

Twitter Thread by [Kirtan A Shah](#)

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Is US going to default on its debt?

This ■ will surely help you understand. Do 're-tweet' & help us educated investors (1/13)



US government will run out of money by October 18, Treasury secretary says

US government will run out of money by October 18, Treasury secretary says · You Will Thank Yourself With 5x Cash Back Rewards · Pay No Interest...

4 days ago



How does a country run?

Assume a country to be like a company, which has income & expenses. Income source can be tax collections & expense can be government employee salaries, defence spending's, social security schemes etc. (2/13)

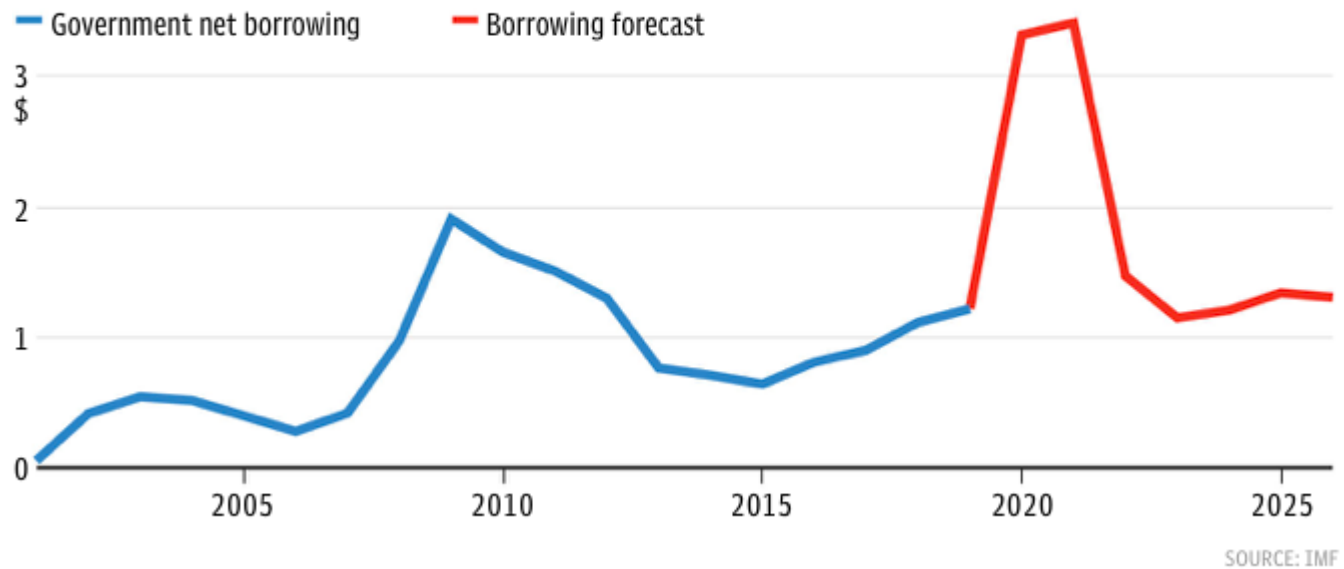
Generally, most economies are running a deficit; their income is less than expense. So if your income is 100 and expense is 105, where do you get the 5? You borrow!

Similarly US has been borrowing & the total debt today roughly stands at a whopping \$28.5T. (3/13)

Deficit in the last 2 years has gone up significantly because of COVID + the government wants to spend more; a \$3.5T spending package is what they are trying to get an approval for + older debt is coming up for maturity (4/13)

Government borrowing exploded during Covid

US Government net borrowing (\$ trillions)



Okay, so I am saying they will raise more debt for the deficit of COVID, the new package & paying older debt off?

Ideally a yes but they are not allowed to borrow more! (5/13)

Why can't they take more debt?

