

Focus United States

US midterms: heading for “divided government”?

The midterm elections on November 3 could alter the institutional landscape of the final two years of the Trump presidency. With a Democratic House, we would return to a “divided government”: there would be less room for new partisan legislative initiatives, and the importance of negotiations on government funding, the debt ceiling, and the implementation of welfare cuts would increase. The White House, however, would retain broad leeway on tariffs, immigration, deregulation, and foreign policy. The focus of politics would thus shift from major reforms to executive actions and mandatory fiscal deadlines. The real sticking point remains the fiscal issue: the debt ceiling could become a pressing issue again starting in mid-2027, and the risk of a government shutdown would remain very high, beginning with the December 11 deadline.

- The scenario that currently appears most likely based on opinion polls - and which we therefore take as our baseline - is that the **Democrats will win the House, while the race for the Senate appears to be a neck-and-neck contest**. This leads to two possible outcomes with similar implications for economic policy: an all-Democratic Congress or a divided Congress.
- **The energy crisis is weighing on voting intentions and household confidence**. Since the start of the conflict with Iran, gasoline prices have risen by 52% and diesel prices by 71%; household confidence has fallen significantly even among Republican voters, although unemployment remains low. Historically, when **the president’s approval rating has fallen below 50%, the party of the incumbent has lost an average of 34 seats in the House**; in the current context, the Democrats would need to win just three additional seats to secure a majority.
- **In the House, a Democratic victory is currently the most likely scenario**. The Democrats lead by 8-9 points in the generic vote average and by 2 points in the 37 most contested districts, which Trump won in 2024 by a 5-point margin. **The situation is very different in the Senate, where a very close race is expected**. To win the Senate, the Democrats need four additional seats; in state-level poll averages, the Democrats are ahead in all nine decisive races, but in four cases (Maine, Iowa, Alaska, and Texas), the margin is less than 3 points.
- After the election, it is likely that **neither party will have the numbers to push through its own agenda**. Historical precedent suggests that **the need to find compromises tends to increase spending**.
- **The real sticking point remains the fiscal issue**. In our simulations, the implementation of the two different campaign platforms has limited effects on public finances: the deficit changes by just 0.1-0.3 percentage points of GDP per year, and public debt would still rise to 123-124% of GDP by 2036. **The ruling on tariffs (+2.6 percentage points of debt) and, above all, the rise in interest rates (approximately +4 percentage points) have a much greater impact. However, the “divided government” scenario could act as a brake on the President’s expansionary tendencies**. The next major milestone after the elections will be **the debt ceiling**: the remaining margin will be exhausted by 2027.

Tab. 1 – Scenarios for the midterm elections

Scenario	Market-implied probability	Political/Fiscal Implications	Key Risks
House D / Senate D	63%	Legislative gridlock: Trump agenda blocked; Democratic bills face veto	Deadlock on the debt ceiling; Fed confirmations; oversight
House D / Senate R	29%	Divided Congress: budget via continuing resolutions (CRs) and compromises on individual items; nominations still subject to Senate confirmation	Government shutdown and debt ceiling
House R / Senate R	8%	Continuity: Reconciliation available for defense and new tax cuts	Wider deficit; term premium

Source: Polymarket, “Balance of Power” contract, prices as of 1 October 2026. Probabilities implied by market prices, figures rounded. The House R / Senate D combination is negligible (around 1% in market pricing).

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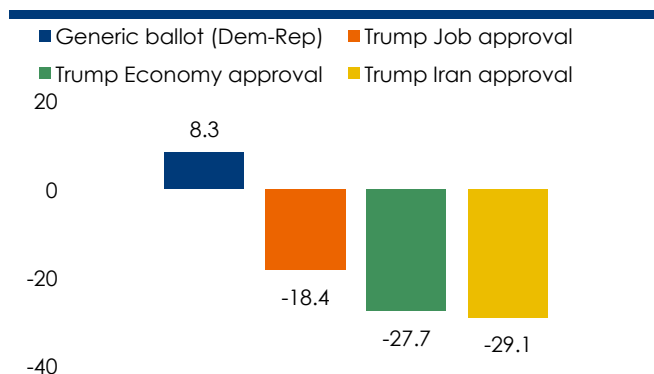
The Democratic comeback paves the way for a “divided government” scenario

The November 3 midterm elections are expected to end the current “unified government” – with both the White House and Congress controlled by Republicans – and restore the typical configuration of recent decades, with at least one branch of Congress in the hands of the opposition party. **In the House, a Democratic majority appears very likely**, thanks to the lead in the generic congressional vote and President Trump’s low approval rating. **The race for the Senate, however, is a neck-and-neck contest**: the Democrats must gain four net seats to reach 51, since in the event of a tie, the deciding vote would fall to Vice President Vance. Combining the two estimates, an all-Democratic Congress is the most likely single outcome, but with a narrow margin over a divided Congress with a Democratic House and a Republican Senate. **The two configurations have similar implications for economic policy**. The scenario in which both the House and Senate remain Republican remains a tail risk, with a modest but not negligible probability (Tab. 1).

Midterm elections have historically weakened the sitting administration, to a greater or lesser extent. **Over the past 20 years, the loss of seats by the president’s party has been a very pronounced pattern**. In 2006, a decisive defeat for the Bush administration returned control of Congress to the Democrats. In 2010, the Republicans regained control of the House, and in 2014, they also took control of the Senate, counterbalancing the Obama presidency. In 2018, during Trump’s first term, the Democrats gained 41 seats and a majority in the House, though they lost 2 seats in the Senate. In 2022, the anticipated “red wave” failed to materialize: the Republicans won the House by a narrow margin, while the Democrats gained one seat in the Senate. This year, the **outlook once again appears unfavorable for the president’s party, in line with historical trends and perhaps even more so**.

