

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for January 2000

Budgetary surplus of \$0.9 billion in January 2000

There was a budgetary surplus of \$0.9 billion in January 2000, up \$1.8 billion from the deficit of \$0.9 billion in January 1999. This year-over-year improvement was entirely attributable to higher budgetary revenues, up \$2.0 billion, or 16.9 per cent. However, most of this increase reflected the timing of receipts, which should be reversed in February.

The increase in budgetary revenues was concentrated in personal income tax and goods and services tax (GST) revenues.

- Personal income tax revenues were up \$1.0 billion, or 15.8 per cent. Over half of this increase was attributable to the timing of receipts between January and February. The rest reflects the impact of a strong economy – more than 425,000 jobs were added in 1999.
- GST revenues were up \$1.1 billion, more than double what they were in January 1999. This increase reflects a number of factors. First, gross collections were up strongly, attributable to the strong growth in those expenditures subject to the GST. Second, refunds declined on a year-over-year basis, reflecting lags in the processing of refunds. Over time, the growth in revenues should mirror the growth in gross collections. Finally, some advance payments of the GST quarterly credit were made in December 1999.

Among the other main revenue components:

- Corporate income tax revenues were down slightly, reflecting both lower gross collections and higher refunds.
- Employment insurance (EI) premium revenues were down 7.5 per cent due to the reduction in premium rates from \$2.55 (employee rate per \$100 of insurable earnings) to \$2.40, effective January 2000.

Program spending was up \$0.2 billion, or 1.7 per cent. Most of this increase was attributable to higher transfers to persons and to other levels of government. Direct program spending declined.

Public debt charges increased slightly, reflecting a small increase in the stock of interest-bearing debt.

Year-to-date: budgetary surplus of \$11.9 billion

Over the April 1999 to January 2000 period, the budgetary surplus was estimated at \$11.9 billion, up \$2.4 billion from the surplus recorded in the same period of 1998-99. As indicated in the February 2000 budget, developments over the balance of the fiscal year should reduce the surplus to date to about \$7.5 billion. In addition, the policy initiatives proposed in the 2000 budget will reduce the reported surplus to date by an additional \$4.5 billion. Allowing for the \$3-billion Contingency Reserve results in a balanced budget. To the extent that the Contingency



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Table 1

Summary statement of transactions

	January		April to January	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	11,824	13,823	127,835	133,542
Program spending	-9,198	-9,355	-83,796	-87,299
Operating surplus	2,626	4,468	44,039	46,243
Public debt charges	-3,537	-3,549	-34,595	-34,375
Budgetary balance (deficit/surplus)	-911	919	9,444	11,868
Non-budgetary transactions	2,055	2,481	-1,228	-2,873
Financial requirements/surplus (excluding foreign exchange transactions)	1,144	3,400	8,216	8,995
Foreign exchange transactions	-3,841	-6,099	-446	-6,407
Net financial balance	-2,697	-2,699	7,770	2,588
Net change in borrowings	-4,849	-140	-16,377	-2,688
Net change in cash balances	-7,546	-2,839	-8,607	-100

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

Reserve is not needed, it will be used to pay down the public debt. For more information, see Chapter 3 of *The Budget Plan 2000*.

Over the first 10 months of 1999-2000, budgetary revenues were up \$5.7 billion, or 4.5 per cent, on a year-over-year basis.

- Personal income tax revenues were up \$3.6 billion, or 5.6 per cent. As noted above, part of this increase is attributable to the timing of receipts. However, most of it reflects higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds relating to the 1998 taxation year, higher Canada Child Tax Benefit payments,

increases in the amount of income Canadians can receive tax-free and the elimination of the 3-per-cent surtax, reflecting the measures announced in the 1998 and 1999 budgets.

- Corporate income tax revenues were up \$0.3 billion, or 1.7 per cent. Although corporate profits are estimated to have picked up strongly in 1999, refunds relating to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000. *The Budget Plan 2000* projected a strong pickup in corporate income tax revenue over the final months of the fiscal year as corporations file their settlement payments for taxation year 1999.

