

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 2002

Budgetary surplus of \$0.9 billion in April 2002

There was a budgetary surplus of \$0.9 billion in April 2002, down \$2.6 billion from the revised surplus of \$3.5 billion in April 2001.¹ On a year-over-year basis, the lower surplus was attributable to a decline in budgetary revenues (down \$2.4 billion) and higher program spending (up \$0.8 billion). The impact of these developments was partially offset by lower public debt charges (down \$0.5 billion).

The decline of \$2.4 billion, or 14.6 per cent, in budgetary revenues on a year-over year basis was spread throughout all the major components except excise taxes and duties.

- Personal income tax collections were down \$2.1 billion, or 24.6 per cent. Most of this decline was attributable to lower final tax settlement payments and higher refunds with respect to the 2001 tax year. Final tax settlement payments in April 2001 were extraordinarily high, reflecting, among others things, strong increases in capital gains in the 2000 tax year. However, the decline in the stock market in 2001, coupled with the impact of lower interest rates on other components of investment income, resulted in much lower final tax settlement payments and higher refunds. Monthly deductions from employment income were somewhat lower, reflecting the timing of receipts and the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.

- Corporate income tax collections declined \$0.7 billion, or 30.5 per cent, primarily attributable to higher refunds reflecting the weakness in corporate profits in 2001.
- Employment insurance (EI) premium revenues were down 2.7 per cent, largely due to 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 \$0.6 billion, or 23.7 per cent, primarily reflecting strong growth in imports, which resulted in higher GST revenues and customs import duties. Sales and excise taxes were also higher, primarily attributable to the increase in tobacco taxes.
- Non-tax revenues were down 14.4 per cent.

Program spending increased by \$0.8 billion, or 8.7 per cent, on a year-over-year basis.

- Major transfers to persons were up \$0.4 billion, or 12.3 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Major transfers to other levels of government were up \$53 million, or 2.4 per cent, attributable to higher cash transfers under the Canada Health and Social Transfer, reflecting the September 2000 agreement reached by first ministers to increase base funding from

¹ The budgetary surplus for April 2001 was originally estimated at \$4.6 billion. However, this result was 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 surplus by \$1.1 billion and understating the surplus in the May and June period by a comparable amount. This will have no impact on the final results for the year as a whole.

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Table 1

Summary statement of transactions

	April	
	2001	2002
	(\$ millions)	
Budgetary transactions		
Revenues	16,126	13,776
Program spending	-9,226	-10,029
Operating surplus	6,900	3,747
Public debt charges	-3,389	-2,875
Budgetary balance (deficit/surplus)	3,511	872
Non-budgetary transactions	-3,952	-5,552
Financial requirements/source (excluding foreign exchange transactions)	-441	-4,680
Foreign exchange transactions	158	-668
Net financial balance	-283	-5,348
Net change in borrowings	70	-940
Net change in cash balances	-213	-6,288
Cash balance at end of period	5,818	12,965

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

\$17.3 billion in 2001-02 to \$18.6 billion in 2002-03. The decline in fiscal transfers was primarily attributable to the timing of payments, which should be reversed in future months.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by \$0.4 billion, or 9.2 per cent. Subsidies and other transfers and payments to Crown corporations declined, while operating and capital expenditures were higher. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges were down \$0.5 billion, or 15.2 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

Financial requirement of \$4.7 billion (excluding foreign exchange transactions) in April 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

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Table 2

Budgetary revenues

	April		Change (%)
	2001	2002	
	(\$ millions)		
Income taxes			
Personal income tax	8,539	6,436	-24.6
Corporate income tax	2,146	1,492	-30.5
Other income tax revenue	364	332	-8.8
Total income tax	11,049	8,260	-25.2
Employment insurance premium revenues	1,809	1,760	-2.7
Excise taxes and duties			
Goods and services tax	1,703	2,151	26.3
Customs import duties	169	257	52.1
Sales and excise taxes	645	705	9.3
Total excise taxes and duties	2,517	3,113	23.7
Total tax revenues	15,375	13,133	-14.6
Non-tax revenues	751	643	-14.4
Total budgetary revenues	16,126	13,776	-14.6

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 \$5.6 billion in April 2002, up from a net requirement of \$4.0 billion in April 2001. The higher requirement is primarily due to timing factors affecting the other transactions component.

With a budgetary surplus of \$0.9 billion and a net requirement of \$5.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$4.7 billion in April 2002, compared to a requirement of \$0.4 billion in April 2001.

