GOP Lost Battle - Won War?

Author : michaelbloomer

http://www.ustreas.gov/offices/domestic-finance/debt-management/quarterly-refunding/04-29-2009/tbac-report.pdf REPORT TO THE SECRETARY OF THE TREASURY FROM THE
TREASURY BORROWING ADVISORY COMMITTEE OF THE SECURITIES INDUSTRY AND FINANCIAL MARKETS ASSOCIATION

Tax receipts are collapsing amid economic malaise. Revenue is down by nearly 14% in the first half of FY09 and April receipts are tracking their weakest level in years. At the same time, public expenditures continue to surge as automatic stabilizers (unemployment compensation, food stamps, etc.) kick in and the government plows resources toward stabilizing financial firms and domestic demand. In sum, fiscal outlays have increased by over 30% on a year over year basis.

The most critical influence in the Treasury market today however, is clearly the need for ongoing issuance related to the current and projected fiscal deficits and future refinancing requirements, plus the oncoming funding requirements for programs such as Medicare, Medicaid and Social Security. In fact, it is these secular financing needs for entitlement spending which once seemed so distant, that has many market participants concerned. The fear is that there may be little reprieve from cyclical financing needs once the economy improves, given the secular forces in front of us.

Last week, the Treasury Borrowing Advisory Committee, a group of industry officials that advises the Treasury on its financing needs, warned about the consequences of higher deficits at a time when tax revenues were “collapsing” by 14 percent in the first half of the fiscal year.

“Given the outlook for the economy, the cost of restoring a smoothly functioning financial system and the pending entitlement obligations to retiring baby boomers,” a report from the committee said, “the fiscal outlook is one of rapidly increasing debt in the years ahead.”

While the real long-term interest rate will not rise immediately, the committee concluded, “such a fiscal path could force real rates notably higher at some point in the future.”

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