



Congressional Budget Office

Testimony

**Statement of
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Acting Director**

The Budget and Economic Outlook: Fiscal Years 2009 to 2019

**before the
Committee on the Budget
United States Senate**

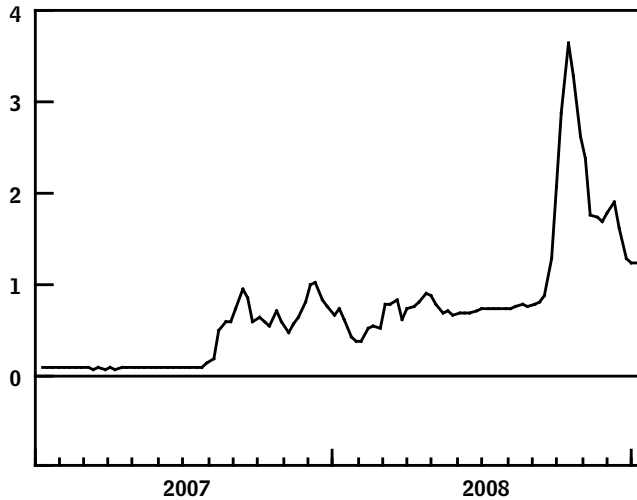
January 8, 2009

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Figure 6.**The Risk Spread on Lending Between Banks, January 2007 to January 2009**

(Percentage points)



Sources: Congressional Budget Office; Bloomberg.

Notes: A spread is the difference between two interest rates. One, the three-month Libor (London interbank offered rate), is the interest rate major banks offer to other banks for loans of that duration. The other is the average federal funds rate expected over a three-month period as measured by the overnight index swap contract.

Data are weekly and are plotted through January 2, 2009.

Chrysler (and providing assistance to GMAC, a financial services company), with the goal of improving their long-term viability.

By the end of December 2008, some credit markets had improved, although the financial system remains strained. The spread between the Libor and the expected federal funds rate has dropped markedly from the very high levels observed in October 2008, but—at 1.2 percent—it remains unusually high. The spread between the interest rate on commercial paper, a kind of loan that plays a key role in providing short-term credit to both financial and nonfinancial businesses, and the three-month Treasury bill rate also dropped markedly in the last half of December 2008 (see Figure 7). However, in view of the high volatility of the markets in recent months, it is too early to determine whether the government's actions are having a permanent effect.

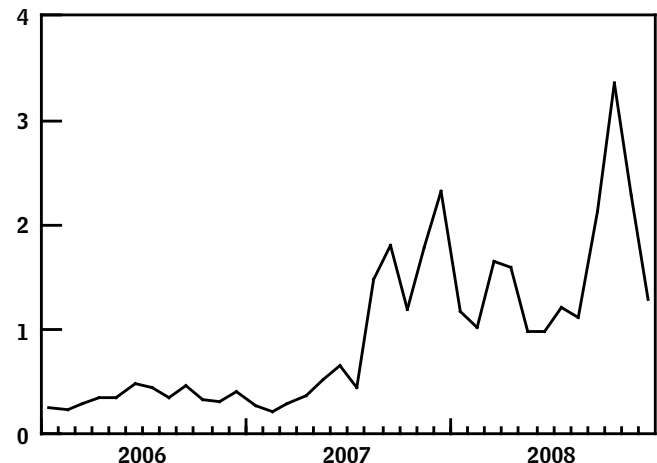
The stock market has plummeted in reaction to both the dismal news about the financial state of some firms and

the downturn in economic activity. The Standard & Poor's 500 index fell by almost 45 percent from the peak in October 2007 to December 2008, and the value of stock in Fannie Mae and Freddie Mac fell almost to zero. The huge decline in equity wealth—of around \$6 trillion between the end of 2007 and the end of 2008—is an important factor holding down households' spending.

The financial crisis has spread around the world. The credit squeeze has caused the governments of several industrialized countries to nationalize major banks or provide significant financial support to them. Gloomy economic outlooks have also pummeled equity markets in both industrial and emerging economies. In 2007, when emerging economies appeared to have weathered the initial stages of the crisis unfolding in industrial economies, there was hope that the relative vitality of emerging economies (such as those of China, India, and Brazil) would help moderate the downturn in the industrial world. That hope was dampened in 2008 as those economies weakened under the weight of falling exports and reversals of capital inflows. Despite bold initiatives

Figure 7.**A Risk Spread in the Commercial Paper Market, 2006 to 2008**

(Percentage points)



Sources: Congressional Budget Office; Federal Reserve Board.

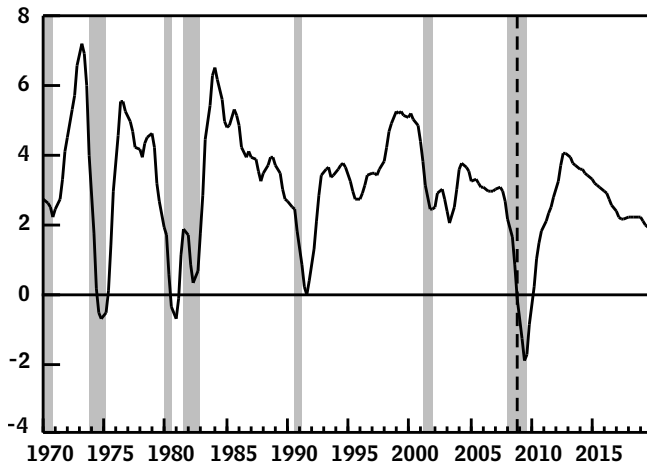
Notes: The spread is calculated as the difference between interest rates on AA asset-backed commercial paper and the three-month Treasury bill. The rate for commercial paper is that paid by the issuing institutions (primarily corporations).

