

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2005: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in June 2005, \$0.6 billion higher than the surplus of \$1.1 billion reported in June 2004. This year-over-year improvement is attributable to higher revenues, up \$1.9 billion, or 12.7 per cent, reflecting both increases in the applicable tax bases and timing factors, which will likely unwind over the course of the fiscal year. These timing factors relate to differences in the timing of personal income tax receipts between the 2004–05 and 2005–06 fiscal years and unusually low corporate income tax receipts in early 2004–05. Dampening the impact of this increase on the budgetary balance were higher program expenses, up \$1.3 billion, or 11.5 per cent, primarily reflecting higher transfers to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges increased marginally.

April to June 2005: budgetary surplus of \$4.8 billion

For the first three months of the 2005–06 fiscal year (April to June), the budgetary surplus is estimated at \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period last year. Budgetary revenues were up \$5.4 billion, or 11.8 per cent, with gains reported in all major components. As discussed above, some of this increase is attributable to timing factors, which should unwind over the course of the year. Program expenses were up \$3.6 billion, or 10.6 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were marginally lower.

June 2005: budgetary results

The June 2005 budgetary surplus of \$1.7 billion was \$0.6 billion higher than that reported in June 2004.

On a year-over-year basis, budgetary revenues, at \$17.1 billion, were up \$1.9 billion, or 12.7 per cent. This increase primarily reflects strong year-over-year gains in personal and corporate income tax revenues, attributable to both strong growth in the applicable tax bases and timing factors, which should unwind over the course of the fiscal year.

- Personal income tax revenues were up \$0.8 billion, or 12.0 per cent, primarily due to strong gains in source deductions. This is substantially stronger than the estimated gain in wages and salaries of between 2½ and 3 per cent, which indicates that some of the year-over-year increase in personal income taxes likely reflects the timing of receipts between the 2004–05 and 2005–06 fiscal years. This should be corrected over the next couple of months.



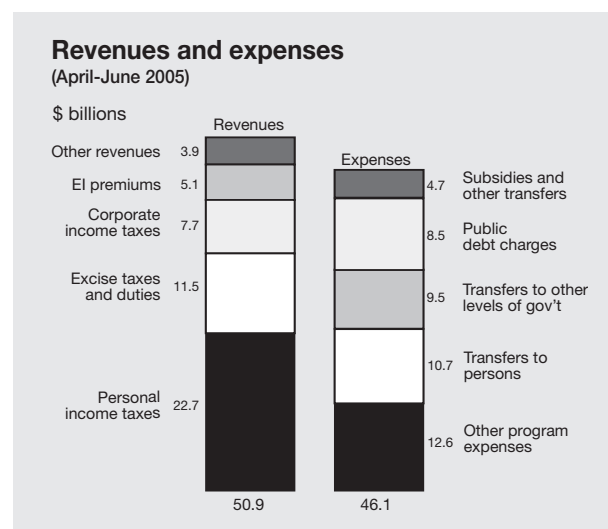
The Fiscal Monitor

- Corporate income tax revenues increased by \$0.7 billion, or 33.5 per cent, more than double the increase in corporate profits. This difference can be explained by the remittance procedures under which corporations are required to remit monthly instalments. Corporations make monthly instalments 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 now based on their 2004 tax liabilities, the year-over-year growth overstates the underlying growth in corporate income tax revenues. This will be corrected when the settlement payments are received at the end of the fiscal year.
- Excise taxes and duties increased \$246 million, or 7.5 per cent. Goods and services tax (GST) revenues were up by \$218 million, or 10.1 per cent, reflecting strong growth in GST on imports. Customs import duties were up strongly, while sales and excise taxes were lower. Revenues from the Air Travellers Security Charge were lower, reflecting the reductions announced in the 2005 budget.
- Employment insurance (EI) premiums were up slightly, as the reduction in premium rates (the employee rate for 2005 is \$1.95 per \$100 of insurable earnings compared to \$1.98 in 2004) was more than offset by the increase in employment and thus the number of people paying premiums.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up marginally.

On a year-over-year basis, program expenses in June 2005 were \$12.5 billion, up \$1.3 billion or 11.5 per cent from June 2004, primarily due to higher transfer payments resulting from the 2004 First Ministers' agreements on health care and equalization/TFF.

Transfer payments were up \$1.0 billion, or 13.2 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$99 million, or 3.0 per cent, on a year-over-year basis. Elderly benefits increased 5.1 per cent due to both higher average benefits, which have risen because of higher inflation in early 2005, and an increase in the number of individuals eligible for benefits. EI benefit payments declined 1.8 per cent primarily due to a decline in regular benefits, reflecting the improvement in the labour market situation.
- Major transfers to other levels of government, consisting of the federal transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers and Alternative Payments for Standing Programs, were up \$0.8 billion, or 31.7 per cent. The increase in federal transfers in support of health and other social programs



reflects increased funding under the 2004 agreement on health care. Fiscal transfers consist of equalization, payments to the territorial governments, statutory subsidies and recoveries under the Youth Allowances Recovery Program. In aggregate, on a year-over-year basis, these transfers increased by 39.7 per cent, reflecting the new framework for equalization and TFF announced in October 2004.

