

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for October 1997

### Deficit of \$0.9 billion in October 1997

There was a deficit of \$0.9 billion in October 1997, up \$0.4 billion from October 1996. However, the October 1996 deficit figures included the one-time cash proceeds of \$1.5 billion from the sale of the Air Navigation System. Excluding this impact from the October 1996 results, the underlying improvement on a year-over-year basis was \$1.1 billion.

On a year-over-year basis, budgetary revenues declined \$0.9 billion (7.2 per cent). Excluding the impact of the sale of the Air Navigation System in October 1996, the underlying increase in budgetary revenues was \$0.6 billion, or 6.0 per cent. Within budgetary revenues, personal income tax collections were up \$0.4 billion, primarily reflecting the advances in employment; corporate income tax collections were up \$0.1 billion, primarily reflecting continued strength in corporate profits; while goods and services tax (GST) collections increased \$0.3 billion, reflecting continued strength in consumer demand. Employment insurance premium revenues were \$0.2 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997. Non-tax revenues were \$1.7 billion lower, primarily due to the one-time impact in October 1996 of the proceeds from the sale of the Air Navigation System.

Program spending was again lower on a year-over-year basis – down \$0.2 billion (2.5 per cent) from October 1996. Most of this decline was concentrated in lower employment insurance benefits and transfers to other levels of government. Within transfers to other levels of government, the decline in cash transfers under the Canada Health and Social Transfer (CHST) reflected both the reduction in total entitlements and the rising value of tax point transfers.

Public debt charges were \$0.2 billion (5.1 per cent) lower than in October 1996, reflecting the impact of lower interest rates.

### Surplus for April to October 1997 of \$0.8 billion

Over the first seven months of the 1997-98 fiscal year, there was a surplus of \$0.8 billion. This was an improvement of \$8.3 billion from the deficit of \$7.5 billion reported for the first seven months of 1996-97. This turnaround was attributable to the increasing strength in the economy, the impact of restraint measures introduced in the 1994 and 1995 budgets, and timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up \$4.7 billion (6.1 per cent), program spending declined \$2.5 billion (4.4 per cent), while public debt charges were \$1.1 billion lower (4.2 per cent).

### Financial surplus of \$7.5 billion in April to October period

With a budgetary surplus of \$0.8 billion and a net source of funds from non-budgetary transactions of \$2.7 billion, there was a financial surplus, excluding foreign exchange transactions, of \$3.5 billion, an improvement of \$7.9 billion from the same period in 1996-97. There was a net source of funds amounting to \$4.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$7.5 billion, an improvement of \$13.0 billion from the same period last year. Cash balances were \$3.9 billion lower over the first seven months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$11.0 billion retirement of marketable debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors – for example, the increase in employment insurance premium revenues, which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole, or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in



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Table 1  
Summary statement of transactions

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	12,080	11,216	76,654	81,320
Program spending	-8,746	-8,529	-57,561	-55,046
Operating surplus	3,334	2,687	19,093	26,274
Public debt charges	-3,830	-3,633	-26,593	-25,479
Deficit/surplus	-496	-946	-7,500	795
<b>Non-budgetary transactions</b>	344	1,317	3,102	2,719
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-152	371	-4,398	3,514
<b>Foreign exchange transactions</b>	-1,457	677	-1,127	3,965
<b>Total financial requirements/surplus</b>	-1,609	1,048	-5,525	7,459
<b>Unmatured debt transactions</b>	45	1,614	-355	-11,405

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

future months. In the October 15, 1997 *Economic and Fiscal Update*, the government indicated that the budget would be balanced no later than 1998-99.

## Budgetary revenues up in April to October period

Over the April to October 1997 period, budgetary revenues were up \$4.7 billion, or 6.1 per cent. Most of this increase was attributable to the strength in the economy.

- Personal income tax collections were up \$2.6 billion, reflecting higher deductions at source from employment income, in line with the strong gains in employment, as well as higher taxes paid on filing, relating to income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.9 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$1.0 billion. All of this increase reflected timing factors, which will be reversed in the next two months of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premium rates are levied,

from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. 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. With the recently announced reduction in employee premium rates, from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.

