



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

Based on the *Monthly Treasury Statement* for July and the *Daily Treasury Statements* for August

September 9, 2003

The federal government ran a deficit of \$402 billion in the first 11 months of fiscal year 2003, CBO estimates, \$202 billion more than in the same period last year. CBO anticipates that a small surplus in September will bring the deficit to \$401 billion by the end of the fiscal year.

JULY RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	124	124	-1
Outlays	178	178	*
Deficit (-)	-53	-54	-1

SOURCES: Department of the Treasury; CBO.

* = less than \$500 million.

The Treasury reported a deficit of \$54 billion in July, about \$1 billion more than CBO's projection based on the *Daily Treasury Statements*. Most of that difference was due to lower-than-expected revenues.

ESTIMATES FOR AUGUST

(In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	125	114	-10
Outlays	179	192	13
Deficit (-)	-55	-78	-23

SOURCES: Department of the Treasury; CBO.

The deficit in August was about \$78 billion, CBO estimates, \$23 billion more than the deficit incurred in the same month last year. Revenues were about \$10 billion lower, and outlays about \$13 billion higher, than they were last August.

The revenue decline in August was much like that in July—both resulted from the tax cuts enacted in May in the Jobs and Growth Tax Relief Reconciliation Act of

2003 (JGTRRA) and effects of the calendar. In early August, the Treasury Department disbursed more than \$9 billion in advance refunds, partially implementing the higher child tax credit for 2003 enacted in JGTRRA. In addition, withheld income and payroll tax receipts in August were about \$2 billion lower than in August 2002. Receipts declined because of the new withholding tax rates and one fewer business day in the month; those effects were partly offset by increases in receipts generated by economic growth.

Outlays were about \$13 billion (or 7 percent) greater this August than they were last August, CBO estimates. Defense spending accounted for about \$6 billion of that increase. Medicaid outlays were about \$2 billion (or 18 percent) higher than in August 2002, partly because of legislation that increased the federal share of Medicaid payments through June 2004.

BUDGET TOTALS THROUGH AUGUST

(In billions of dollars)

	October-August		Estimated Change
	FY2002	FY2003	
Receipts	1,661	1,591	-70
Outlays	1,861	1,992	132
Deficit (-)	-200	-402	-202

SOURCES: Department of the Treasury; CBO.

CBO estimates that the federal government recorded a total deficit of about \$402 billion during the first 11 months of fiscal year 2003, about twice the size of the deficit in the same period last year. That \$202 billion change from last year resulted from both lower receipts (down by about \$70 billion) and higher outlays (up by about \$132 billion).

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 AUGUST

(In billions of dollars)

Major Source	October-August		Percentage Change
	FY2002	FY2003	
Individual Income	767	705	-8.1
Corporate Income	117	101	-13.7
Social Insurance	643	655	1.8
Other	<u>133</u>	<u>130</u>	-2.5
Total	1,661	1,591	-4.2

SOURCES: Department of the Treasury; CBO.

Receipts for the first 11 months of fiscal year 2003 were about \$70 billion, or 4.2 percent, lower than in the comparable period in the previous fiscal year. Most of that decline was from receipts of individual income taxes, which fell by \$62 billion. Nonwithheld receipts accounted for about \$32 billion of that decline, largely reflecting liabilities for tax year 2002. Withheld receipts of individual income taxes fell by \$16 billion; they were held down by weak income growth, especially earlier in the fiscal year, combined with the tax cuts enacted in 2001 and 2003. Individual refunds rose by \$14 billion. That is about the amount of the advance refunds disbursed by the Treasury Department in July and August as a result of the recent increase in the child tax credit.

Corporate receipts fell by about \$16 billion (or about 14 percent) in the period from October through August, compared with the same period last year. But corporate profits have improved in recent months, according to aggregate data in the national income accounts, and corporate tax payments may be picking up as well. Further information will be provided by the third quarterly estimated payments, which are due on September 15 (with a portion delayed until October 1 by JGTRRA).

Social insurance receipts have risen by about \$12 billion (1.8 percent) in the first 11 months of the fiscal year, largely reflecting growth in wage and salary disbursements, with no significant effects from changes in law.

OUTLAYS THROUGH AUGUST

(In billions of dollars)

Major Category	October-August		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	305	356	16.8	15.8
Social Security				
Benefits	410	427	4.1	4.1
Medicare	238	256	7.7	6.4
Medicaid	135	147	9.2	9.2
Unemployment				
Insurance	50	54	7.8	7.8
Other Programs				
and Activities	<u>557</u>	<u>602</u>	8.0	8.9
Subtotal	1,695	1,842	8.7	8.6
Net Interest on the				
Public Debt	<u>166</u>	<u>150</u>	-9.2	-9.2
Total	1,861	1,992	7.1	7.0

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 in the first 11 months of 2003 were about 7 percent higher than in the same period last year, CBO estimates. The \$132 billion increase in net outlays through August reflects a \$147 billion increase (almost 9 percent) in spending for programs and activities, offset in part by lower interest costs (down by \$15 billion relative to the same period last year).

Defense spending has grown by about 16 percent, while nondefense spending (excluding net interest) has increased by 7 percent. As a result, spending by the Department of Defense, which accounts for less than 20 percent of the federal budget, represents 35 percent of the increase in spending for programs and activities through August.

Spending for Social Security, Medicare, and Medicaid has risen more slowly. Last year, outlays for those entitlements grew by 7.6 percent, driven largely by a 13 percent jump in Medicaid spending. This year, the rate of growth in all three programs has remained in the single digits, averaging 5.7 percent through August.

Outlays for other programs and activities were \$44 billion (or 8.9 percent) higher than in the first 11 months of 2002, with homeland security, education, and veterans' programs, as well as refundable tax credits, posting the biggest gains over 2002 levels. Emergency payments to states added \$5 billion to this year's total.