

Securing progress in an uncertain world

# Budget 2001

## Canada's Fiscal Progress Through 2000-2001



Department of Finance  
Canada

Ministère des Finances  
Canada

© Her Majesty the Queen in Right of Canada (2001)  
All rights reserved

All requests for permission to reproduce these documents  
or any part thereof shall be addressed to Public Works  
and Government Services Canada.

Available from the  
Distribution Centre  
Department of Finance Canada  
Room P-135, West Tower  
300 Laurier Avenue West  
Ottawa, Ontario K1A 0G5  
Tel: (613) 995-2855  
Fax: (613) 996-0518

and from participating bookstores.

Also on the Internet at:  
<http://www.fin.gc.ca/>

*Cette publication est également disponible en français.*

Cat. No.: F1-23/2001-6E  
ISBN 0-662-31355-0



# Budget 2001

Canadians today face a period of significant economic uncertainty.

For the first time in 25 years, we find ourselves in the midst of a global economic slowdown, which has been made worse by the September 11 terrorist attacks on the U.S.

Budget 2001 builds on the Government's long-term plan for a stronger economy and a more secure society, but it also responds to immediate economic and security concerns. It does this in four ways:

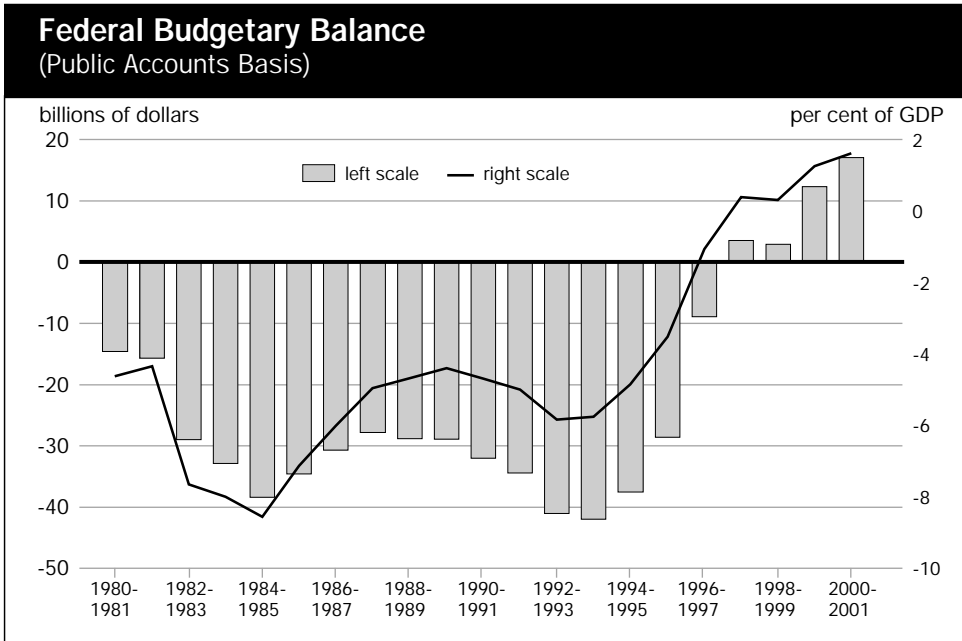
- first, it provides a timely boost to the economy at a time of global weakness and uncertainty and positions Canadians to take full advantage of the recovery expected next year;
- second, it acts to build personal and economic security by keeping Canadians safe, terrorists out and our borders open and efficient;
- third, it keeps the nation's finances healthy by balancing the budget this year and for the next two years; and
- fourth, it fully protects the \$100-billion tax cut and the \$23.4 billion in increased support for health care and early childhood development.

