

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### May 2004: budgetary surplus of \$1.0 billion

There was a budgetary surplus of \$1.0 billion in May 2004, up \$79 million from the surplus reported in the same period last year, as higher budgetary revenues more than offset the increase in total expenses. On a year-over-year basis, budgetary revenues were up \$0.5 billion as strong gains in personal income tax revenues and goods and services taxes more than offset declines in most other revenue components. Program expenses increased by \$0.4 billion, primarily reflecting higher transfer payments, while public debt charges were virtually unchanged.

### April 2004 to May 2004: budgetary surplus of \$1.8 billion

For the first two months of the 2004-05 fiscal year (April and May), the budgetary surplus is estimated at \$1.8 billion, down \$125 million from the surplus reported in the same period a year ago. Budgetary revenues were up \$0.7 billion or 2.5 per cent, due largely to the strength of personal income taxes. Program expenses were up \$0.9 billion, or 4.0 per cent, primarily due to new spending initiatives announced in recent budgets. Public debt charges were down marginally.

### May 2004: budgetary results

The May 2004 budgetary surplus of \$1.0 billion was slightly higher than that reported in May 2003.

On a year-over-year basis, budgetary revenues, at \$15.2 billion, were up \$0.5 billion, or 3.4 per cent. Strong year-over-year increases in personal income tax and the goods and services tax (GST) revenues more than offset declines in corporate income tax revenues, sales and excise taxes, employment insurance premiums and other revenues.

- Personal income tax revenues were up \$0.9 billion or 15.1 per cent, primarily due to strong year-over-year growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past twelve months.
- Corporate income tax revenues declined by \$0.1 billion on a year-over-year basis, primarily reflecting higher refunds related to reassessments of tax liabilities in previous years.

- Excise taxes and duties increased by \$0.1 billion, or 4.5 per cent. Goods and Services Tax (GST) advanced by \$0.3 billion, or 14.7 per cent. The higher GST revenues reflected higher gross receipts from both domestic sales and imports. Customs import duties were up 8.6 per cent, while sales and excise taxes declined by 20.1 per cent, primarily attributable to lower energy excise taxes.
- Employment insurance (EI) premiums were down 5.2 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) 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, or 33.1 per cent. This component is extremely volatile on a monthly basis.



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On a year-over-year basis, program expenses in May 2004 were \$11.2 billion, up \$0.4 billion, or 4.1 per cent, from May 2003, due to higher transfer payments, as other program expenses were lower.

Transfer payments were \$0.5 billion higher, with increases in the three major components.

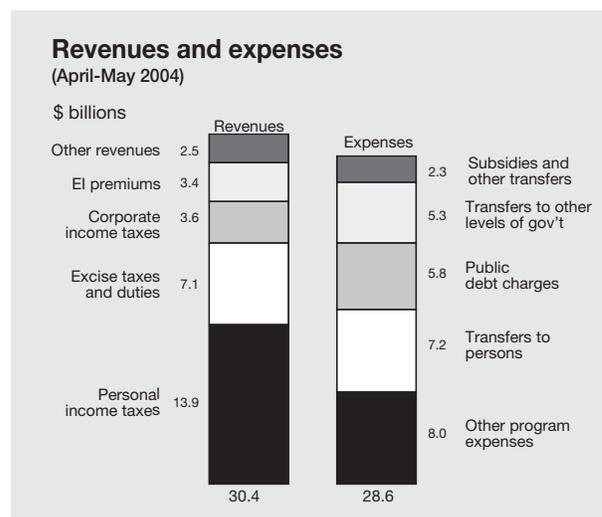
- Major transfers to persons, consisting of elderly and EI benefits, were up \$0.2 billion, or 6.3 per cent, on a year-over-year basis. Elderly benefits increased 3.5 per cent due to both higher average benefits, which have risen because of higher inflation in early 2003, and an increase in the number of individuals eligible for benefits. EI benefit payments were up 12.0 per cent, mainly because of one more payment cycle in May 2004 compared to last year.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Medical Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs were up \$0.3 billion, or 10.3 per cent. The increase in federal transfers in support of health and other social transfers reflected increased funding under the February 2003 Health Accord. Fiscal transfers consist of Equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowance Recovery Program. In aggregate, these transfers were up 17.0 per cent from May 2003.
- Subsidies and other transfers increased marginally. This component is extremely volatile over the first few months of the fiscal year, reflecting the timing of payments.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defense. All major components were lower than in May 2003, reflecting the timing of payments.

