

The Fiscal Monitor

A Publication of the Department of Finance Canada

Highlights

February 2006: budgetary surplus of \$4.1 billion

There was a budgetary surplus of \$4.1 billion in February 2006, down \$1.7 billion from February 2005. Total budgetary revenues were \$0.1 billion lower, primarily due to a \$0.6-billion decline in corporate income tax revenues. This decline is primarily due to an increase in refunds to the non-energy manufacturing sector. Program expenses were up \$1.6 billion, 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 were flat compared to the same month last year.

April 2005 to February 2006: budgetary surplus of \$13.1 billion

For the first 11 months of the 2005–06 fiscal year (April to February), the budgetary surplus is estimated at \$13.1 billion, down \$5.6 billion from the \$18.7-billion surplus reported in the same period of 2004–05. Budgetary revenues were up \$6.4 billion or 3.6 per cent. This gain is net of the \$4.7-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first two months of this year. Program expenses were up \$12.7 billion or 9.9 per cent, primarily due to higher transfers to the provinces and territories for health care and equalization/TFF. Public debt charges were \$0.7 billion lower. A full update of the fiscal projections for the year as a whole, including the year-end accrual adjustments, will be provided in the budget.

February 2006

There was a budgetary surplus of \$4.1 billion in February 2006, down \$1.7 billion from February 2005.

Budgetary revenues declined by \$0.1 billion, or 0.5 per cent, to \$19.7 billion.

- Personal income tax receipts were up \$0.3 billion or 4.7 per cent.
- Corporate income tax revenues were down \$0.6 billion or 9.6 per cent, largely due to an increase in refunds to the non-energy manufacturing sector, reflecting weak profitability in that sector in 2005. In addition, corporate year-end settlement

payments were weaker than in February last year, due in part to lower settlement payments from the non-energy manufacturing sector.

- Other income tax receipts—withholdings from non-residents—rose \$59 million or 16.8 per cent in February.
- Excise taxes and duties rose \$0.2 billion or 5.0 per cent due to a \$0.3-billion increase in goods and services tax (GST) revenues. Customs import duties were down \$38 million, while sales and excise taxes were down \$78 million. Revenues from the Air Travellers Security Charge were up \$5 million.



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- Employment insurance (EI) premiums declined by 4.8 per cent, reflecting the decline in the premium rate from \$1.95 to \$1.87 per \$100 of insurable earnings, effective January 1, 2006.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services, return on investments, foreign exchange revenues and miscellaneous revenues, were down 3.7 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in February 2006 were \$12.9 billion, up \$1.6 billion or 13.9 per cent from February 2005, primarily due to higher transfer payments.

Transfer payments were up \$1.3 billion or 16.0 per cent.

- Transfers to persons, consisting of elderly and EI benefits, were up \$61 million or 1.6 per cent. Elderly benefits increased 5.4 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 4.8 per cent, reflecting a decline in regular benefits.
- 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 \$0.8 billion or 35.3 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 \$0.4 billion or 21.9 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence, and also reflect the ongoing assessment of the Government's liabilities. These expenses increased \$0.3 billion or 9.4 per cent.

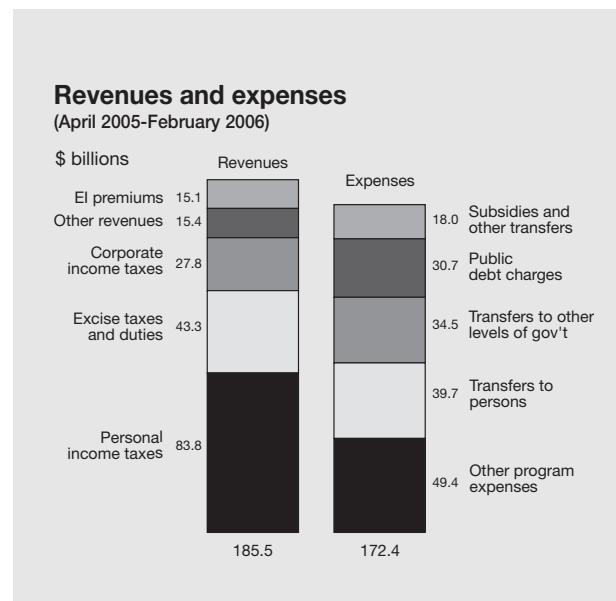
Public debt charges increased marginally, by \$9 million.

