1997
Budget
Chart Book

Building the Future for Canadians: Preparing for the 21st Century

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Key messages

The budget sets out the plan the government has been pursuing to promote economic growth and job creation and to build a stronger society.

The plan includes four parts:

- staying the course on restoring Canada's fiscal health;
- investing in immediate jobs and growth;
- investing in long-term job creation and growth; and
- investing in a stronger society.

Staying the course on restoring Canada's fiscal health

- The deficit in 1996-97 will be no higher than $19 billion (2.4 per cent of GDP), $5.3 billion lower than the target of $24.3 billion (3 per cent of GDP), and $9.6 billion below last year's -- the largest year-over-year decline ever.
- Financial requirements, the measurement of net new borrowing on financial markets, are expected to be eliminated in 1998-99.
- The federal net debt-to-GDP ratio is forecast to fall by 1997-98 and continue to decline in 1998-99, the first meaningful declines since the mid-1970s.
- Program spending in 1997-98 and 1998-99 will be lower than what was originally planned in the 1996 budget. By 1998-99, program spending will have declined for six consecutive years and will be nearly 14 per cent lower than in 1993-94.
- The budget imposes no new taxes and no further cuts to government programs. Some of the fiscal gains are being reinvested in new priorities primarily through selected tax cuts.
- Excluding the Contingency Reserve, only 25 per cent of the amount by which the deficit target is expected to be exceeded this year is being reinvested -- to set up the Canada Foundation for Innovation. All future initiatives will be funded within the government's deficit targets of $17 billion in 1997-98 (2 per cent of GDP) and $9 billion in 1998-99 (1 per cent of GDP), while fully maintaining the Contingency Reserve of $3 billion.
- The costs of new initiatives will not exceed $1 billion per year.

Investing in immediate jobs and growth

- While the foundations for strong job creation are in place, the government will continue to invest in areas of the economy that would provide immediate jobs and growth potential, to help bridge the gap to stronger growth, through programs that will leave lasting benefits:

    - additional support for tourism through promotion and the financing of private sector infrastructure;
    - support to rural economic development;
    - support for small businesses;
    - promoting international trade.

- These new measures complement those announced since the 1996 budget: extension of the Canada Infrastructure Works Program and the Residential Rehabilitation Assistance Program; the New Hires program; and the youth employment strategy.

Investing in long-term job creation and growth

- Meeting the economic challenge posed by globalization and technological change through expansion of the government's long-term strategic investments:

  Higher Education:

  - increased tax assistance to current students and workers who want to return to school;
  - measures to assist students who have difficulties meeting their loan repayment obligations;
  - more effective incentives to help parents save for their children's education.

  Innovation:

  - creation of the proposed Canada Foundation for Innovation to support research infrastructure in the areas of health, the environment, science and engineering;
  - renewing "The Networks of Centres of Excellence" program which links researchers in various locations across the country;
  - maintaining the funding for the Industrial Research Assistance Program (IRAP) to increase the innovative capabilities of small business.

Investing in a stronger society

- Furthering the government's agenda to build a stronger society:

  - measures to strengthen Canada's health care system as recommended by the National Forum on Health;

  - enrichment of the Canada Child Tax Benefit, furthering steps towards the creation of a National Child Benefit System to assist low-income families with children;

  - measures to assist persons with disabilities; and

  - enhanced incentives to encourage charitable giving.

Fiscal impact of new initiatives

Summary: Fiscal impact of policy initiatives since the 1996 budget

	1996-97	1997-98	1998-99	1999-00
		(millions of dollars)		
Gross Fiscal Impact of Initiatives				
Investing in Jobs and Growth				
Measures announced prior to 1997 budget		735	75	10
Immediate jobs and growth		213	65	67
Long-run job creation and growth:				
Higher education and skills		47	137	202
Research and innovation	800		31	32
Investing in a Stronger Society				
Sustaining and improving Canada's health care system		83	108	108
Toward a National Child Benefit System[1]		50	470	600
Helping Canadians with disabilities		40	90	100
Support for charitable giving		30	100	100
Total	800	1198	1076	1219
Reallocations/Other				
Reallocations		-82	-201	-202
Extension of temporary tax on banks		-25	-45	
Tobacco excise tax increase (Nov. 96)	-35	-100	-100	-100
Total	-35	-207	-346	-302
Net fiscal impact of initiatives	765	991	730	917

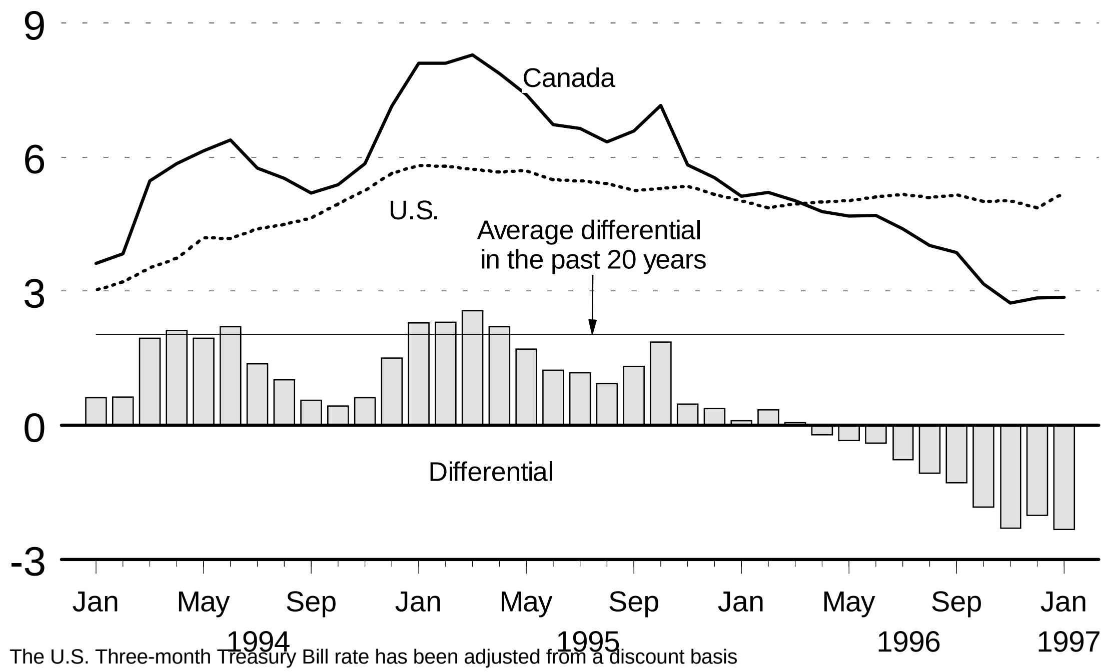
[1] Figures based on proposed July 1998 start-up.
(+) sign indicates an increase in the deficit and net debt.
(-) sign indicates a reduction in the deficit and net debt.

- Excluding the Contingency Reserve, 75 per cent of the better-than-expected fiscal results in 1996-97 will be applied to lower the deficit.
- Over the period 1997-98 to 1999-00, nearly 75 per cent of new initiatives are targeted tax reduction measures -- not new program spending.
- There have been no personal income tax rate increases in the last three budgets and there are no new taxes in this budget.

Economic Developments and Prospects

Short-term interest rates have fallen

Canadian and U.S. 3-month Treasury Bill rates
per cent

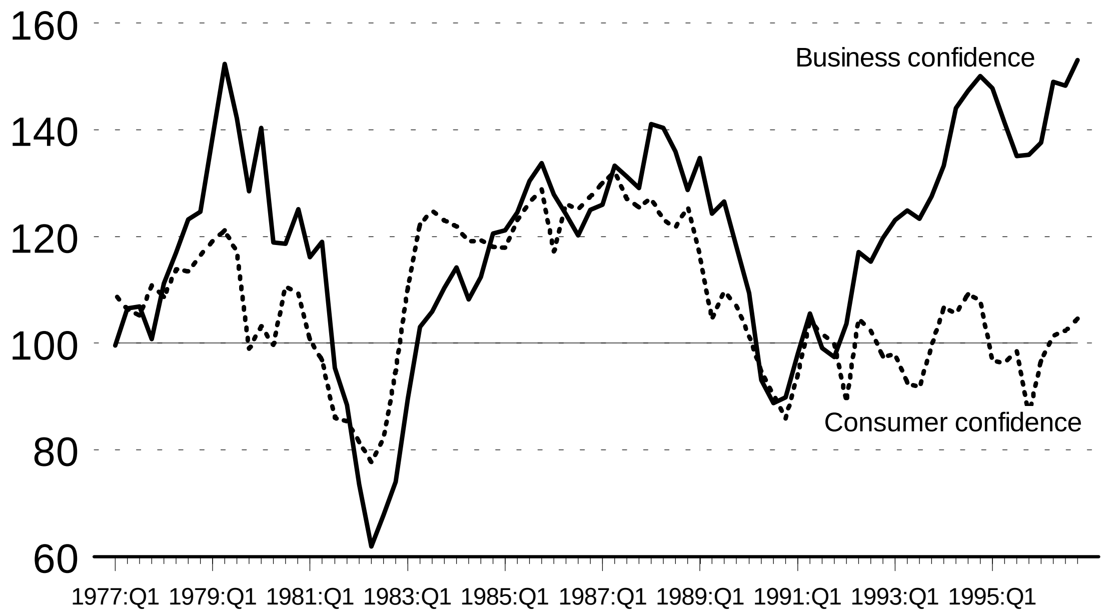


The U.S. Three-month Treasury Bill rate has been adjusted from a discount basis

- Canadian interest rates rose dramatically in 1994, in part because of concern over Canada's high deficit and debt burden, thereby resulting in a lack of credibility with investors, both foreign and domestic. High interest rates in turn compounded Canada's fiscal problems and hurt growth.
- The decisive fiscal measures adopted by both the federal and provincial governments all across Canada have broken this vicious cycle.
- Short-term interest rates are now at their lowest level in close to 35 years.
- Canadian short-term rates have typically been above their U.S. counterparts. Over the past twenty years, Canadian 3-month Treasury Bill rates have averaged about 200 basis points above those in the U.S. Currently, Canadian rates are about 230 basis points lower.
- The differential between Canadian and U.S. 10-year bond rates, which has averaged about 110 basis points since mid-1982, has been eliminated.