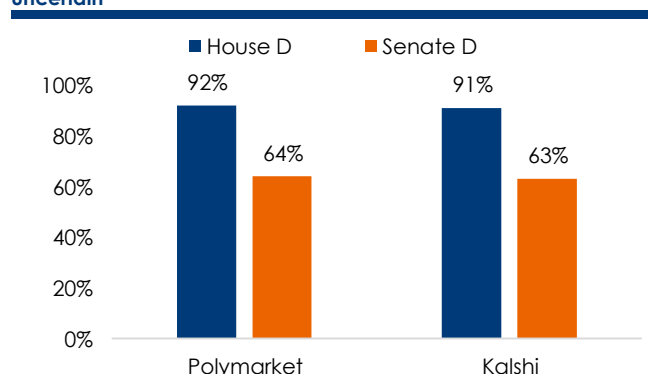
In fact, President Trump’s popularity is in sharp decline. The major poll averages place Trump’s approval rating between 34.7% (FiftyPlusOne) and 40.1% (RealClearPolling). His net approval rating has fallen to -27.7 on the economy and to -29.1 regarding the war in Iran (Fig. 1). This results in a wide lead for the Democrats in the generic congressional race, standing at 8.3 points according to RealClearPolling and 9.0 points according to the Silver Bulletin. Forecasting markets also confirm a wide Democratic lead in the House and a narrower one in the Senate (Fig. 2).

Fig. 1 – Democrats are ahead in the generic vote, partly due to the conflict in Iran



Note: generic ballot = difference between voting intentions for Democratic and Republican candidates in the House; approval rating = net balance of positive and negative assessments of Trump’s performance (overall, on the economy, and on handling the conflict with Iran). Poll averages, as of October 1, 2026. Source: RealClearPolling

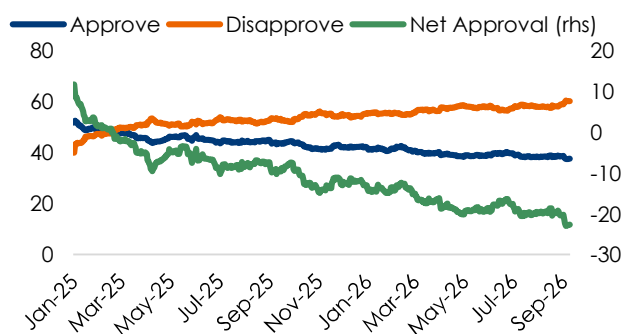
Fig. 2 – According to prediction markets, a Democratic victory in the House is very likely, while a victory in the Senate is much more uncertain



Note: Implied probabilities of a Democratic majority, derived from contract prices on prediction markets. Data as of October 1, 2026. Source: Polymarket, Kalshi

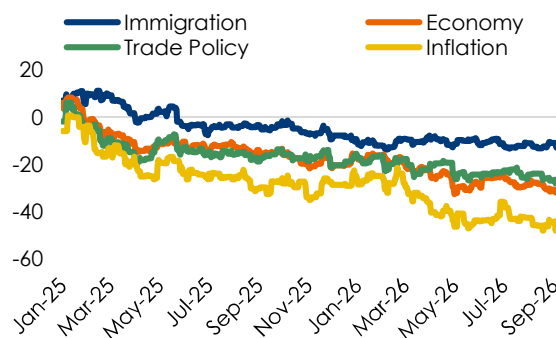
According to the Silver Bulletin, however, the net balance (the difference between positive and negative ratings) stands at -22.4, the lowest point of his second term – well below Trump's -11.6 during his first term and Biden's -9.6 at the same stage (Fig. 3). **Inflation and economic management are weighing heavily, while immigration policy receives less unfavorable ratings** (Fig. 4).

Fig. 3 – President Trump's net approval rating at a low point in his term



Note: Weighted average of national polls based on pollster quality, sample size, and survey date. Net approval = approval minus disapproval (right scale). Source: Silver Bulletin, data as of September 29, 2026

Fig. 4 – Trump's net approval rating by issue: inflation and the economy are the weakest points



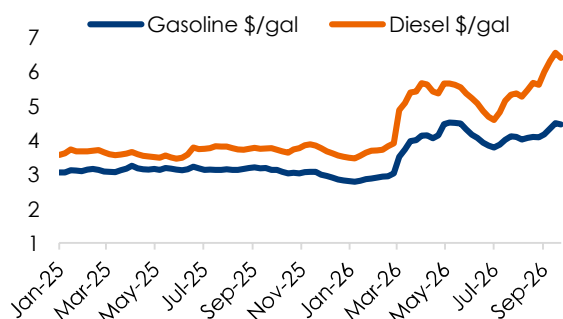
Note: Net approval rating by issue, same methodology as the overall average. Source: Silver Bulletin, data as of September 29, 2026

The Energy Crisis Has Changed the Political Climate

Since the start of the conflict with Iran, the average price of gasoline has risen from USD 2.94 to USD 4.46 per gallon (EIA data as of September 28), following a peak of USD 4.50 in May and a brief respite over the summer (Fig. 5). In August, the gasoline component of the CPI was up 27.4% year-over-year, and the energy component was up 16.3%, pushing headline inflation to 3.4%. **This is a highly visible price shock, concentrated on an expense category that voters monitor every week and that directly affects perceived inflation.**

