US Money Markets

# Debt ceiling and QT update

On Friday, the Treasury extended its debt issuance suspension period (DISP) through late June. We think it will have enough cash and borrowing capacity to push its debt ceiling deadline into late August. Bank reserves are rising but we think the Fed could taper QT in May.

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- **The Treasury has used about 70% of of its existing extraordinary measure capacity**. Its cash balance will rebound after the mid-April tax date and it will pick up another $147bn in extraordinary measure capacity at the end of June.
- **The Treasury's cash outflows are running a bit faster than their 2024 pace. Tax refunds paid so far this season are about 7% larger than in 2024**.
- **Non-withheld tax collections are about 10% higher than last year's pace. It is too early to have much sense for the corporate taxes due in mid-April**.
- **We look for the Treasury's cash balance to fall $75-100bn between now and month-end.** But it could rise $200-250bn by late April if its current tax collections continue apace.
- **Bank reserves may rise to over $3.6tn by month-end**. We think this, coupled with market uncertainty and larger cash positions, is likely to keep repo rates from rising at quarter-end.
- **We think the Fed could announce a tapering in the pace of QT run-off at the May FOMC meeting**. But, admittedly, we are not confident in our forecast since it seems to run counter to an operating regime with a sufficiently large cushion meant to absorb swings in the Treasury account without creating pressure in overnight rates.

## Extraordinary measures

When this year's debt ceiling negotiations began, the Treasury had about $340bn in extraordinary measure capacity. These measures allow the Treasury to convert non-marketable debt held in two government pension plans and in the Exchange Stabilization Fund into marketable debt that can be sold to the public while it remains at the debt limit. **Through last week, the Treasury has used about 70% of the total, or about $240bn** (Figure 1). Together with its cash balance (Figure 2), the Treasury has about $518bn in remaining borrowing capacity. It will gain another $147bn worth of capacity at the end of June as some maturing non-marketable debt held in these funds matures and can be rolled into debt sold to the public.

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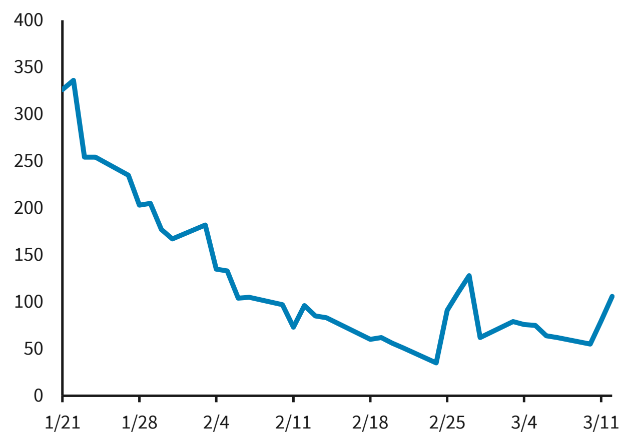
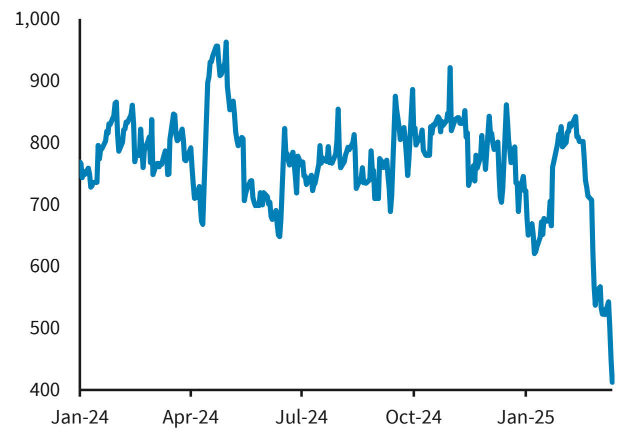
FIGURE 1. **Extraordinary measures ($bn)**




Source: US Treasury, Barclays Research

FIGURE 2. **Treasury cash balance ($bn)**




Source: US Treasury, Barclays Research

Treasury Secretary Bessent does not seem to have much appetite for expanding the definition of extraordinary measures. Like past administrations, he appears to have rejected revaluing gold certificates on the Federal Reserve's balance sheet. We assume his skepticism also applies to other more exotic approaches such as simply ignoring the limit or prioritizing interest payments. **That said, we suspect that as the x-date approaches, he may face political pressure to consider more "extraordinary" measures**.

