

The Budget and Economic Outlook for 2025 to 2035

February 2025

Total Deficit, Net Interest Outlays, and Primary Deficit

In CBO's projections, the total deficit—the amount by which outlays exceed revenues—equals 6.1 percent of GDP in 2035. By that year, net interest payments grow to 4.1 percent of GDP and account for about one-sixth of all federal spending. The primary deficit (which excludes those payments) equals 2.1 percent of GDP in 2035.

Federal Debt Held by the Public

Debt held by the public rises each year. From 2025 to 2035, it swells from 100 percent of GDP to 118 percent—an amount greater than at any point in the nation's history.

Unemployment Rate

In CBO's projections, the slowdown in economic growth raises the unemployment rate to 4.3 percent at the end of 2025 and 4.4 percent at the end of 2026. In later years, the unemployment rate declines gradually, reaching 4.3 percent at the end of 2035.

Total Outlays and Revenues

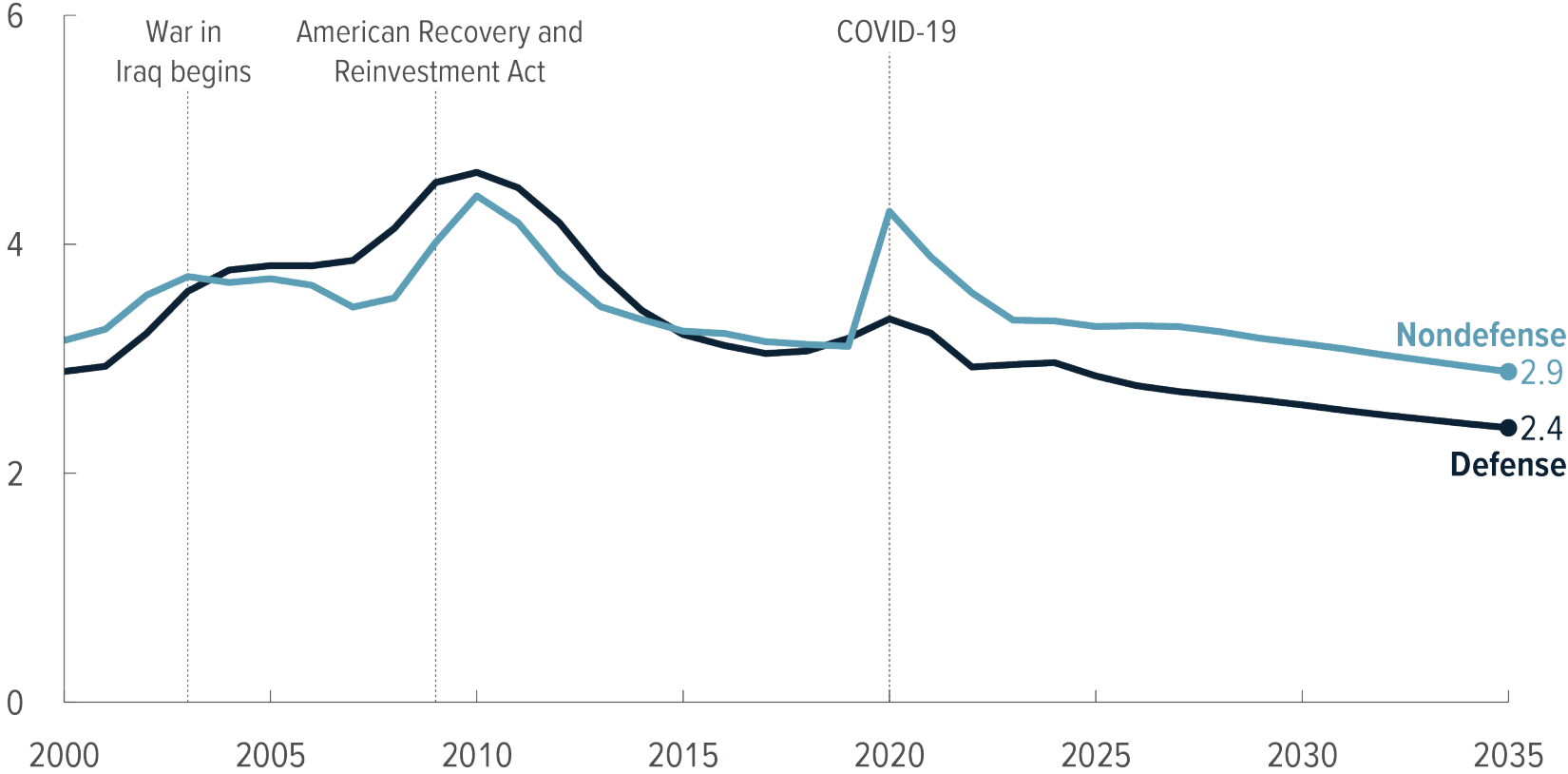
Measured as a percentage of GDP, federal outlays in CBO's projections exceed their 50-year average every year from 2025 to 2035. Revenues remain below their 50-year average in 2025 but rise above it thereafter.

