

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

May 2001: budgetary surplus of \$2.9 billion

There was a budgetary surplus of \$2.9 billion in May 2001, compared to a surplus of \$3.5 billion in May 2000. This year-over-year decline of \$0.6 billion in the surplus was attributable to slightly lower budgetary revenues, coupled with higher program spending and public debt charges.

April 2001 to May 2001: budgetary surplus of \$7.4 billion

The budgetary surplus was estimated at \$7.4 billion for the April 2001 to May 2001 period, compared to the surplus of \$6.5 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was largely attributable to higher personal income tax settlement payments with respect to taxation year 2000. These payments were related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year.

May 2001: budgetary results

Budgetary revenues declined \$0.1 billion, or 0.5 per cent, in May 2001 on a year-over-year basis. All components except corporate and other income tax revenues were lower.

- Personal income tax revenues declined slightly, as higher final settlement payments related to the 2000 taxation year were more than offset by lower tax deductions from employment income, higher refunds and higher Canada Child Tax Benefit payments. The decline in tax deductions from employment income reflected the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, which came into effect on July 1, 2000, and January 1, 2001.
- Corporate income tax revenues were up \$0.3 billion, or 14.3 per cent. This increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. 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.

- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were down \$0.2 billion, or 6.3 per cent. This decline reflected the timing of the payments of goods and services tax refunds and rebates, as noted in the April 2001 *Fiscal Monitor*.
- Non-tax revenues were down sharply, primarily reflecting the timing of receipts.



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Table 1

Summary statement of transactions

	May		April to May	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	15,432	15,353	30,370	32,601
Program spending	-8,547	-9,062	-17,165	-18,370
Operating surplus	6,885	6,291	13,205	14,231
Public debt charges	-3,387	-3,405	-6,754	-6,794
Budgetary balance (deficit/surplus)	3,498	2,886	6,451	7,437
Non-budgetary transactions	2,711	1,853	-2,541	-3,139
Financial requirements/source (excluding foreign exchange transactions)	6,209	4,739	3,910	4,298
Foreign exchange transactions	658	-295	1,613	-137
Net financial balance	6,867	4,444	5,523	4,161
Net change in borrowings	149	-883	-5,640	-813
Net change in cash balances	7,016	3,561	-117	3,348
Cash balance at end of period			12,743	16,530

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 \$0.5 billion, or 6.0 per cent. Among the major components:

- Major transfers to persons were up 3.1 per cent, reflecting higher elderly benefit payments as EI payments were lower.
- Major transfers to other levels of government were up 14.8 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). 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 decline in fiscal transfers was attributable to the timing of transfers to the territories.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 3.6 per cent. Subsidies and other transfers, and payments to Crown corporations, were up strongly, largely offset by lower operating and capital expenditures.

The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over-year basis, were up slightly, as an increase in the average effective interest rate largely offset the impact of the decline in the stock of interest-bearing debt.

April 2001 to May 2001: budgetary results

Over the first two months of fiscal year 2001-02, the budgetary surplus was estimated at \$7.4 billion, up \$1 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects personal income tax settlement payments with respect to the 2000 taxation year.

Budgetary revenues were up \$2.2 billion, or 7.3 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were up \$1.6 billion, or 10.6 per cent. All of this increase was attributable to final tax payments with respect to the 2000 taxation year, reflecting

Table 2

Budgetary revenues

	May		Change	April to May		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	7,279	7,225	-0.7	14,628	16,178	10.6
Corporate income tax	2,076	2,373	14.3	4,039	4,519	11.9
Other income tax revenue	250	305	22.0	593	670	13.0
Total income tax	9,605	9,903	3.1	19,260	21,367	10.9
Employment insurance premium revenues	1,775	1,770	-0.3	3,559	3,579	0.6
Excise taxes and duties						
Goods and services tax	2,520	2,158	-14.4	4,597	4,607	0.2
Customs import duties	130	226	73.8	290	395	36.2
Sales and excise taxes	681	736	8.1	1,293	1,382	6.9
Total excise taxes and duties	3,331	3,120	-6.3	6,180	6,384	3.3
Total tax revenues	14,711	14,793	0.6	28,999	31,330	8.0
Non-tax revenues	721	560	-22.3	1,371	1,271	-7.3
Total budgetary revenues	15,432	15,353	-0.5	30,370	32,601	7.3

extraordinary developments in taxation year 2000. These included, among others, strong increases in capital gains for the 2000 taxation year. Dampening the impact of these settlement payments were higher refunds, reflecting the faster processing of returns to date, and the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. The tax reduction measures include the reduction in personal income tax rates, the elimination of the 5-per-cent surtax, increases in the thresholds, the restoration of full indexation of the personal income tax system and related benefits, and increases in the Canada Child Tax Benefit.

- Corporate income tax revenues were up \$0.5 billion, or 11.9 per cent. This is considerably stronger than the reported increase in corporate profits so far this year, which suggests that the current experience reflects the effects of the remittance procedures and should be reversed once corporations file their final payments following the end of their taxation year.

- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset 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 \$0.2 billion, or 3.3 per cent. Most of the increase was the result of higher customs import duties.
- Non-tax revenues were down 7.3 per cent.

Program spending increased by \$1.2 billion, or 7.0 per cent, in the April 2001 to May 2001 period, compared to the same period last year.

- Transfers to persons were up 3.9 per cent, attributable to higher elderly benefits, reflecting an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation, and an increase in EI benefit payments.

