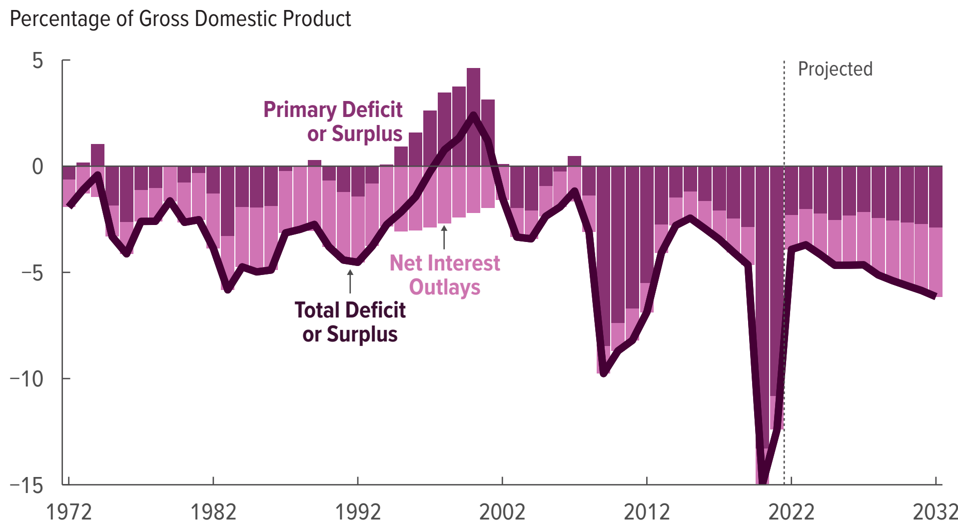
Visual Summary

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. Cumulative deficits projected for the 2022–2031 period are larger than those in the projections that CBO published last July. Revenues have increased in CBO's projections, buoyed in part by the stronger-than-anticipated economy, which CBO expects to persist. But higher projected inflation and interest rates have pushed up outlays for interest payments on federal debt and for benefit programs such as Social Security. Recently enacted legislation has increased CBO's projections of discretionary spending.

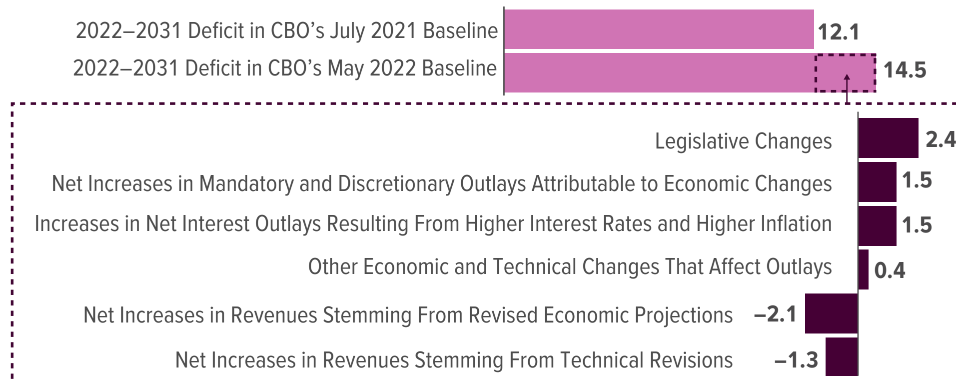
Deficits

In CBO's projections, the federal budget deficit (adjusted to exclude the effects of shifts in the timing of certain payments) decreases from 12.4 percent of gross domestic product (GDP) in 2021 to 3.9 percent this year and to 3.7 percent in 2023. The projected shortfall increases to 6.1 percent of GDP in 2032—significantly larger than the 3.5 percent of GDP that deficits have averaged over the past 50 years.



See Figure 1-1 on page 6

Rising interest rates and mounting debt cause net interest outlays to double as a percentage of GDP over the coming decade—from 1.6 percent in 2022 to 3.3 percent in 2032. Adjusted to exclude the effects of timing shifts, primary deficits (which exclude net interest costs) increase from 2.3 percent of GDP in 2022 to 2.9 percent in 2032, exceeding their 50-year average of 1.5 percent of GDP in each year of the projection period.

