DEBT MANAGEMENT

Treasury Was Able to Fund Economic Stabilization and Recovery Expenditures in a Short Period of Time, but Debt Management Challenges Remain

What GAO Found

The economic recession and financial-market crisis, and the federal government’s response to both, have significantly increased the amount of federal debt. While the composition of Treasury’s debt portfolio changed in response to this increase, Treasury has taken a number of steps in the past year to return the composition of the debt portfolio to pre–market crisis structure. One action Treasury has undertaken has been to reduce its reliance on cash management bills (CMB). While CMBs provided Treasury with needed borrowing flexibility immediately following the financial market crisis in 2008, Treasury paid a premium for its sustained use of CMBs in 2008 and 2009. In recent months, Treasury also has begun to stabilize shorter-term bill issuance and increase issuance of longer-term coupons. Given the medium- and long-term fiscal outlook, Treasury will continue to be presented with the challenge of raising significant amounts of cash at the lowest costs over time. This makes evaluating the demand for Treasury securities increasingly important.

What GAO Recommends

GAO recommends that the Secretary of the Treasury should continually review methods for collecting market information and consider conducting a periodic survey of end-users and broadening the TBAC. The Secretary of the Treasury should also continue to reduce the amount and term to maturity of CMBs and consider increasing the number of TIPS auctions and distributing them more evenly throughout the year, and study the effect of the recent increase in direct bidding on Treasury’s overall cost of borrowing, including options to promote transparency and foster competition.

Treasury agreed with GAO’s findings, conclusions, and recommendations.

View GAO-10-498 or key components. For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov.