

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

March 2010: budgetary deficit of \$6.4 billion

There was a budgetary deficit of \$6.4 billion in March 2010, compared to a deficit of \$3.5 billion in March 2009. Revenues were up \$4.3 billion from March 2009, driven by increases in income tax revenues and Goods and Services Tax (GST) revenues, which were partially offset by a decline in other revenues. Program expenses increased by \$7.2 billion compared to March 2009, largely reflecting the inclusion in the March 2010 results of information available to date regarding year-end accruals and valuation adjustments to assets and liabilities in respect of the 2009–10 fiscal year. Public debt charges decreased by \$12 million compared to March 2009.

April 2009 to March 2010: budgetary deficit of \$47.0 billion

For the April 2009 to March 2010 period, the budgetary deficit was \$47.0 billion, compared to a deficit of \$2.2 billion reported in the same period of 2008–09. Close to \$19 billion of the \$47.0-billion deficit was attributable to actions taken under Canada's Economic Action Plan. Revenues were down \$12.7 billion, or 5.5 per cent, mainly reflecting declines in income tax revenues and other revenues. Program expenses were up \$33.6 billion, or 16.6 per cent, mainly reflecting higher Employment Insurance (EI) benefit payments, higher transfers to other levels of government, support for the automotive industry, and information available to date regarding year-end accruals for other program expenses. Public debt charges were down \$1.5 billion on a year-over-year basis, reflecting lower interest rates.

The April 2009 to March 2010 monthly results are not the final results for the year as a whole. The final year-end results, which will be available in the fall, will also reflect 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.

A discussion of the March results and the Budget 2010 forecast for 2009–10 is provided later in this document. While the results to date—particularly for budgetary revenues—are stronger than anticipated in the 2010 budget, given the potential for further adjustments referred to above, as well as ongoing global economic uncertainty, the Government judges that the fiscal projection set out in the 2010 budget remains broadly on track.

March 2010

There was a budgetary deficit of \$6.4 billion in March 2010, compared to a \$3.5-billion deficit in March 2009.

Revenues increased by \$4.3 billion, or 22.8 per cent, to \$22.9 billion in March 2010.

- Personal income tax revenues increased by \$1.0 billion, or 11.1 per cent, reflecting higher employment.
- Corporate income tax revenues were up \$3.1 billion, or 130.8 per cent, reflecting higher settlement payments and lower refunds relative to March 2009.

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



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- Non-resident income tax revenues were up \$0.2 billion, or 69.0 per cent.
- Excise taxes and duties were up \$1.1 billion, or 47.1 per cent, driven by higher GST revenues. GST revenues were up \$1.2 billion, or 90.7 per cent. As indicated in previous months, GST revenues were expected to record stronger growth 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. For example, GST revenues in 2008–09 of \$25.7 billion 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 \$13 million, customs import duties were down \$54 million, and other excise taxes and duties were down \$3 million.
- EI premium revenues were up \$0.1 billion, or 5.6 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 \$1.3 billion, or 46.3 per cent, largely reflecting a decline in enterprise Crown corporation net profits and foreign exchange losses recorded on foreign currency loans in support of development and trade.

Program expenses in March 2010 were \$26.9 billion, up \$7.2 billion, or 36.4 per cent, from March 2009. This increase largely reflects the inclusion in the March 2010 results of information available to date regarding year-end accruals and valuation adjustments to assets and liabilities. This information has been included in the March *Fiscal Monitor* for the first time.

As a result, the March 2010 results are not directly comparable with those of March 2009. The practice of including available information related to year-end accruals in the March results will continue in future years.

In March 2010, transfer payments were up \$2.1 billion, or 15.8 per cent, from March 2009.

- Major transfers to persons, consisting of elderly, EI and children's benefits, decreased by \$43 million, or 0.7 per cent. Elderly benefits increased by \$0.1 billion, or 2.2 per cent. EI benefit payments decreased by \$0.1 billion, or 6.5 per cent, reflecting a decline in regular benefits. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, increased by \$26 million, or 2.5 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 \$0.7 billion, largely reflecting legislated growth in Equalization transfers, a decrease in the Youth Allowance Recovery (which is reported as a reduction of fiscal transfers), and transitional assistance to British Columbia related to its decision to adopt the Harmonized Sales Tax (HST) framework.
- Other transfer payments were up \$1.4 billion, reflecting increases across several 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 \$5.1 billion over the prior year, largely reflecting the inclusion of available information related to 2009–10 year-end accruals.

Public debt charges decreased by \$12 million compared to March 2009.

April 2009 to March 2010

For the April 2009 to March 2010 period, there was a budgetary deficit of \$47.0 billion, compared to a deficit of \$2.2 billion reported during the same period of 2008–09. As noted above, the April 2009 to March 2010 monthly results are not the final results for the year as a whole. Close to \$19 billion of the \$47.0-billion deficit was attributable to actions taken under Canada's Economic Action Plan.

Revenues declined by \$12.7 billion, or 5.5 per cent, to \$218.7 billion.

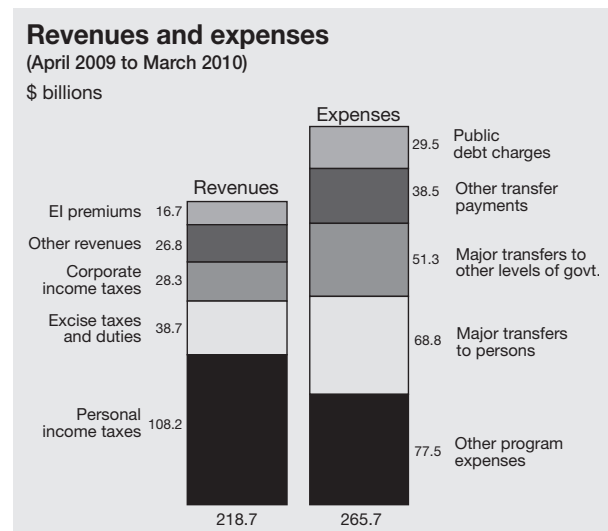
- Personal income tax revenues were down \$6.3 billion, or 5.5 per cent, reflecting lower employment and the impact of tax relief measures. These tax reductions included increases in the basic personal amount and personal income tax bracket thresholds, an enhancement of the Working Income Tax Benefit, as well as the Home Renovation Tax Credit.
- Corporate income tax revenues were down \$1.5 billion, or 4.9 per cent, reflecting an increase of roughly 4 per cent in refunds of taxes paid and a decline of about 2 per cent in receipts.
- Non-resident income tax revenues were down \$0.6 billion, or 9.3 per cent.
- Excise taxes and duties were down \$0.5 billion, or 1.4 per cent, primarily due to a \$0.6-billion, or 14.5-per-cent, decline in customs import duties. GST revenues decreased by \$42 million, or 0.2 per cent. Energy taxes were up \$22 million while other excise taxes and duties were up \$0.1 billion.
- EI premium revenues were virtually unchanged. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.

- Other revenues were down \$3.8 billion, or 15.1 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. In addition, other revenues were lowered by a decline in enterprise Crown corporation net profits and foreign exchange losses, as mentioned above.

Program expenses for April 2009 to March 2010 were \$236.1 billion, up \$33.6 billion, or 16.6 per cent, from the same period the previous year, reflecting in part the impact of Canada's Economic Action Plan.

Transfer payments for April 2009 to March 2010 were up \$23.8 billion, or 17.6 per cent, from the same period the previous year.

- Major transfers to persons were up \$7.4 billion, or 12.0 per cent. Elderly benefits increased by \$1.3 billion, or 4.0 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 \$5.6 billion, or 34.7 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.



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- Major transfers to other levels of government were up \$4.8 billion, or 10.4 per cent, primarily reflecting legislated growth in the Canada Health Transfer, the Canada Social Transfer and Equalization, HST transitional assistance to the province of British Columbia, the previously announced doubling of the gas tax transfer to provinces and municipalities, as of April 1, 2009, and a decrease in the value of Alternative Payments for Standing Programs.
- Other transfer payments were up \$11.6 billion, reflecting increases across most departments, including support for the automotive industry. 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 \$9.8 billion, or 14.4 per cent, from the previous year's level, largely reflecting the inclusion of information available to date regarding 2009–10 year-end accruals.

Public debt charges decreased by \$1.5 billion, or 4.7 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 \$64.5 billion for April 2009 to March 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 \$47.0 billion and a requirement of \$17.5 billion from non-budgetary transactions, there was a financial requirement of \$64.5 billion in the April to March period of 2009–10, compared to a financial requirement of \$89.5 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 \$44.9 billion

The Government financed this financial requirement of \$64.5 billion by increasing market debt by \$44.9 billion and reducing cash balances by \$19.5 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 March 2010 stood at \$25.5 billion, down \$19.5 billion from their level at the end of March 2009.

Quarterly update of the fiscal outlook for 2009–10

Through the end of March 2010, revenues are \$4.8 billion higher than projected in Budget 2010, largely reflecting stronger-than-expected corporate income tax revenues. Program expenses are \$1.7 billion lower than projected.

