

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2005: budgetary surplus of \$2.4 billion

There was a budgetary surplus of \$2.4 billion in January 2005, up from the surplus of \$0.8 billion recorded in January 2004. This year-over-year increase is due principally to timing factors related to the inclusion of one extra processing cycle for personal income tax receipts, which last year occurred in February. Consequently, personal income tax receipts—and therefore the monthly budgetary surplus—will fall off considerably in February 2005. As well, the surplus was bolstered by very strong net goods and services tax (GST) receipts, which grew 29.3 per cent, well in excess of the growth in taxable consumption. The growth in net receipts is due to ongoing weakness in GST refunds. Over the course of the full fiscal year, growth in GST refunds should pick up to more closely reflect the increase in gross revenues, and therefore net receipts will be more reflective of the growth in taxable consumption. Program expenses were up by \$1.8 billion in January 2005, while public debt charges were \$0.1 billion lower.

April 2004 to January 2005: budgetary surplus of \$13.4 billion

For the first 10 months of the 2004–05 fiscal year (April to January), the budgetary surplus is estimated at \$13.4 billion, up \$5.3 billion from the surplus reported in the same period of 2003–04. This improvement reflects the above-mentioned timing factors, which will unwind in February, the inclusion of the net proceeds of \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as increases in most revenue components, consistent with the growth in the economy. *Monthly results to date do not reflect the significant measures announced in the 2005 budget or the cost of the federal-provincial agreements on health care and equalization/Territorial Formula Financing (TFF). Together, these measures total nearly \$11 billion.* Their cost will be reflected in the monthly fiscal results once the enabling legislation receives Royal Assent.

January 2005: budgetary results

The January 2005 budgetary surplus was estimated at \$2.4 billion, up from the surplus of \$0.8 billion in January 2004.

Budgetary revenues totalled \$18.8 billion in the month, up \$3.3 billion or 21.4 per cent from January 2004. This rise is due to significantly higher personal income tax receipts as well as increases in GST and corporate tax receipts.

- Personal income tax revenues increased \$1.5 billion or 20.5 per cent. However, this extraordinary gain reflects timing factors—there were more processing cycles for monthly withholdings in January 2005 compared to the same month last year—rather than underlying

increases in income or employment. These factors will reverse in February 2005.

- Corporate income tax revenues were up \$0.5 billion or 23.6 per cent, reflecting the year-over-year growth in corporate profits.
- Excise taxes and duties were up \$0.7 billion due to higher GST receipts, which were up \$0.7 billion or 29.3 per cent. The sharp rise in GST receipts reflects strong gross receipts in January, but also a continuing weakness in GST refunds, which have been very low year-to-date relative to the level of gross GST receipts. Customs import duties fell \$12 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge rose \$40 million.



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- Employment insurance (EI) premiums were up 34.1 per cent, reflecting adjustments for under-reporting in previous months.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 2.9 per cent. This revenue component is volatile on a monthly basis.

Program expenses totalled \$13.6 billion in January 2005, up \$1.8 billion or 15.5 per cent from January 2004 due to increases in transfer payments and other program expenses.

Total transfer payments were up \$0.8 billion or 9.7 per cent in January 2005.

- Major transfers to persons, consisting of elderly and EI benefits, were 7.4 per cent higher on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were up 12.2 per cent due to an increase in regular benefits, reflecting the inclusion of an additional payment cycle in January 2005 compared to January 2004.
- 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 9.1 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 7.9 per cent from January 2004, primarily reflecting the impact of recoveries in the 2003–04 fiscal year of overpayments made in prior years.
- Subsidies and other transfers were up 15.7 per cent. This component is volatile on a monthly basis, largely 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 up 26.8 per cent, due to both higher Crown corporation expenses and higher expenses related to defence and other departments and agencies. Defence expenses rose \$0.1 billion or 15.1 per cent, while expenses for all other departments and agencies rose \$0.8 billion or 30.7 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from previous budgets.

