CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Phillip L. Swagel, Director

September 24, 2026

Honorable Jeff Merkley
Ranking Member
Committee on the Budget
United States Senate

Re: Projections of Deficits and Debt Under Alternative Scenarios for Interest Rates and the Budget

Dear Ranking Member Merkley:

This letter responds to your request for an analysis of projected deficits and debt under alternative scenarios for interest rates and the budget. Specifically, you asked how the Congressional Budget Office's baseline projections of deficits and debt, which generally reflect current law, would change under two alternative scenarios:

- Under a scenario in which interest rates increased until they were 1 percentage point higher than in CBO's extended baseline, primary deficits—that is, deficits excluding net outlays for interest—would average 2.3 percent of GDP over the 2026–2056 period, 0.2 percentage points larger than in the extended baseline (see Figure 1 on page 6). Debt held by the public would grow to 222 percent of GDP in fiscal year 2056, 47 percentage points larger than in the extended baseline (see Figure 2 on page 7).[1]

- Under a scenario in which the debt-to-GDP ratio remained at its 2026 level of 101 percent, primary deficits would average 0.2 percent of GDP over the 2026–2056 period, 1.9 percentage points smaller than in CBO's extended baseline.

By comparison, in CBO's extended baseline projections of the federal budget and the economy, debt held by the public increases from

[1] All years referred to in this letter are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

101 percent of GDP in 2026 to 175 percent of GDP in 2056. Primary deficits average 2.1 percent of GDP over that period; average annual GDP growth is 3.8 percent, and the average interest rate on federal debt held by the public is 4 percent.[2]

A Scenario With Higher Interest Rates

In the first scenario, the average interest rate on federal debt would increase until it was 1 percentage point higher than in CBO's extended baseline (before incorporating effects on the broader economy, known as macroeconomic effects, that would further increase interest rates).[3] CBO estimates that under those conditions, deficits and debt would be larger:

- Primary deficits over the 2026–2036 period would be about $178 billion larger overall than they are in CBO's baseline. In 2056, the primary deficit would be 2.6 percent of GDP, 0.4 percentage points larger than in the extended baseline.

- Total deficits over the 2026–2036 period would be about $1.5 trillion larger overall than they are in the baseline. In 2056, the total deficit would be 14.0 percent of GDP, 4.9 percentage points larger than in CBO's extended baseline.

- Debt held by the public in 2056 would be 222 percent of GDP, 47 percentage points larger than in CBO's extended baseline.

- Average annual GDP growth over the 2026–2056 period would be 0.1 percentage point slower than in CBO's extended baseline, and the average interest rate on federal debt would be 0.7 percentage points higher.

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[2] Congressional Budget Office, *The Long-Term Budget Outlook Data: 2026 to 2056* (February 2026), www.cbo.gov/publication/62044. Those long-term projections are based on the demographic, economic, and 10-year budget projections that CBO published in February 2026. The demographic projections reflect laws and policies that were in place as of September 30, 2025. The economic projections reflect trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. The budget projections incorporate the effects of all legislation that passed both Houses of Congress as of January 14, 2026.

[3] For a previous analysis of a scenario in which interest rates are higher than in CBO's baseline, see Congressional Budget Office, *How Changes in Economic Conditions Might Affect the Federal Budget: 2026 to 2036* (April 2026), www.cbo.gov/publication/62257. That analysis covers an 11-year period and considers only the effects of changing interest rates. The present analysis covers a longer period and accounts for the budgetary effects of changes in the size of the economy that result from higher interest rates. As a result, the estimated effects on deficits and federal debt are larger.

A Scenario With a Constant Debt-to-GDP Ratio

In the second scenario, the debt-to-GDP ratio would remain at its 2026 level throughout the entirety of the 30-year horizon. CBO estimates that under those conditions, deficits and debt would be smaller than they are in the extended baseline:

- Primary deficits over the 2026–2036 period would be about $7.3 trillion smaller overall than they are in CBO's baseline. In 2056, the primary deficit would be 0.2 percent of GDP, 2.0 percentage points smaller than in CBO's extended baseline.

- Total deficits over the 2026–2036 period would be about $9.1 trillion smaller overall than they are in the baseline. In 2056, the total deficit would be 3.5 percent of GDP, 5.6 percentage points smaller than in CBO's extended baseline.

- Debt held by the public in 2056, still at its 2026 level of 101 percent of GDP, would be 74 percentage points smaller than in the extended baseline.

- Average annual GDP growth over the 2026–2056 period would be roughly 0.05 percentage points faster than in CBO's extended baseline, and the average interest rate on federal debt would be 0.3 percentage points lower.

