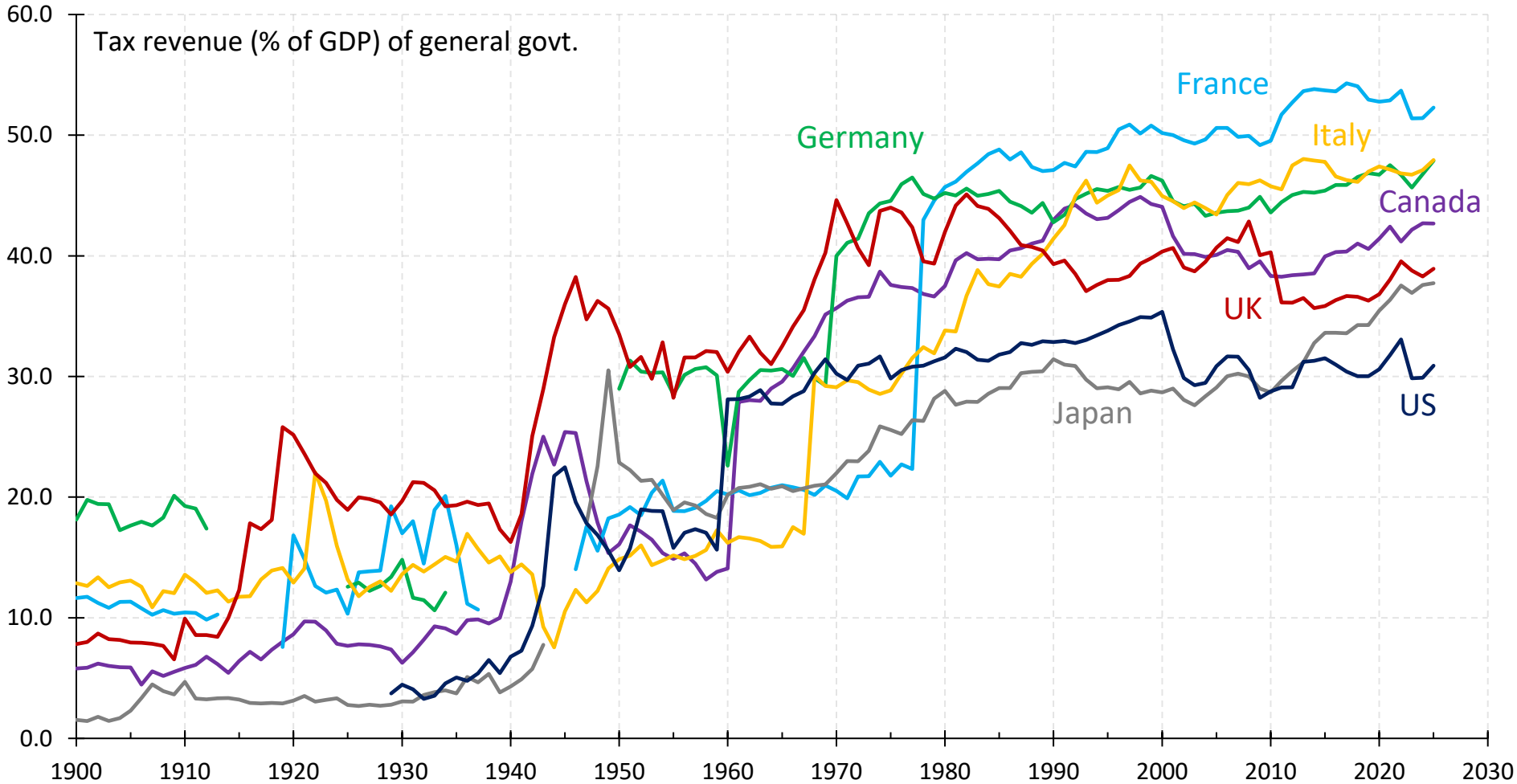
# Trump raises risks, but the dollar is likely to stick around as the reserve currency for the foreseeable future

