THE EDGE CONSULTANCY

The Edge Economic Reports

The $40 Trillion Era

How America's Rising Interest Bill Is Reshaping Growth, Markets and the Global Economy

August 2026

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Executive Summary

The United States crossed $40 trillion of total public debt outstanding on 18 August 2026. Treasury recorded $40.047 trillion, comprising $32.266 trillion of debt held by the public and $7.782 trillion of intragovernmental holdings. The headline is nominal; the economic issue is the market-facing stock and its refinancing cost. Debt held by the public is the measure that competes for private capital, influences long-term interest rates and transmits U.S. fiscal conditions into global funding markets.

The fiscal structure is becoming increasingly interest-driven. CBO's February 2026 baseline has the federal deficit at 5.8 percent of GDP in 2026 and 6.7 percent in 2036. Over the same interval the primary deficit improves from 2.6 percent of GDP to 2.1 percent, while net interest rises from 3.3 percent to 4.6 percent and more than doubles in dollars from $1.039 trillion to $2.144 trillion. Interest accounts for about 88 percent of the projected dollar increase in the deficit. By 2036 it absorbs roughly a quarter of federal revenue and approaches the size of the entire discretionary budget.

The stock is now large enough that modest changes in the eventual financing rate produce very large budget effects. CBO estimates the average rate on debt held by the public at about 3.4 percent in 2026, rising toward 3.9 percent later in the projection period as securities mature and reprice. A sustained 100 basis-point difference in that effective rate corresponds mechanically to about $323 billion a year on today's public debt stock and roughly $562 billion on CBO's projected $56.2 trillion stock in 2036 once fully transmitted. The effect is gradual, but each basis point matters more as the stock grows.

The cost is not confined to Washington. CBO's long-run framework associates each dollar of additional federal deficit with about 33 cents less private investment after higher private saving and foreign capital partly absorb the borrowing. Treasury also expects $1.367 trillion of privately held net marketable borrowing across the second half of 2026. Foreign demand remains deep: TIC data show $9.299 trillion of foreign Treasury holdings in June, up 2.3 percent year on year, but the mix is shifting toward private investors, making relative yield, hedging cost and the term premium increasingly important to the price needed to clear the market.

The global implications follow from the Treasury curve's role as the core benchmark for dollar finance. The IMF projects U.S. general government gross debt above 140 percent of GDP by 2031 but still assesses sovereign stress risk as low because of Treasury-market depth and the dollar's reserve-currency role. The BIS nevertheless finds that the conditional probability of a Treasury-market stress episode similar to the global financial crisis is much higher when public debt is high, reflecting the interaction of fiscal supply, leveraged non-bank positions and repo funding. The Edge baseline is therefore continued pressure rather than crisis: less fiscal flexibility, more crowding out and a structurally higher sensitivity of U.S. and global capital costs to fiscal credibility and the long-term rate environment.

The $40 trillion milestone: which debt matters?

Gross federal debt and debt held by the public answer different questions. Gross debt includes Treasury securities held by federal trust funds and other government accounts; those intragovernmental claims matter for the government's consolidated financial position but do not compete directly with private borrowers for market funding. Debt held by the public is the measure CBO uses most often for macroeconomic analysis because Treasury must place it with domestic investors, the Federal Reserve and foreign holders, and because that competition affects interest rates and private investment.

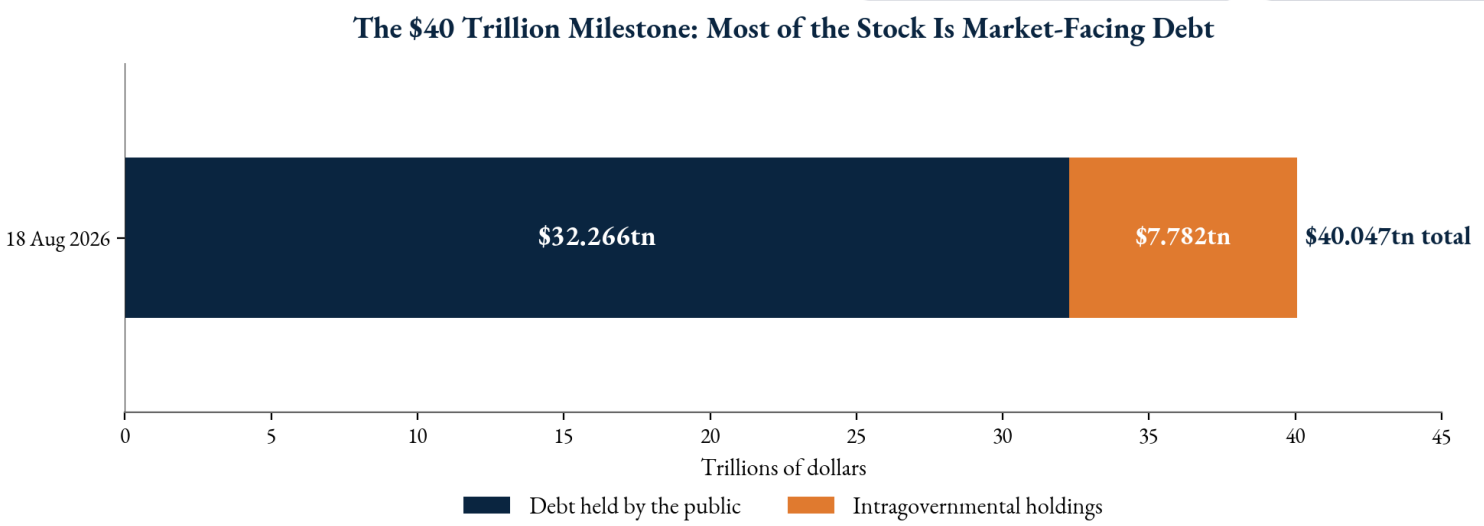

Figure 1. Treasury recorded $40.047 trillion of total public debt outstanding on 18 August 2026. Source: U.S. Treasury, Debt to the Penny; The Edge calculations.