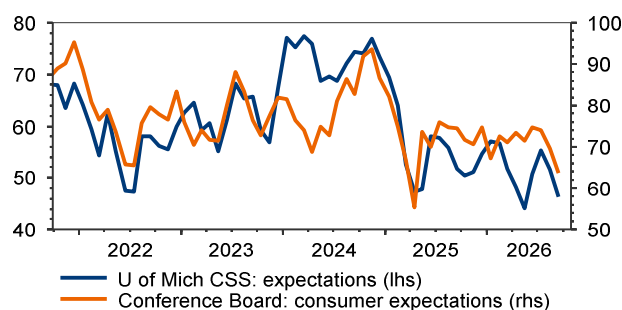
The increase in diesel prices was even more pronounced: USD 6.38 per gallon as of September 28 – a 71% rise since February and a 74% increase year-over-year (EIA). Diesel carries greater weight in areas with heavy use of large vehicles, such as tractors and trucks, as well as in regions where homes are heated with diesel fuel and in oil-producing areas. According to an analysis by the Silver Bulletin based on EIA data, when diesel is included, **the overall increase in fuel prices exceeds 60% in Iowa, Michigan, Texas, Kansas, and Nebraska – precisely some of the states where Democrats are performing better than expected in the Senate race.**

Fig. 5 – Gasoline and diesel prices have risen sharply since the start of the conflict with Iran...



Source: EIA, Weekly Retail Gasoline and Diesel Prices (U.S. average), data as of 09/28/2026

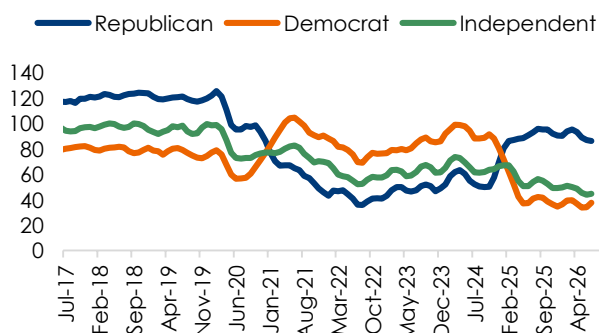
Fig. 6 – ...and consumer confidence is taking a hit



Source: Conference Board, University of Michigan

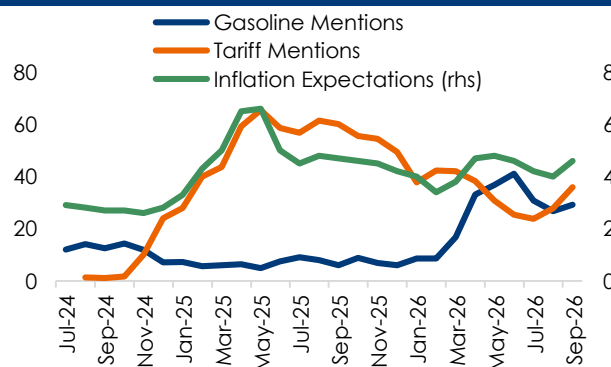
Household confidence has reacted accordingly. The University of Michigan index fell to 48.1 in the final September reading, about 15% below the February level; confidence as measured by the Conference Board has also fallen again (Fig. 6). According to the same survey, **the decline is no longer confined to the opposition's electorate, but widespread:** since January, confidence has fallen by 20% among Republicans and by 13% among Democrats (Fig. 7). **Rising fuel prices and tariffs are the causes of hardship most frequently cited by consumers** (Fig. 8).

Fig. 7 – The decline in confidence extends to Republican voters as well



Note: Consumer confidence by political affiliation, 3-month average.
Source: University of Michigan

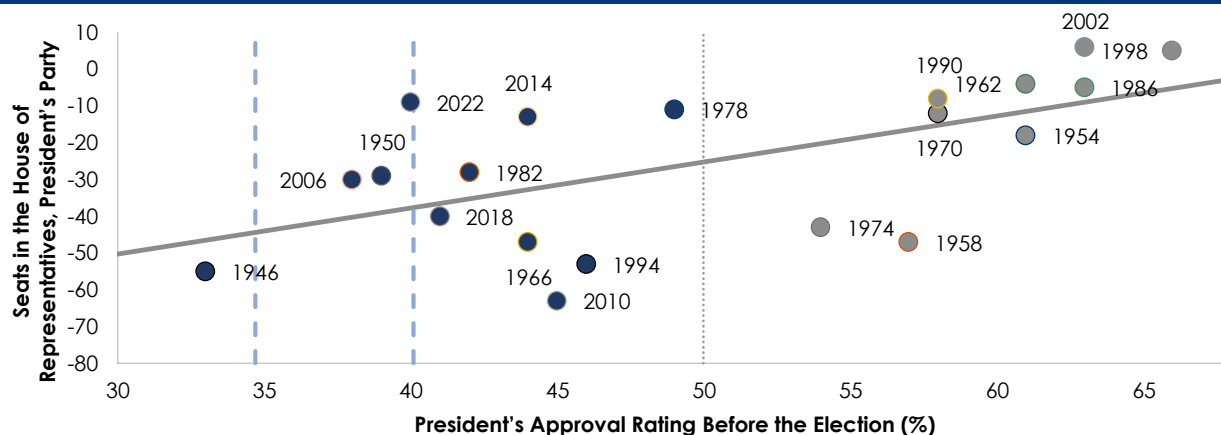
Fig. 8 – Gas prices and tariffs are among the most frequently cited causes of hardship



Note: Percentage of consumers who spontaneously mention the factor.
Source: University of Michigan

The economic distress measured by macroeconomic indicators is more moderate than that perceived by consumers. In August, the **Misery Index** (unemployment at 4.1% + inflation at 3.4%) stood at 7.5%, below the median for midterm elections since 1954 (8.7%). However, the change matters more than the level: in the 18 midterm elections from 1954 to 2022, the index level explains almost nothing about the loss of seats by the President's party, while the year-over-year change shows a stronger relationship (correlation of 0.41, approximately 5 additional seats lost for every one-point deterioration). **Compared to a year ago, the index has risen slightly, a sign consistent with the President's party holding its ground.**

