

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1998

Budgetary surplus of \$1.6 billion recorded in July 1998

A budgetary surplus of \$1.6 billion was recorded in July 1998, down slightly from the surplus of \$1.9 billion reported for July 1997. The decline in the monthly surplus, on a year-over-year basis, was attributable to an increase in program spending (up 3.3 per cent) and higher corporate and goods and services tax (GST) refunds.

Budgetary revenues were virtually unchanged, as the higher refunds and a decline in employment insurance premium revenues offset a strong advance in personal income tax collections.

- Personal income tax collections were up 13.4 per cent in July 1998 over July 1997, reversing the year-over-year decline reported in June 1998. Part of the increase in July 1998 was attributable to the timing of receipts between June and July.
- Both corporate income tax and GST collections were down (14.4 per cent and 14.6 per cent respectively) reflecting higher refunds being paid in July 1998 than in the same period last year.
- Employment insurance premium revenues were down 4.6 per cent, reflecting the decline in premium rates for 1998.

The increase in program spending was primarily attributable to higher elderly benefit and employment insurance benefit payments.

- Elderly benefit payments were up 6 per cent, reflecting an increase in the number of beneficiaries and higher average benefits, which are indexed to inflation.

- Employment insurance benefit payments were up 6.5 per cent, as higher payments for employment and support measures offset declines in regular benefit payments. The decline in the latter was attributable to fewer people being unemployed.
- Transfers to other levels of government and direct program spending were marginally higher.

Public debt charges were up marginally, due to an increase in the average effective interest rate on the government's interest-bearing debt, reflecting both the impacts of higher short-term rates and changes in the composition of the government's interest-bearing debt.

Year-to-date: budgetary surplus up \$1.4 billion

Over the first four months (April to July) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$7.4 billion, up \$1.4 billion from the surplus of \$6.0 billion estimated for the same period last year. Budgetary revenues were up \$1.8 billion (3.7 per cent). Program spending was up \$0.2 billion (0.5 per cent), while public debt charges were up \$0.3 billion (2.4 per cent).

Within budgetary revenues:

- Personal income tax collections were up \$2.1 billion, or 8.8 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.
- Corporate income tax collections were up \$0.4 billion, or 7.0 per cent, reflecting lower refunds and higher gross collections, due to continued strength in corporate profits in certain sectors of the economy.



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Table 1

Summary statement of transactions¹

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	13,040	13,052	49,992	51,831
Program spending	-7,707	-7,958	-30,353	-30,507
Operating balance	5,333	5,094	19,639	21,324
Public debt charges	-3,423	-3,448	-13,629	-13,958
Deficit/surplus	1,910	1,646	6,010	7,366
Non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance (excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings	-4,919	880	-10,875	-8,892
Net change in cash balances	-325	-1,437	-5,713	-5,458

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

¹ There has been some confusion concerning the two main measures of the government's fiscal position: "budgetary balance" and "financial balance". The difference is explained in the accompanying text.

- Employment insurance premium revenues were down \$0.3 billion, or 4.4 per cent, attributable to the decline in premium rates. The employee premium rate (per \$100 of insurable earnings) was reduced from \$2.90 for 1997 to \$2.70 for 1998 (with a corresponding decline in the employer rate).
- Net GST collections were virtually unchanged from the same period last year, as higher refunds and rebates offset a strong increase in gross collections.
- 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 up marginally, as the reduction in the air transportation tax, effective January 1, 1998, largely offset increases in energy and tobacco taxes and duties.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.4 billion or 18.3 per cent. Changes in this component are quite volatile reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.1 billion, as higher elderly benefit payments offset a decline in employment insurance benefit payments. The decline in employment insurance benefit payments was 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 up slightly, due to higher equalization transfers. 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 CSHT are increasing.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was virtually unchanged, on a year-over-year basis.

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Table 2

Budgetary revenues

	July		April to July		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,865	6,649	23,627	25,715	8.8
Corporate income tax	1,850	1,584	5,887	6,301	7.0
Other income tax revenue	300	220	875	833	-4.8
Total income tax	8,015	8,453	30,389	32,849	8.1
Employment insurance premium revenues	1,815	1,732	7,378	7,051	-4.4
Excise taxes and duties					
Goods and services tax	1,809	1,545	6,624	6,642	0.3
Customs import duties	222	251	710	756	6.5
Sales and excise taxes	662	724	2,819	2,843	0.9
Total excise taxes and duties	2,693	2,520	10,153	10,241	0.9
Total tax revenues	12,523	12,705	47,920	50,141	4.6
Non-tax revenues	517	347	2,072	1,690	-18.4
Total budgetary revenues	13,040	13,052	49,992	51,831	3.7

This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. The timing of payments and the effect of the Program Review reductions announced in the 1996 budget affect developments in this component.

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 and increases in short-term interest rates.

Financial surplus of \$3.4 billion

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 only includes those activities over which the government has legislative control.

