

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2004: budgetary surplus of \$346 million

There was a budgetary surplus of \$346 million in January 2004, up \$257 million from the restated surplus of \$89 million in January 2003. On a year-over-year basis, budgetary revenues were up \$284 million, while program expenses were up \$171 million. Public debt charges were \$144 million lower.

April 2003 to January 2004: budgetary surplus of \$5.5 billion

The budgetary surplus is estimated at \$5.5 billion for the April 2003 to January 2004 period, down \$1.7 billion from the surplus of \$7.2 billion reported in the same period of 2002–03. On a year-over-year basis, budgetary revenues were up \$2.9 billion or 2.0 per cent, due primarily to the strength of personal and corporate income taxes, offset to some extent by lower excise taxes and duties. The overall weakness in revenue growth this year reflects the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$6.0 billion, or 5.7 per cent, primarily due to new spending initiatives announced in recent budgets and higher operating costs. Public debt charges were down \$1.5 billion, or 4.8 per cent, reflecting lower interest rates.

January 2004: budgetary results

The January 2004 budgetary surplus of \$346 million was up \$257 million from the \$89-million surplus reported in January 2003, as higher 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 \$14.6 billion, were up \$0.3 billion, or 2.0 per cent.

- Personal income tax revenues were up \$0.2 billion or 3.4 per cent, primarily reflecting growth in source deductions due to growth in employment and personal income.
- Corporate income tax revenues increased by \$0.3 billion, or 17.4 per cent, to \$1.9 billion due to an increase in gross receipts.
- Excise taxes and duties decreased by \$0.2 billion, or 6.2 per cent, with all components lower. Goods and services tax (GST) revenues declined \$0.1 billion, or 5.6 per cent. Although refunds were down sharply, gross receipts were also down for

both domestic sales and imported goods as a result of the weakness in retail sales in December. Customs import duties were down 19.3 per cent, while sales and excise taxes were down 3.3 per cent.

- Employment insurance (EI) premiums were down 2.2 per cent, as the reduction in premium rates (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003) offset the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$0.1 billion or 13.2 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in January 2004, at \$11.3 billion, were \$0.2 billion, or 1.5 per cent, higher than in January 2003. Transfer payments were 0.5 per cent higher while other program expenses were up 3.8 per cent.



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Transfer payments were up 0.5 per cent, on a year-over-year basis, as increases in transfers to persons and other levels of government were largely offset by declines in subsidies and other transfers.

- Major transfers to persons, consisting of elderly and EI benefits, were up 3.3 per cent. Elderly benefits increased 4.0 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 2.3 per cent, primarily reflecting an increase in average benefits.
- 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 9.2 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 7.4 per cent. Equalization entitlements, the largest component of fiscal transfers, are based on the official estimates as of September 2003. The February 2004 results will reflect the recently revised estimates for 2003–04.
- Subsidies and other transfers decreased \$0.3 billion, or 14.2 per cent, led by decreases in agricultural subsidies, transfers to Aboriginals and industrial and regional development transfers. The year-over-year decline primarily reflects the timing of payments.

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 3.8 per cent, as increases in defence spending and all other departmental and agency expenses more than offset a decline in overall transfers to Crown corporations.

Public debt charges were down 4.6 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

April 2003 to January 2004: budgetary results

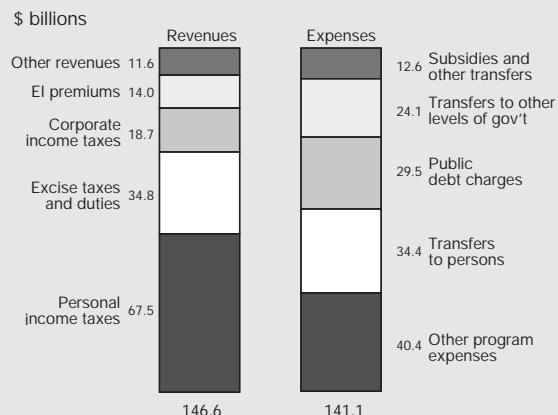
In the first 10 months of the 2003–04 fiscal year, there was a budgetary surplus of \$5.5 billion—a year-over-year deterioration of \$1.7 billion from the surplus of \$7.2 billion reported in the same period of 2002–03. The lower surplus reflects the impact on revenues of the weakness in economic activity 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 \$146.6 billion, were up \$2.9 billion, or 2.0 per cent.

