

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for May 1999

### Budgetary surplus of \$1.8 billion in May 1999

There was a budgetary surplus of \$1.8 billion in May 1999, up \$0.8 billion from the surplus recorded in May 1998. About half of the year-over-year increase in the surplus reflected timing considerations, which will be reversed in future months. Budgetary revenues were up \$1 billion, or 8.2 per cent, while public debt charges declined \$0.1 billion, or 2.3 per cent. Program spending increased \$0.3 billion, or 3.7 per cent.

Among the major revenue components:

- Personal income tax collections were up 11.9 per cent. This increase reflected continued strength in receipts from monthly deductions from employment income, due to the increase in the number of people employed, as well as the timing of the receipt of payments. Taxes paid on filing with respect to the 1998 taxation year were also up strongly, more than offsetting the year-over-year decline witnessed last month.
- Corporate income tax collections declined 13.4 per cent, reflecting the weakness in profits in 1998.
- Employment insurance premium revenues were virtually unchanged, as the effect of the decline in the premium rates on overall premium revenues (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.
- Net goods and services tax collections increased 40.8 per cent, largely due to the timing of receipts. Timing factors depressed gross receipts in May 1998 and there was a corresponding recovery the following month. This year, the reverse appears to have occurred.
- Other excise taxes and duties were up 3.6 per cent in May, while they were virtually unchanged in April. Non-tax revenues declined 17.6 per cent, offsetting all of the year-over-year increase recorded in April.

Within program spending, all components were higher with the exception of subsidies and other transfers, and payments to Crown corporations.

- Major transfers to persons were up slightly due to higher employment insurance benefits. Elderly benefits were unchanged due to timing factors.
- Major transfers to other levels of government were up 4.9 per cent, reflecting higher Equalization entitlements. As indicated in the 1999 budget, Equalization entitlements were revised up significantly due to historical data revisions indicating much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- The decline in subsidies and other transfers was widespread among most departments. Over the course of the fiscal year, this component is expected to be lower than in 1998-99.
- The decline in payments to Crown corporations in May offset part of the increase recorded in April.
- The increase in operating and capital expenditures was primarily attributable to timing factors.



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Table 1

## Summary statement of transactions

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	12,346	13,363	24,846	26,514
Program spending	-7,724	-8,006	-15,588	-16,239
Operating surplus	4,622	5,357	9,258	10,275
Public debt charges	-3,593	-3,512	-7,046	-6,924
Budgetary balance (deficit/surplus)	1,029	1,845	2,212	3,351
<b>Non-budgetary transactions</b>	4,594	4,441	1,137	870
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	5,623	6,286	3,349	4,221
<b>Foreign exchange transactions</b>	1,178	1,135	2,465	503
<b>Net financial balance</b>	6,801	7,421	5,814	4,724
<b>Net change in borrowings</b>	-5,682	-2,427	-11,239	-7,140
<b>Net change in cash balances</b>	1,119	4,994	-5,425	-2,416

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

Most of the decline in public debt charges was due to timing adjustments which overstated the May 1998 results. This will be reversed in future months.

### Year-to-date: budgetary surplus of \$3.4 billion

Over the first two months of fiscal year 1999-2000, the budgetary surplus was estimated at \$3.4 billion, up \$1.1 billion from the surplus of \$2.2 billion recorded in the same period of 1998-99. However, as noted above, part of this year-over-year improvement is attributable to timing factors, which will be reversed in future months. In addition, the tax reduction measures announced in the 1999 budget, as well as the 1998 budget measure to increase the Canada Child Tax Benefit, became effective July 1, 1999. Therefore, the budgetary results for the first two months of 1999-2000 are not an appropriate indicator of developments over the year as a whole.

### Financial surplus of \$4.2 billion (excluding foreign exchange transactions) for April and May 1999

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.

