

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2004: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in March 2004, a deterioration of \$248 million from the restated deficit of \$987 million in March 2003. On a year-over-year basis, budgetary revenues were up \$2.7 billion, driven by strong increases in corporate income tax and goods and service tax (GST) revenues, while public debt charges were down \$0.3 billion. These positive developments on the budgetary balance were more than offset by a \$3.2-billion increase in program expenses, primarily due to the liabilities associated with the special \$2-billion Canada Health and Social Transfer (CHST) cash supplement to the provinces and territories for health and the special \$995 million in transitional assistance for Canadian farmers.

### April 2003 to March 2004: budgetary surplus of \$7.6 billion

The budgetary surplus is estimated at \$7.6 billion for the April 2003 to March 2004 period, down \$2.6 billion from the surplus of \$10.2 billion reported in the same period of 2002–03. Budgetary revenues were up \$5.5 billion, or 3.1 per cent, largely due to the strength of corporate income taxes (up \$5.6 billion). The weakness in other revenue sources reflected the economic impacts of a number of domestic shocks that hit the Canadian economy in 2003. Program expenses were up \$10.0 billion, or 7.8 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down \$1.9 billion, or 5.1 per cent, reflecting lower interest rates.

### March 2004 budget estimated surplus for 2003–04 at \$1.9 billion

These are not the final audited results for the 2003–04 fiscal year. Still to come are the regular end-of-year accounting adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2003–04, reassessments of loan provisions and final tax accrual adjustments. In the past, these adjustments have reduced the April-to-March budgetary balance by \$3 billion to \$7 billion. Last year, the adjustments were at the lower end of the range, primarily reflecting a number of positive one-time adjustments to loan provisions, which are not expected to be repeated this year. Final results for 2003–04 will be released in the fall of 2004.

### March 2004: budgetary results

The March 2004 budgetary deficit of \$1.2 billion was \$248 million higher than the deficit reported in March 2003.

On a year-over-year basis, budgetary revenues, at \$17.8 billion, were up \$2.7 billion, or 17.6 per cent.

- Personal income tax revenues were up \$0.4 billion, or 5.4 per cent, primarily reflecting growth in source deductions from employment income, due to gains in employment and hence personal income.
- Corporate income tax revenues increased by \$1.5 billion to almost double the level recorded

last year. Part of the year-over-year increase was attributable to the timing of final settlement payments with respect to taxation year 2003. In addition, the improvement in corporate profits in 2003 has resulted in lower refunds and an increase in monthly installments. Corporations are required to file monthly installments based on either their previous year's actual tax liability or their current year's estimated tax liability. In calendar year 2003, monthly installments were largely based on the actual tax liability for taxation year 2002—a year of weak profits. With the strong rebound in profits in 2003, corporations are now making installment payments based on their 2003 tax liability.



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- Excise taxes and duties increased by \$1.3 billion, or 63.1 per cent, solely due to a \$1.4-billion increase in GST revenues. The higher GST revenues reflect both a strong increase in gross receipts from both domestic sales and imports, reflecting strong retail sales in February 2004, and a sharp decline in refunds. The year-over-year decline in refunds primarily reflects the timing of refunds claimed in 2002–03, which resulted in a large increase in refunds being paid in March 2003. The other components of excise taxes and duties recorded year-over-year declines. Customs import duties were down 16.2 per cent, primarily reflecting the impact of the appreciation of the Canadian dollar.
- Employment insurance (EI) premiums were down 3.5 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 \$0.5 billion. This component is extremely volatile on a monthly basis.

On a year-over-year basis, program expenses in March 2004 were \$16.1 billion, up \$3.2 billion, or 24.7 per cent, from March 2003, primarily due to higher transfer payments.

Transfer payments were \$3.4 billion higher, primarily due to the \$2-billion liability for the cash supplement under the CHST to the provinces and territories for health and the \$995-million agricultural assistance package.

