

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2005: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in September 2005, down \$2.4 billion from the surplus of \$3.0 billion reported in September 2004. The year-over-year decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada. As a result, budgetary revenues declined by \$1.2 billion, or 7.1 per cent. Excluding this transaction, underlying total revenues were \$1.4 billion or 9.5 per cent higher in September 2005 than in September 2004. Program expenses were \$1.3 billion or 11.5 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 \$0.1 billion.

April to September 2005: budgetary surplus of \$7.4 billion

For the first six months of the 2005–06 fiscal year (April to September), the budgetary surplus is estimated at \$7.4 billion, down \$0.2 billion from the \$7.6-billion surplus reported in the same period last year. Budgetary revenues were up \$6.3 billion or 6.8 per cent, primarily reflecting strong year-over-year gains in personal and corporate income tax revenues, dampened by a decline in other revenues, reflecting the gain from the sale of the Government's remaining shares in Petro-Canada in September 2004. The strong year-to-date growth in personal income tax revenues is due to higher source deductions from employment income. Higher corporate income tax revenues in part reflect timing factors related to corporate remittance procedures, which will unwind as the year progresses. Program expenses were up \$7.1 billion or 10.4 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.6 billion lower.

These monthly financial results 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 is provided in the Economic and Fiscal Update.

September 2005

There was a budgetary surplus of \$0.6 billion in September 2005, compared to a surplus of \$3.0 billion reported during the same month last year.

Budgetary revenues totalled \$15.7 billion in September 2005, down \$1.2 billion or 7.1 per cent from September 2004. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada.

- Personal income tax revenues were up \$0.4 billion or 6.2 per cent due to higher deductions from employment income.
- Corporate income tax revenues increased by \$0.3 billion or 16.6 per cent, reflecting ongoing gains in corporate profitability and timing factors, as explained below.
- Excise taxes and duties were up \$0.5 billion or 15.1 per cent. Goods and services tax (GST) revenues increased 19.7 per cent as a result of higher gross receipts, due to timing factors which depressed receipts in September 2004.



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Customs import duties were up \$28 million, while sales and excise taxes were up \$42 million. Revenues from the Air Travellers Security Charge were down \$5 million.

- Employment insurance (EI) premiums were down slightly (2.0 per cent).
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down \$2.6 billion. This decline reflects the inclusion in the September 2004 monthly results of the one-time gain from the sale of the Government's remaining shares in Petro-Canada.

Program expenses totalled \$12.3 billion in September 2005, up \$1.3 billion or 11.5 per cent from September 2004.

Transfer payments were up \$0.6 billion or 8.6 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$86 million or 2.6 per cent. Elderly benefits increased 4.3 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 fell 1.4 per cent, primarily due to a decrease 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 \$0.6 billion or 22.7 per cent. The increase in federal transfers in support of health and other social programs and higher fiscal transfers largely reflects increased funding under the 2004 agreements on health care and equalization/TFF.
- Subsidies and other transfers decreased by 4.7 per cent, largely reflecting an adjustment for transactions related to prior months.

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 \$0.7 billion, or 16.7 per cent, reflecting increased operating costs and the impact of previous budget measures.

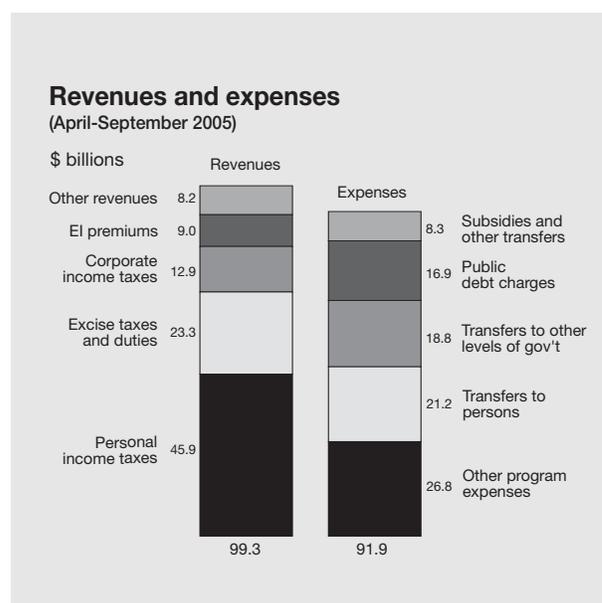
Public debt charges decreased by \$0.1 billion or 1.8 per cent due to both a decline in the stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April to September 2005

In the first six months of 2005–06, there was a budgetary surplus of \$7.4 billion, down \$0.2 billion from the surplus of \$7.6 billion reported in the same period of 2004–05.

At \$99.3 billion, budgetary revenues were up \$6.3 billion or 6.8 per cent.

- Personal income tax revenues increased by \$3.6 billion, or 8.6 per cent, which is considerably higher than the estimated growth in wages and salaries of about 4 per cent during the period, reflecting the very strong year-over-year growth witnessed in the first four months of the year. The year-over-year increase is largely attributable to the growth in source deductions from employment income.