Public debt charges were down marginally, as a lower stock of interest-bearing debt offset the impact of an increase in the average effective interest rate on that debt.

## April and May 2004: budgetary results

In the first two months of the fiscal year, there was a budgetary surplus of \$1.8 billion, slightly less than the \$1.9 billion surplus reported in the same period of 2003–04, as higher program expenses offset an increase in budgetary revenues. On a year-over-year basis, budgetary revenues, at \$30.4 billion, were up \$0.7 billion, or 2.5 per cent, as higher personal income tax and GST revenues more than offset declines in most of the other major revenue components. On a year-over-year basis, program expenses in the April and May 2004 period, at \$28.6 billion, were up \$0.9 billion, or 4.0 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfers, especially for health care. Public debt charges were marginally lower.



## Financial requirement of \$2.7 billion for April and May 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, its loans, financial investments and advances, and pensions and other accounts, 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.

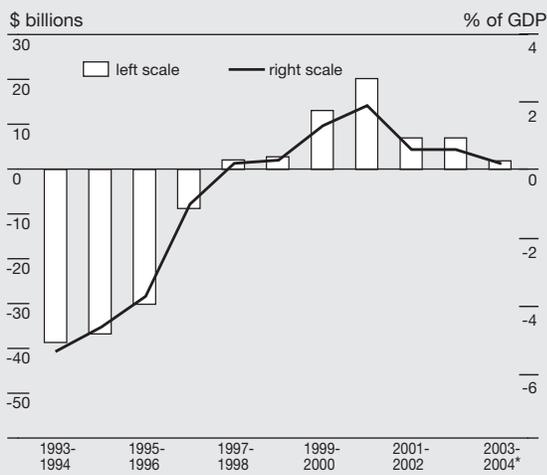
Non-budgetary transactions resulted in a net requirement of \$4.5 billion in April and May, up \$0.2 billion from the requirement in the same period of 2003-04, primarily reflecting a lower net source of funds from pensions and other accounts.

With a budgetary surplus of \$1.8 billion and a net requirement of \$4.5 billion from non-budgetary transactions, there was a financial requirement of \$2.7 billion in the first two months of 2004-05, up slightly from the same period last year.

## Net financing activities up \$1.1 billion

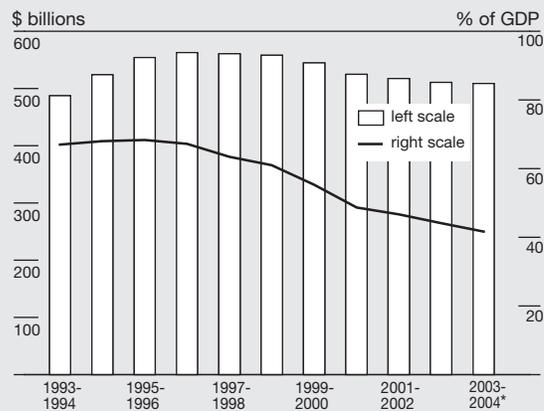
To finance this net financial requirement, the Government increased its net financing activities by \$1.1 billion and reduced its cash balances by \$1.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$15.7 billion.

### Budgetary balance



\* 2004 budget estimate.  
Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



\* 2004 budget estimate.  
Sources: Department of Finance and Statistics Canada.

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Table 1

## Summary statement of transactions

	May		April to May	
	2003	2004	2003–04	2004–05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,691	15,197	29,644	30,388
Expenses				
Program expenses	-10,754	-11,198	-21,860	-22,745
Public debt charges	-2,985	-2,968	-5,840	-5,824
Budgetary balance (deficit/surplus)	952	1,031	1,944	1,819
<b>Non-budgetary transactions</b>	1,127	343	-4,324	-4,525
<b>Financial source/requirement</b>	2,079	1,374	-2,380	-2,706
<b>Net change in financing activities</b>	7,369	9,028	2,672	1,127
<b>Net change in cash balances</b>	9,448	10,402	292	-1,579
<b>Cash balance at end of period</b>			14,994	15,747