## Treasury cash flows

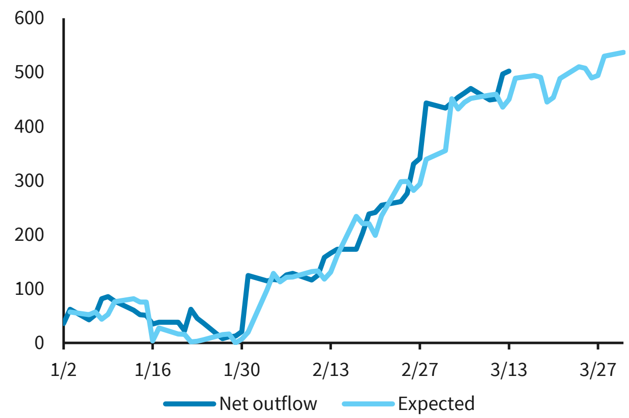
The Treasury's cash flows will determine how long it can operate with the debt limit in place given its limited extraordinary measure capacity and its remaining cash balance. **Based on its current cash flows and our expectations for tax receipts, we think the x-date is in late August**.

The Treasury's daily cash outflows are a bit faster than expected. In Figure 3 we compare the current cumulative outflows since the start of the year against the same period in 2024. We have scaled up the the 2024 figures by 10% to account for this year's larger projected deficit. Current outflows through last week are about 10% higher than in our expected, 2024-adjusted path. If this continues, the Treasury's x-date might be nearer to late July than August.

However, some of the acceleration may be temporary and instead reflect larger tax refunds this year. **Overall refund issuance is about 7% higher than at this point in 2024**. This is mostly because the average refund check this year is larger — $3,324 compared to $3,145 in 2024. While the number of tax returns processed this season is down about 2% compared to this point last year, there are slightly more returns claiming refunds (about 650,000, or 1.5%). Through last week, the Treasury has issued $145bn in refunds (Figure 4).

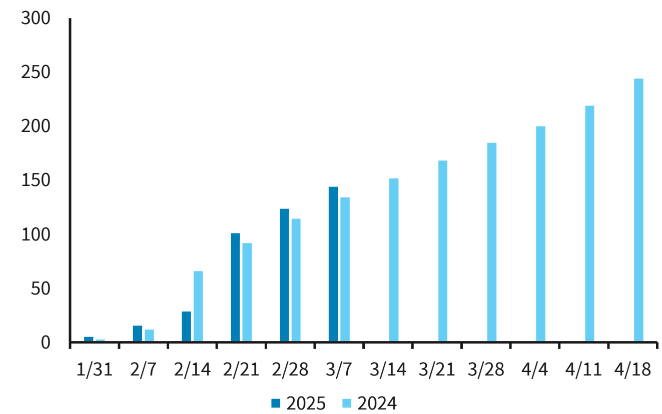
The filing deadline this year, like last, has been extended for households affected by storms and fires. That said, households expecting a refund tend to file earlier in the tax season than those who expect to write a check to the US Treasury. Roughly half of all of the refunds issued from the start of the filing cycle in late January through the end of April were filed by the first week in March. As a result, tax refund issuance could slow in the final four weeks of the season, reducing the near-term pressure on the Treasury's cash outflows.

**FIGURE 3. Cumulative outflows ($bn)**




Note: Since the beginning of the year.
Source: US Treasury, Barclays Research

**FIGURE 4. Cumulative tax refunds ($bn)**



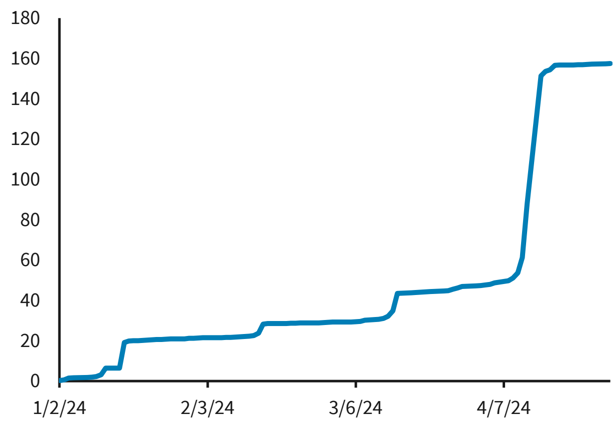

Note: Since the beginning of the year.
Source: US Treasury, Barclays Research

In the letter he wrote to Congress last Friday extending the debt issuance suspension period (DISP), Treasury Secretary Bessent observed that it was still a bit early to have a good sense of tax receipts which makes it hard to pin down the x-date.[1] **The Treasury expects to be able to provide an update in early May after it collects personal non-withheld taxes as well as corporate taxes**. Like households that owe taxes, businesses tend to file their taxes close to the April 15 deadline so we have very little sense for the strength of corporate taxes. Last year, corporate tax receipts jumped $100bn in the three days before the April 15 deadline (Figure 5).

