

## U.S. vs Europe: Debt Growth vs GDP Growth — Who's Healthier?

### Executive Summary

The fiscal trajectories of the United States and the Euro area have increasingly diverged since the turn of the century. U.S. growth has largely been debt-financed with government liabilities expanding almost twice as fast as nominal GDP, pushing the federal debt ratio from just over 55% of GDP in 2000 to around 120% today. By contrast, the Euro area has maintained a more balanced profile over the same period. While debt burdens are not homogenous across member states, the aggregate trajectory has been far more restrained with debt growth closer to the pace of nominal output and the debt-to-GDP ratio broadly stable under 90%.

The divergence reflects policy choices and structural anchors. The U.S. fiscal stance remained expansionary across cycles, from tax cuts and post-crisis stimulus to pandemic support and ongoing industrial policy. The Euro area, constrained by the Maastricht framework and the Stability and Growth Pact, has been forced into repeated bouts of consolidation. As a result, the Euro area enjoys a fiscal optics advantage even though its long-term growth potential has been weaker.

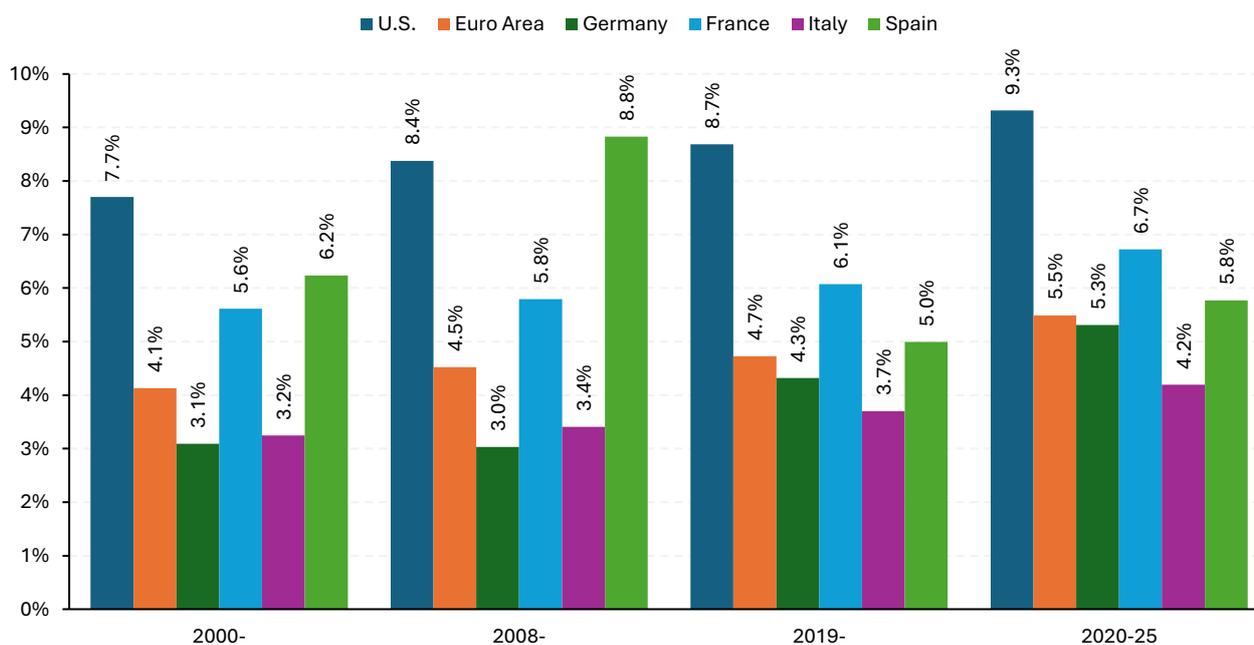
For markets, these trajectories carry material implications. Rising interest burdens and persistent primary deficits in the U.S. point to structurally higher term-premia in Treasuries and underscore medium-term risks to the dollar. Europe's fiscal profile is healthier in aggregate, but internal fragmentation remains a latent vulnerability. The divergence implies structurally wider term-premia in Treasuries, relative scarcity in Bunds, and a medium-term fiscal optics tailwind for the euro against the dollar.

### Debt vs. Nominal GDP Growth

The first striking difference lies in the compounded growth rates of debt and nominal GDP. Since 2000, U.S. federal debt has expanded at an average pace of 7.7% p.a. while nominal GDP has grown at less than 5.0%. The gap widened further in the post-GFC and post-COVID windows, with debt compounding at 9.3% vs. 6.3% for nominal GDP between 2020 and 2025.

