

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### September 2004: budgetary surplus of \$3.3 billion

There was a budgetary surplus of \$3.3 billion in September 2004, up significantly from a deficit of \$728 million recorded in September 2003. This year-over-year higher surplus primarily reflects the net gain from the sale of the federal government's remaining shares in Petro-Canada. In addition, the labour disruptions in September at the Canada Revenue Agency resulted in delays in the processing of refunds, thereby resulting in a temporary increase in revenues. Revenues were up \$3.5 billion compared to September 2003, while program expenses were down \$0.4 billion. Public debt charges were \$0.1 billion lower than during the same month last year.

### April to September 2004: budgetary surplus of \$7.9 billion

For the first six months of the 2004–05 fiscal year (April to September), the budgetary surplus is estimated at \$7.9 billion, up \$4.9 billion from the surplus reported in the same period last year. Budgetary revenues were up \$6.1 billion, or 7.1 per cent. This reflects the inclusion of the net proceeds from the sale of the Government's remaining shares in Petro-Canada as well as increases in most revenue components, consistent with the strong growth in the economy in the first half of 2004. Program expenses were up \$1.7 billion, or 2.6 per cent, primarily due to higher transfer payments, reflecting the impact of previous budget measures. Public debt charges were \$0.4 billion lower.

**Note to Readers:** Caution should be exercised in interpreting the year-to-date fiscal results. The revenue data reported for September and the fiscal year to date were affected by the recent federal public service labour disruption. Revenues are in some instances overstated due to fewer refunds having been processed. The labour disruption will also affect the October 2004 results, but the impact should unwind over the coming months as the Canada Revenue Agency catches up with the processing of refunds. In addition, a number of proposed policy initiatives, including the recent federal-provincial/territorial agreements on health care, equalization and Territorial Formula Financing, will only be reflected in the monthly fiscal results once enabling legislation receives Royal Assent.

### September 2004: budgetary results

The September 2004 budgetary surplus was estimated at \$3.3 billion, up from a deficit of \$728 million in September 2003.

On a year-over-year basis, budgetary revenues, at \$16.9 billion, were up \$3.5 billion, or 26.2 per cent. This increase is mostly attributable to the net proceeds from the sale of the federal government's remaining shares in Petro-Canada. There were also increases in personal income tax (\$0.7 billion) and

corporate income tax (\$0.5 billion) revenues, offset somewhat by a decline in employment insurance (EI) premium revenues (\$0.2 billion). Excise taxes and duties remained flat on a year-over-year basis.

- Personal income tax revenues increased by \$0.7 billion, or 10.7 per cent. The year-over-year increase is primarily attributable to growth in source deductions and higher instalment payments.



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- Corporate income tax revenues were up \$0.5 billion, or 46.9 per cent, reflecting fewer refunds processed during the month of September due to the public service labour disruption. For example, gross receipts in September were up about 12 per cent, but a 27-per-cent fall-off in refunds lifted net receipts by 46.9 per cent. Some of these higher net receipts will be reversed in the coming months.
- Excise taxes and duties were flat, as a decline in customs import duties was almost fully offset by increases in other excise taxes and duties. Goods and services tax (GST) revenues remained flat on a year-over-year basis, although GST refunds were down significantly due to the public service labour disruption.
- EI premiums were down 12.0 per cent, reflecting the impact of the lower premium rate (the employee rate for 2004 is \$1.98 per \$100 of insurable earnings compared to \$2.10 in 2003), which 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, were up \$2.5 billion due to the sale of the federal government's remaining shares in Petro-Canada. Without this sale, other revenues would have declined in September.

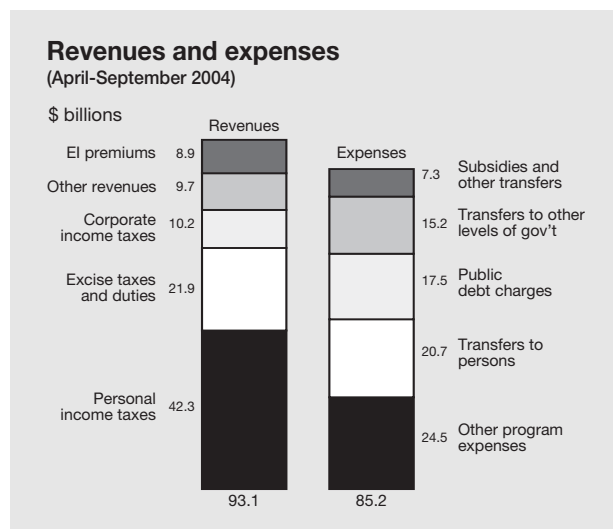
Program expenses in September 2004 were \$10.8 billion, down \$0.4 billion, or 3.4 per cent, from September 2003. Lower EI benefits (down \$0.3 billion) and other program expenses (down \$0.4 billion) more than offset increases in transfers to other levels of government and subsidies and other transfers (up \$0.3 billion).

