

19th May 2023

US Debt Ceiling Crisis

- Small, but concerning, chance that the US defaults on its debts
- Debt ceiling is a cap on government borrowing
- A US default would create a severe financial shock, so politicians on both sides should ensure its resolved in time

US debt ceiling crisis raises market risk

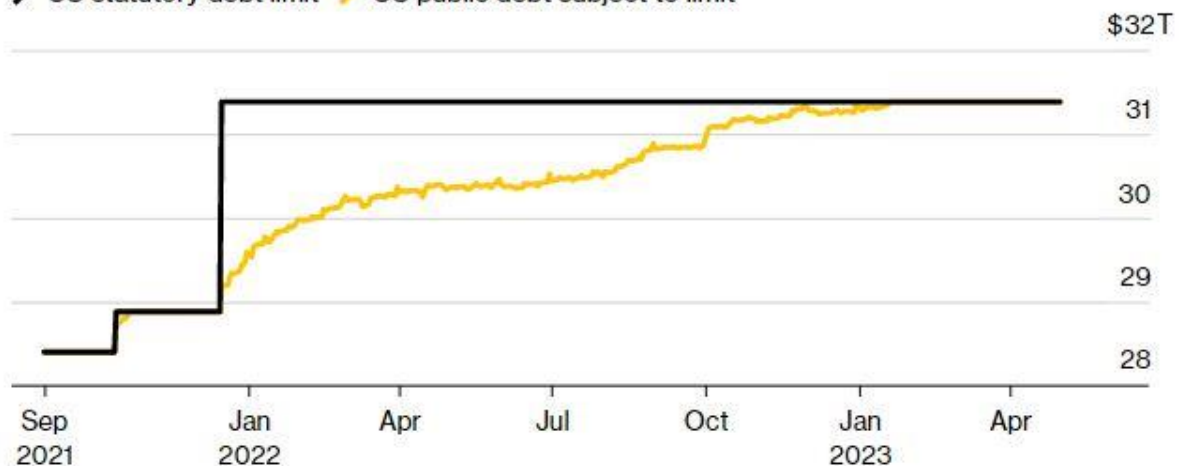
As talks to increase the debt limit go down to the wire, the probability of a US default is increasing.

The US hit that borrowing limit on 19 January 2023. That means the US government is unable to increase its outstanding debt and paying its bills becomes trickier. Since it hit its debt ceiling, the Treasury has been using temporary measures to make its payments but these measures can only pull through for a limited time period and analysts estimate that the US government would run out of money (i.e. fail to meet its obligations on interest payments) in early June. The date at which this would happen is called the "X date" as its still unknown and is hard to estimate as it depends on a number of factors such as tax revenues, expenses and so on.

On the Verge of Breaching the Debt Ceiling

The Treasury is close to running out of borrowing headroom

/ US statutory debt limit
 / US public debt subject to limit



Source: Bloomberg, US Treasury Department

Summary

A US default is unprecedented in modern history and if no political compromise is reached could trigger an unpredictable and material shock.

With its international reputation at stake, it is highly likely both US political parties will reach an agreement or at least an interim solution to avoid a default.

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