Budget
Chart Book

March 1996

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Budget Highlights

Fiscal Actions

- This budget consolidates and extends the substantial progress made in the last two budgets to resolve the country's debt and deficit problems.

- The fiscal actions in this budget secure further savings in 1998-99 ($1.9 billion gross of which $0.2 billion is reallocated to high-priority initiatives).

- As such, the budget maintains the pace of ongoing deficit reduction into the future.

- Together, the three budgets will contribute $26.1 billion to secure the $17 billion deficit target in 1997-98 and $28.9 billion in 1998-99 to keep the deficit on a downward track.

- Cumulating these savings since 1994-95, net debt in 1998-99 will be $91 billion lower than would otherwise have been the case.

- Spending cuts in the three budgets account for 87 per cent of the cumulative savings.

- There have been no personal income tax rate increases in these budgets.

- Spending by departments – excluding major transfers to persons and provinces – will be almost 22 per cent lower in 1998-99 than in 1994-95.

- A number of spending and tax initiatives in the budget, with modest financial costs financed through reallocations from fiscal savings, are designed to enhance the protection of the most vulnerable in society and to fund critical investments for the future.

- A small number of tax measures are designed to tighten tax preferences and enhance the fairness of the tax system.

Budget Highlights

Results

- These actions secure the deficit of $32.7 billion in 1995-96 and $24.3 billion (3 per cent of GDP) in 1996-97.
- The deficit will fall to 2 per cent of GDP in 1997-98, the lowest level since 1974-75.
- By 1998-99, the level of program spending will have been reduced to $105.5 billion from the peak of $122.6 billion in 1992-93 – a decline of 14 per cent.
- In 1998-99, program spending will have fallen to 12.0 per cent of GDP, the lowest level since 1949-50 and down sharply from 19.6 per cent of GDP in 1984-85.
- The operating surplus – the difference between budgetary revenues and program spending – will improve further to $35 billion in 1997-98, or 4.2 per cent of GDP – the highest level since the late 1940s.
- Financial requirements – a measure of required net new borrowing on credit markets – will decline sharply to $6 billion in 1997-98, or 0.7 per cent of GDP, the lowest level since 1969-70 and the lowest of the G-7 countries.
- The debt-to-GDP ratio will fall by more than 1 percentage point between 1996-97 and 1997-98 to a level of 73.7 per cent.
- With the permanent spending reductions implemented in the 1994, 1995 and 1996 budgets, the deficit and debt-to-GDP ratios will fall further after 1997-98.
- Canada's federal and total government deficits will be the lowest among the G-7 countries.

Budget Highlights

The Economic Assumptions

- Recent economic performance has many promising aspects: private sector job creation continues to be strong, Canada's international competitiveness is excellent, inflation is low and interest rates have come down sharply.

- To ensure that the fiscal targets will be met, the budget uses economic assumptions that are prudent.

  - The economic assumptions are based on the average of private sector forecasts, with prudence factors added to interest rates and allowing the impact of higher rates to flow through to lower assumed output and inflation.

  - While the budget assumption is that the average level of real output in 1996 will be 1.8 per cent higher than the average level for 1995, growth from the end of 1995 to the end of 1996 is expected to be stronger, about 2½ per cent. This momentum is expected to carry through 1997.

Sensitivities of Deficit Results

- Again this year, the budget plan includes a significant contingency reserve to cushion against adverse changes in the economy beyond those already in the prudent economic assumptions.

- In the event that contingency reserves were not needed, the deficit would fall below the targets.

1996 Budget Measures – Getting Government Right

Program Review

- Actions to Get Government Right continue as Program Review is extended with gross savings of $1.9 billion in 1998-99.

- Early implementation of some of the actions underlying savings for 1998-99 will contribute another $368 million in gross savings for 1997-98, on top of the more than $7 billion delivered for that year from last year's Program Review.

- Savings achieved through reductions in lower priority programs and further clarification of the core responsibilities of the federal government through:

  - reform in business subsidies and further privatization and commercialization;

  - changes to the organizational structure of the federal government to deliver services more efficiently;

  - alternative, more flexible and cost-efficient ways of delivering services in some areas – e.g., Parks Canada, food inspection, Canada Revenue Commission.

- Federal departmental spending in 1998-99 will be almost 22 per cent lower than in 1994-95. The largest declines in spending are in departments related to economic development where there had been subsidy programs (the budget in Transport Canada declines by over 69 per cent in four years) – whereas spending in social and Justice and legal departments will be relatively protected, declining on the order of 7 per cent.

Getting Government Right

Program Review *(Cont'd)*

Table 1
Program Review departmental savings from 1996 budget

	1997-98	1998-99
	(millions of dollars)	
Natural Resource-Based Programs	19	204
Agriculture	19	102
Fisheries and Oceans		37
Natural Resources		47
Environment		17
Transport	34	154
Industrial, Regional and Scientific-Technological Support Programs		89
Industry		71
Regional Agencies		19
Justice and Legal Programs		100
Justice		17
Solicitor General		83
Heritage and Cultural Programs		133
Foreign Affairs and International Assistance		183
Foreign Affairs/International Trade		33
International Assistance Envelope		150
Social Programs	115	316
Citizenship and Immigration		22
Health		40
Human Resources Development		74
Indian and Northern Affairs	37	78
Canada Mortgage and Housing Corporation	78	103
Defence/Emergency Preparedness	200	600
Parliament/General Government Services	0	134
Total	368	1,912

Getting Government Right

Program Review *(Cont'd)*

Table 2

Federal departmental spending after Program Review

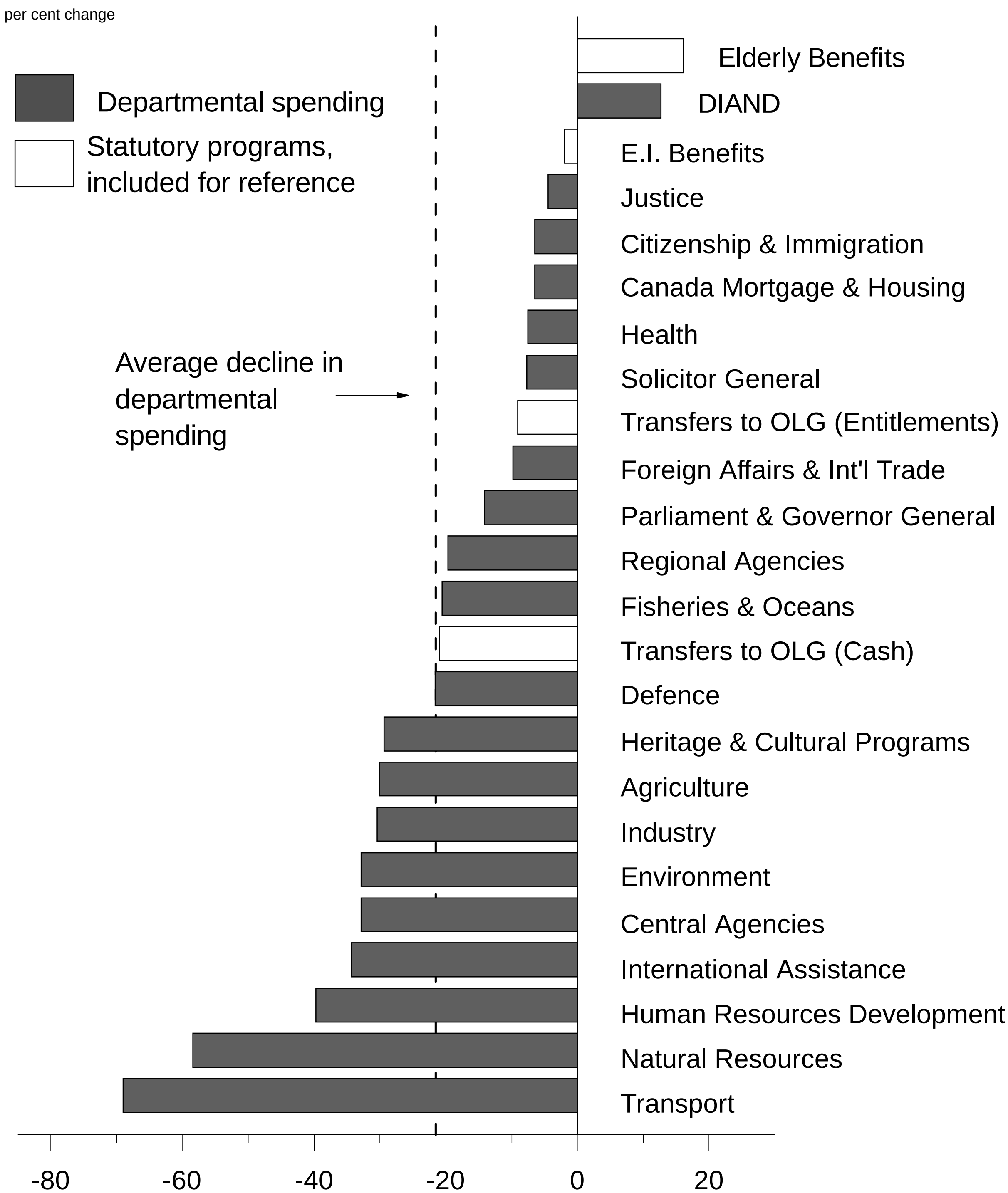
	Spending levels		Change	
	1994-95	1998-99	$ millions	Per cent
	(millions of dollars)			
Natural Resource-Based Programs	5,524	3,464	-1,960	-35.5
Agriculture	2,080	1,455	-625	-30.1
Fisheries and Oceans[1]	1,307	1,037	-269	-20.6
Natural Resources	1,422	592	-830	-58.4
Environment	716	480	-236	-32.9
Transport[1]	2,273	704	-1,569	-69.0
Industrial, Regional and Scientific-Technological Support Programs	3,822	2,760	-1,062	-27.8
Industry	2,940	2,052	-888	-30.2
Regional Agencies	882	708	-174	-19.7
Justice and Legal Programs	3,375	3,140	-236	-7.0
Justice	752	719	-33	-4.5
Solicitor General	2,623	2,421	-202	-7.7
Heritage and Cultural Programs	2,906	2,051	-855	-29.4
Foreign Affairs and International Assistance	4,374	3,232	-1,142	-26.1
Foreign Affairs/International Trade	1,464	1,320	-143	-9.8
International Assistance Envelope	2,910	1,912	-998	-34.3
Social Programs	12,641	11,664	-977	-7.7
Citizenship and Immigration	658	615	-43	-6.5
Health	1,818	1,682	-136	-7.5
Human Resources Development	2,415	1,452	-964	-39.9
Indian and Northern Affairs	3,786	4,268	481	12.7
Canada Mortgage and Housing Corporation	1,988	1,808	-180	-9.0
Veterans' Affairs	1,975	1,840	-136	-6.9
Defence/Emergency Preparedness	11,801	9,252	-2,549	-21.6
Parliament/General Government Services	4,635	3,979	-656	-14.1
Central Agencies	369	248	-122	-32.9
Total	51,720	40,593	-11,127	-21.5

[1] The Canadian Coast Guard (CCG) was part of Transport in 1994-95, and is now part of Fisheries and Oceans. For consistent year-over-year comparisons, we show the CCG in Fisheries and Oceans in 1994-95 and 1998-99.

Getting Government Right

Program Review *(Cont'd)*

Chart 1
Departmental spending
1998-99 relative to 1994-95



Securing the Future of Social Programs

The *Canada Health and Social Transfer* (CHST)

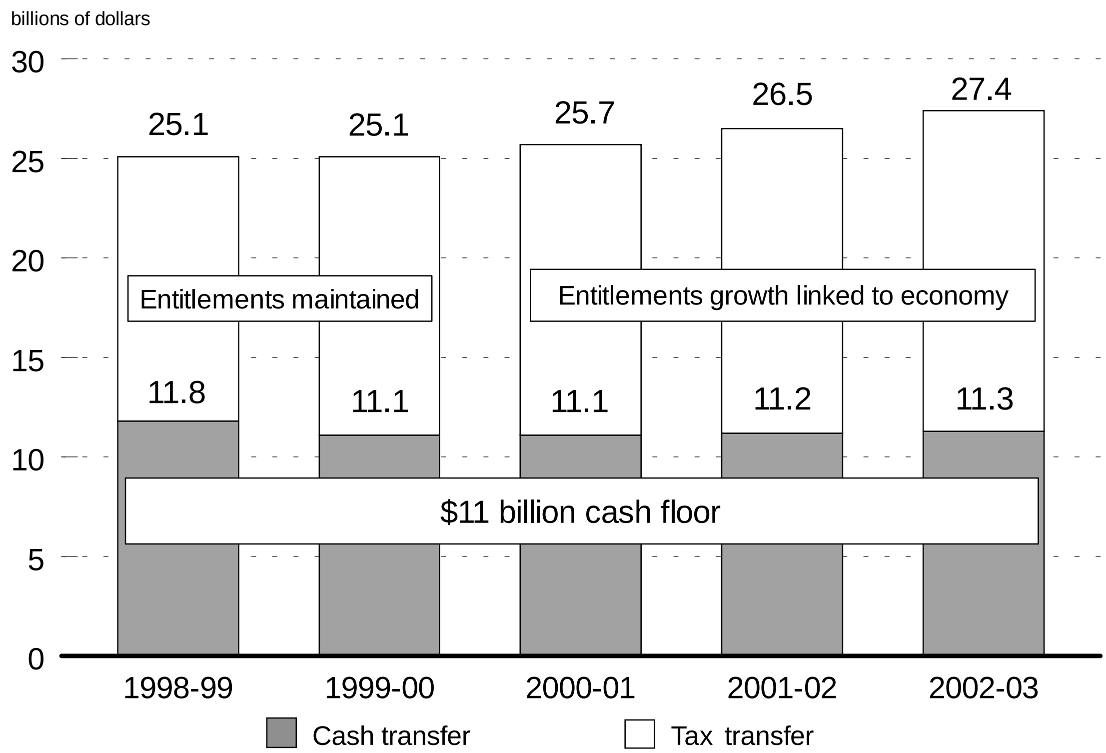
- Secure, stable and growing long-term funding for the CHST that will:
  - guarantee growing support for medicare, post-secondary education and social assistance programs;
  - restore growth to transfers and meet the government's commitment to stabilize the cash component of the CHST;
  - provide greater fairness in how the CHST is allocated among provinces.
- A legislated five-year CHST funding arrangement covering the years 1998-99 to 2002-03:
  - for 1998-99 and 1999-2000, CHST entitlements (tax points plus cash) will be maintained at the 1997-98 level of $25.1 billion;
  - for 2000-01, 2001-02 and 2002-03, entitlements will grow at an increasing pace – GDP growth minus 2 per cent the first year, GDP growth minus 1.5 per cent the second year and GDP growth minus 1 per cent in 2002-03.
- Based on current projections, this growth in entitlements will more than stabilize CHST cash. Cash will not be lower than $11 billion at any time over the five-year arrangement and is projected to rise to $11.3 billion by 2002-03.
- This cash guarantee will be iron clad – a cash floor of $11 billion will be legislated.
- New funding for research through the new Health Services Research Fund.

