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'This newsletter is translated from the Japanese edition distributed on September 22nd.
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

# Global Risk Watch Newsletter

## The Chinese economy at risk of facing several structural challenges, etc.

**Global Risk Watch Vol.30**
**29 September 2017**

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### 3. Highlight of Indicator for this Month

**# Deferring the debt ceiling issue to end of year (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)**

In the United States (US), the government dodged a possible shutdown in October as the application for raising the debt ceiling was deferred to December and a provisional budget was settled. The debt ceiling issue, in particular, which was suspended since 2016, the US government revisited the subject in March 2017 and emphasized the urge to appeal a raise in the debt ceiling while applying emergency funds as management measures. Treasury secretary Mnuchin also stated the urge to raise the debt ceiling on September 29th, which signalled higher “crisis” sentiments (Chart 1).

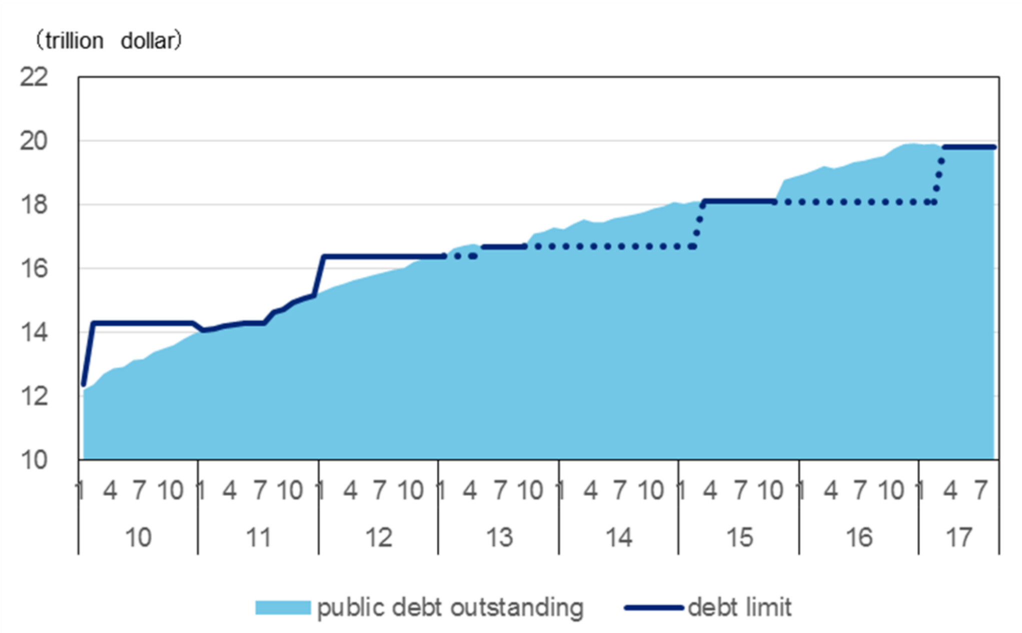
Although it did not reach a deteriorating situation, it is necessary to note that the agreement for fiscal expansion was based on cooperating with the Democrats, which many Republicans vigorously opposed while looking at a possible government shutdown in the end of the year. Moreover, president Trump also threatened a government shutdown if the funding did not cover the cost of building the Mexican wall while major credit rating agencies warned to downgrade if the debt ceiling is not raised creating higher tensions for the US government.

Let's think about the impact of the government shutdown and downgrading problems on the real economy and long-term interest rates. On the economic side, revisiting the reports released by the Office of Management and Budget (OMB) on partial government shutdown in 2013 could share some useful insights. The report indicated a 16-day government shutdown led to 6.6 million days* temporary leave for government officials, which was a major impact to the economy (Table 1). On the other hand, looking at the movements of long-term interest rates, following the downgrade of the US bonds in 2011, interest rates rather declined and there were no significant changes during the partial government shutdown in 2013 (Chart 2). Nonetheless, it is certainly interesting to see how external environments would respond to another US government shutdown under Trump`s administration.

As many challenges remain in congress other than budget issues, all eyes remain on whether the Trump administration will be able to maintain a cooperative stance with the Democratic Party in relation to the debt ceiling issue and how it will affect the decisions in congress.

(*) One layoff is counted as one day per one government official

## Chart 1: Debt limit and outstanding



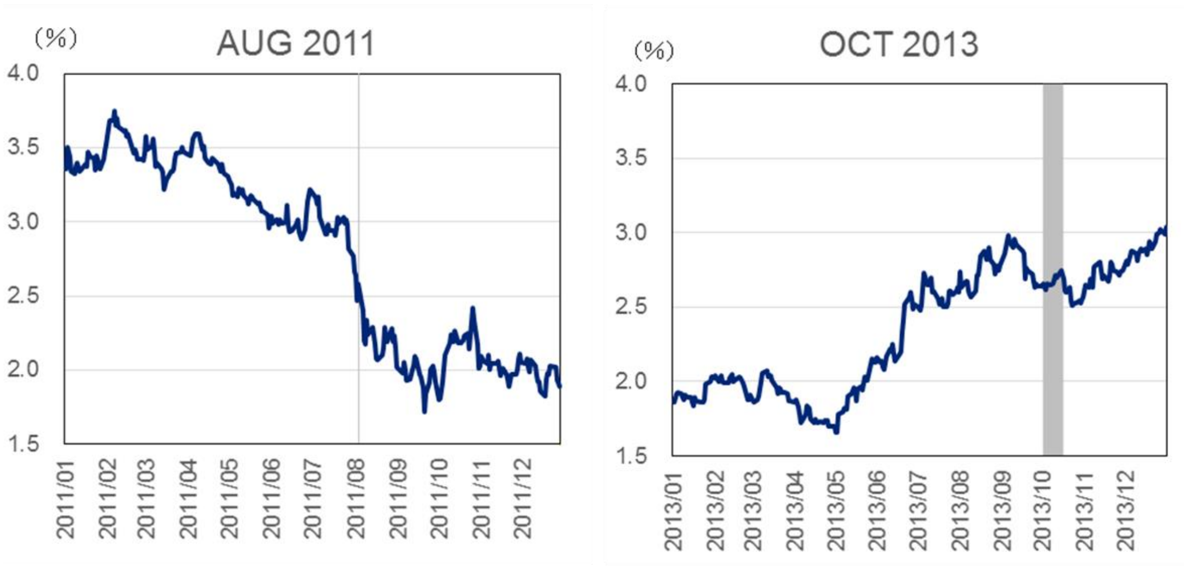

Source: Department of Treasury

## Table1: impact and costs of government shutdown

| Impact and Cost |
|---|
| Federal employees were furloughed for a combined total of 6.6 million days |
| The lost productivity of furloughed workers was $2.0 billion |
| 120,000 fewer private sector jobs created during the first two weeks of October |
| ①Hundreds of patients were prevented from enrolling in clinical trials at the National Institutes of Health ,②Almost $4 billion in tax refunds were delayed etc. |
| long-term impact on our ability to attract and retain the skilled and driven workforce that the Federal government needs |

Source: OMB "Impacts and Costs of the Government Shutdown"

## Chart 2: Long term interest rates




Source: Federal Reserve Economic Data (FRED)
* The grey bars in the chart show the US bond downgrade in 2011 and the government shutdown in 2013 respectively.