

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2003: budgetary surplus of \$4.4 billion

There was a budgetary surplus of \$4.4 billion in December 2003, up \$1.7 billion from the restated surplus of \$2.8 billion in December 2002. Typically a surplus is recorded in December, reflecting the inclusion of quarterly personal income tax remittances and final corporate income tax payments from those corporations with a taxation year ending October 31. On a year-over-year basis, budgetary revenues were up \$2.0 billion, as a \$3.3-billion increase in corporate tax revenues offset a decline of \$1.3 billion in other revenue components. Program expenses were \$0.5 billion higher, while public debt charges were \$0.2 billion lower.

### April to December 2003: budgetary surplus of \$5.2 billion

The budgetary surplus is estimated at \$5.2 billion for the April to December 2003 period, down \$1.9 billion from the surplus of \$7.1 billion reported in the same period of 2002–03. Budgetary revenues were up \$2.6 billion, or 2.0 per cent, due to the strength of corporate income taxes. The weakness in other revenue sources reflected the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003, as well as tax reductions announced in previous budgets. Program expenses were up \$5.8 billion, or 6.2 per cent, primarily due to new spending initiatives announced in previous budgets. Public debt charges were down \$1.3 billion, or 4.8 per cent, reflecting lower interest rates.

### December 2003: budgetary results

The December 2003 budgetary surplus of \$4.4 billion was up \$1.7 billion from the \$2.8-billion surplus reported in December 2002, as higher corporate income taxes and lower public debt charges more than offset declines in other revenue sources and higher program expenses.

On a year-over-year basis, budgetary revenues, at \$18.8 billion, were up \$2.0 billion, or 11.9 per cent, led by a \$3.3-billion increase in corporate income taxes.

- Corporate income tax revenues increased by \$3.3 billion to \$5.1 billion, almost triple the level in December 2002. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability.

They have 60 days after their year-end to make settlement payments for any amounts owing. As most of the large financial sector corporations have an October year-end, their improved profitability in 2003 led to large settlement payments in December.

- Personal income tax revenues were up marginally, primarily reflecting slow growth in source deductions.
- Excise taxes and duties decreased by \$0.4 billion, or 11.0 per cent. Goods and services tax (GST) revenues declined \$0.5 billion, or 17.5 per cent. Gross receipts declined for both domestic sales and imported goods, while refunds were up, reflecting timing considerations. Customs import duties were down, while sales and excise taxes were up \$0.1 billion.



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- Employment insurance (EI) premiums were down \$0.3 billion, as the reduction in premium rates offset the increase in employment and thus the number of people paying premiums (the employee rate for 2003 was \$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, were down \$0.5 billion, or 45.4 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in December 2003, at \$11.5 billion, were \$0.5 billion, or 4.9 per cent, higher than in December 2002. Transfer payments were 6.2 per cent higher while other program expenses were up 2.6 per cent.

Transfer payments increased by \$0.4 billion, or 6.2 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up 0.5 per cent. Elderly benefits increased 7.5 per cent due to both higher average benefits, which have risen because of higher inflation earlier in 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were down 9.9 per cent, primarily reflecting a decline 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 8.6 per cent. The year-over-year increase is primarily 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 up 5.3 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the most recent official estimates. The monthly results for 2002–03 reflect final entitlements and prior-year adjustments as recorded in the *Public Accounts*

of Canada 2003. The monthly results for 2003–04 are based on the official estimates as of September 2003.

- Subsidies and other transfers increased \$0.2 billion, or 16.2 per cent, with most of the increase attributable to higher agricultural payments under the Farm Income Protection Act.

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 2.6 per cent, as increases in defence spending and transfers to Crown corporations more than offset a decline in all other departmental and agency expenses. The decline in all other departmental and agency expenses was attributable to one less working day in December 2003 compared to December 2002.

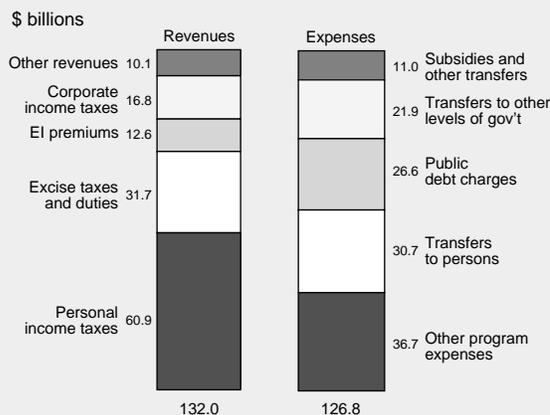
Public debt charges were down 6.0 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## April to December 2003: budgetary results

In the first nine months of the 2003–04 fiscal year, there was a budgetary surplus of \$5.2 billion—a year-over-year deterioration of \$1.9 billion from the surplus of \$7.1 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic

### Revenues and expenses

(April to December 2003)



activity due to a series of shocks that have hit the Canadian economy and the impact of spending initiatives and tax reductions announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$132.0 billion, were up \$2.6 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.9 billion, or 1.4 per cent, due 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 dampened by the impact of tax reduction measures 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 the budget measures.
- Corporate income taxes increased \$3.4 billion, or 25.6 per cent, due to lower refunds and large year-end settlements from the financial sector.
- Excise taxes and duties were down \$1.2 billion, primarily because of a 5.7-per-cent decline in GST revenues. So far this year, weakness in gross receipts from imports has offset the modest growth in gross receipts from domestic sales. Refunds were also up as refunds in 2002 were unusually low because of timing considerations. In the final quarter of the fiscal

year, these timing factors are expected to be unwound so that, for the year as a whole, GST revenues are expected to grow in line with the applicable tax base. Sales and excise taxes were up 3.9 per cent, while customs import duties were lower, reflecting lower imports subject to import duties.

