The Fiscal Monitor

A Publication of the Department of Finance

Highlights

December 2000: budgetary surplus of $3.4 billion

There was a budgetary surplus of $3.4 billion in December 2000. A large surplus was expected in December given the monthly pattern of revenues. More specifically, the December results included final corporate income tax settlement payments from those corporations whose taxation year ends on October 31, as well as quarterly personal income tax instalment payments.

April to December 2000: budgetary surplus of $17.5 billion

Over the first nine months of fiscal year 2000-01, the budgetary surplus was estimated at $17.5 billion, up $6.5 billion from the surplus of $11.0 billion reported in the same period of 1999-2000.

These results continue to be in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*. Over the balance of the fiscal year, the budgetary surplus is expected to decline as the impact of various policy actions come into effect. These include the reduction in personal income tax rates; the elimination of the 5-per-cent surtax; increases in the thresholds; increases in the Canada Child Tax Benefit; the impact of the restoration of full indexation of the personal income tax system; the Relief for Heating Expenses; and funding for health information and communications technology and the Canada Foundation for Innovation. The net impact of these initiatives is estimated at $5 billion. In addition, corporate income tax revenues over the balance of the year are expected to be lower, reflecting timing considerations. In the *Economic Statement and Budget Update*, a surplus for the year as a whole of $11.9 billion was estimated, of which a minimum of $10 billion was committed to reducing debt.

December 2000: budgetary results

The budgetary surplus of $3.4 billion in December 2000 was $0.4 billion higher than the surplus reported in December 1999. However, most of the year-over-year improvement in the monthly budgetary balance was attributable to lower program spending, down $0.4 billion, reflecting Y2K-related contingency planning in December 1999.

On a year-over-year basis, budgetary revenues were up marginally, as an increase in personal income tax revenues offset declines in the other major components.

- Personal income tax revenues were up $0.6 billion, or 7.6 per cent. This increase reflected continued strong growth in receipts from monthly deductions from employment income, due to the increase in the number of people employed, as well as timing factors related to the receipt of payments.
- Corporate income tax revenues were down $0.2 billion, or 6.8 per cent. December results incorporate final settlement payments for corporations whose taxation year ends in October, primarily financial institutions. Although profits were up sharply in this sector, final settlement payments were largely unchanged, as large payments were made in December 1999 reflecting low instalment payments during the course of 1999.
- Employment insurance (EI) premium revenues declined slightly, as the reduction in premium rates (the employee rate for 2000 is $2.40 per $100 of insurable earnings compared to $2.55 in 1999) more than offset the impact of the growth in the number of people employed and therefore paying premiums.

Department of Finance Canada
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Canada

Table 1
Summary statement of transactions

	December		April to December	
	1999	2000	1999-00	2000-01
	($ millions)			
Budgetary transactions				
Revenues	16,341	16,446	119,884	130,563
Program spending	-9,944	-9,538	-78,076	-82,008
Operating surplus	6,397	6,908	41,808	48,555
Public debt charges	-3,339	-3,486	-30,825	-31,024
Budgetary balance (deficit/surplus)	3,058	3,422	10,983	17,531
Non-budgetary transactions	-4,596	-5,676	-5,366	-9,831
Financial requirements/source (excluding foreign exchange transactions)	-1,538	-2,254	5,617	7,700
Foreign exchange transactions	3,875	599	-308	129
Net financial balance	2,337	-1,655	5,309	7,829
Net change in borrowings	-49	-6,870	-603	-16,616
Net change in cash balances	2,288	-8,525	4,706	-8,787

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

- Excise taxes and duties were down $0.2 billion, or 8.6 per cent, with all components registering declines. Given the abnormally strong year-over-year increase in November 2000, these declines reflected, in part, the timing of receipts and the payment of refunds and rebates.
- Non-tax revenues were also down. However, year-over-year comparisons are misleading as accounting changes now require the monthly recording of receivables, whereas in 1999-2000, such adjustments were only made at year end.

Within program spending, on a year-over-year basis:

- Major transfers to persons were down 4.3 per cent due to lower elderly and EI benefit payments. This reflected the advancement of some payments in December 1999 related to Y2K.
- Major transfers to other levels of government were up 15.5 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was down 11.0 per cent, primarily reflecting the timing of payments. December 1999 figures included incremental spending to address the Y2K computer problem as well as some advancement of payments as part of contingency planning.

The increase in public debt charges, on a year-over year basis, was attributable to an increase in the average effective interest rate on the stock of interest-bearing debt.

April to December 2000: budgetary results

Over the first nine months of fiscal year 2000-01, the budgetary surplus was estimated at $17.5 billion, up $6.5 billion from the surplus of $11.0 billion reported in the same period of 1999-2000.

