

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### March 2003: budgetary deficit of \$4.4 billion

There was a budgetary deficit of \$4.4 billion in March 2003, down \$0.4 billion from the deficit of \$4.8 billion in March 2002. A large deficit was expected in March, as these results are affected by the inclusion of personal income tax refunds relating to the previous taxation year. On a year-over-year basis, budgetary revenues increased by \$0.6 billion, or 4.9 per cent, program spending declined by \$0.1 billion, or 0.8 per cent, while public debt charges increased by \$0.2 billion, or 8.2 per cent.

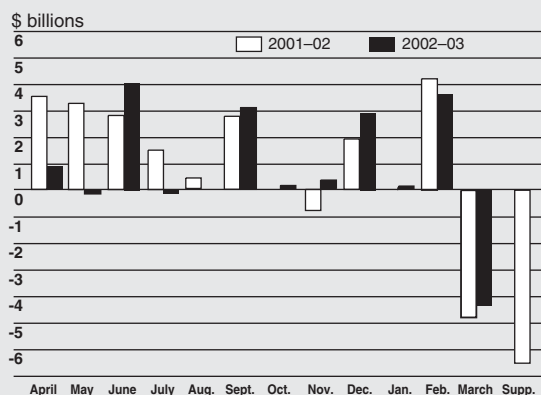
### April 2002 to March 2003: budgetary surplus of \$10.4 billion

The budgetary surplus was estimated at \$10.4 billion for the April 2002 to March 2003 period, down \$4.3 billion from the surplus of \$14.7 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.

These are not the final results for the 2002–03 fiscal year. Still to come are the regular end-of-year adjustments, which incorporate the costs of liabilities incurred during the fiscal year for which no payments were made in 2002–03. This year these will include initiatives proposed in the February 2003 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, which will be charged to the 2002–03 fiscal year, pending passage of the budget legislation currently before Parliament. In addition, the monthly financial results to date for both 2001–02 and 2002–03 have been presented on a modified accrual basis of accounting. The 2003 budget estimates for these years as a whole were presented on a full accrual basis of accounting, and the final fiscal results for 2002–03 will be presented on a full accrual basis.

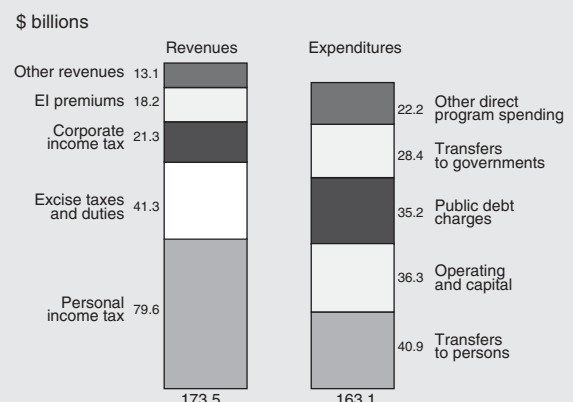
In 2001–02 end-of-year adjustments and the impact of moving to full accrual accounting reduced the budgetary surplus for the April 2001 to March 2002 period from \$14.7 billion to \$8.2 billion at fiscal year end. Taking these factors into consideration, the results to date are consistent with the expected outcome for 2002–03, as set out in the 2003 budget. Final results for 2002–03 will be released in the fall of 2003.

### Monthly surplus and deficit



### Revenues and expenditures

(April 2002 to March 2003)



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	March		April to March	
	2002	2003	2001–02	2002–03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	11,624	12,189	174,129	173,490
Program spending	-13,669	-13,558	-121,369	-127,862
Operating surplus	-2,045	-1,369	52,760	45,628
Public debt charges	-2,757	-2,982	-38,059	-35,213
Budgetary balance (deficit/surplus)	-4,802	-4,351	14,701	10,415
<b>Non-budgetary transactions</b>	7,244	6,970	-8,894	-8,416
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,442	2,619	5,807	1,999
<b>Foreign exchange transactions</b>	-732	-421	-1,849	3,912
<b>Net financial balance</b>	1,710	2,198	3,958	5,911
<b>Net change in borrowings</b>	267	6,606	-5,189	-3,119
<b>Net change in cash balances</b>	1,977	8,804	-1,231	2,792
<b>Cash balance at end of period</b>			11,950	14,740

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.

