

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

March 2001: budgetary deficit of \$0.5 billion

There was a budgetary deficit of \$0.5 billion in March 2001, compared to a surplus of \$0.3 billion in March 2000. This deterioration was attributable to the impact of policy initiatives, including the incremental assistance of \$0.5 billion to farmers and the \$0.5-billion payment for health information and communication technologies as agreed to by first ministers in September 2000.

April 2000 to March 2001: budgetary surplus of \$19.8 billion

The budgetary surplus was estimated at \$19.8 billion for the April 2000 to March 2001 period, up \$4.7 billion from the surplus reported in the same period of 1999-2000. These are not the final results for the 2000-01 fiscal year. Still to come are the regular end-of-year accounting adjustments.

Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 2000-01. For example, the final audited outcome for 1999-2000 was \$12.3 billion, while the surplus to the end of March 2000 was \$15.1 billion, a difference of \$2.8 billion. However, included in the final results for 1999-2000 was a transfer of \$1.9 billion from the Tax Collection Accounts to budgetary revenues, relating to recoveries for overpayments to these accounts in previous years. No such large recoveries are expected this year. This implies that the normal end-of-year adjustments for 1999-2000 amounted to about \$4½ billion.

In the October 2000 *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated, of which a minimum of \$10 billion was committed to reducing debt. Based on the financial results to the end of March 2001 and taking into account the normal end-of-year accounting adjustments, a budgetary surplus of at least \$15 billion is now expected. All of this will be applied to reducing the net public debt. Final audited financial results will be published in the *Annual Financial Report of the Government of Canada*, scheduled for release in mid-September 2001.

March 2001: budgetary results

On a year-over-year basis, budgetary revenues increased \$0.5 billion, as lower personal income tax revenues were more than offset by higher revenues in all the other major components.

- Personal income tax revenues declined by 12.0 per cent, reflecting the impact of the tax relief measures announced in the October *Economic Statement and Budget Update*, as well as the timing of receipts between February and March.
- Corporate income tax revenues were up 11.4 per cent, reflecting higher corporate profits in 2000.
- Employment insurance (EI) premium revenues were up 5.9 per cent, as increases in the number of people employed more than offset the reductions in premium rates.
- Excise taxes and duties were up 6.6 per cent, primarily reflecting strong growth in goods and services tax (GST) revenues and in customs import duties.



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Table 1

Summary statement of transactions

	March		April to March	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Budgetary transactions				
Revenues	14,864	15,359	164,682	177,246
Program spending	-11,196	-12,327	-108,285	-115,999
Operating surplus	3,668	3,032	56,397	61,247
Public debt charges	-3,417	-3,564	-41,273	-41,412
Budgetary balance (deficit/surplus)	251	-532	15,124	19,835
Non-budgetary transactions	3,611	6,411	1,288	-405
Financial requirements/source (excluding foreign exchange transactions)	3,862	5,879	16,412	19,430
Foreign exchange transactions	-1,868	-6,767	-9,451	-8,516
Net financial balance	1,994	-888	6,961	10,914
Net change in borrowings	-130	582	-3,178	-10,682
Net change in cash balances	1,864	-306	3,783	232
Cash balance at end of period			13,004	13,179

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

- Non-tax revenues were up strongly, reflecting higher net profits relating to activities in the Exchange Fund Account.

On a year-over-year basis, program spending increased by 10.1 per cent. Among the major components:

- Major transfers to persons were up 2.4 per cent, as both elderly benefit payments and EI benefit payments were higher.
- Major transfers to other levels of government were up 18.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending increased 11.7 per cent, primarily reflecting the inclusion of the policy initiatives mentioned above.

Public debt charges, on a year-over year basis, were up 4.3 per cent, as an increase in the average effective interest rate offset the impact of the decline in the stock of interest-bearing debt.

April 2000 to March 2001: budgetary results

In the April 2000 to March 2001 period, the budgetary surplus was estimated at \$19.8 billion, up \$4.7 billion from the surplus of \$15.1 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$12.6 billion, or 7.6 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.7 billion, or 4.7 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher remittances from quarterly filers. Dampening the impact of these factors was the effect of the tax relief measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year.

