CBO’s 10-Year Budget and Economic Projections

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National Association of Forensic Economics

Jeffrey F. Werling
Assistant Director, Macroeconomic Analysis Division
CBO’s Role and Products
CBO’s Role

- CBO was created by the Congressional Budget and Impoundment Control Act of 1974.

- The agency provides analysis of budgetary and economic issues that is objective and impartial. It is strictly nonpartisan.

- The Director is appointed jointly by the Speaker of the House and president pro tempore of the Senate.

- CBO has about 235 employees, who are hired solely on the basis of professional competence, without regard to political affiliation. Most have advanced degrees.
Outside Advisers

- A **Panel of Economic Advisers** improves CBO’s understanding of economic research, macroeconomic developments, and economic policy. (See [here](#) for more information.)

- A **Panel of Health Advisers** improves CBO’s understanding of health research and of developments in health care delivery and financing. (See [here](#) for more information.)
CBO’s Products

CBO’s products include the following:

- **Baseline budget projections and economic forecasts** covering the 10-year period used in the Congressional budget process;

- **Long-term budget projections** covering a 30-year period and Social Security projections covering a 75-year period;

- **Cost estimates** of legislation, including analyses of federal mandates;

- An **analysis of the President’s budget** (including its likely economic effects and their budgetary feedback);

- **Scorekeeping** for enacted legislation; and

- **Analytic reports** examining specific federal programs, aspects of the tax code, and budgetary and economic challenges.
Transparency

CBO aims to make its analysis transparent in many ways, including these:

- It explains the basis of and the revisions to its major economic and budget projections.

- It describes the uncertainty of its projections and quantifies that uncertainty when appropriate.

- It compares its own estimates with those of other organizations.

- It evaluates its own projections—for example, in
  - CBO’s Revenue Forecasting Record,
  - An Evaluation of CBO’s Past Outlay Projections,
  - CBO’s Economic Forecasting Record: 2017 Update, and
In CBO’s projections, the economy grows relatively quickly this year and next and then more slowly in the following several years. The federal budget deficit rises substantially, boosting federal debt to nearly 100 percent of GDP by 2028.
Budget and Economic Data for History and the 10-Year Projection Period

Budget and Economic Data

CBO regularly publishes data to accompany some of its key reports. These data have been published in the Budget and Economic Outlook and Updates and in their associated supplemental material, except for that from the Long-Term Budget Outlook.

BUDGET
- 10-Year Budget Projections
- Long-Term Budget Projections
- Historical Budget Data
- 10-Year Trust Fund Projections
- Revenue Projections, by Category
- Spending Projections, by Budget Account
- Estimates of Automatic Stabilizers
- Tax Parameters and Effective Marginal Tax Rates

ECONOMIC
- 10-Year Economic Projections
- Potential GDP and Underlying Inputs
CBO’s Process for Developing the Economic Forecast
Behind the Economic Forecast

- The economic forecast is usually published in January and in August.

- Major factors shaping CBO’s economic projections include
  - Current law,
  - Data and CBO’s own expert analysis and modeling,
  - A range of forecasts by other forecasters, and
  - Input from CBO’s Panel of Economic Advisers.

- CBO’s key economic projections that affect its budget projections include
  - Real GDP and income,
  - Inflation, and
  - Interest rates.
The Process for CBO’s Economic Forecast

**Step 1: Background Analysis**
- Develop preliminary forecast for exogenous variables (e.g., oil prices)
- Review recent data and other information

**Step 2: Preliminary Forecast**
- Use macroeconometric model to develop preliminary forecast
- Incorporate preliminary federal tax and spending projections

**Step 3: Internal and External Review**
- Obtain input from CBO’s senior staff and other divisions within the agency
- Obtain feedback from CBO’s Panel of Economic Advisers and staff of Congressional budget committees

**Step 4: Final Forecast**
- Incorporate feedback and latest data to produce final forecast
- Transmit to CBO’s budget and tax divisions to develop budget projections
CBO’s Forecasting Models

