

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2001: budgetary surplus of \$1.5 billion

There was a budgetary surplus of \$1.5 billion in December 2001, \$1.9 billion lower than the surplus of \$3.3 billion reported in December 2000. On a year-over-year basis, budgetary revenues were \$0.6 billion lower, primarily attributable to lower corporate income tax revenues, reflecting the weakness in corporate profits. Program spending was \$1.5 billion higher, largely attributable to higher employment insurance (EI) benefits and to higher departmental operating and capital expenditures in response to the events of September 11th. Public debt charges declined by \$0.3 billion, primarily reflecting the decline in interest rates. Given the monthly pattern of budgetary revenues, a surplus was expected in December.

April 2001 to December 2001: budgetary surplus of \$13.4 billion

The budgetary surplus was estimated at \$13.4 billion for the April 2001 to December 2001 period, down \$5.4 billion from the surplus of \$18.8 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 the December 2001 budget. In addition, the effect of the slowing economy on most of the major revenue components and EI benefits is also adversely affecting the fiscal results, compared to the same period last year. The results to date are consistent with the expected results for the year as a whole as outlined in the December 2001 budget.

December 2001: budgetary results

Budgetary revenues declined \$0.6 billion, or 3.9 per cent, on a year-over-year basis, primarily attributable to lower corporate income tax revenues.

- Personal income tax revenues were marginally higher. The overall growth has been restrained by the slowdown in the economy, the impact of the 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 declined \$0.7 billion, or 28.9 per cent, reflecting the much lower profit outcome for 2001 compared to 2000, as well as the tax rate reductions effective January 1, 2001.
- EI premium revenues declined 1.2 per cent, primarily reflecting the impact of lower premium rates (the employee rate for 2001 is \$2.25 per \$100 of insurable earnings compared to \$2.40 in 2000).
- Excise taxes and duties increased \$0.2 billion, or 9.0 per cent, recovering some of the decline reported in November. Increases were reported in all components. The increases in goods and services tax (GST) revenues and customs import duties partly reflect recoveries from delays in processing import goods associated with the events of September 11th. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 24.5 per cent, largely reflecting the impact of lower interest rates.



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Table 1

Summary statement of transactions

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary transactions				
Revenues	16,310	15,680	131,618	131,229
Program spending	-9,515	-11,016	-81,751	-88,175
Operating surplus	6,795	4,664	49,867	43,054
Public debt charges	-3,486	-3,206	-31,024	-29,612
Budgetary balance (deficit/surplus)	3,309	1,458	18,843	13,442
Non-budgetary transactions	-5,620	-3,067	-9,691	-13,992
Financial requirements/source (excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
Foreign exchange transactions	609	-142	-1,323	-643
Net financial balance	-1,702	-1,751	7,829	-1,193
Net change in borrowings	-6,870	-6,858	-16,616	-6,997
Net change in cash balances	-8,572	-8,609	-8,787	-8,190
Cash balance at end of period			4,167	4,992

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

Program spending increased by \$1.5 billion, or 15.8 per cent, on a year-over-year basis. Most of the increase is attributable to higher EI benefits and increased departmental operating and capital expenditures.

- Major transfers to persons were up \$0.7 billion, or 24.1 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects 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 \$0.6 billion, or 14.5 per cent, attributable to incremental spending related to the response to the events of September 11th.

Public debt charges, on a year-over year basis, were down \$0.3 billion, or 8.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

April 2001 to December 2001: budgetary results

Over the first nine months of fiscal year 2001-02, the budgetary surplus was estimated at \$13.4 billion, down \$5.4 billion from the surplus reported in the same period of 2000-01. Program spending was up \$6.4 billion while budgetary revenues were down \$0.4 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down \$1.4 billion.

Table 2

Budgetary revenues

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	9,149	9,191	0.5	64,139	64,536	0.6
Corporate income tax	2,432	1,728	-28.9	17,512	16,812	-4.0
Other income tax revenue	283	311	9.9	2,348	2,653	13.0
Total income tax	11,864	11,230	-5.3	83,999	84,001	0.0
Employment insurance premium revenues	964	952	-1.2	13,586	12,998	-4.3
Excise taxes and duties						
Goods and services tax	1,773	1,815	2.4	19,115	19,190	0.4
Customs import duties	202	295	46.0	2,074	2,246	8.3
Sales and excise taxes	620	718	15.8	6,309	6,581	4.3
Total excise taxes and duties	2,595	2,828	9.0	27,498	28,017	1.9
Total tax revenues	15,423	15,010	-2.7	125,083	125,016	-0.1
Non-tax revenues	887	670	-24.5	6,535	6,213	-4.9
Total budgetary revenues	16,310	15,680	-3.9	131,618	131,229	-0.3

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

- Personal income tax collections increased marginally, 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 offset 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 4.0 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, attributable to lower final settlement payments, reflecting the decline in corporate profits in 2001 and the December 2001 budget decision to allow small businesses to defer payments of their corporate income tax instalments for the months of January, 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 \$0.5 billion, or 1.9 per cent. GST revenues were up marginally, customs import duties were up 8.3 per cent, while sales and excise taxes were up 4.3 per cent.
- Non-tax revenues were down 4.9 per cent.

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

- Transfers to persons were up 10.8 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.

