

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2010: budgetary deficit of \$4.5 billion

There was a budgetary deficit of \$4.5 billion in November 2010, compared to a deficit of \$4.4 billion in November 2009.

Revenues increased by \$2.6 billion, or 15.4 per cent, reflecting increases in personal and corporate income tax revenues and other revenues, partially offset by a decline in Goods and Services Tax (GST) revenues. Program expenses were up \$2.4 billion, or 12.9 per cent, largely reflecting an increase in transfer payments. Public debt charges increased by \$0.3 billion.

The November 2010 financial results reflect the impact of the Government's sale of a portion of its holdings of common shares in General Motors and asset and liability revaluations associated with the automaker's initial public offering on November 18, 2010.

### April to November 2010: budgetary deficit of \$26.0 billion

For the first eight months of the 2010–11 fiscal year, the budgetary deficit stood at \$26.0 billion, compared to a deficit of \$36.3 billion reported in the same period of 2009–10. Over \$11 billion of the \$26.0-billion deficit was attributable to actions taken under Canada's Economic Action Plan, including tax reductions, Employment Insurance (EI) related measures and infrastructure funding.

Revenues were up \$10.5 billion, or 7.7 per cent, primarily reflecting higher personal and corporate income tax revenues, GST revenues and other revenues. Program expenses were down \$0.5 billion, or 0.3 per cent. Public debt charges were up \$0.6 billion on a year-over-year basis.

## November 2010

There was a budgetary deficit of \$4.5 billion in November 2010, compared to a \$4.4-billion deficit in November 2009.

Revenues increased by \$2.6 billion, or 15.4 per cent, to \$19.4 billion.

- Personal income tax revenues were up \$1.2 billion, or 14.5 per cent, reflecting in part a one-time adjustment in November 2009 in respect of the Economic Action Plan's

enhancement of the Working Income Tax Benefit. Absent this adjustment, personal income tax revenues would have increased by 9.0 per cent.

- Corporate income tax revenues were up \$0.3 billion, or 18.4 per cent.
- Non-resident income tax revenues were up \$6 million, or 1.6 per cent.

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



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- Excise taxes and duties were down \$0.2 billion, or 4.1 per cent, driven by lower GST revenues. GST revenues were down \$0.3 billion, or 9.0 per cent. This decline reflects the pattern of GST revenues recorded last year, which declined year-over-year through the first half of the year before recording gains from November onward, particularly in February and March. Energy taxes were up \$7 million. Customs import duties were up \$0.1 billion, or 34.3 per cent. Other excise taxes and duties were up \$13 million.
- EI premium revenues were up \$15 million, or 1.9 per cent.
- 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 up \$1.3 billion, or 72.7 per cent. This increase largely reflects higher net profits of enterprise Crown corporations, due in part to unrealized gains resulting from fair value adjustments on financial instruments, as well as a \$0.6-billion gain recorded on the Government's sale of common equity in General Motors under the initial public offering in November 2010 (see box below).

Program expenses in November 2010 were \$21.2 billion, up \$2.4 billion, or 12.9 per cent, from November 2009, largely reflecting higher transfer payments.

Transfer payments increased by \$2.2 billion, or 17.6 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, decreased by \$0.2 billion, or 3.0 per cent. Elderly benefits increased by \$0.1 billion, or 3.6 per cent. EI benefit payments decreased by \$0.3 billion, or 16.3 per cent, primarily reflecting one less large processing day in November 2010 compared to November 2009. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, increased by \$11 million, or 1.1 per cent.

- Major transfers to other levels of government, consisting of federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, and Alternative Payments for Standing Programs, increased by \$0.3 billion, or 5.8 per cent, largely reflecting legislated growth in transfers.
- Other transfer payments were up \$2.1 billion, due largely to an increase in infrastructure transfers and a \$1.2-billion expense resulting from the revaluation of the Government's liability to Ontario in respect of the province's one-third proportionate participation in the value of the Government's common shares in General Motors (see box below).