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Table 3

Budgetary expenditures

	May		Change	April to May		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,972	2,091	6.0	3,969	4,154	4.7
Employment insurance benefits	906	875	-3.4	1,944	1,988	2.3
Total	2,878	2,966	3.1	5,913	6,142	3.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	2,250	2,883	28.1
Fiscal transfers	1,064	1,035	-2.7	1,895	2,041	7.7
Alternative Payments for Standing Programs	-205	-200	-2.4	-411	-400	-2.7
Total	1,984	2,277	14.8	3,734	4,524	21.2
Direct program spending						
Subsidies and other transfers						
Agriculture	14	192	1,271.4	22	230	945.5
Foreign Affairs	89	62	-30.3	144	184	27.8
Health	125	188	50.4	188	198	5.3
Human Resources Development	60	127	111.7	68	152	123.5
Indian and Northern Development	317	225	-29.0	1,158	916	-20.9
Industry and Regional Development	124	40	-67.7	152	152	0.0
Veterans Affairs	121	124	2.5	237	242	2.1
Other	96	162	68.8	340	382	12.4
Total	946	1,120	18.4	2,309	2,456	6.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	42	40	-4.8	215	240	11.6
Canada Mortgage and Housing Corporation	150	158	5.3	300	316	5.3
Other	65	92	41.5	205	293	42.9
Total	257	290	12.8	720	849	17.9
Operating and capital expenditures						
Defence	667	602	-9.7	1,157	1,207	4.3
All other departmental expenditures	1,815	1,807	-0.4	3,332	3,192	-4.2
Total	2,482	2,409	-2.9	4,489	4,399	-2.0
Total direct program spending	3,685	3,819	3.6	7,518	7,704	2.5
Total program expenditures	8,547	9,062	6.0	17,165	18,370	7.0
Public debt charges	3,387	3,405	0.5	6,754	6,794	0.6
Total budgetary expenditures	11,934	12,467	4.5	23,919	25,164	5.2
Memorandum item:						
Total transfers	5,808	6,363	9.6	11,956	13,122	9.8

- Major transfers to other levels of government were up 21.2 per cent, reflecting higher cash transfers under the CHST and fiscal transfers 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, increased by 2.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

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 \$4.3 billion (excluding foreign exchange transactions) for April 2001 to May 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 \$3.1 billion in the first two months of 2001-02, compared to a net requirement of \$2.5 billion in the same period in 2000-01.

As a result, with a budgetary surplus of \$7.4 billion and a net requirement of \$3.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.3 billion in the April 2001 to May 2001 period, compared to a financial source of \$3.9 billion in the same period last year.

Net financial source of \$4.2 billion for April 2001 to May 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 \$0.1 billion in the first two months of 2001-02, compared to a net source of \$1.6 billion in the same period in 2000-01.

With a budgetary surplus of \$7.4 billion, a net requirement of \$3.1 billion from non-budgetary transactions and a net requirement of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$4.2 billion in the April 2001 to May 2001 period, compared to a net source of \$5.5 billion in the same period in 2000-01.

Net borrowings down \$0.8 billion for April 2001 to May 2001

This financial source has allowed the Government to reduce its holding of market debt by \$0.8 billion to the end of May 2001. In addition, cash balances increased by \$3.3 billion to stand at \$16.5 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.

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Table 4

The budgetary balance and financial requirements/source

	May		April to May	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,498	2,886	6,451	7,437
Loans, investments and advances				
Crown corporations	7	47	7	180
Other	-10	-42	96	-57
Total	-3	5	103	123
Specified purpose accounts				
Canada Pension Plan Account	219	627	-175	227
Superannuation accounts	236	-241	543	-193
Other	-47	31	-90	51
Total	398	417	278	85
Other transactions	2,316	1,431	-2,922	-3,347
Total non-budgetary transactions	2,711	1,853	-2,541	-3,139
Financial requirements/source (excluding foreign exchange transactions)	6,209	4,739	3,910	4,298
Foreign exchange transactions	658	-295	1,613	-137
Net financial balance	6,867	4,444	5,523	4,161

Table 5

Net financial balance and net borrowings

	May		April to May	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	6,867	4,444	5,523	4,161
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,362	-225	5,262	1,146
Canada Savings Bonds	-141	-79	-147	-80
Treasury bills	-1,700	-300	-8,950	-1,000
Other	200	0	-200	0
Total	1,721	-604	-3,635	66
Payable in foreign currencies				
Marketable bonds	-2,174	-1,576	-2,174	-1,576
Notes and loans				
Canada bills	602	1,360	169	870
Canada notes		-63		-173
Total	-1,572	-279	-2,005	-879
Net change in borrowings	149	-883	-5,640	-813
Change in cash balance	7,016	3,561	-117	3,348

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	May 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,511	40,164	-3,347
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,499	-193
Canada Pension Plan (net of securities)	6,409	6,636	227
Other pension and other accounts	7,080	7,131	51
Total pension and other accounts	143,181	143,266	85
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	295,773	1,146
Treasury bills	88,700	87,700	-1,000
Canada Savings Bonds	25,753	25,673	-80
Other	3,473	3,473	0
Subtotal	412,553	412,619	66
Payable in foreign currencies	33,171	32,292	-879
Total unmatrued debt	445,724	444,911	-813
Total interest-bearing debt	588,905	588,177	-728
Total liabilities	632,416	628,341	-4,075
Assets			
Cash and accounts receivable	18,612	21,960	3,348
Foreign exchange accounts	50,010	50,147	137
Loans, investments and advances (net of allowances)	14,268	14,145	-123
Total assets	82,890	86,252	3,362
Accumulated deficit (net public debt)	549,526	542,089	-7,437

Note: Assumes fiscal balance of \$15 billion for 2000-01.

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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.

