

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for September 1998

### Budgetary surplus down slightly in September 1998

A budgetary surplus of \$2.4 billion was recorded in September 1998, down slightly from the surplus of \$2.5 billion recorded in the same period last year. On a year-over-year basis, budgetary revenues declined 0.7 per cent, program spending was up 0.8 per cent, while public debt charges were 2.3 per cent lower.

The decline in budgetary revenues in September 1998, on a year-over-year basis, was primarily attributable to lower goods and services tax (GST) revenues.

- Net GST revenues were down \$0.3 billion or 14.5 per cent, reversing the increase 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 September 1998, refunds were up sharply due to an extra processing cycle compared to the same period last year.
- Personal income tax revenues were down \$0.2 billion, or 3.4 per cent. However, this entire decline was attributable to a transfer from personal income tax collections to employment insurance premium revenues, relating to an adjustment with respect to taxation year 1997. On a monthly basis, employers remit gross tax deductions from employees, including federal and personal income tax deductions, and employment insurance and Canada Pension Plan premiums. These are initially allocated to

the respective components using estimates, with adjustments made once annual tax data become available. The transfer made in September accounted for all of the increase in employment insurance premium revenues. Without this transfer, employment insurance premium revenues would have been lower, reflecting the decline in premium rates for 1998.

- Corporate income tax collections were up \$0.2 billion, or 13.0 per cent, reflecting a strong increase in gross remittances and a slight decline in refunds.
- Non-tax revenues were up \$0.2 billion or 43.1 per cent. This component is quite volatile, reflecting the timing of receipts.

The increase in program spending was primarily attributable to higher operating and capital expenditures, mainly due to the timing of expenditures. Among the other components:

- Employment insurance benefits were down 8.8 per cent, reversing the increase reported last month. This primarily reflected the timing of cheques over these two months.
- Transfers to other levels of government and subsidies and other transfers were up marginally, while payments to Crown corporations were lower.

The decline in public debt charges was primarily attributable to a lower stock of interest-bearing debt.



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Table 1

## Summary statement of transactions<sup>1</sup>

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenue	13,732	13,633	74,615	77,309
Program spending	-7,765	-7,830	-45,768	-46,437
Operating surplus	5,967	5,803	28,847	30,872
Public debt charges	-3,456	-3,376	-20,495	-20,457
Deficit/surplus	2,511	2,427	8,352	10,415
<b>Non-budgetary transactions</b>	-856	-1,385	-5,209	-4,795
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,655	1,042	3,143	5,620
<b>Foreign exchange transactions</b>	-585	-1,054	3,288	5,835
<b>Net financial balance</b>	1,070	-12	6,431	11,455
<b>Net increase(+)/decrease (-) in borrowings</b>	-1,991	-9,109	-13,019	-16,424
<b>Net change in cash balances</b>	-921	-9,121	-6,588	-4,969

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

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

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

Over the first six months (April to September) of the 1998-99 fiscal year, the budgetary surplus was estimated at \$10.4 billion, up \$2.1 billion from the surplus of \$8.4 billion recorded over the first six months of 1997-98. Budgetary revenues were up \$2.7 billion (3.6 per cent), program spending was up \$0.7 billion (1.5 per cent), while public debt charges were virtually unchanged.

Within budgetary revenues:

- Personal income tax collections were up \$2.0 billion, or 5.6 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. Revenues to date were

adversely affected by a transfer of \$0.3 billion to employment insurance premium revenues, due to an adjustment relating to the 1997 taxation year.

- Corporate income tax revenues were up \$0.8 billion, or 9.6 per cent, primarily reflecting higher gross collections, due to continued strength in corporate profits in certain sectors of the economy. In addition, part of the increase may be due to the monthly tax remittance procedures for corporations. 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 amount of corporate income tax collections being received in the months of February and March, ranging from 25 to 40 per cent of total

Table 2

## Budgetary revenues

	September		April to September		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
<b>Income taxes</b>					
Personal income tax	7,071	6,831	35,897	37,905	5.6
Corporate income tax	1,235	1,395	8,282	9,077	9.6
Other income tax revenue	175	55	1,200	1,110	-7.5
Total income tax	8,481	8,281	45,379	48,092	6.0
<b>Employment insurance premium revenues</b>	1,538	1,764	10,593	10,422	-1.6
<b>Excise taxes and duties</b>					
Goods and services tax	2,172	1,858	10,191	10,370	1.8
Customs import duties	240	256	1,269	1,289	1.6
Sales and excise taxes	816	780	4,343	4,402	1.4
Total excise taxes and duties	3,228	2,894	15,803	16,061	1.6
<b>Total tax revenues</b>	13,247	12,939	71,775	74,575	3.9
<b>Non-tax revenues</b>	485	694	2,840	2,734	-3.7
<b>Total budgetary revenues</b>	13,732	13,633	74,615	77,309	3.6

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, as collections in the settlement period (February and March 1998) were up nearly 30 per cent over the 1996 settlement period. As a result, instalment payments for 1997 understated the actual tax liability for the year as a whole. Consequently, instalments for 1998 have been increased to reflect 1997 tax liabilities, thereby accounting for current strength in corporate income tax collections.