In the twenty midterm elections from 1946 to 2022, **when the President's approval rating was below 50%, his party lost an average of 34 seats in the House, compared with 14 seats lost when the approval rating was above 50%** (Fig. 9). This relationship is stronger than that with the Misery Index (a correlation of 0.60 versus 0.41): the approval rating also incorporates the hardship perceived by voters – linked to prices and the conflict with Iran – which macroeconomic indicators do not fully capture. Today, poll averages place Trump's net approval rating between 35% and 40%, levels like those of Truman in 1946 and 1950 and of Bush in 2006. **Based on these figures, historical trends suggest losses in the range of 38-44 seats, compared to the net gain of 3 seats needed for the Democrats to secure a majority** based on the 2024 results (220 to 215).

Fig. 9 – Presidential Approval Rating and Seats Lost in the House, 1946–2022

Note: Presidential approval rating from the latest Gallup poll before the election; seats gained or lost by his party in the House. Regression line (OLS) estimated based on midterm elections from 1946 to 2022, correlation 0.60. For 2026, the blue dashed lines indicate the range of Trump's current approval rating, based on the averages from FiftyPlusOne and RealClearPolling as of September 23 (34.7–40.1%). Source: Gallup, American Presidency Project, FiftyPlusOne, RealClearPolling; analysis by Intesa Sanpaolo

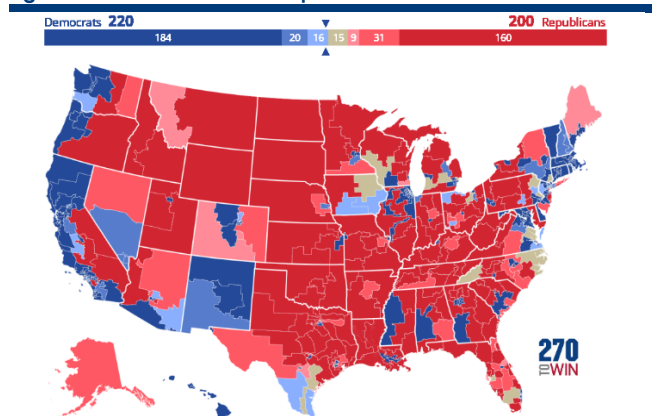
However, this trend should be interpreted with caution. First, Gallup discontinued its presidential approval rating survey in February 2026; the current figure therefore comes from poll averages that are not entirely consistent with the historical series. Second, **the polarization of the electorate and redistricting have reduced the number of truly competitive seats**, as demonstrated in 2022, when the President's party lost only 9 seats despite a 40% approval rating. **The new redistricting plan has also shifted the political landscape in favor of the Republicans.** Following the Supreme Court's ruling in *Louisiana v. Callais* (April 29), which narrowed the application of Section 2 of the Voting Rights Act, and the Virginia Supreme Court's decision (May 8), which blocked the redistricting plan proposed by the Democrats, the new maps are expected to net the GOP about ten seats on paper (Associated Press estimate). Conversely, in the 110 state special elections held since January 2025, Democratic candidates have outperformed the 2024 presidential margin by an average of 12.5 points. **We assume a baseline scenario of a Democratic majority in the House in the range of 10-25 seats.**

House of Representatives: Heading Toward a Democratic Majority

The House has 435 seats, up for election every two years, and the majority requires 218 seats. Currently, Republicans hold 218 seats and Democrats 214, with one independent (Kiley, who left the Republican Party) and two vacant seats. According to the **Cook Political Report, 208 seats lean Democratic, 205 lean Republican, and 22 are undecided**: the **Democrats would need to win just 10 of them**. Other leading forecasters also paint a similar picture (Fig. 10), while quantitative models and prediction markets assign the Democrats a probability of over 90%. Our estimate is more conservative, because of redistricting and the tendency for voters to swing back toward their own party in the final weeks of the campaign. However, the lead in the generic vote and the traditional penalty faced by the president's party still make a Democratic takeover of the House the most likely scenario.

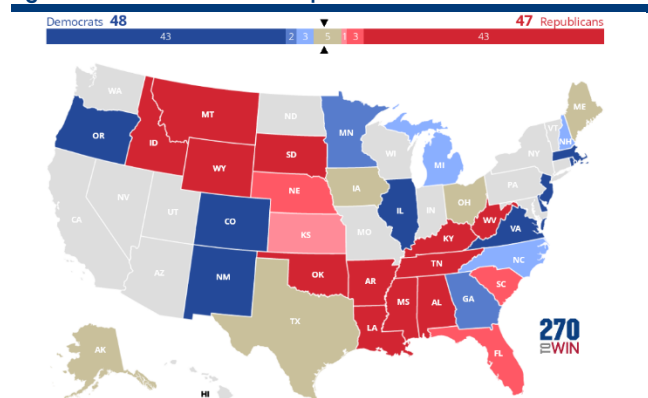
Cook's Battleground District Project surveyed the 37 most contested districts between September 8 and 11. The **Democrats lead 49% to 47% in districts that Trump won by an average of 5 points in 2024**: a shift of about 7 points from the presidential base. This, however, **does not automatically translate into a seat projection**. Only 43 districts are currently classified as "Toss-up" or "Lean," while most of the House is classified as "Solid" or "Likely": geographic polarization and electoral maps reduce the elasticity between the national swing and the number of seats.

