CareEdge Global assigns Long Term Foreign Currency Rating of AA+ (Unsolicited) to United States of America

Credit Profile

The credit profile of the United States is supported by its rich resources, innovative, diverse, and competitive economy, and resilience to economic fluctuations. Strong institutions, healthy governance, and exceptional funding capabilities, supported by the U.S. dollar's global reserve currency status and robust treasury market, underpin its creditworthiness. However, the primary challenge is its weak fiscal position. Rising government spending and the risk of worsening debt affordability need close monitoring. Political polarization and a decline in policy effectiveness could negatively impact creditworthiness. The upcoming U.S. elections may influence fiscal policies and regulatory changes, making them a key factor to monitor.

Strengths

- Large competitive economy with high per capita income
- U.S. dollar's status as the world's primary reserve currency
- Strong Institutions and quality of governance

Weaknesses

- High general government debt
- Increase in entitlement program costs pose fiscal challenges, exacerbated by the lack of political consensus on fiscal policy

Key Monitorables

- The rising fiscal deficit and persistent high interest rates may exacerbate debt service cost
- Impact of geopolitical tensions, evolving global trade dynamics, increasing protectionist policies

Key Rating Drivers

Economic Structure & Resilience

The U.S. economy is marked by its resilience, diversification, and innovation-driven growth. It's a large economy with high GDP per capita of USD 66762 (purchasing power parity basis constant prices, 2023). The economy benefits from high levels of entrepreneurial activity, catalysed by a well-established legal and regulatory framework. An area of concern is Gross Fixed Capital Formation, which is at 21.3% of GDP (2023), lower than many sovereigns with similar creditworthiness.

Post-pandemic, GDP has grown by an average of 2.2% annually (2022-2023). The U.S. economy grew at an annual rate of 3.0% in Q2 of 2024, mainly driven by higher consumer spending. Geopolitical tensions, changing global trade dynamics, rising protectionist tendencies, and shifts in supply chains present challenges to the health of the U.S. economy.

Fiscal Strength

The main credit challenge faced by the United States is its weak fiscal position, with persistently high deficits and high government indebtedness. The general government fiscal deficit reached 8.8% of GDP in 2023, with GG debt at 122.2% of GDP. The rising trend of GG debt, especially when compared to sovereigns with similar creditworthiness, is of particular concern. Unfavorable demographic trends are expected to further increase expenditures through costly entitlement programs, placing a significant burden on the federal budget. Debt affordability (interest/revenue ratio) in 2023 reached approximately 16.7%. With continuing high-interest rates, debt affordability is likely to deteriorate further. The lack of political consensus on medium-term fiscal policy has led to repeated tussles over the federal debt limit. These political impasses and last-minute solutions to resolve them have exacerbated the unpredictability of the fiscal trajectory.

External Position & Linkages

The U.S. dollar is the world's foremost reserve currency, with 60% of global foreign exchange reserves held in this currency. This dominant status, along with the currency's central role in the international financial system, grants the United States significant flexibility in managing its external financial accounts.

The primary risk to the United States' external position stems from its external debt. As of 2023, external debt levels are notably high, at around 95% of GDP. This is compounded by low domestic savings and persistent current account deficits, which stood at approximately 3% of GDP in 2023.

The net international investment position (NIIP) has worsened to -72.3% of GDP in 2023 from the pre-pandemic average of -45.4% of GDP (2015-2019). This decline primarily resulted from valuation adjustments due to a substantial increase in U.S. stock prices relative to foreign stocks, leading to a rise in the market value of U.S. liabilities compared to U.S. assets. The NIIP is expected to remain relatively stable in the medium term, reflecting ongoing adjustments in the international investment landscape, and risks remain manageable in view of currency liquidity.

