

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for February 1999

### **Budgetary surplus of \$0.3 billion in February 1999**

There was a budgetary surplus of \$0.3 billion in February 1999, down nearly \$2 billion from the surplus of \$2.3 billion reported in February 1998. This year-over-year decline in the surplus was attributable to lower corporate income tax revenues and higher liabilities related to transfers to provinces under the Equalization program.

On a year-over-year basis, budgetary revenues declined \$0.7 billion, primarily reflecting lower corporate income tax revenues. Corporations are required to make final settlement payments within 60 days of the end of their taxation year. Most large corporations' taxation year ends in December, which means that final settlements with respect to the taxation year just ended are received by Revenue Canada in late February and early March. With the decline in corporate profits in 1998, final settlement payments are correspondingly lower. Although personal income tax revenues were also lower, part of this decline was attributable to a transfer of funds to employment insurance premium revenues, relating to underpayments with respect to 1998. Gross personal income tax revenues include withholdings for employment insurance premiums, among others. Allocation to the various revenue components is based on estimates, with adjustments, as required, when new information becomes available.

This transfer more than explains the increase in employment insurance premium revenues. Goods and services tax (GST) revenues were up strongly, but this was largely attributable to the impact of slower processing of refunds in February 1999 due to labour disruptions.

Program spending was up \$1.3 billion from February 1998, attributable to higher liabilities relating to Equalization entitlements to the provinces, both for 1998-99 and prior years. As noted in the 1999 budget, the higher entitlements resulted from data revisions based on recently received tax data. Direct program spending was unchanged.

Public debt charges were marginally lower, reflecting a decline in the stock of interest-bearing debt, as the average effective interest rate on that debt was unchanged.

### **Year-to-date: budgetary surplus of \$10.8 billion**

Over eleven months (April 1998 to February 1999), the budgetary surplus was estimated at \$10.8 billion, down \$0.8 billion from the surplus of \$11.5 billion reported in the -same period of 1997-98. The year-over-year decline in the surplus was largely due to higher liabilities related to Equalization entitlements to the provinces and lower corporate income tax revenues.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	15,234	14,540	139,875	142,556
Program spending	-9,559	-10,842	-90,815	-93,839
Operating surplus	5,675	3,698	49,060	48,717
Public debt charges	-3,386	-3,356	-37,512	-37,951
Budgetary balance (deficit/surplus)	2,289	342	11,548	10,766
<b>Non-budgetary transactions</b>	664	956	-227	-1,253
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,953	1,298	11,321	9,513
<b>Foreign exchange transactions</b>	-4,941	1,814	1,031	1,368
<b>Net financial balance</b>	-1,988	3,112	12,352	10,881
<b>Net change in borrowings</b>	2,455	2,154	-12,057	-14,222
<b>Net change in cash balances</b>	467	5,266	295	-3,341

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

As noted in the 1999 budget, economic and policy developments over the balance of the year are expected to reduce the cumulative surplus to date. The 1999 budget announced initiatives totalling \$4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results. Finally, based on the traditional timing of receipts and payments, the cumulative surplus is expected to be reduced by a further \$2.5 billion over the balance of the current fiscal year.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of \$3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.

Over the April 1998 to February 1999 period, budgetary revenues were up \$2.7 billion (1.9 per cent), program spending was up \$3 billion (3.3 per cent), while public debt charges were \$0.4 billion (1.2 per cent) higher, compared to the same period of 1997-98.

Within budgetary revenues:

- Personal income tax revenues were up \$1.8 billion, or 2.6 per cent. This 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. However, the impact of these factors on the overall growth in personal income tax revenues has been dampened by higher refunds (up \$1.2 billion)

