

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for October 1998

### Budgetary deficit of \$0.8 billion in October 1998

A budgetary deficit of \$0.8 billion was recorded in October 1998, up \$0.2 billion from the deficit of \$0.6 billion recorded in the same period last year. A deficit was expected in October, reflecting timing factors affecting both revenues and program spending. For example, revenues are adversely affected in October by the quarterly payment of the low-income goods and services tax (GST) credit and the remittance procedures for personal income tax and employment insurance premium liabilities. Program spending is skewed towards the latter half of the fiscal year, reflecting the timing of payments. In addition, for 1998-99, the impact of the 1998 budget tax relief and spending initiatives primarily affects the latter half of the fiscal year.

On a year-over-year basis, budgetary revenues were marginally lower as higher non-tax revenues, personal income tax revenues, GST revenues and other tax revenues were offset by declines in the other revenue components, most notably corporate income tax revenues and customs import duties.

Program spending was up 1.6 per cent, primarily attributable to higher operating and capital expenditures, increased elderly benefit payments and increased payments to Crown corporations. Dampening the impact of these increases were lower subsidies and other transfers.

Public debt charges were up by 1 per cent, due to a slight increase in the average effective interest rate on interest-bearing debt.

### Year-to-date: budgetary surplus up \$1.9 billion

Over the first seven months (April to October) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.6 billion, up \$1.9 billion from the surplus of \$7.7 billion recorded over the first seven months of 1997-98. Budgetary revenues were up \$2.7 billion (3.1 per cent), program spending was

up \$0.8 billion (1.5 per cent), while public debt charges were unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.0 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. Revenues to date were adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.
- Corporate income tax revenues were up \$0.7 billion, or 6.9 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period last year. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections.



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Table 1

## Summary statement of transactions

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	11,531	11,522	86,146	88,831
Program spending	-8,761	-8,899	-54,528	-55,335
Operating balance	2,770	2,623	31,618	33,496
Public debt charges	-3,408	-3,441	-23,904	-23,899
Budgetary balance (deficit/surplus)	-638	-818	7,714	9,597
<b>Non-budgetary transactions</b>	1,010	-137	-4,200	-4,931
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	372	-955	3,514	4,666
<b>Foreign exchange transactions</b>	677	-297	3,965	5,538
<b>Net financial balance</b>	1,049	-1,252	7,479	10,204
<b>Net change in borrowings</b>	1,614	-1,982	-11,405	-18,406
<b>Net change in cash balances</b>	2,663	-3,234	-3,926	-8,202

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

- Employment insurance premium revenues were down \$0.2 billion, or 1.9 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.
- Net GST revenues were up \$0.2 billion, or 2.0 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.4 per cent in the first seven months over 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 9.6 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.1 billion, or 8.6 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were unchanged, as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of a return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.1 billion, or 3.2 per cent.

### Within program spending:

- Major transfers to persons were up \$0.3 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- Major transfers to other levels of government were up slightly as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.5 billion, or 2.0 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.1 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the

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Table 2

## Budgetary revenues

	October		April to October		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
<b>Income taxes</b>					
Personal income tax	5,411	5,450	41,308	43,355	5.0
Corporate income tax	1,473	1,353	9,756	10,430	6.9
Other income tax revenue	190	273	1,389	1,383	-0.4
Total income tax	7,074	7,076	52,453	55,168	5.2
<b>Employment insurance premium revenues</b>	1,382	1,322	11,976	11,744	-1.9
<b>Excise taxes and duties</b>					
Goods and services tax	1,706	1,764	11,897	12,133	2.0
Customs import duties	348	190	1,618	1,479	-8.6
Sales and excise taxes	759	706	5,102	5,107	0.1
Total excise taxes and duties	2,813	2,660	18,617	18,719	0.5
<b>Total tax revenues</b>	11,269	11,058	83,046	85,631	3.1
<b>Non-tax revenues</b>	262	464	3,100	3,200	3.2
<b>Total budgetary revenues</b>	11,531	11,522	86,146	88,831	3.1

Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 2.8 per cent.

Public debt charges were virtually unchanged, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

### Year-to-date: financial surplus of \$4.7 billion (excluding foreign exchange transactions)

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 only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ 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 \$4.9 billion in the April to October 1998 period, compared to a net requirement of \$4.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.7 billion in the first seven months of 1998-99, up \$1.2 billion in the same period last year.

