



## Federal Debt and the Statutory Limit, June 2017

The debt limit—commonly referred to as the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public and to other federal agencies. That amount is set by law and has been increased over the years in order to finance the government’s operations. The debt limit was suspended on November 2, 2015; on March 15, 2017, the suspension expired, and the Secretary of the Treasury announced a “debt issuance suspension period.” During such a period, existing statutes allow the Treasury to take a number of “extraordinary measures” to borrow additional funds without breaching the debt ceiling.

The Congressional Budget Office projects that if the debt limit remains unchanged, those measures will be exhausted and the Treasury will most likely run out of cash in early to mid-October. (However, the timing and magnitude of revenues and outlays over the next few months could vary noticeably from CBO’s projections, so those measures could be exhausted and the Treasury could run out of cash earlier or later than CBO projects.) The government would then be unable to pay its obligations fully, so it would have to delay making payments for its programs and activities, default on its debt obligations, or both.

CBO previously projected that the extraordinary measures would be exhausted and the Treasury would run out of cash sometime in the fall.<sup>1</sup> The range of possible dates has narrowed as the budget outlook for this year has become clearer and CBO has increased its estimate of the Treasury’s net borrowing needs. CBO currently projects that the deficit for this year will be \$693 billion, which is \$134 billion more than the agency estimated in

January—though some of that increase is the result of noncash transactions, which do not affect the Treasury’s borrowing needs.<sup>2</sup>

### What Is the Current Situation?

The Bipartisan Budget Act of 2015 (Public Law 114-74) specified that the amount of borrowing that occurred during the suspension of the debt limit would be added to the previous ceiling of \$18.113 trillion. Therefore, on March 16, 2017, the debt limit was reset to \$19.809 trillion to match the amount of outstanding debt. Because the Bipartisan Budget Act did not provide any additional borrowing authority, the Treasury would have had no room to borrow, other than to replace maturing debt, under its standard operating procedures. To avoid breaching the limit, the Treasury has used extraordinary measures that allow it to borrow additional amounts for a limited period. Continued use of all available measures, along with regular cash inflows over the next few months, should allow the Treasury to pay its obligations fully through the end of this fiscal year and possibly early into the next without an increase in the debt ceiling.

### What Makes Up the Debt Subject to Limit?

Debt subject to the statutory limit comprises two main components: debt held by the public and debt held by

1. See Congressional Budget Office, *Federal Debt and the Statutory Limit, March 2017* (March 2017), [www.cbo.gov/publication/52465](http://www.cbo.gov/publication/52465).

2. For more information on CBO’s most recent baseline projections, see Congressional Budget Office, *An Update to the Budget and Economic Outlook: 2017 to 2027* (June 2017), [www.cbo.gov/publication/52801](http://www.cbo.gov/publication/52801). About \$50 billion of the upward revision to the projected deficit for 2017 results from updated estimates by federal agencies of the subsidy costs of certain federal loans and loan guarantees made in previous years; those updates do not affect the Treasury’s borrowing needs. The largest of the updates is a \$40 billion increase that will be recorded by the Department of Education for past student loans.

government accounts.<sup>3</sup> Debt held by the public consists mainly of securities that the Treasury issues to raise cash, which funds federal operations that revenues are insufficient to cover. Such debt is held by outside investors, including the Federal Reserve System. Debt held by government accounts is debt issued to the federal government's trust funds and other federal accounts for internal government transactions; it is not traded in capital markets.<sup>4</sup> Trust funds for Social Security, Medicare, military retirement, and civil service retirement and disability hold most of that debt.

Of the \$19.8 trillion in outstanding debt subject to limit as of May 31, 2017, \$14.3 trillion was held by the public and \$5.5 trillion was held by government accounts.

### What Extraordinary Measures Are Still Available to the Treasury?

The extraordinary measures provide the Treasury with additional room to borrow by limiting the amount of debt that would otherwise be outstanding. The measures taken by the Treasury after March 15, 2017, have consisted of suspending the issuance of new state and local government securities and savings bonds, suspending investments of the Thrift Savings Plan's G Fund, and limiting investments of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF).<sup>5</sup>

The following measures are still available to the Treasury:

- Suspend the investments of the Thrift Savings Plan's G Fund. Otherwise rolled over or reinvested daily, such investments totaled \$37 billion in Treasury securities as of May 31, 2017.
- Suspend investments of the Exchange Stabilization Fund.<sup>6</sup> Otherwise rolled over daily, such investments totaled \$22 billion as of May 31, 2017.

