United States of America
Rating Report

SCOPE AA NEGATIVE OUTLOOK

Credit strengths

- Large, diversified and wealthy economy
- US dollar as leading reserve currency
- Globally-leading economic institutions
- Well-capitalised banks; deep markets

Credit challenges

- Misuse of the debt-ceiling instrument
- Longer-run governance risk
- Sustained elevated fiscal deficits
- Banking-system risks as rates rise

Rating rationale:

Wealthy, competitive and diversified economy: the US benefits from the largest economy globally, with high levels of wealth and significant economic diversification underpinning resilience to global crises. Its leadership in innovation is exceptional, supporting medium-run potential growth.

US dollar as the global reserve currency: the US dollar's role as the global reserve currency carries unparalleled advantages with respect to funding flexibility, especially relevant during global financial crises, and reduces risk to long-run debt sustainability from public debt accrued since 2020.

Sound economic institutions: the US benefits from a strong and resilient institutional framework, protecting the accountability and transparency of fiscal management. The ratings are supported by world-class monetary and financial-supervisory institutions, anchoring macroeconomic stability.

Well-capitalised financial system: the US benefits from one of the world's most-advanced and deep capital markets. The banking system is well capitalised with strengthened profitability amid high rates, while a strong financial-oversight framework anchors sound macroprudential policies.

Ratings challenges include: i) elevated long-run risks associated with the partisan use of the debt-ceiling instrument; ii) political polarisation, hampering the efficacy of economic policy making; iii) challenging long-run fiscal dynamics, with budget deficits staying elevated and public debt-to-GDP rising structurally; iv) economic and financial-stability risks amid monetary tightening; and v) a comparatively weak external sector.

United States's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	aaa	USD [+3]	+1	AA
Public Finance Risk		20%	ccc		+1/3	
External Economic Risk		10%	ccc		+1	
Financial Stability Risk		10%	a		+2/3	
ESG Risk	Environmental Factors	5%	ccc		0	
	Social Factors	7.5%	bb-		0	
	Governance Factors	12.5%	aa-		-1/3	
Indicative outcome			**a**		**+3**	
Additional considerations					**0**	

Note: *The qualitative scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. The reserve-currency adjustment applies to currencies in the IMF's SDR basket. For details, please see Scope's 'Sovereign Ratings' methodology. Source: Scope Ratings.

Outlook and rating triggers

The Negative Outlook reflects Scope's view that risks to the ratings are skewed to the downside over the forthcoming 12-18 months.

Positive rating-change drivers

- Reform or removal of the debt-ceiling instrument
- Sustained reduction in political polarisation
- Public-debt ratio placed on a sustained declining trajectory

Negative rating-change drivers

- Rise in risks from the debt ceiling
- Weakening in governance
- Weakening of public finances
- Significantly reduced role for the US dollar as the global reserve currency

Ratings and Outlook

Foreign currency

Long-term issuer rating	AA/Negative
Senior unsecured debt	AA/Negative
Short-term issuer rating	S-1+/Negative

Local currency

Long-term issuer rating	AA/Negative
Senior unsecured debt	AA/Negative
Short-term issuer rating	S-1+/Negative

