Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

The Budget and Economic Outlook: 2023 to 2033
Visual Summary

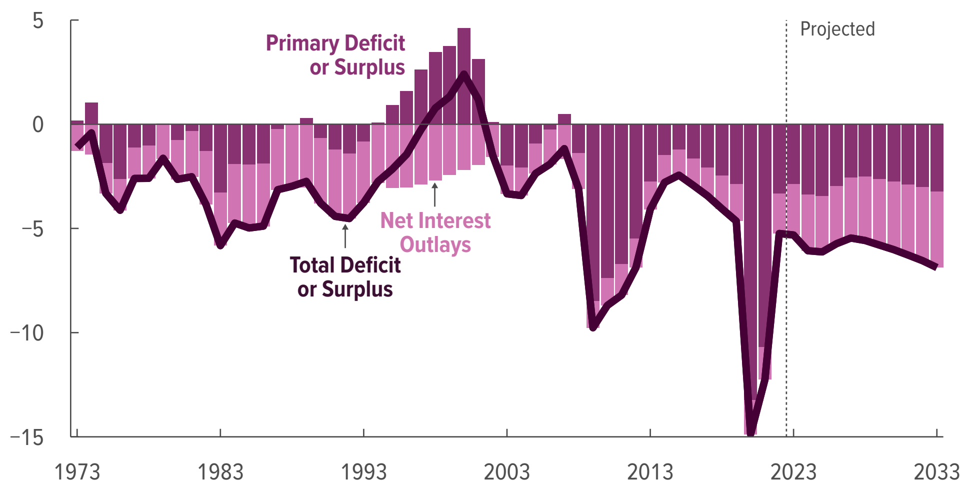
FEBRUARY | 2023

In this report, the Congressional Budget Office describes its projections of the federal budget and the U.S. economy under current law for this year and the decade that follows. The deficit is projected to total $1.4 trillion in 2023; annual deficits average $2.0 trillion over the 2024–2033 period. CBO expects economic growth to stagnate and inflation to slow in 2023 in response to the sharp rise in interest rates during 2022. After that, in CBO's projections, output grows at a more robust pace as inflation continues to decline toward the Federal Reserve's long-run goal of 2 percent.

Deficits

In CBO's projections, the deficit amounts to 5.3 percent of gross domestic product (GDP) in 2023. (Deficits and spending have been adjusted to exclude the effects of shifts that occur in the timing of certain payments when October 1 falls on a weekend.) Deficits fluctuate over the next four years, averaging 5.8 percent of GDP. Starting in 2028, they grow steadily; the projected shortfall in 2033 is 6.9 percent of GDP—significantly larger than the 3.6 percent of GDP that deficits have averaged over the past 50 years.

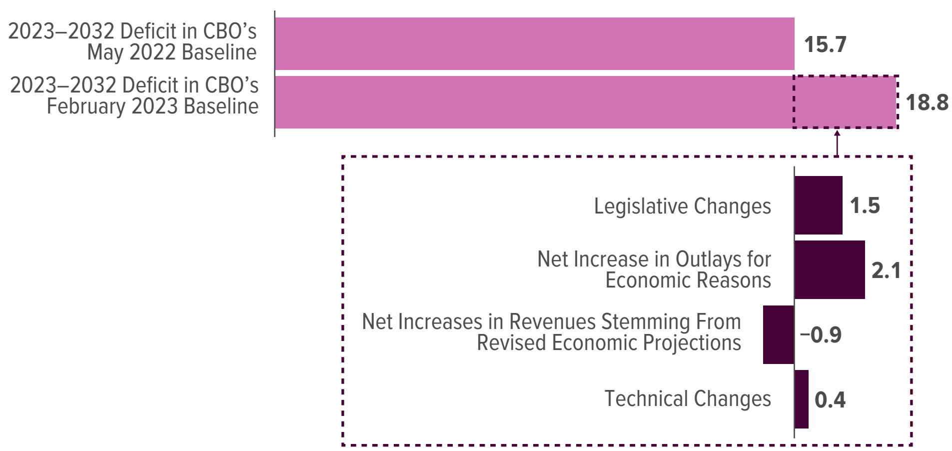
Total Deficits, Primary Deficits, and Net Interest Outlays
Percentage of Gross Domestic Product



See Figure 1-1

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 (that is, revenues minus noninterest outlays) increase by 0.4 percent of GDP over that period.

