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To the point!

Cross-Asset- and Strategy-Research

Postcard from Washington, D.C.

As debt levels rise, so do worries

Sunny greetings from Washington, D.C.! It's that time of year again: the IMF and World Bank Annual Meetings – the ritual shoulder rubbing of policymakers and the financial elite.

Before you ask: no, everything is still the same, even if the National Guard is now patrolling the city at the president's behest. The only new thing is the oversized stars and stripes flag Donald Trump has hoisted in the front yard of the White House (see photo). Make America Great Again! The city is just as safe – or unsafe – as it was before, and the much-lamented homeless are also still around; where else could they go? Even the grass in the parks hasn't gotten any greener, despite the fact that National Guardsmen have also been put to work on [gardening duties](#). The only thing noticeably different is the subdued atmosphere outside the conference perimeter. The government shut-down is taking its toll: dining out isn't much fun when you're not getting paid.

A cautious forecast from the IMF

As usual, the IMF presented its much-anticipated global economic forecasts this fall. The Fund's economists believe economic policy uncertainties are now higher than they've been in decades. A phenomenon that has its roots right here in town – specifically in a mansion with a giant flag on its lawn. But the IMF is careful not to call a spade a spade. Across the 186 pages of its World Economic Outlook, the word "Trump" doesn't appear at all. Unlike in each and every conversation in town.

Like LBBW Research, the IMF observes a slowdown in economic momentum, forecasting global growth of just 3.1% in 2026. Risks, the Washington-based economists warn, are skewed to the downside. On inflation, they caution the opposite:

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Photo: Private

The IMF caught in a conflict of interest?

Downside risks take the lead

risks tend to be on the upside. It's not unusual for economic forecasters to take hedged positions like these. But I can't shake off the nagging suspicion that the IMF might have tweaked its numbers slightly to avoid angering its largest shareholder – the United States.

At LBBW Research, we don't face such political constraints, and our U.S. forecasts are accordingly a bit more sobering. We project U.S. growth of just 1% in 2026, compared to the IMF's 2.1%, and inflation rising to an average of 3.5% for the year (the IMF forecasts 2.5%). At the growth and inflation rates forecast by the IMF, there would be no reason for the Federal Reserve to cut rates further – yet the Fund expects exactly that. There is growing evidence for rising U.S. inflation rates, as the IMF itself lays out clearly. In recent months, prices for tradable goods have begun to pick up (see Fig: 1). The impact of Trump's tariff frenzy is becoming harder and harder to sweep under the rug.

Debt, debt, and more debt...

Public debt looms large – not just in the IMF's [Fiscal Monitor](#), but throughout countless speeches, panels, and side discussions at the Annual Meetings. These conversations are often accompanied by deeply furrowed brows. The United States, in particular, stands out as an egregious case. Its debt level is already above 120% of GDP, and the (still-independent) Congressional Budget Office (CBO) projects it will soar to 150% within the next decade. The debt surge is being fueled further by the permanent tax cuts of the One Big Beautiful Bill Act. Before the Act, the CBO had anticipated a debt level of "only" 141% by 2035.

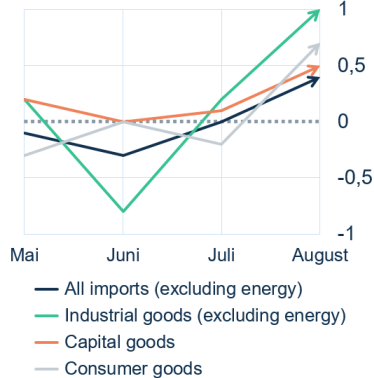
Outside the U.S., the problem of ballooning public deficits is just as pressing (see Fig. 2). The IMF estimates global public debt will reach over 100% of worldwide GDP by 2029. That would be the highest level since 1948, a time when war and reconstruction offered at least some justification for such extraordinary debt levels. Today, such mitigating factors are absent.

Instead of wastefulness, what's needed now is austerity

On the contrary: governments should be building fiscal buffers to prepare for the demographic transitions looming across all advanced economies. Advanced economies' societies are aging, and the demands on public budgets for pensions, healthcare, and elderly care are set to steadily increase.

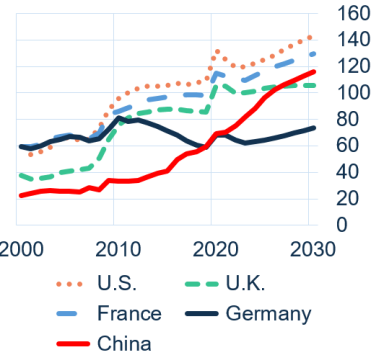
It seems as though governments worldwide are afflicted by a pandemic of irresponsibility. It's true that pushing through sustainable fiscal consolidation has become much harder in today's deeply divided societies. The deadlocked situation currently unfolding in France acts as exhibit A. The US government shut-down exhibit B. I could go on. But sooner or later, the moment will arrive when capital markets will force governments to act. Long-term interest rates have already surged. In the meantime, let gold prices serve as a barometer of economic anxiety.

Fig. 1:
US import prices begin to rise
(Monthly rate of change, %)



Source: [BLS](#), LBBW Research

Fig. 2: General government
debt (% of GDP)



Source: IMF, LBBW Research

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