

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2004: budgetary surplus of \$1.1 billion

There was a budgetary surplus of \$1.1 billion in October 2004, up from a surplus of \$159 million in October 2003. Revenues were up \$1.3 billion compared to October 2003, primarily due to higher corporate income tax revenues, largely reflecting the impact of delays in the processing of refunds due to labour disputes at the Canada Revenue Agency. This should be reversed in coming months. Program expenses were up \$0.8 billion while public debt charges were \$0.4 billion lower.

April to October 2004: budgetary surplus of \$9.0 billion

For the first seven months of the 2004–05 fiscal year (April to October), the budgetary surplus is estimated at \$9.0 billion, up \$5.8 billion from the surplus reported in the same period last year. Budgetary revenues were up \$7.4 billion, or 7.3 per cent. This reflects the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September as well as increases in most revenue components, consistent with the growth in the economy in 2004. Program expenses were up \$2.5 billion, or 3.3 per cent, due to higher transfer payments, primarily reflecting the impact of previous budget measures related to transfers to other levels of government. Public debt charges were \$0.9 billion lower.

Note to Readers: Caution should be exercised in interpreting the year-to-date fiscal results. The revenue data reported for September and October and the fiscal year to date are affected by the recent labour disruption in the federal public service. Revenues are in some instances overstated due to fewer refunds having been processed. The impacts of this labour disruption should unwind over the coming months as the Canada Revenue Agency catches up with the processing of refunds. In addition, there are a number of proposed policy initiatives, including the recent federal-provincial agreements on health care, equalization and Territorial Formula Financing, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent.

October 2004: budgetary results

The October 2004 budgetary surplus was estimated at \$1.1 billion, up from a surplus of \$159 million in October 2003.

On a year-over-year basis, budgetary revenues totalled \$15.5 billion, up \$1.3 billion, or 9.1 per cent. This increase is almost entirely attributable to sharply higher net corporate income tax receipts, which rose \$1.2 billion, or 91.8 per cent, above their level of one year ago. Corporate income tax receipts continue to be affected by the recent public

sector labour disruption. There were also increases in personal income tax revenues (\$0.4 billion) and other revenues (\$0.1 billion), offset somewhat by declines in employment insurance (EI) premium revenues (\$0.1 billion) and excise taxes and duties (\$0.3 billion).

- Personal income tax revenues increased \$0.4 billion, or 5.8 per cent, primarily due to growth in source deductions, consistent with higher employment.



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- Corporate income tax revenues jumped \$1.2 billion, or 91.8 per cent, partly reflecting the impact of the public service labour disruption. For example, gross receipts in October were up 33.5 per cent while refunds dropped 44.2 per cent, resulting in a 91.8-per-cent gain in net receipts. Some of these higher net receipts will be reversed in the coming months as the backlog of refunds is processed.
- Excise taxes and duties were down \$0.3 billion. This decline is largely due to lower goods and service tax (GST) receipts, which fell \$0.3 billion, or 11.1 per cent, primarily due to the timing of receipts. Among other excise taxes and duties, customs import duties rose 1.7 per cent while sales and excise taxes fell 1.3 per cent.
- EI premiums were down 11.7 per cent, reflecting the impact of the lower premium rate (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which more than offset the increase in employment and thus the number of people paying premiums.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$0.1 billion.

On a year-over-year basis, program expenses in October 2004 were \$11.6 billion, up \$0.8 billion or 7.3 per cent from October 2003. Higher transfer payments accounted for most of this increase.

Total transfer payments were up \$0.7 billion, or 9.8 per cent, in October 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion on a year-over-year basis. Elderly benefits increased 3.9 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 benefits climbed by 10.3 per cent, reflecting the timing of payments in October 2004 compared to the same month last year.
- 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

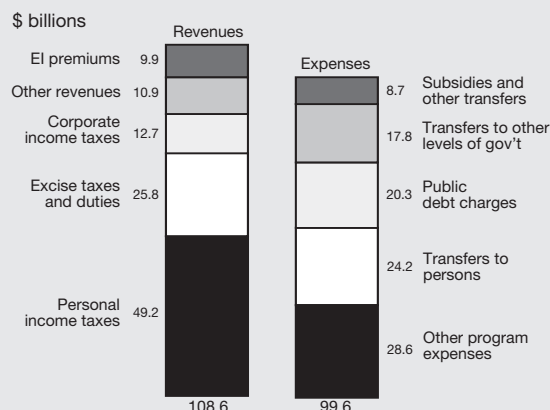
Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 13.7 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 8.1 per cent from October 2003, primarily reflecting the impact of recoveries in 2003–04 for overpayments in previous years under the equalization program.

