The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 2000

Budgetary surplus of $3.2 billion in July 2000

There was a budgetary surplus of $3.2 billion in July 2000, up $2.3 billion from the surplus of $0.9 billion recorded in July 1999. Budgetary revenues were up $3.0 billion, or 23.6 per cent. Program spending increased $0.7 billion, or 8.5 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 $1.9 billion, or 31.9 per cent. This increase reflected continued strong growth in deductions from employment income, due to the increase in the number of people employed, as well as timing factors related to the receipt of payments and adjustments related to under-reporting in previous months. These factors more than offset the impact of the 2000 Budget measures, which came into effect in July. It is expected that the impact of the tax reductions will be clearly reflected in the August 2000 results.
- Corporate income tax revenues increased by $1 billion, or 57.9 per cent, reflecting the strength in corporate profits and timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also up strongly, reflecting the growth in corporate profits.
- Goods and services tax (GST) revenues were down 1.8 per cent, reflecting a catch-up in the processing of refunds. The remaining components of excise taxes and duties were lower.
- Non-tax revenues were up $0.1 billion. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

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

- Major transfers to persons were up 1.5 per cent, as both elderly and employment insurance (EI) benefit payments were higher.
- Major transfers to other levels of government were up 9.4 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was up 13.2 per cent, reflecting the impact of wage settlements as well as initiatives announced in recent budgets.

Year-to-date: budgetary surplus of $11.4 billion

Over the first four months of fiscal year 2000-01, the budgetary surplus was estimated at $11.4 billion, up $5.8 billion from the surplus of $5.6 billion reported in the same period of 1999-2000.

Table 1
Summary statement of transactions

	July		April to July	
	1999	2000	1999-00	2000-01
	($ millions)			
Budgetary transactions				
Revenues	12,758	15,768	52,716	60,327
Program spending	-8,381	-9,097	-33,231	-35,257
Operating surplus	4,377	6,671	19,485	25,070
Public debt charges	-3,506	-3,499	-13,895	-13,703
Budgetary balance (deficit/surplus)	871	3,172	5,590	11,367
Non-budgetary transactions	-33	844	-5,406	-8,965
Financial requirements/source (excluding foreign exchange transactions)	838	4,016	184	2,402
Foreign exchange transactions	1,305	-729	535	1,957
Net financial balance	2,143	3,287	719	4,359
Net change in borrowings	2,458	-7,636	-2,265	-12,921
Net change in cash balances	4,601	-4,349	-1,546	-8,562

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

However, the results to date do not include the full impact of the tax reduction measures affecting the current fiscal year, as announced in the 2000 budget as part of the Government's Five-Year Tax Reduction Plan. For example, 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 and increases in the amounts at which the personal income tax rates apply will restrain the growth in personal income tax revenues over the balance of the fiscal year. 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. In addition, the annual growth in both corporate income tax and GST revenues is overstated due to timing considerations. For example, based on the final settlement period payments for 1999-2000, monthly corporate income tax revenues for the first seven months of 1999-2000 were understated by an average of $0.6 billion per month. 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.

Budgetary revenues were up $7.6 billion, or 14.4 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up $4.3 billion, or 16.7 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 fiscal year, growth in this component should be restrained as the tax reductions announced in the 2000 budget come into effect.

Table 2
Budgetary revenues

	July			April to July		
	1999	2000	Change	1999-00	2000-01	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	6,102	8,047	31.9	25,608	29,890	16.7
Corporate income tax	1,649	2,603	57.9	6,346	8,783	38.4
Other income tax revenue	205	309	50.7	958	1,120	16.9
Total income tax	7,956	10,959	37.7	32,912	39,793	20.9
Employment insurance premium revenues	1,697	1,667	-1.8	7,063	6,976	-1.2
Excise taxes and duties						
Goods and services tax	1,771	1,739	-1.8	7,149	8,233	15.2
Customs import duties	221	201	-9.0	843	656	-22.2
Sales and excise taxes	725	658	-9.2	2,896	2,738	-5.5
Total excise taxes and duties	2,717	2,598	-4.4	10,888	11,627	6.8
Total tax revenues	12,370	15,224	23.1	50,863	58,396	14.8
Non-tax revenues	388	544	40.2	1,853	1,931	4.2
Total budgetary revenues	12,758	15,768	23.6	52,716	60,327	14.4

- Corporate income tax revenues were up $2.4 billion, or 38.4 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. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record settlement payments were made relating to underpayments during the course of the 1999 taxation year, with the result that it is estimated that monthly instalments for the first seven months were understated by an average of $0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes are misleading.
- EI premium revenues were down 1.2 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.
- GST revenues were up $1.1 billion, or 15.2 per cent. Although refunds picked up strongly in July, they are trailing the growth in gross receipts. This should be reversed in future months, which would bring the net results more in line with the growth in the underlying tax base.

