



INTERNATIONAL FINANCE

# US debt ceiling and US rating

What the debt ceiling caps, the standoffs it causes, and why the top credit rating was cut

Debt figure as on 14 October 2026; rating actions dated as shown

For training and education only. Not investment advice.

# **The debt ceiling is a cap in law on how much the US government may borrow. It is not a cap on what it spends.**

Congress decides spending and taxes in separate laws. When the two leave a gap, the Treasury borrows to fill it, but only up to the ceiling. Raising the ceiling lets it pay for decisions already made.

# Three terms to fix first



## The debt ceiling

A limit set in law on the total debt the US Treasury may owe. Congress sets it. Wartime borrowing limits began in 1917; one overall limit came in 1939.



## Raise or suspend

Congress can raise the ceiling by a fixed amount, or suspend it for a set period and then reset it higher when that period ends.



## Default

Failing to pay interest or principal on time. A rating downgrade warns that risk has risen; it is not the same as a missed payment.

*Source: U.S. Treasury and Congressional Research Service material on the statutory debt limit (origin 1917).*

# Raise or suspend: the arithmetic

## ASSUMED FIGURES

Suppose the ceiling is \$100 and debt has reached \$100.

Over the next period the Treasury must borrow a further \$8 to pay for bills Congress has already approved.

- 1 Raise by a fixed amount: Congress lifts the ceiling to, say, \$110. The Treasury borrows the \$8 it needs and has \$2 of headroom left.
- 2 Suspend: Congress sets no number for a fixed period. The Treasury borrows what it must, and debt climbs to \$108.
- 3 When the suspension ends, the ceiling is reset to the new debt of \$108, and a fresh standoff can begin from there.
- 4 Either way, the borrowing pays for spending already decided. Lifting the ceiling does not approve new spending.

**Raising or suspending the ceiling funds past decisions. It is not approval of fresh spending.**

*Illustration with assumed round figures in US dollars.*

# Four recent standoffs

| Year | What happened                                                                                | Rating action                       |
|------|----------------------------------------------------------------------------------------------|-------------------------------------|
| 2011 | A long standoff, resolved by the Budget Control Act on 2 August 2011.                        | S&P cut AAA to AA+, 5 Aug 2011      |
| 2013 | A 16-day government shutdown, 1-17 October; the limit was then suspended to 7 February 2014. | No cut; Fitch put AAA on watch      |
| 2023 | The Fiscal Responsibility Act suspended the limit to 1 January 2025.                         | Fitch cut AAA to AA+, 1 Aug 2023    |
| 2025 | Limit reinstated near \$36.1 trillion on 2 January; later raised by \$5 trillion on 4 July.  | Moody's cut Aaa to Aa1, 16 May 2025 |

Sources: U.S. public laws of 2011, 2013, 2023 and 2025 on the debt limit; S&P, Fitch and Moody's sovereign rating releases, dated as shown.

# The three agencies and their downgrades

A credit rating is an agency's opinion on the chance of being repaid in full and on time.

1

**S&P, August 2011**

Cut the US from AAA to AA+, days after the 2011 debt-limit deal. It was the first time the US lost a top rating from a major agency.

2

**Fitch, August 2023**

Cut from AAA to AA+, citing expected fiscal deterioration and repeated last-minute debt-limit standoffs.

3

**Moody's, May 2025**

Cut from Aaa to Aa1, the last of the three to remove its top rating, citing rising debt and interest costs.

*Sources: S&P (5 Aug 2011), Fitch (1 Aug 2023) and Moody's (16 May 2025) sovereign rating releases.*

# Where things stand

The debt total is an official statistic (latest). The ratings are opinions, changed only when an agency acts.

## FEDERAL DEBT

**\$40.3T**

Total public debt outstanding on 14 October 2026 (US Treasury).

## TOP-TIER RATINGS

**0 of 3**

None of the three major agencies now gives the US its top grade.

