

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2008: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in June 2008, compared to a surplus of \$2.8 billion in June 2007. Budgetary revenues were up \$0.5 billion, or 2.4 per cent, from June 2007, reflecting higher revenues from income taxes and excise taxes and duties, excluding the goods and services tax (GST). Program expenses increased by \$1.7 billion, or 11.1 per cent, compared to June 2007, largely reflecting increases in transfer payments to other levels of government and subsidies and other transfers. Public debt charges decreased by \$0.1 billion compared to June 2007.

April to June 2008: budgetary surplus of \$1.2 billion

For the first three months of the 2008–09 fiscal year, the budgetary surplus is estimated at \$1.2 billion, down \$4.4 billion from the \$5.6-billion surplus reported in the same period of 2007–08. Budgetary revenues decreased by \$1.1 billion, or 1.8 per cent, reflecting declines in corporate income tax and GST revenues. Program expenses were up \$3.8 billion, or 8.4 per cent, due to higher transfer payments and operating expenses of departments and agencies.

Monthly program spending growth will initially be higher this year but by mid-year will moderate considerably, consistent with the 3.4-per-cent annual growth projected in Budget 2008. The large year-over-year percentage increase in first-quarter program spending in 2008–09 reflects the fact that program spending in the early months of 2007–08 was low, but rose in the second half of the year, once Budget 2007 fiscal balance and spending measures came into effect.

Public debt charges were down \$0.5 billion on a year-over-year basis, reflecting reductions in market debt.

Quarterly update of 2008–09 surplus projection: fiscal results to date consistent with Budget 2008 outlook

On balance, developments over the first three months of the 2008–09 fiscal year are consistent with the fiscal projections for 2008–09 set out in the 2008 budget.

Since Budget 2008, the outlook for real gross domestic product (GDP) growth has been revised down based on the June survey of private sector economic forecasters. However, given the strength of commodity prices, GDP inflation expectations have increased. As a result, the outlook for nominal GDP growth, the broadest single measure of the tax base, is largely unchanged from Budget 2008. Furthermore, the estimated surplus for the first three months of the fiscal year is \$1.2 billion. Taken together, these factors suggest the fiscal outcome for 2008–09 will be broadly consistent with that set out in Budget 2008 of a surplus of \$2.3 billion.

That said, three months of fiscal information is not sufficient to draw any firm conclusions about the outlook for the year as a whole. A comprehensive update of the fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update.

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



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June 2008

There was a budgetary surplus of \$1.7 billion in June 2008, compared to a \$2.8-billion surplus in June 2007.

Budgetary revenues rose by \$0.5 billion, or 2.4 per cent, to \$21.2 billion.

- Personal income tax revenues rose \$0.6 billion, or 6.0 per cent, in line with growth in employment.
- Corporate income tax revenues were up \$0.1 billion, or 3.5 per cent, following a decline of 16.6 per cent through April and May. Corporate income tax revenues can be volatile on a month-to-month 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—were up \$0.1 billion, or 16.1 per cent.
- Excise taxes and duties were down \$0.2 billion, or 4.2 per cent, driven by lower GST revenues. GST revenues declined by \$0.3 billion, or 11.7 per cent, as a result of the 1-percentage-point reduction in the GST rate effective January 1, 2008. Customs import duties increased by \$43 million, sales and excise taxes by \$0.1 billion, and revenues from the Air Travellers Security Charge by \$8 million.
- Employment Insurance (EI) premium revenues were unchanged from a year ago, as gains in employment and wages and salaries offset the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.

- 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 3.3 per cent.

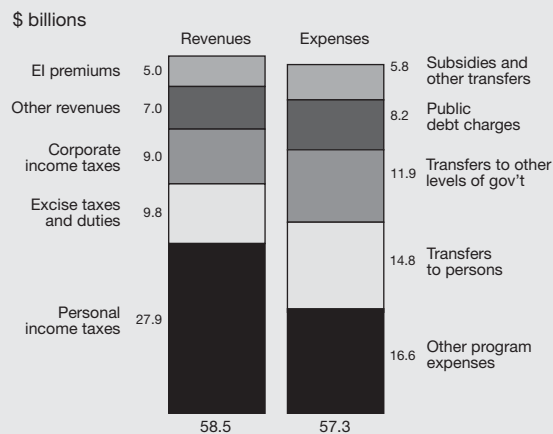
Program expenses in June 2008 were \$16.6 billion, up \$1.7 billion, or 11.1 per cent, from June 2007, reflecting increases in transfer payments.

