



MONTHLY BUDGET REVIEW

Fiscal Year 2004

A Congressional Budget Office Analysis

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

March 5, 2004

In the first five months of fiscal year 2004, the federal government ran a deficit of \$226 billion, CBO estimates, \$32 billion more than for the same period last year. In the absence of further tax or spending legislation, CBO expects that the deficit will reach \$477 billion in 2004.

JANUARY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	183	184	2
Outlays	184	186	2
Deficit (-)	-1	-1	*

Sources: Department of the Treasury; CBO.

Note: * = between zero and \$500 million.

The Treasury reported a deficit of \$1 billion in January, the same as CBO had projected on the basis of the *Daily Treasury Statements*. Outlays for refundable tax credits were larger and tax refunds were correspondingly smaller than CBO had anticipated.

ESTIMATES FOR FEBRUARY (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	89	90	*
Outlays	186	186	-1
Deficit (-)	-97	-96	1

Sources: Department of the Treasury; CBO.

Note: * = between zero and \$500 million.

The deficit in February was \$96 billion, CBO estimates, almost identical to the deficit incurred in the same month last year. Revenues and outlays were both very close to the levels of last February.

But that result is affected by two special factors. First, because February 1, 2004, fell on a weekend, about \$11 billion in payments normally made on the first of the month were instead disbursed at the end of January.

Second, the February 2004 estimate includes a reduction of about \$2 billion in outlays to reflect changes in agencies' estimates of the subsidy cost of loans or loan guarantees made by the Export-Import Bank and the Air Transportation Stabilization Board. Excluding those factors, outlays for the month would have grown by about 7 percent from 2003 to 2004, and the deficit would have risen by \$12 billion.

CBO estimates that the Treasury received about \$90 billion in revenues in February, about the same amount it received in February 2003. Net corporate receipts increased by about \$2 billion, the result of lower refunds. In contrast, net individual income and payroll tax receipts were about \$2 billion lower than in February 2003. Those receipts fell because refunds of individual income taxes rose by \$5 billion in the first full month of the tax filing season. Partially offsetting the higher refunds were receipts of withheld income and payroll taxes, nonwithheld receipts, and state deposits of unemployment insurance taxes, which were each about \$1 billion higher than they were last February.

BUDGET TOTALS THROUGH FEBRUARY (Billions of dollars)

	Actual FY2003	Preliminary FY2004	Estimated Change
Receipts	705	715	10
Outlays	899	941	42
Deficit (-)	-194	-226	-32

Sources: Department of the Treasury; CBO.

The government recorded a deficit of \$226 billion for the first five months of fiscal year 2004, CBO estimates, about \$32 billion more than for the same period last year. Outlays grew by \$42 billion compared with last year's level, outpacing the \$10 billion growth in revenues.

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 THROUGH FEBRUARY

(Billions of dollars)

Major Source	Actual FY2003	Preliminary FY2004	Percentage Change
Individual Income	331	319	-3.6
Corporate Income	33	49	47.1
Social Insurance	282	287	1.7
Other	<u>58</u>	<u>59</u>	2.7
Total	705	715	1.4

Sources: Department of the Treasury; CBO.

The \$10 billion increase in receipts so far this year is largely attributable to higher net corporate receipts, which have risen by \$15 billion. The legislated shift in payment dates at the beginning of the year boosted those receipts by \$5 billion. In addition, refunds paid to corporations were about \$8 billion lower than in fiscal year 2003.

Receipts of individual income taxes fell by \$12 billion, or 3.6 percent, compared with their level in the same period in fiscal year 2003. Withheld income and payroll tax receipts fell by about \$2 billion, or 0.3 percent, in the first five months of fiscal year 2004. They were reduced by the tax cuts enacted last year and because there has been one fewer business day so far this year. Nonwithheld receipts of individual income and payroll taxes dropped by about \$2 billion, or 3 percent, in that five-month period, at least in part reflecting the recent tax cuts.

Individual refunds rose by about \$4 billion, or 8 percent, in the October-February period, compared with the same period last year. It is too early in the tax filing season to draw conclusions about the magnitude of refunds for the full season. Only about one-third of refunds are normally paid by this point in the year. In addition, the recent tax law changes may have altered the typical pattern of tax filings, and the allocation of net receipts between final payments and refunds is not certain.

OUTLAYS THROUGH FEBRUARY

(Billions of dollars)

Major Category	Actual FY2003	Preliminary FY2004	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	152	172	13.4	15.6
Social Security				
Benefits	192	200	4.2	4.2
Medicare	116	117	1.4	4.1
Medicaid	65	71	9.2	9.2
Other Programs				
and Activities	<u>305</u>	<u>314</u>	3.0	4.5
Subtotal	829	874	5.4	6.8
Net Interest on the				
Public Debt	<u>70</u>	<u>67</u>	-4.6	-4.6
Total	899	941	4.6	5.9

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays.

Outlays through February were 4.6 percent higher than in the same period last year, CBO estimates. Adjusted for shifts in the dates of certain payments, that growth rate was about 5.9 percent. CBO expects that 2004 outlays will end the year about 6.4 percent above the 2003 level, assuming no additional legislation affecting spending is enacted.

Defense outlays have averaged about \$34.5 billion a month so far this year and since the war in Iraq began in March 2003. That level of spending is about 15.6 percent higher than the amounts spent in the first five months of fiscal year 2003 (adjusted for payment shifts), prior to the start of the war.

Medicaid outlays through February were 9.2 percent higher than in the same period last year, driven in part by a temporary, 15-month increase in the federal matching rate that extends from April 2003 through June 2004. Medicare outlays have risen more slowly so far this year, increasing by 4.1 percent (adjusted for payment shifts).

Outlays for other programs and activities rose 4.5 percent (on an adjusted basis) through February, close to the 4.7 percent increase CBO is projecting for the fiscal year. The Public Health Service and the Departments of Justice and Education posted double-digit percentage increases for the first five months of the year relative to the same period last year, CBO estimates. Spending through February also was higher than last year because payments for emergency aid to states and certain foreign aid disbursements were made earlier this year. Some of that increase was offset by higher earnings recorded by the National Railroad Retirement Investment Trust and proceeds from a special financing arrangement of the Tennessee Valley Authority.