

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for February 1998

Budgetary surplus of \$0.8 billion in February 1998

There was a budgetary surplus of \$0.8 billion in February 1998, compared to a deficit of \$0.5 billion in February 1997. Budgetary revenues were up \$0.9 billion, or 7.9 per cent, while program spending declined \$0.4 billion, or 4.3 per cent. In contrast, public debt charges were marginally higher.

The year-over-year increase in budgetary revenues was largely attributable to higher personal income tax collections, up \$0.9 billion, reflecting strong growth in employment income. Corporate income tax collections were up \$0.1 billion, while goods and services tax (GST) collections rose by \$0.3 billion. Part of the increase in GST collections was attributable to the receipt of January 1998 collections, which were delayed by the ice storm in eastern Canada. In contrast, employment insurance premium revenues were lower (down \$0.1 billion), primarily reflecting the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) in 1997 to \$2.70 in 1998.

The decline in program spending reflected lower expenditures on each of: transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. In contrast, transfer payments to persons were higher. 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 the tax point transfers.

Surplus for April 1997 to February 1998 of \$4.1 billion

Over the April 1997 to February 1998 period, there was a surplus of \$4.1 billion, representing an improvement of \$11.9 billion from the deficit of

\$7.8 billion reported for the same period in 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact on program spending of restraint measures introduced in the 1994 and 1995 budgets. Budgetary revenues were up \$7.2 billion (5.7 per cent) and program spending declined \$3.8 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.4 per cent).

Financial surplus of \$12.4 billion in April 1997 to February 1998 period

With a budgetary surplus of \$4.1 billion and a net source of funds from non-budgetary transactions of \$7.2 billion, there was a financial surplus, excluding foreign exchange transactions, of \$11.3 billion, an improvement of \$10.4 billion from the same period in 1996-97. There was also a net source of funds amounting to \$1.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$12.4 billion, an improvement of \$16.8 billion from the same period last year. Cash balances were up slightly over the 11 months of 1997-98, compared to the end of the 1996-97 fiscal year. As a result, since the beginning of the 1997-98 fiscal year, there has been a \$12.1 billion retirement of market debt. This is somewhat lower than that recorded in the first 10 months, as the government increased its foreign exchange reserve holdings in February 1998.

Balanced budget for 1997-98

Based on the financial results to date, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the 1998 budget, a balanced budget will be recorded in 1997-98.



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Table 1
Summary statement of transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Budgetary transactions				
Revenues	11,906	12,844	124,889	132,049
Program spending	-8,820	-8,445	-91,764	-87,958
Operating surplus	3,086	4,399	33,125	44,091
Public debt charges	-3,571	-3,611	-40,952	-39,987
Deficit/surplus	-485	788	-7,827	4,104
Non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions	496	2,455	815	-12,057

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

Budgetary revenues up in April 1997 to February 1998 period

Over the April 1997 to February 1998 period, budgetary revenues were up \$7.2 billion, or 5.7 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy.

- Personal income tax collections were up \$5.0 billion. This increase was due to 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. In addition, there have been transfers from employment insurance premium revenues to personal income tax collections for prior-year adjustments.
- Corporate income tax collections were up \$3.0 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.0 billion. This decline was attributable to net transfers of about \$0.6 billion during 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

In addition, premium rates were reduced effective January 1998, with the employee rate falling from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70.

- Goods and services tax collections were up \$1.4 billion, largely attributable to the strength in consumer demand.
- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of tariff reductions. Other excise taxes and duties were up \$0.3 billion.
- Non-tax revenues were down \$1.7 billion. Most of this decline was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System.

Program spending lower in April 1997 to February 1998 period

Program spending declined \$3.8 billion, or 4.1 per cent, in the first 11 months of 1997-98, compared to the same period last year, with all major components, with the exception of 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.

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Table 2

Budgetary revenues

	February		April to February		Per cent change (%)
	1997	1998	1996-97	1997-98	
	(millions of dollars)				
Income taxes					
Personal income tax	5,257	6,114	60,226	65,263	8.4
Corporate income tax	1,778	1,912	12,971	16,012	23.4
Other income tax revenue	246	220	2,275	2,214	-2.7
Total income tax	7,281	8,246	75,472	83,489	10.6
Employment insurance premium revenues	1,791	1,678	17,934	16,976	-5.3
Excise taxes and duties					
Goods and services tax	1,609	1,882	14,893	16,324	9.6
Customs import duties	204	202	2,299	2,304	0.2
Sales and excise taxes	676	645	7,432	7,752	4.3
Total excise taxes and duties	2,489	2,729	24,624	26,380	7.1
Total tax revenues	11,561	12,653	118,030	126,845	7.5
Non-tax revenues	345	191	6,859	5,204	-24.1
Total budgetary revenues	11,906	12,844	124,889	132,049	5.7

- 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 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 \$3.0 billion, primarily reflecting lower cash transfers under the Canada Health and Social Transfer. 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 11 months of 1997-98, compared to the same period last year, of which about \$1.7 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer and recoveries related to overpayments in previous fiscal years. Legislation has been introduced to apply the \$12.5 billion cash guarantee one year earlier than previously announced, which will result in an additional \$0.2 billion being paid in 1997-98.

