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Global Budget Watch Monitor - July 2026

While all jurisdictions examined have budget deficits, the changes in these deficits vary greatly. Some places have reduced their deficits (as measured by the moving average of the cumulative 12-month total) so far in 2026, notably the USA, China, the UK and France. However, Germany and Italy have had rising deficits, and the increase in Japan's deficit has been dramatic. The Japanese vast swing into a first-quarter deficit reflected the announced policy intentions of the Takaichi government, but front-loading of the Keynesian "stimulus" may have occurred. Keynesian economists have to expect Japan's economy to boom, given the scale of the fiscal so-called "stimulus". This is a fascinating experiment and the Q2 number will need to be watched. The USA has had a higher bill for debt interest (and inflation compensation on inflation-protected bonds), but total Federal spending is *down* on a year earlier in nominal terms. By implication, discretionary Federal spending has been cut sharply. The US deficit/GDP ratio is down in 2026, although the debt/GDP ratio continues to climb. Financial market confidence remains fragile everywhere, with substantial upwards shifts in government bond yield curves in the Eurozone and Japan in particular over the last year. (*Tim Congdon and Ewen Stewart*)

	Ratios % of Public debt to GDP	General government deficits to GDP		Developments in recent months, as in following country notes
	2025	*2025*	*2026*	
USA	122.5	6.5	5.5	Nominal Fed spending down, despite higher interest charges. Deficit down, relative to GDP, in 2026.
China	96.3	8.6	8.5	Debt has risen sharply relative to GDP in 2020s, signs of improvement in 2026. Financial strains at provincial level.
Eurozone	88.7	3.4	3.5	Deficits rising in Germay and Italy, but being restrained elsewhere. Deficit for all EZ rising, perhaps to 4% of GDP.
- Germany	65.4	3.0	3.5	Push for extra defence spending (die Zeitenwende) under Chancellor Merz breaks self-imposed fiscal rules.
Japan	234.9	2.9	3.1	Remarkable Q1 2026 slide into deficit, indicating very big so-called "fiscal stimulus" under new Takaichi government.
India	80.4	6.9	7.2	Rapid trend growth of real output holding back ratio of debt to GDP, but deficit high at about 7% of GDP.
UK	103.9	4.4	3.7	Outgoing finance minister, Reeves, has raised spending, but respected fiscal rules. New PM Burnham a fiscal enigma.

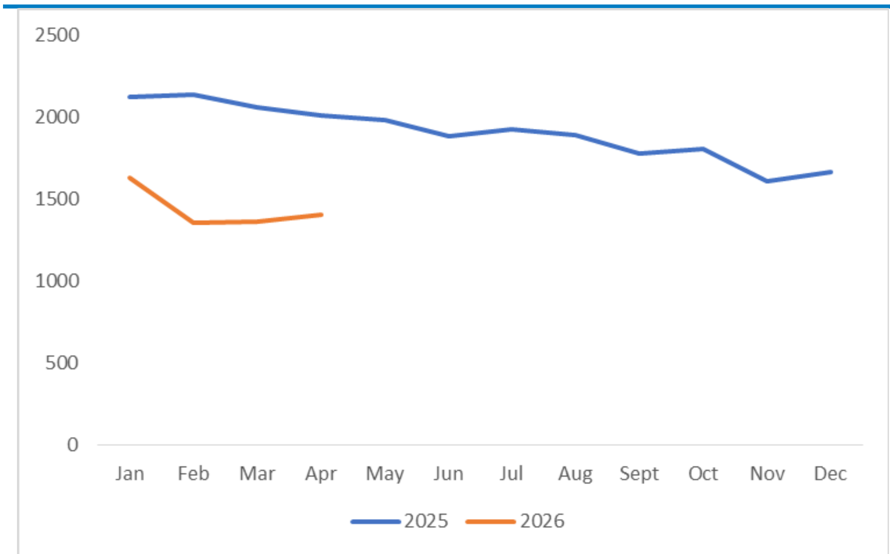
Source for all data is IMF April 2026 *World Economic Outlook*.

