

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2003: budgetary surplus of \$277 million

There was a budgetary surplus of \$277 million in September 2003, \$1.6 billion below the restated surplus of \$1.8 billion in September 2002. The lower surplus in September 2003 was largely attributable to lower budgetary revenues, which were \$1.2 billion lower than in the same period last year. On a year-over-year basis, program expenses increased by \$0.5 billion while public debt charges were \$0.1 billion lower.

### April to September 2003: budgetary surplus of \$1.6 billion

The budgetary surplus is estimated at \$1.6 billion for the April to September 2003 period, down \$3.0 billion from the restated surplus of \$4.6 billion in the same period of 2002–03. Budgetary revenues were up marginally by \$0.3 billion, or 0.3 per cent. This largely reflects the recent economic weakness due to a series of shocks that have hit the Canadian economy in 2003. Program expenses were up \$4.2 billion, or 6.6 per cent, primarily as a result of new spending initiatives announced in recent budgets. Public debt charges were down \$0.8 billion, or 4.5 per cent, reflecting lower interest rates.

### September 2003: budgetary results

The September 2003 budgetary surplus of \$277 million was \$1.6 billion lower than the \$1.8-billion surplus recorded in September 2002.

On a year-over-year basis, budgetary revenues, at \$14.8 billion, were down \$1.2 billion, or 7.3 per cent. Most major revenue sources were down relative to September 2002.

- Personal income tax revenues decreased \$0.2 billion, or 3.0 per cent, due mainly to lower source deductions and installment payments from quarterly filers.
- Corporate income tax revenues were down \$0.5 billion, or 35.4 per cent, due to both a decline in gross installment payments and higher refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accrual are not available in time in order to present the financial statements in a timely manner. As such, cash is used as a proxy for the accrual numbers.
- Total excise taxes and duties decreased by \$0.4 billion, or 9.1 per cent. Goods and services tax (GST) revenues declined \$0.3 billion, or 11.6 per cent, attributable to higher refunds, reflecting timing considerations. Sales and excise taxes were down \$0.1 billion, or 8.2 per cent, while customs import duties were up strongly, unwinding some of the declines witnessed in previous periods.
- Employment insurance (EI) premiums were 3.8 per cent lower, as the reduction in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002) more than offset the impact of an increase in employment relative to September 2002 and therefore in the number of Canadians paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, increased 3.3 per cent. This category of revenues is quite volatile on a monthly basis.



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On a year-over-year basis, program expenses in September 2003 were \$0.5 billion, or 4.8 per cent, higher than in September 2002. Transfer payments were 7.0 per cent higher while other program expenses were 1.5 per cent higher.

Transfer payments increased by \$0.5 billion on a year-over-year basis, driven mainly by an increase in transfers to persons.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.4 billion, or 11.4 per cent. Elderly benefits increased 5.9 per cent. Average benefits have risen because of higher inflation earlier in 2003 and an increase in the number of individuals eligible for benefits. EI benefit payments were up 21.8 per cent, primarily reflecting adjustments for under-reporting in previous months.
- 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 3.8 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 marginally, with increases in Agriculture, Foreign Affairs and Industry being virtually offset by lower transfers in other departments.

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 up \$0.1 billion, or 1.5 per cent.

Public debt charges were down \$0.1 billion, or 4.5 per cent, due to a decline in the average effective interest rate.

## April to September 2003: budgetary results

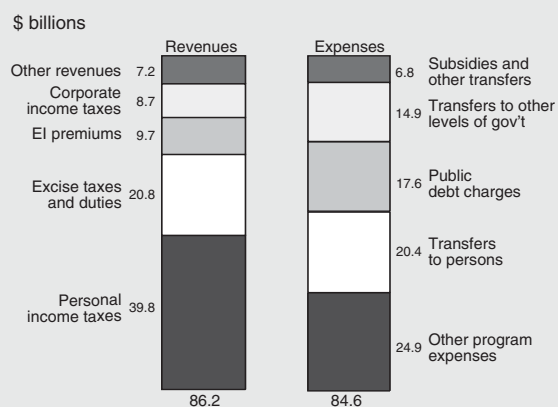
In the first six months of the 2003–04 fiscal year, there was a budgetary surplus of \$1.6 billion—a year-over-year deterioration of \$3.0 billion from the surplus of \$4.6 billion reported in the same period last year. The lower surplus largely reflects the impact on revenues of the weakness in economic activity due to a series of shocks that have hit the Canadian economy in 2003. It also reflects the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues were up only \$0.3 billion, or 0.3 per cent.

