Twitter Thread by Kirtan A Shah

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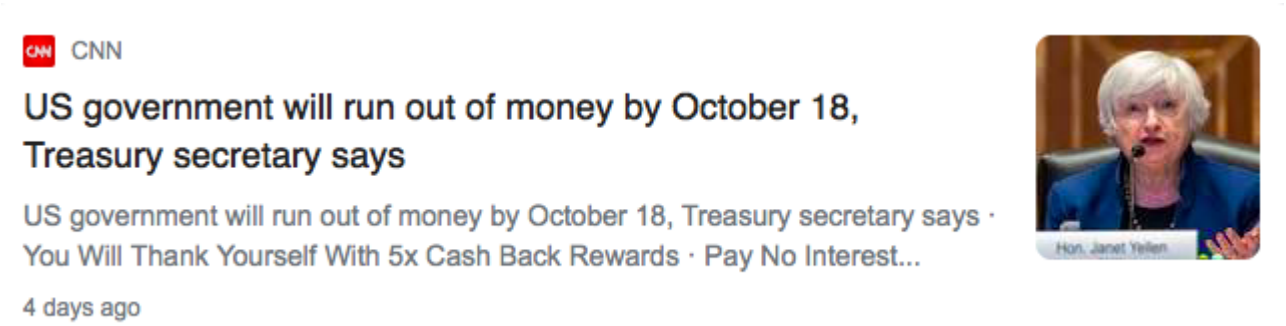
Is US going to default on its debt?

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



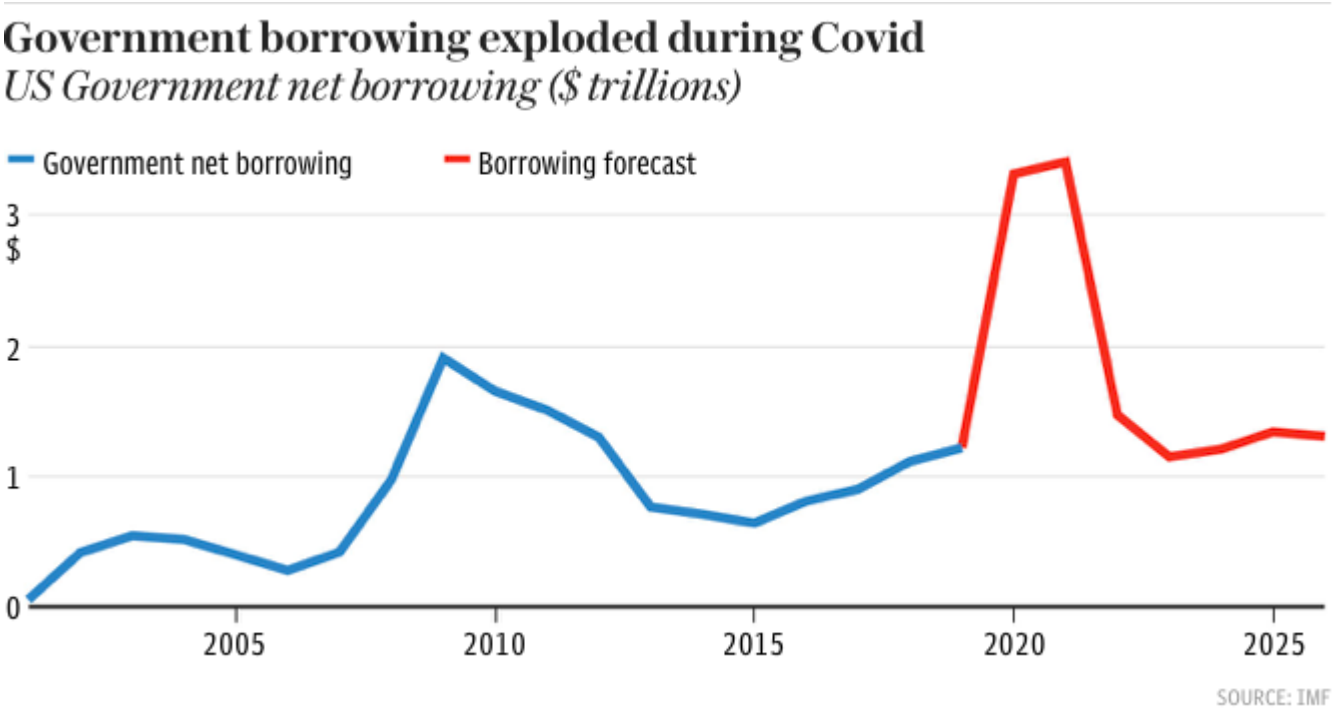
How does a country run?