USA

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-4.6	-3.5	106.5
2020	-14.5	-12.1	126.1
2021	-12	-9.2	123.2
2022	-5.4	-1	120.6
2023	-6.2	-4.7	120.4
2024	-6.3	-4.6	121.7
2025	-5.9	-3.8	123.3
2026E	-5.6	-4.1	125.8

Sources: Treasury Management Service, US Treasury

US cumulative annual budget deficit to month in question, $b.



Source Treasury Management Service, US Treasury and https://fred.stlouisfed.org/series/MTSDS133FMS

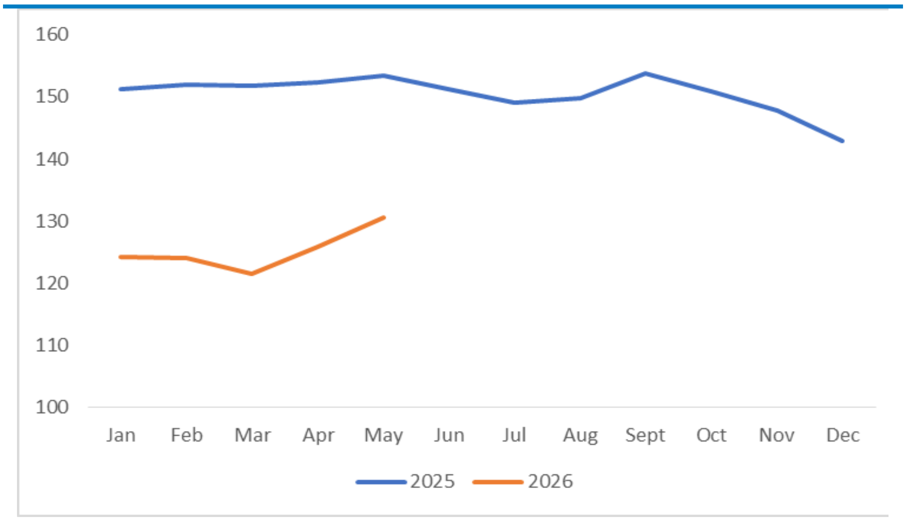
The US government budget deficit was $293b. in May 2026, which showed improvement compared with a $316b. deficit in the same month last year. Government expenditure declined to $628b. from $687b., a big fall particularly relative to nominal GDP which has risen by perhaps 5% in the year. However, tax receipts also fell from $371b. to $335b. Cumulatively the 12-month rolling deficit has also improved to an annualised rate of $1,403b. compared with $1,981b. in May 2025, impressive in the light of an increasing debt interest bill and defence expenditure. Again, the fall is greater relative to nominal GDP. While spending cuts have clearly had an impact, the better news requires qualification. Tax revenues are in decline due to Trump's 'Big Beautiful Bill'. Further, the Supreme Court's ongoing rulings on the constitutionality of tariffs will impact anticipated revenues in the future. The consequences of the Iran war and subsequent Trump bids for more defence spending argue that the current improvement risks being temporary. Further, the deficit has to be financed and increasingly short-term banking system finance is bridging the gap. All the same, the decline in the deficit is encouraging relative to the widespread doom and gloom on the US public finances. The decline is particularly remarkable in view of rising interest cost on the debt and extra inflation compensation.

UK

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-2.8	-1	84.5
2020	-14.7	-12	95.4
2021	-5	-5.8	94.3
2022	-4.8	-0.9	93.2
2023	-4.8	-3.6	94.2
2024	-5.2	-3.8	93.2
2025	-4.3	-1.8	94.5

Sources; ONS *https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance*

UK cumulative annual budget deficit to month in question, £b.



