United States of America
Rating Report

SCOPE **AA** STABLE OUTLOOK

Credit strengths

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

Credit challenges

- Structurally rising level of public debt
- Misuse of debt ceiling instrument
- Rising political polarisation
- Financial-market vulnerabilities

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 during global crises. Its leadership in innovation is exceptional, supporting a medium-run growth outlook.

US dollar status of global reserve currency: the US dollar's role as global reserve currency carries unparalleled advantages as far as funding flexibility, especially relevant during crises, reducing the long-run debt sustainability risk due to the more elevated government debt level post-crisis.

Sound economic institutions: the US benefits from resilient democratic institutions and checks and balances in place protecting accountability and transparency in fiscal management. The ratings are supported by strong monetary and financial supervisory institutions, abetting macroeconomic stability.

Well-capitalised financial system: the US economy benefits from one of the world's most advanced and deep capital markets globally. The banking system is well capitalised with profitability recovering, while a strong financial oversight framework supports sound macroprudential policy making.

Ratings challenges include: i) weakening long-run public finances, with fiscal deficits remaining elevated medium run and debt-to-GDP on a rising trajectory longer term; ii) risks associated with misuse of the debt-ceiling instrument; iii) rising political polarisation, hampering efficacy of economic policy making; iv) financial-system risks; and v) a weak external sector.

United States' sovereign rating drivers

Risk pillars		Quantitative scorecard		Reserve currency adjustment (notches)	Qualitative scorecard	Final rating
		Weight	Indicative rating		Notches	
Domestic Economic Risk		35%	aaa		+2/3	
Public Finance Risk		25%	b		-1/3	
External Economic Risk		10%	ccc		+2/3	
Financial Stability Risk		10%	a-		+1/3	AA
ESG Risk	Environmental Risk	5%	aa		0	
	Social Risk	5%	bb		-1/3	
	Governance Risk	10%	a+		-1/3	
Overall outcome		a-		+3	+1	

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 GmbH.

Outlook and rating triggers

The Stable Outlook reflects Scope's opinion that risks to the credit ratings over the next 12 to 18 months are balanced.

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 in governance
- Significantly reduced role for the US dollar as 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

Lead Analyst

Dennis Shen
+49 69 6677389-68
d.shen@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0
Fax +49 30 27891-100