Confidence is improving

Indices of confidence
index, 1991 average = 100

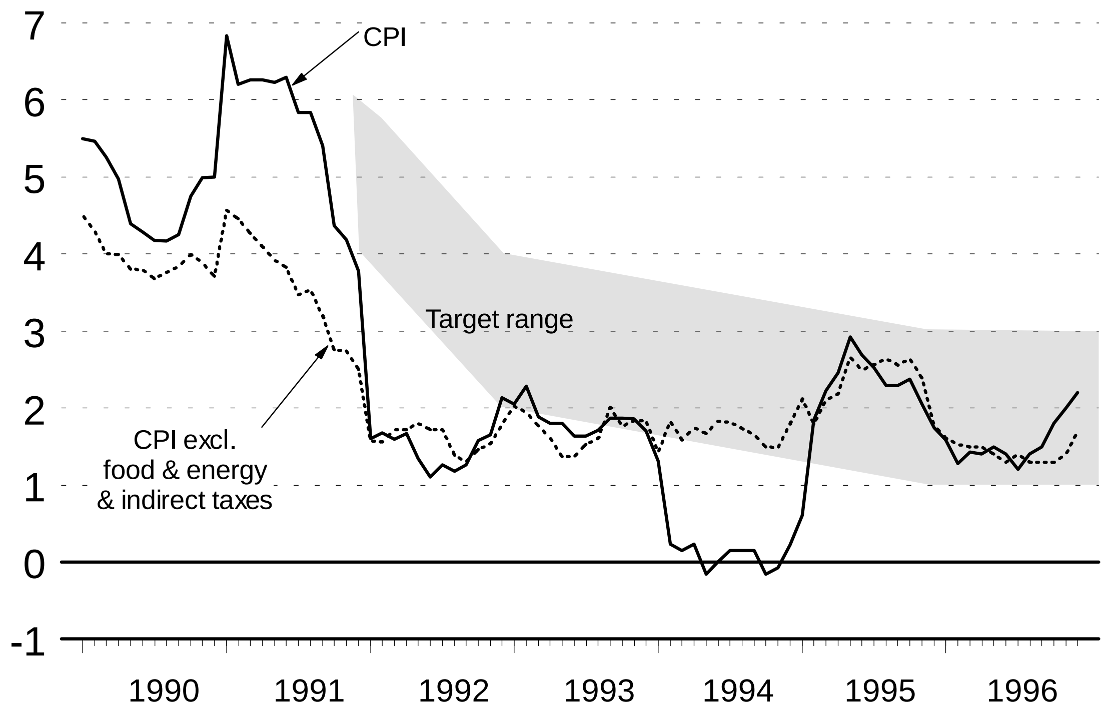


Source: The Conference Board of Canada

- Lingering job insecurity has held back consumer confidence.
- Nevertheless, the Conference Board of Canada's consumer attitudes index posted its fourth consecutive gain in the fourth quarter of 1996.
- Meanwhile, the Conference Board's index of business confidence reached its highest level ever in the last quarter of 1996.
  - A record-setting 64.1 per cent of respondents think it is a good time to invest. Only 12.2 per cent of respondents consider it a bad time to invest.
  - About 70 per cent of those surveyed expect to increase their investment spending over the next 6 months. This will help boost the economy.

Inflation is within the target range

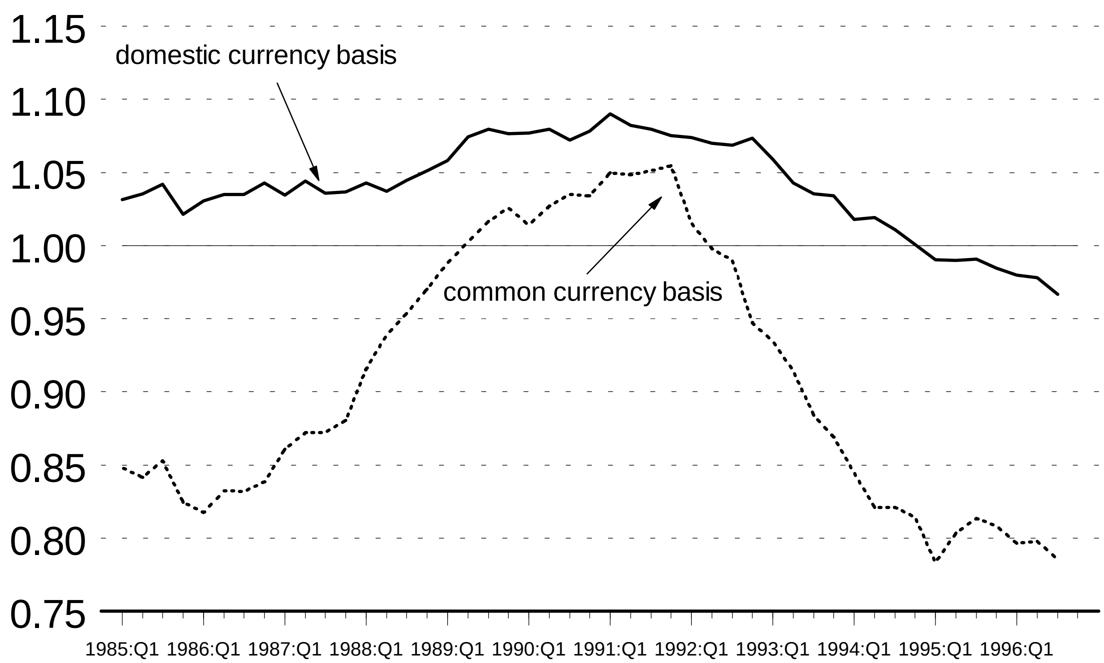
Consumer Price Index and Net Price Index
per cent - year over year



- Canada's commitment to low inflation has been affirmed and amply demonstrated.
- In late 1993, the government extended the inflation control targets, setting a range for the inflation rate of 1 to 3 per cent through the end of 1998.
- Inflation has averaged under 2 per cent over the last 3 years -- its lowest sustained level in three decades and less than one third of its average during the 1980s.

Canada is very competitive

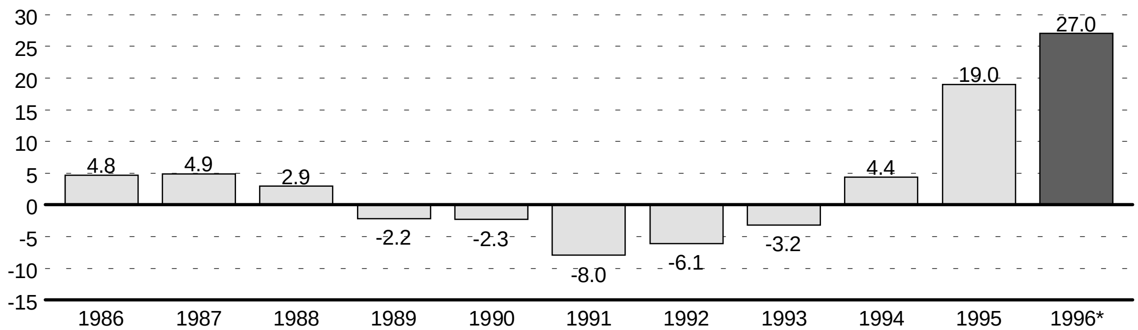
Canada/U.S. relative unit labour costs (total economy)
index, 1978:Q1 = 1.0



- Canada's strong competitive position is being steadily reinforced by our success in controlling inflation.
- For the economy as a whole, domestic unit labour costs have risen less than four per cent since 1990 while those in the U.S. have risen almost 16 per cent, yielding a 10 per cent relative improvement in national currency terms.
- The depreciation in the Canadian dollar over the first half of the 1990s has further improved Canada's competitive position vis-à-vis the U.S.
- Success in controlling inflation will help ensure that exporters retain the gains they have made in recent years.

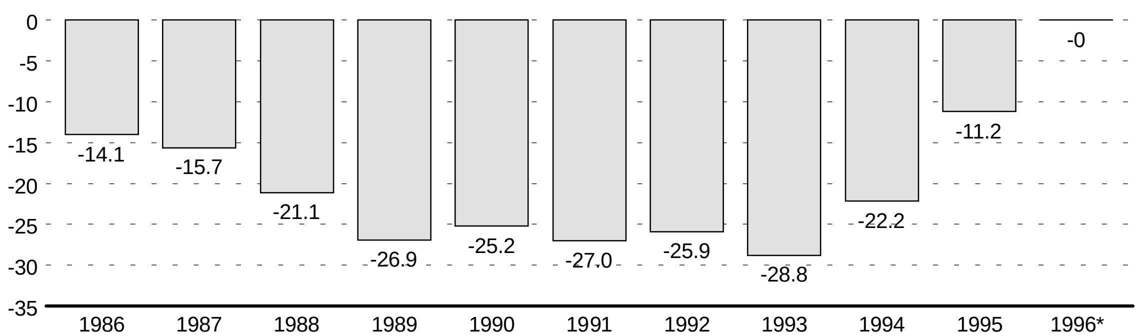
Improving external balance

Net exports of goods and services
$ billions



*Average of the first three quarters of 1996 at annual rates

Current account balance
$ billions

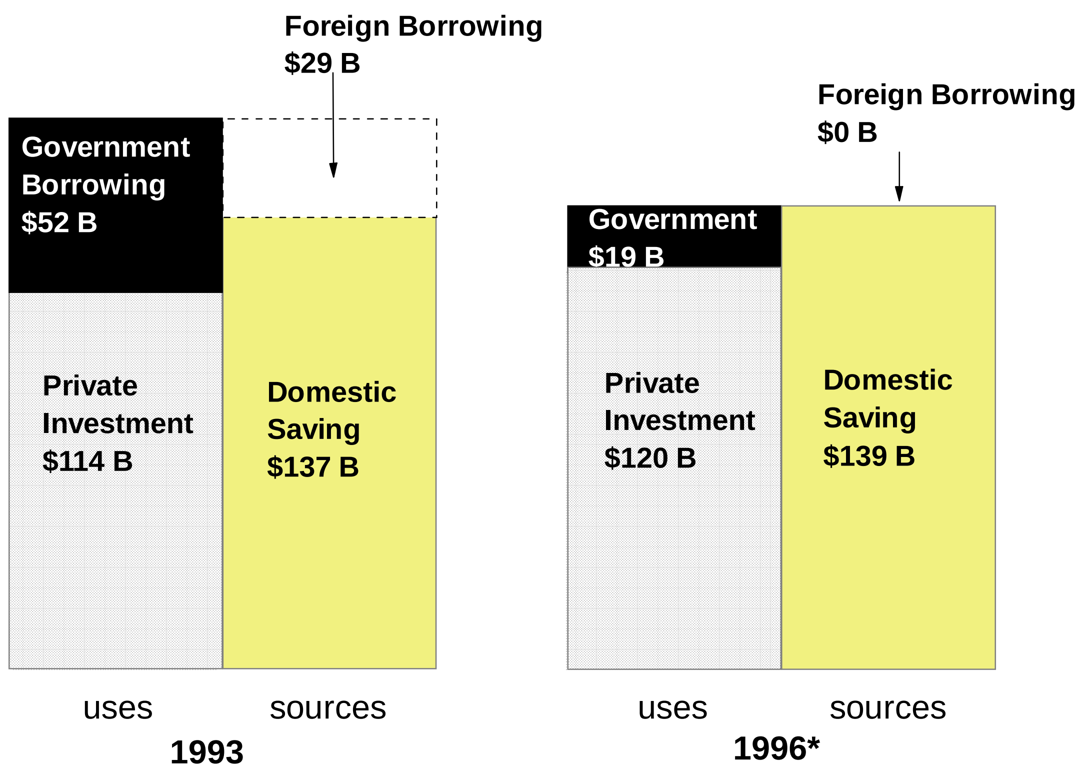


*Average of the first three quarters of 1996 at annual rates

- From 1989 to 1993 Canada imported more goods and services than it exported. The current account deficit was close to 4 per cent of GDP for five years in succession.
- As Canada's competitiveness has improved, exports have soared. The overall trade balance improved from a deficit of more than $3 billion in 1993 to a surplus of over $27 billion in the first three quarters of 1996.
- Canada's current account moved into surplus in the second quarter of 1996 for the first time since 1984 and was very close to balance over the first three quarters of 1996.

Need for foreign borrowing all but eliminated

Sources and uses of saving: 1993 and 1996

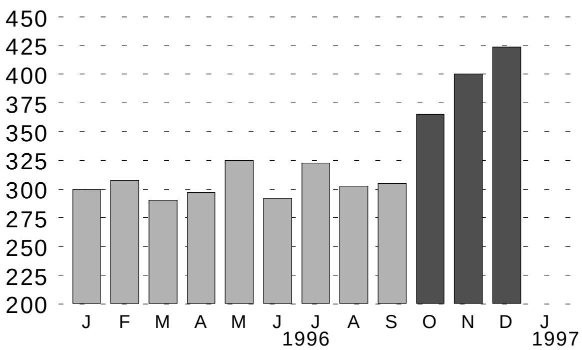


* First three quarters of the year at annual rates.

