

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for March 1996

Deficit \$2.1 billion lower in March 1996

The deficit for March 1996 was estimated at \$1.1 billion, down \$2.1 billion from March 1995.

- This year-over-year improvement was attributable to higher budgetary revenues (up 9.3 per cent) and lower program spending (down 10.5 per cent). Public debt charges were up 3 per cent.

Deficit for April 1995 to March 1996 down by \$6.7 billion

Over the 12-month period, the deficit stood at \$24.4 billion, \$6.7 billion lower than in the same period in 1994-95.

- Budgetary revenues were up \$7.6 billion or 6.3 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 11.6 per cent), dampened by a decline in unemployment insurance premiums (down 2.4 per cent) and in sales and excise tax collections (down 1.4 per cent).
- Program spending was down \$3.9 billion or 3.5 per cent, as lower expenditures were reported among all major components with the exception of transfers to other levels of government and payments to Crown corporations.
- Public debt charges were up by \$4.7 billion, or 11.3 per cent. This reflects both the increase in the stock of debt and the lagged impact of higher interest rates over the March 1994 to April 1995 period. Sluggish economic growth, low inflation and fiscal restraint by all levels of government have put downward pressure on rates, especially short rates.

These are not the final results for 1995-96

These are not the final financial results for fiscal year 1995-96. Still to come are the regular end-of-year accounting adjustments.

- Consistent with government accounting principles, these “end-of-year accounting” adjustments reflect the recording of the costs of goods and services provided to the government prior to the end of March for which no payment was made in 1995-96. Adjustments are also made to budgetary revenues, primarily to reflect cash-in-transit at year end. The end-of-year accounting adjustments also include the impact of specific one-time adjustments relating to liabilities incurred during the course of the fiscal year for which future payments will be required.
- The deficit impact of these “end-of-year accounting” adjustments has ranged from about \$3 billion to \$6.4 billion in recent years.

The final deficit outcome, which will be available in late summer 1996, will be dependant upon the value of these end-of-year accounting adjustments, including the impact of one-time adjustments. However, the financial results to date suggest that the final deficit outcome for 1995-96 could be just below \$30 billion.



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Table 1

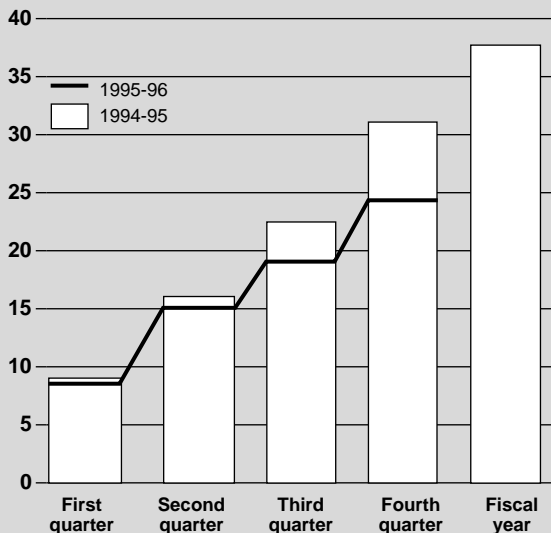
Summary statement of transactions

	March		April to March	
	1995	1996	1994-95	1995-96
	(millions of dollars)			
Budgetary transactions				
Revenues	11,534	12,611	120,953	128,536
Program spending	-10,835	-9,696	-110,121	-106,239
Operating surplus	699	2,915	10,832	22,297
Public debt charges	-3,874	-3,991	-41,925	-46,654
Deficit/Surplus	-3,175	-1,076	-31,093	-24,357
Non-budgetary transactions	1,262	-677	5,470	7,441
Financial requirements/source (excluding foreign exchange transactions)	-1,913	-1,753	-25,623	-16,916
Foreign exchange transactions	1,442	-1,129	4,835	-4,863
Total financial requirements	-471	-2,882	-20,788	-21,779
Unmatured debt transactions	333	6,102	20,754	28,645

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

The federal deficit 1994-95 and 1995-96

Year to date
billions of dollars



Financial requirements lower in 1995-96

Financial requirements are largely unaffected by the end-of-year accounting adjustments. Financial requirements, excluding foreign exchange transactions, amounted to \$16.9 billion for 1995-96, \$8.7 billion below the final outcome for 1994-95. The 1995-96 requirements were \$3.1 billion below the March 1996 budget estimate.

Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1995 to March 1996 period increased by \$7.6 billion (6.3 per cent). This increase was largely attributable to higher income tax collections, up \$8.1 billion. In contrast, both unemployment insurance premiums and excise taxes and duties were lower.

Personal income tax collections were up \$4.8 billion, or 8.7 per cent, on a year-over-year. This reflected a combination of higher deductions from employment income, increased instalment payments, as well as higher taxes paid on filing relating to the 1994 taxation year.

Corporate income tax collections increased by \$2.9 billion, or 23.8 per cent, attributable to the strength in corporate profits witnessed during 1995.

Table 2

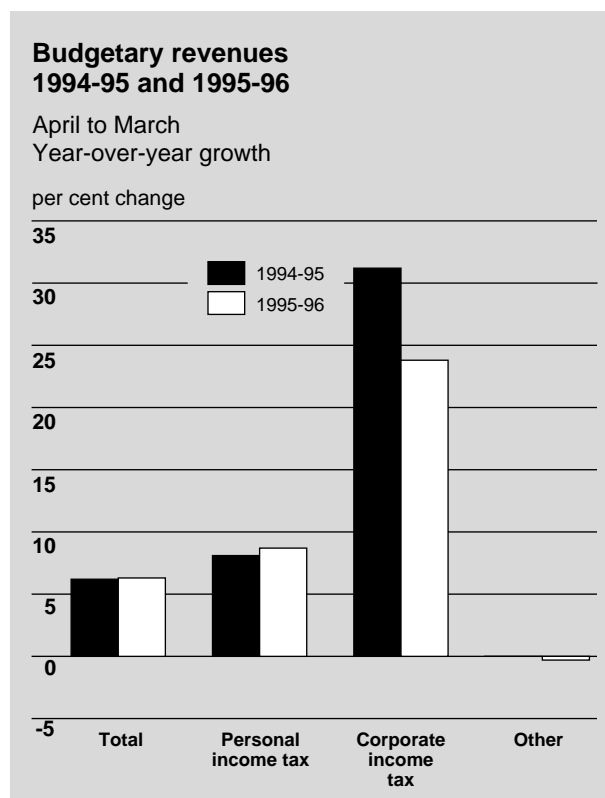
Budgetary revenues

	March		April to March		Per cent change (%)
	1995	1996	1994-95	1995-96	
	(millions of dollars)				
Income taxes					
Personal income tax	3,052	3,728	55,631	60,466	8.7
Corporate income tax	2,491	3,459	12,240	15,148	23.8
Other	113	254	1,717	2,034	18.4
Total income tax	5,656	7,441	69,588	77,648	11.6
Unemployment insurance contributions	1,578	1,466	18,938	18,480	-2.4
Excise taxes and duties					
Goods and Services Tax	955	948	15,579	15,299	-1.8
Customs import duties	330	276	3,488	2,805	-19.6
Other excise taxes/duties	503	702	6,491	7,094	9.3
Total excise taxes and duties	1,788	1,926	25,558	25,198	-1.4
Total tax revenue	9,022	10,833	114,084	121,326	6.3
Non-tax revenue	2,512	1,778	6,869	7,210	5.2
Total budgetary revenues	11,534	12,611	120,953	128,536	6.3

Unemployment insurance premium contributions declined by \$0.5 billion, primarily reflecting transfers of funds from the Unemployment Insurance Account to personal income tax collections due to overpayments to the Account for taxation year 1994. In addition, the premium rates for 1996 were reduced from their 1995 levels.

Total excise taxes and duties declined \$0.4 billion, as lower Goods and Services Tax (GST) and customs import duties collections more than offset an increase in other excise taxes and duties.

- Net GST collections were down 1.8 per cent on a year-over-year basis. Most of this decline was attributable to higher refunds. Gross GST collections were up 3.2 per cent in line with the increase in retail sales. However, refunds were up 9.5 per cent, primarily reflecting lags in the processing of refunds.
- Customs import duties declined 19.6 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.



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- Other excise taxes and duties were up 9.3 per cent, largely due to the increase in gasoline and tobacco tax rates introduced in February 1995.

Non-tax revenue was up \$0.3 billion, or 5.0 per cent, in part reflecting the net gain to the government from its sale of Petro Canada shares and Canadian National Railways. Proceeds from the sale of government assets in excess of book value are credited to the deficit.

