Horizons

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Public Debt: How Far Can Governments Go?

Dear Client,

After thirty-eight years of activity in the financial sector, including twenty-eight years as a Partner of Bordier & Cie, I wished to share with you, two to three times a year, a number of personal reflections on a macroeconomic topic.

Public debt has become one of the defining economic issues of our time. Like many others, I was long brought up with the idea that indebtedness inevitably creates fragility and, ultimately, crisis. Yet it is striking to observe that the explosion of global public debt has not, so far, fundamentally altered investors' perception of governments' ability to service their debt obligations and, eventually, repay the principal.

The real question is therefore no longer simply whether public debt is high. Rather, it is to determine how far it can continue to increase without undermining the economic, financial and political stability of nations.

It seemed worthwhile to approach this phenomenon from both a historical and a macroeconomic perspective. To do so, I have chosen to focus on four countries in particular: the United States, because of its size and its central role in the global financial system; France and the United Kingdom, because of their importance in Europe and the complexity of their fiscal situations; and finally Switzerland, because it lies at the heart of our activities and represents a unique case within the international landscape.

After forty years of structurally declining interest rates, governments gradually became accustomed to financing deficits, social spending, economic crises and investment programmes through borrowing. The 2008 financial crisis, the Covid-19 pandemic, the energy crisis following the war in Ukraine, and subsequently rising defence expenditures have all further accelerated this trend.

According to the International Monetary Fund, global public debt is expected to exceed USD 100 trillion in 2026, representing approximately 95% of global Gross Domestic Product (GDP), and to surpass 100% of world GDP by 2030. These figures are enough to raise concerns, particularly when viewed from a Swiss perspective, naturally shaped by a culture of fiscal prudence. Yet the world is, quite evidently, becoming less and less Swiss in its approach to debt.

Historical Background

Public debt largely originated as a means of financing wars between the fifteenth and eighteenth centuries. During that period, sovereign defaults were frequent. Nevertheless, one constant already emerged and has endured through the centuries: the more powerful, organised and credible a state is, the greater the confidence it inspires among its creditors.

After the nineteenth century, often portrayed as a golden age of fiscal discipline, the two World Wars profoundly disrupted this balance. At the end of the Second World War, many countries reached extremely high levels of indebtedness. Yet no widespread debt crisis followed. Several factors explain this outcome: the introduction in the United States of a yield curve control framework by the Treasury and the Federal Reserve; inflation that remained persistently higher than the interest paid on government bonds, thereby reducing the real value of debt; exceptionally strong economic growth during the post-war boom; and finally the baby-boom generation, which rapidly expanded the workforce and improved public finance dynamics.

The resurgence of debt from the 1980s onwards can be attributed to several factors: globalisation, rising social expenditures and the gradual illusion that borrowing carried virtually no cost. The steady decline in interest rates over nearly four decades profoundly altered governments' behaviour. More recently, the 2008 financial crisis and the Covid-19 shock reinforced the notion that governments should intervene massively during times of crisis, supported by central banks.

The Current Situation

IMF projections illustrate the scale of the phenomenon. Excluding Switzerland, the major developed economies considered here all display public debt levels exceeding 100% of GDP, with debt expected to continue rising over the medium term.

Public Debt and Budget Balance

2026 estimates and 2030 projections, as a percentage of GDP

Country	Public Debt 2026	2030 Projection*	Budget Balance 2026
United States	126%	138-140%	-7%
France	118%	125-130%	-5.5%
United Kingdom	104%	110%	-4%
Switzerland	38%	35-40%	0% to +1%

Source: IMF, World Economic Outlook, April 2026.

With the exception of Switzerland, none of these countries can afford to remain indifferent to the evolution of their public debt. However, the challenge lies in the very nature of the associated expenditures. Meaningful reductions in social benefits, pensions or healthcare spending are politically difficult to implement in contemporary democracies. For the time being, political leaders often appear to be waiting for a crisis to impose adjustments that cannot be enacted voluntarily.

The following table illustrates the structure of major public expenditures by country.

Main Functions of Public Expenditure (% of GDP)

Function (% of GDP)	United States	United Kingdom	France	Switzerland
Social Protection	13%	16%	24%	11%
Healthcare	7%	8%	8%	5%
Education	4%	5%	5%	5%

Source: OECD / COFOG data.