Fig. 10 – House: consensus map of forecasters



Note: Consensus map constructed as the average of ratings from 7 forecasters (Cook Political Report, Decision Desk, FiftyPlusOne, Fox News, Inside Elections, Sabato's Crystal Ball, Split Ticket), weighted equally. Each rating category is assigned a score, and the average of these scores determines the classification. Only seats rated "safe" by a large majority of forecasters are shown in the darkest shade. Source: 270toWin, data as of October 1, 2026

Fig. 11 – Senate: consensus map of forecasters



Note: Consensus map constructed as the average of the assessments by 7 forecasters (Cook Political Report, Decision Desk, FiftyPlusOne, Fox News, Inside Elections, Sabato's Crystal Ball, Split Ticket), with equal weighting. Each rating category is assigned a score, and the average of these scores determines the classification. Only seats rated "safe" by a large majority of forecasters are shown in the darkest shade. Source: 270toWin, data as of October 1, 2026

Senate: An Open Race

The Senate has 100 seats, with six-year terms, and about one-third of the seats are up for election every two years. Currently, the Republicans hold the majority (53 to 47). This year, 35 seats are up for grabs (22 Republican and 13 Democratic), including special elections in Florida and Ohio. **To secure a majority, the Democrats must gain a net total of four seats to reach 51, since in the event of a tie, Vice President Vance casts the deciding vote.** Poll averages show Democratic candidates leading in all nine key races (Tab. 2), but in four of them (Maine, Iowa, Alaska, and Texas), the margin is less than 3 points. To secure a majority, the Democrats must hold Georgia, Michigan, and New Hampshire; win North Carolina; and win at least three of the five races in Maine, Alaska, Ohio, Texas, and Iowa: Four of these states were won by Trump by double-digit margins in the presidential election.

Tab. 2 – Uncertainty is high in the decisive Senate races

State	Seat	2024 Presidential Vote	Cook	Latest poll	Poll Average	Kalshi, likely D
Georgia	D	Trump +2.2	Likely D	Ossoff +8 (InsiderAdv., 9/25)	D +8.0	94%
Michigan	D	Trump +1.4	Toss-up	El-Sayed +1 (Fox News, Sept. 30)	D +3.4	72%
New Hampshire	D	Harris +2.8	Toss-up	Pappas +6 (Trafalgar, 9/27)	D +6.4	86%
North Carolina	R	Trump +3.2	Leans D	Cooper +12 (Big Data, Sept. 30)	D +8.6	94%
Maine	R	Harris +6.9	Toss-up	Collins (R) +2 (co/eff., 30/9)	D +0.9	60%
Alaska	R	Trump +13.1	Toss-up	Peltola +4 (ASR, 9/22)	D +2.3	71%
Ohio	R	Trump +11.2	Toss-up	Brown +3 (Suffolk, Sept. 30)	D +3.7	59%
Texas	R	Trump +13.7	Toss-up	Talarico +2 (Big Data, 9/27)	D +2.9	60%
Iowa	R	Trump +13.2	Toss-up	Hinson (R) +1 (Quantus, 9/30)	D +0.3	40%

Sources: U.S. Senate; Cook Political Report, Senate Ratings and Senate Overview (October 1, 2026); RealClearPolling, latest poll and average (October 1, 2026); Kalshi (October 1, 2026); FEC, 2024 presidential results

The Senate starts with a makeup that is less sensitive to national trends alone. Cook classifies seven races as Toss-ups, one as Lean D (North Carolina), and one as Likely D (Georgia), and as of September 23, it defines control of the Senate as a true Toss-up. Two new battlegrounds also emerged in September: Kansas (Lean R) and South Carolina (Likely R), where, however, the markets see the Republicans as clear favorites (Kalshi assigns the Democrats 30% and 13%, respectively).

Individual polls remain volatile. However, **the breadth of the competitive field indicates that the Senate is now more up for grabs than it was at the start of 2024** (Fig. 11). Prediction markets reflect

the same degree of uncertainty using a different metric: on Kalshi, the contract for Democratic control of the Senate is priced at around 62%. **Our estimate is more conservative** for three reasons. First, in 4 of the 9 races, the Democratic lead is less than 3 points. Second, **in 2016, 2018, and 2020, polls in Republican-leaning states overestimated the Democrats**, partly because many voters swing back toward their own party in the final weeks; in 2022, the most recent midterms, they were generally accurate. Finally, Republican spending in key races has only intensified since September, and the polls may not yet reflect the impact of that spending.

“Divided government” scenario: what past examples teach us

The past twenty years offer a wide range of examples of budget standoffs between the White House and Congress. The closest precedent appears to be 2019, when, with Trump as President, there was a Democratic House and a Republican Senate: the configuration that markets currently view as the main alternative to an entirely Democratic Congress. For the scenario of a uniformly Democratic Congress, the reference point is instead 2007-08: Bush, with low approval ratings and an unpopular war, faced an entirely Democratic Congress (Tab. 3).

