Chapter 1: The Budget Outlook

Overview

In the Congressional Budget Office's baseline budget projections, the federal budget deficit is $1.4 trillion this year, and annual deficits over the 2024–2033 period average $2.0 trillion. Those projections, which were finalized on January 9, 2023, incorporate the effects of legislation enacted as of that date and generally reflect the assumption that no new legislation affecting outlays or revenues would be enacted thereafter. Measured relative to the size of the economy, the deficit equals 5.4 percent of gross domestic product (GDP) in 2023, and deficits average 6.1 percent of GDP from 2024 to 2033. As a result of those deficits, federal debt increases each year in CBO's projections, rising from 98 percent of GDP this year to 118 percent in 2033 (see Table 1-1).

The deficits in CBO's current projections are significantly larger than those in the agency's previous baseline projections for 2022 to 2032, which were published in May 2022. The budget shortfall for 2023 is now projected to be $426 billion more—and the cumulative deficit for the 2023–2032 period, $3.1 trillion more—than CBO projected last May. The increases stem from new legislation, changes to the agency's economic forecast, and other changes (see Appendix A).

If current laws generally remained unchanged, after 2033 deficits would continue to grow in relation to the size of the economy, keeping debt measured as a percentage of GDP on an upward trajectory. Those large budget deficits would arise because outlays—particularly those for interest on federal debt and for Medicare—would grow steadily and revenues would not keep pace.

CBO prepares its baseline budget projections in accordance with provisions set forth in the Balanced Budget and Emergency Deficit Control Act of 1985 (the Deficit Control Act, Public Law 99-177) and the Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344). Those laws require CBO to construct its baseline under the assumptions that current laws governing revenues and spending will generally stay the same and that discretionary funding provided in appropriation acts in future years will match current funding, with adjustments for inflation.

CBO's baseline budget projections are meant to provide a benchmark that policymakers can use to assess the potential effects of changes in policy; they are not intended to provide a forecast of future budgetary outcomes. Future legislative action could lead to markedly different outcomes—but even if federal laws remained unaltered for the next decade, actual budgetary outcomes would probably differ from CBO's baseline projections, not only because of unanticipated economic conditions, but also because of the many other factors that affect federal revenues and outlays.

Deficits

In CBO's projections, the federal budget deficit in 2023 is $34 billion more than the deficit recorded last year. That increase would be larger if not for a shift in the timing of certain payments. In 2022, October 1 (the first day of fiscal year 2023) fell on a weekend, so certain payments that would ordinarily have been made on that day were instead made in fiscal year 2022. October 1, 2023, will also fall on a weekend, pushing payments due on that day into fiscal year 2023 (from fiscal year 2024). If not for those shifts, this year's projected shortfall would be $83 billion larger than the one in 2022 (see Table 1-2).[1] (The deficit for 2022 and the projections of outlays and deficits cited throughout the rest of the chapter reflect adjustments to exclude the effects of timing shifts.)

Measured relative to the size of the economy, this year's deficit (adjusted to exclude the effects of timing shifts), at 5.3 percent of GDP, is comparable to last year's deficit but much smaller than the shortfalls recorded in 2020 and 2021, which included most of the fiscal response to the coronavirus pandemic. Deficits in CBO's baseline swell to 6.1 percent of GDP in 2024 and 2025 and then decline over the next two years—falling to 5.5 percent of GDP in 2027—primarily because a number of individual income tax provisions contained

1. October 1 will fall on a weekend again in 2028 and 2033, causing certain payments due on those days to be made at the end of September and thus to be recorded in the previous fiscal year. Those shifts will noticeably boost outlays and the deficit in fiscal years 2028 and 2033; the timing shifts will reduce federal outlays and deficits in fiscal year 2029.

Table 1-1.

CBO's Baseline Budget Projections, by Category

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total 2024–2028	Total 2024–2033
							In Billions of Dollars							
Revenues														
Individual income taxes	2,632	2,523	2,467	2,511	2,764	3,018	3,121	3,246	3,377	3,515	3,650	3,803	13,881	31,472
Payroll taxes	1,484	1,562	1,633	1,703	1,778	1,849	1,920	1,993	2,068	2,147	2,226	2,307	8,884	19,625
Corporate income taxes	425	475	479	489	495	494	506	514	520	527	527	539	2,462	5,089
Other[a]	356	251	260	264	273	293	369	386	398	414	435	449	1,459	3,540
Total	**4,896**	**4,812**	**4,838**	**4,966**	**5,310**	**5,655**	**5,916**	**6,139**	**6,364**	**6,603**	**6,838**	**7,098**	**26,686**	**59,727**
On-budget	3,830	3,678	3,643	3,711	3,999	4,292	4,501	4,671	4,842	5,023	5,200	5,402	20,145	45,284
Off-budget[b]	1,066	1,133	1,196	1,255	1,311	1,363	1,415	1,468	1,522	1,580	1,637	1,695	6,540	14,443
Outlays														
Mandatory	4,135	3,840	3,812	3,995	4,193	4,395	4,731	4,756	5,115	5,391	5,665	6,140	21,125	48,192
Discretionary	1,662	1,741	1,864	1,955	2,005	2,063	2,119	2,159	2,215	2,266	2,319	2,380	10,007	21,347
Net interest	475	640	739	769	828	903	995	1,071	1,149	1,236	1,333	1,429	4,232	10,451
Total	**6,272**	**6,221**	**6,415**	**6,719**	**7,026**	**7,361**	**7,845**	**7,986**	**8,479**	**8,894**	**9,317**	**9,948**	**35,365**	**79,990**
On-budget	5,188	5,011	5,091	5,297	5,521	5,771	6,163	6,215	6,602	6,908	7,215	7,737	27,843	62,520
Off-budget[b]	1,084	1,210	1,324	1,421	1,504	1,590	1,682	1,771	1,877	1,986	2,102	2,211	7,521	17,470
Total Deficit	**-1,375**	**-1,410**	**-1,576**	**-1,752**	**-1,716**	**-1,706**	**-1,929**	**-1,847**	**-2,115**	**-2,291**	**-2,480**	**-2,851**	**-8,679**	**-20,263**
On-budget	-1,358	-1,333	-1,448	-1,586	-1,523	-1,479	-1,662	-1,544	-1,760	-1,885	-2,015	-2,335	-7,698	-17,236
Off-budget[b]	-18	-77	-129	-166	-193	-227	-266	-303	-355	-407	-465	-516	-981	-3,027
Primary Deficit[c]	-900	-770	-838	-984	-888	-804	-934	-776	-966	-1,055	-1,146	-1,422	-4,447	-9,812
Debt Held by the Public	24,257	25,716	27,370	29,214	30,927	32,645	34,642	36,406	38,604	40,945	43,482	46,445	n.a.	n.a.
Memorandum:														
Gross Domestic Product	25,016	26,238	27,266	28,610	29,932	31,251	32,525	33,811	35,133	36,488	37,874	39,288	149,585	332,179
							As a Percentage of Gross Domestic Product							
Revenues														
Individual income taxes	10.5	9.6	9.0	8.8	9.2	9.7	9.6	9.6	9.6	9.6	9.6	9.7	9.3	9.5
Payroll taxes	5.9	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate income taxes	1.7	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.6	1.5
Other[a]	1.4	1.0	1.0	0.9	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1
Total	**19.6**	**18.3**	**17.7**	**17.4**	**17.7**	**18.1**	**18.2**	**18.2**	**18.1**	**18.1**	**18.1**	**18.1**	**17.8**	**18.0**
On-budget	15.3	14.0	13.4	13.0	13.4	13.7	13.8	13.8	13.8	13.8	13.7	13.8	13.5	13.6
Off-budget[b]	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.4	4.3
Outlays														
Mandatory	16.5	14.6	14.0	14.0	14.0	14.1	14.5	14.1	14.6	14.8	15.0	15.6	14.1	14.5
Discretionary	6.6	6.6	6.8	6.8	6.7	6.6	6.5	6.4	6.3	6.2	6.1	6.1	6.7	6.4
Net interest	1.9	2.4	2.7	2.7	2.8	2.9	3.1	3.2	3.3	3.4	3.5	3.6	2.8	3.1
Total	**25.1**	**23.7**	**23.5**	**23.5**	**23.5**	**23.6**	**24.1**	**23.6**	**24.1**	**24.4**	**24.6**	**25.3**	**23.6**	**24.1**
On-budget	20.7	19.1	18.7	18.5	18.4	18.5	18.9	18.4	18.8	18.9	19.0	19.7	18.6	18.8
Off-budget[b]	4.3	4.6	4.9	5.0	5.0	5.1	5.2	5.2	5.3	5.4	5.6	5.6	5.0	5.3
Total Deficit	**-5.5**	**-5.4**	**-5.8**	**-6.1**	**-5.7**	**-5.5**	**-5.9**	**-5.5**	**-6.0**	**-6.3**	**-6.5**	**-7.3**	**-5.8**	**-6.1**
On-budget	-5.4	-5.1	-5.3	-5.5	-5.1	-4.7	-5.1	-4.6	-5.0	-5.2	-5.3	-5.9	-5.1	-5.2
Off-budget[b]	-0.1	-0.3	-0.5	-0.6	-0.6	-0.7	-0.8	-0.9	-1.0	-1.1	-1.2	-1.3	-0.7	-0.9
Primary Deficit[c]	-3.6	-2.9	-3.1	-3.4	-3.0	-2.6	-2.9	-2.3	-2.7	-2.9	-3.0	-3.6	-3.0	-3.0
Debt Held by the Public	97.0	98.0	100.4	102.1	103.3	104.5	106.5	107.7	109.9	112.2	114.8	118.2	n.a.	n.a.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

n.a. = not applicable.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

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

c. Primary deficits exclude net outlays for interest.

Table 1-2.

CBO's Baseline Projections of Outlays and Deficits, Adjusted to Exclude Effects of Timing Shifts

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
						In Billions of Dollars						
Payments That Are Shifted in CBO's Baseline[a]	-63	-15	79	0	0	0	-114	114	0	0	0	-149
Outlays, Adjusted for Timing Shifts												
Mandatory	4,076	3,825	3,885	3,995	4,193	4,395	4,623	4,864	5,115	5,391	5,665	5,997
Discretionary	1,657	1,741	1,869	1,955	2,005	2,063	2,113	2,165	2,215	2,266	2,319	2,373
Net interest	475	640	739	769	828	903	995	1,071	1,149	1,236	1,333	1,429
Total	**6,208**	**6,206**	**6,493**	**6,719**	**7,026**	**7,361**	**7,731**	**8,100**	**8,479**	**8,894**	**9,317**	**9,799**
Total Deficit, Adjusted for Timing Shifts	**-1,312**	**-1,394**	**-1,655**	**-1,752**	**-1,716**	**-1,706**	**-1,815**	**-1,961**	**-2,115**	**-2,291**	**-2,480**	**-2,702**
Primary Deficit, Adjusted for Timing Shifts[b]	-837	-755	-916	-984	-888	-804	-820	-890	-966	-1,055	-1,146	-1,273
						As a Percentage of Gross Domestic Product						
Outlays, Adjusted for Timing Shifts												
Mandatory	16.3	14.6	14.3	14.0	14.0	14.1	14.2	14.4	14.6	14.8	15.0	15.3
Discretionary	6.6	6.6	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.2	6.1	6.0
Net interest	1.9	2.4	2.7	2.7	2.8	2.9	3.1	3.2	3.3	3.4	3.5	3.6
Total	**24.8**	**23.7**	**23.8**	**23.5**	**23.5**	**23.6**	**23.8**	**24.0**	**24.1**	**24.4**	**24.6**	**24.9**
Total Deficit, Adjusted for Timing Shifts	**-5.2**	**-5.3**	**-6.1**	**-6.1**	**-5.7**	**-5.5**	**-5.6**	**-5.8**	**-6.0**	**-6.3**	**-6.5**	**-6.9**
Primary Deficit, Adjusted for Timing Shifts[b]	-3.3	-2.9	-3.4	-3.4	-3.0	-2.6	-2.5	-2.6	-2.7	-2.9	-3.0	-3.2
Memorandum:												
Baseline Deficit, Unadjusted												
In billions of dollars	-1,375	-1,410	-1,576	-1,752	-1,716	-1,706	-1,929	-1,847	-2,115	-2,291	-2,480	-2,851
As a percentage of GDP	-5.5	-5.4	-5.8	-6.1	-5.7	-5.5	-5.9	-5.5	-6.0	-6.3	-6.5	-7.3

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/58848#data.

GDP = gross domestic product.

a. 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. Those shifts primarily affect mandatory outlays; discretionary outlays are also affected, but to a much lesser degree. Net interest outlays are not affected.

b. Primary deficits exclude net outlays for interest.

