

The Fiscal Monitor

A Publication of the Department of Finance Canada

Highlights

January 2006: budgetary surplus of \$1.7 billion

There was a budgetary surplus of \$1.7 billion in January 2006, down \$0.7 billion from January 2005. Total budgetary revenues rose \$1.3 billion, reflecting solid growth in all major tax streams. Program expenses were up \$2.2 billion, reflecting the impact of \$0.8 billion in assistance for grain and oilseed producers and \$0.6 billion related to the Energy Cost Benefit. Public debt charges were \$0.2 billion lower.

April 2005 to January 2006: budgetary surplus of \$9.0 billion

For the first 10 months of the 2005–06 fiscal year (April to January), the budgetary surplus is estimated at \$9.0 billion, down \$3.9 billion from the \$12.9-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$6.5 billion or 4.1 per cent. This gain is net of the \$4.0-billion cost of the personal income tax reduction measures announced in the November 2005 *Economic and Fiscal Update* pertaining to the 2005 tax year. Program expenses were up \$11.1 billion or 9.5 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 \$0.7 billion lower.

January 2006

There was a budgetary surplus of \$1.7 billion in January 2006, down \$0.7 billion from January 2005.

Budgetary revenues rose \$1.3 billion or 6.9 per cent to \$20.2 billion.

- Personal income tax receipts were up \$1.0 billion or 11.5 per cent, primarily due to stronger source deductions from employment income.
- Corporate income tax revenues rose \$0.2 billion or 10.2 per cent, reflecting ongoing profitability in the corporate sector.
- Other income tax receipts—withholdings from non-residents—rose 14.7 per cent.
- Excise taxes and duties rose \$0.2 billion or 5.3 per cent, largely due to a \$0.2-billion or 7.1-per-cent increase in goods and services tax (GST) revenues. Customs import duties were up \$52 million, while sales and excise taxes were down \$49 million. Revenues from the Air Travellers Security Charge were down \$6 million.
- Employment insurance (EI) premiums declined by 11.3 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.



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- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were down 3.0 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in January 2006 were \$15.8 billion, up \$2.2 billion or 15.8 per cent from January 2005.

Transfer payments were up \$1.5 billion or 18.1 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$84 million or 2.1 per cent. Elderly benefits increased 5.5 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 2.8 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 \$0.5 billion or 20.6 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 increased by \$0.9 billion or 46.7 per cent, largely reflecting transfers under the Grains and Oilseeds Payment Program (Agriculture and Agri-Food Canada) and the Energy Cost Benefit (Canada Revenue Agency and Human Resources and Social Development).

Other program expenses consist of transfers to Crown corporations, operating expenses for departments and agencies including National Defence, and the ongoing assessment of the Government's liabilities. These expenses increased by \$0.6 billion or 12.0 per cent.

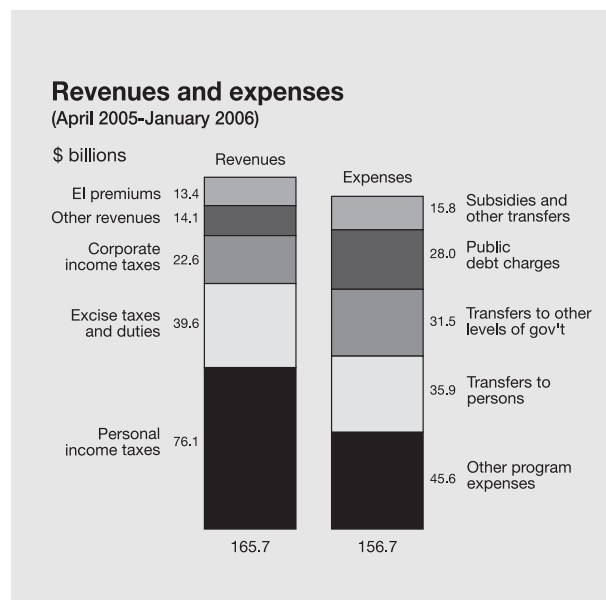
Public debt charges decreased by \$0.2 billion or 6.3 per cent due to a decrease in the average effective interest rate on the debt.

April 2005 to January 2006

In the first 10 months of the 2005–06 fiscal year, there was a budgetary surplus of \$9.0 billion, \$3.9 billion below the \$12.9-billion surplus reported in the same period of 2004–05.

Budgetary revenues were up \$6.5 billion or 4.1 per cent to \$165.7 billion.

- Personal income tax revenues rose \$3.0 billion or 4.1 per cent. This gain is net of the \$4.0-billion cost of the personal income tax reduction measures announced in the November 2005 *Economic and Fiscal Update* pertaining to the 2005 tax year.
- Corporate income tax revenues were up \$2.7 billion or 13.7 per cent, reflecting gains in corporate profitability in 2005.