- Good and services tax collections were up \$0.8 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up \$0.2 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$1.9 billion. Of the decline, \$1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments, reflecting the impact of the decline in interest rates.

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Table 2

## Budgetary revenues

	October		April to October		Per cent change (%)
	1996	1997	1996-97	1997-98	
(millions of dollars)					
<b>Income taxes</b>					
Personal income tax	4,782	5,222	37,225	39,861	7.1
Corporate income tax	1,191	1,334	7,287	9,156	25.6
Other income tax revenue	143	184	1,225	1,375	12.2
<b>Total income tax</b>	<b>6,116</b>	<b>6,740</b>	<b>45,737</b>	<b>50,392</b>	<b>10.2</b>
<b>Employment insurance premium revenues</b>	<b>1,594</b>	<b>1,382</b>	<b>10,981</b>	<b>11,976</b>	<b>9.1</b>
<b>Excise taxes and duties</b>					
Goods and services tax	1,409	1,725	8,832	9,630	9.0
Customs import duties	264	305	1,408	1,367	-2.9
Other excise taxes and duties	721	802	4,677	4,863	4.0
<b>Total excise taxes and duties</b>	<b>2,394</b>	<b>2,832</b>	<b>14,917</b>	<b>15,860</b>	<b>6.3</b>
<b>Total tax revenues</b>	<b>10,104</b>	<b>10,954</b>	<b>71,635</b>	<b>78,228</b>	<b>9.2</b>
<b>Non-tax revenues</b>	<b>1,976</b>	<b>262</b>	<b>5,019</b>	<b>3,092</b>	<b>-38.4</b>
<b>Total budgetary revenues</b>	<b>12,080</b>	<b>11,216</b>	<b>76,654</b>	<b>81,320</b>	<b>6.1</b>

### Program spending lower in April to October period

Program spending declined \$2.5 billion, or 4.4 per cent in the first seven months of 1997-98, compared to the same period last year, with all major components except subsidies and other transfers lower. The decline in total program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets and, to a lesser extent, to the growth in the economy.

- Major transfers to persons declined \$0.4 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in employment insurance benefits was 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 \$2.0 billion, reflecting lower cash transfers under the 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 \$1.7 billion over the first seven months of 1997-98, compared to the same period last year, of which about \$1.1 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 \$0.3 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 and 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 \$0.2 billion. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including

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Table 3

## Budgetary expenditures

	October		April to October		Per cent change
	1996	1997	1996-97	1997-98	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,811	1,830	12,476	12,844	2.9
Employment insurance benefits	971	761	6,919	6,186	-10.6
Total	2,782	2,591	19,395	19,030	-1.9
Other levels of government					
Canada Health and Social Transfer	1,267	1,026	8,791	7,133	-18.9
Fiscal transfers	767	887	5,659	5,414	-4.7
Alternative Payments for Standing Programs	-167	-178	-1,180	-1,243	5.3
Total	1,867	1,735	13,290	11,304	-14.9
Subsidies and other transfers					
Agriculture	69	102	380	318	-16.3
Foreign Affairs	111	122	792	794	0.3
Human Resources Development	193	168	883	785	-11.1
Indian and Northern Development	245	249	2,253	2,377	5.5
Industry and Regional Development	186	194	759	861	13.4
Veterans Affairs	118	115	794	803	1.1
Other	245	353	1,457	1,910	31.1
Total	1,167	1,303	7,318	7,848	7.2
Total transfers	5,816	5,629	40,003	38,182	-4.6
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	76	74	580	522	-10.0
Canada Mortgage and Housing Corporation	144	167	1,018	924	-9.2
Other	159	58	725	634	-12.6
Total	379	299	2,323	2,080	-10.5
<b>Operating and capital expenditures</b>					
Defence	755	822	4,878	4,726	-3.1
All other departmental expenditures	1,796	1,779	10,357	10,058	-2.9
Total	2,551	2,601	15,235	14,784	-3.0
<b>Total program expenditures</b>	8,746	8,529	57,561	55,046	-4.4
<b>Public debt charges</b>	3,830	3,633	26,593	25,479	-4.2
<b>Total budgetary expenditures</b>	12,576	12,162	84,154	80,525	-4.3

