Preparing for the Debt Limit:
Projecting the 2025 X-Date

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Executive Summary

- The debt limit will be reinstated in January 2025, at which point the Department of Treasury will use extraordinary measures to extend the "X-Date" by which the debt limit must be increased to allow the government to pay its obligations when they are incurred.

- It is possible that the debt ceiling will be reached prior to June 16, and the Congress will need to act earlier than many are expecting.

- The debt limit has historically helped facilitate the political environment needed for deficit reduction agreements, presenting an opportunity in 2025 to pair necessary debt limit increases with reforms to control spending and promote economic growth.

Background

Congress will need to increase the debt limit as early as June 2025, and before the 2025 August recess at the latest.

The Fiscal Responsibility Act suspends the debt limit through January 1, 2025. The new statutory debt limit will be set automatically, after that suspension expires, at the amount of debt accumulated until that point in time.

Over the 19-month debt limit suspension period (June 2023 to January 2025), the national debt has grown about $4.7 trillion — increasing from $31.5 trillion to $36.2 trillion.

When the debt limit is reinstated in January 2025, the U.S. Department of the Treasury will begin using “extraordinary measures” that temporarily reduce certain types of intragovernmental debt. These “extraordinary measures” provide limited additional borrowing capacity within the debt limit. This allows the government to fund spending obligations while running a deficit.

Implementing extraordinary measures extends the timeline to what is commonly referred to as the “X-Date.” This is the point at which the debt limit must be increased or else the government will be unable to pay all its legal obligations (even with extraordinary measures in place) in the order in which they accrue because the available cash on hand has been depleted.

This EPIC paper provides a preliminary estimate that the debt limit will need to be increased as early as June or at least before August 2025 (when Congress typically recesses). Congress should pair the debt limit increase with responsible policies that control spending and promote economic growth.

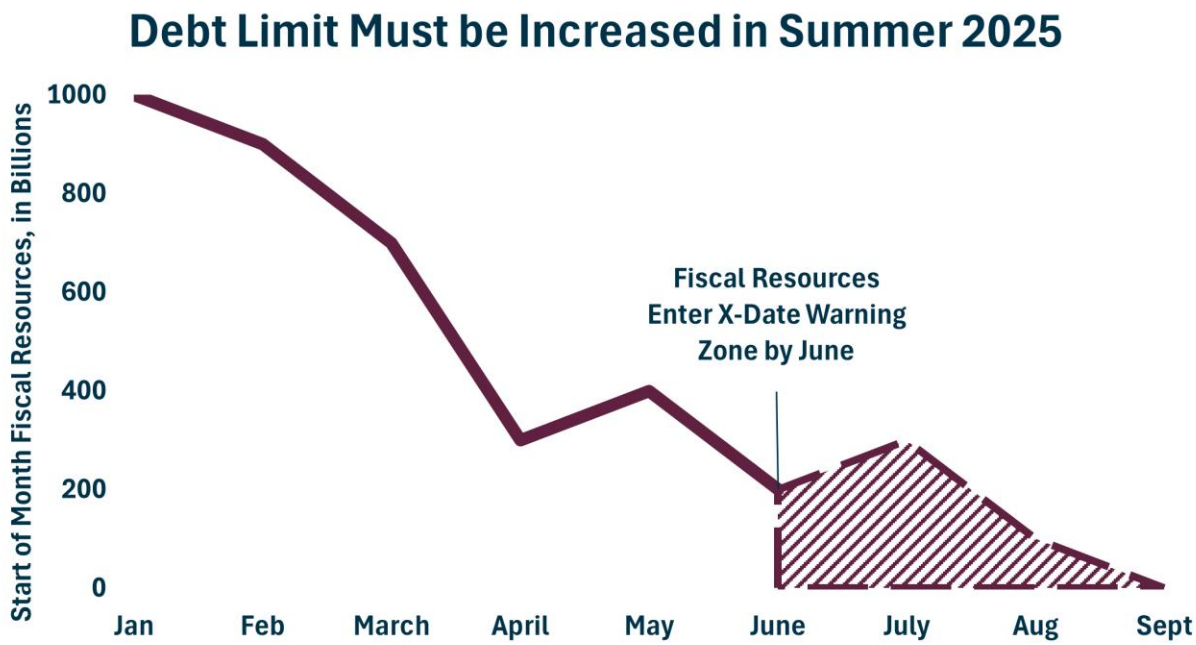
Projecting the X-Date in 2025

The debt limit will be reinstated after January 1, 2025, when extraordinary measures will begin.

