Insight INVESTMENT

GLOBAL MACRO RESEARCH

FISCAL FAULT LINES: A GLOBAL REVIEW OF SOVEREIGN FISCAL HEALTH

SEPTEMBER 2025

The global fiscal landscape is entering a period of heightened scrutiny and divergence. As debt burdens rise and political constraints tighten, the sustainability of sovereign finances is increasingly shaping market behaviour and investor decision-making. In this paper we provide a comprehensive assessment of fiscal sustainability across developed and emerging markets.

EXECUTIVE SUMMARY

- **Assessing global fiscal metrics:**

1. **Fiscal balances:**
    - **Budget balance:** The US, China, and France are expected to maintain high deficits, while Norway, Ireland, and Portugal show strong or improving balances. Germany's fiscal discipline has weakened due to defence and infrastructure spending.
    - **Primary balance:** The US faces additional pressure from the One Big Beautiful Bill, while the UK and New Zealand are projected to improve. China remains expansive; Mexico and Norway are expected to run persistent surpluses.
    - **Fiscal Spotlight – US:** A sweeping Republican tax bill delivers on campaign promises but adds $4.1 trillion to the national debt, exacerbates fiscal cliffs, and faces broad public disapproval.
2. **Interest costs and gross financing needs:** The US and Japan have gross financing needs exceeding 30% of GDP. Italy's interest costs remain high but are declining. Brazil, South Africa, and Mexico face rising costs, while Ireland and Portugal have reduced financing needs.
    - **Fiscal Spotlight – Eurozone:** Germany loosens its constitutional debt brake to fund €500bn in investment, risking its AAA rating while leading EU-wide defence spending expansion.
3. **Coupon rates and maturities:** The US, New Zealand, and Australia are projected to have the highest effective average coupons in five years. The UK maintains long maturities but plans to shorten issuance. Ireland leads eurozone fiscal flexibility.
    - **Fiscal Spotlight – UK and Japan:** Structural shifts and waning institutional demand are driving a repricing of long-duration bonds, with both countries cutting long-dated issuance amid rising yields.

4 **Debt ownership:** Japan has the highest central bank ownership while China has the lowest. France, Norway, and New Zealand have high non-resident holdings, increasing exposure to capital flight.

5 **Debt/GDP and liabilities:** The US, China, and South Korea face healthcare and pension liabilities exceeding 100% of GDP. France and Belgium are on unsustainable paths, while Ireland and Portugal show convergence with stronger peers.

- **Fiscal Spotlight – China:** Targeted stimulus and a ¥12tn debt swap shift fiscal burdens to the central government, pushing debt-to-GDP into the high 60% range and exposing hidden local liabilities.

6 **Private debt and international holdings:** High private debt in China, Canada, and France poses systemic risks. The US's international investment position has deteriorated; Hungary's has improved. Most emerging markets are reliant on foreign investors.

- **Fiscal Spotlight – Emerging markets:** South Africa's missed consolidation under Zuma and weak growth under Ramaphosa highlight the dual need for fiscal discipline and economic momentum; Indonesia's prudent headline metrics mask rising off-balance-sheet SOE support under Prabowo; Brazil's inflation-linked pension liabilities and post-boom stagflation were partially offset by spending caps and recent growth; and Mexico's stable macro framework faces pressure from Pemex's contingent liabilities and a widening deficit, with the incoming Sheinbaum administration pledging to return to historical primary balance levels over the medium term.

- **Country risk assessment:** The US, France, Belgium, and Brazil appear to be on an unsustainable fiscal path. China is deteriorating but retains fiscal space. Norway remains highly secure. Emerging markets show mixed resilience.
- **Investment implications:** Countries with unsustainable debt and weak reform momentum face growing fiscal vulnerabilities, which markets may pre-emptively price in through higher yields, steeper curves, wider spreads, and currency depreciation.

ASSESSING GLOBAL FISCAL METRICS

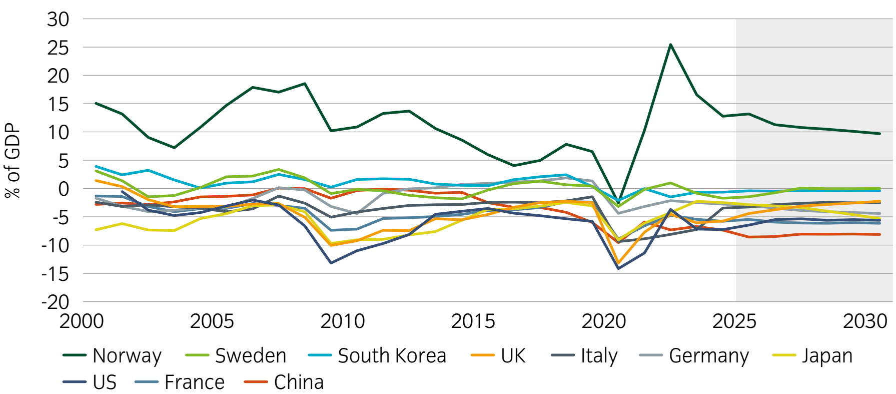
To establish a robust foundation for our research, we begin by examining how countries are positioned across a spectrum of fiscal indicators. As well as utilising our own analysis, we draw on several publications. These include the International Monetary Fund's (IMF) World Economic Outlook (WEO) – a flagship publication released biannually. The WEO offers in-depth analysis and forward-looking assessments of global economic conditions, covering key themes such as growth trajectories, inflation dynamics, trade flows, and fiscal performance across both advanced and emerging markets. We also draw on the IMF's Fiscal Monitor and Global Financial Stability Report.

1 FISCAL BALANCE

The first step to assess a government's fiscal health is typically to examine its budget surplus or deficit – the difference between total federal spending and revenues. However, a more refined measure known as the primary deficit focuses solely on the gap between government revenues and spending, excluding interest payments on debt, offering a clearer view of the government's underlying fiscal position.

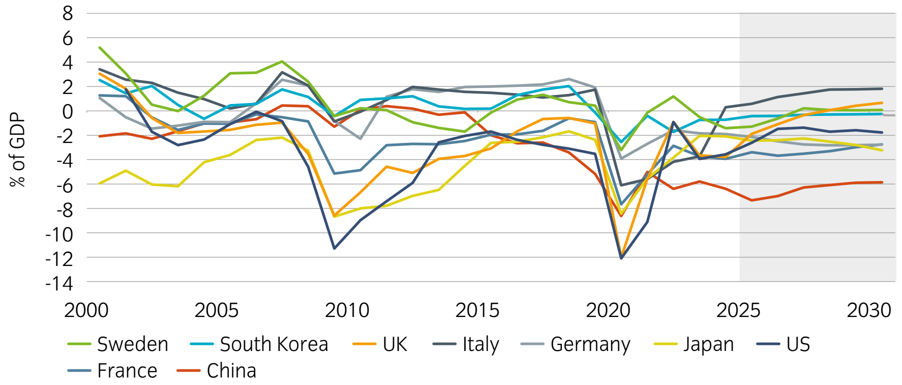
- **Budget balance:** Norway is expected to maintain an exceptionally strong budget surplus, while Japan's deficit is projected to worsen due to rising interest costs. The UK is forecasted to improve its budget balance, whereas China, France, and the US are expected to continue running high deficits – with the US outlook further deteriorating due to the One Big Beautiful Bill. Ireland, Portugal, and Greece are anticipated to remain in surplus or near balance, but Germany's fiscal consolidation has reversed amid increased defence and infrastructure spending. Belgium, France, and Slovakia are likely to remain well outside Maastricht targets. Among emerging markets, Peru, Chile, and the Philippines show low deficits, while Romania, India, Brazil, Poland, and South Africa face high deficits, though many are expected to improve over time.
- **Primary balance:** The IMF forecasts primary deficits across various countries, accounting for German fiscal expansion. Due to its April publication date it excludes the impact of the One Big Beautiful Bill, which is expected to add 1.0–1.6% of GDP annually to the US primary deficit, but also revenues stemming from the new US tariff regime. The UK and New Zealand are projected to improve their primary deficits by over 4–5% by 2030, while China is expected to maintain expansive deficits. Norway, which we have excluded from Figure 2 for clarity, is anticipated to run a significant surplus of 8–10% of GDP. Former eurozone crisis countries are expected to sustain primary surpluses, with Ireland (also excluded) running around 2%. Conversely, Belgium and Slovakia are forecasted to maintain expansive deficits. Mexico is set to continue running persistent surpluses, and although Romania and Poland currently have high deficits, they are expected to improve.

Figure 1: Budget balance as % of GDP[1]



[1] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.

Figure 2: Primary budget balance as % of GDP[2]



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The first step to assess a government's fiscal health is typically to examine its budget surplus or deficit – the difference between total federal spending and revenues.

FISCAL SPOTLIGHT 1
US: EXPANDING AN ALREADY SIZABLE FISCAL DEFICIT

The One, Big, Beautiful Bill

The new US tax bill is a political Swiss Army knife – bundling a suite of Republican priorities into one ambitious package. It channels more funding into defence and border security, dismantles key provisions of President Biden's Inflation Reduction Act, locks in the 2017 Trump-era tax cuts permanently, and makes sweeping cuts to federal spending and safety net programmes.

