



Global Budget Watch Monitor – September 2026

August was a difficult month for investors in sovereign debt. Markets have woken up to the scale of new issuance globally, while inflation prospects are clouded by military and geopolitical headwinds, particularly in the Middle East. The oil price has now been above \$100 a barrel for a fortnight, with no early end in sight. The US Federal deficit in August was \$168b., substantially (no less than \$177b.) lower than in August 2025. But hopes for a return to fiscal seriousness were spoilt by President Trump's political showmanship. His offer of \$5,000 of 2027 tax cuts for each adult, on condition that the Republicans hold Congress in the mid-term elections, would have a potential 2027 cost of some \$1,300b. Recent adverse moves in most sovereign yields have been swift. For example, French and Italian 10-year bond yields increased by 58 and 43bp respectively in a month, US and German similar yields by 32bp each, and the UK by 25bp. The trouble has been particularly serious for Japan. The 10-year bond yield was practically zero in the seven-year period of 2016 – 22 inclusive but has flirted with 3% in recent sessions. This is the highest number since the 1990s. (*Ewen Stewart*)

	Ratios % of Public debt to GDP 2025	General government deficits to GDP 2025 2026		Developments in recent months, as in following country notes
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 Germany 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*.

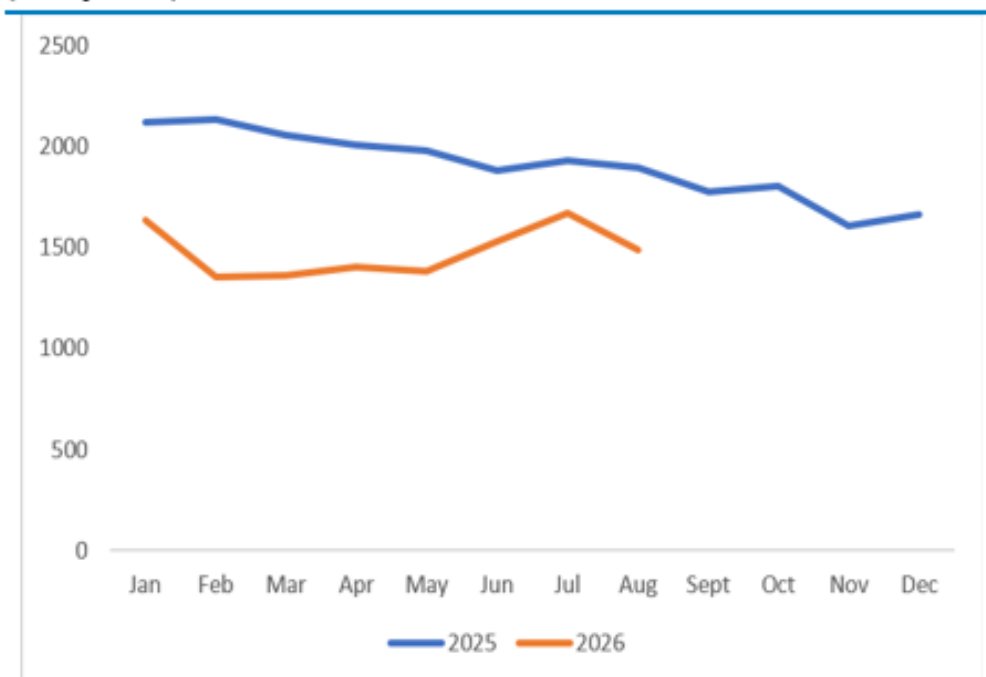
USA

	Deficit/ surplus, % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019	-4.8	-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	-3.3	125.8

Sources: Treasury Management Service, US Treasury

The US government budget deficits were \$431b and \$168b. in July and August 2026 respectively, compared with deficits of \$291b. and \$345b. in July and August 2025 respectively showing a marginal improvement of some \$38b. on the raw data series. However, according to the US Treasury various payment timings resulted in an August deficit on a like for like basis of £248b. implying the underlying position over the last two months has slightly deteriorated. Looking at the deficit of a 12-month rolling basis shows a modest improvement from £1909b. to \$1767b. However, US debt surpassed the totemic £40t. mark in August for the first time while President Trump promised a questionable plan to give every American \$5,000 should the Republicans keep hold of Congress at a potential cost of \$1.3t. Yields on all durations of Treasuries longer than 2 months exceed 12 months ago and at the medium end of the curve materially so. 10-year US Treasuries rising by 44bp over the last 4 weeks to a 5.22% yield some 112bp higher than 12 months ago. Debt servicing costs of \$1.27t. year to date imply an average funding cost of 3.18% somewhat below either the long or short end of the curve. (3 month 4.2%, 30 year 5.5%) The simple re-fi maths is clearly unfavourable. In this environment one might have anticipated Presidential pressure to reduce the deficit. The opposite policy response seems to be the case.