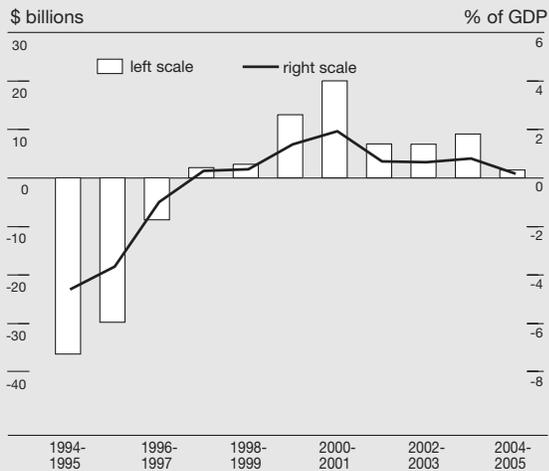


- Corporate income tax revenues were up \$2.7 billion, or 25.9 per cent over the same period last year, or more than double the estimated growth rate of corporate profits. This gain is in part due to the procedures under which corporations are required to remit monthly instalments. Corporations make 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 September 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.

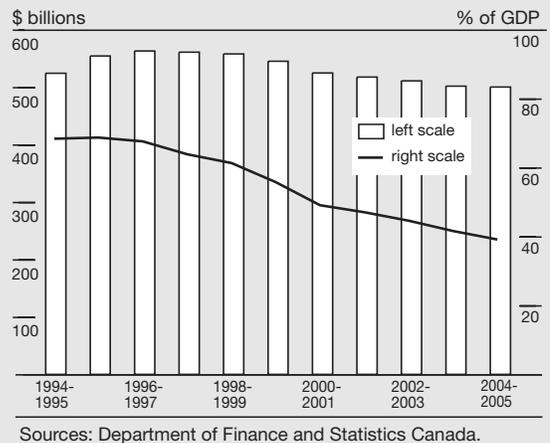
- Excise taxes and duties increased by \$1.4 billion or 6.3 per cent. GST revenues increased by \$1.3 billion or 8.3 per cent. Customs import duties were up 6.5 per cent. Sales and excise taxes were up marginally (0.7 per cent) while the Air Travellers Security Charge was down 7.2 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 1.0 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 \$1.9 billion or 23.2 per cent, reflecting the one-time gain from the sale of the Government's remaining shares in Petro-Canada in September 2004.

On a year-over-year basis, program expenses in the April to September 2005 period were \$75.0 billion, up \$7.1 billion or 10.4 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 \$0.6 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 \$5.1 billion or 11.7 per cent.

- Transfers to persons advanced by 2.5 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 1.9 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 \$3.5 billion, or 23.2 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 13.8 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 8.1 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.2 per cent.

Public debt charges were down 3.2 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 \$2.8 billion for April to September 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 \$10.2 billion in the April-to-September period, up \$1.7 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 \$7.4 billion and a net requirement of \$10.2 billion from non-budgetary transactions, there was a financial requirement of \$2.8 billion in the first six months of 2005–06, up \$1.9 billion from the same period last year.

Net financing activities down \$11.6 billion

The Government's market debt was down \$11.6 billion by the end of September 2005. To finance this reduction of market debt and the financial requirement of \$2.8 billion, the Government reduced its cash balances by \$14.4 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 September stood at \$2.7 billion.

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Table 1

Summary statement of transactions

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,868	15,669	93,018	99,321
Expenses				
Program expenses	-11,014	-12,279	-67,934	-75,003
Public debt charges	-2 866	-2 814	-17,476	-16,917
Budgetary balance (deficit/surplus)	2,988	576	7,608	7,401
Non-budgetary transactions	155	1,960	-8,581	-10,237
Financial source/requirement	3,143	2,536	-973	-2,836
Net change in financing activities	-6,431	-7,124	-10,576	-11,582
Net change in cash balances	-3,288	-4,588	-11,549	-14,418
Cash balance at end of period			5,701	2,702

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

Table 2

Budgetary revenues

	September			April to September		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	6,979	7,413	6.2	42,319	45,949	8.6
Corporate income tax	1,648	1,921	16.6	10,220	12,870	25.9
Other income tax revenue	181	355	96.1	1,500	1,930	28.7
Total income tax	8,808	9,689	10.0	54,039	60,749	12.4
Excise taxes and duties						
Goods and services tax	2,369	2,835	19.7	15,288	16,550	8.3
Customs import duties	277	305	10.1	1,581	1,683	6.5
Sales and excise taxes	824	866	5.1	4,871	4,906	0.7
Air Travellers Security Charge	35	30	-14.3	194	180	-7.2
Total excise taxes and duties	3,505	4,036	15.1	21,934	23,319	6.3
Total tax revenues	12,313	13,725	11.5	75,973	84,068	10.7
Employment insurance premiums	1,163	1,140	-2.0	8,910	9,003	1.0
Other revenues	3,392	804	-76.3	8,135	6,250	-23.2
Total budgetary revenues	16,868	15,669	-7.1	93,018	99,321	6.8

