



**TESTIMONY**

# **The Budget and Economic Outlook: 2026 to 2036**

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Before the Subcommittee on Fiscal Responsibility and Economic Growth  
Committee on Finance  
United States Senate

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Chairman Johnson, Ranking Member Smith, and Members of the Subcommittee, thank you for inviting me to testify about the Congressional Budget Office’s most recent analysis of the outlook for the budget and the economy. My statement summarizes CBO’s new baseline budget projections and economic forecast, which the agency released on February 11.

CBO regularly publishes reports presenting its baseline projections of what the federal budget and the economy would look like in the current year and over the next 10 years if laws governing taxes and spending generally remained unchanged. The budget projections are based on CBO’s economic forecast, which reflects trade policy as of November 20, 2025, and economic developments and laws in place as of December 3, 2025. The budget projections also incorporate the effects of laws in place as of January 14, 2026. (CBO’s projections do not include the effects of appropriation acts passed by the House and Senate after January 14, 2026.)

## The Budget Outlook

### Deficits

In CBO’s projections, the federal budget deficit in fiscal year 2026 is \$1.9 trillion and grows to \$3.1 trillion by 2036. Relative to the size of the economy, the deficit is 5.8 percent of gross domestic product (GDP) in 2026 and grows to 6.7 percent in 2036, which is greater than the 3.8 percent deficits averaged over the past 50 years. Rising net interest costs drive much of that increase. The primary deficit, which excludes those net interest costs, totals 2.6 percent of GDP this year and stays below that level through 2036, when it totals 2.1 percent.

### Debt

From 2026 to 2036, large and growing deficits cause debt to increase. Federal debt held by the public rises from 101 percent of GDP this year to 120 percent in 2036, surpassing its previous high of 106 percent of GDP in 1946.

### Outlays and Revenues

In CBO’s projections, federal outlays in 2026 total \$7.4 trillion, or 23.3 percent of GDP. Relative to the size of the economy, outlays remain near their 2026 level through 2028 and then rise, reaching 24.4 percent of GDP in 2036; that trend is a result of greater spending on Social Security and Medicare and growth in net interest costs that are partly offset by declining outlays for discretionary programs. Revenues total \$5.6 trillion, or 17.5 percent of GDP, in 2026. Over the 2026–2036 period, increasing individual income tax receipts and remittances from the Federal Reserve are partly offset by declining customs duties measured in relation to the size of the economy. In 2036, revenues total 17.8 percent of GDP, slightly above their 50-year average of 17.3 percent.

### Changes in CBO’s Budget Projections

The deficit for 2026 is \$0.1 trillion (or 8 percent) more in CBO’s current projections than it was in the agency’s January 2025 projections, and the cumulative deficit over the 2026–2035 period is \$1.4 trillion (or 6 percent) greater. The 2025 reconciliation act (Public Law 119-21) and administrative actions related to immigration increased CBO’s projections of deficits by \$4.7 trillion and \$0.5 trillion, respectively, after changes in the economy and related debt-service costs are accounted for. By contrast, higher tariffs reduced deficits by \$3.0 trillion (including the effects of related changes in the economy and net interest payments).

### Projections for **2026**

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Budget deficit:  
**\$1.9** trillion

Debt held by  
the public:  
**101%** of GDP

Outlays:  
**\$7.4** trillion

Revenues:  
**\$5.6** trillion

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When October 1 (the first day of the fiscal year) falls on a weekend, certain payments that ordinarily would have been made on that day are instead made at the end of September and thus are shifted into the previous fiscal year. Because those shifts can distort budgetary trends, here CBO presents adjusted projections of deficits and outlays that treat the payments as if they were not subject to the shifts.