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Table 2

## Budgetary revenues

	May		Change (%)	April to May		Change (%)
	1998 (millions of dollars)	1999 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
<b>Income taxes</b>						
Personal income tax	6,288	7,038	11.9	12,496	13,518	8.2
Corporate income tax	1,644	1,424	-13.4	2,886	2,506	-13.2
Other income tax revenue	143	152	6.3	429	575	34.0
Total income tax	8,075	8,614	6.7	15,811	16,599	5.0
<b>Employment insurance premium revenues</b>	1,795	1,800	0.3	3,543	3,587	1.2
<b>Excise taxes and duties</b>						
Goods and services tax	1,244	1,751	40.8	3,047	3,849	26.3
Customs import duties	146	156	6.8	320	338	5.6
Sales and excise taxes	694	719	3.6	1,315	1,342	2.1
Total excise taxes and duties	2,084	2,626	26.0	4,682	5,529	18.1
<b>Total tax revenues</b>	11,954	13,040	9.1	24,036	25,715	7.0
<b>Non-tax revenues</b>	392	323	-17.6	810	799	-1.4
<b>Total budgetary revenues</b>	12,346	13,363	8.2	24,846	26,514	6.7

Non-budgetary transactions resulted in a net source of funds of \$0.9 billion in April/May 1999, down \$0.3 billion from the net source in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.2 billion in the April/May 1999 period, compared to a financial surplus of \$3.3 billion recorded in the same period last year.

### Net financial surplus of \$4.7 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. Taking all of these factors into account, there was a net source of \$0.5 billion from foreign exchange transactions in the April/May 1999 period, compared to a net source of \$2.5 billion in the same period last year.

With a budgetary surplus of \$3.4 billion, a net source of funds of \$0.9 billion from non-budgetary transactions and a net source of funds of \$0.5 billion from foreign exchange transactions, there was a net financial surplus of \$4.7 billion in the April/May 1999 period compared to a surplus of \$5.8 billion in the same period last year.

### Net borrowings down \$7.1 billion

With a net financial surplus of \$4.7 billion and a reduction in cash balances of \$2.4 billion in April/May 1999, the government retired \$7.1 billion of market debt in this period. Cash balances at the end of May 1999 amounted to \$6.9 billion.

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Table 3

## Budgetary expenditures

	May		Change (%)	April to May		Change (%)
	1998 (millions of dollars)	1999 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,878	1,878	0.0	3,699	3,749	1.4
Employment insurance benefits	881	943	7.0	1,995	2,022	1.4
<b>Total</b>	<b>2,759</b>	<b>2,821</b>	<b>2.2</b>	<b>5,694</b>	<b>5,771</b>	<b>1.4</b>
Other levels of government						
Canada Health and Social Transfer	1,041	1,042	0.1	2,083	2,083	0.0
Fiscal transfers	897	991	10.5	1,539	1,735	12.7
Alternative Payments for Standing Programs	-188	-198	5.3	-375	-375	0.0
<b>Total</b>	<b>1,750</b>	<b>1,835</b>	<b>4.9</b>	<b>3,247</b>	<b>3,443</b>	<b>6.0</b>
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	9	46	411.1	14	47	235.7
Foreign Affairs	65	138	112.3	166	195	17.5
Health	62	61	-1.6	146	116	-20.5
Human Resources Development	170	56	-67.1	228	83	-63.6
Indian and Northern Development	217	229	5.5	995	1,058	6.3
Industry and Regional Development	60	64	6.7	132	155	17.4
Veterans Affairs	113	114	0.9	227	227	0.0
Other	167	102	-38.9	358	296	-17.3
<b>Total</b>	<b>863</b>	<b>810</b>	<b>-6.1</b>	<b>2,266</b>	<b>2,177</b>	<b>-3.9</b>
Payments to Crown corporations						
Canadian Broadcasting Corporation	23	42	82.6	170	155	-8.8
Canada Mortgage and Housing Corporation	175	150	-14.3	300	295	-1.7
Other	57	60	5.3	174	215	23.6
<b>Total</b>	<b>255</b>	<b>252</b>	<b>-1.2</b>	<b>644</b>	<b>665</b>	<b>3.3</b>
Operating and capital expenditures						
Defence	660	699	5.9	1,104	1,238	12.1
All other departmental expenditures	1,437	1,589	10.6	2,633	2,945	11.8
<b>Total</b>	<b>2,097</b>	<b>2,288</b>	<b>9.1</b>	<b>3,737</b>	<b>4,183</b>	<b>11.9</b>
<b>Total direct program spending</b>	<b>3,215</b>	<b>3,350</b>	<b>4.2</b>	<b>6,647</b>	<b>7,025</b>	<b>5.7</b>
<b>Total program expenditures</b>	<b>7,724</b>	<b>8,006</b>	<b>3.7</b>	<b>15,588</b>	<b>16,239</b>	<b>4.2</b>
<b>Public debt charges</b>	<b>3,593</b>	<b>3,512</b>	<b>-2.3</b>	<b>7,046</b>	<b>6,924</b>	<b>-1.7</b>
<b>Total budgetary expenditures</b>	<b>11,317</b>	<b>11,518</b>	<b>1.8</b>	<b>22,634</b>	<b>23,163</b>	<b>2.3</b>
Memorandum item:						
Total transfers	5,372	5,466	1.7	11,207	11,391	1.6

