

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for March 1999

### Year-to-date: budgetary surplus of \$9.1 billion

With a deficit of \$1.7 billion in March 1999, the budgetary surplus over the 12 months (April 1998 to March 1999) was estimated at \$9.1 billion, down slightly from the surplus of \$9.2 billion reported in the same period of 1997-98. Budgetary revenues were up \$2.8 billion, or 1.8 per cent, program spending was up \$2.6 billion, or 2.5 per cent, while public debt charges increased \$0.3 billion, or 0.8 per cent.

### Final results to come in the fall

The financial results for the April 1998 to March 1999 period are not the final results for the 1998-99 fiscal year. Still to come are the "end-of-year accounting" adjustments.

Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1998-99. For example, the 1999 budget announcement of a one-time cash supplement of \$3.5 billion to the Canada Health and Social Transfer (CHST) will be booked in the "end-of-year accounting" period, following passage of legislation. In addition, adjustments are made to include liabilities incurred by departments for goods and services received in late 1998-99 but for which payments were made in the April/May 1999 period. Based on previous years' experience, such adjustments could range between \$2.5 and \$3.5 billion. Together with the CHST cash supplement, this would reduce the surplus to the end of March 1999 by \$6 to \$7 billion.

These adjustments, coupled with expected developments in February and March 1999 and the inclusion of \$3 billion for the Contingency

Reserve, underlie the balanced budget estimate in the February 1999 budget for 1998-99.

However, budgetary revenues to the end of March 1999 were somewhat weaker than had been expected at the time of the 1999 budget. This is especially true for corporate income tax revenues, where higher-than-expected refunds in March 1999 will result in final collections coming in lower than estimated at the time of the budget. Unless there are offsetting adjustments in the other revenue components, once final adjustments are made for cash received in March but not deposited until April, budgetary revenues should be lower than estimated in the 1999 budget. Final audited results will be released in the fall.

### Budgetary deficit of \$1.7 billion in March 1999

There was a budgetary deficit of \$1.7 billion in March 1999, down nearly \$0.7 billion from the deficit of \$2.3 billion reported in March 1998.

On a year-over-year basis, budgetary revenues increased \$0.1 billion, as lower corporate income tax revenues, customs import duties and excise taxes and duties were more than offset by increases in the other major components.

- The decline in corporate income tax revenues was primarily due to refunds with respect to taxation year 1998, reflecting the decline in corporate profits.
- The decline in customs import duties reflected timing differences in the receipt of duties between the two periods, while the elimination of the Air Transportation Tax accounted for all of the decline in excise taxes and duties.



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Table 1

## Summary statement of transactions

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	12,752	12,868	152,627	155,425
Program spending	-11,590	-11,129	-102,417	-104,967
Operating surplus	1,162	1,739	50,210	50,458
Public debt charges	-3,505	-3,411	-41,016	-41,363
Budgetary balance (deficit/surplus)	-2,343	-1,672	9,194	9,095
<b>Non-budgetary transactions</b>	3,720	2,911	3,504	1,656
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,377	1,239	12,698	10,751
<b>Foreign exchange transactions</b>	-3,186	-5,846	-2,155	-4,478
<b>Net financial balance</b>	-1,809	-4,607	10,543	6,273
<b>Net change in borrowings</b>	2,497	6,853	-9,562	-7,368
<b>Net change in cash balances</b>	688	2,246	981	-1,095

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

- In contrast, personal income tax revenues increased \$0.2 billion, or 7.3 per cent, reflecting gains in employment income, while non-tax revenues were up \$0.4 billion, or 18.1 per cent, primarily due to higher Exchange Fund Account earnings.

Program spending was down \$0.5 billion from March 1998. This was primarily attributable to lower transfer payments, in part due to the impact of one-time initiatives which affected the March 1998 results.

Public debt charges were \$0.1 billion lower, reflecting a decline in the stock in interest-bearing debt as the average effective interest rate on that debt was unchanged.

