

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### February 2001: budgetary surplus of \$4.0 billion

There was a budgetary surplus of \$4.0 billion in February 2001, compared to a surplus of \$3.1 billion in February 2000. A large surplus was expected in February, given the monthly pattern of revenues. More specifically, the February results include the final corporate income tax settlement payments from those corporations whose taxation year ends on December 31. Corporate income tax revenues in February 2001 amounted to a monthly record of \$6.1 billion, up 13.4 per cent from February 2000.

### April 2000 to February 2001: budgetary surplus of \$20.4 billion

The budgetary surplus was estimated at \$20.4 billion for the April 2000 to February 2001 period, up \$5.5 billion from the surplus reported in the same period of 1999-2000.

Developments over the balance of the fiscal year will reduce the cumulative surplus to date. These include the impact of the tax reductions announced in the October 2000 *Economic Statement and Budget Update*, as well as proposed funding for a number of initiatives, which will be booked in 2000-01. The latter includes assistance for farmers; funding for the Canada Foundation for Innovation, Genome Canada and health information and communications technology; and the costs associated with proposed enhancements to employment insurance (EI) benefits, which are retroactive to October 2000. In total, these policy developments are estimated at about \$5 billion. In addition, adjustments will be made in the end-of-year accounting period to include the costs of goods and services received in late 2000-01, but for which payments are not made until the April/May period, and personal income tax refunds processed in March 2001 relating to the 2000 taxation year.

In the October *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated. However, most of the major revenue components have continued to register stronger-than-expected gains, despite the slowing in economic growth. As a result, the surplus for 2000-01 will be higher than expected. Final audited results for 2000-01 will be released in the fall.

### February 2001: budgetary results

The year-over-year improvement in the budgetary balance of \$0.9 billion was attributable to higher budgetary revenues, primarily higher corporate income tax revenues. On a year-over-year basis, budgetary revenues were up 6.4 per cent, or \$1.0 billion. Among the major revenue components:

- Personal income tax revenues were up slightly, as the impact of the tax relief measures announced in the October *Economic Statement and Budget Update* dampened the overall growth in monthly deductions from employment income.
- Corporate income tax revenues were up \$0.7 billion, or 13.4 per cent, reflecting higher corporate profits in 2000.
- EI premium revenues declined 11.5 per cent, primarily due to transfers relating to underpayments during 1999, which boosted revenues in February 2000.
- Excise taxes and duties were up 4.5 per cent, primarily reflecting strong growth in customs import duties.
- Non-tax revenues were up strongly, reflecting the timing of receipts.



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Table 1

## Summary statement of transactions

	February		April to February	
	2000	2001	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	16,283	17,323	149,816	161,886
Program spending	-9,724	-9,899	-97,089	-103,674
Operating surplus	6,559	7,424	52,727	58,212
Public debt charges	-3,481	-3,440	-37,856	-37,848
Budgetary balance (deficit/surplus)	3,078	3,984	14,871	20,364
<b>Non-budgetary transactions</b>	430	-1,248	-2,325	-6,816
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,508	2,736	12,546	13,548
<b>Foreign exchange transactions</b>	-1,176	-184	-7,584	-1,750
<b>Net financial balance</b>	2,332	2,552	4,962	11,798
<b>Net change in borrowings</b>	-362	2,894	-3,049	-11,264
<b>Net change in cash balances</b>	1,970	5,446	1,913	534
<b>Cash balance at end of period</b>			11,140	13,485

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

On a year-over-year basis, program spending increased by \$0.2 billion, or 1.8 per cent, as higher transfers to persons and other levels of government were largely offset by lower direct program spending. Among the major components:

- Major transfers to persons were up \$0.2 billion, as both elderly benefit payments and EI benefit payments were higher.
- Major transfers to other levels of government were up 15.5 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending declined 5.6 per cent, primarily reflecting the timing of payments.

Public debt charges, on a year-over-year basis, were slightly lower, reflecting a decline in the stock of interest-bearing debt.

