

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2005: budgetary surplus of \$2.3 billion

There was a budgetary surplus of \$2.3 billion in July 2005, \$0.9 billion higher than the surplus of \$1.4 billion reported in July 2004. This year-over-year improvement in the budgetary surplus is attributable to higher revenues, up \$1.7 billion, or 10.4 per cent, compared to the same period last year. Program expenses rose \$1.0 billion, or 9.0 per cent, primarily reflecting higher transfer payments, in particular 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 declined by \$0.2 billion.

April to July 2005: budgetary surplus of \$7.1 billion

For the first four months of the 2005–06 fiscal year (April to July), the budgetary surplus is estimated at \$7.1 billion, up \$2.8 billion from the \$4.3-billion surplus reported in the same period last year.

Budgetary revenues were up \$7.1 billion, or 11.5 per cent, reflecting strong year-over-year gains in personal and corporate income tax receipts. Strong year-to-date growth in personal income tax receipts is due to higher source deductions from employment income, which are currently growing at about twice the rate of the estimated growth in wages and salaries. 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 \$4.6 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 \$0.4 billion lower.

The monthly financial results for the first part of the year are variable. Caution should be exercised in using these results to project the outcome for the year as a whole. A complete update of the fiscal outlook for 2005–06 and future years will be provided later this fall.

July 2005

There was a budgetary surplus of \$2.3 billion in July 2005, up \$0.9 billion from the \$1.4-billion surplus reported during the same month last year.

Budgetary revenues totalled \$17.7 billion, an increase of \$1.7 billion, or 10.4 per cent, from July 2004. Gains primarily reflect higher income tax receipts.

- Personal income tax revenues were up \$1.1 billion, or 14.5 per cent, due to strong

growth in source deductions from employment income.

- Corporate income tax revenues increased by \$0.1 billion, or 5.2 per cent, reflecting ongoing gains in profits.
- Excise taxes and duties declined \$225 million, or 5.6 per cent. Goods and services tax (GST) revenues declined 0.3 per cent as a result of higher refunds. Customs import duties were down \$68 million, while sales and excise taxes were \$144 million lower.



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Revenues from the Air Travellers Security Charge were \$4 million lower, reflecting the reductions in the charge, as announced in the 2005 budget.

- Employment insurance (EI) premiums were down slightly, falling 0.4 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up \$553 million, or 59.7 per cent. Other revenues are volatile on a monthly basis.

On a year-over-year basis, program expenses in July 2005 were \$12.6 billion, up \$1.0 billion or 9.0 per cent from July 2004, due mainly to higher transfer payments.

Transfer payments were \$0.6 billion or 8.1 per cent higher.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$224 million, or 6.9 per cent, on a year-over-year basis. Elderly benefits increased 4.3 per cent due to both higher average benefits and an increase in the number of individuals eligible for benefits. EI benefit payments increased by 12.8 per cent, primarily due to an increase in special benefits, such as sickness and paternal benefits, reflecting differences in the timing of payments between July 2005 and July 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 \$0.3 billion, or 12.2 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.

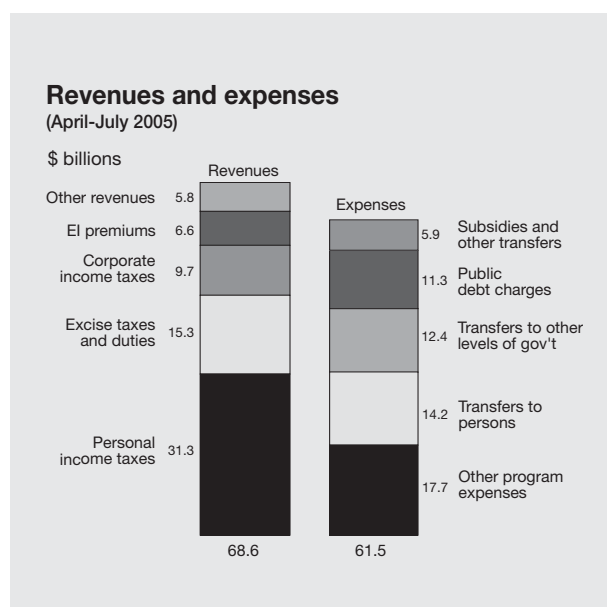
- Subsidies and other transfers increased by 2.8 per cent.

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 \$0.5 billion, or 10.2 per cent, reflecting increased operating costs and the impact of previous budget measures. This component is quite volatile on a monthly basis, reflecting the timing of payments and the coming into force of budget measures.

Public debt charges decreased by \$0.2 billion, or 7.6 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 July 2005

In the first four months of the 2005–06 fiscal year, there was a budgetary surplus of \$7.1 billion, up \$2.8 billion from the surplus of \$4.3 billion reported in the same period of 2004–05.