info@scoperatings.com
www.scoperatings.com

Bloomberg: RESP SCOP

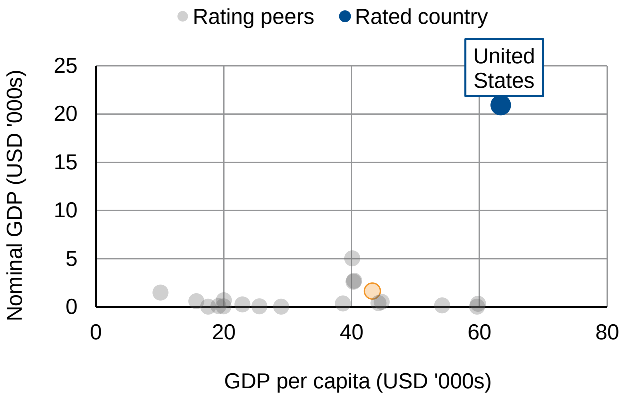
Domestic Economic Risks

- **Growth outlook:** the US economy has proven comparatively resilient over this Covid-19 crisis, with an output contraction of 3.4% in 2020, less severe than that of peers. The GDP recovery has been robust and broad based since Q3 2020, driven by pent-up demand, recovery of investment and pick-up in exports. We expect real growth of 5.5% in 2021 before 3.5% next year, moderating thereafter in direction of our slightly upward-revised estimate of growth potential of 2%, supported by the Joseph R. Biden administration's ambitious public and social investment programme "Build Back Better". Still benign, albeit weakening, demographic projections, together with a record of higher productivity gains vis-à-vis those of peers support a medium-run growth outlook.
- **Inflation and monetary policy:** core personal consumption expenditure inflation rose to 4.1% YoY as of October, with the Federal Reserve expecting its preferred gauge of inflation to average 3.7% over 2021 but recede to 2.3% by 2022 and 2.2% in 2023. Scope considers there to be upside risk to the Federal Reserve's inflation projections. In response to inflationary pressure, the Federal Reserve opted to start a taper of asset purchases by USD 10bn for treasury securities and USD 5bn for agency mortgage-backed securities each month starting late this month from a previous aggregate purchase rate of at least USD 120bn monthly, fully phasing out bond purchases by the middle of next year. There is current contemplation for accelerating this timetable for phasing out purchases. Scope expects an initial rate hike this cycle before the end of 2022.
- **Labour market:** a robust, if uneven, economic rebound has been accompanied by strong recovery in labour markets, although some permanent scarring from this crisis is anticipated. The unemployment rate continued a decline to 4.6% in October 2021, from a peak of slightly under 15% as of April 2020, although still above a pre-crisis level of 3.5%. Around 20 of the 25 million jobs lost during the pandemic had been recovered as of October 2021. The employment-to-population ratio, seen as a measure of an economy's ability to create jobs, remains, however, subdued, at 59%, although significantly above a 51% ratio at a spring 2020 peak of the crisis, signalling structural rigidities leading to underutilisation of labour.

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

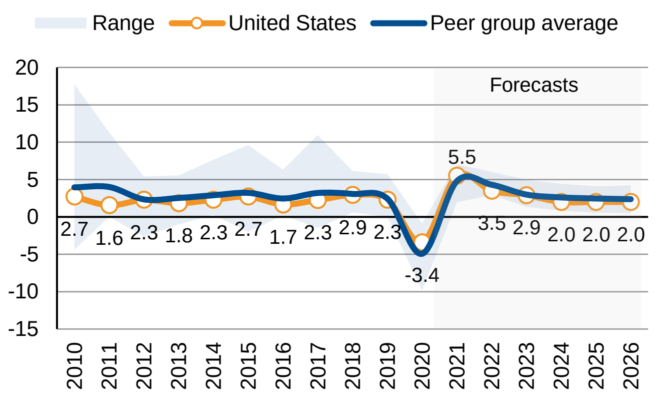
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Neutral	0	Moderate growth potential, supported by current structural reforms and investment
	Monetary policy framework	Strong	+1/3	Federal Reserve is a highly credible and effective central 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 thousands