- Subsidies and other transfers were up 13.1 per cent. This component is extremely volatile on a monthly basis, largely reflecting the timing of payments. The October estimate of transfers from Human Resources Development is unusually low as it includes corrections to prior months.

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 3.1 per cent, as a decline in Crown corporation and defence-related expenses was more than offset by higher expenses in all other departments and agencies. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Revenues and expenses

(April-October 2004)



Public debt charges were down 12.6 per cent, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

April to October 2004: budgetary results

In the first seven months of the fiscal year, there was a budgetary surplus of \$9.0 billion, up \$5.8 billion from the \$3.2-billion surplus reported in the same period of 2003–04. However, almost half of the increase in the surplus relates to one-time factors.

Budgetary revenues, at \$108.6 billion, were up \$7.4 billion or 7.3 per cent. This increase reflects gains in tax revenues and other revenues, including the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums. Tax revenues were up \$6.5 billion, or 7.8 per cent. However, as noted above, the recent labour disruption in the federal public service has raised year-to-date tax revenues due to a lower volume of refunds processed. This impact should largely unwind in the coming months.

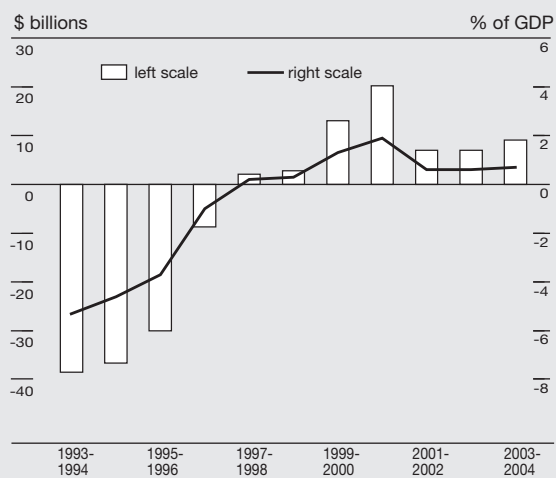
- Personal income tax revenues increased \$2.9 billion, or 6.3 per cent. This increase is primarily due to strong growth in source deductions from employment income, reflecting in part gains in employment.
- Corporate income tax revenues were up \$2.4 billion, or 22.8 per cent, reflecting in part the lower volume of refunds processed in both September and October 2004. In addition, the

monthly results are affected by remittance procedures. Corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments are more reflective of the increase in tax liabilities last year than an increase in the current year.

- Excise taxes and duties increased \$1.0 billion, or 4.0 per cent, primarily due to growth in GST revenues, which were 5.6 per cent higher than last year. Customs import duties were also up (2.2 per cent), while there were declines in both sales and excise taxes (down 0.2 per cent) and the Air Travellers Security Charge (down 1.2 per cent).
- EI premiums were down \$0.9 billion, or 8.4 per cent.
- Other revenues increased \$1.9 billion, or 25.9 per cent, due to the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

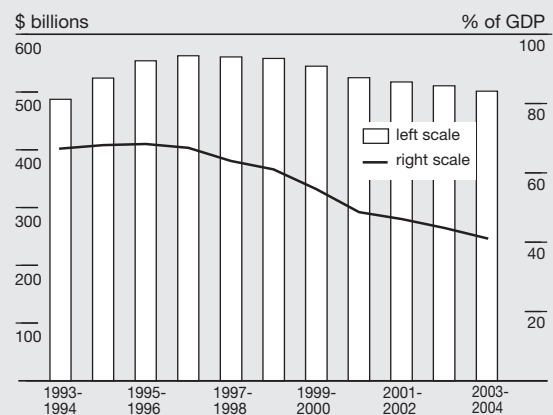
On a year-over-year basis, program expenses in the April to October 2004 period were up 3.3 per cent to \$79.3 billion due to higher transfers. Public debt charges were \$0.9 billion lower than in the first seven months of 2003–04.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$2.6 billion, or 5.4 per cent.

