

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2004: budgetary surplus of \$306 million

There was a budgetary surplus of \$306 million in August 2004, up slightly from the surplus of \$103 million recorded in August 2003. Revenues were up \$0.7 billion compared to August 2003, while program expenses were up \$0.6 billion. Public debt charges were \$0.1 billion lower than during the same month last year.

April to August 2004: budgetary surplus of \$4.7 billion

For the first five months of the 2004–05 fiscal year (April to August), the budgetary surplus is estimated at \$4.7 billion, up \$0.9 billion from the surplus reported in the same period last year. Budgetary revenues were up \$2.6 billion, or 3.6 per cent, reflecting gains in most major components, consistent with the strong growth in the economy in the first half of 2004. Program expenses were up \$2.1 billion, or 3.8 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.3 billion lower.

August 2004: budgetary results

The August 2004 budgetary surplus is estimated at \$306 million, up from \$103 million in August 2003.

On a year-over-year basis, budgetary revenues, at \$14.6 billion, were up \$0.7 billion, or 4.9 per cent. This increase is primarily attributable to a \$0.6-billion increase in personal income tax revenues and a \$0.4-billion increase in excise taxes and duties, offset somewhat by declines in employment insurance premium revenues and other revenues.

- Personal income tax revenues increased by \$0.6 billion, or 10.1 per cent, primarily due to strong growth in source deductions.
- Corporate income tax revenues were up 3.8 per cent, as strong gains in monthly installments were partially offset by an increase in refunds related to prior taxation years.
- Excise taxes and duties increased by \$0.4 billion, or 9.8 per cent. This increase reflects strong growth in goods and services tax (GST) revenues, somewhat offset by declines in

customs import duties and sales and excise taxes. GST revenues increased \$0.6 billion, or about 27 per cent, due to similar growth in gross receipts from both domestic sales and customs. Customs import duties were 11.5 per cent lower due in part to an increase in refunds. Sales and excise taxes declined 21.1 per cent, partly reflecting the ongoing effect of higher energy prices on energy demand. Other excise and sales taxes were generally lower than last year.

- Employment insurance (EI) premiums were down 11.3 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, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, declined 17.7 per cent. This component is extremely volatile on a monthly basis.



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On a year-over-year basis, program expenses in August 2004 were \$11.4 billion, up \$0.6 billion, or 5.5 per cent, from August 2003. Higher EI benefits and equalization entitlements accounted for most of the increase.

Transfer payments were up \$0.5 billion, or 6.9 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up strongly on a year-over-year basis. Elderly benefits increased 3.4 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 increased 23.5 per cent, reflecting the timing of payments in August 2004 compared to the same month in 2003. Some of this increase should be reversed in September 2004.
- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (the Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.3 billion, or 11.6 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 17.5 per cent from August 2003, primarily reflecting the impact of recoveries in 2003–04 of overpayments in previous years.
- Subsidies and other transfers were down 11.6 per cent. This component is extremely volatile on a monthly basis, reflecting the timing of payments. Negative amounts in Agriculture and Human Resources Development for August 2004 reflect corrections to estimates for previous months.

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 3.3 per cent, as a decline in Crown corporation and defence-related expenses was more than offset by higher expenses in all 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.

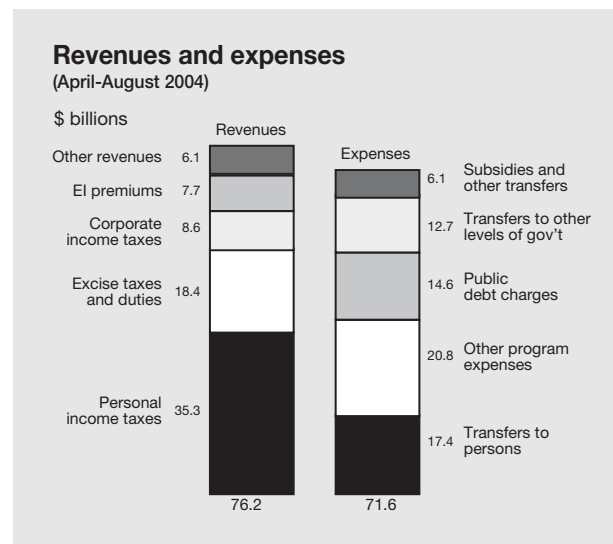
Public debt charges were down 4.0 per cent, as a lower stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

April to August 2004: budgetary results

In the first five months of the fiscal year, there was a budgetary surplus of \$4.7 billion, up \$0.9 billion from the surplus of \$3.8 billion reported in the same period of 2003–04.