- Personal income tax revenues were up \$0.5 billion, or 1.2 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 impact of reductions 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 decreased \$0.2 billion, or 2.2 per cent, reflecting a decline in gross receipts and higher refunds.
- Excise taxes and duties were down \$0.4 billion, primarily because of a 2.8-per-cent decline in GST revenues. This decline primarily reflects

### Revenues and expenses

(April to September 2003)



higher refunds. Refunds in September 2002 were unusually low, reflecting timing considerations. As a result, over the course of the fiscal year, GST revenues are expected to grow more in line with the applicable tax base. 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 6.0 per cent.

On a year-over-year basis, program expenses in the April to September 2003 period were up \$4.2 billion, or 6.6 per cent, over the same period last year.

Transfer payments increased by \$2.4 billion, or 5.9 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.8 billion, or 4.2 per cent. Elderly benefits increased 4.5 per cent, while EI benefits were up 3.6 per cent due to a rise in the number of beneficiaries as well as an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$0.7 billion, or 4.7 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.9 billion, or 14.4 per cent, primarily reflecting the impact of budget measures and increased financial assistance to farmers.

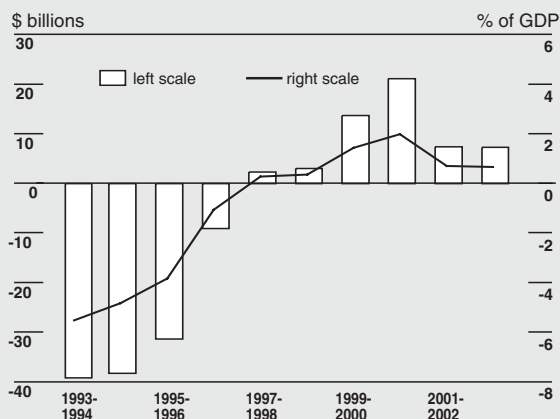
Other program expenses increased by \$1.8 billion, or 7.8 per cent, with all components higher. The increases in Crown corporation expenses, defence and all other departmental and agency program expenses are primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

## Financial requirement of \$11.1 billion for April to September 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.

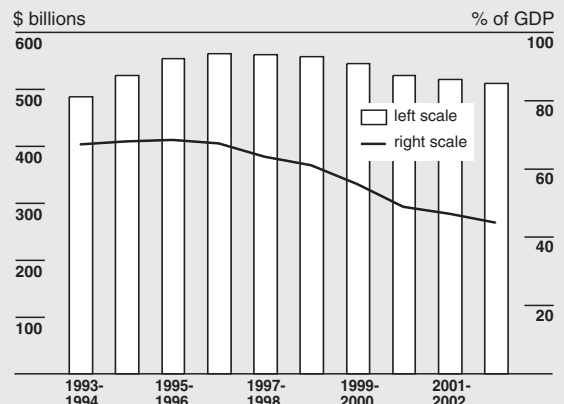
In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through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

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Non-budgetary transactions resulted in a net requirement of \$12.7 billion in the first six months of 2003–04, up \$4.9 billion from the requirement in the same period last year. This primarily 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 \$1.6 billion and a net requirement of \$12.7 billion from non-budgetary transactions, there was a financial requirement of \$11.1 billion in the April to September 2003 period.

## **Net financing activities up \$0.4 billion**

This financial requirement of \$11.1 billion was financed by a reduction in the Government's cash balances of \$10.7 billion and an increase of \$0.4 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 September stood at \$4.0 billion.

## **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.

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](http://www.fin.gc.ca).

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Table 1

## Summary statement of transactions

	September		April to September	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,945	14,778	85,922	86,211
Expenses				
Program expenses	-11,054	-11,582	-62,897	-67,062
Public debt charges	-3,055	-2,919	-18,392	-17,567
Budgetary balance (deficit/surplus) <sup>1</sup>	1,836	277	4,633	1,582
<b>Non-budgetary transactions</b>	1,873	749	-7,826	-12,705
<b>Financial source/requirement</b>	3,709	1,026	-3,193	-11,123
<b>Net change in financing activities</b>	-7,710	-6,037	-4,831	396
<b>Net change in cash balances</b>	-4,001	-5,011	-8,024	-10,727
<b>Cash balance at end of period</b>			3,924	3,973

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

<sup>1</sup> Under modified accrual, a surplus of \$3.1 billion was recorded for September 2002.