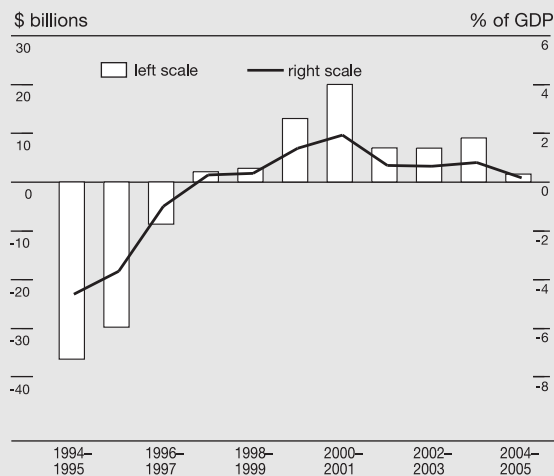
- Other income tax revenues increased by \$1.0 billion or 34.9 per cent, reflecting increased dividend payments to non-residents.
- Excise taxes and duties rose \$1.9 billion or 5.1 per cent. GST revenues increased \$1.8 billion or 6.8 per cent, broadly consistent with the growth rate of retail sales of 6.6 per cent over the same period. Customs import duties were up 12.9 per cent. Sales and excise taxes were down 2.1 per cent, while the Air Travellers Security Charge was down 14.2 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were down 1.6 per cent, as the impact of the reduction in the premium rate in January 2005 more than offset the impact of higher employment and wages and salaries.
- Other revenues were down \$1.9 billion or 16.0 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 2005 to January 2006 period were \$128.7 billion, up \$11.1 billion or 9.5 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 \$0.7 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$8.7 billion or 11.7 per cent.

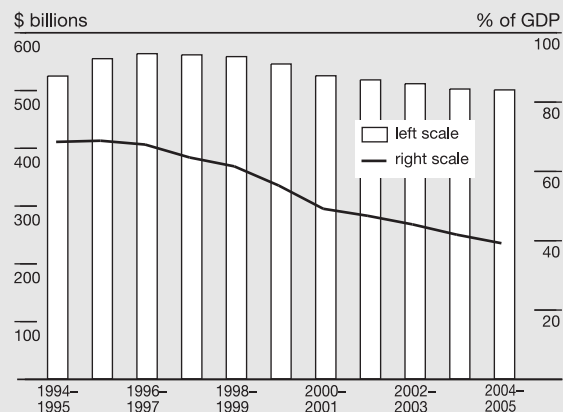
- Transfers to persons advanced by 2.1 per cent. Elderly benefits were up 4.3 per cent while EI benefits were down 2.2 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$6.0 billion or 23.5 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization and TFF.

Budgetary balance



Sources: Department of Finance Canada and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance Canada and Statistics Canada.

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- Subsidies and other transfers increased by 14.7 per cent, reflecting the impact of measures from recent budgets as well as transfers under the Grains and Oilseeds Payment Program and the Energy Cost Benefit.

Other program expenses increased by 5.6 per cent.

Public debt charges were down 2.5 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 \$3.8 billion for April 2005 to January 2006

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 \$5.2 billion in the April-to-January period, up \$0.2 billion from the requirement in the same period of 2004–05.

With a budgetary surplus of \$9.0 billion and a net requirement of \$5.2 billion from non-budgetary transactions, there was a financial source of \$3.8 billion in the first 10 months of 2005–06 compared to a financial source of \$7.9 billion in the same period of 2004–05.

Net financing activities down \$18.2 billion

The Government used this financial source of \$3.8 billion and a reduction in its cash balances of \$14.4 billion to reduce its market debt by \$18.2 billion by the end of January 2006, largely through a reduction of marketable bonds and treasury bills. 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 January stood at \$2.7 billion.

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Table 1

Summary statement of transactions

	January		April to January	
	2005	2006	2004–05	2005–06
	(\$ millions)			
Budgetary transactions				
Revenues	18,856	20,150	159,202	165,713
Expenses				
Program expenses	-13,638	-15,793	-117,587	-128,729
Public debt charges	-2,857	-2,676	-28,714	-27,986
Budgetary balance (deficit/surplus)	2,361	1,681	12,901	8,998
Non-budgetary transactions	-880	2,023	-5,014	-5,226
Financial source/requirement	1,481	3,704	7,887	3,772
Net change in financing activities	-2,027	-5,434	-21,657	-18,163
Net change in cash balances	-546	-1,730	-13,770	-14,391
Cash balance at end of period			3,480	2,730

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

Table 2

Budgetary revenues

	January			April to January		
	2005	2006	Change	2004–05	2005–06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	8,677	9,673	11.5	73,101	76,108	4.1
Corporate income tax	2,358	2,599	10.2	19,854	22,573	13.7
Other income tax revenue	607	696	14.7	2,899	3,910	34.9
Total income tax	11,642	12,968	11.4	95,854	102,591	7.0
Excise taxes and duties						
Goods and services tax	3,125	3,346	7.1	26,679	28,502	6.8
Customs import duties	192	244	27.1	2,511	2,836	12.9
Sales and excise taxes	759	710	-6.5	8,154	7,983	-2.1
Air Travellers Security Charge	28	22	-21.4	325	279	-14.2
Total excise taxes and duties	4,104	4,322	5.3	37,669	39,600	5.1
Total tax revenues	15,746	17,290	9.8	133,523	142,191	6.5
Employment insurance premiums	1,891	1,677	-11.3	13,604	13,381	-1.6
Other revenues	1,219	1,183	-3.0	12,075	10,141	-16.0
Total budgetary revenues	18,856	20,150	6.9	159,202	165,713	4.1

