

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2005: budgetary deficit of \$3.1 billion

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a surplus of \$1.7 billion reported in November 2004. *This deficit entirely reflects an adjustment of \$3.7 billion pertaining to the first 11 months of 2005 that was made to the November results, related to the increase in the basic personal amount and the reduction in the 16-per-cent tax rate to 15 per cent that were announced in the November 2005 Economic and Fiscal Update.* Absent these tax measures, there was an underlying surplus of \$0.5 billion in November 2005, down \$1.2 billion from the \$1.7-billion surplus reported in November 2004.

April to November 2005: budgetary surplus of \$6.3 billion

For the first eight months of the 2005–06 fiscal year (April to November), the budgetary surplus is estimated at \$6.3 billion, \$4.0 billion lower than the \$10.3-billion surplus reported in the same period of 2004–05. The decline in the surplus through November reflects the impact of the inclusion in the November results of \$3.7 billion in personal income tax measures that relate to the first 11 months of 2005. Budgetary revenues were up \$4.5 billion, or 3.6 per cent. Program expenses were up \$8.9 billion, or 9.8 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 \$0.4 billion lower.

These monthly financial results are only partial-year results. In particular, they do not reflect the remaining cost of the tax cuts announced in the November 2005 Economic and Fiscal Update for 2005–06, amounting to \$1.4 billion. Caution should therefore be exercised in using these results to project the outcome for the full year.

November 2005

There was a budgetary deficit of \$3.1 billion in November 2005, compared to a \$1.7-billion surplus reported in November 2004.

Budgetary revenues fell by \$3.6 billion, or 21.9 per cent, to \$12.7 billion.

- Personal income tax revenues declined \$3.6 billion, reflecting the inclusion in the November results of the majority of the costs of those personal income tax measures announced in the November 2005 *Economic and Fiscal Update* that pertain to the 2005 taxation year.
- Corporate income tax revenues rose \$0.3 billion, or 14.7 per cent, reflecting ongoing profitability in the corporate sector.
- Other income tax receipts—withholdings from non-residents—were up 44.1 per cent in November, reflecting increases in dividends and royalties paid to non-residents, consistent with increases in corporate profitability in 2005. This revenue source can be volatile on a monthly basis.



The Fiscal Monitor

- Excise taxes and duties fell \$0.3 billion, or 7.1 per cent. Goods and services tax (GST) revenues declined 9.8 per cent, reflecting relatively modest growth in gross GST receipts and strong growth in GST refunds. Customs import duties were up \$60 million, while sales and excise taxes were down \$49 million. Revenues from the Air Travellers Security Charge were down \$3 million.
- Employment insurance (EI) premiums declined 3.9 per cent.
- Other revenues, consisting of revenues from Crown corporations, sales of goods and services and foreign exchange revenues, were up 1.5 per cent. Other revenues can be volatile on a monthly basis.

Program expenses in November 2005 were \$12.9 billion, up \$1.2 billion, or 10.0 per cent, from November 2004, primarily due to higher transfer payments.

Transfer payments were up \$0.8 billion, or 10.8 per cent.

- Major transfers to persons, consisting of elderly and EI benefits, were up \$14 million, or 0.4 per cent. Elderly benefits increased 3.4 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 by 5.9 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 21.1 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.

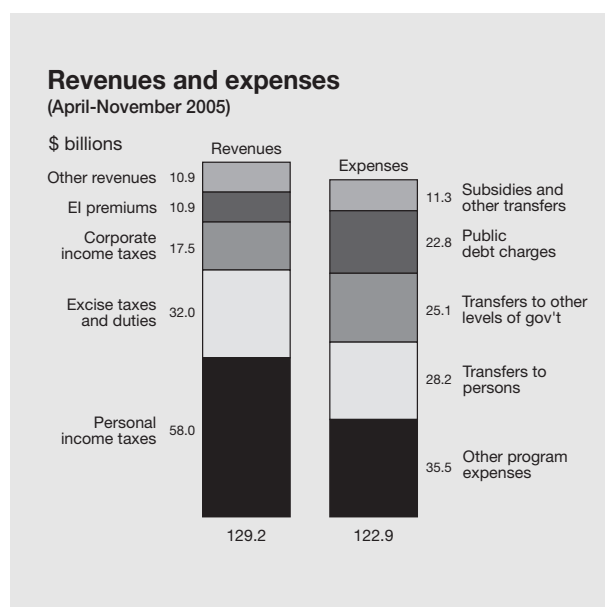
- Subsidies and other transfers increased by \$0.3 billion, or 17.4 per cent. This component is volatile on a monthly basis.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including defence. On a year-over-year basis, these expenses were up \$0.4 billion, or 8.6 per cent, reflecting increased operating costs and the impact of previous budget measures.