April 2005 to February 2006

In the first 11 months of the 2005–06 fiscal year, there was a budgetary surplus of \$13.1 billion, \$5.6 billion below the \$18.7-billion surplus reported in the same period of 2004–05.

Budgetary revenues increased \$6.4 billion or 3.6 per cent to \$185.5 billion.

- Personal income tax revenues rose \$3.4 billion or 4.2 per cent. This gain is net of the \$4.7-billion cost of the personal income tax reduction measures pertaining to the 2005 tax year and the first two months of this year.
- Corporate income tax revenues were up \$2.2 billion or 8.4 per cent, reflecting gains in corporate profitability in 2005.



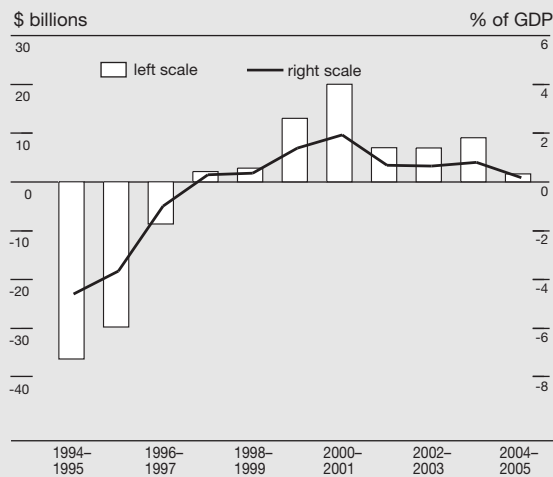
- Other income tax revenues increased \$1.1 billion or 32.9 per cent, reflecting increased dividend payments to non-residents.
- Excise taxes and duties rose \$2.1 billion or 5.1 per cent. GST revenues increased \$2.1 billion or 7.2 per cent, broadly consistent with the growth rate of retail sales of 6.9 per cent over the same period. Customs import duties were up 10.3 per cent. Sales and excise taxes were down 2.8 per cent, while the Air Travellers Security Charge was down 11.2 per cent, reflecting reductions in the charge, effective April 1, 2005.
- EI premiums were down 2.0 per cent, as the impact of the reduction in the premium rate in January 2005 and January 2006 more than offset the impact of higher employment and wages and salaries.
- Other revenues were down \$2.0 billion or 15.1 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 February 2006 period were \$141.7 billion, up \$12.7 billion or 9.9 per cent from the same period of 2004–05, primarily due to higher transfers to the 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 \$10.0 billion or 12.2 per cent.

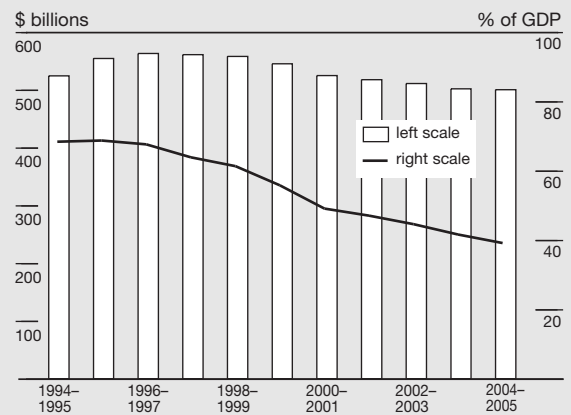
- Transfers to persons advanced by 2.0 per cent. Elderly benefits were up 4.4 per cent while EI benefits were down 2.5 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2004–05.
- Transfers to other levels of government were up \$6.8 billion or 24.5 per cent, reflecting the impact of the 2004 agreements 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 15.6 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 5.8 per cent.