### March 2003: budgetary results

The budgetary deficit was \$4.4 billion in March 2003, an improvement of \$0.4 billion from March 2002. This improvement is attributable to the timing of receipts between February and March and the inclusion in the March 2002 results of a number of policy initiatives announced in the December 2001 budget.

Budgetary revenues increased by \$0.6 billion, or 4.9 per cent, primarily due to stronger advances in personal and corporate income tax revenues. Among the various revenue components:

- Personal income tax revenues were up \$0.4 billion, or 9.0 per cent, due to higher deductions from employment income, reflecting the strong growth in employment, and a decline in refunds.
- Corporate income tax revenues were up \$0.6 billion, or 50.3 per cent, reversing most of the year-over-year decline in the previous month. This reflects the timing of receipts.

- Employment insurance (EI) premium revenues were virtually unchanged, as the impact of the growth in the number of people employed and therefore paying premiums was offset by 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 down \$0.4 billion, or 16.7 per cent, due to higher goods and services tax (GST) refunds. Net GST revenues were down \$0.6 billion, or 36.3 per cent. In contrast, customs import duties and other excise taxes and duties were somewhat higher.
- Non-tax revenues were down slightly on a year-over-year basis.

On a year-over-year basis, program spending was down \$0.1 billion, or 0.8 per cent. This decline is attributable to the impact of new policy initiatives announced in the December 2001 budget, which were included in the March 2002 results. In contrast, the new initiatives proposed in the February 2003 budget, totalling \$5.2 billion, will be included as part of the end-of-year adjustments, pending passage of the budget legislation.

Table 2

## Budgetary revenues

	March		Change (%)	April to March		Change (%)
	2002	2003		2001-02	2002-03	
	(\$ millions)			(\$ millions)		
<b>Income taxes</b>						
Personal income tax	4,228	4,609	9.0	81,760	79,589	-2.7
Corporate income tax	1,272	1,912	50.3	24,637	21,300	-13.5
Other income tax revenue	655	634	-3.2	4,038	4,360	8.0
Total income tax	6,155	7,155	16.2	110,435	105,249	-4.7
<b>Employment insurance premium revenues</b>	1,774	1,775	0.1	17,960	18,203	1.4
<b>Excise taxes and duties</b>						
Goods and services tax	1,582	1,007	-36.3	25,275	28,307	12.0
Customs import duties	220	272	23.6	2,979	3,203	7.5
Other excise taxes and duties	700	763	9.0	8,641	9,398	8.8
Air Travellers Security Charge		42			379	
Total excise taxes and duties	2,502	2,084	-16.7	36,895	41,287	11.9
<b>Total tax revenues</b>	10,431	11,014	5.6	165,290	164,739	-0.3
<b>Non-tax revenues</b>	1,193	1,175	-1.5	8,839	8,751	-1.0
<b>Total budgetary revenues</b>	11,624	12,189	4.9	174,129	173,490	-0.4

- Transfers to persons increased \$0.2 billion, or 4.9 per cent, attributable to both higher EI and elderly benefits.
- Transfers to other levels of government were up \$0.2 billion, or 12.3 per cent, reflecting higher entitlements under both the CHST and fiscal transfer programs. The increase in the CHST 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, was down \$0.5 billion, or 6.5 per cent. Subsidies and other transfers declined \$0.3 billion, primarily due to the impact of the December 2001 budget initiatives on the March 2002 results. Defence spending was also lower due to incremental costs in March 2002 for security measures.

Public debt charges, on a year-over year basis, were up \$0.2 billion, or 8.2 per cent, due to an increase in the stock of interest-bearing debt.

