The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1998

Budgetary surplus up slightly in December 1998

The budgetary surplus was $2.0 billion in December 1998, up $66 million from that recorded in December 1997. As mentioned in last month's Fiscal Monitor, a surplus was expected in December. Over the course of the fiscal year, budgetary revenues are usually their highest in the final month of each quarter, in large part reflecting remittances from quarterly personal income tax filers.

Budgetary revenues in December 1998 were virtually unchanged from December 1997, as increases in employment insurance premium revenues and goods and services tax (GST) revenues were offset by declines in the other major components. The year-over-year increase in employment insurance premium revenues was attributable to a transfer of funds to personal income tax revenues in December 1997, relating to taxation year 1996, which reduced employment insurance premium revenues in that month. Conversely, this transfer accounts for the decline in personal income tax revenues. Corporate income tax revenues were lower, attributable to final taxes payable for those corporations with taxation years ending in October.

Program spending was 1.0 per cent lower in December 1998 than in December 1997, as lower subsidies and other transfers more than offset increases in the other major components. Public debt charges were up 2.0 per cent, as the impact of a higher average effective interest rate more than offset the decline in interest-bearing debt.

Year-to-date: budgetary surplus of $11.7 billion

Over the first nine months (April to December) of the 1998-99 fiscal year, the budgetary surplus was estimated at $11.7 billion, up $1.5 billion from the surplus of $10.2 billion reported in the first nine 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 eight months of 1998-99.

Monthly deficits are expected through the final quarter of 1998-99. 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 (down $1.0 billion), reflecting the decline in corporate profits in 1998 (see below for more details). Data revisions for 1998-99 and prior years have resulted in large upward adjustments to Equalization transfers, of which $1.7 billion will be paid before the end of the fiscal year. Finally, timing of revenues and spending at year end also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by $3.2 billion.

In addition to these factors, there have been a number of policy decisions made since the February 1998 budget, including those in the 1999 budget, which will reduce the surplus by an additional $5.5 billion. As a result,

Table 1
Summary statement of transactions

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	14,769	14,811	112,892	116,178
Program spending	-9,282	-9,189	-72,115	-73,399
Operating surplus	5,487	5,622	40,777	42,779
Public debt charges	-3,493	-3,562	-30,605	-31,058
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Net change in cash balances	2,065	7,429	1,900	-1,158

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

a balanced budget, or better, is expected for 1998-99. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 1999*.

Over the first nine months of 1998-99, budgetary revenues were up $3.3 billion (2.9 per cent), program spending was up $1.3 billion (1.8 per cent), while public debt charges were $0.5 billion (1.5 per cent) higher, compared to the first nine months of 1997-98.

Within budgetary revenues:

- Personal income tax collections were up $2.0 billion, or 3.7 per cent. This increase was due to continued increases in receipts from monthly deductions from employment income, reflecting the increases in the number of people employed, as well as higher taxes paid on filing, relating to 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 net transfer of $0.7 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 $0.5 billion, or 3.4 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

Table 2
Budgetary revenues

	December		April to December		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	8,331	8,185	55,517	57,544	3.7
Corporate income tax	2,058	1,662	13,136	13,588	3.4
Other income tax revenue	23	165	1,607	1,721	7.1
Total income tax	10,412	10,012	70,260	72,853	3.7
Employment insurance premium revenues	670	1,055	13,866	13,993	0.9
Excise taxes and duties					
Goods and services tax	1,661	1,993	15,542	16,348	5.2
Customs import duties	212	166	2,072	1,818	-12.3
Sales and excise taxes	709	595	6,655	6,420	-3.5
Total excise taxes and duties	2,582	2,754	24,269	24,586	1.3
Total tax revenues	13,664	13,821	108,395	111,432	2.8
Non-tax revenues	1,105	990	4,497	4,746	5.5
Total budgetary revenues	14,769	14,811	112,892	116,178	2.9

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 collections in the settlement period (February and March 1998) rising up nearly 30 per cent over the 1996 settlement period. Since instalment payments for 1997 understated the actual tax liability for the year as a whole, instalments for 1998 were increased to reflect the actual 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. However, with corporate profits down in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998. In fact, corporate tax collections declined in December, as companies with their taxation year ending in October filed their 1998 returns.

- Employment insurance premium revenues were up $0.1 billion, or 0.9 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to 1997 taxation year. Dampening the impact of these factors was 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.

Table 3
Budgetary expenditures

	December		April to December		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,923	16,575	17,008	2.6
Employment insurance benefits	1,024	1,047	8,047	8,101	0.7
Total	2,887	2,970	24,622	25,109	2.0
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	9,375	9,375	0.0
Fiscal transfers	778	828	6,949	7,184	3.4
Alternative Payments for Standing Programs	-180	-187	-1,603	-1,681	4.9
Total	1,640	1,683	14,721	14,878	1.1
Direct program spending					
Subsidies and other transfers					
Agriculture	35	79	407	474	16.5
Foreign Affairs	192	203	1,114	987	-11.4
Health	96	69	608	720	18.4
Human Resources Development	122	288	1,005	1,380	37.3
Indian and Northern Development	299	285	2,941	3,007	2.2
Industry and Regional Development	228	173	1,093	1,055	-3.5
Veterans Affairs	108	114	1,024	1,024	0.0
Other	458	58	2,030	1,651	-18.7
Total	1,538	1,269	10,222	10,298	0.7
Payments to Crown corporations					
Canadian Broadcasting Corporation	75	174	672	759	12.9
Canada Mortgage and Housing Corporation	225	165	1,303	1,310	0.5
Other	108	83	830	733	-11.7
Total	408	422	2,805	2,802	-0.1
Operating and capital expenditures					
Defence	942	979	6,855	6,553	-4.4
All other departmental expenditures	1,867	1,866	12,890	13,759	6.7
Total	2,809	2,845	19,745	20,312	2.9
Total direct program spending	4,755	4,536	32,772	33,412	2.0
Total program expenditures	9,282	9,189	72,115	73,399	1.8
Public debt charges	3,493	3,562	30,605	31,058	1.5
Total budgetary expenditures	12,775	12,751	102,720	104,457	1.7
Memorandum item:					
Total transfers	6,065	5,922	49,565	50,285	1.5