### Budgetary revenues up \$2.8 billion in April 1998 to March 1999 period

On a year-over-year basis, budgetary revenues were up \$2.8 billion, or 1.8 per cent, in the April 1998 to March 1999 period.

Within budgetary revenues:

- Personal income tax revenues were up \$2.0 billion, or 2.8 per cent. This was due to continued increases in receipts from monthly

deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. However, the impact of these factors on the overall growth in personal income tax revenues has been dampened by higher refunds (up \$1.2 billion) and a net transfer of \$1 billion to employment insurance premium revenues, relating to prior-year adjustments and underpayments. In addition, payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.4 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were down \$1.0 billion, or 4.6 per cent, reflecting the impact of lower corporate profits in 1998.
- Employment insurance premium revenues were up \$0.6 billion, or 3.4 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting overpayments with respect to the 1996 taxation

Table 2

## Budgetary revenues

	March		April to March		Per cent change
	1998	1999	1997-98	1998-99	
(millions of dollars)					(%)
<b>Income taxes</b>					
Personal income tax	3,169	3,400	71,524	73,525	2.8
Corporate income tax	3,088	2,525	21,267	20,289	-4.6
Other income tax revenue	261	452	2,506	2,892	15.4
Total income tax	6,518	6,377	95,297	96,706	1.5
<b>Employment insurance premium revenues</b>	1,781	1,808	18,758	19,388	3.4
<b>Excise taxes and duties</b>					
Goods and services tax	1,314	1,407	19,865	20,929	5.4
Customs import duties	368	149	2,728	2,369	-13.2
Sales and excise taxes	694	674	8,659	8,449	-2.4
Total excise taxes and duties	2,376	2,230	31,252	31,747	1.6
<b>Total tax revenues</b>	10,675	10,415	145,307	147,841	1.7
<b>Non-tax revenues</b>	2,077	2,453	7,320	7,584	3.6
<b>Total budgetary revenues</b>	12,752	12,868	152,627	155,425	1.8

year, whereas in both October 1998 and February 1999, there were transfers from personal income tax revenues, due to underpayments with respect to previous taxation years. Dampening the impact of these factors was the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate). For 1999, the employee rate has been reduced to \$2.55.

- Net goods and services tax (GST) revenues were up \$1.1 billion, or 5.4 per cent, broadly in line with the growth in the applicable tax base. Customs import duties were down \$0.4 billion, or 13.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 2.4 per cent, due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.3 billion or 3.6 per cent, reflecting higher Exchange Fund Account earnings.

### Program spending up \$2.6 billion in April 1998 to March 1999 period

Program spending in the April 1998 to March 1999 period was up \$2.6 billion, or 2.5 per cent, compared to the same period of 1997-98. Most of the increase was due to higher transfer payments to other levels of government and increased operating and capital expenditures.

- Major transfers to persons were up \$0.4 billion, as higher elderly benefit payments more than offset lower employment insurance benefit payments. The increase in elderly benefits reflected an increase in the number of seniors collecting benefits as well as higher average benefits. The decline in employment insurance benefits was attributable to fewer Canadians being unemployed.
- Major transfers to other levels of government were up \$1.5 billion, reflecting increased Equalization entitlements. As noted in the 1999 budget, data revisions, primarily resulting from much stronger economic growth in Ontario than in the Equalization-receiving provinces, resulted in large upward revisions to Equalization entitlements. These

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revisions relate to both 1998-99 and to prior years. Cash entitlements under the CHST were unchanged as current legislation prevents the fiscal year cash entitlement from falling below \$12.5 billion. In the 1999 budget, the federal government announced a one-time CHST supplement of \$3.5 billion, which will be accounted for in 1998-99 following passage of enabling legislation.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.6 billion, or 1.3 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were down \$0.7 billion, in part reflecting the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. The increase in transfers by Human Resources Development Canada was attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$1.2 billion, largely attributable to the impact of retroactive wage settlements.