Table 3

Budgetary expenditures

	July		Change	April to July		Change
	1999	2000		1999-00	2000-01	
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,986	2,012	1.3	7,686	7,948	3.4
Employment insurance benefits	793	809	2.0	3,584	3,511	-2.0
Total	2,779	2,821	1.5	11,270	11,459	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	4,167	4,500	8.0
Fiscal transfers	880	978	11.1	3,480	3,862	11.0
Alternative Payments for Standing Programs	-188	-206	9.6	-750	-822	9.6
Total	1,734	1,897	9.4	6,897	7,540	9.3
Direct program spending						
Subsidies and other transfers						
Agriculture	23	27	17.4	96	54	-43.8
Foreign Affairs	127	102	-19.7	356	346	-2.8
Health	47	99	110.6	309	353	14.2
Human Resources Development	150	115	-23.3	426	411	-3.5
Indian and Northern Development	278	262	-5.8	1,670	1,743	4.4
Industry and Regional Development	136	82	-39.7	399	365	-8.5
Veterans Affairs	117	123	5.1	458	478	4.4
Other	214	73	-65.9	717	883	23.2
Total	1,092	883	-19.1	4,431	4,633	4.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	50	86	72.0	255	371	45.5
Canada Mortgage and Housing Corporation	143	150	4.9	595	620	4.2
Other	93	128	37.6	396	475	19.9
Total	286	364	27.3	1,246	1,466	17.7
Operating and capital expenditures						
Defence	795	948	19.2	2,795	2,979	6.6
All other departmental expenditures	1,695	2,184	28.8	6,592	7,180	8.9
Total	2,490	3,132	25.8	9,387	10,159	8.2
Total direct program spending	3,868	4,379	13.2	15,064	16,258	7.9
Total program expenditures	8,381	9,097	8.5	33,231	35,257	6.1
Public debt charges	3,506	3,499	-0.2	13,895	13,703	-1.4
Total budgetary expenditures	11,887	12,596	6.0	47,126	48,960	3.9
Memorandum item:						
Total transfers	5,605	5,601	-0.1	22,598	23,632	4.6

Program spending increased by $2.0 billion, or 6.1 per cent, in the April to July 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 higher elderly benefits more than offset the decline in EI 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 decline in EI benefit payments reflects a lower number of beneficiaries due to the decline in the number of unemployed.
- Major transfers to other levels of government were up 9.3 per cent, reflecting higher cash transfers under the 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 7.9 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.

Public debt charges were down 1.4 per cent, primarily reflecting a decline in the stock of interest-bearing debt.

Financial source of $2.4 billion (excluding foreign exchange transactions) for April to July 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/source 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 $9.0 billion in first four months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the $2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the first instalment of the pay equity settlement. As a result, there was a financial source (excluding foreign exchange transactions) of $2.4 billion in April to July 2000 period, compared to a net source of $0.2 billion in the same period last year.

Net financial source of $4.4 billion for April to July 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.

Table 4

The budgetary balance and financial requirements/source

	July		April to July	
	1999	2000	1999-00	2000-01
	($ millions)			
Budgetary balance (deficit/surplus)	871	3,172	5,590	11,367
Loans, investments and advances				
Crown corporations	27	-112	-110	83
Other	-94	49	356	162
Total	-67	-63	246	245
Specified purpose accounts				
Canada Pension Plan Account	-471	-865	-201	-890
Superannuation accounts	383	371	1,438	966
Other	-17	11	-125	-216
Total	-105	-483	1,112	-140
Other transactions	139	1,390	-6,764	-9,070
Total non-budgetary transactions	-33	844	-5,406	-8,965
Financial requirements/source (excluding foreign exchange transactions)	838	4,016	184	2,402
Foreign exchange transactions	1,305	-729	535	1,957
Net financial balance	2,143	3,287	719	4,359

Table 5

Net financial balance and net borrowings

	July		April to July	
	1999	2000	1999-00	2000-01
	($ millions)			
Net financial balance	2,143	3,287	719	4,359
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	–	-3,075	10,287	6,151
Canada Savings Bonds	154	-151	-849	-553
Treasury bills	3,150	-4,200	-9,200	-16,750
Other	247	225	1,246	925
Total	3,551	-7,201	1,484	-10,227
Payable in foreign currencies				
Marketable bonds	–	–	–	-2,174
Notes and loans	–	–	–	–
Canada bills	-867	-435	-3,523	-520
Canada notes	-226	–	-226	–
Total	1,093	-435	-3,749	-2,694
Net change in borrowings	2,458	-7,636	-2,265	-12,921
Change in cash balance	4,601	-4,349	-1,546	-8,562

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	July 31, 2000	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	20,551	15,451	-5,100
Interest and matured debt	8,353	8,430	77
Allowances	11,844	7,797	-4,047
Total accounts payable, accruals and allowances	40,748	31,678	-9,070
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,312	966
Canada Pension Plan (net of securities)	6,217	5,327	-890
Other pension and other accounts	6,963	6,747	-216
Total pension and other accounts	141,526	141,386	-140
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	300,078	6,151
Treasury bills	99,850	83,100	-16,750
Canada Savings Bonds	26,489	25,936	-553
Non-marketable bonds and bills	3,552	4,477	925
Subtotal	423,818	413,591	-10,227
Payable in foreign currencies	32,588	29,894	-2,694
Total unmatured debt	456,406	443,485	-12,921
Total interest-bearing debt	597,932	584,871	-13,061
Total liabilities	638,680	616,549	-22,131
Assets			
Cash and accounts receivable	18,864	10,302	-8,562
Foreign exchange accounts	41,494	39,537	-1,957
Loans, investments and advances (net of allowances)	13,796	13,551	-245
Total assets	74,154	63,390	-10,764
Accumulated deficit (net public debt)	564,526	553,159	-11,367

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 $2.0 billion in the first four months of 2000-01, compared to a net source of $0.5 billion in the same period last year.

With a budgetary surplus of $11.4 billion, a net requirement of $9.0 billion from non-budgetary transactions and a net source of funds of $2.0 billion from foreign exchange transactions, there was a net financial source of $4.4 billion in the April to July 2000 period, compared to a net source of $0.7 billion in the same period last year.

Net borrowings down $12.9 billion for April to July 2000

With this net financial source of $4.4 billion and a reduction in cash balances of $8.6 billion, the Government retired $12.9 billion of market debt in the first four months of 2000-01. Cash balances at July 31 amounted to $4.4 billion.

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