

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1998

Budgetary surplus of \$0.6 billion recorded in August 1998

A budgetary surplus of \$0.6 billion was recorded in August 1998, compared to a budgetary deficit of \$0.2 billion in August 1997. This improvement in the budgetary balance, on a year-over-year basis, was attributable to an increase in budgetary revenues (up 8.8 per cent) and a decline in public debt charges (down 8.4 per cent). Program spending increased by 5.9 per cent.

The increase in budgetary revenues in August 1998, on a year-over-year basis, was primarily attributable to higher goods and services tax (GST) and corporate income tax collections.

- GST collections were up 34 per cent, reversing the decline recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In August 1998, refunds were down sharply.
- Corporate income tax collections were up 19.1 per cent, reflecting an increase in gross remittances and a decline in refunds.

The decline in public debt charges was due to adjustments for overstatements in previous months.

The increase in program spending was primarily attributable to higher transfers to persons and direct program spending.

- The increase in transfers to persons (up 3.9 per cent) was largely attributable to the timing of employment insurance benefit cheques.
- The increase in direct program spending (up 10.2 per cent) primarily reflected the timing of subsidy and other transfer payments and non-salary departmental expenditures.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first five months (April to August) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$8.0 billion, up \$2.1 billion from the same period last year. Budgetary revenues were up \$2.8 billion (4.6 per cent), program spending was up \$0.6 billion (1.6 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 7.8 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 \$0.6 billion, or 9.0 per cent, reflecting lower refunds and higher gross collections due to continued strength in corporate profits in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.4 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).
- GST collections were up \$0.5 billion, or 6.1 per cent, in line with the growth in consumer demand.
- 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 2.6 per cent as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.



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Table 1

Summary statement of transactions¹

| | August | | April to August | |
|--|-----------------------|--------|-----------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Budgetary transactions | | | | |
| Revenues | 10,891 | 11,845 | 60,883 | 63,676 |
| Program spending | -7,650 | -8,099 | -38,003 | -38,606 |
| Operating balance | 3,241 | 3,746 | 22,880 | 25,070 |
| Public debt charges | -3,410 | -3,124 | -17,039 | -17,082 |
| Deficit/surplus | -169 | 622 | 5,841 | 7,988 |
| Non-budgetary transactions | 467 | 1,730 | -4,353 | -3,410 |
| Financial balance (excluding foreign exchange transactions) | 298 | 2,352 | 1,488 | 4,578 |
| Foreign exchange transactions | -97 | 5,681 | 3,873 | 6,889 |
| Net financial balance | 201 | 8,033 | 5,361 | 11,467 |
| Net increase (+)/decrease (-) in borrowings | -153 | 1,577 | -11,028 | -7,314 |
| Net change in cash balances | 48 | 9,610 | -5,667 | 4,153 |

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.

- Non-tax revenues, consisting of a return on investments and other non-tax revenues such as fees and proceeds from sales, among others, were down \$0.3 billion or 13.3 per cent. This component of revenues is quite volatile, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.2 billion, primarily due to higher elderly benefit payments. Employment benefit payments were virtually unchanged as the impact of the decline in the number of beneficiaries, reflecting the decline in the number of unemployed, was offset by the timing of payments in the month of August.
- Major transfers to other levels of government were virtually unchanged. 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 tax point transfers, total entitlements under the CSHT are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.3 billion, or 2.1 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

Public debt charges were virtually unchanged as declines in the overall stock of interest-bearing debt were offset by a slight increase in the average effective interest rate due to changes in the composition of interest-bearing debt and increases in short-term interest rates.

