



Insight

OMB's FY 2026 Mid-Session Review

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Executive Summary

- Last week, the Office of Management and Budget (OMB) released its fiscal year (FY) 2026 Mid-Session Review (MSR).
- While the MSR is typically a re-estimate of the President's Budget, the Trump Administration did not put out a full FY 2026 budget proposal; as a result, the MSR is not a re-estimate of the President's Budget but rather an estimate of how OMB believes the policy changes the administration has implemented thus far will affect the federal budget and the economy over the next decade.
- OMB estimates the administration's policy changes will reduce budget deficits by \$15.8 trillion over the next decade; it also projects the economy will grow an average of 3 percent per year, and inflation will average 2.2 percent per year over the next decade.

Introduction

Last week, the Office of Management and Budget (OMB) released its [fiscal year \(FY\) 2026 Mid-Session Review \(MSR\)](#). Typically, the MSR is a re-estimate of the President's Budget to account for the legislative, economic, and technical changes that have materialized since the budget's release. In a break with tradition, however, the Trump Administration did not put out a full FY 2026 budget proposal. Instead, it published a "[skinny budget](#)" that outlined its FY 2026 proposal for defense and nondefense discretionary spending. As a result, the MSR is not a re-estimate of the President's Budget but rather OMB's estimate of how the administration's policy changes to-date will affect the federal budget and economy over the next decade.

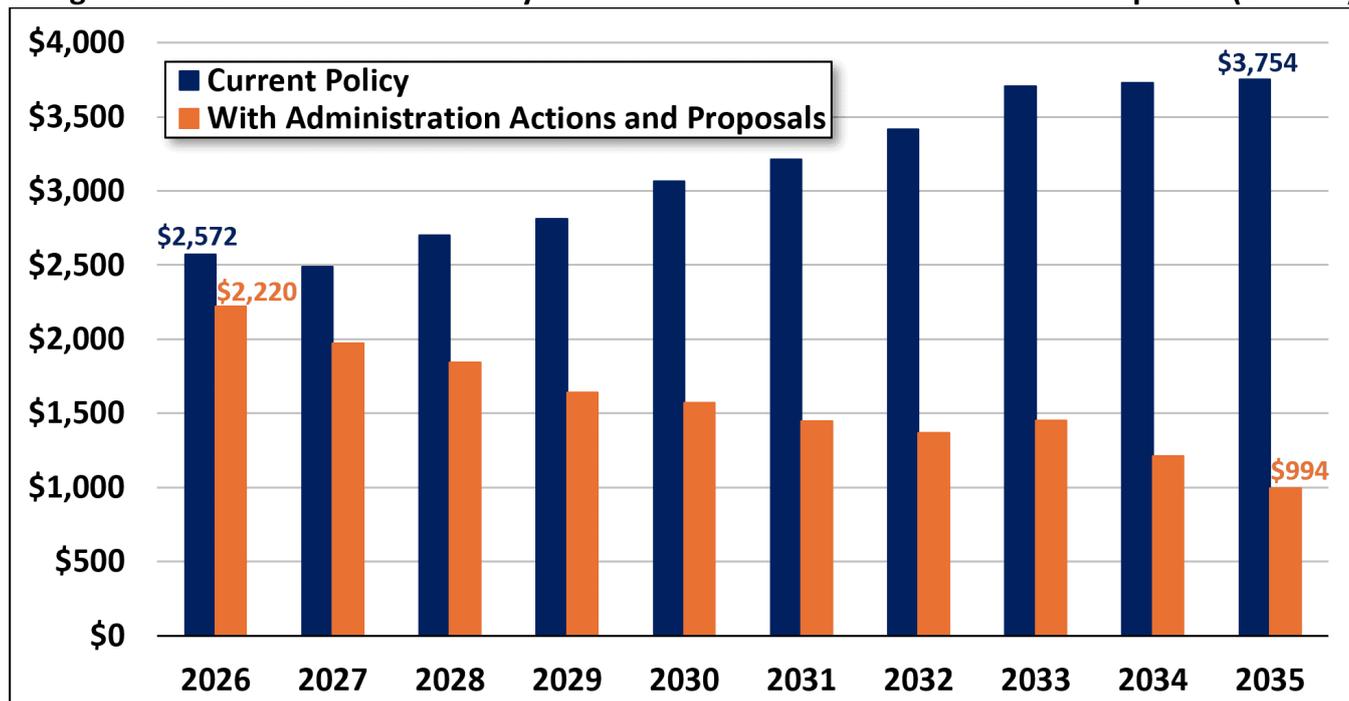
OMB estimates the administration's policy changes will reduce budget deficits by \$15.8

trillion over the FY 2026–2035 budget window. Meanwhile, OMB projects the economy will grow an average of 3 percent per year, and inflation will average 2.2 percent per year.

