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Economic News

U.S. Budget

Robust Revenues Lead Treasury to Drop Three-Year, Consider Buying Debt Again

The U.S. Treasury Department said May 2 it was scrapping sales of the three-year note and that it has discussed with Wall Street representatives the issue of debt buybacks, a finance management tool last seen when the government was in surplus, as tax collections continue to come in at a healthy pace.

"As you all know, receipts have been strong and largely consistent with our forecasts. Based on this and other factors, we're announcing this morning our decision to discontinue the issuance of the three-year note," Anthony Ryan, Treasury assistant secretary for financial markets, said at the department's quarterly press briefing. The change will allow Treasury to ensure auctions of remaining issues are large enough to attract active bidding, help balance its portfolio of debt and "manage the improving fiscal outlook," Ryan said.

The three-year note was revived in May 2003 after being discontinued previously when the government began posting surpluses from 1998 through 2001.

Talks With Advisory Panel

The discussion of debt buybacks was held with the Treasury's Borrowing Advisory Committee, a panel of private sector representatives from the securities industry. Treasury officials meet quarterly with the group to receive input on issues facing Treasury's debt managers, who aim to sell U.S. Treasuries to finance government borrowing at the lowest possible cost over time.

Treasury had asked the TBAC to address "what practices Treasury and market participants should consider in a significantly improving fiscal or surplus environment, given volatility in budget forecasts and the Administration's long-term plan to balance the budget," according to minutes of the meeting released by Treasury.

Ryan called the talks "an initial discussion" that did not signal any decisions and intended merely to broach the issue.

"We asked this question in an attempt to continue to be proactive and forward-looking," he said. "Given some of the volatility associated with our projections, it can't hurt to be prepared."

Recent Swings Volatile

Budget swings over the past decade have been particularly volatile. In 1997, a Democratic White House and a Republican Congress reached agreement on a five-year plan to bring the budget into balance. Thanks in large part to surging capital gains revenues, balance was reached in 1998.

On the other hand, few analysts expected the sharp drop-off in revenues that followed the relatively light 2001 recession and the enactment of President Bush's tax cut plan. Revenues have surprised on the upside in recent years, and that trend is expected to continue this year, according to analysts watching the early data on April tax returns, which bring in a sizeable chunk of the government's overall annual revenue.

A Treasury chart prepared for the TBAC showed the possible range of borrowing outcomes if historic ranges of forecast error, either positive or negative, occurred. If the surprises kept to the positive side, the chart showed a potential need for a large paydown of debt as soon as 2010.

Asked if that implied a budget surplus in 2010, two years ahead of what Congress and the White House have targeted for a surplus, Matthew Abbott, deputy assistant secretary for federal finance, said, "What the chart illustrates is that it's possible. Not that it's expected, but that's possible."

'Premature' to Discuss Earlier Surpluses

A Wall Street economist also warned that reaching surplus ahead of 2012 was unlikely, given uncertainty about what the government will do about the Alternative Minimum Tax as well as the temporary tax cuts that expire in 2010.

"I think it would be premature to think about buybacks because of expected budget surpluses," said Michael Moran, chief economist with Daiwa Securities. However, he said buybacks could be used instead as a tool to affect the maturity of outstanding debt, a factor that influences interest costs.

Moran also said the "excellent inflows in April" on the tax side were likely to lead him to revise downward his deficit forecast from $175 billion in 2007.

Hoyer Hopeful on Budget

Democrats in Congress are continuing to work on hammering out the framework for a budget resolution that can pass both chambers of Congress and reach balance in 2012. With an informal deadline of May 15 for completing action on the budget, the House has yet to name members of a conference committee for its side.

Majority Leader Steny Hoyer (D-Md.) remained optimistic, telling reporters May 2, "We want to move ahead on the budget. The answer to your question is I'm hopeful we'll move the budget in the next couple of weeks, that we think that's important to do."

A House Democratic aide said conferees may not be named in the April 30 week, as had been expected, but could instead be named early in the May 7 week. "We can see our way to get there" to a resolution, the aide told BNA.

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