

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### October 2002: budgetary surplus of \$126 million

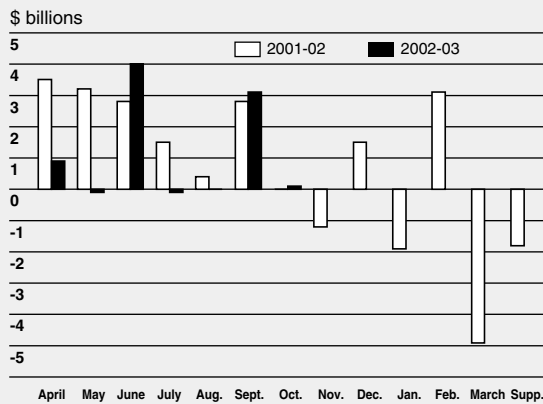
There was a budgetary surplus of \$126 million in October 2002, compared to a deficit of \$42 million in October 2001. All of the year-over-year improvement was due to lower public debt charges (down \$204 million), as budgetary revenues were marginally lower (down \$14 million) and program spending was marginally higher (up \$22 million).

### April to October 2002: budgetary surplus of \$7.9 billion

The budgetary surplus is estimated at \$7.9 billion for the April to October 2002 period, down \$6.2 billion from the surplus of \$14.1 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.

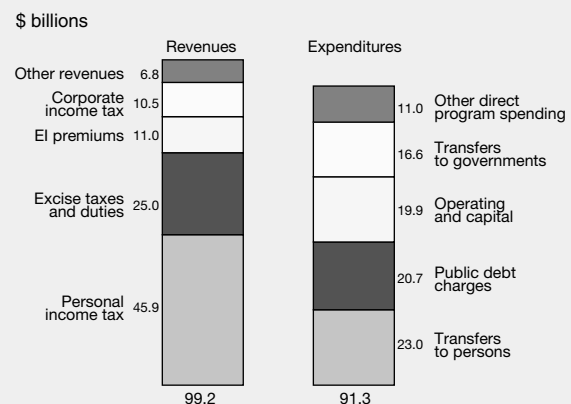
The results for 2002-03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which has increased at a faster rate than the growth in the applicable tax base, attributable primarily to a decline in GST refunds. As GST refunds typically closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results. It is expected that over the balance of the year, GST refunds will more closely reflect gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for the year as a whole of \$4.0 billion presented in the October 30 *Economic and Fiscal Update*.

### Monthly surplus and deficit



### Revenues and expenditures

(April to October 2002)



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Table 1

## Summary statement of transactions

|  | October       |         | April to October |         |
|--|---------------|---------|------------------|---------|
|  | 2001          | 2002    | 2001-02          | 2002-03 |
|  | (\$ millions) |         |                  |         |
| <b>Budgetary transactions</b>  |               |         |                  |         |
| Revenues   | 13,520        | 13,506  | 103,772          | 99,201  |
| Program spending   | -10,275       | -10,297 | -66,554          | -70,558 |
| Operating surplus  | 3,245         | 3,209   | 37,218           | 28,643  |
| Public debt charges  | -3,287        | -3,083  | -23,088          | -20,748 |
| Budgetary balance (deficit/surplus)  | -42           | 126     | 14,130           | 7,895   |
| <b>Non-budgetary transactions</b>  | -1,830        | -403    | -11,829          | -13,989 |
| <b>Financial requirements/source<br/>(excluding foreign exchange transactions)</b> | -1,872        | -277    | 2,301            | -6,094  |
| <b>Foreign exchange transactions</b>   | -1,010        | -1,217  | -512             | -519    |
| <b>Net financial balance</b>   | -2,882        | -1,494  | 1,789            | -6,613  |
| <b>Net change in borrowings</b>  | 4,546         | 757     | -9,708           | -2,148  |
| <b>Net change in cash balances</b>   | 1,664         | -737    | -7,919           | -8,761  |
| <b>Cash balance at end of period</b>   |               |         | 5,259            | 3,189   |

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.

