

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for September 1997

### Budgetary surplus of \$2.0 billion recorded in September 1997

A surplus of \$2.0 billion was recorded in September 1997 – a net improvement of \$0.6 billion from the surplus of \$1.3 billion recorded in September 1996. Budgetary revenues were up \$0.3 billion (2.5 per cent), while program spending declined \$0.3 billion (4.2 per cent). Public debt charges were up slightly.

The increase in budgetary revenues was primarily due to higher corporate income tax collections (up \$0.3 billion), reflecting the continued strength in corporate profits. Personal income tax collections were up \$0.1 billion, primarily attributable to higher installment payments. The decline in goods and services tax collections was largely due to unusually low refunds reported in September 1996. Employment insurance premium revenues were also below last year's level, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected the impact of previous budget actions. Lower spending was reported in all major components with the exception of transfers to persons and expenditures related to Crown corporations. Within major transfers to persons, employment insurance benefits were up, as higher expenditures for training programs more than offset lower regular benefit payments. The increase in expenditures related to Crown corporations reflected timing considerations. The slight increase in public debt charges was attributable to accrual adjustments related to previous periods.

### Deficit for April to September 1997 down \$8.7 billion

Over the first six months of the 1997-98 fiscal year, a surplus of \$1.7 billion was reported, an improvement of \$8.7 billion from the same period last year. This year-over-year improvement was largely attributable to the increasing strength in the economy and the impact of previous budget measures. Budgetary revenues were up \$5.5 billion (8.6 per cent), program spending declined \$2.3 billion (4.7 per cent), while public debt charges were \$0.9 billion lower (4.0 per cent).

### Financial surplus

With a budgetary surplus of \$1.7 billion and a net source of funds from non-budgetary transactions of \$1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.1 billion, compared to a net requirement of \$4.3 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to \$3.3 billion over the April to September 1997 period, compared to a net source of \$0.3 billion over the six months in 1996-97. As a result, there was a total financial surplus of \$6.4 billion to date, compared to a net requirement of \$3.9 billion over the same period last year. There was a net repayment of marketable debt of \$13.0 billion in the first six months of 1997-98.

In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99. However, caution should be exercised in extrapolating these monthly results to gain an assessment of the possible outcome for the year as a whole. Some of the improvement to date was due to special factors – for example, all of the year-to-date increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the budget outcome for the year as a whole – or to one-time developments (part of the increase in personal income tax collections due to higher taxes paid on filing, in respect of the 1996 taxation year).



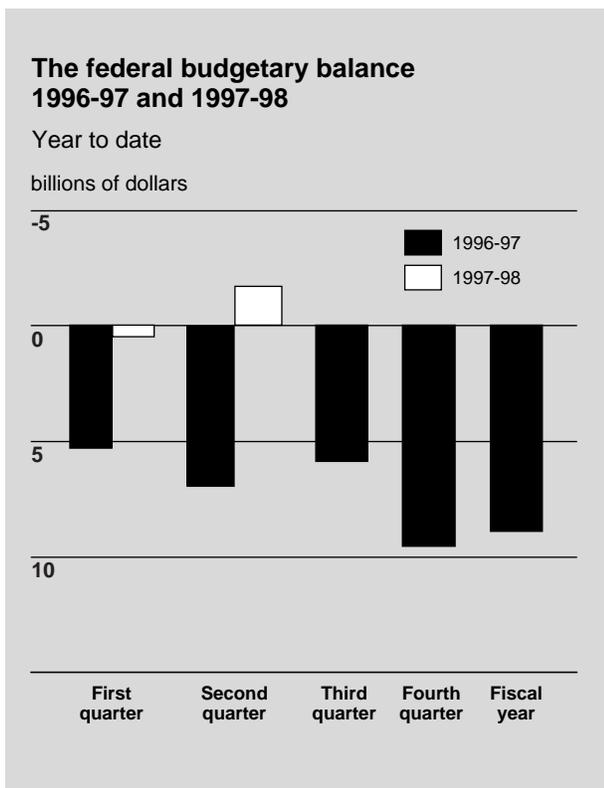
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Table 1

## Summary statement of transactions

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	13,176	13,505	64,574	70,104
Program spending	-8,213	-7,865	-48,815	-46,518
Operating surplus	4,963	5,640	15,759	23,586
Public debt charges	-3,635	-3,681	-22,763	-21,845
Deficit/surplus	1,328	1,959	-7,004	1,741
<b>Non-budgetary transactions</b>	1,030	-303	2,754	1,403
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,358	1,656	-4,250	3,144
<b>Foreign exchange transactions</b>	-791	-585	330	3,288
<b>Total financial requirements/surplus</b>	1,567	1,071	-3,920	6,432
<b>Unmatured debt transactions</b>	-1,578	-1,991	-400	-13,019

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



## Budgetary revenues up in April to September period

Over the April to September 1997 period, budgetary revenues were up \$5.5 billion, or 8.6 per cent, on a year-over-year basis. Of this increase, \$1.2 billion was attributable to the acceleration of employment insurance premium revenues, which will be reversed over the latter half of the calendar year, with the remainder attributable to continued strength in the economy.

