

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for July 1997

### Budgetary surplus in July 1997

A surplus of \$0.8 billion was recorded in July 1997, marking the third consecutive month in which a budgetary surplus was recorded – the first time that this has occurred since the early 1970s. This represents a net improvement in the federal government's budgetary position of \$2.0 billion from July 1996. Budgetary revenues were up \$1.0 billion (8.8 per cent), while program spending declined \$0.7 billion (8.1 per cent). Public debt charges were down \$0.3 billion (8.7 per cent).

The increase in budgetary revenues was spread throughout most major components. Corporate income tax collections were up \$0.4 billion, primarily reflecting continued strength in corporate profits. Employment insurance premium revenues increased \$0.2 billion, attributable to the acceleration of monthly payments. Goods and services tax (GST) collections increased \$0.2 billion, reflecting continued strength in consumer demand. Personal income tax collections were up \$0.2 billion, primarily due to gains in employment income, reflecting the recent advances in employment.

Most of the year-over-year decline in program spending was concentrated in transfers to other levels of government (down \$0.5 billion) for the Canada Health and Social Transfer (CHST) and Equalization. The lower direct cash transfers under the CHST reflected both the reduction in total entitlements as well as the rising value of the tax point transfers. The lower cash transfers under the Equalization program were largely attributable to an adjustment relating to an overpayment in a previous month. The decline in public debt charges reflected the impact of lower interest rates.

### Budgetary surplus in April to July period

Over the first four months of the 1997-98 fiscal year, the federal government reported a surplus of \$0.3 billion. In the same period last year, a deficit of \$6.5 billion was reported. 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. Budgetary revenues were up \$4.3 billion (10.3 per cent), program spending declined \$1.6 billion (4.9 per cent), while public debt charges were \$0.9 billion lower (5.9 per cent).

### Financial source in April to July period

In the first four months of 1997-98, there was a financial source of \$5.2 billion. This resulted from the budgetary surplus of \$0.3 billion, a net source of funds from non-budgetary transactions of \$0.9 billion and a net source of funds from foreign exchange transactions of \$4.0 billion, the latter due to net repayments of debt by the Exchange Fund Account. Cash balances were \$5.7 billion lower over the first four months of 1997-98. As a result, since the beginning of 1997-98, there has been a \$10.9 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, 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 that will not be repeated in future months. In the fall, the Minister of Finance will present the government's annual update on economic and fiscal developments. At that time, there will be an assessment of current developments on the government's deficit targets.

### Budgetary revenues up

Over the April to July 1997 period, budgetary revenues were up \$4.3 billion, or 10.3 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.



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- Personal income tax collections were up \$1.6 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 stronger income growth in the 1996 taxation year.
- Corporate income tax collections were up \$1.0 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 \$1.2 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.
- Goods and services tax collections were up \$0.4 billion, largely attributable to the strength in consumer demand.
- Declines in customs import duties, reflecting the impact of tariff reductions under multilateral trade agreements, more than offset the small increases in other excise taxes and duties and non-tax revenues.
- Major transfers to other levels of government were down \$1.3 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 \$0.9 billion over the first four months of 1997-98, compared to the same period last year, of which about \$0.6 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 non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

## **Program spending lower**

Program spending declined \$1.6 billion, or 4.9 per cent in the first four 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.
- 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.

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Table 1  
Summary statement of transactions

|  | July                  |        | April to July |         |
|--|-----------------------|--------|---------------|---------|
|  | 1996                  | 1997   | 1996-97       | 1997-98 |
|  | (millions of dollars) |        |               |         |
| <b>Budgetary transactions</b>  |                       |        |               |         |
| Revenues   | 11,129                | 12,106 | 41,405        | 45,674  |
| Program spending   | -8,288                | -7,618 | -32,415       | -30,837 |
| Operating surplus  | 2,841                 | 4,488  | 8,990         | 14,837  |
| Public debt charges  | -3,996                | -3,648 | -15,440       | -14,529 |
| Deficit/surplus  | -1,155                | 840    | -6,450        | 308     |
| <b>Non-budgetary transactions</b>  | 1,835                 | 833    | 469           | 881     |
| <b>Financial requirements/source (excluding foreign exchange transactions)</b> | 680                   | 1,673  | -5,981        | 1,189   |
| <b>Foreign exchange transactions</b>   | 118                   | 2,922  | 565           | 3,970   |
| <b>Total financial requirements/source</b>                                     | 798                   | 4,595  | -5,416        | 5,159   |
| <b>Unmatured debt transactions</b>   | 1,566                 | -4,919 | 1,605         | -10,875 |

