

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for August 1997

### Deficit down \$1.4 billion in August 1997

There was a deficit of \$0.5 billion in August 1997, down \$1.4 billion from August 1996. Budgetary revenues were up \$0.9 billion (9.3 per cent), while program spending declined \$0.4 billion (4.5 per cent). Public debt charges were down \$0.1 billion (1.4 per cent).

The increase in budgetary revenues was concentrated in personal and corporate income tax collections and goods and services tax (GST) collections. Personal income tax collections were up \$0.5 billion, primarily reflecting the recent advances in employment. Corporate income tax collections were up \$0.4 billion, primarily reflecting continued strength in corporate profits. Goods and services tax collections increased \$0.2 billion, reflecting continued strength in consumer demand. The decline in non-tax revenues was due to a correction for overstatements in previous months.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down \$0.3 billion) and operating and capital expenditures of government departments (down \$0.2 billion). 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. The decline in public debt charges reflected the impact of lower interest rates.

### Deficit for April to August 1997 down \$8.1 billion

Over the first five months of the 1997-98 fiscal year, the deficit amounted to \$0.2 billion, down \$8.1 billion from the same period a year ago. This turnaround was attributable to the impact of restraint measures introduced in the 1994 and 1995 budgets, the increasing strength in the economy, and timing factors, notably the acceleration of monthly employment insurance premium revenues within

the year. Budgetary revenues were up \$5.2 billion (10.1 per cent), program spending declined \$1.9 billion (4.8 per cent), while public debt charges were \$1.0 billion lower (5.0 per cent).

### Financial surplus of \$5.4 billion in April to August period

In the first five months of 1997-98, there was a financial surplus of \$5.4 billion. This resulted from a net source of funds from foreign exchange transactions of \$3.9 billion, a net source of funds from non-budgetary transactions of \$1.7 billion and a budgetary deficit of \$0.2 billion. Cash balances were \$5.7 billion lower over the first five months of 1997-98. As a result, since the beginning of the 1997-98 fiscal year, the Government of Canada has been able to retire \$11.0 billion 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 future months.

### Budgetary revenues up in April to August period

Over the April to August 1997 period, budgetary revenues were up \$5.2 billion, or 10.1 per cent. About three-quarters of this increase is attributable to stronger economic conditions. The rest was due to an acceleration in employment insurance premium revenues, which will be offset in coming months.



# The Fiscal Monitor

Table 1

## Summary statement of transactions

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	9,992	10,925	51,398	56,599
Program spending	-8,187	-7,816	-40,602	-38,653
Operating surplus	1,805	3,109	10,796	17,946
Public debt charges	-3,688	-3,635	-19,128	-18,164
Deficit/surplus	-1,883	-526	-8,332	-218
<b>Non-budgetary transactions</b>	1,257	824	1,728	1,706
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-626	298	-6,604	1,488
<b>Foreign exchange transactions</b>	556	-97	1,121	3,873
<b>Total financial requirements/surplus</b>	-70	201	-5,483	5,361
<b>Unmatured debt transactions</b>	-427	-153	1,178	-11,028

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

- Personal income tax collections were up \$2.1 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 stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.4 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 \$1.3 billion. All of this increase reflected timing factors, which will be reversed in the latter half 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.
- Good and services tax collections were up \$0.6 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 slightly.
- The decline in non-tax revenues was attributable to lower earnings on investments, reflecting the impact of the decline in interest rates.

### Program spending lower in April to August period

Program spending declined \$1.9 billion, or 4.8 per cent in the first five months of 1997-98, compared to the same period last year, with all major components lower. The decline in program spending was primarily attributable to the effect of the restraint measures introduced in the 1994 and 1995 budgets.

- 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.

# The Fiscal Monitor

Table 2

## Budgetary revenues

	August		April to August		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
<b>Income taxes</b>					
Personal income tax	4,573	5,071	25,577	27,686	8.2
Corporate income tax	873	1,251	5,038	6,438	27.8
Other income tax revenue	152	134	895	993	10.9
Total income tax	5,598	6,456	31,510	35,117	11.4
<b>Employment insurance premium revenues</b>	1,609	1,677	7,771	9,055	16.5
<b>Excise taxes and duties</b>					
Goods and services tax	1,323	1,545	5,441	6,031	10.8
Customs import duties	223	237	905	799	-11.7
Other excise taxes and duties	726	733	3,201	3,252	1.6
Total excise taxes and duties	2,272	2,515	9,547	10,082	5.6
<b>Total tax revenues</b>	9,479	10,648	48,828	54,254	11.1
<b>Non-tax revenues</b>	513	277	2,570	2,345	-8.8
<b>Total budgetary revenues</b>	9,992	10,925	51,398	56,599	10.1

- Major transfers to other levels of government were down \$1.6 billion, reflecting lower cash transfers under the Canada Health and Social Transfer 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 \$1.2 billion over the first five months of 1997-98, compared to the same period last year, of which about \$0.8 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 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 \$0.1 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 in 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

