

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for October 2000

October 2000: budgetary deficit of \$301 million

There was a budgetary deficit of \$301 million in October 2000, compared to a surplus of \$111 million in October 1999. The deficit in October 2000 was attributable to the special payment of \$1 billion in trust to the provinces and territories for new medical equipment, as part of the new federal investments to support the agreements reached on September 11th by the First Ministers on health renewal and early childhood development.

On a year-over-year basis, budgetary revenues increased \$1.1 billion, or 9.3 per cent, reflecting increases in all major components with the exception of personal income tax revenues.

- Personal income tax revenues were down \$0.8 billion, or 13.1 per cent. This decline was attributable to higher transfers to the Canada Pension Plan (CPP) and employment insurance (EI) accounts, reflecting underpayments in previous periods. Gross remittances received include not only federal personal income tax liabilities but also provincial income tax liabilities (as set out under the tax collection agreements with participating provinces) and employee and employer premium contributions for EI and the CPP. On a monthly basis, deductions for these liabilities are based on estimates, with adjustments made once either preliminary or final data become available from the Canada Customs and Revenue Agency. Based on

preliminary taxation results for 1999, transfers from personal income tax revenues to the CPP and EI accounts amounting to \$1.4 billion were made in October 2000.

- Corporate income tax revenues were up \$0.8 billion, or 74.3 per cent, primarily reflecting timing factors related to the monthly tax instalment procedures, as explained below. Other income taxes were also up strongly, after declining last month.
- The increase in EI premium revenues of \$0.4 billion, or 30.0 per cent, was due to the transfer from personal income tax revenues relating to underpayments with respect to the 1999 taxation year.
- Excise taxes and duties were up \$0.4 billion, or 14.5 per cent, with all components registering strong increases.
- Non-tax revenues were also up. Monthly changes in this component are extremely volatile, reflecting the timing of receipts.

On a year-over-year basis, program spending increased \$1.4 billion, or 15.9 per cent, of which \$1 billion was due to the payment in trust to the provinces and territories for new medical equipment.

- Major transfers to persons were up 2.7 per cent, attributable to higher elderly benefit payments, as EI benefit payments were unchanged.
- Major transfers to other levels of government were up 10.0 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and Equalization programs.



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Table 1

Summary statement of transactions

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
Budgetary transactions				
Revenues	12,000	13,112	91,215	100,414
Program spending	-8,634	-10,007	-59,205	-63,114
Operating surplus	3,366	3,105	32,010	37,300
Public debt charges	-3,255	-3,406	-23,803	-24,103
Budgetary balance (deficit/surplus)	111	-301	8,207	13,197
Non-budgetary transactions	1,064	859	-3,155	-5,126
Financial requirements/source (excluding foreign exchange transactions)	1,175	558	5,052	8,071
Foreign exchange transactions	-1,039	893	-862	1,330
Net financial balance	136	1,451	4,190	9,401
Net change in borrowings	3,784	3,658	-6,916	-14,652
Net change in cash balances	3,920	5,109	-2,726	-5,251

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

- Direct program spending was up 26.8 per cent, primarily reflecting the \$1-billion payment in trust to the provinces and territories for new medical equipment.

On a year-over-year basis, public debt charges were up \$0.2 billion, or 4.6 per cent, in part reflecting adjustments in October 1999 to correct for over-reporting in previous months.

Year-to-date: budgetary surplus of \$13.2 billion

Over the first seven months of fiscal year 2000-01, the budgetary surplus was estimated at \$13.2 billion, up \$5.0 billion from the surplus of \$8.2 billion reported in the same period of 1999-2000.

These results are in line with the average private sector forecast of the fiscal surplus for 2000-01, as set out in the October 18, 2000, *Economic Statement and Budget Update*.

Budgetary revenues were up \$9.2 billion, or 10.1 per cent, on a year-over-year basis. Among the major revenue components:

- Personal income tax collections were up \$3.5 billion, or 7.8 per cent, primarily reflecting higher receipts from monthly deductions from employment income, due to increases in the number of people employed. In addition, higher taxes paid on filing and lower refunds, pertaining to the 1999 taxation year, also contributed to the year-over-year increase. Over the balance of the fiscal year, growth in this component will be restrained as the impact of tax reductions is realized.
- Corporate income tax revenues were up \$3.4 billion, or 34.2 per cent. Although part of this increase reflects the continued strength in corporate profits, up 17.5 per cent in the first three quarters of 2000 over the same period last year, the increase in revenues is also affected by tax instalment procedures.