- Transfers to persons advanced by \$0.5 billion, or 2.2 per cent. Elderly benefits were up 3.3 per cent while EI benefits were virtually unchanged. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.4 billion, or 8.5 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 8.5 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care, equalization and Territorial Formula Financing. These will be included in the monthly fiscal results once the legislation has received Royal Assent.
- Subsidies and other transfers increased by \$0.7 billion, or 8.4 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses fell by \$0.1 billion, or 0.2 per cent, as lower expenses related to Crown corporations more than offset marginally higher defence expenses. These expenses do not incorporate the impact of recent wage settlements in the federal public sector.

Public debt charges were down \$0.9 billion, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

Financial source of \$1.2 billion for April to October 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), pensions and other accounts, as well as 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 \$7.7 billion in the April to October period, down \$5.7 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to October 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 (\$600 million) and the Canada Foundation for Innovation (\$500 million).

With a budgetary surplus of \$9.0 billion and a net requirement of \$7.7 billion from non-budgetary transactions, there was a financial source of \$1.2 billion in the first seven months of 2004–05, compared to a net requirement of \$10.2 billion in the same period last year.

Net financing activities down \$9.0 billion

The Government reduced market debt by \$9.0 billion by the end of October 2004, largely through a reduction of marketable bonds. Given the reduction in market debt and the financial source of \$1.2 billion, the Government lowered its cash balances by \$7.7 billion. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of October stood at \$9.5 billion.

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Table 1

Summary statement of transactions

	October		April to October	
	2003	2004	2003–04	2004–05
	(\$ millions)			
Budgetary transactions				
Revenues	14,190	15,476	101,131	108,563
Expenses				
Program expenses	-10,788	-11,578	-76,771	-79,280
Public debt charges	-3,243	-2,834	-21,160	-20,309
Budgetary balance (deficit/surplus)	159	1,064	3,200	8,974
Non-budgetary transactions	200	1,145	-13,429	-7,738
Financial source/requirement	359	2,209	-10,229	1,236
Net change in financing activities	-114	1,610	-255	-8,967
Net change in cash balances	245	3,819	-10,484	-7,731
Cash balance at end of period			4,217	9,521

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

Table 2

Budgetary revenues

	October			April to October		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,533	6,910	5.8	46,313	49,229	6.3
Corporate income tax	1,308	2,509	91.8	10,366	12,729	22.8
Other income tax revenue	220	269	22.3	1,570	1,769	12.7
Total income tax	8,061	9,688	20.2	58,249	63,727	9.4
Excise taxes and duties						
Goods and services tax	3,066	2,726	-11.1	17,055	18,015	5.6
Customs import duties	233	237	1.7	1,778	1,818	2.2
Sales and excise taxes	815	804	-1.3	5,685	5,675	-0.2
Air Travellers Security Charge	33	48	45.5	245	242	-1.2
Total excise taxes and duties	4,147	3,815	-8.0	24,763	25,750	4.0
Total tax revenues	12,208	13,503	10.6	83,012	89,477	7.8
Employment insurance premiums	1,167	1,031	-11.7	10,857	9,940	-8.4
Other revenues	815	942	15.6	7,262	9,146	25.9
Total budgetary revenues	14,190	15,476	9.1	101,131	108,563	7.3