Total transfer payments were up \$0.1 billion, or 0.8 per cent, in September 2004.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$0.3 billion on a year-over-year basis. Elderly benefits increased 3.2 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 benefits fell by 25.2 per cent, largely due to the timing of payments in September 2004 compared to the same month in 2003, and partly due to a decline in the number of unemployed persons.

- 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 8.3 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 8.0 per cent from September 2003, primarily reflecting the impact of recoveries in 2003–04 for overpayments in previous years under the equalization program.
- Subsidies and other transfers were up 12.6 per cent. This component is extremely volatile on a monthly basis, 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 down 10.4 per cent. Other program expenses were affected by the federal public service labour disruption in September, which reduced operating costs. 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 3.5 per cent, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## April to September 2004: budgetary results

In the first six months of the fiscal year, there was a budgetary surplus of \$7.9 billion, up \$4.9 billion from the surplus of \$3.0 billion reported in the same period of 2003–04. Over half of the increase in the surplus relates to one-time factors.

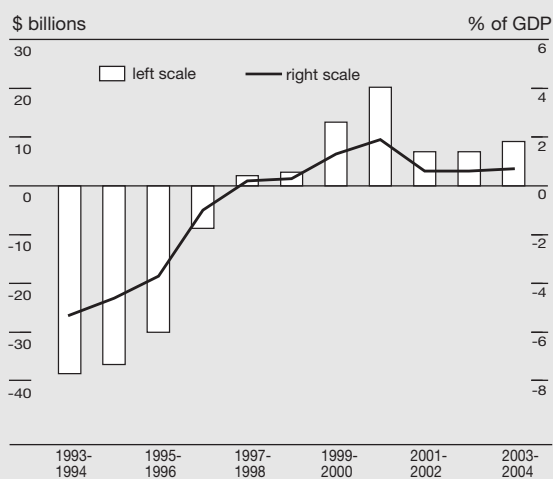
Budgetary revenues, at \$93.1 billion, were up \$6.1 billion or 7.1 per cent. This increase reflects gains in tax revenues and higher other revenues, including the sale of the federal government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums. Tax revenues were up \$5.2 billion, or 7.3 per cent. However, as noted above, the labour disruption in the federal public service in September has raised both September and year-to-date tax revenues due to a lower volume of refunds processed. This impact should largely unwind in the coming months.

- Personal income tax revenues increased by \$2.5 billion, or 6.4 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, partly reflecting gains in employment.

- Corporate income tax revenues were up \$1.2 billion, or 12.8 per cent, reflecting in part the lower volume of refunds processed in September 2004. In addition, the monthly results are affected by remittance procedures. Corporations are required to remit monthly instalments based on their previous year's actual tax liabilities or their current year's estimated liabilities, with settlement payments made within 60 days of the close of their taxation year. Given the large increase in settlement payments in 2003–04, reflecting the increase in corporate profits in 2003, the current monthly instalments are more reflective of the increase in the tax liability last year than an increase in the current year.
- Excise taxes and duties increased by \$1.3 billion, or 6.4 per cent, primarily due to growth in GST revenues, which were up 9.3 per cent. Customs import duties were up slightly, while there was a slight decline in the Air Travellers Security Charge.
- EI premiums were down \$0.8 billion, or 8.0 per cent.
- Other revenues increased \$1.8 billion, or 27.2 per cent, reflecting the sale of the Government's remaining shares of Petro-Canada.

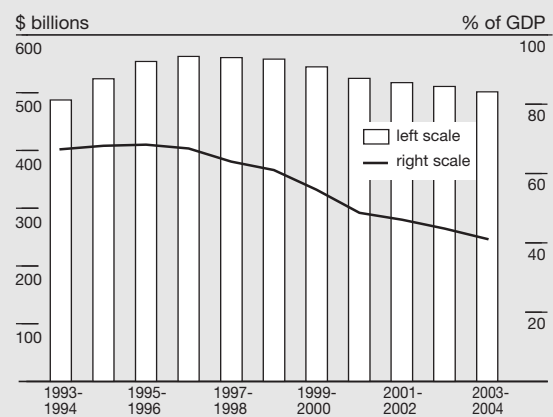
On a year-over-year basis, program expenses in the April to September 2004 period were up 2.6 per cent to \$67.7 billion due to higher transfers. Public debt charges were \$0.4 billion lower than in the first six months of 2003–04.

