

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2003: budgetary surplus of \$3.6 billion

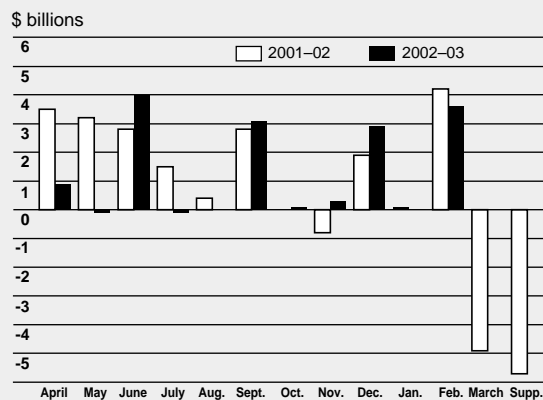
There was a budgetary surplus of \$3.6 billion in February 2003, down \$0.6 billion from the surplus of \$4.2 billion in February 2002. A large surplus was expected in February, as these results include the final corporate income tax settlement payments from corporations whose taxation year ends on December 31. On a year-over-year basis, budgetary revenues increased by \$0.3 billion, or 1.9 per cent, program spending increased by \$1.1 billion, or 11.6 per cent, while public debt charges declined by \$0.2 billion, or 5.0 per cent.

April 2002 to February 2003: budgetary surplus of \$14.8 billion

The budgetary surplus was estimated at \$14.8 billion for the April 2002 to February 2003 period, down \$4.7 billion from the surplus of \$19.5 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 and lower final settlement payments, as corporations are applying losses experienced in 2001 to taxes paid in previous years or owing in 2002.

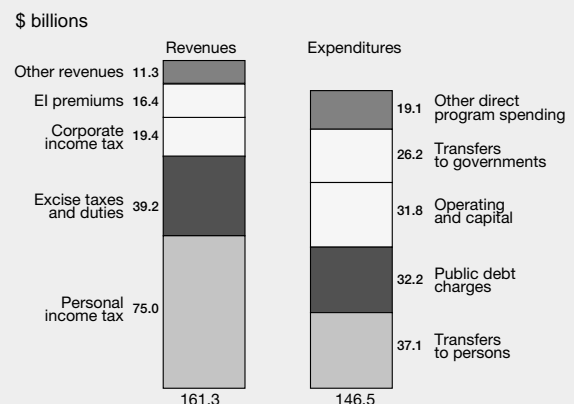
The monthly financial results are presented on a modified accrual basis of accounting. The Budget 2003 estimate for the year as a whole was presented on a full accrual basis of accounting. Taking into consideration the normal fiscal developments over the balance of the year, the accounting differences and the impact of the policy initiatives for 2002–03 proposed in the budget, including the \$2.5-billion Canada Health and Social Transfer (CHST) supplement, the \$1.5-billion Diagnostic/Medical Equipment Fund, \$0.6 billion for health information technology and \$0.5 billion to the Canada Foundation for Innovation, the results to date are consistent with the expected outcome for 2002–03 as set out in Budget 2003. *The Fiscal Monitor* will present monthly results on a full accrual basis beginning with the April 2003 *Monitor*.

Monthly surplus and deficit



Revenues and expenditures

(April 2002 to February 2003)



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Table 1

Summary statement of transactions

	February		April to February	
	2002	2003	2001-02	2002-03
	(\$ millions)			
Budgetary transactions				
Revenues	16,866	17,194	162,505	161,300
Program spending	-9,617	-10,736	-107,701	-114,303
Operating surplus	7,249	6,458	54,804	46,998
Public debt charges	-3,022	-2,872	-35,302	-32,231
Budgetary balance (deficit/surplus)	4,227	3,586	19,502	14,766
Non-budgetary transactions	-1,389	-365	-16,134	-15,380
Financial requirements/source (excluding foreign exchange transactions)	2,838	3,221	3,368	-614
Foreign exchange transactions	-626	3,042	-1,117	4,332
Net financial balance	2,212	6,263	2,251	3,718
Net change in borrowings	3,322	-5,143	-5,457	-9,726
Net change in cash balances	5,534	1,120	-3,206	-6,008
Cash balance at end of period			9,974	5,940

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.

