United States of America
Rating Report

AA STABLE 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
- Rising economic risk
- Long-run rises of public-debt stock
- Misuse of debt-ceiling instrument
- Longer-run governance risk

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 economic shocks. Its leadership in innovation is exceptional, supporting medium-run growth.

US dollar status of global reserve currency: the US dollar's role as the global reserve currency carries unparalleled advantages with respect to funding flexibility, especially relevant during crises such as that since 2022, reducing long-run debt sustainability risk from debt build-up since 2020.

Sound economic institutions: the US benefits from a strong and resilient institutional framework protecting accountability and transparency of fiscal management. The credit ratings are supported by world-class monetary and financial supervisory institutions, abetting 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) rising economic and financial-stability risks amid high inflation; ii) challenging long-run public finances, with fiscal deficits staying elevated and debt-to-GDP rising structurally; iii) risks associated with misuse of the debt-ceiling instrument; iv) political polarisation, hampering efficacy of economic policy making; and v) a weak external sector.

United States' sovereign rating drivers

Risk pillars		Quantitative		Reserve currency	Qualitative*	Final rating
		Weight	Indicative rating	Notches	Notches	
Domestic Economic Risk		35%	aaa	USD [+3]	+2/3	AA
Public Finance Risk		20%	ccc		0	
External Economic Risk		10%	cc		+1	
Financial Stability Risk		10%	a		+2/3	
ESG Risk	Environmental Factors	5%	bbb+		0	
	Social Factors	7.5%	bb-		-1/3	
	Governance Factors	12.5%	aa-		-1/3	
Indicative outcome		**a+**			**+2**	
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 Stable Outlook reflects Scope's view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers
- Removal of debt-ceiling instrument
- Growth potential increases and the public-debt ratio stabilises through the cycle
- Improvements in governance and reduction of polarisation

Negative rating-change drivers
- Inappropriate use of debt-limit instrument
- Weakening of public-finance outlook
- Weakening of governance
- Significantly reduced role for US dollar as the global reserve currency

Ratings and Outlook

Foreign currency

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

Local currency

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

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Bloomberg: RESP SCOP

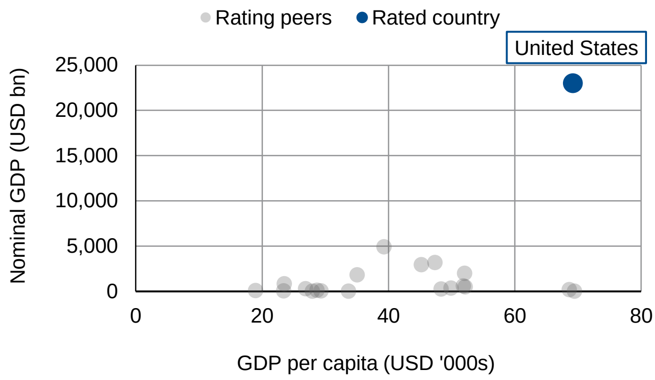
Domestic Economic Risks

- **Growth outlook:** After a strong recovery from the Covid-19 crisis, with real growth of 5.9% last year, economic momentum weakened during 2022 H1, seeing consecutive quarterly declines of 0.4% and 0.1% QoQ in first and second quarters of the year. An import decline allowed for stronger-than-anticipated GDP rebound in 2022 Q3 (+0.6% QoQ versus Scope's estimate for +0.1%), despite weakness in household demand and declining residential investment. Elevated inflation and tightening financial conditions weigh on personal consumption and private investment, representing material drags on the economic outlook. We expect growth to average a moderate 2.0% for 2022, reflecting partially carry-over effects of growth from the previous year, before slowdown to 1.1% for 2023. Comparatively favourable demographic and productivity trends as compared with ratings-peers' economies support long-run growth.
- **Inflation and monetary policy:** Headline and core personal consumption expenditure (PCE) inflation stood at 6.2% and 5.1% in September 2022, respectively. While PCE inflation for goods has eased somewhat during recent months – primarily due to moderating price growth for durable goods and for agricultural and energy commodities, PCE inflation for services has remained on a steadily climbing path, reflecting broadening of price pressures. Average hourly earnings growth slowed slightly to 4.7% YoY in October. Due to wage growth below the pace of consumer-price rises, there has been a decline of real wages. To address inflationary pressure, the Federal Reserve has raised policy rates by a cumulative 375bps since March 2022 and accelerated its pace of quantitative tightening. We see further rate rises to 4.25-4.50% by end-2022 and 5.00-5.25% by 1H-2023.
- **Labour market:** Employment has remained sturdy despite rates tightening, with a small rise of the unemployment rate to 3.7% in October 2022, remaining near lowest levels in five decades. Payroll employment increased a stronger-than-anticipated 261k last month. Meanwhile, job openings jumped in September to 10.7m, defying expectations for vacancies to drop. The labour-force participation rate (among those 16+ years of age) remains subdued, at 62.2% as of October 2022, more or less unchanged thus far this year, reflecting shortfalls in labour supply during a time of strong labour demand. As the Federal Reserve attempts to cool the economy, unemployment is seen averaging 3.7% in 2022 before rising to 4.2% in 2023.

