

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2004: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in November 2004, up from a surplus of \$0.9 billion in November 2003. Revenues were up \$1.8 billion compared to November 2003, primarily due to higher goods and services tax (GST) and corporate income tax revenues. Program expenses were up \$0.9 billion while public debt charges were \$0.1 billion higher.

April to November 2004: budgetary surplus of \$10.7 billion

For the first eight months of the 2004–05 fiscal year (April to November), the budgetary surplus is estimated at \$10.7 billion, up \$6.6 billion from the surplus reported in the same period last year. This improvement reflects the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September as well as increases in most revenue components, consistent with the growth in the economy in 2004. In addition, the monthly results to date do not reflect the cost of a number of proposed policy initiatives totalling \$3.9 billion, including the recent federal-provincial agreements on health care and equalization, which will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent. As well, the monthly estimates do not include the costs associated with the proposed wage settlements with federal government employees. These costs will be incorporated once the agreements have been signed.

November 2004: budgetary results

The November 2004 budgetary surplus was estimated at \$1.7 billion, up from a surplus of \$0.9 billion in November 2003.

Budgetary revenues totalled \$16.3 billion in the month, up \$1.8 billion or 12.5 per cent from November 2003. This increase is almost entirely attributable to sharply higher net GST receipts as well as strong growth in corporate income tax receipts.

- Personal income tax revenues increased \$0.1 billion, or 1.7 per cent, primarily due to growth in source deductions, consistent with higher employment.
- Corporate income tax revenues were up \$0.5 billion, or 27.6 per cent. The November 2004 monthly results reflect

remittance procedures, under which corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments reflect the increase in corporate tax liabilities since 2002. The monthly increase in November is down from the extremely high monthly rates of growth reported in September and October, when the processing of refunds was affected by the labour disruption at the Canada Revenue Agency.



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- Excise taxes and duties were up \$1.2 billion. This increase is almost entirely the result of higher GST receipts, which were up \$1.2 billion, or 56.3 per cent, due to higher gross receipts. This partly reflects the timing of receipts compared to last year. Among other excise taxes and duties, customs import duties rose \$47 million, while sales and excise taxes and receipts from the Air Travellers Security Charge were down.
- Employment insurance (EI) premiums were down 10.9 per cent, reflecting the impact of a lower premium rate (the employee rate for 2004 was \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which more than offset the increase in employment and thus the number of people paying premiums. The decline in EI premiums in November, as well as the year-to-date decline, also partly reflects timing factors with respect to prior-year adjustments that were made in December 2003. As a result, the monthly and year-to-date declines will unwind somewhat over the remainder of the fiscal year.
- Other revenues, which consist 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 component is extremely volatile on a monthly basis.

Program expenses in November 2004 totalled \$11.6 billion, up \$0.9 billion or 8.3 per cent from November 2003. The increase was spread evenly between transfer payments and other program expenses.

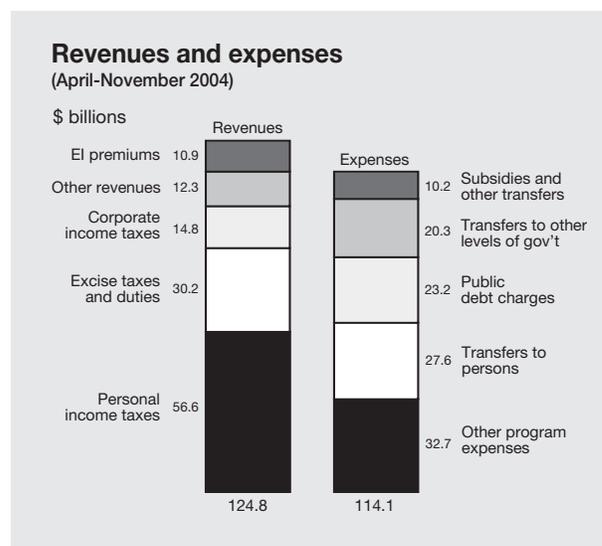
Total transfer payments were up \$0.4 billion or 6.1 per cent in November 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$0.1 billion on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits, which have risen in line with inflation, and an increase in the number of individuals eligible for benefits. EI benefits were down 13.3 per cent, reflecting a difference in the timing of payments between October and November in 2004 compared to the same months last year.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up 7.6 per cent. The increase in federal transfers in support of health and other social programs reflects increased funding under the February 2003 First Ministers' Accord on Health Care Renewal. Fiscal transfers consist of equalization entitlements, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 1.3 per cent from November 2003.
- Subsidies and other transfers were up 28.0 per cent. This component is extremely volatile on a monthly basis, largely reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up 12.6 per cent, as a decline in Crown corporation expenses was more than offset by higher expenses related to defence and other departments and agencies. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were 4.1 per cent higher, driven largely by higher interest payments on non-market debt.



