

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for January 1998

### Budgetary deficit of \$1.7 billion in January 1998

There was a budgetary deficit of \$1.7 billion in January 1998, compared to a deficit of \$1.4 billion in January 1997. About one-third of the deficit in January 1998 was attributable to delays in the receipt of tax revenues, due to the ice storm in eastern Canada and the fact that the remittance day for monthly goods and services tax (GST) filers – January 31 – fell on a Saturday. These revenues will be included in the February 1998 results. On a year-over-year basis, budgetary revenues were down \$0.6 billion (5.6 per cent) in January 1998. Program spending declined by \$0.5 billion (5.9 per cent), primarily reflecting the ongoing impacts of the restraint measures and a growing economy. Public debt charges were up \$0.2 billion (4.5 per cent), reflecting accrual adjustments relating to previous months.

The year-over-year decline in budgetary revenues was attributable to lower employment insurance premium revenues (down \$0.6 billion) and GST receipts (down \$0.5 billion). The decline in employment insurance premium revenues was attributable to a number of factors: 1) the impact of the change in remittance requirements; 2) the reduction in premium rates from \$2.90 per \$100 of insurable earnings (for employees) to \$2.70; and 3) transfer to personal income tax collections due to overpayments for taxation year 1996. Timing considerations account for the decline in GST receipts. In contrast, corporate income tax collections were up 14.2 per cent, while personal income tax collections were 3.3 per cent higher.

The decline in program spending reflected lower expenditures related to employment insurance benefits, transfers to other levels of government, subsidies and other transfers, and payments to Crown corporations. 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 January 1998 of \$3.3 billion

Over the first 10 months of the 1997-98 fiscal year, there was a surplus of \$3.3 billion, representing an improvement of \$10.7 billion from the deficit of \$7.3 billion reported for the first 10 months of 1996-97. This turnaround was attributable to the impact of the increasing strength in the economy on budgetary revenues and the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending. Budgetary revenues were up \$6.2 billion (5.5 per cent), program spending declined \$3.4 billion (4.1 per cent), while public debt charges were \$1.0 billion lower (2.7 per cent).

### Financial surplus of \$14.3 billion in April 1997 to January 1998 period

With a budgetary surplus of \$3.3 billion and a net source of funds from non-budgetary transactions of \$5.1 billion, there was a financial surplus, excluding foreign exchange transactions, of \$8.4 billion, an improvement of \$10.2 billion from the same period in 1996-97. There was also a net source of funds amounting to \$6.0 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$14.3 billion, an improvement of \$21.1 billion from the same period last year. Cash balances were slightly lower over the first 10 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 \$14.8 billion retirement of market debt.

### Balanced budget for 1997-98

Based on the financial results for the first 10 months of 1997-98, coupled with expected developments over the balance of the fiscal year, and incorporating the impact of the measures announced in the budget, the budget will be balanced in 1997-98.



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Table 1  
**Summary statement of transactions**

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	11,153	10,532	112,983	119,205
Program spending	-8,982	-8,448	-82,943	-79,513
Operating surplus	2,171	2,084	30,040	39,692
Public debt charges	-3,586	-3,746	-37,381	-36,376
Deficit/surplus	-1,415	-1,662	-7,341	3,316
<b>Non-budgetary transactions</b>	2,555	3,116	5,549	5,052
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,140	1,454	-1,792	8,368
<b>Foreign exchange transactions</b>	-2,788	-1,868	-4,994	5,972
<b>Total financial requirements/surplus</b>	-1,648	-414	-6,786	14,340
<b>Unmatured debt transactions</b>	-1,431	-1,658	319	-14,513

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

## **Budgetary revenues up in April 1997 to January 1998 period**

Over the April 1997 to January 1998 period, budgetary revenues were up \$6.2 billion, or 5.5 per cent, compared to the same period a year ago. All of this increase is attributable to the strength in the economy, as timing factors in January 1998 served to depress revenues in that month.