In June 2008, transfer payments were up \$1.6 billion, or 16.7 per cent, from June 2007.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.3 billion, or 5.5 per cent. Elderly benefits increased by 3.4 per cent and EI benefits by 17.0 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit, remained stable.
- 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, were up

Revenues and expenses

(April to June 2008)



\$0.7 billion, or 18.0 per cent, reflecting Budget 2007 measures and increased transfers for Canada's cities and communities.

- Subsidies and other transfers increased by \$0.7 billion, or 55.4 per cent, reflecting increases in payments related to the investment in infrastructure announced in Budget 2007, which came into effect later in 2007, higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords, and payments to provinces and territories for labour market training announced in Budget 2007.

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 rose \$0.1 billion, or 1.5 per cent, between June 2007 and June 2008.

Public debt charges decreased by \$0.1 billion compared to June 2007.

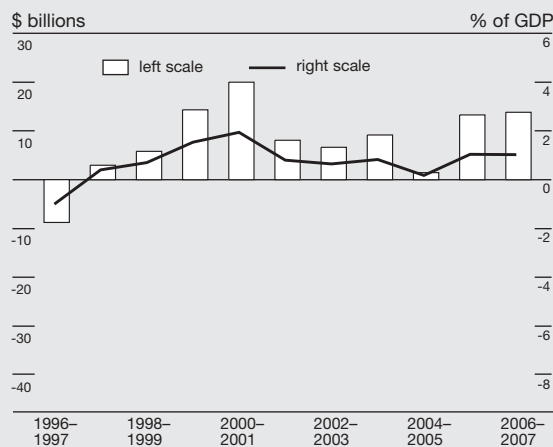
April to June 2008

Through the first three months of the 2008–09 fiscal year, there was a budgetary surplus of \$1.2 billion, down \$4.4 billion from the \$5.6-billion surplus reported in the same period of 2007–08.

Budgetary revenues declined by \$1.1 billion, or 1.8 per cent, to \$58.5 billion.

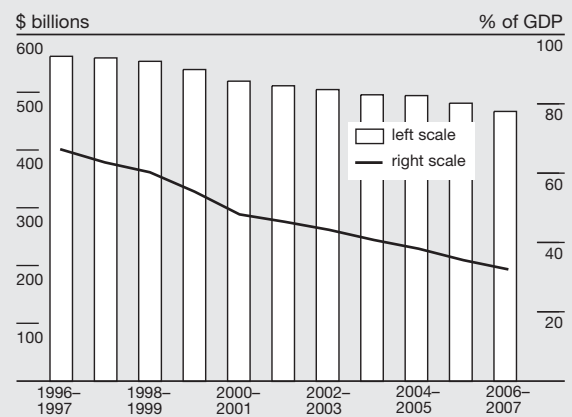
- Personal income tax revenues rose \$0.7 billion, or 2.5 per cent.
- Corporate income tax revenues were down \$1.0 billion, or 10.3 per cent.
- Other income tax revenues rose \$0.1 billion, or 9.3 per cent.
- Excise taxes and duties decreased by \$1.1 billion, or 10.4 per cent, due to a decline in GST revenues of \$1.3 billion, or 17.4 per cent, partly as a result of the 1-percentage-point reduction in the GST rate effective January 1, 2008. Customs import duties increased by \$29 million, sales and excise taxes by \$0.2 billion, and revenues from the Air Travellers Security Charge by \$1 million.
- EI premium revenues were down \$20 million, or 0.4 per cent, reflecting the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.
- Other revenues rose \$0.3 billion, or 5.7 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Program expenses for April to June 2008 were \$49.1 billion, up \$3.8 billion, or 8.4 per cent, from the same period last year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Monthly program spending growth will initially be quite high this year but by mid-year will moderate considerably, consistent with the 3.4-per-cent annual growth projected in Budget 2008. The large year-over-year percentage increase in first-quarter program spending in 2008–09 reflects the fact that program spending in the early months of 2007–08 was low, but rose in the second half of the year, once Budget 2007 fiscal balance and spending measures came into effect.

Transfer payments for April to June 2008 were up \$3.1 billion, or 10.4 per cent, from the same period last year.

