

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

April 2005: budgetary surplus of \$2.2 billion

There was a budgetary surplus of \$2.2 billion in April 2005, up from a surplus of \$0.8 billion recorded in April 2004. The year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, up \$2.3 billion, or 14.9 per cent, primarily reflecting strong advances in personal and corporate income tax revenues. Public debt charges were marginally lower while program expenses increased by \$1.0 billion, or 8.6 per cent, primarily reflecting the impact of previous budget measures.

May 2005: budgetary surplus of \$0.9 billion

There was a budgetary surplus of \$0.9 billion in May 2005, down from the \$1.0-billion surplus recorded in May 2004. On a year-over-year basis, budgetary revenues were up \$1.1 billion, while program expenses were up \$1.3 billion. Public debt charges declined \$0.1 billion to \$2.9 billion.

April and May 2005: budgetary surplus of \$3.1 billion

For the first two months of the 2005–06 fiscal year (April and May), the budgetary surplus is estimated at \$3.1 billion, up \$1.3 billion from the surplus of \$1.8 billion recorded in the same period of 2004–05. Budgetary revenues were up \$3.4 billion, or 11.2 per cent, largely due to the strength of personal and corporate income tax receipts. Program expenses were up \$2.3 billion, or 10.0 per cent, primarily reflecting the impact of previous budget measures affecting transfers to the provinces and territories. Public debt charges were down \$0.2 billion to \$5.7 billion.

April and May 2005 budgetary results

Through the first two months of the 2005–06 fiscal year, there was a budgetary surplus of \$3.1 billion, up \$1.3 billion from the \$1.8-billion surplus reported during the same period of 2004–05.

On a year-over-year basis, budgetary revenues increased \$3.4 billion, or 11.2 per cent, to total \$33.8 billion. This increase primarily reflects strong gains in personal and corporate income tax revenues.

- Personal income tax revenues increased \$1.1 billion, or 7.7 per cent, through April and May, reflecting strong source deductions, consistent with the increase in employment and wages and salaries over this period.

- Corporate income tax revenues were up \$1.3 billion. The monthly results through May in large part reflect remittance procedures, under which corporations are required to remit monthly instalments through the year based on their previous year's actual tax liabilities or their current year's estimated liabilities. Any underpayment of a corporation's current-year tax liability is made within 60 days of the close of its taxation year by means of a year-end settlement payment. Given that settlement payments were up during the last three months of 2004–05 (the year-end settlement period for those corporations with a December 31, 2004, taxation year), monthly corporate remittances during the April to December period of 2004–05



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were understated. As a result, the growth rate of corporate remittances in April and May 2005, which now reflect the higher 2004 tax year liability, is higher than it would have been if monthly remittances last year had been consistent with the tax liability for the year as a whole. Thus the increase in corporate tax receipts in April and May over the same period last year overstates the underlying growth in corporate income tax revenues.

- Excise taxes and duties increased \$0.9 billion, or 12.6 per cent. Goods and services tax revenues rose \$0.7 billion, or 13.5 per cent. Customs import duties and sales and excise taxes were each up \$0.1 billion, while the Air Travellers Security Charge fell \$3 million.
- Employment insurance (EI) premiums rose 2.8 per cent, as gains in employment and wages and salaries more than offset the impact of the decline in the premium rate from \$1.98 per \$100 of insurable earnings in 2004 (employee rate) to \$1.95 in 2005.
- Other revenues increased \$0.1 billion, or 4.6 per cent. This category tends to be volatile on a monthly basis.

On a year-over-year basis, program expenses in April and May were up \$2.3 billion, or 10.0 per cent, to \$25.0 billion. This increase is mainly due to increased transfers under the 2004 First Ministers' agreements on health care and equalization/Territorial Formula Financing (TFF).

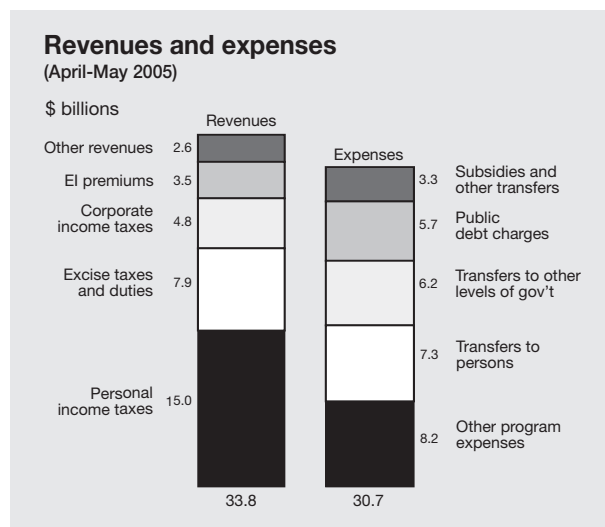
Transfer payments increased by \$2.0 billion, or 13.6 per cent.

