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Debt Ceiling Expected to be Breached at the End of September

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According to Treasury Secretary Steve Mnuchin, the U.S. will hit its debt limit at some point in late September. Congress has until then to raise the federal debt ceiling before the Department of the Treasury's so-called "extraordinary measures" can no longer protect the U.S. government against a default on its obligations.

As of early August, the Trump Administration reached unified approach over how to address the debt ceiling with Secretary Mnuchin calling for a clean debt ceiling extension bill (e.g., one without policy or budgetary riders) and White House Office of Management and Budget Director Mick Mulvaney backing off the position taken by congressional GOP fiscal hardliners to link the increase to spending or other budget cuts. President Trump blamed congressional Republican leadership for the upcoming debt ceiling challenge, saying a clean extension should have been folded into a highly popular Veterans Affairs bill signed into law on August 24.

In the past, Republicans have needed Democrats to help pass debt limit extension legislation. Although negotiations with Democrats have not occurred, Senate Majority Leader Mitch McConnell (R-KY) is optimistic, insisting that a deal will be reached, but resisted going into details. According to press reports, a clean debt limit increase would get roughly 20 GOP votes in the House, and between ten and 20 in the Senate, a long way from a majority, even assuming significant Democratic support.

Takeaway: Strong bipartisan support for responding to Hurricane Harvey may have increased the odds for both the debt limit extension and an FY18 temporary government funding bill if all three are tied together in a single package. The expected late-September timing also presents potential troubles as negotiations over federal spending and a number of other end of fiscal year deadlines may impact negotiations over raising the debt limit. Although some fiscal conservative hardliners have pushed back against the idea, combining hurricane response funding with a "clean" debt limit extension may induce conservatives to support the extension. Financial markets have so far shrugged off the uncertainty, but market watchers expect there to be significant implications for the financial markets if it looks like Congress will fail to act before the end of September deadline.