

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2008: budgetary surplus of \$15 million

There was a budgetary surplus of \$15 million in November 2008, compared to a surplus of \$0.5 billion in November 2007. Budgetary revenues were down \$0.8 billion, or 3.9 per cent, from November 2007, reflecting lower corporate income tax, goods and services tax (GST) and sales and excise tax revenues. Program expenses decreased by \$38 million, or 0.2 per cent, compared to November 2007, reflecting increases in transfer payments offset by a decrease in other program expenses. Public debt charges decreased by \$0.2 billion compared to November 2007.

### April to November 2008: budgetary surplus of \$0.2 billion

For the first eight months of the 2008–09 fiscal year, there was a budgetary surplus of \$0.2 billion, down \$6.4 billion from the \$6.6-billion surplus reported in the same period of 2007–08. Revenues increased by \$0.5 billion, or 0.3 per cent, primarily reflecting growth in personal income tax and other revenues, offset by declines in corporate income tax and GST revenues. Program expenses were up \$7.7 billion, or 6.2 per cent, due to higher transfer payments and operating expenses of departments and agencies.

Public debt charges were down \$0.9 billion on a year-over-year basis, reflecting a lower average effective interest rate on the stock of interest-bearing debt.

Actions to support the availability of credit are reflected in the financial requirement. There was a financial requirement of \$46.4 billion in the April to November period of 2008–09 compared to a financial source of \$14.8 billion from the same period the previous year. This year-over-year difference reflects \$25 billion in initial purchases of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC) under the Insured Mortgage Purchase Program, as well as the Budget 2007 announcement that the Government would meet all of the borrowing needs of the CMHC, the Business Development Bank of Canada and Farm Credit Canada through direct lending.

The results to date are reflected in the Budget 2009 projections.

## November 2008

There was a budgetary surplus of \$15 million in November 2008, compared to a surplus of \$0.5 billion in November 2007.

Budgetary revenues decreased by \$0.8 billion, or 3.9 per cent, to \$18.8 billion in November 2008.

- Personal income tax revenues rose \$39 million, or 0.4 per cent. This weak growth reflects the inclusion of the \$183-million cost for January to November 2008 of the temporary reduction in

Registered Retirement Income Fund minimum withdrawals announced in the November 27, 2008 *Economic and Fiscal Statement*.

- Corporate income tax revenues were down \$0.6 billion, or 19.4 per cent.
- Other income tax revenues—withholdings from non-residents—increased by \$0.2 billion, or 26.4 per cent.

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



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- Excise taxes and duties were down \$0.5 billion, or 12.1 per cent. GST revenues declined by \$0.4 billion, or 13.5 per cent, due in part to the one-percentage-point reduction in the GST rate, effective January 1, 2008. Customs import duties were up \$22 million, sales and excise taxes fell by \$0.1 billion, and revenues from the Air Travellers Security Charge were virtually unchanged.
- Employment Insurance (EI) premium revenues were virtually unchanged, up \$6 million from one 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, revenues from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues were up \$0.1 billion, or 4.9 per cent.

Program expenses in November 2008 were \$16.2 billion, down \$38 million, or 0.2 per cent, from November 2007, reflecting a decrease in operating expenses of departments and agencies.

In November 2008, transfer payments were up \$0.4 billion, or 3.9 per cent, from November 2007.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.2 billion, or 4.8 per cent. Elderly benefits have been restated to adjust for a correction to Old Age Security benefits. Including the impact of this adjustment, elderly benefits increased by \$0.2 billion in November 2008, EI benefit payments increased by \$47 million or 4.4 per cent, and 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 by \$0.2 billion or 4.1 per cent.

- Subsidies and other transfers increased by \$37 million, or 1.8 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 fell by \$0.5 billion, or 8.0 per cent, over the prior year.

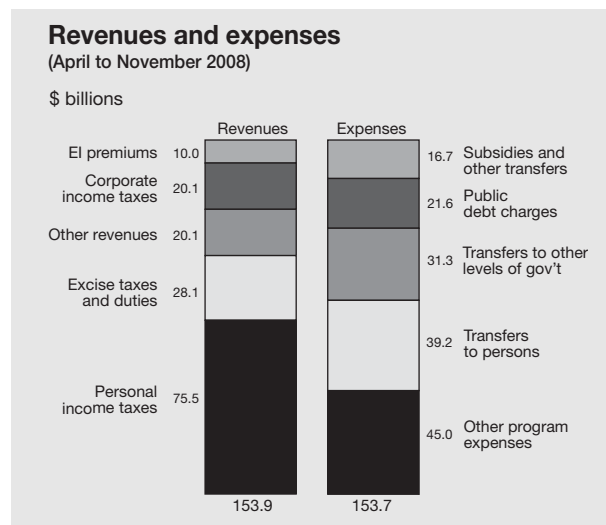
Public debt charges declined by \$0.2 billion compared to November 2007.

