

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 1998

Budgetary surplus of \$1.4 billion recorded in May 1998

A budgetary surplus of \$1.4 billion was recorded in May 1998, compared to a restated deficit of \$37 million in May 1997. Budgetary revenues were up \$1.6 billion (14.5 per cent), while program spending declined \$0.1 billion (1.7 per cent). Public debt charges were up \$0.2 billion (6.5 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax collections (\$1.0 billion), increased goods and services tax (GST) collections (up \$0.4 billion), and higher corporate income tax collections (up \$0.3 billion).

- The increase in personal income tax collections reflected both strong growth in source deductions due to gains in employment and higher taxes paid on filing relating to the 1997 taxation year.
- The increase in GST collections was attributable, in part, to higher refunds in May 1997, which served to depress collections in that month.
- In contrast, employment insurance premium revenues were lower, reflecting the decline in premium rates for 1998.

The decline in program spending was largely attributable to lower direct program spending, reflecting the impact of the 1996 budget measures. The increase in public debt charges was due to higher average effective interest rates reflecting changes in the composition of the government's interest-bearing debt.

Budgetary surplus of \$3.0 billion for April and May 1998

Over the first two months of the 1998-99 fiscal year, the budgetary surplus was estimated at \$3.0 billion, up \$1.6 billion from the restated surplus of \$1.4 billion estimated for the same period last year. This increase was primarily attributable to the continued strength in the economy. Budgetary revenues were up \$1.8 billion (7.6 per cent). Program spending declined \$0.1 billion (0.3 per cent), but this was more than offset by higher public debt charges (\$0.2 billion, or 3.0 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$1.4 billion, or 12.4 per cent, reflecting both higher taxes paid on filing, relating to strong income growth in the 1997 taxation year, and an increase in deductions from employment income, due to increases in the number of people employed.
- Corporate income tax collections were up \$0.4 billion, or 17.3 per cent, attributable to an increase in gross corporate profits, in line with the continued strength in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.2 billion, or 4.3 per cent. This was due to lower premium rates. The employee premium rate for 1998 is \$2.70 (per \$100 of insurable earnings), compared to a rate of \$2.90 for 1997 (with a comparable decline in the employer rate).



The Fiscal Monitor

Table 1

Summary statement of transactions

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	10,789	12,352	23,090	24,853
Program spending	-7,453	-7,324	-14,838	-14,788
Operating surplus	3,336	5,028	8,252	10,065
Public debt charges	-3,373	-3,593	-6,840	-7,046
Deficit/surplus	-37	1,435	1,412	3,019
Non-budgetary transactions	3,058	4,187	-1,385	331
Financial requirements/surplus (excluding foreign exchange transactions)	3,021	5,622	27	3,350
Foreign exchange transactions	-1,698	1,178	1,891	2,465
Total financial requirements/surplus	1,323	6,800	1,918	5,815
Unmatured debt transactions	-3,224	-5,682	-8,317	-11,239
Change in cash balances	-1,091	1,118	-6,399	-5,424

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

This decline in premium rates more than offsets the impact of the increase in the number of employed on overall premium revenues.

- GST collections were up \$0.2 billion, or 7.7 per cent. This increase is broadly in line with the growth in domestic demand.
- Customs import duties were down \$0.1 billion or 15.3 per cent, reflecting the impact of tariff reductions, while other excise taxes and duties were marginally lower.

Within program spending:

- Major transfers to persons were up slightly, on a year-over-year basis, as lower employment insurance benefit payments were offset by

higher elderly benefit payments. The decline in employment insurance benefits was due to the decline in beneficiaries, reflecting lower numbers of unemployed.

- Major transfers to other levels of government were down slightly, solely due to 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. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

The Fiscal Monitor

Table 2

Budgetary revenues

	May		April to May		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,292	6,294	11,127	12,503	12.4
Corporate income tax	1,304	1,644	2,460	2,886	17.3
Other income tax revenue	124	143	420	429	2.1
Total income tax	6,720	8,081	14,007	15,818	12.9
Employment insurance premium revenues	1,857	1,795	3,701	3,543	-4.3
Excise taxes and duties					
Goods and services tax	849	1,244	2,828	3,047	7.7
Customs import duties	225	146	378	320	-15.3
Sales and excise taxes	675	694	1,341	1,315	-1.9
Total excise taxes and duties	1,749	2,084	4,547	4,682	3.0
Total tax revenues	10,326	11,960	22,225	24,043	8.0
Non-tax revenues	463	392	835	810	-3.0
Total budgetary revenues	10,789	12,352	23,090	24,853	7.6

- Excluding major transfers to persons and other levels of government, all other program spending, or direct program spending, was down slightly. This component includes subsidy and other transfer payments, payments to Crown corporation, and the operating and capital costs of government, including defence. The decline in this component was attributable to the impact of the 1996 budget measures.

