

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1998

Budgetary surplus of \$1.6 billion recorded in July 1998

A budgetary surplus of \$1.6 billion was recorded in July 1998, down slightly from the surplus of \$1.9 billion reported for July 1997. The decline in the monthly surplus, on a year-over-year basis, was attributable to an increase in program spending (up 3.3 per cent) and higher corporate and goods and services tax (GST) refunds.

Budgetary revenues were virtually unchanged, as the higher refunds and a decline in employment insurance premium revenues offset a strong advance in personal income tax collections.

- Personal income tax collections were up 13.4 per cent in July 1998 over July 1997, reversing the year-over-year decline reported in June 1998. Part of the increase in July 1998 was attributable to the timing of receipts between June and July.
- Both corporate income tax and GST collections were down (14.4 per cent and 14.6 per cent respectively) reflecting higher refunds being paid in July 1998 than in the same period last year.
- Employment insurance premium revenues were down 4.6 per cent, reflecting the decline in premium rates for 1998.

The increase in program spending was primarily attributable to higher elderly benefit and employment insurance benefit payments.

- Elderly benefit payments were up 6 per cent, reflecting an increase in the number of beneficiaries and higher average benefits, which are indexed to inflation.

- Employment insurance benefit payments were up 6.5 per cent, as higher payments for employment and support measures offset declines in regular benefit payments. The decline in the latter was attributable to fewer people being unemployed.
- Transfers to other levels of government and direct program spending were marginally higher.

Public debt charges were up marginally, due to an increase in the average effective interest rate on the government's interest-bearing debt, reflecting both the impacts of higher short-term rates and changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus up \$1.4 billion

Over the first four months (April to July) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$7.4 billion, up \$1.4 billion from the surplus of \$6.0 billion estimated for the same period last year. Budgetary revenues were up \$1.8 billion (3.7 per cent). Program spending was up \$0.2 billion (0.5 per cent), while public debt charges were up \$0.3 billion (2.4 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$2.1 billion, or 8.8 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed.
- Corporate income tax collections were up \$0.4 billion, or 7.0 per cent, reflecting lower refunds and higher gross collections, due to continued strength in corporate profits in certain sectors of the economy.



The Fiscal Monitor

Table 1

Summary statement of transactions¹

| | July | | April to July | |
|--|-----------------------|--------|---------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Budgetary transactions | | | | |
| Revenues | 13,040 | 13,052 | 49,992 | 51,831 |
| Program spending | -7,707 | -7,958 | -30,353 | -30,507 |
| Operating balance | 5,333 | 5,094 | 19,639 | 21,324 |
| Public debt charges | -3,423 | -3,448 | -13,629 | -13,958 |
| Deficit/surplus | 1,910 | 1,646 | 6,010 | 7,366 |
| Non-budgetary transactions | -238 | -1,543 | -4,818 | -5,140 |
| Financial balance (excluding foreign exchange transactions) | 1,672 | 103 | 1,192 | 2,226 |
| Foreign exchange transactions | 2,922 | -2,420 | 3,970 | 1,208 |
| Net financial balance | 4,594 | -2,317 | 5,162 | 3,434 |
| Net increase (+)/decrease (-) in borrowings | -4,919 | 880 | -10,875 | -8,892 |
| Net change in cash balances | -325 | -1,437 | -5,713 | -5,458 |

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

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Employment insurance premium revenues were down \$0.3 billion, or 4.4 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).
- Net GST collections were virtually unchanged from the same period last year, as higher refunds and rebates offset a strong increase in gross collections.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were up marginally, as the reduction in the air transportation tax, effective January 1, 1998, largely offset increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.4 billion or 18.3 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.1 billion, as higher elderly benefit payments offset a decline in employment insurance benefit payments. The decline in employment insurance benefit payments was due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.
- Major transfers to other levels of government were up slightly, due to higher equalization transfers. 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 CSHT are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was virtually unchanged, on a year-over-year basis.