It will be important for policymakers to be prepared to act on the debt limit prior to reaching the X-Date.

It is entirely possible that the debt ceiling will be reached prior to June 16, and the Congress will need to act earlier than many are expecting. The federal government's spending obligations will exceed projected revenues by $2 trillion in fiscal year 2024. The Treasury's cash on hand plus available extraordinary measures will be approximately $1 trillion when the debt limit is reinstated after January 1, 2025. Those fiscal resources will be steadily spent down and could be depleted by early June or as late as August.

Chart 1



Source: EPIC

There are substantial variations in cash flows within each month. Federal spending obligations can require hundreds of billions of dollars per day, particularly to make payments for entitlement benefit programs and as Treasury debt obligations come due. Furthermore, the one-time extraordinary measures in June and September are only available on the last business day of the month. That means the X-Date could occur earlier than projected if available fiscal resources fall too low on any particular day.

June Is Key Month for Determining the X-Date

Much like the most recent debt limit negotiations that took place in 2023, the fiscal situation going into the month of June will be key for determining the X-Date in 2025.

May is traditionally a high deficit month. Then, at the beginning of June, large payments for Medicare and Social Security benefits are due. This means that available cash on hand could run low by the early weeks of June.

However, two events in the second half of June could provide a reprieve, if the Treasury has sufficient fiscal space to reach them:

- Quarterly tax payments are due June 16,[1] which can bring in substantial revenues.

[1] The normal quarterly tax deadline of June 15 falls on a weekend in 2025.

- On June 30, a large, one-time-use extraordinary measure becomes available, adding to fiscal space.

These additional funds available to the Treasury could extend the X-Date into July or August, both of which historically run high monthly deficits.

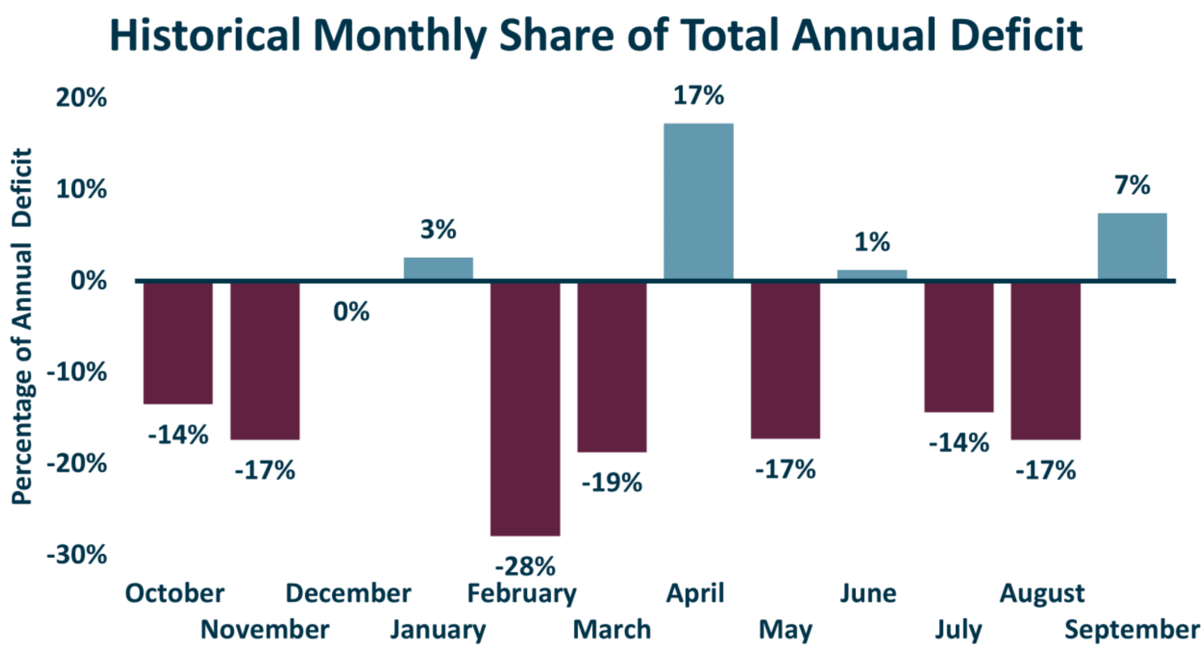
Factors Affecting the X-Date

Several factors influence the X-Date, including the flow of outlays and revenues, the availability of extraordinary measures, and the Treasury's cash balance.

