

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2004: budgetary surplus of \$3.2 billion

There was a budgetary surplus of \$3.2 billion in February 2004, down \$0.7 billion from the restated surplus of \$4.0 billion in February 2003. Typically, a large surplus is recorded in February, reflecting the inclusion of final corporate income tax payments from those corporations with a taxation year ending December 31. On a year-over-year basis, the deterioration in the budgetary surplus was attributable to a decline in goods and services tax (GST) revenues and an increase in program expenses.

April 2003 to February 2004: budgetary surplus of \$8.8 billion

The budgetary surplus is estimated at \$8.8 billion for the April 2003 to February 2004 period, down \$2.4 billion from the surplus of \$11.2 billion reported in the same period of 2002–03. Budgetary revenues were up \$2.8 billion or 1.8 per cent, due to the strength of corporate income taxes (up \$4.1 billion). The weakness in other revenue sources reflects the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$6.8 billion, or 5.9 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.6 billion, or 4.8 per cent, reflecting lower interest rates and a decline in the stock of interest-bearing debt.

Expected Budgetary Surplus Outcome for 2003–04: \$1.9 billion

Still to come are the March monthly results and the normal end-of-year adjustments, which typically lower the year-to-date surplus. In addition, the results to date do not include the impact of the policy initiatives announced in the 2004 budget, which totalled \$3.6 billion. Taking these factors into account, the results to date are consistent with the expected outcome of \$1.9 billion for 2003–04, as set out in the 2004 budget.

February 2004: budgetary results

The February 2004 budgetary surplus of \$3.2 billion was down \$0.7 billion from the \$4.0 billion surplus reported in February 2003.

On a year-over-year basis, budgetary revenues, at \$17.4 billion, were down \$53 million, or 0.3 per cent.

- Personal income tax revenues were up \$0.5 billion, or 6.9 per cent, primarily reflecting growth in source deductions due to gains in employment and, hence, personal income.
- Corporate income tax revenues increased by \$0.4 billion, or 9.0 per cent, due to higher settlement payments from corporations with a taxation year ending December 31.

Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days from their year-end to pay any taxes owing. Typically, about one-fifth of total corporate income tax revenues are received in the month of February, resulting in a large surplus in that month.

- Excise taxes and duties decreased by \$0.4 billion, or 11.7 per cent, primarily due to a \$0.4-billion decline in GST revenues. GST revenues were down because of a sharp decline in gross receipts from domestic sales and an increase in refunds and rebates. Customs import duties were down 11.9 per cent, while sales and excise taxes were up 5.4 per cent.



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- Employment insurance (EI) premiums were down 10.8 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) more than 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 down \$0.3 billion, or 28.1 per cent. This category of revenues is quite volatile on a monthly basis.

On a year-over-year basis, program expenses in February 2004, at \$11.2 billion, were \$0.8 billion, or 7.9 per cent, higher than in February 2003. Transfer payments were 5.8 per cent higher while other program expenses were up 12.4 per cent.

The increase in transfer payments, on a year-over-year basis, is due to higher transfers to persons and increased subsidies and other transfers.

- Major transfers to persons, consisting of elderly and EI benefits, were up 10.6 per cent. Elderly benefits increased 4.3 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 20.7 per cent, mainly because of an extra payment cycle in February 2004 compared to last year.
- 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 down 2.9 per cent. Although CHST payments were up as a result of the February 2003 First Ministers' Accord on Health Care Renewal, fiscal transfers were lower. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In February 2004, official estimates of 2003–04 equalization entitlements, the largest component of fiscal transfers, were revised downward, as tax data for 2002 received in late January 2004 indicated that income growth in Ontario had been significantly lower than previously estimated. This reduced the fiscal disparities among the provinces, thereby resulting in lower equalization entitlements. The net impact of these revisions is being prorated among the remaining periods of 2003–04.

