

The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for September 1996

Surplus of \$1.3 billion reported in September 1996

A surplus of \$1.3 billion was reported in September 1996, compared to a deficit of \$1.0 billion in September 1995, representing an improvement in the federal fiscal situation of \$2.3 billion.

- The year-over-year improvement reflected higher revenues (up 13.0 per cent or \$1.5 billion), lower program spending (down 6.5 per cent or \$0.6 billion) and lower public debt charges (down 6.0 per cent or \$0.2 billion).
- Over half of the reported surplus in September 1996 was attributable to the timing of Goods and Services Tax (GST) collections. GST collections in August 1996 were weak, as certain collections due at month-end were remitted in early September and included in the September 1996 results.

Deficit for April 1996 to September 1996 down by \$7.7 billion

Over the six-month period (April to September), the deficit stood at \$7.0 billion, down \$7.7 billion from the same period in 1995-96.

- Budgetary revenues were up \$3.9 billion or 6.4 per cent, on a year-over-year basis. This increase in collections reflected strong growth in income taxes (up 9.1 per cent), in excise taxes and duties (7.8 per cent) and in non-tax revenues (up 11.8%), dampened by a decline in employment insurance contributions (down 6.4 per cent).
- Program spending was down \$3.0 billion or 5.8 per cent, primarily reflecting the impact of the restraint measures introduced in the 1994 and 1995 budgets.
- Public debt charges were down by \$0.7 billion, or 3.2 per cent. This reflected declines in interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

As noted in *The Economic and Fiscal Update*, the results to date overstate the expected improvement in the deficit for the year as a whole. About \$3.5 billion of the year-over-year improvement in the deficit to date was attributable to special factors, some of which will be reversed over the balance of the year. Nevertheless, the results to date clearly indicate that the 1996-97 deficit target of \$24.3 billion will be met and possibly bettered.



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Table 1

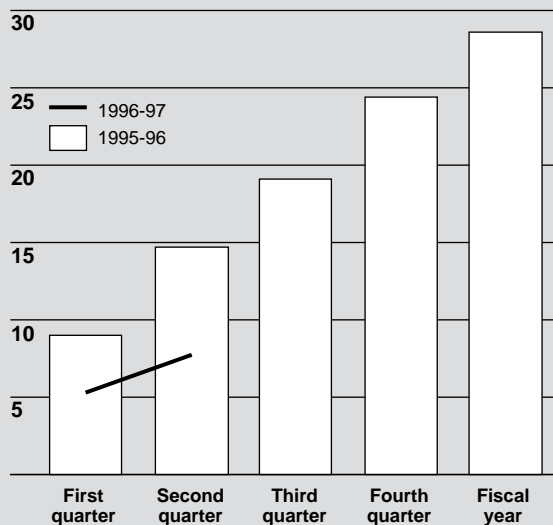
Summary statement of transactions

	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Budgetary transactions				
Revenues	11,657	13,176	60,683	64,574
Program spending	-8,780	-8,213	-51,849	-48,815
Operating surplus	2,877	4,963	8,834	15,759
Public debt charges	-3,869	-3,635	-23,511	-22,763
Deficit/Surplus	-992	1,328	-14,677	-7,004
Non-budgetary transactions	1,152	1,029	2,163	2,755
Financial requirements/source (excluding foreign exchange transactions)	160	2,357	-12,514	-4,249
Foreign exchange transactions	2,263	-999	-3,233	580
Total financial requirements	2,423	1,358	-15,747	-3,669
Unmatured debt transactions	2,033	-1,370	21,145	-650

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

The federal deficit 1995-96 and 1996-97

Year to date
billions of dollars



Budgetary revenues up

On a year-over-year basis, budgetary revenues over the April 1996 to September 1996 period increased by \$3.9 billion (6.4 per cent). This increase was attributable to higher income tax collections (up 8.3 per cent), excise taxes and duties (up 7.8 per cent) and non-tax revenues (up 11.8 per cent). In contrast, employment insurance premiums were lower (down 6.4 per cent). However, half of the growth in revenues to date was attributable to special factors as described below, which overstate the underlying trend in budgetary revenues.

