

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2009: budgetary deficit of \$3.3 billion

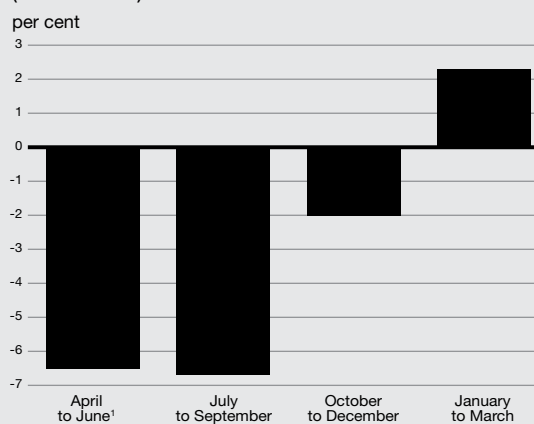
There was a budgetary deficit of \$3.3 billion in October 2009, compared to a deficit of \$0.6 billion in October 2008. The October 2009 deficit reflects the impact of the weaker economy on the Government's finances, as well as measures introduced under Canada's Economic Action Plan. Revenues were down \$1.8 billion from October 2008, reflecting declines in income tax revenues, excise taxes and duties and other revenues. Program expenses increased by \$1.0 billion compared to October 2008, largely reflecting higher Employment Insurance (EI) benefit payments and higher operating expenses of departments and agencies. Public debt charges decreased by \$0.2 billion compared to October 2008 due to lower average effective interest rates.

### April to October 2009: budgetary deficit of \$31.9 billion

For the first seven months of the 2009–10 fiscal year, the budgetary deficit was \$31.9 billion, compared to a deficit of \$0.1 billion reported in the same period of 2008–09. Roughly \$12 billion of the \$31.9-billion deficit was attributable to actions taken under Canada's Economic Action Plan, including tax reductions, enhanced EI benefits and support for the automotive industry. Revenues were down \$16.1 billion, or 11.9 per cent, reflecting declines across most revenue streams, particularly personal and corporate income tax and goods and services tax (GST) revenues. The decline in revenues through October is generally in line with the projected quarterly pattern of economic growth, in which nominal gross domestic product (GDP), the broadest single measure of the tax base, is expected to be weak through the first six months of the fiscal year before strengthening in the October to December timeframe. The impact of the economic profile on revenue growth highlights the sensitivity of the 2009–10 revenue projections to the economic recovery.

Program expenses were up \$17.4 billion, or 15.0 per cent, mainly reflecting higher EI benefit payments, higher transfers to other levels of government and support for the automotive industry. Public debt charges were down \$1.5 billion on a year-over-year basis, reflecting lower interest rates.

**2009–10 Projected Nominal GDP Growth**  
(Year-Over-Year)



<sup>1</sup> Actual.

Sources: Statistics Canada; Department of Finance Canada August 2009 survey of private sector forecasters.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.



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## October 2009

There was a budgetary deficit of \$3.3 billion in October 2009, compared to a \$0.6-billion deficit in October 2008.

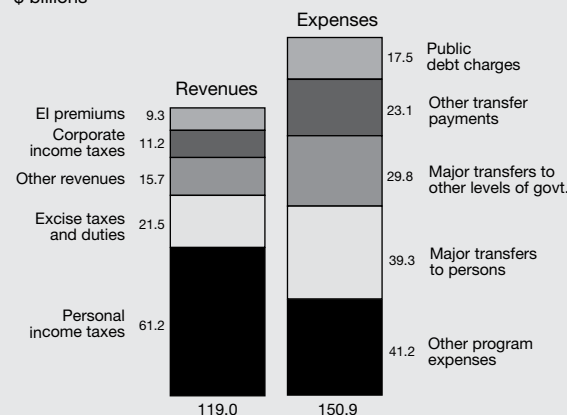
Revenues decreased by \$1.8 billion, or 9.5 per cent, to \$17.4 billion in October 2009.