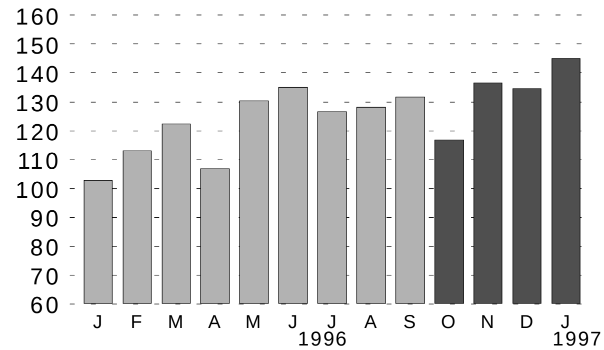
- By 1993, massive government borrowing was absorbing a dramatic portion of available savings, meaning Canada had to borrow extensively abroad.
    - Canada's external indebtedness and interest payments to foreigners rose to record levels.
- By 1996, reductions in borrowing by all levels of government have virtually eliminated Canada’s reliance on net foreign borrowing (as measured by the current account balance), helping reduce the risk premium on Canadian assets and thereby helping Canadian interest rates to fall.
- Reducing Canada's reliance on foreign borrowing also means that more of the income generated in Canada stays in Canada.

Recent developments show the economy is strengthening

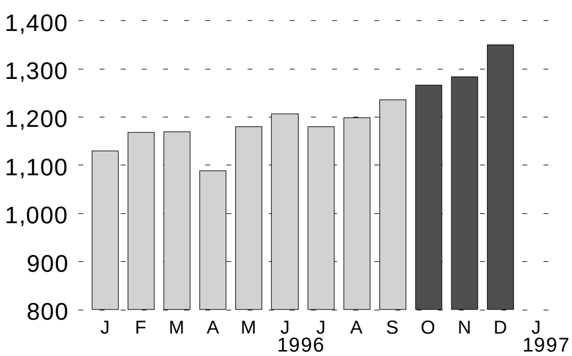
MLS house resales
thousands, annual rate



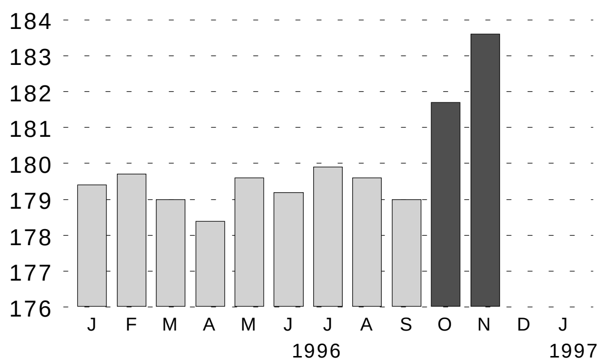
Housing starts
thousands, annual rate



Motor vehicle sales
thousands, annual rate



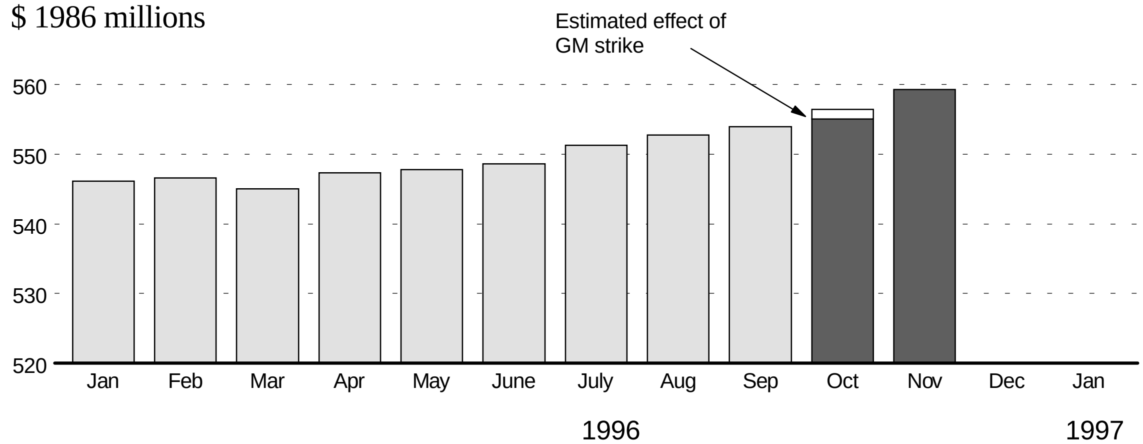
Real consumer spending on goods
$1986 millions



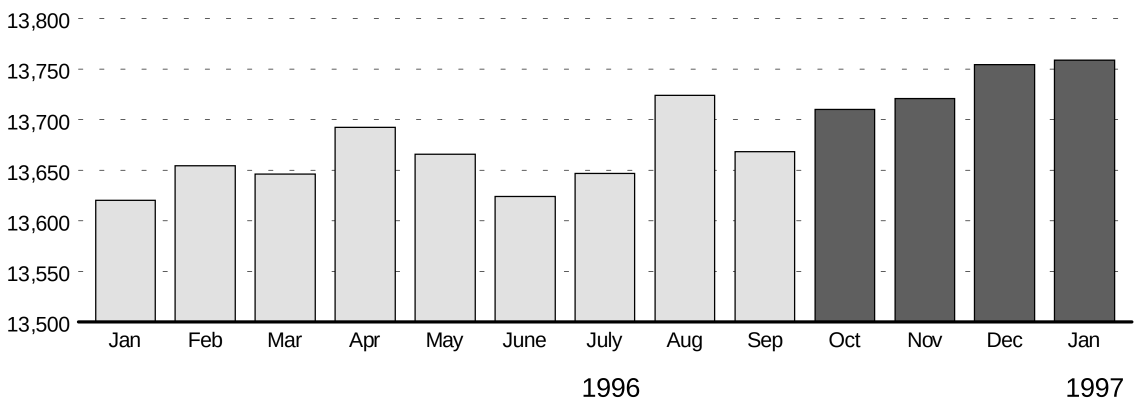
- The interest rate declines achieved in 1995 and early 1996 began to have a marked effect on interest sensitive sectors of the economy in the Fall of 1996.
  - House resales were soaring in late 1996, reducing the inventory of unsold houses and raising starts nearly 50 per cent above their mid-1995 low.
  - Sales of durable goods rose strongly in the fourth quarter of 1996. New motor vehicle sales, for example, increased 8 per cent in the fourth quarter.
  - Average real consumer spending on goods in October and November was 1.8 per cent above its third-quarter level.

Recent developments show the economy is strengthening

Real monthly GDP
$ 1986 millions



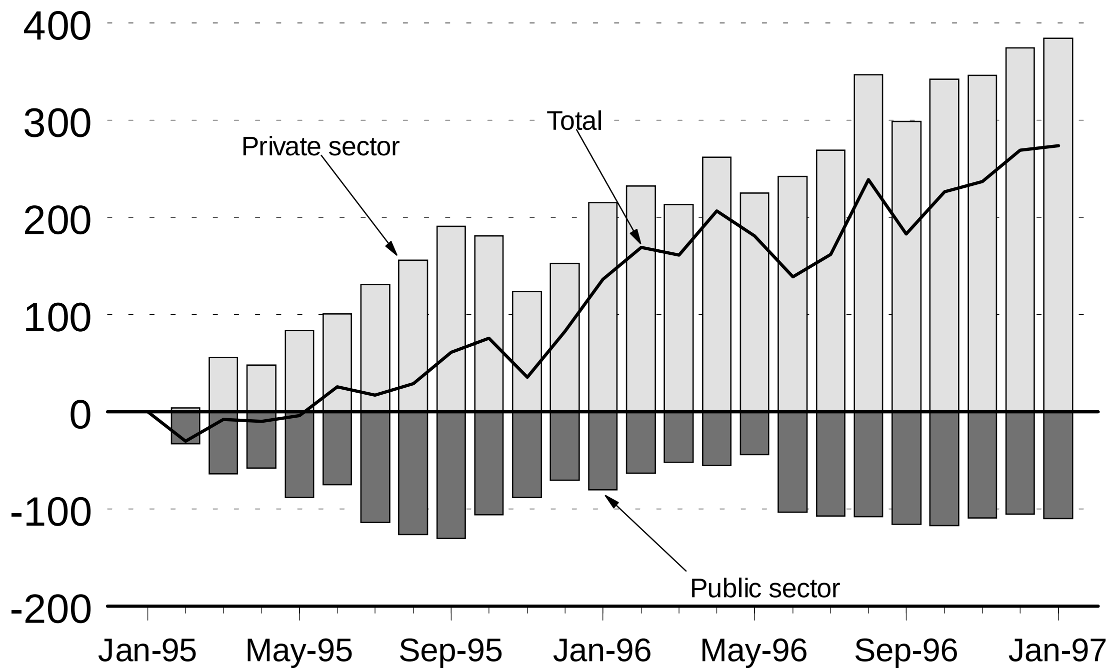
Employment
thousands



- Output growth strengthened in the second half of 1996, likely to the fastest pace since 1994.
- As a result, employment increased by 91,000 in the last four months, with nearly 9 in 10 of those jobs full-time.

The private sector is creating jobs

Cumulative employment growth since January 1995 by sector
thousands



- Private sector job creation has been healthy, with 384,000 jobs having been created since January 1995.
- Public sector retrenchment has offset some of the private sector job growth. Nevertheless, total employment has expanded by 274,000.
- For every job lost in the public sector there has been an offset of almost nine jobs created in the private sector.

Private sector forecasts for 1997 and 1998

There is a consensus that interest rates will remain low in 1997.

- The consensus among forecasters is for the three-month Treasury Bill rate to average 3.2 per cent in 1997, rising slightly to 3.7 per cent in 1998.
- Canadian 10-year government bond yields are expected to remain roughly equal to U.S. rates at around 6.6 per cent in 1997 and 1998.

Private sector forecasters expect stronger economic growth in 1997 and 1998.

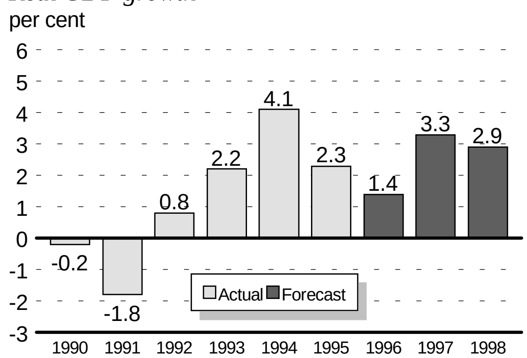
- Growth is expected to strengthen to 3.3 per cent in 1997 from an estimated 1.4 per cent in 1996 and then stay near 3 per cent in 1998.
- Demand is expected to become more broadly based in 1997, expanding from the export sector to domestic demand, beginning with the most interest-sensitive components.

The outlook also calls for improved labour market conditions.

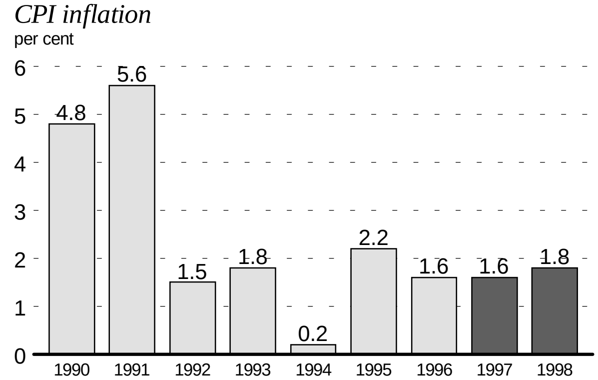
- Employment is expected to grow by 2.0 per cent in 1997, compared with 1.3 per cent in 1996. Many private sector forecasters expect that this stronger growth could generate over 300,000 additional jobs by the end of this year.
- Private sector forecasters expect the unemployment rate to fall below 9 per cent by 1998.

