



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	15,798	12,829	31,924	26,604
Program spending	-9,144	-9,977	-18,370	-20,006
Operating surplus	6,654	2,852	13,554	6,598
Public debt charges	-3,405	-2,968	-6,794	-5,843
Budgetary balance (deficit/surplus)	3,249	-116	6,760	755
<b>Non-budgetary transactions</b>	1,489	856	-2,462	-4,699
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,738	740	4,298	-3,944
<b>Foreign exchange transactions</b>	-295	20	-137	-648
<b>Net financial balance</b>	4,443	760	4,161	-4,592
<b>Net change in borrowings</b>	-883	6,438	-813	5,498
<b>Net change in cash balances</b>	3,560	7,198	3,348	906
<b>Cash balance at end of period</b>			16,530	12,856

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for April and May 2001 have been revised from those previously published.

- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is \$2.20 per \$100 of insurable earnings compared to \$2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up \$0.1 billion, or 4.6 per cent. Most of the increase reflects higher excise taxes and duties on tobacco products.
- Non-tax revenues declined, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.8 billion, or 9.1 per cent. Among the major components:

- Transfers to persons were up 10.6 per cent. Elderly benefits increased 5.8 per cent, reflecting an increase in the number of individuals receiving benefits and higher

average benefits, which are indexed to inflation. The increase of 22.2 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.

- Transfers to other levels of government were up 6.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfers. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from \$17.3 billion in 2001-02 to \$18.6 billion in 2002-03. The increase in fiscal transfers was attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.8 per cent. Subsidies and other transfers declined 15.6 per cent, while payments to

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Table 2

## Budgetary revenues

	May		Change	April to May		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,639	5,376	-29.6	16,178	11,810	-27.0
Corporate income tax	2,373	1,654	-30.3	4,519	3,146	-30.4
Other income tax revenue	305	232	-23.9	670	564	-15.8
Total income tax	10,317	7,262	-29.6	21,367	15,520	-27.4
<b>Employment insurance premium revenues</b>	1,770	1,751	-1.1	3,579	3,511	-1.9
<b>Excise taxes and duties</b>						
Goods and services tax	2,127	2,181	2.5	3,830	4,332	13.1
Customs import duties	226	231	2.2	395	488	23.5
Sales and excise taxes	736	819	11.3	1,382	1,524	10.3
Total excise taxes and duties	3,089	3,231	4.6	5,607	6,344	13.1
<b>Total tax revenues</b>	15,176	12,244	-19.3	30,553	25,375	-16.9
<b>Non-tax revenues</b>	622	585	-5.8	1,371	1,229	-10.4
<b>Total budgetary revenues</b>	15,798	12,829	-18.8	31,924	26,604	-16.7

Crown corporations and operating and capital expenditures were up strongly. 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, declined 12.8 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

### April and May 2002: budgetary results

Over the first two months of fiscal year 2002-03, the budgetary surplus was estimated at \$755 million, down \$6.0 billion from the surplus of \$6.8 billion reported in the same period of 2001-02. This decline, which was expected, reflected lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Budgetary revenues were down \$5.3 billion, or 16.7 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined \$4.4 billion, or 27.0 per cent. Virtually all of this decline was attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in economic activity in 2001 and its effect on the stock market and net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*.

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Table 3

## Budgetary expenditures

	May		Change	April to May		Change
	2001	2002		2001-02	2002-03	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,091	2,212	5.8	4,154	4,377	5.4
Employment insurance benefits	875	1,069	22.2	1,988	2,471	24.3
Total	2,966	3,281	10.6	6,142	6,848	11.5
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	2,883	3,100	7.5
Fiscal transfers	1,117	1,164	4.2	2,041	2,040	0.0
Alternative Payments for Standing Programs	-200	-210	5.0	-400	-420	5.0
Total	2,359	2,504	6.1	4,524	4,720	4.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	192	40	-79.2	230	57	-75.2
Foreign Affairs	62	86	38.7	184	125	-32.1
Health	188	132	-29.8	198	242	22.2
Human Resources Development	127	111	-12.6	152	181	19.1
Indian and Northern Development	225	253	12.4	916	862	-5.9
Industry and Regional Development	40	59	47.5	152	168	10.5
Veterans Affairs	124	138	11.3	242	281	16.1
Other	181	142	-21.5	490	302	-38.4
Total	1,139	961	-15.6	2,564	2,218	-13.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	40	76	90.0	240	258	7.5
Canada Mortgage and Housing Corporation	158	159	0.6	316	330	4.4
Other	106	134	26.4	329	360	9.4
Total	304	369	21.4	885	948	7.1
Operating and capital expenditures						
Defence	502	796	58.6	1,007	1,377	36.7
All other departmental expenditures	1,874	2,066	10.2	3,248	3,895	19.9
Total	2,376	2,862	20.5	4,255	5,272	23.9
Total direct program spending	3,819	4,192	9.8	7,704	8,438	9.5
<b>Total program expenditures</b>	9,144	9,977	9.1	18,370	20,006	8.9
<b>Public debt charges</b>	3,405	2,968	-12.8	6,794	5,843	-14.0
<b>Total budgetary expenditures</b>	12,549	12,945	3.2	25,164	25,849	2.7
Memorandum item:						
Total transfers	6,464	6,746	4.4	13,230	13,786	4.2