- Personal income tax revenues were up \$1.1 billion, or 1.6 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. This was dampened by the impact of tax reduction measures announced in previous budgets. In addition, the growth in personal income tax revenues was affected by moderate growth in personal income. Personal income advanced 2.7 per cent in 2003, down from 3.3 per cent in 2002, reflecting the impact of the shocks that hit the Canadian economy in 2003. On balance, the growth in personal income taxes to date is in line with the growth in personal income, adjusted for the impact of the tax reduction measures announced in previous budgets.

Revenues and expenses

(April 2003 to January 2004)



- Corporate income taxes increased \$3.7 billion, or 24.8 per cent, due to the strong increase in corporate profits in 2003 and lower refunds. Corporate profits advanced 10.1 per cent in 2003, up from an increase of 4.3 per cent in 2002.
- Excise taxes and duties were down \$1.4 billion. On a year-over-year basis, GST revenues fell 5.6 per cent, reflecting declines in gross GST receipts from imports and weakness in gross receipts from domestic sales. In addition, rebates are up strongly, reflecting strong growth in residential construction and increased spending in the municipal, university and hospital sector. Sales and excise taxes were up 3.2 per cent, while customs import duties were down 9.7 per cent, reflecting lower imports subject to import duties.
- EI premiums were down 3.5 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 up 0.4 per cent.

On a year-over-year basis, program expenses in the April 2003 to January 2004 period were up \$6.0 billion, or 5.7 per cent, over the same period of 2002–03.

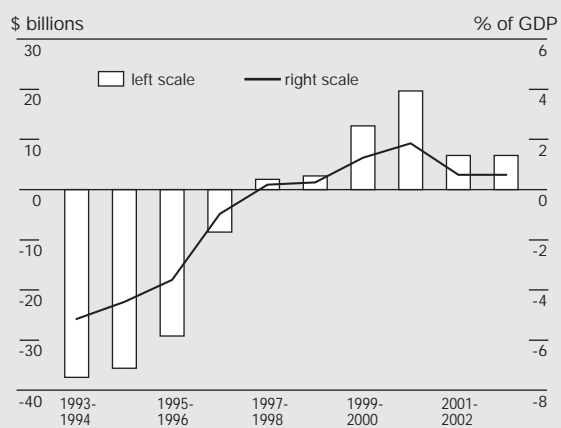
Transfer payments increased by \$3.9 billion, or 5.8 per cent.

- Major transfers to persons were up \$1.4 billion, or 4.3 per cent. Elderly benefits increased 4.9 per cent, while EI benefits were up 3.4 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 \$1.4 billion, or 6.1 per cent, primarily reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.1 billion, or 9.4 per cent, primarily reflecting the impact of budget measures and increased assistance to farmers.

Other program expenses increased by \$2.1 billion, or 5.6 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.

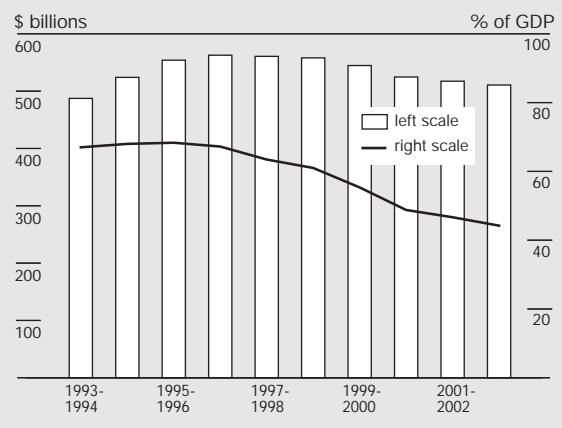
Public debt charges were down 4.8 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Financial requirement of \$3.1 billion for April 2003 to January 2004