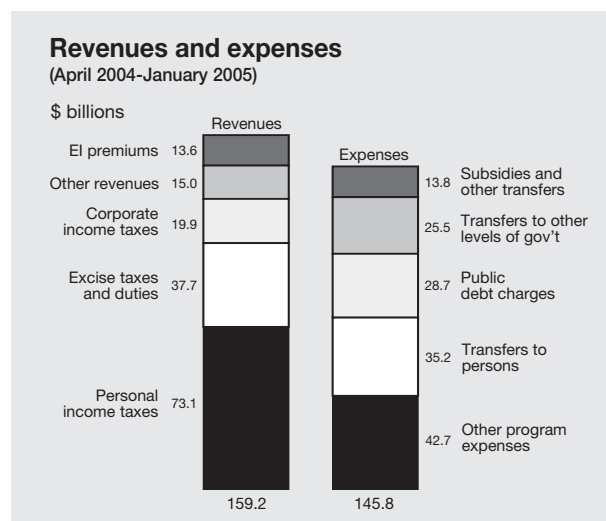
Public debt charges were 3.6 per cent lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

April 2004 to January 2005: budgetary results

In the first 10 months of 2004–05, there was a budgetary surplus of \$13.4 billion, up \$5.3 billion from the \$8.1-billion surplus reported in the same period of 2003–04.

Budgetary revenues increased \$10.6 billion, or 7.1 per cent, to total \$159.2 billion. This increase reflects gains in tax revenues and other revenues, including \$2.6 billion from the sale of the Government's remaining shares in Petro-Canada, offset somewhat by lower EI premiums.

- Personal income tax revenues increased \$5.0 billion or 7.3 per cent. The year-over-year increase was higher than it otherwise would have been due to the extra processing cycle



that boosted personal income tax receipts in January 2005, as discussed above. The increase also reflects higher employment and wages and salaries through the year.

- Corporate income tax revenues were up \$0.8 billion or 3.9 per cent. The year-to-date gain in corporate receipts reflects the impacts of large tax settlement payments received from the financial sector in December 2003 related to the revaluation of their U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 20 per cent year-to-date, in line with the growth in corporate profits.
- Excise taxes and duties increased \$2.9 billion or 8.2 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were up 11.8 per cent. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 3 per cent year-to-date). Over the balance of the year, it is expected that the growth in GST refunds will pick up to more closely reflect the increase in gross revenues, which were up 7.2 per cent year-to-date. Customs import duties were also up (3.5 per cent), while there were declines in both sales and excise taxes (down 0.4 per cent) and the Air Travellers Security Charge (down 3.0 per cent).

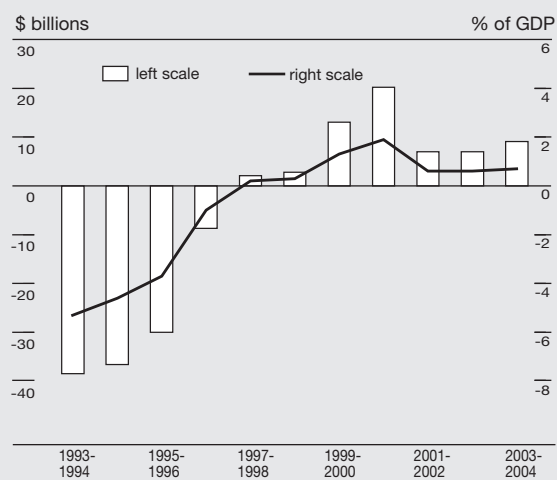
- EI premiums fell \$0.4 billion or 2.6 per cent, reflecting the reduction in premium rates from \$2.10 in 2003 to \$1.98 in 2004 and the further reduction to \$1.95 in 2005.
- Other revenues increased \$2.0 billion or 19.4 per cent. This increase reflects the sale of the Government's remaining shares in Petro-Canada. In the absence of this transaction, other revenues would have declined on a year-over-year basis.

On a year-over-year basis, program expenses in the April 2004 to January 2005 period were up 5.8 per cent to \$117.1 billion. Program expenses are expected to increase significantly over the balance of the year as the two proposed First Ministers' agreements on health care and equalization/TFE, and the measures proposed in the 2005 budget, receive Royal Assent. Public debt charges were \$1.1 billion lower, reflecting the impact of a decline in the stock of interest-bearing debt, along with a decline in the average effective interest rate on that debt.

Transfer payments, which account for about two-thirds of total program expenses, increased by \$3.9 billion or 5.5 per cent.

