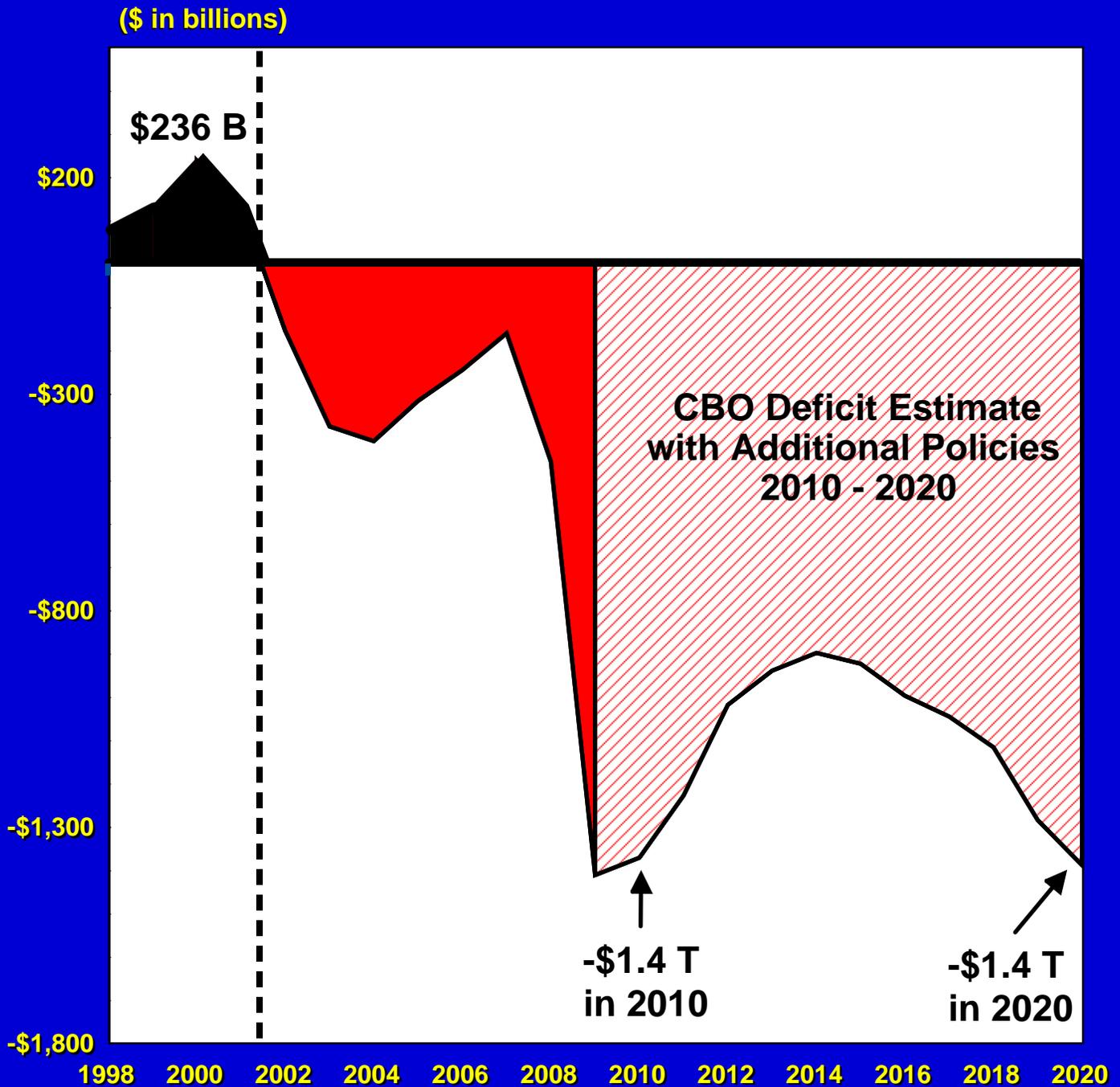


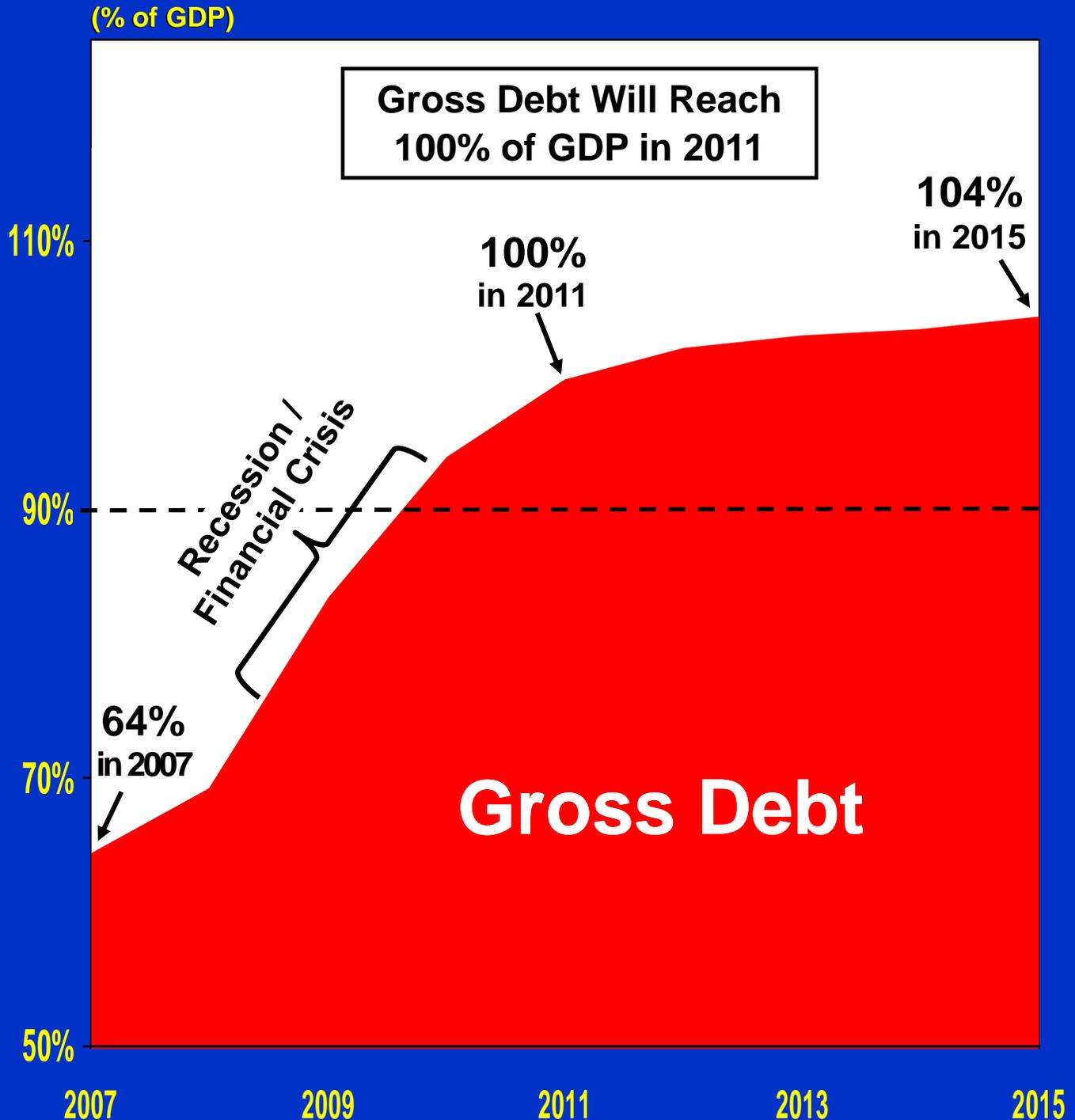
Ten-Year Budget Outlook



Sources: CBO and SBC

Note: CBO's "The Budget and Economic Outlook: Fiscal Years 2010 to 2020," adjusted for alternative policies: extension of 2001 and 2003 tax cuts, traditional tax extenders, AMT reform, and ongoing overseas military operations.

