

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2003: budgetary surplus of \$132 million

There was a budgetary surplus of \$132 million in November 2003, virtually unchanged from the restated surplus of \$136 million in November 2002. On a year-over-year basis, higher budgetary revenues (up \$0.4 billion) and lower public debt charges (down \$0.3 billion) virtually offset an increase in program expenses (up \$0.8 billion).

### April to November 2003: budgetary surplus of \$767 million

The budgetary surplus is estimated at \$767 million for the April to November 2003 period, down \$3.6 billion from the surplus of \$4.3 billion reported in the same period of 2002–03. Budgetary revenues were up marginally, \$0.6 billion or 0.5 per cent, a reflection of the economic weakness in the first half of 2003 due to a number of domestic shocks that hit the Canadian economy. Program expenses were up \$5.3 billion, or 6.4 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.2 billion, or 4.6 per cent, reflecting lower interest rates.

### November 2003: budgetary results

The November 2003 budgetary surplus of \$132 million was virtually unchanged from the \$136-million surplus reported in November 2002.

On a year-over-year basis, budgetary revenues, at \$13.7 billion, were up \$0.4 billion, or 3.3 per cent, led by a 22.2-per-cent increase in corporate income taxes.

- Personal income tax revenues increased \$0.2 billion, or 2.4 per cent, due to higher tax remittances from employment income, resulting from an increase in the number of people employed.
- Corporate income tax revenues were up \$0.3 billion, or 22.2 per cent, due entirely to lower refunds in November 2003 compared to November 2002. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Excise taxes and duties decreased by \$0.2 billion, or 4.2 per cent. Goods and services tax (GST) revenues declined \$0.2 billion, or 6.5 per cent. Gross receipts declined for both domestic sales and imported goods. Refunds were also up, reflecting timing considerations. Customs import duties were down, while sales and excise taxes were up \$0.1 billion.
- Employment insurance (EI) premiums were up marginally, as higher employment relative to November 2002, and therefore an increase in the number of Canadians paying premiums, offset the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, increased 18.4 per cent. This category of revenues is quite volatile on a monthly basis.



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On a year-over-year basis, program expenses in November 2003, at \$10.7 billion, were \$0.8 billion, or 7.6 per cent, higher than in November 2002. Transfer payments were 10.3 per cent higher while other program expenses were up 2.8 per cent.

Transfer payments increased by \$0.7 billion, or 10.3 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion, or 10.3 per cent. Elderly benefits increased 4.8 per cent due to both higher average benefits, which have risen because of higher inflation earlier in 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 21.5 per cent, as November 2003 included one more payment cycle than in November 2002.
- Major transfers to other levels of government, consisting of the Canada Health and Social Transfer (CHST), fiscal transfers and Alternative Payments for Standing Programs, were up 10.0 per cent. The year-over-year increase is primarily attributable to higher CHST cash transfers, reflecting the February 2003 agreement reached by first ministers to increase funding from \$18.6 billion in 2002–03 to \$20.3 billion in 2003–04. Fiscal transfers, which consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program, were up 9.6 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the most recent official estimates. The monthly results for 2002–03 reflect final entitlements and prior-year adjustments as recorded in the *Public Accounts of Canada 2003*. The monthly results for 2003–04 are based on the official estimates as of September 2003.
- Subsidies and other transfers increased \$0.1 billion or 10.7 per cent, with most of the increase attributable to higher agricultural payments under the Farm Income Protection Act and the timing of transfers by Industry Canada and regional development agencies.

Other program expenses consist of operating expenses for departments and agencies, including defence and Crown corporations.

On a year-over-year basis, these expenses were up 2.8 per cent, as increases in defence spending and transfers to Crown corporations more than offset a decline in all other departmental and agency expenses. The decline in all other departmental and agency expenses was attributable to one less working day in November 2003 compared to November 2002.