## Highlights

---

- The federal government recorded a budgetary surplus of \$17.1 billion in 2000-01. This is the largest annual surplus since Confederation and the fourth consecutive annual surplus, following surpluses of \$3.5 billion in 1997-98, \$2.9 billion in 1998-99 and \$12.3 billion in 1999-2000.
- Net public debt has declined \$35.8 billion from its peak of \$583.2 billion in 1996-97 to stand at \$547.4 billion. This debt paydown, coupled with Canada's strong economic growth, has resulted in a significant decline in the federal debt-to-GDP (gross domestic product) ratio, from its peak of 70.7 per cent in 1995-96 to 51.8 per cent in 2000-01.
- This decline in net public debt has resulted in ongoing savings in debt interest payments of about \$2.5 billion each and every year.
- Federal market debt – the debt issued on credit markets – has declined by over \$30 billion from its peak of \$476.9 billion in 1996-97 to \$446.4 billion in 2000-01. The market debt-to-GDP ratio has declined to 42.3 per cent, down from its peak of 57.8 per cent in 1995-96.
- The amount of every revenue dollar collected by the federal government that is used to pay interest on the public debt declined to 23.6 cents in 2000-01, down from 36 cents in 1995-96, and is now at its lowest level since 1981-82.
- Federal program spending as a percentage of GDP has fallen from 16.4 per cent in 1993-94 to 11.3 per cent in 2000-01, its lowest level since 1948-49. More than two-thirds of the improvement in the budgetary balance since 1993-94 is attributable to the decline in program spending.
- The aggregate provincial-territorial budget recorded a record surplus of \$12 billion in 2000-01, the second consecutive surplus. Eight provinces and two territories reported budgetary surpluses in 2000-01.
- On a total government basis, between 1992 and 2000 Canada achieved the largest improvement in its financial balance of all Group of Seven (G-7) countries. In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent for the G-7 countries.

## Fourth consecutive budgetary surplus



Sources: Public Accounts of Canada and Statistics Canada.

- There was a record surplus of \$17.1 billion in 2000-01. The federal government has now achieved four consecutive annual surpluses, including surpluses of \$3.5 billion in 1997-98, \$2.9 billion in 1998-99 and \$12.3 billion in 1999-2000.
- As a percentage of GDP, the budgetary balance improved from a deficit of 5.8 per cent in 1993-94 to a surplus of 1.6 per cent in 2000-01, the largest surplus, as a percentage of GDP, since 1948-49.
- The four annual surpluses – totalling \$35.8 billion since 1997-98 – have been applied to reducing the net public debt.
- This achievement reverses a trend of more than a quarter of a century of uninterrupted government deficits. Four consecutive surpluses have not been recorded since 1951-52.
- In a span of seven years the federal budget balance has improved by \$59.1 billion, from a \$42-billion deficit in 1993-94 to a \$17.1-billion surplus in 2000-01.

## Better than expected fiscal outcome for 2000-01 due to strong economic growth and lower spending

Table 1

*Fiscal Outcome: Changes Between the October 2000 Economic Statement and Budget Update and End of Fiscal Year 2000-01*

	(billions of dollars)
October 2000 Statement projected surplus	11.9
<b>Impact of economic developments<sup>1</sup></b>	
Budgetary revenues	
Personal income tax	0.9
Corporate and other income tax	0.5
Excise taxes and duties	1.9
Non-tax revenues	1.7
Total revenues	4.9
Program spending	
Major transfers to persons	0.1
Major transfers to other levels of government	0.3
Direct program spending	2.6
Total program spending	3.0
Public debt charges	0.1
<b>Net impact of economic developments</b>	<b>8.0</b>
<b>Policy decisions since October 2000 Statement affecting 2000-01</b>	
Major transfers to other levels of government	
Lifting of equalization ceiling for 1999-2000	-0.8
Direct program spending	
Canada Foundation for Innovation	-0.8
Agricultural assistance	-0.5
Genome Canada	-0.1
Defence/other departmental operating expenditures	-0.7
Total spending measures	-2.7
<b>Net change</b>	<b>5.2</b>
<b>Outcome for 2000-01</b>	<b>17.1</b>

Note: Numbers may not add due to rounding.

<sup>1</sup> A positive number implies an improvement in the budgetary balance while a negative number implies a deterioration in the budgetary balance.