Changes in CBO's Baseline Projections of the 10-Year Deficit Since May 2022
Trillions of Dollars



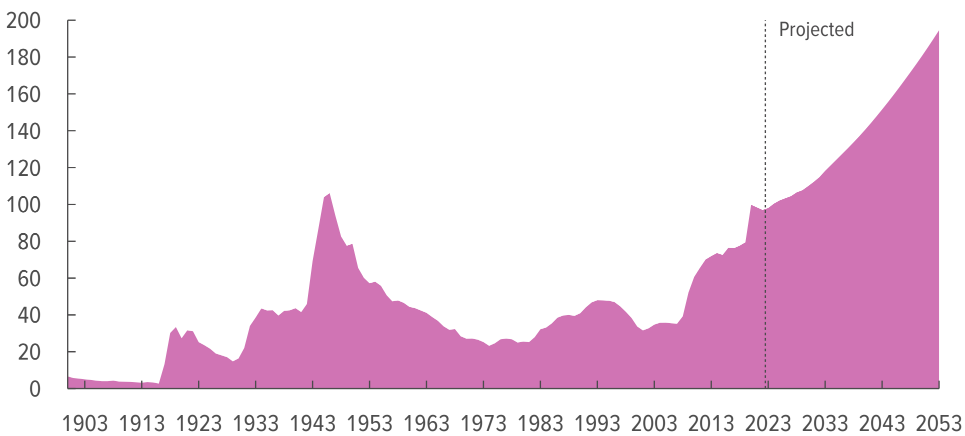
See Figure A-1

The cumulative total deficit over the 2023–2032 period is $3.1 trillion larger in CBO's current baseline projections than it was in the agency's May 2022 projections, mainly because of newly enacted legislation and changes to the economic forecast that boost projected net interest outlays and spending on mandatory programs, such as Social Security.

Debt

Federal debt held by the public is projected to rise from 98 percent of GDP in 2023 to 118 percent in 2033—an average increase of 2 percentage points per year. Over that period, the growth of interest costs and mandatory spending outpaces the growth of revenues and the economy, driving up debt. Those factors persist beyond 2033, pushing federal debt higher still, to 195 percent of GDP in 2053.

Federal Debt Held by the Public, 1900 to 2053
Percentage of Gross Domestic Product



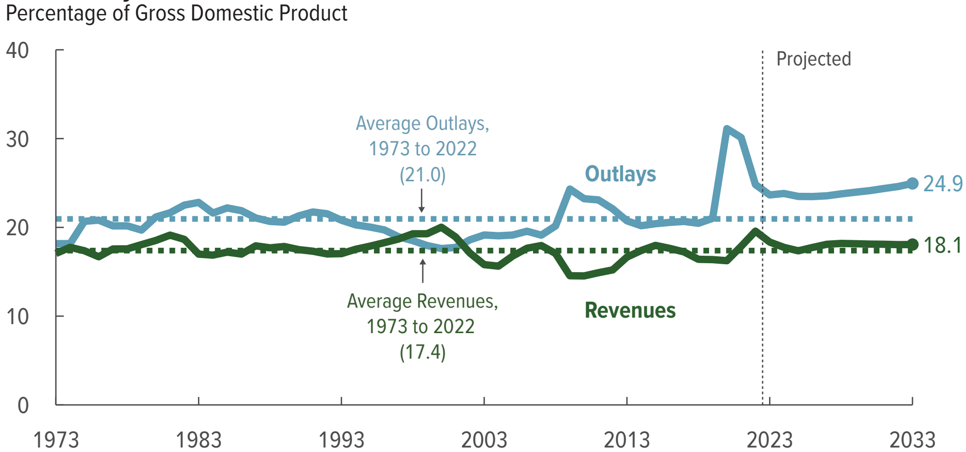
Debt is projected to rise in relation to GDP, mainly because of increasing interest costs and the growth of spending on major health care programs and Social Security.

See Figure 1-2

Outlays and Revenues

In CBO's projections, federal outlays total $6.2 trillion, or 23.7 percent of GDP, in 2023. They remain below 24.0 percent through 2028 and grow each year thereafter, totaling 24.9 percent of GDP in 2033. Outlays have reached or exceeded that level only twice since 1946: in 2020 and 2021, years in which spending was increased in response to the coronavirus pandemic. In 2023, revenues total $4.8 trillion, or 18.3 percent of GDP—well above their long-run average. They then fall as a percentage of GDP over the next two years but rise again in 2026 and 2027 before stabilizing.

