

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

November 2002: budgetary surplus of \$332 million

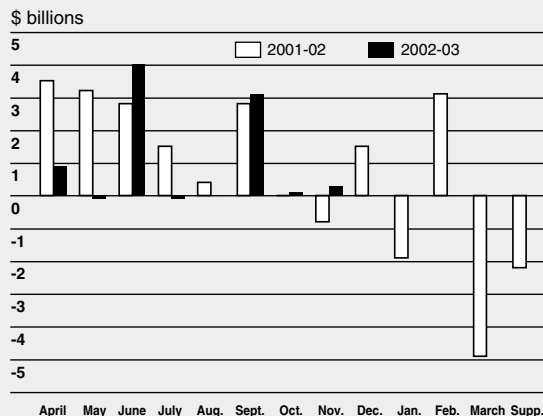
There was a budgetary surplus of \$332 million in November 2002, compared to a deficit of \$844 million in November 2001. This year-over-year improvement is primarily attributable to higher budgetary revenues (up \$1.3 billion), partly reflecting the timing of receipts between November and December as well as processing delays at the border in the aftermath of the September 11, 2001, terrorist attacks, which depressed customs receipts in November 2001. Public debt charges were down \$0.4 billion, while program spending increased by \$0.5 billion.

April to November 2002: budgetary surplus of \$8.2 billion

The budgetary surplus is estimated at \$8.2 billion for the April to November 2002 period, down \$5.1 billion from the surplus of \$13.3 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.

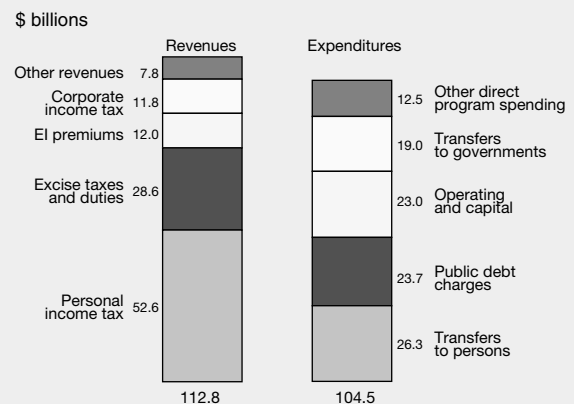
The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, it is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

Monthly surplus and deficit



Revenues and expenditures

(April to November 2002)



The Fiscal Monitor

Table 1

Summary statement of transactions

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary transactions				
Revenues	12,276	13,558	116,048	112,763
Program spending	-9,801	-10,280	-76,358	-80,841
Operating surplus	2,475	3,278	39,690	31,922
Public debt charges	-3,319	-2,946	-26,406	-23,694
Budgetary balance (deficit/surplus)	-844	332	13,284	8,228
Non-budgetary transactions	-393	509	-12,223	-13,482
Financial requirements/source (excluding foreign exchange transactions)	-1,237	841	1,061	-5,254
Foreign exchange transactions	10	1,070	-502	551
Net financial balance	-1,227	1,911	559	-4,703
Net change in borrowings	9,568	7,138	-141	4,990
Net change in cash balances	8,341	9,049	418	287
Cash balance at end of period			13,600	12,236

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

November 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by \$1.2 billion, from a deficit of \$0.8 billion in November 2001 to a surplus of \$0.3 billion in November 2002. Budgetary revenues increased by \$1.3 billion, or 10.4 per cent, in November 2002 on a year-over-year basis, in large part due to the timing of receipts.

- Personal income tax revenues were up \$0.5 billion, or 8.2 per cent, primarily due to higher monthly deductions from employment income. Part of this increase is attributable to the timing of receipts between November and December, which is expected to be reversed in December 2002.
- Corporate income tax revenues were up \$0.1 billion, or 6.6 per cent, reversing the year-over-year decline reported last month.
- Employment insurance (EI) premium revenues were up slightly, as the impact of the growth in the number of people employed and therefore

paying premiums offset 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, \$0.6 billion or 18.9 per cent, primarily due to higher GST revenues and customs import duties. This is largely attributable to the impact of processing delays at the border, which depressed customs receipts in November 2001. The increase in other excise taxes and duties is primarily due to the increase in tobacco excise taxes and higher energy tax revenues.
- Non-tax revenues were up slightly on a year-over-year basis.

On a year-over-year basis, program spending was up \$0.5 billion, or 4.9 per cent.

