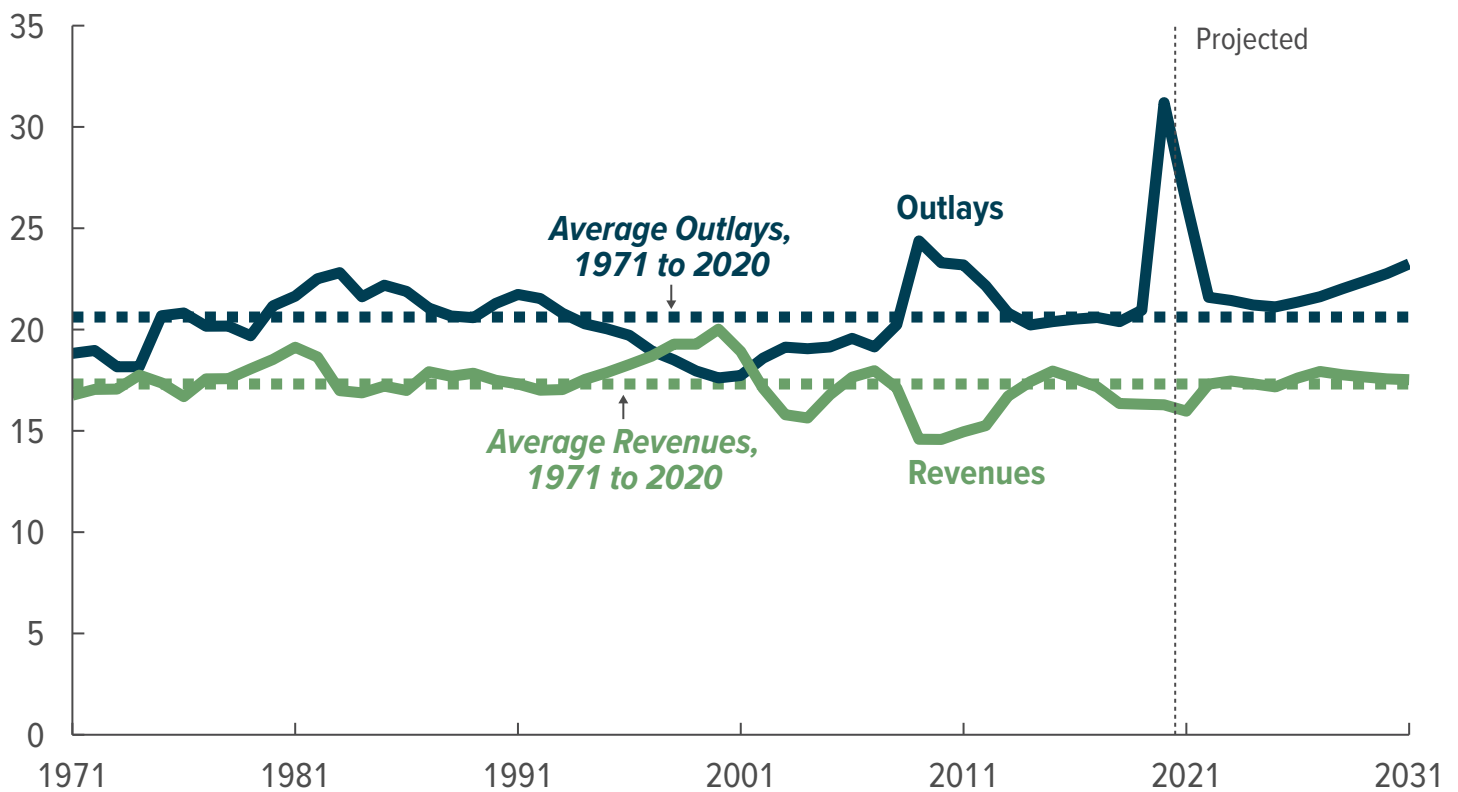




# Additional Information About the Budget Outlook: 2021 to 2031

Percentage of Gross Domestic Product



---

# At a Glance

In this report, the Congressional Budget Office provides additional information about the baseline budget projections that the agency released on February 11, 2021.

- **Deficits.** CBO projects a federal budget deficit of \$2.3 trillion in 2021, nearly \$900 billion less than the shortfall recorded in 2020. At 10.3 percent of gross domestic product (GDP), the deficit in 2021 would be the second largest since 1945, exceeded only by the 14.9 percent shortfall recorded last year. Those deficits, which were already projected to be large by historical standards before the onset of the 2020–2021 coronavirus pandemic, have increased significantly as a result of the economic disruption caused by the pandemic and the enactment of legislation in response.

In CBO's projections, annual deficits average \$1.2 trillion a year from 2022 to 2031 and exceed their 50-year average of 3.3 percent of GDP in each of those years. They decline to 4.0 percent of GDP or less from 2023 to 2027 before increasing again, reaching 5.7 percent of GDP in 2031. By the end of the period, both primary deficits (which exclude net outlays for interest) and interest outlays are rising.

- **Debt.** Federal debt held by the public—which stood at 100 percent of GDP at the end of fiscal year 2020—is projected to reach 102 percent of GDP at the end of 2021, dip slightly for a few years, and then rise further. By 2031, debt would equal 107 percent of GDP, the highest in the nation's history.
- **Revenues.** Federal revenues are projected to generally increase relative to GDP as a result of the expiration of temporary pandemic-related provisions, scheduled increases in taxes, and other factors.
- **Outlays.** Projected outlays decline relative to GDP for the next few years, as pandemic-related spending wanes and low interest rates persist. Outlays then increase relative to GDP, owing to rising interest costs and greater spending for major entitlement programs.
- **Changes Since CBO's Previous Projections.** Relative to its estimates from September 2020, CBO's estimate of the deficit for 2021 is now \$448 billion (or 25 percent) larger, and its projection of the cumulative deficit between 2021 and 2030 (at \$12.6 trillion) is now \$345 billion (or 3 percent) smaller. In 2021, the costs of recently enacted legislation are partly offset by the effects of a stronger economy. In subsequent years, the largest changes stem from revisions to the economic forecast. CBO now projects stronger economic activity, higher inflation, and higher interest rates, boosting both revenues and outlays—the former more than the latter.

---

# Contents

|   |    |
|---|----|
| <b>Overview</b>   | 1  |
| <b>The Budget Outlook for 2021 to 2031</b>                | 1  |
| Revenues  | 3  |
| Outlays   | 4  |
| <b>Changes in the Budget Outlook Since September 2020</b> | 6  |
| Legislative Changes                                       | 7  |
| Economic Changes  | 9  |
| Technical Changes   | 14 |
| <b>List of Tables and Figures</b>                         | 17 |
| <b>About This Document</b>                                | 18 |

---

# Notes

The budget projections in this report include the effects of legislation enacted through January 12, 2021, and are based on the Congressional Budget Office's economic projections. Those economic projections reflect economic developments through January 12, 2021, including the estimated effects on the economy of the Consolidated Appropriations Act, 2021 (Public Law 116-260). The projections do not include budgetary or economic effects of subsequent legislation, economic developments, administrative actions, or regulatory changes.

The budget projections were previously published on February 11, 2021, to provide the Congress with information as promptly as possible as it continued to address the consequences of the 2020–2021 coronavirus pandemic ([www.cbo.gov/publication/56965](http://www.cbo.gov/publication/56965)). Because the timing of the Consolidated Appropriations Act, 2021, did not allow enough time for all of the analysis and writing that CBO typically performs, that report omitted some material that has often appeared in past editions.

Unless this report indicates otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Numbers in the text, tables, and figures may not add up to totals because of rounding.

Also available on CBO's website are a glossary of common budgetary and economic terms ([www.cbo.gov/publication/42904](http://www.cbo.gov/publication/42904)), a description of how CBO prepares its baseline budget projections ([www.cbo.gov/publication/53532](http://www.cbo.gov/publication/53532)), a description of how CBO prepares its economic forecast ([www.cbo.gov/publication/53537](http://www.cbo.gov/publication/53537)), and previous editions of this report (<https://go.usa.gov/xQrzS>).

---

# Additional Information About the Budget Outlook: 2021 to 2031

## Overview

The Congressional Budget Office released its budget projections for fiscal years 2021 to 2031 on February 11, 2021. To provide information to the Congress quickly, that report contained the tabular data that CBO typically provides but omitted its usual analysis. This report supplements that initial report by providing some additional information and analysis about the baseline budget projections and how they have changed since September 2020, when CBO released its previous projections. The projections shown in this report are the same as those the agency published in February.<sup>1</sup>

CBO's baseline is not intended to provide a forecast of future budgetary outcomes; rather, it serves as a benchmark that policymakers can use to assess the potential effects of future policy decisions. Future legislative action could lead to markedly different outcomes. Even if federal laws remained unaltered, though, actual budgetary outcomes would probably differ from CBO's baseline—because of unanticipated economic developments as well as many other factors that affect federal revenues and outlays.

## The Budget Outlook for 2021 to 2031

In CBO's projections, the federal budget deficit for fiscal year 2021 is \$2.3 trillion, nearly \$900 billion less than the deficit recorded in 2020 but more than double the shortfall recorded in 2019. Relative to the size of the economy, this year's deficit is projected to total

10.3 percent of gross domestic product (GDP), making it the second largest since 1945, exceeded only by the 14.9 percent shortfall recorded last year. Those deficits, which were projected to be large by historical standards before the onset of the 2020–2021 coronavirus pandemic, have increased significantly as a result of the economic disruption caused by the pandemic and the enactment of legislation in response.

Annual deficits average \$1.2 trillion from 2022 to 2031 and total \$12.3 trillion over that period, in CBO's projections (see Table 1). The deficit is projected to decline from 4.6 percent of GDP in 2022 to 4.0 percent or less from 2023 to 2027 before increasing again, reaching 5.7 percent in 2031. Over the projection period, deficits average 4.4 percent of GDP, well above their 50-year average of 3.3 percent.

Primary deficits—that is, deficits excluding net outlays for interest—are projected to follow a similar pattern, falling from 8.9 percent of GDP in 2021 to 2.2 percent in 2027 and then generally growing thereafter, reaching 3.3 percent of GDP in 2031 (see Figure 1).

With such deficits, federal debt held by the public—which stood at \$21.0 trillion, or 100 percent of GDP, at the end of 2020—would total \$22.5 trillion, or 102 percent of GDP, at the end of 2021. As recently as 2007, at the start of the previous recession, federal debt equaled 35 percent of GDP. Projected federal debt dips slightly relative to the size of the economy by mid-decade before rising again, reaching 107 percent of GDP in 2031, when it would be the highest in the nation's history, surpassing the previous peak, which occurred in 1946 (see Figure 2).<sup>2</sup>

---

1. In addition to the tables in this report, the February report included tables showing details for mandatory outlays, discretionary spending, and federal debt; see Congressional Budget Office, *The Budget and Economic Outlook: 2021 to 2031* (February 2021), [www.cbo.gov/publication/56970](http://www.cbo.gov/publication/56970). Those projections were constructed in accordance with the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), except with respect to certain emergency funding provided in response to the 2020–2021 coronavirus pandemic.

