Twitter Thread by Kirtan A Shah





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 \cdot You Will Thank Yourself With 5x Cash Back Rewards \cdot 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 sending's, social security schemes etc. (2/13)

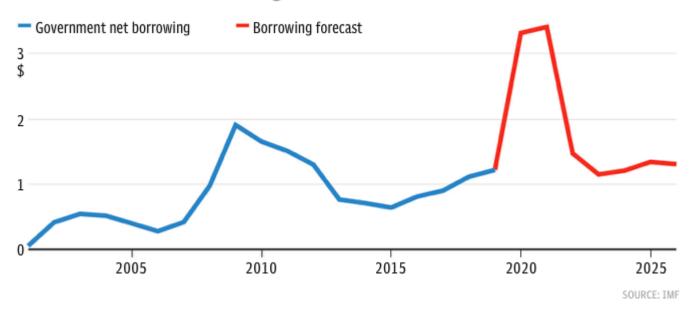
Generally, most economies are running a deficit; their income is less than expense. So if your income is 100 and expense is 105, where do you get the 5? You borrow!

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)

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)

■ US government debt ■ Debt forecast ······US debt ceiling······

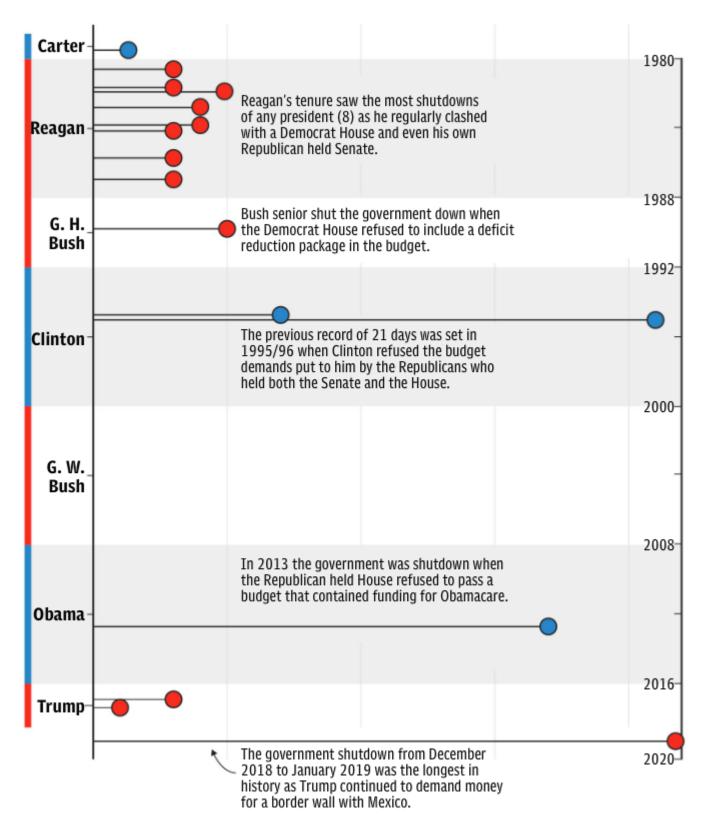
So what happens now?

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)

SOURCE: IMF

So that's easy right?

May be, but republicans r nt in favor of suspension or **III** 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 line 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