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CBO's June 2024 Budget and Economic Outlook August 5, 2024

The Congressional Budget Office recently released its [June 2024 Update to the Budget and Economic Outlook](#). This report updates the [February 2024 baseline](#) to include recent [legislation and executive actions](#) as well as changes to various economic and technical factors.

CBO's latest projections show:

- **Debt will reach a record 122 percent of GDP by Fiscal Year (FY) 2034.** Under its current law baseline, CBO estimates that federal debt held by the public will surpass its record high as a share of the economy – 106 percent of GDP set in 1946 – by FY 2027 and further grow to 122 percent by the end of FY 2034.
- **Deficits will total \$22 trillion over a decade.** CBO projects a deficit of \$1.9 trillion (6.7 percent of GDP) in FY 2024, growing to \$2.9 trillion (6.9 percent of GDP) by 2034 under current law.
- **Spending will outpace revenue over the next decade.** Spending will grow from 23.9 percent of GDP in FY 2024 to 24.9 percent by 2034, compared to an average of 21.0 percent of GDP over the last 50 years. Revenue will grow from 17.2 percent of GDP in FY 2024 to 18.0 percent in 2034 assuming large parts of the 2017 tax cuts expire, compared to a 50-year average of 17.3 percent of GDP.
- **Interest costs will reach a new record 3.4 percent of GDP next year, eclipsing the Medicare and defense budgets.** Interest costs have already become the *second-largest* line item in the federal budget this year, having nearly tripled from \$375 billion in FY 2019 to a projected \$892 billion this year. Costs are projected to nearly double to \$1.7 trillion by FY 2034.
- **The fiscal outlook has deteriorated since February, with debt approaching 122 percent of GDP instead of 116 percent by FY 2034.** Much of this is driven by the extrapolated cost of one-time emergency spending, though new legislation, executive actions, and technical changes have also contributed.
- **The economy will stabilize, while long-term interest rates remain elevated.** CBO projects 1.8 percent average annual real GDP growth, 2.1 percent PCE inflation, and a 3.9 percent average ten-year Treasury yield from 2025 to 2034.

With debt and interest costs approaching unprecedented levels, policymakers should act soon to identify and enact substantial deficit reduction.



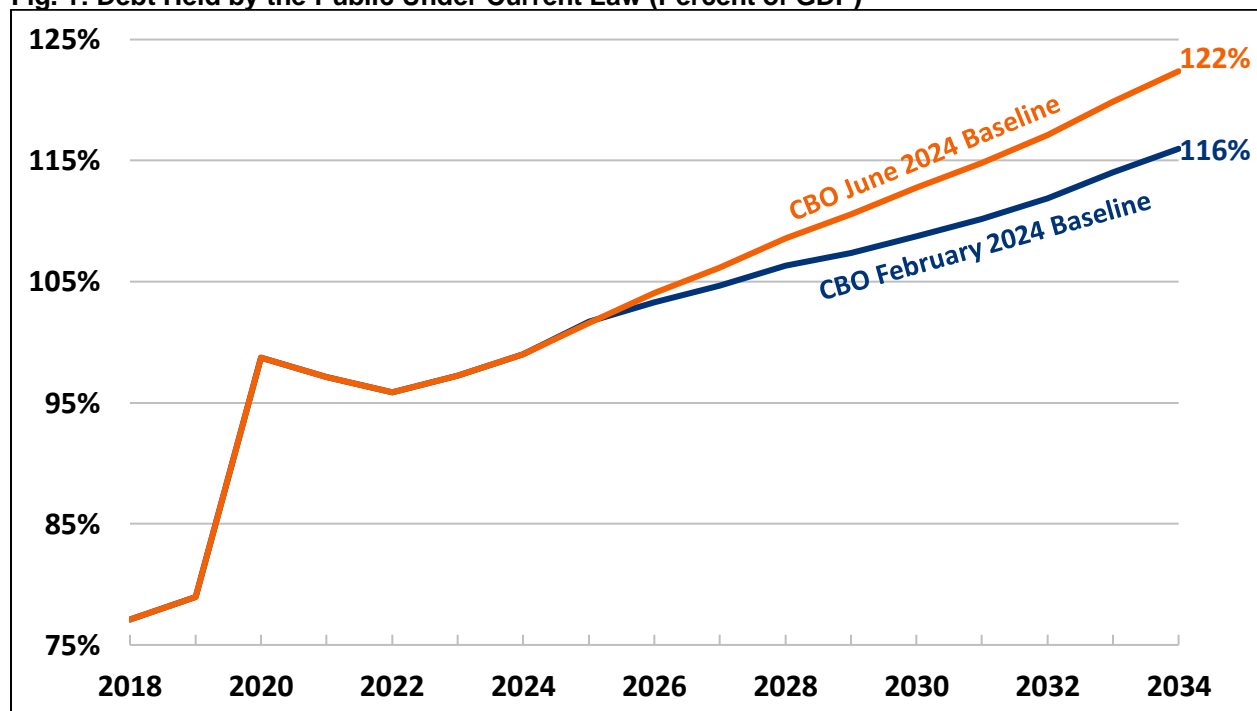
Debt Will Soon Hit Record Levels, as Deficits Approach \$3 Trillion per Year