Budgetary revenues, at \$76.2 billion, were up \$2.6 billion, or 3.6 per cent, reflecting strong gains in most components of tax revenue, dampened slightly by lower EI premiums and other revenues. Tax revenues were up 6.6 per cent.

- Personal income tax revenues increased by \$1.9 billion, or 5.6 per cent, primarily due to strong growth in source deductions from employment income, reflecting, in part, gains in employment.



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- Corporate income tax revenues were up \$0.6 billion, or 8.0 per cent, consistent with ongoing strength in corporate profits.
- Excise taxes and duties increased by \$1.3 billion, or 7.7 per cent, primarily due to growth in GST revenues, which were up 11.2 per cent. Customs import duties were also up, partially offset by declines in sales and excise taxes and revenues related to the Air Travellers Security Charge.
- EI premiums were down \$0.6 billion, or 7.4 per cent.
- Other revenues declined 12.7 per cent.

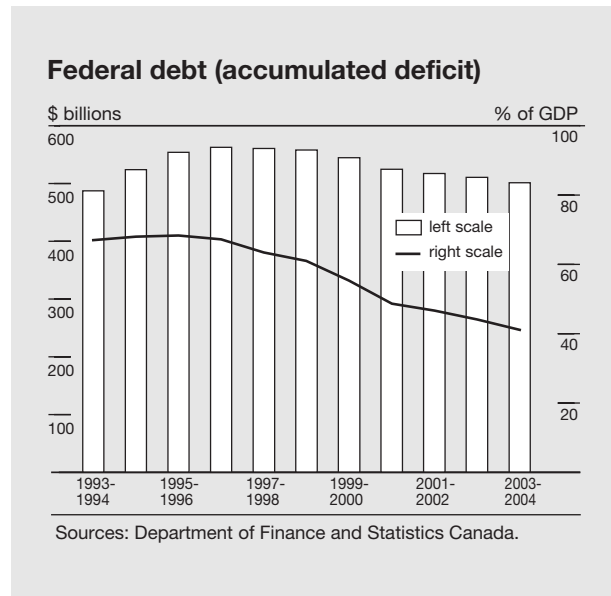
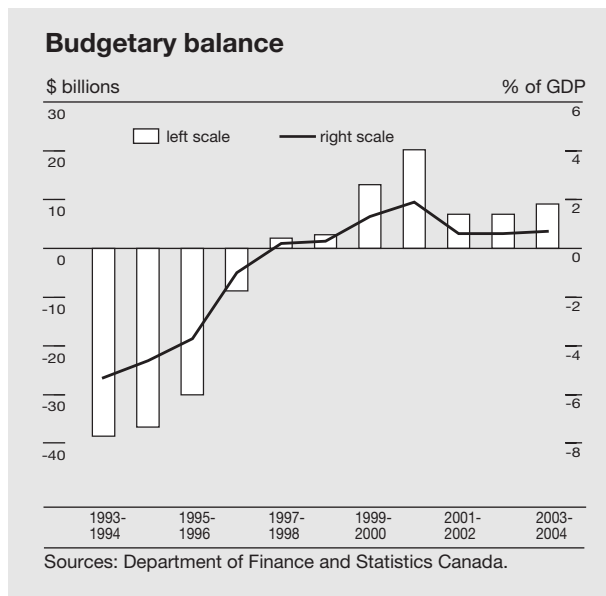
On a year-over-year basis, program expenses in the April to August 2004 period, at \$57.0 billion, were up 3.8 per cent over the same period of 2003–04, with most of the increase attributable to higher transfer payments. Public debt charges were \$0.3 billion lower than in the first five months of 2003–04.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.9 billion, or 5.4 per cent.

