

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2008: budgetary surplus of \$0.6 billion

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a surplus of \$2.4 billion in January 2007. Budgetary revenues were down \$0.9 billion, or 3.9 per cent, due in part to lower personal income tax and goods and services tax (GST) revenues. Program expenses increased by \$1.0 billion, or 5.6 per cent, reflecting higher transfer payments and operating expenses of departments and agencies. Public debt charges were down slightly.

April 2007 to January 2008: budgetary surplus of \$10.0 billion

For the first 10 months of the 2007–08 fiscal year, the budgetary surplus is estimated at \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported in the same period of 2006–07. The results to date reflect the impact of personal income tax relief measures introduced in the October 2007 Economic Statement. These measures consist of the reduction in the lowest personal income tax rate from 15.5 per cent to 15 per cent and the increase in the basic personal amount to \$9,600, both retroactive to January 1, 2007. Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, reflecting gains across most revenue streams, particularly corporate income tax and other revenues. Program expenses were up \$10.8 billion, or 7.2 per cent, due to higher transfer payments and operating expenses of departments and agencies. Public debt charges were down \$0.4 billion, reflecting reductions in market debt.

January 2008

There was a budgetary surplus of \$0.6 billion in January 2008, compared to a \$2.4-billion surplus in January 2007.

Budgetary revenues fell \$0.9 billion, or 3.9 per cent, to \$21.5 billion.

- Personal income tax revenues fell \$0.6 billion, or 6.2 per cent, as the tax relief introduced in the October 2007 Economic Statement led to a reduction in collections.
- Corporate income tax revenues rose \$0.6 billion, or 20.5 per cent.
- Other income tax revenues—withholdings from non-residents—fell \$0.2 billion, or 19.5 per cent.

- Excise taxes and duties were down \$1.0 billion, or 21.4 per cent, largely due to lower GST and sales and excise tax revenues. GST revenues fell \$0.5 billion, or 16.5 per cent, as a result of the 1-percentage-point reduction in the GST rate to 5 per cent effective January 1, 2008. Sales and excise tax revenues decreased by \$0.6 billion, or 43.7 per cent, due to a temporary gain in revenues last year resulting from the one-time charge on duty deposit refunds under the Canada-United States Softwood Lumber Agreement. Customs import duties increased by \$0.1 billion and revenues from the Air Travellers Security Charge were \$2 million higher.

Note: Unless otherwise noted, changes in financial results are presented on a year-over-year basis.



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- Employment Insurance (EI) premium revenues were down 0.7 per cent, consistent with the decline in the premium rate from \$1.80 to \$1.73 per \$100 of insurable earnings, effective January 1, 2008.
- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, proceeds from the sales of goods and services, returns on investments, foreign exchange revenues and miscellaneous revenues, rose \$0.4 billion, or 21.9 per cent.

Program expenses in January 2008 were \$18.1 billion, up \$1.0 billion, or 5.6 per cent, from January 2007, reflecting higher transfer payments and operating expenses of departments and agencies.

Transfer payments were up \$0.3 billion, or 2.7 per cent.

- Major transfers to persons, consisting of elderly, EI and children's benefits, increased by \$0.2 billion, or 3.3 per cent. Elderly benefits increased by 7.4 per cent while EI benefits decreased 0.8 per cent. Children's benefits, which consist of the Canada Child Tax Benefit and the Universal Child Care Benefit (UCCB), were down slightly.
- 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 \$0.4 billion, or 11.5 per cent, reflecting Budget 2007 measures.
- Subsidies and other transfers decreased by \$0.2 billion, or 7.8 per cent.

Other program expenses consist of operating expenses of Crown corporations, departments and agencies, including National Defence, and

also reflect the ongoing assessment of the Government's liabilities. These expenses rose by \$0.6 billion, or 11.6 per cent.

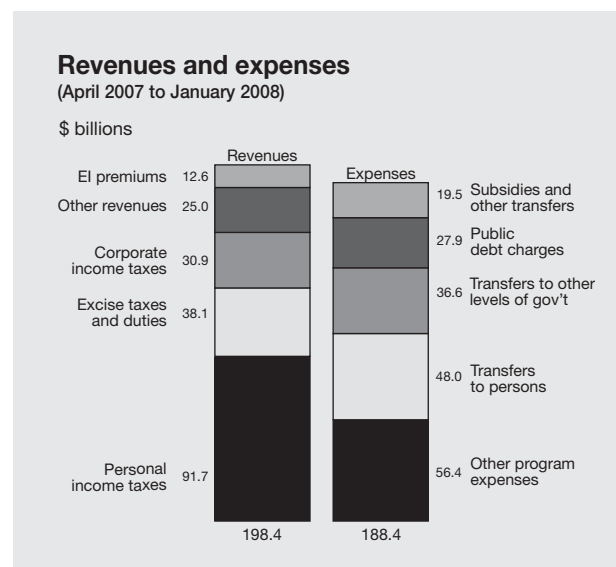
Public debt charges were down slightly.