## The Budget Outlook, by Fiscal Year

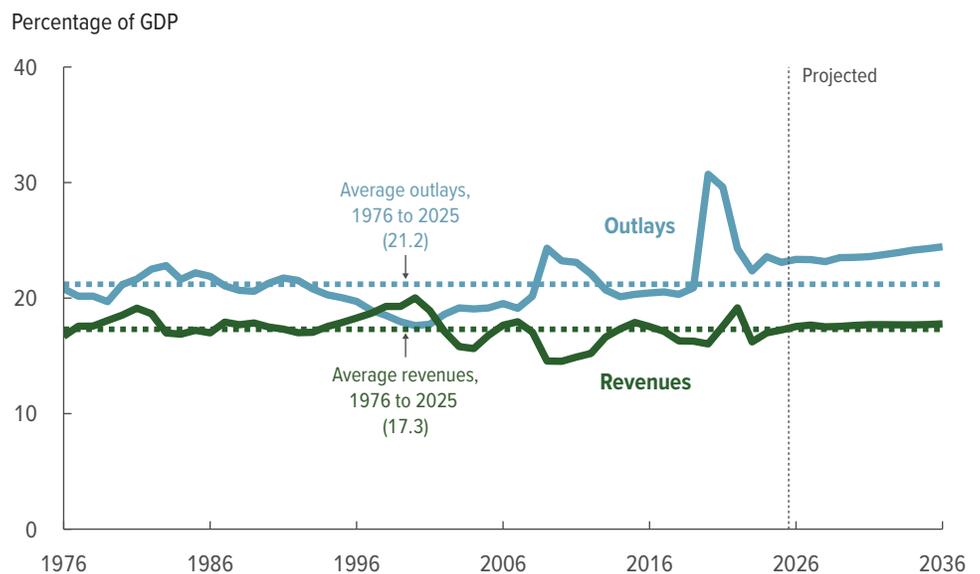
	Percentage of GDP					Billions of dollars			
	Average, 1976–2025	Actual, 2025	2026	2027	2036	Actual, 2025	2026	2027	2036
<b>Revenues</b>	<b>17.3</b>	<b>17.2</b>	<b>17.5</b>	<b>17.7</b>	<b>17.8</b>	<b>5,235</b>	<b>5,596</b>	<b>5,885</b>	<b>8,301</b>
Individual income taxes	8.0	8.7	8.6	8.8	9.1	2,656	2,751	2,947	4,249
Payroll taxes	6.0	5.8	5.7	5.7	5.7	1,748	1,826	1,897	2,666
Corporate income taxes	1.7	1.5	1.3	1.3	1.2	452	404	419	576
Customs duties	0.2	0.6	1.3	1.3	0.9	195	418	421	402
Other	1.2	0.6	0.6	0.6	0.9	183	197	201	408
<b>Outlays</b>	<b>21.2</b>	<b>23.1</b>	<b>23.3</b>	<b>23.3</b>	<b>24.4</b>	<b>7,010</b>	<b>7,449</b>	<b>7,772</b>	<b>11,416</b>
Mandatory	11.2	13.7	14.2	14.4	15.0	4,168	4,529	4,783	7,028
Social Security	4.5	5.2	5.2	5.3	5.9	1,575	1,666	1,769	2,747
Major health care programs	3.5	6.0	6.0	6.0	6.7	1,819	1,908	1,985	3,115
Medicare	2.2	3.3	3.3	3.4	4.2	988	1,063	1,140	1,970
Medicaid, CHIP, and marketplace subsidies	1.4	2.7	2.6	2.5	2.5	832	845	845	1,145
Other mandatory	3.2	2.5	3.0	3.1	2.5	773	955	1,029	1,166
Discretionary	7.8	6.2	5.9	5.6	4.8	1,872	1,880	1,882	2,244
Defense	4.1	2.9	2.8	2.7	2.4	893	885	901	1,100
Nondefense	3.7	3.2	3.1	2.9	2.4	980	996	981	1,144
Net interest	2.1	3.2	3.3	3.3	4.6	970	1,039	1,108	2,144
<b>Total deficit (-)</b>	<b>-3.8</b>	<b>-5.8</b>	<b>-5.8</b>	<b>-5.7</b>	<b>-6.7</b>	<b>-1,775</b>	<b>-1,853</b>	<b>-1,887</b>	<b>-3,115</b>
Primary deficit (-)	-1.7	-2.7	-2.6	-2.3	-2.1	-805	-814	-779	-971
Debt held by the public	51.2	99.4	100.6	102.1	120.2	30,172	32,095	34,005	56,152

Primary deficits exclude net outlays for interest. CHIP = Children’s Health Insurance Program.

