

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2009: budgetary deficit of \$3.1 billion

There was a budgetary deficit of \$3.1 billion in December 2009, compared to a surplus of \$0.3 billion in December 2008. The December 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 \$1.1 billion from December 2008, reflecting declines in personal and non-resident income tax revenues, Employment Insurance (EI) premium revenues and other revenues. Program expenses increased by \$2.2 billion compared to December 2008, reflecting increased transfer payments and higher operating expenses of Crown corporations, departments and agencies. Public debt charges increased by \$0.1 billion compared to December 2008.

April to December 2009: budgetary deficit of \$39.4 billion

For the first nine months of the 2009–10 fiscal year, the budgetary deficit was \$39.4 billion, compared to a surplus of \$0.4 billion reported in the same period of 2008–09. Over \$16 billion of the \$39.4-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 \$19.4 billion, or 11.2 per cent, reflecting declines across most revenue streams. Program expenses were up \$22.0 billion, or 14.8 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 \$1.7 billion on a year-over-year basis, reflecting lower interest rates.

December 2009

There was a budgetary deficit of \$3.1 billion in December 2009, compared to a \$0.3-billion surplus in December 2008.

Revenues decreased by \$1.1 billion, or 5.6 per cent, to \$18.4 billion in December 2009.

- Personal income tax revenues decreased by \$0.8 billion, or 7.4 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 up \$0.5 billion, or 20.7 per cent, reflecting stronger year-end settlement payments than in December 2008.
- Non-resident income tax revenues were down \$0.3 billion, or 37.1 per cent.
- Excise taxes and duties were up \$0.2 billion, or 5.6 per cent, driven by higher Goods and Services Tax (GST) revenues. GST revenues were up \$0.2 billion, or 13.1 per cent. As a value-added tax, GST revenues represent the difference between total GST owed to the Government and credits claimed for GST paid on inputs. For example, GST revenues of \$25.7 billion in 2008–09 were derived from total GST assessed of about \$167.0 billion, less \$141.3 billion of input tax credits, rebates and credits to persons. As a result, timing differences between the much larger value of GST owed to the Government and

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



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credits claimed for GST paid on inputs can yield volatile net collections on a monthly basis. Energy taxes were down \$6 million, customs import duties were down \$0.1 billion, and other excise taxes and duties were up \$22 million.

- EI premium revenues were down \$0.3 billion, or 26.5 per cent, due to a one-time adjustment to premium revenues in December 2008 to account for an understatement of premium revenues over the course of 2008 and a corresponding overstatement of personal income tax revenues. Absent last year's adjustment for prior periods, EI premium revenues would have been up 0.1 per cent in December 2009. 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, proceeds from the sale of goods and services, returns on investments, foreign exchange net revenues and miscellaneous revenues, were down \$0.4 billion, or 18.4 per cent, due in 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 December 2009 were \$19.1 billion, up \$2.2 billion, or 13.1 per cent, from December 2008, reflecting increases across most categories of expenses.

In December 2009, transfer payments were up \$1.3 billion, or 11.5 per cent, from December 2008.

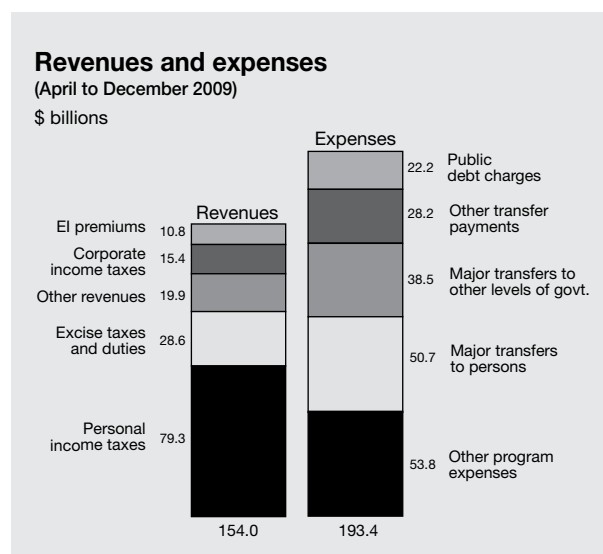
- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.4 billion, or 8.1 per cent. Elderly benefits increased by \$0.1 billion, or 2.4 per cent. EI benefit payments increased by \$0.3 billion, or 20.2 per cent, reflecting increased regular benefits due to higher 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, or 6.1 per cent.

- 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 up \$0.2 billion, largely reflecting legislated growth in the Canada Health Transfer and the Canada Social Transfer.
- Other transfer payments were up \$0.7 billion, reflecting increases across most departments.

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 \$0.9 billion, or 16.4 per cent, over the prior year, reflecting increases across a number of departments and the impact of the Economic Action Plan.

Public debt charges increased by \$0.1 billion compared to December 2008.



April to December 2009

Through the first nine months of the 2009–10 fiscal year, there was a budgetary deficit of \$39.4 billion, compared to a surplus of \$0.4 billion reported during the same period of 2008–09. Over \$16 billion of the \$39.4-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 declined by \$19.4 billion, or 11.2 per cent, to \$154.0 billion.