April 2007 to January 2008

Through the first 10 months of the 2007–08 fiscal year, there was a budgetary surplus of \$10.0 billion, down \$0.6 billion from the \$10.6-billion surplus reported during the same period of 2006–07.

Budgetary revenues increased by \$9.7 billion, or 5.2 per cent, to \$198.4 billion.

- Personal income tax revenues increased by only \$0.2 billion, or 0.2 per cent, reflecting \$3.1 billion in tax relief measures announced in the October 2007 Economic Statement.
- Corporate income tax revenues were up \$5.5 billion, or 21.8 per cent. Part of the exceptionally strong growth to date reflects tax remittance patterns last fiscal year, when many corporations on average underpaid their tax liabilities during the first part of the fiscal year, but then made significant settlement payments in February and March 2007. As such, the year-over-year growth in corporate receipts is expected to slow in the final months of this fiscal year.



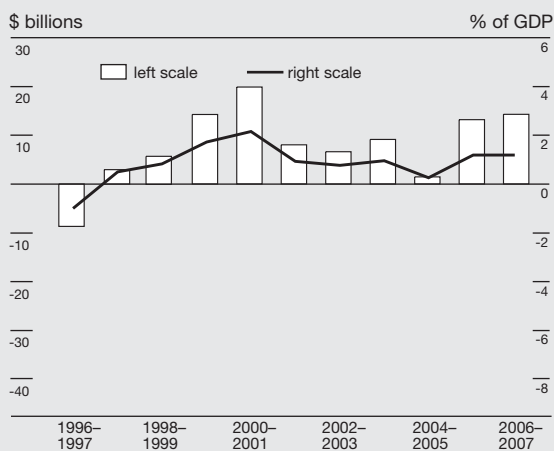
- Other income tax revenues rose \$0.2 billion, or 3.2 per cent.
- Excise taxes and duties increased by \$0.3 billion, or 0.9 per cent. GST revenues increased by \$0.3 billion, or 1.3 per cent. Customs import duties increased by \$0.3 billion, sales and excise tax revenues fell by \$0.3 billion, and revenues from the Air Travellers Security Charge increased by \$25 million.
- EI premium revenues were down \$0.1 billion, or 0.9 per cent, reflecting the declines in the premium rate to \$1.80 per \$100 of insurable earnings effective January 1, 2007, and to \$1.73 effective January 1, 2008.
- Other revenues rose \$3.7 billion, or 22.2 per cent, boosted by a gain from the sale and leaseback of seven federal office properties.

Program expenses for April 2007 to January 2008 were \$160.5 billion, up \$10.8 billion, or 7.2 per cent, from the same period the previous year, reflecting higher transfer payments, Crown corporation expenses and operating expenses of departments and agencies.

Transfer payments increased by \$7.2 billion, or 7.4 per cent.

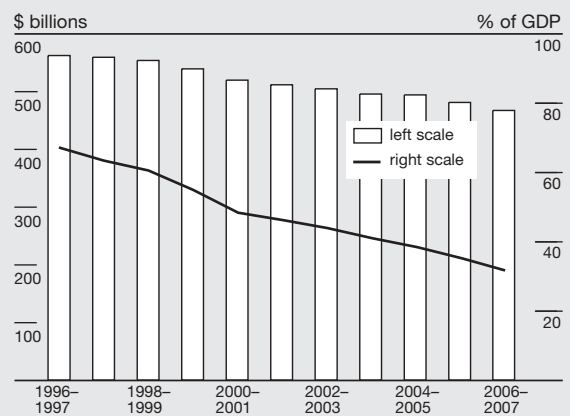
- Major transfers to persons increased by \$2.0 billion, or 4.2 per cent. Elderly benefits increased by 4.5 per cent and EI benefits by 1.4 per cent. Children's benefits were up \$0.6 billion, as transfers under the UCCB began part way through the 2006–07 fiscal year, in July 2006.
- Major transfers to other levels of government were up \$2.9 billion, or 8.6 per cent, reflecting legislated growth in the Canada Health Transfer, as well as increases to the Canada Social Transfer and Equalization introduced in Budget 2007 as part of the Government's package to restore fiscal balance in Canada.
- Subsidies and other transfers were up \$2.3 billion, or 13.4 per cent, mainly reflecting increases in payments related to the historic investment in infrastructure announced in Budget 2007 and higher transfers to Newfoundland and Labrador and Nova Scotia under the Offshore Accords.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Other program expenses increased by \$3.6 billion, or 6.8 per cent.

