

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for July 1999

Budgetary surplus of \$0.8 billion in July 1999

There was a budgetary surplus of \$0.8 billion in July 1999, down \$0.5 billion from the surplus of \$1.3 billion recorded in July 1998. Most of the year-over-year decline in the surplus was attributable to a \$0.4-billion decline in budgetary revenues.

Among the major revenue components:

- Personal income tax collections were down 8.2 per cent. This decline was primarily attributable to the timing of receipts, which overstated collections in the previous three months. In addition, refunds relating to the 1998 taxation year and payments under the Canada Child Tax Benefit (CCTB) were higher. The monthly results were also dampened by the impact of the tax relief measures announced in the 1999 budget.
- Corporate income tax collections declined 2.7 per cent, in part reflecting the weakness in profits in 1998.
- Employment insurance (EI) premium revenues were down 2.0 per cent, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) more than offset an increase in the number of people employed.
- Net goods and services tax (GST) collections were up 14.8 per cent, largely attributable to lower refunds, which were down 8.9 per cent on a year-over-year basis. In contrast, gross

collections advanced by 2.3 per cent. Customs import duties declined by 11.2 per cent, largely due to the timing of payments, which overstated the net increase in the first three months of 1999-2000. Other excise taxes and duties were virtually unchanged.

- Non-tax revenues were up 11.3 per cent, primarily reflecting the timing of receipts.

Program spending advanced by 0.3 per cent on a year-over-year basis, with declines in major transfers to persons and direct program spending virtually offsetting the increase in major transfers to other levels of government.

- Major transfers to persons were down 0.8 per cent, as lower EI benefits, reflecting fewer unemployed, more than offset the increase in elderly benefits.
- Major transfers to other levels of government were up 3.7 per cent, reflecting higher Equalization entitlements. 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 declined by 0.3 per cent, with an increase of 7.8 per cent in subsidies and other transfers offsetting declines in payments to Crown corporations and operating and capital expenditures. Developments within direct program spending primarily reflect the timing of payments.



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Table 1

Summary statement of transactions

| | July | | April to July | |
|---|-----------------------|--------|---------------|---------|
| | 1998 | 1999 | 1998-99 | 1999-00 |
| | (millions of dollars) | | | |
| Budgetary transactions | | | | |
| Revenues | 13,061 | 12,664 | 51,760 | 52,609 |
| Program spending | -8,358 | -8,384 | -32,106 | -33,163 |
| Operating surplus | 4,703 | 4,280 | 19,654 | 19,446 |
| Public debt charges | -3,448 | -3,506 | -13,958 | -13,895 |
| Budgetary balance (deficit/surplus) | 1,255 | 774 | 5,696 | 5,551 |
| Non-budgetary transactions | -1,153 | 19 | -3,470 | -5,381 |
| Financial requirements/surplus (excluding foreign exchange transactions) | 102 | 793 | 2,226 | 170 |
| Foreign exchange transactions | -2,420 | 1,305 | 1,208 | 535 |
| Net financial balance | -2,318 | 2,098 | 3,434 | 705 |
| Net change in borrowings | 880 | 2,458 | -8,892 | -2,265 |
| Net change in cash balances | -1,438 | 4,556 | -5,458 | -1,560 |

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

Public debt charges were up 1.7 per cent, primarily reflecting an increase in the stock of interest-bearing debt, as the average effective interest rate was unchanged.

Year-to-date: budgetary surplus down \$145 million

Over the first four months of fiscal year 1999-2000, the budgetary surplus was estimated at \$5.6 billion, down \$0.1 billion from the surplus of \$5.7 billion recorded in the same period of 1998-99. The year-over-year change in the budgetary surplus will be affected in upcoming months by the tax reduction measures announced in the 1999 budget, which became effective July 1, 1999, as well as the 1998 budget measure to increase the CCTB.

Budgetary revenues were up \$0.8 billion, or 1.6 per cent on a year-over-year basis. All major components were up with the exception of corporate income tax revenues.

- Personal income tax collections were up \$0.4 billion, or 1.4 per cent. This increase was due to both higher taxes paid on filing, related to the 1998 taxation year, and increases in receipts from monthly deductions from employment income, due to increases in the number of people employed. However, there has been a slowdown in the rate of growth of receipts from monthly deductions, reflecting the impact of the tax relief measures announced in the 1998 and 1999 budgets. In addition, the results to date were further dampened by higher personal income tax refunds related to the 1998 taxation year and higher CCTB payments, reflecting increases announced in previous budgets.

