

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2007: budgetary surplus of \$2.3 billion

There was a budgetary surplus of \$2.3 billion in January 2007, up \$0.7 billion from the \$1.5-billion surplus in January 2006. Budgetary revenues rose \$0.8 billion, or 3.9 per cent, due to strong growth in corporate income tax and non-resident withholding tax revenues, dampened by declines in other revenue streams. Program expenses decreased by \$0.1 billion, or 0.3 per cent, reflecting a decrease in departmental operating expenses. Public debt charges were up \$0.2 billion.

April 2006 to January 2007: budgetary surplus of \$9.5 billion

The budgetary surplus is estimated at \$9.5 billion for the first 10 months of the 2006–07 fiscal year, up from the \$9.0-billion surplus posted in the same period of 2005–06. Budgetary revenues rose \$8.6 billion, or 4.8 per cent, reflecting strong growth in income tax revenues, partially offset by declines in excise taxes and employment insurance (EI) premium revenues. Program expenses were up \$7.8 billion, or 5.5 per cent, due to both higher transfers and other program expenses. Public debt charges were up \$0.3 billion.

January 2007

There was a budgetary surplus of \$2.3 billion in January 2007, up from the \$1.5-billion surplus of January 2006.

Budgetary revenues increased by \$0.8 billion, or 3.9 per cent, to \$22.2 billion.

- Personal income tax revenues declined by \$0.2 billion, or 2.3 per cent. The decline partly reflects the inclusion of the monthly cost of the pension income splitting measure introduced in the October 31, 2006, Tax Fairness Plan, a measure which pertains to the 2007 tax year.
- Corporate income tax revenues rose \$0.3 billion, or 12.0 per cent. Corporate income tax revenues can be volatile on a monthly basis, as large refunds or settlement payments may be recorded in any given month. In addition, assessments or reassessments, which can relate to activity that took place in prior years, can influence results in a given month.
- Other income tax revenues—withholdings from non-residents—rose \$0.1 billion, or 18.1 per cent, reflecting ongoing strength in the corporate sector. Other income tax revenues can also be volatile on a monthly basis, as the timing of corporate dividend payments, and thus the corresponding tax withheld on those payments, can vary from year to year.
- Excise taxes and duties were up \$0.5 billion. A \$0.5-billion gain in revenue from the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement more than offset the decline in goods and services tax (GST) revenues that resulted from the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premium revenues increased by 12.9 per cent, reflecting improvements in employment and wages and salaries, which more than offset the decline in the premium rate from \$1.87 to \$1.80 per \$100 of insurable earnings, effective January 1, 2007.



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- Other revenues, consisting of net profits of enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, decreased by \$0.1 billion, or 3.2 per cent.

Program expenses in January 2007 were \$17.1 billion, down \$0.1 billion or 0.3 per cent from January 2006, reflecting a decrease in operating expenses of departments and agencies, partially offset by an increase in transfer payments.

Transfer payments increased \$0.6 billion, or 5.2 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, rose \$0.4 billion, or 7.6 per cent. Elderly benefits increased by 4.0 per cent. EI benefits increased by 3.4 per cent, reflecting an increase in regular benefits. Children's benefits consist of the Canada Child Tax Benefit and the new Universal Child Care Benefit (UCCB), which began on July 1, 2006. Children's benefits were up \$0.2 billion, reflecting transfers under the new UCCB program.
- Transfers to other levels of government, consisting of 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, transfers for early learning and child care and Alternative Payments for Standing Programs, were up \$0.2 billion, or 7.0 per cent.
- Subsidies and other transfers decreased by 0.6 per cent. Absent a \$0.5-billion transfer related to the Softwood Lumber Agreement, subsidies and other transfers would have declined some 17 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National

Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses decreased \$0.6 billion, or 10.1 per cent, reflecting decreases across a number of departments.

