

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights

### January 2003: budgetary surplus of \$18 million

There was a budgetary surplus of \$18 million in January 2003, compared to a surplus of \$132 million in January 2002. On a year-over-year basis, budgetary revenues advanced by \$471 million, or 3.4 per cent, while program spending was up \$392 million, or 3.5 per cent, and public debt charges increased by \$193 million, or 7.2 per cent.

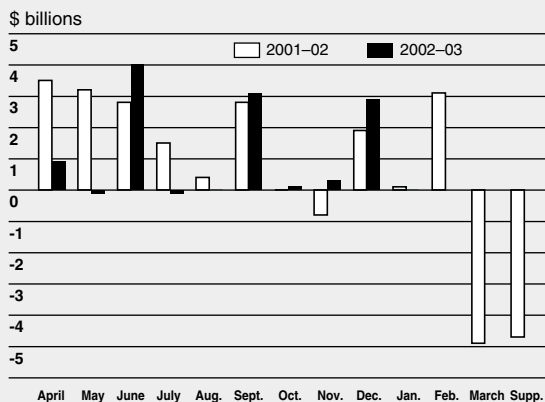
### April 2002 to January 2003: budgetary surplus of \$11.2 billion

The budgetary surplus was estimated at \$11.2 billion for the April 2002 to January 2003 period, down \$4.1 billion from the surplus of \$15.3 billion reported in the same period of 2001–02. The decline in the year-over-year surplus is largely attributable to developments affecting personal and corporate income tax revenues with respect to the 2001 tax year. This deterioration reflects the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002, and higher corporate income tax refunds, as corporations are applying losses experienced in 2001 to taxes paid in previous years. The results for 2002–03 are also affected by stronger-than-expected goods and services tax (GST) revenue growth, which is due to both timing factors and a decline in GST refunds. It is expected that over the balance of the year, GST refunds will more closely reflect changes in gross collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.

The monthly financial results are presented on a modified accrual basis of accounting. The Budget 2003 estimate for the year as a whole was presented on a full accrual basis of accounting. Taking the accounting differences and the impact of the policy initiatives for 2002–03 proposed in the budget into consideration, the results to date are consistent with the expected outcome for 2002–03 as set out in Budget 2003.

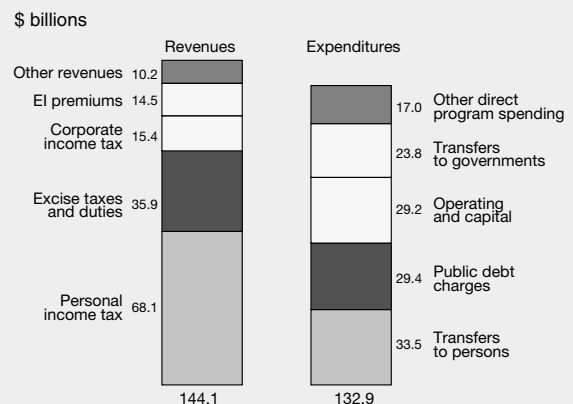
*The Fiscal Monitor* will present monthly results on a full accrual basis beginning with the April 2003 *Fiscal Monitor*.

## Monthly surplus and deficit



## Revenues and expenditures

(April 2002 to January 2003)



# The Fiscal Monitor

Table 1

## Summary statement of transactions

|  | January       |         | April to January |          |
|--|---------------|---------|------------------|----------|
|  | 2002          | 2003    | 2001-02          | 2002-03  |
|  | (\$ millions) |         |                  |          |
| <b>Budgetary transactions</b>  |               |         |                  |          |
| Revenues   | 13,908        | 14,379  | 145,638          | 144,108  |
| Program spending   | -11,109       | -11,501 | -98,083          | -103,569 |
| Operating surplus  | 2,799         | 2,878   | 47,555           | 40,539   |
| Public debt charges  | -2,667        | -2,860  | -32,280          | -29,357  |
| Budgetary balance (deficit/surplus)  | 132           | 18      | 15,275           | 11,182   |
| <b>Non-budgetary transactions</b>  | 949           | 2,912   | -14,746          | -15,020  |
| <b>Financial requirements/source<br/>(excluding foreign exchange transactions)</b> | 1,081         | 2,930   | 529              | -3,838   |
| <b>Foreign exchange transactions</b>   | 152           | -1      | -491             | 1,290    |
| <b>Net financial balance</b>   | -1,233        | 2,929   | 38               | -2,548   |
| <b>Net change in borrowings</b>  | -1,781        | -1,938  | -8,780           | -4,582   |
| <b>Net change in cash balances</b>   | -548          | 991     | -8,742           | -7,130   |
| <b>Cash balance at end of period</b>   |               |         | 4,442            | 4,822    |

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.  
Estimates for 2001-02 have been revised from those previously published.

