

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for November 1999

Budgetary deficit of \$292 million in November 1999

There was a budgetary deficit of \$292 million in November 1999, compared to a surplus of \$448 million in November 1998. Budgetary revenues were down \$207 million (1.7 per cent), primarily reflecting lower employment insurance (EI) premium revenues and excise taxes and duties. Program spending was up \$447 million (5.3 per cent), largely attributable to increased transfers to other levels of government and defence spending, while public debt charges increased \$86 million (2.4 per cent), reflecting an increase in the stock of interest-bearing debt.

Within budgetary revenues:

- Personal income tax revenues were down 1.3 per cent. This was attributable to transfers to the Canada Pension Plan Account for underpayments relating to previous months and to corporate income tax revenues, due to a misallocation of revenues in previous months. Excluding these one-time factors, personal income tax revenues would have been higher, reflecting increases in the number of people employed.
- Corporate income tax revenues increased 23.3 per cent. However, most of this gain was attributable to a transfer from personal income taxes, as noted above.
- EI premium revenues were down 8.0 per cent, as a reduction 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.

- Excise taxes and duties were down 8.1 per cent. Net goods and services tax (GST) revenues declined 5.4 per cent, reflecting an increase in refunds and rebates. Customs import duties declined by 9.9 per cent, following a year-over-year decline of 10.0 per cent in October 1999. Other excise taxes and duties were down 15.7 per cent, primarily attributable to the elimination of Air Transportation Tax.
- Non-tax revenues declined 25.8 per cent. This component is very volatile on a monthly basis, reflecting the timing of receipts.

Within program spending:

- Major transfers to persons were up 0.9 per cent. Elderly benefits advanced 3.2 per cent, reflecting higher average benefits and an increase in the number of recipients. EI benefits declined 3.5 per cent, reflecting the continued improvement in labour market conditions.
- Major transfers to other levels of government were up 8.8 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.



The Fiscal Monitor

Table 1

Summary statement of transactions

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary transactions				
Revenues	12,526	12,319	101,229	103,420
Program spending	-8,481	-8,928	-65,810	-68,065
Operating surplus	4,045	3,391	35,419	35,355
Public debt charges	-3,597	-3,683	-27,496	-27,486
Budgetary balance (deficit/surplus)	448	-292	7,923	7,869
Non-budgetary transactions	2,281	2,328	-615	-844
Financial requirements/surplus (excluding foreign exchange transactions)	2,729	2,036	7,308	7,025
Foreign exchange transactions	-6,363	-3,320	-825	-4,183
Net financial balance	-3,634	-1,284	6,483	2,842
Net change in borrowings	3,339	6,362	-15,068	-555
Net change in cash balances	-295	5,078	-8,585	2,287

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

- Direct program spending increased by 6.9 per cent. Subsidies and other transfers were down 11.2 per cent, while payments to Crown corporations increased 15.8 per cent. The year-over-year changes in these components primarily reflect the timing of payments. Operating and capital expenditures increased by 15.0 per cent, primarily reflecting higher defence spending in meeting Canada's international peacekeeping commitments.

Year-to-date: budgetary surplus of \$7.9 billion

Over the first eight months of fiscal year 1999-2000, the budgetary surplus was estimated at \$7.9 billion, down \$54 million from the surplus recorded in the same period of 1998-99. Based on previous years' experience, and including the impact of the tax relief measures

announced in the February 1999 budget and the recently announced reduction in EI premium rates from \$2.55 to \$2.40 (employee rate per \$100 of insurable earnings) effective January 1, 2000, the budgetary surplus should increase in December but then decline in the final quarter of the fiscal year. As indicated in *The Economic and Fiscal Update*, in the absence of any additional policy measures, the underlying budgetary balance, based on the average of the private sector forecasts, is estimated at \$5.0 billion for the year as a whole. Of this amount, \$3.0 billion is earmarked for the Contingency Reserve, which if not needed, will be used to pay down the public debt.

Budgetary revenues were up \$2.2 billion, or 2.2 per cent, on a year-over-year basis, as higher personal income tax and GST revenues more than offset declines in most of the other major revenue components.

Table 2

Budgetary revenues

	November			April to November		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
Income taxes						
Personal income tax	5,958	5,878	-1.3	48,980	51,239	4.6
Corporate income tax	1,526	1,881	23.3	12,167	11,529	-5.2
Other income tax revenue	173	183	5.8	1,556	1,882	21.0
Total income tax	7,657	7,942	3.7	62,703	64,650	3.1
Employment insurance premium revenues	1,194	1,098	-8.0	12,938	12,332	-4.7
Excise taxes and duties						
Goods and services tax	2,222	2,101	-5.4	14,355	15,708	9.4
Customs import duties	172	155	-9.9	1,652	1,535	-7.1
Sales and excise taxes	719	606	-15.7	5,827	5,516	-5.3
Total excise taxes and duties	3,113	2,862	-8.1	21,834	22,759	4.2
Total tax revenues	11,964	11,902	-0.5	97,475	99,741	2.3
Non-tax revenues	562	417	-25.8	3,754	3,679	-2.0
Total budgetary revenues	12,526	12,319	-1.7	101,229	103,420	2.2