February 2003: budgetary results

On a year-over-year basis, the budgetary surplus declined by \$0.6 billion to \$3.6 billion in February 2003.

Budgetary revenues increased by \$0.3 billion, or 1.9 per cent. Among the various revenue components:

- Personal income tax revenues were up \$0.7 billion, or 11.7 per cent, primarily due to higher deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were down \$0.9 billion, or 18.7 per cent, primarily reflecting the application of losses incurred in 2001, thereby reducing taxes owing with respect to the 2002 tax year.
- Employment insurance (EI) premium revenues were up \$0.1 billion, or 7.7 per cent, as the impact of the growth in the number of people employed and therefore paying premiums more than offset the effect of the decline in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).

- Excise taxes and duties were up \$0.3 billion, or 9.5 per cent, as higher goods and services tax (GST) revenues and other excise taxes and duties, as well as the introduction of the Air Travellers Security Charge, more than offset a decline in customs import duties.
- Non-tax revenues were down slightly on a year-over-year basis.

On a year-over-year basis, program spending was up \$1.1 billion, or 11.6 per cent.

- Transfers to persons increased \$0.2 billion, or 5.3 per cent, due to both higher EI and elderly benefits. The increase in EI benefits reflects the timing of payments, reversing the year-over-year decline in January.
- Transfers to other levels of government were up \$0.1 billion, or 6.5 per cent, primarily reflecting higher cash transfers under the 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.

Table 2

Budgetary revenues

	February		Change	April to February		Change
	2002	2003		2001–02	2002–03	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,142	6,862	11.7	77,532	74,980	-3.3
Corporate income tax	4,903	3,986	-18.7	23,365	19,388	-17.0
Other income tax revenue	175	302	72.6	3,383	3,726	10.1
Total income tax	11,220	11,150	-0.6	104,280	98,094	-5.9
Employment insurance premium revenues	1,815	1,955	7.7	16,186	16,428	1.5
Excise taxes and duties						
Goods and services tax	2,028	2,277	12.3	23,693	27,299	15.2
Customs import duties	328	268	-18.6	2,760	2,931	6.2
Other excise taxes and duties	642	697	8.6	7,941	8,633	8.7
Air Travellers Security Charge		42			337	
Total excise taxes and duties	2,998	3,284	9.5	34,394	39,200	14.0
Total tax revenues	16,033	16,389	2.2	154,860	153,722	-0.7
Non-tax revenues	833	805	-3.2	7,645	7,578	-0.9
Total budgetary revenues	16,866	17,194	1.9	162,505	161,300	-0.7

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up \$0.8 billion, or 20.0 per cent. Nearly half of this increase was attributable to higher transfers to the Crop Reinsurance Fund. 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 \$0.2 billion, or 5.0 per cent, due to a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

April 2002 to February 2003: budgetary results

Over the first 11 months of fiscal year 2002–03, the budgetary surplus was estimated at \$14.8 billion, compared to a surplus of \$19.5 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 11 months of 2002–03, budgetary revenues were down \$1.2 billion, or 0.7 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$2.6 billion, or 3.3 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. On a full accrual basis of accounting, these impacts will be recorded in the year in which the taxable activity took place. 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.

