

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2004: budgetary surplus of \$280 million

There was a budgetary surplus of \$280 million in December 2004, down from the surplus of \$3.2 billion recorded in December 2003. Revenues were down \$2.0 billion compared to December 2003 due to significantly lower corporate income tax revenues. The sharp drop in corporate income tax revenues, and the accompanying decline in the December 2004 surplus, largely reflect the return of corporate receipts to more normal levels in December 2004 from the unusually high level recorded in December 2003. High corporate receipts last year were related to the large year-end settlement payments made by several financial institutions as a result of their foreign exchange gains in 2003. Program expenses were up by \$1.2 billion in December, while public debt charges were \$0.2 billion lower.

### April to December 2004: budgetary surplus of \$11.0 billion

For the first nine months of the 2004–05 fiscal year (April to December), the budgetary surplus is estimated at \$11.0 billion, up \$3.7 billion from the surplus reported in the same period of 2003–04. This improvement 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. Monthly results to date do not reflect the cost of a number of proposed policy initiatives totalling \$3.9 billion, including the recent federal-provincial agreements on health care and equalization, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent. As well, the monthly estimates do not include the costs associated with the recently agreed-to wage settlements with federal government employees. These costs will be reflected in the monthly results once the associated agreements come into effect.

### December 2004: budgetary results

The December 2004 budgetary surplus was estimated at \$280 million, down from a surplus of \$3.2 billion in December 2003.

Budgetary revenues totalled \$15.6 billion in the month, down \$2.0 billion or 11.2 per cent from December 2003. This decline is almost entirely attributable to sharply lower corporate income tax receipts.

- Personal income tax revenues increased \$0.4 billion, or 6.1 per cent, primarily due to growth in source deductions, consistent with higher employment.
- Corporate income tax revenues were down \$2.5 billion, or 48.4 per cent. The sharp decline reflects the unusually high collections in December 2003. Significant year-end settlement payments were received from several financial institutions in December 2003 relating to their one-time foreign exchange gains in the 2003 tax year. For the remaining months of the fiscal year, the year-over-year growth in corporate receipts should be more reflective of developments in corporate profits.



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- Excise taxes and duties were down \$0.1 billion. This decline is almost entirely the result of lower goods and services tax (GST) receipts, which were down \$0.1 billion, or 2.2 per cent, primarily reflecting higher refunds. Customs import duties rose \$10 million, while sales and excise taxes and receipts from the Air Travellers Security Charge were down a combined \$26 million.
- Employment insurance (EI) premiums were up 29.4 per cent, reflecting prior-year adjustments in December 2003.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion or 12.5 per cent. This revenue component is volatile on a monthly basis.

Program expenses in December 2004 totalled \$12.7 billion, up \$1.2 billion or 10.3 per cent from December 2003. The increase is mostly due to higher other program expenses.

Total transfer payments were up \$0.1 billion or 1.9 per cent in December 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were 0.9 per cent higher on a year-over-year basis. Elderly benefits increased 4.4 per cent due to both higher average benefits, which have risen in line with inflation, and an increase in the number of individuals eligible for benefits. EI benefits were down 5.4 per cent, reflecting the lower number of unemployed as well as a difference in the timing of payments between November and December 2004 compared to the same months in 2003.
- 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 10.5 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

14.6 per cent from December 2003, primarily reflecting the impact of recoveries in 2003–04 of overpayments in previous years.

- Subsidies and other transfers were down 7.8 per cent. This component is volatile on a monthly basis, largely reflecting the timing of payments.

