



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for April and the *Daily Treasury Statements* for May

June 9, 2003

CBO now projects that the federal government is likely to end fiscal year 2003 with a deficit of more than \$400 billion, or close to 4 percent of gross domestic product. The deterioration in the short-term budget outlook stems from continued weakness in revenue collections and from enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which will add an estimated \$61 billion to this year's deficit in the form of tax cuts, refundable credits, and aid to states. The recent extension of unemployment benefits will boost outlays by another \$3 billion this year. For the first eight months of 2003, the government ran a deficit of \$291 billion, CBO estimates, about twice the shortfall it incurred in the same period last year.

APRIL RESULTS (In billions of dollars)

	Preliminary		Difference
	Estimate	Actual	
Receipts	230	231	2
Outlays	179	180	1
Surplus	50	51	1

SOURCES: Department of the Treasury; CBO.

The Treasury reported a surplus of \$51 billion in April, \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Receipts from income taxes were about \$2 billion higher than CBO had expected, largely the result of lower-than-anticipated tax refunds. Outlays were about \$1 billion greater than expected, primarily because of spending for defense programs and refundable tax credits.

ESTIMATES FOR MAY (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	102	102	*
Outlays	183	192	9
Deficit (-)	-81	-90	-9

SOURCES: Department of the Treasury; CBO.

NOTE: * = between -\$500 million and \$500 million.

CBO estimates that the deficit in May was about \$90 billion—\$9 billion more than in May 2002. Revenues were nearly unchanged from last May's level, but outlays rose by about \$9 billion.

Receipts from individual income taxes were about \$3 billion lower than in May 2002, largely because withheld receipts were down by \$4 billion as a result of one fewer business day this May. Corporate receipts and social insurance receipts were each up by about \$2 billion compared with May of a year ago. The increase in social insurance receipts occurred in payments of unemployment insurance taxes. Those payments have been boosted by increases in states' unemployment tax rates in response to diminished balances in their unemployment trust funds; the receipts are recorded as federal revenues.

Outlays were \$9 billion (or 5 percent) higher this May than last May, CBO estimates. Higher defense spending accounted for much of that growth.

BUDGET TOTALS THROUGH MAY (In billions of dollars)

	October-May		Estimated Change
	FY2002	FY2003	
Receipts	1,219	1,159	-60
Outlays	1,364	1,450	86
Deficit (-)	-145	-291	-146

SOURCES: Department of the Treasury; CBO.

The budget deficit for fiscal year 2003 totaled \$291 billion through May, CBO estimates, compared with a deficit of \$145 billion for the same period last year. That \$146 billion change resulted both from lower receipts (down by about \$60 billion) and from higher outlays (up by about \$86 billion). Partly as a result of the sizable deficit, federal debt subject to the statutory limit has grown by \$337 billion since September 30, totaling almost \$6.5 trillion on May 31. The Congress recently raised the statutory debt ceiling by \$984 billion to nearly \$7.4 trillion.

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.

RECEIPTS THROUGH MAY

(In billions of dollars)

Major Source	October-May		Percentage Change
	FY2002	FY2003	
Individual Income	563	517	-8.2
Corporate Income	89	66	-25.9
Social Insurance	472	481	2.0
Other	<u>95</u>	<u>94</u>	-0.4
Total	1,219	1,159	-4.9

SOURCES: Department of the Treasury; CBO.

Receipts for the first eight months of this fiscal year were about \$60 billion, or 4.9 percent, lower than during the same months of fiscal year 2002. Most of the drop so far this year has occurred in receipts of individual income taxes, which have fallen by about \$46 billion, or 8.2 percent. About \$27 billion of that drop has occurred in nonwithheld taxes, largely reflecting final settlements of taxes for 2002 that were due to the Internal Revenue Service by April 15. Information is not yet available to explain the sources of that decline. Withheld individual income taxes have also fallen in fiscal year 2003, declining by about \$17 billion compared with their level in the first eight months of fiscal year 2002.

For the October-May period this fiscal year, corporate receipts have fallen by about \$23 billion. That drop is largely explained by the timing of certain payments. Legislation enacted in 2001 delayed about \$23 billion in payments from September 2001 to October 1, 2001, pushing up receipts in fiscal year 2002. Adjusted for that timing shift, corporate tax payments have been about the same this year as they were last year.

Social insurance receipts, linked largely to wages and salaries, have grown by about \$9 billion, or 2 percent, in the first eight months of fiscal year 2003. Other receipts have been largely unchanged.

The effects of the tax cuts enacted in the Jobs and Growth Tax Relief Reconciliation Act will begin to appear in June, CBO expects, and will reduce receipts by about \$49 billion this fiscal year. New withholding rates go into effect as quickly as businesses can implement them; CBO estimates that the lower rates, which must be fully implemented by July 1, will reduce individual income tax receipts by about \$5 billion each month from July through September. In late July and early August, certain taxpayers with children are expected to receive advance refund checks from the Treasury Department, reflecting the increased child tax credit under the new law. Businesses' tax payments this fiscal year will also be reduced by tax law changes that accelerate depreciation schedules and delay a due date for the payment of estimated taxes.

OUTLAYS THROUGH MAY

(In billions of dollars)

Major Category	October-May		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	220	253	15.3	14.1
Social Security				
Benefits	297	309	4.1	4.1
Medicare	171	186	8.3	6.3
Medicaid	97	104	6.9	6.9
Unemployment				
Insurance	35	40	13.7	13.7
Other Programs				
and Activities	<u>423</u>	<u>446</u>	5.4	6.1
Subtotal	1,243	1,338	7.6	7.3
Net Interest on the				
Public Debt	<u>121</u>	<u>112</u>	-7.3	-7.3
Total	1,364	1,450	6.3	6.0

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of legislative action or changes in the accounting for certain health payments of the Department of Defense.

Outlays through May were about 6 percent higher than for the same period last year, CBO estimates. Interest costs are running below last year's levels, but all other spending has risen by more than 7 percent.

The 2003 appropriations for the Department of Defense are about 27 percent above their level in 2002. Adjusted for accounting changes, however, outlays so far this year are only 14 percent higher than the amounts recorded through May 2002. CBO expects the gap to narrow as the department spends more of the funds provided in the supplemental appropriation enacted in April.

Outlays for the two major health entitlement programs were about 6.6 percent higher through May 2003 than for the same period last year. This year's slower growth rate represents a significant change for Medicaid, which previously experienced six consecutive years of accelerating growth in spending, peaking at 13.2 percent in 2002. The slowdown is most likely the result of smaller increases in payment rates, slower growth in enrollment, and restrictions on spending associated with Medicare's upper payment limit.

The 6.1 percent increase in spending for other activities this fiscal year has been driven by double-digit growth in outlays for education programs, refundable tax credits, the Public Health Service, Food Stamps, and Temporary Assistance for Needy Families. In contrast, outlays for agricultural commodity programs, the Postal Service, and the Department of the Interior are below the amounts spent through May 2002.