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Federal Debt and the Statutory Limit, May 2023

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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 or suspended over the years to allow for the additional borrowing needed to finance the government's operations. On December 16, 2021, lawmakers raised the debt limit by $2.5 trillion to a total of $31.4 trillion.[1] On January 19, 2023, that limit was reached, and the Treasury announced a "debt issuance suspension period" and began using well-established "extraordinary measures" to borrow additional funds without breaching the debt ceiling.

The Congressional Budget Office projects that if the debt limit remains unchanged, there is a significant risk that at some point in the first two weeks of June, the government will no longer be able to pay all of its obligations. The extent to which the Treasury will be able to fund the government's ongoing operations will remain uncertain throughout May, even if the Treasury ultimately runs out of funds in early June. That uncertainty exists because the timing and amount of revenue collections and outlays over the intervening weeks could differ from CBO's projections.

If the debt limit is not raised or suspended before the Treasury's cash and extraordinary measures are exhausted, the government will have to delay making payments for some activities, default on its debt obligations, or both.[2] If the Treasury's cash and extraordinary measures are sufficient to finance the government until June 15, expected quarterly tax receipts and additional extraordinary measures will probably allow the government to continue financing operations through at least the end of July.

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.[3] Debt held by the public is mostly in the form of securities that the Treasury issues to raise cash to fund operations that cannot be fully paid for with federal revenues. Such debt is held by individual investors, the Federal Reserve System, mutual funds, financial institutions, and foreign governments. Debt held by government accounts is issued to the federal government's trust funds and other federal accounts for internal transactions. Trust funds for Social Security, military retirement, civil service retirement and disability, and Medicare account for most of that debt.

Of the total amount of outstanding debt subject to the statutory limit, about three-quarters is debt held by the public; the remaining one-quarter is debt held by government accounts.

What Resources Are Available to the Treasury?

Until lawmakers enact legislation to raise or suspend the debt limit, the Treasury must use its cash balance and the available extraordinary measures to fund ongoing government activities. The Treasury can draw down its cash balance to extend the time that it can continue financing government operations without issuing debt. On April 30, 2023, the Treasury had $316 billion in cash.

1. That increase in the debt limit was enacted in a joint resolution, Public Law 117-73.

2. In recent years, the Congress has addressed the debt limit by either raising the maximum amount of debt the Treasury may issue or suspending the debt limit for a defined period of time.

3. For more information about the various measures of federal debt, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165.

The Treasury also had an estimated $41 billion in extraordinary measures remaining as of that date, and more will become available at the end of June.[4] The extraordinary measures available to the Treasury are as follows:

- Continue to suspend the investments of the Thrift Savings Plan's G Fund.[5] Otherwise rolled over or reinvested daily, those investments totaled $24 billion as of April 30, 2023.
- Suspend the investments of the Exchange Stabilization Fund.[6] Otherwise rolled over daily, such investments totaled $17 billion as of April 30, 2023.
- Continue to suspend the issuance of new securities for the Civil Service Retirement and Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF), which total about $4 billion each month.[7]
- Postpone reinvestment of securities held by the CSRDF and the PSRHBF and suspend interest payments to those funds. On June 30, 2023, $133 billion of securities held by the CSRDF and the PSRHBF will mature, and an additional $12 billion in interest payments are scheduled to be paid, making roughly $145 billion in extraordinary measures available to the Treasury.

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

What Is the Schedule for Cash Flows and Debt Issuance?

Over the coming weeks and months, the size and timing of governmental cash flows and of transactions between the Treasury and other parts of the government will determine when the extraordinary measures would be exhausted.[8]

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

- A large share of the pay or benefits for active-duty members of the military, civil service and military retirees, veterans, and recipients of Supplementary Security Income (about $25 billion) is disbursed on the first day of the month.
- Interest payments are made around the 15th day and on the last day of each month. Mid-month outlays are typically only $3 billion, but once per quarter, payments of interest on 10-year notes and on bonds (which will next be paid in May) increase mid-month outlays to roughly $50 billion. End-of-month payments have ranged from $10 billion to $16 billion over the past six months.

Some repeating large disbursements—for example, payments to Social Security recipients and benefits covered under Medicare Part A—are financed by trust funds. Other large disbursements that may be irregular in amount and timing, such as outlays for bank resolutions supported by the Federal Deposit Insurance Corporation, are also financed by dedicated funds. In each case, the Treasury obtains cash to make those payments by borrowing from the public, but the disbursements reduce the funds' balances, which are held in the

4. For more detail, see Department of the Treasury, "Daily Debt Subject to Limit Activity" (May 2, 2023), https://tinyurl.com/mvkmuk76. In addition to using extraordinary measures, the Treasury has stopped issuing State and Local Government Series securities. That suspension does not provide additional borrowing capacity, but it allows the Treasury to reduce uncertainty in the timing of debt issuance.