- Personal income tax collections were up \$2.2 billion, or 6.8 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year.
- Corporate income tax collections were up \$1.7 billion, or 28.3 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.2 billion, or 12.8 per cent. This increase was entirely attributable to timing considerations, which will be reversed over the latter half of the calendar

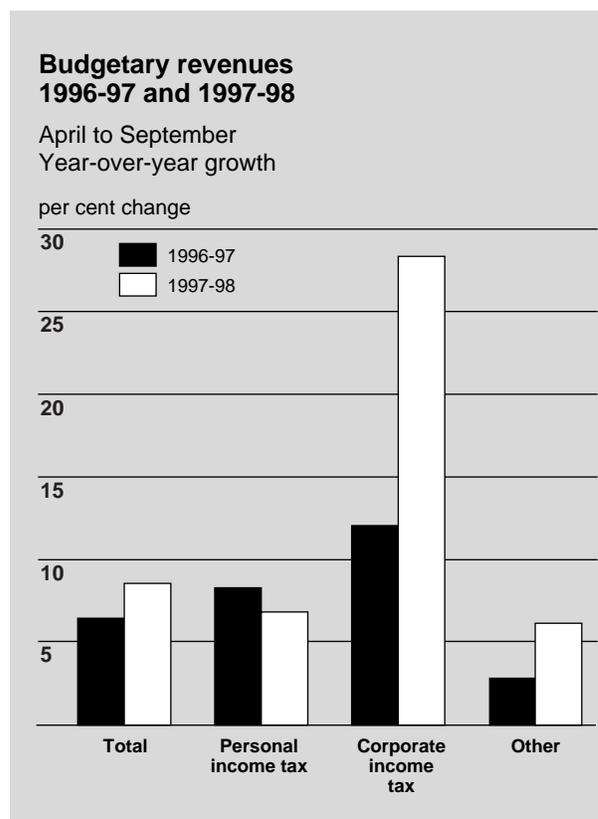
Table 2

## Budgetary revenues

	September		April to September		Per cent change (%)
	1996	1997	1996-97	1997-98	
	(millions of dollars)				
<b>Income taxes</b>					
Personal income tax	6,866	6,953	32,443	34,639	6.8
Corporate income tax	1,059	1,384	6,096	7,822	28.3
Other income tax revenue	187	198	1,081	1,191	10.2
<b>Total income tax</b>	<b>8,112</b>	<b>8,535</b>	<b>39,620</b>	<b>43,652</b>	<b>10.2</b>
<b>Employment insurance premium revenues</b>	1,616	1,538	9,387	10,593	12.8
<b>Excise taxes and duties</b>					
Goods and services tax	1,982	1,873	7,423	7,904	6.5
Customs import duties	240	262	1,145	1,061	-7.3
Sales and excise taxes	753	808	3,954	4,059	2.7
<b>Total excise taxes and duties</b>	<b>2,975</b>	<b>2,943</b>	<b>12,522</b>	<b>13,024</b>	<b>4.0</b>
<b>Total tax revenues</b>	12,703	13,016	61,529	67,269	9.3
<b>Non-tax revenues</b>	473	489	3,045	2,835	-6.9
<b>Total budgetary revenues</b>	13,176	13,505	64,574	70,104	8.6

year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the last four months of the calendar year to the first eight months. This change does not affect the amount paid by most employees and employers for the calendar year as a whole. However, those earning above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.

- Net GST collections were up \$0.5 billion, or 6.5 per cent, in line with the continued strength in consumer demand.
- Customs import duties were down \$0.1 billion, or 7.3 per cent, in large part reflecting the impact of tariff reductions. Other excise taxes and duties were up \$0.1 billion, or 2.7 per cent, primarily reflecting higher receipts from energy taxes.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$0.2 billion or 6.9 per cent, primarily reflecting lower earnings on investments, due to the effect of lower interest rates.



