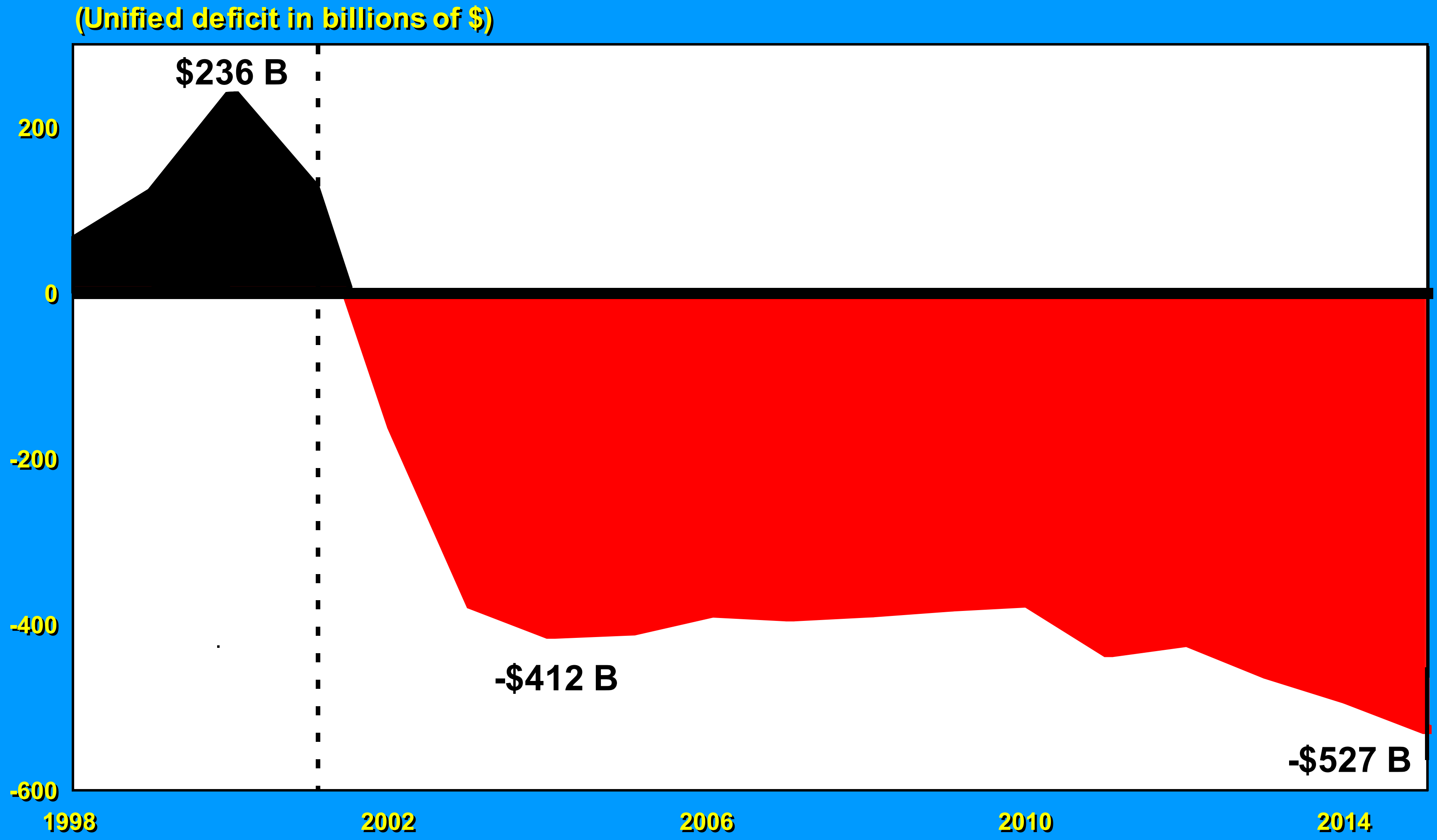
CBO's Ten-Year Unified Baseline Estimate Understates Deficit Because it Doesn't Count:

• Social Security Reform Transition Costs	$1.9 T
• Cost of Making Tax Cuts Permanent	$1.6 T
• Funding for Ongoing War Costs	$426 B
• Bush Defense Buildup	$234 B
• AMT Reform	$642 B
• Debt Service	<u>$595 B</u>
Total	$5.4 T

Note: Social Security Reform Transition Costs figure includes debt service. Debt service total is listed separately for other items.