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Table 3

Budgetary expenses

	October		Change	April to October		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,271	2,359	3.9	15,595	16,111	3.3
Employment insurance benefits	1,012	1,116	10.3	8,047	8,051	0.0
Total	3,283	3,475	5.8	23,642	24,162	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			7,379	
Canada Social Transfer		652			4,565	
Health Reform Transfer		125			875	
Canada Health and Social Transfer	1,692	-25		11,842		
Fiscal transfers	857	926	8.1	6,059	6,571	8.5
Alternative Payments for Standing Programs	-269	-139	-48.3	-1,475	-1,573	6.6
Total	2,280	2,593	13.7	16,426	17,817	8.5
Subsidies and other transfers						
Agriculture	41	89	117.1	410	321	-21.7
Foreign Affairs	137	203	48.2	967	1,225	26.7
Health	270	105	-61.1	978	979	0.1
Human Resources Development	133	7	-94.7	766	506	-33.9
Indian and Northern Development	387	348	-10.1	2,544	2,539	-0.2
Industry and Regional Development	162	208	28.4	875	1,035	18.3
Other	115	448	289.6	1,470	2,074	41.1
Total	1,245	1,408	13.1	8,010	8,679	8.4
Total transfer payments	6,808	7,476	9.8	48,078	50,658	5.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	96	65	-32.3	679	725	6.8
Canada Mortgage and Housing Corporation	149	165	10.7	1,223	1,200	-1.9
Other	188	136	-27.7	1,262	1,121	-11.2
Total	433	366	-15.5	3,164	3,046	-3.7
Defence	1,059	1,025	-3.2	6,629	6,680	0.8
All other departments and agencies	2,488	2,711	9.0	18,900	18,896	0.0
Total other program expenses	3,980	4,102	3.1	28,693	28,622	-0.2
Total program expenses	10,788	11,578	7.3	76,771	79,280	3.3
Public debt charges	3,243	2,834	-12.6	21,160	20,309	-4.0
Total budgetary expenses	14,031	14,412	2.7	97,931	99,589	1.7

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Table 4

Budgetary balance and financial source/requirement

	October		April to October	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	159	1,064	3,200	8,974
Non-budgetary transactions				
Capital investing activities	52	-185	-1,099	-654
Other investing activities	68	-508	-1,293	-1,590
Pension and other accounts	37	-1,358	862	-2,000
Other activities				
Accounts payable, receivables, accruals and allowances	-811	2,462	-14,347	-5,266
Foreign exchange activities	548	487	716	178
Amortization of tangible capital assets	306	247	1,732	1,594
Total other activities	43	3,196	-11,899	-3,494
Total non-budgetary transactions	200	1,145	-13,429	-7,738
Net financial source/requirement	359	2,209	-10,229	1,236

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	359	2,209	-10,229	1,236
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	578	552	-6,524	-8,926
Treasury bills	-400	1,400	7,100	1,800
Canada Savings Bonds	-86	-79	-738	-347
Other	-1	-1	172	-26
Total	91	1,872	10	-7,499
Foreign currency borrowings	-207	-260	-255	-1,428
Total	-116	1,612	-245	-8,927
Obligations related to capital leases	2	-2	-10	-40
Net change in financing activities	-114	1,610	-255	-8,967
Change in cash balance	245	3,819	-10,484	-7,731

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Table 6

Condensed statement of assets and liabilities

	March 31, 2004	October 31, 2004	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	71,443	-8,521
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	269,854	-8,926
Treasury bills	113,378	115,178	1,800
Canada Savings Bonds	21,330	20,983	-347
Other	3,427	3,401	-26
Subtotal	416,915	409,416	-7,499
Payable in foreign currencies	20,542	19,114	-1,428
Obligations related to capital leases	2,774	2,734	-40
Total unmatured debt	440,231	431,264	-8,967
Pension and other accounts			
Public sector pensions	127,560	128,785	1,225
Other employee and veteran future benefits	39,367	39,543	176
Canada Pension Plan (net of securities)	7,483	4,460	-3,023
Other pension and other accounts	6,488	6,110	-378
Total pension and other accounts	180,898	178,898	-2,000
Total interest-bearing debt	621,129	610,162	-10,967
Total liabilities	701,093	681,605	-19,488
Financial assets			
Cash and accounts receivable	70,921	59,936	-10,985
Foreign exchange accounts	44,313	44,135	-178
Loans, investments and advances (net of allowances)	29,548	31,138	1,590
Total financial assets	144,782	135,209	-9,573
Net debt	556,311	546,396	-9,915
Non-financial assets	54,818	53,877	-941
Federal debt (accumulated deficit)	501,493	492,519	-8,974

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