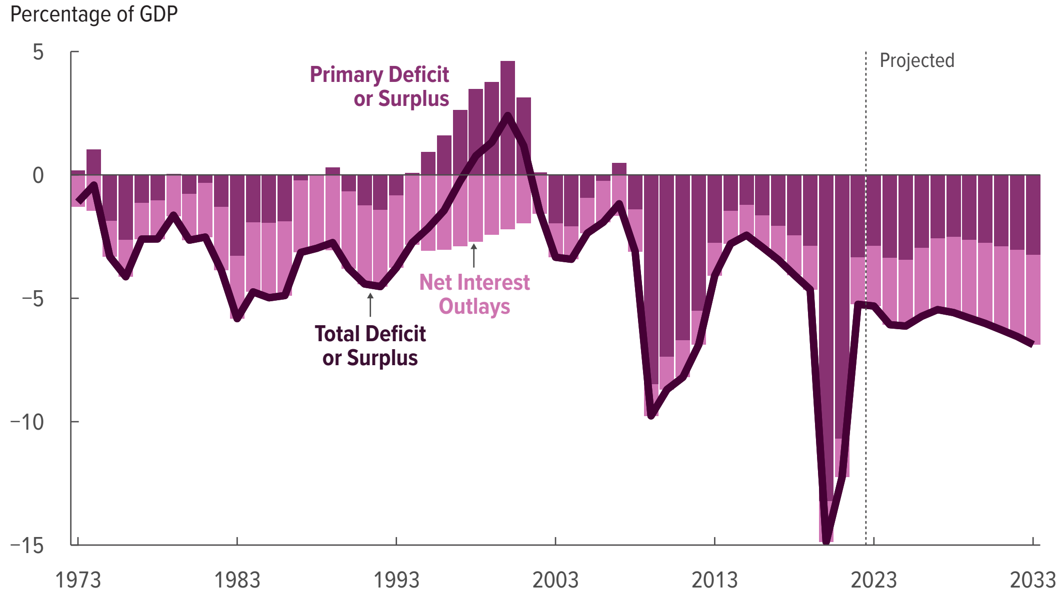
in P.L. 115-97 (referred to as the 2017 tax act in this report) are scheduled to expire. After 2027, deficits increase again, reaching 6.9 percent of GDP in 2033, the end of the projection period. Since 1946, the deficit has exceeded 6.9 percent of GDP in only five years: from 2009 to 2011 (following the 2007–2009 recession) and in 2020 and 2021.

The cumulative deficit for the 2024–2033 period is projected to total $20.2 trillion, or 6.1 percent of GDP. Since 1973, the annual deficit has averaged 3.6 percent of GDP. In CBO's projections, deficits equal or exceed 5.5 percent of GDP in every year from 2024 to 2033. Since at least 1930, deficits have not remained that large for more than five years in a row.

Primary deficits—that is, deficits excluding net outlays for interest—increase from 2.9 percent of GDP in 2023 to 3.4 percent in 2024 and 2025 in CBO's projections. They then decrease and hover around 2.5 percent from 2027 to 2029 before rising again, reaching 3.2 percent of GDP in 2033 (see Figure 1-1). From 2024 to 2033, primary deficits average 2.9 percent of GDP. In the 62 years from 1947 to 2008, such deficits exceeded 2.5 percent of GDP only twice. In the past 14 years, they have exceeded that amount nine times—in large part because of legislation that was enacted in response to the 2007–2009 recession and the pandemic-induced recession of early 2020.

Figure 1-1.

Total Deficits, Primary Deficits, and Net Interest Outlays



In CBO's projections, net interest outlays increase by 1.2 percent of GDP from 2023 to 2033 and are a major contributor to the growth of total deficits. Primary deficits increase by 0.4 percent of GDP over that period.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

Primary deficits exclude net outlays for interest.

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 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.

Net outlays for interest increase over the projection period, rising from 2.4 percent of GDP this year to 3.6 percent in 2033—higher than they have been in any year since at least 1940 (the first year for which the Office of Management and Budget reports such data).

Historically, when unemployment has been low, deficits have been much smaller as a percentage of GDP than the deficits in CBO's current projections. From 2024 to 2033—a period in which the average unemployment rate is projected to remain at or below 5.0 percent in each year—deficits in CBO's baseline projections are never less than 5.5 percent of GDP. From 1973 to 2022, the unemployment rate was at or below 5.0 percent in 12 years. Deficits in those 12 years (adjusted to exclude the effects of timing shifts) averaged 1.5 percent of GDP. Excluding net interest outlays, the budget, on average, showed a primary *surplus* of 0.3 percent of GDP in those 12 years; in CBO's baseline, primary deficits average 2.9 percent of GDP from 2024 to 2033.

Debt

The deficits projected in CBO's baseline would boost federal debt. That debt can be measured in different ways. The most common measure is debt held by the public, which consists mostly of securities that the Treasury issues to raise cash to fund the federal government's activities and to pay off its maturing liabilities.[2] Other measures are sometimes used for various purposes, such as to provide a more comprehensive picture of the government's financial condition.

Debt Held by the Public

The net amount that the Treasury borrows each year by issuing securities is determined primarily by the annual budget deficit. However, several other factors also affect the government's need to borrow from the public. Those factors—collectively referred to as other means of financing—include changes in the government's cash balances and cash flows associated with federal credit programs, such as those related to student loans and loans to small

2. A small amount of debt held by the public is issued by other agencies, mainly the Tennessee Valley Authority.

businesses. (Those cash flows are not reflected in the budget deficit, which accounts only for the subsidy costs of credit programs—that is, the estimated net lifetime costs of the programs' loans and loan guarantees.)[3] As a result of that additional borrowing, the increase in debt held by the public in 2023 will exceed the deficit by about $50 billion, CBO projects. Over the 2024–2033 period, the increase in federal debt is projected to exceed the cumulative deficit by $466 billion, on net.

For most years, the bulk of that additional borrowing stems from the need to finance federal loan programs. The subsidy costs for those programs are included in the projected deficit for each year from 2024 to 2033. However, the cash disbursements needed to finance those programs each year—for example, in the case of direct loans, the funds lent to borrowers minus the repayments of principal and payments of interest and other fees—are greater than the net subsidy costs. The Treasury needs to borrow funds each year to make up that difference.

After all the government's borrowing needs are accounted for, debt held by the public rises from $24.3 trillion at the end of 2022 to $46.4 trillion at the end of 2033 in CBO's baseline projections (see Table 1-3). As a percentage of GDP, that debt is projected to stand at 118 percent at the end of 2033—about 21 percentage points higher than it was at the end of 2022 and about two and a half times its average over the past 50 years (see Figure 1-2).

Other Measures of Debt

Four other measures are sometimes used in discussions of federal debt.

- **Debt held by the public minus financial assets** excludes the value of the government's financial assets. That measure reflects the government's overall financial condition by accounting for the value of financial assets, such as student loans, that the government has acquired while incurring that debt. In CBO's baseline projections, that measure generally varies along with debt held by the public but is 5 percent to 8 percent smaller.

- **Debt held by the public minus financial assets and debt held by the Federal Reserve** excludes Treasury securities held by the Federal Reserve as well as the value of financial assets held by the federal government. In CBO's baseline projections, that measure increases from $16.6 trillion (or 66 percent of GDP) at the end of 2022 to $36.4 trillion (or 93 percent of GDP) at the end of 2033. (The Federal Reserve's holdings of Treasury securities, which totaled $5.7 trillion at the end of 2022, are projected to fall to $3.9 trillion at the end of 2025; thereafter, those holdings increase in CBO's projections, rising to $7.6 trillion in 2033.)

- **Gross debt** consists of debt held by the public and Treasury securities held by government accounts (for example, the Social Security trust funds). The debt held by government accounts does not directly affect the economy and has no net effect on the budget. Although debt held by the public increases by $20.7 trillion from the end of 2023 to the end of 2033 in CBO's baseline projections, debt held by government accounts falls by about $1.2 trillion, reflecting declines in the balances of many trust funds. As a result, gross federal debt is projected to rise by $19.6 trillion over that period and to total $52.0 trillion at the end of 2033. About 11 percent of that sum would be debt held by government accounts.

- **Debt subject to limit** is the amount of debt that is subject to the statutory limit on federal borrowing, which is often referred to as the debt ceiling. Such debt differs from gross federal debt mainly in that it excludes debt issued by the Federal Financing Bank and includes certain other adjustments that are excluded from gross debt.[4] Currently, the statutory limit on the issuance of new federal debt is set at $31.4 trillion. On January 19, 2023, debt reached that limit, and the Treasury announced a "debt issuance suspension period," during which, under current law, it can take well-established "extraordinary measures" to borrow additional funds without breaching the debt ceiling. CBO estimates that under its baseline budget projections, the Treasury would exhaust those measures and run out of cash sometime between July and September of this year.[5] The Deficit Control Act requires CBO to project spending,

3. For more details on other means of financing and on federal debt more broadly, see Congressional Budget Office, *Federal Debt: A Primer* (March 2020), www.cbo.gov/publication/56165.

4. The Federal Financing Bank, a government corporation under the general supervision of the Treasury, assists federal agencies in managing their borrowing and lending programs. It can issue up to $15 billion of its own debt securities; that amount does not count against the debt limit.

5. For more information, see Congressional Budget Office, *Federal Debt and the Statutory Limit, February 2023* (February 2023), www.cbo.gov/publication/58906.

Table 1-3.

CBO's Baseline Projections of Federal Debt

Billions of Dollars

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Debt Held by the Public at the Beginning of the Year	22,284	24,257	25,716	27,370	29,214	30,927	32,645	34,642	36,406	38,604	40,945	43,482
Changes in Debt Held by the Public												
Deficit	1,375	1,410	1,576	1,752	1,716	1,706	1,929	1,847	2,115	2,291	2,480	2,851
Other means of financing[a]	597	50	78	92	-3	12	67	-83	83	49	58	112
Total	**1,973**	**1,459**	**1,654**	**1,844**	**1,713**	**1,719**	**1,996**	**1,764**	**2,198**	**2,340**	**2,538**	**2,963**
Debt Held by the Public at the End of the Year												
In billions of dollars	**24,257**	**25,716**	**27,370**	**29,214**	**30,927**	**32,645**	**34,642**	**36,406**	**38,604**	**40,945**	**43,482**	**46,445**
As a percentage of GDP	**97.0**	**98.0**	**100.4**	**102.1**	**103.3**	**104.5**	**106.5**	**107.7**	**109.9**	**112.2**	**114.8**	**118.2**
Memorandum:												
Federal Financial Assets[b]	1,959	2,008	2,086	2,178	2,175	2,187	2,254	2,172	2,255	2,304	2,362	2,474
Debt Minus Financial Assets												
In billions of dollars	22,298	23,708	25,284	27,036	28,752	30,458	32,387	34,234	36,349	38,641	41,120	43,971
As a percentage of GDP	89.1	90.4	92.7	94.5	96.1	97.5	99.6	101.3	103.5	105.9	108.6	111.9
Federal Reserve's Holdings of Debt Held by the Public	5,672	5,070	4,369	3,905	4,222	4,726	5,225	5,708	6,178	6,638	7,116	7,573
Debt Minus Financial Assets and the Federal Reserve's Holdings												
In billions of dollars	16,626	18,637	20,916	23,131	24,530	25,732	27,163	28,527	30,171	32,003	34,005	36,398
As a percentage of GDP	66.5	71.0	76.7	80.8	82.0	82.3	83.5	84.4	85.9	87.7	89.8	92.6
Gross Federal Debt[c]	30,838	32,432	34,197	36,063	37,787	39,351	41,134	42,755	44,700	46,719	48,958	51,994
Debt Subject to Limit[d]	30,869	32,464	34,230	36,097	37,821	39,385	41,168	42,789	44,734	46,753	48,993	52,029
Average Interest Rate on Debt Held by the Public (Percent)	2.1	2.7	2.9	2.8	2.8	2.9	3.0	3.1	3.1	3.2	3.2	3.2

Data sources: Congressional Budget Office; Department of the Treasury. See www.cbo.gov/publication/58848#data.

GDP = gross domestic product.

a. Factors not included in budget totals that affect the government's need to borrow from the public. Those factors include changes in the government's cash balances and cash flows associated with federal credit programs, such as those related to student loans. (Only the subsidy costs of those programs are reflected in the budget deficit.)

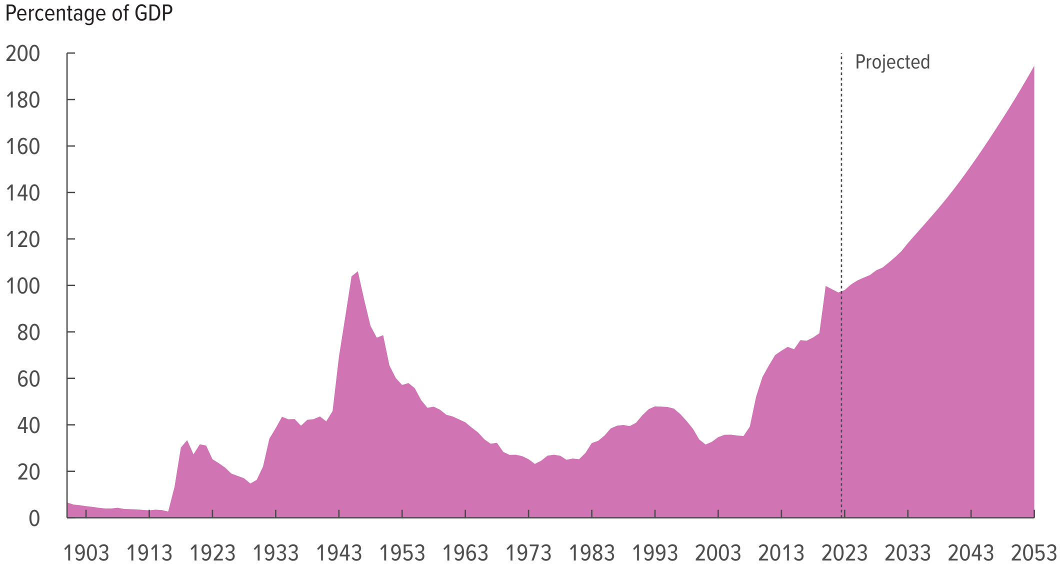
b. The value of outstanding student loans and other credit transactions, cash balances, and various financial instruments.

c. Federal debt held by the public plus Treasury securities held by federal trust funds and other government accounts.

d. The amount of federal debt that is subject to the overall limit set in law. That measure of debt excludes debt issued by the Federal Financing Bank and reflects certain other adjustments that are excluded from gross federal debt. The debt limit is currently set at $31.4 trillion. On January 19, 2023, debt reached that limit, and the Treasury announced a "debt issuance suspension period," during which, under current law, it can take well-established "extraordinary measures" to borrow additional funds without breaching the debt ceiling. In CBO's baseline projections, the Treasury will exhaust those measures and run out of cash sometime between July and September of this year. The Deficit Control Act requires CBO to project spending, revenues, and deficits independently of the debt limit. For more details, see Congressional Budget Office, *Federal Debt and the Statutory Limit, February 2023* (February 2023), www.cbo.gov/publication/58906.