Source ONS

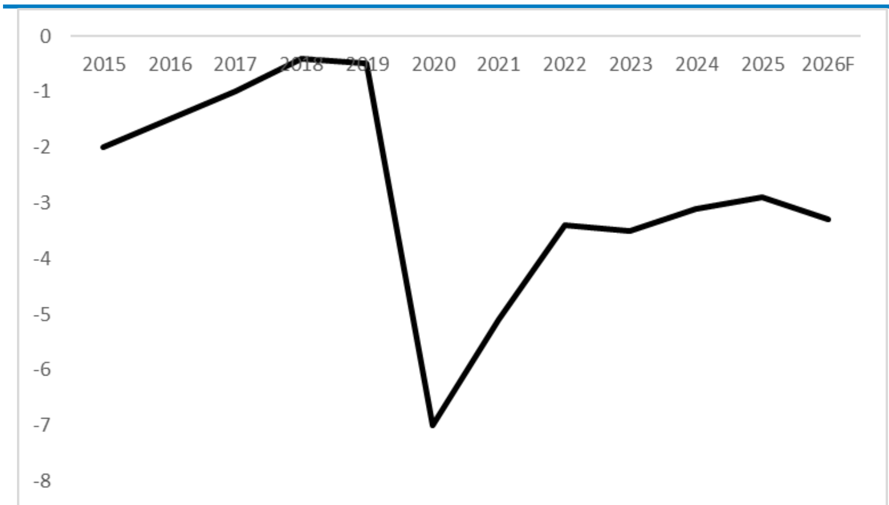
UK public sector net borrowing rose to £34.3bn in May 2026, an increase from £17.9bn in April 2025. After a fiscally stronger start to this calendar year, this was the second month in a row when the 2026 number was above 2025's. A fair comment is that, for the time being, the deficit is falling relative to GDP, but the risk is of a third or fourth month with 2026 above 2025. Recent monthly data has been volatile, but overall the cumulative 12-month rolling deficit to May 2026 is £130.5b., some £20b. lower than in May 2025. Provisos to the apparent improvement are the likelihood that the new prime minister, Andrew Burnham, will turn out be a spendthrift. Much cited in the newspapers are the adverse impact of the US-Iran hostilities on economic activity and hence tax revenues, while weak employment trends and potentially increases in welfare spending are a problem. International pressure to increase defence budgets is another nuisance, with Germany – for example – embarking on much larger additions to defence expenditure than the UK. Further, the UK yield curve has moved upwards over the last 12 months, at all durations, by about 30 to 50 basis points. The cost of debt servicing now exceeds £120b., accounting for over 9% of UK public spending. This contrasts with a £38.9b. servicing cost in fiscal year 2019/20, which was roughly 3% of public spending.

Eurozone

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-0.5	-3.7	83.6
2020	-7.1	-1.7	96.5
2021	-5.1	-1.8	93.8
2022	-3.4	-1.2	89.3
2023	-3.5	-1.4	86.9
2024	-3.1	-1.4	87.1
2025	-2.9	-1.5	87.5
2026 E	-3.3	-1.8	88.1

Sources: European Central Bank *Monthly Bulletin.* Many European governments do not publish public finance data every month and thus the data is an annual aggregation.