Since 2019, federal debt held by the public has grown by \$11 trillion – from \$17 trillion at the end of FY 2019 to a projected \$28 trillion by the end of FY 2024. Over the next decade, CBO projects debt will rise by more than \$22 trillion, reaching nearly \$51 trillion by FY 2034.

As a share of the economy, the debt – which has grown from 79 percent of GDP in 2019 to 99 percent in 2024 – is projected to reach a record of above 106 percent of GDP by 2027 and rise further to 122 percent by 2034.

For comparison, debt has averaged 48 percent of GDP over the past half-century.

Fig. 1: Debt Held by the Public Under Current Law (Percent of GDP)



Source: Congressional Budget Office.

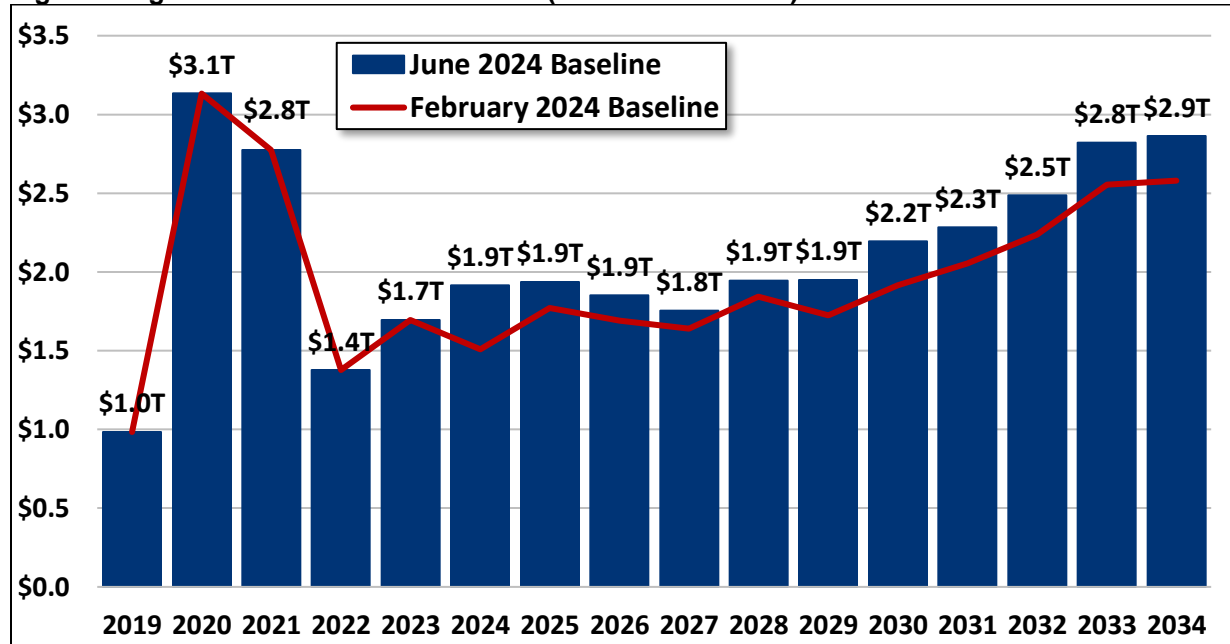
Debt is projected to grow as the result of nearly \$22 trillion of deficits over the next decade. Prior to the pandemic, in 2019, the annual deficit totaled about \$1 trillion. After spiking to roughly \$3 trillion per year in 2020 and 2021, deficits have settled a bit below \$2 trillion per year, where they are projected to remain through the end of the 2020s under CBO's baseline. Beyond that, CBO projects deficits to rise to \$2.2 trillion in FY 2030, \$2.5 trillion in 2032, and \$2.9 trillion by 2034.