## US Dollar Share of Global Markets



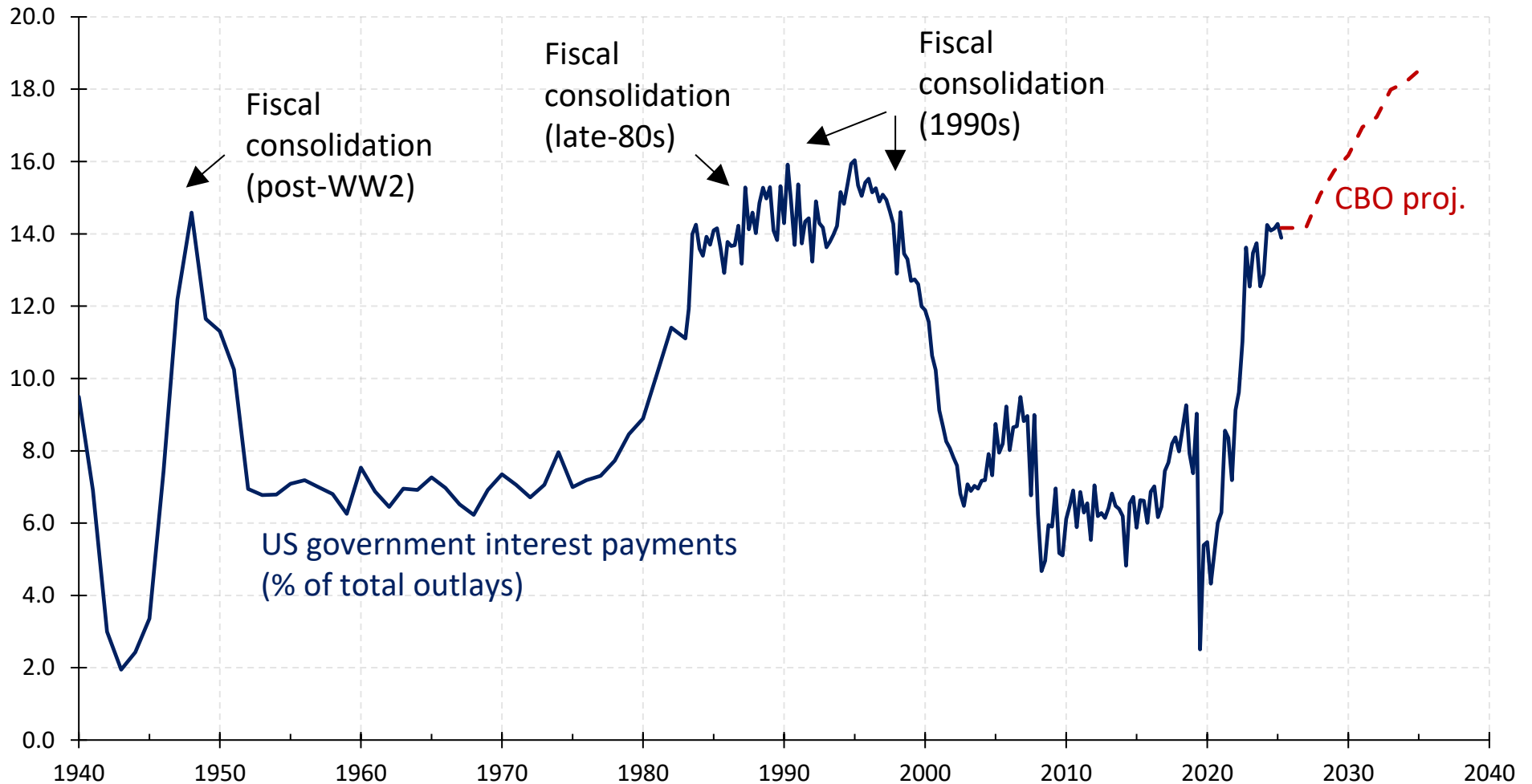
Note: As of May 2026. Source: In order from top to bottom (latest data in parenthesis): BIS Triennial Central Bank Survey (September 2025); PIMCO estimate; IMF's Currency Composition of Official Foreign Exchange Reserves (4Q25); SWIFT (February 2026); BIS Debt Securities Statistics (4Q25); "Patterns of Invoicing Currency in Global Trade in a Fragmenting World Economy", Boz et. Al, IMF Working Paper (2025); BIS Locational Banking Statistics (December 2025)