Deficits Throughout the Fiscal Year

The budget deficit is the most important variable for determining when the debt limit must be raised.[2]

Chart 2



Source: Author calculation based on Treasury monthly reports from 2002 to 2023. The averaging method trims high and low values to exclude outliers.

[2] The deficit does not always exactly match the net inflows and outflows from the Treasury General Account. This is due to factors such as the scorekeeping guidelines that the Executive and Legislative Branches have agreed upon for accounting for the outlays and revenues that result in the budget deficit. For example, credit programs are scored upfront on a net present value basis under the Federal Credit Reform Act, not a cash basis. The Treasury could also increase or decrease inflows by changes in debt issuance for cash management purposes.

The distribution of the budget deficit is not uniform throughout the year. Certain months tend to have high deficits, while others have large surpluses as revenues exceed spending.

For example, April usually has large surpluses as individuals pay income taxes due from the prior year and corporations pay quarterly taxes. September often runs a surplus due to quarterly corporate tax payments as well as taxes paid by individuals who requested extensions. In contrast, the federal government typically has large budget deficits in October, November, February, March, May, July, and August.

Extraordinary Measures

The extraordinary measures authorized by law allow the Treasury to generate additional cash on hand to fund obligations when borrowing is at or near the debt limit. It does so by reducing certain types of debt so that the Treasury can issue additional debt held by the public, which provides the Treasury access to cash.

There are three main extraordinary measures used by the Treasury:[3]

1. **Government Securities Investment Fund (G Fund)**.
   The G Fund is the Government Securities Investment Fund of the Thrift Savings Plan (TSP) for federal retirees. Assets in the fund are invested in special-issue Treasury securities that count against the debt limit. When the debt limit is reached, the Treasury Secretary has the authority to suspend the daily reinvestment of assets in the fund. When the debt limit is raised, the fund is made whole, and retiree benefits are not affected.

2. **Exchange Stabilization Fund (ESF)**.
   The ESF is used to purchase and sell foreign currencies. Some assets of the fund are invested in special-issue Treasury securities that count against the debt limit. When the debt limit is reached, the Treasury Secretary has the authority to suspend the reinvestment of assets in the fund. There is no requirement or authority that the interest foregone for the ESF be restored when the debt limit is raised.

3. **Civil Service Retirement and Disability Fund (CSRDF) and Postal Service Retiree Health Benefits Fund (PSRHBF)**.
   The CSRDF and the PSRHBF provide benefits to retired and disabled federal and postal employees. The funds are invested in special-issue Treasury securities that count against the debt limit. During a "debt issuance suspension period," the

[3] U.S. Department of the Treasury, "Description of the Extraordinary Measures," May 31, 2023, https://home.treasury.gov/system/files/136/DescriptionofExtraordinaryMeasures2023-05-31.pdf (accessed November 17, 2024).

Treasury Secretary has the authority to suspend new investments in the funds and take early redemption of some investments. When the debt limit is raised, the funds are made whole, and retiree benefits are not affected.

There are two other extraordinary measures that can create a limited amount of additional space. The Treasury can enter into an exchange with the Federal Financing Bank. The Treasury can also suspend issuance of State and Local Government Series securities.

Additional one-time use extraordinary measures can become available throughout the year. At the end of June, September, and December, certain investments and reinvestments are scheduled for the CSRDF and the PSRHBF. During a "debt issuance suspension period," the investments may be suspended. Reaching these dates during the debt limit can allow for significant additional headroom and extend the duration of extraordinary measures.

