

The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2001: budgetary deficit of \$1.1 billion

There was a budgetary deficit of \$1.149 billion in January 2001, compared to a surplus of \$811 million in January 2000. Of this \$2.0 billion year-over-year deterioration in the fiscal balance, \$1.4 billion was attributable to the Relief for Heating Expenses.

April 2000 to January 2001: budgetary surplus of \$16.4 billion

Over the first 10 months of fiscal year 2000-01, the budgetary surplus was estimated at \$16.4 billion, up \$4.6 billion from the surplus of \$11.8 billion reported in the same period of 1999-2000.

These results continue to be in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*. Over the balance of the fiscal year, the cumulative budgetary surplus is expected to continue to decline, as the full impact of various policy actions is realized. These include the reduction in personal income tax rates; the elimination of the 5-per-cent surtax; increases in the thresholds; the restoration of full indexation of the personal income tax system; and funding for health information and communications technology and the Canada Foundation for Innovation. The net impact of these initiatives is estimated to be at least \$3 billion. In addition, corporate income tax revenues over the balance of the year are expected to be lower, reflecting timing considerations. In the *Economic Statement and Budget Update*, a surplus for the year as a whole of \$11.9 billion was estimated, of which a minimum of \$10 billion was committed to reducing debt.

January 2001: budgetary results

The year-over-year deterioration in the budgetary balance of \$2.0 billion was largely attributable to higher program spending, up \$2.4 billion. This increase was primarily due to the heating expense relief payment and timing factors reflecting Y2K-related contingency planning in December 1999, as noted in last month's *Fiscal Monitor*.

On a year-over-year basis, budgetary revenues were up 2.6 per cent, or \$0.4 billion. Among the major components:

- Personal income tax revenues were down 0.6 per cent, primarily reflecting lower receipts from monthly deductions from employment income, due to the impact of the tax relief measures announced in the October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues were up 2.1 per cent, reflecting higher corporate profits in 2000.
- Employment insurance (EI) premium revenues increased 6.8 per cent, primarily due to recoveries for underpayments in January 2000. Excluding these recoveries, EI premium revenues would have declined, reflecting the reduction in 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 were up 10.4 per cent, reflecting strong growth in goods and services tax (GST) revenues and customs import duties, primarily attributable to the timing of receipts.
- Non-tax revenues were down 24.9 per cent, reflecting the timing of receipts.



The Fiscal Monitor

Table 1

Summary statement of transactions

	January		April to January	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Budgetary transactions				
Revenues	13,648	14,000	133,533	144,563
Program spending	-9,288	-11,765	-87,365	-93,776
Operating surplus	4,360	2,235	46,168	50,787
Public debt charges	-3,549	-3,384	-34,375	-34,408
Budgetary balance (deficit/surplus)	811	-1,149	11,793	16,379
Non-budgetary transactions	2,609	4,259	-2,753	-5,570
Financial requirements/source (excluding foreign exchange transactions)	3,420	3,110	9,040	10,809
Foreign exchange transactions	-6,099	-1,694	-6,407	-1,566
Net financial balance	-2,679	1,416	2,633	9,243
Net change in borrowings	-2,084	2,458	-2,688	-14,158
Net change in cash balances	-4,763	3,874	-55	-4,915
Cash balance at end of period			9,170	8,039

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

Within program spending, on a year-over-year basis:

- Major transfers to persons were up \$1.4 billion due to the heating expense relief payment. Higher elderly benefit payments were offset by lower EI benefit payments.
- Major transfers to other levels of government were up 13.9 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and equalization programs.
- Direct program spending was up 19.2 per cent, reversing the year-over-year decline of 11.0 per cent in December 2000. As noted in last month's *Fiscal Monitor*, the December 1999 and January 2000 results were affected by the timing of payments related to contingency planning with respect to the Y2K computer problem.

The decline in public debt charges, on a year-over-year basis, was attributable to timing adjustments.

April 2000 to January 2001: budgetary results

Over the first 10 months of fiscal year 2000-01, the budgetary surplus was estimated at \$16.4 billion, up \$4.6 billion from the surplus of \$11.8 billion reported in the same period of 1999-2000.