## **Better than expected fiscal outcome for 2000-01 due to strong economic growth and lower spending**

- The budgetary surplus of \$17.1 billion in 2000-01 was \$5.2 billion above the surplus of \$11.9 billion estimated in the October 2000 *Economic Statement and Budget Update*.
- This improvement was attributable to the impact of a better than expected economic performance on budgetary revenues and program spending, offset somewhat by the introduction of new policy initiatives.
- Budgetary revenues were \$4.9 billion higher than estimated in the October 2000 *Economic Statement and Budget Update*, primarily reflecting the impact of stronger than expected economic growth in 2000.
- All of the major revenue components, with the exception of employment insurance premium revenues (which were unchanged), were higher. Personal income tax revenues were up \$0.9 billion, corporate and other income tax revenues were up \$0.5 billion, excise taxes and duties were up \$1.9 billion and non-tax revenues were up \$1.7 billion. The increase in excise taxes and duties primarily reflected much higher than estimated customs import duties, while higher revenues from exchange account transactions was the major factor accounting for the increase in non-tax revenues.
- On a net basis, program spending was \$0.4 billion lower than estimated in the October 2000 *Economic Statement and Budget Update*.
- However, underlying spending was \$3.0 billion lower, primarily due to lower than expected direct program spending (subsidies and other transfers, expenditures related to Crown corporations, defence spending and operating and capital expenditures of non-defence departments and agencies). This reflected higher net gains from enterprise Crown corporations and higher lapses on appropriated spending.
- New spending initiatives after the October 2000 Statement totalled \$2.7 billion. These included the impact of lifting the equalization ceiling for 1999-2000 (\$0.8 billion), and of increased funding for the Canada Foundation for Innovation (\$0.8 billion), agriculture (\$0.5 billion), Genome Canada (\$0.1 billion), and defence and other departments (\$0.7 billion) to manage increased pressures.

## Fiscal progress from 1993-94 to 2000-01

Table 2

*Change in the Federal Budgetary Balance Relative to the Size of the Economy*

	1993-94	2000-01	Change	Contribution
	(per cent of GDP)			(per cent)
Budgetary revenues	15.9	16.9	1.0	13.5
Program spending	16.4	11.3	-5.1	70.0
Public debt charges	5.2	4.0	-1.2	16.5
Budgetary balance	-5.8	1.6	7.4	100.0

■ The contribution of revenue increases and expenditure reductions to the improvement in the budgetary balance is best illustrated by looking at the evolution of budgetary revenues, program spending and public debt charges, and the resulting budgetary balance, as a share of the economy.

■ Between 1993-94 and 2000-01 the budgetary balance went from a deficit of 5.8 per cent of GDP to a surplus of 1.6 per cent – a turnaround of 7.4 percentage points.

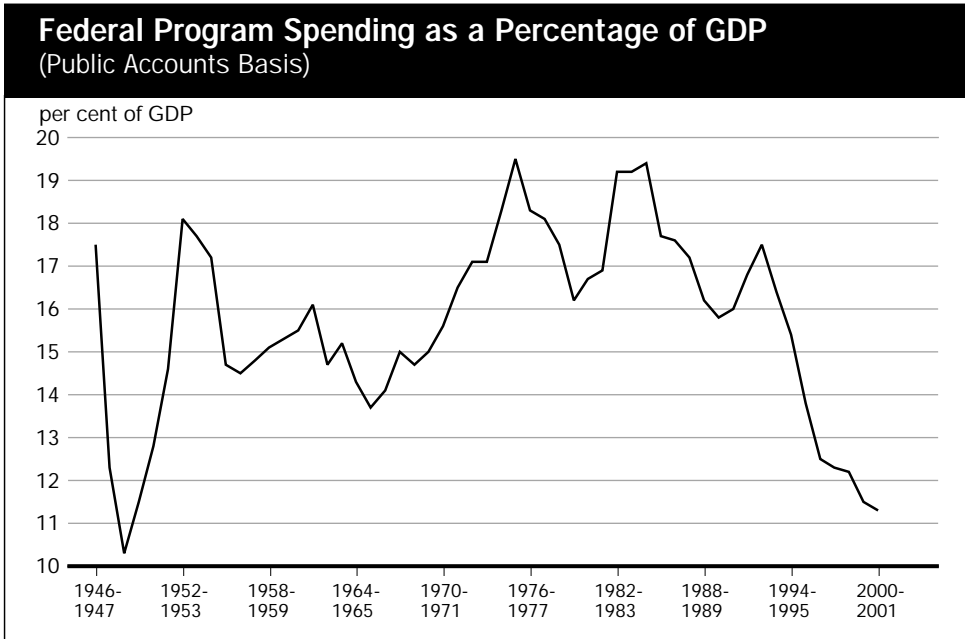
■ More than two-thirds of the improvement in the budgetary balance was attributable to the decline in program spending. This primarily reflected the impact of discretionary actions taken since 1993.

