

GAO@100 Highlights

Highlights of [GAO-21-606](#), a report to congressional committees

Why GAO Did This Study

The federal government's fiscal response to the COVID-19 pandemic dramatically increased the government's borrowing needs. Treasury borrows money needed by issuing Treasury securities. The ability to borrow large amounts of money quickly and cheaply is especially important during a crisis, when government spending tends to increase and revenues tend to decrease. Any disruptions in investor demand for Treasury securities or the functioning of the Treasury market can have costly implications for the federal government and taxpayers.

The CARES Act includes a provision for GAO to report on its monitoring and oversight efforts related to the COVID-19 pandemic. This report examines (1) how the cost and liquidity of Treasury securities changed during COVID-19; (2) actions Treasury is taking to mitigate future disruptions; and (3) the actions Treasury took to finance the federal government's response to the pandemic.

GAO analyzed data on Treasury securities; reviewed agency and market research; and interviewed market participants across key financial sectors (e.g., broker-dealers, banks, mutual and money market funds), market experts, and Treasury and Federal Reserve officials.

What GAO Recommends

GAO recommends that Treasury clarify the department's policy for managing its operating cash balance to include all relevant factors it considers when determining the appropriate cash balance and communicate this policy to the public. Treasury agreed with the recommendation.

View [GAO-21-606](#). For more information, contact Yvonne Jones at (202) 512-6806 or jonesy@gao.gov.

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FEDERAL DEBT MANAGEMENT

Treasury Quickly Financed Historic Government Response to the Pandemic and Is Assessing Risks to Market Functioning

What GAO Found

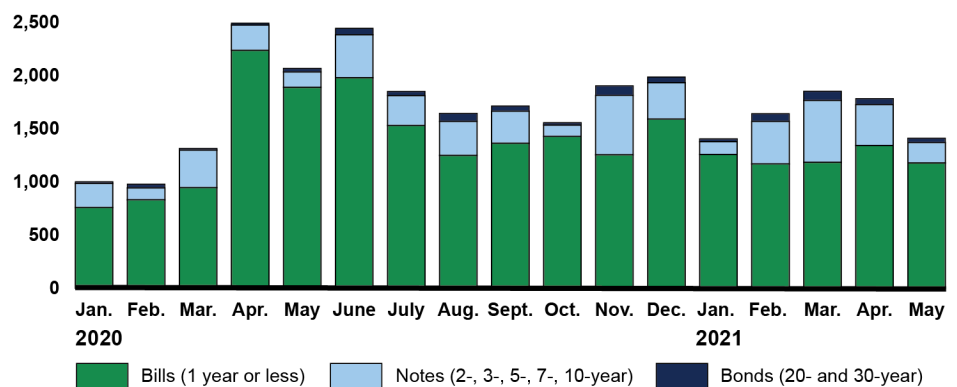
In response to COVID-19, in March 2020 many investors rapidly sold their Treasury securities for cash. This led to a severe liquidity disruption when prices fell and transaction costs rose for Treasury notes and bonds in the secondary market. The Federal Reserve acted quickly to support market functioning, including purchasing trillions of dollars of Treasury securities.

This market disruption highlighted risks to the Treasury market. For example, growth in federal debt and regulatory changes may reduce broker-dealers' willingness and ability to intermediate trades (facilitate purchases and sales) of Treasury securities for investors. In April 2021 Treasury initiated an interagency effort to examine options that could help mitigate future disruptions in the market.

Following the market disruption, Treasury quickly raised trillions of dollars to fund the federal response to COVID-19. It dramatically increased its issuance of bills—including adding regular, weekly auctions of cash management bills, which have historically been issued irregularly to cover near-term financing gaps. The bills were met with strong investor demand. For example, GAO found almost no difference between cash management bill and other bill yields during this time.

Monthly Gross Issuance of U.S. Treasury Bills, Notes, and Bonds

Dollars (in billions)
\$3,000



Source: GAO analysis of Department of the Treasury Daily Treasury Statement. | GAO - 21-606

Note: Notes and bonds includes Treasury Floating Rate Notes and Inflation Protected Securities.

Due to the uncertainty created by COVID-19, Treasury maintained a historically high operating cash balance of around \$1.6 trillion. Its stated policy is to hold a level of cash generally sufficient to cover one week of outflows. However, other factors not explicitly reflected in its policy informed how it managed the cash balance during COVID-19. Market participants told GAO that they were unclear about all of these factors. They said that understanding the level and trajectory of the cash balance is important because it affects market expectations for the size of Treasury issuance, supply of bank reserves, and short-term lending rates—all of which inform their business strategies and support market functioning. Additionally, uncertainty about the size of the cash balance can lead to volatility in financial markets. This, in turn, can affect Treasury's borrowing costs.