Table 2

Budgetary revenues

| | July | | Change (%) | April to July | | Change (%) |
|--|-----------------------|--------|---------------|-----------------------|---------|---------------|
| | 1998 | 1999 | | 1998-99 | 1999-00 | |
| | (millions of dollars) | | | (millions of dollars) | | |
| Income taxes | | | | | | |
| Personal income tax | 6,531 | 5,998 | -8.2 | 25,517 | 25,870 | 1.4 |
| Corporate income tax | 1,712 | 1,666 | -2.7 | 6,428 | 5,959 | -7.3 |
| Other income tax revenue | 220 | 197 | -10.5 | 833 | 975 | 17.0 |
| Total income tax | 8,463 | 7,861 | -7.1 | 32,778 | 32,804 | 0.1 |
| Employment insurance premium revenues | 1,732 | 1,697 | -2.0 | 7,051 | 7,063 | 0.2 |
| Excise taxes and duties | | | | | | |
| Goods and services tax | 1,545 | 1,773 | 14.8 | 6,642 | 7,149 | 7.6 |
| Customs import duties | 251 | 223 | -11.2 | 756 | 845 | 11.8 |
| Sales and excise taxes | 724 | 725 | 0.1 | 2,843 | 2,894 | 1.8 |
| Total excise taxes and duties | 2,520 | 2,721 | 8.0 | 10,241 | 10,888 | 6.3 |
| Total tax revenues | 12,715 | 12,279 | -3.4 | 50,070 | 50,755 | 1.4 |
| Non-tax revenues | 346 | 385 | 11.3 | 1,690 | 1,854 | 9.7 |
| Total budgetary revenues | 13,061 | 12,664 | -3.0 | 51,760 | 52,609 | 1.6 |

- Corporate income tax revenues were down \$0.5 billion, or 7.3 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up in the first half of 1999, refunds related to overpayments with respect to taxation year 1998 and instalment payments based on 1998 liabilities are dampening revenues to date in 1999-2000.
 - EI premium revenues were up marginally, as the effect of the decline in the premium rates (the employee rate for 1999 is \$2.55 per \$100 of insurable earnings compared to \$2.70 in 1998) was offset by an increase in the number of people employed.
 - Net GST collections were up \$0.5 billion, or 7.6 per cent, while customs import duties were up 11.8 per cent. The growth in revenues in these components to date continues to be affected by timing considerations. The growth rates should come down in coming months and be more reflective of the growth in the respective tax bases. Sales and excise taxes and duties were up 1.8 per cent.
 - Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were up \$0.2 billion or 9.7 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.
- Program spending increased by \$1.1 billion, or 3.3 per cent, in the April to July 1999 period, compared to the same period last year. This increase was spread among all major components with the exception of payments to Crown corporations.
- Major transfers to persons were up slightly, as higher elderly benefit payments more than offset the decline in EI benefits. 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 EI benefit payments was primarily due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed.

