

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for June 1996

Deficit \$1.9 billion lower in June 1996

The deficit for June 1996 was estimated at \$0.7 billion, down \$1.9 billion from June 1995.

- This year-over-year improvement was attributable to higher budgetary revenues (up 7.7 per cent) coupled with lower program spending (down 11.1 per cent) and public debt charges (down 3.1 per cent).

Deficit for April 1996 to June 1996 down by \$3.7 billion

Over the three-month period (April to June), the deficit stood at \$5.3 billion, down \$3.7 billion from the same period in 1995-96.

- Budgetary revenues were up \$1.9 billion or 6.6 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.6 per cent), in excise taxes and duties (5.1 per cent) and in non-tax revenues (up 26 per cent), dampened by a decline in employment insurance premiums (down 7.1 per cent).
- Program spending was down \$1.5 billion or 6.0 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$0.3 billion, or 2.2 per cent. This reflects declines in interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

About half of the year-over-year improvement in the deficit in the first three months of 1996-97 was attributable to developments unique to the first quarter. Therefore, the results to date cannot be used to extrapolate what the deficit outcome will be for the year as a whole. However, properly accounting for these one-time factors, the deficit results to date are consistent with the March 1996 budget estimate of the deficit for 1996-97 of \$24.3 billion, or 3 per cent of GDP. The Minister of Finance will be providing an assessment of current economic developments and their impact on the deficit outlook for 1996-97 early in the fall.



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Table 1

Summary statement of transactions

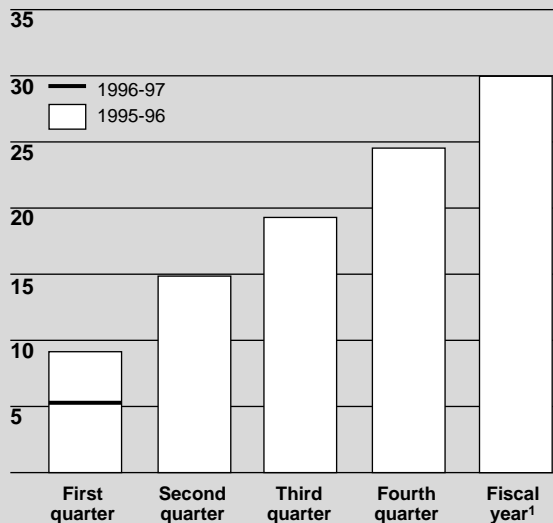
	June		April to June	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Budgetary transactions				
Revenues	10,402	11,200	28,399	30,276
Program spending	-9,010	-8,009	-25,657	-24,127
Operating surplus	1,392	3,191	2,742	6,149
Public debt charges	-3,963	-3,844	-11,699	-11,444
Deficit/Surplus	-2,571	-653	-8,957	-5,295
Non-budgetary transactions	-2,246	-1,692	-1,776	-1,366
Financial requirements/source (excluding foreign exchange transactions)	-4,817	-2,345	-10,733	-6,661
Foreign exchange transactions	1,544	1,196	-627	815
Total financial requirements	-3,273	-1,149	-11,360	-5,846
Unmatured debt transactions	1,981	552	11,761	-328

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

The federal deficit 1995-96 and 1996-97

Year to date

billions of dollars



¹ Estimate

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1996 to June 1996 period increased by \$1.9 billion (6.6 per cent). This increase was largely attributable to higher income tax collections, up \$1.7 billion. Lower employment insurance premiums were offset by increases in the other revenue components. However, about \$1.2 billion of the growth in revenues was attributable to factors applicable to the April to June 1996 period. As such, the current pace of revenue growth is not expected to continue over the balance of the fiscal year.

Personal income tax collections were up \$1.6 billion, or 11.2 per cent, on a year-over-year basis. About half of this increase was attributable to higher taxes paid on filing, net of refunds, pertaining to the 1995 taxation year. The deadline for filing personal income returns is usually April 30. The taxes received at that time, therefore, affect the first quarter financial results.