Monetary & Financial Stability

The U.S. benefits from a highly developed financial system offering unique advantages in terms of liquidity and diversity of capital sources. Its monetary assessment is underpinned by a robust central bank. Since 2022, the Federal Reserve has undertaken significant monetary policy tightening to combat inflation. Successive hikes culminated in rates reaching 5.25-5.5% (July 2023), the highest level in two decades. In its September 2024 statement, the Fed cut policy rates by half a percentage point, signalling confidence that inflation is moving sustainably towards its 2% target. PCE inflation declined for the third consecutive month to 2.5% in July 2024. Post the bank failures of 2023, risks in the banking sector have eased. The non-performing loans to total gross loans ratio is low at 0.9% in 2023, and banks possess sufficient capital buffers to maintain liquidity. However, vigilance is warranted due to the ongoing challenges faced by smaller and regional banks in attracting deposits.

Institutions & Quality of Governance

The United States is recognised for its robust institutions characterised by strong regulatory frameworks and a deep-rooted respect for the rule of law and contractual agreements. The U.S. stands out for its transparent and accessible economic data, with a high level of timeliness and comprehensive coverage. Rising political polarization in the U.S. has led to regular legislative stalemates, undermining governance, and delaying key policy implementation. This raises concerns about the sustainability of fiscal policies and overall public finance management.

We anticipate that the policy status quo will remain largely unchanged until after the national elections, scheduled for November this year. The upcoming election will determine control of the presidency, the House, and the Senate, which may lead to changes in policy direction.

United States – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	20657	21521	21323	23594	25744	27358	28781	29840
GDP Per Capita (Constant-PPP)	USD	61751	62981	61081	64417	65432	66762	68177	69040
Real GDP Growth	%	3.0	2.5	-2.2	5.8	1.9	2.5	2.7	1.9
GFCF/GDP	%	21.4	21.5	21.9	21.6	21.5	21.3	-	-
Gross Domestic Savings/GDP	%	18.7	19.0	18.5	17.7	18.1	-	-	-
Exports (G&S)/GDP	%	12.4	11.9	10.2	10.9	11.6	11.2	-	-
Working-Age (15-64) Population (% Share in Total)	%	65.7	65.5	65.3	65.1	64.9	64.7	64.5	64.2
Old-Age (65+) Population (% Share in Total)	%	15.4	15.8	16.2	16.7	17.1	17.6	18.1	18.5
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-5.3	-5.8	-13.9	-11.1	-4.1	-8.8	-6.5	-7.1
Revenue/GDP	%	30.0	30.0	30.7	31.7	32.7	29.3	30.5	30.4
Expenditure/GDP	%	35.3	35.8	44.6	42.8	36.8	38.1	37.0	37.5
GG Gross Debt/GDP	%	106.8	108.1	132.0	125.0	120.0	122.1	123.3	126.6
GG External Debt (by Creditor)/GG Gross Debt	%	23.2	24.8	22.6	23.7	21.9	22.5	-	-
Interest/Revenue	%	14.6	15.0	13.6	12.4	12.5	16.7	-	-
External Indicators									
Current Account Balance/GDP	%	-2.1	-2.1	-2.8	-3.5	-3.8	-3.0	-2.5	-2.5
FDI, Net Inflows/GDP	%	1.0	1.5	0.6	2.1	1.5	1.4	-	-
Outstanding FII Liabilities/GDP	%	91.23	101.13	118.05	122.79	96.19	104.79	-	-
NIIP/GDP	%	-47.42	-54.21	-69.04	-79.61	-62.82	-72.26	-	-
Foreign Exchange Reserves	USD Billion	449.1	514.4	627.3	712.3	706.9	777.4	-	-
Import Cover	Months	1.73	1.99	2.68	2.51	2.14	2.43	-	-
External Debt/GDP	%	95.2	95.7	100.4	98.8	95.7	95.0	-	-
Monetary and Financial Indicators									
CPI Inflation	%	2.4	1.8	1.2	4.7	8.0	4.1	2.9	2.0
Exchange Rate (Average)	LC per USD	1.0	1.0	1.0	1.0	1.0	1.0	=	=
Non-Performing Loans/Total Gross Loans	%	0.9	0.9	1.1	0.8	0.7	0.9	-	-
Private debt, loans and debt securities/GDP	%	151.7	151.5	163.9	157.0	152.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	AA+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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