- Employment insurance premium revenues were down \$0.2 billion, or 1.6 per cent, attributable to a 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). Partially offsetting the impact of the decline in premium rates was the transfer for underpayments relating to the 1997 taxation year.

- Net GST revenues were up \$0.2 billion, or 1.8 per cent. Monthly revenues to date have been extremely volatile, primarily due to the timing of refunds. Gross collections were up 5.5 per cent in the first six months of 1998-99, in line with the growth in consumer demand. However, refunds were up 9.5 per cent, thereby depressing the growth in net revenues.
- 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 1.4 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.
- 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 \$0.1 billion or 3.7 per cent.

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Within program spending:

- Major transfers to persons were up \$0.2 billion, due entirely to higher elderly benefit payments. Employment benefit payments were down slightly, reflecting the decline in the number of beneficiaries.
- 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 the 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 \$0.5 billion, or 2.4 per cent. This component includes payments to Crown corporations, subsidies and other transfer payments, and the operating and capital costs of government, including defence. Subsidies and other transfers were up \$0.2 billion. Most of this increase was due to the initiatives announced in the February 1998 budget under the Canadian Opportunities Strategy, as well as to higher payments under the *Farm Income Protection Act* and increased health-related transfers. Partially offsetting the impact of these increases were lower transfers to NAVCAN, in line with the reductions in the air transportation tax. Payments to Crown corporations were marginally lower, while operating and capital expenditures were up 2.6 per cent.

Public debt charges were marginally lower, primarily due to a decline in the overall stock of interest-bearing debt.

## **Year-to-date: financial surplus of \$5.6 billion (excluding foreign 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 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 \$4.8 billion in the April to September 1998 period, compared to a net requirement of \$5.2 billion in the same period last year. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$5.6 billion in the first six months of 1998-99, up from \$2.5 billion in the same period last year.

## **Year-to-date: net financial balance of \$11.5 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 this 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 downward pressure.

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Table 3

## Budgetary expenditures

	September		April to September		Per cent change
	1997	1998	1997-98	1998-99	
	(millions of dollars)				(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,866	1,872	11,014	11,257	2.2
Employment insurance benefits	856	781	5,425	5,363	-1.1
Total	2,722	2,653	16,439	16,620	1.1
Other levels of government					
Canada Health and Social Transfer	1,042	1,042	6,250	6,250	0.0
Fiscal transfers	769	784	4,617	4,698	1.8
Alternative Payments for Standing Programs	-178	-187	-1,065	-1,120	5.2
Total	1,633	1,639	9,802	9,828	0.3
<b>Direct program spending</b>					
Subsidies and other transfers					
Agriculture	71	39	217	262	20.7
Foreign Affairs	131	143	716	657	-8.2
Health	45	55	380	469	23.4
Human Resources Development	124	159	620	842	35.8
Indian and Northern Development	312	307	2,129	2,190	2.9
Industry and Regional Development	95	125	589	621	5.4
Veterans Affairs	118	115	688	681	-1.0
Other	196	165	1,171	983	-16.1
Total	1,092	1,108	6,510	6,705	3.0
Payments to Crown corporations					
Canadian Broadcasting Corporation	69	66	448	400	-10.7
Canada Mortgage and Housing Corporation	118	120	757	867	14.5
Other	108	81	576	490	-14.9
Total	295	267	1,781	1,757	-1.3
Operating and capital expenditures					
Defence	763	687	3,926	3,761	-4.2
All other departmental expenditures	1,260	1,476	7,310	7,766	6.2
Total	2,023	2,163	11,236	11,527	2.6
Total direct program spending	3,410	3,538	19,527	19,989	2.4
<b>Total program expenditures</b>	7,765	7,830	45,768	46,437	1.5
<b>Public debt charges</b>	3,456	3,376	20,495	20,457	-0.2
<b>Total budgetary expenditures</b>	11,221	11,206	66,263	66,894	1.0
Memorandum item:					
Total transfers	5,447	5,400	32,751	33,153	1.2

