

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2004: budgetary surplus of \$1.4 billion

There was a budgetary surplus of \$1.4 billion in July 2004, compared to a surplus of \$12 million in July 2003. This year-over-year improvement in the budgetary surplus is attributable to strong growth in budgetary revenues, up \$1.5 billion or 10.3 per cent, primarily reflecting higher corporate income taxes and excise taxes and duties. Total budgetary expenses were up \$0.1 billion, as slightly higher program expenses offset a decline in public debt charges.

### April to July 2004: budgetary surplus of \$4.4 billion

For the first four months of the 2004–05 fiscal year (April to July), the budgetary surplus is estimated at \$4.4 billion, up \$0.7 billion from the surplus reported in the same period last year. Budgetary revenues were up \$2.0 billion or 3.3 per cent, reflecting gains in most major components. The strength in budgetary revenues reflects the strong growth in the economy witnessed during the first half of 2004. Statistics Canada reported that nominal income, the applicable tax base for federal revenues, increased by 6.7 per cent in the second quarter of 2004 compared to the same period last year. Program expenses were up \$1.5 billion, or 3.4 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.2 billion lower.

### July 2004: budgetary results

The July 2004 budgetary surplus is estimated at \$1.4 billion, compared to a surplus of \$12 million in July 2003.

On a year-over-year basis, budgetary revenues, at \$16.1 billion, were up \$1.5 billion, or 10.3 per cent. This increase is primarily attributable to a \$0.7-billion increase in corporate income tax revenues and a \$0.8-billion increase in excise taxes and duties.

- Personal income tax revenues were up \$0.1 billion, or 1.5 per cent, primarily reflecting higher deductions from employment income.
- Corporate income tax revenues increased by \$0.7 billion, or 62.4 per cent, reflecting both strong growth in gross receipts and lower refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties increased \$0.8 billion, or 25.9 per cent, with all components higher. Goods and services tax (GST) revenues were up \$0.5 billion, or 20.9 per cent, due to higher GST levied at customs and lower refunds. Customs import duties advanced by \$0.1 billion, while sales and excise taxes increased by \$0.2 billion.
- Employment insurance (EI) premiums were down 11.3 per cent, as the reduction in premium rates

(the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) more than offset the increase in employment and thus the number of people paying premiums.

- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 7.9 per cent. This component is extremely volatile on a monthly basis.

Program expenses in July 2004 were \$11.6 billion, up \$0.2 billion, or 1.4 per cent, from July 2003. Both transfer payments and other program expenses were marginally higher.

Transfer payments were up \$0.1 billion, or 1.8 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up marginally on a year-over-year basis, as higher elderly benefits were virtually offset by lower EI benefits. Elderly benefits increased 2.7 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments declined 5.3 per cent, reflecting lower regular benefit payments, attributable to the improved labour market situation.



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- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.2 billion, or 8.1 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 7.3 per cent from July 2003.
- Subsidies and other transfers declined by 5.8 per cent. This component is extremely volatile on a monthly basis, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 0.9 per cent, as a decline in Crown corporation expenses was more than offset by higher defence and all other departmental and agency expenses. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were down 2.5 per cent, as a lower stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

## April to July 2004: budgetary results

In the first four months of the fiscal year, there was a budgetary surplus of \$4.4 billion, up \$0.7 billion from the surplus of \$3.7 billion reported in the same period of 2003–04.

Budgetary revenues, at \$61.6 billion, were up \$2.0 billion, or 3.3 per cent, reflecting strong gains in most components of tax revenues (up 6 per cent), dampened slightly by lower EI premiums and other revenues.

- Personal income tax revenues increased by \$1.2 billion, or 4.5 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting, in part, gains in employment over the past 12 months.
- Corporate income tax revenues were up \$0.6 billion, or 8.6 per cent, reflecting strong gains in monthly installments due to higher corporate profits.

- Excise taxes and duties increased by \$1.0 billion, or 7.2 per cent. GST revenues increased by \$0.7 billion, or 7.3 per cent, due to higher gross receipts from domestic sales and at customs as well as lower refunds. Customs import duties advanced by 13.2 per cent, reflecting strong growth in dutiable imports. Sales and excise taxes increased by 5.8 per cent due to higher excise revenues on tobacco and alcohol products, as energy tax revenues were lower.
- EI premiums were down 6.6 per cent, reflecting the reduction in premium rates.
- Other revenues declined by 11.2 per cent.