### January 2003: budgetary results

On a year-over-year basis, the budgetary surplus declined by \$114 million to \$18 million in January 2003. Budgetary revenues, however, increased by \$0.5 billion, or 3.4 per cent.

- Personal income tax revenues were up \$0.3 billion, or 4.9 per cent, primarily due to higher deductions from employment income, reflecting the strong growth in employment.
- Corporate income tax revenues were down marginally, as lower instalment payments were largely offset by lower refunds.
- Employment insurance (EI) premium revenues were up \$68 million, or 4.9 per cent, as the impact of the growth in the number of people employed and therefore paying premiums offset the effect of the decline in premium rates (the employee rate for 2003 is \$2.10 per \$100 of insurable earnings compared to \$2.20 in 2002).
- Excise taxes and duties were down marginally, as lower GST revenues more than offset increases in customs import duties and other excise taxes and duties, as well as the introduction of the Air Travellers Security

Charge. The decline in net GST revenues is attributable to an increase in refunds, as gross collections increased, broadly in line with the increase in consumer expenditures. The increase in customs import duties is due to the timing of receipts between December and January, while the advance in other excise taxes and duties reflects the increase in tobacco taxes.

- Non-tax revenues were up 3.2 per cent on a year-over-year basis.

On a year-over-year basis, program spending was up \$0.4 billion, or 3.5 per cent.

- Transfers to persons declined 1.4 per cent, attributable to lower EI benefits, reflecting a decline in the number of persons unemployed. Elderly benefit payments were up 4.2 per cent.
- Transfers to other levels of government were up 6.6 per cent, primarily reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects 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.

Table 2

## Budgetary revenues

|  | January       |        | Change<br>(%) | April to January |         | Change<br>(%) |
|--|---------------|--------|---------------|------------------|---------|---------------|
|  | 2002          | 2003   |               | 2001–02          | 2002–03 |               |
|  | (\$ millions) |        |               | (\$ millions)    |         |               |
| <b>Income taxes</b>                          |               |        |               |                  |         |               |
| Personal income tax                          | 6,355         | 6,669  | 4.9           | 71,391           | 68,118  | -4.6          |
| Corporate income tax                         | 1,649         | 1,631  | -1.1          | 18,461           | 15,402  | -16.6         |
| Other income tax revenue                     | 554           | 665    | 20.0          | 3,207            | 3,424   | 6.8           |
| Total income tax                             | 8,558         | 8,965  | 4.8           | 93,059           | 86,944  | -6.6          |
| <b>Employment insurance premium revenues</b> | 1,374         | 1,442  | 4.9           | 14,371           | 14,474  | 0.7           |
| <b>Excise taxes and duties</b>               |               |        |               |                  |         |               |
| Goods and services tax                       | 2,474         | 2,324  | -6.1          | 21,664           | 25,024  | 15.5          |
| Customs import duties                        | 186           | 254    | 36.6          | 2,432            | 2,663   | 9.5           |
| Other excise taxes and duties                | 719           | 748    | 4.0           | 7,299            | 7,937   | 8.7           |
| Air Travellers Security Charge               |               | 30     |               |                  | 295     |               |
| Total excise taxes and duties                | 3,379         | 3,356  | -0.7          | 31,395           | 35,919  | 14.4          |
| <b>Total tax revenues</b>                    | 13,311        | 13,763 | 3.4           | 138,825          | 137,337 | -1.1          |
| <b>Non-tax revenues</b>                      | 597           | 616    | 3.2           | 6,813            | 6,771   | -0.6          |
| <b>Total budgetary revenues</b>              | 13,908        | 14,379 | 3.4           | 145,638          | 144,108 | -1.1          |

- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, was up \$0.3 billion, or 5.7 per cent. The monthly fluctuations in this component are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, increased \$0.2 billion, or 7.2 per cent, due to adjustments made to the 2001–02 estimates to bring them more in line with the final outcome for the year as a whole.