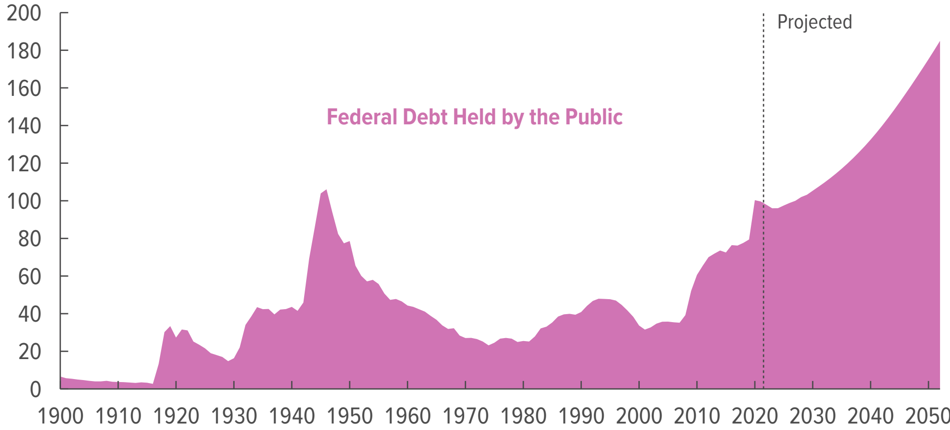


See Figure A-1 on page 110

Since July 2021, CBO has raised its projection of the 10-year deficit by a total of $2.4 trillion, mainly because of newly enacted legislation. Revenue increases, which reduce deficits, were mostly offset by economic changes that increased outlays—particularly those for interest and Social Security.

Debt

Federal debt held by the public is projected to dip from 100 percent of GDP at the end of 2021 to 96 percent in 2023. The rapid growth of nominal GDP—reflecting both high inflation and the continued growth of real GDP (that is, GDP adjusted to remove the effects of inflation)—helps hold down the amount of debt relative to the nation's output. As deficits increase in most years after 2023 in CBO's projections, debt steadily rises, reaching 110 percent of GDP in 2032—higher than it has ever been—and 185 percent of GDP in 2052.

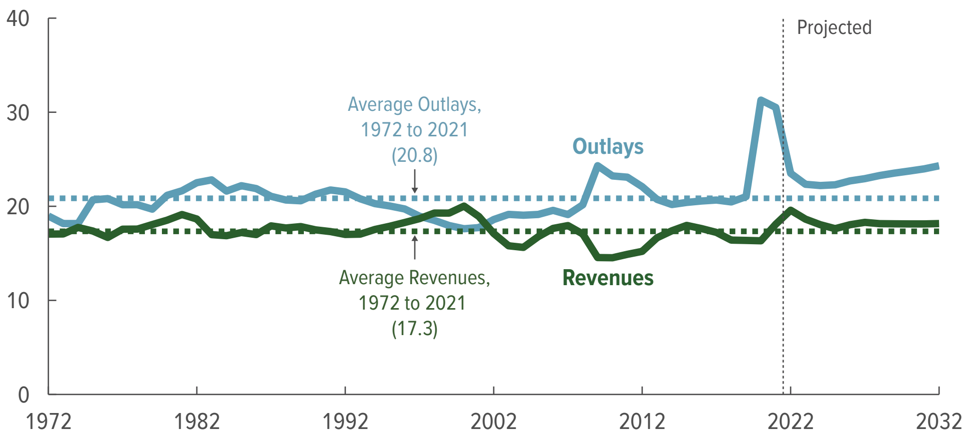


Debt is projected to rise in relation to GDP mainly because of increasing interest costs and growth in spending for Medicare and Social Security.

See Figure 1-8 on page 19

Outlays and Revenues

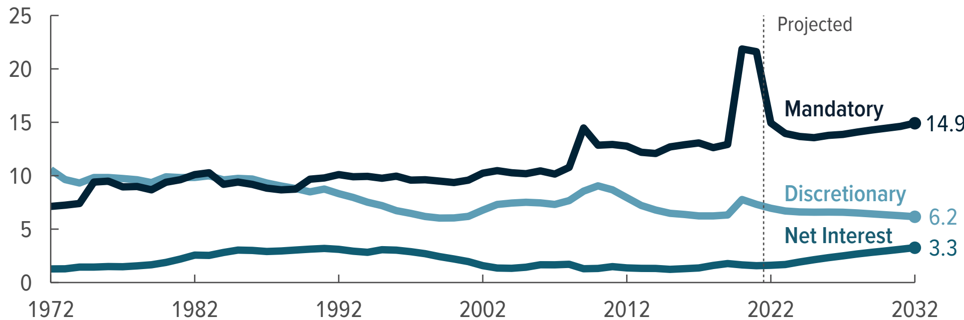
In CBO's projections, outlays total $5.8 trillion, or 24 percent of GDP, in 2022. (Those outlays are adjusted to exclude the effects of timing shifts.) As a percentage of GDP, they dip below that level for a few years and then rise. In 2032, outlays again total 24 percent of GDP. Since 1946, outlays have reached or exceeded that percentage of GDP only three times—in 2009, 2020, and 2021 (all of which were during a recession or the coronavirus pandemic). Revenues total $4.8 trillion, or 20 percent of GDP, in 2022—their highest level relative to the size of the economy in more than two decades. They fall as a percentage of GDP over the next few years before rising again in 2026 and 2027, and then they stabilize.



