

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for September 1999

### Budgetary surplus of \$1.9 billion in September 1999

There was a budgetary surplus of \$1.9 billion in September 1999, down \$0.1 billion from the surplus recorded in September 1998, as an increase in budgetary revenues (up \$0.4 billion, or 2.9 per cent) was more than offset by increases in program spending (up \$0.4 billion, or 4.9 per cent) and public debt charges (up \$0.1 billion, or 2.5 per cent).

Within budgetary revenues:

- Personal income tax collections were up 9.9 per cent. However, about half of this increase was attributable to a transfer to employment insurance (EI) premium revenues in September 1998, which depressed personal income tax revenues in that month. Most of the remaining increase was attributable to continued strength in deductions from employment income, reflecting an increase in the number of people employed.
- Corporate income tax collections declined 2.0 per cent, primarily reflecting higher refunds attributable to instalment overpayments in 1998-99.
- EI premium revenues were down 20.7 per cent, primarily reflecting the September 1998 transfer from personal income tax revenues for underpayments relating to taxation year 1997. In addition, the reduction 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.
- Excise taxes and duties increased by 4.1 per cent, roughly in line with the increase in the applicable tax base. However, there were large variations among the components. Net goods and services tax (GST) revenues were up 19.2 per cent, with virtually all of the increase attributable to GST collected on imports. In contrast, customs import duties declined 36.7 per cent. Other excise taxes and duties were down 18.2 per cent.
- Non-tax revenues declined 20.0 per cent, primarily reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were down 1.8 per cent. Elderly benefits advanced 2.9 per cent, reflecting higher average benefits and an increase in the number of recipients. In contrast, EI benefits were down 13.1 per cent, largely reflecting timing considerations, which should be reversed in October.
- 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 which indicated much stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending increased by 9.4 per cent. Most of this increase reflects the timing of payments. Subsidies and other transfers were up 11.3 per cent, following a decline of 17.1 per cent in August 1999. Payments to Crown corporations were up 9.4 per cent. Increased defence spending accounted for most of the increase in operating and capital expenditures.



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Table 1

## Summary statement of transactions

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	13,630	14,031	77,191	79,113
Program spending	-8,227	-8,630	-48,832	-50,514
Operating surplus	5,403	5,401	28,359	28,599
Public debt charges	-3,376	-3,461	-20,457	-20,549
Budgetary balance (deficit/surplus)	2,027	1,940	7,902	8,050
<b>Non-budgetary transactions</b>	-986	159	-2,282	-4,211
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,041	2,099	5,620	3,839
<b>Foreign exchange transactions</b>	-1,054	501	5,835	177
<b>Net financial balance</b>	-13	2,600	11,455	4,016
<b>Net change in borrowings</b>	-9,109	-9,312	-16,424	-10,702
<b>Net change in cash balances</b>	-9,122	-6,712	-4,969	-6,686

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

Public debt charges were up 2.5 per cent, primarily reflecting an increase in the stock of interest-bearing debt.

### Year-to-date: budgetary surplus of \$8.0 billion

Over the first six months of fiscal year 1999-2000, the budgetary surplus was estimated at \$8.0 billion, up \$148 million from the surplus 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, the recently announced reduction in EI premium rates effective January 1, 2000 (the employee rate for 2000 will be \$2.40 per \$100 of insurable earnings compared to \$2.55 for 1999), as well as the 1998 budget measure to increase the Canada Child Tax Benefit (CCTB).

Budgetary revenues were up \$1.9 billion, or 2.5 per cent, on a year-over-year basis, with most of the increase attributable to higher personal income tax revenues.

- Personal income tax collections were up \$1.6 billion, or 4.3 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 higher taxes on filing related to the 1998 taxation year. 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 7.9 per cent, due to the decline in corporate profits witnessed in 1998.