Outlays, by Category

In CBO's projections, rising spending for Social Security and Medicare boosts mandatory outlays, and discretionary spending shrinks as a share of GDP. Net outlays for interest increase as debt mounts. Interest costs exceed outlays for defense from 2025 to 2035 and exceed outlays for nondefense discretionary programs from 2027 to 2035. From 2027 on, interest costs are greater in relation to GDP than at any point since at least 1940 (the first year for which the Office of Management and Budget reports such data).

Discretionary Outlays

Percentage of GDP

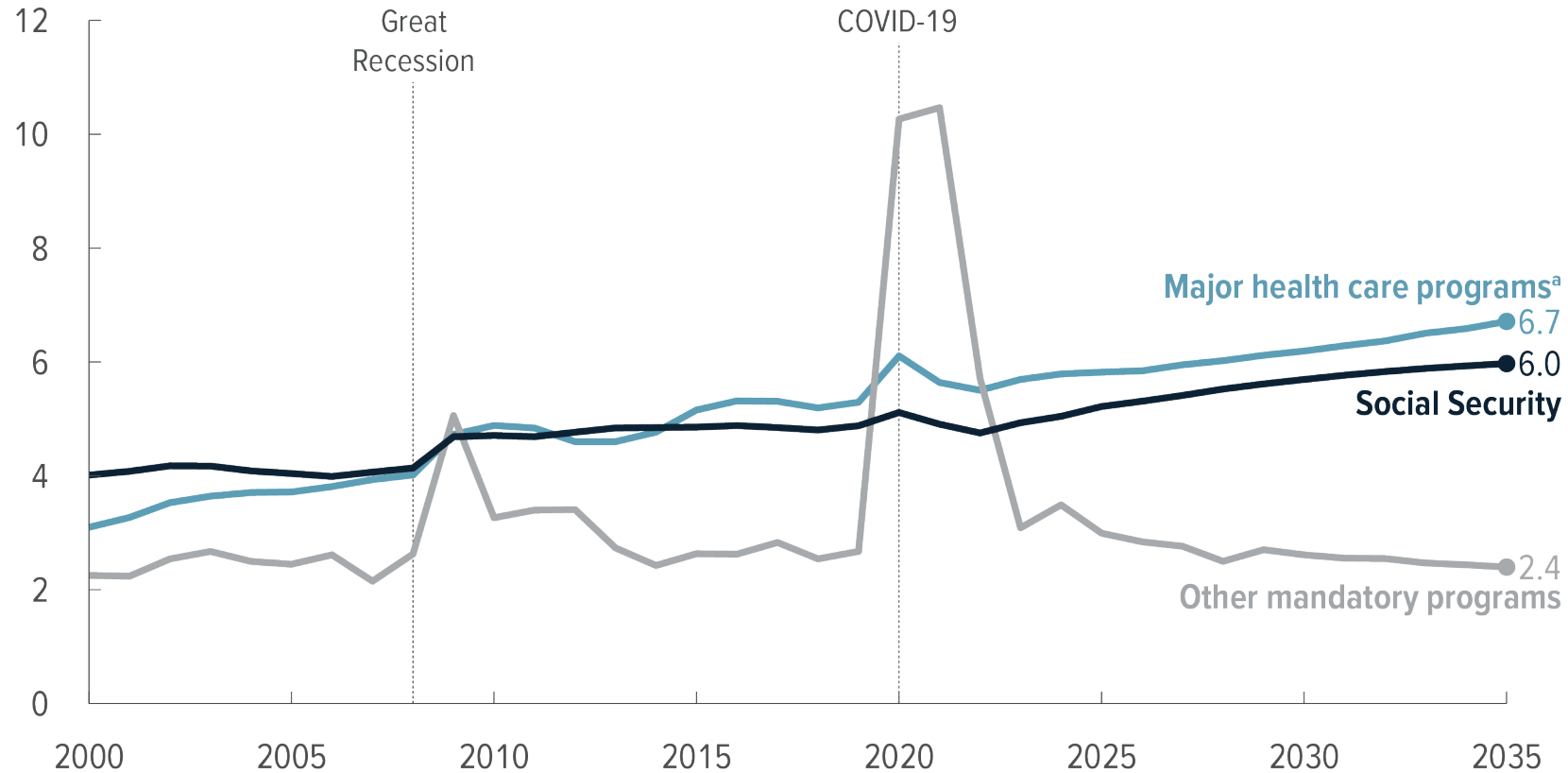


Defense and nondefense discretionary outlays are projected to fall in relation to GDP because CBO’s baseline reflects the assumption that discretionary funding will grow at the rate of inflation, which is projected to be slower than the growth of nominal GDP.

By the end of 2035, both defense and nondefense outlays will make up their smallest recorded shares of GDP.

Mandatory Outlays

Percentage of GDP



The aging of the population and growth in federal health care costs per beneficiary, which drive up outlays for Social Security and the major health care programs, put upward pressure on mandatory outlays.

Outlays for other mandatory programs as a share of GDP are projected to remain close to their pre-pandemic level.

a. Consists of spending on Medicare (net of premiums and other offsetting receipts), Medicaid, and the Children's Health Insurance Program as well as subsidies for health insurance purchased through the marketplaces established under the Affordable Care Act and related spending.

Revenues, by Category

Receipts from individual income taxes rise over the next three years, primarily because of scheduled increases in most tax rates, and then roughly stabilize as a share of GDP. After 2025, corporate income tax receipts decrease in relation to GDP, largely because of other scheduled changes in tax rules, increased claims of tax credits, and slower growth of corporate profits relative to overall growth in the economy.