## The Budget Outlook in Six Figures

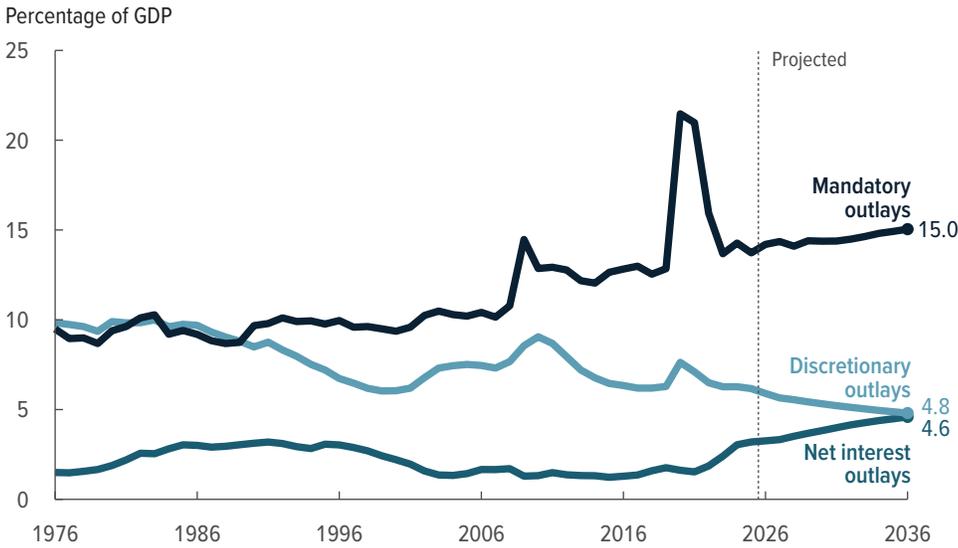
### Total Outlays and Revenues

Measured as a percentage of GDP, federal outlays exceed their 50-year average by a widening margin from 2026 to 2036 in CBO’s projections. Revenues rise just above their 50-year average in 2026 and remain slightly above that historical average throughout the 10-year period.



### Outlays, by Category

In CBO’s projections, greater spending on Social Security and Medicare causes mandatory outlays to increase in relation to GDP. Discretionary outlays fall in relation to GDP because GDP growth outpaces the growth of discretionary funding. Net outlays for interest increase as longer-term interest rates rise and debt mounts.



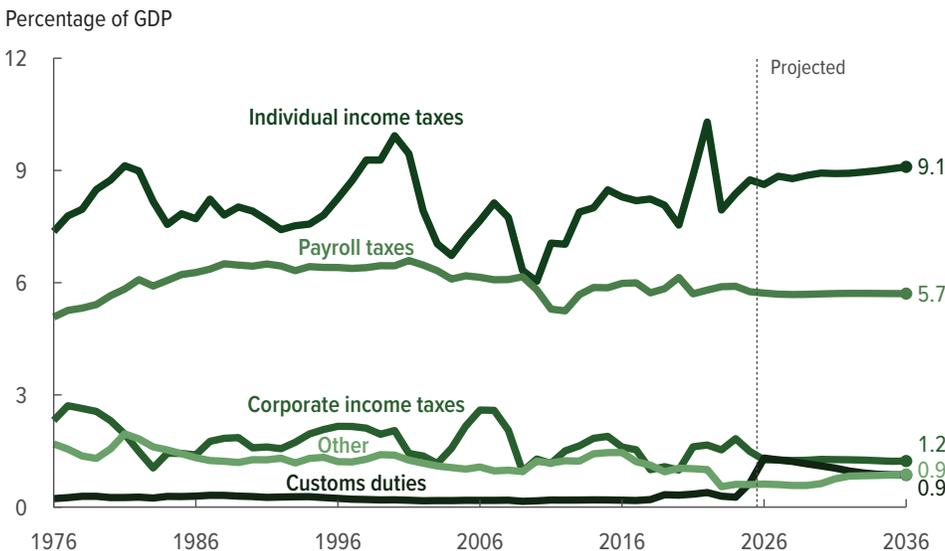
## Outlook for Outlays and Revenues

Increases in spending for Social Security and Medicare and rising net interest costs push outlays to **\$11.4** trillion, or **24.4%** of GDP, in 2036.

Revenues in 2036 total **\$8.3** trillion, or **17.8%** of GDP, up from **17.5%** in 2026.

