



MONTHLY BUDGET REVIEW

Fiscal Year 2009

A Congressional Budget Office Analysis

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

December 4, 2008

CBO estimates that the Treasury will report a federal budget deficit of \$408 billion for the first two months of fiscal year 2009, \$253 billion higher than the deficit recorded through November of last year. This estimate includes \$191 billion disbursed for the Troubled Assets Relief Program (TARP) during the first two months of the fiscal year. CBO believes that the equity investments for that program should be recorded on a net present value basis adjusted for market risk, as specified in the Emergency Economic Stabilization Act of 2008, rather than on a cash basis as recorded by the Treasury. Evaluating TARP on a net present value basis, CBO estimates the federal deficit totaled \$267 billion through November.

REPORTING OF TARP COSTS

CBO believes that the equity investments for TARP should be recorded on a net present value basis adjusted for market risk, rather than on a cash basis as recorded thus far by the Treasury. CBO's preliminary analysis suggests that the present value cost of the TARP transactions made through November totals about \$50 billion, \$141 billion less than the cash disbursements recorded in the budget by the Treasury. The estimated cost accounts for subsidized interest rates and market risk, but also for the likelihood that the government will ultimately get much of its money back. As a result, CBO's estimates of outlays and the deficit are much lower than the amounts that will be reported by the Treasury. The following discussion focuses on the budget figures as they are being reported by the Treasury.

ESTIMATES FOR NOVEMBER (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	151	145	-6
Outlays	249	315	66
Deficit (-)	-98	-171	-72

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of \$171 billion in November (using cash basis accounting for TARP), \$72 billion more than the deficit in the same month last year. Without shifts in the timing of certain payments, the year-over-year difference in reported deficits would be \$41 billion higher.

Receipts totaled \$145 billion in November, CBO estimates, a decrease of about \$6 billion (or 4 percent) compared with receipts in November 2007. The decline in receipts was spread across revenue sources. In addition, refunds of individual income and payroll taxes rose by about \$1 billion, with most of the increase due to economic stimulus payments. A part of the decline in total receipts last month is attributable to the calendar: November 2008 had two fewer business days than did November 2007.

Using cash accounting for TARP, outlays in November were \$66 billion higher than in the same month last year, CBO estimates. Without calendar-related shifts in the timing of certain payments, that difference would have been \$41 billion greater—or \$107 billion. In 2008, about \$22 billion in payments normally made in November went out at the end of October because the first of the month fell on a weekend. Conversely, in 2007, around \$19 billion in payments shifted from December to the end of November. The adjusted outlay increase of \$107 billion compared with last year includes \$76 billion in payments for TARP (under the Treasury's cash treatment) and a \$14 billion equity investment in Freddie Mac.

Outlays for other programs were \$17 billion more than spending last November. The largest increases were for defense, deposit insurance, international assistance, Social Security, Medicare, and unemployment benefits. A decline in the value of the National Railroad Retirement Investment Trust's (NRRIT's) portfolio also contributed to that growth. Those increases were partially offset by \$9 billion in receipts from the 2008 auction of licenses to use the electromagnetic spectrum and by a \$5 billion reduction in net interest paid on the public debt compared with last November.

BUDGET TOTALS THROUGH NOVEMBER (Billions of dollars)

	Actual FY2008	Preliminary FY2009	Estimated Change
Receipts	329	310	-20
Outlays	484	717	233
Deficit (-)			
Treasury Cash Basis	-155	-408	-253
CBO Estimate	-155	-267	-112

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will record a deficit of \$408 billion for the first two months of fiscal year 2009, \$253 billion higher than in the same period last year. Outlays, with TARP on a cash basis, rose by an estimated \$233 billion (or 48 percent) compared with those in the same period in 2007, and receipts decreased by \$20 billion (or 6 percent).

