



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for February and the *Daily Treasury Statements* for March

April 7, 2004

The federal government incurred a deficit of \$297 billion in the first six months of fiscal year 2004, CBO estimates, \$44 billion more than in the same period last year. Although revenues have risen by 2.5 percent compared with their level in the first half of last year, outlays have grown more quickly, increasing by about 6 percent.

FEBRUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	90	85	-4
Outlays	186	182	-4
Deficit (-)	-96	-97	-1

Sources: Department of the Treasury; CBO.

The Treasury reported a deficit of \$97 billion in February 2004, about \$1 billion more than CBO's estimate based on the *Daily Treasury Statements*. Both receipts and outlays were about \$4 billion lower than projected, primarily because refundable tax credits (which are recorded as outlays) were smaller than anticipated and tax refunds (which offset revenues) were correspondingly higher than expected.

ESTIMATES FOR MARCH (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	120	135	15
Outlays	179	205	26
Deficit (-)	-59	-70	-11

Sources: Department of the Treasury; CBO.

The deficit in March was about \$70 billion, CBO estimates, \$11 billion more than the deficit incurred in the same month last year.

CBO estimates that the Treasury collected about \$135 billion in revenues in March, about \$15 billion (or 12 percent) more than it received in March 2003. Withheld receipts of individual income and payroll taxes were slightly more than \$10 billion (or 8 percent) higher than in March 2003. The effect of two additional business days in March 2004 accounted for approximately \$6 billion of that increase in revenues. Nonwithheld receipts

were about \$1 billion higher than in March 2003. Offsetting some of the rise in withheld and nonwithheld taxes were increases of almost \$4 billion in refunds of individual income taxes. Net corporate receipts rose by more than \$7 billion, mostly because refunds were down by a little less than \$6 billion. Both the rise in corporate tax payments and the growth in withheld individual income taxes are consistent with a strengthening in the economy.

Outlays were \$26 billion higher this March than they were last March, CBO estimates. A shift in payment dates and an accounting adjustment affected the growth in outlays. First, because March 1, 2003, fell on a weekend, about \$10 billion in payments that would ordinarily have been made that March were instead made at the end of February. Second, changes in agencies' estimates of the subsidy cost of loans and loan guarantees made in previous years increased outlays by about \$4 billion in March 2003 and by an estimated \$1 billion in March 2004. Without those two factors, outlays in March would have grown by about 10 percent from 2003 to 2004. Adjusted for shifts in payment dates, defense spending was up by about \$7 billion compared with the same month last year, and outlays for Medicare and Medicaid increased by a total of about \$8 billion. Some of those increases were the result of two additional business days in March 2004.

BUDGET TOTALS THROUGH MARCH (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	825	845	20
Outlays	1,078	1,142	64
Deficit (-)	-253	-297	-44

Sources: Department of the Treasury; CBO.

The government recorded a deficit of \$297 billion for the first half of fiscal year 2004, CBO estimates, about \$44 billion more than for the same period last year. Receipts were about \$20 billion higher and outlays about \$64 billion higher than in the first six months of 2003.

Note: Unless otherwise indicated, the numbers in this report include the Social Security trust funds and the Postal Service fund, which are off-budget. Numbers may not add up to totals because of rounding.

RECEIPTS THROUGH MARCH
(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	372	365	-1.8
Corporate Income	45	67	51.3
Social Insurance	339	342	1.0
Other	<u>70</u>	<u>71</u>	1.4
Total	825	845	2.5

Sources: Department of the Treasury; CBO.

In the first half of fiscal year 2004, receipts rose by about \$20 billion, or 2.5 percent, compared with the same period in fiscal year 2003. That growth can be attributed to an increase of almost \$23 billion in net corporate receipts, which were boosted by a \$14 billion decline in refunds, and to a \$3 billion rise in social insurance (payroll) taxes. Those increases were offset by a decline of about \$7 billion in revenues from individual income taxes. Other sources of revenue were about \$1 billion higher.

Withheld income and payroll tax receipts rose by about \$8 billion, or about 1 percent, in the first six months of fiscal year 2004. Excluding the effects of the tax cuts enacted in May 2003 and of one extra business day, withheld receipts have grown by nearly 5 percent so far this year. Growth in withheld receipts was even higher in March, consistent with the strong employment report released last Friday. Nonwithheld receipts were about \$1 billion lower this year than last year, while refunds of individual income taxes increased by about \$12 billion.

Individual refunds (including refundable credits) have risen by 9 percent during this filing season, although the average refund is only about 5 percent above last year's level. By this point in the tax season, two-thirds of refunds have typically been processed. From the information now available, it does not appear that refunds will grow as much as CBO had expected.

Whether or not the behavior of refunds foreshadows higher-than-expected receipts for the fiscal year depends on the other major piece of the tax story for this year's filing season—final payments from individuals. The amount of those payments is still largely unknown because most of them are made around April 15 and processed over the following few weeks.

OUTLAYS THROUGH MARCH
(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change
Defense—Military	181	213	17.7
Social Security			
Benefits	231	240	4.1
Medicare	135	145	6.9
Medicaid	77	87	12.4
Other Programs			
and Activities	<u>371</u>	<u>376</u>	1.5
Subtotal	995	1,061	6.6
Net Interest on the			
Public Debt	<u>83</u>	<u>81</u>	-2.3
Total	1,078	1,142	6.0

Sources: Department of the Treasury; CBO.

Outlays in the first six months of 2004 were 6 percent higher than in the same period last year, CBO estimates. Excluding the decline in outlays for net interest on the public debt, spending has increased by 6.6 percent.

CBO estimates that defense outlays through March were about 18 percent above the amount spent in the first six months of fiscal year 2003, which largely predated the war in Iraq. Military spending averaged about \$36 billion a month in the second quarter of fiscal year 2004 (after adjusting for shifts in payment dates), about 4 percent higher than the amount spent in the first three months of 2004.

Medicaid outlays through March were 12.4 percent higher than in the first half of 2003, in part because a temporary increase in the federal matching rate took effect last April. Excluding the effects of that increase, Medicaid outlays in the first half of 2004 would have grown at an annual rate of 6 percent to 7 percent.

The growth in spending for other programs and activities was relatively flat in the first half of the year, inching up 1.5 percent from the amount spent in the first six months of 2003. Second-quarter outlays dipped \$5 billion below the amount spent in the same quarter last year. Although that decline was partly due to the timing of revisions to estimates of the cost of certain credit subsidies, it also reflected lower payments for agricultural commodity programs and unemployment benefits. Reductions in those and other programs, together with higher earnings of the National Railroad Retirement Investment Trust, offset most of the increases in spending for education, temporary fiscal assistance to states, the Public Health Service, and other activities.