

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for June 1999

### Budgetary surplus down \$0.8 billion in June 1999

There was a budgetary surplus of \$1.4 billion in June 1999, down \$0.8 billion from the surplus of \$2.2 billion recorded in June 1998. As indicated in the last *Fiscal Monitor*, a lower fiscal balance was expected in June 1999 as the year-over-year improvement in the first two months of 1999-2000 was primarily attributable to timing considerations. Budgetary revenues were down \$0.4 billion, or 3.0 per cent, while program spending increased \$0.4 billion, or 4.7 per cent. Public debt charges were unchanged.

Among the major revenue components:

- Personal income tax collections were down 2.1 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous two months. In addition, refunds relating to the 1998 taxation year were higher.
- Corporate income tax collections declined 2.4 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.
- Net goods and services tax (GST) collections declined 25.5 per cent, largely due to the timing of payments, which overstated the net increase in revenues in the first two months of 1999-2000. Customs import duties advanced 53.5 per cent, while other excise taxes and duties were up 2.7 per cent.

Within program spending, all components were higher with the exception of major transfers to persons and defence.

- Major transfers to persons were down slightly, as lower employment insurance benefits more than offset an increase in elderly benefits.
- Major transfers to other levels of government were up 5.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The increase in subsidies and other transfers reflects timing considerations. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- Payments to Crown corporations were up marginally, again primarily due to the timing of payments.
- The increase in operating and capital expenditures reflects the impact of wage settlements as well as systems difficulties in the allocation of spending among the other components.



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Table 1

## Summary statement of transactions

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	13,853	13,432	38,699	39,945
Program spending	-8,160	-8,541	-23,748	-24,780
Operating surplus	5,693	4,891	14,951	15,165
Public debt charges	-3,464	-3,464	-10,510	-10,388
Budgetary balance (deficit/surplus)	2,229	1,427	4,441	4,777
<b>Non-budgetary transactions</b>	-3,457	-6,272	-2,318	-5,401
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-1,228	-4,845	2,123	-624
<b>Foreign exchange transactions</b>	1,163	-1,273	3,629	-770
<b>Net financial balance</b>	-65	-6,118	5,752	-1,394
<b>Net change in borrowings</b>	1,469	2,417	-9,770	-4,723
<b>Net change in cash balances</b>	1,404	-3,701	-4,018	-6,117

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

### Year-to-date: budgetary surplus of \$4.8 billion

Over the first three months of fiscal year 1999-2000, the budgetary surplus was estimated at \$4.8 billion, up \$0.3 billion from the surplus recorded in the same period of 1998-99. The year-over-year improvement in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.2 billion, or 3.2 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up \$0.9 billion, or 4.7 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and continued increases in receipts from monthly deductions

from employment income, due to increases in the number of people employed. The results to date were dampened by higher personal income tax refunds related to the 1998 taxation year and by higher CCTB payments, reflecting increases announced in previous budgets.

- Corporate income tax revenues were down \$0.4 billion, or 8.9 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, 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.
- Employment insurance premium revenues were up marginally, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of employed.

Table 2

## Budgetary revenues

	June		Change (%)	April to June		Change (%)
	1998 (millions of dollars)	1999 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
<b>Income taxes</b>						
Personal income tax	6,490	6,354	-2.1	18,986	19,872	4.7
Corporate income tax	1,831	1,787	-2.4	4,716	4,294	-8.9
Other income tax revenue	184	203	10.3	613	778	26.9
Total income tax	8,505	8,344	-1.9	24,315	24,944	2.6
<b>Employment insurance premium revenues</b>	1,775	1,779	0.2	5,318	5,366	0.9
<b>Excise taxes and duties</b>						
Goods and services tax	2,050	1,528	-25.5	5,097	5,377	5.5
Customs import duties	185	284	53.5	504	622	23.4
Sales and excise taxes	804	826	2.7	2,118	2,169	2.4
Total excise taxes and duties	3,039	2,638	-13.2	7,719	8,168	5.8
<b>Total tax revenues</b>	13,319	12,761	-4.2	37,352	38,478	3.0
<b>Non-tax revenues</b>	534	671	25.7	1,347	1,467	8.9
<b>Total budgetary revenues</b>	13,853	13,432	-3.0	38,699	39,945	3.2

- Net GST collections were up \$0.3 billion, or 5.5 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up, as the growth in imports more than offset the impact of tariff reductions. The increase in other excise taxes and duties was widespread.
- 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 8.9 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.0 billion, or 4.3 per cent, in the April to June 1999 period over the same period last year. This increase was spread among all major components with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly, as lower employment insurance benefits partially offset higher elderly 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 slight decline in employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, which reflected a reduction in the number of unemployed.

- Major transfers to other levels of government were up 5.8 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 \$0.7 billion, or 6.6 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. This component was affected by the timing of payments, the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

