

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for February 2000

Budgetary surplus of \$3.1 billion in February 2000

There was a budgetary surplus of \$3.1 billion in February 2000, up \$2.5 billion from the surplus of \$0.6 billion reported in February 1999. The key factor contributing to this year-over-year improvement was higher corporate income tax revenues, which were up \$2.8 billion. Overall, budgetary revenues increased by \$1.9 billion, program spending declined by \$0.7 billion, while public debt charges increased by \$0.1 billion.

Corporate income tax revenues amounted to \$5.4 billion in February 2000, more than double the amount received in February 1999. This increase primarily reflects the interaction of remittance procedures for corporations with the strong pickup in economic growth through 1999. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days after their year-end to make settlement payments for any amounts owing. As most of the large non-financial sector corporations have a December year-end, a substantial amount of corporate income tax revenues are received in the months of February and March – ranging from 25 per cent to 40 per cent of the total revenues for the year as a whole. Monthly instalment payments for 1999 were largely based on 1998 tax liabilities. However, according to Statistics Canada, corporate profits rose an estimated 25 per cent in 1999, after declining 6 per cent in 1998. As a result, monthly instalment payments for 1999 substantially understated the actual tax liability for the year

as a whole, resulting in exceptionally large settlement period payments. The monthly remittance procedures, coupled with the volatility of corporate profits, make it extremely difficult to estimate corporate income tax revenues for the year as a whole. *The Budget Plan 2000* projected strong growth in corporate income tax revenues over the final months of the fiscal year, based on the information available at that time. However, data released since the budget indicate that economic growth throughout 1999 was much stronger than anticipated by private sector economists at that time. In particular, corporate profits were up 35 per cent at annual rates in the fourth quarter, resulting in the much higher corporate income tax revenues witnessed in February 2000. The other revenue components remain largely on track.

Among the other major revenue components:

- Personal income tax revenues declined \$0.5 billion, or 8 per cent, from February 1999. As indicated in last month's *Fiscal Monitor*, a decline was expected, as part of the large year-over-year increase in January 2000 was attributable to the timing of receipts between January and February.
- Goods and services tax (GST) revenues declined \$0.4 billion, or 20.7 per cent, as the growth in refunds and rebates outstripped the growth in gross receipts.

The decline in program spending was primarily attributable to the inclusion in the February 1999 results of prior-year adjustments to transfer payments to other levels of government. As noted in *The Budget Plan 1999*, data revisions



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Table 1

Summary statement of transactions

	February		April to February	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	14,427	16,284	142,262	149,826
Program spending	-10,442	-9,723	-94,239	-97,022
Operating surplus	3,985	6,561	48,023	52,804
Public debt charges	-3,356	-3,481	-37,951	-37,856
Budgetary balance (deficit/surplus)	629	3,080	10,072	14,948
Non-budgetary transactions	670	405	-559	-2,469
Financial requirements/surplus (excluding foreign exchange transactions)	1,299	3,485	9,513	12,479
Foreign exchange transactions	1,814	-1,176	1,368	-7,584
Net financial balance	3,113	2,309	10,881	4,895
Net change in borrowings	2,154	-362	-14,222	-3,050
Net change in cash balances	5,267	1,947	-3,341	1,845

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

for 1996-97 and 1997-98 resulted in large upward revisions to Equalization entitlements amounting to \$1.7 billion. These were included in the February 1999 results.

Year-to-date: budgetary surplus of \$14.9 billion

Over the April 1999 to February 2000 period, the budgetary surplus was estimated at \$14.9 billion, up \$4.9 billion from the surplus recorded in the same period of 1998-99. As noted in the 2000 budget, economic and policy developments over the balance of the fiscal year are expected to reduce the cumulative surplus to date (see Chapter 3 of *The Budget Plan 2000*). The 2000 budget announced initiatives totalling \$4.5 billion, including the Canada Health and Social Transfer cash supplement of \$2.5 billion and \$0.9 billion to the Canada Foundation for Innovation among others, which will be recorded in the balance of the fiscal year. In addition, the full costs of policy initiatives introduced in the

1999 budget and those announced prior to the 2000 budget, totalling about \$1 billion, have yet to be reflected in the year-to-date results. Finally, adjustments will be made in the end-of-year accounting period to include the cost of goods and services received in late 1999-2000 but for which payments are not made until the April/May 2000 period and for personal income tax refunds processed in March 2000 relating to the 1999 taxation year.

These adjustments, coupled with the expected developments in February and March 2000 and the inclusion of \$3 billion for the Contingency Reserve, underlie the balanced budget estimate in the February 2000 budget for 1999-2000.

