

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2005: budgetary surplus of \$2.1 billion

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004. Total budgetary revenues rose \$1.8 billion or 11.6 per cent, reflecting strong gains in personal income tax and goods and services tax (GST) revenues, offset somewhat by a decline in corporate income tax revenue. Personal income tax receipts rose 19.9 per cent in October, reflecting timing factors that will unwind in November 2005. GST receipts increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions in Quebec which affected GST collections in that province. Program expenses were up \$0.7 billion or 6.1 per cent, primarily reflecting higher transfer payments to provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased slightly in October.

April to October 2005: budgetary surplus of \$9.5 billion

For the first seven months of the 2005–06 fiscal year (April to October), the budgetary surplus is estimated at \$9.5 billion, up \$0.8 billion from the same period of 2004–05. Budgetary revenues were up \$8.1 billion or 7.5 per cent, with gains recorded in most major revenue categories. Program expenses were up \$7.8 billion or 9.8 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.5 billion lower.

These monthly financial results are only partial-year results. For example, they do not reflect proposed tax reductions for 2005–06, which total \$5.3 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.

October 2005

There was a budgetary surplus of \$2.1 billion in October 2005, up \$1.0 billion from October 2004.

Budgetary revenues rose \$1.8 billion, or 11.6 per cent, to \$17.2 billion. Strong gains were posted in personal income tax and GST receipts.

- Personal income tax revenues were up \$1.4 billion or 19.9 per cent, reflecting timing factors that will unwind in the November 2005 revenue estimate. In October 2005 there were a larger number of payroll deductions processed compared to the same month last year, and some payroll deductions pertaining to September 2005 were processed in October.
- Corporate income tax revenues fell \$0.3 billion or 12.4 per cent. The decline reflects the significant jump in corporate receipts in October 2004, related to the clearance of a processing backlog that resulted from last year's public sector labour disruptions.
- Other income tax receipts—withholdings from non-residents—were up 52.8 per cent in October, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability this year. This revenue source can be volatile on a monthly basis.



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- Excise taxes and duties were up \$0.7 billion, or 18.9 per cent. GST revenues increased 26.2 per cent, in part reflecting the resumption of normal processing of GST receipts following public sector labour disruptions at the Ministère du Revenu du Québec, which administers the GST in Quebec on behalf of the federal government. Customs import duties were up \$78 million, while sales and excise taxes were down \$50 million. Revenues from the Air Travellers Security Charge were down \$22 million.
- Employment insurance (EI) premiums declined 2.6 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$0.1 billion. Other revenues are volatile on a monthly basis.

Program expenses in October 2005 were \$12.3 billion, up \$0.7 billion or 6.1 per cent from October 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.6 billion or 8.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$87 million, or 2.5 per cent. Elderly benefits increased 2.8 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments increased 1.8 per cent, reflecting an increase in regular benefits.
- 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 \$0.7 billion, or 26.6 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflect increased funding under the 2004 agreements on health care and equalization/TFF.

- Subsidies and other transfers decreased by 11.3 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.1 billion, or 2.0 per cent, reflecting increased operating costs and the impact of previous budget measures.

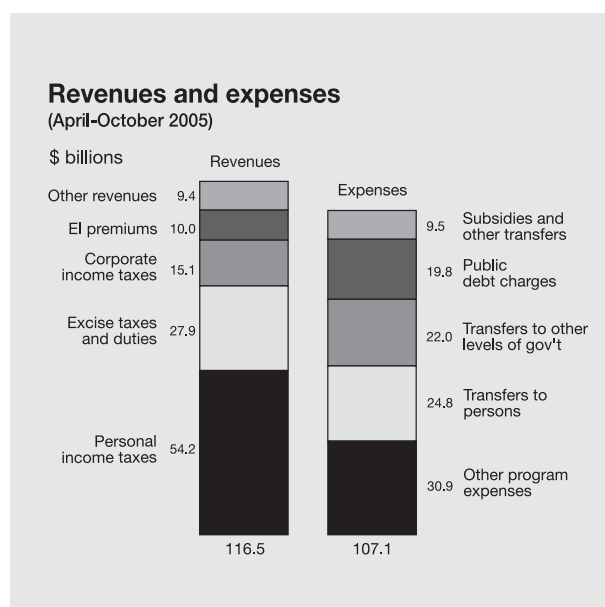
Public debt charges increased slightly.