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	January		Change	April to January		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,362	2,491	5.5	23,194	24,184	4.3
Employment insurance benefits	1,615	1,570	-2.8	11,982	11,714	-2.2
Total	3,977	4,061	2.1	35,176	35,898	2.1
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583	50.2	10,542	15,833	50.2
Canada Social Transfer	652	685	5.1	6,521	6,854	5.1
Health Reform Transfer	125	0	n/a	1,250	0	n/a
Total	1,831	2,268	23.9	18,313	22,687	23.9
Fiscal transfers	933	1,059	13.5	9,387	10,597	12.9
Canada's cities and communities	0	14	n/a	0	670	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-2,203	-2,461	11.7
Total	2,554	3,080	20.6	25,497	31,493	23.5
Subsidies and other transfers						
Agriculture	146	777	432.2	826	1,693	105.0
Foreign Affairs	310	333	7.4	2,010	1,933	-3.8
Health	234	207	-11.5	1,494	1,547	3.5
Human Resources Development	264	232	-12.1	1,050	1,144	9.0
Indian and Northern Development	347	368	6.1	3,618	3,986	10.2
Industry and Regional Development	100	159	59.0	1,491	1,610	8.0
Other	593	850	43.4	3,269	3,871	18.4
Total	1,994	2,926	46.7	13,758	15,784	14.7
Total transfer payments	8,525	10,067	18.1	74,431	83,175	11.7
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	108	50	-53.7	972	1,028	5.8
Canada Mortgage and Housing Corporation	170	171	0.6	1,685	1,707	1.3
Other	200	161	-19.5	1,731	1,511	-12.7
Total	478	382	-20.1	4,388	4,246	-3.2
Defence	1,156	1,221	5.6	10,905	11,987	9.9
All other departments and agencies	3,479	4,123	18.5	27,863	29,321	5.2
Total other program expenses	5,113	5,726	12.0	43,156	45,554	5.6
Total program expenses	13,638	15,793	15.8	117,587	128,729	9.5
Public debt charges	2,857	2,676	-6.3	28,714	27,986	-2.5
Total budgetary expenses	16,495	18,469	12.0	146,301	156,715	7.1

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	January		April to January	
	2005	2006	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,361	1,681	12,901	8,998
Non-budgetary transactions				
Capital investing activities	-86	-300	-1,088	-1,815
Other investing activities	-531	316	-1,914	-2,460
Pension and other accounts	-565	206	-1,974	-103
Other activities				
Accounts payable, receivables, accruals and allowances	928	1,277	-5,699	-5,994
Foreign exchange activities	-868	284	3,091	2,597
Amortization of tangible capital assets	242	240	2,570	2,549
Total other activities	302	1,801	-38	-848
Total non-budgetary transactions	-880	2,023	-5,014	-5,226
Net financial source/requirement	1,481	3,704	7,887	3,772

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2005	2006	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	1,481	3,704	7,887	3,772
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	387	221	-15,523	-7,771
Treasury bills	-2,450	-5,100	1,200	-5,200
Canada Savings Bonds	-96	-103	-1,964	-1,471
Other	0	-19	-28	-223
Total	-2,159	-5,001	-16,315	-14,665
Foreign currency borrowings	69	-428	-5,473	-3,559
Total	-2,090	-5,429	-21,788	-18,224
Obligations related to capital leases	63	-5	131	61
Net change in financing activities	-2,027	-5,434	-21,657	-18,163
Change in cash balance	-546	-1,730	-13,770	-14,391

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	January 31, 2006	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	84,573	-5,900
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	258,799	-7,771
Treasury bills	127,199	121,999	-5,200
Canada Savings Bonds	19,080	17,609	-1,471
Other	3,393	3,170	-223
Subtotal	416,242	401,577	-14,665
Payable in foreign currencies	16,286	12,727	-3,559
Obligations related to capital leases	2,932	2,993	61
Total unmatured debt	435,460	417,297	-18,163
Pension and other accounts			
Public sector pensions	129,579	131,281	1,702
Other employee and veteran future benefits	41,549	42,848	1,299
Other pension and other accounts	8,680	5,576	-3,104
Total pension and other accounts	179,808	179,705	-103
Total interest-bearing debt	615,268	597,002	-18,266
Total liabilities	705,741	681,575	-24,166
Financial assets			
Cash and accounts receivable	76,281	61,984	-14,297
Foreign exchange accounts	40,871	38,274	-2,597
Loans, investments and advances (net of allowances)	33,860	36,320	2,460
Total financial assets	151,012	136,578	-14,434
Net debt	554,729	544,997	-9,732
Non-financial assets	54,866	54,132	-734
Federal debt (accumulated deficit)	499,863	490,865	-8,998

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