Budgetary expenditures up due to higher interest rates

Over the period April 1995 to March 1996, total budgetary expenditures were up 0.6 per cent, or \$0.8 billion, on a year-over-year basis, as higher public debt charges (up \$4.7 billion) more than offset the decline in program spending (down \$3.9 billion).

- The increase in public debt charges reflects both the increase in the gross stock of debt, or interest-bearing debt, and the lagged impact of higher interest rates over the March 1994 to April 1995 period.
- However, the year-over-year increase in public debt charges has moderated in recent months due to the general downward trend in interest rates since April 1995.

Program spending lower

Program spending declined by \$3.9 billion, or 3.4 per cent in the April 1995 to March 1996 period, compared to the same period in 1994-95. This decline primarily reflects the impact of the 1994 and 1995 budget measures:

- lower spending on defence, and operating and capital by the non-defence departments, reflecting the impact of restraint measures;
- lower unemployment insurance benefits, down 9.6 per cent, reflecting the impact of improving labour market conditions and the effect of recent budget measures; and
- lower transfer payments in the “other” component, reflecting the impact of budget restraint measures. Most departmental transfers

were lower with the exception of transfers under the Indian and Inuit programs and for regional development. The increase in regional development transfers was due to spending under the Canada Infrastructure Works Agreements.

In contrast, payments to the elderly were up 2.5 per cent, reflecting increases in the eligible population and higher monthly benefits as the latter are indexed to quarterly changes in the Consumer Price Index. Transfers to other levels of government, including Equalization, Established Programs Financing and Canada Assistance Plan, were up slightly, as higher Equalization payments, which grow roughly in line with the growth in the economy offset declines in Established Programs Financing and Canada Assistance Plan transfers, reflecting the impact of budget measures. Payments to Crown corporations were higher, primarily due to higher payments to the Canadian Broadcasting Corporation and to the Canada Mortgage and Housing Corporation.

Budgetary expenditures 1994-95 and 1995-96

April to March
Year-over-year growth

per cent change

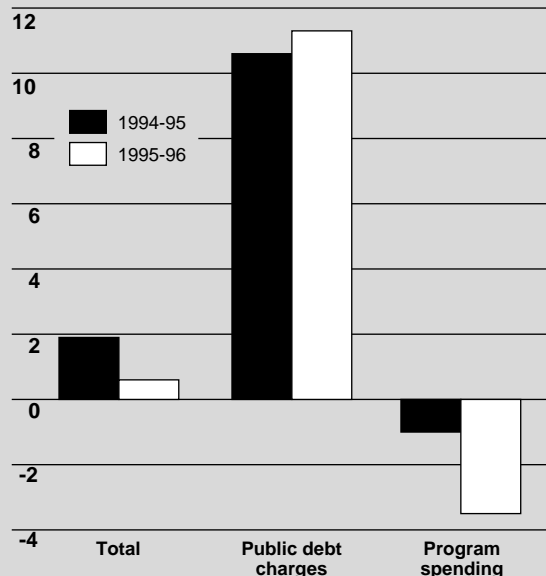


Table 3

Budgetary expenditures

	March		April to March		Per cent change
	1995	1996	1994-95	1995-96	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,732	1,781	20,514	21,023	2.5
Unemployment insurance benefits	1,480	1,403	14,863	13,441	-9.6
Veterans' pensions/allowances	122	115	1,436	1,386	-3.6
Total	3,334	3,299	36,814	35,849	-2.6
Other levels of government					
Established Programs Financing	1,172	719	10,004	9,609	-3.9
Fiscal transfers	977	1,000	9,584	10,164	6.1
Canada Assistance Plan	354	288	7,279	7,148	-1.8
Total	2,503	2,006	26,867	26,921	0.2
Other					
Agricultural subsidies	78	125	842	670	-18.7
Indian and Inuit programs	211	188	3,166	3,316	4.7
Regional development	93	92	462	611	32.3
Science and Technology	154	173	1,369	1,286	-6.1
International assistance	679	275	2,323	1,781	-23.3
Other	666	501	6,074	5,200	-14.4
Total	1,882	1,354	14,218	12,864	-9.5
Total transfers	7,719	6,659	77,897	75,634	-2.9
Payments to Crown corporations					
Canadian Broadcasting Corporation	38	73	1,089	1,171	7.5
Canada Mortgage and Housing Corporation	185	193	1,865	1,981	6.2
Other	72	167	1,329	1,448	9.0
Total	295	433	4,282	4,600	7.4
Operating and capital expenditures					
Defence	968	871	9,970	9,362	-6.1
All other departmental expenditures	1,853	1,733	17,972	16,629	-7.5
Total	2,821	2,604	27,942	26,005	-6.9
Total program expenditures	10,835	9,696	110,121	106,239	-3.5
Public debt charges	3,874	3,991	41,925	46,654	11.3
Total budgetary expenditures	14,709	13,687	152,046	152,893	0.6