Data are monthly and are plotted through December 2008.

Figure 8.

Real Personal Consumption Expenditures, 1970 to 2019

(Percentage change from previous year)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Note: Data are quarterly and are plotted through the fourth quarter of 2019.

announced by policymakers in industrial as well as emerging economies—for example, the large cuts in interest rates by the European Central Bank and the Bank of England and the large fiscal stimulus measure announced by the Chinese government—the outlook for the growth of economic activity worldwide is poor.

Personal Consumption Spending

Personal consumption spending sagged during the second half of last year because of three main factors: declining employment, large decreases in wealth, and tighter credit conditions (see Figure 8). Looking ahead, CBO anticipates that the rise in unemployment, lagged effects of declines in wealth, and tight consumer credit will continue to restrain consumption. Lower expenditures on petroleum imports, however, will act like a tax cut and will ease those effects somewhat (see Figure 9). CBO projects that real consumption will decrease by about 1.2 percent in 2009 and then grow moderately, by about 1.6 percent in 2010.

The looming increase in unemployment and its effect on real disposable income will severely restrict consumption growth. Employment is projected to fall by more than 2 percent in 2009 and the number of hours worked by

more than 3 percent. Helped in part by falling energy prices, real disposable income is expected to grow by half a percent in 2009.

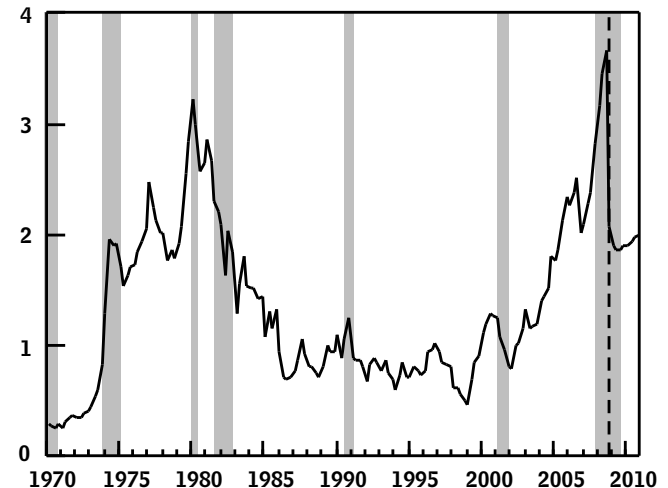
The decline in house prices and the drop in stock prices sharply reduced the net worth of households, by roughly 20 percent between the middle of 2007 and the fourth quarter of 2008. That decrease in wealth, in turn, is reducing spending on personal consumption. According to CBO's estimates, that wealth effect will subtract about 1 percentage point from the growth of personal consumption spending in 2009, after having reduced the growth of spending by almost the same amount in 2008.

The financial turmoil has also played a role in weakening households' spending by reducing the credit available to consumers, especially for those with limited borrowing opportunities or little collateral. The Federal Reserve's October 2008 survey of senior loan officers suggests that banks are not yet willing to resume extensive lending to consumers. Banks' willingness to make consumer loans has dropped to its lowest level since 1980 (see Figure 10).

Figure 9.

Petroleum Imports as a Percentage of Nominal GDP, 1970 to 2010

(Percent)



Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis.

Notes: GDP = gross domestic product.

Data are quarterly and are plotted through the fourth quarter of 2010.

ing any effects of future legislation), net interest payments are projected to decline by more than 20 percent. Short-term interest rates on federal debt have plummeted to near zero in recent months, and long-term rates have fallen by 100 basis points since last summer.¹⁴ Such low rates have substantially reduced the near-term cost of borrowing. In addition, the lower inflation forecast for the current year has reduced the projected cost of interest on the Treasury's inflation-protected securities by \$35 billion relative to what it was last year.

Revenues. CBO expects federal revenues under current laws and policies to total \$2.4 trillion this fiscal year, a decline of \$166 billion, or 6.6 percent, from the amount in 2008. The combination of the recession and sharp drops in the value of assets—most significantly in publicly traded stock—is expected to lead to sizable declines in receipts from individual and corporate income taxes and, to a much lesser extent, from estate and gift taxes. Receipts from individual income taxes are projected to decline this year by \$86 billion, or by 8 percent, and receipts from corporate income taxes by \$81 billion, or by 27 percent. In CBO's baseline, an increase in social insurance (payroll) tax receipts of \$14 billion, or 2 percent, offsets a small portion of the projected overall decline in revenues.

As a share of GDP, revenues are projected to decline from 17.7 percent in 2008 to 16.5 percent in 2009—about the share recorded in 2003 and 2004 but otherwise the lowest since 1959. Typically, revenues as a percentage of GDP drop in recessions, and CBO expects the decline to be especially pronounced this year as a result of the sharp fall in asset prices and in taxable corporate profits.¹⁵

The substantial decline in the stock market is expected to sharply reduce revenues in 2009 from a variety of sources: realizations of capital gains by individuals and corporations; distributions by individuals from their tax-deferred

retirement accounts, such as 401(k)s and individual retirement accounts; and estate and gift taxes. The largest of those effects is concentrated in receipts from individual income taxes. Tax liabilities from individuals' realized capital gains are projected to drop in tax year 2008 by about \$55 billion, or by more than 40 percent, mostly affecting federal receipts in 2009.