Public debt charges were down 2.3 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 source of \$5.4 billion for April 2005 to February 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 \$7.6 billion in the April-to-February period, down \$2.6 billion from the requirement in the same period of 2004–05.

With a budgetary surplus of \$13.1 billion and a net requirement of \$7.6 billion from non-budgetary transactions, there was a financial source of \$5.4 billion in the first 11 months of 2005–06 compared to a financial source of \$8.5 billion in the same period of 2004–05.

Net financing activities down \$18.5 billion

The Government used this financial source of \$5.4 billion and a reduction in its cash balances of \$13.1 billion to reduce its market debt by \$18.5 billion by the end of February 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 February stood at \$4.0 billion.

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Table 1

Summary statement of transactions

	February		April to February	
	2005	2006	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	19,840	19,743	179,044	185,456
Expenses				
Program expenses	-11,348	-12,928	-128,936	-141,658
Public debt charges	-2,722	-2,731	-31,436	-30,717
Budgetary balance (deficit/surplus)	5,770	4,084	18,672	13,081
Non-budgetary transactions	-5,198	-2,416	-10,212	-7,638
Financial source/requirement	572	1,668	8,460	5,443
Net change in financing activities	3,221	-348	-18,437	-18,513
Net change in cash balances	3,793	1,320	-9,977	-13,070
Cash balance at end of period			7,273	4,048

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

Table 2

Budgetary revenues

	February			April to February		
	2005	2006	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,372	7,717	4.7	80,474	83,825	4.2
Corporate income tax	5,780	5,225	-9.6	25,635	27,799	8.4
Other income tax revenue	352	411	16.8	3,251	4,321	32.9
Total income tax	13,504	13,353	-1.1	109,360	115,945	6.0
Excise taxes and duties						
Goods and services tax	2,542	2,830	11.3	29,221	31,333	7.2
Customs import duties	275	237	-13.8	2,785	3,073	10.3
Sales and excise taxes	723	645	-10.8	8,878	8,626	-2.8
Air Travellers Security Charge	31	36	16.1	356	316	-11.2
Total excise taxes and duties	3,571	3,748	5.0	41,240	43,348	5.1
Total tax revenues	17,075	17,101	0.2	150,600	159,293	5.8
Employment insurance premiums	1,797	1,710	-4.8	15,401	15,091	-2.0
Other revenues	968	932	-3.7	13,043	11,072	-15.1
Total budgetary revenues	19,840	19,743	-0.5	179,044	185,456	3.6

Note: Totals may not sum due to rounding.

