

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2002: budgetary surplus of \$4.0 billion

There was a budgetary surplus of \$4.0 billion in June 2002, compared to a surplus of \$2.8 billion in June 2001.¹ Since 1996-97 large surpluses have been recorded in the month of June, primarily reflecting the inclusion of quarterly personal income tax instalment payments. Most of the year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, in part reflecting strong employment gains since the beginning of the year. In addition, there were one-time technical factors that impacted positively on revenues in June 2002, including adjustments pertaining to previous months and timing of receipts.

April to June 2002: budgetary surplus of \$4.8 billion

The budgetary surplus is estimated at \$4.8 billion for the April to June 2002 period, compared to a surplus of \$9.6 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting final personal income tax payments with respect to the 2001 tax year. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002.

¹ Budgetary revenues over the April to June period last year were affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in May and June. This will have no impact on the final results for the year as a whole. The June 2001 surplus was originally estimated at \$2.5 billion.

June 2002: budgetary results

Budgetary revenues increased \$1.3 billion, or 8.3 per cent, in June 2002 on a year-over-year basis.

- Personal income tax revenues increased \$0.9 billion, or 11.8 per cent, primarily reflecting higher tax deductions from employment income, attributable to the strong growth in employment since the beginning of the year. In addition, the timing of receipts and adjustments pertaining to previous periods contributed to the gain in June 2002.
- Corporate income tax revenues were down \$0.1 billion, or 5.1 per cent, attributable to higher refunds relating to the overpayment of taxes in the past.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.



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Table 1

Summary statement of transactions

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary transactions				
Revenues	15,349	16,627	47,274	43,232
Program spending	-9,446	-9,569	-27,816	-29,599
Operating surplus	5,903	7,058	19,458	13,633
Public debt charges	-3,111	-3,022	-9,904	-8,865
Budgetary balance (deficit/surplus)	2,792	4,036	9,554	4,768
Non-budgetary transactions	-7,887	-7,887	-10,348	-12,559
Financial requirements/source (excluding foreign exchange transactions)	-5,095	-3,851	-794	-7,791
Foreign exchange transactions	449	-607	312	-1,255
Net financial balance	-4,646	-4,458	-482	-9,046
Net change in borrowings	-8,170	-3,419	-8,983	2,078
Net change in cash balances	-12,816	-7,877	-9,465	-6,968
Cash balance at end of period			3,708	4,979

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.

- Excise taxes and duties were up \$0.3 billion, or 10.5 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were up sharply, reflecting the timing of receipts. They were down in May.

On a year-over-year basis, program spending increased by \$0.1 billion, or 1.3 per cent, as lower defence spending and subsidies and other transfers offset much of the increases in the other major components.

- Transfers to persons were up 7.9 per cent. Elderly benefits increased 6.5 per cent, reflecting an increase in the number of individuals receiving benefits and higher average benefits, which are indexed to inflation. The increase of 10.9 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and 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, declined by 4.9 per cent, reflecting lower subsidies and other transfers and defence spending. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, declined 2.9 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

Table 2

Budgetary revenues

	June		Change	April to June		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	7,382	8,250	11.8	23,560	20,062	-14.8
Corporate income tax	2,312	2,194	-5.1	6,832	5,340	-21.8
Other income tax revenue	243	242	-0.4	913	806	-11.7
Total income tax	9,937	10,686	7.5	31,305	26,208	-16.3
Employment insurance premium revenues	1,748	1,729	-1.1	5,327	5,240	-1.6
Excise taxes and duties						
Goods and services tax	1,916	2,177	13.6	5,747	6,508	13.2
Customs import duties	278	314	12.9	673	802	19.2
Sales and excise taxes	794	783	-1.4	2,174	2,285	5.1
Air Travellers Security Charge		28			48	
Total excise taxes and duties	2,988	3,302	10.5	8,594	9,643	12.2
Total tax revenues	14,673	15,717	7.1	45,226	41,091	-9.1
Non-tax revenues	676	910	34.6	2,048	2,141	4.5
Total budgetary revenues	15,349	16,627	8.3	47,274	43,232	-8.6

April to June 2002: budgetary results

Over the first three months of fiscal year 2002-03, the budgetary surplus was estimated at \$4.8 billion, compared to a surplus of \$9.6 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.

Budgetary revenues were down \$4.0 billion, or 8.6 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$3.5 billion, or 14.8 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 \$1.5 billion, or 21.8 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