However, given the strength in corporate income tax revenues in February 2000, the final outcome for 1999-2000 will be better than expected. Any surplus for 1999-2000 will be applied to reducing the federal debt. Final audited results for 1999-2000 will be released in the fall.

Table 2

Budgetary revenues

	February		Change	April to February		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	6,349	5,839	-8.0	69,471	72,512	4.4
Corporate income tax	2,635	5,394	104.7	18,123	21,142	16.7
Other income tax revenue	150	260	73.3	2,440	3,022	23.9
Total income tax	9,134	11,493	25.8	90,034	96,676	7.4
Employment insurance premium revenues	2,131	2,110	-1.0	17,580	16,768	-4.6
Excise taxes and duties						
Goods and services tax	2,152	1,706	-20.7	19,522	21,448	9.9
Customs import duties	222	164	-26.1	2,220	2,035	-8.3
Sales and excise taxes	608	577	-5.1	7,775	7,465	-4.0
Total excise taxes and duties	2,982	2,447	-17.9	29,517	30,948	4.8
Total tax revenues	14,247	16,050	12.7	137,131	144,392	5.3
Non-tax revenues	180	234	30.0	5,131	5,434	5.9
Total budgetary revenues	14,427	16,284	12.9	142,262	149,826	5.3

Over the first 11 months of 1999-2000, budgetary revenues were up \$7.6 billion, or 5.3 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$3.0 billion, or 4.4 per cent, primarily reflecting 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 relating to the 1998 taxation year, higher Canada Child Tax Benefit payments, increases in the amount of income Canadians can receive tax-free and the elimination of the 3-per-cent surtax, reflecting the measures announced in the 1998 and 1999 budgets.
- Corporate income tax revenues were up \$3.0 billion, or 16.7 per cent, somewhat below the estimated growth in corporate profits for 1999.
- Employment insurance (EI) premium revenues were down \$0.8 billion, or 4.6 per cent, as the decline in EI premium rates more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.4 billion, or 4.8 per cent, with all of the increase attributable to higher GST revenues, up \$1.9 billion, or 9.9 per cent, reflecting the strong gains in those expenditures subject to the GST. Customs import duties were down 8.3 per cent, while sales and excise taxes and duties declined 4.0 per cent, primarily 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 5.9 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

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Table 3

Budgetary expenditures

	February		Change	April to February		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,924	1,969	2.3	20,829	21,355	2.5
Employment insurance benefits	1,185	1,121	-5.4	10,448	10,325	-1.2
Total	3,109	3,090	-0.6	31,277	31,680	1.3
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	11,458	11,458	0.0
Fiscal transfers	2,396	975	-59.3	10,441	9,995	-4.3
Alternative Payments for Standing Programs	-187	-188	0.5	-2,054	-2,063	0.4
Total	3,251	1,829	-43.7	19,845	19,390	-2.3
Direct program spending						
Subsidies and other transfers						
Agriculture	47	195	314.9	567	765	34.9
Foreign Affairs	138	362	162.3	1,405	1,574	12.0
Health	55	71	29.1	863	932	8.0
Human Resources Development	144	103	-28.5	1,829	1,350	-26.2
Indian and Northern Development	182	218	19.8	3,349	3,488	4.2
Industry and Regional Development	224	172	-23.2	1,392	1,308	-6.0
Veterans Affairs	115	119	3.5	1,255	1,276	1.7
Other	218	279	28.0	2,087	2,611	25.1
Total	1,123	1,519	35.3	12,747	13,304	4.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	45	75	66.7	869	805	-7.4
Canada Mortgage and Housing Corporation	135	150	11.1	1,625	1,645	1.2
Other	102	56	-45.1	943	931	-1.3
Total	282	281	-0.4	3,437	3,381	-1.6
Operating and capital expenditures						
Defence	853	1,007	18.1	8,536	9,648	13.0
All other departmental expenditures	1,824	1,997	9.5	18,397	19,619	6.6
Total	2,677	3,004	12.2	26,933	29,267	8.7
Total direct program spending	4,082	4,804	17.7	43,117	45,952	6.6
Total program expenditures	10,442	9,723	-6.9	94,239	97,022	3.0
Public debt charges	3,356	3,481	3.7	37,951	37,856	-0.3
Total budgetary expenditures	13,798	13,204	-4.3	132,190	134,878	2.0
Memorandum item:						
Total transfers	7,483	6,438	-14.0	63,869	64,374	0.8