Securing the Future of Social Programs

Guaranteeing sustainable levels of funding for provincial transfers through the *Canada Health and Social Transfer*

Chart 2

New five-year CHST arrangement: Security and stability



Support For Health and Social Programs:

$130 Billion / Five Years

Securing the Future of Social Programs

Providing greater fairness through the *Canada Health and Social Transfer*

- A new, fairer formula for allocating the CHST will be legislated.

- The new allocation will reflect differences in provincial population growth and will gradually narrow existing funding disparities.

- By 2002-03, the current disparities in per capita entitlements among provinces will be reduced by half.

- A five-year phase-in period gives provinces time to adjust to the new allocation and the certainty required to undertake long-term fiscal planning.

- The new allocation will provide all provinces with more comparable CHST funding to support health and social programs across the country.

- The federal government remains willing to examine with the provinces further refinements to the allocation that may be appropriate beyond 2002-03, and to reflect any changes to federal and provincial roles that could emerge from federal-provincial discussions in the future.

Securing the Future of Social Programs

Providing greater fairness in the allocation of the *Canada Health and Social Transfer* among provinces

Chart 3
Current provincial CHST shares (1995-96)

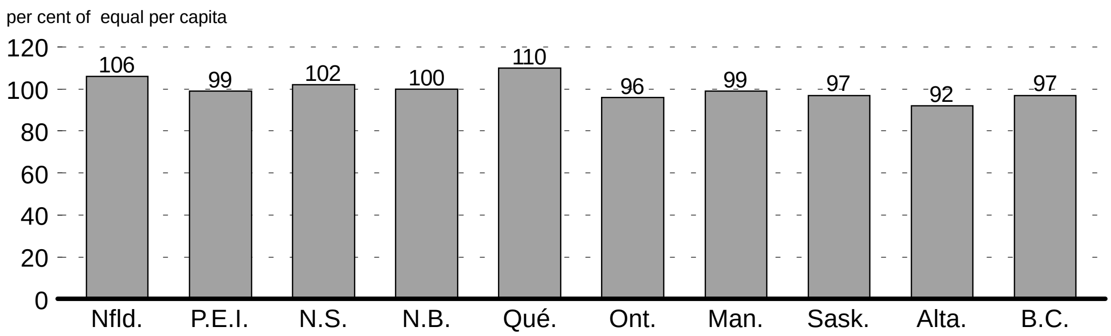
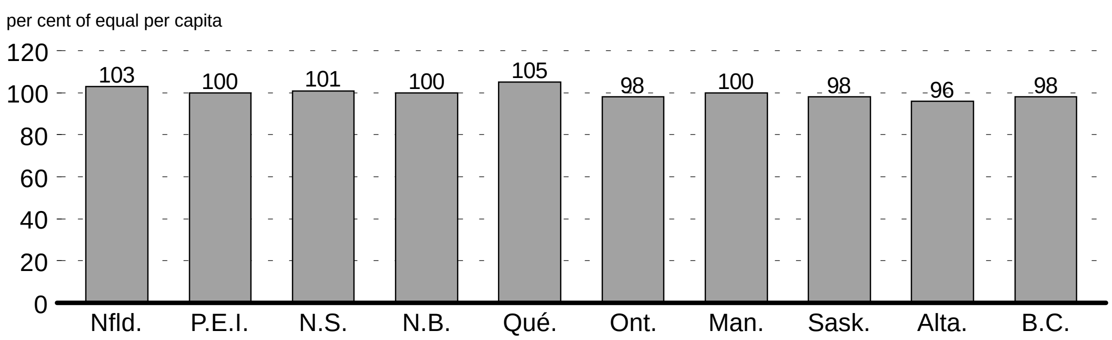


Chart 4
Provincial shares in 2002-03



Securing the Future of Social Programs

Making the Retirement Income System more sustainable

- The budget takes action to ensure that Canada's Old Age Security system (OAS) will be sustainable.
- A new Seniors Benefit will be introduced in 2001.
- The growth in program costs will be contained by reducing benefits for high-income seniors. Costs will be reduced by 6 per cent in 2011 and 11 per cent in 2030.
- The federal, provincial and territorial governments have agreed that steps should be taken now to put the contributory Canada Pension Plan (CPP) on a sound financial footing and to assure young Canadians that the CPP will be there for them when they retire.
- Solutions to the CPP problem to be in place by the end of 1996, following a series of consultations.

Table 3
Projected net federal costs

	1996	2001	2011	2030
	(billions of dollars)			
Current system				
Gross OAS/GIS payments [1]	21.7	26.3	37.6	87.7
Net tax on OAS [2]	-0.9	-1.6	-3.2	-10.4
Net cost	20.8	24.7	34.4	77.3
New system				
Tax-free Seniors Benefits [1]	–	22.0	30.9	69.1
Gross OAS payments (for those who keep OAS)	–	3.9	2.4	*
Net tax on OAS [2]	–	-1.4	-1.0	*
Net cost	–	24.5	32.3	69.1
Net Savings - billions of dollars	–	0.2	2.1	8.2
- % of program costs	–	0.7	5.7	10.7

* Less than $100 million.
1 Includes Spouse's Allowance.
2 In the current system, the net tax on OAS includes the high-income recovery and federal income taxes paid on OAS, minus the tax relief through the age and pension income tax credits. In the new system, it includes only the recovery and income taxes paid, since the age and pension income credits will no longer exist.

Securing the Future of Social Programs

The new *Seniors Benefit* program

- The budget proposes to replace OAS and GIS beginning in 2001 with a new Seniors Benefit that follows the five principles laid out in the 1995 budget.

- It will be completely tax free and will incorporate the existing old age and pension income tax credits.

- The key features of the proposed new Seniors Benefit are:

  - it meets the government's commitment to today's seniors that OAS and GIS payments will not be reduced;

  - the least well off will be protected: GIS will be increased by $120 per year;

  - the benefit levels and thresholds will be fully indexed to annual inflation;

  - benefits will be delivered in a single monthly payment, which for couples will be made in separate and equal payments to each spouse;

  - the amount of the payment will be determined by the combined income of the recipient and his or her spouse, as is the case now with the GIS;

  - the Spouse Allowance Program will remain in place and payments will be increased by $120 per year;

  - a fairer and more targeted system of assistance for seniors.

- The vast majority of seniors will be as well or better off – 75 per cent of single seniors and elderly couples will receive the same or higher benefits. Nine out of 10 single elderly women will be better off.

- The growth in program costs will be contained by providing lower assistance to high-income seniors and no assistance to those with the highest income.

- All Canadians who are recipients of OAS/GIS when the new system begins will have a choice of moving to the Seniors Benefit or keeping their OAS/GIS payments.

Investing in the Future

■ THE BUDGET INCLUDES MEASURES TO:

- enhance the education and employment opportunities of the young;
- foster the development, diffusion and application of technology; and
- promote exports;
- all new measures will be funded through spending and tax reallocations.

■ ENCOURAGING EDUCATION AND SKILLS DEVELOPMENT:

- a 25-per-cent increase in the education tax credit (from $80 to $100 per month) and in the limit of the transfer of tuition fee and education credit (from $4,000 to $5,000 per year) to family members who provide support to students;
- increasing the annual limit on contributions to Registered Education Savings Plans (RESPs) from $1,500 to $2,000 per year;
- allowing the child care expense deduction against any income when single parents are undertaking full-time education or retraining. This measure will also apply to two-parent families when both are full-time students;
- increasing the age limit for the child care expense deduction to assist parents of older children in certain circumstances;
- changes to the Canada Student Loans program to allow extension of repayment terms for student borrowers.

■ PROMOTING YOUTH EMPLOYMENT:

- reallocation of $315 million of budget savings over three years;
- doubling the funds available for student summer placement;
- programs to facilitate transition from school to work.

Investing in the Future

■ ENCOURAGING TECHNOLOGY AND INNOVATION ($270 MILLION REALLOCATED OVER THREE YEARS):

- supporting the creation of Technology Partnerships Canada which will lever private sector investment in high technology products and processes and facilitate their commercialization;
- as part of the government's youth and technology initiatives, about $35 million is being reallocated over three years to expand the School Net program;
- measures to accelerate linking rural communities and small businesses to the information highway;
- to maximize the contribution of the information highway to jobs and growth, policies and reforms will be introduced to facilitate greater reliance on the marketplace;
- $50-million equity injection for the Business Development Bank of Canada to lever up to an additional $350 million to knowledge-based, exporting and growing businesses.

■ REALIZING CANADA'S TRADE POTENTIAL:

- injecting an additional $50 million of equity into the Export Development Corporation;
- reallocating resources from concessional loans to foreign borrowers and using them to finance a higher volume of non-concessional loans.

■ BUSINESS TAX REVIEW TO PROMOTE JOBS AND GROWTH

- A Technical Committee has been appointed that will examine business taxes, including corporate income, capital and payroll taxes, and personal taxes paid on income derived from businesses with the objective of assessing both the level and mix of taxes.
- The assessment will be conducted with the aim of improving the tax system to promote job creation and economic growth, simplifying the tax system with respect to the taxation of business income, and enhancing fairness in the tax system by ensuring that all businesses share the cost of providing government services.
- The report will be released by the end of 1996, followed by public consultations.

Tax Measures

- No federal tax rates are being raised.

- Funds will be reallocated among tax expenditures by tightening some preferences and re-directing the savings to high-priority areas in order to enhance fairness.

- In particular, the government is targeting additional tax assistance to:
  - low-income parents in the work force;
  - students and their supporting parents or spouses;
  - those making charitable donations or supporting infirm dependants.

Tax Measures

Table 4
Summary of tax measures

	1996-97	1997-98	1998-99
		(millions of dollars)	
Revenue-enhancing measures			
Personal income tax			
Changes to RRSPs			
Restrict tax assistance/non-deductibility of fees	–	45	180
Tax world-wide income of non-res. pensioners	10	10	10
LSVCC measures			
Restrict tax assistance	15	60	70
Measures to combat underground economy	25	60	100
Total	50	175	360
Business income tax			
Resource sector			
Repeal JEC rules	–	–	–
Tighten flow-through shares	15	20	20
Temporary tax on banks	25	40	
Overseas employment credit	10	10	10
Total	50	70	30
Total	100	245	390
Reallocation to high-priority areas			
Personal income tax			
Charitable donations	-5	-20	-20
Learning package	-5	-80	-80
Infirm credit	-5	-35	-40
Child support/Working Income Supplement	-10	-105	-180
Total	-25	-240	-320
Business income tax			
CCA for new mines, oil sands	-5	-5	-5
Extension of 60-day flow-through share rule	–	–	–
Broaden investor base for renewable energy	0	-5	-10
Expand flow-through shares to renewable sector	–	–	–
Total	-30	-250	-335
Net Impact of Revenue Actions	70	-5	55

– Less than $5 million.

Recent Canadian Economic Performance

Economic growth in 1995

Chart 5
Growth in real GDP

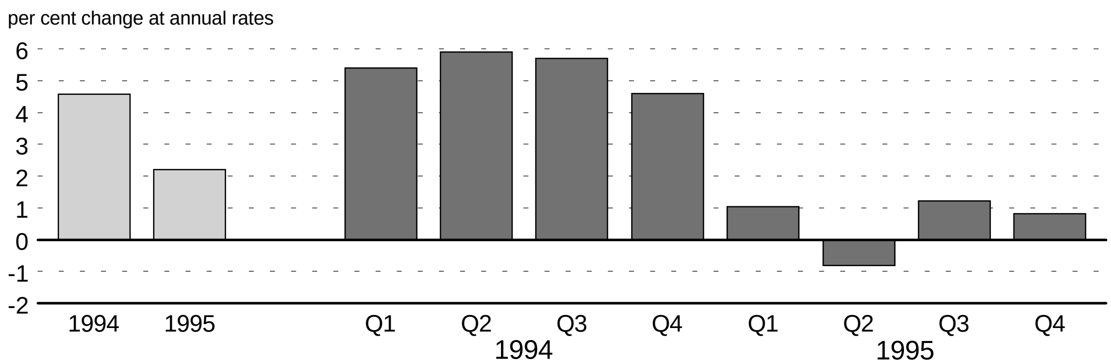
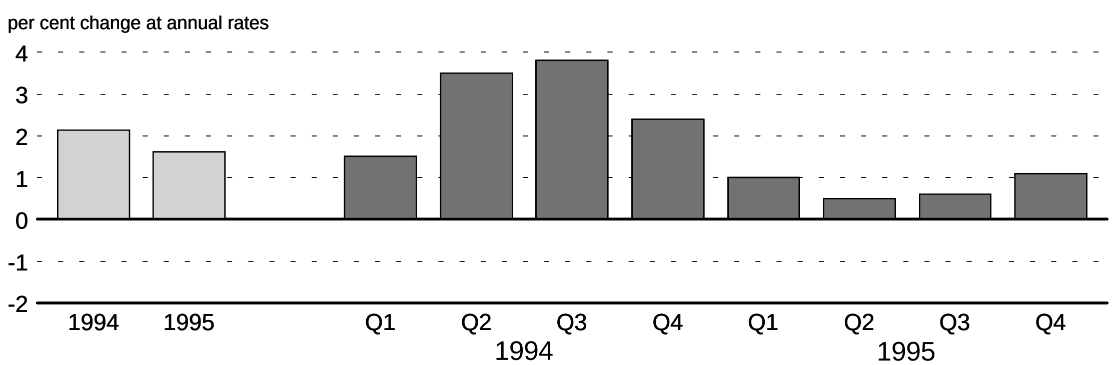


Chart 6
Growth in employment



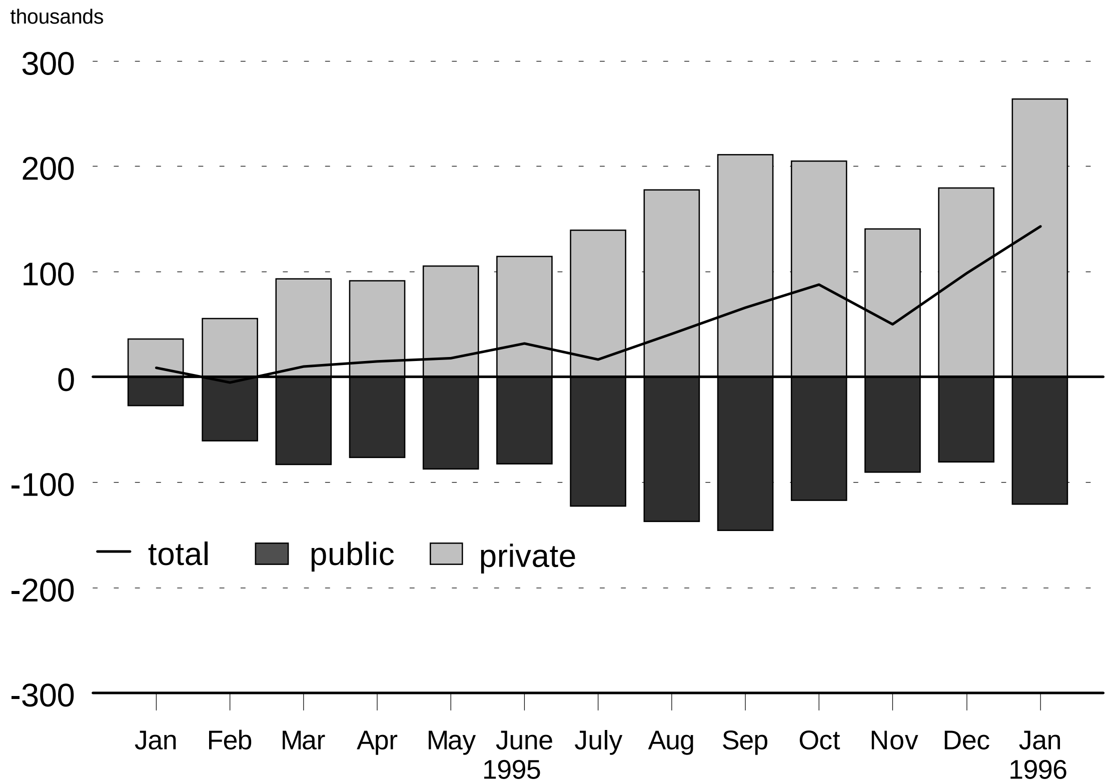
- After rising 4.6 per cent in 1994, **real GDP** rose only 2.2 per cent on average in 1995. **Employment** growth slowed from 2.1 per cent in 1994 to 1.6 per cent in 1995**.**
  - **Export growth** remained the main strength of the economy.
  - High real interest rates and fragile consumer confidence restrained **household spending** in 1995. The housing sector was particularly hard hit.

