

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for December 1997

Budgetary surplus of \$3.6 billion recorded in December 1997

A budgetary surplus of \$3.6 billion was recorded in December 1997 – the largest one-month surplus in recorded history. This represents an improvement of \$1.4 billion from the budgetary surplus of \$2.2 billion recorded in December 1996. All of the year-over-year improvement was due to higher revenues, as public debt charges were up slightly and program spending was relatively unchanged.

Budgetary revenues were up \$1.5 billion, or 10.3 per cent. Budgetary revenues are usually higher in December than in any other month of the fiscal year, as the December results include final corporate income tax payments for most financial institutions, quarterly personal income tax installments, and the transfer of Bank of Canada profits. Personal income tax collections were up \$1.1 billion. About half of this increase reflects recoveries from employment insurance premium revenues due to overpayments for taxation year 1996 and a reclassification of collections from non-tax revenues, thereby having no direct impact on the overall increase in budgetary revenues. The remainder was primarily attributable to higher quarterly installment payments. Corporate income tax collections were up \$0.6 billion, reflecting the final settlement payments for those corporations with taxation years ending October 31. Goods and services tax (GST) collections were up \$0.3 billion, while non-tax revenues increased \$0.4 billion, primarily reflecting higher Bank of Canada profits. Employment insurance premium revenues declined \$0.9 billion, reflecting the impact of the change in remittance requirements that came into effect in January 1997 and the transfer to personal income tax collections due to overpayments for taxation year 1996.

Budgetary surplus of \$5.0 billion for April to December 1997 period

Over the first nine months of the 1997-98 fiscal year, there was a budgetary surplus of \$5.0 billion, an improvement of \$10.9 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 \$6.8 billion (6.7 per cent), program spending declined \$2.9 billion (3.9 per cent), while public debt charges were \$1.2 billion lower (3.4 per cent).

Financial surplus of \$14.8 billion in April to December 1997 period

With a budgetary surplus of \$5.0 billion and a net source of funds from non-budgetary transactions of \$1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of \$6.9 billion, compared to a net requirement of \$2.9 billion over the same period last year. Foreign exchange transactions provided the government with a net source of funds amounting to \$7.8 billion over the April to December 1997 period, compared to a net requirement of \$2.2 billion over the nine months in 1996-97. As a result, there was a total financial surplus of \$14.8 billion to date, compared to a net requirement of \$5.1 billion over the same period last year. There was a net repayment of market debt of \$12.9 billion in the first nine months of 1997-98 and an increase of \$1.9 billion in cash balances.

Balanced budget expected for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year (including the end-of-year accounting period adjustments), and incorporating the measures announced in the 1998 budget, a balanced budget is now expected for 1997-98.



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Table 1

Summary statement of transactions

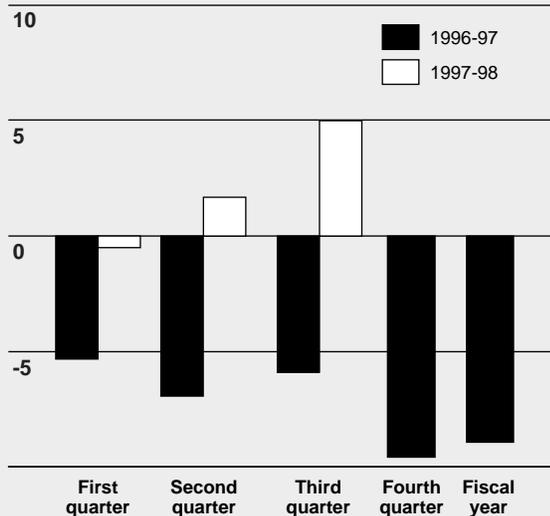
	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	14,173	15,630	101,830	108,673
Program spending	-8,344	-8,309	-73,961	-71,066
Operating surplus	5,829	7,321	27,869	37,607
Public debt charges	-3,638	-3,718	-33,795	-32,630
Deficit/surplus	2,191	3,603	-5,926	4,977
Non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions	-914	-1,348	1,751	-12,855

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

The federal budgetary balance 1996-97 and 1997-98

Year to date

billions of dollars



Budgetary revenues up in April to December period

Over the April to December 1997 period, budgetary revenues were up \$6.8 billion, or 6.7 per cent, on a year-over-year basis. This increase primarily reflects the continuing strength in the economy.