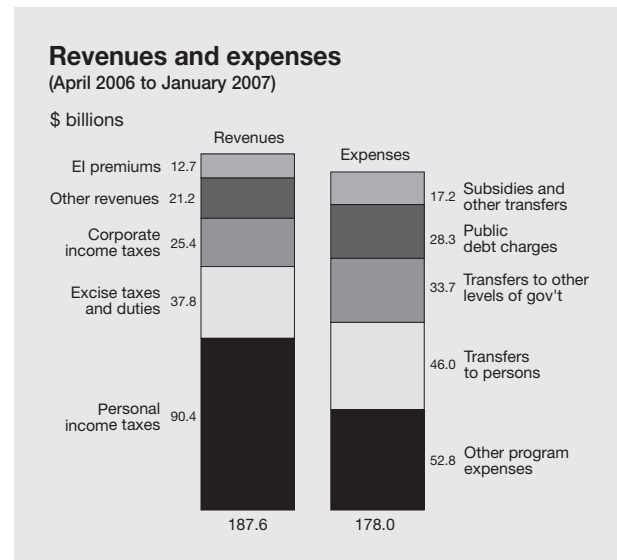
Public debt charges were up \$0.2 billion due to an increase in the average effective interest rate on the stock of interest-bearing debt.

April 2006 to January 2007

In the first 10 months of the 2006–07 fiscal year, there was a budgetary surplus of \$9.5 billion, up \$0.5 billion from the \$9.0-billion surplus reported for the same period of 2005–06.

Budgetary revenues were up \$8.6 billion, or 4.8 per cent, to \$187.6 billion.

- Personal income tax revenues rose \$6.6 billion, or 7.8 per cent, reflecting the interaction of solid growth in employment and wages and salaries with the progressivity of the personal income tax system.
- Corporate income tax revenues were up \$2.8 billion, or 12.4 per cent, reflecting ongoing gains in profitability in 2005 and 2006, particularly in the energy sector.



- Other income tax revenues rose \$0.8 billion, or 19.7 per cent, boosted by a one-time payment in November 2006 related to the disposition of Canadian assets by a non-resident firm.
- Excise taxes and duties declined by \$1.8 billion, or 4.5 per cent, primarily due to a \$2.5-billion drop in GST revenues, reflecting the impact of the July 1, 2006, GST rate reduction. This decline was partially offset by \$0.5 billion in one-time revenue from the charge on duty deposit refunds under the Softwood Lumber Agreement, which raised sales and excise tax revenues by \$0.5 billion, or 6.5 per cent. Customs import duties rose \$0.1 billion, or 4.3 per cent, while revenues from the Air Travellers Security Charge were up \$16 million.
- EI premium revenues declined by 4.8 per cent, reflecting the declines in the premium rate in 2006 and 2007, as well as the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province along with the associated premiums, effective January 1, 2006.
- Other revenues rose \$0.9 billion, or 6.0 per cent.

Program expenses in the April 2006 to January 2007 period were \$149.7 billion, up \$7.8 billion, or 5.5 per cent, over the same period of 2005–06 due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by \$0.3 billion.

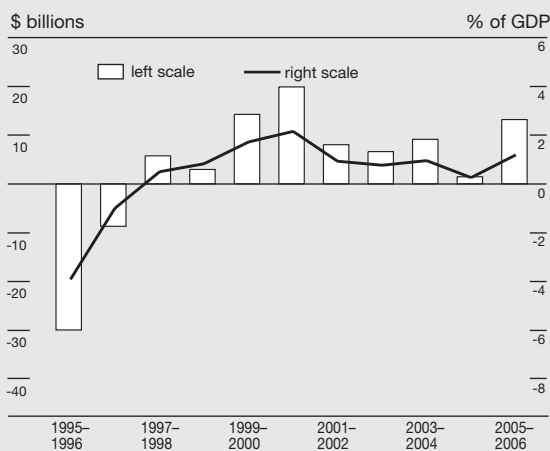
Transfer payments, which account for about two-thirds of total program expenses, increased by \$5.2 billion, or 5.6 per cent.

- Transfers to persons grew 5.5 per cent. Elderly benefits rose 4.8 per cent while EI benefits declined by 2.8 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in maternity and parental benefits, which have decreased due to the transfer to the province of Quebec of the responsibility for delivering maternity and parental benefits in that province, effective January 1, 2006. Children's benefits increased by 20.6 per cent, reflecting transfers under the new UCCB program, which began on July 1, 2006.
- Transfers to other levels of government were up \$2.3 billion, or 7.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a \$650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by \$0.5 billion, or 2.9 per cent, reflecting an increase in agricultural assistance and transfers under the Softwood Lumber Agreement.

Other program expenses increased by \$2.6 billion, 5.2 per cent, due to an increase in the operating costs of departments and agencies as well as a one-time increase in September 2006 in the Government's estimated pension liabilities.

