

CBO BUDGET AND ECONOMIC UPDATE

The Congressional Budget Office has released its semiannual report on the budget and the economy. Strong economic growth during the first half of 1988 has improved the budget outlook. CBO now estimates a federal deficit of \$155 billion in fiscal year 1988 and \$148 billion in 1989--about the same as last year's deficit. The deficit is projected to fall to \$136 billion in 1990 and \$121 billion in 1993 and 1994 under current budgetary policies. But the projected deficits exceed the targets in the Balanced Budget Reaffirmation Act, which calls for a deficit of \$100 billion in 1990 and a balanced budget by 1993.

These baseline budget projections reflect current law for revenues and entitlement spending. Defense and nondefense discretionary spending are assumed to be held constant in real terms and thus decline in relation to the growing economy. As a result, outlays and the deficit both decline as a percentage of gross national product (GNP). The deficit falls from 3.4 percent of GNP in 1988 to 2.9 percent in 1989 and 1.7 percent of GNP in 1994.

The budget projections are based on the economic assumptions shown overleaf. In CBO's short-term economic forecast, the economy grows at a 2.5 percent average annual rate in the second half of 1988 and in 1989. This is a somewhat lower rate than the Administration has assumed for its budget projections, but higher than the average of private-sector forecasts. The main sources of growth over the next 18 months are expected to be net exports and business fixed investment, though they will grow more slowly than in the past six months. The forecast assumes that the Federal Reserve will be successful in holding the economy's growth to a pace that will avoid a sharp increase in inflation.

For 1990 through 1994, CBO's economic assumptions are not a forecast of future economic conditions but are projections based on past trends. Real GNP is projected to grow at an average annual rate of 2.3 percent, and the unemployment rate remains close to current levels. Although CBO's projections do not explicitly assume a recession, the historical averages on which they are based incorporate periods of recession as well as times of above-average growth. Interest rates are projected to decline throughout the 1990 to 1994 period until they reach levels consistent with the average of inflation-adjusted interest rates since 1973. This declining interest rate path may be unachievable, however, unless the federal deficit is reduced below the projected levels.

Questions regarding the budget projections should be directed to the Budget Analysis Division (202-226-2880), and inquiries about the economic projections should be addressed to the Fiscal Analysis Division (226-2750). The Office of Intergovernmental Relations is CBO's Congressional liaison office and can be reached at 226-2600. For copies of the report, please call the Publications Office at 226-2809.

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SUMMARY TABLE.

BASELINE BUDGET PROJECTIONS AND
UNDERLYING ASSUMPTIONS

	1987	1988	1989	1990	1991	1992	1993	1994
Budget Projections (By fiscal year)								
In Billions of Dollars ^a								
Revenues	854	908	980	1,064	1,134	1,202	1,276	1,354
Outlays	1,005	1,063	1,127	1,200	1,265	1,329	1,397	1,475
Deficit	150	155	148	136	131	126	121	121
Deficit Targets	^b	144	136	100	64	28	0	^b
As a Percentage of GNP ^a								
Revenues	19.3	19.0	19.2	19.6	19.6	19.5	19.4	19.4
Outlays	22.6	22.3	22.1	22.1	21.8	21.5	21.3	21.1
Deficit	3.4	3.2	2.9	2.5	2.3	2.0	1.8	1.7
Economic Assumptions (By calendar year)								
GNP (Billions of current dollars)	4,527	4,844	5,189	5,525	5,882	6,263	6,670	7,103
Real GNP Growth (Percent change)	3.4	3.8	2.7	2.3	2.3	2.3	2.3	2.3
Implicit GNP Deflator (Percent change)	3.3	3.1	4.3	4.1	4.1	4.1	4.1	4.1
CPI-W (Percent change)	3.6	4.1	4.9	4.6	4.4	4.4	4.4	4.4
Civilian Unemployment Rate (Percent)	6.2	5.5	5.5	5.5	5.6	5.6	5.7	5.7
Three-Month Treasury Bill Rate (Percent)	5.8	6.3	7.1	6.8	6.6	6.3	6.1	5.9
Ten-Year Government Note Rate (Percent)	8.4	8.9	9.1	8.7	8.3	8.0	7.6	7.4

SOURCE: Congressional Budget Office projections of August 1988.

a. The baseline estimates include Social Security, which is off-budget.

b. The Balanced Budget and Emergency Deficit Control Reaffirmation Act of 1987 established targets for 1988 through 1993.