

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2005

There was a budgetary deficit of \$9.5 billion in March 2005, a deterioration of \$6.3 billion from the deficit of \$3.2 billion recorded in March 2004. The deterioration is primarily attributable to the \$7.2 billion in transfers related to the federal-provincial-territorial agreements on health care and equalization/Territorial Formula Financing (TFF). The legislative authorities for these transfers received Royal Assent in March.

### April 2004 to March 2005

The budgetary surplus is estimated at \$9.8 billion for the April 2004 to March 2005 period, up \$1.0 billion from the surplus reported in the same period last year.

Program expenses were up \$13.7 billion or 9.9 per cent in the April 2004 to March 2005 period, primarily due to higher transfer payments, reflecting the effects of the federal-provincial-territorial agreements on health care and equalization/TFF, which were expensed in March 2005. Public debt charges were down \$1.5 billion or 4.2 per cent, 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.

On a year-over-year basis, budgetary revenues were up \$13.2 billion or 7.2 per cent in the April 2004 to March 2005 period compared to the same period in 2003–04. The higher revenues primarily reflect strong corporate income tax receipts. The underlying increase in corporate income tax revenues is nearly double the current estimated growth in corporate profits for 2004. Corporate income tax receipts over the April 2004 to March 2005 period are about \$2 billion higher than anticipated at the time of the budget.

**These are not the final results for the year as a whole. The April 2004 to March 2005 monthly results do not reflect the impact of the new initiatives proposed in the 2005 budget, which total \$2.5 billion. Nor do the results reflect the regular end-of-year accounting adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2004–05, and final tax accrual adjustments. As a result, it is too early to determine whether the budgetary surplus will be greater than the \$3 billion projected for 2004–05 in the 2005 budget.**

### March 2005: budgetary results

There was a budgetary deficit of \$9.5 billion in March 2005, up from the deficit of \$3.2 billion recorded in March 2004.

Budgetary revenues totalled \$17.8 billion, an increase of \$1.1 billion or 6.5 per cent from March 2004. This gain is due to higher personal and corporate income tax receipts, which were somewhat offset by lower GST and other revenues.

- Personal income tax revenues rose \$1.2 billion or 16.9 per cent on a year-over-year basis due to timing factors in the processing of source deductions.

- Corporate income tax revenues were up \$0.8 billion or 24.1 per cent on a year-over-year basis. This gain is attributable to final year-end corporate settlement payments from the manufacturing sector in March 2005, which were up \$1 billion from last year. Monthly instalment payments from the manufacturing sector were down through the first 11 months of 2004–05 and, as a result, the settlement payments in March alone accounted for the entire increase in receipts from this sector for 2004–05 as a whole.



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- Excise taxes and duties in March 2005 were down \$0.3 billion compared to March 2004, almost entirely due to lower GST receipts. As discussed in previous editions of *The Fiscal Monitor*, declines in net GST receipts have been expected, as net receipts in the latter half of the year have grown very strongly compared to taxable income as a result of weak GST refund growth. Customs import duties rose \$20 million, while together, sales and excise taxes and receipts from the Air Travellers Security Charge declined \$15 million.
- Employment insurance (EI) premiums were up 3.2 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, fell 72.4 per cent. This decline is largely due to losses on the year-end revaluation of the Government's holdings of U.S.-dollar-denominated assets resulting from the appreciation of the Canadian dollar.

Program expenses in March 2005 totalled \$24.5 billion, up \$7.6 billion or 44.6 per cent from March 2004. The increase is mainly due to higher transfer payments.

Transfer payments were up \$7.5 billion or 63.5 per cent in March 2005.

- Transfers to persons, consisting of elderly and EI benefits, were 1.0 per cent higher on a year-over-year basis. Elderly benefits increased by \$88 million due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefits were down \$50 million due to a decrease in regular benefits.
- 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 \$6.3 billion. This increase is due to liabilities for the new initiatives under the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers were up \$1.2 billion, reflecting increases in agricultural assistance and foreign aid. This component is volatile on a monthly basis, largely reflecting the timing of payments.

