

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2010: budgetary deficit of \$0.9 billion

There was a budgetary deficit of \$0.9 billion in February 2010, compared to a surplus of \$0.8 billion in February 2009. The February 2010 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 up \$0.8 billion from February 2009, driven by increases in corporate income tax revenues and Goods and Services Tax (GST) revenues. Program expenses increased by \$2.5 billion compared to February 2009, reflecting increased transfer payments and higher operating expenses of Crown corporations, departments and agencies. Public debt charges decreased by \$29 million compared to February 2009.

April 2009 to February 2010: budgetary deficit of \$40.5 billion

For the first 11 months of the 2009–10 fiscal year, the budgetary deficit was \$40.5 billion, compared to a surplus of \$1.3 billion reported in the same period of 2008–09. Close to \$18 billion of the \$40.5-billion deficit was attributable to actions taken under Canada's Economic Action Plan. Revenues were down \$16.9 billion, or 7.9 per cent, reflecting declines across most revenue streams. Program expenses were up \$26.4 billion, or 14.4 per cent, mainly reflecting higher Employment Insurance (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.

Year-end results will reflect financial results for March, as well as regular end-of-year adjustments that will be made once further information becomes available, including the accrual of tax revenues reflecting assessments of tax returns and valuation adjustments for assets and liabilities.

February 2010

There was a budgetary deficit of \$0.9 billion in February 2010, compared to a \$0.8-billion surplus in February 2009.

Revenues increased by \$0.8 billion, or 3.8 per cent, to \$20.4 billion in February 2010.

- Personal income tax revenues decreased by \$0.7 billion, or 7.1 per cent.
- Corporate income tax revenues were up \$1.0 billion, or 31.2 per cent, reflecting a large decline in refunds relative to February 2009.
- Non-resident income tax revenues were down \$0.1 billion, or 23.0 per cent.

- Excise taxes and duties were up \$0.8 billion, or 31.1 per cent, driven by higher GST revenues. GST revenues were up \$0.7 billion, or 51.9 per cent. As indicated in previous months, growth in GST revenues is expected to be stronger in the last quarter of the fiscal year than earlier in the fiscal year, reflecting the unwinding of timing impacts and the projected recovery in spending on items that are subject to the GST. 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.

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



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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 credits claimed for GST paid on inputs can yield volatile net collections on a monthly basis. Energy taxes were down \$4 million, customs import duties were down \$30 million, and other excise taxes and duties were up \$0.1 billion.

- EI premium revenues were up \$45 million, or 2.4 per cent.
- 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 \$0.3 billion, or 14.4 per cent.

Program expenses in February 2010 were \$19.0 billion, up \$2.5 billion, or 15.1 per cent, from February 2009, reflecting increases in transfer payments and other program expenses.

In February 2010, transfer payments were up \$1.7 billion, or 15.5 per cent, from February 2009.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.8 billion, or 14.0 per cent. Elderly benefits increased by \$0.1 billion, or 3.4 per cent. EI benefit payments increased by \$0.6 billion, or 34.6 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 8.0 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 \$0.4 billion, largely reflecting legislated growth in the Canada Health Transfer and increased gas tax transfers to Canada's cities and communities.

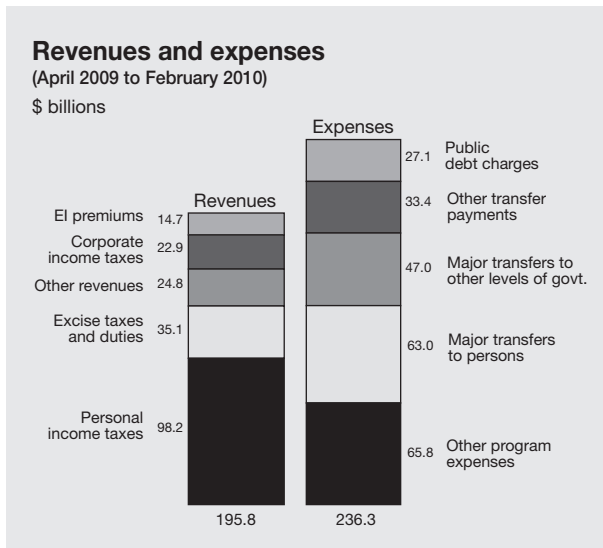
- Other transfer payments were up \$0.5 billion, largely reflecting increased support provided to international organizations and increased infrastructure transfers. The negative balance in transfers under Agriculture and Agri-Food in February 2010 reflects a decrease in accrued expenses for the AgriStability program based on an updated forecast of entitlements for the 2009 program year.

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 \$0.8 billion, or 14.4 per cent, over the prior year, reflecting increases in operating expenses across a number of departments and Crown corporations.

Public debt charges decreased by \$29 million compared to February 2009.

April 2009 to February 2010

Through the first 11 months of the 2009–10 fiscal year, there was a budgetary deficit of \$40.5 billion, compared to a surplus of \$1.3 billion reported during the same period of 2008–09. Close to \$18 billion of the \$40.5-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. March will be a key month in determining the results for the year as a whole, as will be the regular end-of-year adjustments that will be made as further information becomes available, including the accrual of tax revenues reflecting assessments of tax returns and valuation adjustments for assets and liabilities.