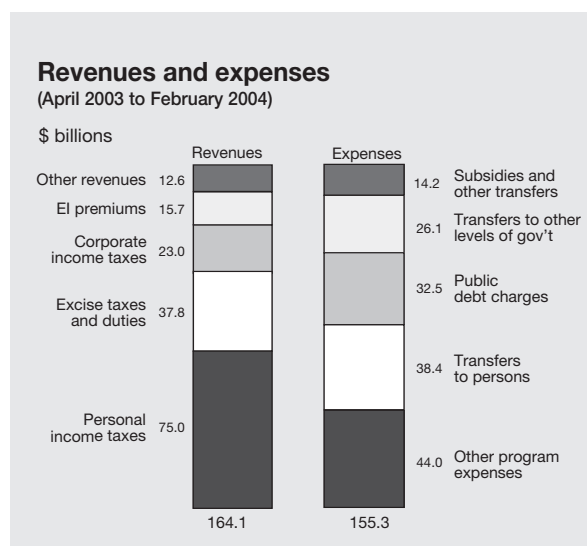
- Subsidies and other transfers increased \$0.1 billion, or 6.3 per cent. Transfers were up strongly in Human Resources Development because of the timing of payments under the various student assistance programs, and in Industry and Regional Development because of increased grants awarded by the Social Sciences and Humanities Research Council of Canada. These increases, however, were partly offset by a decrease in Agriculture, which was due to a large payment in February 2003 to the Crop Reinsurance Fund.

Other program expenses, which consist of operating expenses for departments and agencies, including defence and Crown corporations, were up 12.4 per cent year-over-year because of increases in non-defence departmental and agency expenses.

Public debt charges were down 4.7 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

April 2003 to February 2004: budgetary results

In the first 11 months of the 2003–04 fiscal year, there was a budgetary surplus of \$8.8 billion—a year-over-year deterioration of \$2.4 billion from the surplus of \$11.2 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 hit the Canadian economy and the impact of spending initiatives and tax reduction measures announced in previous budgets.



On a year-over-year basis, budgetary revenues, at \$164.1 billion, were up \$2.8 billion, or 1.8 per cent.

- Personal income tax revenues were up \$1.6 billion, or 2.1 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. The net impact of this increase in taxes from employment income was dampened by the impact of tax reduction measures 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 the budget measures.
- Corporate income taxes increased \$4.1 billion, or 21.5 per cent, reflecting the strong rebound in corporate profits in 2003, as well as lower refunds pertaining to prior-year assessments.
- Excise taxes and duties were down \$1.8 billion, primarily because of a 6.6-per-cent decline in GST revenues. Within GST revenues, gross receipts from imports have declined sharply, while gross receipts from domestic sales are virtually unchanged from the same period last year. As expected, the timing factors that contributed to strong growth in refunds earlier in 2003–04 are beginning to be unwound, leaving year-to-date refunds slightly below last year's levels. Rebates, however, are up strongly, reflecting strong growth in the housing and municipal, university, school and hospital sector.

Sales and excise taxes were up 3.4 per cent, while customs import duties were down 9.9 per cent, reflecting lower imports subject to import duties.

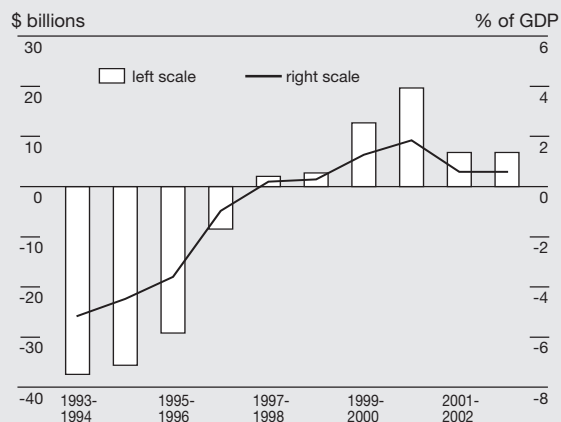
- EI premiums were down 4.4 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 2.6 per cent.

On a year-over-year basis, program expenses in the April 2003 to February 2004 period, at \$122.7 billion, were up \$6.8 billion, or 5.9 per cent, over the same period of 2002–03.

Transfer payments increased by \$4.3 billion, or 5.8 per cent.