---

2. For more details on the federal debt, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), [www.cbo.gov/publication/56165](http://www.cbo.gov/publication/56165).

Table 1.

**CBO's Baseline Budget Projections, by Category**

|  | Actual,<br>2020 | 2021          | 2022          | 2023         | 2024         | 2025          | 2026          | 2027          | 2028          | 2029          | 2030          | 2031          | Total         |                |
|--|-----------------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
|  |                 |               |               |              |              |               |               |               |               |               |               |               | 2022–<br>2026 | 2022–<br>2031  |
| <b>In Billions of Dollars</b>                    |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| <b>Revenues</b>                                  |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| Individual income taxes                          | 1,609           | 1,699         | 2,041         | 2,084        | 2,139        | 2,228         | 2,479         | 2,698         | 2,782         | 2,882         | 2,985         | 3,096         | 10,970        | 25,414         |
| Payroll taxes                                    | 1,310           | 1,325         | 1,351         | 1,452        | 1,507        | 1,558         | 1,619         | 1,673         | 1,729         | 1,788         | 1,849         | 1,914         | 7,487         | 16,441         |
| Corporate income taxes                           | 212             | 164           | 252           | 304          | 328          | 355           | 365           | 361           | 369           | 377           | 385           | 393           | 1,605         | 3,491          |
| Other  | 289             | 318           | 351           | 362          | 379          | 365           | 354           | 365           | 363           | 360           | 357           | 367           | 1,811         | 3,623          |
| <b>Total</b>                                     | <b>3,420</b>    | <b>3,506</b>  | <b>3,995</b>  | <b>4,202</b> | <b>4,352</b> | <b>4,507</b>  | <b>4,817</b>  | <b>5,097</b>  | <b>5,243</b>  | <b>5,408</b>  | <b>5,577</b>  | <b>5,771</b>  | <b>21,873</b> | <b>48,968</b>  |
| On-budget  | 2,455           | 2,539         | 3,031         | 3,154        | 3,258        | 3,366         | 3,630         | 3,865         | 3,967         | 4,087         | 4,212         | 4,358         | 16,438        | 36,927         |
| Off-budget <sup>a</sup>                          | 965             | 967           | 964           | 1,048        | 1,094        | 1,141         | 1,187         | 1,232         | 1,276         | 1,321         | 1,365         | 1,413         | 5,435         | 12,041         |
| <b>Outlays</b>                                   |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| Mandatory  | 4,579           | 3,793         | 3,153         | 3,293        | 3,389        | 3,618         | 3,828         | 4,016         | 4,340         | 4,384         | 4,711         | 4,988         | 17,280        | 39,720         |
| Discretionary                                    | 1,628           | 1,668         | 1,615         | 1,593        | 1,585        | 1,620         | 1,654         | 1,694         | 1,740         | 1,772         | 1,822         | 1,867         | 8,067         | 16,961         |
| Net interest                                     | 345             | 303           | 282           | 278          | 284          | 306           | 361           | 435           | 516           | 597           | 695           | 799           | 1,512         | 4,554          |
| <b>Total</b>                                     | <b>6,552</b>    | <b>5,764</b>  | <b>5,050</b>  | <b>5,165</b> | <b>5,258</b> | <b>5,544</b>  | <b>5,843</b>  | <b>6,145</b>  | <b>6,595</b>  | <b>6,754</b>  | <b>7,227</b>  | <b>7,654</b>  | <b>26,859</b> | <b>61,234</b>  |
| On-budget  | 5,596           | 4,758         | 3,977         | 4,017        | 4,032        | 4,238         | 4,460         | 4,680         | 5,039         | 5,103         | 5,477         | 5,798         | 20,724        | 46,820         |
| Off-budget <sup>a</sup>                          | 956             | 1,006         | 1,073         | 1,148        | 1,226        | 1,305         | 1,382         | 1,465         | 1,556         | 1,651         | 1,750         | 1,856         | 6,135         | 14,414         |
| <b>Deficit (-) or Surplus</b>                    | <b>-3,132</b>   | <b>-2,258</b> | <b>-1,056</b> | <b>-963</b>  | <b>-905</b>  | <b>-1,037</b> | <b>-1,026</b> | <b>-1,048</b> | <b>-1,352</b> | <b>-1,346</b> | <b>-1,650</b> | <b>-1,883</b> | <b>-4,986</b> | <b>-12,266</b> |
| On-budget  | -3,142          | -2,220        | -946          | -863         | -774         | -872          | -830          | -815          | -1,073        | -1,016        | -1,265        | -1,439        | -4,286        | -9,893         |
| Off-budget <sup>a</sup>                          | 10              | -39           | -110          | -99          | -131         | -165          | -195          | -234          | -280          | -330          | -385          | -444          | -700          | -2,373         |
| Debt Held by the Public                          | 21,019          | 22,461        | 23,541        | 24,547       | 25,488       | 26,559        | 27,596        | 28,702        | 30,162        | 31,593        | 33,331        | 35,304        | n.a.          | n.a.           |
| <b>Memorandum:</b>                               |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| Gross Domestic Product                           | 21,000          | 21,951        | 23,082        | 24,066       | 25,127       | 26,249        | 27,359        | 28,425        | 29,506        | 30,623        | 31,751        | 32,933        | 125,883       | 279,121        |
| <b>As a Percentage of Gross Domestic Product</b> |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| <b>Revenues</b>                                  |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| Individual income taxes                          | 7.7             | 7.7           | 8.8           | 8.7          | 8.5          | 8.5           | 9.1           | 9.5           | 9.4           | 9.4           | 9.4           | 9.4           | 8.7           | 9.1            |
| Payroll taxes                                    | 6.2             | 6.0           | 5.9           | 6.0          | 6.0          | 5.9           | 5.9           | 5.9           | 5.9           | 5.8           | 5.8           | 5.8           | 5.9           | 5.9            |
| Corporate income taxes                           | 1.0             | 0.7           | 1.1           | 1.3          | 1.3          | 1.4           | 1.3           | 1.3           | 1.2           | 1.2           | 1.2           | 1.2           | 1.3           | 1.3            |
| Other  | 1.4             | 1.4           | 1.5           | 1.5          | 1.5          | 1.4           | 1.3           | 1.3           | 1.2           | 1.2           | 1.1           | 1.1           | 1.4           | 1.3            |
| <b>Total</b>                                     | <b>16.3</b>     | <b>16.0</b>   | <b>17.3</b>   | <b>17.5</b>  | <b>17.3</b>  | <b>17.2</b>   | <b>17.6</b>   | <b>17.9</b>   | <b>17.8</b>   | <b>17.7</b>   | <b>17.6</b>   | <b>17.5</b>   | <b>17.4</b>   | <b>17.5</b>    |
| On-budget  | 11.7            | 11.6          | 13.1          | 13.1         | 13.0         | 12.8          | 13.3          | 13.6          | 13.4          | 13.3          | 13.3          | 13.2          | 13.1          | 13.2           |
| Off-budget <sup>a</sup>                          | 4.6             | 4.4           | 4.2           | 4.4          | 4.4          | 4.3           | 4.3           | 4.3           | 4.3           | 4.3           | 4.3           | 4.3           | 4.3           | 4.3            |
| <b>Outlays</b>                                   |                 |               |               |              |              |               |               |               |               |               |               |               |               |                |
| Mandatory  | 21.8            | 17.3          | 13.7          | 13.7         | 13.5         | 13.8          | 14.0          | 14.1          | 14.7          | 14.3          | 14.8          | 15.1          | 13.7          | 14.2           |
| Discretionary                                    | 7.8             | 7.6           | 7.0           | 6.6          | 6.3          | 6.2           | 6.0           | 6.0           | 5.9           | 5.8           | 5.7           | 5.7           | 6.4           | 6.1            |
| Net interest                                     | 1.6             | 1.4           | 1.2           | 1.2          | 1.1          | 1.2           | 1.3           | 1.5           | 1.7           | 2.0           | 2.2           | 2.4           | 1.2           | 1.6            |
| <b>Total</b>                                     | <b>31.2</b>     | <b>26.3</b>   | <b>21.9</b>   | <b>21.5</b>  | <b>20.9</b>  | <b>21.1</b>   | <b>21.4</b>   | <b>21.6</b>   | <b>22.4</b>   | <b>22.1</b>   | <b>22.8</b>   | <b>23.2</b>   | <b>21.3</b>   | <b>21.9</b>    |
| On-budget  | 26.6            | 21.7          | 17.2          | 16.7         | 16.0         | 16.1          | 16.3          | 16.5          | 17.1          | 16.7          | 17.2          | 17.6          | 16.5          | 16.8           |
| Off-budget <sup>a</sup>                          | 4.6             | 4.6           | 4.7           | 4.8          | 4.9          | 5.0           | 5.1           | 5.2           | 5.3           | 5.4           | 5.5           | 5.6           | 4.9           | 5.2            |
| <b>Deficit (-) or Surplus</b>                    | <b>-14.9</b>    | <b>-10.3</b>  | <b>-4.6</b>   | <b>-4.0</b>  | <b>-3.6</b>  | <b>-4.0</b>   | <b>-3.7</b>   | <b>-3.7</b>   | <b>-4.6</b>   | <b>-4.4</b>   | <b>-5.2</b>   | <b>-5.7</b>   | <b>-4.0</b>   | <b>-4.4</b>    |
| On-budget  | -15.0           | -10.1         | -4.1          | -3.6         | -3.1         | -3.3          | -3.0          | -2.9          | -3.6          | -3.3          | -4.0          | -4.4          | -3.4          | -3.5           |
| Off-budget <sup>a</sup>                          | *               | -0.2          | -0.5          | -0.4         | -0.5         | -0.6          | -0.7          | -0.8          | -0.9          | -1.1          | -1.2          | -1.3          | -0.6          | -0.9           |
| Debt Held by the Public                          | 100.1           | 102.3         | 102.0         | 102.0        | 101.4        | 101.2         | 100.9         | 101.0         | 102.2         | 103.2         | 105.0         | 107.2         | n.a.          | n.a.           |

Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

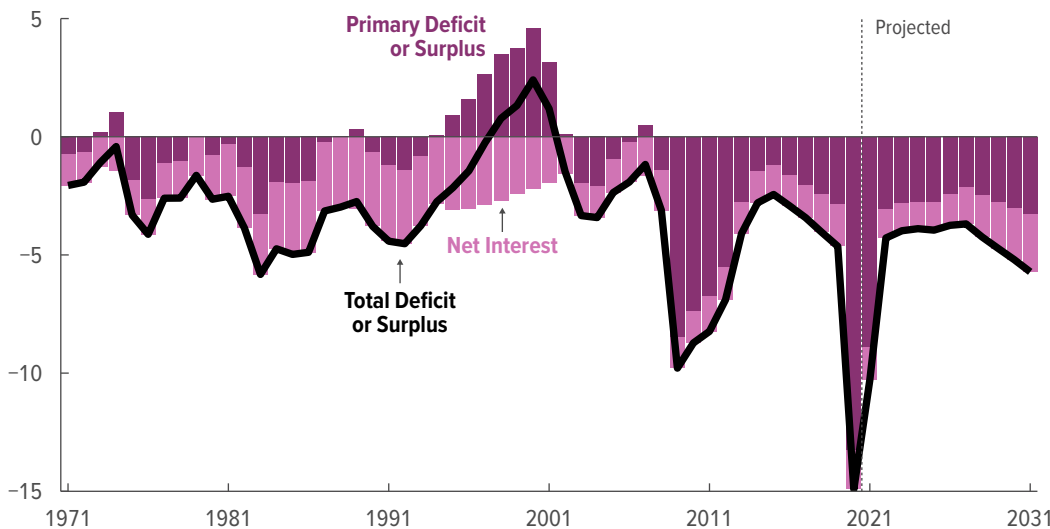
n.a. = not applicable; \* = between zero and 0.05 percent.

a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

Figure 1.