Public debt charges increased by \$0.1 billion, or 2.8 per cent, due to an increase in the average effective interest rate on the debt.

April to November 2005

In the first eight months of the 2005–06 fiscal year, there was a budgetary surplus of \$6.3 billion, \$4.0 billion below the \$10.3-billion surplus reported in the same period of 2004–05.



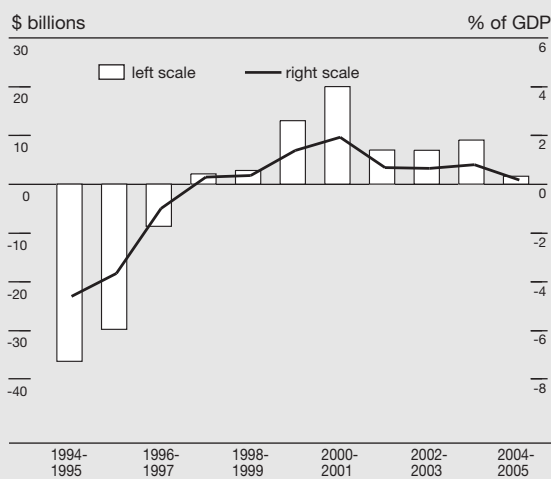
Budgetary revenues were up \$4.5 billion, or 3.6 per cent, to \$129.2 billion.

- Personal income tax revenues rose \$1.4 billion, or 2.4 per cent, reflecting the inclusion in the November results of the above-mentioned tax measures.
- Corporate income tax revenues were up \$2.6 billion, or 17.9 per cent. 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 November 2004 reflecting 2003 liabilities, the year-to-date

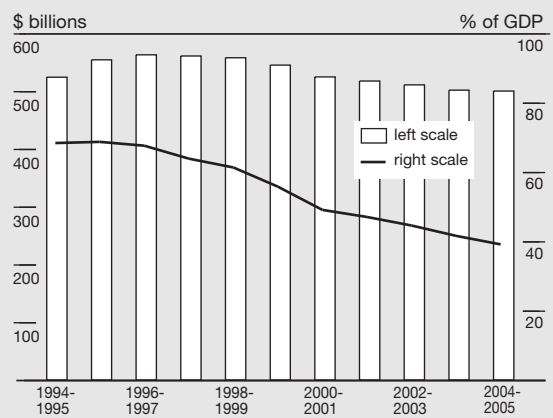
growth in corporate receipts overstates the underlying growth in corporate income tax revenues. This year-to-date growth will moderate when the settlement payments are received in the last four months of 2005–06.

- Excise taxes and duties increased by \$1.8 billion, or 5.9 per cent. GST revenues increased \$1.7 billion, or 7.7 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 11.5 per cent. Sales and excise taxes were down 1.0 per cent while the Air Travellers Security Charge was down 14.4 per cent, reflecting reductions in the charge effective April 1, 2005.
- EI premiums were up 0.3 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 \$2.0 billion, or 19.4 per cent, reflecting the one-time gain (\$2.6 billion) from the sale of the Government's remaining shares in Petro-Canada in September 2004.

Budgetary balance



Federal debt (accumulated deficit)



The Fiscal Monitor

On a year-over-year basis, program expenses in the April to November 2005 period were \$100.1 billion, up \$8.9 billion, or 9.8 per cent, from 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 \$0.4 billion.

Transfer payments, which account for nearly two-thirds of total program expenses, increased by \$6.5 billion, or 11.1 per cent.

