CONGRESSIONAL BUDGET OFFICE

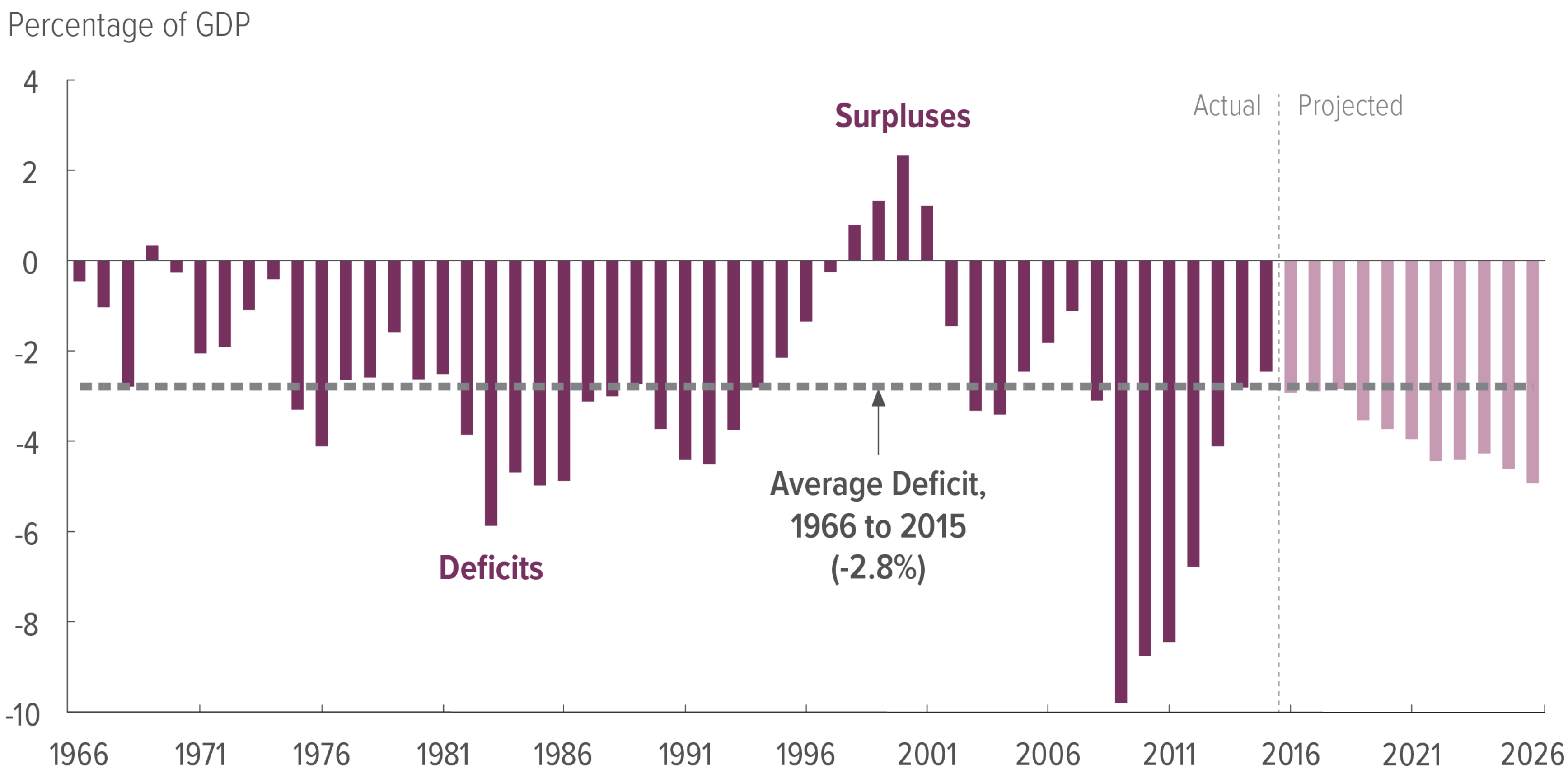
The Budget Outlook for 2016 to 2026 in 19 Slides

February 2016

For more details, see www.cbo.gov/publication/51129.

The federal budget deficit in 2016 will total $544 billion, CBO estimates. At 2.9 percent of GDP, the expected shortfall will mark the first time that the deficit has risen in relation to the size of the economy since peaking at 9.8 percent in 2009.