### April 2000 to February 2001: budgetary results

Over the first 11 months of fiscal year 2000-01, the budgetary surplus was estimated at \$20.4 billion, up \$5.5 billion from the surplus of \$14.9 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$12.1 billion, or 8.1 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.3 billion, or 5.9 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors was the

Table 2

## Budgetary revenues

	February		Change	April to February		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,839	5,906	1.1	72,502	76,802	5.9
Corporate income tax	5,394	6,117	13.4	21,142	25,270	19.5
Other income tax revenue	260	521	100.4	3,022	3,524	16.6
Total income tax	11,493	12,544	9.1	96,666	105,596	9.2
<b>Employment insurance premium revenues</b>	2,110	1,868	-11.5	16,768	16,893	0.7
<b>Excise taxes and duties</b>						
Goods and services tax	1,707	1,739	1.9	21,447	23,194	8.1
Customs import duties	164	224	36.6	2,034	2,517	23.7
Sales and excise taxes	577	595	3.1	7,467	7,550	1.1
Total excise taxes and duties	2,448	2,558	4.5	30,948	33,261	7.5
<b>Total tax revenues</b>	16,051	16,970	5.7	144,382	155,750	7.9
<b>Non-tax revenues</b>	233	353	51.5	5,433	6,136	12.9
<b>Total budgetary revenues</b>	16,284	17,323	6.4	149,815	161,886	8.1

effect of the tax relief measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year. Increases in the Canada Child Tax Benefit, up 18.5 per cent (reflecting increases to average benefits, which came into effect July 1, 2000, and the indexation of benefits), also served to restrain the overall growth in personal income tax revenues. Over the balance of the fiscal year, growth in personal income tax collections will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized. In addition, recoveries from the Taxation Collection Accounts are not expected to be as large as in 1999-2000.

- Corporate income tax revenues were up \$4.1 billion, or 19.5 per cent, in line with the estimated increase of 23.4 per cent in corporate profits for 2000.

- EI premium revenues were up \$0.1 billion, or 0.7 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and 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 by \$2.3 billion, or 7.5 per cent. Goods and services tax revenues were up \$1.7 billion, or 8.1 per cent, in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.7 billion, or 12.9 per cent, primarily reflecting higher Bank of Canada profits and interest on bank balances.

Program spending increased by \$6.6 billion, or 6.8 per cent, in the April 2000 to February 2001 period, compared to the same period in 1999-2000. Among the major components, major transfers to other levels of government were up \$3.1 billion, major transfers to persons were up \$1.8 billion, while direct program spending was up \$1.6 billion.

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Table 3

## Budgetary expenditures

	February		Change	April to February		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,969	2,055	4.4	21,421	22,188	3.6
Employment insurance benefits	1,121	1,195	6.6	10,325	9,970	-3.4
Heating expense relief					1,434	
Total	3,090	3,250	5.2	31,746	33,592	5.8
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	11,458	12,375	8.0
Fiscal transfers	975	1,194	22.5	9,995	11,396	14.0
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-188	-206	9.6	-2,064	-2,260	9.5
Total	1,829	2,113	15.5	19,389	22,511	16.1
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	196	159	-18.9	1,416	599	-57.7
Foreign Affairs	362	249	-31.2	1,574	1,422	-9.7
Health	71	85	19.7	932	1,010	8.4
Human Resources Development	103	141	36.9	1,350	1,322	-2.1
Indian and Northern Development	218	268	22.9	3,488	3,742	7.3
Industry and Regional Development	172	213	23.8	1,308	1,313	0.4
Veterans Affairs	119	126	5.9	1,276	1,334	4.5
Other	277	204	-26.4	1,960	1,983	1.2
Total	1,518	1,445	-4.8	13,304	12,725	-4.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	75	15	-80.0	805	859	6.7
Canada Mortgage and Housing Corporation	150	150	0.0	1,645	1,670	1.5
Other	56	71	26.8	931	1,292	38.8
Total	281	236	-16.0	3,381	3,821	13.0
Operating and capital expenditures						
Defence	1,006	902	-10.3	9,648	9,553	-1.0
All other departmental expenditures	2,000	1,953	-2.3	19,621	21,472	9.4
Total	3,006	2,855	-5.0	29,269	31,025	6.0
Total direct program spending	4,805	4,536	-5.6	45,954	47,571	3.5
<b>Total program expenditures</b>	9,724	9,899	1.8	97,089	103,674	6.8
<b>Public debt charges</b>	3,481	3,440	-1.2	37,856	37,848	0.0
<b>Total budgetary expenditures</b>	13,205	13,339	1.0	134,945	141,522	4.9
Memorandum item:						
Total transfers	6,437	6,808	5.8	64,439	68,828	6.8

- The increase in major transfers to persons was attributable to the heating expense relief payment (\$1.4 billion) and higher elderly benefits, up \$0.8 billion, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were down \$0.4 billion, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.
- Major transfers to other levels of government were up 16.1 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic 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, increased by 3.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the impact of new initiatives announced in the 2000 budget, and the lifting of the wage freeze.