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Bloomberg: RESP SCOP

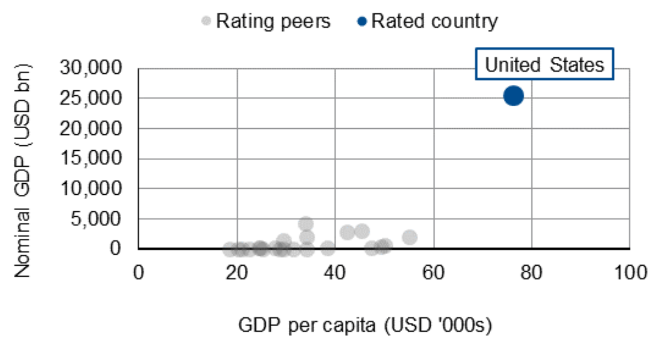
Domestic Economic Risks

- **Growth outlook:** After experiencing a technical recession in H1 2022, output growth picked up during the second half of the year, with consecutive quarterly growth of 0.8% and 0.6% QoQ in the third and fourth quarters. Growth in inventory investment and consumer spending alongside lower imports drove this expansion, offsetting weak private investment and subdued export growth. Quarterly growth slowed to 0.3% QoQ in Q1 2023, amid declining inventory investment and despite a pick-up in private consumption. We expect growth momentum to slow over the coming period, amid persistent inflation and tight funding conditions. After averaging 2.1% in 2022, output growth is seen slowing to 1.6% in 2023 and 1.2% in 2024, before converging on a medium-run potential rate of around 2% by 2026. This considers modest growth reductions from enactment of the "Fiscal Responsibility Act". Comparatively favourable demographic and productivity trends as compared with ratings-peers' economies abet long-run economic growth.
- **Inflation and monetary policy:** Headline and core personal consumption expenditure (PCE) inflation stood at 4.4% and 4.7% respectively as of April 2023. While PCE inflation for goods has eased markedly over recent months, primarily due to moderating price growth for durable goods and agricultural and energy commodities, PCE inflation for services has stayed elevated, reflecting broadening price pressures. We expect headline (consumer-price) inflation of 4.4% on average during 2023 before 3.3% in 2024, after 8.0% in 2022. Real average hourly earnings grew by 0.2% YoY in May 2023 – the first month of positive growth since Q1 2021 amid decelerating consumer-price dynamics and strong nominal wage growth. To address inflation, the Federal Reserve has raised the Funds Rate by a cumulative 500bps since March 2022 and accelerated the pace of its quantitative tightening. We see a terminal rate of 5.5-5.75% remaining beyond end-2023, before cuts only by the 2H of 2024 to 5-5.25% by end-2024.
- **Labour markets:** Employment dynamics have stayed robust despite significant Federal Reserve tightening, with the unemployment rate rising to 3.7% in May 2023 – remaining near multi-decade lows. Unemployment is seen averaging 3.6% in 2023 before 4.0% in 2024. Latest figures on payroll employment (+339k in May) and job openings (10.1m this April) both surpassed market expectations, indicating persistent tightness in labour markets, although both metrics have eased slightly since the start of the year. The labour-force participation rate (among those 16+ years of age) remains subdued, at 62.6% of the active labour force as of May, reflecting shortfalls of labour supply during a period of strong labour demand.

Overview of Scope's qualitative assessments for United States' *Domestic Economic Risks*

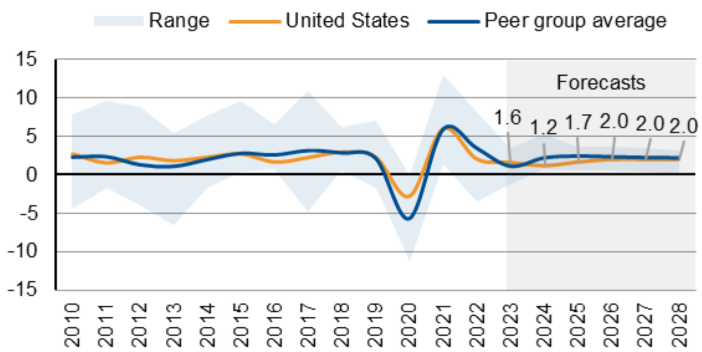
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Strong	+1/3	Moderate growth potential, supported by structural reforms and investment
	Monetary policy framework	Strong	+1/3	Federal Reserve is the globe's leading central bank; independent monetary policy
	Macro-economic stability and sustainability	Strong	+1/3	Competitive and highly-diversified economy; flexible labour market