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased by \$0.2 billion, or 3.5 per cent, over the prior year.

Public debt charges increased by \$0.3 billion, due in part to a one-time adjustment in November 2010 to reflect an under-accrual of interest expense on public sector pension liabilities in prior months based on an updated estimate of benefit expenses for the 2010–11 fiscal year.

## Impact of General Motors' Initial Public Offering on the Government's Financial Results

On November 1, 2010, General Motors completed a three-for-one stock split which resulted in the Government of Canada owning approximately 175 million common shares. Following the stock split and in conjunction with the automaker's initial public offering on November 18, 2010, the Government of Canada sold approximately 30 million shares in November at US\$33 per share, resulting in a gain of about \$0.6 billion.

In addition to this realized gain, the Government has also recorded an unrealized gain resulting from the appreciation in value of its remaining shares. In accordance with accounting standards, the book value of the Government's remaining holdings has been adjusted to reflect the new fair market value. Changes in the value of these shares are recorded as part of other comprehensive income. Other comprehensive income is excluded from the calculation of the Government's budgetary balance and is instead recorded directly as a component of the federal debt, or accumulated deficit. As of November 30, 2010, the Government recorded \$2.9 billion in other comprehensive income due to this revaluation, resulting in a corresponding decrease in the federal debt.

As of November 30, 2010, the Government also recorded a \$1.2-billion transfer payment expense resulting from the revaluation of its liability to Ontario for the province's one-third participation in the value of the Government's holdings of General Motors' common shares. Changes in the value of this liability are reflected in the budgetary balance. The \$1.2-billion expense reflects the province's one-third interest in the realized and unrealized gains on the shares. Future changes in the fair market value of the Government's remaining shares will result in further adjustments to this liability, with corresponding gains and/or losses.

On a net basis, these transactions and revaluations have resulted in a \$0.7-billion increase in the 2010–11 budgetary deficit in November 2010. However, the federal debt has been reduced by \$2.2 billion, as the net budgetary impact has been more than offset by other comprehensive income recorded on the revaluation of the Government's remaining shares.

## April to November 2010

For the first eight months of the 2010–11 fiscal year, there was a budgetary deficit of \$26.0 billion, compared to a deficit of \$36.3 billion reported during the same period of 2009–10. Over \$11 billion of the \$26.0-billion deficit was attributable to actions taken under Canada's Economic Action Plan.

Revenues increased by \$10.5 billion, or 7.7 per cent, to \$147.1 billion.

- Personal income tax revenues were up \$3.7 billion, or 5.4 per cent.
- Corporate income tax revenues were up \$1.6 billion, or 12.9 per cent, reflecting a decline in receipts of about 3 per cent, which was more than offset by a decrease of roughly 20 per cent in refunds of taxes paid.

- Non-resident income tax revenues were down \$0.1 billion, or 3.9 per cent.
- Excise taxes and duties were up \$2.8 billion, or 10.9 per cent. GST revenues were up \$2.3 billion, or 14.1 per cent. Energy taxes were up \$0.1 billion, customs import duties were down \$15 million, and other excise taxes and duties were up \$0.4 billion.
- EI premium revenues were up \$0.5 billion, or 5.1 per cent, broadly in line with growth in insurable earnings. The premium rate was kept stable at \$1.73 per \$100 of insurable earnings for 2009 and 2010.
- Other revenues were up \$1.9 billion, or 12.2 per cent, largely reflecting an increase in the net profits of enterprise Crown corporations, as well as the gain realized on the Government's sale of common shares in General Motors.

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Program expenses for April to November 2010 were \$152.6 billion, down \$0.5 billion, or 0.3 per cent, from the same period the previous year.

Transfer payments for April to November 2010 decreased by \$0.9 billion, or 0.8 per cent, from the same period the previous year.