- Transfers to persons increased 1.8 per cent, as higher elderly benefits more than offset the decline in EI benefits. The decline in EI benefits is attributable to a decline in the number of

Table 2

Budgetary revenues

	November			April to November		
	2001	2002	Change	2001-02	2002-03	Change
	(\$ millions)			(\$ millions)		
	(%)			(%)		
Income taxes						
Personal income tax	6,127	6,629	8.2	55,845	52,554	-5.9
Corporate income tax	1,253	1,336	6.6	15,084	11,838	-21.5
Other income tax revenue	276	369	33.7	2,342	2,400	2.5
Total income tax	7,656	8,334	8.9	73,271	66,792	-8.8
Employment insurance premium revenues	1,036	1,045	0.9	12,046	12,047	0.0
Excise taxes and duties						
Goods and services tax	2,106	2,445	16.1	17,375	19,794	13.9
Customs import duties	174	276	58.6	1,951	2,168	11.1
Sales and excise taxes	709	798	12.6	5,861	6,383	8.9
Air Travellers Security Charge		35			230	
Total excise taxes and duties	2,989	3,554	18.9	25,187	28,575	13.5
Total tax revenues	11,681	12,933	10.7	110,504	107,414	-2.8
Non-tax revenues	595	625	5.0	5,544	5,349	-3.5
Total budgetary revenues	12,276	13,558	10.4	116,048	112,763	-2.8

benefit weeks, as both the number of beneficiaries and the average weekly benefit were higher.

- Transfers to other levels of government were up 6.6 per cent, primarily 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, was up 6.3 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month there was a year-over-year decline.

Public debt charges, on a year-over year basis, declined \$0.4 billion, or 11.2 per cent, due to a decline in the average effective interest rate, as the stock of interest-bearing debt was higher.

April to November 2002: budgetary results

Over the first eight months of fiscal year 2002-03, the budgetary surplus is estimated at \$8.2 billion, compared to a surplus of \$13.3 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 eight months of 2002-03, budgetary revenues were down \$3.3 billion, or 2.8 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.3 billion, or 5.9 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. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.

The Fiscal Monitor

Table 3

Budgetary expenditures

	November		Change	April to November		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,137	2,209	3.4	16,775	17,481	4.2
Employment insurance benefits	1,073	1,059	-1.3	8,046	8,832	9.8
Total	3,210	3,268	1.8	24,821	26,313	6.0
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	11,533	12,400	7.5
Fiscal transfers	1,034	1,051	1.6	8,315	8,313	0.0
Alternative Payments for Standing Programs	-233	-210	-9.9	-1,632	-1,681	3.0
Total	2,243	2,391	6.6	18,216	19,032	4.5
Direct program spending						
Subsidies and other transfers						
Agriculture	21	75	257.1	525	333	-36.6
Foreign Affairs	121	114	-5.8	1,000	864	-13.6
Health	153	155	1.3	851	973	14.3
Human Resources Development	142	119	-16.2	906	890	-1.8
Indian and Northern Development	290	300	3.4	2,733	2,647	-3.1
Industry and Regional Development	151	70	-53.6	958	1,015	5.9
Veterans Affairs	132	140	6.1	1,000	1,122	12.2
Other	216	198	-8.3	1,462	1,361	-6.9
Total	1,226	1,171	-4.5	9,435	9,205	-2.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	70	89	27.1	718	754	5.0
Canada Mortgage and Housing Corporation	183	125	-31.7	1,289	1,260	-2.2
Other	175	129	-26.3	1,213	1,318	8.7
Total	428	343	-19.9	3,220	3,332	3.5
Operating and capital expenditures						
Defence	869	803	-7.6	5,896	6,384	8.3
All other departmental expenditures	1,825	2,304	26.2	14,770	16,575	12.2
Total	2,694	3,107	15.3	20,666	22,959	11.1
Total direct program spending	4,348	4,621	6.3	33,321	35,496	6.5
Total program expenditures	9,801	10,280	4.9	76,358	80,841	5.9
Public debt charges	3,319	2,946	-11.2	26,406	23,694	-10.3
Total budgetary expenditures	13,120	13,226	0.8	102,764	104,535	1.7
Memorandum item:						
Total transfers	6,679	6,830	2.3	52,472	54,550	4.0

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 \$3.2 billion, or 21.5 per cent, primarily due 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 virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$3.4 billion, or 13.5 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 13.9 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 6 per cent. The difference in growth rates is largely attributable to a decline in refunds, which appears to be overstating the underlying increase in GST revenues. Traditionally, GST refunds move closely in line with the growth in gross GST collections. It is expected that over the balance of the year, GST refunds will more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 3.5 per cent from the same period of 2001-02.

Over the first eight months of 2002-03, program spending increased by \$4.5 billion, or 5.9 per cent, compared to the same period of 2001-02.

- Transfers to persons were up 6.0 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.5 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 6.5 per cent. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 3.5 per cent. Departmental and agency operating and capital spending was up 11.1 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.7 billion, or 10.3 per cent, reflecting a decline in the average effective interest rate on interest-bearing debt.

Financial requirement of \$5.3 billion (excluding foreign exchange transactions) for April to November 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.

