



MONTHLY BUDGET REVIEW

Fiscal Year 2002

A Congressional Budget Office Analysis

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

April 10, 2002

The federal government ran a deficit of \$129 billion in the first six months of fiscal year 2002, CBO estimates, \$104 billion more than in the same period last year. CBO projects that the deficit for all of fiscal year 2002 will total \$46 billion if no further legislation affecting revenues or spending is enacted this year.

FEBRUARY RESULTS

(In billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	97	98	1
Outlays	172	174	2
Deficit (-)	-75	-76	-1

SOURCES: Department of the Treasury; CBO.

The Treasury reported a deficit of \$76 billion in February, \$1 billion more than CBO had projected on the basis of the *Daily Treasury Statements*. Outlays were about \$2 billion higher than CBO had expected, mostly as a result of increased spending for defense programs.

ESTIMATES FOR MARCH

(In billions of dollars)

	Actual FY2001	Preliminary FY2002	Estimated Change
Receipts	130	110	-20
Outlays	181	170	-11
Deficit (-)	-51	-60	-9

SOURCES: Department of the Treasury; CBO.

CBO estimates that the deficit in March 2002 was about \$60 billion—\$9 billion more than in March 2001. Receipts were down by about \$20 billion, and outlays were \$11 billion lower than in March of last year.

Net revenues in March were 15 percent below last year's level. Almost half of that reduction, or \$9 billion, resulted from larger refunds of individual income taxes. (Refunds were also higher in February.) The large dollar amount of refunds so far this tax filing season stems partly from faster filing of returns by taxpayers and more rapid processing by the Internal Revenue Service (IRS), but it mostly represents an increase in the average refund

per return. In addition, withholding of income and payroll taxes was about \$4 billion less in March 2002 than in March 2001 because of the tax cuts enacted last June and the one fewer business day this March. Were it not for those two effects, withholding would have been higher this March, CBO estimates.

Corporate receipts were \$4 billion lower this March than they were a year ago. Some of the decline was caused by the business tax cuts included in the Job Creation and Worker Assistance Act of 2002, signed into law by the President on March 9. Nonwithheld individual income taxes and excise taxes were also lower this year.

Outlays declined in March 2002 for two reasons. First, outlays in March 2001 were unusually high because April 1 fell on a weekend, which shifted about \$11 billion in outlays from April to March. Second, the Treasury recorded about \$2 billion in offsets to outlays in March 2002 to reflect revised estimates of the cost of certain credit programs. Without those two factors, spending for the month would have been slightly higher than last year's level.

BUDGET TOTALS THROUGH MARCH

(In billions of dollars)

	October-March		Estimated Change
	FY2001	FY2002	
Receipts	922	878	-44
Outlays	947	1,007	60
Deficit (-)	-25	-129	-104

SOURCES: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$129 billion for the first half of fiscal year 2002—an increase of \$104 billion over the same period last year. Receipts in those six months were about \$44 billion lower than receipts from October through March of last year, and outlays were about \$60 billion higher.

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.

That deficit has contributed to an increase in the amount of federal debt subject to statutory limitations. The Treasury has recently acted to avoid breaching the statutory debt ceiling of \$5.95 trillion. That action should allow the government to meet its daily cash needs until the infusion of tax receipts in mid-April. Although the deficit and debt held by the public are expected to decline by the end of the year, increases in debt issued to federal trust funds lead CBO to project that the Treasury will again reach the debt ceiling later this summer.

RECEIPTS THROUGH MARCH (In billions of dollars)

Major Source	October-March		Percentage Change
	FY2001	FY2002	
Individual Income	439	397	-9.6
Corporate Income	80	79	-0.7
Social Insurance	330	332	0.7
Other	<u>73</u>	<u>69</u>	-5.0
Total	922	878	-4.8

SOURCES: Department of the Treasury; CBO.

Receipts in the first half of fiscal year 2002 were lower by \$44 billion, or 4.8 percent, than receipts in the first half of 2001, CBO estimates. The decline was nearly all recorded in individual income taxes, which fell by \$42 billion, or 9.6 percent. Withheld receipts accounted for \$23 billion of that decline, mostly a result of last year's tax cuts. Another \$15 billion of the decline in receipts came from higher individual tax refunds, and \$4 billion stemmed from nonwithheld receipts. Social insurance receipts were relatively flat in the first six months of 2002, growing by less than 1 percent compared with the same period a year ago. Corporate receipts fell by less than \$1 billion compared with the same period last year. But that comparison is affected by tax legislation enacted over the past year that allowed firms to postpone \$23 billion in payments from September to October. Without that change, corporate receipts to date in the current fiscal year would have fallen substantially.

Although recent macroeconomic indicators have shown strong evidence of an economic rebound, no clear evidence came from tax collections in the first quarter of 2002. That result is not surprising because many of those receipts reflected economic activity in 2001.

Receipts in April will be a key indicator of the likely annual total for receipts. Individuals must file their personal tax returns with the IRS by April 15. Allowing for the normal processing time, the total amount paid will be known early in May.

OUTLAYS THROUGH MARCH (In billions of dollars)

Major Category	October-March		Percentage Change	
	FY2001	FY2002	Actual	Adjusted ^a
Defense—Military	144	158	9.9	9.9
Social Security				
Benefits	210	222	5.7	5.7
Medicare	117	123	4.5	10.2
Medicaid	63	72	15.1	15.1
Unemployment				
Insurance	15	24	62.6	62.6
Other Programs and Activities	<u>286</u>	<u>319</u>	11.7	11.8
Subtotal	834	917	10.0	10.8
Net Interest on the Public Debt	<u>113</u>	<u>90</u>	-20.3	-20.3
Total	947	1,007	6.4	7.1

SOURCES: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of week-ends, holidays, or legislative action.

Outlays were 6.4 percent higher in the first six months of fiscal year 2002 than in the same period last year, CBO estimates. Adjusted for shifts in the dates of certain payments, that growth rate was about 7.1 percent. CBO projects that for the entire fiscal year, spending in 2002 will be about 8 percent higher than in 2001.

Among the major categories of spending, Medicaid continues to show very rapid growth—up by about 15 percent so far this year, reflecting higher prices and rising enrollment and utilization. (Medicaid spending grew by more than 10 percent in 2001 and by almost 9 percent in 2000.) Adjusted for shifts in payment dates in both 2001 and 2002, Medicare spending has grown by about 10 percent this year. Outlays for unemployment insurance are up by more than 60 percent for the year, a result of the recent economic slowdown.

Outlays also are rising rapidly for a number of other domestic programs, including activities of the Department of Transportation (up by 26 percent) and refundable tax credits (up by 20 percent).

Overall, CBO anticipates that spending will be stronger than usual in the second half of this fiscal year because of continued growth in defense spending and the recently enacted extension of benefits for the long-term unemployed.