Gross Debt as Percent of GDP



Source: OMB

Note: 2010-2015 gross debt under Obama FY 2011 Budget, as updated in the Mid-Session Review, July 2010.

S&P, Moody's Warn On U.S. Credit Rating Due To Rising Debt

By Mark Brown and Nathalie Boschat

LONDON (Dow Jones)—Two leading credit rating agencies Thursday warned the U.S. on its credit rating, expressing concern over a deteriorating fiscal situation that needs correcting.

Moody's Investors Service Inc. said in a report Thursday that the U.S. will need to reverse an upward trajectory in its debt ratios to support its Aaa rating.

"We have become increasingly clear about the fact that if there are not offsetting measures to reverse the deterioration in negative fundamentals in the U.S., the likelihood of a negative outlook over the next two years will increase," Sarah Carlson, senior analyst at Moody's, told Dow Jones Newswires.

Standard & Poor's Corp. Thursday also didn't rule out changing the outlook for its U.S. sovereign debt rating because of the recent deterioration of the country's fiscal situation.

The U.S. currently has a triple A rating with a stable outlook at both agencies.

"The view of markets is that the U.S. will continue to benefit from the exorbitant privilege linked to the U.S. dollar" to fund its deficits, Carol Sirou, head of S&P France, said at a Paris conference Thursday.

"But that may change. We can't rule out changing the outlook" on the U.S. sovereign debt rating in the future, she warned.

She added the jobless nature of the U.S. recovery was one of the biggest threats to the U.S. economy. "No triple-A rating is forever," she said.

Moody's said the U.S., Germany, France and the U.K. still have debt metrics, including debt affordability—the ratio of interest payments to revenue—compatible with their Aaa ratings at the agency.

But all four countries must bring the future costs arising from pension and healthcare subsidies under control if they "are to maintain long-term stability in their debt burden credit metrics," Moody's said in its regular Aaa Sovereign Monitor report.

Moody's noted that measures were recommended by the U.S. National Commission on Fiscal Responsibility and Reform, appointed by President Obama, to achieve a balanced primary budget by 2015, but that there was insufficient support to trigger consideration of those recommendations by the full Congress.

They included a wide variety of measures, including Social Security reform, cutbacks in the growth of Medicare outlays, elimination or modification of the mortgage interest tax deduction, a gasoline tax and other measures, Moody's said.

"In Moody's view, a plan that would result in a reversal of the upward trajectory in the debt ratios would indeed be supportive of the country's Aaa rating," the ratings agency said in its report. "However, it is unlikely that the Commission's recommendations will be adopted."

The most recent official figures show the ratio of federal debt to revenue averaging 397% of gross domestic product in the period to 2020, while the ratio of interest to revenue will rise to 17.6% by 2020, from 8.6% in the last fiscal year.

These figures are "quite high for an Aaa-rated country," Moody's said. Debt affordability is "very important to the rating process," Carlson said.