# And fiscal credibility is high: Unlike in Europe, the US tax burden is far from facing “upper bound” constraints



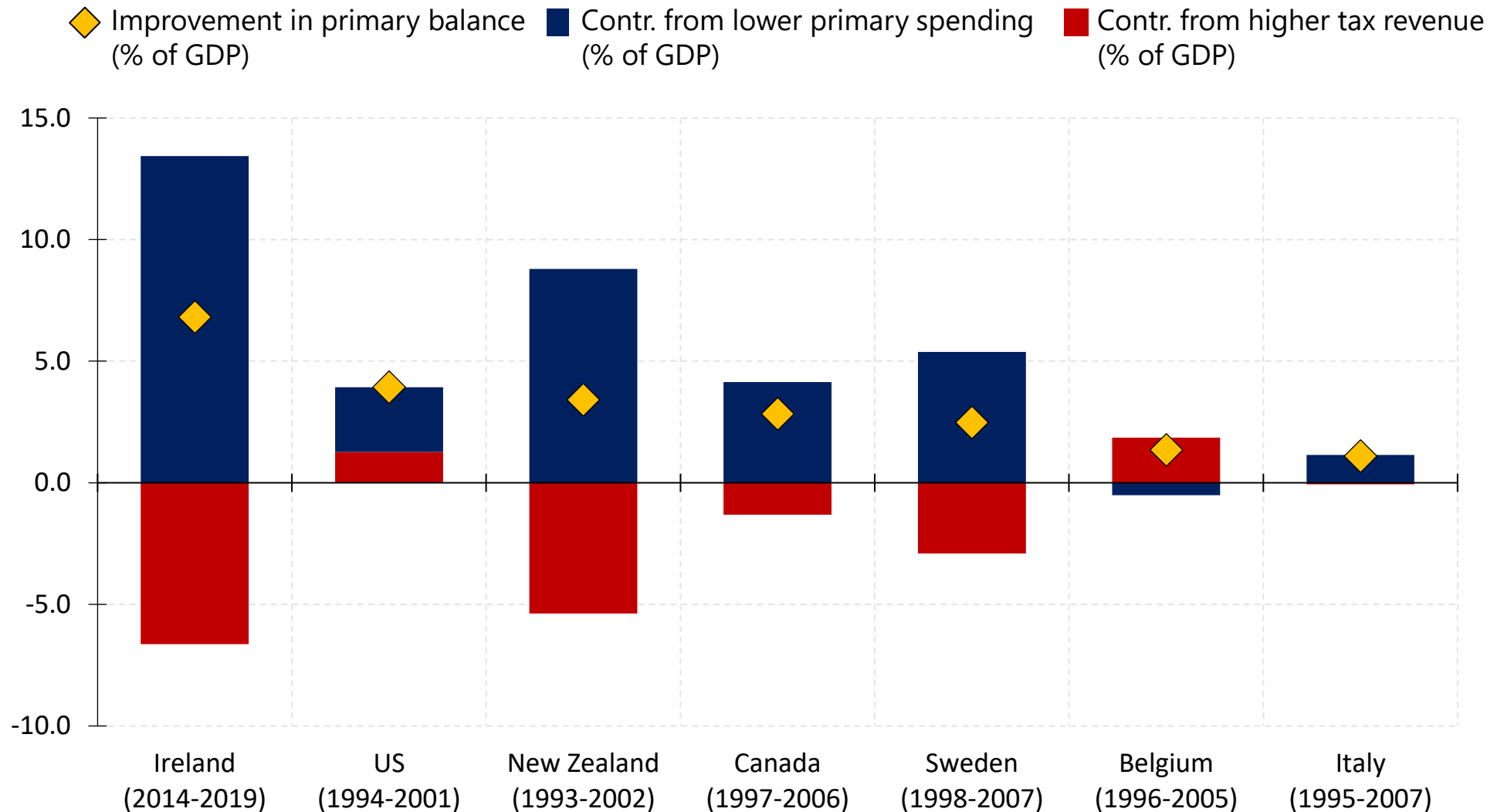
Note: G7 government revenue (% of GDP). Last data point is 2025. Source: IMF Public Finances in Modern History (until 2024); IMF WEO (for 2025); PIMCO calculations.