Table 2

Budgetary revenues

	October		Change	April to October		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Income taxes						
Personal income tax	6,213	5,397	-13.1	45,291	48,840	7.8
Corporate income tax	1,063	1,853	74.3	9,837	13,201	34.2
Other income tax revenue	252	381	51.2	1,693	1,820	7.5
Total income tax	7,528	7,631	1.4	56,821	63,861	12.4
Employment insurance premium revenues	1,242	1,614	30.0	11,234	11,548	2.8
Excise taxes and duties						
Goods and services tax	2,003	2,325	16.1	13,606	14,723	8.2
Customs import duties	211	230	9.0	1,379	1,569	13.8
Sales and excise taxes	633	706	11.5	4,911	4,946	0.7
Total excise taxes and duties	2,847	3,261	14.5	19,896	21,238	6.7
Total tax revenues	11,617	12,506	7.7	87,951	96,647	9.9
Non-tax revenues	383	606	58.2	3,264	3,767	15.4
Total budgetary revenues	12,000	13,112	9.3	91,215	100,414	10.1

Corporations are required to remit monthly instalments based on either their previous year's actual tax liability or their current year's projected tax liability, with final settlement payments made 30 days following the end of their taxation year. Although corporate profits rebounded strongly in 1999, monthly tax instalments for most of 1999 were based on the tax liability for 1998 – a year in which corporate profits declined – thereby depressing instalment payments in 1999. Since current monthly instalments are being compared to last year's understated instalments, the year-over-year changes are likely not an appropriate indicator of the results for the year as a whole.

- EI premium revenues were up 2.8 per cent, as the decline in premium rates (the employee rate for 2000 is \$2.40 per \$100 of insurable earnings compared to \$2.55 in 1999) was more than offset by the impact

of the prior-year adjustments and the growth in the number of people employed and therefore paying premiums.

- Excise taxes and duties increased by \$1.3 billion, or 6.7 per cent. GST revenues were up \$1.1 billion, or 8.2 per cent, broadly in line with the growth in consumer demand. Customs import duties were up strongly, while sales and excise taxes were up marginally.
- Non-tax revenues were up \$0.5 billion, or 15.4 per cent.

Program spending increased by \$3.9 billion, or 6.6 per cent, in the April to October 2000 period, compared to the same period last year. This increase was spread among all major components.

- Major transfers to persons were up 1.6 per cent, as higher elderly benefits more than offset the decline in EI benefit payments.

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Table 3

Budgetary expenditures

	October		Change	April to October		Change
	1999	2000		1999-00	2000-01	
	(\$ millions)		(%)	(\$ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	1,964	2,037	3.7	13,513	13,990	3.5
Employment insurance benefits	750	750	0.0	5,969	5,806	-2.7
Total	2,714	2,787	2.7	19,482	19,796	1.6
Other levels of government						
Canada Health and Social Transfer	1,042	1,125	8.0	7,292	7,875	8.0
Fiscal transfers	868	976	12.4	6,081	6,807	11.9
Alternative Payments for Standing Programs	-188	-206	9.6	-1,313	-1,439	9.6
Total	1,722	1,895	10.0	12,060	13,243	9.8
Direct program spending						
Subsidies and other transfers						
Agriculture	48	7	-85.4	315	263	-16.5
Foreign Affairs	174	212	21.8	821	778	-5.2
Health	86	67	-22.1	587	633	7.8
Human Resources Development	159	120	-24.5	866	579	-33.1
Indian and Northern Development	262	176	-32.8	2,514	2,646	5.3
Industry and Regional Development	127	125	-1.6	737	732	-0.7
Veterans Affairs	117	122	4.3	805	841	4.5
Other	162	1,057	552.5	1,147	2,087	82.0
Total	1,135	1,886	66.2	7,792	8,559	9.8
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	100	53.8	485	615	26.8
Canada Mortgage and Housing Corporation	150	150	0.0	1,045	1,070	2.4
Other	70	167	138.6	595	874	46.9
Total	285	417	46.3	2,125	2,559	20.4
Operating and capital expenditures						
Defence	799	989	23.8	5,595	5,762	3.0
All other departmental expenditures	1,979	2,033	2.7	12,151	13,195	8.6
Total	2,778	3,022	8.8	17,746	18,957	6.8
Total direct program spending	4,198	5,325	26.8	27,663	30,075	8.7
Total program expenditures	8,634	10,007	15.9	59,205	63,114	6.6
Public debt charges	3,255	3,406	4.6	23,803	24,103	1.3
Total budgetary expenditures	11,889	13,413	12.8	83,008	87,217	5.1
Memorandum item:						
Total transfers	5,571	6,568	17.9	39,334	41,598	5.8

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 reflects a lower number of beneficiaries due to the decline in the number of unemployed.

