

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for September 2000

### Budgetary surplus of \$3.3 billion in September 2000

There was a budgetary surplus of \$3.3 billion in September 2000, compared to a surplus of \$1.9 billion in September 1999. All of the year-over-year increase in the surplus was attributable to higher budgetary revenues, up 10.4 per cent, or \$1.5 billion. Program spending increased by \$84 million while public debt charges were virtually unchanged.

Among the major revenue components, on a year-over-year basis:

- Personal income tax revenues were up \$0.8 billion, or 10.4 per cent. This increase reflected continued strong growth in 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. These factors more than offset the impact of the 2000 budget measures, which came into effect in July.
- Corporate income tax revenues increased \$0.4 billion, or 33.8 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were lower, reflecting timing factors.
- Employment insurance (EI) premium revenues were up slightly due to a transfer from personal income tax revenues relating to underpayments with respect to the 1999 taxation year.
- Excise taxes and duties were up \$0.1 billion, or 3.6 per cent, as lower goods and services tax (GST) revenues, reflecting higher rebates and refunds, were more than offset by higher customs import duties and sales and excise taxes.
- Non-tax revenues were up. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

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

- Major transfers to persons were up 4.4 per cent, as higher elderly benefit payments more than offset lower EI benefit payments.
- Major transfers to other levels of government were up 11.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.
- Direct program spending was down 5.1 per cent, reflecting timing factors.

### Year-to-date: budgetary surplus of \$13.5 billion

Over the first six months of fiscal year 2000-01, the budgetary surplus was estimated at \$13.5 billion, up \$5.4 billion from the surplus of \$8.1 billion reported in the same period of 1999-2000. These results are in line with the average private sector forecast of the fiscal surplus for 2000-01 of \$17 billion, as set out in the October 18, 2000, *Economic Statement and Budget Update*.



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Table 1

## Summary statement of transactions

	September		April to September	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary transactions</b>				
Revenues	14,132	15,596	79,216	87,302
Program spending	-8,747	-8,831	-50,569	-53,105
Operating surplus	5,385	6,765	28,647	34,197
Public debt charges	-3,461	-3,472	-20,549	-20,697
Budgetary balance (deficit/surplus)	1,924	3,293	8,098	13,500
<b>Non-budgetary transactions</b>	178	196	-4,224	-5,986
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,102	3,489	3,874	7,514
<b>Foreign exchange transactions</b>	501	667	177	437
<b>Net financial balance</b>	2,603	4,156	4,051	7,951
<b>Net change in borrowings</b>	-9,312	-12,116	-10,701	-18,309
<b>Net change in cash balances</b>	-6,709	-7,960	-6,650	-10,358

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

Budgetary revenues were up \$8.1 billion, or 10.2 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$4.4 billion, or 11.2 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, contributed to the year-over-year increase. Over the balance of the fiscal year, growth in this component will be restrained as the impact of tax reductions announced in the 2000 budget and the *Economic Statement and Budget Update* is realized.
- Corporate income tax revenues were up \$2.6 billion, or 29.3 per cent. Although part of this increase reflects the continued strength in corporate profits, the increase is also affected by tax instalment procedures.

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. 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. Corporations have 60 days from the end of their taxation year to remit their final settlement payments. Last February, record settlement payments were made relating to underpayments during the course of the 1999 taxation year. Thus, it is estimated that instalments for the first seven months were understated by an average of \$0.6 billion per month. With current monthly instalments largely based on 1999 tax liabilities, the year-over-year changes to date are misleading.