- Transfers to persons advanced by \$155 million, or 2.2 per cent. Elderly benefits were up 5.1 per cent while EI benefits were down 2.9 per cent. The decrease in EI benefits reflects a decline in regular benefits, which is in line with the improvement in the labour market.

- Transfers to other levels of government were up \$1.1 billion, or 22.3 per cent, reflecting higher transfers in support of health and other social programs and higher fiscal transfers, resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.
- Subsidies and other transfers increased by \$719 million, or 28.3 per cent, primarily reflecting the timing of payments and the impact of previous budget measures. This component is volatile on a monthly basis.

Other program expenses increased by \$261 million, or 3.3 per cent, as lower expenses related to Crown corporations and defence were more than offset by higher expenses related to other departments and agencies. Defence expenses were down \$85 million, or 4.9 per cent, while program expenses for all other departments and agencies were up \$351 million, or 6.8 per cent. Transfers to Crown corporations fell slightly by \$5 million, or 0.5 per cent.

Public debt charges were \$153 million lower, primarily reflecting the impact of a decline in the stock of interest-bearing debt.



Financial requirement of \$1.8 billion for April and May 2005

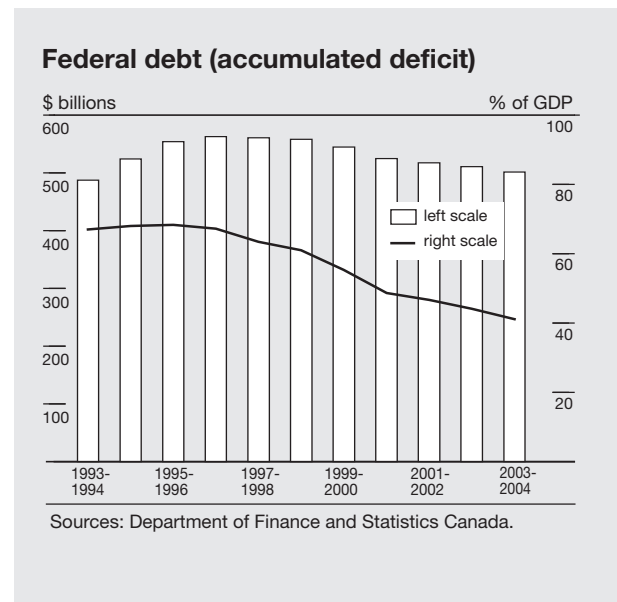
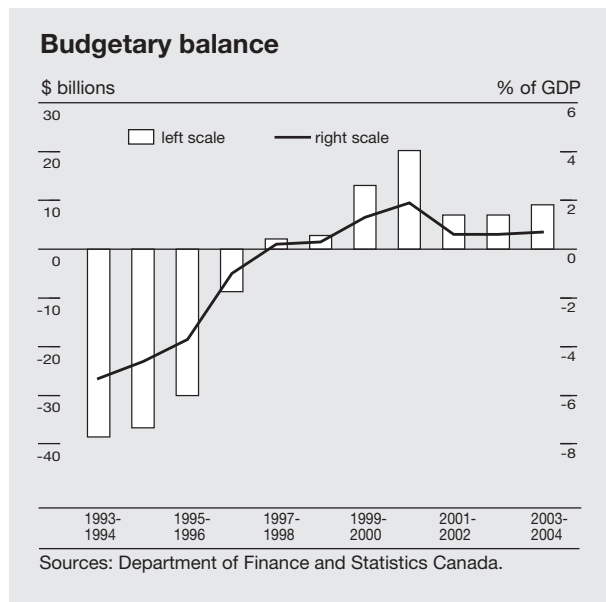
The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to 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), pensions and other accounts, as well as 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 \$5.0 billion in April and May 2005, an increase of \$0.5 billion from the requirement of \$4.5 billion in the same period of 2004–05. Traditionally, there are large requirements in the first half of the fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

With a budgetary surplus of \$3.1 billion and a net requirement of \$5.0 billion from non-budgetary transactions, there was a financial requirement of \$1.8 billion in the first two months of 2005–06, compared to a requirement of \$2.7 billion in the same period of 2004–05.

Net financing activities down \$4.4 billion

The Government reduced its net financing activities by \$4.4 billion in April and May 2005 through a reduction of its cash balances. The monthly level of cash balances varies as a result of a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of May stood at \$10.9 billion.