### April 2002 to January 2003: budgetary results

Over the first 10 months of fiscal year 2002–03, the budgetary surplus was estimated at \$11.2 billion, compared to a surplus of \$15.3 billion reported in the same period of 2001–02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Over the first 10 months of 2002–03, budgetary revenues were down \$1.5 billion, or 1.1 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections were down \$3.3 billion, or 4.6 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. Quarterly instalment payments were also lower, as these payments are now largely based on tax liabilities for 2001. 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. On a full accrual basis of accounting, these impacts will be recorded in the year in which the taxable activity took place. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.

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Table 3

## Budgetary expenditures

|  | January       |        | Change | April to January |         | Change |
|--|---------------|--------|--------|------------------|---------|--------|
|  | 2002          | 2003   |        | 2001-02          | 2002-03 |        |
|  | (\$ millions) |        | (%)    | (\$ millions)    |         | (%)    |
| <b>Transfer payments to:</b>               |               |        |        |                  |         |        |
| Persons                                    |               |        |        |                  |         |        |
| Elderly benefits                           | 2,140         | 2,230  | 4.2    | 21,066           | 21,872  | 3.8    |
| Employment insurance benefits              | 1,548         | 1,407  | -9.1   | 11,091           | 11,646  | 5.0    |
| Total                                      | 3,688         | 3,637  | -1.4   | 32,157           | 33,518  | 4.2    |
| Other levels of government                 |               |        |        |                  |         |        |
| Canada Health and Social Transfer          | 1,442         | 1,550  | 7.5    | 14,416           | 15,500  | 7.5    |
| Fiscal transfers                           | 1,034         | 1,052  | 1.7    | 10,397           | 10,431  | 0.3    |
| Alternative Payments for Standing Programs | -233          | -210   | -9.9   | -2,098           | -2,101  | 0.1    |
| Total                                      | 2,243         | 2,392  | 6.6    | 22,715           | 23,830  | 4.9    |
| <b>Direct program spending</b>             |               |        |        |                  |         |        |
| Subsidies and other transfers              |               |        |        |                  |         |        |
| Agriculture                                | 43            | 328    | 662.8  | 609              | 694     | 14.0   |
| Foreign Affairs                            | 243           | 225    | -7.4   | 1,411            | 1,285   | -8.9   |
| Health                                     | 145           | 192    | 32.4   | 1,075            | 1,244   | 15.7   |
| Human Resources Development                | 370           | 116    | -68.6  | 1,378            | 1,207   | -12.4  |
| Indian and Northern Development            | 299           | 393    | 31.4   | 3,354            | 3,388   | 1.0    |
| Industry and Regional Development          | 71            | 152    | 114.1  | 1,183            | 1,482   | 25.3   |
| Veterans Affairs                           | 138           | 147    | 6.5    | 1,268            | 1,410   | 11.2   |
| Other                                      | 383           | 494    | 29.0   | 2,081            | 2,172   | 4.4    |
| Total                                      | 1,692         | 2,047  | 21.0   | 12,359           | 12,882  | 4.2    |
| Payments to Crown corporations             |               |        |        |                  |         |        |
| Canadian Broadcasting Corporation          | 65            | 78     | 20.0   | 916              | 914     | -0.2   |
| Canada Mortgage and Housing Corporation    | 158           | 159    | 0.6    | 1,680            | 1,578   | -6.1   |
| Other                                      | 205           | 164    | -20.0  | 1,585            | 1,655   | 4.4    |
| Total                                      | 428           | 401    | -6.3   | 4,181            | 4,147   | -0.8   |
| Operating and capital expenditures         |               |        |        |                  |         |        |
| Defence                                    | 1,086         | 699    | -35.6  | 7,820            | 7,986   | 2.1    |
| All other departmental expenditures        | 1,972         | 2,325  | 17.9   | 18,851           | 21,206  | 12.5   |
| Total                                      | 3,058         | 3,024  | -1.1   | 26,671           | 29,192  | 9.5    |
| Total direct program spending              | 5,178         | 5,472  | 5.7    | 43,211           | 46,221  | 7.0    |
| <b>Total program expenditures</b>          | 11,109        | 11,501 | 3.5    | 98,083           | 103,569 | 5.6    |
| <b>Public debt charges</b>                 | 2,667         | 2,860  | 7.2    | 32,280           | 29,357  | -9.1   |
| <b>Total budgetary expenditures</b>        | 13,776        | 14,361 | 4.2    | 130,363          | 132,926 | 2.0    |
| Memorandum item:                           |               |        |        |                  |         |        |
| Total transfers                            | 7,623         | 8,076  | 5.9    | 67,231           | 70,230  | 4.5    |