- Major transfers to persons were down \$0.1 billion, or 0.2 per cent. Elderly benefits increased by \$0.6 billion, or 2.7 per cent, in line with growth in the elderly population and changes in consumer prices, to which benefits are fully indexed. EI benefit payments decreased by \$1.0 billion, or 6.9 per cent, reflecting a decrease in regular benefits. Children's benefits were up \$0.3 billion, reflecting in part enhancements to the National Child Benefit supplement and the Canada Child Tax Benefit which took effect in July 2009 as part of Canada's Economic Action Plan.
- Major transfers to other levels of government were up \$1.6 billion, or 4.8 per cent, largely reflecting legislated growth in transfers as well as one-time transfer protection payments to provinces in August 2010 to prevent declines in the Canada Health Transfer, the Canada Social Transfer and Equalization transfers between 2009–10 and 2010–11.
- Other transfer payments were down \$2.4 billion, primarily reflecting one-time assistance to the automotive industry in 2009–10, partially offset by the impact of the revaluation of the Government's liability to Ontario for the province's one-third participation in the value of the Government's common shares in General Motors.

Other program expenses increased by \$0.4 billion, or 0.8 per cent, from the previous year's level.

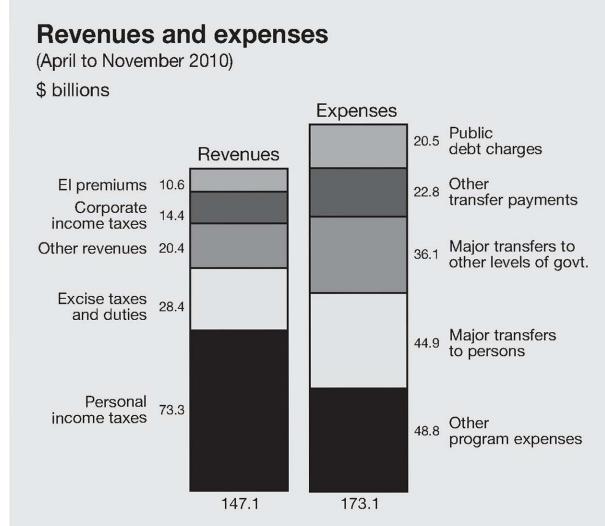
Public debt charges increased by \$0.6 billion, or 3.3 per cent.

## Financial requirement of \$41.0 billion for April to November 2010

The budgetary balance is presented on an accrual basis of accounting, recording government revenues and expenses 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, 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 \$26.0 billion and a requirement of \$15.0 billion from non-budgetary transactions, there was a financial requirement of \$41.0 billion in the April to November period of 2010–11, compared to a financial requirement of \$58.5 billion in the same period of 2009–10. The decrease in the financial requirement in 2010–11 reflects the improvement in the budgetary balance, a reduction in the financing requirements of Canada Mortgage and Housing Corporation under the Insured Mortgage Purchase Program (IMPP) due to the winding down in March 2010 of purchases of insured mortgage pools under the IMPP, as well as one-time assistance provided to the automotive industry in 2009–10.



## **Net financing activities up \$30.8 billion**

The Government financed this financial requirement of \$41.0 billion by increasing market debt by \$30.8 billion and reducing cash balances by \$10.2 billion. The increase in market 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 November 2010 stood at \$15.4 billion, down \$9.7 billion from their level at the end of November 2009.