Budgetary revenues were up \$11.0 billion, or 8.3 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.2 billion, or 6.4 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors is the effect of the tax relief measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update* and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation

Table 2

Budgetary revenues

	January		Change	April to January		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,798	6,758	-0.6	66,663	70,897	6.4
Corporate income tax	1,608	1,642	2.1	15,748	19,153	21.6
Other income tax revenue	589	655	11.2	2,762	3,002	8.7
Total income tax	8,995	9,055	0.7	85,173	93,052	9.3
Employment insurance premium revenues	1,347	1,439	6.8	14,659	15,024	2.5
Excise taxes and duties						
Goods and services tax	2,088	2,340	12.1	19,742	21,455	8.7
Customs import duties	108	219	102.8	1,871	2,293	22.6
Sales and excise taxes	705	643	-8.8	6,888	6,954	1.0
Total excise taxes and duties	2,901	3,202	10.4	28,501	30,702	7.7
Total tax revenues	13,243	13,696	3.4	128,333	138,778	8.1
Non-tax revenues	405	304	-24.9	5,200	5,785	11.3
Total budgetary revenues	13,648	14,000	2.6	133,533	144,563	8.3

year. Over the balance of the fiscal year, growth in this component will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized.

- Corporate income tax revenues were up \$3.4 billion, or 21.6 per cent, reflecting the increase of 23.4 per cent in corporate profits registered in 2000. However, the growth in revenues is expected to continue to decline over the balance of the year, given the composition of corporate profits and the monthly instalment procedures.
- EI premium revenues were up \$0.4 billion, or 2.5 per cent, as the decline in premium rates for 2000 and 2001 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$2.2 billion, or 7.7 per cent. GST revenues were up \$1.7 billion, or 8.7 per cent, in line with the

growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.

- Non-tax revenues were up \$0.6 billion, or 11.3 per cent.

Program spending increased by \$6.4 billion, or 7.3 per cent, in the April 2000 to January 2001 period, compared to the same period in 1999-2000. This increase was spread among all major components.

- Major transfers to persons were up 5.9 per cent, attributable to the heating expense relief payment and higher elderly benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. EI benefit payments were lower, reflecting fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.

The Fiscal Monitor

Table 3

Budgetary expenditures

	January		Change	April to January		Change
	2000	2001		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,909	2,054	7.6	19,451	20,133	3.5
Employment insurance benefits	1,324	1,157	-12.6	9,204	8,775	-4.7
Heating expense relief		1,434			1,434	
Total	3,233	4,645	43.7	28,655	30,342	5.9
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	10,417	11,250	8.0
Fiscal transfers	989	1,181	19.4	9,020	10,201	13.1
Medical Equipment Fund					1,000	
Alternative Payments for Standing Programs	-188	-206	9.6	-1,876	-2,055	9.5
Total	1,843	2,100	13.9	17,561	20,396	16.1
Direct program spending						
Subsidies and other transfers						
Agriculture	690	57	-91.7	1,220	440	-63.9
Foreign Affairs	160	149	-6.9	1,212	1,175	-3.1
Health	43	105	144.2	861	925	7.4
Human Resources Development	96	366	281.3	1,247	1,181	-5.3
Indian and Northern Development	161	206	28.0	3,270	3,473	6.2
Industry and Regional Development	77	87	13.0	1,136	1,100	-3.2
Veterans Affairs	119	130	9.2	1,157	1,208	4.4
Other	160	202	26.1	1,682	1,779	5.7
Total	1,506	1,302	-13.6	11,785	11,281	-4.3
Payments to Crown corporations						
Canadian Broadcasting Corporation	20	65	225.0	730	843	15.5
Canada Mortgage and Housing Corporation	150	150	0.0	1,495	1,520	1.7
Other	70	82	17.1	875	1,221	39.5
Total	240	297	23.8	3,100	3,584	15.6
Operating and capital expenditures						
Defence	740	1,004	35.7	8,643	8,652	0.1
All other departmental expenditures	1,726	2,417	40.0	17,621	19,521	10.8
Total	2,466	3,421	38.7	26,264	28,173	7.3
Total direct program spending	4,212	5,020	19.2	41,149	43,038	4.6
Total program expenditures	9,288	11,765	26.7	87,365	93,776	7.3
Public debt charges	3,549	3,384	-4.6	34,375	34,408	0.1
Total budgetary expenditures	12,837	15,149	18.0	121,740	128,184	5.3
Memorandum item:						
Total transfers	6,582	8,047	22.3	58,001	62,019	6.9

- Major transfers to other levels of government were up 16.1 per cent, reflecting higher cash transfers under the CHST and equalization programs, as well as the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers on health renewal and early childhood development. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 4.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, the impact of new initiatives announced in the 2000 budget, and the lifting of the wage freeze.

