

RESULTS IN BRIEF

Highlights of the Fiscal Year 2018 Financial Report of the U.S. Government

Where We Are Now

The government's net cost before taxes and other revenues for fiscal year 2018 was \$4.5 trillion - an increase of \$10.1 billion (0.2 percent) from fiscal year 2017.

Net cost equals gross costs of \$4.8 trillion, less earned program revenues (e.g., Medicare premiums, national park entry fees), and then adjusted for gains or losses from assumption changes used to estimate future federal employee and veterans benefits payments.

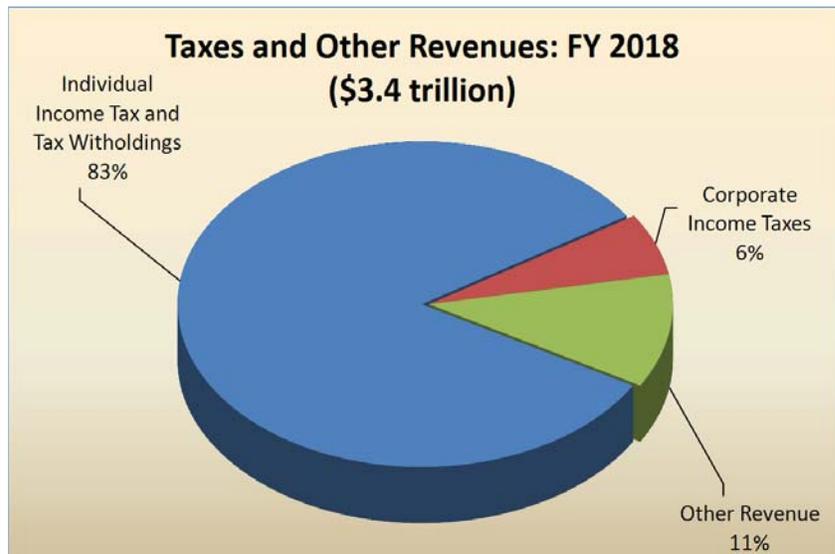
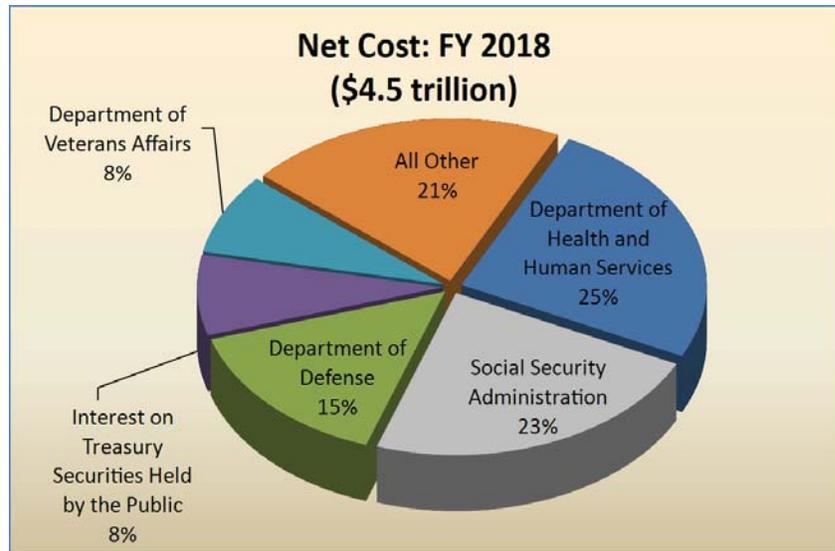
The increase in net cost is the combined effect of many offsetting increases and decreases across the government.

Total government tax and other revenues grew by \$9.7 billion (0.3 percent) to about \$3.4 trillion for fiscal year 2018.

The government deducts \$3.4 trillion in tax and other revenues from its \$4.5 trillion net cost (with some adjustments) to derive its fiscal year 2018 "bottom line" net operating cost of \$1.2 trillion, which is largely unchanged compared to fiscal year 2017.

By comparison, the government's budget deficit for fiscal year 2018 was \$779.0 billion – an increase of

\$113.3 billion (about 17.0 percent) over fiscal year 2017. The \$380.0 billion difference between the budget deficit and net operating cost is primarily due to accrued costs (incurred but not necessarily paid) that are included in net operating cost, but not the budget deficit. These include but are not limited to estimated future costs of federal employee and veterans benefits.



An Unsustainable Fiscal Path

The long-term fiscal projections indicate that the government's debt-to-GDP ratio will rise from 78 percent in 2018 to 530 percent over the 75-year projection period, and will continue to rise thereafter, if current policy is kept in place. The projections in this *Financial Report* show that current policy is not sustainable. These projections assume that current policy will continue indefinitely, and are, therefore, neither forecasts nor predictions. Nevertheless, policy changes must be enacted so that financial outcomes will be different than those projected.

The primary deficit is the difference between non-interest spending and receipts. As a ratio relative to gross domestic product (GDP), (the primary deficit-to-GDP ratio), it is useful for gauging long-term fiscal sustainability. This ratio spiked from 2009 through 2012 due to the financial crisis of 2008-09, the ensuing severe recession, and increased spending and temporary tax reductions enacted to stimulate the economy and support recovery. As the economic recovery took hold, the primary deficit-to-GDP ratio fell, averaging 1.9 percent from 2013-2018. The ratio is projected to rise to 2.9 percent in 2019 and then shrink slightly through 2024 as the economy grows. After 2024, increased spending for Social Security and health programs is projected to result in increasing primary deficits that peak in 2039 at 4.1 percent. This is due to the continued retirement of the baby boom generation and increases in health care costs. After 2039, the ratio gradually decreases to 2.5 percent in 2093 as the aging of the population slows. The primary deficit projections, along with those for interest rates and GDP, determine the debt-to-GDP ratio projections.

These projections assume the individual income and estate and gift tax provisions of the TCJA are permanently extended and discretionary spending grows at the same rate as nominal GDP beyond 2019. Congressional action is required to make these changes. GDP, interest, and other economic and demographic assumptions are the same as those that underlie the most recent Social Security and Medicare trustees' report projections, adjusted for historical revisions that occur annually. See Note 23 for more information.

If changes in policy are not so abrupt as to slow economic growth, then the sooner policy changes are adopted, the smaller the changes to revenue and/or spending will be required to return the government to a sustainable fiscal path.