■ Less than 15 per cent of this improvement was attributable to the increase in the revenue yield (revenues as a percentage of GDP). This increase was due primarily to the impact of one-time factors, which depressed revenues in 1993-94, the interaction of the tax system with rising incomes, and the exclusion from nominal GDP of certain components of income subject to taxation (for example, capital gains and income from pension plans).

■ Reductions in the stock of interest-bearing debt, a decline in the average effective interest rate on that debt, and a change in the accounting for interest costs related to public sector pension plans resulted in a decline in public debt charges as a percentage of GDP. This accounted for more than 15 per cent of the improvement in the overall budgetary balance.

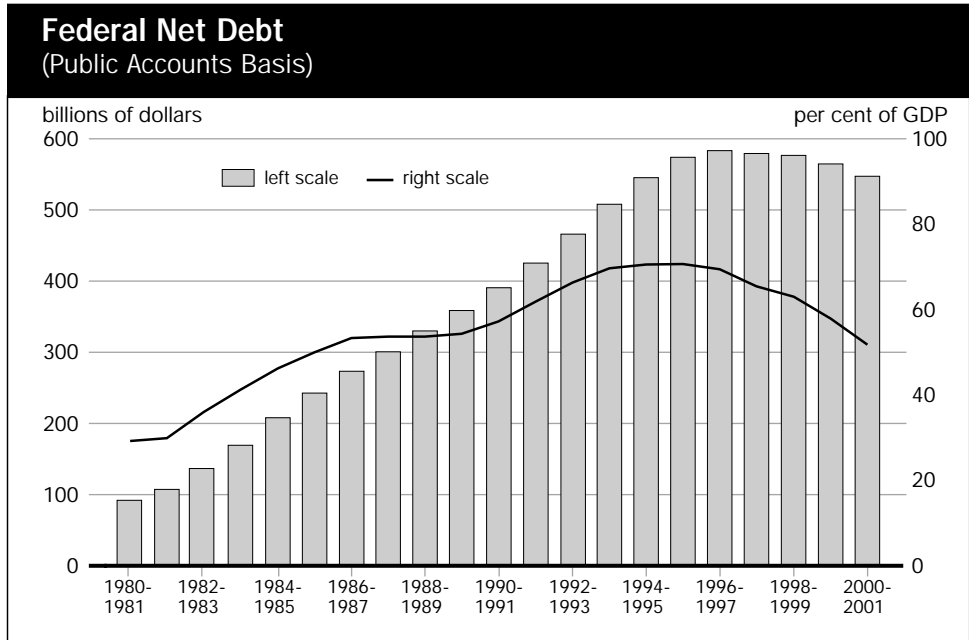


## Program spending as a share of GDP at a 50-year low in 2000-01



- Program spending in 2000-01, at \$119.3 billion, was \$0.7 billion lower than the \$120 billion recorded in 1993-94.
- As a percentage of GDP, program spending declined to 11.3 per cent in 2000-01 – its lowest level since 1948-49 – and down more than 5 percentage points from its level in 1993-94.
- The decline in program spending, as a percentage of GDP, since 1993-94 reflects reforms to program spending that were introduced in the mid-1990s as well as sustained economic growth. These reforms included structural changes to the employment insurance program, to major transfers to provinces (excluding equalization) and to direct program spending (discretionary spending by departments and agencies) as a result of the Program Review exercise.

## The debt-to-GDP ratio declined for the fifth consecutive year



Sources: Public Accounts of Canada and Statistics Canada.

- The debt-to-GDP ratio is generally recognized as the most appropriate measure of the debt burden, as it measures the debt relative to the ability of the Government and the nation's taxpayers to finance it.
- The debt-to-GDP ratio fell to 51.8 per cent in 2000-01, a decline of 18.9 percentage points from its peak of 70.7 per cent in 1995-96. The debt-to-GDP ratio is now at its lowest level since 1985-86.
- The debt-to-GDP ratio declined by 6.1 percentage points between 1999-2000 and 2000-01. This was the best single-year performance since 1951-52. Of this improvement, 4.4 points were due to economic growth while 1.7 points were due to the \$17.1-billion debt repayment during the year – the largest absolute debt paydown in Canada's history.

