The Fiscal Monitor

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Highlights

August 2001: budgetary surplus of $396 million

There was a budgetary surplus of $396 million in August 2001, down $37 million from the revised surplus of $433 million in August 2000.[1] Among the major components, on a year-over-year basis, budgetary revenues were up $330 million, public debt charges declined $168 million, while program spending increased $535 million.

April 2001 to August 2001: budgetary surplus of $11.1 billion

The budgetary surplus was estimated at $11.1 billion for the April 2001 to August 2001 period, virtually unchanged from the surplus of $11.0 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. Given the monthly profile of receipts, a surplus is expected in September 2001, although smaller than that recorded in September 2000. Thereafter, the cumulative surplus will begin to fall, in part reflecting the impact of the tax cuts and spending initiatives implemented in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. In addition, the impact of the slowing economy on corporate profits and personal income will adversely affect the fiscal results, especially in the latter part of the year.

[1] The budgetary balance for August 2000 was revised from the originally reported deficit of $1.2 billion to a surplus of $433 million. This was due to a misclassification of revenues between July 2000 and August 2000.

August 2001: budgetary results

Budgetary revenues increased by $330 million, or 2.5 per cent, in August 2001 on a year-over-year basis. Among the major components:

- Personal income tax revenues increased $315 million, or 5.7 per cent, primarily reflecting timing factors, which depressed revenues reported in August 2000. This more than offset the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were up $93 million, or 4.9 per cent, primarily reflecting much lower refunds paid in August 2001 than in August 2000. As noted in previous Fiscal Monitors, the current year-over-year 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 slightly lower, 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) more than offset the impact of the growth in the number of people employed and therefore paying premiums.

Table 1

Summary statement of transactions

	August		April to August	
	2000	2001	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	12,975	13,305	72,540	74,802
Program spending	-9,021	-9,556	-44,363	-47,112
Operating surplus	3,954	3,749	28,177	27,690
Public debt charges	-3,521	-3,353	-17,225	-16,603
Budgetary balance (deficit/surplus)	433	396	10,952	11,087
Non-budgetary transactions	1,375	457	-6,010	-9,213
Financial requirements/source (excluding foreign exchange transactions)	1,808	853	4,942	1,874
Foreign exchange transactions	-2,373	-1,022	-1,105	-1,153
Net financial balance	-565	-169	3,837	721
Net change in borrowings	6,729	5,767	-6,193	-4,806
Net change in cash balances	6,164	5,598	-2,356	-4,085
Cash balance at end of period			10,604	9,097

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Numbers for August 2000 have been revised (see footnote in box on first page).

- Excise taxes and duties were down $178 million, or 5.5 per cent. Goods and services tax (GST) revenues were down $157 million, solely attributable to higher refunds and rebates. Customs import duties were down $182 million, reflecting the timing of receipts. Sales and excise taxes were up $161 million, attributable to higher receipts from both energy and tobacco excise taxes and duties, the latter reflecting the increase in tobacco excise taxes, which became effective April 6, 2001.
- Non-tax revenues were up marginally.

The year-over-year increase in program spending of $535 million, or 5.9 per cent, primarily reflected strong increases in transfers to persons and other levels of government, dampened by lower direct program spending

- Major transfers to persons were up $320 million, or 11.6 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up $390 million, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer 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 is attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down $175 million, or 4.0 per cent, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. 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 down $168 million, or 4.8 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

