

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2007: budgetary surplus of \$1.4 billion

There was a budgetary surplus of \$1.4 billion in July 2007, up \$0.6 billion from the \$0.8-billion surplus recorded in July 2006. Budgetary revenues were up \$1.0 billion or 5.2 per cent from July 2006, reflecting strong gains in corporate income tax revenues. Program expenses increased by \$0.5 billion, or 3.3 per cent, due to higher transfer payments and departmental operating expenses. Public debt charges were \$0.1 billion lower.

April to July 2007: budgetary surplus of \$7.8 billion

For the first four months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$7.8 billion, up \$1.0 billion from the \$6.7-billion surplus reported in the same period last year. One-third of the surplus reflects growth in corporate income tax collections (up 25 per cent through July), which are highly variable on a monthly basis. Budgetary revenues increased by \$4.9 billion or 6.5 per cent over last year, driven by both higher income tax revenues and non-tax revenues. Program expenses rose \$3.7 billion, or 6.4 per cent, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence. Public debt charges increased by \$0.1 billion, or 1.2 per cent.

July 2007

There was a budgetary surplus of \$1.4 billion in July 2007, up \$0.6 billion from July 2006.

Budgetary revenues increased by \$1.0 billion, or 5.2 per cent, to \$20.2 billion.

- Personal income tax revenues declined by \$0.2 billion, or 2.1 per cent, reflecting one less large processing day in July 2007 than in July 2006.
- Corporate income tax revenues rose \$1.0 billion, or 50.4 per cent. A significant portion of this strength reflects a large prior-year refund paid in July 2006, which lowered net receipts in that month, consequently boosting the growth in net receipts in July of this year.
- Other income tax revenues—withholdings from non-residents—increased by 2.3 per cent.
- Excise taxes and duties were up \$0.4 billion, or 9.2 per cent, reflecting a \$0.2-billion gain in both goods and services tax (GST) and sales and excise tax revenues.
- Employment Insurance (EI) premium revenues decreased by 3.6 per cent, reflecting 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 from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, were down \$0.1 billion, or 6.3 per cent. This revenue stream is volatile on a monthly basis, due in part to variations in the timing of large transactions from year to year.

Program expenses in July 2007 were \$15.9 billion, up \$0.5 billion, or 3.3 per cent, from July 2006, reflecting increases in transfer payments and operating expenses of departments and agencies, including National Defence.

Transfer payments were up \$0.3 billion, or 2.9 per cent.

- Transfers to persons, consisting of elderly, EI and children's benefits, were up \$0.2 billion, or 4.2 per cent. Elderly benefits increased 4.3 per cent while EI benefits rose 5.2 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were up 2.8 per cent.
- 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, were virtually unchanged.
- Subsidies and other transfers increased by \$0.1 billion, or 8.4 per cent.

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 \$0.2 billion, or 4.0 per cent.

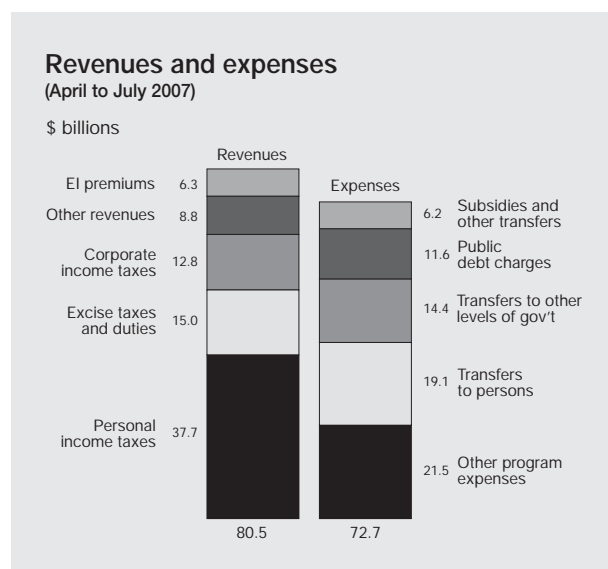
Public debt charges decreased by \$78 million.

April to July 2007

Through the first four months of the 2007–08 fiscal year, there was a budgetary surplus of \$7.8 billion, up \$1.0 billion from the \$6.7-billion surplus reported during the same period of 2006–07.

On a year-over-year basis, budgetary revenues increased by \$4.9 billion, or 6.5 per cent, to \$80.5 billion.

- Personal income tax revenues rose \$1.3 billion, or 3.5 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues were up \$2.6 billion, or 25.0 per cent. However, corporate tax receipts are highly variable on a monthly basis, and it is expected that this strength will dissipate as the fiscal year progresses.