Recent Canadian Economic Performance

Job growth was concentrated in the private sector

Chart 7

Cumulative employment change since December 1994



- Slow overall **employment growth** in 1995 masked continued strong performance in the private sector.
- **Private sector** employment has risen by 263,000 since the end of 1994, but this has been partly offset by a decline of 120,000 jobs in the **public sector** (i.e., public administration, schools, hospitals, Crown corporations, etc.).

Recent Canadian Economic Performance

Canadian competitiveness continues to be strong

Chart 8

Canada/U.S. relative unit labour costs (total economy)

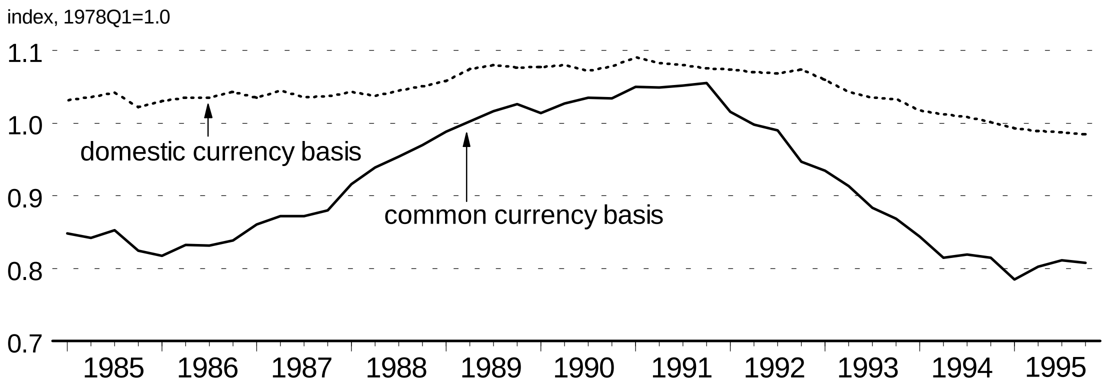
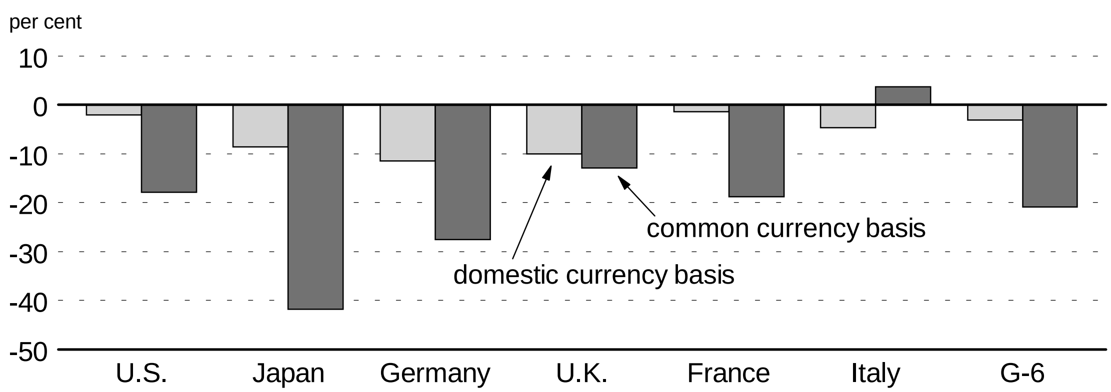


Chart 9

Change in Canada/G-6 relative unit labour costs in manufacturing, 1991-1994



- Restrained wage growth, good productivity performance and the depreciation of the dollar since 1991 have improved Canada's **competitive position** dramatically.

- On a common-currency basis, Canadian **unit labour costs** relative to the U.S. remain near their lowest level in the past 45 years.

- Canada will stay highly competitive as domestic cost pressures remain subdued.

Recent Canadian Economic Performance

Canada's trade performance is very strong

Chart 10

Exports and imports of goods and services as a share of GDP

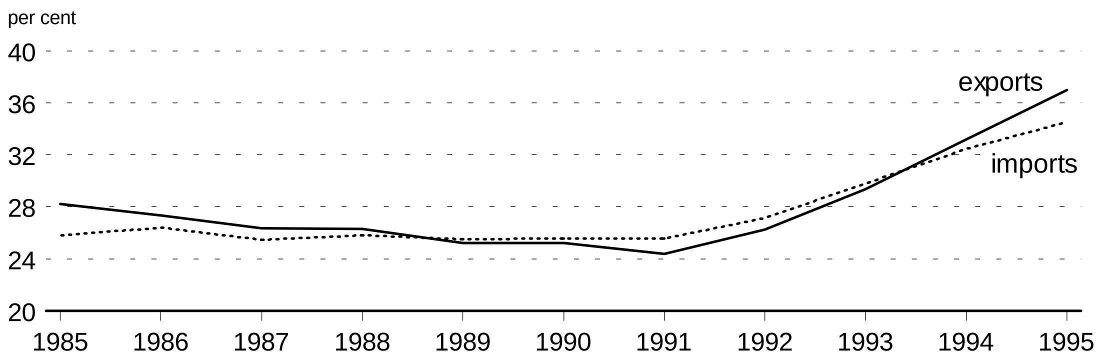
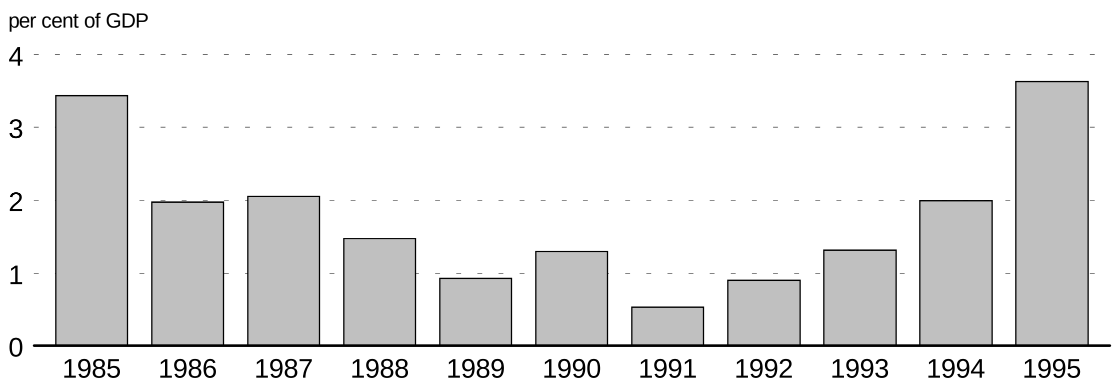


Chart 11

Merchandise trade surplus

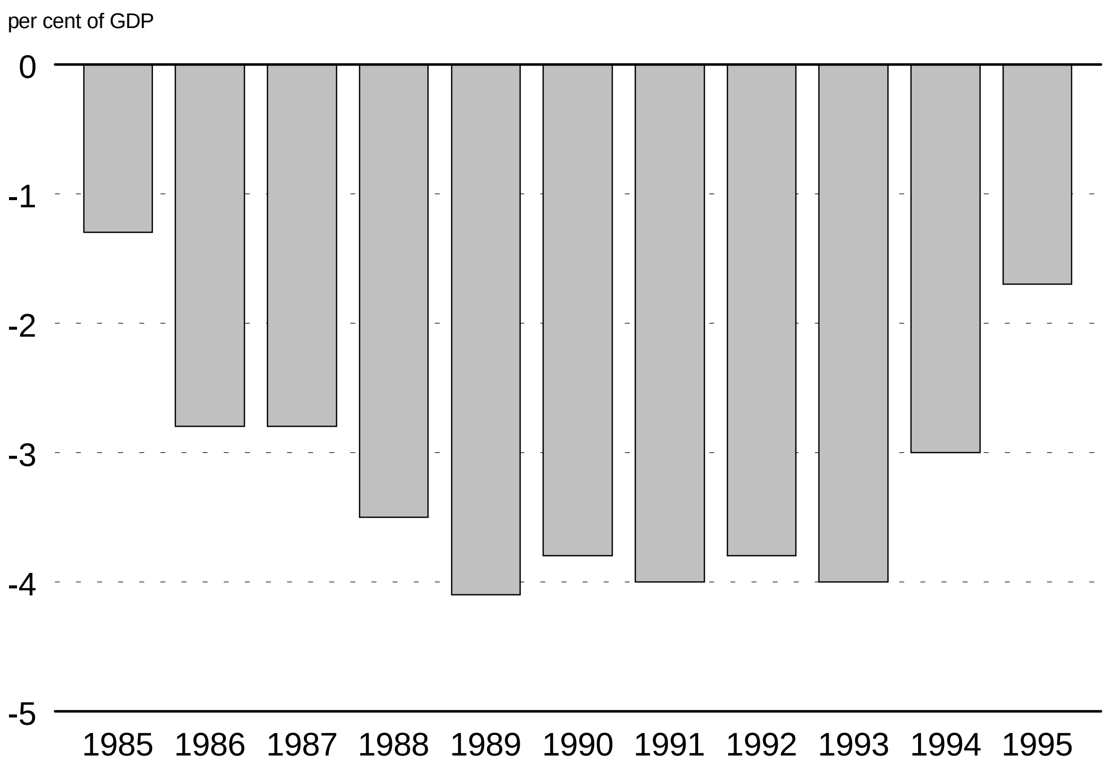


- The share of GDP accounted for by **exports** of goods and services in 1995 was 37 per cent, a record high.
- The **merchandise trade balance** reached a record surplus of $28.3 billion. As a share of GDP, the surplus was the highest since 1984.

Recent Canadian Economic Performance

The current account deficit has narrowed sharply

Chart 12
Current account balance



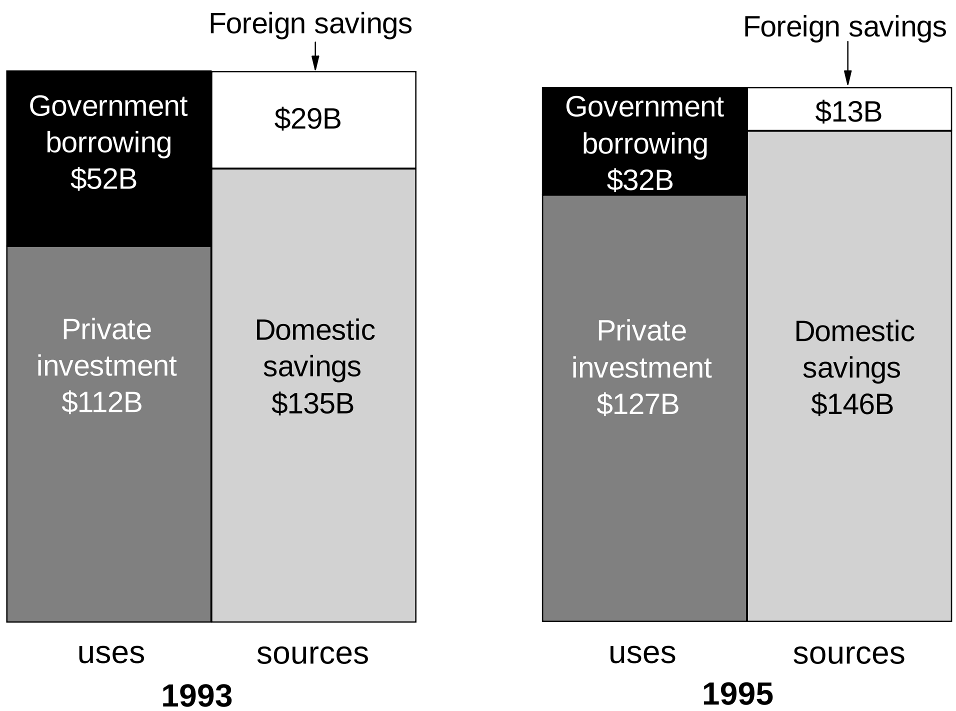
- The record trade surplus in 1995 helped lower the **current account deficit** to 1.7 per cent of GDP, the lowest share in 10 years.

- This improvement was partly offset by the continued deterioration in net investment income payments to foreigners as Canada's foreign debt continued to grow.

Recent Canadian Economic Performance

Canada's reliance on foreign savings has fallen

Chart 13
Sources and uses of savings, 1993 and 1995



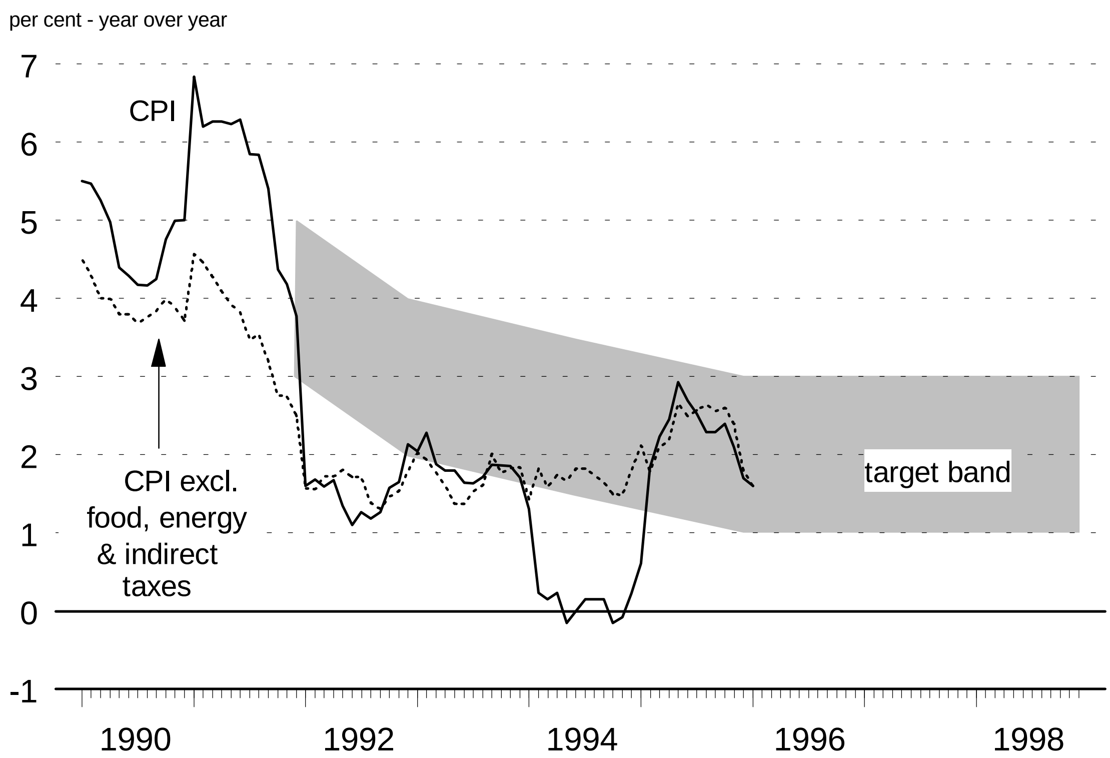
- A key factor underlying the improvement in the current account is fiscal restraint.
- Canada's reliance on **foreign borrowing** will continue to decline dramatically as the combined government sector continues to reduce its borrowing.

