US economy

Moody’s warns on deteriorating outlook for US public finances

Rating agency says Donald Trump’s policies could make it more difficult to offset rising deficit and debt

Moody's warning comes amid a furious debate on Capitol Hill and inside the Trump administration over how to place the US on a more sustainable fiscal path © Jim Watson/AFP/Getty Images

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Credit rating group Moody's has warned on the US fiscal outlook, saying President Donald Trump's trade tariffs could hamper the country's ability to cope with a growing debt pile and higher interest rates.

The rating agency said on Tuesday that America's "fiscal strength is on course for a continued multiyear decline", having already "deteriorated further" since it assigned a negative outlook to America's top-notch triple A credit rating in November 2023.

While Moody's highlighted the "extraordinary" economic resilience of the US and the role of the dollar and the Treasury market as backbones of the global financial system, its analysts also warned on Tuesday that the policies of the second Trump administration — including sweeping tariffs and plans for tax cuts — could do more harm than good for government revenues.

"The potential negative credit impact of sustained high tariffs, unfunded tax cuts and significant tail risks to the economy have diminished prospects that these formidable strengths will continue to offset widening fiscal deficits and declining debt affordability,” Moody’s said.

“In fact, fiscal weakening will likely persist even in very favourable economic and financial scenarios,” they added.

Moody’s warning comes amid a furious debate on Capitol Hill and inside the Trump administration over how to place the US on a more sustainable fiscal path. Analysts and investors have warned that the US’s rapidly rising debt and deficit could ultimately dent demand for Treasuries, which form the bedrock of the global financial system.

Pimco, one of the world’s biggest bond managers, said late last year that “sustainability questions” had made it hesitant to purchase long-term Treasuries. The federal budget deficit reached $1.8tn for the fiscal year ending September 30, up 8 per cent from the previous year.

When Moody’s lowered its outlook on the US’s credit rating to negative just over two years ago, it highlighted sharply higher debt servicing costs and “entrenched political polarisation”. America’s credit rating is watched closely because it plays a critical role in the country’s debt affordability — with higher ratings and positive outlooks typically translating into lower borrowing costs.

Moody’s said on Tuesday that US “debt affordability remains materially weaker than for other triple A-rated and highly rated sovereigns”, with even the most positive economic and financial scenarios highlighting “increasing risks that the deterioration in US fiscal strength may no longer be fully offset by its extraordinary economic strength”.

The rating agency conceded that it expected the world’s biggest economy to “remain strong and resilient”. But its analysts added that “the evolving US government policy agenda on trade, immigration, taxes, federal spending and regulations could reshape parts of the US and global economy with significant long-term consequences”.

While Trump has repeatedly stated his preference for lower US borrowing costs, the Fed last week held interest rates steady in a range of 4.25 per cent to 4.5 per cent — with its policymakers predicting roughly two quarter-point cuts over the course of 2025. Moody’s said it anticipated a federal funds rate of 3.75 per cent to 4 per cent by the end of the year.

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