### October 2002: budgetary results

On a year-over-year basis, the budgetary balance increased by \$168 million, from a deficit of \$42 million in October 2001 to a surplus of \$126 million in October 2002. Budgetary revenues declined by \$14 million, or 0.1 per cent, in October 2002 on a year-over-year basis, as higher tax revenues were more than offset by lower non-tax revenues.

- Personal income tax revenues were up \$0.2 billion, or 4.2 per cent, primarily due to higher monthly deductions from employment income, reflecting the strong growth in employment, and lower refunds.
- Corporate income tax revenues were down \$0.1 billion, or 6.4 per cent, due to both lower instalment payments and higher refunds.
- 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 marginally. However, there were large differences among the major components. GST revenues declined 8.1 per cent, reflecting both lower gross collections and higher refunds. Customs import duties were also lower. In contrast, energy taxes and other excise taxes and duties were both up strongly. The increase in energy taxes was primarily attributable to the timing of receipts, which depressed revenues in October 2001. The increase in other excise taxes and duties was primarily due to the increase in tobacco excise taxes.
- Non-tax revenues were down \$0.2 billion, reflecting the timing of receipts. In September 2002 they were up sharply on a year-over-year basis.

Table 2

## Budgetary revenues

|  | October       |        | Change | April to October |         | Change |
|--|---------------|--------|--------|------------------|---------|--------|
|  | 2001          | 2002   |        | 2001-02          | 2002-03 |        |
|  | (\$ millions) |        | (%)    | (\$ millions)    |         | (%)    |
| <b>Income taxes</b>                          |               |        |        |                  |         |        |
| Personal income tax                          | 5,700         | 5,940  | 4.2    | 49,718           | 45,924  | -7.6   |
| Corporate income tax                         | 1,459         | 1,366  | -6.4   | 13,832           | 10,502  | -24.1  |
| Other income tax revenue                     | 378           | 380    | 0.5    | 2,065            | 2,031   | -1.6   |
| Total income tax                             | 7,537         | 7,686  | 2.0    | 65,615           | 58,457  | -10.9  |
| <b>Employment insurance premium revenues</b> | 1,194         | 1,225  | 2.6    | 11,009           | 11,001  | -0.1   |
| <b>Excise taxes and duties</b>               |               |        |        |                  |         |        |
| Goods and services tax                       | 3,172         | 2,916  | -8.1   | 15,269           | 17,348  | 13.6   |
| Customs import duties                        | 331           | 274    | -17.2  | 1,777            | 1,892   | 6.5    |
| Sales and excise taxes                       | 509           | 811    | 59.3   | 5,150            | 5,587   | 8.5    |
| Air Travellers Security Charge               |               | 44     |        |                  | 195     |        |
| Total excise taxes and duties                | 4,012         | 4,045  | 0.8    | 22,196           | 25,022  | 12.7   |
| <b>Total tax revenues</b>                    | 12,743        | 12,956 | 1.7    | 98,820           | 94,480  | -4.4   |
| <b>Non-tax revenues</b>                      | 777           | 550    | -29.2  | 4,952            | 4,721   | -4.7   |
| <b>Total budgetary revenues</b>              | 13,520        | 13,506 | -0.1   | 103,772          | 99,201  | -4.4   |

On a year-over-year basis, program spending was up \$22 million, or 0.2 per cent, as lower direct program spending and transfers to persons were offset by higher transfers to other levels of government.

- Transfers to persons declined 0.5 per cent due to lower EI benefits, as elderly benefits increased by 3.6 per cent. The year-over-year decline in EI benefits is primarily attributable to the timing of benefit payments in October 2002.
- Transfers to other levels of government were up 4.1 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

1.2 per cent. The monthly fluctuations in this component are due in large part to the timing of payments. Last month, a year-over-year increase of 16.0 per cent was recorded.

Public debt charges, on a year-over year basis, declined \$0.2 billion, or 6.2 per cent, due to a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

### April to October 2002: budgetary results

Over the first seven months of fiscal year 2002-03, the budgetary surplus was estimated at \$7.9 billion, compared to a surplus of \$14.1 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.

