

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for August 1999

### Budgetary surplus of \$0.6 billion in August 1999

There was a budgetary surplus of \$0.6 billion in August 1999, up \$0.4 billion from the surplus of \$0.2 billion recorded in August 1998. All of this year-over-year increase was due to higher budgetary revenues, up \$0.7 billion, or 5.7 per cent. Program spending was up \$0.2 billion, or 2.6 per cent, while public debt charges were up \$69 million, or 2.2 per cent.

Within budgetary revenues:

- Personal income tax collections were up 11.2 per cent, with all of the increase attributable to higher receipts from deductions from employment income. This primarily reflects the timing of receipts, as there was an extra pay period included in the August 1999 results. Most of this increase should be offset in September.
- Corporate income tax collections declined 16.9 per cent, primarily reflecting higher refunds attributable to the instalment overpayments in 1998-99.
- Employment insurance (EI) premium revenues were down 4.7 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) revenues were up 19.8 per cent. Monthly revenues to date have been extremely volatile and

inconsistent with the developments in the underlying tax base. Customs import duties declined by 41.2 per cent, largely due to the timing of payments, which overstated the net increase in the first four months of 1999-2000. Other excise taxes and duties were down 4.7 per cent.

- Non-tax revenues were up 37.2 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up 3.6 per cent. Elderly benefits advanced 3.0 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits were up 4.8 per cent, largely reflecting timing considerations – in July, EI benefits were down 9.2 per cent.
- Major transfers to other levels of government were up 5.1 per cent, reflecting higher Equalization entitlements. 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.
- Direct program spending increased by 0.9 per cent. Subsidies and other transfers were down 17.1 per cent, payments to Crown corporations were up 28.3 per cent, while operating and capital expenditures were up 6.8 per cent. Developments within direct program spending primarily reflect the timing of payments.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	11,800	12,473	63,561	65,081
Program spending	-8,498	-8,720	-40,604	-41,884
Operating surplus	3,302	3,753	22,957	23,197
Public debt charges	-3,124	-3,193	-17,082	-17,087
Budgetary balance (deficit/surplus)	178	560	5,875	6,110
<b>Non-budgetary transactions</b>	2,174	1,010	-1,296	-4,371
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,352	1,570	4,579	1,739
<b>Foreign exchange transactions</b>	5,681	-859	6,889	-324
<b>Net financial balance</b>	8,033	711	11,468	1,415
<b>Net change in borrowings</b>	1,577	878	-7,314	-1,388
<b>Net change in cash balances</b>	9,610	1,589	4,154	27

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

Public debt charges were up 2.2 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

### Year-to-date: budgetary surplus at \$6.1 billion

Over the first five months of fiscal year 1999-2000, the budgetary surplus was estimated at \$6.1 billion, up \$0.2 billion from the surplus of \$5.9 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.5 billion, or 2.4 per cent, on a year-over-year basis. All major components were up with the exception of corporate income tax revenues, EI premium revenues and customs import duties.

- Personal income tax collections were up \$0.9 billion, or 3.1 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 and to the inclusion of an extra pay period in the year-to-date results. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets. Moving forward, the results will be affected by the tax relief measures announced in the 1999 budget.
- Corporate income tax revenues were down \$0.7 billion, or 9.0 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.

Table 2

## Budgetary revenues

	August		Change (%)	April to August		Change (%)
	1998	1999		1998-99	1999-00	
	(millions of dollars)			(millions of dollars)		
<b>Income taxes</b>						
Personal income tax	5,288	5,878	11.2	30,805	31,748	3.1
Corporate income tax	1,409	1,171	-16.9	7,838	7,130	-9.0
Other income tax revenue	222	271	22.1	1,055	1,246	18.1
Total income tax	6,919	7,320	5.8	39,698	40,124	1.1
<b>Employment insurance premium revenues</b>	1,607	1,531	-4.7	8,658	8,594	-0.7
<b>Excise taxes and duties</b>						
Goods and services tax	1,870	2,240	19.8	8,512	9,390	10.3
Customs import duties	277	163	-41.2	1,033	1,008	-2.4
Sales and excise taxes	780	743	-4.7	3,621	3,639	0.5
Total excise taxes and duties	2,927	3,146	7.5	13,166	14,037	6.6
<b>Total tax revenues</b>	11,453	11,997	4.7	61,522	62,755	2.0
<b>Non-tax revenues</b>	347	476	37.2	2,039	2,326	14.1
<b>Total budgetary revenues</b>	11,800	12,473	5.7	63,561	65,081	2.4

- EI premium revenues were down marginally, as the effect of the decline in the premium rates was largely offset by an increase in the number of people employed.
- Net GST collections were up \$0.9 billion, or 10.3 per cent, well in excess of the growth in the underlying tax base. The growth in revenues to date continues to be affected by timing considerations, so the growth rate should come down in coming months and be more reflective of the growth in the tax bases. Customs import duties were down 2.4 per cent, reflecting the impact of tariff reductions. Sales and excise taxes and duties were up marginally.
- 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 14.1 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.3 billion, or 3.2 per cent, in the April to August 1999 period, compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. 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 was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.
- Major transfers to other levels of government were up \$0.4 billion, or 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 3.9 per cent.

