

OFFICE OF THE SECRETARY
CORRESPONDENCE CONTROL TICKET

Date Printed: Feb 07, 2007 12:46

PAPER NUMBER: LTR-07-0068

LOGGING DATE: 01/30/2007

ACTION OFFICE: CFO

AUTHOR: Rob Portman

AFFILIATION: OMB

ADDRESSEE: Agency Heads

SUBJECT: 2007 discount rates for OMB Circular No. A-94

ACTION: Appropriate

DISTRIBUTION: RF

LETTER DATE: 01/02/2007

ACKNOWLEDGED No

SPECIAL HANDLING: CFO/EDO

NOTES:

FILE LOCATION: ADAMS

DATE DUE:

DATE SIGNED:



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

January 2, 2007

M-07-05

MEMORANDUM FOR THE HEADS OF DEPARTMENTS AND AGENCIES

FROM:

Rob Portman
Director

A handwritten signature in black ink, appearing to read "Rob Portman", written over the printed name and title.

SUBJECT:

2007 Discount Rates for OMB Circular No. A-94

On October 29, 1992, OMB issued a revision to OMB Circular No. A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs." The revision established new discount rate guidelines for use in benefit-cost and other types of economic analysis.

The revised Circular specifies certain discount rates that will be updated annually when the interest rate and inflation assumptions in the budget are changed. These discount rates are found in Appendix C of the revised Circular. The attachment to this memorandum is an update of Appendix C. It provides discount rates that will be in effect for the calendar year 2007.

The rates presented in Appendix C do not apply to regulatory analysis or benefit-cost analysis of public investment. They are to be used for lease-purchase and cost-effectiveness analysis, as specified in the Circular.

Attachment

APPENDIX C
(Revised December 2006)

**DISCOUNT RATES FOR COST-EFFECTIVENESS, LEASE PURCHASE,
AND RELATED ANALYSES**

Effective Dates. This appendix is updated annually around the time of the President's budget submission to Congress. This version of the appendix is valid for calendar year 2007. A copy of the updated appendix can be obtained in electronic form through the OMB home page at http://www.whitehouse.gov/omb/circulars/a094/a94_appx-c.html, the text of the main body of the Circular is found at <http://www.whitehouse.gov/omb/circulars/a094/a094.html>, and a table of past years' rates is located at <http://www.whitehouse.gov/omb/circulars/a094/DISCHIST-2007.pdf>. Updates of the appendix are also available upon request from OMB's Office of Economic Policy (202-395-3381).

Nominal Discount Rates. A forecast of nominal or market interest rates for 2007 based on the economic assumptions for the 2008 Budget are presented below. These nominal rates are to be used for discounting nominal flows, which are often encountered in lease-purchase analysis.

**Nominal Interest Rates on Treasury Notes and Bonds
of Specified Maturities (in percent)**

<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>20-Year</u>	<u>30-Year</u>
4.9	4.9	4.9	5.0	5.1	5.1

Real Discount Rates. A forecast of real interest rates from which the inflation premium has been removed and based on the economic assumptions from the 2008 Budget is presented below. These real rates are to be used for discounting constant-dollar flows, as is often required in cost-effectiveness analysis.

**Real Interest Rates on Treasury Notes and Bonds
of Specified Maturities (in percent)**

<u>3-Year</u>	<u>5-Year</u>	<u>7-Year</u>	<u>10-Year</u>	<u>20-Year</u>	<u>30-Year</u>
2.5	2.6	2.7	2.8	3.0	3.0

Analyses of programs with terms different from those presented above may use a linear interpolation. For example, a four-year project can be evaluated with a rate equal to the average of the three-year and five-year rates. Programs with durations longer than 30 years may use the 30-year interest rate.