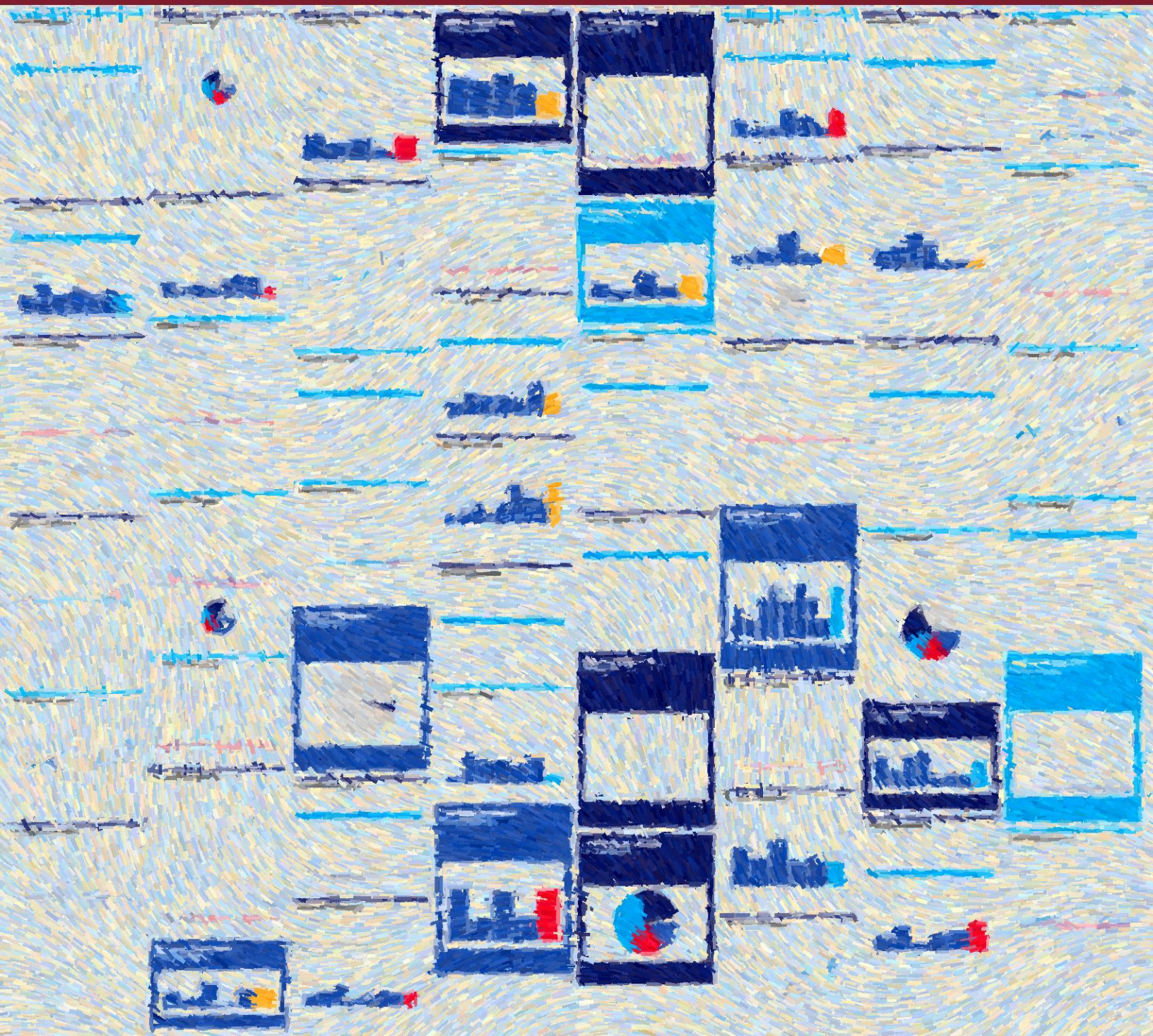
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RESEARCH | Q4 2026

Fiscal Dominance:

Predicting Negative Real Rates



EXECUTIVE SUMMARY: Fiscal dominance is the regime in which the size of the public debt, not the inflation target, sets the path of interest rates: the central bank holds policy rates below inflation because the government cannot afford otherwise, and bondholders are repaid in money that buys less. Its measurable symptom is a real interest rate that stays low, zero or negative for years. This paper asks which observable conditions have predicted that regime across the G7 and Australia from 1950 to 2026, using 616 country-years of data.

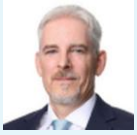
Government debt is the most reliable predictor. With debt above 120 percent of GDP, the real policy rate was negative 63 percent of the time, against 23 percent below 60 percent, and the average real policy rate fell from 1.4 percent to minus 1.0 percent. High debt also changes central bank behavior: below 60 percent of GDP a 1 point rise in inflation was met with a 0.25 point rise in the policy rate; above 90 percent, with 0.09 points.