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 proposed that cash transfers over the 1997-98 to 2002-03 period will never 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 reflecting the timing of payments and payments associated with the sale of the Air Navigation System to Nav Canada. Payments to Crown corporations, defence and all other departmental spending were lower. These declines primarily reflected the impact of restraint measures.

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Table 4

## The deficit and financial requirements/surplus

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Deficit(-)/surplus(+)</b>	-496	-946	-7,500	795
<b>Loans, investments and advances</b>				
Crown corporations	3	-118	760	271
Other	88	24	-293	-140
<b>Total</b>	<b>91</b>	<b>-94</b>	<b>467</b>	<b>131</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	152	164	971	989
Superannuation accounts	-137	-220	4,146	3,348
Other	50	44	140	-229
<b>Total</b>	<b>65</b>	<b>-12</b>	<b>5,257</b>	<b>4,108</b>
<b>Other transactions</b>	188	1,423	-2,622	-1,520
<b>Total non-budgetary transactions</b>	<b>344</b>	<b>1,317</b>	<b>3,102</b>	<b>2,719</b>
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-152	371	-4,398	3,514
<b>Foreign exchange transactions</b>	-1,457	677	-1,127	3,965
<b>Total financial requirements/surplus</b>	<b>-1,609</b>	<b>1,048</b>	<b>-5,525</b>	<b>7,479</b>

Table 5

## Financial requirements/surplus and unmatured debt transactions

	October		April to October	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/surplus</b>	-1,609	1,048	-5,525	7,479
<b>Unmatured debt transactions</b>				
Payable in Canadian dollars				
Marketable bonds	1,775	-2,775	15,353	7,075
Canada Savings Bonds	-345	-428	-1,822	-2,067
Treasury bills	-2,400	4,600	-16,300	-15,500
Other	-366	-388	-7	-8
<b>Subtotal</b>	<b>-1,336</b>	<b>1,009</b>	<b>-2,776</b>	<b>-10,500</b>
<i>Less: Government's holdings of unmatured debt</i>	63	38	853	794
<b>Total</b>	<b>-1,273</b>	<b>1,047</b>	<b>-1,923</b>	<b>-9,706</b>
Payable in foreign currencies				
Marketable bonds	0	438	0	-278
Notes and loans	0	0	0	0
Canada bills	361	198	0	-1,026
Canada notes	957	-69	1,568	-395
<b>Total</b>	<b>1,318</b>	<b>567</b>	<b>1,568</b>	<b>-1,699</b>
<b>Total unmatured debt transactions</b>	<b>45</b>	<b>1,614</b>	<b>-355</b>	<b>-11,405</b>
<b>Change in cash balance</b>	<b>-1,564</b>	<b>2,662</b>	<b>-5,880</b>	<b>-3,926</b>

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Table 6

## Cash, unmatured debt and debt balances: at October 31

	1996	1997
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	2,662	5,398
In foreign currencies	2	42
Total cash balance	2,664	5,440
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	268,118	289,638
Treasury bills	149,800	119,900
Canada Savings Bonds	29,606	31,426
Other	3,471	3,460
Subtotal	450,995	444,424
<i>Less: Government's holdings of unmatured debt</i>	181	294
Total	450,814	444,130
Payable in foreign currencies		
Marketable bonds	9,514	12,182
Notes and loans	0	0
Canada bills	6,986	7,421
Canada notes	1,878	1,726
Total	18,378	21,329
<b>Total unmatured debt</b>	<b>469,192</b>	<b>465,459</b>

## Public debt charges lower in April to October period

Public debt charges were down \$1.1 billion, or 4.3 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.