US cumulative annual budget deficit to month in question, \$b. (unadjusted)



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

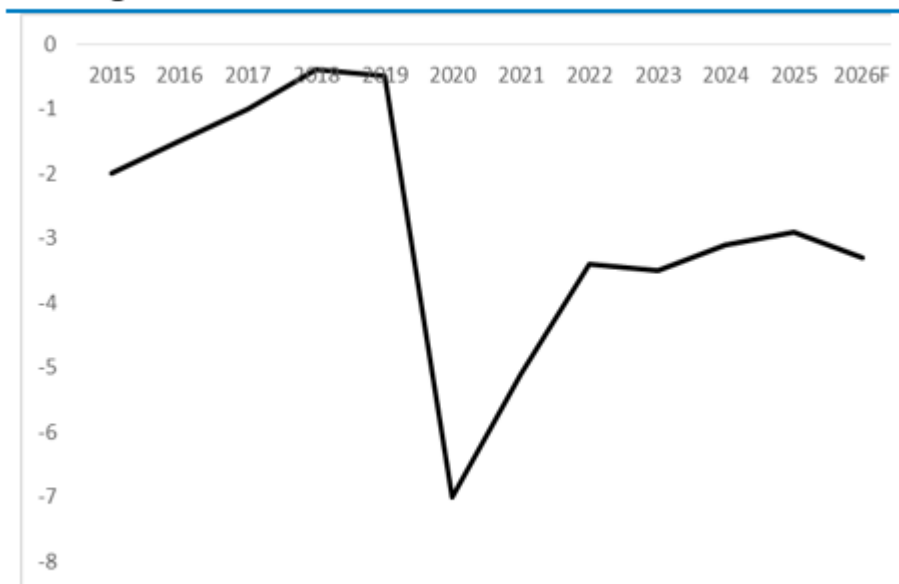
Eurozone

	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.

The Eurozone fiscal deficit, viewed as an aggregate for the entire area, is reasonably well-controlled, albeit it with substantial variance, rising from a 2.9% deficit in 2025 to 3.3% in 2026. However, this masks the good and the troubled. Cyprus and Greece, two deeply fiscally troubled nations a decade ago, have substantially got their house in order both running surplus of 3.4% and 1.7% respectively. Ireland, Portugal, along with non-Eurozone Denmark and non-EU Switzerland all ran surpluses in 2025. Belgium (-5.2%), France (-5.1%) are both running deficits greater than 5% and both have accumulated debt of well over 100% at 108% and 116% respectively. Outside the Eurozone, Romania and Poland are running deficits of 7.9% and 7.3% respectively, both unsustainable rates in the longer term. While at aggregate level the Eurozone's deficits are generally lower than those of the US, UK, Japan or China, they have not been immune from global bond market turbulence. German 30-year debt now yields 3.9%, the highest level since 2010 a rise of 62bp over the year. Others have seen a greater appreciation; notably France with 30-year debt yielding 5.16% a rise of 93bp over the year; a clear warning that fiscal discipline is required.

