

# Investigating the Inefficiency of the CBO's Budgetary Projections

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## 1. What is the question of this paper?

The Congressional Budget Office (CBO) is a nonpartisan organization, producing the report and estimate of economy every year. The authorities take CBO's forecasting into account while determining the policy. Thus, the efficiency of the CBO's forecasting matters a lot. The author examines the efficiency of the CBO's budgetary and economic projections, and finds some adjustment to improve the forecasting.

## 2. Why should we care about it?

The fiscal policy in the US is decided, partly and indirectly, due to the CBO's budgetary projection. Also, some find that projected deficit to GDP ratio could increase the long-run forward rates, which means that the CBO's projections may influence the monetary policy. Thus, the efficiency of the projections is important.

## 3. What is the author's answer?

The author uses two methodologies of efficiency to test whether the projections behave well. He finds that both budgetary and economic projections perform not well. However, given the effect of economic projections, the author accepts the efficiency of CBO's budgetary projections.

## 4. How did the author get there?

First, the author builds a conventional forecasting model to test the forecasts error. Also, he tests if the forecast revisions are orthogonal to the past forecasts.

Second, he considers the conditional forecast evaluations. The projections may have some relationship. The economic forecasts are taken into account while the policy is discussed, and thus the budgetary forecasts are influenced. Therefore, conditional on the economic projections, the author tests the efficiency of CBO's budgetary projection again.