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt. Although the stock of market debt (unmatured debt) was lower in May 1998 than in the same period last year, the overall stock of interest-bearing debt was little changed, reflecting the increase in pension debt. The latter is credited with the 10-year-plus government bond rate.

Financial surplus of \$5.8 billion for April and May 1998

Non-budgetary transactions provided the government with a net source of funds, amounting to \$0.3 billion, compared to a net requirement of \$1.4 billion in the same period last year. Foreign exchange transactions resulted in a net source of \$2.5 billion, compared to a net source of \$1.9 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$5.8 billion in the April and May 1998 period. In the same period last year, there was a surplus of \$1.9 billion.

With this financial surplus and a reduction in cash balances of \$5.4 billion, the government retired \$11.2 billion of market debt in the first two months of 1998-99.

The Fiscal Monitor

Table 3

Budgetary expenditures

	May		April to May		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,828	1,878	3,617	3,699	2.3
Employment insurance benefits	933	881	2,067	1,995	-3.5
Total	2,761	2,759	5,684	5,694	0.2
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	2,083	2,083	0.0
Fiscal transfers	898	897	1,536	1,539	0.2
Alternative Payments for Standing Programs	-178	-188	-355	-375	5.6
Total	1,762	1,751	3,264	3,247	-0.5
Direct program spending					
Subsidies and other transfers					
Agriculture	12	9	15	14	-6.7
Foreign Affairs	135	65	184	166	-9.8
Health	63	62	132	146	10.6
Human Resources Development	140	170	192	228	18.8
Indian and Northern Development	259	217	975	995	2.1
Industry and Regional Development	84	60	163	132	-19.0
Veterans Affairs	116	113	228	227	-0.4
Other	185	167	385	358	-7.0
Total	994	863	2,274	2,266	-0.4
Payments to Crown corporations					
Canadian Broadcasting Corporation	71	23	183	170	-7.1
Canada Mortgage and Housing Corporation	109	175	249	300	20.5
Other	70	57	207	174	-15.9
Total	250	255	639	644	0.8
Operating and capital expenditures					
Defence	620	559	975	904	-7.3
All other departmental expenditures	1,066	1,138	2,002	2,033	1.5
Total	1,686	1,697	2,977	2,937	-1.3
Total direct program spending	2,930	2,815	5,890	5,847	-0.7
Total program expenditures	7,453	7,324	14,838	14,788	-0.3
Public debt charges	3,373	3,593	6,840	7,046	3.0
Total budgetary expenditures	10,826	10,917	21,678	21,834	0.7
Memorandum item:					
Total transfers	5,517	5,372	11,222	11,207	-0.1

Table 4

The budgetary balance and financial requirements/surplus

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Deficit (-)/surplus (+)	-37	1,435	1,412	3,019
Loans, investments and advances				
Crown corporations	210	26	-43	127
Other	43	112	65	205
Total	253	138	22	332
Specified purpose accounts				
Canada Pension Plan Account	691	850	1,204	1,449
Superannuation accounts	512	485	918	1,050
Other	-16	15	-42	-25
Total	1,187	1,350	2,080	2,474
Other transactions	1,618	2,699	-3,487	-2,475
Total non-budgetary transactions	3,058	4,187	-1,385	331
Financial requirements/surplus (excluding foreign exchange transactions)	3,021	5,622	27	3,350
Foreign exchange transactions	-1,698	1,178	1,891	2,465
Total financial requirements/surplus	1,323	6,800	1,918	5,815

Table 5

Financial requirements/surplus and unmatured debt transactions

	May		April to May	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Total financial requirements/surplus	1,323	6,800	1,918	5,815
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	2,824	3,900	2,824	3,900
Canada Savings Bonds	-298	-365	-587	-994
Treasury bills	-5,900	-8,900	-9,600	-13,100
Other	-2	56	-3	55
Subtotal	-3,376	-5,309	-7,366	-10,139
<i>Less: Government's holdings of unmatured debt</i>	113	89	256	179
Total	-3,263	-5,220	-7,110	-9,960
Payable in foreign currencies				
Marketable bonds	0	0	0	0
Notes and loans	0	0	0	0
Canada bills	39	-462	-902	-1,279
Canada notes			-305	
Total	39	-462	-1,207	-1,279
Total unmatured debt transactions	-3,224	-5,682	-8,317	-11,239
Change in cash balance	-1,901	1,118	-6,399	-5,424

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	May 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	4,837
In foreign currencies	49	30
Total cash balance	10,292	4,867
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	298,441
Treasury bills	112,300	99,200
Canada Savings Bonds	30,593	29,599
Other	3,456	3,511
Subtotal	440,890	430,751
<i>Less: Government's holdings of unmatured debt</i>	846	667
Total	440,044	430,084
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,141
Canada notes	1,624	1,624
Total	26,913	25,634
Total unmatured debt	466,957	455,718