## Financial source of \$19 billion in 2000-01

Table 3

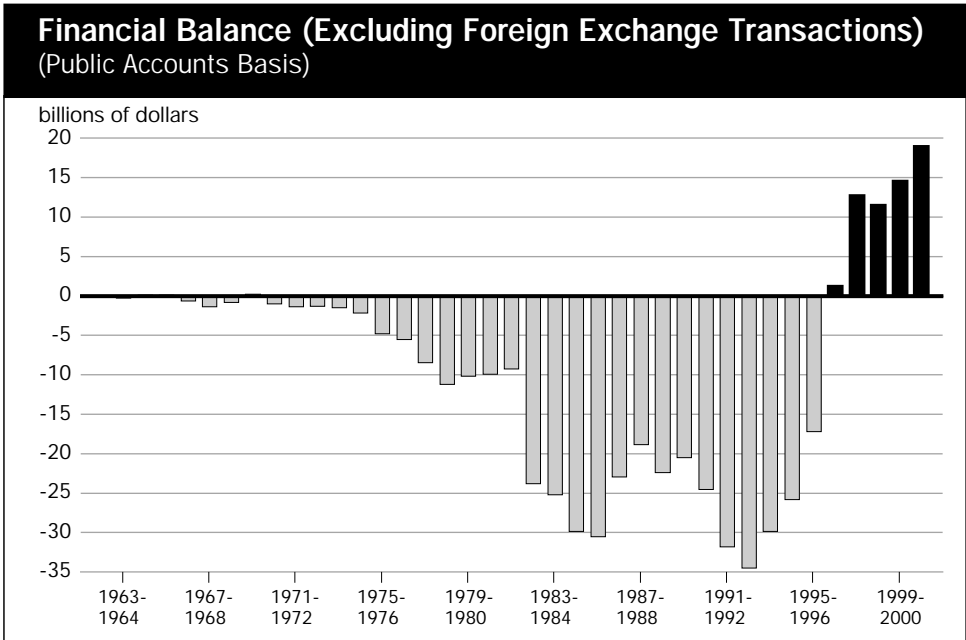
*Federal Budgetary Surplus and Financial Source*

	1999-00	2000-01
	(billions of dollars)	
<b>Budgetary surplus</b>	<b>12.3</b>	<b>17.1</b>
Non-budgetary transactions		
Loans, investments and advances	-0.3	-1.7
Pension and other accounts	7.0	1.3
Other transactions	-4.4	2.2
Total	2.3	1.8
<b>Financial source</b> (excluding foreign exchange transactions)	<b>14.6</b>	<b>19.0</b>

Note: Numbers may not add due to rounding.

- 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, and recording tax revenues only when the cash is received. The budgetary balance covers only those activities over which the Government has legislative control.
- Another important measure of the federal government's financial position is the financial requirements/source, which measures the difference between cash received and cash disbursed.
- It differs from the budgetary balance in that it includes transactions in loans, investments and advances, federal government employee pension accounts and other accounts, changes in financial assets and liabilities, as well as the conversion from accrual to cash accounting. The net change in these activities is included as part of non-budgetary transactions.
- Non-budgetary transactions produced a net source of funds of \$1.8 billion in 2000-01, slightly less than that recorded in 1999-2000, although there were large differences among the components. The lower source in pension and other accounts primarily reflected the reforms of the federal government employees' pension plans, which became effective on April 1, 2000. Current contributions are now invested in financial markets, rather than being included as part of non-budgetary transactions. Other transactions provided a net source of funds, whereas in 1999-2000 a large requirement was recorded.
- As a result, with a budgetary surplus of \$17.1 billion and a net source of \$1.8 billion from non-budgetary transactions, there was a financial source, excluding foreign exchange transactions, of \$19.0 billion in 2000-01, up from a source of \$14.6 billion in 1999-2000.

## Financial source recorded for the fifth consecutive year in 2000-01



- Financial requirements/source is a measure of the Government's financial position that is broadly comparable to the measures of budgetary balance used by other major industrialized countries, including the United States.
- Financial sources have now been recorded in each of the past five years. This is in contrast to the large financial requirements observed from the mid-1970s through the mid-1990s.
- The financial source of \$19.0 billion in 2000-01 was the largest in Canada's history.

