

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 2000

Budgetary deficit of \$31 million in March 2000

There was a budgetary deficit of \$31 million in March 2000, an improvement of \$501 million from March 1999. Budgetary revenues were up \$977 million, or 7.2 per cent, program spending increased \$470 million, or 4.4 per cent, while public debt charges were virtually unchanged (up \$6 million, or 0.2 per cent), from year earlier levels.

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

Over 12 months (April 1999 to March 2000), the budgetary surplus was estimated at \$14.9 billion, up \$5.4 billion from the surplus of \$9.5 billion reported in the same period of 1998-99. Budgetary revenues were up \$8.5 billion, or 5.5 per cent, program spending was up \$3.3 billion, or 3.1 per cent, while public debt charges were down \$90 million, or 0.2 per cent.

Final results to come in the fall

The financial results for the April 1999 to March 2000 period are not the final results for the 1999-2000 fiscal year. Still to come are the regular end-of-year accounting adjustments.

Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1999-2000. For example, the 2000 budget

announcement of a one-time cash supplement of \$2.5 billion to the Canada Health and Social Transfer will be booked in the end-of-year accounting period, following passage of legislation. In addition, adjustments are made to include liabilities incurred by departments for goods and services received in late 1999-2000 but for which payments were made in the April/May 2000 period.

These adjustments, coupled with the inclusion of \$3 billion for the Contingency Reserve, underlie the balanced budget estimate in the February 2000 budget for 1999-2000. However, the results to date indicate the final outcome for 1999-2000 will be better than expected. Economic growth for 1999 and the first quarter of 2000 was much stronger than expected by private sector economists when the budget estimates were finalized. This has translated into higher-than-expected personal and corporate income tax revenues. Spending remains largely on track. Any surplus for 1999-2000 will be applied to reducing the federal debt.

Final audited financial results for 1999-2000 will be released in the fall.

Year-to date: budgetary revenues up \$8.5 billion

In the April 1999 to March 2000 period, budgetary revenues were up \$8.5 billion, or 5.5 per cent, compared to the same period of 1998-99.

- Personal income tax revenues were up \$4.0 billion, or 5.5 per cent, primarily



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Table 1

Summary statement of transactions

	March		April to March	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,608	14,585	155,870	164,411
Program spending	-10,729	-11,199	-104,967	-108,221
Operating surplus	2,879	3,386	50,903	56,190
Public debt charges	-3,411	-3,417	-41,363	-41,273
Budgetary balance (deficit/surplus)	-532	-31	9,540	14,917
Non-budgetary transactions	1,771	3,677	1,210	1,210
Financial requirements/surplus (excluding foreign exchange transactions)	1,239	3,646	10,750	16,127
Foreign exchange transactions	-5,846	-1,661	-4,478	-9,244
Net financial balance	-4,607	1,985	6,272	6,883
Net change in borrowings	6,853	-128	-7,368	-3,178
Net change in cash balances	2,246	1,857	-1,096	3,705
Cash balance at end of period			9,285	13,011

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

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 and 1999 taxation years and higher Canada Child Tax Benefit payments. The large increase in personal income tax revenues in March 2000 over March 1999 was primarily attributable to the reallocation of revenues from personal income tax to corporate income tax in March 1999.

Personal income revenues in February 1999 were overstated and this was corrected in March 1999.

- Corporate income tax revenues were up \$2.6 billion, or 12.3 per cent, about half the estimated increase in corporate profits for 1999. The decline in revenues in March 2000 over March 1999 was attributable to the

reallocation noted above. Corporate income tax revenues were understated in February 1999 with a comparable upward correction in March 1999.