Recent Canadian Economic Performance

Canadian inflation is low and will stay low

Chart 14

Consumer Price Index and core inflation



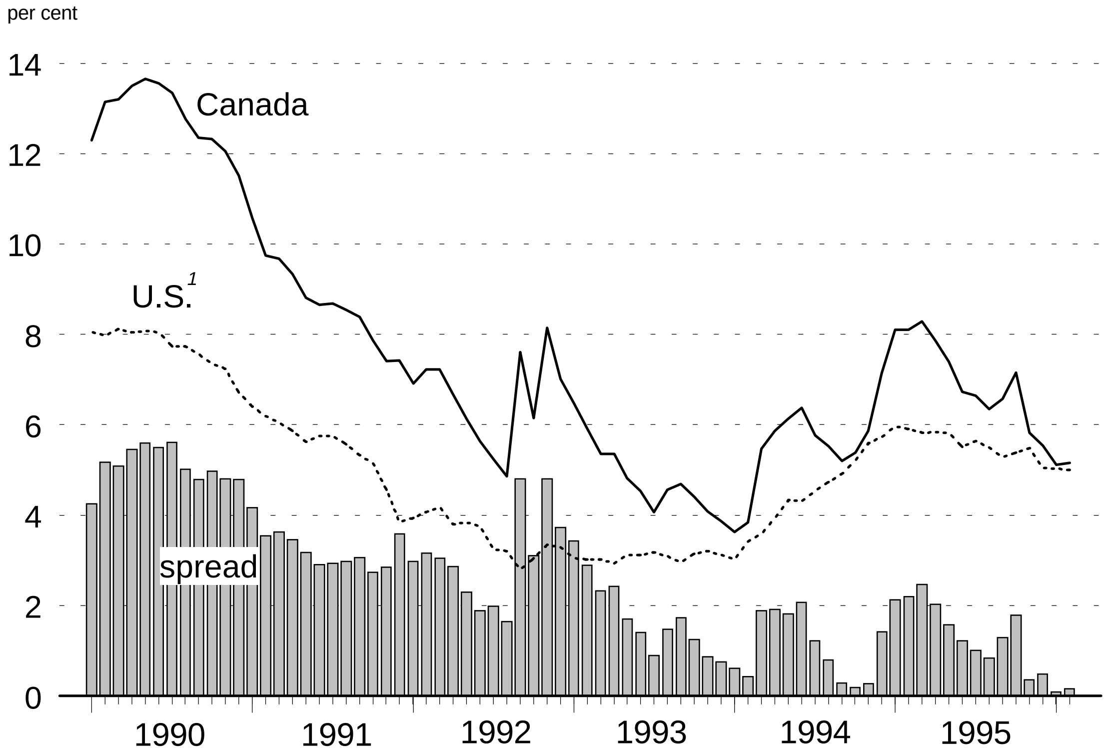
- The government and the Bank of Canada set a target in December 1993 to keep **inflation** between 1 and 3 per cent through the end of 1998.
- As expected, the pick-up in inflation early in 1995 proved temporary and inflation has fallen sharply since mid-1995.
- This excellent inflation performance reflects solid **productivity growth** and the virtual absence of cost pressures.

Recent Canadian Economic Performance

Interest rates have come down sharply

Chart 15

Three-month Treasury bill rates



[1]True yield basis

- Canadian **short-term interest rates** have fallen about 300 basis points from their peak in March 1995 as U.S. rates have declined and Canada-U.S. spreads have narrowed dramatically.

- **Long-term interest rates** have fallen more than 200 basis points from their peak in January 1995, but most of that decline is due to lower U.S. long-term rates.

The Economic Assumptions

Interest rates

Chart 16
Canadian 91-day Treasury bill rate

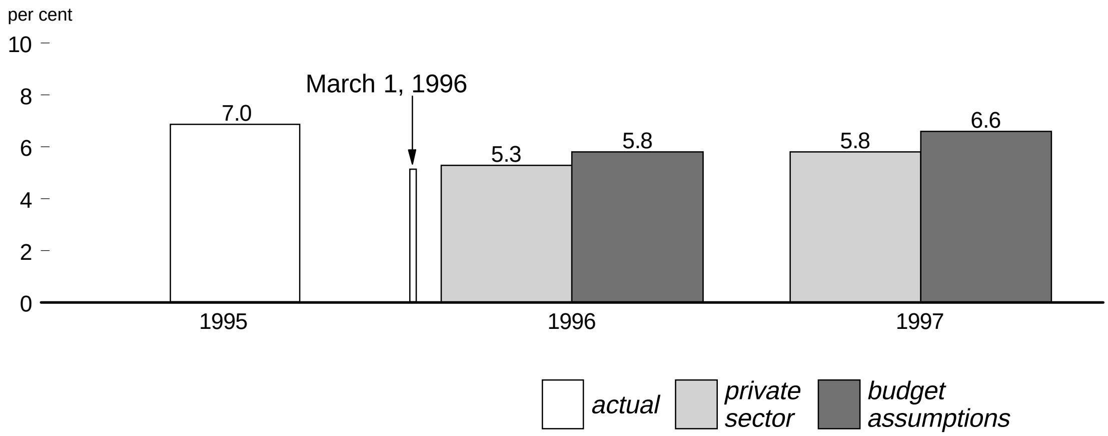
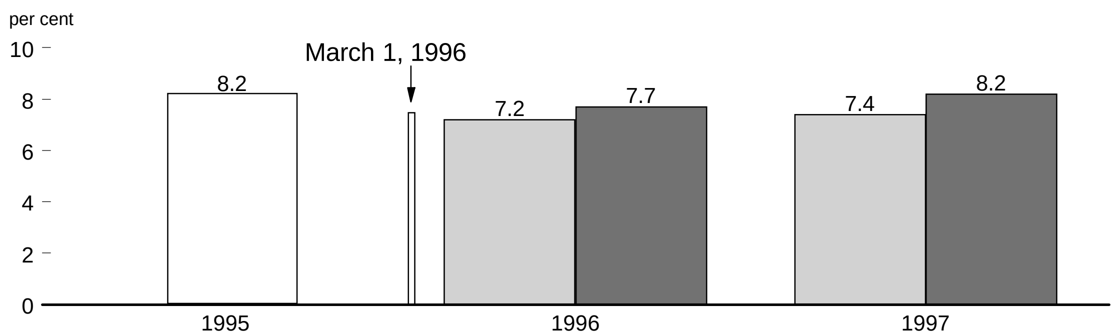


Chart 17
Canadian 10-year government bond rate



- The economic assumptions are based on the average of **private sector forecasts**, with **prudence factors** added to interest rates and allowing the impact of higher rates to flow through to lower assumed output and inflation.
- **Interest rates** for 1996 are set 50 basis points above the private-sector average while those for 1997 are 80 basis points above.
- The use of prudent assumptions does not mean that the government is pessimistic about economic prospects, only that fiscal planning requires prudent assumptions.
- The **sensitivity of the fiscal projections** to changes in the economic outlook is discussed below.

The Economic Assumptions

Economic growth

Chart 18
Canadian real GDP growth

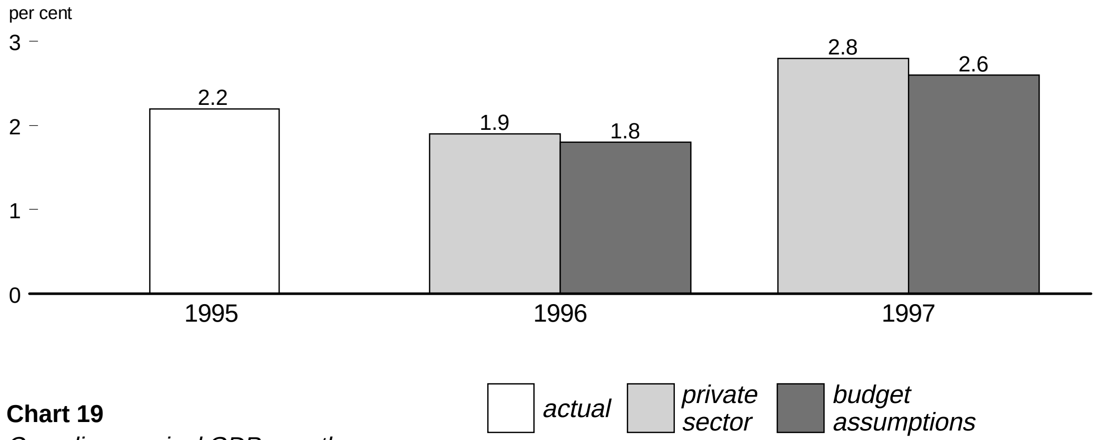
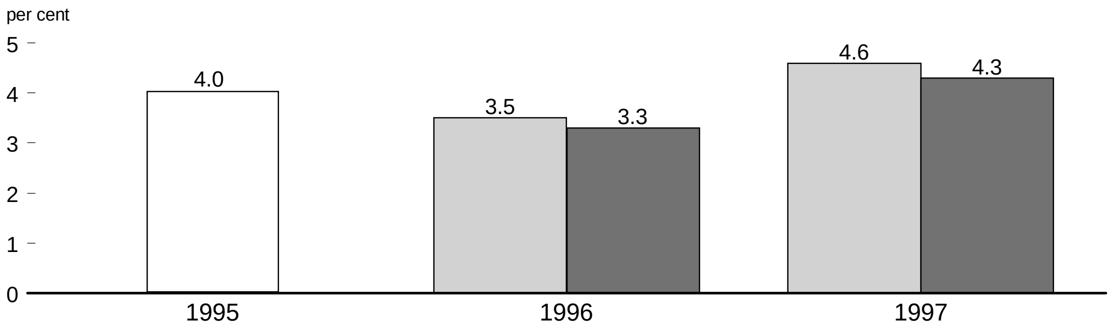


Chart 19
Canadian nominal GDP growth



- Consistent with the prudence factors applied to interest rates, **real growth** is reduced by 0.1 percentage point in 1996 and 0.2 percentage point in 1997 relative to the average private sector forecast. **Nominal growth** is reduced by 0.2 and 0.3 percentage point, respectively.
  - While the budget assumption is that the average level of real output in 1996 will be 1.8 per cent higher than the average level for 1995, growth from the end of 1995 to the end of 1996 is expected to be appreciably stronger, about 2½ per cent.
  - This momentum is expected to carry through 1997, leaving GDP up 2.6 per cent for the year as a whole.

The 1996 Budget Fiscal Outlook

Fiscal savings

Table 5
Summary of fiscal measures

	1996-97	1997-98	1998-99
	(millions of dollars)		
Expenditures			
Program Review savings	56	368	1,912
Reallocation to high priorities	-160	-210	-260
Net expenditure measures	-104	158	1,652
Revenues			
Revenue enhancement	100	245	390
Reallocation to high priorities	-30	-250	-335
Net revenue measures	70	-5	55
Total savings	-34	153	1,707

Positive number indicates contribution to deficit reduction. Numbers may not add due to rounding.

- The budget includes expenditure savings of $368 million in 1997-98 to secure the deficit target of 2 per cent of GDP and to fund new initiatives.
- Expenditure reductions amount to over $1.9 billion in 1998-99 of which $260 million is reallocated to new priorities and $1.7 billion will go to reduce the deficit.
- Revenues from tightening of tax preferences are reallocated to pay for new tax initiatives.

The 1996 Budget Fiscal Outlook

Direct impact of budget measures

Table 6
Direct budget savings

	1994-95	1995-96	1996-97	1997-98	1998-99	Cumulative effect on net debt
			($ billions)			
1994 budget	1.5	8.0	10.9	11.9	12.6	44.9
1995 budget		5.0	10.6	13.3	13.8	42.7
Total	1.5	13.0	21.5	25.2	26.4	87.6
1995 Employment Insurance reform [1]				0.7	0.8	1.5
1996 budget			0.0	0.2	1.7	1.9
Total	1.5	13.0	21.5	26.1	28.9	91.0
of which:						
Expenditures	0.7	10.6	18.9	23.3	25.6	79.1
Revenues	0.8	2.4	2.6	2.8	3.4	12.0

[1] Savings for 1996-97 were included in 1995 budget savings.

Notes: Table shows net savings from deficits that would have otherwise occurred in the absence of direct measures in the budgets. Numbers may not add due to rounding.