The bill has been shaped by four key, but often competing, priorities.

1. Fiscal hawks pushed hard for deeper spending cuts, emboldened by Moody's downgrade of the US credit rating.
2. Republicans from high-tax states demanded relief from the cap on state and local tax (SALT) deductions.
3. Moderates resisted cuts to programmes like Medicaid, food assistance, and green energy incentives.
4. The need to increase the debt ceiling to prevent the US government from defaulting on its debt. The original House bill proposed a $4 trillion increase to the national debt ceiling, an eye-watering figure that loomed large over the entire debate.

A crucial caveat: much of the tax bill is temporary by design. It will set in motion a series of fiscal cliffs – forcing future lawmakers to either extend key provisions or let them expire. For example, Trump's headline proposals – no taxes on tips or overtime pay, and the deductibility of auto loan interest – are due to sunset in 2028, the final year of his second term.

A win for President Trump, but fiscal woes ahead for America

Despite the fiery rhetoric leading up to the final vote, Republican fiscal hawks in Congress ultimately fell in line, with only two Republicans voting against the bill. This delivered President Trump a sweeping legislative victory.

The bill checks off several key campaign promises: eliminating taxes on tips and overtime, ramping up border security funding, and dismantling core Biden-era clean energy subsidies and credits. But it comes at a steep cost.

[2] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.

According to the Committee for a Responsible Federal Budget, the final version of the bill is projected to add $4.1 trillion to the national debt over the next decade ($3.4 trillion in primary deficit impact plus $0.7 trillion in interest), pushing the debt-to-GDP ratio from 100% to 127%. Quietly embedded in the legislation was a $5 trillion increase in the debt limit, the largest ever and significantly more than $4 trillion increase approved by the House.

New tariff revenues will only partially offset the increase in budget deficits. The Yale Budget Lab estimates tariffs as currently announced will raise $2.3 trillion over the next decade after substitution effects are considered.

Public sentiment is far from enthusiastic. Recent polls show broad disapproval of the bill, particularly its Medicaid-related provisions, which could jeopardise health coverage for millions and slash funding for local hospitals. This could well become a political talking point in the run-up to the 2026 midterms.

From a macroeconomic standpoint, the bill is expected to deliver a modest near-term boost, with the peak impact anticipated in 2026.

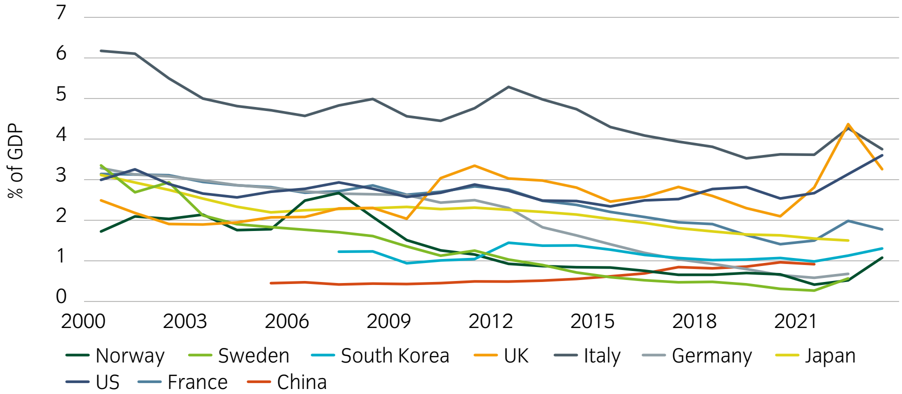
On the global stage, the contentious Section 899 "revenge tax" was dropped following Treasury Secretary Bessent's announcement of a pending multilateral agreement on global corporate taxation.

2 GOVERNMENT INTEREST COSTS AND GROSS FINANCING NEEDS

Elevated interest costs and gross financing needs, which reflects a country's annual bond issuance combining deficit and debt rollover, can erode investor confidence, raise borrowing costs, and increase the risk of fiscal crises. They also influence asset prices, yield curves, and currency stability.

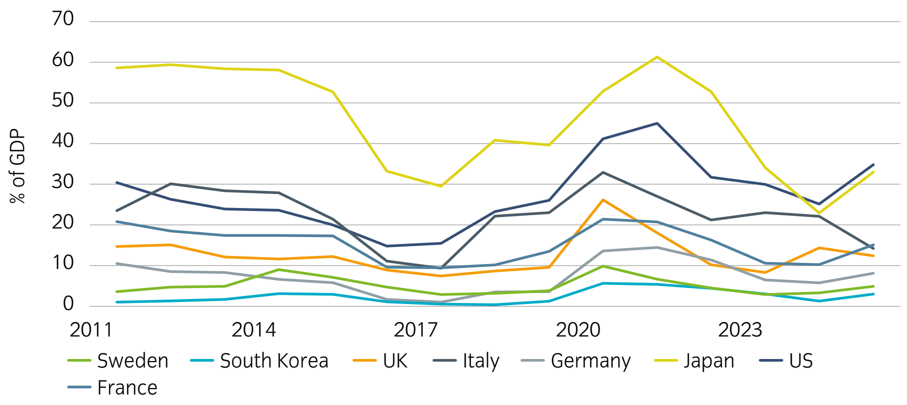
- **Interest costs:** The US is experiencing rising interest expenses, while countries like the UK, Italy, and France are seeing the effects of their larger stock of inflation-linked bonds. Italy's interest costs remain high but have declined over time, whereas Sweden, Germany, China, the Netherlands, and Ireland continue to benefit from very low interest burdens. Greece still faces relatively high costs, though less severe than in the past. In emerging markets, Brazil's interest costs are persistently high, and South Africa, Colombia, and Mexico are seeing increases. Conversely, Chile, the Czech Republic, and Thailand maintain low interest costs.
- **Gross financing needs:** The US and Japan are particularly vulnerable, with gross financing needs exceeding 30% of GDP, raising concerns about waning demand for sovereign bonds issued by both countries. Within the eurozone, Belgium, France, Italy, and Finland have the highest financing needs, while Ireland and Portugal have made notable progress in reducing their financing needs over the past decade. Among emerging markets, Brazil stands out with the highest gross financing requirement.

Figure 3: Government interest costs as % of GDP[3]



[3] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.

Figure 4: Gross financing need as % of GDP[4]



FISCAL SPOTLIGHT 2

EUROZONE: TAKING ADVANTAGE OF GERMAN FISCAL HEADROOM

Releasing the German debt brake

In March 2025, the German government approved a constitutional amendment to exempt defence spending above 1% of GDP from borrowing limits and establish a €500 billion extrabudgetary fund for infrastructure and climate investment (just over 11% of 2024 GDP), to be deployed over 12 years.

German states will also be allowed to run structural deficits of up to 0.35% of GDP versus a previous requirement to run structurally balanced budgets. This represented a significant loosening to the country's constitutional "debt brake", with the combined states and government allowed to run a structural deficit of 0.7% of GDP, double the previous level.

The extrabudgetary fund will finance projects in areas such as transport, healthcare, energy, education, research and digitalisation. The European Commission have modelled the potential impact of the fiscal boost under two scenarios[5]:

- **Full allocation to productive projects:** German GDP would be 1.25% higher by 2029 and 2.5% higher by 2035 relative to baseline, with the impact on debt relatively contained as long as the investment "yields high productivity gains and boosts growth". Debt/GDP would increase by 0.5% relative to baseline by 2029, and 3.25% by 2035. There would also be considerable spillovers to other members states, with EU GDP raised by 0.75% in 2035, a third of which would be due to spillovers.
- **Half allocation to unproductive public consumption:** German GDP would be 0.75% higher by 2029 and 1.25% higher by 2035 relative to baseline. Debt/GDP would be around 1.5% higher by 2029 and 5.5% higher by 2035.

Further reforms are expected by the end of 2025, when an expert commission is set to deliver its recommendations. Among the proposals already on the table is a plan from the Bundesbank to reshape Germany's fiscal framework. It suggests introducing a permanent investment allowance of 0.9% of GDP, replacing the 0.35% structural deficit allowance. Additionally, if Germany's debt/GDP falls below the 60% threshold, the proposal would permit an extra 0.5% of GDP in spending. This would seek to strike a balance between fiscal discipline and long-term investment flexibility.

There are concerns that this would result in Germany breaching EU fiscal rules, but Ursula Von der Leyen, President of the European Commission, has proposed[6] that that defence spending be exempt from the calculations. This will need to be agreed by the European parliament.

[4] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.
[5] Source: https://economy-finance.ec.europa.eu/economic-forecast-and-surveys/economic-forecasts/spring-2025-economic-forecast-moderate-growth-amid-global-economic-uncertainty/potential-economic-impact-reform-germanys-fiscal-framework_en
[6] Source: https://www.europarl.europa.eu/RegData/etudes/IDAN/2025/764354/ECTI_IDA(2025)764354_EN.pdf

Room to move, but not without risk

Germany's decision to lead with fiscal expansion is significant, not just because of its economic weight, but because it's one of the few countries with the fiscal headroom to do so. That said, this bold move isn't without consequences. Fitch Ratings[7], responding to the announcement, warned that Germany's debt-to-GDP ratio is projected to climb to nearly 70% by 2027. While that's still below the 2010 peak of 80%, it would be the highest among AAA-rated peers, whose median sits at just 36.5%. In short, Berlin has room to manoeuvre – but not without testing the limits of its coveted AAA credit rating.

