

Prefatory Note

The attached document represents the most complete and accurate version available based on original copies culled from the files of the FOMC Secretariat at the Board of Governors of the Federal Reserve System. This electronic document was created through a comprehensive digitization process which included identifying the best-preserved paper copies, scanning those copies,¹ and then making the scanned versions text-searchable.² Though a stringent quality assurance process was employed, some imperfections may remain.

Please note that this document may contain occasional gaps in the text. These gaps are the result of a redaction process that removed information obtained on a confidential basis. All redacted passages are exempt from disclosure under applicable provisions of the Freedom of Information Act.

¹ In some cases, original copies needed to be photocopied before being scanned into electronic format. All scanned images were deskewed (to remove the effects of printer- and scanner-introduced tilting) and lightly cleaned (to remove dark spots caused by staple holes, hole punches, and other blemishes caused after initial printing).

² A two-step process was used. An advanced optimal character recognition computer program (OCR) first created electronic text from the document image. Where the OCR results were inconclusive, staff checked and corrected the text as necessary. Please note that the numbers and text in charts and tables were not reliably recognized by the OCR process and were not checked or corrected by staff.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

TO: Federal Open Market Committee

DATE: August 19, 1985

FROM: Normand Bernard

SUBJECT: Greenbook Supplement
Correction

A portion of the last paragraph in the Greenbook supplement was inadvertently omitted from your first copy. The attached contains the omitted material, and for convenience of reference the rest of the original material and related table on the revised CBO budget projections.

Attachment

Revised CBO budget projections

"The Economic and Budget Outlook: An Update" was released by the Congressional Budget Office (CBO) on August 15. The report updates the CBO's economic assumptions and presents budget projections, based on the new assumptions, under baseline (FY1985) policies and under policies adopted by Congress in the first FY1986 budget resolution. Economic assumptions are summarized at the top of the table. The most significant differences between the current and previous (February) CBO economic assumptions are: about 1 percent slower real GNP growth for 1985 and about 1 percent lower Treasury bill rates over the entire projection period.

The updated CBO baseline budget projection is shown in the middle panel of the table. It assumes that entitlements and revenues will increase in line with the formulas and tax rates specified in current law. Nondefense discretionary program estimates assume that the real level of spending provided in 1985 appropriations bills will be maintained in the future. And defense spending projections are based on the policy in the FY1985 congressional budget resolution, adopted in September 1984. The baseline deficit estimates are a bit below CBO's February estimates primarily because of the lower interest rates assumed for this projection.

The CBO projection of the deficit outlook under policy adopted by Congress on August 1 in the first budget resolution for FY1986 is presented in the lower panel. These estimates assume that FY1986 appropriations bills will meet the targets set in the budget resolution and that the changes in entitlement formulas and tax law that are assumed in the resolution are enacted. The CBO estimates of the deficit under budget resolution are higher than the estimates reported in the budget resolution mainly because of less favorable economic assumptions.

CONGRESSIONAL BUDGET OFFICE ECONOMIC ASSUMPTIONS
(Calendar year, percent)

	1985	1986	1987	1988	1989	1990
Nominal GNP (yr/yr)	6.6	8.0	7.9	7.9	7.8	7.9
Real GNP (yr/yr)	2.6	3.6	3.4	3.5	3.5	3.5
CPI-U (yr/yr)	3.7	4.5	4.4	4.2	4.2	4.2
Civilian unemployment rate (CY ave.)	7.2	7.0	6.8	6.6	6.5	6.3
Three-month Treasury bill rate (CY ave.)	7.6	7.4	7.2	7.2	7.2	7.2

CONGRESSIONAL BUDGET OFFICE BASELINE BUDGET ESTIMATES¹
(Fiscal years, billions of dollars)

	1985	1986	1987	1988	1989	1990
Revenues	737	787	853	931	1002	1083
Outlays	<u>946</u>	<u>1000</u>	<u>1082</u>	<u>1174</u>	<u>1266</u>	<u>1368</u>
Deficit	210	212	229	243	264	285

1. Estimates are shown on a total budget basis, which includes the outlays of off-budget entities.

CONGRESSIONAL BUDGET OFFICE BUDGET ESTIMATES WITH POLICIES OF THE
FY1986 BUDGET RESOLUTION¹
(Fiscal years, billions of dollars)

	1985	1986	1987	1988	1989 ²	1990 ²
Revenues	737	790	858	939	1013	1094
Outlays	<u>946</u>	<u>965</u>	<u>1021</u>	<u>1082</u>	<u>1145</u>	<u>1214</u>
Deficit	210	175	163	143	132	120
Memo: Budget Resolution deficit	210	172	155	113	n.a.	n.a.

1. Estimates are shown on a total budget basis, which includes the outlays of off-budget entities.

2. CBO extrapolations.