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

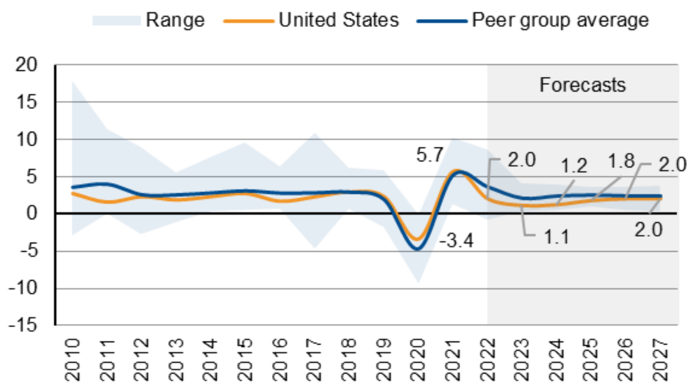
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential, supported by structural reforms and investment
	Monetary policy framework	Strong	+1/3	Federal Reserve is the globe's leading central bank; independent monetary policy
	Macro-economic stability and sustainability	Strong	+1/3	Competitive and very 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

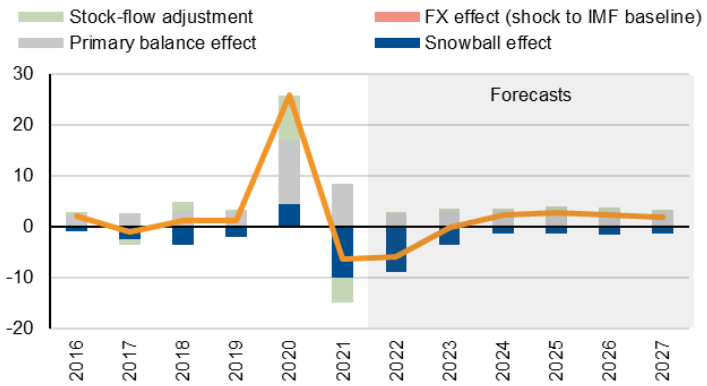
Public Finance Risks

- **Fiscal outlook:** The US government recorded high general government deficits even ahead of the Covid-19 crisis, averaging 6.1% of GDP over 2010-19, despite strong economic growth during the period. After widening to 14.5% of GDP in 2020 due to the pandemic crisis, the headline general government deficit eased partially to 10.9% last year supported by rebound of the economy. We estimate substantive reduction of the deficit to 4.5% of GDP this year, thanks to phase-out of pandemic-related relief measures as well as recovering revenue. Looking ahead, we expect the deficit to average a more elevated 6.6% of GDP over 2023-27, in part reflecting roll-out of significant spending measures including the USD 1trn Infrastructure Bill in 2021 and a student debt relief programme announced August 2022.
- **Debt trajectory:** After jumping by over 25pps in 2020, to 134.5% of GDP, the United States' general government debt ratio declined moderately last year helped by economic recovery, to 128.1%. We expect this ratio to drop further this year despite weakened economic growth momentum, to around 122.2% – supported by high inflation and a curtailed budget deficit. This is before the trajectory reverses more substantively by 2024, concluding a forecast horizon at 131.1% of GDP by 2027, as persistent primary deficits and gradually increasing interest payments overcome effects of comparatively sturdy nominal economic growth. Furthermore, contingent liabilities constitute a significant challenge for fiscal sustainability. The IMF estimates the net present value of health-care and pensions spending changes at nearly 148% of GDP over 2021-50, the most significant rise projected for any advanced economy internationally.
- **Debt profile & market access:** The US benefits from status as issuer of the global benchmark security – the US treasury, anchoring unparalleled funding flexibility, including, crucially, during phases of global crisis such as since 2022. Annual gross financing requirements are expected to stay elevated, however, averaging around 28% of GDP over 2023-27. High financing requirements associate with a comparatively low average maturity of treasury securities of around 6 years. 10-year treasury yields fell to 3.8% in early November 2022, although still up from 1.5% at end-2021 and 0.5% as of 2020 cyclical lows, driven by heightened inflation expectations and significant monetary tightening.

