The Fiscal Monitor

A Publication of the Department of Finance

Highlights

September 2001: budgetary surplus of $2.5 billion

There was a budgetary surplus of $2.5 billion in September 2001, down $1.3 billion from the revised surplus of $3.8 billion in September 2000. Since 1996-97 large surpluses have been recorded in the month of September, primarily reflecting the inclusion of quarterly tax instalment payments. On a year-over-year basis budgetary revenues declined $0.8 billion while program spending increased $0.8 billion. Dampening the impact of these factors was a $0.3-billion decline in public debt charges.

April 2001 to September 2001: budgetary surplus of $13.6 billion

The budgetary surplus was estimated at $13.6 billion for the April 2001 to September 2001 period, down $1.2 billion from the surplus of $14.7 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

As noted in *The Fiscal Monitor* for August 2001, a surplus was expected in September 2001, although smaller than that recorded in September 2000. In future months the cumulative surplus will fall. This reflects, in part, the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. The effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

September 2001: budgetary results

Budgetary revenues declined $0.8 billion, or 5.2 per cent, on a year-over-year basis. All of the major components were lower.

- Personal income tax revenues declined $0.2 billion, or 2.8 per cent, primarily reflecting the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues declined $0.1 billion, or 3.4 per cent, primarily reflecting higher refunds paid in September 2001 than in September 2000.
- Employment insurance (EI) premium revenues declined $0.1 billion, or 6.6 per cent, reflecting both prior-year adjustments and the decline in premium rates (the employee rate for 2001 is $2.25 per $100 of insurable earnings compared to $2.40 in 2000), which more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties declined $0.3 billion, or 10.7 per cent. This decline was entirely the result of lower goods and services tax (GST) revenues ($0.4 billion), attributable to higher refunds and rebates and lower GST collected on imported goods and services.
- Non-tax revenues declined $0.2 billion, or 19.9 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of $0.8 billion, or 9.0 per cent, primarily reflected strong increases in transfers to persons and other levels of government.

Table 1

Summary statement of transactions

	September		April to September	
	2000	2001	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	15,664	14,852	88,204	89,653
Program spending	-8,412	-9,168	-52,773	-56,278
Operating surplus	7,252	5,684	35,431	33,375
Public debt charges	-3,472	-3,198	-20,697	-19,801
Budgetary balance (deficit/surplus)	3,780	2,486	14,734	13,574
Non-budgetary transactions	-152	-192	-6,162	-9,399
Financial requirements/source (excluding foreign exchange transactions)	3,628	2,294	8,572	4,175
Foreign exchange transactions	485	1,652	-620	499
Net financial balance	4,113	3,946	7,952	4,674
Net change in borrowings	-12,116	-9,449	-18,309	-14,254
Net change in cash balances	-8,003	-5,503	-10,357	-9,580
Cash balance at end of period			2,602	3,595

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

- Major transfers to persons were up $0.3 billion, or 10.6 per cent, primarily reflecting higher EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries. Elderly benefits were virtually unchanged due to the timing of payments between August and September.
- Major transfers to other levels of government were up $0.4 billion, or 19.7 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was up slightly, as a decline in operating and capital expenditures was more than offset by higher payments in the other components. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over year basis, were down $0.3 billion, or 7.9 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April 2001 to September 2001: budgetary results

Over the first six months of fiscal year 2001-02, the budgetary surplus was estimated at $13.6 billion, down $1.2 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up $1.4 billion, or 1.6 per cent, while public debt charges declined by $0.9 billion, or 4.3 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up $3.5 billion, or 6.6 per cent.