Table 2

## Budgetary revenues

	September		Change	April to September		Change
	1998	1999		1998-99	1999-00	
	(millions of dollars)		(%)	(millions of dollars)		(%)
<b>Income taxes</b>						
Personal income tax	6,803	7,474	9.9	37,608	39,222	4.3
Corporate income tax	1,423	1,394	-2.0	9,261	8,525	-7.9
Other income tax revenue	55	198	260.0	1,110	1,444	30.1
Total income tax	8,281	9,066	9.5	47,979	49,191	2.5
<b>Employment insurance premium revenues</b>	1,764	1,398	-20.7	10,422	9,992	-4.1
<b>Excise taxes and duties</b>						
Goods and services tax	1,858	2,214	19.2	10,370	11,603	11.9
Customs import duties	256	162	-36.7	1,289	1,170	-9.2
Sales and excise taxes	780	638	-18.2	4,402	4,277	-2.8
Total excise taxes and duties	2,894	3,014	4.1	16,061	17,050	6.2
<b>Total tax revenues</b>	12,939	13,478	4.2	74,462	76,233	2.4
<b>Non-tax revenues</b>	691	553	-20.0	2,729	2,880	5.5
<b>Total budgetary revenues</b>	13,630	14,031	2.9	77,191	79,113	2.5

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.

- EI premium revenues were down \$0.4 billion, or 4.1 per cent, primarily reflecting the impact of prior-year adjustments, as noted above.
- Excise taxes and duties increased \$1.0 billion, or 6.2 per cent. Net GST collections were up \$1.2 billion, or 11.9 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 9.2 per cent. Sales and excise taxes and duties were down 2.8 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 \$0.2 billion, or 5.5 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$1.7 billion, or 3.4 per cent, in the April to September 1999 period compared to the same period last year.

- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset a 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 and timing factors.

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Table 3

## Budgetary expenditures

	September			April to September		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
<b>Transfer payments to:</b>						
Persons						
Elderly benefits	1,872	1,926	2.9	11,257	11,488	2.1
Employment insurance benefits	781	679	-13.1	5,363	5,218	-2.7
Total	2,653	2,605	-1.8	16,620	16,706	0.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,041	-0.1	6,250	6,250	0.0
Fiscal transfers	784	867	10.6	4,698	5,214	11.0
Alternative Payments for Standing Programs	-187	-188	0.5	-1,120	-1,125	0.4
Total	1,639	1,720	4.9	9,828	10,339	5.2
<b>Direct program spending</b>						
Subsidies and other transfers						
Agriculture	39	121	210.3	262	270	3.1
Foreign Affairs	143	136	-4.9	657	647	-1.5
Health	55	72	30.9	469	501	6.8
Human Resources Development	156	249	59.6	837	707	-15.5
Indian and Northern Development	307	320	4.2	2,190	2,252	2.8
Industry and Regional Development	125	64	-48.8	621	610	-1.8
Veterans Affairs	115	115	0.0	681	689	1.2
Other	165	153	-7.3	983	984	0.1
Total	1,105	1,230	11.3	6,700	6,660	-0.6
Payments to Crown corporations						
Canadian Broadcasting Corporation	66	80	21.2	400	420	5.0
Canada Mortgage and Housing Corporation	120	150	25.0	867	895	3.2
Other	81	62	-23.5	490	526	7.3
Total	267	292	9.4	1,757	1,841	4.8
Operating and capital expenditures						
Defence	787	969	23.1	4,361	4,796	10.0
All other departmental expenditures	1,776	1,814	2.1	9,566	10,172	6.3
Total	2,563	2,783	8.6	13,927	14,968	7.5
Total direct program spending	3,935	4,305	9.4	22,384	23,469	4.8
<b>Total program expenditures</b>	8,227	8,630	4.9	48,832	50,514	3.4
<b>Public debt charges</b>	3,376	3,461	2.5	20,457	20,549	0.4
<b>Total budgetary expenditures</b>	11,603	12,091	4.2	69,289	71,063	2.6
Memorandum item:						
Total transfers	5,397	5,555	2.9	33,148	33,705	1.7

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Table 4

## The budgetary balance and financial requirements/surplus

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Budgetary balance (deficit/surplus)</b>	2,027	1,940	7,902	8,050
<b>Loans, investments and advances</b>				
Crown corporations	122	69	730	19
Other	-553	-123	-435	-122
Total	-431	-54	295	-103
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	1,028	737	1,389	289
Superannuation accounts	363	480	1,891	2,313
Other	24	14	19	-97
Total	1,415	1,231	3,299	2,505
<b>Other transactions</b>	-1,970	-1,018	-5,876	-6,613
<b>Total non-budgetary transactions</b>	-986	159	-2,282	-4,211
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,041	2,099	5,620	3,839
<b>Foreign exchange transactions</b>	-1,054	501	5,835	177
<b>Net financial balance</b>	-13	2,600	11,455	4,016

