Treasury expects to hit debt limit next month

Congress must boost the ceiling to avoid an unprecedented default

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WASHINGTON - The Treasury Department now expects to hit the government's debt limit in December, two months later than its initial estimate, after scaling back an emergency loan program as the financial crisis abated.

Treasury Department officials said Wednesday they're working closely with Congress to pass the legislation needed to boost the debt ceiling, currently at $12.1 trillion, and avoid an unprecedented default on the nation's debt obligations.

Treasury also announced it is ending sales of 20-year inflation-protected securities and will offer similar 30-year securities starting next year. The government believes the longer maturity option will be more popular with investors.

The legislation to increase the debt limit is expected to trigger a congressional debate over the government's soaring deficits, which are projected to add another $9 trillion to the debt burden over the next decade.

The government initially estimated the debt ceiling would be hit last month, but in September it reduced one of the many emergency borrowing programs to $15 billion, from $200 billion. That cleared more room for the government's other borrowing needs.

Congress still faces the need to boost the debt limit by around $1 trillion. Some senators have said they will not support that action unless it is linked to the creation of a commission that would force Congress and the administration to take credible action to restrain soaring deficits.

The administration has said the current record deficits are needed to get the country out of a deep recession and stabilize the financial system, but that the President Barack Obama will put forward new proposals to trim future deficits when he sends his next budget to Congress in February.

For the budget year that ended on Sept. 30, the federal deficit hit an all-time high in dollar terms of $1.42 trillion. As a percent of the total economy, it stood at its highest level since the end of World War II. The jump reflected the massive spending from the $700 billion financial bailout fund and the $787 billion economic stimulus package designed to get the country out of the longest recession since the 1930s.

"Deficits of this size are serious and ultimately unsustainable," White House budget director Peter Orszag said in a speech Tuesday.

The deficits are making it harder for the administration to extend politically popular stimulus programs, such as support for the unemployed and the tax credit for first-time homebuyers, without greatly increasing the size of future deficits.

In its announcement Wednesday, Treasury said it decided to move to 30-year inflation protected securities, known as TIPS, because it believe the longer maturity would be more popular with investors. Treasury also offers TIPS in five- and 10-year maturities.

The value earned by an investor on a TIPS bond fluctuates with changes in the consumer price index, giving investors protection that the value of their bonds will not drop if inflation accelerates.

Treasury also announced that it will raise $81 billion in its quarterly refunding operations next week including $40 billion in three-year notes to be auctioned on Monday, $25 billion in 10-year notes to be auctioned on Tuesday and $16 billion in 30-year bonds to be auctioned on Thursday.

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