



BIPARTISAN POLICY CENTER

# Debt Limit Analysis: Everything You Need to Know in 30 Slides

*Updated: July 2019*

[WWW.BIPARTISANPOLICY.ORG](http://WWW.BIPARTISANPOLICY.ORG)

# SUMMARY OF FINDINGS

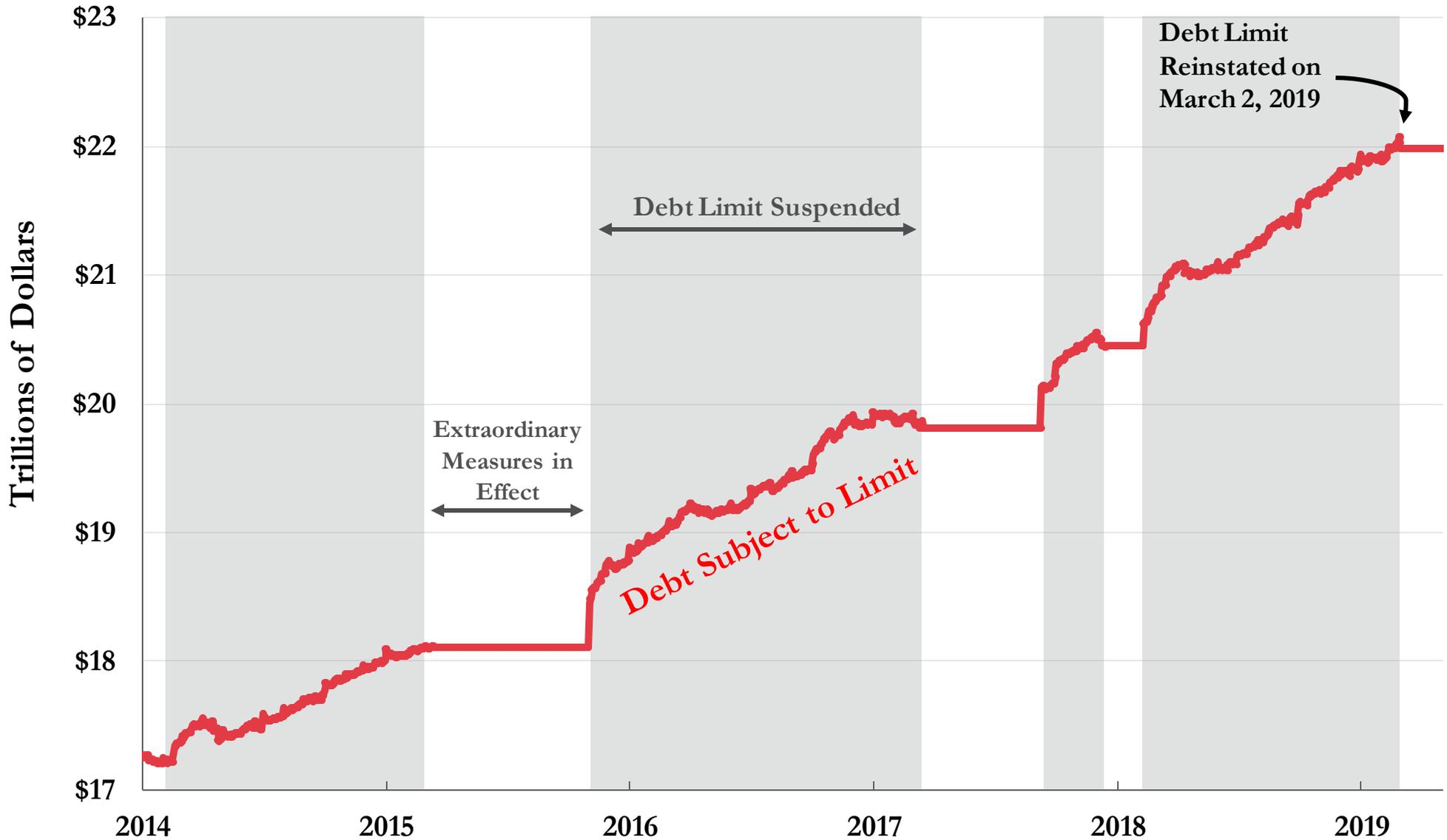
---

- The federal debt limit was reinstated at \$22.0 trillion on March 2, 2019.
- Due to the nature of the legislation that suspended the debt limit, the government immediately ran up against its limit on March 2.
- For the 8th time in the past eight years, the Treasury secretary has deployed emergency borrowing authority – known as “extraordinary measures” – to continue fully funding government operations for an additional period of time.
- If Congress does not extend the debt limit, BPC projects that Treasury will most likely be unable to meet all of its financial obligations at some point in October 2019 (what we call the “X Date”). There is a risk, however, that the X Date could arrive in the first half of September.
  - This adjusts BPC’s prior projection of October or early November 2019.

