

How President Trump's plans will impact the US deficit

Big isn't beautiful when it comes to government debt, but tariffs and the Department of Government Efficiency (DOGE) help to plug the hole left by President Trump's latest fiscal bill. The net effect will be weaker growth, with US government debt remaining on a worrying trajectory



Donald Trump's fiscal policies are poised to significantly impact the US federal deficit and overall economic growth

This article is a condensed version of our in-depth analysis found [here](#).

A worrying fiscal trajectory

US President Donald Trump's fiscal policies, including the One Big Beautiful Bill Act (OBBBA) and new tariffs, are set to have significant implications for the US federal deficit and overall economic growth.

To begin with, the US fiscal position is not in a good place. Even after the Covid-related spike in borrowing during 2020-22, the US government continues to spend far more than it takes in through tax revenue. The Federal deficit is running at 6.7% of GDP, while net government debt [\[1\]](#), which was 35% of GDP 20 years ago, looks set to breach 100% of GDP this fiscal year.[\[2\]](#)

Concerns about the fiscal trajectory are growing, with the US having now lost its Triple A rating

with S&P, Fitch and, just last month, Moody's. On top of this, President Trump's One Big Beautiful Bill Act will extend and expand his huge tax cuts from 2017. The Congressional Budget Office estimates this will lower tax revenues by \$3.7tr over the next 10 years, while proposed spending cuts would only save \$1.3tr, leaving the primary deficit [\[3\]](#) \$2.4tr wider than would otherwise have been the case.

On the face of it, this is a huge fiscal giveaway, but we need to remember that most of the Bill is merely an extension of the 2017 tax cuts, which had been due to sunset at the end of this year. So, while it provides lots of red ink for the long-term fiscal metrics, it generates no positive impetus for US economic activity relative to trends already in place.

[\[1\]](#) US net debt refers to total (gross) debt excluding holdings by US government entities. For reference, as of the 2024 fiscal year, net public debt was 96.4% of GDP vs. gross debt of 121% of GDP.

[\[2\]](#) We refer to US fiscal years (eg, FY24: 1 October 2023 – 30 September 2024).

[\[3\]](#) Deficit before debt interest expenses

Good news and bad

The good news for the fiscal hawks out there is that President Trump's tariffs are already generating tax revenues that are separate from the OBBBA. On top of this, we have some "efficiency savings" being generated by DOGE, but those are admittedly modest at less than \$200bn.

While these initiatives may help to fill the financial hole created by OBBBA, US deficits will remain wide and debt levels will continue to grow, especially when we consider the continuous [0.1-0.2pp GDP increase in demography-related spending](#) and how that will feed into the US's fiscal position. Moreover, the combination of these policies is likely to be detrimental to economic growth in the near term, which runs the risk of official deficit and debt projections being too optimistic.

That's because OBBBA is, on balance, likely to be a headwind for growth with additional tax cuts over and above the extension of the 2017 Tax Cuts and Jobs Act being offset by the spending cuts that are falling heavily on "green" investment support and healthcare.

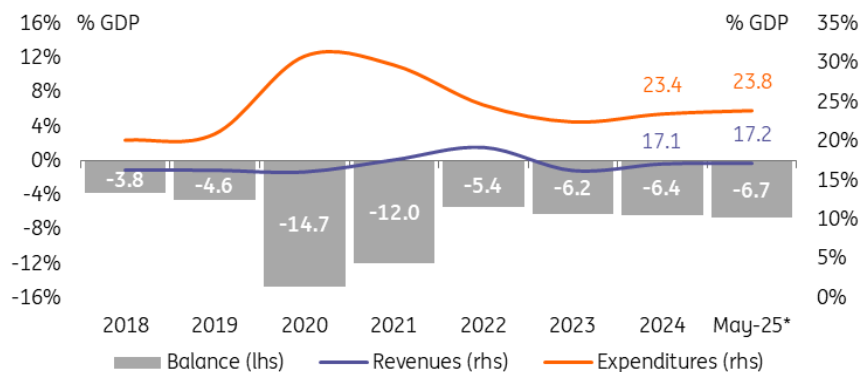
Tariffs set to hit US growth

As for tariffs, in addition to raising revenue, they are intended to encourage the reshoring of manufacturing to the US which boosts growth longer term, secures intellectual property and strengthens the resilience of supply chains. However, the near-term result will be some combination of higher prices for consumers that eat into household spending power and weaker corporate profits as firms absorb some of the cost. Hiring and investment are already slowing, and there are also warning signals that investment growth is stalling in an environment of heightened economic and geopolitical uncertainty.

We expect US growth to slow from 2.5% in 2024 to average at 1.5% in 2025-26, which is 0.3-0.4pps weaker than what is assumed in the official fiscal projections. Combining this with our more cautious view on the interest rate trajectory, we believe the US fiscal performance should be skewed to the negative side of the [Congressional Budget Office's \(CBO\) forecast range](#). We expect the deficit to stay at or more than 6% of GDP for much of the coming decade, with debt-to-GDP

ratios continuing to rise by around 2pps or more per year.

Key parameters of the US federal budget (FY2018-24, and 12M ending May 2025)



Source: CEIC, CBO, ING
*12M rolling sum

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