Private sector forecasts for 1997 and 1998

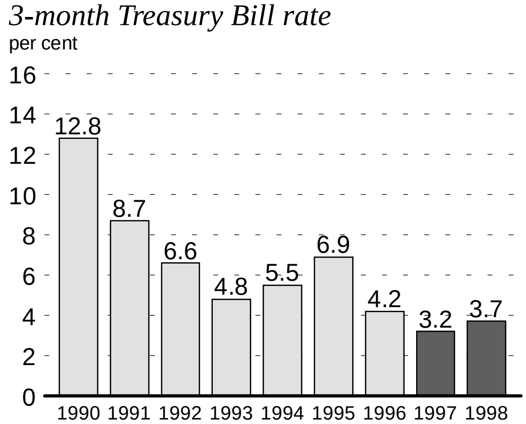
Real GDP growth



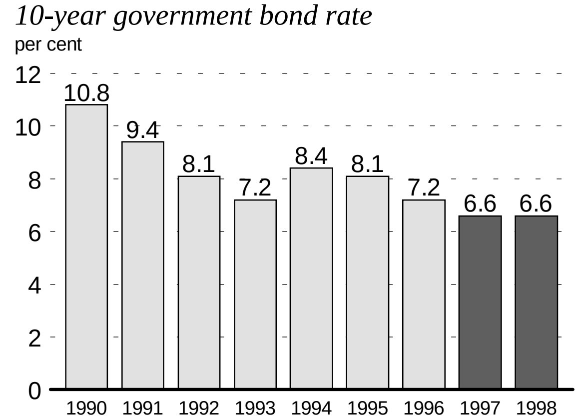
CPI inflation



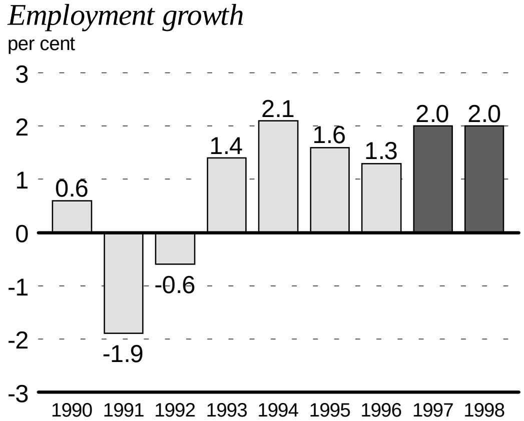
3-month Treasury Bill rate



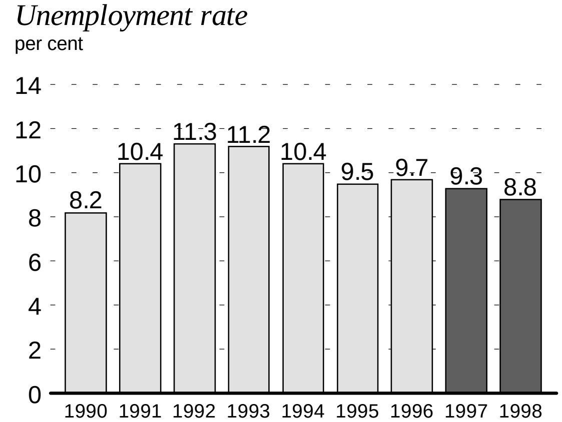
10-year government bond rate



Employment growth

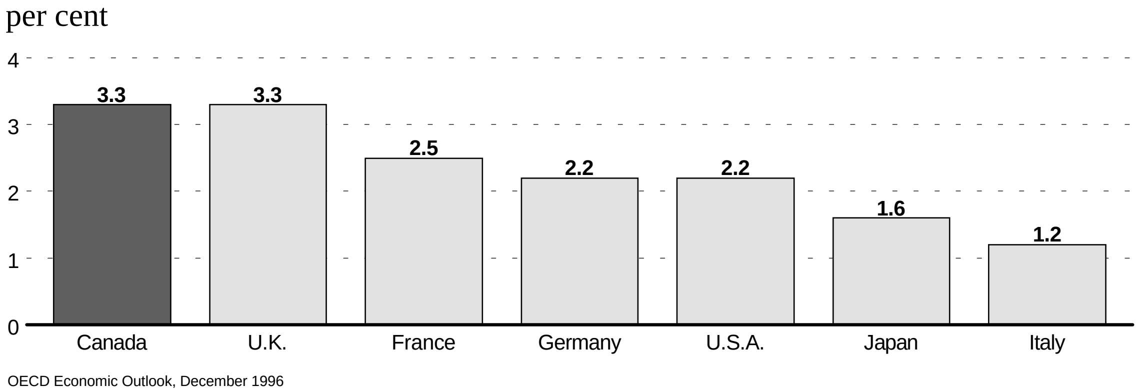


Unemployment rate

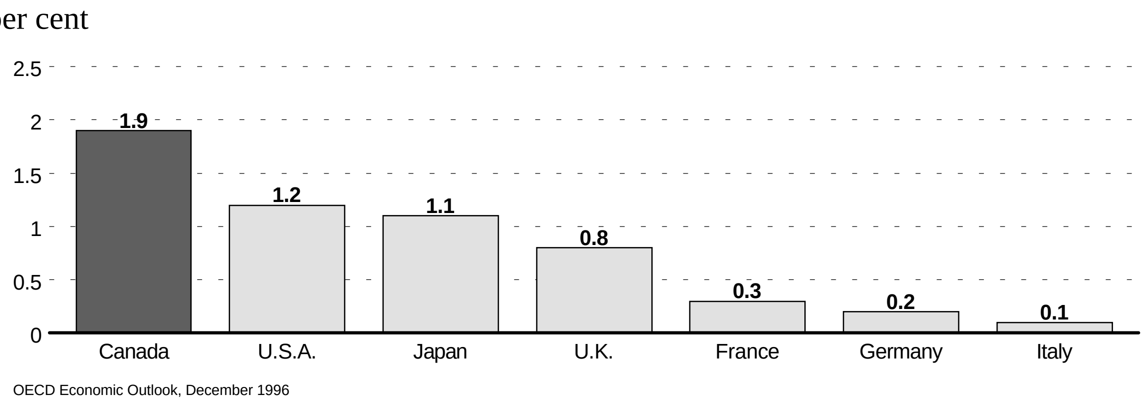


Canada to lead the G-7 in employment growth and output growth

OECD forecast for real output growth in 1997



OECD forecast for employment growth in 1997



- The most recent forecast by the Organization for Economic Co-operation and Development (OECD) projects that Canada (along with the U.K.) will lead the G-7 countries in growth in 1997.
- Moreover, Canada is projected to have the strongest employment growth by far among the G-7 countries in 1997.

Economic assumptions for fiscal planning remain prudent

Prudent planning assumptions for fiscal planning

	1996	1997	1998
Real GDP Growth (%)			
Private sector average	1.4	3.3	2.9
1997 Budget	1.4	3.2	2.6
Nominal GDP Growth (%)			
Private sector average	2.7	4.9	4.7
1997 Budget	2.7	4.7	4.1
Nominal GDP ($ billion)			
Private sector average	798	837	876
1997 Budget	798	835	870
Three-month T-Bill Rate (%)			
Private sector average	4.2	3.2	3.7
1997 Budget	4.2	4.0	4.5
10-year Gov't. Bond Rate (%)			
Private sector average	7.2	6.6	6.6
1997 Budget	7.2	7.1	7.1

NOTE: 1996 GDP data are estimates since only three quarters of data are currently available.

- As in the past, economic assumptions for fiscal planing include prudence factors.
  - Short-term interest rates are assumed to be 80 basis points higher than the private sector average in 1997 and 1998.
  - Long-term interest rates are assumed to be 50 basis points higher than the private sector average in 1997 and 1998.
- Applying these prudence factors results in a level of nominal GDP that is 0.2 per cent lower in 1997 than forecast by the private sector and 0.7 per cent lower in 1998.
- The prudence factors adopted in the budget are in line with those adopted in the October Economic and Fiscal Update and in line with the views and recommendations made by the House Finance Committee.

Fiscal Outlook

A credible fiscal strategy

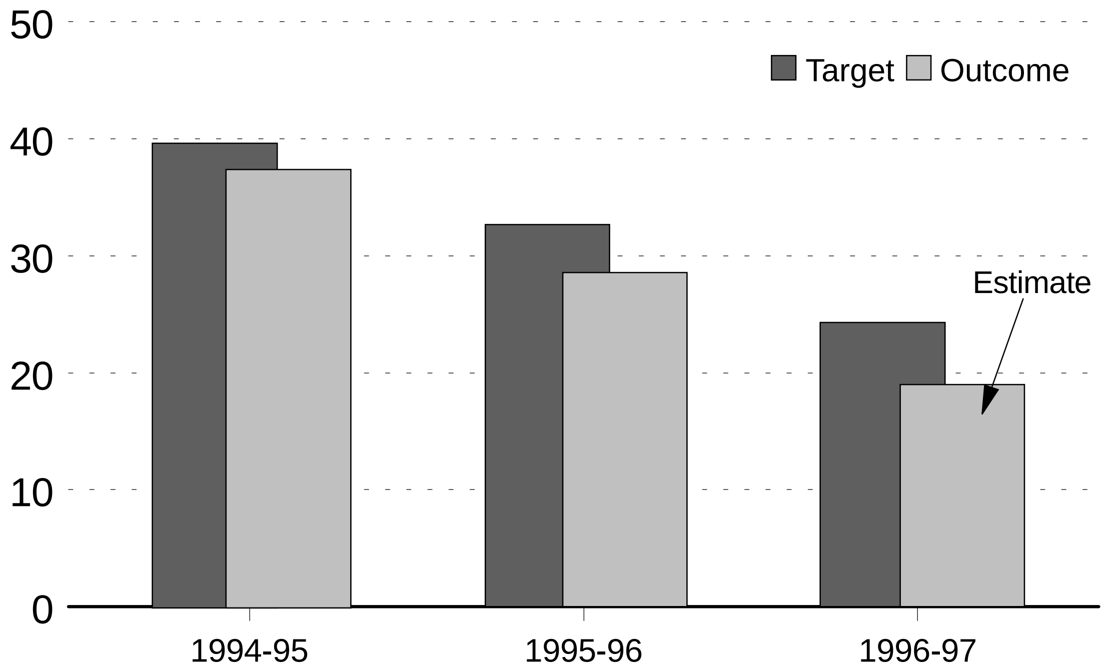
- Deficit reduction has been pursued using two-year rolling deficit targets -- a pace that is deliberate, measured and responsible.

- The targets have been based on prudent economic planning assumptions backed by a sizeable Contingency Reserve.

- This budget continues this strategy and stays the course on deficit reduction.