Table 2

Budgetary revenues

	March		Change	April to March		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	5,165	4,546	-12.0	77,668	81,350	4.7
Corporate income tax	2,109	2,349	11.4	23,251	27,619	18.8
Other income tax revenue	450	692	53.8	3,472	4,216	21.4
Total income tax	7,724	7,587	-1.8	104,391	113,185	8.4
Employment insurance premium revenues	1,736	1,839	5.9	18,504	18,732	1.2
Excise taxes and duties						
Goods and services tax	1,527	1,619	6.0	22,975	24,812	8.0
Customs import duties	177	274	54.8	2,212	2,791	26.2
Sales and excise taxes	704	674	-4.3	8,168	8,224	0.7
Total excise taxes and duties	2,408	2,567	6.6	33,355	35,827	7.4
Total tax revenues	11,868	11,993	1.1	156,250	167,744	7.4
Non-tax revenues	2,996	3,366	12.3	8,432	9,502	12.7
Total budgetary revenues	14,864	15,359	3.3	164,682	177,246	7.6

Increases in the Canada Child Tax Benefit, up 13.4 per cent (reflecting increases to average benefits, which came into effect July 1, 2000, and the indexation of benefits), also served to restrain the overall growth in personal income tax revenues.

- Corporate income tax revenues were up \$4.4 billion, or 18.8 per cent, in line with the estimated increase of 23.4 per cent in corporate profits for 2000.
- EI premium revenues were up \$0.2 billion, or 1.2 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$2.5 billion, or 7.4 per cent. GST revenues were up \$1.8 billion, or 8.0 per cent, in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.

- Non-tax revenues were up \$1.1 billion, or 12.7 per cent, primarily reflecting higher Bank of Canada and Exchange Fund Account profits and interest on bank balances.

Program spending increased by \$7.7 billion, or 7.1 per cent, in the April 2000 to March 2001 period, compared to the same period in 1999-2000. Among the major components, major transfers to other levels of government were up \$3.4 billion, direct program spending was up \$2.4 billion, while major transfers to persons were up \$1.9 billion.

- The increase in major transfers to persons was attributable to the heating expense relief payment (\$1.4 billion) and higher elderly benefits, up \$0.8 billion, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were down \$0.3 billion, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.

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Table 3

Budgetary expenditures

	March		Change	April to March		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,000	2,057	2.8	23,421	24,245	3.5
Employment insurance benefits	1,015	1,030	1.5	11,340	10,999	-3.0
Heating expense relief					1,434	
Total	3,015	3,087	2.4	34,761	36,678	5.5
Other levels of government						
Canada Health and Social Transfer	1,041	1,125	8.1	12,500	13,500	8.0
Fiscal transfers	692	907	31.1	10,687	12,303	15.1
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-187	-206	10.2	-2,251	-2,466	9.6
Total	1,546	1,826	18.1	20,936	24,337	16.2
Direct program spending						
Subsidies and other transfers						
Agriculture	134	633	372.4	1,550	1,232	-20.5
Foreign Affairs	327	291	-11.0	1,901	1,713	-9.9
Health	118	97	-17.8	1,050	1,107	5.4
Human Resources Development	229	363	58.5	1,579	1,685	6.7
Indian and Northern Development	217	144	-33.6	3,705	3,886	4.9
Industry and Regional Development	1,324	407	-69.3	2,632	1,720	-34.7
Veterans Affairs	121	125	3.3	1,397	1,458	4.4
Other	442	652	47.5	2,402	2,635	9.7
Total	2,912	2,712	-6.9	16,216	15,436	-4.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	66	43	-34.8	871	902	3.6
Canada Mortgage and Housing Corporation	150	320	113.3	1,795	1,990	10.9
Other	55	91	65.5	985	1,383	40.4
Total	271	454	67.5	3,651	4,275	17.1
Operating and capital expenditures						
Defence	1,127	1,436	27.4	10,775	10,992	2.0
All other departmental expenditures	2,325	2,812	20.9	21,946	24,281	10.6
Total	3,452	4,248	23.1	32,721	35,273	7.8
Total direct program spending	6,635	7,414	11.7	52,588	54,984	4.6
Total program expenditures	11,196	12,327	10.1	108,285	115,999	7.1
Public debt charges	3,417	3,564	4.3	41,273	41,412	0.3
Total budgetary expenditures	14,613	15,891	8.7	149,558	157,411	5.3
Memorandum item:						
Total transfers	7,473	7,625	2.0	71,913	76,451	6.3

- Major transfers to other levels of government were up 16.2 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached last September by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the impact of new initiatives announced during 2000-01 and the lifting of the wage freeze.