Fitch went on to note:

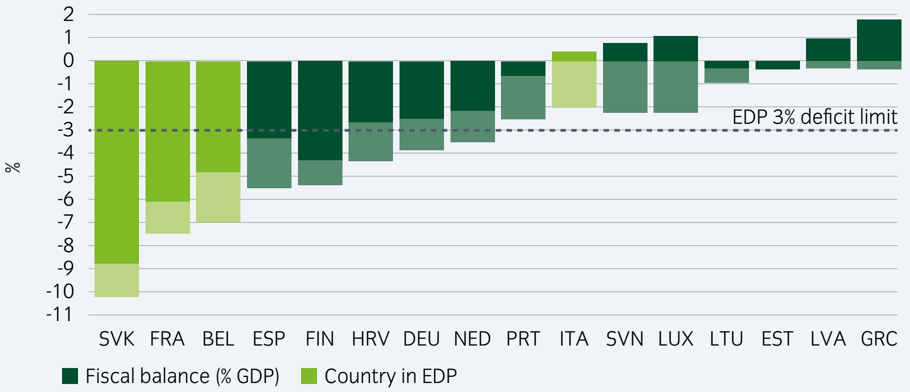
"Germany's record of fiscal prudence is an important anchor for its 'AAA' rating. We expect a broad commitment to public finance sustainability to remain a feature of German politics, but the shift in focus to defence and infrastructure means pressure on the rating could rise in the longer term.
The extent of broader economic reforms in the coalition plan and the future shape of the domestic debt-brake rule, which the coalition plans to reform more fully by end-2025, will be indicators of the relative importance given to strong fiscal metrics."

Joint defence spending

In response to security concerns and higher NATO spending commitments, the EU has approved a loan instrument, Security Action for Europe (SAFE)[8], that will be used to boost European defence spending. This legislative instrument will allow the European Commission to issue up to €150bn of joint EU debt until the end of 2030, with the proceeds loaned to individual member states to purchase weapons systems. A minimum of 65% of any weapons system purchased must be made within a member state. Norway, Moldova, South Korea, Japan, Albania, North Macedonia and the UK have Security and Defence Partnerships with the EU, which allows those countries to be classified within the 65% bracket.

The €150bn SAFE package is part of wider €800bn ReArm Europe plan[9] which will allow member states to activate the National Escape Clause to allocate additional public funding for national defence of up to 1.5% of GDP per annum. However, exempting defence from EU fiscal rules does not absolve member states from fiscal discipline, and countries like France, Belgium and Slovakia would need to run sizeable fiscal deficits to achieve the required levels of spending (see Figure 5). This could well prompt a reaction from markets if long-term debt sustainability comes into question.

Figure 5: European deficits required for 3.5% defence expenditure[10]



[7] Source: https://www.fitchratings.com/research/sovereigns/german-spending-plans-show-willingness-to-use-fiscal-space-for-geopolitical-growth-challenges-18-03-2025
[8] Source: https://defence-industry-space.ec.europa.eu/document/download/6d6f889c-e58d-4caa-8f3b-8b93154fe206_en?filename=SAFE%20Regulation.pdf
[9] Source: https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/769566/EPRS_BRI(2025)769566_EN.pdf
[10] Source: Eurostat, value at 4 July 2025. EDP: Excessive deficit procedure. Lighter areas show increase in deficit needed to reach target.

3 COUPON RATES AND WEIGHTED AVERAGE MATURITIES

The Weighted Average Coupon (WAC) reflects the average interest rate on a government's outstanding debt based on past issuance – higher rates mean greater interest payments, which can strain public finances. The Effective Average Coupon (EAC) adjusts this figure to account for central bank holdings. Weighted average maturity reflects how long the debt is held before repayment; longer maturities reduce refinancing risk and help stabilise funding costs, while shorter maturities may expose governments to market volatility and rising interest rates. Together, these metrics influence a government's ability to manage its debt burden efficiently and maintain investor confidence.

- **Coupon rates:** Among developed markets, the US, New Zealand, and Australia are expected to have the highest EAC over the next five years, with Japan remaining the lowest. Within the eurozone, Ireland, the Netherlands, and Germany will see moderate increases in EAC, whereas Greece and Italy are projected to maintain the highest levels.
- **Weighted average maturity:** The UK has traditionally stood out among developed markets for maintaining a longer average maturity, while South Korea has recently extended its maturity profile to take advantage of lower yields. Sweden currently has a shorter maturity, though this is expected to increase. Both the UK and Japan are planning to shorten the maturity of new issuance due to reduced demand for long-duration bonds. In the eurozone, there has been a general trend toward extending debt maturity, with Ireland, Belgium, and Austria leading the way. Emerging markets show greater variation: Peru, India, Colombia, and South Africa have notably long maturities, whereas the Czech Republic, Hungary, Brazil, and Poland maintain shorter profiles.

Comparing a country's expected effective average coupon (EAC) to its nominal GDP growth provides insight into its fiscal capacity – essentially, how much primary deficit it can sustainably run without increasing its debt burden. If nominal growth exceeds EAC, a government can maintain a primary deficit while keeping debt stable. Among developed markets, only Italy is projected to have EAC equal to nominal GDP, limiting its fiscal space, while others can afford some deficit. China stands out with the most fiscal space globally, and within the eurozone, Ireland is expected to have the greatest fiscal flexibility.

Figure 6: Weighted average and effective coupon[11]

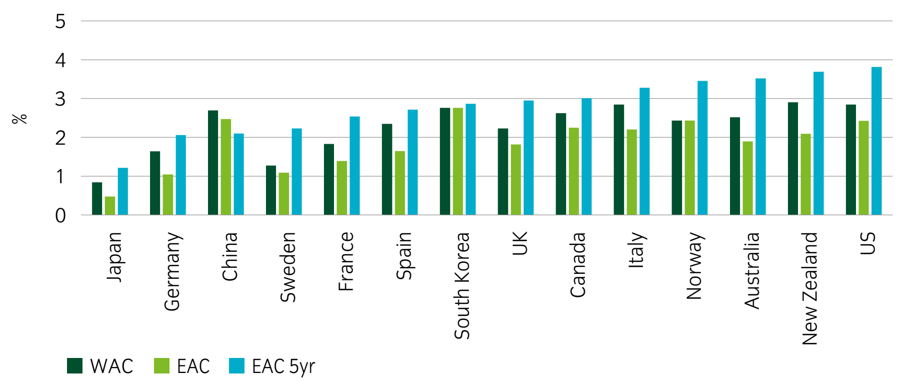
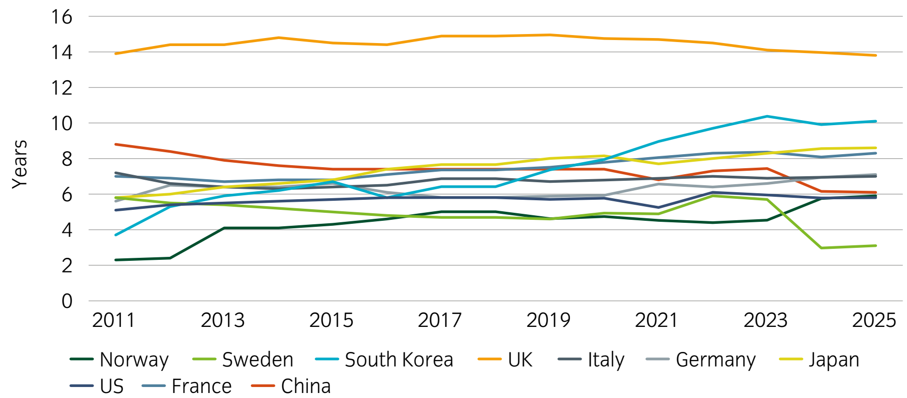


Figure 7: Weighted average maturity of government debt (years)[12]



[11] Source: Insight, Bloomberg. Data as at 7 August 2025.
[12] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.

FISCAL SPOTLIGHT 3
UK AND JAPAN: FADING DEMAND FOR DURATION

Japan: A rapidly repricing market

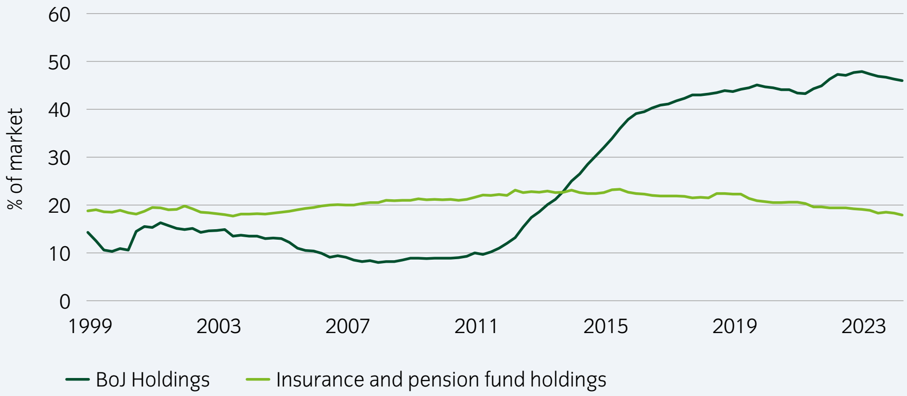
With debt/GDP in excess of 200%, Japan is perhaps a case study of how other advanced economies will progress over time. In its decades long battle against deflation, the Bank of Japan (BoJ) started to accumulate government bonds, asset-backed securities and even equities. This accelerated markedly under Abenomics, and the Bank accumulated close to 50% of Japan's outstanding government debt (see Figure 8).

