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INSIGHT

Federal Debt and the Debt Limit in 2025

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The federal debt limit was reinstated on January 2, 2025, at $36.1 trillion. On that date, debt held by the public totaled $28.8 trillion and intergovernmental accounts accounted for $7.3 trillion. The statutory debt limit constrains nearly all federal debt, including both debt held by the public (mostly Treasury securities sold via auctions) and intragovernmental debt (mainly federal trust funds, such as those for Social Security, Medicare, and federal retirement systems).

The Fiscal Responsibility Act of 2023 (FRA; P.L. 118-5), enacted on June 3, 2023, had suspended the debt limit until January 1, 2025. The FRA also reimposed statutory caps on discretionary spending; and rescinded unobligated funds from various federal accounts. The reestablished limit was set at a level to accommodate debt issued during the suspension period to fund federal operations. Since 2013, Congress has mostly resolved debt limit episodes by suspending the limit for a set period of time. In 2021, however, the limit was raised twice by specific dollar amounts.

On May 22, 2025, the House approved H.R. 1 on a 215-214 vote; among other provisions, the bill would raise the debt limit by $4 trillion. The Congressional Budget Office estimates that enacting the bill would increase deficits over the coming decade by $3.3 trillion.

The persistent gap between federal revenues and outlays over the past two decades has pushed up public debt levels to historic levels. Some of that gap stems from external shocks, especially the 2007-2009 financial crisis and ensuing Great Recession and the COVID-19 pandemic. Such shocks reduce revenues and lead to increased spending as household incomes fall. A fiscal gap, to a lesser extent, preceded those shocks and continued after them. Under current policies, that gap is projected to widen, pushing debt to historic levels.

Extraordinary Measures Anticipated to Begin Later in January 2025

After previous debt limit suspensions ended Treasury Secretaries immediately invoked authorities to use *extraordinary measures*. The Treasury Secretary has authority to declare a "debt issuance suspension period" (DISP) when deposits in the form of special Treasury securities into the Civil Service Retirement and Disability Fund (CSRDF) cannot be issued without exceeding the debt limit. During a DISP, the U.S. Treasury can use financial resources from civil service and postal service retirement funds to meet federal obligations. Delaying deposits into those funds or redeeming the Treasury securities they hold comprises the bulk of extraordinary measures. Other extraordinary measures include dollar holdings of the Exchange

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Stabilization Fund and the Thrift Savings Plan's (TSP's) holdings of Treasury securities. Treasury's cash balances (see below) may also be used to delay a binding debt limit.

In late December 2024, then-Treasury Secretary Janet Yellen wrote Congress that she expected extraordinary measures would soon become necessary. On January 17, 2025, she then informed Congress that the Treasury would begin employing those measures the following Monday. Two days later, the new Acting Treasury Secretary notified Congress that he had invoked authorities to use the TSP G Fund resources. In March 2025, Treasury Secretary Scott Bessent invoked authorities to use civil service and postal service retirement funds. In May 2025, he informed Congress that Treasury's resources could be exhausted in August, when Congress was scheduled to be in recess, and therefore urged prompt action to address the debt limit.

How long Treasury can continue to meet federal financial obligations depends on its cash balances, the extent of funds available via extraordinary measures, and the timing of federal revenues and payments—when taxes are collected and when outlays are paid—as well as the schedule of redemptions and interest payments to federal trust funds. In June 2025, CBO estimated that the Treasury could meet federal obligations until sometime between mid-August and late September 2025. Some informed observers believe the Treasury's resources might last as long as early October, although they note that projections of federal outlays and revenues are inexact. While Treasury now reports balances on funds used for extraordinary measures on a daily basis, which improves the precision of those projections, delayed action still could create serious risks.

Public debt allows governments to spread costs over time, especially for major infrastructure investments or responses to natural disasters or geopolitical challenges. High debt levels can crowd out private investment and push the fiscal burdens onto future generations.

Federal debt has risen considerably since FY2001, the last fiscal year in which the U.S. government ran a surplus. At the end of FY2001, gross federal debt stood at $5.8 trillion, about 55% of gross domestic product (GDP). At that time, debt held by the public was $3.3 trillion (about 32% of GDP), which included Federal Reserve holdings of Treasury debt (about $0.5 trillion, 5.1% of GDP).

COVID-19, declared a pandemic in mid-March 2020, confronted the federal government, like governments around the world, with extraordinary challenges. Fiscal responses to the pandemic accelerated the accumulation of federal debt.

Major public works measures such as the Infrastructure Investment and Jobs Act and the Inflation Reduction Act have also affected the pace of federal borrowing, as has the 2017 tax act.