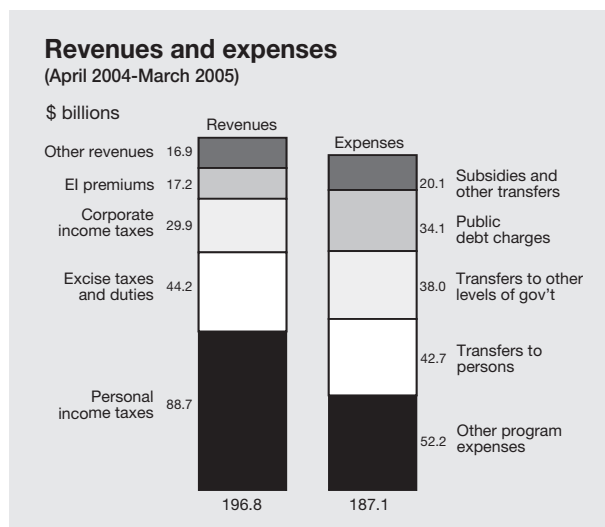
Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up slightly by 1.4 per cent, as increases in transfers to Crown corporations and expenses related to other departments and agencies were largely offset by a decrease in defence expenses. Defence expenses fell by \$336 million or 17.5 per cent, while expenses for all other departments and agencies rose by \$325 million or 11.4 per cent and transfers to Crown corporations rose by \$82 million or 21.0 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 7.2 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 March 2005: budgetary results

In the April 2004 to March 2005 period, there was a budgetary surplus of \$9.8 billion, up \$1.0 billion from the \$8.8-billion surplus reported in the same period of 2003–04.

Budgetary revenues increased \$13.2 billion or 7.2 per cent to total \$196.8 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.



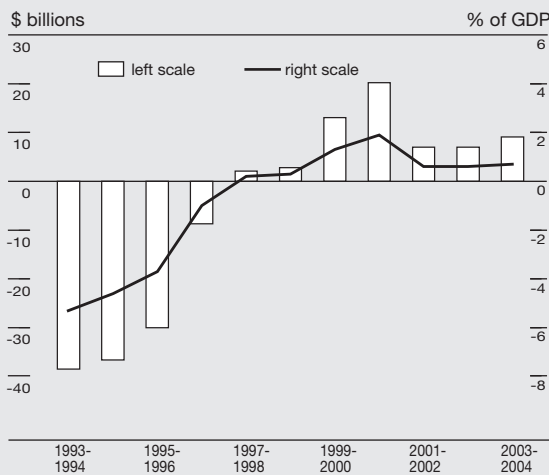
- Personal income tax revenues increased by \$5.5 billion or 6.6 per cent, reflecting year-over-year gains in employment and wages and salaries through the year.
- Corporate income tax revenues were up \$2.9 billion or 10.6 per cent. This gain was dampened by the inclusion in the 2003–04 results of unusually large gains recorded by the financial sector related to the revaluation of U.S.-dollar-denominated liabilities in 2003, as well as the 2-percentage-point decline in the general corporate income tax rate in 2004. Absent these two factors, underlying corporate receipts are up about 29 per cent year to date, stronger than the estimated growth in corporate profits of 17.7 per cent in 2004. The 2005 budget projected an underlying increase in net corporate income tax receipts of over 20 per cent, somewhat higher than the 17.7 per cent growth in corporate profits.
- Excise taxes and duties increased by \$3.1 billion or 7.6 per cent. Virtually all of this increase is attributable to growth in GST revenues, which were \$3.1 billion or 10.9 per cent higher than last year. The strong growth in GST receipts in the April-to-March period reflects ongoing weakness in GST refunds (up 3.0 per cent) relative to gross receipts (up 6.8 per cent). On balance, the growth in refunds should correspond closely to the growth in gross receipts. Net receipts declined in March 2005

to bring net GST revenues more in line with the growth in the applicable tax base. It is expected that refunds will continue to pick up relative to gross receipts through the year-end accrual adjustments. Customs import duties were up \$0.1 billion, while there were declines in both sales and excise taxes and the Air Travellers Security Charge, which together declined \$0.1 billion.

- EI premiums declined \$0.3 billion or 1.4 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 \$1.3 billion or 10.8 per cent due to the sale of the Government's remaining shares of Petro-Canada. The other components in this category (which include net gains from the Exchange Fund Account, interest and net gains from enterprise Crown corporations) were lower on a year-over-year basis, reflecting the impact of the appreciation of the Canadian dollar and the decline in interest rates.

