

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2003: budgetary deficit of \$1.1 billion

There was a budgetary deficit of \$1.1 billion in July 2003, compared to a restated surplus of \$37 million in July 2002. The year-over-year deterioration in the fiscal balance resulted from lower budgetary revenues (down \$0.3 billion), primarily due to lower corporate income tax and goods and services tax (GST) revenues, and higher program expenses (up \$1.0 billion), primarily due to higher departmental and agency operating expenses. Public debt charges were down \$0.2 billion.

April to July 2003: budgetary surplus of \$2.1 billion

The budgetary surplus is estimated at \$2.1 billion for the April to July 2003 period, down \$1.3 billion from the surplus of \$3.5 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 shocks. It also reflects the new spending initiatives and tax reductions announced in recent budgets. Among the major components, budgetary revenues were up \$1.2 billion, or 2.0 per cent, program expenses were up \$3.3 billion, or 7.9 per cent, while public debt charges were down \$0.8 billion, or 6.2 per cent.

July 2003: budgetary results

The budgetary balance decreased by \$1.1 billion, from a surplus of \$37 million in July 2002 to a deficit of \$1.1 billion in July 2003. Budgetary revenues, at \$13.5 billion, were down \$0.3 billion, or 2.0 per cent, primarily reflecting lower GST and corporate income tax revenues.

- Excise taxes and duties decreased by \$0.5 billion or 13.7 per cent, with all components lower. GST revenues declined \$0.4 billion, or 15.6 per cent, unwinding the large year-over-year increase reported last month. On a monthly basis, cash received is used as a proxy for the accrual numbers, with adjustments made at year-end. Customs import duties declined 8.7 per cent due to lower imports, while sales and excise tax revenues declined by 7.0 per cent, primarily reflecting lower revenues from motive fuel taxes.
- Corporate income tax revenues were down \$0.3 billion, or 23.1 per cent. The year-over-year decline is entirely attributable to higher

refunds as instalment payments were up slightly. As noted in the 2003 budget, the data to convert corporate 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.

- Personal income tax revenues increased \$0.3 billion, or 4.7 per cent, due to higher tax remittances from employment income, reflecting the increase in the number of employed.
- Employment insurance (EI) premiums were marginally higher, as the increase in employment, and therefore in the number of Canadians paying premiums, largely offset 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 and from sales of goods and services and foreign exchange revenues, increased 11.0 per cent, reversing part of the year-over-year decline in the previous month.



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On a year-over-year basis, program expenses in July 2003 were \$1.0 billion, or 9.4 per cent, higher than in July 2002. All major components were higher except transfers to persons.

Transfer payments increased by \$0.2 billion, or 2.2 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$41 million, or 1.2 per cent, due to lower EI benefit payments, down \$162 million, or 13.5 per cent. This year-over-year decline in EI benefit payments primarily reflects the timing of payments between June and July. Elderly benefits increased \$121 million, or 5.8 per cent, due to an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation.
- 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 \$86 million, or 3.6 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 \$107 million, or 9.3 per cent, primarily reflecting the impact of budget measures.

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 \$0.8 billion, or 22.7 per cent, reflecting the impact of increased operating costs as well as policy initiatives announced in previous budgets.

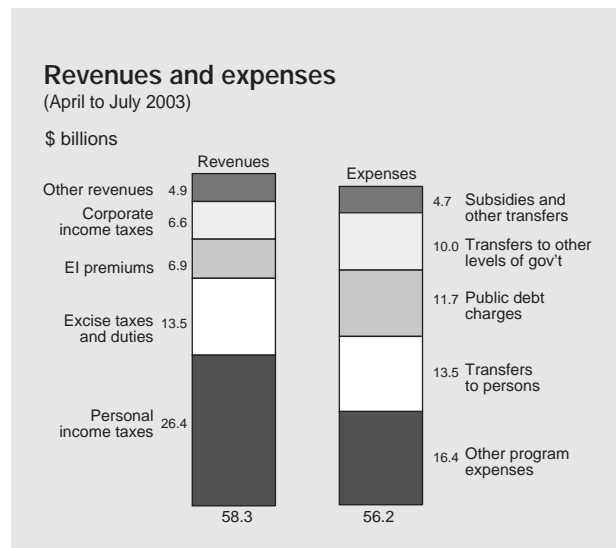
Public debt charges were down \$0.2 billion, or 5.1 per cent, due to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

April to July 2003: budgetary results

In the first four months of the 2003–04 fiscal year, there was a budgetary surplus of \$2.1 billion—a year-over-year deterioration of \$1.3 billion from the surplus of \$3.5 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 \$1.2 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.5 billion, or 2.0 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 4.2 per cent, reflecting higher instalment payments, which are broadly in line with the growth in corporate profits.



