



# MONTHLY BUDGET REVIEW

## Fiscal Year 2003

### A Congressional Budget Office Analysis

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

April 9, 2003

The federal government ran a deficit of \$248 billion in the first six months of fiscal year 2003, CBO estimates, \$116 billion more than in the same period last year. CBO recently projected that the 2003 deficit would total \$246 billion in the absence of additional legislation affecting spending or revenues. However, the supplemental appropriation bill currently under consideration would add more than \$40 billion to 2003 outlays and the deficit.

#### FEBRUARY RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	89	89	1
Outlays	187	186	-1
Deficit (-)	-98	-96	2

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$96 billion in February, about \$2 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were about \$1 billion lower than CBO had expected, while revenues were about \$1 billion higher.

#### ESTIMATES FOR MARCH (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	111	116	5
Outlays	175	170	-5
Deficit (-)	-64	-54	10

SOURCES: Department of the Treasury; CBO.

CBO estimates that the deficit in March 2003 was about \$54 billion—\$10 billion less than in March 2002. The apparent improvement, however, results from the timing of certain disbursements, which both added to receipts and reduced outlays in March of this year. Net individual income tax receipts were higher this March largely because refunds were \$9 billion lower. The calendar contributed substantially to that change because March of this year contained one fewer Friday, the day the Treasury Department records most refund payments. Outlays this March were about \$5 billion lower than last March—but, because March 1, 2003, fell on a weekend, \$10 billion in benefits normally paid on the first of the

month were instead disbursed at the end of February. Otherwise, outlays would have been about 3 percent higher than in March 2002.

Although net receipts of individual income taxes this March were \$13 billion higher than in March 2002, net receipts were lower for corporate income taxes (by \$4 billion) and for social insurance taxes (by \$3 billion). Corporate receipts, which largely reflect liabilities for tax year 2002, fell because of smaller gross payments and larger refunds. Total withholding for income and social insurance taxes rose by \$2 billion in March.

#### BUDGET TOTALS THROUGH MARCH (In billions of dollars)

	October-March		Estimated Change
	FY2002	FY2003	
Receipts	879	821	-58
Outlays	1,011	1,069	58
Deficit (-)	-132	-248	-116

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$248 billion for the first half of fiscal year 2003—almost double the shortfall during the same period last year. Receipts from October through March of this year were about \$58 billion (or 6.6 percent) lower than receipts for the same six months last year, and outlays were about \$58 billion (or 5.8 percent) higher.

The deficit has contributed to an increase in the amount of federal debt subject to the statutory limit, and the Treasury has had to take certain administrative actions to avoid breaching the statutory debt ceiling of \$6.4 trillion. As a result, the government will be able to meet its daily cash needs until the infusion of tax receipts in mid-April. Without additional borrowing authority, however, it will run short of cash later this year.

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**  
(In billions of dollars)

Major Source	October-March		Percentage Change
	FY2002	FY2003	
Individual Income	399	369	-7.5
Corporate Income	78	44	-43.6
Social Insurance	333	338	1.8
Other	<u>69</u>	<u>69</u>	0.2
Total	879	821	-6.6

SOURCES: Department of the Treasury; CBO.

More than half of the decline in receipts so far this year was in corporate income tax receipts, which have fallen by \$34 billion compared with the same period last year. Of that amount, \$23 billion stems from legislation that delayed corporate estimated payments from September to October 2001, thereby increasing receipts in fiscal year 2002. Adjusted for that shift, the decline was about \$11 billion (or 20 percent), due to a combination of the business tax cuts enacted last year and weaker underlying profits.

Receipts of individual income taxes fell by \$30 billion (or 7.5 percent) over the first six months of the fiscal year. Withheld receipts fell by \$13 billion, largely because of weak economic growth and the tax cuts enacted in 2001. Nonwithheld receipts of individual income taxes fell by \$10 billion, in large part from weakness in the last estimated payment of 2002 liabilities made in January. In addition, refunds rose by \$7 billion in the first half of the year.

Receipts in April will be a big indicator of the likely annual total for receipts. Individuals must file their income tax returns by April 15. Allowing time for the normal processing of returns by the Internal Revenue Service, the total amount paid should be known by early May. At that time, the outlook for receipts for this fiscal year should become much clearer.

**OUTLAYS THROUGH MARCH**  
(In billions of dollars)

Major Category	October-March		Percentage Change	
	FY2002	FY2003	Actual	Adjusted <sup>a</sup>
Defense—Military	160	182	13.4	12.2
Social Security				
Benefits	221	231	4.3	4.3
Medicare	123	135	10.2	7.4
Medicaid	72	77	6.9	6.9
Unemployment				
Insurance	24	30	24.1	24.1
Other Programs				
and Activities	<u>321</u>	<u>332</u>	3.6	4.2
Subtotal	921	986	7.1	6.8
Net Interest on the				
Public Debt	<u>90</u>	<u>83</u>	-8.3	-8.3
Total	1,011	1,069	5.8	5.4

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 were about 5.8 percent higher in the first six months of fiscal year 2003 than in the same period last year, CBO estimates.

Outlays for defense activities rose much faster than for nondefense programs in the first half of the year. Adjusted for payment shifts, defense spending through March was 12.2 percent higher than for the same period last year. The supplemental appropriation bill currently under consideration would increase defense outlays by about \$34 billion this year, CBO estimates, suggesting that military spending could end the year around 20 percent above the 2002 level.

Excluding net interest and adjusted for payment shifts, nondefense spending through March was about 5.6 percent higher than for the same period last year, well below the 10.7 percent rate of increase experienced for fiscal year 2002. Outlays for the three major entitlement programs—Social Security, Medicare, and Medicaid—increased by 5.7 percent in the first half of 2003, compared with 7.6 percent growth last year (adjusted for payment shifts). Medicaid spending, which grew by more than 13 percent in 2002, is up by less than 7 percent so far this year. Payments for unemployment benefits, which shot up by 72 percent last year, have risen by another 24 percent in the first six months of 2003, but are probably at or near their peak; outlays are likely to be close to last year's level during the remainder of the year, resulting in a year-over-year increase of about 11 percent.