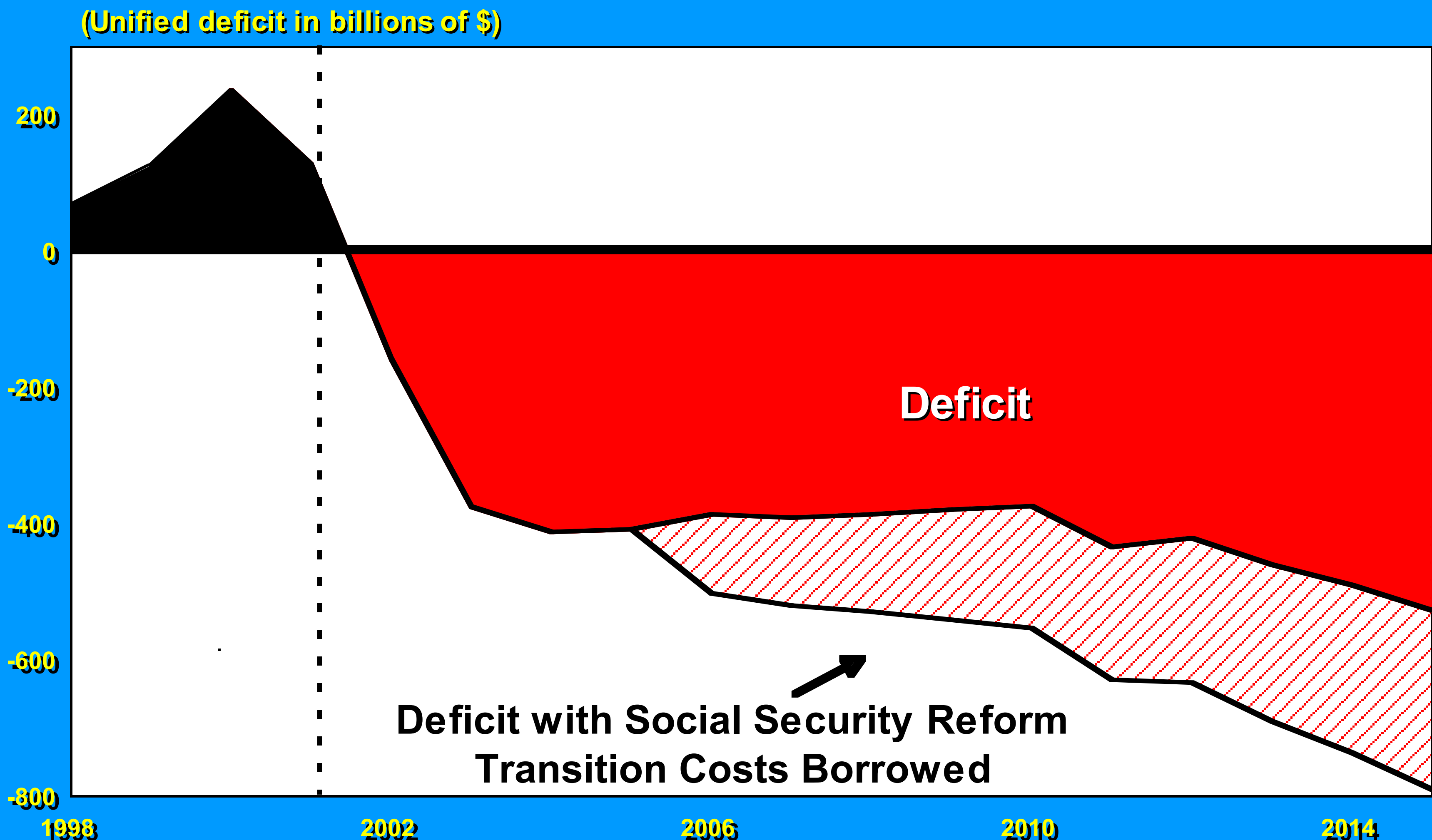
Deficits with Bush Tax Cuts Made Permanent, AMT Reform, Bush Defense Buildup, and Ongoing War Costs



