

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

October 2001: budgetary deficit of \$0.3 billion

There was a budgetary deficit of \$0.3 billion in October 2001 compared to a deficit of \$0.1 billion in October 2000. However, the October 2000 estimate includes the one-time \$1-billion transfer to the Medical Equipment Fund, which resulted in the deficit that was recorded in that month. On a year-over-year basis, budgetary revenues increased \$0.3 billion while program spending increased \$0.6 billion. Public debt charges declined by \$0.1 billion.

April 2001 to October 2001: budgetary surplus of \$13.2 billion

The budgetary surplus was estimated at \$13.2 billion for the April 2001 to October 2001 period, down \$1.4 billion from the surplus of \$14.6 billion reported in the same period of 2000-01. However, the results for 2001-02 include one-time revenue gains associated with higher personal income taxes paid on filing with respect to the strong increases in capital gains recorded in 2000, thereby overstating the underlying surplus for 2001-02.

In future months the cumulative surplus will continue to fall, in part reflecting the ongoing impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and proposed in the 2001 budget. In addition, the effect of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year. As noted in the 2001 budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and to the Strategic Infrastructure Foundation.

October 2001: budgetary results

Budgetary revenues increased \$0.3 billion, or 2.2 per cent, on a year-over-year basis. Higher personal income tax revenues and excise taxes and duties more than offset declines in the other major revenue components.

- Personal income tax revenues increased \$0.4 billion, or 7.5 per cent. All of this increase is attributable to prior-year adjustments to the Canada Pension Plan (CPP) and employment insurance (EI) accounts, which dampened the October 2000 results. Gross remittances received include not only federal personal income tax liabilities but also provincial tax liabilities (as set out under the tax collection agreements with participating provinces) and employee

and employer contributions to the CPP and EI accounts. On a monthly basis deductions for these liabilities are based on estimates, with adjustments made when data become available from the Canada Customs and Revenue Agency. Based on taxation data for 1999, transfers of \$1.4 billion were made from personal income tax revenues to the CPP and EI accounts, thereby dampening personal income tax revenues in October 2000. No adjustments were made to the October 2001 results. Excluding the impact of these adjustments from the October 2000 results, personal income tax revenues would have been lower this year. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*,

The Fiscal Monitor

Table 1

Summary statement of transactions

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	13,324	13,620	101,528	103,272
Program spending	-10,063	-10,675	-62,837	-66,954
Operating surplus	3,261	2,945	38,691	36,318
Public debt charges	-3,406	-3,287	-24,103	-23,088
Budgetary balance (deficit/surplus)	-145	-342	14,588	13,230
Non-budgetary transactions	948	-1,530	-5,211	-10,930
Financial requirements/source (excluding foreign exchange transactions)	803	-1,872	9,377	2,300
Foreign exchange transactions	692	-1,010	72	-512
Net financial balance	1,495	-2,882	9,449	1,788
Net change in borrowings	3,658	4,546	-14,652	-9,708
Net change in cash balances	5,153	1,664	-5,203	-7,920
Cash balance at end of period			7,755	5,259

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

as well as enrichments to the Canada Child Tax Benefit announced in previous budgets. In addition, the slowdown in economic growth is restraining the overall growth in personal income tax revenues.

- Corporate income tax revenues declined \$0.4 billion, or 21.3 per cent, reflecting both higher refunds and a decline in gross collections.
- EI premium revenues declined \$0.4 billion, or 26.0 per cent, primarily reflecting the impact of the prior-year adjustments described above, which increased revenues in October 2000. In addition, premium rates are lower (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.8 billion, or 23.1 per cent. Most of this increase was attributable to higher goods and services tax (GST) revenues, primarily reflecting the timing of receipts (September 2001 revenues were \$0.3 billion lower than in September 2000).

- Non-tax revenues declined 5.1 per cent, largely reflecting the timing of receipts and lower interest earnings on bank balances.

The year-over-year increase in program spending of \$0.6 billion, or 6.1 per cent, primarily reflects strong increases in transfers to persons and in direct program spending.

- Major transfers to persons were up \$0.4 billion, or 15.3 per cent, primarily reflecting higher EI benefit payments, which were up 43.5 per cent. The increase in EI benefit payments reflects the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries. Elderly benefits increased 4.9 per cent.
- Major transfers to other levels of government were down \$0.6 billion, or 21.0 per cent. More than all of this decline was attributable to the payment of \$1 billion in trust to the provinces and territories for new medical equipment as part of the September 2000 Health Accord.

