

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for January 1999

Budgetary deficit of \$1.3 billion in January 1999

A budgetary deficit of \$1.3 billion was recorded in January 1999, up \$0.4 billion from the deficit of \$0.9 billion recorded in January 1998. As indicated in last month's *Fiscal Monitor*, a deficit was expected in January 1999, given the flow of revenues.

Budgetary revenues were up \$0.1 billion, or 0.7 per cent, in January 1999 on a year-over-year basis as higher personal income tax revenues, reflecting the strong growth in employment at the end of 1998, more than offset declines in corporate income tax revenues, goods and services tax (GST) revenues and non-tax revenues.

On a year-over-year basis, program spending was up \$0.4 billion, or 4.9 per cent. This increase was primarily attributable to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, retroactive wage adjustments following the signing of a number of collective agreements and the timing of payments to Crown corporations.

Public debt charges were marginally higher, as a slight increase in the average effective interest rate offset a decline in interest-bearing debt.

Year-to-date: budgetary surplus of \$10.4 billion

Over the first ten months (April to January) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$10.4 billion, up \$1.2 billion from the surplus of \$9.2 billion recorded in the same period of 1997-98, but down from the surplus of \$11.7 billion to the end of December 1998. The year-over-year improvement was largely due to higher personal income tax collections in May 1998, primarily relating to taxes owing with respect to earnings in the 1997 taxation year. There has been no net improvement in the fiscal balance over the other nine months of 1998-99.

Economic developments over the balance of the current fiscal year are expected to lower the surplus to date by about \$2 billion, primarily reflecting further declines in corporate income tax revenues and higher Equalization transfers. The 1999 budget announced initiatives totalling \$4.2 billion which will be charged to 1998-99. In addition, the full cost of policy initiatives announced prior to the 1999 budget has yet to be reflected in the year-to-date results.

Taking all of these factors into consideration, a balanced budget, including the Contingency Reserve of \$3 billion, is expected for 1998-99. To the extent that the Contingency Reserve is not required, it will be used to pay down debt.



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Table 1

Summary statement of transactions

	January		April to January	
	1998	1999	1997-98	1998-99
(millions of dollars)				
Budgetary transactions				
Revenues	11,750	11,834	124,642	128,012
Program spending	-9,152	-9,599	-81,267	-82,997
Operating surplus	2,598	2,235	43,375	45,015
Public debt charges	-3,521	-3,537	-34,126	-34,595
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Net change in cash balances	-2,072	-7,449	-174	-8,607

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

Over the April 1998 to January 1999 period, budgetary revenues were up \$3.4 billion (2.7 per cent), program spending was up \$1.7 billion (2.1 per cent), while public debt charges were \$0.5 billion (1.4 per cent) higher, compared to the same period in 1997-98.

Within budgetary revenues:

- Personal income tax collections were up \$2.5 billion, or 4.2 per cent. This was attributable to continued increases in receipts from monthly deductions from employment income, due to increases in the number of people employed, as well as higher taxes paid on filing, reflecting the strong income growth in the 1997 taxation year. The overall growth in personal income tax collections has been dampened by a number of factors, including a strong increase in refunds (up \$1.2 billion) and a net transfer of \$0.7 billion to employment insurance premium revenues. In addition,

payments under the Canada Child Tax Benefit, which are netted from personal income tax revenues, are up \$0.3 billion, reflecting the additional funding announced in the 1996 and 1997 budgets.

- Corporate income tax revenues were up \$0.3 billion, or 1.9 per cent. Although revenues were up strongly in the first eight months of this fiscal year, year-over-year declines have been reported in each of the last two months. Lower revenues are expected over the balance of the fiscal year, reflecting the decline in corporate profits in 1998. Corporations are required to file monthly instalments 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 owing. This results in a substantial proportion of corporate income tax collections being