## **Public debt charges up \$0.3 billion in April 1998 to March 1999 period**

Public debt charges were up \$0.3 billion, or 0.8 per cent, as the decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt. The latter reflects not only a slight increase in interest rates but also changes in the composition of interest-bearing debt towards longer-term maturities.

## **Financial surplus of \$10.8 billion (excluding foreign exchange transactions) in 1998-99**

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 source of funds amounting to \$1.7 billion in the April 1998 to March 1999 period, down from a net source of \$3.5 billion in the same period of 1997-98. This decline primarily reflects increased payments to provinces under the tax collection agreements, pertaining to underpayments relating to previous taxation years, and the payment to the Canada Millennium Scholarship Foundation, for which the liability had been established in 1997-98. These payments were, in part, offset by higher funds in the superannuation accounts, primarily relating to the transfer of funds in 1997-98 to NAV CANADA, which dampened the net source of funds in 1997-98, and a higher source of funds in the Canada Pension Plan Account.

As a result, there was a financial surplus (excluding foreign exchange transactions) of \$10.8 billion in the April 1998 to March 1999 period, down slightly from the \$12.7-billion surplus recorded in the same period of 1997-98. Although final budgetary results will not be available until the fall of 1999, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. The preliminary outcome for the financial surplus for 1998-99 was slightly lower than the February 1999 budget estimate of \$11.5 billion, primarily due to timing of payments.

Table 3

## Budgetary expenditures

	March		April to March		Per cent change
	1998	1999	1997-98	1998-99	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,894	1,937	22,212	22,765	2.5
Employment insurance benefits	1,479	1,323	11,897	11,772	-1.1
Total	3,373	3,260	34,109	34,537	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	12,500	12,500	0.0
Fiscal transfers	827	790	9,729	11,231	15.4
Alternative Payments for Standing Programs	-156	-93	-2,120	-2,147	1.3
Total	1,713	1,739	20,109	21,584	7.3
<b>Direct program spending</b>					
Subsidies and other transfers					
Agriculture	150	82	804	649	-19.3
Foreign Affairs	356	230	1,851	1,635	-11.7
Health	81	93	833	955	14.6
Human Resources Development	272	179	1,622	2,008	23.8
Indian and Northern Development	221	340	3,660	3,689	0.8
Industry and Regional Development	292	272	1,674	1,664	-0.6
Veterans Affairs	114	117	1,368	1,372	0.3
Other	1,480	1,058	4,025	3,144	-21.9
Total	2,966	2,371	15,837	15,116	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	61	27	863	896	3.8
Canada Mortgage and Housing Corporation	135	175	1,663	1,800	8.2
Other	86	100	1,080	1,043	-3.4
Total	282	302	3,606	3,739	3.7
Operating and capital expenditures					
Defence	994	1,072	9,752	9,508	-2.5
All other departmental expenditures	2,262	2,385	19,004	20,483	7.8
Total	3,256	3,457	28,756	29,991	4.3
Total direct program spending	6,504	6,130	48,199	48,846	1.3
<b>Total program expenditures</b>	11,590	11,129	102,417	104,967	2.5
<b>Public debt charges</b>	3,505	3,411	41,016	41,363	0.8
<b>Total budgetary expenditures</b>	15,095	14,540	143,433	146,330	2.0
Memorandum item:					
Total transfers	8,052	7,370	70,055	71,237	1.7

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Table 4

## The budgetary balance and financial requirements/surplus

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	-2,343	-1,672	9,194	9,095
<b>Loans, investments and advances</b>				
Crown corporations	149	301	1,243	1,613
Other		-145	53	-403
Total	149	156	1,296	1,210
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	803	-7	459	1,233
Superannuation accounts	321	243	2,983	3,885
Other	176	34	26	35
Total	1,300	270	3,468	5,153
<b>Other transactions</b>	2,271	2,485	-1,260	-4,707
<b>Total non-budgetary transactions</b>	3,720	2,911	3,504	1,656
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,377	1,239	12,698	10,751
<b>Foreign exchange transactions</b>	-3,186	-5,846	-2,155	-4,478
<b>Net financial balance</b>	-1,809	-4,607	10,543	6,273