- Transfers to persons advanced by \$0.6 billion, or 3.6 per cent. Elderly benefits were up 3.2 per cent while EI benefits were up 4.3 per cent. Within EI benefits, most of the increase was in special benefits, such as sickness, maternity and parental benefits.
- Transfers to other levels of government were up \$0.9 billion, or 7.5 per cent, reflecting higher transfers in support of health and other social programs due to the 2003 health accord, 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 \$0.4 billion, or 6.5 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$0.2 billion, or 1.2 per cent, as lower expenses related to Crown corporations and defence were offset by an increase in all other departmental and agency expenses.

Public debt charges were down \$0.3 billion, reflecting the impact of a decline in the stock of interest-bearing debt.



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Financial requirement of \$4.1 billion for April to August 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 \$8.8 billion in the April to August period, down \$6.9 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the

April to August 2003 period 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).

With a budgetary surplus of \$4.7 billion and a net requirement of \$8.8 billion from non-budgetary transactions, there was a financial requirement of \$4.1 billion in the first five months of 2004–05, down \$7.8 billion from the same period last year.

Net financing activities down \$4.1 billion

The Government reduced market debt by \$4.1 billion by the end of August 2004, largely by reducing its holdings of marketable bonds. As a result, to finance both the reduction in market debt and the financial requirement of \$4.1 billion, the Government lowered its cash balances by \$8.3 billion. 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 August stood at \$9.0 billion.

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Table 1

Summary statement of transactions

	August		April to August	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Budgetary transactions				
Revenues	13,935	14,617	73,571	76,214
Expenses				
Program expenses	-10,799	-11,398	-54,854	-56,949
Public debt charges	-3,033	-2,913	-14,947	-14,609
Budgetary balance (deficit/surplus)	103	306	3,770	4,656
Non-budgetary transactions	-287	1,407	-15,711	-8,802
Financial source/requirement	-184	1,713	-11,941	-4,146
Net change in financing activities	5,123	2,856	5,580	-4,111
Net change in cash balances	4,939	4,569	-6,361	-8,257
Cash balance at end of period			8,336	8,994

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

Table 2

Budgetary revenues

	August		Change	April to August		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,428	7,076	10.1	33,472	35,340	5.6
Corporate income tax	936	972	3.8	7,936	8,572	8.0
Other income tax revenue	197	218	10.7	1,179	1,319	11.9
Total income tax	7,561	8,266	9.3	42,587	45,231	6.2
Excise taxes and duties						
Goods and services tax	2,290	2,906	26.9	11,620	12,919	11.2
Customs import duties	349	309	-11.5	1,228	1,304	6.2
Sales and excise taxes	1,010	797	-21.1	4,080	4,047	-0.8
Air Travellers Security Charge	32	28	-12.5	179	159	-11.2
Total excise taxes and duties	3,681	4,040	9.8	17,107	18,429	7.7
Total tax revenues	11,242	12,306	9.5	59,694	63,660	6.6
Employment insurance premiums	1,475	1,309	-11.3	8,368	7,746	-7.4
Other revenues	1,218	1,002	-17.7	5,509	4,808	-12.7
Total budgetary revenues	13,935	14,617	4.9	73,571	76,214	3.6

