

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### July 2001: budgetary surplus of \$0.8 billion

There was a budgetary surplus of \$0.8 billion in July 2001, down \$1.0 billion from the revised surplus of \$1.8 billion in July 2000.<sup>1</sup> This year-over-year decline was attributable to lower budgetary revenues (down \$0.5 billion) and higher program spending (up \$0.7 billion), dampened slightly by lower public debt charges (down \$0.2 billion).

### April 2001 to July 2001: budgetary surplus of \$10.7 billion

The budgetary surplus was estimated at \$10.7 billion for the April 2001 to July 2001 period, compared to the surplus of \$10.5 billion reported in the same period of 2000-01. The increase in the year-over-year surplus was attributable to higher personal income tax settlement payments with respect to the 2000 taxation year. These payments related to extraordinary developments, primarily the strong increase in capital gains for the 2000 taxation year. This impact has been largely offset by lower personal income tax revenues from employment income (primarily due to the impact of tax reduction measures) and higher program spending (particularly higher transfers to other levels of government).

<sup>1</sup> The surplus for July 2000 was revised down from the originally reported estimate of \$3.2 billion to \$1.8 billion. This was due to a misclassification of revenues between July 2000 and August 2000. The August 2000 budgetary balance will be adjusted accordingly.

## July 2001: budgetary results

Budgetary revenues decreased \$0.5 billion, or 3.3 per cent, in July 2001 on a year-over-year basis, primarily attributable to lower personal income tax revenues.

- Personal income tax revenues declined by \$1.1 billion, or 15.0 per cent, primarily reflecting timing factors affecting revenues reported in July and August of 2000 (July was up strongly while August receipts were lower) and the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*. In addition, payments under the Canada Child Tax Benefit were higher due to enhancements in previous budgets.
- Corporate income tax revenues were up \$0.3 billion, or 19.6 per cent. As noted in previous Fiscal Monitors, the current year-over-year increase primarily reflects the tax instalment procedures, as operating profits of Canadian corporations declined in the first quarter of 2001. Corporations are required to remit monthly instalments 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 instalments were based on the tax liability for 1999. However, corporate profits grew strongly in 2000, with the result that the monthly instalment payments understated the final tax liability for 2000-01. With monthly instalments now based on the tax liability for 2000, the year-over-year change in the monthly results could be misleading.



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Table 1

## Summary statement of transactions

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,334	13,868	59,565	61,498
Program spending	-9,066	-9,741	-35,343	-37,557
Operating surplus	5,268	4,127	24,222	23,941
Public debt charges	-3,499	-3,345	-13,703	-13,250
Budgetary balance (deficit/surplus)	1,769	782	10,519	10,691
<b>Non-budgetary transactions</b>	2,421	1,041	-7,377	-9,666
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,190	1,823	3,142	1,025
<b>Foreign exchange transactions</b>	-899	-443	1,268	-131
<b>Net financial balance</b>	3,291	1,380	4,410	894
<b>Net change in borrowings</b>	-7,636	-1,589	-12,921	-10,573
<b>Net change in cash balances</b>	-4,345	-209	-8,511	-9,679
<b>Cash balance at end of period</b>			4,440	3,499

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Numbers for July 2000 have been revised (see footnote in box on first page).

- Employment insurance (EI) premium revenues were slightly lower, 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) more than 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 3.8 per cent. This increase reflected strong advances in both customs import duties and sales and excise taxes. The increase in the latter was primarily due to the increase in tobacco excise taxes, which became effective April 6, 2001. Goods and services tax (GST) revenues declined 4.3 per cent, primarily due to an increase in refunds related to under-reporting in previous periods, as well as higher quarterly tax credits, reflecting the indexation of these credits, as announced in the February 2000 budget.
- Non-tax revenues were up strongly, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by \$0.7 billion, or 7.4 per cent, reflecting strong increases in transfers to persons and other levels of government. Among the major components:

- Major transfers to persons were up \$0.3 billion, or 11.2 per cent, reflecting both higher elderly and EI benefit payments. The increase in EI benefit payments reflects the impact of policy enhancements announced in the February 2000 budget and last September, as well as an increase in the number of beneficiaries.
- Major transfers to other levels of government were up \$0.4 billion, or 20.6 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfer programs. The increase in the CHST reflected 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 attributable to higher equalization entitlements.

Table 2

## Budgetary revenues

	July		Change	April to July		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,476	6,358	-15.0	29,319	29,217	-0.3
Corporate income tax	1,695	2,028	19.6	7,875	8,859	12.5
Other income tax revenue	298	291	-2.3	1,109	1,203	8.5
Total income tax	9,469	8,677	-8.4	38,303	39,279	2.5
<b>Employment insurance premium revenues</b>	1,667	1,654	-0.8	6,976	6,981	0.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,739	1,664	-4.3	8,233	8,468	2.9
Customs import duties	201	250	24.4	656	923	40.7
Sales and excise taxes	658	784	19.1	2,738	2,959	8.1
Total excise taxes and duties	2,598	2,698	3.8	11,627	12,350	6.2
<b>Total tax revenues</b>	13,734	13,029	-5.1	56,906	58,610	3.0
<b>Non-tax revenues</b>	600	839	39.8	2,659	2,888	8.6
<b>Total budgetary revenues</b>	14,334	13,868	-3.3	59,565	61,498	3.2

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, was down slightly, as declines in payments to Crown corporations and operating and capital expenditures more than offset higher subsidies and other transfers. 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, were down \$0.2 billion, or 4.4 per cent, reflecting both a lower stock of interest-bearing debt and a decline in the average effective interest rate on that debt.

