

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 2001

Budgetary surplus of \$4.6 billion in April 2001

There was a budgetary surplus of \$4.6 billion in April 2001, up \$1.6 billion from the surplus of \$3.0 billion in April 2000. This year-over-year improvement was primarily attributable to timing factors associated with the final payment of personal income taxes with respect to the 2000 taxation year.

On a year-over year basis, budgetary revenues were up \$2.3 billion, or 15.5 per cent, with most of the increase concentrated in higher personal income tax collections.

- Personal income tax collections were up \$1.6 billion, or 21.9 per cent. Most of this increase was attributable to higher final tax settlement payments with respect to taxation year 2000. Last year, the final date for filing personal income taxes was extended from April 30th (which fell on a Sunday) to May 1st. As a result, final settlement payments with respect to the 1999 taxation year were largely recorded in May 2000. This year, the final filing date was April 30th. As a result, the year-over-year results were affected by the difference in filing dates. Monthly deductions from employment income were virtually unchanged, compared to the same period last year.
- Corporate income tax collections increased \$0.2 billion, or 9.3 per cent. This increase primarily reflects the tax installment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly installments 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 installments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly installment payments understated the final tax liability for 2000-01. With monthly installments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.

- Employment insurance premium revenues were virtually unchanged, 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) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.4 billion, or 14.5 per cent, primarily reflecting strong growth in goods and services tax revenues. However, part of this increase was due to the timing of refunds and rebates, which were down 10 per cent on a year-over-year basis.
- Non-tax revenues were up nearly 9.5 per cent.

On a year-over-year basis, program spending increased by 8.0 per cent, or \$0.7 billion, with most of the increase attributable to higher transfers to other levels of government.

- Major transfers to persons were up 4.6 per cent, as both elderly benefit and employment insurance payments were higher.
- Major transfers to other levels of government were up 28.3 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and higher Equalization entitlements. The increase in CHST reflected the September 2000 agreement reached by



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Table 1

Summary statement of transactions

	April	
	2000	2001
	(\$ millions)	
Budgetary transactions		
Revenues	14,937	17,249
Program spending	-8,616	-9,308
Operating surplus	6,321	7,941
Public debt charges	-3,368	-3,389
Budgetary balance (deficit/surplus)	2,953	4,552
Non-budgetary transactions	-5,253	-4,993
Financial requirements/source (excluding foreign exchange transactions)	-2,300	-441
Foreign exchange transactions	955	158
Net financial balance	-1,345	-283
Net change in borrowings	-5,788	70
Net change in cash balances	-7,133	-213
Cash balance at end of period	5,818	12,965

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

First Ministers to increase base funding from \$13.5 billion in 2000-01 to \$17.3 billion in 2001-02. The increase in Equalization entitlements was attributable to the continued stronger growth in Ontario than in the equalization-receiving provinces.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by 1.5 per cent. Subsidies and other transfers declined 2.2 per cent while payments to Crown corporations advanced by 20.5 per cent. Defence spending increased, while all other departmental expenditures declined. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges were up slightly as the impact of the decline in the stock of interest-bearing debt was offset by a slight increase in the average effective interest rate.

Financial requirement of \$0.4 billion (excluding foreign exchange transactions) in April 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/surplus measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus 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.

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Table 2

Budgetary revenues

	April		Change (%)
	2000	2001	
	(\$ millions)		
Income taxes			
Personal income tax	7,347	8,953	21.9
Corporate income tax	1,963	2,146	9.3
Other income tax revenue	342	364	6.4
Total income tax	9,652	11,463	18.8
Employment insurance premium revenues	1,784	1,809	1.4
Excise taxes and duties			
Goods and services tax	2,077	2,449	17.9
Customs import duties	160	169	5.6
Sales and excise taxes	612	645	5.4
Total excise taxes and duties	2,849	3,263	14.5
Total tax revenues	14,285	16,535	15.8
Non-tax revenues	652	714	9.5
Total budgetary revenues	14,937	17,249	15.5

Non-budgetary transactions resulted in a net requirement of \$5.0 billion in April 2001, down from a net requirement of \$5.3 billion in April 2000. The lower requirement primarily reflected the first installment of pay equity settlement payments in the April 2000 results, which amounted to \$1.6 billion.

As a result, with a budgetary surplus of \$4.6 billion and a net requirement of \$5.0 billion, there was a financial requirement (excluding foreign exchange transactions) of \$0.4 billion in April 2001, compared to a requirement of \$2.3 billion in April 2000.