- Excise taxes and duties increased \$0.2 billion, or 1.2 per cent, as all components except customs import duties were higher. GST revenues were up \$0.3 billion, or 2.9 per cent, reflecting weakness in the underlying tax base, while sales and excise taxes were up marginally. The decrease in customs import duties reflects lower imports subject to import duties.
- EI premiums were virtually unchanged, as the reduction in premium rates virtually offset the impact of the increase in the number of people employed.
- Other revenues were up 2.1 per cent.

On a year-over-year basis, program expenses in the April to July 2003 period were up \$3.3 billion, or 7.9 per cent, over the same period last year.

Transfer payments increased by \$1.4 billion, or 5.4 per cent.

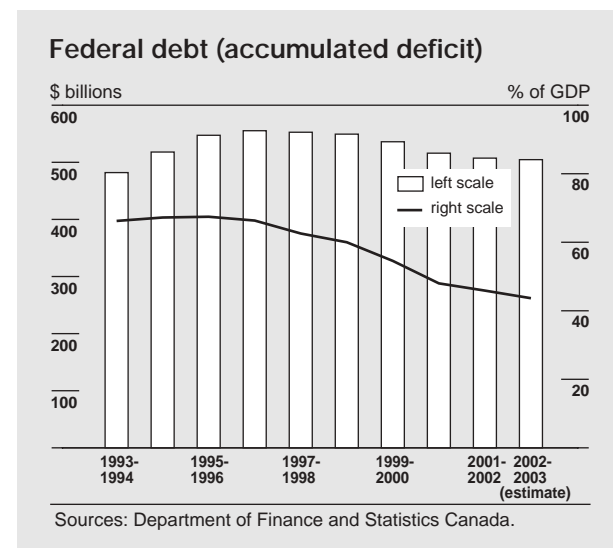
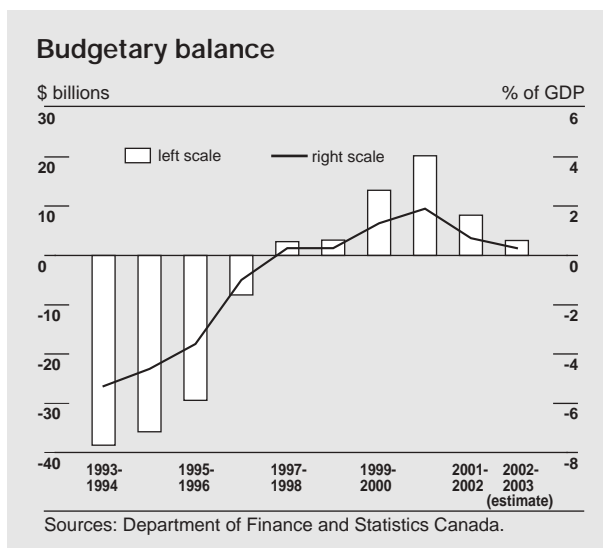
- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion, or 2.2 per cent. Elderly benefits increased 4.1 per cent while EI benefits were down 1.4 per cent.
- Major transfers to other levels of government increased by \$0.5 billion, or 5.0 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.7 billion, or 17.1 per cent, primarily reflecting the impact of budget measures.

Other program expenses increased by \$1.8 billion, or 12.5 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 \$11.9 billion for April to July 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.



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Non-budgetary transactions resulted in a net requirement of \$14.0 billion in the first four months of 2003–04, up \$4.3 billion from the requirement in the same period last year. This increase 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 \$2.1 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement of \$11.9 billion in the April to July 2003 period, up \$5.6 billion from the same period last year.

Net financing activities up \$0.6 billion

This financial requirement of \$11.9 billion was financed by a reduction in the Government's cash balances of \$11.3 billion and an increase of \$0.6 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 July stood at \$3.4 billion.

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Table 1

Summary statement of transactions

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary transactions				
Revenues	13,770	13,490	57,123	58,291
Expenses				
Program expenses	10,524	-11,516	-41,232	-44,497
Public debt charges	3,209	-3,045	-12,439	-11,666
Budgetary balance (deficit/surplus) ¹	37	-1,071	3,452	2,128
Non-budgetary transactions	2,195	-428	-9,718	-13,980
Financial source/requirement	2,232	-1,499	-6,266	-11,852
Net change in financing activities	-4,259	280	-2,730	550
Net change in cash balances	-2,027	-1,219	-8,996	-11,302
Cash balance at end of period			2,955	3,395

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

¹ Under modified accrual, a deficit of \$128 million was recorded for July 2002.