## Program spending lower in April to September period

Program spending declined by \$2.3 billion, or 4.7 per cent, in the first six months of 1997-98, compared to the same period last year. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets, and to a lesser extent, the growth in the economy.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was primarily due to lower average benefits and a decline in the number of beneficiaries, primarily reflecting the impact of reform measures and a decline in the number of unemployed.
- Major transfers to other levels of government were down \$1.9 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST) and Equalization. In the February 1995 budget, the government set total entitlements under the CHST for 1997-98 at \$25.1 billion, down \$1.8 billion from 1996-97. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of "tax room" which the federal government made available to provinces, allowing the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which is part of program spending, is affected not only by the change in entitlements, but also by the growth in the value of the tax point transfer. Cash transfers under the CHST were down \$1.4 billion over the first six months of 1997-98, compared to the same period last year, of which about \$1 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.4 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving provinces and the non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.3 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, the restraint measures introduced in the 1994 and 1995 budgets resulted in significant reductions beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has committed to increase the \$11 billion cash component to \$12.5 billion. Therefore, cash transfers to the provinces over the 1997-98 to 2002-03 period will not fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. Within direct program spending, other transfer payments were up, primarily due to payments associated with the sale of the Air Navigation System to Nav Canada, while expenditures relating to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

### Budgetary expenditures 1996-97 and 1997-98

April to September  
Year-over-year growth

per cent change

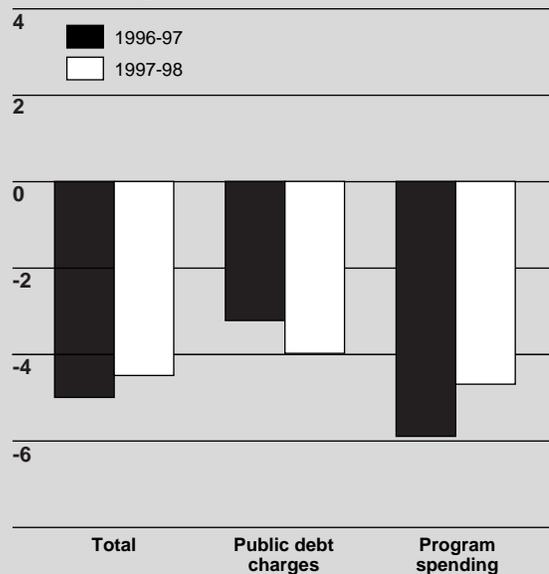


Table 3

## Budgetary expenditures

	September		April to September		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,825	1,866	10,664	11,014	3.3
Employment insurance benefits	826	856	5,948	5,425	-8.8
Total	2,651	2,722	16,612	16,439	-1.0
Other levels of government					
Canada Health and Social Transfer	1,254	1,012	7,524	6,107	-18.8
Fiscal transfers	789	755	4,912	4,527	-7.8
Alternative Payments for Standing Programs	-169	-178	-1,013	-1,065	5.1
Total	1,874	1,589	11,423	9,569	-16.2
Subsidies and other transfers					
Agriculture	68	71	311	216	-30.5
Foreign Affairs	133	127	681	672	-1.3
Human Resources Development	176	124	690	618	-10.4
Indian and Northern Development	301	312	2,009	2,129	6.0
Industry and Regional Development	72	99	573	667	16.4
Veterans Affairs	113	118	676	688	1.8
Other	259	237	1,212	1,557	28.5
Total	1,122	1,088	6,152	6,547	6.4
Total transfers	5,647	5,399	34,187	32,555	-4.8
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	64	69	504	448	-11.1
Canada Mortgage and Housing Corporation	152	118	874	757	-13.4
Other	72	108	566	576	1.8
Total	288	295	1,944	1,781	-8.4
<b>Operating and capital expenditures</b>					
Defence	768	759	4,123	3,905	-5.3
All other departmental expenditures	1,510	1,412	8,561	8,277	-3.3
Total	2,278	2,171	12,684	12,182	-4.0
<b>Total program expenditures</b>	8,213	7,865	48,815	46,518	-4.7
<b>Public debt charges</b>	3,635	3,681	22,763	21,845	-4.0
<b>Total budgetary expenditures</b>	11,848	11,546	71,578	68,363	-4.5