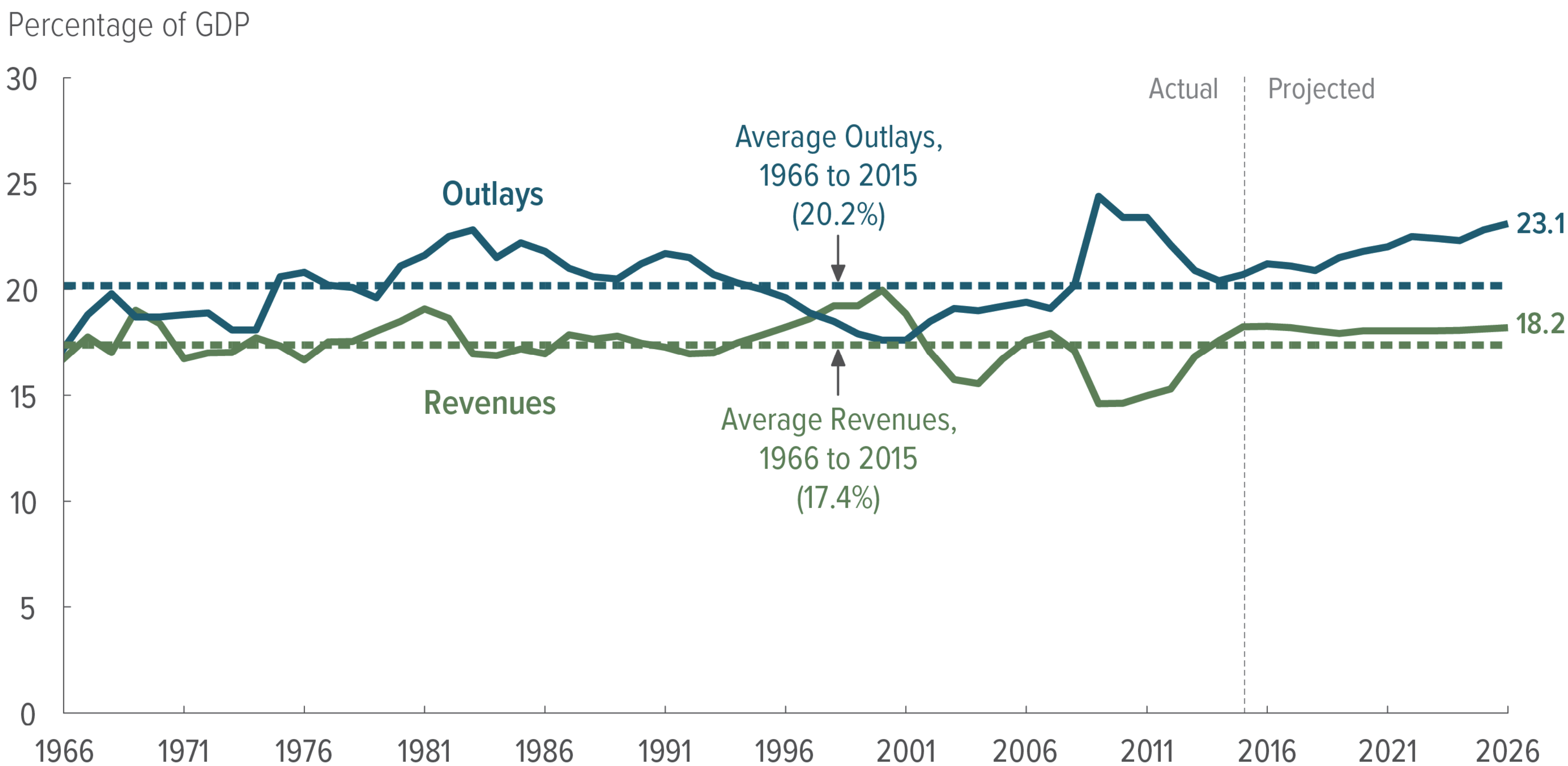
Total Deficits or Surpluses



CBO's projections indicate the budget outlook if current laws governing taxes and spending generally remained unchanged. In those projections, the deficit remains slightly below 3 percent of GDP through 2018, but then starts to rise, reaching 4.9 percent in 2026.

Deficits are projected to rise because, under current law, spending would grow faster than revenues in the coming 10 years.

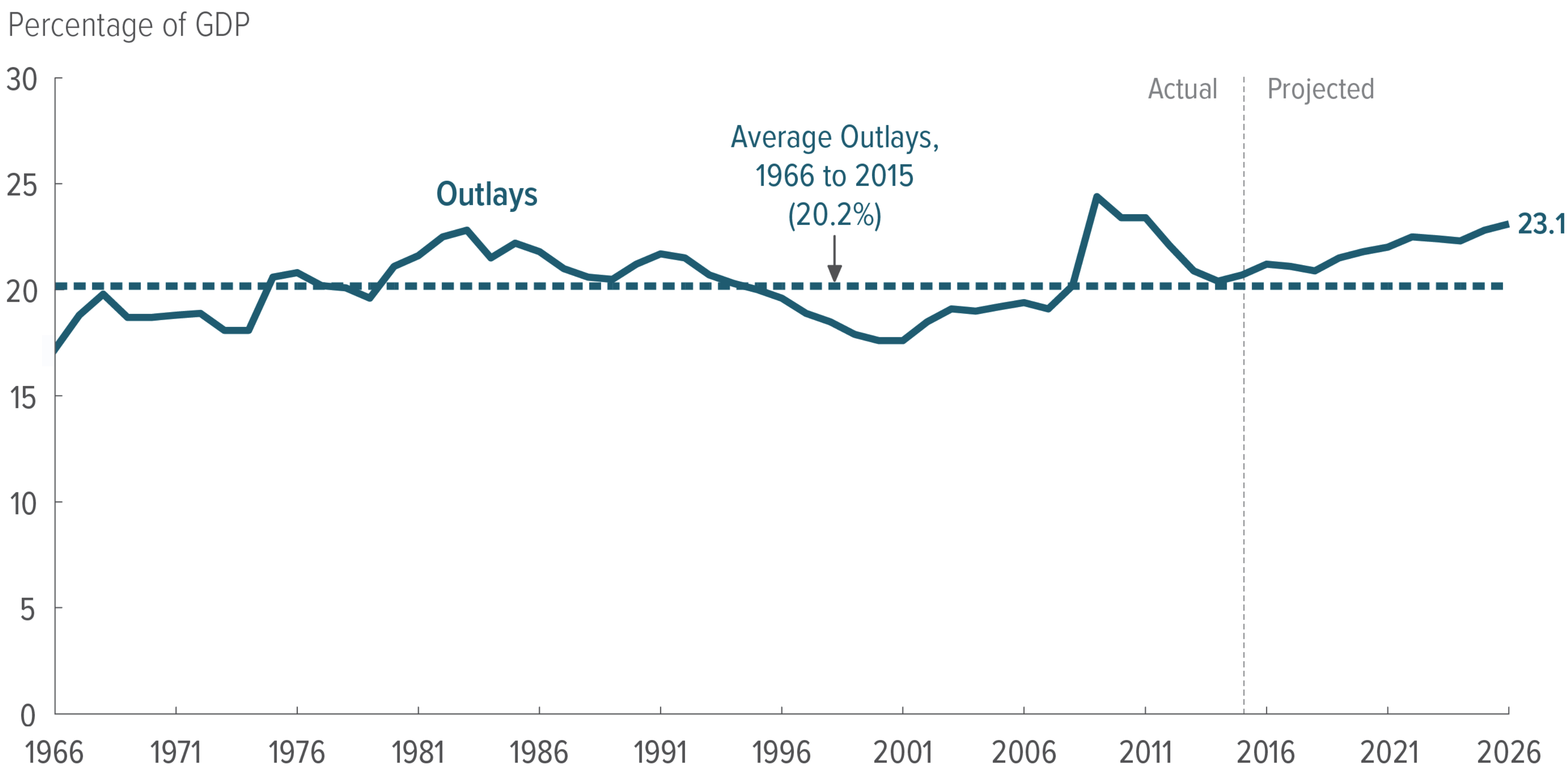
Total Revenues and Outlays



After 2018, in CBO's projections, the deficit generally increases each year as a share of the economy, as outlays rise and revenues remain relatively flat as a share of GDP.