## Total Deficits and Surpluses

Percentage of GDP



In CBO's projections, both total deficits and primary deficits shrink as a percentage of GDP for the next few years and then generally increase thereafter. Total deficits grow more rapidly than primary deficits near the end of the projection period because of rising interest costs.

Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.

### Revenues

Despite the emergence of the pandemic and actions taken in response, federal revenues declined by only 1 percent in 2020, totaling \$3.4 trillion, or 16.3 percent of GDP. Those receipts reflect income and activity from both before and after the onset of the economic disruption caused by the pandemic and the federal government's response, including the enactment of legislation.

CBO expects the ongoing effects of social distancing measures put in place to curb the spread of COVID-19 (the disease caused by the coronavirus) and of legislation enacted since March 2020 to continue to weigh on receipts in the current fiscal year. As a result, CBO anticipates, revenues will rise by 3 percent this year, reaching \$3.5 trillion. They will decline as a share of GDP, however, to 16.0 percent, because GDP is projected to grow faster than revenues (see Figure 3).

After this year, as those factors dissipate and taxable income rises, revenues are projected to grow faster than GDP for the remainder of the decade, totaling 17.5 percent of GDP in 2031. The growth in revenues relative to GDP largely reflects increases in revenues from individual and corporate income taxes, offset in part by declines in other sources of revenues.

The largest movements over the next decade are as follows:

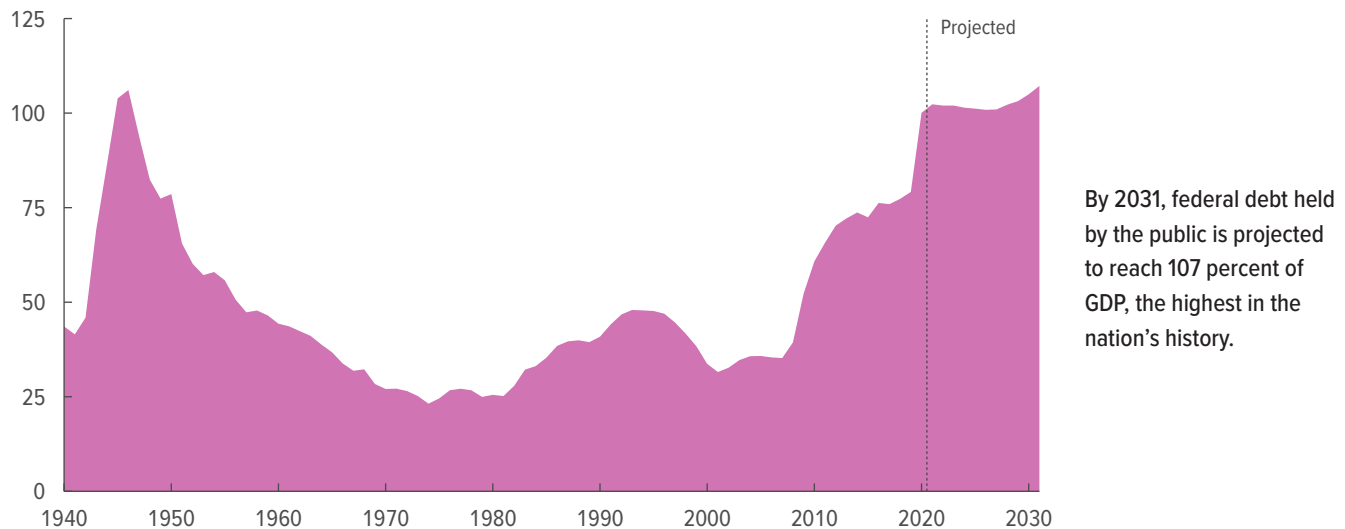
- **Individual income tax receipts** are projected to rise by 1.7 percentage points as a share of GDP from 2021 to 2031 because of the expiration of temporary provisions enacted in response to the pandemic, scheduled increases in taxes after 2025, real bracket creep, and other factors.<sup>3</sup>
- **Corporate income tax receipts** are projected to rise relative to GDP by 0.4 percentage points over the 10-year period. Through 2025, those receipts will increase as a result of the expiration of temporary provisions enacted in response to the pandemic and scheduled changes to tax rules enacted in the 2017 tax act (P.L. 115-97). After 2025, corporate income taxes are projected to decline as a share of GDP, mostly

3. Real bracket creep occurs because the income tax brackets are indexed only to inflation. If income grows faster than inflation, as generally occurs when the economy is expanding, more income is pushed into higher tax brackets. Other parameters of the tax system, including the amount of the child tax credit, are fixed in nominal dollars and are not adjusted for inflation. For further information, see Congressional Budget Office, "How Income Growth Affects Tax Revenues in CBO's Long-Term Budget Projections" (presentation, June 2019), [www.cbo.gov/publication/55368](http://www.cbo.gov/publication/55368).

Figure 2.

## Federal Debt Held by the Public

Percentage of GDP



Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

GDP = gross domestic product.

because of the end of the scheduled payments for a onetime tax on previously untaxed foreign profits.

- **Payroll tax receipts** are projected to decrease relative to GDP by 0.2 percentage points through 2031, in part because wages are estimated to grow more slowly than GDP.
- **Remittances from the Federal Reserve** are expected to decline relative to GDP by 0.2 percentage points between 2021 and 2031. Those remittances, which began to rise in 2020, will continue to grow over the next few years as the Federal Reserve significantly increases its asset holdings, which boost its earnings. CBO also projects that short-term interest rates will remain low, which will hold down the amounts the Federal Reserve must pay to depository institutions on their reserves. In CBO's projections, interest rates begin to rise in 2025, and the Federal Reserve's asset holdings begin to slowly shrink as a share of GDP beginning in 2024, reducing remittances.
- **Excise taxes** are projected to decline by 0.1 percentage point relative to GDP over the next decade. CBO expects those receipts to rise in 2022 as the economy recovers but then decline in each year thereafter, along with the tax bases on which many excise taxes are levied.

### Outlays

In CBO's baseline projections, federal outlays—which totaled \$6.6 trillion last year—fall from \$5.8 trillion this year to \$5.1 trillion in 2022 and rise thereafter, reaching \$7.7 trillion in 2031.

Relative to the size of the economy, federal outlays fall from 31.2 percent of GDP last year to 26.3 percent in 2021 and to 20.9 percent in 2024. All three major categories of spending—mandatory, discretionary, and net interest—decline over that period relative to GDP, as spending related to the pandemic diminishes and low interest rates reduce net interest outlays, despite growing debt. After 2024, outlays generally increase—a result of higher interest rates and underlying trends involving the aging of the population and the rising cost of health care—reaching 23.2 percent of GDP in 2031.

- **Mandatory spending** in CBO's projections totals 17.3 percent of GDP in 2021, falls below 14.0 percent from 2022 through 2025, and rises thereafter, reaching 15.1 percent of GDP in 2031.<sup>4</sup> That pattern occurs mainly because spending related

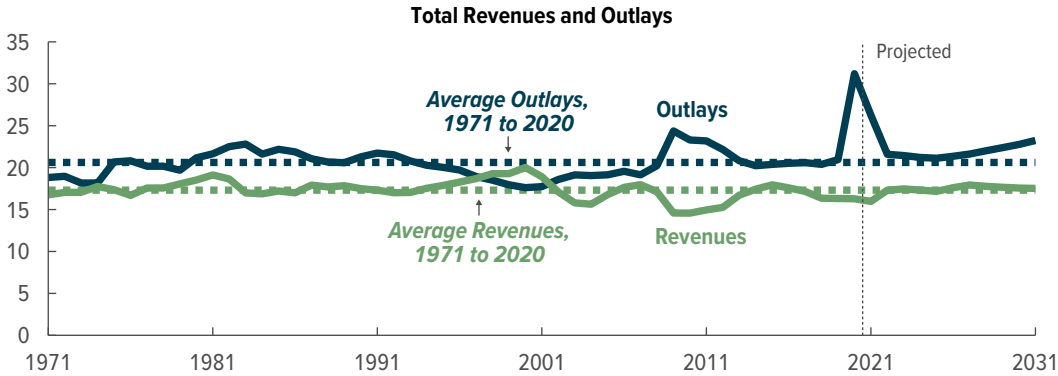
4. Mandatory spending consists of outlays for some federal benefit programs, such as Social Security, Medicare, and Medicaid, and certain other payments to people, businesses, nonprofit institutions, and state and local governments. It is governed by statutory criteria and is not normally controlled by the annual appropriation process.



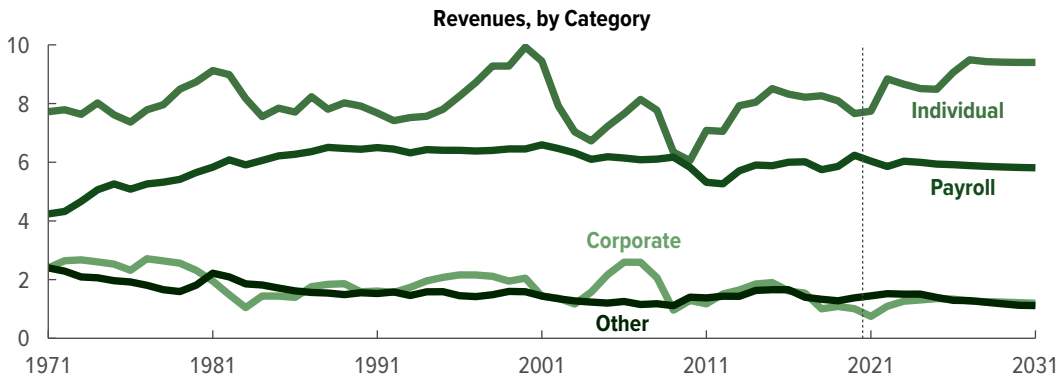
Figure 3.