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Table 3

## Budgetary expenditures

	June			April to June		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,868	1,882	0.7	5,567	5,631	1.1
Employment insurance benefits	804	769	-4.4	2,799	2,791	-0.3
Total	2,672	2,651	-0.8	8,366	8,422	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	3,125	3,125	0.0
Fiscal transfers	776	866	11.6	2,315	2,601	12.4
Alternative Payments for Standing Programs	-186	-188	1.1	-560	-563	0.5
Total	1,632	1,720	5.4	4,880	5,163	5.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	42	31	-26.2	56	78	39.3
Foreign Affairs	98	34	-65.3	263	229	-12.9
Health	94	146	55.3	239	262	9.6
Human Resources Development	207	193	-6.8	436	276	-36.7
Indian and Northern Development	312	334	7.1	1,306	1,392	6.6
Industry and Regional Development	105	108	2.9	238	263	10.5
Veterans Affairs	112	114	1.8	339	341	0.6
Other	144	202	40.3	502	498	-0.8
Total	1,114	1,162	4.3	3,379	3,339	-1.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	230	205	-10.9
Canada Mortgage and Housing Corporation	157	150	-4.5	457	445	-2.6
Other	70	95	35.7	244	310	27.0
Total	287	295	2.8	931	960	3.1
Operating and capital expenditures						
Defence	779	772	-0.9	1,883	2,010	6.7
All other departmental expenditures	1,676	1,941	15.8	4,309	4,886	13.4
Total	2,455	2,713	10.5	6,192	6,896	11.4
Total direct program spending	3,856	4,170	8.1	10,502	11,195	6.6
<b>Total program expenditures</b>	8,160	8,541	4.7	23,748	24,780	4.3
<b>Public debt charges</b>	3,464	3,464	0.0	10,510	10,388	-1.2
<b>Total budgetary expenditures</b>	11,624	12,005	3.3	34,258	35,168	2.7
Memorandum item:						
Total transfers	5,418	5,533	2.1	16,625	16,924	1.8

Table 4

**The budgetary balance and financial requirements/surplus**

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	2,229	1,427	4,441	4,777
<b>Loans, investments and advances</b>				
Crown corporations	28	-32	155	-137
Other	-58	87	-11	410
<b>Total</b>	-30	55	144	273
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-451	-175	998	271
Superannuation accounts	366	381	967	1,062
Other	-21	-101	-45	-107
<b>Total</b>	-106	105	1,920	1,226
<b>Other transactions</b>	-3,321	-6,432	-4,382	-6,900
<b>Total non-budgetary transactions</b>	-3,457	-6,272	-2,318	-5,401
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-1,228	-4,845	2,123	-624
<b>Foreign exchange transactions</b>	1,163	-1,273	3,629	-770
<b>Net financial balance</b>	-65	-6,118	5,752	-1,394

Table 5

**Net financial balance and net borrowings**

	June		April to June	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	-65	-6,118	5,752	-1,394
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	6,323	5,987	10,223	10,287
Canada Savings Bonds	-544	-952	-1,537	-1,175
Treasury bills	-4,500	-2,400	-17,600	-12,350
Other	1,001	173	1,056	999
<b>Subtotal</b>	2,280	2,808	-7,858	-2,239
Less: Government's holding of unmatured debt	93	66	272	172
<b>Total</b>	2,373	2,874	-7,586	-2,067
Payable in foreign currencies				
Marketable bonds	-	-	-	-
Notes and loans	-	-	-	-
Canada bills	-123	-457	-1,403	-2,656
Canada notes	-781	-	-781	-
<b>Total</b>	-904	-457	-2,184	-2,656
<b>Net change in borrowings</b>	1,469	2,417	-9,770	-4,723
<b>Change in cash balance</b>	1,404	-3,701	-4,018	-6,117

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Public debt charges were down 1.2 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

## **Year-to-date: financial requirement of \$0.6 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 \$5.4 billion in the first three months of 1999-2000, compared to a net requirement of \$2.3 billion in the same period last year. This increase was largely attributable to 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 requirement (excluding foreign exchange transactions) of \$0.6 billion in the April to June 1999 period, compared to a financial surplus of \$2.1 billion recorded in the same period last year.

## **Year-to-date: net financial requirement of \$1.4 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 \$0.8 billion in the April to June 1999 period, compared to a net source of \$3.6 billion in the same period last year.

With a budgetary surplus of \$4.8 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net requirement of \$0.8 billion from foreign exchange transactions, there was a net financial requirement of \$1.4 billion in the April to June 1999 period compared to a net source of \$5.8 billion in the same period last year.

## **Year-to-date: net borrowings down \$4.7 billion**

Although there was a net financial requirement of \$1.4 billion in the April to June 1999 period, the government has retired \$4.7 billion of market debt to the end of June 1999 through a \$6.1-billion reduction in its cash balances. Cash balances at the end of June 1999 amounted to \$3.2 billion.

Table 6

**Condensed statement of assets and liabilities**

	March 31, 1999	June 30, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	19,340	429
Interest and matured debt	7,374	6,006	-1,368
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,263	-2,826
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,404	1,062
Canada Pension Plan (net of securities)	6,794	7,065	271
Other pension and other accounts	4,551	4,444	-107
Total pension and other accounts	132,687	133,913	1,226
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,841	10,286
Treasury bills	96,950	84,600	-12,350
Canada Savings Bonds	28,087	27,574	-513
Other	4,063	5,062	999
Subtotal	424,655	423,077	-1,578
Payable in foreign currencies			
Marketable bonds	23,176	24,569	1,393
Canada bills	10,230	7,515	-2,715
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,345	-1,924
Total unmatured debt	459,924	456,422	-3,502
Total interest-bearing debt	592,611	590,335	-2,276
Total liabilities	631,700	626,598	-5,102
<b>Assets</b>			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	34,216	770
Loans, investments and advances (net of allowances)	12,824	13,097	273
Total assets	55,000	54,675	-325
<b>Accumulated deficit (net public debt)</b>	<b>576,700</b>	<b>571,923</b>	<b>-4,777</b>

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Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986
<i>Less:</i>							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127
<b>Gains from wind-up of interest in Crown corporations/disposal of shares</b>	2	110			325		
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.176
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada*.

### The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing

and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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