# The Fiscal Monitor

Table 3

## Budgetary expenditures

	August		April to August		Per cent change
	1996	1997	1996-97	1997-98	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,784	1,858	8,839	9,148	3.5
Employment insurance benefits	941	836	5,122	4,569	-10.8
<b>Total</b>	<b>2,725</b>	<b>2,694</b>	<b>13,961</b>	<b>13,717</b>	<b>-1.7</b>
Other levels of government					
Canada Health and Social Transfer	1,254	1,026	6,270	5,095	-18.7
Fiscal transfers	810	755	4,123	3,772	-8.5
Alternative Payments for Standing Programs	-169	-178	-844	-888	5.2
<b>Total</b>	<b>1,895</b>	<b>1,603</b>	<b>9,549</b>	<b>7,979</b>	<b>-16.4</b>
Subsidies and other transfers					
Agriculture	61	33	243	145	-40.3
Foreign Affairs	149	138	548	545	-0.5
Human Resources Development	-39	86	514	493	-4.1
Indian and Northern Development	243	248	1,707	1,817	6.4
Industry & Regional Development	168	164	501	568	13.4
Veterans Affairs	112	112	563	570	1.2
Other	135	217	953	1,320	38.5
<b>Total</b>	<b>829</b>	<b>998</b>	<b>5,029</b>	<b>5,458</b>	<b>8.5</b>
<b>Total transfers</b>	<b>5,449</b>	<b>5,295</b>	<b>28,539</b>	<b>27,154</b>	<b>-4.9</b>
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	66	65	440	379	-13.9
Canada Mortgage and Housing Corporation	119	119	722	639	-11.5
Other	123	108	494	469	-5.1
<b>Total</b>	<b>308</b>	<b>292</b>	<b>1,656</b>	<b>1,487</b>	<b>-10.2</b>
<b>Operating and capital expenditures</b>					
Defence	849	750	3,355	3,146	-6.2
All other departmental expenditures	1,581	1,479	7,052	6,866	-2.6
<b>Total</b>	<b>2,430</b>	<b>2,229</b>	<b>10,407</b>	<b>10,012</b>	<b>-3.8</b>
<b>Total program expenditures</b>	<b>8,187</b>	<b>7,816</b>	<b>40,602</b>	<b>38,653</b>	<b>-4.8</b>
<b>Public debt charges</b>	<b>3,688</b>	<b>3,635</b>	<b>19,128</b>	<b>18,164</b>	<b>-5.0</b>
<b>Total budgetary expenditures</b>	<b>11,875</b>	<b>11,451</b>	<b>59,730</b>	<b>56,817</b>	<b>-4.9</b>

transfers over the 1997-98 to 2002-03 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, while payments 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 August period

Public debt charges were down \$1.0 billion, or 5.0 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.

Table 4

**The deficit and financial requirements/surplus**

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Deficit(-)/surplus(+)</b>	-1,883	-526	-8,332	-218
<b>Loans, investments and advances</b>				
Crown corporations	58	57	609	140
Other	1	41	-249	-49
<b>Total</b>	<b>59</b>	<b>98</b>	<b>360</b>	<b>91</b>
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-305	-289	336	400
Superannuation accounts	-209	-985	1,721	882
Other	56	-91	69	-302
<b>Total</b>	<b>-458</b>	<b>-1,365</b>	<b>2,126</b>	<b>980</b>
<b>Other transactions</b>	1,656	2,091	-758	635
<b>Total non-budgetary transactions</b>	1,257	824	1,728	1,706
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	-626	298	-6,604	1,488
<b>Foreign exchange transactions</b>	556	-97	1,121	3,873
<b>Total financial requirements/surplus</b>	<b>-70</b>	<b>201</b>	<b>-5,483</b>	<b>5,361</b>

Table 5

**Financial requirements/surplus and unmatured debt transactions**

	August		April to August	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/surplus</b>	-70	201	-5,483	5,361
<b>Unmatured debt transactions</b>				
Payable in Canadian dollars				
Marketable bonds	100	3,600	12,628	8,838
Canada Savings Bonds	-218	-237	-1,271	-1,444
Treasury bills	-300	-4,600	-12,200	-17,900
Other	-1	-1	886	832
<b>Subtotal</b>	<b>-419</b>	<b>-1,238</b>	<b>43</b>	<b>-9,674</b>
<i>Less: Government's holdings of unmatured debt</i>	102	107	677	638
<b>Total</b>	<b>-317</b>	<b>-1,131</b>	<b>720</b>	<b>-9,036</b>
Payable in foreign dollars				
Marketable bonds	0	61	0	-716
Notes and loans	0	0	0	0
Canada bills	-110	917	-153	-950
Canada notes	0	0	611	-326
<b>Total</b>	<b>-110</b>	<b>978</b>	<b>458</b>	<b>-1,992</b>
<b>Total unmatured debt transactions</b>	<b>-427</b>	<b>-153</b>	<b>1,178</b>	<b>-11,028</b>
<b>Change in cash balance</b>	<b>-497</b>	<b>48</b>	<b>-4,305</b>	<b>-5,667</b>

# The Fiscal Monitor

Table 6

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

	1996	1997
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	4,207	3,541
In foreign currencies	31	157
Total cash balance	4,238	3,698
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	265,393	291,401
Treasury bills	153,900	117,500
Canada Savings Bonds	30,157	32,049
Other	4,364	4,300
Subtotal	453,814	445,250
<i>Less: Government's holdings of unmatured debt</i>	357	320
Total	453,457	444,930
Payable in foreign currencies		
Marketable bonds	9,514	11,745
Notes and loans	0	0
Canada bills	6,834	7,486
Canada notes	921	1,795
Total	17,269	21,026
<b>Total unmatured debt</b>	<b>470,726</b>	<b>465,956</b>

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