April to November 2004: budgetary results

In the first eight months of the fiscal year, there was a budgetary surplus of \$10.7 billion, up \$6.6 billion from the \$4.1-billion surplus reported in the same period of 2003–04.

Budgetary revenues, at \$124.8 billion, were up \$9.2 billion or 8.0 per cent. This increase reflects gains in tax revenues and other revenues, including the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$3.0 billion or 5.7 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting gains in employment and income.
- Corporate income tax revenues were up \$2.8 billion or 23.5 per cent, largely reflecting the impact of remittance procedures, as noted above. Over the remainder of the fiscal year, the growth in corporate income tax revenues should come down.
- Excise taxes and duties increased \$2.2 billion or 7.8 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were 11.3 per cent higher, in part reflecting the timing of refunds. Over the balance of the year

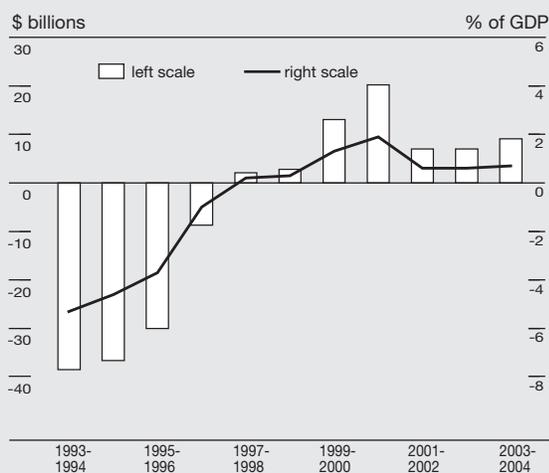
the growth in refunds should pick up, reflecting more closely the increase in gross revenues, which were up 6.7 per cent. Customs import duties were also up (4.4 per cent), while there were declines in both sales and excise taxes (down 0.8 per cent) and the Air Travellers Security Charge (down 2.2 per cent).

- EI premiums were down \$1.0 billion or 8.7 per cent. As noted above, the year-to-date decline is in part a function of timing factors with respect to prior-year adjustments. The decline should moderate in the remaining months of the fiscal year.
- Other revenues increased \$2.0 billion or 24.3 per cent. This increase reflects the sale of the Government's remaining shares of Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April to November 2004 period were up 3.9 per cent to \$90.9 billion, largely due to higher transfers. Public debt charges were \$0.7 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

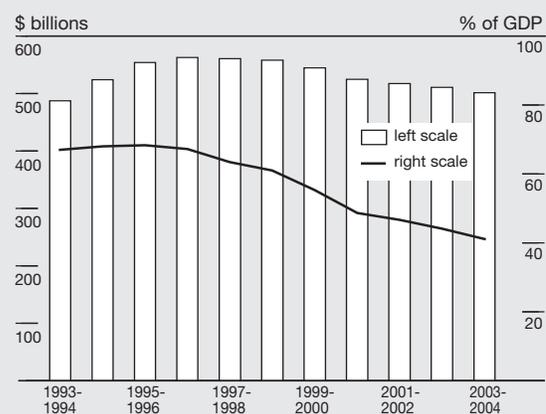
Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$3.0 billion, or 5.4 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Transfers to persons advanced by \$0.4 billion, or 1.6 per cent. Elderly benefits were up 3.4 per cent while EI benefits were down 1.8 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, and employment benefit and support measures, was more than offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.6 billion, or 8.4 per cent, reflecting higher transfers in support of health and other social programs, resulting from the February 2003 First Ministers' Accord on Health Care Renewal, and increased fiscal transfers. Fiscal transfers were up 7.6 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care, equalization and Territorial Formula Financing. These will be included in the monthly fiscal results once the legislation has received Royal Assent.
- Subsidies and other transfers increased by \$1.0 billion, or 10.8 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.4 billion, or 1.2 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. These expenses do not incorporate the impact of proposed wage settlements in the federal public sector.

