

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2002: budgetary surplus of \$3.1 billion

There was a budgetary surplus of \$3.1 billion in September 2002, compared to a surplus of \$2.8 billion in September 2001. Large surpluses have traditionally been recorded in the month of September, primarily reflecting the inclusion of quarterly personal income tax instalment payments. However, the current results 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. Since GST refunds traditionally closely mirror developments in gross collections, net GST revenues, and hence the budgetary surplus, may be somewhat overstated in the year-to-date results.

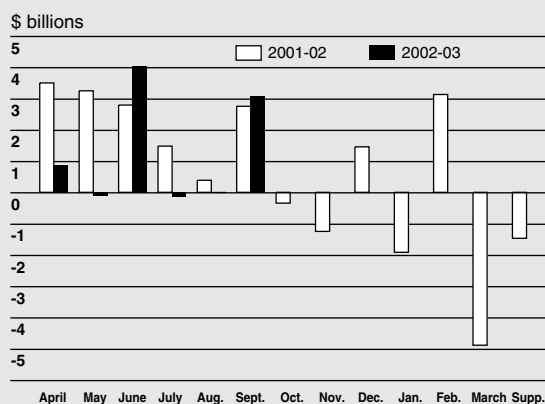
Budgetary revenues were up \$1.0 billion on a year-over-year basis, with virtually all of the improvement attributable to higher GST revenues. Program spending was up \$0.9 billion, while public debt charges declined \$0.3 billion.

April to September 2002: budgetary surplus of \$7.8 billion

The budgetary surplus is estimated at \$7.8 billion for the April to September 2002 period, down \$6.4 billion from the surplus of \$14.2 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.

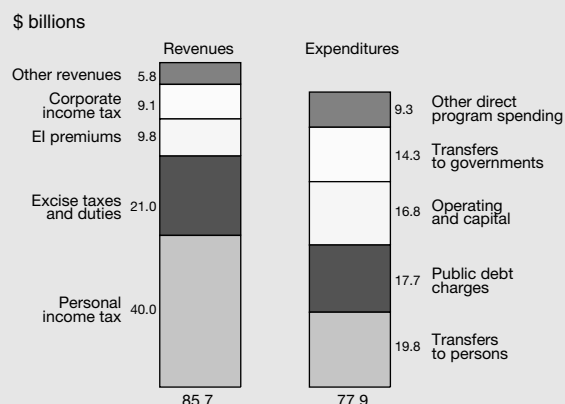
It is expected that over the balance of the year, GST refunds will more closely reflect with gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base. Taking this into account, the results to date are consistent with the estimated budgetary surplus for 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 September 2002)



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Table 1

Summary statement of transactions

	September		April to September	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary transactions				
Revenues	15,117	16,131	90,253	85,696
Program spending	-9,168	-10,061	-56,278	-60,261
Operating surplus	5,949	6,070	33,975	25,435
Public debt charges	-3,198	-2,935	-19,801	-17,665
Budgetary balance (deficit/surplus)	2,751	3,135	14,174	7,770
Non-budgetary transactions	-458	-1,390	-9,999	-13,588
Financial requirements/source (excluding foreign exchange transactions)	2,293	1,745	4,175	-5,818
Foreign exchange transactions	1,652	1,271	499	698
Net financial balance	3,945	3,016	4,674	-5,120
Net change in borrowings	-9,449	-7,018	-14,254	-2,904
Net change in cash balances	-5,504	-4,002	-9,580	-8,024
Cash balance at end of period			3,595	3,924

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.

September 2002: budgetary results

On a year-over-year basis, the budgetary surplus increased by \$0.4 billion to \$3.1 billion in September 2002. Budgetary revenues increased \$1.0 billion, or 6.7 per cent, in September 2002 on a year-over-year basis, with virtually all of the increase attributable to higher GST revenues.

- Personal income tax revenues were down \$0.1 billion, or 1.3 per cent, primarily due to lower tax remittances from quarterly filers, which more than offset higher monthly deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were up slightly, as higher instalment payments were largely offset by 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 strongly (\$1.0 billion or 32.7 per cent). Most of this increase was due to higher GST revenues, up \$0.9 billion or 44.6 per cent. This was due to both higher gross collections and unexpectedly lower refunds.
- Non-tax revenues were up, reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.9 billion, or 9.7 per cent, with increases recorded in all major components.