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KEY FIGURES: FISCAL DOMINANCE IN THE G7 AND AUSTRALIA, 1950 TO 2026

63%
Share of years with a negative real policy rate when government debt was above 120% of GDP, against 23% below 60%

0.09
Policy rate change per 1 point rise in inflation when debt was above 90% of GDP, against 0.25 below 60%

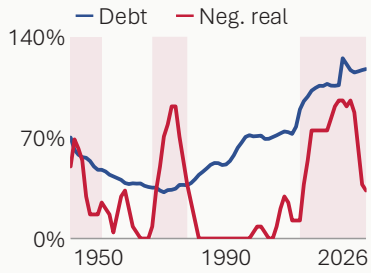
4 of 8
Countries with a better than even model probability of a negative real policy rate in 2027: Japan, France, Canada and Italy

Deficits, private credit, a low starting policy rate, a steep yield curve and an interest rate below nominal growth all raise the odds, mostly because they tend to occur with high debt. A model combining them puts the probability of a negative real policy rate in 2027 at 86 percent for Japan, about 60 percent for France, Canada and Italy, and 36 to 48 percent for the United States, Australia, Germany and the United Kingdom, against a 76-year average of 33 percent. It expects the average real policy rate over the next five years to be below zero in six of the eight countries.

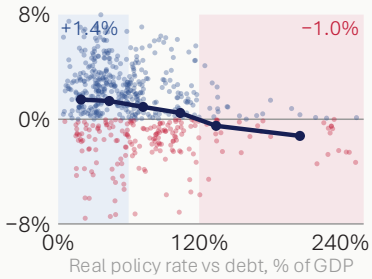
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SUMMARY IN CHARTS:

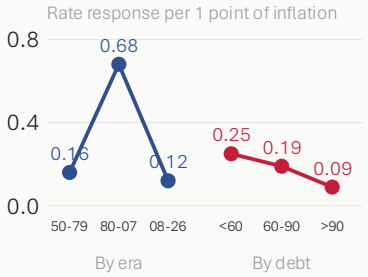
Negative real rates cluster in the high-debt eras (Chart 1)



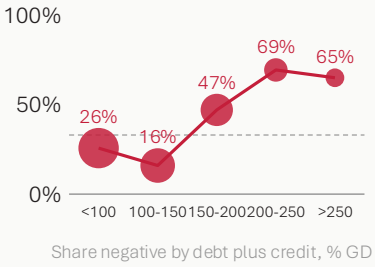
The odds nearly triple from low to high debt (Chart 3)



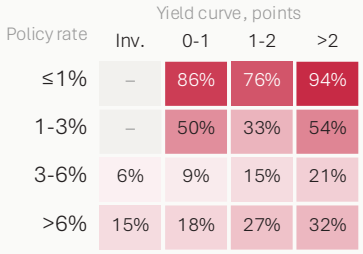
Central banks respond less to inflation at high debt (Chart 4)



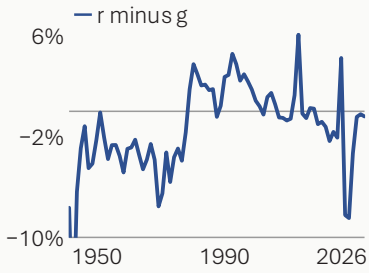
Total leverage is the strongest combined signal (Chart 6)



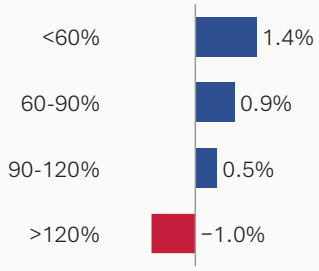
A near-zero policy rate almost guarantees it (Chart 7)



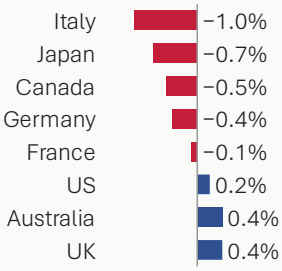
Rates below growth: postwar, and again since 2010 (Chart 8)



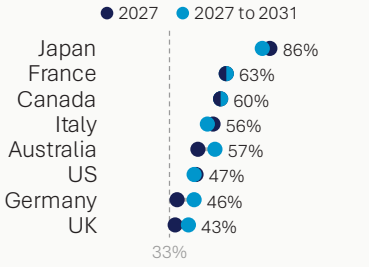
High debt costs about 2.4 points of real policy rate (Table 2a)



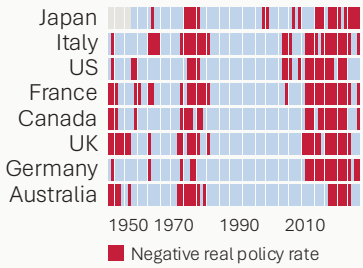
Real policy rates are negative in five of eight in 2026 (Chart 10)



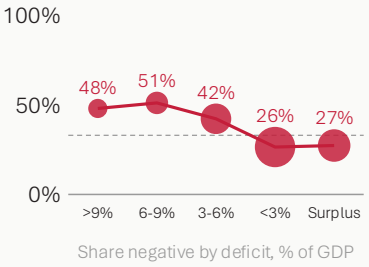
Five of eight expected negative in most of the next five years (Chart 11)



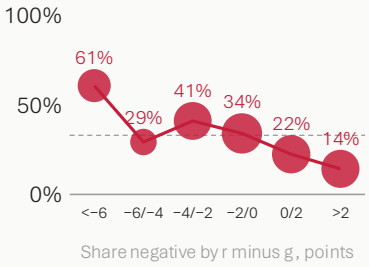
Negative real rates cluster in three periods, in every country (Chart 2)



Deficits above 6 percent of GDP double the odds (Chart 5)



A negative r minus g raises the odds from 18 to 50 percent (Chart 9)



INTRODUCTION: Research has shown that if fiscal policy does not adjust, monetary policy eventually must: a central bank facing an unfunded government either prints the difference or lets inflation erode the debt. Under monetary dominance the central bank sets real rates and the treasury adjusts its primary balance; under fiscal dominance the treasury sets the deficit and the central bank accommodates it.