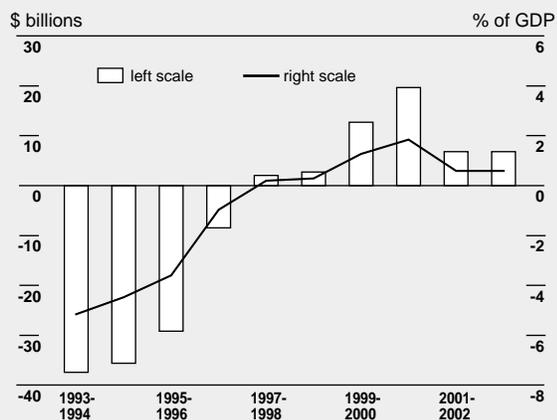
- EI premiums were down 3.7 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 1.1 per cent.

On a year-over-year basis, program expenses in the April to December 2003 period, at \$100.2 billion, were up \$5.8 billion, or 6.2 per cent, over the same period of 2002–03.

Transfer payments increased by \$3.9 billion, or 6.5 per cent.

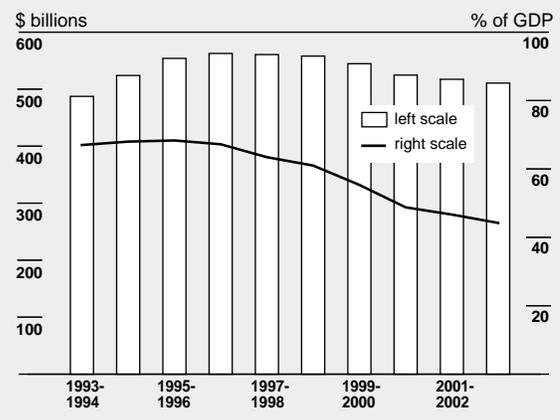
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.3 billion, or 4.5 per cent. Elderly benefits increased 4.9 per cent, while EI benefits were up 3.5 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.2 billion, or 5.7 per cent, primarily reflecting higher entitlements under the CHST program.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Subsidies and other transfers increased by \$1.4 billion, or 14.2 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

Other program expenses increased by \$2.0 billion, or 5.7 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 \$5.7 billion for April to December 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 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.

Non-budgetary transactions resulted in a net requirement of \$10.9 billion in the first nine months of 2003–04, up slightly from the requirement in the same period of 2002–03.

With a budgetary surplus of \$5.2 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial requirement of \$5.7 billion in the April to December 2003 period.

## **Net financing activities down \$1.7 billion**

This financial requirement of \$5.7 billion was financed by a reduction in the Government's cash balances of \$7.4 billion and a decrease of \$1.7 billion in net financing activities, primarily

through a decrease in unmatured debt transactions, particularly in 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 stood at \$7.3 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

	December		April to December	
	2002	2003	2002–03	2003–04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,825	18,832	129,393	131,981
Expenses				
Program expenses	-10,968	-11,507	-94,377	-100,224
Public debt charges	-3,075	-2,890	-27,888	-26,554
Budgetary balance (deficit/surplus) <sup>1</sup>	2,782	4,435	7,128	5,203
Non-budgetary transactions	-3,709	-1,984	-10,714	-10,910
<b>Financial source/requirement</b>	-927	2,451	-3,586	-5,707
<b>Net change in financing activities</b>	-7,473	-7,428	-4,530	-1,711
<b>Net change in cash balances</b>	-8,400	-4,977	-8,116	-7,418
<b>Cash balance at end of period</b>			3,834	7,281

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

<sup>1</sup> Under modified accrual, a surplus of \$2.9 billion was recorded for December 2002.