### CBO's Baseline Projections of Revenues and Outlays

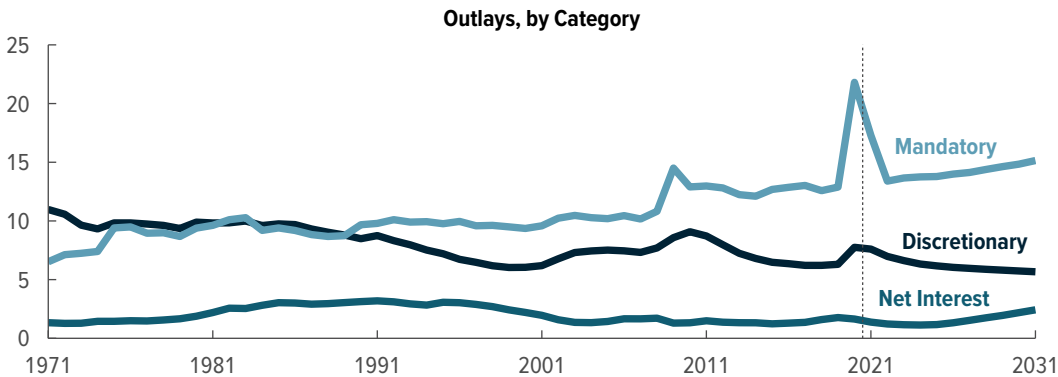
Percentage of GDP



Outlays are projected to drop from recent highs as pandemic-related spending wanes, before returning to an upward trend. Revenues are projected to hover around their historical average as a share of the economy.



Receipts of individual and corporate income taxes are expected to rise in 2022 as the economy recovers and temporary provisions enacted in response to the pandemic expire. Individual income taxes are projected to rise again following scheduled increases in taxes after 2025.



Each category of spending drops in the near term. In later years, rising spending for Social Security and the major health care programs boosts mandatory outlays, and net interest costs increase as interest rates rise.

Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that would have ordinarily been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. All outlay projections presented here have been adjusted to exclude the effects of those timing shifts. Historical amounts have been adjusted as far back as the available data will allow.

GDP = gross domestic product.



to the pandemic declines over the next few years, and the budgetary effects of two underlying factors put upward pressure on mandatory outlays: the aging of the population, which causes the number of participants in Social Security and Medicare to grow faster than the overall population, and growth in federal health care costs per beneficiary that exceeds the growth in GDP per capita. As a result, under CBO's projections, spending for Social Security and Medicare taken together increases from 8.3 percent of GDP in 2021 to 10.4 percent in 2031. Spending for all other mandatory programs drops from 9.0 percent in 2021 to 4.7 percent in 2031.

- **Discretionary outlays** for 2021 will amount to \$1.7 trillion, CBO estimates, if there are no additional appropriations this year.<sup>5</sup> In CBO's projections, discretionary outlays between 2022 and 2026 will be less than in 2021 as spending related to the pandemic dissipates. Those outlays rise thereafter, in nominal terms, reaching \$1.9 trillion in 2031. Relative to GDP, discretionary outlays decrease steadily from 7.6 percent in 2021 to 5.7 percent in 2031. That 2031 percentage would be the smallest in any year since 1962 (the earliest year for which such data have been reported).
- **Net outlays for interest** in CBO's projections decline from 1.4 percent of GDP in 2021 to 1.1 percent in 2024 before rising again. In the second half of the projection period, those outlays more than double as a share of GDP, reaching 2.4 percent in 2031 (the highest percentage since 1999). Net outlays for interest fall over the next few years because interest rates remain very low, offsetting the effects of increasing debt. After that, rising debt and higher interest rates push up those costs over the remainder

5. Discretionary spending is controlled by appropriation acts that specify the amounts that are to be provided for a broad array of government activities, including, for example, defense, law enforcement, and transportation. Funding for 2021 is subject to limits specified in the Budget Control Act of 2011 (P.L. 112-25, as amended). For more information, see Congressional Budget Office, *Final Sequestration Report for Fiscal Year 2021* (January 2021), [www.cbo.gov/publication/56955](http://www.cbo.gov/publication/56955). Laws governing the construction of the budget baseline require CBO to assume that discretionary appropriations in future years will match current funding, with adjustments for inflation. Discretionary appropriations provided thus far for 2021 total \$1.6 trillion. In consultation with the House and Senate Committees on the Budget, however, CBO did not extrapolate the \$184 billion in discretionary budget authority that has been provided so far in 2021 in response to the pandemic. Emergency funding provided for other purposes was projected to continue in the future with increases for inflation each year after 2021.

of the decade. In total, debt held by the public grows (in nominal terms) in each year of the projection period in CBO's baseline—increasing by roughly two-thirds from the end of 2020 to the end of 2031. The average interest rate on debt held by the public, which stood at 2.5 percent in 2019, falls to 1.3 percent by mid-decade and increases thereafter, reaching 2.4 percent in 2031.<sup>6</sup>

## Changes in the Budget Outlook Since September 2020

The deficit that CBO now projects for 2021 is \$0.4 trillion more than the \$1.8 trillion deficit the agency estimated in September 2020, when it last updated its baseline budget projections. In contrast, the cumulative deficit now projected for the 2022–2030 period is \$0.8 trillion less than the agency's previous projection of \$11.2 trillion.<sup>7</sup>

When CBO updates its projections, it classifies its revisions as legislative, economic, or technical changes.

- **Legislative changes** result from laws enacted since the agency prepared its previous baseline projections and generally reflect the budgetary effects reported in CBO's cost estimates when the legislation was enacted. (In this report, legislative changes reflect laws enacted after August 4, 2020, and through January 12, 2021.)
- **Economic changes** arise from updates the agency has made to its economic forecast.<sup>8</sup>

6. Inflation rates also affect net outlays for interest, mostly for Treasury inflation-protected securities, which differ from other securities in that their principal amounts are adjusted to account for inflation. For more details on federal net interest costs, see Congressional Budget Office, *Federal Net Interest Costs: A Primer* (December 2020), [www.cbo.gov/publication/56780](http://www.cbo.gov/publication/56780).

7. See Congressional Budget Office, *An Update to the Budget Outlook: 2020 to 2030* (September 2020), [www.cbo.gov/publication/56517](http://www.cbo.gov/publication/56517).

8. CBO's current projections are based on its latest economic forecast, which incorporates economic and other information available as of January 12, 2021, as well as estimates of the economic effects of legislation enacted up to that date. For further explanation of the revisions to the agency's economic forecast, see Congressional Budget Office, *Additional Information About the Economic Outlook: 2021 to 2031* (February 2021), [www.cbo.gov/publication/56989](http://www.cbo.gov/publication/56989). The economic changes discussed in this report reflect differences between that forecast and CBO's July 2020 forecast. For more details on that earlier forecast, see Congressional Budget Office, *An Update to the Economic Outlook: 2020 to 2030* (July 2020), [www.cbo.gov/publication/56442](http://www.cbo.gov/publication/56442).

- **Technical changes** are revisions to projections that are neither legislative nor economic.

For 2021, the largest change is legislative—a \$0.9 trillion increase in outlays stemming primarily from laws enacted to address the pandemic and resulting economic disruption. That revision is partly offset by economic and technical changes (see Figure 4).

Over the 2022–2030 period, the largest changes arise because CBO now projects a more robust economic expansion than it did last summer. Compared with the agency’s previous estimates, these projections reflect a mix of stronger economic activity, higher inflation, and higher interest rates. Those conditions boost both revenues and outlays—but they increase revenues by more—resulting in a net reduction in the deficit.

As a result of those revisions, the primary deficit in 2021 is now projected to be \$0.4 trillion larger than it was in CBO’s September 2020 baseline projections, and the 2021–2030 cumulative primary deficit is projected to be \$0.7 trillion smaller. Through 2030, the agency’s projections of net outlays for interest increase by \$0.3 trillion.

Last September, CBO projected that debt held by the public would be \$33.5 trillion (or 109 percent of GDP) at the end of 2030. Now CBO projects that such debt would reach \$33.3 trillion (or 105 percent of GDP) by the end of that year if current laws generally remained unchanged. That decrease in projected debt relative to the size of the economy stems almost entirely from the fact that GDP in 2030 is expected to be greater than previously anticipated.

### Legislative Changes

Legislation enacted after August 4, 2020, increased the deficit for 2021 by \$0.9 trillion and increased projected deficits over the 2021–2030 period by \$1.4 trillion, according to CBO’s estimates (see Table 2 on page 10). Those changes, which mostly affected outlays, primarily resulted from provisions in the Consolidated Appropriations Act, 2021 (CAA, P.L. 116-260).<sup>9</sup> Other legislation enacted since August has had a minor effect on CBO’s projections.

9. For more details on the CAA, see Congressional Budget Office, cost estimate for Divisions A Through L of the House Amendment to the Senate Amendment to H.R. 133, the Consolidated Appropriations Act, 2021, Rules Committee Print 116-68 (December 21, 2020), [www.cbo.gov/publication/56913](http://www.cbo.gov/publication/56913); Congressional Budget Office, cost estimate for H.R. 133, Summary Estimate for Divisions M Through FF, Consolidated

**Changes in Outlays.** Increases in mandatory outlays account for the bulk of the legislative revisions to outlays. CBO now projects \$762 billion (or 24 percent) more in mandatory outlays in 2021 and \$736 billion (or 2 percent) more from 2021 to 2030 than it did in its previous projections. Most of that added spending is for provisions of the CAA that extended and expanded programs enacted last year in response to the pandemic, including the Paycheck Protection Program, additional recovery rebates for individuals, and the major pandemic-initiated unemployment compensation programs.

In addition, CBO now projects more discretionary funding through 2030 than it did last September. Legislation—primarily the CAA—boosted discretionary funding for 2021 by \$196 billion compared with last September’s projected amount. Most of the increase in funding for 2021—\$184 billion—was designated as an emergency requirement to address the pandemic. (In consultation with the House and Senate Committees on the Budget, CBO did not extrapolate that funding over the rest of the projection period.)

Also, gross discretionary appropriations enacted for 2021 exceed the limits established by the Budget Control Act of 2011 (P.L. 112-25, as amended), in part because appropriation acts contained changes to mandatory programs that reduced nonemergency budget authority by \$25 billion.<sup>10</sup> No limits on discretionary funding are in place for 2022 and later years (they expire this year), so that additional funding is projected to continue in CBO’s projections—with adjustments for future inflation. (When gross appropriations exceeded the statutory caps in previous years, higher levels of funding were not projected to continue, because the baseline projections for future years were assumed to comply with statutory limits.)