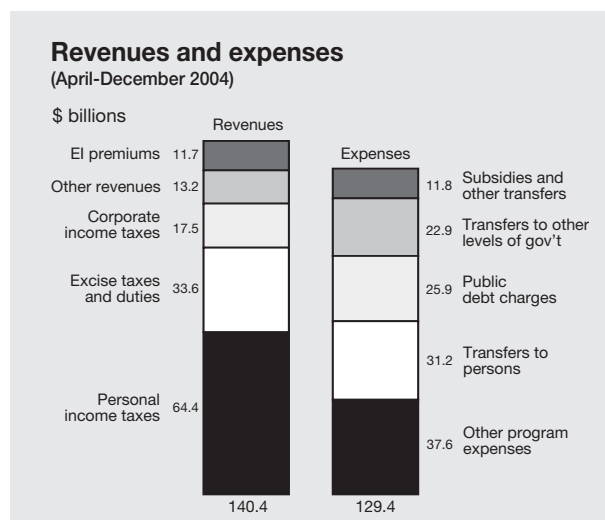
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 26.8 per cent due to both higher Crown corporation expenses and higher expenses related to defence and other departments and agencies. Defence expenses rose \$0.7 billion or 70.8 per cent, due to one-time accrual adjustments related to the measurement and expensing of inventory stocks and capital assets. 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 8.2 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

## April to December 2004: budgetary results

In the first nine months of the fiscal year, there was a budgetary surplus of \$11.0 billion, up \$3.7 billion from the \$7.3-billion surplus reported in the same period of 2003–04.

Budgetary revenues, at \$140.4 billion, were up \$7.3 billion or 5.5 per cent. This increase reflects gains in tax revenues and other revenues, including



\$2.6 billion from the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$3.5 billion or 5.7 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting gains in employment and income.
- Corporate income tax revenues were up \$0.3 billion or 1.8 per cent. This is a sharp turnaround from the November 2004 year-to-date results, when revenues were up \$2.8 billion or 23.5 per cent, and reflects the impacts of large December 2003 settlement payments, as discussed above. Absent these large settlement payments, underlying corporate receipts are up about 19 per cent year-to-date, in line with the growth in corporate profits.
- Excise taxes and duties increased \$2.1 billion or 6.8 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were up 9.8 per cent, in part reflecting weak year-to-date refunds. Over the balance of the year, the growth in GST refunds should pick up to more closely reflect the increase in gross revenues, which were up 6.1 per cent. Customs import duties were also up (4.4 per cent), while there were declines in both sales and excise taxes (down 0.9 per cent) and the Air Travellers Security Charge (down 4.5 per cent).

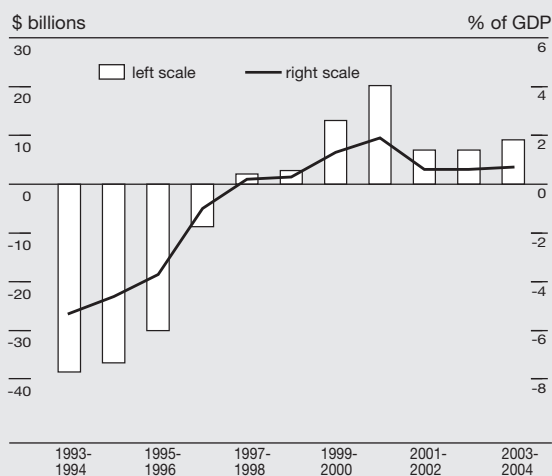
- EI premiums were down \$0.8 billion or 6.7 per cent. The year-to-date decline is in part a function of positive accrual adjustments that were made in the April to December period of 2003, and which were reversed in January 2004. As a result, the decline should moderate over the balance of the fiscal year.
- Other revenues increased \$1.9 billion or 21.5 per cent, reflecting 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 December 2004 period were up 4.6 per cent to \$103.6 billion, largely due to higher transfers. Public debt charges were \$1.0 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.2 billion, or 5.0 per cent.

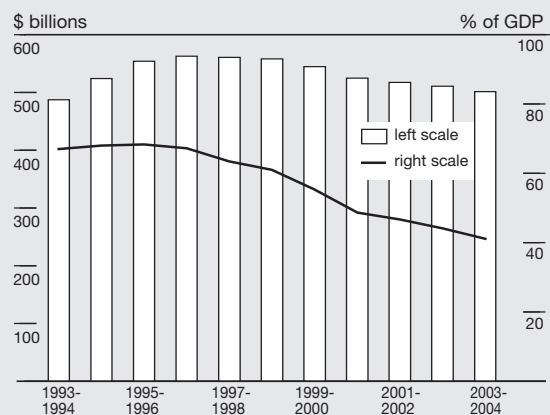
- Transfers to persons advanced by \$0.5 billion, or 1.5 per cent. Elderly benefits were up 3.5 per cent while EI benefits were down 2.2 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was more than offset by a decline in regular benefits, reflecting the improvement in the labour market.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Transfers to other levels of government were up \$1.8 billion, or 8.6 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 8.4 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 \$0.9 billion, or 7.9 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$1.4 billion, or 3.9 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$0.9 billion or 10.6 per cent, reflecting a one-time accrual adjustment in December 2004 due to changes in the measurement and expensing of inventory stocks and capital assets. Other program expenses do not incorporate the impact of recent wage settlements in the federal public sector.

