

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for November 1997

### Surplus of \$0.6 billion in November 1997

There was a surplus of \$0.6 billion in November 1997, compared to a deficit of \$0.6 billion in November 1996. As a result, on a year-over-year basis, there was a net improvement in the federal government's budgetary position of \$1.2 billion. Budgetary revenues were up \$0.7 billion (6.6 per cent), program spending declined by \$0.3 billion (4.3 per cent), while public debt charges were \$0.1 billion (3.7 per cent) lower.

Within budgetary revenues, personal income tax collections were up \$0.2 billion, primarily reflecting the advances in employment, corporate income tax collections were up \$0.3 billion, primarily reflecting continued strength in corporate profits, while goods and services tax (GST) collections increased \$0.5 billion, reflecting continued strength in consumer demand. In contrast, employment insurance premium revenues were \$0.4 billion lower, reflecting the impact of the change in remittance requirements that came into effect in January 1997.

The decline in program spending reflected lower expenditures related to transfers to other levels of government, subsidies and other transfers, payments to Crown corporations, and operating and capital expenditures. 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. Transfers for elderly benefits and employment insurance benefits were higher, the latter reflecting the timing of payments.

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

### Surplus for April to November 1997 of \$1.4 billion

Over the first eight months of the 1997-98 fiscal year, there was a surplus of \$1.4 billion, representing an improvement of \$9.5 billion from the deficit of \$8.1 billion reported for the first eight months of 1996-97.

This turnaround was attributable to the increasing strength in the economy on budgetary revenues, the impact of restraint measures introduced in the 1994 and 1995 budgets on program spending, and to a lesser extent, timing factors, notably the acceleration of monthly employment insurance premium revenues within the year. Budgetary revenues were up \$5.4 billion (6.1 per cent), program spending declined \$2.9 billion (4.4 per cent), while public debt charges were \$1.2 billion lower (4.1 per cent).

### Financial surplus of \$11.3 billion in April to November period

With a budgetary surplus of \$1.4 billion and a net source of funds from non-budgetary transactions of \$4.4 billion, there was a financial surplus, excluding foreign exchange transactions, of \$5.7 billion, an improvement of \$9.5 billion from the same period in 1996-97. There was also a net source of funds amounting to \$5.6 billion from foreign exchange transactions. In total, therefore, there was a financial surplus of \$11.3 billion, an improvement of \$18.9 billion from the same period last year. Cash balances were slightly lower over the first eight 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 \$11.5 billion retirement of market debt.

Caution should be exercised in extrapolating these monthly results to date to gain an assessment of the possible outcome for the fiscal year as a whole. Some of the improvement to date is due to special factors (for example, the increase in employment insurance premium revenues which will be reversed in future months, thereby having no impact on the outcome for the fiscal year as a whole) or to one-time developments (increase in personal income tax collections due to taxes paid on filing related to the 1996 taxation year) that will not be repeated in future months. In *The Economic and Fiscal Update* released on October 15, 1997, the government indicated that the budget would be balanced no later than 1998-99.



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Table 1  
Summary statement of transactions

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	11,002	11,723	87,656	93,043
Program spending	-8,056	-7,711	-65,617	-62,756
Operating surplus	2,946	4,012	22,039	30,287
Public debt charges	-3,564	-3,433	-30,157	-28,912
Deficit/surplus	-618	579	-8,118	1,375
<b>Non-budgetary transactions</b>	1,262	1,642	4,361	4,363
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	644	2,221	-3,757	5,738
<b>Foreign exchange transactions</b>	-2,653	1,638	-3,780	5,603
<b>Total financial requirements/surplus</b>	-2,009	3,859	-7,537	11,341
<b>Unmatured debt transactions</b>	3,019	-105	2,665	-11,510

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

## Budgetary revenues up in April to November period

Over the April to November 1997 period, budgetary revenues were up \$5.4 billion, or 6.1 per cent, compared to the same period a year ago. Of this increase, about \$0.6 billion was attributable to the acceleration of employment insurance premium revenues, with the remainder attributable to the strength in the economy.