Figure 1-2.

Federal Debt Held by the Public, 1900 to 2053



Federal debt held by the public is projected to increase in each year of the projection period and to reach 118 percent of GDP in 2033—higher than it has ever been. In the two decades that follow, growing deficits are projected to push federal debt higher still, to 195 percent of GDP in 2053.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

GDP = gross domestic product.

revenues, and deficits independently of the debt limit. Thus, in CBO's baseline projections, debt subject to limit continues rising over the next decade and reaches $52.0 trillion in 2033.

Outlays

Outlays in CBO's baseline projections fall from 24.8 percent of GDP in 2022 to 23.7 percent in 2023 and then rise in most years thereafter, reaching 24.9 percent in 2033. Since 1973, outlays have averaged 21.0 percent of GDP.

Outlays in 2023

In CBO's projections, federal outlays in 2023 total $6.2 trillion—slightly less than the amount recorded in 2022. That small decrease in total outlays is the net result of a decrease in mandatory outlays and increases in net outlays for interest and in spending for discretionary programs.

Mandatory Spending. Mandatory, or direct, spending includes outlays for most federal benefit programs and for certain other payments to people, businesses, nonprofit institutions, and state and local governments. Such outlays are generally governed by statutory criteria and are not normally constrained by the annual appropriation process.[6] Certain types of payments that federal agencies receive from the public and from other government agencies (such as premiums paid by Medicare beneficiaries and payments made by federal agencies to employees' retirement plans) are classified as offsetting receipts and are accounted for in the budget as reductions in mandatory spending.

The Deficit Control Act requires CBO to construct baseline projections for most existing mandatory spending under the assumption that current laws continue unchanged. Therefore, CBO's baseline projections of mandatory spending reflect the estimated effects of changes in the economy, growth in the number of beneficiaries of certain mandatory programs, and other factors related to the costs of those programs. The projections also incorporate a set of across-the-board reductions in budgetary resources (known as sequestration) that are required under current law for some mandatory programs.

6. Each year, some mandatory programs are modified by provisions in annual appropriation acts. Such changes may increase or decrease spending for the affected programs for one or more years. In addition, some mandatory programs, such as Medicaid, the Supplemental Nutrition Assistance Program, and benefits for Coast Guard retirees and annuitants, are considered mandatory but require benefits to be paid from amounts provided in appropriation acts.

In 2023, CBO estimates, total mandatory outlays (net of offsetting receipts) will amount to $3.8 trillion under current law, $251 billion (or 6 percent) less than they were in 2022 (see Table 1-4). As a share of GDP, those outlays are projected to amount to 14.6 percent—nearly 2 percentage points less than such outlays equaled last year but still well above the 10.9 percent of GDP they averaged each year from 1973 to 2022. For some programs, outlays are projected to decrease, in part because of waning pandemic-related spending; for others, outlays are projected to exceed the amounts recorded in 2022.

Outlays for the following programs decrease the most in 2023 in CBO's projections:

- **Higher Education.** CBO estimates that outlays for higher education will fall from $490 billion in 2022 to $38 billion in 2023. Outlays were unusually high in 2022, largely as a result of the student loan forgiveness announced by the Administration in August 2022 and recorded in the budget in September 2022. The Administration recorded the present-value costs of that plan, which it estimated to be $379 billion, as an increase in outlays.[7] In addition, modifications made by the Department of Education to the terms of outstanding student loans—including an extended pause in loan repayments and interest accrual, as well as changes that allow borrowers who meet certain criteria to have their loans forgiven sooner—increased outlays by $71 billion in 2022. CBO's current projections reflect the $19 billion in modification costs in fiscal year 2023 that the department has recorded through January 9, 2023.[8] CBO does not have a basis for determining what other modification costs, if any, might be incurred in 2023 beyond those that have already been recorded by the Administration. Also, in 2022, the Administration revised upward its estimate of the subsidy costs of student loans disbursed in previous years by $23 billion.[9] Thus far, no such revision has been recorded in 2023, and CBO has no basis for determining what revision, if any, the Administration might make this year.

- **Refundable Tax Credits.** Outlays for refundable tax credits total $107 billion in 2023 in CBO's projections, $145 billion less than the amount recorded in 2022. Outlays for the child tax credit decrease by $106 billion this year, primarily because the temporary expansion of the child tax credit for calendar year 2021 expired. In addition, outlays for the U.S. Coronavirus Refundable Credits and for the recovery rebates for individuals that were provided in response to the pandemic are projected to fall by $14 billion and $11 billion, respectively.[10]

- **Coronavirus Relief Fund.** In 2022, the federal government provided $106 billion in direct assistance to state, local, tribal, and territorial governments in response to the pandemic. Outlays for such assistance will fall to $6 billion this year, CBO estimates.

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7. Under the Federal Credit Reform Act of 1990 (FCRA), the budget records as a cost the discounted present value of any expected reductions of cash inflows to the Treasury from loan programs. A present value is a single number that expresses a flow of current and future income (or payments) in terms of an equivalent lump sum received (or paid) at a specific time. The present value depends on the rate of interest (the discount rate) that is used to translate future cash flows into current dollars. For the purposes of calculating the 2022 budget deficit, CBO used the estimated costs of loan forgiveness as recorded by the Administration rather than its own estimate. The Administration's plan is currently being reviewed by the Supreme Court. If the plan was to be invalidated or revised in response to the Court's ruling, the budgetary effects of any such action (as estimated by the Administration) would be recorded in the year the change was made as an updated estimate of the subsidy costs of those loans.

8. Those projections do not include the estimated budgetary effects of new regulations proposed for student loans repaid through income-driven plans that were announced by the Department of Education on January 10, 2023.

9. Under FCRA, the subsidy costs for student loans are calculated by subtracting the present value of expected income from federal student loans issued in previous years from the present value of the government's projected costs. The original subsidy calculation for a set of loans or loan guarantees may be increased or decreased in subsequent years by a credit subsidy reestimate made by the Office of Management and Budget that reflects an updated assessment of the cash flows associated with the outstanding loans or loan guarantees. For more information about the costs of credit programs, see Congressional Budget Office, *Estimates of the Cost of Federal Credit Programs in 2023* (June 2022), www.cbo.gov/publication/58031.

10. The U.S. Coronavirus Refundable Credits are a group of tax credits that employers could use to cover sick leave and family leave, retain employees, and continue to provide health insurance for certain workers during the pandemic. The Treasury has classified all the recovery rebates paid in advance of tax return filings as outlays rather than as reductions in revenues.

Meanwhile, outlays for many programs are projected to *increase* in 2023. The largest increases are for the following programs:

- **Social Security.** Outlays for Social Security are estimated to increase by $123 billion (or 10 percent) in 2023, to $1.3 trillion. That increase stems primarily from the 8.7 percent cost-of-living adjustment (COLA) received by Social Security beneficiaries in January 2023, the largest since 1981.
- **Medicare.** Outlays for Medicare (net of offsetting receipts) rise by $110 billion (or 16 percent) in 2023, to $820 billion, in CBO's projections. That increase results from a decrease in offsetting receipts and an increase in outlays. Medicare offsetting receipts are projected to decrease in 2023 because recoupments from the COVID-19 Accelerated and Advance Payment Program are expected to be lower than they were last year. Beginning in April 2020, the government provided about $100 billion in assistance to Medicare providers under that program. That sum was to be recouped later through reductions in claim payments. Because most of the outstanding amounts were recouped in 2021 and 2022, CBO expects such receipts to fall from $62 billion in 2022 to $3 billion in 2023. Additionally, Medicare outlays are projected to rise in 2023 because of increases in enrollment (which is projected to rise by 2 percent), payment rates, and spending related to beneficiaries' use of care.
- **Spectrum Auction Receipts.** Under current law, the Federal Communications Commission (FCC) occasionally auctions licenses for commercial use of the electromagnetic spectrum. Because the auctions' receipts result from businesslike or market-oriented transactions between private parties and the federal government, they are recorded as offsetting receipts, or reductions in mandatory outlays, rather than as revenues generated through exercise of the federal government's sovereign power. The FCC conducted several auctions in 2021 and 2022, which boosted net receipts in 2022 to $104 billion. CBO estimates that such receipts will fall to $0.2 billion in 2023.
- **Pension Benefit Guaranty Corporation.** The Pension Benefit Guaranty Corporation's (PBGC's) net outlays are projected to rise by $69 billion in 2023, to $71 billion. That increase is almost entirely the result of spending from PBGC's special financial assistance program, which will make onetime payments to financially troubled multiemployer pension plans that qualify for assistance.

Taken together, outlays for all other mandatory programs are estimated to rise, on net, by $40 billion (or 3 percent) in 2023. The largest of those changes are for the following programs:

- **Veterans' Programs.** Mandatory outlays for veterans' benefits increase in CBO's projections by $22 billion (or 15 percent) in 2023, to $173 billion. That increase is primarily the result of the 8.7 percent COLA for veterans' compensation and pensions. In addition, enactment of the Honoring Our PACT Act (P.L. 117-168) increased mandatory spending for a variety of benefits for veterans exposed to toxic substances.
- **Federal Housing Administration's Credit Programs.** In 2022, the Department of Housing and Urban Development recorded a $22 billion reduction in the estimated subsidy costs of credit programs administered by the Federal Housing Administration, thus lowering outlays for the year. CBO has not included any such revisions in its current projections for 2023 because it has no basis for determining what revisions, if any, the Administration will make this year.
- **Supplemental Nutrition Assistance Program.** Outlays for the Supplemental Nutrition Assistance Program (SNAP) are projected to fall by $21 billion (or 14 percent) in 2023, to $127 billion. That decrease largely stems from the Consolidated Appropriations Act (CAA), 2023 (P.L. 117-328), enacted on December 29, 2022. That law lowered the amount of additional benefits provided through the Pandemic Electronic Benefit Transfer program. That program, introduced in 2020 in response to the pandemic, provides food benefits during the summer months to families with schoolchildren. In addition, the CAA ended, in February 2023, the emergency allotments that were provided to SNAP participants during the pandemic.

Changes in mandatory spending for a variety of other programs and activities—including Medicaid, subsidies for health insurance, and federal retirement programs—account for the remainder of the increase.

Table 1-4.

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total 2024–2028	Total 2024–2033
Social Security														
Old-Age and Survivors Insurance	1,070	1,184	1,289	1,379	1,457	1,536	1,624	1,715	1,812	1,913	2,017	2,122	7,286	16,864
Disability Insurance	143	152	160	168	178	187	192	199	207	215	223	232	885	1,962
Subtotal	1,213	1,336	1,450	1,547	1,635	1,723	1,817	1,914	2,019	2,128	2,240	2,355	8,171	18,826
Major Health Care Programs														
Medicare[a,b]	937	998	1,081	1,133	1,222	1,311	1,405	1,503	1,607	1,730	1,841	2,001	6,152	14,834
Medicaid	592	589	539	535	572	611	649	689	732	775	826	879	2,907	6,807
Premium tax credits and related spending[c]	86	81	78	82	67	77	81	86	90	96	104	112	383	870
Children's Health Insurance Program	17	18	17	18	18	19	20	20	21	22	20	15	92	190
Subtotal	1,632	1,687	1,715	1,768	1,879	2,018	2,154	2,298	2,450	2,622	2,791	3,007	9,534	22,701
Income Security Programs														
Supplemental Nutrition Assistance Program	149	127	125	123	119	120	119	118	118	119	122	123	605	1,205
Earned income, child, and other tax credits[d]	252	107	95	98	99	84	85	84	84	84	84	84	460	881
Supplemental Security Income[a]	57	60	63	64	65	67	69	71	73	75	77	79	329	704
Unemployment compensation	34	37	50	48	48	48	46	48	50	52	54	55	240	500
Child nutrition	39	34	35	37	39	41	43	45	47	50	52	54	197	445
Family support and foster care[e]	47	48	41	35	35	35	36	36	36	36	37	37	181	364
Subtotal	576	413	408	406	405	396	398	403	409	416	426	433	2,012	4,098
Federal Civilian and Military Retirement														
Civilian[f]	116	122	129	134	138	142	146	149	153	157	163	167	690	1,479
Military[a]	66	74	79	83	85	87	90	92	95	97	100	102	424	910
Subtotal	182	196	208	217	224	230	236	241	248	254	263	269	1,114	2,389
Veterans' Programs														
Income security[a,g]	129	147	159	169	180	191	201	211	220	229	238	248	901	2,045
Toxic exposures fund[h]	0	5	34	40	49	56	63	71	79	87	94	101	243	675
Other[a,i]	21	21	16	15	15	15	15	16	16	17	19	19	77	164
Subtotal	150	173	209	225	245	262	280	297	315	333	351	368	1,220	2,884
Other Programs														
Agriculture	17	25	19	16	17	20	21	21	19	18	18	18	92	186
Higher education	490	38	17	17	18	18	18	18	19	19	19	19	88	181
MERHCF	11	12	12	13	14	14	15	16	17	17	18	19	68	155
Education Stabilization Fund	45	53	34	20	5	0	0	0	0	0	0	0	59	59
Fannie Mae and Freddie Mac[j]	0	0	9	5	3	2	2	2	4	5	7	13	20	52
Public Health and Social Services Emergency Fund	30	19	9	4	2	1	*	*	*	*	*	*	16	16
Coronavirus Relief Fund	106	6	6	0	0	0	0	0	0	0	0	0	6	6
Pension Benefit Guaranty Corporation	2	71	1	-4	*	-5	-6	-6	-6	-6	-6	-6	-14	-44
Deposit insurance	-12	-11	-10	-9	-8	-8	-9	-9	-10	-10	-10	-10	-43	-92
Other	138	153	147	137	141	142	140	129	125	119	94	93	707	1,268
Subtotal	828	366	242	199	192	184	182	171	168	163	140	145	999	1,786
Mandatory Outlays, Excluding Offsetting Receipts	**4,581**	**4,170**	**4,232**	**4,361**	**4,579**	**4,812**	**5,065**	**5,325**	**5,608**	**5,915**	**6,210**	**6,577**	**23,050**	**52,684**