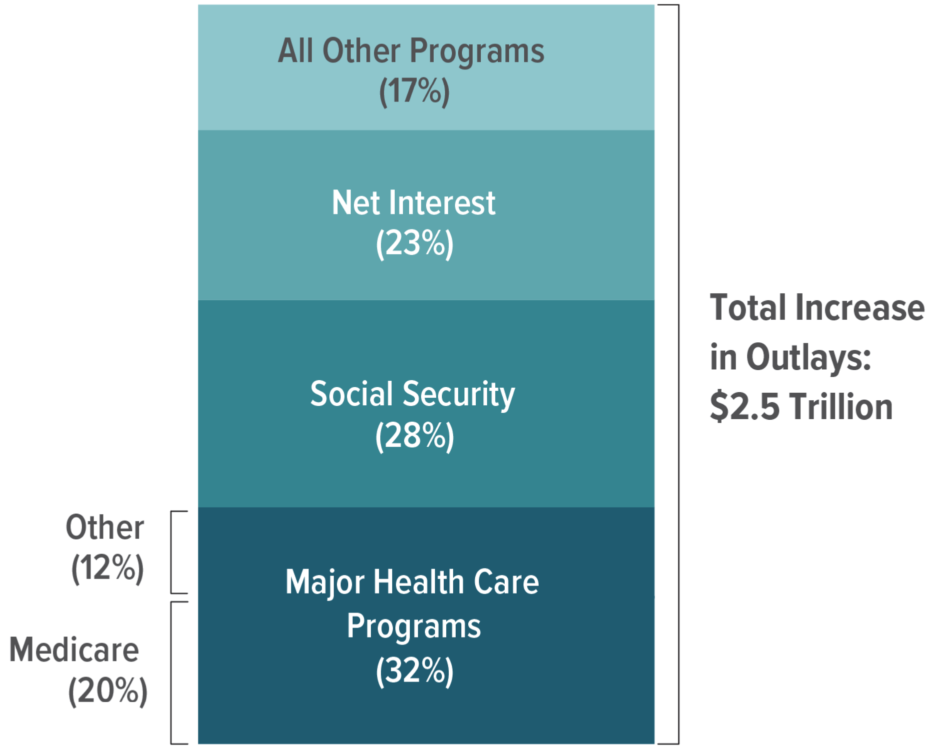
In 2016, federal outlays will total $3.9 trillion, or 21.2 percent of GDP. Over the next 10 years, spending is projected to rise because of the growth in the nation's retirement and health care programs and escalating interest costs.

Total Outlays



In CBO’s projections, federal outlays remain near 21 percent of GDP for the next few years. Later in the coming decade, growth in outlays outstrips growth in the economy; outlays rise to 23 percent of GDP by 2026.

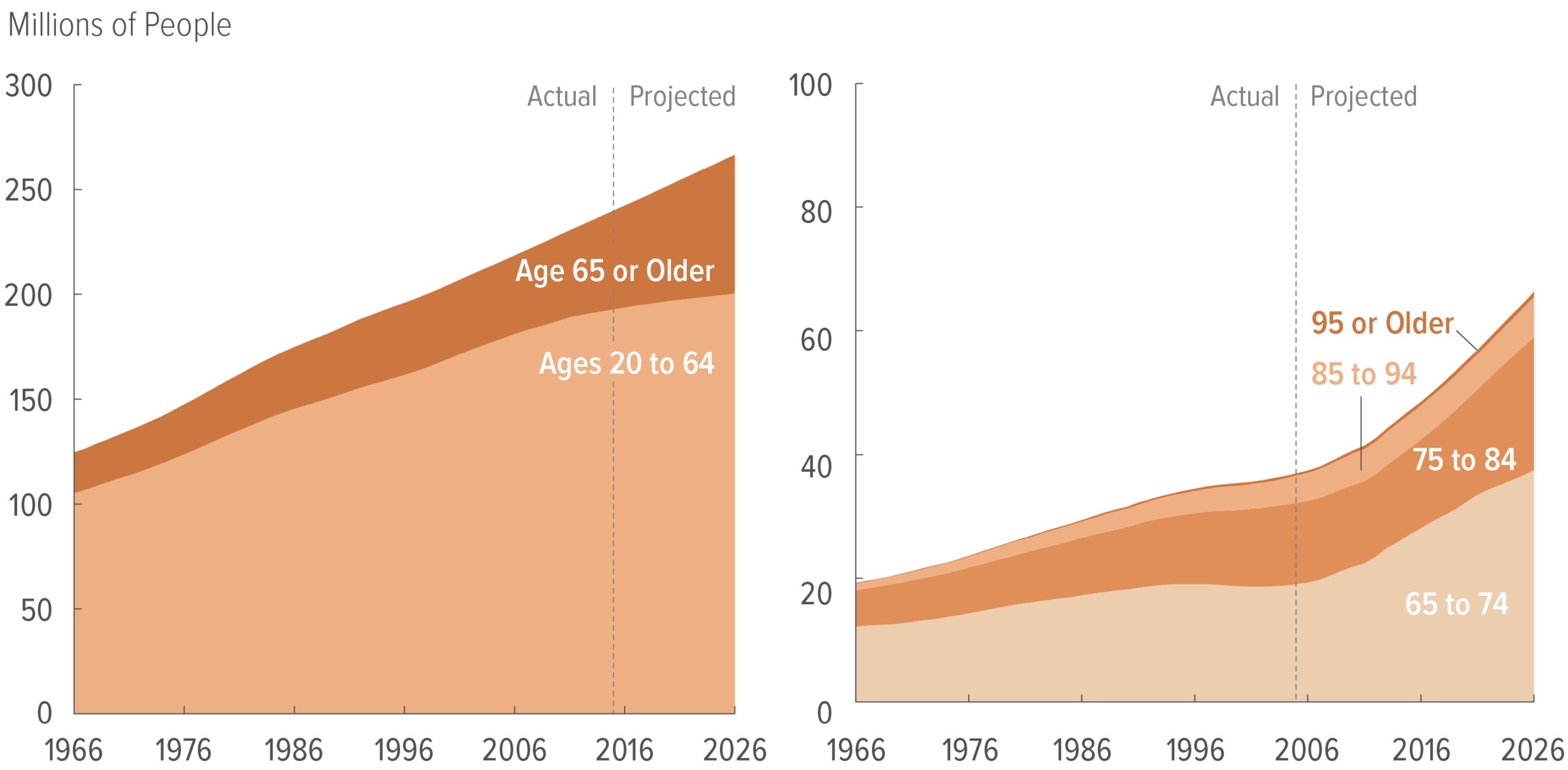
Components of the Total Increase in Outlays in CBO's Baseline Between 2016 and 2026