Public debt charges decreased by \$0.4 billion, or 1.4 per cent, reflecting lower unmatured debt levels.

Financial source of \$14.9 billion for April 2007 to January 2008

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.

With a budgetary surplus of \$10.0 billion and a source of \$5.0 billion from non-budgetary transactions, there was a financial source of \$14.9 billion for April 2007 to January 2008, compared to a financial source of \$6.3 billion in the same period of 2006–07. The increase in the financial source is due in part to the appreciation of the Canadian dollar in 2007. It also reflects the personal income tax relief measures introduced in the October 2007 Economic Statement, which are retroactive to January 1, 2007, but which will primarily affect cash balances when individuals file their income tax returns for 2007.

Net financing activities down \$32.1 billion

The Government used this financial source of \$14.9 billion and a reduction in its cash balances of \$17.2 billion to reduce its market debt by \$32.1 billion by the end of January 2008. The reduction in market debt was achieved largely through a reduction of 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 2008 stood at \$4.0 billion, \$0.4 billion above their level at the end of January 2007.

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Table 1

Summary statement of transactions

	January		April to January	
	2007	2008	2006-07	2007-08
	(\$ millions)			
Budgetary transactions				
Revenues	22,360	21,483	188,624	198,363
Expenses				
Program expenses	-17,128	-18,089	-149,711	-160,488
Public debt charges	-2,835	-2,802	-28,312	-27,912
Budgetary balance (deficit/surplus)	2,397	592	10,601	9,963
Non-budgetary transactions	-46	-1,930	-4,254	4,985
Financial source/requirement	2,351	-1,338	6,347	14,948
Net change in financing activities	-2,838	-193	-20,725	-32,129
Net change in cash balances	-487	-1,531	-14,378	-17,181
Cash balance at end of period			3,578	4,023

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

Table 2

Budgetary revenues

	January			April to January		
	2007	2008	Change	2006-07	2007-08	Change
	(\$ millions)		(%)	(\$ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	10,257	9,617	-6.2	91,501	91,682	0.2
Corporate income tax	2,911	3,507	20.5	25,361	30,882	21.8
Other income tax	822	662	-19.5	4,681	4,833	3.2
Total income tax	13,990	13,786	-1.5	121,543	127,397	4.8
Excise taxes and duties						
Goods and services tax	3,174	2,651	-16.5	26,051	26,383	1.3
Customs import duties	277	352	27.1	2,957	3,229	9.2
Sales and excise taxes	1,326	746	-43.7	8,505	8,198	-3.6
Air Travellers Security Charge	27	29	7.4	295	320	8.5
Total excise taxes and duties	4,804	3,778	-21.4	37,808	38,130	0.9
Total tax revenues	18,794	17,564	-6.5	159,351	165,527	3.9
Employment Insurance premiums	1,894	1,880	-0.7	12,734	12,622	-0.9
Other revenues	1,672	2,039	21.9	16,539	20,214	22.2
Total budgetary revenues	22,360	21,483	-3.9	188,624	198,363	5.2

Note: Totals may not add due to rounding.