Budgetary revenues were up $10.7 billion, or 8.9 per cent, on a year-over-year basis. Among the major revenue components:

Table 2

Budgetary revenues

	December		Change	April to December		Change
	1999	2000		1999-00	2000-01	
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	8,502	9,149	7.6	59,865	64,139	7.1
Corporate income tax	2,610	2,432	-6.8	14,140	17,512	23.8
Other income tax revenue	291	283	-2.7	2,173	2,348	8.1
Total income tax	11,403	11,864	4.0	76,178	83,999	10.3
Employment insurance premium revenues	980	964	-1.6	13,312	13,586	2.1
Excise taxes and duties						
Goods and services tax	1,945	1,773	-8.8	17,653	19,115	8.3
Customs import duties	229	202	-11.8	1,763	2,074	17.6
Sales and excise taxes	665	620	-6.8	6,183	6,309	2.0
Total excise taxes and duties	2,839	2,595	-8.6	25,599	27,498	7.4
Total tax revenues	15,222	15,423	1.3	115,089	125,083	8.7
Non-tax revenues	1,119	1,023	-8.6	4,795	5,480	14.3
Total budgetary revenues	16,341	16,446	0.6	119,884	130,563	8.9

- Personal income tax collections were up $4.3 billion, or 7.1 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to the increase in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Dampening the impact of these factors are the effect of the tax relief measures announced in the February 2000 budget and higher transfers to the Canada Pension Plan and EI accounts, reflecting underpayments with respect to the 1999 taxation year. Over the balance of the fiscal year, growth in this component will be further restrained as the full impact of tax reductions announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update* is realized.
- Corporate income tax revenues were up $3.4 billion, or 23.8 per cent. Although part of this increase reflects the continued strength in corporate profits, up 17.5 per cent in the first three quarters of 2000 over the same period in 1999, the increase in revenues is also affected by tax instalment procedures, as witnessed with the December results. Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made 30 days following the end of their taxation year. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Since current monthly instalments are being compared to last year's understated instalments, the year-over-year changes are likely not an appropriate indicator of the results for the year as a whole. Most non-financial sector corporations remit their settlement payments in February.
- EI premium revenues were up $0.3 billion, or 2.1 per cent, as the decline in premium rates for 2000 was more than offset by the impact of prior-year adjustments and the growth in the number of people employed and therefore paying premiums.

Table 3

Budgetary expenditures

	December			April to December		
	1999	2000	Change	1999-00	2000-01	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,072	2,038	-1.6	17,543	18,079	3.1
Employment insurance benefits	1,000	902	-9.8	7,880	7,618	-3.3
Total	3,072	2,940	-4.3	25,423	25,697	1.1
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	9,375	10,125	8.0
Fiscal transfers	976	1,194	22.3	8,032	9,021	12.3
Alternative Payments for Standing Programs	-188	-206	9.6	-1,688	-1,850	9.6
Total	1,830	2,113	15.5	15,719	17,296	10.0
Direct program spending						
Subsidies and other transfers						
Agriculture	95	97	2.1	529	383	-27.6
Foreign Affairs	113	122	8.0	1,052	1,024	-2.7
Health	167	80	-52.1	818	819	0.1
Human Resources Development	165	208	26.1	1,151	815	-29.2
Indian and Northern Development	326	306	-6.1	3,109	3,267	5.1
Industry and Regional Development	214	192	-10.3	1,058	1,013	-4.3
Veterans Affairs	117	119	1.7	1,038	1,078	3.9
Other	193	198	2.6	1,522	2,576	69.3
Total	1,390	1,322	-4.9	10,277	10,975	6.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	146	103	-29.5	710	778	9.6
Canada Mortgage and Housing Corporation	150	150	0.0	1,345	1,370	1.9
Other	103	190	84.5	804	1,137	41.4
Total	399	443	11.0	2,859	3,285	14.9
Operating and capital expenditures						
Defence	1,278	814	-36.3	7,902	7,648	-3.2
All other departmental expenditures	1,975	1,906	-3.5	15,896	17,107	7.6
Total	3,253	2,720	-16.4	23,798	24,755	4.0
Total direct program spending	5,042	4,485	-11.0	36,934	39,015	5.6
Total program expenditures	9,944	9,538	-4.1	78,076	82,008	5.0
Public debt charges	3,339	3,486	4.4	30,825	31,024	0.6
Total budgetary expenditures	13,283	13,024	-1.9	108,901	113,032	3.8
Memorandum item:						
Total transfers	6,292	6,375	1.3	51,419	53,968	5.0

- Excise taxes and duties increased by $1.9 billion, or 7.4 per cent. Goods and services tax (GST) revenues were up $1.5 billion, or 8.3 per cent, which is in line with the growth in consumer demand. Customs import duties were up strongly while sales and excise taxes were up marginally.
- Non-tax revenues were up $0.7 billion, or 14.3 per cent, primarily reflecting the change in accounting procedures for receivables.

Program spending increased by $3.9 billion, or 5.0 per cent, in the April to December 2000 period, compared to the same period in 1999. This increase was spread among all major components.

- Major transfers to persons were up 1.1 per cent, as higher elderly benefits more than offset the decline in EI benefit payments. 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 reflects fewer beneficiaries due to the decline in the number of unemployed, dampened by the impact of higher average benefit rates and higher transfers to provinces under the Labour Market Agreements.
- Major transfers to other levels of government were up 10.0 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflects the 1999 budget measure to increase base funding from $12.5 billion in 1999-2000 to $13.5 billion in 2000-01. The increase in Equalization entitlements is attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 5.6 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, the lifting of the wage freeze and the effect of new initiatives, including the $1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the first ministers on health renewal and early childhood development. The impact of these factors was dampened by one-time expenditures related to Y2K in December 1999 and some advancement of payments as part of contingency planning.

