



# MONTHLY BUDGET REVIEW

## Fiscal Year 2003

### A Congressional Budget Office Analysis

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

March 10, 2003

In the first five months of fiscal year 2003, the federal government ran a deficit of about \$195 billion, CBO estimates, \$128 billion more than for the same period last year. CBO now estimates that in the absence of further tax or spending legislation, the deficit will reach \$246 billion in 2003. Additional funding for military activity in the Middle East would add to the deficit.

#### JANUARY RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	188	188	*
Outlays	178	177	-1
Surplus	10	11	1

SOURCES: Department of the Treasury; CBO.

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

The Treasury reported a surplus of \$11 billion in January, about \$1 billion more than CBO's projection based on the *Daily Treasury Statements*. Most of that difference was due to lower-than-expected outlays.

#### ESTIMATES FOR FEBRUARY

(In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	98	89	-9
Outlays	174	187	12
Deficit	-76	-98	-22

SOURCES: Department of the Treasury; CBO.

The deficit in February was about \$98 billion, CBO estimates, \$22 billion more than the deficit incurred in the same month last year. Revenues were about \$9 billion lower, and outlays about \$12 billion higher, than the levels of last February.

CBO estimates that receipts (net of refunds) in February were \$89 billion, or \$9 billion below amounts received last February. Although gross receipts were very near last February's level, refunds of individual income taxes were an estimated \$11 billion higher. February is traditionally the first month in which taxpayers receive substantial refunds from filing tax returns due by April 15. It appears that refunds were higher at least in part because of faster processing this year.

Outlays were particularly high in February because a substantial portion of refundable tax credits are paid in that month. CBO estimates that those payments totaled about \$20 billion this February, about \$2.5 billion more than was paid in February 2002. Defense spending was an estimated \$2 billion to \$3 billion higher than last year, and the three largest entitlement programs (Social Security, Medicare, and Medicaid) together grew by about \$3 billion.

#### BUDGET TOTALS THROUGH FEBRUARY

(In billions of dollars)

	October-February		Estimated Change
	FY2002	FY2003	
Receipts	768	704	-64
Outlays	835	899	64
Deficit	-68	-195	-128

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of \$195 billion for the first five months of fiscal year 2003, CBO estimates, about \$128 billion more than for the same period last year. Receipts were about \$64 billion lower and outlays about \$64 billion higher than in the same period in 2002; both represent changes of approximately 8 percent.

#### RECEIPTS THROUGH FEBRUARY

(In billions of dollars)

Major Source	October-February		Percentage Change
	FY2002	FY2003	
Individual Income	374	332	-11.3
Corporate Income	63	32	-48.4
Social Insurance	273	282	3.3
Other	57	57	0.5
Total	768	704	-8.3

SOURCES: Department of the Treasury; CBO.

Lower collections of individual and corporate income taxes accounted for the year-over-year decline in receipts through February. Receipts from individual income

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.

taxes fell by \$42 billion, and receipts from corporate income taxes dropped by \$31 billion. Social insurance receipts rose by \$9 billion, and other receipts were nearly unchanged.

Between \$40 billion and \$45 billion of the decline in receipts so far this fiscal year can be traced to tax law changes enacted in 2001 and 2002. First, \$23 billion of the decline occurred because corporate receipts in October 2001 were boosted by tax legislation that delayed payments normally due in September. (Payments were back on their normal schedule this year.) Second, about \$10 billion of the decline is due to cuts in individual income tax rates enacted in 2001 that took effect in January 2002. Third, corporate receipts this year have fallen by roughly \$10 billion as a result of the economic stimulus legislation enacted in March 2002. CBO expects the year-over-year decline in receipts from that law to narrow a bit during the rest of 2003.

After adjusting for those legislative changes, CBO estimates that receipts dropped by another \$20 billion compared with the same period last year. Nonwithheld receipts of individuals fell by \$9 billion, largely because of weakness in January's quarterly estimated payments. Individual refunds climbed by \$16 billion; about \$14 billion of that increase occurred in January and February and at least in part represents faster processing of tax returns so far this year.

### OUTLAYS THROUGH FEBRUARY (In billions of dollars)

Major Category	October-February		Percentage Change	
	FY2002	FY2003	Actual	Adjusted <sup>a</sup>
Defense—Military	130	152	17.2	14.1
Social Security				
Benefits	184	192	4.3	4.3
Medicare	101	116	14.1	7.6
Medicaid	60	65	7.4	7.4
Unemployment				
Insurance	19	24	25.2	25.2
Other Programs and Activities	<u>264</u>	<u>281</u>	6.3	5.1
Subtotal	760	830	9.3	7.5
Net Interest on the Public Debt	<u>76</u>	<u>69</u>	-8.7	-8.7
Total	835	899	7.7	6.0

SOURCES: Department of the Treasury; CBO.

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

Outlays through February were 7.7 percent higher than in the same period last year, CBO estimates. Adjusted

for shifts in the timing of various payments, the rate of growth was about 6 percent, which is roughly the rate of increase CBO anticipates for this fiscal year (excluding the effects of additional appropriations for military activities).

Defense activities will continue to be a driving force in outlay growth this year, and expenditures for the three major entitlement programs are likely to continue to grow at their current pace. The percentage increase in unemployment benefits is likely to taper off in the months ahead as the month-by-month difference between the amounts spent last year and this year gets smaller. In contrast, CBO projects that spending for other programs will end the year about 8 percent higher than in 2002, compared with the adjusted 5 percent increase recorded through February.

### CBO'S BASELINE PROJECTIONS FOR FISCAL YEAR 2003 (In billions of dollars)

	As of January	As of March	Change
Receipts	1,922	1,891	-30
Outlays	2,121	2,137	17
Deficit	-199	-246	-47

SOURCE: CBO.

On March 7, CBO released updated baseline projections for 2003. CBO now estimates that the deficit will reach \$246 billion in 2003, assuming no new tax or spending legislation is enacted. The projected deficit is \$47 billion higher than CBO estimated in January.

About two-thirds of the projected growth in the deficit, or \$30 billion, reflects a reduction in projected revenues. CBO made this downward adjustment because of the weakness in collections to date. Outlays are expected to be \$17 billion higher than CBO estimated in January, primarily because of legislative changes enacted in Public Law 108-7 (also known as the omnibus appropriation act). Appropriations for discretionary programs in that act were about \$15 billion higher than CBO assumed in January, increasing 2003 outlays by an estimated \$9 billion. Other provisions in that act are estimated to boost mandatory spending by about \$4 billion this year.

CBO estimates that enacting the tax and spending legislation proposed by the President would increase the federal deficit by \$41 billion in 2003, resulting in a total shortfall of \$287 billion for this fiscal year. Additional details regarding those proposals and CBO's baseline projections are presented in *An Analysis of the President's Budgetary Proposals for Fiscal Year 2004: An Interim Report*, which is available at [www.cbo.gov](http://www.cbo.gov).



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