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

Table 2  
Budgetary revenues

|                                      | July                  |        | April to July |         | Per cent change |
|--------------------------------------|-----------------------|--------|---------------|---------|-----------------|
|                                      | 1996                  | 1997   | 1996-97       | 1997-98 |                 |
|                                      | (millions of dollars) |        |               |         | (%)             |
| <b>Income taxes</b>                  |                       |        |               |         |                 |
| Personal income tax                  | 5,105                 | 5,297  | 21,004        | 22,615  | 7.7             |
| Corporate income tax                 | 1,400                 | 1,807  | 4,165         | 5,187   | 24.5            |
| Other                                | 230                   | 303    | 743           | 859     | 15.7            |
| Total income tax                     | 6,735                 | 7,407  | 25,912        | 28,661  | 10.6            |
| <b>Employment insurance premiums</b> | 1,587                 | 1,815  | 6,162         | 7,378   | 19.8            |
| <b>Excise taxes and duties</b>       |                       |        |               |         |                 |
| Goods and services tax               | 1,262                 | 1,457  | 4,118         | 4,486   | 8.9             |
| Customs import duties                | 202                   | 229    | 682           | 563     | -17.5           |
| Other excise taxes/duties            | 757                   | 653    | 2,475         | 2,518   | 1.7             |
| Total excise taxes and duties        | 2,221                 | 2,339  | 7,275         | 7,567   | 4.0             |
| <b>Total tax revenues</b>            | 10,543                | 11,561 | 39,349        | 43,606  | 10.8            |
| <b>Non-tax revenues</b>              | 586                   | 545    | 2,056         | 2,068   | 0.6             |
| <b>Total budgetary revenues</b>      | 11,129                | 12,106 | 41,405        | 45,674  | 10.3            |

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Table 3

## Budgetary expenditures

|   | July   |        | April to July |         | Per cent change<br>(%) |
|---|--------|--------|---------------|---------|------------------------|
|   | 1996   | 1997   | 1996-97       | 1997-98 |                        |
| (millions of dollars)                         |        |        |               |         |                        |
| <b>Transfer payments to:</b>                  |        |        |               |         |                        |
| Persons                                       |        |        |               |         |                        |
| Elderly benefits                              | 1,760  | 1,820  | 7,056         | 7,290   | 3.3                    |
| Employment insurance benefits                 | 916    | 820    | 4,181         | 3,734   | -10.7                  |
| Total   | 2,676  | 2,640  | 11,237        | 11,024  | -1.9                   |
| Other levels of government                    |        |        |               |         |                        |
| Canada Health and Social Transfer             | 1,254  | 1,012  | 5,016         | 4,069   | -18.9                  |
| Fiscal transfers                              | 807    | 566    | 3,313         | 3,018   | -8.9                   |
| Alternative Payments<br>for Standing Programs | -169   | -178   | -674          | -710    | 5.3                    |
| Total   | 1,892  | 1,400  | 7,655         | 6,377   | -16.7                  |
| Subsidies and other transfers                 |        |        |               |         |                        |
| Agriculture                                   | 116    | 37     | 182           | 112     | -38.5                  |
| Foreign Affairs                               | 138    | 110    | 398           | 408     | 2.5                    |
| Human Resources Development                   | 161    | 6      | 553           | 408     | -26.2                  |
| Indian and Northern Development               | 181    | 281    | 1,464         | 1,569   | 7.2                    |
| Industry & Regional Development               | 79     | 97     | 333           | 404     | 21.3                   |
| Veterans Affairs                              | 116    | 117    | 451           | 459     | 1.6                    |
| Other   | 263    | 289    | 818           | 1,104   | 35.0                   |
| Total   | 1,054  | 937    | 4,199         | 4,464   | 6.3                    |
| Total transfers                               | 5,622  | 4,977  | 23,091        | 21,865  | -5.3                   |
| <b>Payments to Crown corporations</b>         |        |        |               |         |                        |
| Canadian Broadcasting Corporation             | 76     | 65     | 374           | 314     | -16.0                  |
| Canada Mortgage and Housing Corporation       | 152    | 156    | 602           | 520     | -13.7                  |
| Other   | 68     | 68     | 371           | 360     | -2.8                   |
| Total   | 296    | 289    | 1,347         | 1,194   | -11.4                  |
| <b>Operating and capital expenditures</b>     |        |        |               |         |                        |
| Defence                                       | 741    | 746    | 2,506         | 2,397   | -4.3                   |
| All other departmental expenditures           | 1,629  | 1,606  | 5,471         | 5,381   | -1.6                   |
| Total   | 2,370  | 2,352  | 7,977         | 7,778   | -2.5                   |
| <b>Total program expenditures</b>             | 8,288  | 7,618  | 32,415        | 30,837  | -4.9                   |
| <b>Public debt charges</b>                    | 3,996  | 3,648  | 15,440        | 14,529  | -5.9                   |
| <b>Total budgetary expenditures</b>           | 12,284 | 11,266 | 47,855        | 45,366  | -5.2                   |