Table 2
Budgetary revenues

	August			April to August		
	2000	2001	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	5,543	5,858	5.7	34,862	35,075	0.6
Corporate income tax	1,879	1,972	4.9	9,754	10,831	11.0
Other income tax revenue	166	258	55.4	1,275	1,462	14.7
Total income tax	7,588	8,088	6.6	45,891	47,368	3.2
Employment insurance premium revenues	1,520	1,492	-1.8	8,497	8,473	-0.3
Excise taxes and duties						
Goods and services tax	2,062	1,905	-7.6	10,295	10,374	0.8
Customs import duties	463	281	-39.3	1,119	1,204	7.6
Sales and excise taxes	703	864	22.9	3,443	3,823	11.0
Total excise taxes and duties	3,228	3,050	-5.5	14,857	15,401	3.7
Total tax revenues	12,336	12,630	2.4	69,245	71,242	2.9
Non-tax revenues	639	675	5.6	3,295	3,560	8.0
Total budgetary revenues	12,975	13,305	2.5	72,540	74,802	3.1

April 2001 to August 2001: budgetary results

Over the first five months of fiscal year 2001-02, the budgetary surplus was estimated at $11.1 billion, up $135 million from the surplus reported in the same period of 2000-01. Budgetary revenues were up $2.3 billion, or 3.1 per cent, while public debt charges declined by $622 million, or 3.6 per cent. These positive developments on the budgetary balance were largely offset by higher program spending, up $2.7 billion, or 6.2 per cent.

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

- Personal income tax collections were marginally higher, up $213 million, or 0.6 per cent. This increase was entirely attributable to higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains. However, this one-time revenue gain was largely offset by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included 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 $1.1 billion, or 11.0 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that current collections reflect the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were marginally lower, as the decline in premium rates more than 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.

Table 3

Budgetary expenditures

	August			April to August		
	2000	2001	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,884	2,074	10.1	9,833	10,380	5.6
Employment insurance benefits	874	1,004	14.9	4,385	4,929	12.4
Total	2,758	3,078	11.6	14,218	15,309	7.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	5,625	7,208	28.1
Fiscal transfers	978	1,045	6.9	4,839	5,190	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-1,028	-1,000	-2.7
Total	1,897	2,287	20.6	9,436	11,398	20.8
Direct program spending						
Subsidies and other transfers						
Agriculture	93	22	-76.3	147	445	202.7
Foreign Affairs	180	23	-87.2	526	525	-0.2
Health	65	76	16.9	418	470	12.4
Human Resources Development	15	111	640.0	426	473	11.0
Indian and Northern Development	282	284	0.7	2,025	1,780	-12.1
Industry and Regional Development	150	166	10.7	515	595	15.5
Veterans Affairs	120	127	5.8	598	620	3.7
Other	72	348	383.3	958	918	-4.2
Total	977	1,157	18.4	5,613	5,826	3.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	79	85	7.6	450	485	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	770	790	2.6
Other	141	116	-17.7	617	626	1.5
Total	370	359	-3.0	1,837	1,901	3.5
Operating and capital expenditures						
Defence	921	769	-16.5	3,899	3,996	2.5
All other departmental expenditures	2,098	1,906	-9.2	9,360	8,682	-7.2
Total	3,019	2,675	-11.4	13,259	12,678	-4.4
Total direct program spending	4,366	4,191	-4.0	20,709	20,405	-1.5
Total program expenditures	9,021	9,556	5.9	44,363	47,112	6.2
Public debt charges	3,521	3,353	-4.8	17,225	16,603	-3.6
Total budgetary expenditures	12,542	12,909	2.9	61,588	63,715	3.5
Memorandum item:						
Total transfers	5,632	6,522	15.8	29,267	32,533	11.2

- Excise taxes and duties increased by $544 million, or 3.7 per cent. GST revenues were up 0.8 per cent, somewhat less than the underlying increase in consumer expenditures, due to faster processing of refunds and rebates compared to the same period last year. Customs import duties were up 7.6 per cent, while sales and excise taxes were up 11.0 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.0 per cent.

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

- Transfers to persons were up 7.7 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 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer 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, declined by 1.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

The year-over-year decline in public debt charges of $622 million reflected the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of $1.9 billion (excluding foreign exchange transactions) for April 2001 to August 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 $9.2 billion in the first five months of 2001-02, compared to a net requirement of $6.0 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of $11.1 billion and a net requirement of $9.2 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $1.9 billion in the April 2001 to August 2001 period, compared to a source of $4.9 billion in the same period last year.