Table 2

Budgetary revenues

	January		Change (%)	April to January		Change (%)
	1999 (millions of dollars)	2000 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
Income taxes						
Personal income tax	6,020	6,974	15.8	63,122	66,673	5.6
Corporate income tax	1,626	1,608	-1.1	15,488	15,748	1.7
Other income tax revenue	569	589	3.5	2,290	2,762	20.6
Total income tax	8,215	9,171	11.6	80,900	85,183	5.3
Employment insurance premium revenues	1,457	1,347	-7.5	15,450	14,659	-5.1
Excise taxes and duties						
Goods and services tax	1,022	2,088	104.3	17,370	19,741	13.6
Customs import duties	180	107	-40.6	1,998	1,871	-6.4
Sales and excise taxes	746	706	-5.4	7,166	6,888	-3.9
Total excise taxes and duties	1,948	2,901	48.9	26,534	28,500	7.4
Total tax revenues	11,620	13,419	15.5	122,884	128,342	4.4
Non-tax revenues	204	404	98.0	4,951	5,200	5.0
Total budgetary revenues	11,824	13,823	16.9	127,835	133,542	4.5

- EI premium revenues were down \$0.8 billion, or 5.1 per cent, as the decline in EI premium rates and adjustments relating to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$2.0 billion, or 7.4 per cent, with all of the increase attributable to higher GST revenues, up \$2.4 billion, or 13.6 per cent. Most of this is due to the strong gains in those expenditures subject to the GST. However, the timing of refunds should depress revenues over the balance of the fiscal year. Customs import duties were down 6.4 per cent. Sales and excise taxes and duties declined 3.9 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 5.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

Program spending increased by \$3.5 billion, or 4.2 per cent, in the April 1999 to January 2000 period, compared to the same period of 1998-99.

- Major transfers to persons were up 1.5 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits

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Table 3

Budgetary expenditures

	January		Change (%)	April to January		Change (%)
	1999 (millions of dollars)	2000 (millions of dollars)		1998-99 (millions of dollars)	1999-00 (millions of dollars)	
Transfer payments to:						
Persons						
Elderly benefits	1,897	1,972	4.0	18,904	19,386	2.5
Employment insurance benefits	1,162	1,324	13.9	9,263	9,204	-0.6
Total	3,059	3,296	7.7	28,167	28,590	1.5
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	10,417	10,417	0.0
Fiscal transfers	862	989	14.7	8,045	9,020	12.1
Alternative Payments for Standing Programs	-187	-188	0.5	-1,867	-1,876	0.5
Total	1,717	1,843	7.3	16,595	17,561	5.8
Direct program spending						
Subsidies and other transfers						
Agriculture	46	41	-10.9	520	570	9.6
Foreign Affairs	280	160	-42.9	1,267	1,212	-4.3
Health	87	43	-50.6	808	861	6.6
Human Resources Development	305	96	-68.5	1,685	1,247	-26.0
Indian and Northern Development	160	161	0.6	3,167	3,270	3.3
Industry and Regional Development	113	77	-31.9	1,168	1,136	-2.7
Veterans Affairs	116	119	2.6	1,140	1,157	1.5
Other	218	810	271.6	1,869	2,332	24.8
Total	1,325	1,507	13.7	11,624	11,785	1.4
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	20	-69.2	824	730	-11.4
Canada Mortgage and Housing Corporation	180	150	-16.7	1,490	1,495	0.3
Other	108	71	-34.3	841	875	4.0
Total	353	241	-31.7	3,155	3,100	-1.7
Operating and capital expenditures						
Defence	832	739	-11.2	7,684	8,643	12.5
All other departmental expenditures	1,912	1,729	-9.6	16,571	17,620	6.3
Total	2,744	2,468	-10.1	24,255	26,263	8.3
Total direct program spending	4,422	4,216	-4.7	39,034	41,148	5.4
Total program expenditures	9,198	9,355	1.7	83,796	87,299	4.2
Public debt charges	3,537	3,549	0.3	34,595	34,375	-0.6
Total budgetary expenditures	12,735	12,904	1.3	118,391	121,674	2.8
Memorandum item:						
Total transfers	6,101	6,646	8.9	56,386	57,936	2.7

reflected 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 due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.