	June		Change	April to June		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,050	2,184	6.5	6,204	6,562	5.8
Employment insurance benefits	903	1,001	10.9	2,891	3,472	20.1
Total	2,953	3,185	7.9	9,095	10,034	10.3
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	4,325	4,650	7.5
Fiscal transfers	1,057	1,056	-0.1	3,099	3,096	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-600	-630	5.0
Total	2,299	2,396	4.2	6,824	7,116	4.3
Direct program spending						
Subsidies and other transfers						
Agriculture	152	7	-95.4	381	64	-83.2
Foreign Affairs	141	88	-37.6	325	213	-34.5
Health	75	82	9.3	273	324	18.7
Human Resources Development	86	95	10.5	239	275	15.1
Indian and Northern Development	255	300	17.6	1,171	1,163	-0.7
Industry and Regional Development	174	148	-14.9	326	317	-2.8
Veterans Affairs	123	137	11.4	366	418	14.2
Other	196	197	0.5	684	520	-24.0
Total	1,202	1,054	-12.3	3,765	3,294	-12.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	74	-7.5	320	332	3.8
Canada Mortgage and Housing Corporation	158	159	0.6	474	489	3.2
Other	110	116	5.5	439	476	8.4
Total	348	349	0.3	1,233	1,297	5.2
Operating and capital expenditures						
Defence	1,009	730	-27.7	2,018	2,107	4.4
All other departmental expenditures	1,635	1,855	13.5	4,881	5,751	17.8
Total	2,644	2,585	-2.2	6,899	7,858	13.9
Total direct program spending	4,194	3,988	-4.9	11,897	12,449	4.6
Total program expenditures	9,446	9,569	1.3	27,816	29,599	6.4
Public debt charges	3,111	3,022	-2.9	9,904	8,865	-10.5
Total budgetary expenditures	12,557	12,591	0.3	37,720	38,464	2.0
Memorandum item:						
Total transfers	6,454	6,635	2.8	19,684	20,444	3.9

- Excise taxes and duties increased by \$1.0 billion, or 12.2 per cent, primarily reflecting higher GST revenues, customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were up 4.5 per cent.

Program spending increased by \$1.8 billion, or 6.4 per cent, in the April to June 2002 period, compared to the same period last year.

- Transfers to persons were up 10.3 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 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 4.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by \$1.0 billion, or 10.5 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

Financial requirement of \$7.8 billion (excluding foreign exchange transactions) for April to June 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 \$12.6 billion in the first three months of 2002-03, compared to a net requirement of \$10.3 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.8 billion and a net requirement of \$12.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.8 billion in the April to June 2002 period, compared to a financial requirement of \$0.8 billion in the same period last year.

Net financial requirement of \$9.0 billion for April to June 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 \$1.3 billion in the first three months of 2002-03, compared to a net source of \$0.3 billion in the same period in 2001-02.

With a budgetary surplus of \$4.8 billion, a net requirement of \$12.6 billion from non-budgetary transactions and a net requirement of \$1.3 billion from foreign exchange transactions, there was a net financial requirement of \$9.0 billion in the April to June 2002 period, compared to a net requirement of \$0.5 billion in the same period last year.

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Table 4

The budgetary balance and financial requirements/source

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,792	4,036	9,554	4,768
Loans, investments and advances				
Crown corporations	52	62	232	77
Other	92	63	33	93
Total	144	125	265	170
Specified purpose accounts				
Canada Pension Plan Account	-670	-116	-443	155
Superannuation accounts	-302	-508	-496	-595
Other	-75	-112	-22	-166
Total	-1,047	-736	-961	-606
Other transactions	-6,984	-7,276	-9,652	-12,123
Total non-budgetary transactions	-7,887	-7,887	-10,348	-12,559
Financial requirements/source (excluding foreign exchange transactions)	-5,095	-3,851	-794	-7,791
Foreign exchange transactions	449	-607	312	-1,255
Net financial balance	-4,646	-4,458	-482	-9,046

Table 5

Net financial balance and net borrowings

	June		April to June	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Net financial balance	-4,646	-4,458	-482	-9,046
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,187	-3,897	-2,041	-6,053
Canada Savings Bonds	-86	-161	-166	-312
Treasury bills	-3,600	700	-4,600	8,700
Other	-4	-6	-4	-8
Total	-6,877	-3,364	-6,811	2,327
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	0
Notes and loans	-41		-41	
Canada bills	-1,252	-55	-382	-249
Canada notes	0	0	-173	0
Total	-1,293	-55	-2,172	-249
Net change in borrowings	-8,170	-3,419	-8,983	2,078
Change in cash balance	-12,816	-7,877	-9,465	-6,968

Table 6

Condensed statement of assets and liabilities¹

	March 31, 2002	June 30, 2002	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	41,014	29,206	-11,808
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,614	-595
Canada Pension Plan (net of securities)	6,756	6,911	155
Other pension and other accounts	7,454	7,288	-166
Total pension and other accounts	141,419	140,813	-606
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,791	-6,074
Treasury bills	94,200	102,740	8,540
Canada Savings Bonds	23,759	23,654	-105
Other	3,390	3,383	-7
Subtotal	415,214	417,568	2,354
Payable in foreign currencies	27,033	26,782	-251
Total unmatured debt	442,247	444,350	2,103
Total interest-bearing debt	583,666	585,163	1,497
Total liabilities	624,680	614,369	-10,311
Assets			
Cash and accounts receivable	14,796	8,168	-6,628
Foreign exchange accounts	52,119	53,374	1,255
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	77,759	-5,543
Accumulated deficit (net public debt)	541,378	536,610	-4,768

¹ Assumes a fiscal balance of \$6 billion for 2001-02.

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Net borrowings up \$2.1 billion for April to June 2002

To finance this net financial requirement, the Government increased its holding of market debt by \$2.1 billion to the end of June 2002 and lowered its cash balances by \$7.0 billion to \$5.0 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.