- Transfers to persons advanced by 2.2 per cent. Elderly benefits were up 4.3 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 \$4.8 billion, or 23.4 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 10.9 per cent, reflecting the impact of measures from recent budgets.

Other program expenses increased by 7.5 per cent due to increases in departmental operating costs. Crown corporation expenses increased slightly by 0.9 per cent.

Public debt charges were down 1.9 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 requirement of \$1.7 billion for April to November 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 \$8.0 billion in the April-to-November period, up \$4.7 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, as well as a decrease in the source of funds arising from foreign exchange activities.

With a budgetary surplus of \$6.3 billion and a net requirement of \$8.0 billion from non-budgetary transactions, there was a financial requirement of \$1.7 billion in the first eight months of 2005–06 compared to a financial source of \$7.1 billion in the same period of 2004–05.

Net financing activities down \$8.5 billion

The Government's market debt was down \$8.5 billion by the end of November 2005. To finance this reduction of market debt and the financial requirement of \$1.7 billion, the Government reduced its cash balances by \$10.1 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 November stood at \$7.0 billion.

The Fiscal Monitor

Table 1

Summary statement of transactions

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary transactions				
Revenues	16,282	12,716	124,710	129,228
Expenses				
Program expenses	-11,686	-12,856	-91,179	-100,120
Public debt charges	-2,909	-2,990	-23,219	-22,789
Budgetary balance (deficit/surplus)	1,687	-3,130	10,312	6,319
Non-budgetary transactions	4,149	3,070	-3,240	-7,981
Financial source/requirement	5,836	-60	7,072	-1,662
Net change in financing activities	897	3,457	-8,068	-8,486
Net change in cash balances	6,733	3,397	-996	-10,148
Cash balance at end of period			16,254	6,974

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

Table 2

Budgetary revenues

	November			April to November		
	2004	2005	Change	2004-05	2005-06	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,359	3,718	-49.5	56,589	57,950	2.4
Corporate income tax	2,087	2,393	14.7	14,817	17,462	17.9
Other income tax revenue	238	343	44.1	2,008	2,684	33.7
Total income tax	9,684	6,454	-33.4	73,414	78,096	6.4
Excise taxes and duties						
Goods and services tax	3,331	3,005	-9.8	21,346	22,997	7.7
Customs import duties	269	329	22.3	2,087	2,327	11.5
Sales and excise taxes	845	796	-5.8	6,520	6,458	-1.0
Air Travellers Security Charge	28	25	-10.7	270	231	-14.4
Total excise taxes and duties	4,473	4,155	-7.1	30,223	32,013	5.9
Total tax revenues	14,157	10,609	-25.1	103,637	110,109	6.2
Employment insurance premiums	932	896	-3.9	10,872	10,902	0.3
Other revenues	1,193	1,211	1.5	10,201	8,217	-19.4
Total budgetary revenues	16,282	12,716	-21.9	124,710	129,228	3.6