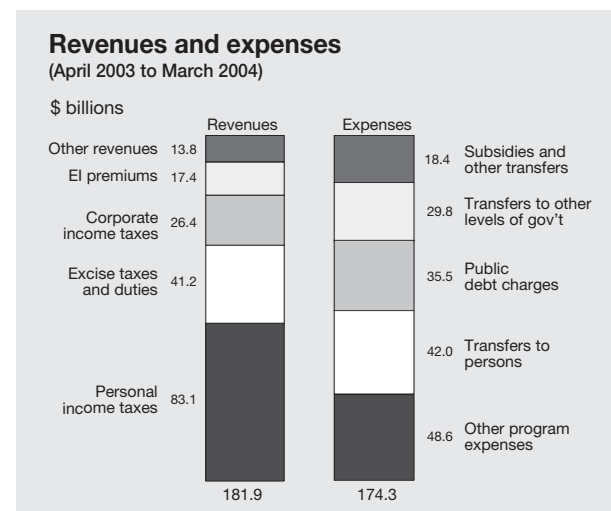
- Major transfers to persons, consisting of elderly and EI benefits, were down 2.8 per cent on a year-over-year basis. Elderly benefits increased 4.2 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were down 12.6 per cent, mainly because of one less payment cycle in March 2004 compared to last year. As noted in last month's *Fiscal Monitor*, there was an extra cycle in February 2004.
- Major transfers to other levels of government, consisting of the CHST, fiscal transfers and Alternative Payments for Standing Programs, more than doubled, reflecting the booking of the liability, with the passage of Bill C-18, for the \$2-billion CHST cash supplement for health. 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 by \$1.6 billion, or 64 per cent, primarily due to the \$995 million in transitional assistance for Canadian farmers announced on March 22, 2004. The funding was provided to help the agricultural sector, which has been affected by a number of shocks and unforeseen events in the past year. In addition, health transfers were up due to liabilities to the province of Ontario for expenses related to the fight against severe acute respiratory syndrome.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. Transfers to Crown corporations were virtually unchanged. Defence expenses declined marginally, while expenses in all other departments and agencies were down 8.0 per cent. Monthly changes are largely affected by the timing of payments.

Public debt charges were down 8.4 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt, as the stock of interest-bearing debt was largely unchanged.



## April 2003 to March 2004: budgetary results

In the April to March period of fiscal year 2003–04, there was a budgetary surplus of \$7.6 billion—a year-over-year deterioration of \$2.6 billion from the surplus of \$10.2 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 reduction measures announced in previous budgets.

On a year-over-year basis, budgetary revenues, at \$181.9 billion, were up \$5.5 billion, or 3.1 per cent, as higher corporate and personal income tax revenues, up \$5.6 billion and \$2.0 billion respectively, were partially offset by declines in the other major revenue components.

- Personal income tax revenues were up \$2.0 billion, or 2.4 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.
- Corporate income taxes increased \$5.6 billion, or 26.9 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 \$0.5 billion as a result of year-over-year declines in both GST revenues and customs import duties, partially offset by increases in sales and excise taxes. 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 weak growth in refunds in the first half of 2003–04 have been unwound, leaving current refunds below last year's levels and in line with the decline in gross collections. Rebates, however, are up strongly, reflecting strong growth in spending in the housing and municipal, university, school and hospital sectors. Customs import duties were down 10.4 per cent, reflecting the impact of the appreciation in the value of the Canadian dollar. Sales and excise taxes were up 2.8 per cent.

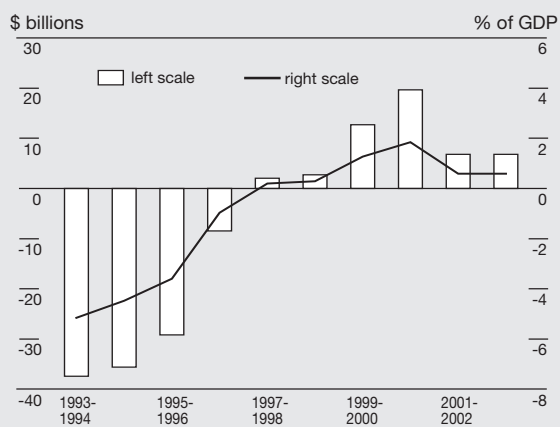
- EI premiums were down 4.3 per cent, as the reduction in premium rates more than offset the impact of the increase in the number of people employed.
- Other revenues were down 6.7 per cent.

On a year-over-year basis, program expenses in the April 2003 to March 2004 period, at \$138.8 billion, were up \$10 billion, or 7.8 per cent, over the same period of 2002–03, with increases in all major components.

Transfer payments increased by \$7.8 billion, or 9.4 per cent.