Public debt charges were virtually unchanged, as the impact of the decline in the stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Financial source of \$19.4 billion (excluding foreign exchange transactions) for April 2000 to March 2001

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial

requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$0.4 billion in the April 2000 to March 2001 period, compared to a net source of \$1.3 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$19.8 billion and a net requirement of \$0.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$19.4 billion in the April 2000 to March 2001 period, compared to a financial source of \$16.4 billion in the same period in 1999-2000.

Net financial source of \$10.9 billion for April 2000 to March 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of \$8.5 billion in the April 2000 to March 2001 period, compared to a net requirement of \$9.5 billion in the same period in 1999-2000.

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Table 4

The budgetary balance and financial requirements/source

	March		April to March	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Budgetary balance (deficit/surplus)	251	-532	15,124	19,835
Loans, investments and advances				
Crown corporations	12	99	540	504
Other	63	-87	148	-976
Total	75	12	688	-472
Specified purpose accounts				
Canada Pension Plan Account	893	578	835	192
Superannuation accounts	550	-24	5,078	1,346
Other	74	8	26	117
Total	1,517	562	5,939	1,655
Other transactions	2,019	5,837	-5,339	-1,588
Total non-budgetary transactions	3,611	6,411	1,288	-405
Financial requirements/source (excluding foreign exchange transactions)	3,862	5,879	16,412	19,430
Foreign exchange transactions	-1,868	-6,767	-9,451	-8,516
Net financial balance	1,994	-888	6,961	10,914

Table 5

Net financial balance and net borrowings

	March		April to March	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Net financial balance	1,994	-888	6,961	10,914
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-8,499	-9,694	-2,142	700
Canada Savings Bonds	-523	18	-1,400	-736
Treasury bills	8,250	7,000	2,900	-11,150
Other	-354	-17	-638	-79
Total	-1,126	-2,693	-1,280	-11,265
Payable in foreign currencies				
Marketable bonds	0	3,003	2,488	-1,164
Notes and loans	0	-1,385		0
Canada bills	996	1,094	-4,122	1,220
Canada notes	0	563	-264	527
Total	996	3,275	-1,898	583
Net change in borrowings	-130	582	-3,178	-10,682
Change in cash balance	1,864	-306	3,783	232

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	March 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,748	38,676	-2,072
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,692	1,346
Canada Pension Plan (net of securities)	6,217	6,409	192
Other pension and other accounts	6,963	7,080	117
Total pension and other accounts	141,526	143,181	1,655
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	294,627	700
Treasury bills	99,850	88,700	-11,150
Canada Savings Bonds	26,489	25,753	-736
Non-marketable bonds and bills	3,552	3,473	-79
Subtotal	423,818	412,553	-11,265
Payable in foreign currencies	32,588	33,171	583
Total unmatrued debt	456,406	445,724	-10,682
Total interest-bearing debt	597,932	588,905	-9,027
Total liabilities	638,680	627,581	-11,099
Assets			
Cash and accounts receivable	18,864	18,612	-252
Foreign exchange accounts	41,494	50,010	8,516
Loans, investments and advances (net of allowances)	13,796	14,268	472
Total assets	74,154	82,890	8,736
Accumulated deficit (net public debt)	564,526	544,691	-19,835

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With a budgetary surplus of \$19.8 billion, a net requirement of \$0.4 billion from non-budgetary transactions and a net requirement of \$8.5 billion from foreign exchange transactions, there was a net financial source of \$10.9 billion in the April 2000 to March 2001 period, compared to a net source of \$7.0 billion in the same period in 1999-2000.

Net borrowings down \$10.7 billion for April 2000 to March 2001

This financial source has allowed the Government to reduce its holding of market debt by \$10.7 billion to the end of March 2001. In addition, cash balances increased by \$0.2 billion to stand at \$13.2 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.