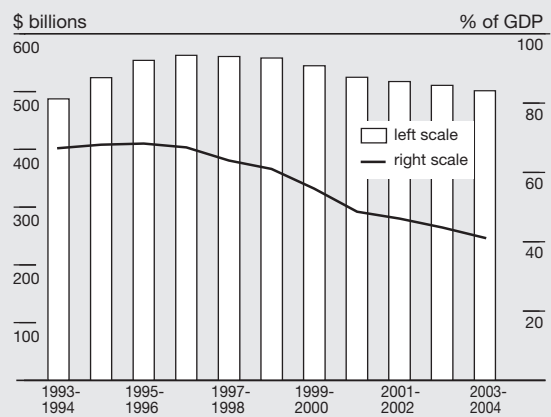
On a year-over-year basis, program expenses in the April 2004 to March 2005 period were up 9.9 per cent to \$153.0 billion, mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/TFF. Public debt charges were \$1.5 billion lower than in the same period of 2003–04, reflecting the impact

## Budgetary balance



Sources: Department of Finance and Statistics Canada.

## Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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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 \$10.6 billion or 11.7 per cent.

- Transfers to persons advanced by \$0.6 billion or 1.5 per cent. Elderly benefits were up 3.7 per cent while EI benefits were down 2.3 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 \$8.2 billion or 27.6 per cent, reflecting higher transfers in support of health and other social programs, resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$1.7 billion or 9.2 per cent, primarily reflecting the impact of previous budget measures.

Other program expenses increased by \$3.2 billion or 6.5 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 \$0.7 billion or 5.6 per cent, while expenses for all other departments and agencies were up \$2.5 billion or 8.1 per cent.

## **Financial source of \$4.7 billion for April 2004 to March 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 \$5.1 billion in the April 2004 to March 2005 period, up \$1.7 billion from a requirement \$3.4 billion in 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 \$9.8 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source of \$4.7 billion in the April 2004 to March 2005 period, compared to a source of \$5.4 billion in the same period last year.

## **Net financing activities down \$4.8 billion**

The Government used this financial source of \$4.7 billion and a reduction in its cash balances of \$0.1 billion to reduce its market debt by \$4.8 billion, largely by reducing its holdings of 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 March stood at \$17.1 billion.

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Table 1

## Summary statement of transactions

	March		April to March	
	2004	2005	2003–04	2004–05
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,693	17,777	183,645	196,842
Expenses				
Program expenses	-16,976	-24,545	-139,214	-152,954
Public debt charges	-2,896	-2,687	-35,633	-34,122
Budgetary balance (deficit/surplus)	-3,179	-9,455	8,798	9,766
<b>Non-budgetary transactions</b>	6,269	5,657	-3,440	-5,105
<b>Financial source/requirement</b>	3,090	-3,798	5,358	4,661
<b>Net change in financing activities</b>	7,978	13,647	-2,807	-4,790
<b>Net change in cash balances</b>	11,068	9,849	2,551	-129
<b>Cash balance at end of period</b>			17,250	17,122

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

Table 2

## Budgetary revenues

	March			April to March		
	2004	2005	Change	2003–04	2004–05	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	7,026	8,213	16.9	83,187	88,686	6.6
Corporate income tax	3,415	4,238	24.1	27,000	29,872	10.6
Other income tax revenue	195	316	62.1	2,912	3,567	22.5
Total income tax	10,636	12,767	20.0	113,099	122,125	8.0
Excise taxes and duties						
Goods and services tax	2,278	1,939	-14.9	28,104	31,161	10.9
Customs import duties	229	249	8.7	2,892	3,034	4.9
Sales and excise taxes	731	728	-0.4	9,660	9,606	-0.6
Air Travellers Security Charge	45	33	-26.7	414	389	-6.0
Total excise taxes and duties	3,283	2,949	-10.2	41,070	44,190	7.6
Total tax revenues	13,919	15,716	12.9	154,169	166,315	7.9
<b>Employment insurance premiums</b>	1,713	1,768	3.2	17,419	17,169	-1.4
<b>Other revenues</b>	1,061	293	-72.4	12,057	13,358	10.8
<b>Total budgetary revenues</b>	16,693	17,777	6.5	183,645	196,842	7.2