Declines in corporate capital gains represent just a portion of the expected weakness in corporate receipts. CBO expects profits of corporations to decline substantially because, as in most recessions, income from their sales and investments will drop faster than their costs of paying workers, paying interest on debt, and depreciating their equipment and structures. For tax year 2008, CBO also expects a substantial increase in tax deductions for bad debts, which include loans that businesses make that they can no longer collect. In addition, steep 2008 losses in the financial industry, which was very profitable in 2006 and 2007, mean that many firms in that sector will be able to apply those losses to the earlier profits and receive refunds of the income taxes they previously paid; those refunds will reduce receipts from corporate income taxes in 2009.¹⁶

Federal Debt. In most years, the amount of debt that the Treasury issues roughly equals the annual budget deficit, although a number of other factors also affect the government's need to borrow money from the public. In a typical year, those factors might total \$10 billion to \$30 billion. However, the Treasury's actions aimed at stabilizing the financial markets added more than \$300 billion to the Treasury's borrowing needs in 2008 (on top of the borrowing necessary to finance the budget deficit) and will boost them by about an estimated \$200 billion in 2009 (see Table 6).

In 2008, the Treasury borrowed about \$300 billion to deposit at the Federal Reserve to help it finance initiatives to enhance liquidity in the credit markets. CBO anticipates that the Treasury will withdraw those balances later this year, thereby reducing borrowing needs for 2009 by the amount deposited last year.

14. A basis point is one-hundredth of a percentage point.

15. The projected decline in revenues for 2009 is greater when receipts are compared with those in 2008 excluding the direct effect of tax rebates sent to individuals under the Economic Stimulus Act of 2008; those rebates reduced revenues in 2008 by about 0.4 percent of GDP.

16. Under current law, firms with losses generally can receive refunds of income taxes paid in the two previous years.

Table 6.**CBO's Baseline Projections of Federal Debt**

(Billions of dollars)

	Actual 2008 ^a	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Debt Held by the Public at the Beginning of the Year	5,035	5,803	7,193	7,829	8,238	8,475	8,516	8,734	8,925	9,149	9,335	9,127
Changes to Debt Held by the Public												
Deficit	455	1,186	703	498	264	257	250	234	272	234	188	235
Other means of financing												
TARP ^b	0	461	-20	-91	-33	-218	-31	-31	-31	-31	-378	0
Fannie Mae and Freddie Mac ^c	0	-221	-6	-1	2	-1	-4	-10	-13	-13	-13	-14
MBS purchase program ^b	5	248	-23	-23	-23	-23	-23	-23	-23	-23	-23	-23
Change in cash balances	296	-297	-40	0	0	0	0	0	0	0	0	0
Other	12	13	23	26	27	27	26	22	20	20	19	19
Subtotal	313	204	-67	-89	-27	-215	-32	-42	-48	-48	-396	-18
Total	768	1,390	636	410	236	42	217	192	224	185	-208	217
Debt Held by the Public at the End of the Year	5,803	7,193	7,829	8,238	8,475	8,516	8,734	8,925	9,149	9,335	9,127	9,344
Debt Held by Government Accounts												
Social Security	2,366	2,524	2,668	2,814	2,964	3,119	3,281	3,445	3,607	3,766	3,919	4,065
Other ^d	1,817	1,812	1,826	1,872	1,971	2,074	2,173	2,268	2,336	2,406	2,486	2,564
Total	4,183	4,336	4,494	4,686	4,935	5,193	5,454	5,712	5,943	6,172	6,405	6,629
Gross Federal Debt	9,986	11,529	12,323	12,924	13,410	13,710	14,188	14,638	15,092	15,506	15,532	15,973
Debt Subject to Limit ^e	9,960	11,502	12,296	12,898	13,383	13,684	14,162	14,612	15,066	15,481	15,506	15,947
Memorandum:												
Debt Held by the Public at the End of the Year as a Percentage of GDP	40.8	50.5	54.2	54.4	52.8	50.0	48.6	47.3	46.4	45.5	42.7	41.9

Source: Congressional Budget Office.

Notes: TARP = Troubled Asset Relief Program; MBS = mortgage-backed security; GDP = gross domestic product.

Debt issued by Fannie Mae and Freddie Mac is not included in any of the above figures.

- Preliminary.
- Transactions related to the TARP and purchases of MBSs are accounted for in CBO's budget estimates using procedures similar to those used for federal credit programs. However, borrowing requirements are based on the cash flows of those programs.
- CBO's calculations of federal borrowing requirements do not include the net subsidy costs for Fannie Mae and Freddie Mac. However, the calculations do include cash infusions from the Treasury.
- Mainly Civil Service Retirement and Disability, Military Retirement, Medicare, and Unemployment Insurance Trust Funds.
- Differs from the gross federal debt primarily because it excludes most debt issued by agencies other than the Treasury and the Federal Financing Bank. The current debt limit is \$11,315 billion.

Table 8.

Continued

Changes in CBO's Baseline Projections of the Deficit Since September 2008

(Billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total, 2009- 2013	Total, 2009- 2018
Changes to Outlay Projections (Continued)												
Technical												
Mandatory outlays												
Fannie Mae/Freddie Mac	218	15	14	8	6	3	4	4	4	4	261	279
Deposit insurance	24	27	4	-19	-17	-10	-3	-2	*	-1	19	3
Social Security	1	3	6	8	10	11	12	12	12	12	28	86
Medicare	5	-6	-10	-4	-9	-6	-6	-9	-10	-12	-23	-67
Medicaid	-3	-3	-2	-4	-6	-8	-10	-13	-16	-19	-18	-86
Spectrum auction	-17	1	*	0	0	0	0	0	0	0	-17	-17
Other	-10	4	8	-2	3	5	6	7	6	7	3	35
Subtotal, mandatory	217	42	19	-12	-13	-5	2	-2	-4	-10	253	233
Discretionary outlays	4	-2	-3	*	1	1	1	1	1	1	*	4
Net interest outlays												
Debt service	*	3	10	22	34	39	42	45	48	50	70	293
Other	8	-8	-9	-5	-2	-3	-1	-4	-5	-4	-16	-33
Subtotal, net interest	8	-5	1	17	32	36	41	41	43	46	54	261
Total, technical	230	35	17	5	19	32	43	40	40	37	306	498
Total Outlay Changes	385	-76	-179	-189	-155	-146	-139	-151	-159	-183	-214	-991
Total Impact on the Deficit^b	-748	-272	-174	-138	-110	-80	-72	-65	-60	-54	-1,442	-1,772
Total Deficit as Projected in January 2009	-1,186	-703	-498	-264	-257	-250	-234	-272	-234	-188	-2,908	-4,085
Memorandum:^b												
Total Legislative Changes	-283	45	82	95	110	122	134	147	166	183	49	801
Total Economic Changes	-82	-144	-131	-148	-153	-138	-139	-153	-171	-185	-658	-1,444
Total Technical Changes	-382	-173	-125	-85	-67	-64	-67	-58	-55	-52	-833	-1,129

