

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### August 2002: budgetary deficit of \$4 million

There was a budgetary deficit of \$4 million in August 2002, compared to a surplus of \$388 million in August 2001. The year-over-year deterioration in the budgetary balance was attributable to lower budgetary revenues (down \$472 million), primarily due to higher corporate income tax refunds, and higher program spending (up \$495 million). Partially offsetting the impact of these factors were lower public debt charges (down \$575 million).

### April to August 2002: budgetary surplus of \$4.6 billion

The budgetary surplus is estimated at \$4.6 billion for the April to August 2002 period, down \$6.8 billion from the surplus of \$11.4 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years.

On a year-over-year basis, the deterioration in the surplus over the first five months was attributable to lower budgetary revenues, down \$5.6 billion, and higher program spending, up \$3.1 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down \$1.9 billion due to the decline in the average effective interest rate on interest-bearing debt.

### August 2002: budgetary results

Budgetary revenues declined \$472 million, or 3.5 per cent, in August 2002 on a year-over-year basis.

- Personal income tax revenues were down \$116 million, or 2.0 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Despite the strong growth in employment since the beginning of the year, monthly deductions from employment income were virtually unchanged.
- Corporate income tax revenues were down \$0.9 billion, or 45.8 per cent, primarily due to higher refunds relating to the application of losses to taxes paid in previous years. In addition, monthly instalments for the current year's tax liability are somewhat lower.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore paying premiums is offsetting the effect of the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties were up strongly (\$570 million or 18.1 per cent). However, most of the increase was attributable to delays in the processing of goods and services tax (GST)



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Table 1

## Summary statement of transactions

	August		April to August	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,297	12,825	75,137	69,567
Program spending	-9,556	-10,051	-47,112	-50,201
Operating surplus	3,741	2,774	28,025	19,366
Public debt charges	-3,353	-2,778	-16,603	-14,730
Budgetary balance (deficit/surplus)	388	-4	11,422	4,636
<b>Non-budgetary transactions</b>	463	-83	-9,548	-12,200
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	851	-87	1,874	-7,564
<b>Foreign exchange transactions</b>	-1,022	-682	-1,153	-573
<b>Net financial balance</b>	-171	-769	721	-8,137
<b>Net change in borrowings</b>	5,767	5,743	-4,806	4,115
<b>Net change in cash balances</b>	5,596	4,974	-4,085	-4,022
<b>Cash balance at end of period</b>			9,097	7,927

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Monthly estimates for 2001-02 have been revised from those previously published.

refunds, which should be corrected in future months, thereby bringing the overall growth in net GST revenues more in line with its tax base – consumer expenditures.

- Non-tax revenues were down, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$495 million, or 5.2 per cent, with increases recorded in all major components.

- Transfers to persons were up 3.7 per cent. Elderly benefits increased 5.2 per cent while EI benefits were up marginally, the latter reflecting the timing of payments. A larger increase in EI benefits was expected given the increase in the number of beneficiaries and the impact of previously enacted program enhancements.

- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 6.8 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, declined \$575 million, or 17.1 per cent. This decline reflects both amortization adjustments relating to previous periods and a decrease in the average effective interest rate. The stock of interest-bearing debt was slightly higher.

Table 2

## Budgetary revenues

	August		Change	April to August		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,758	5,642	-2.0	35,675	31,752	-11.0
Corporate income tax	1,972	1,069	-45.8	10,831	7,573	-30.1
Other income tax revenue	258	264	2.3	1,462	1,432	-2.1
Total income tax	7,988	6,975	-12.7	47,968	40,757	-15.0
<b>Employment insurance premium revenues</b>	1,492	1,516	1.6	8,473	8,402	-0.8
<b>Excise taxes and duties</b>						
Goods and services tax	1,997	2,522	26.3	10,109	11,557	14.3
Customs import duties	281	306	8.9	1,204	1,338	11.1
Sales and excise taxes	864	848	-1.9	3,823	3,916	2.4
Air Travellers Security Charge		36			119	
Total excise taxes and duties	3,142	3,712	18.1	15,136	16,930	11.9
<b>Total tax revenues</b>	12,622	12,203	-3.3	71,577	66,089	-7.7
<b>Non-tax revenues</b>	675	622	-7.9	3,560	3,478	-2.3
<b>Total budgetary revenues</b>	13,297	12,825	-3.5	75,137	69,567	-7.4

### April to August 2002: budgetary results

Over the first five months of fiscal year 2002-03, the budgetary surplus was estimated at \$4.6 billion, compared to a surplus of \$11.4 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first five months of 2002-03, budgetary revenues were down \$5.6 billion, or 7.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$3.9 billion, or 11.0 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted

that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

- Corporate income tax revenues were down \$3.3 billion, or 30.1 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