5. The G Fund is a component of the Thrift Savings Plan that is invested solely in one-day Treasury securities. As of April 30, 2023, the Treasury had disinvested $270 billion of those securities as part of its extraordinary measures.

6. The Exchange Stabilization Fund is an emergency reserve fund operated by the Treasury that is normally used to stabilize foreign exchange rates.

7. If the Treasury extends the debt issuance suspension period beyond June 5, it can then 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 $8 billion per month. However, on May 1, the value of early redemptions fell by $8 billion, and the Treasury has indicated that their value will decrease by roughly $4 billion more on June 1. In total, the Treasury's actions in response to those decreased valuations would reduce resources from advance redemptions by $12 billion. See Department of the Treasury, "Daily Debt Subject to Limit Activity" (May 5, 2023), https://tinyurl.com/mvkmuk76.

8. 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.

form of Treasury securities. Because of that reduction in intragovernmental debt, those payments have little net effect on the total amount of debt subject to limit.

Deposits into the Treasury (mostly in the form of tax revenues) are relatively steady throughout most months. The exceptions are a few dates on which tax receipts are particularly large and during tax-filing season, when most refunds are paid following the processing of the previous year's tax returns. Corporate income taxes are paid quarterly and, for most corporations, are next due on June 15, 2023. Also on that day, the second of four estimated payments for individual income taxes are due.

What Are the Government's Financing Needs Through September 2023?

Taking into account a shortfall in revenues, CBO estimates that the government will probably need resources totaling between $1.9 trillion and $2.2 trillion to finance ongoing operations for all of fiscal year 2023.[9] Through April, $1.1 trillion in resources (a combination of increased debt, extraordinary measures, and cash drawn down) have been used. CBO estimates that cash and extraordinary measures available for the rest of the fiscal year will total $0.5 trillion, about two-thirds of which is currently available. Thus, the gap between resources needed through the end of September and those available before then will probably be between $0.3 trillion and $0.6 trillion, CBO estimates.

The month of May typically accounts for between 10 percent and 15 percent of the government's financing needs in a fiscal year. Financing needs for this month, if they amounted to such a percentage, would, by CBO's estimate, equate to roughly $200 billion to $300 billion. June, by contrast, typically accounts for only 4 percent to 5 percent of the full year's financing needs, but those needs—equating to roughly $75 billion to $100 billion this year—are concentrated in the first half of the month, before the quarterly tax collections are received in the middle of the month.

Because the financing needs in May and early June could exceed the cash and extraordinary measures available to the Treasury during that period—about $360 billion in total resources, by CBO's estimate—there is a significant risk that the Treasury will exhaust all of its resources before June 15. In addition, CBO expects that the Treasury would be unable to make required payments *before* its cash balance and extraordinary measures were fully depleted: The Treasury has indicated that daily cash flows are highly variable and that having a low cash balance would introduce new risks in managing cash, extraordinary measures, and the balance between those two resources.[10]

If the government's financing needs totaled less than $300 billion before June 15, when tax payments are due, the Treasury would be able to continue financing government operations through at least the end of July, CBO estimates. How long the Treasury could continue to make all payments thereafter would depend in part on the size of those tax collections.

What Would Happen If the Cash and Extraordinary Measures Were Exhausted?

If the debt limit was not raised or suspended, the Treasury would not be authorized to issue additional debt other than to replace maturing or redeemed securities. That restriction would ultimately lead to delayed payments for some government activities, a default on the government's debt obligations, or both. Those actions could result in distress in credit markets, disruptions in economic activity, and rapid increases in borrowing rates for the Treasury.

9. For a discussion of that shortfall, see Congressional Budget Office, *An Update to the Budget Outlook: 2023 to 2033* (May 2023), Box 1, www.cbo.gov/publication/59096.

10. See Department of the Treasury, "Remarks by Assistant Secretary for Financial Markets Joshua Frost on the Historical and Current Perspectives on the Debt Limit at the Federal Reserve Bank of New York's Annual Primary Dealers Meeting" (press release, December 1, 2022), https://tinyurl.com/2p9hrdh9.

This report, the latest in a series about federal debt and the statutory limit, was prepared in response to interest from the Congress. Previous editions of the report, which was last updated in February 2023, are available at https://go.usa.gov/xnfS3. In keeping with the Congressional Budget Office'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 and with contributions from Leigh Angres, Chad Chirico, Michael Falkenheim, Ann E. Futrell, Sebastien Gay, Deborah Kilroe, John McClelland, Michael McGrane, Sam Papenfuss, Joseph Rosenberg, and Joshua Shakin. Mark Doms, Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report. Bo Peery edited it, and R. L. Rebach prepared the text for publication. The report is available at www.cbo.gov/publication/59130.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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