FEATURED TOPIC

America's Fiscal Future - Federal Debt

What you need to know about the federal debt, and GAO's analysis of debt management challenges.

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Understanding the Debt

When the federal government runs a deficit, the Department of the Treasury borrows money to make up the difference between spending and revenue. Then, if special funds like the Medicare trust fund have surpluses, the "extra" revenue is lent to the rest of the federal government.

The federal debt is the total amount of money that the federal government owes, either to its investors or to itself. Total federal debt rose to $26.9 trillion at the end of fiscal year 2020.

Federal Borrowing

How the Federal Government Borrows Money

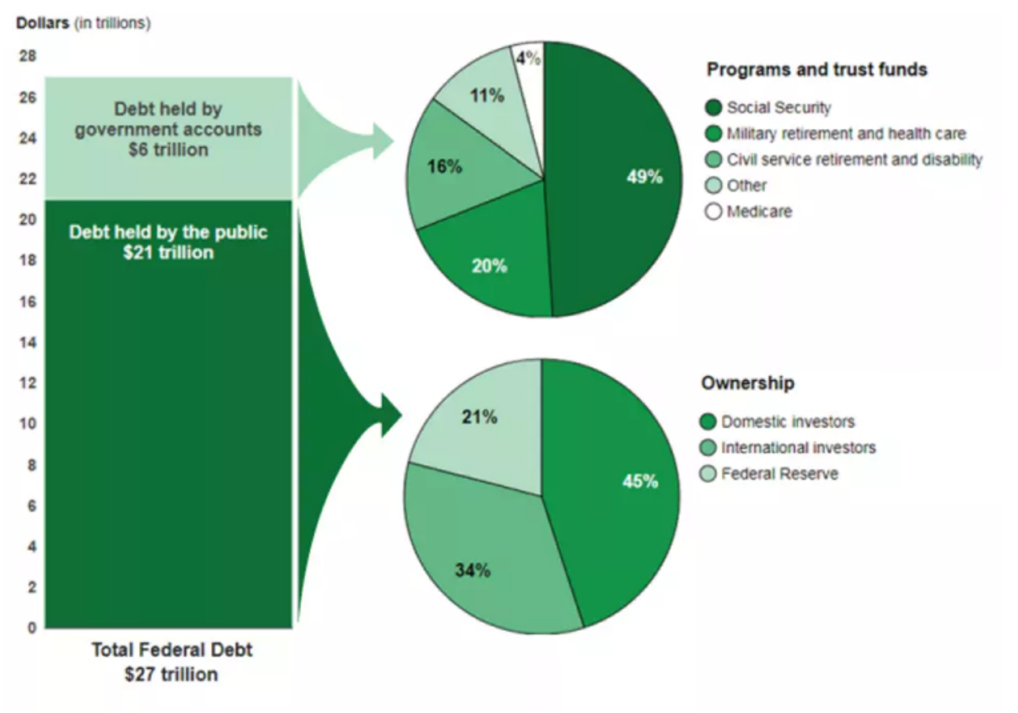
The federal government borrows money from the public by issuing securities—bills, notes, and bonds—through the Treasury. Treasury securities are attractive to investors because they are:

- Backed by the full faith and credit of the United States government
- Offered in a wide range of maturities
- Exempt from state and local taxes
- Mostly marketable, meaning they can be resold in the financial market (a small portion are nonmarketable and can't be resold, like U.S. Savings Bonds).

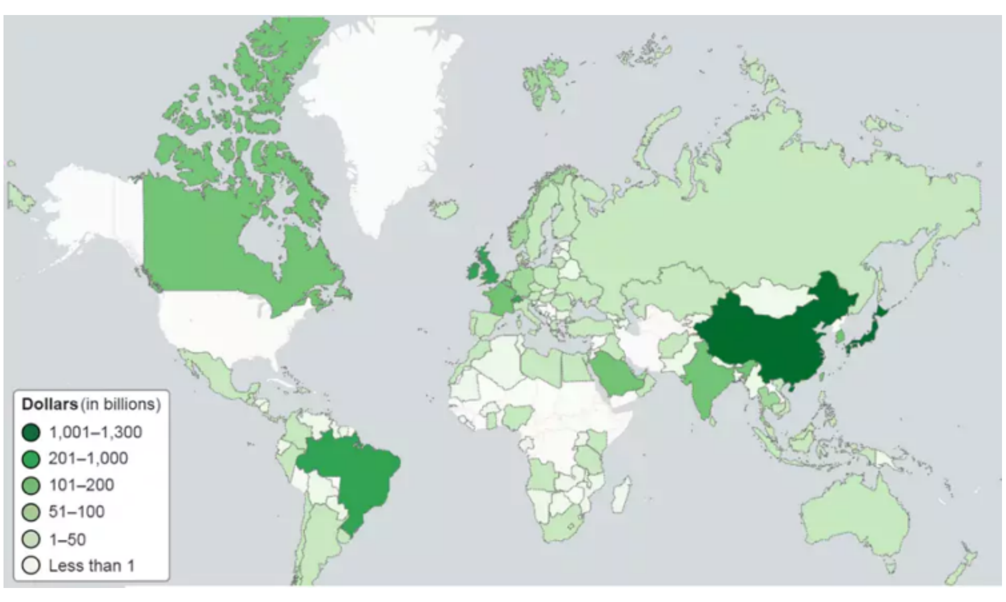
Investors can easily trade Treasury securities because there are many people interested in buying and selling them at any given time. Investors are willing to pay more for this safety and liquidity—leading to lower borrowing costs (interest on the debt) for the government.