Table 5

## Net financial balance and net borrowings

	September		April to September	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
<b>Net financial balance</b>	-13	2,600	11,455	4,016
<b>Net increase (+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	-6,492	-11,693	6,031	-2,206
Canada Savings Bonds	-99	-27	-2,116	-1,015
Treasury bills	-3,600	3,650	-26,400	-3,801
Other	-1,004	-759	543	535
Subtotal	-11,195	-8,829	-21,942	-6,487
Less: Government's holding of unmatured debt	77	55	532	332
Total	-11,118	-8,774	-21,410	-6,155
Payable in foreign currencies				
Marketable bonds	308	-302	3,877	-415
Notes and loans	-	-	-	-
Canada bills	1,754	-206	2,035	-3,876
Canada notes	-53	-30	-926	-256
Total	2,009	-538	4,986	-4,547
<b>Net change in borrowings</b>	-9,109	-9,312	-16,424	-10,702
<b>Change in cash balance</b>	-9,122	-6,712	-4,969	-6,686

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- Major transfers to other levels of government were up \$0.5 billion, or 5.2 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 \$1.1 billion, or 4.8 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 were up slightly from year-earlier levels, as an increase in the stock of interest-bearing debt more than 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 \$3.8 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 \$4.2 billion in the first six months of 1999-2000, compared to a net requirement of \$2.3 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 \$3.8 billion in the April to September 1999 period, compared to a financial surplus of \$5.6 billion recorded in the same period last year.

## **Year-to-date: net financial surplus of \$4.0 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 source of \$0.2 billion in the April to September 1999 period, compared to a net source of \$5.8 billion in the same period last year.

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Table 6

## Condensed statement of assets and liabilities

	March 31, 1999	September 30, 1999	Change
	(millions of dollars)		
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	16,881	-7,628
Interest and matured debt	9,791	9,449	-342
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	37,346	-7,970
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	124,721	2,314
Canada Pension Plan (net of securities)	5,427	5,716	289
Other pension and other accounts	6,724	6,627	-97
Total pension and other accounts	134,558	137,064	2,506
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	293,546	-2,206
Treasury bills	96,950	93,150	-3,800
Canada Savings Bonds	27,662	26,980	-682
Other	4,063	4,598	535
Subtotal	424,427	418,274	-6,153
Payable in foreign currencies			
Marketable bonds	24,568	24,154	-415
Canada bills	10,171	6,294	-3,876
Canada notes	1,261	1,005	-256
Subtotal	36,000	31,453	-4,547
Total unmatured debt	460,427	449,727	-10,701
Total interest-bearing debt	594,985	586,790	-8,195
Total liabilities	640,301	624,136	-16,165
<b>Assets</b>			
Cash and accounts receivable	15,273	7,232	-8,041
Foreign exchange accounts	34,668	34,491	-177
Loans, investments and advances (net of allowances)	13,536	13,639	103
Total assets	63,477	55,362	-8,115
<b>Accumulated deficit (net public debt)</b>	<b>576,824</b>	<b>568,774</b>	<b>-8,050</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
	(millions of dollars)							
<b>Gross GST collected</b>	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
<b>GST penalties and interest received</b>	19	71	90	129	135	159	127	123
<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
<b>Proceeds to DSRA</b>	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 \$8.0 billion, a net requirement of \$4.2 billion from non-budgetary transactions and a net source of \$0.2 billion from foreign exchange transactions, there was a net financial surplus of \$4.0 billion in the April to September 1999 period compared to a net surplus of \$11.5 billion in the same period last year.

This net financial surplus, coupled with a drawdown in cash balances of \$6.7 billion, was used to retire \$10.7 billion of market debt to the end of September 1999. Cash balances at the end of September 1999 amounted to \$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. In his "Observations" on the 1996-97 and 1998-99 financial statements, the Auditor General questioned the need for this account, given the fundamental concept of the Consolidated Revenue Fund. The Government has asked the House of Commons Standing Committee on Finance to review this issue.

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