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***NEBRASKA TAXPAYERS FOR FREEDOM* ISSUE PAPER:**

U.S. CREDIT RATING DOWNGRADE RESULT OF BIDENOMICS.

BACKGROUND. Credit ratings mean to signal the health of our national economy and give investors an idea if it is risky to invest by assessing how likely it is that the federal government will pay back its debt. The rating downgrade of the U.S. foresees an expected fiscal deterioration over the next several years, a high and growing federal debt burden, and the erosion of government finance that has seen repeated debt limit standoffs and hurried compromises. There has existed a steady deterioration in federal fiscal, deficit, and debt issues, causing eroded confidence in U.S. fiscal management. Several economic shocks caused by the Biden Regime and its new spending initiatives have contributed to successive debt increases. Also, limited progress in handling rising Social Security and Medicare costs because of an aging population. This economic cataclysm caused by Bidenomics continues.

CREDIT DOWNGRADE. Fitch, one of the three largest credit reporting agencies, downgraded the U.S. long-term credit rating from AAA to AA+ for several reasons. First, it expects the federal deficit to rise by 6.3% of Gross Domestic Product (GDP) in 2023 from 3.7% in 2022, caused by weaker federal revenues, new Biden Regime spending proposals, and a higher interest burden. Fitch forecast a federal deficit of 6.6% of GDP in 2024 and a further increase to 6.9% of GDP in 2025. It expects state and local governments to run an overall deficit of 0.6% of GDP this year after boasting a small surplus in 2022. Small cuts to non-defense discretionary spending gave only a small boost to fiscal outlook. These larger deficits caused by weak 2024 GDP growth, the higher interest burden, and larger state and local deficits in 2024 and 2025. The interest to revenue ratio expected to reach 10% by 2025 because of the higher debt level and sustained higher interest rates. The federal debt to GDP ratio projected to rise to 118.4% by 2025. Fitch projections forecast additional debt to GDP increases, heightening the vulnerability of the U.S. economy to future economic mayhem. Over the next decade, higher interest rates and the rising debt stock will increase the interest service burden, while an

aging population and rising health care costs will accelerate spending on the elderly if no fiscal policy reforms. The Congressional Budget Office (CBO) projects that interest costs will double by 2033 to 3.6% of GDP. The CBO also estimates a rise in mandatory spending on Medicare and Social Security by 1.5% of GDP over the same period. It projects that the Social Security fund will dry up by 2033 and the Hospital Insurance Trust Fund (used to pay for benefits under Medicare Part A) will become depleted by 2035 under current laws, posing additional challenges for the fiscal trajectory unless timely corrective measures implemented. Fitch predicts that weakened business investment and slowing consumer consumption will drag our economy into recession by the end of 2023. It sees U.S. annual real GDP growth slowing to 1.2% in 2023 and overall growth of only 0.5% in 2024. Job vacancies remain high, and labor participation is still lower than pre-pandemic levels because of the enlarged welfare system. Fitch expects a further interest hike to 5.75% by September, because the Biden Regime is not bringing down inflation. The Federal Reserve key price index remains at 4.1%. The Fed is continuing to reduce its holdings of mortgage-backed securities and Treasury Notes, further tightening financial conditions.[1] "The rating downgrade of the United States reflects the expected fiscal deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the last two decades that has manifested in repeated debt limit standoffs," a Fitch statement read. Fitch also noted an erosion of government function and declining public confidence in the handling of federal fiscal issues.[2] It had placed the U.S. AAA rating on negative watch in May at the height of the debt ceiling impasse. Fitch had warned during the debt-ceiling standoff earlier this year that it was considering a downgrade, because a country refusing to pay its debts in a timely way not entitled to a AAA rating. In general, it cited pension funds and other investors to gauge the credit worthiness of the government which had a big impact on U.S. borrowing costs.

ECONOMIC IMPACT. The U.S. narrowly avoided a government default in June following months of congressional fighting over spending cuts. Then news that the U.S. Treasury planned to increase the size of its bond sales to help cover the deficit. New data shows that the labor market is still tight despite higher interest rates.[3] Immediately following the Fitch downgrade, U.S. financial markets tumbled. The Nasdaq had its worst day in 5 months, and the Dow closed a full point lower. Standard & Poor's lost 1.38%. A major sell-off, led by the technology sector, followed. Tech stocks like

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[1] Fitch Ratings. Fitch Downgrades the United States' Long-Term Ratings to 'AA+' from 'AAA', Aug. 1, 2023.

[2] Deseret News. Art Raymond, Serial debt limit debacles lead to drop in U.S. government credit rating, Aug. 2, 2023.