Three components of the budget—Social Security, the major health care programs, and net interest—account for 83 percent of the total increase in outlays (in nominal terms) over the coming decade and would be the largest categories of spending in the budget by the end of that period. Social Security and Medicare alone account for nearly half of the total increase—mainly attributable to the aging of the population and rising health care costs per person.

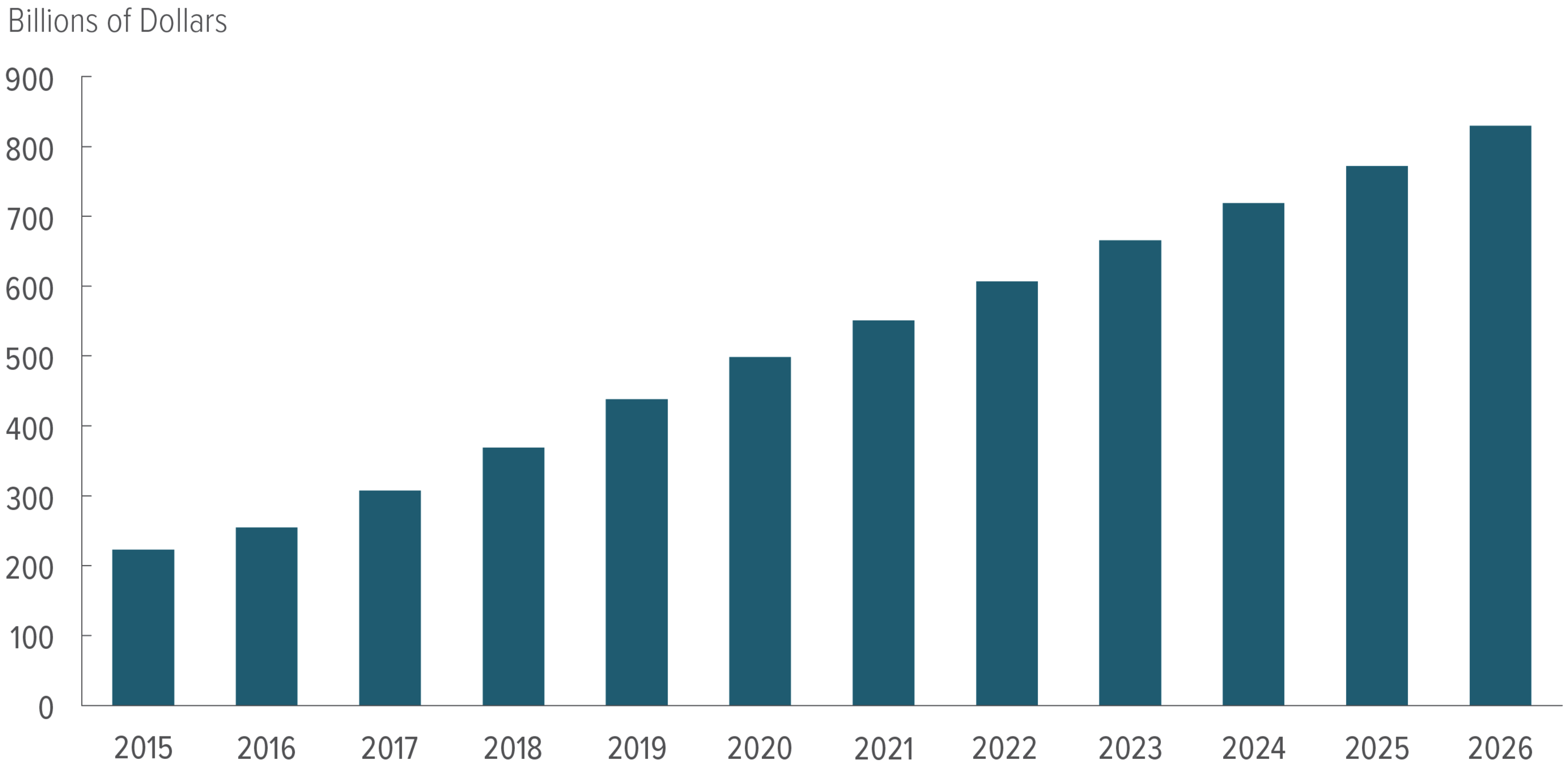
Major health care programs include Medicare (net of premiums and other offsetting receipts), Medicaid, the Children's Health Insurance Program, and subsidies for health insurance purchased through exchanges and related spending.