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

Table 2

## Budgetary revenues

	May			April to May		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenue</b>						
Income tax						
Personal income tax	6,015	6,925	15.1	12,351	13,916	12.7
Corporate income tax	2,180	2,095	-3.9	4,053	3,577	-11.7
Other income tax revenue	212	321	51.4	500	568	13.6
Total income tax	8,407	9,341	11.1	16,904	18,061	6.8
Excise taxes and duties						
Goods and services tax	2,033	2,332	14.7	4,761	5,120	7.5
Customs import duties	209	227	8.6	453	462	2.0
Sales and excise taxes	793	634	-20.1	1,526	1,410	-7.6
Air Travellers Security Charge	50	31	-38.0	95	65	-31.6
Total excise taxes and duties	3,085	3,224	4.5	6,835	7,057	3.2
Total tax revenues	11,492	12,565	9.3	23,739	25,118	5.8
<b>Employment insurance premiums</b>	1,762	1,671	-5.2	3,533	3,368	-4.7
<b>Other revenues</b>	1,437	961	-33.1	2,372	1,902	-19.8
<b>Total budgetary revenues</b>	14,691	15,197	3.4	29,644	30,388	2.5

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Table 3

## Budgetary expenses

	May		Change	April to May		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,208	2,286	3.5	4,409	4,567	3.6
Employment insurance benefits	1,083	1,213	12.0	2,514	2,602	3.5
Total	3,291	3,499	6.3	6,923	7,169	3.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			2,108	
Canada Social Transfer		652			1,304	
Health Reform Transfer		125			250	
Canada Health and Social Transfer	1,691	8		3,384	16	
Total	1,691	1,839	8.8	3,384	3,678	8.7
Fiscal transfers	1,036	1,212	17.0	1,784	2,152	20.6
Alternative Payments for Standing Programs	-191	-253	32.5	-382	-506	32.5
Total	2,536	2,798	10.3	4,786	5,324	11.2
Subsidies and other transfers						
Agriculture	3	47	1,466.7	8	59	637.5
Foreign Affairs	98	164	67.3	297	335	12.8
Health	151	159	5.3	246	286	16.3
Human Resources Development	100	155	55.0	232	303	30.6
Indian and Northern Development	309	299	-3.2	909	929	2.2
Industry and Regional Development	91	115	26.4	181	232	28.2
Other	220	64	-70.9	420	155	-63.1
Total	972	1,003	3.2	2,293	2,299	0.3
Total transfer payments	6,799	7,300	7.4	14,002	14,792	5.6
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	87	87	0.0	265	301	13.6
Canada Mortgage and Housing Corporation	213	216	1.4	418	360	-13.9
Other	166	108	-34.9	426	390	-8.5
Total	466	411	-11.8	1,109	1,051	-5.2
Defence	866	891	2.9	1,652	1,641	-0.7
All other departments and agencies	2,623	2,596	-1.0	5,097	5,261	3.2
Total other program expenses	3,955	3,898	-1.4	7,858	7,953	1.2
<b>Total program expenses</b>	10,754	11,198	4.1	21,860	22,745	4.0
<b>Public debt charges</b>	2,985	2,968	-0.6	5,840	5,824	-0.3
<b>Total budgetary expenses</b>	13,739	14,166	3.1	27,700	28,569	3.1

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Table 4

## Budgetary balance and financial source/requirement

	May		April to May	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	952	1,031	1,944	1,819
<b>Non-budgetary transactions</b>				
Capital investing activities	-203	-90	-249	-238
Other investing activities	-11	8	-324	153
Pension and other accounts	412	764	813	184
Other activities				
Accounts payable, receivables, accruals and allowances	883	518	-4,853	-4,651
Foreign exchange activities	-106	-1,106	-212	-495
Amortization of tangible capital assets	152	249	501	522
Total other activities	929	-339	-4,564	-4,624
<b>Total non-budgetary transactions</b>	1,127	343	-4,324	-4,525
<b>Net financial source/requirement</b>	2,079	1,374	-2,380	-2,706

Table 5

## Financial source/requirement and net financing activities

	May		April to May	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	2,079	1,374	-2,380	-2,706
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	1,693	4,974	641	2,156
Treasury bills	6,000	3,800	2,500	0
Canada Savings Bonds	-138	-38	-232	-47
Other	-5	17	-5	-8
Total	7,550	8,753	2,904	2,101
Foreign currency borrowings	-181	275	-232	-974
<b>Net change in financing activities</b>	7,369	9,028	2,672	1,127
<b>Change in cash balance</b>	9,448	10,402	292	-1,579

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