About half of the increase in personal income tax collections was attributable to higher taxes paid on filing, net of returns, pertaining to the 1995 taxation year. The deadline for filing personal income returns is usually April 30th. The taxes received at that time, therefore, affect the first quarter financial results. In contrast, deductions from employment income, up about 2 per cent from last year, closely mirror the developments in employment and labour income.

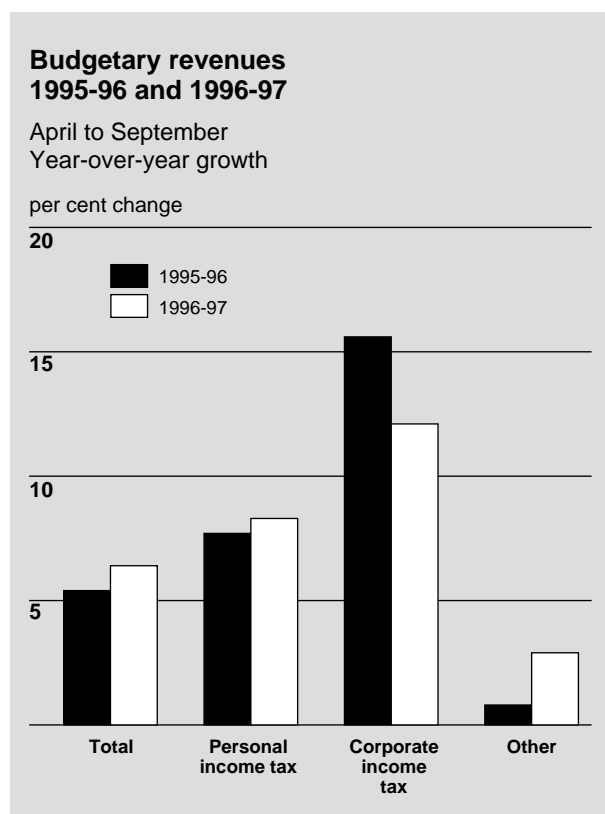
Table 2

Budgetary revenues

	September		April to September		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Income taxes					
Personal income tax	6,328	6,866	29,944	32,443	8.3
Corporate income tax	857	1,059	5,436	6,096	12.1
Other	117	187	924	1,081	17.0
Total income tax	7,302	8,112	36,304	39,620	9.1
Employment insurance contributions	1,696	1,616	10,033	9,387	-6.4
Excise taxes and duties					
Goods and Services Tax	1,096	1,982	6,784	7,423	9.4
Customs import duties	274	240	1,427	1,145	-19.7
Other excise taxes/duties	602	753	3,410	3,954	16.0
Total excise taxes and duties	1,972	2,975	11,621	12,522	7.8
Total tax revenue	10,970	12,703	57,958	61,529	6.2
Non-tax revenue	687	473	2,725	3,045	11.8
Total budgetary revenues	11,657	13,176	60,683	64,574	6.4

Although corporate income tax collections are running well above last year's level, this primarily reflects the remittance procedures for corporations, as corporate profits are below last year's level. Monthly corporate income tax instalments are based on last year's actual tax liability or this year's estimated liability, with any adjustment at the time of filing at year end. Monthly instalments during 1995-96 were based on 1994 tax liabilities, whereas current instalment payments are based on 1995 tax liabilities. Liabilities for taxation year 1995 were substantially higher than those in 1994, accounting for the year-over-year increase in instalment payments to date. As indicated in *The Economic and Fiscal Statement*, corporate income tax collections for the year as a whole are expected to be only marginally higher than the final outcome for 1995-96.

Employment insurance contributions declined by \$0.6 billion, due to lower premium rates in 1996 and the lowering of the applicable earnings base effective January 1996 to which premiums are calculated.