At the end of December 2024, total federal debt ($36.2 trillion) was about 123% of GDP and federal debt held by the public ($28.8 trillion)—the more relevant macroeconomic measure—was 98% of GDP. Most of the accumulation of total debt reflects increases in debt held by the public, rather than intergovernmental debt, as **Figure 1** shows.

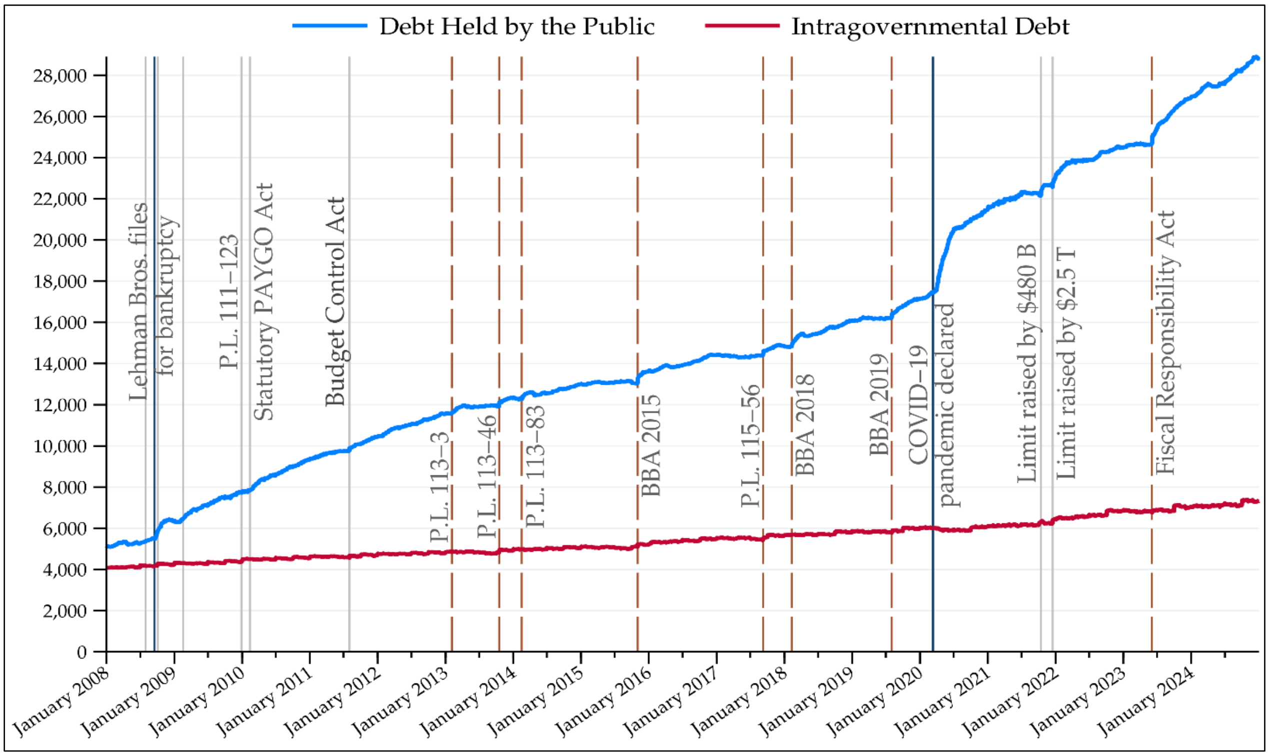
Intragovernmental debt, which includes Social Security trust funds, Medicare trust funds, and various federal retirement trust funds, has risen more smoothly and more slowly. In particular, the closer balance between Social Security trust fund revenues and benefit outlays, largely due to the retirement of Baby Boom cohorts has slowed the growth of intergovernmental debt.

In future decades, federal health and retirement programs are projected to pose longer-term budgetary challenges. The gap between federal outlays (a projected 23.5% of GDP in FY2025) and revenues (projected at 17.0% of GDP) is projected to grow, according to Congressional Budget Office current-law baseline projections.

A long-term decline in interest rates beginning in the mid-1980s had mitigated debt service costs. Since the pandemic summer of 2020, however, interest rates increased, reaching about the same levels as before the start of the 2008 financial crisis. How long higher interest rates—which would add a projected $2.5 trillion in debt service costs over the next decade—might persist is an important macroeconomic question.

Figure 1. Federal Debt by Category, 2006-2024

Billions of current dollars; Debt limit increases in grey, suspensions in ochre



Source: CRS calculations based *on Daily Treasury Statement* data.

Notes: Debt held by the public includes open-market purchases by the Federal Reserve System.