Public debt charges were virtually unchanged, as the impact of the decline in the stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

## **Financial source of \$13.5 billion (excluding foreign exchange transactions) for April 2000 to February 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 \$6.8 billion in the first 11 months of 2000-01, compared to a requirement of \$2.3 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$20.4 billion and a net requirement of \$6.8 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$13.5 billion in the April 2000 to February 2001 period, compared to a financial source of \$12.5 billion in the same period in 1999-2000.

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Table 4

## The budgetary balance and financial requirements/source

	February		April to February	
	2000	2001	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,078	3,984	14,871	20,364
<b>Loans, investments and advances</b>				
Crown corporations	135	4	528	405
Other	148	-4	85	-890
Total	283	0	613	-485
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	413	490	-58	-386
Superannuation accounts	324	-202	4,530	1,369
Other	80	139	-50	109
Total	817	427	4,422	1,092
<b>Other transactions</b>	-670	-1,675	-7,360	-7,423
<b>Total non-budgetary transactions</b>	430	-1,248	-2,325	-6,816
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	3,508	2,736	12,546	13,548
<b>Foreign exchange transactions</b>	-1,176	-184	-7,584	-1,750
<b>Net financial balance</b>	2,332	2,552	4,962	11,798

Table 5

## Net financial balance and net borrowings

	February		April to February	
	2000	2001	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	2,332	2,552	4,962	11,798
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-600	575	6,357	10,394
Canada Savings Bonds	-193	313	-877	-754
Treasury bills	100	2,100	-5,350	-18,150
Other	0	0	-285	-62
Total	-693	2,988	-155	-8,572
Payable in foreign currencies				
Marketable bonds	-39	0	2,488	-2,782
Notes and loans		0		0
Canada bills	370	-94	-5,118	126
Canada notes	0		-264	-36
Total	331	-94	-2,894	-2,692
<b>Net change in borrowings</b>	-362	2,894	-3,049	-11,264
<b>Change in cash balance</b>	1,970	5,446	1,913	534

Table 6

**Condensed statement of assets and liabilities**

	March 31, 2000	February 28, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	35,931	-4,817
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,715	1,369
Canada Pension Plan (net of securities)	6,217	5,831	-386
Other pension and other accounts	6,963	7,072	109
Total pension and other accounts	141,526	142,618	1,092
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	304,321	10,394
Treasury bills	99,850	81,700	-18,150
Canada Savings Bonds	26,489	25,735	-754
Non-marketable bonds and bills	3,552	3,490	-62
Subtotal	423,818	415,246	-8,572
Payable in foreign currencies	32,588	29,896	-2,692
Total unmaturing debt	456,406	445,142	-11,264
Total interest-bearing debt	597,932	587,760	-10,172
Total liabilities	638,680	623,691	-14,989
<b>Assets</b>			
Cash and accounts receivable	18,864	22,004	3,140
Foreign exchange accounts	41,494	43,244	1,750
Loans, investments and advances (net of allowances)	13,796	14,281	485
Total assets	74,154	79,529	5,375
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>544,162</b>	<b>-20,364</b>

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## **Net financial source of \$11.8 billion for April 2000 to February 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 requirement of \$1.8 billion in the first 11 months of 2000-01, compared to a net requirement of \$7.6 billion in the same period in 1999-2000.

With a budgetary surplus of \$20.4 billion, a net requirement of \$6.8 billion from non-budgetary transactions and a net requirement of \$1.8 billion from foreign exchange transactions, there was a net financial source of \$11.8 billion in the April 2000 to February 2001 period, compared to a net source of \$5.0 billion in the same period in 1999-2000.

## **Net borrowings down \$11.3 billion for April 2000 to February 2001**

This financial source has allowed the Government to reduce its holding of market debt by \$11.3 billion to the end of February 2001. In addition, cash balances increased by \$0.5 billion to stand at \$13.5 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.

