

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for August 1998

Budgetary surplus of \$0.6 billion recorded in August 1998

A budgetary surplus of \$0.6 billion was recorded in August 1998, compared to a budgetary deficit of \$0.2 billion in August 1997. This improvement in the budgetary balance, on a year-over-year basis, was attributable to an increase in budgetary revenues (up 8.8 per cent) and a decline in public debt charges (down 8.4 per cent). Program spending increased by 5.9 per cent.

The increase in budgetary revenues in August 1998, on a year-over-year basis, was primarily attributable to higher goods and services tax (GST) and corporate income tax collections.

- GST collections were up 34 per cent, reversing the decline recorded in the previous month. In the last few months, the fluctuations in collections, on a year-over-year basis, have been influenced by the timing of refunds. In August 1998, refunds were down sharply.
- Corporate income tax collections were up 19.1 per cent, reflecting an increase in gross remittances and a decline in refunds.

The decline in public debt charges was due to adjustments for overstatements in previous months.

The increase in program spending was primarily attributable to higher transfers to persons and direct program spending.

- The increase in transfers to persons (up 3.9 per cent) was largely attributable to the timing of employment insurance benefit cheques.
- The increase in direct program spending (up 10.2 per cent) primarily reflected the timing of subsidy and other transfer payments and non-salary departmental expenditures.

Year-to-date: budgetary surplus up \$2.1 billion

Over the first five months (April to August) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$8.0 billion, up \$2.1 billion from the same period last year. Budgetary revenues were up \$2.8 billion (4.6 per cent), program spending was up \$0.6 billion (1.6 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.2 billion, or 7.8 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 \$0.6 billion, or 9.0 per cent, reflecting lower refunds and higher gross collections due to continued strength in corporate profits in certain sectors of the economy.
- Employment insurance premium revenues were down \$0.4 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).
- GST collections were up \$0.5 billion, or 6.1 per cent, in line with the growth in consumer demand.
- 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 2.6 per cent as the reduction in the air transportation tax, effective January 1, 1998, dampened the impact of increases in energy and tobacco taxes and duties.



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Table 1

Summary statement of transactions¹

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary transactions				
Revenues	10,891	11,845	60,883	63,676
Program spending	-7,650	-8,099	-38,003	-38,606
Operating balance	3,241	3,746	22,880	25,070
Public debt charges	-3,410	-3,124	-17,039	-17,082
Deficit/surplus	-169	622	5,841	7,988
Non-budgetary transactions	467	1,730	-4,353	-3,410
Financial balance (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings	-153	1,577	-11,028	-7,314
Net change in cash balances	48	9,610	-5,667	4,153

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.

- Non-tax revenues, consisting of a return on investments and other non-tax revenues such as fees and proceeds from sales, among others, were down \$0.3 billion or 13.3 per cent. This component of revenues is quite volatile, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up \$0.2 billion, primarily due to higher elderly benefit payments. Employment benefit payments were virtually unchanged as the impact of the decline in the number of beneficiaries, reflecting the decline in the number of unemployed, was offset by the timing of payments in the month of August.
- Major transfers to other levels of government were virtually unchanged. 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 tax point transfers, total entitlements under the CSHT are increasing. Fiscal transfers were up slightly but this was largely offset by higher recoveries under Alternative Payments for Standing Programs.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$0.3 billion, or 2.1 per cent. 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.

Public debt charges were virtually unchanged as declines in the overall stock of interest-bearing debt were offset by a slight increase in the average effective interest rate due to changes in the composition of interest-bearing debt and increases in short-term interest rates.

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Table 2

Budgetary revenues

	August		April to August		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,199	5,360	28,826	31,074	7.8
Corporate income tax	1,160	1,381	7,047	7,682	9.0
Other income tax revenue	150	222	1,025	1,055	2.9
Total income tax	6,509	6,963	36,898	39,811	7.9
Employment insurance premium revenues	1,677	1,607	9,055	8,658	-4.4
Excise taxes and duties					
Goods and services tax	1,396	1,870	8,020	8,512	6.1
Customs import duties	319	277	1,029	1,033	0.4
Sales and excise taxes	708	780	3,528	3,621	2.6
Total excise taxes and duties	2,423	2,927	12,577	13,166	4.7
Total tax revenues	10,609	11,497	58,530	61,635	5.3
Non-tax revenues	282	348	2,353	2,041	-13.3
Total budgetary revenues	10,891	11,845	60,883	63,676	4.6

Year-to-date: financial surplus of \$4.6 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, 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 \$3.4 billion in the April to August 1998 period, compared to a net requirement of \$4.4 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$4.6 billion in the first five months of 1998-99, up from \$1.5 billion in the same period last year.