- Corporate income tax revenues were down \$3.1 billion, or 16.6 per cent, primarily due to higher refunds pertaining to previous years' taxes paid.
- EI premium revenues were virtually unchanged, as lower premium rates offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$4.5 billion, or 14.4 per cent, primarily reflecting higher GST revenues, customs import duties and tobacco excise taxes and duties, as well as the introduction of the Air Travellers Security Charge. GST revenues were up 15.5 per cent compared to an increase in the applicable tax base—consumer expenditures—of about 6 per cent. The difference in growth rates is largely attributable to refunds which, prior to January 2003, were lower than in the same period last year. Over the balance of the fiscal year, GST refunds are expected to more closely reflect the changes in gross GST collections, bringing net GST revenues more in line with the growth in the applicable GST tax base.
- Non-tax revenues were down 0.6 per cent from the same period last year.

Over the first 10 months of 2002–03, program spending increased by \$5.5 billion, or 5.6 per cent, compared to the same period of 2001–02.

- Transfers to persons were up 4.2 per cent, reflecting both higher elderly and EI benefits. The increase in elderly benefits reflects the increase in the number of people eligible to receive benefits as well as higher average benefits, which are adjusted quarterly to reflect changes in consumer prices. The increase in EI benefits is attributable to the lagged effects of the economic slowdown in 2001 and the impact of program enhancements, including the extension of and related changes to parental benefits.
- Transfers to other levels of government were up 4.9 per cent due to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were unchanged, primarily reflecting the timing of payments.

- Direct program spending increased by 7.0 per cent. Subsidies and other transfers were up 4.2 per cent, primarily due to higher payments to farmers and veterans as well as increased transfers to the granting councils for university research activities. Payments to Crown corporations were down slightly, primarily reflecting the timing of payments. Departmental and agency operating and capital spending was up 9.5 per cent, in part due to the implementation of initiatives announced in the December 2001 budget.

Public debt charges declined by \$2.9 billion, or 9.1 per cent, reflecting a decline in the stock of interest-bearing debt as well as a lower average effective interest rate on that debt.

## **Financial requirement of \$3.8 billion (excluding foreign exchange transactions) for April 2002 to January 2003**

The monthly budgetary balance in *The Fiscal Monitor* continues to be 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 \$15.0 billion in the first 10 months of 2002–03, compared to a net requirement of \$14.7 billion in the same period of 2001–02.

As a result, with a budgetary surplus of \$11.2 billion and a net requirement of \$15.0 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of \$3.8 billion in the April 2002 to January 2003 period, compared to a source of \$0.5 billion in the same period of 2001–02.

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Table 4

## The budgetary balance and financial requirements/source

|  | January       |       | April to January |         |
|--|---------------|-------|------------------|---------|
|  | 2002          | 2003  | 2001-02          | 2002-03 |
|  | (\$ millions) |       |                  |         |
| <b>Budgetary balance (deficit/surplus)</b>   | 132           | 18    | 15,275           | 11,182  |
| <b>Loans, investments and advances</b>   |               |       |                  |         |
| Crown corporations   | 46            | 10    | 544              | 354     |
| Other  | -208          | -353  | -1,338           | -1,338  |
| Total  | -162          | -343  | -794             | -984    |
| <b>Specified purpose accounts</b>  |               |       |                  |         |
| Canada Pension Plan Account  | 320           | 344   | -1,720           | -924    |
| Superannuation accounts  | -789          | -175  | -2,213           | -614    |
| Other  | 50            | 338   | 106              | 165     |
| Total  | -419          | 507   | -3,827           | -1,373  |
| <b>Other transactions</b>  | 1,530         | 2,748 | -10,125          | -12,663 |
| <b>Total non-budgetary transactions</b>  | 949           | 2,912 | -14,746          | -15,020 |
| <b>Financial requirements/source<br/>(excluding foreign exchange transactions)</b> | 1,081         | 2,930 | 529              | -3,838  |
| <b>Foreign exchange transactions</b>   | 152           | -1    | -491             | 1,290   |
| <b>Net financial balance</b>   | 1,233         | 2,929 | 38               | -2,548  |

