

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1998

Budgetary surplus of \$64 million in November 1998, down \$399 million from November 1997

A budgetary surplus of \$64 million was recorded in November 1998, down \$399 million from the surplus of \$463 million recorded in November 1997. Budgetary revenues were up \$559 million or 4.7 per cent, program spending increased by \$569 million, or 6.8 per cent, while public debt charges were up \$389 million, or 12.1 per cent.

The year-over-year increase in budgetary revenues reflected gains in personal and corporate income tax revenues, goods and services tax (GST) revenues, and non-tax revenues. The impact of these gains on total budgetary revenues was dampened by lower customs import duties, sales and excise taxes, and employment insurance premium revenues.

With the exception of expenditures related to Crown corporations and defence, all other major components of program spending were up on a year-over-year basis. Employment insurance benefit payments were up strongly, but most of this increase was attributable to an extra cheque cycle being processed in November 1998. The increases in subsidies and other transfers and all other departmental operating and capital expenditures were also largely attributable to timing factors.

The year-over-year increase in public debt charges was largely attributable to downward accrual adjustments to the November 1997 estimate, pertaining to overestimations in previous months.

Year-to-date: budgetary surplus of \$9.7 billion

Over the first eight months (April to November) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$9.7 billion, up \$1.5 billion from the surplus of \$8.2 billion recorded over the first eight months of 1997-98. However, this improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other seven months of 1998-99.

Since revenues are typically strong in December, in part reflecting remittances from quarterly filers, the year-to-date surplus is expected to rise further in December 1998. However, monthly deficits are expected in the final quarter of 1998-99. The recently announced reductions in employment insurance premium rates are effective January 1, 1999. Revenues are typically depressed in January, due to the payment of the GST low-income credit and refunds. Corporate income tax revenues are expected to be significantly lower in the February/March 1999 settlement period, reflecting the decline in corporate profits in 1998 (see below for more details). Exchange fund earnings, which are reported in March, will also be significantly lower than in March 1998, due to the actions during 1998 to support the Canadian dollar. Personal income tax refunds, pertaining to the processing of the 1998 tax returns, will further depress revenues in March 1999. These factors will all serve to bring the underlying surplus for 1998-99 to below that recorded in 1997-98.



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Table 1

Summary statement of transactions

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	11,983	12,542	98,129	101,373
Program spending	-8,312	-8,881	-62,839	-64,216
Operating surplus	3,671	3,661	35,290	37,157
Public debt charges	-3,208	-3,597	-27,112	-27,496
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483
Net change in borrowings	-105	3,339	-11,510	-15,068
Net change in cash balances	3,754	-294	-170	-8,585

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

Over the first eight months of 1998-99, budgetary revenues were up \$3.2 billion (3.3 per cent), program spending was up \$1.4 billion (2.2 per cent), while public debt charges were \$0.4 billion (1.4 per cent) higher, compared to the first eight months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 4.6 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a transfer of \$0.3 billion to employment insurance premium revenues. Both of these factors relate to the 1997 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from

personal income tax revenues, are up \$0.2 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.8 billion, or 7.7 per cent, despite the fact that corporate profits were lower in the first three quarters of 1998 than in the same period in 1997. This discrepancy is primarily due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly instalments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts owing. This results in a substantial amount of corporate income tax collections being received in the months of February and March, ranging from 25 per cent to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to

Table 2

Budgetary revenues

	November		April to November		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,878	6,004	47,186	49,359	4.6
Corporate income tax	1,321	1,496	11,077	11,926	7.7
Other income tax revenue	194	173	1,584	1,556	-1.8
Total income tax	7,393	7,673	59,847	62,841	5.0
Employment insurance premium revenues	1,221	1,194	13,196	12,938	-2.0
Excise taxes and duties					
Goods and services tax	1,984	2,222	13,881	14,355	3.4
Customs import duties	242	172	1,860	1,652	-11.2
Sales and excise taxes	845	719	5,946	5,827	-2.0
Total excise taxes and duties	3,071	3,113	21,687	21,834	0.7
Total tax revenues	11,685	11,980	94,730	97,613	3.0
Non-tax revenues	298	562	3,399	3,760	10.6
Total budgetary revenues	11,983	12,542	98,129	101,373	3.3

collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were down \$0.3 billion, or 2.0 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). With an announced employee rate of \$2.55 for 1999, premium revenues will be lower in 1998-99 than in 1997-98.

- Net GST revenues were up \$0.5 billion, or 3.4 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 6.4 per cent in the first eight months of 1998-99, in line with the growth in consumer demand. However, refunds and rebates were up 10.5 per cent, thereby depressing the growth in net revenues.
- Customs import duties were down \$0.2 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.1 billion, or 2.0 per cent, largely due to the reduction in the Air Transport Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were up \$0.4 billion or 10.6 per cent.

