March 28, 2025

Policy Points
Debt Limit State of Play

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Timeline

On January 2, the debt limit was formally reinstated at $36.1 trillion, following its most recent suspension on June 2, 2023. On January 17, former Treasury Secretary Janet Yellen sent Congressional leaders a letter informing them that the Treasury Department will begin using "extraordinary measures" on January 21. Under these measures, the Treasury Department prioritizes certain payments relying on existing cash to continue paying the federal government's bills before the so-called "X-Date," when it can no longer pay all its financial obligations. On March 14, Treasury Secretary Scott Bessent sent Congressional leaders a letter informing them that he would extend the "debt issuance suspension period" through June 27. Secretary Bessent also mentioned that the Treasury Department would provide an update "during the first half of May after the majority of recipients from the April income tax filing season have been received."

"X" Marks The Spot

The Bipartisan Policy Center (BPC) on March 24, released its long-awaited "X-Date" forecast, which provided a range between mid-July and early October. Also, on March 26, the Congressional Budget Office (CBO) released its "X-Date" forecast as between August or September, in between the earlier BPC estimate.

The BPC cites several examples of issues that could lead to uncertainty regarding the Treasury Department's cash flow that contributes to the wide-ranging estimate:

- Strength of tax collections, particularly on the June 15 quarterly date.
- Tax filing extensions that were granted to several states due to natural disasters.
- Tariff revenue.
- Changes in timing to planned spending due to adjustments made by Congress and the Department of Government Efficiency (DOGE).
- Economic Outlook.

Reconciliation Route

House Republicans included a debt limit instruction of $4 trillion to extend the debt limit for approximately another two years (i.e., after the 2026 congressional midterm elections) as part of their budget resolution, H.Con.Res.14, which cleared the House 217-215 on February 25. President Trump has encouraged Republican lawmakers to address the debt limit in their reconciliation package without the need of support from Congressional Democrats. As a result. Legislation to address the debt limit is now linked with the GOP reconciliation effort. We expect that the Senate's latest version of the budget resolution will also include a debt limit instruction, possibly larger than the $4 trillion included in the House version, and that a debt limit instruction is likely to stay in the eventual reconciled concurrent budget resolution that when passed by both chambers, unlocks the reconciliation process.

Timing

A fair amount of uncertainty over cashflows could cause the “X-Date” to be closer to the July timeframe. It is also worth noting that the House is scheduled to adjourn for the August recess on July 24. The senate is scheduled to follow suit on August 1. Both chambers are scheduled to return on September 2.

Assuming the debt limit instruction stays in the final concurrent budget resolution, the issue may be that the rest of the package (tax policy, spending cuts, etc.) are not agreed upon by the “X-Date”, and Congressional leaders have to handle the debt limit on a different vehicle, one that would require Democratic support in the Senate where 60 are needed and Republicans have 53 seats. One option might be to include it as part of a disaster supplemental package. Suppose the “X-Date” forecast starts to shift to October. In that case, another option might be to attach debt limit legislation to a government funding bill needed by the end of the fiscal year 2025 on September 30.

In the aftermath of the recent stopgap vote, Senate Minority Leader Chuck Schumer (D-NY) will face political pressure to use the opportunity to secure concessions, which could raise volatility around the “X-Date”, if Republicans are not able to pass the bill on their own through reconciliation.

Legislative Risk Impact

Legislative uncertainty could lead to a downgrade from Moody's, the last of three major credit agencies, to maintain a AAA rating for U.S. sovereign debt following downgrades from Standard & Poor's and Fitch in 2011 and 2013, respectively. While Moody's has maintained its AAA rating, it lowered its outlook to negative in November 2023, citing “continued political polarization within the U.S. Congress raises the risk that successive governments will not be able to reach consensus on a fiscal plan to slow the decline in debt affordability.” While U.S. Treasury securities are considered the global standard of risk-free investments, mounting debt and political uncertainty may cause investors to demand more return, increasing the cost of servicing the debt.