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

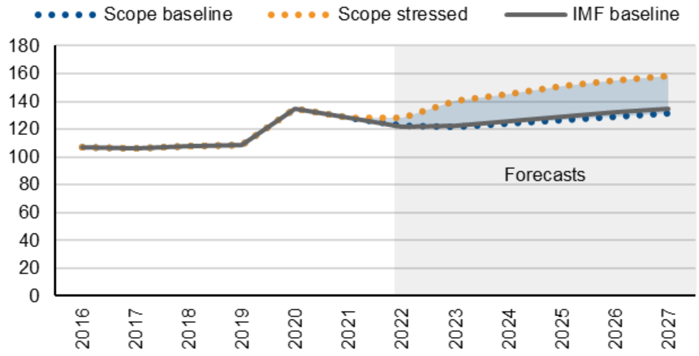
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Fiscal policy framework	Weak	-1/3	Weak fiscal framework including politicisation of the debt limit
	Debt sustainability	Neutral	0	Elevated debt ratio and challenges to long-run debt sustainability; high contingent liabilities from pensions and health-care obligations
	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 gross financing needs

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

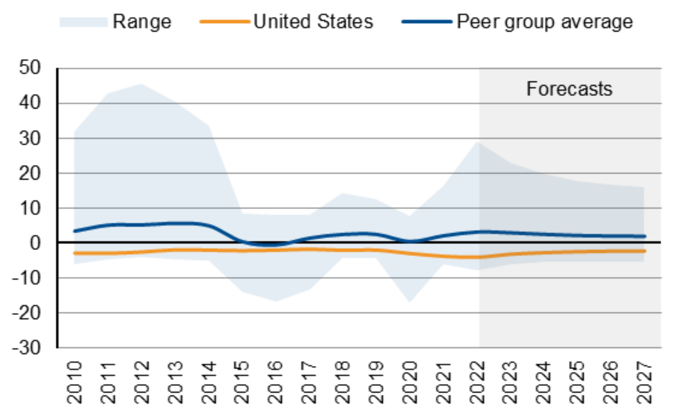
External Economic Risks

- **Current account:** The US economy's external position has been characterised by structural current-account deficits, which averaged 2.1% of GDP over 2015-19. This current-account deficit widened to 3.6% of GDP last year, under a context of strong domestic demand bolstered by budgetary stimulus. The current-account deficit widened further to 4.0% of GDP in the year to Q2 2022, due to deterioration in the trade balance for goods & services. While exports of goods had returned to above pre-pandemic levels already by Q2 2021, services exports remain subdued, tied to slow recovery of tourism receipts, which remained around a third below pre-pandemic levels as of Q2 2022. The IMF expects the current-account deficit to improve only moderately over coming years, ending a forecast horizon to 2027 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 98.3% by Q2 2022, less than 2pps above end-2019 levels. More than 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 (16% of the aggregate). Around two thirds of external debt is on long-term basis. The US is a net debtor economy, with a net international investment *liability* position having increased to around 67% of GDP by Q2 2022, from 40% as of end-2017.
- **Resilience to external shocks:** External-sector vulnerabilities are mitigated by dollar's global reserve currency status. On basis of the IMF's COFER data, around 60% of the world's aggregate foreign-exchange reserves were allocated in US dollar as of Q2 2022, well above allocations in euro (20%) or yen (5%), although significantly below levels of dollar hegemony as of 2000 (reflecting 71% of global allocated reserves then). Long-run challenges to the dollar-based global monetary order could derive from 'deglobalisation' and side-effects of a present freeze of Russian foreign-currency reserves plus weaponisation of Western payment systems, such as SWIFT, as well as roll-out of China's cross-border interbank payments system, although we do not deem such factors as constituting material risks to dominance of dollar over any horizon outside of the very long-run.