## **Financial source of \$6.4 billion for April to December 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 \$4.6 billion in the April to December period, an improvement of \$8.2 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April to December 2003 period related to transfers 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). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts in the April to December period, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$11.0 billion and a net requirement of \$4.6 billion from non-budgetary transactions, there was a financial source of \$6.4 billion in the first nine months of 2004–05, compared to a requirement of \$5.5 billion in the same period of 2003–04.

## **Net financing activities down \$19.6 billion**

The Government used this financial source of \$6.4 billion and a reduction in its cash balances of \$13.2 billion to reduce its market debt by \$19.6 billion by the end of December 2004, largely through a reduction of Treasury bills and foreign currency borrowings. 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 December stood at \$4.0 billion.

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Table 1

## Summary statement of transactions

	December		April to December	
	2003	2004	2003–04	2004–05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	17,551	15,584	133,127	140,400
Expenses				
Program expenses	-11,481	-12,665	-98,968	-103,551
Public debt charges	-2,874	-2,639	-26,828	-25,858
Budgetary balance (deficit/surplus)	3,196	280	7,331	10,991
<b>Non-budgetary transactions</b>	-361	-948	-12,794	-4,583
<b>Financial source/requirement</b>	2,835	-668	-5,463	6,408
<b>Net change in financing activities</b>	-7,814	-11,562	-1,954	-19,630
<b>Net change in cash balances</b>	-4,979	-12,230	-7,417	-13,222
<b>Cash balance at end of period</b>			7,281	4,024

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

Table 2

## Budgetary revenues

	December			April to December		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,387	7,835	6.1	60,938	64,424	5.7
Corporate income tax	5,191	2,680	-48.4	17,193	17,497	1.8
Other income tax revenue	227	284	25.1	2,024	2,292	13.2
Total income tax	12,805	10,799	-15.7	80,155	84,213	5.1
Excise taxes and duties						
Goods and services tax	2,258	2,208	-2.2	21,443	23,554	9.8
Customs import duties	222	232	4.5	2,222	2,319	4.4
Sales and excise taxes	893	875	-2.0	7,464	7,394	-0.9
Air Travellers Security Charge	36	28	-22.2	312	298	-4.5
Total excise taxes and duties	3,409	3,343	-1.9	31,441	33,565	6.8
Total tax revenues	16,214	14,142	-12.8	111,596	117,778	5.5
<b>Employment insurance premiums</b>	649	840	29.4	12,552	11,713	-6.7
<b>Other revenues</b>	688	602	-12.5	8,979	10,909	21.5
<b>Total budgetary revenues</b>	17,551	15,584	-11.2	133,127	140,400	5.5