Table 4  
**The deficit and financial requirements/source**

|  | July                  |       | April to July |         |
|--|-----------------------|-------|---------------|---------|
|  | 1996                  | 1997  | 1996-97       | 1997-98 |
|  | (millions of dollars) |       |               |         |
| <b>Deficit/surplus</b>   | -1,155                | 840   | -6,450        | 308     |
| <b>Loans, investments and advances</b>   |                       |       |               |         |
| Crown corporations   | 387                   | 157   | 551           | 83      |
| Other  | -23                   | -29   | -250          | -91     |
| Total  | 364                   | 128   | 301           | -8      |
| <b>Specified purpose accounts</b>  |                       |       |               |         |
| Canada Pension Plan Account  | -596                  | -479  | 641           | 690     |
| Superannuation accounts  | -174                  | -200  | 1,930         | 1,867   |
| Other  | 51                    | -     | 11            | -211    |
| Total  | -629                  | -679  | 2,582         | 2,346   |
| <b>Other transactions</b>  | 2,100                 | 1,384 | -2,414        | -1,457  |
| <b>Total non-budgetary transactions</b>  | 1,835                 | 833   | 469           | 881     |
| <b>Financial requirements/source<br/>(excluding foreign exchange transactions)</b> | 680                   | 1,673 | -5,981        | 1,189   |
| <b>Foreign exchange transactions</b>   | 118                   | 2,922 | 565           | 3,970   |
| <b>Total financial requirements/source</b>   | 798                   | 4,595 | -5,416        | 5,159   |

Table 5  
**Financial requirements/source and unmatured debt transactions**

|   | July                  |        | April to July |         |
|---|-----------------------|--------|---------------|---------|
|   | 1996                  | 1997   | 1996-97       | 1997-98 |
|   | (millions of dollars) |        |               |         |
| <b>Total financial requirements/source</b>                            | 798                   | 4,595  | -5,416        | 5,159   |
| <b>Unmatured debt transactions:<br/>payable in Canadian dollars</b>   |                       |        |               |         |
| Marketable bonds  | 5,400                 | -4,200 | 12,528        | 5,238   |
| Canada Savings Bonds  | -252                  | -298   | -1,053        | -1,207  |
| Treasury bills  | -4,300                | 1,700  | -11,900       | -13,300 |
| Other   | 365                   | 386    | 887           | 833     |
| <i>Less: Government's holdings</i>                                    | 154                   | 167    | 575           | 530     |
| Total Canadian currency   | 1,367                 | -2,227 | 1,037         | -7,906  |
| <b>Unmatured debt transactions:<br/>payable in foreign currencies</b> |                       |        |               |         |
| Marketable bonds  | -                     | -776   | -             | -776    |
| Notes and loans   | -                     | -      | -             | -       |
| Canada bills  | 199                   | -1,590 | -43           | -1,867  |
| Canada notes  | -                     | -326   | 611           | -326    |
| Total foreign currencies  | 199                   | -2,692 | 568           | -2,969  |
| <b>Total unmatured debt transactions</b>                              | 1,566                 | -4,919 | 1,605         | -10,875 |
| <b>Change in cash balance</b>   | 2,364                 | -324   | -3,811        | -5,716  |

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Table 6

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

|  | 1996                  | 1997           |
|--|-----------------------|----------------|
|  | (millions of dollars) |                |
| <b>Cash balances at end of period</b>                |                       |                |
| In Canadian dollars                                  | 4,731                 | 2,895          |
| In foreign currencies                                | 3                     | 755            |
| Total cash balance                                   | 4,734                 | 3,650          |
| <b>Unmatured debt balance</b>                        |                       |                |
| Payable in Canadian dollars                          |                       |                |
| Marketable bonds                                     | 265,293               | 287,801        |
| Treasury bills                                       | 154,200               | 122,100        |
| Canada Savings Bonds                                 | 30,375                | 32,286         |
| Other  | 4,365                 | 4,301          |
| Subtotal   | 454,233               | 446,488        |
| <i>Less: Government's holdings of unmatured debt</i> | 375                   | 429            |
| Total  | 453,858               | 446,059        |
| Payable in foreign currencies                        |                       |                |
| Marketable bonds                                     | 9,501                 | 11,684         |
| Notes and loans                                      | 0                     | 0              |
| Canada bills   | 6,943                 | 6,569          |
| Canada notes   | 921                   | 1,795          |
| Total  | 17,365                | 20,048         |
| <b>Total unmatured debt</b>                          | <b>471,223</b>        | <b>466,107</b> |

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, 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

Public debt charges were down \$0.9 billion, or 5.9 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.