CBO’s Macroeconometric Model

- **Demand**
  - Consumer spending
  - Business investment
  - Residential investment
  - Government spending
  - Net exports

- **Supply**
  - Potential output

- **Other Variables**
  - Inflation
  - Interest rates
  - Labor market variables
    - Unemployment
    - Employment
    - Wages & compensation
  - Incomes

**Exogenous Variables**

- Population
- Energy prices
- Foreign growth

**Policy Variables**

- Labor supply elasticities
- Marginal tax rates
- Other fiscal policies

(Investment, potential labor force, and other variables) --> (Unemployment gap) --> (Labor force participation rate) --> CBO’s Labor Force Participation Rate Model

CBO’s Forecast Growth Model

- Federal outlays
- Federal revenues

CBO’s Budget Projections
Determinants of the Growth of Real Potential GDP

<table>
<thead>
<tr>
<th>Period</th>
<th>Potential Labor Force</th>
<th>Potential Labor Force Productivity</th>
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<tr>
<td>1950–1973</td>
<td>1.6</td>
<td>2.4</td>
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<td>1974–1981</td>
<td>2.5</td>
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<tr>
<td>1982–1990</td>
<td>1.7</td>
<td>1.7</td>
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<tr>
<td>1991–2001</td>
<td>1.2</td>
<td>2.0</td>
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<td>2002–2007</td>
<td>1.0</td>
<td>1.4</td>
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<tr>
<td>2008–2017</td>
<td>0.9</td>
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<tr>
<td>2018–2022</td>
<td>1.4</td>
<td>0.6</td>
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<tr>
<td>2023–2028</td>
<td>1.4</td>
<td>0.4</td>
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</tbody>
</table>
Growth of Real GDP and Real Potential GDP

Percent

2013 2015 2017 2019 2021 2023 2025 2027

Historical  Projected

Real GDP

Real Potential GDP
Unemployment Rate

Historical | Projected

Natural Rate of Unemployment

Unemployment Rate

Percent

0  2  4  6  8

2013  2015  2017  2019  2021  2023  2025  2027
Consumer Price Inflation

Percent

Excluding Food and Energy

Overall

Actual | Projected

2013 2015 2017 2019 2021 2023 2025 2027
Interest Rates

Percent

Actual | Projected

10-Year Treasury Notes

3-Month Treasury Bills

2013 2015 2017 2019 2021 2023 2025 2027
CBO’s Process for Developing Its Budget Baseline Projections
Construction of the Budget Baseline

- Principles and rules mainly come from law, budget resolutions, House and Senate rules, and the 1967 *Report of the President’s Commission on Budget Concepts*.

- A key part of the law is the 1985 Balanced Budget and Emergency Deficit Control Act, Section 257, which defines the baseline.
  - It sets out rules for projecting direct spending and receipts,
  - Requires an assumption of full funding for entitlements,
  - Directs the treatment of expiring programs and certain excise taxes, and
  - Establishes rules for projecting discretionary spending, including rules governing which measures of inflation to use.
The Baseline for Revenues

- It is projected for each source of revenue.
  - There are more than 50 such sources.
  - The largest share of the total is from individual income taxes: $1.6 trillion in 2018, or 49 percent of the total.

- It reflects current law.
  - For instance, it incorporates the assumption that reductions in the individual income tax will expire as scheduled at the end of 2025.
  - An exception is that excise taxes dedicated to trust funds are extended at current rates.

- It is sensitive to economic projections, and revenues tend to increase as a percentage of GDP over time because income growth pushes more income into higher tax brackets.
### Calculation of Adjusted Gross Income (AGI)

