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INTERNATIONAL ECONOMICS

A global perspective on US government borrowing

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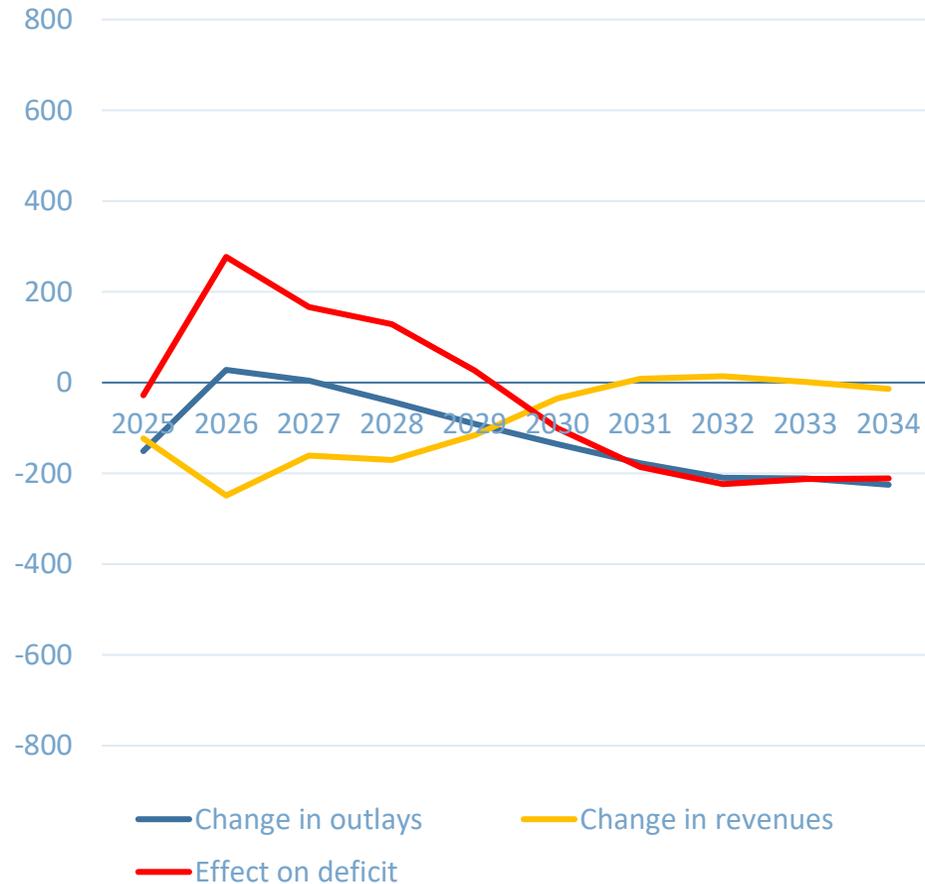
PIIE Webinar on “Unpacking the consequences of the new US tax and budget legislation,” July 29, 2025

<https://www.piie.com/events/2025/unpacking-consequences-new-us-tax-and-budget-legislation>

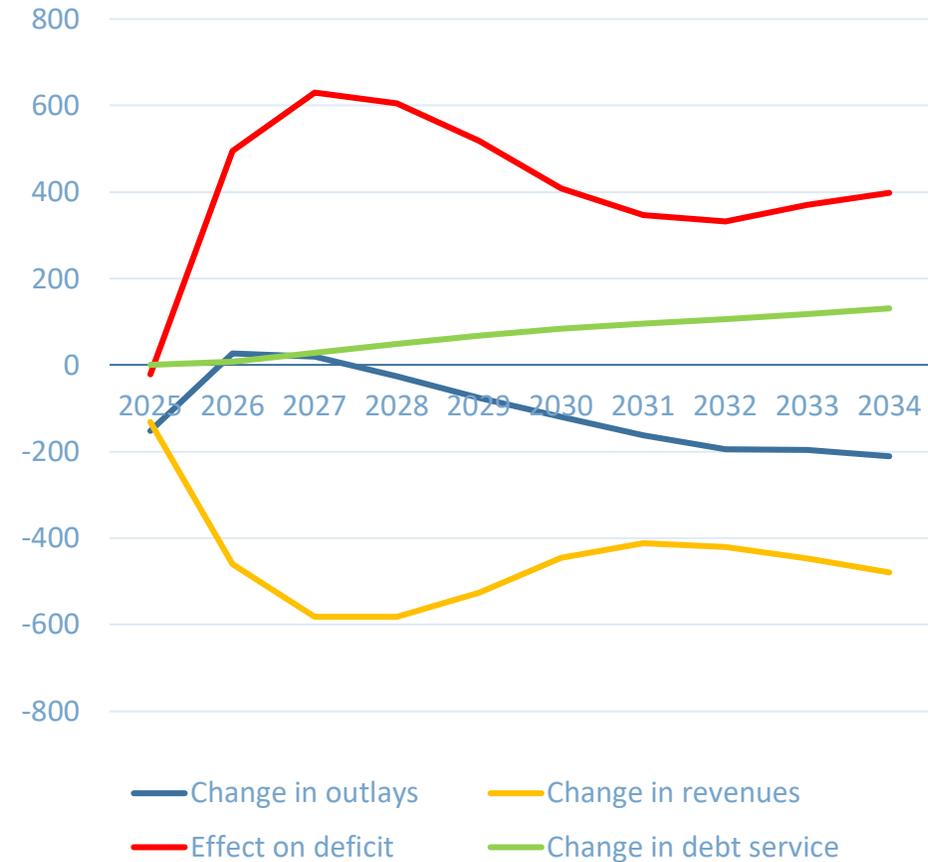
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The OBBBA adds considerably to prior deficits