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

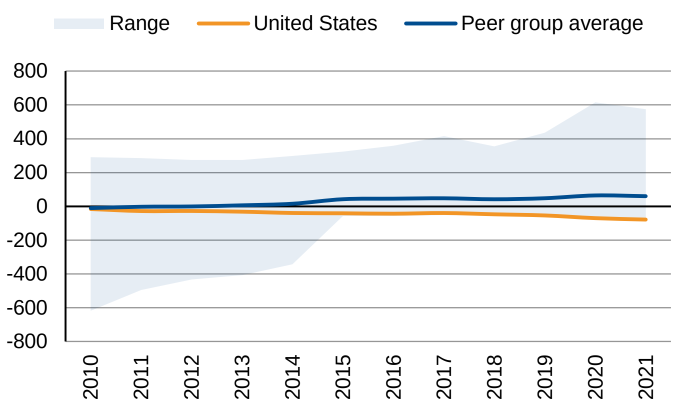
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
cc	Current account resilience	Strong	+1/3	Diversified export base; moderate current-account deficits
	External debt structure	Strong	+1/3	Relatively low external debt; most foreign assets are in foreign currency, whereas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

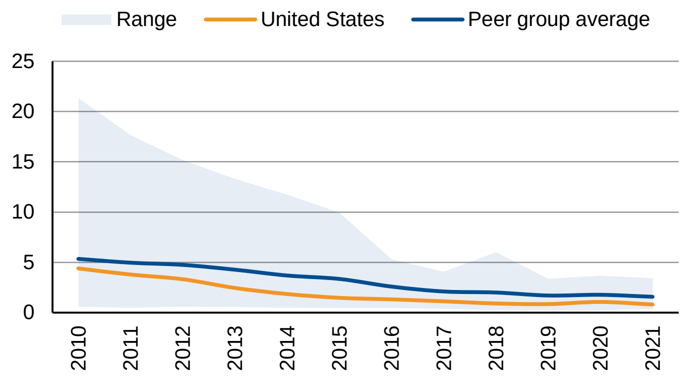
Financial Stability Risks

- **Banking sector:** The United States benefits from one of the most advanced and deep financial markets globally. Banking-sector resilience is underpinned by comfortable capitalisation (aggregate tier 1 capital ratio of 13.5% of risk-weighted assets as of Q2 2022) and strong asset quality, with a non-performing loan ratio of under 1%. Profitability, as measured by system-wide return on equity, had moderated to 10.5% in Q2-22, but remained stronger than that of European peers. The Federal Reserve's latest stress tests displayed all 34 large US banks would be resilient to a severe economic downturn, with aggregate common equity tier 1 ratios remaining at a level more than double the regulatory minimum. The worsening of the economic outlook will add pressure to credit quality and credit demand, however, in turn weighing on profitability, although rising rates ought to continue supporting interest margins. Funding risks are limited, in part a reflection of limited system reliance upon short-run wholesale funding as well as sizeable household deposit inflows during the pandemic. The decline in US treasury market liquidity, under a context of monetary tightening, presents a risk for financial stability.
- **Private debt:** Non-financial private debt levels are elevated, at 158% of GDP as of Q1 2022, up from 151% five years before. While this composite level compares favourably against those of most peer economies, household debt remains comparatively high, at 81% of GDP. Debt service to income ratios are moderate compared with pre-2020 averages, at 7.5% for households and 40.1% in the case of the corporate sector as of Q1 this year. Risks related to high 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 growth has eased over recent months but remains at historically elevated levels, with the Case-Shiller Home Price Index up 13% YoY in August 2022 (down from 21.3% in April) – as prices have stagnated M/M. We anticipate a correction of prices, as demand declines as a result of historic rises in contract rates (up to >7% on average for 30-year fixed-rate mortgages during recent weeks, their highest levels since 2001) as well as declining credit availability. Nevertheless, we expect structural undersupply in the housing market, as reflected in very low levels of housing inventories, and relatively strong credit quality of mortgage borrowers to mitigate the scale and impact of downturn in housing.

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

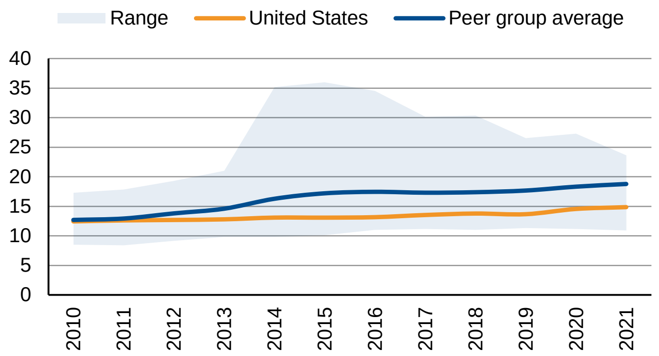
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Banking sector performance	Strong	+1/3	World-class banking system with sizeable capital buffers and strong asset quality; stronger profitability than European peers
	Banking sector oversight	Strong	+1/3	Sophisticated financial-regulatory system and strong financial governance framework under the Federal Reserve Board, Federal Deposit Insurance Corporation and Securities and Exchange Commission
	Financial imbalances	Neutral	0	Corporate debt risks; significant financial risks from equity- and housing-market corrections 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

