

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 2000

Budgetary surplus of \$2.7 billion in April 2000

There was a budgetary surplus of \$2.7 billion in April 2000, up \$1.2 billion from the surplus of \$1.5 billion in April 1999. Budgetary revenues were up 11.2 per cent, program spending was up 3.7 per cent and public debt charges declined 1.3 per cent.

Among the major revenue components, personal and corporate income tax revenues were higher, with declines reported in all other major revenue components.

- Personal income tax collections were up 12.0 per cent, or \$0.8 billion. However, half of the increase was attributable to timing factors related to the processing of personal income tax refunds in March and April. While the value of refunds processed in March 2000 was \$0.6 billion higher than in March 1999, the value of those processed in April 2000 was \$0.4 billion lower than in April 1999. The remaining increase in collections in April 2000 primarily reflected continued strength in monthly deductions from employment income, due to the increase in the number of people employed.
- Corporate income tax collections increased 81.3 per cent, or \$0.9 billion. Although part of this increase reflects the continued strength in corporate profits, another important factor relates to tax instalment procedures. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability. Although corporate

profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. With current monthly instalments largely based on 1999 tax liabilities, the monthly results for 2000-01 may again be misleading.

- Employment insurance premium revenues were down 0.2 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were 1.8 per cent lower. However, given the continued strength in consumer spending, the results for April appear to be affected by timing factors, which should result in increased revenues in future months.

Within program spending, all major components were higher.

- Major transfers to persons were up 1.4 per cent, as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were up 8.8 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in



The Fiscal Monitor

Table 1

Summary statement of transactions

	April	
	1999	2000
	(millions of dollars)	
Budgetary transactions		
Revenues	13,229	14,712
Program spending	-8,289	-8,595
Operating surplus	4,940	6,117
Public debt charges	-3,412	-3,368
Budgetary balance (deficit/surplus)	1,528	2,749
Non-budgetary transactions	-3,556	-5,223
Financial requirements/surplus (excluding foreign exchange transactions)	-2,028	-2,474
Foreign exchange transactions	-632	1,129
Net financial balance	-2,660	-1,345
Net change in borrowings	-4,716	-5,788
Net change in cash balances	-7,376	-7,133

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

Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by 3.3 per cent. Subsidies and other transfers increased 0.9 per cent while payments to Crown corporations advanced by 12.7 per cent. Defence spending declined, as last year's results were affected by the costs associated with Canada's international peacekeeping commitments. All other departmental expenditures advanced by 7.4 per cent. The monthly fluctuations in these components are due in large part to the timing of payments.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt, as the average effective interest rate on that stock was unchanged.

Financial requirements of \$2.5 billion (excluding foreign exchange transactions) in April 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.

The Fiscal Monitor

Table 2

Budgetary revenues

	April		Change (%)
	1999 (millions of dollars)	2000	
Income taxes			
Personal income tax	6,559	7,347	12.0
Corporate income tax	1,083	1,963	81.3
Other income tax revenue	423	342	-19.1
Total income tax	8,065	9,652	19.7
Employment insurance premium revenues	1,788	1,784	-0.2
Excise taxes and duties			
Goods and services tax	2,097	2,077	-1.0
Customs import duties	180	160	-11.1
Sales and excise taxes	625	612	-2.1
Total excise taxes and duties	2,902	2,849	-1.8
Total tax revenues	12,755	14,285	12.0
Non-tax revenues	474	427	-9.9
Total budgetary revenues	13,229	14,712	11.2

Non-budgetary transactions resulted in a net requirement of \$5.2 billion in April 2000, up from a net requirement of \$3.6 billion in April 1999. The higher requirement primarily reflected the first instalment of pay equity settlement payments, which amounted to \$1.6 billion. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$2.5 billion in April 2000, compared to a requirement of \$2.0 billion in April 1999.

Net financial requirement of \$1.3 billion in April 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 source of \$1.1 billion in April 2000, compared to a net requirement of \$0.6 billion in April 1999.

With a budgetary surplus of \$2.7 billion, a net requirement of \$5.2 billion from non-budgetary transactions and a net source of funds of \$1.1 billion from foreign exchange transactions, there was a net financial requirement of \$1.3 billion in April 2000, compared to a net requirement of \$2.7 billion in April 1999.

