US Debt Ceiling Crisis

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Context- If the House of Representatives and the President's White House do not come to an agreement to either raise or suspend the debt ceiling, the US will default on its debt by June 1.

What is the US Debt Ceiling?

- The Debt Ceiling is the greatest measure of cash that the U.S. government is legitimately permitted to acquire to support its costs and commitments.
- The debt ceiling was put in place during World War I in 1917. Its goal is to give the government more leeway to spend without having to get approval from Congress every time.
- Congress is authorized by the Constitution of the United States to regulate government spending.
- The current debt limit is USD 31.4 trillion at this time. This means that without congressional approval, the government cannot borrow more than this amount.

- **Current standoff:**
    - The Democrat-led government and the Republicans (Members of Opposition party), who hold a majority in the House of Representatives, are involved in the current standoff.
    - Argumenting that the nation's debt cannot be sustained, Republicans are refusing to raise the debt ceiling in the United States unless the government agrees to include significant spending reductions and other priorities.
        - To ensure that government spending is limited, they want to attach conditions to programs like Medicaid, food stamps, and cash assistance.
    - In contrast, the President states that defaulting on debt is non-negotiable and

insists on approval of the debt ceiling without conditions.
  - This has made a gridlock and an expected gamble of default in the event that an understanding isn't arrived at on time.

What happens if the Government Defaults?

- **Government Default:**
    - The US government will most likely be unable to meet its monetary commitments, bringing about a default on its obligation installments. This would be exceptional and could devastatingly affect the country's economy.
  - **Economic Recession**:
    - Financial markets would become extremely volatile as a result of the loss of confidence in the US financial system that would result from a default. Businesses, investments, and employment all stand to suffer as a result.
    - Examiners say the dollar would debilitate, the financial exchanges would fall, and millions could lose their positions.
- **Downsized Credit score:**
  - A default could bring about a minimization of the US government's credit score, making it more costly for the public authority to get cash from now on. The country's finances would be further strained as a result, and borrowing costs would rise.

Is there Any Back-up if Debt Ceiling Defaults?

- **Constitution's 14th Amendment:**
    - The 14th Amendment to the Constitution grants the President the power to unilaterally raise the debt ceiling without the support of the Legislature.
    - The Constitution's 14th Amendment expresses that the legitimacy of the public obligation "will not be addressed." This would include attesting that defaulting on the obligation is unlawful and making a move to forestall it.
- **Crisis Measures:**
    - Even if the debt ceiling is reached, the Treasury Department can take certain emergency measures to continue paying the government's bills.
    - However short-lived these measures may be, they are not a long-term solution.
    - They delay for the public authority to work until a long-lasting arrangement is reached.
- **Accord Between Parties:**
  - It is conceivable that talks between the public authority and the resistance could go on as late as possible, and a bipartisan consent to raise the obligation roof could be reached. This would necessitate making concessions and coming to an agreement on spending reductions or other fiscal measures.

Has anything Similar Happened Earlier?

- The same thing happened in 2011, when Barack Obama was president and the opposition party controlled the House of Representatives.
- The emergency was settled right away on schedule by agreeing. All things considered, the Ptresident consented to execute spending cuts adding up to more than USD 900 billion to determine the emergency and raise the obligation roof.

How does India manage debt ceiling and borrowing?

- India has a conventional obligation roof system according to FRBM Act however doesn't have obligation roof as far as outright sum like the US has. Hence, Obligation Roof in the US can measure up to Monetary Deficiency focus in India.
- Unlike in the United States, India's goal is expressed as a percentage of GDP (Gross Domestic Product), not as an absolute number.
- The Indian government uses a variety of institutions and mechanisms to manage borrowing and debt obligations, such as Fundraising through Securities and Bonds: In the domestic market, it issues government securities like treasury bills and bonds.
- Gathering pledges through Protections and Bonds: It issues government protections, for example, depository bills and government securities, in the homegrown market.

Monetary Obligation and Spending plan

- **The executives (FRBM) Act:** It establishes a legal framework for India's fiscal discipline and debt management. In order to guarantee fiscal sustainability over the long term, it establishes targets for deficits and debt-to-GDP ratios. The public authority's acquiring choices are directed by the standards framed in the FRBM Act.
- **India's Reserve Bank (RBI):** The country's borrowing and debt management are significantly managed by the RBI. It facilitates the issuance, auction, and trading of government securities and serves as the central government's banker. Additionally, the RBI oversees the government's cash flows, ensuring that debt transactions are settled without incident.

What effect does the debt ceiling have on the global economy?

- Global financial markets may experience increased volatility as a result of the risk of a US government default and the failure to raise the debt ceiling.
- The US dollar's creditworthiness and confidence may be undermined in the event of a debt ceiling crisis, resulting in a decline in its value. This depreciation may have an impact on trade relationships and other currencies.
- The confidence in the global financial system's stability and dependability could be damaged by a debt ceiling crisis. Business and consumer spending can be reduced as a result of market uncertainty and fear, stifling global economic expansion.

What will happen to the Indian economy as a result?

- **Depreciation in Rupees:**
    - The Indian rupee might devalue against the dollar, making imports more costly and possibly expanding inflationary tensions in the Indian economy.
- **Exchange Interruptions:**

    - India has a significant trading relationship with the United States, and a debt ceiling crisis could reduce demand for Indian exports.
    - Information technology, textiles, and pharmaceuticals are among the Indian industries that are dependent on American consumers and may suffer as a result of reduced exports to the US.

- **Influence on Forex:**
  - India has a lot of foreign exchange reserves, some of which are US Treasuries. Losses on these investments could result in a US debt default or downgrade, which could have an effect on India's foreign exchange reserves and overall financial stability.