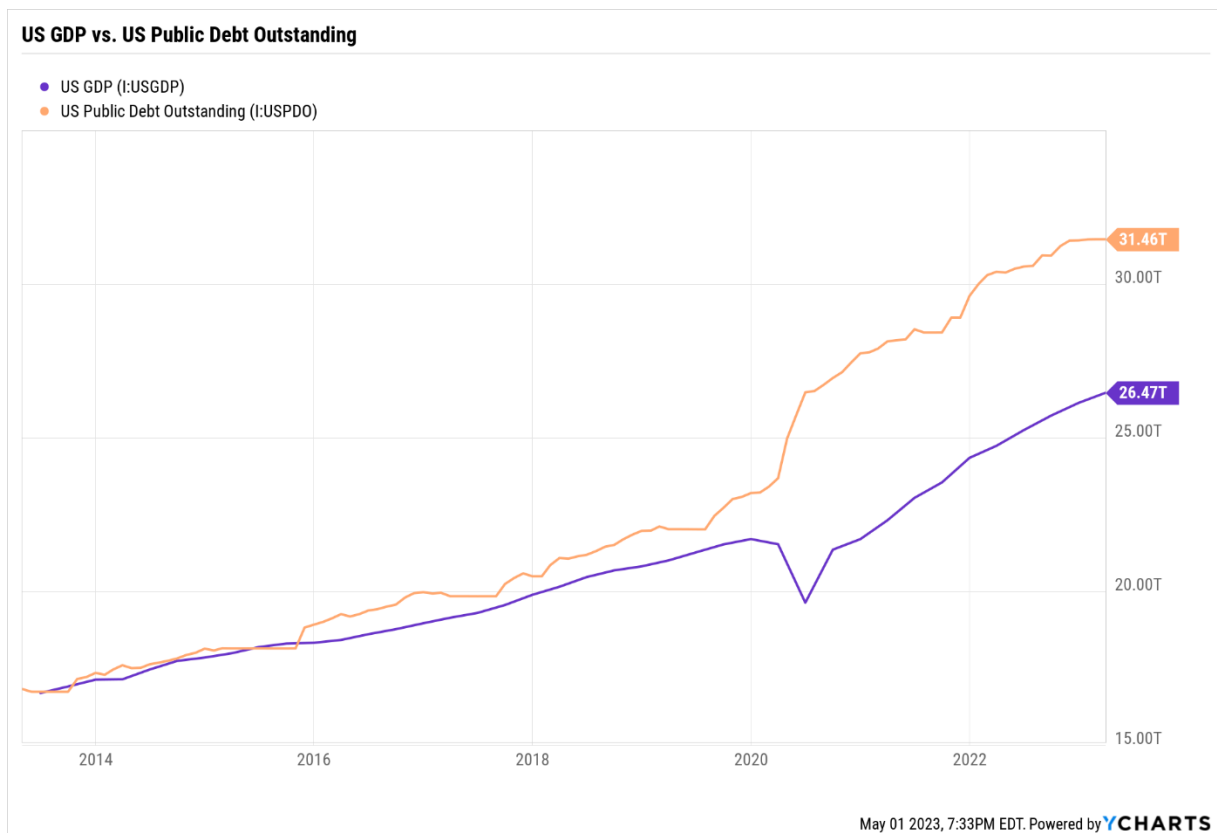


Debt Ceiling Negotiations

Robert G. Kahl, CFA, CPA, MBA

<https://SabinoIM.com>

Treasury Secretary Janet Yellen notified Congress today that the US Government is projected to reach its debt limit as early as June 1 if there is not a change in the current limit. In her letter to Congress, she wrote “We have learned from past debt limit impasses that waiting until the last minute to suspend or increase the debt limit can cause serious harm to business and consumer confidence, raise short-term borrowing costs for taxpayers, and negatively impact the credit rating of the United States.”



President Biden and the Democrats in Congress want to raise the cap without negotiation. House Speaker Kevin McCarthy and Republicans passed House legislation that would raise the government’s debt ceiling by \$1.5 trillion in exchange for spending restrictions. The House bill has little chance of being passed by a Democratic Senate and

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President Biden has promised to veto it anyway. In the meantime, no negotiations are taking place to find a compromise with a month to go.

As the chart above illustrates, there was a significant increase in US debt outstanding above the trend line in 2020 due to COVID, while US GDP declined and then recovered. There has been little effort by Congress and the White House to reduce the amount of additional debt issuance by the US Government since then. During the current April-June quarter, the Treasury plans to borrow \$726 billion. That's \$449 billion more than projected in January, due to a low beginning cash balance and projections of lower-than-expected income tax receipts and higher spending.

May is likely to be a month with some debt ceiling drama.

If you have any questions or comments, please contact me.

Sincerely,
Robert G. Kahl
CFA, CPA, MBA