## Net public debt reduced by \$35.8 billion over the last four years

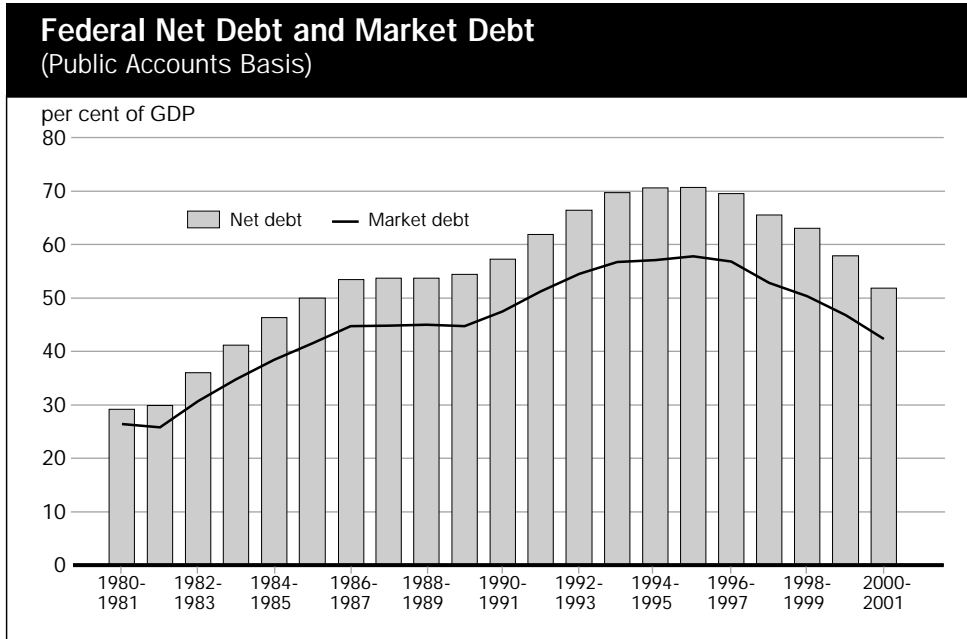
Table 4  
*Federal Government Financial Assets and Liabilities*

	1996-97	2000-01	Change
	(billions of dollars)		
<b>Financial assets</b>			
Cash and accounts receivable	13.9	19.2	5.2
Foreign exchange accounts	26.8	50.3	23.5
Net loans, investments and advances	16.7	16.0	-0.7
Total financial assets	57.5	85.5	28.0
<b>Gross liabilities</b>			
Interest-bearing debt			
Market debt			
Payable in Canadian dollars	453.8	413.2	-40.6
Payable in foreign currencies	23.0	33.2	10.1
Total	476.9	446.4	-30.4
Public sector pensions and other accounts	123.7	142.8	19.1
Total	600.6	589.2	-11.3
Other liabilities	40.1	43.6	3.5
<b>Gross liabilities</b>	<b>640.7</b>	<b>632.9</b>	<b>-7.8</b>
<b>Net public debt</b>	<b>583.2</b>	<b>547.4</b>	<b>-35.8</b>

Note: Numbers may not add due to rounding.

- Net public debt consists of interest-bearing debt, other liabilities (primarily accounts payable) and financial assets (cash, accounts receivable, assets in the foreign exchange account, investment in Crown corporations and loans to other governments). It has declined by \$35.8 billion since 1996-97, the last year the budget was in deficit.
- Among the major components, financial assets increased by \$28.0 billion over this period.
- This increase is largely attributable to higher international reserves held in the Exchange Fund Account. The purpose of the Account is to aid in the control and protection of the external value of the Canadian dollar, which it does by acquiring or selling assets, as required.
- The increase over the last four years reflects the Government's announcement in the 1995 and 1998 budgets that it would bring the level of Canada's international reserves more in line with that of other countries.
- Net gains on financial assets are credited to budgetary revenues (return on investments), although borrowing costs associated with acquiring these assets are part of public debt charges.