Across most Western economies, we are therefore clearly facing a period of over-indebtedness, while the associated expenditures are directed primarily towards redistribution and healthcare rather than direct drivers of economic growth.

The fundamental differences between past episodes of excessive indebtedness and the current situation lie in two key factors: first, the relative weakness of growth in developed economies; and second, the much more structured and coordinated role now played by central banks and governments.

To better understand these dynamics, it is useful to examine more closely the situation of each of the four countries.

The United Kingdom

With public debt exceeding 100% of GDP, the United Kingdom has reached historically elevated levels of indebtedness. Since the 1980s, the country has gradually replaced a significant share of its industrial base with a service-oriented economy, particularly centred on financial services. Since the 2008 financial crisis, however, the contribution of this model to growth has weakened. British productivity has stagnated for almost two decades, significantly constraining the country's growth potential and, consequently, its future tax revenues.

The United Kingdom also faces two additional challenges. The first stems from the consequences of Brexit, which have increased trade frictions, weighed on certain categories of foreign investment and exacerbated labour shortages across several sectors. The second is demographic ageing, a phenomenon now affecting most developed economies, which is placing growing pressure on pension systems and healthcare expenditure.

France

France carries a higher debt burden than many of its European peers and remains one of the world's most extensive welfare states. Public expenditure represents more than half of GDP, while pension spending alone exceeds 14% of national output, compared with 11.6% in Germany. Such levels are almost unparalleled among developed economies, at a time when the ratio of active workers to retirees continues to decline.

Without structural reform, this burden will inevitably increase and place growing pressure on future generations of taxpayers. Three broad avenues exist: allowing pensions to rise more slowly than inflation, extending working lives (with the retirement age set at 64 in France by 2030, compared with 67 in Germany from 2031 and in the United Kingdom from 2028), or fundamentally redesigning the retirement system by developing a genuine funded-pension pillar similar to the Swiss model. None of these options is painless, but inaction is likely to prove the most costly.

At the same time, economic growth remains subdued, while the political system often appears constrained by the absence of solutions that are both credible and broadly acceptable. Despite several recent reforms, unemployment retains a structural dimension, the labour market remains relatively rigid, and public deficits continue to rank among the most persistent and concerning in the developed world.

France's demographic outlook, long considered more favourable than that of many European neighbours thanks to an active family policy, is also deteriorating. Falling birth rates and an ageing population are gradually weakening the balance between contributors and beneficiaries, adding further strain to social finances. Significant policy decisions lie ahead, making the 2027 presidential election particularly consequential.

The United States

The United States has accumulated an exceptionally high level of public debt, one that may appear concerning at first glance. Yet the country continues to benefit from formidable strengths. Economic growth remains stronger than in most developed economies, supported by comparatively favourable demographics, a flexible labour market, an unparalleled capacity for innovation and a technological leadership that remains difficult to match.

From a political perspective, growth remains the most effective means of managing excessive indebtedness. Successive administrations have relied on it to finance social spending, strategic investment and defence expenditure alike. In this context, technological leadership has become almost a matter of national importance.

As deindustrialisation continues to reshape the American economy and traditional sectors struggle to generate sufficient growth, technology has assumed an increasingly central role in the country's economic model. Viewed through this lens, the intensity of competition between the United States and China in artificial intelligence, semiconductors, digital platforms and critical technologies becomes easier to understand.

The United States also enjoys the unique privilege conferred by the dollar. It remains the world's principal reserve currency, the dominant currency for international trade and a global safe-haven asset. As long as this position endures, the United States retains an exceptional capacity to borrow.

Investors purchase US government debt not solely because they believe in the country's fiscal strength, but also because no alternative market currently offers a comparable combination of depth, liquidity and legal certainty.

This does not mean, however, that the United States can indefinitely ignore fundamental fiscal constraints. Its room for manoeuvre is greater than that of most other nations, notably in terms of taxation and public revenues (approximately 30% of GDP, compared with 52% for France and 38% for the United Kingdom), but it is not unlimited.

Switzerland

Switzerland stands out as a remarkable exception within the global landscape. Thanks to its debt brake mechanism and a political culture deeply rooted in fiscal prudence, public debt remains close to 30% of GDP. As a result, the country enjoys one of the strongest fiscal profiles in the developed world.