How CBO Projected Those Outcomes

CBO's extended baseline projections build on its 10-year baseline projections, which are constructed following a set of rules. Most of those rules are statutory—they are found in the Congressional Budget and Impoundment Control Act of 1974, the Balanced Budget and Emergency Deficit Control Act of 1985, the Federal Credit Reform Act of 1990, the Budget Control Act of 2011, and other laws. The projections are just one possible benchmark that could be used to measure the current trajectory of the federal budget.

To analyze the scenarios described in this letter, CBO employed methods similar to those it used to estimate deficits and debt under several alternative economic and budgetary scenarios in a previous report.[4]

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[4] Congressional Budget Office, *The Long-Term Budget Outlook Under Alternative Scenarios for the Economy and the Budget* (May 2025), www.cbo.gov/publication/61332.

Projections for a Scenario With Higher Interest Rates. In the first scenario, the average interest rate on federal debt begins to rise above the baseline rate in 2026. Before macroeconomic effects are incorporated, the difference increases by about 5 basis points each year until it reaches 1 percentage point. (A basis point is one one-hundredth of a percentage point.)

The boost to interest rates in this scenario increases projections of the government's interest costs and, thus, total deficits. Larger total deficits—and the increased federal borrowing required to finance them—reduce the amount of resources available for private investment.[5] The decrease in private investment causes the amount of capital in the economy to be smaller than it would be otherwise, and the return on capital grows because more workers must make use of each unit of capital. When the return on capital grows, interest rates (including the rates that the federal government pays on debt held by the public) rise further. The resulting increase in debt as a percentage of GDP increases interest rates on Treasury securities even further.[6] Thus, macroeconomic effects push interest rates above the initial boost that was built into the scenario.

On net, the boost to interest rates, decrease in private investment, and slower growth of GDP increase primary deficits measured as a percentage of GDP relative to those in CBO's extended baseline. The smaller economy results in larger primary deficits in part because revenues are smaller than they would be otherwise, though that effect is partially offset by a reduction in outlays. Additionally, slower GDP growth automatically increases primary deficits measured as a percentage of GDP.

The effects of increases in interest rates are uncertain because they depend on the reasons for those increases. Any factors that caused interest rates to rise would have additional economic and budgetary effects. Because CBO does not specify the factors that lead to higher interest rates in this scenario, the estimated outcomes do not include those additional effects.

Projections for a Scenario With a Constant Debt-to-GDP Ratio. In the second scenario, primary deficits are reduced each year so that debt remains at 101 percent of GDP (its level at the end of fiscal year 2026) throughout

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[5] For more discussion of the effects of federal borrowing on private investment, see Congressional Budget Office, *Key Methods That CBO Used to Estimate the Macroeconomic Effects of the 2025 Reconciliation Act*, Working Paper 2026-01 (February 2026), www.cbo.gov/publication/61257.

[6] See Andre R. Neveu and Jeffrey Schafer, *Revisiting the Relationship Between Debt and Long-Term Interest Rates*, Working Paper 2024-05 (December 2024), www.cbo.gov/publication/60314.

the projection period. Because primary deficits fluctuate over time in CBO's extended baseline, the size of the reduction varies from year to year.

Holding debt stable as a percentage of GDP causes the debt-to-GDP ratio to be smaller than it is in the extended baseline in every year after 2026. Those smaller ratios imply lower interest rates, which lower borrowing costs and increase investment and GDP growth. The increased GDP growth encourages more investment, increasing the amount of capital available to workers. That higher capital stock raises the marginal product of labor, encouraging more labor, which results in further GDP growth. Although the resulting growth in the labor force pushes interest rates up slightly, the net effect of holding the debt-to-GDP ratio constant is that the average interest rate on federal debt is 0.7 percentage points lower in 2056 than it is in the extended baseline.

Primary deficits could be reduced through decreases in noninterest spending, increases in revenues, or a combination of such changes. Those changes in fiscal policy would have different effects on households' incentives to work and save. Because CBO does not specify the policy changes that would cause primary deficits to decrease in this scenario, the estimated outcomes do not include those effects.

I hope this information is helpful to you. Please contact me if you have any questions.

