



# MONTHLY BUDGET REVIEW

## Fiscal Year 2010

### A Congressional Budget Office Analysis

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

September 7, 2010

The federal government incurred a deficit of nearly \$1.3 trillion in the first 11 months of fiscal year 2010, CBO estimates—a total that is about \$100 billion less than the shortfall recorded through August of last year. Outlays are about 2 percent less than they were in the first 11 months of 2009, whereas revenues have increased by 1½ percent.

CBO currently estimates that the deficit for 2010 will be about \$70 billion below last year's total but will still exceed \$1.3 trillion. Relative to the size of the economy, this year's deficit is expected to be the second-largest shortfall in the past 65 years: At 9.1 percent of gross domestic product (GDP), that deficit will be exceeded only by last year's deficit of 9.9 percent of GDP. Additional information can be found in *The Budget and Economic Outlook: An Update* (August 2010), available at [www.cbo.gov](http://www.cbo.gov).

#### JULY RESULTS (Billions of dollars)

	Preliminary Estimate	Actual	Difference
Receipts	156	156	*
Outlays	325	321	-4
Deficit (-)	-169	-165	4

Sources: Department of the Treasury; CBO.

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

The Treasury reported a deficit of \$165 billion for July, about \$4 billion less than CBO had projected on the basis of the *Daily Treasury Statements*. That difference occurred largely because spending for defense and Medicare was lower than expected.

#### ESTIMATES FOR AUGUST (Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	146	162	17
Outlays	249	258	8
Deficit (-)	-104	-95	8

Sources: Department of the Treasury; CBO.

The deficit in August was \$95 billion, CBO estimates, \$8 billion less than the shortfall recorded a year ago.

CBO estimates that receipts were \$17 billion (or 11 percent) higher in August 2010 than they were in August 2009, representing the fourth consecutive month of higher receipts. Withholding for income and payroll taxes rose by \$9 billion (or 7 percent) compared with August 2009; about \$2 billion of that increase occurred because August this year had one more business day. Receipts of unemployment insurance taxes rose by

\$3 billion, resulting primarily from the efforts of states to replenish their unemployment trust funds. Changes in the size and composition of the Federal Reserve's portfolio of assets continue to boost receipts; remittances from the central bank were up by \$3 billion relative to last August.

Outlays were \$8 billion (or 3 percent) higher in August than in the same month last year, CBO estimates. After adjusting for shifts in payment dates, expenditures for Medicare increased by \$6 billion and outlays for defense programs increased by \$4 billion. The estimated net cost of the Troubled Asset Relief Program (TARP) was \$3 billion higher this August than in August 2009. Spending for Social Security benefits and Medicaid also increased by \$3 billion each. Those increases, and a number of other smaller ones, were partially offset by decreases of \$8 billion in spending by the Federal Deposit Insurance Corporation and \$5 billion for net interest on the public debt. Spending for the Department of Education was down by \$7 billion from last August because of adjustments made to the estimated subsidy costs of loans and loan guarantees made in previous years.

#### BUDGET TOTALS THROUGH AUGUST (Billions of dollars)

	Actual FY 2009	Preliminary FY 2010	Estimated Change
Receipts	1,885	1,915	29
Outlays	3,256	3,179	-77
Deficit (-)	-1,371	-1,265	106

Sources: Department of the Treasury; CBO.

CBO estimates that the government recorded a deficit of \$1,265 billion for the first 11 months of fiscal year 2010, \$106 billion less than the deficit recorded during the same period last year. Outlays fell by \$77 billion, whereas revenues increased by \$29 billion.

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.

**REVENUES THROUGH AUGUST**  
(Billions of dollars)

Major Source	Actual FY 2009	Preliminary FY 2010	Percent Change
Individual Income	813	790	-2.8
Corporate Income	109	142	29.5
Social Insurance	822	797	-3.0
Federal Reserve	28	68	146.2
Other	<u>113</u>	<u>117</u>	3.2
<b>Total</b>	<b>1,885</b>	<b>1,915</b>	<b>1.5</b>

Sources: Department of the Treasury; CBO.