The distinction also explains why apparently conflicting debt ratios can all be correct. CBO's 2026 baseline places federal debt held by the public at 101 percent of GDP. The Edge article's approximate gross-debt ratio of about 126 percent compares the point-in-time $40.047 trillion stock with CBO's projected fiscal-year economy. The IMF uses a broader general-government perimeter that consolidates federal, state and local government and projects that measure above 140 percent of GDP by 2031. Those ratios should not be compared without the perimeter label.

Key Fiscal And Market Indicators

Indicator	2026 / latest	Forward reference
Total public debt outstanding	$40.047tn (18 Aug)	Gross federal debt: ~$64tn in 2036
Debt held by the public	$32.266tn (18 Aug)	~$56.2tn in 2036
Debt held by the public / GDP	101% (CBO 2026)	120% in 2036; 175% in 2056
Net interest	$1.039tn (FY2026)	~$2.144tn in FY2036
Net interest / GDP	3.3%	4.6% in 2036
Average rate on public debt	~3.4%	~3.9% in later projection years
H2 2026 net marketable borrowing	$1.367tn	Q3 $739bn + Q4 $628bn
Foreign Treasury holdings	$9.299tn (Jun 2026)	40.6% official / 59.4% private
IMF general-government debt	125.8% of GDP (2026)	141.5% in 2031

Table 1. Sources: U.S. Treasury; CBO; IMF; Treasury International Capital. Forward values are projections, not observed outcomes.

Interest Has Become The Marginal Fiscal Problem

The most important change in the federal outlook is not simply the size of the deficit but its composition. CBO projects a total deficit of $1.853 trillion in 2026, or 5.8 percent of GDP, and $3.115 trillion in 2036, or 6.7 percent. The primary deficit — the gap before net interest — improves as a share of GDP, from 2.6 percent to 2.1 percent. Net interest moves in the opposite direction, from 3.3 percent to 4.6 percent. The deterioration in the total deficit is therefore generated by financing cost even while the primary position becomes somewhat less adverse relative to the size of the economy.

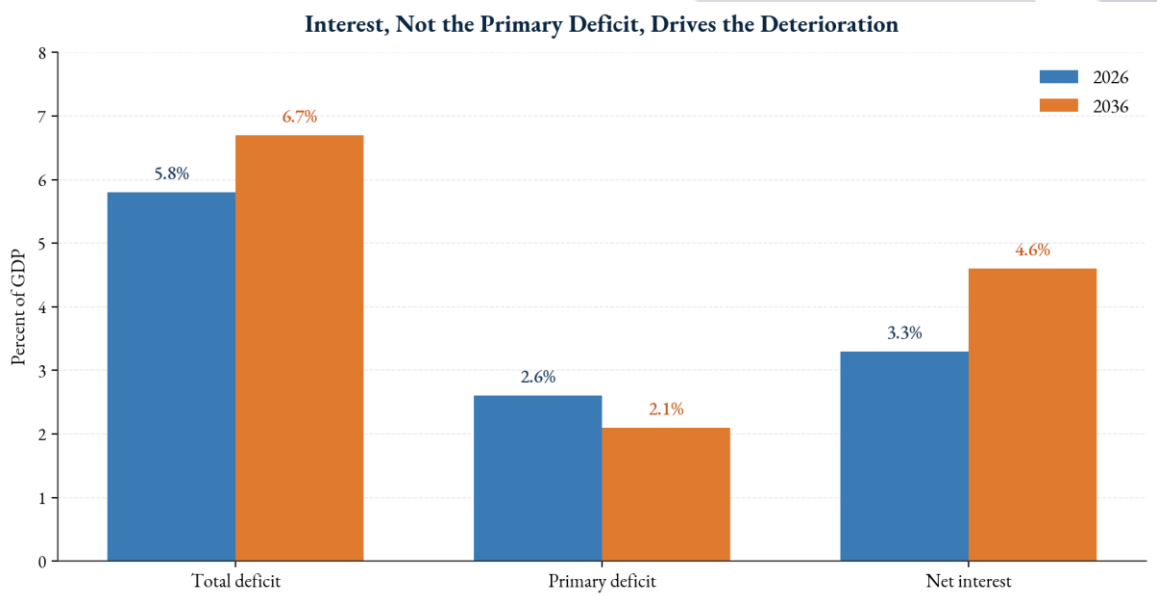

Figure 2. CBO baseline shares of GDP. Rounded components do not add exactly to the rounded total in 2026; CBO's unrounded dollar values reconcile. Source: Congressional Budget Office, February 2026.

The dollar arithmetic is more revealing. Net interest rises by about $1.105 trillion between 2026 and 2036, while the total deficit rises by about $1.262 trillion. That means interest accounts for roughly 88 percent of the increase in the deficit. The primary deficit itself rises in nominal dollars, from about $814 billion to about $971 billion, but the economy grows faster than that component, which is why its GDP share declines. Nothing in the baseline closes the underlying primary gap.

By 2036, CBO projects revenues of roughly $8.315 trillion and net interest of about $2.144 trillion. Interest would therefore absorb about 25.8 percent of revenue, compared with about 18.6 percent in 2026. Relative to spending, the share rises from roughly 14 percent to nearly 19 percent. The budget consequence is a smaller set of choices before any new policy decision is made: more of the revenue base is committed to servicing past borrowing, leaving less room for discretionary spending, automatic stabilizers, emergency measures or future tax reductions. This is the feedback loop that turns a high debt stock into a fiscal constraint. Larger deficits create more debt; more debt raises interest outlays; higher interest outlays create additional borrowing even if tax and non-interest spending policies are unchanged. CBO notes that borrowing to pay greater interest costs pushes interest costs higher still. The process is not explosive under the baseline because nominal GDP also grows and rates are assumed to stabilize, but it steadily weakens fiscal flexibility.