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Table 3

Budgetary expenditures

	February		Change	April to February		Change
	2002	2003		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,140	2,233	4.3	23,207	24,106	3.9
Employment insurance benefits	1,282	1,372	7.0	12,373	13,018	5.2
Total	3,422	3,605	5.3	35,580	37,124	4.3
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	15,858	17,050	7.5
Fiscal transfers	1,036	1,052	1.5	11,433	11,484	0.4
Alternative Payments for Standing Programs	-233	-210	-9.9	-2,331	-2,312	-0.8
Total	2,245	2,392	6.5	24,960	26,222	5.1
Direct program spending						
Subsidies and other transfers						
Agriculture	106	505	376.4	715	1,200	67.8
Foreign Affairs	155	230	48.4	1,565	1,515	-3.2
Health	95	104	9.5	1,170	1,348	15.2
Human Resources Development	167	106	-36.5	1,546	1,313	-15.1
Indian and Northern Development	245	308	25.7	3,600	3,697	2.7
Industry and Regional Development	138	107	-22.5	1,322	1,589	20.2
Veterans Affairs	134	145	8.2	1,402	1,555	10.9
Other	153	136	-11.1	2,235	2,310	3.4
Total	1,193	1,641	37.6	13,555	14,527	7.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	50	80	60.0	966	994	2.9
Canada Mortgage and Housing Corporation	75	170	126.7	1,755	1,748	-0.4
Other	86	221	157.0	1,671	1,877	12.3
Total	211	471	123.2	4,392	4,619	5.2
Operating and capital expenditures						
Defence	681	792	16.3	8,502	8,777	3.2
All other departmental expenditures	1,865	1,835	-1.6	20,712	23,034	11.2
Total	2,546	2,627	3.2	29,214	31,811	8.9
Total direct program spending	3,950	4,739	20.0	47,161	50,957	8.0
Total program expenditures	9,617	10,736	11.6	107,701	114,303	6.1
Public debt charges	3,022	2,872	-5.0	35,302	32,231	-8.7
Total budgetary expenditures	12,639	13,608	7.7	143,003	146,534	2.5
Memorandum item:						
Total transfers	6,860	7,638	11.3	74,095	77,873	5.1

- Corporate income tax revenues were down \$4.0 billion, or 17.0 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid and lower taxes paid in the February 2003 settlement period, as a number of corporations reduced their 2002 tax liability by applying losses incurred in 2001.
- EI premium revenues were up \$0.2 billion, 1.5 per cent, as the impact of lower premium rates was more than offset by the impact of increases in employment and, therefore, more people paying premiums.
- Excise taxes and duties increased by \$4.8 billion, or 14.0 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 15.2 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. Although the growth in gross GST revenues is broadly in line with the increase in the applicable tax base, refunds are virtually unchanged from the same period last year.
- Non-tax revenues were down 0.9 per cent from the same period last year.

Over the first 11 months of 2002–03, program spending increased by \$6.6 billion, or 6.1 per cent, compared to the same period of 2001–02.

- Transfers to persons were up \$1.5 billion, or 4.3 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. 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 \$1.3 billion, or 5.1 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 \$3.8 billion, or 8.0 per cent. Subsidies and other transfers were up 7.2 per cent, primarily due to higher payments to farmers and veterans as well as increased transfers to the granting councils for university research activities. Payments to Crown corporations were up 5.2 per cent. Departmental and agency operating and capital spending was up 8.9 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$3.1 billion, or 8.7 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

Financial requirement of \$0.6 billion (excluding foreign exchange transactions) for April 2002 to February 2003

The budgetary balance in *The Fiscal Monitor* 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 \$15.4 billion in the first 11 months of 2002–03, compared to a net requirement of \$16.1 billion in the same period of 2001–02.

As a result, with a budgetary surplus of \$14.8 billion and a net requirement of \$15.4 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April 2002 to February 2003 period, compared to a source of \$3.4 billion in the same period of 2001–02.