## April 2008 to November 2008

Through the first eight months of the 2008–09 fiscal year, there was a budgetary surplus of \$0.2 billion, down \$6.4 billion from the \$6.6 billion surplus reported during the same period of 2007–08.

Budgetary revenues increased by \$0.5 billion, or 0.3 per cent, to \$153.9 billion.

- Personal income tax revenues rose \$3.8 billion, or 5.2 per cent.
- Corporate income tax revenues were down \$3.1 billion, or 13.5 per cent. This decline reflects both weaker profits and the impact of the 1.5-percentage-point reduction in the general corporate income tax rate and the elimination of the corporate surtax in 2008.



- Other income tax revenues—withholdings from non-residents—rose by \$0.3 billion, or 8.8 per cent.
- Excise taxes and duties decreased by \$2.3 billion, or 7.6 per cent. GST revenues were down \$2.4 billion, or 11.3 per cent, reflecting the 1-percentage-point reduction in the GST rate, effective January 1, 2008. Customs import duties increased by \$0.2 billion, sales and excise taxes were down by \$0.1 billion, and revenues from the Air Travellers Security Charge increased by \$2 million.
- EI premium revenues were down \$15 million, or 0.1 per cent, as the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008, was largely offset by gains in employment and wages and salaries.
- Other revenues rose by \$1.8 billion, or 12.8 per cent. Roughly half of the net increase was due to strong growth in receipts under the Atlantic Offshore Revenue Accounts, resulting from growth in offshore production and oil prices. This revenue is transferred to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance. As noted in the October *Fiscal Monitor*, other revenues (and corresponding operating expenses) for 2007–08 have been restated. This adjustment has no net impact on the budgetary balance.

Program expenses for April to November 2008 were \$132.1 billion, up \$7.7 billion, or 6.2 per cent, from the same period last year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

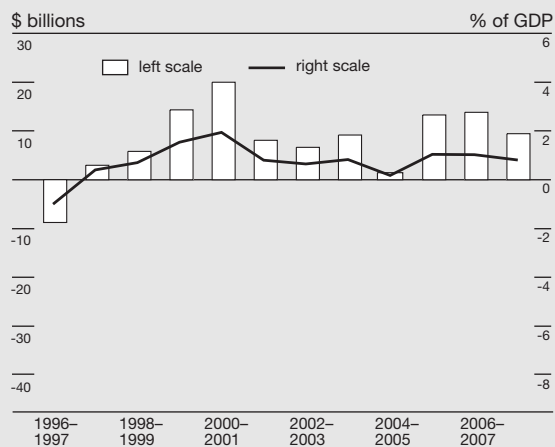
Transfer payments for April to November were up \$6.0 billion, or 7.4 per cent, from the same period last year.

- Major transfers to persons were up \$1.3 billion, or 3.3 per cent. Elderly benefits increased by 4.0 per cent and EI benefits increased by 4.2 per cent. Children's benefits remained stable compared to the same period last year.
- Major transfers to other levels of government were up \$2.1 billion, or 7.1 per cent, reflecting legislated growth in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up \$2.7 billion, or 19.2 per cent, mainly reflecting increases in payments related to support for labour market training and higher transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords.

Other program expenses increased by \$1.7 billion, or 3.9 per cent, from last year's level.

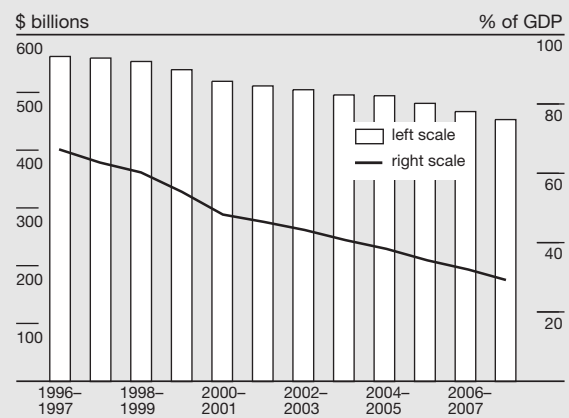
Public debt charges decreased by \$0.9 billion, or 3.8 per cent, reflecting lower interest rates.

