

January 1994

## CBO's ECONOMIC AND BUDGET OUTLOOK

The federal deficit will fall through mid-decade but then head back up again, according to the Congressional Budget Office's new report, *The Economic and Budget Outlook: Fiscal Years 1995-1999*. If current policies remain unchanged, CBO projects that the gap between revenues and spending will be \$223 billion this year and will narrow to \$166 billion by 1996 (see the table below). But then the deficit will start to climb again--topping \$200 billion in 1999 (after strict caps on discretionary spending expire) and \$360 billion in 2004. These projections differ only modestly from those CBO published last September, after the Omnibus Budget Reconciliation Act of 1993 slashed more than \$400 billion from deficits over a five-year period. Economic growth will not shrink the deficit much further. Only about one-fifth of the deficit is now attributable to cyclical factors, and the rest--the structural or standardized-employment deficit--will yield only to more rounds of spending cuts and tax hikes.

Almost all economic signs point to a solid recovery. Consumer spending is strong and will help to support an upswing whose leading component is business investment. Sluggish growth abroad and the more austere fiscal policy of the federal government will be the major factors dampening near-term economic growth. CBO expects that real growth will be almost 3 percent in 1994 and 1995. In this setting, the Federal Reserve is expected to try to choke off any inflationary pressures, causing short-term interest rates (such as those on Treasury bills) to rise. CBO does not try to project cyclical ups and downs beyond a two-year horizon; hence, the assumptions for 1996 and beyond reflect CBO's judgments about such fundamental factors as growth in the labor force, productivity, and saving.

Questions about the budget estimates should be directed to the Budget Analysis Division (202-226-2880), and inquiries about the economic forecast to the Macroeconomic Analysis Division (226-2750). The Office of Intergovernmental Relations (226-2600) is CBO's Congressional liaison office. Additional copies of the report may be obtained from the Publications Office at 226-2809.

## BUDGET PROJECTIONS AND UNDERLYING ASSUMPTIONS

	1993	1994	1995	1996	1997	1998	1999
<b>Budget Projections (By fiscal year, in billions of dollars)</b>							
Standardized-Employment Deficit	215	179	144	149	164	164	191
Cyclical Deficit	68	48	38	31	25	20	17
Deposit Insurance Spending	<u>-28</u>	<u>-5</u>	<u>-11</u>	<u>-14</u>	<u>-6</u>	<u>-4</u>	<u>-4</u>
Total Deficit	255	223	171	166	182	180	204
<b>Economic Assumptions (By calendar year)</b>							
Real GDP (Percentage change)	2.8	2.9	2.7	2.7	2.7	2.6	2.5
CPI-U (Percentage change)	3.0	2.7	3.0	3.1	3.1	3.1	3.1
Unemployment Rate (Percent)	6.8	6.4	6.1	5.9	5.8	5.7	5.7
Three-Month Treasury							
Bill Rate (Percent)	3.0	3.5	4.3	4.6	4.6	4.7	4.7
Ten-Year Treasury							
Note Rate (Percent)	5.9	5.8	6.0	6.1	6.2	6.2	6.2

SOURCE: Congressional Budget Office, January 1994.

NOTES: The projections include Social Security and the Postal Service, which are off-budget. GDP is gross domestic product. The CPI-U is the consumer price index for all urban consumers.



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ADJUSTMENTS TO THE DISCRETIONARY SPENDING LIMITS  
SPECIFIED IN THE SEQUESTRATION PREVIEW REPORT INCLUDED  
IN APPENDIX A OF *THE ECONOMIC AND BUDGET OUTLOOK*

The Balanced Budget and Emergency Deficit Control Act of 1985, as amended, requires the Congressional Budget Office to submit a sequestration preview report five days before the President's budget is submitted. CBO ordinarily issues its annual *Economic and Budget Outlook* on that date and includes the sequestration preview report, where it will be readily available to interested readers. Although this year's *Economic and Budget Outlook* is scheduled for release 11 days before the submission date for the President's budget, the sequestration preview report is included as Appendix A of that volume.

On January 19 and January 22, after *The Economic and Budget Outlook* had been prepared for printing, the President designated \$423 million as emergency spending. The funds will come from previously appropriated contingent emergency funds for the Federal Emergency Management Agency, Small Business Administration, and Federal Highway Administration. Because the sequestration preview report was completed further in advance of the President's budget than usual in order to include the report in *The Economic and Budget Outlook*, CBO hereby notes the additional adjustments to the discretionary spending limits specified in Appendix A that are caused by the President's designation. The 1994 budget authority limit is increased by \$423 million. The outlay limits are increased by \$208 million in 1994, \$132 million in 1995, \$40 million in 1996, \$16 million in 1997, and \$24 million in 1998. With these additional adjustments, the discretionary spending limits are:

(In millions of dollars and by fiscal year)

	1994	1995	1996	1997	1998
Budget Authority	513,691	515,010	516,734	525,608	528,102
Outlays	542,880	539,671	546,167	545,560	545,677