



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

August 8, 2003

CBO projects a deficit of \$401 billion for fiscal year 2003. In dollar terms, that shortfall would be the largest in U.S. history, but at less than 4 percent of gross domestic product, it would be well below the peak levels of the 1980s relative to the size of the economy. In the first 10 months of fiscal year 2003, the federal government ran a deficit of about \$324 billion, CBO estimates.

JUNE RESULTS

The Treasury reported a surplus of \$21 billion in June, the same as CBO had projected on the basis of the *Daily Treasury Statements*.

ESTIMATES FOR JULY (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	134	124	-10
Outlays	164	178	14
Deficit (-)	-29	-53	-24

SOURCES: Department of the Treasury; CBO.

The deficit in July was about \$53 billion, CBO estimates, \$24 billion more than the deficit in July 2002.

Revenues were about \$10 billion (or about 7 percent) lower this July than last July, diminished by the tax cuts enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) and by the calendar. The Treasury Department disbursed about \$4.5 billion in advance refund checks in July, reflecting the increased child tax credits in the new law. A similar reduction in receipts resulted from new withholding rates, which businesses were required to implement by July 1 to reflect the cut in income tax rates. Receipts were also lower—by roughly \$3 billion—because July contained one fewer Monday than did last July.

Outlays were about \$14 billion (or 9 percent) higher this July than last July, CBO estimates. Defense outlays were about \$5 billion higher than in July 2002. Greater spending by the Department of Health and Human Services accounted for another \$4 billion of the increase, about half of which was for Medicaid.

BUDGET TOTALS THROUGH JULY

(In billions of dollars)

	October-July		Estimated Change
	FY2002	FY2003	
Receipts	1,536	1,477	-59
Outlays	1,681	1,801	120
Deficit (-)	-145	-324	-178

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$324 billion for the first 10 months of fiscal year 2003, more than double last year's shortfall of \$145 billion for the same period. Higher spending accounts for about two-thirds of the net change in the deficit through July.

RECEIPTS THROUGH JULY

(In billions of dollars)

Major Source	October-July		Percentage Change
	FY2002	FY2003	
Individual Income	708	659	-6.9
Corporate Income	118	101	-14.1
Social Insurance	589	598	1.6
Other	<u>122</u>	<u>119</u>	-2.2
Total	1,536	1,477	-3.8

SOURCES: Department of the Treasury; CBO.

Total receipts from October through July of this year were lower than during the same period a year ago—by \$59 billion, or 3.8 percent, CBO estimates. Most of that reduction occurred in receipts of individual income taxes, which have fallen by \$49 billion; that decline was largely in nonwithheld taxes, primarily for tax year 2002. Withheld income taxes have also fallen, although by a lesser amount.

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.

Corporate receipts in the first 10 months of fiscal year 2003 were \$17 billion lower than for the same period a year ago. Recent changes in tax law make it more difficult than usual to interpret those collections, but CBO estimates that corporate receipts would have risen slightly so far this year without the legislative changes enacted over the past three years. Social insurance receipts, which have not been affected by the recent tax cuts, have climbed by 1.6 percent so far this year (they primarily grow with total wages).

OUTLAYS THROUGH JULY (In billions of dollars)

Major Category	October-July		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	273	318	16.3	15.1
Social Security				
Benefits	372	388	4.1	4.1
Medicare	212	230	8.4	6.8
Medicaid	123	133	8.3	8.3
Unemployment				
Insurance	45	49	9.5	9.5
Other Programs				
and Activities	<u>507</u>	<u>549</u>	8.4	9.0
Subtotal	1,532	1,667	8.8	8.6
Net Interest on the				
Public Debt	<u>149</u>	<u>134</u>	-10.1	-10.1
Total	1,681	1,801	7.1	6.9

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of legislative action and changes in the accounting for certain health payments of the Department of Defense.

Outlays through July were about 7 percent higher than for the October-July period last year. Defense spending has grown at more than twice that rate, increasing by 15 percent on an adjusted basis. Outlays for other programs and activities have surged in recent months, partly because of emergency payments to states and airlines. Spending for that category is running about 9 percent above its level for the same period last year.

PROJECTIONS FOR FISCAL YEAR 2003 (In billions of dollars)

	CBO as of March	CBO as of August	OMB's <i>Mid-Session</i> <i>Review</i>
Receipts	1,891	1,770	1,756
Outlays	2,137	2,170	2,210
Deficit (-)	-246	-401	-455

SOURCES: Office of Management and Budget; CBO.

CBO has recently updated its estimate of the deficit for fiscal year 2003 to reflect legislative actions, economic developments, and other new information. The deficit for the year is now projected to total \$401 billion—\$155 billion more than CBO estimated in March.

Legislation enacted in the past few months accounts for much of the increase in the projected deficit. JGTRRA's tax cuts will reduce revenue this year by an estimated \$53 billion, and the Emergency Wartime Supplemental Appropriations Act will add about \$33 billion to outlays, mostly for military activity associated with the war in Iraq and the subsequent occupation, with ongoing operations in Afghanistan, and with activities abroad and at home for the global war on terrorism. JGTRRA also provided \$9 billion for aid to states; the extension of unemployment benefits enacted in May will raise outlays by another \$3 billion. In total, recently enacted legislation will add \$99 billion to the 2003 deficit, CBO estimates.

The remaining \$56 billion increase in the projected deficit results from revised estimates of revenues and spending because of new information about the economy, year-to-date results, and other factors. CBO has revised its revenue estimate downward by \$69 billion. About half of that adjustment reflects weak final settlements of 2002 individual income tax liabilities. That result probably stems from some combination of smaller-than-expected realizations of capital gains, weaker-than-average growth in incomes of high-income taxpayers, and lower-than-reported growth in aggregate incomes. Corporate receipts account for about another quarter of CBO's downward revision to its revenue projection.

Some of the decline in projected revenues is offset by a \$13 billion reduction in CBO's estimate of outlays, mostly because defense spending is not growing as rapidly as anticipated and payments of unemployment benefits are somewhat lower than expected given the high unemployment rate.

In July, the Office of Management and Budget (OMB) projected that the deficit in 2003 will total \$455 billion, \$54 billion more than the shortfall estimated by CBO. Most of that difference—about \$40 billion—reflects CBO's expectation that spending will be lower than OMB projects, especially for the Defense Department (\$18 billion lower), international affairs (\$5 billion lower), and the departments of Homeland Security (\$4 billion lower) and Agriculture (\$3 billion lower). CBO's revenue projection is about \$14 billion higher than OMB's.

CBO's revised 10-year projections will be presented in an upcoming report, *The Budget and Economic Outlook: An Update* (which can be viewed at www.cbo.gov after its release on August 26).