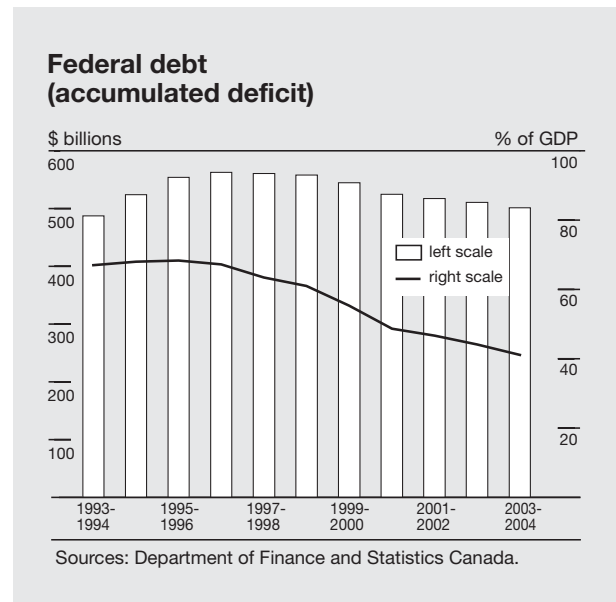
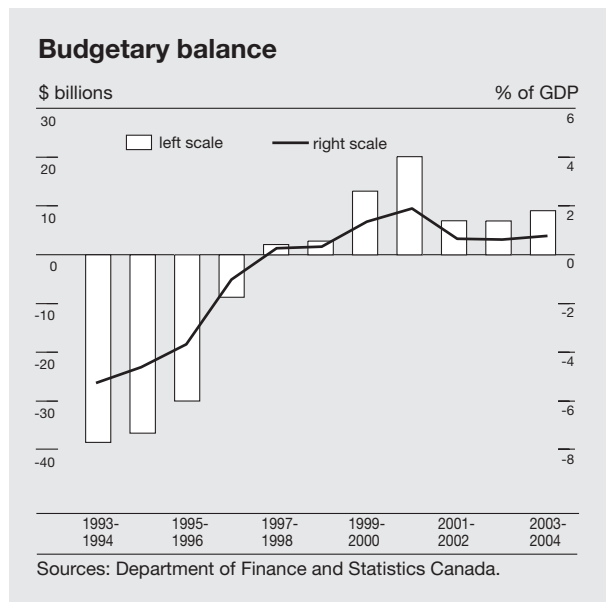


Budgetary revenues, at \$68.6 billion, were up \$7.1 billion, or 11.5 per cent.

- Personal income tax revenues increased by \$3.0 billion, or 10.6 per cent, much 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 \$2.1 billion, or 27.3 per cent, over the 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 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 July 2004 reflecting 2003 liabilities, the growth in corporate receipts so far this year 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 6.3 per cent. GST revenues increased by \$0.9 billion, or 9.0 per cent, well above the growth of the applicable tax base, due to higher gross receipts from domestic sales and on imports and a somewhat slower pace of refunds. Sales and excise taxes were down 0.9 per cent, while the Air Travellers Security Charge was down 8.4 per cent.
- EI premiums were up 2.0 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 up 19.4 per cent.



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On a year-over-year basis, program expenses in the April to July 2005 period, at \$50.2 billion, were up \$4.6 billion, or 10.2 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 \$0.4 billion.

Transfer payments, which accounted for nearly two-thirds of total program expenses, increased by \$3.5 billion, or 12.2 per cent.

- Transfers to persons advanced by 3.5 per cent. Elderly benefits were up 4.9 per cent, while EI benefits were up 0.7 per cent. Within EI benefits, regular benefit payments were lower, reflecting the improved labour market situation, while special benefits were higher.
- Transfers to other levels of government were up \$2.2 billion, or 22.1 per cent, reflecting the impact of the 2004 agreement on health care and the new framework for equalization/TFF.
- Subsidies and other transfers increased by 15.6 per cent, reflecting the impact of previous budget measures.

Other program expenses increased by 6.8 per cent due to increases in departmental operating costs. Crown corporation expenses were virtually unchanged.

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 July 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 \$12.5 billion in the April-to-July period, up \$2.4 billion from the requirement in the same period of 2004–05. This increase reflects the \$2.8-billion transfer to the provinces of Nova Scotia and Newfoundland and Labrador under the offshore revenue agreements.

With a budgetary surplus of \$7.1 billion and a net requirement of \$12.5 billion from non-budgetary transactions, there was a financial requirement of \$5.4 billion in the first four months of 2005–06, down \$0.4 billion from the same period last year.

Net financing activities down \$8.4 billion

The Government's market debt was down \$8.4 billion by the end of July 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 \$13.8 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 July stood at \$3.4 billion.

