

Federal Government Posts Deficit for First Two Months of 2009-2010

Given the overall economic environment, now and over the past nine months, it won't come as a surprise to anyone that Canada's federal government ran a deficit for the first two months of the 2009-2010 fiscal year. For the months of March and April 2009, the deficit totaled \$7.5 billion, as compared to the \$0.9 billion deficit posted for the same period in 2008.

The causes of the almost 10-fold year-over-year increase can be found on both the revenue and the expenditure side of the federal government's balance sheet. While the operating costs of government departments and agencies actually declined slightly (by 1.3%, or \$0.1 billion), overall program expenses were up by \$4.4 billion, or 13.4%, much of which is attributable to employment supports of one kind or another. The impact of the increase in federal government costs was made worse by a decline in revenue, as receipts from all three tax revenue streams — personal income tax, corporate income tax, and excise taxes — were lower than those from the same period in 2008.

On the expenditure side, of the \$4.4 billion increase, \$2.7 billion went to employment supports, whether in the form of industry assistance or as direct payment of employment insurance benefits. The cost of EI benefit payments rose by \$1.3 billion, or just over 50%, during the months of April and May, as measured on a year-over-year basis. A further \$1.4 billion was consumed in what the federal government terms "subsidies and transfers", made up during this period largely of support for the automotive industry. Smaller increases were seen in benefits paid to the elderly and for children.

While tax revenues were off sharply — in the case of corporate income tax, by as much as 23.5% — the Department of Finance attributed those declines mainly to factors other than the current recession. Personal income tax revenues were down by \$0.3 billion, or 1.5%, which was attributed by the Department to personal income tax changes previously announced by the federal government, including increased personal tax credits and personal income tax brackets, as well as costs associated with the Home Renovation Tax Credit. Revenue from corporate income taxes suffered a greater decline, of \$1.3 billion, the result, in the Department's view, of lower installment payments of income taxes during April and May.

Revenues from excise taxes and duties, including the goods and services tax (GST) were down, overall, by \$1.5 billion, or 26.1%. Of that decline, \$1.4 billion was attributable to a 37.9% drop in GST revenues for the period. A note included in the summary indicated that "as a value-added tax, the GST can yield volatile net collections on a month-to-month basis due to timing differences between GST owed to the Government and credits claimed for GST paid on inputs". The balance of the reduction in excise tax and duties was composed mostly of a \$0.1 billion drop in customs import duties and a \$39 million decline in revenue from energy taxes.

The current issue of The Fiscal Monitor, from which these figures were taken, is available on the Department of Finance Web site at <http://www.fin.gc.ca/fiscmon-revfin/2009-04-eng.asp>. Upcoming issues of The Fiscal Monitor will be published by the Department of Finance on a monthly basis, with each issue summarizing federal government financial results for the second previous month. The next issue, summarizing results for June 2009, will be issued no later than the week of August 17.