

ECONOMIC NEWS

The debt ceiling looms over the U.S. economy

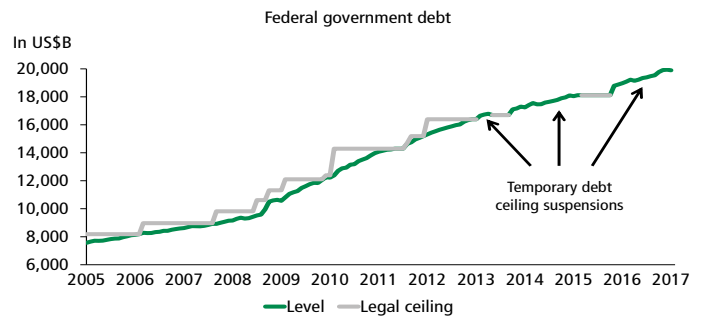
In a little less than one month, an element that often created concerns on the markets during the Obama years could resurface: the legal maximum for the U.S. federal debt must be reinstated. The debt ceiling is currently suspended until March 15, 2017, that is since the bipartisan budget agreement signed in the fall of 2015. The gross federal debt will soon reach US\$20,000B.

If the debt ceiling is not raised by the March deadline, the U.S. Treasury will be able to enact extraordinary measures for a limited time to finance the federal deficit, as it did in previous episodes. These measures, including using amounts set aside to fund federal employee pension plans, should postpone at least until the summer the cut-off date after which the government will no longer be able to honour its obligations. Certain rules however require the Treasury to divest itself of a large share of its cash holdings by March 15, and this could exert some downward pressure on federal fund rates with very short terms.

IMPLICATIONS

Will setting a new debt ceiling become a real political, economic or financial issue? Under Obama, the Republican majority in the House of Representatives was opposed to any increase in the debt ceiling. Republican leaders used these deadlines to put political pressure on the White House, particularly in order to curb the growth of federal public spending. It remains to be seen how this strong-arm tactic will play out, now that the Republicans are in charge of both Houses of Congress and the president is also a Republican. Will the debt ceiling be raised easily, as Steven Mnuchin, the new Secretary of the Treasury, hopes it will be, or will it once again be used as a pressure tactic (Donald Trump's new Budget Director Mick Mulvaney advocated for this approach under Obama)? On one hand, the main promises made by Donald Trump during the electoral campaign risk adding more weight to the deficits, which does not sit well with most elected Republican officials. On the other, the Democrats will either strike a balance between taking a pragmatic, collaborative position with President Trump or acting as the opposition and taking risks with the federal government's

GRAPH
The debt ceiling has been suspended since late 2015



Sources: U.S. Treasury and Desjardins, Economic Studies

credit rating (something they often criticized the Republicans of doing).

Given the compatibility between the Republicans in Congress and the new president of the United States, we can hope that the debt ceiling issue will be easily resolved. That said, nothing appears simple in this new administration and the debt issue could throw a wrench into the debate on taxes, health care, military spending and infrastructure investments. If the problem escalates, it could rattle the financial markets with more uncertainty.

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