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Total excise taxes and duties were up \$0.9 billion:

- Net GST collections were up 9.4 per cent, or \$0.6 billion, on a year-over-year basis. Most of this increase occurred in April 1996, reflecting abnormally low collections in April 1995, rather than strength in collections in April 1996. The underlying weakness in net GST collections reflects the overall weakness in retail sales.
- Customs import duties declined 19.7 per cent, in part reflecting reductions in tariffs under the Canada-United States Free Trade Agreement.
- Other excise taxes and duties were up 16.0 per cent, or \$0.4 billion. About two-thirds of this increase is due to the reclassification of Air Transport taxes, which effective April 1996 are included as part of budgetary revenues instead of being netted against program spending, as in previous years. Although this reclassification affects both budgetary revenues and program spending, it has no impact on the deficit.

Non-tax revenues were up 11.8 per cent, or \$0.3 billion. Most of this increase was due to the inclusion the second tranche of seignorage gains related to the introduction of the \$2 coin. The first tranche was included in the final quarter of 1995-96.

Budgetary expenditures down

Over the period April 1996 to September 1996, total budgetary expenditures, which include both public debt charges and program spending, were down 5.0 per cent, or \$3.8 billion. This decline was due to both lower public debt charges and program spending.

Public debt charges were down \$0.7 billion or 3.2 per cent. This decline reflected lower interest rates, especially short-term rates. Fiscal restraint by federal and provincial governments and continued low inflation have provided the necessary conditions for interest rates to come down.

Program spending declined by \$3.0 billion, or 5.9 per cent in the April 1996 to September 1996 period, compared to the same period in 1995-96. This decline primarily reflects the impact of the 1994 and 1995 budget measures to reduce and restructure federal government spending, affecting

all major components of program spending. However, there are a number of other factors which affect the year-over-year decline to date.

This is especially applicable with respect to the decline in transfers to other levels of government. In the February 1994 budget, provincial entitlements under the Canada Assistance Program (CAP) for 1995-96 were frozen at their 1994-95 levels. As a result, monthly payments during 1995-96 were concentrated in the first half of the year as payments were made until the provincial ceilings were reached. Effective 1996-97, and as announced in the 1995 budget, CAP and Established Program Financing (EPF) were replaced by a new block grant called the Canada Health and Social Transfer (CHST), with the cash portion paid in equal monthly instalments. As a result, the year-over-year changes are affected by not only the restraint measures but also the manner in which transfers to the provinces are being made on a monthly basis. Of the decline witnessed in transfers to other levels of governments to date, about one-third relates to these timing factors which will be reversed in coming months.

