

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 1999

Budgetary surplus of \$112 million in October 1999

There was a budgetary surplus of \$112 million in October 1999, compared to a deficit of \$428 million in October 1998, as higher budgetary revenues (up \$478 million or 4.2 per cent) and lower public debt charges (down \$186 million or 5.4 per cent) more than offset an increase in program spending (up \$124 million or 1.5 per cent).

Within budgetary revenues:

- Personal income tax revenues were up 13.4 per cent, primarily attributable to continued strong gains in deductions from employment income, reflecting increases in the number of people employed.
- Corporate income tax revenues declined 18.6 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 6.1 per cent, as the reduction in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Excise taxes and duties increased by 7.0 per cent. There continue to be large variations among the components. Net goods and services tax (GST) revenues were up 13.5 per cent, as an increase in gross collections outpaced the growth in refunds and in the low-income credit.

Customs import duties increased by 10.0 per cent, following a year-over-year decline of 36.7 per cent in September 1999. Other excise taxes and duties were down 10.2 per cent, following a year-over-year decline of 18.2 per cent in September 1999.

- Non-tax revenues declined 17.1 per cent, following a year-over-year decline of 20.0 per cent in September 1999.

Within program spending:

- Major transfers to persons were up 1.3 per cent. Elderly benefits advanced 1.7 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits increased 0.4 per cent.
- Major transfers to other levels of government were up 2.1 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 1.3 per cent. Subsidies and other transfers were up 3.6 per cent, payments to Crown corporations declined 14.5 per cent, while operating and capital expenditures increased by 2.3 per cent.

The decline in public debt charges was entirely attributable to corrections for overestimations of accrual adjustments in previous months.



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Table 1

Summary statement of transactions

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,511	11,989	88,702	91,101
Program spending	-8,498	-8,622	-57,329	-59,137
Operating surplus	3,013	3,367	31,373	31,964
Public debt charges	-3,441	-3,255	-23,899	-23,803
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Net change in cash balances	-3,234	3,896	-8,201	-2,789

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

Year-to-date: budgetary surplus at \$8.2 billion

Over the first seven months of fiscal year 1999-2000, the budgetary surplus was estimated at \$8.2 billion, up \$0.7 billion from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings), the budgetary surplus should continue to grow to the end of December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at \$5.0 billion for the year as a

whole. Of this amount, \$3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up \$2.4 billion, or 2.7 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in corporate income tax and EI premium revenues.

- Personal income tax collections were up \$2.3 billion, or 5.4 per cent, with virtually all of the increase reported in the last three months. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	October		Change (%)	April to October		Change (%)
	1998	1999		1998-99	1999-00	
	(millions of dollars)			(millions of dollars)		
Income taxes						
Personal income tax	5,413	6,138	13.4	43,022	45,361	5.4
Corporate income tax	1,380	1,124	-18.6	10,641	9,648	-9.3
Other income tax revenue	273	255	-6.6	1,383	1,699	22.8
Total income tax	7,066	7,517	6.4	55,046	56,708	3.0
Employment insurance premium revenues	1,322	1,242	-6.1	11,744	11,234	-4.3
Excise taxes and duties						
Goods and services tax	1,764	2,003	13.5	12,133	13,606	12.1
Customs import duties	190	209	10.0	1,479	1,379	-6.8
Sales and excise taxes	706	634	-10.2	5,107	4,910	-3.9
Total excise taxes and duties	2,660	2,846	7.0	18,719	19,895	6.3
Total tax revenues	11,048	11,605	5.0	85,509	87,837	2.7
Non-tax revenues	463	384	-17.1	3,193	3,264	2.2
Total budgetary revenues	11,511	11,989	4.2	88,702	91,101	2.7

- Corporate income tax revenues were down \$1.0 billion, or 9.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were down \$0.5 billion, or 4.3 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.2 billion or 6.3 per cent. Net GST collections were up \$1.5 billion, or 12.1 per cent, well in excess of the growth in the underlying tax base, and more than the increase recorded in 1998-99 for the year as a whole. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 6.8 per cent. Sales and excise taxes and duties were down 3.9 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.1 billion, or 2.2 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

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Table 3

Budgetary expenditures

	October		Change	April to October		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,928	1,960	1.7	13,185	13,448	2.0
Employment insurance benefits	747	750	0.4	6,110	5,969	-2.3
Total	2,675	2,710	1.3	19,295	19,417	0.6
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	7,292	7,292	0.0
Fiscal transfers	829	868	4.7	5,527	6,081	10.0
Alternative Payments for Standing Programs	-185	-188	1.6	-1,305	-1,313	0.6
Total	1,686	1,722	2.1	11,514	12,060	4.7
Direct program spending						
Subsidies and other transfers						
Agriculture	27	45	66.7	289	315	9.0
Foreign Affairs	108	174	61.1	766	821	7.2
Health	91	86	-5.5	560	587	4.8
Human Resources Development	141	159	12.8	979	866	-11.5
Indian and Northern Development	261	262	0.4	2,451	2,514	2.6
Industry and Regional Development	140	127	-9.3	761	737	-3.2
Veterans Affairs	114	117	2.6	795	805	1.3
Other	212	163	-23.1	1,195	1,147	-4.0
Total	1,094	1,133	3.6	7,796	7,792	-0.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	105	65	-38.1	505	485	-4.0
Canada Mortgage and Housing Corporation	135	150	11.1	1,002	1,045	4.3
Other	91	68	-25.3	581	594	2.2
Total	331	283	-14.5	2,088	2,124	1.7
Operating and capital expenditures						
Defence	866	797	-8.0	5,227	5,592	7.0
All other departmental expenditures	1,846	1,977	7.1	11,409	12,152	6.5
Total	2,712	2,774	2.3	16,636	17,744	6.7
Total direct program spending	4,137	4,190	1.3	26,520	27,660	4.3
Total program expenditures	8,498	8,622	1.5	57,329	59,137	3.2
Public debt charges	3,441	3,255	-5.4	23,899	23,803	-0.4
Total budgetary expenditures	11,939	11,877	-0.5	81,228	82,940	2.1
Memorandum item:						
Total transfers	5,455	5,565	2.0	38,605	39,269	1.7