ANALYTICAL IMPLICATION: A fiscal debate focused only on the primary deficit understates the problem. On the current path, the financing cost is the component that worsens fastest and eventually dominates incremental deficit growth.

Refinancing The Stock: Why 100 Basis Points Now Matters

Treasury does not refinance $32 trillion at once. Most notes and bonds carry fixed coupons, bills turn over rapidly, and the effective rate on the stock changes only as securities mature or new deficits are financed. That lag is stabilizing in the short run, but it also means higher yields can remain embedded in the budget for years after the original market move. CBO estimates the average rate on debt held by the public at about 3.4 percent in 2026 and around 3.9 percent in the final years of its baseline as the maturity structure is gradually repriced.

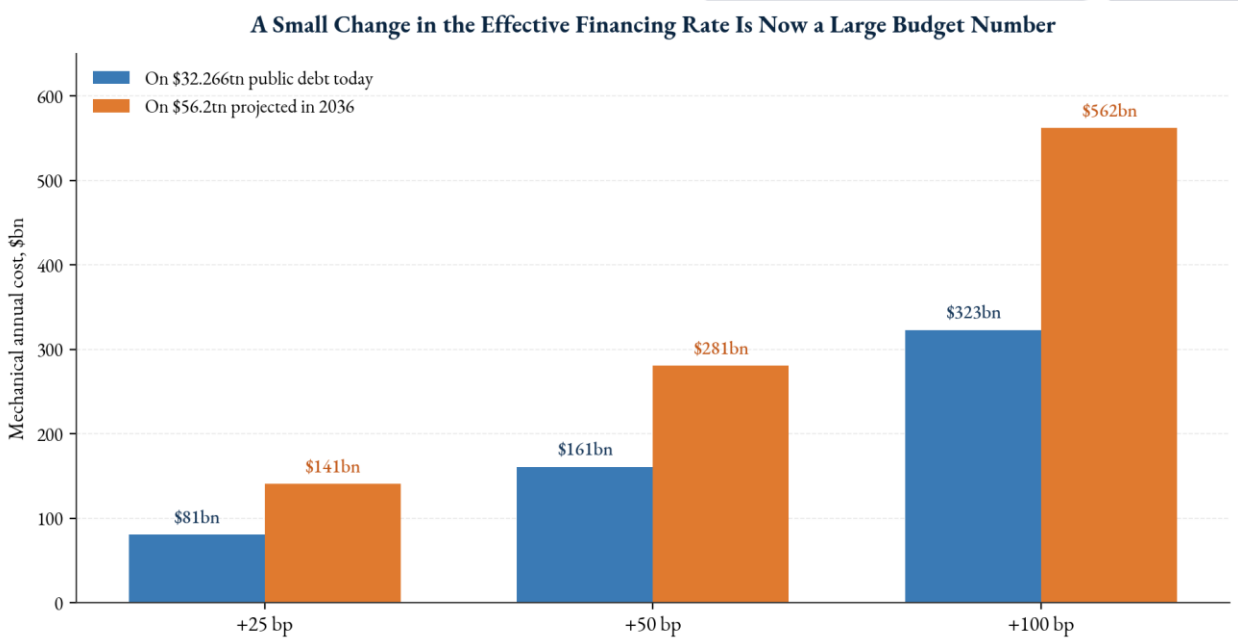

Figure 3. Mechanical sensitivity only: rate change multiplied by the stated debt stock. It is not a CBO forecast and does not assume immediate repricing of fixed-rate securities. Sources: U.S. Treasury; CBO; The Edge calculations.

The scale effect is now large. A 25 basis-point difference in the eventual effective financing rate is worth roughly $81 billion a year on today's public debt stock and about $141 billion on CBO's projected 2036 stock. At 50 basis points the corresponding figures are about $161 billion and $281 billion. At 100 basis points they rise to approximately $323 billion and $562 billion. Those sums can be compared with entire federal programs, yet they can arise from what bond investors would consider an ordinary shift in the long-term rate environment.

CBO's empirical work also identifies a debt-to-rate channel independent of monetary policy. Its 2024 working paper estimates that a one percentage-point increase in projected federal debt as a share of GDP raises average long-run interest rates by about 2 basis points. Applied mechanically to the baseline increase from 101 percent of GDP in 2026 to 120 percent in 2036, the debt channel alone is consistent with roughly 38 basis points of additional long-run rate pressure relative to a counterfactual in which the ratio did not rise. That is an order-of-magnitude estimate, not a yield forecast: inflation, Federal Reserve policy, productivity, global saving, foreign flows and the term premium can dominate the Treasury curve in any single year.

The asymmetry is important. Faster nominal growth can dilute debt relative to GDP and improve revenue, but a persistent rise in the effective financing rate compounds directly through the outstanding stock. As debt rises, the same 25 or 50 basis-point shock produces a larger budget response, which then creates additional issuance. This is why rate risk has become inseparable from fiscal risk even though Treasury remains able to fund itself normally.

The Domestic Economy: Crowding Out, Households And The Capital Stock

Federal borrowing changes the economy mainly through relative prices rather than through a visible shortage of money. Treasury competes with firms, households and foreign borrowers for savings. In CBO's long-run framework, each additional dollar of federal deficit is partly absorbed by higher private saving and greater net foreign investment, but the residual is a reduction of about 33 cents in private investment. The mechanism is higher required returns: a larger public claim on saving raises the hurdle rate for private capital and lowers the amount of productive investment that would otherwise be undertaken.