- Major transfers to persons were up \$0.5 billion, or 3.3 per cent. Elderly benefits increased by 3.4 per cent and EI benefits by 5.7 per cent. Children's benefits were up \$10 million.
- Major transfers to other levels of government were up \$1.5 billion, or 14.1 per cent, reflecting legislated growth in the Canada Health Transfer, increases to the Canada Social Transfer and Equalization introduced in Budget 2007, as well as increased transfers to provinces on behalf of Canada's cities and communities.

- Subsidies and other transfers were up \$1.1 billion, or 24.0 per cent, mainly reflecting increases in payments related infrastructure and higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords.

Other program expenses increased by \$0.7 billion, or 4.6 per cent, from last year's level.

Public debt charges decreased by \$0.5 billion, or 5.6 per cent, largely reflecting lower unmatured debt levels.

Financial requirement of \$19.6 billion for April to June 2008

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 \$1.2 billion and a requirement of \$20.8 billion from non-budgetary transactions, there was a financial requirement of \$19.6 billion in the April to June 2008 period, compared to a financial source of \$4.9 billion in the same period last year. This difference is largely due to tax refunds related to the tax cuts announced in the October 30, 2007 Economic Statement and to the financial requirement associated with loans to major Crown corporations which were announced in Budget 2007.

Net financing activities up \$12.8 billion

The Government financed this financial requirement of \$19.6 billion by increasing market debt by \$12.8 billion and reducing cash balances by \$6.8 billion. The increase in market debt was achieved largely through the issuance 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 June 2008 stood at \$4.5 billion, \$0.3 billion below their level at the end of June 2007.

Quarterly update of the fiscal outlook for 2008–09

This section provides a qualitative update of the fiscal outlook for 2008–09.

Overview

On balance, developments to date are consistent with the fiscal outlook for 2008–09 set out in Budget 2008 of a surplus of \$2.3 billion.

Economic outlook

Since Budget 2008, the outlook for real GDP growth has been revised down to 1.1 per cent in 2008, based on the June survey of private sector economic forecasters, from 1.7 per cent in the budget projection. However, given the strength of commodity prices, forecasters have revised up their expectations for GDP inflation. As a result, the outlook for nominal GDP growth is largely unchanged from Budget 2008.

Fiscal outlook

In the first two months of the 2008–09 fiscal year, there was a budgetary deficit of \$0.5 billion. This deficit was more than offset by a surplus of \$1.7 billion in June, yielding a surplus of \$1.2 billion over the first three months of the fiscal year. Taken together with recent economic developments, these results are broadly consistent with the outlook for 2008–09 set out in Budget 2008.

That said, three months of fiscal information is not sufficient to draw any firm conclusions about the outlook for the year as a whole. A comprehensive update of the economic and fiscal outlook for this year and beyond will be provided in the fall Economic and Fiscal Update, which will incorporate the final audited results for 2007–08, fiscal results through August 2008 and the most recent economic outlook by private sector economists, based on second-quarter National Accounts data.

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Table 1

Summary statement of transactions

	June		April to June	
	2007	2008	2007-08	2008-09
	(\$ millions)			
Budgetary transactions				
Revenues	20,679	21,178	59,606	58,526
Expenses				
Program expenses	-14,990	-16,648	-45,303	-49,096
Public debt charges	-2,869	-2,794	-8,700	-8,212
Budgetary balance (deficit/surplus)	2,820	1,736	5,603	1,218
Non-budgetary transactions	-6,391	-8,641	-664	-20,809
Financial source/requirement	-3,571	-6,905	4,939	-19,591
Net change in financing activities	-2,263	-2,050	-21,368	12,813
Net change in cash balances	-5,834	-8,955	-16,429	-6,778
Cash balance at end of period			4,779	4,461

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

Table 2

Budgetary revenues

	June			April to June		
	2007	2008	Change	2007-08	2008-09	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	9,441	10,009	6.0	27,178	27,859	2.5
Corporate income tax	3,147	3,257	3.5	9,988	8,959	-10.3
Other income tax	378	439	16.1	1,171	1,280	9.3
Total income tax	12,966	13,705	5.7	38,337	38,098	-0.6
Excise taxes and duties						
Goods and services tax	2,911	2,569	-11.7	7,572	6,254	-17.4
Customs import duties	307	350	14.0	930	959	3.1
Sales and excise taxes	774	895	15.6	2,287	2,444	6.9
Air Travellers Security Charge	37	45	21.6	106	107	0.9
Total excise taxes and duties	4,029	3,859	-4.2	10,895	9,764	-10.4
Total tax revenues	16,995	17,564	3.3	49,232	47,862	-2.8
Employment Insurance premiums	1,542	1,542	0.0	4,974	4,954	-0.4
Other revenues	2,142	2,072	-3.3	5,400	5,710	5.7
Total budgetary revenues	20,679	21,178	2.4	59,606	58,526	-1.8