- Direct program spending – that is, total program spending less the major transfers to persons and other levels of government – declined by \$0.7 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

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Table 3

Budgetary expenditures

	February		April to February		Per cent change
	1997	1998	1996-97	1997-98	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,819	1,880	19,754	20,317	2.9
Employment insurance benefits	1,133	1,193	11,176	10,418	-6.8
Total	2,952	3,073	30,930	30,735	-0.6
Other levels of government					
Canada Health and Social Transfer	1,267	962	13,860	11,130	-19.7
Fiscal transfers	737	698	8,543	8,434	-1.3
Alternative Payments for Standing Programs	-166	-180	-1,845	-1,964	6.4
Total	1,838	1,480	20,558	17,600	-14.4
Subsidies and other transfers					
Agriculture	136	111	809	654	-19.2
Foreign Affairs	202	205	1,542	1,464	-5.1
Human Resources Development	270	221	1,652	1,350	-18.3
Indian and Northern Development	212	265	3,249	3,439	5.8
Industry and Regional Development	209	230	1,447	1,570	8.5
Veterans Affairs	114	115	1,250	1,254	0.3
Other	361	302	2,701	3,103	14.9
Total	1,504	1,449	12,650	12,834	1.5
Total transfers	6,294	6,002	64,138	61,169	-4.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	100	56	897	802	-10.6
Canada Mortgage and Housing Corporation	118	125	1,701	1,528	-10.2
Other	96	91	1,111	994	-10.5
Total	314	272	3,709	3,324	-10.4
Operating and capital expenditures					
Defence	783	741	8,024	7,741	-3.5
All other departmental expenditures	1,429	1,430	15,893	15,724	-1.1
Total	2,212	2,171	23,917	23,465	-1.9
Total program expenditures	8,820	8,445	91,764	87,958	-4.1
Public debt charges	3,571	3,611	40,952	39,987	-2.4
Total budgetary expenditures	12,391	12,056	132,716	127,945	-3.6

beginning in 1995-96. In addition, the restraint measures announced as part of the March 1996 budget Program Review exercise will further reduce this component's spending in 1998-99. Within direct program spending, other transfer payments were up, primarily reflecting the timing

of 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.

Table 4
The deficit/surplus and financial requirements/surplus

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Deficit(-)/surplus(+)	-485	788	-7,827	4,104
Loans, investments and advances				
Crown corporations	23	216	878	1,095
Other	-17	-20	-411	-300
Total	6	196	467	795
Specified purpose accounts				
Canada Pension Plan Account	509	42	-350	-344
Superannuation accounts	-232	-296	6,181	5,391
Other	143	49	441	-181
Total	420	-205	6,272	4,866
Other transactions	2,826	2,172	2,061	1,558
Total non-budgetary transactions	3,252	2,163	8,800	7,219
Financial requirements/surplus (excluding foreign exchange transactions)	2,767	2,951	973	11,323
Foreign exchange transactions	-472	-4,941	-5,466	1,031
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354

Table 5
Financial requirements/surplus and unmatured debt transactions

	February		April to February	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
Total financial requirements/surplus	2,295	-1,990	-4,493	12,354
Unmatured debt transactions				
Payable in Canadian dollars				
Marketable bonds	3,600	-3,100	31,660	13,788
Canada Savings Bonds	-405	-186	2,335	-2,755
Treasury bills	-2,750	1,800	-37,700	-26,200
Other	-316	-169	-9	-10
Subtotal	129	-1,655	-3,714	-15,177
<i>Less: Government's holdings of unmatured debt</i>	135	94	-43	145
Total	264	-1,561	-3,757	-15,032
Payable in foreign currencies				
Marketable bonds	0	2,906	2,743	2,780
Notes and loans	0	0	0	0
Canada bills	232	1,110	40	548
Canada notes	0	0	1,789	-353
Total	232	4,016	4,572	2,975
Total unmatured debt transactions	496	2,455	815	-12,057
Change in cash balance	2,791	465	-3,678	297

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Table 6

Cash, unmatured debt and debt balances: at February 28

	1997	1998
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	4,862	9,647
In foreign currencies	5	8
Total cash balance	4,867	9,655
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	284,425	296,351
Treasury bills	128,400	109,200
Canada Savings Bonds	33,763	30,738
Other	3,469	3,458
Subtotal	450,057	439,747
Less: Government's holdings of unmatured debt	1,076	943
Total	448,981	438,804
Payable in foreign currencies		
Marketable bonds	12,257	15,240
Notes and loans	0	0
Canada bills	7,026	8,984
Canada notes	2,099	1,768
Total	21,382	25,992
Total unmatured debt	470,363	464,796

Public debt charges lower in April 1997 to February 1998 period

Public debt charges were down \$1.0 billion, or 2.4 per cent, on a year-over-year basis. This decline was attributable to lower average effective interest rates on the federal government's debt.

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