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	September		Change	April to September		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,315	2,415	4.3	13,752	14,393	4.7
Employment insurance benefits	1,011	997	-1.4	6,935	6,804	-1.9
Total	3,326	3,412	2.6	20,687	21,197	2.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		6,325	9,500	
Canada Social Transfer	652	685		3,912	4,113	
Health Reform Transfer	125	0		750	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	11,012	13,613	23.6
Fiscal transfers	927	1,011	9.1	5,645	6,403	13.4
Canada's cities and communities	0	69	n/a	0	181	n/a
Alternative Payments for Standing Programs	-225	-239	6.2	-1,433	-1,436	0.2
Total	2,533	3,109	22.7	15,224	18,761	23.2
Subsidies and other transfers						
Agriculture	88	81	-8.0	232	540	132.8
Foreign Affairs	129	249	93.0	1,023	1,246	21.8
Health	179	229	27.9	874	932	6.6
Human Resources Development	102	137	34.3	499	561	12.4
Indian and Northern Development	302	325	7.6	2,192	2,310	5.4
Industry and Regional Development	122	132	8.2	827	918	11.0
Other	276	-11	-104.0	1,625	1,771	9.0
Total	1,198	1,142	-4.7	7,272	8,278	13.8
Total transfer payments	7,057	7,663	8.6	43,183	48,236	11.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	109	73	-33.0	654	668	2.1
Canada Mortgage and Housing Corporation	170	184	8.2	1,035	1,030	-0.5
Other	116	112	-3.4	994	990	-0.4
Total	395	369	-6.6	2,683	2,688	0.2
Defence	1,090	1,435	31.7	5,955	7,054	18.5
All other departments and agencies	2,472	2,812	13.8	16,113	17,025	5.7
Total other program expenses	3,957	4,616	16.7	24,751	26,767	8.1
Total program expenses	11,014	12,279	11.5	67,934	75,003	10.4
Public debt charges	2,866	2,814	-1.8	17,476	16,917	-3.2
Total budgetary expenses	13,880	15,093	8.7	85,410	91,920	7.6

Note: Totals may not sum due to rounding.

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Table 4

Budgetary balance and financial source/requirement

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,988	576	7,608	7,401
Non-budgetary transactions				
Capital investing activities	-180	-613	-471	-730
Other investing activities	-295	-925	-847	-2,080
Pension and other accounts	-239	807	-355	-881
Other activities				
Accounts payable, receivables, accruals and allowances	841	2,065	-7,945	-9,977
Foreign exchange activities	-161	344	-309	1,884
Amortization of tangible capital assets	189	282	1,346	1,547
Total other activities	869	2,691	-6,908	-6,546
Total non-budgetary transactions	155	1,960	-8,581	-10,237
Net financial source/requirement	3,143	2,536	-973	-2,836

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	September		April to September	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	3,143	2,536	-973	-2,836
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	-4,813	-4,461	-9,478	-3,078
Treasury bills	-1,500	-2,600	400	-4,400
Canada Savings Bonds	-30	-36	-268	-429
Other	-1	-26	-25	-168
Total	-6,344	-7,123	-9,371	-8,075
Foreign currency borrowings	-83	8	-1,167	-3,583
Total	-6,427	-7,115	-10,538	-11,658
Obligations related to capital leases	-4	-9	-38	76
Net change in financing activities	-6,431	-7,124	-10,576	-11,582
Change in cash balance	-3,288	-4,588	-11,549	-14,418

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	September 30, 2005	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	90,473	75,284	-15,189
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	263,492	-3,078
Treasury bills	127,199	122,799	-4,400
Canada Savings Bonds	19,080	18,651	-429
Other	3,393	3,225	-168
Subtotal	416,242	408,167	-8,075
Payable in foreign currencies	16,286	12,703	-3,583
Obligations related to capital leases	2,932	3,008	76
Total unmatured debt	435,460	423,878	-11,582
Pension and other accounts			
Public sector pensions	129,579	130,721	1,142
Other employee and veteran future benefits	41,549	42,329	780
Other pension and other accounts	8,680	5,877	-2,803
Total pension and other accounts	179,808	178,927	-881
Total interest-bearing debt	615,268	602,805	-12,463
Total liabilities	705,741	678,089	-27,652
Financial assets			
Cash and accounts receivable	76,281	56,651	-19,630
Foreign exchange accounts	40,871	38,987	-1,884
Loans, investments and advances (net of allowances)	33,860	35,940	2,080
Total financial assets	151,012	131,578	-19,434
Net debt	554,729	546,511	-8,218
Non-financial assets	54,866	54,049	-817
Federal debt (accumulated deficit)	499,863	492,462	-7,401

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