Faced with a sustained period of above target inflation the Bank ended its zero rates policy in 2024 and abolished its yield curve control policy, under which the Bank sought to control long-term interest rates via the sale and purchase of long maturity bonds. From April 2026, the BoJ has announced that it will reduce its bond purchases by 200bn yen ($1.3bn) each quarter.

With BoJ demand plateauing, and set to decline next year, the burden of absorbing new issuance of Japanese government bonds, particularly at the long end of the curve, is increasingly falling on large domestic institutions and foreign investors. While pension funds and life insurers still hold around 18% of outstanding Japanese government bonds (see Figure 8), their role has diminished over time. Notably, many of the largest life insurers have already aligned their asset-liability durations following recent regulatory changes, and some are reportedly scaling back their Japanese government bond exposure. Demand for new life policies has been weak. The Japanese government have recently made NISAs (the Japanese equivalent of a UK ISA, a tax-efficient savings and investment wrapper for individual investors) more attractive. Younger savers are at present using the NISA to invest in equities rather than the old-fashioned life products.

This shift has left a growing question mark over who will step in to meet supply. In response, long-dated Japanese government bonds have repriced sharply, with yields rising significantly (see Figure 9). In an attempt to stabilise the market, the government has cut the issuance of 20-, 30-, and 40-year bonds and is reportedly considering repurchases of super-long maturities.

Figure 8: The BoJ dominates the Japanese government bond market[13]



[13] Source: Insight and Bloomberg. Data as at 30 June 2025.

Figure 9: 30-year Japanese yields have rapidly repriced[14]

UK: A structural premium in long-term yields

In the UK, defined benefit pension schemes have traditionally been major purchasers of long-dated gilts, using them as a low-risk instrument to hedge long-term liabilities. While the share of the gilt market held by pension schemes and insurance companies has gradually declined over time (see Figure 10), this has occurred against a backdrop of rising UK debt-to-GDP levels – highlighting that these institutions have remained a key source of demand.

However, as many schemes have now moved into surplus, their demand for gilts is naturally tapering. While some schemes are choosing to "run on" and grow their surpluses, others are pursuing insurance buyouts. In the latter case, insurers will typically divest the gilts held within these schemes in favour of alternative higher-yielding assets, which is more profitable for them.

In its 2025 Fiscal Risks and Sustainability report[15], the Office for Budget Responsibility (OBR) noted that although an ageing population might be expected to increase demand for long-duration assets, their modelling suggests the opposite for gilts. They project that gilt holdings by the pension sector could fall by at least half as a share of GDP by the early 2070s. The OBR estimates that this shift could add approximately 0.8 percentage points to UK government bond yields, assuming debt-to-GDP remains around 100%.

We note that official data, such as that used by the OBR (and shown in Figure 10) significantly underestimates holdings of gilts within DB pension schemes, as the way they invest means a substantial proportion of their holdings will be categorised as belonging to banking counterparties or overseas investors. The impact of insurers selling gilts over the coming decade could therefore be even larger than current OBR estimates.

This evolving demand landscape is already being reflected in market pricing. The UK yield curve has steepened (see Figure 11), and volatility has increased at the long end. Arguably, we are witnessing the early stages of a structural premium emerging in long-maturity gilts relative to other major markets, driven by fiscal headwinds and a diminishing pool of natural buyers.

[14] Source: Insight and Bloomberg. Data as at 30 June 2025.
[15] https://obr.uk/docs/dlm_uploads/Fiscal-risks-and-sustainability-report-July-2025.pdf

Figure 10: Gilt holdings: Insurance and pension funds[16]

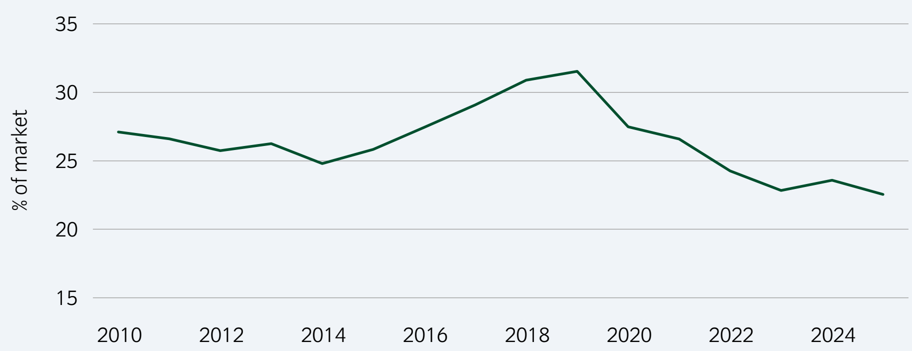
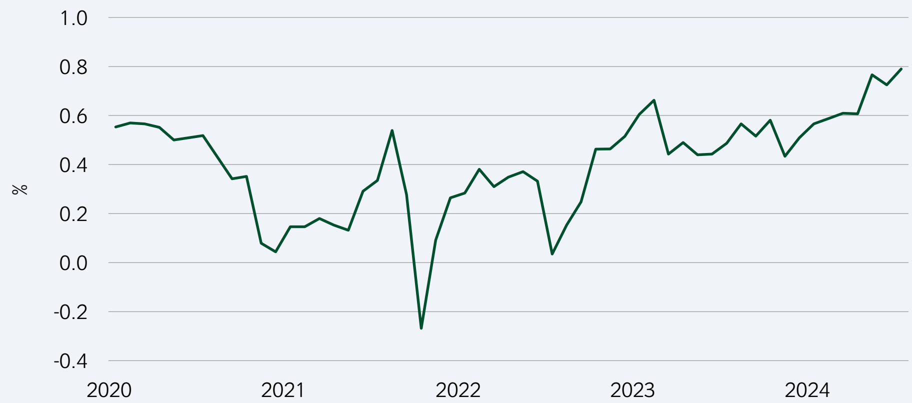


Figure 11: 30 year versus 10 year gilt yields[17]



It is clear that the Debt Management Office (DMO) is growing wary of this problem. When it published its funding remit for the fiscal year 2025 to 2026[18] in March, the DMO reduced its planned long-dated issuance to 13.4% of total issuance, down from 18% in the prior year. In April, it further reduced planned long-dated issuance to 10%. The Bank of England is also actively monitoring the impact of sales from its Asset Purchase Facility on market conditions. In April, the Bank rescheduled an auction[19] for long-maturity gilts following market volatility and noted that it reserved the right to amend its schedule at its sole discretion.

[16] Source: UK Debt Management Office. Data as at 31 December 2024.
[17] Source: Insight and Bloomberg. Data as at 30 June 2025.
[18] Source: https://www.dmo.gov.uk/media/vgggtwy/sa260325.pdf
[19] Source: https://www.bankofengland.co.uk/markets/market-notices/2025/june/apf-gilt-sales-market-notice-20-june-2025

4 CENTRAL BANK AND FOREIGN HOLDINGS OF DEBT

High central bank ownership can help suppress yields and stabilise markets during periods of stress, but excessive reliance may reduce market discipline and complicate future policy normalisation. Conversely, high non-resident ownership exposes governments to the risk of capital flight, especially during periods of political or economic uncertainty, which can trigger sharp increases in borrowing costs and currency depreciation. Together, these ownership structures influence investor confidence, debt servicing costs, and the government's ability to manage refinancing risks – making them essential components in assessing fiscal sustainability.

- **Central bank holdings**: Among major markets, China has the lowest level of central bank involvement in its government bond market, while Japan stands out with the highest, largely due to its long-standing quantitative easing programme. In the eurozone, the ECB holds government bonds in proportion to member states' GDP, with the notable exception of Greece, which did not participate in the Public Sector Purchase Programme (PSPP).
- **Non-resident holdings:** Countries like Norway, New Zealand, and France have more than half of their debt markets owned by non-residents, making them more exposed to shifts in foreign sentiment. Similarly, semi-core eurozone countries such as Austria, Belgium, Slovakia, Finland, and Ireland also show high foreign ownership. In contrast, China, Japan, and South Korea are less dependent on foreign capital, reducing their risk of sudden outflows. Among emerging markets, India and Thailand have historically low foreign participation, while Brazil has experienced large swings in foreign holdings, and Romania maintains relatively high foreign ownership.