General Government Debt % GDP



Source EuroStat

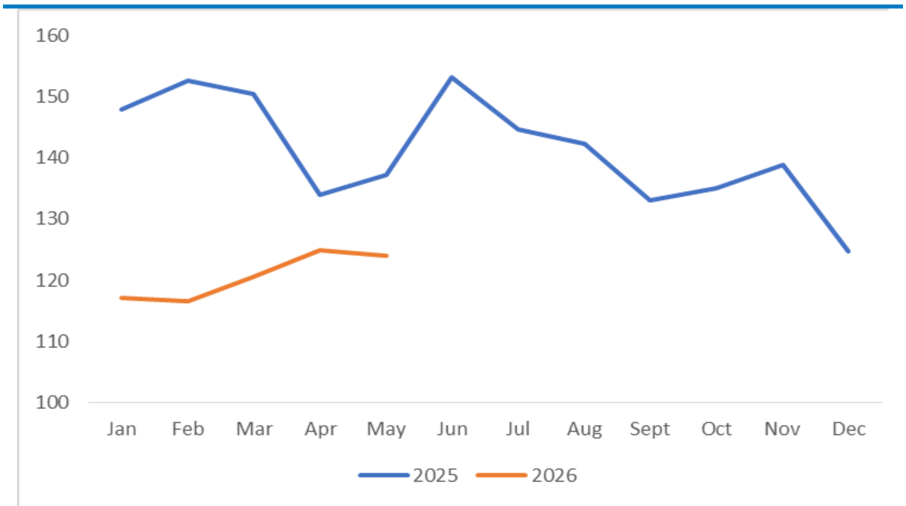
European fiscal deficits, viewed as an aggregate, are reasonably well controlled having reduced their budget deficits substantially since the Covid pandemic, but – as the chart shows – the deficits remain much larger than before Covid. (In 2019 the Eurozone achieved virtual fiscal balance.) Compared with the US, China and UK aggregate Eurozone budget deficits are in relatively healthy shape. However, this belies significant national variation within the Eurozone with previously troubled Greece (1.7% 2025) and Cyprus (3.4% 2025) posting budget surpluses along with Denmark (2.9% 2025), Ireland (1.8% 2025) and Portugal (0.7% 2025). Outside the Euro, Romania (-7.9% 2025), Poland (-7.3% 2025) and within the Euro, Belgium (-5.2% 2025 and Fance -5.1% 2025) all face weak budgetary positions. In the cases of France and Belgium this is particularly important given the weak accumulated positions with debt at 115% and 107% of GDP respectively. Germany's debt-to-GDP ratio is only slightly above 60% of GDP, but it is now on an upward path. Few Eurozone governments seem still to feel obliged to meet the commitments (to deficits of 3% of GDP or less, and debt equal to 60% of GDP or less) in the 1992 Maastricht Treaty, the founding document of the single European currency area.

France

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-2.4	-0.9	97.9
2020	-8.9	-7.6	114.9
2021	-6.6	-5.2	113.1
2022	-4.7	-2.8	111.4
2023	-5.4	-3.7	109.8
2024	-5.8	-3.9	113
2025	-5.1	-3.3	115.6

Source Ministere de l'Économie, des Finances, de l'Action et des Comptes publics, France

France: cumulative annual budget deficit to month in question € b.



Source Ministere de l'Économie, des Finances, de l'Action et des Comptes publics, France

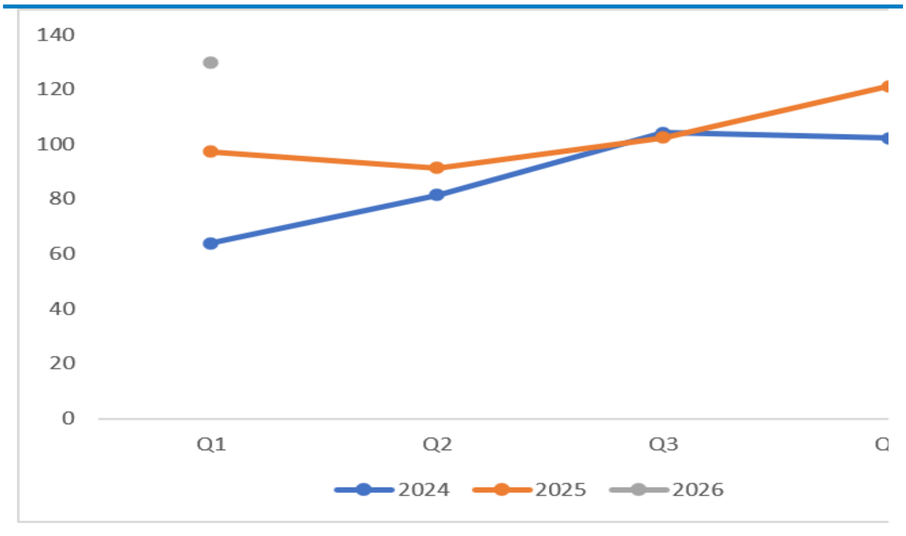
France's state budget deficit was broadly stable at €93.3b. for January–May 2026 compared with €94.0b. for the same period 12 months earlier. Taking a longer 12-month rolling lens, the budgetary position shows a marginal improvement from €124.0b. to €137.3bn. Government revenues increased 6.0 % year-on-year to €149.5b., outpacing a 3.5% rise in expenditures to €222.1b. However, France 's budgetary position remains one of the weakest of any major European country, with a debt-to-GDP ratio of 115.6% and annual deficits which are consistently well in excess of the 3% limit specified in the Maastricht treaty. France also has public spending of over 56% of GDP. With the burden of the state already so onerous, it can hardly envisage further enlargement of public expenditure. 2027 is a presidential election year. Given the added uncertainties about its uncertain political direction, France's underlying fiscal position remains fragile.