### April 2001 to July 2001: budgetary results

Over the first four months of fiscal year 2001-02, the budgetary surplus was estimated at \$10.7 billion, up \$0.2 billion from the surplus reported in the same period of 2000-01. This increase in the surplus primarily reflects higher personal income tax settlement payments with respect to the 2000 taxation year.

Budgetary revenues were up \$1.9 billion, or 3.2 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were marginally lower, down \$0.1 billion, or 0.3 per cent. This decline reflects the timing of payments between July and August of last year as well as the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. These included 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 related benefits, and increases in the Canada Child Tax Benefit. Dampening the impact of these factors were higher final tax payments, received in April and May, with respect to the 2000 taxation year, reflecting extraordinary developments in taxation year 2000, primarily strong increases in capital gains.

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Table 3

## Budgetary expenditures

	July		Change	April to July		Change
	2000	2001		2000-01	2001-02	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	2,012	2,103	4.5	7,948	8,306	4.5
Employment insurance benefits	809	1,035	27.9	3,511	3,926	11.8
Total	2,821	3,138	11.2	11,459	12,232	6.7
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	4,500	5,767	28.2
Fiscal transfers	978	1,045	6.9	3,862	4,143	7.3
Alternative Payments for Standing Programs	-206	-200	-2.9	-822	-800	-2.7
Total	1,897	2,287	20.6	7,540	9,110	20.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	27	41	51.9	54	422	681.5
Foreign Affairs	102	177	73.5	346	503	45.4
Health	99	121	22.2	353	394	11.6
Human Resources Development	115	123	7.0	411	362	-11.9
Indian and Northern Development	262	326	24.4	1,743	1,496	-14.2
Industry and Regional Development	82	104	26.8	365	430	17.8
Veterans Affairs	123	127	3.3	478	493	3.1
Other	73	25	-65.8	883	568	-35.7
Total	883	1,044	18.2	4,633	4,668	0.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	86	80	-7.0	371	400	7.8
Canada Mortgage and Housing Corporation	150	158	5.3	620	632	1.9
Other	128	122	-4.7	475	510	7.4
Total	364	360	-1.1	1,466	1,542	5.2
Operating and capital expenditures						
Defence	948	908	-4.2	2,979	3,227	8.3
All other departmental expenditures	2,153	2,004	-6.9	7,266	6,778	-6.7
Total	3,101	2,912	-6.1	10,245	10,005	-2.3
Total direct program spending	4,348	4,316	-0.7	16,344	16,215	-0.8
<b>Total program expenditures</b>	9,066	9,741	7.4	35,343	37,557	6.3
<b>Public debt charges</b>	3,499	3,345	-4.4	13,703	13,250	-3.3
<b>Total budgetary expenditures</b>	12,565	13,086	4.1	49,046	50,807	3.6
Memorandum item:						
Total transfers	5,601	6,469	15.5	23,632	26,010	10.1

- Corporate income tax revenues were up \$1.0 billion, or 12.5 per cent. In contrast, corporate profits are down on a year-over-year basis, which suggests that the current experience reflects the effects of the remittance procedures and should be revised once corporations adjust their remittances to reflect weaker profits in 2001.
- EI premium revenues were up marginally, as the decline in premium rates for 2000 and 2001 virtually offset the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums. The employee rate for 2001 is \$2.25 per \$100 of insurable earnings, compared to \$2.40 in 2000 and \$2.55 in 1999.
- Excise taxes and duties increased by \$0.7 billion, or 6.2 per cent. GST revenues were up 2.9 per cent, somewhat less than the underlying increase in consumer expenditures. Customs import duties were up 40.7 per cent, while sales and excise taxes were up 8.1 per cent, in part reflecting the increase in tobacco excise taxes.
- Non-tax revenues were up 8.6 per cent.

Program spending increased by \$2.2 billion, or 6.3 per cent, in the April 2001 to July 2001 period, compared to the same period last year.

- Transfers to persons were up 6.7 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. 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 20.8 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflected 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 was primarily due to higher equalization entitlements, reflecting the continued stronger 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, declined by 0.8 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 were down 3.3 per cent, reflecting the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

## **Financial source of \$1.0 billion (excluding foreign exchange transactions) for April 2001 to July 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 \$9.7 billion in the first four months of 2001-02, compared to a net requirement of \$7.4 billion in the same period in 2000-01. Traditionally, there are large requirements in the first half of any fiscal year, reflecting the payment of personal income tax refunds and certain liabilities, which were recognized in previous years' budgetary results.