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Table 4

The deficit and financial requirements

	March		April to March	
	1995	1996	1994-95	1995-96
	(millions of dollars)			
Deficit/Surplus	-3,175	-1,076	-31,093	-24,357
Loans, investments and advances				
Crown corporations	-85	-189	1,125	3,367
Other	-78	-64	-697	-321
Total	-163	-253	428	3,046
Specified purpose accounts				
Canada Pension Plan Account	425	435	692	254
Superannuation accounts	2,346	2,441	8,094	8,275
Other	40	210	212	506
Total	2,811	3,086	8,998	9,035
Other transactions	-1,386	-3,510	-3,956	-4,640
Total non-budgetary transactions	1,262	-677	5,470	7,441
Financial requirements (excluding foreign exchange transactions)	-1,913	-1,753	-25,623	-16,916

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	March		April to March	
	1995	1996	1994-95	1995-96
	(millions of dollars)			
Financial requirements (-) / Source (+) (excluding foreign exchange)	-1,913	-1,753	-25,623	-16,916
Foreign exchange transactions				
Net international reserves	925	-3,182	-1,333	-4,738
Unmatured debt transactions payable in foreign currencies	517	2,053	6,167	-125
Total	1,442	-1,129	4,835	-4,863
Total financial requirements/Source	-471	-2,882	-20,788	-21,779
Unmatured debt transactions				
Marketable bonds	-2,825	353	24,966	28,561
Canada Savings Bonds	-706	-279	146	31
Treasury bills	3,750	5,700	-1,550	1,650
Other	519	2,249	3,388	-1,761
Subtotal	738	8,023	26,950	28,481
<i>Less:</i>				
Government's holding of unmatured debt	115	132	-28	39
Unmatured debt transactions payable in foreign currency	-517	-2,053	-6,168	125
Subtotal	-402	-1,921	-6,196	164
Total unmatured debt transactions payable in Canadian dollars	333	6,102	20,754	28,645
Change in cash balance	-138	3,220	-34	6,866

Table 6

Cash, unmatured debt and debt balances: at December 31

	1995	1996
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	1,817	8,468
In foreign currencies	287	290
Total cash balance	2,104	8,758
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	225,640	252,613
Canada Savings Bonds	31,477	31,417
Treasury bills	164,450	166,100
Other	3,489	3,478
Subtotal	425,056	453,608
<i>Less:</i>		
Government's holdings of unmatured debt	994	955
Total	424,062	452,653
Payable in foreign currencies		
Marketable bonds	7,789	9,501
Notes and loans	0	310
Canada bills	9,046	6,985
Subtotal	16,835	16,796
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	440,897	469,449

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 net source of funds from 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 1995 to March 1996 period resulted in a net source of funds amounting to \$7.4 billion, compared to a net source of \$5.5 billion recorded in the corresponding period of 1994-95. Part of the higher net source of funds in 1995-96 was attributable to the cash proceeds resulting from the sale of Petro Canada and Canadian National Railways.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$16.9 billion in 1995-96, down \$8.6 billion from that recorded in 1994-95.

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 1995-96, foreign exchange transactions provided a net requirement of funds amounting to \$4.9 billion, compared to a net source of funds amounting to \$4.8 billion in 1994-95.

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Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	April to March 1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	36,600
<i>Less:</i>					
Refunds and rebates	11,330	12,138	14,271	17,112	18,458
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,842
Net GST	15,168	14,868	15,696	16,787	15,299
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

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

As a result, total financial requirements, including foreign exchange transactions, were \$21.8 billion in 1995-96, up \$1.0 billion from the net requirement in 1994-95.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to \$28.6 billion in 1995-96, up \$7.9 billion from that borrowed on financial markets during 1994-95. Cash balances, as of March 31, 1996, stood at \$8.8 billion, compared to \$2.1 billion at March 31, 1995.

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.