# Rising interest payments may eventually prompt tighter fiscal policy, as seen before



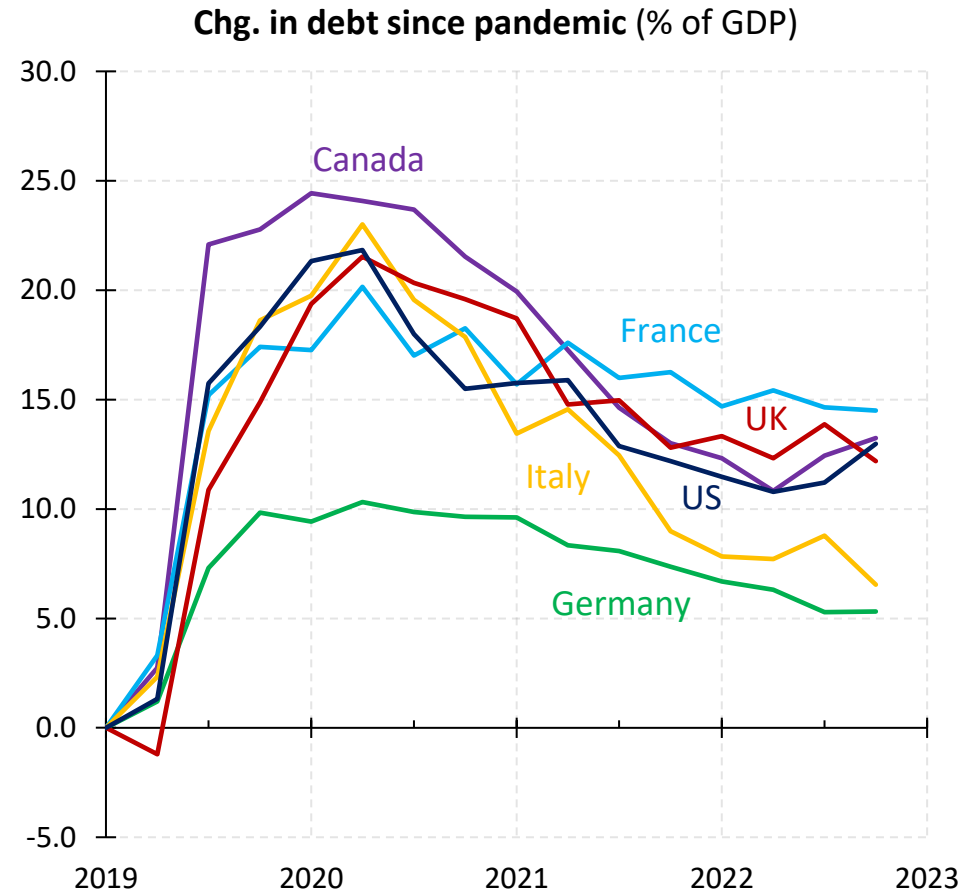
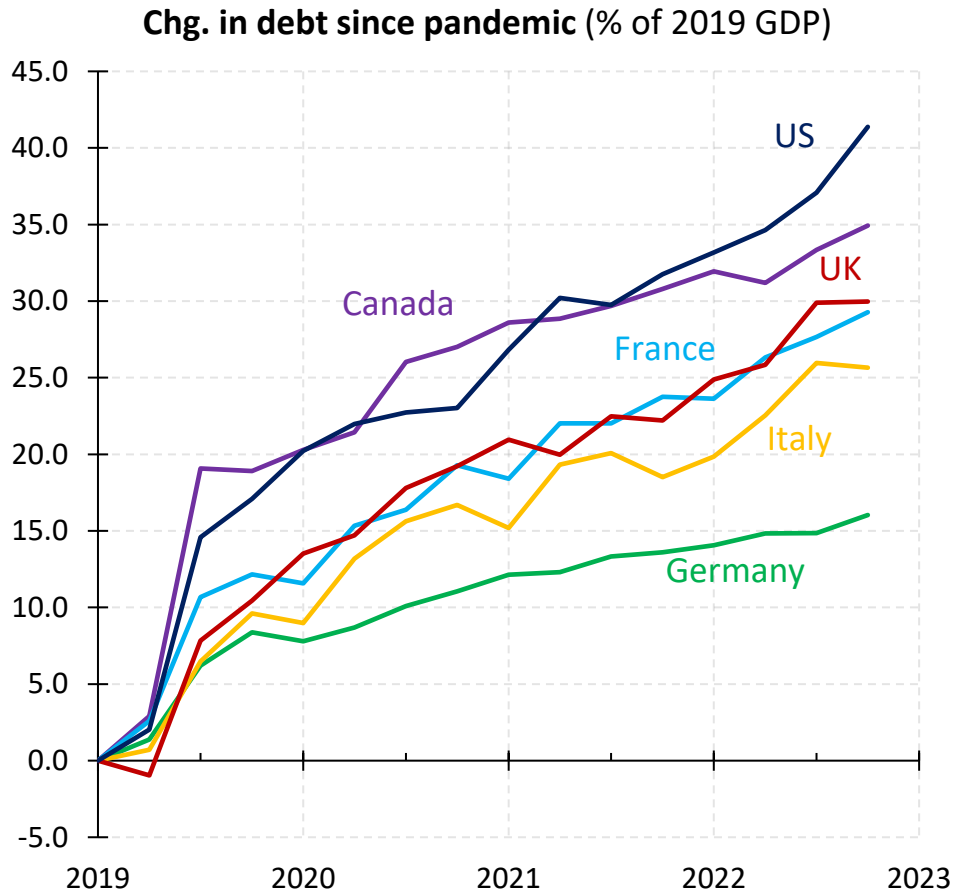
Source: US Treasury; CBO (Feb 2026); PIMCO calculations. Note: Actual data are quarterly through 1Q26. Annual projections thereafter.

# US austerity in the '90s driven by lower spending *and* higher taxes. Other countries have focused on the former.



Source: IMF; PIMCO calculations. Chart plots recent episodes of large fiscal consolidations in DM. The change is defined as the average over the specified period relative to the 3y preceding average.