- Personal income tax revenues decreased by \$0.7 billion, or 6.8 per cent, reflecting lower employment and the impact of personal income tax reductions announced in Canada's Economic Action Plan.
  - Corporate income tax revenues were down \$0.3 billion, or 16.4 per cent. The decline was much smaller than the 58.9-per-cent decline recorded in September, as refunds paid out in October 2009 were lower than in October 2008.
  - Non-resident income tax revenues were down \$0.2 billion, or 33.9 per cent.
  - Excise taxes and duties were down \$0.1 billion, or 4.1 per cent, driven by lower GST revenues. GST revenues were down \$0.2 billion, or 8.5 per cent. Energy taxes were up \$0.1 billion, customs import duties were down \$0.1 billion, and other excise taxes and duties increased by \$0.1 billion.
  - EI premium revenues were up \$17 million. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.
  - Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange net revenues and miscellaneous revenues, were down \$0.5 billion, or 20.5 per cent, due in large part to a decline in receipts under the Atlantic Offshore Revenue Accounts. This revenue is transferred to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance.
- Program expenses in October 2009 were \$18.3 billion, up \$1.0 billion, or 6.0 per cent, from October 2008, due largely to higher EI benefit payments and higher operating expenses of departments and agencies.
- In October 2009, transfer payments were up \$0.4 billion, or 3.7 per cent, from October 2008.
- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.5 billion, or 10.9 per cent. Elderly benefits increased by \$0.1 billion, or 2.4 per cent. EI benefit payments increased by \$0.4 billion, or 39.3 per cent, reflecting significantly higher regular benefits due to rising unemployment, as well as benefit enhancement measures announced as part of Canada's Economic Action Plan. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, increased by \$0.1 billion.
  - Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, were down \$6 million.
  - Other transfer payments decreased by \$0.1 billion, or 4.3 per cent, as increased transfers across a number of departments were offset by a decline in transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

## Revenues and expenses

(April to October 2009)

\$ billions



Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.6 billion, or 10.6 per cent, over last year.

Public debt charges decreased by \$0.2 billion compared to October 2008 due to lower average effective interest rates on the stock of interest-bearing debt.

## April to October 2009

Through the first seven months of the 2009–10 fiscal year, there was a budgetary deficit of \$31.9 billion, compared to a deficit of \$0.1 billion reported during the same period of 2008–09. Roughly \$12 billion of the \$31.9-billion deficit was attributable to actions taken under Canada's Economic Action Plan, including tax reductions, enhanced EI benefits and support provided to the automotive industry.

Revenues declined by \$16.1 billion, or 11.9 per cent, to \$119.0 billion.

- Personal income tax revenues were down \$4.9 billion, or 7.4 per cent, reflecting lower employment and the impact of tax relief measures. These tax reductions included increases in the basic personal amount and personal income tax bracket thresholds, as well as the Home Renovation Tax Credit. Personal income tax revenues are expected to remain weak through the remainder of 2009 and then begin to rise year-over-year in the first quarter of 2010, reflecting projected wage growth and the expiration of the Home Renovation Tax Credit at the end of January 2010.
- Corporate income tax revenues were down \$6.6 billion, or 36.9 per cent, reflecting an increase of roughly 40 per cent in refunds of taxes paid and a decline of about 13 per cent in receipts.

- Non-resident income tax revenues were down \$0.5 billion, or 16.0 per cent.
- Excise taxes and duties were down \$3.0 billion, or 12.1 per cent, primarily due to a \$2.7-billion, or 16.5-per-cent, decline in GST revenues. GST revenues are projected to strengthen over the course of the fiscal year, reflecting the unwinding of timing impacts that dampened GST revenues early in the fiscal year and the projected recovery over the remainder of the fiscal year in spending on items that are subject to the GST. Energy taxes were up \$32 million, customs import duties were down \$0.3 billion, and other excise taxes and duties decreased by \$10 million.
- EI premium revenues were up 0.3 per cent. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.
- Other revenues were down \$1.2 billion, or 8.2 per cent.

Program expenses for April to October 2009 were \$133.4 billion, up \$17.4 billion, or 15.0 per cent, from the same period last year, primarily reflecting increased EI benefit payments, increased transfers to other levels of government, and support provided to the automotive industry.

Transfer payments for April to October 2009 were up \$15.9 billion, or 20.8 per cent, from the same period last year.

- Major transfers to persons were up \$5.1 billion, or 14.9 per cent. Elderly benefits increased by \$1.0 billion, or 5.1 per cent, in line with growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments increased by \$3.9 billion, or 48.7 per cent, reflecting higher unemployment and benefit enhancements introduced as part of Canada's Economic Action Plan. Children's benefits were up \$0.2 billion.

