

## Finance Releases Results for First Quarter of 2009-2010

No one expected, given the state of the Canadian economy over the past several months, that government budgetary figures for the first part of the 2009-2010 fiscal year would be particularly positive ones. And so it is proving to be. The Department of Finance recently issued its publication *The Fiscal Monitor*, summarizing federal government financial results for June 2009 and for the first quarter of the 2009-2010 fiscal year, and the results are largely as anticipated.

For the month of June, there was a budgetary deficit of \$5 billion, as compared to a surplus of \$1.6 billion recorded for the same month a year earlier. Revenues were down in all budgetary categories, especially corporate income tax and goods and services tax revenues. At the same time, the government faced increased costs for employment supports in the form of both direct employment insurance payments and support for the automotive sector. Specifically, corporate income tax revenues for the month dropped by \$0.8 billion, or 25.1 per cent, while revenue from goods and services tax declined by just over 25 per cent. While the drop in the former was attributed to higher corporate refunds and lower installment payments, occurring as a result of lower overall corporate revenues, the decline in GST revenues was seen as arising more from timing differences in collection of the tax. The Department of Finance indicated that the nature of the GST is such that there can be timing differences between the significant volumes of GST owed to the government and credit claimed for GST paid on inputs. As a result, the Department expects that much of the weakness in GST revenues will “unwind” in the coming months.

The fiscal figures for June were reflected in the overall results for the first quarter of the 2009-2010 fiscal year. For that quarter, the federal government deficit stood at \$12.5 billion, down \$13.3 billion from the \$0.8 billion surplus reported during the first quarter of the 2008-09 fiscal year. As was the case during June, revenues were down in nearly all categories, except employment insurance premiums. Despite continued employment losses across the country and a stable premium rate, revenues from employment insurance premiums were up by \$0.1 billion, or 2.6 per cent. In other areas, however, revenue declined by as much as one quarter when compared to the previous fiscal year. Personal income tax revenues were down by \$1.4 billion, or 4.9 per cent, and corporate income tax revenues experienced a much larger drop of \$2.2 billion, or 24.1 per cent. Once again, GST revenues suffered the most striking decline, dropping by \$2 billion, or 32.6 per cent. The erosion of GST revenues was, in the Department’s view, much larger than could be expected from the decline in taxable consumption. For that reason, and since these figures represent only the first three months of the fiscal year, the Department expects that GST revenues will show some recovery over the balance of the 2009-2010 fiscal year. On the expenditure side, costs for employment insurance benefits rose by nearly 50 per cent, or \$1.7 billion, while expenditures relating to support for the automotive industry pushed costs in the category of “subsidies and other transfers” up by \$4.6 billion, or 78.6 per cent. Smaller increases were recorded in payments of elderly and child benefits, as well as major transfers to other levels of government. The latter reflected legislated growth in equalization and in social and health transfer payments, as well as the doubling of the gas tax transfer to provinces and municipalities which took effect on April 1, 2009.

The current issue of *The Fiscal Monitor*, which analyzes these figures in more detail, is available on the Department of Finance Web site at <http://www.fin.gc.ca/fiscmon-revfin/2009-06-eng.asp>. The next issue, which will summarize federal government financial results for July 2009 as well as for the first four months of the 2009-2010 fiscal year, will be released before the end of September.