Source: IMF, Scope Ratings GmbH

Real GDP growth, %



Source: IMF, Scope Ratings GmbH

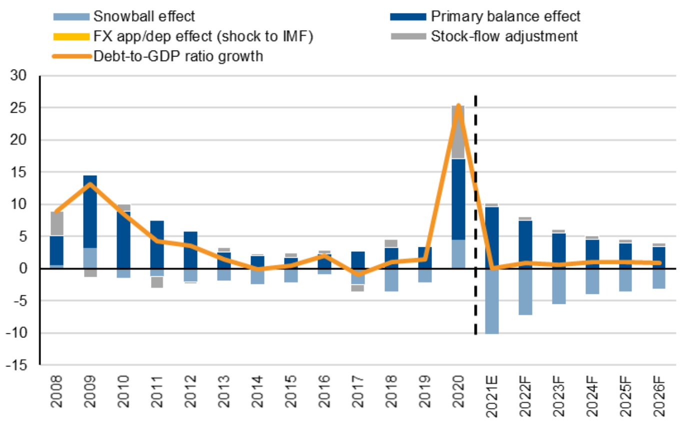
Public Finance Risks

- **Fiscal outlook:** US government budgets posted a track record of elevated deficits prior to this Covid-19 crisis, averaging 4.0% of GDP over 2010-19, despite strong economic growth over the years. In 2020-21, economic effects of the Covid-19 pandemic coupled with the multi-trillion-dollar fiscal support packages resulted in double-digit fiscal deficits, of 14.9% of GDP and 11.3% in 2020 and 2021 (expected). Continued large deficits during early recovery – with the United States closing an output gap and unemployment already edging near longer-run trend levels, points to, at this stage, an increasing pro-cyclicality of deficit spending. The outlook for economic recovery will, however, result in recovery of government finances moving ahead, although budget deficits are expected to nonetheless stay elevated medium run, remaining above 5% of GDP annually through a forecast horizon to 2026.
- **Debt trajectory:** after increasing by over 25pp last year, to 133.9%, the US government debt-to-GDP ratio is seen remaining comparatively unchanged through 2026, ending a forecast horizon at just above 138%. At the same time, longer-run projections of the Congressional Budget Office and the Committee for a Responsible Federal Budget point to a sharp rise in this debt ratio starting around 2025 to fresh records. In addition, contingent liabilities constitute a significant burden to fiscal sustainability: the IMF estimates the net present value of healthcare and pensions spending changes amounting to 183% of GDP over 2020-50 (152% and 30% of GDP respectively), the most significant rise projected of any advanced economy globally.
- **Debt profile & market access:** the US benefits from status as the global benchmark issuer, resulting in unparallel funding flexibility, including, importantly, during periods of global crisis. Annual gross financing needs are expected to stay elevated, around or above 30% of GDP medium run, although below a >50% clip this year. High financing requirements also come due to a comparatively low average maturity of treasury securities of slightly above 5 years. Financing conditions for the US remain historically accommodative, with a 10-year government bond yield of 1.7% at time of writing, but a further rise in funding rates may test debt sustainability.

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

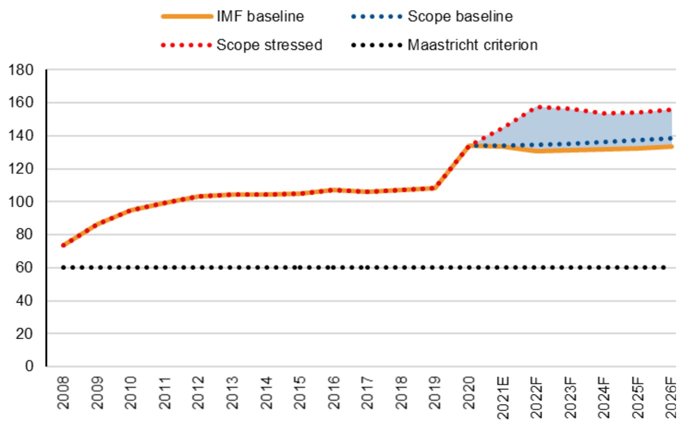
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
b	Fiscal policy framework	Weak	-1/3	Weak fiscal framework including politicisation of the debt limit
	Debt sustainability	Weak	-1/3	Debt on increasing trajectory long term; high contingent liabilities from pension and healthcare obligations
	Debt profile and market access	Strong	+1/3	Global benchmark issuer status and excellent government market access; below-average maturity of debt and very elevated gross financing needs

