

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1999

Budgetary surplus of \$3.1 billion in December 1999

There was a budgetary surplus of \$3.1 billion in December 1999, up \$0.6 billion from the surplus recorded in December 1998. As noted in last month's *Fiscal Monitor*, a large surplus was expected in December. Budgetary revenues are typically highest in the final month of each quarter, reflecting remittances from quarterly personal income tax filers. In addition, December marks the settlement period for corporations whose financial year ends on October 31, primarily financial institutions.

- Budgetary revenues were up \$1.5 billion, or 10.3 per cent, primarily attributable to higher corporate income tax revenues, which were up \$0.9 billion, or 54 per cent. Corporate profits rebounded strongly in 1999, following general weakness in 1998. Personal income tax revenues were up \$0.3 billion, or 4.2 per cent, primarily reflecting increases in the number of people employed. Employment insurance (EI) premium revenues were lower due to the reduction in premium rates, while higher refunds depressed goods and services tax (GST) revenues.
- Program spending increased \$1.1 billion, or 12.4 per cent, with most of the increase attributable to higher operating and capital expenditures.
- Public debt declined \$0.2 billion, or 6.3 per cent, primarily reflecting adjustments pertaining to previous months.

Year-to-date: budgetary surplus of \$10.9 billion

Over the first three quarters of fiscal year 1999-2000, the budgetary surplus was estimated at \$10.9 billion, up \$0.6 billion from the surplus recorded in the same period of 1998-99. Monthly deficits are expected in the final quarter of 1999-2000. Revenues are typically depressed in January due to the payment of the GST quarterly credit and refunds. Personal income tax refunds pertaining to the processing of 1999 tax returns will serve to depress revenues in March 2000. The impact of the tax relief measures announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings) effective January 1, 2000, will also dampen budgetary revenues in the final quarter of the year. In addition, the timing of revenues and spending at year end, including the impact of spending initiatives announced before the 2000 budget, will also serve to reduce the budgetary balance. These factors are expected to reduce the surplus to date by about \$3.4 billion.

In addition to these factors, the policy initiatives proposed in the 2000 budget will reduce the reported surplus to date by an additional \$4.5 billion. Allowing for the \$3-billion Contingency Reserve results in a balanced budget. To the extent that the Contingency Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 2000*.



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Table 1

Summary statement of transactions

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	14,782	16,299	116,011	119,719
Program spending	-8,789	-9,880	-74,599	-77,945
Operating surplus	5,993	6,419	41,412	41,774
Public debt charges	-3,562	-3,339	-31,058	-30,825
Budgetary balance (deficit/surplus)	2,431	3,080	10,354	10,949
Non-budgetary transactions	-2,668	-4,512	-3,283	-5,355
Financial requirements/surplus (excluding foreign exchange transactions)	-237	-1,432	7,071	5,594
Foreign exchange transactions	4,219	3,875	3,394	-308
Net financial balance	3,982	2,443	10,465	5,286
Net change in borrowings	3,446	-50	-11,623	-603
Net change in cash balances	7,428	2,393	-1,158	4,683

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

Over the first nine months of 1999-2000, budgetary revenues were up \$3.7 billion, or 3.2 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$2.6 billion, or 4.5 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were up \$0.3 billion, or 2.0 per cent. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, refunds relating to

overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000. The February 2000 budget projects a strong pickup in corporate income tax revenue over the final months of the fiscal year, as corporations file their settlement payments for taxation year 1999.