## 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 requirement of \$46.4 billion for April to November 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 \$0.2 billion and a requirement of \$46.6 billion from non-budgetary transactions, there was a financial requirement of \$46.4 billion in the April to November 2008 period, compared to a financial source of \$14.8 billion in the same period last year. This difference reflects the Budget 2007 announcement that the Government would meet

all of the borrowing needs of the Canada Mortgage and Housing Corporation (CMHC), the Business Development Bank of Canada and Farm Credit Canada through direct lending to reduce overall borrowing costs and improve the liquidity of the government securities market. The financial requirement also reflects the initial purchase of \$25 billion in insured mortgage pools through the CMHC under the Insured Mortgage Purchase Program (IMPP) to support the availability of longer-term credit. The requirement for foreign exchange activities mainly reflects the impact of exchange rate movements on the Canadian-dollar value of foreign-denominated assets.

## **Net financing activities up \$69.4 billion**

The Government financed this financial requirement of \$46.4 billion and increased its cash balances by \$23.0 billion by increasing unmatured debt by \$69.4 billion. The increase in debt was achieved largely through the issuance of Treasury bills. Cash balances at the end of November 2008 stood at \$34.2 billion, \$22.2 billion above their level at the end of November 2007. The increase in cash balances mainly reflects increased balances at the Bank of Canada to support the Bank's operations to provide liquidity to financial markets and to cover some of the Government's own funding needs for the IMPP.

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Table 1

## Summary statement of transactions

	November		April to November	
	2007	2008	2007–08	2008–09
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	19,587	18,828	153,453	153,935
Expenses				
Program expenses	-16,285	-16,247	-124,382	-132,112
Public debt charges	-2,814	-2,566	-22,470	-21,605
Budgetary balance (deficit/surplus)	488	15	6,601	218
<b>Non-budgetary transactions</b>	-1,275	-12,610	8,219	-46,648
<b>Financial source/requirement</b>	-787	-12,595	14,820	-46,430
<b>Net change in financing activities</b>	6,858	25,795	-23,992	69,427
<b>Net change in cash balances</b>	6,071	13,200	-9,172	22,997
<b>Cash balance at end of period</b>			12,035	34,244

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

Table 2

## Budgetary revenues

	November			April to November		
	2007	2008	Change	2007–08	2008–09	Change
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	9,349	9,388	0.4	71,737	75,503	5.2
Corporate income tax	2,866	2,311	-19.4	23,262	20,133	-13.5
Other income tax	571	722	26.4	3,572	3,886	8.8
Total income tax	12,786	12,421	-2.9	98,571	99,522	1.0
Excise taxes and duties						
Goods and services tax	2,932	2,536	-13.5	21,020	18,637	-11.3
Customs import duties	270	292	8.1	2,562	2,732	6.6
Sales and excise taxes	850	731	-14.0	6,600	6,509	-1.4
Air Travellers Security Charge	29	27	-6.9	258	260	0.8
Total excise taxes and duties	4,081	3,586	-12.1	30,440	28,138	-7.6
Total tax revenues	16,867	16,007	-5.1	129,011	127,660	-1.0
<b>Employment Insurance premiums</b>	763	769	0.8	10,051	10,036	-0.1
<b>Other revenues</b>	1,957	2,052	4.9	14,391	16,239	12.8
<b>Total budgetary revenues</b>	19,587	18,828	-3.9	153,453	153,935	0.3

Note: Totals may not add due to rounding.

