

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2002: budgetary deficit of \$1.9 billion

There was a budgetary deficit of \$1.9 billion in January 2002, \$1.2 billion higher than the deficit of \$0.7 billion reported in January 2001. However, the January 2001 results included the special one-time Relief for Heating Expenses of \$1.4 billion, thereby distorting the year-over-year comparisons. On a year-over-year basis budgetary revenues were \$0.5 billion lower, primarily due to lower personal income tax revenues, while program spending was \$0.8 billion higher. Public debt charges declined by \$0.1 billion, primarily reflecting the decline in interest rates.

April 2001 to January 2002: budgetary surplus of \$11.5 billion

The budgetary surplus was estimated at \$11.5 billion for the April 2001 to January 2002 period, down \$6.6 billion from the surplus of \$18.1 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 slowing economy 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 last year. The results to date are slightly better than expected, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, particularly on corporate income tax revenues.

January 2002: budgetary results

Budgetary revenues declined \$0.5 billion, or 3.4 per cent, on a year-over-year basis.

- Personal income tax revenues were \$0.4 billion, or 6.0 per cent, lower due to the slowdown in the economy, tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were marginally higher. Given the decline in corporate profits in 2001, the tax rate reductions that came into effect in January, and the December 2001 budget initiative to allow small businesses to defer their monthly income tax instalment payments, a decline was expected. With a stronger economy,

it appears that small business is not taking full advantage of the tax deferral measure.

- EI premium revenues declined 4.5 per cent, in part 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 \$0.2 billion, or 5.5 per cent. Increases were reported in all components except customs import duties. The increase in goods and services tax (GST) revenues primarily reflected slower processing of refunds, as gross collections declined. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 15.6 per cent, largely reflecting the impact of lower interest rates.



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Table 1

Summary statement of transactions

	January		April to January	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	14,403	13,908	146,021	145,138
Program spending	-11,722	-12,509	-93,477	-100,684
Operating surplus	2,681	1,399	52,544	44,454
Public debt charges	-3,384	-3,317	-34,408	-32,929
Budgetary balance (deficit/surplus)	-703	-1,918	18,136	11,525
Non-budgetary transactions	4,088	3,000	-5,601	-10,997
Financial requirements/source (excluding foreign exchange transactions)	3,385	1,082	12,535	528
Foreign exchange transactions	-1,970	152	-3,293	-491
Net financial balance	1,415	1,234	9,242	37
Net change in borrowings	2,458	-1,781	-14,158	-8,780
Net change in cash balances	3,873	-547	-4,916	-8,743
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.

Program spending increased by \$0.8 billion, or 6.7 per cent, on a year-over-year basis.

- Major transfers to persons declined by \$1.0 billion, or 20.6 per cent, due to the January 2001 payment of the \$1.4-billion Relief for Heating Expenses. EI benefit payments increased 33.8 per cent, reflecting 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 due to the slowdown in the economy.
- Major transfers to other levels of government were up \$0.1 billion, or 6.8 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 decline in fiscal transfers is attributable to the timing of payments.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased \$1.6 billion, or 32.2 per cent, with increases reported in all major components.

Public debt charges, on a year-over-year basis, were down \$0.1 billion, or 2.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

April 2001 to January 2002: budgetary results

Over the first 10 months of fiscal year 2001-02, the budgetary surplus was estimated at \$11.5 billion, down \$6.6 billion from the surplus reported in the same period of 2000-01. Program spending was up \$7.2 billion while budgetary revenues were down \$0.9 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.5 billion.

Table 2

Budgetary revenues

	January		Change	April to January		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,758	6,355	-6.0	70,897	70,891	0.0
Corporate income tax	1,642	1,649	0.4	19,153	18,461	-3.6
Other income tax revenue	655	554	-15.4	3,002	3,207	6.8
Total income tax	9,055	8,558	-5.5	93,052	92,559	-0.5
Employment insurance premium revenues	1,439	1,374	-4.5	15,024	14,371	-4.3
Excise taxes and duties						
Goods and services tax	2,340	2,474	5.7	21,455	21,664	1.0
Customs import duties	219	186	-15.1	2,293	2,432	6.1
Sales and excise taxes	643	719	11.8	6,954	7,299	5.0
Total excise taxes and duties	3,202	3,379	5.5	30,702	31,395	2.3
Total tax revenues	13,696	13,311	-2.8	138,778	138,325	-0.3
Non-tax revenues	707	597	-15.6	7,243	6,813	-5.9
Total budgetary revenues	14,403	13,908	-3.4	146,021	145,138	-0.6

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

- Personal income tax collections were marginally lower, as higher final tax payments received in April and May with respect to the 2000 taxation year and the effect of prior-year adjustments affecting the October 2000 results were offset by 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 declined 3.6 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates. Large year-over-year declines are expected over the balance of the fiscal year, primarily due to lower final settlement payments, reflecting the decline in corporate profits in 2001, and to the extent that small businesses defer payments of their corporate income tax instalments for the months of February and March 2002.
- EI premium revenues were down 4.3 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 \$0.7 billion, or 2.3 per cent. GST revenues were up marginally, customs import duties were up 6.1 per cent and sales and excise taxes increased 5.0 per cent.
- Non-tax revenues were down 5.9 per cent.

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

- Transfers to persons were up 6.0 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.