General government deficit as % of GDP



Source EuroStat

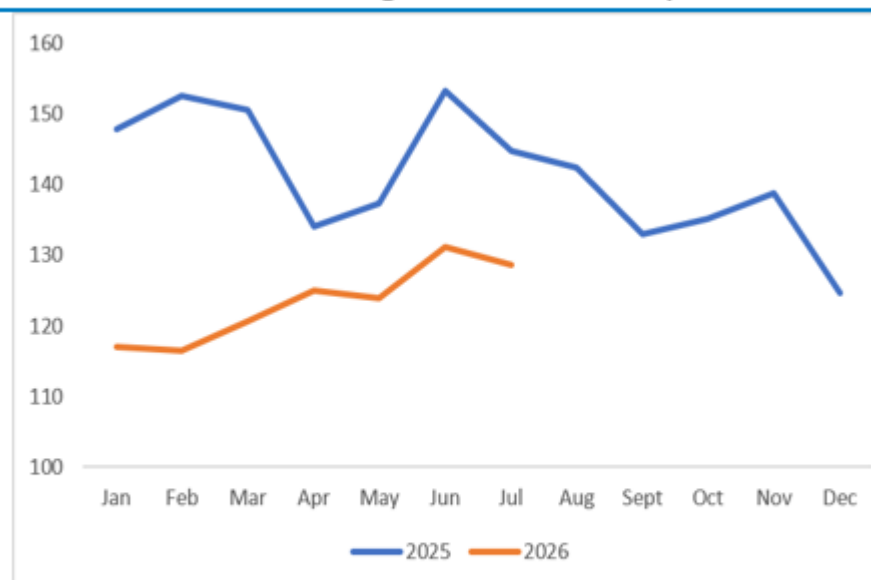
France

	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
2026E	-5.2	-3.1	118

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

At one level the French fiscal deficit, while stubbornly large at over 5% GDP, looks stable but at another level the sharp upward move in French and indeed most global sovereign bond yields highlights a critical weakness. July's deficit of €39.1b. was €2.5b larger than the corresponding period last year, while the deficit year to date at €145.9b. is broadly stable with 12 months ago and a slight improvement on the commensurate period in 2023 and 2024. As can be seen from the chart below the rolling 12-month deficit at €129b. was some €15m. larger in comparison to 2025. However, this masks significant problems. With €3.54t. of debt and a servicing cost estimated by the Finance Ministry at €78b. the implied average funding cost is 2.2%. While over 90% of the bond portfolio has a fairly long-term maturity profile, at just over 9 years, with some £219bn funded by short term bills, the refinancing cost is set the rise markedly. The yield on French 10-year bonds currently stands at 4.52% up 40bp over the month. A report commissioned by the French finance minister forecasts that without corrective action, debt reserivicing costs will rise to €124bn by 2030 given further debt accumulation and refinancing. French yields now exceed Italian at most maturities, an historically rare occurrence driven by market concern over a lack of seriousness or political will to control spending.

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



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

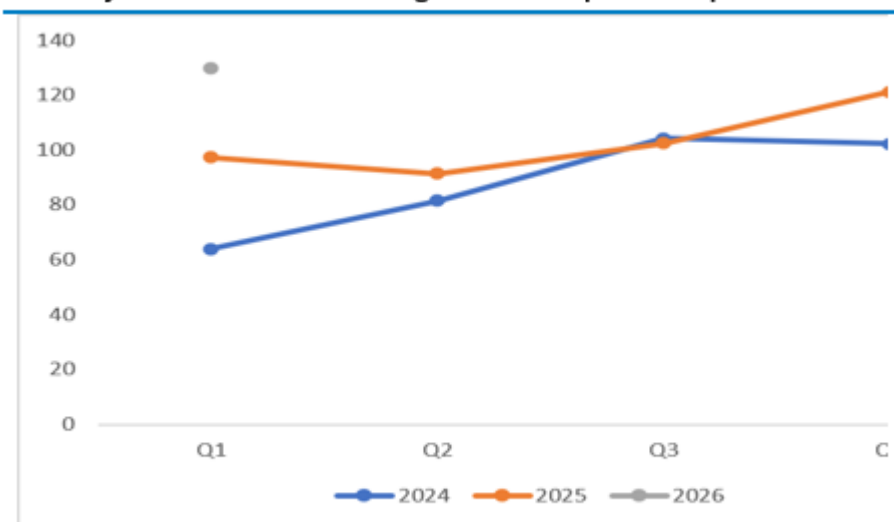
Germany

	Deficit/ surplus, % GDP	Primary deficit/surplus, % of GDP	Debt- GDP, % of GDP
2019		1.3	1.9
2020		-4.4	-3.9
2021		-3.2	-2.7
2022		-1.9	-1.3
2023		-2.5	-1.9
2024		-2.7	-1.6
2025		-2.7	-1.5
2026		-3.6	-2.8
			58.7
			68
			67.9
			64.4
			62.2
			62.2
			63.5
			65.9

