



BIPARTISAN POLICY CENTER

Debt Ceiling Analysis

The purpose of this analysis is to shed light on the operation of the debt limit in case Congress does not raise the limit before the federal government runs short of cash and is no longer able to meet all of its obligations. In particular, we have addressed three questions:

- 1) What is the date past which the government will be unable to honor all obligations?
- 2) If that date is passed without a debt limit increase, what will be the effect on federal spending?
- 3) If that date is passed without a debt limit increase, what are the potential consequences in the market for Treasury securities, as well as in other markets and in the broader economy?

Cash Balance ("X Date") Projections:

To compute the cash balance, and thus determine the "X Date" on which Treasury would be unable to fulfill its payments moving forward, we started with the cash balance reported by the Daily Treasury Statement for April 29, 2011. We used this as our starting balance to accurately simulate the projections Secretary Geithner would have been looking at when writing his May 2nd letter to Congress, in which he projected that the X Date would be August 2.

With this cash balance as our starting point, we then used a combination of Daily Treasury Statements from calendar year 2010 and the first half of 2011 to project day-by-day cash balances. We also accounted for Treasury's use of various "extraordinary measures." Because the Statements did not easily allow for a daily measurement of the cash injections from each of the four main measures, we injected the sum total of cash raised (as reported by Secretary Geithner in his letter to Congress) on May 16, 2011, the day we reached the debt ceiling.

The "BPC projected range" that serves as our conclusion accounts for our uncertainty in the estimation of precise cash flows, as well as the fact that inflows for FY '11 are outpacing those of FY '10 (in part, due to the gradual sell-off of Treasury's mortgage-backed securities (MBS) portfolio).

Monthly/Daily Cash Flow Projections:

To develop our monthly and daily cash flow projections, we analyzed inflows and outflows from the Daily Treasury Statements. We paid particular attention to the Statements from August '09 and '10 to project the daily flows for this coming August. Although projecting future day-by-day cash flows with precision is nearly impossible, patterns in the Statements allow for fairly accurate daily estimates. Many payments from the federal government are scheduled, and recur on certain days of the week or dates of the month. Thus, we were able to forecast what the general payment structure will look like for August 2011.

We included an "other spending" category in our breakdown for two reasons: 1) Each month, Treasury makes payments for dozens of different spending categories, many of which are of relatively small magnitude; and 2) a significant amount of payments are listed as "unclassified" in the Daily Statements, meaning that Treasury does not know to which category they belong. Since we estimated total outflows for each business day and itemized all of the "big ticket" items, the "other" category was set as equal to the total outflows for any particular day, *minus* the sum of all the major categories.

We applied smoothing techniques to ensure that apparently random individual daily fluctuations in inflows or outflows from past years would not be reflected in our 2011 estimates. Additionally, we accounted for cash flows that are unique to this year (such as the current gradual sell-off of the MBS portfolio) or a prior year.

To construct monthly totals, we summed the daily inflow/outflow projections, but also took into consideration the number of business days in a particular month.