



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for October and the *Daily Treasury Statements* for November

December 10, 2002

The federal government incurred a deficit of about \$114 billion in the first two months of fiscal year 2003, CBO estimates, \$52 billion more than the deficit it recorded over the same period last year. The budgetary outlook for this year remains particularly uncertain because most of the appropriation bills have not been enacted and because of the possibility of military action.

OCTOBER RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	124	125	1
Outlays	177	179	2
Deficit (-)	-53	-54	*

NOTE: * = between zero and -\$500 million.
SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$54 billion in October, slightly more than CBO had projected on the basis of the *Daily Treasury Statements*. Revenues were higher than CBO had anticipated, primarily from corporate income taxes. Outlays were about \$2 billion more than CBO estimated, largely as a result of higher-than-expected spending by the departments of Agriculture (USDA), Energy, and the Treasury.

ESTIMATES FOR NOVEMBER (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	121	120	-1
Outlays	176	180	5
Deficit (-)	-54	-60	-6

SOURCES: Department of the Treasury; CBO.

The federal government recorded a deficit of \$60 billion in November 2002, CBO estimates, \$6 billion more than in the same month last year. Receipts fell by \$1 billion relative to last November's total, while outlays rose by about \$5 billion. Small declines in receipts from individual and corporate income taxes were nearly offset by

modest increases in receipts from social insurance and excise taxes. The increase in outlays was primarily the result of higher spending for Social Security, the Defense Department, Medicaid, unemployment benefits, and the Food and Nutrition Service.

BUDGET TOTALS THROUGH NOVEMBER (In billions of dollars)

	October-November FY2002	October-November FY2003	Estimated Change
Receipts	278	245	-33
Outlays	340	359	19
Deficit (-)	-62	-114	-52

SOURCES: Department of the Treasury; CBO.

The estimated deficit for the first two months of this fiscal year—\$114 billion—was about \$52 billion greater than the shortfall for the same period last year. Revenues declined by \$33 billion, while outlays grew by \$19 billion.

RECEIPTS THROUGH NOVEMBER (In billions of dollars)

Major Source	October-November FY2002	October-November FY2003	Percentage Change
Individual Income	134	123	-8.5
Corporate Income	20	-7	n.a.
Social Insurance	102	105	3.2
Other	22	23	4.1
Total	278	245	-12.0

SOURCES: Department of the Treasury; CBO.

NOTE: n.a. = not applicable.

NOTE: Unless otherwise indicated, the figures 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.

In the first two months of fiscal year 2003, total receipts were \$245 billion, down \$33 billion from the same two months last year. A large part of that decline occurred because receipts in October 2001 were boosted by \$23 billion by legislation that allowed corporations to delay making their quarterly estimated payments of income taxes normally due in September 2001. The quarterly payments were back on their normal schedule in September 2002. In addition, withheld receipts of income and payroll taxes in the first two months of fiscal year 2003 were \$5 billion lower than during the comparable months of last year; that decline resulted from weak income growth and cuts in income tax rates enacted last year. The drop in net receipts in the first two months of this fiscal year also reflects an increase of \$4 billion in refunds of corporate and individual income taxes.

Net receipts from corporate income taxes were negative in the first two months of fiscal year 2003 because corporations received \$7 billion more in refunds than they paid in taxes. In recent months, many firms received refunds of past taxes as a result of weak profitability and the tax cuts enacted in March 2002 as a part of the economic stimulus legislation. Net receipts for the year will turn positive in December because quarterly estimated payments are due for most corporations.

OUTLAYS THROUGH NOVEMBER
(In billions of dollars)

Major Category	October-November		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	55	60	10.3	9.9
Social Security				
Benefits	72	76	5.1	5.1
Medicare	43	48	12.8	5.3
Medicaid	25	27	8.1	8.1
Unemployment				
Insurance	7	9	36.7	36.7
Other Programs and Activities	<u>107</u>	<u>111</u>	4.1	5.2
Subtotal	307	331	7.7	6.9
Net Interest on the Public Debt	<u>33</u>	<u>28</u>	-14.2	-14.2
Total	340	359	5.6	4.8

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends, holidays, legislative action, and changes in the accounting of certain health programs of the Department of Defense.

Outlays grew at a modest pace in the first two months of this fiscal year, increasing by 5.6 percent over the levels recorded for the same period last year, CBO estimates. After adjusting for shifts in payment dates and certain accounting changes, that rate of growth falls to 4.8 percent. (Outlays grew by about 8 percent in fiscal year 2002, adjusted for calendar shifts.)

CBO is adjusting its estimates of the year-to-year change in spending in 2003 to reflect the new accounting treatment for certain health programs administered by the Department of Defense (DoD). Those accounting adjustments primarily affect the allocation of costs between DoD's military and civilian operations, which are shown separately in the table at left (under "defense—military" and "other programs and activities"). In the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, the Congress provided a new health care benefit for military retirees, their dependents, and surviving spouses who also are eligible for Medicare. This benefit was paid out of the annual appropriation to DoD in fiscal years 2001 and 2002 but will be paid out of a trust fund beginning in 2003. This trust fund is financed through monthly accrual payments made by DoD and payments by the Treasury (both are deposited into the fund). To more accurately compare spending between fiscal years, CBO has subtracted the accrual charges from defense and nondefense spending in 2003 and has added the benefits paid by the trust fund to the defense spending totals.

Defense spending is averaging about \$30 billion a month so far this fiscal year. This level of spending is similar to the monthly average recorded in the second half of 2002, but it represents a 9.9 percent increase relative to the same period last year (after adjusting for timing and accounting shifts).

Spending for unemployment insurance in the first two months of this year was significantly higher than for the same period last year, largely because of the temporary extension of benefits that was enacted last March. Those emergency payments, which have averaged about \$1 billion a month, will expire on December 28, 2002.

Outlays for other programs and activities are running about 5.2 percent ahead of last year's pace, CBO estimates. This category includes nondefense discretionary programs being funded by a continuing resolution, which runs through January 11 and limits the rate of spending to the amounts provided for 2002. Among the agencies experiencing above-average growth so far this year are the Department of Education and USDA's Food and Nutrition Service and Agricultural Marketing Service.