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	August		Change (%)	April to August		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	1,888	1,945	3.0	9,385	9,562	1.9
Employment insurance benefits	911	955	4.8	4,582	4,539	-0.9
Total	2,799	2,900	3.6	13,967	14,101	1.0
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	5,208	5,209	0.0
Fiscal transfers	782	866	10.7	3,913	4,347	11.1
Alternative Payments for Standing Programs	-187	-188	0.5	-934	-938	0.4
Total	1,637	1,720	5.1	8,187	8,618	5.3
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	93	53	-43.0	223	149	-33.2
Foreign Affairs	145	155	6.9	515	510	-1.0
Health	90	121	34.4	414	430	3.9
Human Resources Development	173	32	-81.5	681	458	-32.7
Indian and Northern Development	305	261	-14.4	1,883	1,932	2.6
Industry and Regional Development	153	147	-3.9	496	546	10.1
Veterans Affairs	113	115	1.8	566	573	1.2
Other	132	114	-13.6	818	831	1.6
Total	1,204	998	-17.1	5,596	5,429	-3.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	44	85	93.2	334	340	1.8
Canada Mortgage and Housing Corporation	150	150	0.0	747	745	-0.3
Other	43	69	60.5	408	464	13.7
Total	237	304	28.3	1,489	1,549	4.0
Operating and capital expenditures						
Defence	876	1,016	16.0	3,574	3,826	7.1
All other departmental expenditures	1,745	1,782	2.1	7,791	8,361	7.3
Total	2,621	2,798	6.8	11,365	12,187	7.2
Total direct program spending	4,062	4,100	0.9	18,450	19,165	3.9
<b>Total program expenditures</b>	8,498	8,720	2.6	40,604	41,884	3.2
<b>Public debt charges</b>	3,124	3,193	2.2	17,082	17,087	0.0
<b>Total budgetary expenditures</b>	11,622	11,913	2.5	57,686	58,971	2.2
Memorandum item:						
Total transfers	5,640	5,618	-0.4	27,750	28,148	1.4

# The Fiscal Monitor

Table 4

## The budgetary balance and financial requirements/surplus

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	178	560	5,875	6,110
<b>Loans, investments and advances</b>				
Crown corporations	62	60	609	-50
Other	98	-357	117	1
Total	160	-297	726	-49
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-122	-246	361	-448
Superannuation accounts	300	388	1,528	1,833
Other	52	14	-5	-111
Total	230	156	1,884	1,274
<b>Other transactions</b>	1,784	1,151	-3,906	-5,596
<b>Total non-budgetary transactions</b>	2,174	1,010	-1,296	-4,371
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,352	1,570	4,579	1,739
<b>Foreign exchange transactions</b>	5,681	-859	6,889	-324
<b>Net financial balance</b>	8,033	711	11,468	1,415

Table 5

## Net financial balance and net borrowings

	August		April to August	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	8,033	711	11,468	1,415
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	2,300	-800	12,523	9,487
Canada Savings Bonds	-196	-34	-2,017	-988
Treasury bills	-2,100	1,750	-22,800	-7,450
Other	-24	49	1,547	1,295
Subtotal	-20	965	-10,747	2,344
Less: Government's holding of unmatured debt	89	173	455	278
Total	69	1,138	-10,292	2,622
Payable in foreign currencies				
Marketable bonds	75	-113	3,569	-113
Notes and loans	-	-	-	-
Canada bills	1,433	-147	282	-3,671
Canada notes	-	-	-873	-226
Total	1,508	-260	2,978	-4,010
<b>Net change in borrowings</b>	1,577	878	-7,314	-1,388
<b>Change in cash balance</b>	-9,610	1,589	4,154	27

# The Fiscal Monitor

---

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 the February 1999 budget.

Public debt charges were virtually unchanged from year-earlier levels, as an increase in the stock of interest-bearing debt offset the impact of a decline in the average effective interest rate on that stock. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

## **Year-to-date: financial surplus of \$1.7 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 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 requirement of \$4.4 billion in the first five months of 1999-2000, compared to a net requirement of \$1.3 billion in the same period last year. This increase was entirely attributable 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 \$1.7 billion in the April to August 1999 period, compared to a financial surplus of \$4.6 billion recorded in the same period last year.

## **Year-to-date: net financial surplus of \$1.4 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 August 1999 period, compared to a net source of \$6.9 billion in the same period last year.

# The Fiscal Monitor

Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	August 31, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	15,867	-8,642
Interest and matured debt	9,791	8,816	-975
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,699	-9,617
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,240	1,833
Canada Pension Plan (net of securities)	5,427	4,979	-448
Other pension and other accounts	6,724	6,614	-110
Total pension and other accounts	134,558	135,833	1,275
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	305,239	9,487
Treasury bills	96,950	89,500	-7,450
Canada Savings Bonds	27,662	26,951	-711
Other	4,063	5,357	1,294
Subtotal	424,427	427,047	2,620
Payable in foreign currencies			
Marketable bonds	23,907	23,794	
Canada bills	10,230	6,559	-3,671
Canada notes	1,863	1,637	-226
Subtotal	36,000	31,990	-4,010
Total unmatured debt	460,427	459,037	-1,390
Total interest-bearing debt	594,985	594,870	-115
Total liabilities	640,301	630,569	-9,732
<b>Assets</b>			
Cash and accounts receivable	15,273	11,279	-3,994
Foreign exchange accounts	34,668	34,991	323
Loans, investments and advances (net of allowances)	13,536	13,585	49
Total assets	63,477	59,855	-3,622
<b>Accumulated deficit (net public debt)</b>	<b>576,824</b>	<b>570,714</b>	<b>-6,110</b>

# The Fiscal Monitor

---

With a budgetary surplus of \$6.1 billion, a net requirement of \$4.4 billion from non-budgetary transactions and a net requirement of \$0.3 billion from foreign exchange transactions, there was a net financial surplus of \$1.4 billion in the April to August 1999 period compared to a net surplus of \$11.5 billion in the same period last year.

This net financial surplus was used to retire \$1.4 billion of market debt to the end of August 1999. Cash balances at the end of August 1999 amounted to \$9.3 billion.