- Personal income tax collections were up \$2.3 billion, or 4.6 per cent. This increase was largely attributable to higher receipts from monthly deductions from employment income, due to increases in the number of people employed. Dampening these developments were higher personal income tax refunds related to the 1998 taxation year and higher Canada Child Tax Benefit payments, reflecting increases announced in previous budgets.
- Corporate income tax revenues were down \$0.6 billion, or 5.2 per cent, due to the decline in corporate profits witnessed in 1998. Although corporate profits are estimated to have picked up strongly in the first three quarters of the 1999 calendar year, 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 down \$0.6 billion, or 4.7 per cent, as the decline in EI premium rates and adjustments related to previous years more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased \$0.9 billion, or 4.2 per cent. Net GST collections were up \$1.4 billion, or 9.4 per cent, attributable to the strong gains in those goods and services subject to the GST. Customs import duties were down 7.1 per cent. Sales and excise taxes and duties were down 5.3 per cent, in part attributable to the elimination of the Air Transportation Tax, effective November 1998.
- Non-tax revenues, consisting of the return on investments and other non-tax revenues, such as fees and proceeds from sales, were down 2.0 per cent. This component of budgetary revenues is quite volatile, reflecting the timing of receipts.

The Fiscal Monitor

Table 3

Budgetary expenditures

	November			April to November		
	1998	1999	Change	1998-99	1999-00	Change
	(millions of dollars)			(millions of dollars)		
			(%)			(%)
Transfer payments to:						
Persons						
Elderly benefits	1,899	1,959	3.2	15,084	15,407	2.1
Employment insurance benefits	944	911	-3.5	7,054	6,880	-2.5
Total	2,843	2,870	0.9	22,138	22,287	0.7
Other levels of government						
Canada Health and Social Transfer	1,042	1,042	0.0	8,333	8,333	0.0
Fiscal transfers	828	975	17.8	6,355	7,056	11.0
Alternative Payments for Standing Programs	-189	-188	-0.5	-1,494	-1,501	0.5
Total	1,681	1,829	8.8	13,194	13,888	5.3
Direct program spending						
Subsidies and other transfers						
Agriculture	106	119	12.3	394	434	10.2
Foreign Affairs	19	118	521.1	784	939	19.8
Health	91	64	-29.7	651	651	0.0
Human Resources Development	113	120	6.2	1,091	986	-9.6
Indian and Northern Development	272	269	-1.1	2,723	2,783	2.2
Industry and Regional Development	120	108	-10.0	881	844	-4.2
Veterans Affairs	115	116	0.9	910	921	1.2
Other	398	182	-54.3	1,593	1,330	-16.5
Total	1,234	1,096	-11.2	9,027	8,888	-1.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	80	0.0	585	565	-3.4
Canada Mortgage and Housing Corporation	143	150	4.9	1,145	1,195	4.4
Other	69	108	56.5	650	701	7.8
Total	292	338	15.8	2,380	2,461	3.4
Operating and capital expenditures						
Defence	748	1,031	37.8	5,975	6,624	10.9
All other departmental expenditures	1,683	1,764	4.8	13,096	13,917	6.3
Total	2,431	2,795	15.0	19,071	20,541	7.7
Total direct program spending	3,957	4,229	6.9	30,478	31,890	4.6
Total program expenditures	8,481	8,928	5.3	65,810	68,065	3.4
Public debt charges	3,597	3,683	2.4	27,496	27,486	0.0
Total budgetary expenditures	12,078	12,611	4.4	93,306	95,551	2.4
Memorandum item:						
Total transfers	5,758	5,795	0.6	44,359	45,063	1.6

Program spending increased by \$2.3 billion, or 3.4 per cent, in the April to November 1999 period, compared to the same period of 1998.

- Major transfers to persons were up 0.7 per cent, as higher elderly benefit payments more than offset a decline in EI benefits. The increase in elderly benefits reflected 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 due to a decline in the number of beneficiaries, reflecting a reduction in the number of people unemployed. In contrast, special EI benefits and payments under employment benefit and support measures were higher.
- Major transfers to other levels of government were up \$0.7 billion, or 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 \$1.4 billion, or 4.6 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, the effect of new initiatives announced in the February 1999 budget, and the costs associated with Canada's international peacekeeping commitments.

Public debt charges were virtually unchanged from year-earlier levels, as a slight decline in the average effective interest rate offset the impact of an increase in the stock of interest-bearing debt.

Year-to-date: financial surplus of \$7.0 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 measures the difference between cash coming in to the Government and cash going out. Financial requirements/surplus 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.