- Personal income tax collections were up \$2.9 billion, reflecting 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 \$2.2 billion, while other income taxes, primarily non-resident withholding taxes, increased by \$0.1 billion. These increases reflected the continued strength in corporate profits, in line with the strengthening economy.
- Employment insurance premium revenues were up \$0.6 billion. All of this increase reflected the effect of 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 should also record a decline in December 1997 on a year-over-year basis. In addition, with the recently announced reduction in employee premium rates from \$2.90 per \$100 of insurable earnings in 1997 to \$2.70 for 1998, premium revenues for 1997-98 should be lower than those reported in 1996-97.

- Good and services tax collections were up \$1.3 billion, largely attributable to the strength in consumer demand.
- The decline in customs import duties reflected the impact of tariff reductions under multilateral trade agreements. Other excise taxes and duties were up \$0.3 billion, primarily due to higher energy-related taxes.
- Non-tax revenues were down \$2.0 billion. Of the decline, \$1.5 billion was attributable to the inclusion in the 1996-97 results of the proceeds from the sale of the Air Navigation System. Most of the remaining decline was due to lower earnings on investments reflecting the impact of the decline in interest rates.

## Program spending lower in April to November period

Program spending declined \$2.9 billion, or 4.4 per cent in the first eight months of 1997-98, compared to the same period last year, with all major components,

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Table 2

## Budgetary revenues

	November		April to November		Per cent change (%)
	1996	1997	1996-97	1997-98	
(millions of dollars)					
<b>Income taxes</b>					
Personal income tax	5,341	5,574	42,567	45,435	6.7
Corporate income tax	1,094	1,375	8,381	10,531	25.7
Other income tax revenue	250	202	1,475	1,577	6.9
<b>Total income tax</b>	<b>6,685</b>	<b>7,151</b>	<b>52,423</b>	<b>57,543</b>	<b>9.8</b>
<b>Employment insurance premium revenues</b>	<b>1,571</b>	<b>1,221</b>	<b>12,552</b>	<b>13,196</b>	<b>5.1</b>
<b>Excise taxes and duties</b>					
Goods and services tax	1,415	1,960	10,247	11,590	13.1
Customs import duties	254	269	1,663	1,636	-1.6
Other excise taxes and duties	680	828	5,356	5,690	6.2
<b>Total excise taxes and duties</b>	<b>2,349</b>	<b>3,057</b>	<b>17,266</b>	<b>18,916</b>	<b>9.6</b>
<b>Total tax revenues</b>	<b>10,605</b>	<b>11,429</b>	<b>82,241</b>	<b>89,655</b>	<b>9.0</b>
<b>Non-tax revenues</b>	<b>397</b>	<b>294</b>	<b>5,415</b>	<b>3,388</b>	<b>-37.4</b>
<b>Total budgetary revenues</b>	<b>11,002</b>	<b>11,723</b>	<b>87,656</b>	<b>93,043</b>	<b>6.1</b>

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 \$2.1 billion, reflecting lower cash transfers under the CHST and Equalization. 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 provinces, allowing the provinces 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, 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 \$1.9 billion over the first eight months of 1997-98, compared to the same period last year, of which about \$1.2 billion was attributable to the reduction in entitlements with the remainder due to the increase in the value of the tax point transfer. Equalization transfers were down \$0.1 billion. As indicated in the 1997 budget, these transfers are expected to be lower in 1997-98, reflecting lower provincial revenue growth due to tax reductions in some provinces, population shifts between equalization-receiving and non-equalization-receiving provinces, as well as strong resource revenues in some of the equalization-receiving provinces.

- 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 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