As a share of the economy, the deficit – which was 4.6 percent of GDP in 2019 – is projected to total 6.7 percent in 2024, fall to 5.5 percent of GDP in 2027 after large parts of the 2017 Tax Cuts and Jobs Act (TCJA) expire, and then rise to 6.9 percent of GDP by 2034.



Throughout the budget window, deficits will be a larger share of the economy than at any time in history outside of a war or emergency period.

Fig. 2: Budget Deficits Under Current Law (Trillions of Dollars)



Source: Congressional Budget Office.

Importantly, CBO’s debt and deficit projections assume the expiration of large parts of the TCJA along with other tax and spending policies. It also assumes Congress fully abides by the discretionary spending caps put in place by the Fiscal Responsibility Act (without side deals) and contains discretionary spending growth to inflation after FY 2025.

In a [previous analysis](#) related to CBO’s February baseline, we showed that extending various expiring provisions and growing appropriations with GDP would increase deficits by \$6.5 trillion over a decade, including roughly \$1 trillion in 2034.

Applying these estimates to CBO’s new baseline suggests that under an alternative scenario, deficits would reach \$3.9 trillion (9.4 percent of GDP) by 2034, while debt would reach \$57 trillion (138 percent of GDP) in 2034.



Spending Will Outpace Revenue Growth

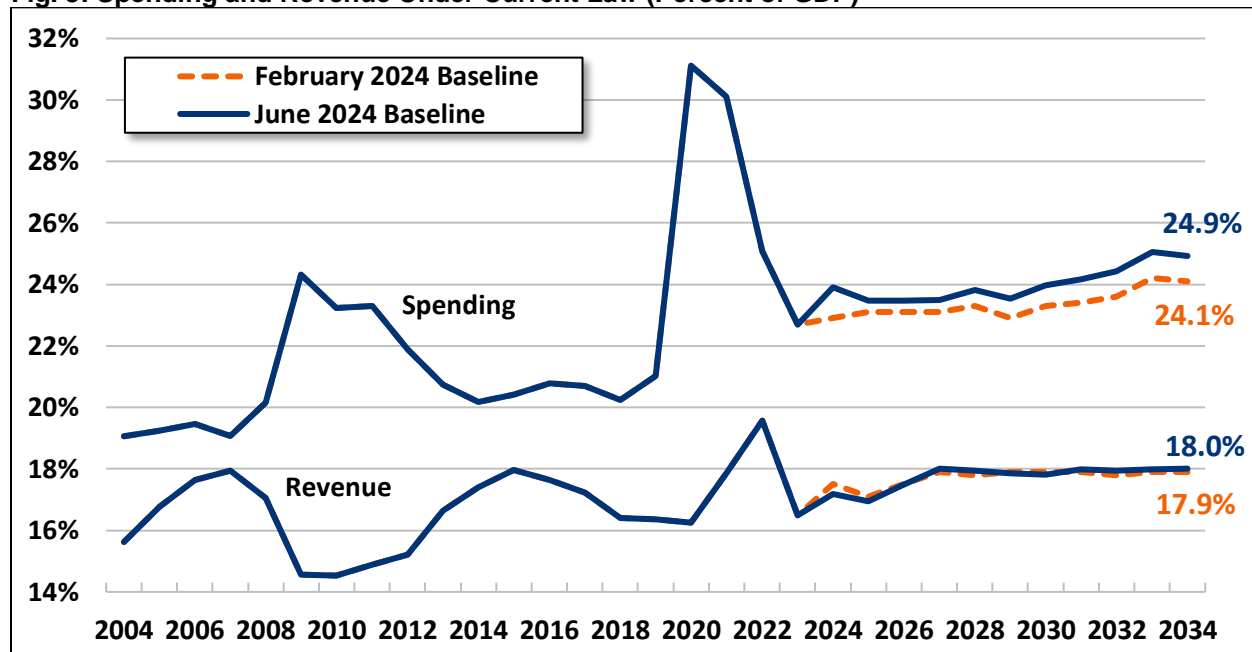
Growing deficits and debt can be explained by the persistent divergence between spending and revenue. From FY 2025 through 2034, CBO projects ten-year spending will total \$85 trillion (24.1 percent of GDP), while revenue will total \$63 trillion (17.8 percent of GDP).

