

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### December 2008: budgetary surplus of \$0.2 billion

There was a budgetary surplus of \$0.2 billion in December 2008, compared to a surplus of \$1.8 billion in December 2007. Budgetary revenues were down \$1.7 billion, or 8.1 per cent, from December 2007, reflecting lower corporate income tax and goods and services tax (GST) revenues. Program expenses increased by \$0.3 billion, or 1.7 per cent, compared to December 2007, largely reflecting higher transfer payments. Public debt charges decreased by \$0.4 billion compared to December 2007.

### April to December 2008: budgetary surplus of \$0.5 billion

For the first nine months of the 2008–09 fiscal year, there was a budgetary surplus of \$0.5 billion, down \$8.0 billion from the \$8.4-billion surplus reported in the same period of 2007–08. Budgetary revenues decreased by \$1.2 billion, or 0.7 per cent, primarily reflecting declines in corporate income tax and GST revenues, partially offset by growth in personal income tax and other revenues. Program expenses were up \$8.0 billion, or 5.7 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$1.2 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 \$50.2 billion in the April to December period of 2008–09, compared to a financial source of \$15.6 billion in the same period of 2007–08. This year-over-year difference reflects \$25 billion in initial purchases of insured mortgage pools through Canada Mortgage and Housing Corporation under the Insured Mortgage Purchase Program, as well as the Budget 2007 announcement that the Government would meet all of the borrowing needs of Canada Mortgage and Housing Corporation, the Business Development Bank of Canada and Farm Credit Canada through direct lending.

## December 2008

There was a budgetary surplus of \$0.2 billion in December 2008, compared to a surplus of \$1.8 billion in December 2007.

Budgetary revenues decreased by \$1.7 billion, or 8.1 per cent, to \$19.5 billion.

- Personal income tax revenues rose \$0.2 billion, or 2.0 per cent.
- Corporate income tax revenues were down \$1.9 billion, or 46.1 per cent, partly reflecting the high level of corporate income tax revenues in December 2007 due to large settlement payments.
- Other income tax revenues—withholdings from non-residents—increased by \$0.1 billion, or 23.9 per cent.
- Excise taxes and duties were down \$0.6 billion, or 16.5 per cent. GST revenues declined by \$0.7 billion, or 29.1 per cent, due in part to the 1-percentage-point reduction in the GST rate, effective January 1, 2008. Customs import duties were up \$41 million, sales and excise taxes were up \$0.1 billion, and revenues from the Air Travellers Security Charge were virtually unchanged.

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



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- Employment Insurance (EI) premium revenues were up \$0.1 billion, or 8.5 per cent, 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 \$0.3 billion, or 19.6 per cent.

Program expenses in December 2008 were \$17.0 billion, up \$0.3 billion or 1.7 per cent from December 2007, largely reflecting higher transfers to persons and other levels of government, partially offset by a decline in subsidies and other transfers.

In December 2008, transfer payments were up \$0.2 billion, or 2.2 per cent, from December 2007.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.5 billion, or 10.7 per cent. Elderly benefits increased by \$0.1 billion, EI benefits increased by \$0.4 billion, 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 \$0.2 billion, or 4.7 per cent.
- Subsidies and other transfers decreased by \$0.4 billion, or 16.0 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 by \$33 million, or 0.6 per cent, over the prior year.

Public debt charges declined by \$0.4 billion compared to December 2007.

## April to December 2008

Through the first nine months of the 2008–09 fiscal year, there was a budgetary surplus of \$0.5 billion, down \$8.0 billion from the \$8.4-billion surplus reported during the same period of 2007–08.

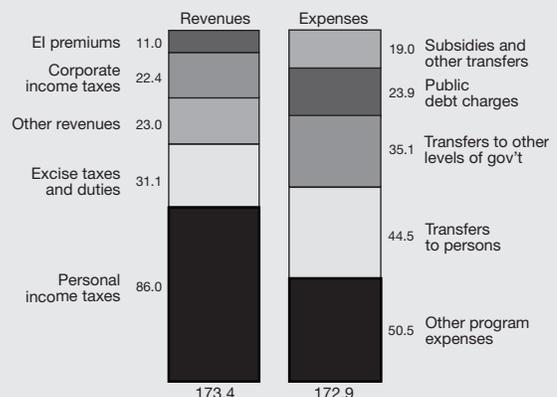
Budgetary revenues decreased by \$1.2 billion, or 0.7 per cent, to \$173.4 billion.

