United States: A New Downturn in the Federal Budget Deficit

The U.S. federal budget balance has deteriorated for a second year in a row, according to the results for the 2017 financial year ended September 30. The deficit went from US$439B in 2015 to US$586B in 2016 and then to US$666B in 2017. This is the largest deficit since 2013. The 2017 deficit represents 3.5% of real GDP compared with 3.2% in 2016 and 2.4% in 2015. At the worst of the 2009 economic and financial crisis the balance had hit a low of -US$1,416B, which was 9.8% of GDP.

What caused the deterioration in 2017? Income was rather weak, especially business taxes, which were slightly down. There was also a significant decline in income from Federal Reserve profits, which went from US$117B in 2016 to US$81B in 2017. That is partly due to the higher interest paid on reserves held by financial institutions. On the expenditures side, health services growth was more modest than in the previous year (+2.0% compared with +7.5% in 2016), but the debt service was up by US$30B (+6.3%), which is still less than the budget forecasts earlier this year. All in all, the total deficit of US$666B is lower than both the White House prediction in July (US$701B) and the Congressional Budget Office prediction in June (US$693B).

IMPLICATIONS

The increased deficit in 2017 is not disastrous, and the balance is even better than some forecasts, but public finances still seem to be on the downturn. The U.S. federal budget health is still a challenge, and it could be aggravated by the tax cut policies contemplated by the White House and the Republicans in Congress.