Germany

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	1.3	1.9	58.7
2020	-4.4	-3.9	68
2021	-3.2	-2.7	67.9
2022	-1.9	-1.3	64.4
2023	-2.5	-1.9	62.2
2024	-2.7	-1.8	62.2
2025	-2.7	-1.6	63.5
2026	-3.6	-2.2	64

Source Deutsche Bundesbank

Germany: cumulative annual budget deficit to quarter in question € b.



Source Deutsche Bundesbank

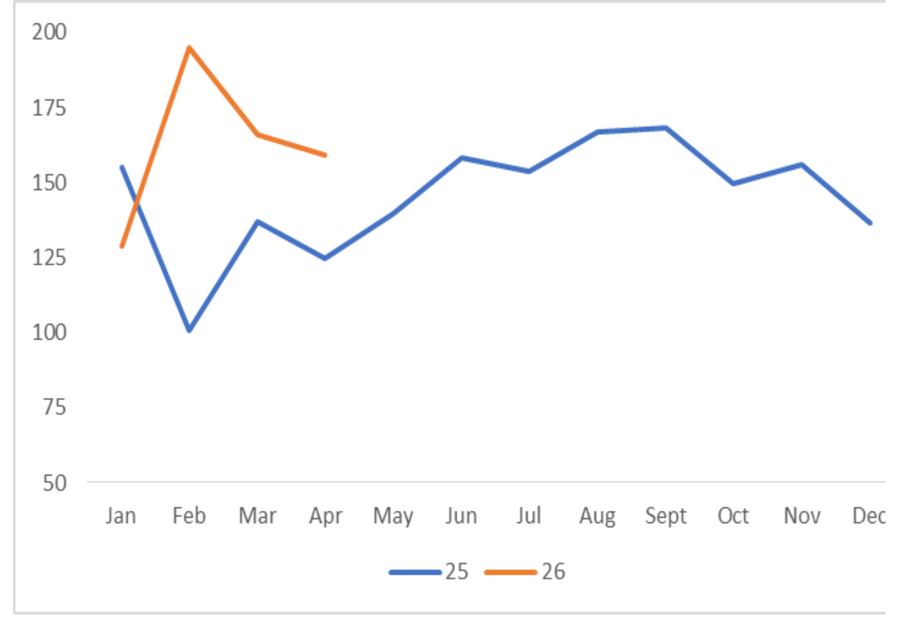
Germany and Italy are the only two European countries in our analysis where the rolling 12-month deficits have deteriorated relative to the previous year. The German outcome is hardly a surprise since Chancellor Merz has been a strong and public advocate of extra arms expenditure financed by borrowing. Germany has a satisfactory public sector balance sheet, relative to most countries in the Eurozone, reflecting a long tradition of fiscal rectitude in the past. The rules have been relaxed with a special €100b. allowance for extra defence spending. In Q1 2026 the German budget deficit *for general government as a whole* stood at €31.9b., up from €23.4b. in Q1 2025. On a rolling 12-month basis the deficit was €121.1b. against €102.0b. over the same period in the previous year. (Note the data above is based on quarterly reporting of deficits from both the Federal government and the *lander* [i.e., states]. The Federal Government publishes monthly data on its budgetary position, which is dominant. The monthly trend is similar with a deficit of €74.6b. in the 12 months to May against €52.8b. in the previous 12 period.)