Nominal GDP and GDP per capita, USD



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



Source: IMF WEO, Scope Ratings forecasts

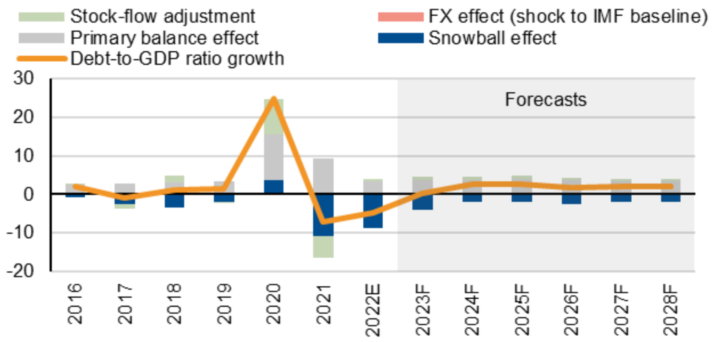
Public Finance Risks

- **Fiscal outlook:** The US government recorded general government deficits in the years ahead of the Covid-19 crisis, averaging 4.8% of GDP over 2015-19. The general government deficit eased to 5.5% of GDP in 2022, more than halving from the previous year although remaining above pre-pandemic levels. This improvement was driven by strong revenue growth and a phasing out of pandemic crisis relief, offsetting pressures from rises in interest payments. Looking ahead, we expect the deficit to widen this year, to about 6.3% of GDP, before stabilising around an elevated 6.6% of GDP over 2024-28, reflecting the effects of discretionary spending programmes such as the administration's student debt relief programme, growing ageing-related expenditure, and rising interest costs (10.3% of general government revenue by 2028, from the 6.4% as of 2022). Spending reductions of the Fiscal Responsibility Act of 2023, which allowed the lifting of the debt ceiling until 1 January 2025, are considered under our projections and cut the deficit by 0.5% of GDP yearly by 2027 and 2028. On 3 June 2023, President Joseph Biden signed into law the suspension of the debt ceiling.
- **Debt trajectory:** After jumping by nearly 25pps in 2020 to 133.5%, the United States' general government debt-to-GDP ratio dropped to 121.7% by 2022 within a context of high inflation and lower fiscal deficits, down 4.7pps from the previous year all the while remaining significantly above pre-Covid crisis levels. We expect this debt ratio to resume a gradually rising trend from 2023, concluding a forecast horizon (to 2028) around 133%, due to aggregate effects of persistent elevated primary deficits and gradually less favourable (nominal economic growth versus interest rate) differentials. Furthermore, contingent liabilities are a rating challenge.
- **Debt profile and market access:** The US benefits from its status as issuer of the global benchmark security – the US treasury, anchoring the government's unparalleled funding flexibility, including, crucially, during phases of global financial crisis. Annual gross financing requirements are expected to stay elevated, however, around 32% of GDP this year before averaging 28% of GDP over 2024-28. Elevated financing requirements link to a comparatively moderate average maturity of treasury securities of around 6 years. After rising sharply last year amid higher inflation expectations and monetary tightening, 10-year treasury yields stabilised since the beginning of this year, standing at just below 4% currently, off October-2022 highs of 4.3% and after seeing a temporary rise (especially as regards short-term treasury bill rates) under the context of heightened market stress during the debt-ceiling crisis.

Overview of Scope's qualitative assessments for United States' *Public Finance Risks*

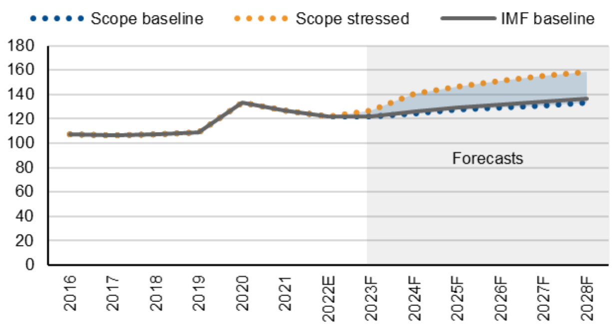
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Fiscal policy framework	Weak	-1/3	Weak fiscal framework including politicisation of the debt limit
	Debt sustainability	Strong	+1/3	Elevated debt ratio and challenges to long-run debt sustainability, but significant tolerance for debt
	Debt profile and market access	Strong	+1/3	Global benchmark issuer status and excellent government market access; below-average maturity of debt for an advanced economy and elevated government gross financing requirements

Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

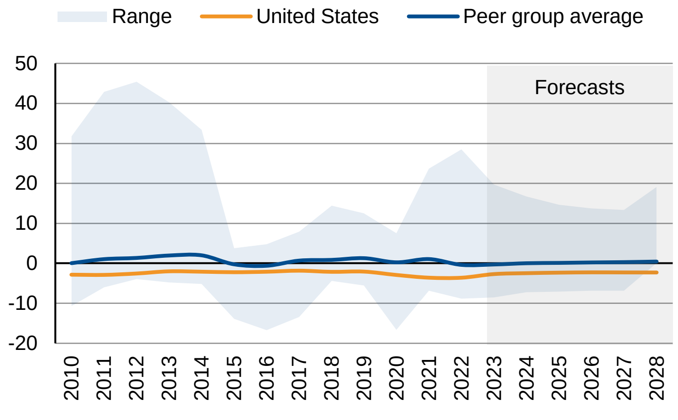
External Economic Risks

- **Current account:** The US economy's external position has been characterised by structural current-account deficits, averaging 2.1% of GDP over 2015-19. The current-account deficit amounted to 3.5% of GDP in the year to Q1 2023, nearly doubling levels from before the coronavirus crisis. While exports of goods returned to above pre-pandemic figures by Q2 2021, services exports stayed subdued, because of slow recovery in tourism receipts, staying around 17% below pre-pandemic levels as of Q1 2023. The IMF expects the United States' current-account deficit to improve gradually during the coming years, nevertheless concluding a forecast horizon to 2028 above 2% of GDP.
- **External position:** After increasing somewhat during the Covid-19 crisis, gross external debt as a share of GDP had moderated to 96.4% by Q4 2022, returning to its end-2019 levels. Nearly a third of gross external debt is owed by the general government sector with only a moderate share of external debt reflecting banking-system external liabilities (15% of the aggregate stock). Nearly two thirds of external debt is on a long-term basis. The US is a net external debtor, with a net international investment *liability* position at an estimated 65% of GDP as of Q1 2023, although declining from the 81% figure as of end-2021.
- **Resilience to short-term external shocks:** External-sector vulnerabilities are mitigated by the dollar's preeminent global reserve currency status. On the basis of the IMF's COFER data, around 58.4% of the world's aggregate foreign-exchange reserves were allocated in dollar as of end-2022, well ahead of allocations in euro (20.5%) or yen (5.5%), although below the levels of dollar hegemony as of 2000 (reflecting 71% of global allocated reserves then). Long-run challengers to the dollar-based global monetary order could derive from 'deglobalisation' as well as the side-effects of the freeze on Russian foreign-currency reserves plus roll-out of China's cross-border interbank payments system, although we do not consider such developments as constituting material risks to dominance of dollar for the foreseeable future.

Overview of Scope's qualitative assessments for United States' *External Economic Risks*

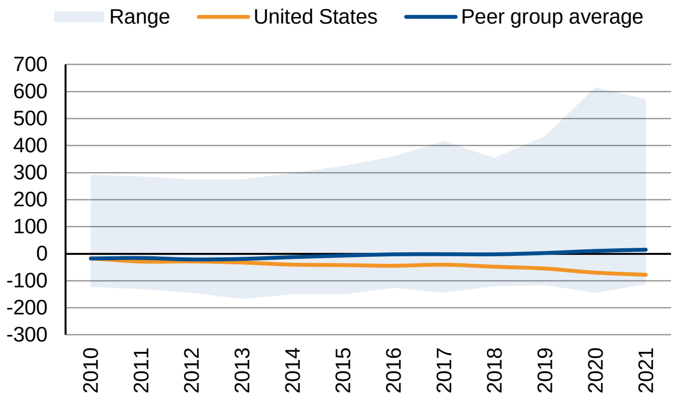
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Current account resilience	Strong	+1/3	Diversified export base; moderate current-account deficits
	External debt structure	Strong	+1/3	Relatively low external debt; most foreign assets are in foreign currency, whereas liabilities are in US dollar
	Resilience to short-term external shocks	Strong	+1/3	US dollar as the prime global reserve currency shields against short-term external shocks

