

# The Fiscal Monitor

## A publication of the Department of Finance

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### Highlights

#### August 2017: budgetary deficit of \$2.6 billion

There was a budgetary deficit of \$2.6 billion in August 2017, compared to a deficit of \$2.7 billion in August 2016. Revenues decreased by \$0.1 billion, or 0.6 per cent, reflecting decreases in income tax revenues, Employment Insurance (EI) premium revenues and other revenues. Program expenses decreased by \$0.1 billion, or 0.2 per cent, as an increase in major transfers to other levels of government was more than offset by decreases in major transfers to persons and direct program expenses. Public debt charges decreased by \$0.2 billion, or 8.3 per cent, largely reflecting lower Consumer Price Index adjustments on Real Return Bonds and a lower average effective interest rate on the stock of interest-bearing debt.

#### April to August 2017: budgetary deficit of \$2.7 billion

For the April to August 2017 period of the 2017–18 fiscal year, the Government posted a budgetary deficit of \$2.7 billion, compared to a deficit of \$5.4 billion reported in the same period of 2016–17. Revenues were up \$6.3 billion, or 5.3 per cent, reflecting increases in income tax revenues and excise taxes and duties, partially offset by declines in EI premium revenues and other revenues. Program expenses were up \$4.2 billion, or 3.7 per cent, reflecting increases in major transfers to persons and other levels of government and direct program expenses. Public debt charges were down \$0.7 billion, or 6.1 per cent, largely reflecting a lower average effective interest rate on the stock of interest-bearing debt.

### August 2017

There was a budgetary deficit of \$2.6 billion in August 2017, compared to a deficit of \$2.7 billion in August 2016.

Revenues totalled \$22.8 billion in August 2017, down \$0.1 billion from August 2016.

- Personal income tax revenues were up \$0.1 billion, or 1.2 per cent.
- Corporate income tax revenues were down \$0.2 billion, or 5.5 per cent.
- Non-resident income tax revenues were largely unchanged.
- Excise taxes and duties were up \$0.3 billion, or 6.7 per cent, driven mainly by a \$0.3-billion, or 11.3-per-cent, increase in Goods and Services Tax (GST) revenues. Energy taxes were down \$0.1 billion, while customs import duties were up \$8 million and other excise taxes and duties were up \$0.1 billion.
- EI premium revenues were down \$0.2 billion, or 12.6 per cent, reflecting a decline in the premium rate as a result of the seven-year break-even mechanism introduced in 2017.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, revenues from sales of goods and services, returns on investments, net foreign exchange revenues and miscellaneous revenues, were down \$0.2 billion, or 8.9 per cent.

Program expenses were \$23.3 billion in August 2017, down \$0.1 billion, or 0.2 per cent, from August 2016.

- Major transfers to persons, consisting of elderly, EI and children's benefits, decreased by \$0.1 billion, or 1.4 per cent. Elderly benefits increased by \$0.3 billion, or 6.6 per cent, due to growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments decreased by \$0.4 billion, or 17.5 per cent. Children's benefits decreased by \$20 million, or 1.0 per cent.
- Major transfers to other levels of government consist of federal transfers in support of health and other social programs (primarily the Canada Health Transfer and the Canada Social Transfer), fiscal arrangements and other transfers (Equalization, transfers to the territories, as well as a number of smaller transfer programs), transfers to provinces on behalf of Canada's cities and communities, and the Quebec Abatement. Major transfers to other levels of government increased by \$0.3 billion, or 5.9 per cent, largely reflecting payments under the new home care and mental health transfers, announced in Budget 2017, in support of provincial and territorial home care and mental health initiatives.

- Direct program expenses include transfer payments to individuals and other organizations not included in major transfers to persons and other levels of government, and other direct program expenses, which consist of operating expenses of National Defence, other departments and agencies, and expenses of Crown corporations. Direct program expenses were down \$0.3 billion, or 2.7 per cent. Within direct program expenses:
  - Transfer payments increased by \$0.1 billion, or 4.4 per cent.
  - Other direct program expenses decreased by \$0.4 billion, or 4.8 per cent.