Continued

Table 1-4. Continued

CBO's Baseline Projections of Mandatory Outlays, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total 2024–2028	Total 2024–2033
Offsetting Receipts														
Medicare	-227	-178	-187	-200	-216	-234	-254	-274	-296	-321	-349	-378	-1,090	-2,708
Federal share of federal employees' retirement														
Civil service retirement and other	-52	-54	-56	-59	-62	-64	-67	-69	-71	-74	-76	-79	-309	-678
Military retirement	-26	-28	-24	-25	-26	-27	-27	-28	-29	-30	-30	-31	-129	-278
Social Security	-21	-22	-23	-24	-24	-25	-26	-27	-28	-29	-30	-31	-122	-266
Subtotal	-99	-104	-103	-108	-112	-116	-120	-124	-128	-132	-136	-140	-561	-1,222
Receipts related to natural resources	-24	-17	-17	-17	-16	-16	-16	-17	-18	-18	-19	-19	-83	-174
MERHCF	-10	-10	-11	-12	-12	-13	-13	-14	-15	-15	-16	-17	-61	-138
Fannie Mae and Freddie Mac[j]	-6	-6	0	0	0	0	0	0	0	0	0	0	0	0
Other	-139	-29	-28	-30	-30	-38	-39	-31	-37	-37	-25	-25	-165	-320
Total	-505	-345	-346	-367	-387	-417	-442	-460	-493	-524	-545	-579	-1,959	-4,561
Mandatory Outlays, Including Offsetting Receipts	**4,076**	**3,825**	**3,885**	**3,995**	**4,193**	**4,395**	**4,623**	**4,864**	**5,115**	**5,391**	**5,665**	**5,997**	**21,091**	**48,123**
Effects That Timing Shifts Have on Mandatory Outlays in CBO's Baseline Projections														
Medicare	38	12	-50	0	0	0	78	-78	0	0	0	108	n.a.	n.a.
Supplemental Security Income	4	1	-5	0	0	0	5	-5	0	0	0	6	n.a.	n.a.
Military retirement	5	*	-5	0	0	0	6	-6	0	0	0	7	n.a.	n.a.
Veterans' income security	11	3	-13	0	0	0	17	-17	0	0	0	21	n.a.	n.a.
Veterans' other	1	*	-1	0	0	0	1	-1	0	0	0	1	n.a.	n.a.
Total	59	15	-74	0	0	0	108	-108	0	0	0	142	n.a.	n.a.
Mandatory Outlays in CBO's Baseline Projections	**4,135**	**3,840**	**3,812**	**3,995**	**4,193**	**4,395**	**4,731**	**4,756**	**5,115**	**5,391**	**5,665**	**6,140**	**21,125**	**48,192**
Memorandum:														
Outlays, Net of Offsetting Receipts														
Medicare	710	820	894	933	1,006	1,077	1,151	1,229	1,312	1,409	1,492	1,623	5,062	12,126
Major health care programs	1,404	1,508	1,528	1,568	1,664	1,784	1,900	2,024	2,154	2,302	2,441	2,629	8,444	19,994

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

Spending for benefit programs shown in this table generally excludes administrative costs, which are discretionary.

MERHCF = Department of Defense Medicare-Eligible Retiree Health Care Fund; n.a. = not applicable; * = between -$500 million and $500 million.

a. 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. These outlays have been adjusted to remove the effects of those shifts.

b. Gross spending, excluding the effects of Medicare premiums and other offsetting receipts. (Net Medicare spending is shown in the memorandum section.)

c. Spending to subsidize health insurance purchased through the marketplaces established under the Affordable Care Act and provided through the Basic Health Program and spending to stabilize premiums for health insurance purchased by individuals and small employers.

d. Includes outlays for the American Opportunity Tax Credit and other credits.

e. Includes Temporary Assistance for Needy Families, Child Support Enforcement, Child Care Entitlement to States, and other programs that benefit children.

f. Includes benefits for retirement programs in the civil service, foreign service, and Coast Guard; benefits for smaller retirement programs; and annuitants' health care benefits.

g. Includes veterans' compensation, pensions, and life insurance programs.

h. Provides funding for health care, claims processing, and certain other expenses incidental to providing care to veterans exposed to toxic substances.

i. Primarily the GI Bill and similar education benefits.

j. Cash payments from Fannie Mae and Freddie Mac to the Treasury are recorded as offsetting receipts in 2022 and 2023. Beginning in 2024, CBO's estimates reflect the net lifetime costs—that is, the subsidy costs adjusted for market risk—of the guarantees that those entities will issue and of the loans that they will hold. CBO counts those costs as federal outlays in the year of issuance.

Discretionary Spending. Discretionary spending encompasses an array of federal activities that are funded through or controlled by appropriations. That category includes most defense spending; spending for many nondefense activities, such as elementary and secondary education, housing assistance, international affairs, and the administration of justice; and outlays for highway programs.[11] In any year, some discretionary outlays arise from budget authority provided in the same year, and some arise from appropriations made in previous years.[12]

In CBO's baseline projections, discretionary budget authority for 2023 totals $1.8 trillion, $38 billion (or 2 percent) more than the amount provided in 2022 (see Table 1-5).[13] (When the obligation limitations that govern discretionary spending for certain transportation programs are accounted for, funding is $40 billion more this year than it was last year.)[14]

The 2 percent increase in budget authority in 2023 is the net result of larger changes in different types of funding for this year:

- Funding provided in division J of the Infrastructure Investment and Jobs Act (IIJA, P.L. 117-58) and division B of the Bipartisan Safer Communities Act (BSCA, P.L. 117-159) boosted budget authority in 2022 by $165 billion. Those laws also provided advance appropriations over the 2023–2026 period. The advance appropriations for 2023, which are designated as an emergency requirement, total $70 billion, which is $95 billion less than the 2022 amounts.
- Funding for 2023 (other than that provided by the IIJA and the BSCA) designated as an emergency requirement is $103 billion; such funding was $98 billion last year. Most of that other emergency funding is for assistance following natural disasters and to respond to the Russian invasion of Ukraine.
- Nonemergency discretionary funding for 2023 totals $1.7 trillion, $129 billion (or 9 percent) more than the $1.5 trillion provided in 2022. That funding was primarily provided by the 2023 CAA.[15]

CBO anticipates that if no further appropriations are provided this year, discretionary outlays will total $1.7 trillion in 2023—$84 billion (or 5 percent) more than they were last year. The agency expects outlays to rise by more than the increase in budget authority this year, primarily because of spending from budget authority provided in previous years.

In CBO's projections, discretionary funding for defense totals $891 billion in 2023, a $75 billion—or 9 percent—increase from the sum provided in 2022. Emergency-designated defense funding, which totaled $34 billion in 2022, dips slightly to $33 billion in 2023. Outlays for defense are estimated to be $800 billion in 2023. That amount is $54 billion, or 7 percent, more than such outlays in 2022.

Overall, funding for nondefense discretionary programs decreases by $37 billion—or 4 percent—from 2022 to 2023 in CBO's projections. Funding from advance appropriations provided in division J of the IIJA and in the BSCA decreases by $95 billion, and emergency funding from other sources increases by $5 billion. All other funding for nondefense programs increases by $53 billion, or 7 percent, to $793 billion. Under current law, CBO estimates, nondefense discretionary outlays in 2023 will total $941 billion, an increase of $30 billion (or 3 percent) from outlays recorded last year.

Net Interest Outlays. In the budget, net outlays for interest consist of the government's interest payments on federal debt, offset by interest income that the government receives. Net interest outlays are dominated by the interest paid to holders of the debt that the Treasury

11. Funding for highway programs is provided in authorizing legislation and is considered mandatory.
12. Budget authority, or funding, is the authority provided by federal law to incur financial obligations that will result in immediate or future outlays of federal government funds.
13. Included in the enacted appropriation legislation were changes in mandatory programs (often referred to as CHIMPs) that, on net, were counted as reductions to discretionary budget authority. Those reductions amounted to $28 billion in CBO's cost estimates for legislation in 2023. Such reductions do not, however, affect discretionary budget authority in CBO's baseline projections; rather, CHIMPs are reflected as changes in mandatory budget authority and (to a lesser extent) outlays.
14. An obligation limitation is a restriction—typically included in an appropriation act—on the amount, purpose, or period of availability of budget authority. The limitation often affects budget authority that has been provided in an authorization act. Although the budget authority for many transportation programs is mandatory, the outlays from the obligation limitations for those programs are considered discretionary.
15. Before that law's enactment on December 29, 2022, funding for agencies in 2023 was provided by three continuing resolutions.

Table 1-5.

CBO's Baseline Projections of Discretionary Spending, Adjusted to Exclude Effects of Timing Shifts

Billions of Dollars

													Total	
	Actual, 2022[a]	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2024–2028	2024–2033
							Budget Authority							
Defense														
Other discretionary	782	858	885	908	931	954	977	1,000	1,024	1,049	1,074	1,100	4,653	9,901
IIJA and BSCA[b]	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Emergency	34	33	37	38	39	40	40	41	42	43	44	45	193	408
Subtotal	816	891	922	945	969	993	1,017	1,041	1,067	1,092	1,118	1,145	4,847	10,310
Nondefense														
Other discretionary	740	793	844	864	883	907	927	950	973	997	1,021	1,046	4,425	9,413
IIJA and BSCA[b]	165	70	70	70	69	70	71	73	74	76	78	79	350	730
Emergency	64	70	71	73	74	76	77	79	81	82	84	86	371	783
Subtotal	969	932	985	1,007	1,026	1,053	1,076	1,102	1,128	1,155	1,182	1,211	5,147	10,926
Total Budget Authority	**1,785**	**1,824**	**1,907**	**1,952**	**1,995**	**2,046**	**2,094**	**2,143**	**2,195**	**2,247**	**2,300**	**2,356**	**9,993**	**21,236**
							Outlays							
Defense														
Other discretionary[c]	746	796	838	871	898	921	944	967	990	1,014	1,039	1,064	4,472	9,545
IIJA and BSCA[b]	0	*	*	*	*	*	*	*	*	*	*	*	*	*
Emergency[c]	n.a.	4	10	15	20	26	32	36	38	39	40	41	103	298
Subtotal	746	800	848	886	918	947	976	1,003	1,028	1,053	1,079	1,105	4,575	9,844
Nondefense														
Other discretionary	908	886	929	951	953	974	993	1,016	1,039	1,063	1,088	1,113	4,800	10,120
IIJA and BSCA[b]	3	21	42	59	69	72	72	71	71	71	73	74	315	675
Emergency	n.a.	34	50	59	65	69	72	74	76	78	80	82	316	707
Subtotal	910	941	1,022	1,070	1,087	1,116	1,137	1,162	1,187	1,213	1,240	1,269	5,431	11,501
Total Outlays	**1,657**	**1,741**	**1,869**	**1,955**	**2,005**	**2,063**	**2,113**	**2,165**	**2,215**	**2,266**	**2,319**	**2,373**	**10,006**	**21,345**
Memorandum:														
Effect That Timing Shifts Have on Discretionary Outlays in CBO's Baseline	5	*	-5	0	0	0	6	-6	0	0	0	7	n.a.	n.a.
CBO's Baseline Projection of Discretionary Outlays	1,662	1,741	1,864	1,955	2,005	2,063	2,119	2,159	2,215	2,266	2,319	2,380	10,007	21,347
Outlays From IIJA and BSCA Appropriations as Specified	3	21	42	59	68	68	57	42	27	17	11	8	294	399

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

BSCA = Bipartisan Safer Communities Act; IIJA = Infrastructure Investment and Jobs Act; n.a. = not applicable; * = between zero and $500 million.

a. The Department of the Treasury does not distinguish between outlays stemming from emergency funding (other than that provided by the IIJA and BSCA) and outlays stemming from nonemergency funding. Consequently, the budget does not record any actual amounts attributed specifically to emergency funding.

b. Division J of the IIJA provides a total of $266 billion in discretionary funding from 2023 to 2026, and the BSCA provides nearly $3 billion in funding over that period. After consulting with the Budget Committees, CBO applied the rules that govern how it constructs baseline projections to that funding. As a result, the amount of funding related to the IIJA and the BSCA in CBO's baseline exceeds the amounts specified in those laws.

c. 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. Outlays have been adjusted to remove the effects of those timing shifts.

issues to the public. The Treasury also pays interest on debt issued to trust funds and other government accounts, but such payments are intragovernmental transactions that have no effect on the budget deficit.