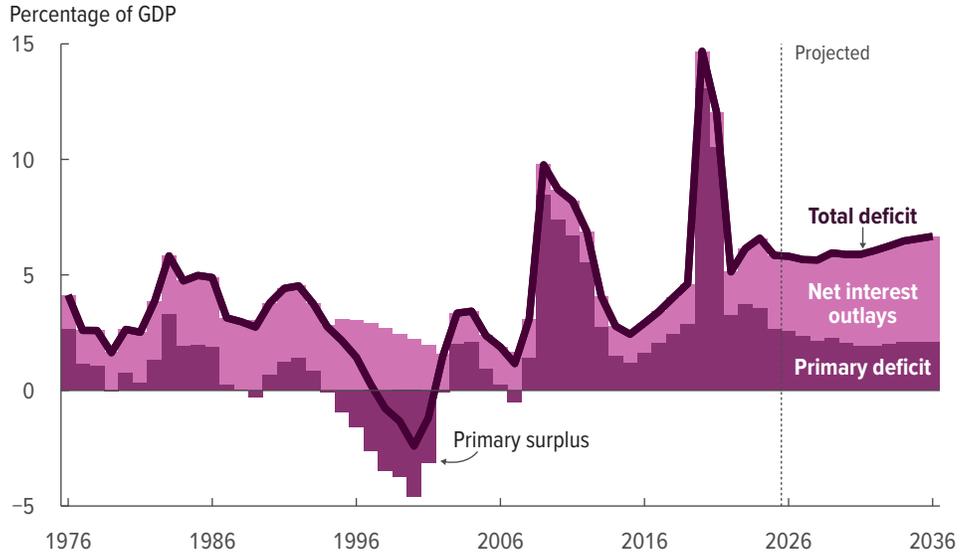
### Revenues, by Category

Revenues over the 2026–2036 period reflect stable receipts from payroll taxes and corporate income taxes and variation in receipts from all other sources. As a share of GDP, receipts from individual income taxes rise, whereas receipts from customs duties decline.



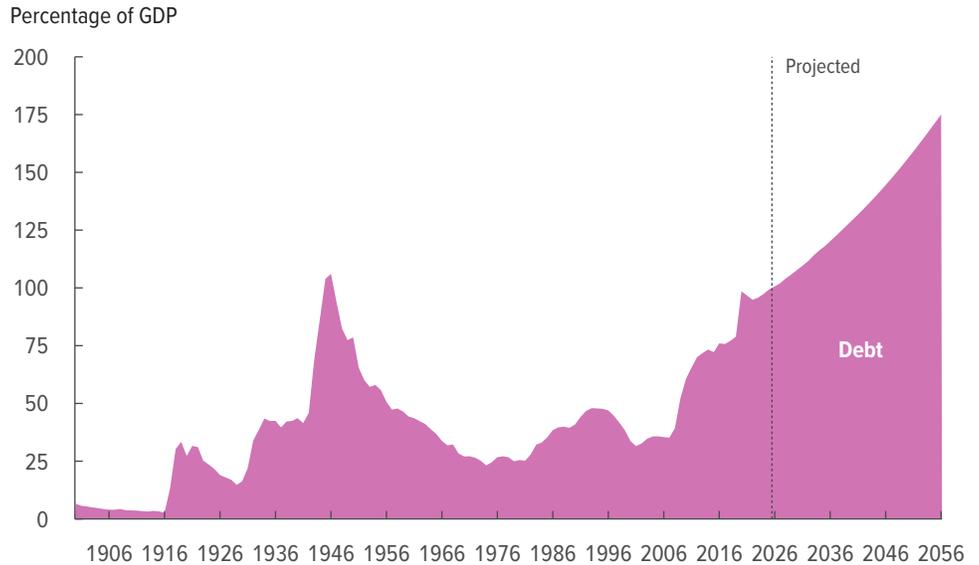
### Total Deficits, Net Outlays for Interest, and Primary Deficits

In CBO’s projections, the total deficit—the amount by which outlays exceed revenues—grows from 5.8 percent of GDP in 2026 to 6.7 percent in 2036. The primary deficit declines over the same period, from 2.6 percent of GDP in 2026 to 2.1 percent in 2036, while net interest payments grow from 3.3 percent of GDP to 4.6 percent.



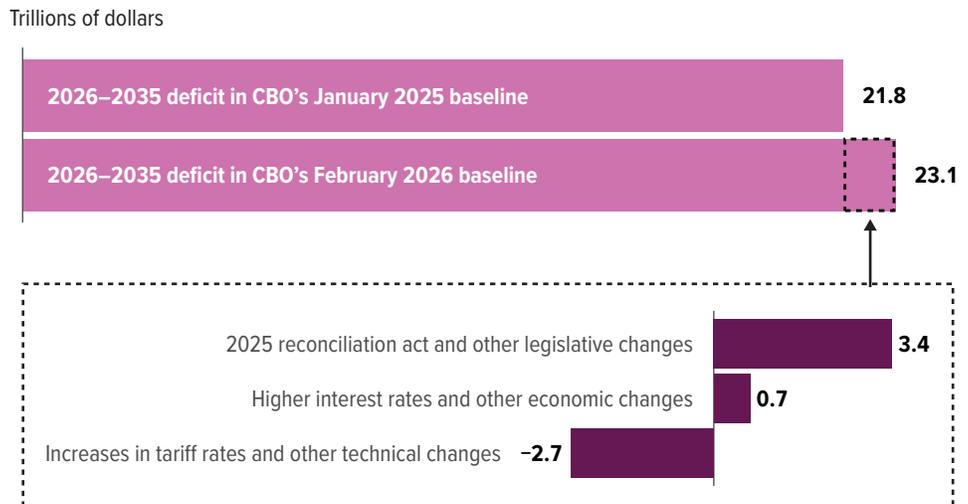
### Federal Debt Held by the Public

Debt held by the public rises each year of the projection period, from 101 percent of GDP this year to 120 percent in 2036—higher than at any point in the nation’s history. Over the following two decades, growing deficits push federal debt to 175 percent of GDP.



