



The Debt Limit

Overview

The debt limit places a statutory constraint on the amount of money that Treasury may borrow to fund federal operations. The debt limit was increased by \$5.0 trillion, to \$41.1 trillion, in July 2025 by P.L. 119-21. This In Focus provides background information and discusses recent legislative activity.

More information on the debt limit can be found in CRS Report R47574, *Debt Limit Policy Questions: What Are the Potential Economic Effects of a Binding Federal Debt Limit?*; CRS Insight IN10837, *Debt Limit Policy Questions: What Are Extraordinary Measures?*; and CRS Report R44383, *Deficits, Debt, and the Economy: An Introduction*.

Rationale and Role of the Debt Limit

The Constitution grants Congress the “power of the purse,” allowing Congress to restrict the amount of federal debt. Congress exercises this power through the federal debt limit, which is codified at 31 U.S.C. §3101. Debt subject to limit is more than 99% of total federal debt, and includes debt held by the public (which is used to finance budget deficits) and debt issued to federal government accounts (which is used to meet federal obligations).

Federal debt increases when total expenditures exceed total receipts (producing a budget deficit). Expansion of the federal lending portfolio, through programs like college student loans, also increases federal debt levels. Periods of sustained budget deficits raise debt levels. CBO’s January 2025 baseline projects that the debt subject to limit will reach \$47.0 trillion at the end of FY2030 and \$59.3 trillion by the end of FY2035; debt held by the public is forecast to equal \$39.7 trillion and \$52.1 trillion in those respective years.

The federal debt limit is often viewed as a check to ensure that revenue and expenditure trends meet the approval of lawmakers. Federal collection and spending policies affecting debt levels, however, are the result of policies implemented previously by lawmakers. Congress has sometimes chosen to include new fiscal policy policies in debt limit legislation.

Options for Congress

When debt levels approach the statutory debt limit, Congress may choose to (1) leave the existing debt limit in place; (2) increase the debt limit to allow for further federal borrowing; or (3) temporarily suspend or abolish the debt limit. Maintaining the current debt limit may lead Treasury to implement “extraordinary measures” to postpone a binding debt limit. Such measures, however, do not prevent a binding debt limit indefinitely. Some have suggested that the Fourteenth Amendment may grant the President authority to ignore the statutory debt limit. Previous

Administrations and many representatives of the legal community have rejected that argument as an alternative to debt limit legislation.

Inaction or Delayed Action: Potential Consequences

The combination of a binding debt limit and continued budget deficits would leave Treasury with conflicting directives. As with any borrower, the government is obliged to pay its bills, and yet a binding debt limit would prevent Treasury from doing so in a timely fashion. Possible consequences of a binding debt limit include, but are not limited to, the following:

- reduced ability of Treasury to borrow funds on advantageous terms, thereby further increasing federal debt;
- substantial negative outcomes in global economies and financial markets caused by anticipated default on Treasury securities or failure to meet other legal obligations;
- acquisition of interest penalties from delay on certain federal payments and transfers; and
- downgrades of U.S. credit ratings, which could negatively affect capital markets.

Possible economic and fiscal consequences of the debt limit are not confined to scenarios where the debt limit is binding. Protracted deliberation over raising the debt limit may also affect the U.S. financial outlook if it negatively affects household and business behavior. Research suggests that the debate over the debt limit in August 2011 reduced economic expansion in the second half of that year.

“Because the debt ceiling impasse contributed to the financial market disruptions, reduced confidence and increased uncertainty, the economic expansion [in 2011] was no doubt weaker than it otherwise would have been.”—U.S. Treasury, *The Potential Macroeconomic Effect of Debt Ceiling Brinkmanship*, October 2013.

Increasing the Debt Limit

Increasing the debt limit to accommodate further borrowing allows federal operations to continue as they otherwise would. Increasing the debt limit reduces the likelihood of experiencing potential consequences associated with a binding and near-binding debt limit.

While larger increases in the debt limit allow more time to enact changes that adjust budgetary trends, they may also reduce the debt limit’s effect on budgetary discussions if policymakers feel less constrained by the revised debt limit

level. Smaller debt limit increases potentially offer a greater role for the debt limit legislation in budgetary policy discussions, but may lead to more frequent debt limit activity.

“Extraordinary Measures” and Debt Limit Suspension

Both invoking Treasury’s authority to use “extraordinary measures” to stay under the debt limit, and temporarily suspending the debt limit, can postpone when Congress must act on debt limit legislation. The authority for using such “extraordinary measures,” which include suspensions and delays of some debt sales and auctions, underinvestment and disinvestment of certain government funds, and exchange of debt securities for debt not subject to the debt limit, rests with the Treasury Secretary.