Deficit target bettered for third consecutive year

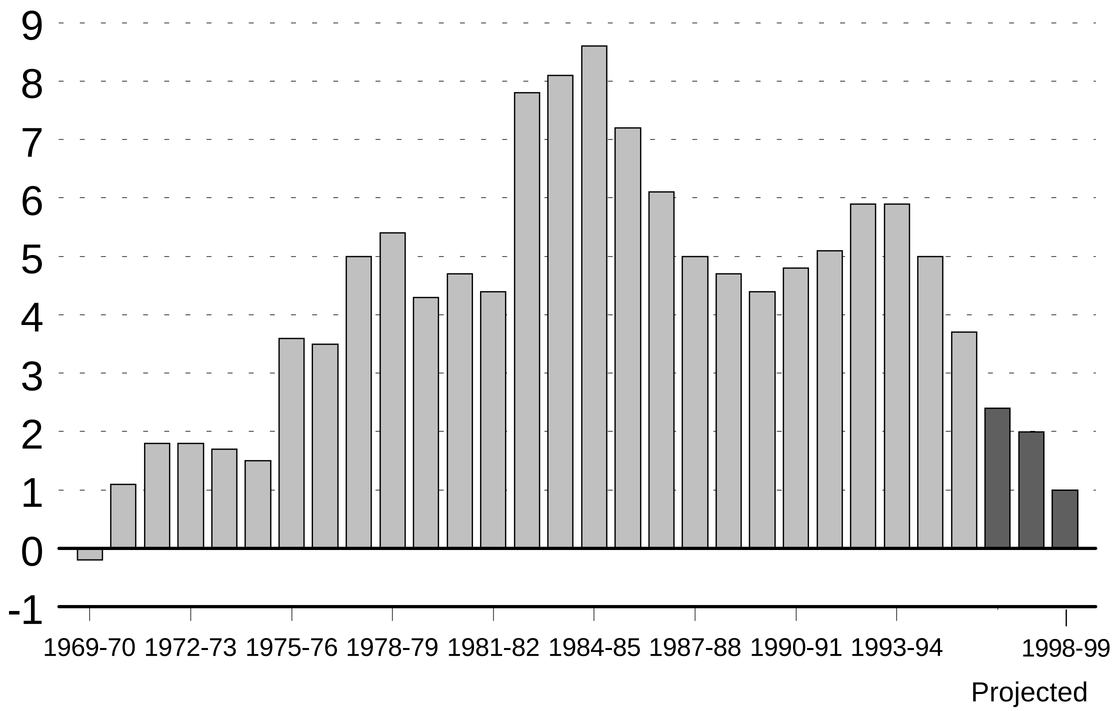
Deficit targets and outcomes
billions of dollars



- In 1996-97, the deficit is estimated to be no higher than $19 billion (2.4 per cent of GDP) -- $5.3 billion lower than the target of $24.3 billion (3 per cent of GDP).
- The deficit will be $9.6 billion lower than last year -- the largest year-over-year decline.
- The deficit targets in 1994-95 and 1995-96 were also both bettered.
- The $17 billion (2 per cent of GDP) and $9 billion (1 per cent of GDP) deficit targets for 1997-98 and 1998-99 will also be met.
- These targets include the Contingency Reserve of $3.0 billion which, if not needed, will not be spent.

The lowest deficit-to-GDP ratio in almost 30 years

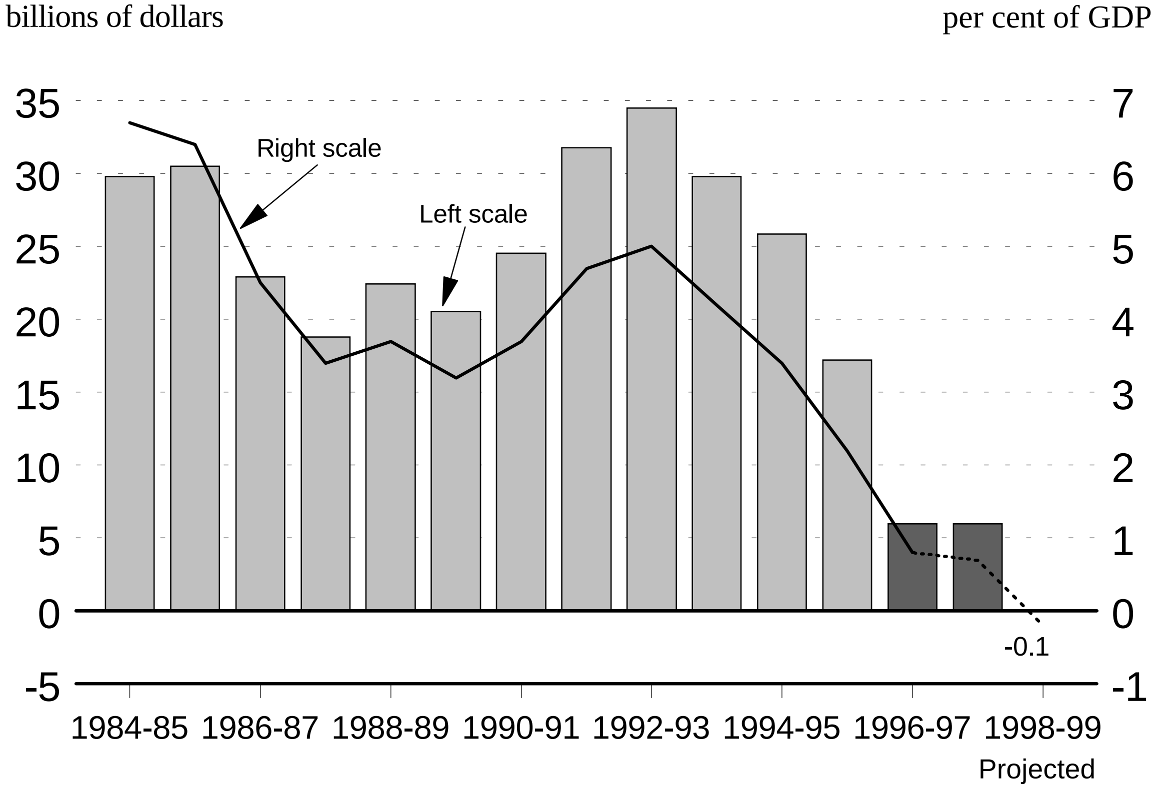
Federal deficit
per cent of GDP



- The federal deficit will decline to 1 per cent of GDP by 1998-99.
- This will be the lowest level since 1969-70.

Financial requirements eliminated in 1998-99

Federal financial requirements



- Federal financial requirements will be eliminated by 1998-99.
- This means the federal government will not need to borrow any new money from financial markets as of 1998-99.
- Federal financial requirements are comparable to the way most other major industrialized countries, including the United States, measure their deficits.
- In these countries, achieving zero financial requirements would be the same as balancing their budgets.

Impact of budget measures

Direct net budget savings since 1994-95

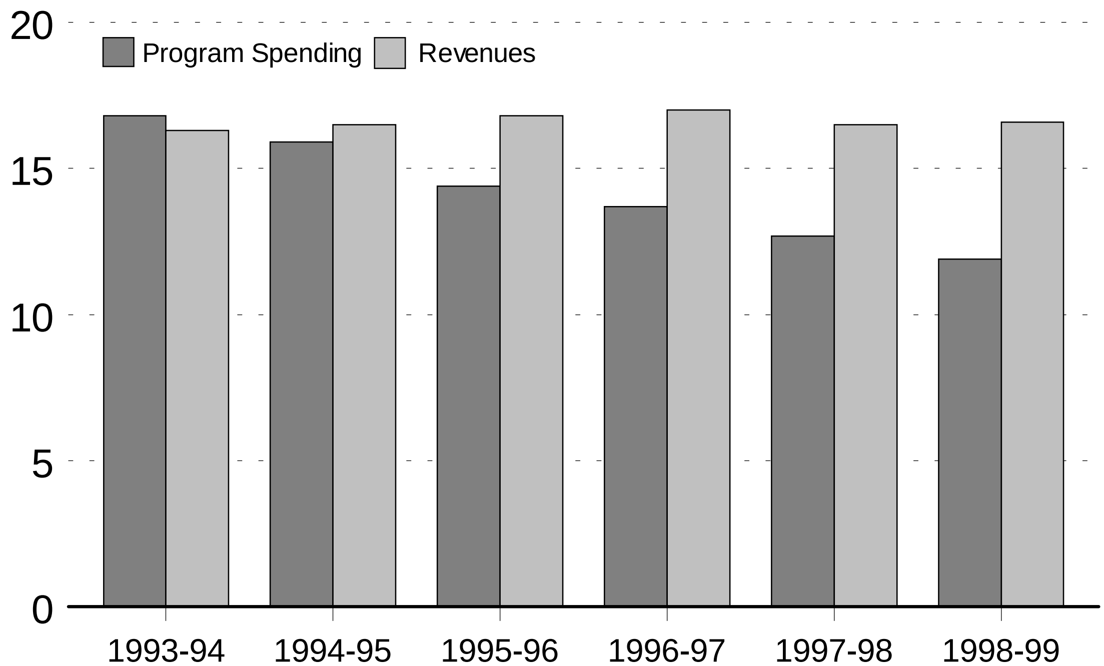
	1994-95	1995-96	1996-97	1997-98	1998-99	Cumulative effect on net debt[1]
			(billions of dollars)			
1994 budget	1.5	8.0	10.9	11.9	12.6	44.9
1995 budget[2]		5.0	10.6	13.3	13.8	42.7
1996 budget[3]			0.0	0.9	2.5	3.4
1997 budget			-0.8	-1.0	-0.7	-2.5
Total	1.5	13.0	20.7	25.1	28.2	88.5
of which:						
expenditures	0.7	10.6	18.1	22.8	25.6	77.8
revenues	0.8	2.4	2.6	2.3	2.6	10.7

[1] Direct fiscal impact only. Does not include savings on public debt charges associated with lower borrowing requirements.
[2] Includes 1996 EI reform. Excludes the impact of the proposed Seniors Benefit which starts in 2001.
[3] Includes measures announced since the 1996 budget.
(+) sign indicates a reduction in the deficit and net debt.
(-) sign indicates an increase in the deficit and net debt.

- The initiatives of the four budgets together reduced the 1998-99 deficit by more than $28 billion from what it would have been if no actions had been taken.
- Over 90 per cent of these net savings are the result of expenditure reductions.
- By 1998-99, these net budget savings contribute to a $88.5 billion reduction in net debt.

Program spending reductions -- a major factor of deficit decline

Program spending and revenues
per cent of GDP



- Between 1993-94 and 1998-99, revenues as a share of GDP will rise only marginally.
- Over the same period, program spending as a share of GDP will fall from 16.8 per cent to 11.9 per cent.

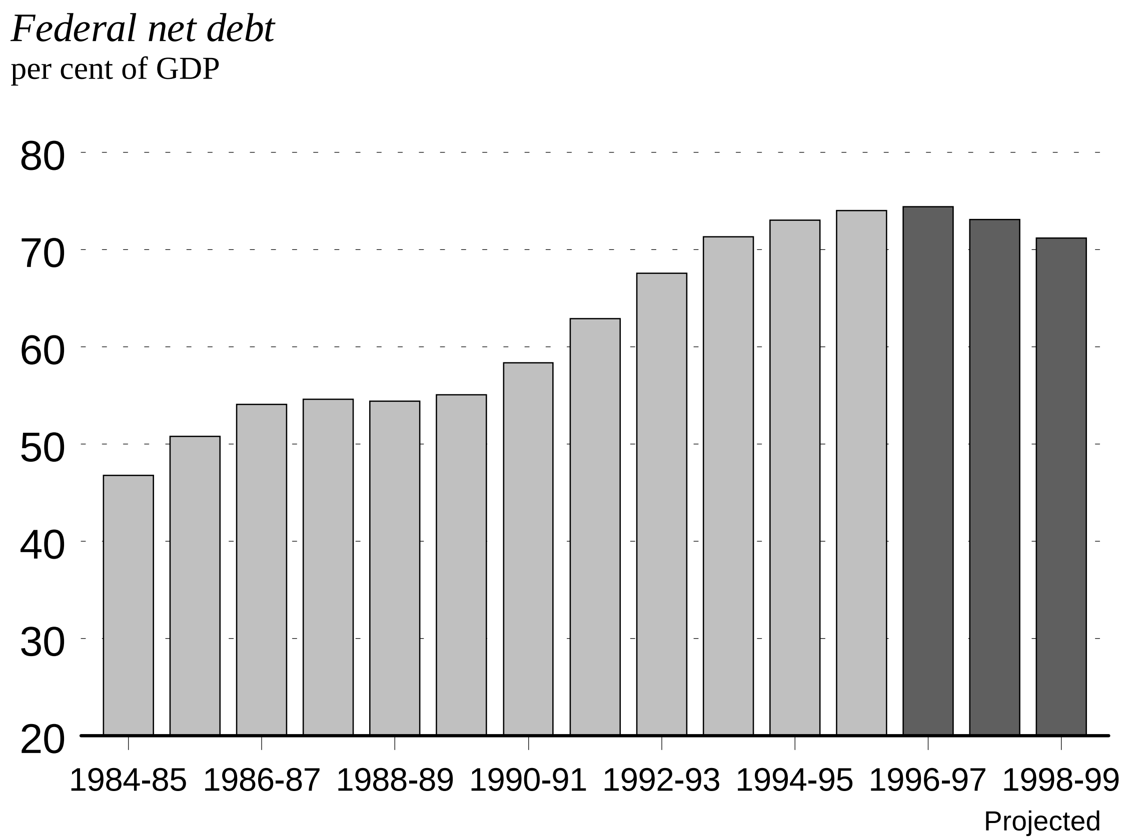
Decline in deficit-to-GDP ratio

Change in the deficit-to-GDP ratio from 1993-94 to 1998-99

	1993-94	1998-99	Change
		percentage of GDP	
Decline in the deficit-to-GDP ratio	5.9	1.0	-4.9
of which:			
Decline in program spending	16.8	11.9	-4.9
Increase in revenue	16.3	16.6	0.3
partially offset by:			
Increase in public debt charges	5.3	5.3	0.0
Addition of Contingency Reserve	--	0.3	0.3

- Reductions in program spending are the overwhelming contributing factor of deficit reduction.
- Revenue yield rises only slightly.