Net outlays for interest, which rose by 35 percent last year, are projected to increase by 35 percent again this year, from $475 billion in 2022 to $640 billion. Relative to the size of the economy, those outlays will rise from 1.9 percent of GDP in 2022 to 2.4 percent in 2023, nearly one percentage point higher than their level in 2021. The projected increase in 2023 occurs primarily because the average interest rate that the Treasury pays on its debt has risen sharply this year and is expected to rise further as maturing securities are refinanced at rates that are higher than those that prevailed when they were initially issued.[16] For example, the interest rate on 10-year Treasury notes averaged 1.3 percent in 2021 and 2.4 percent in 2022; that rate averages 3.8 percent in 2023 in CBO's current economic forecast. Debt held by the public (in nominal terms) is on track to increase by 6 percent from 2022 to 2023.

Outlays From 2024 to 2033

In CBO's baseline projections, federal outlays (adjusted to exclude the effects of timing shifts) rise from $6.5 trillion in 2024 to $9.8 trillion in 2033, for an average annual increase of nearly 5 percent.[17] Measured in relation to the size of the economy, federal outlays dip from 24 percent of GDP in 2024 to 23 percent in 2025 and 2026 and then generally increase thereafter, equaling 25 percent of GDP in 2032 and 2033 (see Figure 1-3).

Mandatory Spending. In CBO's projections, outlays for mandatory programs (net of offsetting receipts) total 14 percent of GDP each year from 2024 to 2029, rise to 15 percent in 2030, and remain at that level through 2033. That pattern occurs in part because spending related to the pandemic continues to fall over the next few years while two underlying factors—the aging of the population and growth in federal health care costs—put upward pressure on mandatory outlays. The aging of the population causes the number of beneficiaries of Social Security and Medicare to grow faster than the overall population, and federal health care costs per beneficiary continue to rise faster than GDP per person. As a result of those two trends, outlays for Social Security and Medicare increase in relation to GDP from 2023 to 2033. The effects of those trends on federal spending will persist beyond the 10-year projection period.

Social Security and the Major Health Care Programs. Measured as a percentage of GDP, outlays for Social Security and the major health care programs, net of offsetting receipts, are projected to rise in most years over the 10-year projection period, from 10.9 percent in 2024 to 12.7 percent in 2033.[18] (Spending for the major health care programs consists of outlays for Medicare, Medicaid, and the Children's Health Insurance Program, as well as subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.)

CBO's current baseline includes the following projections of outlays for specific programs:

- Outlays for Social Security increase to 5.3 percent of GDP in 2024 and continue rising in most years thereafter, reaching 6.0 percent of GDP in 2033.
- Outlays for Medicare equal 3.3 percent of GDP in 2024 and climb to 4.1 percent of GDP in 2033.
- Federal outlays for Medicaid, which equal 2.0 percent of GDP in 2024 in CBO's baseline projections, dip slightly, amounting to 1.9 percent of GDP in 2025

16. The average interest rate on debt reflects the interest rates on Treasury securities of different maturities, the maturity structure of securities issued, and the costs of inflation-linked payments made on some of those securities.

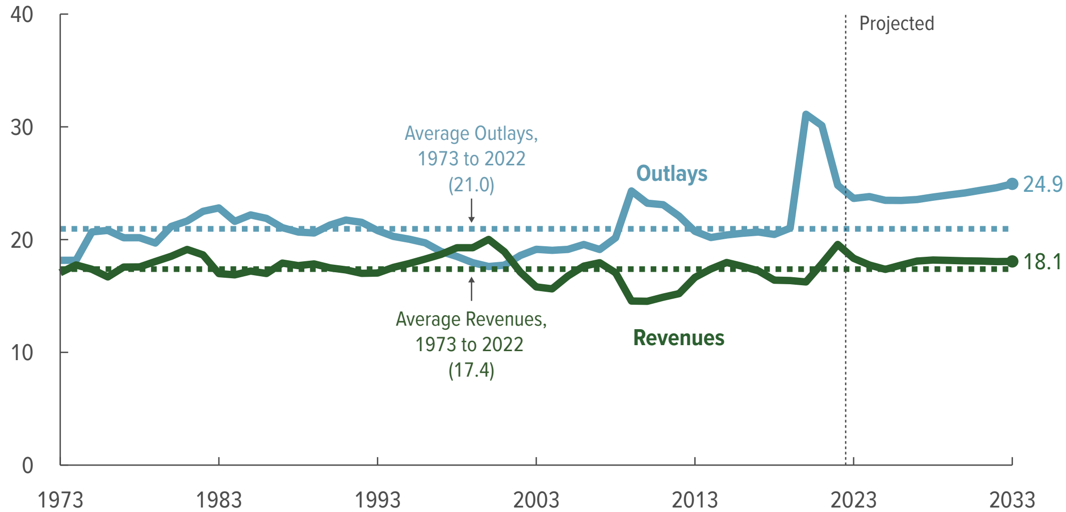
17. CBO's projections follow provisions in section 257 of the Deficit Control Act, which requires CBO to project spending for certain programs, including Social Security and Medicare, under the assumption that they will be fully funded, and thus able to make all scheduled payments, even if the trust funds associated with those programs do not have sufficient resources to make full payments. For example, CBO estimates that the Highway Trust Fund will be exhausted in 2028, the Old-Age and Survivors Insurance trust fund will be exhausted in 2032, and the Hospital Insurance trust fund will be exhausted in 2033. Nevertheless, CBO's baseline projections reflect the assumption that full payments from those funds will continue to be made. In addition, the Deficit Control Act requires CBO to project spending for certain mandatory programs beyond their scheduled expiration. Other rules that govern the construction of CBO's baseline projections have been developed by the agency in consultation with the House and Senate Budget Committees. For further details, see Congressional Budget Office, *How CBO Prepares Baseline Budget Projections* (February 2018), www.cbo.gov/publication/53532.

18. Offsetting receipts for Medicare include mostly payments of premiums, recoveries of overpayments made to providers, and amounts paid by states from savings on Medicaid's prescription drug costs.

Figure 1-3.

Total Outlays and Revenues

Percentage of GDP



Measured as a percentage of GDP, projected outlays remain about the same for the next several years, as growth in outlays for interest payments and mandatory spending is offset in part by waning pandemic-related spending. Outlays and revenues equal or exceed their 50-year averages in each year of the 2024–2033 period.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#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.

and 2026 as pandemic-related spending wanes. Those outlays climb to 2.2 percent in 2033.

- Outlays for subsidies for health insurance purchased through the marketplaces and related spending average 0.3 percent of GDP per year through 2033.

Other Mandatory Programs. Other mandatory spending—that is, all mandatory spending aside from that for Social Security and the major health care programs—is projected to drop by 0.4 percent of GDP in 2024, to 3.3 percent, in part because pandemic-related spending continues to dissipate. (Other mandatory spending peaked at 10.6 percent of GDP in 2021.) Such spending includes outlays for income support programs (such as unemployment compensation and SNAP), military and civilian retirement programs, most veterans' benefits, and major agriculture programs.

In CBO's baseline projections, other mandatory spending measured as a share of GDP continues to decline after 2024 but at a slower pace, falling to 2.6 percent at the end of the projection period. The projected decline occurs in part because benefit amounts for many of those programs are adjusted for inflation each year, and in CBO's economic forecast, the growth of nominal GDP outpaces inflation. Growth in veterans' benefits, which averages 8 percent per year (in nominal terms) after 2023, partially offsets the decline in other mandatory outlays.

Discretionary Spending. In accordance with section 257 of the Deficit Control Act, discretionary funding in future years is assumed to equal the amount provided so far for 2023—including funding designated as an emergency requirement—with adjustments for inflation.[19] As a result, in nominal terms, discretionary outlays are projected to increase over the next 10 years, rising from $1.9 trillion in 2024 to $2.4 trillion in 2033. Outlays from funding designated as an emergency requirement (including funding provided by the IIJA and the BSCA

19. The Deficit Control Act specifies which measures of inflation CBO should use to construct its projections: The employment cost index for wages and salaries of workers in private industry is used to adjust discretionary funding related to federal personnel, and the gross domestic product price index is used to adjust other discretionary funding. For accounts with enacted advance appropriations, CBO applied provisions of law that require it to project future discretionary funding for those years for which funding has not been provided, starting with existing appropriations and adjusting them for inflation.

and amounts stemming from the assumption that such funding would continue to be provided in each year) account for 8 percent of discretionary outlays in CBO's baseline.

In CBO's projections, total discretionary *budget authority* rises by an average of 2.6 percent per year after 2023. Total discretionary *outlays* rise faster than budget authority over the first few years of the projection period, primarily because of spending stemming from budget authority provided in previous years. After 2027, outlays rise at about the same rate as budget authority, increasing by an average of 2.4 percent per year through 2033. Measured as a share of GDP, discretionary outlays decrease steadily, from 6.9 percent in 2024 to 6.0 percent in 2033, at which point they would equal their lowest previously reported level (see Figure 1-4). By comparison, discretionary outlays averaged 8.0 percent of GDP over the past 50 years.

In CBO's projections, defense outlays fall to 2.8 percent of GDP in 2033—which would be their smallest share since 1962 (the earliest year for which such data have been reported). Outlays for nondefense discretionary programs would amount to 3.2 percent of GDP in 2033. Nondefense discretionary outlays have been less than that only three times—in 1999, 2018, and 2019—when they equaled 3.1 percent of GDP.

Net Interest Outlays. Net outlays for interest nearly double over the period in CBO's projections, rising from $739 billion in 2024 to $1.4 trillion in 2033. Measured relative to the size of the economy, those outlays rise from 2.7 percent of GDP in 2024 to 3.6 percent in 2033. At that level, they would be 1.6 percentage points higher than their 50-year average.

The *amount* of the federal government's net interest costs is determined by the outstanding debt and the average interest rate on that debt. *Growth* in net interest costs is mainly affected by changes in the average interest rate on federal debt and by the primary deficit, which requires the government to borrow more and thus increases debt held by the public.[20] Borrowing to pay for greater interest costs pushes up the net cost of interest further—in large part because of the way that increases in the average interest rate and the primary deficit affect each other.

- Average interest rates on federal debt rise in CBO's projections as debt matures and is refinanced. In 2024, the average interest rate on debt held by the public is projected to be 2.9 percent, 0.2 percentage points higher than it was in 2023 and 0.7 percentage points higher than it was in 2022; that rate generally rises thereafter, albeit more slowly, reaching 3.2 percent in 2033. Changes in the average interest rate stem from interest rates on Treasury securities, the rate of inflation applicable to Treasury inflation-protected securities, and the maturity structure of outstanding securities. (For a discussion of the factors responsible for changes in interest rates and inflation, see Chapter 2.)
- Primary deficits average 2.9 percent of GDP from 2024 to 2033, adding to debt held by the public each year. (The factors responsible for primary deficits are discussed earlier in this chapter.)

On average, in CBO's projections, increases in the average interest rate on federal debt account for about three-quarters of the increase in net interest costs from 2024 to 2033.[21]

Revenues

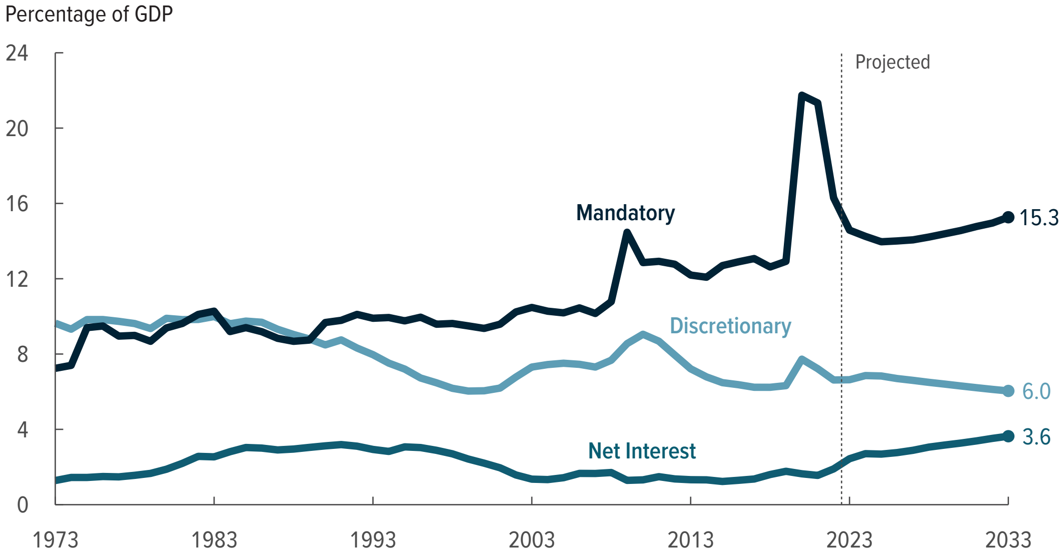
Federal revenues in 2022 totaled $4.9 trillion. Under current law, revenues will fall by 2 percent in 2023, to $4.8 trillion, CBO estimates. As a percentage of GDP, revenues are projected to fall from 19.6 percent of GDP in 2022 to 18.3 percent this year, still above the 17.4 percent of GDP they averaged over the past 50 years. In CBO's projections, revenues drop to 17.4 percent of GDP in 2025 and then, over the next two years, climb to 18.1 percent of GDP, where they

20. For more details on the government's net interest costs, see Congressional Budget Office, *Federal Net Interest Costs: A Primer* (December 2020), www.cbo.gov/publication/56780. The costs are also affected by debt issuance not accounted for by primary deficits, such as that issued for some of the financing of federal credit programs.