Source: CBO

Note: CBO January 2005 estimate with Bush tax cuts made permanent, AMT reform, Bush defense buildup, and ongoing war costs, and without extension of 2005 disaster supplemental.

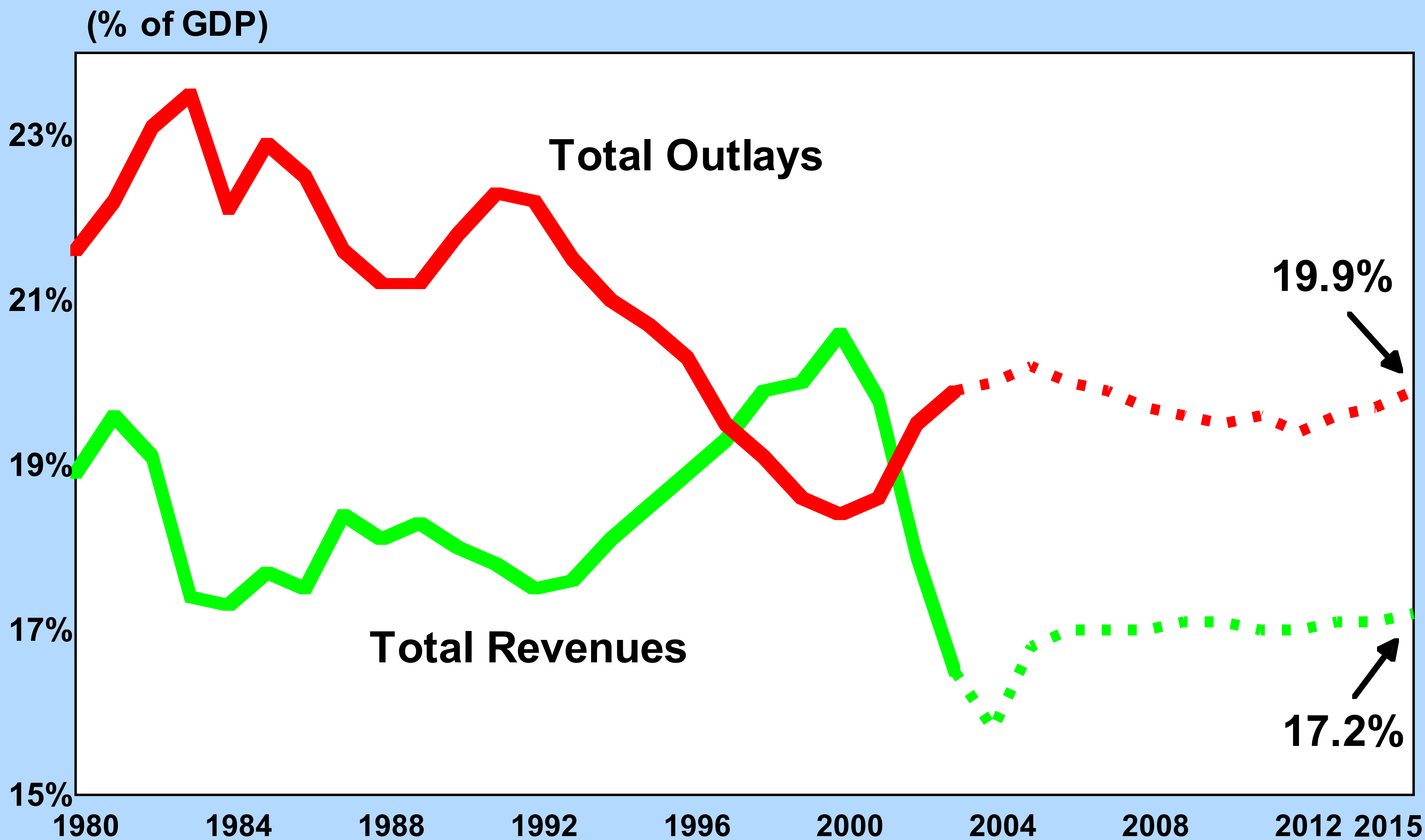
Borrowing Social Security Reform Transition Costs Worsens Fiscal Outlook