### April 2002 to March 2003: budgetary results

Over the April 2002 to March 2003 period, the budgetary surplus was estimated at \$10.4 billion, compared to a surplus of \$14.7 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 April 2002 to March 2003 period, budgetary revenues were down \$0.6 billion, or 0.4 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$2.2 billion, or 2.7 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. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	March		Change (%)	April to March		Change (%)
	2002	2003		2001-02	2002-03	
	(\$ millions)			(\$ millions)		
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,157	2,238	3.8	25,364	26,344	3.9
Employment insurance benefits	1,479	1,576	6.6	13,852	14,594	5.4
Total	3,636	3,814	4.9	39,216	40,938	4.4
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	17,300	18,600	7.5
Fiscal transfers	713	820	15.0	12,146	12,304	1.3
Alternative Payments for Standing Programs	-232	-210	-9.5	-2,563	-2,522	-1.6
Total	1,923	2,160	12.3	26,883	28,382	5.6
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	84	193	129.8	798	1,393	74.6
Foreign Affairs	566	742	31.1	2,131	2,256	5.9
Health	317	163	-48.6	1,486	1,511	1.7
Human Resources Development	165	138	-16.4	1,711	1,451	-15.2
Indian and Northern Development	345	454	31.6	3,944	4,151	5.2
Industry and Regional Development	836	370	-55.7	2,157	1,959	-9.2
Veterans Affairs	144	139	-3.5	1,547	1,694	9.5
Other	583	492	-15.6	2,817	2,800	-0.6
Total	3,040	2,691	-11.5	16,591	17,215	3.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	15	57	280.0	981	1,051	7.1
Canada Mortgage and Housing Corporation	168	165	-1.8	1,923	1,913	-0.5
Other	197	167	-15.2	1,867	2,045	9.5
Total	380	389	2.4	4,771	5,009	5.0
Operating and capital expenditures						
Defence	1,527	1,278	-16.3	10,031	10,055	0.2
All other departmental expenditures	3,163	3,226	2.0	23,877	26,263	10.0
Total	4,690	4,504	-4.0	33,908	36,318	7.1
Total direct program spending	8,110	7,584	-6.5	55,270	58,542	5.9
<b>Total program expenditures</b>	13,669	13,558	-0.8	121,369	127,862	5.3
<b>Public debt charges</b>	2,757	2,982	8.2	38,059	35,213	-7.5
<b>Total budgetary expenditures</b>	16,426	16,540	0.7	159,428	163,075	2.3
Memorandum item:						
Total transfers	8,599	8,665	0.8	82,690	86,535	4.6

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.

- Corporate income tax revenues were down \$3.3 billion, or 13.5 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid and lower taxes paid in the 2003 settlement periods, as a number of corporations reduced their 2002 tax liability by applying losses incurred in 2001.
- EI premium revenues were up \$0.2 billion, or 1.4 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 \$4.4 billion, or 11.9 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 12.0 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, the growth in refunds was about half that expected. This is primarily attributable to the timing of refunds between March 2002 and April 2002, which depressed net GST collections in 2001–02.
- Non-tax revenues were down 1.0 per cent from the same period last year.
- Transfers to persons were up \$1.7 billion, or 4.4 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 \$1.5 billion, or 5.6 per cent, due to higher transfers under the CHST. These results do not include the proposed \$2.5-billion CHST supplement and the \$1.5-billion Diagnostic/Medical Equipment Fund. Based on government accounting policies, these will be included in the end-of-year results, pending passage of budget legislation.
- Direct program spending increased by \$3.3 billion, or 5.9 per cent. Subsidies and other transfers were up 3.8 per cent, primarily due to higher payments to farmers and veterans. Payments to Crown corporations were up 5.0 per cent. Departmental and agency operating and capital spending was up 7.1 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.8 billion, or 7.5 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 source of \$2.0 billion (excluding foreign exchange transactions) for April 2002 to March 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.

