

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1998

Surplus of \$63 million in March 1998

A surplus of \$63 million was reported for March 1998, compared to a deficit of \$1.8 billion in March 1997.

Budgetary revenues were up \$2.8 billion largely attributable to higher personal and corporate income tax collections. Personal income tax collections were up \$1.1 billion. About half of this increase was due to special factors, including the impact of lower personal income tax refunds in March 1998 and a transfer of funds to the Provincial Tax Collection Account in March 1997. The remaining increase was largely attributable to strong growth in the economy. Corporate income tax collections were up \$1.2 billion, reflecting higher final payments relating to the 1997 taxation year.

Higher employment insurance benefit payments (up \$0.3 billion), increased cash transfers to other levels of government (up \$0.4 billion), and higher operating and capital expenditures (up \$0.4 billion) explain the \$1 billion year-over-year increase in program spending. The increase in employment insurance benefit payments was attributable to the timing of payments, as the number of unemployed was lower. Transfers under the former Established Programs Financing program, relating to underpayments for 1995-96, accounted for most of the increase in transfers to other levels of government. The increase in operating and capital expenditures was due to a court settlement and the timing of payments.

Year to date: budgetary surplus of \$4.2 billion

Over the period April 1997 to March 1998, the budgetary surplus stood at \$4.2 billion, compared to a budgetary deficit of \$9.6 billion in the same period in 1995-96.

- Budgetary revenues were up \$10.0 billion or 7.3 per cent, on a year-over-year basis. All of this increase was due to the growth in the economy.
- Program spending was down \$2.8 billion or 2.7 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$1.0 billion, or 2.3 per cent. This reflected declines in interest rates, especially short-term rates.

Final results to come in the fall

The financial results for the April 1997 to March 1998 period are not the final results for the 1997-98 fiscal year. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these "end-of-year accounting" adjustments incorporate increases to program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 1997-98. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end.
- Based on the financial results to date, coupled with expected developments in the end-of-year accounting period, and incorporating the impact of liabilities announced in the 1998 budget, such as the Canada Millennium Scholarship Fund, a balanced budget will be recorded in 1997-98.

The final audited financial results will be available in the *Annual Financial Report*, scheduled for release in the fall of 1998.



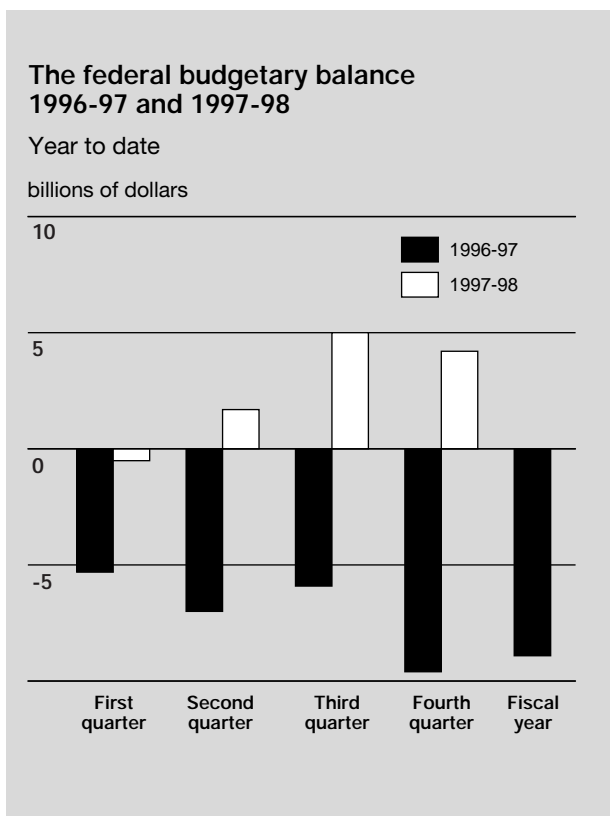
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Table 1

Summary statement of transactions

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	12,422	15,271	137,312	147,320
Program spending	-10,434	-11,478	-102,198	-99,437
Operating surplus	1,988	3,793	35,114	47,883
Public debt charges	-3,798	-3,730	-44,750	-43,716
Deficit/surplus	-1,810	63	-9,636	4,167
Non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions	6,377	2,163	7,192	-9,896

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



Budgetary revenues up \$10.0 billion in April 1997 to March 1998 period

Over the April 1997 to March 1998 period, budgetary revenues were up \$10.0 billion, or 7.3 per cent, on a year-over-year basis. This increase primarily reflects the continuing strong economic growth.