The 33-cent relationship is a long-run average, not a multiplier for every fiscal package. CBO's February 2026 analysis of the 2025 reconciliation act estimates that the law's higher federal borrowing reduces private investment by about $440 billion over 2025–2034, or roughly 10 cents per dollar of additional borrowing relative to the January 2025 baseline. The smaller package-specific figure reflects timing, tax incentives, monetary-policy responses and other macroeconomic feedback. The distinction matters: crowding out is not a fixed coefficient that can be applied mechanically to every bill.

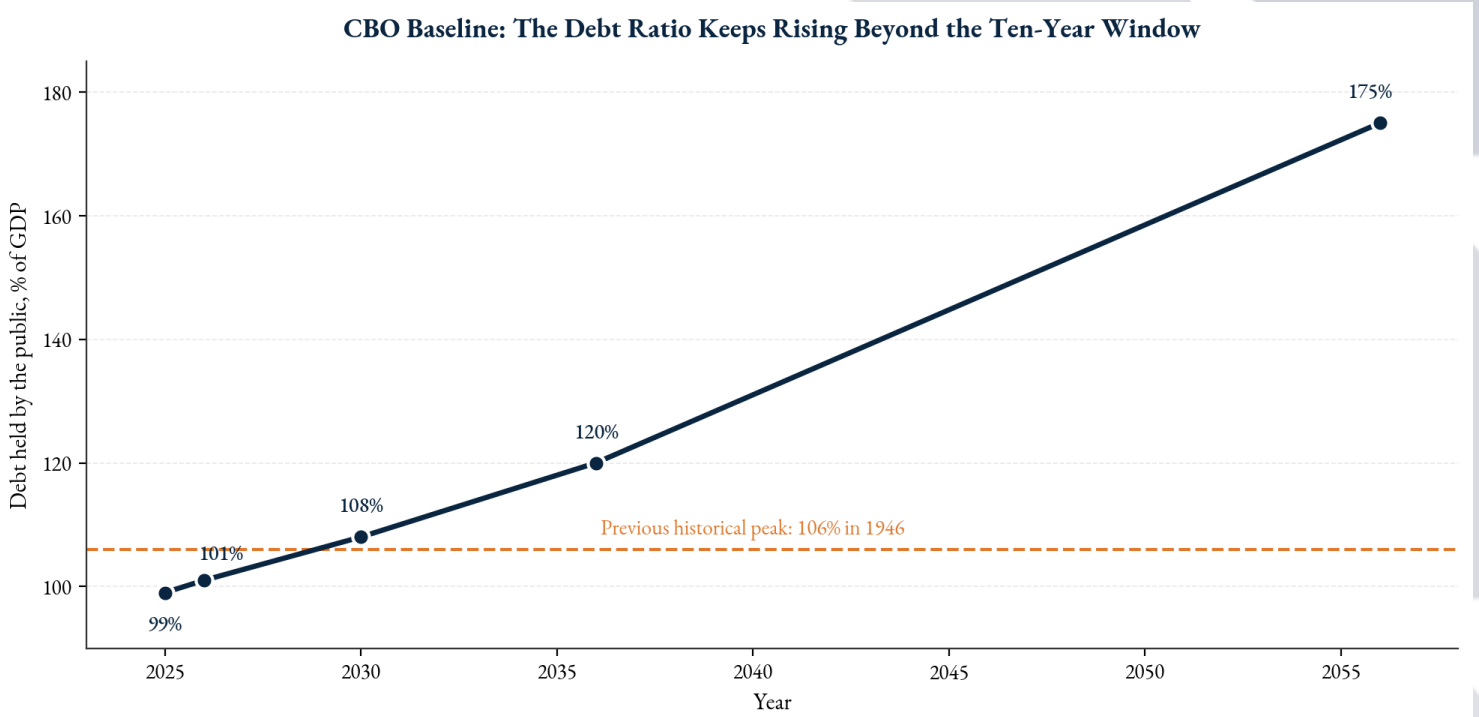

Figure 4. CBO baseline anchors for federal debt held by the public. The 1946 historical peak of 106 percent is surpassed around 2030.
Source: Congressional Budget Office, February 2026 and long-term data to 2056.

For households, the transmission is strongest through the yield curve. Thirty-year mortgage rates are closely linked to longer-dated Treasury and swap rates; auto and consumer lending respond through bank and securitization funding; credit-card rates are tied more directly to short-term prime rates. Federal borrowing therefore does not set household borrowing rates one-for-one, but a structurally higher Treasury curve raises the floor beneath many private credit products and makes monetary easing less powerful at the long end.

For business, the relevant cost is the opportunity cost of capital. Higher Treasury yields raise corporate bond benchmarks, the discount rate used to value projects and the return investors require from equities and private assets. The effect is particularly relevant while technology companies are undertaking a large AI-related capital-expenditure cycle. A heavy sovereign financing program and a private investment boom can compete for the same duration capital, causing the term premium to matter for both fiscal costs and productivity-enhancing investment.

Treasury Supply, Term Premium And Market Absorption

The market has to absorb the flow of financing, not just the stock already outstanding. On 3 August Treasury estimated $739 billion of privately held net marketable borrowing for July–September 2026 and $628 billion for October–December, a combined $1.367 trillion in the second half. The third-quarter estimate was $68 billion above the May projection; excluding the effect of the higher beginning cash balance, Treasury said the deterioration in underlying net cash flows was $87 billion.