- EI premium revenues were down \$0.7 billion, or 4.9 per cent, as the decline in EI premium rates and adjustments relating to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$1.0 billion, or 4.1 per cent. Net GST collections were up \$1.3 billion, or 8.0 per cent, due to the strong gains in those goods and services subject to the GST. However, the timing of refunds

Table 2

Budgetary revenues

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
	(%)			(%)		
Income taxes						
Personal income tax	8,122	8,460	4.2	57,102	59,699	4.5
Corporate income tax	1,695	2,610	54.0	13,863	14,140	2.0
Other income tax revenue	165	291	76.4	1,721	2,173	26.3
Total income tax	9,982	11,361	13.8	72,686	76,012	4.6
Employment insurance premium revenues	1,055	980	-7.1	13,993	13,312	-4.9
Excise taxes and duties						
Goods and services tax	1,993	1,945	-2.4	16,348	17,653	8.0
Customs import duties	166	230	38.6	1,818	1,765	-2.9
Sales and excise taxes	595	665	11.8	6,420	6,182	-3.7
Total excise taxes and duties	2,754	2,840	3.1	24,586	25,600	4.1
Total tax revenues	13,791	15,181	10.1	111,265	114,924	3.3
Non-tax revenues	991	1,118	12.8	4,746	4,795	1.0
Total budgetary revenues	14,782	16,299	10.3	116,011	119,719	3.2

should depress revenues over the balance of the fiscal year. Customs import duties were down 2.9 per cent. Sales and excise taxes and duties declined 3.7 per cent, primarily attributable to the elimination of the Air Transportation Tax, effective November 1998.

- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up 1.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$3.3 billion, or 4.5 per cent, in the April to December 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in

EI benefits. The increase in elderly benefits reflected 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 due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.

- Major transfers to other levels of government were up \$0.8 billion, or 5.7 per cent, reflecting much higher fiscal transfers, most notably for Equalization. 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.

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Table 3

Budgetary expenditures

	December			April to December		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(%)		
Transfer payments to:						
Persons						
Elderly benefits	1,923	2,007	4.4	17,008	17,414	2.4
Employment insurance benefits	1,047	1,000	-4.5	8,101	7,880	-2.7
Total	2,970	3,007	1.2	25,109	25,294	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	9,375	9,375	0.0
Fiscal transfers	828	975	17.8	7,184	8,032	11.8
Alternative Payments for Standing Programs	-187	-188	0.5	-1,681	-1,688	0.4
Total	1,683	1,829	8.7	14,878	15,719	5.7
Direct program spending						
Subsidies and other transfers						
Agriculture	79	96	21.5	474	529	11.6
Foreign Affairs	203	113	-44.3	987	1,052	6.6
Health	69	167	142.0	720	818	13.6
Human Resources Development	288	165	-42.7	1,380	1,151	-16.6
Indian and Northern Development	285	326	14.4	3,007	3,109	3.4
Industry and Regional Development	173	214	23.7	1,055	1,058	0.3
Veterans Affairs	114	117	2.6	1,024	1,038	1.4
Other	58	192	231.0	1,651	1,522	-7.8
Total	1,269	1,390	9.5	10,298	10,277	-0.2
Payments to Crown corporations						
Canadian Broadcasting Corporation	174	145	-16.7	759	710	-6.5
Canada Mortgage and Housing Corporation	165	150	-9.1	1,310	1,345	2.7
Other	83	102	22.9	733	804	9.7
Total	422	397	-5.9	2,802	2,859	2.0
Operating and capital expenditures						
Defence	879	1,278	45.4	6,853	7,902	15.3
All other departmental expenditures	1,566	1,979	26.4	14,659	15,894	8.4
Total	2,445	3,257	33.2	21,512	23,796	10.6
Total direct program spending	4,136	5,044	22.0	34,612	36,932	6.7
Total program expenditures	8,789	9,880	12.4	74,599	77,945	4.5
Public debt charges	3,562	3,339	-6.3	31,058	30,825	-0.8
Total budgetary expenditures	12,351	13,219	7.0	105,657	108,770	2.9
Memorandum item:						
Total transfers	5,922	6,226	5.1	50,285	51,290	2.0

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.3 billion, or 6.7 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, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges declined 0.8 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of \$5.6 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 measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus 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 \$5.4 billion in the first nine months of 1999-2000, up from the net requirement of \$3.3 billion in the same period of 1998-99. The higher requirement was due 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 \$5.6 billion in the April to December 1999 period, down from the \$7.1-billion surplus recorded in the same period of 1998.