Public debt charges were down 9.8 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

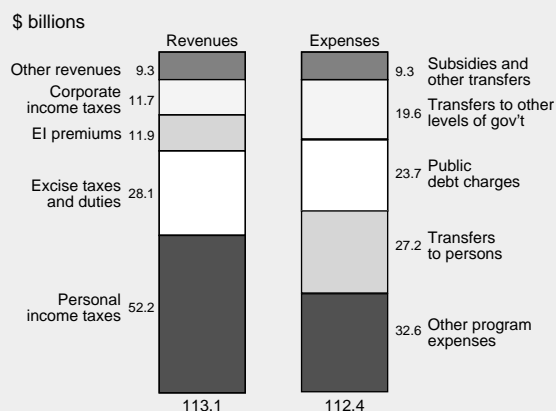
## April to November 2003: budgetary results

In the first eight months of the 2003–04 fiscal year, there was a budgetary surplus of \$767 million—a year-over-year deterioration of \$3.6 billion from the surplus of \$4.3 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy. It also reflects the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$113.1 billion, were up \$0.6 billion, or 0.5 per cent.

### Revenues and expenses

(April to November 2003)



- Personal income tax revenues were up \$0.8 billion, or 1.6 per cent, due to higher tax remittances from employment income, as employment, and therefore the number of Canadians paying taxes, was up over last year. The net impact of this increase in taxes from employment income was dampened by lower remittances from quarterly filers and the impact of tax reduction measures announced in previous budgets. On balance, the growth in personal income taxes to date is in line with the growth in wages and salaries, adjusted for the impact of the budget measures.
- Corporate income taxes increased \$0.2 billion, or 1.5 per cent, due to lower refunds.
- Excise taxes and duties were down \$0.8 billion, primarily because of a 3.9-per-cent decline in GST revenues. So far this year, weakness in gross receipts from imports has offset much of the growth in gross receipts from domestic sales. Refunds were also up as refunds in 2002 were unusually low because of timing considerations. In the final quarter of the fiscal year, these timing factors are expected to be unwound so that for the year as a whole, GST revenues are expected to grow in line with the applicable tax base. Sales and excise taxes were up 2.9 per cent, while customs import duties were lower, reflecting lower imports subject to import duties.

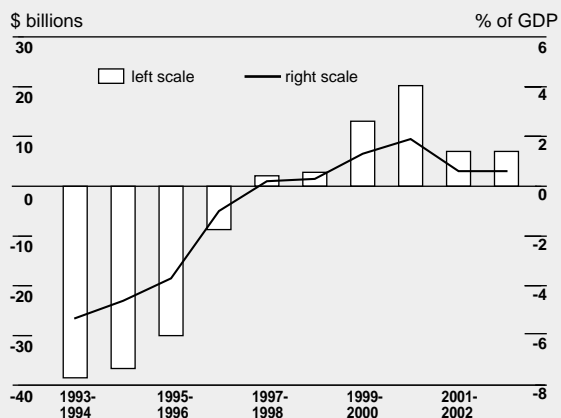
- EI premiums were slightly lower, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were up 5.6 per cent.

On a year-over-year basis, program expenses in the April to November 2003 period, at \$88.7 billion, were up \$5.3 billion, or 6.4 per cent, over the same period of 2002–03.

Transfer payments increased by \$3.4 billion, or 6.5 per cent.

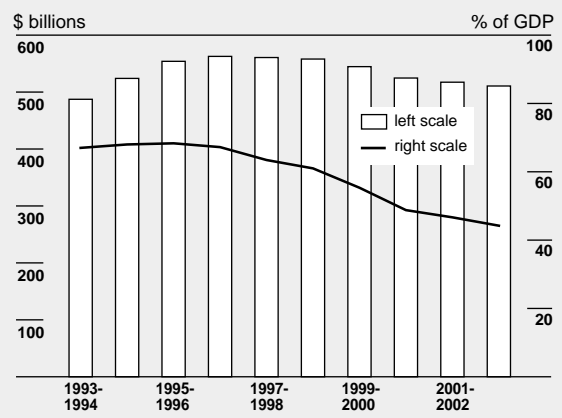
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.3 billion, or 5.0 per cent. Elderly benefits increased 4.6 per cent, while EI benefits were up 5.7 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.0 billion, or 5.4 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.1 billion, or 13.8 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Other program expenses increased by \$1.9 billion, or 6.1 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## **Financial requirement of \$8.2 billion for April to November 2003**

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 \$8.9 billion in the first eight months of 2003–04, up \$1.9 billion from the requirement in the same period of 2002–03. This primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion). The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments have no impact on the budgetary balance this year.