Personal non-withheld taxes include taxes owed on capital gains, interest and dividend income. Given the strength of last year's stock market rally and the still (comparatively) high level of interest rates we expect non-withheld tax collections will be higher this year. **Indeed, cumulatively since the start of the year, the Treasury has consistently been collecting about 10% more in non-withheld taxes this year than in the comparable periods in 2023 and 2024** (Figure 6). Non-withheld taxes, just like corporate obligations, tend to be filed close to the April 15 deadline. Last year, these obligations jumped by $200bn in the final days of the season.

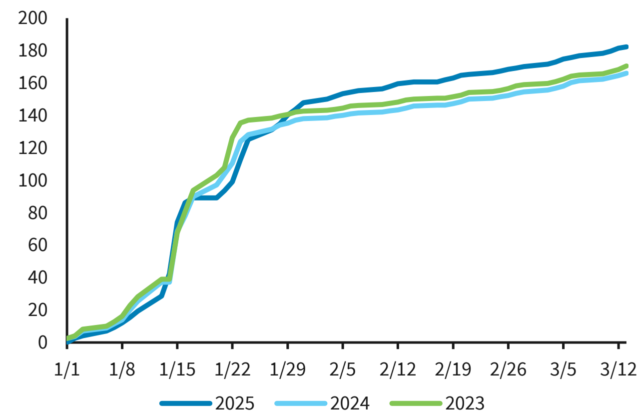
[1] See, "Debt Limit Letter to Speaker of the House Johnson", Treasury Secretary Bessent, March 14, 2025.

FIGURE 5. Corporate tax receipts in 2024 ($bn)




Note: Cumulative since the beginning of the year.
Source: US Treasury, Barclays Research

FIGURE 6. Non-withheld tax receipts ($bn)




Note: Cumulative total since the start of the year.
Source: US Treasury, Barclays Research

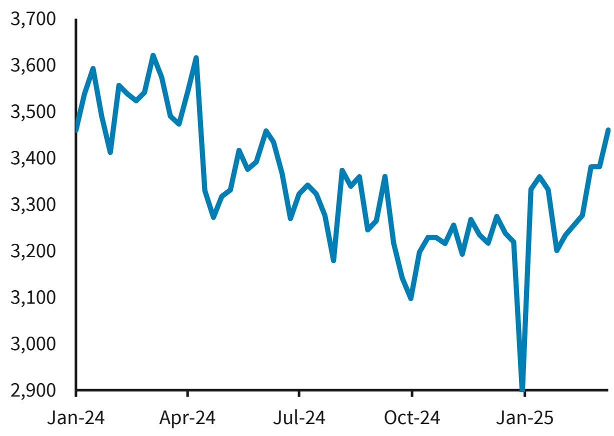
Without knowing how strong last-minute tax filings might be, our sense is that the Treasury's cash balance could improve sharply after the mid-April tax date. **We expect the Treasury's balance at the Fed could increase from $350bn at the end of March to $550bn or more by April 30**.

## Bank reserves and QT

The Treasury's cash balance has become the focus of the Fed's balance sheet projections. It has fallen about $120bn since the end of February (Figure 2). As this cash was released, it headed into bank reserves (which rose $80bn) and the RRP (up $10bn, including the foreign program). The remainder reflects the Fed's asset run-off. **At $3.46tn in mid-March, bank reserves are at their highest level since last June** (Figure 7). We look for the Treasury's cash balance to fall an additional $75bn or so (to $350bn) through the end of the month, which suggests that bank reserves could reach $3.6tn on March 31. This could be lower if some of the cash released by Treasury flows into the RRP because of quarter-end balance sheet pressure and money funds' inability to secure private sector repo. The RRP effect would be short-lived; once the balance sheet frees up in early April, the cash would move back into reserves through private sector repo.