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Table 3

Budgetary expenditures

| | July | | Change (%) | April to July | | Change (%) |
|--|-------------------------------|-------------------------------|---------------|----------------------------------|----------------------------------|---------------|
| | 1998 (millions of dollars) | 1999 (millions of dollars) | | 1998-99 (millions of dollars) | 1999-00 (millions of dollars) | |
| Transfer payments to: | | | | | | |
| Persons | | | | | | |
| Elderly benefits | 1,929 | 1,986 | 3.0 | 7,497 | 7,617 | 1.6 |
| Employment insurance benefits | 873 | 793 | -9.2 | 3,671 | 3,584 | -2.4 |
| Total | 2,802 | 2,779 | -0.8 | 11,168 | 11,201 | 0.3 |
| Other levels of government | | | | | | |
| Canada Health and Social Transfer | 1,042 | 1,042 | 0.0 | 4,167 | 4,167 | 0.0 |
| Fiscal transfers | 817 | 880 | 7.7 | 3,132 | 3,481 | 11.1 |
| Alternative Payments for Standing Programs | -187 | -188 | 0.5 | -747 | -750 | 0.4 |
| Total | 1,672 | 1,734 | 3.7 | 6,552 | 6,898 | 5.3 |
| Direct program spending | | | | | | |
| Subsidies and other transfers | | | | | | |
| Agriculture | 74 | 18 | -75.7 | 130 | 96 | -26.2 |
| Foreign Affairs | 107 | 127 | 18.7 | 370 | 356 | -3.8 |
| Health | 84 | 47 | -44.0 | 324 | 309 | -4.6 |
| Human Resources Development | 73 | 150 | 105.5 | 509 | 426 | -16.3 |
| Indian and Northern Development | 271 | 278 | 2.6 | 1,578 | 1,670 | 5.8 |
| Industry and Regional Development | 105 | 136 | 29.5 | 343 | 399 | 16.3 |
| Veterans Affairs | 114 | 117 | 2.6 | 453 | 458 | 1.1 |
| Other | 185 | 219 | 18.4 | 686 | 717 | 4.5 |
| Total | 1,013 | 1,092 | 7.8 | 4,393 | 4,431 | 0.9 |
| Payments to Crown corporations | | | | | | |
| Canadian Broadcasting Corporation | 60 | 50 | -16.7 | 290 | 255 | -12.1 |
| Canada Mortgage and Housing Corporation | 140 | 150 | 7.1 | 597 | 595 | -0.3 |
| Other | 121 | 85 | -29.8 | 365 | 395 | 8.2 |
| Total | 321 | 285 | -11.2 | 1,252 | 1,245 | -0.6 |
| Operating and capital expenditures | | | | | | |
| Defence | 815 | 801 | -1.7 | 2,698 | 2,812 | 4.2 |
| All other departmental expenditures | 1,735 | 1,693 | -2.4 | 6,043 | 6,576 | 8.8 |
| Total | 2,550 | 2,494 | -2.2 | 8,741 | 9,388 | 7.4 |
| Total direct program spending | 3,884 | 3,871 | -0.3 | 14,386 | 15,064 | 4.7 |
| Total program expenditures | 8,358 | 8,384 | 0.3 | 32,106 | 33,163 | 3.3 |
| Public debt charges | 3,448 | 3,506 | 1.7 | 13,958 | 13,895 | -0.5 |
| Total budgetary expenditures | 11,806 | 11,890 | 0.7 | 46,064 | 47,058 | 2.2 |
| Memorandum item: | | | | | | |
| Total transfers | 5,487 | 5,605 | 2.2 | 22,113 | 22,530 | 1.9 |

Table 4

The budgetary balance and financial requirements/surplus

| | July | | April to July | |
|---|-----------------------|-------|---------------|---------|
| | 1998 | 1999 | 1998-99 | 1999-00 |
| | (millions of dollars) | | | |
| Budgetary balance (deficit/surplus) | 1,255 | 774 | 5,696 | 5,551 |
| Loans, investments and advances | | | | |
| Crown corporations | 392 | 27 | 547 | -110 |
| Other | 30 | -53 | 19 | 357 |
| Total | 422 | -26 | 566 | 247 |
| Specified purpose accounts | | | | |
| Canada Pension Plan Account | -514 | -472 | 484 | -202 |
| Superannuation accounts | 261 | 382 | 1,228 | 1,445 |
| Other | -13 | -18 | -57 | -125 |
| Total | -266 | -108 | 1,655 | 1,118 |
| Other transactions | -1,309 | 153 | -5,691 | -6,746 |
| Total non-budgetary transactions | -1,153 | 19 | -3,470 | -5,381 |
| Financial requirements/surplus (excluding foreign exchange transactions) | 102 | 793 | 2,226 | 170 |
| Foreign exchange transactions | -2,420 | 1,305 | 1,208 | 535 |
| Net financial balance | -2,318 | 2,098 | 3,434 | 705 |

Table 5

Net financial balance and net borrowings

| | July | | April to July | |
|--|-----------------------|--------|---------------|---------|
| | 1998 | 1999 | 1998-99 | 1999-00 |
| | (millions of dollars) | | | |
| Net financial balance | -2,318 | 2,098 | 3,434 | 705 |
| Net increase (+)/decrease (-) in borrowings | | | | |
| Payable in Canadian dollars | | | | |
| Marketable bonds | - | - | 10,223 | 10,287 |
| Canada Savings Bonds | -283 | 222 | -1,821 | -954 |
| Treasury bills | -3,100 | 3,150 | -20,700 | -9,200 |
| Other | 515 | 247 | 1,571 | 1,246 |
| Subtotal | -2,868 | 3,619 | -10,727 | 1,379 |
| Less: Government's holding of unmatured debt | 94 | -68 | 365 | 105 |
| Total | -2,774 | 3,551 | -10,362 | 1,484 |
| Payable in foreign currencies | | | | |
| Marketable bonds | 3,494 | - | 3,494 | - |
| Notes and loans | - | - | - | - |
| Canada bills | 252 | -867 | -1,151 | -3,523 |
| Canada notes | -92 | -226 | -873 | -226 |
| Total | 3,654 | -1,093 | 1,470 | -3,749 |
| Net change in borrowings | 880 | 2,458 | -8,892 | -2,265 |
| Change in cash balance | -1,438 | 4,556 | -5,458 | -1,560 |