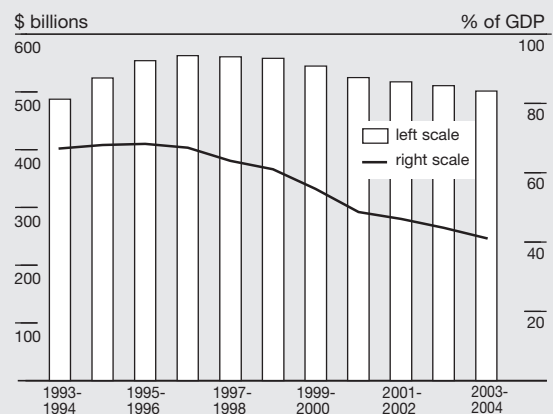
- Transfers to persons advanced by \$0.7 billion or 2.2 per cent. Elderly benefits were up 3.6 per cent, while EI benefits were down 0.5 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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- Transfers to other levels of government were up \$2.0 billion or 8.7 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, and increased fiscal transfers. Fiscal transfers were up 8.3 per cent, primarily reflecting the impact on the 2003–04 results of recoveries related to overpayments in previous years under the equalization program. These results do not reflect the impacts of the 2004 First Ministers' agreements on health care and equalization/TFF. These will be included in the fiscal results once the legislation receives Royal Assent.
- Subsidies and other transfers increased by \$1.1 billion or 9.0 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$2.5 billion or 6.2 per cent, as lower expenses related to Crown corporations were more than offset by higher expenses related to defence and other departments and agencies. Defence expenses were up \$1.0 billion or 11.0 per cent, while expenses for all other departments and agencies were up \$1.6 billion or 6.1 per cent.

Financial source of \$7.9 billion for April 2004 to January 2005

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 \$5.5 billion in the April 2004 to January 2005 period, an improvement of \$5.2 billion from the requirement in the same period of 2003–04. The improvement is primarily attributable to the unusually large cash requirements in the April 2003 to January 2004 period related to transfers 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). Dampening the improvement somewhat was an increase in financial requirements for pension and other accounts, reflecting payments to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$13.4 billion and a net requirement of \$5.5 billion from non-budgetary transactions, there was a financial source of \$7.9 billion in the first 10 months of 2004–05, compared to a requirement of \$2.5 billion in the same period of 2003–04.

Net financing activities down \$21.7 billion

The Government used this financial source of \$7.9 billion and a reduction in its cash balances of \$13.8 billion to reduce its market debt by \$21.7 billion by the end of January 2005, largely through a reduction of marketable bonds and foreign currency borrowings. 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 January stood at \$3.5 billion.

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Table 1

Summary statement of transactions

	January		April to January	
	2004	2005	2003–04	2004–05
	(\$ millions)			
Budgetary transactions				
Revenues	15,508	18,824	148,634	159,222
Expenses				
Program expenses	-11,736	-13,556	-110,704	-117,107
Public debt charges	-2,963	-2,857	-29,791	-28,714
Budgetary balance (deficit/surplus)	809	2,411	8,139	13,401
Non-budgetary transactions	2,110	-930	-10,686	-5,514
Financial source/requirement	2,919	1,481	-2,547	7,887
Net change in financing activities	-6,533	-2,027	-8,487	-21,657
Net change in cash balances	-3,614	-546	-11,034	-13,770
Cash balance at end of period			3,666	3,480

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

Table 2

Budgetary revenues

	January		Change	April to January		Change
	2004	2005		2003–04	2004–05	
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,200	8,677	20.5	68,138	73,101	7.3
Corporate income tax	1,907	2,358	23.6	19,100	19,854	3.9
Other income tax revenue	469	607	29.4	2,493	2,899	16.3
Total income tax	9,576	11,642	21.6	89,731	95,854	6.8
Excise taxes and duties						
Goods and services tax	2,417	3,125	29.3	23,860	26,679	11.8
Customs import duties	204	192	-5.9	2,426	2,511	3.5
Sales and excise taxes	724	759	4.8	8,188	8,154	-0.4
Air Travellers Security Charge	23	28	21.7	335	325	-3.0
Total excise taxes and duties	3,368	4,104	21.9	34,809	37,669	8.2
Total tax revenues	12,944	15,746	21.6	124,540	133,523	7.2
Employment insurance premiums	1,410	1,891	34.1	13,962	13,604	-2.6
Other revenues	1,154	1,187	2.9	10,132	12,095	19.4
Total budgetary revenues	15,508	18,824	21.4	148,634	159,222	7.1