Table 2
Budgetary revenues

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	8,580	8,342	-2.8	43,443	43,417	-0.1
Corporate income tax	1,595	1,541	-3.4	11,349	12,372	9.0
Other income tax revenue	164	226	37.8	1,439	1,688	17.3
Total income tax	10,339	10,109	-2.2	56,231	57,477	2.2
Employment insurance premium revenues	1,437	1,342	-6.6	9,934	9,815	-1.2
Excise taxes and duties						
Goods and services tax	2,103	1,725	-18.0	12,398	12,098	-2.4
Customs import duties	220	243	10.5	1,339	1,447	8.1
Sales and excise taxes	798	819	2.6	4,240	4,642	9.5
Total excise taxes and duties	3,121	2,787	-10.7	17,977	18,187	1.2
Total tax revenues	14,897	14,238	-4.4	84,142	85,479	1.6
Non-tax revenues	767	614	-19.9	4,062	4,174	2.8
Total budgetary revenues	15,664	14,852	-5.2	88,204	89,653	1.6

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections declined marginally, as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* offset higher final tax payments, received in April and May, with respect to the 2000 taxation year.
- Corporate income tax revenues were up $1.0 billion, or 9.0 per cent. As noted in previous Fiscal Monitors, this current year-over-year increase primarily reflects the tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made within 60 days of the end of their taxation year. Throughout most of 2000-01 monthly tax instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading, as they do not yet reflect the decline in operating profits of Canadian corporations in the first half of 2001.
- EI premium revenues were down 1.2 per cent, as the decline in premium rates more than offset the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is $2.25 per $100 of insurable earnings, compared to $2.40 in 2000 and $2.55 in 1999.
- Excise taxes and duties increased $0.2 billion, or 1.2 per cent. GST revenues were down 2.4 per cent, primarily attributable to higher refunds and rebates and lower collections on imports. Customs import duties were up 8.1 per cent, while sales and excise taxes were up 9.5 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 2.8 per cent.

Table 3

Budgetary expenditures

	September		Change	April to September		Change
	2000	2001		2000-01	2001-02	
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,120	2,121	0.0	11,953	12,501	4.6
Employment insurance benefits	671	967	44.1	5,056	5,897	16.6
Total	2,791	3,088	10.6	17,009	18,398	8.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	6,750	8,650	28.1
Fiscal transfers	993	1,046	5.3	5,831	6,236	6.9
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,233	-1,200	-2.7
Total	1,912	2,288	19.7	11,348	13,686	20.6
Direct program spending						
Subsidies and other transfers						
Agriculture	109	19	-82.6	255	463	81.6
Foreign Affairs	40	108	170.0	566	633	11.8
Health	148	121	-18.2	566	591	4.4
Human Resources Development	33	152	360.6	459	625	36.2
Indian and Northern Development	444	348	-21.6	2,470	2,129	-13.8
Industry and Regional Development	91	12	-86.8	606	607	0.2
Veterans Affairs	121	127	5.0	718	747	4.0
Other	76	234	207.9	1,032	1,148	11.2
Total	1,062	1,121	5.6	6,672	6,943	4.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	80	23.1	515	565	9.7
Canada Mortgage and Housing Corporation	150	158	5.3	920	948	3.0
Other	90	130	44.4	708	756	6.8
Total	305	368	20.7	2,143	2,269	5.9
Operating and capital expenditures						
Defence	874	842	-3.7	4,773	4,838	1.4
All other departmental expenditures	1,468	1,461	-0.5	10,828	10,144	-6.3
Total	2,342	2,303	-1.7	15,601	14,982	-4.0
Total direct program spending	3,709	3,792	2.2	24,416	24,194	-0.9
Total program expenditures	8,412	9,168	9.0	52,773	56,278	6.6
Public debt charges	3,472	3,198	-7.9	20,697	19,801	-4.3
Total budgetary expenditures	11,884	12,366	4.1	73,470	76,079	3.6
Memorandum item:						
Total transfers	5,765	6,497	12.7	35,029	39,027	11.4

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 8.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 20.6 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers was primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by 0.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of $0.9 billion reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of $4.2 billion (excluding foreign exchange transactions) for April 2001 to September 2001

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 $9.4 billion in the first six months of 2001-02, compared to a net requirement of $6.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years’ budgetary results.