Total Outlays and Revenues
Percentage of Gross Domestic Product

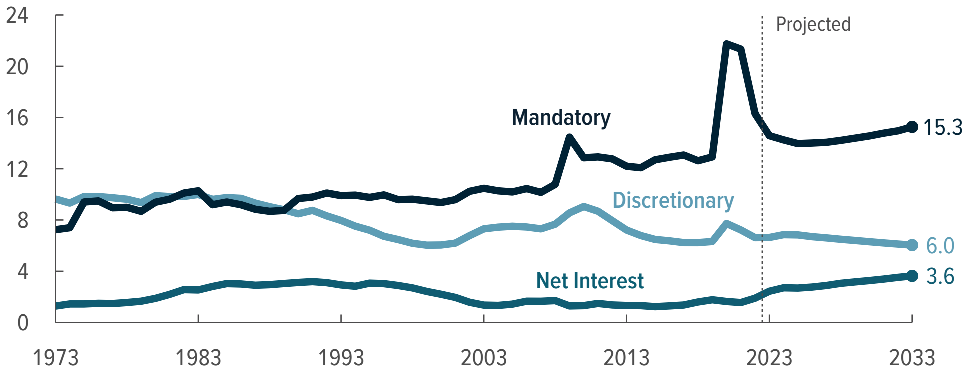


Measured as a percentage of GDP, outlays exceed their 50-year average each year of the projection period. Revenues fall to their 50-year average in 2025 but then exceed it in each subsequent year because of scheduled changes in tax law.

See Figure 1-3

Outlays and Revenues (Continued)

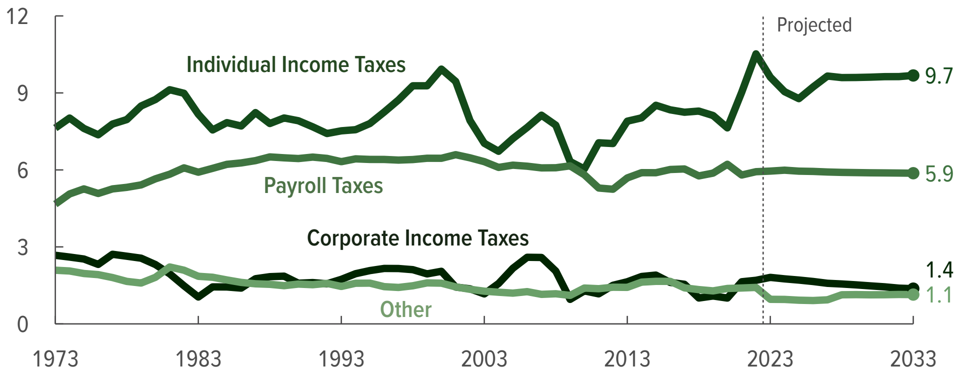
Outlays, by Category
Percentage of Gross Domestic Product



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.

See Figure 1-4

Revenues, by Category
Percentage of Gross Domestic Product



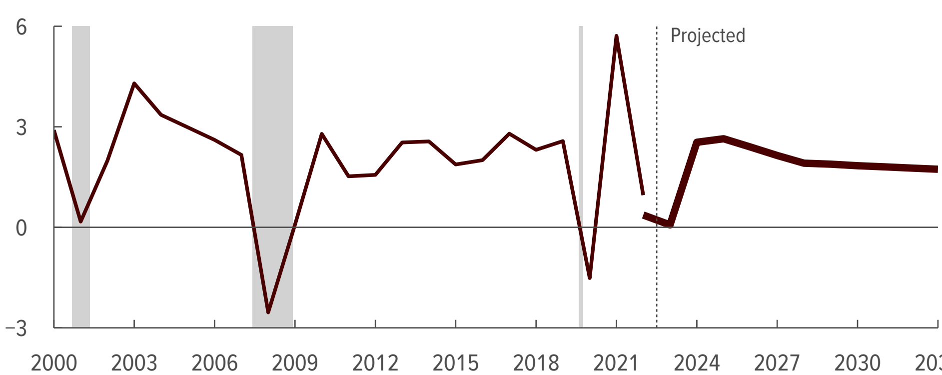
After reaching a historic high in 2022, receipts from individual income taxes are projected to fall in 2023 because collections from taxes on capital gains realizations and other sources, which have been strong in recent years, fall in CBO's projections. Projected receipts rise after 2025 because of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

See Figure 1-5

The Economy

To reduce high inflation, the Federal Reserve sharply raised the target range for the federal funds rate in 2022. In CBO's projections for 2023, economic activity stagnates, unemployment rises, and inflation slows. From 2024 to 2026, real GDP growth rises as tight financial conditions gradually ease, the unemployment rate slowly falls, and inflation continues to decline. (Shaded vertical bars indicate periods of recession.)