Table 2

## Budgetary revenues

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
(millions of dollars)					(%)
<b>Income taxes</b>					
Personal income tax	7,287	6,514	68,355	70,124	2.6
Corporate income tax	3,283	2,583	18,178	17,764	-2.3
Other income tax revenue	229	150	2,245	2,440	8.7
Total income tax	10,799	9,247	88,778	90,328	1.7
<b>Employment insurance premium revenues</b>	1,678	2,131	16,976	17,580	3.6
<b>Excise taxes and duties</b>					
Goods and services tax	1,807	2,152	18,551	19,522	5.2
Customs import duties	111	222	2,360	2,220	-5.9
Sales and excise taxes	611	608	7,965	7,775	-2.4
Total excise taxes and duties	2,529	2,982	28,876	29,517	2.2
<b>Total tax revenues</b>	15,006	14,360	134,630	137,425	2.1
<b>Non-tax revenues</b>	228	180	5,245	5,131	-2.2
<b>Total budgetary revenues</b>	15,234	14,540	139,875	142,556	1.9

and a net transfer of \$1 billion to employment insurance premium revenues, relating to prior-year adjustments and underpayments with respect to the 1998 taxation year. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.4 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were down \$0.4 billion, or 2.3 per cent. Throughout most of 1998-99, revenues were up strongly, reflecting the impact of remittance procedures and not necessarily underlying developments in corporate profits, as 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 proportion of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. With the decline in corporate profits 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 up \$0.6 billion, or 3.6 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

# The Fiscal Monitor

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overpayments with respect to the 1996 taxation year, whereas in both October 1998 and February 1999, there were transfers from personal income tax revenues, due to underpayments with respect to previous taxation years. 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). For 1999, the employee rate has been reduced to \$2.55.

- Net GST revenues were up \$1.0 billion, or 5.2 per cent, broadly in line with the growth in the applicable tax base. Customs import duties were down \$0.1 billion, or 5.9 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 2.4 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, were down \$0.1 billion, or 2.2 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 virtually unchanged.
- Major transfers to other levels of government were up \$1.4 billion, reflecting increased Equalization entitlements. As noted in the 1999 budget, data revisions, primarily

resulting from much stronger economic growth in Ontario than in the Equalization-receiving provinces, resulted in large upward revisions to Equalization entitlements. These revisions relate to both 1998-99 and to prior years. Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement from falling below \$12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of \$3.5 billion, which will be accounted for in 1998-99, following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$1.0 billion, or 2.5 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 down \$0.1 billion, primarily reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$1.0 billion, largely attributable to the impact of retroactive wage settlements.

Public debt charges were up \$0.4 billion, or 1.2 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflects not only a slight increase in interest rates but also changes in the composition of interest-bearing debt to longer-term maturities.

Table 3

## Budgetary expenditures

	February		April to February		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,880	1,924	20,317	20,829	2.5
Employment insurance benefits	1,193	1,185	10,418	10,448	0.3
Total	3,073	3,109	30,735	31,277	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	11,458	11,458	0.0
Fiscal transfers	1,143	2,395	8,902	10,440	17.3
Alternative Payments for Standing Programs	-180	-187	-1,964	-2,054	4.6
Total	2,005	3,250	18,396	19,845	7.9
<b>Direct program spending</b>					
Subsidies and other transfers					
Agriculture	111	47	654	567	-13.3
Foreign Affairs	175	138	1,495	1,405	-6.0
Health	92	55	752	863	14.8
Human Resources Development	221	144	1,350	1,829	35.5
Indian and Northern Development	265	182	3,439	3,349	-2.6
Industry and Regional Development	202	224	1,382	1,392	0.7
Veterans Affairs	115	115	1,254	1,255	0.1
Other	238	218	2,545	2,087	-18.0
Total	1,419	1,123	12,871	12,747	-1.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	56	45	802	869	8.4
Canada Mortgage and Housing Corporation	125	135	1,528	1,625	6.3
Other	91	102	994	943	-5.1
Total	272	282	3,324	3,437	3.4
Operating and capital expenditures					
Defence	949	953	8,759	8,436	-3.7
All other departmental expenditures	1,841	2,124	16,730	18,097	8.2
Total	2,790	3,077	25,489	26,533	4.1
Total direct program spending	4,481	4,483	41,684	42,717	2.5
<b>Total program expenditures</b>	9,559	10,842	90,815	93,839	3.3
<b>Public debt charges</b>	3,386	3,356	37,512	37,951	1.2
<b>Total budgetary expenditures</b>	12,945	14,198	128,327	131,790	2.7
Memorandum item:					
Total transfers	6,497	7,482	62,002	63,869	3.0