Table 4

## The budgetary balance and financial requirements/surplus

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	1,029	1,845	2,212	3,351
<b>Loans, investments and advances</b>				
Crown corporations	26	-42	127	-106
Other	46	15	47	324
Total	72	-27	174	218
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	850	665	1,449	445
Superannuation accounts	260	317	600	681
Other	15	-28	-25	-6
Total	1,125	954	2,024	1,120
<b>Other transactions</b>	3,397	3,514	-1,061	-468
<b>Total non-budgetary transactions</b>	4,594	4,441	1,137	870
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	5,623	6,286	3,349	4,221
<b>Foreign exchange transactions</b>	1,178	1,135	2,465	503
<b>Net financial balance</b>	6,801	7,421	5,814	4,724

Table 5

## Net financial balance and net borrowings

	May		April to May	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	6,801	7,421	5,814	4,724
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	3,900	4,300	3,900	4,300
Canada Savings Bonds	-365	-137	-994	-223
Treasury bills	-8,900	-5,900	-13,100	-9,950
Other	56	227	55	826
Subtotal	-5,309	-1,510	-10,139	-5,047
Less: Government's holding of unmatured debt	89	49	179	106
Total	-5,220	-1,461	-9,960	-4,941
Payable in foreign currencies				
Marketable bonds	-	-	-	-
Notes and loans	-	-	-	-
Canada bills	-462	-966	-1,279	-2,199
Canada notes	-	-	-	-
Total	-462	-966	-1,279	-2,199
<b>Net change in borrowings</b>	-5,682	-2,427	-11,239	-7,140
<b>Change in cash balance</b>	1,119	4,994	-5,425	-2,416

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Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	May 31, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	18,911	22,319	3,408
Interest and matured debt	7,374	7,604	230
Allowances	12,804	10,917	-1,887
Total accounts payable, accruals and allowances	39,089	40,840	1,751
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	121,342	122,023	681
Canada Pension Plan (net of securities)	6,794	7,239	445
Other pension and other accounts	4,551	4,545	-6
Total pension and other accounts	132,687	133,807	1,120
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,555	299,855	4,300
Treasury bills	96,950	87,000	-9,950
Canada Savings Bonds	28,087	27,457	-630
Other	4,063	4,889	826
Subtotal	424,655	419,201	-5,454
Payable in foreign currencies			
Marketable bonds	23,176	24,621	1,445
Canada bills	10,230	7,972	-2,258
Canada notes	1,863	1,261	-602
Subtotal	35,269	33,854	-1,415
Total unmatured debt	459,924	453,055	-6,869
Total interest-bearing debt	592,611	586,862	-5,749
Total liabilities	631,700	627,702	-3,998
<b>Assets</b>			
Cash and accounts receivable	8,730	7,362	-1,368
Foreign exchange accounts	33,446	33,949	503
Loans, investments and advances (net of allowances)	12,824	13,042	218
Total assets	55,000	54,353	-647
<b>Accumulated deficit (net public debt)</b>	<b>576,700</b>	<b>573,349</b>	<b>-3,351</b>

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