The Fiscal Monitor

Table 2

Budgetary revenues

| | July | | April to July | | Per cent change |
|--|--------|--------|---------------|---------|-----------------|
| | 1997 | 1998 | 1997-98 | 1998-99 | |
| (millions of dollars) | | | | | (%) |
| Income taxes | | | | | |
| Personal income tax | 5,865 | 6,649 | 23,627 | 25,715 | 8.8 |
| Corporate income tax | 1,850 | 1,584 | 5,887 | 6,301 | 7.0 |
| Other income tax revenue | 300 | 220 | 875 | 833 | -4.8 |
| Total income tax | 8,015 | 8,453 | 30,389 | 32,849 | 8.1 |
| Employment insurance premium revenues | 1,815 | 1,732 | 7,378 | 7,051 | -4.4 |
| Excise taxes and duties | | | | | |
| Goods and services tax | 1,809 | 1,545 | 6,624 | 6,642 | 0.3 |
| Customs import duties | 222 | 251 | 710 | 756 | 6.5 |
| Sales and excise taxes | 662 | 724 | 2,819 | 2,843 | 0.9 |
| Total excise taxes and duties | 2,693 | 2,520 | 10,153 | 10,241 | 0.9 |
| Total tax revenues | 12,523 | 12,705 | 47,920 | 50,141 | 4.6 |
| Non-tax revenues | 517 | 347 | 2,072 | 1,690 | -18.4 |
| Total budgetary revenues | 13,040 | 13,052 | 49,992 | 51,831 | 3.7 |

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

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 and increases in short-term interest rates.

Financial surplus of \$3.4 billion

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, the financial balance – requirements/surplus – measures the difference between cash coming in to the government and cash going out. The financial balance 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. Finally, the financial balance also includes net foreign exchange transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April to July 1998 period, compared to a net requirement of \$4.8 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$2.2 billion in the first four months of 1998-99, up from \$1.2 billion in the same period last year.

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

The Fiscal Monitor

Table 3

Budgetary expenditures

| | July | | April to July | | Per cent change |
|--|-----------------------|--------|---------------|---------|-----------------|
| | 1997 | 1998 | 1997-98 | 1998-99 | |
| | (millions of dollars) | | | | (%) |
| Transfer payments to: | | | | | |
| Persons | | | | | |
| Elderly benefits | 1,820 | 1,929 | 7,290 | 7,497 | 2.8 |
| Employment insurance benefits | 820 | 873 | 3,734 | 3,671 | -1.7 |
| Total | 2,640 | 2,802 | 11,024 | 11,168 | 1.3 |
| Other levels of government | | | | | |
| Canada Health and Social Transfer | 1,042 | 1,042 | 4,167 | 4,167 | 0.0 |
| Fiscal transfers | 768 | 817 | 3,079 | 3,132 | 1.7 |
| Alternative Payments for Standing Programs | -178 | -187 | -710 | -747 | 5.2 |
| Total | 1,632 | 1,672 | 6,536 | 6,552 | 0.2 |
| Direct program spending | | | | | |
| Subsidies and other transfers | | | | | |
| Agriculture | 37 | 74 | 112 | 130 | 16.1 |
| Foreign Affairs | 110 | 107 | 458 | 370 | -19.2 |
| Health | 64 | 84 | 262 | 324 | 23.7 |
| Human Resources Development | 7 | 73 | 409 | 509 | 24.4 |
| Indian and Northern Development | 281 | 271 | 1,569 | 1,578 | 0.6 |
| Industry and Regional Development | 93 | 105 | 360 | 343 | -4.7 |
| Veterans Affairs | 117 | 114 | 459 | 453 | -1.3 |
| Other | 183 | 185 | 802 | 686 | -14.5 |
| Total | 892 | 1,013 | 4,431 | 4,393 | -0.9 |
| Payments to Crown corporations | | | | | |
| Canadian Broadcasting Corporation | 65 | 60 | 314 | 290 | -7.6 |
| Canada Mortgage and Housing Corporation | 156 | 140 | 520 | 597 | 14.8 |
| Other | 68 | 121 | 360 | 365 | 1.4 |
| Total | 289 | 321 | 1,194 | 1,252 | 4.9 |
| Operating and capital expenditures | | | | | |
| Defence | 755 | 715 | 2,413 | 2,298 | -4.8 |
| All other departmental expenditures | 1,499 | 1,435 | 4,755 | 4,844 | 1.9 |
| Total | 2,254 | 2,150 | 7,168 | 7,142 | -0.4 |
| Total direct program spending | 3,435 | 3,484 | 12,793 | 12,787 | 0.0 |
| Total program expenditures | 7,707 | 7,958 | 30,353 | 30,507 | 0.5 |
| Public debt charges | 3,423 | 3,448 | 13,629 | 13,958 | 2.4 |
| Total budgetary expenditures | 11,130 | 11,406 | 43,982 | 44,465 | 1.1 |
| Memorandum item: | | | | | |
| Total transfers | 5,164 | 5,487 | 21,991 | 22,113 | 0.6 |