Financial source of \$7.1 billion for April to November 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), pensions and other accounts, as well as 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 \$3.6 billion in the April to November period, an improvement of \$8.8 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April to November 2003 period related to transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion), the Diagnostic/Medical Equipment Fund (\$1.5 billion), Canada Health Infoway (\$600 million) and the Canada Foundation for Innovation (\$500 million). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts in the April to November period, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$10.7 billion and a net requirement of \$3.6 billion from non-budgetary transactions, there was a financial source of \$7.1 billion in the first eight months of 2004–05, compared to a financial requirement of \$8.3 billion in the same period last year.

Net financing activities down \$8.1 billion

The Government used this financial source of \$7.1 billion and a reduction in its cash balances of \$1 billion to reduce its market debt by \$8.1 billion by the end of November 2004, largely through a reduction of marketable bonds and lower foreign currency borrowings. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of November stood at \$16.3 billion.

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Table 1

Summary statement of transactions

	November		April to November	
	2003	2004	2003–04	2004–05
	(\$ millions)			
Budgetary transactions				
Revenues	14,445	16,252	115,575	124,815
Expenses				
Program expenses	-10,717	-11,606	-87,488	-90,884
Public debt charges	-2,795	-2,909	-23,953	-23,219
Budgetary balance (deficit/surplus)	933	1,737	4,134	10,712
Non-budgetary transactions	989	4,099	-12,432	-3,640
Financial source/requirement	1,922	5,836	-8,298	7,072
Net change in financing activities	6,114	897	5,860	-8,068
Net change in cash balances	8,036	6,733	-2,438	-996
Cash balance at end of period			12,259	16,254

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

Table 2

Budgetary revenues

	November			April to November		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,238	7,359	1.7	53,552	56,589	5.7
Corporate income tax	1,636	2,087	27.6	12,002	14,817	23.5
Other income tax revenue	228	238	4.4	1,798	2,008	11.7
Total income tax	9,102	9,684	6.4	67,352	73,414	9.0
Excise taxes and duties						
Goods and services tax	2,131	3,331	56.3	19,185	21,346	11.3
Customs import duties	222	269	21.2	2,000	2,087	4.4
Sales and excise taxes	885	845	-4.5	6,571	6,520	-0.8
Air Travellers Security Charge	32	28	-12.5	276	270	-2.2
Total excise taxes and duties	3,270	4,473	36.8	28,032	30,223	7.8
Total tax revenues	12,372	14,157	14.4	95,384	103,637	8.7
Employment insurance premiums	1,046	932	-10.9	11,903	10,872	-8.7
Other revenues	1,027	1,163	13.2	8,288	10,306	24.3
Total budgetary revenues	14,445	16,252	12.5	115,575	124,815	8.0

