

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2005: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported in August 2004, in part reflecting a slowing in the growth of personal income tax revenues and a decline in net goods and services tax (GST) revenues. Total revenues were up \$0.4 billion or 3.1 per cent. Program expenses were \$1.1 billion or 10.1 per cent higher, primarily reflecting higher transfer payments to the provinces and territories as specified under the 2004 agreements on health care and equalization/Territorial Formula Financing (TFF). Public debt charges declined by \$0.1 billion.

April to August 2005: budgetary surplus of \$6.8 billion

For the first five months of the 2005–06 fiscal year (April to August), the budgetary surplus is estimated at \$6.8 billion, up \$2.2 billion from the \$4.6-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$7.5 billion or 9.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax receipts. The strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income. Higher corporate income tax receipts in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$5.8 billion or 10.2 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.

The monthly financial results for the first five months of the year are only partial-year results. Caution should therefore be exercised in using these results to project the outcome for the full year. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.

August 2005

There was a budgetary deficit \$0.3 billion in August 2005 compared to a surplus of \$0.3 billion reported during the same month last year.

Budgetary revenues totalled \$15.1 billion, an increase of \$0.4 billion or 3.1 per cent from August 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$0.2 billion or 2.9 per cent.

- Corporate income tax revenues increased by \$0.3 billion or 30.8 per cent, reflecting timing factors related to remittance procedures.
- Excise taxes and duties declined \$56 million or 1.4 per cent. GST revenues declined 3.6 per cent as a result of higher refunds. Customs import duties were up \$23 million, while sales and excise taxes were up \$24 million. Revenues from the Air Travellers Security Charge were up marginally.



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- Employment insurance (EI) premiums were down slightly (0.9 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$33 million, or 3.3 per cent. Other revenues are volatile on a monthly basis.

Program expenses were \$12.5 billion in August 2005, up \$1.1 billion or 10.1 per cent from August 2004, due mainly to higher transfer payments.

Transfer payments were \$0.9 billion or 12.7 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were down \$54 million, or 1.5 per cent, on a year-over-year basis. Elderly benefits increased 4.1 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 11.1 per cent, primarily due to a decrease in regular benefits, reflecting differences in the timing of payments between August 2005 and August 2004.
- 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 and Alternative Payments for Standing Programs, were up \$0.6 billion, or 23.0 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers reflect increased funding under the 2004 agreements on health care and equalization/TFF.

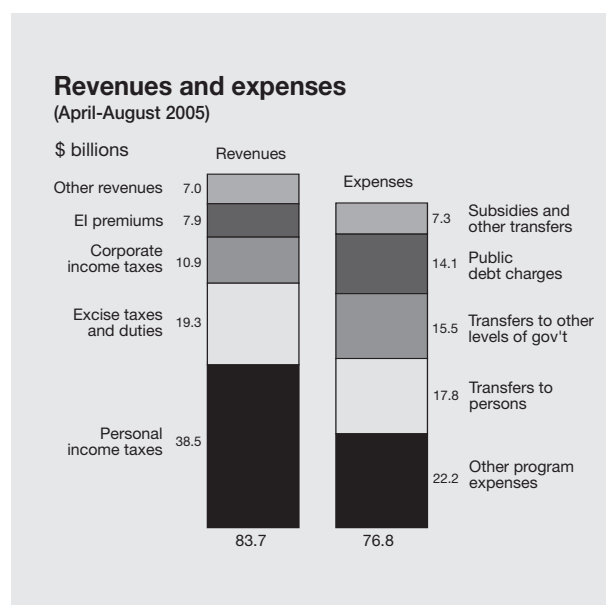
- Subsidies and other transfers increased by 38.7 per cent. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of measures from recent budgets.

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 \$0.2 billion, or 5.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges decreased by \$0.1 billion, or 4.4 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.

April to August 2005

In the first five months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.8 billion, up \$2.2 billion from the surplus of \$4.6 billion reported in the same period of 2004–05.



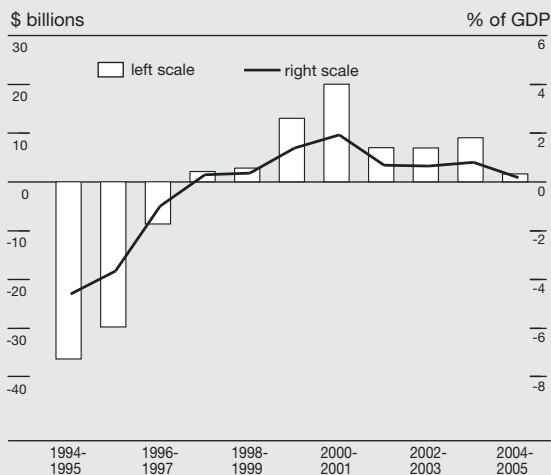
Budgetary revenues, at \$83.7 billion, were up \$7.5 billion or 9.8 per cent.