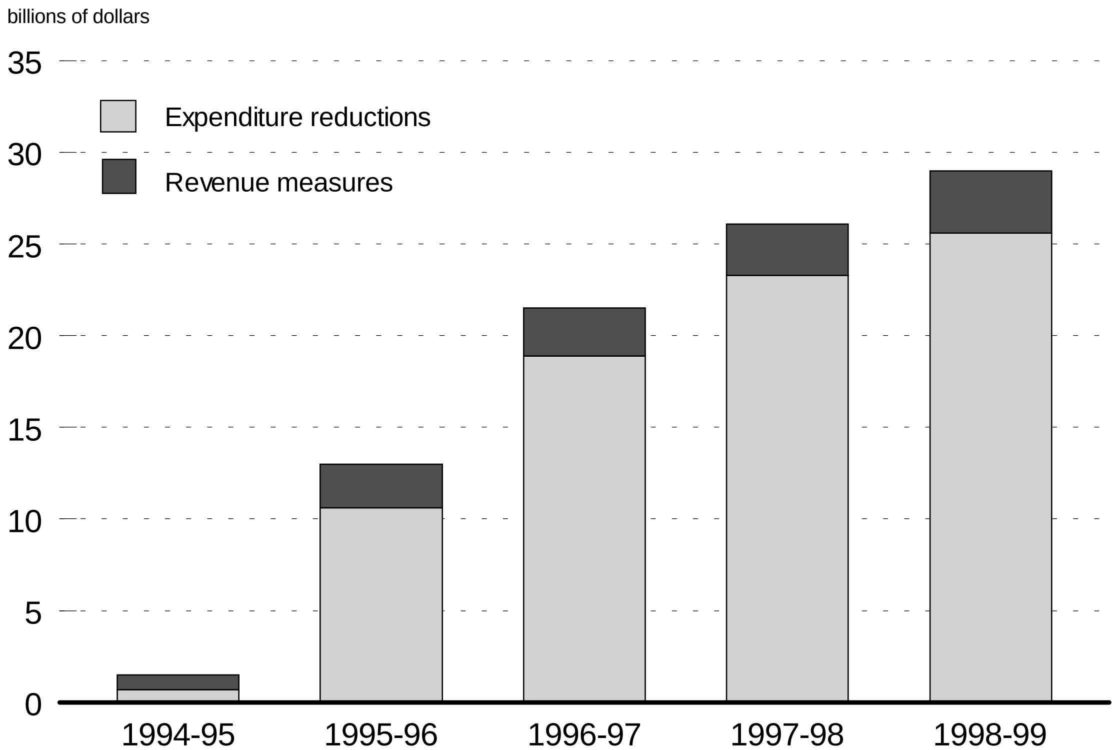
- The 1994 and 1995 budgets contribute $13 billion in savings to achieve the 1995-96 deficit target and $21.5 billion to reach the 3-per-cent interim deficit target for 1996-97.
- Together the three budgets contribute $26.1 billion to secure the $17-billion deficit target for 1997-98, as well as $28.9 billion of savings for 1998-99. This will keep the deficit firmly on a downward track.
- With these savings, net debt in 1998-99 will be $91 billion lower than would have otherwise been the case.

The 1996 Budget Fiscal Outlook

The combined savings from the three budgets

Chart 20

Combined savings from the 1994, 1995 and 1996 budgets



- Fiscal actions in the government's three budgets have been achieved overwhelmingly through cuts in program spending – 87 per cent of the cumulative savings.

- Combined expenditure cuts, from what otherwise would have been the case, total $10.6 billion in 1995-96, rising to $25.6 billion in 1998-99.

- There were no personal tax rate increases in either the 1994 or 1995 budgets, and this budget has no tax rate increases of any kind.

The 1996 Budget Fiscal Outlook

Summary statement of transactions

Table 7

Summary statement of transactions: fiscal outlook with budget measures

	1993-94	1994-95	1995-96	1996-97	1997-98
			(billions of dollars)		
Budgetary transactions					
Budgetary revenues	116.0	123.3	130.6	135.0	141.0
Program spending	-120.0	-118.7	-113.8	-109.0	-106.0
Operating balance	-4.0	4.6	16.8	26.0	35.0
Public debt charges	-38.0	-42.0	-47.0	-47.8	-49.0
Underlying deficit	-42.0	-37.5	-30.2	-21.8	-14.0
Contingency reserve	–	–	-2.5	-2.5	-3.0
Deficit	-42.0	-37.5	-32.7	-24.3	-17.0
Non-budgetary transactions	12.2	11.6	12.7	10.6	11.0
Financial requirements	-29.8	-25.8	-20.0	-13.7	-6.0
Net public debt	508.2	545.7	578.4	602.7	619.7
Gross Domestic Product	712.9	750.1	780.0	806.0	841.0
Per cent of GDP					
Revenues	16.3	16.4	16.7	16.7	16.8
Program spending	-16.8	-15.8	-14.6	-13.5	-12.6
Deficit	-5.9	-5.0	-4.2	-3.0	-2.0
Financial requirements	-4.2	-3.4	-2.6	-1.7	-0.7
Net public debt	71.3	72.8	74.2	74.8	73.7

(-) indicates a net requirement for funds.
(+) indicates a source of funds.

Numbers may not add up due to rounding.

The 1996 Budget Fiscal Outlook

The revenue outlook

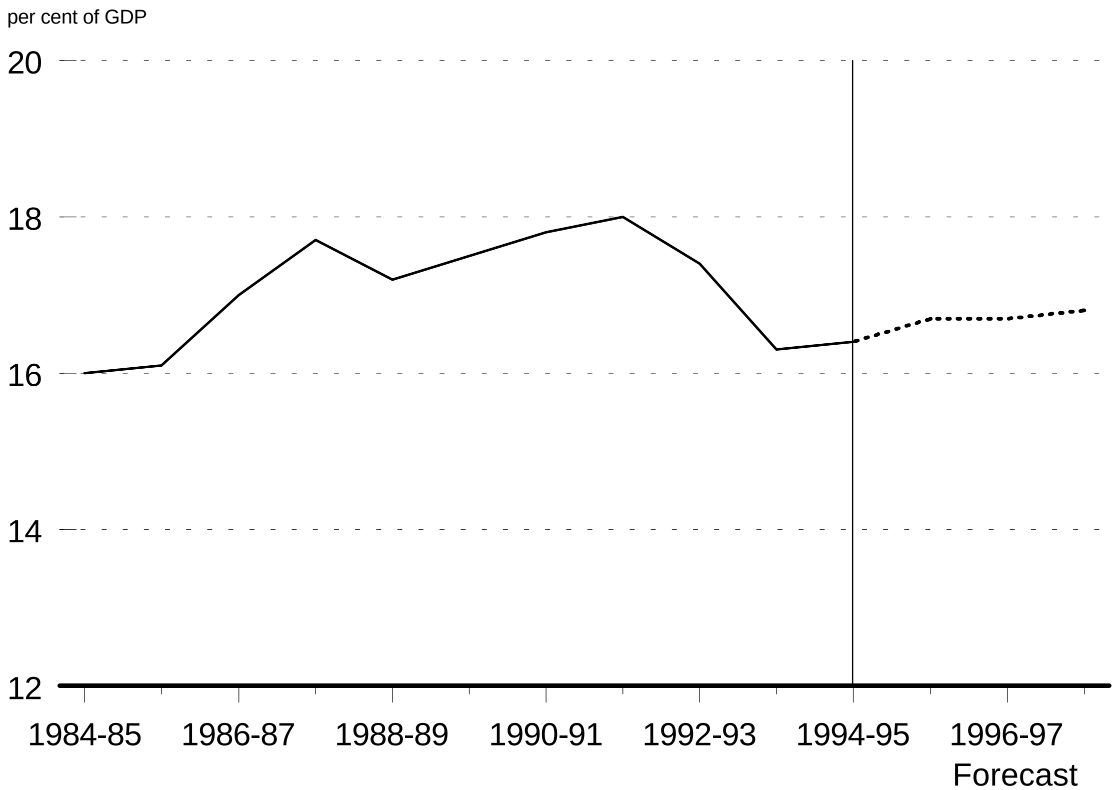
Table 8
The revenue outlook

	1993-94	1994-95	1995-96	1996-97	1997-98
	(billions of dollars)				
Personal income tax	51.4	56.3	60.5	63.5	67.2
Corporate income tax	9.4	11.6	14.4	15.1	16.0
Employment insurance contributions	18.2	18.9	18.5	18.8	19.5
Excise taxes and duties					
Goods and Services Tax	15.7	16.8	17.2	17.9	18.7
Customs import duties	3.7	3.6	3.0	2.8	2.5
Other excise taxes	7.3	6.7	7.3	7.6	7.7
Other tax revenues	1.6	1.8	1.9	1.9	2.0
Total Tax revenues	107.3	115.7	122.8	127.6	133.6
Non-tax revenues	8.7	7.6	7.8	7.4	7.4
Total budgetary revenues	116.0	123.3	130.6	135.0	141.0
Per cent of GDP	16.3	16.4	16.7	16.7	16.8

The 1996 Budget Fiscal Outlook

The revenue yield stabilizes at about 16.7 per cent

Chart 21
Budgetary revenues



- The revenue-to-GDP ratio is expected to recover somewhat as the economy improves.
- However, the revenue yield is expected to remain below the pre-1990-1991 recession highs.

The 1996 Budget Fiscal Outlook

The program spending outlook

Table 9
The outlook for program spending

	1994-95	1995-96	1996-97	1997-98	1998-99
			(billions of dollars)		
Major transfers to persons					
Elderly benefits	20.5	21.2	21.9	22.8	23.8
Unemployment insurance benefits	14.8	13.5	13.8	14.2	14.5
Total	35.3	34.7	35.7	37.0	38.3
Major transfers to other levels of governments [1]					
EPF/CAP – CHST	18.8	18.5	15.0	12.5	11.8
Equalization	8.5	8.7	8.8	9.2	9.6
Transfers to territories	1.2	1.2	1.1	1.1	1.1
Other fiscal transfers	0.0	0.1	0.0	0.0	0.0
Alternative payments for Standing Programs	-1.8	-1.9	-2.0	-2.1	-2.2
Total	26.7	26.6	23.0	20.6	20.2
Subsidies and other transfers					
Business	3.7	2.9	2.0	1.6	1.5
Indians and Inuit	3.7	4.0	4.3	4.3	4.4
International assistance	2.9	2.2	2.2	2.1	1.9
Science and technology	1.0	0.9	0.9	0.8	0.8
Canada Infrastructure Work Program	0.4	0.9	0.5	0.1	0.0
Other	8.3	6.6	5.7	5.1	4.6
Total	20.0	17.6	15.5	14.0	13.3
Crown Corporations	5.0	4.4	4.2	3.9	3.8
Defence	10.7	10.3	9.8	9.1	8.5
All other departmental spending	21.0	20.1	20.8	21.4	21.4
Program spending	118.7	113.8	109.0	106.0	105.5

[1] Through to 1995-96 includes Established Programs Financing (EPF) and Canada Assistance Plan (CAP). Beginning in 1996-97, refers to the Canada Health and Social Transfer.

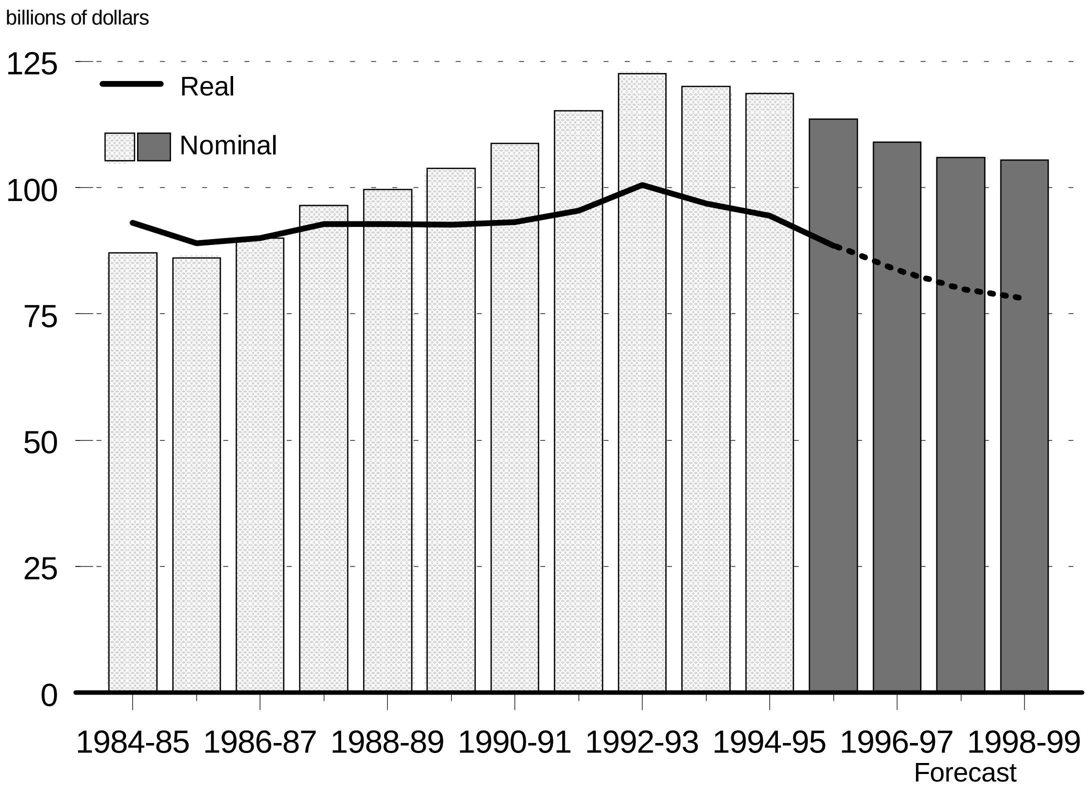
Total entitlements under EPF/CAP and CHST are as follows:	29.4	29.7	26.9	25.1	25.1
Major transfers to other levels of government (CHST, Equalization and transfers to the Territories:					
Total Entitlements	38.3	38.8	36.0	34.4	34.8
Cash	28.5	28.4	24.9	22.8	22.5

The 1996 Budget Fiscal Outlook

Program spending falls to a lower level in real terms than in 1984-85

Chart 22

Federal program spending: nominal and real



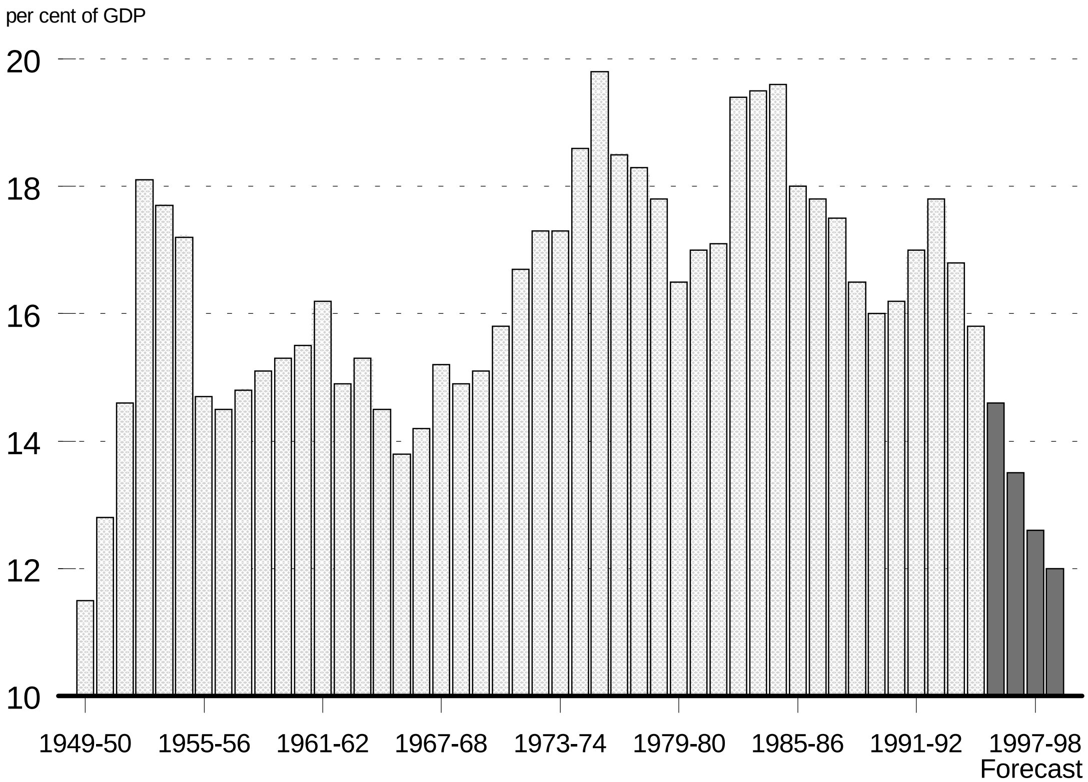
- Program spending will have declined in absolute terms for six consecutive years – from $122.6 billion in 1992-93 to $105.5 billion in 1998-99, a decline of $17.1 billion or 14 per cent.