From 2023 to 2032, outlays are projected to average 23.2 percent of GDP, exceeding their 50-year average of 20.8 percent. Revenues, which are projected to average 18.1 percent of GDP over the next 10 years, exceed their 50-year average of 17.3 percent.

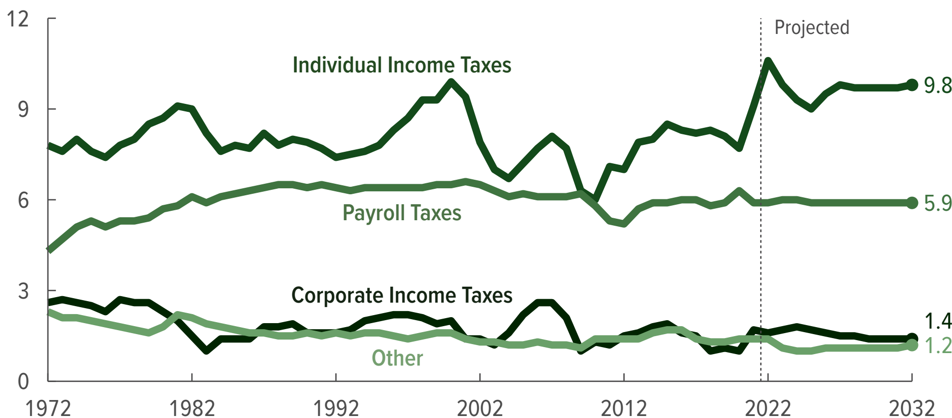
See Figure 1-2 on page 9

Outlays and Revenues (Continued)



See Figure 3-1 on page 61

Increases in projected outlays stem from the aging of the population and the rising cost of health care, which boost outlays for programs that provide benefits to elderly people. In addition, rising interest rates and accumulating debt cause net interest costs to double as a percentage of GDP.

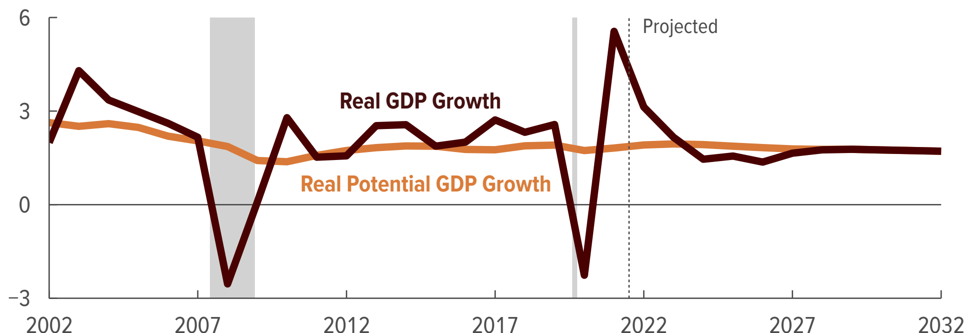


See Figure 4-2 on page 87

Total projected revenues rise sharply in 2022 because of the economic recovery, the end of temporary provisions enacted in response to the pandemic, and the strength in tax collections so far this year (which cannot yet be fully explained). Projected revenues rise again after 2025 because of the scheduled expiration of some provisions of the 2017 tax act.

The Economy

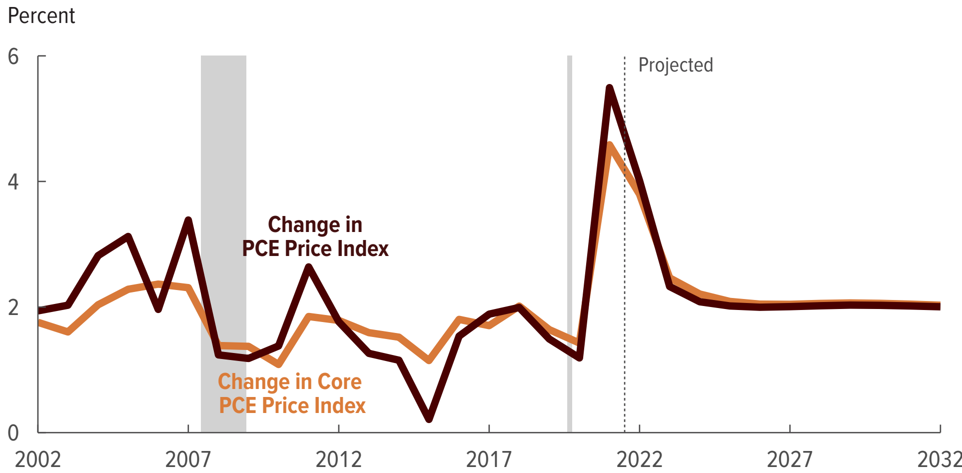
During the past year, prices of many goods and services increased sharply, and the unemployment rate fell. In CBO's projections, over the next year, economic growth stays above its average of the past two decades, and unemployment remains low. Elevated inflation initially persists as strong demand for products and labor continues, but it gradually subsides as supply disruptions dissipate, energy prices decline, and less accommodative monetary policy takes hold.



