Canadian Federal Monthly Data for Fiscal 2017–18

- The March 2018 federal deficit at $10.6 billion paces the shortfall reported for March 2017. It is sufficiently large that the cumulative deficit of just $5.6 billion over the first eleven months of fiscal 2017–18 (FY18) balloons to $16.2 billion for the twelve months. However, this twelve-month total still improves upon the final $17.8 billion deficit reported for FY17.

- The federal government, however, expects the subsequent supplementary period adjustments to include the $4.2 billion estimated fiscal impact of its initiative to enhance veterans' benefits, and possibly other factors such as tax assessment data. The government therefore concludes that the final FY18 deficit reported in the *Public Accounts* this Fall will align with its FY18 deficit forecast of $19.4 billion (-0.9% of GDP).

THE MONTHLY DATA DETAILS

For FY17, the cumulative $21.8 billion deficit based on monthly data from April 2016 to March 2017 turned out to be $4.1 billion too wide. Conversely, for FY18 the cumulative shortfall now reported from April 2017 to March 2018 before supplementary period adjustments may prove to be considerably narrower than the final FY18 deficit.

The monthly data do, however, provide considerable insight into the revenue and expenditure trends over FY18. The cumulative y/y increase in total revenues is very close to the government's February forecast of a 5.5% increase (side table). Over the twelve months, personal income tax receipts that represent about 48% of total revenues have strengthened. With robust increases in corporate and non-resident income taxes, total income taxes are up a cumulative 7.2%.

Total program spending, with a moderate 3.5% twelve-month y/y rise versus the *Budget 2018* forecast of a 6.1% surge, drives the noted improvement in the 12-month deficit. Direct Program Spending is again a source of year-end volatility. In March 2018, Direct Program Spending jumped 9.2% above year-earlier levels as Transfer Payments climbed 42.4% y/y, overwhelming a 9.5% decline in Operating Expenses. Even with the March boost, twelve-month Direct Program Expenses are up by less than half of Ottawa's planned increase, with a number of programs slow to roll out in addition to delays in federal infrastructure payments.

In contrast, monthly data for major transfers to individuals and to other levels of government closely track the February *2018 Budget* projections, with the exception of a steeper-than-expected 5.1% drop in Employment Insurance (EI) Benefits as employment during calendar 2017 surged 1.9%. The cumulative y/y rise in Children's Benefits through March has moderated to 6.2% from the 22.4% jump in FY17, but this still represents a 78% upswing from FY15 to FY18.

The cumulative debt service for the twelve months is virtually unchanged from a year ago. It signals the end of a helpful five-year trend of sizeable annual dollar declines in interest charges from FY13 to FY17.

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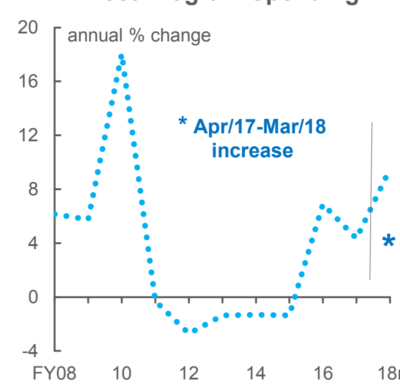
Federal Monthly Data for Fiscal 2017–18

	FY18 *Budget 2018* Forecast	Apr/17-Mar/18
	y/y % change	
Personal Income Tax	6.0	5.9
Corporate Income Tax	14.2	9.7
Non-Resident Income Tax	16.0	16.8
Sales & Excise Taxes*	4.6	5.7
Total Tax Revenue	**7.4**	**6.9**
Employment Inse Premiums	-6.9	-5.9
Other Revenue	-0.9	2.0
Total Revenue	**5.5**	**5.4**
Elderly Benefits	5.7	5.5
Employment Inse Benefits	-3.0	-5.1
Children's Benefits	6.1	6.2
Major Transfers: Persons	**3.8**	**3.2**
Other Levels of Gov't	**2.7**	**2.7**
Transfer Payments	6.1	8.2
Operating Expenses**	11.2	2.2
Direct Program Spending	**9.5**	**4.1**
Total Program Spending	**6.1**	**3.5**
Debt Service	1.2	-0.2
Total Expenditure	**5.7**	**3.2**

*Includes GST. **Includes Crown corps, Departments & agencies. Source: Finance Canada.

Direct Program Spending



Source: Finance Canada.

Non-budgetary transactions from April 2017 to March 2018 sum to a cumulative $10.0 billion source of funds, contrasting with the *Budget 2018* forecast of a $4.1 billion requirement. This contributes to the twelve-month financial requirement falling sharply from $25.7 billion in FY17 to $6.2 billion in FY18. Consequently, as of March 31, 2018, the $38.7 billion y/y increase in Canadian dollar marketable bonds outstanding is somewhat less than expected, and Treasury bills outstanding drop from $136.7 billion as of March 31, 2017 to $110.7 billion. The adjustments to the federal borrowing approval process with the *Borrowing Authority Act* coming into force in November 2017 are discussed below.

The *Borrowing Authority Act*

Under the *Borrowing Authority Act,* a new debt aggregate is introduced, 'government and agent Crown corporation market debt', alongside a borrowing approval framework. The latter sets a maximum cumulative market debt outstanding for: 1) government and consolidated Crown corporations; and 2) agent enterprise Crown corporations whose operations are sustainable without parliamentary appropriations but the government is legally liable for their borrowing (i.e., Business Development Bank, Canada Mortgage and Housing Corporation, Export Development Corporation). The government must report to Parliament on the status of its borrowing whether or not the Maximum needs to be increased. Prior to 2007, the federal government required Parliamentary approval to raise its incremental capital market borrowing if it was expected to be higher than the prior-year increase. When this requirement was removed in 2007, approval of the government's borrowing plan only was needed from the Governor in Council.

The new approval framework is very different from the US federal government's debt ceiling process. Neither extraordinary measures nor eleventh-hour debates are anticipated in Canada. The new framework allows the Governor in Council to unilaterally approve borrowing for: refinancing existing debt; covering unanticipated contingent liabilities; or addressing unforeseen circumstances such as a disaster or an economic crisis. In Canada's parliamentary democracy, the new framework is simply one aspect of the government 'maintaining the confidence of the House'.

The Office of the Parliamentary Budget Officer outlines that the Maximum set for market debt outstanding as of March 2020 is based on increases from the estimated government and agent Crown corporation market debt outstanding at the end of March 2017 of $103 billion and $43 billion, respectively. Also included is a 5% contingency reserve calculated on these Maximums. With the unexpectedly low 12-month borrowing requirement reported for FY18, the Maximum for now appears to provide ample room.

Canadian Federal Government and Agent Crown Corporation Market Debt Outstanding

	Mar.31/12	Mar.31/17	*Mar.31/17 % share*	*annual % ch.*	Mar.31/19f	*annual % ch.*	Maximum Mar.31/20	*annual % ch.*
	except where noted market debt outstanding, $ billions							
Government*	631	695	*71.5*	*2.0*	755	*4.2*	794	*5.1*
Agent Enterprise Crown Corp.	242	277	*28.5*	*2.7*	311	*6.0*	319	*2.5*
Contingency**							56	
Total	**873**	**972**	***100.0***	**2.2**	**1,066**	***4.7***	**1,168**	*9.6*

* Includes consolidated Crown corporations. ** Calculated as 5% of the government & agent enterprise Crown corporation Maximum.
Source: Office of the Parliamentary Budget Officer, Finance Canada.