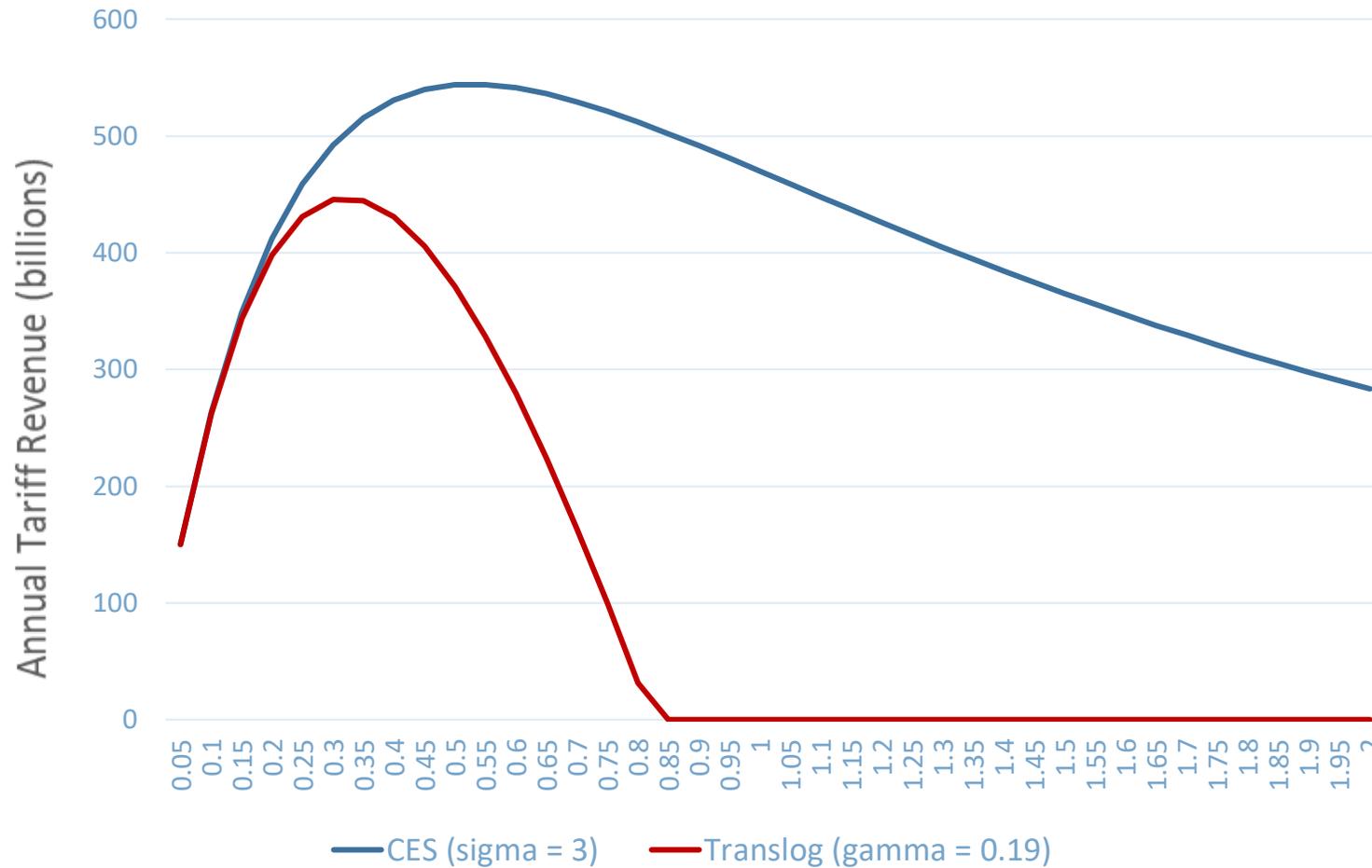
Pre-OBBBA current-policy baseline



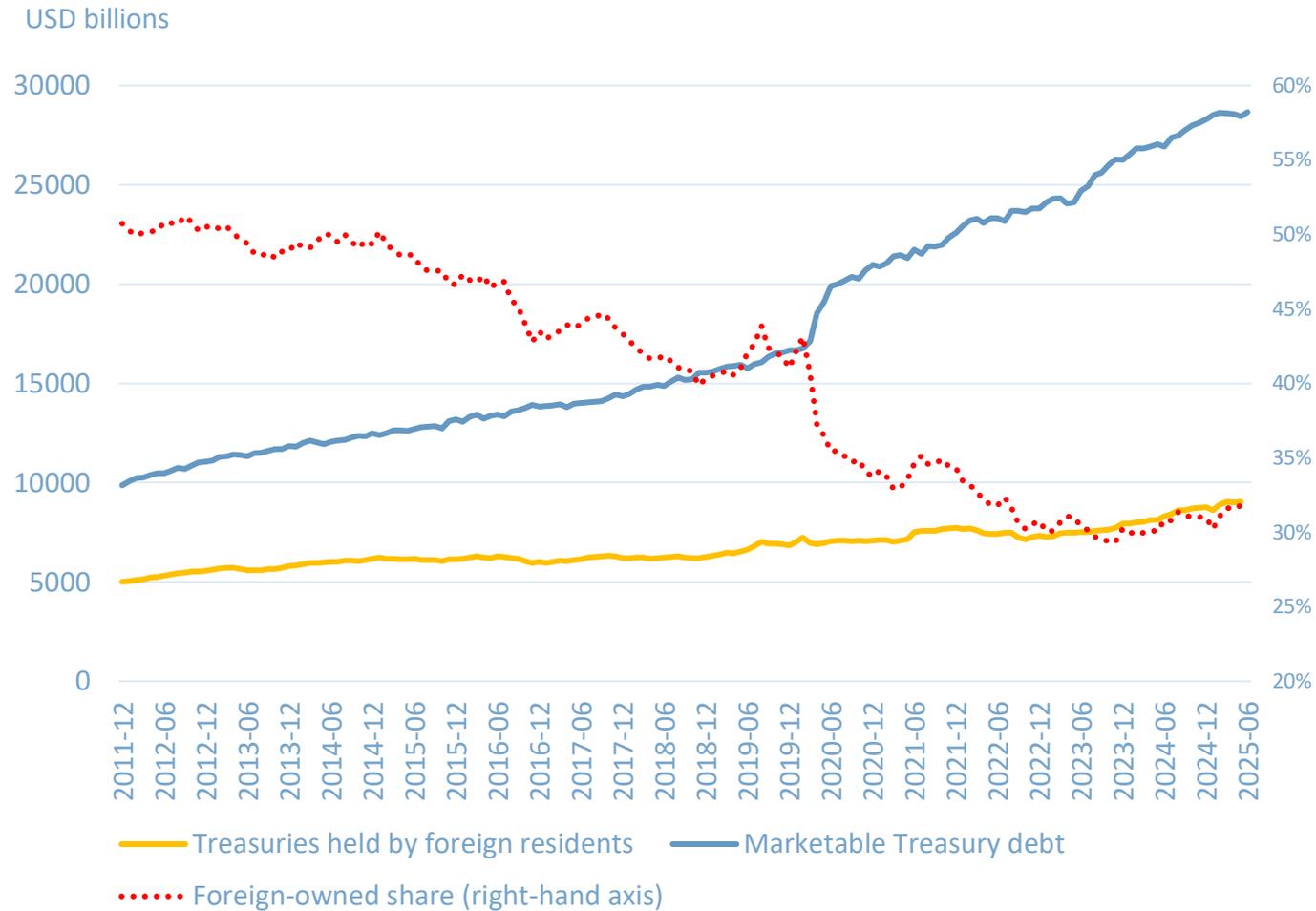
Pre-OBBBA current-law baseline



Tariff revenue will not fully offset deficit



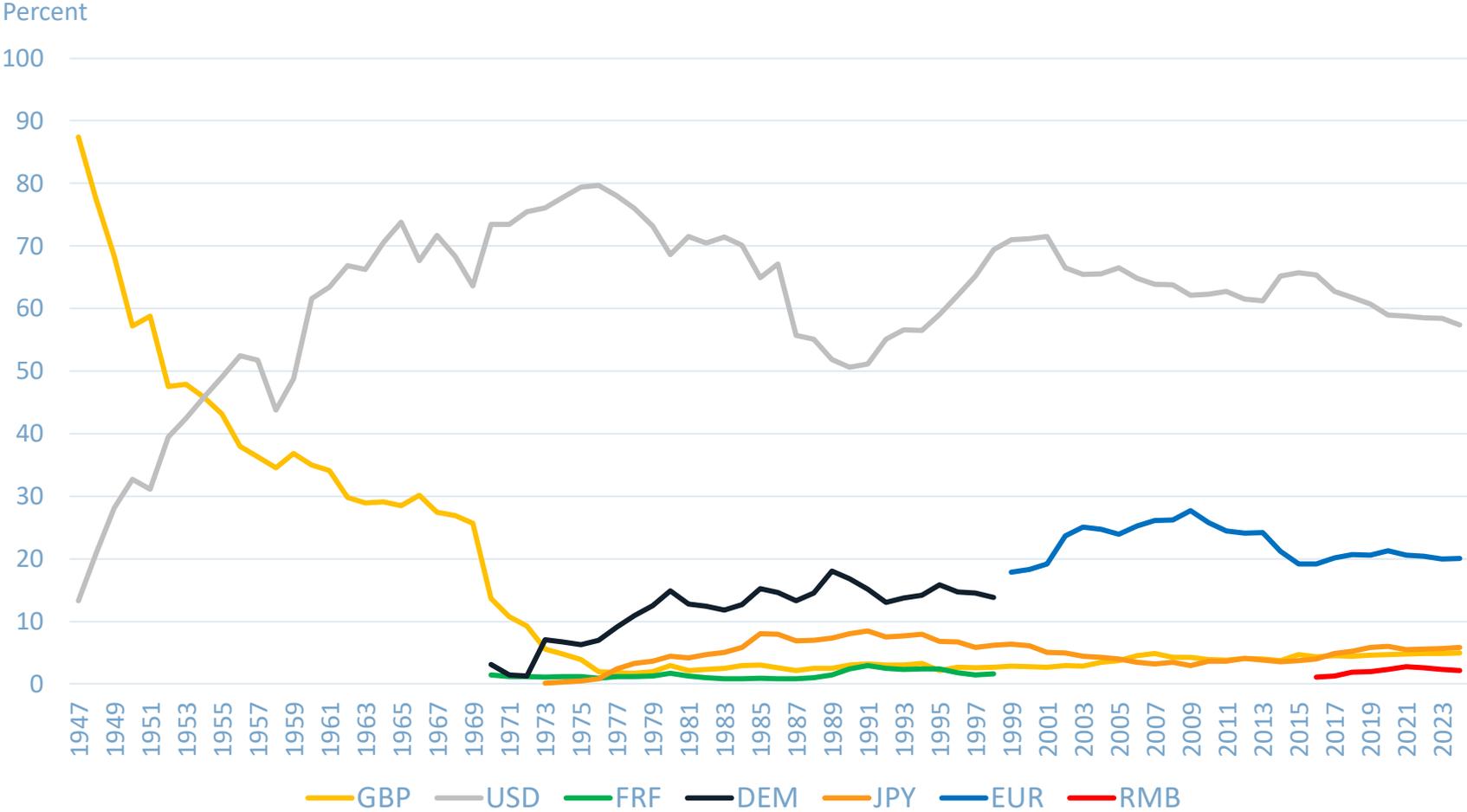
Global markets will need to absorb a lot



Foreign investor demand → sustainability

- Foreigners are marginal lenders and their demand depends on:
 - Currency (and by implication inflation) risk
 - The dollar's liquidity insofar as it is a “world currency”
 - US willingness to maintain open capital markets and support the global dollar ecosystem in other ways
 - Fears of dollar “weaponization”
 - Financial stability – deregulation, implications of stablecoins/crypto push
- There are strains in all these areas – e.g., attacks on the Fed
- Upcoming crises for Social Security and Medicare
- Dollar flight could raise borrowing rates, in a vicious circle (Calvo 1988; Pflueger and Yared 2024)
- Dollar recovery from the 1970s turbulence was slow

International reserve holdings post 1947



A deteriorating funding environment

- A positive stock-bond return covariance, in a more inflationary environment, raises term premia (Acharya and Laarits 2023, 2025)
- So does a positive correlation of global shocks and US capital outflows
- The falling convenience yield on longer-term Treasuries relative to other currencies has raised funding costs (Du, Im, Schreger 2018; Jiang, Richmond, Zhang 2025)
- Lower seigniorage at long end due to increasing Treasury supplies (Du, Hébert, Li 2023; Jiang, Richmond, Zhang 2025)
- But financing through short-term issuance → greater rollover risk
- Widespread stablecoin use in the global shadow economy could cost seigniorage up to about \$40 billion per year at current interest rates (Rogoff 2025)
- Higher interest rates globally?

Declining LT Treasury convenience yield

TREASURY CONVENIENCE YIELDS BY MATURITY

(A) TIME SERIES





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Thank you.

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