21. To assess the share of the increase in net interest costs attributable to changes in the average interest rate, CBO started by examining a benchmark scenario in which after 2022, the average interest rate did not change and there were no primary deficits adding to the amount of debt. CBO estimated the increase, relative to that benchmark, in net interest costs from the change in the average interest rate in CBO's projections (by using a scenario with those rates and no primary deficits) and from primary deficits in CBO's projections (by using a scenario with those deficits and no change in the average interest rate). The agency used the relative size of those estimates to calculate the share of the total increase in net interest costs attributable to the increase in the average interest rate by allocating the interaction between the average interest rate and the primary deficit proportionally.

Figure 1-4.

Outlays, by Category



In CBO's projections, rising spending on Social Security and Medicare boosts mandatory outlays, but total discretionary spending falls in relation to GDP. As the cost of financing the nation's debt grows, net outlays for interest increase substantially and, beginning in 2030, exceed their previous peak.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#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.

remain at the end of the projection period (see Figure 1-3 on page 19). Those overall changes are driven by the following changes in specific sources of revenues in CBO's projections:

- **Individual income tax receipts** decline in relation to GDP through 2025 in CBO's projections, partly because the agency anticipates that collections from taxes on capital gains realizations and other sources, which have been strong in recent years, will fall. Receipts grow from 2025 to 2027 because scheduled changes in tax provisions, including an increase in most tax rates, are projected to drive up receipts in relation to taxable personal income. Real bracket creep (explained below) also contributes to rising receipts over time.

- **Corporate income tax receipts** decrease steadily in relation to GDP from 2023 to 2033. That decline reflects the net effects of scheduled changes in tax rules.

- **Federal Reserve remittances** remain near zero from 2023 to 2027 because higher short-term interest rates have increased the Federal Reserve System's interest expenses to such an extent that they exceed its income. CBO anticipates that remittances will be significant again in 2028 and rise slowly as a share of the economy thereafter.

- **Excise tax receipts** rise in 2023 and 2024 after recent legislative changes take effect. Thereafter, excise taxes gradually decline in relation to GDP along with the tax bases on which many excise taxes are levied.

Individual Income Taxes

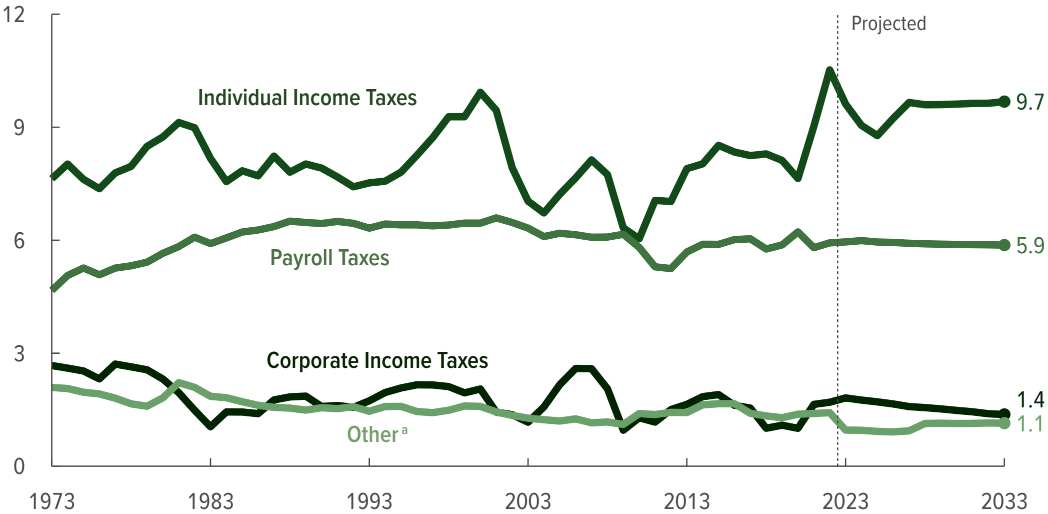
In 2022, receipts from individual income taxes totaled \$2.6 trillion, or 10.5 percent of GDP—the highest those receipts have been in relation to the size of the economy since the 16th Amendment authorizing the federal government to collect income taxes was ratified in 1913. Under current law, receipts from individual income taxes are projected to fall this year to \$2.5 trillion, or 9.6 percent of GDP—still well above the 8.0 percent of GDP they averaged over the past five decades (see Figure 1-5).

Over the next two years, receipts in CBO's projections decline further in relation to the size of the economy, reaching 8.8 percent of GDP in 2025 (see Table 1-6).

Figure 1-5.

Revenues, by Category

Percentage of Gross Domestic Product



After reaching a historic high in 2022, receipts from individual income taxes are projected to fall in 2023 because collections from taxes on capital gains realizations and other sources, which have been strong in recent years, fall in CBO's projections. Receipts are projected to rise again after 2025 because of the scheduled expiration of certain provisions of the 2017 tax act.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

That decline partly reflects CBO's expectation that the recent strength in tax collections will not continue. In addition, payments of certain taxes deferred during the first two years of the pandemic and paid in 2022 and 2023 will no longer be made. After 2025, individual income tax receipts are projected to rise in relation to GDP because of scheduled changes in tax law and real bracket creep.

Following the initial decline and subsequent increase, receipts in CBO's baseline projections total 9.7 percent of GDP in 2033, 0.1 percentage point higher than they are in 2023. The offsetting factors that contribute to that small net increase are described in more detail below.

Scheduled Tax Changes After 2025. At the end of calendar year 2025, nearly all the changes to the individual income tax made by the 2017 tax act are scheduled to expire under current law. Together, those scheduled changes are the most significant factor pushing up tax revenues relative to income over the next 10 years in CBO's projections. After the scheduled changes take effect, taxpayers will face higher statutory tax rates, a smaller standard deduction, the return of personal exemptions, and a reduction in the child tax credit. Those changes would cause tax liabilities (the amount taxpayers owe) to rise beginning in calendar year 2026, boosting receipts in fiscal year 2027 and beyond. In CBO's projections, the scheduled changes to those tax provisions boost annual individual income tax receipts measured as a share of GDP by 0.8 percentage points from 2025 to 2033.

Real Bracket Creep and Related Effects. The income thresholds for the various tax rate brackets in the individual income tax are indexed to increase with inflation (as measured by the chained consumer price index published by the Bureau of Labor Statistics).[22] When income grows faster than prices—as CBO projects it will over the 2023–2033 period—more income is pushed into higher tax brackets, a process known as real bracket creep. In addition, the Internal Revenue Service adjusts the income thresholds before the start of the tax year, which means that the adjustments are based on inflation in the previous year. Because of that lag, a larger share of income may be taxed at higher rates during periods of high inflation. Many other parameters of the tax system are also indexed for inflation, including the amounts of the standard deduction and the earned income tax credit. But certain

22. For more information, see Congressional Budget Office, "How Income Growth Affects Tax Revenues in CBO's Long-Term Budget Projections" (June 2019), www.cbo.gov/publication/55368.

Table 1-6.

CBO's Baseline Projections of Revenues

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total 2024–2028	Total 2024–2033
							In Billions of Dollars							
Individual Income Taxes	2,632	2,523	2,467	2,511	2,764	3,018	3,121	3,246	3,377	3,515	3,650	3,803	13,881	31,472
Payroll Taxes	1,484	1,562	1,633	1,703	1,778	1,849	1,920	1,993	2,068	2,147	2,226	2,307	8,884	19,625
Corporate Income Taxes	425	475	479	489	495	494	506	514	520	527	527	539	2,462	5,089
Other														
Excise taxes	88	91	101	100	101	102	103	103	104	105	106	107	506	1,033
Federal Reserve remittances	107	1	4	6	7	10	78	88	98	109	122	130	105	652
Customs duties	100	99	97	98	101	103	104	105	106	107	109	110	503	1,040
Estate and gift taxes	33	27	25	24	26	39	42	44	47	50	53	57	156	406
Miscellaneous fees and fines	29	35	34	35	37	40	42	45	43	43	44	45	188	409
Subtotal	356	251	260	264	273	293	369	386	398	414	435	449	1,459	3,540
Total	**4,896**	**4,812**	**4,838**	**4,966**	**5,310**	**5,655**	**5,916**	**6,139**	**6,364**	**6,603**	**6,838**	**7,098**	**26,686**	**59,727**
On-budget	3,830	3,678	3,643	3,711	3,999	4,292	4,501	4,671	4,842	5,023	5,200	5,402	20,145	45,284
Off-budget[a]	1,066	1,133	1,196	1,255	1,311	1,363	1,415	1,468	1,522	1,580	1,637	1,695	6,540	14,443
Memorandum:														
Gross Domestic Product	25,009	26,238	27,266	28,610	29,932	31,251	32,525	33,811	35,133	36,488	37,874	39,288	149,585	332,179
							As a Percentage of Gross Domestic Product							
Individual Income Taxes	10.5	9.6	9.0	8.8	9.2	9.7	9.6	9.6	9.6	9.6	9.6	9.7	9.3	9.5
Payroll Taxes	5.9	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9
Corporate Income Taxes	1.7	1.8	1.8	1.7	1.7	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.6	1.5
Other														
Excise taxes	0.4	0.3	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Federal Reserve remittances	0.4	*	*	*	*	*	0.2	0.3	0.3	0.3	0.3	0.3	0.1	0.2
Customs duties	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Estate and gift taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Miscellaneous fees and fines	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal	1.4	1.0	1.0	0.9	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.1
Total	**19.6**	**18.3**	**17.7**	**17.4**	**17.7**	**18.1**	**18.2**	**18.2**	**18.1**	**18.1**	**18.1**	**18.1**	**17.8**	**18.0**
On-budget	15.3	14.0	13.4	13.0	13.4	13.7	13.8	13.8	13.8	13.8	13.7	13.8	13.5	13.6
Off-budget[a]	4.3	4.3	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.4	4.3

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

* = between zero and 0.05 percent of gross domestic product.

a. Receipts from Social Security payroll taxes.

parameters, such as the amount of the child tax credit, are fixed in nominal dollars and not adjusted for inflation.

The individual income tax system is thus not indexed for real growth (that is, growth beyond the rate of inflation). Instead, it is partially indexed for inflation, and the indexing occurs with a lag. Together, those features of the system cause projected annual revenues measured as a percentage of GDP to rise by 0.5 percentage points from 2024 to 2033.

Other Factors. Over the next decade, several other factors decrease individual income tax receipts measured as a share of GDP by 1.2 percentage points in CBO's projections. The largest factor is a projected decline in capital gains realizations relative to the size of the economy. CBO estimates that such realizations totaled 8.7 percent of GDP in calendar year 2021 and 6.7 percent of GDP in 2022—significantly greater than the 3.7 percent of GDP they averaged over the past 40 years. In CBO's baseline projections, capital gains realizations decline over the next decade to a level that, after differences in applicable tax rates are accounted for, is consistent with their historical average. That anticipated decline reduces receipts from individual income taxes measured as a share of GDP by a total of about 0.6 percentage points from 2024 to 2033.

Second, a pandemic-related tax provision allowed employers to defer payment of some of their payroll taxes in 2020 and 2021; they paid half of the deferred amounts in 2022 and the other half in 2023.[23] That provision boosted tax receipts in 2022 and 2023 but will have no effect in future years, causing receipts measured as a share of GDP to drop by 0.2 percentage points after 2023.

Third, receipts from individual income taxes in the past few years have been larger than expected given currently available data on economic activity and the past relationship between tax revenues and the state of the economy. Depending on what factors explain those larger-than-expected receipts, their effects might be expected to persist permanently, end abruptly, or even reverse. In CBO's baseline projections, the unexplained strength of individual income tax receipts gradually dissipates over the next few years, reducing receipts as a share of GDP by a total of 0.3 percentage points from 2024 to 2033.

Payroll Taxes

Receipts from payroll taxes, which fund social insurance programs—primarily Social Security and Medicare—totaled $1.5 trillion in 2022, or 5.9 percent of GDP. In CBO's projections, payroll taxes rise to 6.0 percent of GDP in 2023, return to 5.9 percent of GDP in 2026, and remain at that level through the end of the projection period. That initial increase occurs because, in CBO's forecast, workers' earnings, which constitute most of the payroll tax base, rise slightly as a share of GDP in 2023 and 2024 and then decline.

Corporate Income Taxes

In 2022, receipts from corporate income taxes totaled $425 billion, or 1.7 percent of GDP. CBO expects corporate tax receipts to rise to 1.8 percent of GDP in 2023, largely because of scheduled changes to and new provisions of the tax code. In CBO's projections, corporate income tax receipts increase over the next decade, though not as quickly as GDP rises. Measured in relation to the size of the economy, receipts thus fall over the period, totaling 1.4 percent of GDP in 2033. That pattern reflects the varying effects over time of provisions of the 2017 tax act and the 2022 reconciliation act (P.L. 117-169), among other factors.

Provisions of the 2017 Tax Act. Several provisions of the 2017 tax act affect corporate income tax receipts over the next decade and are estimated to reduce such receipts as a share of GDP by 0.2 percentage points, on net, from 2023 to 2033.

Since 2018, firms have been making scheduled payments for a onetime tax on certain foreign profits. That tax applied to foreign profits for which U.S. taxes had been deferred under prior law. Taxes on those earnings, which are based on the value of those profits as of late 2017 (and which are unrelated to future business activity), can be paid over eight years in installments that vary in size. The payments thus boost receipts in CBO's baseline projections to varying degrees from 2023 to 2026 but not in later years, thereby contributing to lower receipts relative to GDP from 2027 to 2033.

