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S&P Credit FAQ: The Changing U.S. Federal-State Relationship's Impact On State Credit Quality

S&P Global Ratings' ratings on U.S. states remain stable, following a few years of better-than-expected economic conditions, revenues exceeding forecasts, and reserves built-up and maintained at or near all-time high levels. S&P Global Ratings Economics expect the U.S. economy to grow in 2026 and 2027 (GDP 1.8% each year) and unemployment to peak at 4.6% by mid-2026, typically viewed as relatively benign economic conditions. (For our latest economic forecast see "[Economic Outlook U.S. Q4 2025: Below-Trend Growth Persists Amid A Swirl Of Policy Shifts](#)," Sept. 23, 2025.)

However, we anticipate rising pressures on state credit quality during the same period, partly from state-level policy changes, such as maintaining expanded Medicaid benefits following the pandemic or recently enacted tax rate reductions. Furthermore, financial pressure could result from the changing relationship that states have with the federal government.

Policy change at any level of government can lead to uncertainty, which often leads to greater difficulties in budgeting on both the revenue and expenditure sides of the ledger. As uncertainty persists, we have received questions from issuers and investors on how it could influence state budgets and states' overall financial health.

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