- Personal income tax collections were up \$4.2 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.
- Corporate income tax collections were up \$2.9 billion, reflecting the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were down \$1.2 billion. This decline reflects a number of factors including the change in remittance procedures. 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. As a result, employment insurance premium revenues were significantly lower in the second half of 1997, thereby adversely affecting fiscal year 1997-98 results to date. The January 1998 results were also adversely affected by this change as about half of the revenues in the month related to December 1997 collections. 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. Finally, there were net transfers of about \$0.6 billion during the first 10 months of 1997-98 to personal income tax collections relating to overpayments for the 1996 taxation year.

- Good and services tax collections were up \$1.2 billion, largely attributable to the strength in consumer demand. However, collections in January 1998 were depressed due to timing factors associated with the ice storm in eastern Canada and the fact the monthly remittance date (January 31)

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Table 2

## Budgetary revenues

	January		April to January		Per cent change (%)
	1997	1998	1996-97	1997-98	
(millions of dollars)					
<b>Income taxes</b>					
Personal income tax	5,257	5,432	54,970	59,149	7.6
Corporate income tax	1,334	1,523	11,193	14,100	26.0
Other income tax revenue	301	400	2,029	1,993	-1.8
<b>Total income tax</b>	<b>6,892</b>	<b>7,355</b>	<b>68,192</b>	<b>75,242</b>	<b>10.3</b>
<b>Employment insurance premium revenues</b>	<b>2,038</b>	<b>1,433</b>	<b>16,143</b>	<b>15,298</b>	<b>-5.2</b>
<b>Excise taxes and duties</b>					
Goods and services tax	924	465	13,284	14,441	8.7
Customs import duties	221	205	2,095	2,102	0.3
Sales and excise taxes	795	705	6,757	7,107	5.2
<b>Total excise taxes and duties</b>	<b>1,940</b>	<b>1,375</b>	<b>22,136</b>	<b>23,650</b>	<b>6.8</b>
<b>Total tax revenues</b>	<b>10,870</b>	<b>10,163</b>	<b>106,471</b>	<b>114,190</b>	<b>7.2</b>
<b>Non-tax revenues</b>	<b>283</b>	<b>369</b>	<b>6,512</b>	<b>5,015</b>	<b>-23.0</b>
<b>Total budgetary revenues</b>	<b>11,153</b>	<b>10,532</b>	<b>112,983</b>	<b>119,205</b>	<b>5.5</b>

for the receipt of collections fell on a Saturday. As a result, a large part of the January collections were received in February and will be included in that month's results.

- Customs import duties were relatively unchanged, as the strong growth in imports witnessed in 1997 offset the impact of the tariff reductions. Other excise taxes and duties were up \$0.4 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$1.5 billion. All 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 January 1998 period

Program spending declined \$3.4 billion, or 4.1 per cent in the first 10 months of 1997-98, compared to the same period last year, with all major components, except 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.

- Major transfers to persons declined \$0.3 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 \$2.6 billion, primarily reflecting lower cash transfers under the CHST. 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 the provinces, allowing them 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,

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Table 3

## Budgetary expenditures

	January		April to January		Per cent change
	1997	1998	1996-97	1997-98	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,798	1,863	17,935	18,437	2.8
Employment insurance benefits	1,446	1,178	10,042	9,225	-8.1
<b>Total</b>	<b>3,244</b>	<b>3,041</b>	<b>27,977</b>	<b>27,662</b>	<b>-1.1</b>
Other levels of government					
Canada Health and Social Transfer	1,267	1,006	12,592	10,168	-19.3
Fiscal transfers	717	745	7,806	7,736	-0.9
Alternative Payments for Standing Programs	-166	-180	-1,679	-1,784	6.3
<b>Total</b>	<b>1,818</b>	<b>1,571</b>	<b>18,719</b>	<b>16,120</b>	<b>-13.9</b>
Subsidies and other transfers					
Agriculture	117	136	673	543	-19.3
Foreign Affairs	224	206	1,340	1,259	-6.0
Human Resources Development	201	124	1,382	1,129	-18.3
Indian and Northern Development	237	233	3,037	3,174	4.5
Industry and Regional Development	126	91	1,237	1,340	8.3
Veterans Affairs	119	116	1,136	1,139	0.3
Other	326	379	2,340	2,800	19.7
<b>Total</b>	<b>1,350</b>	<b>1,285</b>	<b>11,145</b>	<b>11,384</b>	<b>2.1</b>
<b>Total transfers</b>	<b>6,412</b>	<b>5,897</b>	<b>57,841</b>	<b>55,166</b>	<b>-4.6</b>
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	90	74	797	746	-6.4
Canada Mortgage and Housing Corporation	224	100	1,582	1,403	-11.3
Other	67	73	1,016	903	-11.1
<b>Total</b>	<b>381</b>	<b>247</b>	<b>3,395</b>	<b>3,052</b>	<b>-10.1</b>
<b>Operating and capital expenditures</b>					
Defence	789	758	7,242	7,000	-3.3
All other departmental expenditures	1,400	1,546	14,465	14,295	-1.2
<b>Total</b>	<b>2,189</b>	<b>2,304</b>	<b>21,707</b>	<b>21,295</b>	<b>-1.9</b>
<b>Total program expenditures</b>	<b>8,982</b>	<b>8,448</b>	<b>82,943</b>	<b>79,513</b>	<b>-4.1</b>
<b>Public debt charges</b>	<b>3,586</b>	<b>3,746</b>	<b>37,381</b>	<b>36,376</b>	<b>-2.7</b>
<b>Total budgetary expenditures</b>	<b>12,568</b>	<b>12,194</b>	<b>120,324</b>	<b>115,889</b>	<b>-3.7</b>