- **The debt limit is...**
  - ...the maximum amount that Treasury is allowed to borrow;
  - ...set by statute (Congress must act to change it); and
  - ...covers most debt issued, whether held by the public (such as Treasury bills and savings bonds) or intragovernmental (such as debt held by the Social Security trust funds).
- **Because the federal government is running a deficit, Treasury needs to borrow from the public (i.e., domestic and foreign investors) to cover its obligations. The debt limit prevents it from doing so.**
- **Congress has already approved this additional spending. Extending the debt limit does not authorize new spending – rather, it enables the federal government to pay its bills.**

# RECENT HISTORY

## Federal Debt Subject to Limit, 2014 to Present



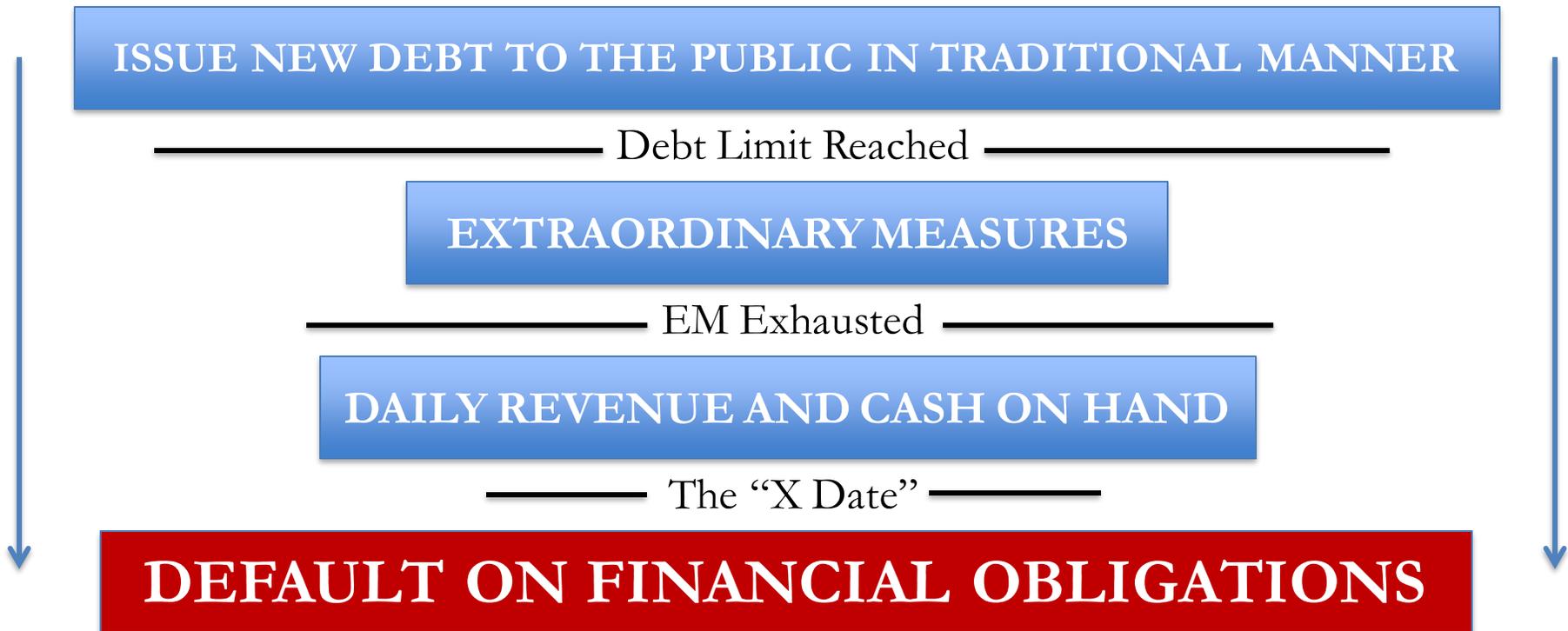
Source: U.S. Treasury Department, Daily Treasury Statements

- **The debt limit was temporarily suspended on February 9, 2018, upon enactment of the Bipartisan Budget Act of 2018.**
  - The debt limit was to be reinstated at a level that covered all obligations incurred during the suspension period, meaning that upon reinstatement, the federal government would immediately be back up against its limit.
- **The suspension ended on March 2, 2019, when the debt limit was reinstated at \$22.0 trillion (the level of total public debt subject to limit).**
  - By comparison, U.S. gross domestic product (GDP) was \$20.9 trillion in 2018.
- **The Treasury Secretary declared a debt issuance suspension period, which enables the use of extraordinary measures.**

*Source: Bureau of Economic Analysis*

## Layers of Defense Against Default

The Treasury Department has multiple means that may be used to pay the nation’s bills. If the debt limit is reached and policymakers do not act in time, however, all of these layers of defense will be breached and the nation will default on its obligations.



