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Debt ceiling extension in the House

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The House passed an extension of the debt ceiling this week in combination with cuts to federal spending and green energy tax incentives. The UBS Office of Public Policy takes a look at this and other events affecting Washington.

As voters and financial markets begin to focus more on the need to raise the debt ceiling, the House passed such an extension in combination with a wide range of cuts in both federal spending and tax incentives for green energy. While the bill is a non-starter in the Democratic-controlled Senate (and with President Biden), it should provide a spark for negotiations that hopefully will lead to a bipartisan resolution. Given the realities of divided government, the final outcome must be bipartisan. That means any deficit reduction measures to accompany a debt ceiling increase likely will be much more limited than what is included in the House-passed bill. Right now, the ball is in the court of Senate Democrats and President Biden. Their options include putting forward a plausible alternative to the House bill that could pass in the Senate, negotiating from the House-passed bill or trying to start a separate process to craft a new and more scaled back bill with House Speaker Kevin McCarthy (R-CA) and Senate Minority Leader Mitch McConnell (R-KY). It seems to us that the third option is the most viable path forward for an eventual resolution.

A New X-Date

We expect Treasury Secretary Janet Yellen to announce the new X-date sometime very soon. The X-date is the last day that the Treasury believes it can pay its bills before risking a default on its obligations. We hear from various policymakers that the X-date is more likely to be in late June or July rather than August or September, as some had previously projected. Whatever the exact date, the X-date's primary purpose will be to set the effective deadline by which Congress must act to extend the debt ceiling or risk a default. Once that date is set, the shot clock for action will begin to run.

Pressure on Democratic Leaders

So far this year House Republicans have faced the most political pressure in Washington (and perhaps among voters) on raising the debt ceiling. However, with the passage of the House bill this week, the pressure has shifted more to Democrats, particularly the President and Senate Majority Leader Chuck Schumer (D-NY).

While both have called for a clean extension of the debt ceiling, that approach doesn't have the votes to pass in the Senate (60 votes would be required). Democratic leaders may continue to insist on a clean debt ceiling extension, but they will need greater public support for that position and potentially a crisis in the markets to make that approach feasible. More serious negotiations on resolving this standoff on the debt ceiling likely won't occur until we are closer to the X-date.

US-South Korea Love

This week, South Korean President Yoon Suk Yeol visited President Biden at the White House and then addressed both chambers of Congress in a joint session. This is VIP treatment for an increasingly important US ally. It marks the second state visit hosted by the White House in the Biden administration (the first was with France) and marks the 70th anniversary of relations between the two countries. Visits like this are usually triggered by a significant need from one country or the other, and this visit was no exception. Given its increasing worries about North Korean President Kim Jong Un's tendency to launch missiles over the peninsula as a means of flexing his muscle, South Korea wants greater US security assurances. The US meanwhile recognizes South Korea's notable semiconductor production capacity and wants to strengthen that economic alliance. Of course, China also looms large over the US-South Korea alliance. This week's visit follows stronger US security agreements with Australia, Japan and the Philippines (all concluded this year), and it's clear that all of this activity is motivated by concerns over the deteriorating US-China relationship.

For more, read [Washington Weekly](#) 28 April 2023.

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