



# MONTHLY BUDGET REVIEW

## Fiscal Year 2002

### A Congressional Budget Office Analysis

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

March 8, 2002

In the first five months of fiscal year 2002, the federal government ran a deficit of about \$68 billion, CBO estimates, compared with a surplus of \$26 billion in the same period last year. If, as expected, the President signs the economic-stimulus legislation just passed by the Congress, the government will end the fiscal year with a deficit of about \$46 billion, CBO anticipates.

#### JANUARY RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	204	203	-1
Outlays	165	160	-5
Surplus	39	44	5

SOURCES: Department of the Treasury; CBO.

The Treasury reported a surplus of \$44 billion in January, about \$5 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. The difference was almost entirely on the spending side of the budget. Outlays were lower than CBO had anticipated for a number of agencies and programs, including the Department of Agriculture, the Department of the Treasury, and international security assistance programs.

#### ESTIMATES FOR FEBRUARY

(In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	110	97	-14
Outlays	159	172	13
Deficit	-48	-75	-27

SOURCES: Department of the Treasury; CBO.

The deficit in February was about \$75 billion, CBO estimates, \$27 billion more than the deficit incurred in the same month last year. Revenues in February fell short of last February's total by about \$14 billion; roughly \$5 billion of that decline was attributable to the income tax cuts enacted in June. Another \$5 billion resulted from an increase in refunds of individual income taxes this February, traditionally the first month in which taxpayers receive substantial refunds from filing the tax returns due on April 15.

On the outlay side of the budget, defense spending was approximately \$3 billion higher this February than last, CBO estimates. And together, spending for Medicare, Medicaid, Social Security, and unemployment compensation increased by \$6 billion. Outlays are particularly high in February because a substantial portion of refundable tax credits are paid in that month. CBO estimates that those payments totaled \$16 billion this February.

#### BUDGET TOTALS THROUGH FEBRUARY

(In billions of dollars)

	October-February		Estimated Change
	FY2001	FY2002	
Receipts	792	766	-25
Outlays	766	835	69
Surplus or Deficit (-)	26	-68	-94

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$68 billion for the first five months of fiscal year 2002, a sharp contrast to the \$26 billion surplus recorded for the same period last year. Outlays are well above last year's level, while revenues are running about 3 percent below last year's pace.

#### RECEIPTS THROUGH FEBRUARY

(In billions of dollars)

Major Source	October-February		Percentage Change
	FY2001	FY2002	
Individual Income	404	373	-7.6
Corporate Income	59	63	6.2
Social Insurance	270	273	1.4
Other	<u>59</u>	<u>57</u>	-3.1
Total	792	766	-3.2

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 five months of 2002 were lower than receipts in the same period last year by \$25 billion, or 3.2 percent. Individual income tax receipts accounted for the biggest drop-off, declining by \$31 billion, or 7.6 percent. About half of that decline resulted from last June's cuts in income tax rates, CBO estimates. Social insurance tax receipts grew very slowly—by \$4 billion, or 1.4 percent—compared with the same period a year ago. Corporate tax receipts also grew by \$4 billion, but that increase occurred only because legislation enacted last year allowed firms to delay \$23 billion in payments from September to October (and thus to the current fiscal year). Without that legislation, corporate tax receipts through the first five months of the fiscal year would have been about \$19 billion lower than in the same period last year.

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

Major Category	October-February		Percentage Change	
	FY2001	FY2002	Actual	Adjusted <sup>a</sup>
Defense—Military	114	128	12.8	10.0
Social Security				
Benefits	174	184	5.8	5.8
Medicaid	51	60	16.7	16.7
Medicare	94	101	7.8	11.2
Unemployment				
Insurance	12	19	66.4	66.4
Other Programs and Activities	<u>227</u>	<u>267</u>	17.5	15.3
Subtotal	672	760	13.1	12.4
Net Interest on the Public Debt	<u>94</u>	<u>75</u>	-19.9	-19.9
<b>Total</b>	<b>766</b>	<b>835</b>	<b>9.0</b>	<b>8.5</b>

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, or legislative action.

Outlays in the first five months of 2002 were 9 percent higher than in the same period last year, CBO estimates. Adjusted for shifts in the dates of certain payments, that rate of growth was 8.5 percent; excluding net interest, it was more than 12 percent. For the fiscal year as a whole, CBO expects total outlays to increase by close to 8 percent.

Defense spending, which rose by 5.5 percent in 2001, is showing double-digit growth this year. Adjusted for payment shifts, defense spending has increased by 10

percent so far this year, with most of the additional money going for military personnel and operations and maintenance. Medicaid spending continues to grow rapidly—up by almost 17 percent so far this year. Outlays for Medicare rose at an 11.2 percent pace through February, but CBO expects that growth rate to be lower in the second half of the year because much of the change relative to the same period last year reflects new payment rates that took effect in April 2001. Payments for unemployment insurance totaled about \$19 billion through February, CBO estimates, about \$7 billion more than had been paid out at this point last year. Growth in other areas is spread among a variety of programs, including those of the Departments of Transportation, Education, and Agriculture and the Public Health Service.

Declining short-term interest rates have lowered the government's net interest payments this year by almost 20 percent relative to the amount paid in the first five months of 2001.

### CBO'S PROJECTIONS FOR FISCAL YEAR 2002 (In billions of dollars)

	As of January	As of March 6	With Stimulus Bill
Receipts	1,983	2,006	1,963
Outlays	2,003	2,001	2,010
Surplus or Deficit (-)	-21	5	-46
On-budget deficit	-181	-152	-204
Off-budget surplus	160	157	157

SOURCE: CBO.

On March 6, CBO released updated baseline projections for 2002. It estimated that in the absence of additional tax or spending legislation, the federal government would run a slight surplus in 2002 (\$5 billion) instead of the small deficit (-\$21 billion) previously projected. The major change in the updated projections for 2002 was an increase of \$23 billion in anticipated revenues, reflecting higher projections of corporate profits in the near term. Today, the Congress gave final approval to economic-stimulus legislation, including provisions that would extend unemployment benefits and allow businesses to depreciate newly acquired property more quickly. If that legislation is signed by the President, as expected, it will lower receipts in 2002 by an estimated \$43 billion and raise outlays by more than \$8 billion, resulting in a total budget deficit for the year of about \$46 billion.