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Table 3

## Budgetary expenditures

|  | October       |        | Change | April to October |         | Change |
|--|---------------|--------|--------|------------------|---------|--------|
|  | 2001          | 2002   |        | 2001-02          | 2002-03 |        |
|  | (\$ millions) |        | (%)    | (\$ millions)    |         | (%)    |
| <b>Transfer payments to:</b>               |               |        |        |                  |         |        |
| Persons                                    |               |        |        |                  |         |        |
| Elderly benefits                           | 2,137         | 2,213  | 3.6    | 14,638           | 15,272  | 4.3    |
| Employment insurance benefits              | 1,076         | 983    | -8.6   | 6,973            | 7,773   | 11.5   |
| Total                                      | 3,213         | 3,196  | -0.5   | 21,611           | 23,045  | 6.6    |
| Other levels of government                 |               |        |        |                  |         |        |
| Canada Health and Social Transfer          | 1,442         | 1,550  | 7.5    | 10,092           | 10,850  | 7.5    |
| Fiscal transfers                           | 1,046         | 1,042  | -0.4   | 7,281            | 7,261   | -0.3   |
| Alternative Payments for Standing Programs | -200          | -210   | 5.0    | -1,400           | -1,471  | 5.1    |
| Total                                      | 2,288         | 2,382  | 4.1    | 15,973           | 16,640  | 4.2    |
| <b>Direct program spending</b>             |               |        |        |                  |         |        |
| Subsidies and other transfers              |               |        |        |                  |         |        |
| Agriculture                                | 40            | 29     | -27.5  | 504              | 258     | -48.8  |
| Foreign Affairs                            | 245           | 130    | -46.9  | 879              | 750     | -14.7  |
| Health                                     | 107           | 101    | -5.6   | 698              | 818     | 17.2   |
| Human Resources Development                | 139           | 132    | -5.0   | 764              | 771     | 0.9    |
| Indian and Northern Development            | 313           | 308    | -1.6   | 2,442            | 2,347   | -3.9   |
| Industry and Regional Development          | 201           | 261    | 29.9   | 808              | 945     | 17.0   |
| Veterans Affairs                           | 121           | 141    | 16.5   | 868              | 982     | 13.1   |
| Other                                      | 184           | 112    | -39.1  | 1,247            | 1,164   | -6.7   |
| Total                                      | 1,350         | 1,214  | -10.1  | 8,210            | 8,035   | -2.1   |
| Payments to Crown corporations             |               |        |        |                  |         |        |
| Canadian Broadcasting Corporation          | 83            | 92     | 10.8   | 648              | 665     | 2.6    |
| Canada Mortgage and Housing Corporation    | 158           | 149    | -5.7   | 1,106            | 1,135   | 2.6    |
| Other                                      | 185           | 250    | 35.1   | 1,037            | 1,185   | 14.3   |
| Total                                      | 426           | 491    | 15.3   | 2,791            | 2,985   | 7.0    |
| Operating and capital expenditures         |               |        |        |                  |         |        |
| Defence                                    | 787           | 893    | 13.5   | 5,026            | 5,581   | 11.0   |
| All other departmental expenditures        | 2,211         | 2,121  | -4.1   | 12,943           | 14,272  | 10.3   |
| Total                                      | 2,998         | 3,014  | 0.5    | 17,969           | 19,853  | 10.5   |
| Total direct program spending              | 4,774         | 4,719  | -1.2   | 28,970           | 30,873  | 6.6    |
| <b>Total program expenditures</b>          | 10,275        | 10,297 | 0.2    | 66,554           | 70,558  | 6.0    |
| <b>Public debt charges</b>                 | 3,287         | 3,083  | -6.2   | 23,088           | 20,748  | -10.1  |
| <b>Total budgetary expenditures</b>        | 13,562        | 13,380 | -1.3   | 89,642           | 91,306  | 1.9    |
| Memorandum item:                           |               |        |        |                  |         |        |
| Total transfers                            | 6,851         | 6,792  | -0.9   | 45,794           | 47,720  | 4.2    |

Over the first seven months of 2002-03, budgetary revenues were down \$4.6 billion, or 4.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.8 billion, or 7.6 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. 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 24.1 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 down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by \$2.8 billion, or 12.7 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 13.6 per cent compared to an increase in the applicable tax base – consumer expenditures – of about 4 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 4.7 per cent from the same period last year.