April to October 2005

In the first seven months of the 2005–06 fiscal year, there was a budgetary surplus of \$9.5 billion, up \$0.8 billion from the same period of 2004–05.

Budgetary revenues, at \$116.5 billion, were up \$8.1 billion or 7.5 per cent.

- Personal income tax revenues increased by \$5.0 billion or 10.2 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5.3 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income. In addition, as noted



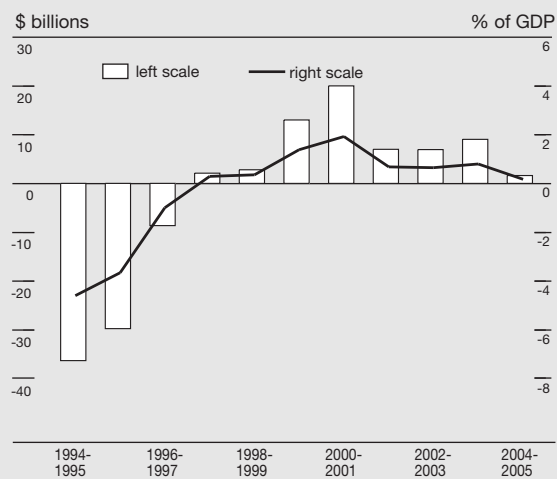
above, some of the year-over-year increase is due to timing factors, which should unwind in future months, thereby bringing the growth in receipts more in line with the growth in the applicable tax base.

- Corporate income tax revenues were up \$2.3 billion or 18.4 per cent. This gain is due in part to the procedures under which corporations are required to remit monthly instalments. Corporations make monthly tax instalment payments based on either their previous year's actual tax liability or their current year's estimated liability, with any differences made up within 60 days of the close of their taxation year. During 2004–05, most corporations based their instalments on their 2003 tax liabilities. However, profits increased by nearly 20 per cent in 2004, resulting in large settlement payments in the final quarter of 2004–05. With monthly instalments in 2005 now based on 2004 tax liabilities, but instalments through October 2004 reflecting 2003 liabilities, the year-to-date growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005–06.

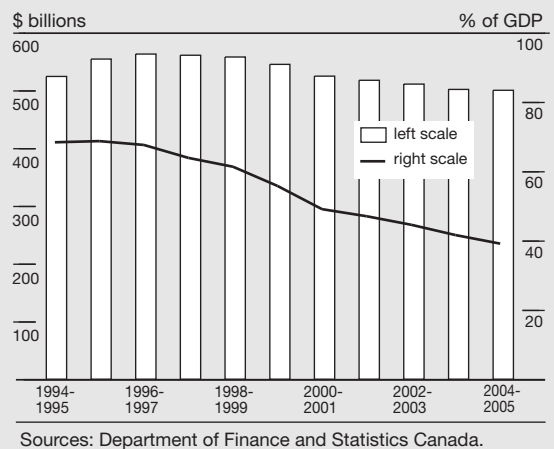
- Excise taxes and duties increased by \$2.1 billion or 8.2 per cent. GST revenues increased \$2.0 billion, or 11.0 per cent, reflecting strong growth in domestic gross receipts, which were up 10.2 per cent, somewhat above the growth rate of retail sales of 7.3 per cent over the same period. Customs import duties were up 9.9 per cent. Sales and excise taxes were down marginally (0.2 per cent) while the Air Travellers Security Charge was down 14.9 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.7 per cent, as the increase in the number of people employed more than offset the impact of the reduction in premium rates.
- Other revenues were down \$2.0 billion or 22.2 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April to October 2005 period were \$87.3 billion, up \$7.8 billion or 9.8 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFE. Public debt charges declined by \$0.5 billion.