Public debt charges were up 1.2 per cent due mainly to an increase in the average effective interest rate on the stock of interest-bearing debt.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Financial source of \$6.3 billion for April 2006 to January 2007

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, 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.

Non-budgetary transactions resulted in a requirement of \$3.2 billion in the April 2006 to January 2007 period, reflecting payments made to provinces and international organizations pursuant to Bill C-48. This is down from a \$4.9-billion requirement in the same period of 2005–06. The decrease in the requirement largely reflects the transfer of the Government's holdings in the Canada Pension Plan to the Canada Pension Plan Investment Board in 2005–06.

With a budgetary surplus of \$9.5 billion and a requirement of \$3.2 billion from non-budgetary transactions, there was a net financial source of \$6.3 billion in the first 10 months of 2006–07 compared to a net financial source of \$4.1 billion in the same period of 2005–06.

Net financing activities down \$20.7 billion

The Government used this net financial source of \$6.3 billion and a reduction in its cash balances of \$14.4 billion to reduce its market debt by \$20.7 billion by the end of January 2007. This reduction in market debt is \$2.2 billion higher than the \$18.5-billion reduction during the same period last year, due to the larger financial source over the April 2006 to January 2007 period. The reduction in market debt was achieved largely through a reduction of treasury bills, marketable bonds and foreign currency borrowings. 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 January stood at \$3.6 billion.

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Table 1

Summary statement of transactions

	January		April to January	
	2006	2007	2005-06	2006-07
	(\$ millions)			
Budgetary transactions				
Revenues	21,399	22,242	178,937	187,557
Expenses				
Program expenses	-17,185	-17,128	-141,913	-149,711
Public debt charges	-2,676	-2,835	-27,986	-28,312
Budgetary balance (deficit/surplus)	1,538	2,279	9,038	9,534
Non-budgetary transactions	2,126	72	-4,929	-3,188
Financial source/requirement	3,664	2,351	4,109	6,346
Net change in financing activities	-5,390	-2,838	-18,485	-20,725
Net change in cash balances	-1,726	-487	-14,376	-14,379
Cash balance at end of period			2,780	3,578

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

Table 2

Budgetary revenues

	January			April to January		
	2006	2007	Change	2005-06	2006-07	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	10,378	10,139	-2.3	83,872	90,435	7.8
Corporate income tax	2,599	2,911	12.0	22,573	25,361	12.4
Other income tax	696	822	18.1	3,910	4,681	19.7
Total income tax	13,673	13,872	1.5	110,355	120,477	9.2
Excise taxes and duties						
Goods and services tax	3,345	3,174	-5.1	28,502	26,051	-8.6
Customs import duties	244	277	13.5	2,836	2,957	4.3
Sales and excise taxes	711	1,326	86.5	7,983	8,505	6.5
Air Travellers Security Charge	22	27	22.7	279	295	5.7
Total excise taxes and duties	4,322	4,804	11.2	39,600	37,808	-4.5
Total tax revenues	17,995	18,676	3.8	149,955	158,285	5.6
Employment insurance premiums	1,677	1,894	12.9	13,381	12,734	-4.8
Other revenues	1,727	1,672	-3.2	15,601	16,538	6.0
Total budgetary revenues	21,399	22,242	3.9	178,937	187,557	4.8

Note: Totals may not add due to rounding.