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Table 4

## The budgetary balance and financial requirements/surplus

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Budget balance: deficit (-)/surplus (+)</b>	2,511	2,427	8,352	10,415
<b>Loans, investments and advances</b>				
Crown corporations	249	122	389	730
Other	-95	-544	35	-384
Total	154	-422	424	346
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	425	1,028	825	1,389
Superannuation accounts	334	363	1,018	1,891
Other	-1	24	-272	19
Total	758	1,415	1,571	3,299
<b>Other transactions</b>	-1,768	-2,378	-7,204	-8,440
<b>Total non-budgetary transactions</b>	-856	-1,385	-5,209	-4,795
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,655	1,042	3,143	5,620
<b>Foreign exchange transactions</b>	-585	-1,054	3,288	5,835
<b>Net financial balances</b>	1,070	-12	6,431	11,455

Table 5

## Net financial balance and net borrowings

	September		April to September	
	1997	1998	1997-98	1998-99
	(millions of dollars)			
<b>Net financial balance</b>	1,070	-12	6,431	11,455
<b>Net increase(+)/decrease (-) in borrowings</b>				
Payable in Canadian dollars				
Marketable bonds	1,012	-6,492	9,850	6,031
Canada Savings Bonds	-195	-99	-1,639	-2,116
Treasury bills	-2,200	-3,600	-20,100	-26,400
Other	-453	-1,004	380	543
Subtotal	-1,836	-11,195	-11,509	-21,942
Less: Government's holdings of unmaturing debt	119	77	756	532
Total	-1,717	-11,118	-10,753	-21,410
Payable in foreign currencies				
Marketable bonds	0	308	-716	3,877
Notes and loans	0	0	0	0
Canada bills	-274	1,754	-1,224	2,035
Canada notes	0	-53	-326	-926
Total	-274	2,009	-2,266	4,986
<b>Net change in borrowings</b>	1,991	-9,109	-13,019	-16,424
<b>Change in cash balance</b>	-921	-9,121	-6,588	-4,969

Table 6

## Condensed statement of assets and liabilities

	March 31 1998	September 30 1998	Change
(millions of dollars)			
<b>Liabilities</b>			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	22,364	9,182	-13,182
Interest and matured debt	10,419	10,572	153
Allowances	10,917	10,917	0
Total accounts payable, accruals and allowances	43,700	30,671	-13,029
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	117,457	119,348	1,891
Canada Pension Plan (net of securities)	4,205	5,595	1,390
Other pension and other accounts	5,872	5,890	18
Total pension and other accounts	127,534	130,833	3,299
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,583	300,614	6,031
Treasury bills	112,300	85,900	-26,400
Canada Savings Bonds	29,769	28,185	-1,584
Other	3,456	3,999	543
Subtotal	440,108	418,698	-21,410
Payable in foreign currencies	27,183	32,170	4,987
Total unmatured debt	467,291	450,868	-16,423
Total interest-bearing debt	594,825	581,701	-13,124
Total liabilities	638,525	612,372	-26,153
<b>Assets</b>			
Cash and accounts receivable	15,813	6,256	-9,557
Foreign exchange accounts	28,968	23,133	-5,835
Loans, investments and advances (net of allowances)	14,036	13,690	-346
Total assets	58,817	43,079	-15,738
<b>Accumulated deficit</b>	579,708	569,293	-10,415

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 these factors into account, in the first six months of 1998-99, there was a net source of funds of \$5.8 billion from foreign exchange

transactions, up from a source of \$3.3 billion in the same period last year.

With a budgetary surplus of \$10.4 billion, a net requirement of \$4.8 billion from non-budgetary transactions, and a net source of funds of \$5.8 billion from foreign exchange transactions, the net financial balance recorded a surplus of \$11.5 billion, over the April to September 1998 period, compared to \$6.4 billion in the same period last year.

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Table 7

## Debt Servicing and Reduction Account (DSRA)

	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
	(millions of dollars)					
<b>Gross GST collected</b>	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
<b>GST penalties and interest received</b>	19	71	90	129	135	159
<b>Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations</b>	2	110			325	
<b>Gifts to the Crown</b>	0.4	0.1	0.2	0.5	0.3	0.3
<b>Proceeds to the DSRA</b>	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada – 1997*.

With this net financial balance, coupled with a reduction in cash balances of \$5.0 billion, the government retired \$16.4 billion of market debt in the first six months of 1998-99.

Cash balances at the end of September 1998 were \$5.3 billion.

### 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 GST revenue net of the applicable input tax credits, rebates and the low-income credit, along with 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 retire 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 asked the House of Commons Standing Committee on Finance to review this issue and advise the government.

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