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Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,268	2,367	4.4	20,123	20,832	3.5
Employment insurance benefits	1,268	1,200	-5.4	10,602	10,367	-2.2
Total	3,536	3,567	0.9	30,725	31,199	1.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			9,488	
Canada Social Transfer		658			5,925	
Health Reform Transfer		125			1,125	
Canada Health and Social Transfer	1,692	-29		15,225	-56	
Fiscal transfers	879	1,007	14.6	7,801	8,454	8.4
Alternative Payments for Standing Programs	-214	-210	-1.9	-1,902	-1,993	4.8
Total	2,357	2,605	10.5	21,124	22,943	8.6
Subsidies and other transfers						
Agriculture	432	108	-75.0	956	680	-28.9
Foreign Affairs	224	316	41.1	1,304	1,699	30.3
Health	83	87	4.8	1,232	1,259	2.2
Human Resources Development	92	64	-30.4	987	786	-20.4
Indian and Northern Development	340	380	11.8	3,187	3,271	2.6
Industry and Regional Development	129	213	65.1	1,101	1,390	26.2
Other	412	410	-0.5	2,132	2,678	25.6
Total	1,712	1,578	-7.8	10,899	11,763	7.9
Total transfer payments	7,605	7,750	1.9	62,748	65,905	5.0
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	72	93	29.2	881	872	-1.0
Canada Mortgage and Housing Corporation	171	175	2.3	1,541	1,515	-1.7
Other	229	283	23.6	1,733	1,522	-12.2
Total	472	551	16.7	4,155	3,909	-5.9
Defence	931	1,590	70.8	8,410	9,299	10.6
All other departments and agencies	2,473	2,774	12.2	23,655	24,438	3.3
Total other program expenses	3,876	4,915	26.8	36,220	37,646	3.9
<b>Total program expenses</b>	11,481	12,665	10.3	98,968	103,551	4.6
<b>Public debt charges</b>	2,874	2,639	-8.2	26,828	25,858	-3.6
<b>Total budgetary expenses</b>	14,355	15,304	6.6	125,796	129,409	2.9

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Table 4

## Budgetary balance and financial source/requirement

	December		April to December	
	2003	2004	2003–04	2004–05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,196	280	7,331	10,991
<b>Non-budgetary transactions</b>				
Capital investing activities	-171	-169	-1,424	-1,003
Other investing activities	-232	-46	-1,447	-1,871
Pension and other accounts	326	640	423	-1,845
Other activities				
Accounts payable, receivables, accruals and allowances	-1,562	-1,797	-14,479	-6,151
Foreign exchange activities	1,063	-86	1,965	3,959
Amortization of tangible capital assets	215	510	2,168	2,328
Total other activities	-284	-1,373	-10,346	136
<b>Total non-budgetary transactions</b>	-361	-948	-12,794	-4,583
<b>Net financial source/requirement</b>	2,835	-668	-5,463	6,408

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2003	2004	2003–04	2004–05
	(\$ millions)			
<b>Net financial source/requirement</b>	2,835	-668	-5,463	6,408
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-5,136	-7,989	-12,154	-15,911
Treasury bills	-2,650	-3,200	12,200	3,650
Canada Savings Bonds	12	-165	-1,566	-1,868
Other	-80	0	91	-27
Total	-7,854	-11,354	-1,429	-14,155
Foreign currency borrowings	66	-285	-507	-5,543
Total	-7,788	-11,639	-1,936	-19,699
Obligations related to capital leases	-26	77	-18	68
<b>Net change in financing activities</b>	-7,814	-11,562	-1,954	-19,630
<b>Change in cash balance</b>	-4,979	-12,230	-7,417	-13,222

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	December 31, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	70,134	-9,830
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	262,870	-15,911
Treasury bills	113,378	117,028	3,650
Canada Savings Bonds	21,330	19,462	-1,868
Other	3,427	3,400	-27
Subtotal	416,915	402,760	-14,155
Payable in foreign currencies	20,542	14,999	-5,543
Obligations related to capital leases	2,774	2,842	68
Total unmatured debt	440,231	420,601	-19,630
Pension and other accounts			
Public sector pensions	127,560	129,419	1,859
Other employee and veteran future benefits	39,367	39,593	226
Canada Pension Plan (net of securities)	7,483	4,006	-3,477
Other pension and other accounts	6,488	6,035	-453
Total pension and other accounts	180,898	179,053	-1,845
Total interest-bearing debt	621,129	599,654	-21,475
<b>Total liabilities</b>	701,093	669,788	-31,305
<b>Financial assets</b>			
Cash and accounts receivable	70,921	54,020	-16,902
Foreign exchange accounts	44,312	40,353	-3,959
Loans, investments and advances (net of allowances)	29,548	31,419	1,871
Total financial assets	144,781	125,792	-18,990
<b>Net debt</b>	556,311	543,996	-12,316
<b>Non-financial assets</b>	54,817	53,492	-1,325
<b>Federal debt (accumulated deficit)</b>	501,494	490,503	-10,991

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