- Personal income tax revenues rose \$4.0 billion, or 4.8 per cent.
- Corporate income tax revenues were down \$5.0 billion, or 18.4 per cent. This decline reflects weaker profits as well as 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 rose \$0.5 billion, or 11.0 per cent.
- Excise taxes and duties decreased by \$2.9 billion, or 8.5 per cent. GST revenues were down \$3.1 billion, or 13.1 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 \$24 million, and revenues from the Air Travellers Security Charge were unchanged.
- EI premium revenues were up \$0.1 billion, or 0.6 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 more than offset by gains in employment and wages and salaries.

### Revenues and expenses

(April to December 2008)

\$ billions



- Other revenues rose \$2.2 billion, or 13.6 per cent. 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 December 2008 were \$149.1 billion, up \$8.0 billion, or 5.7 per cent, from the same period the previous year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments for April to December 2008 were up \$6.3 billion, or 6.8 per cent, from the same period the previous year.

- Major transfers to persons were up \$1.8 billion, or 4.2 per cent. Elderly benefits increased by 4.1 per cent and EI benefits by 7.7 per cent. Children's benefits remained stable compared to the same period the previous year.
- Major transfers to other levels of government were up \$2.2 billion, or 6.8 per cent, reflecting legislated growth in the Canada Health Transfer, Canada Social Transfer and Equalization.
- Subsidies and other transfers were up \$2.3 billion, or 13.5 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 3.5 per cent, from the previous year's level.

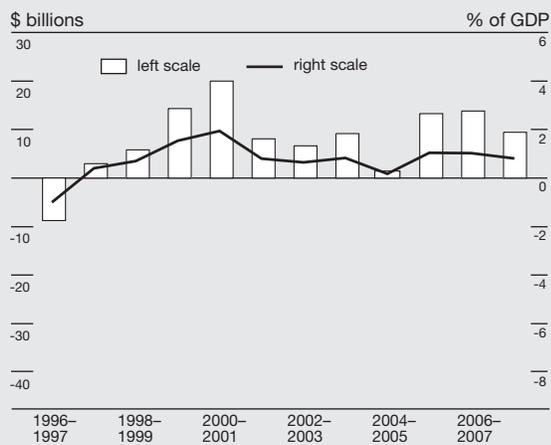
Public debt charges decreased by \$1.2 billion, or 5.0 per cent, reflecting lower interest rates.

## Financial requirement of \$50.2 billion for April to December 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.

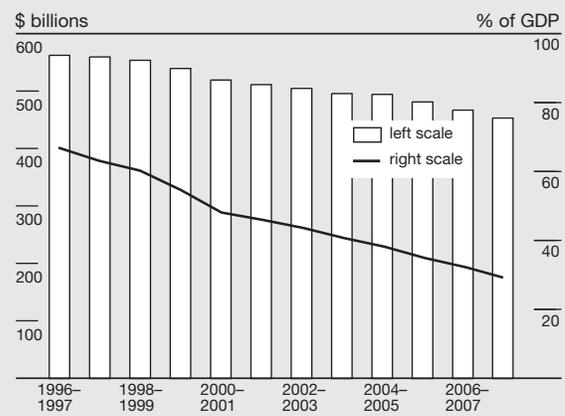
With a budgetary surplus of \$0.5 billion and a requirement of \$50.7 billion from non-budgetary transactions, there was a financial requirement of \$50.2 billion in the April to December period of 2008–09, compared to a financial source of \$15.6 billion in the same period of 2007–08.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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This year-over-year difference reflects the Budget 2007 announcement that the Government would meet all of the borrowing needs of Canada Mortgage and Housing Corporation, the Business Development Bank of Canada and Farm Credit Canada through direct lending in order to reduce overall borrowing costs and improve the liquidity of the government securities market. The financial requirement also reflects \$25 billion in initial purchases of insured mortgage pools through Canada Mortgage and Housing Corporation under the Insured Mortgage Purchase Program 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 \$74.0 billion**

The Government financed this financial requirement of \$50.2 billion and increased its cash balances by \$23.8 billion by increasing unmatured debt by \$74.0 billion. The increase in debt was achieved largely through the issuance of treasury bills. Cash balances at the end of December 2008 stood at \$35.0 billion, \$29.4 billion above their level at the end of December 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 Insured Mortgage Purchase Program.

