

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1999

Budgetary surplus of \$0.8 billion in July 1999

There was a budgetary surplus of \$0.8 billion in July 1999, down \$0.5 billion from the surplus of \$1.3 billion recorded in July 1998. Most of the year-over-year decline in the surplus was attributable to a \$0.4-billion decline in budgetary revenues.

Among the major revenue components:

- Personal income tax collections were down 8.2 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous three months. In addition, refunds relating to the 1998 taxation year and payments under the Canada Child Tax Benefit (CCTB) were higher. The monthly results were also dampened by the impact of the tax relief measures announced in the 1999 budget.
- Corporate income tax collections declined 2.7 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance (EI) premium revenues were down 2.0 per cent, 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) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) collections were up 14.8 per cent, largely attributable to lower refunds, which were down 8.9 per cent on a year-over-year basis. In contrast, gross

collections advanced by 2.3 per cent. Customs import duties declined by 11.2 per cent, largely due to the timing of payments, which overstated the net increase in the first three months of 1999-2000. Other excise taxes and duties were virtually unchanged.

- Non-tax revenues were up 11.3 per cent, primarily reflecting the timing of receipts.

Program spending advanced by 0.3 per cent on a year-over-year basis, with declines in major transfers to persons and direct program spending virtually offsetting the increase in major transfers to other levels of government.

- Major transfers to persons were down 0.8 per cent, as lower EI benefits, reflecting fewer unemployed, more than offset the increase in elderly benefits.
- Major transfers to other levels of government were up 3.7 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.
- Direct program spending declined by 0.3 per cent, with an increase of 7.8 per cent in subsidies and other transfers offsetting declines in payments to Crown corporations and operating and capital expenditures. Developments within direct program spending primarily reflect the timing of payments.



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Table 1

Summary statement of transactions

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	13,061	12,664	51,760	52,609
Program spending	-8,358	-8,384	-32,106	-33,163
Operating surplus	4,703	4,280	19,654	19,446
Public debt charges	-3,448	-3,506	-13,958	-13,895
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705
Net change in borrowings	880	2,458	-8,892	-2,265
Net change in cash balances	-1,438	4,556	-5,458	-1,560

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

Public debt charges were up 1.7 per cent, primarily reflecting an increase in the stock of interest-bearing debt, as the average effective interest rate was unchanged.

Year-to-date: budgetary surplus down \$145 million

Over the first four months of fiscal year 1999-2000, the budgetary surplus was estimated at \$5.6 billion, down \$0.1 billion from the surplus of \$5.7 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the CCTB.

Budgetary revenues were up \$0.8 billion, or 1.6 per cent on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up \$0.4 billion, or 1.4 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and increases in receipts from monthly deductions from employment income, due to increases in the number of people employed. However, there has been a slowdown in the rate of growth of receipts from monthly deductions, reflecting the impact of the tax relief measures announced in the 1998 and 1999 budgets. In addition, the results to date were further dampened by higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

	July		Change (%)	April to July		Change (%)
	1998	1999		1998-99	1999-00	
	(millions of dollars)			(millions of dollars)		
Income taxes						
Personal income tax	6,531	5,998	-8.2	25,517	25,870	1.4
Corporate income tax	1,712	1,666	-2.7	6,428	5,959	-7.3
Other income tax revenue	220	197	-10.5	833	975	17.0
Total income tax	8,463	7,861	-7.1	32,778	32,804	0.1
Employment insurance premium revenues	1,732	1,697	-2.0	7,051	7,063	0.2
Excise taxes and duties						
Goods and services tax	1,545	1,773	14.8	6,642	7,149	7.6
Customs import duties	251	223	-11.2	756	845	11.8
Sales and excise taxes	724	725	0.1	2,843	2,894	1.8
Total excise taxes and duties	2,520	2,721	8.0	10,241	10,888	6.3
Total tax revenues	12,715	12,279	-3.4	50,070	50,755	1.4
Non-tax revenues	346	385	11.3	1,690	1,854	9.7
Total budgetary revenues	13,061	12,664	-3.0	51,760	52,609	1.6

- Corporate income tax revenues were down \$0.5 billion, or 7.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
- EI premium revenues were up marginally, 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) was offset by an increase in the number of people employed.
- Net GST collections were up \$0.5 billion, or 7.6 per cent, while customs import duties were up 11.8 per cent. The growth in revenues in these components to date continues to be affected by timing considerations. The growth rates should come down in coming months and be more reflective of the growth in the respective tax bases. Sales and excise taxes and duties were up 1.8 per cent.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.2 billion or 9.7 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.1 billion, or 3.3 per cent, in the April to July 1999 period, compared to the same period last year. This increase was spread among all major components with the exception of payments to Crown corporations.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. The higher elderly benefits reflect an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The decline in EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.

