

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 1999

Budgetary surplus up \$0.3 billion in April 1999

There was a budgetary surplus of \$1.5 billion in April 1999, up \$0.3 billion from the surplus of \$1.2 billion in April 1998. Budgetary revenues were up 5.2 per cent on a year-over-year basis while public debt charges were down 1.2 per cent. Program spending increased by 4.7 per cent.

Among the major revenue components:

- Personal income tax collections were up 4.3 per cent, or \$0.3 billion. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, and lower refunds, due to fewer returns being processed compared to the same period last year. However, the impact of these factors was partially offset by lower taxes paid on filing with respect to the 1998 taxation year.
- Corporate income tax collections declined 12.7 per cent, or \$0.2 billion, due to the weakness in profits in 1998.
- Other income tax revenues were up 47.9 per cent, or \$0.1 billion, primarily reflecting the timing of receipts.
- Employment insurance premium revenues were up 2.3 per cent. This increase reflects an understatement of premiums in the early part of last year. Adjusting for this, premium revenues are virtually unchanged, as the effect of the decline in the premium rates

(the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) on overall premium revenues is being offset by an increase in the number of people employed.

- Net goods and services tax collections increased 16.4 per cent, or \$0.3 billion, reflecting both an increase in gross collections and virtually no change in refunds. Refunds are expected to pick up over the course of the year.
- Other excise taxes and duties were virtually unchanged.

Within program spending, all components were higher with the exception of subsidies and other transfers.

- Major transfers to persons were up slightly as increased elderly benefit payments more than offset a decline in employment insurance benefits.
- Major transfers to other levels of government were up 7.4 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions, which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.



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Table 1

Summary statement of transactions

	April	
	1998	1999
	(millions of dollars)	
Budgetary transactions		
Revenues	12,500	13,150
Program spending	-7,862	-8,233
Operating surplus	4,638	4,917
Public debt charges	-3,454	-3,412
Budgetary balance (deficit/surplus)	1,184	1,505
Non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698
Net change in borrowings	-5,557	-4,714
Net change in cash balances	-6,542	-7,412

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

- The strong increase in payments to Crown corporations was attributable to the timing of such payments; total payments for the year as a whole are expected to be only slightly higher than last year.
- The increase in operating and capital expenditures was primarily attributable to timing factors.

The decline in public debt charges was attributable to a decline in the stock of interest-bearing debt and lower average effective interest rates on that stock.

Total financial requirement of \$2.1 billion (excluding foreign exchange transactions) in April 1999

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 amounting to \$3.6 billion in April 1999, up from a net requirement of \$3.5 billion in April 1998. As a result, there was a financial requirement (excluding foreign exchange transactions) of \$2.1 billion in April 1999, down slightly from the \$2.3-billion financial requirement recorded in the same period last year.

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Table 2

Budgetary revenues

	April		Change (%)
	1998	1999	
	(millions of dollars)		
Income taxes			
Personal income tax	6,209	6,479	4.3
Corporate income tax	1,241	1,083	-12.7
Other income tax revenue	286	423	47.9
Total income tax	7,736	7,985	3.2
Employment insurance premium revenues	1,748	1,788	2.3
Excise taxes and duties			
Goods and services tax	1,803	2,098	16.4
Customs import duties	174	182	4.6
Sales and excise taxes	621	624	0.5
Total excise taxes and duties	2,598	2,904	11.8
Total tax revenues	12,082	12,677	4.9
Non-tax revenues	418	473	13.2
Total budgetary revenues	12,500	13,150	5.2

Net financial requirement of \$2.7 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, there was a net requirement of \$0.6 billion in April 1999, compared to a net source of \$1.3 billion in April 1998.

With a budgetary surplus of \$1.5 billion, a net requirement of \$3.6 billion from non-budgetary transactions and a net requirement of funds of \$0.6 billion from foreign exchange transactions, there was a net financial requirement of \$2.7 billion in April 1999 compared to a net financial requirement of \$1.0 billion in April 1998.

Net borrowings down \$4.7 billion

Although there was a net financial requirement of \$2.7 billion in April 1999, the government still retired \$4.7 billion of market debt in that month. This was accomplished by reducing its cash balances by \$7.4 billion. Cash balances at the end of April 1999 amounted to \$1.9 billion.