Sincerely,

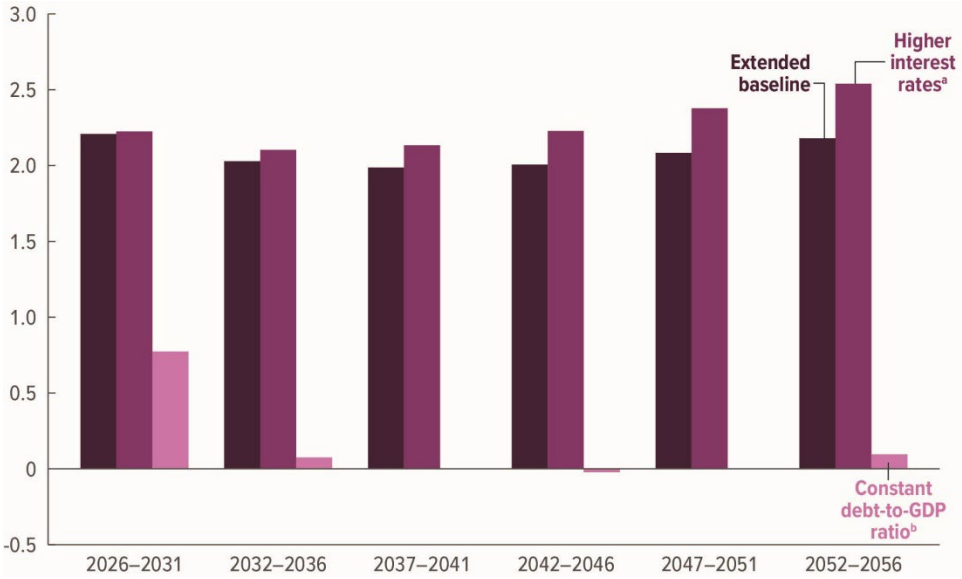
Phillip L. Swagel
Director

cc: Honorable Ron Johnson
Chairman

Figure 1. [Return to Text]

Average Primary Deficits as a Percentage of GDP Under the Extended Baseline and Alternative Scenarios

Percent



Data source: Congressional Budget Office. See www.cbo.gov/publication/62758#data.

CBO's long-term budget projections, referred to as the extended baseline, are based on the demographic, economic, and 10-year budget projections that CBO published in February 2026. The demographic projections reflect laws and policies that were in place as of September 30, 2025. The economic projections reflect trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. The budget projections incorporate the effects of all legislation that passed both Houses of Congress as of January 14, 2026. The extended baseline projections are available in Congressional Budget Office, *The Long-Term Budget Outlook Data: 2026 to 2056* (February 2026), www.cbo.gov/publication/62044.

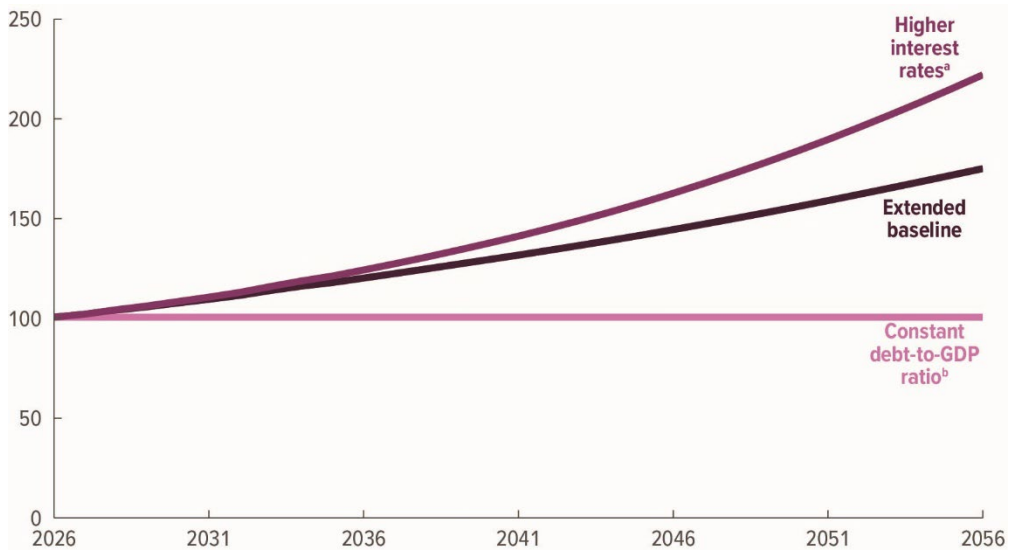
a. In this scenario, the average interest rate on federal debt begins to rise above the baseline rate in 2026. Before macroeconomic effects are incorporated, the difference increases by about 5 basis points each year until it reaches 1 percentage point. (A basis point is one one-hundredth of a percentage point.)

b. In this scenario, primary deficits, which exclude net outlays for interest, are reduced each year so that debt remains at 101 percent of GDP (its level at the end of fiscal year 2026) throughout the projection period.

Figure 2. [Return to Text]

Federal Debt as a Percentage of GDP Under the Extended Baseline and Alternative Scenarios

Percent



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