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## **Fitch: U.S. State Budgets Brace for Macro Uncertainties Ahead**

Fitch Ratings-New York-08 August 2022: State budgets are in a much better position coming into fiscal 2023 and are structured to combat inflationary and macro pressures over the next several months, according to Fitch Ratings in a new report.

All 50 states have enacted budgets as fiscal 2023 gets underway, an improvement from pre-COVID dynamics thanks largely to a second year of surging revenues. “Enacted budgets have effectively moved from restoring cuts taken during the brief but severe downturn to programmatic spending, while also adding to reserves and reducing taxes,” said Senior Director Karen Krop.

Slower economic growth and rising inflation do pose some downside risk. The enacted budgets consider potential economic and geopolitical headwinds. After historically strong US GDP growth of 5.7% in 2021, Fitch expects growth to slow sharply in 2022 to 2.9% and then further to 1.5% in 2023, due to rapidly rising interest rates.

“States are well positioned for slower growth, as a result of generally prudent fiscal choices made over the last two fiscal years,” said Krop. The budgetary safeguards states are enacting include making sizeable deposits to rainy day funds (many of which are now considered fully funded), creating new reserves to address future uncertainty and reducing long-term liabilities.

Strong labor markets, while integral to state revenue strength, also pose a challenge to government and school district in recruiting and retaining employees. In response, states are providing additional funding for school districts and higher education, allotting some of that funding to increase salaries and sweeten compensation packages to retain employees.

“U.S. State Budgets Balanced in 2023” is available at [www.fitchratings.com](http://www.fitchratings.com).

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