In contrast, the financial balance – requirements/surplus – measures the difference between cash coming in to the government and cash going out. The financial balance 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. Finally, the financial balance also includes net foreign exchange transactions.

Non-budgetary transactions resulted in a net requirement of \$5.1 billion in the April to July 1998 period, compared to a net requirement of \$4.8 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$2.2 billion in the first four months of 1998-99, up from \$1.2 billion in the same period last year.

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 fulfils this function by

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Table 3

Budgetary expenditures

	July		April to July		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,820	1,929	7,290	7,497	2.8
Employment insurance benefits	820	873	3,734	3,671	-1.7
Total	2,640	2,802	11,024	11,168	1.3
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	4,167	4,167	0.0
Fiscal transfers	768	817	3,079	3,132	1.7
Alternative Payments for Standing Programs	-178	-187	-710	-747	5.2
Total	1,632	1,672	6,536	6,552	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	37	74	112	130	16.1
Foreign Affairs	110	107	458	370	-19.2
Health	64	84	262	324	23.7
Human Resources Development	7	73	409	509	24.4
Indian and Northern Development	281	271	1,569	1,578	0.6
Industry and Regional Development	93	105	360	343	-4.7
Veterans Affairs	117	114	459	453	-1.3
Other	183	185	802	686	-14.5
Total	892	1,013	4,431	4,393	-0.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	60	314	290	-7.6
Canada Mortgage and Housing Corporation	156	140	520	597	14.8
Other	68	121	360	365	1.4
Total	289	321	1,194	1,252	4.9
Operating and capital expenditures					
Defence	755	715	2,413	2,298	-4.8
All other departmental expenditures	1,499	1,435	4,755	4,844	1.9
Total	2,254	2,150	7,168	7,142	-0.4
Total direct program spending	3,435	3,484	12,793	12,787	0.0
Total program expenditures	7,707	7,958	30,353	30,507	0.5
Public debt charges	3,423	3,448	13,629	13,958	2.4
Total budgetary expenditures	11,130	11,406	43,982	44,465	1.1
Memorandum item:					
Total transfers	5,164	5,487	21,991	22,113	0.6

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Table 4

The budgetary balance and financial balance

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	1,910	1,646	6,010	7,366
Loans, investments and advances				
Crown corporations	157	392	83	547
Other	62	38	69	53
Total	219	430	152	600
Specified purpose accounts				
Canada Pension Plan Account	-479	-514	690	484
Superannuation accounts	339	-414	1,131	1,228
Other	15	-13	-195	-57
Total	-125	-941	1,626	1,655
Other transactions	-332	-1,032	-6,596	-7,395
Total non-budgetary transactions	-238	-1,543	-4,818	-5,140
Financial balance (excluding foreign exchange transactions)	1,672	103	1,192	2,226
Foreign exchange transactions	2,922	-2,420	3,970	1,208
Net financial balance	4,594	-2,317	5,162	3,434

Table 5

Net financial balance and net borrowings

	July		April to July	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	4,594	-2,317	5,162	3,434
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-4,200	0	5,238	10,223
Canada Savings Bonds	-280	-283	-1,207	-1,821
Treasury bills	1,700	-3,100	-13,300	-20,700
Other	386	515	833	1,571
Subtotal	-2,394	-2,868	-8,436	-10,727
Less: Government's holdings of unmatured debt	167	94	530	365
Total	-2,227	-2,774	-7,906	-10,362
Payable in foreign currencies				
Marketable bonds	-776	3,494	-776	3,494
Notes and loans	0	0	0	0
Canada bills	-1,590	252	-1,867	-1,151
Canada notes	-326	-92	-326	-873
Total	-2,692	3,654	-2,969	1,470
Net change in borrowings	-4,919	880	-10,875	-8,892
Change in cash balances	-325	-1,437	-5,713	-5,458

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	July 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	10,243	4,825
In foreign currencies	49	9
Total cash balances	10,292	4,834
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	304,764
Treasury bills	112,300	91,600
Canada Savings Bonds	30,593	28,816
Other	3,456	5,027
Subtotal	440,890	430,207
<i>Less: Government's holdings of unmatured debt</i>	846	486
Total	440,044	429,721
Payable in foreign currencies		
Marketable bonds	15,869	19,363
Notes and loans	0	0
Canada bills	9,420	8,205
Canada notes	1,624	751
Total	26,913	28,319
Total unmatured debt	466,957	458,040

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, in the first four months of 1998-99, there was a net source of funds of \$1.2 billion from foreign exchange transactions, down from \$3.9 billion in the same period last year.

With a budgetary surplus of \$7.4 billion, a net requirement of \$5.1 billion from non-budgetary transactions, and a net source of funds of \$1.2 billion from foreign exchange transactions, the net financial surplus, over the April to July 1998 period, amounted to \$3.4 billion, compared to \$5.2 billion in the same period last year.

With this financial surplus, coupled with a reduction in the cash balances of \$5.4 billion, the government retired \$8.8 billion of market debt in the first four months of 1998-99.