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Table 3

Budgetary expenditures

	January		Change	April to January		Change
	2001	2002		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,054	2,140	4.2	20,133	21,066	4.6
Employment insurance benefits	1,157	1,548	33.8	8,775	11,091	26.4
Relief for Heating Expenses	1,434			1,434		
Total	4,645	3,688	-20.6	30,342	32,157	6.0
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	11,250	14,416	28.1
Fiscal transfers	1,181	1,034	-12.4	10,201	10,397	1.9
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,055	-2,098	2.1
Total	2,100	2,243	6.8	20,396	22,715	11.4
Direct program spending						
Subsidies and other transfers						
Agriculture	57	43	-24.6	440	609	38.4
Foreign Affairs	149	243	63.1	1,175	1,411	20.1
Health	105	145	38.1	925	1,075	16.2
Human Resources Development	366	370	1.1	1,181	1,378	16.7
Indian and Northern Development	206	299	45.1	3,473	3,354	-3.4
Industry and Regional Development	87	71	-18.4	1,100	1,183	7.5
Veterans Affairs	130	138	6.2	1,208	1,268	5.0
Other	202	378	87.1	1,779	2,253	26.6
Total	1,302	1,687	29.6	11,281	12,531	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	65	0.0	843	916	8.7
Canada Mortgage and Housing Corporation	150	158	5.3	1,520	1,680	10.5
Other	82	190	131.7	1,221	1,411	15.6
Total	297	413	39.1	3,584	4,007	11.8
Operating and capital expenditures						
Defence	1,004	1,336	33.1	8,652	9,420	8.9
All other departmental expenditures	2,374	3,142	32.4	19,222	19,854	3.3
Total	3,378	4,478	32.6	27,874	29,274	5.0
Total direct program spending	4,977	6,578	32.2	42,739	45,812	7.2
Total program expenditures	11,722	12,509	6.7	93,477	100,684	7.7
Public debt charges	3,384	3,317	-2.0	34,408	32,929	-4.3
Total budgetary expenditures	15,106	15,826	4.8	127,885	133,613	4.5
Memorandum item:						
Total transfers	8,047	7,618	-5.3	62,019	67,403	8.7

- Major transfers to other levels of government were up 11.4 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 7.2 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 \$1.5 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 \$0.5 billion (excluding foreign exchange transactions) for April 2001 to January 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 \$11.0 billion in the first 10 months of 2001-02, compared to a net requirement of \$5.6 billion in the same period of 2000-01. The increase to date is attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account.

As a result, with a budgetary surplus of \$11.5 billion and a net requirement of \$11.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$0.5 billion in the April 2001 to January 2002 period, compared to a source of \$12.5 billion in the same period of 2000-01.

Net financial source of \$37 million for April 2001 to January 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 \$0.5 billion in the first 10 months of 2001-02, compared to a net requirement of \$3.3 billion in the same period of 2000-01.

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Table 4

The budgetary balance and financial requirements/source

	January		April to January	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	-703	-1,918	18,136	11,525
Loans, investments and advances				
Crown corporations	53	46	401	544
Other	-43	-208	-885	-1,338
Total	10	-162	-484	-794
Specified purpose accounts				
Canada Pension Plan Account	-352	320	-876	-1,720
Superannuation accounts	17	-50	1,571	-1,558
Other	17	50	-31	106
Total	-318	320	664	-3,172
Other transactions	4,396	2,842	-5,781	-7,031
Total non-budgetary transactions	4,088	3,000	-5,601	-10,997
Financial requirements/source (excluding foreign exchange transactions)	3,385	1,082	12,535	528
Foreign exchange transactions	-1,970	152	-3,293	-491
Net financial balance	1,415	1,234	9,242	37

Table 5

Net financial balance and net borrowings

	January		April to January	
	2001	2002	2000-01	2001-02
	(\$ millions)			
Net financial balance	1,415	1,234	9,242	37
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	1,500	364	9,819	-5,497
Treasury bills	900	-1,200	-20,250	5,100
Canada Savings Bonds	136	-118	-1,067	-2,737
Other	34	-25	-62	-47
Total	2,570	-979	-11,560	-3,181
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans	-580	-473	-580	-514
Canada bills	468	-329	220	-3,336
Canada notes	0	0	-36	-173
Total	-112	-802	-2,598	-5,599
Net change in borrowings	2,458	-1,781	-14,158	-8,780
Change in cash balance	3,873	-547	-4,916	-8,743

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	January 31, 2002	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	35,030	-8,614
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,627	-1,558
Canada Pension Plan (net of securities)	6,391	4,671	-1,720
Other pension and other accounts	7,253	7,359	106
Total pension and other accounts	142,829	139,657	-3,172
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,476	-5,497
Treasury bills	88,700	93,800	5,100
Canada Savings Bonds	26,099	23,362	-2,737
Other	3,473	3,427	-46
Subtotal	413,245	410,066	-3,179
Payable in foreign currencies	33,158	27,559	-5,599
Total unmaturred debt	446,403	437,624	-8,779
Total interest-bearing debt	589,232	577,281	-11,951
Total liabilities	632,876	612,311	-20,565
Assets			
Cash and accounts receivable	19,186	8,860	-10,326
Foreign exchange accounts	50,270	50,761	491
Loans, investments and advances (net of allowances)	16,042	16,836	794
Total assets	85,498	76,458	-9,041
Accumulated deficit (net public debt)	547,378	535,853	-11,525

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With a budgetary surplus of \$11.5 billion, a net requirement of \$11.0 billion from non-budgetary transactions and a net requirement of \$0.5 billion from foreign exchange transactions, there was a net financial source of \$37 million in the April 2001 to January 2002 period, compared to a net source of \$9.2 billion in the same period of 2000-01.

Net borrowings down \$8.8 billion for April 2001 to January 2002

Although there was a net financial source of only \$37 million in the first 10 months of 2001-02, the Government did reduce its holding of market debt by \$8.8 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 January 2002 they stood at \$4.4 billion.