[3] Financial Times. Jennifer Hughes, Jaren Kerr, and Daria Mosolova. Undated.

Amazon, Meta, Microsoft, Tesla, Nvidia, and Apple led market declines.[4] It is only the second time in U.S. history that its credit rating has dropped. In 2011, the ratings agency S & P lowered the U.S. AAA rating after a prolonged fight over the government borrowing limit. A lower credit rating raises borrowing costs for the U.S. government. The Government Accounting Office (GAO) in a 2012 report estimated that the 2011 budget standoff raised Treasury borrowing costs by $1.3 billion that year.[5] With the Fed hiking interest rates, the cost of servicing the debt is rising. The recent move by the Bank of Japan to begin the exit of U.S. securities raises concerns about the Japanese appetite for U.S. Treasuries. As a net creditor nation, Japan is a major investor in U.S. Treasuries. With their home bond yields rising, there is less demand for U.S. Treasuries at a time when issuance is rising.[6] It is undeniable that the federal deficit has continued to steadily increase and that gridlock fixates Congress. If the U.S. economy is entering a long-term higher yield and interest rate environment, then the trajectory of deficit spending and debt is likely unsustainable.[7] The GAO saw a growing possibility that the government will miss paying some of its obligations because of the debt ceiling crisis still dragging on. The creditworthiness of the U.S. government in the eyes of rating agencies and investors is key, because it directly affects how much interest the government pays on its debts, which in turn affects rates on all kinds of consumer loans, including mortgages. Whether the debt ceiling crisis pushes borrowing costs down or makes them spike depends on how the standoff unfolds and how markets react. When credit agencies downgrade the debt of a company or bank, that signals to investors that the debt is riskier, and investors in turn demand higher interest rates to compensate them for the increased chance they will not get their money. The target of the downgrade typically must pay higher borrowing costs in future. Treasury yields, mortgage rates, and other interest rates would spike if a prolonged standoff occurs with missed payments, economists at Moody's Analytics said in an analysis. "So many assets are priced in direct relation to U.S. Treasuries that the turbulence from a more pronounced downgrade would be felt in markets worldwide," said Nikolaj Schmidt, chief worldwide economist at T. Rowe Price.[8] Fitch's downgrade means there will begin higher borrowing costs for the government, leading to more widespread financial turmoil. When the threat of a downgrade first arose, National Public Radio reported that it could cause the dollar to weaken, U.S. government bonds seen as riskier, and lead investors to demand higher interest from the U.S., making it more expensive for the U.S. to raise money.[9] As rates stay higher for longer, the Treasury must roll existing debt into higher cost debt, which then becomes a drain on the budget.

HOME BUYERS. Higher mortgage rates make it more difficult for first-time home buyers to buy a house. Also less appealing for buyers who wish to purchase a larger home forced to buy at higher interest rates. Mortgage rates follow the borrowing costs of the federal government. This downgrade means that the government no longer considered the safest asset, so long-term interest rates for homebuyers will continue to rise.[10]

TAKE ACTION NOW. Our national economy is in jeopardy, and we have lost the confidence of our allies in our economy. The reckless Biden Regime economic policies have spiked inflation and ruined our national credit rating, which is causing low business investment, higher interest rates, record deficits, consumer spending tightening, and Wall Street jitters, as a huge recession looms. Using the information above, lobby your congressman and 2 senators to stop Bidenomics from further ruining our economy and to take legislative steps to steady our economic situation here and worldwide. Email netaxpayers@gmail.com for Capitol Hill contact information and join our NTF *President Watch Project*.

[4] CNN Business. Krystal Hur, Elisabeth Buchwald, & Nicole Goodkind, Stocks sink after historic U.S. credit rating downgrade, Aug. 2, 2023.
[5] AP Business. Christopher Rugaber, Fitch downgrades U.S. credit rating, citing mounting debt and political divisions, Aug. 1, 2023.
[6] Charles Schwab. Kathy Jones, Fitch Downgrades U.S. Credit Rating Aug. 2, 2023.
[7] RHAME & GORRELL WEALTH MANAGEMENT, Aug 2, 2023.
[8] Investopedia. Diccon Hyatt, Here's How a U.S. Credit Downgrade Could Affect Your Wallet, May 26, 2023.
[9] Molly Bohannon, Fitch Downgrades U.S. AAA Credit Rating To AA+, Aug. 1, 2023.
[10] Giulia Carbonaro, How Housing Market Will Be Impacted by U.S. Credit Rating Downgrade, undated.