The postwar record shows what the regime looks like in practice. Real interest rates in advanced economies were negative in about half of the years from 1945 to 1980, liquidating 3 to 4 percent of GDP of government debt a year in the United States and the United Kingdom. Governments did not default. They held nominal rates below inflation with rate ceilings, captive domestic buyers and capital controls, and let the debt shrink against nominal GDP. That is financial repression, the form fiscal dominance takes in a country that borrows in its own currency.

Chart 1: Average government debt to GDP and share of the eight countries with a negative real policy rate (3-year average), 1950 to 2026

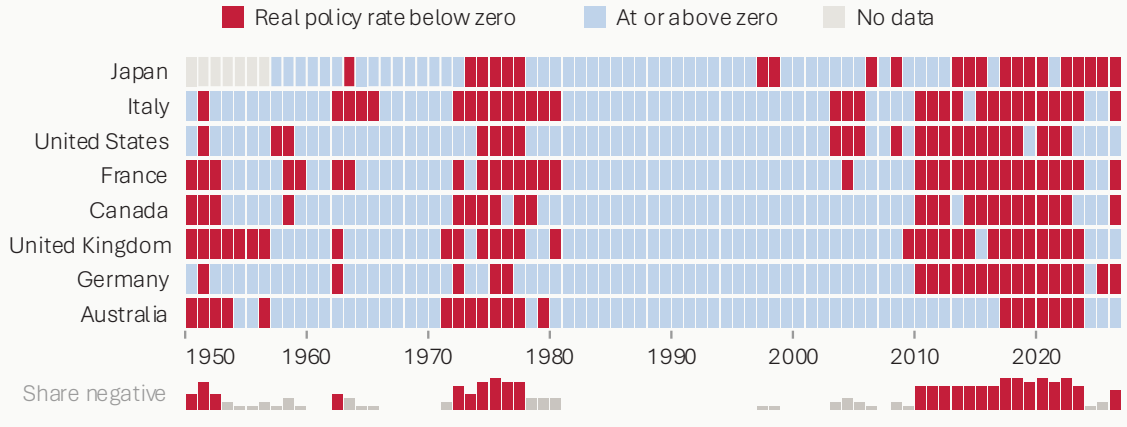


Jordà-Schularick-Taylor Macrohistory Database, extended with IMF WEO and OECD data; the real policy rate is the short-term rate less same-year CPI inflation, and predictors are measured at the end of the prior year.

What is less settled is which conditions predict the regime in advance, and that is the question this paper attempts to answer.

THE PATTERN SINCE 1950: The 1980 to 2007 regime of positive real rates was the exception, not the norm. Real policy rates were negative in 59 percent of country-years in the 1970s and 81 percent in the 2010s; they averaged above 4 percent in the 1980s and below zero in three of the eight decades. Negative real policy rates cluster in the 1950s, the 1970s and the years since 2008, and the 1980 to 2007 stretch is almost clear in every country.

Chart 2: Years with a negative real policy rate, by country, 1950 to 2026; bottom row is the share of the eight countries negative in each year



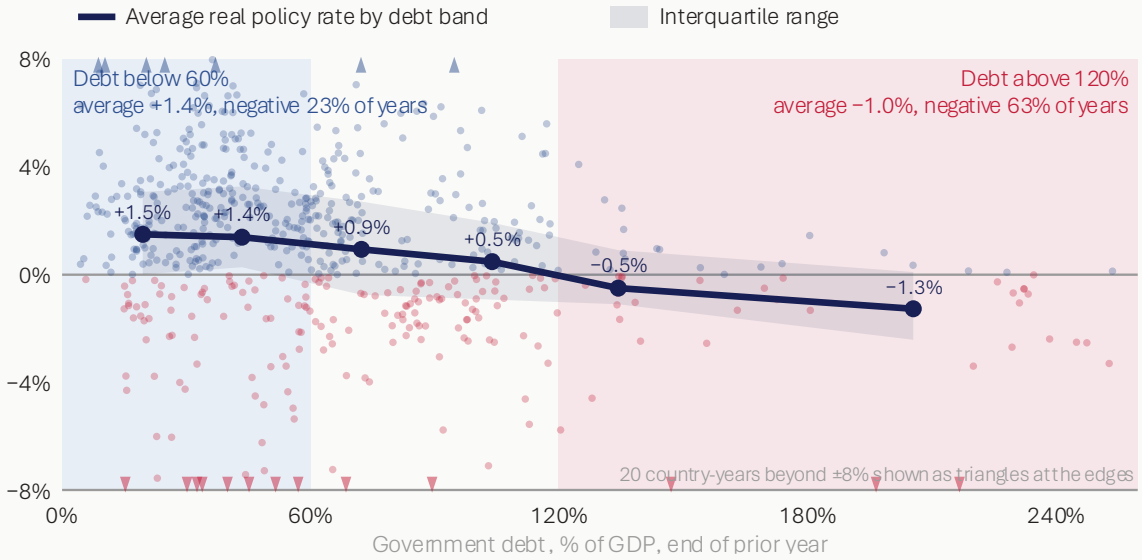
Real policy rates were negative in 32 percent of country-years, but the episodes cluster. The 1950s were the postwar repression, with debt averaging 70 percent of GDP in 1950. The 1970s were different: debt was about 32 percent of GDP in 1974, but oil shocks and accommodating central banks pushed real rates below zero in 59 percent of country-years. The Volcker tightening then delivered almost three decades of monetary dominance, with negative real policy rates in 4 percent of country-years in the 1980s and 2 percent in the 1990s.