- Personal income tax collections were up \$6.2 billion, or 9.8 per cent. This increase was due to higher taxes paid on filing and quarterly instalment 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 since the beginning of last year.
- Corporate income tax collections were up \$4.3 billion, or 26.5 per cent, attributable to an increase in corporate profits, in line with the strengthening economy. Settlement period collections in March 1998, relating to corporations with taxation years ending December 1997, were up \$1.2 billion.
- Employment insurance premiums were down \$1.0 billion, or 5.3 per cent. Most of this decrease was attributable to the impact of the change in remittance requirements, which came into effect in January 1997. This resulted in a one-time increase

Table 2

Budgetary revenues

	March		April to March		Per cent change (%)
	1997	1998	1996-97	1997-98	
	(millions of dollars)				
Income taxes					
Personal income tax	2,948	4,075	63,175	69,338	9.8
Corporate income tax	3,131	4,361	16,102	20,373	26.5
Other income tax revenue	175	202	2,449	2,415	-1.4
Total income tax	6,254	8,638	81,726	92,126	12.7
Employment insurance premium revenues	1,866	1,781	19,800	18,758	-5.3
Excise taxes and duties					
Goods and services tax	1,765	1,803	16,658	18,126	8.8
Customs import duties	204	284	2,503	2,588	3.4
Sales and excise taxes	595	698	8,028	8,450	5.3
Total excise taxes and duties	2,564	2,785	27,189	29,164	7.3
Total tax revenues	10,684	13,204	128,715	140,048	8.8
Non-tax revenues	1,738	2,067	8,597	7,272	-15.4
Total budgetary revenues	12,422	15,271	137,312	147,320	7.3

in premium revenues in the final quarter of 1996-97 of about \$1 billion. The impact of lower premium rates was offset by increases in the number of employed.

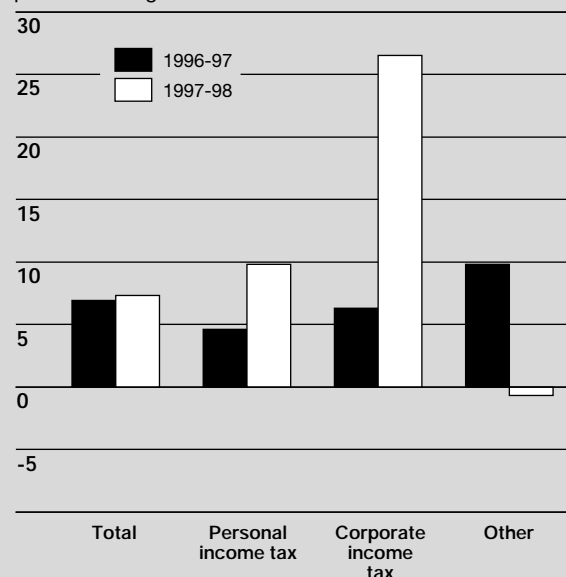
- Net goods and services tax (GST) collections were up \$1.5 billion, or 8.8 per cent, consistent with the growth in consumer expenditures subject to this tax.
- Customs import duties were up slightly, as the strong growth in imports witnessed in 1997 more than offset the impact of tariff reductions. Other excise taxes and duties were up \$0.4 billion, or 5.3 per cent.
- Non-tax revenues, consisting of return on investments and other non-tax revenues, such as fees and proceeds from sales, among others, were down \$1.3 billion or 15.4 per cent. This decline was attributable to the inclusion in the 1996-97 results of the proceeds (\$1.5 billion) from the sale of the Air Navigation System.

Based on the results to date, it is expected that the final outcome for budgetary revenues will be somewhat higher than estimated in the February 1998 budget. The final outcome will depend upon cash received in March 1998 but not deposited with the Receiver General until April 1998.

Budgetary revenues 1996-97 and 1997-98

April to March
Year-over-year growth

per cent change



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Program spending down \$2.8 billion in April 1997 to March 1998 period

Program spending declined by \$2.8 billion, or 2.7 per cent, in the April 1997 to March 1998 period, 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 increased \$0.2 billion, solely due to higher elderly benefit payments (up \$0.6 billion), as employment insurance benefit payments were \$0.5 billion lower.