A Closer Look at the FY 2026 Mid-Session Review

OMB projected that under current policy, which assumed an extension of the Tax Cuts and Jobs Act of 2017, budget deficits would total \$31.5 trillion over the next decade. Specifically, the deficit would grow from \$2.6 trillion in FY 2026 to \$3.8 trillion in 2035.

Budget Deficits Under Current Policy and With Administration Actions and Proposals (Billions)



Source: OMB.

As a result of the administration’s policy changes, OMB now estimates that budget deficits will total \$15.7 trillion over the FY 2026–2035 budget window – a \$15.8 trillion reduction. It also projects the deficit will fall from \$2.2 trillion in FY 2026 to \$944 billion in FY 2035. At \$944 billion, the budget deficit in FY 2035 would be below \$1.0 trillion for the first time since FY 2019.

The \$15.8 trillion of claimed deficit reduction includes \$1.3 trillion of savings from the One Big Beautiful Bill, \$3.9 trillion of new revenue from tariffs, a \$217 billion increase in defense discretionary spending and a \$4.4 trillion reduction in nondefense discretionary spending, \$953 billion of technical revisions, \$5.6 trillion of macroeconomic feedback from the administration’s policy changes, and \$1.8 trillion of net interest savings.

Impact of Administration Actions and Proposals on Budget Deficits

| | FY 2026-2035 Cost/Savings (-) |
|--|--------------------------------------|
| Projected Deficits Before Policy Changes | \$31.5 trillion |
| Impact of One Big Beautiful Bill | -\$1.3 trillion |
| Impact of administration's tariffs | -\$3.9 trillion |
| Increased defense discretionary spending | \$217 billion |
| Reduced nondefense discretionary spending | -\$4.4 trillion |
| Increased mandatory spending to support discretionary spending proposals | \$14 billion |
| Technical revisions | \$953 billion |
| Macroeconomic feedback from administration's policies | -\$5.6 trillion |
| Net interest savings | -\$1.8 trillion |
| Total Claimed Deficit Reduction | -\$15.8 trillion |
| Projected Deficits After Policy Changes | \$15.7 trillion |

Sources: OMB and author's calculations.

The economic assumptions in the MSR are intended to reflect the growth effects of the administration's policies. OMB expects the administration's tax, energy, and regulatory policies to significantly boost economic growth over the next decade and provide a large economic dividend on top of that.

Specifically, OMB estimates that real gross domestic product will grow by 3.2 percent in 2026, by 3.1 percent between 2027 and 2029, by 3.0 percent in 2030, and by 2.9 percent between 2031 and 2035. This stronger economic growth is reflected in OMB's employment forecasts, with the unemployment rate falling to 3.7 percent by 2027 and remaining at that level thereafter.

On interest rates, OMB forecasts the interest rate on 10-year Treasury notes to average 3.9 percent in 2026, and then fall steadily to 3.3 percent by 2031, and remain at that level thereafter.

Regarding inflation, OMB estimates that the Personal Consumption Expenditures Price Index will hit the Federal Reserve's 2-percent target next year and hold steady at the target

rate over the next decade. Meanwhile, OMB projects the Consumer Price Index will total 2.2 percent in 2026, tick up to 2.3 percent in 2027, and then fall back to 2.2 percent in 2028 and beyond.

It is important to note that OMB's projections are based on its assumptions about the implementation and impact of the administration's policy priorities. The agency acknowledges that its projections may differ from those of other estimators, stating, "Outside forecasters may...differ on their assessments of enacted legislation...and the economic impacts of Administration efforts to rebalance trade, expand domestic energy production, and reduce burdensome regulations."