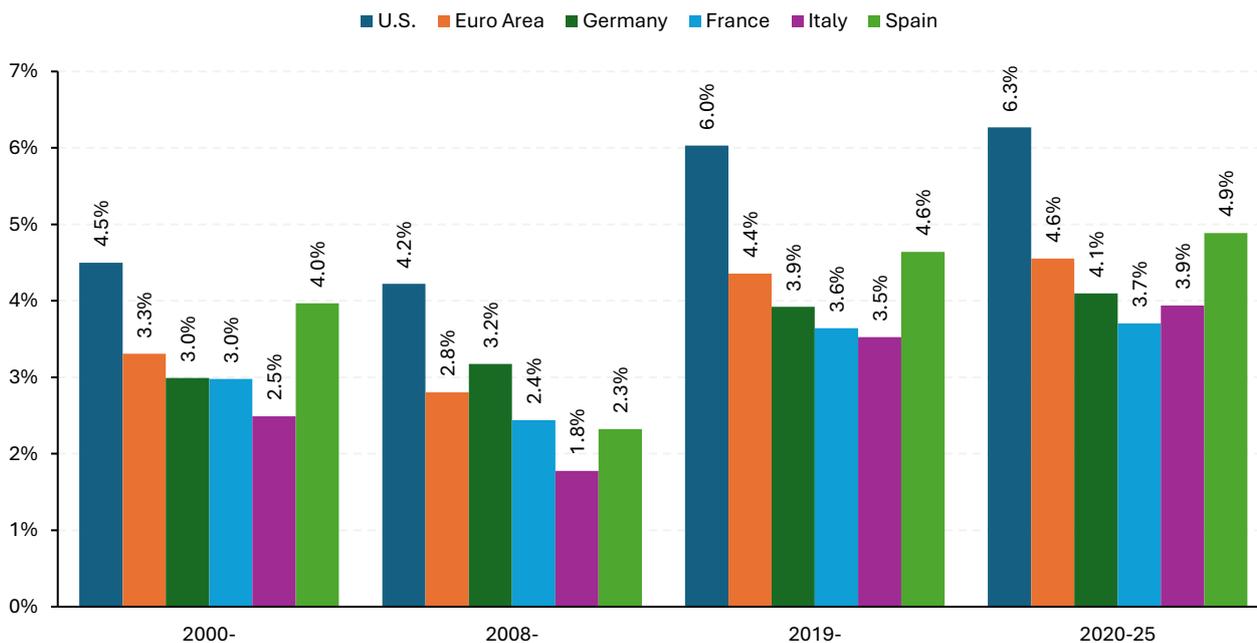
The Euro area presents a more balanced picture. Aggregate debt growth since 2000 has averaged 4.1% against nominal GDP growth of 3.3%. The 2020-2025 period shows debt growing at 5.5% and GDP at 4.6%, leaving the growth multiple far closer to parity than across the U.S. Among individual member states, Germany stands out for debt restraint while Spain and France experienced faster expansions after the financial crisis. Spain converged back to stability, but France remains on a more fragile path, with debt growth still outpacing GDP.

#### Exhibit 1: Debt Growth (CAGR)



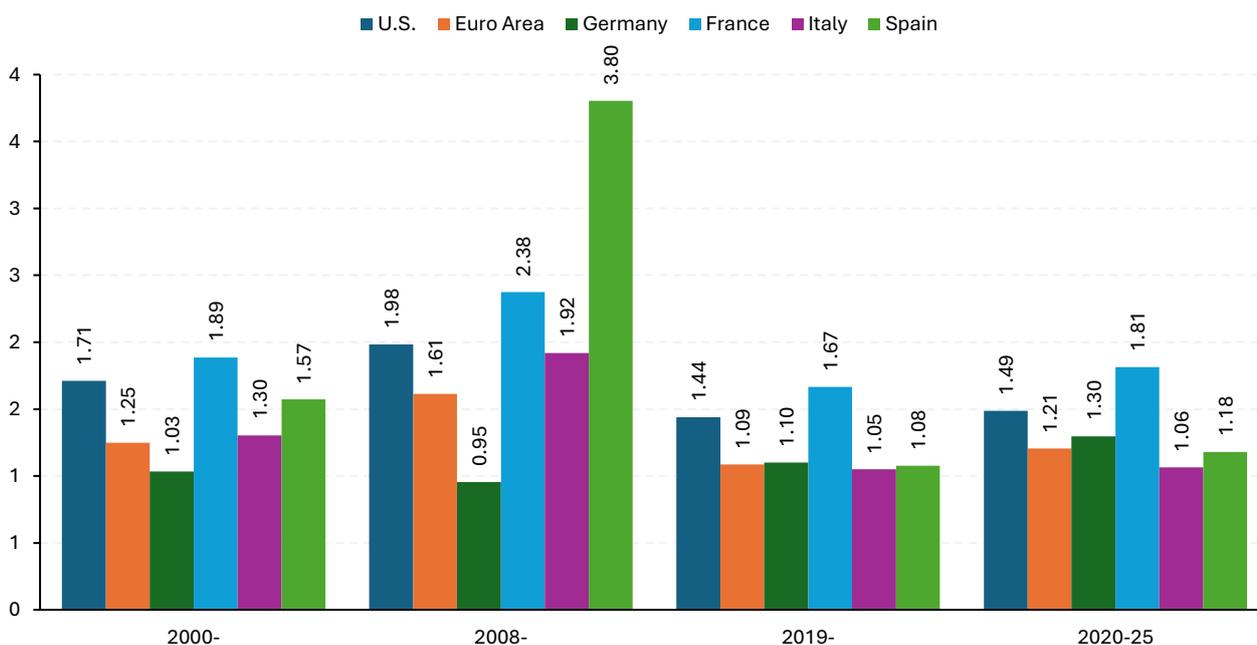
Source: MAM Research.

**Exhibit 2: Nominal GDP Growth (CAGR)**



Source. MAM Research.