The Fiscal Monitor

Table 4

The budgetary balance and financial requirements/source

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary balance (deficit/surplus)	-844	332	13,284	8,228
Loans, investments and advances				
Crown corporations	50	57	428	254
Other	-3	-127	-931	-693
Total	47	-70	-503	-439
Specified purpose accounts				
Canada Pension Plan Account	-584	-199	-1,947	-1,129
Superannuation accounts	-743	148	-1,510	-736
Other	62	-44	78	-182
Total	-1,265	-95	-3,379	-2,047
Other transactions	825	674	-8,341	-10,996
Total non-budgetary transactions	-393	509	-12,223	-13,482
Financial requirements/source (excluding foreign exchange transactions)	-1,237	841	1,061	-5,254
Foreign exchange transactions	10	1,070	-502	551
Net financial balance	-1,227	1,911	559	-4,703

Table 5

Net financial balance and net borrowings

	November		April to November	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Net financial balance	-1,227	1,911	559	-4,703
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	5,351	6,552	802	-3,459
Canada Savings Bonds	-2,043	-1,019	-2,512	-1,654
Treasury bills	6,700	2,750	5,500	12,400
Other	-12	-3	-21	-17
Total	9,996	8,280	3,769	7,270
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-428	-1,142	-2,120	-686
Canada notes	0	0	-173	0
Total	-428	-1,142	-3,910	-2,280
Net change in borrowings	9,568	7,138	-141	4,990
Change in cash balance	8,341	9,049	418	287

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	November 30, 2002	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	31,675	-9,004
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	126,185	-736
Canada Pension Plan (net of securities)	6,770	5,641	-1,129
Other pension and other accounts	7,469	7,287	-182
Total pension and other accounts	141,160	139,113	-2,047
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	290,384	-3,459
Treasury bills	94,039	106,439	12,400
Canada Savings Bonds	23,966	22,312	-1,654
Other	3,391	3,374	-17
Subtotal	415,239	422,509	7,270
Payable in foreign currencies	27,032	24,751	-2,281
Total unmatured debt	442,271	447,260	4,989
Total interest-bearing debt	583,431	586,373	2,942
Total liabilities	624,110	618,048	-6,063
Assets			
Cash and accounts receivable	16,829	19,108	2,279
Foreign exchange accounts	52,046	51,495	-551
Loans, investments and advances (net of allowances)	18,746	19,185	439
Total assets	87,621	89,788	2,167
Accumulated deficit (net public debt)	536,489	528,260	-8,228

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 \$13.5 billion in the first eight months of 2002-03, compared to a net requirement

of \$12.2 billion in the same period of 2001-02. Part of the higher requirement is attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first eight months of this year compared to the same period of 2001-02.

As a result, with a budgetary surplus of \$8.2 billion and a net requirement of \$13.5 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$5.3 billion in the April to November 2002 period, compared to a financial source of \$1.1 billion in the same period of 2001-02.

The Fiscal Monitor

Net financial requirement of \$4.7 billion for April to November 2002

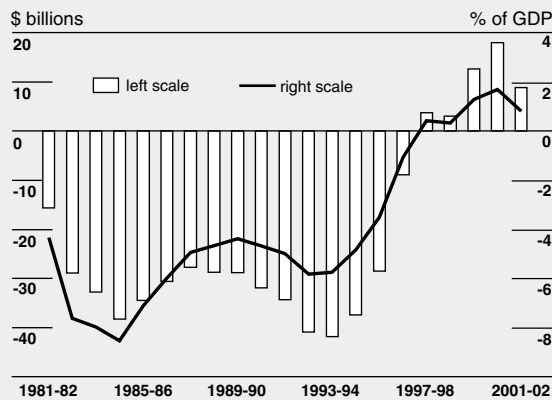
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign 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 source of \$0.6 billion in the first eight months of 2002-03, compared to a net requirement of \$0.5 billion in the same period of 2001-02.

With a budgetary surplus of \$8.2 billion, a net requirement of \$13.5 billion from non-budgetary transactions and a net source of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$4.7 billion in the April to November 2002 period, compared to a net source of \$0.6 billion in the same period of 2001-02.

Net borrowings up \$5.0 billion for April to November 2002

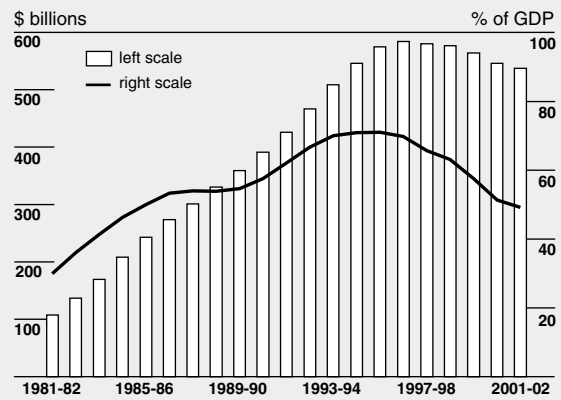
To finance this net financial requirement of \$4.7 billion, the Government increased its net borrowings by \$5.0 billion. In addition, it increased its cash balances by \$0.3 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: *Public Accounts of Canada* and Statistics Canada.

Net debt



Sources: *Public Accounts of Canada* and Statistics Canada.

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