Table 2

## Budgetary revenues

	December			April to December		
	2002	2003	Change	2002–03	2003–04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	8,600	8,646	0.5	60,002	60,867	1.4
Corporate income tax	1,889	5,148	172.5	13,375	16,805	25.6
Other income tax revenue	256	227	-11.3	1,948	2,024	3.9
Total income tax	10,745	14,021	30.5	75,325	79,696	5.8
Excise taxes and duties						
Goods and services tax	2,937	2,423	-17.5	22,979	21,678	-5.7
Customs import duties	241	223	-7.5	2,409	2,201	-8.6
Sales and excise taxes	801	893	11.5	7,185	7,464	3.9
Air Travellers Security Charge	40	36	-10.0	297	312	5.1
Total excise taxes and duties	4,019	3,575	-11.0	32,870	31,655	-3.7
Total tax revenues	14,764	17,596	19.2	108,195	111,351	2.9
<b>Employment insurance premiums</b>	985	649	-34.1	13,032	12,552	-3.7
<b>Other revenues</b>	1,076	587	-45.4	8,166	8,078	-1.1
<b>Total budgetary revenues</b>	16,825	18,832	11.9	129,393	131,981	2.0

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Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,109	2,268	7.5	19,174	20,123	4.9
Employment insurance benefits	1,408	1,268	-9.9	10,239	10,602	3.5
Total	3,517	3,536	0.5	29,413	30,725	4.5
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,692	9.2	13,950	15,225	9.1
Fiscal transfers	742	781	5.3	8,630	8,551	-0.9
Alternative Payments for Standing Programs	-211	-214	1.4	-1,892	-1,902	0.5
Total	2,081	2,259	8.6	20,688	21,874	5.7
Subsidies and other transfers						
Agriculture	33	432	1209.1	366	956	161.2
Foreign Affairs	197	224	13.7	1,060	1,304	23.0
Health	79	83	5.1	1,051	1,232	17.2
Human Resources Development	201	92	-54.2	1,091	987	-9.5
Indian and Northern Development	348	340	-2.3	2,994	3,187	6.4
Industry and Regional Development	315	190	-39.7	1,330	1,495	12.4
Other	300	351	17.0	1,718	1,814	5.6
Total	1,473	1,712	16.2	9,610	10,975	14.2
Total transfer payments	7,071	7,507	6.2	59,711	63,574	6.5
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	82	72	-12.2	836	881	5.4
Canada Mortgage and Housing Corporation	159	171	7.5	1,419	1,541	8.6
Other	174	229	31.6	1,492	1,733	16.2
Total	415	472	13.7	3,747	4,155	10.9
Defence	909	1,011	11.2	8,275	8,779	6.1
All other departments and agencies	2,573	2,517	-2.2	22,644	23,716	4.7
Total other program expenses	3,897	4,000	2.6	34,666	36,650	5.7
<b>Total program expenses</b>	10,968	11,507	4.9	94,377	100,224	6.2
<b>Public debt charges</b>	3,075	2,890	-6.0	27,888	26,554	-4.8
<b>Total budgetary expenses</b>	14,043	14,397	2.5	122,265	126,778	3.7

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Table 4

## Budgetary balance and financial source/requirement

	December		April to December	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	2,782	4,435	7,128	5,203
<b>Non-budgetary transactions</b>				
Capital investing activities	-138	-88	-1,541	-1,179
Other investing activities	-199	-132	-692	-547
Other activities				
Accounts payable, receivables, accruals and allowances	-4,242	-3,042	-11,428	-13,317
Foreign exchange activities	640	1,063	801	1,965
Amortization of tangible capital assets	230	215	2,146	2,168
Total other activities	-3,372	-1,764	-8,481	-9,184
<b>Total non-budgetary transactions</b>	-3,709	-1,984	-10,714	-10,910
<b>Net financial source/requirement</b>	-927	2,451	-3,586	-5,707

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2002	2003	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	-927	2,451	-3,586	-5,707
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-5,398	-5,136	-8,857	-12,154
Treasury bills	-2,250	-2,650	10,150	12,200
Canada Savings Bonds	-3	12	-1,657	-1,566
Other	-1	-80	-18	91
Total	-7,652	-7,854	-382	-1,429
Foreign currency borrowings	18	66	-2,262	-507
Total	-7,634	-7,788	-2,644	-1,936
Pension and other accounts	161	360	-1,886	225
<b>Net change in financing activities</b>	-7,473	-7,428	-4,530	-1,711
<b>Change in cash balance</b>	-8,400	-4,977	-8,116	-7,418

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	December 31, 2003	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	67,393	-11,991
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	276,091	-12,154
Treasury bills	104,411	116,611	12,200
Canada Savings Bonds	22,584	21,018	-1,566
Other	3,371	3,462	91
Subtotal	418,611	417,182	-1,429
Payable in foreign currencies	21,141	20,634	-507
Total unmaturing debt	439,752	437,816	-1,936
Pension and other accounts			
Public sector pensions	125,708	127,686	1,978
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,503	-1,590
Other pension and other accounts	9,359	9,195	-164
Total pension and other accounts	181,004	181,228	224
Total interest-bearing debt	620,756	619,044	-1,712
<b>Total liabilities</b>	700,140	686,437	-13,704
<b>Financial assets</b>			
Cash and accounts receivable	62,626	56,623	-6,003
Foreign exchange accounts	48,950	46,985	-1,965
Loans, investments and advances (net of allowances)	23,748	24,295	547
Total financial assets	135,324	127,903	-7,421
<b>Net debt</b>	564,816	558,534	-6,281
<b>Non-financial assets</b>	54,240	53,161	-1,079
<b>Federal debt (accumulated deficit)</b>	510,576	505,373	-5,203

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