

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2003: budgetary surplus of \$2.6 billion

There was a budgetary surplus of \$2.6 billion in June 2003, compared to a restated surplus of \$3.8 billion in June 2002. Large surpluses have typically been recorded in June, primarily reflecting the inclusion of personal income tax instalments from quarterly filers. The year-over-year decline in the budgetary balance of \$1.2 billion is attributable to lower budgetary revenues (down \$0.5 billion) and higher program expenses (up \$0.9 billion), partially offset by lower public debt charges (down \$0.2 billion).

April to June 2003: budgetary surplus of \$3.2 billion

The budgetary surplus is estimated at \$3.2 billion for the April to June 2003 period, down \$0.2 billion from the surplus of \$3.4 billion reported in the same period of 2002–03. Among the major components, budgetary revenues were up \$1.5 billion, program expenses were up \$2.3 billion while public debt charges were \$0.6 billion lower.

June 2003: budgetary results

The June 2003 budgetary surplus is estimated at \$2.6 billion, down \$1.2 billion from June 2002. Budgetary revenues, at \$16.5 billion, were down \$0.5 billion, or 3.0 per cent, primarily reflecting lower corporate income tax and other revenues.

- Personal income tax revenues increased 0.3 per cent. The June results include quarterly instalment payments, primarily from the self-employed and pensioners. These payments were slightly lower this year, primarily reflecting lower interest and dividend income. This was more than offset by higher tax remittances from employment income, reflecting the increase in the number of people employed.
- Corporate income tax revenues were down \$0.5 billion, or 22.1 per cent, down sharply from the strong year-over-year gains reported in each of the previous two months. The year-over-year decline is attributable to lower instalment payments and higher refunds. 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.

- Excise taxes and duties increased by \$0.3 billion or 9.2 per cent, primarily reflecting higher goods and services tax (GST) revenues, up \$0.4 billion or 16.3 per cent, largely due to timing factors. On a monthly basis, cash received is used as a proxy for the accrual numbers, with adjustments made at year-end.
- Employment insurance (EI) premiums were marginally lower due to 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 sales of goods and services and foreign exchange revenues, declined \$0.3 billion, or 22.8 per cent.

On a year-over-year basis, program expenses in June 2003 were \$0.9 billion, or 9.1 per cent, higher than in June 2002. All major components were higher, with the exception of defence spending.



The Fiscal Monitor

Transfer payments increased by \$0.5 billion, or 8.5 per cent, on a year-over-year basis.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$149 million, or 4.8 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 is attributable to higher regular benefits, 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 \$106 million, or 4.4 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, and lower recoveries under the Alternative Payments for Standing Programs. 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 \$286 million, 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 \$0.4 billion, or 10.1 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 7.3 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 June 2003: budgetary results

In the first three months of the 2003–04 fiscal year, there was a budgetary surplus of \$3.2 billion—a year-over-year deterioration of \$0.2 billion from the surplus of \$3.4 billion reported in the same period last year.

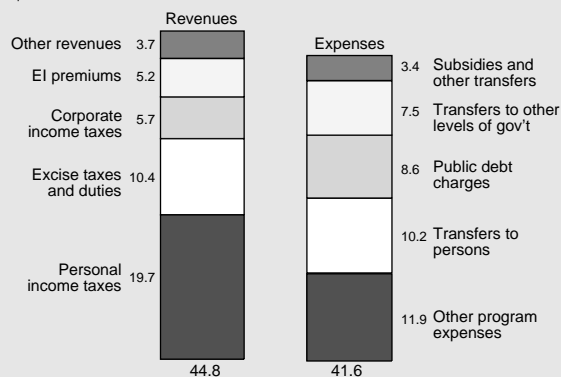
On a year-over-year basis, budgetary revenues were up \$1.5 billion, or 3.3 per cent.

- Personal income tax revenues were up \$0.2 billion, or 1.1 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.
- Corporate income taxes were up \$0.5 billion, or 10.1 per cent, due to higher instalment payments—reflecting the strong growth in corporate profits in 2003—and lower refunds. Lower tax rates, as announced in previous budgets, dampened the overall increase.
- Excise taxes and duties increased \$0.7 billion, or 6.7 per cent, as all components, with the exception of customs import duties, were higher. GST revenues were up \$0.7 billion, or 10.1 per cent, primarily attributable to an increase in gross collections, reflecting continued strong consumer demand and somewhat lower refunds.

Revenues and expenses

(April to June 2003)

\$ billions



- EI premiums were virtually unchanged, as the reduction in premium rates offset the impact of the increase in the number of people employed.
- Other revenues were also virtually unchanged.