Table 2

Budgetary revenues

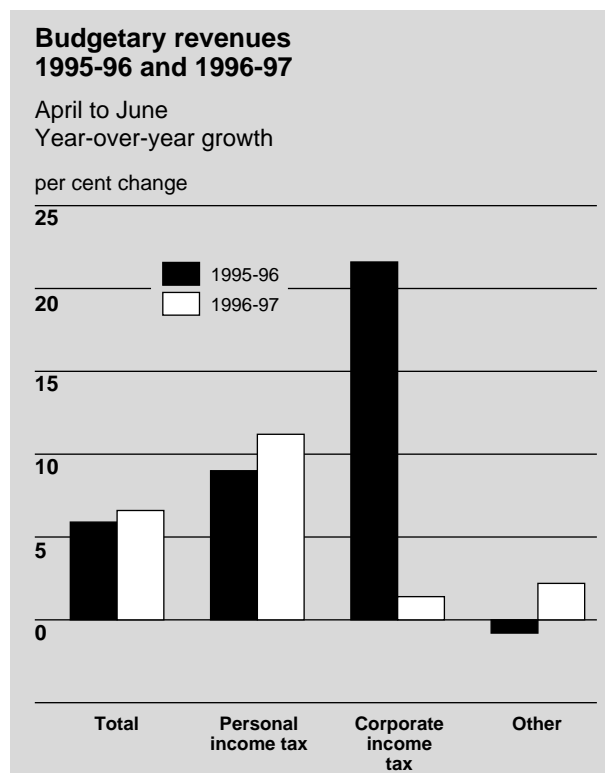
	June		April to June		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	4,793	5,759	14,303	15,899	11.2
Corporate income tax	1,216	1,118	2,728	2,765	1.4
Other	97	114	342	385	12.6
Total income tax	6,106	6,991	17,373	19,049	9.6
Employment insurance contributions	1,684	1,566	4,927	4,575	-7.1
Excise taxes and duties					
Goods and Services Tax	1,337	1,208	2,592	2,856	10.2
Customs import duties	240	216	642	480	-25.2
Other excise taxes/duties	605	675	1,698	1,846	8.7
Total excise taxes and duties	2,182	2,098	4,932	5,182	5.1
Total tax revenue	9,972	10,655	27,232	28,806	5.8
Non-tax revenue	430	545	1,167	1,470	26.0
Total budgetary revenues	10,402	11,200	28,399	30,276	6.6

Corporate income tax collections increased slightly, as continued strong advances in installment payments were nearly offset by higher refunds.

Employment insurance premium contributions declined by \$0.4 billion, due to lower premium rates in 1996 and the lowering of the applicable earnings base effective January 1996 to which premiums are calculated.

Total excise taxes and duties were up \$0.1 billion:

- Net GST collections were up 10.2 per cent, or \$0.3 billion, on a year-over-year basis. All of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in April 1996. On a year-over-year basis, net collections were lower in both May and June, reflecting the weakness in retail sales.



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- Customs import duties declined 25.2 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 8.7 per cent, in part reflecting higher Air Transport taxes, which effective April 1996 are included as part of budgetary revenues instead of being netted against program spending, as in previous years.

Budgetary expenditures down

Over the period April 1996 to June 1996, total budgetary expenditures, which include both public debt charges and program spending, were down 4.8 per cent, or \$1.8 billion. This decline was due to both lower public debt charges and program spending.

Public debt charges were down \$0.3 billion or 2.2 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending declined by \$1.5 billion, or 6.0 per cent in the April 1996 to June 1996 period, compared to the same period in 1995-96. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending. However, the quarterly year-over-year decline somewhat overstates the decline in program spending expected for the year as a whole. This reflects the timing of the restraint measures, especially those affecting transfers to other levels of governments.