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- Major transfers to other levels of government were up \$2.2 billion, or 8.0 per cent, primarily reflecting legislated growth in the Canada Health Transfer, the Canada Social Transfer and Equalization.
- Other transfer payments were up \$8.6 billion, largely reflecting support for the automotive industry and increased infrastructure funding, as well as increased assistance for workers, students and people with disabilities. These increases were partially offset by a decrease in transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by \$1.5 billion, or 3.8 per cent, from last year's level.

Public debt charges decreased by \$1.5 billion, or 8.1 per cent, as the increase in the stock of interest-bearing debt was more than offset by lower average effective interest rates on that stock.

## **Financial requirement of \$58.3 billion for April to October 2009**

The budgetary balance is presented on an 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.

With a budgetary deficit of \$31.9 billion and a requirement of \$26.3 billion from non-budgetary transactions, there was a financial requirement of \$58.3 billion in the April to October period of 2009–10, compared to a financial requirement of \$33.8 billion in the same period of 2008–09. This year-over-year difference is due mainly to the deterioration in the budgetary balance.

## **Net financing activities up \$34.6 billion**

The Government financed this financial requirement of \$58.3 billion by increasing market debt by \$34.6 billion and reducing cash balances by \$23.6 billion. The increase in market debt was achieved primarily through the issuance of marketable bonds. 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 October 2009 stood at \$21.4 billion, \$0.4 billion above their level at the end of October 2008.

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Table 1

## Summary statement of transactions

	October		April to October	
	2008	2009	2008–09	2009–10
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	19,229	17,409	135,024	118,956
Expenses				
Program expenses	-17,233	-18,275	-116,042	-133,404
Public debt charges	-2,588	-2,438	-19,039	-17,498
Budgetary balance (deficit/surplus)	-592	-3,304	-57	-31,946
<b>Non-budgetary transactions</b>	-17,303	705	-33,779	-26,329
<b>Financial source/requirement</b>	-17,895	-2,599	-33,836	-58,275
<b>Net change in financing activities</b>	31,168	3,930	43,632	34,642
<b>Net change in cash balances</b>	13,273	1,331	9,796	-23,633
<b>Cash balance at end of period</b>			21,041	21,395

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

Table 2

## Revenues

	October			April to October		
	2008	2009	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,758	9,090	-6.8	66,115	61,220	-7.4
Corporate income tax	1,991	1,665	-16.4	17,822	11,246	-36.9
Non-resident income tax	495	327	-33.9	3,164	2,657	-16.0
Total income tax	12,244	11,082	-9.5	87,101	75,123	-13.8
Excise taxes and duties						
Goods and services tax	2,330	2,131	-8.5	16,101	13,442	-16.5
Energy taxes	455	519	14.1	2,988	3,020	1.1
Customs import duties	370	289	-21.9	2,440	2,120	-13.1
Other excise taxes and duties	362	434	19.9	2,940	2,930	-0.3
Total excise taxes and duties	3,517	3,373	-4.1	24,469	21,512	-12.1
Total tax revenues	15,761	14,455	-8.3	111,570	96,635	-13.4
<b>Employment Insurance premiums</b>	874	891	1.9	9,267	9,299	0.3
<b>Other revenues</b>	2,594	2,063	-20.5	14,187	13,022	-8.2
<b>Total revenues</b>	19,229	17,409	-9.5	135,024	118,956	-11.9

Note: Totals may not add due to rounding.