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 \$2.4 billion over the first 10 months of 1997-98, compared to the same period last year, of which about \$1.5 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer.

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 \$0.5 billion. This component includes subsidy and

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

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
<b>Deficit(-)/surplus(+)</b>	-1,415	-1,662	-7,341	3,316
<b>Loans, investments and advances</b>				
Crown corporations	-16	239	855	879
Other	16	112	-394	-281
<b>Total</b>	0	351	461	598
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-445	-184	-858	-387
Superannuation accounts	-183	-194	6,413	5,687
Other	93	12	298	-232
<b>Total</b>	-535	-366	5,853	5,068
<b>Other transactions</b>	3,090	3,131	-765	-614
<b>Total non-budgetary transactions</b>	2,555	3,116	5,549	5,052
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	1,140	1,454	-1,792	8,368
<b>Foreign exchange transactions</b>	-2,788	-1,868	-4,994	5,972
<b>Total financial requirements/surplus</b>	-1,648	-414	-6,786	14,340

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

	January		April to January	
	1997	1998	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/surplus</b>	-1,648	-414	-6,786	14,340
<b>Unmatured debt transactions</b>				
Payable in Canadian dollars				
Marketable bonds	2,700	0	28,060	16,888
Canada Savings Bonds	-222	-364	2,740	-2,569
Treasury bills	-4,050	-1,400	-34,950	-28,000
Other	0	0	307	159
<b>Subtotal</b>	-1,572	-1,764	-3,843	-13,522
<i>Less: Government's holdings of unmatured debt</i>	165	101	-178	50
<b>Total</b>	-1,407	-1,663	-4,021	-13,472
Payable in foreign currencies				
Marketable bonds	0	0	2,743	-126
Notes and loans	0	0	0	0
Canada bills	-44	5	-192	-562
Canada notes	20	0	1,789	-353
<b>Total</b>	-24	5	4,340	-1,041
<b>Total unmatured debt transactions</b>	-1,431	-1,658	319	-14,513
<b>Change in cash balance</b>	-3,079	-2,072	-6,467	-173

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Table 6

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

	1997	1998
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	2,042	9,137
In foreign currencies	34	53
Total cash balance	2,076	9,190
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	280,825	299,451
Treasury bills	131,150	107,400
Canada Savings Bonds	34,168	30,923
Other	3,785	3,627
Subtotal	449,928	441,401
Less: Government's holdings of unmatured debt	1,212	1,038
Total	448,716	440,363
Payable in foreign currencies		
Marketable bonds	12,257	12,333
Notes and loans	0	0
Canada bills	6,795	7,874
Canada notes	2,099	1,768
Total	21,151	21,975
<b>Total unmatured debt</b>	<b>469,867</b>	<b>462,338</b>

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 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.

### Public debt charges lower in April 1997 to January 1998 period

Public debt charges were down \$1.0 billion, or 2.7 per cent, on a year-over-year basis. This decline was attributable 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.