Budgetary expenditures 1995-96 and 1996-97

April to September
Year-over-year growth

per cent change

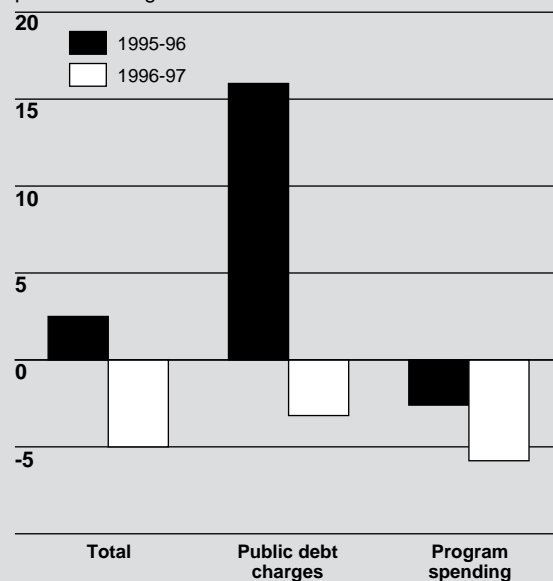


Table 3

Budgetary expenditures

	September		April to September		Per cent change
	1995	1996	1995-96	1996-97	
	(millions of dollars)				(%)
Transfer payments to:					
Persons					
Elderly benefits	1,751	1,825	10,388	10,664	2.7
Employment insurance benefits	880	826	6,107	5,948	-2.6
Veterans' pensions/allowances	117	113	705	676	-4.1
Total	2,748	2,764	17,200	17,288	0.5
Other levels of government					
Canada Health and Social Transfer	1,630	1,254	10,159	7,524	-25.9
Fiscal transfers	837	804	5,034	5,136	2.0
Alternative payments for standing programs	-164	-169	-978	-1,013	3.6
Total	2,303	1,889	14,215	11,647	-18.1
Other					
Agricultural subsidies	110	68	185	311	68.1
Indian and Inuit programs	253	290	1,884	1,865	-1.0
Regional development	40	28	145	155	6.9
Science and Technology	74	41	463	393	-15.1
International assistance	184	126	689	677	-1.7
Other	402	457	2,461	2,075	-15.7
Total	1,063	1,010	5,827	5,476	-6.0
Total transfers	6,114	5,663	37,242	34,411	-7.6
Payments to Crown corporations					
Canadian Broadcasting Corporation	90	64	613	504	-17.8
Canada Mortgage and Housing Corporation	175	152	886	874	-1.3
Other	116	72	609	566	-7.1
Total	381	288	2,108	1,944	-7.8
Operating and capital expenditures					
Defence	820	768	4,487	4,123	-8.1
All other departmental expenditures	1,465	1,494	8,012	8,337	4.1
Total	2,285	2,262	12,499	12,460	-0.3
Total program expenditures	8,780	8,213	51,849	48,815	-5.9
Public debt charges	3,869	3,635	23,511	22,763	-3.2
Total budgetary expenditures	12,649	11,848	75,360	71,578	-5.0

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Table 4

The deficit and financial requirements

	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Deficit/surplus	-992	1,328	-14,677	-7,004
Loans, investments and advances				
Crown corporations	-159	148	177	758
Other	744	-84	143	-334
Total	585	64	320	424
Specified purpose accounts				
Canada Pension Plan Account	172	484	864	819
Superannuation accounts	2,393	2,562	4,122	4,283
Other	90	20	105	88
Total	2,655	3,066	5,091	5,190
Other transactions	-2,088	-2,101	-3,248	-2,859
Total non-budgetary transactions	1,152	1,029	2,163	2,755
Financial requirements (excluding foreign exchange transactions)	160	2,357	-12,514	-4,249

Table 5

Financial requirements, foreign exchange and unmatured debt transactions

	September		April to September	
	1995	1996	1995-96	1996-97
	(millions of dollars)			
Financial requirements (-)/source (+) (excluding foreign exchange)	160	2,357	-12,514	-4,249
Foreign exchange transactions				
Net international reserves	2,394	-791	-2,578	330
Unmatured debt transactions payable in foreign currencies	-131	-208	-655	250
Total	2,263	-999	-3,233	580
Total financial requirements/source	2,423	1,358	-15,747	-3,669
Unmatured debt transactions				
Marketable bonds	1,100	950	22,659	13,578
Canada Savings Bonds	-265	-206	-2,113	-1,477
Treasury bills	1,400	-1,700	3,250	-13,900
Other	-461	-735	-4,131	609
Subtotal	1,774	-1,691	19,665	-1,190
<i>Less:</i>				
Government's holding of unmatured debt	128	113	825	790
Unmatured debt transactions payable in foreign currency	131	208	655	-250
Subtotal	259	321	1,480	540
Total unmatured debt transactions payable in Canadian dollars	2,033	-1,370	21,145	-650
Change in cash balance	4,456	-12	5,398	-4,319