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Table 1

## Summary statement of transactions

	December		April to December	
	2007	2008	2007–08	2008–09
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	21,156	19,451	174,609	173,386
Expenses				
Program expenses	-16,671	-16,950	-141,053	-149,062
Public debt charges	-2,640	-2,260	-25,110	-23,865
Budgetary balance (deficit/surplus)	1,845	241	8,446	459
<b>Non-budgetary transactions</b>	-1,077	-4,022	7,142	-50,670
<b>Financial source/requirement</b>	768	-3,781	15,588	-50,211
<b>Net change in financing activities</b>	-7,246	4,540	-31,238	73,967
<b>Net change in cash balances</b>	-6,478	759	-15,650	23,756
<b>Cash balance at end of period</b>			5,556	35,000

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

Table 2

## Budgetary revenues

	December		Change	April to December		Change
	2007	2008		2007–08	2008–09	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Tax revenues</b>						
Income taxes						
Personal income tax	10,251	10,457	2.0	81,988	85,960	4.8
Corporate income tax	4,112	2,217	-46.1	27,374	22,350	-18.4
Other income tax	599	742	23.9	4,171	4,628	11.0
Total income tax	14,962	13,416	-10.3	113,533	112,938	-0.5
Excise taxes and duties						
Goods and services tax	2,371	1,682	-29.1	23,391	20,319	-13.1
Customs import duties	281	322	14.6	2,843	3,054	7.4
Sales and excise taxes	838	905	8.0	7,438	7,414	-0.3
Air Travellers Security Charge	33	31	-6.1	291	291	0.0
Total excise taxes and duties	3,523	2,940	-16.5	33,963	31,078	-8.5
Total tax revenues	18,485	16,356	-11.5	147,496	144,016	-2.4
<b>Employment Insurance premiums</b>	891	967	8.5	10,942	11,003	0.6
<b>Other revenues</b>	1,780	2,128	19.6	16,171	18,367	13.6
<b>Total budgetary revenues</b>	21,156	19,451	-8.1	174,609	173,386	-0.7

Note: Totals may not add due to rounding.

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Table 3

## Budgetary expenses

	December		Change	April to December		Change
	2007	2008		2007-08	2008-09	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments</b>						
Transfers to persons						
Elderly benefits	2,691	2,828	5.1	23,790	24,770	4.1
Employment Insurance benefits	1,104	1,494	35.3	9,939	10,704	7.7
Children's benefits	996	983	-1.3	8,958	8,995	0.4
Total	4,791	5,305	10.7	42,687	44,469	4.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,794	1,885	5.1	16,071	16,972	5.6
Canada Social Transfer	834	879	5.4	7,347	7,918	7.8
Total	2,628	2,764	5.2	23,418	24,890	6.3
Fiscal transfers	1,265	1,328	5.0	11,017	11,631	5.6
Canada's cities and communities	-1	0	-100.0	721	830	15.1
Alternative Payments for Standing Programs	-248	-277	11.7	-2,281	-2,229	-2.3
Total	3,644	3,815	4.7	32,875	35,122	6.8
Subsidies and other transfers						
Agriculture and Agri-Food	804	244	-69.7	1,710	1,317	-23.0
Foreign Affairs and International Trade	337	262	-22.3	1,838	2,095	14.0
Health	111	239	115.3	1,478	1,643	11.2
Human Resources and Skills Development	130	162	24.6	1,226	1,617	31.9
Indian Affairs and Northern Development	431	464	7.7	3,691	3,712	0.6
Industry	244	214	-12.3	1,480	1,559	5.3
Other	679	712	4.9	5,294	7,024	32.7
Total	2,736	2,297	-16.0	16,717	18,967	13.5
Total transfer payments	11,171	11,417	2.2	92,279	98,558	6.8
<b>Other program expenses</b>						
Crown corporation expenses						
Canadian Broadcasting Corporation	59	93	57.6	927	837	-9.7
Canada Mortgage and Housing Corporation	177	229	29.4	1,473	1,701	15.5
Other	450	353	-21.6	3,037	3,255	7.2
Total	686	675	-1.6	5,437	5,793	6.5
Defence	1,505	1,685	12.0	12,845	13,754	7.1
All other departments and agencies	3,309	3,173	-4.1	30,492	30,957	1.5
Total other program expenses	5,500	5,533	0.6	48,774	50,504	3.5
<b>Total program expenses</b>	16,671	16,950	1.7	141,053	149,062	5.7
<b>Public debt charges</b>	2,640	2,260	-14.4	25,110	23,865	-5.0
<b>Total budgetary expenses</b>	19,311	19,210	-0.5	166,163	172,927	4.1