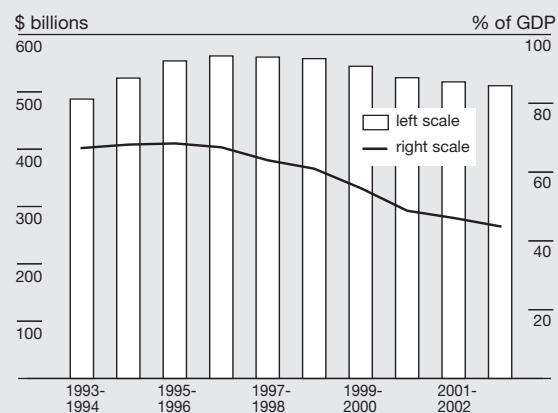
- Major transfers to persons, consisting of elderly and EI benefits, were up \$1.7 billion, or 4.2 per cent. Elderly benefits increased 4.7 per cent, while EI benefits were up 3.3 per cent due to a rise in the number of beneficiaries and an increase in average weekly benefits.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Major transfers to other levels of government increased by \$3.2 billion, or 12.2 per cent, primarily reflecting higher entitlements under the CHST program and the liability associated with the \$2-billion CHST cash supplement.
- Subsidies and other transfers increased by \$2.8 billion, or 18.1 per cent, primarily reflecting the impact of previous budget measures, including the \$995-million agricultural assistance package.

Other program expenses increased by \$2.3 billion, or 4.9 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 5.1 per cent, primarily reflecting a decline in the average effective interest rate on interest-bearing debt.

## **Financial source of \$3.1 billion for April 2003 to March 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 \$4.4 billion in 2003–04, down \$0.8 billion from the requirement in the same period of 2002–03, primarily reflecting a higher net source of funds from foreign exchange activities.

With a budgetary surplus of \$7.6 billion and a net requirement of \$4.4 billion from non-budgetary transactions, there was a financial source of \$3.1 billion in the April 2003 to March 2004 period. This is down from the financial source of \$5.0 billion

recorded in the same period last year, primarily reflecting the deterioration in the year-over-year budgetary surplus.

## **Net financing activities down \$0.6 billion**

With this financial source of \$3.1 billion, the Government reduced its net financing activities by \$0.6 billion and increased its cash balances by \$2.6 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 March stood at \$17.3 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](http://www.fin.gc.ca).

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Table 1

## Summary statement of transactions

	March		April to March	
	2003	2004	2002-03	2003-04
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,177	17,842	176,407	181,892
Expenses				
Program expenses	-12,912	-16,099	-128,785	-138,807
Public debt charges	-3,252	-2,978	-37,426	-35,522
Budgetary balance (deficit/surplus) <sup>1</sup>	-987	-1,235	10,196	7,563
<b>Non-budgetary transactions</b>	1,762	3,301	-5,246	-4,433
<b>Financial source/requirement</b>	775	2,066	4,950	3,130
<b>Net change in financing activities</b>	8,027	9,003	-2,157	-579
<b>Net change in cash balances</b>	8,802	11,069	2,793	2,551
<b>Cash balance at end of period</b>			14,740	17,250

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

<sup>1</sup> Under modified accrual, a deficit of \$4.4 billion was recorded for March 2003.

Table 2

## Budgetary revenues

	March			April to March		
	2003	2004	Change	2002-03	2003-04	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,718	8,135	5.4	81,157	83,144	2.4
Corporate income tax	1,868	3,389	81.4	20,772	26,355	26.9
Other income tax revenue	226	195	-13.7	2,956	2,912	-1.5
Total income tax	9,812	11,719	19.4	104,885	112,411	7.2
Excise taxes and duties						
Goods and services tax	1,038	2,446	135.6	28,680	28,262	-1.5
Customs import duties	272	228	-16.2	3,203	2,870	-10.4
Sales and excise taxes	758	730	-3.7	9,397	9,660	2.8
Air Travellers Security Charge	47	45	-4.3	407	414	1.7
Total excise taxes and duties	2,115	3,449	63.1	41,687	41,206	-1.2
Total tax revenues	11,927	15,168	27.2	146,572	153,617	4.8
<b>Employment insurance premiums</b>	1,775	1,713	-3.5	18,203	17,419	-4.3
<b>Other revenues</b>	1,475	961	-34.8	11,632	10,856	-6.7
<b>Total budgetary revenues</b>	15,177	17,842	17.6	176,407	181,892	3.1