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- Major transfers to other levels of government were up 5.3 per cent, reflecting much higher fiscal transfers, most notably for Equalization, as explained above.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, increased by \$0.7 billion, or 4.7 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. Developments in this component are affected by the timing of payments, as well as the lifting of the wage freeze and the effect of new initiatives announced in the February 1999 budget.

Public debt charges were down 0.5 per cent due to a decline in the average effective interest rate. The stock of interest-bearing debt was up somewhat as an increase in pension liabilities more than offset a decline in market debt.

Year-to-date: financial surplus of \$0.2 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.

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 \$5.4 billion in the first four months of 1999-2000, compared to a net requirement of \$3.5 billion in the same period last year. This increase was entirely attributable 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 \$0.2 billion in the April to July 1999 period, compared to a financial surplus of \$2.2 billion recorded in the same period last year.

Year-to-date: net financial surplus of \$0.7 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 source of \$0.5 billion in the April to July 1999 period, compared to a net source of \$1.2 billion in the same period last year.

With a budgetary surplus of \$5.6 billion, a net requirement of \$5.4 billion from non-budgetary transactions and a net source of \$0.5 billion from foreign exchange transactions, there was a net financial surplus of \$0.7 billion in the April to July 1999 period compared to a net surplus of \$3.4 billion in the same period last year.

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Table 6

Condensed statement of assets and liabilities

| | March 31, 1999 | July 31, 1999 | Change |
|---|-----------------------|----------------|---------------|
| | (millions of dollars) | | |
| Liabilities | | | |
| Accounts payable, accruals and allowances | | | |
| Accounts payable and accrued liabilities | 18,911 | 18,274 | -637 |
| Interest and matured debt | 7,374 | 7,505 | 131 |
| Allowances | 12,804 | 10,917 | -1,887 |
| Total accounts payable, accruals and allowances | 39,089 | 36,696 | -2,393 |
| Interest-bearing debt | | | |
| Pension and other accounts | | | |
| Public sector pensions | 121,342 | 122,787 | 1,445 |
| Canada Pension Plan (net of securities) | 6,794 | 6,592 | -202 |
| Other pension and other accounts | 4,551 | 4,426 | -125 |
| Total pension and other accounts | 132,687 | 133,805 | 1,118 |
| Unmatured debt | | | |
| Payable in Canadian dollars | | | |
| Marketable bonds | 295,555 | 305,864 | 10,309 |
| Treasury bills | 96,950 | 87,833 | -9,117 |
| Canada Savings Bonds | 28,087 | 27,133 | -954 |
| Other | 4,063 | 5,309 | 1,246 |
| Subtotal | 424,655 | 426,139 | 1,484 |
| Payable in foreign currencies | | | |
| Marketable bonds | 23,176 | 23,176 | |
| Canada bills | 10,230 | 6,707 | -3,523 |
| Canada notes | 1,863 | 1,637 | -226 |
| Subtotal | 35,269 | 31,520 | -3,749 |
| Total unmatured debt | 459,924 | 457,659 | -2,265 |
| Total interest-bearing debt | 592,611 | 591,464 | -1,147 |
| Total liabilities | 631,700 | 628,160 | -3,540 |
| Assets | | | |
| Cash and accounts receivable | 8,730 | 9,959 | 1,229 |
| Foreign exchange accounts | 33,446 | 33,981 | 535 |
| Loans, investments and advances (net of allowances) | 12,824 | 13,071 | 247 |
| Total assets | 55,000 | 57,011 | 2,011 |
| Accumulated deficit (net public debt) | 576,700 | 571,149 | -5,551 |

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Year-to-date: net borrowings down \$2.3 billion

Although there was a net financial surplus of only \$0.7 billion in the April to July 1999 period, the government has retired \$2.3 billion of market debt to the end of July 1999, primarily through a \$1.6-billion reduction in its cash balances. Cash balances at the end of July 1999 amounted to \$7.7 billion.