The year-over-year percentage change in cash transfers to other levels of government (-18.4 per cent) overstates the expected reduction for the year as a whole. This is due to the manner in which the restraint on Canada Assistance Plan

transfers to Ontario, Alberta, and British Columbia was put in place in the past. In 1995-96, the federal government continued to pay provincial claims under the Canada Assistance Plan to these provinces until the cap on annual transfers was reached, which did not occur until late in the fiscal year. However, under the CHST, provinces are paid in equal monthly instalments.

Among the other major components of program spending, transfers to persons were down 2.6 per cent in the first quarter of 1996-97, as lower employment insurance benefit transfers and veterans' pensions and allowance more than offset increased elderly benefit transfers. Other transfer payments, payments to Crown corporations and defence were also lower, reflecting the impact of expenditure restraint. All other departmental expenditures were up slightly, due to the timing of payments.

Budgetary expenditures 1995-96 and 1996-97

April to June
Year-over-year growth

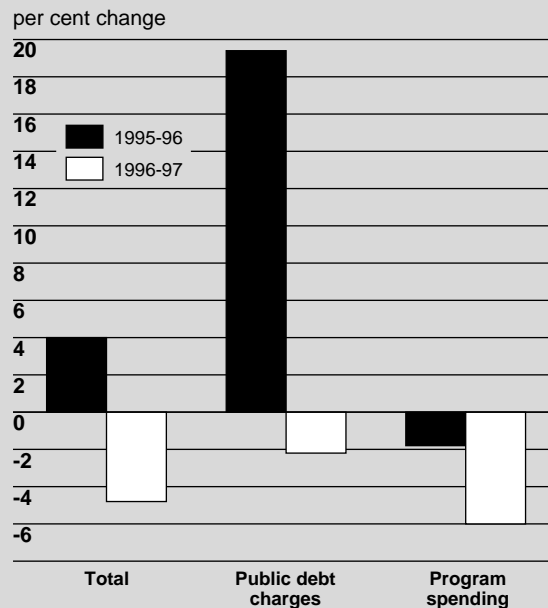


Table 3

Budgetary expenditures

	June		April to June		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,745	1,791	5,135	5,296	2.5
Employment insurance benefits	958	853	3,283	3,265	-9.6
Veterans' pensions/allowances	119	111	351	335	-3.6
Total	2,822	2,755	8,769	8,896	-2.6
Other levels of government					
Canada Health and Social Transfer	1,861	1,254	5,033	3,762	-25.3
Fiscal transfers	1,103	872	2,656	2,621	-1.3
Alternative payments for standing programs	-163	-169	-488	-505	3.5
Total	2,801	1,957	7,201	5,877	-18.4
Other					
Agricultural subsidies	6	15	30	66	120.0
Indian and Inuit programs	255	277	1,154	1,167	1.1
Regional development	15	17	31	37	20.9
Science and Technology	75	97	205	180	-12.2
International assistance	100	115	276	274	-0.7
Other	469	383	1,197	1,088	-9.0
Total	920	905	2,893	2,813	-2.8
Total transfers	6,543	5,618	18,863	17,587	-6.8
Payments to Crown corporations					
Canadian Broadcasting Corporation	82	65	354	298	-15.8
Canada Mortgage and Housing Corporation	163	177	429	451	5.0
Other	99	103	289	303	1.8
Total	345	345	1,081	1,052	-2.7
Operating and capital expenditures					
Defence	809	734	2,044	1,764	-13.7
All other departmental expenditures	1,313	1,312	3,669	3,724	1.5
Total	2,122	2,046	5,713	5,488	-3.9
Total program expenditures	9,010	8,009	25,657	24,127	-6.0
Public debt charges	3,963	3,844	11,699	11,444	-2.2
Total budgetary expenditures	12,973	11,853	37,356	35,571	-4.8