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 sending’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 whooping $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)



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

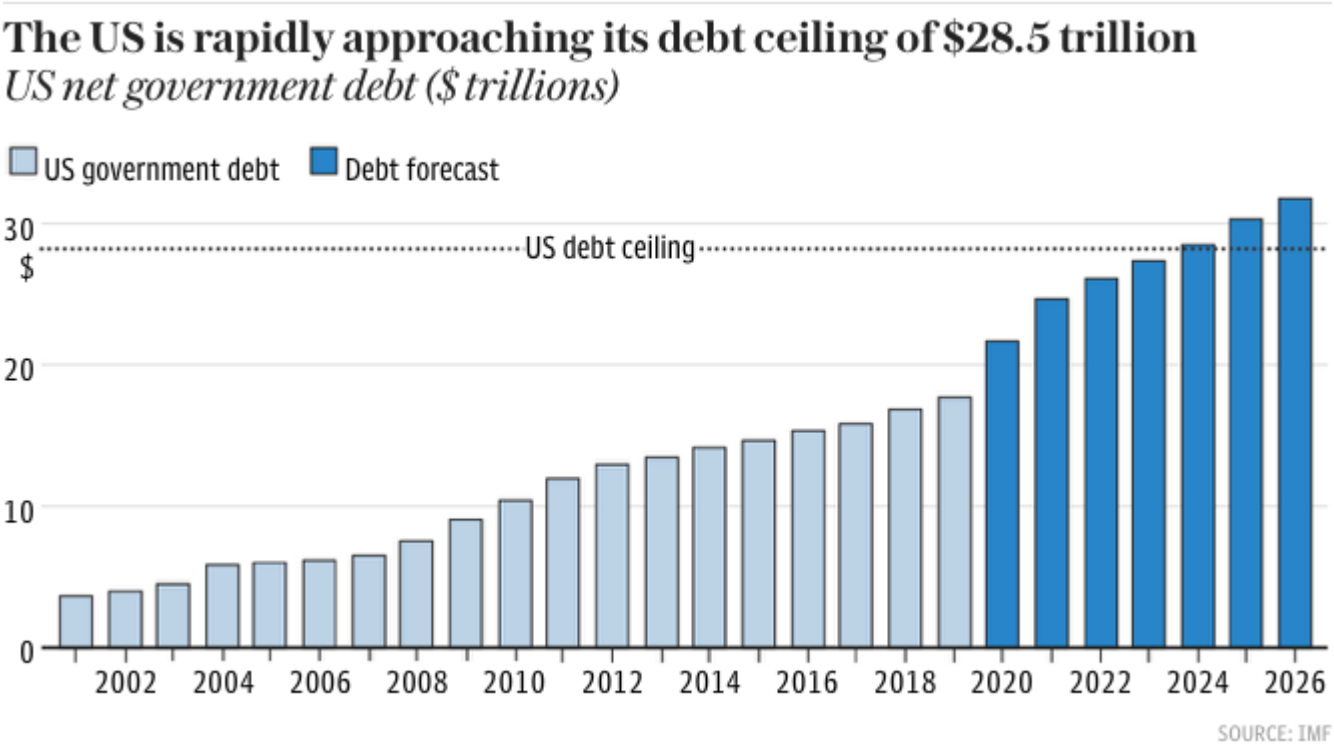
Ideally a yes but they are not allowed to borrow more! (5/13)

