Moody's Strips US of Final AAA Rating Over Rising Debt, Interest Costs

In its downgrade decision, Moody's cites mounting debt and skepticism over deficit reduction.

Signage is seen outside the Moody's Corporation headquarters in Manhattan, N.Y., on Nov. 12, 2021. Andrew Kelly/File Photo/Reuters

By Tom Ozimek
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Moody's Ratings has downgraded the United States' long-term credit rating from Aaa to Aa1, stripping the nation of its last perfect rating among the three major agencies, citing sustained rising debt, ballooning interest payments, and a lack of political will to rein in chronic budget deficits.

In its May 16 decision, Moody's pointed to a steady deterioration in fiscal fundamentals across multiple administrations, noting that it does not expect current policy proposals to produce meaningful deficit reduction in the years ahead.

"This one-notch downgrade on our 21-notch rating scale reflects the increase over more than a decade in government debt and interest payment ratios to levels that are significantly higher than similarly rated sovereigns," Moody's said. "We do not believe that material multi-year reductions in mandatory spending and deficits will result from current fiscal proposals under consideration."

Despite the downgrade, Moody's revised the U.S. credit outlook from "negative" to "stable" at the lower Aa1 peg, citing continued strength in core institutions and confidence in long-term economic resilience.

"The US retains exceptional credit strengths such as the size, resilience and dynamism of its economy and the role of the US dollar as global reserve currency," Moody's said. "In addition, while recent months have been characterized by a degree of policy uncertainty, we expect that the US will continue its long history of very effective monetary policy led by an independent Federal Reserve."

Moody's reference to Fed independence comes amid growing political pressure on the central bank. President Donald Trump has stepped up public criticism of Fed Chair Jerome Powell, accusing him of dragging his feet on rate cuts and "playing politics" with monetary policy.

While Trump recently said he has no plans to fire Powell, his comments have sparked concerns about political influence on central banking—a dynamic Moody's appears to be monitoring closely.

Despite the signals of institutional resilience cited by Moody's in setting its outlook to "stable," the numbers driving the downgrade are stark. Moody's projects the federal deficit will grow to nearly 9 percent of gross domestic product (GDP) by 2035, up from 6.4 percent in 2024, driven mainly by entitlement spending and mounting interest payments. Federal debt is expected to climb from 98 percent of GDP in 2024 to 134 percent by 2035. By then, interest payments alone could consume 30 percent of federal revenue—more than triple the level in 2021.

Those projections echo the trends seen in the latest Treasury data. According to the Treasury Department's latest monthly statement, the deficit for the first seven months of fiscal year 2025 already totals more than $1.048 trillion. While the government posted a $258 billion surplus in April due to tax season inflows, total outlays have hit $4.16 trillion so far this fiscal year—including $579 billion in net interest payments. That figure puts the United States on track for the highest annual interest bill in its history, underscoring the growing cost of servicing the debt.

At the same time, the Treasury has sharply increased its borrowing projections. In its latest Refunding Estimate, the department said it now expects to borrow $514 billion from April through June—more than four times its previous estimate in February. It also anticipates borrowing another $554 billion in the July—September quarter, signaling continued pressure on federal finances in the months ahead.

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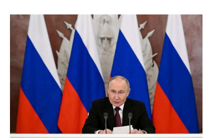

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