After rising from 20.9 percent of GDP in FY 2019 to a projected 23.9 percent of GDP in 2024, CBO projects spending will fall to 23.5 percent of GDP in 2025 and then rise to 24.9 percent of GDP by 2034. For comparison, the 50-year historical average for spending is 21.0 percent of GDP.

Between FY 2025 and 2034, CBO projects primary (non-interest) spending will grow by 0.7 percent of GDP. Social Security will grow by 0.8 percentage points, Medicare will grow by 1.1 percentage points, and all other non-interest spending will shrink by 1.1 percentage points.

Meanwhile, CBO projects interest costs will continue to grow as both total debt and the interest rates paid on that debt rise. Between FY 2020 and 2024, CBO estimates interest costs nearly doubled as a share of the economy from 1.6 to 3.1 percent of GDP, making interest the second-largest line item in the federal budget – larger than defense or Medicare. CBO projects interest will reach a record 3.4 percent of GDP by 2025 and grow further to 4.1 percent of GDP by 2034.

Fig. 3: Spending and Revenue Under Current Law (Percent of GDP)



Source: Congressional Budget Office.

On the tax side, CBO projects revenue will grow from 17.2 percent of GDP in FY 2024 to 18.0 percent by 2027 – after large parts of the TCJA will have expired under the law – and then stabilize around that level through 2034. The 50-year historical average for revenue is 17.3 percent of GDP.



Deficit Projections Have Worsened Since February

Compared to [CBO's February projections](#), deficits from FY 2024 through 2034 are \$2.5 trillion higher and debt in 2034 is 6 percent of GDP higher (122 percent of GDP versus 116 percent).

Nearly \$300 billion of this increase is due to the direct effects of legislation and executive actions, including the \$95 billion [national security supplemental](#), roughly \$50 billion from “side deals” and other changes in the appropriations process, \$74 billion for half the cost of a proposed [student debt cancellation rule](#), and \$58 billion for half the cost of a proposed Medicaid rule that has since been finalized.

The bulk of the increase – \$1.2 trillion – is from higher *assumed* discretionary costs in the future, as baseline conventions lead CBO to assume current appropriations levels are generally extended and grow with inflation. This extrapolation likely overstates intended spending, since it includes a permanent continuation of one-time emergency spending.

Fig. 4: CBO's Legislative, Economic, and Technical Changes from February 2024 Baseline.

	2024-2034 Deficits	2034 Debt-to-GDP
Deficit and Debt in February 2024 Baseline	\$21,523 billion	116.0%
Legislative Changes	+\$1,610 billion	+3.9%
Increased Appropriations and Related Changes	+\$144 billion	+0.3%
Baseline Extrapolation of Higher Appropriations	+\$1,218 billion	+2.9%
Debt Service	+\$248 billion	+0.6%
Economic Changes	-\$638 billion	-1.5%
Higher Revenue Collection	-\$601 billion	-1.5%
Increased Primary Spending	+\$47 billion	+0.1%
Changes in Interest Costs Due to Different Rate Projections	+\$72 billion	+0.2%
Debt Service	-\$156 billion	-0.4%
Technical Changes & Executive Actions	+\$1,503 billion	+3.6%
Proposed Student Debt Cancellation Rule (50% of Cost)	+\$74 billion	+0.2%
Proposed Medicaid Directed Payments Rule (50% of Cost)	+\$58 billion	+0.1%
Technical Changes to Health Cost Estimates	+\$516 billion	+1.2%
Technical Changes to Other Spending Estimates	+\$51 billion	+0.1%
Technical Changes to Revenue Estimates	+\$447 billion	+1.1%
Net Interest	+\$357 billion	+0.9%
Impact of Changes in Nominal GDP & Financing Means	n/a	+0.4%
Total Change in Deficit and Debt	+\$2,475 billion	+6.4%
Deficit and Debt in June 2024 Baseline	\$23,998 billion	122.4%

Source: Congressional Budget Office. Numbers may not sum due to rounding.