Invocation of “extraordinary measures” has delayed required action on the debt limit by periods ranging from a few weeks to several months. Temporary suspensions delay the restrictions imposed by the debt limit for a period determined by corresponding legislation, and have been used in lieu of increasing the debt limit to a specific dollar value in recent years. Current law provides a nominal debt limit value that exceeds debt subject to limit. Recent projections suggest such borrowing will approach the debt limit sometime in FY2027, though such estimates are subject to considerable uncertainty (as discussed below).

Past Debt Limit Activity

P.L. 119-21 (often referred to as the One Big Beautiful Bill Act) increased the debt limit by \$5.0 trillion, to \$41.1 trillion. Prior to enactment of that law, Treasury had been implementing extraordinary measures for several months to prevent a binding debt limit.

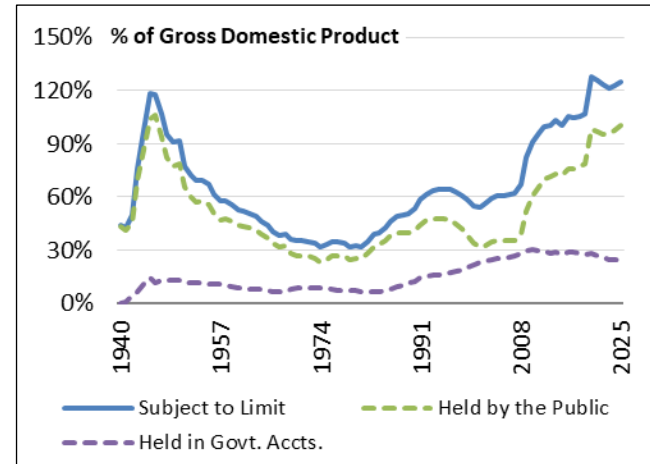
Regular legislative modifications to the debt limit have been enacted since the aggregate debt limit was first created in 1917. Congress has approved 104 separate debt limit modifications between the end of World War II and the present to accommodate the changes in federal debt levels. Debt held by the public has consistently increased in that time period, except in the period immediately following World War II and between 1998 and 2001 when debt declined due to federal budget surpluses.

Congress has approved 22 distinct changes to the debt limit since 2001. Much of the recent increase in the debt is attributable to a rise in debt held by the public. Increases in spending on old-age and retirement programs, lower tax receipts, and federal activities related to the Great Recession and in response to the COVID-19 pandemic have all contributed to rising debt levels. Debt held in government accounts has increased only slightly since 2001. Initial increases in intragovernmental debt from 2001 through 2010 were followed by a gradual decline in such debt over the past 15 years, with the latter decline reflecting cumulative annual deficits in the trust funds financing Social Security and Medicare.

Figure 1 shows the debt subject to the limit as a percentage of GDP from 1940 to 2025, along with that debt’s

composition. Although nominal debt levels have steadily risen in the postwar period, debt measured as a percentage of GDP (real debt) declined precipitously for several decades after reaching 118% in 1946, declining to 32% in 1981. Real debt has increased in the recent decades. At the end of FY2025, total debt subject to the limit was 125% of GDP and publicly held debt was 100% of GDP.

Figure 1. Federal Debt Subject to Limit as a Percentage of GDP, FY1940-FY2025



Source: Office of Management and Budget, Department of the Treasury and Congressional Budget Office. Figure created by CRS.

Note: Values taken at the end of the fiscal year. FY2025 GDP projections taken from January 2025 CBO baseline.

Timing Uncertainties with a Binding Debt Limit

Short-term fluctuations in federal debt levels result in substantial uncertainty as to when debt levels will meet or exceed the statutory debt ceiling. Federal debt levels change in response to variation in the timing of payments and the collection of receipts. This fluctuation is influenced by changes in the size and timing of incoming and outgoing Treasury payments, and is relatively insensitive to long-term deficit outcomes. Examples include lower debt levels that follow large income tax receipt collections in March and April and higher debt levels caused by interest payments and the issuance of Treasury securities in the middle and end of a given month.

Uncertainty over when a debt limit could bind continues to exist even in the weeks or days before a projected debt limit event, as short-term expenditures and particularly revenues can be difficult to predict on a day-to-day basis. Short-term surpluses could extend the amount of time extraordinary measures taken by Treasury would delay a binding debt limit, whereas short-term deficits would have the opposite effect. Small fluctuations in economic output may also produce significant shifts in when a debt limit is projected to bind.

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