Revenues declined by \$16.9 billion, or 7.9 per cent, to \$195.8 billion.

- Personal income tax revenues were down \$7.3 billion, or 6.9 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 \$4.6 billion, or 16.6 per cent, reflecting an increase of roughly 14 per cent in refunds of taxes paid and a decline of about 6 per cent in receipts.
- Non-resident income tax revenues were down \$0.8 billion, or 13.1 per cent.
- Excise taxes and duties were down \$1.7 billion, or 4.6 per cent, primarily due to a \$1.3-billion, or 5.3-per-cent, decline in GST revenues. Energy taxes were up \$35 million, customs import duties were down \$0.5 billion, and other excise taxes and duties were up \$0.1 billion.
- EI premium revenues were down 0.7 per cent. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.

- Other revenues were down \$2.5 billion, or 11.2 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 for April 2009 to February 2010 were \$209.2 billion, up \$26.4 billion, or 14.4 per cent, from the same period the previous year, reflecting increased transfer payments and higher operating expenses of Crown corporations, departments and agencies.

Transfer payments for April 2009 to February 2010 were up \$21.7 billion, or 17.8 per cent, from the same period the previous year.

- Major transfers to persons were up \$7.4 billion, or 13.4 per cent. Elderly benefits increased by \$1.3 billion, or 4.2 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 \$5.7 billion, or 40.6 per cent, reflecting higher unemployment and benefit enhancements introduced as part of Canada's Economic Action Plan. Children's benefits were up \$0.4 billion.
- Major transfers to other levels of government were up \$4.1 billion, or 9.6 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 \$10.2 billion, largely reflecting support for the automotive industry and increased infrastructure funding, as well as increased assistance for workers and students. These increases were partially offset by a decrease in transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

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Other program expenses increased by \$4.7 billion, or 7.6 per cent, from the previous year's level.

Public debt charges decreased by \$1.5 billion, or 5.1 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 \$66.2 billion for April 2009 to February 2010

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 \$40.5 billion and a requirement of \$25.6 billion from non-budgetary transactions, there was a financial requirement of \$66.2 billion in the April to February period of 2009–10, compared to a financial requirement of \$81.4 billion in the same period of 2008–09. The deterioration in the budgetary balance in 2009–10 was more than offset by a decrease in financing requirements under the Insured Mortgage Purchase Program and a financial source arising from the Government's foreign exchange activities.

Net financing activities up \$37.6 billion

The Government financed this financial requirement of \$66.2 billion by increasing market debt by \$37.6 billion and reducing cash balances by \$28.5 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 February 2010 stood at \$16.5 billion, down \$22.1 billion from their level at the end of February 2009.

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Table 1

Summary statement of transactions

	February		April to February	
	2009	2010	2008–09	2009–10
	(\$ millions)			
Budgetary transactions				
Revenues	19,635	20,388	212,673	195,768
Expenses				
Program expenses	-16,533	-19,034	-182,850	-209,230
Public debt charges	-2,285	-2,256	-28,515	-27,064
Budgetary balance (deficit/surplus)	817	-902	1,308	-40,526
Non-budgetary transactions	-14,638	-1,959	-82,662	-25,649
Financial source/requirement	-13,821	-2,861	-81,354	-66,175
Net change in financing activities	15,982	-782	108,731	37,631
Net change in cash balances	2,161	-3,643	27,377	-28,544
Cash balance at end of period			38,616	16,487

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

Table 2

Revenues

	February			April to February		
	2009	2010	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,667	8,982	-7.1	105,495	98,216	-6.9
Corporate income tax	3,180	4,172	31.2	27,429	22,869	-16.6
Non-resident income tax	457	352	-23.0	5,842	5,077	-13.1
Total income tax	13,304	13,506	1.5	138,766	126,162	-9.1
Excise taxes and duties						
Goods and Services Tax	1,443	2,192	51.9	23,841	22,584	-5.3
Energy taxes	436	432	-0.9	4,735	4,770	0.7
Customs import duties	327	297	-9.2	3,720	3,187	-14.3
Other excise taxes and duties	304	370	21.7	4,514	4,581	1.5
Total excise taxes and duties	2,510	3,291	31.1	36,810	35,122	-4.6
Total tax revenues	15,814	16,797	6.2	175,576	161,284	-8.1
Employment Insurance premiums	1,911	1,956	2.4	14,850	14,739	-0.7
Other revenues	1,910	1,635	-14.4	22,247	19,745	-11.2
Total revenues	19,635	20,388	3.8	212,673	195,768	-7.9

Note: Totals may not add due to rounding.