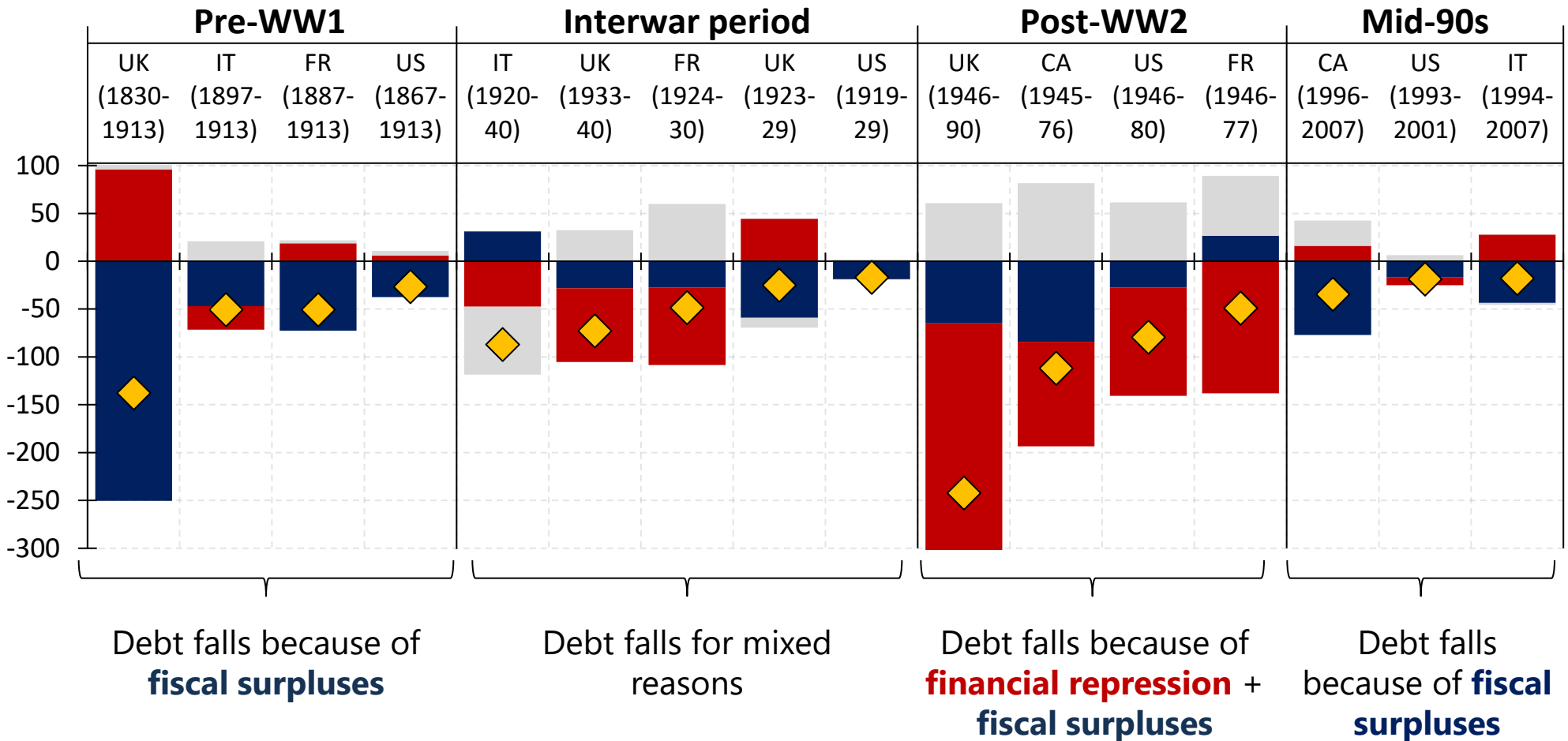
# Surprise inflation can erode debt – think: the pandemic – but anticipated inflation cannot w/o financial repression



Note: Change in public debt since 4Q19. Last data point is 3Q23. Debt is defined as securities plus loans. Source: OECD; PIMCO calculations.