Since 2008 the two lines have moved together. Average debt rose from 73 percent of GDP in 2007 to 118 percent in 2026, and real policy rates were negative in 81 percent of country-years in the 2010s and 66 percent from 2020 to 2026. All eight countries had a negative real policy rate in 2022, averaging minus 5.9 percent. The 1970s show that low debt is no guarantee; the postwar and post-2008 episodes show that once debt is high, the regime lasts.

DRIVER 1 - GOVERNMENT DEBT: Government debt is the strongest and most stable predictor. The frequency of a negative real policy rate rises at every step, from 23 percent below 60 percent of GDP to 63 percent above 120 percent, and the average real rate falls from 1.4 percent to minus 1.0 percent. High debt also predicts persistence: above 120 percent of GDP, real rates were negative in 58 percent of the following five years, against 21 percent below 60 percent.

The odds of a negative real policy rate nearly triple as government debt rises from below 60 percent of GDP to above 120 percent, and the average real rate falls by 2.4 points.

Chart 3: Real policy rate against government debt at the end of the prior year, 607 country-years, 1950 to 2026; red below zero; line is the average by debt band with its interquartile range; blue panel is the low-debt regime, red the high-debt regime

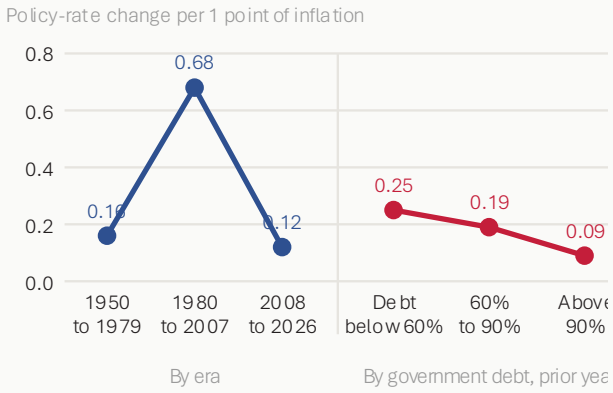


The result survives the obvious objections. With country fixed effects, each 10 points of debt to GDP lowers the following year's real policy rate by 0.21 points (t-statistic -4.8). Adding year fixed effects, which remove the global rate cycle, cuts the effect to 0.08 points, still significant (t-statistic -2.9). Before 2008, debt above 120 percent of GDP still came with negative real rates in 42 percent of years, on a

small sample of 19 country-years. A model estimated on 1950 to 2000 using debt alone ranked the 2001 to 2026 years better than models adding the other fiscal variables.

DRIVER 2 - THE CENTRAL BANK REACTION: Central banks have answered inflation with one third of the rate response at high debt that they gave at low debt. Fiscal dominance is ultimately about behavior: does the central bank raise rates when inflation rises? Chart 4 measures the pass-through, the change in the policy rate per 1 point change in inflation. It was 0.68 from 1980 to 2007, 0.16 in the postwar period and 0.12 from 2008 to 2026. Sorted by debt, the pattern repeats: 0.25 below 60 percent of GDP, 0.19 from 60 to 90 percent, 0.09 above 90 percent.

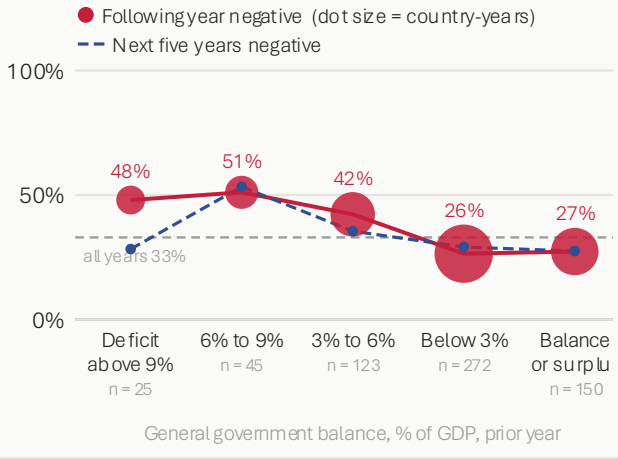
Chart 4: Change in the policy rate per 1 point change in CPI inflation, by era and by government debt at the end of the prior year, 1950 to 2026



This is the closest the data come to observing fiscal dominance directly. A central bank that answers a 1 point rise in inflation with 0.09 points is letting real rates fall as inflation rises, the opposite of an inflation-targeting reaction function. The reason is the cost to the treasury: at the 2026 average debt ratio, each 1 point rise in funding costs adds about 1.2 percent of GDP a year to interest bills once the debt reprices.

