MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

February 10, 2003

The federal government ran a deficit of $98 billion in the first four months of fiscal year 2003, the Congressional Budget Office (CBO) estimates, compared with a surplus of $8 billion during the same period last year. CBO now projects that the government will end 2003 with a deficit of $199 billion if appropriations for 2003 total $751 billion and if no other tax or spending legislation, including possible additional appropriations to finance military activity in the Middle East, is enacted this year.

DECEMBER RESULTS

The Treasury reported a surplus of $4 billion in December, the same as CBO's projection based on the *Daily Treasury Statements.*

ESTIMATES FOR JANUARY
(In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	203	188	-15
Outlays	160	178	18
Surplus	44	10	-33

SOURCES: Department of the Treasury; CBO.

The surplus in January was $10 billion, CBO estimates, about $33 billion less than the surplus recorded in the same month last year.

CBO estimates that total receipts in January were $188 billion—$15 billion, or about 8 percent, lower than receipts in January 2002. Declines occurred in receipts from individual income and payroll taxes that were not withheld ($8 billion), corporate income taxes ($7 billion), and excise taxes ($4 billion). Some of the decline in receipts was offset by increases in withheld income taxes, which were about $4 billion more than in January of last year.

At least $5 billion of the decline, CBO estimates, occurred because receipts in January 2002 (especially of corporate income and excise taxes) were temporarily boosted by payments deferred as a result of the September 11 terrorist attacks. Other factors related to recent weakness in incomes also clearly contributed to the declines. Nonwithheld income and payroll taxes in January—largely consisting of the last estimated payment of liabilities for tax year 2002—fell by amounts similar to the declines registered in both June and September of last year, the prior two months with quarterly estimated payments.

More than half of the $18 billion increase in spending occurred because February 1, 2003, fell on a weekend, shifting about $10 billion in outlays from February into January. Excluding that payment shift, outlays were about 5 percent higher this January than in January 2002.

BUDGET TOTALS THROUGH JANUARY
(In billions of dollars)

	October-January		Estimated
	FY2002	FY2003	Change
Receipts	670	615	-54
Outlays	661	714	52
Surplus or Deficit (-)	8	-98	-107

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of $98 billion for the first four months of fiscal year 2003, a sharp contrast to the $8 billion surplus recorded for the same period last year. Outlays were about $52 billion above last year's level, whereas revenues ran about $54 billion below last year's pace.

RECEIPTS THROUGH JANUARY
(In billions of dollars)

	October-January		Percentage
Major Source	FY2002	FY2003	Change
Individual Income	338	306	-9.7
Corporate Income	65	35	-46.3
Social Insurance	219	227	3.9
Other	48	48	0
Total	670	615	-8.1

SOURCES: Department of the Treasury; CBO.

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 in the first four months of fiscal year 2003 were 8.1 percent lower than the total amount in the same four months of last year. Receipts from both individual and corporate income taxes were lower than the sums collected during the same period last year. Social insurance receipts, however, were $8 billion higher, and other receipts were unchanged.

Individual income and social insurance taxes that are withheld from paychecks fell by a total of about $11 billion in the first four months of this fiscal year. That decline resulted from weak income growth and cuts in income tax rates enacted in 2001. The tax cuts that took effect in 2002 reduced withholding receipts in the first four months of fiscal year 2003, compared with the same months of 2002, by about $10 billion. Adjusted for those cuts, total withholding was roughly unchanged in the first four months of this fiscal year. Nonwithheld receipts of individual income taxes fell by about $9 billion over that four-month period, largely reflecting weak estimated payments in January.

Of the $30 billion decline in corporate receipts, $23 billion occurred because those receipts were temporarily boosted in October 2001 by tax legislation that delayed payments normally due in September of that year. Of the remaining decline, $4 billion reflects higher refunds, likely brought about at least in part by the business tax cuts enacted in March 2002.

OUTLAYS THROUGH JANUARY
(In billions of dollars)

Major Category	October-January FY2002	October-January FY2003	Percentage Change Actual	Percentage Change Adjusted[a]
Defense—Military	104	124	19.1	15.7
Social Security Benefits	146	153	4.8	4.8
Medicare	81	94	16.1	8.0
Medicaid	49	53	7.1	7.1
Unemployment Benefits	15	19	27.5	27.5
Other Programs and Activities	204	215	5.0	3.2
Subtotal	600	658	9.6	7.3
Net Interest on the Public Debt	61	56	-9.1	-9.1
Total	661	714	7.9	5.8

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 programs of the Department of Defense.

Outlays through January were 7.9 percent higher than in the same period last year, CBO estimates. After adjusting for shifts in the timing of various payments, the rate of growth was 5.8 percent.

Thus far, outlays for defense activities have risen much faster than for nondefense programs. Adjusted for payment shifts, defense spending through January was 15.7 percent higher than for the same period last year, while outlays for nondefense activities (excluding net interest) rose by 5.6 percent. (Last year, both defense and nondefense spending recorded double-digit growth.) Medicaid spending has grown more slowly this year (rising by 7.1 percent compared with 13.2 percent in 2002), largely as a result of slower growth in enrollment, smaller increases in payment rates, and restrictions on certain types of spending. Net outlays this year for deposit insurance, the Postal Service, agricultural commodity programs, and international assistance are below spending for those activities during the same period last year.

CURRENT ESTIMATES FOR FISCAL YEAR 2003
(In billions of dollars)

	CBO	OMB
Receipts	1,922	1,867
Outlays[a]	2,121	2,137
Deficit	-199	-270
On-budget deficit	-361	-431
Off-budget surplus	162	160

SOURCES: Office of Management and Budget; CBO.

a. CBO's and OMB's projections are based on estimated discretionary budget authority of $751 billion and $752 billion, respectively.

Both CBO and the Office of Management and Budget (OMB) have recently issued new estimates of the budgetary outlook for fiscal year 2003. Assuming discretionary appropriations of $751 billion, CBO estimates that the federal budget deficit would climb from $158 billion in 2002 to $199 billion in 2003, if no other legislation is enacted that would affect spending or revenues. Using comparable assumptions, OMB projects a deficit of $270 billion for the current fiscal year.

The difference stems largely from differing estimates of tax revenues. CBO projects revenues of $1,922 billion for 2003, about $55 billion higher than the amount projected by OMB. Primarily because CBO estimates higher effective tax rates, it anticipates higher receipts of individual income taxes ($22 billion) and corporate income taxes ($10 billion). Another $25 billion of the difference reflects a downward adjustment made by OMB (beyond what the Administration's economic and tax models forecast) to reflect the uncertainty of revenue projections.

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