Population, by Age Group



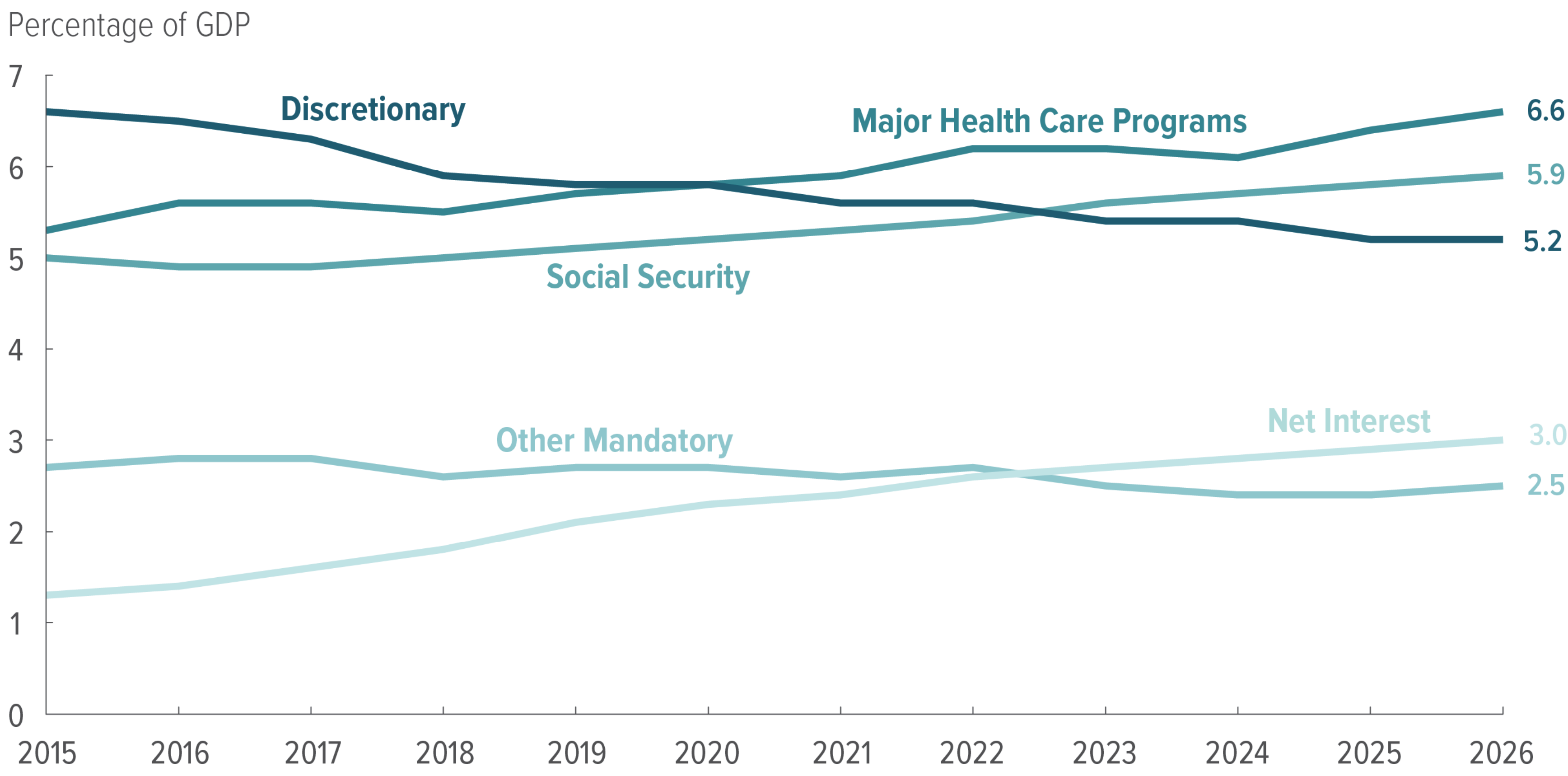
The number of people age 65 or older in the United States—now more than twice what it was 50 years ago—is expected to grow by more than a third over the next 10 years. Thus, enrollment in Social Security's Old-Age and Survivors Insurance program and Medicare will continue to rise in the future.

Projected Net Interest Outlays



Because of rising interest rates and growing federal debt held by the public, the government's interest payments on that debt are projected to rise sharply over the next 10 years—more than tripling in dollar terms and doubling as a percentage of GDP. The average interest rate paid on the debt will jump from 1.8 percent in 2016 to 3.5 percent in 2026, CBO estimates.

