

The Fiscal Monitor

A Publication of the Department of Finance

Note to readers

Beginning with this *Fiscal Monitor*, the financial results will be presented on full accrual 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 the recognition of non-financial, or capital, assets. Tax revenues are now primarily 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.

Budgetary surplus of \$0.4 billion in April 2003

There was a budgetary surplus of \$0.4 billion in April 2003, up from a restated deficit of \$0.2 billion in April 2002. This \$0.6-billion year-over-year improvement in the budgetary balance was attributable to higher budgetary revenues (up \$1.1 billion) and lower public debt charges (down \$0.2 billion), offset in part by higher program expenses (up \$0.7 billion).

The increase in budgetary revenues, on a year-over-year basis, was due primarily to higher goods and services and corporate income tax revenues.

- Goods and services tax revenues were up \$0.5 billion, or 25.0 per cent, reflecting both an increase in the base subject to taxation and lower refunds.

- Corporate income tax revenues were up \$0.4 billion, or 29.4 per cent, attributable to higher installment payments—reflecting the strong growth in corporate profits in 2003—and lower refunds. As noted in the 2003 budget, the data to convert corporate tax revenues to accruals 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.
- Among the remaining major revenue components, personal income tax collections were up marginally (\$0.1 billion, or 1.9 per cent), as employment, and therefore the number of Canadians paying taxes, was up over last year. Employment insurance premiums were marginally higher, also attributable to the increase in employment, which more than 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).



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On a year-over-year basis, the \$0.7-billion increase in program expenses was largely due to higher transfer payments, up \$0.5 billion.

Among the major transfers:

- Major transfers to persons were up \$0.1 billion, or 3.3 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to higher regular benefits, reflecting an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.2 billion, or 7.4 per cent, primarily attributable to higher cash transfers under the Canada Health and Social Transfer, 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.
- Subsidies and other transfers increased by \$0.2 billion, primarily reflecting higher international assistance transfers.

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 \$0.2 billion, or 6.2 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 6.0 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

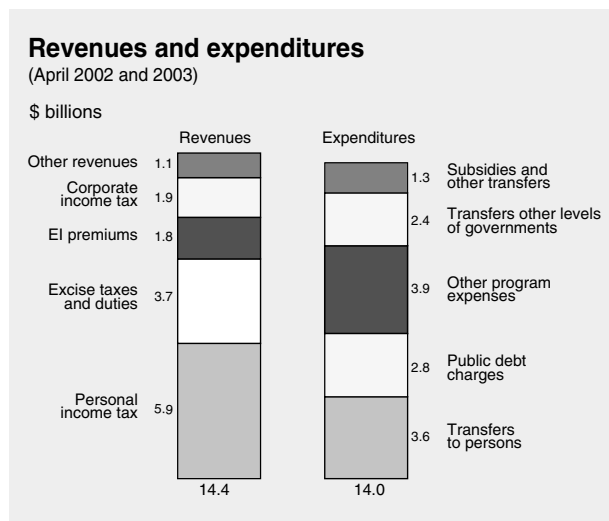
Financial requirement of \$4.9 billion in April 2003

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, 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 paying accounts payable and collecting accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirements is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.3 billion in April 2003, down \$0.3 billion from the requirement in April 2002. Traditionally, there is a large requirement in the month of April, primarily reflecting the payment of accounts payable.

With a budgetary surplus of \$0.4 billion and a net requirement of \$5.3 billion from non-budgetary transactions, there was a financial requirement of \$4.9 billion in April 2003, down \$0.3 billion from April 2002.

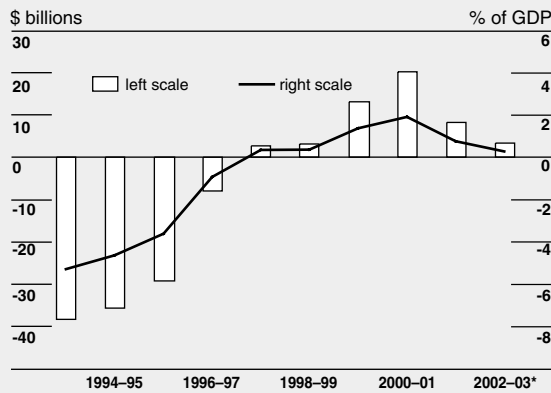


Net financing activities down \$4.3 billion

This financial requirement of \$4.9 billion was financed by a draw down in cash balances. In addition, the Government reduced its cash balances by a further \$4.3 billion to lower its interest-bearing debt. Cash balances at the end of April 2003 stood at \$5.5 billion, down \$9.1 billion from the previous period. The level of cash