Italy

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GD	Debt- GDP, % of GDP
2019	-1.5	1.8	134.2
2020	-9.4	-5.9	154.9
2021	-8.9	-5.5	145.7
2022	-8.1	-4	138.4
2023	-7.1	-3.6	133.9
2024	-3.4	0.4	134.7
2025	-3.1	0.6	137.1
2026E	-2.9	0.9	138.6

Source Banca d'Italia

Italy's cumulative annual budget deficit to month in question, € b.



Source Banca d'Italia

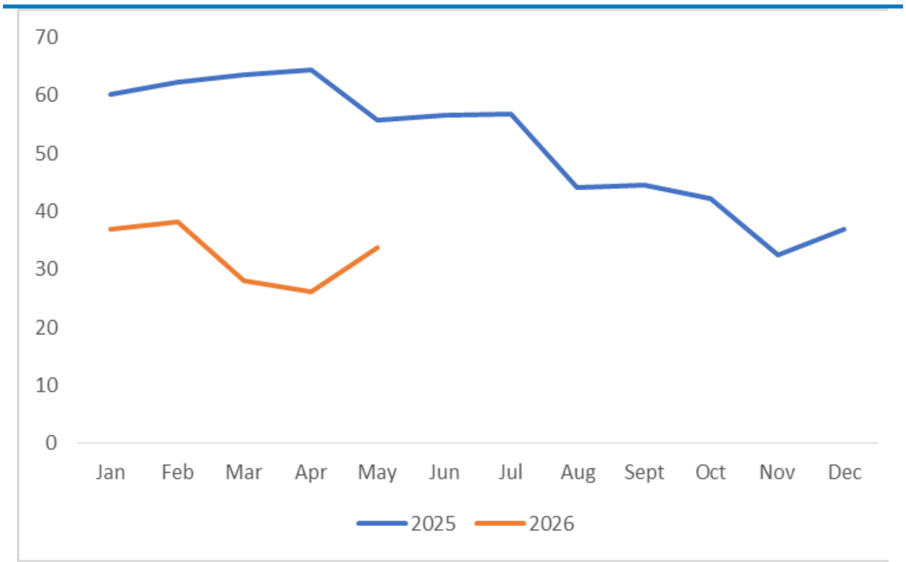
Italian monthly deficit data tend to be volatile. This caveat accepted, Italy recorded a small surplus in January of €1.7b., a €57.8b. deficit in February (against an €8.1b. surplus for the same period 12 months previous), a €16.6b. deficit in March and a €12.5b. shortfall in April. Aggregating the first four months of the year identifies a deficit of €85b., up from €62.2b. for the same period in the previous year. A longer-term moving average analysis underlines that the position has been deteriorating, with a €159.1b. deficit in the year to May 2026 compared with €124.8b. in the previous year. Prime minister Meloni has been credited with attempts to control public spending and improve efficiency, and progress certainly was being made in at the start of her premiership, which began in October 2022. But the stagnation of the economy has checked the growth of tax revenues in real terms. With a debt-to-GDP ratio of 138.6%, one of the highest in Europe, Italy has little scope to handle sudden and large shocks to its public finances. The demands from the Trump administration for higher defence spending represent a new and unwelcome challenged.

China

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of G	Debt- GDP, % of GDP
2019	-6.1	-5.2	59.4
2020	-8.6	-8.6	69
2021	-6.1	-5	70.1
2022	-7.4	-6.4	75.5
2023	-5.8	-5.8	82
2024	-6.5	-6.3	88.3
2025	-5.2	-4.2	89.1
2026E	-4	-3.1	90

Source Ministry of Finance of the People's Republic of China

China's cumulative annual budget deficit to month in question, in terms of hundred million yuan