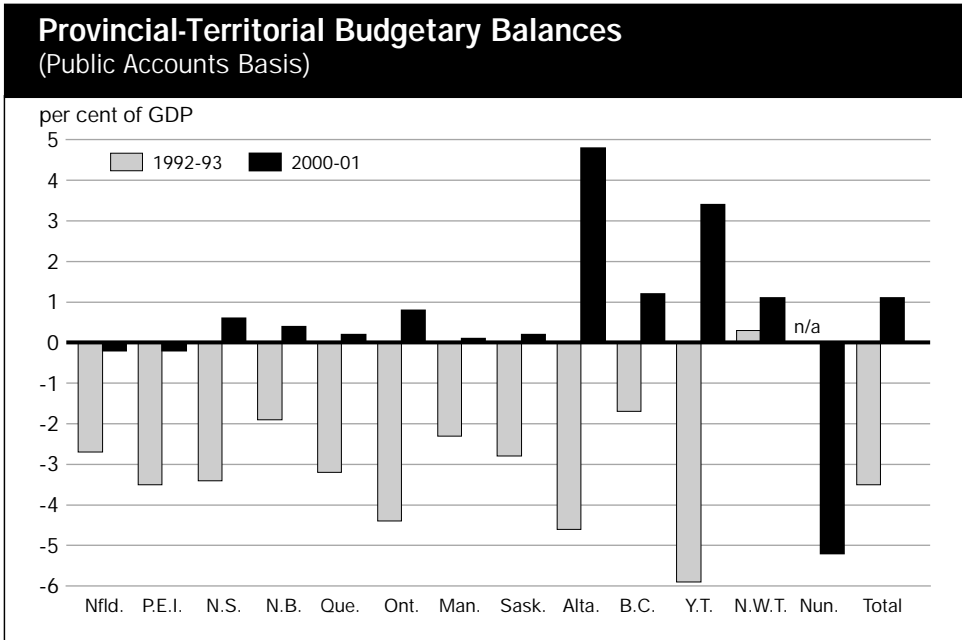
## The decline in net public debt mirrors the decline in market debt



Sources: Public Accounts of Canada and Statistics Canada.

- Gross liabilities include the Government's obligations with respect to interest-bearing debt and other liabilities, such as accounts payable. Interest-bearing debt consists of market debt and the Government's liabilities to federal employee pension plans and other accounts.
- Gross liabilities have declined by \$7.8 billion since 1996-97, with interest-bearing debt down by \$11.3 billion and other liabilities increasing by \$3.5 billion.
- However, within interest-bearing debt there were large differences.
- Market debt, consisting of debt issued on credit markets in the form of Government of Canada bonds, Canada Savings Bonds and Treasury bills, for example, declined \$30.4 billion between 1996-97 and 2000-01. Debt payable in Canadian dollars declined by \$40.6 billion while debt payable in foreign currencies increased by \$10.1 billion. The latter is used solely for exchange fund operations. The decline in net public debt as a per cent of GDP closely mirrors the decline in market debt.
- In contrast, liabilities to the federal government employees' pensions and other accounts increased by \$19.1 billion.

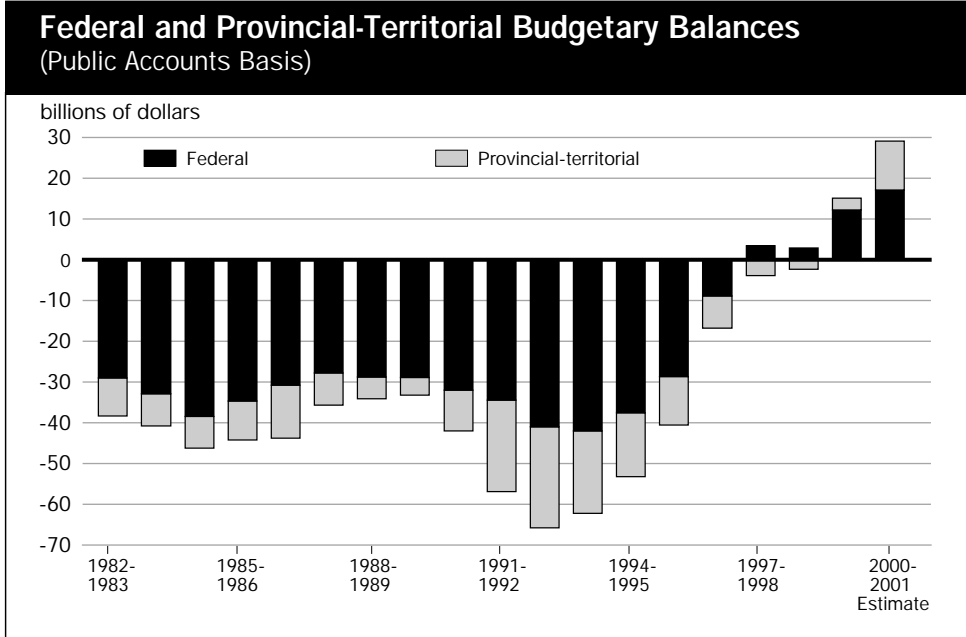
## A majority of the provinces and territories reported budgetary surpluses in 2000-01



Source: Provincial Public Accounts, with the exception of P.E.I., Quebec, Yukon, Northwest Territories and Nunavut, which are based on the latest available data.