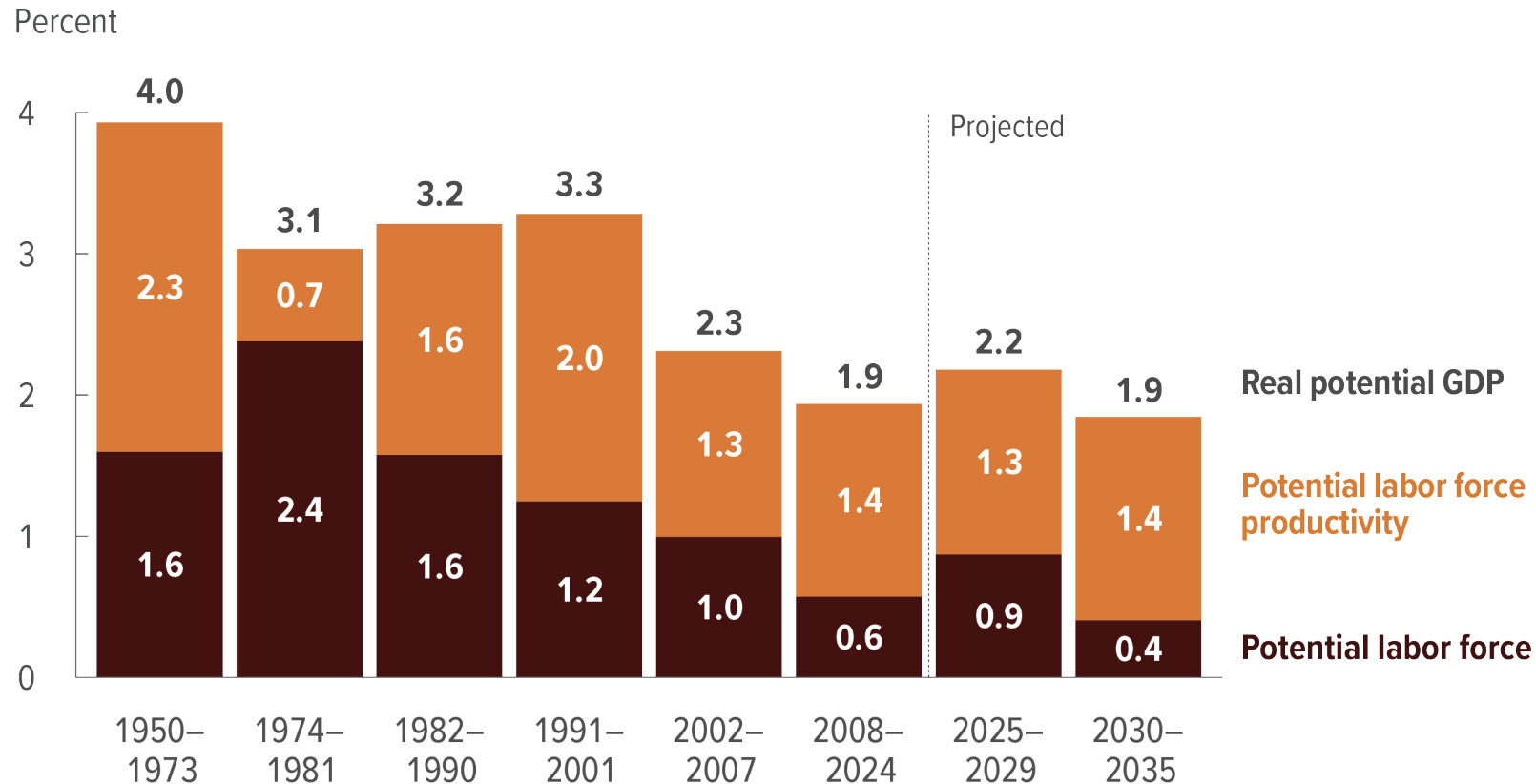
Estimated Outlays, Revenues, and Tax Expenditures in 2025

Tax expenditures are provisions of the tax system (such as tax credits and deductions) that cause revenues to be lower than they would be otherwise. Like federal spending programs, tax expenditures contribute to the budget deficit. In 2025, the total revenues forgone because of tax expenditures are projected to equal 7.6 percent of GDP (or \$2.3 trillion).

Growth of Real GDP

The growth of economic output, as measured by the nation's GDP, is expected to moderate in 2025, reflecting slower growth in consumer and government spending. CBO expects that more moderate economic growth to continue in 2026 as consumer spending slows further and investment in private nonresidential structures declines.