Treasury Debt Management and the Federal Reserve

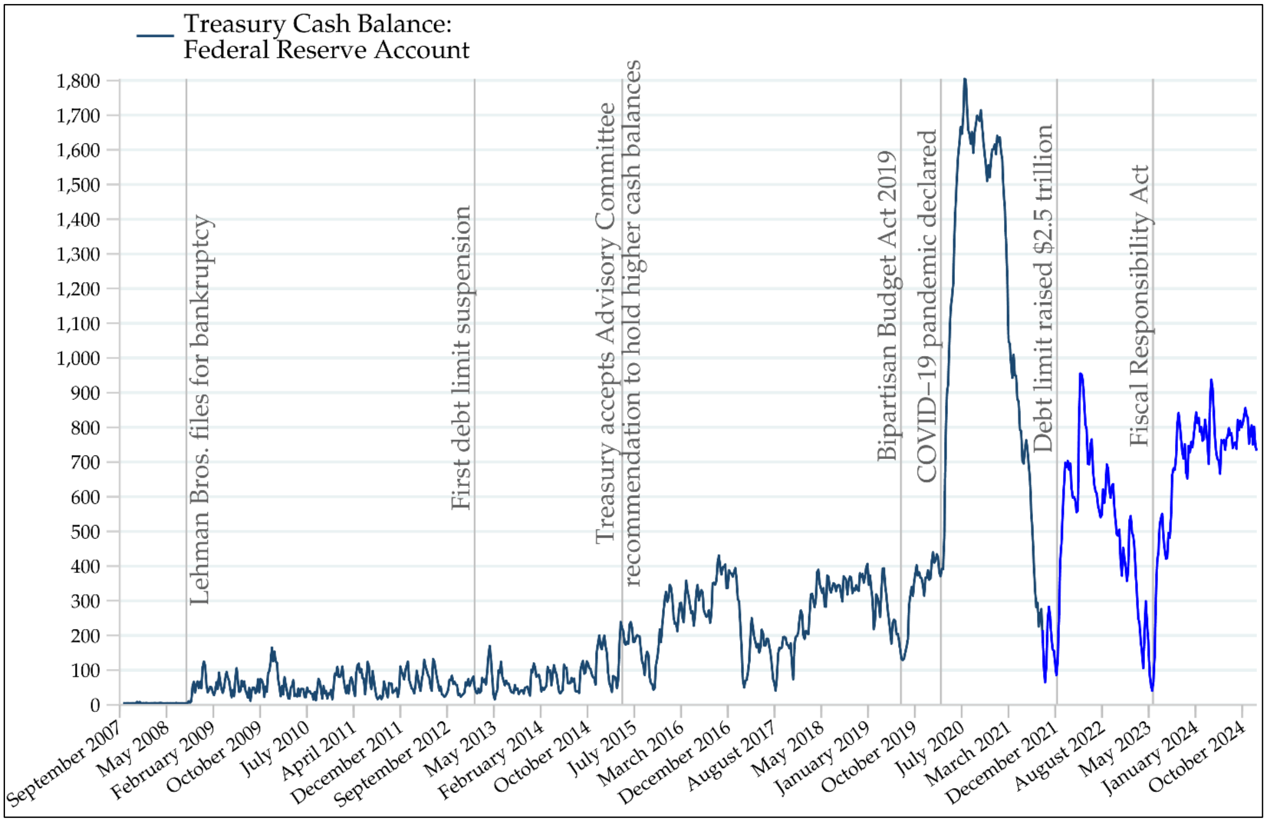
Treasury's cash balances, except during debt limit episodes, have been much higher than a decade ago (**Figure 2**). Before the Lehman Brothers investment bank collapsed in September 2008, Treasury cash balances were kept to minimal levels. A 2015 Treasury advisory committee recommended increasing cash balances as a precaution against major disruptions.

After the March 2020 COVID-19 pandemic declaration, Treasury's cash balances rose sharply to enable rapid disbursement of CARES Act (P.L. 116-136) payments. Near the end of debt limit episodes in 2021 and 2023, cash balances dipped below $100 billion.

Debt held by the public includes the Federal Reserve System (Fed) open-market purchases of Treasury securities, used to support its monetary policy. During the 2007-2009 financial crisis, the Fed conducted nonstandard monetary policies, including buying amounts of Treasury securities. As the Fed sold off those assets, and with reduced liquidity in Treasury markets, some were concerned that a debt limit episode leading to a rapid reduction in Treasury cash balances could stress the wider market for Treasuries and work at cross purposes with Fed monetary policy. Those Fed sales slowed slightly in 2025.

Figure 2. Treasury Cash Balances, FY2007-FY2025

Billions of current dollars



Source: CRS calculations based on *Daily Treasury Statement* data.

Notes: Before 2010, Treasury kept smaller amounts of cash balances outside of the main Treasury General Fund Account held with the Federal Reserve.

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