- Corporate income tax revenues were down \$1.4 billion, or 30.4 per cent. This was primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by \$0.7 billion, or 13.1 per cent, primarily reflecting higher customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were down 10.4 per cent.

Program spending increased by \$1.6 billion, or 8.9 per cent, in the April and May 2002 period, compared to the same period last year.

- Transfers to persons were up 11.5 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by \$1.0 billion, or 14.0 per cent, due to the lower average effective interest rate on the stock of debt.

## **Financial requirement of \$3.9 billion (excluding foreign exchange transactions) for April and May 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 \$4.7 billion in the first two months of 2002-03, compared to a net requirement of \$2.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of \$0.8 billion and a net requirement of \$4.7 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$3.9 billion in the April and May 2002 period, compared to a financial source of \$4.3 billion in the same period in 2001-02.

## **Net financial requirement of \$4.6 billion for April and May 2002**

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign-currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign-currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of \$0.6 billion in the first two months of 2002-03, compared to a net requirement of \$0.1 billion in the same period in 2001-02.

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Table 4

## The budgetary balance and financial requirements/source

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	3,249	-116	6,760	755
<b>Loans, investments and advances</b>				
Crown corporations	48	2	180	15
Other	-43	21	-57	30
Total	5	23	123	45
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	627	401	227	272
Superannuation accounts	-241	-43	-193	-89
Other	31	-15	51	-52
Total	417	343	85	131
<b>Other transactions</b>	1,067	490	-2,670	-4,875
<b>Total non-budgetary transactions</b>	1,489	856	-2,462	-4,699
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,738	740	4,298	-3,944
<b>Foreign exchange transactions</b>	-295	20	-137	-648
<b>Net financial balance</b>	4,443	760	4,161	-4,592

Table 5

## Net financial balance and net borrowings

	May		April to May	
	2001	2002	2001-02	2002-03
	(\$ millions)			
<b>Net financial balance</b>	4,443	760	4,161	-4,592
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-225	3,045	1,146	-2,155
Canada Savings Bonds	-79	-94	-80	-151
Treasury bills	-300	3,700	-1,000	8,000
Other		-2		-2
Total	-604	6,649	66	5,692
Payable in foreign currencies				
Marketable bonds	-1,576	0	-1,576	0
Notes and loans				
Canada bills	1,360	-211	870	-194
Canada notes	-63	0	-173	0
Total	-279	-211	-879	-194
<b>Net change in borrowings</b>	-883	6,438	-813	5,498
<b>Change in cash balance</b>	3,560	7,198	3,348	906

Table 6

**Condensed statement of assets and liabilities<sup>1</sup>**

	March 31, 2002	May 31, 2002	Change
	(\$ millions)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances	41,014	36,867	-4,147
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,120	-89
Canada Pension Plan (net of securities)	6,756	7,028	272
Other pension and other accounts	7,454	7,402	-52
Total pension and other accounts	141,419	141,550	131
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	291,710	-2,155
Treasury bills	94,200	102,200	8,000
Canada Savings Bonds	23,759	23,608	-151
Other	3,390	3,388	-2
Subtotal	415,214	420,906	5,692
Payable in foreign currencies	27,033	26,839	-194
Total unmatured debt	442,247	447,745	5,498
Total interest-bearing debt	583,666	589,295	5,629
Total liabilities	624,680	626,162	1,482
<b>Assets</b>			
Cash and accounts receivable	14,796	16,430	1,634
Foreign exchange accounts	52,119	52,767	648
Loans, investments and advances (net of allowances)	16,387	16,342	-45
Total assets	83,302	85,539	2,237
<b>Accumulated deficit (net public debt)</b>	<b>541,378</b>	<b>540,623</b>	<b>-755</b>

<sup>1</sup> Assumes a fiscal balance of \$6 billion for 2001-02.

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With a budgetary surplus of \$0.8 billion, a net requirement of \$4.7 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$4.6 billion in the April and May 2002 period, compared to a net source of \$4.2 billion in the same period in 2001-02.

## **Net borrowings up \$5.5 billion for April and May 2002**

To finance this net financial requirement, the Government increased its holding of market debt by \$5.5 billion to the end of May 2002 and raised its cash balances by \$0.9 billion to \$12.9 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.

