

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2005: budgetary surplus of \$1.0 billion

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004. Total budgetary revenues rose \$0.7 billion or 4.5 per cent, reflecting strong gains in personal income tax receipts, which were \$0.7 billion or 8.3 per cent higher. Program expenses were relatively unchanged in December, rising \$0.1 billion or 0.4 per cent. Public debt charges were \$0.1 billion lower. The December results incorporate \$0.3 billion in tax reduction measures—the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent—which pertain to the month.

April to December 2005: budgetary surplus of \$7.3 billion

For the first nine months of the 2005–06 fiscal year (April to December), the budgetary surplus is estimated at \$7.3 billion, \$3.2 billion lower than the \$10.5-billion surplus reported in the same period of 2004–05. The decline in the surplus through December reflects in part the inclusion of the estimated \$4.0-billion cost of personal income tax measures, noted above, pertaining to the full 2005 tax year. Budgetary revenues were up \$5.2 billion or 3.7 per cent. Program expenses were up \$9.0 billion or 8.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/Territorial Formula Financing (TFF). Public debt charges were \$0.5 billion lower.

December 2005

There was a budgetary surplus of \$1.0 billion in December 2005, up \$0.8 billion from December 2004.

Budgetary revenues rose \$0.7 billion or 4.5 per cent to \$16.3 billion.

- Personal income tax receipts were up \$0.7 billion or 8.3 per cent. Receipts in December are net of the \$0.3-billion cost of the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that pertain to the month.
- Corporate income tax revenues fell \$0.2 billion or 6.3 per cent, reflecting weaker gross receipts and lower settlement payments relative to December 2004.
- Other income tax receipts—withholdings from non-residents—increased significantly in December, reflecting increases in dividends and other payments to non-residents.
- Excise taxes and duties fell \$0.1 billion or 2.4 per cent. Goods and services tax (GST) revenues declined 2.2 per cent, reflecting



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relatively weak growth in gross GST receipts. Customs import duties were up \$33 million, while sales and excise taxes were down \$63 million. Revenues from the Air Travellers Security Charge were down \$2 million.

- Employment insurance (EI) premiums declined 4.5 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 13.4 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in December 2005 were \$12.8 billion, up just \$0.1 billion or 0.4 per cent from December 2004. Transfers to other levels of government were up strongly, but lower operating expenses of departments and agencies offset this increase.

Transfer payments were up \$0.7 billion or 9.3 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$28 million or 0.8 per cent. Elderly benefits increased 3.1 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 decreased 3.8 per cent, reflecting a decline 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 27.2 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.

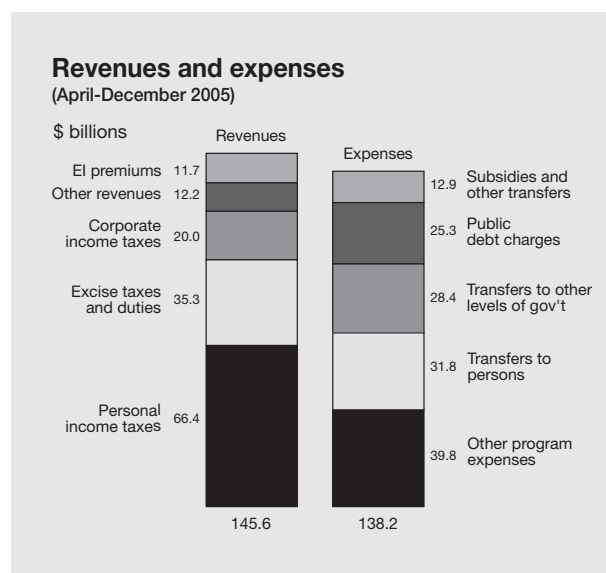
- Subsidies and other transfers declined by 1.0 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses of departments and agencies, including National Defence. On a year-over-year basis, these expenses fell \$0.7 billion or 13.4 per cent, largely reflecting lower spending by National Defence because of a one-time adjustment for Defence inventory and capital assets in December 2004.

Public debt charges decreased by \$0.1 billion or 4.4 per cent due to a decrease in the average effective interest rate on the debt.

April to December 2005

In the first nine months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.3 billion, \$3.2 billion below the \$10.5-billion surplus reported in the same period of 2004–05. This decline reflects in part the inclusion of the costs of the above-mentioned tax measures.



Budgetary revenues were up \$5.2 billion or 3.7 per cent to \$145.6 billion.

- Personal income tax revenues rose \$2.0 billion or 3.1 per cent.
- Corporate income tax revenues were up \$2.5 billion or 14.2 per cent, reflecting gains in corporate profitability in 2005.
- Excise taxes and duties rose \$1.7 billion or 5.1 per cent. GST revenues increased \$1.6 billion or 6.8 per cent, broadly consistent with the growth rate of retail sales of 6.7 per cent over the same period. Customs import duties were up 11.8 per cent. Sales and excise taxes were down 1.6 per cent, while the Air Travellers Security Charge was down 13.8 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were down 0.1 per cent, as the impact of the reduction in premium rates in January 2005 more than offset the increase in the number of people employed.