Source: CBO

Note: CBO January 2005 estimate with Bush tax cuts made permanent, AMT reform, Bush defense buildup, and ongoing war costs, and without extension of 2005 disaster supplemental.

Deficits Primarily Caused by Drop in Revenues, Not Increase in Spending

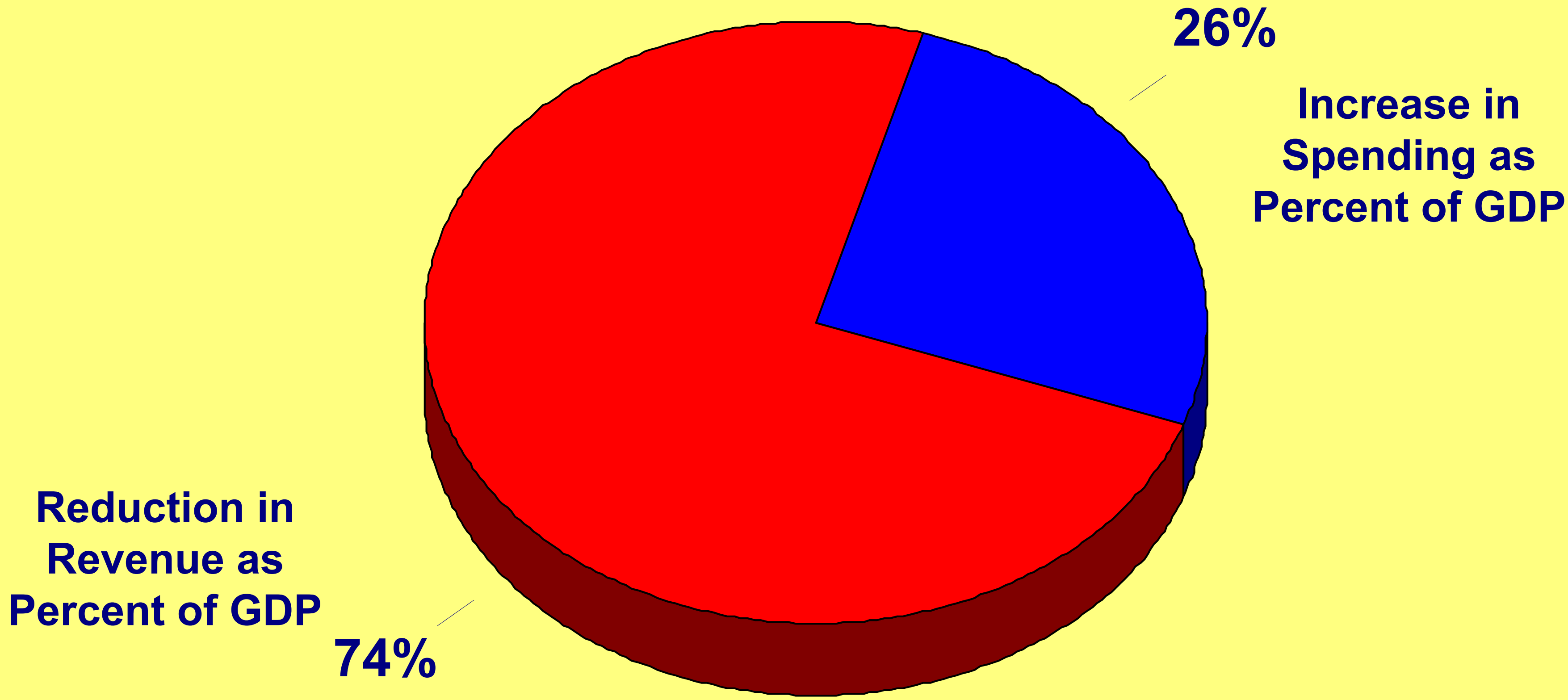


Source: CBO

Note: CBO January 2005 estimate with Bush tax cuts made permanent, AMT reform, Bush defense buildup, and ongoing war costs, and without extension of 2005 disaster supplemental.