Year-to-date: net financial surplus of \$5.3 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 requirement of \$0.3 billion in the April to December 1999 period, compared to a net source of \$3.4 billion in the same period of 1998.

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Table 4

The budgetary balance and financial requirements/surplus

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	2,431	3,080	10,354	10,949
Loans, investments and advances				
Crown corporations	204	77	1,095	308
Other	11	-42	-452	-105
Total	215	35	643	203
Specified purpose accounts				
Canada Pension Plan Account	-409	-684	-60	11
Superannuation accounts	427	512	2,959	3,683
Other	-37	19	8	-105
Total	-19	-153	2,907	3,589
Other transactions	-2,864	-4,394	-6,833	-9,147
Total non-budgetary transactions	-2,668	-4,512	-3,283	-5,355
Financial requirements/surplus (excluding foreign exchange transactions)	-237	-1,432	7,071	5,594
Foreign exchange transactions	4,219	3,875	3,394	-308
Net financial balance	3,982	2,443	10,465	5,286

Table 5

Net financial balance and net borrowings

	December		April to December	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	3,982	2,443	10,465	5,286
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,141	82	5,972	6,949
Canada Savings Bonds	48	11	-2,149	-670
Treasury bills	900	550	-25,200	-3,500
Other	-	-93	1,281	-334
Subtotal	5,089	550	-20,096	2,445
Less: Government's holding of unmatured debt	-630	28	-479	-10
Total	4,459	578	-20,575	2,435
Payable in foreign currencies				
Marketable bonds	-	-	9,226	2,527
Notes and loans	-	-	-	-
Canada bills	-885	-628	801	-5,309
Canada notes	-128	-	-1,075	-256
Total	-1,013	-628	8,952	-3,038
Net change in borrowings	3,446	-50	-11,623	-603
Change in cash balance	7,428	2,393	-1,158	4,683

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	December 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,396	-5,113
Interest and matured debt	9,791	6,858	-2,933
Allowances	11,016	11,316	300
Total accounts payable, accruals and allowances	45,316	37,570	-7,746
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,091	3,684
Canada Pension Plan (net of securities)	5,427	5,438	11
Other pension and other accounts	6,724	6,618	-106
Total pension and other accounts	134,558	138,147	3,589
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,709	6,957
Treasury bills	96,950	93,450	-3,500
Canada Savings Bonds	27,662	26,974	-688
Other	4,063	3,728	-335
Subtotal	424,427	426,861	2,434
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	4,921	-5,309
Canada notes	1,863	1,607	-256
Subtotal	36,000	32,962	-3,038
Total unmatured debt	460,427	459,823	-604
Total interest-bearing debt	594,985	597,970	2,985
Total liabilities	640,301	635,540	-4,761
Assets			
Cash and accounts receivable	15,273	21,358	6,085
Foreign exchange accounts	34,668	34,975	307
Loans, investments and advances (net of allowances)	13,536	13,332	-204
Total assets	63,477	69,665	6,188
Accumulated deficit (net public debt)	576,824	565,875	-10,949

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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
	(millions of dollars)							
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733	46,986	50,174
<i>Less:</i>								
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633	26,640
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892	2,850
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461	20,684
GST penalties and interest received	19	71	90	129	135	159	127	123
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
Proceeds to DSRA	15,190	15,050	15,786	16,916	16,835	18,238	19,588	20,808

Source: *Public Accounts of Canada*.

With a budgetary surplus of \$10.9 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net requirement of \$0.3 billion from foreign exchange transactions, there was a net financial surplus of \$5.3 billion in the April to December 1999 period, compared to a net surplus of \$10.5 billion in the same period of 1998.

With a financial surplus of \$5.3 billion and a retirement of \$0.6 billion of market debt to the end of December 1999, there was a net increase in cash balances of \$4.7 billion to \$14.0 billion. The buildup of cash reflected the impact of precautionary measures relating to end-of-year considerations.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account (DSRA) 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 DSRA. 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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