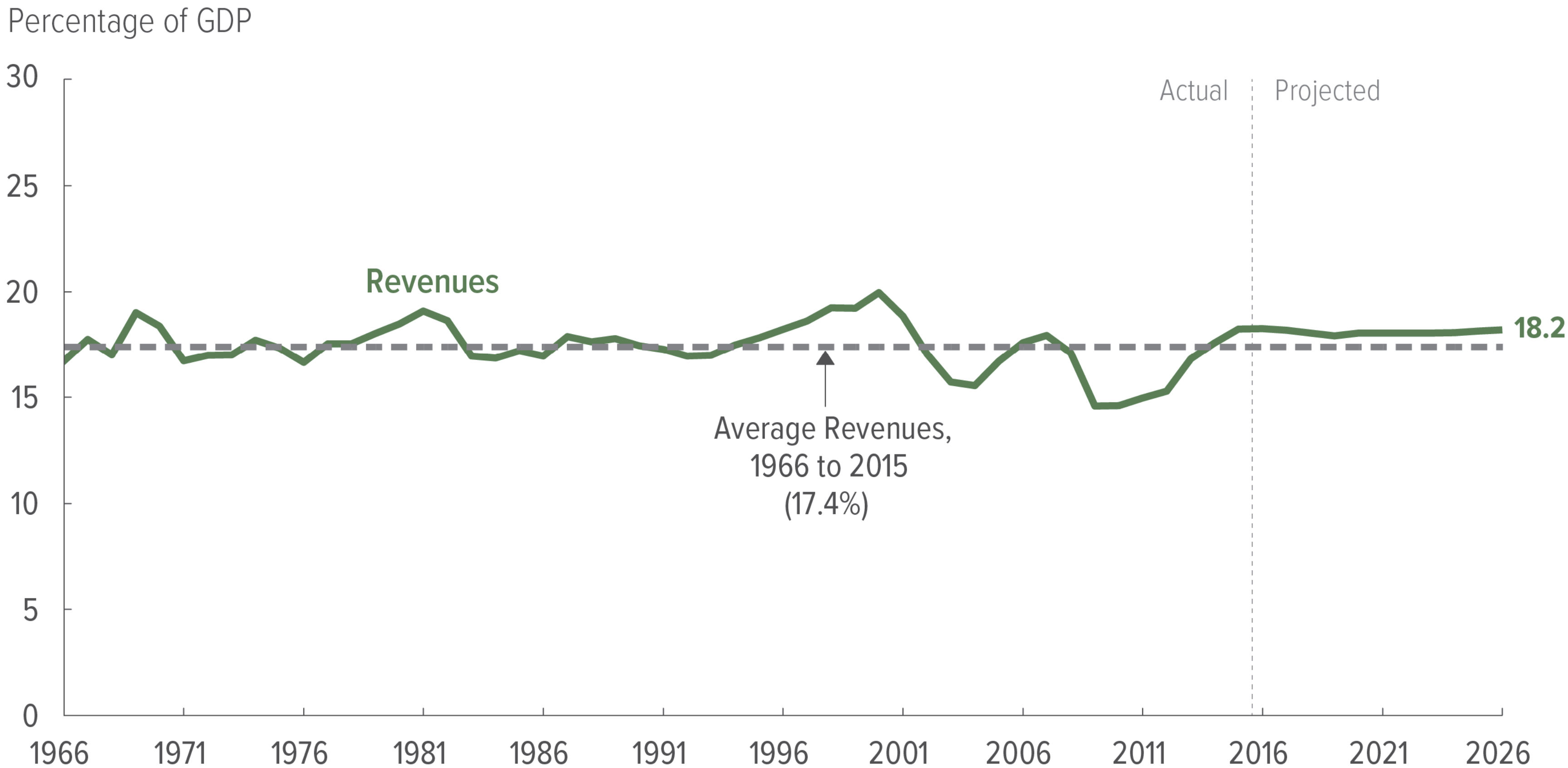
Projected Outlays for Major Budget Categories



Aside from spending for Social Security, the major health care programs, and net interest payments, other mandatory spending and discretionary spending are projected to decline relative to GDP over the next 10 years. In particular, by 2026, discretionary spending is projected to drop to its lowest share of GDP in the past 50 years. That occurs because most discretionary funding is capped through 2021 at amounts that increase more slowly than the projected growth in the economy.

Federal revenues will increase by $127 billion in 2016, reaching $3.4 trillion, or 18.3 percent of GDP, CBO estimates. Over the coming decade, revenues are projected to remain relatively stable in relation to the size of the economy, averaging 18.1 percent of GDP.

Total Revenues



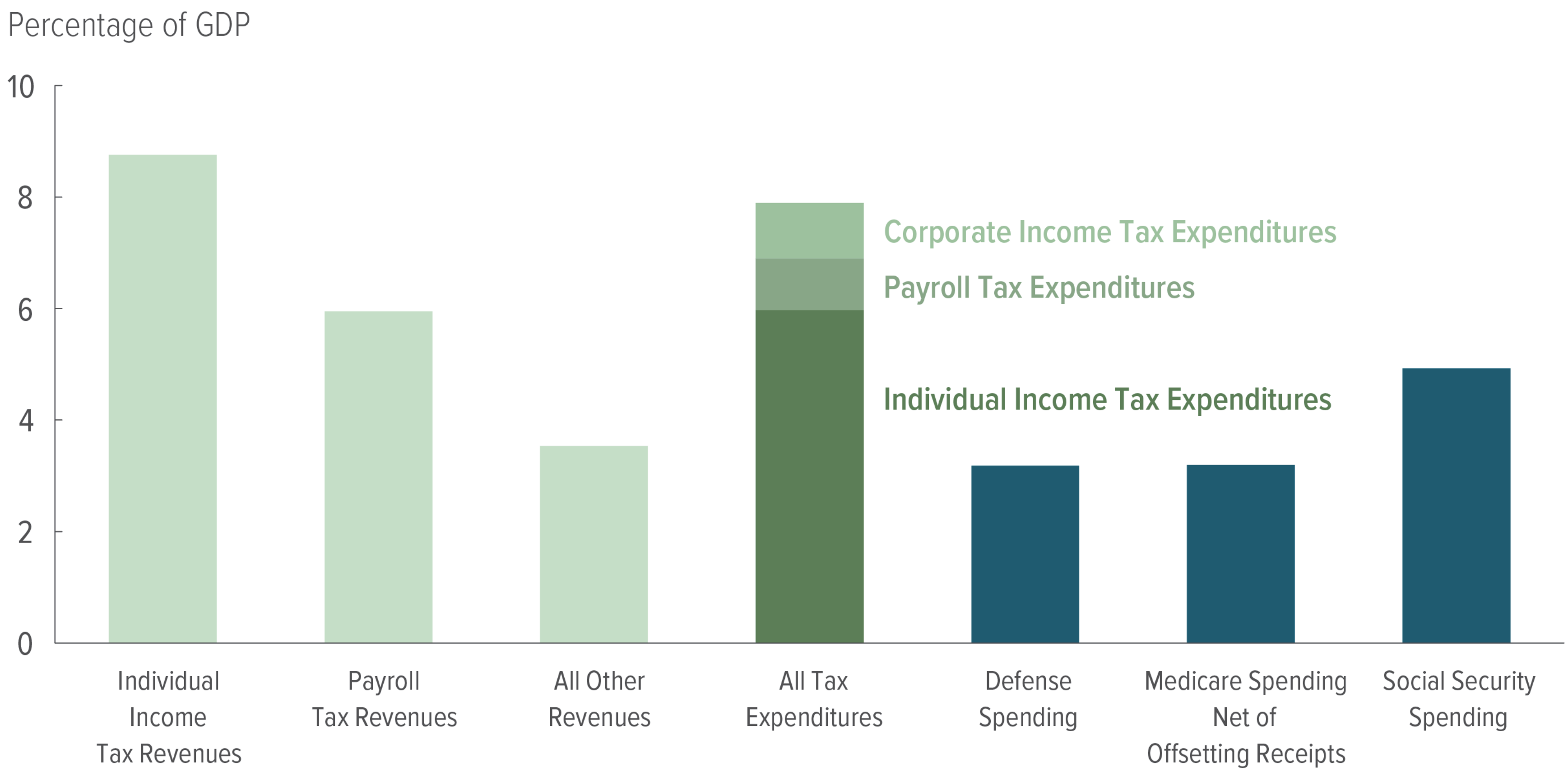
If current laws generally remained unchanged, revenues would range between 17.9 percent and 18.2 percent of GDP from 2017 to 2026—above their 50-year average of 17.4 percent.

