

# The Fiscal Monitor

A Publication of the Department of Finance

## Financial results for February 1997

### Deficit declines \$1.8 billion in February 1997

The deficit in February 1997 was estimated at \$0.5 billion, down \$1.8 billion from February 1996. The year-over-year improvement primarily reflected higher budgetary revenue (up \$1.4 billion) and lower program spending (down \$0.3 billion) and public debt charges (down \$0.1 billion).

Most of the increase in budgetary revenues reflected the timing of receipts and one-time factors.

- Personal income tax collections were up \$0.7 billion, primarily due to the timing of receipts between February 1997 and March 1997.
- Goods and services tax collections were up \$0.2 billion, as refunds are lagging behind the growth in gross collections. The increase in other excise taxes and duties (\$0.1 billion) was attributable to the reclassification of the air transport tax, effective April 1996, to budgetary revenues from an offset to program spending. This change has no effect on the deficit as it raises revenues and spending by an equivalent amount.
- Employment insurance (EI) premiums were up (\$0.3 billion), largely due to the impact of changes to the base on which premiums are levied.

The decline in program spending was spread throughout most major components, primarily reflecting the impact of the 1994 and 1995 budget

measures. Defence spending was up somewhat, reflecting the timing of payments.

The decline in public debt charges was attributable to the impact of lower interest rates.

### Deficit for April 1996 to February 1997 down by \$15.5 billion

Over the April 1996 to February 1997 period, the deficit, at \$7.8 billion, was \$15.5 billion lower than in the same period in 1995-96.

Budgetary revenues were up \$9.0 billion or 7.7 per cent, on a year-over-year basis. However, about \$5 billion of the \$9 billion increase in budgetary revenues was attributable to one-time factors, with the result that the underlying year-over-year increase in revenues is about 3.5 per cent. This increase is in line with the 1996 increase in nominal income of 2.8 per cent.

- Personal income tax collections were up 6.1 per cent or \$3.5 billion. Half of this increase relates to taxes paid on filing, net of refunds, and quarterly installment payments. Taxes paid on filing in 1996-97 pertain to developments affecting the 1995 taxation year. The sharp increase in quarterly installment payments was largely due to more taxpayers being required to make tax installment payments on income not subject to withholding. In previous years, such tax liabilities would be remitted at the time of final tax filing. As such, the higher installment payments represent a one-time acceleration of taxes from 1997-98 into 1996-97. In contrast, deductions from employment income were up only about 2 per cent, in line with the growth in wages and salaries during 1996.



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- Corporate income tax collections were up 11.0 per cent, or \$1.3 billion. However, most of this increase reflects timing factors relating to the monthly remittance procedures for corporations. Corporations are required to file monthly installments based on either last year's tax liability or their current year's estimated tax liability. Corporations have 60 days after their year end to file their tax return, with any amounts outstanding. As most large corporations' taxation year corresponds to the calendar year, over 25 per cent of corporate income tax collections are received in the month of March. Although corporate tax liabilities for the year as a whole are expected to be about the same as in 1995, installment payments during the year were significantly higher than during 1995-96, thereby suggesting a lower March 1997 settlement period.
  - Employment insurance premiums were up 5.4 per cent, or \$0.9 billion. This increase was attributable to changes to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings, effective January 1, 1997. This results in a one-time increase in receipts in the final quarter of 1996-97. This change does not affect the amount paid by employees and employers for the calendar year as a whole. Those employees earnings up to the annual maximum insurable earnings are not affected, while those earning above the maximum will pay more of their premium liability earlier in the calendar year and less at the end.
  - Goods and services tax collections were up 4.9 per cent, or \$0.7 billion. Over half of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in 1996. In addition, refunds are lagging behind the growth in gross collections, which could adversely affect net collections in months to come.
  - The increase in sales and excise taxes (up 16.2 per cent, or \$1.0 billion) was largely attributable to a classification change related to the air transport tax. Prior to April 1996, receipts from this tax were netted against costs of running the airports and included as part of program spending. With the sale of the Air Navigation System, these receipts are now part of sales and excise taxes. Since this reclassification affects both revenues and program spending, the deficit is unaffected.
  - Non-tax revenues were up 23.5 per cent, or \$1.3 billion. All of this increase is more than accounted for by the proceeds from the sale of the Air Navigation System and the inclusion of the second tranche of seignorage gains related to the introduction of the \$2 coin (the first tranche was included in March 1996).
- Program spending declined by \$4.8 billion or 5.0 per cent. The decline in program spending primarily reflected the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Major transfers to persons were down \$0.3 billion, or 1.1 per cent. All of this decline was attributable to lower employment insurance benefits, primarily due to the impact of reform measures. Elderly benefit payments were up 2.7 per cent.
  - In the February 1995 budget, the government announced a major restructuring of its transfers to the provinces, through the introduction of the Canada Health and Social Transfer (CHST). This block-funded transfer replaced the Canada Assistance Plan and Established Programs Financing programs. In order to give provinces time to plan for these changes, total entitlements, including both tax points and cash transfers – the most appropriate measure of federal support – were not affected in 1995-96. As a result, total entitlements under the CHST, equalization, and other transfers to provinces and territories increased by 1.3 per cent in 1995-96. These entitlements,