DRIVER 3 - FISCAL DEFICITS: Deficits above 6 percent of GDP double the odds of a negative real rate, and the odds step up rather than rise smoothly. Deficits above 6 percent of GDP preceded a negative real policy rate in 51 percent of years, against 27 percent for countries in balance or surplus. Once debt is in the regression, the deficit adds little. Large deficits arrive in recessions and wars, when central banks are already cutting, so the deficit marks the start of an episode while the debt stock sets its length. In 2026 the United States is running a general government deficit of 8.5 percent of GDP outside a recession, and France 5.4 percent.

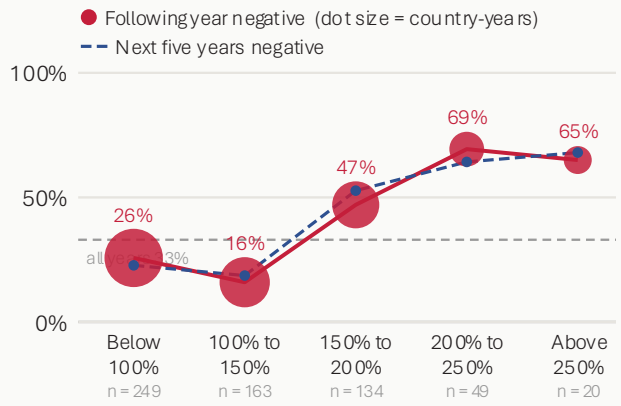
Chart 5: Share of following years with a negative real policy rate by general government balance at the end of the prior year, 1950 to 2026; dot size shows the number of country-years



DRIVER 4 - PRIVATE AND CORPORATE DEBT: Government debt plus private credit above 200 percent of GDP is the strongest

single signal in the panel. Private leverage raises the cost of higher rates to the whole economy, not only the treasury. Household bank credit above 50 percent of GDP preceded negative real policy rates in 49 percent of years, against 28 percent below 30 percent; business credit had a weaker link, 38 against 27 percent. The strongest combined signal in the panel is total leverage: government debt plus private bank credit above 200 percent of GDP preceded negative real rates in 68 percent of years and 65 percent of the following five. On IMF data, private debt stood at 218 percent of GDP in Canada and 216 percent in France in 2024, the highest in the group.

Chart 6: Share of following years with a negative real policy rate by government debt plus bank credit to the private sector at the end of the prior year, 1950 to 2026; dot size shows the number of country-years



DRIVER 5 - NOMINAL RATES AND THE YIELD CURVE: A policy rate at or below 1 percent preceded a negative real rate 85 percent of the time, and a steep curve on top of it raised the odds to 94 percent.

The starting level of nominal rates is the strongest short-run predictor, though perhaps more symptom than cause. A policy rate at or below 1 percent preceded a negative real policy rate in 85 percent of years, against 17 percent above 3 percent: near zero, any rise in inflation turns straight into a negative real rate. The yield curve adds information. A 10-year yield more than 2 points above the policy rate preceded negative real rates in 46 percent of years, against 16 percent for an inverted curve; a steep curve is the market pricing inflation the central bank is not yet resisting.

Chart 7: Share of following years with a negative real policy rate by policy rate and yield curve (10-year yield less policy rate) at the end of the prior year, 1950 to 2026

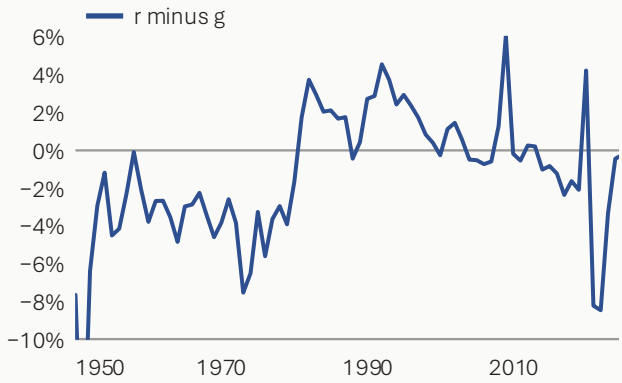
Policy rate	Yield curve, 10-year yield less policy rate: Inverted	0 to 1 point	1 to 2 points	Above 2 points
At or below 1%	–	86% n=29	76% n=45	94% n=3
1% to 3%	–	50% n=20	33% n=33	54% n=3
3% to 6%	6% n=31	9% n=68	15% n=71	21% n=6
Above 6%	15% n=65	18% n=60	27% n=37	32% n=1

Cell: share of following years negative; deeper red is higher.
Cells with fewer than five country-years are blank.

DRIVER 6 - INTEREST RATE LESS GROWTH: Interest rates sat below nominal growth for the three postwar decades and again since 2010, with 1980 to 2007 the exception.