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 \$8.7 billion in the first 10 months of 2003–04, up \$0.3 billion from the requirement in the same period of 2002–03. Accounts payable, receivables, accruals and allowances increased by \$2 billion, primarily reflecting 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 funds was established in 2002–03 and affected the budgetary balance in that year. However, the cash payments to these trusts affect non-budgetary transactions and financial requirements this year. The overall impact of these payments on non-budgetary transactions was partially offset by an increase in net funds from foreign exchange activities.

With a budgetary surplus of \$5.5 billion and a net requirement of \$8.7 billion from non-budgetary transactions, there was a financial requirement of \$3.1 billion in the April 2003 to January 2004 period.

Net financing activities down \$7.9 billion

This financial requirement of \$3.1 billion was financed by a reduction in the Government's cash balances. In addition, there was a decrease of \$7.9 billion in net financing activities, primarily

through a decrease in unmatured debt transactions, particularly in marketable bonds. As a result, cash balances declined by \$11 billion. 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 January 2004 stood at \$3.7 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.

Table 1

Summary statement of transactions

	January		April to January	
	2003	2004	2002-03	2003-04
	(\$ millions)			
Budgetary transactions				
Revenues	14,363	14,647	143,754	146,629
Expenses				
Program expenses	-11,138	-11,309	-105,514	-111,535
Public debt charges	-3,136	-2,992	-31,024	-29,545
Budgetary balance (deficit/surplus) ¹	89	346	7,216	5,549
Non-budgetary transactions	2,332	2,227	-8,381	-8,686
Financial source/requirement	2,421	2,573	-1,164	-3,137
Net change in financing activities	-1,434	-6,186	-5,964	-7,897
Net change in cash balances	987	-3,613	-7,126	-11,034
Cash balance at end of period			4,822	3,666

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

¹ Under modified accrual, a surplus of \$18 million was recorded for January 2003.

Table 2

Budgetary revenues

	January			April to January		
	2003	2004	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,455	6,676	3.4	66,457	67,543	1.6
Corporate income tax	1,587	1,863	17.4	14,962	18,668	24.8
Other income tax revenue	562	469	-16.5	2,510	2,493	-0.7
Total income tax	8,604	9,008	4.7	83,929	88,704	5.7
Excise taxes and duties						
Goods and services tax	2,355	2,224	-5.6	25,333	23,902	-5.6
Customs import duties	254	205	-19.3	2,663	2,406	-9.7
Sales and excise taxes	749	724	-3.3	7,934	8,188	3.2
Air Travellers Security Charge	29	23	-20.7	325	335	3.1
Total excise taxes and duties	3,387	3,176	-6.2	36,255	34,831	-3.9
Total tax revenues	11,991	12,184	1.6	120,184	123,535	2.8
Employment insurance premiums	1,442	1,410	-2.2	14,474	13,962	-3.5
Other revenues	930	1,053	13.2	9,096	9,132	0.4
Total budgetary revenues	14,363	14,647	2.0	143,754	146,629	2.0