- Other income tax revenues rose 12.2 per cent, also reflecting the ongoing strength in corporate profitability.
- Excise taxes and duties were down \$0.3 billion, or 1.7 per cent, due to a \$0.5-billion decline in GST revenues. The drop in GST revenues reflects the 1-percentage-point reduction in the GST rate effective July 1, 2006. Sales and excise taxes rose \$151 million, customs import duties increased \$116 million and revenues from the Air Travellers Security Charge were up \$9 million.
- EI premium revenues increased by \$0.2 billion, or 3.1 per cent, reflecting growth 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.
- Other revenues increased \$0.9 billion, or 15.2 per cent.

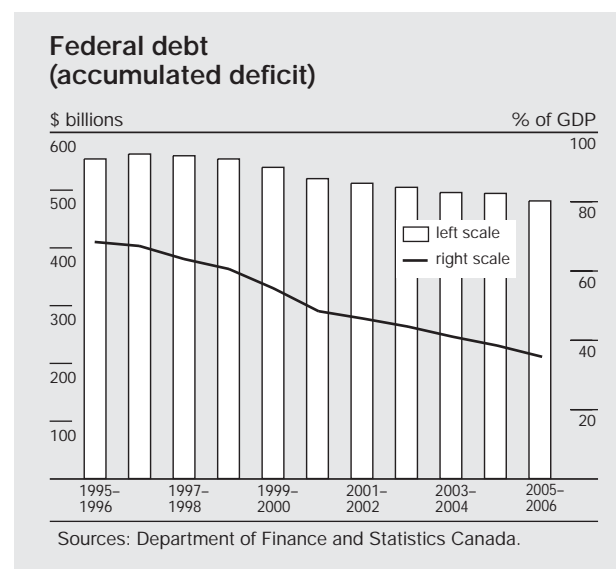
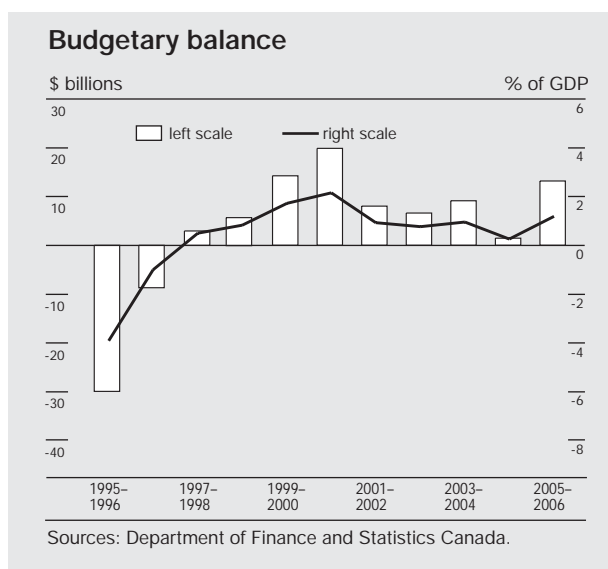
Program expenses in the April to July 2007 period were \$61.2 billion, up \$3.7 billion, or 6.4 per cent, from the same period of 2006, reflecting an increase in transfer payments and operating expenses of departments and agencies.

Transfer payments increased \$1.9 billion, or 5.1 per cent.

- Transfers to persons rose \$1.4 billion, or 7.6 per cent. Elderly benefits increased 4.4 per cent while EI benefits rose 5.8 per cent. Children's benefits were up \$0.7 billion, reflecting transfers under the UCCB, which began in July 2006.
- Transfers to other levels of government were up \$0.8 billion, or 5.9 per cent, reflecting legislated increases in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were down \$0.2 billion, or 3.4 per cent.

Other program expenses increased by \$1.8 billion, or 9.0 per cent.

Public debt charges increased by \$0.1 billion, or 1.2 per cent.



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Financial source of \$6.8 billion for April to July 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.

With a budgetary surplus of \$7.8 billion and a requirement of \$1.0 billion from non-budgetary transactions, there was a net financial source of \$6.8 billion in the April to July 2007 period, compared to a net financial source of \$2.9 billion in the same period last year.

Net financing activities down \$24.6 billion

The Government used this net financial source of \$6.8 billion and a reduction in its cash balances of \$17.9 billion to reduce its market debt by \$24.6 billion by the end of July 2007. The reduction in market debt was achieved largely through a reduction of treasury bills. 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 July stood at \$3.4 billion.

Table 1

Summary statement of transactions

	July		April to July	
	2006	2007	2006-07	2007-08
	(\$ millions)			
Budgetary transactions				
Revenues	19,151	20,151	75,630	80,511
Expenses				
Program expenses	-15,380	-15,881	-57,487	-61,184
Public debt charges	-2,938	-2,860	-11,425	-11,560
Budgetary balance (deficit/surplus)	833	1,410	6,718	7,767
Non-budgetary transactions	1,781	410	-3,782	-1,007
Financial source/requirement	2,614	1,820	2,936	6,760
Net change in financing activities	-1,323	-3,246	-16,813	-24,614
Net change in cash balances	1,291	-1,426	-13,877	-17,854
Cash balance at end of period			4,085	3,356