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<thead>
<tr>
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<tbody>
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<td>Salaries and wages</td>
<td>7,112</td>
<td>7,320</td>
<td>7,550</td>
<td>7,964</td>
<td>8,436</td>
<td>8,954</td>
<td>9,218</td>
<td>9,581</td>
<td>9,958</td>
<td>10,354</td>
<td>10,774</td>
<td>11,203</td>
<td>11,681</td>
<td>12,140</td>
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<tr>
<td>Taxable interest and ordinary dividends (includes qualified dividends)</td>
<td>153</td>
<td>157</td>
<td>162</td>
<td>170</td>
<td>184</td>
<td>201</td>
<td>218</td>
<td>229</td>
<td>237</td>
<td>241</td>
<td>247</td>
<td>252</td>
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<td>267</td>
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<tr>
<td>Qualified dividends</td>
<td>203</td>
<td>192</td>
<td>192</td>
<td>204</td>
<td>222</td>
<td>235</td>
<td>244</td>
<td>249</td>
<td>253</td>
<td>259</td>
<td>265</td>
<td>273</td>
<td>278</td>
<td>286</td>
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<tr>
<td>Capital gain or loss</td>
<td>718</td>
<td>631</td>
<td>621</td>
<td>605</td>
<td>947</td>
<td>907</td>
<td>881</td>
<td>891</td>
<td>905</td>
<td>927</td>
<td>955</td>
<td>986</td>
<td>1,022</td>
<td>1,000</td>
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<tr>
<td>Net business income (all income and loss reported on Schedules C, E, and F)</td>
<td>1,031</td>
<td>1,052</td>
<td>1,071</td>
<td>1,042</td>
<td>1,122</td>
<td>1,180</td>
<td>1,249</td>
<td>1,312</td>
<td>1,406</td>
<td>1,498</td>
<td>1,587</td>
<td>1,670</td>
<td>1,755</td>
<td>1,860</td>
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<tr>
<td>Taxable pensions and annuities and IRA distributions</td>
<td>943</td>
<td>962</td>
<td>1,051</td>
<td>1,125</td>
<td>1,188</td>
<td>1,241</td>
<td>1,298</td>
<td>1,363</td>
<td>1,425</td>
<td>1,491</td>
<td>1,570</td>
<td>1,648</td>
<td>1,731</td>
<td>1,818</td>
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<td>Taxable Social Security benefits</td>
<td>278</td>
<td>289</td>
<td>312</td>
<td>338</td>
<td>369</td>
<td>399</td>
<td>431</td>
<td>463</td>
<td>498</td>
<td>537</td>
<td>579</td>
<td>619</td>
<td>661</td>
<td>711</td>
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<tr>
<td>Total AGI</td>
<td>10,361</td>
<td>10,520</td>
<td>11,072</td>
<td>11,654</td>
<td>12,332</td>
<td>12,886</td>
<td>13,399</td>
<td>13,933</td>
<td>14,518</td>
<td>15,154</td>
<td>15,795</td>
<td>16,461</td>
<td>17,225</td>
<td>17,941</td>
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<td>Subtrac Statutory adjustments</td>
<td>149</td>
<td>153</td>
<td>154</td>
<td>156</td>
<td>166</td>
<td>175</td>
<td>182</td>
<td>190</td>
<td>199</td>
<td>207</td>
<td>216</td>
<td>231</td>
<td>240</td>
<td>249</td>
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<tr>
<td>Adjusted gross income</td>
<td>10,212</td>
<td>10,368</td>
<td>10,918</td>
<td>11,567</td>
<td>12,242</td>
<td>12,795</td>
<td>13,308</td>
<td>13,841</td>
<td>14,428</td>
<td>15,047</td>
<td>15,709</td>
<td>16,230</td>
<td>16,885</td>
<td>17,692</td>
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### Calculation of Taxable Income