The Fiscal Monitor

Table 4

The budgetary balance and financial balance

| | July | | April to July | |
|--|-----------------------|--------|---------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Budgetary balance: deficit (-)/surplus (+) | 1,910 | 1,646 | 6,010 | 7,366 |
| Loans, investments and advances | | | | |
| Crown corporations | 157 | 392 | 83 | 547 |
| Other | 62 | 38 | 69 | 53 |
| Total | 219 | 430 | 152 | 600 |
| Specified purpose accounts | | | | |
| Canada Pension Plan Account | -479 | -514 | 690 | 484 |
| Superannuation accounts | 339 | -414 | 1,131 | 1,228 |
| Other | 15 | -13 | -195 | -57 |
| Total | -125 | -941 | 1,626 | 1,655 |
| Other transactions | -332 | -1,032 | -6,596 | -7,395 |
| Total non-budgetary transactions | -238 | -1,543 | -4,818 | -5,140 |
| Financial balance (excluding foreign exchange transactions) | 1,672 | 103 | 1,192 | 2,226 |
| Foreign exchange transactions | 2,922 | -2,420 | 3,970 | 1,208 |
| Net financial balance | 4,594 | -2,317 | 5,162 | 3,434 |

Table 5

Net financial balance and net borrowings

| | July | | April to July | |
|--|-----------------------|--------|---------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Net financial balance | 4,594 | -2,317 | 5,162 | 3,434 |
| Net increase (+)/decrease (-) in borrowings | | | | |
| Payable in Canadian dollars | | | | |
| Marketable bonds | -4,200 | 0 | 5,238 | 10,223 |
| Canada Savings Bonds | -280 | -283 | -1,207 | -1,821 |
| Treasury bills | 1,700 | -3,100 | -13,300 | -20,700 |
| Other | 386 | 515 | 833 | 1,571 |
| Subtotal | -2,394 | -2,868 | -8,436 | -10,727 |
| Less: Government's holdings of unmaturing debt | 167 | 94 | 530 | 365 |
| Total | -2,227 | -2,774 | -7,906 | -10,362 |
| Payable in foreign currencies | | | | |
| Marketable bonds | -776 | 3,494 | -776 | 3,494 |
| Notes and loans | 0 | 0 | 0 | 0 |
| Canada bills | -1,590 | 252 | -1,867 | -1,151 |
| Canada notes | -326 | -92 | -326 | -873 |
| Total | -2,692 | 3,654 | -2,969 | 1,470 |
| Net change in borrowings | -4,919 | 880 | -10,875 | -8,892 |
| Change in cash balances | -325 | -1,437 | -5,713 | -5,458 |

The Fiscal Monitor

Table 6

Cash, unmatured debt and debt balances

| | March 31, 1998 | July 31, 1998 |
|--|-----------------------|----------------|
| | (millions of dollars) | |
| Cash balances at end of period | | |
| In Canadian dollars | 10,243 | 4,825 |
| In foreign currencies | 49 | 9 |
| Total cash balances | 10,292 | 4,834 |
| Unmatured debt balance | | |
| Payable in Canadian dollars | | |
| Marketable bonds | 294,541 | 304,764 |
| Treasury bills | 112,300 | 91,600 |
| Canada Savings Bonds | 30,593 | 28,816 |
| Other | 3,456 | 5,027 |
| Subtotal | 440,890 | 430,207 |
| <i>Less: Government's holdings of unmatured debt</i> | 846 | 486 |
| Total | 440,044 | 429,721 |
| Payable in foreign currencies | | |
| Marketable bonds | 15,869 | 19,363 |
| Notes and loans | 0 | 0 |
| Canada bills | 9,420 | 8,205 |
| Canada notes | 1,624 | 751 |
| Total | 26,913 | 28,319 |
| Total unmatured debt | 466,957 | 458,040 |

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 four months of 1998-99, there was a net source of funds of \$1.2 billion from foreign exchange transactions, down from \$3.9 billion in the same period last year.

With a budgetary surplus of \$7.4 billion, a net requirement of \$5.1 billion from non-budgetary transactions, and a net source of funds of \$1.2 billion from foreign exchange transactions, the net financial surplus, over the April to July 1998 period, amounted to \$3.4 billion, compared to \$5.2 billion in the same period last year.

With this financial surplus, coupled with a reduction in the cash balances of \$5.4 billion, the government retired \$8.8 billion of market debt in the first four months of 1998-99.