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Table 3

## Budgetary expenditures

	November		April to November		Per cent change
	1996	1997	1996-97	1997-98	
(millions of dollars)					(%)
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,852	1,867	14,328	14,711	2.7
Employment insurance benefits	746	837	7,665	7,023	-8.4
Total	2,598	2,704	21,993	21,734	-1.2
Other levels of government					
Canada Health and Social Transfer	1,267	982	10,058	8,115	-19.3
Fiscal transfers	697	839	6,376	6,253	-1.9
Alternative Payments for Standing Programs	-166	-180	-1,346	-1,423	5.7
Total	1,798	1,641	15,088	12,945	-14.2
Subsidies and other transfers					
Agriculture	81	53	461	371	-19.5
Foreign Affairs	147	111	939	905	-3.6
Human Resources Development	168	98	1,051	883	-16.0
Indian and Northern Development	256	265	2,510	2,642	5.3
Industry and Regional Development	95	125	854	986	15.5
Veterans Affairs	111	112	905	915	1.1
Other	255	188	1,711	2,098	22.6
Total	1,113	952	8,431	8,800	4.4
Total transfers	5,509	5,297	45,512	43,479	-4.5
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	69	75	649	597	-8.0
Canada Mortgage and Housing Corporation	168	153	1,186	1,077	-9.2
Other	89	88	814	722	-11.3
Total	326	316	2,649	2,396	-9.6
<b>Operating and capital expenditures</b>					
Defence	764	782	5,644	5,508	-2.4
All other departmental expenditures	1,457	1,316	11,812	11,373	-3.7
Total	2,221	2,098	17,456	16,881	-3.3
<b>Total program expenditures</b>	8,056	7,711	65,617	62,756	-4.4
<b>Public debt charges</b>	3,564	3,433	30,157	28,912	-4.1
<b>Total budgetary expenditures</b>	11,620	11,144	95,774	91,668	-4.3

exercise will further reduce spending in this component in 1998-99. In contrast, the reduction in CHST cash transfers, announced in the March 1996 budget for 1998-99, will not proceed. The government has proposed that cash transfers over the 1997-98 to 2002-03 period will never fall below \$12.5 billion – the level of cash transfers currently estimated for 1997-98. 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.

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Table 4

## The deficit/surplus and financial requirements/surplus

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Deficit(-)/surplus(+)</b>	-618	579	-8,118	1,375
<b>Loans, investments and advances</b>				
Crown corporations	-64	-92	696	180
Other	-110	-9	-404	-150
Total	-174	-101	292	30
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	-956	-691	15	299
Superannuation accounts	-185	-195	3,961	3,153
Other	15	-9	155	-237
Total	-1,126	-895	4,131	3,215
<b>Other transactions</b>	2,562	2,638	-62	1,118
<b>Total non-budgetary transactions</b>	1,262	1,642	4,361	4,363
<b>Financial requirements/surplus (excluding foreign exchange transactions)</b>	644	2,221	-3,757	5,738
<b>Foreign exchange transactions</b>	-2,653	1,638	-3,780	5,603
<b>Total financial requirements/surplus</b>	-2,009	3,859	-7,537	11,341

Table 5

## Financial requirements/surplus and unmatured debt transactions

	November		April to November	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/surplus</b>	-2,009	3,859	-7,537	11,341
<b>Unmatured debt transactions</b>				
Payable in Canadian dollars				
Marketable bonds	3,900	3,500	19,253	10,575
Canada Savings Bonds	5,057	109	3,235	-1,958
Treasury bills	-7,800	-3,500	-24,100	-19,000
Other	315	168	308	160
Subtotal	1,472	277	-1,304	-10,223
Less: Government's holdings of unmatured debt	-1,308	-822	-455	-28
Total	164	-545	-1,759	-10,251
Payable in foreign currencies				
Marketable bonds	2,743	42	2,743	-236
Notes and loans	0	0	0	0
Canada bills	-89	342	-88	-684
Canada notes	201	56	1,769	-339
Total	2,855	440	4,424	-1,259
<b>Total unmatured debt transactions</b>	3,019	-105	2,665	-11,510
<b>Change in cash balance</b>	1,010	3,754	-4,872	-169

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Table 6

## Cash, unmatured debt and debt balances: at November 30

	1996	1997
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	3,659	9,175
In foreign currencies	15	20
Total cash balance	3,674	9,195
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	272,018	293,138
Treasury bills	142,000	116,400
Canada Savings Bonds	34,663	31,535
Other	3,786	3,627
Subtotal	452,467	444,700
Less: Government's holdings of unmatured debt	1,490	1,115
Total	450,977	443,585
Payable in foreign currencies		
Marketable bonds	12,257	12,224
Notes and loans	0	0
Canada bills	6,897	7,752
Canada notes	2,079	1,782
Total	21,233	21,758
<b>Total unmatured debt</b>	<b>472,210</b>	<b>465,343</b>

## Public debt charges lower in April to November period

Public debt charges were down \$1.2 billion, or 4.1 per cent, on a year-over-year basis. This decline was attributed 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.

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*Cet imprimé est également offert en français.*

January 1998