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</thead>
<tbody>
<tr>
<td>Subtrac Personal Exemption amount (before limit)</td>
<td>1,194</td>
<td>1,205</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,551</td>
<td>1,592</td>
<td>1,634</td>
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<tr>
<td>Subtrac Standard deduction (non-Fillon limits only)</td>
<td>909</td>
<td>925</td>
<td>2,356</td>
<td>2,412</td>
<td>2,441</td>
<td>2,467</td>
<td>2,509</td>
<td>2,566</td>
<td>2,642</td>
<td>2,716</td>
<td>1,172</td>
<td>1,203</td>
<td>1,232</td>
<td></td>
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<tr>
<td>Subtrac Total itemized deductions (itemizers only)</td>
<td>1,354</td>
<td>1,401</td>
<td>869</td>
<td>948</td>
<td>1,080</td>
<td>1,215</td>
<td>1,337</td>
<td>1,429</td>
<td>1,492</td>
<td>1,564</td>
<td>2,366</td>
<td>2,469</td>
<td>2,691</td>
<td></td>
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<tr>
<td>Taxable income</td>
<td>7,452</td>
<td>7,932</td>
<td>8,886</td>
<td>9,455</td>
<td>9,887</td>
<td>10,279</td>
<td>10,684</td>
<td>11,148</td>
<td>11,655</td>
<td>12,207</td>
<td>12,003</td>
<td>12,562</td>
<td>13,106</td>
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</table>

### Calculation of Income Tax Liability

<table>
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</thead>
<tbody>
<tr>
<td>Total income tax (including alternative minimum tax) before credits</td>
<td>1,510</td>
<td>1,531</td>
<td>1,635</td>
<td>1,627</td>
<td>1,748</td>
<td>1,840</td>
<td>1,921</td>
<td>2,002</td>
<td>2,098</td>
<td>2,205</td>
<td>2,322</td>
<td>2,598</td>
<td>2,732</td>
<td>2,857</td>
</tr>
<tr>
<td>Total credits (refundable and nonrefundable)</td>
<td>171</td>
<td>172</td>
<td>174</td>
<td>248</td>
<td>253</td>
<td>256</td>
<td>260</td>
<td>265</td>
<td>269</td>
<td>272</td>
<td>277</td>
<td>192</td>
<td>194</td>
<td>196</td>
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<tr>
<td>Income tax after credits</td>
<td>1,439</td>
<td>1,459</td>
<td>1,562</td>
<td>1,466</td>
<td>1,615</td>
<td>1,704</td>
<td>1,792</td>
<td>1,860</td>
<td>1,954</td>
<td>2,058</td>
<td>2,172</td>
<td>2,514</td>
<td>2,646</td>
<td>2,770</td>
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<tr>
<td>Net investment income tax</td>
<td>22</td>
<td>20</td>
<td>25</td>
<td>27</td>
<td>29</td>
<td>29</td>
<td>30</td>
<td>31</td>
<td>32</td>
<td>34</td>
<td>35</td>
<td>37</td>
<td>39</td>
<td></td>
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<tr>
<td>Individual income tax liability</td>
<td>1,481</td>
<td>1,479</td>
<td>1,587</td>
<td>1,525</td>
<td>1,643</td>
<td>1,733</td>
<td>1,811</td>
<td>1,890</td>
<td>1,985</td>
<td>2,090</td>
<td>2,205</td>
<td>2,549</td>
<td>2,683</td>
<td>2,808</td>
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</table>
The Baseline for Mandatory and Discretionary Spending

- It likewise generally reflects **current law** (including statutory language and administrative policy).

- Projections of **mandatory spending** are driven by projections of key variables, such as
  - Enrollment by beneficiaries and their average costs and
  - Factors underlying CBO’s macroeconomic forecast.

- Projections of **discretionary spending** are constructed differently.
  - Both funding and outlays are estimated.
  - For individual accounts, the projections incorporate inflation for future years.
  - Totals are constrained by caps through 2021.
  - The projections for outlays depend on how quickly funding is estimated to be spent; that rate differs widely among programs and accounts.
The Baseline for Net Spending for Interest

- CBO’s model
  - Incorporates the existing stock of outstanding debt and associated interest rates,
  - Integrates projections of future deficits and other financing obligations,
  - Uses CBO’s forecast for interest rates, and
  - Relies on a projection of the mix of securities that the Treasury could issue.