Table 5

## Net financial balance and net borrowings

|  | January       |        | April to January |         |
|--|---------------|--------|------------------|---------|
|  | 2002          | 2003   | 2001-02          | 2002-03 |
|  | (\$ millions) |        |                  |         |
| <b>Net financial balance</b>                       | 1,233         | 2,929  | 38               | -2,548  |
| <b>Net increase (+)/decrease (-) in borrowings</b> |               |        |                  |         |
| Payable in Canadian dollars                        |               |        |                  |         |
| Marketable bonds                                   | 364           | -460   | -5,497           | -9,317  |
| Canada Savings Bonds                               | -118          | -44    | -2,737           | -1,701  |
| Treasury bills                                     | -1,200        | -1,350 | 5,100            | 8,800   |
| Other  | -25           | -1     | -47              | -19     |
| Total  | -979          | -1,855 | -3,181           | -2,237  |
| Payable in foreign currencies                      |               |        |                  |         |
| Marketable bonds                                   | 0             | 9      | -1,576           | -1,579  |
| Notes and loans                                    | -473          |        | -514             |         |
| Canada bills                                       | -329          | -92    | -3,336           | -766    |
| Canada notes                                       | 0             | 0      | -173             | 0       |
| Total  | -802          | -83    | -5,599           | -2,345  |
| <b>Net change in borrowings</b>                    | -1,781        | -1,938 | -8,780           | -4,582  |
| <b>Change in cash balance</b>                      | -548          | 991    | -8,742           | -7,130  |

## Net financial requirement of \$2.5 billion for April 2002 to January 2003

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.

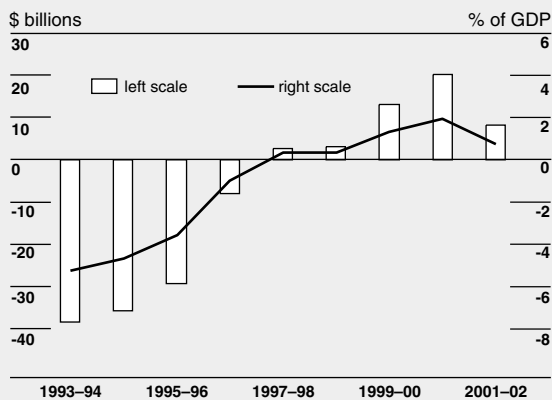
The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net source of \$1.3 billion in the first 10 months of 2002-03, compared to a net requirement of \$0.5 billion in the same period of 2001-02.

With a budgetary surplus of \$11.2 billion, a net requirement of \$15.0 billion from non-budgetary transactions and a net source of \$1.3 billion from foreign exchange transactions, there was a net financial requirement of \$2.5 billion in the April 2002 to January 2003 period, compared to a net source of \$38 million in the same period of 2001-02.

## Net borrowings down \$4.6 billion for April 2002 to January 2003

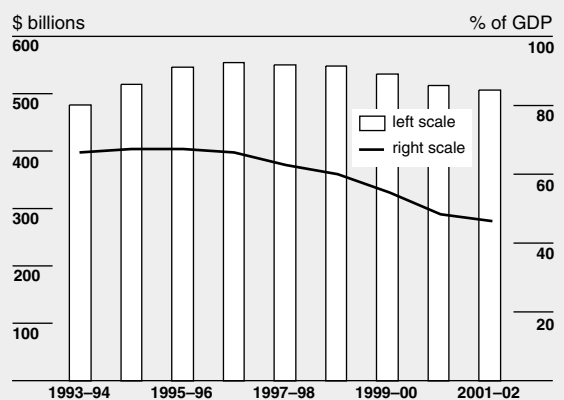
To finance this net financial requirement of \$2.5 billion, the Government reduced its cash balances by \$7.1 billion. This also allowed it to reduce its net borrowings by \$4.6 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

### Budgetary balance



Sources: Department of Finance and Statistics Canada.

### Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

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## Note to readers:

The Government has implemented full accrual accounting in its annual financial statements. However, the monthly financial results for the balance of fiscal year 2002–03 will remain on a modified accrual basis of accounting. Until the monthly results are on full accrual, Table 6 “Condensed statement of assets and liabilities” will not be presented.