

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

February 2002: budgetary surplus of \$3.1 billion

There was a budgetary surplus of \$3.1 billion in February 2002, \$1.3 billion lower than the surplus of \$4.4 billion reported in February 2001. In the last few years large surpluses have been recorded in February, as these results include the final corporate income tax settlement payments from those corporations whose taxation year ends on December 31. On a year-over-year basis budgetary revenues were \$0.7 billion lower, as lower corporate income tax revenues more than offset increases in most of the other major revenue components. Program spending was \$0.9 billion higher, while public debt charges declined by \$0.4 billion.

April 2001 to February 2002: budgetary surplus of \$14.7 billion

The budgetary surplus was estimated at \$14.7 billion for the April 2001 to February 2002 period, down \$7.9 billion from the surplus of \$22.5 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 in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowdown in the economy in 2001 is having an impact on most of the major revenue components and employment insurance (EI) benefits, thereby adversely affecting the overall fiscal results, compared to the same period of 2000-01.

Developments over the balance of the fiscal year will sharply reduce the cumulative surplus to date. These include the impact of the tax reductions announced in the October 2000 *Economic Statement and Budget Update* that came into effect in January 2002, as well as proposed funding for a number of initiatives announced in the December 2001 budget. In addition, adjustments will be made in the end-of-year accounting period to include the costs of goods and services received in late 2001-02, but for which payments are not made until the April/May period, and personal income tax refunds processed in March 2002 relating to the 2001 taxation year.

The results to date are somewhat better than expected at the time of the December 2001 budget, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, which continued into the first quarter of 2002.

February 2002: budgetary results

Budgetary revenues declined \$0.7 billion, or 4.2 per cent, on a year-over-year basis.

- Personal income tax revenues were \$0.3 billion, or 5.7 per cent, higher, primarily due to surprising strength in monthly deductions from employment income. It is still too early to assess whether this is due to timing factors or reflects improved economic developments.
- Corporate income tax revenues were down \$1.2 billion, or 19.8 per cent. This primarily reflects the interaction of remittance procedures for corporations with the decline in corporate profits in 2001. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days after their year-end to make settlement payments for any amounts owing.



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Table 1

Summary statement of transactions

	February		April to February	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	17,705	16,966	163,727	162,105
Program spending	-9,867	-10,810	-103,342	-111,494
Operating surplus	7,838	6,156	60,385	50,611
Public debt charges	-3,440	-3,023	-37,848	-35,952
Budgetary balance (deficit/surplus)	4,398	3,133	22,537	14,659
Non-budgetary transactions	-1,202	-296	-6,801	-11,291
Financial requirements/source (excluding foreign exchange transactions)	3,196	2,837	15,736	3,368
Foreign exchange transactions	-644	-626	-3,937	-1,117
Net financial balance	2,552	2,211	11,799	2,251
Net change in borrowings	2,894	3,322	-11,264	-5,457
Net change in cash balances	5,446	5,533	535	-3,206
Cash balance at end of period			8,039	4,442

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

As most of the large non-financial sector corporations have a December year-end, a substantial amount of corporate income tax revenues are received in February – ranging from 25 per cent to 40 per cent of the total revenues for the year as a whole. As corporate profits were lower in 2001 than in 2000, a decline in final settlement payments in February 2002 was expected. Also, while the December 2001 budget allowed small businesses to defer their monthly income tax instalment payments for the months of January, February and March, it appears that small business is not taking full advantage of the tax deferral measure.

- EI premium revenues declined 2.8 per cent, reflecting the impact of lower premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001).
- Excise taxes and duties increased \$0.4 billion, or 17.2 per cent. Increases were reported in all components. The increases in both goods and services tax (GST) revenues and customs

import duties reflected timing factors. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excise taxes.

- Non-tax revenues increased 13.3 per cent, largely due to the timing of receipts from the sale of goods and services.

Program spending was up \$0.9 billion, or 9.6 per cent, on a year-over-year basis.

- Major transfers to persons increased by \$0.2 billion, or 5.3 per cent. EI benefit payments increased 7.3 per cent – the first time the rate of increase has been below double-digit increases since May 2001.
- Major transfers to other levels of government were up \$0.1 billion, or 6.2 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.