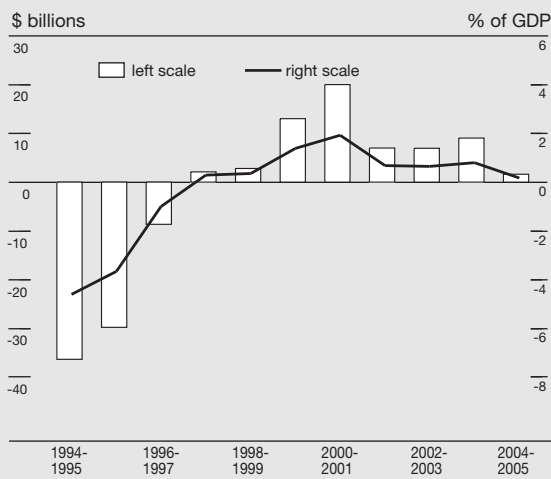
- Other revenues were down \$1.9 billion or 17.5 per cent, reflecting the impact of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Program expenses in the April to December 2005 period were \$112.9 billion, up \$9.0 billion or 8.6 per cent from the same period of 2004–05, with most of the increase attributable to higher transfers to provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.5 billion.

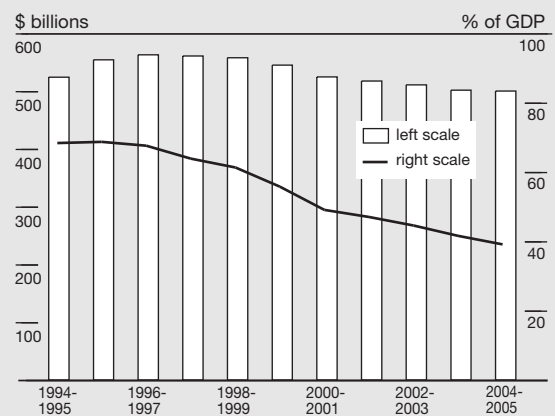
Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$7.2 billion or 10.9 per cent.

- Transfers to persons advanced by 2.0 per cent. Elderly benefits were up 4.1 per cent while EI benefits were down 2.2 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.

Budgetary balance



Federal debt (accumulated deficit)



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- Transfers to other levels of government were up \$5.5 billion or 23.8 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 9.3 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 4.7 per cent.

Public debt charges were down 2.1 per cent due to a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Financial source of \$0.1 billion for April to December 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 \$7.2 billion in the April-to-December period, up \$3.1 billion from the requirement in the same period of 2004–05. This increase largely reflects the sale of the Government's remaining shares in Petro-Canada in September 2004, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$7.3 billion and a net requirement of \$7.2 billion from non-budgetary transactions, there was a financial source of \$0.1 billion in the first nine months of 2005–06 compared to a financial source of \$6.4 billion in the same period of 2004–05.

Net financing activities down \$12.7 billion

The Government used this financial source of \$0.1 billion and a reduction in its cash balances of \$12.7 billion to reduce its market debt by \$12.7 billion by the end of December 2005, largely through a reduction of marketable bonds and foreign currency borrowings. 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 December stood at \$4.5 billion.

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Table 1

Summary statement of transactions

	December		April to December	
	2004	2005	2004-05	2005-06
(\$ millions)				
Budgetary transactions				
Revenues	15,637	16,336	140,348	145,563
Expenses				
Program expenses	-12,768	-12,818	-103,949	-112,937
Public debt charges	-2,639	-2,522	-25,858	-25,310
Budgetary balance (deficit/surplus)	230	996	10,541	7,316
Non-budgetary transactions	-898	730	-4,133	-7,247
Financial source/requirement	-668	1,726	6,408	69
Net change in financing activities	-11,562	-4,242	-19,630	-12,730
Net change in cash balances	-12,230	-2,516	-13,222	-12,661
Cash balance at end of period			4,024	4,458

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

Table 2

Budgetary revenues

	December			April to December		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,835	8,486	8.3	64,424	66,435	3.1
Corporate income tax	2,680	2,512	-6.3	17,497	19,974	14.2
Other income tax revenue	284	530	86.6	2,292	3,214	40.2
Total income tax	10,799	11,528	6.8	84,213	89,623	6.4
Excise taxes and duties						
Goods and services tax	2,208	2,160	-2.2	23,554	25,157	6.8
Customs import duties	232	265	14.2	2,319	2,592	11.8
Sales and excise taxes	875	812	-7.2	7,394	7,272	-1.6
Air Travellers Security Charge	28	26	-7.1	298	257	-13.8
Total excise taxes and duties	3,343	3,263	-2.4	33,565	35,278	5.1
Total tax revenues	14,142	14,791	4.6	117,778	124,901	6.0
Employment insurance premiums	840	802	-4.5	11,713	11,704	-0.1
Other revenues	655	743	13.4	10,857	8,958	-17.5
Total budgetary revenues	15,637	16,336	4.5	140,348	145,563	3.7