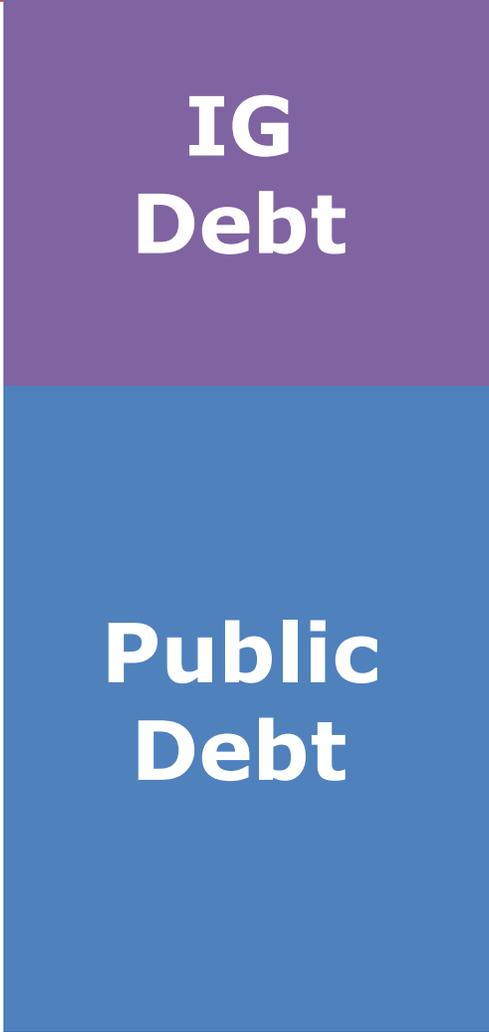


BIPARTISAN POLICY CENTER

# How Do Extraordinary Measures Work?

**Both intragovernmental and public debt  
count toward the limit.**

**Debt Limit**

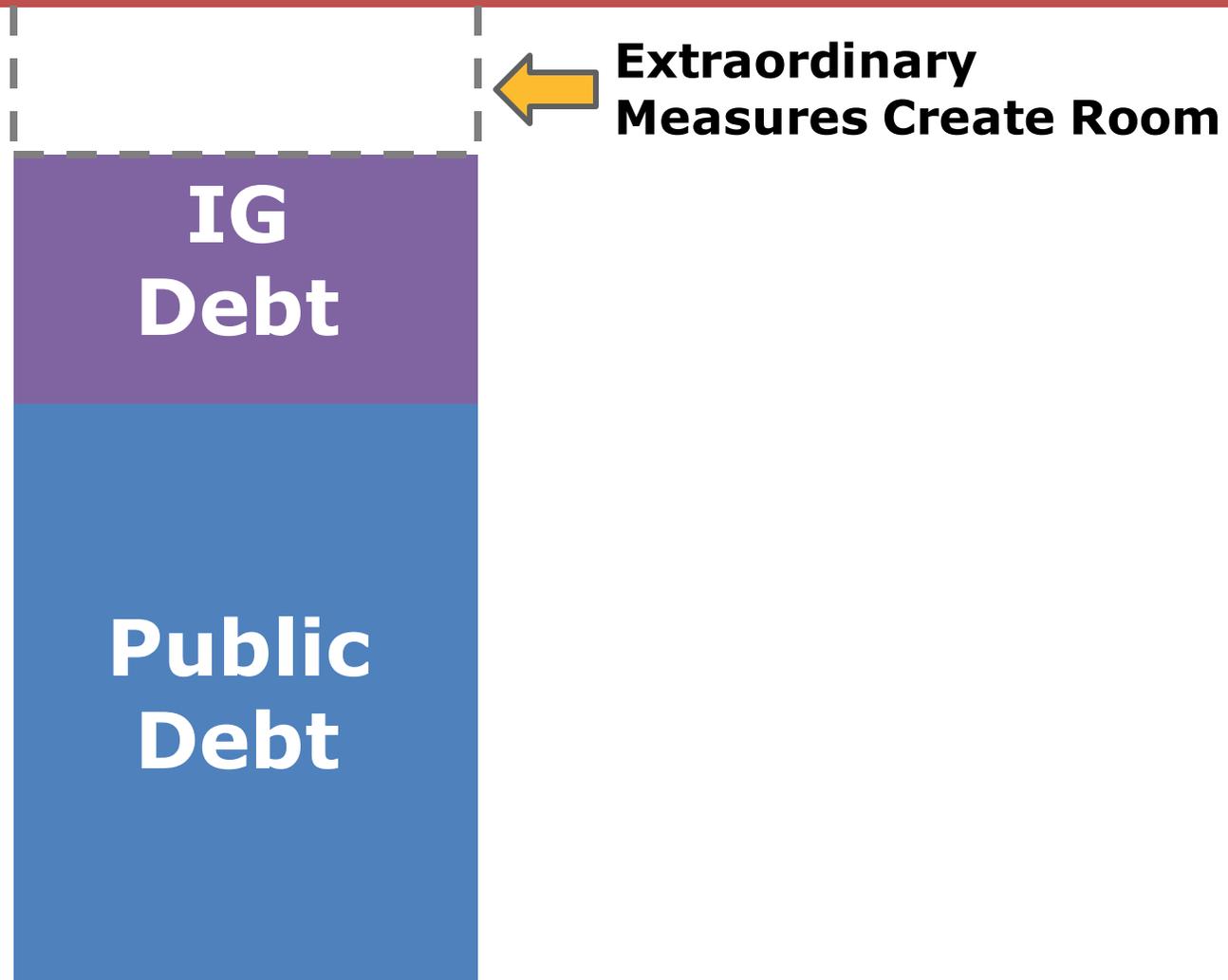


**IG  
Debt**

**Public  
Debt**

# Treasury reduces certain types of debt using extraordinary measures...

## Debt Limit



**...to issue more debt to the public.**

## **Debt Limit**

---

**New Public  
Debt**

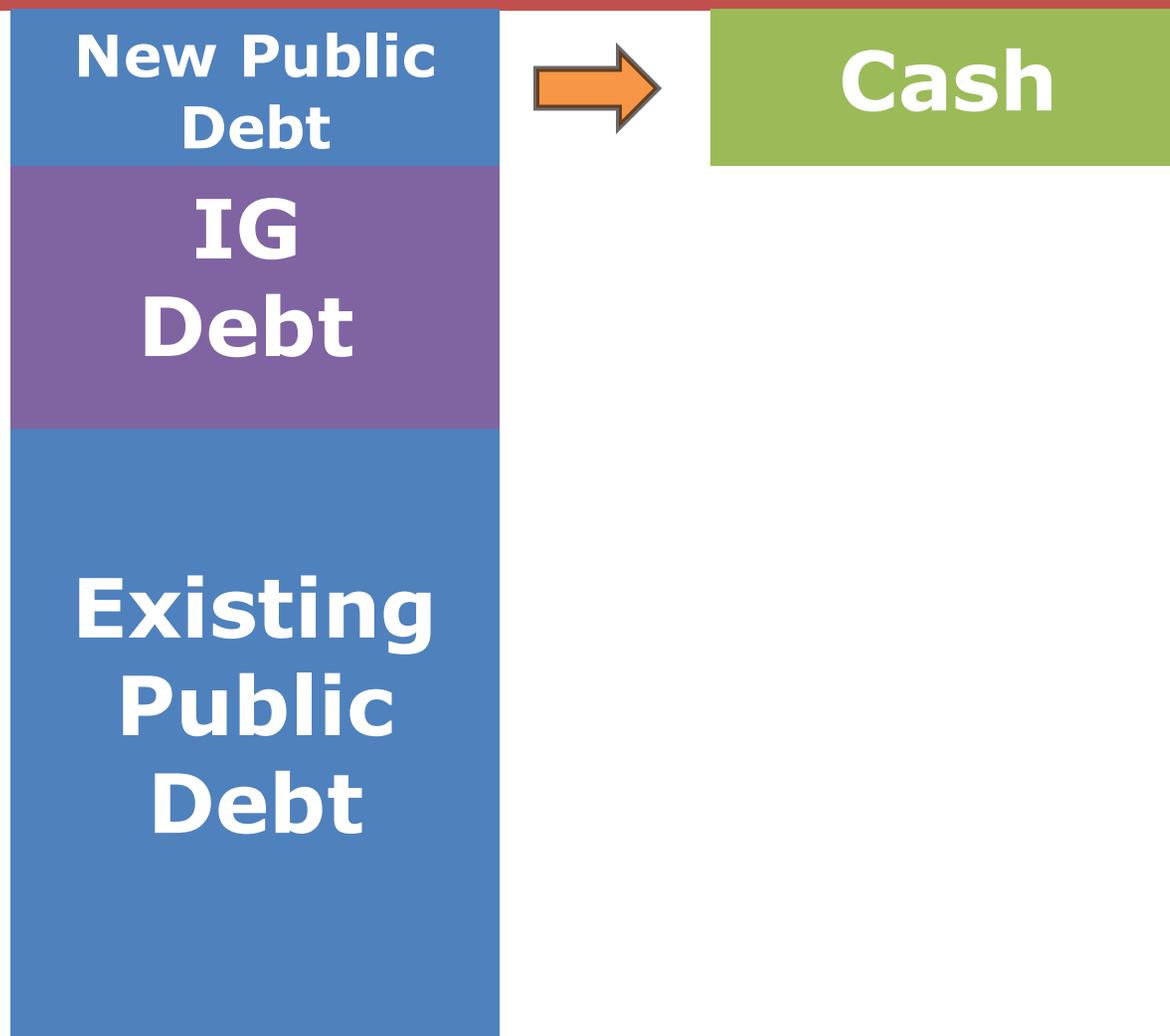
**IG  
Debt**

**Existing  
Public  
Debt**

---

# Issuing debt raises cash to pay bills.

## Debt Limit



# When the debt limit is increased...

**New Debt Limit**

**Old Debt Limit**



**...extraordinary measures are immediately restored.**

**New Debt Limit**

**EM Debt  
Immediately  
Paid Back**

**Restored EM  
Debt**

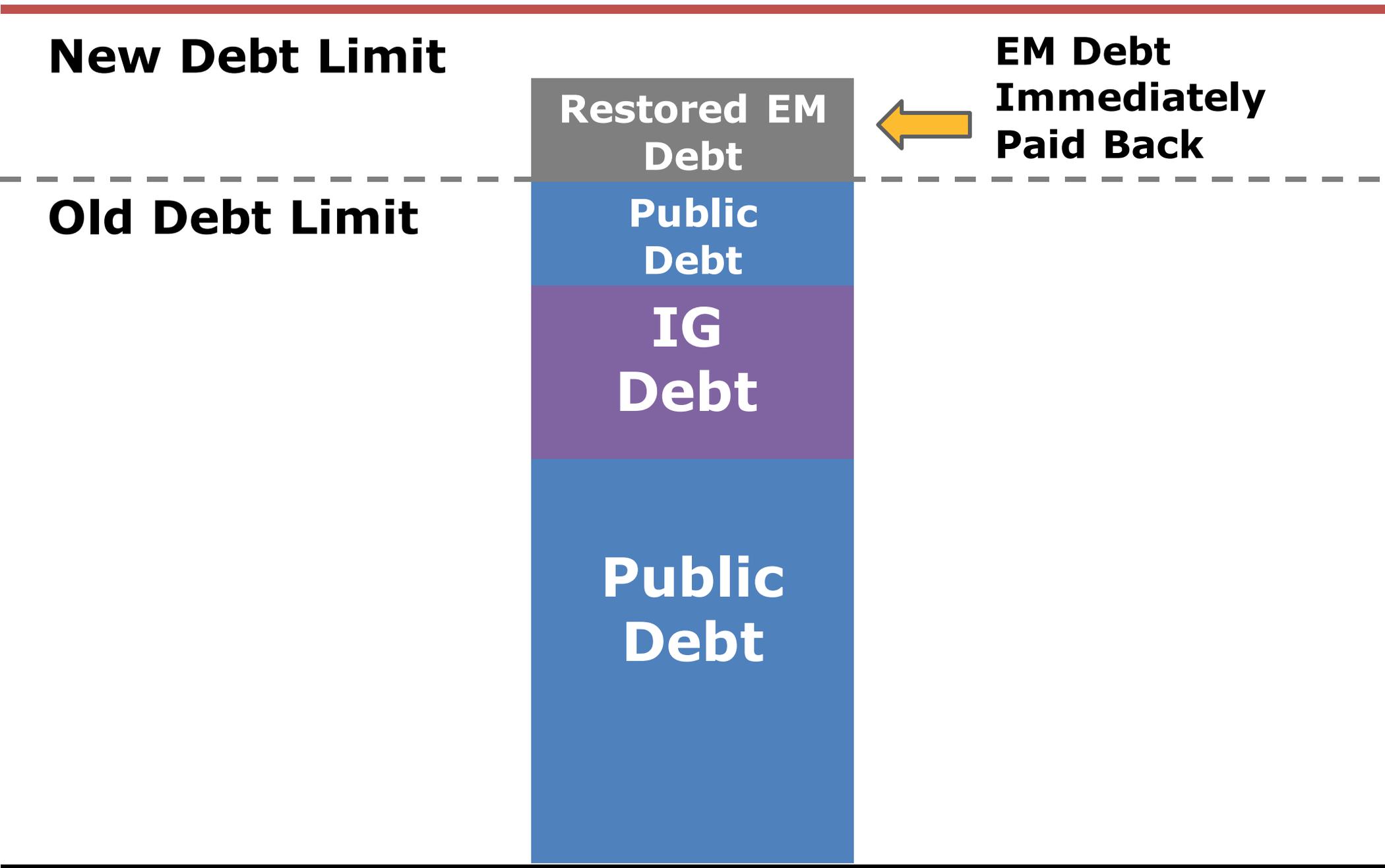


**Old Debt Limit**

**Public  
Debt**

**IG  
Debt**

**Public  
Debt**



