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# US shutdown becomes more likely

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**If Congress does not reach an agreement in the next few days, the US government will run out of money on Wednesday. Many agencies that are deemed non-essential would then have to close. Due to extreme political polarization, the situation is particularly complicated this time around. At the moment, a shutdown next week seems very likely.**

## A shutdown looms from Wednesday …

If Congress does not reach an agreement at short notice, many US federal agencies are threatened with closure from Wednesday ("shutdown", see box at the end of this analysis). This is because the new fiscal year begins on October 1 and there is still no proper budget on the basis of which the US federal government could spend money. The Republicans therefore want to pass a short-term funding measure, a so-called continuing resolution, but to do so they need the approval of at least some of the opposition Democrats in the Senate. After all, budget bills require a "supermajority" of 60 senators, but the Republicans only have 53 senators. For being on board, the Democrats are demanding that cuts to health insurance be reversed, which the Republicans in turn reject.

In the past, when faced with shutdown, the opposition has usually caved in and helped to secure bridge financing. This is because in cases where a shutdown did occur, the public always held the party blocking a solution in Congress primarily responsible.

## … and it is becoming difficult to avert it

The difficult political situation makes a shutdown more likely than in recent years. Reaching an agreement with the Democrats was made even more difficult when President Trump canceled a meeting yesterday with the Democratic minority leaders in the Senate (Schumer) and the House of Representatives (Jeffries). The Republicans apparently do not want to negotiate concessions, but instead want to force the Democrats to choose between agreeing to interim financing without conditions or bearing responsibility for a shutdown.

In addition, Republicans, who want to cut federal agencies anyway, seem to see the conflict as an opportunity. They are threatening not only to send some federal employees on temporary forced leave, as usual, but also, according to press reports, to carry out additional mass layoffs in areas that have little to do with the Trump administration's political priorities anyway.

The Democrats also seem to be more willing to engage in conflict than in the past. Their resistance to Trump is already seen as weak, leading many critics to ask when they intend to show determination if not now. Their approval of a continuing resolution when government agencies were already threatened with closure in March was also heavily criticized within their own party.

Players in the betting markets now assign a 70% probability to a government shutdown on October 1 (Chart 1).

**Chart 1 - Prediction markets see a 70% chance of a shutdown**

Probability of a US government shutdown by October 1, daily data in %


Source: Polymarket, Commerzbank Research

## Consequences for the economy and markets

Experience from previous shutdowns shows that the economy is dampened but not derailed, provided that the closure is limited in time. Because ultimately only a small part of the administration and spending is affected, the direct impact on growth has been minor in the past, especially since employees' salaries have always been paid retroactively. The Congressional Budget Office (CBO), for example, **estimates that** the last shutdown at the turn of 2018/19 caused gross domestic product to be 0.2 percentage points lower in the first quarter of 2019. Most of this was later made up for, so the overall effect was negligible. However, if the government follows through on its threats to accelerate staff cuts in the public sector and carry out mass layoffs, the damage could be more severe.

From the perspective of the financial markets, it is important to note that debt servicing would not be affected by a shutdown. Interest payments and repayments on US government bonds would therefore be guaranteed. The payment of old-age pensions and other mandatory benefits would also continue.

On the other hand, statistical agencies such as the Census Bureau (responsible for data such as new orders and housing starts) and the Bureau of Labor Statistics (labor market and price data) would be affected by a shutdown. The publication of the labor market report scheduled for Friday (October 3) would be postponed in the event of a shutdown.

## The debt ceiling is a different beast

Every now and then, the two are lumped together, but the passage of the budget and the debt ceiling are different things. In addition to the budget, i.e., the authorization of government spending, Congress also sets an upper limit for federal debt. Objectively, these two things go hand in hand, because the spending and taxes decided by Congress automatically result in the need to finance the ensuing deficit through new debt (the last budget without a deficit was in 2000). Failure to raise the debt ceiling in time would probably have much more dramatic consequences than a shutdown. Among other things, it would jeopardize the repayment of US government bonds and threaten sovereign bankruptcy.