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Table 4

## The deficit and financial requirements/surplus

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Deficit/surplus</b>	1,328	1,959	-7,004	1,741
<b>Loans, investments and advances</b>				
Crown corporations	148	249	758	389
Other	132	-115	-383	-164
Total	16	134	375	225
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	484	425	819	825
Superannuation accounts	2,562	2,686	4,283	3,568
Other	20	30	88	-272
Total	3,066	3,141	5,190	4,121
<b>Other transactions</b>	-2,052	-3,578	-2,811	-2,943
<b>Total non-budgetary transactions</b>	1,030	-303	2,754	1,403
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	2,358	1,656	-4,250	3,144
<b>Foreign exchange transactions</b>	-791	-585	330	3,288
<b>Total financial requirements/surplus</b>	1,567	1,071	-3,920	6,432

Table 5

## Financial requirements/surplus and unmatured debt transactions

	September		April to September	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/surplus</b>	1,567	1,071	-3,920	6,432
<b>Unmatured debt transactions</b>				
Payable in Canadian dollars				
Marketable bonds	950	1,012	13,578	9,850
Canada Savings Bonds	-206	-195	-1,477	-1,639
Treasury bills	-1,700	-2,200	-13,900	-20,100
Other	-527	-453		380
Subtotal	-1,483	-1,836	-1,799	-11,509
Less: Government's holding of unmatured debt	113	119	790	756
Total	-1,370	-1,717	-1,009	-10,753
Payable in foreign currencies				
Marketable bonds	0	0	0	-716
Notes and loans	0	0	0	0
Canada bills	-208	-274	-361	-1,224
Canada notes	0	0	611	-326
Total	-208	-274	250	-2,266
<b>Total unmatured debt transactions</b>	-1,578	-1,991	-759	-13,019
<b>Change in cash balance</b>	-11	-920	-4,679	-6,587

Table 6

**Cash, unmatured debt and debt balances: at September 30**

	1996	1997
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	4,207	2,715
In foreign currencies	19	63
<b>Total cash balance</b>	<b>4,226</b>	<b>2,778</b>
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	266,343	292,413
Treasury bills	152,200	115,300
Canada Savings Bonds	29,951	31,855
Other	3,837	3,848
<b>Subtotal</b>	<b>452,331</b>	<b>443,416</b>
<i>Less: Government's holdings of unmatured debt</i>	<i>244</i>	<i>202</i>
<b>Total</b>	<b>452,087</b>	<b>443,214</b>
Payable in foreign dollars		
Marketable bonds	9,514	11,744
Notes and loans	0	0
Canada bills	6,625	7,212
Canada notes	921	1,795
<b>Total</b>	<b>17,060</b>	<b>20,751</b>
<b>Total unmatured debt</b>	<b>469,147</b>	<b>463,965</b>

**Public debt charges lower in April to September period**

Public debt charges were down \$0.9 billion, or 4.0 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt, as well as a reduction in net borrowing requirements, reflecting the improvement in the overall budget situation.

**Financial surplus in April to September period**

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. Financial requirements are usually lower than the budgetary deficit, as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and other financial assets and liabilities. These activities are included as part of non-budgetary transactions. In addition, the budgetary deficit is largely presented on the accrual basis of accounting. The conversion from

accrual to cash is also reflected in non-budgetary transactions. Non-budgetary transactions usually provide the government with a net source of funds.

Non-budgetary transactions provided the government with a net source of funds over the April to September 1997 period, amounting to \$1.4 billion, compared to a net source of \$2.8 billion in the same period last year. The lower source was attributable to the transfer of applicable pension assets to Nav Canada and the special one-time payment to the Canada Foundation for Innovation.

With a budgetary surplus of \$1.7 billion and a net source of funds from non-budgetary transactions of \$1.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.1 billion in the first six months of 1997-98, compared to a net requirement of \$4.3 billion in the same period last year.

The purpose of the Foreign Exchange Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is

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upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure. Foreign exchange transactions resulted in a net source of \$3.3 billion in the first six months of 1997-98, compared to a source of \$0.3 billion in the same period last year.

As a result, there was a financial surplus, including foreign exchange transactions, of \$6.4 billion in the April to September 1997 period. In the same period last year, there was a net requirement of \$3.9 billion.

In the first six months of 1997-98, the federal government retired \$13.0 billion of its marketable debt. The structure of the government's debt has also changed significantly, in order to reduce further the exposure to unexpected changes in interest rates. The share of debt held in short-term floating rate instruments, primarily Treasury bills, has been reduced, while the share held

in longer-term rate instruments has increased. Cash balances as of September 30, 1997 amounted to \$2.8 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 goods and services tax revenues net of the applicable input tax credits, rebates and the low-income credit, along with the 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 reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

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
<i>Less:</i>						
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*