Figure 12: Central bank ownership as % of government bond market[20]

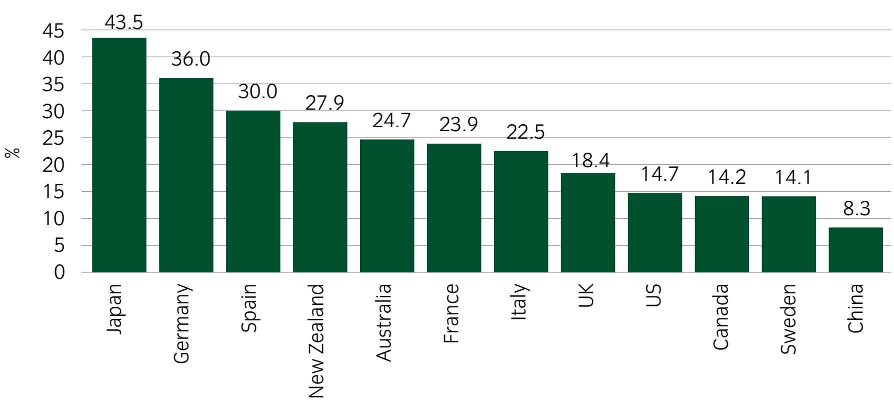
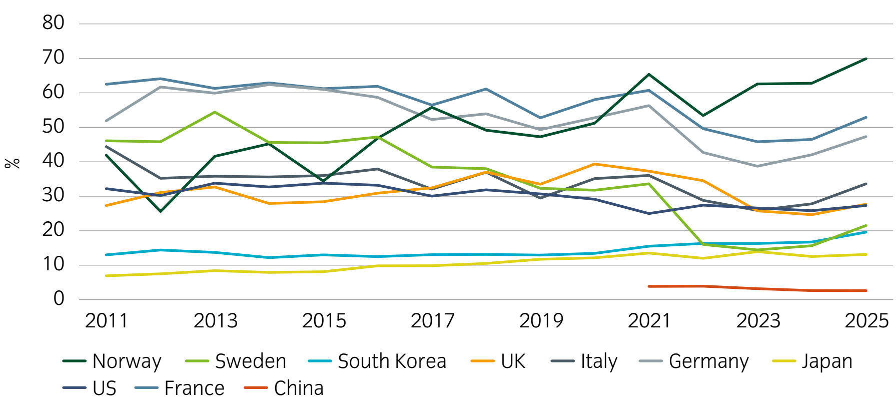


Figure 13: Non-resident holdings as % of government bond market[21]



[20] Source: Bloomberg. Data as at 7 August 2025.
[21] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.

5 DEBT/GDP AND GROSS GOVERNMENT LIABILITIES

A rising debt-to-GDP ratio signals increasing reliance on borrowing, which can erode investor confidence, raise interest costs, and limit fiscal flexibility. Gross liabilities, including explicit debt and unfunded commitments like pensions and healthcare, provide a fuller picture of the government's financial burden. Together, these metrics help assess whether a government can maintain stable public finances without resorting to disruptive measures such as austerity, tax hikes, or inflationary financing.

- **Future debt-to-GDP projections:** China, France, and the United States all have long-term trajectories pointing to rising debt burdens and potential credit rating deterioration. Germany has shifted from a declining to a modestly rising debt path due to fiscal expansion, while Spain, Italy, and Japan are on track for declining debt-to-GDP ratios. Within the eurozone, peripheral countries that were heavily impacted by the global financial crisis – such as Ireland, Portugal, and Spain – are projected to improve significantly, with Ireland returning to pre-GFC levels and Portugal converging with Germany by 2030. In contrast, France and Belgium appear to be on unsustainable paths, potentially aligning with Italy and Greece. Among emerging markets, the IMF forecasts unsustainable debt increases in Romania, Brazil, South Africa, and Poland, while India and the Philippines are expected to see falling debt ratios. Peru, Indonesia, and Chile are projected to maintain low levels of debt to GDP.
- **Gross government liabilities:** Countries like the United States, China, and South Korea face substantial fiscal pressures, with future liabilities exceeding 100% of GDP. In contrast, Sweden has notably low projected obligations. Within Europe, Belgium and Slovakia also face high future liabilities, while in emerging markets, Colombia and Thailand exceed the 100% threshold. Meanwhile, Indonesia, the Philippines, and Poland are expected to maintain relatively low levels of future healthcare and pension commitments.

Figure 14: Government debt as % of GDP[22]

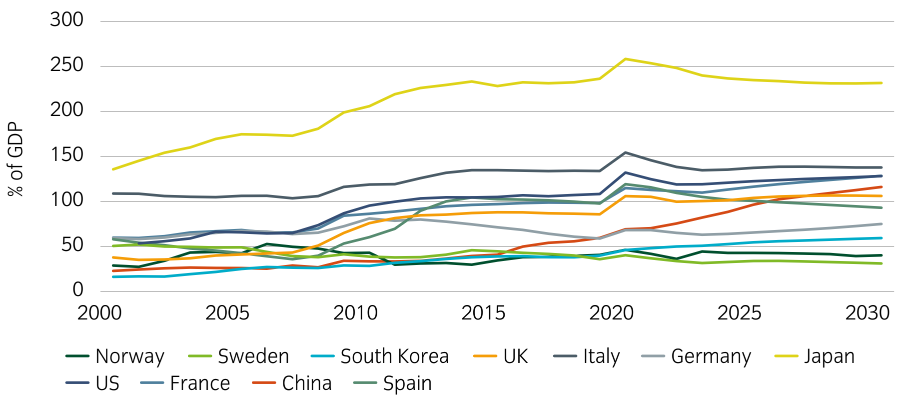
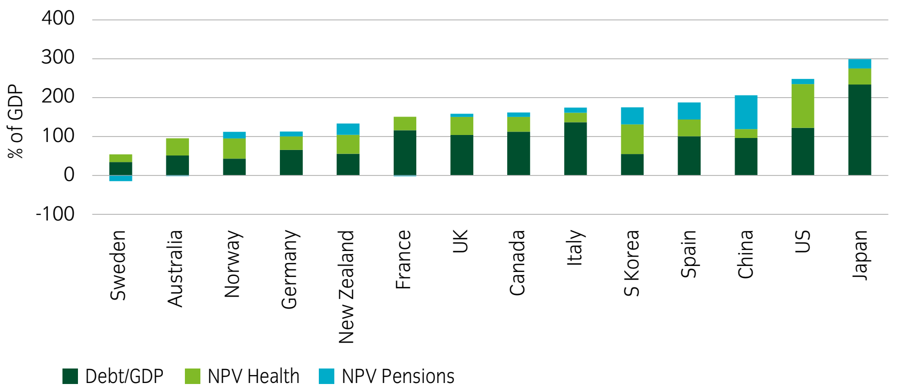


Figure 15: Gross government liabilities as % of GDP[23]



[22] Source: Insight, Macrobond, IMF. Data as at 7 August 2025.
[23] Source: Insight calculations, projected to 2050.

FISCAL SPOTLIGHT 4
CHINA: DEBTS ARE RAPIDLY BUILDING

Fiscal strains are starting to appear

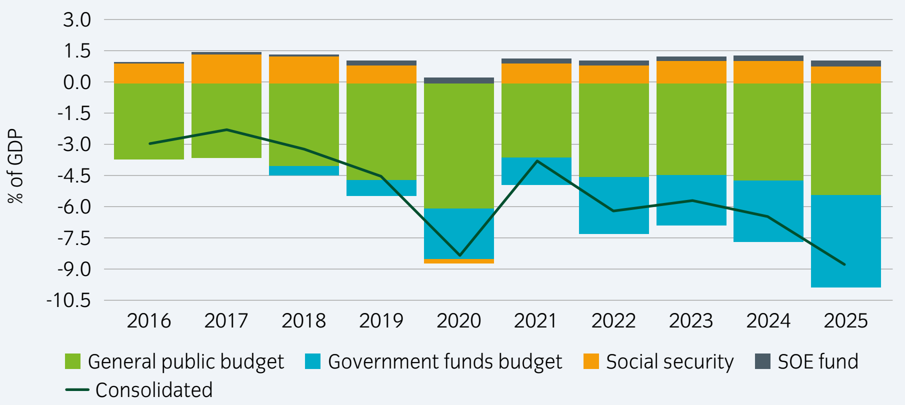
In March 2024, China launched a ¥150 billion (approx. $21 billion) fiscal stimulus, doubling it to ¥300 billion in 2025. While meaningful, this package is modest compared to the sweeping ¥4 trillion stimulus rolled out after the 2008 global financial crisis, which famously led to overcapacity in several sectors.

This time, the approach is more measured and targeted. The stimulus will boost government spending on social programmes and infrastructure, funded through the issuance of special sovereign bonds. A key pillar of the plan is support for the struggling property sector, which has weighed on growth for years. Measures include allowing local governments to purchase unsold land and convert commercial housing into affordable housing stock.

To address demographic headwinds, the package also introduces monthly allowances for families with multiple children. Meanwhile, subsidies will encourage consumers to upgrade household appliances and vehicles, aiming to stimulate domestic demand while nudging the economy toward a more sustainable growth model.