- The decline in program spending is even more pronounced in real terms (i.e. after adjusting for inflation), falling by 22 per cent over the same period.

The 1996 Budget Fiscal Outlook

Program spending falls to the lowest share of GDP since 1949-50

Chart 23
Federal program spending

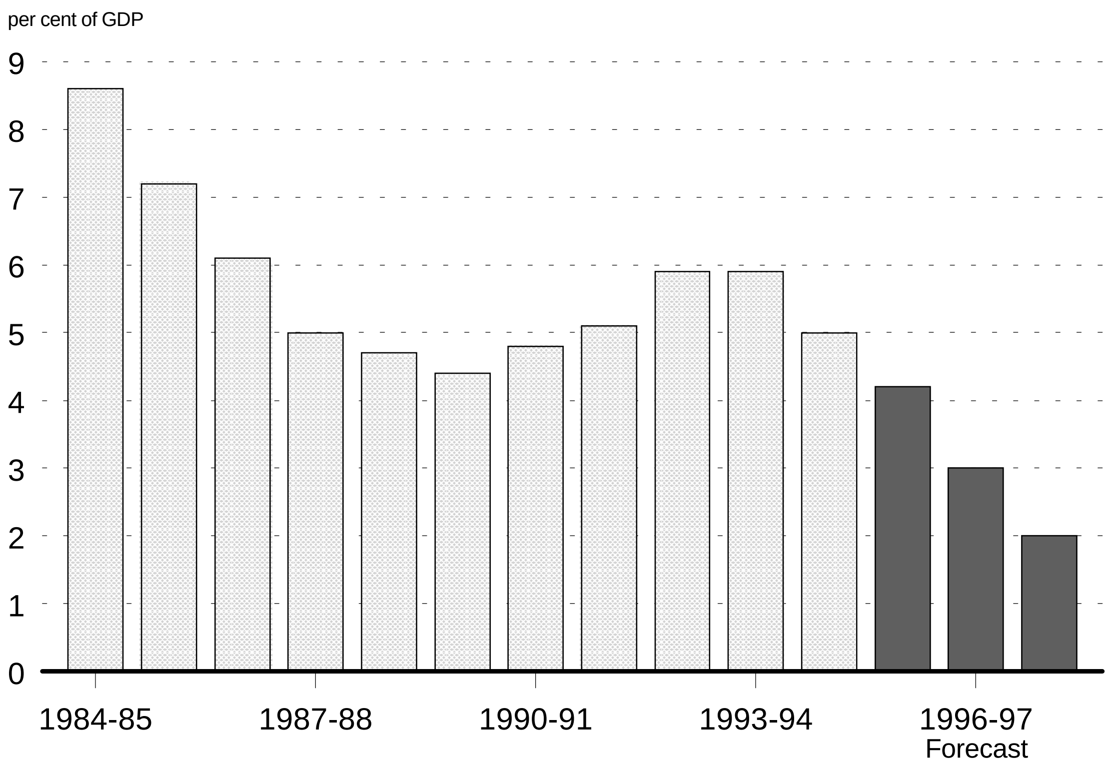


- At 12.0 per cent of GDP in 1998-99, program spending will be at its lowest level since 1949-50.

The 1996 Budget Fiscal Outlook

The lowest deficit-to-GDP ratio in over 20 years

Chart 24
Federal deficit



- The federal deficit will fall to 2 per cent of GDP by 1997-98 – two thirds less than in 1993-94.

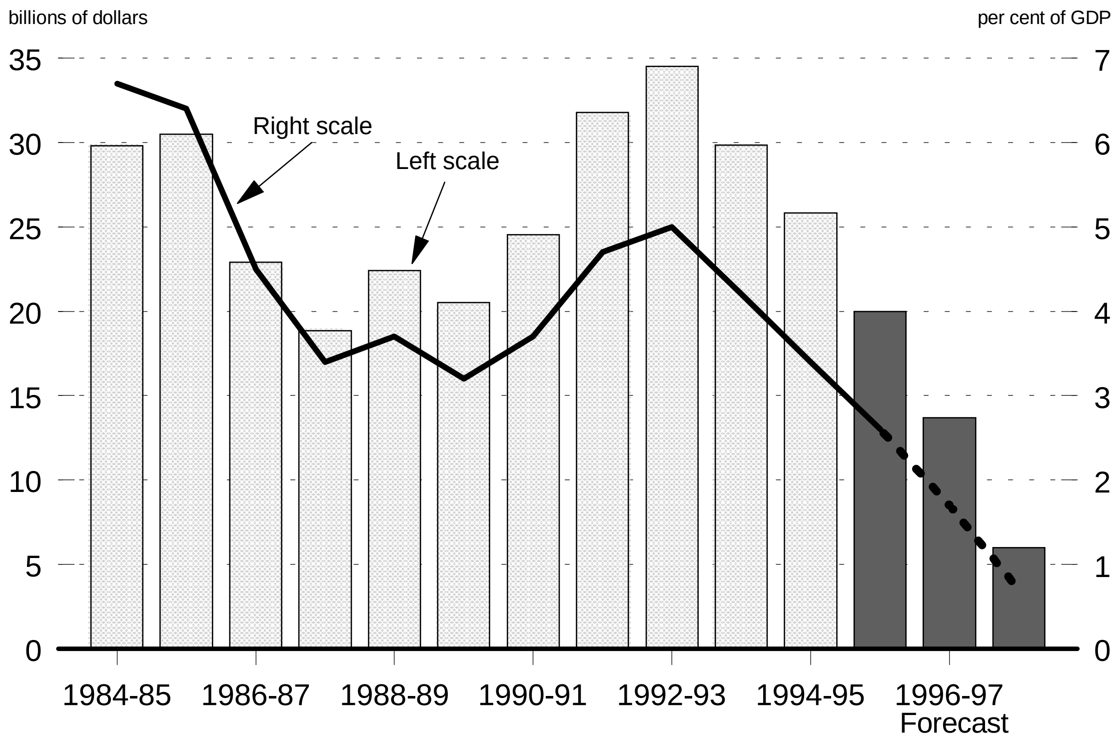
- This will be the lowest deficit level relative to GDP since the mid-1970s.

The 1996 Budget Fiscal Outlook

Lowest federal financial requirements since 1969-70

Chart 25

Federal financial requirements

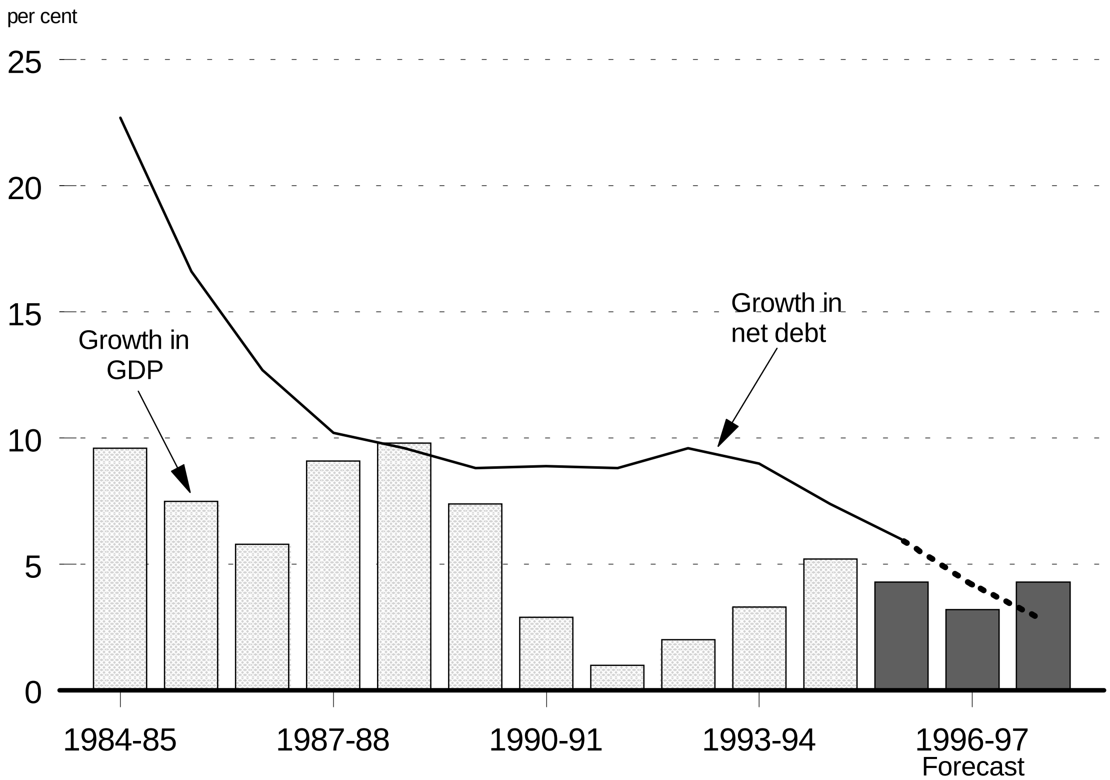


- Federal financial requirements will decline sharply to $6.0 billion in 1997-98 – the lowest level in 20 years.
- This represents 0.7 per cent of GDP, the lowest level since 1969-70.

The 1996 Budget Fiscal Outlook

Growth in the debt will steadily decline

Chart 26
Growth in federal net debt and nominal GDP

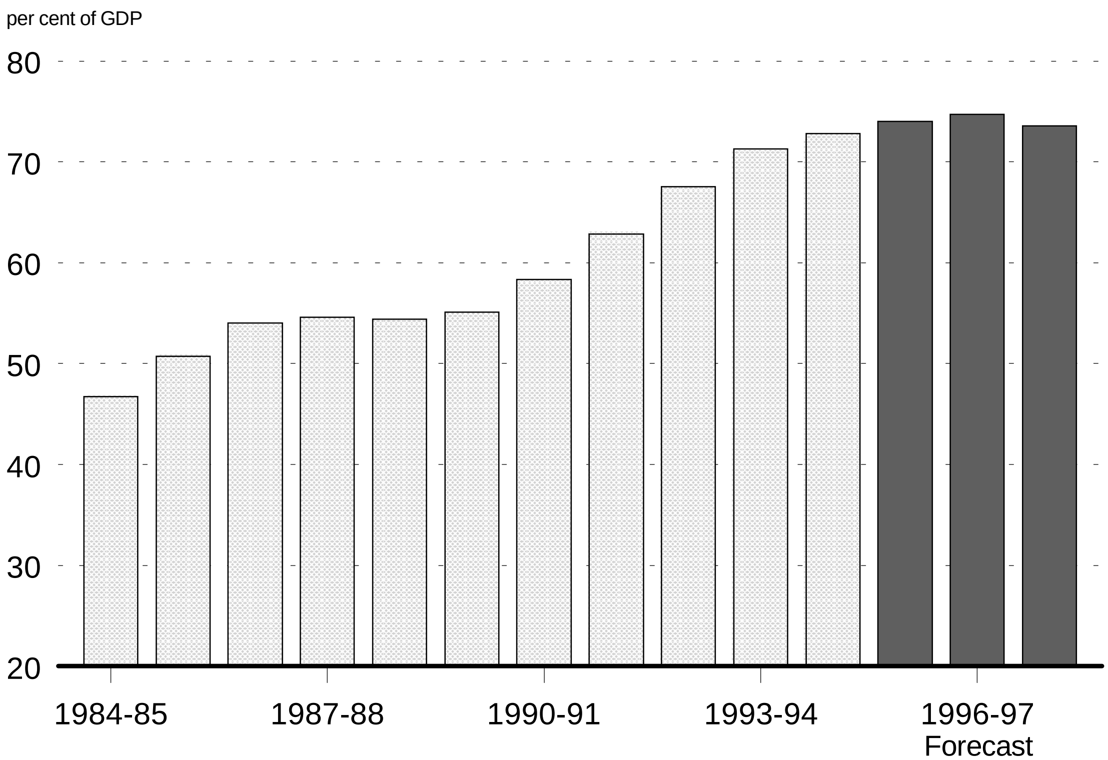


- Since 1975-76, growth in the federal debt has exceeded growth in Canadian incomes, as measured by GDP.
- Getting the federal deficit down to its target of 2 per cent of GDP in 1997-98 will result in debt growing less rapidly than the economy.

The 1996 Budget Fiscal Outlook

And the debt-to-GDP ratio declines

Chart 27
Federal net debt

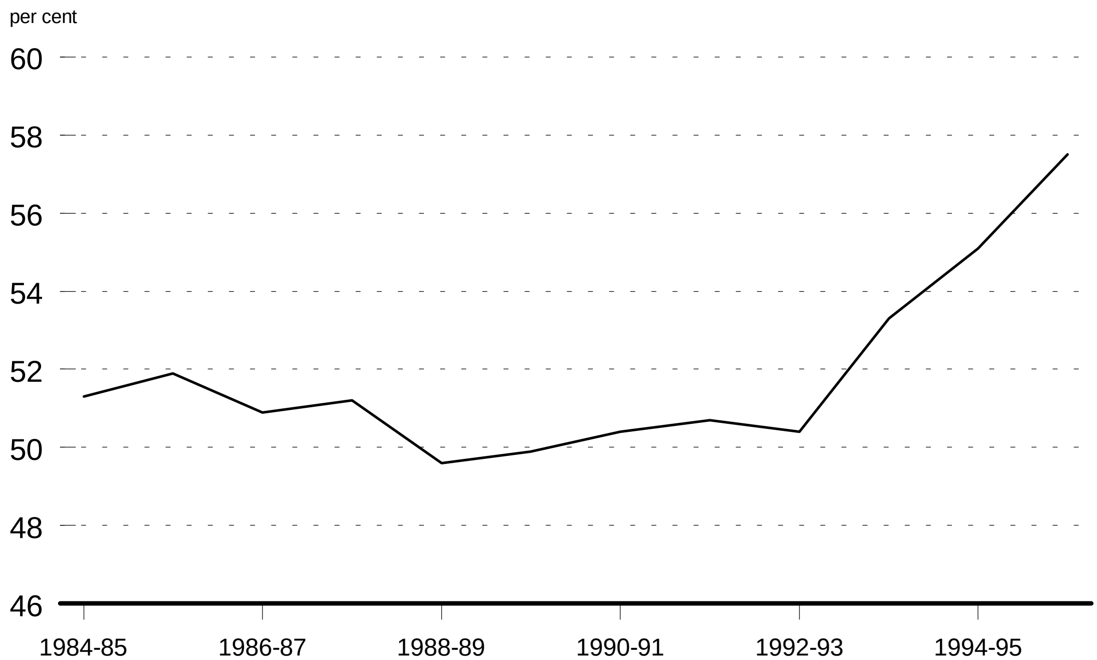


- The budget measures will finally stop the relentless increase in the federal debt-to-GDP ratio.
- The debt-to GDP ratio will fall by over 1 percentage point in 1997-98 – the first meaningful decline since 1974-75.