- Personal income tax revenues increased by \$3.2 billion or 9.0 per cent, which is considerably higher than the estimated growth in wages and salaries of about 5 per cent during the period. The year-over-year increase is largely attributable to the growth in source deductions from employment income.
- Corporate income tax revenues were up \$2.4 billion or 27.7 per cent over the same period last year, or more than double the growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly installments. Corporations make monthly tax installment 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 installments 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 installments in 2005 now based on 2004 tax liabilities, but installments through August 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 at the end of the 2005–06 fiscal year.

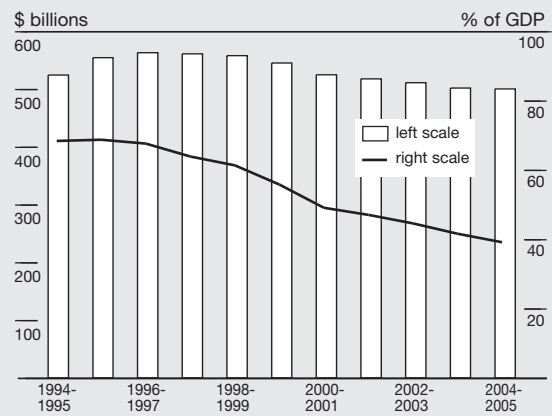
- Excise taxes and duties increased by \$0.9 billion or 4.6 per cent. GST revenues increased by \$0.8 billion or 6.2 per cent. Customs import duties were up 5.7 per cent, while sales and excise taxes and the Air Travellers Security Charge were down 0.1 per cent and 6.3 per cent, respectively.
- EI premiums were up 1.5 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 14.7 per cent.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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On a year-over-year basis, program expenses in the April to August 2005 period, at \$62.7 billion, were up \$5.8 billion or 10.2 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/TFF. Public debt charges declined by \$0.5 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$4.4 billion or 12.3 per cent.

- Transfers to persons advanced by 2.4 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 2.0 per cent. The 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 \$2.8 billion or 22.3 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 19.4 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 6.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 1.3 per cent.

The decline in public debt charges is attributable 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 \$5.4 billion for April to August 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 \$12.2 billion in the April-to-August period, up \$3.5 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 \$6.8 billion and a net requirement of \$12.2 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first five months of 2005–06, up \$1.3 billion from the same period last year.

Net financing activities down \$4.5 billion

The Government's market debt was down \$4.5 billion by the end of August 2005. To finance the financial requirement of \$5.4 billion and the reduction of market debt, the Government reduced its cash balances by \$9.8 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 August stood at \$7.3 billion.

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Table 1

Summary statement of transactions

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	14,603	15,050	76,151	83,650
Expenses				
Program expenses	-11,390	-12,538	-56,920	-62,714
Public debt charges	-2,913	-2,784	-14,609	-14,103
Budgetary balance (deficit/surplus)	300	-272	4,622	6,833
Non-budgetary transactions	1,417	297	-8,735	-12,208
Financial source/requirement	1,717	25	-4,113	-5,375
Net change in financing activities	2,850	3,904	-4,145	-4,458
Net change in cash balances	4,567	3,929	-8,258	-9,833
Cash balance at end of period			8,994	7,290

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

Table 2

Budgetary revenues

	August			April to August		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,076	7,283	2.9	35,340	38,536	9.0
Corporate income tax	972	1,271	30.8	8,572	10,949	27.7
Other income tax revenue	218	260	19.3	1,319	1,575	19.4
Total income tax	8,266	8,814	6.6	45,231	51,060	12.9
Excise taxes and duties						
Goods and services tax	2,906	2,802	-3.6	12,919	13,716	6.2
Customs import duties	309	332	7.4	1,304	1,378	5.7
Sales and excise taxes	797	821	3.0	4,047	4,042	-0.1
Air Travellers Security Charge	28	29	3.6	159	149	-6.3
Total excise taxes and duties	4,040	3,984	-1.4	18,429	19,285	4.6
Total tax revenues	12,306	12,798	4.0	63,660	70,345	10.5
Employment insurance premiums	1,309	1,297	-0.9	7,746	7,863	1.5
Other revenues	988	955	-3.3	4,745	5,442	14.7
Total budgetary revenues	14,603	15,050	3.1	76,151	83,650	9.8