Jan 25

Revenue Loss Accounts for Bulk of Budget Turnaround Since 2000

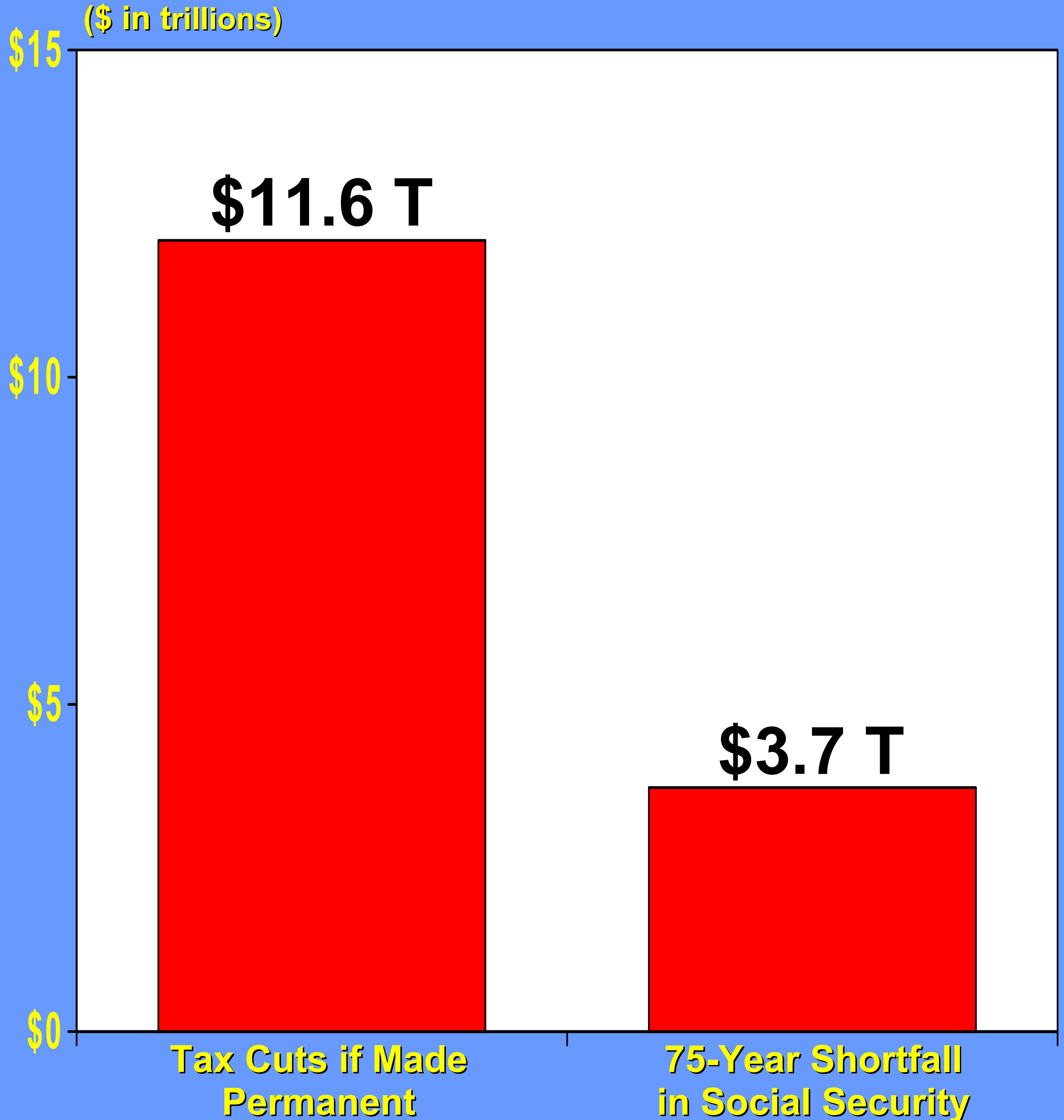


Sources of Change from Surplus of 2.4% of GDP in 2000
to Deficit of 3.0% of GDP in 2005

