



MONTHLY BUDGET REVIEW

Fiscal Year 2009

A Congressional Budget Office Analysis

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

April 6, 2009

CBO estimates that the Treasury Department will report a deficit of about \$953 billion for the first six months of fiscal year 2009, \$640 billion more than the deficit recorded through March 2008. That estimate of this year's deficit to date includes outlays of about \$290 billion for the Troubled Asset Relief Program (TARP). Although the Treasury has been recording most spending for the TARP on a cash basis, CBO believes that the budget should record the program's transactions on a net-present-value basis adjusted for market risk. Using that approach, CBO estimates that outlays of \$140 billion should be recorded for the TARP through March, which would yield an estimated deficit of about \$803 billion for the first half of the year. The following discussion focuses on the budget figures as they are being reported by the Treasury.

ESTIMATES FOR MARCH (Billions of dollars)

| | Actual FY2008 | Preliminary FY2009 | Estimated Change |
|-------------|------------------|-----------------------|---------------------|
| Receipts | 179 | 125 | -54 |
| Outlays | 227 | 316 | 89 |
| Deficit (-) | -48 | -191 | -143 |

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of \$191 billion for March, \$143 billion higher than the deficit recorded in March 2008.

Receipts in March were about \$125 billion, CBO estimates, \$54 billion (or 30 percent) lower than receipts in the same month in 2008. Net corporate income tax receipts account for more than half of the decline, falling by about \$29 billion (or 90 percent) from their level in March 2008. The decline reflects both a decrease in gross receipts of \$15 billion and an increase in refunds of \$14 billion. The large increase in corporate refunds may have occurred because firms are using current-year losses to reduce tax liabilities from previous years. Withheld individual income and payroll taxes fell by \$6 billion (or 4 percent). Withholding would have fallen by slightly more compared with last March if not for the fact that this March had one additional business day. Refunds of individual income taxes rose by \$11 billion (or 26 percent).

Federal outlays were \$89 billion (or 39 percent) higher than outlays last March, CBO estimates. Cash infusions to government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac, now taken over by the government, totaled \$46 billion in March of this year, accounting for about half of the month-to-month increase in spending. In

addition, an arm of the Treasury lent \$10 billion to credit unions in response to recent liquidity pressures. Spending for Medicaid rose by \$10 billion compared with such spending last March; \$8.5 billion of the increase was due to the provision in the stimulus legislation, the American Recovery and Reinvestment Act of 2009 (ARRA), that temporarily increases the share of Medicaid costs paid by the federal government. Outlays for unemployment benefits increased by \$7 billion, defense spending rose by \$5 billion, and Social Security benefits climbed by \$4 billion.

BUDGET TOTALS THROUGH MARCH (Billions of dollars)

| | Actual FY2008 | Preliminary FY2009 | Estimated Change |
|-------------|------------------|-----------------------|---------------------|
| Receipts | 1,146 | 986 | -160 |
| Outlays | 1,459 | 1,939 | 480 |
| Deficit (-) | -313 | -953 | -640 |

Sources: Department of the Treasury; CBO.

CBO estimates that the Treasury will report a deficit of about \$953 billion for the first half of fiscal year 2009, compared with a shortfall of \$313 billion recorded for the same period last year.

CBO recently issued new estimates for the budget outlook for 2009 and updated its baseline budget projections for fiscal years 2010 to 2019. The deficit for 2009 is projected to total \$1.7 trillion if current laws and policies remain unchanged and \$1.8 trillion if the President's proposals for the current fiscal year are enacted. Additional information about those estimates can be found in *A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook*, available at www.cbo.gov.

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 MARCH

(Billions of dollars)

| Major Source | Actual FY2008 | Preliminary FY2009 | Percentage Change |
|-------------------|------------------|-----------------------|----------------------|
| Individual Income | 504 | 426 | -15.3 |
| Corporate Income | 129 | 56 | -56.6 |
| Social Insurance | 429 | 430 | 0.2 |
| Other | <u>84</u> | <u>74</u> | -12.2 |
| Total | 1,146 | 986 | -14.0 |

Sources: Department of the Treasury; CBO.

In the first half of this fiscal year, receipts fell by about \$160 billion (or 14 percent) below their level in the first half of 2008, CBO estimates. Receipts from almost all sources declined, reflecting the continuing effects of the recession and recently enacted legislation.