3. For more information on different measures of federal debt, see Congressional Budget Office, *Federal Debt and Interest Costs* (December 2010), [www.cbo.gov/publication/21960](http://www.cbo.gov/publication/21960).

4. See "Debt Issuance: Government Account Series" on page 3.

5. The Thrift Savings Plan is a retirement program for federal employees and members of the uniformed services; it is similar to a 401(k) plan. The G Fund is one component of the plan and is invested solely in Treasury securities.

6. The Exchange Stabilization Fund is operated by the Department of the Treasury for the purpose of stabilizing exchange rates.

- For the CSRDF and the PSRHBF, suspend the issuance of new securities (which total about \$3 billion each month), the reinvestment of maturing securities (expected to amount to \$71 billion on June 30, 2017), semiannual interest payments (expected to total \$14 billion on June 30, 2017), and amortization and other payments from the general fund (expected to total \$38 billion on September 30, 2017).
- Redeem, in advance, securities held by the CSRDF and the PSRHBF in amounts equal in value to benefit payments due in the near future. Such payments total about \$8 billion per month.
- Suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds. Between \$5 billion and \$12 billion in SLGS securities and savings bonds are generally issued each month.<sup>7</sup>
- Exchange Federal Financing Bank securities, which do not count against the debt limit, for Treasury securities held by the CSRDF.<sup>8</sup> Approximately \$2 billion in securities could be exchanged as of May 31, 2017.

By statute, the CSRDF, the PSRHBF, and the G Fund would eventually be made whole (with interest) after the debt limit was raised.<sup>9</sup>

### What Is the Upcoming Schedule for Cash Flows and Debt Issuance?

Over the next several months, the amount that the Treasury will need to borrow, using its extraordinary measures, will depend on different factors for the two main components of the debt. The amounts of cash flowing to and from the government will determine how much needs to be borrowed from the public and when that

7. The Treasury offers SLGS securities to state and local governments as part of its regulation of their issuance of tax-exempt securities.

8. The Federal Financing Bank (FFB), a government corporation under the general supervision of the Secretary of the Treasury, has the authority to issue up to \$15 billion of its own debt securities; that amount does not count against the debt limit. As of May 31, 2017, outstanding FFB debt securities totaled approximately \$13 billion. The remaining \$2 billion that the FFB is authorized to use can be exchanged with Treasury securities held by the CSRDF.

9. For more information on extraordinary measures and actions taken after a debt limit increase, see Government Accountability Office, *Debt Limit: Analysis of 2011–2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs*, GAO-12-701 (July 2012), [www.gao.gov/products/GAO-12-701](http://www.gao.gov/products/GAO-12-701).

borrowing must occur. Transactions between the Treasury and other parts of the federal government, mostly reflecting the net cash inflows of a few large trust funds, will establish the amount of debt held by government accounts.

### Federal Cash Flows

Certain large flows of cash into and out of the Treasury follow a regular schedule. That schedule directly affects the amount of borrowing from the public, the largest component of debt subject to limit. The following are typical payment dates and amounts for large government expenditures (although the actual date of a disbursement may shift by a day or two in either direction if the normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans—the first day of the month (about \$23 billion);
- Social Security benefits—the third day of the month (about \$23 billion), with subsequent smaller payments on three Wednesdays per month (about \$15 billion each);
- Pay for active-duty members of the military and benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income—the first day of the month (about \$25 billion); and
- Interest payments—around the 15th and the last day of the month (amounts vary).

Deposits into the Treasury (mostly tax revenues) are relatively steady throughout each month except for a few dates on which tax receipts are particularly large. The largest upcoming quarterly deposits are for corporate and individual taxes in September. Last year, for example, corporate income tax payments totaled about \$60 billion in mid-September, and individual income tax payments were about \$70 billion.