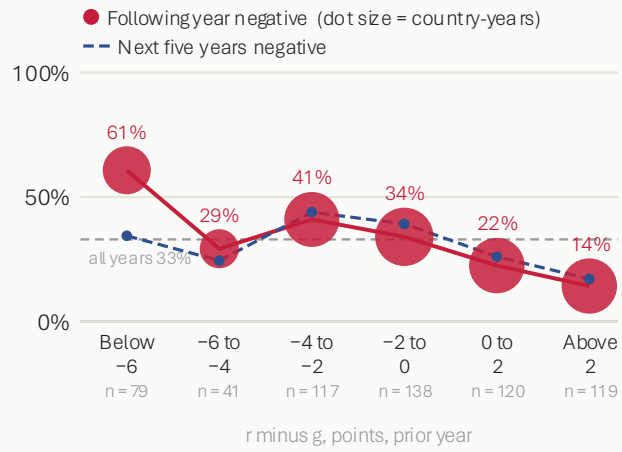
The debt ratio falls on its own when the interest rate is below nominal GDP growth and rises when it is above. Chart 8 tracks the eight-country average of the 10-year yield less nominal growth. It averaged minus 4 to minus 5 points through the 1950s, 1960s and 1970s, the period in which postwar debt was liquidated without primary surpluses. From 1980 to 2007 the sign flipped, to plus 1.4 points in the 1980s and plus 2.5 in the 1990s. Since 2010 it has been negative again, minus 0.9 points on average and minus 2.4 from 2020 to 2026. In 2026 the 10-year yield sits below nominal growth in six of the eight countries, including the United States at about minus 1.5 points; only France and the United Kingdom pay more on their debt than their economies grow.

Chart 8: 10-year government yield less nominal GDP growth, average of the G7 and Australia, 1950 to 2026; the 1951 value of minus 18 percent is cut off



A negative r minus g raised the odds of a negative real rate from 18 to 50 percent, and below minus 6 points to 61 percent. r was below g in 61 percent of country-years, and the condition is itself a predictor: a negative r minus g at the end of the prior year preceded a negative real policy rate in 41 percent of years, against 18 percent when positive. The link runs through policy. A government whose debt ratio is falling for free has every incentive to keep the gap negative, and the fastest way is a policy rate below inflation. The 1980 to 2007 arrangement of independent central banks and adjusting governments coincided with r above g, and r is now below g again.

Chart 9: Share of following years with a negative real policy rate by 10-year yield less nominal GDP growth at the end of the prior year, 1950 to 2026; dot size shows the number of country-years



THE DRIVERS TOGETHER: Table 1 summarizes the conditional frequencies for every driver measurable across the panel. Three things stand out. The stock variables beat the flow variables: the debt level outperforms the deficit, and total leverage outperforms either part alone. The signals persist: for every row the five-year share is close to the one-year share, so these are regime markers rather than timing signals. And no single condition is decisive: even above 120 percent of GDP, real policy rates were positive in 37 percent of years, which is why the next section combines them.

Stock variables predict better than flows, and every signal persists for five years.

Table 1: Share of years with a negative real policy rate when each condition was high vs low at the end of the prior year; debt and credit as % of GDP; next 5 years is the share of the following five years; red above the 33 percent sample average, blue below, deeper further from it

Driver	High condition	Next year	Next 5 years	Low condition	Next year	Next 5 years
Government debt	Above 120%	63%	58%	Below 60%	23%	21%
Government debt	Above 90%	53%	49%	Below 60%	23%	21%
Fiscal balance	Deficit above 6%	51%	43%	Balance or surplus	27%	28%
Private credit	Above 75%	47%	50%	Below 50%	26%	22%
Household credit	Above 50%	49%	55%	Below 30%	28%	26%
Business credit	Above 50%	38%	42%	Below 30%	27%	26%
Debt plus private credit	Above 200%	68%	65%	Below 100%	26%	23%
Policy rate	At or below 1%	85%	75%	Above 3%	17%	21%
Yield curve	Above 2%	46%	37%	Inverted	16%	23%
r minus g	Below zero	41%	38%	Above zero	18%	22%

HOW FAR THE DRIVERS MOVE REAL RATES: Moving from low to high debt costs about 2.4 points of real policy rate and 2.3 points of real 10-year yield. Tables 2a and 2b report how far real rates moved, not just how often they went negative: the average real policy rate and real 10-year yield in the following year, by driver and level. Moving from debt below 60 percent of GDP to above 120 percent lowers the average real policy rate from 1.4 percent to minus 1.0 percent and the real 10-year yield from 2.5 percent to 0.2 percent.

Table 2a: Fiscal and credit drivers: average real rates in the following year, 1950 to 2026; red below zero, blue above

Driver and level at end of prior year	Real policy rate, next year	Real 10-year yield, next year
Government debt, % of GDP		
Below 60% of GDP	1.4%	2.5%
60% to 90%	0.9%	2.1%
90% to 120%	0.5%	1.6%
Above 120%	−1.0%	0.2%
Fiscal balance, % of GDP		
Deficit above 6% of GDP	−0.2%	0.7%
Deficit 3% to 6%	0.9%	2.4%
Deficit below 3%	1.2%	2.3%
Balance or surplus	1.2%	2.2%
Private credit, % of GDP		
Below 50% of GDP	0.8%	2.1%
50% to 75%	1.8%	2.8%
75% to 100%	0.5%	1.6%
Above 100%	−0.1%	0.6%

A deficit above 6 percent of GDP is followed by a real policy rate near minus 0.2 percent, against 1.2 percent for countries in balance. A policy rate at or below 1 percent is followed by a real policy rate of minus 1.7 percent, and r minus g below minus 4 points by minus 1.3 percent. Private credit is the one driver with a non-monotonic path, because its middle bucket is dominated by the high-real-rate 1980s and 1990s.

Low policy rates and a deeply negative r minus g are followed by the lowest real rates.