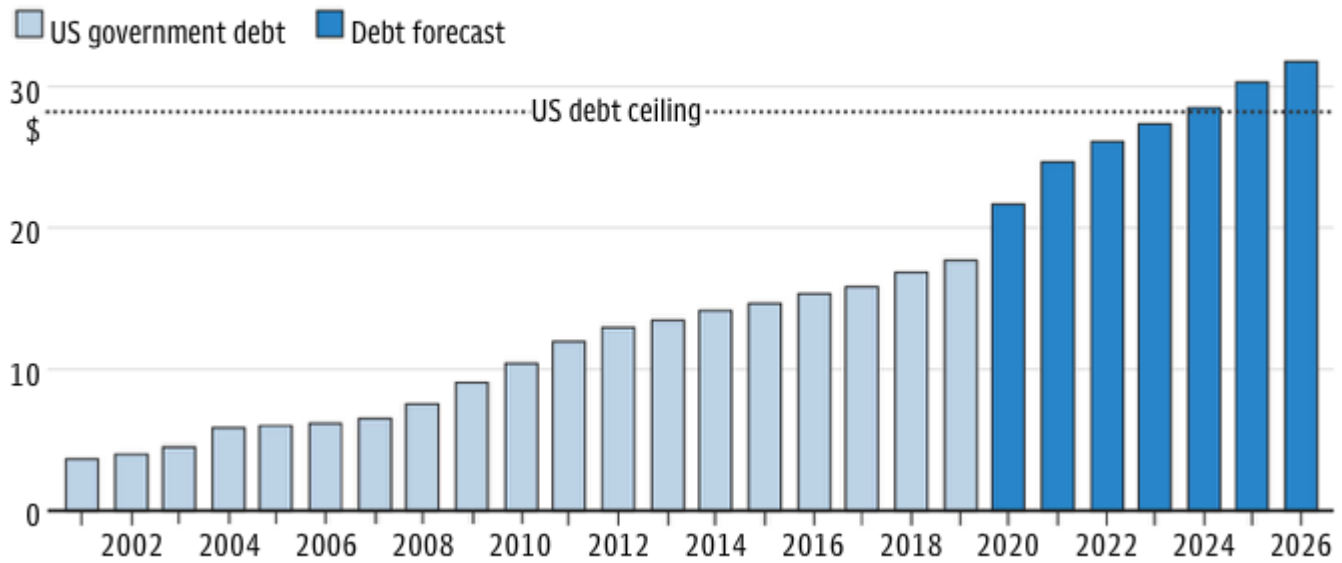
During the 1st world war, US understood if they keep spending money on the war, the debt will be a big liability 4 the future generation & hence they introduced a ceiling on the maximum debt US could take. In 1917, this was capped at \$1 Billion

What happened when the \$1B debt was reached?

Political parties would pass a legislation to increase the debt limits. From \$1B in 1917, the debt ceiling has been moved up multiple times to the current \$28.5T (<https://t.co/XaLWSSGxN5>), which is about to get reached now (7/13)

The US is rapidly approaching its debt ceiling of \$28.5 trillion

US net government debt (\$ trillions)