Source: Congressional Budget Office.

Note: TARP = Troubled Asset Relief Program; COLA = cost-of-living adjustment; SNAP = Supplemental Nutrition Assistance Program;
* = between -\$500 and \$500 million.

- a. Receipts from leases for resource development on the Outer Continental Shelf.
b. Negative numbers indicate an increase in the deficit.

Treasury are essentially intragovernmental transfers that have no net effect on the budget. CBO estimates that such transfers will total nearly \$18 billion in 2009 (\$13.4 billion has already been provided by the Treasury to Freddie Mac) and close to \$80 billion between 2010 and 2015.

Changes in the Budget Outlook Since September 2008

Economic conditions and policy actions have generated substantial changes to CBO's baseline since the previous one was published in September 2008.²³ Overall, CBO's estimate of the baseline deficit for 2009 has risen by nearly \$750 billion; for the 2009–2018 period, projected deficits are about \$1.8 trillion higher than previously estimated (see Table 8). Economic and technical revisions boost the cumulative deficit by \$2.6 trillion over the 10-year period, but changes related to legislation diminish that figure by about \$800 billion.

Economic Changes. Revisions attributable to changes in CBO's economic forecast since September have led to an average increase in the projected deficit of almost \$145 billion a year. In the current baseline, projected revenues have been decreased by an average of \$200 billion a year and outlays by nearly \$60 billion annually.

Reflecting both lower real growth and lower inflation anticipated in the new economic assumptions, CBO has lowered its projections of nominal GDP and the components of taxable income, most importantly wages, salaries, and corporate profits. Those downward revisions were most significant for 2009 through 2011, but lower prices and lower nominal income continue through the end of the projection period. In sum, those changes caused CBO to reduce its projection of revenues by \$106 billion in 2009, \$204 billion in 2010, and a total of \$2.0 trillion over the 2009–2018 period.

A portion of the drop in projected revenues has been offset on the outlay side of the budget. Economic factors have reduced projected outlays by \$580 billion between 2009 and 2018. In the current baseline, substantially lower inflation for the next few years reduces the anticipated cost-of-living adjustments for Social Security and other benefit programs. (CBO anticipates that the year-over-year change in consumer prices for the third quarter

of 2009 will show a decline, which implies that next year's cost-of-living adjustment for Social Security and most other benefit programs will be zero.) In addition, lower inflation diminishes the projected growth of discretionary spending in the baseline. CBO has also reduced its projections of net interest payments by \$431 billion over the 10-year period because of its expectation of lower inflation and lower interest rates. However, some of that decrease is offset by additional projected borrowing costs as a result of lower estimated revenues.

The changed economic outlook affects projected outlays in a number of other ways. CBO now anticipates that the unemployment rate for the next few years will be higher (by as much as 3 percentage points) than it forecast in September, which boosts the projected costs of unemployment compensation and nutrition assistance by \$54 billion and \$86 billion, respectively, over the 10-year period.²⁴ Also, the decline in projected oil and gas prices reduces estimated receipts from federal leases on the Outer Continental Shelf by \$77 billion between 2009 and 2018.

Legislative Changes. Since September, the effects of legislation have added about \$280 billion to CBO's projection of the deficit for 2009 but reduced its estimate of the cumulative deficit by about \$800 billion over the 10-year period. The largest effects in 2009 stem from the Emergency Economic Stabilization Act of 2008 and its creation of the TARP. On a net-present-value basis adjusted for market risk, outlays for the program will total more than \$180 billion in 2009 and \$5 billion in 2010, CBO estimates. That legislation also included some tax provisions, most notably, extending relief from the AMT for a year. Altogether, legislative changes have caused CBO to reduce its estimate of revenues in 2009 by \$104 billion and have had little impact on projected revenues thereafter.

The Unemployment Compensation Extension Act of 2008 (P.L. 110-449), enacted in November 2008, provides additional unemployment compensation to individuals who exhaust their regular benefits before March 31, 2009. CBO estimates the additional compensation will increase outlays by \$9 billion in 2009.

23. See Congressional Budget Office, *The Budget and Economic Outlook: An Update* (September 2008).

24. Over 10 years, the effect of higher unemployment compensation on the budget is largely offset by higher revenues. States are assumed to replenish their depleted trust fund balances by increasing unemployment taxes, which are recorded as federal revenues.

of preferred stock and warrants. (Preferred stock refers to shares of equity that provide a specific dividend to be paid before any dividends are paid to common stockholders and that take precedence over common stock in the event of a liquidation; a warrant is a security that entitles the holder to buy stock of the company that issued it at a specified price.) The program will also finance up to \$17.4 billion in loans for General Motors and Chrysler (the automakers have received \$9 billion already) and \$6 billion in assistance related to GMAC, a financial services company.