Growth of Real GDP
Percent



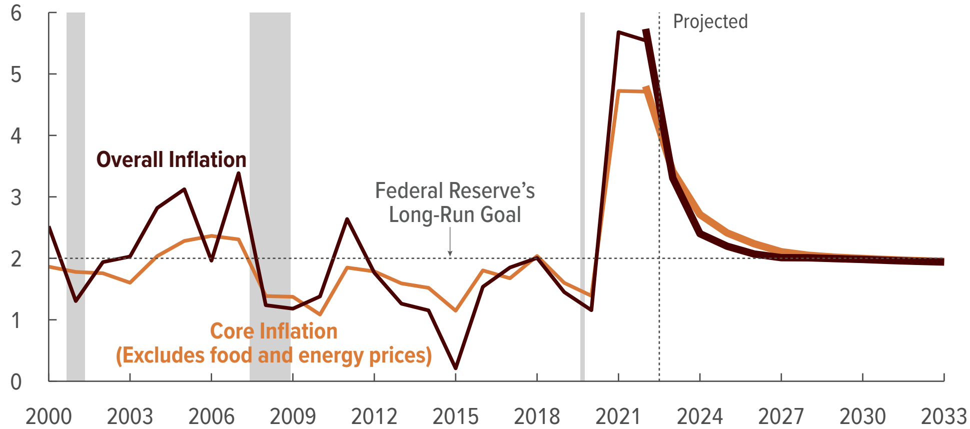
In CBO's projections, real GDP growth comes to a halt in 2023 in response to the sharp rise in interest rates during 2022. Then, as the Federal Reserve reduces the target range for the federal funds rate, real GDP growth rebounds, led by the interest-sensitive sectors of the economy, averaging 2.4 percent from 2024 to 2027 and 1.8 percent from 2028 to 2033.

See Figure 2-1

The Economy (Continued)

Overall Inflation and Core Inflation

Percent

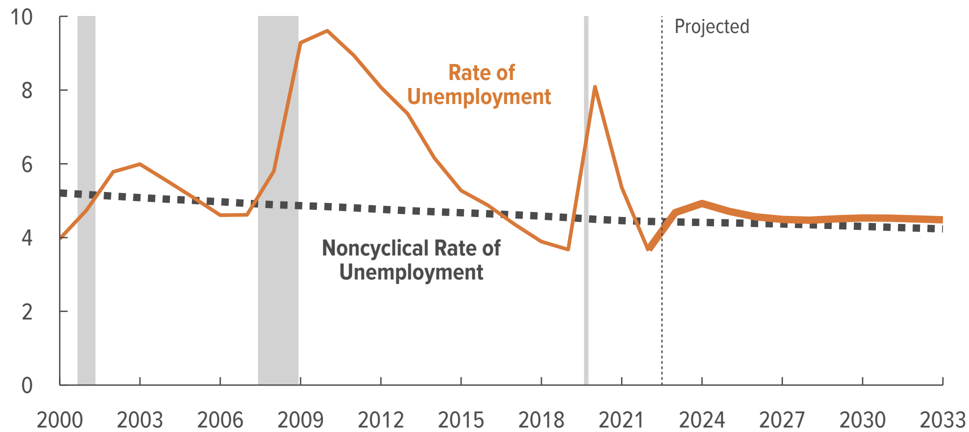


Inflation is expected to decline in 2023 as pressures ease from factors that, since mid-2020, have caused demand to grow more rapidly than supply. That decline continues until 2027, when the rate of inflation reaches the Federal Reserve's long-run goal. (Inflation is measured by the price index for personal consumption expenditures.)

See Figure 2-3

Unemployment

Percent

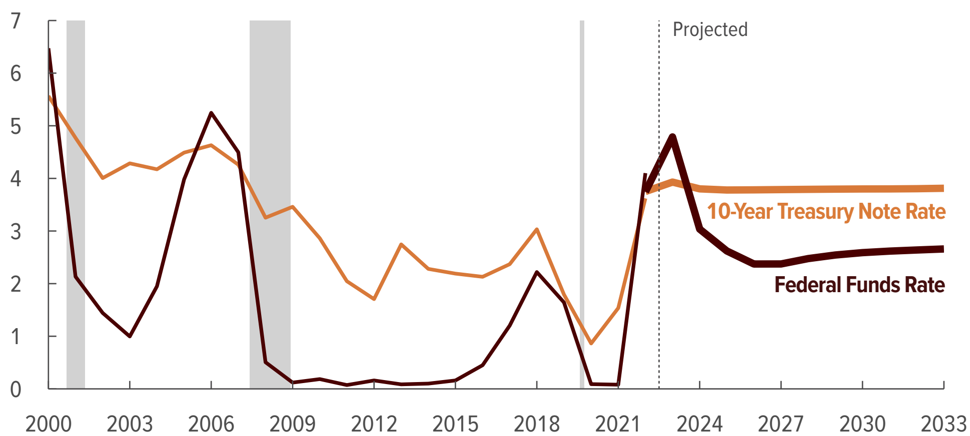


The unemployment rate rises through early 2024 in CBO's projections, reflecting the slowdown in economic growth. The rate falls thereafter as output returns to its historical relationship with potential output.

See Figure 2-2

Interest Rates

Percent



In CBO's projections, the Federal Reserve further increases the target range for the federal funds rate in early 2023 to reduce inflationary pressures in the economy. That rate is projected to fall in 2024 as inflation slows and unemployment rises. The interest rate on 10-year Treasury notes, however, remains at 3.8 percent from 2024 to the end of the projection period.

See Figure 2-4