The 1996 Budget Fiscal Outlook

Debt servicing is less sensitive to interest rate swings

Chart 28
Fixed-rate share of total debt, 1984-1996 [1]



[1] Estimate only for 1995-96

- The fixed-rate percentage of the federal marketable debt stock reached a low of 49.6 per cent in 1988-89 – unplanned increases in deficits in the 1980s were financed primarily with Treasury bills.

- In recent years, the government has realigned its strategy towards increasing the fixed share of the debt stock, to bring the debt structure more into line with other major industrial countries.

- Accordingly, the fixed-rate share of the debt stock has risen to nearly 58 per cent by the end of 1995-96.

- The current target of 65 per cent fixed is expected to be achieved within the next few years.

- As a result, the federal debt will be less sensitive to interest rate fluctuations.

The 1996 Budget Fiscal Outlook

Federal debt and the maturity structure of unmatured debt

Table 10
Federal debt (March 31, 1995)

	($billions)
Net debt	545.7
Financial assets	37.2
Gross debt	582.9
of which:	
Unmatured debt	441.0
Pension liabilities	104.4
Other liabilities	37.4

Table 11
Distribution of unmatured debt (March 31, 1995)

	(Per cent)
Treasury bills	37.3
Canada Savings Bonds	7.0
Bonds	
under 3 years	16.6
3-5 years	9.4
5-10 years	15.7
over 10 years	11.2
Other	2.9
	100.0

The 1996 Budget Fiscal Outlook

The range of possible deficit outcomes

If the economic assumptions are:	The deficit will be:
More favourable than assumed (i.e., private sector average) →	Considerably lower
As assumed →	Lower
Less favourable than assumed →	On target (contingency acts as sizeable buffer)

The deficit target would be met next year even if interest rates were 100 basis points higher, and growth one-half percentage point lower. This is because the contingency reserve of $2.5 billion is large enough to handle adverse economic developments of this magnitude.

The 1996 Budget Fiscal Outlook

Table 12
Fiscal sensitivity analysis:
1-per-cent increase in nominal income

	Estimated changes to fiscal position			
	Year 1	Year 2	Year 3	Year 4
	($ billions)			
Budgetary transactions				
Revenue increases	1.2	1.3	1.4	1.6
Expenditure reductions	0.1	0.2	0.1	0.1
Deficit reduction	1.3	1.5	1.5	1.7

Table 13
Fiscal sensitivity analysis:
100-basis-point decline in all interest rates

	Estimated changes to fiscal position			
	Year 1	Year 2	Year 3	Year 4
	($ billions)			
Budgetary transactions				
Revenue decrease	-0.3	-0.4	-0.4	-0.4
Expenditure reductions	1.7	2.6	3.0	3.4
Deficit reduction	1.3	2.2	2.6	3.0

- Assuming a 1-per-cent increase in the level of nominal income coming solely from an increase in real output, the deficit would be lowered by $1.3 billion in the first year, rising to about $1.7 billion after four years. If the increase in nominal income comes solely from an increase in prices, the deficit impact would be smaller.

- A sustained 100-basis-point decline in all interest rates causes the deficit to decline by about $1.3 billion in the first year. As longer-term issues mature the impact on the deficit increases over time, such that by year four, the deficit is about $3.0 billion lower.

The 1996 Budget Fiscal Outlook

Implications for the 1998-99 fiscal outlook

- The sensitivity of the fiscal projections to economic developments increases as the forecast period is extended. Given the uncertainties, the budget does not contain fiscal projections beyond 1997-98 for budgetary revenues and public debt charges.

- A perspective on overall fiscal prospects and deficit target for 1998-99 will be provided in the fall 1996 Economic and Fiscal Update.

- Changes to program spending, however, have resulted in it becoming less sensitive to changes in the economy. Reflecting this greater certainty, a forecast of program spending is provided for 1998-99.

- With gross savings of $1.9 billion in 1998-99 announced in this budget, of which $260 million is being reallocated to higher priority initiatives, program spending is expected to fall to $105.5 billion in 1998-99, the sixth consecutive annual decline in program spending.

- Budgetary revenues will be higher in 1998-99 than in 1997-98, due to growth in the economy and hence the applicable tax bases.

- Higher revenues and lower program spending will contribute to continually rising surpluses in the operating balance.

- Assuming that interest rates remain at their 1997 levels, debt charges should show little change in 1998 as the effective interest rate declines.

- As a result, in 1998-99:
  - the deficit will continue to decline from the 2 per cent of GDP in 1997-98;
  - financial requirements will be lower than the 0.7 per cent of GDP in 1997-98;
  - the debt-to-GDP ratio will continue to decline.

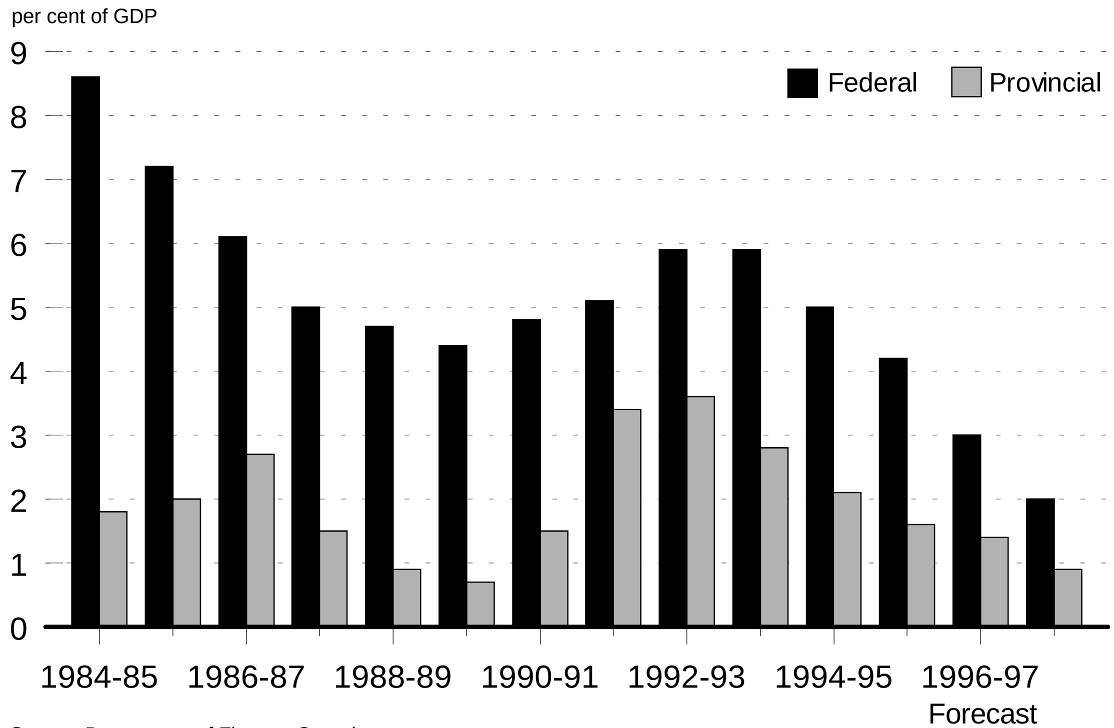
Fiscal Comparisons

Federal and provincial government deficits are declining

Chart 29

Federal and provincial/territorial budgetary deficits

Public Accounts Basis



Source: Department of Finance Canada.

- The combined federal and provincial/territorial government aggregate deficit is projected to fall from 9.6 per cent of GDP in 1992-93 to 5.8 per cent in 1995-96.

- Eight jurisdictions are already in surplus or balance in 1995-96 and most others have specified a time path to get there.

- With the federal deficit set to decline to 2 per cent of GDP in 1997-98 and projected continuing deficit improvement at the provincial/territorial level, the overall deficit should fall to less than 3 per cent in 1997-98.

- This will put the debt-to-GDP ratio of the Canadian public sector on a clear downward track.

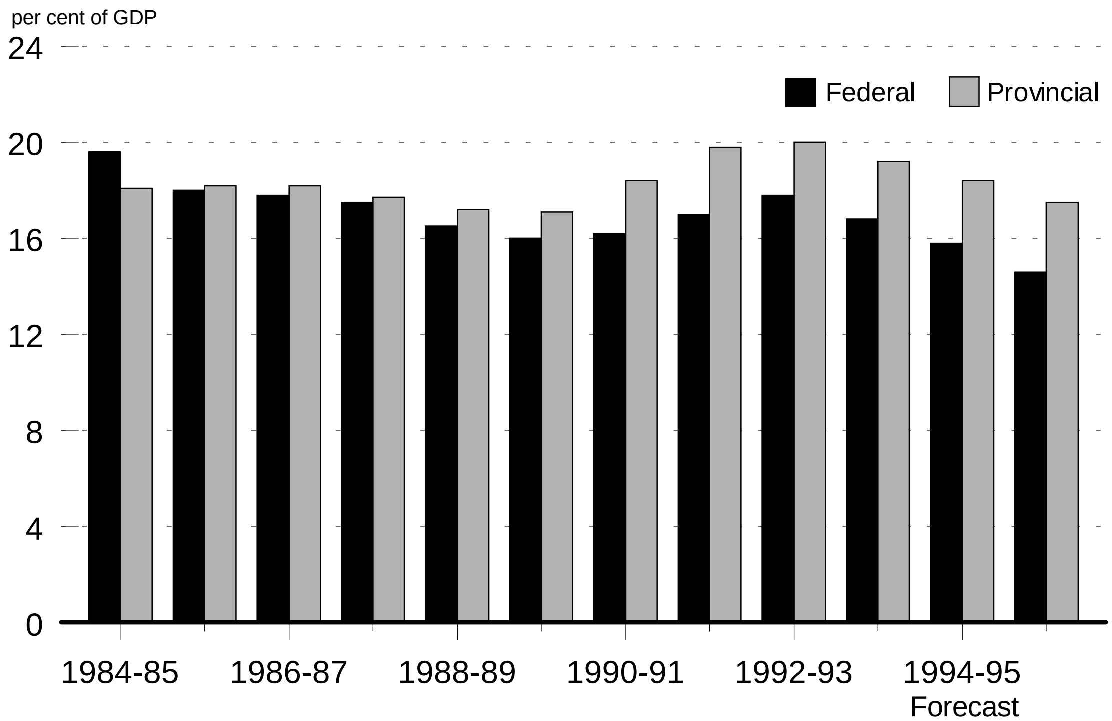
Fiscal Comparisons

Federal and provincial spending restraint

Chart 30

Federal and provincial/territorial program spending

Public Accounts Basis



Source: Department of Finance Canada.

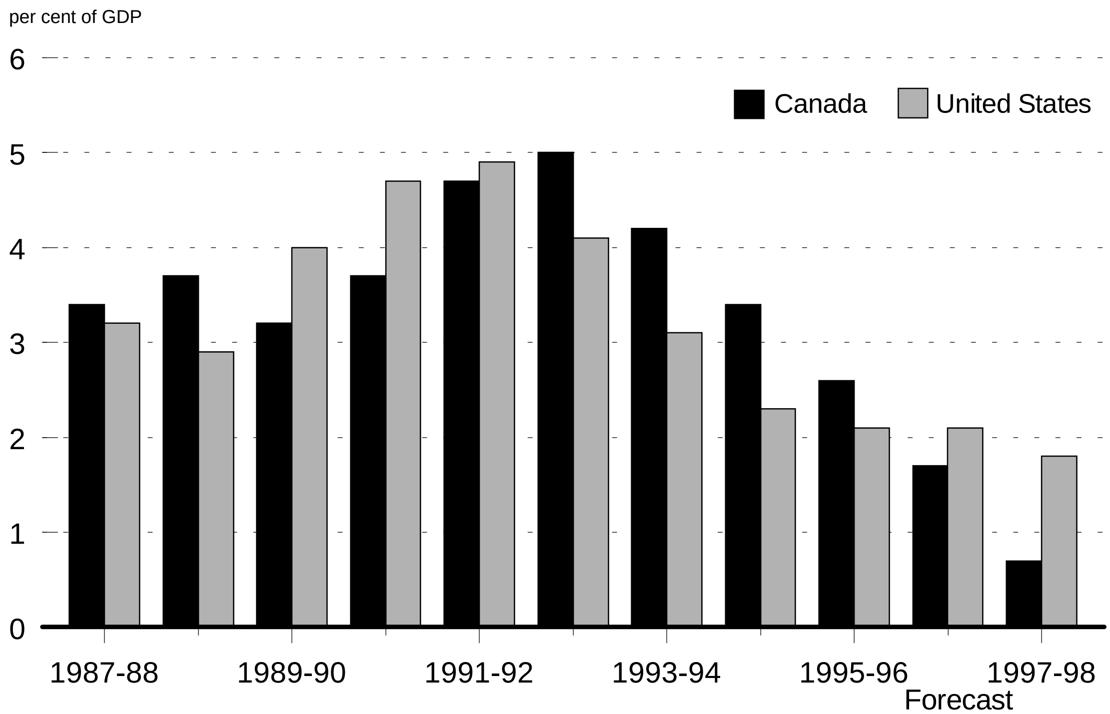
- Both levels of government have taken significant measures to reduce spending. As a result, program spending has fallen steadily as a proportion of GDP since 1992-93.
- The measures in the 1996 federal budget will maintain a declining program spending-to-GDP ratio through 1998-99 and beyond.
- A similar path is observed at the provincial level as restraint efforts continue.

Fiscal Comparisons

Canada's deficit-to-GDP ratio improves rapidly relative to that of the United States

Chart 31

Federal government deficit in Canada and the United States



Notes: Financial requirements for Canada and the Unified Budget Basis (UBB) deficit for the United States.

Fiscal years ending March 31 and September 30 of the same year for Canada and the U.S. respectively.

Sources: Canada, Department of Finance; United States, the *1997 President's Budget under CBO Assumptions* and *the Budget of the United States Government, Fiscal Year 1996*.

- Financial requirements in Canada are equivalent to the unified budget basis deficit in the U.S.

- With the measures adopted in this budget, Canada's federal financial requirements will decline sharply. Indeed, by 1997-98, Canada's federal financial requirements as a share of GDP will be significantly lower than those of the U.S. government.