Debt-to-GDP on a clear downward track



- The net debt-to-GDP ratio will begin to fall in 1997-98 -- the first meaningful decline since 1974-75.
- More importantly, it will continue to decline in 1998-99.

Fiscal Outlook

Summary statement of transactions

Fiscal outlook with budget measures

	1994-95	1995-96	1996-97	1997-98	1998-99
			(billions of dollars)		
Budgetary revenues	123.3	130.3	135.5	137.8	144.0
Program spending	118.7	112.0	109.0	105.8	103.5
Operating balance	4.6	18.3	26.5	32.0	40.5
Public debt charges	42.0	46.9	45.5	46.0	46.5
Underlying deficit	-37.5	-28.6	-19.0	-14.0	-6.0
Contingency Reserve				3.0	3.0
Deficit	-37.5	-28.6	-19.0	-17.0	-9.0
Net public debt	545.7	575.3	593.3	610.3	619.3
Non-budgetary transactions	11.6	11.4	13.0	11.0	10.0
Financial requirements/sources	-25.8	-17.2	-6.0	-6.0	1.0
Per cent of GDP					
Budgetary revenues	16.5	16.8	17.0	16.5	16.6
Program spending	15.9	14.4	13.7	12.7	11.9
Operating balance	0.6	2.4	3.3	3.8	4.7
Public debt charges	5.6	6.0	5.7	5.5	5.3
Deficit	-5.0	-3.7	-2.4	-2.0	-1.0
Financial requirements	-3.5	-2.2	-0.8	-0.7	0.1
Net public debt	73.0	74.0	74.4	73.1	71.2

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

Numbers may not add up due to rounding.

The revenue outlook

The revenue outlook from 1994-95

	1994-95	1995-96	1996-97	1997-98	1998-99
			(billions of dollars)		
Personal income tax	56.3	60.2	63.3	66.5	70.4
Corporate income tax	11.6	16.0	15.8	16.2	17.1
Employment insurance contributions	18.9	18.5	19.6	19.6	19.7
Excise taxes and duties					
Goods and Services Tax	16.8	16.4	16.9	17.5	18.4
Customs import duties	3.6	3.0	2.3	2.1	1.9
Other excise taxes	6.7	7.3	7.8	8.1	8.3
Other tax revenues	1.8	2.1	2.1	2.1	2.0
Total tax revenues	115.7	123.3	127.8	131.7	137.7
Non-tax revenues	7.6	7.0	7.7	6.1	6.3
Total budgetary revenues	123.3	130.3	135.5	137.8	144.0
Per cent of GDP	16.5	16.8	17.0	16.5	16.6

The program spending outlook

Program spending since 1994-95

	1994-95	1995-96	1996-97	1997-98	1998-99
			(billions of dollars)		
Major transfers to persons					
Elderly benefits	20.5	21.0	21.6	22.3	22.9
Employment insurance	14.8	13.5	13.1	13.5	14.1
Total	35.3	34.5	34.7	35.8	37.0
Major cash transfers to other levels of government					
CHST[1]	19.3	18.6	14.9	12.5	11.8
Equalization	8.5	8.8	8.5	8.3	8.4
Transfers toTerritories	1.2	1.2	1.1	1.1	1.1
Other fiscal transfers	-0.4	-0.2	0.1	0.0	0.0
Alternative Payments for Standing Programs	-1.8	-1.9	-2.0	-2.1	-2.2
Total	26.7	26.5	22.6	19.8	19.1
Subsidies and other transfers					
Business subsidies	3.7	2.3	2.3	1.8	1.5
Indians and Inuit	3.7	4.1	4.3	4.4	4.4
International assistance	2.9	2.2	2.2	2.1	1.9
Science and Technology	1.0	0.9	1.7	0.9	0.8
Canada Infrastructure Works	0.4	0.9	0.5	0.6	0.0
Other	8.3	7.8	7.3	6.8	5.9
Total	20.0	18.2	18.3	16.5	14.5
Crown Corporations	5.0	4.3	4.3	3.9	3.8
Defence	10.7	9.9	9.6	9.0	8.5
Other	21.0	18.6	19.5	20.8	20.7
Total	118.7	112.0	109.0	105.8	103.5

[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 (CHST).

Total entitlements under EPF/CAP and CHST are as follows:	29.3	29.6	26.9	25.1	25.1
Total entitlements (both tax and cash) for major transfer to other levels of government (CHST, Equalization and transfer to the Territories) are as follows:	38.2	38.7	35.7	33.6	33.7

Fiscal sensitivity analysis:
1-per-cent increase in nominal GDP (from increase in real output)

	Estimated changes to fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
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

Fiscal sensitivity analysis:
100-basis-point increase in all interest rates

	Estimated changes to fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
Budgetary transactions				
Revenue increases	0.5	0.5	0.5	0.5
Expenditure increases	1.5	2.4	2.8	3.1
Deficit increase	1.0	1.9	2.3	2.6

- Assuming a 1-per-cent increase in the level of nominal GDP 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 GDP is solely due to inflation, the deficit impact would be smaller.
- A sustained 100-basis-point increase in all interest rates would cause the deficit to increase by $1.0 billion in the first year.
- As longer-term debt matures, the impact on the deficit increases over time such that by year four, the deficit is about $2.6 billion higher.

Deficit sensitivity to interest rates has been reduced

	Total Debt*	Per cent of Fixed-Rate Debt**	Deficit Sensitivity 100-basis-point increase in all interest rates Year 1	Year 2	Year 3	Year 4
			(billions of dollars)			
1994 budget	514.5	53.3	1.7	2.5	3.0	3.5
1995 budget	550.2	55.1	1.8	2.6	3.1	3.6
1996 budget	586.4	56.9	1.3	2.2	2.6	3.0
1997 budget	602.0	62.0	1.0	1.9	2.3	2.6

* Interest-bearing debt as of March 31st in budget year.
** Fixed rate debt is generally defined as debt that will mature or debt for which the interest rate will be reset after one year (mainly marketable bonds).

- The government has realigned its strategy towards increasing the fixed share of the debt stock in line with other G-7 countries.
- As a result, the federal deficit is now less sensitive to unexpected interest rate fluctuations.

Federal debt and the maturity structure of unmatured debt

Federal debt (March 31, 1996)

	($ billions)
Net debt	574.3
Financial assets	48.5
Gross debt	622.8
of which:	
Unmatured debt	469.5
Pension liabilities	111.5
Other liabilities	41.8

Distribution of unmatured debt (March 31, 1996)

	(Per cent)
Treasury bills	35.4
Canada Savings Bonds	6.5
Bonds	
under 3 years	17.8
3 - 5 years	10.4
5 -10 years	15.3
over 10 years	12.3
Other	2.3
	100.0

The range of possible deficit outcomes

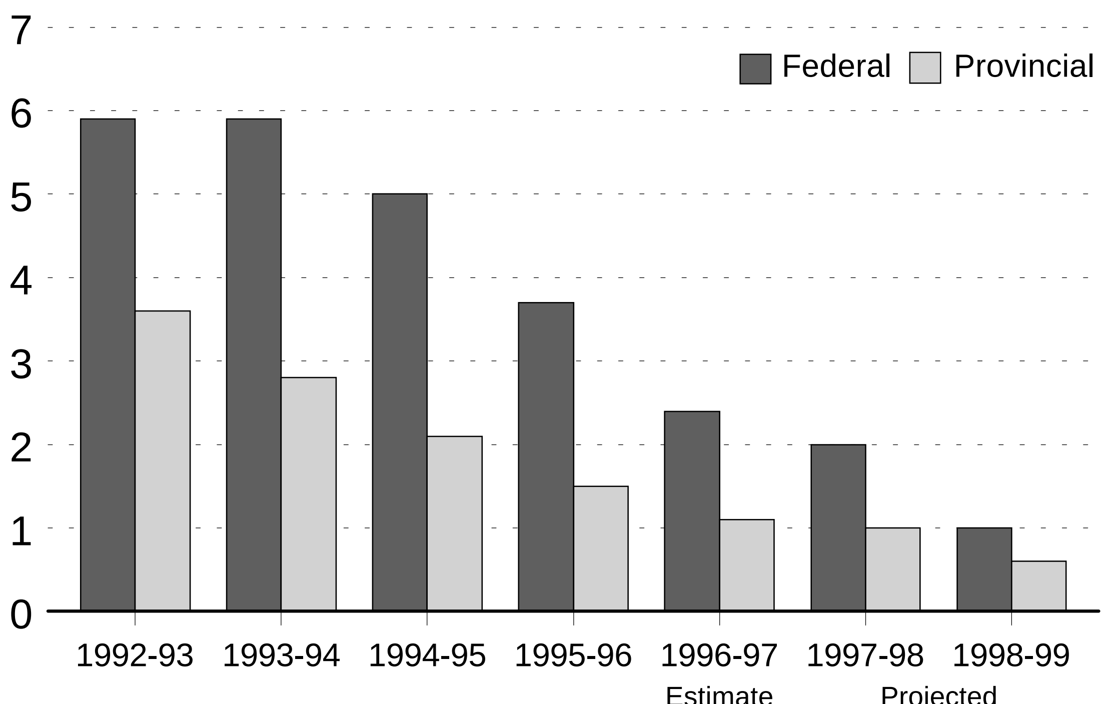
If the economic assumptions are:	The deficit will be:
More favourable than assumed (i.e. private sector average) →	Considerably lower
As assumed →	Lower (Contingency Reserve not needed)
Less favourable than assumed →	On target (contingency acts as a sizeable buffer)

> The deficit target would be met next year even if interest rates were 100 basis points higher, and growth one-half percentage point lower, relative to the <u>prudent</u> assumptions.
>
> This is because the Contingency Reserve of \$3.0 billion is large enough to handle adverse economic developments of this magnitude.