Budgetary balance



Federal debt (accumulated deficit)



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Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$5.7 billion, or 11.2 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.4 per cent while EI benefits were down 1.4 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$4.2 billion or 23.7 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.
- Subsidies and other transfers increased by 9.7 per cent, reflecting the impact of measures from recent budgets as well as an adjustment for transactions related to prior months.

Other program expenses increased by 7.3 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.3 per cent.

Public debt charges were down 2.5 per cent compared to the same period last year due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial requirement of \$1.6 billion for April to October 2005

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 net requirement of \$11.1 billion in the April-to-October period, up \$3.7 billion from the requirement in the same period of 2004–05. This increase largely reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the Offshore Revenues Accords.

With a budgetary surplus of \$9.5 billion and a net requirement of \$11.1 billion from non-budgetary transactions, there was a financial requirement of \$1.6 billion in the first seven months of 2005–06 compared to a financial source of \$1.2 billion in the same period last year.

Net financing activities down \$11.9 billion

The Government's market debt was down \$11.9 billion by the end of October 2005. To finance this reduction of market debt and the financial requirement of \$1.6 billion, the Government reduced its cash balances by \$13.5 billion. 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 October stood at \$3.6 billion.

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Table 1

Summary statement of transactions

	October		April to October	
	2004	2005	2004–05	2005–06
	(\$ millions)			
Budgetary transactions				
Revenues	15,409	17,194	108,429	116,514
Expenses				
Program expenses	-11,560	-12,261	-79,495	-87,264
Public debt charges	-2,834	-2,881	-20,309	-19,799
Budgetary balance (deficit/surplus)	1,015	2,052	8,625	9,451
Non-budgetary transactions	1,195	-816	-7,388	-11,056
Financial source/requirement	2,210	1,236	1,237	-1,605
Net change in financing activities	1,610	-362	-8,967	-11,944
Net change in cash balances	3,820	874	-7,730	-13,549
Cash balance at end of period			9,521	3,573

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

Table 2

Budgetary revenues

	October			April to October		
	2004	2005	Change	2004–05	2005–06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,910	8,282	19.9	49,229	54,231	10.2
Corporate income tax	2,509	2,198	-12.4	12,729	15,069	18.4
Other income tax revenue	269	411	52.8	1,769	2,341	32.3
Total income tax	9,688	10,891	12.4	63,727	71,641	12.4
Excise taxes and duties						
Goods and services tax	2,726	3,440	26.2	18,015	19,991	11.0
Customs import duties	237	315	32.9	1,818	1,998	9.9
Sales and excise taxes	804	754	-6.2	5,675	5,661	-0.2
Air Travellers Security Charge	48	26	-45.8	242	206	-14.9
Total excise taxes and duties	3,815	4,535	18.9	25,750	27,856	8.2
Total tax revenues	13,503	15,426	14.2	89,477	99,497	11.2
Employment insurance premiums	1,031	1,004	-2.6	9,940	10,006	0.7
Other revenues	875	764	-12.7	9,012	7,011	-22.2
Total budgetary revenues	15,409	17,194	11.6	108,429	116,514	7.5