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Table 3

## Budgetary expenses

	November			April to November		
	2007	2008	Change	2007-08	2008-09	Change
	(\$ millions)			(\$ millions)		
	Change (%)			Change (%)		
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,678	2,839	6.0	21,099	21,942	4.0
Employment Insurance benefits	1,063	1,110	4.4	8,835	9,210	4.2
Children's benefits	982	1,001	1.9	7,962	8,012	0.6
Total	4,723	4,950	4.8	37,896	39,164	3.3
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,804	1,887	4.6	14,277	15,087	5.7
Canada Social Transfer	832	881	5.9	6,513	7,039	8.1
Total	2,636	2,768	5.0	20,790	22,126	6.4
Fiscal transfers	1,266	1,328	4.9	9,752	10,303	5.7
Canada's cities and communities	127	116	-8.7	722	830	15.0
Alternative Payments for Standing Programs	-248	-277	11.7	-2,033	-1,952	-4.0
Total	3,781	3,935	4.1	29,231	31,307	7.1
Subsidies and other transfers						
Agriculture and Agri-Food	198	240	21.2	906	1,073	18.4
Foreign Affairs and International Trade	166	246	48.2	1,501	1,833	22.1
Health	213	229	7.5	1,367	1,404	2.7
Human Resources and Social Development	119	231	94.1	1,096	1,455	32.8
Indian Affairs and Northern Development	370	310	-16.2	3,260	3,248	-0.4
Industry	110	140	27.3	1,236	1,345	8.8
Other	914	731	-20.0	4,615	6,312	36.8
Total	2,090	2,127	1.8	13,981	16,670	19.2
Total transfer payments	10,594	11,012	3.9	81,108	87,141	7.4
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	58	93	60.3	868	744	-14.3
Canada Mortgage and Housing Corporation	170	154	-9.4	1,296	1,472	13.6
Other	327	345	5.5	2,587	2,902	12.2
Total	555	592	6.7	4,751	5,118	7.7
Defence	1,516	1,510	-0.4	11,340	12,069	6.4
All other departments and agencies	3,620	3,133	-13.5	27,183	27,784	2.2
Total other program expenses	5,691	5,235	-8.0	43,274	44,971	3.9
<b>Total program expenses</b>	16,285	16,247	-0.2	124,382	132,112	6.2
<b>Public debt charges</b>	2,814	2,566	-8.8	22,470	21,605	-3.8
<b>Total budgetary expenses</b>	19,099	18,813	-1.5	146,852	153,717	4.7

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	November		April to November	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	488	15	6,601	218
<b>Non-budgetary transactions</b>				
Capital investing activities	-146	-197	-1,393	-2,204
Other investing activities	-125	-13,988	-1,178	-40,655
Pension and other accounts	-24	325	5,118	3,405
Other activities				
Accounts payable, receivables, accruals and allowances	811	1,386	-708	-3,160
Foreign exchange activities	-1,988	-445	4,761	-6,268
Amortization of tangible capital assets	197	309	1,619	2,234
Total other activities	-980	1,250	5,672	-7,194
<b>Total non-budgetary transactions</b>	-1,275	-12,610	8,219	-46,648
<b>Financial source/requirement</b>	-787	-12,595	14,820	-46,430

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	November		April to November	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Financial source/requirement</b>	-787	-12,595	14,820	-46,430
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,133	8,344	-1,255	13,790
Treasury bills	4,600	18,000	-17,000	53,700
Canada Savings Bonds	-1,457	-817	-1,910	-964
Other	-143	-2	-699	-518
Total	5,133	25,525	-20,864	66,008
Foreign currency borrowings	90	-879	-1,496	-359
Total	5,223	24,646	-22,360	65,649
Cross-currency swap revaluation	1,774	952	-2,586	3,399
Unamortized discounts on debt issues	-173	211	-170	485
Obligations related to capital leases	34	-14	1,124	-106
<b>Net change in financing activities</b>	6,858	25,795	-23,992	69,427
<b>Change in cash balance</b>	6,071	13,200	-9,172	22,997

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2008	November 30, 2008	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	110,463	105,169	-5,294
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	253,550	267,340	13,790
Treasury bills	116,936	170,636	53,700
Canada Savings Bonds	13,068	12,104	-964
Other	1,042	524	-518
Subtotal	384,596	450,604	66,008
Payable in foreign currencies	9,49	9,139	-359
Cross-currency swap revaluation account	-1,426	1,979	3,399
Unamortized discounts and premiums on market debt	-6,213	-5,728	485
Obligations related to capital leases	4,236	4,130	-106
Total unamatured debt	390,697	460,124	69,427
Pension and other accounts			
Public sector pensions	137,371	139,042	1,671
Other employee and veteran future benefits	47,901	49,584	1,683
Other liabilities	5,895	5,946	51
Total pension and other liabilities	191,167	194,572	3,405
Total interest-bearing debt	581,864	54,696	72,832
<b>Total liabilities</b>	692,327	759,865	67,538
<b>Financial assets</b>			
Cash and accounts receivable	82,878	103,741	20,863
Foreign exchange accounts	42,299	48,567	6,268
Loans, investments and advances (net of allowances)	50,869	91,524	40,655
<b>Total financial assets</b>	176,046	243,832	67,786
<b>Net debt</b>	516,281	516,033	-248
<b>Non-financial assets</b>	58,644	58,614	-30
<b>Federal debt (accumulated deficit)</b>	457,637	457,419	-218

Note: Totals may not add due to rounding.