Contributions to changes in debt levels, pps of GDP



Source: IMF, Scope Ratings GmbH forecasts

Debt-to-GDP forecasts, % of GDP



Source: IMF, Scope Ratings GmbH forecasts

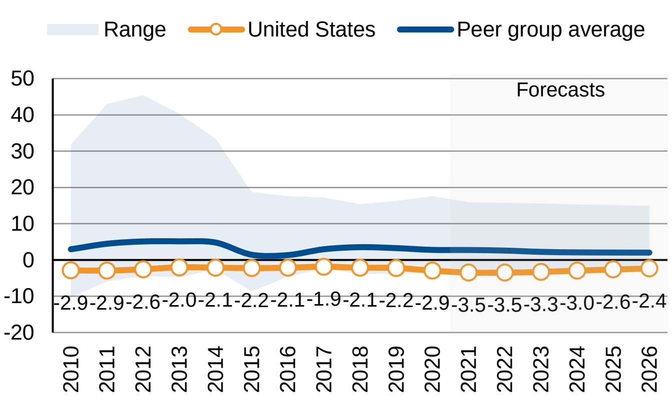
External Economic Risks

- **Current account:** the US economy's external position has been characterised by prolonged current account deficits, of an average of 2.1% of GDP over 2015-19. Over the crisis, the deficit widened to 3.3% of GDP in the year to Q2 2021. The current account is expected to reverse over the medium run back to under 3% of GDP by 2024, as fiscal stimulus is tapered, and trading partners recover. Export of goods & services was near pre-pandemic levels by Q2 2021, however with very large disparities in performance across exporting sectors. Export of goods, now exceeding pre-crisis levels, has benefitted from performance of industrial supplies and food & beverage sectors, while performance of automotive exports remains depressed. Services exports were still over 16% under pre-crisis levels as of Q2, weakened by travel and tourism, in which export receipts remain, at this stage, around two thirds under pre-pandemic levels.
- **External position:** external debt relative to GDP has remained generally stable over the past five years and rose only slightly from 96% of GDP at year-end 2019 to 103% of rolling one-year GDP in Q2 2021. A third of external debt is owed by the general government sector, with another third by the non-financial corporate sector; comparative moderate shares as concerns debt of financial institutions and the Federal Reserve cover the remainder. Around two third of external debt is long term. The US is a net debtor nation with its net international investment liability position having increased to 71% of rolling one-year GDP by Q2 2021, from 39% at end-2017.
- **Resilience to external shocks:** external sector vulnerabilities are mitigated by dollar's global reserve currency status, which we do not see as likely to be materially challenged over the foreseeable horizon. Based on the IMF's COFER dataset, around 59% of the world's total foreign-exchange reserves were allocated in dollar as of Q2 2021, followed by euro (21%), yen (6%) and sterling (5%); renminbi holds a 3% share. However, the dollar's share has gradually declined from an above 70% slice as of the early 2000s. On basis of alternative metrics, the share of the US dollar remains similarly by some distance the most significant, such as with respect to currency denomination of international debt securities (63%, with euro next with around 23%), international loans (53%, with euro around 26%) and international deposits (55%, with euro around 25%).

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

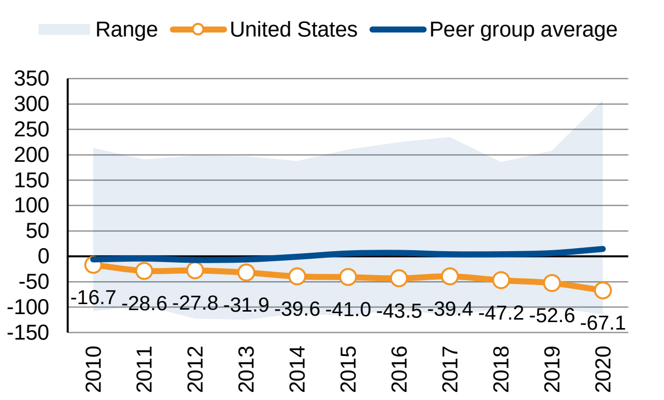
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
ccc	Current account resilience	Strong	+1/3	Diversified export base; moderate current account deficits but no dependence on net energy imports
	External debt structure	Strong	+1/3	Relatively low external debt; most foreign assets in foreign currency, while liabilities are in US dollar
	Resilience to short-term shocks	Neutral	0	US dollar as a global reserve currency shields against short-term external shocks