Table 4

The budgetary balance and financial requirements/surplus

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,994	2,060	10,172	11,721
Loans, investments and advances				
Crown corporations	460	204	640	1,095
Other	75	11	-48	-452
Total	535	215	592	643
Specified purpose accounts				
Canada Pension Plan Account	-502	-409	-203	-60
Superannuation accounts	377	427	2,056	2,959
Other	-37	-37	-243	8
Total	-162	-19	1,610	2,907
Other transactions	-1,342	-2,492	-5,609	-8,200
Total non-budgetary transactions	-969	-2,296	-3,407	-4,650
Financial requirements/surplus (excluding foreign exchange transactions)	1,025	-236	6,765	7,071
Foreign exchange transactions	2,388	4,219	7,990	3,394
Net financial balance	3,413	3,983	14,755	10,465

Table 5

Net financial balance and net borrowings

	December		April to December	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	3,413	3,983	14,755	10,465
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	6,313	4,141	16,888	5,972
Canada Savings Bonds	-248	48	-2,205	-2,149
Treasury bills	-7,600	900	-26,600	-25,200
Other	-1		159	1,281
Subtotal	-1,536	5,089	-11,758	-20,096
Less: Government's holding of unmatured debt	-24	-630	-52	-479
Total	-1,560	4,459	-11,810	-20,575
Payable in foreign currencies				
Marketable bonds	109		-126	9,226
Notes and loans	0	0	0	0
Canada bills	117	-885	-566	801
Canada notes	-14	-128	-353	-1,075
Total	212	-1,013	-1,045	8,952
Net change in borrowings	-1,348	3,446	-12,855	-11,623
Change in cash balance	2,065	7,429	1,900	-1,158

- Net GST revenues were up $0.8 billion, or 5.2 per cent, in line with the growth in consumer demand. Customs import duties were down $0.3 billion, or 12.3 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down $0.2 billion, or 3.5 per cent, largely due to the reduction in the Air Transportation 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 $0.2 billion or 5.5 per cent.

Within program spending:

- Major transfers to persons were up $0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.
- Major transfers to other levels of government were up $0.2 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 $0.6 billion, or 2.0 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 $0.1 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 2.9 per cent.
- Public debt charges were up $0.5 billion, or 1.5 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 $7.1 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 includes only 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 $4.6 billion in the April to December 1998 period, up $1.2 billion from the net requirement recorded in the same period in 1997. As a result, there was a financial surplus (excluding foreign exchange transactions) of $7.1 billion in the first nine months of 1998-99, up $0.3 billion from the same period in 1997-98.

Table 6

Condensed statement of assets and liabilities

	March 31 1998	December 31 1998	Change
		(millions of dollars)	
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	12,747	-9,617
Interest and matured debt	10,419	8,672	-1,747
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,336	-11,364
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,416	2,959
Canada Pension Plan (net of securities)	4,205	4,146	-59
Other pension and other accounts	5,872	5,880	8
Total pension and other accounts	127,534	130,442	2,908
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	87,100	-25,200
Canada Savings Bonds	29,769	27,641	-2,128
Other	3,456	4,737	1,281
Subtotal	440,108	419,533	-20,575
Payable in foreign currencies	27,183	36,136	8,953
Total unmatured debt	467,291	455,669	-11,622
Total interest-bearing debt	594,825	586,111	-8,714
Total liabilities	638,525	618,447	-20,078
Assets			
Cash and accounts receivable	15,813	11,493	-4,320
Foreign exchange accounts	28,968	25,574	-3,394
Loans, investments and advances (net of allowances)	14,036	13,393	-643
Total assets	58,817	50,460	-8,357
Accumulated deficit (net public debt)	579,708	567,987	-11,721

Year-to-date: net financial balance of $10.5 billion/net borrowings down $11.6 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 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, in the first nine months of 1998-99, there was a net source of funds of $3.4 billion from foreign exchange transactions, compared to a net source of $8.0 billion in the first nine months of 1997-98.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
	(millions of dollars)						
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986
Less:							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
GST penalties and interest received	19	71	90	129	135	159	127
Gains from wind-up of interest in Crown corporations/disposal of shares	2	110			325		
Gifts to Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.176
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: Public Accounts of Canada

With a budgetary surplus of $11.7 billion, a net requirement of $4.6 billion from non-budgetary transactions, and a net source of funds of $3.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of $10.5 billion over the April to December 1998 period, compared to a surplus of $14.8 billion in April to December 1997.

With this net financial balance, coupled with a reduction in cash balances of $1.2 billion, the government retired $11.6 billion of market debt in the first nine months of 1998-99. Cash balances at the end of December 1998 were $9.2 billion.

Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. Effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates, and low-income credit, along with 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 retire debt. The Account is audited on an annual basis by the Auditor General of Canada.

In his “Observations” on the 1996-97 financial statements and in his appearance before the House of Commons Standing Committee on Finance, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has asked the Committee to review this issue and advise the government.

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