

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

July 2002: budgetary deficit of \$128 million

There was a budgetary deficit of \$128 million in July 2002, compared to a surplus of \$1.5 billion in July 2001.¹ Most of the year-over-year deterioration in the budgetary balance is attributable to higher corporate and personal income tax refunds, reflecting the lagged impact of the weakness in the economy in 2001, and increased program spending. Budgetary revenues declined \$1.1 billion, while program spending increased by \$0.8 billion. Public debt charges declined by \$0.2 billion.

April to July 2002: budgetary surplus of \$4.6 billion

The budgetary surplus is estimated at \$4.6 billion for the April to July 2002 period, down \$6.4 billion from the surplus of \$11.0 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 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. In addition, corporate income tax refunds are up significantly this year, 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 four months is attributable to lower budgetary revenues, down \$5.1 billion, and higher program spending, up \$2.6 billion, primarily reflecting the impact of previous budget measures. Public debt charges were down \$1.3 billion due to the decline in the average effective interest rate on interest-bearing debt.

¹ Budgetary revenues in 2001-02 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 other months. This will have no impact on the final results for the year as a whole. The July 2001 surplus was originally estimated at \$0.8 billion.

July 2002: budgetary results

Budgetary revenues declined \$1.1 billion, or 7.3 per cent, in July 2002 on a year-over-year basis.

- Personal income tax revenues were down \$0.3 billion, or 4.9 per cent, primarily due to higher tax refunds with respect to the 2001 tax year. Partially offsetting this were higher deductions from employment income, attributable to the strong growth in employment since the beginning of the year.
- Corporate income tax revenues were down \$0.9 billion, or 42.6 per cent, due 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

	July		April to July	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary transactions				
Revenues	14,568	13,509	61,841	56,743
Program spending	-9,741	-10,549	-37,557	-40,148
Operating surplus	4,827	2,960	24,284	16,595
Public debt charges	-3,345	-3,088	-13,250	-11,952
Budgetary balance (deficit/surplus)	1,482	-128	11,034	4,643
Non-budgetary transactions	341	448	-10,009	-12,117
Financial requirements/source (excluding foreign exchange transactions)	1,823	320	1,025	-7,474
Foreign exchange transactions	-443	1,364	-131	109
Net financial balance	1,380	1,684	894	-7,365
Net change in borrowings	-1,589	-3,709	-10,573	-1,629
Net change in cash balances	-209	-2,025	-9,679	-8,994
Cash balance at end of period			3,499	2,955

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 \$0.2 billion, or 5.1 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were down sharply, reflecting the timing of receipts. They were up sharply in June.

On a year-over-year basis, program spending increased by \$0.8 billion, or 8.3 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.5 per cent. Elderly benefits increased 2.0 per cent. This year-over-year increase is somewhat lower than expected, reflecting the timing of payments. The increase of 15.7 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, increased by 11.8 per cent, after declining by 4.9 per cent in June. 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 7.4 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

	July		Change	April to July		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,358	6,048	-4.9	29,917	26,110	-12.7
Corporate income tax	2,028	1,164	-42.6	8,859	6,504	-26.6
Other income tax revenue	291	363	24.7	1,203	1,168	-2.9
Total income tax	8,677	7,575	-12.7	39,979	33,782	-15.5
Employment insurance premium revenues	1,654	1,647	-0.4	6,981	6,887	-1.3
Excise taxes and duties						
Goods and services tax	2,364	2,525	6.8	8,111	9,035	11.4
Customs import duties	250	230	-8.0	923	1,032	11.8
Sales and excise taxes	784	781	-0.4	2,959	3,066	3.6
Air Travellers Security Charge		34			82	
Total excise taxes and duties	3,398	3,570	5.1	11,993	13,215	10.2
Total tax revenues	13,729	12,792	-6.8	58,953	53,885	-8.6
Non-tax revenues	839	717	-14.5	2,888	2,859	-1.0
Total budgetary revenues	14,568	13,509	-7.3	61,841	56,743	-8.2

April to July 2002: budgetary results

Over the first four months of fiscal year 2002-03, the budgetary surplus is estimated at \$4.6 billion, compared to a surplus of \$11.0 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 four months of 2002-03, budgetary revenues were down \$5.1 billion, or 8.2 per cent, on a year-over-year basis.

Among the major components:

- Personal income tax collections declined \$3.8 billion, or 12.7 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 \$2.4 billion, or 26.6 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