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Table 3

## Expenses

	October			April to October		
	2008	2009	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Major transfers to persons						
Elderly benefits	2,828	2,897	2.4	19,103	20,075	5.1
Employment Insurance benefits	1,048	1,460	39.3	8,100	12,042	48.7
Children's benefits	994	1,046	5.2	7,011	7,198	2.7
Total	4,870	5,403	10.9	34,214	39,315	14.9
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,885	2,081	10.4	13,200	14,444	9.4
Canada Social Transfer	879	905	3.0	6,158	6,335	2.9
Total	2,764	2,986	8.0	19,358	20,779	7.3
Fiscal transfers	1,294	1,280	-1.1	9,153	9,631	5.2
Canada's cities and communities	233	0	n/a	714	957	34.0
Alternative Payments for Standing Programs	-255	-236	-7.5	-1,675	-1,614	-3.6
Total	4,036	4,030	-0.1	27,550	29,753	8.0
Other transfer payments						
Agriculture and Agri-Food	145	231	59.3	833	859	3.1
Foreign Affairs and International Trade	253	176	-30.4	1,587	1,566	-1.3
Health	153	171	11.8	1,276	1,461	14.5
Human Resources and Skills Development	139	232	66.9	1,224	1,716	40.2
Indian Affairs and Northern Development	482	494	2.5	2,938	3,047	3.7
Industry	254	310	22.0	1,205	1,370	13.7
Other	1,042	747	-28.3	5,480	13,080	138.7
Total	2,468	2,361	-4.3	14,543	23,099	58.8
Total transfer payments	11,374	11,794	3.7	76,307	92,167	20.8
<b>Other program expenses</b>						
Crown corporations	629	800	27.2	4,526	4,909	8.5
Defence	1,637	1,667	1.8	10,559	11,059	4.7
All other departments and agencies	3,593	4,014	11.7	24,650	25,269	2.5
Total other program expenses	5,859	6,481	10.6	39,735	41,237	3.8
<b>Total program expenses</b>	17,233	18,275	6.0	116,042	133,404	15.0
<b>Public debt charges</b>	2,588	2,438	-5.8	19,039	17,498	-8.1
<b>Total expenses</b>	19,821	20,713	4.5	135,081	150,902	11.7

Note: Totals may not add due to rounding.

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Table 4

## The budgetary balance and financial source/requirement

	October		April to October	
	2008	2009	2008–09	2009–10
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-592	-3,304	-57	-31,946
<b>Non-budgetary transactions</b>				
Capital investment activities	-386	-522	-1,829	-1,765
Other investing activities	-12,674	-1,724	-26,667	-18,476
Pension and other accounts	615	462	3,080	4,102
Other activities				
Accounts payable, receivables, accruals and allowances	-1,216	661	-4,465	-15,079
Foreign exchange activities	-3,886	1,534	-5,823	2,943
Amortization of tangible capital assets	244	294	1,925	1,946
Total other activities	-4,858	2,489	-8,363	-10,190
<b>Total non-budgetary transactions</b>	-17,303	705	-33,779	-26,329
<b>Financial source/requirement</b>	-17,895	-2,599	-33,836	-58,275

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	October		April to October	
	2008	2009	2008–09	2009–10
	(\$ millions)			
<b>Financial source/requirement</b>	-17,895	-2,599	-33,836	-58,275
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	7,589	3,751	5,446	40,822
Treasury bills	19,400	400	35,700	1,100
Canada Savings Bonds	-32	-48	-147	-108
Other	-24	0	-516	-67
Total	26,933	4,103	40,483	41,747
Foreign currency borrowings	1,543	-600	520	-2,712
Total	28,476	3,503	41,003	39,035
Cross-currency swap revaluation	2,801	537	2,447	-3,934
Unamortized discounts on debt issues	-100	-126	274	-389
Obligations related to capital leases	-9	16	-92	-70
<b>Net change in financing activities</b>	31,168	3,930	43,632	34,642
<b>Change in cash balance</b>	13,273	1,331	9,796	-23,633

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2009	October 31, 2009	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable and accrued liabilities	113,999	96,030	-17,969
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	295,186	336,008	40,822
Treasury bills	192,275	193,375	1,100
Retail debt	12,532	12,424	-108
Other	523	456	-67
Subtotal	500,516	542,263	41,747
Payable in foreign currencies	10,381	7,669	-2,712
Cross-currency swap revaluation account	3,690	-244	-3,934
Unamortized discounts and premiums on market debt	-4,751	-5,140	-389
Obligations related to capital leases	4,184	4,114	-70
Total unamatured debt	514,020	548,662	34,642
Pension and other liabilities			
Public sector pensions	139,909	141,928	2,019
Other employee and veteran future benefits	50,311	52,334	2,023
Other liabilities	5,923	5,983	60
Total pension and other liabilities	196,143	200,245	4,102
Total interest-bearing debt	710,163	748,907	38,744
<b>Total liabilities</b>	824,162	844,937	20,775
<b>Financial assets</b>			
Cash and accounts receivable	122,147	95,624	-26,523
Foreign exchange accounts	51,709	48,766	-2,943
Loans, investments, and advances (net of allowances)	125,093	143,569	18,476
<b>Total financial assets</b>	298,949	287,959	-10,990
<b>Net debt</b>	525,213	556,978	31,765
<b>Non-financial assets</b>	61,503	61,322	-181
<b>Federal debt (accumulated deficit)</b>	463,710	495,656	31,946

Note: Totals may not add due to rounding.