Source Deutsche Bundesbank

German data in the table above and chart below is published quarterly and includes not just the Federal Government but also Länder and Local levels. We await Q2 data which will likely show a continuation of the deteriorating trend established by the decision to increase defence expenditure from a low of €45b. in 2020 to a budgeted €183b. by 2030 an increase from 1.4% GDP to an anticipated 3.7%. Federal data is published monthly and mirrors the picture of higher expenditure. July's Federal deficit of €16.4b. was double the same month last year and the year-to-date Federal deficit of €83.8b. contrasts with €50.9b. in 2025. Germany is arguably the only European country that can safely afford such a large increase in defence expenditure given its fiscal discipline over the last decade. Historic consistently small annual deficits of under 3% GDP and an accumulated deficit of 63% GDP put Germany in the strongest position of the countries monitored by this review by a substantial margin. A word of warning, however. Germany is the lynchpin of the Euro system. It risks being materially undermined by de-industrialisation, high relative energy prices and low growth just as Federal spending is picking up.

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



Source Deutsche Bundesbank

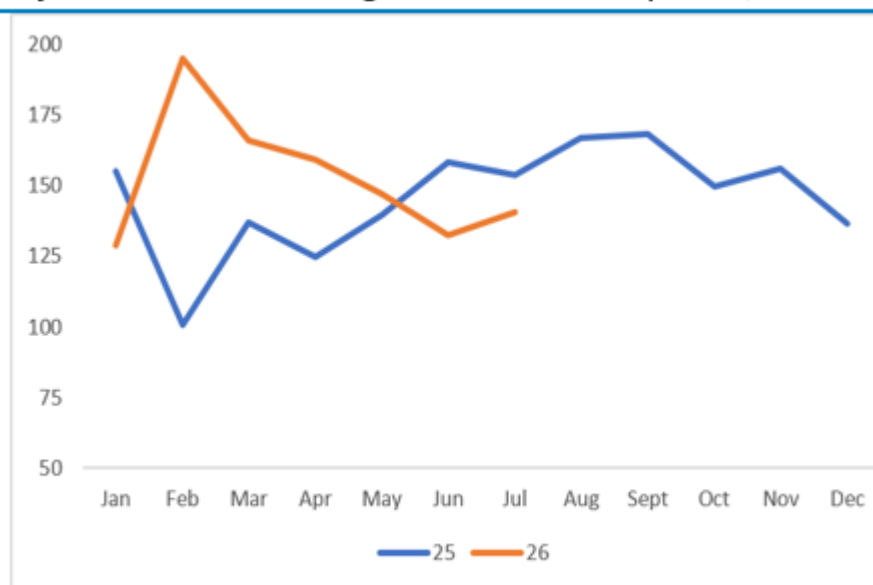
Italy

	Deficit/ surplus, % GDP	Primary deficit/surplus, % of 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	0.4	138.6

Source Banca d'Italia

July and August are traditionally months of fiscal surplus in Italy. July's €2.6bn surplus was however somewhat below the €11bn surplus in the corresponding month in 2025. Italian monthly fiscal data is notoriously volatile but on both a year-to-date and rolling 12-month basis there is reasonable stability with year-to-date deficit at €151bn being some 3% higher than to this point last year while the rolling figure, outlined below, at €140bn, is some 5% larger. Italy, however, has been shaken by the recent bond sell-off with the yield on 10-year sovereigns now standing at 4.58%, some 93bp higher than 12 months ago and up 44bp in 4 weeks. While Italy has made some strides in controlling the scale of the deficit over the last 3 years, reducing it to a projected 2.9% GDP accumulated debt of €3.2bn currently has an average servicing cost of €90bn with a short average maturity of 6.95 years the re-fi risk is significant. It is notable that longer date Italian debt now trades at a premium to French debt and this is a credit to Meloni's Government which has made strides in controlling the deficit. However, the position remains fragile with very modest underlying economic growth and a vulnerability to energy price shocks given its relative dependence on imported gas.