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Table 3
Expenses

	February			April to February		
	2009	2010	Change	2008-09	2009-10	Change
	(\$ millions)			(\$ millions)		
	Change (%)			Change (%)		
Transfer payments						
Major transfers to persons						
Elderly benefits	2,845	2,942	3.4	30,451	31,728	4.2
Employment Insurance benefits	1,739	2,341	34.6	14,140	19,882	40.6
Children's benefits	955	1,031	8.0	10,957	11,372	3.8
Total	5,539	6,314	14.0	55,548	62,982	13.4
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,885	2,084	10.6	20,743	22,760	9.7
Canada Social Transfer	880	905	2.8	9,678	9,954	2.9
Total	2,765	2,989	8.1	30,421	32,714	7.5
Fiscal transfers	1,292	1,301	0.7	14,336	14,892	3.9
Canada's cities and communities	15	166	n/a	871	1,841	111.4
Alternative Payments for Standing Programs	-277	-231	-16.6	-2,783	-2,471	-11.2
Total	3,795	4,225	11.3	42,845	46,976	9.6
Other transfer payments						
Agriculture and Agri-Food	56	-10	-117.9	1,485	1,408	-5.2
Foreign Affairs and International Trade	314	467	48.7	2,761	2,878	4.2
Health	131	156	19.1	2,003	2,290	14.3
Human Resources and Skills Development	133	214	60.9	2,135	2,966	38.9
Indian Affairs and Northern Development	354	396	11.9	4,543	4,717	3.8
Industry	153	528	245.1	1,918	2,708	41.2
Other	727	644	-11.4	8,439	16,467	95.1
Total	1,868	2,395	28.2	23,284	33,434	43.6
Total transfer payments	11,202	12,934	15.5	121,677	143,392	17.8
Other program expenses						
Crown corporations	585	890	52.1	6,999	8,070	15.3
Defence	1,591	1,591	0.0	16,859	17,616	4.5
All other departments and agencies	3,155	3,619	14.7	37,315	40,152	7.6
Total other program expenses	5,331	6,100	14.4	61,173	65,838	7.6
Total program expenses	16,533	19,034	15.1	182,850	209,230	14.4
Public debt charges	2,285	2,256	-1.3	28,515	27,064	-5.1
Total expenses	18,818	21,290	13.1	211,365	236,294	11.8

Note: Totals may not add due to rounding.

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Table 4

The budgetary balance and financial source/requirement

	February		April to February	
	2009	2010	2008–09	2009–10
	(\$ millions)			
Budgetary balance (deficit/surplus)	817	-902	1,308	-40,526
Non-budgetary transactions				
Capital investment activities	-346	-540	-3,278	-3,530
Other investing activities	-10,727	-1,581	-69,470	-23,367
Pension and other accounts	511	500	4,360	6,688
Other activities				
Accounts payable, receivables, accruals and allowances	-1,784	-1,084	-7,546	-11,430
Foreign exchange activities	-2,522	443	-9,708	2,922
Amortization of tangible capital assets	230	303	2,980	3,068
Total other activities	-4,076	-338	-14,274	-5,440
Total non-budgetary transactions	-14,638	-1,959	-82,662	-25,649
Financial source/requirement	-13,821	-2,861	-81,354	-66,175

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2009	2010	2008–09	2009–10
	(\$ millions)			
Financial source/requirement	-13,821	-2,861	-81,354	-66,175
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	11,682	6,100	31,449	64,625
Treasury bills	1,800	-5,600	71,600	-18,600
Retail debt	-24	-77	-614	-609
Other	0	0	-519	-69
Total	13,458	423	101,916	45,347
Foreign currency borrowings	760	-395	1,388	-1,172
Total	14,218	28	103,304	44,175
Cross-currency swap revaluation	1,242	-917	4,464	-6,407
Unamortized discounts on debt issues	511	44	1,060	-113
Obligations related to capital leases	11	63	-97	-24
Net change in financing activities	15,982	-782	108,731	37,631
Change in cash balance	2,161	-3,643	27,377	-28,544

Note: Totals may not add due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2009	February 28, 2010	Change
		(\$ millions)	
Liabilities			
Accounts payable and accrued liabilities	113,999	106,240	-7,759
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	295,186	359,811	64,625
Treasury bills	192,275	173,675	-18,600
Retail debt	12,532	11,923	-609
Other	523	454	-69
Subtotal	500,516	545,863	45,347
Payable in foreign currencies	10,381	9,209	-1,172
Cross-currency swap revaluation account	3,690	-2,717	-6,407
Unamortized discounts and premiums on market debt	-4,751	-4,864	-113
Obligations related to capital leases	4,184	4,160	-24
Total unamatured debt	514,020	551,651	37,631
Pension and other liabilities			
Public sector pensions	139,909	142,912	3,003
Other employee and veteran future benefits	50,311	53,825	3,514
Other liabilities	5,923	6,094	171
Total pension and other liabilities	196,143	202,831	6,688
Total interest-bearing debt	710,163	754,482	44,319
Total liabilities	824,162	860,722	36,560
Financial assets			
Cash and accounts receivable	122,147	97,274	-24,873
Foreign exchange accounts	51,709	48,787	-2,922
Loans, investments, and advances (net of allowances)	125,093	148,460	23,367
Total financial assets	298,949	294,521	-4,428
Net debt	525,213	566,201	40,988
Non-financial assets	61,503	61,965	462
Federal debt (accumulated deficit)	463,710	504,236	40,526

Note: Totals may not add due to rounding.