Funds have also been pledged for additional capital purchases. Furthermore, the TARP is responsible for \$20 billion in credit protection (protection against debtors that do not pay because of insolvency or protracted default) for the Federal Reserve's Term Asset-Backed Securities Loan Facility (TALF) and \$5 billion in credit protection for assets held by Citigroup. In total, the funds already disbursed and those committed but not yet disbursed are likely to consume all of the first \$350 billion available under the TARP.

Spending for some programs conducted by the Treasury will be recorded in the budget on a discounted present-value basis rather than on a cash basis.³ For those programs, the budget records the cost of the subsidy provided—that is the cost resulting from interest subsidies, potential defaults on that lending, and other factors.

3. The Administration is accounting for capital purchases made under the TARP on a cash basis rather than the present-value basis that was specified in the Emergency Economic Stabilization Act of 2008. That treatment will show more outlays than under CBO's treatment for the TARP this year and then cash receipts in future years.

Other Agencies

A few other agencies have also taken actions in response to the turmoil in the markets, either through existing authority or on the basis of recent legislation. The Federal Deposit Insurance Corporation (FDIC) temporarily raised the limit on insurance coverage—from \$100,000 to \$250,000—as a result of a provision in the Emergency Economic Stabilization Act of 2008. Through existing authority to reduce systemic risks to the economy, the FDIC established a program to enhance liquidity by guaranteeing debt issued by financial institutions as well as certain deposits in checking accounts and other non-interest-bearing accounts; it will also provide assistance to Citigroup using that existing authority (see Table A-3).

The Department of Housing and Urban Development (HUD) has established several programs in an attempt to reduce foreclosures and address other issues in the housing market. Many of those programs were created by the Housing and Economic Recovery Act of 2008, but HUD has also used existing authority to create the FHA Secure program.

FHFA, under authority granted by the Housing and Economic Recovery Act of 2008, placed Fannie Mae and Freddie Mac under conservatorship. In addition, FHFA is planning to use its existing authority to create a program to streamline the loan modification process.

Financial turmoil has also affected credit unions. As a result, the National Credit Union Administration has created programs (under existing authority) to ensure the liquidity of its member institutions.

Table A-1.

Actions Taken by the Federal Reserve in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Funding		Description
	Committed to Date	Potential ^a	
Reductions in Interest Rates	n.a.	n.a.	The target for the federal funds rate (the interest banks charge on loans to other banks) was reduced 10 times between September 2007 and December 2008, falling from 5.25 percent to between zero and 0.25 percent.
Loans to Financial Institutions			
Primary and Secondary Credit Programs	94	Unknown	Through the primary and secondary credit programs, the Federal Reserve disburses short-term loans to banks and other institutions that are legally allowed to accept monetary deposits from consumers. The term of the loan may be as long as 90 days.
Term Auction Facility	450	600	The Term Auction Facility (TAF) allows banks and other financial institutions to pledge collateral in exchange for a loan from the Federal Reserve. The interest rate on the loan is determined by auction; such auctions are conducted biweekly for loans with a maturity of either 28 or 84 days. The maximum size of each auction is \$150 billion, although accepted bids for most recent auctions have been considerably smaller.
Takeover of Bear Stearns	29	29	The Federal Reserve created Maiden Lane I, a limited liability company (LLC), to acquire certain assets of Bear Stearns at a cost of \$29 billion. (An LLC offers protection from personal liability for business debts, just like a corporation. The profits and losses of the business pass through to its owners, as they would if the business was a partnership or sole proprietorship.) The LLC will manage those assets to maximize the likelihood that the investment is repaid and to minimize disruption to financial markets. The current value of the portfolio on the Federal Reserve's balance sheet is \$27 billion.

Continued

Table A-1.

Continued

Actions Taken by the Federal Reserve in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Funding		Description
	Committed to Date	Potential ^a	
Support for AIG Acquired control of nearly 80 percent of the insurance company	83	113	The Federal Reserve agreed to loan AIG \$60 billion and acquired control of nearly 80 percent of the company. In addition, the Federal Reserve Bank of New York bought \$19.5 billion of residential mortgage-backed securities from AIG's portfolio through an LLC and another \$24.5 billion of collateralized debt obligations (CDOs) on which AIG wrote contracts for credit default swaps through another LLC. (CDOs are complex financial instruments that repackage assets such as mortgage bonds, loans for leveraged buyouts, and other debt—including other CDOs—into new securities. A credit default swap is a type of insurance arrangement in which the buyer pays a premium at periodic intervals in exchange for a contingent payment in the event that a third party defaults. The size of the premium paid relative to the contingent payment generally increases with the likelihood of default.)
Support for Short-Term Corporate Borrowing Commercial Paper Funding Facility	334	1,800	The Commercial Paper Funding Facility (CPFF) finances the purchase of commercial paper (securities sold by large banks and corporations to obtain funding to meet short-term borrowing needs, such as payroll) directly from eligible issuers. Securities purchased under this program may be backed by assets or unsecured; they must be highly rated, denominated in U.S. dollars, and have a maturity of three months. The program is in effect through April 30, 2009.
Support for Money Market Mutual Funds			
Money Market Investor Funding Facility	0	540	The Money Market Investor Funding Facility (MMIFF) is designed to restore liquidity to money markets by purchasing certificates of deposit and commercial paper from money market mutual funds. The authority to purchase assets is in effect through April 30, 2009.
Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility	24	Unknown	The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF) provides funding to U.S. depository institutions and bank holding companies to finance their purchases of high-quality asset-backed commercial paper (ABCP) from money market mutual funds under certain conditions. The program is intended to assist money market funds that hold such paper in meeting demands for redemptions by investors and to foster liquidity in the ABCP market specifically and money markets generally. The program is in effect through April 30, 2009.