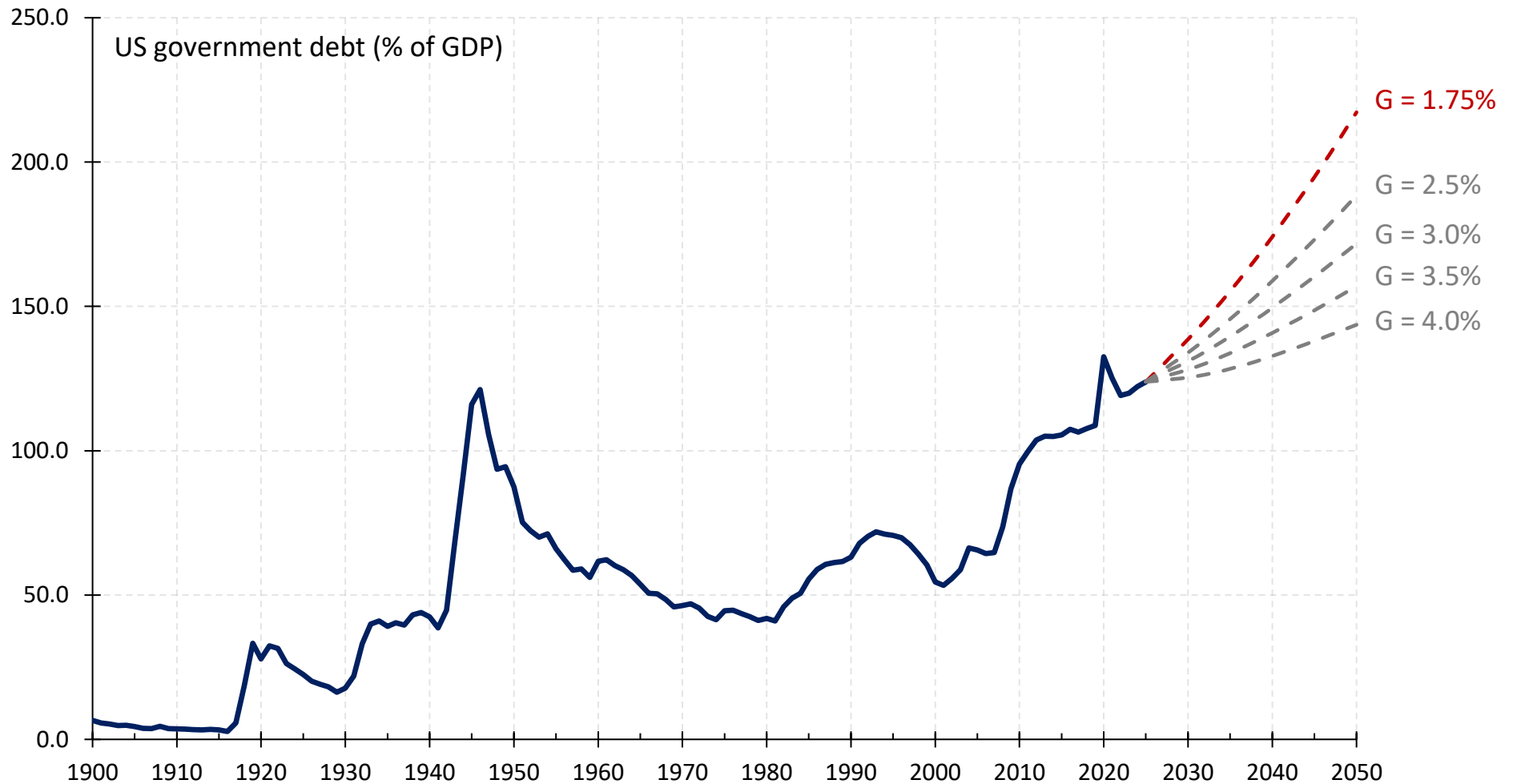
# Financial repression common in the 1950-80s – but even then, successful debt reductions involved budget cuts

◆ Fall in debt (% of GDP) 
 ■ Contr. from primary balance 
 ■ Contr. from R-G 
 ■ Other



Source: PIMCO calculations; IMF Public Finance in Modern History; JST macro-history database. Chart shows contributions to decline in debt-to-GDP across G7 countries, wherever data is available and for all episodes in which debt-GDP has fallen by >15% of GDP in the last 200 years.