- Employment insurance (EI) premium revenues were down \$0.9 billion, or 4.6 per cent, as the decline in the EI premium rate from \$2.70 (employee rate per \$100 of insurable earnings) in 1998 to \$2.55 in 1999 and \$2.40 in 2000 more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.6 billion, or 5.1 per cent, with all of the increase attributable to higher goods and services tax (GST) revenues, up \$2.0 billion, or 9.8 per cent, reflecting the strong gains in those expenditures subject to the GST. Customs import duties were down 6.6 per cent, while sales and excise taxes and duties declined

Table 2

Budgetary revenues

	March		Change	April to March		Change
	1999	2000		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
Income taxes						
Personal income tax	4,089	5,091	24.5	73,560	77,603	5.5
Corporate income tax	2,577	2,109	-18.2	20,700	23,251	12.3
Other income tax revenue	452	450	-0.4	2,892	3,472	20.1
Total income tax	7,118	7,650	7.5	97,152	104,326	7.4
Employment insurance premium revenues	1,808	1,735	-4.0	19,388	18,504	-4.6
Excise taxes and duties						
Goods and services tax	1,407	1,527	8.5	20,929	22,975	9.8
Customs import duties	149	177	18.8	2,369	2,212	-6.6
Sales and excise taxes	674	704	4.5	8,449	8,168	-3.3
Total excise taxes and duties	2,230	2,408	8.0	31,747	33,355	5.1
Total tax revenues	11,156	11,793	5.7	148,287	156,185	5.3
Non-tax revenues	2,452	2,792	13.9	7,583	8,226	8.5
Total budgetary revenues	13,608	14,585	7.2	155,870	164,411	5.5

3.3 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 8.5 per cent.

Year-to date: program spending up \$3.3 billion

Program spending increased by \$3.3 billion, or 3.1 per cent, in the April 1999 to March 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up \$0.2 billion or 0.5 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 \$0.6 billion, or 3.0 per cent, reflecting the impact of prior-year adjustments in 1998-99 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 \$3.7 billion, or 7.7 per cent.

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Table 3

Budgetary expenditures

	March		Change (%)	April to March		Change (%)
	1999 (millions of dollars)	2000 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
Transfer payments to:						
Persons						
Elderly benefits	1,937	2,000	3.3	22,765	23,355	2.6
Employment insurance benefits	1,323	1,015	-23.3	11,772	11,340	-3.7
Total	3,260	3,015	-7.5	34,537	34,695	0.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	12,500	12,500	0.0
Fiscal transfers	790	692	-12.4	11,231	10,687	-4.8
Alternative Payments for Standing Programs	-93	-188	102.2	-2,147	-2,251	4.8
Total	1,739	1,546	-11.1	21,584	20,936	-3.0
Direct program spending						
Subsidies and other transfers						
Agriculture	82	135	64.6	649	950	46.4
Foreign Affairs	230	327	42.2	1,635	1,901	16.3
Health	93	118	26.9	955	1,050	9.9
Human Resources Development	179	229	27.9	2,008	1,579	-21.4
Indian and Northern Development	340	217	-36.2	3,689	3,705	0.4
Industry and Regional Development	272	264	-2.9	1,664	1,572	-5.5
Veterans Affairs	117	121	3.4	1,372	1,397	1.8
Other	1,058	1,501	41.9	3,144	4,062	29.2
Total	2,371	2,912	22.8	15,116	16,216	7.3
Payments to Crown corporations						
Canadian Broadcasting Corporation	27	66	144.4	896	871	-2.8
Canada Mortgage and Housing Corporation	175	150	-14.3	1,800	1,795	-0.3
Other	100	54	-46.0	1,043	985	-5.6
Total	302	270	-10.6	3,739	3,651	-2.4
Operating and capital expenditures						
Defence	972	1,127	15.9	9,508	10,775	13.3
All other departmental expenditures	2,085	2,329	11.7	20,483	21,948	7.2
Total	3,057	3,456	13.1	29,991	32,723	9.1
Total direct program spending	5,730	6,638	15.8	48,846	52,590	7.7
Total program expenditures	10,729	11,199	4.4	104,967	108,221	3.1
Public debt charges	3,411	3,417	0.2	41,363	41,273	-0.2
Total budgetary expenditures	14,140	14,616	3.4	146,330	149,494	2.2
Memorandum item:						
Total transfers	7,370	7,473	1.4	71,237	71,847	0.9

This component includes subsidies 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 1999 and 2000 budgets, and the costs associated with Canada's international peacekeeping commitments.