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	August		Change	April to August		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,310	2,404	4.1	11,437	11,978	4.7
Employment insurance benefits	1,328	1,180	-11.1	5,925	5,808	-2.0
Total	3,638	3,584	-1.5	17,362	17,786	2.4
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		5,271	7,917	
Canada Social Transfer	652	685		3,260	3,427	
Health Reform Transfer	125	0		625	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	9,181	11,344	23.6
Fiscal transfers	927	1,044	12.6	4,717	5,375	13.9
Alternative Payments for Standing Programs	-225	-196	-12.9	-1,209	-1,197	-1.0
Total	2,533	3,116	23.0	12,689	15,522	22.3
Subsidies and other transfers						
Agriculture	-8	66	n/a	145	459	216.6
Foreign Affairs	167	321	92.2	894	1,002	12.1
Health	87	81	-6.9	695	702	1.0
Human Resources Development	-95	30	n/a	397	424	6.8
Indian and Northern Development	337	339	0.6	1,889	1,984	5.0
Industry and Regional Development	211	211	0.0	705	786	11.5
Other	278	307	10.4	1,350	1,896	40.4
Total	977	1,355	38.7	6,075	7,253	19.4
Total transfer payments	7,148	8,055	12.7	36,126	40,561	12.3
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	85	140	64.7	545	595	9.2
Canada Mortgage and Housing Corporation	140	142	1.4	865	846	-2.2
Other	178	144	-19.1	878	876	-0.2
Total	403	426	5.7	2,288	2,317	1.3
Defence	1,097	1,177	7.3	4,865	5,620	15.5
All other departments and agencies	2,742	2,880	5.0	13,641	14,216	4.2
Total other program expenses	4,242	4,483	5.7	20,794	22,153	6.5
Total program expenses	11,390	12,538	10.1	56,920	62,714	10.2
Public debt charges	2,913	2,784	-4.4	14,609	14,103	-3.5
Total budgetary expenses	14,303	15,322	7.1	71,529	76,817	7.4

Note: Totals may not sum due to rounding.

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Table 4

Budgetary balance and financial source/requirement

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	300	-272	4,622	6,833
Non-budgetary transactions				
Capital investing activities	-18	-136	-289	-117
Other investing activities	-196	176	-553	-1,155
Pension and other accounts	189	-448	-117	-1,688
Other activities				
Accounts payable, receivables, accruals and allowances	1,718	1,161	-8,785	-12,053
Foreign exchange activities	-427	-729	-148	1,540
Amortization of tangible capital assets	151	273	1,157	1,265
Total other activities	1,442	705	-7,776	-9,248
Total non-budgetary transactions	1,417	297	-8,735	-12,208
Net financial source/requirement	1,717	25	-4,113	-5,375

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	1,717	25	-4,113	-5,375
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,767	2,261	-4,665	1,383
Treasury bills	100	1,800	1,900	-1,800
Canada Savings Bonds	-55	-84	-238	-392
Other	-5	-1	-24	-142
Total	2,807	3,976	-3,027	-951
Foreign currency borrowings	49	-86	-1,084	-3,591
Total	2,856	3,890	-4,111	-4,542
Obligations related to capital leases	-6	14	-34	84
Net change in financing activities	2,850	3,904	-4,145	-4,458
Change in cash balance	4,567	3,929	-8,258	-9,833

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	August 31, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	90,473	74,485	-15,988
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	267,953	1,383
Treasury bills	127,199	125,399	-1,800
Canada Savings Bonds	19,080	18,688	-392
Other	3,393	3,251	-142
Subtotal	416,242	415,291	-951
Payable in foreign currencies	16,286	12,695	-3,591
Obligations related to capital leases	2,932	3,016	84
Total unmatured debt	435,460	431,002	-4,458
Pension and other accounts			
Public sector pensions	129,579	130,442	863
Other employee and veteran future benefits	41,549	41,924	375
Other pension and other accounts	8,680	5,754	-2,926
Total pension and other accounts	179,808	178,120	-1,688
Total interest-bearing debt	615,268	609,122	-6,146
Total liabilities	705,741	683,607	-22,134
Financial assets			
Cash and accounts receivable	76,281	62,513	-13,768
Foreign exchange accounts	40,871	39,331	-1,540
Loans, investments and advances (net of allowances)	33,860	35,015	1,155
Total financial assets	151,012	136,859	-14,153
Net debt	554,729	546,748	-7,981
Non-financial assets	54,866	53,718	-1,148
Federal debt (accumulated deficit)	499,863	493,030	-6,833

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