Because the drivers overlap, we estimated them jointly on 607 country-years: regressing the next-year real policy rate, the next-year real 10-year yield and the five-year average real policy rate on all six predictors. Each 10 points of debt to GDP lowers the following year's real policy rate by 0.12 points and the real 10-year yield by 0.13 points, holding the other drivers constant.

Table 2b: Rate drivers: average real rates in the following year, 1950 to 2026; red below zero, blue above

Driver and level at end of prior year	Real policy rate, next year	Real 10-year yield, next year
Policy rate		
At or below 1%	−1.7%	−0.3%
1% to 3%	−0.5%	0.9%
3% to 6%	1.5%	2.8%
Above 6%	2.6%	3.2%
Yield curve, 10-year yield less policy rate		
Inverted	2.6%	2.5%
0% to 1%	1.2%	1.8%
1% to 2%	0.5%	1.8%
Above 2%	0.1%	2.4%
r minus g, 10-year yield less nominal GDP growth		
Below minus 4%	−1.3%	−0.4%
Minus 4% to minus 2%	0.5%	1.5%
Minus 2% to 0%	1.0%	2.0%
Positive	2.4%	3.7%

Each point by which the 10-year yield falls short of nominal growth lowers the next-year real policy rate by 0.35 points, the strongest effect in the model. Private credit adds 0.13 points per 10 points of GDP over five years. The deficit has no significant effect on next year's real rate once debt is included, but does lower the five-year average. The models explain 42 to 45 percent of the variation in real rates; the logit has an area under the curve of 0.81 in sample and 0.69 when estimated on 1950 to 2000 and tested on 2001 to 2026.

Debt and r minus g carry the explanatory weight once the drivers are estimated together.

Table 3: Effect of a one-unit change in each driver on real rates and on the probability of a negative real policy rate, other drivers held constant, 1950 to 2026; all effects in percentage points; red cells are statistically significant

Driver (end of prior year)	Real policy rate, next year	Real 10-year yield, next year	Real policy rate, next 5 years	Probability of a negative real policy rate
Government debt, per 10 points of GDP	−0.12	−0.13	−0.05	2.1
Fiscal balance, per 1 point of GDP (surplus positive)	0.03	0.03	−0.05	−0.4
Private credit, per 10 points of GDP	−0.09	−0.13	−0.13	2.7
Policy rate, per 1 point	0.20	0.17	0.33	−1.6
Yield curve, per 1 point	−0.36	0.18	0.10	6.4
r minus g, per 1 point	0.35	0.39	0.16	−4.0

Reading Table 3 - take two countries that differ in three ways: government debt of 120 percent of GDP against 60 percent, a 10-year yield 1 point below nominal growth against 1 point above, and a policy rate of 2 percent against 4 percent.

The high-debt country's real policy rate next year is lower by:	Its probability of a negative real policy rate in that year is higher by:
Debt: 6 × 0.12 = 0.7 points	Debt: 6 × 2.1 = 12.6 points
r minus g: 2 × 0.35 = 0.7 points	r minus g: 2 × 4.0 = 8.0 points
Policy rate: 2 × 0.20 = 0.4 points	
Total: about 1.8 percentage points lower	Total: about 21 percentage points higher

Only the red cells enter the sums; the deficit and the yield curve add nothing once debt and r minus g are counted.

WHERE THE G7 AND AUSTRALIA STAND IN 2026: Six of the eight countries have government debt near or above 100 percent of GDP, every country runs a deficit, the 10-year yield sits below nominal growth in six, and yield curves are positively sloped everywhere by 0.7 to 1.5 points. Real policy rates are negative in five countries and below 0.5 percent in all eight; real 10-year yields run from 0.3 percent in Germany to 1.5 percent in the United Kingdom.

Fiscal dominance is a developed-world condition, not a Japanese one: over the next five years every G7 country and Australia is expected to run negative real policy rates more often than the historical average.

Six of the eight countries carry debt near or above 100 percent of GDP, every one runs a deficit, and real policy rates are negative in five; Chart 10 sets the conditions side by side, and Japan, Italy, the United States, France and Canada show the most fiscal dominance conditions at once.

Chart 10: 2026 conditions by country: debt, balance and private credit as % of GDP, policy rate in %, r minus g in points; red marks the levels historically associated with negative real rates



Red: condition historically associated with negative real rates (debt above 90% of GDP, deficit above 3%, private credit above 100%, policy rate at or below 2.5%, r minus g below zero). Dashed line marks zero; figures are the 2026 values.

THE PROBABILITY OF NEGATIVE REAL RATES AHEAD: Applying the Table 3 models to the 2026 values gives the probabilities of negative real rates and the expected rmagnitudes. Over 2027 to 2031 the model expects a negative real policy rate in 82 percent of years for Japan, 63 percent for France, 60 percent for Canada, 57 percent for Australia and 53 percent for Italy; Germany, the United States and the United Kingdom sit between 43 and 46 percent, still above the 33 percent historical average. For 2027 alone the probability is 86 percent for Japan and above one half for France, Canada and Italy.