As a result, with a budgetary surplus of $13.6 billion and a net requirement of $9.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $4.2 billion in the April 2001 to September 2001 period, compared to a source of $8.6 billion in the same period last year.

Net financial source of $4.7 billion for April 2001 to September 2001

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada’s foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net source of $0.5 billion in the first six months of 2001-02, compared to a net requirement of $0.6 billion in the same period in 2000-01.

Table 4

The budgetary balance and financial requirements/source

	September		April to September	
	2000	2001	2000-01	2001-02
	($ millions)			
Budgetary balance (deficit/surplus)	3,780	2,486	14,734	13,574
Loans, investments and advances				
Crown corporations	100	106	206	355
Other	42	-528	183	-507
Total	142	-422	389	-152
Specified purpose accounts				
Canada Pension Plan Account	128	578	-538	-618
Superannuation accounts	-14	-185	1,460	-652
Other	150	-6	-65	34
Total	264	387	857	-1,236
Other transactions	-558	-157	-7,408	-8,011
Total non-budgetary transactions	-152	-192	-6,162	-9,399
Financial requirements/source (excluding foreign exchange transactions)	3,628	2,294	8,572	4,175
Foreign exchange transactions	485	1,652	-620	499
Net financial balance	4,113	3,946	7,952	4,674

Table 5

Net financial balance and net borrowings

	September		April to September	
	2000	2001	2000-01	2001-02
	($ millions)			
Net financial balance	4,113	3,946	7,952	4,674
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-4,933	-8,693	6,018	-5,983
Canada Savings Bonds	-98	-38	-790	-349
Treasury bills	-6,200	400	-20,050	-4,000
Other	-376	-4	82	-9
Total	-11,607	-8,335	-14,740	-10,341
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-509	-1,114	-1,395	-2,123
Canada notes		0		-173
Total	-509	-1,114	-3,569	-3,913
Net change in borrowings	-12,116	-9,449	-18,309	-14,254
Change in cash balance	-8,003	-5,503	-10,357	-9,580

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	September 30, 2001	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	43,481	-163
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,533	-652
Canada Pension Plan (net of securities)	6,391	5,773	-618
Other pension and other accounts	7,253	7,287	34
Total pension and other accounts	142,829	141,593	-1,236
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	288,990	-5,983
Treasury bills	88,700	84,700	-4,000
Canada Savings Bonds	26,099	25,750	-349
Other	3,473	3,464	-9
Subtotal	413,245	402,904	-10,341
Payable in foreign currencies	33,158	29,245	-3,913
Total unmatured debt	446,403	432,149	-14,254
Total interest-bearing debt	589,232	573,742	-15,490
Total liabilities	632,876	617,223	-15,654
Assets			
Cash and accounts receivable	19,186	17,454	-1,733
Foreign exchange accounts	50,270	49,771	-499
Loans, investments and advances (net of allowances)	16,042	16,194	152
Total assets	85,498	83,419	-2,080
Accumulated deficit (net public debt)	547,378	533,804	-13,574

With a budgetary surplus of $13.6 billion, a net requirement of $9.4 billion from non-budgetary transactions and a net source of $0.5 billion from foreign exchange transactions, there was a net financial source of $4.7 billion in the April 2001 to September 2001 period, compared to a net source of $8.0 billion in the same period in 2000-01.

Net borrowings down $14.3 billion for April 2001 to September 2001

Although there was a net financial source of only $4.7 billion in the first six months of 2001-02, the Government did reduce its holding of market debt by $14.3 billion through the drawing down of cash balances. 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. At the end of September 2001 they stood at $3.6 billion, down $9.6 billion from March 31, 2001.

Note to Readers:

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at www.fin.gc.ca.

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.
For other inquiries about this publication, contact Peter DeVries at (613) 996-7397.
Also available on the Internet (including advance tentative release dates) at http://www.fin.gc.ca/
Cet imprimé est également offert en français.
November 2001