With a budgetary surplus of \$0.8 billion and a net requirement of \$8.9 billion from non-budgetary transactions, there was a financial requirement of \$8.2 billion in the April to November 2003 period.

## **Net financing activities up \$5.7 billion**

This financial requirement of \$8.2 billion was financed by a reduction in the Government's cash balances of \$2.4 billion and an increase of \$5.7 billion in net financing activities,

primarily through an increase in unmatured debt transactions, particularly in Treasury bills. 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 November stood at \$12.3 billion.

## **Note to readers**

Beginning with the April 2003 *Fiscal Monitor*, the financial results are presented on a full accrual basis of accounting. This has necessitated a recasting of the previously published monthly financial results for 2002–03. It has also resulted in a number of classification and terminology changes.

In the 2003 budget the Government implemented its commitment to present its financial statements on a full accrual accounting basis. Previously the Government's financial statements were prepared under modified accrual accounting. Full accrual accounting provides a more comprehensive reporting of assets and liabilities and a more transparent picture of the Government's financial position. Under full accrual, the budgetary balance is now more reflective of current economic developments, rather than being influenced by prior-year developments. It is the accounting standard recommended for senior levels of government in Canada by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants and has been strongly recommended by the Auditor General of Canada and the House of Commons Standing Committee on Public Accounts.

The shift to full accrual accounting primarily affects tax revenues and non-financial, or capital, assets. Tax revenues are now accounted for in the period to which they relate, not when they are received, as was the case under modified accrual. Under full accrual, the costs of capital assets are now being spread over the useful lives of these assets. Under modified accrual, such costs were recognized in the year of purchase. For more information on the implementation and effects of full accrual accounting, please refer to Annex 6 of *The Budget Plan 2003*, which is available at [www.fin.gc.ca](http://www.fin.gc.ca).

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Table 1

## Summary statement of transactions

	November		April to November	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,312	13,746	112,568	113,148
Expenses				
Program expenses	-9,958	-10,710	-83,408	-88,718
Public debt charges	-3,218	-2,904	-24,814	-23,663
Budgetary balance (deficit/surplus) <sup>1</sup>	136	132	4,346	767
<b>Non-budgetary transactions</b>	1,869	2,448	-7,002	-8,924
<b>Financial source/requirement</b>	2,005	2,580	-2,656	-8,157
<b>Net change in financing activities</b>	7,043	5,458	2,942	5,718
<b>Net change in cash balances</b>	9,048	8,038	286	-2,439
<b>Cash balance at end of period</b>			12,236	12,259

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

<sup>1</sup> Under modified accrual, a surplus of \$332 million was recorded for November 2002.

Table 2

## Budgetary revenues

	November			April to November		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,379	6,534	2.4	51,402	52,223	1.6
Corporate income tax	1,292	1,579	22.2	11,486	11,657	1.5
Other income tax revenue	229	228	-0.4	1,692	1,798	6.3
Total income tax	7,900	8,341	5.6	64,580	65,678	1.7
Excise taxes and duties						
Goods and services tax	2,476	2,314	-6.5	20,042	19,254	-3.9
Customs import duties	275	201	-26.9	2,168	1,979	-8.7
Sales and excise taxes	794	885	11.5	6,383	6,571	2.9
Air Travellers Security Charge	39	32	-17.9	257	276	7.4
Total excise taxes and duties	3,584	3,432	-4.2	28,850	28,080	-2.7
Total tax revenues	11,484	11,773	2.5	93,430	93,758	0.4
<b>Employment insurance premiums</b>	1,045	1,046	0.1	12,047	11,903	-1.2
<b>Other revenues</b>	783	927	18.4	7,091	7,487	5.6
<b>Total budgetary revenues</b>	13,312	13,746	3.3	112,568	113,148	0.5