Table 4

The budgetary balance and financial requirements/source

	August		April to August	
	2000	2001	2000-01	2001-02
	($ millions)			
Budgetary balance (deficit/surplus)	433	396	10,952	11,087
Loans, investments and advances				
Crown corporations	23	31	106	248
Other	-21	15	141	22
Total	2	46	247	270
Specified purpose accounts				
Canada Pension Plan Account	224	-334	-666	-1,196
Superannuation accounts	459	-22	1,474	-466
Other	1	-15	-215	39
Total	684	-371	593	-1,623
Other transactions	689	782	-6,850	-7,860
Total non-budgetary transactions	1,375	457	-6,010	-9,213
Financial requirements/source (excluding foreign exchange transactions)	1,808	853	4,942	1,874
Foreign exchange transactions	-2,373	-1,022	-1,105	-1,153
Net financial balance	-565	-169	3,837	721

Table 5

Net financial balance and net borrowings

	August		April to August	
	2000	2001	2000-01	2001-02
	($ millions)			
Net financial balance	-565	-169	3,837	721
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,800	4,350	10,951	2,709
Canada Savings Bonds	-138	-75	-692	-311
Treasury bills	2,900	1,700	-13,850	-4,400
Other	-467	-1	483	-6
Total	7,095	5,974	-3,108	-2,008
Payable in foreign currencies				
Marketable bonds	0	0	-2,174	-1,576
Notes and loans				-41
Canada bills	-366	-207	-886	-1,008
Canada notes		0		-173
Total	-366	-207	-3,060	-2,798
Net change in borrowings	6,729	5,767	-6,168	-4,806
Change in cash balance	6,164	5,598	-2,331	-4,085

Table 6

Condensed statement of assets and liabilities

	March 31, 2001[1]	August 31, 2001	Change
	($ millions)		
Liabilities			
Accounts payable, accruals and allowances	43,644	44,421	777
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	128,720	-465
Canada Pension Plan (net of securities)	6,391	5,195	-1,196
Other pension and other accounts	7,253	7,292	39
Total pension and other accounts	142,829	141,207	-1,622
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	297,682	2,709
Treasury bills	88,700	84,300	-4,400
Canada Savings Bonds	26,099	25,789	-310
Other	3,473	3,468	-5
Subtotal	413,245	411,239	-2,006
Payable in foreign currencies	33,158	30,359	-2,799
Total unmatured debt	446,403	441,598	-4,805
Total interest-bearing debt	589,232	582,805	-6,427
Total liabilities	632,876	627,226	-5,650
Assets			
Cash and accounts receivable	19,186	23,740	4,554
Foreign exchange accounts	50,270	51,423	1,153
Loans, investments and advances (net of allowances)	16,042	15,772	-270
Total assets	85,498	90,935	5,437
Accumulated deficit (net public debt)	547,378	536,291	-11,087

[1] Figures for 2000-01 were revised to reflect final results for the year as published in *Public Accounts of Canada – 2001*.

Net financial source of $0.7 billion for April 2001 to August 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 $1.2 billion in the first five months of 2001-02, compared to a net requirement of $1.1 billion in the same period in 2000-01.

With a budgetary surplus of $11.1 billion, a net requirement of $9.2 billion from non-budgetary transactions and a net requirement of $1.2 billion from foreign exchange transactions, there was a net financial source of $0.7 billion in the April 2001 to August 2001 period, compared to a net source of $3.8 billion in the same period in 2000-01.

Net borrowings down $4.8 billion for April 2001 to August 2001

Although there was a net financial source of only $0.7 billion in the first five months of 2001-02, the Government did reduce its holding of market debt by $4.8 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 August 2001 they stood at $9.1 billion, down $4.1 billion from March 31, 2001.

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.

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