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Table 3

Budgetary expenses

	February		Change	April to February		Change
	2005	2006		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,367	2,496	5.4	25,561	26,680	4.4
Employment insurance benefits	1,423	1,355	-4.8	13,405	13,069	-2.5
Total	3,790	3,851	1.6	38,966	39,749	2.0
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583	50.2	11,596	17,417	50.2
Canada Social Transfer	652	685	5.1	7,173	7,540	5.1
Health Reform Transfer	125	0	n/a	1,375	0	n/a
Total	1,831	2,268	23.9	20,144	24,957	23.9
Fiscal transfers	634	1,045	64.8	10,020	11,641	16.2
Canada's cities and communities	0	0	n/a	0	670	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-2,413	-2,722	12.8
Total	2,255	3,052	35.3	27,751	34,546	24.5
Subsidies and other transfers						
Agriculture	780	720	-7.7	1,606	2,414	50.3
Foreign Affairs	200	238	19.0	2,210	2,171	-1.8
Health	124	86	-30.6	1,618	1,633	0.9
Human Resources Development	104	124	19.2	1,154	1,268	9.9
Indian and Northern Development	285	278	-2.5	3,903	4,263	9.2
Industry and Regional Development	-16	168	n/a	1,475	1,778	20.5
Other	313	568	81.5	3,582	4,439	23.9
Total	1,790	2,182	21.9	15,548	17,966	15.6
Total transfer payments	7,835	9,085	16.0	82,265	92,261	12.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	65	69	6.2	1,037	1,098	5.9
Canada Mortgage and Housing Corporation	170	150	-11.8	1,855	1,857	0.1
Other	107	188	75.7	1,838	1,698	-7.6
Total	342	407	19.0	4,730	4,653	-1.6
Defence	1,024	1,183	15.5	11,929	13,170	10.4
All other departments and agencies	2,147	2,253	4.9	30,012	31,574	5.2
Total other program expenses	3,513	3,843	9.4	46,671	49,397	5.8
Total program expenses	11,348	12,928	13.9	128,936	141,658	9.9
Public debt charges	2,722	2,731	0.3	31,436	30,717	-2.3
Total budgetary expenses	14,070	15,659	11.3	160,372	172,375	7.5

Note: Totals may not sum due to rounding.

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Table 4

Budgetary balance and financial source/requirement

	February		April to February	
	2005	2006	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	5,770	4,084	18,672	13,081
Non-budgetary transactions				
Capital investing activities	-313	-294	-1,402	-2,108
Other investing activities	-101	-670	-2,015	-3,129
Pension and other accounts	-934	-262	-2,907	-363
Other activities				
Accounts payable, receivables, accruals and allowances	-2,930	-1,404	-8,629	-7,397
Foreign exchange activities	-1,166	15	1,925	2,611
Amortization of tangible capital assets	246	199	2,816	2,748
Total other activities	-3,850	-1,190	-3,888	-2,038
Total non-budgetary transactions	-5,198	-2,416	-10,212	-7,638
Net financial source/requirement	572	1,668	8,460	5,443

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	February		April to February	
	2005	2006	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	572	1,668	8,460	5,443
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,887	2,245	-13,636	-5,526
Treasury bills	1,100	-2,100	2,300	-7,300
Canada Savings Bonds	-196	-137	-2,161	-1,609
Other	-1	0	-29	-223
Total	2,790	8	-13,526	-14,658
Foreign currency borrowings	397	-361	-5,076	-3,920
Total	3,187	-353	-18,602	-18,578
Obligations related to capital leases	34	5	165	65
Net change in financing activities	3,221	-348	-18,437	-18,513
Change in cash balance	3,793	1,320	-9,977	-13,070

Note: Totals may not sum due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2005	February 28, 2006	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	89,251	-1,222
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	261,044	-5,526
Treasury bills	127,199	119,899	-7,300
Canada Savings Bonds	19,080	17,471	-1,609
Other	3,393	3,170	-223
Subtotal	416,242	401,584	-14,658
Payable in foreign currencies	16,286	12,366	-3,920
Obligations related to capital leases	2,932	2,997	65
Total unmatured debt	435,460	416,947	-18,513
Pension and other accounts			
Public sector pensions	129,579	131,407	1,828
Other employee and veteran future benefits	41,549	42,982	1,433
Other pension and other accounts	8,680	5,056	-3,624
Total pension and other accounts	179,808	179,445	-363
Total interest-bearing debt	615,268	596,392	-18,876
Total liabilities	705,741	685,643	-20,098
Financial assets			
Cash and accounts receivable	76,281	69,386	-6,895
Foreign exchange accounts	40,871	38,260	-2,611
Loans, investments and advances (net of allowances)	33,860	36,989	3,129
Total financial assets	151,012	144,635	-6,377
Net debt	554,729	541,008	-13,721
Non-financial assets	54,866	54,226	-640
Federal debt (accumulated deficit)	499,863	486,782	-13,081

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