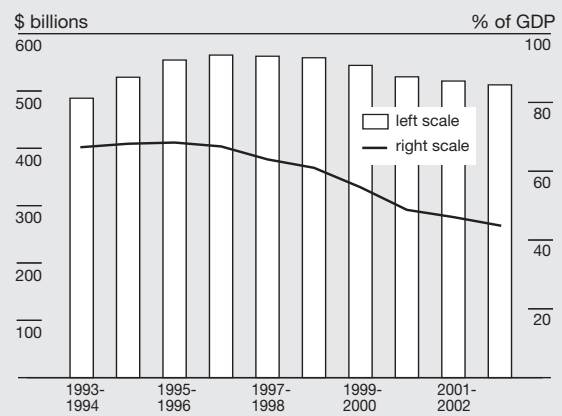
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.8 billion, or 4.9 per cent. Elderly benefits increased 4.8 per cent, while EI benefits were up 5.2 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.
- Major transfers to other levels of government increased by \$1.3 billion, or 5.3 per cent, reflecting higher entitlements under the CHST program.
- Subsidies and other transfers increased by \$1.2 billion, or 9.1 per cent, primarily reflecting the impact of previous budget measures.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Other program expenses increased by \$2.5 billion, or 6.1 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, reflecting a decline in both the average effective interest rate on interest-bearing debt and the stock of interest-bearing debt.

Financial source of \$1.1 billion for April 2003 to February 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 \$7.7 billion in the first 11 months of 2003–04, up \$0.7 billion from the requirement in the same period of 2002–03, primarily reflecting a lower net source of funds from foreign exchange activities.

With a budgetary surplus of \$8.8 billion and a net requirement of \$7.7 billion from non-budgetary transactions, there was a financial source of \$1.1 billion in the April 2003 to February 2004 period. This is down from the financial source of \$4.2 billion recorded in the same period of 2002–03, primarily reflecting the deterioration in the year-over-year budgetary surplus.

Net financing activities down \$9.6 billion

With a financial source of \$1.1 billion and a \$9.6-billion decrease in net financing activities due to a decrease in unmatured debt transactions, the Government's cash balances declined by \$8.5 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 February stood at \$6.2 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.

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Table 1

Summary statement of transactions

	February		April to February	
	2003	2004	2002–03	2003–04
(\$ millions)				
Budgetary transactions				
Revenues	17,473	17,420	161,229	164,051
Expenses				
Program expenses	-10,360	-11,174	-115,872	-122,710
Public debt charges	-3,147	-2,998	-34,173	-32,544
Budgetary balance (deficit/surplus) ¹	3,966	3,248	11,184	8,797
Non-budgetary transactions	1,370	954	-7,009	-7,734
Financial source/requirement	5,336	4,202	4,175	1,063
Net change in financing activities	-4,217	-1,686	-10,182	-9,582
Net change in cash balances	1,119	2,516	-6,007	-8,519
Cash balance at end of period			5,940	6,181

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

¹ Under modified accrual, a surplus of \$3.6 billion was recorded for February 2003.

Table 2

Budgetary revenues

	February		Change	April to February		Change
	2003	2004		2002–03	2003–04	
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,981	7,466	6.9	73,438	75,010	2.1
Corporate income tax	3,942	4,298	9.0	18,904	22,966	21.5
Other income tax revenue	220	224	1.8	2,730	2,717	-0.5
Total income tax	11,143	11,988	7.6	95,072	100,693	5.9
Excise taxes and duties						
Goods and services tax	2,307	1,914	-17.0	27,641	25,816	-6.6
Customs import duties	268	236	-11.9	2,931	2,642	-9.9
Sales and excise taxes	704	742	5.4	8,637	8,928	3.4
Air Travellers Security Charge	35	34	-2.9	360	369	2.5
Total excise taxes and duties	3,314	2,926	-11.7	39,569	37,755	-4.6
Total tax revenues	14,457	14,914	3.2	134,641	138,448	2.8
Employment insurance premiums	1,955	1,743	-10.8	16,428	15,705	-4.4
Other revenues	1,061	763	-28.1	10,160	9,898	-2.6
Total budgetary revenues	17,473	17,420	-0.3	161,229	164,051	1.8