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



Source Banca d'Italia

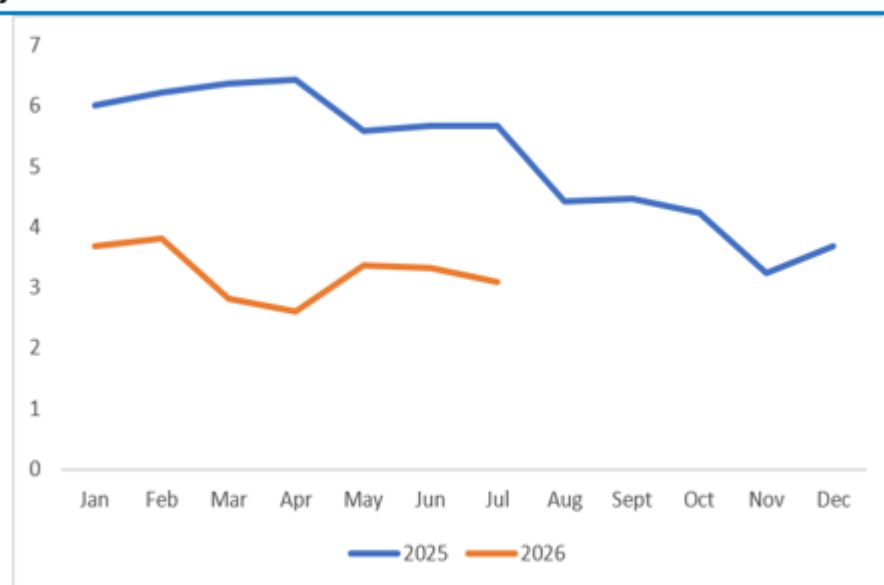
China

	Deficit/ surplus, % GDP	Primary deficit/surplus, %	Debt- GDP, % of GDP
2019	-6.1	-5.2	59.8
2020	-8.6	-8.6	70.1
2021	-6.1	-5	72.1
2022	-7.4	-6.4	77.3
2023	-5.8	-5.8	84.1
2024	-6.5	-6.3	90.4
2025	-5.8	-4.2	99.2
2026E	-5.2	-3.1	98

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, the first seven months of the calendar year saw a deficit of CNY1.0 trillion compared with a deficit of CNY1.53t over the same period last year. Examining the deficit through a 12-month rolling period underlines this improvement, with the deficit falling from CNY5.67t. to CNY3.1t. The published National People's Congress budget sees spending growth easing modestly in 2026. It therefore envisages progress to control a deficit which has persistently remained well over 5% of GDP over the last decade. However, while the position may be improving, a deficit of 5.2% GDP is forecast for 2026. The debt-to-GDP ratio is almost 100% and has doubled in the last decade. 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. (*Ewen Stewart*)