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	October		Change	April to October		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,359	2,426	2.8	16,111	16,818	4.4
Employment insurance benefits	1,116	1,136	1.8	8,051	7,940	-1.4
Total	3,475	3,562	2.5	24,162	24,758	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		7,379	11,083	
Canada Social Transfer	652	685		4,565	4,798	
Health Reform Transfer	125	0		875	0	
Canada Health and Social Transfer	-25	0		0	0	
Total	1,806	2,268	25.6	12,819	15,881	23.9
Fiscal transfers	926	1,044	12.7	6,571	7,447	13.3
Canada's cities and communities	0	213	n/a	0	394	n/a
Alternative Payments for Standing Programs	-139	-242	74.1	-1,573	-1,678	6.7
Total	2,593	3,283	26.6	17,817	22,044	23.7
Subsidies and other transfers						
Agriculture	89	65	-27.0	321	605	88.5
Foreign Affairs	203	-42	-120.7	1,225	1,203	-1.8
Health	105	99	-5.7	979	1,030	5.2
Human Resources Development	7	129	1,742.9	506	689	36.2
Indian and Northern Development	348	367	5.5	2,539	2,676	5.4
Industry and Regional Development	208	211	1.4	1,035	1,129	9.1
Other	448	421	-6.1	2,074	2,192	5.7
Total	1,408	1,250	-11.3	8,679	9,524	9.7
Total transfer payments	7,476	8,095	8.3	50,658	56,326	11.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	65	100	53.8	719	768	6.8
Canada Mortgage and Housing Corporation	165	164	-0.6	1,200	1,194	-0.5
Other	136	104	-23.5	1,127	1,094	-2.9
Total	366	368	0.5	3,046	3,056	0.3
Defence	1,075	1,236	15.0	7,030	8,291	17.9
All other departments and agencies	2,643	2,562	-3.1	18,761	19,591	4.4
Total other program expenses	4,084	4,166	2.0	28,837	30,938	7.3
Total program expenses	11,560	12,261	6.1	79,495	87,264	9.8
Public debt charges	2,834	2,881	1.7	20,309	19,799	-2.5
Total budgetary expenses	14,394	15,142	5.2	99,804	107,063	7.3

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,015	2,052	8,625	9,451
Non-budgetary transactions				
Capital investing activities	-185	-249	-654	-978
Other investing activities	-430	-357	-1,278	-2,437
Pension and other accounts	-1,308	349	-1,665	-534
Other activities				
Accounts payable, receivables, accruals and allowances	2,384	217	-5,563	-9,762
Foreign exchange activities	487	-1,026	178	858
Amortization of tangible capital assets	247	250	1,594	1,797
Total other activities	3,118	-559	-3,791	-7,107
Total non-budgetary transactions	1,195	-816	-7,388	-11,056
Net financial source/requirement	2,210	1,236	1,237	-1,605

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	October		April to October	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	2,210	1,236	1,237	-1,605
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	552	-1,585	-8,926	-4,663
Treasury bills	1,400	1,000	1,800	-3,400
Canada Savings Bonds	-79	-68	-347	-497
Other	-1	-13	-26	-181
Total	1,872	-666	-7,499	-8,741
Foreign currency borrowings	-260	302	-1,428	-3,281
Total	1,612	-364	-8,927	-12,022
Obligations related to capital leases	-2	2	-40	78
Net change in financing activities	1,610	-362	-8,967	-11,944
Change in cash balance	3,820	874	-7,730	-13,549

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	October 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	90,473	78,779	-11,694
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,907	-4,663
Treasury bills	127,199	123,799	-3,400
Canada Savings Bonds	19,080	18,583	-497
Other	3,393	3,212	-181
Subtotal	416,242	407,501	-8,741
Payable in foreign currencies	16,286	13,005	-3,281
Obligations related to capital leases	2,932	3,010	78
Total unmatured debt	435,460	423,516	-11,944
Pension and other accounts			
Public sector pensions	129,579	130,903	1,324
Other employee and veteran future benefits	41,549	42,458	909
Other pension and other accounts	8,680	5,913	-2,767
Total pension and other accounts	179,808	179,274	-534
Total interest-bearing debt	615,268	602,790	-12,478
Total liabilities	705,741	681,569	-24,172
Financial assets			
Cash and accounts receivable	76,281	60,800	-15,481
Foreign exchange accounts	40,871	40,013	-858
Loans, investments and advances (net of allowances)	33,860	36,297	2,437
Total financial assets	151,012	137,110	-13,902
Net debt	554,729	544,459	-10,270
Non-financial assets	54,866	54,047	-819
Federal debt (accumulated deficit)	499,863	490,412	-9,451

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