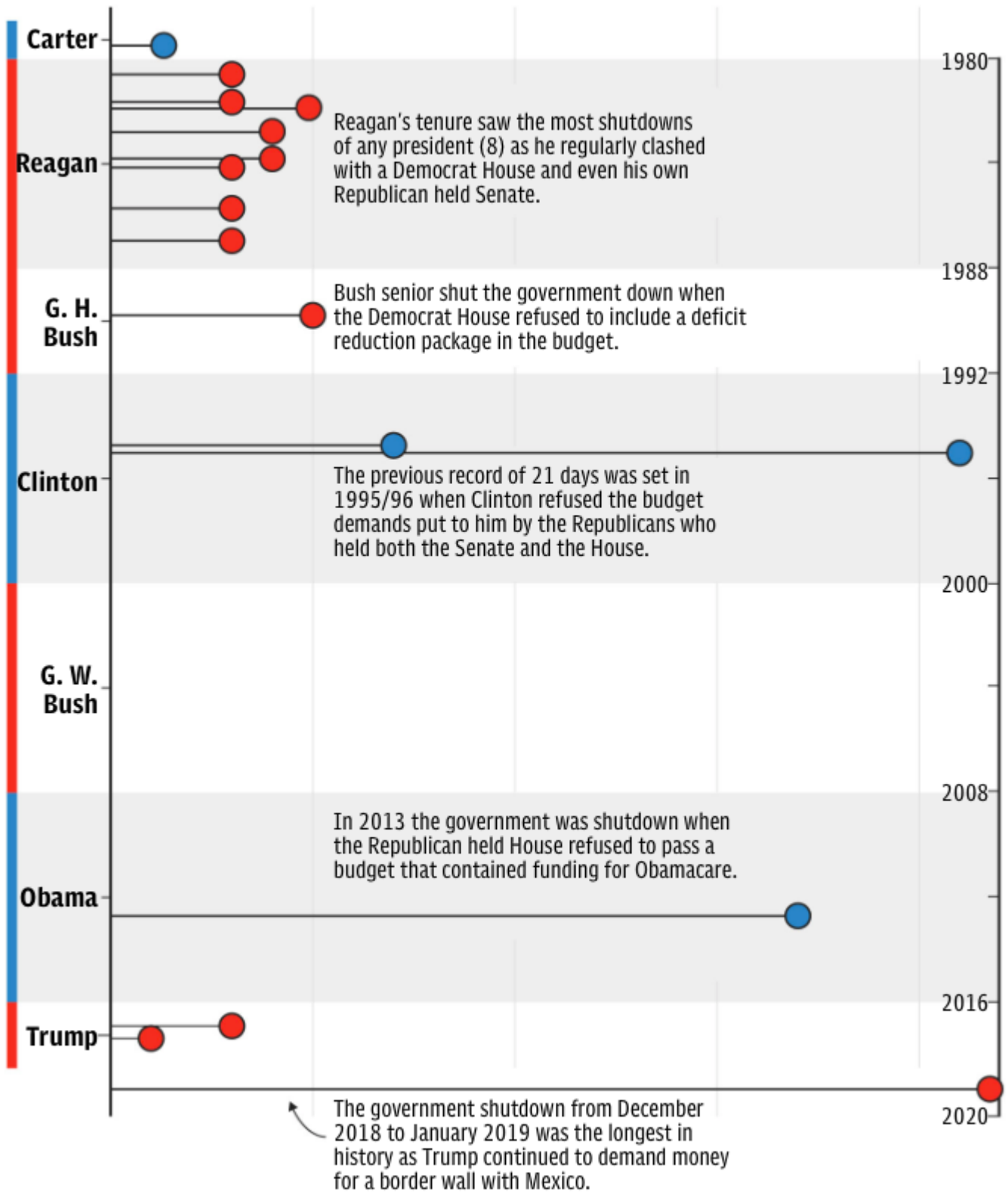
SOURCE: IMF

So what happens now?

Political parties (Like India has BJP & congress, US has Democrats & Republicans) need to agree on either suspending the debt ceiling all together or increasing the limit of borrowing by passing legislation like they have been doing in the past (8/13)

So that's easy right?

May be, but republicans r nt in favor of suspension or ■■ in the debt ceiling. But this is common, has happened multiple times in the past. Till the legislation is passed, the government shuts down for few days & is back in action as soon as it is passed



SOURCE: CONGRESSIONAL RESEARCH SERVICE

What happens if Republicans don't agree?

A suspension or rise in the debt ceiling can be passed through a process known as budget reconciliation, due to Democrat's majority in the Senate. But some conservative democrats may not support ■■ in spending so this may face challenges

What is the impact if at all nothing works?

Doomsday! US can't borrow more & can default eventually!

-US will not be able to pay salaries to government employees, will not be able to release social security payments, will not be able to pay other liabilities (11/13)

- US interest rates will go up (you want more returns if the risk increases)

- \$ will crash

- Both of the above to have a massive impact on world trade & markets as still 84% of the world trade happens in \$ & other countries have huge investments in US treasuries (12/13)

Consensus view - We might see some delay but US will not let its debt default! (13/13)

This is my 43rd thread, 'do re-tweet'

Have earlier written on,

-Sector Analysis - Banking, Paints, Logistic, REIT, InvIT, Sugar, Steel

- Macro

- Debt Markets

- Equity

- Gold

- Personal Finance etc.

You can find them all in the link below <https://t.co/UrRt87xaU7> (END)

Here\u2019s a compilation of Personal Finance threads I have written so far. Thank you for motivating me to do it.

Hit the 're-tweet' and help us educated more investors

— Kirtan A Shah (@KirtanShahCFP) [December 13, 2020](#)