

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2005

There was a budgetary surplus of \$5.8 billion in February 2005, up from the surplus of \$3.8 billion recorded in February 2004. This increase is due in large part to stronger corporate income tax receipts, which rose \$1.3 billion or 28.9 per cent from the same month last year. The gain in corporate receipts reflects the timing of year-end corporate settlement payments, some of which last year were received one month later, in March 2004. The surplus was also supported by higher net goods and services tax (GST) receipts, which rose \$0.6 billion or 29.3 per cent, a growth rate that continues to be far in excess of the growth of taxable consumption and reflects ongoing weakness in GST refunds. Growth of GST refunds is expected to pick up in the coming months. Program expenses were \$0.2 billion lower in February 2005, reflecting lower transfer payments. Public debt charges were also \$0.2 billion lower in February.

April 2004 to February 2005

For the first 11 months of the 2004–05 fiscal year (April to February), the budgetary surplus is estimated at \$19.2 billion, up \$7.2 billion from the surplus reported in the same period last year.

Taking into account a number of factors, the results to date are broadly consistent with the expected outcome of a \$3-billion surplus in 2004–05 as set out in the 2005 budget.

- The monthly results to date do not reflect the significant fiscal impacts of a number of initiatives that have already been announced. The legislative authorities to put the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF) into effect were received in March 2005 and the fiscal cost of these measures (\$7.2 billion) will be recorded in March. The March 2005 results will also incorporate the costs associated with the recently announced agricultural assistance package (\$1 billion). The final 2004–05 year-end results will be further affected by the impact of the new initiatives proposed in the 2005 budget (\$3.9 billion). **In total some \$12 billion in new already announced expenses will be incorporated in March and the supplementary period.**
- The February results reflect extraordinarily high growth in corporate income tax and net GST receipts. As indicated above, both corporate income tax and GST receipts were up 29 per cent over last year, while their underlying tax bases (corporate profits and retail trade) were up 17.7 per cent and 5.5 per cent, respectively. **The growth of corporate receipts is expected to moderate in March to be more in line with the growth of profits. It is also expected that in March 2005 and in the year-end supplementary period, there will be a reversal of some of the recent increases in GST revenues, bringing them more in line with the observed growth in their applicable tax base.**
- As well, because of the seasonal pattern of receipts and expenses, deficits are traditionally recorded in both March and the end-of-year supplementary period.

February 2005: budgetary results

The February 2005 budgetary surplus was estimated at \$5.8 billion, up from the surplus of \$3.8 billion in February 2004.

Budgetary revenues totalled \$19.8 billion in the month, up \$1.5 billion or 8.3 per cent from February 2004. This increase is due to significantly higher corporate income tax and GST revenues, which more than offset lower personal income tax revenues.



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- Personal income tax revenues fell \$0.7 billion or 8.1 per cent on a year-over-year basis. As discussed in the January *Fiscal Monitor*, this decline reflects the fact that there was an extra processing cycle in January 2005, which boosted receipts in that month.
- Corporate income tax revenues were up \$1.3 billion or 28.9 per cent on a year-over-year basis. This gain in corporate receipts reflects year-end corporate settlement payments, some of which last year were received in both February and March.
- Excise taxes and duties were up \$0.6 billion in February 2005 compared to February 2004. This increase is almost entirely due to higher GST receipts, which were up \$0.6 billion or 29.3 per cent. Although the year-over-year gain in gross GST receipts was roughly in line with the growth in the applicable tax base, the growth in refunds, which should match the growth in gross receipts over time, was considerably weaker. Customs import duties rose \$38 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$21 million.
- Employment insurance (EI) premiums were up 3.1 per cent, reflecting increases in employment and wages and salaries, which more than offset the decline in premium rates.
- Other revenues, which consist of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 12.5 per cent. This revenue component is volatile on a monthly basis.

Program expenses in February 2005 totalled \$11.3 billion, down \$0.2 billion or 2.0 per cent from February 2004 due to lower transfer payments.

Transfer payments were down \$0.8 billion or 10.6 per cent in February 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 3.6 per cent lower on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down 14.1 per cent due to a decrease in regular benefits. This reflects the inclusion of an additional payment cycle in January 2005, which boosted expenses in that month and subsequently lowered them in February.