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Table 3

Budgetary expenses

	January		Change	April to January		Change
	2007	2008		2006-07	2007-08	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,590	2,782	7.4	25,335	26,479	4.5
Employment Insurance benefits	1,623	1,610	-0.8	11,388	11,549	1.4
Children's benefits	999	994	-0.5	9,303	9,952	7.0
Total	5,212	5,386	3.3	46,026	47,980	4.2
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,678	1,798	7.2	16,783	17,869	6.5
Canada Social Transfer	708	833	17.7	7,083	8,180	15.5
Total	2,386	2,631	10.3	23,866	26,049	9.1
Fiscal transfers	1,140	1,281	12.4	11,093	12,298	10.9
Canada's cities and communities	0	15	n/a	548	736	34.3
Early learning and child care	0	0	n/a	650	0	n/a
Alternative Payments for Standing Programs	-227	-249	9.7	-2,508	-2,530	0.9
Total	3,299	3,678	11.5	33,649	36,553	8.6
Subsidies and other transfers						
Agriculture and Agri-Food	556	216	-61.2	2,257	1,922	-14.8
Foreign Affairs and International Trade	834	595	-28.7	2,410	2,082	-13.6
Health	204	232	13.7	1,603	1,710	6.7
Human Resources and Social Development	197	278	41.1	1,383	1,504	8.7
Indian Affairs and Northern Development	373	369	-1.1	3,929	4,060	3.3
Industry	147	110	-25.2	1,665	1,590	-4.5
Other	749	1,021	36.3	3,986	6,669	67.3
Total	3,060	2,821	-7.8	17,233	19,537	13.4
Total transfer payments	11,571	11,885	2.7	96,908	104,070	7.4
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	96	59	-38.5	1,042	986	-5.4
Canada Mortgage and Housing Corporation	205	211	2.9	1,715	1,684	-1.8
Other	294	232	-21.1	2,872	3,269	13.8
Total	595	502	-15.6	5,629	5,939	5.5
Defence	1,422	1,603	12.7	13,049	14,448	10.7
All other departments and agencies	3,540	4,099	15.8	34,125	36,031	5.6
Total other program expenses	5,557	6,204	11.6	52,803	56,418	6.8
Total program expenses	17,128	18,089	5.6	149,711	160,488	7.2
Public debt charges	2,835	2,802	-1.2	28,312	27,912	-1.4
Total budgetary expenses	19,963	20,891	4.6	178,023	188,400	5.8

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	January		April to January	
	2007	2008	2006–07	2007–08
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,397	592	10,601	9,963
Non-budgetary transactions				
Capital investing activities	-177	-303	-1,749	-1,828
Other investing activities	-20	-1,506	-974	-3,079
Pension and other accounts	-157	-1,348	3,696	4,035
Other activities				
Accounts payable, receivables, accruals and allowances	1,589	2,096	-7,409	349
Foreign exchange activities	-1,487	-1,157	-282	3,620
Amortization of tangible capital assets	206	288	2,464	1,888
Total other activities	308	1,227	-5,227	5,857
Total non-budgetary transactions	-46	-1,930	-4,254	4,985
Net financial source/requirement	2,351	-1,338	6,347	14,948

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	January		April to January	
	2007	2008	2006–07	2007–08
	(\$ millions)			
Net financial source/requirement	2,351	-1,338	6,347	14,948
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transactions				
Canadian currency borrowings				
Marketable bonds	2,120	168	-2,968	-7,290
Treasury bills	-5,700	-1,500	-12,600	-19,800
Canada Savings Bonds	-74	-19	-1,951	-1,957
Other	0	0	-1,160	-699
Total	-3,654	-1,351	-18,679	-29,746
Foreign currency borrowings	507	222	-3,431	-875
Total	-3,147	-1,129	-22,110	-30,621
Cross-currency swap revaluation	96	656	1,431	-2,233
Unamortized discounts on debt issues	219	297	29	316
Obligations related to capital leases	-6	-17	-75	409
Net change in financing activities	-2,838	-193	-20,725	-32,129
Change in cash balance	-487	-1,531	-14,378	-17,181

Note: Totals may not add due to rounding.

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Table 6

Condensed statement of assets and liabilities

	March 31, 2007	January 31, 2008	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	106,511	104,731	-1,780
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	257,482	250,192	-7,290
Treasury bills	134,074	114,274	-19,800
Canada Savings Bonds	15,175	13,219	-1,957
Other	1,743	1,044	-699
Subtotal	408,474	378,728	-29,746
Payable in foreign currencies	10,372	9,497	-875
Cross-currency swap revaluation account	-1,091	-3,324	-2,233
Unamortized discounts and premiums on market debt	-6,659	-6,343	316
Obligations related to capital leases	3,096	3,505	409
Total unamatured debt	414,192	382,063	-32,129
Pension and other accounts			
Public sector pensions	134,726	136,260	1,534
Other employee and veteran future benefits	45,123	47,089	1,966
Other pension and other accounts	5,211	5,746	535
Total pension and other accounts	185,060	189,094	4,035
Total interest-bearing debt	599,252	571,158	-28,095
Total liabilities	705,763	675,889	-29,874
Financial assets			
Cash and accounts receivable	92,586	73,275	-19,311
Foreign exchange accounts	44,178	40,558	-3,620
Loans, investments and advances (net of allowances)	45,094	48,173	3,079
Total financial assets	181,858	162,006	-19,852
Net debt	523,905	513,883	-10,022
Non-financial assets	56,637	56,577	-60
Federal debt (accumulated deficit)	467,268	457,306	-9,963

Note: Totals may not add due to rounding.

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