- Subsidies and other transfers increased by 3.6 per cent.

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 \$0.3 billion, or 8.3 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile over the first few months of the fiscal year, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges were virtually unchanged, as changes in the composition of interest-bearing debt offset the impact of a decline in the overall stock of that debt.

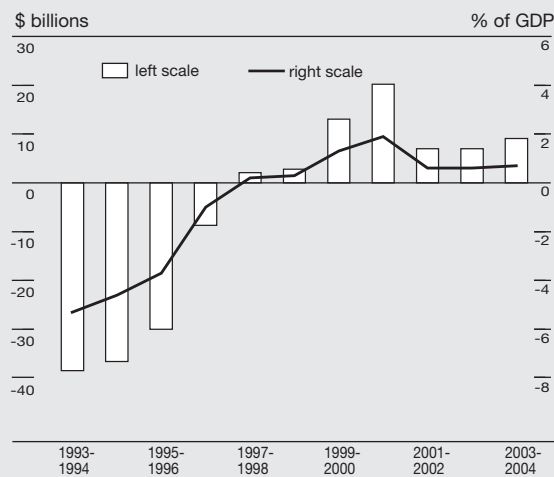
April to June 2005: budgetary results

For the first three months of the 2005–06 fiscal year, there was a budgetary surplus of \$4.8 billion, up \$1.9 billion from the surplus of \$2.9 billion reported in the same period of 2004–05.

Budgetary revenues, at \$50.9 billion, were up \$5.4 billion, or 11.8 per cent, reflecting both strong gains in the applicable tax bases and timing factors.

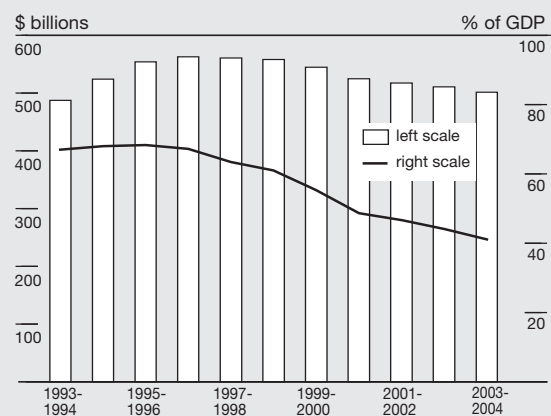
- Personal income tax revenues increased by \$1.9 billion, or 9.2 per cent. The year-over-year increase is primarily attributable to the strong growth in source deductions from employment income, reflecting, in part, strong gains in employment over the past 12 months. Wages and salaries are estimated to have advanced between 2½ to 3 per cent over this period. The difference between the growth in revenues and the base primarily reflects the timing of receipts.
- Corporate income tax revenues were up \$2.0 billion, or 34.7 per cent, more than double the growth in corporate profits.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

The Fiscal Monitor

As noted above, part of this increase is attributable to remittance procedures, the impact of which will unwind towards the end of the fiscal year.

- Excise taxes and duties increased by \$1.1 billion, or 11.0 per cent. GST revenues increased by \$0.9 billion, or 12.5 per cent, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were up 5.0 per cent, while the Air Travellers Security Charge was down 6.3 per cent.
- EI premiums were up 2.7 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 up 6.1 per cent.

On a year-over-year basis, program expenses in the April to June 2005 period, at \$37.5 billion, were up \$3.6 billion or 10.6 per cent over the same period of 2004–05, with most of the increase attributable to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges declined by \$0.1 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.0 billion, or 13.4 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 5.1 per cent, while EI benefits were down 2.6 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits, such as sickness, maternity and paternal benefits, were higher.
- Transfers to other levels of government were up \$1.9 billion, or 25.5 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 19.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 5.4 per cent, as lower year-over-year Crown corporation expenses were more than offset by increases in departmental operating costs.

The decline in public debt charges is attributable to the decline in the stock of interest-bearing debt.

Financial requirement of \$5.4 billion for April to June 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 the financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$10.2 billion in the April to June period, up marginally from the requirement in the same period of 2004–05.

With a budgetary surplus of \$4.8 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first three months of 2005–06, down \$1.8 billion from the same period last year.