Net borrowings down \$5.8 billion

Although there was a net financial requirement of \$1.3 billion in April 2000, the Government still retired \$5.8 billion of market debt that month. This was accomplished by reducing its cash balances by \$7.1 billion. Cash balances at the end of April 2000 amounted to \$5.8 billion.

The Fiscal Monitor

Table 3

Budgetary expenditures

	April		Change (%)
	1999 (millions of dollars)	2000	
Transfer payments to:			
Persons			
Elderly benefits	1,915	1,997	4.3
Employment insurance benefits	1,079	1,038	-3.8
Total	2,994	3,035	1.4
Other levels of government			
Canada Health and Social Transfer	1,042	1,125	8.0
Fiscal transfers	744	832	11.8
Alternative Payments for Standing Programs	-177	-206	16.4
Total	1,609	1,751	8.8
Direct program spending			
Subsidies and other transfers			
Agriculture	1	9	800.0
Foreign Affairs	57	55	-3.5
Health	55	63	14.5
Human Resources Development	28	8	-71.4
Indian and Northern Development	829	842	1.6
Industry and Regional Development	91	27	-70.3
Veterans Affairs	113	116	2.7
Other	176	242	37.5
Total	1,350	1,362	0.9
Payments to Crown corporations			
Canadian Broadcasting Corporation	113	173	53.1
Canada Mortgage and Housing Corporation	145	150	3.4
Other	153	140	-8.5
Total	411	463	12.7
Operating and capital expenditures			
Defence	534	490	-8.2
All other departmental expenditures	1,391	1,494	7.4
Total	1,925	1,984	3.1
Total direct program spending	3,686	3,809	3.3
Total program expenditures	8,289	8,595	3.7
Public debt charges	3,412	3,368	-1.3
Total budgetary expenditures	11,701	11,963	2.2
Memorandum item:			
Total transfers	5,953	6,148	3.3

Table 4

The budgetary balance and financial requirements/surplus

	April	
	1999	2000
	(millions of dollars)	
Budgetary balance (deficit/surplus)	1,528	2,749
Loans, investments and advances		
Crown corporations	-64	0
Other	350	105
Total	286	105
Specified purpose accounts		
Canada Pension Plan Account	-221	-394
Superannuation accounts	366	316
Other	21	-44
Total	166	-122
Other transactions	-4,008	-5,206
Total non-budgetary transactions	-3,556	-5,223
Financial requirements/surplus (excluding foreign exchange transactions)	-2,028	-2,474
Foreign exchange transactions	-632	1,129
Net financial balance	-2,660	-1,345

Table 5

Net financial balance and net borrowings

	April	
	1999	2000
	(millions of dollars)	
Net financial balance	-2,660	-1,345
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	0	1,900
Canada Savings Bonds	-31	-5
Treasury bills	-4,050	-7,250
Other	598	0
Subtotal	-3,483	-5,355
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-1,233	-433
Canada notes	0	0
Total	-1,233	-433
Net change in borrowings	-4,716	-5,788
Change in cash balance	-7,376	-7,133

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	April 30, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	19,906	-2,252
Interest and matured debt	8,678	10,119	1,441
Allowances	13,516	11,938	-1,578
Total accounts payable, accruals and allowances	44,352	41,963	-2,389
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	127,801	316
Canada Pension Plan (net of securities)	6,262	5,868	-394
Other pension and other accounts	6,749	6,705	-44
Total pension and other accounts	140,496	140,374	-122
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,618	295,827	2,209
Treasury bills	99,850	92,600	-7,250
Canada Savings Bonds	26,252	26,426	174
Other	3,426	3,552	126
Subtotal	423,146	418,405	-4,741
Payable in foreign currencies			
Marketable bonds	27,057	25,528	-1,529
Canada bills	6,049	5,575	-474
Canada notes	997	1,053	56
Subtotal	34,103	32,156	-1,947
Total unmatured debt	457,249	450,561	-6,688
Total interest-bearing debt	597,745	590,935	-6,810
Total liabilities	642,097	632,898	-9,199
Assets			
Cash and accounts receivable	11,513	6,087	-5,426
Foreign exchange accounts	43,911	42,782	-1,129
Loans, investments and advances (net of allowances)	12,849	12,954	105
Total assets	68,273	61,823	-6,450
Accumulated deficit (net public debt)¹	573,824	571,075	-2,749

¹ Assumes fiscal balance of \$3 billion for 1999-2000.

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