Year-to date: public debt charges down \$90 million

Public debt charges declined 0.2 per cent from year-earlier levels, as a lower average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

Financial surplus of \$16.1 billion (excluding foreign exchange transactions) in 1999-2000

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/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 source of \$1.2 billion for the April 1999 to March 2000 period, unchanged from the same

period in 1998-99. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$16.1 billion in the April 1999 to March 2000 period, up \$5.4 billion from the financial surplus recorded in the same period of 1998-99.

Net financial surplus of \$6.9 billion (including foreign exchange transactions) in 1999-2000

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. Taking all of these factors into account, there was a net requirement of \$9.2 billion in the April 1999 to March 2000 period, compared to a net requirement of \$4.5 billion in the same period of 1998-99.

With a budgetary surplus of \$14.9 billion, a net source of \$1.2 billion from non-budgetary transactions and a net requirement of \$9.2 billion from foreign exchange transactions, there was a net financial surplus of \$6.9 billion in the April 1999 to March 2000 period, compared to a net surplus of \$6.3 billion in the same period of 1998-99. This surplus was used to retire \$3.2 billion of market debt and increase cash balances by \$3.7 billion. Cash balances at the end of March 2000 stood at \$13.0 billion.

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Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-532	-31	9,540	14,917
Loans, investments and advances				
Crown corporations	302	12	1,613	540
Other	-146	62	-403	147
Total	156	74	1,210	687
Specified purpose accounts				
Canada Pension Plan Account	-7	893	1,233	835
Superannuation accounts	243	547	3,885	5,078
Other	34	74	35	26
Total	270	1,514	5,153	5,939
Other transactions	1,345	2,089	-5,153	-5,416
Total non-budgetary transactions	1,771	3,677	1,210	1,210
Financial requirements/surplus (excluding foreign exchange transactions)	1,239	3,646	10,750	16,127
Foreign exchange transactions	-5,846	-1,661	-4,478	-9,244
Net financial balance	-4,607	1,985	6,272	6,883

Table 5

Net financial balance and net borrowings

	March		April to March	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-4,607	1,985	6,272	6,883
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-7,300	-8,491	972	-2,142
Canada Savings Bonds	-50	-439	-1,875	-1,400
Treasury bills	10,950	8,250	-15,350	2,900
Other	499	-352	607	-636
Subtotal	4,099	-1,032	-15,646	1,278
Less: Government's holding of unmatured debt	66	-93	-193	-2
Total	4,165	-1,125	-15,453	-1,280
Payable in foreign currencies				
Marketable bonds	132	0	7,013	2,488
Notes and loans	-	0	-	-
Canada bills	1,283	997	874	-4,122
Canada notes	1,273	0	198	-264
Total	2,688	997	8,085	-1,898
Net change in borrowings	6,853	-128	-7,368	-3,178
Change in cash balance	2,246	1,857	-1,096	3,705

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	March 31, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	22,158	-2,351
Interest and matured debt	9,791	8,678	-1,113
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	41,852	-3,464
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	127,485	5,078
Canada Pension Plan (net of securities)	5,427	6,262	835
Other pension and other accounts	6,724	6,749	25
Total pension and other accounts	134,558	140,496	5,938
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	295,752	293,618	-2,134
Treasury bills	96,950	99,850	2,900
Canada Savings Bonds	27,662	26,252	-1,410
Other	4,063	3,426	-637
Subtotal	424,427	423,146	-1,281
Payable in foreign currencies			
Marketable bonds	24,569	27,057	2,488
Canada bills	10,171	6,049	-4,122
Canada notes	1,261	997	-264
Subtotal	36,000	34,103	-1,897
Total unmatured debt	460,427	457,249	-3,178
Total interest-bearing debt	594,985	597,745	2,760
Total liabilities	640,301	639,597	-704
Assets			
Cash and accounts receivable	15,273	20,930	5,657
Foreign exchange accounts	34,668	43,911	9,243
Loans, investments and advances (net of allowances)	13,536	12,849	-687
Total assets	63,477	77,690	14,213
Accumulated deficit (net public debt)	576,824	561,907	-14,917

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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	1998-99
	(millions of dollars)							
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
<i>Less:</i>								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
GST penalties and interest received	19	71	90	129	135	159	127	123
Gains from wind-up of interest in Crown corporations/ disposal of shares	2	110			325			
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada*.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) 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 the net proceeds

from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the DSRA. 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.

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