**Exhibit 3: Debt / Nominal GDP CAGRs Ratio**



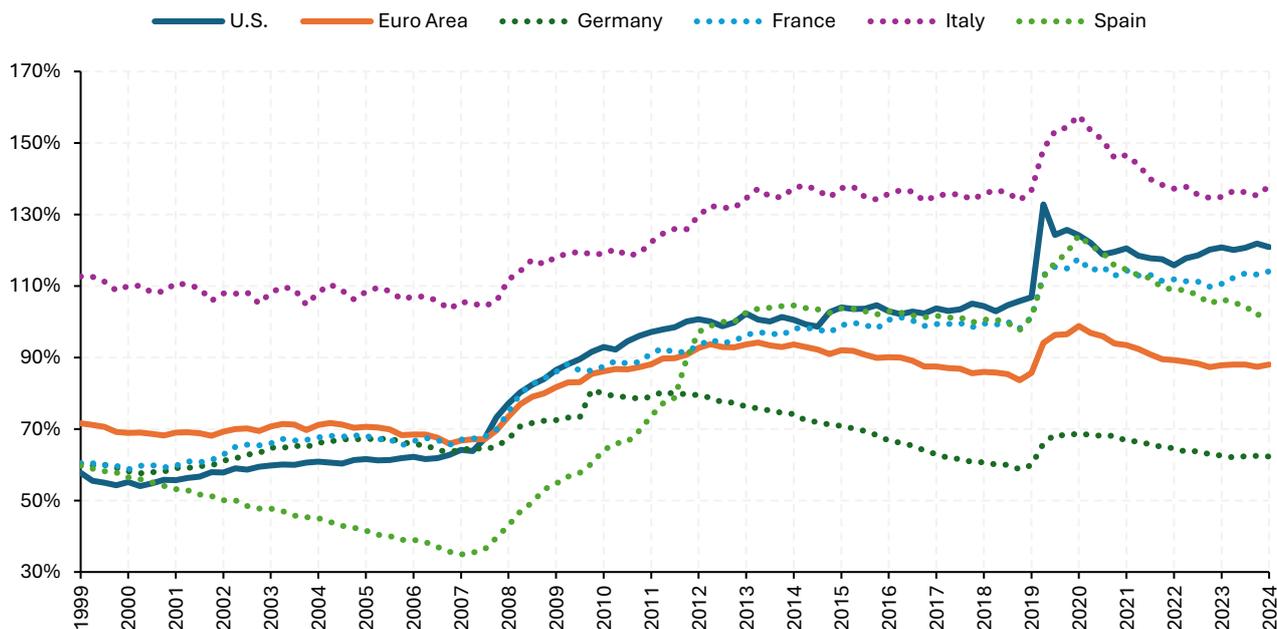
Source. MAM Research.

**Debt-to-GDP Ratios**

The cumulative effect of these trajectories is visible in the debt-to-GDP ratios. The U.S. has seen its ratio more than double since 2000, climbing to roughly 120% by 2025. The Euro area, by contrast, has remained broadly stable over the past decade, rising in the wake of the sovereign debt crisis and pandemic but settling at 90%.

Italy remains a key outlier within the observed European countries with a debt ratio entrenched above 130%. Germany remains strong around 62%, meanwhile France and Spain are hovering in the 105-115% range. The aggregate, however, remains far healthier than overseas. Crucially, the U.S. ratio has been on a structural upward trend with little signs of stabilization whereas the Euro area ratio tended to mean-revert post-crises. Crucially, U.S. debt has trended steadily higher, while Euro area increases were crisis-driven then contained.

**Exhibit 4: Debt-to-GDP Ratio**

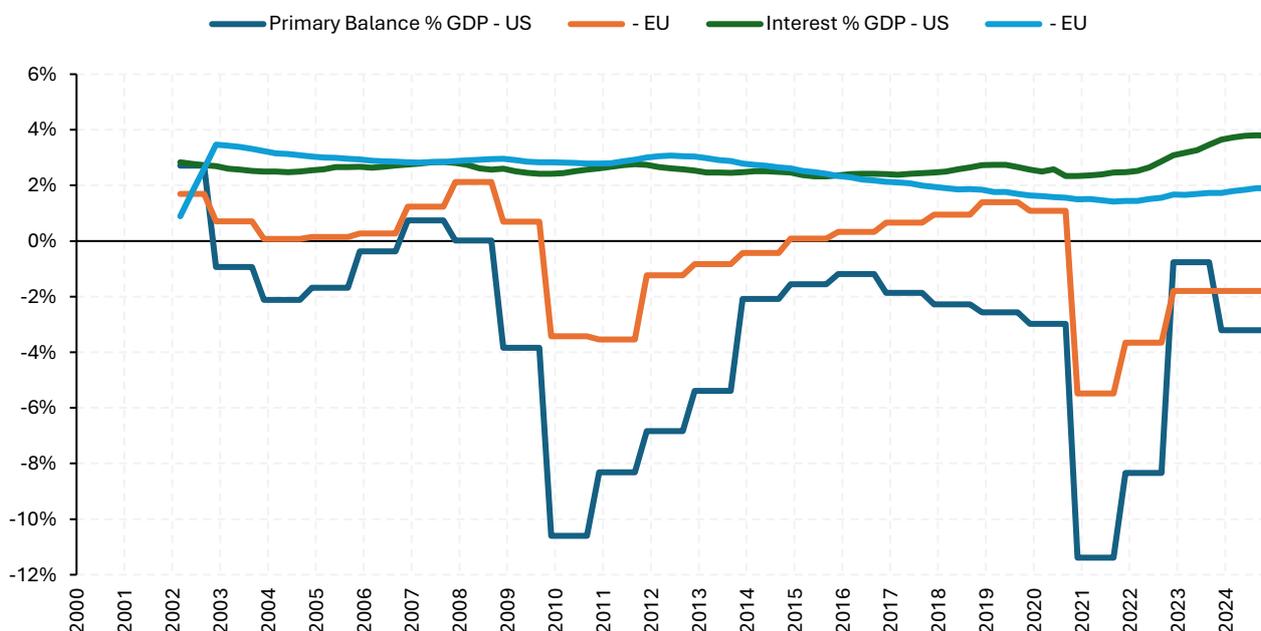


Source. MAM Research.