Public debt charges decreased by \$0.2 billion, or 8.3 per cent, largely reflecting lower Consumer Price Index adjustments on Real Return Bonds and a lower average effective interest rate on the stock of interest-bearing debt.

## April to August 2017

For the April to August 2017 period of the 2017–18 fiscal year, there was a budgetary deficit of \$2.7 billion, compared to a deficit of \$5.4 billion reported in the same period of 2016–17.

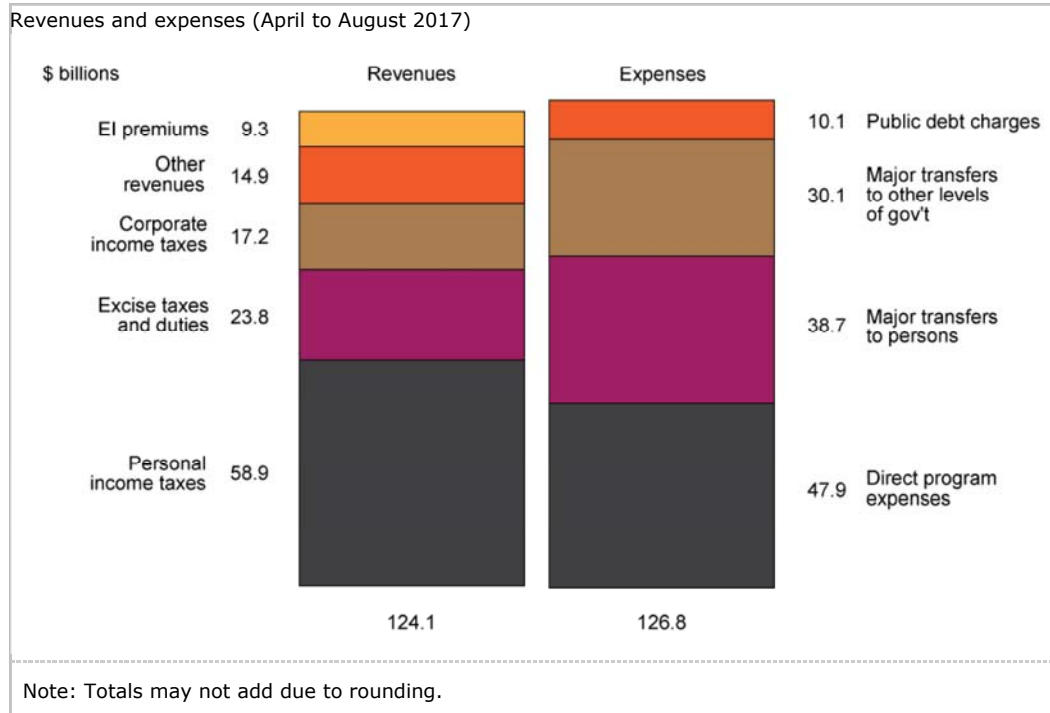
Revenues increased by \$6.3 billion, or 5.3 per cent, to \$124.1 billion.

- Personal income tax revenues were up \$2.7 billion, or 4.9 per cent.
- Corporate income tax revenues were up \$1.7 billion, or 11.0 per cent.
- Non-resident income tax revenues were up \$0.6 billion, or 27.1 per cent.
- Excise taxes and duties were up \$2.5 billion, or 11.5 per cent. GST revenues were up \$2.2 billion, or 15.2 per cent. Energy taxes were up \$47 million, customs import duties were up \$0.2 billion, and other excise taxes and duties were up \$21 million.
- EI premium revenues were down \$1.2 billion, or 11.5 per cent, reflecting a decline in the premium rate as a result of the seven-year break-even mechanism introduced in 2017.
- Other revenues were down \$23 million, or 0.2 per cent.

For the April to August 2017 period, program expenses were \$116.7 billion, up \$4.2 billion, or 3.7 per cent, from the same period the previous year.