Source Ministry of Finance of the People's Republic of China

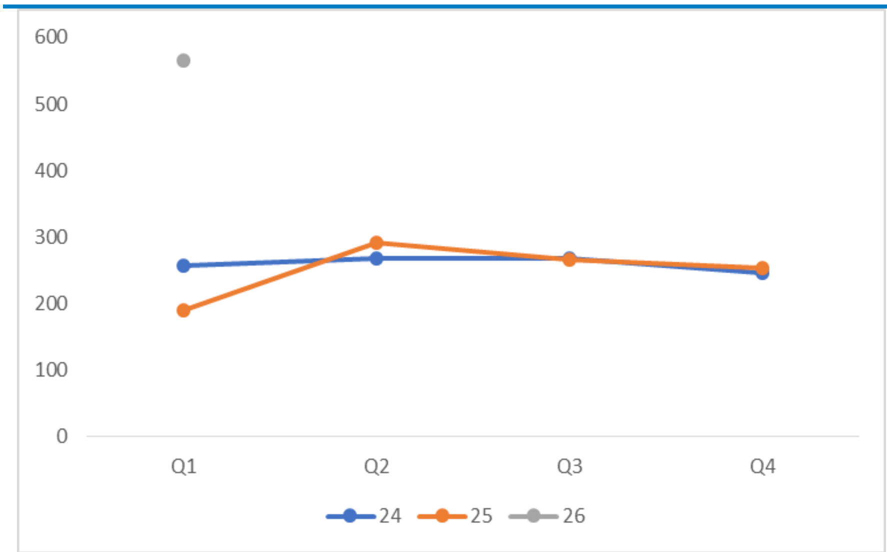
China's fiscal deficit has a marked seasonal pattern, being heavily weighted to the second half of the calendar year. (The calendar and fiscal years are the same.) With that proviso remembered, the first five months of the calendar year has seen CNY2.0 hundred million compared with a deficit of CNY7.3 hundred million over the corresponding period in 2025. Examining the deficit through a 12-month rolling period underlines this improvement with the deficit falling from CNY55.8 hundred million to CNY 33.68 hundred million. Outlined by the National People's Congress, China's budget spending growth is likely to ease modestly in 2026. Clearly, much progress is being made to curb the deficit. This is encouraging relative to the last decade, when China has run deficits well above 5% of GDP year after year. Whereas the debt-to-GDP ratio was 50% of GDP in 2016, it now stands at about 100% of GDP. The definition of the China's deficit is, however, rather controversial. Fitch Ratings favours a broader deficit definition than the Chinese authorities, estimating the 2025 deficit at 7.6% of GDP and envisaging only a small reduction in the figure for 2026.

Japan

	Deficit/ surplus. % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-3.0	-2.3	236
2020	-9.1	-8.4	258
2021	-6.2	-5.5	253
2022	-4.2	-3.8	248
2023	-3.8	-2.1	240
2024	-2.3	-1.2	236
2025	-3.0	-0.8	232
2026E	-3.7	-1.2	228

Source Ministry of Finance Japan

Japan: cumulative annual budget deficit to quarter in question JPY hundred million



Source Ministry of Finance, Japan

As a big energy importer, Japan has been particularly challenged by the rises in oil and gas prices due to the hostilities between the USA and Iran. Inflation is surprisingly subdued, given the international pressures, but the yields on government bonds have risen steeply. The yield on the 10-year Japanese government bond was under 1% in early 2024, but was over 1.5% in July 2025 and is now (mid-July 2026) at 2.7%. As interest rates rise, a sensible response might be to limit the growth of debt by curbing the budget deficit. This was indeed the Japanese government's policy until the appointment of Sanae Takaichi as prime minister last October. In a general election campaign that month Takaichi publicly denounced "excessive fiscal austerity" and endorsed Keynesian measures to stimulate the economy. Her party, the Liberal Democratic Party, was elected with a landslide. An early consequence has been a remarkable slide into deficit in the first quarter of 2026. Q1 is usually a quarter of surplus, because of a seasonal bunching of tax payments. In Q1 2025 the surplus was ¥26.0 trillion, but Q1 2026 recorded a deficit of yen ¥5.3 trillion. Admittedly, Q1 was affected by a number of special adverse factors, including a bad earthquake. All the same, the government has announced plans for a ¥21.3tn so-called "fiscal boost", with food, gas and electricity subsidies. Japan seems to have embarked on a large-scale expansion of the budget deficit despite having the highest ratio of public debt to GDP among the advanced economies.