



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

February 6, 2004

The federal government incurred a deficit of \$130 billion in the first four months of fiscal year 2004, the Congressional Budget Office (CBO) estimates, \$32 billion more than the shortfall recorded over the same period last year. CBO now projects that the government will end 2004 with a deficit of \$477 billion if no other tax or spending legislation is enacted this year.

DECEMBER RESULTS

(Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	185	187	2
Outlays	199	203	4
Deficit (-)	-13	-16	-3

Sources: Department of the Treasury; CBO

The Treasury reported a deficit of \$16 billion in December, about \$3 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were higher than anticipated for the Departments of Agriculture, Education, Health and Human Services, and Labor. Also, interest paid on corporate tax refunds was unusually high in December because some long-standing cases were settled. The higher-than-expected spending was partially offset by greater-than-projected net receipts from corporate income taxes.

ESTIMATES FOR JANUARY

(Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	188	183	-5
Outlays	177	184	7
Surplus or Deficit (-)	11	-1	-12

Sources: Department of the Treasury; CBO.

The government ran a deficit of \$1 billion in January, CBO estimates, a net change of \$12 billion from the \$11 billion surplus recorded in January 2003.

The Treasury collected about \$183 billion in revenues in January, CBO estimates, a decline of about \$5 billion, or 3 percent, from amounts received in January 2003. Withheld and nonwithheld receipts of income and payroll taxes each fell by about \$3 billion, reflecting last year's

tax cuts. Net receipts fell by another \$1 billion because refunds of individual income taxes were higher this January than in the previous January. Offsetting a part of the overall decline, corporate receipts increased by \$3 billion compared with their level in January 2003.

Outlays were \$7 billion greater this January than last January, CBO estimates. Defense spending accounted for \$4 billion to \$5 billion of that increase, and Social Security outlays grew by almost \$2 billion.

BUDGET TOTALS THROUGH JANUARY

(Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	615	623	8
Outlays	713	753	41
Deficit (-)	-98	-130	-32

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$130 billion for the first four months of fiscal year 2004, about \$32 billion more than the deficit recorded for the same period last year. Although receipts were about \$8 billion higher than in 2003, outlays grew more, rising by \$41 billion.

TOTAL RECEIPTS

(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	306	298	-2.9
Corporate Income	34	47	38.0
Social Insurance	227	230	1.1
Other	<u>47</u>	<u>49</u>	3.1
Total	615	623	1.3

Sources: Department of the Treasury; CBO.

Note: Unless otherwise indicated, the numbers 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 rose by \$8 billion, or 1.3 percent, in the first four months of fiscal year 2004, compared with the same period in fiscal year 2003. Receipts of corporate income taxes have experienced the largest increase, totaling \$13 billion. They were boosted by \$5 billion at the beginning of the year because of a legislated shift in payment dates. In addition, refunds paid to corporations over the period have been \$5 billion lower than they were in the same period last year, probably reflecting, at least in part, the recent increase in economywide profits and fewer firms recording losses.

Withheld income and payroll tax receipts fell by \$3 billion, or just under 1 percent, in the first four months of the fiscal year. They were reduced relative to last year's amounts by the tax cuts enacted last year and because this year had one fewer business day during those months. In the absence of those two effects, CBO estimates that withheld receipts in the first four months of this year would have risen by almost 4 percent compared with their level in the same period last year, as the economy expands.

Continuing the trend of the past year, nonwithheld receipts of individual income taxes fell by about \$3 billion, or 4 percent, in the October-January period of this fiscal year compared with the same period last year. Most of those receipts are from the January payments of estimated taxes.

TOTAL OUTLAYS
(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change
Defense—Military	123	142	15.2
Social Security			
Benefits	153	159	4.0
Medicare	95	97	2.7
Medicaid	53	57	9.3
Other Programs and Activities	<u>233</u>	<u>244</u>	4.7
Subtotal	657	700	6.6
Net Interest on the Public Debt	<u>56</u>	<u>53</u>	-5.0
Total	713	753	5.7

Sources: Department of the Treasury; CBO.

Outlays through January were 5.7 percent higher than in the same period last year, CBO estimates, close to the 6.3 percent increase CBO is projecting for the fiscal year. Excluding the decline in outlays for net interest on the public debt, spending has increased by 6.6 percent.

Outlays for defense activities have risen much faster than for nondefense programs, continuing the same trend recorded in 2003. Defense spending through January was more than 15 percent higher than in the first four months of fiscal year 2003, while outlays for nondefense activities (excluding net interest) rose by 4.6 percent, CBO estimates. The rate of growth for the three major entitlement programs (Social Security, Medicare, and Medicaid) was 4.6 percent, slightly slower than the 5.8 percent growth recorded in the same period in 2003—in part because Medicare spending is up by less than 3 percent so far this year.

Outlays this year have been bolstered by \$5 billion in fiscal aid to states and by increased spending by the Public Health Service, the Department of Justice, and the Department of Veterans Affairs. In contrast, spending for unemployment benefits is more than \$1 billion (or 6 percent) lower this year than in the first four months of 2003. Outlays for Temporary Assistance for Needy Families and the Tennessee Valley Authority are also below their level during the same period last year.

**CURRENT PROJECTIONS
FOR FISCAL YEAR 2004**
(Billions of dollars)

	CBO	OMB
Receipts	1,817	1,791
Outlays	2,294	2,319
Deficit	-477	-527
On-budget deficit	-631	-682
Off-budget surplus	154	154

Sources: Office of Management and Budget; CBO.

Both CBO and the Office of Management and Budget (OMB) have recently issued new estimates of the budgetary outlook for fiscal year 2004. CBO estimates that the federal budget deficit will climb from \$375 billion in 2003 to \$477 billion in 2004 if no other legislation is enacted that would affect spending or revenues. Using comparable assumptions, OMB projects a deficit of \$527 billion for the current fiscal year. (The Administration is proposing legislation that would increase revenues and reduce the deficit to \$521 billion.)

The \$50 billion difference between CBO's and OMB's deficit estimates is about evenly split between revenue and outlay estimates. About \$20 billion of the difference reflects a downward adjustment made by OMB (beyond what the Administration's economic and tax models forecast) to reflect the uncertainty of revenue projections. Much of the remaining difference is the result of lower spending estimates by CBO for international affairs, Medicare, Medicaid, and the Departments of Homeland Security and Education.