Technical changes to CBO's estimates – particularly of projected revenue and health spending – explain more than \$1 trillion more (plus interest) of their higher deficits and debt. This is partially offset by economic changes, which lead CBO to forecast an additional \$600 billion of revenue.



The Economy is Projected to Stabilize, while Interest Rates Remain High

CBO projects that output, inflation, and unemployment will stabilize in the next few years, while long-term interest rates will fall some through 2027 and then rise continuously thereafter.

CBO expects the recent surge in inflation to fade, with Consumer Price Index (CPI) inflation falling from 3.2 percent in 2023 to 3.0 percent in 2024, 2.3 percent in 2025, and about 2.2 percent per year thereafter, while Personal Consumption Expenditures (PCE) inflation falls from 2.8 percent in 2023 to 2.7 percent this year, 2.1 percent in 2025, and about 2.0 percent in future years.

CBO projects real GDP will grow 2 percent per year in 2024 and 2025, and then about 1.8 percent per year thereafter (1.7 percent in 2034). Unemployment rates are projected to rise from 3.7 percent in 2023 to 3.9 percent in 2024, 4.2 percent by 2026, and between 4.4 and 4.5 percent after.

Fig. 5: Comparing CBO’s and Other Forecasters’ Economic Projections

Calendar Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Real GDP Growth (Q4 over Q4)											
CBO (June 2024)	2.0%	2.0%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.7%
OMB (July 2024)	1.9%	2.1%	2.0%	2.0%	2.0%	2.0%	2.2%	2.2%	2.2%	2.2%	2.2%
CBO (Feb. 2024)	1.5%	2.2%	2.2%	2.1%	2.1%	2.1%	2.0%	1.9%	1.9%	1.8%	1.8%
Federal Reserve	2.1%	2.0%	2.0%	Longer Run: 1.8%							
CPI Inflation (Q4 over Q4)											
CBO (June 2024)	3.0%	2.3%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
OMB (July 2024)	3.1%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
CBO (Feb. 2024)	2.5%	2.5%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.3%	2.3%	2.3%
PCE Inflation (Q4 over Q4)											
CBO (June 2024)	2.7%	2.1%	1.9%	1.9%	1.9%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
CBO (Feb. 2024)	2.1%	2.2%	2.1%	2.0%	2.0%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Federal Reserve	2.6%	2.3%	2.0%	Longer Run: 2.0%							
Unemployment Rate (Q4)											
CBO (June 2024)	3.9%	4.0%	4.2%	4.4%	4.4%	4.5%	4.5%	4.5%	4.5%	4.4%	4.4%
OMB (July 2024)	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
CBO (Feb. 2024)	4.4%	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.4%
Federal Reserve	4.0%	4.2%	4.1%	Longer Run: 4.2%							
Interest Rate on Ten-Year Treasury Notes (Annual Average)											
CBO (June 2024)	4.5%	4.1%	3.7%	3.6%	3.7%	3.8%	3.9%	4.0%	4.1%	4.1%	4.1%
OMB (July 2024)	4.3%	4.1%	4.0%	3.9%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
CBO (Feb. 2024)	4.6%	4.6%	3.9%	3.8%	3.8%	3.9%	4.0%	4.1%	4.1%	4.1%	4.1%

Sources: Congressional Budget Office, Office of Management and Budget, and Federal Reserve.

CBO expects short- and long-term interest rates to fall from current levels but that long-term rates will remain well above pre-pandemic levels and ultimately rebound. Three-month yields are projected to fall from 5.2 percent this year to 2.8 percent per year by the end of 2028. Ten-year yields are projected to fall from 4.5 percent this year to 3.6 percent in 2027, before rising slowly to 4.1 percent by 2034. Further borrowing would put more upward pressure on these rates.



Conclusion

The latest economic and fiscal projections from CBO highlight the need for significant deficit reduction soon. Interest spending has already exceeded defense and Medicare spending and is the second largest line item in the federal budget. Meanwhile, debt is approaching record levels as a share of the economy and major trust funds are approaching insolvency.