Table 2

## Budgetary revenues

	September			April to September		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,989	7,748	-3.0	39,335	39,814	1.2
Corporate income tax	1,529	987	-35.4	8,872	8,675	-2.2
Other income tax revenue	159	171	7.5	1,229	1,350	9.8
Total income tax	9,677	8,906	-8.0	49,436	49,839	0.8
Excise taxes and duties						
Goods and services tax	2,907	2,569	-11.6	14,618	14,207	-2.8
Customs import duties	280	317	13.2	1,618	1,545	-4.5
Sales and excise taxes	861	790	-8.2	4,776	4,870	2.0
Air Travellers Security Charge	32	33	3.1	178	212	19.1
Total excise taxes and duties	4,080	3,709	-9.1	21,190	20,834	-1.7
Total tax revenues	13,757	12,615	-8.3	70,626	70,673	0.1
<b>Employment insurance premiums</b>	1,374	1,322	-3.8	9,776	9,689	-0.9
<b>Other revenues</b>	814	841	3.3	5,520	5,849	6.0
<b>Total budgetary revenues</b>	15,945	14,778	-7.3	85,922	86,211	0.3

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Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,119	2,244	5.9	12,747	13,324	4.5
Employment insurance benefits	1,110	1,352	21.8	6,790	7,035	3.6
Total	3,229	3,596	11.4	19,537	20,359	4.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	9,300	10,150	9.1
Fiscal transfers	1,040	989	-4.9	6,220	5,988	-3.7
Alternative Payments for Standing Programs	-210	-211	0.5	-1,261	-1,205	-4.4
Total	2,380	2,470	3.8	14,259	14,933	4.7
Subsidies and other transfers						
Agriculture	43	112	160.5	229	369	61.1
Foreign Affairs	97	133	37.1	620	830	33.9
Health	157	92	-41.4	717	708	-1.3
Human Resources Development	122	126	3.3	639	633	-0.9
Indian and Northern Development	269	281	4.5	2,039	2,158	5.8
Industry and Regional Development	67	103	53.7	685	933	36.2
Other	287	202	-29.6	1,055	1,212	14.9
Total	1,042	1,049	0.7	5,984	6,843	14.4
Total transfer payments	6,651	7,115	7.0	39,780	42,135	5.9
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	91	92	1.1	573	583	1.7
Canada Mortgage and Housing Corporation	195	166	-14.9	986	1,074	8.9
Other	139	157	12.9	936	1,073	14.6
Total	425	415	-2.4	2,495	2,730	9.4
Defence	1,110	1,120	0.9	5,703	5,772	1.2
All other departments and agencies	2,868	2,932	2.2	14,919	16,425	10.1
Total other program expenses	4,403	4,467	1.5	23,117	24,927	7.8
<b>Total program expenses</b>	11,054	11,582	4.8	62,897	67,062	6.6
<b>Public debt charges</b>	3,055	2,919	-4.5	18,392	17,567	-4.5
<b>Total budgetary expenses</b>	14,109	14,501	2.8	81,289	84,629	4.1

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Table 4

## Budgetary balance and financial source/requirement

	September		April to September	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,836	277	4,633	1,582
<b>Non-budgetary transactions</b>				
Capital investing activities	-150	-93	-900	-800
Other investing activities	-476	-732	-292	-761
Other activities				
Accounts payable, receivables, accruals and allowances	944	1,671	-8,434	-12,738
Foreign exchange activities	1,316	-219	363	168
Amortization of tangible capital assets	239	122	1,437	1,426
Total other activities	2,499	1,574	-6,634	-11,144
<b>Total non-budgetary transactions</b>	1,873	749	-7,826	-12,705
<b>Net financial source/requirement</b>	3,709	1,026	-3,193	-11,123

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	3,709	1,026	-3,193	-11,123
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,449	-3,758	-8,317	-7,101
Treasury bills	550	-2,200	8,000	7,500
Canada Savings Bonds	-51	-74	-530	-652
Other	-5	-1	-12	173
Total	-6,955	-6,033	-859	-80
Foreign currency borrowings	-63	-325	-2,045	-48
Total	-7,018	-6,358	-2,904	-128
Pension and other accounts	-692	321	-1,927	524
<b>Net change in financing activities</b>	-7,710	-6,037	-4,831	396
<b>Change in cash balance</b>	-4,001	-5,011	-8,024	-10,727

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	September 30, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	65,194	-14,190
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	281,144	-7,101
Treasury bills	104,411	111,911	7,500
Canada Savings Bonds	22,584	21,932	-652
Other	3,371	3,544	173
Subtotal	418,611	418,531	-80
Payable in foreign currencies	21,141	21,093	-48
Total unmaturred debt	439,752	439,624	-128
Pension and other accounts			
Public sector pensions	125,708	127,107	1,399
Other employee and veteran future benefit	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	6,427	-666
Other pension and other accounts	9,359	9,138	-221
Total pension and other accounts	181,004	181,516	512
Total interest-bearing debt	620,756	621,140	384
<b>Total liabilities</b>	700,140	686,332	-13,807
<b>Financial assets</b>			
Cash and accounts receivable	62,626	50,251	-12,375
Foreign exchange accounts	48,950	48,782	-168
Loans, investments and advances (net of allowances)	23,748	24,509	761
Total financial assets	135,324	123,542	-11,782
<b>Net debt</b>	564,816	562,790	-2,023
<b>Non-financial assets</b>	54,240	53,796	-444
<b>Federal debt (accumulated deficit)</b>	510,576	508,994	-1,582

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