See Figure 2-1 on page 22

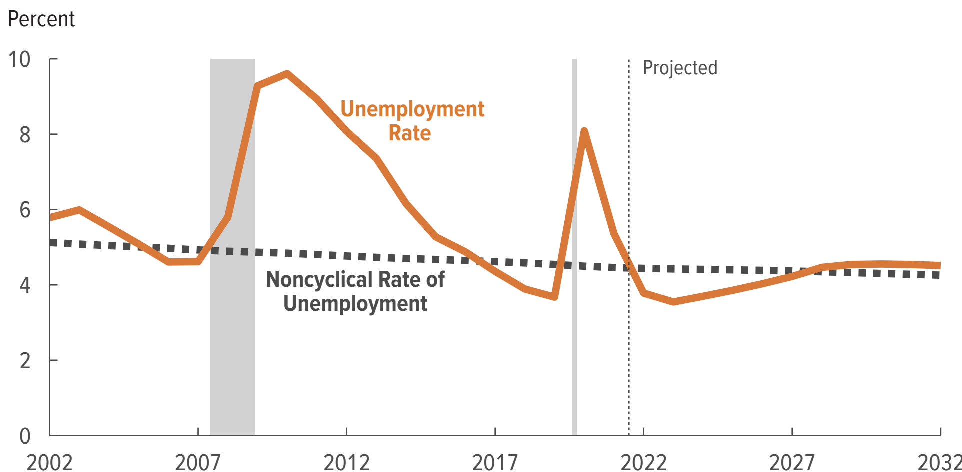
Real GDP grows by 3.1 percent in 2022 in CBO's projections. After 2022, growth of real GDP slows because of tightening monetary policy, waning fiscal support, and other factors.

The Economy (Continued)



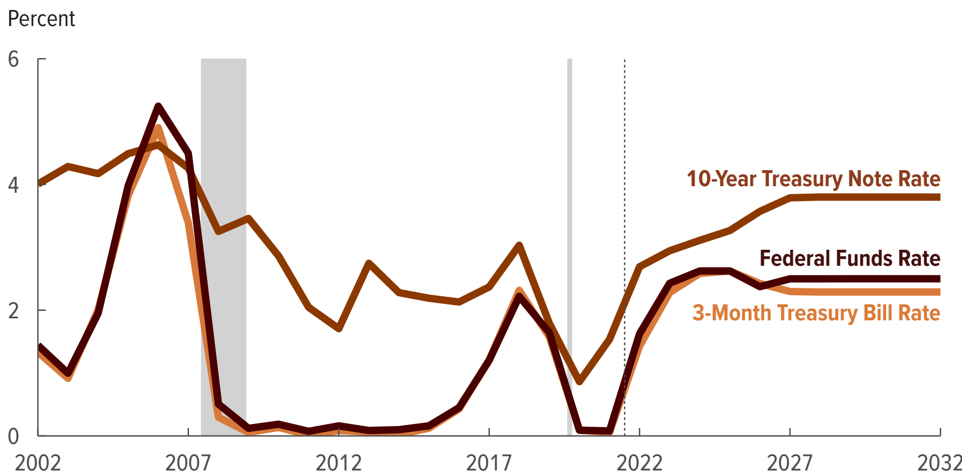
Inflation has recently reached its fastest pace in four decades. It is expected to remain high in 2022 because of various factors that continue to restrain supply in the face of strong demand in product and labor markets. Inflation slows in 2023 and 2024 in CBO's projections, nearing the Federal Reserve's long-run goal of 2 percent by the end of 2024.

See Figure 2-4 on page 39



The unemployment rate is projected to fall over the next year because of the ongoing expansion of the economy.

See Figure 2-3 on page 37



CBO expects the Federal Reserve to rapidly increase its target range for the federal funds rate over the next two years. In CBO's projections, the interest rate on 3-month Treasury bills rises in tandem with that increase.

See Figure 2-4 on page 39