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Table 2

Budgetary revenues

| | August | | April to August | | Per cent change |
|--|-----------------------|--------|-----------------|---------|-----------------|
| | 1997 | 1998 | 1997-98 | 1998-99 | |
| | (millions of dollars) | | | | (%) |
| Income taxes | | | | | |
| Personal income tax | 5,199 | 5,360 | 28,826 | 31,074 | 7.8 |
| Corporate income tax | 1,160 | 1,381 | 7,047 | 7,682 | 9.0 |
| Other income tax revenue | 150 | 222 | 1,025 | 1,055 | 2.9 |
| Total income tax | 6,509 | 6,963 | 36,898 | 39,811 | 7.9 |
| Employment insurance premium revenues | 1,677 | 1,607 | 9,055 | 8,658 | -4.4 |
| Excise taxes and duties | | | | | |
| Goods and services tax | 1,396 | 1,870 | 8,020 | 8,512 | 6.1 |
| Customs import duties | 319 | 277 | 1,029 | 1,033 | 0.4 |
| Sales and excise taxes | 708 | 780 | 3,528 | 3,621 | 2.6 |
| Total excise taxes and duties | 2,423 | 2,927 | 12,577 | 13,166 | 4.7 |
| Total tax revenues | 10,609 | 11,497 | 58,530 | 61,635 | 5.3 |
| Non-tax revenues | 282 | 348 | 2,353 | 2,041 | -13.3 |
| Total budgetary revenues | 10,891 | 11,845 | 60,883 | 63,676 | 4.6 |

Year-to-date: financial surplus of \$4.6 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, 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 \$3.4 billion in the April to August 1998 period, compared to a net requirement of \$4.4 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.6 billion in the first five months of 1998-99, up from \$1.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$7.3 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

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Table 3

Budgetary expenditures

| | August | | April to August | | Per cent change |
|--|--------|--------|-----------------|---------|-----------------|
| | 1997 | 1998 | 1997-98 | 1998-99 | |
| (millions of dollars) | | | | | (%) |
| Transfer payments to: | | | | | |
| Persons | | | | | |
| Elderly benefits | 1,858 | 1,888 | 9,148 | 9,385 | 2.6 |
| Employment insurance benefits | 836 | 911 | 4,569 | 4,582 | 0.3 |
| Total | 2,694 | 2,799 | 13,717 | 13,967 | 1.8 |
| Other levels of government | | | | | |
| Canada Health and Social Transfer | 1,041 | 1,042 | 5,208 | 5,208 | 0.0 |
| Fiscal transfers | 769 | 782 | 3,848 | 3,913 | 1.7 |
| Alternative Payments for Standing Programs | -178 | -187 | -888 | -934 | 5.2 |
| Total | 1,632 | 1,637 | 8,168 | 8,187 | 0.2 |
| Direct program spending | | | | | |
| Subsidies and other transfers | | | | | |
| Agriculture | 34 | 93 | 146 | 223 | 52.7 |
| Foreign Affairs | 127 | 145 | 585 | 515 | -12.0 |
| Health | 73 | 90 | 335 | 414 | 23.6 |
| Human Resources Development | 86 | 174 | 495 | 683 | 38.0 |
| Indian and Northern Development | 248 | 305 | 1,817 | 1,883 | 3.6 |
| Industry and Regional Development | 134 | 153 | 494 | 496 | 0.4 |
| Veterans Affairs | 112 | 113 | 570 | 566 | -0.7 |
| Other | 173 | 132 | 975 | 818 | -16.1 |
| Total | 987 | 1,205 | 5,417 | 5,598 | 3.3 |
| Payments to Crown corporations | | | | | |
| Canadian Broadcasting Corporation | 65 | 44 | 379 | 334 | -11.9 |
| Canada Mortgage and Housing Corporation | 119 | 150 | 639 | 747 | 16.9 |
| Other | 108 | 43 | 469 | 408 | -13.0 |
| Total | 292 | 237 | 1,487 | 1,489 | 0.1 |
| Operating and capital expenditures | | | | | |
| Defence | 750 | 776 | 3,162 | 3,074 | -2.8 |
| All other departmental expenditures | 1,295 | 1,445 | 6,052 | 6,291 | 3.9 |
| Total | 2,045 | 2,221 | 9,214 | 9,365 | 1.6 |
| Total direct program spending | 3,324 | 3,663 | 16,118 | 16,452 | 2.1 |
| Total program expenditures | 7,650 | 8,099 | 38,003 | 38,606 | 1.6 |
| Public debt charges | 3,410 | 3,124 | 17,039 | 17,082 | 0.3 |
| Total budgetary expenditures | 11,060 | 11,223 | 55,042 | 55,688 | 1.2 |
| Memorandum item: | | | | | |
| Total transfers | 5,313 | 5,641 | 27,302 | 27,752 | 1.6 |