Table 2

Budgetary revenues

	October		Change	April to October		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	5,397	5,800	7.5	48,840	49,218	0.8
Corporate income tax	1,853	1,459	-21.3	13,201	13,832	4.8
Other income tax revenue	381	378	-0.8	1,820	2,065	13.5
Total income tax	7,631	7,637	0.1	63,861	65,115	2.0
Employment insurance premium revenues	1,614	1,194	-26.0	11,548	11,009	-4.7
Excise taxes and duties						
Goods and services tax	2,325	3,172	36.4	14,723	15,269	3.7
Customs import duties	230	332	44.3	1,569	1,777	13.3
Sales and excise taxes	706	509	-27.9	4,946	5,150	4.1
Total excise taxes and duties	3,261	4,013	23.1	21,238	22,196	4.5
Total tax revenues	12,506	12,844	2.7	96,647	98,320	1.7
Non-tax revenues	818	776	-5.1	4,881	4,952	1.5
Total budgetary revenues	13,324	13,620	2.2	101,528	103,272	1.7

Excluding the impact of this special payment, transfers increased by \$0.4 billion, or 20.7 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects 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 is attributable to higher equalization entitlements.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.8 billion, or 18.1 per cent. All major components were higher, except payments to Crown corporations. The monthly fluctuations in these components are due in large part to the timing of payments and the completion of the transition to the new Financial Information Strategy.

Public debt charges, on a year-over-year basis, were down \$0.1 billion, or 3.5 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

April 2001 to October 2001: budgetary results

Over the first seven months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.2 billion, down \$1.4 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were up \$1.7 billion, or 1.7 per cent, while public debt charges declined by \$1.0 billion, or 4.2 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.1 billion, or 6.6 per cent.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections increased marginally, as higher final tax payments received in April and May with respect to the 2000 taxation year, as well as prior-year adjustments affecting the October 2000 results, offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.

The Fiscal Monitor

Table 3

Budgetary expenditures

	October		Change	April to October		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,037	2,137	4.9	13,990	14,638	4.6
Employment insurance benefits	750	1,076	43.5	5,806	6,973	20.1
Total	2,787	3,213	15.3	19,796	21,611	9.2
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	7,875	10,092	28.2
Fiscal transfers	976	1,046	7.2	6,807	7,281	7.0
Medical Equipment Fund	1,000			1,000		
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,439	-1,400	-2.7
Total	2,895	2,288	-21.0	14,243	15,973	12.1
Direct program spending						
Subsidies and other transfers						
Agriculture	7	40	471.4	263	504	91.6
Foreign Affairs	212	245	15.6	778	879	13.0
Health	67	107	59.7	633	698	10.3
Human Resources Development	120	139	15.8	579	764	32.0
Indian and Northern Development	176	313	77.8	2,646	2,442	-7.7
Industry and Regional Development	125	201	60.8	732	808	10.4
Veterans Affairs	122	121	-0.8	841	868	3.2
Other	57	233	308.8	1,087	1,388	27.7
Total	886	1,399	57.9	7,559	8,351	10.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	100	83	-17.0	615	648	5.4
Canada Mortgage and Housing Corporation	150	158	5.3	1,070	1,106	3.4
Other	167	170	1.8	874	927	6.1
Total	417	411	-1.4	2,559	2,681	4.8
Operating and capital expenditures						
Defence	989	1,037	4.9	5,762	5,876	2.0
All other departmental expenditures	2,089	2,327	11.4	12,918	12,462	-3.5
Total	3,078	3,364	9.3	18,680	18,338	-1.8
Total direct program spending	4,381	5,174	18.1	28,798	29,370	2.0
Total program expenditures	10,063	10,675	6.1	62,837	66,954	6.6
Public debt charges	3,406	3,287	-3.5	24,103	23,088	-4.2
Total budgetary expenditures	13,469	13,962	3.7	86,940	90,042	3.6
Memorandum item:						
Total transfers	6,568	6,900	5.1	41,598	45,935	10.4

- Corporate income tax revenues were up \$0.6 billion, or 4.8 per cent. The increase in year-to-date revenues has dropped significantly in recent months as corporations are revising their instalment payments to reflect lower corporate profits in 2001.
- EI premium revenues were down \$0.5 billion, or 4.7 per cent, as the impact of prior-year adjustments affecting the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.0 billion, or 4.5 per cent. GST revenues were up 3.7 per cent, customs import duties were up 13.3 per cent and sales and excise taxes were up 4.1 per cent.
- Non-tax revenues were up 1.5 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 9.2 per cent, attributable to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up 12.1 per cent, reflecting higher cash transfers under 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 \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements, reflecting the continued stronger growth in Ontario than in the equalization-receiving provinces. The year-to-date results are also affected by the special payment of \$1 billion to the Medical Equipment Fund in October 2000.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government,

increased 2.0 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.0 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of \$2.3 billion (excluding foreign exchange transactions) for April 2001 to October 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 \$10.9 billion in the first seven months of 2001-02, compared to a net requirement of \$5.2 billion in the same period in 2000-01. Traditionally, there are large requirements in the first part of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results. In addition, transfers to the Canada Pension Plan Account and Public Sector Pension Investment Board resulted in higher requirements this year than in the same period last year.