### Changes in CBO’s Baseline Projections of the 10-Year Deficit Since January 2025

Deficits from 2026 to 2035 are projected to total \$23.1 trillion, \$1.4 trillion more than CBO projected in January 2025. Most of that increase is attributable to the projected effects of the 2025 reconciliation act, partly offset by projected revenue increases from higher tariff rates.



# The Economic Outlook

## Output Growth and the Labor Market

In CBO’s projections, the 2025 reconciliation act and the rebound in economic activity following last fall’s lapse in discretionary appropriations boost output growth in calendar year 2026, but that growth is partially offset by the effects of last year’s increases in tariffs and increased immigration enforcement. Growth of real GDP (that is, GDP adjusted to remove the effects of changes in prices) moderates in later years of the projection period, reflecting various offsetting factors, including faster productivity growth as generative artificial intelligence (AI) is more widely adopted and continued slow growth of the labor supply as the population ages.

Employment growth is projected to rebound from its 2025 dip with the pickup in overall economic activity. The unemployment rate reaches 4.6 percent in 2026 and then declines to 4.2 percent in 2032.

## Inflation and Interest Rates

The overall growth of prices slows slightly in 2026. Inflation as measured by growth in the price index for personal consumption expenditures (PCE) softens in 2026 as the effects of higher tariffs on inflation continue to wane. Inflation returns to a rate roughly in line with the Federal Reserve’s long-run goal of 2 percent in 2030 and stabilizes thereafter.

In CBO’s projections, the Federal Reserve reduces the federal funds rate (the rate financial institutions charge each other for overnight loans) in 2026 to address downside risks to the labor market. Longer-term interest rates, such as the rate on 10-year Treasury notes, rise gradually in 2027 and remain relatively stable in later years.

## Changes in CBO’s Economic Projections

Real GDP growth is greater in 2026 in CBO’s current projections (partly because of the effects of the 2025 reconciliation act) than it was in the agency’s January 2025 projections but is generally the same in later years, reflecting factors that both increase and decrease economic activity. Inflation from 2026 to 2029 is now expected to be higher than the agency projected last year, mostly because of the effects of higher tariffs. As a result of those revisions, nominal GDP from 2026 to 2035 is greater in the current projections than it was in last year’s. The forecast for short-term interest rates is generally the same as it was last January, but the current forecast for long-term interest rates is higher.

## Outlook for 2026–2036

The growth of real GDP accelerates this year and slows thereafter. Inflation slows, and the federal funds rate falls.

## The Economic Outlook, by Calendar Year

	Estimated, 2025	2026	2027	2028	Annual average	
					2029–2030	2031–2036
<b>Change from fourth quarter to fourth quarter (percent)</b>						
Real (inflation-adjusted) GDP	1.9	2.2	1.8	1.8	1.8	1.8
Inflation						
PCE price index	2.8	2.7	2.3	2.1	2.0	2.0
Consumer price index	3.0	2.8	2.4	2.3	2.3	2.3
Payroll employment (average monthly change, in thousands)	70	105	31	42	43	45
<b>Annual average (percent)</b>						
Unemployment rate	4.3	4.6	4.5	4.5	4.3	4.2
Interest rates						
Effective federal funds rate	4.2	3.5	3.4	3.4	3.4	3.4
3-month Treasury bills	4.1	3.3	3.2	3.2	3.2	3.1
10-year Treasury notes	4.3	4.1	4.3	4.3	4.3	4.4
Tax bases (percentage of GDP)						
Wages and salaries	42.3	42.0	42.0	42.1	42.1	42.1
Domestic corporate profits	11.3	11.1	10.8	10.4	10.0	10.0

