

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 2000

Budgetary surplus of \$2.1 billion in June 2000

There was a budgetary surplus of \$2.1 billion in June 2000, up \$0.8 billion from the surplus of \$1.3 billion recorded in June 1999. Budgetary revenues were up \$1.3 billion, or 9.7 per cent. Program spending increased \$0.5 billion, or 5.5 per cent, while public debt charges were virtually unchanged.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were up 13.1 per cent, reflecting a strong growth in deductions from employment income, due to the increase in the number of people employed.
- Corporate income tax revenues increased 27.1 per cent, reflecting the strength in corporate profits and timing factors related to the monthly tax instalment procedures.
- Goods and services tax (GST) revenues were up 24.1 per cent. Part of this increase reflects timing of refunds. While gross receipts were up strongly, refunds were unchanged. The growth in refunds normally closely tracks the growth in gross receipts.
- The remaining major revenue components were lower.

Within program spending, all components were higher, on a year-over-year basis.

- Major transfers to persons were up 1.7 per cent, as the increase in elderly benefits more than offset lower employment insurance benefit payments.

- Major transfers to other levels of government were up 11.0 per cent reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 5.6 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

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

Over the first three months of fiscal year 2000-01, the budgetary surplus was estimated at \$8.2 billion, up \$3.5 billion from the surplus of \$4.7 billion reported in the same period of 1999-2000.

However, the results to date do not include any impact of the tax reductions measures affecting the current fiscal year, as announced in the 2000 Budget as part of the Government's Five-Year Tax Reduction Plan. The restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent, increases in the amounts at which the personal income tax rates apply, among others, will restrain the growth in personal income tax revenues. As indicated in *The Budget Plan 2000*, the net fiscal impact of all the tax reduction measures affecting 2000-01 amounts to \$4.6 billion. As such, the budgetary results for the first few months of 2000-01 are not an appropriate indicator of developments over the year as a whole.



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Table 1

Summary statement of transactions

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Budgetary transactions				
Revenues	13,338	14,634	39,958	44,558
Program spending	-8,598	-9,068	-24,850	-26,159
Operating surplus	4,740	5,566	15,108	18,399
Public debt charges	-3,464	-3,450	-10,388	-10,205
Budgetary balance (deficit/surplus)	1,276	2,116	4,720	8,194
Non-budgetary transactions	-6,183	-7,187	-5,371	-9,816
Financial requirements/source (excluding foreign exchange transactions)	-4,907	-5,071	-651	-1,621
Foreign exchange transactions	-1,273	730	-770	2,686
Net financial balance	-6,180	-4,341	-1,421	1,065
Net change in borrowings	2,421	353	-4,723	-5,286
Net change in cash balances	-3,759	-3,988	-6,144	-4,221

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

Budgetary revenues were up \$4.6 billion, or 11.5 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$2.3 billion, or 12.0 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Over the balance of the year, growth in this component should be restrained as the tax reductions announced in the 2000 Budget come into effect.
- Corporate income tax revenues were up \$1.5 billion, or 31.5 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by 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 1.1 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.
- GST revenues were up \$1.1 billion, or 20.8 per cent. As noted above, about half of this increase is attributable to timing differences between receipts and applicable refunds. Gross receipts are up 11 per cent,

Table 2

Budgetary revenues

	June			April to June		
	1999	2000	Change	1999-00	2000-01	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
Income taxes						
Personal income tax	6,378	7,215	13.1	19,506	21,842	12.0
Corporate income tax	1,685	2,141	27.1	4,698	6,180	31.5
Other income tax revenue	186	218	17.2	753	811	7.7
Total income tax	8,249	9,574	16.1	24,957	28,833	15.5
Employment insurance premium revenues	1,779	1,750	-1.6	5,366	5,309	-1.1
Excise taxes and duties						
Goods and services tax	1,529	1,898	24.1	5,377	6,495	20.8
Customs import duties	285	165	-42.1	622	455	-26.8
Sales and excise taxes	825	786	-4.7	2,169	2,079	-4.1
Total excise taxes and duties	2,639	2,849	8.0	8,168	9,029	10.5
Total tax revenues	12,667	14,173	11.9	38,491	43,171	12.2
Non-tax revenues	671	461	-31.3	1,467	1,387	-5.5
Total budgetary revenues	13,338	14,634	9.7	39,958	44,558	11.5

in line with the growth in the applicable tax base. However, refunds are up only 3.7 per cent. This should be reversed in future months, which would bring the net results more in line with the growth in the underlying tax base.

Program spending increased by \$1.3 billion, or 5.3 per cent, in the April to June 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.7 per cent, as lower employment insurance benefits offset much of the increase in 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. Lower employment insurance benefit payments were primarily due to a decline in the number of beneficiaries, reflecting the fall in the number of unemployed.

- Major transfers to other levels of government were up 9.3 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 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 the major transfers to persons and other levels of government, increased by 6.1 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 and the effect of new initiatives announced in the February 2000 Budget.