Net financial requirement of \$0.3 billion in April 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. It fulfills

this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. 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 source of \$158 million in April 2001, compared to a net source of \$1.0 billion in April 2000.

With a budgetary surplus of \$4.6 billion, a net requirement of \$5.0 billion from non-budgetary transactions and a net source of funds of \$0.2 billion from foreign exchange transactions, there was a net financial requirement of \$0.3 billion in April 2001, compared to a net requirement of \$1.3 billion in April 2000.

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Table 3

Budgetary expenditures

	April		Change (%)
	2000 (\$ millions)	2001	
Transfer payments to:			
Persons			
Elderly benefits	1,997	2,063	3.3
Employment insurance benefits	1,038	1,113	7.2
Total	3,035	3,176	4.6
Other levels of government			
Canada Health and Social Transfer	1,125	1,441	28.1
Fiscal transfers	832	1,005	20.8
Alternative Payments for Standing Programs	-206	-200	-2.9
Total	1,751	2,246	28.3
Direct program spending			
Subsidies and other transfers			
Agriculture	9	38	322.2
Foreign Affairs	55	122	121.8
Health	63	10	-84.1
Human Resources Development	8	26	225.0
Indian and Northern Development	842	690	-18.1
Industry and Regional Development	27	112	314.8
Veterans Affairs	116	118	1.7
Other	242	216	-10.7
Total	1,362	1,332	-2.2
Payments to Crown corporations			
Canadian Broadcasting Corporation	173	200	15.6
Canada Mortgage and Housing Corporation	150	158	5.3
Other	140	200	42.9
Total	463	558	20.5
Operating and capital expenditures			
Defence	490	605	23.5
All other departmental expenditures	1,515	1,391	-8.2
Total	2,005	1,996	-0.4
Total direct program spending	3,830	3,886	1.5
Total program expenditures	8,616	9,308	8.0
Public debt charges	3,368	3,389	0.6
Total budgetary expenditures	11,984	12,697	5.9
Memorandum item:			
Total transfers	6,148	6,754	9.9

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Table 4

The budgetary balance and financial requirements/surplus

	April	
	2000	2001
	(\$ millions)	
Budgetary balance (deficit/surplus)	2,953	4,552
Loans, investments and advances		
Crown corporations	0	132
Other	105	-14
Total	105	118
Specified purpose accounts		
Canada Pension Plan Account	-394	-400
Superannuation accounts	317	46
Other	-44	21
Total	-121	-333
Other transactions	-5,237	-4,778
Total non-budgetary transactions	-5,253	-4,993
Financial requirements/source (excluding foreign exchange transactions)	-2,300	-441
Foreign exchange transactions	955	158
Net financial balance	-1,345	-283

Table 5

Net financial balance and net borrowings

	April	
	2000	2001
	(\$ millions)	
Net financial balance	-1,345	-283
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	1,900	1,371
Canada Savings Bonds	-5	-1
Treasury bills	-7,250	-700
Other	0	0
Total	-5,355	670
Payable in foreign dollars		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-433	-490
Canada notes	0	-110
Total	-433	-600
Net change in borrowings	-5,788	70
Change in cash balance	-7,133	-213

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Table 6

Condensed statement of assets and liabilities

	March 31, 2001	April 30, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,511	39,611	-3,900
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,738	46
Canada Pension Plan (net of securities)	6,409	6,009	-400
Other pension and other accounts	7,080	7,101	21
Total pension and other accounts	143,181	142,848	-333
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	295,998	1,371
Treasury bills	88,700	88,000	-700
Canada Savings Bonds	25,753	25,752	-1
Non-marketable bonds and bills	3,473	3,473	0
Subtotal	412,553	413,223	670
Payable in foreign dollars	33,171	32,571	-600
Total unmatured debt	445,724	445,794	70
Total interest-bearing debt	588,905	588,642	-263
Total liabilities	632,416	628,253	-4,163
Assets			
Cash and accounts receivable	18,612	18,725	113
Foreign exchange accounts	50,010	50,168	158
Loans, investments and advances (net of allowances)	14,268	14,386	118
Total assets	82,890	83,279	389
Accumulated deficit (net public debt)¹	549,526	544,974	-4,552

¹ Assumes fiscal balance of \$15 billion for 2000-01.

Net borrowings up slightly

This financial requirement was financed by a draw down in cash balances of \$0.2 billion and an increase of \$0.1 billion in net borrowings.

Cash balances at the end of April 2001 stood at \$13.0 billion. 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.

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