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings

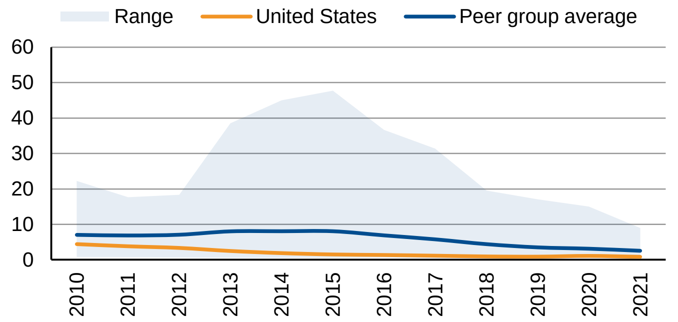
Financial Stability Risks

- **Banking sector:** The United States benefits from one of the most advanced and deep financial markets globally. Banking-sector resilience is underpinned by adequate capitalisation (aggregate tier 1 capital ratio of 13.6% of risk-weighted assets as of Q1 2023) and strong asset quality, with a non-performing loan ratio of below 1%. Profitability, as measured by system-wide return on equity, stood at 14.3% in Q1 2023 – well above that of peer European banking systems and at its highest levels since the Great Financial Crisis. Financial-sector vulnerabilities crystalised earlier this year after the collapse of several regional banks, which in turn led to accelerated deposit outflows from smaller lenders. While the effective intervention from the authorities prevented the spread of the crisis to the rest of the domestic financial system, tight liquidity conditions continue to stress pockets of financial-system vulnerabilities. Additionally, decelerating economic activity adds to pressures on credit quality and credit demand, weighing on profitability, although elevated rates continue to anchor interest margins. Near-term financial-stability risks related to the debt ceiling have subsided.
- **Private debt:** Non-financial private debt levels are elevated, at 153% of GDP as of Q4 2022. While this ratio compares favourably against that of most peer economies, household debt is comparatively high, at 74% of GDP. Debt service to income ratios are moderate compared against pre-pandemic averages, at about 9.6% for households and 40.4% for the non-financial corporate sector. Risks relating to elevated leverage are partially offset by strong corporate cash holdings as well as personal savings, although significant heterogeneity in this respect exists across segments of the private sector.
- **Financial imbalances:** Residential real estate price rises have corrected over the recent months, with the Case-Shiller Home Price Index declining 1.7% YoY in April 2023 (after a 21.2% increase in April 2022). After rising sharply last year, mortgage rates have stabilised near a multi-decade high since the start of this year, at around 6.4% on average this year for 30-year fixed-rate mortgages. Elevated lending rates and declining credit availability will weigh on real-estate prices medium run, although we expect structural undersupply in the housing market, as reflected in low housing inventories, as well as the comparatively strong credit quality of mortgage borrowers to limit the scale of this downturn. Risks also exist in commercial real estate markets where valuations are elevated and lending standards have tightened.

Overview of Scope's qualitative assessments for United States' *Financial Stability Risks*

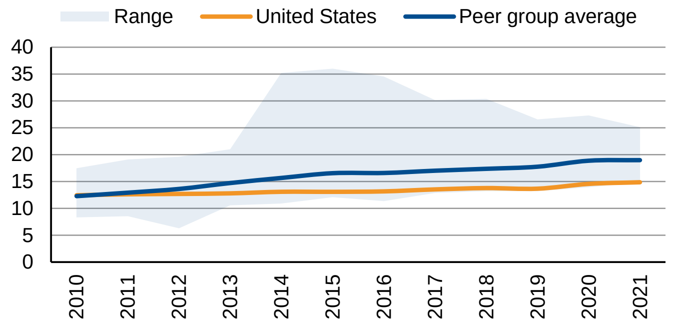
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Banking sector performance	Strong	+1/3	Preeminent banking system with sizeable capital buffers and strong asset quality; stronger profitability than peer European banking systems
	Banking sector oversight	Strong	+1/3	Sophisticated financial-regulatory system and strong financial governance framework under the Federal Reserve Board, Federal Deposit Insurance Corporation, and the Securities and Exchange Commission
	Financial imbalances	Neutral	0	Corporate debt risks; significant financial risks from lofty asset-price valuations amid historic Federal Reserve rate-hike cycle