### Year-to-date: net financial balance of \$10.2 billion/net borrowings down \$18.4 billion

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 fulfils 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

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Table 3

## Budgetary expenditures

	October		April to October		Per cent change
	1997	1998	1997-98	1998-99	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,830	1,928	12,844	13,185	2.7
Employment insurance benefits	761	747	6,186	6,110	-1.2
Total	2,591	2,675	19,030	19,295	1.4
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	7,292	7,292	0.0
Fiscal transfers	777	829	5,394	5,527	2.5
Alternative Payments for Standing Programs	-178	-185	-1,243	-1,305	5.0
Total	1,641	1,686	11,443	11,514	0.6
<b>Direct program spending</b>					
Subsidies and other transfers					
Agriculture	101	27	318	289	-9.1
Foreign Affairs	95	108	811	766	-5.5
Health	93	91	473	560	18.4
Human Resources Development	168	141	785	979	24.7
Indian and Northern Development	249	261	2,377	2,451	3.1
Industry and Regional Development	154	140	743	761	2.4
Veterans Affairs	115	114	803	795	-1.0
Other	250	212	1,421	1,195	-15.9
Total	1,225	1,094	7,731	7,796	0.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	105	522	505	-3.3
Canada Mortgage and Housing Corporation	167	135	924	1,002	8.4
Other	58	91	634	581	-8.4
Total	299	331	2,080	2,088	0.4
Operating and capital expenditures					
Defence	1,005	966	4,931	4,727	-4.1
All other departmental expenditures	2,000	2,146	9,313	9,915	6.5
Total	3,005	3,112	14,244	14,642	2.8
Total direct program spending	4,529	4,537	24,055	24,526	2.0
<b>Total program expenditures</b>	8,761	8,899	54,528	55,335	1.5
<b>Public debt charges</b>	3,408	3,441	23,904	23,899	0.0
<b>Total budgetary expenditures</b>	12,169	12,340	78,432	79,234	1.0
Memorandum item:					
Total transfers	5,457	5,455	38,204	38,605	1.0

Table 4

## The budgetary balance and financial requirements/surplus

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	-638	-818	7,714	9,597
<b>Loans, investments and advances</b>				
Crown corporations	-118	19	271	750
Other	-85	-52	-50	-437
Total	-203	-33	221	313
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	164	-447	989	942
Superannuation accounts	318	319	1,336	2,211
Other	60	35	-214	54
Total	542	-93	2,111	3,207
<b>Other transactions</b>	671	-11	-6,532	-8,451
<b>Total non-budgetary transactions</b>	1,010	-137	-4,200	-4,931
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	372	-955	3,514	4,666
<b>Foreign exchange transactions</b>	677	-297	3,965	5,538
<b>Net financial balance</b>	1,049	-1,252	7,479	10,204

Table 5

## Net financial balance and net borrowings

	October		April to October	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Net financial balance</b>	1,049	-1,252	7,479	10,204
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-2,775	-3,100	7,075	2,931
Canada Savings Bonds	-428	-370	-2,067	-2,486
Treasury bills	4,600	800	-15,500	-25,600
Other	-388	377	-8	919
Subtotal	1,009	-2,293	-10,500	-24,236
Less: Government's holding of unmatured debt	38	34	794	567
Total	1,047	-2,259	-9,706	-23,669
Payable in foreign currencies				
Marketable bonds	438	511	-278	4,388
Notes and loans	0	0	0	0
Canada bills	198	-213	-1,026	1,822
Canada notes	-69	-21	-395	-947
Total	567	277	-1,699	5,263
<b>Total change in borrowings</b>	1,614	-1,982	-11,405	-18,406
<b>Change in cash balance</b>	2,663	-3,234	-3,926	-8,202

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Table 6

## Condensed statement of assets and liabilities

	March 31, 1998	October 31, 1998	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	8,468	-13,896
Interest and matured debt	10,419	11,798	1,379
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	31,183	-12,517
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,667	2,210
Canada Pension Plan (net of securities)	4,205	5,147	942
Other pension and other accounts	5,872	5,926	54
Total pension and other accounts	127,534	130,740	3,206
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	297,514	2,931
Treasury bills	112,300	86,700	-25,600
Canada Savings Bonds	29,769	27,849	-1,920
Other	3,456	4,376	920
Subtotal	440,108	416,439	-23,669
Payable in foreign currencies	27,183	32,446	5,263
Total unmaturing debt	467,291	448,885	-18,406
Total interest-bearing debt	594,825	579,625	-15,200
Total liabilities	638,525	610,808	-27,717
<b>Assets</b>			
Cash and accounts receivable	15,813	3,544	-12,269
Foreign exchange accounts	28,968	23,430	-5,538
Loans, investments and advances (net of allowances)	14,036	13,723	-313
Total assets	58,817	40,697	-18,120
<b>Accumulated deficit</b>	579,708	570,111	-9,597

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 these factors into account, in the first seven months of 1998-99, there was a net source of funds of \$5.5 billion from foreign exchange transactions, up from a source of \$4.0 billion in the same period last year.

With a budgetary surplus of \$9.6 billion, a net requirement of \$4.9 billion from non-budgetary

transactions, and a net source of funds of \$5.5 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.2 billion over the April to October 1998 period, compared to \$7.5 billion in the same period last year.

With this net financial balance, coupled with a reduction in cash balances of \$8.2 billion, the government retired \$18.4 billion of market debt in the first seven months of 1998-99. Cash balances at the end of October 1998 were \$2.1 billion.

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