Over the first seven months of 2002-03, program spending increased by \$4.0 billion, or 6.0 per cent, compared to the same period last year.

- Transfers to persons were up 6.6 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects an 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 4.2 per cent due 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. Subsidies and other transfers were slightly lower, primarily due to the timing of payments. Payments to Crown corporations were up 7.0 per cent. Departmental and agency operating and capital spending was up 10.5 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.3 billion, or 10.1 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

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Table 4

## The budgetary balance and financial requirements/source

|  | October       |        | April to October |         |
|--|---------------|--------|------------------|---------|
|  | 2001          | 2002   | 2001-02          | 2002-03 |
|  | (\$ millions) |        |                  |         |
| <b>Budgetary balance (deficit/surplus)</b>   | -42           | 126    | 14,130           | 7,895   |
| <b>Loans, investments and advances</b>   |               |        |                  |         |
| Crown corporations   | 24            | 14     | 379              | 196     |
| Other  | -423          | -148   | -930             | -565    |
| Total  | -399          | -134   | -551             | -369    |
| <b>Specified purpose accounts</b>  |               |        |                  |         |
| Canada Pension Plan Account  | -745          | -251   | -1,363           | -930    |
| Superannuation accounts  | -104          | 233    | -768             | -884    |
| Other  | -17           | -6     | 16               | -136    |
| Total  | -866          | -24    | -2,115           | -1,950  |
| <b>Other transactions</b>  | -565          | -245   | -9,163           | -11,670 |
| <b>Total non-budgetary transactions</b>  | -1,830        | -403   | -11,829          | -13,989 |
| <b>Financial requirements/source<br/>(excluding foreign exchange transactions)</b> | -1,872        | -277   | 2,301            | -6,094  |
| <b>Foreign exchange transactions</b>   | -1,010        | -1,217 | -512             | -519    |
| <b>Net financial balance</b>   | -2,882        | -1,494 | 1,789            | -6,613  |

Table 5

## Net financial balance and net borrowings

|  | October       |        | April to October |         |
|--|---------------|--------|------------------|---------|
|  | 2001          | 2002   | 2001-02          | 2002-03 |
|  | (\$ millions) |        |                  |         |
| <b>Net financial balance</b>                       | -2,882        | -1,494 | 1,789            | -6,613  |
| <b>Net increase (+)/decrease (-) in borrowings</b> |               |        |                  |         |
| Payable in Canadian dollars                        |               |        |                  |         |
| Marketable bonds                                   | 1,435         | -1,693 | -4,548           | -10,011 |
| Canada Savings Bonds                               | -120          | -105   | -469             | -635    |
| Treasury bills                                     | 2,800         | 1,650  | -1,200           | 9,650   |
| Other  | 0             | -1     | -9               | -14     |
| Total  | 4,115         | -149   | -6,226           | -1,010  |
| Payable in foreign currencies                      |               |        |                  |         |
| Marketable bonds                                   | 0             | 0      | -1,576           | -1,594  |
| Notes and loans                                    | 0             |        | -41              |         |
| Canada bills                                       | 431           | 906    | -1,692           | 456     |
| Canada notes                                       | 0             | 0      | -173             | 0       |
| Total  | 431           | 906    | -3,482           | -1,138  |
| <b>Net change in borrowings</b>                    | 4,546         | 757    | -9,708           | -2,148  |
| <b>Change in cash balance</b>                      | 1,664         | -737   | -7,919           | -8,761  |