## 1. The G-Fund of the Thrift Savings Plan

- Each day, Treasury may temporarily reduce the amount of debt held by this fund, which holds government bonds for federal employee retirement accounts.

## 2. The Civil Service Retirement and Disability Fund (CSRDF)

- Treasury may postpone new investments in this pension fund. The CSRDF measure is most useful in June, September, and December, when major interest credits and reinvestments of maturing securities typically occur.

## 3. The Exchange Stabilization Fund (ESF)

- Each day, Treasury may temporarily reduce the amount of debt held by this fund, which is used to facilitate foreign exchange transactions.

For more detail on extraordinary measures and how they work, see this [primer](#).

## Example: Federal Employees' Retirement System G-Fund

- Federal employees with savings in the Thrift Savings Plan invest some retirement assets in government bonds.
- Treasury may temporarily reduce the amount of debt held by this fund, thereby freeing up room under the debt limit.
- This allows Treasury to issue additional securities to the public and raise cash to pay federal obligations.
- After the debt limit is increased, Treasury must fully reimburse the retirement fund for the principal and interest.
- No impact on federal employees' retirement savings.

# EXTRAORDINARY MEASURES UPDATE

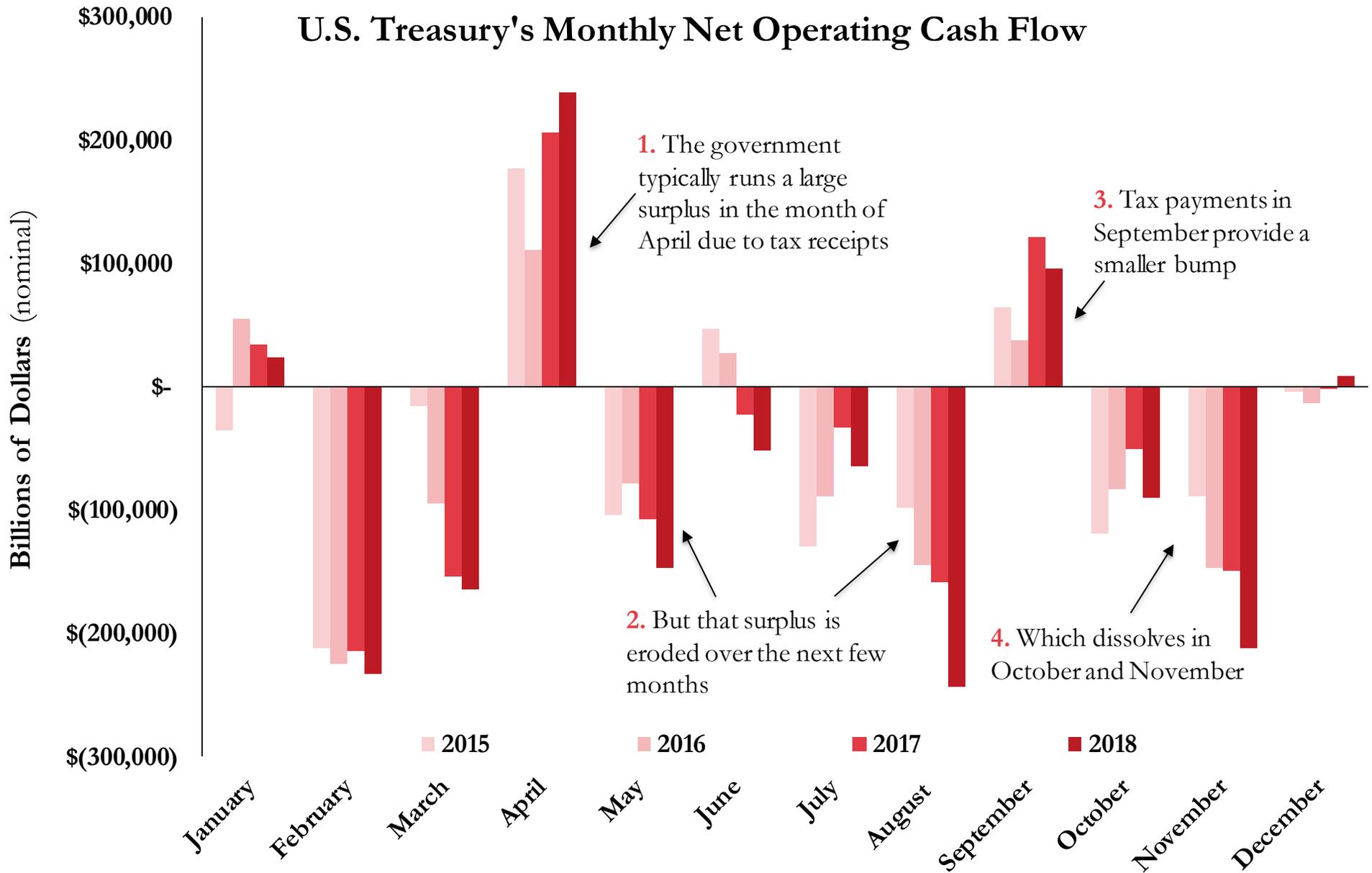
EXTRAORDINARY MEASURES AVAILABLE	March 2019 (estimated)	June 2019 (estimated)	Difference
Do not reinvest the Federal Employees' Retirement System G-Fund	\$230 billion	<b>\$44 billion</b>	-\$186 billion
Do not reinvest the Exchange Stabilization Fund	\$22 billion	<b>\$23 billion</b>	+\$1 billion
Do not make new investments to the civil service and postal retirement funds	\$151 billion	<b>\$53 billion</b>	-\$98 billion
Shift funds from the Federal Financing Bank	\$5 billion	<b>\$6 billion</b>	+\$1 billion
<b>Total</b>	\$408 billion	<b>\$125 billion</b>	-\$283 billion