Total receipts for the first 11 months of fiscal year 2010 were about 1½ percent higher than in the same period last year. Higher net corporate income taxes and receipts from the Federal Reserve have been partially offset by declines in individual income and payroll taxes.

Corporate income taxes rose by \$32 billion (or 30 percent) during the first 11 months of the year; improved economic conditions and the expiration of legislation that allowed taxpayers to take higher depreciation charges in 2009 have resulted in higher taxable profits in 2010. With an increase of \$41 billion, receipts from the Federal Reserve were more than double the amount received in the comparable period in 2009. The larger remittances stemmed from higher profits earned by the Federal Reserve, which primarily reflect the central bank's much larger portfolio and its shift to riskier and thus higher-yielding investments in support of the housing market and the broader economy.

Combined receipts from individual income and payroll taxes declined by about \$47 billion (or 3 percent) compared with receipts in the same period last year. Withheld income and payroll taxes fell by about \$19 billion (or 1 percent), and nonwithheld receipts fell by about \$37 billion (or 12 percent). In both instances, the declines occurred earlier in this fiscal year and were largely attributable to lower collections from tax liabilities incurred in 2009. Collections of withheld and nonwithheld taxes for the past four months, which are largely based on income for 2010, rose by 4 percent relative to the same period last year. The overall drop in withheld and nonwithheld receipts was partially offset by a \$2 billion reduction in individual income tax refunds, mainly reflecting 2009 tax liabilities, and by a \$6 billion increase in collections of unemployment insurance taxes, resulting primarily from the efforts of states to replenish their unemployment trust funds. Other tax receipts rose by \$4 billion (or 3 percent) on net, compared with last year.

**OUTLAYS THROUGH AUGUST**  
(Billions of dollars)

Major Category	Actual FY 2009	Preliminary FY 2010	Percentage Change
Defense–Military	576	606	5.1
Social Security			
Benefits	602	637	5.7
Medicare <sup>a</sup>	393	412	5.0
Medicaid	230	250	8.7
Unemployment			
Benefits	108	148	38.0
Other Activities	<u>912</u>	<u>983</u>	7.8
<b>Subtotal</b>	<b>2,821</b>	<b>3,036</b>	<b>7.6</b>
TARP	166	-108	-164.9
Payments to GSEs	83	41	-50.6
Net Interest on the			
Public Debt	<u>186</u>	<u>210</u>	13.0
<b>Total</b>	<b>3,256</b>	<b>3,179</b>	<b>-2.4</b>

Sources: Department of the Treasury; CBO.

Note: TARP = Troubled Asset Relief Program; GSE = government-sponsored enterprise.

a. Medicare outlays are net of proprietary receipts.

Spending through August was about 2 percent lower than during the same period last year. That decline includes a net reduction in outlays of about \$373 billion for three items related to the financial crisis: the costs of the TARP (a reduction of \$274 billion from 2009), payments to Fannie Mae and Freddie Mac (a drop of \$42 billion), and federal deposit insurance (a decline of \$57 billion).

Excluding those three programs, outlays through August increased by \$296 billion (or 10 percent) relative to the same period last year. Slightly more than one-third of that increase stemmed from provisions in the American Recovery and Reinvestment Act (ARRA), the majority of which was for the State Fiscal Stabilization Fund and other Department of Education programs, additional unemployment benefits, refundable tax credits, and the federal share of Medicaid assistance.

Several major entitlement programs accounted for another one-third of the overall increase in spending. Social Security benefits increased by \$34 billion (or 6 percent) and Medicare expenditures rose by \$19 billion (or 5 percent). Excluding spending under ARRA, outlays for unemployment benefits were \$35 billion higher and Medicaid spending was \$12 billion higher than in the previous year.

Outlays for net interest on the public debt were \$24 billion (or 13 percent) higher than during the same period last year. Most of that growth reflects adjustments to the value of inflation-indexed securities.