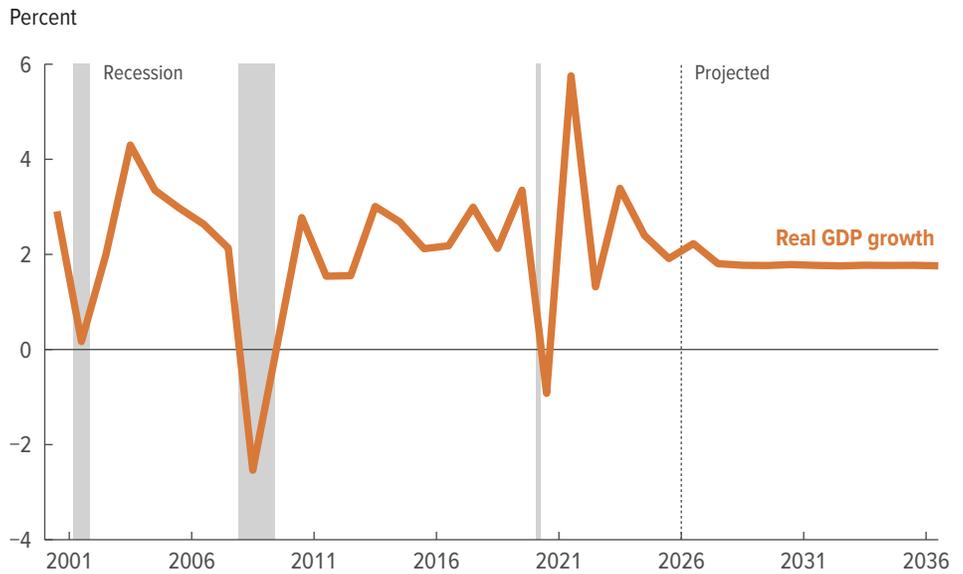
Payroll employment and interest rates show actual values for 2025. PCE = personal consumption expenditures.



## The Economic Outlook in Six Figures

### Growth of Real GDP

The growth of economic output, as measured by the nation’s GDP, accelerates in 2026 in CBO’s projections as the 2025 reconciliation act boosts consumer spending and private investment and as economic activity continues to rebound following the lapse in discretionary appropriations in late 2025. Economic growth then slows, averaging 1.8 percent per year from 2027 to 2036.

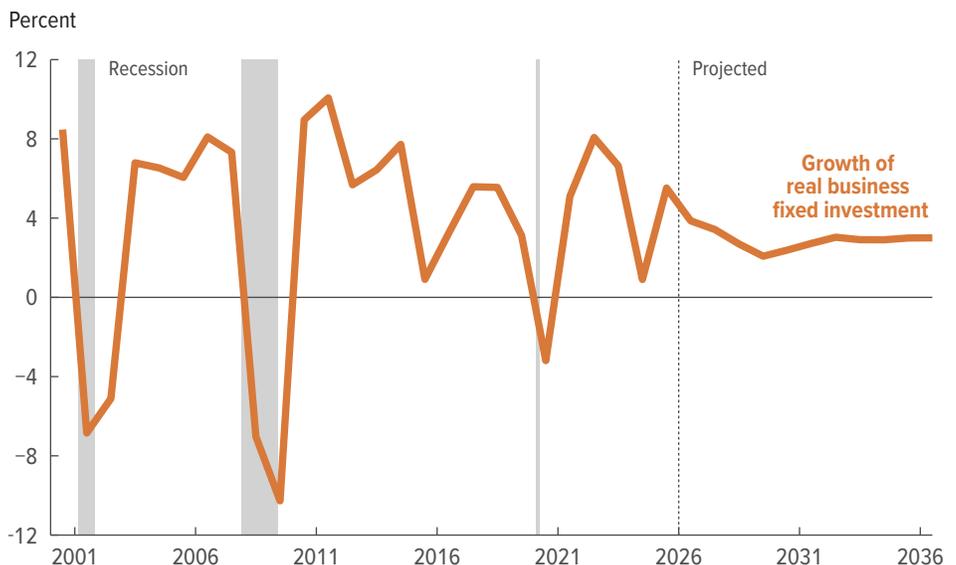


### Outlook for Output Growth

Real GDP grows by **2.2%** in 2026 and by **1.8%** in 2027.