In 2022, firms were required to begin capitalizing and amortizing certain expenditures for research and experimentation over a five-year period as they are incurred; previously, they could immediately deduct such expenses. That change will boost receipts in 2023 and for the next several years as firms take fewer deductions up front, but it will not significantly affect receipts in later years. Additionally, provisions allowing firms to immediately deduct 100 percent of their investments in equipment from their taxable income are scheduled to phase out from 2023 to 2026. By reducing the deduction that can be taken on new investments in the first year such an investment is made, that change will add to receipts to varying degrees during the phase-down period but will not significantly affect receipts by 2033.

Finally, changes to rules related to the taxation of foreign profits are scheduled to occur in 2026. Those changes will increase revenues in subsequent years, but those increases will be more than offset by the reductions stemming from the previously described changes.

Provisions of the 2022 Reconciliation Act. The 2022 reconciliation act introduced tax changes that are

23. Although that provision affected payroll taxes, it did not change the amounts credited to the Social Security and Railroad Retirement trust funds, and its effects were recorded in the budget as reductions in individual income tax collections.

Table 1-7.

CBO's Baseline Projections of Smaller Sources of Revenues

Billions of Dollars

	Actual, 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total 2024–2028	Total 2024–2033
Excise Taxes														
Highway	42	42	42	42	42	42	42	42	42	42	42	42	210	421
Health care	3	2	4	3	3	3	3	3	3	3	3	3	15	30
Aviation	16	17	19	20	21	22	22	23	24	25	26	26	104	227
Tobacco	11	11	11	10	10	10	9	9	8	8	8	7	49	90
Alcohol	11	11	11	10	10	10	11	11	11	11	11	12	52	108
Other excise taxes	5	8	15	15	15	15	15	16	16	16	17	17	76	157
Subtotal	88	91	101	100	101	102	103	103	104	105	106	107	506	1,033
Federal Reserve Remittances	107	1	4	6	7	10	78	88	98	109	122	130	105	652
Customs Duties	100	99	97	98	101	103	104	105	106	107	109	110	503	1,040
Estate and Gift Taxes	33	27	25	24	26	39	42	44	47	50	53	57	156	406
Miscellaneous Fees and Fines														
Universal Service Fund fees	9	10	10	10	10	10	10	10	10	10	10	10	49	99
Other fees and fines	20	25	24	25	27	30	32	35	33	33	34	35	139	310
Subtotal	29	35	34	35	37	40	42	45	43	43	44	45	188	409
Total	**356**	**251**	**260**	**264**	**273**	**293**	**369**	**386**	**398**	**414**	**435**	**449**	**1,459**	**3,540**

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

estimated to reduce corporate income tax receipts, on net, by 0.1 percent of GDP between 2023 and 2033. Most significantly, the law created a new minimum tax on certain corporations as well as credits that can be used to reduce liability in excess of that minimum in subsequent years. The new tax, which goes into effect in 2023, will boost receipts in 2023, but the increase attributable to that tax is smaller in subsequent years in CBO's projections because firms will offset the minimum tax by using credits for tax liability in prior years that exceeded the minimum. The law also temporarily expanded existing tax credits and created new tax credits for clean energy. In CBO's projections, many of those changes reduce receipts by more in future years than they do in 2023.

Receipts From Other Sources

Receipts from all revenue sources other than individual income taxes, payroll taxes, and corporate income taxes totaled $356 billion, or 1.4 percent of GDP, in 2022 (see Table 1-7). Those receipts are projected to decline to 1.0 percent of GDP in 2023 and to range between 0.9 percent and 1.1 percent of GDP during the next decade.

Estate and Gift Taxes. Revenues from estate and gift taxes totaled $33 billion, or 0.1 percent of GDP, in 2022. Following the expiration at the end of calendar year 2025 of a provision of the 2017 tax act that doubled the amount of the estate and gift tax exemption, revenues from estate and gift taxes rise by 49 percent from 2026 to 2027 in CBO's projections but remain close to 0.1 percent of GDP.

Excise Taxes. Excise taxes are levied on the production or purchase of particular types of goods and services, including motor fuels, tobacco, alcohol, and aviation services. In 2022, collections of excise taxes totaled $88 billion, or 0.4 percent of GDP. Those receipts decline to 0.3 percent of GDP in 2033 in CBO's projections. An excise tax on the repurchase of corporate stock, which was enacted as part of the 2022 reconciliation act, will be collected starting in 2023, causing excise taxes to rise slightly in relation to GDP in 2024. In addition, excise taxes on certain chemicals and petroleum products, which were enacted in the IIJA and the 2022 reconciliation act, boost receipts beginning in 2023. After 2025, excise taxes decline in relation to GDP, primarily because many excise taxes are imposed as a fixed dollar amount per unit sold, and the number of units is projected to grow slowly or decline.

Customs Duties. Collections of customs duties, which are assessed on certain imports, totaled $100 billion, or 0.4 percent of GDP, in 2022. Those receipts are projected to decline as a share of GDP throughout the next decade, totaling 0.3 percent of GDP in 2033. Two factors explain that decline. First, the value of goods imported relative to the size of the economy, which was unusually high in 2021 and 2022, is projected to decline. Second, CBO anticipates that some imports from countries subject to the tariffs imposed beginning in 2018 (in particular, the section 301 tariffs that apply to certain imported goods from China) will be diverted to other countries. Those tariffs have increased customs duties by roughly 0.2 percent of GDP since 2018. CBO's baseline projections reflect the assumption that tariffs, along with any subsequent exemptions provided by the Administration, continue throughout the projection period at the rates in effect as of December 6, 2022, when the economic forecast was completed.

Remittances From the Federal Reserve. Remittances from the Federal Reserve rose to $107 billion, or 0.4 percent of GDP, in 2022 because of the central bank's actions in response to the pandemic, including its expanding its asset holdings. Remittances have declined sharply in recent months and are projected to total less than 0.1 percent of GDP in 2023. Higher short-term interest rates have increased the Federal Reserve System's interest expenses to such an extent that they exceed its income, resulting in a sharp drop in remittances. When a Federal Reserve bank's expenses exceed its income, it records the difference as a deferred asset (or negative liability) and suspends remittances to the Treasury.

Although CBO estimates that the system as a whole will be in a net loss position through 2024, the agency's baseline projections show small amounts of remittances for the next few years to account for the possibility that some individual Federal Reserve banks might record profits and remit them to the Treasury. As falling inflation allows the Federal Reserve to lower interest rates, the system returns to net profitability in 2025 in CBO's projections. Those profits gradually reduce the deferred asset through 2027; thereafter, remittances return to between 0.2 percent and 0.3 percent of GDP—equal to their average value relative to the size of the economy over the 25-year period preceding the 2008 financial crisis. CBO's estimates of remittances are subject to considerable uncertainty, particularly regarding the path of short-term interest rates in the projection period.

Miscellaneous Fees and Fines. Receipts from other fees and fines totaled $29 billion, or 0.1 percent of GDP, in 2022. Those receipts are projected to remain at 0.1 percent of GDP every year through 2033.

Tax Expenditures

Many exclusions, deductions, credits, and preferential rates in the federal tax system cause revenues to be lower than they would be otherwise for any underlying set of tax rates. Such provisions resemble federal spending and contribute to the budget deficit; thus, they are known as tax expenditures.[24]

Like federal spending, tax expenditures provide financial assistance for specific activities, entities, or groups of people. However, the budgetary treatment of tax expenditures differs from that of spending programs. Although tax expenditures increase the deficit by reducing the government's revenue collections, the amount of forgone revenues attributable to specific tax expenditures (or to tax expenditures in general) is not typically recorded separately in the budget, unlike outlays for each spending program.[25] The Congressional Budget Act of 1974 requires that the federal budget list tax expenditures. The Administration regularly publishes estimates of tax expenditures prepared by the Treasury's Office of Tax Analysis, and the Congress publishes estimates prepared by the staff of the Joint Committee on Taxation (JCT).[26]

24. Sec. 3(3) of the Congressional Budget and Impoundment Control Act of 1974, codified at 2 U.S.C. § 622(3) (2023), defines tax expenditures as "those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability."

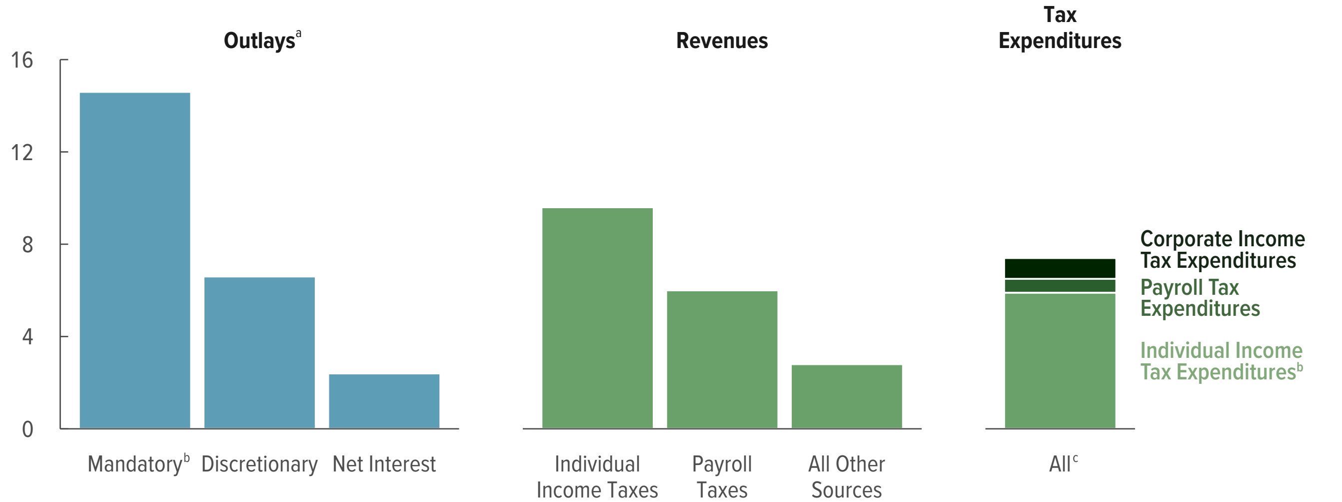
25. The exception is the portion of refundable tax credits that exceeds a taxpayer's tax liability; that amount is recorded in the budget as mandatory spending.

26. For this analysis, CBO adopted JCT's definition of tax expenditures as deviations from a "normal" income tax structure. For the individual income tax, that structure includes existing regular tax rates, the standard deduction, personal exemptions, and deductions of business expenses. For the corporate income tax, that structure includes the statutory tax rate, generally defines income on an accrual basis, and allows for costs to be recovered according to a specified depreciation system that is less favorable than under current law. For more information, see Congressional Budget Office, *How Specifications of the Reference Tax System Affect CBO's Estimates of Tax Expenditures* (December 2021), www.cbo.gov/publication/57543; and Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2022–2026*, JCX-22-22 (December 2022), www.jct.gov/publications/2022/jcx-22-22/. The Treasury's definition of tax expenditures is broadly similar to JCT's. See Office of Management and Budget, *Budget of the U.S. Government, Fiscal Year 2023: Analytical Perspectives* (March 2022), pp. 153–201, www.govinfo.gov/app/details/BUDGET-2023-PER/.

Figure 1-6.

Estimated Outlays, Revenues, and Tax Expenditures in 2023

Percentage of GDP



Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2023, the total revenues forgone because of tax expenditures are projected to equal 7.4 percent of GDP.

Data source: Congressional Budget Office, using estimates of tax expenditures prepared by the staff of the Joint Committee on Taxation. See www.cbo.gov/publication/58848#data.

GDP = gross domestic product.

a. 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. The estimates of outlays presented here have been adjusted to exclude the effects of those timing shifts.

b. The outlay portions of refundable tax credits, which are estimated to total 0.6 percent of GDP in 2023, are included in tax expenditures as well as in mandatory outlays.

c. This total is the sum of the estimates for each separate tax expenditure and does not account for interactions among them. However, CBO estimates that in 2023, the total for all tax expenditures will roughly equal the sum of the estimates for each separate tax expenditure. Because estimates of tax expenditures are based on people's behavior with current provisions of the tax code in place, they do not reflect the amount of revenues that would be collected if provisions were eliminated and taxpayers adjusted their activities accordingly.

Tax expenditures have a large effect on the federal budget. In fiscal year 2023, the value of the more than 200 tax expenditures in the individual and corporate income tax systems (including their effects on payroll taxes) is estimated to be $1.9 trillion, or 7.4 percent of GDP.[27] That amount, which was calculated by CBO on the basis of estimates prepared by JCT, equals about 40 percent of all federal revenues in 2023 and exceeds projected outlays for all discretionary programs combined (see Figure 1-6).

Simply adding up the estimates for specific tax expenditures does not account for the interactions that may occur among those tax provisions. For instance, the total tax expenditure for all itemized deductions would be smaller than the sum of the separate tax expenditures for each deduction. The reason is that all taxpayers would claim the standard deduction if there were no itemized deductions; but if only one or a few itemized deductions were removed, many taxpayers would still choose to itemize. The progressive structure of the tax brackets

27. Unlike JCT, CBO includes estimates of the largest payroll tax expenditures. As defined by CBO, a normal payroll tax structure includes the existing payroll tax rates as applied to a broad definition of compensation, which consists of cash wages and fringe benefits. Tax expenditures that reduce the tax base for payroll taxes also decrease spending for Social Security by reducing the earnings base on which Social Security benefits are calculated.

Box 1-1.

Details About CBO's Long-Term Budget Projections

The Congressional Budget Office's long-term projections follow the agency's 10-year baseline budget projections and then extend the concepts underlying them for an additional 20 years.[1] Those projections depend on the agency's projections of economic and demographic developments, which are uncertain. But even if conditions were more favorable than those underlying the extended baseline projections, if current laws generally remained unchanged, federal debt as a percentage of gross domestic product (GDP) would almost certainly be much higher in 30 years than it is today.