Table 6

## Condensed statement of assets and liabilities

|  | March 31, 2002 | October 31, 2002 | Change        |
|--|----------------|------------------|---------------|
|  | (\$ millions)  |                  |               |
| <b>Liabilities</b>                                     |                |                  |               |
| Accounts payable, accruals and allowances              | 40,679         | 31,486           | -9,193        |
| Interest-bearing debt                                  |                |                  |               |
| Pension and other accounts                             |                |                  |               |
| Public sector pensions                                 | 126,921        | 126,037          | -884          |
| Canada Pension Plan (net of securities)                | 6,770          | 5,840            | -930          |
| Other pension and other accounts                       | 7,469          | 7,333            | -136          |
| Total pension and other accounts                       | 141,160        | 139,209          | -1,951        |
| Unmatured debt   |                |                  |               |
| Payable in Canadian dollars                            |                |                  |               |
| Marketable bonds                                       | 293,843        | 283,833          | -10,010       |
| Treasury bills   | 94,039         | 103,689          | 9,650         |
| Canada Savings Bonds                                   | 23,966         | 23,331           | -635          |
| Other  | 3,391          | 3,377            | -14           |
| Subtotal   | 415,239        | 414,230          | -1,009        |
| Payable in foreign currencies                          | 27,032         | 25,893           | -1,139        |
| Total unmatured debt                                   | 442,271        | 440,123          | -2,147        |
| Total interest-bearing debt                            | 583,431        | 579,332          | -4,098        |
| Total liabilities                                      | 624,110        | 610,818          | -13,291       |
| <b>Assets</b>  |                |                  |               |
| Cash and accounts receivable                           | 16,829         | 10,545           | -6,284        |
| Foreign exchange accounts                              | 52,046         | 52,565           | 519           |
| Loans, investments and advances<br>(net of allowances) | 18,746         | 19,115           | 369           |
| Total assets   | 87,621         | 82,225           | -5,396        |
| <b>Accumulated deficit (net public debt)</b>           | <b>536,489</b> | <b>528,593</b>   | <b>-7,895</b> |

### Financial requirement of \$6.1 billion (excluding foreign exchange transactions) for April to October 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 \$14.0 billion in the first seven months of 2002-03, compared to a net requirement of \$11.8 billion in the same period in 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 seven months of this year compared to the same period last year.

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As a result, with a budgetary surplus of \$7.9 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$6.1 billion in the April to October 2002 period, compared to a financial source of \$2.3 billion in the same period last year.

## Net financial requirement of \$6.6 billion for April to October 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

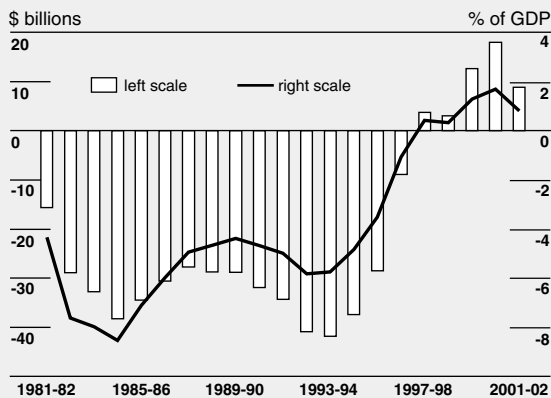
of these factors into account, there was a net requirement of \$0.5 billion in the first seven months of 2002-03, unchanged from the net requirement in the same period in 2001-02.

With a budgetary surplus of \$7.9 billion, a net requirement of \$14.0 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial requirement of \$6.6 billion in the April to October 2002 period, compared to a net source of \$1.8 billion in the same period last year.

## Net borrowings down \$2.1 billion for April to October 2002

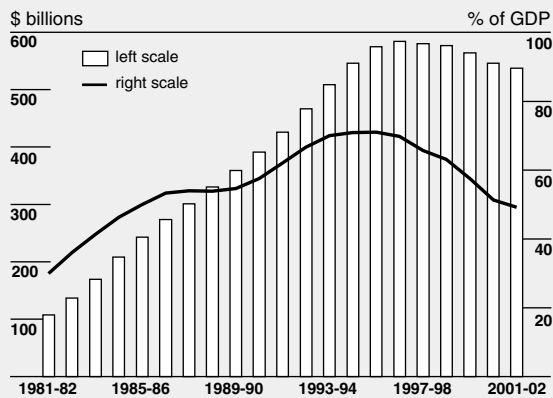
To finance this net financial requirement of \$6.6 billion, the Government reduced its cash balances by \$8.8 billion to \$3.2 billion. This also allowed it to reduce its holding of market debt by \$2.1 billion to the end of October 2002. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



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

### Net debt



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

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