# Even for the AI optimists, higher real trend growth (“G”) alone is unlikely to make debt sustainable

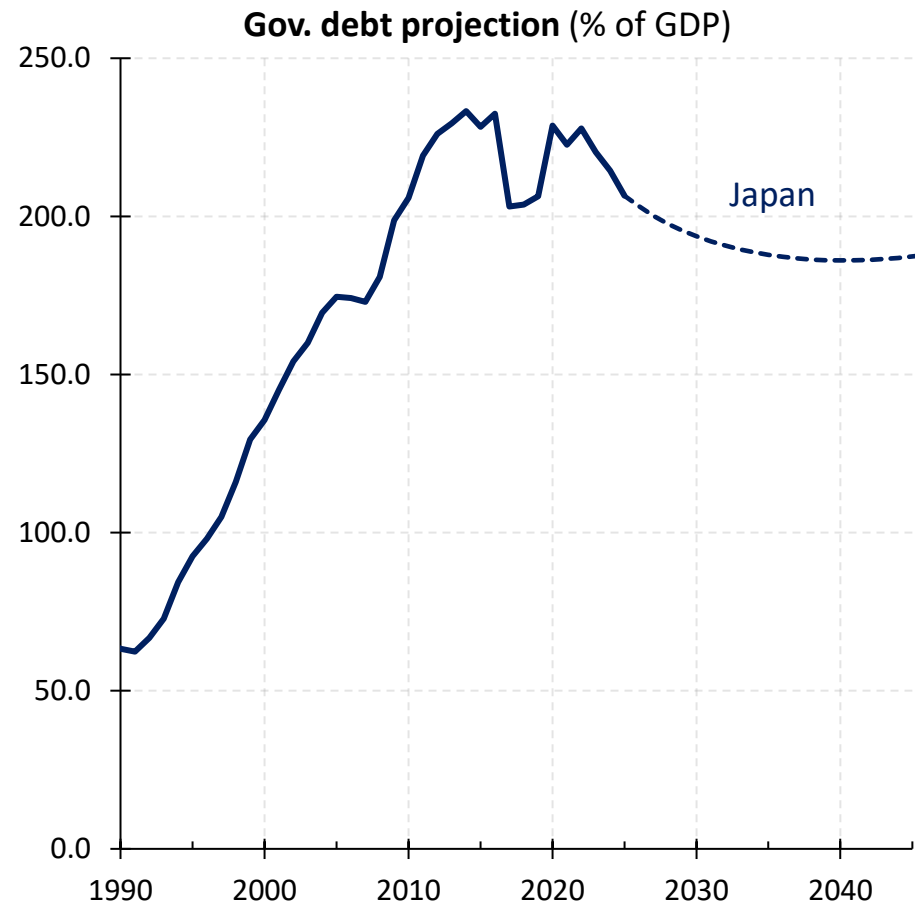
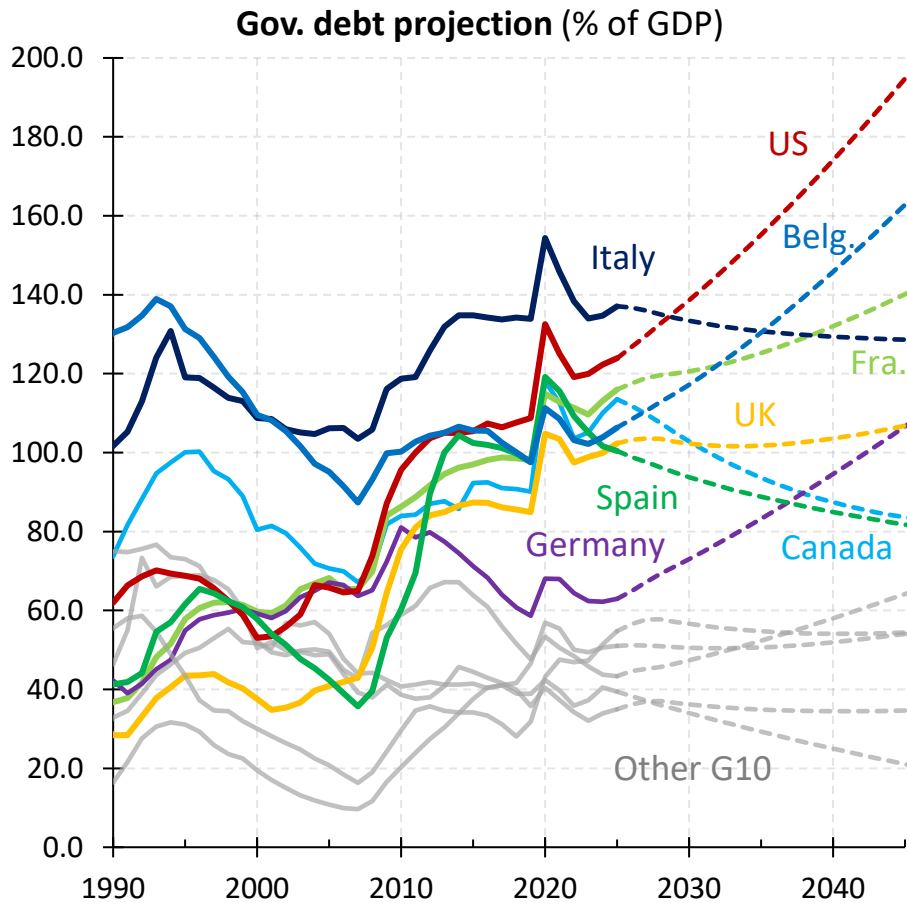


Source: PIMCO calculations; BBG; IMF WEO. *Note:* Simple debt-to-GDP projection under different trend growth assumptions (G), holding other factors constant (including R). The projections assume the [primary balance follows IMF path to 2029](#) and then remains constant; inflation is at target; real GDP growth at trend; and interest rates evolve along the forwards priced into financial markets (on April 29, 2026), assuming WAM of 7y across countries. Refer to Appendix for additional outlook, forecast and risk information.