Current account balance, % of GDP



Source: IMF, Scope Ratings GmbH

Net international investment position (NIIP), % of GDP



Source: IMF, Scope Ratings GmbH

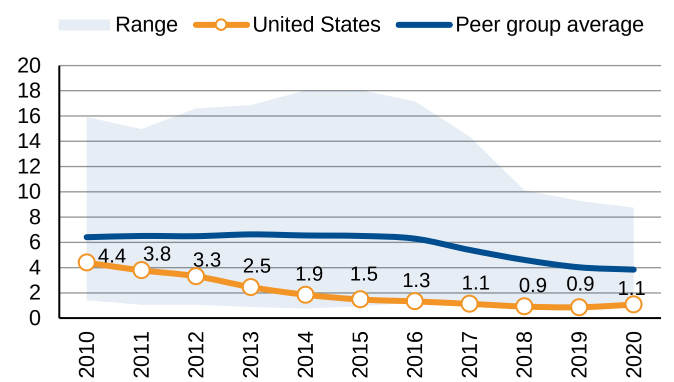
Financial Stability Risks

- **Banking sector:** the United States benefits from one of the most advanced and deep financial markets globally. Banks are soundly positioned, with adequate capitalisation (aggregate tier 1 capital ratio of 14.9% of risk-weighted assets as of Q2 2021) and high asset quality reflected in a non-performing loan (NPL) ratio of under 1%. According to the Federal Reserve's latest stress test, all 23 large banks' capital adequacy proved resilient under a severe stress scenario. Profitability has returned to pre-pandemic levels but remains challenged by compressed interest margins. Funding risks are limited, as banks rely only moderately upon short-run wholesale funding and retain liquidity coverage ratios of more than double ratios pre-pandemic – although structural vulnerabilities persist in some types of money market funds as well as in bond and bank loan mutual funds.
- **Private debt:** non-financial private debt levels remain elevated, of 165% of GDP as of Q1 2021, increasing from 149% five years before. While this composite level might compare favourably against that of several peer economies, household debt, amounting to 85% of GDP, is comparatively high. Debt service ratios to income have somewhat improved regarding the household sector to slightly above 7%, but increased for non-financial corporates, to 46.5% as of Q1 2021, from 38% as of Q3 2018.
- **Financial imbalances:** financial asset valuations are high relative to historical norms and above expected cash flows in some markets, increasing risk of sudden corrections in investor risk sentiment under a context of current high economic uncertainty. Housing prices have increased rapidly over recent months, although these increases do not appear thus far to have been driven by deterioration in credit standards or speculative practices.

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

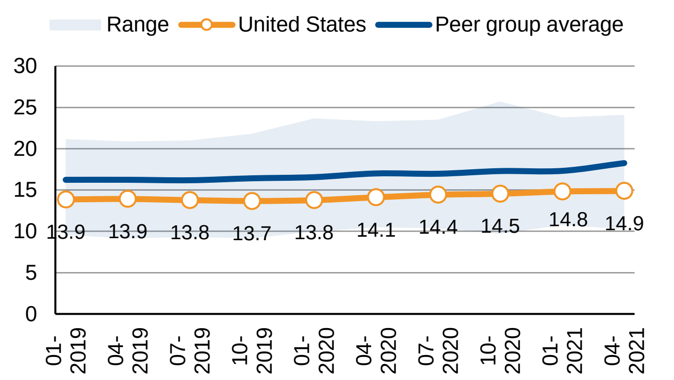
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a-	Banking sector performance	Neutral	0	Efficient banking sector with sizeable capital buffers and strong asset quality; recovering profitability
	Banking sector oversight	Strong	+1/3	Sophisticated financial-regulatory system 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; financial risks from elevated asset prices

NPLs, % of total loans



Source: IMF, Scope Ratings GmbH

Tier 1 capital ratio, % of risk-weighted assets



Source: IMF, Scope Ratings GmbH

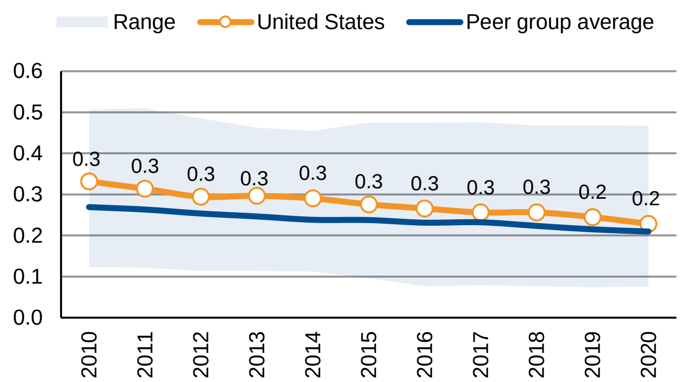
ESG Risks

- **Environment:** the US economy is vulnerable to natural disasters including earthquakes, droughts, floods, hurricanes and wildfires. According to the National Centers for Environmental Information, the nation has experienced 308 significant climate disasters since 1980 amounting to an aggregate cost of above USD 2trn. Under the Biden administration, the US has importantly re-joined the Paris Climate Accords and committed to significant investment and measures in addressing climate change and promotion of a green economy. The Biden government targets 50-52% reductions from 2005 levels in net greenhouse gas pollution by 2030, a carbon-free power sector by 2035 and net-zero emissions no later than 2050, via electrification of buildings and energy and climate investments. Nevertheless, absent introduction of a price for carbon, government emission objectives may prove hard to achieve and costly for government finances.
- **Social:** troubling social outcomes challenge the US' political and macroeconomic stability. These include decline in labour force participation since the crisis, polarised distribution of income and wealth, long-standing racial disparities and high poverty. Moreover, the Covid-19 crisis has exposed weaknesses within the healthcare system, which is the most expensive in the world and presents unequal access to and quality of care. The government's Build Back Better programme specifically targets many of these social weaknesses. Ageing dynamics furthermore pose a significant challenge over the next decades, with a quickly rising share in the elderly population, albeit with said dynamics comparing favourably against that in many other advanced economies.
- **Governance:** strong democratic institutions, with transparent and accountable governance frameworks and processes. At the same time, rising political polarisation increasingly challenges tolerance for political compromise and the government's capacity to effectively adopt reform. With Democrats presently in control of the Presidency and Congress, the government currently has an opportunity to pursue an agenda with limited cooperation from the opposition. However, this could easily change after next year's elections, potentially resulting in policy gridlock before 2024 elections. Under the Biden administration, risks associated with geopolitical conflict have somewhat receded while potential risks from trade disputes have eased.