however, were reduced by 7.7 per cent in 1996-97. This is smaller than the reduction in cash transfers, which are down 16.1 per cent, or \$4.0 billion to the end of February 1997, compared to the same period last year. The larger reduction in cash transfers is because the value of the tax point transfer – which makes up a large part of the entitlement – grows in line with the growth in the applicable tax basis. The tax point transfer involves the transfer of federal “tax room” to the provinces, and allows the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being the residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer.

- Excluding major transfers to persons and other levels of government, all other spending declined by \$0.4 billion, or 1.0 per cent. Adjusting these results to remove the impact of the April 1996 reclassification of the air transport tax to budgetary revenues results in a decline of 2.6 per cent. This component includes subsidy and transfer payments, payments to Crown corporations, and the operating and capital costs of departments, including defence. Unlike the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of program spending declined by 10 per cent in 1995-96, reflecting the major reductions

announced in the 1994 and 1995 budgets.

With the major reductions to this component of spending coming earlier in the process, the rate of decline moderates in 1996-97.

Public debt charges were down \$1.7 billion, or 4.0 per cent. Fiscal restraint by the federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Financial requirements, excluding foreign exchange transactions, provided the government with a net source of funds of about \$1 billion to the end of February 1997. This was attributable to the improvement in the deficit and a somewhat higher net source of funds from non-budgetary transactions. Exchange fund transactions resulted in a net requirement of \$5.5 billion, with the result that total financial requirements amounted to \$4.5 billion, down \$12.2 billion from the same period in 1995-96. This was financed through unmatured debt transactions of \$0.8 billion and a drawing down of cash balances (\$3.7 billion).

The February 1997 budget stated that the deficit for 1996-97 would be no higher than \$19 billion, down \$5.3 billion from the original deficit target of \$24.3 billion. The financial results to the end of February 1997 confirm that the final outcome will be below \$19 billion. Still to come are the financial results for March 1997 and the end-of-year accounting period adjustments. Audited deficit results for 1996-97 will be available in the fall of 1997 with the release of the *Annual Financial Report*.

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Table 1

## Summary statement of financial transactions<sup>1</sup>

	February		April to February	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	10,509	11,906	115,925	124,889
Program spending	-9,134	-8,820	-96,542	-91,764
Operating balance	1,375	3,086	19,383	33,125
Public debt charges	-3,686	-3,571	-42,664	-40,952
Deficit	-2,311	-485	-23,281	-7,827
<b>Non-budgetary transactions</b>	2,222	3,252	8,119	8,800
<b>Financial requirements (excluding foreign exchange transactions)</b>	-89	2,767	-15,162	973
<b>Foreign exchange transactions</b>	948	-472	-1,556	-5,466
<b>Financial requirements</b>	859	2,295	-16,718	-4,493
<b>Unmatured debt transactions</b>	1,602	496	20,362	815
<b>Change in cash balances</b>	2,461	2,791	3,644	-3,676

Note: Data compiled by the Receiver General of Canada.

<sup>1</sup> (+) indicates a source of funds, while (-) indicates a requirement for funds.