Notes: The totals from March indicate all *available* measures over the entire anticipated debt issuance suspension period. These totals only include the value of extraordinary measures that can be used to extend the X Date. Treasury has additional measures available that assist with cash flow and debt management. Figures may not add due to rounding.

Source: U.S. Treasury Department, *Description of Extraordinary Measures*

- Once Treasury has utilized all of its emergency borrowing authority, only two sources will remain from which to continue funding government operations:
  - Residual cash on hand
  - Daily cash inflows (i.e., federal revenues received each day)

# APRIL TAX BUMP QUICKLY FADES

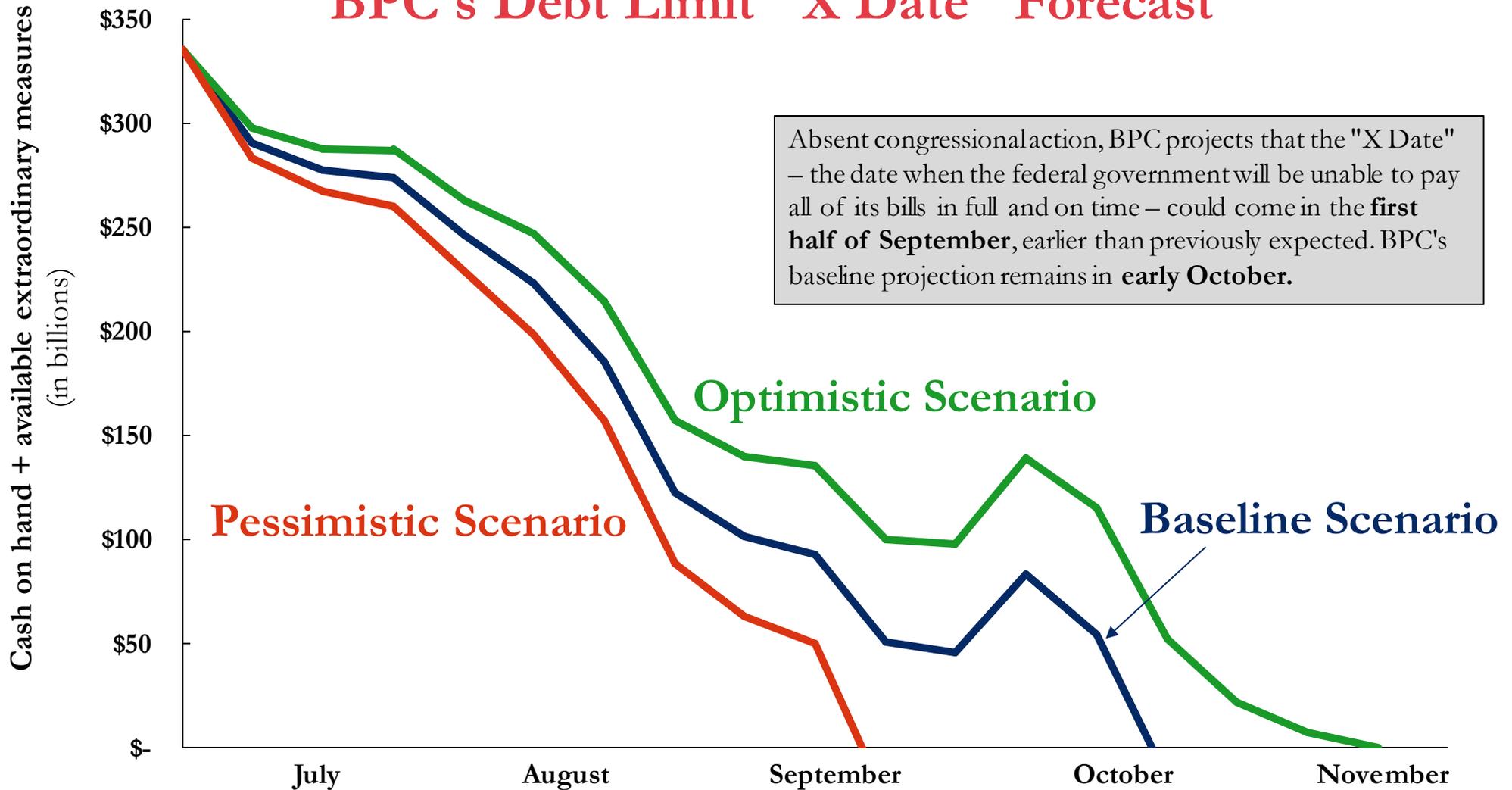


Source: Daily Treasury Statements

- **X Date**: The first day on which Treasury has exhausted its borrowing authority and no longer has sufficient funds to meet all of its obligations in full and on time.
  - In other words, if the debt limit has not been extended by the X Date, the federal government will begin defaulting on some of its obligations.
  - After the X Date, bills must be paid solely out of incoming cash flows, which will be insufficient to cover all government spending.
- **BPC projects that the X Date will most likely occur sometime in October 2019, but there is a risk that it could arrive as early as the first half of September.**
- The Congressional Budget Office previously [issued](#) a similar projection of sometime around the turn of the fiscal year.
- **No one – not even the Treasury Secretary – can know precisely when the X Date will arrive.**

# WHEN IS THE "X DATE"?

## BPC's Debt Limit "X Date" Forecast



Absent congressional action, BPC projects that the "X Date" – the date when the federal government will be unable to pay all of its bills in full and on time – could come in the **first half of September**, earlier than previously expected. BPC's baseline projection remains in **early October**.

Notes: The projections above are subject to substantial uncertainty and volatility resulting from economic performance, cash flow fluctuations, and other factors. Extraordinary measures reflected at the time that they are expected to become available. Dates shown are first of month. All three lines reflect cash on hand plus available extraordinary measures, or in other words, remaining room under the debt limit.

- **Timing of Revenue**

- Revenue is always the most volatile part of the federal government's cash flows, varying from month-to-month and from day-to-day. Certain types of revenue, such as the quarterly tax payments due in June and September, are especially unpredictable.
- Revenues for Fiscal Year 2019 have come in below expectations, with lots of variation by month – some near the beginning of the year were particularly weak, while more recent months have been stronger. If revenues return to underperforming, the risk of a September X Date would rise.

- **Major Changes in Policy or Economic Conditions**

- While major fiscal policy decisions can alter Treasury cash flows, and therefore, the X Date, the window for these to have a material impact on the current projection has largely closed . (An example would be emergency spending on natural disasters.)
- If economic conditions change dramatically, spending and revenue flows can be greatly impacted, thereby affecting the X Date.