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Table 1  
**Summary statement of transactions**

	November		April to November	
	2009	2010	2009–10	2010–11
(\$ millions)				
<b>Budgetary transactions</b>				
Revenues	16,802	19,395	136,633	147,100
Expenses				
Program expenses	-18,794	-21,221	-153,073	-152,605
Public debt charges	-2,365	-2,645	-19,863	-20,510
Budgetary balance (deficit/surplus)	-4,357	-4,471	-36,303	-26,015
<b>Non-budgetary transactions</b>				
Financial source/requirement	4,143	4,274	-22,186	-15,030
Net change in financing activities	-214	-197	-58,489	-41,045
Net change in cash balances	3,868	9,783	38,510	30,811
Cash balance at end of period	3,654	9,586	-19,979	-10,234
			25,053	15,391

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

Table 2

## Revenues

	November			April to November						
	2009	2010	Change	2009–10	2010–11	Change				
	(\$ millions)		(%)	(\$ millions)		(%)				
<b>Tax revenues</b>										
Income taxes										
Personal income tax	8,368	9,585	14.5	69,588	73,318	5.4				
Corporate income tax	1,476	1,747	18.4	12,722	14,363	12.9				
Non-resident income tax	382	388	1.6	3,039	2,921	-3.9				
Total income tax	10,226	11,720	14.6	85,349	90,602	6.2				
Excise taxes and duties										
Goods and Services Tax	2,957	2,691	-9.0	16,399	18,711	14.1				
Energy taxes	453	460	1.5	3,474	3,544	2.0				
Customs import duties	230	309	34.3	2,350	2,335	-0.6				
Other excise taxes and duties	428	441	3.0	3,357	3,788	12.8				
Total excise taxes and duties	4,068	3,901	-4.1	25,580	28,378	10.9				
Total tax revenues	14,294	15,621	9.3	110,929	118,980	7.3				
<b>Employment Insurance premiums</b>	787	802	1.9	10,086	10,597	5.1				
<b>Other revenues</b>	1,721	2,972	72.7	15,618	17,523	12.2				
<b>Total revenues</b>	16,802	19,395	15.4	136,633	147,100	7.7				

Note: Totals may not add due to rounding.

Table 3

## Expenses

	November			April to November		
	2009	2010	Change	2009–10	2010–11	Change
	(\$ millions)			(\$ millions)		
<b>Transfer payments</b>						
Major transfers to persons						
Elderly benefits	2,902	3,007	3.6	22,977	23,603	2.7
Employment Insurance benefits	1,745	1,460	-16.3	13,787	12,836	-6.9
Children's benefits	1,043	1,054	1.1	8,241	8,498	3.1
Total	5,690	5,521	-3.0	45,005	44,937	-0.2
Major transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	2,064	2,182	5.7	16,508	17,341	5.0
Canada Social Transfer	887	932	5.1	7,222	7,453	3.2
Total	2,951	3,114	5.5	23,730	24,794	4.5
Fiscal transfers						
Canada's cities and communities	1,321	1,328	0.5	10,952	11,614	6.0
Alternative Payments for Standing Programs	705	744	5.5	1,662	1,602	-3.6
Total	-263	-199	-24.3	-1,877	-1,905	1.5
Other transfer payments						
Agriculture and Agri-Food	265	170	-35.8	1,124	1,168	3.9
Foreign Affairs and International Trade	146	135	-7.5	1,712	1,923	12.3
Health	247	258	4.5	1,708	1,725	1.0
Human Resources and Skills Development	216	213	-1.4	1,932	2,252	16.6
Indian Affairs and Northern Development	406	556	36.9	3,453	3,888	12.6
Industry	132	377	185.6	1,502	1,915	27.5
Other	715	2,521	252.6	13,795	9,916	-28.1
Total	2,127	4,230	98.9	25,226	22,787	-9.7
Total transfer payments	12,531	14,738	17.6	104,698	103,829	-0.8
<b>Other program expenses</b>						
Crown corporations	761	746	-2.0	6,545	6,851	4.7
Defence	1,683	1,858	10.4	12,742	12,440	-2.4
All other departments and agencies	3,819	3,879	1.6	29,088	29,485	1.4
Total other program expenses	6,263	6,483	3.5	48,375	48,776	0.8
<b>Total program expenses</b>	18,794	21,221	12.9	153,073	152,605	-0.3
<b>Public debt charges</b>	2,365	2,645	11.8	19,863	20,510	3.3
<b>Total expenses</b>	21,159	23,866	12.8	172,936	173,115	0.1

Note: Totals may not add due to rounding.