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)

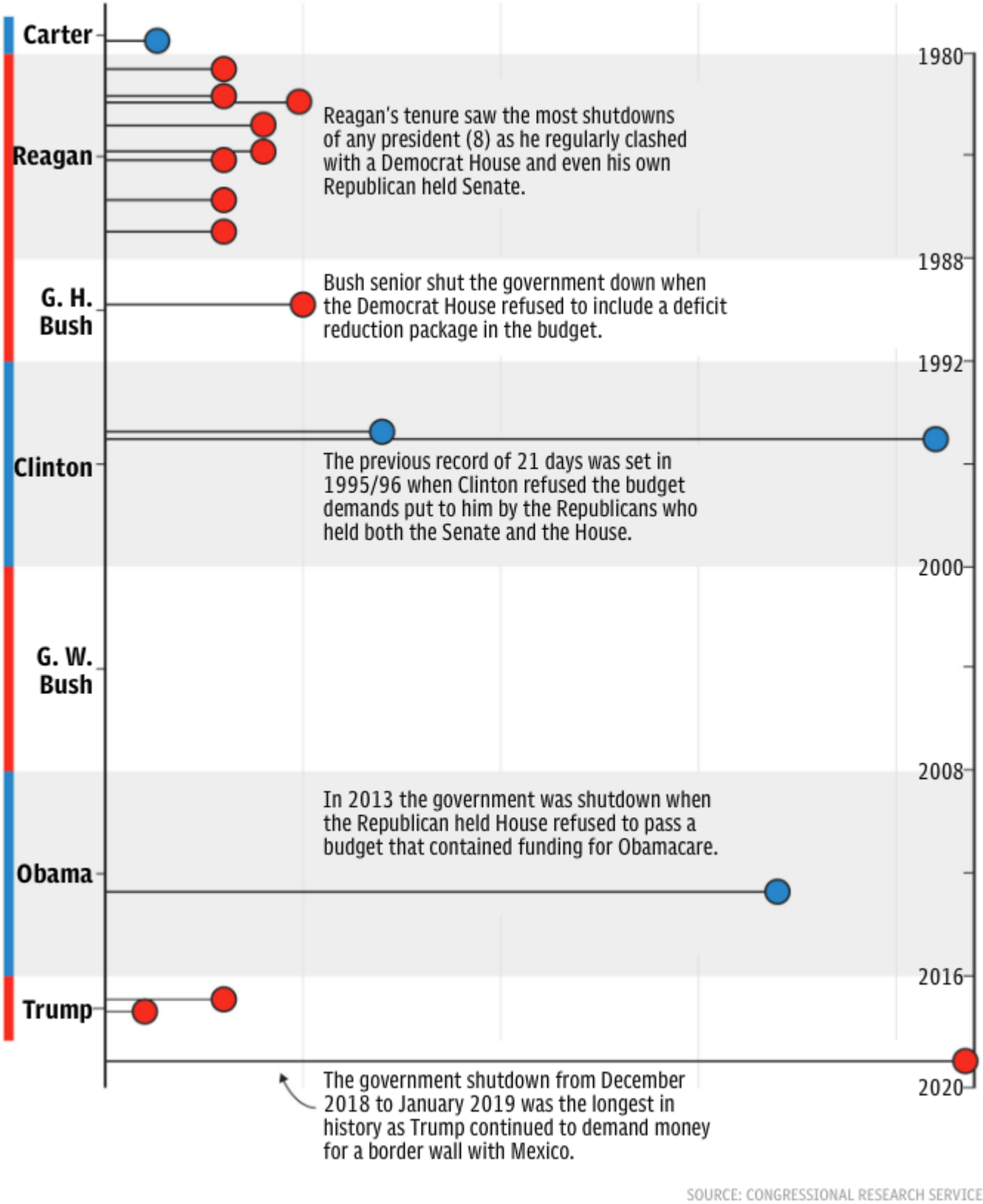


So what happens now?

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



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