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Table 3

Budgetary expenditures

	April		Change (%)
	1998	1999	
	(millions of dollars)		
Transfer payments to:			
Persons			
Elderly benefits	1,821	1,871	2.7
Employment insurance benefits	1,114	1,079	-3.1
Total	2,935	2,950	0.5
Other levels of government			
Canada Health and Social Transfer	1,042	1,042	0.0
Fiscal transfers	642	743	15.7
Alternative Payments for Standing Programs	-187	-177	-5.3
Total	1,497	1,608	7.4
Direct program spending			
Subsidies and other transfers			
Agriculture	5	1	-80.0
Foreign Affairs	100	57	-43.0
Health	84	55	-34.5
Human Resources Development	58	28	-51.7
Indian and Northern Development	778	829	6.6
Industry and Regional Development	72	91	26.4
Veterans Affairs	114	113	-0.9
Other	190	194	2.1
Total	1,401	1,368	-2.4
Payments to Crown corporations			
Canadian Broadcasting Corporation	147	113	-23.1
Canada Mortgage and Housing Corporation	125	145	16.0
Other	116	155	33.6
Total	388	413	6.4
Operating and capital expenditures			
Defence	445	540	21.3
All other departmental expenditures	1,196	1,354	13.2
Total	1,641	1,894	15.4
Total direct program spending	3,430	3,675	7.1
Total program expenditures	7,862	8,233	4.7
Public debt charges	3,454	3,412	-1.2
Total budgetary expenditures	11,316	11,645	2.9
Memorandum item:			
Total transfers	5,833	5,926	1.6

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Table 4

The budgetary balance and financial requirements/surplus

	April	
	1998	1999
	(millions of dollars)	
Budgetary balance (deficit/surplus)	1,184	1,505
Loans, investments and advances		
Crown corporations	101	-64
Other	1	309
Total	102	245
Specified purpose accounts		
Canada Pension Plan Account	599	-220
Superannuation accounts	340	364
Other	-40	22
Total	899	166
Other transactions	-4,457	-3,982
Total non-budgetary transactions	-3,456	-3,571
Financial requirements/surplus (excluding foreign exchange transactions)	-2,272	-2,066
Foreign exchange transactions	1,287	-632
Net financial balance	-985	-2,698

Table 5

Net financial balance and net borrowings

	April	
	1998	1999
	(millions of dollars)	
Net financial balance	-985	-2,698
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	-	-
Canada Savings Bonds	-4,200	-4,050
Treasury bills	-629	-86
Other	-1	598
Subtotal	-4,830	-3,538
Less: Government's holding of unmatured debt	90	57
Total	-4,740	-3,481
Payable in foreign currencies		
Marketable bonds	-	-
Notes and loans	-	-
Canada bills	-817	-1,233
Canada notes	-	-
Total	-817	-1,233
Net change in borrowings	-5,557	-4,714
Change in cash balance	-6,542	-7,412

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Table 6

Condensed statement of assets and liabilities

	March 31, 1999	April 30, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,975	64
Interest and matured debt	7,374	11,080	3,706
Allowances	12,804	12,076	-728
Total accounts payable, accruals and allowances	39,089	42,131	3,042
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	121,706	364
Canada Pension Plan (net of securities)	6,794	6,574	-220
Other pension and other accounts	-4,551	4,573	22
Total pension and other accounts	132,687	132,853	166
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	295,612	57
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	28,087	28,001	-86
Other	4,063	4,661	598
Subtotal	424,655	421,174	-3,481
Payable in foreign currencies			
Marketable bonds	23,176	23,176	0
Canada bills	10,230	8,997	-1,233
Canada notes	1,863	1,863	0
Subtotal	35,269	34,036	-1,233
Total unmatured debt	459,924	455,210	-4,714
Total interest-bearing debt	592,611	588,063	-4,548
Total liabilities	631,700	630,194	-1,506
Assets			
Cash and accounts receivable	8,730	8,730	0
Foreign exchange accounts	33,446	33,445	-1
Loans, investments and advances (net of allowances)	12,824	12,824	0
Total assets	55,000	54,999	-1
Accumulated deficit (net public debt)	576,700	575,195	-1,505

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