Program spending increased by \$2.8 billion, or 3.0 per cent, in the April 1999 to February 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up \$0.4 billion, or 1.3 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected 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. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government declined \$0.5 billion, or 2.3 per cent, reflecting the impact of prior-year adjustments affecting fiscal transfers, most notably for Equalization. As indicated in the 1999 budget, Equalization entitlements were revised up significantly for years prior to 1999 due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces. While an adjustment of \$1.7 billion was included in the February 1999 results, no such large adjustments are expected this year.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.8 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. Developments in this component are affected by 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 declined 0.3 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of \$12.5 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 measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus 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 \$2.5 billion in the first 11 months of 1999-2000, up from the net requirement of \$0.6 billion in the same period of 1998-99. The higher requirement was due 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 surplus (excluding foreign exchange transactions) of \$12.5 billion in the April 1999 to February 2000 period, up \$3.0 billion from the financial surplus recorded in the same period of 1998-99.

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Table 4

The budgetary balance and financial requirements/surplus

	February		April to February	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	629	3,080	10,072	14,948
Loans, investments and advances				
Crown corporations	66	135	1,311	528
Other	125	149	-257	85
Total	191	284	1,054	613
Specified purpose accounts				
Canada Pension Plan Account	555	413	1,240	-58
Superannuation accounts	324	325	3,643	4,531
Other	-1	81	2	-49
Total	878	819	4,885	4,424
Other transactions	-399	-698	-6,498	-7,506
Total non-budgetary transactions	670	405	-559	-2,469
Financial requirements/surplus (excluding foreign exchange transactions)	1,299	3,485	9,513	12,479
Foreign exchange transactions	1,814	-1,176	1,368	-7,584
Net financial balance	3,113	2,309	10,881	4,895

Table 5

Net financial balance and net borrowings

	February		April to February	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Net financial balance	3,113	2,309	10,881	4,895
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	2,300	-600	8,272	6,349
Canada Savings Bonds	-201	-187	-1,825	-961
Treasury bills	2,200	100	-26,300	-5,350
Other	-279	0	108	-285
Subtotal	4,020	-687	-19,745	-247
Less: Government's holding of unmatured debt	558	-6	127	91
Total	4,578	-693	-19,618	-156
Payable in foreign currencies				
Marketable bonds	-2,801	-39	6,880	2,488
Notes and loans	-	-	-	-
Canada bills	377	370	-409	-5,118
Canada notes	0	0	-1,075	-264
Total	-2,424	331	5,396	-2,894
Net change in borrowings	2,154	-362	-14,222	-3,050
Change in cash balance	5,267	1,947	-3,341	1,845

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	February 29, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,218	-5,291
Interest and matured debt	9,791	6,826	-2,965
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	37,060	-8,256
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,938	4,531
Canada Pension Plan (net of securities)	5,427	5,368	-59
Other pension and other accounts	6,724	6,674	-50
Total pension and other accounts	134,558	138,980	4,422
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	295,752	302,109	6,357
Treasury bills	96,950	91,600	-5,350
Canada Savings Bonds	27,662	26,785	-877
Other	4,063	3,778	-285
Subtotal	424,427	424,272	-155
Payable in foreign currencies			
Marketable bonds	24,569	27,057	2,488
Canada bills	10,171	5,053	-5,118
Canada notes	1,261	997	-264
Subtotal	36,000	33,106	-2,894
Total unmatured debt	460,427	457,378	-3,049
Total interest-bearing debt	594,985	596,358	1,373
Total liabilities	640,301	633,418	-6,883
Assets			
Cash and accounts receivable	15,273	16,368	1,095
Foreign exchange accounts	34,668	42,251	7,583
Loans, investments and advances (net of allowances)	13,536	12,923	-613
Total assets	63,477	71,542	8,065
Accumulated deficit (net public debt)	576,824	561,876	-14,948

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Year-to-date: net financial surplus of \$4.9 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 \$7.6 billion in the April 1999 to February 2000 period, compared to a net source of \$1.4 billion in the same period of 1998-99.

With a budgetary surplus of \$14.9 billion, a net requirement of \$2.5 billion from non-budgetary transactions and a net requirement of \$7.6 billion from foreign exchange transactions, there was a net financial surplus of \$4.9 billion in the April 1999 to February 2000 period, compared to a net surplus of \$10.9 billion in the same period of 1998-99. This surplus was used to retire \$3.1 billion of market debt and increase cash balances by \$1.8 billion. Cash balances at the end of February 2000 stood at \$11.2 billion.

