

An Update on Canada's Fiscal Position — Finance Releases The Fiscal Monitor for December 2008

Despite the onslaught of negative economic news, the federal government has managed to (barely) maintain a surplus position, for both the month of December 2008 and the April-to-December portion of the 2008-09 fiscal year.

For the month of December, the government posted a surplus of \$0.2 billion (as compared to the \$1.8 billion surplus realized in December 2007). The December 2008 surplus was built on a small increase in personal tax revenues and a \$0.1 billion increase in revenue from Employment Insurance premiums.

For the April-to-December period, representing three-quarters of the 2008-09 fiscal year, the federal government posted a surplus of \$0.5 billion, down nearly \$8 billion from the surplus recorded during the same period of the 2007-08 fiscal year. As with the December figures, the year-to-date surplus was attributed to a \$4 billion increase in personal income tax revenues and an increase of \$0.1 billion in revenues from EI premiums. Corporate income tax revenues were down for the period by \$5 billion, or 18.4%. While Finance attributed some part of the decline to a weaker profit picture, there were other factors that contributed to the drop. Two significant corporate tax changes, in the form of the elimination of the corporate surtax and a 1.5% reduction in the general corporate tax rate, both of which came into effect at the beginning of 2008, also contributed to the decline in corporate tax revenues.

On the revenue side of the equation, government program expenses rose by \$8 billion in the April-to-December period, reflecting increases in major transfers to persons (i.e., elderly benefits and, especially, EI benefits), major transfers to other levels of government and subsidies, and other transfers, notably those required under the Atlantic Offshore Accords and for support for labour market training.

The February issue of The Fiscal Monitor can be found on the Finance Canada Web site at <http://www.fin.gc.ca/fiscmon-revfin/2008-12-eng.asp>, and the next issue, covering the period April 2008 to January 2009 inclusive, is scheduled for release during the week of March 23.