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Table 3

## Budgetary expenditures

	August		Change	April to August		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,074	2,182	5.2	10,380	10,888	4.9
Employment insurance benefits	1,004	1,010	0.6	4,929	5,680	15.2
Total	3,078	3,192	3.7	15,309	16,568	8.2
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	7,208	7,750	7.5
Fiscal transfers	1,045	1,042	-0.3	5,190	5,180	-0.2
Alternative Payments for Standing Programs	-200	-210	5.0	-1,000	-1,051	5.1
Total	2,287	2,382	4.2	11,398	11,879	4.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	22	78	254.5	445	185	-58.4
Foreign Affairs	23	101	339.1	525	523	-0.4
Health	76	61	-19.7	470	560	19.1
Human Resources Development	111	146	31.5	473	517	9.3
Indian and Northern Development	284	302	6.3	1,780	1,770	-0.6
Industry and Regional Development	166	165	-0.6	595	618	3.9
Veterans Affairs	127	139	9.4	620	699	12.7
Other	132	187	41.7	843	828	-1.8
Total	941	1,179	25.3	5,751	5,700	-0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	85	75	-11.8	485	482	-0.6
Canada Mortgage and Housing Corporation	158	149	-5.7	790	791	0.1
Other	130	126	-3.1	705	797	13.0
Total	373	350	-6.2	1,980	2,070	4.5
Operating and capital expenditures						
Defence	669	761	13.8	3,496	3,780	8.1
All other departmental expenditures	2,208	2,187	-1.0	9,178	10,204	11.2
Total	2,877	2,948	2.5	12,674	13,984	10.3
Total direct program spending	4,191	4,477	6.8	20,405	21,754	6.6
<b>Total program expenditures</b>	9,556	10,051	5.2	47,112	50,201	6.6
<b>Public debt charges</b>	3,353	2,778	-17.1	16,603	14,730	-11.3
<b>Total budgetary expenditures</b>	12,909	12,829	-0.6	63,715	64,931	1.9
Memorandum item:						
Total transfers	6,306	6,753	7.1	32,458	34,147	5.2

- Excise taxes and duties increased by \$1.8 billion, or 11.9 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, and the introduction of the Air Travellers Security Charge. As noted above, part of this increase was attributable to delays in the processing of GST refunds.
- Non-tax revenues were down 2.3 per cent.

Program spending increased by \$3.1 billion, or 6.6 per cent, in the April to August 2002 period, compared to the same period last year.

- Transfers to persons were up 8.2 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.2 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments and the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$1.9 billion, or 11.3 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$7.6 billion (excluding foreign exchange transactions) for April to August 2002**

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 \$12.2 billion in the first five months of 2002-03, compared to a net requirement of \$9.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$12.2 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.6 billion in the April to August 2002 period, compared to a financial source of \$1.9 billion in the same period last year.

## **Net financial requirement of \$8.1 billion for April to August 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first five months of 2002-03, compared to a net requirement of \$1.2 billion in the same period in 2001-02.

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Table 4

## The budgetary balance and financial requirements/source

	August		April to August	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	388	-4	11,422	4,636
<b>Loans, investments and advances</b>				
Crown corporations	31	12	248	95
Other	15	60	22	148
Total	46	72	270	243
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-334	-216	-1,196	-820
Superannuation accounts	-22	146	-466	-370
Other	-15	12	39	-128
Total	-371	-58	-1,623	-1,318
<b>Other transactions</b>	788	-97	-8,195	-11,125
<b>Total non-budgetary transactions</b>	463	-83	-9,548	-12,200
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	851	-87	1,874	-7,564
<b>Foreign exchange transactions</b>	-1,022	-682	-1,153	-573
<b>Net financial balance</b>	-171	-769	721	-8,137

Table 5

## Net financial balance and net borrowings

	August		April to August	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	-171	-769	721	-8,137
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	4,350	5,214	2,709	-867
Canada Savings Bonds	-75	-76	-311	-478
Treasury bills	1,700	600	-4,400	7,450
Other	-1	0	-6	-8
Total	5,974	5,738	-2,008	6,097
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-207	5	-1,008	-388
Canada notes	0	0	-173	0
Total	-207	5	-2,798	-1,982
<b>Net change in borrowings</b>	5,767	5,743	-4,806	4,115
<b>Change in cash balance</b>	5,596	4,974	-4,085	-4,022

Table 6

## Condensed statement of assets and liabilities

	March 31, 2002	August 31, 2002	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,679	29,869	-10,810
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,551	-370
Canada Pension Plan (net of securities)	6,770	5,950	-820
Other pension and other accounts	7,469	7,341	-128
Total pension and other accounts	141,160	139,842	-1,318
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	292,955	-888
Treasury bills	94,039	101,329	7,290
Canada Savings Bonds	23,966	23,695	-271
Other	3,391	3,384	-7
Subtotal	415,239	421,363	6,124
Payable in foreign currencies	27,032	25,048	-1,984
Total unmatured debt	442,271	446,411	4,140
Total interest-bearing debt	583,431	586,253	2,822
Total liabilities	624,110	616,122	-7,988
<b>Assets</b>			
Cash and accounts receivable	16,829	13,147	-3,682
Foreign exchange accounts	52,046	52,619	573
Loans, investments and advances (net of allowances)	18,746	18,503	-243
Total assets	87,621	84,269	-3,352
<b>Accumulated deficit (net public debt)</b>	<b>536,489</b>	<b>531,853</b>	<b>-4,636</b>

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With a budgetary surplus of \$4.6 billion, a net requirement of \$12.2 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$8.1 billion in the April to August 2002 period, compared to a net source of \$0.7 billion in the same period last year.

## **Net borrowings up \$4.1 billion for April to August 2002**

To finance this net financial requirement of \$8.1 billion, the Government reduced its cash balances by \$4.0 billion and increased its holding of market debt by \$4.1 billion to the end of August 2002. 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.

