

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### November 2001: budgetary deficit of \$1.2 billion

There was a budgetary deficit of \$1.2 billion in November 2001, compared to a surplus of \$0.9 billion in November 2000. Budgetary revenues declined by \$1.5 billion on a year-over-year basis, while program spending was \$0.8 billion higher. Public debt charges declined by \$0.1 billion.

### April 2001 to November 2001: budgetary surplus of \$12.0 billion

The budgetary surplus was estimated at \$12.0 billion for the April 2001 to November 2001 period, down \$3.5 billion from the surplus of \$15.5 billion reported in the same period of 2000-01. The lower surplus to date reflects 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 the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and employment insurance (EI) benefits is also adversely affecting the fiscal results. These results are consistent with the expected results for the year as a whole as outlined in the December 2001 budget. As noted in the budget, any surplus reported at the end of 2001-02 will be allocated to the Africa Fund and the Strategic Infrastructure Foundation.

### November 2001: budgetary results

Budgetary revenues declined \$1.5 billion, or 10.9 per cent, on a year-over-year basis. All major revenue components, except other income tax revenues, were lower.

- Personal income tax revenues were marginally lower. This reflects the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*, 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 \$0.6 billion, or 33.3 per cent, primarily attributable to higher refunds.
- EI premium revenues declined 3.4 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties declined \$0.7 billion, or 18.5 per cent. Throughout most of the current fiscal year, this component has been affected by the timing of receipts and processing of refunds. For example, in October 2001, revenues were up \$0.8 billion on a year-over-year basis, accounting for part of the weakness in the current month.
- Non-tax revenues declined 22.4 per cent, largely reflecting the timing of receipts.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	13,780	12,277	115,308	115,548
Program spending	-9,401	-10,201	-72,236	-77,158
Operating surplus	4,379	2,076	43,072	38,390
Public debt charges	-3,436	-3,319	-27,539	-26,406
Budgetary balance (deficit/surplus)	943	-1,243	15,533	11,984
<b>Non-budgetary transactions</b>	1,145	6	-4,068	-10,923
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,088	-1,237	11,465	1,061
<b>Foreign exchange transactions</b>	-2,004	10	-1,933	-502
<b>Net financial balance</b>	84	-1,227	9,532	559
<b>Net change in borrowings</b>	4,906	9,568	-9,746	-141
<b>Net change in cash balances</b>	4,990	8,341	-214	418
<b>Cash balance at end of period</b>			7,755	5,259

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

Program spending increased by \$0.8 billion, or 8.5 per cent, on a year-over-year basis. Among the major components:

- Major transfers to persons were up \$0.2 billion, or 8.4 per cent, reflecting both higher elderly and EI benefit payments. 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.
- Major transfers to other levels of government were up \$0.3 billion, or 15.7 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 \$0.2 billion, or 5.5 per cent. All major components were higher except all other departmental operating and capital expenditures. 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 3.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

# The Fiscal Monitor

Table 2

## Budgetary revenues

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	6,150	6,127	-0.4	54,990	55,345	0.6
Corporate income tax	1,879	1,253	-33.3	15,080	15,084	0.0
Other income tax revenue	244	276	13.1	2,064	2,342	13.5
Total income tax	8,273	7,656	-7.5	72,134	72,771	0.9
<b>Employment insurance premium revenues</b>	1,073	1,036	-3.4	12,622	12,046	-4.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,619	2,106	-19.6	17,340	17,375	0.2
Customs import duties	303	174	-42.6	1,872	1,951	4.2
Sales and excise taxes	744	709	-4.7	5,691	5,861	3.0
Total excise taxes and duties	3,666	2,989	-18.5	24,903	25,187	1.1
<b>Total tax revenues</b>	13,012	11,681	-10.2	109,659	110,004	0.3
<b>Non-tax revenues</b>	768	596	-22.4	5,649	5,544	-1.9
<b>Total budgetary revenues</b>	13,780	12,277	-10.9	115,308	115,548	0.2

### April 2001 to November 2001: budgetary results

Over the first eight months of fiscal year 2001-02, the budgetary surplus was estimated at \$12.0 billion, down \$3.5 billion from the surplus reported in the same period of 2000-01. Budgetary revenues were virtually unchanged from last year, while public debt charges declined by \$1.1 billion, or 4.1 per cent. These positive developments on the budgetary balance were more than offset by higher program spending, up \$4.9 billion, or 6.8 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*.
- Corporate income tax revenues were virtually unchanged, as higher refunds offset increased gross receipts.

- EI premium revenues were down 4.6 per cent, as the impact of prior-year adjustments, which affected 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 \$0.3 billion, or 1.1 per cent. Goods and services tax revenues were up marginally, customs import duties were up 4.2 per cent, while sales and excise taxes were up 3.0 per cent.
- Non-tax revenues were down 1.9 per cent.