As a result, with a budgetary surplus of \$10.7 billion and a net requirement of \$9.7 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$1.0 billion in the April 2001 to July 2001 period, compared to a source of \$3.1 billion in the same period last year.

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Table 4

## The budgetary balance and financial requirements/source

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,769	782	10,519	10,691
<b>Loans, investments and advances</b>				
Crown corporations	-112	-16	83	217
Other	49	-26	162	7
Total	-63	-42	245	224
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-865	-418	-890	-861
Superannuation accounts	375	50	1,017	-446
Other	11	77	-216	53
Total	-479	-291	-89	-1,254
<b>Other transactions</b>	2,963	1,374	-7,533	-8,636
<b>Total non-budgetary transactions</b>	2,421	1,041	-7,377	-9,666
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	4,190	1,823	3,142	1,025
<b>Foreign exchange transactions</b>	-899	-443	1,268	-131
<b>Net financial balance</b>	3,291	1,380	4,410	894

Table 5

## Net financial balance and net borrowings

	July		April to July	
	2000	2001	2000-01	2001-02
	(\$ millions)			
<b>Net financial balance</b>	3,291	1,380	4,410	894
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-3,075	400	6,151	-1,641
Canada Savings Bonds	-151	-70	-553	-236
Treasury bills	-4,200	-1,500	-16,750	-6,100
Other	250		925	-4
Total	-7,176	-1,170	-10,227	-7,981
Payable in foreign currencies				
Marketable bonds			-2,174	-1,576
Notes and loans				-41
Canada bills	-435	-419	-520	-802
Canada notes				-173
Total	-435	-419	-2,694	-2,592
<b>Net change in borrowings</b>	-7,611	-1,589	-12,921	-10,573
<b>Change in cash balance</b>	-4,320	-209	-8,511	-9,679

Table 6

## Condensed statement of assets and liabilities

	March 31, 2001	July 31, 2001	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	43,511	34,875	-8,636
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,692	129,246	-446
Canada Pension Plan (net of securities)	6,409	5,548	-861
Other pension and other accounts	7,080	7,133	53
Total pension and other accounts	143,181	141,927	-1,254
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,627	292,986	-1,641
Treasury bills	88,700	82,600	-6,100
Canada Savings Bonds	25,753	25,517	-236
Other	3,473	3,469	-4
Subtotal	412,553	404,572	-7,981
Payable in foreign currencies	33,171	30,579	-2,592
Total unmatrued debt	445,724	435,151	-10,573
Total interest-bearing debt	588,905	577,078	-11,827
Total liabilities	632,416	611,953	-20,463
<b>Assets</b>			
Cash and accounts receivable	18,612	8,933	-9,679
Foreign exchange accounts	50,010	50,141	131
Loans, investments and advances (net of allowances)	14,268	14,044	-224
Total assets	82,890	73,118	-9,772
<b>Accumulated deficit (net public debt)</b>	<b>549,526</b>	<b>538,835</b>	<b>-10,691</b>

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

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## **Net financial source of \$0.9 billion for April 2001 to July 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 \$0.1 billion in the first four months of 2001-02, compared to a net source of \$1.3 billion in the same period in 2000-01.

With a budgetary surplus of \$10.7 billion, a net requirement of \$9.7 billion from non-budgetary transactions and a net requirement of \$0.1 billion from foreign exchange transactions, there was a net financial source of \$0.9 billion in the April 2001 to July 2001 period, compared to a net source of \$4.4 billion in the same period in 2000-01.

## **Net borrowings down \$10.6 billion for April 2001 to July 2001**

Although there was a net financial source of only \$0.9 billion in the first four months of 2001-02, the Government did reduce its holding of market debt by \$10.6 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 July 2001 they stood at \$3.5 billion, down \$9.7 billion from March 31, 2001.

## **Note to Readers:**

The Government's financial statements are presented on a modified accrual basis of accounting. This means that while most operating expenditures and non-tax revenues are recorded in the financial statements when they are incurred or earned (even if cash is not paid out or received until later), tax revenues are accounted for when cash is received and the entire amount of capital acquisitions, such as buildings, are treated as expenditures when acquired. In the February 1995 budget the Government announced its intention to adopt full accrual accounting. To this end, it has successfully introduced the Financial Information Strategy (FIS), a multi-year project which modernized financial systems and accounting practices. FIS consists of three components: the implementation of new financial systems, the adoption of full accrual accounting, and the provision of improved financial information to managers. In the 2000 budget the Government set a target date of 2001-02 for implementation of the first two components of FIS.

For the time being the monthly results for 2001-02 will continue to be presented on a modified accrual basis of accounting. However, the final audited financial statements for 2001-02, scheduled for release in the fall of 2002, will be presented on a full accrual basis of accounting. Previous years' results will also be restated on a full accrual basis. For more information, see the backgrounder *Implementation of Full Accrual Accounting in the Federal Government's Financial Statements* at [www.fin.gc.ca](http://www.fin.gc.ca).