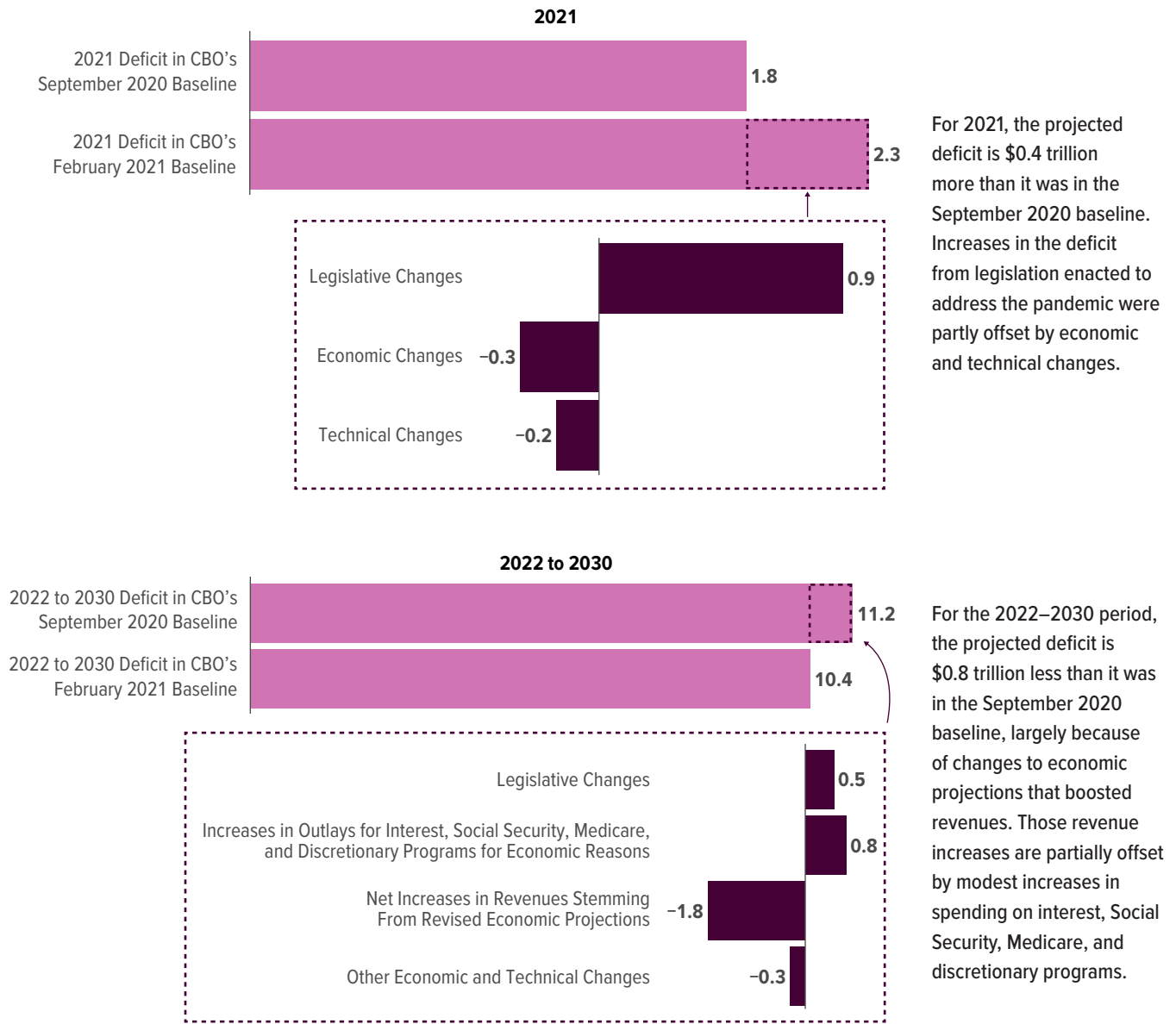
Appropriations Act, 2021, Public Law 116-260 (January 14, 2021), [www.cbo.gov/publication/56963](http://www.cbo.gov/publication/56963); and Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in Rules Committee Print 116-68, the “Consolidated Appropriations Act, 2021,”* JCX-24-20 (December 21, 2020), [www.jct.gov/publications/2020/jcx-24-20](http://www.jct.gov/publications/2020/jcx-24-20).

10. Those acts included other changes to mandatory programs that increased emergency budget authority by nearly \$2 billion. (Information about CBO’s reports on the status of appropriation legislation is available at [www.cbo.gov/topics/budget/status-appropriations](http://www.cbo.gov/topics/budget/status-appropriations).) When appropriation acts include changes that affect mandatory spending, those effects are included in estimates of discretionary funding provided by those acts for budget-enforcement purposes. Once the acts become law, those effects appear in their normal mandatory accounts.

Figure 4.

### Changes in CBO’s Baseline Projection of the Deficit Since September 2020

Trillions of Dollars



Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

CBO's February 2021 baseline incorporated the effects of legislation enacted through January 12, 2021.

All told, discretionary funding over the 2021–2030 period is now projected to be \$420 billion greater than the amounts in CBO’s September baseline. As a result, CBO increased its estimate of discretionary outlays by \$89 billion in 2021 and by \$439 billion through 2030. (The increase in outlays over 10 years exceeds the increase in budget authority because some outlay reductions from funding decreases occur after 2030.)

Before debt-service costs are taken into account, legislative changes increased the deficit for 2021 by \$0.9 trillion and the cumulative deficit for the 2021–2030 period by \$1.3 trillion. The additional federal borrowing stemming from those larger deficits added \$0.1 trillion to CBO’s projection of net outlays for interest over the 10-year period.



**Changes in Revenues.** CBO reduced its revenue projections by \$39 billion (or 1 percent) in 2021 and \$141 billion (or less than 1 percent) from 2021 to 2030 as a result of legislative changes. Most of those changes stemmed from provisions in the CAA.

*Individual Income Taxes.* The agency decreased its estimate of individual income tax revenues by \$34 billion in 2021 and \$93 billion over the 2021–2030 period. The largest reductions in 2021 occur because of provisions of the CAA that extend and expand tax credits for businesses that retain or rehire employees. (Those credits were originally enacted in the Coronavirus Aid, Relief, and Economic Security Act.)<sup>11</sup> The largest reductions for the rest of the projection period stem from provisions making permanent the deduction for medical expenses in excess of 7.5 percent of a filer’s adjusted gross income.

*Corporate Income Taxes.* CBO reduced its estimate of corporate income tax revenues by \$3 billion in 2021 and \$44 billion from 2021 to 2030. The largest reductions resulted from the CAA’s provision to extend the work opportunity tax credit and credits for investments in renewable energy.

*Other Revenues.* In total, legislation led CBO to decrease its revenue projections for all other sources by \$3 billion from 2021 to 2030. Reductions of \$12 billion in estimated excise taxes over the period—owing to provisions in the CAA that permanently extend reductions in certain excise taxes on beer, wine, and distilled spirits—were offset in part by higher revenues from other sources.

### Economic Changes

The economic forecast that underlies CBO’s baseline budget projections includes the agency’s projections of GDP growth, the unemployment rate, interest rates, inflation, and other factors that affect federal spending and revenues (see Figure 5 on page 12). The revisions that CBO has made to those economic factors have decreased its estimate of the deficit by \$288 billion for 2021 and by a total of \$1.5 trillion for the 2021–2030 period. That reduction in the deficit, on net, is the

result of increases in projections of both revenues and outlays.

**Changes in Revenues.** Changes to CBO’s economic forecast led the agency to raise its projection of revenues by \$221 billion (or 7 percent) in 2021 and \$2.0 trillion (or 5 percent) from 2021 to 2030. Increases in projections of the size of the economy—including projections of wages and salaries, proprietors’ income, and corporate profits—spurred the increases in projected income and payroll taxes. CBO also raised its projections of imports, which boosted estimates of customs duties. Those increases were partially offset by decreases in CBO’s projections of states’ deposits of unemployment insurance taxes and remittances by the Federal Reserve.

*Individual Income Taxes.* CBO raised its projections of individual income tax revenues by \$151 billion (or 10 percent) in 2021 and \$1.5 trillion (or 7 percent) over the 2021–2030 period; the increase was driven largely by a 4 percent increase in projected wages and salaries over the projection period, owing to a stronger anticipated recovery of the labor market. Projections of proprietors’ income also increased. Additionally, higher projections of asset values boosted expected capital gains realizations and distributions from pensions and individual retirement accounts. Those factors were partially offset by expectations of higher inflation, which lower CBO’s projections of income tax revenues. (Because tax brackets and other parameters of the individual income tax system are indexed to inflation, higher inflation pushes a larger portion of taxable income into lower tax brackets, thus reducing income tax receipts.)

*Payroll Taxes.* CBO’s estimate of payroll tax revenues in 2021 increased by \$49 billion (or 4 percent); for the 2021–2030 period, it rose by \$521 billion (or 3 percent). The primary causes of those increases are higher estimates of wages and salaries and proprietors’ income. Partially offsetting those increases are lower projections of state unemployment insurance deposits, which are recorded as revenues in the federal budget.

*Federal Reserve Remittances.* CBO revised its estimate of Federal Reserve remittances between 2021 and 2030 downward by \$210 billion, for two reasons. First, the central bank’s interest expenses are now projected to rise sooner, and mortgage interest rates that have been lower than CBO previously forecast reduce the income from the Federal Reserve’s holdings of mortgage-backed

11. In CBO’s initial estimate of the payroll tax credits related to paid leave and employee retention, a portion of the deficit effect was shown as an increase in outlays. Because the Treasury is recording those credits almost entirely as a reduction in revenues, CBO has adjusted its projections accordingly. That shift has no effect on the deficit.

Table 2.