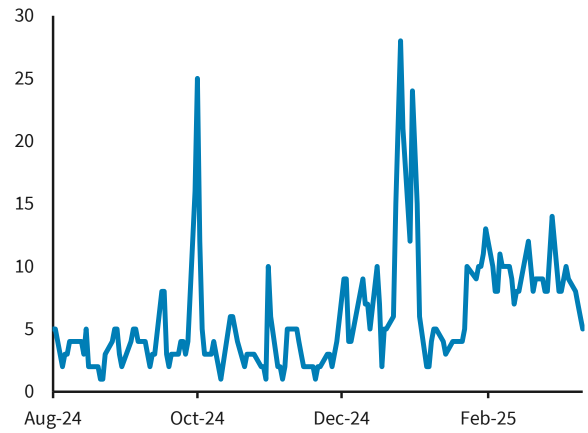
**Based on last year's cash flows and our expectations for last-minute tax payments this year, we think the Treasury's cash balance could climb $200-250bn to between $550-600bn by the end of April**. Assuming balances in the RRP are largely empty, this would push bank reserves to just under the current level. Bank reserves have been in this $3.2-3.4tn range since last year and remain abundant based on estimates derived from the Fed's reserve demand elasticity measure. Assuming there is no increase in the debt limit by the end of June (which appears consistent with last week's DISP declaration) we think the cash balance might fall to $350bn on June 30, pushing bank reserves back up. While reserves are set to bounce around over the next two months, balances should remain abundant.

**FIGURE 7. Bank reserves ($bn)**




Source: Federal Reserve, Barclays Research

**FIGURE 8. SOFR-RRP (bp)**




Source: Federal Reserve, Barclays Research

**We still think an QT adjustment is unlikely at this week's meeting**. **Our sense is that an announcement is more likely at the May meeting**. Admittedly, we are not confident in our forecast for a QT adjustment, since it seems to run counter to an operating regime with plenty of reserves designed to absorb exogenous shocks, like swings in the Treasury account, without creating pressure in overnight rates. If these swings create rate pressure, the Fed can decide to increase the supply of reserves — either through temporary operations such as the SRF or through secondary market purchases of Treasuries. **That said, we put a tapering into the outlook only because QT was discussed by "various" officials at the January FOMC meeting**. The January mention has lent support to the idea that a QT adjustment will be announced at this week's FOMC meeting, to take effect in early April. After all, the Fed likely would not have raised the issue in January if it intended to wait several meetings before making a decision on QT.

There has been no new information about the debt ceiling since January. **We do not know how low the Treasury's cash balances will get because we have little sense for how (or when) Congress will proceed with legislation to increase the limit**. Last week's DISP declaration suggests that the Treasury does not expect to run out of cash or borrowing capacity before July. However, that says nothing about how quickly Congress will move to increase the limit. Without seeing a Congressional timetable we cannot really say how low the Treasury's cash balance will get before the debt ceiling is raised. Finally, we do not know how quickly or by how much the Treasury will restock its depleted cash balance once the limit is raised. Indeed, it is possible that as part of the government's overall efficiency drive, the Treasury balance target could be lower than the 5-7d of expected outflows it has used since 2015. While we think there are practical, operational risks that that make operating with a much-smaller balance at the Fed problematic, this might mean a $500bn target instead of $800bn. **All in all, it seems a bit premature to us for the Fed to slow or stop QT this week**.

We do not have a strong opinion about whether the Fed would pause or taper QT, although the latter seems somewhat more likely. Several Fed officials have expressed views about the Fed's balance sheet normalization in the weeks since the January FOMC minutes were released. Each seemed to favor shrinking the balance sheet further.[2] **We think a tapering of the run-off pace would be supported by these, more balance sheet-hawkish officials who favor a more-**

[2] See, for example, "Efficient and effective central bank balance sheets", L. Logan, Federal Reserve Bank of Dallas, February 25, 2025.

**efficient interest rate floor operating regime**. It might be possible to end the Treasury roll-offs during the taper period while continuing the $15bn/mo MBS roll-off. Alternatively, the Fed could decide to reduce the cap on the Treasury roll-offs from $25bn/mo to perhaps $10 or $15bn/mo.

**Separately, we think funding rates will be fairly tame this quarter-end, although there has been some volume at above-SRF rates**. Recent market volatility appears to have pushed investors to the sidelines and precautionary cash balances are higher.

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