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	2,289	342	11,548	10,766
<b>Loans, investments and advances</b>				
Crown corporations	216	66	1,083	1,311
Other	-20	125	53	-257
Total	196	191	1,136	1,054
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	42	555	-344	1,240
Superannuation accounts	252	324	2,662	3,643
Other	65	-1	-150	2
Total	359	878	2,168	4,885
<b>Other transactions</b>	109	-113	-3,531	-7,192
<b>Total non-budgetary transactions</b>	664	956	-227	-1,253
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,953	1,298	11,321	9,513
<b>Foreign exchange transactions</b>	-4,941	1,814	1,031	1,368
<b>Net financial balance</b>	-1,988	3,112	12,352	10,881

Table 5

## Net financial balance and net borrowings

	February		April to February	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Net financial balance</b>	-1,988	3,112	12,352	10,881
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-3,100	2,300	13,788	8,272
Canada Savings Bonds	-186	-201	-2,755	-1,825
Treasury bills	1,800	2,200	-26,200	-26,300
Other	-169	-279	-10	108
Subtotal	-1,655	4,020	-15,177	-19,745
Less: Government's holding of unmaturing debt	94	558	145	127
Total	-1,561	4,578	-15,032	-19,618
Payable in foreign currencies				
Marketable bonds	2,906	-2,801	2,780	6,880
Notes and loans	0	0	0	0
Canada bills	1,110	377	548	-409
Canada notes			-353	-1,075
Total	4,016	-2,424	2,975	5,396
<b>Net change in borrowings</b>	2,455	2,154	-12,057	-14,222
<b>Change in cash balance</b>	467	5,266	295	-3,341

Table 6

**Condensed statement of assets and liabilities**

	March 31, 1998	February 28, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	10,885	-11,479
Interest and matured debt	10,419	7,147	-3,272
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	28,949	-14,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,099	3,642
Canada Pension Plan (net of securities)	4,205	5,445	1,240
Other pension and other accounts	5,872	5,874	2
Total pension and other accounts	127,534	132,418	4,884
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	302,855	8,272
Treasury bills	112,300	86,000	-26,300
Canada Savings Bonds	29,769	28,071	-1,698
Other	3,456	3,564	108
Subtotal	440,108	420,490	-19,618
Payable in foreign currencies			
Marketable bonds	14,651	23,042	8,391
Canada bills	9,356	8,947	-409
Canada notes	3,176	590	-2,586
Subtotal	27,183	32,580	5,397
Total unmatured debt	467,291	453,070	-14,221
Total interest-bearing debt	594,825	585,488	-9,337
Total liabilities	638,525	614,437	-24,088
<b>Assets</b>			
Cash and accounts receivable	15,813	4,914	-10,899
Foreign exchange accounts	28,968	27,600	-1,368
Loans, investments and advances (net of allowances)	14,036	12,982	-1,054
Total assets	58,817	45,496	-13,321
<b>Accumulated deficit (net public debt)</b>	579,708	568,941	-10,767

**Year-to-date: financial surplus of \$9.5 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 Fiscal Monitor

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The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$1.3 billion in the April 1998 to February 1999 period, up \$1.0 billion from the net requirement in the same period of 1997-98. This increase primarily reflects increased payments to provinces under tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer in 1997-98 to NAV CANADA, which dampened funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account, reflecting the timing of receipts. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$9.5 billion in the April 1998 to February 1999 period, down slightly from the \$11.3-billion surplus recorded in the same period of 1997-98.

**Year-to-date: net financial balance of \$10.9 billion/net borrowings down \$14.2 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 April 1998 to February 1999 period, there was a net source of funds of \$1.4 billion from foreign exchange transactions, compared to a net source of \$1.0 billion in the same period of 1997-98.

With a budgetary surplus of \$10.8 billion, a net requirement of \$1.3 billion from non-budgetary transactions and a net source of funds of \$1.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$10.9 billion over the April 1998 to February 1999 period, compared to a surplus of \$12.4 billion in the same period of 1997-98.

With this financial surplus, coupled with a reduction in cash balances of \$3.3 billion, the government retired \$14.2 billion of market debt in the April 1998 to February 1999 period. Cash balances at the end of February 1999 were \$7.0 billion.