**Changes in CBO's Baseline Projections of the Deficit Since September 2020**

Billions of Dollars

|   | 2021        | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       | Total         |               |
|---|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|---------------|---------------|
|   |             |            |            |            |            |            |            |            |            |            | 2021–<br>2025 | 2021–<br>2030 |
| Deficit in CBO's September 2020 Baseline                | -1,810      | -1,336     | -1,124     | -1,081     | -1,174     | -1,116     | -1,080     | -1,333     | -1,306     | -1,627     | -6,524        | -12,987       |
| <b>Legislative Changes</b>                              |             |            |            |            |            |            |            |            |            |            |               |               |
| Changes in Revenues                                     |             |            |            |            |            |            |            |            |            |            |               |               |
| Individual income taxes                                 | -34         | -16        | -6         | -5         | -5         | -4         | -5         | -6         | -6         | -6         | -66           | -93           |
| Corporate income taxes                                  | -3          | -7         | -6         | -7         | -7         | -4         | -2         | -2         | -3         | -3         | -30           | -44           |
| Payroll taxes   | -2          | *          | *          | *          | *          | 1          | 1          | 1          | 1          | 1          | -2            | 2             |
| Other   | *           | *          | *          | *          | -1         | -1         | -1         | -1         | -1         | -1         | -2            | -5            |
| <b>Total Change in Revenues</b>                         | <b>-39</b>  | <b>-23</b> | <b>-12</b> | <b>-13</b> | <b>-13</b> | <b>-8</b>  | <b>-7</b>  | <b>-8</b>  | <b>-8</b>  | <b>-9</b>  | <b>-100</b>   | <b>-141</b>   |
| Changes in Outlays                                      |             |            |            |            |            |            |            |            |            |            |               |               |
| Mandatory outlays                                       |             |            |            |            |            |            |            |            |            |            |               |               |
| Paycheck Protection Program                             | 261         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 261           | 261           |
| Recovery rebates  | 162         | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 162           | 162           |
| Unemployment compensation                               | 117         | *          | *          | *          | *          | *          | *          | *          | *          | *          | 117           | 117           |
| Medicare  | 95          | -76        | -7         | -2         | -2         | -1         | *          | *          | *          | *          | 9             | 6             |
| Emergency rental assistance                             | 24          | 1          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 25            | 25            |
| Disaster loans  | 20          | *          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 20            | 20            |
| SNAP  | 19          | *          | *          | *          | *          | *          | *          | *          | *          | *          | 20            | 20            |
| Air carrier worker support                              | 16          | *          | *          | *          | *          | *          | *          | *          | *          | *          | 16            | 15            |
| Other   | 47          | 27         | 14         | 8          | 4          | 2          | 2          | 2          | 1          | *          | 100           | 108           |
| Subtotal, mandatory                                     | 762         | -47        | 7          | 7          | 2          | 1          | 2          | 1          | 1          | *          | 731           | 736           |
| Discretionary outlays                                   |             |            |            |            |            |            |            |            |            |            |               |               |
| Nondefense  | 87          | 80         | 68         | 47         | 39         | 37         | 37         | 37         | 38         | 38         | 321           | 508           |
| Defense   | 2           | *          | -4         | -7         | -9         | -10        | -10        | -10        | -11        | -11        | -17           | -69           |
| Subtotal, discretionary                                 | 89          | 80         | 64         | 40         | 30         | 27         | 27         | 27         | 28         | 27         | 303           | 439           |
| Debt service  | 1           | 3          | 3          | 4          | 6          | 10         | 14         | 18         | 22         | 26         | 18            | 109           |
| <b>Total Change in Outlays</b>                          | <b>852</b>  | <b>36</b>  | <b>74</b>  | <b>51</b>  | <b>39</b>  | <b>38</b>  | <b>43</b>  | <b>46</b>  | <b>51</b>  | <b>53</b>  | <b>1,052</b>  | <b>1,283</b>  |
| <b>Increase in the Deficit From Legislative Changes</b> | <b>-891</b> | <b>-59</b> | <b>-87</b> | <b>-64</b> | <b>-51</b> | <b>-47</b> | <b>-51</b> | <b>-54</b> | <b>-59</b> | <b>-62</b> | <b>-1,151</b> | <b>-1,424</b> |
| <b>Economic Changes</b>                                 |             |            |            |            |            |            |            |            |            |            |               |               |
| Changes in Revenues                                     |             |            |            |            |            |            |            |            |            |            |               |               |
| Individual income taxes                                 | 151         | 196        | 179        | 174        | 170        | 168        | 150        | 128        | 117        | 110        | 871           | 1,545         |
| Payroll taxes   | 49          | 49         | 50         | 53         | 61         | 62         | 53         | 47         | 47         | 50         | 262           | 521           |
| Federal Reserve remittances                             | -6          | -11        | -10        | -10        | -30        | -54        | -41        | -30        | -19        | 2          | -68           | -210          |
| Corporate income taxes                                  | 20          | 10         | 6          | 9          | 13         | 16         | 15         | 13         | 11         | 8          | 57            | 120           |
| Other   | 8           | 8          | 7          | 6          | 6          | 6          | 5          | 3          | 1          | *          | 36            | 52            |
| <b>Total Change in Revenues</b>                         | <b>221</b>  | <b>253</b> | <b>231</b> | <b>232</b> | <b>220</b> | <b>198</b> | <b>182</b> | <b>162</b> | <b>157</b> | <b>171</b> | <b>1,158</b>  | <b>2,028</b>  |
| Changes in Outlays                                      |             |            |            |            |            |            |            |            |            |            |               |               |
| Mandatory outlays                                       |             |            |            |            |            |            |            |            |            |            |               |               |
| Social Security   | 4           | 11         | 15         | 18         | 20         | 23         | 28         | 34         | 41         | 48         | 68            | 241           |
| Unemployment compensation                               | -65         | -21        | -13        | -12        | -12        | -10        | -7         | -3         | -2         | *          | -123          | -145          |
| Medicaid  | *           | 2          | 2          | 3          | 4          | 5          | 8          | 11         | 13         | 15         | 10            | 62            |
| Medicare  | *           | *          | *          | 2          | 4          | 6          | 8          | 11         | 12         | 15         | 5             | 58            |
| Other   | -6          | -6         | -1         | -1         | -2         | -3         | -1         | 2          | 4          | 6          | -15           | -8            |
| Subtotal, mandatory                                     | -67         | -14        | 4          | 9          | 14         | 21         | 36         | 54         | 68         | 84         | -55           | 208           |
| Discretionary outlays                                   | -1          | 2          | 5          | 8          | 10         | 14         | 17         | 21         | 24         | 28         | 24            | 128           |
| Net interest  |             |            |            |            |            |            |            |            |            |            |               |               |
| Debt service  | *           | -1         | -3         | -4         | -7         | -11        | -16        | -20        | -23        | -27        | -16           | -114          |
| Effect of interest rates and inflation                  | 2           | *          | 1          | 4          | 18         | 48         | 75         | 79         | 66         | 46         | 24            | 338           |
| Subtotal, net interest                                  | 1           | -1         | -2         | *          | 11         | 37         | 59         | 59         | 42         | 18         | 9             | 224           |
| <b>Total Change in Outlays</b>                          | <b>-67</b>  | <b>-14</b> | <b>7</b>   | <b>16</b>  | <b>35</b>  | <b>71</b>  | <b>112</b> | <b>134</b> | <b>134</b> | <b>130</b> | <b>-22</b>    | <b>560</b>    |
| <b>Decrease in the Deficit From Economic Changes</b>    | <b>288</b>  | <b>266</b> | <b>224</b> | <b>216</b> | <b>185</b> | <b>127</b> | <b>70</b>  | <b>28</b>  | <b>23</b>  | <b>41</b>  | <b>1,179</b>  | <b>1,469</b>  |

Continued

Table 2.

Continued

**Changes in CBO's Baseline Projections of the Deficit Since September 2020**

Billions of Dollars

|   | 2021        | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       | Total       |             |
|---|-------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
|   |             |            |            |            |            |            |            |            |            |            | 2021–2025   | 2021–2030   |
| <b>Technical Changes</b>  |             |            |            |            |            |            |            |            |            |            |             |             |
| <b>Changes in Revenues</b>  |             |            |            |            |            |            |            |            |            |            |             |             |
| Individual income taxes   | 11          | 39         | -2         | -12        | -27        | -19        | -16        | -17        | -21        | -25        | 9           | -89         |
| Payroll taxes   | 32          | -32        | -10        | -9         | -11        | -11        | -9         | -8         | -10        | -12        | -29         | -78         |
| Corporate income taxes  | 25          | 14         | 15         | 8          | 2          | 1          | -7         | -10        | -8         | -6         | 65          | 34          |
| Other   | *           | 4          | *          | 1          | *          | *          | 1          | 1          | 2          | 1          | 5           | 11          |
| <b>Total Change in Revenues</b>                                       | <b>68</b>   | <b>26</b>  | <b>3</b>   | <b>-13</b> | <b>-35</b> | <b>-28</b> | <b>-30</b> | <b>-34</b> | <b>-37</b> | <b>-42</b> | <b>49</b>   | <b>-122</b> |
| <b>Changes in Outlays</b>   |             |            |            |            |            |            |            |            |            |            |             |             |
| <b>Mandatory outlays</b>  |             |            |            |            |            |            |            |            |            |            |             |             |
| Medicaid  | -31         | -7         | -8         | -16        | -15        | -17        | -15        | -15        | -15        | -16        | -78         | -156        |
| Social Security   | -10         | -13        | -14        | -15        | -15        | -15        | -16        | -14        | -13        | -11        | -67         | -136        |
| Medicare  | -70         | 46         | 15         | 16         | 14         | 15         | 13         | 14         | 21         | 18         | 21          | 102         |
| Unemployment compensation   | 24          | -6         | -7         | -4         | -3         | -3         | -3         | -3         | -3         | -3         | 3           | -11         |
| SNAP  | 1           | 5          | -7         | -8         | -9         | -10        | -11        | -12        | -11        | -10        | -18         | -71         |
| Spectrum auction receipts   | -1          | -68        | 2          | *          | -1         | *          | *          | *          | 1          | 1          | -69         | -67         |
| Earned income and child tax credits                                   | -3          | -4         | -4         | -4         | -4         | -4         | -5         | -4         | -4         | -4         | -18         | -39         |
| Veterans' benefits and services                                       | 4           | -2         | 2          | 3          | 4          | 4          | 5          | 5          | 5          | 6          | 12          | 37          |
| Premium tax credits and related spending                              | *           | *          | -1         | -3         | -4         | -5         | -5         | -5         | -4         | -5         | -8          | -32         |
| Other   | 1           | -10        | -8         | -7         | -6         | -3         | *          | 3          | 5          | *          | -30         | -25         |
| Subtotal, mandatory   | -85         | -60        | -31        | -38        | -39        | -37        | -36        | -29        | -19        | -24        | -252        | -396        |
| Discretionary outlays   | -13         | 6          | 4          | -5         | -1         | -1         | -1         | -1         | -1         | -1         | -9          | -15         |
| <b>Net interest</b>   |             |            |            |            |            |            |            |            |            |            |             |             |
| Debt service  | -1          | -3         | -4         | -4         | -6         | -8         | -10        | -13        | -15        | -17        | -18         | -80         |
| Other   | 12          | 10         | 10         | 11         | 8          | 6          | 5          | 3          | 2          | 3          | 50          | 68          |
| Subtotal, net interest  | 11          | 7          | 6          | 7          | 2          | -2         | -6         | -10        | -13        | -14        | 33          | -12         |
| <b>Total Change in Outlays</b>  | <b>-87</b>  | <b>-47</b> | <b>-20</b> | <b>-36</b> | <b>-37</b> | <b>-39</b> | <b>-43</b> | <b>-40</b> | <b>-33</b> | <b>-39</b> | <b>-228</b> | <b>-423</b> |
| <b>Increase (-) or Decrease in the Deficit From Technical Changes</b> | <b>155</b>  | <b>73</b>  | <b>23</b>  | <b>23</b>  | <b>2</b>   | <b>10</b>  | <b>12</b>  | <b>7</b>   | <b>-4</b>  | <b>-2</b>  | <b>277</b>  | <b>300</b>  |
| <b>All Changes</b>  |             |            |            |            |            |            |            |            |            |            |             |             |
| <b>Increase (-) or Decrease in the Deficit</b>                        | <b>-448</b> | <b>280</b> | <b>161</b> | <b>175</b> | <b>136</b> | <b>91</b>  | <b>32</b>  | <b>-19</b> | <b>-40</b> | <b>-24</b> | <b>305</b>  | <b>345</b>  |
| Deficit in CBO's February 2021 Baseline                               | -2,258      | -1,056     | -963       | -905       | -1,037     | -1,026     | -1,048     | -1,352     | -1,346     | -1,650     | -6,219      | -12,642     |
| <b>Memorandum:</b>  |             |            |            |            |            |            |            |            |            |            |             |             |
| Changes in Revenues   | 250         | 256        | 222        | 207        | 173        | 162        | 145        | 120        | 112        | 120        | 1,107       | 1,765       |
| Changes in Outlays  | 698         | -25        | 61         | 31         | 36         | 71         | 113        | 139        | 152        | 144        | 802         | 1,420       |
| Increase (-) or Decrease in the Primary Deficit <sup>a</sup>          | -435        | 289        | 168        | 186        | 156        | 136        | 100        | 48         | 11         | 7          | 364         | 666         |
| Increase in Net Interest  | -13         | -9         | -7         | -10        | -19        | -45        | -68        | -67        | -51        | -31        | -59         | -321        |

Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

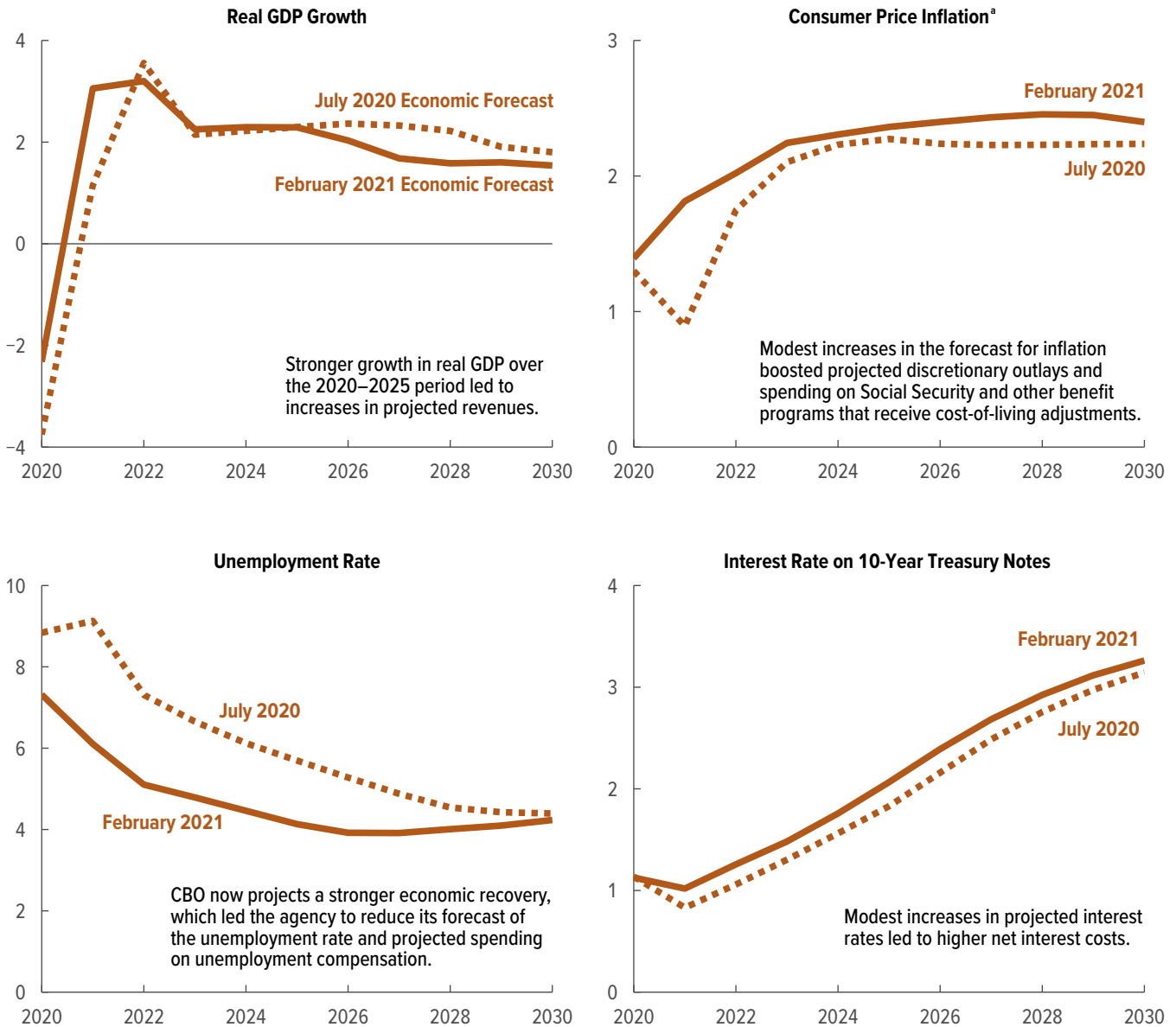
SNAP = Supplemental Nutrition Assistance Program; \* = between -\$500 million and \$500 million.

a. Primary deficits exclude net outlays for interest.

Figure 5.

### Changes in CBO’s Economic Forecast Since July 2020

Percent



Data source: Congressional Budget Office. See [www.cbo.gov/publication/56996#data](http://www.cbo.gov/publication/56996#data).

GDP = gross domestic product.

a. The consumer price index for urban wage earners and clerical workers.

securities. Second, the amount of assets that the central bank is projected to purchase and hold is lower, which further reduced remittances.

**Corporate Income Taxes.** CBO raised its estimate of corporate income tax revenues by \$20 billion (or 16 percent) for 2021 and by \$120 billion (or 4 percent) through 2030, mostly because of higher forecasts of domestic and foreign profits. Together, those profits were

revised upward by an estimated \$1.2 trillion over the 2021–2030 period.

**Other Revenues.** CBO increased its estimates of estate and gift taxes, customs duties, and excise taxes over the 2021–2030 period by a total of \$52 billion (or 2 percent) in response to higher projections of economic growth, asset values, imports, and consumption of gasoline and other taxable fuels.





**Changes in Outlays.** Revisions that CBO made to its economic forecast reduced its estimate of outlays for the current year by \$67 billion (or 1 percent) but increased its projections of outlays for the 2021–2030 period by \$560 billion (or 1 percent). Almost all of the reduction in estimated outlays for this year stems from lower estimates of outlays for unemployment compensation because of the stronger economy. In later years, the stronger economy leads to higher inflation and interest rates, driving up outlays, on net.

**Social Security.** Over the 2021–2030 period, projected outlays for Social Security increase by a total of \$241 billion (or 2 percent) because CBO now projects higher inflation and wages than it did last summer. Social Security provides annual cost-of-living adjustments (COLAs) based on changes in the consumer price index for urban wage earners and clerical workers (CPI-W). The 1.3 percent COLA that beneficiaries received in January 2021 was 0.5 percentage points higher than CBO estimated in September 2020, and the forecast for CPI-W growth is higher in nearly every year of the 2022–2030 period. As a result, the projected COLA that will take effect in January 2022 is now 2.0 percent, an increase of 0.6 percentage points from the agency’s September estimate, and COLAs in the remaining years are 0.2 percentage points higher, on average.

In addition, CBO projects that Social Security’s Average Wage Index (AWI)—the measure of wages used to calculate Social Security benefits—in calendar year 2020 will be 3.7 percent higher than the agency projected last September, a decline of 0.5 percent from its calendar year 2019 amount. (CBO previously projected that the AWI would decrease by 3.8 percent from calendar year 2019 to calendar year 2020.) Compared with September’s AWI projections, this year’s projections of the AWI are 2.8 percent higher, on average, in later years.

**Unemployment Compensation.** CBO decreased its projections of spending for unemployment compensation by \$65 billion (or 39 percent) for 2021 and by a total of \$145 billion (or 24 percent) for the 2021–2030 period, primarily because of a reduction in the projected unemployment rate in all years of the period. As a result, fewer people are estimated to receive unemployment benefits, which reduces outlays for unemployment compensation.

**Medicaid and Medicare.** CBO increased its spending projections over the 2021–2030 period by \$62 billion (or 1 percent) for Medicaid and \$58 billion (or

1 percent) for Medicare. Spending for those programs is affected by changes in the prices of labor, goods, and services.<sup>12</sup> CBO’s latest economic forecast includes upward revisions to the growth of many prices, which push up payment rates for Medicaid and for many of the services provided by Medicare’s fee-for-service sector (such as hospital care and services provided by home health agencies and skilled nursing facilities).

**Other Mandatory Programs.** CBO updated its projections of outlays for several other mandatory programs to reflect changes in its economic forecast. Although those changes resulted in both upward and downward adjustments to such spending, they decreased projected outlays, on net, for the 2021–2030 period by a total of \$8 billion.

**Discretionary Outlays.** CBO’s baseline projections generally reflect the assumption that funding for discretionary programs keeps pace with inflation.<sup>13</sup> As a result of increases in the agency’s forecasts of certain measures of inflation, such funding over the 2021–2030 period increased relative to amounts projected in September 2020, and discretionary outlays are now projected to be \$128 billion (or 1 percent) greater.<sup>14</sup>

**Net Interest.** Economic changes caused CBO to boost its baseline projections of net interest costs by \$224 billion (or 6 percent) for the 2021–2030 period, the result of two partially offsetting changes. Largely because CBO has generally increased its forecasts of both short- and long-term interest rates on Treasury securities since September, the agency raised its projections of net outlays for interest (and thus of deficits) by \$338 billion for the 2021–2030 period.

12. By law, Medicare’s payment rates also are adjusted to account for gains in private nonfarm business productivity (the ability to produce the same output using fewer inputs, such as hours of labor) that occur over a 10-year period. See Centers for Medicare & Medicaid Services, “Market Basket Research and Information” (accessed February 25, 2020), <https://go.usa.gov/xsB2D>. Changes to CBO’s forecast for productivity did not have a large effect on its projections for Medicare.

13. In consultation with the House and Senate Committees on the Budget, CBO did not extrapolate the \$184 million in discretionary funding that was designated as an emergency requirement to address the pandemic.

14. For its projections of discretionary funding related to federal personnel, CBO is required to use the employment cost index for wages and salaries; for its projections of other types of discretionary funding, the agency is required to use the GDP price index.