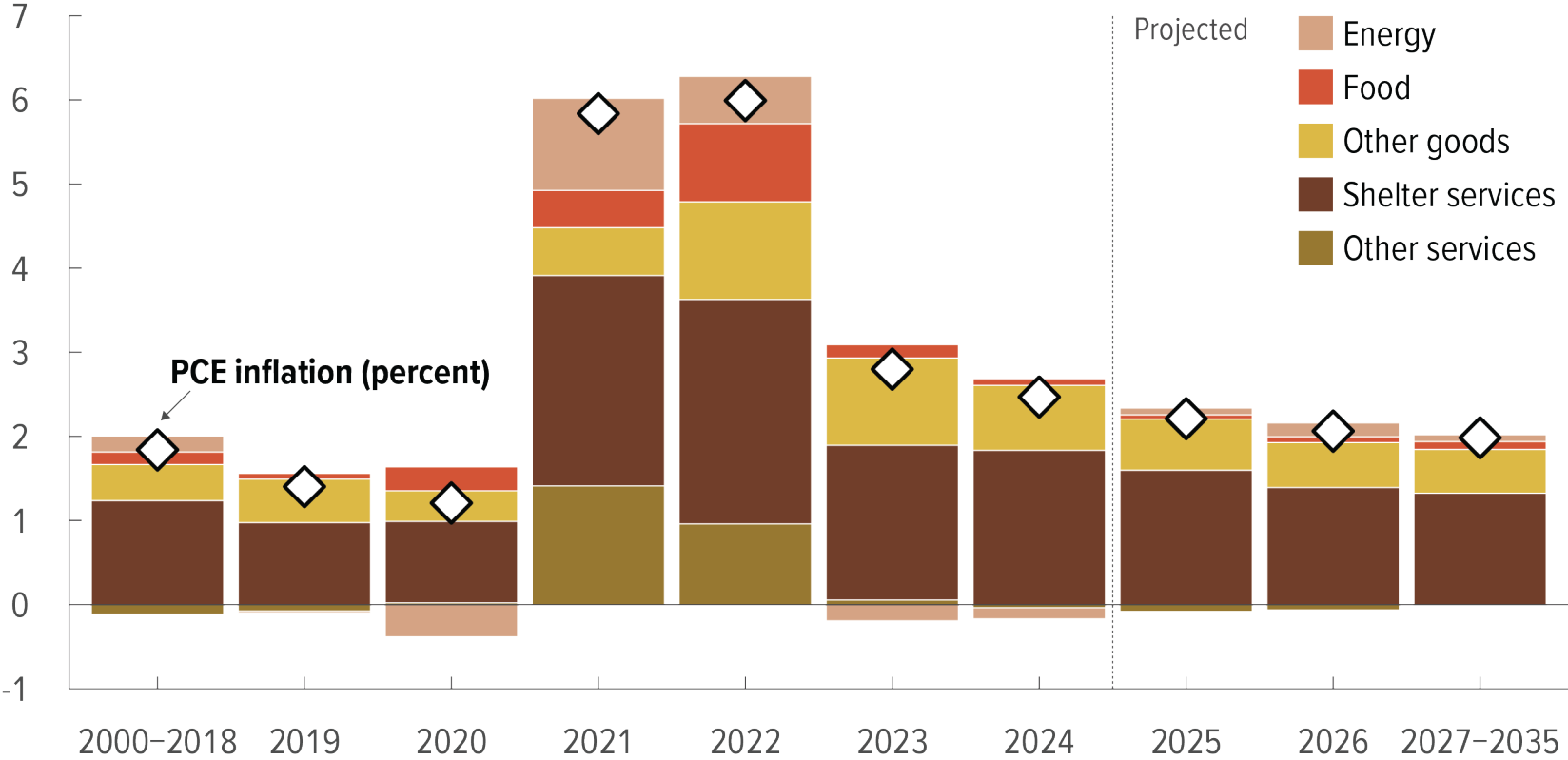
Average Annual Growth of Real Potential GDP and Its Components



Real potential GDP is projected to grow at an average annual rate of 2.2 percent over the next five years, faster than it has grown since before the 2007–2009 recession. That faster growth stems mainly from a surge in net immigration from 2021 to 2027, which increases the growth of the labor force in CBO’s projections.

Contributions of Different Categories of Goods and Services to Overall PCE Inflation

Percentage points



Inflation is projected to be lower in 2025 and 2026 than it was in recent years mostly because of the easing of upward pressure on the costs of shelter and other services.

Interest Rates

The Federal Reserve continues to lower the federal funds rate, which falls to 3.7 percent in the fourth quarter of 2025 and 3.4 percent in the fourth quarter of 2026. The 10-year rate declines less in those years. From 2027 to 2035, both short- and long-term interest rates decline slightly.