



MONTHLY BUDGET REVIEW

Fiscal Year 2003

A Congressional Budget Office Analysis

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

May 9, 2003

In the first seven months of fiscal year 2003, the federal government ran a deficit of about \$202 billion, CBO estimates, \$138 billion more than in the same period last year. CBO now expects that the government will end 2003 with a deficit of over \$300 billion (compared to its March baseline estimate of \$246 billion) because of weaker-than-projected revenues and additional outlays of more than \$40 billion from the recently enacted supplemental appropriation bill.

MARCH RESULTS (In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	116	120	4
Outlays	170	179	9
Deficit (-)	-54	-59	-5

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$59 billion in March, about \$5 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. That discrepancy was primarily due to an upward adjustment of \$4.6 billion in the estimated subsidy cost of the Department of Education's direct student loan program, which CBO had expected would be recorded in April. Larger-than-anticipated payments of refundable tax credits and correspondingly lower-than-expected tax refunds accounted for most of the remaining difference between CBO's estimate and actual receipts and outlays.

ESTIMATES FOR APRIL (In billions of dollars)

	Actual FY2002	Preliminary FY2003	Estimated Change
Receipts	237	230	-8
Outlays	170	179	9
Surplus	67	50	-17

SOURCES: Department of the Treasury; CBO.

CBO estimates that the surplus in April was about \$50 billion—\$17 billion less than in the same month last year and the smallest April surplus since 1995. Receipts were about \$8 billion lower, and outlays \$9 billion higher, than in April 2002. (The highest surplus recorded in April was \$189 billion in 2001.)

Receipts from nonwithheld income and self-employment (social insurance) taxes, which are substantial in April because of filings of individual income tax returns, fell by \$16 billion, or 12 percent, from last April's level. Those receipts have now dropped for two years in a row, to levels below those of April 1997. Net receipts from corporate income taxes, however, rose by \$8 billion. About \$4 billion of that increase resulted from fewer refunds being paid out this year.

Outlays were \$9 billion higher in April this year than they were last year, CBO estimates. Much of that increase is attributable to higher defense spending. The April 2003 estimate includes a net reduction of \$5.6 billion in outlays to reflect changes in agencies' estimates of the subsidy cost of loans or loan guarantees made by the Export-Import Bank, the Department of Education, and the Small Business Administration. Without those accounting adjustments, outlays for the month would have grown by about 9 percent from 2002 to 2003.

BUDGET TOTALS THROUGH APRIL (In billions of dollars)

	October-April		Estimated Change
	FY2002	FY2003	
Receipts	1,116	1,055	-62
Outlays	1,181	1,257	76
Deficit (-)	-65	-202	-138

SOURCES: Department of the Treasury; CBO.

The government recorded a deficit of \$202 billion for the first seven months of fiscal year 2003, CBO estimates—more than three times the shortfall recorded for the same period last year. Receipts were \$62 billion (or 5.5 percent) lower, and outlays were \$76 billion (or 6.4 percent) higher, than last year's levels.

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 APRIL

(In billions of dollars)

Major Source	October-April		Percentage Change
	FY2002	FY2003	
Individual Income	537	493	-8.1
Corporate Income	88	62	-29.0
Social Insurance	409	416	1.7
Other	<u>83</u>	<u>84</u>	1.2
Total	1,116	1,055	-5.5

SOURCES: Department of the Treasury; CBO.

About \$44 billion of the \$62 billion decline in revenues so far this year has occurred in the category of individual income tax receipts, with nonwithheld receipts weaker and refunds larger than CBO had expected they would be. Nonwithheld receipts of individual income taxes from October through April were \$27 billion, or 12 percent, lower than they were last year, and refunds were \$5 billion, or 4 percent, higher. Together, they pushed net receipts below expectations by \$35 billion to \$40 billion. This unexpected weakness in receipts largely reflects final settlements of taxes for 2002. Wages and salaries in the national income and product accounts for the third quarter of 2002 were revised downward at the end of March, and that revision is consistent with lower income tax liabilities for that year.

Withheld receipts of individual income taxes fell by \$12 billion, or 2.6 percent. Those receipts fell early in the fiscal year (from October through December) and have grown slowly since then. Likely causes of the initial drop were the tax rate cuts that took effect in January 2002 and smaller year-end bonuses.

Corporate receipts declined by \$26 billion in the first seven months of the fiscal year, but \$23 billion of that amount reflects the timing of payments. Legislation enacted in 2001 delayed estimated corporate income tax payments from September to October 2001, boosting receipts in fiscal year 2002.

At this point in the fiscal year, detailed data on the sources of income responsible for the weakness in final settlements are not available. By the end of calendar year 2003, information about the components of aggregate income will be available from 2002 tax returns; the full array of data from tax returns will be obtainable more than a year from now.

A shortfall in receipts relative to CBO's March baseline estimate for fiscal year 2003 is nearly certain. To reach the baseline level for the full year, receipts for the next five months would have to be 13 percent higher than the same period last year—an unlikely prospect. While CBO expects that receipts under current law will continue to grow in the remaining months of this fiscal year, overall receipts are likely to be \$50 billion to \$80 billion below the March baseline estimate.

OUTLAYS THROUGH APRIL

(In billions of dollars)

Major Category	October-April		Percentage Change	
	FY2002	FY2003	Actual	Adjusted ^a
Defense—Military	187	216	15.1	13.8
Social Security				
Benefits	259	270	4.2	4.2
Medicare	145	159	9.6	7.2
Medicaid	85	91	7.3	7.3
Unemployment				
Insurance	29	35	18.6	18.6
Other Programs				
and Activities	<u>370</u>	<u>389</u>	5.1	5.7
Subtotal	1,076	1,160	7.8	7.4
Net Interest on the				
Public Debt	<u>105</u>	<u>97</u>	-7.3	-7.3
Total	1,181	1,257	6.4	6.1

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 seven months of fiscal year 2003 were about 6 percent higher than in the same period last year, CBO estimates. Growth in defense spending remains strong, although much of the budgetary impact of the war in Iraq has not yet been realized. By the end of the fiscal year, CBO expects defense outlays to be around 20 percent above last year's level. In contrast, spending for most nondefense programs has been growing more slowly than it did last year, notably payments for unemployment benefits (which increased by 72 percent in 2002 versus about 19 percent so far this year), Medicaid (which rose by 13 percent last year versus 7 percent in 2003), and other programs and activities (which grew by 12 percent last year compared to this year's increase of about 6 percent).