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	December		Change	April to December		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,367	2,441	3.1	20,832	21,693	4.1
Employment insurance benefits	1,200	1,154	-3.8	10,367	10,144	-2.2
Total	3,567	3,595	0.8	31,199	31,837	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		9,488	14,250	
Canada Social Transfer	652	685		5,869	6,169	
Health Reform Transfer	125	0		1,125	0	
Canada Health and Social Transfer	-23	0		0	0	
Total	1,808	2,268	25.4	16,482	20,419	23.9
Fiscal transfers	1,007	1,044	3.7	8,454	9,537	12.8
Canada's cities and communities	0	262	n/a	0	656	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,993	-2,200	10.4
Total	2,605	3,313	27.2	22,943	28,412	23.8
Subsidies and other transfers						
Agriculture	108	178	64.8	680	916	34.7
Foreign Affairs	316	215	-32.0	1,699	1,600	-5.8
Health	87	136	56.3	1,259	1,340	6.4
Human Resources Development	64	94	46.9	786	912	16.0
Indian and Northern Development	380	380	0.0	3,271	3,619	10.6
Industry and Regional Development	213	205	-3.8	1,391	1,452	4.4
Other	410	354	-13.6	2,678	3,019	12.7
Total	1,578	1,562	-1.0	11,764	12,858	9.3
Total transfer payments	7,750	8,470	9.3	65,906	73,107	10.9
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	91	110	20.9	864	978	13.2
Canada Mortgage and Housing Corporation	175	170	-2.9	1,515	1,536	1.4
Other	285	196	-31.2	1,530	1,351	-11.7
Total	551	476	-13.6	3,909	3,865	-1.1
Defence	1,640	1,226	-25.2	9,749	10,766	10.4
All other departments and agencies	2,827	2,646	-6.4	24,385	25,199	3.3
Total other program expenses	5,018	4,348	-13.4	38,043	39,830	4.7
Total program expenses	12,768	12,818	0.4	103,949	112,937	8.6
Public debt charges	2,639	2,522	-4.4	25,858	25,310	-2.1
Total budgetary expenses	15,407	15,340	-0.4	129,807	138,247	6.5

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	230	996	10,541	7,316
Non-budgetary transactions				
Capital investing activities	-169	-343	-1,003	-1,514
Other investing activities	50	-45	-1,383	-2,776
Pension and other accounts	691	239	-1,408	-308
Other activities				
Accounts payable, receivables, accruals and allowances	-1,894	-1,166	-6,626	-7,271
Foreign exchange activities	-86	1,769	3,959	2,313
Amortization of tangible capital assets	510	276	2,328	2,309
Total other activities	-1,470	879	-339	-2,649
Total non-budgetary transactions	-898	730	-4,133	-7,247
Net financial source/requirement	-668	1,726	6,408	69

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	December		April to December	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	-668	1,726	6,408	69
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-7,989	-6,582	-15,911	-7,992
Treasury bills	-3,200	2,400	3,650	-100
Canada Savings Bonds	-165	-423	-1,868	-1,368
Other	0	-8	-27	-205
Total	-11,354	-4,613	-14,156	-9,665
Foreign currency borrowings	-285	368	-5,542	-3,131
Total	-11,639	-4,245	-19,698	-12,796
Obligations related to capital leases	77	3	68	66
Net change in financing activities	-11,562	-4,242	-19,630	-12,730
Change in cash balance	-12,230	-2,516	-13,222	-12,661

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	December 31, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	80,245	-10,228
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	258,578	-7,992
Treasury bills	127,199	127,099	-100
Canada Savings Bonds	19,080	17,712	-1,368
Other	3,393	3,188	-205
Subtotal	416,242	406,577	-9,665
Payable in foreign currencies	16,286	13,155	-3,131
Obligations related to capital leases	2,932	2,998	66
Total unmaturing debt	435,460	422,730	-12,730
Pension and other accounts			
Public sector pensions	129,579	131,268	1,689
Other employee and veteran future benefits	41,549	42,719	1,170
Other pension and other accounts	8,680	5,513	-3,167
Total pension and other accounts	179,808	179,500	-308
Total interest-bearing debt	615,268	602,230	-13,038
Total liabilities	705,741	682,475	-23,266
Financial assets			
Cash and accounts receivable	76,281	60,663	-15,618
Foreign exchange accounts	40,871	38,558	-2,313
Loans, investments and advances (net of allowances)	33,860	36,636	2,776
Total financial assets	151,012	135,857	-15,155
Net debt	554,729	546,618	-8,111
Non-financial assets	54,866	54,071	-795
Federal debt (accumulated deficit)	499,863	492,547	-7,316

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