On a year-over-year basis, program expenses in the April to June 2003 period were up \$2.3 billion, or 7.4 per cent, over the same period last year.

Transfer payments increased by \$1.3 billion, or 6.5 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.3 billion or 3.3 per cent, with increases in both components.
- Major transfers to other levels of government increased by \$0.4 billion, or 5.5 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$0.6 billion, or 20.5 per cent, primarily reflecting the impact of budget measures.

Other program expenses increased by \$1.0 billion, or 9.0 per cent. Within this component, defence spending was lower, reflecting higher security-related spending in the first part of 2002–03. The increases in Crown corporation expenses and in all other departmental and agency program expenses were primarily due to the impact of increased operating costs as well as policy initiatives announced in previous budgets.

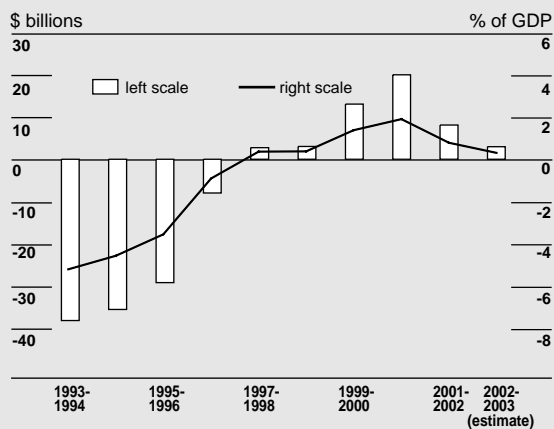
Financial requirement of \$10.4 billion for April to June 2003

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.

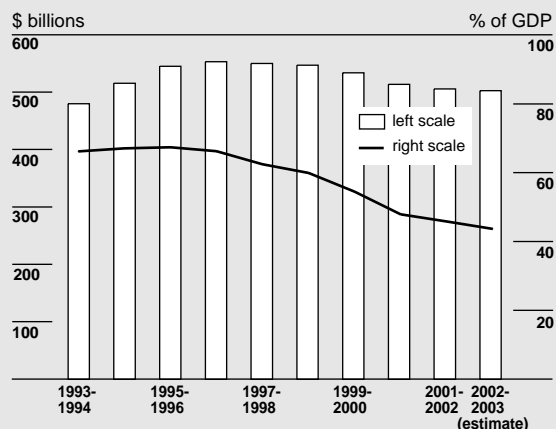
Non-budgetary transactions resulted in a net requirement of \$13.6 billion in the first three months of 2003–04, up \$1.6 billion from the requirement in the same period last year. This increase primarily reflects cash transfers to the trust funds established in the 2003 budget for the CHST cash supplement (\$2.5 billion) and the

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

Diagnostic/Medical Equipment Fund (\$1.5 billion). The impact of these payments was somewhat offset by a lower requirement from foreign exchange activities than in the same period last year. The liability for these trust transfers was established in 2002–03 and affected the budgetary balance in that year. Therefore the cash payments had no impact on the June 2003 budgetary balance.

With a budgetary surplus of \$3.2 billion and a net requirement of \$13.6 billion from non-budgetary transactions, there was a financial requirement of \$10.4 billion in the April to June 2003 period, up \$1.9 billion from the same period last year.

Net financing activities up \$0.3 billion

This financial requirement of \$10.4 billion was financed by a reduction in the Government's cash balances of \$10.1 billion and an increase of \$0.3 billion in net financing activities through an increase in liabilities to the pension and other accounts. Unmatured debt transactions, in both Canadian and foreign currency borrowing, were lower. 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 June stood at \$4.6 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	June		April to June	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary transactions				
Revenues	16,969	16,458	43,351	44,801
Expenses				
Program expenses	-10,024	-10,935	-30,706	-32,982
Public debt charges	-3,142	-2,914	-9,231	-8,621
Budgetary balance (deficit/surplus) ¹	3,803	2,609	3,414	3,198
Non-budgetary transactions	-7,512	-9,757	-11,912	-13,553
Financial source/requirement	-3,709	-7,148	-8,498	-10,355
Net change in financing activities	-4,167	-3,225	1,526	272
Net change in cash balances	-7,876	-10,373	-6,972	-10,083
Cash balance at end of period			4,979	4,621

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

¹ Under modified accrual, a surplus of \$4.0 billion was recorded for June 2002.