Table 1

Extraordinary Measures Available During 2023 Debt Limit

Extraordinary Measure	Amount Available
G Fund	295
ESF	17
CSRDF and PSRHBF	25
Total Extraordinary Measures	**337**
Additional One Time CSRDF/PSRHBF - June 30	146
Additional One Time CSRDF/PSRHBF - September 30	48

In Billions of Dollars.
Note: an additional one-time CSRDF/PSRHBF extraordinary measure would also have become available on December 31, 2023; Treasury did not report the amount that would have been available in 2023. In 2017, the December one-time amount was reported to be $13 billion.
Source: U.S. Department of the Treasury

During the 2023 debt limit, $337 billion in extraordinary measures were used by Treasury.[4]

A similar level of extraordinary measures was available during the 2021 debt limit.[5]

[4] U.S. Department of the Treasury, "Daily Debt Subject to Limit Activity," June 2, 2023, https://home.treasury.gov/system/files/136/FINAL-Daily-Debt-Subject-to-Limit-Activity-2023_06_02.pdf (accessed November 17, 2024).
[5] U.S. Department of the Treasury, "Daily Debt Subject to Limit Activity," December 15, 2021, https://home.treasury.gov/system/files/136/FINAL-Daily-Debt-Subject-Limit-Activity-2021_12_15.pdf (accessed November 17, 2024).

Treasury's Cash Balance

An important variable for calculating the X-Date will be the Treasury's starting cash-on-hand balance when the debt limit is reinstated in January 2025.

The Treasury has significantly built up its cash-on-hand balance since the debt limit was last suspended on June 3, 2023. Immediately prior to the beginning of the debt limit suspension, the cash-on-hand balance was only $23.4 billion.[6]

The Treasury expects to hold cash balances of $700 billion when the debt limit is reinstated on January 1, 2025.[7]

The cash on hand balance remains a source of uncertainty.[8] The Fiscal Responsibility Act prohibits the Treasury Secretary from issuing debt "for the purpose of increasing the cash balance above normal operating balances in anticipation of the expiration" of the debt limit suspension.[9] The Department of Justice's Office of Legal Counsel (OLC) provided a legal opinion in 2021 that reinterpreted restrictive language on the Treasury during a debt limit suspension to instead allow the Treasury to build up a "prudential buffer" of larger cash reserves.[10]

Prioritization of Debt Payments

If the X-Date is crossed without increasing the debt limit, the only other options for Congress would be to enact legislation immediately reducing federal obligations below receipts or to force the federal government to not pay all of its obligations on time. In FY 2024, federal receipts only financed 73 percent of outlays, with monthly deficits as large as $380 billion, meaning obligations would need to be reduced by an average of 27 percent.

The Treasury is authorized to prioritize payment of debt obligations to creditors. However, the Treasury would be unable to make timely payments for other obligations, including potentially to beneficiaries of federal entitlement programs, federal contractors, or federal employees.

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[6] U.S. Department of the Treasury, "Daily Treasury Statement (DTS)," June 2, 2023, https://fiscaldata.treasury.gov/datasets/daily-treasury-statement/operating-cash-balance (accessed November 17, 2024).

[7] U.S. Department of the Treasury, "Treasury Announces Marketable Borrowing Estimates," October 28, 2024, https://home.treasury.gov/news/press-releases/jy2688 (accessed November 12, 2024).

[8] Shai Akabas, Rachel Snyderman, and Andrew Lautz, "The Debt Limit in 2025: How Will Treasury Manage Cash on Hand?," Bipartisan Policy Center, April 16, 2024, https://bipartisanpolicy.org/blog/debt-limit-2025-treasury-cash-on-hand/ (accessed November 17, 2024).

[9] Fiscal Responsibility Act, Public Law 118-5, Sec. 401(c)(2).

[10] Dawn Johnsen, "Treasury's Cash Balance and the August 1, 2021 Debt Limit," U.S. Department of Justice Office of Legal Counsel, July 8, 2021, https://www.justice.gov/olc/media/1346916/dl?inline (accessed November 17, 2024).