Fiscal Comparisons

Dramatic deficit reduction at both the federal and provincial government level

Federal and provincial/territorial budgetary deficits
Public Accounts Basis
per cent of GDP

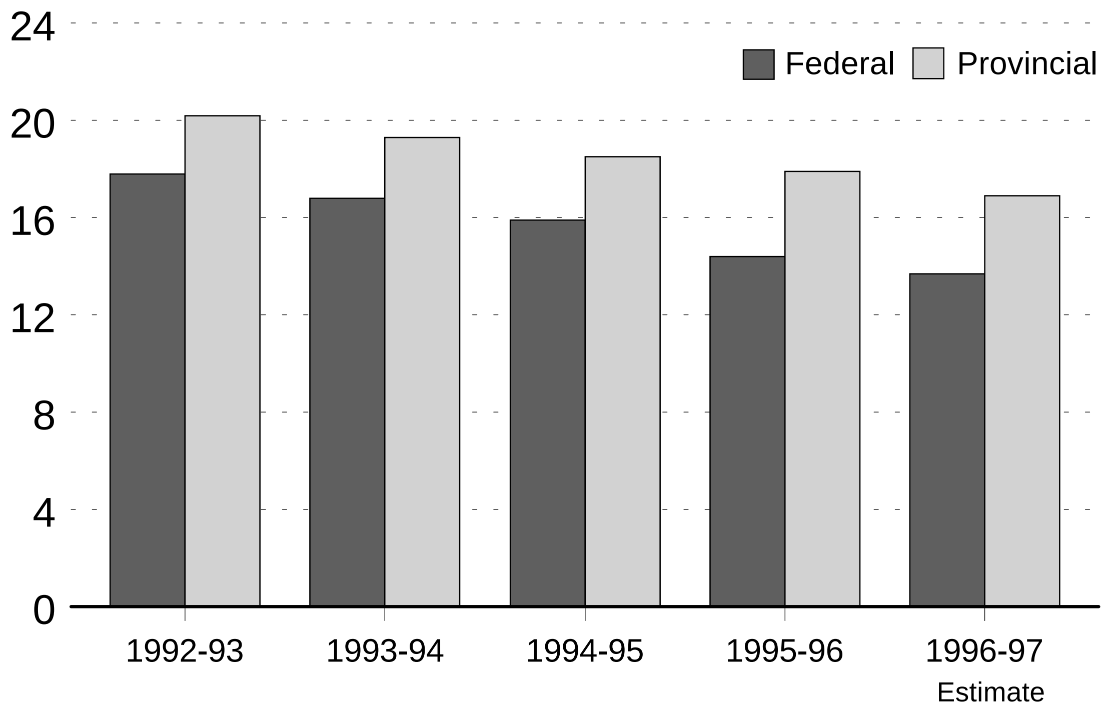


Source: Department of Finance Canada.

- The combined federal and provincial/territorial government deficit is estimated to have fallen by 58 per cent from 1992-93 to 1996-97.
- Six provinces are forecasting a balanced budget or a budgetary surplus for 1996-97, compared with only one jurisdiction in 1993-94.
- With the federal deficit set to decline to 1 per cent of GDP by 1998-99 and the projected improvement at the provincial/territorial level, the aggregate deficit should represent less than 2 per cent of GDP by 1998-99.
- The decline in the aggregate deficit ratio will pave the way for a significant decline in the net debt to GDP ratio after 1996-97.

Federal and provincial program spending continues to fall

Federal and provincial/territorial program spending
Public Accounts Basis
per cent of GDP

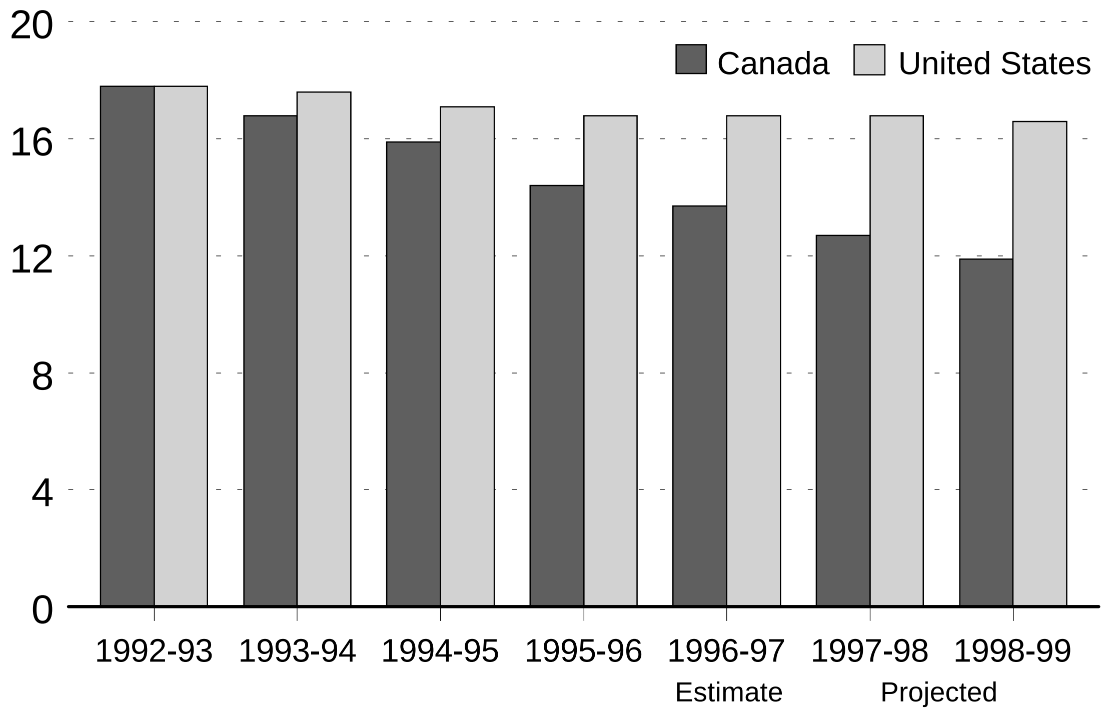


Source: Department of Finance Canada.

- Program spending reductions have been the cornerstone of the budget consolidation process of the Canadian governments.
- At both levels of government, program spending will decline by some 3 per cent in 1996-97.
- From 1992-93 to 1996-97, the federal and provincial/territorial program spending to GDP ratios will have declined by 4.1 and 3.3 percentage points, respectively.

Program spending declines faster in Canada than in the United States

Federal government program spending
per cent of GDP



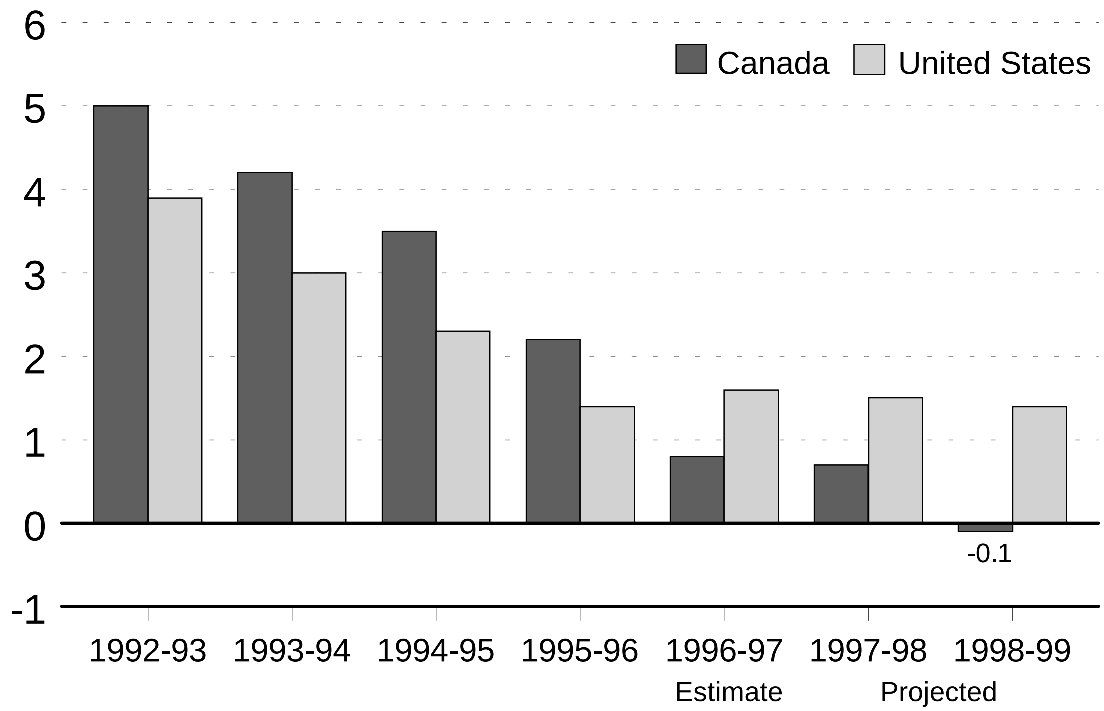
Notes: Total expenditure minus gross debt service charges for Canada and the United States.
Fiscal years ending March 31 and September 30 of the same year for Canada and the U.S., respectively.

Sources: Canada, Department of Finance; U.S., the *Budget of the United States Government, Fiscal Year 1998.*

- In 1998-99, program spending by the federal government in terms of GDP will have fallen by almost 6.0 percentage points from its peak in 1992-93, whereas the U.S. will have seen a decline of only 1.2 percentage points.
- The federal government's program spending as a proportion of GDP will be 11.9 per cent in 1998-99, compared with 16.6 per cent in the U.S.
- Program spending continues to be the major contributor to Canada’s heightened deficit reduction relative to the U.S.

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

Federal government deficit in Canada and the United States
per cent of GDP



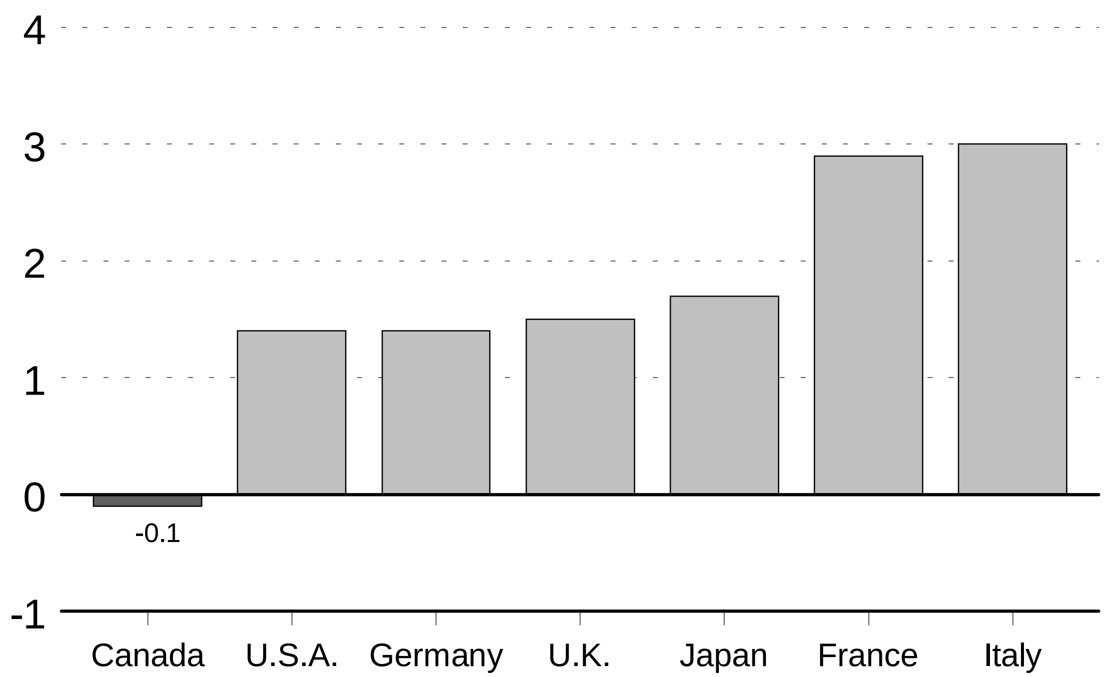
Notes: Financial requirements for Canada and the Unified Budget Basis deficit for the United States.
Fiscal years ending March 31 and September 30 of the same year for Canada and the U.S., respectively.