Tab. 3 – Budget and Debt Ceiling Showdowns

Year	Congressional Composition	What Happened	Economic implications
2007–08	Bush; House D, Senate D	Veto on funding for Iraq with a withdrawal timeline, followed by an agreement to raise the minimum wage (2007); two vetoes on SCHIP; bipartisan Economic Stimulus Act (Feb. 2008) and TARP (Oct. 2008)	Clashes over war and welfare, but quick agreements on stimulus measures: spending rises
2011	Obama; House R, Senate D	Clash over the debt ceiling, resolved by the Budget Control Act (August 2): limit raised by 2,100-2,400 billion in exchange for caps on discretionary spending	S&P downgrades the United States to AA+ (August 5); high market volatility
2013	Obama; House R, Senate D	16-day government shutdown (October 1-16) over healthcare reform; ends with the suspension of the debt ceiling	Temporary impact on quarterly growth
2018–19	Trump; as of January 3, 2019, House D, Senate R	35-day government shutdown (December 22-January 25) over funding for the wall with Mexico, later circumvented by a national emergency declaration	According to the CBO, approximately 11 billion in GDP lost, of which 3 billion permanently
2019	Trump; House D, Senate R	Bipartisan Budget Act (August): spending caps raised for two years, and the debt ceiling suspended through July 2021; in December, the House approved the USMCA	The compromise increases spending for both parties: no austerity
2023	Biden; Republican House, Democratic Senate	Fiscal Responsibility Act (June 3), two days before the Treasury's estimated X-date (June 5): debt ceiling suspended through January 2025	Treasury liquidity fell to approximately 23 billion (June 1); Fitch downgrades to AA+ (August 1)
2025	Trump; House R, Senate R	43-day government shutdown (Oct. 1-Nov. 12), the longest in history, despite Republican control of both chambers	According to the CBO (six-week scenario), fourth-quarter growth was 1.5 percentage points lower on an annualized basis, largely recovered in the first quarter of 2026 (+2.2 percentage points); approximately 11 billion in GDP was permanently lost. In May, Moody's had stripped the triple-A rating

Source: Congress.gov; CBO; U.S. Treasury; press releases from S&P, Fitch, and Moody's; CRS – The 2025 (FY2026) Government Shutdown: Economic Effects

An analysis of historical precedents reveals four key points for 2027–28:

- **Agreements are reached at the last minute as deadlines approach.** In all instances, a compromise was reached just before the deadline, often after a shutdown. The economic cost of the shutdowns was modest and largely recovered; **the real risk concerns the debt ceiling, which in 2011 and 2023 preceded two credit rating downgrades.**
- **Trump has already reached agreements with a Democratic-controlled House.** In 2019, the White House and the Democratic-led House jointly approved an increase in spending caps, a suspension of the debt ceiling, and a trade agreement with Canada and Mexico – all in the same year as the impeachment: **political conflict did not prevent agreements on the most significant economic issues.**

- **Compromise tends to increase spending.** In “divided government” scenarios, the simplest agreement is one in which each side secures more resources for its own priorities (defense on one side, social spending on the other); however, a bipartisan agreement of this kind appears unlikely in the current political context. **For this reason, we do not expect significant fiscal consolidation in 2027-28:** spending is likely to remain stable or, in the event of a compromise, rise.
- **When Congress deadlocks, the executive branch finds a way around it.** In 2019, funding for the wall along the Mexican border – which Congress had denied – was secured through a declaration of a national emergency. In 2027-28, the same pattern is likely to play out regarding tariffs, immigration, and regulation, with an increasing role for lawsuits and legal challenges. **Furthermore, the events of 2025 show that even unified control does not eliminate the risk of a government shutdown.**

After the election: more legislative constraints, but ample room remains for the executive branch

In none of the three scenarios will any single party have the numbers to implement its agenda on its own. In the Senate, the filibuster rule allows the minority to block most legislation: overcoming it requires 60 out of 100 votes, a threshold that no party can reach; the exception is reconciliation, which is limited to budget measures. Furthermore, even an all-Democratic Congress would face a veto from President Trump (in office until January 2029), which can be overridden only with a two-thirds majority in both chambers. **The November election, however, will change three things: negotiating power over tax deadlines, control over appointments, and the intensity of investigations and oversight of the executive branch’s actions.**

Tab. 4 – Possible Changes by Policy Area

Area	House R / Senate R	House D / Senate R	House D / Senate D
Legislation	Reconciliation Available for Defense and Taxes	Only bipartisan bills and mandatory measures	D bills passed but subject to veto
Budget and debt ceiling	Debt ceiling via reconciliation; appropriations require 60 votes (see 2025 shutdown)	Bipartisan agreement required: Democratic leverage, risk of shutdown	Agreement with the White House required: brinkmanship
Safety net (P.L. 119-21)	Implementation continues	Pressure to postpone cuts to Medicaid and SNAP and restore ACA subsidies	Increased pressure: the President's signature is needed
Nominations, including the Fed	Smooth confirmations	The Republican Senate retains control	The Senate can block permanent nominations, including Powell's seat on the Board (Jan. 2028) In both chambers
Oversight and investigations	Limited	Strong in the House (subpoena powers); risk for exposed sectors (tech/AI, pharmaceuticals, finance, energy)	
Tariffs and foreign policy	Executive action	Executive action: attempts to restrict it are subject to a veto	Executive action: attempts to restrict it are subject to a veto

Source: U.S. Constitution (Art. I §7, Art. II §2); Senate Rule XXII; Congressional Budget Act; P.L. 119-21; Federal Vacancies Reform Act; Federal Reserve Board

Two aspects deserve attention:

- The first concerns the so-called “lame-duck session,” that is, the weeks between the November election and the inauguration of the new Congress on January 3. During this period, the **outgoing Congress – with a Republican majority – remains fully operational and faces an important deadline:** the Continuing Resolution, approved by the House on September 1 (370-48) and signed on September 2 (H.R. 6500), funds the government only through December 11. In the event of a Democratic victory, the Republicans could therefore attempt to wrap up the most significant issues – namely, funding for the entire FY27 and raising the debt ceiling – before the change in majority. This is a possibility being considered by the Republican leadership, but it is not our base-case scenario. In any case, appropriations require 60 votes in the Senate – meaning they need Democratic support as well – and after a victory, Democrats would have every reason to postpone negotiations until the new

Congress convenes. **The debt ceiling, on the other hand, could be raised without Democratic support only through a new “reconciliation” process, which is lengthy and difficult to complete in just a few weeks.**

- The second issue concerns appointments. **With a Democratic Senate, the White House could more frequently resort to interim appointments to lead federal agencies, as permitted by the Federal Vacancies Reform Act.** This workaround is not available, however, for the Fed's Board of Governors, whose seats always require Senate confirmation. In any case, there are no imminent deadlines on this front: Powell, who was replaced by Warsh as chair in May, can remain a governor until January 2028.