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

- Transfers to persons were up 9.1 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.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	November		Change	April to November		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,051	2,137	4.2	16,040	16,775	4.6
Employment insurance benefits	910	1,073	17.9	6,716	8,046	19.8
Total	2,961	3,210	8.4	22,756	24,821	9.1
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	9,000	11,533	28.1
Fiscal transfers	1,020	1,034	1.4	7,827	8,315	6.2
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,644	-1,632	-0.7
Total	1,939	2,243	15.7	16,183	18,216	12.6
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	23	21	-8.7	286	525	83.6
Foreign Affairs	125	121	-3.2	904	1,000	10.6
Health	107	153	43.0	739	851	15.2
Human Resources Development	28	142	407.1	607	906	49.3
Indian and Northern Development	316	290	-8.2	2,962	2,733	-7.7
Industry and Regional Development	90	151	67.8	821	958	16.7
Veterans Affairs	117	132	12.8	958	1,000	4.4
Other	287	254	-11.5	1,376	1,642	19.3
Total	1,093	1,264	15.6	8,653	9,615	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	70	16.7	675	718	6.4
Canada Mortgage and Housing Corporation	150	183	22.0	1,220	1,289	5.7
Other	75	160	113.3	949	1,087	14.5
Total	285	413	44.9	2,844	3,094	8.8
Operating and capital expenditures						
Defence	1,072	1,119	4.4	6,835	6,996	2.4
All other departmental expenditures	2,051	1,952	-4.8	14,965	14,416	-3.7
Total	3,123	3,071	-1.7	21,800	21,412	-1.8
Total direct program spending	4,501	4,748	5.5	33,297	34,121	2.5
<b>Total program expenditures</b>	9,401	10,201	8.5	72,236	77,158	6.8
<b>Public debt charges</b>	3,436	3,319	-3.4	27,539	26,406	-4.1
<b>Total budgetary expenditures</b>	12,837	13,520	5.3	99,775	103,564	3.8
Memorandum item:						
Total transfers	5,993	6,717	12.1	47,592	52,652	10.6

- Major transfers to other levels of government were up 12.6 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. 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 major transfers to persons and other levels of government, increased 2.5 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 \$1.1 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 \$1.1 billion (excluding foreign exchange transactions) for April 2001 to November 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 eight months of 2001-02, compared to a net requirement of \$4.1 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 of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account resulted in higher requirements this year than in the same period last year.

As a result, with a budgetary surplus of \$12.0 billion and a net requirement of \$10.9 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.1 billion in the April 2001 to November 2001 period, compared to a source of \$11.5 billion in the same period of 2000-01.

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/source

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/ surplus)</b>	943	-1,243	15,533	11,984
<b>Loans, investments and advances</b>				
Crown corporations	52	50	308	428
Other	-91	-3	-869	-931
Total	-39	47	-561	-503
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-360	-584	-28	-1,947
Superannuation accounts	71	-747	1,706	-1,552
Other	16	62	-40	78
Total	-273	-1,269	1,638	-3,421
<b>Other transactions</b>	1,457	1,228	-5,145	-6,999
<b>Total non-budgetary transactions</b>	1,145	6	-4,068	-10,923
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,088	-1,237	11,465	1,061
<b>Foreign exchange transactions</b>	-2,004	10	-1,933	-502
<b>Net financial balance</b>	84	-1,227	9,532	559

Table 5

## Net financial balance and net borrowings

	November		April to November	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	84	-1,227	9,532	559
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	5,500	5,351	15,449	802
Canada Savings Bonds	-243	-2,043	-1,224	-2,512
Treasury bills	-400	6,700	-20,750	5,500
Other	-153	-12	38	-21
Total	4,704	9,996	-6,487	3,769
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	202	-428	-1,021	-2,120
Canada notes	0	0	-36	-173
Total	202	-428	-3,259	-3,910
<b>Net change in borrowings</b>	4,906	9,568	-9,746	-141
<b>Change in cash balance</b>	4,990	8,341	-214	418

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	November 30, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,644	35,264	-8,380
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,633	-1,552
Canada Pension Plan (net of securities)	6,391	4,444	-1,947
Other pension and other accounts	7,253	7,331	78
Total pension and other accounts	142,829	139,408	-3,421
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	295,775	802
Treasury bills	88,700	94,200	5,500
Canada Savings Bonds	26,099	23,587	-2,512
Other	3,473	3,452	-21
Subtotal	413,245	417,014	3,769
Payable in foreign currencies	33,158	29,248	-3,910
Total unmaturred debt	446,403	446,262	-141
Total interest-bearing debt	589,232	585,671	-3,561
Total liabilities	632,876	620,935	-11,941
<b>Assets</b>			
Cash and accounts receivable	19,186	18,225	-961
Foreign exchange accounts	50,270	50,772	502
Loans, investments and advances (net of allowances)	16,042	16,545	503
Total assets	85,498	85,541	44
<b>Accumulated deficit (net public debt)</b>	547,378	535,394	-11,984

# The Fiscal Monitor

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## **Net financial source of \$0.6 billion for April 2001 to November 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 eight months of 2001-02, compared to a net requirement of \$1.9 billion in the same period in 2000-01.

With a budgetary surplus of \$12.0 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 \$0.6 billion in the April 2001 to November 2001 period, compared to a net source of \$9.5 billion in the same period in 2000-01.

## **Net borrowings down \$0.1 billion for April 2001 to November 2001**

At November 30, 2001, the Government's holdings of unmatured debt (debt issued on credit markets) were marginally lower than at March 31, 2001. However, it has reduced its liabilities to the federal government employees' pension plan and other accounts by \$3.4 billion. As a result, at November 30, 2001, interest-bearing debt was \$3.6 billion lower than at March 31, 2001. Cash balances were increased by \$0.4 billion, to stand at \$5.3 billion at November 30, 2001. 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.

