The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1998

Budgetary surplus of $2.7 billion recorded in June 1998

A budgetary surplus of $2.7 billion was recorded in June 1998, unchanged from the restated estimate for June 1997. A small increase in budgetary revenues and decline in program spending were offset by an increase in public debt charges.

Within budgetary revenues, increases in corporate and other income taxes, coupled with higher excise taxes and duties were largely offset by declines in the other components. Within program spending, declines in employment insurance benefits and subsidies and other transfers more than offset increases in elderly benefits, payments to Crown corporations and in departmental operating and capital expenditures. The increase in public debt charges was due to higher average effective interest rates, reflecting changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus of $5.7 billion

Over the first three months (April to June) of the 1998-99 fiscal year, the budgetary surplus was estimated at $5.7 billion, up $1.6 billion from the surplus of $4.1 billion estimated for the same period last year. This increase was primarily attributable to the continued strength in the economy. Budgetary revenues were up $1.8 billion (4.9 per cent). Program spending declined $0.1 billion (0.4 per cent). In contrast, public debt charges were up $0.3 billion, or 3.0 per cent.

Year-to-date: financial surplus of $5.8 billion

The financial surplus amounted to $5.8 billion in the first three months of 1998-99, compared to a surplus of $0.6 billion in the same period last year. This year-over-year improvement of $5.2 billion was attributable to a $2.6 billion change in the net source of funds from foreign exchange transactions, $1.6 billion from the improvement in the budgetary balance and $1.0 billion from the lower non-budgetary transactions requirement.

With this financial surplus and a reduction in cash balances of $4.0 billion, the government retired $9.8 billion of market debt in the first three months of 1998-99.

Table 1

Summary statement of transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenue	13,861	13,927	36,951	38,779
Program spending	-7,807	-7,761	-22,646	-22,548
Operating surplus	6,054	6,166	14,305	16,231
Public debt charges	-3,367	-3,464	-10,207	-10,510
Deficit/surplus	2,687	2,702	4,098	5,721
Non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balances	1,007	1,404	-5,392	-4,017

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

Budgetary revenues up $1.8 billion in April 1998 to June 1998 period

Over the April to June 1998 period, budgetary revenues were up $1.8 billion, or 4.9 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

- Personal income tax collections were up $1.3 billion, or 7.3 per cent. This increase was due to higher taxes paid on filing, related to the strong income growth in the 1997 taxation year, and continued increases in receipts from monthly deductions from employment income, due to the increases in the number of people employed. The results to date were dampened somewhat by higher personal income refunds related to the 1997 taxation year, as the number of tax returns processed to the end of June 1998 was significantly more than in the same period last year. This was especially applicable in June 1998, as higher refunds depressed net collections.
- Corporate income tax collections were up $0.7 billion, or 16.8 per cent, reflecting lower refunds and continued strength in corporate profits in certain sectors of the economy. In addition, part of the increase was due to the monthly tax remittance procedures for corporations. Corporations are required to file monthly installments based on either their last year's actual tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to make settlement payments for any amounts outstanding. This results in over 30 per cent of corporate income tax collections being received in the months of February and March. Monthly installments for 1997 were largely based on 1996 liabilities. However, tax liabilities for 1997 were significantly higher than in 1996, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, installment payments for 1997 understated the actual tax liability for the year as a whole. Installments for 1998 have been increased to reflect 1997 tax liabilities, which accounts for part of the current increase in net collections.