Public debt charges were up marginally, as an increase in the average effective interest rate on interest-bearing debt more than offset a decline in the stock of that debt.

Financial source of \$10.8 billion (excluding foreign exchange transactions) for April 2000 to January 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 \$5.6 billion in first 10 months of 2000-01, compared to a requirement of \$2.8 billion in the same period in 1999-2000. This was attributable, in part, to the payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of \$16.4 billion and a net requirement of \$5.6 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$10.8 billion in the April 2000 to January 2001 period, compared to a financial source of \$9.0 billion in the same period in 1999-2000.

Net financial source of \$9.2 billion for April 2000 to January 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 \$1.6 billion in the first 10 months of 2000-01, compared to a net requirement of \$6.4 billion in the same period in 1999-2000.

The Fiscal Monitor

Table 4

The budgetary balance and financial requirements/source

	January		April to January	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Budgetary balance (deficit/surplus)	811	-1,149	11,793	16,379
Loans, investments and advances				
Crown corporations	86	53	393	401
Other	41	-43	-63	-885
Total	127	10	330	-484
Specified purpose accounts				
Canada Pension Plan Account	-482	-352	-471	-876
Superannuation accounts	504	17	4,206	1,571
Other	-24	17	-130	-31
Total	-2	-318	3,605	664
Other transactions	2,484	4,567	-6,688	-5,750
Total non-budgetary transactions	2,609	4,259	-2,753	-5,570
Financial requirements/source (excluding foreign exchange transactions)	3,420	3,110	9,040	10,809
Foreign exchange transactions	-6,099	-1,694	-6,407	-1,566
Net financial balance	-2,679	1,416	2,633	9,243

Table 5

Net financial balance and net borrowings

	January		April to January	
	2000	2001	1999-00	2000-01
	(\$ millions)			
Net financial balance	-2,679	1,416	2,633	9,243
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	8	1,500	6,957	9,819
Canada Savings Bonds	-4	136	-684	-1,067
Treasury bills	-1,950	900	-5,450	-20,250
Other	50	34	-285	-62
Total	-1,896	2,570	538	-11,560
Payable in foreign currencies				
Marketable bonds	0	0	2,527	-2,202
Notes and loans		-580		-580
Canada bills	-180	468	-5,489	220
Canada notes	-8		-264	-36
Total	-188	-112	-3,226	-2,598
Net change in borrowings	-2,084	2,458	-2,688	-14,158
Change in cash balance	-4,763	3,874	-55	-4,915

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	January 31, 2001	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,748	31,250	-9,498
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,917	1,571
Canada Pension Plan (net of securities)	6,217	5,341	-876
Other pension and other accounts	6,963	6,932	-31
Total pension and other accounts	141,526	142,190	664
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	303,746	9,819
Treasury bills	99,850	79,600	-20,250
Canada Savings Bonds	26,489	25,422	-1,067
Non-marketable bonds and bills	3,552	3,490	-62
Subtotal	423,818	412,258	-11,560
Payable in foreign currencies	32,588	29,992	-2,596
Total unmatrued debt	456,406	442,250	-14,156
Total interest-bearing debt	597,932	584,440	-13,492
Total liabilities	638,680	615,690	-22,990
Assets			
Cash and accounts receivable	18,864	10,203	-8,661
Foreign exchange accounts	41,494	43,060	1,566
Loans, investments and advances (net of allowances)	13,796	14,280	484
Total assets	74,154	67,543	-6,611
Accumulated deficit (net public debt)	564,526	548,147	-16,379

The Fiscal Monitor

With a budgetary surplus of \$16.4 billion, a net requirement of \$5.6 billion from non-budgetary transactions and a net requirement of \$1.6 billion from foreign exchange transactions, there was a net financial source of \$9.2 billion in the April 2000 to January 2001 period, compared to a net source of \$2.6 billion in the same period in 1999-2000.

Net borrowings down \$14.2 billion for April 2000 to January 2001

This financial source, coupled with a drawdown in cash balances of \$4.9 billion, resulted in a decline of \$14.2 billion in the Government's holding of market debt to the end of January 2001. 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 2001 cash balances were \$8.0 billion.

