

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for August 2000

### Budgetary deficit of \$1.2 billion in August 2000

There was a budgetary deficit of \$1.2 billion in August 2000, compared to a surplus of \$0.6 billion in August 1999. Budgetary revenues were down \$1 billion, or 8.0 per cent, program spending increased \$0.4 billion, or 4.9 per cent, and public debt charges were up \$0.3 billion, or 10.3 per cent.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were down \$0.7 billion, or 12.8 per cent. This decline primarily reflected the impact of the Budget 2000 tax reduction measures, which came into effect on July 1, 2000: the restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent and increases in the amounts at which the personal income tax rates apply.
- Corporate income tax revenues declined by \$0.3 billion, or 21.4 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also lower, reflecting the timing factors.
- Goods and services tax (GST) revenues were down \$0.2 billion, or 7.9 per cent, reflecting a slowdown in gross collections and a catch-up in the processing of refunds. Customs import duties were up strongly, due to misallocation in previous months, while other excise taxes and duties were lower.

- Non-tax revenues were up slightly. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

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

- Major transfers to persons were down 2.2 per cent, as lower employment insurance (EI) benefit payments, reflecting the improvement in the labour market situation, more than offset higher elderly benefits.
- Major transfers to other levels of government were up 10.3 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 7.5 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

### Year-to-date: budgetary surplus of \$10.1 billion

Over the first five months of fiscal year 2000-01, the budgetary surplus was estimated at \$10.1 billion, up \$4.0 billion from the surplus of \$6.2 billion reported in the same period of 1999-2000.

The monthly financial results can be very volatile, reflecting the impact of the timing of receipts and payments and budget measures. In particular, monthly balances can be strongly impacted by the timing of personal income tax instalment payments and corporate income tax settlement payments. For example, quarterly



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Table 1

## Summary statement of transactions

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	12,367	11,379	65,083	71,706
Program spending	-8,602	-9,021	-41,835	-44,358
Operating surplus	3,765	2,358	23,248	27,348
Public debt charges	-3,193	-3,521	-17,087	-17,225
Budgetary balance (deficit/surplus)	572	-1,163	6,161	10,123
<b>Non-budgetary transactions</b>	1,016	2,785	-4,384	-6,100
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,588	1,622	1,777	4,023
<b>Foreign exchange transactions</b>	-859	-2,187	-324	-230
<b>Net financial balance</b>	729	-565	1,453	3,793
<b>Net change in borrowings</b>	878	6,729	-1,388	-6,193
<b>Net change in cash balances</b>	1,607	6,164	65	-2,400

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

personal income tax instalment payments have a strong impact in September and December while corporate income tax settlement payments affect December and February. In contrast, in the remaining months, based on previous years' experience, revenue flows are relatively weaker. As such, caution should be exercised in extrapolating results to date to derive estimates for the year as a whole.

Budgetary revenues were up \$6.6 billion, or 10.2 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.6 billion, or 11.4 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. Over the balance of the fiscal year, growth in this component will be restrained as the full impact of tax reductions announced in the 2000 budget is realized.

- Corporate income tax revenues were up \$2.2 billion, or 28.6 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures. 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. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record

Table 2

## Budgetary revenues

	August		Change	April to August		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	5,701	4,972	-12.8	31,308	34,862	11.4
Corporate income tax	1,236	971	-21.4	7,582	9,754	28.6
Other income tax revenue	277	156	-43.7	1,236	1,275	3.2
Total income tax	7,214	6,099	-15.5	40,126	45,891	14.4
<b>Employment insurance premium revenues</b>	1,531	1,520	-0.7	8,594	8,497	-1.1
<b>Excise taxes and duties</b>						
Goods and services tax	2,240	2,062	-7.9	9,390	10,295	9.6
Customs import duties	164	463	182.3	1,007	1,119	11.1
Sales and excise taxes	743	703	-5.4	3,640	3,443	-5.4
Total excise taxes and duties	3,147	3,228	2.6	14,037	14,857	5.8
<b>Total tax revenues</b>	11,892	10,847	-8.8	62,757	69,245	10.3
<b>Non-tax revenues</b>	475	532	12.0	2,326	2,461	5.8
<b>Total budgetary revenues</b>	12,367	11,379	-8.0	65,083	71,706	10.2

settlement payments were made relating to underpayments during the course of the 1999 taxation year, with the result that it is estimated that monthly instalments for the first seven months were understated by an average of \$0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes are misleading.

- EI premium revenues were down 1.1 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$0.8 billion, or 5.8 per cent. GST revenues were up \$0.9 billion, or 9.6 per cent, reflecting the growth in consumer demand, while customs import duties rose

\$0.1 billion. In contrast, sales and excise taxes were \$0.2 billion, or 5.4 per cent, lower.

- Non-tax revenues were up \$0.1 billion, or 5.8 per cent.

Program spending increased by \$2.5 billion, or 6.0 per cent, in the April to August 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 0.9 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.