- CBO’s projections also include offsets from interest income received on loans and cash balances.
## Budget Projections by Account

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Amount 2020</th>
<th>Amount 2021</th>
<th>Amount 2022</th>
<th>Amount 2023</th>
<th>Amount 2024</th>
<th>Amount 2025</th>
<th>Amount 2026</th>
<th>Amount 2027</th>
<th>Amount 2028</th>
<th>Amount 2029</th>
<th>Amount 2030</th>
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<tbody>
<tr>
<td>Research, Development, Test and Evaluation, Navy</td>
<td>5.28</td>
<td>5.30</td>
<td>5.32</td>
<td>5.34</td>
<td>5.36</td>
<td>5.38</td>
<td>5.40</td>
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<tr>
<td>Personnel, Navy</td>
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<td>6.91</td>
<td>6.93</td>
<td>6.95</td>
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<td>6.99</td>
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<td>7.03</td>
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<td>7.09</td>
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<tr>
<td>Procurement, Navy</td>
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<td>8.47</td>
<td>8.49</td>
<td>8.51</td>
<td>8.53</td>
<td>8.55</td>
<td>8.57</td>
<td>8.59</td>
<td>8.61</td>
<td>8.63</td>
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<tr>
<td>Military Construction, Navy</td>
<td>2.50</td>
<td>2.52</td>
<td>2.54</td>
<td>2.56</td>
<td>2.58</td>
<td>2.60</td>
<td>2.62</td>
<td>2.64</td>
<td>2.66</td>
<td>2.68</td>
<td>2.70</td>
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<tr>
<td>Global War on Terrorism, O&amp;M, Navy</td>
<td>1.50</td>
<td>1.52</td>
<td>1.54</td>
<td>1.56</td>
<td>1.58</td>
<td>1.60</td>
<td>1.62</td>
<td>1.64</td>
<td>1.66</td>
<td>1.68</td>
<td>1.70</td>
</tr>
<tr>
<td>Other Procurement, Navy</td>
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<td>0.56</td>
<td>0.58</td>
<td>0.60</td>
<td>0.62</td>
<td>0.64</td>
<td>0.66</td>
<td>0.68</td>
<td>0.70</td>
</tr>
<tr>
<td>Military Construction, O&amp;M, Navy</td>
<td>0.50</td>
<td>0.52</td>
<td>0.54</td>
<td>0.56</td>
<td>0.58</td>
<td>0.60</td>
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<td>0.64</td>
<td>0.66</td>
<td>0.68</td>
<td>0.70</td>
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<tr>
<td>Operation and Maintenance, Navy</td>
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<td>40.36</td>
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<td>Research, Development, Test and Evaluation, Army</td>
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<tr>
<td>Military Construction, Army</td>
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<td>2.44</td>
<td>2.46</td>
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<td>2.56</td>
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<tr>
<td>Global War on Terrorism, O&amp;M, Army</td>
<td>1.40</td>
<td>1.42</td>
<td>1.44</td>
<td>1.46</td>
<td>1.48</td>
<td>1.50</td>
<td>1.52</td>
<td>1.54</td>
<td>1.56</td>
<td>1.58</td>
<td>1.60</td>
</tr>
<tr>
<td>Other Procurement, Army</td>
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<td>0.64</td>
<td>0.66</td>
<td>0.68</td>
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Revenues and Outlays

Percentage of GDP

- Outlays
- Revenues

Actual | Projected

2003 2008 2013 2018 2023 2028

23.6

18.5
Mandatory Outlays and Net Interest

Percentage of GDP

Mandatory Outlays

Net Interest

Actual

Projected

15.2

3.1
Discretionary Outlays

Percentage of GDP

Actual | Projected

---|---|---|---|---|---|---|---|---|---|---|---|---
Defense

Total

Nondefense

16  | 12  | 8  | 4  | 0  |  5.4 |  2.8 |  2.6 |
Deficits

Percentage of GDP

-4
-2
0
2
4

Deficits

Surpluses

Average Deficit, 1968 to 2017
(-2.9%)

Actual

Projected

Average Deficit, 2018 to 2028
(-4.8%)

Debt Held by the Public

Percentage of GDP


Actual  Projected
Related Publications