# The Fiscal Monitor

Table 3

## Budgetary expenses

	March		Change	April to March		Change
	2004	2005		2003-04	2004-05	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,277	2,365	3.9	26,939	27,926	3.7
Employment insurance benefits	1,378	1,328	-3.6	15,076	14,734	-2.3
Total	3,655	3,693	1.0	42,015	42,660	1.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer		6,804			18,400	
Canada Social Transfer		727			7,900	
Health Reform Transfer	83	125	50.6	1,000	1,500	50.0
Canada Health and Social Transfer	3,608	31		21,300	31	
Fiscal transfers	550	2,882	424.0	10,081	12,902	28.0
Alternative Payments for Standing Programs	-285	-333	16.8	-2,615	-2,746	5.0
Total	3,956	10,236	158.7	29,766	37,987	27.6
Subsidies and other transfers						
Agriculture	1,235	1,748	41.5	2,358	2,574	9.2
Foreign Affairs	674	1,182	75.4	2,519	3,391	34.6
Health	508	246	-51.6	2,059	1,864	-9.5
Human Resources Development	169	49	-71.0	1,614	1,203	-25.5
Indian and Northern Development	481	452	-6.0	4,268	4,354	2.0
Industry and Regional Development	288	207	-28.1	1,809	1,681	-7.1
Other	846	1,497	77.0	3,818	5,080	33.1
Total	4,201	5,381	28.1	18,445	20,147	9.2
Total transfer payments	11,812	19,310	63.5	90,226	100,794	11.7
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	20	0	-100.0	1,074	1,045	-2.7
Canada Mortgage and Housing Corporation	205	190	-7.3	2,065	2,045	-1.0
Other	166	283	70.5	2,125	2,113	-0.6
Total	391	473	21.0	5,264	5,203	-1.2
Defence	1,919	1,583	-17.5	12,274	12,962	5.6
All other departments and agencies	2,854	3,179	11.4	31,450	33,995	8.1
Total other program expenses	5,164	5,235	1.4	48,988	52,160	6.5
<b>Total program expenses</b>	16,976	24,545	44.6	139,214	152,954	9.9
<b>Public debt charges</b>	2,896	2,687	-7.2	35,633	34,122	-4.2
<b>Total budgetary expenses</b>	19,872	27,232	37.0	174,847	187,076	7.0

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Table 4

## Budgetary balance and financial source/requirement

	March		April to March	
	2004	2005	2003-04	2004-05
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-3,179	-9,455	8,798	9,766
<b>Non-budgetary transactions</b>				
Capital investing activities	-137	-861	-1,800	-2,263
Other investing activities	-4	-1,033	-2,483	-3,048
Pension and other accounts	970	228	2,224	-3,228
Other activities				
Accounts payable, receivables, accruals and allowances	3,352	5,305	-8,618	-3,324
Foreign exchange activities	1,793	1,517	4,219	3,441
Amortization of tangible capital assets	295	501	3,018	3,317
Total other activities	5,440	7,323	-1,381	3,434
<b>Total non-budgetary transactions</b>	6,269	5,657	-3,440	-5,105
<b>Net financial source/requirement</b>	3,090	-3,798	5,358	4,661

Table 5

## Financial source/requirement and net financing activities

	March		April to March	
	2004	2005	2003-04	2004-05
	(\$ millions)			
<b>Net financial source/requirement</b>	3,090	-3,798	5,358	4,661
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,921	1,348	-9,307	-12,288
Treasury bills	6,700	11,500	8,800	13,800
Canada Savings Bonds	-15	-83	-1,680	-2,244
Other	-34	-6	57	-35
Total	8,572	12,759	-2,130	-767
Foreign currency borrowings	-564	822	-597	-4,254
Total	8,008	13,581	-2,727	-5,021
Obligations related to capital leases	-30	66	-80	231
<b>Net change in financing activities</b>	7,978	13,647	-2,807	-4,790
<b>Change in cash balance</b>	11,068	9,849	2,551	-129

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2004	March 31, 2005	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	79,964	75,909	-4,055
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	278,780	266,492	-12,288
Treasury bills	113,378	127,178	13,800
Canada Savings Bonds	21,330	19,086	-2,244
Other	3,427	3,392	-35
Subtotal	416,915	416,148	-767
Payable in foreign currencies	20,542	16,288	-4,254
Obligations related to capital leases	2,774	3,005	231
Total unmatured debt	440,231	435,441	-4,790
Pension and other accounts			
Public sector pensions	127,560	129,430	1,870
Other employee and veteran future benefits	39,367	39,675	308
Canada Pension Plan (net of securities)	7,483	2,763	-4,720
Other pension and other accounts	6,488	5,802	-686
Total pension and other accounts	180,898	177,670	-3,228
Total interest-bearing debt	621,129	613,111	-8,018
<b>Total liabilities</b>	701,093	689,020	-12,073
<b>Financial assets</b>			
Cash and accounts receivable	70,922	70,062	-860
Foreign exchange accounts	44,312	40,871	-3,441
Loans, investments and advances (net of allowances)	29,548	32,596	3,048
Total financial assets	144,782	143,529	-1,253
<b>Net debt</b>	556,311	545,491	-10,820
<b>Non-financial assets</b>	54,817	53,763	-1,054
<b>Federal debt (accumulated deficit)</b>	501,494	491,728	-9,766

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