### Debt Issuance: Treasury Auctions

The Treasury issues numerous securities to obtain funds that pay off maturing securities and finance government activities. Those securities, which have various maturities, are normally issued in regularly scheduled auctions (although the date of issuance may shift by a day or two in either direction if the normal issuance date falls on a weekend or federal holiday):

- Treasury bills (with maturities of up to 52 weeks) are issued every Thursday. Sales in recent auctions have ranged from a total of \$89 billion to \$156 billion.
- Treasury notes (which currently have maturities of 2 to 10 years and which include inflation-protected securities) are issued on the 15th and on the last day of the month. Sales in recent auctions on the 15th have averaged about \$50 billion, and those on the last day of the month have totaled as much as \$133 billion.
- Treasury bonds (with 30-year maturities) are issued in the middle of each month. Sales in recent auctions have ranged from \$12 billion to \$20 billion. Also, inflation-protected securities with 30-year maturities are issued at the end of the month in February, June, and October; sales in recent auctions have ranged from \$5 billion to \$8 billion.

### Debt Issuance: Government Account Series

Debt held by government accounts—in the form of Government Account Series (GAS) securities—is dominated by the transactions of a few large trust funds. When a trust fund receives cash that is not immediately needed to pay benefits or to cover the relevant program's expenses, the Treasury credits the trust fund with that income by issuing GAS securities to the fund. The Treasury then uses the cash to finance the government's ongoing activities. When revenues for a trust fund program fall short of its expenses, the reverse happens: The Treasury redeems some of the GAS securities. The crediting and redemption of securities between the Treasury and trust funds are intragovernmental in nature but directly affect the amount of debt subject to limit.

On many days, the amount of outstanding GAS securities does not change much. However, that amount can fall noticeably when redemptions occur to reflect the payment of benefits for programs such as Social Security and Medicare. The Treasury normally offsets the redemption of GAS securities, which reduces the amount of debt subject to limit, by additional borrowing from the public to obtain the cash necessary to make actual payments.

The amount of outstanding GAS securities can also rise noticeably when other transactions occur between the Treasury and trust funds. For example, the Treasury will make a large payment at the start of the fiscal year to the Military Retirement Trust Fund to compensate

for the difference between the current assets held by the fund and the present value of expected benefit payments. (Those payments amounted to \$81 billion on October 3, 2016.) In addition, most GAS securities pay interest to the funds holding them, and those payments are reinvested (if they are not needed to pay current benefits) in the form of additional securities. Many large trust funds—including those associated with the Social Security and Medicare programs—receive interest payments on June 30 and December 31. (For example, payments to trust funds other than the CSRDF during 2016 amounted to about \$50 billion on each of those days; one of the extraordinary measures available to the Treasury is to suspend interest payments to the CSRDF.) Although those transactions are all intragovernmental, they nevertheless increase debt subject to limit.

### When Would the Extraordinary Measures and Cash Run Out, and What Would Happen Then?

If the debt limit is not increased above the amount that was established on March 16, 2017, the Treasury will not be authorized to issue additional debt that increases the amount outstanding. (It will be able to issue additional debt only in the amount of maturing debt or the amounts cleared by taking extraordinary measures.) That restriction would ultimately lead to delays of payments for government programs and activities, a default on the

government's debt obligations, or both.<sup>10</sup> CBO estimates that without an increase in the debt limit, the Treasury, by using all available extraordinary measures, would most likely be able to continue borrowing and have sufficient cash to make its usual payments until early to mid-October of this year.

The Congressional Budget Office prepared this report in response to interest expressed by the Congress; it is an update to *Federal Debt and the Statutory Limit, March 2017*. In keeping with CBO's mandate to provide objective, impartial analysis, the report contains no recommendations.

Meredith Decker of CBO's Budget Analysis Division prepared the report with guidance from Theresa Gullo and Jeffrey Holland. Wendy Edelberg, Mark Hadley, and Robert Sunshine reviewed it, Benjamin Plotinsky edited it, and Casey Labrack prepared it for publication. The report is available on the agency's website ([www.cbo.gov/publication/52837](http://www.cbo.gov/publication/52837)).



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10. For more information on debt-management challenges and the debt limit, see Government Accountability Office, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches*, GAO-15-476 (July 2015), [www.gao.gov/products/GAO-15-476](http://www.gao.gov/products/GAO-15-476).