- Major transfers to other levels of government were up 9.8 per cent, reflecting higher cash transfers under the CHST and Equalization programs. The increase in CHST cash transfers reflected the 1999 budget measure to increase base funding from \$12.5 billion in 1999-2000 to \$13.5 billion in 2000-01. The increase in Equalization entitlements was attributable to the continued stronger economic growth in Ontario than in the Equalization-receiving provinces.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by 8.7 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, the lifting of the wage freeze, the effect of new initiatives announced in recent budgets and the \$1-billion payment in trust to the provinces and territories for new medical equipment, to support the agreements reached by the First Ministers on health renewal and early childhood development.

Public debt charges were up \$0.3 billion, or 1.3 per cent, as the impact of somewhat higher interest rates more than offset the decline in the stock of interest-bearing debt.

Financial source of \$8.1 billion (excluding foreign exchange transactions) for April to October 2000

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/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source 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 \$5.1 billion in the first seven months of 2000-01. This was attributable, in part, to the payment to a third-party trust of the \$2.5-billion CHST cash supplement, as announced in the 2000 budget, as well as the payments related to the pay equity settlement.

As a result, with a budgetary surplus of \$13.2 billion and a net requirement of \$5.1 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of \$8.1 billion in the April to October 2000 period, compared to a financial source of \$5.1 billion in the same period last year.

Net financial source of \$9.4 billion for April to October 2000

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. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement.

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Table 4

The budgetary balance and financial requirements/source

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
Budgetary balance (deficit/surplus)	111	-301	8,207	13,197
Loans, investments and advances				
Crown corporations	170	50	190	256
Other	47	-961	-74	-778
Total	217	-911	116	-522
Specified purpose accounts				
Canada Pension Plan Account	-59	871	232	333
Superannuation accounts	463	167	2,777	1,626
Other	-29	9	-126	-56
Total	375	1,047	2,883	1,903
Other transactions	472	723	-6,154	-6,507
Total non-budgetary transactions	1,064	859	-3,155	-5,126
Financial requirements/source (excluding foreign exchange transactions)	1,175	558	5,052	8,071
Foreign exchange transactions	-1,039	893	-862	1,330
Net financial balance	136	1,451	4,190	9,401

Table 5

Net financial balance and net borrowings

	October		April to October	
	1999	2000	1999-00	2000-01
	(\$ millions)			
Net financial balance	136	1,451	4,190	9,401
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	4,173	3,931	1,967	9,949
Canada Savings Bonds	-4	-191	-686	-981
Treasury bills	150	-300	-3,650	-20,350
Other	-234	109	301	191
Total	4,085	3,549	-2,068	-11,191
Payable in foreign currencies				
Marketable bonds		-28	-415	-2,202
Notes and loans				
Canada bills	-301	173	-4,177	-1,223
Canada notes		-36	-256	-36
Total	-301	109	-4,848	-3,461
Net change in borrowings	3,784	3,658	-6,916	-14,652
Change in cash balance	3,920	5,109	-2,726	-5,251

Table 6

Condensed statement of assets and liabilities

	March 31, 2000	October 31, 2000	Change
		(\$ millions)	
Liabilities			
Accounts payable, accruals and allowances	40,748	35,590	-5,158
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	128,346	129,972	1,626
Canada Pension Plan (net of securities)	6,217	6,550	333
Other pension and other accounts	6,963	6,600	-363
Total pension and other accounts	141,526	143,122	1,596
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,927	303,876	9,949
Treasury bills	99,850	79,500	-20,350
Canada Savings Bonds	26,489	25,508	-981
Non-marketable bonds and bills	3,552	3,744	192
Subtotal	423,818	412,628	-11,190
Payable in foreign currencies	32,588	29,129	-3,459
Total unmatrued debt	456,406	441,757	-14,649
Total interest-bearing debt	597,932	584,879	-13,053
Total liabilities	638,680	620,469	-18,211
Assets			
Cash and accounts receivable	18,864	14,659	-4,205
Foreign exchange accounts	41,494	40,163	-1,331
Loans, investments and advances (net of allowances)	13,796	14,318	522
Total assets	74,154	69,140	-5,014
Accumulated deficit (net public debt)	564,526	551,329	-13,197

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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 \$1.3 billion in the first seven months of 2000-01, compared to a net requirement of \$0.9 billion in the same period last year.

With a budgetary surplus of \$13.2 billion, a net requirement of \$5.1 billion from non-budgetary transactions and a net source of funds of \$1.3 billion from foreign exchange transactions, there was a net financial source of \$9.4 billion in the April to October 2000 period, compared to a net source of \$4.2 billion in the same period last year.

Net borrowings down \$14.7 billion for April to October 2000

In October 2000, the Government's holding of market debt increased by \$3.7 billion, with the result that, for the first seven months of 2000-01, there was a net retirement in market debt of \$14.7 billion. This was financed by the net financial source of \$9.4 billion and a reduction of \$5.3 billion in cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of October 2000, cash balances were \$7.8 billion.