Table 2

Budgetary revenues

	February		Change	April to February		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	5,906	6,242	5.7	76,802	77,132	0.4
Corporate income tax	6,117	4,903	-19.8	25,270	23,365	-7.5
Other income tax revenue	521	175	-66.4	3,524	3,383	-4.0
Total income tax	12,544	11,320	-9.8	105,596	103,880	-1.6
Employment insurance premium revenues	1,868	1,815	-2.8	16,893	16,186	-4.2
Excise taxes and duties						
Goods and services tax	1,739	2,028	16.6	23,194	23,693	2.2
Customs import duties	224	328	46.4	2,517	2,760	9.7
Sales and excise taxes	595	642	7.9	7,550	7,941	5.2
Total excise taxes and duties	2,558	2,998	17.2	33,261	34,394	3.4
Total tax revenues	16,970	16,133	-4.9	155,750	154,460	-0.8
Non-tax revenues	735	833	13.3	7,977	7,645	-4.2
Total budgetary revenues	17,705	16,966	-4.2	163,727	162,105	-1.0

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$0.6 billion, or 14.2 per cent, as increases in operating and capital expenditures more than offset declines in the other major components.

Public debt charges, on a year-over year basis, were down \$0.4 billion, or 12.1 per cent, primarily reflecting adjustments related to previous months.

April 2001 to February 2002: budgetary results

Over the April 2001 to February 2002 period the budgetary surplus was estimated at \$14.7 billion, down \$7.9 billion from the surplus of \$22.5 billion reported in the same period of 2000-01. Program spending was up \$8.2 billion while budgetary revenues were down \$1.6 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.9 billion.

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

- Personal income tax collections were marginally higher, as higher final tax payments received in April and May with respect to the 2000 taxation year, prior-year adjustments affecting the October 2000 results, and an increase in assessed income subject to taxation due to higher employment and average wages in 2001 were largely offset by the impact of the tax reduction measures announced in the February 2000 budget, the October 2000 *Economic Statement and Budget Update* and previous budgets.
- Corporate income tax revenues declined 7.5 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates.
- EI premium revenues were down 4.2 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.

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Table 3

Budgetary expenditures

	February		Change	April to February		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,055	2,140	4.1	22,188	23,207	4.6
Employment insurance benefits	1,195	1,282	7.3	9,970	12,373	24.1
Relief for Heating Expenses				1,434		
Total	3,250	3,422	5.3	33,592	35,580	5.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	12,375	15,858	28.1
Fiscal transfers	1,194	1,036	-13.2	11,396	11,433	0.3
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,260	-2,331	3.1
Total	2,113	2,245	6.2	22,511	24,960	10.9
Direct program spending						
Subsidies and other transfers						
Agriculture	159	106	-33.3	599	715	19.4
Foreign Affairs	249	155	-37.8	1,422	1,565	10.1
Health	85	95	11.8	1,010	1,170	15.8
Human Resources Development	141	167	18.4	1,322	1,546	16.9
Indian and Northern Development	268	245	-8.6	3,742	3,600	-3.8
Industry and Regional Development	213	138	-35.2	1,313	1,322	0.7
Veterans Affairs	126	134	6.3	1,334	1,402	5.1
Other	204	169	-17.2	1,983	2,424	22.2
Total	1,445	1,209	-16.3	12,725	13,744	8.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	15	50	233.3	859	966	12.5
Canada Mortgage and Housing Corporation	150	75	-50.0	1,670	1,755	5.1
Other	71	70	-1.4	1,292	1,480	14.6
Total	236	195	-17.4	3,821	4,201	9.9
Operating and capital expenditures						
Defence	902	1,256	39.2	9,553	10,677	11.8
All other departmental expenditures	1,921	2,483	29.3	21,140	22,332	5.6
Total	2,823	3,739	32.4	30,693	33,009	7.5
Total direct program spending	4,504	5,143	14.2	47,239	50,954	7.9
Total program expenditures	9,867	10,810	9.6	103,342	111,494	7.9
Public debt charges	3,440	3,023	-12.1	37,848	35,952	-5.0
Total budgetary expenditures	13,307	13,833	4.0	141,190	147,446	4.4
Memorandum item:						
Total transfers	6,808	6,876	1.0	68,828	74,284	7.9

- Excise taxes and duties increased 3.4 per cent. GST revenues were up 2.2 per cent, broadly in line with the increase in domestic demand, customs import duties were up 9.7 per cent and sales and excise taxes increased 5.2 per cent, the latter primarily reflecting the impact of higher tobacco excise taxes.
- Non-tax revenues were down 4.2 per cent, primarily reflecting the impact of lower interest rates.