# Appendix

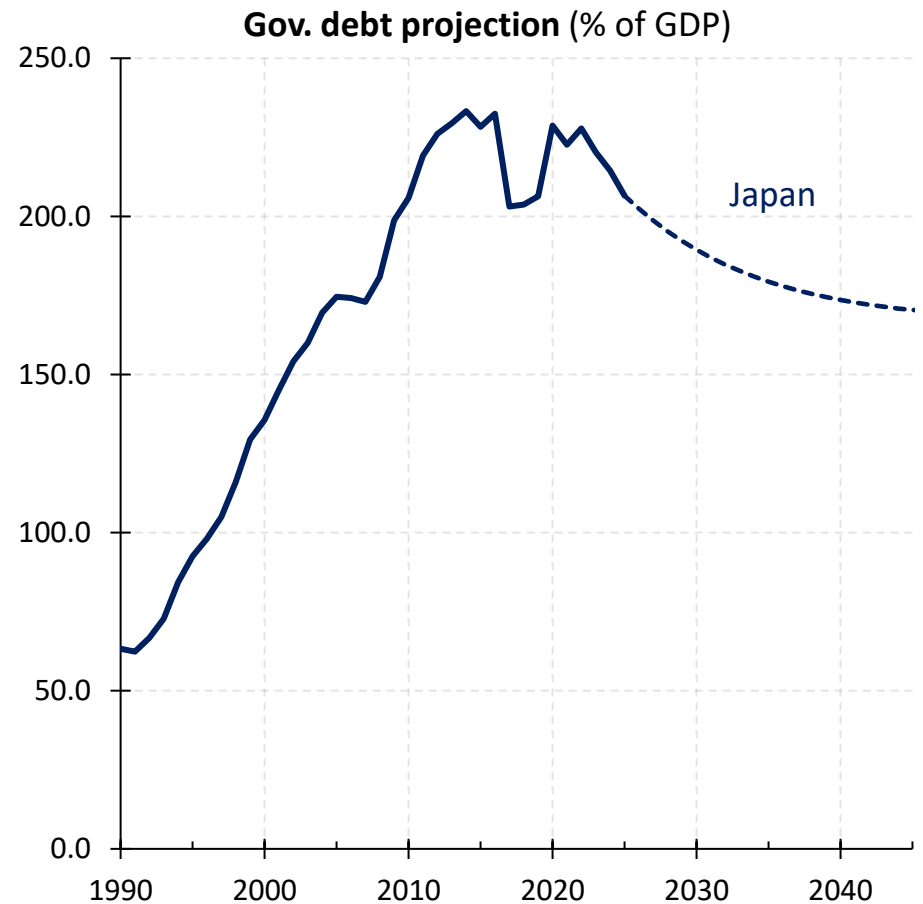
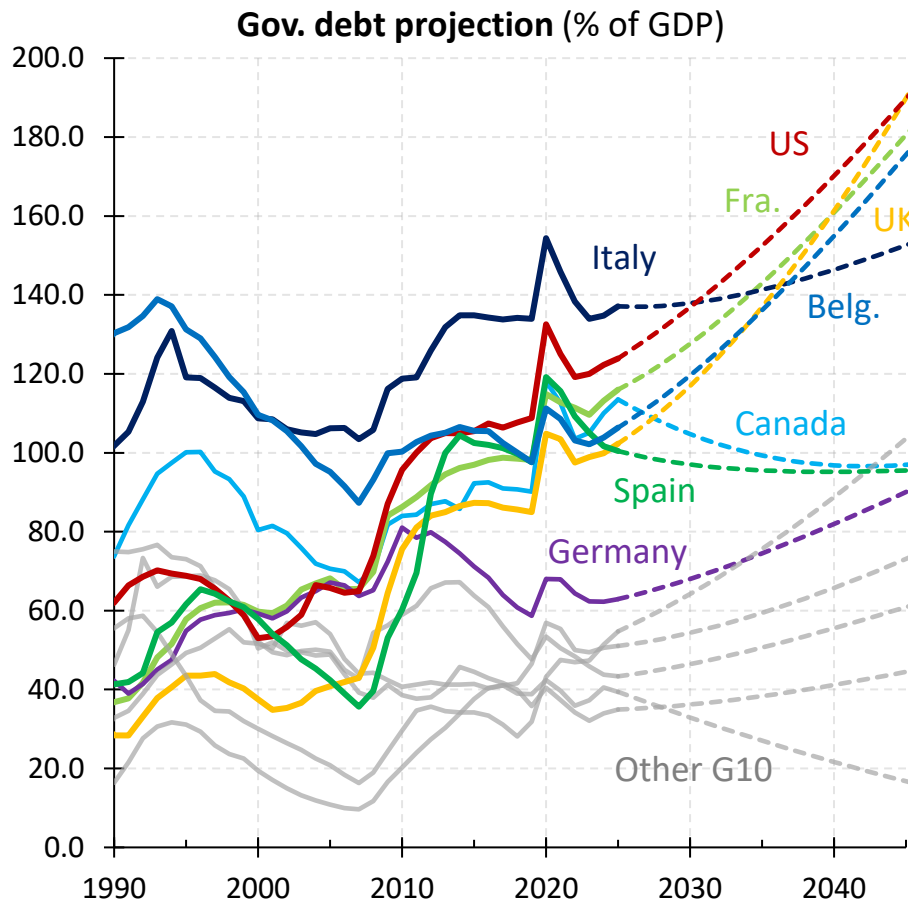


# Gross debt projections under *planned* fiscal policy



Source: PIMCO calculations; BBG; IMF WEO. *Note:* Corresponds to net debt paths on page 26, assuming gross financial assets stay unchanged in nominal terms and falls as proportion of GDP.

# Gross debt projections under *unchanged* fiscal policy



Source: PIMCO calculations; BBG; IMF WEO. *Note:* Corresponds to net debt paths on page 27, assuming gross financial assets stay unchanged in nominal terms and falls as proportion of GDP. Refer to Appendix for additional outlook, forecast and risk information.

# Disclosures

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## CHART

Performance results for certain charts and graphs may be limited by date ranges specified on those charts and graphs; different time periods may produce different results.

## FORECAST

Forecasts, estimates and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. There is no guarantee that results will be achieved.

## OUTLOOK

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## RISK

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