- Major transfers to other levels of government were up \$1.0 billion, or 5.8 per cent, reflecting much higher fiscal transfers, most notably for Equalization. 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, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$2.1 billion, or 5.4 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 declined 0.6 per cent from year-earlier levels, as a decline in the average effective interest rate more than offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of \$9.0 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 measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus 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 \$2.9 billion in the first 10 months of 1999-2000, up from the net requirement of \$1.2 billion in the same period of 1998-99. The higher requirement was due 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 \$9.0 billion in the April 1999 to January 2000 period, up \$0.8 billion from the financial surplus recorded in the same period of 1998-99.

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Table 4

The budgetary balance and financial requirements/surplus

	January		April to January	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-911	919	9,444	11,868
Loans, investments and advances				
Crown corporations	150	86	1,245	393
Other	71	39	-382	-64
Total	221	125	863	329
Specified purpose accounts				
Canada Pension Plan Account	744	-483	684	-471
Superannuation accounts	360	523	3,319	4,206
Other	-5	-24	3	-129
Total	1,099	16	4,006	3,606
Other transactions	735	2,340	-6,097	-6,808
Total non-budgetary transactions	2,055	2,481	-1,228	-2,873
Financial requirements/surplus (excluding foreign exchange transactions)	1,144	3,400	8,216	8,995
Foreign exchange transactions	-3,841	-6,099	-446	-6,407
Net financial balance	-2,697	-2,699	7,770	2,588

Table 5

Net financial balance and net borrowings

	January		April to January	
	1999	2000	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-2,697	-2,699	7,770	2,588
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	0	0	5,972	6,949
Canada Savings Bonds	526	11	-1,623	-774
Treasury bills	-3,300	550	-28,500	-5,450
Other	-894	-93	387	-285
Subtotal	-3,668	468	-23,764	440
Less: Government's holding of unmatured debt	-48	28	-432	98
Total	-3,716	496	-24,196	538
Payable in foreign currencies				
Marketable bonds	455	-	9,681	2,527
Notes and loans	-	-	-	-
Canada bills	-1,588	-628	-787	-5,489
Canada notes	0	-8	-1,075	-264
Total	-1,133	-636	7,819	-3,226
Net change in borrowings	-4,849	-140	-16,377	-2,688
Change in cash balance	-7,546	-2,839	-8,607	-100

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	January 31, 2000	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	18,765	-5,744
Interest and matured debt	9,791	10,200	409
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	39,981	-5,335
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	126,613	4,206
Canada Pension Plan (net of securities)	5,427	4,955	-472
Other pension and other accounts	6,724	6,594	-130
Total pension and other accounts	134,558	138,162	3,604
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,709	6,957
Treasury bills	96,950	91,500	-5,450
Canada Savings Bonds	27,662	26,978	-684
Other	4,063	3,778	-285
Subtotal	424,427	424,965	538
Payable in foreign currencies			
Marketable bonds	24,569	27,096	2,527
Canada bills	10,171	4,682	-5,489
Canada notes	1,261	996	-264
Subtotal	36,000	32,774	-3,226
Total unmatured debt	460,427	457,739	-2,688
Total interest-bearing debt	594,985	595,901	916
Total liabilities	640,301	635,882	-4,419
Assets			
Cash and accounts receivable	15,273	16,645	1,372
Foreign exchange accounts	34,668	41,074	6,406
Loans, investments and advances (net of allowances)	13,536	13,207	-329
Total assets	63,477	70,926	6,188
Accumulated deficit (net public debt)	576,824	564,956	-11,868

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Year-to-date: net financial surplus of \$2.6 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 \$6.4 billion in the April 1999 to January 2000 period, compared to a net requirement of \$0.4 billion in the same period of 1998-99.

With a budgetary surplus of \$11.9 billion, a net requirement of \$2.9 billion from non-budgetary transactions and a net requirement of \$6.4 billion from foreign exchange transactions, there was a net financial surplus of \$2.6 billion in the April 1999 to January 2000 period, compared to a net surplus of \$7.8 billion in the same period of 1998-99. This surplus, along with a reduction in cash balances of \$0.1 billion, was used to retire \$2.7 billion of market debt. Cash balances at the end of January 2000 stood at \$9.2 billion.

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