Table 2

## Budgetary revenues

	September		Change	April to September		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Income taxes</b>						
Personal income tax	7,770	8,580	10.4	39,078	43,443	11.2
Corporate income tax	1,192	1,595	33.8	8,775	11,349	29.3
Other income tax revenue	204	164	-19.6	1,440	1,439	-0.1
Total income tax	9,166	10,339	12.8	49,293	56,231	14.1
<b>Employment insurance premium revenues</b>	1,398	1,437	2.8	9,992	9,934	-0.6
<b>Excise taxes and duties</b>						
Goods and services tax	2,214	2,103	-5.0	11,603	12,398	6.9
Customs import duties	162	220	35.8	1,169	1,339	14.5
Sales and excise taxes	638	798	25.1	4,278	4,240	-0.9
Total excise taxes and duties	3,014	3,121	3.6	17,050	17,977	5.4
<b>Total tax revenues</b>	13,578	14,897	9.7	76,335	84,144	10.2
<b>Non-tax revenues</b>	554	699	26.2	2,881	3,160	9.7
<b>Total budgetary revenues</b>	14,132	15,596	10.4	79,216	87,302	10.2

- EI premium revenues were down 0.6 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased by \$0.9 billion, or 5.4 per cent. GST revenues were up \$0.8 billion, or 6.9 per cent – this is somewhat less than the growth in consumer demand, reflecting strong growth in the payment of refunds and rebates. Customs import duties were up strongly, while sales and excise taxes were lower.
- Non-tax revenues were up \$0.3 billion, or 9.7 per cent.

Program spending increased by \$2.5 billion, or 5.0 per cent, in the April to September 2000 period, over the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.4 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 a lower number of beneficiaries due to the decline in the number of unemployed.

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Table 3

## Budgetary expenditures

	September		Change	April to September		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,997	2,121	6.2	11,548	11,953	3.5
Employment insurance benefits	679	672	-1.0	5,218	5,056	-3.1
Total	2,676	2,793	4.4	16,766	17,009	1.4
Other levels of government						
Canada Health and Social Transfer	1,041	1,125	8.1	6,250	6,750	8.0
Fiscal transfers	867	988	14.0	5,214	5,831	11.8
Alternative Payments for Standing Programs	-188	-204	8.5	-1,126	-1,233	9.5
Total	1,720	1,909	11.0	10,338	11,348	9.8
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	121	107	-11.6	267	255	-4.5
Foreign Affairs	136	41	-69.6	647	566	-12.5
Health	72	148	105.6	501	566	13.0
Human Resources Development	249	33	-86.7	707	459	-35.1
Indian and Northern Development	320	444	38.8	2,252	2,470	9.7
Industry and Regional Development	64	92	43.8	610	606	-0.7
Veterans Affairs	115	120	4.3	689	718	4.2
Other	151	75	-50.3	984	1,032	14.9
Total	1,228	1,060	-13.7	6,657	6,672	0.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	79	65	-17.7	420	515	22.6
Canada Mortgage and Housing Corporation	151	150	-0.7	895	920	2.8
Other	63	90	42.9	526	708	34.6
Total	293	305	4.1	1,841	2,143	16.4
Operating and capital expenditures						
Defence	970	873	-10.0	4,796	4,773	-0.5
All other departmental expenditures	1,860	1,891	1.7	10,171	11,160	9.7
Total	2,830	2,764	-2.3	14,967	15,933	6.5
Total direct program spending	4,351	4,129	-5.1	23,465	24,748	5.5
<b>Total program expenditures</b>	8,747	8,831	1.0	50,569	53,105	5.0
<b>Public debt charges</b>	3,461	3,472	0.3	20,549	20,697	0.7
<b>Total budgetary expenditures</b>	12,208	12,303	0.8	71,118	73,802	3.8
Memorandum item:						
Total transfers	5,624	5,762	2.5	33,761	35,029	3.8

- Major transfers to other levels of government were up 9.8 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected 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 was 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 5.5 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. 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 recent budgets.

Public debt charges were up 0.7 per cent, as the impact of somewhat higher interest rates more than offset a decline in the stock of interest-bearing debt.

### **Financial source of \$7.5 billion (excluding foreign exchange transactions) for April to September 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 \$6.0 billion in the first six months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as to payments related to the pay equity settlement.

As a result, with a budgetary surplus of \$13.5 billion and a net requirement of \$6.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$7.5 billion in the April to September 2000 period, compared to a financial source of \$3.9 billion in the same period last year.

