



# Federal Debt and the Statutory Limit, September 2021

SEPTEMBER | 2021

**T**he debt limit—commonly called the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public or to other federal agencies.

The amount is set by law and has been increased over the years to finance the government’s operations. The Bipartisan Budget Act of 2019 (Public Law 116-37) suspended that limit until July 31, 2021. On August 1, the debt limit was reset to \$28.4 trillion; on the following day, the Treasury announced a “debt issuance suspension period” during which, under current law, it may take “extraordinary measures” to borrow additional funds without breaching the debt ceiling.

The Congressional Budget Office projects that, if the debt limit remains unchanged, the Treasury’s ability to borrow using extraordinary measures will be exhausted, and it will most likely run out of cash near the end of October or the beginning of November, consistent with CBO’s prior estimate.<sup>1</sup> If that occurred, the government would be unable to pay its obligations fully, and it would delay making payments for some activities, default on its debt obligations, or both.

The timing and amount of revenue collections and outlays over the next few weeks are especially uncertain, given the magnitude of outlays related to the 2020–2021 coronavirus pandemic and for disaster relief, and could differ from CBO’s projections. Therefore, the extraordinary measures could be exhausted and the Treasury could run out of cash earlier or later than CBO projects.

## What Is the Current Situation?

P.L. 116-37 specified that the amount of borrowing that occurred during the suspension of the debt limit would be added to the previous ceiling of \$22.0 trillion. On August 1, 2021, the debt limit was reset to \$28.4 trillion to match the amount of outstanding debt.

Because P.L. 116-37 did not provide any additional borrowing authority, the Treasury currently has no room to borrow under its standard operating procedures other than to replace maturing debt. To avoid breaching the limit, the Treasury uses the extraordinary measures that allow it to continue to borrow additional amounts for a limited time. Continued use of those measures, along with regular cash inflows, should allow the Treasury to finance the government’s activities for about another month without an increase in the debt ceiling or default.

## What Constitutes Debt Subject to the Statutory Limit?

Debt subject to the statutory limit (commonly referred to as debt subject to limit) consists of debt held by the public and debt held by government accounts.<sup>2</sup> Debt held by the public is mostly in securities that the Treasury issues to raise cash to fund operations that cannot be covered by federal revenues. Such debt is held by outside investors, including the Federal Reserve System. Debt held by government accounts is issued to the federal government’s trust funds and other federal accounts for internal transactions; it is not traded in capital markets. Trust funds for Social Security, Medicare, military retirement, and civil service retirement and disability hold most of that debt.

1. See Congressional Budget Office, *Federal Debt and the Statutory Limit, July 2021* (July 2021), [www.cbo.gov/publication/57152](http://www.cbo.gov/publication/57152).

2. For more information about different measures of federal debt, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), [www.cbo.gov/publication/56165](http://www.cbo.gov/publication/56165).

As of August 31, 2021, \$22.2 trillion of the \$28.4 trillion in outstanding debt subject to limit was held by the public (including the Federal Reserve); \$6.2 trillion was held by government accounts.

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

Since August 1, 2021, the Treasury's extraordinary measures 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, limiting investments of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF), and suspending interest payments to those two funds.

During the coming weeks, the Treasury could take any of the following measures:

- Continue to suspend investments of the Thrift Savings Plan's G Fund. Otherwise rolled over or reinvested daily, those investments totaled \$20 billion in Treasury securities as of August 31, 2021.
- Suspend investments of the Exchange Stabilization Fund.<sup>3</sup> Otherwise rolled over daily, such investments totaled \$23 billion as of August 31, 2021.
- Suspend the issuance of new securities for the CSRDF and the PSRHBF, which total about \$3 billion each month.
- Redeem, in advance, securities held by the CSRDF and the PSRHBF in amounts equal in value to benefit payments that are due in the near future. CBO estimates that such payments amount to about \$7 billion per month, and an annual payment of about \$48 billion is scheduled for September 30, 2021.
- Exchange Federal Financing Bank securities, which do not count against the debt limit, for Treasury securities held by the CSRDF.<sup>4</sup> Approximately \$9 billion in securities was available to be exchanged as of August 31, 2021.

3. The Exchange Stabilization Fund is operated by the Treasury to stabilize exchange rates.

4. The Federal Financing Bank (FFB), a government corporation under the general supervision of the Secretary of the Treasury, can issue up to \$15 billion of its own debt securities; that amount does not count against the debt limit. As of August 31, 2021, such outstanding debt securities totaled \$6.1 billion. The remaining \$8.9 billion that the FFB can issue could be exchanged for Treasury securities held by the CSRDF.

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt that otherwise would be outstanding.<sup>5</sup> By statute, the CSRDF, the PSRHBF, and the G Fund would eventually be made whole (with interest) after the debt limit was raised.

The Treasury's cash balance can also extend the time that the department is able to continue financing government operations without issuing debt. On August 31, 2021, the Treasury had more than \$350 billion in cash. That balance, combined with the room made available for borrowing by taking the measures listed above, should allow the Treasury to finance the government's normal operations until sometime around the end of October or the beginning of November without an increase in the debt ceiling.

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

Over the coming months, the size and timing of governmental cash flows, as well as transactions between the Treasury and other parts of the government, will determine the point at which the extraordinary measures would be exhausted.

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

- Payments to Medicare Advantage and Medicare Part D plans (about \$35 billion) are made on the first day of the month.
- Social Security benefits (about \$22 billion) are disbursed on the third day of the month, and

5. In addition to taking those measures, the Treasury has stopped issuing State and Local Government Series securities. That suspension does not provide additional borrowing capacity but allows the Treasury to substitute one form of public debt for another.

subsequent payments (about \$20 billion each) are made on three Wednesdays each month.

- A large share of the pay for active-duty members of the military and most benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income (about \$25 billion) are disbursed on the first day of the month.
- Interest payments (amounts vary) are made around the 15th and the last day of the month.
- On October 1, 2021, the Treasury is required to make an amortization payment of \$114 billion toward the unfunded liability of the Department of Defense's Military Retirement Trust Fund.

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. Corporate income taxes are paid quarterly; the most recent payments were received in mid-September.

### **When Would the Extraordinary Measures and Cash Be Exhausted, and What Would Happen Then?**

CBO estimates that unless the debt limit is increased, the Treasury—after using all available extraordinary measures—will probably be unable to make its usual payments starting in late October or early November, although an earlier or later date is possible. After that point, the debt limit would cause delays of payments for some government activities, a default on the government's debt obligations, or both.<sup>6</sup>

If the debt limit is not raised above the amount established on August 1, 2021, the Treasury will not be authorized to issue additional debt that increases the amount outstanding. (It would be able to issue additional debt only in amounts equal to those resulting from maturing debt or cleared by taking the extraordinary measures.) That restriction would ultimately lead to delays of payments for some government activities, a default on the government's debt obligations, or both.

The Congressional Budget Office prepared this report in response to interest expressed by the Congress; it is an update to a series of reports about federal debt and the statutory limit, the previous editions of which are available at <https://go.usa.gov/xnfS3>. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Avi Lerner prepared the report with guidance from Christina Hawley Anthony and Theresa Gullo. Robert Sunshine reviewed the report, Rebecca Lanning and Loretta Lettner were the editors, and Jorge Salazar was the graphics editor. The report is available on CBO's website ([www.cbo.gov/publication/57493](http://www.cbo.gov/publication/57493)).

CBO seeks feedback to make its work as useful as possible. Please send any comments to [communications@cbo.gov](mailto:communications@cbo.gov).



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6. For more information about the challenges of managing federal debt 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).