	July		Change	April to July		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,103	2,145	2.0	8,306	8,706	4.8
Employment insurance benefits	1,035	1,198	15.7	3,926	4,671	19.0
Total	3,138	3,343	6.5	12,232	13,377	9.4
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	5,767	6,200	7.5
Fiscal transfers	1,045	1,042	-0.3	4,143	4,137	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-800	-841	5.1
Total	2,287	2,382	4.2	9,110	9,496	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	41	44	7.3	422	107	-74.6
Foreign Affairs	177	208	17.5	503	421	-16.3
Health	121	175	44.6	394	499	26.6
Human Resources Development	123	96	-22.0	362	371	2.5
Indian and Northern Development	326	305	-6.4	1,496	1,468	-1.9
Industry and Regional Development	104	136	30.8	430	453	5.3
Veterans Affairs	127	142	11.8	493	561	13.8
Other	25	118	372.0	710	641	-9.7
Total	1,044	1,224	17.2	4,810	4,521	-6.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	75	-6.3	400	407	1.8
Canada Mortgage and Housing Corporation	158	153	-3.2	632	642	1.6
Other	136	194	42.6	574	670	16.7
Total	374	422	12.8	1,606	1,719	7.0
Operating and capital expenditures						
Defence	808	911	12.7	2,827	3,020	6.8
All other departmental expenditures	2,090	2,267	8.5	6,972	8,015	15.0
Total	2,898	3,178	9.7	9,799	11,035	12.6
Total direct program spending	4,316	4,824	11.8	16,215	17,275	6.5
Total program expenditures	9,741	10,549	8.3	37,557	40,148	6.9
Public debt charges	3,345	3,096	-7.4	13,250	11,952	-9.8
Total budgetary expenditures	13,086	13,645	4.3	50,807	52,100	2.5
Memorandum item:						
Total transfers	6,469	6,949	7.4	26,152	27,394	4.7

- Excise taxes and duties increased by \$1.2 billion, or 10.2 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.
- Non-tax revenues were down 1.0 per cent.

Over the first four months of 2002-03, program spending increased by \$2.6 billion, or 6.9 per cent, in the April to July 2002 period, compared to the same period last year.

- Transfers to persons were up 9.4 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 6.5 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 \$1.3 billion, or 9.8 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

Financial requirement of \$7.5 billion (excluding foreign exchange transactions) for April to July 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 \$12.1 billion in the first four months of 2002-03, compared to a net requirement of \$10.0 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$12.1 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$7.5 billion in the April to July 2002 period, compared to a financial source of \$1.0 billion in the same period last year.

Net financial requirement of \$7.4 billion for April to July 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 \$0.1 billion in the first four months of 2002-03, compared to a net requirement of \$0.1 billion in the same period in 2001-02.

With a budgetary surplus of \$4.6 billion, a net requirement of \$12.1 billion from non-budgetary transactions and a net source of \$0.1 billion from foreign exchange transactions, there was a net financial requirement of \$7.4 billion in the April to July 2002 period, compared to a net source of \$0.9 billion in the same period last year.

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Table 4

The budgetary balance and financial requirements/source

	July		April to July	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary balance (deficit/surplus)	1,482	-128	11,034	4,643
Loans, investments and advances				
Crown corporations	-16	7	217	84
Other	-26	-7	7	86
Total	-42	0	224	170
Specified purpose accounts				
Canada Pension Plan Account	-418	-759	-861	-603
Superannuation accounts	50	79	-446	-516
Other	77	25	53	-140
Total	-291	-655	-1,254	-1,259
Other transactions	674	1,103	-8,979	-11,028
Total non-budgetary transactions	341	448	-10,009	-12,117
Financial requirements/source (excluding foreign exchange transactions)	1,823	320	1,025	-7,474
Foreign exchange transactions	-443	1,364	-131	109
Net financial balance	1,380	1,684	894	-7,365

Table 5

Net financial balance and net borrowings

	July		April to July	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Net financial balance	1,380	1,684	894	-7,365
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	400	-29	-1,641	-6,081
Canada Savings Bonds	-70	-91	-236	-403
Treasury bills	-1,500	-1,850	-6,100	6,850
Other	0	0	-4	-8
Total	-1,170	-1,970	-7,981	358
Payable in foreign currencies				
Marketable bonds	0	-1,594	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-419	-144	-802	-393
Canada notes	0	0	-173	0
Total	-419	-1,738	-2,592	-1,987
Net change in borrowings	-1,589	-3,708	-10,573	-1,629
Change in cash balance	-209	-2,024	-9,679	-8,994

Table 6

Condensed statement of assets and liabilities¹

	March 31, 2002	July 31, 2002	Change
	(\$ millions)		
Liabilities			
Accounts payable, accruals and allowances	41,014	30,301	-10,713
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,693	-516
Canada Pension Plan (net of securities)	6,756	6,153	-603
Other pension and other accounts	7,454	7,314	-140
Total pension and other accounts	141,419	140,160	-1,259
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,763	-6,102
Treasury bills	94,200	100,890	6,690
Canada Savings Bonds	23,759	23,563	-196
Other	3,390	3,383	-7
Subtotal	415,214	415,599	385
Payable in foreign currencies	27,033	25,044	-1,989
Total unmatured debt	442,247	440,643	-1,604
Total interest-bearing debt	583,666	580,803	-2,863
Total liabilities	624,680	611,104	-13,576
Assets			
Cash and accounts receivable	14,796	6,142	-8,654
Foreign exchange accounts	52,119	52,010	-109
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	74,369	-8,933
Accumulated deficit (net public debt)	541,378	536,735	-4,643

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

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Net borrowings down \$1.6 billion for April to July 2002

To finance this net financial requirement, the Government reduced its cash balances by \$9.0 billion, which also allowed it to reduce its holding of market debt by \$1.6 billion to the end of July 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.