Source: CBO

The Bush Tax Cuts and Social Security

Present Value of Costs Over the Next 75 Years



Source: CBPP, Social Security Trustees 2004 Annual Report
Note: Assumes that provisions of EGTRRA and JGTRRA are made permanent and the AMT is reformed.

What do the Bush Administration's Irresponsible Fiscal Policies Mean?

By 2015, each family's share of the debt will total

$85,967.

Note: Based on publicly-held debt in 2015 assuming Bush tax cuts made permanent, AMT reform, Bush defense buildup, ongoing war costs, and Social Security reform transition costs borrowed, and without extension of 2005 supplemental. Families include single person households.

FINANCIAL TIMES

USA | MONDAY JANUARY 24 2005

USA $1.00 Canada C$2.00 Bermuda $2.25

Central banks shun US assets

Shifting reserves to eurozone will deepen Bush's difficulties in funding deficit ● Actions likely to undermine dollar's value further

By Chris Giles, Economics Editor

Central banks are shifting reserves away from US assets and towards the eurozone in a move that looks set to deepen the Bush administration's difficulties in financing its ballooning current account deficit.

In actions likely to undermine the dollar's value on currency markets, 70 per cent of central bank reserve managers said they had increased their exposure to the euro over the past two years. The majority thought eurozone money and debt markets were as attractive a destination for investment as the US.

The findings emerge from a survey of central bank reserve managers published today and conducted between September and December of last year. About 65 central banks, controlling assets worth $1,700bn, took part and the results showed a marked change in attitude over the past two years.

Any rebalancing of central bank reserve portfolios has serious implications for the global financial system as the US has become increasingly dependent on official flows of funds to finance its current account deficit, estimated at $650bn in 2004.

At the end of 2003, central banks held 70 per cent of their official reserves in dollar-denominated assets and central bank purchases of US securities had financed more than 80 per cent of the the US current account deficit in 2003.

Any reluctance to increase exposure to dollar assets further could cause the greenback to plunge on currency markets.

"The US cannot take support for the dollar for granted," said Nick Carver, one of the authors of the study conducted by Central Banking Publications, a company that specialises in reporting on central banks.

"Central banks' enthusiasm for the dollar seem to be cooling off."

In a further worrying sign for the greenback, 47 per cent of reserve managers surveyed said they expected the growth of official reserves to slow to less than 20 per cent over the next four years. Between the end of 2000 and mid-2004, official reserves had increased by 66 per cent.

Slower reserve accumulation growth implies the supply of official finance is likely to become more limited but few expect the demand from the US for finance to slow. The consensus among economists is that the US current account deficit will increase to $694bn in 2005.

More than 90 per cent of central bank reserve managers said that the income from reserve management was "important" or "very important".

In the two years since a similar survey was conducted, reserve managers had begun to seek higher returns for the money under management.

For these managers, dollar assets have become less attractive because the fall in the dollar since 2002 has reduced the yield they received and, in some cases, has led to negative real returns.