Switzerland also benefits from substantial structural advantages: a flexible labour market, recognised fiscal discipline, stable institutions, strong competitiveness and persistent external surpluses. It is one of the few OECD economies where economic growth has consistently outpaced the accumulation of public debt, largely thanks to the debt brake framework introduced in 2003.

Paradoxically, in the event of a debt crisis affecting several major economies, Switzerland could become a victim of its own safe-haven status. A substantial inflow of capital into the Swiss franc would likely trigger a sharp appreciation of the currency, weighing on exports, manufacturing and tourism.

The Role of Central Banks

One of the key differences between historical debt crises and the current environment lies in the role of central banks. For the first time in modern history, they possess an extraordinary capacity to purchase their own governments' debt, helping to keep interest rates under control while ensuring ample liquidity within the financial system.

This is complemented by governments' increasing ability to coordinate their responses in order to prevent systemic crises, as was demonstrated during the 2008 financial crisis.

These developments have significantly reduced the risk of an abrupt financing crisis, but they have not eliminated the underlying problem. Rather, they have shifted its nature. The principal risk is no longer solely that of an explicit default; it also encompasses currency debasement, persistently higher inflation or a gradual erosion of confidence in the real value of sovereign obligations.

What Solutions Might Emerge?

The excessive indebtedness of many developed nations is undoubtedly one of the most significant challenges our economies will face in the years ahead.

As we have seen, it largely stems from the steady expansion of structural expenditures, including pensions, healthcare, social protection, defence and the energy transition, all of which are politically difficult to reduce. The challenge is therefore as much political as it is economic: while the need for adjustment is widely recognised, few policymakers are willing to bear the associated electoral cost.

This challenge is compounded by the rise of populist movements and leaders across the political spectrum, many of whom thrive on rejecting fiscal constraints. Yet a lasting reduction in public spending requires precisely the opposite: policy continuity, public engagement and the ability to make difficult choices between competing collective priorities.

In such an environment, it is likely that meaningful adjustments will continue to be postponed for as long as financial markets remain willing to finance government deficits.

In the short term, it would therefore come as little surprise if countries such as France and the United Kingdom chose to address part of the problem through higher taxation. Politically, this approach is often easier to implement than a direct reduction in public spending. Yet it carries an obvious risk: further weakening potential growth, at a time when growth remains the least painful way of stabilising elevated debt levels. The dilemma is therefore clear. Higher taxes may reassure markets temporarily, but they can also reduce an economy's capacity to absorb debt over the long term.

Another likely outcome lies in a more or less explicit form of financial repression, whereby nominal interest rates are kept below nominal economic growth whenever possible, allowing the real value of debt to be gradually eroded over time. This strategy played a significant role in the aftermath of the Second World War and re-emerged following the 2008 financial crisis.

A further possibility is the gradual "domestication" of public debt. Japan offers perhaps the most advanced example of this model. A substantial share of its debt is held directly or indirectly by domestic institutions, including the central bank, pension funds, insurance companies and other financial institutions. This structure reduces reliance on foreign investors and limits the risk of a sudden funding crisis. In return, however, it increases the interdependence between the state, the financial system and national savings, while gradually diminishing the disciplining role traditionally played by financial markets.

Recent history also suggests that governments often wait until a situation becomes almost unsustainable before implementing genuinely restrictive adjustment measures. The European sovereign debt crisis, which affected countries such as Portugal, Ireland, Greece, Spain and Italy, provides a clear illustration. Once market confidence disappears, adjustment is no longer a matter of choice but of necessity. At that point, institutions such as the International Monetary Fund, the European Commission, the European Central Bank or the European Stability Mechanism may condition their support on far-reaching fiscal, social and structural reforms.

How Can Market Risk Appetite Be Monitored Proactively?