Continued

Table A-1.

Continued

Actions Taken by the Federal Reserve in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Funding		Description
	Committed to Date	Potential ^a	
Support for Primary Dealers			
Term Securities Lending Facility and TSLF Options Program	172	200	The Term Securities Lending Facility (TSLF) offers to lend Treasury securities held by the Federal Reserve for a one-month term in exchange for other types of securities held by the 17 financial institutions, known as primary dealers, that trade directly with the Federal Reserve. The TSLF Options Program (TOP) offers options on short-term TSLF loans that will be made on a future date. (An option is a contract written by a seller that conveys to the buyer the right—but not the obligation—to buy or sell a particular asset.)
Primary Dealer Credit Facility	37	Unknown	The Primary Dealer Credit Facility (PDCF) provides overnight loans in exchange for eligible collateral to financial institutions that trade directly with the Federal Reserve. The program is in effect through April 30, 2009.
Support for the Mortgage Market			
Purchases of the debt of the housing-related government-sponsored enterprises	15	100	The Federal Reserve will purchase up to \$100 billion in debt issued by three government-sponsored enterprises (GSEs)—Fannie Mae, Freddie Mac, and the Federal Home Loan Banks—through competitive auctions over the next several quarters.
Purchases of mortgage-backed securities	0	500	Over the next several quarters, the Federal Reserve will purchase up to \$500 billion in mortgage-backed securities (MBSs) issued by GSEs and the Government National Mortgage Association (Ginnie Mae). The MBS purchases are expected to begin in early January.
Support for Consumer and Small Business Lending			
Term Asset-Backed Securities Loan Facility	0	200	Through the Term Asset-Backed Securities Loan Facility (TALF), the Federal Reserve Bank of New York will lend up to \$200 billion to holders of certain AAA-rated asset-backed securities (consumer and small business loans), and the Troubled Asset Relief Program will provide \$20 billion of credit protection (protection against debtors that do not pay because of insolvency or protracted default) for those loans. The TALF is expected to begin lending in February 2009; the authority expires on December 31, 2009.

Continued

Table A-1.

Continued

Actions Taken by the Federal Reserve in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Funding		Description
	Committed to Date	Potential ^a	
Assistance to Citigroup	0	234	The Federal Reserve will absorb 90 percent of any losses resulting from the federal government's guarantee of a pool of Citigroup's assets after payouts have been made by Citigroup, the Troubled Asset Relief Program, and the Federal Deposit Insurance Corporation.
Currency Swaps	At least 500	Unlimited	In response to strong demand for dollars from abroad, the Federal Reserve has contracted with 14 foreign central banks to make U.S. dollars available temporarily. After a specified period of time, the original amounts of dollars will be returned in exchange for the foreign currency.

Source: Congressional Budget Office based on information from the Federal Reserve.

Note: n.a. = not applicable.

a. "Potential funding" refers to the size of the market or the maximum amount of lending under the program.

Table A-2.

Actions Taken by the Treasury in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Disbursements		Subsidy ^b (Credit basis)	Description
	To Date	Potential ^a		
Troubled Asset Relief Program	247	700	64	The Emergency Economic Stabilization Act of 2008 (Division A of P.L. 110-343) granted authority to the Treasury to purchase \$700 billion in assets through a new program, the Troubled Asset Relief Program (TARP). The second \$350 billion will become available if the Administration requests it and the Congress does not take action to deny that request. As of December 31, the program had disbursed \$247 billion. The subsidy cost estimated by the Congressional Budget Office—about \$64 billion to date—is computed using the modified credit reform procedure (that is, accounting for market risk) specified in P.L. 110-343.
Housing-Related Tax Provisions	0	12	n.a.	The Housing and Economic Recovery Act of 2008 (P.L. 110-289) authorized a refundable tax credit for first-time home buyers (to be repaid, without interest, over a 15-year period) and contained other housing-related tax provisions.
Purchases of Obligations and Securities Issued by Fannie Mae and Freddie Mac	71	Unlimited	-1	The Housing and Economic Recovery Act of 2008 authorized the Department of the Treasury to buy obligations and securities issued by Fannie Mae and Freddie Mac. About \$71 billion of residential mortgage-backed securities (securities whose value is derived from an underlying pool of mortgages) had been purchased as of December 31, 2008. Authority to make such market purchases expires on December 31, 2009. The subsidy cost recorded in the budget is computed using standard credit reform procedures.

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Table A-2.

Actions Taken by the Treasury in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Disbursements		Subsidy ^b (Credit basis)	Description
	To Date	Potential ^a		
Conservatorship for Fannie Mae and Freddie Mac	14	200	n.a.	The Treasury received senior preferred equity shares and warrants in exchange for any future contributions necessary to keep the two entities solvent. (Preferred equity shares provide a specific dividend to be paid before any dividends are paid to common stockholders and take precedence over common stock in the event of a liquidation; a warrant is a security that entitles the holder to buy stock of the company that issued it at a specified price.)
Temporary Guarantee Program for Money Market Funds	Unknown	3,000	n.a.	The Treasury will guarantee investors' shares as of September 19, 2008. The guarantee is in effect through April 30, 2009, but can be extended through September 18, 2009. Participating funds pay a fee of 1.5 or 2.2 basis points times the number of shares outstanding. (A basis point is one-hundredth of a percentage point.)
Supplemental Financing Program	259	Unlimited	n.a.	The Treasury is borrowing from the public to assist the Federal Reserve.

Source: Congressional Budget Office based on information from the Department of the Treasury.

Note: n.a. = not applicable.