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Table 3

## Budgetary expenditures

	August		Change	April to August		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,865	1,884	1.0	9,552	9,833	2.9
Employment insurance benefits	955	874	-8.5	4,539	4,385	-3.4
Total	2,820	2,758	-2.2	14,091	14,218	0.9
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	5,209	5,625	8.0
Fiscal transfers	866	978	12.9	4,347	4,839	11.3
Alternative Payments for Standing Programs	-188	-206	9.6	-938	-1,028	9.6
Total	1,720	1,897	10.3	8,618	9,436	9.5
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	50	93	86.0	146	147	0.7
Foreign Affairs	155	180	16.1	510	526	3.1
Health	121	65	-46.3	430	418	-2.8
Human Resources Development	32	15	-53.1	458	426	-7.0
Indian and Northern Development	261	282	8.0	1,932	2,025	4.8
Industry and Regional Development	147	150	2.0	546	515	-5.7
Veterans Affairs	115	120	4.3	573	598	4.4
Other	114	72	-36.8	831	958	15.3
Total	995	977	-1.8	5,426	5,613	3.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	85	79	-7.1	340	450	32.4
Canada Mortgage and Housing Corporation	150	150	0.0	745	770	3.4
Other	67	141	110.4	464	617	33.0
Total	302	370	22.5	1,549	1,837	18.6
Operating and capital expenditures						
Defence	1,032	921	-10.8	3,826	3,899	1.9
All other departmental expenditures	1,733	2,098	21.1	8,325	9,355	12.4
Total	2,765	3,019	9.2	12,151	13,254	9.1
Total direct program spending	4,062	4,366	7.5	19,126	20,704	8.3
<b>Total program expenditures</b>	8,602	9,021	4.9	41,835	44,358	6.0
<b>Public debt charges</b>	3,193	3,521	10.3	17,087	17,225	0.8
<b>Total budgetary expenditures</b>	11,795	12,542	6.3	58,922	61,583	4.5
Memorandum item:						
Total transfers	5,535	5,632	1.8	28,135	29,267	4.0

- Major transfers to other levels of government were up 9.5 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflects 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 is 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 8.3 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, as well as the lifting of the wage freeze and the effect of new initiatives announced in recent budgets.

Public debt charges were up 0.8 per cent, as the impact of somewhat higher interest rates more than offset the decline in the stock of interest-bearing debt.

### **Financial source of \$4.0 billion (excluding foreign exchange transactions) for April to August 2000**

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 \$6.1 billion in the first five months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the first instalment of the pay equity settlement.

As a result, with a budgetary surplus of \$10.1 billion and a net requirement of \$6.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$4.0 billion in the April to August 2000 period, compared to a net source of \$1.8 billion in the same period last year.

### **Net financial source of \$3.8 billion for April to August 2000**

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. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. 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.

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Table 4

## The budgetary balance and financial requirements/source

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	572	-1,163	6,161	10,123
<b>Loans, investments and advances</b>				
Crown corporations	60	23	-50	106
Other	-186	-21	171	141
Total	-126	2	121	247
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-247	224	-448	-666
Superannuation accounts	390	465	1,829	1,430
Other	14	1	-111	-215
Total	157	690	1,270	549
<b>Other transactions</b>	985	2,093	-5,775	-6,896
<b>Total non-budgetary transactions</b>	1,016	2,785	-4,384	-6,100
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	1,588	1,622	1,777	4,023
<b>Foreign exchange transactions</b>	-859	-2,187	-324	-230
<b>Net financial balance</b>	729	-565	1,453	3,793

Table 5

## Net financial balance and net borrowings

	August		April to August	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	729	-565	1,453	3,793
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-800	4,800	9,487	10,951
Canada Savings Bonds	139	-138	-710	-692
Treasury bills	1,750	2,900	-7,450	-13,850
Other	49	-467	1,295	458
Total	1,138	7,095	2,622	-3,133
Payable in foreign currencies				
Marketable bonds	-113	-	-113	-2,174
Notes and loans	-	-	-	-
Canada bills	-147	-366	-3,671	-886
Canada notes	-	-	-226	-
Total	-260	-366	-4,010	-3,060
<b>Net change in borrowings</b>	878	6,729	-1,388	-6,193
<b>Change in cash balance</b>	1,607	6,164	65	-2,400

Table 6

**Condensed statement of assets and liabilities**

	March 31, 2000	August 31, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	33,852	-6,896
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,776	1,430
Canada Pension Plan (net of securities)	6,217	5,551	-666
Other pension and other accounts	6,963	6,748	-215
Total pension and other accounts	141,526	142,075	549
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	304,878	10,951
Treasury bills	99,850	86,000	-13,850
Canada Savings Bonds	26,489	25,797	-692
Non-marketable bonds and bills	3,552	4,010	458
Subtotal	423,818	420,685	-3,133
Payable in foreign currencies	32,588	29,528	-3,060
Total unmatrued debt	456,406	450,213	-6,193
Total interest-bearing debt	597,932	592,288	-5,644
Total liabilities	638,680	626,140	-12,540
<b>Assets</b>			
Cash and accounts receivable	18,864	16,464	-2,400
Foreign exchange accounts	41,494	41,724	230
Loans, investments and advances (net of allowances)	13,796	13,549	-247
Total assets	74,154	71,737	-2,417
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>554,403</b>	<b>-10,123</b>

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Taking all of these factors into account, there was a net requirement of \$0.2 billion in the first five months of 2000-01, compared to a net requirement of \$0.3 billion in the same period last year.

With a budgetary surplus of \$10.1 billion, a net requirement of \$6.1 billion from non-budgetary transactions and a net requirement of funds of \$0.2 billion from foreign exchange transactions, there was a net financial source of \$3.8 billion in the April to August 2000 period, compared to a net source of \$1.5 billion in the same period last year.

## **Net borrowings down \$6.2 billion for April to August 2000**

With this net financial source of \$3.8 billion and a reduction in cash balances of \$2.4 billion, the Government retired \$6.2 billion of market debt in the first five months of 2000-01. Cash balances at August 31 amounted to \$10.6 billion.