Net financial requirement of \$5.3 billion in April 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 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 \$0.7 billion in April 2002, compared to a net source of \$0.2 billion in April 2001.

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Table 3

Budgetary expenditures

	April		Change (%)
	2001	2002	
	(\$ millions)		
Transfer payments to:			
Persons			
Elderly benefits	2,063	2,166	5.0
Employment insurance benefits	1,113	1,402	26.0
Total	3,176	3,568	12.3
Other levels of government			
Canada Health and Social Transfer	1,441	1,550	7.6
Fiscal transfers	923	877	-5.0
Alternative Payments for Standing Programs	-200	-210	5.0
Total	2,164	2,217	2.4
Direct program spending			
Subsidies and other transfers			
Agriculture	38	16	-57.9
Foreign Affairs	122	41	-66.4
Health	10	110	1,000.0
Human Resources Development	26	70	169.2
Indian and Northern Development	690	609	-11.7
Industry and Regional Development	112	109	-2.7
Veterans Affairs	118	143	21.2
Other	306	163	-46.7
Total	1,422	1,261	-11.3
Payments to Crown corporations			
Canadian Broadcasting Corporation	200	182	-9.0
Canada Mortgage and Housing Corporation	158	171	8.2
Other	221	225	1.8
Total	579	578	-0.2
Operating and capital expenditures			
Defence	505	580	14.9
All other departmental expenditures	1,380	1,825	32.2
Total	1,885	2,405	27.6
Total direct program spending	3,886	4,244	9.2
Total program expenditures	9,226	10,029	8.7
Public debt charges	3,389	2,875	-15.2
Total budgetary expenditures	12,615	12,904	2.3
Memorandum item:			
Total transfers	6,762	7,046	4.2

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Table 4

The budgetary balance and financial requirements/source

	April	
	2001	2002
	(\$ millions)	
Budgetary balance (deficit/surplus)	3,511	872
Loans, investments and advances		
Crown corporations	132	13
Other	-14	8
Total	118	21
Specified purpose accounts		
Canada Pension Plan Account	-400	-129
Superannuation accounts	46	-45
Other	21	-38
Total	-333	-212
Other transactions	-3,737	-5,361
Total non-budgetary transactions	-3,952	-5,552
Financial requirements/source (excluding foreign exchange transactions)	-441	-4,680
Foreign exchange transactions	158	-668
Net financial balance	-283	-5,348

Table 5

Net financial balance and net borrowings

	April	
	2001	2002
	(\$ millions)	
Net financial balance	-283	-5,348
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	1,371	-5,200
Treasury bills	-700	4,300
Canada Savings Bonds	-1	-57
Other	0	0
Total	670	-957
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-490	17
Canada notes	-110	0
Total	-600	17
Net change in borrowings	70	-940
Change in cash balance	-213	-6,288

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Table 6

Condensed statement of assets and liabilities

	March 31, 2002	April 30, 2002	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	41,014	39,486	-1,528
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,164	-45
Canada Pension Plan (net of securities)	6,756	6,627	-129
Other pension and other accounts	7,454	7,416	-38
Total pension and other accounts	141,419	141,207	-212
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	288,665	-5,200
Treasury bills	94,200	98,500	4,300
Canada Savings Bonds	23,759	23,702	-57
Other	3,390	3,390	0
Subtotal	415,214	414,257	-957
Payable in foreign currencies	27,033	27,050	17
Total unmaturred debt	442,247	441,307	-940
Total interest-bearing debt	583,666	582,514	-1,152
Total liabilities	624,680	622,000	-2,680
Assets			
Cash and accounts receivable	14,796	13,635	-1,161
Foreign exchange accounts	52,119	51,451	-668
Loans, investments and advances (net of allowances)	16,387	16,408	21
Total assets	83,302	81,494	-1,808
Accumulated deficit (net public debt)¹	541,378	540,506	-872

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

With a budgetary surplus of \$0.9 billion, a net requirement of \$5.6 billion from non-budgetary transactions and a net requirement of \$0.7 billion from foreign exchange transactions, there was a net financial requirement of \$5.3 billion in April 2002, compared to a net requirement of \$0.3 billion in April 2001.

Net borrowings down slightly

This financial requirement was financed by a drawdown in cash balances of \$6.3 billion, which also resulted in a decrease of \$0.9 billion in net borrowings. Cash balances at the end of April 2002 stood at \$13.0 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.

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