Note: Totals may not add due to rounding.

Table 4

## The budgetary balance and financial source/requirement

	December		April to December	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,845	241	8,446	459
<b>Non-budgetary transactions</b>				
Capital investing activities	-264	-553	-1,657	-2,757
Other investing activities	-395	-894	-1,573	-41,549
Pension and other liabilities	265	319	5,383	3,724
Other activities				
Accounts payable, receivables, accruals and allowances	-680	-1,819	-1,388	-4,979
Foreign exchange activities	16	-1,368	4,777	-7,636
Amortization of tangible capital assets	-19	293	1,600	2,527
Total other activities	-683	-2,894	4,989	-10,088
<b>Total non-budgetary transactions</b>	-1,077	-4,022	7,142	-50,670
<b>Financial source/requirement</b>	768	-3,781	15,588	-50,211

Note: Totals may not add due to rounding.

Table 5

## Financial source/requirement and net financing activities

	December		April to December	
	2007	2008	2007-08	2008-09
	(\$ millions)			
<b>Financial source/requirement</b>	768	-3,781	15,588	-50,211
<b>Net increase (+)/decrease (-) in financing activities</b>				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-6,203	-3,096	-7,458	10,694
Treasury bills	-1,300	6,100	-18,300	59,800
Canada Savings Bonds	-28	285	-1,938	-679
Other	0	-1	-699	-519
Total	-7,531	3,288	-28,395	69,296
Foreign currency borrowings	399	202	-1,097	-157
Total	-7,132	3,490	-29,492	69,139
Cross-currency swap revaluation	-303	1,121	-2,889	4,520
Unamortized discounts on debt issues	189	-72	19	413
Obligations related to capital leases	0	1	1,124	-105
<b>Net change in financing activities</b>	-7,246	4,540	-31,238	73,967
<b>Change in cash balance</b>	-6,478	759	-15,650	23,756

Note: Totals may not add due to rounding.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 2008	December 31, 2008	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable and accrued liabilities	110,463	100,239	-10,224
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	253,550	264,244	10,694
Treasury bills	116,936	176,736	59,800
Canada Savings Bonds	13,068	12,389	-679
Other	1,042	523	-519
Subtotal	384,596	453,892	69,296
Payable in foreign currencies	9,498	9,341	-157
Cross-currency swap revaluation account	-1,420	3,100	4,520
Unamortized discounts and premiums on market debt	-6,213	-5,800	413
Obligations related to capital leases	4,236	4,131	-105
Total unamatured debt	390,697	464,664	73,967
Pension and other liabilities			
Public sector pensions	137,371	139,304	1,933
Other employee and veteran future benefits	47,901	49,791	1,890
Other liabilities	5,895	5,796	-99
Total pension and other liabilities	191,167	194,891	3,724
Total interest-bearing debt	581,864	659,555	77,691
<b>Total liabilities</b>	692,327	759,794	67,467
<b>Financial assets</b>			
Cash and accounts receivable	82,878	101,389	18,511
Foreign exchange accounts	42,299	49,935	7,636
Loans, investments and advances (net of allowances)	50,869	92,418	41,549
<b>Total financial assets</b>	176,046	243,742	67,696
<b>Net debt</b>	516,281	516,052	-229
<b>Non-financial assets</b>	58,644	58,874	230
<b>Federal debt (accumulated deficit)</b>	457,637	457,178	-459

Note: Totals may not add due to rounding.