You can see a breakdown of these investors and holders of intragovernmental debt (debt held by government accounts) in the graphic below

Fiscal Year 2020 Debt Held by the Public and Intragovernmental Debt



In which countries are the most Treasury securities held?



Click here for an interactive version of the map

Sources: *Fiscal Year 2019 Financial Report* (bar chart). GAO analysis of data from the Department of the Treasury, Schedules of Federal Debt and the Federal Reserve, Financial Accounts of the United States (pie charts). GAO analysis of data from the Department of the Treasury, the Federal Reserve Bank of New York, and the Board of Governors of the Federal Reserve System, Foreign Portfolio Holdings of U.S. Securities as of June 28, 2019 (map).

Notes: Countries highlighted on the map hold at least $1 billion in Treasury securities and together represent more than 99 percent of all foreign holdings. China refers to mainland China; Hong Kong and Macau are reported separately. Data on Treasury securities held by Serbia and Montenegro are reported together, totaling about $1.7 billion as of June 28, 2019 (map). The map does not include data for Treasury securities held by international and regional organizations, unknown countries, and countries for which Treasury did not report data.
Data: TXT | PDF

As shown in the graphic above, more than 75 percent of foreign holdings of Treasury securities can be attributed to 15 countries. China (excluding Hong Kong and Macau) and Japan have the largest holdings. However, this does not mean that residents of these countries are the ultimate owners. The data only identify where the securities are held. Obtaining accurate information on the actual foreign owners is often not possible, because chains of foreign financial intermediaries are often involved in the custody or management of these securities.

Managing the Debt

Treasury's overarching debt management goal is to ensure the federal government's financing needs are met at the lowest cost to taxpayers over time. To achieve this goal, Treasury issues a variety of marketable securities in sufficient amounts to ensure the liquidity of each, and maintains a regular and predictable auction schedule. This schedule provides investors with greater certainty and better information with which to plan their investments.

Why Debt Management Is Challenging

Constantly changing financial markets — Treasury must consider the volume of securities to be issued at a given maturity in relation to changing market demands for Treasury securities. If the Treasury offers too much of any given security, it may have to pay a higher yield to attract investors. If the Treasury offers too little of a given security, it may reduce the security's liquidity in the secondary market, which, in the long run, may also increase the yield Treasury has to pay.

Uncertain future borrowing needs — Policy changes and national economic performance are difficult to project and can quickly and substantially affect federal cash flow. For example, policy responses to external events like recessions, war, and emergencies (e.g., natural disasters such as hurricanes) can dramatically affect borrowing needs.

Uncertainty about the debt limit — The debt limit (the statutory ceiling on the amount of total federal debt) is suspended through July 2021, at which time it will need to be either suspended again or raised. Delays in suspending or raising the debt limit can create debt and cash management challenges for the Treasury. Treasury has often used extraordinary actions, such as suspending investments or temporarily disinvesting securities held in federal employee retirement funds, to remain under the limit. For more information about the debt limit, read our WatchBlog post, "Debt Limit 101."

Refinancing the debt — As of September 30, 2020, 64 percent of the outstanding amount of marketable Treasury securities held by the public (about $13.1 trillion) was scheduled to mature in the next 4 years. A significant share of that maturing debt will need to be refinanced at prevailing interest rates. Treasury's debt management goal is to borrow at the lowest cost over time, while also managing its debt portfolio to mitigate "rollover risk"—the risk that it may have to refinance its debt at higher interest rates. To do this, Treasury needs to consider the mix of longer-term and shorter-term securities that it offers. Longer-term securities typically have higher interest rates but provide more certainty, while shorter-term securities have lower interest rates but need to be refinanced more frequently.

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Multimedia

Video

GAO: What is the Federal Debt?

TUESDAY, NOVEMBER 05, 2013

Blog Post

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MONDAY, MARCH 28, 2022

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Blog Post

Debt Limit 101

MONDAY, NOVEMBER 9, 2015

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