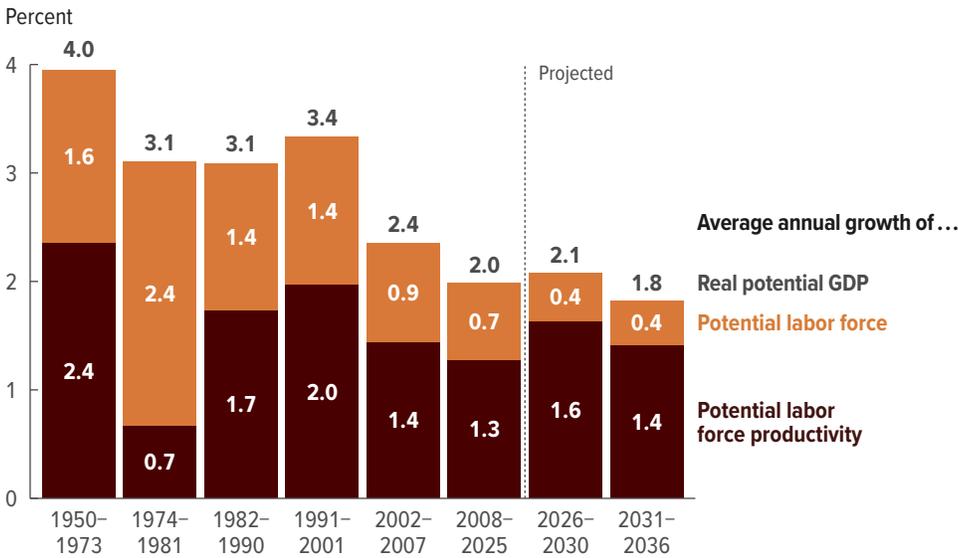
### Growth of Business Fixed Investment

In CBO’s projections, real business fixed investment, which consists of purchases of new equipment, nonresidential structures, and intellectual property products by private businesses and nonprofit institutions, grows by 3.9 percent in 2026. That growth is driven by investments in generative AI and the investment incentives in the 2025 reconciliation act. Real business fixed investment growth slows in later years.



### Growth of Real Potential GDP

Real potential GDP (the amount of real GDP that could be produced if labor and capital were employed at their maximum sustainable rates) grows by an average of 2.1 percent per year from 2026 to 2030 and by an average of 1.8 percent per year from 2031 to 2036 in CBO’s projections. Growth slows in the second half of the projection period because potential labor force productivity grows more slowly in those years.

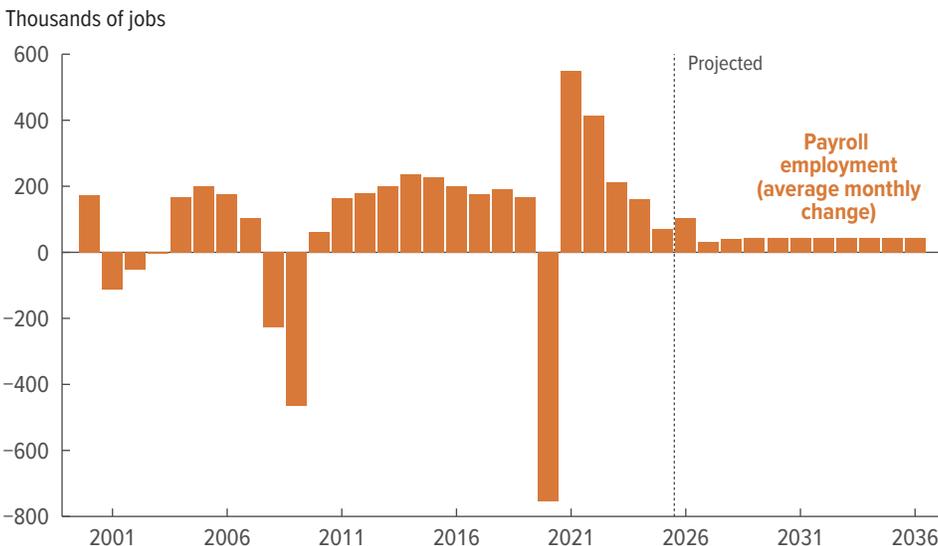


## Outlook for Employment

From 2028 to 2036, payroll employment grows at an average rate of **44,000** jobs per month, which is slower than its growth in recent years.

### Employment

In 2026, employment growth is projected to rebound as overall economic activity increases. In later years, fewer jobs are added to payrolls per month, on average, in CBO’s projections, because of the aging population and weaker demand for labor.