- a. "Potential disbursements" refers to the maximum amount of spending under the program or the maximum amount of outstanding assets available for guarantee.
- b. "Subsidy," broadly speaking, refers to the purchase cost minus the present value of any estimated future earnings from holding those assets and the proceeds from the eventual sale of them.

Table A-3.

Actions Taken by Other Agencies in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Disbursements		Description
	To Date	Potential ^a	
Federal Deposit Insurance Corporation			
Temporarily Raised the Basic Limit on Insurance Coverage from \$100,000 to \$250,000 per Depositor	n.a.	700	The Emergency Economic Stabilization Act of 2008 (Division A of PL. 110-343) temporarily raised the limit on deposit insurance through December 31, 2009. That action is estimated to increase the amount of insured deposits by about \$700 billion, or 15 percent.
Temporary Liquidity Guarantee Program	n.a.	1,450	<p>The Temporary Liquidity Guarantee Program has two components. The first—the debt guarantee program—aims to enable participating institutions to borrow and lend money more readily. It fully protects certain newly issued senior unsecured debt (securities that are not backed by collateral and have priority over all other debt in ranking for payment in the event of default) with a maturity of more than 30 days, including promissory notes, commercial paper (securities sold by large banks and corporations to meet short-term needs, such as payroll), and interbank funding. The guarantee applies to debt that is issued by June 30, 2009, and matures no later than June 30, 2012. Participating institutions pay fees based on the maturity of the debt. To date, the Federal Deposit Insurance Corporation (FDIC) has guaranteed \$258 billion of new debt; potential guarantees could total \$1 trillion.</p> <p>The second component provides full guarantees for certain checking and other non-interest-bearing accounts through December 31, 2009. Participating institutions also pay fees for this guarantee, which could total \$450 billion.</p>
Assistance to Citigroup	0	10	The FDIC may absorb up to \$10 billion in losses resulting from the federal government's guarantee of a pool of Citigroup's assets after payouts have been made by Citigroup and the Troubled Asset Relief Program. As a fee for the guarantee, the FDIC will receive \$3 billion in preferred stock (shares of equity that provide a specific dividend to be paid before any dividends are paid to common stockholders and that take precedence over common stock in the event of a liquidation).
Department of Housing and Urban Development			
Redevelopment of Abandoned and Foreclosed Homes	0	4	The Housing and Economic Recovery Act of 2008 (PL. 110-289) provided \$4 billion in funding to state and local governments to purchase and rehabilitate foreclosed and abandoned homes.
HOPE for Homeowners Program	0	1	The HOPE for Homeowners program permits home mortgages to be refinanced through private lenders with a guarantee from the Federal Housing Administration. The new loans must have a loan-to-value ratio that is no greater than 90 percent of the property's appraised value.

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Table A-3.

Actions Taken by Other Agencies in Support of the Housing and Financial Markets as of December 31, 2008

(Billions of dollars)

Action	Disbursements		Description
	To Date	Potential ^a	
Department of Housing and Urban Development (Continued)			
FHA Secure	n.a.	1	FHA Secure was a temporary initiative to permit lenders to refinance non-FHA (Federal Housing Administration) adjustable-rate mortgages. The program has made about 4,000 loans since fall 2007 and expired on December 31, 2008.
Federal Housing Finance Agency			
Conservatorship for Fannie Mae and Freddie Mac	n.a.	n.a.	The Federal Housing Finance Agency and the Treasury took control of these two government-sponsored enterprises (GSEs) on September 6, 2008. Under the current circumstances, the Congressional Budget Office (CBO) views Fannie Mae and Freddie Mac as governmental entities.
Streamlined Modification Program	Unknown	Unknown	The Streamlined Modification Program is intended to avoid foreclosures by creating a fast-track method for reducing monthly payments on mortgages. The program will restrict payments to 38 percent of a household's gross monthly income by reducing the interest rate, extending the life of the loan, or deferring principal. That policy applies to loans held by Fannie Mae and Freddie Mac and was launched on December 15, 2008.
National Credit Union Administration			
Credit Union Homeowners Affordability Relief Program and Credit Union System Investment Program	0	41	These two loan programs are operated through the National Credit Union Administration's Central Liquidity Facility and are financed by borrowing from the Federal Financing Bank. The Credit Union Homeowners Affordability Relief Program (CU HARP) will provide subsidized funding intended to help credit unions modify mortgages. The Credit Union System Investment Program (CU SIP) seeks to facilitate lending by shoring up corporate credit unions (which primarily provide financial resources and services to other credit unions).
Temporary Corporate Credit Union Liquidity Guarantee Program	1	Unknown	The Temporary Corporate Credit Union Liquidity Guarantee Program guarantees certain unsecured debt of participating corporate credit unions that was or will be issued between October 16, 2008, and June 30, 2009. Such debt must mature by June 30, 2012. Participating institutions pay annualized fees for the guarantees.

Source: Congressional Budget Office based on information from the Federal Deposit Insurance Corporation, the Department of Housing and Urban Development, the Federal Housing Finance Agency, and the National Credit Union Administration.

Note: n.a. = not applicable.

a. "Potential disbursements" refers to the maximum amount of spending under the program or the maximum amount of outstanding assets available for guarantee.

Appendix B: CBO's Economic Projections for 2009 to 2019

The tables in this appendix expand on the information in the body of the report by showing the Congressional Budget Office's (CBO's) year-by-year economic projections for 2009 to 2019 (by calendar year in Table B-1 and by fiscal year in Table B-2). CBO does not forecast cyclical fluctuations in its projections for years after 2010.

Instead, the projected values shown in the tables for 2011 to 2019 reflect CBO's assessment of average values for that period. That assessment takes into account economic and demographic trends but does not attempt to forecast the frequency and size of ups and downs in the business cycle.