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Table 4

**The budgetary balance and financial source/requirement**

	November		April to November	
	2009	2010	2009–10	2010–11
(\$ millions)				
<b>Budgetary balance (deficit/surplus)</b>	-4,357	-4,471	-36,303	-26,015
<b>Non-budgetary transactions</b>				
Capital investing activities	-421	-106	-2,186	-2,624
Other investing activities	-1,048	-261	-19,524	-1,941
Pension and other accounts	703	615	4,805	3,779
Other activities				
Accounts payable, receivables, accruals and allowances	3,068	2,316	-12,011	-17,824
Foreign exchange activities	1,545	1,341	4,488	596
Amortization of tangible capital assets	296	369	2,242	2,984
Total other activities	4,909	4,026	-5,281	-14,244
Total non-budgetary transactions	4,143	4,274	-22,186	-15,030
<b>Financial source/requirement</b>	-214	-197	-58,489	-41,045

Note: Totals may not add due to rounding.

Table 5

**Financial source/requirement and net financing activities**

	November		April to November	
	2009	2010	2009–10	2010–11
(\$ millions)				
<b>Financial source/requirement</b>	-214	-197	-58,489	-41,045
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	9,488	7,222	50,310	33,872
Treasury bills	-3,700	5,000	-2,600	-1,100
Retail debt	-304	-1,197	-412	-1,564
Other	-2	-22	-69	-412
Total	5,482	11,003	47,229	30,796
Foreign currency borrowings	-1,028	-525	-3,740	-489
Total	4,454	10,478	43,489	30,307
Cross-currency swap revaluation	-583	-767	-4,517	-99
Unamortized discounts and premiums on market debt	8	80	-381	692
Obligations related to capital leases	-11	-8	-81	-89
Net change in financing activities	3,868	9,783	38,510	30,811
<b>Change in cash balance</b>	3,654	9,586	-19,979	-10,234

Note: Totals may not add due to rounding.

Table 6  
**Condensed statement of assets and liabilities**

	March 31, 2010	November 30, 2010	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable and accrued liabilities	120,525	105,317	-15,208
Interest-bearing debt			
Unmatured debt			
Payable in Canadian currency			
Marketable bonds	367,962	401,834	33,872
Treasury bills	175,849	174,749	-1,100
Retail debt	11,855	10,291	-1,564
Other	452	40	-412
Subtotal	556,118	586,914	30,796
Payable in foreign currencies	8,243	7,754	-489
Cross-currency swap revaluation	-4,233	-4,332	-99
Unamortized discounts and premiums on market debt	-5,092	-4,400	692
Obligations related to capital leases	4,090	4,001	-89
Total unmatured debt	559,126	589,937	30,811
Pension and other liabilities			
Public sector pensions	142,843	145,000	2,157
Other employee and veteran future benefits	54,227	56,068	1,841
Other liabilities	6,587	6,368	-219
Total pension and other liabilities	203,657	207,436	3,779
Total interest-bearing debt	762,783	797,373	34,590
<b>Total liabilities</b>	883,308	902,690	19,382
<b>Financial assets</b>			
Cash and accounts receivable	101,205	93,587	-7,618
Foreign exchange accounts	46,950	46,354	-596
Loans, investments, and advances (net of allowances) <sup>1</sup>	152,681	158,029	5,348
<b>Total financial assets</b>	300,836	297,970	-2,866
<b>Net debt</b>	582,472	604,720	22,248
<b>Non-financial assets</b>	63,375	63,015	-360
<b>Federal debt (accumulated deficit)</b>	519,097	541,705	22,608

Note: Totals may not add due to rounding.

<sup>1</sup> Includes \$3,407 million in other comprehensive income reported by enterprise Crown corporations and other government business enterprises in 2010–11.