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Table 3

Budgetary expenditures

	June			April to June		
	1999	2000	Change	1999-00	2000-01	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
Transfer payments to:						
Persons						
Elderly benefits	1,910	1,967	3.0	5,700	5,936	4.1
Employment insurance benefits	769	757	-1.6	2,791	2,702	-3.2
Total	2,679	2,724	1.7	8,491	8,638	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	3,125	3,375	8.0
Fiscal transfers	866	991	14.4	2,601	2,886	11.0
Alternative Payments for Standing Programs	-188	-206	9.6	-563	-617	9.6
Total	1,720	1,910	11.0	5,163	5,644	9.3
Direct program spending						
Subsidies and other transfers						
Agriculture	26	5	-80.8	73	27	-63.0
Foreign Affairs	34	99	191.2	229	243	6.1
Health	146	66	-54.8	262	254	-3.1
Human Resources Development	193	228	18.1	276	296	7.2
Indian and Northern Development	334	323	-3.3	1,392	1,481	6.4
Industry and Regional Development	108	131	21.3	263	283	7.6
Veterans Affairs	114	118	3.5	341	355	4.1
Other	207	125	-39.6	503	463	-8.0
Total	1,162	1,095	-5.8	3,339	3,402	1.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	35	70	100.0	205	285	39.0
Canada Mortgage and Housing Corporation	152	170	11.8	452	470	4.0
Other	129	144	11.6	303	349	15.2
Total	316	384	21.5	960	1,104	15.0
Operating and capital expenditures						
Defence	767	874	14.0	1,998	2,032	1.7
All other departmental expenditures	1,954	2,081	6.5	4,899	5,339	9.0
Total	2,721	2,955	8.6	6,897	7,371	6.9
Total direct program spending	4,199	4,434	5.6	11,196	11,877	6.1
Total program expenditures	8,598	9,068	5.5	24,850	26,159	5.3
Public debt charges	3,464	3,450	-0.4	10,388	10,205	-1.8
Total budgetary expenditures	12,062	12,518	3.8	35,238	36,364	3.2
Memorandum item:						
Total transfers	5,561	5,729	3.0	16,993	17,684	4.1

Public debt charges were down 1.8 per cent, due to a decline in the stock of interest-bearing debt as the average effective interest rate was up somewhat.

Financial requirement of \$1.6 billion (excluding foreign exchange transactions) for April to June 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/source 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 \$9.8 billion in the first three months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5 billion Canada Health and Social Transfer cash supplement, as announced in the 2000 Budget, as well as the first instalment of pay equity settlement. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$1.6 billion in April to June 2000 period, compared to a requirement of \$0.7 billion in the same period last year.

Net financial source of \$1.1 billion for April to June 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 \$2.7 billion in the first three months of 2000-01, compared to a net requirement of \$0.8 billion in the same period last year.

With a budgetary surplus of \$8.2 billion, a net requirement of \$9.8 billion from non-budgetary transactions and a net source of funds of \$2.7 billion from foreign exchange transactions, there was a net financial source of \$1.1 billion in April to June 2000 period, compared to a net requirement of \$1.4 billion in the same period last year.

Net borrowings down \$5.3 billion for April to June 2000.

With this net financial source of \$1.1 billion and a reduction in cash balances of \$4.2 billion, the government retired \$5.3 billion of market debt in the first three months of 2000-01. Cash balances at June 30th amounted to \$8.7 billion.

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Table 4

The budgetary balance and financial requirements/source

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,276	2,116	4,720	8,194
Loans, investments and advances				
Crown corporations	-32	188	-137	196
Other	126	18	450	113
Total	94	206	313	309
Specified purpose accounts				
Canada Pension Plan Account	-175	150	271	-26
Superannuation accounts	373	68	1,056	593
Other	-102	-134	-108	-227
Total	96	84	1,219	340
Other transactions	-6,373	-7,477	-6,903	-10,464
Total non-budgetary transactions	-6,183	-7,187	-5,371	-9,816
Financial requirements/source (excluding foreign exchange transactions)	-4,907	-5,071	-651	-1,621
Foreign exchange transactions	-1,273	730	-770	2,686
Net financial balance	-6,180	-4,341	-1,421	-1,065

Table 5

Net financial balance and net borrowings

	June		April to June	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Net financial balance	-6,180	-4,341	-1,421	1,065
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	5,987	3,963	10,287	9,226
Canada Savings Bonds	-882	-256	-1,003	-403
Treasury bills	-2,400	-3,600	-12,350	-12,550
Other	173	500	999	700
Subtotal	2,878	607	-2,067	-3,027
Payable in foreign currencies				
Marketable bonds				-2,174
Notes and loans				
Canada bills	-457	-254	-2,656	-85
Canada notes				
Total	-457	-254	-2,656	-2,259
Net change in borrowings	-2,421	353	-4,723	-5,286
Change in cash balance	-3,759	-3,988	-6,144	-4,221

Table 6

Condensed statement of assets and liabilities¹

	March 31, 2000	June 30, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	16,317	-5,841
Interest and matured debt	8,678	11,724	3,046
Allowances	13,516	11,838	-1,678
Total accounts payable, accruals and allowances	44,352	39,879	-4,473
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	128,078	593
Canada Pension Plan (net of securities)	6,262	6,236	-26
Other pension and other accounts	6,749	6,522	-227
Total pension and other accounts	140,496	140,836	340
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,927	303,153	9,226
Treasury bills	99,850	87,300	-12,550
Canada Savings Bonds	26,432	26,029	-403
Other	3,552	4,252	700
Subtotal	423,761	420,734	-3,027
Payable in foreign currencies			
Marketable bonds	25,528	23,354	-2,174
Canada bills	6,008	5,923	-85
Canada notes	1,053	1,053	0
Subtotal	32,589	30,330	-2,259
Total unmatured debt	456,350	451,064	-5,286
Total interest-bearing debt	596,846	592,011	-4,835
Total liabilities	641,198	631,778	-9,420
Assets			
Cash and accounts receivable	10,614	6,393	-4,221
Foreign exchange accounts	43,911	46,597	2,686
Loans, investments and advances (net of allowances)	12,849	13,158	309
Total assets	67,374	66,148	-1,226
Accumulated deficit (net public debt)	573,824	565,630	-8,194

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

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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
Less:								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	2,640
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 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 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.

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