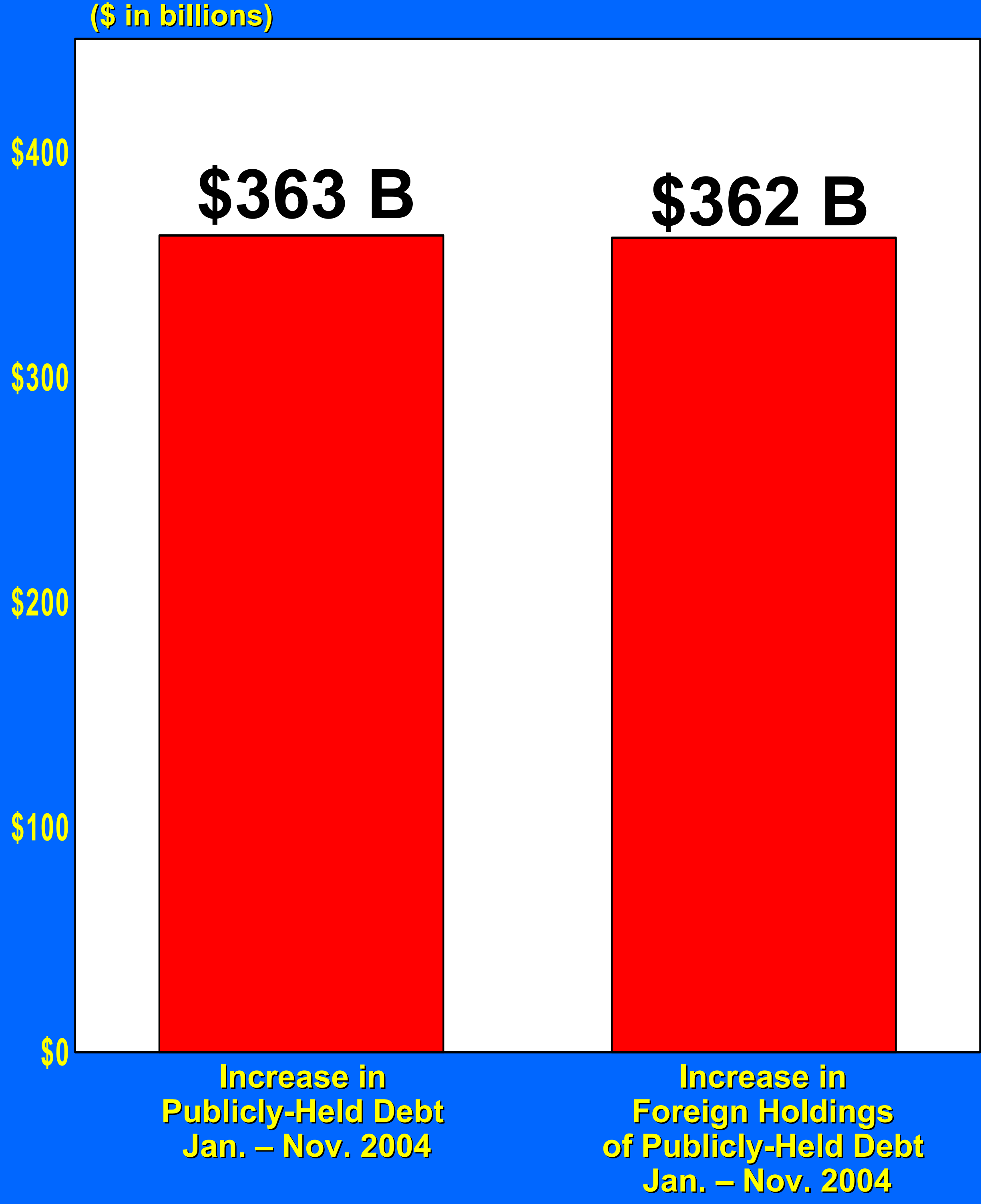
Alan Greenspan, the chairman of the Federal Reserve, warned in November that there was a limit to the willingness of foreign governments to finance the US current account deficit.

The survey was conducted on the guarantee of anonymity for the banks involved. The 65 central banks that participated control 45 per cent of global official reserves. Individually, they had up to $250bn under management.

The People's Bank of China and the Bank of Japan control larger official reserves than this so it is clear that they did not respond to the survey.

US depends on central banks, Page 2
Week Ahead, Page 24
News background: www.ft.com/dollar

Foreigners Funded Virtually All of U.S. Publicly-Held Debt Issued Last Year



Source: Treasury Department