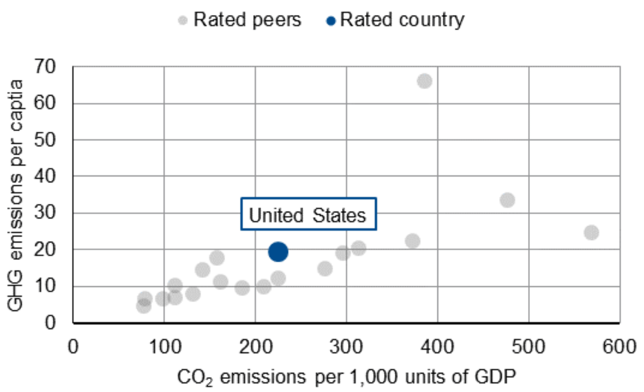
ESG Risks

- **Environment:** The US faces significant costs amid transition to a greener economic paradigm, as the most carbon intensive economy of its ratings peer group. The United States is, furthermore, vulnerable to natural disasters such as earthquakes, drought/floods, hurricanes and wildfire. Under the present administration, the United States re-joined the Paris Climate Accords and committed to significant investment and measures addressing climate change and promotion of the green economy. The Joseph R. Biden administration targets 50-52% reductions from 2005 levels as far as net greenhouse gas 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 investment. Nevertheless, absent introduction of a price for carbon, government emissions objectives might prove hard to achieve and costly for public finances.
- **Social:** Troubling social outcomes challenge long-run political and macroeconomic stability. Such outcomes reflect decline of labour-force participation since the Covid-19 crisis, a polarised distribution of income and wealth, low intergenerational mobility, long-standing racial disparities 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. Weakening demographic dynamics, associating with declining net immigration and population ageing, still compare favourably against demographics of many peer advanced economies.
- **Governance:** The US benefits from strong democratic institutions, with transparent and accountable governance frameworks and processes. Nevertheless, political polarisation challenges tolerance for political compromise and the government's capacity to effectually execute reform. Although it allowed for passage of landmark bills such as the Inflation Reduction Act, President Biden's majority within the Senate has proven fragile, resulting in meaningful legislative setbacks. The Democratic Party's anticipated loss of control of Congress after November 2022 mid-term elections is seen bringing about greater political gridlock ahead of 2024 presidential and congressional elections, and, furthermore, raising governance risk.

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

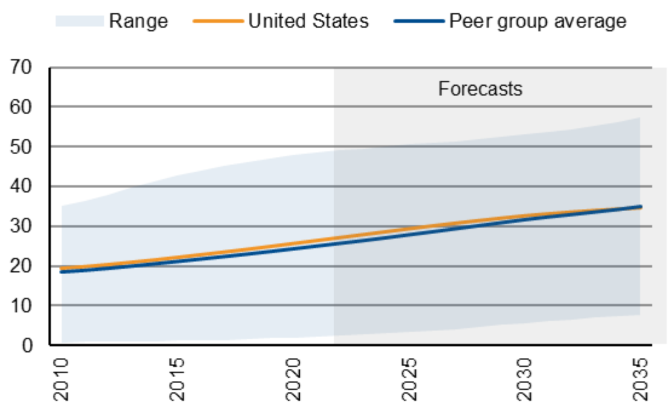
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Environmental risks	Neutral	0	Significant transition risks balanced by current government's ambitious environmental policy initiatives; meaningful natural disaster risk exposure
	Social risks	Weak	-1/3	Erosion of socio-economic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

