Flash Economics

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Will the United States public deficit remain financeable?

The key holders of United States Treasury securities are the European Union, Japan, the United Kingdom, China, the Cayman Islands, Canada, Taiwan, Switzerland, Hong Kong, Singapore, Norway, India, Brazil, Saudi Arabia, South Korea, and the United Arab Emirates. Over the past year, only the United Kingdom, the European Union, Japan, Saudi Arabia, Norway, Hong Kong, Canada, Singapore, South Korea, and the United Arab Emirates have increased their holdings of US Treasury securities.

However, the war in the Middle East is likely to eliminate purchases by Japan, the European Union, and Middle Eastern countries. Japan and the European Union are facing a sharp rise in the value of their oil and natural gas imports, while Middle Eastern countries are facing a collapse in their oil revenues.

Since the United States public deficit is very large and growing, it is likely to become increasingly difficult to finance. A further rise in long-term interest rates is therefore very probable, despite the reduction in the average maturity of Treasury debt.

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Which countries are still financing the US Treasury?

All countries hold US Treasury debt, **but few countries continue to accumulate US Treasury securities**.

Over the past year, **only the following countries or regions have significantly accumulated US Treasury securities**: the United Kingdom, the European Union, Japan, Saudi Arabia, Norway, Hong Kong, Kuwait, Canada, Singapore, South Korea, and the United Arab Emirates (**Charts 1A/B/C**).

Chart 1A
United States: Holdings of Treasuries by country
(USD bn)

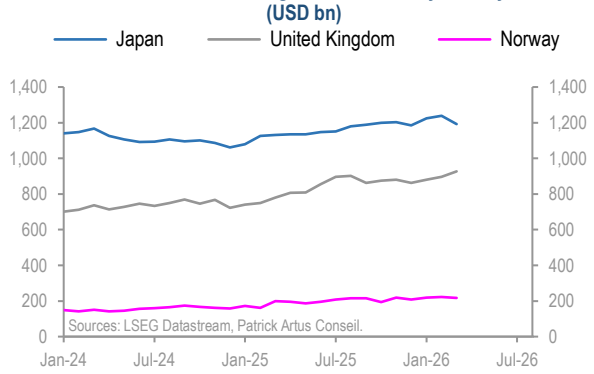


Chart 1B
United States: Holdings of Treasuries by country
(USD bn)

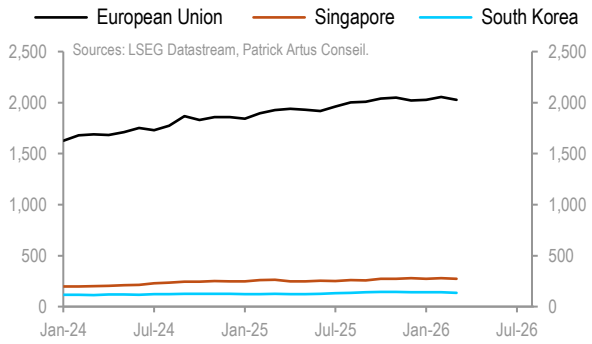
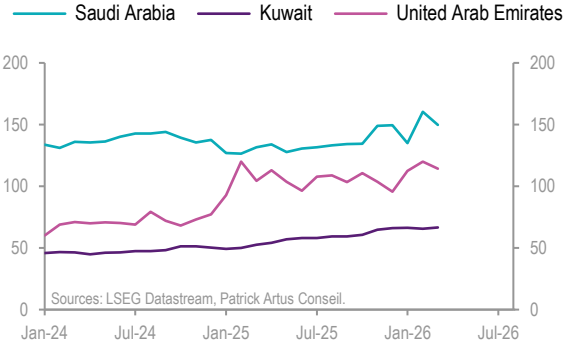


Chart 1C
United States: Holdings of Treasuries by country
(USD bn)



The Congressional Budget Office (CBO) projected in February 2026 a public deficit rising from 5.8% of GDP in 2026 to 6.7% of GDP in 2036, but due on the one hand to the opening of refunds of tariffs collected and invalidated by the Supreme Court, and on the other hand to the cost of the war in the Middle East, the public deficit will be significantly higher than this CBO estimate. **Given the size of the United States public deficit, a halt in purchases of US Treasury debt would have a very negative effect on the balance of the Treasury market**.

The Middle East war is eliminating the current account surpluses of oil and gas importing countries and of Middle Eastern oil and gas exporters

Oil and natural gas prices have risen sharply (**Charts 2A/B**).