Table 2

Budgetary revenues

	June		April to June		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,635	6,562	17,763	19,065	7.3
Corporate income tax	1,578	1,831	4,038	4,716	16.8
Other income tax revenue	154	184	574	613	6.8
Total income tax	8,367	8,577	22,375	24,394	9.0
Employment insurance premium revenues	1,862	1,775	5,564	5,318	-4.4
Excise taxes and duties					
Goods and services tax	1,987	2,050	4,814	5,097	5.9
Customs import duties	109	185	488	504	3.3
Sales and excise taxes	816	804	2,157	2,118	-1.8
Total excise taxes and duties	2,912	3,039	7,459	7,719	3.5
Total tax revenues	13,141	13,391	35,398	37,431	5.7
Non-tax revenues	720	536	1,553	1,348	-13.2
Total budgetary revenues	13,861	13,927	36,951	38,779	4.9

- Employment insurance premium revenues were down $0.2 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate for 1998 is $2.70 (per $100 of insurable earnings), compared to a rate of $2.90 for 1997 (with a comparable decline in the employer rate).
- Net GST collections were up $0.3 billion, or 5.9 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the growth in imports more than offset the impact of tariff reductions. Other excise taxes and duties were down slightly, primarily due to the reduction in the air transport tax effective January 1, 1998.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down $0.2 billion or 13.2 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Program spending down slightly in April to June 1998 period

Program spending declined by $0.1 billion, or 0.4 per cent, in the April to June 1998 period, compared to the same period last year. Most of this decline was concentrated in direct program spending, reflecting the impact of Program Review reductions announced in the 1996 budget.

Major transfers to persons were virtually unchanged, as lower employment insurance benefits were largely offset by high elderly benefit payments.

- 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 employment insurance benefit payments was primarily due to a decline in the number of beneficiaries, reflecting the decline in the number of unemployed.

Major transfers to other levels of government were down slightly, solely due to recoveries under Alternative Payments for Standing Programs.

- Cash entitlements under the Canada Health and Social Transfer (CHST) were unchanged as current legislation prevents the fiscal year cash entitlement for the period 1997-98 to 2002-03 from falling below $12.5 billion. However, total CHST entitlements consist of both cash entitlements and tax point transfers. With this cash entitlement floor and a rising value in the tax point transfers, total entitlements under the CHST are increasing.

Fiscal transfers, primarily consisting of payments under the Equalization program and transfers to the territories were virtually unchanged from the same period last year.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by $0.1 billion in the April to June 1998 period, compared to the same period last year. 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 and the effect of the Program Review reductions announced in the 1996 budget.

Public debt charges up $0.3 billion in April to June 1998 period

The increase in public debt charges primarily reflected a slight increase in the average effective interest rate due to the changes in the composition of interest-bearing debt. Although the stock of market debt (unmatured debt) was lower at the end of June 1998 than in the same period last year, the overall stock of interest-bearing debt was virtually unchanged, reflecting the increase in obligations to the public service pension plans. The latter is credited with the long-term Government of Canada bond rate.

Financial surplus of $5.8 billion in April to June 1998 period

Financial surplus/requirements measure the difference between cash coming in to the government and cash going out. The financial surplus differs from the budgetary surplus, 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. In addition, the budgetary surplus is largely presented on the accrual basis of accounting. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $3.6 billion in the April to June 1998 period, compared to a net requirement of $4.6 billion in the same period last year. The lower requirement this year primarily reflected a higher source of funds in the superannuation accounts.

With a budgetary surplus of $5.7 billion and a net requirement of $3.6 billion in non-budgetary transactions, there was a financial surplus, excluding foreign exchange transactions, of $2.1 billion in the first three months of 1998-99. This compares to a net requirement of $0.5 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. In the April to June 1998 period, foreign exchange transactions provided the government with a net source of funds amounting to $3.6 billion, compared to $1.0 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of $5.8 billion in the first three months of 1998-99, compared to a surplus of $0.6 billion a year earlier.

In the first three months of 1998-99, the federal government retired $9.8 billion of its market debt, primarily Treasury bills.