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

- Transfers to persons were up 5.9 per cent due 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 net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.
- Major transfers to other levels of government were up 10.9 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 overall growth in this component was dampened by the special payment of \$1 billion to the Medical Equipment Fund in 2000-01.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 7.9 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 at the end of the fiscal year than in previous years.

The year-over-year decline in public debt charges of \$1.9 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 \$3.4 billion (excluding foreign exchange transactions) for April 2001 to February 2002

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 \$11.3 billion in the first 11 months of 2001-02, compared to a net requirement of \$6.8 billion in the same period of 2000-01. The increase to date is largely attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans.

As a result, with a budgetary surplus of \$14.7 billion and a net requirement of \$11.3 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$3.4 billion in the April 2001 to February 2002 period, compared to a source of \$15.7 billion in the same period of 2000-01.

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Table 4

The budgetary balance and financial requirements/source

	February		April to February	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	4,398	3,133	22,537	14,659
Loans, investments and advances				
Crown corporations	4	7	405	551
Other	-4	182	-890	-1,156
Total	0	189	-485	-605
Specified purpose accounts				
Canada Pension Plan Account	490	1,032	-386	-689
Superannuation accounts	-202	-168	1,369	-1,726
Other	139	91	109	197
Total	427	955	1,092	-2,218
Other transactions	-1,629	-1,440	-7,408	-8,468
Total non-budgetary transactions	-1,202	-296	-6,801	-11,291
Financial requirements/source (excluding foreign exchange transactions)	3,196	2,837	15,736	3,368
Foreign exchange transactions	-644	-626	-3,937	-1,117
Net financial balance	2,552	2,211	11,799	2,251

Table 5

Net financial balance and net borrowings

	February		April to February	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Net financial balance	2,552	2,211	11,799	2,251
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	575	2,982	10,394	-2,515
Treasury bills	2,100	600	-18,150	5,700
Canada Savings Bonds	313	-133	-754	-2,870
Other	0	-17	-62	-63
Total	2,988	3,432	-8,572	252
Payable in foreign currencies				
Marketable bonds	-1,965	0	-4,167	-1,576
Notes and loans	1,965	0	1,385	-514
Canada bills	-94	48	126	-3,288
Canada notes	0	-158	-36	-331
Total	-94	-110	-2,692	-5,709
Net change in borrowings	2,894	3,322	-11,264	-5,457
Change in cash balance	5,446	5,533	535	-3,206

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	February 28, 2002	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	38,347	-5,297
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,459	-1,726
Canada Pension Plan (net of securities)	6,391	5,702	-689
Other pension and other accounts	7,253	7,450	197
Total pension and other accounts	142,829	140,611	-2,218
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	292,458	-2,515
Treasury bills	88,700	94,400	5,700
Canada Savings Bonds	26,099	23,229	-2,870
Other	3,473	3,411	-62
Subtotal	413,245	413,499	254
Payable in foreign currencies	33,158	27,449	-5,709
Total unmaturred debt	446,403	440,947	-5,456
Total interest-bearing debt	589,232	581,558	-7,674
Total liabilities	632,876	619,905	-12,971
Assets			
Cash and accounts receivable	19,186	19,151	-35
Foreign exchange accounts	50,270	51,387	1,117
Loans, investments and advances (net of allowances)	16,042	16,647	605
Total assets	85,498	87,186	1,687
Accumulated deficit (net public debt)	547,378	532,719	-14,659

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Net financial source of \$2.3 billion for April 2001 to February 2002

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 \$1.1 billion in the first 11 months of 2001-02, compared to a net requirement of \$3.9 billion in the same period of 2000-01.

With a budgetary surplus of \$14.7 billion, a net requirement of \$11.3 billion from non-budgetary transactions and a net requirement of \$1.1 billion from foreign exchange transactions, there was a net financial source of \$2.3 billion in the April 2001 to February 2002 period, compared to a net source of \$11.8 billion in the same period of 2000-01.

Net borrowings down \$5.5 billion for April 2001 to February 2002

Although there was a net financial source of only \$2.3 billion in the first 11 months of 2001-02, the Government did reduce its holding of market debt by \$5.5 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 February 2002 they stood at \$4.4 billion.