[Recent proposals](#) from seven groups on the left, right, and center have shown numerous possible paths to slow and ultimately reverse the unsustainable growth of the national debt. So too did the [2022 CRFB Fiscal Blueprint](#). Lawmakers should act sooner rather than later, before debt begins to spit out of control.

Fig. 6: Fiscal Metrics in CBO’s June and February 2024 Baseline

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
REVENUES (Trillions of Dollars)													
CBO June 2024 Baseline	\$4.4	\$4.9	\$5.0	\$5.4	\$5.8	\$5.9	\$6.1	\$6.4	\$6.7	\$6.9	\$7.2	\$7.5	\$62.8
CBO Feb. 2024 Baseline	\$4.4	\$4.9	\$5.0	\$5.4	\$5.7	\$5.9	\$6.1	\$6.4	\$6.7	\$6.9	\$7.2	\$7.5	\$62.6
OUTLAYS (Trillions of Dollars)													
CBO June 2024 Baseline	\$6.1	\$6.8	\$7.0	\$7.2	\$7.5	\$7.9	\$8.1	\$8.5	\$8.9	\$9.4	\$10.0	\$10.3	\$84.9
CBO Feb. 2024 Baseline	\$6.1	\$6.4	\$6.8	\$7.0	\$7.3	\$7.7	\$7.9	\$8.3	\$8.7	\$9.1	\$9.7	\$10.1	\$82.7
DEFICITS (Trillions of Dollars)													
CBO June 2024 Baseline	\$1.7	\$1.9	\$1.9	\$1.9	\$1.8	\$1.9	\$1.9	\$2.2	\$2.3	\$2.5	\$2.8	\$2.9	\$22.1
CBO Feb. 2024 Baseline	\$1.7	\$1.5	\$1.8	\$1.7	\$1.6	\$1.8	\$1.7	\$1.9	\$2.1	\$2.2	\$2.6	\$2.6	\$20.0
DEBT (Trillions of Dollars)													
CBO June 2024 Baseline	\$26.2	\$28.2	\$30.2	\$32.1	\$33.9	\$36.0	\$38.0	\$40.2	\$42.5	\$45.0	\$47.8	\$50.7	N/A
CBO Feb. 2024 Baseline	\$26.2	\$27.9	\$29.7	\$31.5	\$33.2	\$35.1	\$36.9	\$38.9	\$40.9	\$43.2	\$45.7	\$48.3	N/A
REVENUES (Percent of GDP)													
CBO June 2024 Baseline	16.5%	17.2%	17.0%	17.5%	18.0%	18.0%	17.9%	17.8%	18.0%	18.0%	18.0%	18.0%	17.8%
CBO Feb. 2024 Baseline	16.5%	17.5%	17.1%	17.5%	17.9%	17.8%	17.9%	17.9%	17.9%	17.8%	17.9%	17.9%	17.8%
OUTLAYS (Percent of GDP)													
CBO June 2024 Baseline	22.7%	23.9%	23.5%	23.5%	23.5%	23.8%	23.5%	24.0%	24.2%	24.4%	25.1%	24.9%	24.1%
CBO Feb. 2024 Baseline	22.7%	22.9%	23.1%	23.1%	23.1%	23.3%	22.9%	23.3%	23.4%	23.6%	24.2%	24.1%	23.5%
DEFICITS (Percent of GDP)													
CBO June 2024 Baseline	6.3%	6.7%	6.5%	6.0%	5.5%	5.9%	5.7%	6.2%	6.2%	6.5%	7.1%	6.9%	6.3%
CBO Feb. 2024 Baseline	6.3%	5.3%	6.1%	5.5%	5.2%	5.6%	5.0%	5.4%	5.5%	5.8%	6.4%	6.2%	5.7%
DEBT (Percent of GDP)													
CBO June 2024 Baseline	97%	99%	102%	104%	106%	109%	111%	113%	115%	117%	120%	122%	N/A
CBO Feb. 2024 Baseline	97%	99%	102%	103%	105%	106%	107%	109%	110%	112%	114%	116%	N/A

Source: Congressional Budget Office.