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 NOVEMBER

(Billions of dollars)

Major Source	Actual FY2008	Preliminary FY2009	Percentage Change
Individual Income	161	147	-8.8
Corporate Income	9	1	-85.6
Social Insurance	131	135	3.7
Other	<u>29</u>	<u>26</u>	-9.8
Total	329	310	-6.0

Sources: Department of the Treasury; CBO.

Receipts of individual income taxes fell by about \$14 billion (or 9 percent), and corporate income tax receipts fell by about \$7 billion. Social insurance (payroll taxes) grew by \$5 billion (or less than 4 percent). Other sources of receipts fell by a combined \$3 billion, consisting mainly of declines in excise tax receipts and earnings of the Federal Reserve.

The combined amount of individual income and payroll taxes fell by about \$9 billion (or 3 percent). Of the decline in those receipts so far this year, higher refunds of income taxes account for about \$5 billion, with roughly one-quarter of that due to stimulus payments. Withheld tax payments fell by about \$2 billion (or 1 percent), although they would have registered small increases if not for effects of the calendar. Growth in withholding has slowed substantially since January; the contracting economy has caused wages and salaries to grow more slowly. Nonwithheld income and payroll tax receipts fell by about \$2 billion (or 11 percent) in October and November.

Diminishing corporate profits have continued to cause receipts from corporate income taxes to fall. Net corporate receipts in the first two months of the fiscal year fell by about \$7 billion (or over 85 percent), stemming from higher refunds of corporate taxes (up \$4 billion or about 40 percent) and lower corporate tax collections (down \$4 billion or about 20 percent). Net receipts fell from almost \$9 billion in the first two months of fiscal year 2008 to \$1 billion for the same period this year. December is the first month with significant amounts of quarterly payments of corporate income taxes.

The Treasury will report outlays of \$717 billion through November, CBO estimates, \$233 billion more than in the first two months of fiscal year 2008. Adjusted for shifts in the timing of certain payments, spending increased by \$253 billion. The Treasury figures include \$191 billion that was disbursed for TARP and \$14 billion for payments to Freddie Mac to cover past losses. Excluding those investments and adjusting for shifts in the timing of certain payments, spending for federal programs increased

OUTLAYS THROUGH NOVEMBER

(Billions of dollars)

Major Category	Actual FY2008	Preliminary FY2009	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	107	112	4.0	8.0
Social Security				
Benefits	98	103	5.7	5.7
Medicare ^b	71	67	-5.8	8.4
Medicaid	34	36	3.4	3.4
Other Activities	<u>130</u>	<u>160</u>	22.8	29.0
Subtotal	440	476	8.3	13.3
Net Interest on the				
Public Debt	44	36	-19.6	-19.6
TARP	0	191	n.a.	n.a.
Payments to GSEs	0	<u>14</u>	n.a.	n.a.
Total	484	717	48.1	54.3

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Assets Relief Program
GSE = government-sponsored enterprise

a. Excludes the effects of payments that were shifted because of weekends or holidays.

b. Medicare outlays are net of proprietary receipts.

by 13 percent (or \$56 billion). In contrast, outlays for net interest on the public debt fell by 20 percent (or \$8 billion) through November because of falling short-term interest rates and lower payments for inflation-indexed securities.

Spending for the broad category of “other activities” grew rapidly in the first two months of the year, rising by \$36 billion, or 29 percent, on an adjusted basis. About a third of that growth was due to higher payments for deposit insurance, unemployment benefits, and food and nutrition services. Another \$8 billion of the increase reflected a drop in the market value of assets held by NRRIT, which does not affect the government’s cash flows but is recorded in the budget on a mark-to-market basis each month. Spending for all other programs in this category was about 15 percent higher than in the same period last year.

The 8 percent growth in defense spending reflects two fewer work days than in the first two months of fiscal year 2008; adjusting for workdays and timing shifts, defense outlays were 13 percent higher than in the same period last year. Outlays for the three largest entitlement programs—Social Security, Medicare, and Medicaid—rose by an average of 6 percent through November on an adjusted basis, slightly above the 5 percent growth averaged in fiscal year 2008 as a whole.