- Transfers to persons were up 6.3 per cent. Elderly benefits increased 2.4 per cent while EI benefits were up 14.8 per cent. Both components were affected by the timing of payments between August and September.

Table 2

Budgetary revenues

	September		Change	April to September		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	8,342	8,233	-1.3	44,017	39,985	-9.2
Corporate income tax	1,541	1,563	1.4	12,372	9,136	-26.2
Other income tax revenue	226	221	-2.2	1,688	1,652	-2.1
Total income tax	10,109	10,017	-0.9	58,077	50,773	-12.6
Employment insurance premium revenues	1,342	1,374	2.4	9,815	9,776	-0.4
Excise taxes and duties						
Goods and services tax	1,990	2,877	44.6	12,098	14,432	19.3
Customs import duties	243	280	15.2	1,447	1,618	11.8
Sales and excise taxes	819	861	5.1	4,642	4,776	2.9
Air Travellers Security Charge		32			151	
Total excise taxes and duties	3,052	4,050	32.7	18,187	20,977	15.3
Total tax revenues	14,503	15,441	6.5	86,079	81,526	-5.3
Non-tax revenues	614	690	12.4	4,174	4,170	-0.1
Total budgetary revenues	15,117	16,131	6.7	90,253	85,696	-5.0

Last month the year-over-year increase in elderly benefits was higher than expected, while that for EI benefits was considerably lower than expected.

- Transfers to other levels of government were up 4.0 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 16.0 per cent. 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 \$0.3 billion, or 8.2 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 September 2002: budgetary results

Over the first six months of fiscal year 2002-03, the budgetary surplus was estimated at \$7.8 billion, compared to a surplus of \$14.2 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 six months of 2002-03, budgetary revenues were down \$4.6 billion, or 5.0 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$4.0 billion, or 9.2 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.

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Table 3

Budgetary expenditures

	September		Change	April to September		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,121	2,171	2.4	12,501	13,059	4.5
Employment insurance benefits	967	1,110	14.8	5,897	6,790	15.1
Total	3,088	3,281	6.3	18,398	19,849	7.9
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	8,650	9,300	7.5
Fiscal transfers	1,046	1,040	-0.6	6,236	6,220	-0.3
Alternative Payments for Standing Programs	-200	-210	5.0	-1,200	-1,261	5.1
Total	2,288	2,380	4.0	13,686	14,259	4.2
Direct program spending						
Subsidies and other transfers						
Agriculture	19	43	126.3	463	229	-50.5
Foreign Affairs	108	97	-10.2	633	620	-2.1
Health	121	157	29.8	591	717	21.3
Human Resources Development	152	122	-19.7	625	639	2.2
Indian and Northern Development	348	269	-22.7	2,129	2,039	-4.2
Industry and Regional Development	12	67	458.3	607	685	12.9
Veterans Affairs	127	142	11.8	747	841	12.6
Other	216	227	5.1	1,055	1,054	-0.1
Total	1,103	1,124	1.9	6,850	6,824	-0.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	91	13.8	565	573	1.4
Canada Mortgage and Housing Corporation	158	195	23.4	948	986	4.0
Other	146	139	-4.8	851	936	10.0
Total	384	425	10.7	2,364	2,495	5.5
Operating and capital expenditures						
Defence	742	908	22.4	4,238	4,688	10.6
All other departmental expenditures	1,563	1,943	24.3	10,742	12,146	13.1
Total	2,305	2,851	23.7	14,980	16,834	12.4
Total direct program spending	3,792	4,400	16.0	24,194	26,153	8.1
Total program expenditures	9,168	10,061	9.7	56,278	60,261	7.1
Public debt charges	3,198	2,935	-8.2	19,801	17,665	-10.8
Total budgetary expenditures	12,366	12,996	5.1	76,079	77,926	2.4
Memorandum item:						
Total transfers	6,479	6,785	4.7	38,934	40,932	5.1

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 26.2 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 15.3 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. Revenues from energy-related taxes were lower. GST revenues were up 19.3 per cent, compared to an increase in the applicable tax base – consumer expenditures – of about 4 per cent. The difference in growth rates was largely attributable to a decline in refunds, which appears to be overstating the underlying increase in net 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 virtually unchanged from the same period last year.

Over the first six months of 2002-03, program spending increased by \$4.0 billion, or 7.1 per cent, compared to the same period last year.