Non-performing loans, % of total loans



Source: IMF, Scope Ratings

Tier 1 ratio, % of risk-weighted assets



Source: IMF, Scope Ratings

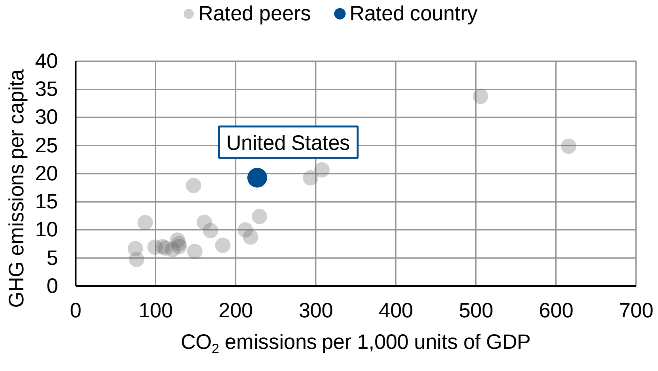
ESG Risks

- **Environment:** The US economy faces significant costs amid its transition to a greener paradigm, as among the most carbon intensive economies of its sovereign rating group. The United States is, furthermore, vulnerable to natural disaster risk such as earthquakes, drought & floods, hurricanes and wildfire. Under the Biden administration, the United States prudently re-joined the Paris Climate Accords and committed to significant investment and measures addressing climate change and promoting the green economy. The administration targets 50-52% reductions from 2005 levels as far as net greenhouse gas (GHG) emissions by 2030, a carbon-free power sector by 2035 and net-zero emissions by 2050, via electrification of buildings as well as energy and climate investments. Nevertheless, absent introduction of a price for carbon, government emissions objectives might prove hard to achieve and costly for public finances.
- **Social:** Worrying social outcomes challenge long-run political and macroeconomic stability. Such outcomes reflect a decline in labour-force participation since the Covid-19 crisis (even acknowledging recent recovery in labour-force participation), a polarised distribution of income and wealth, low intergenerational mobility, long-standing racial tensions, and elevated poverty. The Covid-19 crisis exposed weaknesses within the health-care system, which is the most expensive globally and presents unequal access to and quality of care. Demographic growth, although weakened by declining net immigration and population ageing, nevertheless compares highly favourably against the demographic dimensions of most peer advanced economies.
- **Governance:** The US benefits from strong democratic institutions, alongside transparent and accountable governance frameworks and processes. Nevertheless, political polarisation challenges tolerance for political compromise and government capacity to effectually execute reform. The Democratic Party's loss of control of Congress following the November 2022 mid-term elections has weakened the administration's capacity to execute on its policy agenda and has resulted in more significant political gridlock ahead of 2024 presidential and congressional elections.

Overview of Scope's qualitative assessments for United States' *ESG Risks*

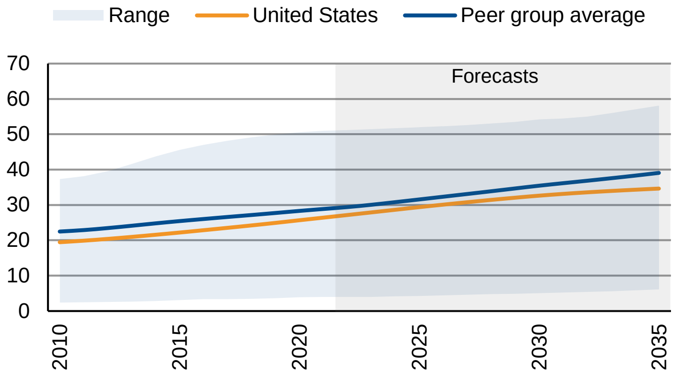
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Environmental factors	Neutral	0	Significant transition risks balanced by current government's ambitious environmental policy initiatives; meaningful natural disaster risk exposure
	Social factors	Neutral	0	Erosion of socio-economic mobility and elevated inequality; weakening demographics; Biden's social-reform agenda counters social crises
	Governance factors	Weak	-1/3	Resilient democratic institutions despite erosion of institutional strengths under the Donald J. Trump presidency; polarisation prevents bipartisan problem solving; gridlock following 2022 elections and institutional risks following 2024 elections