The real issue is the budget

The new Congress inherits a budget in sharp decline. In its July Monthly Budget Review, the CBO projects a federal deficit of approximately USD 2,100 billion for FY2026 – equivalent to about 6.5% of GDP – roughly USD 200 billion above the February forecast. **The revision primarily reflects the collapse in customs revenue following the Supreme Court's February ruling invalidating IEEPA-based tariffs:** the CBO estimates net revenue to be approximately USD 250 billion lower than the baseline, including refunds of tariffs already collected and lost future revenue. Of the approximately USD 166 billion collected through IEEPA tariffs, USD 110 billion had already been refunded by the end of August. In the national accounts (BEA), the recording of these refunds pushed federal net borrowing for the first quarter above 8% of GDP on an annualized basis. **Interest payments are also a significant burden: 1,052 billion in the first 11 months of the fiscal year** (+12% from the previous year), which has now consistently exceeded military spending (833 billion). For 2027-36, the CBO estimates that the new tariff regime will increase cumulative deficits by approximately 900 billion, of which 200 billion is due to higher interest payments.

In 2027, Congress will have to manage three interrelated factors: **tariff revenues lower** than initially projected; **the full implementation of the savings from the 2025 Budget Act** (P.L. 119-21), including work requirements for Medicaid starting in early 2027 and the **transfer to the states of a larger share of SNAP costs** (administrative costs starting in FY2027, and benefit costs starting in FY2028); and finally, the return of the debt ceiling (Tab. 5). **A Democratic-controlled House would use budget deadlines to push for a delay in welfare cuts, while pressure to curb discretionary spending would mount.** Also on the table will be the enhanced ACA subsidies, which expire at the end of 2025: the House approved a three-year extension in January, but the bill is stalled in the Senate. Furthermore, in 2028, the tax deductions for tips, overtime, individuals over 65, and interest on auto loans introduced by Public Law 119-21 will expire: in a presidential election year, a bipartisan extension is plausible.

Tab. 5 – Key Election and Tax Deadlines

Date	Event	Why it's important
Oct. 1, 2026	Start of the 2027 fiscal year; the share of SNAP administrative costs borne by the states increases from 50% to 75%	First effects of the 2025 budget law on welfare
Nov. 3	Election Day	Elections for the entire House of Representatives and one-third of the Senate
Nov.	Vote counting and certification of results	In some states, the count takes days: the outcome of the House race may not be known on election night
Dec. 1	Possible runoff election in Georgia	Could decide a Senate seat
Dec. 11	Continuing resolution (H.R. 6500) expires	First budget test of the post-election session
Jan. 1, 2027	Medicaid work requirements take effect (unless states are granted extensions)	First significant cuts to the safety net; a central issue in budget negotiations
Jan. 3, 2027	The 120th Congress convenes	New majorities, committee chairs, and investigative powers
Late winter–summer 2027	Debt reaches the legal limit (BPC estimate)	The Treasury begins implementing extraordinary measures; the X-date window opens
Sept. 30 – Oct. 1, 2027	End of FY27; states begin covering a portion of SNAP benefits	New risk of a government shutdown without an agreement on FY28; further cuts to welfare programs
Q3 2027 – Q2 2028	Estimated X-date window (6-9 months after reaching the limit)	The risk of a technical default coincides with the 2028 presidential campaign

Source: Congress.gov (H.R. 6500); P.L. 119-21; Georgia Secretary of State; Bipartisan Policy Center

Our analysis considers four scenarios. Scenario A (status quo, no significant new legislation) is the starting point and corresponds to a “divided government” scenario in which gridlock prevails. **Scenario B** adds the concessions that a Democratic-controlled House might secure in budget or debt ceiling negotiations – namely a two-year delay of cuts to Medicaid and SNAP. **Scenario C** assumes a Republican-controlled Congress passing a new budget reconciliation bill with USD 100 billion per year in additional defense spending for 2027-30, without offsets. Finally, **Scenario D** adds to the assumptions of Scenario C Trump’s campaign promise to distribute a one-time “dividend” of USD 5,000 to every adult citizen. According to the Committee for a Responsible Federal Budget, **if paid out in 2027, it would cost over USD 1.2 trillion – about 3.5 percentage points of GDP – more than the three COVID-era direct payments** combined. The FY27 deficit would approach 10% of GDP, and the effect on the debt would be permanent: an increase of about 3.5 percentage points through 2036, with the debt exceeding 127% of GDP. This remains a low-probability scenario, requiring Republican approval in the House and a united GOP vote in the Senate. (Tab. 6).