**Primary Balances and Interest Burdens**

Fiscal balances reinforce the divergence. The U.S. has run persistent primary deficits averaging 2-5% of GDP for most of the past two decades with deeper troughs during the GFC and pandemic. The Euro area, while not immune to shocks, has oscillated closer to balance with primary deficits narrower and surpluses more frequent in periods of expansion.

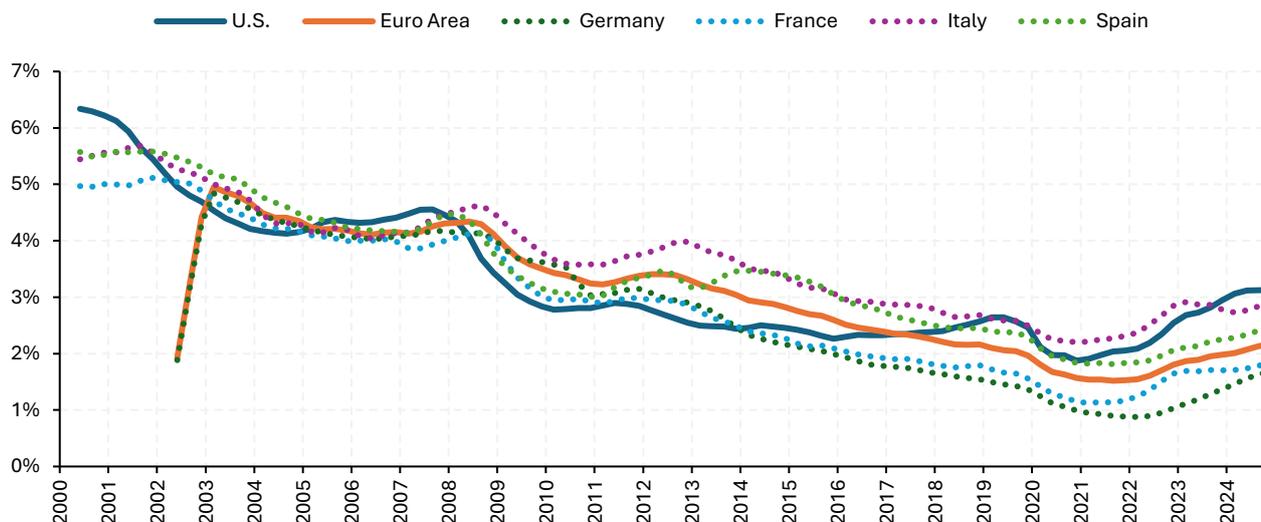
**Exhibit 5: Primary Balances and Interest Burdens**



Source. MAM Research.

Interest costs are re-emerging as a central constraint. Effective nominal interest rates on outstanding debt declined steadily across both regions from over 6% in 2000 to ~2% by 2020. However, the rates reset since 2022 have pushed funding costs higher. In the U.S., the mix of shorter average maturities and heavier issuance has caused the effective interest rate to rise faster with interest outlays moving above 3% of GDP and heading higher. In the Euro area, the burden is rising more gradually and remains closer to 2% of GDP.

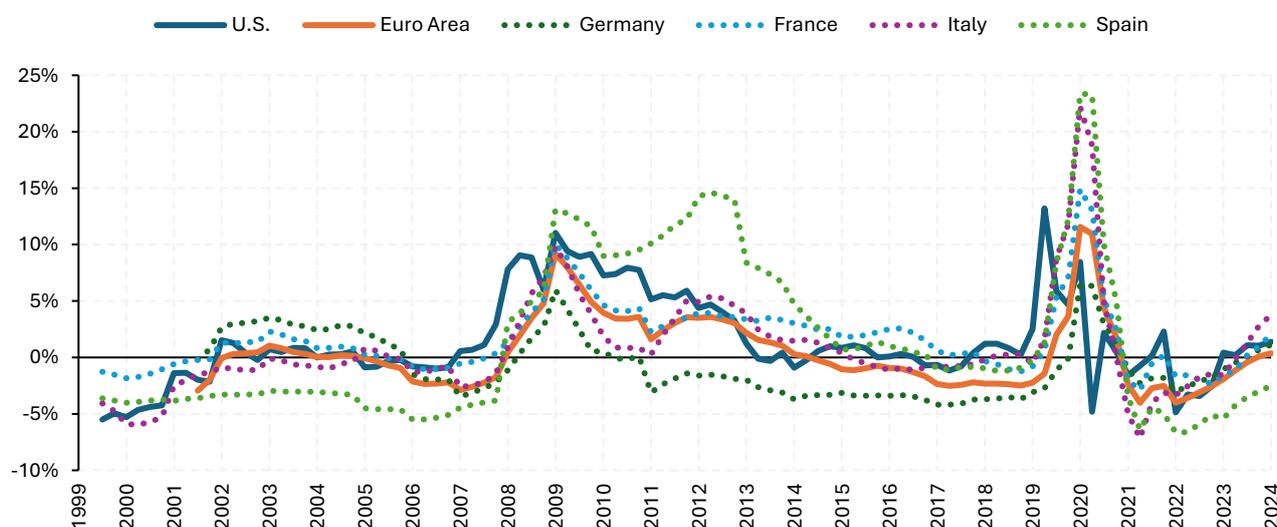
**Exhibit 6: Effective Nominal Interest Rates**



Source. MAM Research.