Net financing activities down \$8.3 billion

The Government's market debt was down \$8.3 billion by the end of June 2005, with all components being lower. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$13.7 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 June stood at \$3.4 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	15,144	17,060	45,499	50,880
Expenses				
Program expenses	-11,205	-12,490	-33,932	-37,535
Public debt charges	-2,842	-2,845	-8,666	-8,517
Budgetary balance (deficit/surplus)	1,097	1,725	2,901	4,828
Non-budgetary transactions	-5,587	-5,280	-10,085	-10,235
Financial source/requirement	-4,490	-3,555	-7,184	-5,407
Net change in financing activities	-8,918	-3,881	-7,803	-8,277
Net change in cash balances	-13,408	-7,436	-14,987	-13,684
Cash balance at end of period			2,264	3,441

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

Table 2

Budgetary revenues

	June			April to June		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,894	7,722	12.0	20,810	22,716	9.2
Corporate income tax	2,125	2,836	33.5	5,702	7,680	34.7
Other income tax revenue	267	313	17.2	835	887	6.2
Total income tax	9,286	10,871	17.1	27,347	31,283	14.4
Excise taxes and duties						
Goods and services tax	2,165	2,383	10.1	7,285	8,195	12.5
Customs import duties	216	282	30.6	677	797	17.7
Sales and excise taxes	881	846	-4.0	2,290	2,404	5.0
Air Travellers Security Charge	31	28	-9.7	96	90	-6.3
Total excise taxes and duties	3,293	3,539	7.5	10,348	11,486	11.0
Total tax revenues	12,579	14,410	14.6	37,695	42,769	13.5
Employment insurance premiums	1,603	1,645	2.6	4,971	5,105	2.7
Other revenues	962	1,005	4.5	2,833	3,006	6.1
Total budgetary revenues	15,144	17,060	12.7	45,499	50,880	11.8

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	June		Change	April to June		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,288	2,405	5.1	6,855	7,203	5.1
Employment insurance benefits	1,013	995	-1.8	3,615	3,520	-2.6
Total	3,301	3,400	3.0	10,470	10,723	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		3,163	4,750	
Canada Social Transfer	652	685		1,956	2,056	
Health Reform Transfer	125	0		375	0	
Canada Health and Social Transfer	8	0		25	0	
Total	1,839	2,268	23.3	5,519	6,806	23.3
Fiscal transfers	945	1,320	39.7	2,846	3,498	22.9
Alternative Payments for Standing Programs	-253	-254	0.4	-759	-761	0.3
Total	2,531	3,334	31.7	7,606	9,543	25.5
Subsidies and other transfers						
Agriculture	65	103	58.5	124	448	261.3
Foreign Affairs	241	114	-52.7	576	507	-12.0
Health	89	136	52.8	375	410	9.3
Human Resources Development	100	75	-25.0	404	291	-28.0
Indian and Northern Development	283	360	27.2	1,212	1,330	9.7
Industry and Regional Development	139	221	59.0	363	428	17.9
Other	447	404	-9.6	859	1,265	47.3
Total	1,364	1,413	3.6	3,913	4,679	19.6
Total transfer payments	7,196	8,147	13.2	21,989	24,945	13.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	67	75	11.9	366	355	-3.0
Canada Mortgage and Housing Corporation	195	150	-23.1	555	518	-6.7
Other	184	122	-33.7	578	522	-9.7
Total	446	347	-22.2	1,499	1,395	-6.9
Defence	906	1,222	34.9	2,649	2,878	8.6
All other departments and agencies	2,657	2,774	4.4	7,795	8,317	6.7
Total other program expenses	4,009	4,343	8.3	11,943	12,590	5.4
Total program expenses	11,205	12,490	11.5	33,932	37,535	10.6
Public debt charges	2,842	2,845	0.1	8,666	8,517	-1.7
Total budgetary expenses	14,047	15,335	9.2	42,598	46,052	8.1

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 4

Budgetary balance and financial source/requirement

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,097	1,725	2,901	4,828
Non-budgetary transactions				
Capital investing activities	-37	-275	-254	-159
Other investing activities	-204	-257	-92	-735
Pension and other accounts	-5	-112	330	-936
Other activities				
Accounts payable, receivables, accruals and allowances	-6,238	-4,684	-10,992	-9,725
Foreign exchange activities	671	-184	175	589
Amortization of tangible capital assets	226	232	748	731
Total other activities	-5,341	-4,636	-10,069	-8,405
Total non-budgetary transactions	-5,587	-5,280	-10,085	-10,235
Net financial source/requirement	-4,490	-3,555	-7,184	-5,407

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	June		April to June	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	-4,490	-3,555	-7,184	-5,407
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-9,867	-3,303	-7,710	-1,636
Treasury bills	800	-400	800	-4,900
Canada Savings Bonds	-75	-81	-122	-220
Other	-6	-139	-14	-139
Total	-9,148	-3,923	-7,046	-6,895
Foreign currency borrowings	231	44	-743	-1,380
Total	-8,917	-3,879	-7,789	-8,275
Obligations related to capital leases	-1	-2	-14	-2
Net change in financing activities	-8,918	-3,881	-7,803	-8,277
Change in cash balance	-13,408	-7,436	-14,987	-13,684

Note: Totals may not sum due to rounding.

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

August 2005