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$1.9 billion, or 4.6 per cent.

- Transfers to persons advanced by \$0.3 billion, or 1.6 per cent. Elderly benefits were up 3.2 per cent while EI benefits were down 1.4 per cent. Within EI benefits, an increase in special benefits, such as sickness, maternity and parental benefits, was offset by a decline in regular benefits, reflecting the improvement in the labour market.
- Transfers to other levels of government were up \$1.1 billion, or 7.6 per cent, reflecting higher transfers in support of health and other social programs resulting from the February 2003 First Ministers' Accord on Health Care Renewal, as well as increased fiscal transfers. Fiscal transfers were up 8.5 per cent, primarily reflecting 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 \$0.5 billion, or 7.4 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses fell by \$0.2 billion, or 0.8 per cent, due to lower expenses related to Crown corporations and all departments and agencies except defence, reflecting lower operating costs related to the federal public service labour disruption.

Public debt charges were down \$0.4 billion, as a decline in the stock of interest-bearing debt more than offset the impact of an increase in the average effective interest rate on that debt.

## **Financial requirement of \$1.0 billion for April to September 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), pensions and other accounts, as well as 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 \$8.9 billion in the April to September period, down \$4.7 billion from the requirement in the same period of 2003–04. The decline is primarily attributable to the cash transfers in the April to September 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 \$7.9 billion and a net requirement of \$8.9 billion from non-budgetary transactions, there was a financial requirement of \$1.0 billion in the first six months of 2004–05, down \$9.6 billion from the same period last year.

## **Net financing activities down \$10.6 billion**

The Government reduced market debt by \$10.6 billion by the end of September 2004, largely by reducing its holdings of marketable bonds. Given the reduction in market debt and the financial requirement of \$1.0 billion, the Government lowered its cash balances by \$11.5 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 September stood at \$5.7 billion.

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Table 1

## Summary statement of transactions

	September		April to September	
	2003	2004	2003–04	2004–05
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	13,370	16,873	86,940	93,086
Expenses				
Program expenses	-11,128	-10,753	-65,982	-67,702
Public debt charges	-2,970	-2,866	-17,916	-17,476
Budgetary balance (deficit/surplus)	-728	3,254	3,042	7,908
<b>Non-budgetary transactions</b>	2,075	-111	-13,629	-8,881
<b>Financial source/requirement</b>	1,347	3,143	-10,587	-973
<b>Net change in financing activities</b>	-5,708	-6,431	-140	-10,576
<b>Net change in cash balances</b>	-4,361	-3,288	-10,727	-11,549
<b>Cash balance at end of period</b>			3,973	5,701

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

Table 2

## Budgetary revenues

	September		Change	April to September		Change
	2003	2004		2003–04	2004–05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	6,307	6,979	10.7	39,780	42,319	6.4
Corporate income tax	1,122	1,648	46.9	9,058	10,220	12.8
Other income tax revenue	171	181	5.8	1,350	1,500	11.1
Total income tax	7,600	8,808	15.9	50,188	54,039	7.7
Excise taxes and duties						
Goods and services tax	2,368	2,369	0.0	13,988	15,288	9.3
Customs import duties	317	277	-12.6	1,545	1,581	2.3
Sales and excise taxes	790	824	4.3	4,870	4,871	0.0
Air Travellers Security Charge	33	35	6.1	212	194	-8.5
Total excise taxes and duties	3,508	3,505	-0.1	20,615	21,934	6.4
Total tax revenues	11,108	12,313	10.8	70,803	75,973	7.3
<b>Employment insurance premiums</b>	1,322	1,163	-12.0	9,689	8,910	-8.0
<b>Other revenues</b>	940	3,397	261.4	6,448	8,203	27.2
<b>Total budgetary revenues</b>	13,370	16,873	26.2	86,940	93,086	7.1