Table 2

Budgetary revenues

	July			April to July		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,403	6,706	4.7	25,899	26,413	2.0
Corporate income tax	1,119	861	-23.1	6,324	6,592	4.2
Other income tax revenue	306	393	28.4	837	982	17.3
Total income tax	7,828	7,960	1.7	33,060	33,987	2.8
Excise taxes and duties						
Goods and services tax	2,556	2,157	-15.6	9,159	9,425	2.9
Customs import duties	230	210	-8.7	1,032	879	-14.8
Sales and excise taxes	781	726	-7.0	3,066	3,072	0.2
Air Travellers Security Charge	34	15	-55.9	110	147	33.6
Total excise taxes and duties	3,601	3,108	-13.7	13,367	13,523	1.2
Total tax revenues	11,429	11,068	-3.2	46,427	47,510	2.3
Employment insurance premiums	1,647	1,652	0.3	6,887	6,893	0.1
Other revenues	694	770	11.0	3,809	3,888	2.1
Total budgetary revenues	13,770	13,490	-2.0	57,123	58,291	2.0

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Table 3

Budgetary expenses

	July		Change	April to July		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,093	2,214	5.8	8,498	8,847	4.1
Employment insurance benefits	1,198	1,036	-13.5	4,671	4,607	-1.4
Total	3,291	3,250	-1.2	13,169	13,454	2.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	6,200	6,766	9.1
Fiscal transfers	1,042	988	-5.2	4,137	3,991	-3.5
Alternative Payments for Standing Programs	-210	-211	0.5	-841	-784	-6.8
Total	2,382	2,468	3.6	9,496	9,973	5.0
Subsidies and other transfers						
Agriculture	44	27	-38.6	107	46	-57.0
Foreign Affairs	208	159	-23.6	421	593	40.9
Health	175	191	9.1	499	517	3.6
Human Resources Development	96	85	-11.5	371	427	15.1
Indian and Northern Development	305	312	2.3	1,468	1,564	6.5
Industry and Regional Development	136	179	31.6	453	613	35.3
Other	192	310	61.5	679	923	35.9
Total	1,156	1,263	9.3	3,998	4,683	17.1
Total transfer payments	6,829	6,981	2.2	26,663	28,110	5.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	75	51	-32.0	407	417	2.5
Canada Mortgage and Housing Corporation	153	166	8.5	642	737	14.8
Other	194	192	-1.0	670	737	10.0
Total	422	409	-3.1	1,719	1,891	10.0
Defence	801	969	21.0	3,411	3,522	3.3
All other departments and agencies	2,472	3,157	27.7	9,439	10,974	16.3
Total other program expenses	3,695	4,535	22.7	14,569	16,387	12.5
Total program expenses	10,524	11,516	9.4	41,232	44,497	7.9
Public debt charges	3,209	3,045	-5.1	12,439	11,666	-6.2
Total budgetary expenses	13,733	14,561	6.0	53,671	56,163	4.6

Table 4

The budgetary balance and financial requirement/source

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary balance (deficit/surplus)	37	-1,071	3,452	2,128
Non-budgetary transactions				
Capital investing activities	-402	-241	-561	-57
Other investing activities	-1	144	100	0
Other activities				
Accounts payable, receivables, accruals and allowances	849	-747	-9,876	-14,639
Foreign exchange activities	1,557	205	-165	412
Amortization of tangible capital assets	192	211	784	824
Total other activities	2,598	-331	-9,257	-13,403
Total non-budgetary transactions	2,195	-428	-9,718	-13,980
Net financial source/requirement	2,232	-1,499	-6,266	-11,852

Table 5

Net financial balance and net borrowings

	July		April to July	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Net financial source/requirement	2,232	-1,499	-6,266	-11,852
Net increase (+)/decrease (-) in financing activities				
Canadian currency borrowings				
Marketable bonds	-29	-1,729	-6,081	-4,794
Treasury bills	-1,850	2,900	6,850	5,800
Canada Savings Bonds	-91	-99	-403	-489
Other	0	-2	-8	176
Total	1,970	1,070	358	693
Foreign currency borrowings	-1,738	-82	-1,987	-235
Total	-3,708	988	-1,629	458
Pension and other accounts	-551	-708	-1,101	92
Net change in financing activities	-4,259	280	-2,730	550
Change in cash balance	-2,027	-1,219	-8,996	-11,302

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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.