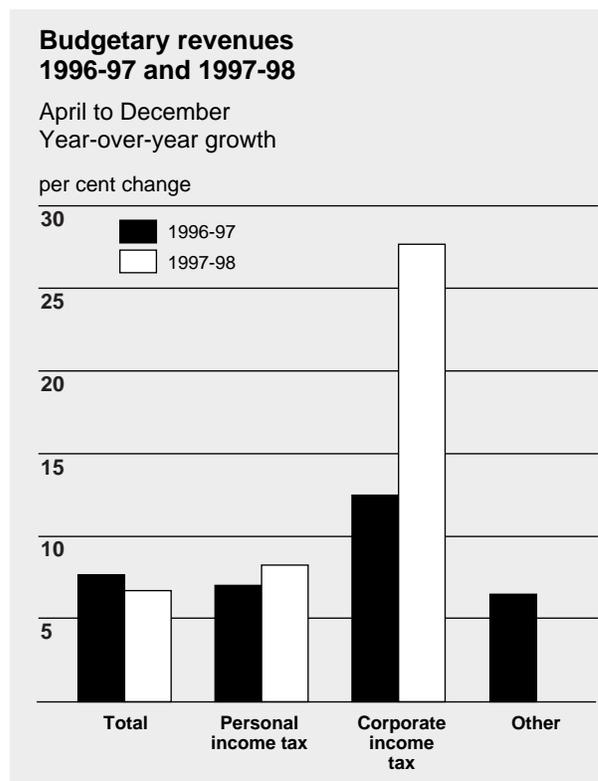
- Personal income tax collections were up \$4.0 billion, or 8.1 per cent. This increase was due to higher taxes paid on filing and quarterly installment payments, relating to the stronger income growth in the 1996 taxation year and to higher deductions at source from employment, in line with the strong gains in employment this year. In addition, there was a net transfer from the Canada Pension Plan and employment insurance accounts, relating to overpayments to these accounts in respect of previous taxation years.
- Corporate income tax collections were up \$2.7 billion, or 27.6 per cent, attributable to an increase in corporate profits, in line with the strengthening economy.

Table 2

Budgetary revenues

	December		April to December		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	7,146	8,281	49,713	53,717	8.1
Corporate income tax	1,478	2,046	9,859	12,577	27.6
Other income tax revenue	253	16	1,728	1,593	-7.8
Total income tax	8,877	10,343	61,300	67,887	10.7
Employment insurance premium revenues	1,554	670	14,105	13,866	-1.7
Excise taxes and duties					
Goods and services tax	2,113	2,387	12,360	13,976	13.1
Customs import duties	211	261	1,874	1,897	1.2
Sales and excise taxes	604	713	5,960	6,402	7.4
Total excise taxes and duties	2,928	3,361	20,194	22,275	10.3
Total tax revenues	13,359	14,374	95,599	104,028	8.8
Non-tax revenues	814	1,256	6,231	4,645	-25.5
Total budgetary revenues	14,173	15,630	101,830	108,673	6.7

- Employment insurance premiums were down \$0.2 billion, or 1.7 per cent. This was largely due to a transfer to personal income tax collections relating to overpayments for the 1996 taxation year.
- Net GST collections were up \$1.6 billion, or 13.1 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were virtually unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up \$0.4 billion, or 7.4 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 \$1.6 billion or 25.5 per cent. This decline was primarily attributable to the inclusion in the 1996-97 results of the proceeds (\$1.5 billion) from the sale of the Air Navigation System.



Program spending lower in April to December period

Program spending declined by \$2.9 billion, or 3.9 per cent, in the first nine 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 the growth in the economy.

- Major transfers to persons declined \$0.1 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 \$2.3 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). 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 \$2.2 billion over the first nine months of 1997-98, compared to the same period last year, of which about \$1.3 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Adjustments related to 1995-96 will result in an additional \$236 million cash payment to provinces in March 1998. These amounts are in addition to \$143 million that the government added to these transfer payments when it decided in December 1997 to apply the \$12.5 billion cash guarantee one year earlier than previously announced.
- Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.4 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. Within direct program spending, other transfer payments were up, solely 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.

Public debt charges lower in April to December period

Public debt charges were down \$1.2 billion, or 3.4 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.