- Transfers to persons were up 7.9 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.
- 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 8.1 per cent. Subsidies and other transfers were virtually unchanged. Developments in this component are largely affected by the timing of payments. Payments to Crown corporations were up 5.5 per cent. Departmental and agency operating and capital spending were up 12.4 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.1 billion, or 10.8 per cent, reflecting both a reduction in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

Financial requirement of \$5.8 billion (excluding foreign exchange transactions) for April to September 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.

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Table 4

The budgetary balance and financial requirements/source

	September		April to September	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Budgetary balance (deficit/surplus)	2,751	3,135	14,174	7,770
Loans, investments and advances				
Crown corporations	106	87	355	182
Other	-528	-565	-507	-417
Total	-422	-478	-152	-235
Specified purpose accounts				
Canada Pension Plan Account	578	140	-618	-679
Superannuation accounts	-199	-830	-663	-1,118
Other	-6	-2	34	-130
Total	373	-692	-1,247	-1,927
Other transactions	-409	-220	-8,600	-11,426
Total non-budgetary transactions	-458	-1,390	-9,999	-13,588
Financial requirements/source (excluding foreign exchange transactions)	2,293	1,745	4,175	-5,818
Foreign exchange transactions	1,652	1,271	499	698
Net financial balance	3,945	3,016	4,674	-5,120

Table 5

Net financial balance and net borrowings

	September		April to September	
	2001	2002	2001-02	2002-03
	(\$ millions)			
Net financial balance	3,945	3,016	4,674	-5,120
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-8,693	-7,449	-5,983	-8,317
Canada Savings Bonds	-38	-51	-349	-530
Treasury bills	400	550	-4,000	8,000
Other	-4	-5	-9	-12
Total	-8,335	-6,955	-10,341	-859
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	-1,594
Notes and loans	0		-41	
Canada bills	-1,114	-63	-2,123	-451
Canada notes	0	0	-173	0
Total	-1,114	-63	-3,913	-2,045
Net change in borrowings	-9,449	-7,018	-14,254	-2,904
Change in cash balance	-5,504	-4,002	-9,580	-8,024

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	September 30, 2002	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,679	31,009	-9,670
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	126,921	125,803	-1,118
Canada Pension Plan (net of securities)	6,770	6,091	-679
Other pension and other accounts	7,469	7,339	-130
Total pension and other accounts	141,160	139,232	-1,928
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,843	285,526	-8,317
Treasury bills	94,039	102,039	8,000
Canada Savings Bonds	23,966	23,436	-530
Other	3,391	3,379	-12
Subtotal	415,239	414,380	-859
Payable in foreign currencies	27,032	24,987	-2,045
Total unmatured debt	442,271	439,366	-2,905
Total interest-bearing debt	583,431	578,599	-4,832
Total liabilities	624,110	609,607	-14,502
Assets			
Cash and accounts receivable	16,829	10,559	-6,270
Foreign exchange accounts	52,046	51,348	-698
Loans, investments and advances (net of allowances)	18,746	18,981	235
Total assets	87,621	80,889	-6,733
Accumulated deficit (net public debt)	536,489	528,718	-7,770

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 \$13.6 billion in the first six months of 2002-03, compared to a net requirement of

\$10.0 billion in the same period in 2001-02.

Part of the higher requirement was attributable to lower transfers to the Tax Collection Accounts due to lower personal and corporate income tax revenues over the first six months of this year compared to the same period last year.

As a result, with a budgetary surplus of \$7.8 billion and a net requirement of \$13.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$5.8 billion in the April to September 2002 period, compared to a financial source of \$4.2 billion in the same period last year.

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Net financial requirement of \$5.1 billion for April to September 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 \$0.7 billion in the first six months of 2002-03, compared to a net source of \$0.5 billion in the same period in 2001-02.

With a budgetary surplus of \$7.8 billion, a net requirement of \$13.6 billion from non-budgetary transactions and a net source of \$0.7 billion from foreign exchange transactions, there was a net financial requirement of \$5.1 billion in the April to September 2002 period, compared to a net source of \$4.7 billion in the same period last year.

Net borrowings down \$2.9 billion for April to September 2002

To finance this net financial requirement of \$5.1 billion, the Government reduced its cash balances by \$8.0 billion to \$3.9 billion. This also allowed it to reduce its holding of market debt by \$2.9 billion to the end of September 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.