- Personal income tax revenues were down \$6.7 billion, or 7.8 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, an enhancement of the Working Income Tax Benefit, as well as the Home Renovation Tax Credit.
- Corporate income tax revenues were down \$7.0 billion, or 31.1 per cent, reflecting an increase of roughly 44 per cent in refunds of taxes paid and a decline of about 9 per cent in receipts.
- Non-resident income tax revenues were down \$1.1 billion, or 24.2 per cent.
- Excise taxes and duties were down \$2.5 billion, or 7.9 per cent, primarily due to a \$2.0-billion, or 9.9-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 \$42 million, customs import duties were down \$0.5 billion, and other excise taxes and duties decreased by \$25 million.
- EI premium revenues were down 1.9 per cent. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.
- Other revenues were down \$1.9 billion, or 10.5 per cent.

Program expenses for April to December 2009 were \$171.2 billion, up \$22.0 billion, or 14.8 per cent, from the same period the previous year, primarily reflecting increased EI benefit payments, increased transfers to other levels of government, and support for the automotive industry.

Transfer payments for April to December 2009 were up \$18.7 billion, or 19.0 per cent, from the same period the previous year.

- Major transfers to persons were up \$6.3 billion, or 14.1 per cent. Elderly benefits increased by \$1.1 billion, or 4.4 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 \$4.9 billion, or 45.6 per cent, reflecting higher unemployment and benefit enhancements introduced as part of Canada's Economic Action Plan. Children's benefits were up \$0.3 billion.
- Major transfers to other levels of government were up \$3.2 billion, or 9.2 per cent, primarily reflecting legislated growth in the Canada Health Transfer, the Canada Social Transfer and Equalization, as well as the previously announced doubling of the gas tax transfer to provinces and municipalities, as of April 1, 2009.
- Other transfer payments were up \$9.2 billion, largely reflecting support for the automotive industry and increased infrastructure funding, as well as increased assistance for workers, students and persons 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 \$3.3 billion, or 6.6 per cent, from the previous year's level.

Public debt charges decreased by \$1.7 billion, or 6.9 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.

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Financial requirement of \$61.0 billion for April to December 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 \$39.4 billion and a requirement of \$21.6 billion from non-budgetary transactions, there was a financial requirement of \$61.0 billion in the April to December period of 2009–10, compared to a financial requirement of \$50.2 billion in the same period of 2008–09. This year-over-year difference is due mainly to the deterioration in the budgetary balance, partially offset by a decrease in financing requirements under the Insured Mortgage Purchase Program.

Net financing activities up \$33.8 billion

The Government financed this financial requirement of \$61.0 billion by increasing market debt by \$33.8 billion and reducing cash balances by \$27.1 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 December 2009 stood at \$17.9 billion, \$17.1 billion below their level at the end of December 2008.

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Table 1

Summary statement of transactions

	December		April to December	
	2008	2009	2008–09	2009–10
(\$ millions)				
Budgetary transactions				
Revenues	19,506	18,414	173,403	154,047
Expenses				
Program expenses	-16,912	-19,122	-149,165	-171,195
Public debt charges	-2,260	-2,348	-23,865	-22,211
Budgetary balance (deficit/surplus)	334	-3,056	373	-39,359
Non-budgetary transactions	-4,115	591	-50,583	-21,595
Financial source/requirement	-3,781	-2,465	-50,210	-60,954
Net change in financing activities	4,540	-4,686	73,967	33,824
Net change in cash balances	759	-7,151	23,757	-27,130
Cash balance at end of period			35,000	17,903

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

Table 2

Revenues

	December			April to December		
	2008	2009	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	10,457	9,685	-7.4	85,960	79,273	-7.8
Corporate income tax	2,217	2,676	20.7	22,350	15,398	-31.1
Non-resident income tax	742	467	-37.1	4,628	3,506	-24.2
Total income tax	13,416	12,828	-4.4	112,938	98,177	-13.1
Excise taxes and duties						
Goods and Services tax	1,682	1,902	13.1	20,319	18,301	-9.9
Energy taxes	444	438	-1.4	3,870	3,912	1.1
Customs import duties	322	247	-23.3	3,054	2,597	-15.0
Other excise taxes and duties	448	470	4.9	3,852	3,827	-0.6
Total excise taxes and duties	2,896	3,057	5.6	31,095	28,637	-7.9
Total tax revenues	16,312	15,885	-2.6	144,033	126,814	-12.0
Employment Insurance premiums	967	711	-26.5	11,003	10,797	-1.9
Other revenues	2,227	1,818	-18.4	18,367	16,436	-10.5
Total revenues	19,506	18,414	-5.6	173,403	154,047	-11.2

Note: Totals may not add due to rounding.

