The 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. Currently, there is no statutory limit on the issuance of new federal debt because the Bipartisan Budget Act of 2019 (Public Law 116-37), enacted in August 2019, suspended the limit through July 31, 2021. On August 1, 2021, the debt limit will be reset to the previous ceiling of $22.0 trillion, plus the cumulative borrowing that occurred during the period of suspension. Unless additional legislation either extends the suspension or increases the limit, existing statutes will allow the Treasury to declare a “debt issuance suspension period” and to take “extraordinary measures” to borrow additional funds for a period of time without breaching the debt ceiling.

The Treasury’s cash balance and those extraordinary measures would enable it to continue financing the government’s activities for a while. However, if the debt limit remained unchanged, the ability to borrow using those measures would ultimately be exhausted, and the Treasury would probably run out of cash sometime in the first quarter of the next fiscal year (which begins on October 1, 2021), most likely in October or November, the Congressional Budget Office estimates. If that occurred, the government would be unable to pay its obligations fully, and it would delay making payments for its activities, default on its debt obligations, or both.

The timing and size of revenue collections and outlays over the coming months could differ noticeably from CBO’s projections. Therefore, the extraordinary measures could be exhausted, and the Treasury could run out of cash, either earlier or later than CBO projects.

What Is the Current Situation?
P.L. 116-37 specifies that the amount of borrowing that occurs during the suspension of the debt limit will be added to the previous ceiling of $22.0 trillion. As of June 30, 2021, an additional $6.5 trillion had been borrowed, bringing the amount of outstanding debt subject to the statutory limit to $28.5 trillion. The new debt limit, which will be established on August 1, 2021, will reflect additional borrowing through July 31.

If the current suspension is not extended or if a higher debt limit is not legislated before August 1, from that date forward, under normal procedures, the Treasury will have no room to borrow other than to replace maturing debt. To avoid breaching the limit, the Treasury would then begin to take the extraordinary measures that, along with cash inflows, should allow it to finance the government’s activities for a limited time without an increase in the debt ceiling.

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. Debt held by the public is mostly in securities that the Treasury issues to raise cash to fund operations that

Note: All years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

1. For more information about different measures of federal debt, see Congressional Budget Office, Federal Debt: A Primer (March 2020), www.cbo.gov/publication/56165.
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 (see “Debt Issuance: Government Account Series”). Trust funds for Social Security, Medicare, military retirement, and civil service retirement and disability hold most of that debt.

As of June 30, 2021, $22.3 trillion of the $28.5 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 Available to the Treasury?

Unless legislation is enacted to raise or suspend the debt limit, the Treasury must take extraordinary measures to continue funding government activities after August 1, 2021. Even then, such measures will be available only for a limited time.

After the debt limit is reinstated, the Treasury could take the following measures:

- Suspend the investments of the Thrift Savings Plan’s G Fund. Otherwise rolled over or reinvested daily, as of June 30, 2021, those investments totaled nearly $300 billion in Treasury securities.

- Suspend investments of the Exchange Stabilization Fund. Otherwise rolled over daily, as of June 30, 2021, such investments totaled $23 billion.

- Suspend the issuance of new securities for the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHB), which usually total about $3 billion each month.

- Redeem, in advance, securities held by the CSRDF and the PSRHB in amounts equal in value to benefit payments that are due in the near future. Such payments are usually valued at about $8 billion per month, with an annual payment of about $45 billion scheduled for October 1, 2021, CBO estimates.

- Exchange Federal Financing Bank securities, which do not count against the debt limit, for Treasury securities held by the CSRDF. Approximately $8 billion in securities was available to be exchanged as of June 30, 2021.

Those measures would provide the Treasury with additional room to borrow by limiting the amount of Treasury debt that would otherwise be outstanding. By law, the CSRDF, the PSRHB, and the G Fund would eventually be made whole (including accrued interest) after the debt limit was raised.