Major Changes in Projected Revenues From 2016 to 2026

Revenues as a Percentage of GDP	2016	2026	Percentage-Point Change	Major Reasons for Change
Individual Income Taxes	8.8	9.6	0.8	• Real bracket creep • Increased distributions from retirement accounts, relative to GDP • Rising income inequality
Payroll Taxes	6.0	5.8	-0.2	Rising income inequality
Corporate Income Taxes	1.8	1.6	-0.2	Smaller domestic profits, relative to GDP
Federal Reserve Remittances	0.6	0.2	-0.4	Return to historical averages

The projected stability of revenues over the next decade, relative to the size of the economy, stems mostly from offsetting changes in estimated revenues from various sources. Relative to GDP, receipts from individual income taxes are projected to grow, mostly because of real bracket creep, but receipts from other sources are projected to decline.

Tax Expenditures and Other Budget Categories in 2016



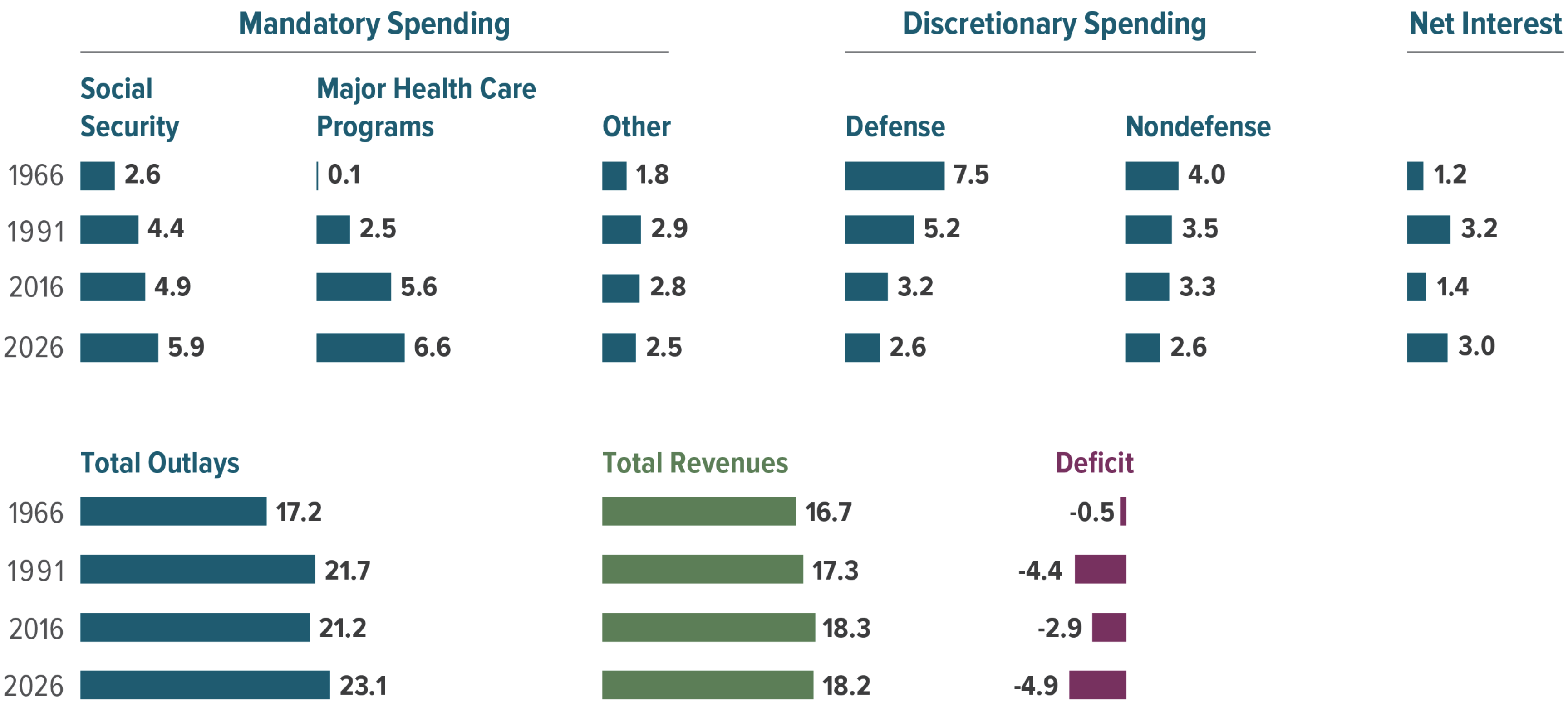
Tax expenditures cause revenues to be lower than they would be otherwise and, like spending programs, contribute to the federal deficit. CBO projects that the more than 200 tax expenditures in the individual and corporate income tax systems will total almost $1.5 trillion in 2016—an amount equal to 7.9 percent of GDP, or equivalent to nearly half of all federal revenues projected for the year.