Budgetary expenditures 1996-97 and 1997-98

April to December
Year-over-year growth

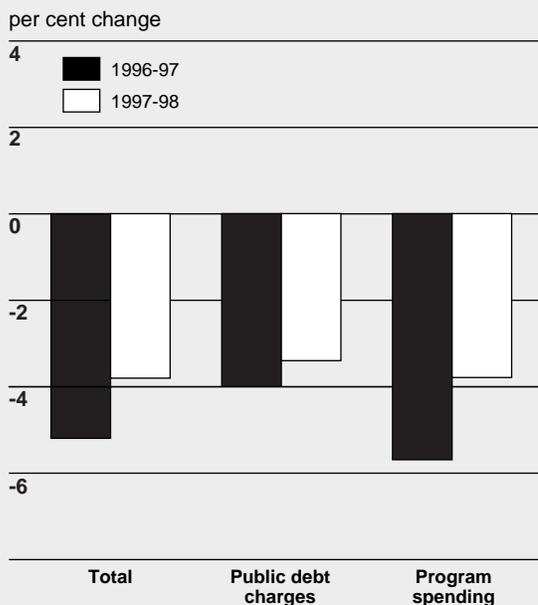


Table 3

Budgetary expenditures

	December		April to December		Per cent change
	1996	1997	1996-97	1997-98	
(millions of dollars)					(%)
Transfer payments to:					
Persons					
Elderly benefits	1,809	1,863	16,136	16,575	2.7
Employment insurance benefits	932	1,024	8,597	8,047	-6.4
Total	2,741	2,887	24,733	24,622	-0.4
Other levels of government					
Canada Health and Social Transfer	1,267	1,047	11,325	9,163	-19.1
Fiscal transfers	713	738	7,089	6,991	-1.4
Alternative Payments for Standing Programs	-166	-180	-1,513	-1,603	5.9
Total	1,814	1,605	16,901	14,551	-13.9
Subsidies and other transfers					
Agriculture	100	35	561	406	-27.6
Foreign Affairs	177	148	1,116	1,053	-5.6
Human Resources Development	130	122	1,181	1,005	-14.9
Indian and Northern Development	290	299	2,799	2,940	5.0
Industry and Regional Development	257	263	1,111	1,249	12.4
Veterans Affairs	112	108	1,017	1,024	0.7
Other	298	324	2,009	2,422	20.6
Total	1,364	1,299	9,794	10,099	3.1
Total transfers	5,919	5,791	51,428	49,272	-4.2
Payments to Crown corporations					
Canadian Broadcasting Corporation	58	75	707	672	-5.0
Canada Mortgage and Housing Corporation	173	225	1,358	1,303	-4.1
Other	134	108	949	830	-12.5
Total	365	408	3,014	2,805	-6.9
Operating and capital expenditures					
Defence	810	734	6,453	6,242	-3.3
All other departmental expenditures	1,250	1,376	13,066	12,747	-2.4
Total	2,060	2,110	19,519	18,989	-2.7
Total program expenditures	8,344	8,309	73,961	71,066	-3.9
Public debt charges	3,638	3,718	33,795	32,630	-3.4
Total budgetary expenditures	11,982	12,027	107,756	103,696	-3.8

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Table 4

The deficit/surplus and financial requirements/surplus

	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Deficit/surplus	2,191	3,603	-5,926	4,977
Loans, investments and advances				
Crown corporations	176	460	872	640
Other	-7	-242	-411	-393
Total	169	218	461	247
Specified purpose accounts				
Canada Pension Plan Account	-428	-502	-413	-203
Superannuation accounts	2,635	2,728	6,596	5,881
Other	49	-6	205	-243
Total	2,256	2,220	6,388	5,435
Other transactions	-3,794	-4,864	-3,855	-3,746
Total non-budgetary transactions	-1,369	-2,426	2,994	1,936
Financial requirements/surplus (excluding foreign exchange transactions)	822	1,177	-2,932	6,913
Foreign exchange transactions	1,573	2,238	-2,206	7,840
Total financial requirements/surplus	2,395	3,415	-5,138	14,753

Table 5

Financial requirements/surplus and unmatured debt transactions

	December		April to December	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	2,395	3,415	-5,138	14,753
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	6,106	6,313	25,360	16,888
Canada Savings Bonds	-273	-248	2,962	-2,205
Treasury bills	-6,800	-7,600	-30,900	-26,600
Other	-1	-1	307	159
Subtotal	-968	-1,536	-2,271	-11,758
Less: Government's holding of unmatured debt	113	-24	-343	-52
Total	-855	-1,560	-2,614	-11,810
Payable in foreign currencies				
Marketable bonds	0	109	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-59	117	-147	-566
Canada notes	0	-14	1,769	-353
Total	-59	212	4,365	-1,045
Total unmatured debt transactions	-914	-1,348	1,751	-12,855
Change in cash balance	1,481	2,067	-3,387	1,898

Table 6

Cash, unmatured debt and debt balances: at December 31

	1996	1997
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	5,151	11,259
In foreign currencies	4	3
Total cash balance	5,155	11,262
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	278,125	299,451
Treasury bills	135,200	108,800
Canada Savings Bonds	34,390	31,287
Other	3,785	3,627
Subtotal	451,500	443,165
<i>Less: Government's holdings of unmatured debt</i>	<i>1,376</i>	<i>1,140</i>
Total	450,124	442,025
Payable in foreign currencies		
Marketable bonds	12,257	12,334
Notes and loans	0	0
Canada bills	6,839	7,870
Canada notes	2,079	1,768
Total	21,175	21,972
Total unmatured debt	471,299	463,997

Financial surplus in April to December period

Financial requirements/surplus measure the difference between cash coming in to the government and cash going out. A financial surplus is usually higher than the budgetary surplus, 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. In addition, the budgetary surplus 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 December 1997 period, amounting to \$1.9 billion, compared to a net source of \$3.0 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 \$5.0 billion and a net source of funds from non-budgetary transactions of \$1.9 billion, there was a financial surplus, excluding foreign exchange transactions, of \$6.9 billion in the first nine months of 1997-98. In the same period last year, there was a net requirement of \$2.9 billion.

The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian currency) when there is 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 \$7.8 billion in the first nine months of 1997-98, compared to a requirement of \$2.2 billion in the same period last year.

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As a result, there was a financial surplus, including foreign exchange transactions, of \$14.8 billion in the April to December 1997 period. In the same period last year, there was a net requirement of \$5.1 billion.

In the first nine months of 1997-98, the federal government retired \$12.9 billion of its market debt. The structure of the government's debt has also changed significantly, in order to further reduce 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.

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)					
Gross GST collected	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
GST penalties and interest received	19	71	90	129	135	159
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835	18,238

Source: *Public Accounts of Canada – 1997*

