

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2004: budgetary surplus of \$1.1 billion

There was a budgetary surplus of \$1.1 billion in June 2004, \$0.6 billion lower than the surplus of \$1.7 billion reported in June 2003. This year-over-year decline in the budgetary surplus primarily reflects the timing of revenue collections over the first three months of this year compared to the same period last year. On a year-over-year basis, budgetary revenues were down \$0.3 billion, while program expenses increased by \$0.4 billion, primarily reflecting higher transfer payments to the provinces and territories. Public debt charges were \$0.1 billion lower.

April to June 2004: budgetary surplus of \$2.9 billion

For the first three months of the 2004–05 fiscal year (April to June), the budgetary surplus is estimated at \$2.9 billion, down \$0.7 billion from the surplus reported in the same period last year. Budgetary revenues were up \$0.5 billion, or 1.0 per cent, as increases in personal income tax and goods and services tax (GST) revenues were dampened by declines in corporate income tax revenues, employment insurance (EI) premiums and other revenues. Program expenses were up \$1.3 billion, or 4.1 per cent, primarily due to higher transfers to the provinces for health and equalization. Public debt charges were \$0.1 billion lower.

June 2004: budgetary results

The June 2004 budgetary surplus of \$1.1 billion was \$0.6 billion lower than that reported in June 2003.

On a year-over-year basis, budgetary revenues, at \$15.1 billion, were down \$0.3 billion, or 1.8 per cent. This decline primarily reflects timing factors with respect to the receipt of revenues over the first three months of 2004–05 compared to the same period last year.

- Personal income tax revenues were down \$0.5 billion, or 6.2 per cent, offsetting about half of the year-over-year increase reported in May 2004. This primarily reflects the timing of receipts between May and June of this year compared to May and June of last year.
- Corporate income tax revenues increased by \$0.3 billion on a year-over-year basis, reflecting both strong growth in gross receipts and lower refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties declined by \$90 million, or 2.7 per cent. GST revenues were down \$147 million, or 6.4 per cent, reversing some of the year-over-year increase reported in May 2004.

Customs import duties were unchanged, while sales and excise taxes increased by 7.6 per cent, offsetting some of the year-over-year decline reported last month.

- EI premiums were down 6.1 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 \$0.1 billion, or 8.0 per cent. This component is extremely volatile on a monthly basis.

On a year-over-year basis, program expenses in June 2004 were \$11.2 billion, up \$0.4 billion, or 4.1 per cent, from June 2003 due entirely to higher transfer payments, as other program expenses were marginally 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 \$19 million,



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or 0.6 per cent, on a year-over-year basis. Elderly benefits increased 2.9 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 declined 4.3 per cent, reflecting the timing of payments between May and June. As noted in the May 2004 *Fiscal Monitor*, the large year-over-year increase reported in May 2004 was attributable to the inclusion of one more payment cycle in May 2004 compared to 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 \$0.3 billion, or 11.0 per cent. The increase in federal transfers in support of health and other social programs reflects 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 19.8 per cent from June 2003.
- Subsidies and other transfers increased by 17.6 per cent. 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 defence. On a year-over-year basis, these expenses were marginally lower, as increases in Crown corporation expenses were offset by lower defence and all other departmental and agency expenses. This component is also quite volatile over the first few months of the fiscal year, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were down 4.1 per cent, as a smaller stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

April to June 2004: budgetary results

In the first three months of the fiscal year, there was a budgetary surplus of \$2.9 billion, down \$0.7 billion from the surplus of \$3.7 billion reported in the same period of 2003–04.

Budgetary revenues, at \$45.5 billion, were up \$0.5 billion, or 1.0 per cent, as increases in personal income tax and GST revenues were dampened by declines in corporate income tax revenues, EI premiums and other revenues.

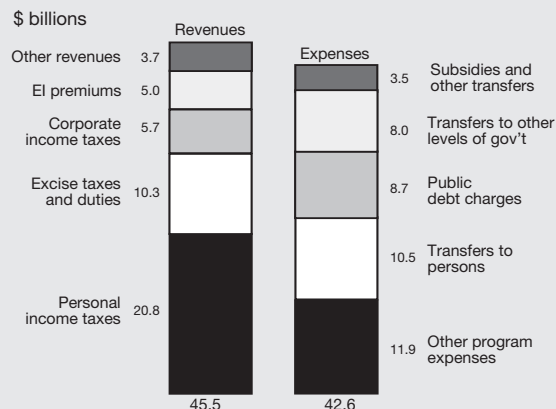
- Personal income tax revenues increased by \$1.1 billion, or 5.6 per cent. The year-over-year increase is primarily due to the strong growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past 12 months.
- Corporate income tax revenues were down 2.2 per cent. Although monthly installments were higher on a year-over-year basis, the increase was not sufficient to offset higher refunds related to reassessments of tax liabilities in previous years.
- Excise taxes and duties increased \$0.1 billion, or 1.3 per cent. GST revenues increased \$0.2 billion, or 3.0 per cent, due to higher gross receipts from domestic sales and lower refunds. Sales and excise taxes declined by 2.3 per cent, primarily due to lower energy taxes.
- EI premiums were down 5.2 per cent, reflecting the reduction in premium rates.
- Other revenues declined 16.1 per cent.