Table 2

Budgetary revenues

	June		Change	April to June		Change
	2002	2003		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	8,365	8,391	0.3	19,496	19,706	1.1
Corporate income tax	2,149	1,674	-22.1	5,205	5,731	10.1
Other income tax revenue	163	95	-41.7	532	589	10.7
Total income tax	10,677	10,160	-4.8	25,233	26,026	3.1
Excise taxes and duties						
Goods and services tax	2,209	2,570	16.3	6,602	7,268	10.1
Customs import duties	314	216	-31.2	802	669	-16.6
Sales and excise taxes	762	819	7.5	2,285	2,345	2.6
Air Travellers Security Charge	48	36	-25.0	75	132	76.0
Total excise taxes and duties	3,333	3,641	9.2	9,764	10,414	6.7
Total tax revenues	14,010	13,801	-1.5	34,997	36,440	4.1
Employment insurance premiums	1,729	1,708	-1.2	5,240	5,241	0.0
Other revenues	1,230	949	-22.8	3,114	3,120	0.2
Total budgetary revenues	16,969	16,458	-3.0	43,351	44,801	3.3

The Fiscal Monitor

Table 3

Budgetary expenses

	June			April to June		
	2002	2003	Change	2002-03	2003-04	Change
	(\$ millions)			(\$ millions)		
	(%)			(%)		
Transfer payments to:						
Persons						
Elderly benefits	2,132	2,224	4.3	6,406	6,633	3.5
Employment insurance benefits	1,001	1,058	5.7	3,472	3,571	2.9
Total	3,133	3,282	4.8	9,878	10,204	3.3
Other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	4,650	5,075	9.1
Fiscal transfers	1,056	1,002	-5.1	3,096	3,004	-3.0
Alternative Payments for Standing Programs	-210	-191	-9.0	-630	-573	-9.0
Total	2,396	2,502	4.4	7,116	7,506	5.5
Direct program expenses						
Subsidies and other transfers						
Agriculture	7	12	71.4	64	19	-70.3
Foreign Affairs	88	137	55.7	213	435	104.2
Health	82	80	-2.4	324	326	0.6
Human Resources Development	95	110	15.8	275	341	24.0
Indian and Northern Development	300	343	14.3	1,163	1,252	7.7
Industry and Regional Development	148	204	37.8	317	434	36.9
Other	125	245	96.0	484	615	27.1
Total	845	1,131	33.8	2,840	3,422	20.5
Total transfer payments	6,374	6,915	8.5	19,834	21,132	6.5
Other program expenses:						
Crown corporation expenses						
Canadian Broadcasting Corporation	74	102	37.8	332	366	10.2
Canada Mortgage and Housing Corporation	159	152	-4.4	489	570	16.6
Other	116	120	3.4	476	546	14.7
Total	349	374	7.2	1,297	1,482	14.3
Defence	979	915	-6.5	2,608	2,552	-2.1
All other departments and agencies	2,322	2,731	17.6	6,967	7,816	12.2
Total other program expenses	3,650	4,020	10.1	10,872	11,850	9.0
Total program expenses	10,024	10,935	9.1	30,706	32,982	7.4
Public debt charges	3,142	2,914	-7.3	9,231	8,621	-6.6
Total budgetary expenses	13,166	13,849	5.2	39,937	41,603	4.2

The Fiscal Monitor

Table 4

The budgetary balance and financial requirement/source

	June		April to June	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,803	2,609	3,414	3,198
Non-budgetary transactions				
Capital investing activities	-146	-191	-337	-398
Other investing activities	108	-21	101	-145
Other activities				
Accounts payable, receivables, accruals and allowances	-6,911	-10,173	-10,557	-13,841
Foreign exchange activities	-757	420	-1,721	207
Amortization of tangible capital assets	194	208	602	624
Total other activities	-7,474	-9,545	-11,676	-13,010
Total non-budgetary transactions	-7,512	-9,757	-11,912	-13,553
Net financial source/requirement	-3,709	-7,148	-8,498	-10,355

Table 5

Net financial balance and net borrowings

	June		April to June	
	2002	2003	2002-03	2003-04
	(\$ millions)			
Net financial source/requirement	-3,709	-7,148	-8,498	-10,355
Net increase (+)/decrease (-) in financing activities				
Canadian currency borrowings				
Marketable bonds	-3,897	-3,705	-6,053	-3,065
Treasury bills	700	400	8,700	2,900
Canada Savings Bonds	-161	-158	-312	-390
Other	-6	182	-8	177
Total	-3,364	-3,281	2,327	-378
Foreign currency borrowings	-55	80	-249	-152
Total	-3,419	-3,201	2,078	-530
Pension and other accounts	-748	-24	-552	802
Net change in financing activities	-4,167	-3,225	1,526	272
Change in cash balance	-7,876	-10,373	-6,972	-10,083

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.