The Treasury has told Congress that "If the debt limit were not raised, and assuming Treasury had sufficient cash on hand, the New York Fed's systems would be technologically capable of continuing to make principal and interest payments while Treasury was not making other kinds of payments, although this approach would be entirely experimental and create unacceptable risk to both domestic and global financial markets."[11] An investigation by the House Financial Services Committee found that the Obama Administration misled Congress and the public about prioritization in an effort to "maximize pressure on Congress" for political purposes, despite implementing prioritization plans and running exercises.[12] The Government Accountability Office confirmed in 1985 that in the event the debt limit is not increased, "Treasury is free to liquidate obligations in any order it finds will best serve the interests of the United States."[13]

Prioritization would present political, technical, and legal challenges. Millions of individual transactions on the Treasury's systems on a given day, many of which are authorized and automated in advance. Implementing a prioritization framework would require Treasury to develop an accounting system to manage and keep track of the revised flow of payments. If the Treasury prioritized debt payments and failed to make timely payments to other obligations the federal government would be in violation of other laws and would incur penalties.[14]

The Need — and the Opportunity — to Control Spending

Since August 2019, the debt limit has been modified four times: two suspensions and two dollar-specific debt limit increases. Over these five years, the debt has grown by about $13.9 trillion. For context, the total national debt only reached $13.9 trillion in 2010.

The rapid growth of debt is driven by excessive spending. The current fiscal trajectory, where government spending would exceed historical norms and grow faster than the economy, is unsustainable and harmful to American families.

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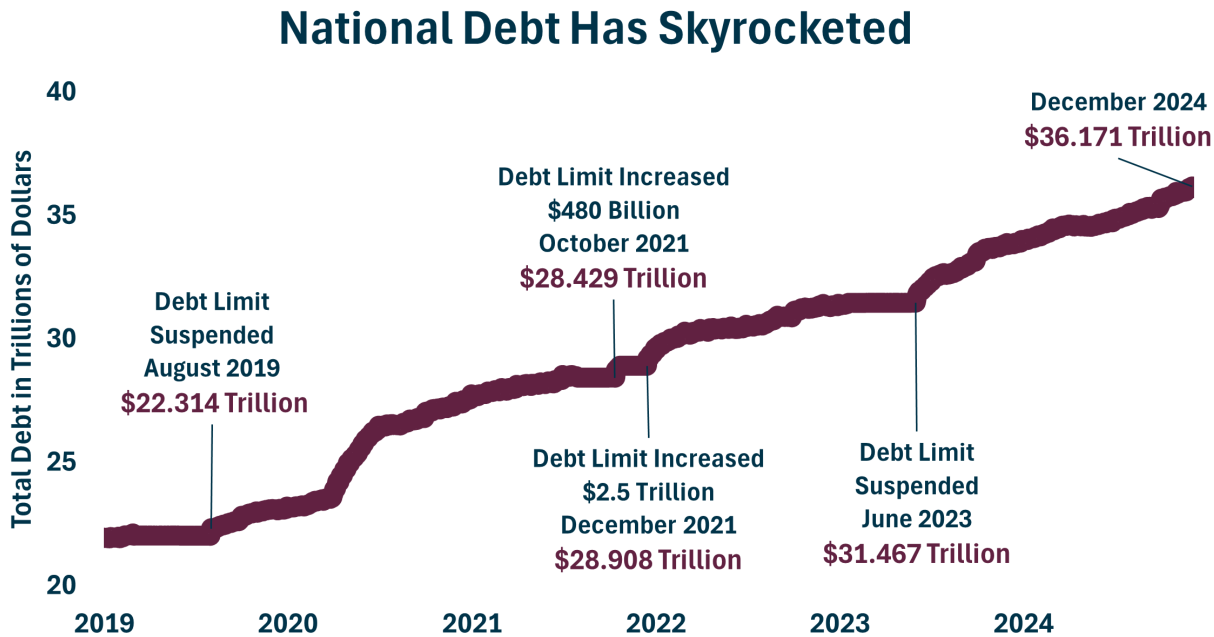
[11] Letter from Alastair M. Fitzpayne, Assistant Secretary for Legislative Affairs, to Hon. Jeb Hensarling, Chairman, Committee on Financial Services, May 7, 2014, as Appendix 24 of Subcommittee on Oversight And Investigations, Committee On Financial Services, U.S. House Of Representatives, "Staff Report The Obama Administration's Debt Ceiling Subterfuge: Subpoenaed Documents Reveal Treasury Misled Public In Attempt To 'Maximize Pressure On Congress,'" February 1, 2016, https://financialservices.house.gov/uploadedfiles/debt_ceiling_report_final_01292015.pdf (accessed November 17, 2024).