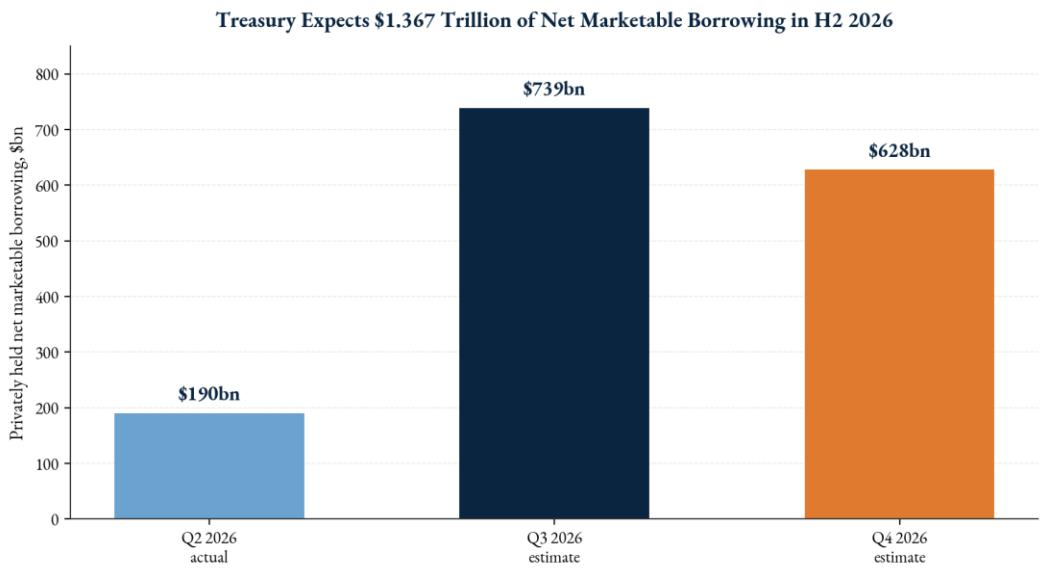

Figure 5. Privately held net marketable borrowing. Q2 is actual; Q3 and Q4 are Treasury estimates. Source: U.S. Treasury, 3 August 2026.

Treasury's August refunding statement kept nominal coupon and floating-rate-note auction sizes broadly unchanged for at least the next several quarters, relying on bills and cash-management bills to absorb seasonal variations. Primary dealers nevertheless told the Treasury Borrowing Advisory Committee that, on unchanged coupon auction sizes and privately held bill supply, their median forecast implies a $1.45 trillion funding shortfall across fiscal 2027 and 2028. Dealers generally expect coupon sizes to begin rising during 2027 if those needs materialize. That is a market forecast, not an official Treasury projection, but it is a useful signal of where investors expect pressure to migrate.

The term premium is therefore becoming a fiscal variable. Investors do not price only the expected path of the federal funds rate; they also require compensation for duration, inflation uncertainty, supply and balance-sheet usage. CBO's forecast has the 10-year Treasury rate rising from about 4.1 percent in 2026 to 4.3 percent in 2027 and remaining relatively stable later, with the term premium an explicit part of that profile. A higher-for-longer term premium feeds back into the budget as maturing debt is refinanced.

Treasury is also using buybacks to support market liquidity. On 19 August it announced that the maximum size of longer-dated liquidity-support buybacks in the 10–20 year and 20–30 year sectors would at least double from $2 billion to $4 billion per operation beginning 9 September. Treasury is explicit that buybacks are market-functioning and cash-management tools, not fiscal consolidation. Their relevance to this report is that a larger debt stock requires increasingly active debt-management techniques to maintain smooth price discovery and secondary-market liquidity.

The statutory debt limit is a separate scheduling risk. CBO notes that the limit is $41.1 trillion, but it applies to debt subject to limit rather than total public debt outstanding. The simple difference between the ceiling and the $40.047 trillion headline therefore is not usable borrowing headroom and cannot identify the binding date.

Foreign Demand: Still Deep, More Price-Sensitive

Foreign demand remains a core stabilizer of the Treasury market. Treasury International Capital data show foreign investors held $9.299 trillion of Treasury securities at the end of June 2026, up from $9.094 trillion a year earlier. Japan remained the largest reported foreign holder at $1.117 trillion, followed by the United Kingdom at $940 billion and mainland China at $633 billion. The country data are custody-based and Treasury cautions that they cannot always identify the ultimate beneficial owner, but the aggregate shows no broad withdrawal from the asset class.

The composition is more consequential than the headline total. Foreign official institutions held $3.778 trillion in June 2026, down $114 billion from a year earlier. By subtraction, private foreign holdings rose by almost $320 billion to about $5.521 trillion. Official institutions accounted for 40.6 percent of foreign Treasury holdings, down from 42.8 percent a year earlier, while private investors held 59.4 percent. Reserve managers buy Treasuries for liquidity, intervention and reserve-allocation objectives; private investors are more directly responsive to relative yield, hedging cost, volatility and expected return.