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

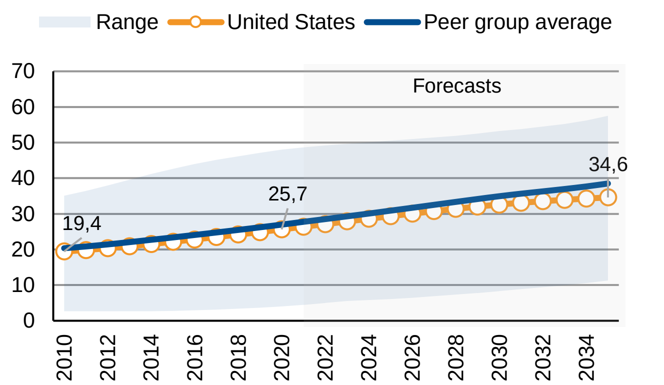
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental risks	Neutral	0	Significant transition risks balanced by current government's ambitious environmental policy initiatives; natural disaster risk exposure
	Social risks	Weak	-1/3	Erosion of socio-economic mobility and rising income and wealth inequality, lessening demographic dividend
	Institutional and political risks	Weak	-1/3	Resilient democratic institutions despite erosion of institutional strengths under the Trump presidency; polarisation prevents bipartisan problem-solving; risk of gridlock after 2022 elections and risk to institutional outlook after 2024 elections

CO2 emissions per GDP, mtCO2e



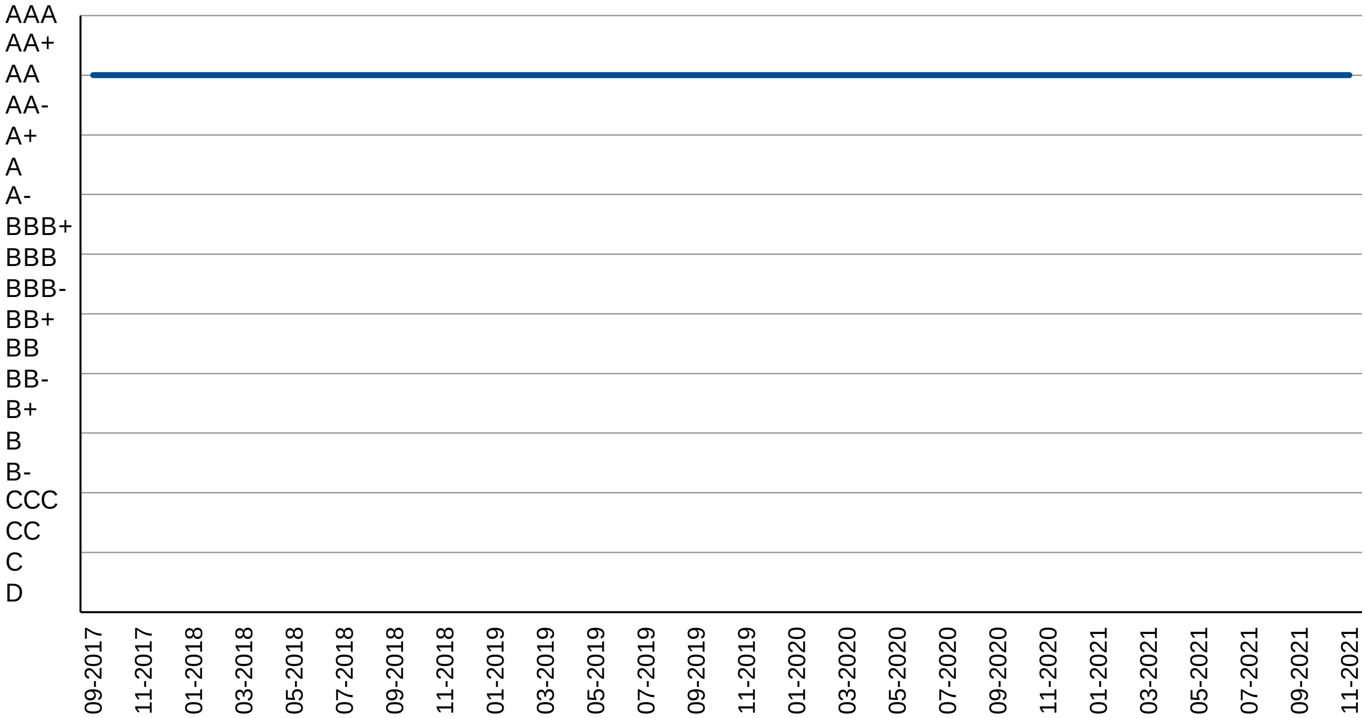
Source: European Commission, Scope Ratings GmbH