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Table 1
Summary statement of transactions

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,051	17,715	61,552	68,602
Expenses				
Program expenses	-11,598	-12,638	-45,532	-50,176
Public debt charges	-3,031	-2,801	-11,696	-11,319
Budgetary balance (deficit/surplus)	1,422	2,276	4,324	7,107
Non-budgetary transactions	-68	-2,272	-10,153	-12,508
Financial source/requirement	1,354	4	-5,829	-5,401
Net change in financing activities	807	-84	-6,995	-8,361
Net change in cash balances	2,161	-80	-12,824	-13,762
Cash balance at end of period			4,425	3,361

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

Table 2
Budgetary revenues

	July			April to July		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,453	8,536	14.5	28,265	31,253	10.6
Corporate income tax	1,899	1,997	5.2	7,600	9,677	27.3
Other income tax revenue	266	427	60.5	1,101	1,315	19.4
Total income tax	9,618	10,960	14.0	36,966	42,245	14.3
Excise taxes and duties						
Goods and services tax	2,728	2,719	-0.3	10,013	10,914	9.0
Customs import duties	317	249	-21.5	995	1,046	5.1
Sales and excise taxes	960	816	-15.0	3,250	3,221	-0.9
Air Travellers Security Charge	35	31	-11.4	131	120	-8.4
Total excise taxes and duties	4,040	3,815	-5.6	14,389	15,301	6.3
Total tax revenues	13,658	14,775	8.2	51,355	57,546	12.1
Employment insurance premiums	1,466	1,460	-0.4	6,438	6,566	2.0
Other revenues	927	1,480	59.7	3,759	4,490	19.4
Total budgetary revenues	16,051	17,715	10.4	61,552	68,602	11.5

Note: Totals may not sum due to rounding.

Table 3

Budgetary expenses

	July		Change	April to July		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,273	2,371	4.3	9,127	9,574	4.9
Employment insurance benefits	981	1,107	12.8	4,597	4,628	0.7
Total	3,254	3,478	6.9	13,724	14,202	3.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		4,217	6,333	
Canada Social Transfer	652	685		2,608	2,742	
Health Reform Transfer	125	0		500	0	
Canada Health and Social Transfer	0	0		25	0	
Total	1,831	2,268	23.9	7,350	9,075	23.5
Fiscal transfers	943	831	-11.9	3,790	4,330	14.2
Alternative Payments for Standing Programs	-225	-239	6.2	-984	-1,001	1.7
Total	2,549	2,860	12.2	10,156	12,404	22.1
Subsidies and other transfers						
Agriculture	29	-55	-289.7	153	393	156.9
Foreign Affairs	151	173	14.6	727	680	-6.5
Health	233	211	-9.4	608	621	2.1
Human Resources Development	88	103	17.0	492	393	-20.1
Indian and Northern Development	340	316	-7.1	1,552	1,646	6.1
Industry and Regional Development	131	147	12.2	495	575	16.2
Other	215	325	51.2	1,072	1,587	48.0
Total	1,187	1,220	2.8	5,099	5,895	15.6
Total transfer payments	6,990	7,558	8.1	28,979	32,501	12.2
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	94	100	6.4	460	455	-1.1
Canada Mortgage and Housing Corporation	170	186	9.4	725	704	-2.9
Other	122	211	73.0	701	733	4.6
Total	386	497	28.8	1,886	1,892	0.3
Defence	1,120	1,566	39.8	3,768	4,444	17.9
All other departments and agencies	3,102	3,017	-2.7	10,899	11,339	4.0
Total other program expenses	4,608	5,080	10.2	16,553	17,675	6.8
Total program expenses	11,598	12,638	9.0	45,532	50,176	10.2
Public debt charges	3,031	2,801	-7.6	11,696	11,319	-3.2
Total budgetary expenses	14,629	15,439	5.5	57,228	61,495	7.5

Note: Totals may not sum due to rounding.

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Table 4

Budgetary balance and financial source/requirement

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,422	2,276	4,324	7,107
Non-budgetary transactions				
Capital investing activities	-19	178	-272	19
Other investing activities	-264	-595	-356	-1,331
Pension and other accounts	-636	-305	-307	-1,241
Other activities				
Accounts payable, receivables, accruals and allowances	489	-3,491	-10,503	-13,216
Foreign exchange activities	104	1,679	279	2,268
Amortization of tangible capital assets	258	262	1,006	993
Total other activities	851	-1,550	-9,218	-9,955
Total non-budgetary transactions	-68	-2,272	-10,153	-12,508
Net financial source/requirement	1,354	4	-5,829	-5,401

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	July		April to July	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	1,354	4	-5,829	-5,401
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	278	758	-7,432	-878
Treasury bills	1,000	1,300	1,800	-3,600
Canada Savings Bonds	-61	-88	-183	-308
Other	-5	-2	-19	-141
Total	1,212	1,968	-5,834	-4,927
Foreign currency borrowings	-391	-2,125	-1,133	-3,504
Total	821	-157	-6,967	-8,431
Obligations related to capital leases	-14	73	-28	70
Net change in financing activities	807	-84	-6,995	-8,361
Change in cash balance	2,161	-80	-12,824	-13,762

Note: Totals may not sum due to rounding.

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