The differential matters for debt dynamics<sup>1</sup>. With nominal GDP growth expected to moderate and effective interest rates climbing, the U.S. faces a positive “snowball effect” where interest charges exceed growth and mechanically push debt ratios higher unless offset by large primary surpluses. The Euro area’s aggregate remains closer to neutral, with some countries still enjoying negative snowball effects allowing debt ratios to stabilize even with small primary deficits but it is not homogenous. France is one key risk factor to consider.

**Exhibit 7: Debt Dynamics Identity<sup>2</sup>**

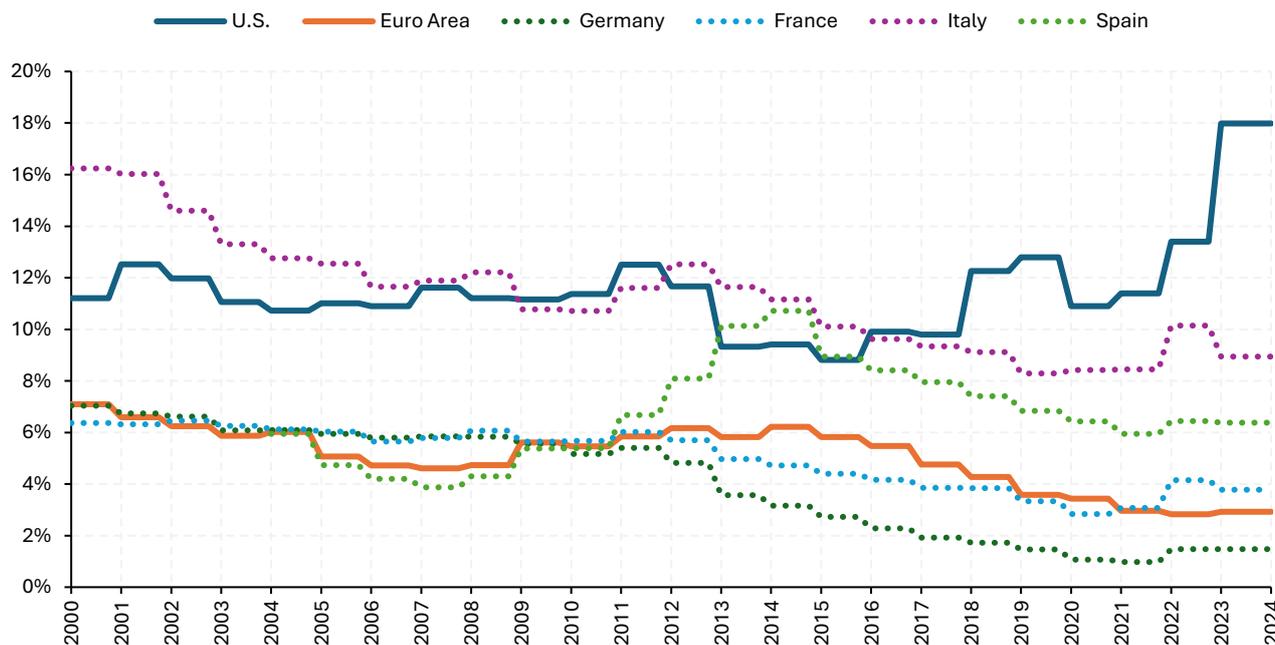


Source. MAM Research.

Interest expenses are even more striking when measured against revenues. In the U.S., net interest outlays now absorb nearly one-fifth of federal revenues, up sharply from a long-standing range of 10-12%. In the Euro area, by contrast, the aggregate burden remains sub-4% of revenues, with Germany well below that threshold and only Italy consistently higher in the high single digits. This distinction underscores the greater fiscal space Europe retains. While the U.S. is already devoting an extraordinary share of revenues to service its debt, most European sovereigns are still able to manage their interest bill without crowding out primary spending.

<sup>1</sup> Debt dynamics refers to the evolution of a country’s debt-to-GDP ratio over time, driven by the interaction of interest rates, economic growth, primary fiscal balances, and exchange rate effects.

<sup>2</sup> Debt dynamics identity is the formal accounting equation describing debt dynamics. A high or rising value means debt is unsustainable or on a worsening path. A low or negative value is the opposite.

**Exhibit 8: Interest Expenses (% of Revenue)**

Source. MAM Research.

### Policy Anchors and Structural Differences

The gap is not simply cyclical but rather rooted in policy frameworks. The U.S. lacks binding fiscal rules, and the political system has consistently prioritized fiscal expansion over consolidation, whether via tax breaks or spending initiatives. Debt ceiling debates have proven a poor substitute for discipline. Recent proposals to re-impose or expand tariffs under the Trump administration could, on paper, modestly improve the primary balance by generating additional customs revenues in the short-term. However, the effect is limited relative to the scale of structural deficits, and the broader macro cost of tariffs would likely erode any fiscal gains. In practice, tariffs represent a tactical revenue path rather than a durable solution to the underlying imbalance. The broader message is that the U.S. tends to reach for tactical fixes rather than structural consolidation.

Europe's rules have often been criticized as pro-cyclical or politically rigid, but they still provided a constraint. The Maastricht 60% ceiling has been breached repeatedly yet the Stability and Growth Pact, even in reformed form, has forced member states to anchor medium-term fiscal plans. The recent 2024 governance reform reinforces this tendency, embedding country-specific adjustment paths that, at minimum, limit fiscal drift.

### Market Implications

The market consequences of this divergence are growing clearer. In the U.S., the scale of issuance required to finance persistent deficits, and a rising interest bill adds to term premia pressures in Treasuries. Investors are being asked to absorb structurally larger supply with reduced foreign official demand, implying upward pressure on yields independent of monetary policy. The fiscal trajectory also feeds into dollar risk premium, especially as real growth differentials narrow.