[12] House Financial Services Committee, "Subpoenaed Records Contradict Treasury on Debt Ceiling," February 1, 2016, https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=400214 (accessed November 17, 2024).

[13] Government Accountability Office, "[Question Concerning Secretary of the Treasury's Authority]," GAO B-138524, October 9, 1985, https://www.gao.gov/products/b-138524-0 (accessed November 17, 2024).

[14] For example, the Prompt Payment Act requires agencies to pay an interest penalty plus the amount due to federal contractors for services or property provided (31 USC 39).

Chart 3



Source: U.S. Department of the Treasury

Politicized spending, crushing debt, and burdensome regulations crowd out and distort private investment, slowing economic growth, innovation, and opportunities for workers.

Excessive and irresponsible government spending has caused inflation to spike at rates not seen in decades. Since January 2021, inflation has grown by 20.5 percent. As the price of gas, groceries, and other essential goods and services have grown faster than incomes, the dwindling purchasing power has been a painful squeeze on family budgets.

Unsustainable Government Spending

Spending is well above the historical average of 21 percent of GDP. It reached 23.9 percent of GDP in FY 2024 and grows to 24.9 percent of GDP in FY 2034 and 27.3 percent of GDP by 2054 in the Congressional Budget Office's (CBO) baseline projections.

Government spending that grows faster than the economy, as is projected in the CBO baseline, is inherently unsustainable over the long run because there is no way for tax revenues to keep up.[15]

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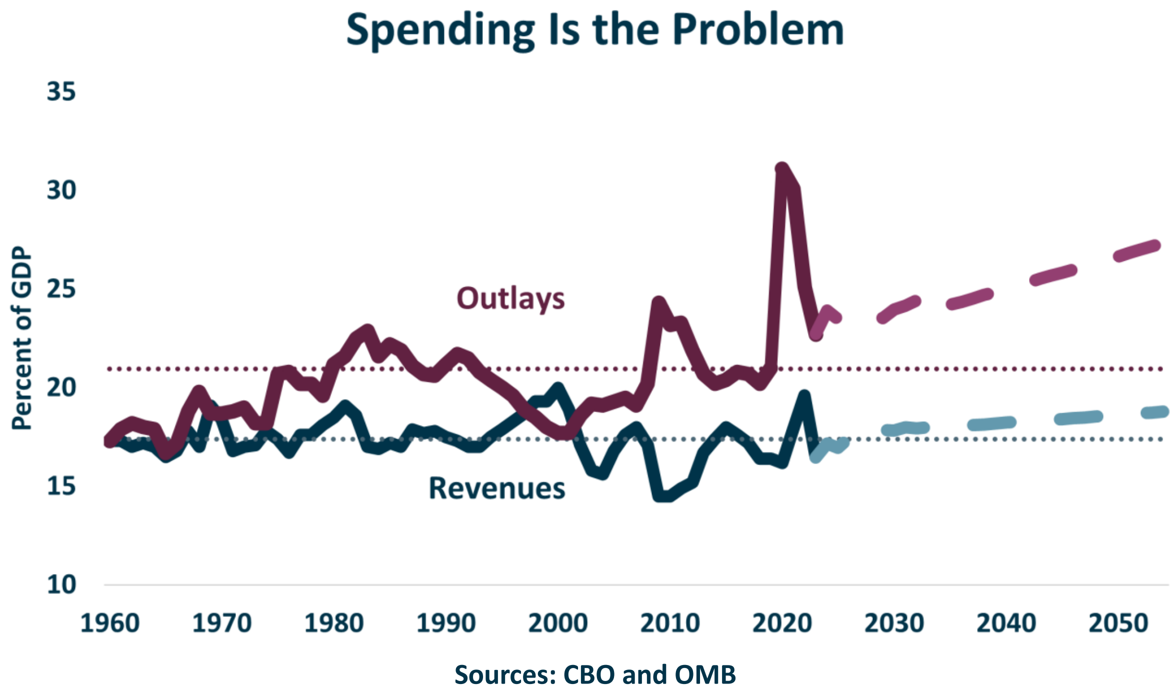
[15] Paul Winfree, "Causes of the Federal Government's Unsustainable Spending," Heritage Foundation *Backgrounder* No. 3133, July 7, 2016, https://www.heritage.org/budget-and-spending/report/causes-the-federal-governments-unsustainable-spending (accessed November 17, 2024).