## DOLLAR IN RESERVES

**56.7%**

US dollar share of global FX reserves, Q2 2026 (IMF COFER).

## DEBT-LIMIT STATUS

**Raised**

Raised by \$5 trillion on 4 July 2025, a fixed increase not a suspension.

Sources: US Treasury 'Debt to the Penny', 14 Oct 2026; IMF COFER release, 30 Sep 2026; S&P, Fitch and Moody's sovereign ratings.

# If you learnt this from older material

## Claims still heard

- A US default is coming and would set off a 2008-style meltdown.
- US government bonds are rated AAA, the top grade.
- A downgrade would force big holders to sell US bonds at once.

## What holds now

- Raised or suspended each time; no payment missed over it since a small 1979 delay.
- All three big agencies have cut the top rating: S&P 2011, Fitch 2023, Moody's 2025.
- A downgrade alone does not force selling; each investor's own mandate rules decide.

**A rating is an opinion on risk. It is not the same as a missed payment.**

*Sources: S&P (2011), Fitch (2023) and Moody's (2025) rating actions; IMF COFER, Q2 2026.*

# Four things people get wrong



**'Hitting the ceiling stops all spending.'**

The ceiling caps new borrowing. The spending was approved in separate laws, so most of it carries on until the cash runs low.



**'A downgrade means the US defaulted.'**

A downgrade is an agency's opinion that risk has risen. Payments have kept being made, bar a small 1979 delay.



**'The ceiling controls the deficit.'**

The deficit is set by tax and spending laws. The ceiling only limits the borrowing that funds the gap.



**'Raising the ceiling is new spending.'**

It lets the Treasury pay bills already run up. It authorises borrowing, not fresh programmes.

*Sources: S&P, Fitch and Moody's rating rationales; U.S. Treasury material on the debt limit.*

# Why this reaches markets everywhere

1

## The benchmark bond

US Treasuries are among the most widely held and traded government bonds. Many other interest rates are quoted as a margin over them.

2

## The main reserve currency

The dollar is the largest single share of central-bank reserves, 56.7% in Q2 2026, so dollar funding matters worldwide.

3

## Risk appetite shifts

A serious standoff can unsettle markets and move money between lower-risk and higher-risk assets, including emerging markets such as India.

4

## No forecast here

We explain the channels. We do not predict any market move, rating decision or policy outcome.

Sources: IMF COFER Q2 2026 (dollar 56.7%); U.S. Treasury remarks on the Treasury market.

# Check yourself

**Q1** A client says 'If the US hits its debt ceiling, the government has to stop spending.' Is that right?

**Q2** Name the three major agencies that have cut the US top rating, and the years.

**Q3** Is a rating downgrade the same as a default?

# Sources and disclaimer

## SOURCES FOR THE FIGURES IN THIS DECK

- Debt limit origin (Second Liberty Bond Act, 1917) and workings: U.S. Treasury and Congressional Research Service material on the statutory debt limit.
- 2011: Budget Control Act (2 Aug 2011); S&P downgrade AAA to AA+ (5 Aug 2011). 2013: 16-day shutdown and suspension to 7 Feb 2014 (Continuing Appropriations Act, 2014).
- 2023: Fiscal Responsibility Act suspended the limit to 1 Jan 2025; Fitch downgrade AAA to AA+ (1 Aug 2023).
- 2025: limit reinstated near \$36.1tn (2 Jan 2025); Moody's downgrade Aaa to Aa1 (16 May 2025); One Big Beautiful Bill Act raised the limit by \$5tn (4 Jul 2025).
- Total public debt \$40.33tn on 14 Oct 2026: U.S. Treasury, 'Debt to the Penny' ([fiscaldata.treasury.gov](https://fiscaldata.treasury.gov)). Dollar 56.7% of global FX reserves, Q2 2026: IMF COFER data brief, 30 Sep 2026.
- All dollar amounts in the worked example are assumed round figures for illustration.

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