

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for May 2000

Budgetary surplus of \$3.3 billion in May 2000

There was a budgetary surplus of \$3.3 billion in May 2000, up \$1.4 billion from the surplus of \$1.9 billion reported in May 1999. Budgetary revenues were up \$1.8 billion, or 13.6 per cent, while public debt charges declined \$0.1 billion, or 3.6 per cent. Program spending increased \$0.5 billion, or 6.7 per cent.

Higher personal income tax and goods and services tax (GST) revenues accounted for most of the year-over-year increase in budgetary revenues.

- Personal income tax revenues were up \$0.7 billion, or 10.8 per cent, on a year-over-year basis. This increase primarily reflected higher taxes paid on filing, with respect to the 1999 taxation year, which more than offset the year-over-year decline witnessed in tax on filing in April 2000.
- GST revenues increased \$0.8 billion, or 44.0 per cent, on a year-over-year basis. Most of the increase was attributable to a decline in refunds and rebates, reflecting timing factors. This should be reversed in future months, which would bring the results more in line with the growth in the underlying tax base.
- Among the other major revenue components, corporate income tax revenues increased by 7.6 per cent, employment insurance premium revenues were down 1.4 per cent, reflecting the decline in premium rates, while sales and excise taxes and duties fell by 5.3 per cent.

All major components of program spending were higher on a year-over-year basis, while the decline in public debt charges reflected a decline in the average effective interest rate as the stock of interest-bearing debt was virtually unchanged.

Year-to-date: budgetary surplus of \$6.1 billion

Over the first two months of fiscal year 2000-01, the budgetary surplus was estimated at \$6.1 billion, up \$2.6 billion from the surplus of \$3.4 billion reported in the same period of 1999-2000.

However, the results to date do not include any impact of the tax reductions measures affecting the current fiscal year, as announced in the 2000 Budget as part of the Government's Five-Year Tax Reduction Plan. The restoration of full indexation of the personal income tax system, the reduction in the middle tax rate from 26 per cent to 24 per cent, increases in the amounts at which the personal income tax rates apply, among others, will restrain the growth in personal income tax revenues, beginning in July 2000. As indicated in *The Budget Plan 2000*, the net fiscal impact of all the tax reduction measures affecting 2000-01 amounts to \$4.6 billion. As such, the budgetary results for the first few months of 2000-01 are not an appropriate indicator of developments over the year as a whole.



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Table 1

Summary statement of transactions

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Budgetary transactions				
Revenues	13,391	15,212	26,622	29,926
Program spending	-7,962	-8,494	-16,253	-17,092
Operating surplus	5,429	6,718	10,369	12,834
Public debt charges	-3,512	-3,387	-6,924	-6,754
Budgetary balance (deficit/surplus)	1,917	3,331	3,445	6,080
Non-budgetary transactions	4,368	2,602	808	-2,620
Financial requirements/source (excluding foreign exchange transactions)	6,285	5,933	4,253	3,460
Foreign exchange transactions	1,135	827	503	1,956
Net financial balance	7,420	6,760	4,756	5,416
Net change in borrowings	-2,430	149	-7,145	-5,640
Net change in cash balances	4,990	6,909	-2,389	-224

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

Financial source of \$3.5 billion (excluding foreign exchange transactions) for April and May 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 only includes those activities over which the government has legislative control.

In contrast, financial requirements/source measure 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 funds of \$2.6 billion in the first two months of 2000-01, compared to a source of \$0.8 billion in the same period last year. The net requirement to date primarily reflected the first instalment of the pay equity settlement payments. As a result, there was a financial source (excluding foreign exchange transactions) of \$3.5 billion in the April/May 2000 period, compared to a financial source of \$4.3 billion recorded in the same period last year.

Net financial source of \$5.4 billion for April and May 2000

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of

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Table 2

Budgetary revenues

	May		Change (%)	April to May		Change (%)
	1999 (millions of dollars)	2000 (millions of dollars)		1999-00 (millions of dollars)	2000-01 (millions of dollars)	
Income taxes						
Personal income tax	6,569	7,279	10.8	13,127	14,628	11.4
Corporate income tax	1,930	2,076	7.6	3,012	4,039	34.1
Other income tax revenue	143	250	74.8	567	593	4.6
Total income tax	8,642	9,605	11.1	16,706	19,260	15.3
Employment insurance premium revenues	1,800	1,775	-1.4	3,587	3,559	-0.8
Excise taxes and duties						
Goods and services tax	1,750	2,520	44.0	3,849	4,597	19.4
Customs import duties	156	130	-16.7	337	290	-13.9
Sales and excise taxes	719	681	-5.3	1,343	1,293	-3.7
Total excise taxes and duties	2,625	3,331	26.9	5,529	6,180	11.8
Total tax revenues	13,067	14,711	12.6	25,822	28,999	12.3
Non-tax revenues	324	501	54.6	800	927	15.9
Total budgetary revenues	13,391	15,212	13.6	26,622	29,926	12.4

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 \$2.0 billion in April/May 2000 period, compared to a net source of \$0.5 billion in the same period last year.

With a budgetary surplus of \$6.1 billion, a net requirement of \$2.6 billion from non-budgetary transactions and a net source of funds of \$2.0 billion from foreign exchange transactions, there was a net financial source of \$5.4 billion in the April/May 2000 period compared to a net source of \$4.8 billion in the same period last year.

Net borrowings down \$5.6 billion for April and May 2000

With a net financial source of \$5.4 billion in the April/May 2000 period and a reduction in cash balances of \$0.2 billion, the government retired \$5.6 billion of market debt in the April/May 2000 period. Cash balances at the end of May 2000 amounted to \$12.7 billion.