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 3

Budgetary expenses

	November		Change	April to November		Change
	2004	2005		2004-05	2005-06	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,353	2,433	3.4	18,465	19,251	4.3
Employment insurance benefits	1,116	1,050	-5.9	9,167	8,990	-1.9
Total	3,469	3,483	0.4	27,632	28,241	2.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,054	1,583		8,433	12,667	
Canada Social Transfer	652	685		5,217	5,483	
Health Reform Transfer	125	0		1,000	0	
Canada Health and Social Transfer	23	0		23	0	
Total	1,854	2,268	22.3	14,673	18,150	23.7
Fiscal transfers	876	1,045	19.3	7,446	8,492	14.0
Canada's cities and communities	0	0	n/a	0	394	n/a
Alternative Payments for Standing Programs	-210	-261	24.3	-1,783	-1,939	8.7
Total	2,520	3,052	21.1	20,336	25,097	23.4
Subsidies and other transfers						
Agriculture	251	133	-47.0	572	738	29.0
Foreign Affairs	158	181	14.6	1,383	1,385	0.1
Health	194	173	-10.8	1,172	1,203	2.6
Human Resources Development	216	129	-40.3	722	818	13.3
Indian and Northern Development	352	562	59.7	2,891	3,239	12.0
Industry and Regional Development	143	118	-17.5	1,178	1,247	5.9
Other	194	475	144.8	2,268	2,666	17.5
Total	1,508	1,771	17.4	10,186	11,296	10.9
Total transfer payments	7,497	8,306	10.8	58,154	64,634	11.1
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	54	100	85.2	773	868	12.3
Canada Mortgage and Housing Corporation	140	172	22.9	1,340	1,366	1.9
Other	117	63	-46.2	1,244	1,154	-7.2
Total	311	335	7.7	3,357	3,388	0.9
Defence	1,080	1,249	15.6	8,111	9,540	17.6
All other departments and agencies	2,798	2,966	6.0	21,557	22,558	4.6
Total other program expenses	4,189	4,550	8.6	33,025	35,486	7.5
Total program expenses	11,686	12,856	10.0	91,179	100,120	9.8
Public debt charges	2,909	2,990	2.8	23,219	22,789	-1.9
Total budgetary expenses	14,595	15,846	8.6	114,398	122,909	7.4

Note: Totals may not sum due to rounding.

Table 4

Budgetary balance and financial source/requirement

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,687	-3,130	10,312	6,319
Non-budgetary transactions				
Capital investing activities	-180	-196	-836	-1,171
Other investing activities	-156	-294	-1,434	-2,731
Pension and other accounts	-432	-16	-2,100	-549
Other activities				
Accounts payable, receivables, accruals and allowances	827	3,655	-4,733	-6,107
Foreign exchange activities	3,866	-314	4,045	544
Amortization of tangible capital assets	224	235	1,818	2,033
Total other activities	4,917	3,576	1,130	-3,530
Total non-budgetary transactions	4,149	3,070	-3,240	-7,981
Net financial source/requirement	5,836	-60	7,072	-1,662

Note: Totals may not sum due to rounding.

Table 5

Financial source/requirement and net financing activities

	November		April to November	
	2004	2005	2004-05	2005-06
	(\$ millions)			
Net financial source/requirement	5,836	-60	7,072	-1,662
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	1,005	3,253	-7,921	-1,410
Treasury bills	5,050	900	6,850	-2,500
Canada Savings Bonds	-1,357	-448	-1,704	-945
Other	-1	-15	-27	-196
Total	4,697	3,690	-2,802	-5,051
Foreign currency borrowings	-3,831	-218	-5,257	-3,498
Total	866	3,472	-8,059	-8,549
Obligations related to capital leases	31	-15	-9	63
Net change in financing activities	897	3,457	-8,068	-8,486
Change in cash balance	6,733	3,397	-996	-10,148

Note: Totals may not sum due to rounding.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2005	November 30, 2005	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	90,473	84,319	-6,154
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	266,570	265,160	-1,410
Treasury bills	127,199	124,699	-2,500
Canada Savings Bonds	19,080	18,135	-945
Other	3,393	3,197	-196
Subtotal	416,242	411,191	-5,051
Payable in foreign currencies	16,286	12,788	-3,498
Obligations related to capital leases	2,932	2,995	63
Total unmatured debt	435,460	426,974	-8,486
Pension and other accounts			
Public sector pensions	129,579	131,218	1,639
Other employee and veteran future benefits	41,549	42,588	1,039
Other pension and other accounts	8,680	5,453	-3,227
Total pension and other accounts	179,808	179,259	-549
Total interest-bearing debt	615,268	606,233	-9,035
Total liabilities	705,741	690,552	-15,189
Financial assets			
Cash and accounts receivable	76,281	66,086	-10,195
Foreign exchange accounts	40,871	40,327	-544
Loans, investments and advances (net of allowances)	33,860	36,591	2,731
Total financial assets	151,012	143,004	-8,008
Net debt	554,729	547,548	-7,181
Non-financial assets	54,866	54,004	-862
Federal debt (accumulated deficit)	499,863	493,544	-6,319

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Paul Rochon at (613) 996-9447.

Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.

Ce document est également offert en français.

January 2006