Deficits and Debt

In CBO's projections, federal deficits rise from 6.9 percent of GDP in 2033 to 11.2 percent of GDP in 2053. That projected growth in total deficits is largely driven by increases in interest costs and spending on Medicare. Primary deficits—that is, deficits excluding net outlays for interest—grow by far less than total deficits, increasing from 3.2 percent of GDP in 2033 to 3.9 percent in 2053.

As a result of mounting deficits, federal debt held by the public rises from 118 percent of GDP in 2033 to 195 percent of GDP in 2053. Debt that is high and rising as a percentage of GDP tends to slow economic growth, push up interest payments to foreign holders of U.S. debt, heighten the risk of a fiscal crisis, and make the U.S. fiscal position more vulnerable to an increase in interest rates. Concern about those consequences puts pressure on future decisions about tax and spending policies.

Spending

Total outlays increase from 24.9 percent of GDP in 2033 to 30.2 percent in 2053 in CBO's projections. Rising interest costs and growth in spending on the major health care programs, particularly Medicare, and on Social Security are significant drivers of that increase. Noninterest outlays—that is, all spending other than net outlays for interest—are projected to increase from 21.3 percent of GDP to 23.0 percent over the period. Mandatory spending increases from 15.3 percent of GDP in 2033 to 17.2 percent of GDP in 2053. Discretionary spending as a percentage of GDP is projected to decline from 2033 to 2037 and is assumed to remain constant thereafter.

Driven by rising interest rates and growing deficits, net interest costs more than double from 2033 to 2053 in CBO's projections, increasing from 3.6 percent of GDP to 7.3 percent. The average interest rate on federal debt is projected to rise from 3.3 percent to 4.0 percent over the 20-year period.[2] On average, in CBO's projections, increases in the average interest rate account for about three-fifths of the rise in net interest costs over that period.

Revenues

Revenues increase from 18.1 percent of GDP in 2033 to 19.1 percent in 2053 in CBO's projections. Individual income taxes rise in relation to GDP over that period as real income growth (that is, growth adjusted to remove the effects of inflation) pushes an increasing share of income into higher tax brackets—a phenomenon known as real bracket creep. Revenues from other sources, on net, change little from 2033 to 2053.

Changes to CBO's Long-Term Projections Since July 2022

As a percentage of GDP, federal debt is now projected to be higher than it was projected to be in July 2022, when CBO last updated its long-term budget projections. That difference stems from an increase in CBO's projections of spending—in particular, net interest outlays—as a percentage of GDP over the 2033–2043 period and a reduction in projected revenues throughout the 2033–2052 period. (Nominal GDP is now projected to be higher than it was previously projected to be, so a given dollar amount of spending, revenues, deficits, or debt equals a smaller percentage of GDP in the current projections than it would have equaled in last year's projections. In other words, an increase in CBO's projections of spending as a percentage of GDP means that projected nominal spending has risen by a greater percentage than projected nominal GDP has since last July.)

Changes to CBO's Projections of Deficits and Debt. Total federal deficits through 2044 are now projected to be larger than they were previously projected to be; thereafter, projected

1. For years after 2033, CBO has updated its long-term population, economic, and revenue projections; in lieu of a full update, the agency has used a simplified approach to project spending in those years. CBO expects to publish fully updated long-term projections later in 2023.

2. The average interest rate on debt reflects the interest rates on Treasury securities of different maturities, the maturity structure of the securities issued, and the costs of inflation-linked payments made on some of those securities.

Continued

Box 1-1. Continued

Details About CBO's Long-Term Budget Projections

deficits are now slightly smaller than they were in July 2022. Primary deficits are now projected to be larger than previously projected throughout the 2033–2052 period. As a result of changes to deficits, federal debt as a percentage of GDP is now projected to be 8 percentage points higher, on average, from 2033 to 2043 and 6 percentage points higher, on average, from 2044 to 2052.

Changes to CBO's Projections of Spending. Measured as a percentage of GDP, noninterest outlays over the 2033–2052 period are roughly the same, on average, in CBO's current projections as they were in the agency's July 2022 projections. CBO increased its projections of net interest costs over the 2033–2043 period, boosting total projected outlays as a percentage of GDP. After 2043, total outlays are projected to be lower than CBO previously projected, largely because the agency has lowered its projections of interest rates and net interest costs since last year.

Changes to CBO's Projections of Revenues. CBO's current projections of revenues measured as a percentage of GDP are about 0.1 percentage point lower than its July 2022 projections throughout the 2033–2052 period. The agency revised downward its projections of individual income taxes because it now projects that distributions from retirement plans in those years will be smaller than it projected in July.

ensures that the opposite would be the case with income exclusions. In other words, the tax expenditure for all exclusions considered together would be greater than the sum of the separate tax expenditures for each exclusion. In 2023, those and other factors are expected to be approximately offsetting, so the total amount of tax expenditures is projected to roughly equal the sum of the individual tax expenditures.

Estimates of tax expenditures measure the difference between households' and businesses' tax liability under current law and the tax liability they would have incurred if the provisions generating those tax expenditures were repealed and taxpayers' behavior was unchanged. Such estimates do not represent the amount of revenues that would be raised if those provisions were eliminated, because the changes in incentives that would result from eliminating those provisions would lead households and businesses to modify their behavior in ways that would lessen the effect on revenues.

The Long-Term Outlook for the Budget

Beyond the coming decade, the fiscal outlook for the United States is challenging. In CBO's projections, budget deficits grow in relation to GDP as growth in outlays (largely driven by rising interest costs and increased spending on Medicare) outpaces growth in revenues. Those rising deficits boost federal debt dramatically over the next three decades (see Table 1-8). In 2053, debt is projected to reach 195 percent of GDP—far higher than it has ever been—and to be on track to rise even further (see Figure 1-2 on page 11). Measured as a percentage of GDP, federal debt is higher in CBO's current projections than it was in the agency's most recent long-term projections, which were published in July 2022. Deficits in most years of the 2033–2052 period are also now projected to be larger than the agency projected last July. (See Box 1-1 for details about CBO's long-term budget projections.)

Uncertainty of Budget Projections

CBO's baseline budget projections are intended to show what would happen to federal spending, revenues, deficits, and debt if current laws governing spending and taxes generally remained the same. Changes to laws—particularly those affecting fiscal policies—could lead to budgetary outcomes that diverged considerably from those in the baseline. For example, CBO's estimate of the cumulative deficit for the 2023–2027 period has increased by nearly $0.6 trillion since May 2022 to account for laws that have been enacted since those projections were published.

Even if federal laws remained unchanged for the next decade, actual budgetary outcomes would differ from CBO's baseline projections because of unanticipated changes in economic conditions and in other factors that affect federal spending and revenues. For example, CBO's projections of outlays and revenues—and therefore its projections of deficits and debt—depend in part on the agency's economic projections, which include forecasts for such variables as interest rates, inflation, and growth in productivity. Actual outcomes for those variables are likely to differ in various ways from CBO's projections.

Table 1-8.

Key Projections in CBO's Baseline, Adjusted to Exclude Effects of Timing Shifts, Through 2053

Percentage of Gross Domestic Product

			Projected Annual Average			
	2023	2024	2025–2028	2029–2033	2034–2043	2044–2053
Revenues						
Individual income taxes	9.6	9.0	9.3	9.6	9.9	10.4
Payroll taxes	6.0	6.0	5.9	5.9	5.8	5.8
Corporate income taxes	1.8	1.8	1.6	1.4	1.4	1.4
Other[a]	1.0	1.0	1.0	1.1	1.2	1.2
Total Revenues	**18.3**	**17.7**	**17.9**	**18.1**	**18.3**	**18.8**
Outlays						
Mandatory						
Social Security	5.1	5.3	5.5	5.8	6.2	6.4
Major health care programs[b,c]	5.7	5.6	5.7	6.3	7.4	8.2
Other[b]	3.7	3.3	2.9	2.6	2.5	2.3
Subtotal	14.6	14.3	14.1	14.8	16.1	16.9
Discretionary[b]	6.6	6.9	6.7	6.2	5.9	5.8
Net interest	2.4	2.7	2.9	3.4	4.4	6.2
Total Outlays	**23.7**	**23.8**	**23.6**	**24.4**	**26.3**	**29.0**
Deficit	**-5.3**	**-6.1**	**-5.7**	**-6.3**	**-8.0**	**-10.2**
Debt Held by the Public at the End of the Period	**98**	**100**	**107**	**118**	**152**	**195**
Memorandum:						
Social Security						
Revenues[d]	4.5	4.6	4.6	4.6	4.6	4.5
Outlays[e]	5.1	5.3	5.5	5.8	6.2	6.4
Contribution to the Deficit[f]	-0.6	-0.7	-0.9	-1.2	-1.6	-1.9
Medicare						
Revenues[d]	1.5	1.5	1.5	1.6	1.6	1.6
Outlays[b,e]	3.8	4.0	4.1	4.8	5.8	6.6
Offsetting receipts	-0.7	-0.7	-0.7	-0.9	-1.1	-1.3
Contribution to the Deficit[f]	-1.7	-1.8	-1.9	-2.3	-3.1	-3.7
Gross Domestic Product at the End of the Period (Trillions of dollars)	26.2	27.3	32.5	39.3	56.1	79.5

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

This table satisfies a requirement specified in section 3111 of S. Con. Res. 11, the Concurrent Resolution on the Budget for Fiscal Year 2016.

a. Consists of excise taxes, remittances from the Federal Reserve System, customs duties, estate and gift taxes, and miscellaneous fees and fines.

b. 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. These outlays have been adjusted to remove the effects of those shifts.

c. Consists of outlays for Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program, as well as subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

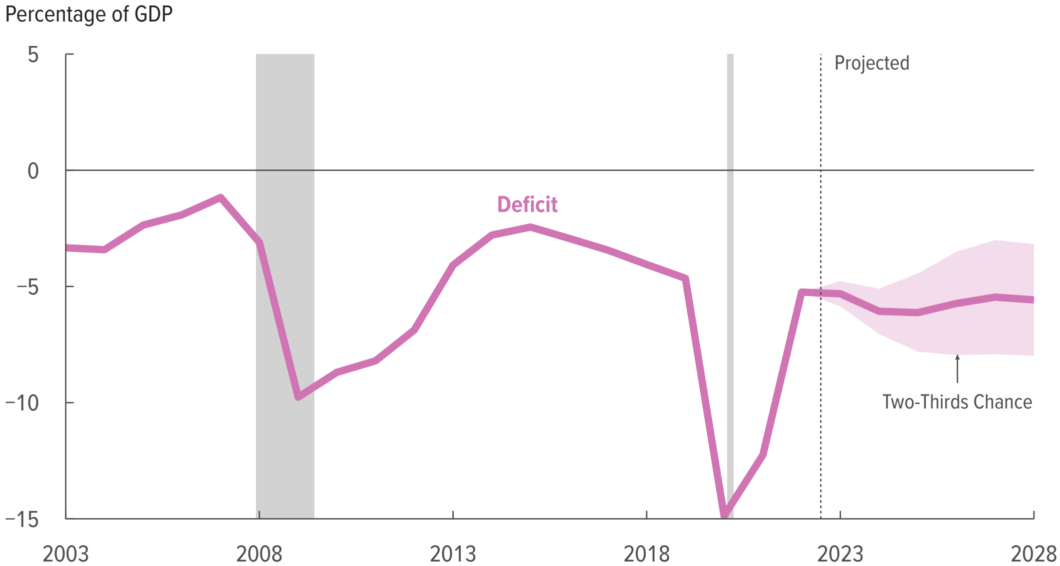
d. Includes payroll taxes other than those paid by the federal government on behalf of its employees; those payments are intragovernmental transactions. Also includes income taxes paid on Social Security benefits, which are credited to the trust funds.

e. Does not include outlays related to the administration of the program, which are discretionary. For Social Security, outlays do not include intragovernmental offsetting receipts stemming from the employer's share of payroll taxes paid to the Social Security trust funds by federal agencies on behalf of their employees.

f. The net increase in the deficit shown in this table differs from the change in the trust fund balance for the associated program. It does not include intragovernmental transactions, interest earned on balances, or outlays related to the administration of the program.

Figure 1-7.

Uncertainty of CBO's Baseline Projections of the Budget Deficit



In CBO's baseline projections, the deficit in 2028 is 5.6 percent of GDP. The agency estimates that there is a roughly two-thirds chance that the deficit that year would be between 3.2 percent of GDP and 8.0 percent of GDP.

Data source: Congressional Budget Office. See www.cbo.gov/publication/58848#data.

The shaded area around CBO's baseline deficit projection is based on the errors in CBO's one-, two-, three-, four-, five-, and six-year projections of the deficit for fiscal years 1984 through 2022. Actual outcomes will be affected by legislation enacted in future years. The effects of future legislation are not reflected in this figure.

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.

A comparison of CBO's past projections with actual outcomes gives some indication of the magnitude of the uncertainty of the agency's budget projections.[28] On the basis of an analysis of its past projections, CBO estimates that there is an approximately two-thirds chance that, under current law, the deficit in 2024 would be between 5.1 percent and 7.0 percent of GDP (see Figure 1-7). (The baseline projection of the deficit that year is 6.1 percent of GDP.) The range in 2028 would be wider: CBO estimates that, under current law, there is a roughly two-thirds chance that the deficit that year would be between 3.2 percent and 8.0 percent of GDP. (The baseline projection for that year is 5.6 percent of GDP.)

28. See Congressional Budget Office, *An Evaluation of CBO's Past Deficit and Debt Projections* (September 2019), www.cbo.gov/publication/55234.