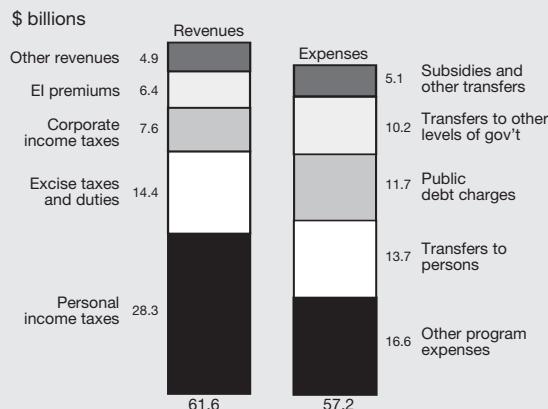
On a year-over-year basis, program expenses in the April to July 2004 period, at \$45.6 billion, were up \$1.5 billion, or 3.4 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfer payments. Public debt charges declined by \$0.2 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.4 billion, or 5.0 per cent.

- Transfers to persons advanced by \$0.3 billion, or 2.0 per cent. Elderly benefits were up 3.2 per cent while EI benefits were marginally lower. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$0.6 billion, or 6.5 per cent, reflecting higher transfers in support of health and other social programs, due to recent budget measures, and increased fiscal transfers. The latter primarily reflects the impact of recoveries in 2003–04 related to overpayments in previous years under the equalization program, which depressed

## Revenues and expenses

(April-July 2004)



spending last year. Misclassifications between fiscal transfers and subsidies and other transfers resulted in an overstatement of fiscal transfers in the April to June 2004 period of \$374 million and an understatement of subsidies and other transfers of a comparable amount. This was corrected in July.

- Subsidies and other transfers increased by \$0.5 billion, or 10.9 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.1 billion, or 0.7 per cent, as slightly lower year-over-year Crown corporation and defence expenses were offset by an increase in all other departmental and agency expenses.

Public debt charges were down 1.8 per cent, as a decline in the stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

## Financial requirement of \$5.9 billion for April to July 2004

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and

collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

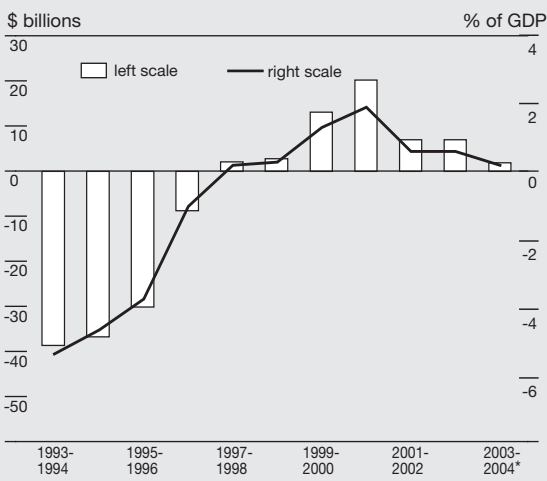
Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April to July period, down \$5.2 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to July 2003 period to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway Corporation (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$4.4 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$5.9 billion in the first four months of 2004–05, down \$5.9 billion from the same period last year.

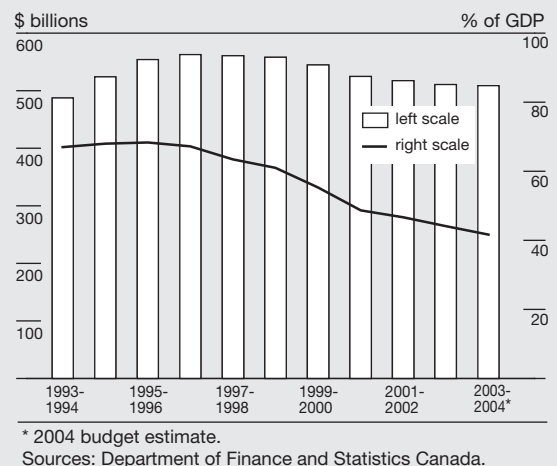
## Net financing activities down \$7.0 billion

The Government lowered its holdings of market debt by \$7.0 billion by the end of July 2004, primarily by reducing its holdings of marketable bonds. As a result, to finance the financial requirement of \$5.9 billion, it lowered its cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of July stood at \$4.4 billion.