Table 5

## Net financial balance and net borrowings

	March		April to March	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
<b>Net financial balance</b>	-1,809	-4,607	10,543	6,273
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-1,768	-7,300	12,020	972
Canada Savings Bonds	-123	-50	-2,878	-1,875
Treasury bills	3,100	10,950	-23,100	-15,350
Other	-1	499	-11	607
Subtotal	1,208	4,099	-13,969	-15,646
Less: Government's holding of unmaturing debt	98	66	241	193
Total	1,306	4,165	-13,728	-15,453
Payable in foreign currencies				
Marketable bonds	899	132	3,679	7,013
Notes and loans	0	0	0	0
Canada bills	436	1,283	984	874
Canada notes	-144	1,273	-497	198
Total	1,191	2,688	4,166	8,085
<b>Net change in borrowings</b>	2,497	6,853	-9,562	-7,368
<b>Change in cash balance</b>	688	2,246	981	-1,095

Table 6

**Condensed statement of assets and liabilities**

	March 31, 1998	March 31, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	14,711	-7,653
Interest and matured debt	10,419	7,374	-3,045
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	33,002	-10,698
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	121,342	3,885
Canada Pension Plan (net of securities)	4,205	6,794	2,589
Other pension and other accounts	5,872	4,551	-1,321
Total pension and other accounts	127,534	132,687	5,153
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	295,555	972
Treasury bills	112,300	96,950	-15,350
Canada Savings Bonds	29,769	28,087	-1,682
Other	3,456	4,063	607
Subtotal	440,108	424,655	-15,453
Payable in foreign currencies			
Marketable bonds	14,651	23,176	8,525
Canada bills	9,356	10,230	874
Canada notes	3,176	1,863	-1,313
Subtotal	27,183	35,269	8,086
Total unmatured debt	467,291	459,924	-7,367
Total interest-bearing debt	594,825	592,611	-2,214
Total liabilities	638,525	625,613	-12,912
<b>Assets</b>			
Cash and accounts receivable	15,813	8,730	-7,083
Foreign exchange accounts	28,968	33,446	-4,478
Loans, investments and advances (net of allowances)	14,036	12,824	-1,212
Total assets	58,817	55,000	-3,817
<b>Accumulated deficit (net public debt)</b>	579,708	570,613	-9,095

**Net financial balance of \$6.3 billion/  
net borrowings down \$7.4 billion**

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.

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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
	(millions of dollars)						
<b>Gross GST collected</b>	29,564	30,516	32,652	36,715	38,048	40,733	46,986
<i>Less:</i>							
Refunds and rebates	12,134	13,145	14,271	17,112	18,874	19,782	24,633
Quarterly low-income credit	2,262	2,503	2,685	2,816	2,799	2,872	2,892
Net GST	15,168	14,868	15,696	16,787	16,375	18,079	19,461
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127
<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	0.176
<b>Proceeds to DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238	19,588

Source: *Public Accounts of Canada*.

Taking all of these factors into account, preliminary estimates for 1998-99 indicate that there was a net requirement of \$4.5 billion from foreign exchange transactions, compared to a net requirement of \$2.2 billion in 1997-98.

With a budgetary surplus of \$9.1 billion, a net source of \$1.7 billion from non-budgetary transactions and a net requirement of funds of \$4.5 billion from foreign exchange transactions, there was a net financial surplus of \$6.3 billion in 1998-99, compared to a net surplus of \$10.6 billion in 1997-98.

With this financial surplus, coupled with a reduction in cash balances of \$1.1 billion, the government retired \$7.4 billion of market debt in 1998-99. This will mark the second consecutive year in which there has been a reduction in market debt. Over the two fiscal years, market debt has declined by \$16.9 billion. Cash balances at the end of March 1999 were \$9.3 billion.

## 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 revenue 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. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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