But overall, revisions to the economic forecast have reduced the projected deficit for the 2021–2030 period by \$1.4 trillion (before accounting for the resulting change in debt-service costs). The estimated savings in debt-service costs associated with those revisions amount to \$114 billion.

### Technical Changes

Technical changes led CBO to decrease its estimate of the deficit for both the current year and for the 2021–2030 period, by \$155 billion (or 9 percent) and \$300 billion (or 2 percent), respectively. Reductions in estimated mandatory spending account for most of the revisions.

**Changes in Outlays.** Because of technical updates—mostly for mandatory spending programs—CBO decreased its estimate of outlays for the 2021–2030 period by \$423 billion (or 1 percent).

**Medicaid.** CBO reduced its projections of Medicaid spending by \$156 billion (or 3 percent) over the 2021–2030 period, largely because actual spending for 2020 was lower than forecast. States negotiated lower payment rates for managed care plans, reflecting less health care utilization during the pandemic. Those lower payment rates are projected to persist for the duration of the pandemic. CBO also projects slower population growth through 2030, which lowers the forecast for enrollment in the program.

**Social Security.** CBO decreased projected outlays for Social Security over the 2021–2030 period by \$136 billion (or 1 percent), on net, mostly because of smaller projected caseloads. The agency reduced its population projections, and recent data for calendar year 2020 showed fewer new beneficiaries for the program than CBO had previously projected.

**Medicare.** CBO now estimates that net Medicare spending will be lower in 2021 than its previous estimate, by \$70 billion (or 11 percent), but higher in the years that follow, for a net increase of \$102 billion (or 1 percent) over the 2021–2030 period. The reduction in 2021 is primarily because of changes to the implementation of the accelerated and advance payment programs. The increases in later years are driven by higher spending for Medicare Part D (the prescription drug program). That projection reflects the agency’s estimate of the cost to implement a rule finalized on November 20, 2020, that changes how the federal government regulates rebates

paid by pharmaceutical manufacturers to health plans and pharmacy benefit managers that participate in Part D.<sup>15</sup>

**Unemployment Compensation.** For 2021 through 2030, CBO’s projection of outlays for unemployment compensation is \$11 billion (or 2 percent) smaller than it was in September 2020. For the current year, CBO increased its estimate of outlays by \$24 billion (or 14 percent), largely because of a shift in expected outlays from 2020 to 2021 to people receiving Pandemic Unemployment Assistance (a temporary program that provides benefits to people who do not qualify for regular unemployment benefits). That increase was partly offset by reductions this year for Pandemic Emergency Unemployment Compensation (a temporary extension of benefits for people who have exhausted their regular benefits), based on updated data about the average duration of such benefits. Also, on the basis of information about actual amounts of assistance provided last year, the agency decreased its projection of outlays in each year of the period to account for lower average weekly benefits for regular unemployment compensation.

**Other Mandatory Programs.** Technical changes to other mandatory programs generally decreased CBO’s projections of outlays over the 2021–2030 period, although costs for some programs increased. The largest technical updates include these:

- A reduction of \$71 billion (or 8 percent) in outlays for the Supplemental Nutrition Assistance Program because of lower projected enrollment;
- An increase of \$67 billion in receipts from auctions of licenses to use the electromagnetic spectrum, reflecting the fact that a 2021 auction generated three times the amount that CBO expected;
- A decrease of \$39 billion (or 4 percent) in projected outlays for the earned income tax credit and the child tax credit owing to fewer households receiving the credits, lower average refunds reflected in new tax data, and a projected increase in the share of wages and salaries going to low-wage earners;
- An increase of \$37 billion (or 2 percent) in projected outlays for mandatory veterans’ benefits and services,

15. On January 29, 2021, the effective date for that rule was delayed from January 1, 2022, to January 1, 2023. CBO will reflect the effects of the postponement and any other subsequent actions in future projections.

most notably for disability compensation (because the average severity of beneficiaries' disabilities and the number of veterans with disabilities connected to their military service have continued to increase at faster rates than CBO had projected);

- A decrease of \$32 billion (or 5 percent), on net, in outlays for premium tax credits and related spending, largely stemming from lower projected premiums for health insurance purchased through the marketplaces established by the Affordable Care Act;<sup>16</sup> and
- A decrease of \$25 billion (or 1 percent) in outlays for other mandatory programs because of smaller technical changes.

**Discretionary Outlays.** CBO made adjustments to better reflect the recent rates at which funding for various discretionary programs has been spent, decreasing its projections of discretionary outlays over the 2021–2030 period by \$15 billion (or less than 1 percent).

**Net Interest.** Technical changes reduced CBO's projections of net outlays for interest for the 2021–2030 period by \$12 billion (or less than 1 percent). That decrease is the net effect of two revisions. Outlays increased by a total of \$68 billion largely because CBO now projects a longer average term to maturity for newly issued debt. (Longer-term debt typically carries a higher interest rate.) But technical changes to revenues and other outlays reduced projected deficits by \$220 billion. That reduction, along with other technical changes associated with federal borrowing, resulted in a decrease in debt-service costs of \$80 billion over the period.<sup>17</sup>

**Changes in Revenues.** CBO revised its revenue projection for 2021 upward by \$68 billion (or 2 percent) and its projection for the 2021–2030 period downward by \$122 billion (or less than 1 percent) for technical reasons. New tax data and updated projections of the

earnings distribution account for the most significant reductions.

**Individual Income Taxes.** Technical changes led CBO to raise its estimate of individual income tax receipts in 2021 by \$11 billion (or less than 1 percent) but to lower it, on net, by \$89 billion (or less than 1 percent) for the 2021–2030 period. Those revisions result from several offsetting factors. On the one hand, CBO boosted projected receipts at the beginning of the decade, because recent tax collections have continued to be stronger than expected given the agency's current economic forecast and estimated effects of recently enacted legislation.

On the other hand, downward revisions to revenue projections for later years result in part from changes in the earnings distribution. Recent data continue to show that low-wage workers in virus-sensitive industries have been disproportionately affected by the pandemic. However, CBO now projects that wage reductions will be less concentrated among low-wage earners than the agency previously anticipated, driven primarily by more rapid rehiring of workers who were temporarily laid off. That change means that a smaller share of wage income will accrue to people with higher income, thereby reducing individual income tax revenues for a given amount of total wages (because of the progressive nature of income tax rates in the United States). CBO also lowered its projections of taxable distributions from defined benefit pension plans on the basis of updated historical estimates of those distributions.

**Payroll Taxes.** CBO increased its estimate of payroll tax revenues in 2021 by \$32 billion (or 3 percent) and reduced its projections of such revenues for the 2021–2030 period by \$78 billion (or less than 1 percent) because of several largely offsetting factors. Payroll taxes recorded by the Treasury were higher than CBO anticipated during the first quarter of fiscal year 2021. But the agency has revised its projections of payroll taxes over the next decade downward to reflect new historical data on Social Security taxes and lower anticipated collections of unemployment insurance taxes by states to replenish their trust funds.

That reduction is partially offset by the effects of revisions to the earnings distribution. Projections of payroll tax revenues were boosted because CBO now projects that wage reductions will be less concentrated among low-wage earners than it had previously anticipated. As a

16. The related spending consists almost entirely of outlays for risk adjustment and the Basic Health Program.

17. The changes in debt-service costs reflect the net outlays for interest associated with overall changes in government borrowing, which is largely determined by the size of the federal deficit. Those changes also reflect some other factors that affect borrowing—collectively known as other means of financing—that are not reflected in the budget totals. Those factors include changes in the government's cash balances and the cash flows of federal programs that provide loans and loan guarantees.

result, the share of wages going to people whose annual earnings are below the maximum amount subject to Social Security payroll taxes (currently \$142,800) is now projected to be larger. (That increase in projected payroll taxes is more than offset by a corresponding reduction in individual income taxes, though.)

**Corporate Income Taxes.** Because recent collections have been stronger than anticipated, CBO has increased its estimate of corporate income tax revenues by \$25 billion (or 20 percent) for 2021 and by \$34 billion (or 1 percent) for the 2021–2030 period.

Partly offsetting those increases over the next decade are downward revisions that CBO made to the estimated ratio of corporate tax receipts to profits after incorporating updated data. That reassessment reflects both new tax data and revised historical estimates of profits published by the Bureau of Economic Analysis (BEA) last July, which indicated that domestic economic profits over the past several years were higher than previously estimated.

To account for BEA's higher estimates of domestic corporate profits, CBO has reduced its estimates of the average tax rates on corporate profits.

**Other Revenues.** CBO increased its projections of other revenues from 2021 to 2030 by \$11 billion (or less than 1 percent) because of technical changes. The most significant revision was an increase of \$23 billion (or 8 percent) in estate and gift taxes to align those projections with recently recorded collections, changes to mortality rates from the pandemic, and other factors. Additionally, the agency increased its projections of customs duties over the next decade by a total of \$20 billion (or 2 percent) to reflect updated estimates of the effects of administratively imposed tariffs.

Those reductions were partially offset by a \$20 billion (or 2 percent) reduction in excise taxes, largely attributable to a slower projected recovery in air travel and subsequent aviation taxes and a \$4 billion decrease in remittances from the Federal Reserve.

---

# List of Tables and Figures

## Tables

- |  |    |
|--|----|
| 1. CBO's Baseline Budget Projections, by Category                            | 2  |
| 2. Changes in CBO's Baseline Projections of the Deficit Since September 2020 | 10 |

## Figures

- |   |    |
|---|----|
| 1. Total Deficits and Surpluses   | 3  |
| 2. Federal Debt Held by the Public  | 4  |
| 3. CBO's Baseline Projections of Revenues and Outlays                       | 5  |
| 4. Changes in CBO's Baseline Projection of the Deficit Since September 2020 | 8  |
| 5. Changes in CBO's Economic Forecast Since July 2020                       | 12 |

---

# About This Document

This document is one of a series of reports on the state of the budget and the economy that the Congressional Budget Office issues each year. It satisfies the requirement in section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget. In keeping with CBO's mandate to provide objective, impartial analysis, this report makes no recommendations.

The estimates in this report are the work of more than 100 staff members at CBO. Barry Blom, Aaron Feinstein, Amber Marcellino, Joshua Shakin, and Ellen Steele wrote the report with assistance from Avi Lerner, Dan Ready, and Olivia Yang. Christina Hawley Anthony, Theresa Gullo, Leo Lex, John McClelland, Sam Papenfuss, and Joshua Shakin provided guidance.

Mark Hadley, Jeffrey Kling, and Robert Sunshine reviewed the report. Christine Bogusz was the editor, and Casey Labrack was the graphics editor. This report is available on CBO's website ([www.cbo.gov/publication/56996](http://www.cbo.gov/publication/56996)).

CBO continually seeks feedback to make its work as useful as possible. Please send any comments to [communications@cbo.gov](mailto:communications@cbo.gov).



Phillip L. Swagel  
Director  
March 2021