Chart 4



Evaporating Fiscal Space

As the government's debt piles up, it can be more difficult and costly for the Treasury to borrow for actual emergencies. As described by EPIC's President and CEO Paul Winfree, this fiscal space is "crucial for the government's ability to respond to crises such as war, pandemics, and recessions. However, persistent structural deficits, rising interest costs, and slower economic growth erode fiscal capacity and threaten the nation's ability to manage future challenges without causing additional harm."[16]

Fiscal space can be considered a nation's effective debt limit. Winfree has calculated that under the CBO's baseline, a debt spiral would begin by 2035, as "the debt will begin to accumulate at a rate with which a growing economy will not be able to keep pace." The government would exhaust all fiscal space by the 2050s.[17]

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[16] Paul Winfree, "The Looming Debt Spiral: Analyzing the Erosion of U.S. Fiscal Space," Economic Policy Innovation Center, March 5, 2024, https://epicforamerica.org/the-economy/the-looming-debt-spiral-analyzing-the-erosion-of-u-s-fiscal-space/.
[17] Ibid.

The Debt Limit Has Historically Facilitated Spending Reduction Deals

Going back four decades, successful deficit reduction deals have been tied to debt limit increases, including:[18]

- Balanced Budget and Emergency Deficit Control Act of 1985
- Budget Enforcement Act of 1990
- Deficit Reduction Act of 1993
- Budget Enforcement Act of 1997
- Budget Control Act of 2011
- Fiscal Responsibility Act of 2023

The 2025 debt limit must again be a catalyst for responsible governance. Congress should increase the debt limit, pairing it with reforms that will control spending and grow the economy.

Preparing for the Debt Limit

The debt limit reinstatement in January 2025 presents both a challenge and an opportunity for policymakers.

Congress will likely need to increase the debt limit as early as June or as late as the 2025 August recess as the cash on hand and extraordinary measures are depleted.

However, the debt limit offers a critical opportunity to implement meaningful fiscal reforms, as there is clear precedent for tying successful deficit reduction deals to debt limit increases. By pairing necessary debt limit adjustments with responsible policies that control spending and promote economic growth, lawmakers can achieve important, more fiscally sustainable outcomes for the American people.

[18] Brian Riedl, "Getting To Yes: A History Of Why Budget Negotiations Succeed, And Why They Fail," Manhattan Institute, June 18, 2019, https://manhattan.institute/article/getting-to-yes-a-history-of-why-budget-negotiations-succeed-and-why-they-fail (accessed November 17, 2024); and Congressional Research Service, "Budget Process Reforms Included in Debt Limit Legislation," February 9, 2023, https://crsreports.congress.gov/product/pdf/R/R47415 (accessed November 17, 2024).

Appendix: X-Date Methodology

The X-Date estimates contained in this report stems from a set of monthly forecasts for federal gross collections, refunds, federal net revenue collections, total federal outlays, federal operating deficits, and Treasury's opening cash balances.

Analysts at EPIC developed these forecasted budget outcomes by building statistical equations (described below) based on historical, monthly data from the U.S. Department of the Treasury for the period January of 2021 through June of 2024. These budget data were combined with economic data for this same time period from the Congressional Budget Office's economic assumptions for the period 2024 through 2034 that CBO published in June of 2024. In other words, our X-Date estimate reflects the pattern of collections and disbursements published by the Treasury and the economic projections produced by the Congressional Budget Office.

Each of our estimating equations uses an indicator variable for each month of the year. In addition, we employ economic variables (again from CBO) to connect the monthly pattern of federal financial results to the ebb and flow of economic activity. The coefficients for each of the independent variables are estimated using ordinary least squares.

Data are drawn from the following sources:

Bureau of the Fiscal Service, U.S. Department of the Treasury, "Monthly Treasury Statement," January, 2021 through June 2024, available at https://www.fiscal.treasury.gov/reports-statements/mts/current.html

Congressional Budget Office, U.S. Congress, Budget and Economic Data, 10-Year Economic Projections, for June 2024, Fiscal Years 2025 through 2034 at https://www.cbo.gov/data/budget-economic-data#3