Table 3

Budgetary expenditures

	June		April to June		Per cent
	1997	1998	1997-98	1998-99	change
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,853	1,868	5,470	5,567	1.8
Employment insurance benefits	846	804	2,914	2,799	-3.9
Total	2,699	2,672	8,384	8,366	-0.2
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	3,125	3,125	0.0
Fiscal transfers	776	776	2,311	2,315	0.2
Alternative Payments for Standing Programs	-178	-186	-533	-560	5.1
Total	1,640	1,632	4,903	4,880	-0.5
Direct program spending					
Subsidies and other transfers					
Agriculture	59	42	75	56	-25.3
Foreign Affairs	164	98	348	263	-24.4
Health	66	94	197	239	21.3
Human Resources Development	211	208	403	436	8.2
Indian and Northern Development	313	312	1,288	1,306	1.4
Industry and Regional Development	104	105	267	238	-10.9
Veterans Affairs	114	112	342	339	-0.9
Other	234	144	619	502	-18.9
Total	1,265	1,115	3,539	3,379	-4.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	66	60	249	230	-7.6
Canada Mortgage and Housing Corporation	115	157	364	457	25.5
Other	86	70	292	244	-16.4
Total	267	287	905	931	2.9
Operating and capital expenditures					
Defence	683	679	1,658	1,583	-4.5
All other departmental expenditures	1,253	1,376	3,257	3,409	4.7
Total	1,936	2,055	4,915	4,992	1.6
Total direct program spending	3,468	3,457	9,359	9,302	-0.6
Total program expenditures	7,807	7,761	22,646	22,548	-0.4
Public debt charges	3,367	3,464	10,207	10,510	3.0
Total budgetary expenditures	11,174	11,225	32,853	33,058	0.6
Memorandum item:					
Total transfers	5,604	5,419	16,826	16,625	-1.2

Table 4

The budgetary balance and financial requirements/surplus

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Deficit (-)/surplus (+)	2,687	2,702	4,098	5,721
Loans, investments and advances				
Crown corporations	-31	28	-74	155
Other	-58	-190	7	15
Total	-89	-162	-67	170
Specified purpose accounts				
Canada Pension Plan Account	-35	-451	1,169	998
Superannuation accounts	-126	591	792	1,642
Other	-168	-21	-210	-45
Total	-329	119	1,751	2,595
Other transactions	-2,778	-3,887	-6,265	-6,362
Total non-budgetary transactions	-3,196	-3,930	-4,581	-3,597
Financial requirements/surplus (excluding foreign exchange transactions)	-509	-1,228	-483	2,124
Foreign exchange transactions	-844	1,163	1,048	3,629
Total financial requirements/surplus	-1,353	-65	565	5,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	June		April to June	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Total financial requirements/surplus	-1,353	-65	565	5,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,614	6,323	9,438	10,223
Canada Savings Bonds	-340	-544	-927	-1,537
Treasury bills	-5,400	-4,500	-15,000	-17,600
Other	450	1,001	447	1,056
Subtotal	1,324	2,280	-6,042	-7,858
Less: Government’s holdings of unmatured debt	106	93	362	272
Total	1,430	2,373	-5,680	-7,586
Payable in foreign currencies				
Marketable bonds	0	0	0	0
Notes and loans	0	0	0	0
Canada bills	625	-123	-277	-1,403
Canada notes	305	-781		-781
Total	930	-904	-277	-2,184
Total unmatured debt transactions	2,360	1,469	-5,957	-9,770
Change in cash balance	1,007	1,404	-5,392	-4,017

Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	June 30, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	6,269
In foreign currencies	49	2
Total cash balance	10,292	6,271
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	94,700
Canada Savings Bonds	30,593	29,056
Other	3,456	4,512
Subtotal	440,890	433,032
Less: Government's holdings of unmatured debt	846	574
Total	440,044	432,458
Payable in foreign currencies		
Marketable bonds	15,869	15,869
Notes and loans	0	0
Canada bills	9,420	8,018
Canada notes	1,624	843
Total	26,913	24,730
Total unmatured debt	466,957	457,188

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 goods and services tax revenue 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 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

Table 7

Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
			(millions of dollars)			
Gross GST collected	29,564	30,516	32,652	36,715	38,048	40,733
Less:						
Refunds and rebates	11,330	12,138	14,271	17,112	18,874	19,782
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799	2,872
Net GST	15,168	14,868	15,696	16,787	16,374	18,079
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: Public Accounts of Canada – 1997

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