The Euro area's aggregate debt profile is more benign. Issuance is lower relative to GDP, and the slow climb in interest costs reduces supply pressure. Bunds benefit from scarcity and fiscal optics though intra-Eurozone spreads remain sensitive to country-specific politics (France and Italy) and risks fiscal slippage. For the euro, the relative fiscal sustainability provides medium-term support against the dollar, adding to the structural headwinds facing the dollar. That said, cyclical growth differentials continue to limit the euro's ability to break higher in the near-term.

## Investment Implications

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Debt dynamics identity underscores how fiscal trajectories diverge across the Atlantic. In the U.S., persistent primary deficits, rising interest burdens, and debt growth outpacing GDP keep debt ratios on an unsustainable path without adjustment. The Jackson Hole paper (cf. Appendix 1 for a detailed overview) argues debt/GDP could be sustained at much higher levels, but only if the government debt supply does not outstrip demand. Europe, while not without challenges, has managed debt growth closer to nominal GDP with stronger fiscal anchors and consolidation cycles. The divergence has clear portfolio consequences: lean towards European equities (notably small caps tied to domestic demand) while staying underweight the expensive/concentrated U.S. large caps. FX exposure should mirror a similar asymmetry: the euro benefits from steadier fiscal optics while the dollar faces structural headwinds from fiscal profligacy, policy risk, and a lower safe-haven appeal. Indeed, Europe's vulnerability lies less in its debt metrics but rather in its politics with fragmented coalitions, weak policy coordination, and the risk of populist turns remaining the main overhangs.

A key overlay is the balance of Treasury supply and demand. On the supply side, sustained deficits suggest heavy coupon issuance, raising risks that the long end becomes the adjustment margin unless deficits are narrowed. On the demand side, new mechanisms are emerging: the GENIUS Act provides a federal framework for stablecoins, requiring full backing by cash or treasuries. Proliferation here could create a durable bid for treasuries but the net effect depends on funding sources. If flow come from U.S. bank deposits, the demand is substitutional (stablecoin issuers buying what banks and money market funds otherwise would). Only if demand is driven by offshore or non-U.S. deposits does this represent a genuinely incremental bid for USTs. In short, stablecoins may stabilize the front end but they do not resolve the duration problem.

That leaves the Fed as the marginal player. If the central bank resumes QE-like operations to absorb duration supply, the effective debt-service burden is contained and the convenience yield on Treasuries is preserved. However, it would place the U.S. on a path familiar in Japan (high debt/GDP anchored by quasi-permanent central bank balance sheets, yields capped by policy, and USD weakness acting as the release valve). Europe, despite healthier fiscal anchors, faces similar demographic and productivity constraints pointing to its own Japanification trajectory over time. The U.S. retains offsets (reserve currency status, energy independence, technological productivity, immigration) that may slow or soften convergence, but the direction is near clear.

Our note suggests being pre-voyant of these dynamics. The Japanification lens is a long-term framework rather than an imminent base case, but it is increasingly relevant as a strategic backdrop when setting portfolio tilts and risk budgets. While it is not tomorrow's trade, it is tomorrow's regime risk.

## Appendix 1 – U.S. Fiscal Space: The 250% Debt/GDP Debate

*Review of Auclert-Malmberg-Rognlie-Straub (Jackson Hole 2025)*

The paper (Auclert, Malmberg, Rognlie, & Straub, 2025) presents a supply-demand model for the trajectory of U.S. aggregate wealth, real interest rates, and fiscal sustainability showing that demographic-driven asset demand allows the U.S. to sustain ~250% debt/GDP at current real rates, conditional on two key assumptions:

1. **Large and permanent fiscal consolidation** (~10-12% of GDP) to stabilize entitlements
2. **Persistence of Treasury convenience yield** (no erosion of the safety/liquidity premium as debt expands)

The framework and 250% ceiling, while elegant and quantitatively disciplined, is a conditional upper bound but not a realistic planning anchor. The risk lies in endogenous spread compression (DSIR), execution risk on consolidation, and regime shifts in growth/markups.

### The Paper's Core Mechanics

- **Wealth/GDP and  $r^*$ .** Post-1950s decline in real rates explained by rising asset demand (aging, inequality, foreign saving) outstripping supply. Wealth/GDP climbed ~300-400ppts, average real return fell by ~2ppts, and decomposition implies  $r^*$  fell ~230bps.
- **Forward demand shock.** Aging boosts asset demand further, absent fiscal offset,  $r^*$  drifts down.
- **Fiscal arithmetic.** Entitlements drive primary deficit → ~12% GDP gap by 2100.
- **Baseline result.** Stabilizing ~250% debt/GDP keeps real rates flat. Requires 12% of GDP permanent fiscal adjustment equivalent to raising the labor income tax by 16ppts from 20% (2024 level).
- **Endogenous spread (DSIR ~2bps per +1% GDP debt).** At 250% debt/GDP, risk-free shifts up to +200bps, the cost of sustaining debt rises by 4-5ppts of GDP.
- **Policy levers.**
  - Taxes only → higher  $r^*$ , ~12% GDP adjustment needed.
  - Benefit cuts → lower  $r^*$ , but requires ~50% cuts.
  - Raising retirement age → helps, but still ~8% GDP adjustment needed.