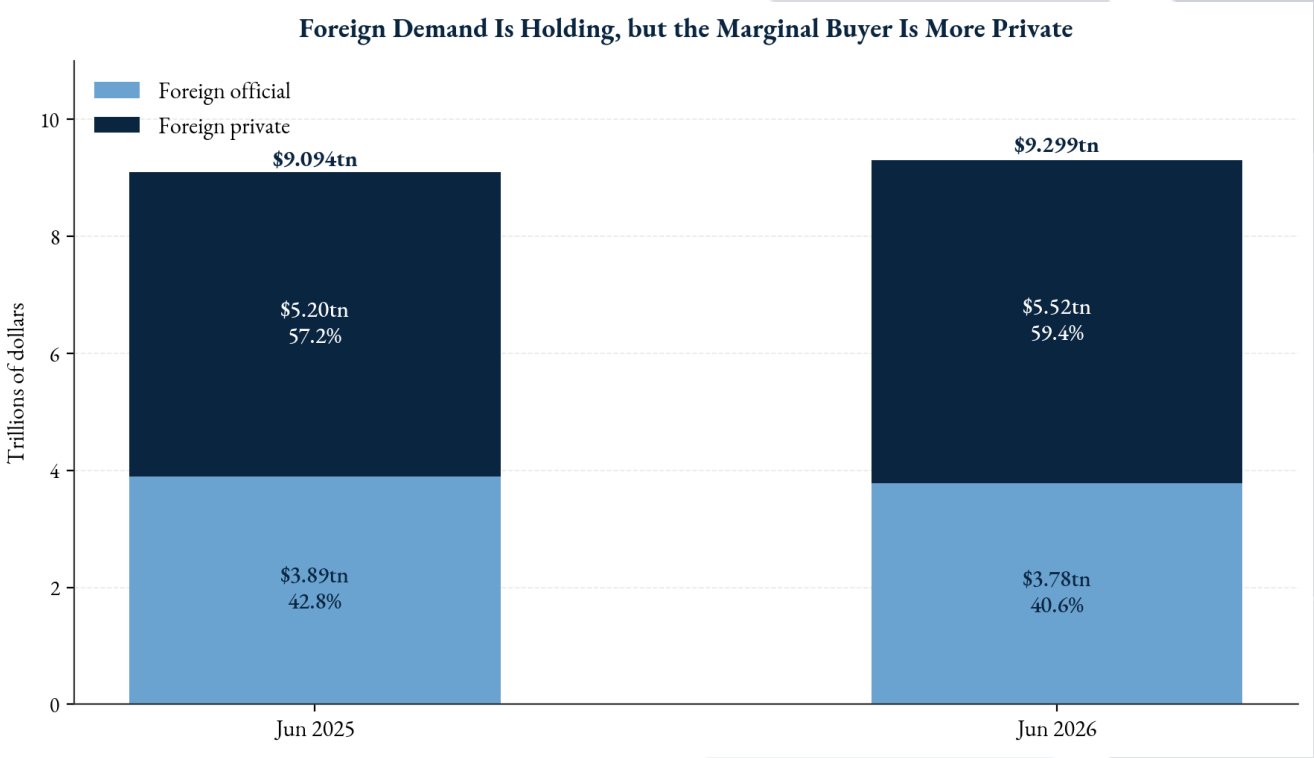

Figure 6. Foreign official holdings declined while private foreign holdings increased. Private is derived as total foreign holdings less official holdings.
Source: U.S. Treasury International Capital, June 2026; The Edge calculations.

That shift does not mean foreign demand is weakening. It means that the price required to attract the marginal foreign buyer matters more. If official reserve accumulation provides less structural demand while private balance sheets absorb more issuance, the term premium and currency-hedged yield become more important determinants of auction demand. A strong dollar can attract unhedged investors but can also raise the cost of hedging for institutions whose liabilities are in euros, yen or other currencies.

Foreign holdings also create an income channel. Higher Treasury coupons paid to foreign investors raise income outflows from the United States and reduce gross national income relative to GDP. The effect is gradual but cumulative as the stock and coupon rate rise. This is one reason CBO emphasizes national saving and private capital formation rather than focusing only on the government's financing ability.
The reserve-currency role of the dollar remains the key U.S. advantage. It creates persistent global demand for safe, liquid dollar assets and gives Treasury a funding depth unavailable to most sovereigns. But reserve status is better understood as a longer runway than as immunity. The more issuance is absorbed by return-sensitive investors, the more fiscal credibility and market liquidity are reflected directly in the yield required to clear the market.

Global Transmission: From The Treasury Curve To The World Cost Of Capital

The Treasury curve is embedded in global finance. Dollar sovereign bonds, bank senior debt, corporate issuance, project-finance facilities, derivatives and securitized assets are priced as a spread to Treasury yields or closely related dollar swap benchmarks. A change in U.S. fiscal supply can therefore alter the all-in cost of borrowing for an issuer whose own credit fundamentals are unchanged. The pass-through is not mechanically one-for-one because spreads, hedging costs and maturity change at the same time, but the benchmark channel is pervasive.