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Table 3

Budgetary expenses

	January		Change	April to January		Change
	2006	2007		2005-06	2006-07	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,491	2,590	4.0	24,184	25,335	4.8
Employment insurance benefits	1,570	1,623	3.4	11,714	11,388	-2.8
Children's benefits	781	999	27.9	7,711	9,303	20.6
Total	4,842	5,212	7.6	43,609	46,026	5.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,583	1,678	6.0	15,833	16,783	6.0
Canada Social Transfer	685	708	3.4	6,854	7,083	3.3
Total	2,268	2,386	5.2	22,687	23,866	5.2
Fiscal transfers	1,061	1,139	7.4	10,597	11,123	5.0
Canada's cities and communities	14	0	-100.0	575	548	-4.7
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-261	-227	-13.0	-2,461	-2,508	1.9
Total	3,082	3,298	7.0	31,398	33,679	7.3
Subsidies and other transfers						
Agriculture and Agri-Food	871	556	-36.2	1,931	2,257	16.9
Foreign Affairs and International Trade	333	834	150.5	1,937	2,410	24.4
Health	207	231	11.6	1,527	1,603	5.0
Human Resources and Social Development	463	197	-57.5	1,608	1,383	-14.0
Indian Affairs and Northern Development	367	376	2.5	3,986	3,929	-1.4
Industry	158	147	-7.0	1,610	1,665	3.4
Other	681	720	5.7	4,123	3,956	-4.1
Total	3,080	3,061	-0.6	16,722	17,203	2.9
Total transfer payments	11,004	11,571	5.2	91,729	96,908	5.6
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	50	96	92.0	1,028	1,042	1.4
Canada Mortgage and Housing Corporation	171	205	19.9	1,707	1,715	0.5
Other	285	294	3.2	2,761	2,872	4.0
Total	506	595	17.6	5,496	5,629	2.4
Defence	1,569	1,422	-9.4	12,335	13,049	5.8
All other departments and agencies	4,106	3,540	-13.8	32,353	34,125	5.5
Total other program expenses	6,181	5,557	-10.1	50,184	52,803	5.2
Total program expenses	17,185	17,128	-0.3	141,913	149,711	5.5
Public debt charges	2,676	2,835	5.9	27,986	28,312	1.2
Total budgetary expenses	19,861	19,963	0.5	169,899	178,023	4.8

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	January		April to January	
	2006	2007	2005–06	2006–07
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,538	2,279	9,038	9,534
Non-budgetary transactions				
Capital investing activities	-301	-177	-1,815	-1,749
Other investing activities	359	-20	-2,028	-974
Pension and other accounts	205	-156	-103	3,697
Other activities				
Accounts payable, receivables, accruals and allowances	1,339	1,706	-6,129	-6,344
Foreign exchange activities	284	-1,487	2,597	-282
Amortization of tangible capital assets	240	206	2,549	2,464
Total other activities	1,863	425	-983	-4,162
Total non-budgetary transactions	2,126	72	-4,929	-3,188
Net financial source/requirement	3,664	2,351	4,109	6,346

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2006	2007	2005–06	2006–07
	(\$ millions)			
Net financial source/requirement	3,664	2,351	4,109	6,346
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	221	2,120	-7,771	-2,968
Treasury bills	-5,100	-5,700	-5,200	-12,600
Canada Savings Bonds	-103	-74	-1,471	-1,951
Other	-18	0	-223	-1,160
Total	-5,000	-3,654	-14,665	-18,679
Foreign currency borrowings	-428	507	-3,559	-3,431
Total	-5,428	-3,147	-18,224	-22,110
Cross-currency swap revaluation	0	96	-70	1,431
Unamortized discounts on debt issues	43	219	-252	29
Obligations related to capital leases	-5	-6	61	-75
Net change in financing activities	-5,390	-2,838	-18,485	-20,725
Change in cash balance	-1,726	-487	-14,376	-14,379

Note: Totals may not add due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2006	January 31, 2007	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	94,860	-6,572
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	258,166	-2,968
Treasury bills	131,597	118,997	-12,600
Canada Savings Bonds	17,342	15,391	-1,951
Other	3,102	1,942	-1,160
Subtotal	413,175	394,496	-18,679
Payable in foreign currencies	14,085	10,654	-3,431
Cross-currency swap revaluation account	-2,258	-827	1,431
Unamortized discounts and premiums on market debt	-6,780	-6,751	29
Obligations related to capital leases	2,927	2,852	-75
Total unamatured debt	421,149	400,424	-20,725
Pension and other accounts			
Public sector pensions	131,062	133,986	2,924
Other employee and veteran future benefits	43,369	44,719	1,350
Other pension and other accounts	5,493	4,916	-577
Total pension and other accounts	179,924	183,621	3,697
Total interest-bearing debt	601,073	584,015	-17,028
Total liabilities	702,505	678,905	-23,600
Financial assets			
Cash and accounts receivable	82,843	68,236	-14,607
Foreign exchange accounts	40,827	41,109	282
Loans, investments and advances (net of allowances)	41,889	42,863	974
Total financial assets	165,559	152,208	-13,351
Net debt	536,946	526,697	-10,249
Non-financial assets	55,447	54,732	-715
Federal debt (accumulated deficit)	481,499	471,965	-9,534

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