- The higher elderly benefits reflect an increase in the number eligible for benefits and higher average benefits, which are indexed to inflation.
- The decline in employment insurance benefit payments was primarily due to 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 \$2.5 billion, reflecting lower cash transfers under the Canada Health and Social Transfer (CHST). In contrast, fiscal transfers were up \$0.3 billion.

- 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 \$2.7 billion over the April 1997 to March 1998 period, compared to the same period last year, of which \$1.8 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. The government has announced that the cash component of the CHST transfer will not fall below \$12.5 billion for the period 1997-98 to 2002-03.

Legislation is currently before Parliament to effect this change. Under the current legislation, the cash transfer was not allowed to fall below \$11 billion.

- The increase in fiscal transfers was largely attributable to final payments under the old Established Programs Financing program (since replaced by the CHST) for the year 1995-96. In addition, transfers under the Equalization program were up slightly.

Direct program spending, consisting of total program spending less the major transfers to persons and other levels of government, declined by \$0.4 billion in the April 1997 to March 1998 period, compared to the same period last year. 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.

Budgetary expenditures 1996-97 and 1997-98

April to March
Year-over-year growth

per cent change

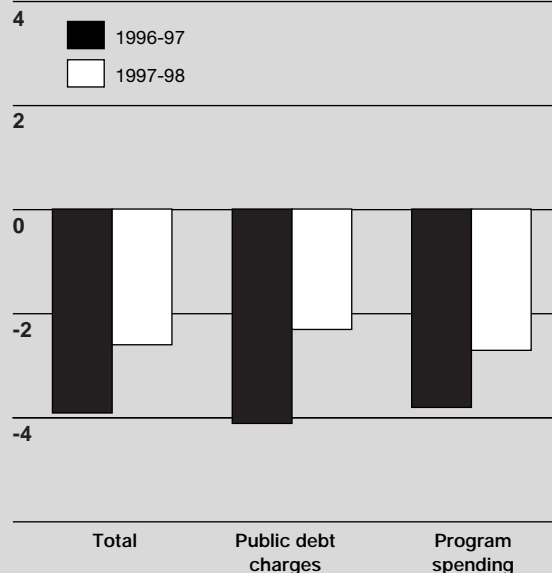


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1997	1998	1996-97	1997-98	
(millions of dollars)					(%)
Transfer payments to:					
Persons					
Elderly benefits	1,841	1,894	21,594	22,212	2.9
Employment insurance benefits	1,176	1,479	12,352	11,897	-3.7
Total	3,017	3,373	33,946	34,109	0.5
Other levels of government					
Canada Health and Social Transfer	1,051	1,103	14,911	12,233	-18.0
Fiscal transfers	607	1,012	9,150	9,446	3.2
Alternative Payments for Standing Programs	-167	-156	-2,012	-2,120	5.4
Total	1,491	1,959	22,049	19,559	-11.3
Subsidies and other transfers					
Agriculture	90	150	899	804	-10.6
Foreign Affairs	338	362	1,881	1,825	-3.0
Human Resources Development	173	272	1,826	1,622	-11.2
Indian and Northern Development	179	221	3,428	3,660	6.8
Industry and Regional Development	278	332	1,725	1,902	10.3
Veterans Affairs	113	114	1,363	1,368	0.4
Other	1,853	1,530	4,554	4,633	1.7
Total	3,024	2,981	15,676	15,814	0.9
Total transfers	7,532	8,313	71,671	69,482	-3.1
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	61	997	863	-13.4
Canada Mortgage and Housing Corporation	197	135	1,898	1,663	-12.4
Other	108	86	1,220	1,080	-11.5
Total	405	282	4,115	3,606	-12.4
Operating and capital expenditures					
Defence	687	811	8,712	8,552	-1.8
All other departmental expenditures	1,810	2,072	17,700	17,797	0.5
Total	2,497	2,883	26,412	26,349	-0.2
Total program expenditures	10,434	11,478	102,198	99,437	-2.7
Public debt charges	3,798	3,730	44,750	43,716	-2.3
Total budgetary expenditures	14,232	15,208	146,948	143,153	-2.6