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	June		Change	April to June		
	2007	2008		2007-08	2008-09	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,632	2,721	3.4	7,861	8,126	3.4
Employment Insurance benefits	981	1,148	17.0	3,434	3,630	5.7
Children's benefits	996	994	-0.2	3,026	3,036	0.3
Total	4,609	4,863	5.5	14,321	14,792	3.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,779	1,885	6.0	5,337	5,657	6.0
Canada Social Transfer	983	879	-10.6	2,450	2,639	7.7
Total	2,762	2,764	0.1	7,787	8,296	6.5
Fiscal transfers	1,119	1,271	13.6	3,405	3,816	12.1
Canada's cities and communities	0	475	n/a	2	475	n/a
Alternative Payments for Standing Programs	-245	-219	-10.6	-736	-658	-10.6
Total	3,636	4,291	18.0	10,458	11,929	14.1
Subsidies and other transfers						
Agriculture and Agri-Food	135	65	-51.9	229	209	-8.7
Foreign Affairs and International Trade	132	129	-2.3	596	611	2.5
Health	111	156	40.5	492	536	8.9
Human Resources and Social Development	176	468	165.9	516	693	34.3
Indian Affairs and Northern Development	368	306	-16.8	1,331	1,342	0.8
Industry	142	214	50.7	354	445	25.7
Other	137	528	285.4	1,174	1,982	68.8
Total	1,201	1,866	55.4	4,692	5,818	24.0
Total transfer payments	9,446	11,020	16.7	29,471	32,539	10.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	120	93	-22.5	460	279	-39.3
Canada Mortgage and Housing Corporation	167	192	15.0	454	626	37.9
Other	383	342	-10.7	1,070	1,205	12.6
Total	670	627	-6.4	1,984	2,110	6.4
Defence	1,389	1,263	-9.1	3,677	3,865	5.1
All other departments and agencies	3,485	3,738	7.3	10,171	10,582	4.0
Total other program expenses	5,544	5,628	1.5	15,832	16,557	4.6
Total program expenses	14,990	16,648	11.1	45,303	49,096	8.4
Public debt charges	2,869	2,794	-2.6	8,700	8,212	-5.6
Total budgetary expenses	17,859	19,442	8.9	54,003	57,308	6.1

Note: Totals may not add due to rounding.

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Table 4

The budgetary balance and financial source/requirement

	June		April to June	
	2007	2008	2007-08	2008-09
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,820	1,736	5,603	1,218
Non-budgetary transactions				
Capital investing activities	-125	-597	-129	-668
Other investing activities	-417	-2,464	93	-9,974
Pension and other accounts	479	315	1,260	1,144
Other activities				
Accounts payable, receivables, accruals and allowances	-7,576	-4,619	-5,569	-10,711
Foreign exchange activities	975	-1,560	2,854	-1,457
Amortization of tangible capital assets	273	284	827	857
Total other activities	-6,328	-5,895	-1,888	-11,311
Total non-budgetary transactions	-6,391	-8,641	-664	-20,809
Financial source/requirement	-3,571	-6,905	4,939	-19,591

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2007	2008	2007-08	2008-09
	(\$ millions)			
Financial source/requirement	-3,571	-6,905	4,939	-19,591
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-8,026	-6,512	-3,210	-1,085
Treasury bills	5,700	2,300	-14,900	13,600
Canada Savings Bonds	-110	-38	-263	-59
Other	-253	-222	-393	-367
Total	-2,689	-4,472	-18,766	12,089
Foreign currency borrowings	212	1,123	-577	670
Total	-2,477	-3,349	-19,343	12,759
Cross-currency swap revaluation	281	1,373	-2,059	81
Unamortized discounts on debt issues	-46	-58	56	30
Obligations related to capital leases	-21	-16	-22	-57
Net change in financing activities	-2,263	-2,050	-21,368	12,813
Change in cash balance	-5,834	-8,955	-16,429	-6,778

Note: Totals may not add due to rounding.

For inquiries about this publication, contact Chris Forbes at 613-995-6391.

Ce document est également offert en français.

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