On a year-over-year basis, program expenses in the April to June 2004 period, at \$33.9 billion, were up \$1.3 billion, or 4.1 per cent, over the same period of 2003–04, with most of the increase attributable to higher transfers to the provinces for health care and equalization. Public debt charges declined by \$0.1 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.3 billion, or 6.1 per cent.

Revenues and expenses

(April-June 2004)



- Transfers to persons advanced by 2.6 per cent. Elderly benefits were up 3.3 per cent while EI benefits increased 1.2 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$0.8 billion, or 11.2 per cent, reflecting higher transfers in support of health and other social programs and increased fiscal transfers. The latter primarily reflects the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program.
- Subsidies and other transfers increased by 5.9 per cent.

Other program expenses increased by 0.5 per cent, as lower year-over-year defence expenses largely offset increases in the two other components.

Public debt charges were down 1.6 per cent, as the impact of a decline in the stock of interest-bearing debt more than offset an increase in the average effective interest rate on that debt.

Financial requirement of \$7.2 billion for April to June 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

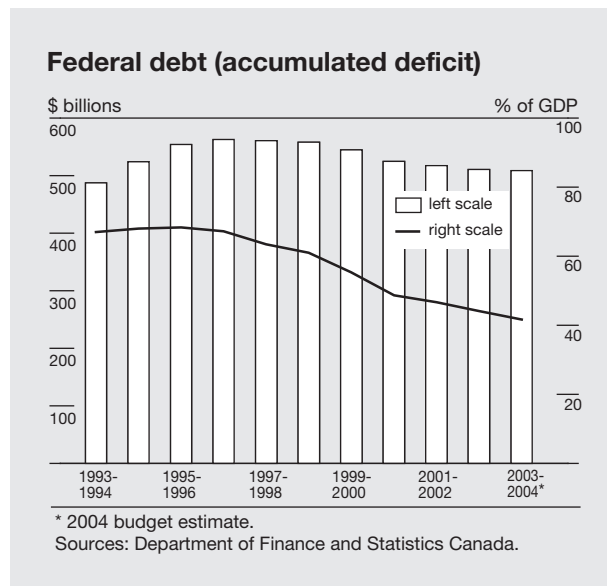
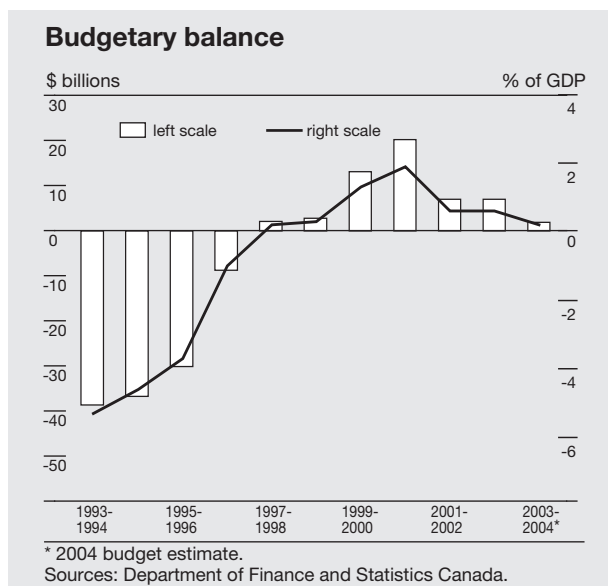
balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, 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 \$10.1 billion in the April to June period, down \$3.1 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers to trust funds established in the 2003 budget for the Canada Health and Social Transfer cash supplement (\$2.5 billion) and the Diagnostic/Medical Equipment Fund (\$1.5 billion).

With a budgetary surplus of \$2.9 billion and a net requirement of \$10.1 billion from non-budgetary transactions, there was a financial requirement of \$7.2 billion in the first three months of 2004–05, down \$2.4 billion from the same period last year.

Net financing activities down \$7.8 billion

The Government lowered its holdings of market debt by \$7.8 billion by the end of June 2004. As a result, to finance the financial requirement of \$7.2 billion, it lowered its cash balances. 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 June stood at \$2.3 billion.