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Table 3

## Budgetary expenses

	September		Change	April to September		Change
	2003	2004		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,244	2,315	3.2	13,324	13,752	3.2
Employment insurance benefits	1,352	1,011	-25.2	7,035	6,935	-1.4
Total	3,596	3,326	-7.5	20,359	20,687	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			6,325	
Canada Social Transfer		652			3,912	
Health Reform Transfer		125			750	
Canada Health and Social Transfer	1,692			10,150	25	-99.8
Fiscal transfers	858	927	8.0	5,202	5,645	8.5
Alternative Payments for Standing Programs	-211	-225	6.6	-1,205	-1,433	18.9
Total	2,339	2,533	8.3	14,147	15,224	7.6
Subsidies and other transfers						
Agriculture	112	88	-21.4	369	232	-37.1
Foreign Affairs	133	129	-3.0	830	1,023	23.3
Health	92	179	94.6	708	874	23.4
Human Resources Development	126	102	-19.0	633	499	-21.2
Indian and Northern Development	281	302	7.5	2,158	2,192	1.6
Industry and Regional Development	69	122	76.8	712	827	16.2
Other	237	260	9.7	1,358	1,625	19.7
Total	1,050	1,182	12.6	6,768	7,272	7.4
Total transfer payments	6,985	7,041	0.8	41,274	43,183	4.6
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	92	109	18.5	583	660	13.2
Canada Mortgage and Housing Corporation	166	170	2.4	1,074	1,035	-3.6
Other	157	116	-26.1	1,073	988	-7.9
Total	415	395	-4.8	2,730	2,683	-1.7
Defence	876	1,040	18.7	5,567	5,655	1.6
All other departments and agencies	2,852	2,277	-20.2	16,411	16,181	-1.4
Total other program expenses	4,143	3,712	-10.4	24,708	24,519	-0.8
<b>Total program expenses</b>	11,128	10,753	-3.4	65,982	67,702	2.6
<b>Public debt charges</b>	2,970	2,866	-3.5	17,916	17,476	-2.5
<b>Total budgetary expenses</b>	14,098	13,619	-3.4	83,898	85,178	1.5

Table 4

## Budgetary balance and financial source/requirement

	September		April to September	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-728	3,254	3,042	7,908
<b>Non-budgetary transactions</b>				
Capital investing activities	-175	-180	-1,151	-471
Other investing activities	-832	-378	-1,361	-1,082
Pension and other accounts	371	-504	824	-640
Other activities				
Accounts payable, receivables, accruals and allowances	3,026	923	-13,535	-7,725
Foreign exchange activities	-219	-161	168	-309
Amortization of tangible capital assets	-96	189	1,426	1,346
Total other activities	2,711	951	-11,941	-6,688
<b>Total non-budgetary transactions</b>	2,075	-111	-13,629	-8,881
<b>Net financial source/requirement</b>	1,347	3,143	-10,587	-973

Table 5

## Financial source/requirement and net financing activities

	September		April to September	
	2003	2004	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	1,347	3,143	-10,587	-973
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-3,758	-4,813	-7,101	-9,478
Treasury bills	-2,200	-1,500	7,500	400
Canada Savings Bonds	-74	-30	-652	-268
Other	-1	-1	173	-25
Total	-6,033	-6,344	-80	-9,371
Foreign currency borrowings	325	-83	-48	-1,167
Total	-5,708	-6,427	-128	-10,538
Obligations related to capital leases	0	-4	-12	-38
<b>Net change in financing activities</b>	-5,708	-6,431	-140	-10,576
<b>Change in cash balance</b>	-4,361	-3,288	-10,727	-11,549

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	September 30, 2004	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	68,154	-11,810
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	269,302	-9,478
Treasury bills	113,378	113,778	400
Canada Savings Bonds	21,330	21,062	-268
Other	3,427	3,402	-25
Subtotal	416,915	407,544	-9,371
Payable in foreign currencies	20,542	19,375	-1,167
Obligations related to capital leases	2,774	2,736	-38
Total unmatured debt	440,231	429,655	-10,576
Pension and other accounts			
Public sector pensions	127,560	129,598	2,038
Other employee and veteran future benefits	39,367	39,518	151
Canada Pension Plan (net of securities)	7,483	5,085	-2,398
Other pension and other accounts	6,488	6,057	-431
Total pension and other accounts	180,898	180,258	-640
Total interest-bearing debt	621,129	609,913	-11,216
<b>Total liabilities</b>	701,093	678,067	-23,026
<b>Financial assets</b>			
Cash and accounts receivable	70,921	55,288	-15,633
Foreign exchange accounts	44,313	44,622	309
Loans, investments and advances (net of allowances)	29,548	30,630	1,082
Total financial assets	144,782	130,540	-14,242
<b>Net debt</b>	556,311	547,527	-8,784
<b>Non-financial assets</b>	54,818	53,942	-876
<b>Federal debt (accumulated deficit)</b>	501,493	493,585	-7,908

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