- Like the federal government, the provinces and territories have made substantial progress in restoring their fiscal health.
- Eight provinces and two territories are estimated to have recorded budgetary surpluses in 2000-01.
- This represents a substantial improvement from 1992-93, when all but one of the 12 provincial-territorial government budgets (Northwest Territories) were in deficit.
- The provincial-territorial government sector is estimated to have recorded a surplus of \$12 billion in 2000-01, the second consecutive surplus after more than 30 years of uninterrupted deficits.

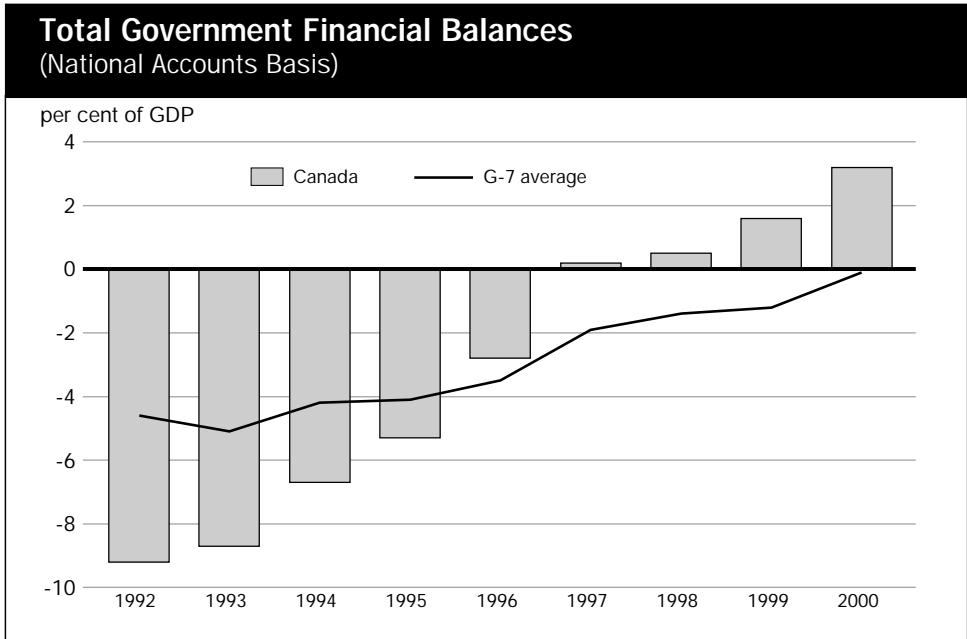
## The aggregate federal-provincial-territorial government budget recorded a surplus for the third consecutive year in 2000-01



- In 2000-01 federal-provincial-territorial governments are estimated to have recorded an aggregate surplus of \$29.2 billion, the third consecutive surplus.
- This represents a remarkable improvement from 1992-93, when the federal-provincial-territorial government sector posted a \$65.8-billion deficit.



## Canada's financial balance has improved significantly compared to the G-7 average



Source: *OECD Economic Outlook No. 70, Preliminary Edition* (November 2001), *OECD Economic Outlook No. 69* (June 2001).

- On a National Accounts basis, the measure commonly used to make comparisons across countries, Canada's total government<sup>1</sup> financial balance has improved substantially since the early 1990s.
- The total government deficit peaked at 9.2 per cent of GDP in 1992, compared to the G-7 average deficit-to-GDP ratio of 4.6 per cent that same year.
- By 1997, however, financial improvements at all levels of government enabled Canada's total government sector to post a surplus.
- In 2000 Canada's surplus reached 3.2 per cent of GDP, compared to an average deficit of 0.1 per cent in the G-7 countries.

<sup>1</sup> Includes federal, provincial-territorial and local governments as well as the Canada Pension Plan and Quebec Pension Plan.