Table B-1.**CBO's Year-by-Year Forecast and Projections for Calendar Years 2009 to 2019**

	Estimated 2008 ^a	Forecast		Projected								
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal GDP (Billions of dollars)	14,304	14,241	14,591	15,347	16,293	17,280	18,211	19,077	19,909	20,749	21,617	22,500
Nominal GDP (Percentage change)	3.6	-0.4	2.5	5.2	6.2	6.1	5.4	4.8	4.4	4.2	4.2	4.1
Real GDP (Percentage change)	1.2	-2.2	1.5	4.2	4.4	4.1	3.5	2.8	2.5	2.3	2.2	2.2
GDP Price Index (Percentage change)	2.4	1.8	0.9	1.0	1.7	1.8	1.8	1.9	1.9	1.9	1.9	1.9
PCE Price Index ^b (Percentage change)	3.3	0.6	1.3	1.3	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Core PCE Price Index ^c (Percentage change)	2.2	1.5	0.9	1.2	1.7	1.9	1.9	1.9	1.9	1.9	1.9	2.0
Consumer Price Index ^d (Percentage change)	4.1	0.1	1.7	1.8	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Core Consumer Price Index ^e (Percentage change)	2.3	1.6	1.3	1.6	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Employment Cost Index ^f (Percentage change)	3.0	2.7	2.7	3.0	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (Percent)	5.7	8.3	9.0	8.0	6.8	5.8	5.1	4.9	4.8	4.8	4.8	4.8
Three-Month Treasury Bill Rate (Percent)	1.4	0.2	0.6	2.1	4.0	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Ten-Year Treasury Note Rate (Percent)	3.7	3.0	3.2	3.6	4.7	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Tax Bases (Billions of dollars)												
Economic profits	1,533	1,384	1,413	1,559	1,715	1,856	1,952	2,001	2,041	2,084	2,139	2,187
Wages and salaries	6,548	6,551	6,740	7,011	7,472	7,920	8,344	8,742	9,127	9,517	9,916	10,324
Tax Bases (Percentage of GDP)												
Economic profits	10.7	9.7	9.7	10.2	10.5	10.7	10.7	10.5	10.3	10.0	9.9	9.7
Wages and salaries	45.8	46.0	46.2	45.7	45.9	45.8	45.8	45.8	45.8	45.9	45.9	45.9

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Note: GDP = gross domestic product; percentage changes are measured from one year to the next.

- a. Values as of December 10, 2008.
- b. The personal consumption expenditure chained price index.
- c. The personal consumption expenditure chained price index excluding prices for food and energy.
- d. The consumer price index for all urban consumers.
- e. The consumer price index for all urban consumers excluding prices for food and energy.
- f. The employment cost index for wages and salaries of workers in private industry.

Table B-2.**CBO's Year-by-Year Forecast and Projections for Fiscal Years 2009 to 2019**

	Actual 2008	Forecast		Projected								
		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Nominal GDP (Billions of dollars)	14,224	14,257	14,452	15,137	16,048	17,035	17,986	18,864	19,703	20,537	21,397	22,278
Nominal GDP (Percentage change)	4.3	0.2	1.4	4.7	6.0	6.1	5.6	4.9	4.4	4.2	4.2	4.1
Real GDP (Percentage change)	1.9	-1.9	0.4	3.8	4.4	4.2	3.7	3.0	2.5	2.3	2.2	2.2
GDP Price Index (Percentage change)	2.4	2.1	1.0	0.9	1.6	1.9	1.8	1.9	1.9	1.9	1.9	1.9
PCE Price Index ^a (Percentage change)	3.7	0.7	1.4	1.2	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Core PCE Price Index ^b (Percentage change)	2.3	1.7	1.0	1.1	1.6	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Consumer Price Index ^c (Percentage change)	4.4	0.5	1.4	1.8	1.9	2.2	2.3	2.2	2.2	2.2	2.2	2.2
Core Consumer Price Index ^d (Percentage change)	2.4	1.8	1.4	1.5	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Employment Cost Index ^e (Percentage change)	3.1	2.7	2.6	2.9	3.2	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Unemployment Rate (Percent)	5.3	7.7	9.1	8.3	7.1	6.0	5.3	4.9	4.8	4.8	4.8	4.8
Three-Month Treasury Bill Rate (Percent)	2.1	0.2	0.4	1.6	3.6	4.7	4.7	4.7	4.7	4.7	4.7	4.7
Ten-Year Treasury Note Rate (Percent)	3.9	3.1	3.1	3.5	4.4	5.3	5.4	5.4	5.4	5.4	5.4	5.4
Tax Bases (Billions of dollars)												
Economic profits	1,564	1,413	1,390	1,521	1,677	1,823	1,933	1,991	2,032	2,071	2,125	2,176
Wages and salaries	6,522	6,549	6,649	6,950	7,360	7,808	8,241	8,644	9,031	9,419	9,815	10,221
Tax Bases (Percentage of GDP)												
Economic profits	11.0	9.9	9.6	10.0	10.4	10.7	10.7	10.6	10.3	10.1	9.9	9.8
Wages and salaries	45.8	45.9	46.0	45.9	45.9	45.8	45.8	45.8	45.8	45.9	45.9	45.9

Sources: Congressional Budget Office; Department of Commerce, Bureau of Economic Analysis; Department of Labor, Bureau of Labor Statistics; Federal Reserve Board.

Note: GDP = gross domestic product; percentage changes are measured from one year to the next.

- a. The personal consumption expenditure chained price index.
- b. The personal consumption expenditure chained price index excluding prices for food and energy.
- c. The consumer price index for all urban consumers.
- d. The consumer price index for all urban consumers excluding prices for food and energy.
- e. The employment cost index for wages and salaries of workers in private industry.