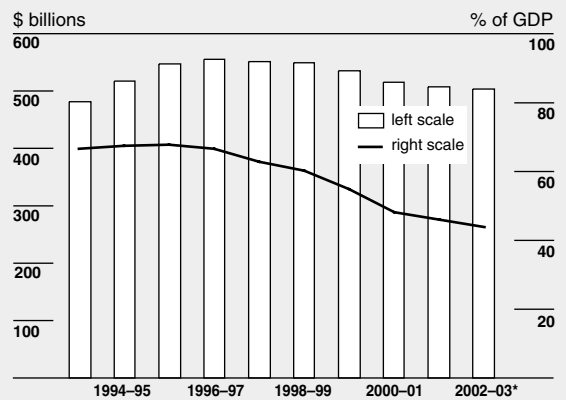
balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: Department of Finance and Statistics Canada.
*Assumes budgetary surplus of \$3 billion.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.
*Assumes budgetary surplus of \$3 billion.

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Table 1

Summary statement of transactions

	April	
	2002	2003
	(\$ millions)	
Budgetary transactions		
Revenues	13,349	14,438
Expenses		
Program expenses	-10,506	-11,192
Public debt charges	-3,002	-2,822
Budgetary balance (deficit/surplus) ¹	-159	424
Non-budgetary transactions	-5,034	-5,294
Financial source/requirements	-5,193	-4,870
Net change in financing activities	-1,095	-4,287
Net change in cash balances	-6,288	-9,157
Cash balance at end of period	5,661	5,543

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

¹ Under modified accrual, a surplus of \$0.9 billion was recorded for April 2002.

Table 2

Budgetary revenues

	April		Change (%)
	2002	2003	
	(\$ millions)		
Tax Revenues			
Income taxes			
Personal income tax	5,811	5,920	1.9
Corporate income tax	1,447	1,873	29.4
Other income tax revenue	183	289	57.9
Total income tax	7,441	8,082	8.6
Excise taxes and duties			
Goods and services tax	2,182	2,728	25.0
Customs import duties	257	243	-5.4
Sales and excise taxes	705	733	4.0
Air Travellers Security Charge	27	45	66.7
Total excise taxes and duties	3,171	3,749	18.2
Total tax revenues	10,612	11,831	11.5
Employment insurance premium	1,760	1,771	0.6
Other revenues	977	836	-14.4
Total budgetary revenues	13,349	14,438	8.2

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Table 3

Budgetary expenditures

	April		Change (%)
	2002 (\$ millions)	2003	
Transfer payments to:			
Persons			
Elderly benefits	2,114	2,201	4.1
Employment insurance benefits	1,402	1,431	2.1
Total	3,516	3,632	3.3
Other levels of government			
Canada Health and Social Transfer	1,550	1,692	9.2
Fiscal transfers	877	879	0.2
Alternative Payments for Standing Programs	-210	-191	-9.0
Total	2,217	2,380	7.4
Subsidies and other transfers			
Agriculture	16	4	-75.0
Foreign Affairs	41	199	385.4
Health	110	95	-13.6
Human Resources Development	70	134	91.4
Indian and Northern Development	609	600	-1.5
Industry and Regional Development	109	100	-8.3
Other	184	187	1.6
Total	1,139	1,319	15.8
Total transfer payments	6,872	7,331	6.7
Other program expenses			
Crown corporation expenses			
Canadian Broadcasting Corporation	182	178	-2.2
Canada Mortgage and Housing Corporation	171	205	19.9
Other	225	257	14.2
Total	578	640	10.7
Defence	789	815	3.3
All other departments and agencies	2,267	2,406	6.1
Total direct program spending	3,634	3,861	6.2
Total program expenses	10,506	11,192	6.5
Public debt charges	3,002	2,822	-6.0
Total budgetary expenditures	13,508	14,014	3.7

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Table 4

The budgetary balance and financial source/requirement

	April	
	2002	2003
	(\$ millions)	
Budgetary balance (deficit/surplus)	-159	424
Non-budgetary transactions		
Capital investing activities	-20	-22
Other investing activities	-72	-213
Other activities		
Accounts payable, receivables, accruals, and allowances	-4,321	-5,161
Foreign exchange activities	-835	-106
Amortization of tangible capital assets	214	208
Total other activities	-4,942	-5,059
Total non-budgetary transactions	-5,034	-5,294
Net financial source/requirement	-5,193	-4,870

Table 5

Financial source/requirement and net financing activities

	April	
	2002	2003
	(\$ millions)	
Net financial source/requirement	-5,193	-4,870
Net increase (+)/decrease (-) in financing activities		
Canadian currency borrowings		
Marketable bonds	-5,200	-1,054
Treasury bills	4,300	-3,500
Canada Savings Bonds	-57	-94
Other	0	0
Total	-957	-4,648
Foreign currency borrowings	17	-51
Pension and other accounts	-155	412
Net change in financing activities	-1,095	-4,287
Change in cash balance	-6,288	-9,157

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