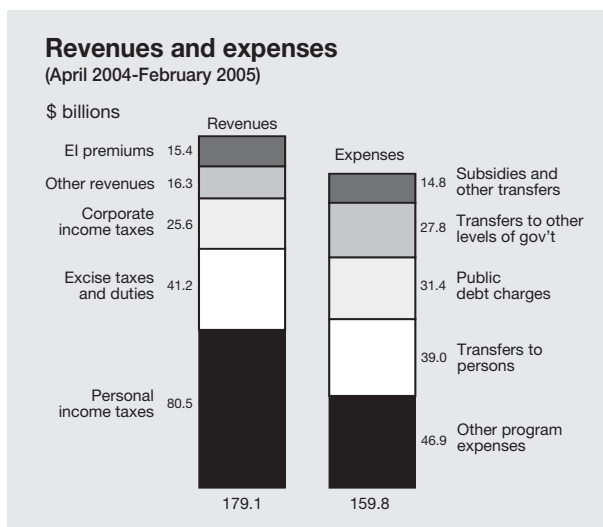
- Transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer, Canada Social Transfer and Health Reform Transfer), fiscal transfers and Alternative Payments for Standing Programs, were down 3.8 per cent.
- Subsidies and other transfers were down 37.6 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 16.6 per cent due to higher expenses related to other departments and agencies. Defence expenses fell slightly by \$10 million or 1.0 per cent in February, while expenses for all other departments and agencies rose by \$0.6 billion or 26.9 per cent. This component is also quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of previous budget measures.

Public debt charges were 7.6 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 February 2005: budgetary results

Through the first 11 months of 2004–05, there was a budgetary surplus of \$19.2 billion, up \$7.2 billion from the \$12-billion surplus reported in the same period of 2003–04.



Budgetary revenues increased \$12.1 billion, or 7.3 per cent, to total \$179.1 billion. This increase reflects strong gains in corporate income tax and GST revenues, as well as the \$2.6-billion net gain from the sale of the Government's remaining shares in Petro-Canada.

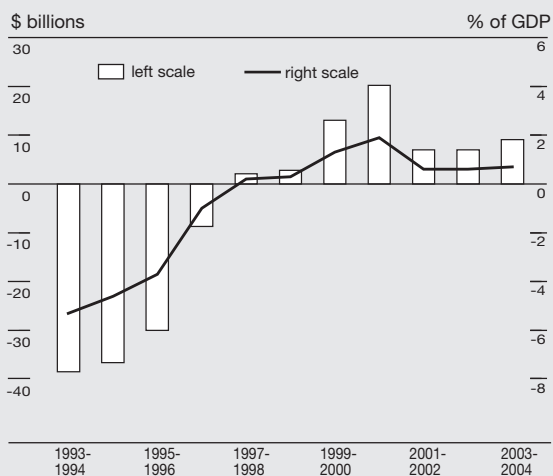
- Personal income tax revenues increased \$4.3 billion or 5.7 per cent through February. This year-over-year increase is consistent with higher employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.1 billion or 8.7 per cent. This year-over-year gain was dampened by the inclusion in the 2003–04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003. Absent this factor, underlying corporate receipts are up about 22 per cent year to date, somewhat higher than the estimated growth in corporate profits in 2004.
- Excise taxes and duties increased \$3.5 billion or 9.1 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.4 billion or 13.1 per cent higher than the previous year. The continued strong growth in GST receipts reflects ongoing weakness in GST refunds (up 2.6 per cent year to date) compared to gross receipts (up 7.6 per cent). On balance, the growth in refunds should correspond closely to the growth in gross

receipts. It is expected that in March 2005 and the year-end supplementary period, refunds will pick up, bringing net GST revenues more in line with the growth in the applicable tax base. Customs import duties were up \$0.1 billion, while sales and excise taxes and the Air Travellers Security Charge were down a combined \$0.1 billion.

- EI premiums declined \$0.3 billion or 1.9 per cent, reflecting the reduction in premium rates (the employee rate declined from \$2.10 in 2003 to \$1.98 in 2004 and to \$1.95 in 2005 per \$100 of insurable earnings), which more than offset the impact of increases in employment and earnings.
- Other revenues increased \$2.1 billion or 18.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. In the absence of this transaction, other revenues (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) declined on a year-over-year basis, primarily due to lower gains in the Exchange Fund Account.