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Table 3

Budgetary expenses

	February		Change	April to February		Change
	2003	2004		2002–03	2003–04	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,181	2,274	4.3	23,534	24,662	4.8
Employment insurance benefits	1,372	1,656	20.7	13,018	13,698	5.2
Total	3,553	3,930	10.6	36,552	38,360	4.9
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	1,691	9.1	17,050	18,609	9.1
Fiscal transfers	727	531	-27.0	10,084	9,864	-2.2
Alternative Payments for Standing Programs	-210	-214	1.9	-2,312	-2,330	0.8
Total	2,067	2,008	-2.9	24,822	26,143	5.3
Subsidies and other transfers						
Agriculture	505	32	-93.7	1,200	1,123	-6.4
Foreign Affairs	230	224	-2.6	1,515	1,845	21.8
Health	104	119	14.4	1,348	1,551	15.1
Human Resources Development	106	280	164.2	1,313	1,445	10.1
Indian and Northern Development	308	267	-13.3	3,697	3,786	2.4
Industry and Regional Development	107	379	254.2	1,589	1,956	23.1
Other	163	318	95.1	2,399	2,539	5.8
Total	1,523	1,619	6.3	13,061	14,245	9.1
Total transfer payments	7,143	7,557	5.8	74,435	78,748	5.8
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	80	84	5.0	994	1,055	6.1
Canada Mortgage and Housing Corporation	170	161	-5.3	1,748	1,860	6.4
Other	221	106	-52.0	1,877	1,959	4.4
Total	471	351	-25.5	4,619	4,874	5.5
Defence	966	964	-0.2	9,935	10,552	6.2
All other departments and agencies	1,780	2,302	29.3	26,883	28,536	6.1
Total other program expenses	3,217	3,617	12.4	41,437	43,962	6.1
Total program expenses	10,360	11,174	7.9	115,872	122,710	5.9
Public debt charges	3,147	2,998	-4.7	34,173	32,544	-4.8
Total budgetary expenses	13,507	14,172	4.9	150,045	155,254	3.5

Table 4

Budgetary balance and financial source/requirement

	February		April to February	
	2003	2004	2002-03	2003-04
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,966	3,248	11,184	8,797
Non-budgetary transactions				
Capital investing activities	-166	-171	-1,989	-1,536
Other investing activities	288	-134	-724	-1,052
Other activities				
Accounts payable, receivables, accruals and allowances	-1,890	314	-10,506	-10,295
Foreign exchange activities	2,956	627	3,611	2,426
Amortization of tangible capital assets	183	318	2,599	2,723
Total other activities	1,249	1,259	-4,296	-5,146
Total non-budgetary transactions	1,370	954	-7,009	-7,734
Net financial source/requirement	5,336	4,202	4,175	1,063

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2003	2004	2002-03	2003-04
	(\$ millions)			
Net financial source/requirement	5,336	4,202	4,175	1,063
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,190	984	-8,127	-11,229
Treasury bills	-3,050	-3,500	5,750	2,100
Canada Savings Bonds	-96	-131	-1,797	-1,665
Other		0	-19	91
Total	-1,956	-2,647	-4,193	-10,703
Foreign currency borrowings	-3,187	350	-5,533	-33
Total	-5,143	-2,297	-9,726	-10,736
Pension and other accounts	926	611	-456	1,154
Net change in financing activities	-4,217	-1,686	-10,182	-9,582
Change in cash balance	1,119	2,516	-6,007	-8,519

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Table 6

Condensed statement of assets and liabilities

	March 31, 2003	February 29, 2004	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	79,384	75,054	-4,330
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	277,016	-11,229
Treasury bills	104,411	106,511	2,100
Canada Savings Bonds	22,584	20,918	-1,666
Other	3,371	3,462	91
Subtotal	418,611	407,907	-10,704
Payable in foreign currencies	21,141	21,107	-34
Total unmatured debt	439,752	429,014	-10,738
Pension and other accounts			
Public sector pensions	125,708	127,512	1,804
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	6,685	-408
Other pension and other accounts	9,359	9,117	-242
Total pension and other accounts	181,004	182,159	1,155
Total interest-bearing debt	620,756	611,173	-9,583
Total liabilities	700,140	686,227	-13,913
Financial assets			
Cash and accounts receivable	62,626	59,786	-2,840
Foreign exchange accounts	48,950	46,524	-2,426
Loans, investments and advances (net of allowances)	23,748	25,126	1,378
Total financial assets	135,324	131,436	-3,888
Net debt	564,816	554,791	-10,025
Non-financial assets	54,240	53,013	-1,227
Federal debt (accumulated deficit)	510,576	501,778	-8,798

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