Table 6

Cash, unmatured debt and debt balances: at September 30

	1995	1996
	(millions of dollars)	
Cash balances at end of period		
In Canadian dollars	7,115	4,207
In foreign currencies	176	19
Total cash balance	7,291	4,226
Unmatured debt balance		
Payable in Canadian dollars		
Marketable bonds	244,483	266,343
Canada Savings Bonds	29,273	29,951
Treasury bills	167,700	152,200
Other	3,934	3,837
Subtotal	445,390	452,331
<i>Less:</i>		
Government's holdings of unmatured debt	169	244
Total	445,221	452,087
Payable in foreign currencies		
Marketable bonds	11,797	9,514
Notes and loans	0	921
Canada bills	4,469	6,625
Subtotal	16,266	17,060
<i>Less:</i>		
Government's holdings of unmatured debt	0	0
Total unmatured debt	461,487	469,147

The increase in all other departmental expenditure was entirely due to the reclassification of the Air Transport tax. In 1995-96, this tax was netted against such spending, whereas in 1996-97 it is classified as part of budgetary revenues. Adjusting for this reclassification, this component would register a decline on a year-over-year basis.

Among the other major components of program spending, transfers to persons were up 0.5 per cent in the six months of 1996-97, as higher elderly benefit payments, due to increases in the elderly population and average benefits, more than offset lower employment insurance benefits and veterans' pensions and allowances. Other transfer payments, payments to Crown corporations and defence were also lower, reflecting the impact of expenditure restraint.

Financial requirements lower

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

Non-budgetary transactions in the April 1996 to September 1996 period resulted in a net source of funds amounting to \$2.8 billion, compared to a net source of \$2.2 billion recorded in the corresponding period of 1995-96.

As a result, financial requirements, excluding foreign exchange transactions, amounted to \$4.3 billion in 1996-97, down \$8.3 billion from that recorded in 1995-96.

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

In the first six months of 1996-97, foreign exchange transactions provided a net source of funds amounting to \$0.6 billion, compared to a net requirement for funds amounting to \$3.2 billion in the comparable period last year.

As a result, total financial requirements, including foreign exchange transactions, were \$3.7 billion in 1996-97, down \$12.1 billion from the net requirement in 1995-96.

To finance these requirements, the government borrows from the private credit markets and/or draws down its cash reserves. In the first six months of 1996-97, the government's cash requirements

were met entirely through a drawing down of its cash balances (down \$4.3 billion). In addition, the government reduced its borrowings from the private credit markets (unmatured debt transactions) by \$0.7 billion, compared to new borrowings of \$21.1 billion over the same period in 1995-96.

The Debt Servicing and Reduction Account

In June 1991, legislation to establish the Debt Servicing and Reduction Account received Royal Assent. As a result, effective April 1, 1991, all Goods and Services Tax revenue net of the applicable input tax credits, rebates, and the low-income credit, along with the net proceeds from the sale of Crown corporations and gifts to the Crown identified for debt reduction must, by law, go directly to the Debt Servicing and Reduction Account. The funds in this Account can only be used to pay the cost of servicing the public debt and ultimately to reduce the debt. The Account is audited on an annual basis by the Auditor General of Canada.

Table 7

Debt Servicing and Reduction Account

	1991-92	1992-93	1993-94	1994-95	1995-96
	(millions of dollars)				
Gross GST collected	29,564	30,516	32,652	36,715	38,048
<i>Less:</i>					
Refunds and rebates	11,330	12,138	14,271	17,112	18,874
Quarterly low-income tax credit	2,262	2,503	2,685	2,816	2,799
Net GST	15,168	14,868	15,696	16,787	16,374
GST penalties and interest received	19	71	90	129	135
Gains from wind-up of interest in Crown corporations/disposal of shares in Crown corporations	2	110			325
Gifts to the Crown	0.4	0.1	0.2	0.5	0.3
Proceeds to the DSRA	15,190	15,050	15,786	16,916	16,835

Figures for 1991-92, 1992-93, 1993-94, 1994-95, and 1995-96 are from the *Public Accounts of Canada*.

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