Chart 11: Model probability of a negative real policy rate in 2027 and modelled share of 2027 to 2031 negative, from 2026 conditions

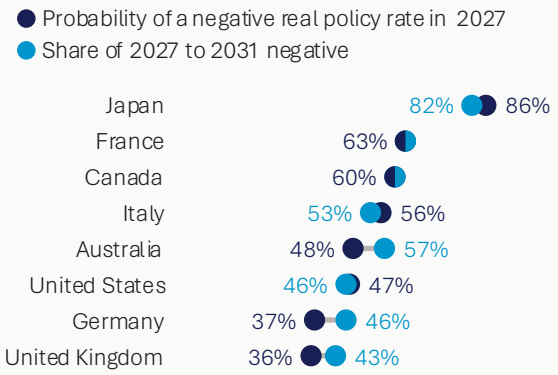


Chart 12 translates the model into levels. The expected real policy rate in 2027 is negative for five countries and no higher than 0.7 percent for any, and over 2027 to 2031 it is negative in six of the eight; real 10-year yields stay positive everywhere but Japan. Japan combines the highest debt, the lowest policy rate and r below g. France, Canada and Italy pair debt above 115 percent of GDP with policy rates near 2.3 percent and,

Chart 12: Expected real policy rate and real 10-year yield in 2027, and the average real policy rate over 2027 to 2031, from 2026 conditions; red negative, blue positive; shapes graded from red to blue by the 2027 to 2031 average real policy rate



	Japan	France	Canada	Australia	Italy	Germany	US	UK
Real policy rate, 2027	−1.5%	−0.1%	−0.2%	0.6%	−0.2%	0.4%	−0.0%	0.7%
Real 10-year yield, 2027	−0.4%	1.2%	0.9%	1.2%	1.1%	1.4%	0.9%	1.9%
Policy rate, 2027 to 2031	−1.3%	−0.3%	−0.4%	−0.1%	−0.1%	−0.0%	0.7%	0.6%

for Canada and France, the highest private credit in the group. The United States has the largest deficit and the most negative r minus g, but a 3.8 percent policy rate and low private credit hold its probability below one half, with the cost showing up in the deficit instead. Germany has low debt but takes the ECB's policy rate, set for the euro area's most indebted members. Australia is the only country whose fiscal position argues against the regime, but private credit above 135 percent of GDP keeps its odds near the historical average. These are regime estimates, not forecasts of any one year's inflation print; what they say is that 2026 looks more like the 1950s and 2010s than like 1985 to 2007.

CONCLUSION: Of the drivers commonly cited for fiscal dominance, government debt has predicted it most reliably across the G7 and Australia since 1950. Deficits start episodes; private leverage, low starting rates and an interest rate below growth intensify them. The clearest evidence is behavioral: at high debt levels, policy rates have barely responded to inflation. Eight countries accounting for more than 40 percent of world GDP now carry the debt levels at which real rates were historically negative most of the time.

For Canada the readings seem to point one way. Government debt near 115 percent of GDP, private credit above 100 percent, a policy rate of 2.3 percent and a 10-year yield already below nominal growth put it in the high-debt regime on four of the six drivers, and the model gives a 60 percent probability of a negative real policy rate in 2027 and negative real policy rates in about three of the next five years. The expected real policy rate averages minus 0.4 percent over 2027 to 2031 and the expected real 10-year yield sits near 0.9 percent. In practical terms, cash and short-term deposits should be expected to lose purchasing power in most years, bonds to earn a real return of roughly 1 percent at best, and the Bank of Canada to be slow to raise rates against inflation because household and government balance sheets cannot carry much more interest. That is the environment in which real assets with contractual or inflation-linked cash flows have historically done their work.

CANADA, 2027 TO 2031

60%	3 of 5	−0.4%	0.9%
Model probability of a negative real policy rate in 2027	Years in 2027 to 2031 expected to have a negative real policy rate	Expected average real policy rate, 2027 to 2031	Expected real 10-year yield in 2027, the most a bond holder should count on

Drivers in 2026: debt 115% of GDP, private credit 100%, policy rate 2.3%, 10-year yield 0.4 points below nominal growth.

The United States is not as certain, with a 47 percent probability for 2027 and 46 percent of the next five years, and the reason is the starting point rather than the fundamentals. A 3.8 percent policy rate and private credit of only 60 percent of GDP leave the Federal Reserve room to hold real rates positive, and the model's expected real policy rate over 2027 to 2031 is plus 0.7 percent. But the United States also has the largest deficit in the group at 8.5 percent of GDP, the most negative r minus g, and debt the IMF projects to rise from 122 percent of GDP toward 145 percent by 2031. Each 10 points of

UNITED STATES, 2027 TO 2031

47%	+0.7%	8.5%	145%
Model probability of a negative real policy rate in 2027, close to a coin toss	Expected average real policy rate, 2027 to 2031, held up by a 3.8% starting policy rate	General government deficit as a share of GDP in 2026, the largest in the group	IMF projection of government debt to GDP by 2031, from 122% today; each 10 points adds about 2 points to the odds

Drivers in 2026: private credit 60% of GDP, r minus g of minus 1.5 points, real policy rate plus 0.2%.

that increase adds about 2 points to the probability of a negative real rate, so the odds climb through the window rather than fade. The likeliest path is a real policy rate that oscillates around zero, positive when inflation is quiet and negative whenever it is not, with the Fed accommodating more of each inflation episode than it did before 2008. For a North American investor the difference between the two countries is one of timing, not direction: Canada is already in the regime the drivers describe, and the United States is being pulled toward it by its deficit.



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