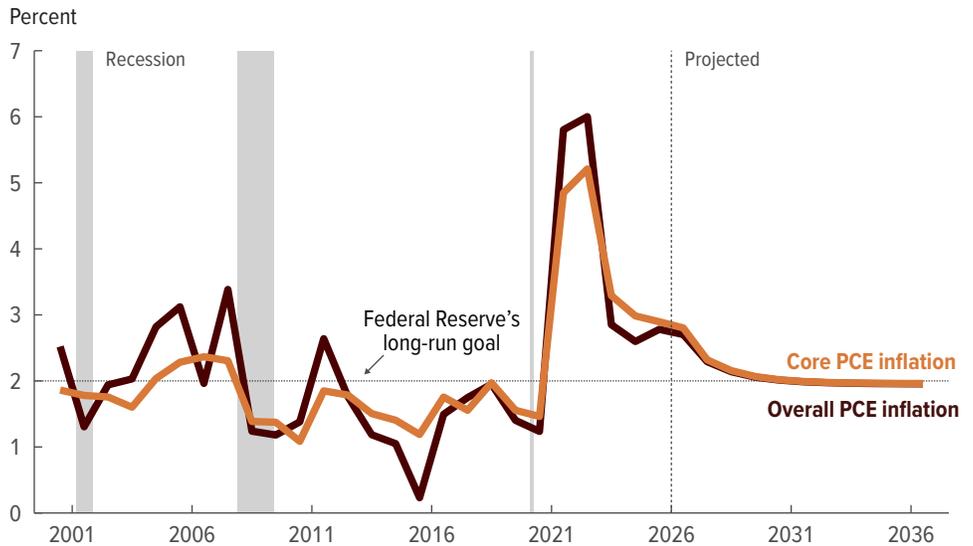
## Outlook for Inflation and Interest Rates

Inflation slows to **2.7%** in 2026 and to **2.0%** in 2030.

Interest rates on 10-year Treasury notes rise from **4.1%** in 2026 to **4.3%** in 2027.

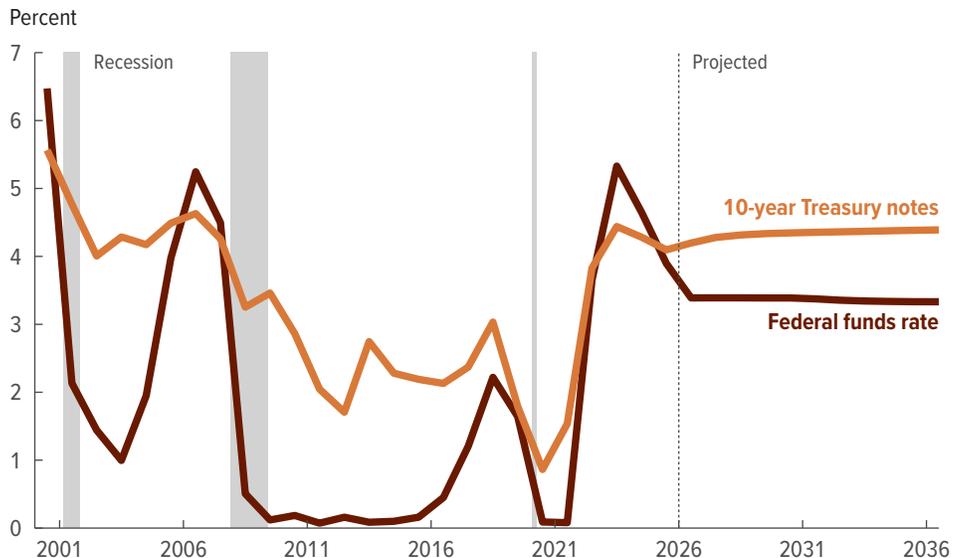
### Overall Inflation and Core Inflation

CBO expects overall price growth to slow in 2026 but to remain above the Federal Reserve’s 2 percent target rate. In CBO’s projections, inflation, as measured by the growth of the PCE price index, decreases from 2.8 percent in 2025 to 2.7 percent in 2026 as the effects of the tariffs imposed last year begin to wane. Inflation then declines gradually, reaching 2.0 percent in 2030 and remaining stable thereafter.



### Interest Rates

In CBO’s projections, the Federal Reserve continues lowering the federal funds rate, to 3.4 percent in the fourth quarter of 2026. That rate remains steady thereafter. The rate on 10-year Treasury notes rises gradually from 2026 to 2036, reflecting an increase in term premiums (the additional returns that investors require to hold a longer-term bond instead of a series of shorter-term securities).



This testimony reiterates the executive summary of *The Budget and Economic Outlook: 2026 to 2036*, which is one in a series of reports on the state of the budget and the economy that CBO issues each year. The report satisfies the requirement of section 202(e) of the Congressional Budget Act of 1974 for CBO to submit to the Committees on the Budget periodic reports about fiscal policy and to provide baseline projections of the federal budget.

In accordance with CBO's mandate to provide objective, impartial analysis, neither that report nor this testimony makes any recommendations. Both publications are available on CBO's website, at [www.cbo.gov/publication/61882](http://www.cbo.gov/publication/61882) and [www.cbo.gov/publication/62154](http://www.cbo.gov/publication/62154), respectively.



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