Although the scale of the stimulus is relatively modest, Fitch Ratings estimates that it will result in China's consolidated fiscal deficit widening from 6.5% in 2024 to 8.8% in 2025 (see Figure 16). Fitch notes that "high fiscal deficits, coupled with subdued nominal GDP growth and the crystallization of contingent liabilities, will continue to put upward pressure on debt", with government debt/GDP reaching the high 60% region, up from 55% in 2023 and 60% in 2024.

Figure 16: China's large fiscal deficits are driving a rapid increase in government debt[24]



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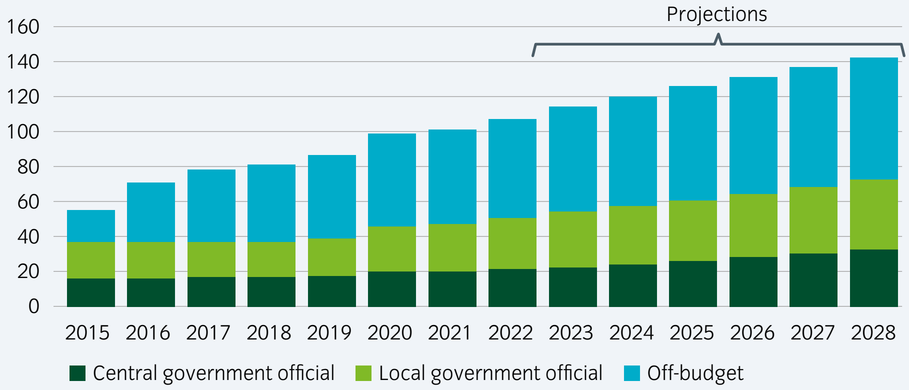
Although the scale of the stimulus is relatively modest, Fitch Ratings estimates that it will result in China's consolidated fiscal deficit widening from 6.5% in 2024 to 8.8% in 2025

[24] Source: https://www.fitchratings.com/research/sovereigns/chinas-wide-budget-deficits-set-to-drive-further-rise-in-debt-07-03-2025

Shifting the burden from local to central government

In response to the 2008 global financial crisis, China's central government launched a ¥4 trillion ($562 billion) stimulus package, much of which was financed at the local level. To circumvent borrowing constraints, local governments turned to Local Government Financing Vehicles (LGFVs) – entities that raise funds through bonds and loans typically backed by land assets or anticipated future revenues. The slowdown in the Chinese real estate sector has acted as a perfect storm for local governments, many of which were heavily reliant on revenues from the real estate market. With high levels of 'hidden debt' in the form of LGFVs (see Figure 17), stories of local governments delaying payments to workers and suppliers are growing.

Figure 17: IMF projections of official and unofficial Chinese debt[25]



To address this, the central government launched a ¥12 trillion ($1.7 trillion) debt swap in late 2024. Lan Bo'an, China's finance minister, stated that this would reduce hidden local government debt from ¥14.3 trillion to ¥2.3 trillion by 2028[26]. This is relief at a local level but significantly increases central government debt.

> With high levels of 'hidden debt' in the form of LGFVs, stories of local governments delaying payments to workers and suppliers are growing

[25] Source: https://www.elibrary.imf.org/view/journals/002/2024/050/article-A003-en.xml
[26] Source: https://www.spglobal.com/market-intelligence/en/news-insights/articles/2024/11/china-s-12-trillion-yuan-debt-swap-to-ease-local-debt-pressure-bank-margins-86126459

6 NET INTERNATIONAL INVESTMENT POSITION AND TOTAL PRIVATE DEBT

The Net International Investment Position (NIIP) reflects a country's cumulative balance of payments and portfolio value changes, providing an indication of its reliance on foreign capital. Countries with a high negative NIIP can face volatility in their asset markets if investors choose to shift allocations. High private debt, comprising household and non-financial corporate borrowing, while not a direct government liability, can become a fiscal risk during systemic crises, as governments may need to intervene to stabilise the financial system. The experience of Spain during and after the global financial crisis illustrates how private debt can translate into public risk.

- **Net International Investment Position:** Norway stands out with an exceptionally strong NIIP of 380% of GDP, while the United States has seen a steady decline due to persistent current account deficits and market outperformance. In the eurozone, although some smaller peripheral countries still have significantly negative NIIPs, most are on an improving trajectory thanks to regional current account surpluses. Among emerging markets, most run negative NIIPs, though generally less severe than those of the US or eurozone periphery. Notably, Hungary has made substantial progress in reducing its negative NIIP over the past 15 years.
- **Total private debt:** Norway, Canada, France, Sweden, South Korea, and China have private debt levels exceeding 200% of GDP, indicating potential vulnerability. In contrast, most eurozone countries are seeing declines in private debt, largely due to weak credit demand rather than robust economic growth. Notably, Ireland peaked at 312% of GDP in 2011, underscoring the scale of risk that can emerge from excessive private sector leverage.

Figure 18: Net international investment position as % of GDP[27]

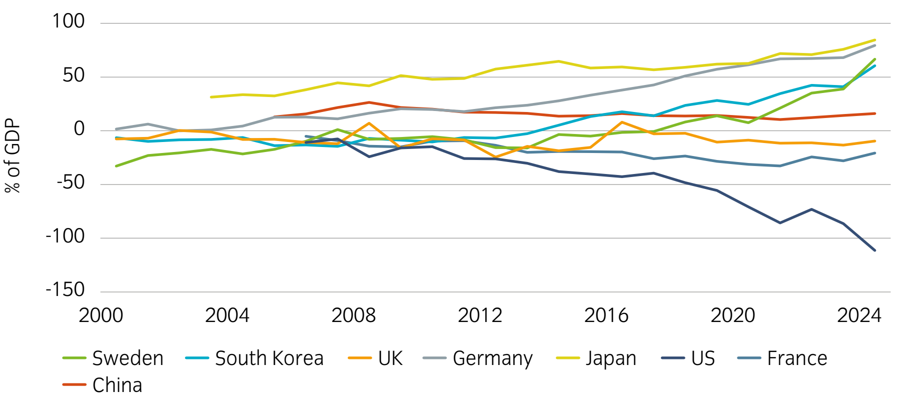
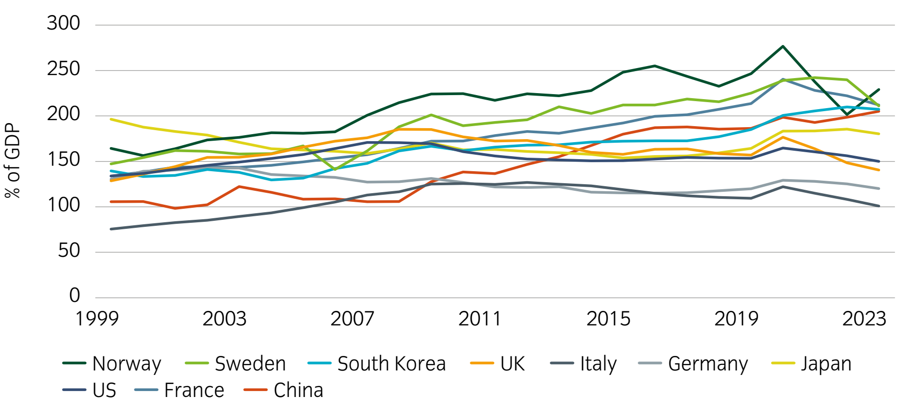


Figure 19: Private debt as a % of GDP[28]



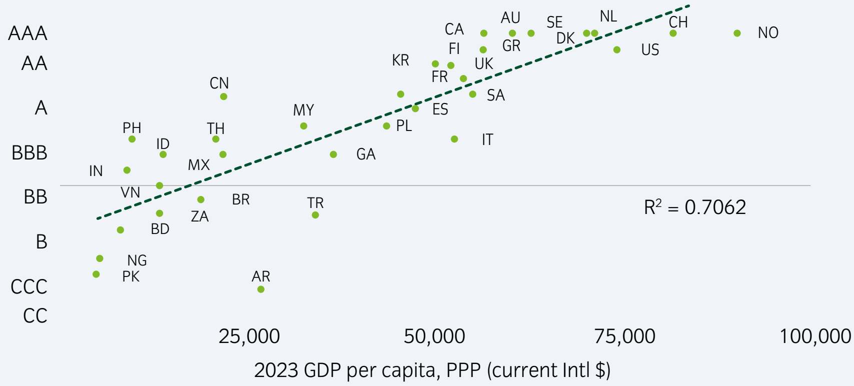
[27, 28] Source: Bloomberg. Data as at 7 August 2025.

FISCAL SPOTLIGHT 5

EMERGING MARKETS: HIGHLIGHTING KEY MARKETS

Emerging market sovereigns, much like their developed market counterparts, have a range of tools at their disposal to ensure debt sustainability. However, these economies face unique structural challenges – most notably lower GDP per capita, which directly impacts their capacity to manage debt burdens, which in turn constrains their credit ratings (see Figure 20). Compounding this are typically thinner sovereign balance sheet buffers, such as limited foreign currency reserves, which leave them more exposed to external shocks (with the pandemic and invasion of Ukraine two recent examples) and, in some cases, reliance on debt financing in foreign currency.

Figure 20: Sovereign credit rating correlates with GDP per capita[28]



The following analysis explores how several major emerging markets are navigating these pressures, highlighting key themes such as off-balance-sheet spending and the broader implications for long-term fiscal sustainability.