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Table 4

The budgetary balance and financial requirements/surplus

| | August | | April to August | |
|---|-----------------------|-------|-----------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Budgetary balance: deficit (-)/surplus (+) | -169 | 622 | 5,841 | 7,988 |
| Loans, investments and advances | | | | |
| Crown corporations | 57 | 62 | 140 | 609 |
| Other | 61 | 106 | 130 | 159 |
| Total | 118 | 168 | 270 | 768 |
| Specified purpose accounts | | | | |
| Canada Pension Plan Account | -289 | -122 | 400 | 361 |
| Superannuation accounts | -446 | 300 | 685 | 1,528 |
| Other | -76 | 52 | -272 | -5 |
| Total | -811 | 230 | 813 | 1,884 |
| Other transactions | 1,160 | 1,332 | -5,436 | -6,062 |
| Total non-budgetary transactions | 467 | 1,730 | -4,353 | -3,410 |
| Financial requirements/surplus (excluding foreign exchange transactions) | 298 | 2,352 | 1,488 | 4,578 |
| Foreign exchange transactions | -97 | 5,681 | 3,873 | 6,889 |
| Net financial balance | 201 | 8,033 | 5,361 | 11,467 |

Table 5

Net financial balance and net borrowings

| | August | | April to August | |
|--|-----------------------|--------|-----------------|---------|
| | 1997 | 1998 | 1997-98 | 1998-99 |
| | (millions of dollars) | | | |
| Net financial balance | 201 | 8,033 | 5,361 | 11,467 |
| Net increase (+)/decrease (-) in borrowings | | | | |
| Payable in Canadian dollars | | | | |
| Marketable bonds | 3,600 | 2,300 | 8,838 | 12,523 |
| Canada Savings Bonds | -237 | -196 | -1,444 | -2,017 |
| Treasury bills | -4,600 | -2,100 | -17,900 | -22,800 |
| Other | -1 | -24 | 832 | 1,547 |
| Subtotal | -1,238 | -20 | -9,674 | -10,747 |
| Less: Government's holdings of unmatured debt | 107 | 89 | 638 | 455 |
| Total | -1,131 | 69 | -9,036 | -10,292 |
| Payable in foreign currencies | | | | |
| Marketable bonds | 61 | 75 | -716 | 3,569 |
| Notes and loans | 0 | 0 | 0 | 0 |
| Canada bills | 917 | 1,433 | -950 | 282 |
| Canada notes | | | -326 | -873 |
| Total | 978 | 1,508 | -1,992 | 2,978 |
| Net change in borrowings | -153 | 1,577 | -11,028 | -7,314 |
| Change in cash balances | 48 | 9,610 | -5,667 | 4,153 |

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Table 6

Cash, unmatured debt and debt balances

| | March 31, 1998 | August 31, 1998 |
|--|-----------------------|-----------------|
| | (millions of dollars) | |
| Cash balances at end of period | | |
| In Canadian dollars | 3,541 | 14,374 |
| In foreign currencies | 156 | 70 |
| Total cash balances | 3,697 | 14,444 |
| Unmatured debt balance | | |
| Payable in Canadian dollars | | |
| Marketable bonds | 294,541 | 89,500 |
| Treasury bills | 112,300 | 28,618 |
| Canada Savings Bonds | 30,593 | 28,816 |
| Other | 3,456 | 5,003 |
| Subtotal | 440,890 | 430,185 |
| <i>Less: Government's holdings of unmatured debt</i> | 846 | 398 |
| Total | 440,044 | 429,787 |
| Payable in foreign currencies | | |
| Marketable bonds | 15,869 | 19,438 |
| Notes and loans | 0 | 0 |
| Canada bills | 9,420 | 9,638 |
| Canada notes | 1,624 | 751 |
| Total | 26,913 | 29,827 |
| Total unmatured debt | 466,957 | 459,614 |

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 five months of 1998-99, there was a net source of funds of \$6.9 billion from foreign exchange transactions, up from a source of \$3.9 billion in the same period last year.

With a budgetary surplus of \$8.0 billion, a net requirement of \$3.4 billion from non-budgetary transactions, and a net source of funds of \$6.9 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion over the April to August 1998 period, compared to \$5.4 billion in the same period last year.

With this net financial balance, the government retired \$7.3 billion of market debt in the first five months of 1998-99 and increased its cash balances by \$4.2 billion.