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Table 3

Budgetary expenses

	January		Change	April to January		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,265	2,362	4.3	22,389	23,194	3.6
Employment insurance benefits	1,439	1,615	12.2	12,041	11,982	-0.5
Total	3,704	3,977	7.4	34,430	35,176	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			10,542	
Canada Social Transfer		652			6,521	
Health Reform Transfer	833	125	-85.0	833	1,250	50.1
Canada Health and Social Transfer	858			16,083		
Fiscal transfers	865	933	7.9	8,666	9,387	8.3
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,116	-2,203	4.1
Total	2,342	2,554	9.1	23,466	25,497	8.7
Subsidies and other transfers						
Agriculture	135	146	8.1	1,091	826	-24.3
Foreign Affairs	317	310	-2.2	1,621	2,010	24.0
Health	199	234	17.6	1,432	1,494	4.3
Human Resources Development	178	264	48.3	1,164	1,050	-9.8
Indian and Northern Development	332	347	4.5	3,519	3,618	2.8
Industry and Regional Development	108	100	-7.4	1,209	1,490	23.2
Other	454	593	30.6	2,586	3,270	26.5
Total	1,723	1,994	15.7	12,622	13,758	9.0
Total transfer payments	7,769	8,525	9.7	70,518	74,431	5.5
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	89	108	21.3	970	980	1.0
Canada Mortgage and Housing Corporation	158	170	7.6	1,699	1,685	-0.8
Other	121	200	65.3	1,854	1,723	-7.1
Total	368	478	29.9	4,523	4,388	-3.0
Defence	961	1,106	15.1	9,371	10,405	11.0
All other departments and agencies	2,638	3,447	30.7	26,292	27,883	6.1
Total other program expenses	3,967	5,031	26.8	40,186	42,676	6.2
Total program expenses	11,736	13,556	15.5	110,704	117,107	5.8
Public debt charges	2,963	2,857	-3.6	29,791	28,714	-3.6
Total budgetary expenses	14,699	16,413	11.7	140,495	145,821	3.8

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Table 4

Budgetary balance and financial source/requirement

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	809	2,411	8,139	13,401
Non-budgetary transactions				
Capital investing activities	-104	-86	-1,529	-1,088
Other investing activities	-471	-614	-1,917	-2,485
Pension and other accounts	287	-619	710	-2,464
Other activities				
Accounts payable, receivables, accruals and allowances	2,325	1,015	-12,154	-5,138
Foreign exchange activities	-166	-868	1,799	3,091
Amortization of tangible capital assets	239	242	2,405	2,570
Total other activities	2,398	389	-7,950	523
Total non-budgetary transactions	2,110	-930	-10,686	-5,514
Net financial source/requirement	2,919	1,481	-2,547	7,887

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	2,919	1,481	-2,547	7,887
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-60	387	-12,213	-15,523
Treasury bills	-6,600	-2,450	5,600	1,200
Canada Savings Bonds	32	-96	-1,534	-1,964
Other			91	-28
Total	-6,628	-2,159	-8,056	-16,315
Foreign currency borrowings	124	69	-383	-5,473
Total	-6,504	-2,090	-8,439	-21,788
Obligations related to capital leases	-29	63	-48	131
Net change in financing activities	-6,533	-2,027	-8,487	-21,657
Change in cash balance	-3,614	-546	-11,034	-13,770

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Table 6

Condensed statement of assets and liabilities

	March 31, 2004	January 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	74,329	-5,635
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	263,257	-15,523
Treasury bills	113,378	114,578	1,200
Canada Savings Bonds	21,330	19,366	-1,964
Other	3,427	3,399	-28
Subtotal	416,915	400,600	-16,315
Payable in foreign currencies	20,542	15,069	-5,473
Obligations related to capital leases	2,774	2,905	131
Total unmatured debt	440,231	418,574	-21,657
Pension and other accounts			
Public sector pensions	127,560	129,173	1,613
Other employee and veteran future benefits	39,367	39,618	251
Canada Pension Plan (net of securities)	7,483	3,627	-3,856
Other pension and other accounts	6,488	6,017	-471
Total pension and other accounts	180,898	178,434	-2,464
Total interest-bearing debt	621,129	597,008	-24,121
Total liabilities	701,093	671,336	-29,756
Financial assets			
Cash and accounts receivable	70,921	56,654	-14,267
Foreign exchange accounts	44,312	41,221	-3,091
Loans, investments and advances (net of allowances)	29,548	32,033	2,485
Total financial assets	144,781	129,908	-14,873
Net debt	556,311	541,428	-14,883
Non-financial assets	54,817	53,335	-1,482
Federal debt (accumulated deficit)	501,494	488,093	-13,401

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