

FACT SHEET: MID-SESSION REVIEW, FY 2010

EMBARGOED UNTIL 9:30 AM EDT, 25 AUGUST 2009

- The Mid-Session Review updates the Administration’s economic forecast and budget projections. These new forecasts are based on new data that reflect how severe the economic downturn was in the late fall of 2008 and first half of this year. Our economic assumptions are in line with other major forecasters that put out reports over the past few months, and our budget projections are in line with the March projections from the Congressional Budget Office.
- These new numbers show how important it was to rescue the economy with aggressive action and invest in ways to get the economy moving again. In fact, our efforts to stabilize the financial sector have meant that we do not need a placeholder for further financial stabilization efforts or make more FDIC payments to protect depositors at failed banks – which are the primary reason why the size of this year’s deficit has fallen by almost \$262 billion or about 1.7 percent of GDP.
 - The 2009 deficit is now projected to be \$1.58 trillion—or 11.2 percent of GDP – down from \$1.841 trillion or 12.9 percent of GDP.
- The out-year deficit numbers are larger than forecast in the February budget, primarily due to changes in economic assumptions. In line with the current consensus among professional forecasters, the Administration’s economic projections show that we have inherited a deeper recession than understood in February.
 - For example, in January 2009, data at the time suggested that the economy in the third quarter of 2008 had declined by 0.5 percent. Revised data now suggest it actually had declined by 2.7 percent.
 - Also, certain spending programs, such as unemployment insurance and food stamps, automatically increase and revenues automatically decline as a result of a deeper-than-expected recession. Although this helps to ameliorate the economic downturn by stimulating demand, it also leads to higher medium-term deficits.
 - Over the next 10 years, these “automatic stabilizers” and technical adjustments are projected to add \$2 trillion to the deficits, relative to our last projection based on February’s economic assumptions.
 - In addition, the failure of past administrations to follow PAYGO rules has had a direct effect on our fiscal situation.
 - If we had abided by this approach during the previous Administration, the projected 10-year deficit would be \$5 trillion smaller.

- In other words, more than half of the projected deficits over the next 10 years are directly attributable to the previous Administration's failure to follow the pay-as-you-go principle.
- This brings the total 10-year deficit from 2010 to 2019 to \$9.051 trillion—in line with CBO's June projection. The out-year deficits hover in the range of 4 percent of GDP, which is higher than desirable.
 - It is worth noting, however, that by 2019, the difference between non-interest spending and revenue, which is also known as the “primary deficit,” is only 0.6 percent of GDP.
 - Interest payments, which almost entirely represent the cost of the debt accumulated by past administrations and the need to run short-run deficits to help the economy recover from the worst downturn since the Great Depression, are 3.4 percent of GDP by 2019.
- Our revised economic forecast continues to project that the recession will end in the second half of 2009. This is the consensus of private forecasters as well: 94 percent of those forecasters surveyed in the July Blue Chip Projection believe the recession will end at the end of the year. While this is encouraging news, the President will not be pleased until we start creating more jobs than we're losing, get Americans back to work, and build a new foundation for long-term economic growth.
- The Administration is very concerned about these out-year deficits. Getting the long-term deficit trajectory under control is a top priority of the Administration. We are in the midst of the policy process surrounding the FY 2011 budget, and that process will include proposals to put the nation on a fiscally sustainable path.