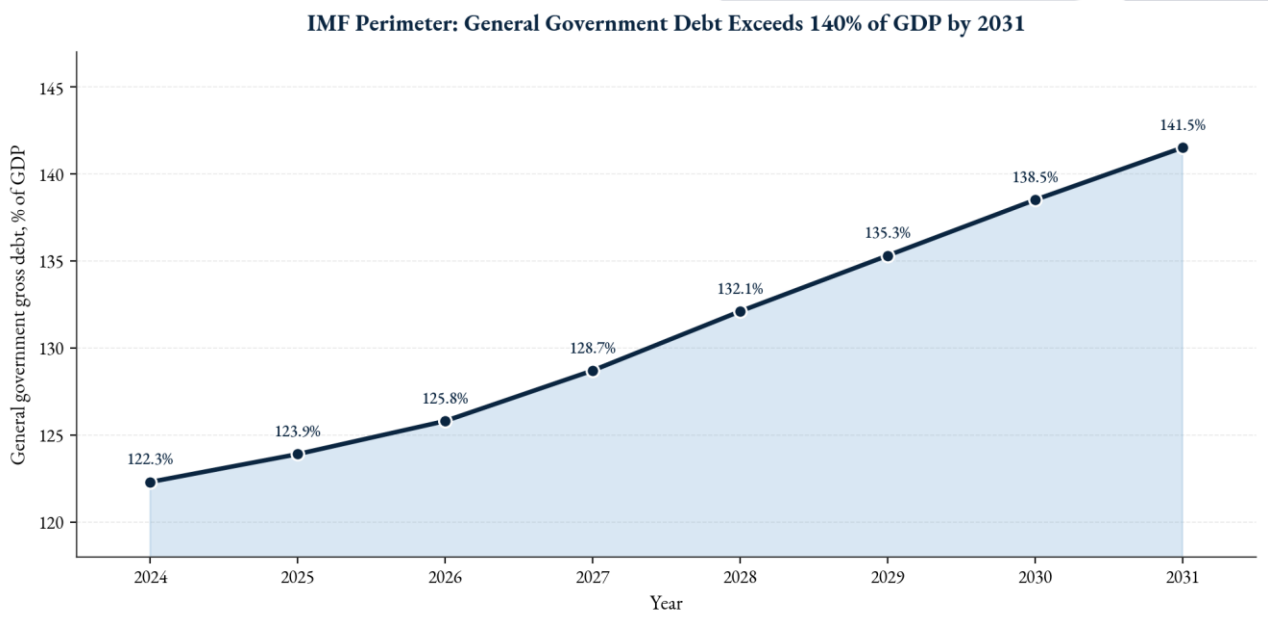

Figure 7. The IMF uses a broader general-government perimeter than CBO. Source: IMF, United States 2026 Article IV Consultation, April 2026.

The IMF projects U.S. general government gross debt rising from 125.8 percent of GDP in 2026 to 141.5 percent in 2031. It still assesses sovereign stress risk as low because of the depth and liquidity of Treasury markets and the dollar's reserve-currency status, but it identifies the upward debt ratio and a rising share of shorter-maturity debt as growing tail risks for U.S. and global stability. The issue is gross financing need: refinancing maturing securities can be much larger than the annual deficit, making market conditions at rollover dates relevant even when current coupons are affordable.

A simple sensitivity illustrates the international channel. If a 50 basis-point increase in the dollar benchmark passed through fully before any change in credit spread, $10 billion of newly issued or refinanced fixed-rate dollar debt would carry about $50 million more annual interest.

At $100 billion, the incremental cost would be about $500 million a year. At a 100 basis-point shift the same $100 billion refinancing volume would cost about $1 billion more annually. These are mechanical examples, not forecasts, but they show how a U.S. term-premium shock can change financing costs abroad without any deterioration in the borrower's balance sheet.

The Gulf is directly exposed because exchange-rate frameworks and deep use of dollar funding transmit U.S. financial conditions quickly. Sovereign, bank and government-related-entity issuance is commonly benchmarked to the Treasury curve, while domestic policy rates in dollar-linked systems track the Federal Reserve closely. Higher long yields can therefore raise the weighted average cost of capital for infrastructure, energy and diversification projects even if local credit quality is stable. The same mechanism applies to emerging-market sovereigns and corporates globally, with an additional exchange-rate channel where liabilities are in dollars but revenues are local currency.

Tail Risks And The Reform Window

The relevant tail risk is market functioning rather than a known debt-to-GDP default threshold. Treasury securities are the core collateral of the global dollar system and a central asset in repo, derivatives and bank liquidity portfolios. That depth is a strength, but it also means stress can propagate rapidly when leveraged investors are forced to deleverage. The BIS describes a new fiscal-financial stability nexus in which high sovereign debt interacts with the growing role of non-bank financial institutions, especially leveraged hedge funds financed through repo.

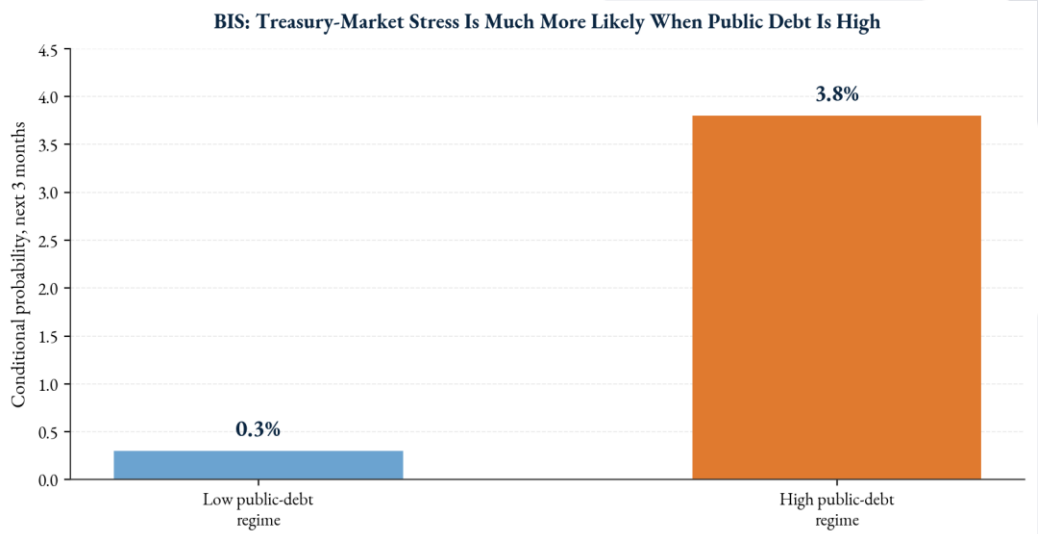

Figure 8. Conditional historical relationship, not a live probability forecast. High and low refer to the top and bottom deciles of the historical debt distribution in the BIS sample. Source: BIS Annual Economic Report 2026, Chapter II.

In the BIS model, the probability of a Treasury-market stress event similar to the global financial crisis within the next three months is about 3.8 percent when the public-debt ratio is high versus 0.3 percent when it is low. The result should not be read as a prediction for the next quarter. It shows that a larger fiscal stock can make the system more vulnerable to the amplification mechanism: higher yields reduce bond prices, leveraged positions face margin calls, forced sales depress prices further, repo conditions tighten and the shock spills into other markets.