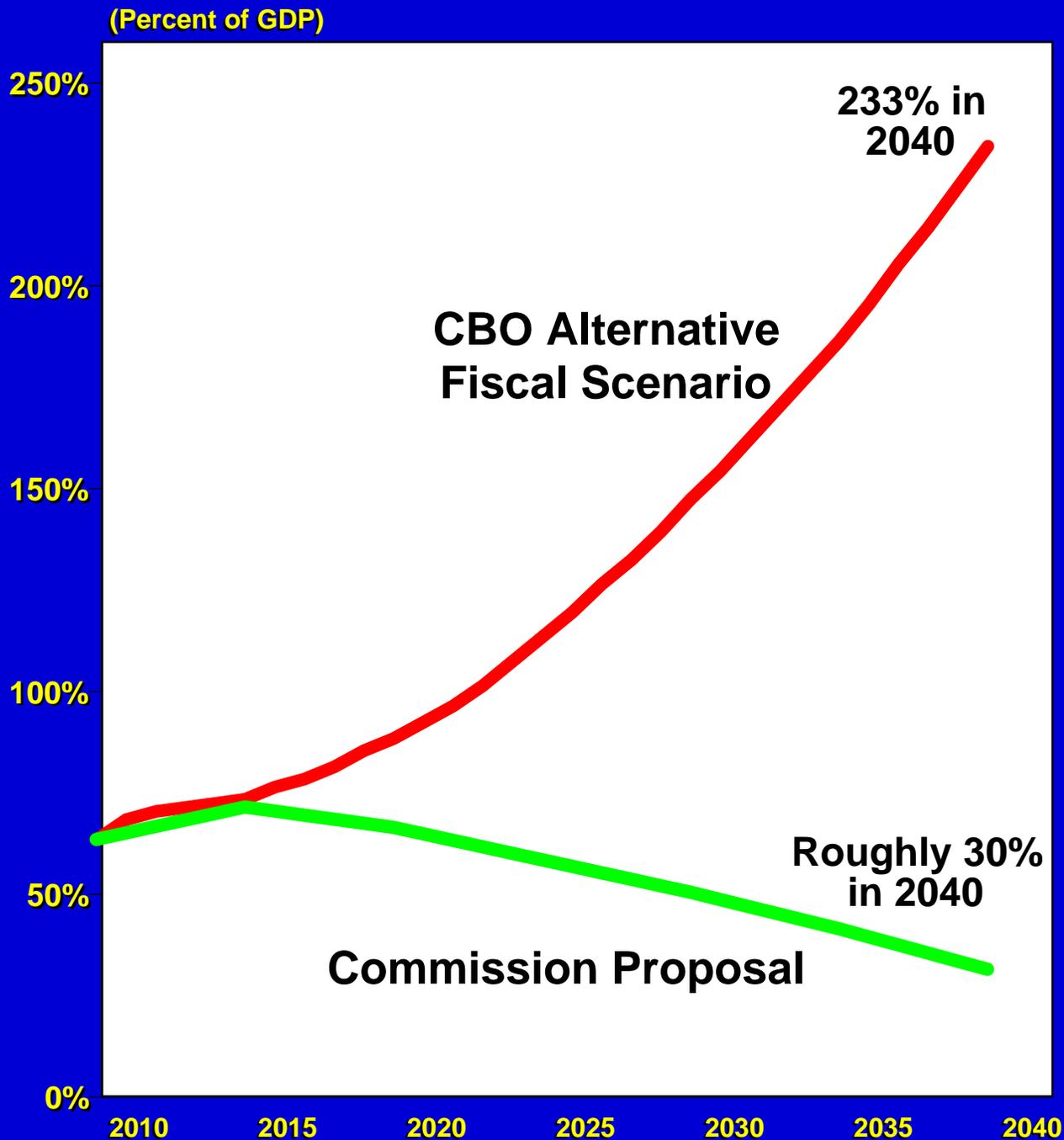
U.S. general government debt affordability, including states and municipalities, is "rising over time to a high level for an Aaa-rated country," the report said.

Fed Chairman Bernanke on Need for Demonstration of Political Will to Address Long-Term Debt

“...[N]obody doubts the United States has the economic capacity to pay its bills. It’s really a question [of] do we have the political will to do that. And demonstration of political will, that’s what the markets are watching. Is the Congress and the public and the Administration – are they able to demonstrate that they are serious and that they have enough willingness to work together to make progress? At the point where confidence is lost ... that [is where] you could see a relatively quick deterioration in financial conditions...”

**– Federal Reserve Chairman Ben S. Bernanke
Testimony before Senate Budget Committee
January 7, 2011**

Debt as Percent of GDP Under Commission Proposal



Source: CBO Long-Term Budget Outlook, June 2010; Report of the National Commission on Fiscal Responsibility and Reform, December 2010