- Major transfers to persons were up \$2.3 billion, or 6.3 per cent. Elderly benefits increased by \$1.2 billion, or 6.2 per cent, reflecting growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments decreased by \$0.2 billion, or 2.1 per cent. Children's benefits were up \$1.3 billion, or 15.3 per cent, largely reflecting the new Canada Child Benefit, which replaced the Canada Child Tax benefit and the Universal Child Care Benefit as of July 2016.
- Major transfers to other levels of government were up \$0.9 billion, or 3.2 per cent, largely reflecting legislated growth in the Canada Health Transfer, the Canada Social Transfer, Equalization transfers and transfers to the territories, as well as payments under the new home care and mental health transfers.
- Direct program expenses were up \$1.0 billion, or 2.1 per cent. Within direct program expenses:
  - Transfer payments decreased by \$0.3 billion, or 2.1 per cent.
  - Other direct program expenses increased by \$1.3 billion, or 3.9 per cent, due in large part to an increase in operating expenses of Crown corporations, as well as an increase in pension and benefit costs based on the Government's latest actuarial valuations.

Public debt charges decreased by \$0.7 billion, or 6.1 per cent, largely reflecting a lower average effective interest rate on the stock of interest-bearing debt.



## Financial requirement of \$12.5 billion for April to August 2017

The budgetary balance is presented on an accrual basis of accounting, recording government revenues and expenses when they are earned 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.

With a budgetary deficit of \$2.7 billion and a requirement of \$9.8 billion from non-budgetary transactions, there was a financial requirement of \$12.5 billion for the April to August 2017 period, compared to a financial requirement of \$19.1 billion for the same period the previous year.

## Net financing activities up \$13.8 billion

The Government financed this financial requirement of \$12.5 billion and increased cash balances by \$1.3 billion by increasing unmatured debt by \$13.8 billion. The increase in unmatured debt was achieved primarily through the issuance of marketable bonds.

The level of cash balances varies from month to month based on 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 2017 stood at \$38.2 billion, down \$5.2 billion from their level at the end of August 2016.

Table 1 Summary statement of transactions \$ millions				
	<b>August</b>		<b>April to August</b>	
	<b>2016</b>	<b>2017</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Budgetary transactions</b>				
Revenues	22,898	22,762	117,789	124,090
Expenses				
Program expenses	-23,388	-23,335	-112,500	-116,709
Public debt charges	-2,196	-2,014	-10,734	-10,077
Budgetary balance (deficit/surplus)	-2,686	-2,587	-5,445	-2,696
<b>Non-budgetary transactions</b>	945	1,880	-13,654	-9,837
<b>Financial source/requirement</b>	-1,741	-707	-19,099	-12,533
<b>Net change in financing activities</b>	-2,142	-2,785	24,676	13,838
<b>Net change in cash balances</b>	-3,883	-3,492	5,577	1,305
<b>Cash balance at end of period</b>			43,421	38,207
Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.				

Note: Totals may not add due to rounding.

Table 3 Expenses						
	August			April to August		
	2016 (\$ millions)	2017 (\$ millions)	Change (%)	2016-17 (\$ millions)	2017-18 (\$ millions)	Change (%)
<b>Major transfers to persons</b>						
Elderly benefits	3,941	4,200	6.6	19,606	20,812	6.2
Employment Insurance benefits	2,008	1,657	-17.5	8,477	8,300	-2.1
Children's benefits	1,926	1,906	-1.0	8,356	9,634	15.3
Total	7,875	7,763	-1.4	36,439	38,746	6.3
<b>Major transfers to other levels of government</b>						
Support for health and other social programs						
Canada Health Transfer	3,006	3,096	3.0	15,028	15,479	3.0
Canada Social Transfer	1,112	1,146	3.1	5,562	5,728	3.0
Home care and mental health	n/a	289	n/a	n/a	289	n/a
Total	4,118	4,531	10.0	20,590	21,496	4.4
Fiscal arrangements and other transfers	1,797	1,772	-1.4	9,417	9,556	1.5
Canada's cities and communities	0	0	n/a	1,036	1,036	0.0
Quebec Abatement	-381	-443	16.3	-1,907	-2,030	6.4
Total	5,534	5,860	5.9	29,136	30,058	3.2
<b>Direct program expenses</b>						
Transfer payments						
Agriculture and Agri-Food Canada	96	104	8.3	302	308	2.0
Employment and Social Development Canada	453	459	1.3	2,234	2,508	12.3
Global Affairs Canada	175	435	148.6	1,127	1,281	13.7
Health Canada	64	79	23.4	1,346	1,475	9.6
Indigenous and Northern Affairs Canada	559	581	3.9	2,942	3,149	7.0
Innovation, Science and Economic Development Canada	285	425	49.1	1,120	1,571	40.3
Other	665	314	-52.8	4,904	3,393	-30.8

Note: Totals may not add due to rounding.