BIPARTISAN POLICY CENTER

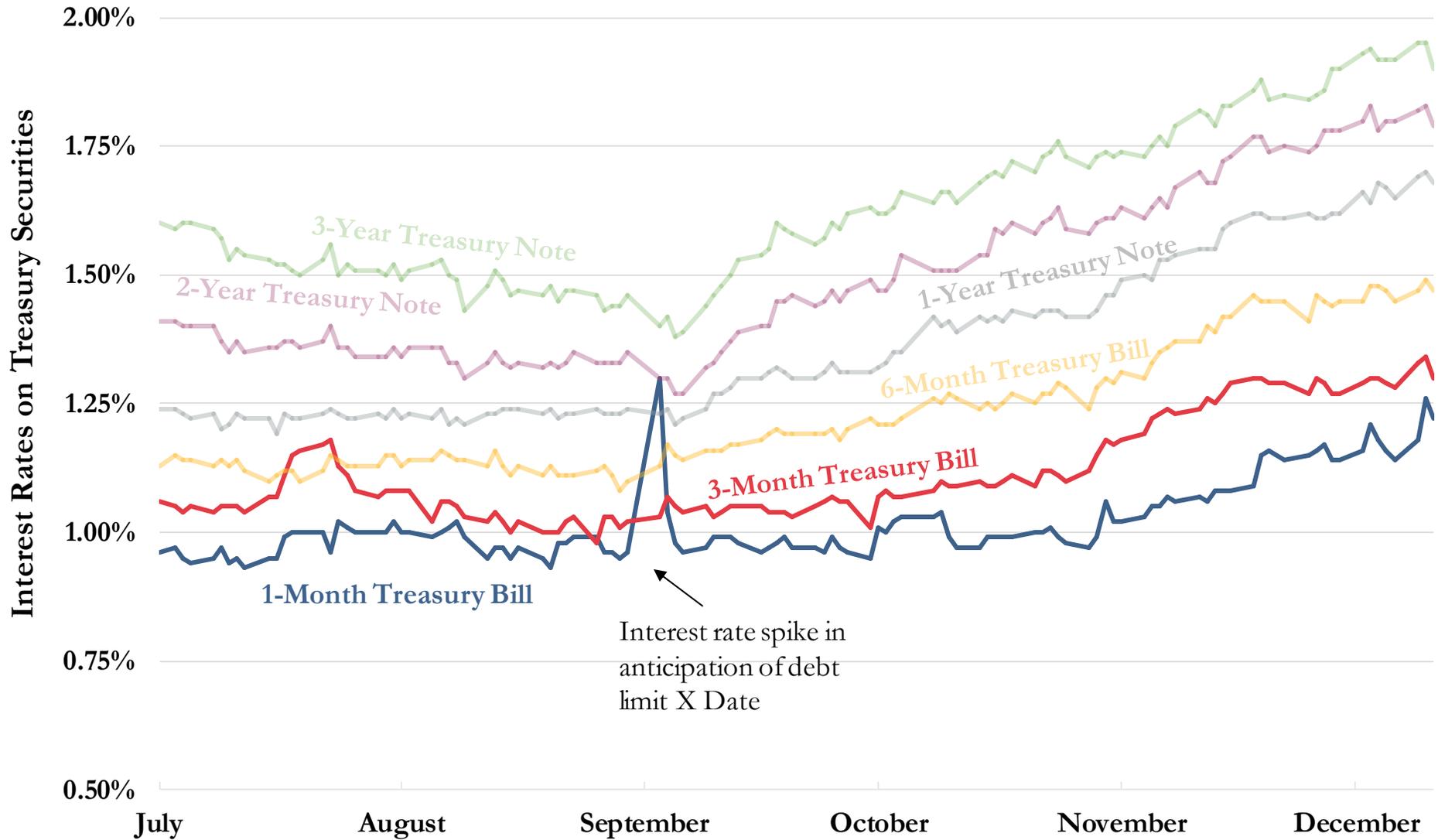
# Costs and Market Risk

- **Fed Chairman Jerome Powell on approaching the X Date:**

"The failure to increase the debt ceiling creates a lot of uncertainty ... and a lot of distraction from what is otherwise a pretty good economy."
- **American taxpayers foot the bill for additional borrowing costs that come from delays in extending the debt limit.**
  - In previous years, uncertainty has caused interest rates on some Treasury bills to spike in anticipation of the X Date, resulting in many millions, if not billions, of dollars in added interest costs.
  - In 2013, Fidelity's money-market funds [refused](#) to hold any U.S. government debt maturing in late October and early November (the period surrounding the projected X Date in that year).

# COSTS ADD UP BEFORE THE X DATE

## 2017 Debt Limit Episode – Effect on U.S. Treasury Interest Rates



Source: TreasuryDirect

- **Researchers at the Federal Reserve issued a study finding that approaching the X Date in 2011 and 2013 increased the government's borrowing costs by hundreds of millions of dollars.**
  - The substantial cost to taxpayers stemmed from elevated interest rates on U.S. securities issued in 2011 and 2013 leading up to the date when the debt limit was extended.
  - The Government Accountability Office (GAO) conducted a similar study of the 2013 impasse, finding that federal borrowing costs increased by tens of millions of dollars for that year alone, and much more if calculated over the duration of all the debt that was issued.
- **The cost of these impasses to the federal government continues to accrue beyond a single year because many of the securities issued during that period remain outstanding and accruing interest for several years (2, 10, 30, etc.).**

- **Treasury securities are normally considered safe and liquid. They are treated as the foundation of the global financial system because of the perception that the risk of default is negligible.**
- **GAO on Treasury securities and market risk:**

“The United States benefits from the confidence investors have that debt backed by the full faith and credit of the United States will be honored. Because Treasury securities are viewed as one of the safest assets in the world, they are broadly held by individuals—often in pension funds or mutual funds—and by institutions and central banks for use in everyday transactions. Treasury securities are also the cheapest and one of the most widely used forms of collateral for financial transactions. In many ways U.S. Treasury securities are the underpinning of the world financial system...[and] delays in raising the debt limit can create uncertainty in the Treasury market.”

- Crossing the X Date would be unprecedented.
- Potential for significant market disruption.