A large cash balance could also extend the time the Treasury has to continue financing government operations without issuing debt. On June 30, 2021, the Treasury had more than $850 billion in cash—less than half of the $1.8 trillion it had at the beginning of the fiscal year but still very high by historical standards. The Treasury projects that the balance will decrease to $450 billion at the end of July, which, combined with the measures listed above, should allow the Treasury to finance the government’s normal operations until sometime in the first quarter of fiscal year 2022 without an increase in the debt ceiling.

What Is the Schedule for Cash Flows and Debt Issuance?

Over the next several 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.

Federal Cash Flows

From July through September, CBO estimates, federal revenues and outlays will total $786 billion and $1,551 billion, respectively. (Some of that difference will be covered by drawing down cash balances.) Certain large flows of cash into and out of the Treasury follow a

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

3. 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 June 30, 2021, such outstanding debt securities totaled $6.1 billion. The remaining $8.4 billion that the FFB could issue can be exchanged for Treasury securities held by the CSRDF.

4. In addition to taking those measures, the Treasury could stop issuing State and Local Government Series securities. Such a suspension, however, would not provide additional borrowing capacity for the Treasury; it would simply allow the Treasury to substitute one form of public debt for another.
Payments to Medicare Advantage and Medicare Part D plans are made on the first day of the month (about $35 billion).  

Social Security benefits are disbursed on the third day of the month (about $22 billion), with subsequent payments on three Wednesdays each month (about $20 billion each).  

A large share of the pay for active-duty members of the military and the vast majority of benefit payments for civil service and military retirees, veterans, and recipients of Supplemental Security Income are disbursed on the first day of the month (about $25 billion).  

Interest payments are made around the 15th and the last day of the month (amounts vary).

Deposits into the Treasury (mostly in the form of 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, with the next payments due in mid-September.

Debt Issuance: Treasury Auctions
The Treasury issues numerous securities to obtain funds to pay off maturing securities and finance government activities. Those securities, which have various maturities, are normally issued in regularly scheduled auctions (although the actual 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). Under current law, the federal government will borrow $2.2 trillion in fiscal year 2021, CBO estimates.  

Treasury bills (with maturities of up to 52 weeks) are typically issued every Tuesday and Thursday. Recent weekly sales have averaged about $250 billion.  

Treasury notes (which currently have maturities of 2 years 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 $115 billion, and those on the last day of the month have averaged more than $260 billion.  

Treasury bonds with 20-year maturities are issued at the end of each month, whereas those with 30-year maturities are issued in the middle of each month. Sales in recent auctions for each type have been about $30 billion. Inflation-protected securities with 30-year maturities are issued at the end of February and August. Sales in recent auctions have ranged from $8 billion to $9 billion.

Debt Issuance: Government Account Series
Debt held by government accounts—in the form of Government Account Series (GAS) securities—is mostly determined 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 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 expenses, the reverse happens: The Treasury redeems some of the GAS securities. The crediting and redemption of securities are intragovernmental transactions between the Treasury and trust funds, but both 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 because of the payment of benefits under 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 borrowing additional amounts from the public to obtain the cash necessary to make benefit payments. In addition, most GAS securities

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5. When the first day of a month falls on a weekend, those payments are made on the last business day of the prior month. In this case, because August 1, 2021, is a Sunday, Medicare payments (and certain other payments) for August will be made on Friday, July 30, before the reinstatement of the debt ceiling.

6. For more information about CBO’s most recent baseline projections, see Congressional Budget Office, An Update to the Budget and Economic Outlook: 2021 to 2031 (July 2021), www.cbo.gov/publication/57218, and Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031 (July 2021), www.cbo.gov/publication/57263. Over the first nine months of fiscal year 2021, the total federal debt subject to limit increased by $1.6 trillion.
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.\textsuperscript{7}

**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 sometime in the first quarter of the new fiscal year, most likely in October or November, although an earlier or later date is possible. After that point, the debt limit would cause delays of payments for government activities, a default on the government’s debt obligations, or both.\textsuperscript{8}

\textsuperscript{7} Many large trust funds—including those for Social Security and Medicare—receive interest payments on June 30 and December 31, dates that fall outside the period of the current analysis. Although those transactions are intragovernmental, they nevertheless increase debt subject to limit.