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Table 1

Summary statement of transactions

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Budgetary transactions						
Revenues	15,178	17,447	15,211	16,359	30,388	33,806
Expenses						
Program expenses	-11,507	-12,497	-11,253	-12,532	-22,760	-25,029
Public debt charges	-2,856	-2,778	-2,968	-2,893	-5,824	-5,671
Budgetary balance (deficit/surplus)	815	2,172	990	934	1,804	3,106
Non-budgetary transactions	-4,882	-7,264	385	2,312	-4,497	-4,952
Financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846
Net change in financing activities	-7,914	-8,099	9,028	3,703	1,114	-4,396
Net change in cash balances	-11,981	-13,191	10,403	6,949	-1,579	-6,242
Cash balance at end of period					15,747	10,878

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

Table 2

Budgetary revenues

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Tax revenues						
Income taxes						
Personal income tax	6,992	7,986	6,925	7,007	13,916	14,993
Corporate income tax	1,481	2,404	2,095	2,440	3,577	4,844
Other income tax revenue	247	234	321	340	568	574
Total income tax	8,720	10,624	9,341	9,787	18,061	20,411
Excise taxes and duties						
Goods and services tax	2,788	2,919	2,332	2,893	5,120	5,812
Customs import duties	235	242	227	273	462	514
Sales and excise taxes	758	749	652	807	1,410	1,557
Air Travellers Security Charge	38	33	27	29	65	62
Total excise taxes and duties	3,819	3,943	3,238	4,002	7,057	7,945
Total tax revenues	12,539	14,567	12,579	13,789	25,118	28,356
Employment insurance premiums	1,697	1,754	1,671	1,707	3,368	3,461
Other revenues	942	1,126	961	863	1,902	1,989
Total budgetary revenues	15,178	17,447	15,211	16,359	30,388	33,806

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Transfer payments						
Transfers to persons						
Elderly benefits	2,281	2,402	2,286	2,396	4,567	4,798
Employment insurance benefits	1,390	1,160	1,213	1,366	2,602	2,526
Total	3,671	3,562	3,499	3,762	7,169	7,324
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,584	1,054	1,583	2,108	3,167
Canada Social Transfer	652	686	652	685	1,304	1,371
Health Reform Transfer	125	0	125	0	250	0
Canada Health and Social Transfer	8	0	8	0	16	0
Fiscal transfers	815	949	1,087	1,228	1,902	2,178
Alternative Payments for Standing Programs	-253	-254	-253	-254	-506	-508
Total	2,401	2,965	2,673	3,242	5,074	6,208
Subsidies and other transfers						
Agriculture	12	70	47	275	59	345
Foreign Affairs	171	267	164	126	335	393
Health	128	103	159	171	286	274
Human Resources Development	148	115	155	100	303	215
Indian and Northern Development	630	674	299	296	929	970
Industry and Regional Development	116	119	108	88	225	207
Other	216	490	191	369	407	859
Total	1,421	1,838	1,123	1,425	2,544	3,263
Total transfer payments	7,493	8,365	7,295	8,429	14,787	16,795
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	212	205	87	75	299	280
Canada Mortgage and Housing Corporation	144	149	216	219	360	368
Other	285	214	108	185	392	398
Total	641	568	411	479	1,051	1,046
Defence	709	809	1,031	847	1,741	1,656
All other departments and agencies	2,664	2,755	2,516	2,777	5,181	5,532
Total other program expenses	4,014	4,132	3,958	4,103	7,973	8,234
Total program expenses	11,507	12,497	11,253	12,532	22,760	25,029
Public debt charges	2,856	2,778	2,968	2,893	5,824	5,671
Total budgetary expenses	14,363	15,275	14,221	15,425	28,584	30,700

Note: Totals may not sum due to rounding.

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Table 4

Budgetary balance and financial source/requirement

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Budgetary balance (deficit/surplus)	815	2,172	990	934	1,804	3,106
Non-budgetary transactions						
Capital investing activities	144	108	-359	8	-215	116
Other investing activities	177	-463	-65	-15	112	-479
Pension and other accounts	-550	-568	884	-253	334	-821
Other activities						
Accounts payable, receivables, accruals and allowances	-5,537	-7,476	782	2,435	-4,755	-5,040
Foreign exchange activities	611	878	-1,106	-105	-495	773
Amortization of tangible capital assets	273	257	249	242	522	499
Total other activities	-4,653	-6,341	-75	2,572	-4,728	-3,768
Total non-budgetary transactions	-4,882	-7,264	385	2,312	-4,497	-4,952
Net financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	April		May		April and May	
	2004	2005	2004	2005	2004-05	2005-06
	(\$ millions)					
Net financial source/requirement	-4,067	-5,092	1,375	3,246	-2,693	-1,846
Net increase (+)/decrease (-) in financing activities						
Unmatured debt transactions						
Canadian currency borrowings						
Marketable bonds	-2,818	-1,109	4,974	2,776	2,156	1,667
Treasury bills	-3,800	-5,700	3,800	1,200	0	-4,500
Canada Savings Bonds	-9	-61	-38	-78	-47	-139
Other	-25	0	17	0	-8	0
Total	-6,652	-6,870	8,753	3,898	2,101	-2,972
Foreign currency borrowings	-1,249	-1,229	275	-195	-974	-1,424
Total	-7,901	-8,099	9,028	3,703	1,127	-4,396
Obligations related to capital leases	-13	0	0	0	-13	0
Net change in financing activities	-7,914	-8,099	9,028	3,703	1,114	-4,396
Change in cash balance	-11,981	-13,191	10,403	6,949	-1,579	-6,242

Note: Totals may not sum due to rounding.

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