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

Table 2

Budgetary revenues

	July			April to July		
	2006	2007	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,590	9,389	-2.1	36,417	37,690	3.5
Corporate income tax	1,990	2,992	50.4	10,239	12,801	25.0
Other income tax	430	440	2.3	1,436	1,611	12.2
Total income tax	12,010	12,821	6.8	48,092	52,102	8.3
Excise taxes and duties						
Goods and services tax	2,765	2,923	5.7	10,865	10,329	-4.9
Customs import duties	315	330	4.8	1,122	1,238	10.3
Sales and excise taxes	787	972	23.5	3,106	3,257	4.9
Air Travellers Security Charge	31	30	-3.2	127	136	7.1
Total excise taxes and duties	3,898	4,255	9.2	15,220	14,960	-1.7
Total tax revenues	15,908	17,076	7.3	63,312	67,062	5.9
Employment Insurance premiums	1,365	1,316	-3.6	6,102	6,290	3.1
Other revenues	1,878	1,759	-6.3	6,216	7,159	15.2
Total budgetary revenues	19,151	20,151	5.2	75,630	80,511	6.5

Note: Totals may not add due to rounding.

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Table 3

Budgetary expenses

	July		Change	April to July		Change
	2006	2007		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,493	2,600	4.3	10,023	10,461	4.4
Employment Insurance benefits	1,087	1,143	5.2	4,325	4,577	5.8
Children's benefits	1,015	1,043	2.8	3,407	4,069	19.4
Total	4,595	4,786	4.2	17,755	19,107	7.6
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,779	6.0	6,713	7,116	6.0
Canada Social Transfer	708	733	3.5	2,833	3,183	12.4
Total	2,386	2,512	5.3	9,546	10,299	7.9
Fiscal transfers	1,143	1,281	12.1	4,422	4,686	6.0
Canada's cities and communities	0	384	n/a	0	386	n/a
Early learning and child care	650	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-239	-262	9.6	-1,044	-998	-4.4
Total	3,940	3,915	-0.6	13,574	14,373	5.9
Subsidies and other transfers						
Agriculture and Agri-Food	89	78	-12.4	310	307	-1.0
Foreign Affairs and International Trade	178	19	-89.3	707	615	-13.0
Health	224	292	30.4	655	784	19.7
Human Resources and Social Development	97	67	-30.9	596	583	-2.2
Indian Affairs and Northern Development	356	348	-2.2	1,649	1,679	1.8
Industry	172	204	18.6	523	558	6.7
Other	308	536	74.0	2,016	1,710	-15.2
Total	1,424	1,544	8.4	6,456	6,236	-3.4
Total transfer payments	9,959	10,245	2.9	37,785	39,716	5.1
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	62	100	61.3	477	560	17.4
Canada Mortgage and Housing Corporation	172	162	-5.8	640	616	-3.8
Other	303	283	-6.6	1,218	1,353	11.1
Total	537	545	1.5	2,335	2,529	8.3
Defence	1,354	1,443	6.6	4,831	5,120	6.0
All other departments and agencies	3,530	3,648	3.3	12,536	13,819	10.2
Total other program expenses	5,421	5,636	4.0	19,702	21,468	9.0
Total program expenses	15,380	15,881	3.3	57,487	61,184	6.4
Public debt charges	2,938	2,860	-2.7	11,425	11,560	1.2
Total budgetary expenses	18,318	18,741	2.3	68,912	72,744	5.6

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	July		April to July	
	2006	2007	2006-07	2007-08
	(\$ millions)			
Budgetary balance (deficit/surplus)	833	1,410	6,718	7,767
Non-budgetary transactions				
Capital investing activities	-187	-774	-299	-903
Other investing activities	11	47	463	140
Pension and other accounts	-842	373	124	1,633
Other activities				
Accounts payable, receivables, accruals and allowances	2,980	1,234	-5,662	-5,088
Foreign exchange activities	-431	-742	647	2,112
Amortization of tangible capital assets	250	272	945	1,099
Total other activities	2,799	764	-4,070	-1,877
Total non-budgetary transactions	1,781	410	-3,782	-1,007
Net financial source/requirement	2,614	1,820	2,936	6,760

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	July		April to July	
	2006	2007	2006-07	2007-08
	(\$ millions)			
Net financial source/requirement	2,614	1,820	2,936	6,760
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	468	710	-1,431	-2,500
Treasury bills	-1,500	-4,200	-11,100	-19,100
Canada Savings Bonds	-84	-178	-302	-441
Other	-223	-105	-910	-498
Total	-1,339	-3,773	-13,743	-22,539
Foreign currency borrowings	-86	179	-2,909	-398
Total	-1,425	-3,594	-16,652	-22,937
Cross-currency swap revaluation	2	261	0	-1,798
Unamortized discounts on debt issues	106	111	-121	167
Obligations related to capital leases	-6	-24	-40	-46
Net change in financing activities	-1,323	-3,246	-16,813	-24,614
Change in cash balance	1,291	-1,426	-13,877	-17,854

Note: Totals may not add due to rounding.