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Table 4

The deficit and financial requirements

	June		April to June	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Deficit/Surplus	-2,571	-653	-8,957	-5,295
Loans, investments and advances				
Crown corporations	111	113	64	164
Other	-179	-118	-529	-227
Total	-68	15	-465	-63
Specified purpose accounts				
Canada Pension Plan Account	21	-139	1,318	1,147
Superannuation accounts	2,339	2,476	2,026	2,105
Other	-19	13	-6	-40
Total	2,341	2,350	3,338	3,212
Other transactions	-4,519	-4,057	-4,649	-4,515
Total non-budgetary transactions	-2,246	-1,692	-1,776	-1,366
Financial requirements (excluding foreign exchange transactions)	-4,817	-2,345	-10,733	-6,661

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	June		April to June	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Financial requirements (-) / Source (+) (excluding foreign exchange)	-4,817	-2,345	-10,733	-6,661
Foreign exchange transactions				
Net international reserves	-91	-1,448	1,064	446
Unmatured debt transactions payable in foreign currencies	1,635	-252	-1,691	369
Total	1,544	-1,196	-627	815
Total financial requirements/Source	-3,273	-1,149	-11,360	-5,846
Unmatured debt transactions				
Marketable bonds	3,953	3,828	10,568	7,128
Canada Savings Bonds	-384	245	-1,266	-801
Treasury bills	-3	-3,700	3,747	-7,600
Other	-90	273	-3,418	891
Subtotal	3,476	156	9,631	-382
<i>Less:</i>				
Government's holding of unmatured debt	140	144	439	423
Unmatured debt transactions payable in foreign currency	-1,635	252	1,691	-369
Subtotal	-1,495	396	2,130	54
Total unmatured debt transactions payable in Canadian dollars	1,981	552	11,761	-382
Change in cash balance	-1,292	-597	401	-6,174

Table 6

Cash, unmatured debt and debt balances: at June 30

	1995	1996
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	2,289	2,358
In foreign currencies	5	23
Total cash balance	2,294	2,381
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	234,155	259,893
Canada Savings Bonds	30,120	30,627
Treasury bills	168,197	158,500
Other	3,814	4,000
Subtotal	436,286	453,020
<i>Less:</i>		
Government's holdings of unmatured debt	552	527
Total	435,734	452,493
Payable in foreign currencies		
Marketable bonds	9,929	9,501
Notes and loans	0	921
Canada bills	5,302	6,744
Subtotal	15,231	17,166
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	450,965	469,659

Financial requirements lower

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements – for the fiscal year as a whole – are lower than the deficit, as they also include the non-budgetary transactions. The latter includes transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in the April 1996 to June 1996 period resulted in a net requirement for funds amounting to \$1.4 billion, compared to a net requirement of \$1.8 billion recorded in the corresponding period of 1995-96.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$6.7 billion in 1996-97, down \$4.1 billion from that recorded in 1995-96.

The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. It fulfills this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

In the first three months of 1996-97 foreign exchange transactions provided a net source of funds amounting to \$0.8 billion, compared to a net requirement of funds amounting to \$0.6 billion in the comparable period last year.

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As a result, total financial requirements, including foreign exchange transactions, were \$5.8 billion in 1996-97, down \$5.5 billion from the net requirement in 1995-96.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. In the first three months of 1996-97, the government reduced its borrowings from the private sector (unmatured debt transactions) by \$0.4 billion, compared to new borrowings of \$11.8 billion over the same period in 1995-96.

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.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	April to March 1995-96	April to June 1996-97
	(millions of dollars)					
Gross GST collected	29,564	30,516	32,652	36,715	36,600	8,041
<i>Less:</i>						
Refunds and rebates	11,330	12,138	14,271	17,112	18,458	4,463
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,842	722
Net GST	15,168	14,868	15,696	16,787	15,299	2,855
GST penalties and interest received	19	71	90	129		
Gains from wind-up of interest in Crown Corporations/disposal of shares in Crown corporations	2	110			500	
Gifts to the Crown	0.4	0.1	0.2	0.5	0.2	
Proceeds to the DSRA	15,190	15,050	15,786	16,916	15,799	2,855

Figures for 1991-92, 1992-93, 1993-94 and 1994-95 are from the *Public Accounts of Canada*.