Table 2

Budgetary revenues

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	5,552	6,066	61,069	63,610	4.2
Corporate income tax	1,759	1,594	14,895	15,181	1.9
Other income tax revenue	409	569	2,017	2,290	13.5
Total income tax	7,720	8,229	77,981	81,081	4.0
Employment insurance premium revenues	1,433	1,457	15,298	15,450	1.0
Excise taxes and duties					
Goods and services tax	1,202	1,022	16,744	17,370	3.7
Customs import duties	177	180	2,249	1,998	-11.2
Sales and excise taxes	700	746	7,354	7,166	-2.6
Total excise taxes and duties	2,079	1,948	26,347	26,534	0.7
Total tax revenues	11,232	11,634	119,626	123,065	2.9
Non-tax revenues	518	200	5,016	4,947	-1.4
Total budgetary revenues	11,750	11,834	124,642	128,012	2.7

received in the months of February and March, ranging from 25 to 40 per cent of total collections for the year as a whole. Monthly instalments for 1997 were largely based on 1996 tax liabilities. However, tax liabilities for 1997 were substantially higher than in 1996, which led to collections in the settlement period (February/March 1998) rising nearly 30 per cent over the 1997 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments to the end of November 1998 were increased to reflect 1997 tax liabilities, thereby accounting for the current strength in corporate income tax collections. With the decline in corporate profits in 1998, settlement payments in February/March 1999 are expected to be lower than those recorded in February/March 1998.

- Employment insurance premium revenues were up \$0.2 billion, or 1.0 per cent. This increase was attributable to net transfers from personal income tax revenues and an increase in the number of people employed. In December 1997, there was a transfer to personal income tax revenues, reflecting over-payments with respect to the 1996 taxation year, whereas in October 1998, there was a transfer from personal income tax revenues, due to under-payments with respect to the 1997 taxation year. Dampening the impact of these factors was 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). For 1999, the employee rate has been reduced to \$2.55.

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- Net GST revenues were up \$0.6 billion, or 3.7 per cent. Monthly revenues to date continue to be extremely volatile, primarily due to the timing of refunds. Although gross collections have increased in line with the growth in consumer demand, larger increases in refunds and rebates have depressed the growth in net revenues.
- Customs import duties were down \$0.3 billion, or 11.2 per cent, as the growth in imports was more than offset by the impact of tariff reductions. Other excise taxes and duties were down \$0.2 billion, or 2.6 per cent, largely due to the reduction in the Air Transportation Tax, effective January 1, 1998, and its elimination effective November 1, 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down \$0.1 billion, or 1.4 per cent.

Within program spending:

- Major transfers to persons were up \$0.5 billion, primarily due to higher elderly benefit payments. Employment insurance benefit payments were up slightly.
- Major transfers to other levels of government were up \$0.2 billion, as higher fiscal transfers were partially offset by higher 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 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.

- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, was up \$1.0 billion, or 2.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.2 billion. This increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, offset in part by the termination of subsidies to NAV CANADA, resulting from the elimination of the Air Transportation Tax. Payments to Crown corporations were up \$0.1 billion. Operating and capital expenditures, including defence, were up \$0.7 billion, or 3.3 per cent.

Public debt charges were up \$0.5 billion, or 1.4 per cent, as a decline in the overall stock of interest-bearing debt was offset by an increase in the average effective interest rate on that debt.

Year-to-date: financial surplus of \$8.2 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.

Table 3

Budgetary expenditures

	January		April to January		Per cent change
	1998	1999	1997-98	1998-99	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,863	1,897	18,437	18,904	2.5
Employment insurance benefits	1,178	1,162	9,225	9,263	0.4
Total	3,041	3,059	27,662	28,167	1.8
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	10,416	10,417	0.0
Fiscal transfers	810	862	7,759	8,045	3.7
Alternative Payments for Standing Programs	-180	-187	-1,784	-1,867	4.7
Total	1,672	1,717	16,391	16,595	1.2
Direct program spending					
Subsidies and other transfers					
Agriculture	136	46	543	520	-4.2
Foreign Affairs	205	280	1,319	1,267	-3.9
Health	52	87	660	808	22.4
Human Resources Development	124	305	1,129	1,685	49.2
Indian and Northern Development	233	160	3,174	3,167	-0.2
Industry and Regional development	88	113	1,181	1,168	-1.1
Veterans Affairs	116	116	1,139	1,140	0.1
Other	278	218	2,307	1,869	-19.0
Total	1,232	1,325	11,452	11,624	1.5
Payments to Crown corporations					
Canadian Broadcasting Corporation	74	65	746	824	10.5
Canada Mortgage and Housing Corporation	100	180	1,403	1,490	6.2
Other	73	108	903	841	-6.9
Total	247	353	3,052	3,155	3.4
Operating and capital expenditures					
Defence	955	932	7,811	7,484	-4.2
All other departmental expenditures	2,005	2,213	14,899	15,972	7.2
Total	2,960	3,145	22,710	23,456	3.3
Total direct program spending	4,439	4,823	37,214	38,235	2.7
Total program expenditures	9,152	9,599	81,267	82,997	2.1
Public debt charges	3,521	3,537	34,126	34,595	1.4
Total budgetary expenditures	12,673	13,136	115,393	117,592	1.9
Memorandum item:					
Total transfers	5,945	6,101	55,505	56,386	1.6