Table 4 The budgetary balance and financial source/requirement \$ millions				
	August		April to August	
	2016	2017	2016-17	2017-18
<b>Budgetary balance (deficit/surplus)</b>	-2,686	-2,587	-5,445	-2,696
<b>Non-budgetary transactions</b>				
Capital investment activities	-421	-386	-1,182	-793
Other investing activities	-464	-842	-3,212	260
Pension and other accounts	1,455	690	2,885	1,876
Other activities				
Accounts payable, receivables, accruals and allowances	1,911	2,035	-10,436	-15,636
Foreign exchange activities	-1,879	52	-3,264	3,620
Amortization of tangible capital assets	343	331	1,555	836
Total other activities	375	2,418	-12,145	-11,180
Total non-budgetary transactions	945	1,880	-13,654	-9,837
<b>Financial source/requirement</b>	-1,741	-707	-19,099	-12,533
Note: Totals may not add due to rounding.				



Table 5 Financial source/requirement and net financing activities \$ millions				
	<b>August</b>		<b>April to August</b>	
	<b>2016</b>	<b>2017</b>	<b>2016-17</b>	<b>2017-18</b>
<b>Financial source/requirement</b>	-1,741	-707	-19,099	-12,533
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-1,949	1,266	11,284	18,217
Treasury bills	-1,100	-4,300	12,000	300
Retail debt	14	-28	103	-258
Total	-3,035	-3,062	23,387	18,259
Foreign currency borrowings	634	324	1,092	-433
Total	-2,401	-2,738	24,479	17,826
Cross-currency swap revaluation	244	10	-255	-3,415
Unamortized discounts and premiums on market debt	31	-39	575	-634
Obligations related to capital leases and other unmaturred debt	-16	-18	-123	61
<b>Net change in financing activities</b>	-2,142	-2,785	24,676	13,838
<b>Change in cash balance</b>	-3,883	-3,492	5,577	1,305
Note: Totals may not add due to rounding.				

Table 6 Condensed statement of assets and liabilities \$ millions			
	March 31, 2017	August 31, 2017	Change
<b>Liabilities</b>			
Accounts payable and accrued liabilities	132,519	128,601	-3,918
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	536,280	554,497	18,217
Treasury bills	136,700	137,000	300
Retail debt	4,533	4,275	-258
Subtotal	677,513	695,772	18,259
Payable in foreign currencies	17,609	17,176	-433
Cross-currency swap revaluation	7,764	4,349	-3,415
Unamortized discounts and premiums on market debt	5,322	4,688	-634
Obligations related to capital leases and other unmatrued debt	5,425	5,486	61
Total unmatrued debt	713,633	727,471	13,838
Pension and other liabilities			
Public sector pensions	151,806	151,359	-447
Other employee and veteran future benefits	93,568	95,988	2,420
Other liabilities	5,689	5,592	-97
Total pension and other liabilities	251,063	252,939	1,876
Total interest-bearing debt	964,696	980,410	15,714
<b>Total liabilities</b>	1,097,215	1,109,011	11,796
<b>Financial assets</b>			
Cash and accounts receivable	158,055	171,078	13,023
Foreign exchange accounts	98,797	95,177	-3,620

Loans, investments, and advances (net of allowances) <sup>1</sup>	124,006	122,720	-1,286
Public sector pension assets	1,900	1,900	0
Total financial assets	382,758	390,875	8,117
<b>Net debt</b>	714,457	718,136	3,679
<b>Non-financial assets</b>	82,558	82,515	-43
<b>Federal debt (accumulated deficit)</b>	631,899	635,621	3,722
Note: Totals may not add due to rounding.			
<sup>1</sup> August 31, 2017 amount includes \$1.0 billion in other comprehensive income from enterprise Crown corporations and other government business enterprises for the April to August 2017 period.			

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.

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