Old age dependency ratio, %



Source: United Nations, Scope Ratings GmbH

Appendix I. Ratings history



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 after the reserve-currency adjustment.

Peer group
Belgium
Czech Republic
France
Japan
Latvia
Lithuania
Malta
Poland
Russia
Slovakia
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 29 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the Core Variable Scorecard.

	2016	2017	2018	2019	2020	2021E	2022F
Domestic Economic Risk							
GDP per capita, USD '000s	57.8	59.9	62.8	65.1	63.4	69.4	74.7
Nominal GDP, USD bn	18,695	19,480	20,527	21,373	20,894	22,940	24,796
Real growth, %[1]	1.7	2.3	2.9	2.3	-3.4	5.5	3.5
CPI inflation, %	1.3	2.1	2.4	1.8	1.2	4.3	3.5
Unemployment rate, %[1]	4.9	4.4	3.9	3.7	8.1	5.5	4.2
Public Finance Risk							
Public debt, % of GDP[1]	106.9	106.0	107.1	108.5	133.9	134.0	134.8
Interest payment, % of government revenue	6.4	6.5	7.3	7.5	7.1	5.3	4.0
Primary balance, % of GDP[1]	-2.3	-2.6	-3.2	-3.5	-12.7	-9.6	-7.5
External Economic Risk							
Current account balance, % of GDP	-2.1	-1.9	-2.1	-2.2	-2.9	-3.5	-3.5
Total reserves, months of imports	1.4	1.5	1.4	1.5	2.1	-	-
NIIP, % of GDP	-43.5	-39.4	-47.2	-52.6	-67.1	-	-
Financial Stability Risk							
NPL ratio, % of total loans	1.3	1.1	0.9	0.9	1.1	-	-
Tier 1 ratio, % of risk-weighted assets	13.2	13.5	13.8	13.7	14.5	14.9	-
Credit to private sector, % of GDP	182.3	190.2	179.0	190.8	216.3	-	-
ESG Risk							
CO^2 per EUR 1,000 of GDP, $mtCO^2e$	265.8	256.1	256.3	244.9	228.5	-	-
Income quintile share ratio (S80/S20), x	9.0	9.0	9.0	-	-	-	-
Labour force participation rate, %	71.9	72.4	72.6	73.1	-	-	-
Old age dependency ratio, %	22.8	23.5	24.2	24.9	25.7	26.4	27.1
Composite governance indicator[2]	1.2	1.3	1.2	1.1	1.1	-	-

[1] Forecasted values are produced by Scope
[2] Average of the six World Bank Worldwide Governance Indicators
Source: European Commission, IMF, World Bank, Scope Ratings GmbH

Appendix IV. Economic development and default indicators

IMF Development Classification	Advanced economy
5y EUR CDS spread (bps) as of 25 November 2021	15.7

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

23 Boulevard des Capucines
F-75002 Paris

Phone +33 6 62 89 35 12

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 572 67 11

Milan

Regus Porta Venezia
Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 8295 8254

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer