

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2003: budgetary deficit of \$822 million

There was a budgetary deficit of \$822 million in August 2003, up \$167 million from the restated deficit of \$655 million in August 2002. On a year-over-year basis, budgetary revenues were up \$287 million, or 2.2 per cent, while program expenses increased \$369 million, or 3.5 per cent, and public debt charges increased \$85 million, or 2.9 per cent.

April to August 2003: budgetary surplus of \$1.3 billion

The budgetary surplus is estimated at \$1.3 billion for the April to August 2003 period, down \$1.5 billion from the surplus of \$2.8 billion reported in the same period of 2002–03. The lower surplus to date primarily reflects the impact on revenues of the weakness in economic activity in the second quarter of 2003 due to a number of domestic shocks. It also reflects the new spending initiatives and tax reductions announced in recent budgets. Among the major components, budgetary revenues were up \$1.5 billion, or 2.1 per cent, program expenses were up \$3.6 billion, or 7.0 per cent, while public debt charges were \$0.7 billion, or 4.5 per cent, lower.

August 2003: budgetary results

The August 2003 budgetary deficit of \$822 million was \$167 million higher than the deficit of \$655 million reported in August 2002.

On a year-over-year basis, budgetary revenues, at \$13.1 billion, were up \$0.3 billion, or 2.2 per cent, primarily reflecting higher personal income tax revenues.

- Personal income tax revenues increased \$0.2 billion, or 3.8 per cent, due to higher tax remittances from employment income, reflecting the increase in the number of employed.
- Corporate income tax revenues were up slightly due entirely to lower refunds, as monthly instalment payments were down. As noted in the 2003 budget, the data to convert corporate income 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 \$0.1 billion, or 3.7 per cent, with considerable variation among the components. Goods and services tax (GST) revenues declined \$0.3 billion, or 13.3 per cent. In contrast, both customs import duties and sales and excise taxes were up strongly, unwinding some of the declines witnessed in previous periods.
- Employment insurance (EI) premiums were lower, as the increase in employment, and therefore in the number of Canadians paying premiums, was more than offset by 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 24.6 per cent. This category of revenues is quite volatile on a monthly basis.



The Fiscal Monitor

On a year-over-year basis, program expenses in August 2003 were \$0.4 billion, or 3.5 per cent, higher than in August 2002. Transfer payments were higher while other program expenses were lower.

Transfer payments increased by \$0.4 billion, or 6.8 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion, or 5.4 per cent. Elderly benefits increased 4.8 per cent due to an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were up 6.4 per cent, primarily reflecting an increase in the number of beneficiaries.
- 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 \$0.1 billion, or 4.5 per cent. The year-over-year increase is 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 lower, reflecting lower equalization transfers due to improved economic developments in the eligible provinces.
- Subsidies and other transfers increased by \$0.2 billion, or 17.6 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

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 down \$0.1 billion, or 1.7 per cent, primarily reflecting adjustments to previous periods in 2002–03.

Public debt charges were up \$0.1 billion, or 2.9 per cent, due to an increase in the stock of interest-bearing debt as the average effective interest rate on that debt declined.

April to August 2003: budgetary results

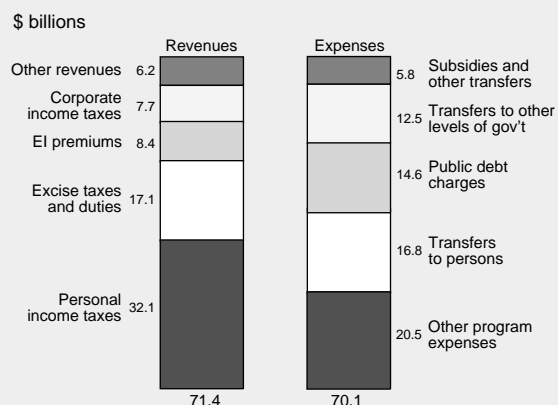
In the first five months of the 2003–04 fiscal year, there was a budgetary surplus of \$1.3 billion—a year-over-year deterioration of \$1.5 billion from the surplus of \$2.8 billion reported in the same period last year. The lower surplus reflects the impact on revenues of the weakness in economic activity due to a series of shocks that hit the Canadian economy in the second quarter of 2003. It also reflects the impact of spending initiatives and tax reductions announced in recent budgets.

On a year-over-year basis, budgetary revenues were up \$1.5 billion, or 2.1 per cent.

- Personal income tax revenues were up \$0.7 billion, or 2.3 per cent. This increase is attributable 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 somewhat dampened by lower remittances from quarterly filers and the reduction in tax rates 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 budget measures.
- Corporate income taxes increased \$0.3 billion, or 4.7 per cent, reflecting higher instalment payments, which are broadly in line with the growth in corporate profits, and lower refunds.

Revenues and expenses

(April to August 2003)



- Excise taxes and duties were up marginally. GST revenues were down slightly, reflecting weakness in the underlying tax base and higher refunds. Sales and excise taxes were up marginally, 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 6.5 per cent.

On a year-over-year basis, program expenses in the April to August 2003 period were up \$3.6 billion, or 7.0 per cent, over the same period last year.

Transfer payments increased by \$1.9 billion, or 5.7 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.5 billion, or 2.8 per cent. Elderly benefits increased 4.3 per cent while EI benefits were virtually unchanged.
- Major transfers to other levels of government increased by \$0.6 billion, or 4.9 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.9 billion, or 17.2 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

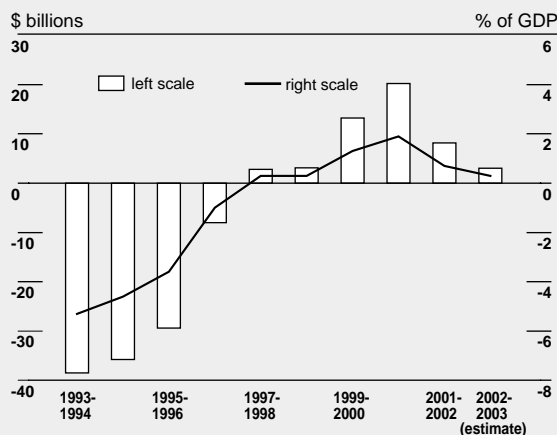
Other program expenses increased by \$1.7 billion, or 9.3 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

Financial requirement of \$12.1 billion for April to August 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 addition, the budgetary balance includes only those activities over which the Government has legislative control.

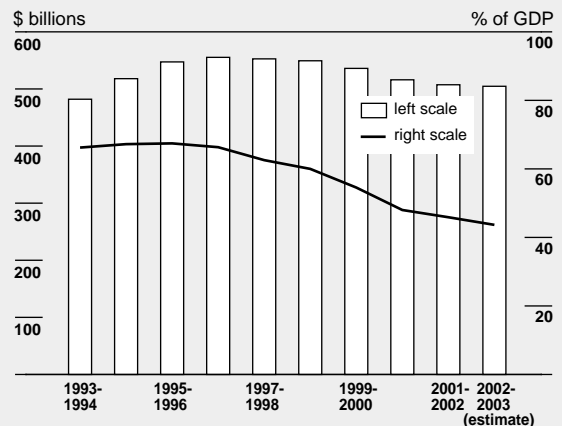
In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through 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.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

Non-budgetary transactions resulted in a net requirement of \$13.5 billion in the first five months of 2003–04, up \$3.8 billion from the requirement in the same period last year. This increase 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 \$1.3 billion and a net requirement of \$13.5 billion from non-budgetary transactions, there was a financial requirement of \$12.1 billion in the April to August 2003 period, up \$5.2 billion from the same period last year.

Net financing activities up \$5.8 billion

This financial requirement of \$12.1 billion was financed by a reduction in the Government's cash balances of \$6.4 billion and an increase of \$5.8 billion in net financing activities through an increase in unmatured debt transactions and liabilities to the pension and other accounts. 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 August stood at \$8.3 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary transactions				
Revenues	12,856	13,143	69,978	71,434
Expenses				
Program expenses	-10,613	-10,982	-51,844	-55,479
Public debt charges	-2,898	-2,983	-15,337	-14,649
Budgetary balance (deficit/surplus) ¹	-655	-822	2,797	1,306
Non-budgetary transactions	19	526	-9,700	-13,452
Financial source/requirement	-636	-296	-6,903	-12,146
Net change in financing activities	5,608	5,235	2,879	5,784
Net change in cash balances	4,972	4,939	-4,024	-6,362
Cash balance at end of period			7,927	8,336

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

¹ Under modified accrual, a deficit of \$4 million was recorded for August 2002.

Table 2

Budgetary revenues

	August			April to August		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	5,447	5,653	3.8	31,346	32,065	2.3
Corporate income tax	1,019	1,096	7.6	7,343	7,688	4.7
Other income tax revenue	234	197	-15.8	1,071	1,179	10.1
Total income tax	6,700	6,946	3.7	39,760	40,932	2.9
Excise taxes and duties						
Goods and services tax	2,553	2,213	-13.3	11,712	11,638	-0.6
Customs import duties	306	349	14.1	1,338	1,228	-8.2
Sales and excise taxes	848	1,010	19.1	3,916	4,080	4.2
Air Travellers Security Charge	36	32	-11.1	146	179	22.6
Total excise taxes and duties	3,743	3,604	-3.7	17,112	17,125	0.1
Total tax revenues	10,443	10,550	1.0	56,872	58,057	2.1
Employment insurance premiums	1,516	1,475	-2.7	8,402	8,368	-0.4
Other revenues	897	1,118	24.6	4,704	5,009	6.5
Total budgetary revenues	12,856	13,143	2.2	69,978	71,434	2.1

The Fiscal Monitor

Table 3

Budgetary expenses

	August		Change	April to August		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,130	2,233	4.8	10,628	11,080	4.3
Employment insurance benefits	1,010	1,075	6.4	5,680	5,682	0.0
Total	3,140	3,308	5.4	16,308	16,762	2.8
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	7,750	8,458	9.1
Fiscal transfers	1,042	1,008	-3.3	5,180	4,999	-3.5
Alternative Payments for Standing Programs	-210	-211	0.5	-1,051	-995	-5.3
Total	2,382	2,489	4.5	11,879	12,462	4.9
Subsidies and other transfers						
Agriculture	78	211	170.5	185	257	38.9
Foreign Affairs	101	104	3.0	523	697	33.3
Health	61	99	62.3	560	616	10.0
Human Resources Development	146	80	-45.2	517	507	-1.9
Indian and Northern Development	302	313	3.6	1,770	1,877	6.0
Industry and Regional Development	165	216	30.9	618	830	34.3
Other	90	86	-4.4	769	1,009	31.2
Total	943	1,109	17.6	4,942	5,793	17.2
Total transfer payments	6,465	6,906	6.8	33,129	35,017	5.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	75	74	-1.3	482	491	1.9
Canada Mortgage and Housing Corporation	149	172	15.4	791	909	14.9
Other	126	178	41.3	797	915	14.8
Total	350	424	21.1	2,070	2,315	11.8
Defence	1,183	1,131	-4.4	4,593	4,652	1.3
All other departments and agencies	2,615	2,521	-3.6	12,052	13,495	12.0
Total other program expenses	4,148	4,076	-1.7	18,715	20,462	9.3
Total program expenses	10,613	10,982	3.5	51,844	55,479	7.0
Public debt charges	2,898	2,983	2.9	15,337	14,649	-4.5
Total budgetary expenses	13,511	13,965	3.4	67,181	70,128	4.4

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary balance (deficit/surplus)	-655	-822	2,797	1,306
Non-budgetary transactions				
Capital investing activities	-188	-130	-750	-707
Other investing activities	83	-29	183	-29
Other activities				
Accounts payable, receivables, accruals and allowances	498	229	-9,378	-14,408
Foreign exchange activities	-789	-25	-953	387
Amortization of tangible capital assets	415	481	1,198	1,305
Total other activities	124	685	-9,133	-12,716
Total non-budgetary transactions	19	526	-9,700	-13,452
Financial source/requirement	-636	-296	-6,903	-12,146

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Financial source/requirement	-636	-296	-6,903	-12,146
Net increase (+)/decrease (-) in financing activities				
Canadian currency borrowings				
Marketable bonds	5,214	1,451	-867	-3,343
Treasury bills	600	3,900	7,450	9,700
Canada Savings Bonds	-76	-89	-478	-578
Other	0	-1	-8	174
Total	5,738	5,261	6,097	5,953
Foreign currency borrowings	5	-138	-1,982	-373
Total	5,743	5,123	4,115	5,580
Pension and other accounts	-135	112	-1,236	204
Net change in financing activities	5,608	5,235	2,879	5,784
Change in cash balance	4,972	4,939	-4,024	-6,362

The Fiscal Monitor

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. The Statement of Assets and Liabilities will be presented once final results for 2002–03 are published.

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.