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Table 3

## Budgetary expenses

	March		Change	April to March		Change
	2003	2004		2002-03	2003-04	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,186	2,277	4.2	25,720	26,939	4.7
Employment insurance benefits	1,576	1,378	-12.6	14,594	15,076	3.3
Total	3,762	3,655	-2.8	40,314	42,015	4.2
Transfers to other levels of government						
Canada Health and Social Transfer	1,550	3,691	138.1	18,600	22,300	19.9
Fiscal transfers	369	216	-41.5	10,453	10,081	-3.6
Alternative Payments for Standing Programs	-210	-285	35.7	-2,522	-2,615	3.7
Total	1,709	3,622	111.9	26,531	29,766	12.2
Subsidies and other transfers						
Agriculture	193	1,235	539.9	1,393	2,358	69.3
Foreign Affairs	742	674	-9.2	2,256	2,519	11.7
Health	163	508	211.7	1,511	2,059	36.3
Human Resources Development	138	169	22.5	1,451	1,614	11.2
Indian and Northern Development	454	481	5.9	4,151	4,268	2.8
Industry and Regional Development	370	479	29.5	1,959	2,435	24.3
Other	501	655	30.7	2,899	3,192	10.1
Total	2,561	4,201	64.0	15,620	18,445	18.1
Total transfer payments	8,032	11,478	42.9	82,465	90,226	9.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	57	20	-64.9	1,051	1,074	2.2
Canada Mortgage and Housing Corporation	165	205	24.2	1,913	2,065	7.9
Other	167	166	-0.6	2,045	2,125	3.9
Total	389	391	0.5	5,009	5,264	5.1
Defence	1,393	1,381	-0.9	11,328	11,933	5.3
All other departments and agencies	3,098	2,849	-8.0	29,983	31,384	4.7
Total other program expenses	4,880	4,621	-5.3	46,320	48,581	4.9
<b>Total program expenses</b>	12,912	16,099	24.7	128,785	138,807	7.8
<b>Public debt charges</b>	3,252	2,978	-8.4	37,426	35,522	-5.1
<b>Total budgetary expenses</b>	16,164	19,077	18.0	166,211	174,329	4.9

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Table 4

## Budgetary balance and financial source/requirement

	March		April to March	
	2003	2004	2002-03	2003-04
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-987	-1,235	10,196	7,563
<b>Non-budgetary transactions</b>				
Capital investing activities	-696	-724	-2,685	-2,259
Other investing activities	-55	792	-779	-260
Other activities				
Accounts payable, receivables, accruals and allowances	2,840	1,144	-7,664	-9,152
Foreign exchange activities	-552	1,793	3,058	4,219
Amortization of tangible capital assets	225	295	2,824	3,018
Total other activities	2,513	3,232	-1,782	-1,915
<b>Total non-budgetary transactions</b>	1,762	3,301	-5,246	-4,433
<b>Net financial source/requirement</b>	775	2,066	4,950	3,130

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2003	2004	2002-03	2003-04
	(\$ millions)			
<b>Net financial source/requirement</b>	775	2,066	4,950	3,130
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,456	1,921	-5,671	-9,307
Treasury bills	4,650	6,700	10,400	8,800
Canada Savings Bonds	-135	-15	-1,932	-1,680
Other	-1	-34	-19	57
Total	6,970	8,572	2,778	-2,130
Foreign currency borrowings	-364	-564	-5,897	-597
Total	6,606	8,008	-3,119	-2,727
Pension and other accounts	1,421	995	962	2,148
<b>Net change in financing activities</b>	8,027	9,003	-2,157	-579
<b>Change in cash balance</b>	8,802	11,069	2,793	2,551

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2003	March 31, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,384	75,937	-3,447
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	288,245	278,939	-9,306
Treasury bills	104,411	113,211	8,800
Canada Savings Bonds	22,584	20,904	-1,680
Other	3,371	3,427	56
Subtotal	418,611	416,481	-2,130
Payable in foreign currencies	21,141	20,544	-597
Total unmaturing debt	439,752	437,025	-2,727
Pension and other accounts			
Public sector pensions	125,708	127,790	2,082
Other employee and veteran future benefits	38,844	38,845	1
Canada Pension Plan (net of securities)	7,093	7,480	387
Other pension and other accounts	9,359	9,038	-321
Total pension and other accounts	181,004	183,152	2,148
Total interest-bearing debt	620,756	620,177	-579
<b>Total liabilities</b>	700,140	696,114	-4,026
<b>Financial assets</b>			
Cash and accounts receivable	62,626	69,979	7,353
Foreign exchange accounts	48,950	44,731	-4,219
Loans, investments and advances (net of allowances)	23,748	25,031	1,283
Total financial assets	135,324	139,741	4,417
<b>Net debt</b>	564,816	556,373	-8,443
<b>Non-financial assets</b>	54,240	53,360	-880
<b>Federal debt (accumulated deficit)</b>	510,576	503,013	-7,563

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