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Table 3

Budgetary expenditures

	December		Change	April to December		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,038	2,151	5.5	18,079	18,926	4.7
Employment insurance benefits	902	1,497	66.0	7,618	9,543	25.3
Total	2,940	3,648	24.1	25,697	28,469	10.8
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	10,125	12,975	28.1
Fiscal transfers	1,194	1,048	-12.2	9,021	9,363	3.8
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-1,850	-1,865	0.8
Total	2,113	2,257	6.8	18,296	20,473	11.9
Direct program spending						
Subsidies and other transfers						
Agriculture	97	41	-57.7	383	566	47.8
Foreign Affairs	122	169	38.5	1,024	1,169	14.2
Health	80	79	-1.3	819	929	13.4
Human Resources Development	208	103	-50.5	815	1,008	23.7
Indian and Northern Development	306	323	5.6	3,267	3,055	-6.5
Industry and Regional Development	192	155	-19.3	1,013	1,113	9.9
Veterans Affairs	119	130	9.2	1,078	1,130	4.8
Other	198	234	18.2	1,576	1,873	18.8
Total	1,322	1,234	-6.7	9,975	10,843	8.7
Payments to Crown corporations						
Canadian Broadcasting Corporation	103	133	29.1	778	851	9.4
Canada Mortgage and Housing Corporation	150	233	55.3	1,370	1,522	11.1
Other	190	135	-28.9	1,137	1,223	7.6
Total	443	501	13.1	3,285	3,596	9.5
Operating and capital expenditures						
Defence	814	1,089	33.8	7,648	8,085	5.7
All other departmental expenditures	1,883	2,287	21.5	16,850	16,709	-0.8
Total	2,697	3,376	25.2	24,498	24,794	1.2
Total direct program spending	4,462	5,111	14.5	37,758	39,233	3.9
Total program expenditures	9,515	11,016	15.8	81,751	88,175	7.9
Public debt charges	3,486	3,206	-8.0	31,024	29,612	-4.6
Total budgetary expenditures	13,001	14,222	9.4	112,775	117,787	4.4
Memorandum item:						
Total transfers	6,375	7,139	12.0	53,968	59,785	10.8

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 11.9 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.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 3.9 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 in the second half of the year than that recorded in previous years.

The year-over-year decline in public debt charges of \$1.4 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial requirement of \$0.6 billion (excluding foreign exchange transactions) for April 2001 to December 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 \$14.0 billion in the first nine months of 2001-02, compared to a net requirement of \$9.7 billion in the same period in 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 \$13.4 billion and a net requirement of \$14.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$0.6 billion in the April 2001 to December 2001 period, compared to a source of \$9.2 billion in the same period of 2000-01.

Net financial requirement of \$1.2 billion for April 2001 to December 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 \$0.6 billion in the first nine months of 2001-02, compared to a net requirement of \$1.3 billion in the same period in 2000-01.

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Table 4

The budgetary balance and financial requirements/source

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Budgetary balance (deficit/surplus)	3,309	1,458	18,843	13,442
Loans, investments and advances				
Crown corporations	40	70	348	499
Other	28	-199	-843	-1,131
Total	68	-129	-495	-632
Specified purpose accounts				
Canada Pension Plan Account	-497	-94	-524	-2,041
Superannuation accounts	-152	44	1,554	-1,508
Other	-8	-21	-48	57
Total	-657	-71	982	-3,492
Other transactions	-5,031	-2,867	-10,178	-9,868
Total non-budgetary transactions	-5,620	-3,067	-9,691	-13,992
Financial requirements/source (excluding foreign exchange transactions)	-2,311	-1,609	9,152	-550
Foreign exchange transactions	609	-142	-1,323	-643
Net financial balance	-1,702	-1,751	7,829	-1,193

Table 5

Net financial balance and net borrowings

	December		April to December	
	2000	2001	2000-01	2001-02
	(\$ millions)			
Net financial balance	-1,702	-1,751	7,829	-1,193
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-7,130	-6,663	8,319	-5,860
Treasury bills	-400	800	-21,150	6,300
Canada Savings Bonds	20	-107	-1,204	-2,618
Other	-133	-1	-95	-22
Total	-7,643	-5,971	-14,130	-2,200
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans				-41
Canada bills	773	-887	-248	-3,007
Canada notes	0	0	-36	-173
Total	773	-887	-2,486	-4,797
Net change in borrowings	-6,870	-6,858	-16,616	-6,997
Change in cash balance	-8,572	-8,609	-8,787	-8,190

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	December 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	31,518	-12,126
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,677	-1,508
Canada Pension Plan (net of securities)	6,391	4,350	-2,041
Other pension and other accounts	7,253	7,310	57
Total pension and other accounts	142,829	139,337	-3,492
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,113	-5,860
Treasury bills	88,700	95,000	6,300
Canada Savings Bonds	26,099	23,481	-2,618
Other	3,473	3,451	-22
Subtotal	413,245	411,045	-2,200
Payable in foreign currencies	33,158	28,361	-4,797
Total unmaturred debt	446,403	439,406	-6,997
Total interest-bearing debt	589,232	578,744	-10,488
Total liabilities	632,876	610,262	-22,614
Assets			
Cash and accounts receivable	19,186	8,739	-10,447
Foreign exchange accounts	50,270	50,913	643
Loans, investments and advances (net of allowances)	16,042	16,674	632
Total assets	85,498	76,326	-9,172
Accumulated deficit (net public debt)	547,378	533,936	-13,442

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With a budgetary surplus of \$13.4 billion, a net requirement of \$14.0 billion from non-budgetary transactions and a net requirement of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$1.2 billion in the April 2001 to December 2001 period, compared to a net source of \$7.8 billion in the same period in 2000-01.

Net borrowings down \$7.0 billion for April 2001 to December 2001

Although there was a net financial requirement of \$1.2 billion in the first nine months of 2001-02, the Government did reduce its holding of market debt by \$7.0 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 December 2001 they stood at \$5.0 billion, down \$8.2 billion from March 31, 2001.