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Table 3

Budgetary expenses

	November		Change	April to November		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,260	2,353	4.1	17,856	18,465	3.4
Employment insurance benefits	1,287	1,116	-13.3	9,334	9,167	-1.8
Total	3,547	3,469	-2.2	27,190	27,632	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			8,433	
Canada Social Transfer		702			5,267	
Health Reform Transfer		125			1,000	
Canada Health and Social Transfer	1,691	-27		13,533	-27	
Fiscal transfers	865	876	1.3	6,923	7,446	7.6
Alternative Payments for Standing Programs	-214	-210	-1.9	-1,689	-1,783	5.6
Total	2,342	2,520	7.6	18,767	20,336	8.4
Subsidies and other transfers						
Agriculture	115	251	118.3	524	572	9.2
Foreign Affairs	112	158	41.1	1,080	1,383	28.1
Health	171	194	13.5	1,150	1,172	1.9
Human Resources Development	129	216	67.4	895	722	-19.3
Indian and Northern Development	302	352	16.6	2,846	2,891	1.6
Industry and Regional Development	97	143	47.4	972	1,177	21.1
Other	252	194	-23.0	1,724	2,268	31.6
Total	1,178	1,508	28.0	9,191	10,185	10.8
Total transfer payments	7,067	7,497	6.1	55,148	58,153	5.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	130	54	-58.5	809	779	-3.7
Canada Mortgage and Housing Corporation	146	140	-4.1	1,370	1,340	-2.2
Other	241	117	-51.5	1,503	1,238	-17.6
Total	517	311	-39.8	3,682	3,357	-8.8
Defence	851	1,030	21.0	7,480	7,711	3.1
All other departments and agencies	2,282	2,768	21.3	21,178	21,663	2.3
Total other program expenses	3,650	4,109	12.6	32,340	32,731	1.2
Total program expenses	10,717	11,606	8.3	87,488	90,884	3.9
Public debt charges	2,795	2,909	4.1	23,953	23,219	-3.1
Total budgetary expenses	13,512	14,515	7.4	111,441	114,103	2.4

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Table 4

Budgetary balance and financial source/requirement

	November		April to November	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	933	1,737	4,134	10,712
Non-budgetary transactions				
Capital investing activities	-154	-180	-1,253	-836
Other investing activities	78	-235	-1,215	-1,825
Pension and other accounts	-766	-483	98	-2,486
Other activities				
Accounts payable, receivables, accruals and allowances	1,425	907	-12,916	-4,356
Foreign exchange activities	186	3,866	902	4,045
Amortization of tangible capital assets	220	224	1,952	1,818
Total other activities	1,831	4,997	-10,062	1,507
Total non-budgetary transactions	989	4,099	-12,432	-3,640
Net financial source/requirement	1,922	5,836	-8,298	7,072

Table 5

Financial source/requirement and net financing activities

	November		April to November	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	1,922	5,836	-8,298	7,072
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-494	1,005	-7,017	-7,921
Treasury bills	7,750	5,050	14,850	6,850
Canada Savings Bonds	-841	-1,357	-1,578	-1,704
Other	-1	-1	171	-27
Total	6,414	4,697	6,426	-2,802
Foreign currency borrowings	-317	-3,831	-573	-5,257
Total	6,097	866	5,853	-8,059
Obligations related to capital leases	17	31	7	-9
Net change in financing activities	6,114	897	5,860	-8,068
Change in cash balance	8,036	6,733	-2,438	-996

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Table 6

Condensed statement of assets and liabilities

	March 31, 2004	November 30, 2004	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	73,578	-6,386
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	270,859	-7,921
Treasury bills	113,378	120,228	6,850
Canada Savings Bonds	21,330	19,626	-1,704
Other	3,427	3,400	-27
Subtotal	416,915	414,113	-2,802
Payable in foreign currencies	20,542	15,285	-5,257
Obligations related to capital leases	2,774	2,765	-9
Total unmatured debt	440,231	432,163	-8,068
Pension and other accounts			
Public sector pensions	127,560	128,967	1,407
Other employee and veteran future benefits	39,367	39,568	201
Canada Pension Plan (net of securities)	7,483	3,783	-3,700
Other pension and other accounts	6,488	6,096	-392
Total pension and other accounts	180,898	178,412	-2,486
Total interest-bearing debt	621,129	610,575	-10,554
Total liabilities	701,093	684,153	-16,940
Financial assets			
Cash and accounts receivable	70,921	67,897	-3,024
Foreign exchange accounts	44,312	40,268	-4,045
Loans, investments and advances (net of allowances)	29,548	31,373	1,825
Total financial assets	144,781	139,537	-5,244
Net debt	556,311	544,616	-11,695
Non-financial assets	54,817	53,834	-983
Federal debt (accumulated deficit)	501,494	490,782	-10,712

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