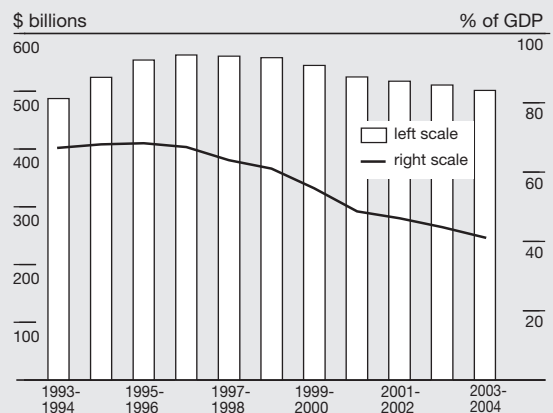
On a year-over-year basis, program expenses in the April 2004 to February 2005 period were up 5.0 per cent to \$128.4 billion. However, program expenses will increase significantly in March 2005, when the fiscal impacts of the federal-provincial-territorial agreements on health care and equalization/TFF and the recently

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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announced agricultural assistance package are included. In addition, the final results will incorporate the fiscal impact of measures proposed in the 2005 budget, once the applicable legislation receives Royal Assent. Public debt charges were \$1.3 billion lower than in the first 11 months of 2003–04, 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 \$3.1 billion, or 3.9 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.6 per cent. Elderly benefits were up 3.6 per cent while EI benefits were down 2.1 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with improvements in the labour market.
- Transfers to other levels of government were up \$1.9 billion, or 7.5 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 5.1 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 federal-provincial-territorial agreements on health care and equalization/TFF. These will be included in the March fiscal results.
- Subsidies and other transfers increased by \$0.5 billion, or 3.7 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.1 billion, or 7.1 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 9.9 per cent, while expenses for all other departments and agencies were up \$2.2 billion or 7.8 per cent.

Financial source of \$8.5 billion for April 2004 to February 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 \$10.8 billion in the April 2004 to February 2005 period, up \$1.1 billion from a requirement of \$9.7 billion in the same period of 2003–04. The higher requirement primarily reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board.

With a budgetary surplus of \$19.2 billion and a net requirement of \$10.8 billion from non-budgetary transactions, there was a financial source of \$8.5 billion in the first 11 months of 2004–05, compared to a source of \$2.3 billion in the same period of 2003–04.

Net financing activities down \$18.4 billion

The Government used this financial source of \$8.5 billion and a reduction in its cash balances of \$10.0 billion to reduce its market debt by \$18.4 billion by the end of February 2005, largely by reducing its holdings 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 February stood at \$7.3 billion.

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Table 1

Summary statement of transactions

	February		April to February	
	2004	2005	2003–04	2004–05
	(\$ millions)			
Budgetary transactions				
Revenues	18,315	19,842	166,952	179,066
Expenses				
Program expenses	-11,534	-11,300	-122,238	-128,408
Public debt charges	-2,946	-2,722	-32,737	-31,436
Budgetary balance (deficit/surplus)	3,835	5,820	11,977	19,222
Non-budgetary transactions	979	-5,249	-9,707	-10,760
Financial source/requirement	4,814	571	2,270	8,462
Net change in financing activities	-2,300	3,221	-10,787	-18,437
Net change in cash balances	2,514	3,792	-8,517	-9,975
Cash balance at end of period			6,181	7,273

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

Table 2

Budgetary revenues

	February			April to February		
	2004	2005	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,023	7,372	-8.1	76,162	80,474	5.7
Corporate income tax	4,485	5,780	28.9	23,585	25,635	8.7
Other income tax revenue	224	352	57.1	2,717	3,251	19.7
Total income tax	12,732	13,504	6.1	102,464	109,360	6.7
Excise taxes and duties						
Goods and services tax	1,966	2,542	29.3	25,826	29,221	13.1
Customs import duties	237	275	16.0	2,663	2,785	4.6
Sales and excise taxes	741	723	-2.4	8,927	8,878	-0.5
Air Travellers Security Charge	34	31	-8.8	369	356	-3.5
Total excise taxes and duties	2,978	3,571	19.9	37,785	41,240	9.1
Total tax revenues	15,710	17,075	8.7	140,249	150,600	7.4
Employment insurance premiums	1,743	1,797	3.1	15,705	15,401	-1.9
Other revenues	862	970	12.5	10,998	13,065	18.8
Total budgetary revenues	18,315	19,842	8.3	166,952	179,066	7.3