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Table 3

Expenses

	December			April to December		
	2008	2009	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Major transfers to persons						
Elderly benefits	2,828	2,895	2.4	24,770	25,872	4.4
Employment Insurance benefits	1,494	1,796	20.2	10,704	15,583	45.6
Children's benefits	983	1,043	6.1	8,995	9,284	3.2
Total	5,305	5,734	8.1	44,469	50,739	14.1
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,885	2,084	10.6	16,972	18,592	9.5
Canada Social Transfer	879	923	5.0	7,918	8,145	2.9
Total	2,764	3,007	8.8	24,890	26,737	7.4
Fiscal transfers	1,292	1,271	-1.6	11,737	12,223	4.1
Canada's cities and communities	0	13	n/a	830	1,675	101.8
Alternative Payments for Standing Programs	-277	-301	8.7	-2,229	-2,178	-2.3
Total	3,779	3,990	5.6	35,228	38,457	9.2
Other transfer payments						
Agriculture and Agri-Food	244	156	-36.1	1,317	1,280	-2.8
Foreign Affairs and International Trade	262	429	63.7	2,095	2,141	2.2
Health	120	154	28.3	1,643	1,862	13.3
Human Resources and Skills Development	162	325	100.6	1,617	2,257	39.6
Indian Affairs and Northern Development	464	477	2.8	3,712	3,930	5.9
Industry	214	448	109.3	1,559	1,950	25.1
Other	831	972	17.0	7,024	14,766	110.2
Total	2,297	2,961	28.9	18,967	28,186	48.6
Total transfer payments	11,381	12,685	11.5	98,664	117,382	19.0
Other program expenses						
Crown corporations	675	910	34.8	5,793	6,455	11.4
Defence	1,685	1,680	-0.3	13,754	14,422	4.9
All other departments and agencies	3,171	3,847	21.3	30,954	32,936	6.4
Total other program expenses	5,531	6,437	16.4	50,501	53,813	6.6
Total program expenses	16,912	19,122	13.1	149,165	171,195	14.8
Public debt charges	2,260	2,348	3.9	23,865	22,211	-6.9
Total expenses	19,172	21,470	12.0	173,030	193,406	11.8

Note: Totals may not add due to rounding.

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Table 4

The budgetary balance and financial source/requirement

	December		April to December	
	2008	2009	2008–09	2009–10
	(\$ millions)			
Budgetary balance (deficit/surplus)	334	-3,056	373	-39,359
Non-budgetary transactions				
Capital investment activities	-589	-522	-2,651	-2,708
Other investing activities	-894	-421	-41,549	-19,945
Pension and other accounts	319	526	3,724	5,331
Other activities				
Accounts payable, receivables, accruals and allowances	-1,876	-537	-4,998	-12,548
Foreign exchange activities	-1,368	1,313	-7,636	5,801
Amortization of tangible capital assets	293	232	2,527	2,474
Total other activities	-2,951	1,008	-10,107	-4,273
Total non-budgetary transactions	-4,115	591	-50,583	-21,595
Financial source/requirement	-3,781	-2,465	-50,210	-60,954

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	December		April to December	
	2008	2009	2008–09	2009–10
	(\$ millions)			
Financial source/requirement	-3,781	-2,465	-50,210	-60,954
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,096	3,371	10,694	53,681
Treasury bills	6,100	-6,900	59,800	-9,500
Canada Savings Bonds	285	-72	-679	-484
Other	-1	0	-519	-69
Total	3,288	-3,601	69,296	43,628
Foreign currency borrowings	202	-177	-157	-3,917
Total	3,490	-3,778	69,139	39,711
Cross-currency swap revaluation	1,121	-1,077	4,520	-5,594
Unamortized discounts on debt issues	-72	176	413	-205
Obligations related to capital leases	1	-7	-105	-88
Net change in financing activities	4,540	-4,686	73,967	33,824
Change in cash balance	759	-7,151	23,757	-27,130

Note: Totals may not add due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2009	December 31, 2009	Change
	(\$ millions)		
Liabilities			
Accounts payable and accrued liabilities	113,999	98,043	-15,956
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	295,186	348,867	53,681
Treasury bills	192,275	182,775	-9,500
Retail debt	12,532	12,048	-484
Other	523	454	-69
Subtotal	500,516	544,144	43,628
Payable in foreign currencies	10,381	6,464	-3,917
Cross-currency swap revaluation account	3,690	-1,904	-5,594
Unamortized discounts and premiums on market debt	-4,751	-4,956	-205
Obligations related to capital leases	4,184	4,096	-88
Total unamatured debt	514,020	547,844	33,824
Pension and other liabilities			
Public sector pensions	139,909	142,481	2,572
Other employee and veteran future benefits	50,311	52,945	2,634
Other liabilities	5,923	6,048	125
Total pension and other liabilities	196,143	201,474	5,331
Total interest-bearing debt	710,163	749,318	39,155
Total liabilities	824,162	847,361	23,199
Financial assets			
Cash and accounts receivable	122,147	91,609	-30,538
Foreign exchange accounts	51,709	45,908	-5,801
Loans, investments, and advances (net of allowances)	125,093	145,038	19,945
Total financial assets	298,949	282,555	-16,394
Net debt	525,213	564,806	39,593
Non-financial assets	61,503	61,737	234
Federal debt (accumulated deficit)	463,710	503,069	39,359

Note: Totals may not add due to rounding.