Over the April 2002 to March 2003 period, program spending increased by \$6.5 billion, or 5.3 per cent, compared to the same period last year.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	March		April to March	
	2002	2003	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	-4,802	-4,351	14,701	10,415
<b>Loans, investments and advances</b>				
Crown corporations	371	-204	923	150
Other	-111	119	-1,268	-908
Total	260	-85	-345	-758
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	1,053	1,185	365	1,175
Superannuation accounts	-285	97	-2,694	-457
Other	5	52	201	167
Total	773	1,334	-2,128	885
<b>Other transactions</b>	6,211	5,720	-6,421	-8,543
<b>Total non-budgetary transactions</b>	7,244	6,970	-8,894	-8,416
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,442	2,619	5,807	1,999
<b>Foreign exchange transactions</b>	-732	-421	-1,849	3,912
<b>Net financial balance</b>	1,710	2,198	3,958	5,911

Table 5

## Net financial balance and net borrowings

	March		April to March	
	2002	2003	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	1,710	2,198	3,958	5,911
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	916	2,456	-1,598	-5,671
Canada Savings Bonds	-16	-135	-2,886	-1,932
Treasury bills	-200	4,650	5,500	10,400
Other	-20	-1	-83	-19
Total	680	6,970	933	2,778
Payable in foreign currencies				
Marketable bonds	218	-490	-1,358	-5,258
Notes and loans	0	72	-514	72
Canada bills	-584	12	-3,872	-753
Canada notes	-47	42	-378	42
Total	-413	-364	-6,122	-5,897
<b>Net change in borrowings</b>	267	6,606	-5,189	-3,119
<b>Change in cash balance</b>	1,977	8,804	-1,231	2,792



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 \$8.4 billion in the April 2002 to March 2003 period, compared to a net requirement of \$8.9 billion in the same period of 2001–02.

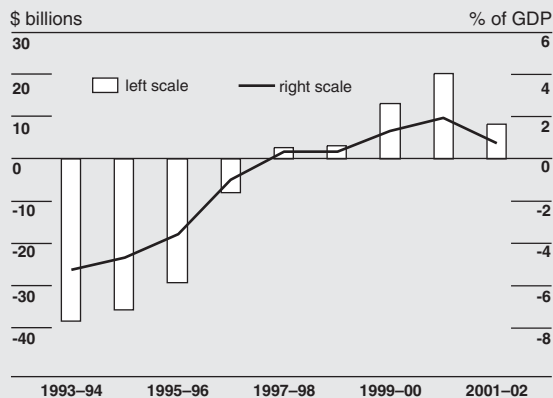
As a result, with a budgetary surplus of \$10.4 billion and a net requirement of \$8.4 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$2.0 billion in the April 2002 to March 2003 period, compared to a source of \$5.8 billion in the same period of 2001–02.

## Net financial source of \$5.9 billion for April 2002 to March 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 \$3.9 billion in the April 2002 to March 2003 period, compared to a net requirement of \$1.8 billion in the same period of 2001–02.

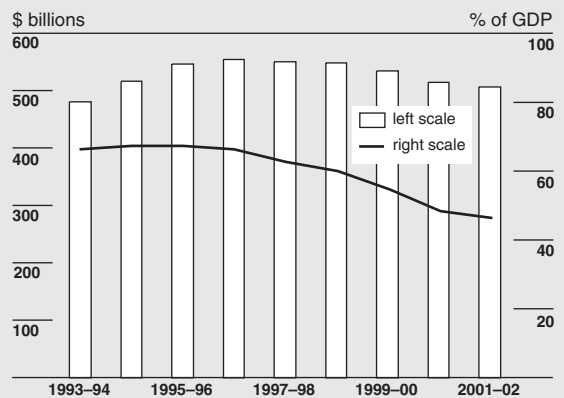
With a budgetary surplus of \$10.4 billion, a net requirement of \$8.4 billion from non-budgetary transactions and a net source of \$3.9 billion from foreign exchange transactions, there was a net financial source of \$5.9 billion in the April 2002 to March 2003 period, compared to a net source of \$4.0 billion in the same period of 2001–02.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

# The Fiscal Monitor

---

## **Net borrowings down \$3.1 billion for April 2002 to March 2003**

With this net financial source of \$5.9 billion, the Government reduced its net borrowings by \$3.1 billion and increased its cash balances by \$2.8 billion. Cash balances at March 31, 2003, stood at \$14.7 billion.

### **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.