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Table 3

Budgetary expenses

	February		Change	April to February		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,274	2,367	4.1	24,662	25,561	3.6
Employment insurance benefits	1,656	1,423	-14.1	13,698	13,405	-2.1
Total	3,930	3,790	-3.6	38,360	38,966	1.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		1,054			11,596	
Canada Social Transfer		651			7,173	
Health Reform Transfer	83	125	50.6	917	1,375	49.9
Canada Health and Social Transfer	1,608			17,692		
Fiscal transfers	865	634	-26.7	9,530	10,020	5.1
Alternative Payments for Standing Programs	-214	-210	-1.9	-2,330	-2,413	3.6
Total	2,342	2,254	-3.8	25,809	27,751	7.5
Subsidies and other transfers						
Agriculture	32	0	-100.0	1,123	826	-26.4
Foreign Affairs	224	200	-10.7	1,845	2,210	19.8
Health	119	124	4.2	1,551	1,618	4.3
Human Resources Development	280	104	-62.9	1,445	1,154	-20.1
Indian and Northern Development	267	285	6.7	3,786	3,903	3.1
Industry and Regional Development	312	-16	-105.1	1,521	1,474	-3.1
Other	385	313	-18.7	2,974	3,583	20.5
Total	1,619	1,010	-37.6	14,245	14,768	3.7
Total transfer payments	7,891	7,054	-10.6	78,414	81,485	3.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	84	65	-22.6	1,055	1,045	-0.9
Canada Mortgage and Housing Corporation	161	170	5.6	1,860	1,855	-0.3
Other	106	107	0.9	1,959	1,830	-6.6
Total	351	342	-2.6	4,874	4,730	-3.0
Defence	984	974	-1.0	10,356	11,379	9.9
All other departments and agencies	2,308	2,930	26.9	28,594	30,814	7.8
Total other program expenses	3,643	4,246	16.6	43,824	46,923	7.1
Total program expenses	11,534	11,300	-2.0	122,238	128,408	5.0
Public debt charges	2,946	2,722	-7.6	32,737	31,436	-4.0
Total budgetary expenses	14,480	14,022	-3.2	154,975	159,844	3.1

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Table 4

Budgetary balance and financial source/requirement

	February		April to February	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,835	5,820	11,977	19,222
Non-budgetary transactions				
Capital investing activities	-133	-313	-1,663	-1,402
Other investing activities	-234	-192	-2,152	-2,677
Pension and other accounts	554	-985	1,265	-3,448
Other activities				
Accounts payable, receivables, accruals and allowances	-153	-2,839	-12,306	-7,974
Foreign exchange activities	627	-1,166	2,426	1,925
Amortization of tangible capital assets	318	246	2,723	2,816
Total other activities	792	-3,759	-7,157	-3,233
Total non-budgetary transactions	979	-5,249	-9,707	-10,760
Net financial source/requirement	4,814	571	2,270	8,462

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2004	2005	2003-04	2004-05
	(\$ millions)			
Net financial source/requirement	4,814	571	2,270	8,462
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	984	1,887	-11,229	-13,636
Treasury bills	-3,500	1,100	2,100	2,300
Canada Savings Bonds	-131	-196	-1,665	-2,161
Other		-1	91	-29
Total	-2,647	2,790	-10,703	-13,526
Foreign currency borrowings	350	397	-33	-5,076
Total	-2,297	3,187	-10,736	-18,602
Obligations related to capital leases	-3	34	-51	165
Net change in financing activities	-2,300	3,221	-10,787	-18,437
Change in cash balance	2,514	3,792	-8,517	-9,975

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Table 6

Condensed statement of assets and liabilities

	March 31, 2004	February 28, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	79,964	77,559	-2,405
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	265,144	-13,636
Treasury bills	113,378	115,678	2,300
Canada Savings Bonds	21,330	19,169	-2,161
Other	3,427	3,398	-29
Subtotal	416,915	403,389	-13,526
Payable in foreign currencies	20,542	15,466	-5,076
Obligations related to capital leases	2,774	2,939	165
Total unmaturing debt	440,231	421,794	-18,437
Pension and other accounts			
Public sector pensions	127,560	129,307	1,747
Other employee and veteran future benefits	39,367	39,650	283
Canada Pension Plan (net of securities)	7,483	2,658	-4,825
Other pension and other accounts	6,488	5,835	-653
Total pension and other accounts	180,898	177,450	-3,448
Total interest-bearing debt	621,129	599,244	-21,885
Total liabilities	701,093	676,803	-24,290
Financial assets			
Cash and accounts receivable	70,921	66,515	-4,406
Foreign exchange accounts	44,312	42,387	-1,925
Loans, investments and advances (net of allowances)	29,548	32,225	2,677
Total financial assets	144,781	141,127	-3,654
Net debt	556,311	535,675	-20,636
Non-financial assets	54,817	53,403	-1,414
Federal debt (accumulated deficit)	501,494	482,272	-19,222

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