### Budgetary balance



### Federal debt (accumulated deficit)



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Table 1

## Summary statement of transactions

	July		April to July	
	2003	2004	2003–04	2004–05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,561	16,063	59,636	61,600
Expenses				
Program expenses	-11,441	-11,604	-44,055	-45,553
Public debt charges	-3,108	-3,031	-11,914	-11,696
Budgetary balance (deficit/surplus)	12	1,439	3,667	4,351
<b>Non-budgetary transactions</b>	-2,218	-88	-15,427	-10,209
<b>Financial source/requirement</b>	-2,206	1,340	-11,760	-5,858
<b>Net change in financing activities</b>	988	821	458	-6,967
<b>Net change in cash balances</b>	-1,218	2,161	-11,302	-12,825
<b>Cash balance at end of period</b>			3,395	4,425

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2

## Budgetary revenues

	July			April to July		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenue</b>						
Income taxes						
Personal income tax	7,345	7,453	1.5	27,045	28,265	4.5
Corporate income tax	1,169	1,899	62.4	7,000	7,600	8.6
Other income tax revenue	317	266	-16.1	982	1,101	12.1
Total income tax	8,831	9,618	8.9	35,027	36,966	5.5
Excise taxes and duties						
Goods and services tax	2,257	2,728	20.9	9,330	10,013	7.3
Customs import duties	210	317	51.0	879	995	13.2
Sales and excise taxes	726	960	32.2	3,072	3,250	5.8
Air Travellers Security Charge	15	35	133.3	147	131	-10.9
Total excise taxes and duties	3,208	4,040	25.9	13,428	14,389	7.2
Total tax revenues	12,039	13,658	13.4	48,455	51,355	6.0
<b>Employment insurance premiums</b>	1,652	1,466	-11.3	6,893	6,438	-6.6
<b>Other revenues</b>	870	939	7.9	4,288	3,807	-11.2
<b>Total budgetary revenues</b>	14,561	16,063	10.3	59,636	61,600	3.3

Table 3

## Budgetary expenses

	July		Change	April to July		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,214	2,273	2.7	8,847	9,127	3.2
Employment insurance benefits	1,036	981	-5.3	4,607	4,597	-0.2
Total	3,250	3,254	0.1	13,454	13,724	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			4,217	
Canada Social Transfer		652			2,608	
Health Reform Transfer		125			500	
Canada Health and Social Transfer	1,691			6,766	25	
Total	1,691	1,831	8.3	6,766	7,350	8.6
Fiscal transfers	879	943	7.3	3,555	3,790	6.6
Alternative Payments for Standing Programs	-211	-225	6.6	-784	-984	25.5
Total	2,359	2,549	8.1	9,537	10,156	6.5
Subsidies and other transfers						
Agriculture	27	29	7.4	46	153	232.6
Foreign Affairs	159	151	-5.0	593	727	22.6
Health	191	233	22.0	517	608	17.6
Human Resources Development	85	88	3.5	427	492	15.2
Indian and Northern Development	312	340	9.0	1,564	1,552	-0.8
Industry and Regional Development	128	110	-14.1	457	494	8.1
Other	362	240	-33.7	1,004	1,084	8.0
Total	1,264	1,191	-5.8	4,608	5,110	10.9
Total transfer payments	6,873	6,994	1.8	27,599	28,990	5.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	51	94	84.3	417	466	11.8
Canada Mortgage and Housing Corporation	166	170	2.4	737	725	-1.6
Other	192	122	-36.5	737	695	-5.7
Total	409	386	-5.6	1,891	1,886	-0.3
Defence	1,021	1,070	4.8	3,576	3,568	-0.2
All other departments and agencies	3,138	3,154	0.5	10,989	11,109	1.1
Total other program expenses	4,568	4,610	0.9	16,456	16,563	0.7
<b>Total program expenses</b>	11,441	11,604	1.4	44,055	45,553	3.4
<b>Public debt charges</b>	3,108	3,031	-2.5	11,914	11,696	-1.8
<b>Total budgetary expenses</b>	14,549	14,635	0.6	55,969	57,249	2.3

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Table 4

## Budgetary balance and financial source/requirement

	July		April to July	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	12	1,428	3,667	4,351
<b>Non-budgetary transactions</b>				
Capital investing activities	-216	-6	-636	-379
Other investing activities	44	-309	-400	-431
Pension and other accounts	-709	-721	81	-617
Other activities				
Accounts payable, receivables, accruals and allowances	-1,775	586	-15,884	-10,067
Foreign exchange activities	205	104	412	279
Amortization of tangible capital assets	233	258	1,000	1,006
Total other activities	-1,337	948	-14,472	-8,766
<b>Total non-budgetary transactions</b>	-2,218	-88	-15,427	-10,209
<b>Net financial source/requirement</b>	-2,206	1,340	-11,760	-5,858

Table 5

## Financial source/requirement and net financing activities

	July		April to July	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	-2,206	1,340	-11,760	-5,858
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,729	278	-4,794	-7,432
Treasury bills	2,900	1,000	5,800	1,800
Canada Savings Bonds	-99	-61	-489	-183
Other	-2	-5	176	-19
Total	1,070	1,212	693	-5,834
Foreign currency borrowings	-82	-391	-235	-1,133
<b>Net change in financing activities</b>	988	821	458	-6,967
<b>Change in cash balance</b>	-1,218	2,161	-11,302	-12,825

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