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Table 4

The budgetary balance and financial requirements/surplus

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Budgetary balance (deficit/surplus)	-923	-1,302	9,249	10,420
Loans, investments and advances				
Crown corporations	239	150	879	1,245
Other	121	71	72	-382
Total	360	221	951	863
Specified purpose accounts				
Canada Pension Plan Account	-184	744	-387	684
Superannuation accounts	354	360	2,410	3,319
Other	28	-5	-217	3
Total	198	1,099	1,806	4,006
Other transactions	1,971	1,127	-3,639	-7,073
Total non-budgetary transactions	2,529	2,447	-882	-2,204
Financial requirements/surplus (excluding foreign exchange transactions)	1,606	1,145	8,367	8,216
Foreign exchange transactions	-2,018	-3,841	5,972	-446
Net financial balance	-412	-2,696	14,339	7,770

Table 5

Net financial balance and net borrowings

	January		April to January	
	1998	1999	1997-98	1998-99
	(millions of dollars)			
Net financial balance	-412	-2,696	14,339	7,770
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds			16,888	5,972
Canada Savings Bonds	-364	526	-2,569	-1,623
Treasury bills	-1,400	-3,300	-28,000	-28,500
Other		-894	159	387
Subtotal	-1,764	-3,668	-13,522	-23,764
Less: Government's holding of unmatured debt	101	48	50	-432
Total	-1,663	-3,620	-13,472	-24,196
Payable in foreign currencies				
Marketable bonds		455	-126	9,681
Notes and loans	0	0	0	0
Canada bills	5	-1,588	-562	-787
Canada notes			-353	-1,075
Total	5	-1,133	-1,041	7,819
Net change in borrowings	-1,658	-4,753	-14,513	-16,377
Change in cash balance	-2,070	-7,449	-174	-8,607

Table 6

Condensed statement of assets and liabilities

	March 31, 1998	January 31, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	11,834	-10,530
Interest and matured debt	10,419	9,610	-809
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	32,361	-11,339
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	120,775	3,318
Canada Pension Plan (net of securities)	4,205	4,890	685
Other pension and other accounts	5,872	5,875	3
Total pension and other accounts	127,534	131,540	4,006
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,055	5,472
Treasury bills	112,300	83,800	-28,500
Canada Savings Bonds	29,769	28,215	-1,554
Other	3,456	3,843	387
Subtotal	440,108	415,913	-24,195
Payable in foreign currencies	27,183	35,003	7,820
Total unmaturred debt	467,291	450,916	-16,375
Total interest-bearing debt	594,825	582,456	-12,369
Total liabilities	638,525	614,817	-23,708
Assets			
Cash and accounts receivable	15,813	2,942	-12,871
Foreign exchange accounts	28,968	29,414	446
Loans, investments and advances (net of allowances)	14,036	13,173	-863
Total assets	58,817	45,529	-13,288
Accumulated deficit (net public debt)	579,708	569,288	-10,420

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 \$2.2 billion in the April 1998 to January 1999 period, up \$1.3 billion from the net requirement in the same period of 1997-98. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$8.2 billion in the April 1998 to January 1999 period, down slightly from the \$8.4 billion recorded in the same period of 1997-98.

**Year-to-date: net financial balance
of \$7.8 billion/net borrowings
down \$16.4 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 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, in the April 1998 to January 1999 period, there was a net requirement of funds of \$0.4 billion from foreign exchange transactions, compared to a net source of \$6.0 billion in the same period of 1997-98. With a budgetary surplus of \$10.4 billion, a net requirement of \$2.2 billion from non-budgetary transactions and a net requirement of \$0.4 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$7.8 billion over the April 1998 to January 1999 period, compared to a surplus of \$14.3 billion in the same period of 1997-98.

With this net financial balance, coupled with a reduction in cash balances of \$8.6 billion, the government retired \$16.4 billion of market debt in the April 1998 to January 1999 period. Cash balances at the end of January 1999 were \$1.8 billion.