Program spending increased by \$1.8 billion, or 3.2 per cent, in the April to October 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a decline in EI 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. The decline in EI benefit payments was due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed and timing factors. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up \$0.5 billion, or 4.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$1.1 billion, or 4.3 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, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were down slightly from year-earlier levels, reflecting a slight decline in the average effective interest rate on the stock of interest-bearing debt.

Year-to-date: financial surplus of \$5.0 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 includes only 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 \$3.2 billion in the first seven months of 1999-2000, compared to a net requirement of \$2.8 billion in the same period last year. This increase was more than accounted for by the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.0 billion in the April to October 1999 period, up slightly from that recorded in the same period last year.

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Table 4

The budgetary balance and financial requirements/surplus

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-428	112	7,474	8,161
Loans, investments and advances				
Crown corporations	19	170	750	189
Other	-1	48	-437	-74
Total	18	218	313	115
Specified purpose accounts				
Canada Pension Plan Account	-447	-57	942	232
Superannuation accounts	319	464	2,211	2,777
Other	35	-29	54	-126
Total	-93	378	3,207	2,883
Other transactions	-452	444	-6,327	-6,170
Total non-budgetary transactions	-527	1,040	-2,807	-3,172
Financial requirements/surplus (excluding foreign exchange transactions)	-955	1,152	4,667	4,989
Foreign exchange transactions	-297	-1,039	5,538	-862
Net financial balance	-1,252	113	10,205	4,127

Table 5

Net financial balance and net borrowings

	October		April to October	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-1,252	113	10,205	4,127
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,100	4,172	2,931	1,967
Canada Savings Bonds	-370	-30	-2,486	-1,045
Treasury bills	800	150	-25,600	-3,650
Other	377	-234	919	301
Subtotal	-2,293	4,058	-24,236	-2,427
Less: Government's holding of unmatured debt	34	26	567	359
Total	-2,259	4,084	-23,669	-2,068
Payable in foreign currencies				
Marketable bonds	511	-	4,388	-415
Notes and loans	-	-	-	-
Canada bills	-213	-301	1,822	-4,177
Canada notes	-21	-	-947	-256
Total	277	-301	5,263	-4,848
Net change in borrowings	-1,982	3,783	-18,406	-6,916
Change in cash balance	-3,234	3,896	-8,201	-2,789

Year-to-date: net financial surplus of \$4.1 billion (including foreign exchange transactions)

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. Taking all of these factors into account, there was a net requirement of \$0.9 billion in the April to October 1999 period, compared to a net source of \$5.5 billion in the same period last year.

With a budgetary surplus of \$8.2 billion, a net requirement of \$3.2 billion from non-budgetary transactions and a net requirement of \$0.9 billion from foreign exchange transactions, there was a net financial surplus of \$4.1 billion in the April to October 1999 period compared to a net surplus of \$10.2 billion in the same period last year.

This net financial surplus of \$4.1 billion, coupled with a drawdown in cash balances of \$2.8 billion, was used to retire \$6.9 billion of market debt to the end of October 1999. Cash balances at the end of October 1999 amounted to \$6.5 billion.

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Table 6

Condensed statement of assets and liabilities

	March 31, 1999	October 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	13,128	-11,381
Interest and matured debt	9,791	10,510	719
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	34,654	-10,662
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,185	2,778
Canada Pension Plan (net of securities)	5,427	5,659	232
Other pension and other accounts	6,724	6,597	-127
Total pension and other accounts	134,558	137,441	2,883
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	297,719	1,967
Treasury bills	96,950	93,300	-3,650
Canada Savings Bonds	27,662	26,976	-686
Other	4,063	4,364	301
Subtotal	424,427	422,359	-2,068
Payable in foreign currencies			
Marketable bonds	23,907	23,492	-415
Canada bills	10,230	6,053	-4,177
Canada notes	1,863	1,607	-256
Subtotal	36,000	31,152	-4,848
Total unmatured debt	460,427	453,511	-6,916
Total interest-bearing debt	594,985	590,952	-4,033
Total liabilities	640,301	625,606	-14,695
Assets			
Cash and accounts receivable	15,273	7,993	-7,280
Foreign exchange accounts	34,668	35,529	861
Loans, investments and advances (net of allowances)	13,536	13,421	-115
Total assets	63,477	56,943	-6,534
Accumulated deficit (net public debt)	576,824	568,663	-8,161

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