Revenues from individual income and payroll taxes combined dropped by about \$76 billion (or 8 percent) in the first half of the year compared with such revenues in the same period last year. Withholding for those taxes fell by about \$38 billion (or 4 percent). Receipts of nonwithheld income and payroll taxes declined by about \$15 billion (or 12 percent). That decrease stems largely from the quarterly estimated payments made in January. Refunds of individual income taxes increased by about \$22 billion (or 17 percent). In recent years, roughly 60 percent of total individual refunds reported from January through May have been reported by this point in the filing season.

Receipts of corporate income taxes fell by about \$73 billion (or 57 percent) in the first half of 2009, the largest drop in more than three decades. That decline stems from an increase of \$17 billion (or 57 percent) in corporate refunds and a decrease of \$57 billion (or 36 percent) in corporate tax collections.

Receipts from miscellaneous taxes and fees dropped by about \$10 billion (or 12 percent). The decline includes decreases in receipts from Federal Reserve earnings, excise taxes, estate and gift taxes, and customs duties. Receipts from Federal Reserve earnings declined by \$6 billion (or 32 percent) because of losses on its portfolio of assets. About half of that decline is due to the drop of more than \$3 billion during the past six months in the fair-market value of Maiden Lane, the limited liability corporation formed to hold some of Bear Stearns' assets.

The next several weeks will provide important information about the near-term path for receipts. Most individuals who owe taxes will file their income tax returns this month, and individuals and corporations alike will make quarterly estimated payments of income taxes.

Outlays through March totaled \$1.9 trillion, CBO estimates, almost one-third more than in the same period last year. That estimate includes \$350 billion for the TARP, Fannie Mae, and Freddie Mac, measured on a cash

OUTLAYS THROUGH MARCH

(Billions of dollars)

| Major Category | Actual FY2008 | Preliminary FY2009 | Percentage Change | |
|-----------------------|------------------|-----------------------|----------------------|-----------------------|
| | | | Actual | Adjusted ^a |
| Defense—Military | 293 | 317 | 8.1 | 8.1 |
| Social Security | | | | |
| Benefits | 299 | 321 | 7.4 | 7.4 |
| Medicare ^b | 185 | 205 | 10.8 | 10.8 |
| Medicaid | 99 | 116 | 17.0 | 17.0 |
| Other Activities | <u>453</u> | <u>546</u> | 20.5 | 20.5 |
| Subtotal | 1,330 | 1,505 | 13.2 | 13.2 |
| Net Interest on the | | | | |
| Public Debt | 129 | 84 | -34.7 | -34.7 |
| TARP | 0 | 290 | n.a. | n.a. |
| Payments to GSEs | <u>0</u> | <u>60</u> | n.a. | n.a. |
| Total | 1,459 | 1,939 | 32.9 | 32.9 |

Sources: Department of the Treasury; CBO.

Notes: TARP = Troubled Asset Relief Program; n.a. = not applicable; 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.

basis. Spending for other federal programs—with the exception of net interest—grew by 13 percent through March, close to the growth that CBO projects for the fiscal year as a whole, assuming that supplemental appropriations for military operations in Iraq and Afghanistan are enacted. Over the past six months, defense outlays were 8 percent higher than in the same period last year, and nondefense spending was up by 15 percent.

Many of the fastest-growing programs are within the category of “other activities”; spending for that category rose by 20 percent through March. Several factors pushed outlays higher, including widespread increases in programs' spending—particularly unemployment benefits, which more than doubled compared with benefits in the first half of 2008—as well as additional lending to credit unions and lower earnings credited to certain government funds. Through March, outlays from ARRA for those programs have been relatively small.

ARRA boosted outlays for Medicaid in the first half of the year, however, accounting for roughly half of the 17 percent increase recorded through March. Spending for Medicare rose by 11 percent over that period, with some of that growth resulting from last year's \$4 billion reduction in payments to prescription drug providers to correct for previous overpayments. Without that correction, outlays for Medicare rose by 8 percent.

In contrast, outlays for net interest on the public debt were 35 percent lower than in the same period last year, primarily because of lower costs for inflation-indexed securities and a decline in short-term interest rates.