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Table 3

Budgetary expenditures

	May		Change (%)	April to May		Change (%)
	1999 (millions of dollars)	2000 (millions of dollars)		1999-00 (millions of dollars)	2000-01 (millions of dollars)	
Transfer payments to:						
Persons						
Elderly benefits	1,875	1,972	5.2	3,791	3,969	4.7
Employment insurance benefits	943	906	-3.9	2,022	1,944	-3.9
Total	2,818	2,878	2.1	5,813	5,913	1.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	2,083	2,250	8.0
Fiscal transfers	991	1,064	7.4	1,735	1,895	9.2
Alternative Payments for Standing Programs	-198	-205	3.5	-375	-411	9.6
Total	1,835	1,984	8.1	3,443	3,734	8.5
Direct program spending						
Subsidies and other transfers						
Agriculture	46	14	-69.6	47	22	-53.2
Foreign Affairs	138	89	-35.5	195	144	-26.2
Health	61	125	104.9	116	188	62.1
Human Resources Development	56	60	7.1	83	68	-18.1
Indian and Northern Development	229	317	38.4	1,058	1,158	9.5
Industry and Regional Development	64	124	93.8	155	152	-1.9
Veterans Affairs	114	121	6.1	227	237	4.4
Other	120	96	-20.0	296	340	14.9
Total	828	946	14.3	2,177	2,309	6.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	57	42	-26.3	170	215	26.5
Canada Mortgage and Housing Corporation	155	150	-3.2	300	300	0.0
Other	21	65	209.5	174	205	17.8
Total	233	257	10.3	644	720	11.8
Operating and capital expenditures						
Defence	696	667	-4.2	1,231	1,157	-6.0
All other departmental expenditures	1,552	1,762	13.5	2,945	3,259	10.7
Total	2,248	2,429	8.1	4,176	4,416	5.7
Total direct program spending	3,309	3,632	9.8	6,997	7,445	6.4
Total program expenditures	7,962	8,494	6.7	16,253	17,092	5.2
Public debt charges	3,512	3,387	-3.6	6,924	6,754	-2.5
Total budgetary expenditures	11,474	11,881	3.5	23,177	23,846	2.9
Memorandum item:						
Total transfers	5,481	5,808	6.0	11,433	11,956	4.6

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Table 4

The budgetary balance and financial requirements/source

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Budgetary balance (deficit/surplus)	1,917	3,331	3,445	6,080
Loans, investments and advances				
Crown corporations	-42	7	-106	7
Other	-25	-10	324	96
Total	-67	-3	218	103
Specified purpose accounts				
Canada Pension Plan Account	667	219	445	-175
Superannuation accounts	318	209	682	525
Other	-27	-47	-6	-90
Total	958	381	1,121	260
Other transactions	3,477	2,224	-531	-2,983
Total non-budgetary transactions	4,368	2,602	808	-2,620
Financial requirements/source (excluding foreign exchange transactions)	6,285	5,933	4,253	3,460
Foreign exchange transactions	1,135	827	503	1,956
Net financial balance	7,420	6,760	4,756	5,416

Table 5

Net financial balance and net borrowings

	May		April to May	
	1999	2000	1999-00	2000-01
	(millions of dollars)			
Net financial balance	7,420	6,760	4,756	5,416
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,300	3,362	4,300	5,262
Canada Savings Bonds	-91	-141	-122	-147
Treasury bills	-5,900	-1,700	-9,950	-8,950
Other	227	200	826	200
Subtotal	-1,464	1,721	-4,946	-3,635
Payable in foreign currencies				
Marketable bonds		-2,174		-2,174
Notes and loans				
Canada bills	-966	602	-2,199	169
Canada notes				
Total	-966	-1,572	-2,199	-2,005
Net change in borrowings	-2,430	149	-7,145	-5,640
Change in cash balance	4,990	6,909	-2,389	-224

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Table 6

Condensed statement of assets and liabilities¹

	March 31, 2000	May 31, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,158	19,667	-2,491
Interest and matured debt	8,678	11,724	3,046
Allowances	13,516	11,938	-1,578
Total accounts payable, accruals and allowances	44,352	43,329	-1,023
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,485	128,010	525
Canada Pension Plan (net of securities)	6,262	6,087	-175
Other pension and other accounts	6,749	6,659	-90
Total pension and other accounts	140,496	140,756	260
Unmatured debt			
Payable in Canadian currencies			
Marketable bonds	293,927	299,189	5,262
Treasury bills	99,850	90,900	-8,950
Canada Savings Bonds	26,432	26,285	-147
Other	3,552	3,752	200
Subtotal	423,761	420,126	-3,635
Payable in foreign currencies			
Marketable bonds	25,528	23,354	-2,174
Canada bills	6,008	6,177	169
Canada notes	1,053	1,053	0
Subtotal	32,589	30,584	-2,005
Total unmatured debt	456,350	450,710	-5,640
Total interest-bearing debt	596,846	591,466	-5,380
Total liabilities	641,198	634,795	-6,403
Assets			
Cash and accounts receivable	10,614	12,144	1,530
Foreign exchange accounts	43,911	41,955	-1,956
Loans, investments and advances (net of allowances)	12,849	12,952	103
Total assets	67,374	67,051	-323
Accumulated deficit (net public debt)	573,824	567,744	-6,080

¹ Assumes fiscal balance of \$3 billion for 1999-2000.

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