



MONTHLY BUDGET REVIEW

Fiscal Year 2005

A Congressional Budget Office Analysis

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

March 4, 2005

In the first five months of fiscal year 2005, the federal government ran a deficit of about \$225 billion, CBO estimates—\$4 billion less than that for the same period last year. If the supplemental appropriations and other policies proposed by the President are enacted, the deficit for fiscal year 2005 will reach \$394 billion, by CBO's estimate.

JANUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	201	202	2
Outlays	188	194	5
Surplus	12	9	-4

Sources: Department of the Treasury; CBO.

The surplus in January was \$9 billion, \$4 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were \$5 billion more than anticipated, largely because of higher-than-expected spending by the Departments of the Treasury and Education and earlier-than-expected revisions in the estimated subsidy costs of certain loan and loan guarantee programs. Revenues were about \$2 billion higher than projected.

ESTIMATES FOR FEBRUARY (Billions of dollars)

	Actual FY2004	Preliminary FY2005	Estimated Change
Receipts	92	100	8
Outlays	189	216	27
Deficit (-)	-97	-115	-19

Sources: Department of the Treasury; CBO.

The deficit in February was about \$115 billion, CBO estimates, \$19 billion more than the shortfall for the same month in 2004.

The Treasury received about \$100 billion in revenues in February, \$8 billion (or 9 percent) more than the amount collected in February 2004. The largest gains were in individual income and social insurance (payroll) tax collections: withholding for income and payroll taxes rose by almost \$10 billion, and nonwithheld tax receipts grew by about \$1 billion. Corporate income tax receipts (net of refunds) also increased by about \$1 billion. Refunds of individual income taxes were \$4 billion higher, offsetting some of those increases.

Outlays in February, at \$216 billion, were \$27 billion higher than they were in the same month last year, CBO estimates, but about \$11 billion of that difference resulted from shifts in the timing of certain payments. Outlays were unusually low in February 2004 because the first day of the month fell on a weekend, which shifted some payments from February to January. With that shift excluded, outlays in February 2005 were about \$16 billion (or 8 percent) higher than they were in the previous February. Changes in agencies' estimates of the subsidy costs of loans and loan guarantees decreased outlays by \$2 billion in February 2004 and increased outlays by \$2 billion in February 2005. Higher spending for defense programs, refundable tax credits, Social Security, and Medicare accounted for most of the remaining increase.

BUDGET TOTALS THROUGH FEBRUARY (Billions of dollars)

	October-February		Estimated Change
	FY2004	FY2005	
Receipts	718	790	72
Outlays	946	1,014	68
Deficit (-)	-228	-225	4

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$225 billion in the first five months of fiscal year 2005, which is about \$4 billion less than the deficit recorded for the same period last year. Outlays were about \$68 billion higher than they were in 2004, while receipts were about \$72 billion higher.

RECEIPTS THROUGH FEBRUARY (Billions of dollars)

Major Source	October-February		Percentage Change
	FY2004	FY2005	
Individual Income	324	356	9.9
Corporate Income	48	71	47.0
Social Insurance	286	304	6.1
Other	60	59	-0.6
Total	718	790	10.0

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 this fiscal year were about 10 percent higher than those in the comparable period in fiscal year 2004. That rate of growth corresponds closely to CBO's projection of 9.4 percent growth in revenues for the full fiscal year.

Corporate income taxes, in particular, have shown considerable strength through February of this year, with net receipts about \$23 billion (or 47 percent) more than they were a year ago. Just over half of the dollar increase occurred in December, when most corporations made their final quarterly payment of estimated taxes for tax year 2004.

Individual income tax receipts, primarily resulting from withholding, have also risen significantly, to be up by about 10 percent so far this year. Social insurance receipts gained about 6 percent compared to those last year, with most of the increase attributable to higher withholding for social insurance taxes on wage income. Together, withholding for both income and social insurance taxes, which has been especially strong in the past three months, rose by about 7 percent in the first five months of this year compared with that for the same period a year ago. That rise is consistent with solid growth in wages and salaries. (Only the combined total of income and social insurance tax withholding is known with certainty by the Treasury Department for recent months; the initial allocation between individual income taxes and social insurance taxes for those months is based on Treasury's estimates. When tax return information becomes available later, the Treasury corrects the estimates by adjusting the allocation for the most recent month.)

OUTLAYS THROUGH FEBRUARY (Billions of dollars)

Major Category	October-July		Percentage Change
	FY2004	FY2005	
Defense—Military	174	187	7.4
Social Security			
Benefits	200	210	5.2
Medicare	117	129	10.4
Medicaid	71	73	2.6
Other Programs and Activities	<u>317</u>	<u>343</u>	8.3
Subtotal	879	942	7.2
Net Interest on the Public Debt	<u>67</u>	<u>72</u>	7.1
Total	946	1,014	7.2

Sources: Department of the Treasury; CBO.

Outlays through February were 7 percent higher than they were in the same period last year, CBO estimates. That rate of growth matches the increase that CBO is projecting for the fiscal year, assuming enactment of the proposed supplemental appropriations.

Outlays for defense and nondefense programs have increased at about the same pace so far this year; both are up by about 7 percent relative to such outlays during the first five months of 2004. By the end of the year, CBO expects, defense spending will be up by about 9 percent and nondefense spending, by 6.5 percent. The rate of increase in outlays for Medicaid and net interest on the public debt is projected to be higher later in the year, with annual gains expected to reach 4 percent and 10 percent, respectively. Spending for Social Security and Medicare is expected to grow at roughly the same rates as those reported for the year so far, or about 5 percent and 10 percent, respectively. Spending for other programs and activities is likely to grow more slowly during the remainder of the year, resulting in a projected fiscal year gain of 6 percent for that category of spending.

CURRENT ESTIMATES FOR FISCAL YEAR 2005 (Billions of dollars)

	CBO	OMB
Receipts	2,057	2,053
Outlays	2,451	2,479
Deficit (-)	-394	-427

Sources: Office of Management and Budget and CBO, assuming enactment of the President's request.

Both CBO and the Office of Management and Budget (OMB) have recently issued new projections of the budget outlook for fiscal year 2005. CBO estimates that the federal government will end 2005 with a deficit of \$394 billion, assuming enactment of the supplemental appropriations, mostly for the war in Iraq, and other proposals recently requested by the President. At 3.2 percent of gross domestic product (GDP), the 2005 deficit would be smaller than the deficit recorded in 2004 (\$412 billion, or 3.6 percent of GDP).

CBO's estimate of the deficit is about \$32 billion less than the \$427 billion shortfall projected by OMB. Much of that difference derives from lower estimates of spending from the proposed supplemental and for student loans, Medicaid, the Postal Service, and unemployment insurance.