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Table 3

Budgetary expenditures

	July		Change (%)	April to July		Change (%)
	1998 (millions of dollars)	1999 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
Transfer payments to:						
Persons						
Elderly benefits	1,929	1,986	3.0	7,497	7,617	1.6
Employment insurance benefits	873	793	-9.2	3,671	3,584	-2.4
Total	2,802	2,779	-0.8	11,168	11,201	0.3
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	4,167	4,167	0.0
Fiscal transfers	817	880	7.7	3,132	3,481	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-747	-750	0.4
Total	1,672	1,734	3.7	6,552	6,898	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	74	18	-75.7	130	96	-26.2
Foreign Affairs	107	127	18.7	370	356	-3.8
Health	84	47	-44.0	324	309	-4.6
Human Resources Development	73	150	105.5	509	426	-16.3
Indian and Northern Development	271	278	2.6	1,578	1,670	5.8
Industry and Regional Development	105	136	29.5	343	399	16.3
Veterans Affairs	114	117	2.6	453	458	1.1
Other	185	219	18.4	686	717	4.5
Total	1,013	1,092	7.8	4,393	4,431	0.9
Payments to Crown corporations						
Canadian Broadcasting Corporation	60	50	-16.7	290	255	-12.1
Canada Mortgage and Housing Corporation	140	150	7.1	597	595	-0.3
Other	121	85	-29.8	365	395	8.2
Total	321	285	-11.2	1,252	1,245	-0.6
Operating and capital expenditures						
Defence	815	801	-1.7	2,698	2,812	4.2
All other departmental expenditures	1,735	1,693	-2.4	6,043	6,576	8.8
Total	2,550	2,494	-2.2	8,741	9,388	7.4
Total direct program spending	3,884	3,871	-0.3	14,386	15,064	4.7
Total program expenditures	8,358	8,384	0.3	32,106	33,163	3.3
Public debt charges	3,448	3,506	1.7	13,958	13,895	-0.5
Total budgetary expenditures	11,806	11,890	0.7	46,064	47,058	2.2
Memorandum item:						
Total transfers	5,487	5,605	2.2	22,113	22,530	1.9

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Table 4

The budgetary balance and financial requirements/surplus

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,255	774	5,696	5,551
Loans, investments and advances				
Crown corporations	392	27	547	-110
Other	30	-53	19	357
Total	422	-26	566	247
Specified purpose accounts				
Canada Pension Plan Account	-514	-472	484	-202
Superannuation accounts	261	382	1,228	1,445
Other	-13	-18	-57	-125
Total	-266	-108	1,655	1,118
Other transactions	-1,309	153	-5,691	-6,746
Total non-budgetary transactions	-1,153	19	-3,470	-5,381
Financial requirements/surplus (excluding foreign exchange transactions)	102	793	2,226	170
Foreign exchange transactions	-2,420	1,305	1,208	535
Net financial balance	-2,318	2,098	3,434	705

Table 5

Net financial balance and net borrowings

	July		April to July	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-2,318	2,098	3,434	705
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-	-	10,223	10,287
Canada Savings Bonds	-283	222	-1,821	-954
Treasury bills	-3,100	3,150	-20,700	-9,200
Other	515	247	1,571	1,246
Subtotal	-2,868	3,619	-10,727	1,379
Less: Government's holding of unmatured debt	94	-68	365	105
Total	-2,774	3,551	-10,362	1,484
Payable in foreign currencies				
Marketable bonds	3,494	-	3,494	-
Notes and loans	-	-	-	-
Canada bills	252	-867	-1,151	-3,523
Canada notes	-92	-226	-873	-226
Total	3,654	-1,093	1,470	-3,749
Net change in borrowings	880	2,458	-8,892	-2,265
Change in cash balance	-1,438	4,556	-5,458	-1,560

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- Major transfers to other levels of government were up 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 4.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were down 0.5 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of \$0.2 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 conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of \$5.4 billion in the first four months of 1999-2000, compared to a net requirement of \$3.5 billion in the same period last year. This increase was entirely attributable to the payment to a third-party trust of the \$3.5-billion Canada Health and Social Transfer cash supplement, as announced in the 1999 budget. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$0.2 billion in the April to July 1999 period, compared to a financial surplus of \$2.2 billion recorded in the same period last year.

Year-to-date: net financial surplus of \$0.7 billion (including foreign exchange transactions)

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 source of \$0.5 billion in the April to July 1999 period, compared to a net source of \$1.2 billion in the same period last year.

With a budgetary surplus of \$5.6 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net source of \$0.5 billion from foreign exchange transactions, there was a net financial surplus of \$0.7 billion in the April to July 1999 period compared to a net surplus of \$3.4 billion in the same period last year.

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Table 6

Condensed statement of assets and liabilities

	March 31, 1999	July 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	18,274	-637
Interest and matured debt	7,374	7,505	131
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	36,696	-2,393
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,787	1,445
Canada Pension Plan (net of securities)	6,794	6,592	-202
Other pension and other accounts	4,551	4,426	-125
Total pension and other accounts	132,687	133,805	1,118
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	305,864	10,309
Treasury bills	96,950	87,833	-9,117
Canada Savings Bonds	28,087	27,133	-954
Other	4,063	5,309	1,246
Subtotal	424,655	426,139	1,484
Payable in foreign currencies			
Marketable bonds	23,176	23,176	
Canada bills	10,230	6,707	-3,523
Canada notes	1,863	1,637	-226
Subtotal	35,269	31,520	-3,749
Total unmatured debt	459,924	457,659	-2,265
Total interest-bearing debt	592,611	591,464	-1,147
Total liabilities	631,700	628,160	-3,540
Assets			
Cash and accounts receivable	8,730	9,959	1,229
Foreign exchange accounts	33,446	33,981	535
Loans, investments and advances (net of allowances)	12,824	13,071	247
Total assets	55,000	57,011	2,011
Accumulated deficit (net public debt)	576,700	571,149	-5,551

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Year-to-date: net borrowings down \$2.3 billion

Although there was a net financial surplus of only \$0.7 billion in the April to July 1999 period, the government has retired \$2.3 billion of market debt to the end of July 1999, primarily through a \$1.6-billion reduction in its cash balances. Cash balances at the end of July 1999 amounted to \$7.7 billion.