Tab. 6 – Federal Deficit and Debt by Congressional Composition (% of GDP)

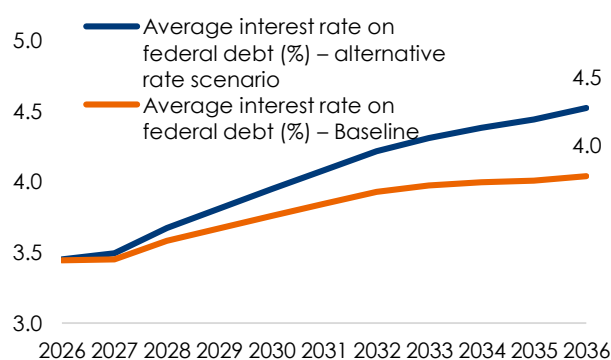
Scenario	Deficit FY27	Average Deficit FY27–30	Debt FY30	Debt FY36	Debt FY36 vs. CBO baseline (p.p.)
A – Status quo: no significant new legislation	5.9	6.0	109.2	122.8	+2.6
B – Chamber D secures a postponement of welfare cuts	6.1	6.1	109.6	123.2	+3.0
C – Congress R: Reconciliation for Defense	6.2	6.3	110.4	123.9	+3.7
D – Congress R: defense + USD 5,000 dividend	9.9	7.3	114.0	127.5	+7.3
CBO Base Case Scenario, February (prior to the IEEPA ruling)	5.7	5.8	107.7	120.2	–
CBO Scenario: Higher Interest Rates, September 2026	5.7	5.9	108.4	124.3	+4.1

Note: Publicly held debt. Scenarios A–D incorporate the CBO’s August revision to customs revenue (–250 billion in FY26, –700 billion in 2027–36), which was not included in the February baseline. B: Savings from P.L. 119-21 on Medicaid and SNAP (approximately 1,400 billion in 2026–35 according to the CBO), deferred to FY27–28. C: +100 billion per year in defense spending in FY27–30. D: Same as C, plus a one-time dividend of approximately 1,200 billion in FY27 (CRFB estimate). Interest calculated at the rates from the February CBO baseline. The CBO scenario with higher rates is based on the February baseline and cannot be directly added to scenarios A–D. Source: CBO; Committee for a Responsible Federal Budget; Intesa Sanpaolo calculations

In summary, who wins the election matters little for the debt trajectory. In scenarios A–C, the deficit changes by just 0.1-0.3 percentage points of GDP per year, and the debt still reaches 123-124% of GDP in 2036. The ruling on tariffs weighs more heavily: on its own, it adds 2.6 percentage points compared to the February baseline. Only the dividend in Scenario D would truly alter the trajectory, pushing debt above 127%. The decline in the deficit in FY27 does not signal an improvement. It reflects the fact that the one-time tariff refunds are all concentrated in FY26: if a portion were to be deferred to the new fiscal year, the FY27 deficit would also be higher.

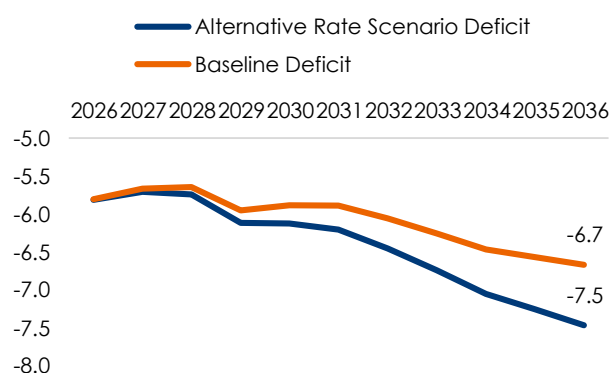
The real risk to the debt is interest rates. The CBO has simulated a scenario in which the average cost of debt rises gradually relative to the baseline scenario by about 5 basis points per year, up to about half a percentage point by 2036 and up to one percentage point in the long term (Fig. 12 and Fig. 13). **In this case, debt would reach 124% of GDP in 2036, about 4 percentage points higher than the baseline.** The CBO also calculates what it would take to halt the growth of the debt: effectively eliminating the primary deficit, which currently stands at around 3% of GDP (approximately 2.6% net of one-time tariff refunds). However, no election outcome makes an adjustment of this magnitude plausible.

Fig. 12 – Average Federal Debt Interest Rate (%)



Note: In the scenario with higher interest rates, the average interest rate on debt rises by about 5 basis points per year compared with the baseline, up to a maximum of 1 percentage point in the long run. Source: CBO, Projections of Deficits and Debt Under Alternative Scenarios for Interest Rates and the Budget, September 2026

Fig. 13 – Federal deficit (% of GDP)



Note: In the higher-rate scenario, the average interest rate on the debt rises by about 5 basis points per year compared with the baseline, reaching a maximum of 1 percentage point in the long term. Source: CBO, Projections of Deficits and Debt Under Alternative Scenarios for Interest Rates and the Budget, September 2026

The issue of the debt ceiling remains unresolved. As of September 17, gross public debt stood at USD 40,093 billion, compared with a statutory limit of USD 41,100 billion: the remaining margin is approximately USD 1,000 billion. **According to the Bipartisan Policy Center, the limit will be reached between late winter and mid-summer 2027.** From that point on, the Treasury will be able to resort to extraordinary measures and available liquidity, which, according to estimates, would provide another 6-9 months before the date beyond which the Treasury would no longer be able to honor all its obligations.

Conclusions

Midterm elections generally have modest and temporary effects on the economy and markets, and 2026 should be no exception. With a Democratic House – whether in a scenario of an entirely “blue” Congress or a divided Congress – it is possible that **economic policy could be somewhat “frozen” until the 2028 presidential election**, with no significant new tax legislation, more contentious budget negotiations, and a higher risk of a government shutdown. The Administration would continue to act through executive orders, particularly on international trade and tariffs, foreign policy, and immigration. However, **the loss of at least one of the two chambers could put the brakes on the President’s “unorthodox” (and fiscally unsustainable) policies.** Control of the Senate will be particularly important for appointments: with a Democratic majority, the confirmation of federal judges and members of the Fed’s Board of Governors would become much more difficult.

In conclusion, **the November 3 election could bring an end to the “unified government” and usher in a two-year period of legislative gridlock**, with action limited to executive orders. Regarding fiscal policy, we anticipate a neutral or slightly expansionary stance, as budget deadlines and the possible extension of tax breaks set to expire in 2028 are likely to push the deficit higher.

Appendix

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