Chart 2A
Oil price (Brent, $/bbl)

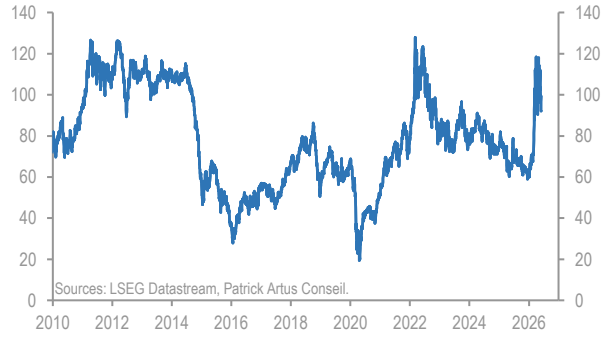
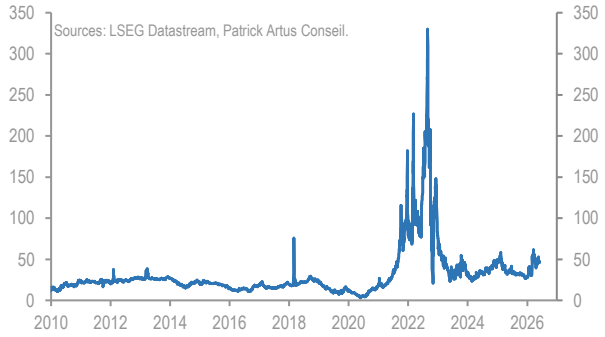


Chart 2B
Europe: Natural gas price (€/MWh)



The average weighted price of oil and natural gas in oil and gas importing countries is currently 46% higher than its February 2026 level, prior to the outbreak of the war.

The analysis must start from:

- **The current account levels of oil and gas importing countries that are buyers of US Treasury debt** (**Charts 3A/B**);

Chart 3A
Current account balance (as % of nominal GDP)

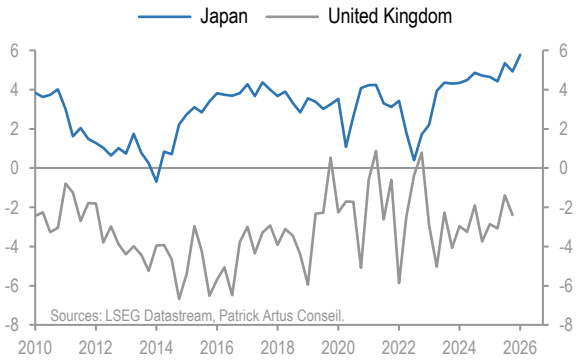
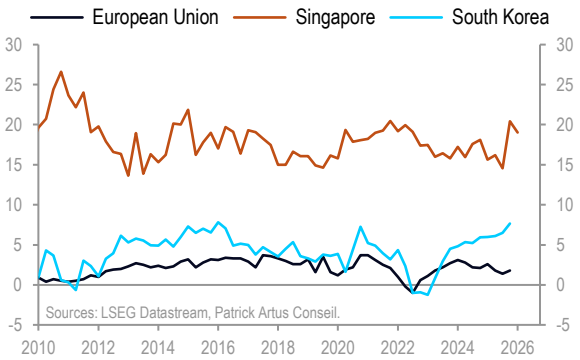


Chart 3B
Current account balance (as % of nominal GDP)



- **The size of fuel imports of these countries before the outbreak of the war in the Middle East**:
  - 2.2% of GDP in the United Kingdom;
  - 3.9% of GDP in the European Union;
  - 4.3% of GDP in Japan;
  - 14.1% of GDP in Singapore;
  - 8.7% of GDP in South Korea.

The deterioration in the trade balance due to the rise in the price of imported oil and natural gas is larger than the current account surplus observed before the rise in these prices in the European Union, while the United Kingdom already has a current account deficit.

If the rise in oil and gas prices lasts long enough, there will therefore be **a vanishing of the current account surplus, and hence of the capacity to purchase US Treasury securities, in energy-importing countries that had continued to buy US Treasuries**.

For **Middle Eastern oil-exporting countries**, the war has led to a decline in their production of:

- 3.3 million barrels/day in Iraq;
- 2.4 million barrels/day in Saudi Arabia;
- 1.5 million barrels/day in the United Arab Emirates;
- 1.4 million barrels/day in Kuwait.

This loss of 8.6 million barrels/day of production costs these countries $28 billion per month.

As for liquefied natural gas (LNG), all exports from Qatar (112 billion cubic metres exported in 2025) and the United Arab Emirates (7 billion cubic metres exported in 2025) have been halted. Saudi Arabia currently produces natural gas only for its domestic market.

Comparing this with their annual current account balance (in 2024: a surplus of $49 billion for the United Arab Emirates, a surplus of $47 billion for Kuwait, and a deficit of $13 billion for Saudi Arabia), we can see that within a few months **the loss of part of their oil and gas revenues will eliminate the overall annual current account surplus of the Gulf countries**.

Summary: a risk that non-resident financing of the US budget deficit will disappear

Only a small number of countries (the United Kingdom, the European Union, Japan, Saudi Arabia, Norway, Hong Kong, Kuwait, Canada, Singapore, and the United Arab Emirates) were still accumulating US Treasury securities. Yet the United Kingdom, the European Union, Japan, Singapore, and South Korea are being penalised by the rise in the value of their oil and natural gas imports. Moreover, Middle Eastern oil and gas exporting countries are being penalised by the sharp decline in their oil and natural gas production due to the war in the Middle East.

If net purchases of US public debt come to a halt, there will quickly be a financing problem for the United States public deficit, and therefore a significant rise in long-term dollar interest rates.

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