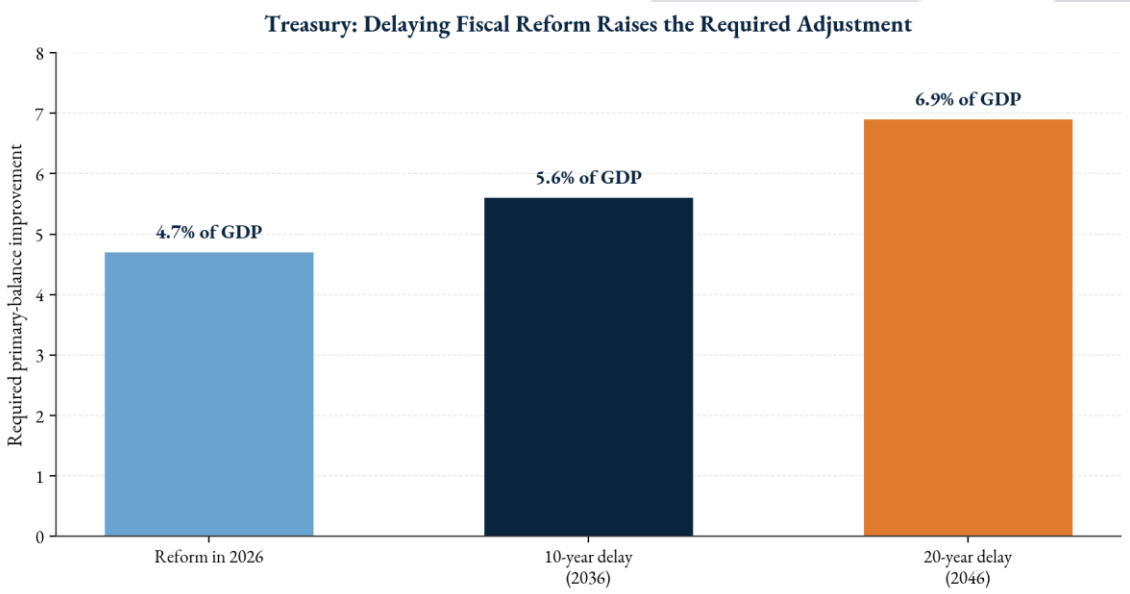

Figure 9. The fiscal gap is the average primary-balance improvement required over the long horizon to stabilize the debt path under Treasury's methodology. Source: FY2025 Financial Report of the U.S. Government.

The reform arithmetic worsens with delay. Treasury's FY2025 Financial Report estimates that beginning fiscal adjustment in 2026 would require an average primary-balance improvement of 4.7 percent of GDP over its 75-year horizon. Waiting ten years raises the required adjustment to 5.6 percent; waiting twenty years raises it to 6.9 percent. The IMF reaches a similar direction through a different framework: it estimates that putting the general-government debt ratio on a declining path requires a primary surplus of around 1 percent of GDP, an adjustment of roughly 4 percent of GDP relative to its baseline.

The IMF notes that non-defense discretionary federal spending is only about 15 percent of total outlays, so a durable adjustment cannot rely on that category alone. Its framework points instead to higher federal revenue and reform of large entitlement programs. Delay raises the eventual adjustment and the risk that consolidation arrives under market pressure rather than through planned sequencing.

Outlook: Three Paths To 2036

The $40 trillion milestone is not a crisis threshold. The useful framework is how the debt stock, effective financing rate, growth and primary balance interact; CBO's current-law baseline is the reference point, while the constructive and adverse cases below are The Edge analytical scenarios.

Path	Key conditions	2036 implication
Constructive	Productivity and nominal GDP outperform; credible medium-term revenue and entitlement reform; lower term premium; stable foreign/private demand.	Debt ratio peaks materially below the CBO path; interest takes a smaller revenue share; private investment faces less crowding out.
CBO baseline	Current law; debt held by public rises each year; average financing rate approaches ~3.9%; primary deficit remains positive.	Public debt ~120% of GDP and ~$56.2tn; net interest ~$2.144tn and 4.6% of GDP; fiscal flexibility keeps narrowing.
Adverse rate/fiscal mix	Primary deficits remain wide; term premium and inflation risk keep the effective financing rate ~100 bp above the baseline once repricing is complete.	Mechanical interest sensitivity is roughly +$562bn a year on the projected 2036 public debt stock, before feedback to debt; the debt ratio would exceed the baseline absent offsetting policy.

Table 2. Constructive and adverse paths are The Edge scenarios. The adverse interest figure is a mechanical sensitivity, not a forecast.

Conclusion

U.S. fiscal risk is now a system rather than a single debt number. A persistent primary deficit, a historically high market-facing stock and a positive long-term rate structure reinforce one another. CBO's baseline shows the result: debt held by the public rises from 101 percent of GDP in 2026 to 120 percent in 2036 even though the primary deficit improves relative to GDP, because interest costs rise faster and compound through new borrowing.

The cost appears before any financing crisis: reduced federal policy space, higher benchmark costs for households and firms, less private investment than otherwise, and global pass-through through the Treasury curve. Funding remains resilient and the base case is far from default; the tail risk is disorderly repricing amplified by leveraged non-bank positions and collateral chains. The policy objective is to stop the debt ratio and interest share from rising faster than the economy's capacity to service them through productivity, primary-balance reform and credible sequencing that limits the term premium.

Methodology & Verification Note

This report rechecks the core figures against primary sources including U.S. Treasury Fiscal Data and TIC, CBO's February 2026 Budget and Economic Outlook and long-term data, the IMF 2026 Article IV consultation, and the BIS Annual Economic Report 2026. Core debt figures for 18 August 2026 were checked against Treasury Fiscal Data and the Daily Treasury Statement. CBO interest, deficit and debt-ratio projections are taken from the February 2026 baseline and supplemental tables. Rate-sensitivity, pass-through examples and the constructive and adverse paths are The Edge calculations or analytical scenarios and are identified as such.

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