



Next week's hearings may do more to underscore divisions among lawmakers about the causes of the failures and the appropriate responses. (ddp)

Washington Weekly: Bank hearings

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The UBS Office of Public Policy takes a look at key events in Washington this week, including bank hearings, continuing work on the 2024 federal budget proposal, and lawmaker support for Ukraine.

Bank Hearings. Recent bank failures remain a dominant issue on Capitol Hill. Next week, House and Senate committees will hold hearings with key regulatory officials (from the Federal Reserve, FDIC and the Treasury)—and potentially former executives of Silicon Valley Bank and Signature Bank—to testify about the failures as well as the federal regulatory response to date. With the Fed not set to complete its internal review of the failures until 1 May, regulators are likely to provide only provisional answers. Next week's hearings may do more to underscore divisions among lawmakers about the causes of the failures and the appropriate responses. Republicans and some Democrats will highlight risk management and supervisory failures, while other Democrats will try to pin more of the blame on past regulatory relief efforts in Congress and at the Fed. There has been some bipartisan discussion about raising the current deposit insurance limit (something that generally would need Congressional approval), but there are divisions on this among lawmakers, with some Republicans concerned about moral hazard and with some Democrats interested in pairing any increase with a rollback of regulatory relief (a non-starter in the Republican House). *Though Congress likely will be deadlocked on legislative changes, lawmakers will be influential in guiding the regulatory and supervisory changes regulators will consider following the Fed's report in early May.*

Deficit Reduction Blues. As House Republicans continue their work on crafting a federal budget proposal for the 2024 fiscal year, we expect them to focus on the level of federal spending over the next year or two instead of over a longer term. They are likely to propose a cap on many areas of federal spending (based on 2022 spending levels) and reductions in others. These goals are seen as more manageable than an aspirational ten-year plan to balance the budget, which seems nearly impossible in a politically divided Washington. The emerging plan would propose a smaller rise in the annual budget deficit over the next two years. It then would count on sizeable reforms to Medicare (and possibly Social Security) to provide a more meaningful impact on the deficit. A key part of Medicare must be reformed by 2028 in order to ensure the continued payment of certain benefits. That imperative could be a spur to remedial (and possibly bipartisan) legislative

action. Despite the budget's expected focus on potential deficit reduction measures, some hardline House Republicans may view it as not tough enough. For their own part, House Democrats this week showcased the views of cabinet heads about how spending cuts would imperil their agencies. *Cutting spending is a difficult exercise, and voters will have to demonstrate their support for such measures if Republicans are to be successful in enacting cuts to reduce the deficit.*

Lawmaker Support for Ukraine. The media has speculated that support from US lawmakers for further US assistance to Ukraine has waned and cannot be further ensured as the conflict begins its second year. We have always believed that speculation to be exaggerated. A few Republican lawmakers and former President Trump have articulated this line of thinking, and while these voices are often the loudest, it is the minority view among Republican lawmakers in the House and Senate. US support for Ukraine in Washington was certainly enhanced this week when Chinese President Xi visited Russia to reinforce his support for Russian President Putin. It's hard to see US support for Ukraine further slipping in the near future if China continues to assist Russia and jockeys for a key role in brokering a potential peace deal. *Russia will certainly benefit from increased commitments from China, but the consequences are a hardened US and western alliance to help Ukraine.*

Read more in [Washington Weekly](#) 24 March 2023.

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