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Table 4

The budgetary balance and financial requirements/surplus

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit (-)/surplus (+)	-1,810	63	-9,636	4,167
Loans, investments and advances				
Crown corporations	-4	148	874	1,243
Other	-54	0	-465	-301
Total	-58	148	409	942
Specified purpose accounts				
Canada Pension Plan Account	467	803	117	459
Superannuation accounts	2,570	2,692	8,751	8,083
Other	87	207	528	26
Total	3,124	3,702	9,396	8,568
Other transactions	-1,099	-2,517	963	-961
Total non-budgetary transactions	1,967	1,333	10,768	8,549
Financial requirements/surplus (excluding foreign exchange transactions)	157	1,396	1,132	12,716
Foreign exchange transactions	-2,058	-2,871	-7,524	-1,840
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876

Table 5

Financial requirements/surplus and unmatured debt transactions

	March		April to March	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	-1,901	-1,475	-6,392	10,876
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	-1,989	-1,810	29,671	11,978
Canada Savings Bonds	-259	-145	2,076	-2,900
Treasury bills	7,000	3,100	-30,700	-23,100
Other	-1	-1	-11	-11
Subtotal	4,751	1,144	1,036	-14,033
Less: Government's holding of unmatured debt	194	98	152	241
Total	4,945	1,242	1,188	-13,792
Payable in foreign currencies				
Marketable bonds	0	629	2,743	3,409
Notes and loans	0	0	0	0
Canada bills	1,410	436	1,450	984
Canada notes	22	-144	1,811	-497
Total	1,432	921	6,004	3,896
Total unmatured debt transactions	6,377	2,163	7,192	-9,896
Change in cash balance	4,476	688	800	980

Table 6

Cash, unmatured debt and debt balances: at March 31

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	9,254	10,293
In foreign currencies	89	49
Total cash balance	9,343	10,342
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	282,436	294,541
Treasury bills	135,400	112,300
Canada Savings Bonds	33,503	30,593
Other	3,467	3,456
Subtotal	454,806	440,890
<i>Less: Government's holdings of unmatured debt</i>	883	846
Total	453,923	440,044
Payable in foreign currencies		
Marketable bonds	12,257	15,869
Notes and loans	0	0
Canada bills	8,436	9,420
Canada notes	2,121	1,624
Total	22,814	26,913
Total unmatured debt	476,737	466,957

- Within direct program spending, payments to Crown corporations were down \$0.5 billion, while operating and capital expenditures declined \$0.1 billion. These declines primarily reflected the impact of restraint measures, although the net effect was dampened by the timing of payments and the costs associated with the June 1997 general election. Other transfers were up slightly, in part due to expenditures related to the Manitoba flood and the ice storm in eastern Canada.

Public debt charges down \$1.0 billion in April 1997 to March 1998 period

Public debt charges were down \$1.0 billion, or 2.3 per cent, on a year-over-year basis. This decline was attributed to lower average effective interest rates on the federal government's debt.

Financial surplus in 1997-98

Although final budgetary results will not be available until the fall of 1998, the results for the financial surplus for the April to March period do not differ significantly from the final audited results. This is because the financial results

measure the difference between cash coming in to the government and cash going out, whereas the budgetary balance results are on a modified accrual basis of accounting. The financial surplus results are 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. On balance, 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 1997 to March 1998 period, amounting to \$8.5 billion, compared to a net source of \$10.8 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.

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With a budgetary surplus of \$4.2 billion and a net source of funds from non-budgetary transactions of \$8.5 billion, there was a financial surplus, excluding foreign exchange transactions, of \$12.7 billion as of March 31, 1998. The February 1998 budget estimated a financial surplus, excluding foreign exchange transactions, for 1997-98 of \$12.0 billion. In 1996-97, there was a net source of \$1.1 billion.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfils 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. Preliminary estimates indicate a net foreign exchange transactions requirement for 1997-98 of \$1.8 billion, compared to a net requirement of \$7.5 billion in 1996-97.

As a result, preliminary estimates suggest that there was a financial surplus, including foreign exchange transactions, of \$10.9 billion in 1997-98, compared to a net requirement of \$6.4 billion in 1996-97.

The federal government retired \$9.9 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 revenue 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. In his "Observations" on the 1996-97 financial statements, the Auditor General questioned the need for this Account, given the fundamental concept of the Consolidated Revenue Fund. The government has indicated that it would review this issue.

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*

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