Year-to-date: net financial balance of \$11.5 billion/net borrowings down \$7.3 billion

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 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

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Table 3

Budgetary expenditures

	August		April to August		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,858	1,888	9,148	9,385	2.6
Employment insurance benefits	836	911	4,569	4,582	0.3
Total	2,694	2,799	13,717	13,967	1.8
Other levels of government					
Canada Health and Social Transfer	1,041	1,042	5,208	5,208	0.0
Fiscal transfers	769	782	3,848	3,913	1.7
Alternative Payments for Standing Programs	-178	-187	-888	-934	5.2
Total	1,632	1,637	8,168	8,187	0.2
Direct program spending					
Subsidies and other transfers					
Agriculture	34	93	146	223	52.7
Foreign Affairs	127	145	585	515	-12.0
Health	73	90	335	414	23.6
Human Resources Development	86	174	495	683	38.0
Indian and Northern Development	248	305	1,817	1,883	3.6
Industry and Regional Development	134	153	494	496	0.4
Veterans Affairs	112	113	570	566	-0.7
Other	173	132	975	818	-16.1
Total	987	1,205	5,417	5,598	3.3
Payments to Crown corporations					
Canadian Broadcasting Corporation	65	44	379	334	-11.9
Canada Mortgage and Housing Corporation	119	150	639	747	16.9
Other	108	43	469	408	-13.0
Total	292	237	1,487	1,489	0.1
Operating and capital expenditures					
Defence	750	776	3,162	3,074	-2.8
All other departmental expenditures	1,295	1,445	6,052	6,291	3.9
Total	2,045	2,221	9,214	9,365	1.6
Total direct program spending	3,324	3,663	16,118	16,452	2.1
Total program expenditures	7,650	8,099	38,003	38,606	1.6
Public debt charges	3,410	3,124	17,039	17,082	0.3
Total budgetary expenditures	11,060	11,223	55,042	55,688	1.2
Memorandum item:					
Total transfers	5,313	5,641	27,302	27,752	1.6

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Table 4

The budgetary balance and financial requirements/surplus

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Budgetary balance: deficit (-)/surplus (+)	-169	622	5,841	7,988
Loans, investments and advances				
Crown corporations	57	62	140	609
Other	61	106	130	159
Total	118	168	270	768
Specified purpose accounts				
Canada Pension Plan Account	-289	-122	400	361
Superannuation accounts	-446	300	685	1,528
Other	-76	52	-272	-5
Total	-811	230	813	1,884
Other transactions	1,160	1,332	-5,436	-6,062
Total non-budgetary transactions	467	1,730	-4,353	-3,410
Financial requirements/surplus (excluding foreign exchange transactions)	298	2,352	1,488	4,578
Foreign exchange transactions	-97	5,681	3,873	6,889
Net financial balance	201	8,033	5,361	11,467

Table 5

Net financial balance and net borrowings

	August		April to August	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
Net financial balance	201	8,033	5,361	11,467
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	3,600	2,300	8,838	12,523
Canada Savings Bonds	-237	-196	-1,444	-2,017
Treasury bills	-4,600	-2,100	-17,900	-22,800
Other	-1	-24	832	1,547
Subtotal	-1,238	-20	-9,674	-10,747
<i>Less: Government's holdings of unmatured debt</i>	<i>107</i>	<i>89</i>	<i>638</i>	<i>455</i>
Total	-1,131	69	-9,036	-10,292
Payable in foreign currencies				
Marketable bonds	61	75	-716	3,569
Notes and loans	0	0	0	0
Canada bills	917	1,433	-950	282
Canada notes			-326	-873
Total	978	1,508	-1,992	2,978
Net change in borrowings	-153	1,577	-11,028	-7,314
Change in cash balances	48	9,610	-5,667	4,153

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Table 6

Cash, unmatured debt and debt balances

	March 31, 1998	August 31, 1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	3,541	14,374
In foreign currencies	156	70
Total cash balances	3,697	14,444
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	294,541	89,500
Treasury bills	112,300	28,618
Canada Savings Bonds	30,593	28,816
Other	3,456	5,003
Subtotal	440,890	430,185
<i>Less: Government's holdings of unmatured debt</i>	846	398
Total	440,044	429,787
Payable in foreign currencies		
Marketable bonds	15,869	19,438
Notes and loans	0	0
Canada bills	9,420	9,638
Canada notes	1,624	751
Total	26,913	29,827
Total unmatured debt	466,957	459,614

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 five months of 1998-99, there was a net source of funds of \$6.9 billion from foreign exchange transactions, up from a source of \$3.9 billion in the same period last year.

With a budgetary surplus of \$8.0 billion, a net requirement of \$3.4 billion from non-budgetary transactions, and a net source of funds of \$6.9 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion over the April to August 1998 period, compared to \$5.4 billion in the same period last year.

With this net financial balance, the government retired \$7.3 billion of market debt in the first five months of 1998-99 and increased its cash balances by \$4.2 billion.