Non-budgetary transactions resulted in a net requirement of \$0.8 billion in the first eight months of 1999-2000, up slightly from the net requirement of \$0.6 billion in the first eight months of 1998-99. As a result, there was a financial surplus (excluding foreign exchange transactions) of \$7.0 billion in the April to November 1999 period, down slightly from the \$7.3-billion surplus recorded in the same period of 1998.

The Fiscal Monitor

Table 4

The budgetary balance and financial requirements/surplus

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Budgetary balance (deficit/surplus)	448	-292	7,923	7,869
Loans, investments and advances				
Crown corporations	141	41	891	230
Other	-26	13	-463	-61
Total	115	54	428	169
Specified purpose accounts				
Canada Pension Plan Account	-593	463	349	695
Superannuation accounts	322	394	2,533	3,171
Other	-10	1	45	-124
Total	-281	858	2,927	3,742
Other transactions	2,447	1,416	-3,970	-4,755
Total non-budgetary transactions	2,281	2,328	-615	-844
Financial requirements/surplus (excluding foreign exchange transactions)	2,729	2,036	7,308	7,025
Foreign exchange transactions	-6,363	-3,320	-825	-4,183
Net financial balance	-3,634	-1,284	6,483	2,842

Table 5

Net financial balance and net borrowings

	November		April to November	
	1998	1999	1998-99	1999-00
	(millions of dollars)			
Net financial balance	-3,634	-1,284	6,483	2,842
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-1,100	4,900	1,831	6,867
Canada Savings Bonds	290	364	-2,197	-681
Treasury bills	-500	-400	-26,100	-4,050
Other	362	-543	1,281	-242
Subtotal	-948	4,321	-25,185	1,894
Less: Government's holding of unmatured debt	-415	-397	151	-39
Total	-1,363	3,924	-25,034	1,855
Payable in foreign currencies				
Marketable bonds	4,838	2,942	9,226	2,527
Notes and loans	-	-	-	-
Canada bills	-136	-504	1,687	-4,681
Canada notes	-	-	-947	-256
Total	4,702	2,438	9,966	-2,410
Net change in borrowings	3,339	6,362	-15,068	-555
Change in cash balance	-295	5,078	-8,585	2,287

Year-to-date: net financial surplus of \$2.8 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 requirement of \$4.2 billion in the April to November 1999 period, compared to a net requirement of \$0.8 billion in the same period of 1998.

With a budgetary surplus of \$7.9 billion, a net requirement of \$0.8 billion from non-budgetary transactions and a net requirement of \$4.2 billion from foreign exchange transactions, there was a net financial surplus of \$2.8 billion in the April to November 1999 period, compared to a net surplus of \$6.5 billion in the same period of 1998.

In November 1999, there was a net increase in market borrowings of \$6.4 billion, with the result that there has been a retirement of only \$0.6 billion of market debt to the end of November 1999. The increase in market borrowings in November was attributable to an increase in Canada's official international reserves, a buildup of cash to repay maturities in early December and the impact of precautionary measures related to end-of-year considerations. As a result, there was a net increase in cash balances of \$2.3 billion, bringing cash balances at the end of November 1999 to \$11.6 billion.

The Fiscal Monitor

Table 6

Condensed statement of assets and liabilities

	March 31, 1999	November 30, 1999	Change
	(millions of dollars)		
Liabilities			
Accounts payable, accruals and allowances			
Accounts payable and accrued liabilities	24,509	19,202	-5,307
Interest and matured debt	9,791	5,075	-4,716
Allowances	11,016	11,016	0
Total accounts payable, accruals and allowances	45,316	35,293	-10,023
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	122,407	125,579	3,172
Canada Pension Plan (net of securities)	5,427	6,122	695
Other pension and other accounts	6,724	6,598	-126
Total pension and other accounts	134,558	138,299	3,741
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	295,752	302,626	6,874
Treasury bills	96,950	92,900	-4,050
Canada Savings Bonds	27,662	26,935	-727
Other	4,063	3,821	-242
Subtotal	424,427	426,282	1,855
Payable in foreign currencies			
Marketable bonds	23,907	26,434	2,527
Canada bills	10,230	5,549	-4,681
Canada notes	1,863	1,607	-256
Subtotal	36,000	33,590	-2,410
Total unmatured debt	460,427	459,872	-555
Total interest-bearing debt	594,985	598,171	3,186
Total liabilities	640,301	633,464	-6,837
Assets			
Cash and accounts receivable	15,273	12,292	-2,981
Foreign exchange accounts	34,668	38,850	4,182
Loans, investments and advances (net of allowances)	13,536	13,367	-169
Total assets	63,477	64,509	1,032
Accumulated deficit (net public debt)	576,824	568,955	-7,869

For additional copies or subscription inquiries, please contact the Distribution Centre at (613) 995-2855.

For other inquiries about this publication, contact Peter Devries at (613) 996-7397.

Also available on the Internet (including advance tentative release dates) at <http://www.fin.gc.ca/>

Cet imprimé est également offert en français.

January 2000