  - [GAO](#): “Disruptions in the financial sector due to the [a] debt limit impasse could ultimately result in the increased costs for providing credit in the economy, either through increases in interest rates or in transaction costs. Consequently, lending in the economy may be reduced, and loans may become more costly. Reducing availability of capital may translate into lower levels of economic activity and growth.”
- A worst-case scenario would be the failure of a Treasury auction to attract enough buyers to roll over maturing U.S. government debt.

Source: [Government Accountability Office](#) *Audit of the U.S. Government's Consolidated Financial Statements for Fiscal Years 2013 and 2014*

- **Further rating agency downgrades are possible.**
  - S&P downgraded U.S. government debt in 2011. Market reaction at the time was thankfully not severe. But there is uncertainty about the effects of another downgrade, since many funds are prohibited from holding non-AAA securities.
  - Fitch: *“Arrears on [various federal government] obligations would not constitute a default event from a sovereign rating perspective but very likely prompt a downgrade even as debt obligations continued to be met.”*
    - **Translation:** If we go past the X Date without a debt limit increase, prepare for a downgrade.
- **Fed Chairman Jerome Powell on crossing the X Date:**

“It’s beyond even considering that the United States would not honor all of its obligations and pay them when due. It is just something that can’t even be considered.”

- **Market risks beyond the X Date:**
  - Treasury market, interest rates
  - Equity markets (including 401(k)s, IRAs, and other pensions)
  - U.S. economy, including missed payments to businesses and individuals
  - The global financial system
- **No guarantee of the outcome; risks are risks**



BIPARTISAN POLICY CENTER

# Methodology & Assumptions

- **Analyze financial data from the Treasury Department**
  - Daily Treasury Statements
  - Government Account Statements
- **Project monthly operating cash flow and change in intragovernmental debt using:**
  - Historical financial data
  - CBO analysis of spending and revenue growth
  - Adjustments for anticipated issues (e.g., extraordinary measures that become available on certain dates)
- **Assumptions:** No major shocks (e.g., recession, natural disaster, new overseas conflict) that could materially affect government finances.



BIPARTISAN POLICY CENTER

## Authors

SHAI AKABAS

DIRECTOR OF ECONOMIC POLICY

KODY CARMODY

RESEARCH ANALYST

JACK RAMETTA

RESEARCH ANALYST

### **MEDIA INQUIRIES:**

JORDAN LAPIER  
JLAPIER@BIPARTISANPOLICY.ORG  
(202) 379-1630

[WWW.BIPARTISANPOLICY.ORG](http://WWW.BIPARTISANPOLICY.ORG)

### **CONGRESSIONAL INQUIRIES:**

KATE CASSLING  
BPC ACTION  
KCASSLING@BPCACTION.ORG  
(202) 204-2418