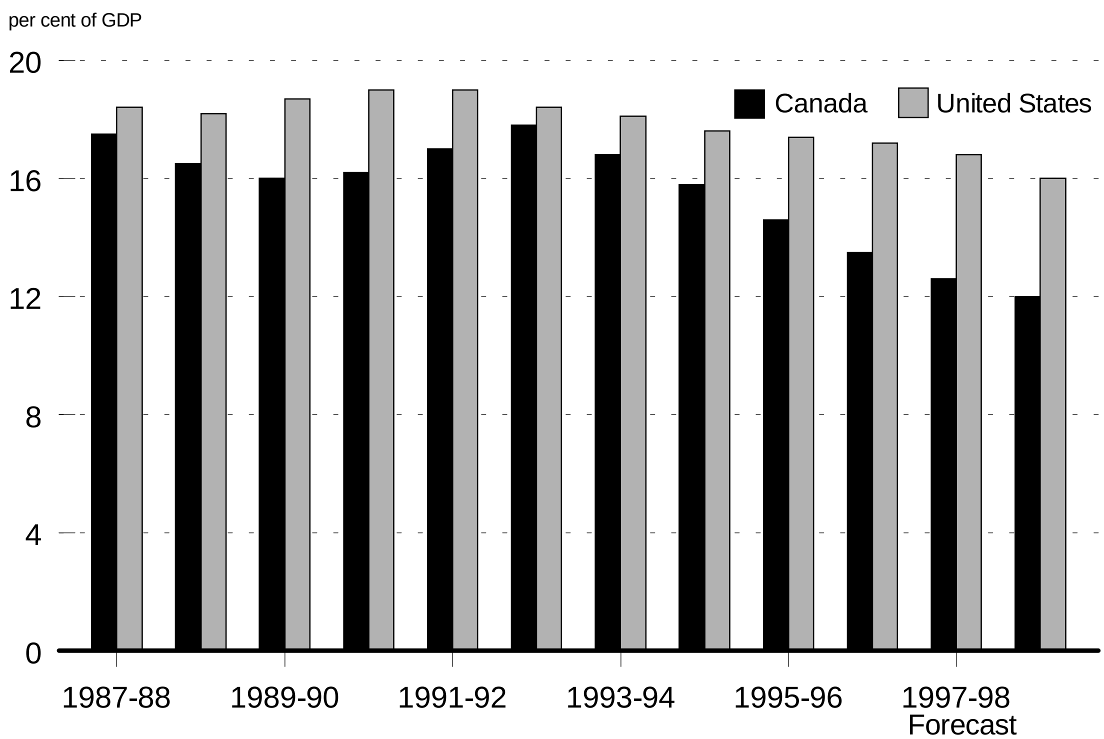
- Furthermore, this budget's measures will reduce financial requirements still further beyond 1997-98.

Fiscal Comparisons

Program spending declines faster in Canada than in the United States

Chart 32

Federal government program spending



Notes: Total expenditure minus gross debt service charges for Canada and the United States.

Fiscal years ending March 31 and September 30 of the same year for Canada and the U.S., respectively.

Sources: Canada, Department of Finance; United States, the *OMB Mid-session Review of the 1996 budget* and the *Budget of the United States Government, Fiscal Year 1996.*

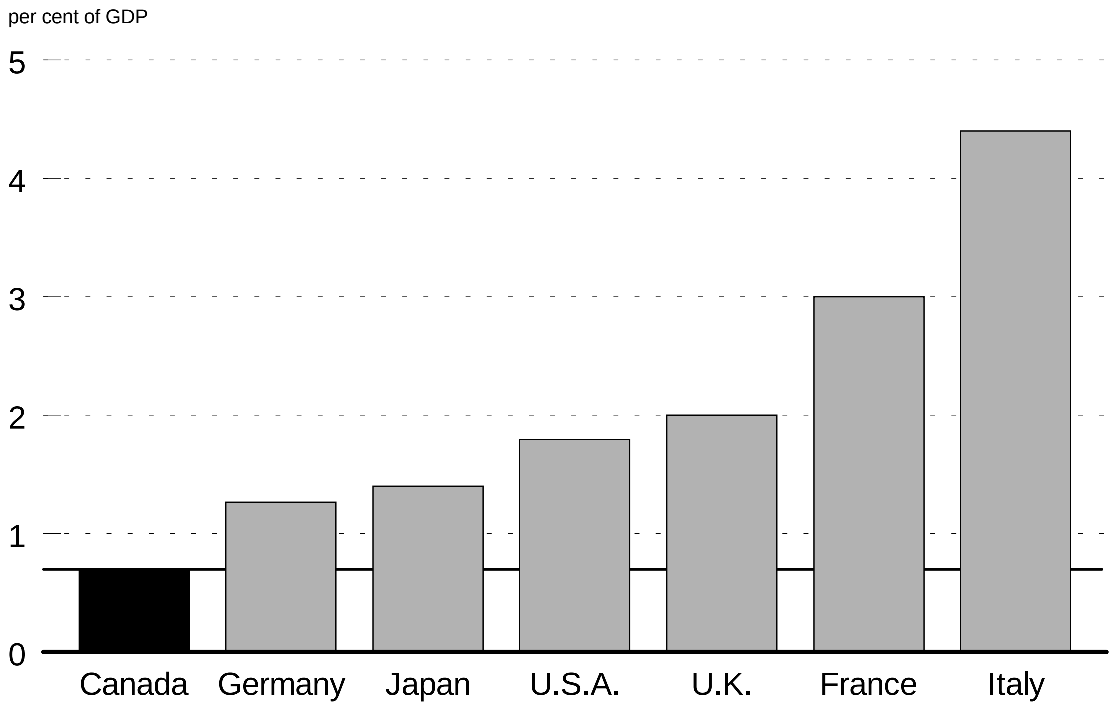
- Canada's federal program spending relative to GDP is set to fall significantly faster than in the U.S.
- In Canada, federal program spending will drop to 12 per cent of GDP in 1998-99, a decline of 5.8 percentage points from 1992-93.
- In contrast, the ratio of program spending to GDP in the U.S. will fall by only 2.4 percentage points over the same period to reach 16 per cent in 1998-99.
- This is the main reason behind Canada's superior deficit reduction performance compared to the United States.

Fiscal Comparisons

Central government borrowing requirements projected to be lower in Canada than in other G-7 nations

Chart 33

Projected 1997 financial requirements



Source: National budget plans.

- By 1997, Canada's federal borrowing requirement-to-GDP ratio will decline to 0.7 per cent.

- Federal borrowing requirements, as a percentage of GDP, are projected to be lower in Canada in 1997 than in any other G-7 country, on the basis of current national budget plans.

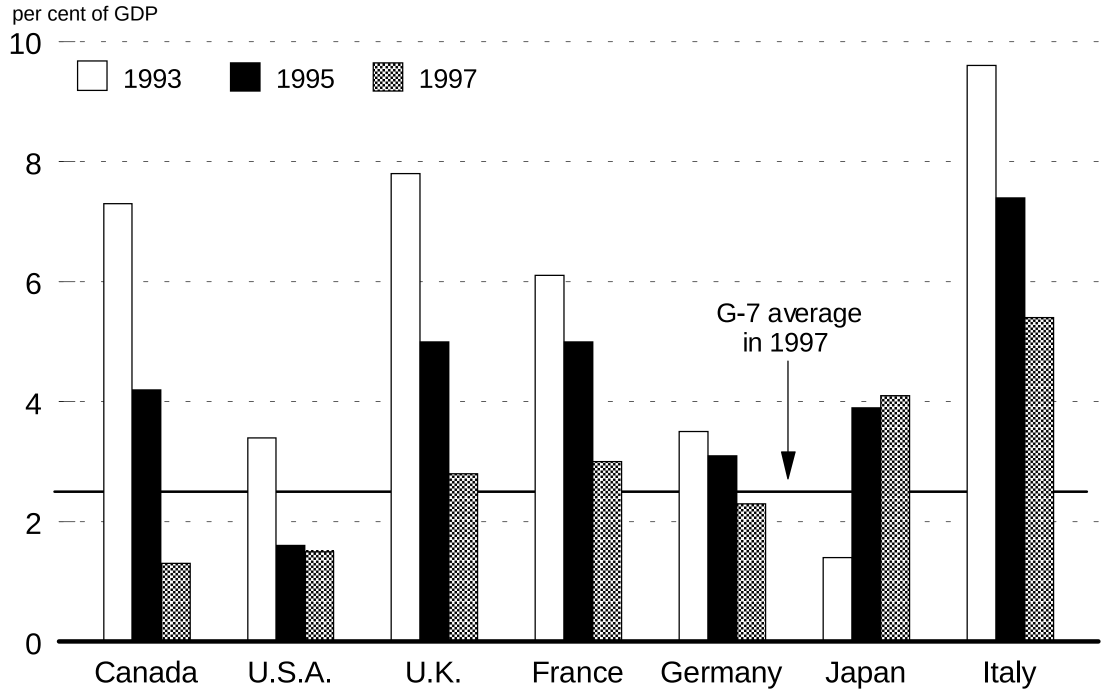
Fiscal Comparisons

Total government deficit in G-7 countries

Chart 34

Total government deficit

National Accounts Basis



Sources: Canada, Department of Finance; G-7 Average, OECD Economic Outlook Data, December 1995 using 1991 Purchasing Power Parities.

- Canada's total government deficit (on a National Accounts basis) is projected to decline sharply relative to the other G-7 countries.
- In 1993, the Canadian deficit stood at 7.3 per cent of GDP, 3.1 percentage points higher than the G-7 average (4.2 per cent).
- By 1997, Canada's total government deficit will stand at 1.3 per cent of GDP, well below the G-7 average.
- Relative to GDP, Canada's total government sector deficit will be the lowest among the G-7 countries by 1997, on the basis of the current fiscal plans in each country.
- Canada also experienced the greatest decline in the deficit-to-GDP ratio compared to other G-7 countries.

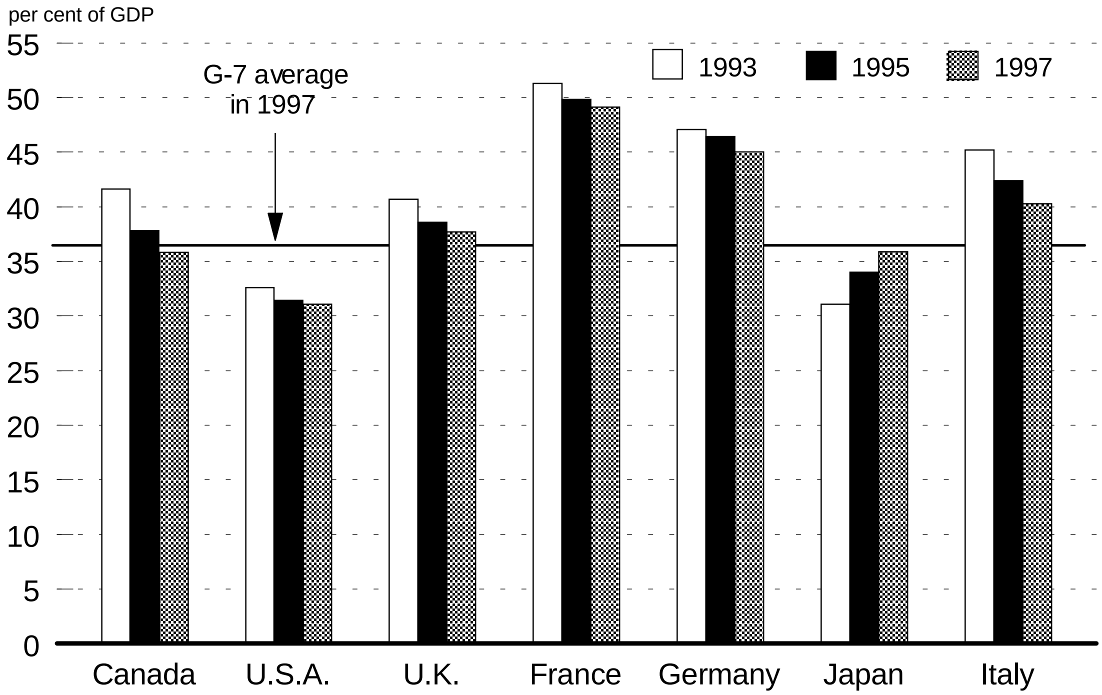
Fiscal Comparisons

Total government program spending in G-7 countries

Chart 35

Total government program spending

National Accounts Basis



Sources: Canada, Department of Finance; G-7 Average, OECD Economic Outlook Data, December 1995 using 1991 Purchasing Power Parities.

- A major improvement is expected in Canada's total government program spending restraint relative to the G-7 countries.
- By 1997, program spending of the total government sector relative to GDP will be the second lowest behind the United States.
- As a result, the gap relative to other G-7 countries will be closing and Canada's program spending-to-GDP ratio will be below the G-7 average in 1997.
- Canada is one of very few countries showing an absolute reduction in program spending.

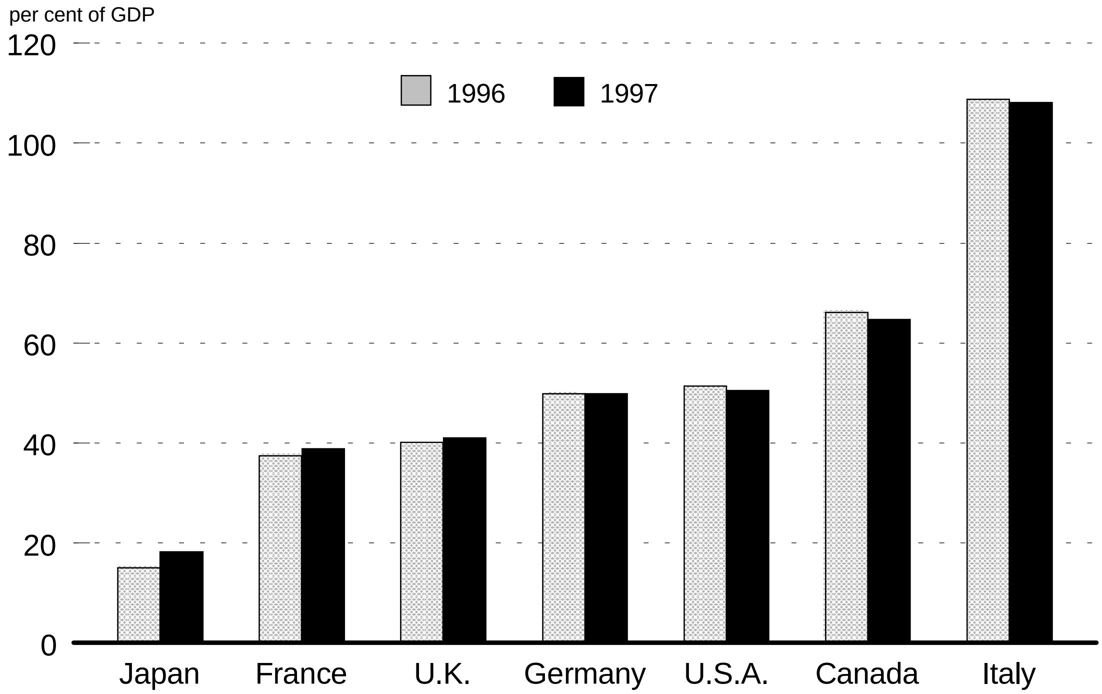
Fiscal Comparisons

Total government net debt in the G-7 countries

Chart 36

Total government net debt in G-7 Countries

National Accounts Basis



Sources: Canada, Department of Finance; G-7, OECD Economic Outlook Data, December 1995.

- Although starting from a relatively high level, the Canadian total government debt-to-GDP ratio will decline faster than that of any other G-7 country in 1997.