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Table 4

The budgetary balance and financial requirements/source

	February		April to February	
	2002	2003	2001-02	2002-03
	(\$ millions)			
Budgetary balance (deficit/surplus)	4,227	3,586	19,502	14,766
Loans, investments and advances				
Crown corporations	7	0	551	354
Other	182	310	-1,157	-1,027
Total	189	310	-606	-673
Specified purpose accounts				
Canada Pension Plan Account	1,032	915	-689	-10
Superannuation accounts	-194	61	-2,408	-552
Other	91	-49	197	116
Total	929	927	-2,900	-446
Other transactions	-2,507	-1,602	-12,629	-14,261
Total non-budgetary transactions	-1,389	-365	-16,134	-15,380
Financial requirements/source (excluding foreign exchange transactions)	2,838	3,221	3,368	-614
Foreign exchange transactions	-626	3,042	-1,117	4,332
Net financial balance	2,212	6,263	2,251	3,718

Table 5

Net financial balance and net borrowings

	February		April to February	
	2002	2003	2001-02	2002-03
	(\$ millions)			
Net financial balance	2,212	6,263	2,251	3,718
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	2,982	1,190	-2,515	-8,127
Canada Savings Bonds	-133	-96	-2,870	-1,797
Treasury bills	600	-3,050	5,700	5,750
Other	-17	-	-63	19
Total	3,432	-1,956	252	-4,193
Payable in foreign currencies				
Marketable bonds	0	-3,188	-1,576	-4,768
Notes and loans	0		-514	
Canada bills	48	1	-3,288	-765
Canada notes	-158	0	-331	0
Total	-110	-3,187	-5,709	-5,533
Net change in borrowings	3,322	-5,143	-5,457	-9,726
Change in cash balance	5,534	1,120	-3,206	-6,008

Net financial source of \$3.7 billion for April 2002 to February 2003

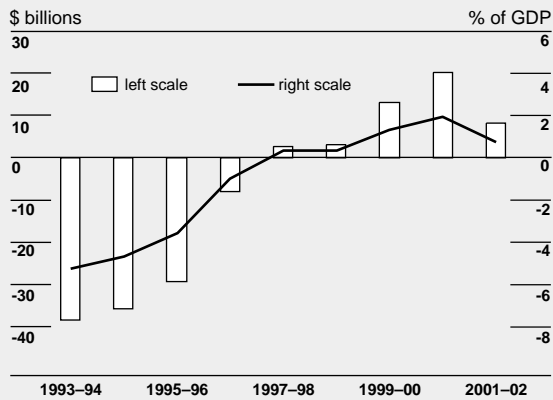
Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign 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 \$4.3 billion in the first 11 months of 2002–03, compared to a net requirement of \$1.1 billion in the same period of 2001–02.

With a budgetary surplus of \$14.8 billion, a net requirement of \$15.4 billion from non-budgetary transactions and a net source of \$4.3 billion from foreign exchange transactions, there was a net financial source of \$3.7 billion in the April 2002 to February 2003 period, compared to a net source of \$2.3 billion in the same period of 2001–02.

Net borrowings down \$9.7 billion for April 2002 to February 2003

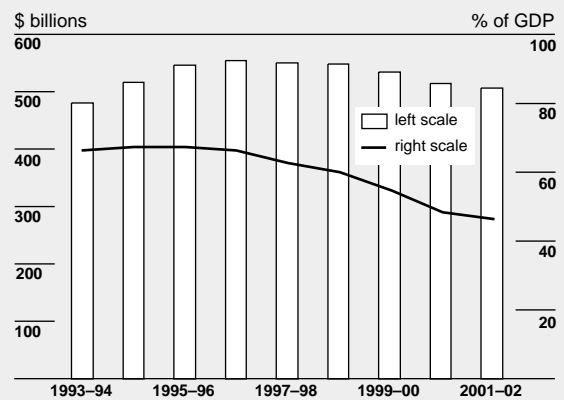
With this net financial source of \$3.7 billion and a reduction in cash balances of \$6.0 billion, the Government reduced its net borrowings by \$9.7 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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Note to readers:

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 “Condensed statement of assets and liabilities” will not be presented.