However, the year-to-date results do not reflect a number of other significant adjustments to revenues and expenses that will be made once further information becomes available. For example:

- The monthly estimates of personal income tax revenues are based on source deductions with estimates of tax accruals. The final accruals will reflect assessments of tax returns for 2009 now underway at the Canada Revenue Agency. The final outcome for personal income tax revenues can vary significantly from the monthly estimates due to factors such as the magnitude of Registered Retirement Savings Plan contributions and variations in capital gains and losses reported at tax filing. This year, variation could also arise due to take-up of the Home Renovation Tax Credit.
- Similarly, while the monthly results attempt to reflect the most up-to-date information on the Government's legal and environmental liabilities, provisions for guarantees, and allowances for valuation of loans, investments and advances, changes to estimated values of assets and liabilities are made up to the time that the financial statements are finalized.

While the results to date—particularly for budgetary revenues—are stronger than anticipated in the 2010 budget, given the potential for further adjustments referred to above, as well as ongoing global economic uncertainty, the Government judges that the fiscal projection set out in the 2010 budget remains broadly on track. The Government will release the final audited outcome for 2009–10 in the *Annual Financial Report of the Government of Canada* in September.

Financial results through March 2010 and the Budget 2010 projected outcome for 2009–10

	Budget 2010 Projected Outcome for 2009–10	April 2009 to March 2010 (\$ billions)	Difference
Revenues	213.9	218.7	4.8
Expenses			
Program expenses	237.8	236.1	-1.7
Public debt charges	29.9	29.5	-0.4
Budgetary balance (deficit/surplus)	-53.8	-47.0	6.8

Note: Totals may not add due to rounding.

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Table 1

Summary statement of transactions

	March		April to March	
	2009	2010	2008–09	2009–10
	(\$ millions)			
Budgetary transactions				
Revenues	18,671	22,926	231,344	218,694
Expenses				
Program expenses	-19,730	-26,918	-202,580	-236,148
Public debt charges	-2,450	-2,438	-30,965	-29,502
Budgetary balance (deficit/surplus)	-3,509	-6,430	-2,201	-46,956
Non-budgetary transactions	-4,635	8,146	-87,297	-17,503
Financial source/requirement	-8,144	1,716	-89,498	-64,459
Net change in financing activities	14,553	7,293	123,284	44,924
Net change in cash balances	6,409	9,009	33,786	-19,535
Cash balance at end of period			45,030	25,501

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

Table 2

Revenues

	March			April to March		
	2009	2010	Change	2008–09	2009–10	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,970	9,966	11.1	114,465	108,182	-5.5
Corporate income tax	2,364	5,455	130.8	29,793	28,324	-4.9
Non-resident income tax	287	485	69.0	6,129	5,562	-9.3
Total income tax	11,621	15,906	36.9	150,387	142,068	-5.5
Excise taxes and duties						
Goods and Services Tax	1,340	2,555	90.7	25,181	25,139	-0.2
Energy taxes	424	411	-3.1	5,159	5,181	0.4
Customs import duties	337	283	-16.0	4,057	3,470	-14.5
Other excise taxes and duties	328	325	-0.9	4,842	4,906	1.3
Total excise taxes and duties	2,429	3,574	47.1	39,239	38,696	-1.4
Total tax revenues	14,050	19,480	38.6	189,626	180,764	-4.7
Employment Insurance premiums	1,858	1,962	5.6	16,708	16,701	0.0
Other revenues	2,763	1,484	-46.3	25,010	21,229	-15.1
Total revenues	18,671	22,926	22.8	231,344	218,694	-5.5

Note: Totals may not add due to rounding.

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Table 3

Expenses

	March			April to March		
	2009	2010	Change	2008-09	2009-10	Change
	(\$ millions)			(\$ millions)		
			(%)			(%)
Transfer payments						
Major transfers to persons						
Elderly benefits	2,856	2,918	2.2	33,307	34,646	4.0
Employment Insurance benefits	2,021	1,890	-6.5	16,161	21,772	34.7
Children's benefits	1,032	1,058	2.5	11,989	12,430	3.7
Total	5,909	5,866	-0.7	61,457	68,848	12.0
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	2,016	2,060	2.2	22,759	24,820	9.1
Canada Social Transfer	890	904	1.6	10,568	10,858	2.7
Total	2,906	2,964	2.0	33,327	35,678	7.1
Fiscal transfers	802	1,551	93.4	15,138	16,443	8.6
Canada's cities and communities	100	31	-69.0	971	1,872	92.8
Alternative Payments for Standing Programs	-191	-232	21.5	-2,974	-2,703	-9.1
Total	3,617	4,314	19.3	46,462	51,290	10.4
Other transfer payments						
Agriculture and Agri-Food	58	372	541.4	1,543	1,780	15.4
Foreign Affairs and International Trade	1,128	1,611	42.8	3,889	4,489	15.4
Health	344	805	134.0	2,347	3,095	31.9
Human Resources and Skills Development	118	494	318.6	2,253	3,460	53.6
Indian Affairs and Northern Development	601	945	57.2	5,144	5,662	10.1
Industry	333	72	-78.4	2,251	2,780	23.5
Other	1,083	799	-26.2	9,522	17,266	81.3
Total	3,665	5,098	39.1	26,949	38,532	43.0
Total transfer payments	13,191	15,278	15.8	134,868	158,670	17.6
Other program expenses						
Crown corporations	687	1,176	71.2	7,686	9,246	20.3
Defence	1,722	2,946	71.1	18,581	20,562	10.7
All other departments and agencies	4,130	7,518	82.0	41,445	47,670	15.0
Total other program expenses	6,539	11,640	78.0	67,712	77,478	14.4
Total program expenses	19,730	26,918	36.4	202,580	236,148	16.6
Public debt charges	2,450	2,438	-0.5	30,965	29,502	-4.7
Total expenses	22,180	29,356	32.4	233,545	265,650	13.7

Note: Totals may not add due to rounding.

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Table 4

The budgetary balance and financial source/requirement

	March		April to March	
	2009	2010	2008-09	2009-10
	(\$ millions)			
Budgetary balance (deficit/surplus)	-3,509	-6,430	-2,201	-46,956
Non-budgetary transactions				
Capital investment activities	-885	-2,258	-4,163	-5,788
Other investing activities	-4,911	-3,071	-74,381	-26,438
Pension and other accounts	401	865	4,761	7,553
Other activities				
Accounts payable, receivables, accruals and allowances	314	10,263	-7,232	-1,167
Foreign exchange activities	299	2,173	-9,409	5,095
Amortization of tangible capital assets	147	174	3,127	3,242
Total other activities	760	12,610	-13,514	7,170
Total non-budgetary transactions	-4,635	8,146	-87,297	-17,503
Financial source/requirement	-8,144	1,716	-89,498	-64,459

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	March		April to March	
	2009	2010	2008-09	2009-10
	(\$ millions)			
Financial source/requirement	-8,144	1,716	-89,498	-64,459
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	10,071	8,066	41,520	72,691
Treasury bills	3,900	2,000	75,500	-16,600
Retail debt	75	-63	-539	-672
Other	0	-2	-519	-71
Total	14,046	10,001	115,962	55,348
Foreign currency borrowings	-505	-967	883	-2,139
Total	13,541	9,034	116,845	53,209
Cross-currency swap revaluation	646	-1,516	5,110	-7,923
Unamortized discounts on debt issues	408	-228	1,468	-341
Obligations related to capital leases	-42	3	-139	-21
Net change in financing activities	14,553	7,293	123,284	44,924
Change in cash balance	6,409	9,009	33,786	-19,535

Note: Totals may not add due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2009	March 31, 2010	Change
		(\$ millions)	
Liabilities			
Accounts payable and accrued liabilities	113,999	113,443	-556
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	295,186	367,877	72,691
Treasury bills	192,275	175,675	-16,600
Retail debt	12,532	11,860	-672
Other	523	452	-71
Subtotal	500,516	555,864	55,348
Payable in foreign currencies	10,381	8,242	-2,139
Cross-currency swap revaluation account	3,690	-4,233	-7,923
Unamortized discounts and premiums on market debt	-4,751	-5,092	-341
Obligations related to capital leases	4,184	4,163	-21
Total unamatured debt	514,020	558,944	44,924
Pension and other liabilities			
Public sector pensions	139,909	143,113	3,204
Other employee and veteran future benefits	50,311	54,122	3,811
Other liabilities	5,923	6,461	538
Total pension and other liabilities	196,143	203,696	7,553
Total interest-bearing debt	710,163	762,640	52,477
Total liabilities	824,162	876,083	51,921
Financial assets			
Cash and accounts receivable	122,147	103,223	-18,924
Foreign exchange accounts	51,709	46,614	-5,095
Loans, investments, and advances (net of allowances)	125,093	151,531	26,438
Total financial assets	298,949	301,368	2,419
Net debt	525,213	574,715	49,502
Non-financial assets	61,503	64,049	2,546
Federal debt (accumulated deficit)	463,710	510,666	46,956

Note: Totals may not add due to rounding.