This figure is based on estimates by the staff of the Joint Committee on Taxation that were prepared before the enactment of the Consolidated Appropriations Act, 2016, and do not include the effects of that law.

The composition of the budget has fundamentally changed over the past 50 years, and that trend would continue under current law.

Spending and Revenues Projected in CBO's Baseline, Compared With Actual Values in 1966 and 1991

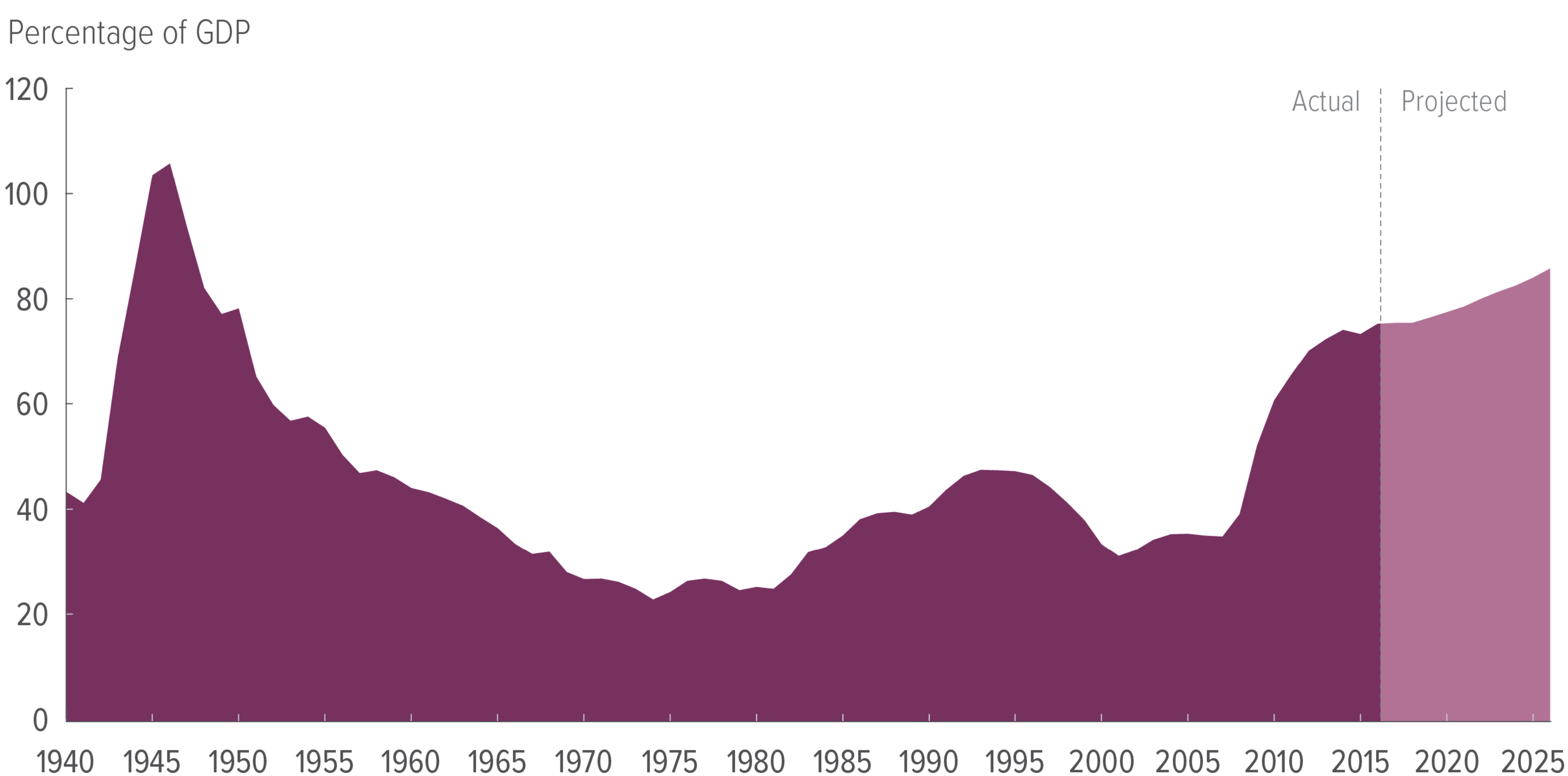
Percentage of GDP



Spending for the government's benefit programs—including Social Security and the major health care programs—is now a much larger proportion of spending, and appropriations for defense and other programs are much smaller.

If current laws generally remain the same, growing deficits are projected to raise federal debt held by the public to 86 percent of GDP by 2026—up from 74 percent at the end of 2015 and a little more than twice the average of the past five decades.

Federal Debt Held by the Public



High and rising federal debt would have serious negative consequences for the nation, including increasing federal spending for interest payments, restraining economic growth in the long term, giving policymakers less flexibility to respond to unexpected challenges, and eventually increasing the risk of a fiscal crisis.

To put the federal budget on a sustainable path for the long term, lawmakers would have to make major changes to tax policies, spending policies, or both—by reducing spending for large benefit programs below the projected amounts, letting revenues rise more than they would under current law, or adopting some combination of those approaches.

About This Document

Leigh Angres, Christi Hawley Anthony, Barry Blom, Christine Bogusz, Maureen Costantino, Meredith Decker, Amber Marcellino, and Joshua Shakin prepared these slides.

For more details about the economic outlook as well as the agency's most recent budget projections, see *The Budget and Economic Outlook: 2016 to 2026* (January 2016), www.cbo.gov/publication/51129. That report is the result of work by many analysts at CBO.