Public debt charges were up marginally, as an increase in the average effective interest rate on interest-bearing debt more than offset a decline in the stock of that debt.

Financial source of $7.7 billion (excluding foreign exchange transactions) for April to December 2000

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/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source 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.

Non-budgetary transactions resulted in a net requirement of $9.8 billion in first nine months of 2000-01, compared to a requirement of $5.4 billion in the same period in 1999-2000. This was attributable, in part, to payments related to the pay equity settlement, changes to the financing of the Canada Student Loans Program, and the investing of current contributions to the federal employees' pension plans in the private market.

As a result, with a budgetary surplus of $17.5 billion and a net requirement of $9.8 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $7.7 billion in the April to December 2000 period, compared to a financial source of $5.6 billion in the same period in 1999.

Table 4

The budgetary balance and financial requirements/source

	December		April to December	
	1999	2000	1999-00	2000-01
	($ millions)			
Budgetary balance (deficit/surplus)	3,058	3,422	10,983	17,531
Loans, investments and advances				
Crown corporations	77	40	308	348
Other	-43	28	-106	-843
Total	34	68	202	-495
Specified purpose accounts				
Canada Pension Plan Account	-684	-497	11	-524
Superannuation accounts	519	-152	3,704	1,554
Other	19	-8	-106	-48
Total	-146	-657	3,609	982
Other transactions	-4,484	-5,087	-9,177	-10,318
Total non-budgetary transactions	-4,596	-5,676	-5,366	-9,831
Financial requirements/source (excluding foreign exchange transactions)	-1,538	-2,254	5,617	7,700
Foreign exchange transactions	3,875	599	-308	129
Net financial balance	2,337	-1,655	5,309	7,829

Table 5

Net financial balance and net borrowings

	December		April to December	
	1999	2000	1999-00	2000-01
	($ millions)			
Net financial balance	2,337	-1,655	5,309	7,829
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	82	-7,130	6,949	8,319
Canada Savings Bonds	40	20	-680	-1,204
Treasury bills	550	-400	-3,500	-21,150
Other	-93	-133	-334	-95
Total	579	-7,643	2,435	-14,130
Payable in foreign currencies				
Marketable bonds	0	0	2,527	-2,202
Notes and loans				
Canada bills	-628	773	-5,309	-248
Canada notes			-256	-36
Total	-628	773	-3,038	-2,486
Net change in borrowings	-49	-6,870	-603	-16,616
Change in cash balance	2,288	-8,525	4,706	-8,787

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	December 31, 2000	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,748	30,780	-9,968
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,900	1,554
Canada Pension Plan (net of securities)	6,217	5,693	-524
Other pension and other accounts	6,963	6,915	-48
Total pension and other accounts	141,526	142,508	982
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	302,246	8,319
Treasury bills	99,850	78,700	-21,150
Canada Savings Bonds	26,489	25,285	-1,204
Non-marketable bonds and bills	3,552	3,457	-95
Subtotal	423,818	409,688	-14,130
Payable in foreign currencies	32,588	30,104	-2,484
Total unmatured debt	456,406	439,792	-16,614
Total interest-bearing debt	597,932	582,300	-15,632
Total liabilities	638,680	613,080	-25,600
Assets			
Cash and accounts receivable	18,864	10,429	-8,435
Foreign exchange accounts	41,494	41,365	-129
Loans, investments and advances (net of allowances)	13,796	14,291	495
Total assets	74,154	66,085	-8,069
Accumulated deficit (net public debt)	564,526	546,995	-17,531

Net financial source of $7.8 billion for April to December 2000

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. 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 $0.1 billion in the first nine months of 2000-01, compared to a net requirement of $0.3 billion in the same period in 1999-2000.

With a budgetary surplus of $17.5 billion, a net requirement of $9.8 billion from non-budgetary transactions and a net source of funds of $0.1 billion from foreign exchange transactions, there was a net financial source of $7.8 billion in the April to December 2000 period, compared to a net source of $5.3 billion in the same period in 1999.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
					(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174	56,383
Less:									
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640	30,746
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850	2,847
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684	22,790
GST penalties and interest received	19	71	90	129	135	159	127	123	104
Gains from wind-up of interest in Crown corporations/ disposal of shares	2	110			325				
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2	0.3
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808	22,894

Source: *Public Accounts of Canada.*

Net borrowings down $16.6 billion for April to December 2000

In December 2000 the Government's holding of market debt decreased by $6.9 billion, with the result that, for the first nine months of 2000-01, there was a net retirement of $16.6 billion of market debt. This was financed with the net financial source of $7.8 billion and a reduction in cash balances of $8.8 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of December 2000, cash balances were $4.2 billion.

The Debt Servicing and Reduction Account

In June 1991 legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all GST revenues net of the applicable input tax credits, rebates and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction, must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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