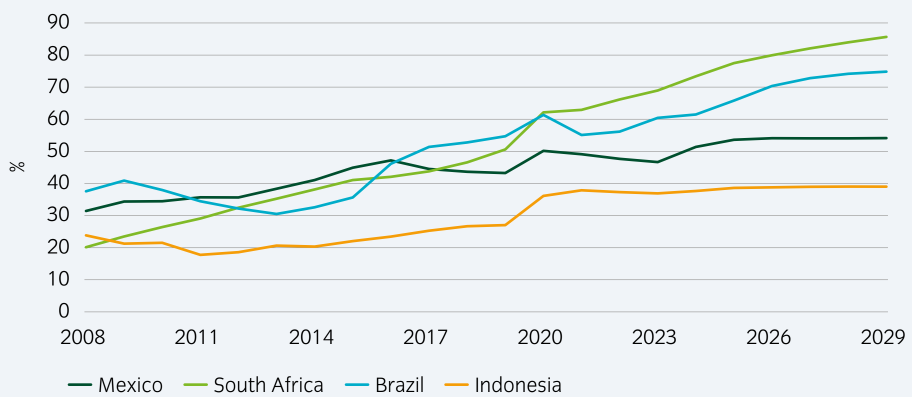
- **South Africa:** During President Zuma's tenure, South Africa missed the opportunity for meaningful fiscal consolidation, and when combined with persistently low growth, this led to a sharp upward trajectory in the government debt-to-GDP ratio. Although the fiscal deficit has narrowed under President Ramaphosa, weak economic growth remains the most pressing challenge for the National Treasury. As a result, debt sustainability in South Africa is increasingly recognised as a function not only of fiscal discipline but also of the country's ability to generate stronger, more consistent growth.
- **Indonesia:** Indonesia has long been regarded as fiscally prudent, typically maintaining its fiscal deficit below 3% (except during the pandemic) while targeting 5% economic growth. However, a closer look at the government's balance sheet reveals a steady rise in 'below-the-line' spending – primarily in the form of budgetary support to state-owned enterprises (SOEs). The incoming Prabowo administration has signalled a greater reliance on SOEs to advance its policy agenda, suggesting that this off-balance-sheet spending will warrant close monitoring. While central government debt remains moderate at around 40% of GDP, broader public sector debt is nearly double that, underscoring the importance of assessing the full fiscal picture when evaluating debt sustainability.

[28] Source: BofA Global Research, Bloomberg, World bank. Published in BoA Sovereign primer, July 2025. Shows S&P LT Foreign Currency Issuer Credit rating vs. GDP per capita

- **Brazil:** Brazil's fiscal trajectory mirrored that of many emerging markets during the 2000s commodity boom, with stabilised deficits and inflation masking deeper structural vulnerabilities – particularly a pension system indexed to inflation, low retirement ages (as early as 55 for government workers), and preferential treatment for public sector employees. When commodity prices collapsed in 2014, the country entered a period of stagflation that eroded GDP while inflation-driven automatic spending surged, pushing debt onto an unsustainable path. This was partially contained by the 2016 introduction of strict spending caps, freezing real-term expenditure until 2036, though GDP did not recover to 2014 levels until 2022. While reducing gross debt will ultimately require comprehensive fiscal reform, recent GDP growth – averaging 3.6% year-on-year since 2021 – has helped slow the rise in debt-to-GDP, and the central bank's firm stance on inflation is expected to temper growth in indexed budget components.

- **Mexico:** Following the 1994 Tequila crisis, Mexico established a robust macroeconomic framework that has helped maintain fiscal stability, despite relatively modest average GDP growth of 2.1%, compared to an emerging market average closer to 4%. While the country lacks an extensive social safety net, it faces a growing contingent liability from Pemex, the state oil company, whose debt – equivalent to around 10% of GDP in 2025 – is not formally guaranteed but is regularly supported through substantial government transfers. The Lopez-Obrador administration, in office since 2018, maintained balanced primary budgets through most of its term, but 2024 saw a shift, with a primary deficit of 1.8% of GDP and elevated interest costs pushing the overall deficit to 5.3% – a level not seen since before the macro framework was introduced – raising debt from the mid-40s to 52% of GDP. The incoming Sheinbaum administration has pledged to consolidate the budget by 2% of GDP in 2025 and return to historical primary balance levels well before 2030. Meanwhile, monetary policy remains independent and is currently in an easing cycle as inflation converges toward target, which should help reduce short-term financing pressures.

Figure 21: Net debt/GDP across major emerging market economies[29]



[29] Source: Insight, Bloomberg and IMF. Data as at 30 June 2025, with IMF forecasts to 31 December 2029.

A GLOBAL REVIEW OF FISCAL RISK AND RESILIENCE

COMPARATIVE ANALYSIS OF FISCAL SUSTAINABILITY

To identify which countries are most vulnerable to a fiscal crisis, we can track the indicators outlined in the fiscal metrics section of this paper. Among these, the projected trajectory of debt-to-GDP stands out as the most direct measure of fiscal sustainability. However, it is essential to consider other metrics – such as primary deficits, interest costs, and gross financing needs – which can either reinforce or offset the risks implied by debt levels alone.

Table 1: Assessing which economies have the safest or most unsustainable outlooks[30]

	Debt Burden				Interest costs		Fiscal space		External			
	Debt/GDP		NPV of Health and Pensions	Fiscal deficits				Gross financing	Non-resident holding		Private sector debt	
	Trajectory	%			% of GDP	EAC 5y forward	(r-g)			NIIP		Overall
Canada		111	50	Good	3.2	3.2	-0.8	13.8	24.4	62	220	
France		116	32	Bad	1.8	2.6	-0.9	15.1	52.9	-20	212	
Germany		65	47	Worsening	0.7	2.1	-1.5	8.1	47.3	81	120	
Italy		134	38	Improving	3.8	3.3	0.0	14.2	33.6	15	101	
Japan		236	66	Worsening	1.5	1.2	-1.6	33.0	13.1	85	180	
UK		101	55	Improving	3.3	3.0	-1.3	12.4	27.7	-10	141	
US		123	127	Bad	3.6	3.8	-0.8	34.8	27.3	-111	150	
Australia		50	42	Good	1.2	3.6	-1.7	7.2	34.5	-24	170	
Austria		83	50	Improving	1.3	2.2	-1.4	10.6	67.5	24	135	
Belgium		106	84	Bad	1.6	2.6	-0.8	17.6	61.7	60	189	
Brazil		92	71	Bad	8.2		3.5	18.9	12.4	-40	86	
Chile		43	88	Good	1.1		-1.9	5.8	38.6	-18	141	
China		93	111	Bad	0.9	2.1	-3.3	4.4	2.6	16	205	
Colombia		60	125	Improving	4.7		1.1	8.2	32.6	-48	58	
Czechia		44	45	Worsening	1.1		-0.4	6.7	27.0	-7	81	
Finland		85	24	Improving	1.2	2.3	-1.5	13.8	57.2	26	181	
Greece		146		Good	3.5	3.0	-0.8			-130	97	
Hungary		74	52	Improving	2.8		-0.1	12.1	42.1	-36	92	
India		80	38	Bad	5.1		-3.0	12.9	5.2	-10	98	
Indonesia		41	20	Good	2.1		-1.3	6.0	37.0	-18	38	
Ireland		38	44	Good	0.7	2.0	-2.6	-1.6	55.2	-99	164	
Malaysia		70	74	Improving	1.9		-1.7	3.5	23.2	0	37	
Mexico		61	62	Stable	3.8		3.6	14.0	22.2	-35	159	
Netherlands		43	69	Good	0.7	2.1	-2.0	5.4	41.8	60	199	
N Zealand		54	79	Improving	1.3	3.7	-1.6	9.5	59.2	-47	161	
Norway		42	70	Good	1.1	3.4	-0.5	-8.7	69.9	355	229	
Peru		34		Good	1.4		-0.5	3.6	43.6	-32	60	
Philippines		58	20	Improving	2.1		-3.5	11.4	30.8	-14	62	
Poland		61	30	Bad	2.1		-1.5	11.9	27.3	-29	61	
Portugal		90	66	Good	2.3	2.7	-1.7	5.6	49.7	-58	138	
Romania		62		Bad	1.5		-2.1	13.0	56.8	-40	25	
Slovakia		60	88	Bad	1.2	2.9	-2.3	9.8	58.7	-51	90	
S Africa		80	40	Bad	4.9		1.6	15.2	27.4	29	65	
S Korea		53	121	Good	1.3	2.9	-0.7	3.0	19.6	61	207	
Spain		99	88	Good	2.4	2.8	-2.0	11.7	48.0	-43	125	
Sweden		33	4	Good	0.6	2.5	-2.0	4.9	21.5	67	211	
Thailand		65	115	Improving	1.2		-1.0	10.6	9.2	7	178	

Unsustainable fiscal outlook (or contributing to)
Risky fiscal outlook (or contributing to)
Stable fiscal outlook (or contributing to)
Safe fiscal outlook (or contributing to)

[30] Source: Insight analysis, as at 7 August 2025. Fiscal space: cost of servicing government debt (r) - rate of economic growth (g)

Based on current policy trajectories, **we assess the United States, France, Belgium, and Brazil as fiscally unsustainable**. While this does not render them uninvestable, it does raise critical questions about whether current market pricing adequately reflects the risks.