The Fiscal Monitor

Table 4

The budgetary balance and financial requirements/source

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	-145	-342	14,588	13,230
Loans, investments and advances				
Crown corporations	50	24	256	379
Other	-961	-423	-778	-930
Total	-911	-399	-522	-551
Specified purpose accounts				
Canada Pension Plan Account	871	-745	333	-1,363
Superannuation accounts	175	-154	1,636	-807
Other	9	-17	-56	16
Total	1,055	-916	1,913	-2,154
Other transactions	804	-215	-6,602	-8,225
Total non-budgetary transactions	948	-1,530	-5,211	-10,930
Financial requirements/source (excluding foreign exchange transactions)	803	-1,872	9,377	2,300
Foreign exchange transactions	692	-1,010	72	-512
Net financial balance	1,495	-2,882	9,449	1,788

Table 5

Net financial balance and net borrowings

	October		April to October	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	1,495	-2,882	9,449	1,788
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,931	1,435	9,949	-4,548
Canada Savings Bonds	-191	120	-981	-469
Treasury bills	-300	2,800	-20,350	-1,200
Other	109	0	191	-9
Total	3,549	4,355	-11,191	-6,226
Payable in foreign currencies				
Marketable bonds	-28	0	-2,202	-1,576
Notes and loans				-41
Canada bills	173	431	-1,223	-1,692
Canada notes	-36	0	-36	-173
Total	109	431	-3,461	-3,482
Net change in borrowings	3,658	4,786	-14,652	-9,708
Change in cash balance	5,153	1,904	-5,203	-7,920

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	October 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	32,130	-11,514
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,378	-807
Canada Pension Plan (net of securities)	6,391	5,028	-1,363
Other pension and other accounts	7,253	7,269	16
Total pension and other accounts	142,829	140,675	-2,154
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	290,425	-4,548
Treasury bills	88,700	87,500	-1,200
Canada Savings Bonds	26,099	25,630	-469
Other	3,473	3,464	-9
Subtotal	413,245	407,019	-6,226
Payable in foreign currencies	33,158	29,676	-3,482
Total unmaturing debt	446,403	436,695	-9,708
Total interest-bearing debt	589,232	577,370	-11,862
Total liabilities	632,876	609,499	-23,377
Assets			
Cash and accounts receivable	19,186	7,977	-11,210
Foreign exchange accounts	50,270	50,782	512
Loans, investments and advances (net of allowances)	16,042	16,593	551
Total assets	85,498	75,351	-10,147
Accumulated deficit (net public debt)	547,378	534,148	-13,230

The Fiscal Monitor

As a result, with a budgetary surplus of \$13.2 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$2.3 billion in the April 2001 to October 2001 period, compared to a source of \$9.4 billion in the same period last year.

Net financial source of \$1.8 billion for April 2001 to October 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 \$0.5 billion in the first seven months of 2001-02, compared to a net source of \$0.1 billion in the same period in 2000-01.

With a budgetary surplus of \$13.2 billion, a net requirement of \$10.9 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$1.8 billion in the April 2001 to October 2001 period, compared to a net source of \$9.4 billion in the same period in 2000-01.

Net borrowings down \$9.7 billion for April 2001 to October 2001

Although there was a net financial source of only \$1.8 billion in the first seven months of 2001-02, the Government did reduce its holding of market debt by \$9.7 billion through the drawing down of cash balances. 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. At the end of October 2001 they stood at \$5.3 billion, down \$7.9 billion from March 31, 2001.

Note to Readers:

In the 2000 budget the Government set a target date of 2001-02 for implementation of full accrual accounting. However, it is government convention that the audited financial statements report be presented on the same basis of accounting as in the budget. Given the timing of the 2001 budget and the fact that important components of the information required to implement full accrual accounting have not yet been verified and audited, it is not possible to move to a full accrual basis of accounting at this time. Therefore, the Government has decided to delay the implementation of full accrual accounting for at least one year.