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Table 3

## Budgetary expenses

	November		Change	April to November		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,157	2,260	4.8	17,065	17,856	4.6
Employment insurance benefits	1,059	1,287	21.5	8,832	9,334	5.7
Total	3,216	3,547	10.3	25,897	27,190	5.0
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	12,400	13,533	9.1
Fiscal transfers	726	796	9.6	7,888	7,771	-1.5
Alternative Payments for Standing Programs	-210	-214	1.9	-1,681	-1,689	0.5
Total	2,066	2,273	10.0	18,607	19,615	5.4
Subsidies and other transfers						
Agriculture	75	115	53.3	333	524	57.4
Foreign Affairs	114	112	-1.8	864	1,080	25.0
Health	155	171	10.3	973	1,150	18.2
Human Resources Development	119	129	8.4	890	895	0.6
Indian and Northern Development	300	302	0.7	2,647	2,846	7.5
Industry and Regional Development	70	142	102.9	1,015	1,304	28.5
Other	231	207	-10.4	1,417	1,466	3.5
Total	1,064	1,178	10.7	8,139	9,265	13.8
Total transfer payments	6,346	6,998	10.3	52,643	56,070	6.5
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	89	130	46.1	754	809	7.3
Canada Mortgage and Housing Corporation	125	146	16.8	1,260	1,370	8.7
Other	129	241	86.8	1,318	1,503	14.0
Total	343	517	50.7	3,332	3,682	10.5
Defence	801	912	13.9	7,368	7,767	5.4
All other departments and agencies	2,468	2,283	-7.5	20,065	21,199	5.7
Total other program expenses	3,612	3,712	2.8	30,765	32,648	6.1
<b>Total program expenses</b>	9,958	10,710	7.6	83,408	88,718	6.4
<b>Public debt charges</b>	3,218	2,904	-9.8	24,814	23,663	-4.6
<b>Total budgetary expenses</b>	13,176	13,614	3.3	108,222	112,381	3.8

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Table 4

## Budgetary balance and financial source/requirement

	November		April to November	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	136	132	4,346	767
<b>Non-budgetary transactions</b>				
Capital investing activities	-242	-108	-1,401	-1,091
Other investing activities	-67	178	-493	-415
Other activities				
Accounts payable, receivables, accruals and allowances	854	1,972	-7,184	-10,272
Foreign exchange activities	1,081	186	160	902
Amortization of tangible capital assets	243	220	1,916	1,952
Total other activities	2,178	2,378	-5,108	-7,418
<b>Total non-budgetary transactions</b>	1,869	2,448	-7,002	-8,924
<b>Net financial source/requirement</b>	2,005	2,580	-2,656	-8,157

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	2,005	2,580	-2,656	-8,157
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	6,552	-494	-3,459	-7,017
Treasury bills	2,750	7,750	12,400	14,850
Canada Savings Bonds	-1,019	-841	-1,654	-1,578
Other	-3	-1	-17	171
Total	8,280	6,414	7,270	6,426
Foreign currency borrowings	-1,142	-317	-2,280	-573
Total	7,138	6,097	4,990	5,853
Pension and other accounts	-95	-639	-2,048	-135
<b>Net change in financing activities</b>	7,043	5,458	2,942	5,718
<b>Change in cash balance</b>	9,048	8,038	286	-2,439

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	November 30, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	73,309	-6,075
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	281,228	-7,017
Treasury bills	104,411	119,261	14,850
Canada Savings Bonds	22,584	21,006	-1,578
Other	3,371	3,542	171
Subtotal	418,611	425,037	6,426
Payable in foreign currencies	21,141	20,568	-573
Total unmaturred debt	439,752	445,605	5,853
Pension and other accounts			
Public sector pensions	125,708	127,435	1,727
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,414	-1,679
Other pension and other accounts	9,359	9,176	-183
Total pension and other accounts	181,004	180,869	-135
Total interest-bearing debt	620,756	626,474	5,718
<b>Total liabilities</b>	700,140	699,783	-358
<b>Financial assets</b>			
Cash and accounts receivable	62,626	64,478	1,852
Foreign exchange accounts	48,950	48,048	-902
Loans, investments and advances (net of allowances)	23,748	24,163	415
Total financial assets	135,324	136,689	1,365
<b>Net debt</b>	564,816	563,094	-1,721
<b>Non-financial assets</b>	54,240	53,285	-955
<b>Federal debt (accumulated deficit)</b>	510,576	509,809	-767

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