Emissions per GDP and per capita, $mtCO_2e$



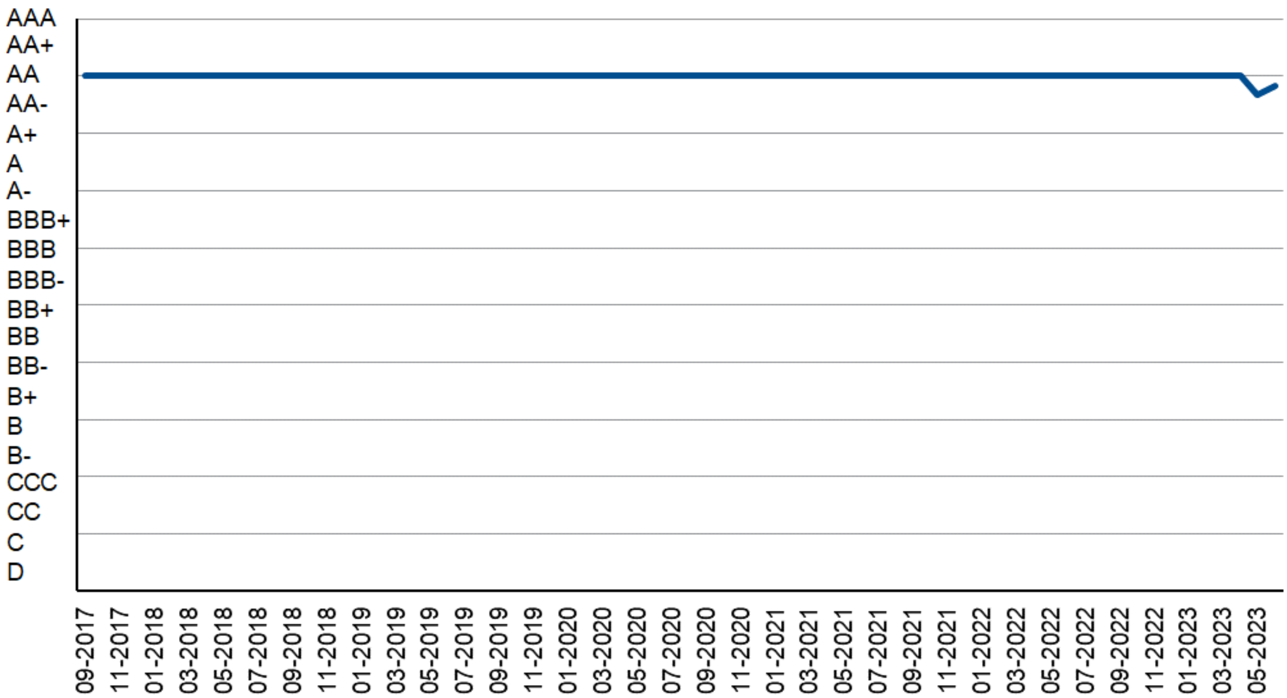
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term debt)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or in adjacent categories per Scope's Core Variable Scorecard, including a methodological reserve-currency adjustment.

Peer group*
Belgium
Croatia
Cyprus
Czech Republic
Estonia
France
Italy
Japan
Latvia
Lithuania
Malta
Portugal
Slovakia
Slovenia
Spain
United Kingdom

*Publicly rated sovereigns only; the full sample may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global peers and may therefore differ from national and other selective international statistics.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	**GDP per capita, USD '000s**	IMF	62.8	65.1	63.6	70.2	76.3
	Nominal GDP, USD bn	IMF	20,533.1	21,381.0	21,060.5	23,315.1	25,464.5
	Real growth, %	IMF	2.9	2.3	-2.8	5.9	2.1
	CPI inflation, %	IMF	2.4	1.8	1.3	4.7	8.0
	Unemployment rate, %	WB	3.9	3.7	8.1	5.4	-
Public Finance	**Public debt, % of GDP**	IMF	107.4	108.7	133.5	126.4	121.7
	Net interest payment, % of revenue	IMF	7.4	7.5	6.7	7.3	6.4
	Primary balance, % of GDP	IMF	-3.1	-3.5	-11.9	-9.3	-3.4
External Economic	**Current-account balance, % of GDP**	IMF	-2.1	-2.1	-2.9	-3.6	-3.6
	Total reserves, months of imports	IMF	1.4	1.6	2.1	2.0	-
	NIIP, % of GDP	IMF	-47.7	-54.5	-69.8	-77.7	-63.3
Financial Stability	**NPL ratio, % of total loans**	IMF	0.9	0.9	1.1	0.8	-
	Tier 1 ratio, % of risk-weighted assets	IMF	13.5	13.9	13.8	14.8	13.6
	Credit to private sector, % of GDP	WB	180.6	191.4	216.2	-	-
ESG	**CO_2 per EUR 1,000 of GDP, $mtCO_2e$**	EC	257.7	244.4	225.4	227.0	-
	Income share of bottom 50%, %	WID	13.3	13.6	13.6	13.6	-
	Labour-force participation rate, %	WB	72.6	73.1	-	-	-
	Old-age dependency ratio, %	UN	24.2	24.9	25.7	26.4	27.1
	Composite governance indicators*	WB	1.2	1.1	1.0	1.0	-

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bps) as of 28 June 2023	29.7

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