### Critical View

- **Convenience yield fragility.** Empirically, the Treasury safety premia compresses when debt surges (late 2010s, pandemic). Hence, assuming a flat spread is optimistic.
- **Endogenous spread risk.** Their own robustness shows DSIRs shift the story quickly.
- **Execution gap.** Sustained 10-12% GDP consolidation is historically implausible (equivalent to +16ppts on labor tax rates or ~50% entitlement cuts).
- **Growth/markup regime risk.** AI/productivity boom or rising markups *increase*  $r^*$ , reducing fiscal space (contrary to the “growth solves debt” narrative).
- **Market stress channels absent.** The model is long-run/steady-state. There is no treatment of rollover risk, term premia spikes, or fiscal dominance dynamics (the triggers that bite before 2100).
- **U.S. privilege assumption.** It relies on unchallenged safe-asset dominance. Multipolar reserve demand could compress the convenience yield much earlier.

### Risk Matrix

Risk Factor	Baseline Assumption	Stress Case	Market Impact
Fiscal Policy	10-12% GDP consolidation	Drift/partial	Higher debt path, risk-free rate rises
Convenience Yield	Fixed	Shrinks with debt (DSIR >0)	Risk-free rate rises 200bps at 250% debt
Growth/Productivity	~1.8%	3% + (AI boom)	Asset supply rises, $r^*$ rises, debt harder
Demographics	Aging boosts demand	Faster fertility decline	Fiscal gap worsens despite low $r^*$
External Demand	Strong U.S. safe-asset preference	Reserve diversification	Spread erosion, risk-free rate rises

## Key Takeaways

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The central contribution of the paper is to demonstrate the U.S. debt sustainability cannot be analyzed purely via traditional debt-dynamics identities. Instead, it must be understood through the lens of **asset supply and demand**. On that basis, the authors argue the U.S. may in principle sustain debt levels **250% of GDP** at today's real interest rates, provided two conditions hold (1) **Treasury convenience yield** remains intact, and (2) fiscal authorities deliver a **permanent consolidation of 10-12% of GDP** to stabilize entitlement spending. Within this theoretical framework, the demographic shock driving future asset demand conveniently matches the entitlement liabilities driving future asset supply, keeping the risk-free real rate ( $r_f$ ) roughly constant.

However, the credibility of such a scenario rests on fragile assumptions. The first is the **political feasibility of double-digit consolidation**. Historically, sustained adjustments of this magnitude in advanced economies have been rare and usually crisis driven. Absent credible policy action, debt would rise well beyond 250% of GDP, testing investor willingness to absorb Treasuries at current yields. The second fragility is the assumption of a **fixed convenience yield**. In practice, Treasury safety premia compresses when issuance surges, and the paper's own robustness checks show even modest **endogenous spread sensitivities (DSIR)** can raise the  $r_f$  rate by 200bps at 250% debt. It would sharply increase interest costs and undermine the benign equilibrium.

Finally, the framework abstracts from realities of **market stress and regime shifts**. Productivity surprises, rising corporate markups or geopolitical shocks can all raise  $r^*$ , tightening fiscal space rather than easing it. Similarly, the model does not capture rollover risks or sudden shifts in term premia, which are precisely the dynamics tending to trigger market discipline before long-run steady states are reached. The assumption the U.S. retains its privileged position as the world's dominant supplier of safe assets also deserves scrutiny in a multipolar reserve system.

Taken together, the analysis makes a compelling theoretical case for why the U.S. might carry much higher debt than conventional thresholds suggest but the **250% debt figure should be read as a conditional upper bound rather than a realistic forecast**. It requires a level of fiscal discipline and stability in safe asset demand difficult to reconcile with historical precedent. For investors, the more prudent interpretation is while demographics create structural demand for Treasuries, the risks of spread erosion and political drift imply **fiscal space materially below 250%**. In practice, markets are most likely to test that space well before the theoretical ceiling is reached.

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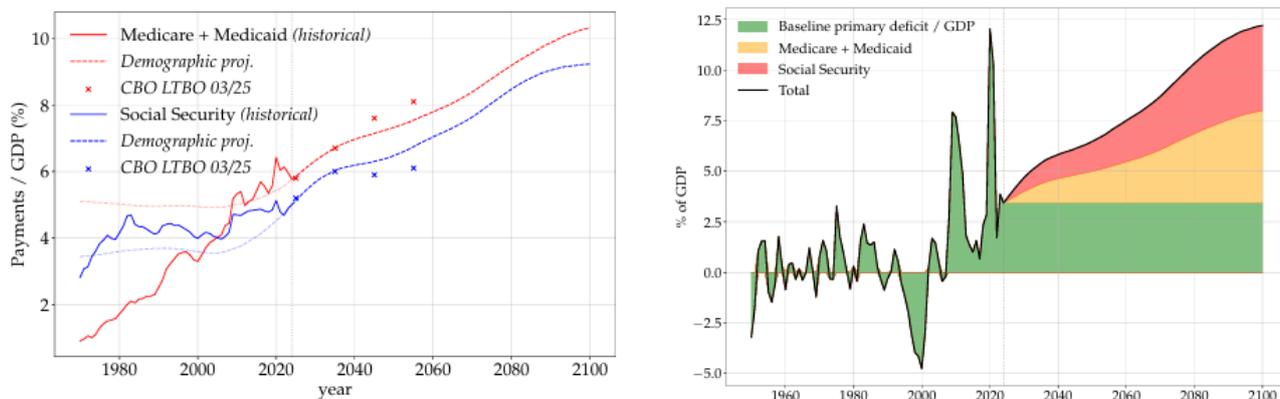
## Key Terms