Emissions per GDP and per capita, $mtCO_2e$



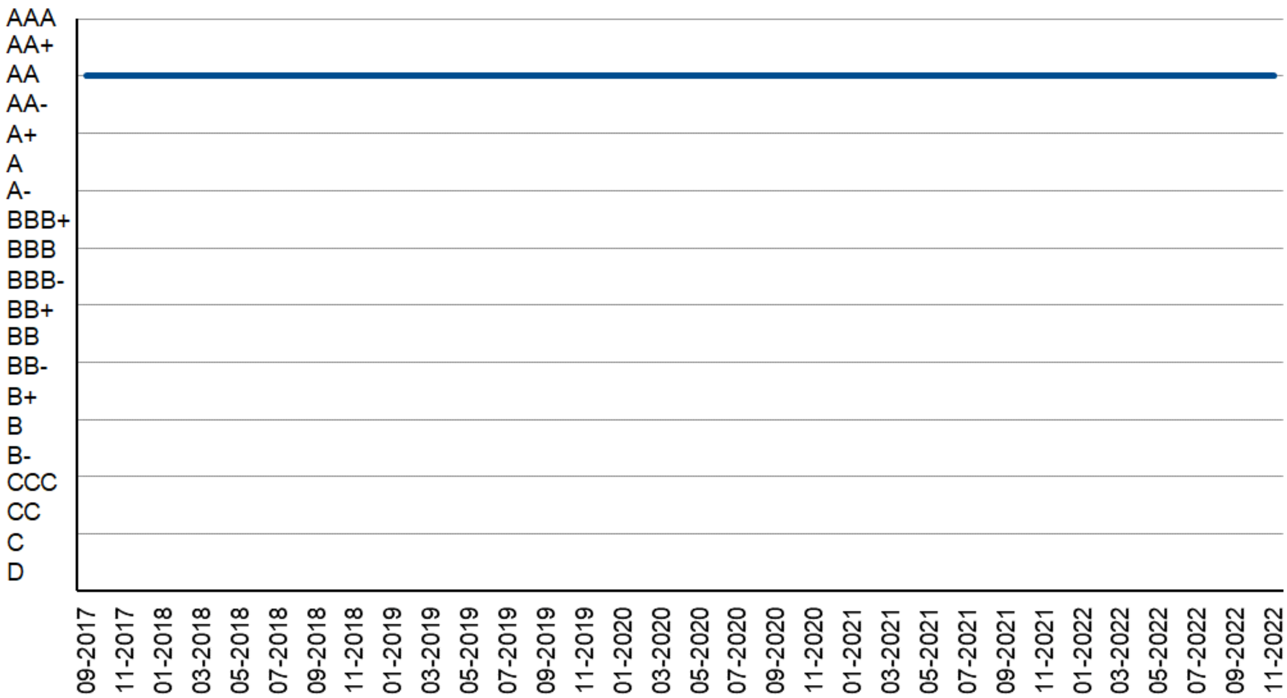
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history



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
Czech Republic
Estonia
France
Italy
Japan
Lithuania
Malta
Portugal
Slovenia

*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	2017	2018	2019	2020	2021
Domestic Economic	**GDP per capita, USD**	IMF	59,886	62,770	65,052	63,078	69,231
	Nominal GDP, USD bn	IMF	19,479.6	20,527.2	21,372.6	20,893.8	22,997.5
	Real growth, %	IMF	2.3	2.9	2.3	-3.4	5.7
	CPI inflation, %	IMF	2.1	2.4	1.8	1.2	4.7
	Unemployment rate, %	WB	4.4	3.9	3.7	8.1	5.5
Public Finance	**Public debt, % of GDP**	IMF	106.2	107.5	108.8	134.2	132.6
	Interest payment, % of revenue	IMF	6.5	7.3	7.5	6.9	5.2
	Primary balance, % of GDP	IMF	-2.6	-3.2	-3.5	-12.4	-8.5
External Economic	**Current account balance, % of GDP**	IMF	-1.9	-2.1	-2.2	-2.9	-3.5
	Total reserves, months of imports	IMF	1.5	1.4	1.6	2.1	2.0
	NIIP, % of GDP	IMF	-40.2	-47.7	-54.5	-70.4	-78.8
Financial Stability	**NPL ratio, % of total loans**	IMF	1.1	0.9	0.9	1.1	0.8
	Tier 1 ratio, % of RWA	IMF	13.3	13.5	13.9	13.8	14.8
	Credit to private sector, % of GDP	WB	191.3	180.2	191.4	216.6	-
ESG	**CO_2 per EUR 1,000 of GDP, $mtCO_2e$**	EC	256.1	256.3	244.9	228.5	-
	Income share of bottom 50%, %	WID	13.5	13.3	13.6	13.6	13.6
	Labour-force participation rate, %	WB	72.4	72.6	73.1	-	-
	Old-age dependency ratio, %	UN	23.5	24.2	24.9	25.7	26.4
	Composite governance indicators*	WB	1.3	1.2	1.1	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 10 November 2022	30.3

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