GAO

Accountability·Integrity·Reliability

Highlights

Highlights of GAO-10-498, a report to congressional committees

May 2010

DEBT MANAGEMENT

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

Why GAO Did This Study

This report is part of GAO's requirement, under the Emergency Economic Stabilization Act of 2008, to monitor the Department of the Treasury's (Treasury) implementation of the Troubled Asset Relief Program and submit special reports as warranted from oversight findings. It evaluates Treasury's borrowing actions since the start of the crisis, and how Treasury communicates with market participants in the context of the growing debt portfolio and the medium- and long-term fiscal outlook. GAO analyzed market data; interviewed Treasury, the Federal Reserve Bank of New York, and market experts; and surveyed major domestic holders of Treasury securities.

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.

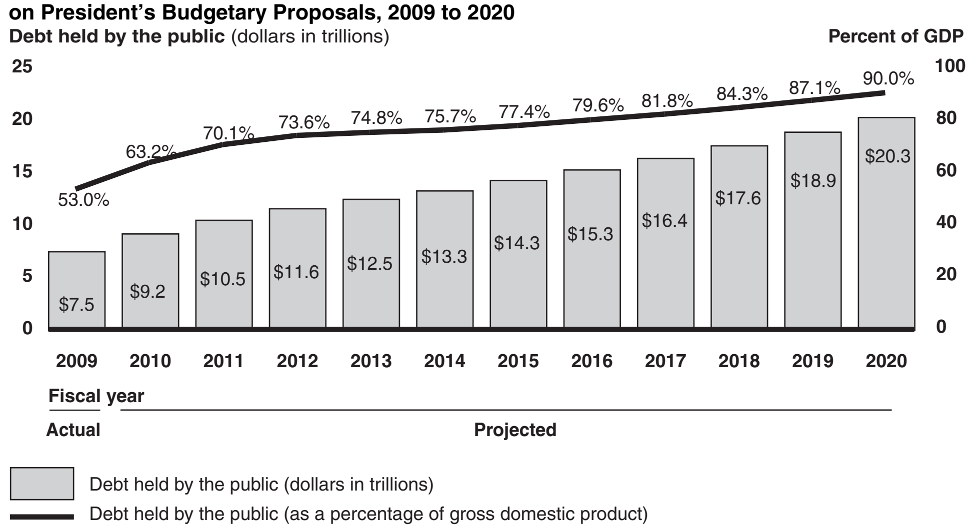
View GAO-10-498 or key components.

For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov.

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.

Congressional Budget Office Estimate of Debt Held by the Public and Percent of GDP, Based on President's Budgetary Proposals, 2009 to 2020



Source: CBO data.

Sufficient information from market participants on their demand for Treasury securities, including the type of information that GAO received from its survey of the largest domestic holders of Treasury securities, will be critical as Treasury moves forward to meet these challenges. In GAO's survey, investors reported increased demand for Treasury Inflation Protected Securities (TIPS) and suggested ways for Treasury to further improve TIPS liquidity and thereby lower borrowing costs. Treasury receives input from market participants through a variety of formal and informal channels, but overall satisfaction with these communication channels varies by type of market participant. Market participants suggested to GAO a number of changes including increasing investor diversification on the Treasury Borrowing Advisory Committee (TBAC) and regular collection of information from end-investors. Primary dealers, who are satisfied with their communication, raised concerns about the recent increase in direct bidding and its effect on Treasury auctions.