Committee for a Responsible Federal Budget

FACT SHEET: Are Deficits in Decline?
February 14, 2022

Last month, the federal government ran a *surplus* of $119 billion, the first monthly surplus since September 2019. The Fiscal Year 2022 deficit is slated to decline dramatically relative to 2021, and debt-to-GDP is likely to fall by the end of the fiscal year as well.

However, January's surplus was largely the result of timing shifts and one-time events. Moreover, while deficits and debt-to-GDP are likely to fall in the near term due to waning COVID relief and rapid inflation, debt remains at a near-record level, and both are on course to grow rapidly in the near future.

Some helpful context:

1. **Deficits will fall as temporary COVID relief ends, but debt will continue to grow**
    - Annual deficits averaged nearly ***$3 trillion*** per year in 2020 and 2021, twice the previous record
    - ***More than $2 trillion per year of this borrowing was from temporary COVID relief***, and CBO projects deficits will return to $1.15 trillion in 2022 as this relief expires
    - While deficits will fall, the national debt will continue to rise by well over $1 trillion this year and nearly *$13 trillion over the next decade*

2. **January's $119 billion surplus was largely a mirage**
    - January is often a surplus month, as taxpayers pay quarterly estimated tax payments
    - Excluding timing shifts and one-time payments, the ***January surplus was just $14 billion***, in line with the average over the decade before the COVID pandemic began
    - $81 billion of the official surplus was due to a one-time spectrum auction, while $24 billion was due to timing of payments that were scheduled to occur on a weekend or holiday

3. **High inflation eroded current debt but not long-term fiscal challenges**
    - High inflation reduced the value of outstanding debt – debt-to-GDP fell from 104 percent of GDP at the end of calendar year 2020 to 101 percent at the end of 2021
    - High inflation also increases future spending on programs like Social Security and interest on the debt – a one-point increase in annual inflation will ***increase debt by $1.7 trillion*** by 2031
    - High inflation will also lead the Federal Reserve to react more aggressively – a one-point increase in projected interest rates will ***increase debt by $2.1 trillion*** by 2031
    - Debt is expected to remain far above its historical average of 46 percent and will reach a new record as a result of population aging, rising health care costs, and rising interest rates