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Table 3

Budgetary expenses

	August		Change	April to August		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,233	2,310	3.4	11,080	11,437	3.2
Employment insurance benefits	1,075	1,328	23.5	5,682	5,925	4.3
Total	3,308	3,638	10.0	16,762	17,362	3.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			5,271	
Canada Social Transfer		652			3,260	
Health Reform Transfer		125			625	
Canada Health and Social Transfer	1,692			8,458	25	
Total	1,692	1,831	8.2	8,458	9,181	8.5
Fiscal transfers	789	927	17.5	4,344	4,717	8.6
Alternative Payments for Standing Programs	-211	-225	6.6	-995	-1,209	21.5
Total	2,270	2,533	11.6	11,807	12,689	7.5
Subsidies and other transfers						
Agriculture	211	-8	-103.8	257	145	-43.6
Foreign Affairs	104	167	60.6	697	894	28.3
Health	99	87	-12.1	616	695	12.8
Human Resources Development	80	-95	-218.8	507	397	-21.7
Indian and Northern Development	313	337	7.7	1,877	1,889	0.6
Industry and Regional Development	187	211	12.8	643	705	9.6
Other	116	282	143.1	1,120	1,366	22.0
Total	1,110	981	-11.6	5,717	6,091	6.5
Total transfer payments	6,688	7,152	6.9	34,286	36,142	5.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	74	85	14.9	491	551	12.2
Canada Mortgage and Housing Corporation	172	140	-18.6	909	865	-4.8
Other	178	178	0.0	915	872	-4.7
Total	424	403	-5.0	2,315	2,288	-1.2
Defence	1,117	1,047	-6.3	4,692	4,615	-1.6
All other departments and agencies	2,570	2,796	8.8	13,561	13,904	2.5
Total other program expenses	4,111	4,246	3.3	20,568	20,807	1.2
Total program expenses	10,799	11,398	5.5	54,854	56,949	3.8
Public debt charges	3,033	2,913	-4.0	14,947	14,609	-2.3
Total budgetary expenses	13,832	14,311	3.5	69,801	71,558	2.5

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Table 4

Budgetary balance and financial source/requirement

	August		April to August	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	103	306	3,770	4,656
Non-budgetary transactions				
Capital investing activities	-135	-27	-771	-406
Other investing activities	-129	-272	-529	-704
Pension and other accounts	111	104	192	-513
Other activities				
Accounts payable, receivables, accruals and allowances	-631	1,878	-16,512	-8,188
Foreign exchange activities	-25	-427	387	-148
Amortization of tangible capital assets	522	151	1,522	1,157
Total other activities	-134	1,602	-14,603	-7,179
Total non-budgetary transactions	-287	1,407	-15,711	-8,802
Net financial source/requirement	-184	1,713	-11,941	-4,146

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2003	2004	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	-184	1,713	-11,941	-4,146
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,451	2,767	-3,343	-4,665
Treasury bills	3,900	100	9,700	1,900
Canada Savings Bonds	-89	-55	-578	-238
Other	-1	-5	174	-24
Total	5,261	2,807	5,953	-3,027
Foreign currency borrowings	-138	49	-373	-1,084
Net change in financing activities	5,123	2,856	5,580	-4,111
Change in cash balance	4,939	4,569	-6,361	-8,257

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Table 6

Condensed statement of assets and liabilities

	March 31, 2004	August 31, 2004	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	67,758	-12,206
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	274,115	-4,665
Treasury bills	113,378	115,278	1,900
Canada Savings Bonds	21,330	21,092	-238
Other	3,427	3,404	-23
Subtotal	416,915	413,889	-3,026
Payable in foreign currencies	20,542	19,458	-1,084
Obligations related to capital leases	2,774	2,740	-34
Total unmatured debt	440,231	436,087	-4,144
Pension and other accounts			
Public sector pensions	127,560	128,330	770
Other employee and veteran future benefits	39,367	39,710	343
Canada Pension Plan (net of securities)	7,483	6,677	-806
Other pension and other accounts	6,488	6,045	-443
Total pension and other accounts	180,898	180,761	-137
Total interest-bearing debt	621,129	616,848	-4,281
Total liabilities	701,093	684,606	-16,487
Financial assets			
Cash and accounts receivable	70,921	59,107	-11,814
Foreign exchange accounts	44,313	44,460	147
Loans, investments and advances (net of allowances)	29,548	30,252	704
Total financial assets	144,782	133,819	-10,963
Net debt	556,311	550,787	-5,524
Non-financial assets	54,817	53,949	-868
Federal debt (accumulated deficit)	501,494	496,838	-4,656

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