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Table 3

Budgetary expenses

	January		Change	April to January		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,178	2,265	4.0	21,352	22,389	4.9
Employment insurance benefits	1,407	1,439	2.3	11,646	12,041	3.4
Total	3,585	3,704	3.3	32,998	34,430	4.3
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	15,500	16,916	9.1
Fiscal transfers	727	781	7.4	9,356	9,332	-0.3
Alternative Payments for Standing Programs	-210	-214	1.9	-2,101	-2,116	0.7
Total	2,067	2,258	9.2	22,755	24,132	6.1
Subsidies and other transfers						
Agriculture	328	135	-58.8	694	1,091	57.2
Foreign Affairs	225	317	40.9	1,285	1,621	26.1
Health	192	199	3.6	1,244	1,432	15.1
Human Resources Development	116	178	53.4	1,207	1,164	-3.6
Indian and Northern Development	393	332	-15.5	3,388	3,519	3.9
Industry and Regional Development	152	83	-45.4	1,482	1,577	6.4
Other	517	405	-21.7	2,235	2,218	-0.8
Total	1,923	1,649	-14.2	11,535	12,622	9.4
Total transfer payments	7,575	7,611	0.5	67,288	71,184	5.8
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	78	89	14.1	914	970	6.1
Canada Mortgage and Housing Corporation	159	158	-0.6	1,578	1,699	7.7
Other	164	121	-26.2	1,655	1,854	12.0
Total	401	368	-8.2	4,147	4,523	9.1
Defence	695	810	16.5	8,970	9,588	6.9
All other departments and agencies	2,467	2,520	2.1	25,109	26,240	4.5
Total other program expenses	3,563	3,698	3.8	38,226	40,351	5.6
Total program expenses	11,138	11,309	1.5	105,514	111,535	5.7
Public debt charges	3,136	2,992	-4.6	31,024	29,545	-4.8
Total budgetary expenses	14,274	14,301	0.2	136,538	141,080	3.3

Table 4

Budgetary balance and financial source/requirement

	January		April to January	
	2003	2004	2002-03	2003-04
	(\$ millions)			
Budgetary balance (deficit/surplus)	89	346	7,216	5,549
Non-budgetary transactions				
Capital investing activities	-283	-185	-1,823	-1,364
Other investing activities	-321	-371	-1,012	-917
Other activities				
Accounts payable, receivables, accruals and allowances	2,812	2,710	-8,615	-10,609
Foreign exchange activities	-146	-166	654	1,799
Amortization of tangible capital assets	270	239	2,415	2,405
Total other activities	2,936	2,783	-5,546	-6,405
Total non-budgetary transactions	2,332	2,227	-8,381	-8,686
Net financial source/requirement	2,421	2,573	-1,164	-3,137

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2003	2004	2002-03	2003-04
	(\$ millions)			
Net financial source/requirement	2,421	2,573	-1,164	-3,137
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-460	-60	-9,317	-12,213
Treasury bills	-1,350	-6,600	8,800	5,600
Canada Savings Bonds	-44	32	-1,701	-1,534
Other	-1	0	-19	91
Total	-1,855	-6,628	-2,237	-8,056
Foreign currency borrowings	-83	124	-2,345	-383
Total	-1,938	-6,504	-4,582	-8,439
Pension and other accounts	504	318	-1,382	542
Net change in financing activities	-1,434	-6,186	-5,964	-7,897
Change in cash balance	987	-3,613	-7,126	-11,034

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Table 6

Condensed statement of assets and liabilities

	March 31, 2003	January 31, 2004	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,384	71,898	-7,486
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	276,032	-12,213
Treasury bills	104,411	110,011	5,600
Canada Savings Bonds	22,584	21,050	-1,534
Other	3,371	3,462	91
Subtotal	418,611	410,555	-8,056
Payable in foreign currencies	21,141	20,757	-384
Total unmaturing debt	439,752	431,312	-8,440
Pension and other accounts			
Public sector pensions	125,708	127,739	2,031
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	5,815	-1,278
Other pension and other accounts	9,359	9,147	-212
Total pension and other accounts	181,004	181,546	542
Total interest-bearing debt	620,756	612,858	-7,897
Total liabilities	700,140	684,756	-15,384
Financial assets			
Cash and accounts receivable	62,626	54,321	-8,305
Foreign exchange accounts	48,950	47,151	-1,799
Loans, investments and advances (net of allowances)	23,748	25,079	1,331
Total financial assets	135,324	126,551	-8,773
Net debt	564,816	558,205	-6,611
Non-financial assets	54,240	53,178	-1,062
Federal debt (accumulated deficit)	510,576	505,027	-5,549

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