Insight

CBO Projects an August or September "X-date"

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Executive Summary

- On January 21, 2025, the U.S. Department of the Treasury began employing financial maneuvers known as extraordinary measures to temporarily keep the federal government from hitting its $36.1 trillion debt ceiling.
- A new report from the Congressional Budget Office estimates that the extraordinary measures will last until August or September 2025, at which point the U.S. Treasury will no longer be able to issue new debt and will soon run out of cash on hand.
- Between now and the August or September "X-date," policymakers must enact legislation that either raises or suspends the debt ceiling to avoid a Treasury default.

Introduction

On January 21, 2025, the U.S. Department of the Treasury began employing financial maneuvers known as extraordinary measures to temporarily keep the federal government from hitting its $36.1 trillion debt ceiling.

A new report from the Congressional Budget Office (CBO) estimates that the extraordinary measures will last until August or September 2025, at which point the U.S. Treasury will no longer be able to issue new debt and will soon run out of cash on hand. As a result, the Treasury and other federal payment processes will have to reduce payments to the cash inflow of the federal government to ensure that bondholders are paid, and the Treasury does not default.

Between now and the August or September "X-date," policymakers must enact legislation that either raises or suspends the debt ceiling to avoid a default.

CBO's "X-date"

The Fiscal Responsibility Act of 2023 suspended the debt ceiling – the legal limit on the amount of debt the federal government can accumulate – through January 1, 2025. On January 2, the debt ceiling was reinstated at the amount of debt outstanding: $36.1 trillion. A scheduled redemption of nonmarketable securities held in a federal trust fund associated with Medicare payments kept the amount of debt outstanding $54 billion below the debt ceiling and the need for extraordinary measures at bay until January 21.

The use of extraordinary measures extends the timeline to reaching the "X-date," which is the point at which the debt ceiling must be either raised or suspended to keep the federal government from defaulting on its obligations. CBO estimates an August or September 2025 X-date, though its estimate comes with a degree of uncertainty because federal receipts and spending in the coming months could differ from CBO's projections. For example, if the government's borrowing needs are greater than CBO projects, the X-date could be late May or early June. Conversely, if borrowing needs are less than CBO estimates, the X-date could be later than August or September.

Several factors influence CBO's projection of the X-date, including the flow of federal receipts and spending, the availability of extraordinary measures, and the Treasury's cash balance. The federal government is expected to run a $1.9 trillion budget deficit this fiscal year. The distribution of the budget deficit is not uniform throughout the year, as certain months tend to have large deficits while other months have large surpluses. The federal government tends to run a large surplus in April as individual income tax receipts from the prior year roll in, while large deficits are often seen in October, November, February, March, May, July, and August.

CBO estimates that as of February 28, the Treasury had $560 billion of cash on hand and $62 billion of extraordinary measures. The extraordinary measures included $42 billion from suspending reinvestment in the Thrift Savings Plan's G Fund and $20 billion from suspending reinvestment in the Exchange Stabilization Fund (ESF). Between March 1 and July 31, CBO estimates the Treasury will have $820 billion to cover the nation's borrowing needs, including roughly $620 billion of cash on hand and $200 billion of extraordinary measures. In addition to the G Fund and the ESF, other extraordinary measures include a "debt issuance suspension period" for the Civil Service Retirement Disability Fund (CSRDF) and the Postal Service Retiree Health Benefits Fund (PSRHBF), a suspension of reinvestments and interest payments to the CSRDF and PSRHBF, and early redemption of some investments in the CSRDF and PSRHBF.

Once the Treasury has exhausted all available extraordinary measures, it can no longer

issue new debt, and it will soon run out of cash on hand. Given large annual budget deficits, incoming revenue would be insufficient to cover the federal government's daily financial obligations. As a result, the Treasury and other federal payment processes would essentially have to reduce payments to the cash inflow of the federal government to ensure that bondholders are paid, and to thus avoid a default on federal securities. This so-called "prioritization" would require deferring the timely payment of other financial obligations, such as Social Security payments, salaries for federal civilian employees and the military, and veterans' benefits.

Conclusion

Between now and the August or September "X-date," policymakers must enact legislation that either raises or suspends the debt ceiling to avoid a default. A failure to act on the debt ceiling would have severe negative consequences for the U.S. economy and the nation's global standing.