- **GDP Consolidation.**  
*Definition.* Fiscal adjustment (spending cuts and/or tax hikes) as % of GDP, required to stabilize debt dynamics.  
*In the paper's context.* By 2100, the U.S. needs a permanent primary adjustment of 10-12% of GDP to cover entitlement spending growth (i.e., raising taxes or cutting benefits by that share of output).
- **Convenience Yield**  
*Definition.* The extra value (premium) investors attach to holding USTs beyond their cash flows.  
*Effect.* It allows Treasuries to offer lower yields vs. comparable private assets.  
*In the paper's context.* The assumption this yield is fixed makes 250% debt sustainable without pushing real rates.
- **Endogenous Spread Risk**  
*Definition.* The risk the convenience yield shrinks as debt supply rises, meaning Treasuries lose some of their safety and liquidity premium once there are "too many" of them.  
*Implication.* As the spread compresses, Treasury must pay higher yields to attract capital, raising fiscal cost of debt.  
*In the paper's context.* Allowing for endogenous spread shifts the 250% debt/GDP story. Real rates rise ~200bps by 250% debt, making sustainability harder.
- **DSIR (Debt Supply Interest Rate sensitivity)**  
*Definition.* A parameter measuring how much the real risk-free rate increases for each +1% of GDP in debt supply.  
*Calibration in paper.* Around 2bps per +1% GDP in debt, which adds up fast at 200-300% debt/GDP.  
*Intuition.* If DSIR = 0.02, then going from 100% to 250% debt/GDP could add +2ppts to risk-free, even if convenience yield does not collapse.

Charts Callout from the Paper

Entitlement Explosion: Primary deficit → ~12% GDP by 2100

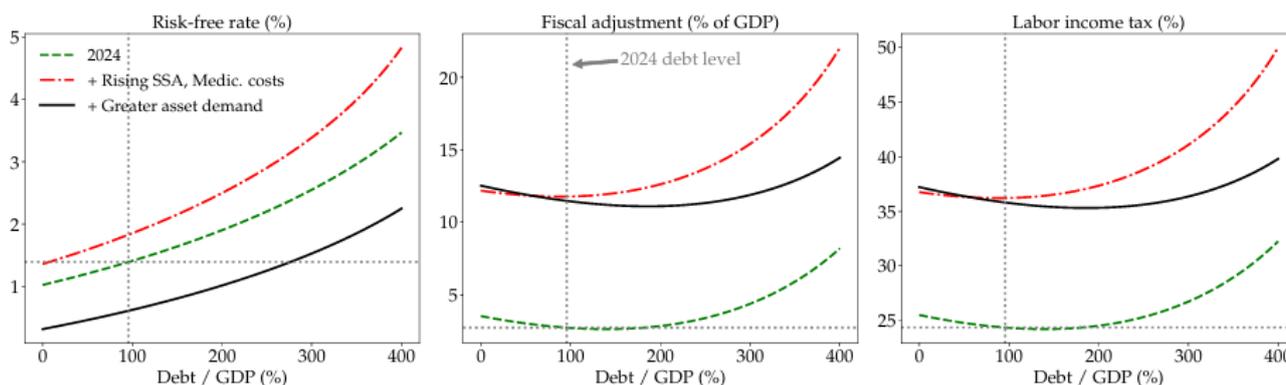
Figure 12. Projecting government outlays and the primary deficit. (LHS) Social security and Medicare/Medicaid. (RHS) Primary deficit.



Source. (Auclert, Malmberg, Rognlie, & Straub, 2025)

Baseline Fiscal Space: Debt stabilizes → ~250% with flat spread

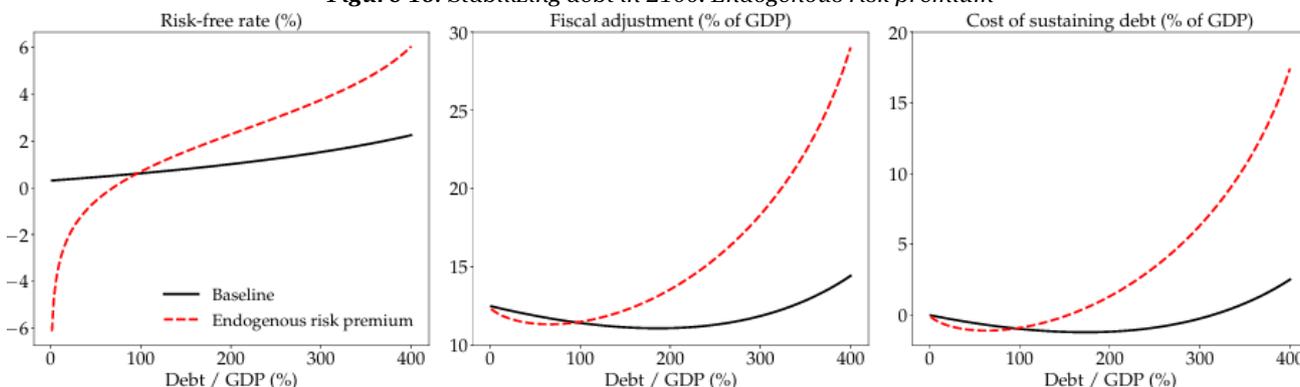
Figure 15. Stabilizing debt in 2100



Source. (Auclert, Malmberg, Rognlie, & Straub, 2025)

Endogenous Spread Stress: At 250% debt, risk-free rises 200bps, sustainability fragile

Figure 19. Stabilizing debt in 2100: Endogenous risk premium



Source. (Auclert, Malmberg, Rognlie, & Straub, 2025)

Notes: Baseline (black line) = 2024 + Rising SSA, Medic. Cost + Greater asset demand (cf. above)  
 Endogenous risk premium (red line) introduces DSIR > 0 (~2bps per +1% of GDP in debt in the calibration)