China's cumulative annual budget deficit to month in question, trillion yuan



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

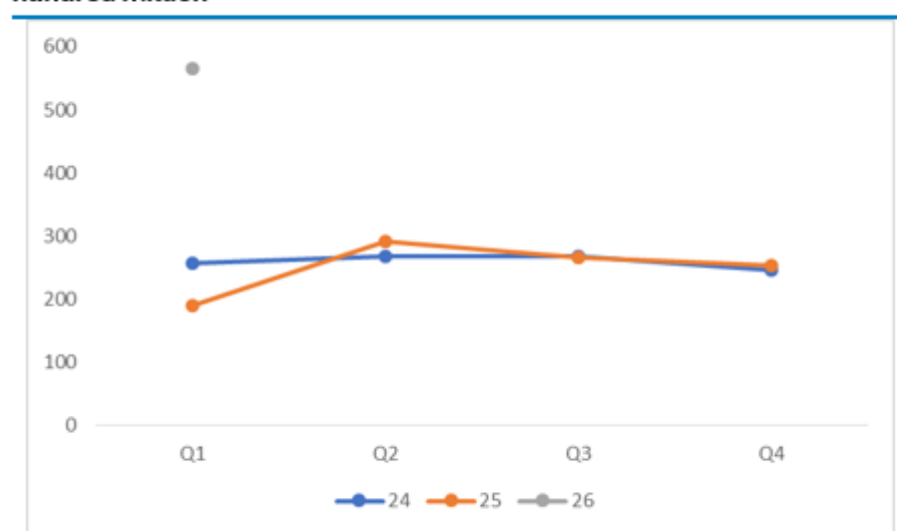
Japan

	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

Q2 numbers have not yet been published, but we await to see if Q1's extremely poor numbers suggest a trend or not. Q1 normally posts a budget surplus, but Q1 2026 saw a big deficit of ¥5.3 trillion. (In 2025 the Q1 figure was a surplus of ¥26.0t. A trillion yen is equivalent to \$6.3b. at the present exchange rate of 158 yen to the dollar.) In the early 2020s Japan's ruling Liberal Democratic Party took major strides to control the deficit and it fell steadily from a Covid-19 peak of 9% of GDP to more recent numbers of 2%-3% of GDP. But the new Liberal Democrat prime minister, Sanae Takaishi, has abandoned this approach after achieving a landslide victory in October 2025 by promising to end austerity. The early results have been catastrophic. The deficit is showing signs of ballooning as public spending has increased with cost-of-living interventions and increased defence expenditure. The yield curve has moved out substantially. The 10-year bond yield has risen to 3% compared to little more than 1.6% a year ago. (The 30-year comparison is 4.1% today versus under 3.3% in September 2025.) Meanwhile, the BoJ has raised interest rates to 1.25%, the highest level in over 30 years. The yen, having depreciated materially against the USD, has rallied from a low of Y163 to the current figure of Y158. Takaishi's apparent Keynesianism is destabilising Japanese public finances. . (Ewen Stewart)

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



Source Ministry of Finance, Japan

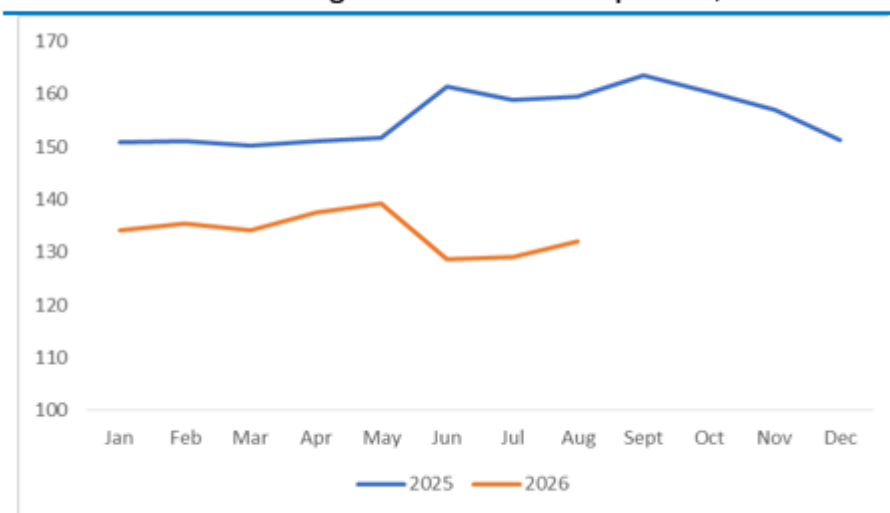
UK

	Deficit/ surplus, % GDP	Primary deficit/surplus, %	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	94.3
2026 F	-3.8	-0.5	94.9

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

Under the present Labour government, taxes have increased significantly. Nevertheless, Britain's public finances are only weakly controlled. August saw a deficit of £18.3b. This was the weakest August number since covid -19 and compares with £15.4b. for the corresponding month last year. Fiscal year to date the deficit for the first eight months is £77.3b. broadly equivalent to £79.5b. to this point in 2025/6. While the chart below shows some improvement on a twelve-month rolling basis the underlying fiscal position remains highly fragile with debt to GDP very close to 100%. Tax receipts are growing at 7.3% over the year, but the last two months have shown a deterioration in this trend with growth of 4.6% and 3.8% respectively. Annualised public spending growth of 4.4% is at its lowest rate since covid-19 but both July and August figures indicate spending may be picking up with spending growth of 5.6% in July and 6.4% in August year on year. Growth continues to be modest at around +/-1% pa – and somewhat less per capita. The UK's relative tax position has therefore been undermined compared to the EU and is now at a substantial disadvantage with other Anglosphere countries. Debt servicing charges have increased markedly accounting for c £120bn of current expenditure, the third largest budget component after welfare and the NHS. Worse, 10-year gilts now yield 5.41% (up over bp over 12 months). Although the debt to maturity profile is long at 14 years, without corrective action, there inevitably will be a long-term structural upswing in debt servicing costs. New Chancellor Healey's first budget will be on 28th October.

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



Source ONS