### **Net financial source of \$8.0 billion for April to September 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. 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 \$0.4 billion in the first six months of 2000-01, compared to a net source of \$0.2 billion in the same period last year.

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Table 4

## The budgetary balance and financial requirements/source

	September		April to September	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Budgetary balance (deficit/surplus)</b>	1,924	3,293	8,098	13,500
<b>Loans, investments and advances</b>				
Crown corporations	69	100	19	206
Other	-291	42	-122	183
Total	-222	142	-103	389
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	739	128	291	-538
Superannuation accounts	484	28	2,313	1,458
Other	14	150	-98	-65
Total	1,237	306	2,506	855
<b>Other transactions</b>	-837	-252	-6,627	-7,230
<b>Total non-budgetary transactions</b>	178	196	-4,224	-5,986
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	2,102	3,489	3,874	7,514
<b>Foreign exchange transactions</b>	501	667	177	437
<b>Net financial balance</b>	2,603	4,156	4,051	7,951

Table 5

## Net financial balance and net borrowings

	September		April to September	
	1999	2000	1999-00	2000-01
	(\$ millions)			
<b>Net financial balance</b>	2,603	4,156	4,051	7,951
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-11,693	-4,933	-2,206	6,018
Canada Savings Bonds	28	-98	-682	-790
Treasury bills	3,650	-6,200	-3,801	-20,050
Other	-759	-376	535	82
Total	-8,774	-11,607	-6,154	-14,740
Payable in foreign currencies				
Marketable bonds	-302		-415	-2,174
Notes and loans				
Canada bills	-206	-509	-3,876	-1,395
Canada notes	-30		-256	
Total	-538	-509	-4,547	-3,569
<b>Net change in borrowings</b>	-9,312	-12,116	-10,701	-18,309
<b>Change in cash balance</b>	-6,709	-7,960	-6,650	-10,358

Table 6

**Condensed statement of assets and liabilities**

	March 31, 2000	September 30, 2000	Change
		(\$ millions)	
<b>Liabilities</b>			
Accounts payable, accruals and allowances	40,748	33,573	-7,175
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,804	1,458
Canada Pension Plan (net of securities)	6,217	5,679	-538
Other pension and other accounts	6,963	6,898	-65
Total pension and other accounts	141,526	142,381	855
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	299,945	6,018
Treasury bills	99,850	79,800	-20,050
Canada Savings Bonds	26,489	25,642	-847
Non-marketable bonds and bills	3,552	3,635	83
Subtotal	423,818	409,022	-14,796
Payable in foreign currencies	32,588	29,020	-3,568
Total unmaturing debt	456,406	438,042	-18,364
Total interest-bearing debt	597,932	580,423	-17,509
Total liabilities	638,680	613,996	-24,684
<b>Assets</b>			
Cash and accounts receivable	18,864	8,506	-10,358
Foreign exchange accounts	41,494	41,057	-437
Loans, investments and advances (net of allowances)	13,796	13,407	-389
Total assets	74,154	62,970	-11,184
<b>Accumulated deficit (net public debt)</b>	<b>564,526</b>	<b>551,022</b>	<b>-13,500</b>

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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)								
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174	56,383
<i>Less:</i>									
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
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123	104
<b>Gains from wind-up of interest in Crown corporations/ disposal of shares</b>	2	110			325				
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3	0.2	1.2	0.3
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808	22,894

Source: *Public Accounts of Canada*.

With a budgetary surplus of \$13.5 billion, a net requirement of \$6.0 billion from non-budgetary transactions and a net source of funds of \$0.4 billion from foreign exchange transactions, there was a net financial source of \$8.0 billion in the April to September 2000 period, compared to a net source of \$4.1 billion in the same period last year.

### Net borrowings down \$18.3 billion for April to September 2000

In September, the Government's holdings of market debt declined by \$12.1 billion, bringing the retirement for the first six months to \$18.3 billion. This was financed with the net financial source \$8.0 billion and a reduction of \$10.4 billion in cash balances. 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 September, cash balances were \$2.6 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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November 2000