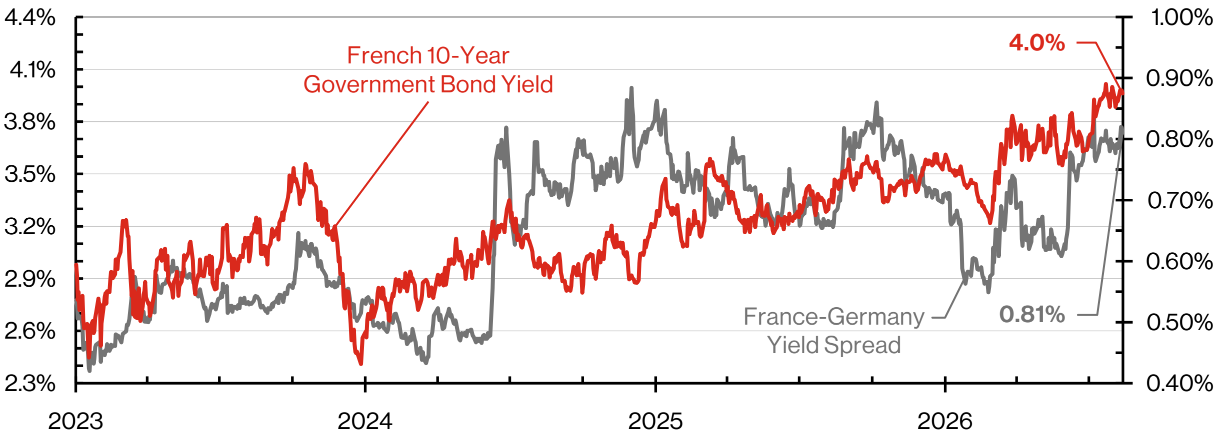
Ultimately, the verdict will come from the markets.

Within the euro area, the spread between the sovereign bond yields of the countries discussed here and those of Germany, widely regarded as the benchmark for fiscal credibility within the monetary union, remains one of the most useful indicators to monitor. The widening of spreads during episodes of political uncertainty in France or Italy illustrates this dynamic. The larger the spread, the greater the risk premium investors demand to hold a country's debt. This is not merely a financial signal; it also reflects investors' assessment of a government's fiscal credibility.

In countries that retain their own central bank and currency, tensions tend to become visible through a simultaneous rise in long-term sovereign yields and a depreciation of the currency, as occurred during the brief premiership of Liz Truss in the United Kingdom in the autumn of 2022.

France

10-Year Government Bond Yield and Spread vs Germany



Source:Bloomberg

Another valuable indicator is sovereign bond market volatility. Rising volatility typically reflects growing investor unease, reduced visibility regarding public finances or greater uncertainty surrounding future central bank actions. Taken together, bond spreads and volatility provide insight not only into the level of perceived risk, but also into the speed at which confidence can deteriorate.

Identifying reliable leading indicators is particularly challenging because investors have gradually become accustomed to debt levels that would have appeared excessive only a few decades ago. Moreover, the combination of abundant liquidity created by central banks since the 2008 financial crisis and the global accumulation of savings has significantly increased the volume of capital seeking investment opportunities. In a world where large, liquid and relatively safe assets remain scarce, sovereign bonds issued by major economies continue to occupy a central place within investment portfolios. This environment may postpone the emergence of tensions, but it does not eliminate the underlying imbalances.

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Conclusion

Historically, governments have rarely escaped excessive indebtedness through the full repayment of their debt. More often, debt burdens have been reduced through a combination of economic growth, inflation, financial repression, maturity extensions or, in certain cases, outright restructuring.

The fundamental issue may therefore not be the absolute level of debt itself, but rather an economy's ability to grow sustainably at a pace exceeding that of its debt accumulation. History shows that very high debt levels can be sustained for extended periods. However, when weak growth, unfavourable demographics and persistent deficits converge, room for manoeuvre inevitably narrows.

For this reason, I remain convinced that a sovereign debt crisis will ultimately be difficult to avoid and that such a crisis is likely to have significant repercussions across both equity and fixed-income markets.

The question is not so much whether such a crisis will occur, but when. This is a particularly difficult question, as virtually no stakeholder, and certainly not the political establishment, has an interest in bringing the current situation to an end prematurely. As is often the case in financial history, I therefore expect the trigger to come from an exogenous shock, whether economic, geopolitical or monetary in nature.

We will probably not be able to predict precisely when it will occur. But once it does, the ability to respond quickly will be essential.

The eventual solution is likely to involve a combination of higher inflation, increased taxation, greater intervention by governments and central banks and, although politically more difficult, a return to stronger fiscal discipline. This final element will be critical, yet it is also likely to generate significant social tensions and resistance.

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