The United States stands out as the most vulnerable, though its status as the global reserve currency and the depth and sophistication of its financial markets offer some mitigation. Without meaningful fiscal reform, however, US Treasuries are likely to embed greater risk premia over time – manifesting in higher yields, steeper curves, and elevated inflation break-evens. Other major economies such as the UK, Japan, and Canada also exhibit fiscal fragility. China, despite its deteriorating debt/GDP path, benefits from low interest costs, ample fiscal space, and minimal reliance on foreign capital, placing it in the "risky but not unsustainable" category. In contrast, Norway remains one of the most fiscally secure nations.

Within the eurozone, France and Belgium appear most likely to trigger a renewed sovereign crisis, with potential contagion to other vulnerable members like Italy and Greece. Given the eurozone's structural constraints – particularly the inability to inflate away debt – sovereign spreads must reflect this risk, even if inflation break-evens remain contained. Germany, once the fiscal anchor of the region, has ceded that position to Ireland, though Ireland's pre-GFC experience serves as a cautionary tale about private sector leverage.

Among emerging markets, Brazil is clearly on an unsustainable path, while South Africa, Romania, Poland, and Mexico also warrant caution. That said, most emerging market countries reviewed are in relatively stable fiscal positions – often more so than their developed market peers – making the asset class broadly resilient, albeit with idiosyncratic risks that must be priced accordingly.

POLITICS VERSUS PRUDENCE

The trajectory of fiscal dynamics is shaped as much by political constraints as by economic fundamentals. While it is economically more efficient to take pre-emptive action before a fiscal crisis emerges, such action is rarely taken without strong political will – both from leadership and the electorate. Germany exemplifies how institutional discipline, such as its constitutional debt brake and decades of prudent fiscal management, can create the capacity for targeted intervention when needed, including recent defence and infrastructure spending. In contrast, France and the United Kingdom continue to struggle with persistent deficits and rising debt, despite leadership intent to consolidate public finances. Political fragmentation – minority government in France and internal divisions within the UK Labour Party – has hindered meaningful reform.

Meanwhile, the United States presents a case of deliberately expansive fiscal policy driven by political incentives rather than economic necessity. Persistent deficits during periods of economic strength, compounded by recent tax cuts and spending measures, have placed the US on a path toward unsustainability, with little sign of political change before a crisis materialises.

DEBT, DEFICITS AND THE COST OF CAPITAL

The July 2025 IMF working paper by Furceri, Goncalves, and Li[31] offers compelling evidence on how fiscal imbalances influence market pricing through risk premia embedded in government bond yields and yield curves. Building on Laubach's 2009 analysis[32] with two additional decades of data, the authors find that each percentage point increase in the budget deficit raises long-term interest rates by approximately 20–30 basis points, while each percentage point increase in debt-to-GDP adds 2–3 basis points to yields.

Crucially, the sensitivity of interest rates to fiscal variables has intensified over time, particularly since the global financial crisis, reflecting growing investor concern over debt sustainability.

[31] Source: https://www.imf.org/en/Publications/WP/Issues/2025/07/11/The-Impact-of-Debt-and-Deficits-on-Long-Term-Interest-Rates-in-the-US-568444
[32] Source: https://academic.oup.com/jeea/article-abstract/7/4/858/2295862

The paper also highlights the impact on the term structure: fiscal spending shocks shift yield curves upward, while uncertainty around fiscal policy steepens them, as investors demand greater compensation for long-term exposure. This dynamic creates a challenging environment where high debt levels amplify the cost of further fiscal expansion, potentially undermining stimulus effectiveness and increasing debt servicing burdens.

As fiscal risks mount, other asset classes – including inflation break-evens, credit spreads, currencies, and equities – are likely to reflect elevated risk premia as well.

MONETARY SOVEREIGNTY DIFFERENTIATES FISCAL CRISES

There is a fundamental structural distinction between countries that issue debt in their own fiat currency and those constrained by foreign-denominated debt or currency union membership – particularly evident during fiscal crises. Countries with monetary sovereignty retain the option of debt monetisation, effectively printing money to inflate away their debt burden. Historically, once austerity becomes economically counterproductive, such countries almost invariably resort to monetisation, which suppresses yields, raises inflation, and weakens the currency. In contrast, countries with substantial foreign currency debt – typically emerging markets – cannot monetise their obligations. While currency devaluation may support exports, it simultaneously increases the real burden of foreign debt, which can exacerbate the risk of restructuring or default.

The eurozone sovereign crisis illustrated the challenges faced within a currency union, where fiscally weaker members like Greece experienced surging borrowing costs despite sharing a currency with stronger economies like Germany. Without the ability to devalue or monetise, these countries were forced into internal devaluation – painful wage and price adjustments that proved politically and economically destabilising. This dynamic echoes historical constraints seen in fixed exchange rate regimes, such as those linked to precious metals.

INVESTMENT IMPLICATIONS

While the precise timing and trigger of a fiscal crisis are unknowable, countries with unsustainable debt dynamics and insufficient political will to enact reform are clearly on a path toward one. In the lead-up to such crises, short-term macroeconomic cycles may dominate asset price behaviour, but markets are likely to begin pricing in rising fiscal risk through gradually increasing risk premia. This typically manifests as:

- Higher government bond yields
- Steeper yield curves
- Underperformance of government bonds relative to swaps
- Wider sovereign spreads (notably in the eurozone and emerging market hard currency markets)
- Higher long-term inflation break-evens (excluding the eurozone)
- Outperformance of high-quality balance sheets over highly leveraged names in credit and equity markets
- Preference for sectors with real cashflows over those exposed to sovereign risk
- Currency depreciation versus safe-haven currencies and precious metals

When a fiscal crisis does materialise, asset performance will hinge on the sequencing of policy responses and whether the country has monetary sovereignty. Countries without monetary sovereignty – such as those in currency unions or with large foreign currency debt – typically experience bear flattening of yield curves as markets price in default or redenomination risk. In contrast, countries with sovereign fiat currencies often resort to debt monetisation, leading to inflation, currency depreciation, and a decline in the real value of nominal debt. While equity markets tend to suffer during the crisis itself, they can rebound strongly post-devaluation, particularly in economies with flexible exchange rates and credible policy resets.

We outline the typical stages of financial crisis in Table 2.

Table 2: The seven stages of financial crisis

1	**The build-up phase**
	• Excessive risk-taking: Often driven by prolonged economic growth, low interest rates, and optimism, leading to asset bubbles (e.g. housing, equities). • Leverage accumulation: Households, corporations, or governments take on high levels of debt, often underpinned by weak regulation or oversight.
2	**Trigger event**
	• Shock to confidence: A specific event (e.g. default, policy change, geopolitical tension) exposes vulnerabilities. • Asset price correction: Overvalued assets begin to fall sharply, triggering panic.
3	**Liquidity crunch**
	• Credit dries up: Banks and investors become risk-averse, leading to a freeze in lending and funding markets. • Flight to safety: Investors move capital to low-risk assets, exacerbating volatility in riskier markets.
4	**Contagion and spillover**
	• Systemic risk emerges: Financial stress spreads across institutions, sectors, and borders. • Market dislocation: Prices become disconnected from fundamentals; volatility spikes.
5	**Policy response**
	• Central bank intervention: Rate cuts, liquidity injections, asset purchases (e.g. QE). • Government action: Bailouts, guarantees, fiscal stimulus, regulatory reforms. In a fiscal crisis this would involve large scale spending cuts and potentially loans from external players such as the IMF or EU.
6	**Recession and adjustment**
	• Economic contraction: Reduced spending, investment, and employment. • Balance sheet repair: Households and firms deleverage; banks recapitalise.
7	**Recovery and reform**
	• Gradual stabilisation: Confidence returns, markets normalise. • Regulatory overhaul: New rules to prevent recurrence (e.g. capital requirements, stress testing).

CONCLUSION

The global fiscal outlook in 2025 is marked by intensifying divergence. While some economies – such as Norway, Ireland, and Portugal – demonstrate prudent fiscal management and improving metrics, others face mounting vulnerabilities. The United States, France, Belgium, and Brazil stand out for their unsustainable trajectories, with persistent deficits, rising debt burdens, and limited reform momentum. These imbalances are not merely theoretical concerns; they are being priced into markets through steeper yield curves, wider sovereign spreads, and elevated inflation expectations.

Importantly, the distinction between monetary sovereigns and those constrained by currency unions or foreign-denominated debt remains a critical fault line. Countries with the ability to monetise debt retain more flexibility in crisis response, albeit at the cost of inflation and currency depreciation. In contrast, those without such tools – including within the eurozone – face harsher market discipline and limited policy options.

For investors, the implications are clear: fiscal sustainability is no longer a background consideration but a growing risk to asset performance. As risk premia rise and market pricing adjusts to reflect fiscal fragility, portfolio positioning must account for this growing risk. The path ahead will be shaped not only by economic data but by the willingness of governments to act before markets force their hand.

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