Congressional Budget Office

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Federal Debt and the Statutory Limit, January 2018

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. The limit was suspended on September 8, 2017. On December 8, 2017, that suspension expired, and the Secretary of the Treasury announced a "debt issuance suspension period" during which existing statutes allow the Treasury to 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 ability to borrow using extraordinary measures will be exhausted and the Treasury will most likely run out of cash in the first half of March 2018. 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 of outlays over the next few weeks could differ noticeably from CBO's projections, however, so the extraordinary measures could be exhausted and the Treasury could run out of cash either earlier or later than CBO projects.)

CBO previously projected that the extraordinary measures would be exhausted and the Treasury would run out of cash sometime in late March or early April 2018.[1] After incorporating the anticipated effects of recent tax legislation and actual spending and revenue amounts in December into its calculations, CBO now projects the range of possible dates as falling earlier in March.

1. See Congressional Budget Office, *Federal Debt and the Statutory Limit, November 2017* (November 2017), www.cbo.gov/publication/53336.

Because the tax legislation reduced individual income taxes for most taxpayers, the Internal Revenue Service released new income tax withholding tables for employers to use beginning no later than the middle of February 2018. As a result of those changes, CBO now estimates that, starting in February, withheld amounts of individual income taxes will be roughly $10 billion to $15 billion per month less than anticipated before the new law was enacted. Consequently, withheld receipts are expected to be less than the amounts paid in the comparable period last year. In addition, the government ran a deficit of $23 billion in December, and it normally runs a deficit in the second quarter of the fiscal year.

What Is the Current Situation?

The Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (Public Law 115-56), specified that the amount of borrowing that occurred during the suspension of the debt limit would be added to the previous ceiling of $19.8 trillion. On December 9, 2017, the debt limit was reset to $20.5 trillion to match the amount of outstanding debt.

Because P.L. 115-56 did not provide any additional borrowing authority, under its standard operating procedures, the Treasury currently has no room to borrow 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 over the next few months, should allow the Treasury to finance the government's activities for a few weeks without an increase in the debt ceiling.

Note: Unless otherwise indicated, 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. Numbers may not sum to totals because of rounding.

What Makes Up Debt Subject to Limit?

Debt subject to the statutory limit consists of debt held by the public and debt held by government accounts.[2] Debt held by the public consists mostly of 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 (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 January 2, 2018, $14.8 trillion of the $20.5 trillion in outstanding debt subject to limit was held by the public; $5.7 trillion was held by government accounts.

What Extraordinary Measures Are Still Available to the Treasury?

Since December 8, 2017, 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, and limiting investments and suspending interest payments of the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF).

During the next few weeks, several measures are available:

- Continue to suspend the investments of the Thrift Savings Plan's G Fund. Otherwise rolled over or reinvested daily, those investments totaled $69 billion in Treasury securities as of December 31, 2017.
- Suspend the investments of the Exchange Stabilization Fund.[3] Otherwise rolled over daily, such investments totaled $22 billion as of December 31, 2017.
- Continue to 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. Such payments are valued at about $8 billion per month.
- Continue to suspend the issuance of new State and Local Government Series (SLGS) securities and savings bonds. In general, SLGS securities and savings bonds valued between $5 billion and $12 billion are issued each month.[4]
- Exchange Federal Financing Bank securities, which do not count against the debt limit, for Treasury securities held by the CSRDF.[5] Approximately $3.5 billion in securities was available to be exchanged as of December 31, 2017.

Those measures provide the Treasury with additional room to borrow by limiting the amount of debt that would otherwise be outstanding. By statute, the CSRDF, the PSRHBF, and the G Fund would eventually be made whole (with interest) after the debt limit was raised.[6]

What Is the Schedule for Cash Flows and Debt Issuance?

Over the next few weeks, the size and timing of governmental cash flows and transactions between the Treasury and other parts of the government will determine the point at which the extraordinary measures will be exhausted.

Federal Cash Flows

Certain large flows of cash into and out of the Treasury follow a regular schedule that directly affects the amount

2. 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.

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

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

5. 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 December 31, 2017, such outstanding debt securities totaled approximately $11.5 billion. The remaining $3.5 billion in securities that the FFB could issue can be exchanged for Treasury securities held by the CSRDF.

6. 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.

of federal 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 a normal payment date falls on a weekend or federal holiday):

- Payments to Medicare Advantage and Medicare Part D plans are made on the first day of the month (about $24 billion).
- Social Security benefits are disbursed on the third day of the month (about $23 billion), with subsequent smaller payments on three Wednesdays each month (about $16 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 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).
- Most refunds are typically made to individual taxpayers during February and March (about $211 billion in 2017, including outlays for refundable tax credits), with lesser amounts refunded in April and May.

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. However, CBO does not anticipate that the extraordinary measures would allow the Treasury to finance the government's activities until the next of those dates—in mid-April when large deposits of corporate and individual taxes are made—unless the debt ceiling is increased or suspended.

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 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 typically issued every Thursday. Sales in recent auctions have ranged from a total of $123 billion to $160 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 $47 billion, and those on the last day of the month have totaled as much as $127 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 $17 billion. Inflation-protected securities with 30-year maturities also are issued at the end of 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 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 as a result 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 additional borrowing from the public to obtain the cash necessary to make benefit payments.

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

If the debt limit is not raised above the amount established on December 9, 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 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 government activities, a default on the government's debt obligations, or both.[7] CBO estimates that unless the debt limit is increased, by using all available extraordinary measures, the Treasury will probably have sufficient cash to make its usual payments until sometime in the first half of March 2018, although an earlier or later date is possible.

7. 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.

The Congressional Budget Office prepared this report in response to interest expressed by the Congress; it updates *Federal Debt and the Statutory Limit, November 2017*. Previous editions are available at https://go.usa.gov/xnfS3. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Meredith Decker prepared the report with guidance from Theresa Gullo and Christina Hawley Anthony.

Robert Sunshine reviewed the report, Kate Kelly edited it, and Casey Labrack prepared it for publication. An electronic version is available on the agency's website, www.cbo.gov/publication/53514.

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