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Table 1

Summary statement of transactions

	June		April to June	
	2003	2004	2003–04	2004–05
	(\$ millions)			
Budgetary transactions				
Revenues	15,431	15,147	45,075	45,535
Expenses				
Program expenses	-10,755	-11,201	-32,614	-33,946
Public debt charges	-2,965	-2,842	-8,806	-8,666
Budgetary balance (deficit/surplus)	1,711	1,104	3,655	2,923
Non-budgetary transactions	-8,882	-5,596	-13,207	-10,126
Financial source/requirement	-7,171	-4,492	-9,552	-7,198
Net change in financing activities	-3,201	-8,917	-530	-7,789
Net change in cash balances	-10,372	-13,409	-10,082	-14,987
Cash balance at end of period			4,621	2,264

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

Table 2

Budgetary revenues

	June			April to June		
	2003	2004	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenue						
Income taxes						
Personal income tax	7,348	6,894	-6.2	19,699	20,810	5.6
Corporate income tax	1,778	2,125	19.5	5,831	5,702	-2.2
Other income tax revenue	165	267	61.8	665	835	25.6
Total income tax	9,291	9,286	-0.1	26,195	27,347	4.4
Excise taxes and duties						
Goods and services tax	2,312	2,165	-6.4	7,073	7,285	3.0
Customs import duties	216	216	0.0	669	677	1.2
Sales and excise taxes	819	881	7.6	2,345	2,290	-2.3
Air Travellers Security Charge	36	31	-13.9	132	96	-27.3
Total excise taxes and duties	3,383	3,293	-2.7	10,219	10,348	1.3
Total tax revenues	12,674	12,579	-0.7	36,414	37,695	3.5
Employment insurance premiums	1,708	1,603	-6.1	5,241	4,971	-5.2
Other revenues	1,049	965	-8.0	3,420	2,869	-16.1
Total budgetary revenues	15,431	15,147	-1.8	45,075	45,535	1.0

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Table 3

Budgetary expenses

	June		Change	April to June		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,224	2,288	2.9	6,633	6,855	3.3
Employment insurance benefits	1,058	1,013	-4.3	3,571	3,615	1.2
Total	3,282	3,301	0.6	10,204	10,470	2.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			3,163	
Canada Social Transfer		652			1,956	
Health Reform Transfer		125			375	
Canada Health and Social Transfer	1,691	8		5,075	25	
Total	1,691	1,839	8.8	5,075	5,519	8.7
Fiscal transfers	893	1,070	19.8	2,677	3,221	20.3
Alternative Payments for Standing Programs	-191	-253	32.5	-573	-759	32.5
Total	2,393	2,656	11.0	7,179	7,981	11.2
Subsidies and other transfers						
Agriculture	12	65	441.7	19	124	552.6
Foreign Affairs	137	241	75.9	435	576	32.4
Health	80	89	11.3	326	375	15.0
Human Resources Development	110	100	-9.1	341	404	18.5
Indian and Northern Development	343	283	-17.5	1,252	1,212	-3.2
Industry and Regional Development	148	152	2.7	329	384	16.7
Other	226	312	38.1	645	471	-27.0
Total	1,056	1,242	17.6	3,347	3,546	5.9
Total transfer payments	6,731	7,199	7.0	20,730	21,997	6.1
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	102	71	-30.4	366	372	1.6
Canada Mortgage and Housing Corporation	152	195	28.3	570	555	-2.6
Other	120	180	50.0	546	572	4.8
Total	374	446	19.3	1,482	1,499	1.1
Defence	901	856	-5.0	2,552	2,499	-2.1
All other departments and agencies	2,749	2,700	-1.8	7,850	7,951	1.3
Total other program expenses	4,024	4,002	-0.5	11,884	11,949	0.5
Total program expenses	10,755	11,201	4.1	32,614	33,946	4.1
Public debt charges	2,965	2,842	-4.1	8,806	8,666	-1.6
Total budgetary expenses	13,720	14,043	2.4	41,420	42,612	2.9

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Table 4

Budgetary balance and financial source/requirement

	June		April to June	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,711	1,104	3,655	2,923
Non-budgetary transactions				
Capital investing activities	-170	-134	-420	-373
Other investing activities	-121	-275	-445	-122
Pension and other accounts	-24	-80	791	105
Other activities				
Accounts payable, receivables, accruals and allowances	-9,253	-6,004	-14,106	-10,649
Foreign exchange activities	420	671	207	175
Amortization of tangible capital assets	266	226	766	743
Total other activities	-8,567	-5,107	-13,133	-9,731
Total non-budgetary transactions	-8,882	-5,596	-13,207	-10,121
Net financial source/requirement	-7,171	-4,492	-9,552	-7,198

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	-7,171	-4,492	-9,552	-7,198
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,705	-9,867	-3,065	-7,710
Treasury bills	400	800	2,900	800
Canada Savings Bonds	-158	-75	-390	-122
Other	182	-6	177	-14
Total	-3,281	-9,148	-378	-7,046
Foreign currency borrowings	80	231	-152	-743
Net change in financing activities	-3,201	-8,917	-530	-7,789
Change in cash balance	-10,372	-13,409	-10,082	-14,987

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