However, the debt ceiling is not currently an issue. Following an increase in the summer as part of the "One Big Beautiful Bill" legislation, it currently stands at $41.1 trillion (around 135% of GDP). At the end of August 2025, the debt level stood at just under $37.2 trillion. This means that the Treasury Secretary can still take on $3.9 trillion in new debt. For the coming fiscal year, the CBO – the Congressional Budget Office – expects a deficit of around $1.7 trillion. The US government's credit line thus extends well beyond the midterm elections to Congress in November 2026.

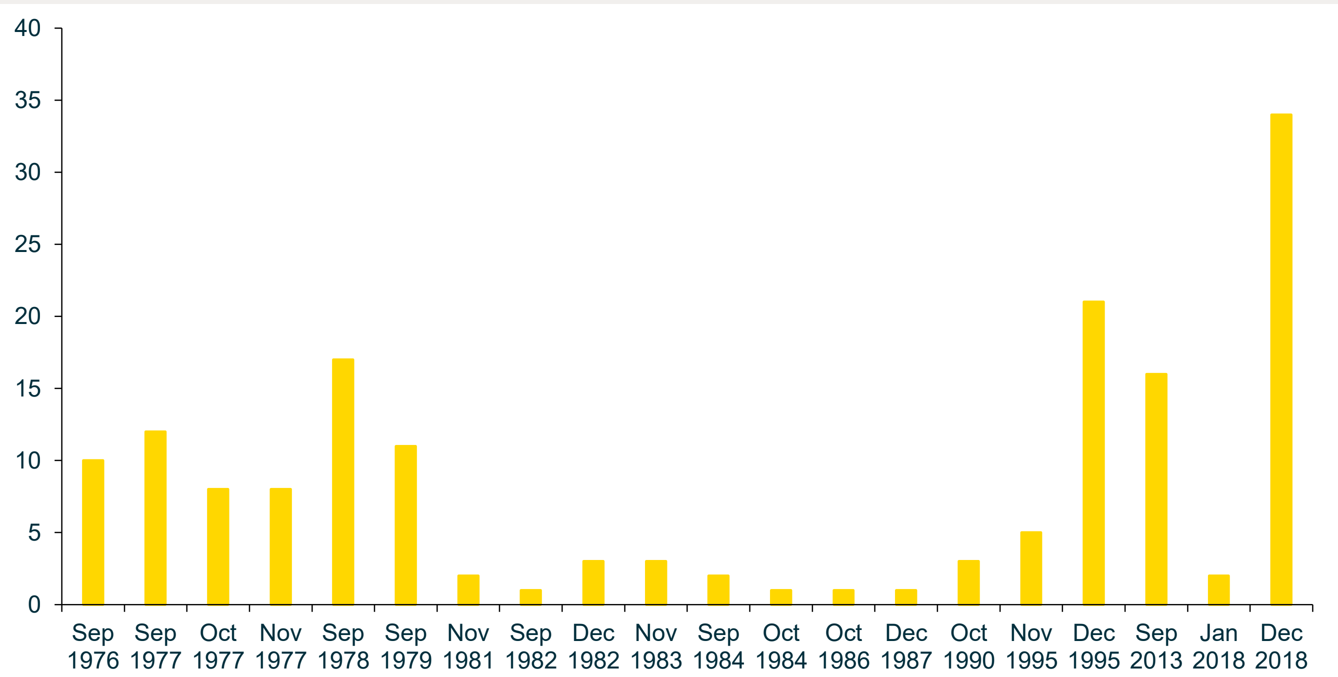
## BOX: Shutdown

US federal government spending must be authorized by Congress. However, over the past half-century, it has rarely been possible to pass the budget in time for the start of the fiscal year on October 1. As a result, short-term bridge financing, known as a "continuing resolution" (CR), is usually used. The current CR expires at the end of the 2025 fiscal year, i.e., at midnight on September 30. If Congress has not agreed on budget financing by midnight on Tuesday, government agencies may be forced to shut down. The last – and longest to date – shutdown ended after 34 days in January 2019 (Chart 2).

Without legal spending authorization, "non-essential" government operations are suspended and government employees are sent on forced leave without pay. However, personnel necessary for central government tasks such as defense or internal security remain on duty without pay. In addition to these "essential" tasks, expenditures stipulated by legal obligations, such as pension payments, also continue.

**Chart 2 - US government's funding gaps**

Appropriations funding gaps, length in days




Source: CRS, House of Representatives, Commerzbank Research

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