Table 2

## Detailed statement of budgetary transactions – Revenues

	February		April to February	
	1996	1997	1995-96	1996-97
	(in millions of dollars)			
<b>Income taxes</b>				
Personal income tax	4,561	5,257	56,773	60,226
Corporate income tax	1,566	1,778	11,689	12,971
Other income tax revenue	148	246	1,779	2,275
Total income tax	6,275	7,281	70,241	75,472
<b>Employment insurance contributions</b>	1,468	1,791	17,014	17,934
<b>Excise taxes and duties</b>				
Goods and services tax	1,453	1,609	14,197	14,893
Customs import duties	192	204	2,528	2,299
Sales and excise taxes	571	676	6,394	7,432
Total excise taxes/duties	2,216	2,489	23,119	24,624
<b>Total tax revenues</b>	9,959	11,561	110,374	118,030
<b>Non-tax revenues</b>	550	345	5,551	6,859
<b>Total budgetary revenues</b>	10,509	11,906	115,925	124,889

Table 3

**Detailed statement of budgetary transactions – Expenditures**

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
<b>Transfer payments to:</b>				
Persons				
Elderly benefits	1,774	1,819	19,242	19,754
Employment insurance benefits	1,363	1,133	12,037	11,176
Total	3,137	2,952	31,279	30,930
Other levels of government				
Canada Health and Social Transfer	1,336	1,267	17,545	13,860
Fiscal transfers	835	788	9,164	8,872
Alternative Payments for Standing Programs	-163	-166	-1,793	-1,845
Total	2,008	1,889	24,916	20,887
Other				
Agricultural subsidies	106	136	545	814
Indian and Inuit programs	210	210	3,126	3,207
Regional development	103	58	520	426
Science and technology	148	141	1,113	963
International assistance	242	192	1,505	1,451
Veterans pensions and allowances	113	114	1,271	1,250
Other	491	654	4,699	4,540
Total	1,413	1,505	12,779	12,649
Total transfers	6,558	6,346	68,974	64,468
<b>Payments to Crown corporations</b>	429	314	4,167	3,709
<b>Operating and capital expenditures</b>				
Defence	749	782	8,491	8,024
All other departmental expenditures	1,398	1,378	14,910	15,563
Total	2,147	2,160	23,401	23,587
<b>Total program expenditures</b>	9,134	8,820	96,542	91,764
<b>Public debt charges</b>	3,686	3,571	42,664	40,952
<b>Total budgetary expenditures</b>	12,820	12,391	139,206	132,716

Table 4

**Non-budgetary transactions**

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
<b>Loans, investments and advances</b>				
Crown corporations	148	23	3,556	878
Other	-70	-5	-257	-411
Total	78	18	3,299	467
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	633	509	-181	-350
Superannuation accounts	-236	-232	5,835	6,181
Other	94	143	296	441
Total	491	420	5,950	6,272
<b>Other transactions</b>	1,653	2,814	-1,130	2,061
<b>Total non-budgetary transactions</b>	2,222	3,252	8,119	8,800

Table 5

## Foreign exchange and unmatured debt transactions

	February		April to February	
	1996	1997	1995-96	1996-97
(in millions of dollars)				
<b>Foreign exchange transactions</b>				
Net international reserves	948	-472	-1,556	-5,466
<b>Unmatured debt transactions</b>				
Marketable bonds	-1,449	3,600	28,207	34,403
Canada Savings Bonds	-309	-405	309	2,335
Treasury bills	2,800	-2,750	-4,050	-37,700
Other	479	-84	-4,010	1,820
Subtotal	1,521	361	20,456	858
<i>Less:</i>				
Government's holding of unmatured debt	81	135	-94	-43
<b>Total unmatured debt transactions</b>	1,602	496	20,362	815

Note: Unmatured debt payable in foreign currencies is now included as part of unmatured debt transactions and not foreign exchange transactions. This is consistent with the *Annual Financial Report* for 1995-96.

Table 6

## Cash, unmatured debt and debt balances

	at end of February	
	1996	1997
(in millions of dollars)		
<b>Cash balances at end of period</b>		
In Canadian dollars	5,298	4,862
In foreign currencies	241	5
Total cash balance	5,539	4,867
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	252,062	284,425
Canada Savings Bonds	31,696	33,763
Treasury bills	160,400	128,400
Other	3,479	3,469
Subtotal	447,637	450,057
<i>Less:</i>		
Government's holdings of unmatured debt	1,088	1,076
Total	446,549	448,981
Payable in foreign currencies		
Marketable bonds	9,698	12,257
Notes and loans	0	2,099
Canada bills	5,045	7,026
Subtotal	14,743	21,382
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
<b>Total unmatured debt</b>	461,292	470,363

Note: Numbers in this newsletter may not add due to rounding.

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