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Table 3

Budgetary expenditures

	November		April to November		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,867	1,899	14,711	15,084	2.5
Employment insurance benefits	837	944	7,023	7,054	0.4
Total	2,704	2,843	21,734	22,138	1.9
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	8,333	8,333	0.0
Fiscal transfers	777	828	6,171	6,355	3.0
Alternative Payments for Standing Programs	-180	-189	-1,423	-1,494	5.0
Total	1,639	1,681	13,081	13,194	0.9
Direct program spending					
Subsidies and other transfers					
Agriculture	54	106	371	394	6.2
Foreign Affairs	111	19	922	784	-15.0
Health	40	91	512	651	27.1
Human Resources Development	98	113	883	1,091	23.6
Indian and Northern Development	265	272	2,642	2,723	3.1
Industry and Regional Development	121	120	865	881	1.8
Veterans Affairs	112	115	915	910	-0.5
Other	150	398	1,571	1,593	1.4
Total	951	1,234	8,681	9,027	4.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	75	80	597	585	-2.0
Canada Mortgage and Housing Corporation	153	143	1,077	1,145	6.3
Other	88	69	722	650	-10.0
Total	316	292	2,396	2,380	-0.7
Operating and capital expenditures					
Defence	982	848	5,913	5,575	-5.7
All other departmental expenditures	1,720	1,983	11,034	11,902	7.9
Total	2,702	2,831	16,947	17,477	3.1
Total direct program spending	3,969	4,357	28,024	28,884	3.1
Total program expenditures	8,312	8,881	62,839	64,216	2.2
Public debt charges	3,208	3,597	27,112	27,496	1.4
Total budgetary expenditures	11,520	12,478	89,951	91,712	2.0
Memorandum item:					
Total transfers	5,294	5,758	43,496	44,359	2.0

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Table 4

The budgetary balance and financial requirements/surplus

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	463	64	8,178	9,661
Loans, investments and advances				
Crown corporations	-92	141	180	891
Other	-72	-26	-123	-463
Total	-164	115	57	428
Specified purpose accounts				
Canada Pension Plan Account	-691	-593	299	349
Superannuation accounts	342	322	1,678	2,533
Other	7	-10	-207	45
Total	-342	-281	1,770	2,927
Other transactions	2,264	2,832	-4,268	-5,708
Total non-budgetary transactions	1,758	2,665	-2,441	-2,353
Financial requirements/surplus (excluding foreign exchange transactions)	2,221	2,729	5,737	7,308
Foreign exchange transactions	1,638	-6,363	5,603	-825
Net financial balance	3,859	-3,634	11,340	6,483

Table 5

Net financial balance and net borrowings

	November		April to November	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,859	-3,634	11,340	6,483
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,500	-1,100	10,575	1,831
Canada Savings Bonds	109	290	-1,958	-2,197
Treasury bills	-3,500	-500	-19,000	-26,100
Other	168	362	160	1,281
Subtotal	277	-948	-10,223	-25,185
Less: Government's holding of unmatured debt	-822	-415	-28	151
Total	-545	-1,363	-10,251	-25,034
Payable in foreign currencies				
Marketable bonds	42	4,838	-236	9,226
Notes and loans	0	0	0	0
Canada bills	342	-136	-684	1,687
Canada notes	56	-	-339	-947
Total	440	4,702	-1,259	9,966
Net change in borrowings	-105	3,339	-11,510	-15,068
Change in cash balance	3,754	-294	-170	-8,585

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Within program spending:

- Major transfers to persons were up \$0.4 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly, reflecting the extra cheque processing cycle in November 1998.
- Major transfers to other levels of government were up \$0.1 billion, as higher fiscal transfers were largely offset by higher recoveries under Alternative Payments for Standing Programs. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below \$12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.9 billion, or 3.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.3 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy and increased aboriginal-related transfers. Payments to Crown corporations were largely unchanged, while operating and capital expenditures were up 3.1 per cent.

Public debt charges were up \$0.4 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$7.3 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 only includes those activities over which the government has legislative control.

In contrast, financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements/surplus differ 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 \$2.4 billion in the April to November 1998 period, virtually unchanged from the net requirement in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.3 billion in the first eight months of 1998-99, up \$1.6 billion from the same period in 1997-98.

Year-to-date: net financial balance of \$6.5 billion/net borrowings down \$15.1 billion

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 fulfils 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, in the first eight months of 1998-99, there was a net requirement of funds of \$0.8 billion from foreign exchange transactions, compared to a net source of \$5.6 billion in the same period last year.

With a budgetary surplus of \$9.7 billion, a net requirement of \$2.4 billion from non-budgetary transactions, and a net requirement of \$0.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$6.5 billion over the April to November 1998 period, compared to a surplus of \$11.3 billion in the same period in 1997.

With this net financial balance, coupled with a reduction in cash balances of \$8.6 billion, the government retired \$15.1 billion of market debt in the first eight months of 1998-99. Cash balances at the end of November 1998 were \$1.8 billion.

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Table 6

Condensed statement of assets and liabilities

	March 31, 1998	November 30, 1998	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,176	-12,188
Interest and matured debt	10,419	12,909	2,490
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	34,002	-9,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,989	2,532
Canada Pension Plan (net of securities)	4,205	4,554	349
Other pension and other accounts	5,872	5,916	44
Total pension and other accounts	127,534	130,459	2,925
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	296,414	1,831
Treasury bills	112,300	86,200	-26,100
Canada Savings Bonds	29,769	27,723	-2,046
Other	3,456	4,738	1,282
Subtotal	440,108	415,075	-25,033
Payable in foreign currencies	27,183	37,149	9,966
Total unmatured debt	467,291	452,224	-15,067
Total interest-bearing debt	594,825	582,683	-12,142
Total liabilities	638,525	616,685	-21,840
Assets			
Cash and accounts receivable	15,813	3,237	-12,576
Foreign exchange accounts	28,968	29,793	825
Loans, investments and advances (net of allowances)	14,036	13,608	-428
Total assets	58,817	46,638	-12,179
Accumulated deficit (net public debt)	579,708	570,047	-9,661

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