Sources: Canada, Department of Finance; U.S., the *Budget of the United States Government, Fiscal Year 1998.*

- The unified budget basis deficit in the U.S. and federal financial requirements in Canada are fully comparable.
- Between 1993-94 and 1995-96, Canada’s federal budget deficit in terms of GDP has been higher than that of the U.S. government.
- However, the federal government's deficit-to-GDP ratio is estimated to be lower than that of the U.S. as of 1996-97. In fact, Canada will post a surplus in 1998-99 while the U.S. deficit will decline only slightly.

Canada's federal borrowing requirements in balance -- the lowest among G-7 countries

Projected 1998 central government financial requirements
per cent of GDP

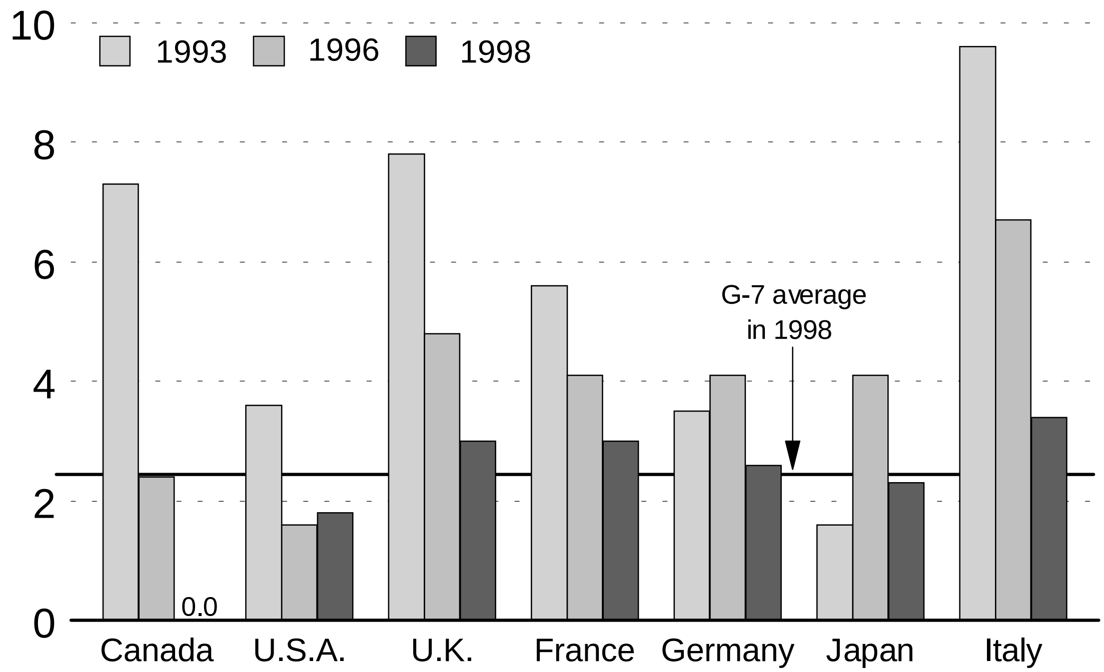


Source: National budget plans.

- The Canadian federal borrowing requirements are falling sharply and will be eliminated in 1998-99.
- Canada's federal borrowing requirements are comparable to the way most other major countries measure their deficits.
- In 1998, Canada will have a zero federal borrowing requirement -- the lowest of any other G-7 country on the basis of current national budget plans.

Total government deficit on a National Accounts basis is projected to be the lowest among G-7 in 1998

Total government deficit
National Accounts Basis
per cent of GDP



Source: Canada, Department of Finance; other G-7 countries, OECD Economic Outlook Data, December 1996.

- Canada's total government deficit (on a National Accounts basis) is projected to be roughly in balance in 1998 -- the lowest deficit-to-GDP ratio of the G-7.
- In 1993, the Canadian deficit was at 7.3 per cent of GDP -- 3 percentage points higher than the G-7 average.
- By 1998, Canada's total government position is expected to be balanced, compared to a G-7 average of 2.2 per cent of GDP.

Policy Initiatives - Building the Future for Canadians

Policy Initiatives - Building the Future for Canadians

Investing in immediate jobs and growth

Measures Recently Announced

- the $6 billion three-year Canada Infrastructure Works Program announced in 1994 extended for an additional year ($425 million) and the Residential Rehabilitation Assistance Program for one year ($50 million);
- the New Hires Program ($250 million) which provides Employment Insurance (EI) premium relief to small firms that create new jobs in 1997 and 1998;
- building on the actions of last year's budget to enhance youth employment through the creation of over 19,000 internship positions ($255 million).

New Measures

- **Trade:** working with the Export Development Corporation to develop new innovative ways to provide export financing.
- **Tourism:** increased funding for the Canadian Tourism Commission by $15 million in each of the next three years; $50-million equity injection in the Business Development Bank of Canada to finance tourism infrastructure projects.
- **Rural Development:** providing $50 million to the Farm Credit Corporation to expand its capacity to support rural economic growth and diversification; pursuing the development of new financial instruments to augment existing loan programs for farmers; accelerating the Community Access Program, which is hooking-up small businesses in rural communities to the Internet, with funding of $30 million over three years.
- **Small Businesses:** permitting employers with average monthly remittances of less than $1,000 to file on a quarterly basis -- greatly reducing their cost and time burden; raising the loan ceiling under the Small Business Loans Act by an additional $2 billion, from $12 billion to $14 billion; enhancing incentives for Labour-Sponsored Venture Capital Corporations to invest more actively in smaller businesses.

Investing in long-term job creation and growth

■ INVESTING IN HIGHER EDUCATION AND SKILLS:

This budget proposes increased annual federal support for students and their families by $137 million in 1998-99, rising to about $275 million when measures are mature.

Assistance to Current Students

- doubling the amount used as the basis for the education tax credit, which covers student expenses beyond tuition, from $100 to $200 per month;
- including university and college ancillary fees in the tuition tax credit; and
- allowing unlimited carryforward of those tax credits, benefiting students currently unable to take full advantage of existing tuition and education credits, as well as those who wish to return to upgrade their qualifications.

Helping Students Meet Loan Repayment Obligations

- extending the existing interest-free period for Canada Student Loan repayment from 18 months to 30 months for those students who are unable to meet loan repayment obligations;
- pursue discussions with interested provinces, lenders and other groups on an additional option for repaying student loans that would tie an individual's repayment schedule directly to the individual's income.

Helping Parents Save for Their Children's Education

- providing additional incentives for parents to save for their children's education by doubling the annual limit on contributions to Registered Education Savings Plans (RESPs) to $4,000 per year;
- allowing those individuals winding up RESPs to transfer RESP income into their Registered Retirement Savings Plan (RRSP) if they have unused RRSP room; or
- permitting those without available RRSP room, or who do not wish to make RRSP contributions, to receive the investment income directly, subject to an appropriate charge.

Investing in long-term job creation and growth

■ INVESTING IN INNOVATION:

- establishing the proposed $800-million Canada Foundation for Innovation to provide financial support for the modernization of research infrastructure at Canadian universities and colleges, in research hospitals, and in associated not-for-profit research institutions and organizations;
  - this $800-million up-front investment will provide an average of $180 million annually over the next five years for research infrastructure;
  - the Foundation will be an independent corporation, at arm's length from government and drawn primarily from members of the research community and the private sector; they, not the government, will be responsible for spending decisions. The foundation will not support projects of government departments, agencies or crown corporations.
  - through partnerships among post-secondary education institutions and research hospitals, the business community, the voluntary sector, individuals and provincial governments (to the extent they wish to participate), the Foundation has the potential to trigger about $2 billion in investment in research infrastructure.
- renewing the Networks of Centres of Excellence with a commitment of $47 million annually, funded through a combination of existing resources and re-allocation of $19 million from Industry Canada and the Granting Councils;
- maintaining the funding of the Industrial Research Assistance Program (IRAP) at the current level of $96.5 million per year through a combination of existing resources and $13 million to be reallocated from within Industry Canada.

Investing in jobs and growth

Investing in jobs and growth since the 1996 budget

	1996-97	1997-98	1998-99	1999-00
		(millions of dollars)		
Investing in Immediate Jobs and Growth				
Measures announced prior to the 1997 budget				
Canada Infrastructure Works		425		
Extension of RRAP[1]		50		
New Hires Program		250	65	
CBC radio		10	10	10
Sub-total		735	75	10
Measures proposed in the 1997 budget				
Canadian Tourism Commission		15	15	15
Community Access Program		10	10	10
Quarterly Remittances for Small Business		180	5	5
Environmental initiatives		--	25	25
Revenue Canada costs for transfer pricing initiative		8	10	12
Sub-total		213	65	67
Investing in Long-term Job Creation and Growth				
Investing in Higher Education and Skills				
Increase education credit		5	45	80
Extend tuition credit to ancillary fees		5	30	30
Carry-forward of unused tuition and education credits			10	25
Student loan interest relief		20	20	20
RESP[2] measures		10	25	40
National Literacy Secretariat		7	7	7
Sub-total		47	137	202
Investing in Innovation				
Canada Foundation for Innovation	800			
Networks of Centres of Excellence			18	19
IRAP[3]			13	13
Sub-total	800		31	32
Total	800	995	308	311

-- less than $5 million.
1 Residential Rehabilitation Assistance Program.
2 Registered Education Savings Plans.
3 Industrial Research Assistance Program.

Investing in a stronger society

▪ SUSTAINING AND STRENGTHENING CANADA'S HEALTH CARE SYSTEM

- allocate $300 million over the next three years to respond to the recommendations of the National Forum on Health including:
- $150 million over 3 years for a Health Transition Fund to help provinces explore new approaches to health care;
- $50 million to put in place a new Canada Health Information System to ensure care givers across the country have the most up-to-date knowledge concerning best patient treatment;
- increased funding for the Community Action Program for Children and the Canada Prenatal Nutrition Program by $100 million over the next three years.

▪ TOWARD A NATIONAL CHILD BENEFIT SYSTEM

- budget proposes to enrich by $70 million the already announced increase of $125 million in the Working Income Supplement (WIS) and to restructure it to operate on a per-child basis rather than on a family basis, as of July 1997;
- proposed restructuring and enriching of the existing Child Tax Benefit by $600 million per year beginning no later than July 1998. This increased benefit will go to all low-income families;
- together with the $250-million increase in WIS announced in the 1996 budget, the enriched Canada Child Tax Benefit will mean $850 million of additional support for children and their families, bringing the total federal support for the National Child Benefit System from $5.1 to $6.0 billion.
- this will provide a national platform for provinces to take the next steps to enhance the financial support and services they provide for working families and children.

Investing in a stronger society

▪ HELPING CANADIANS WITH DISABILITIES

The budget proposes:

- broadening the list of expenses eligible for the medical expenses tax credit to include:
  - 50 per cent of the cost of an air conditioner necessary to help an individual coping with a severe chronic ailment, disease or disorder to a maximum of $1,000;
  - 20 per cent of the cost of a van that is adapted or will be adapted within six months for the transportation of an individual using a wheel chair to a maximum of $5,000;
  - expenses incurred for moving to accessible housing;
  - sign language interpreter fees;
  - reasonable expenses related to alterations of the driveway of the principle place of residence of an individual with severe and prolonged mobility impairment, to facilitate the individual's access to a bus; and
  - an increase in the limit on part-time attendant care expenses from $5,000 to $10,000.
- eliminating the $5,000 limit on the deduction for attendant care expenses that is currently available for disabled earners;
- allowing audiologists to certify eligibility for the disability tax credit;
- broadening the definition of preferred beneficiary of a trust to include adults who are dependent on others by reasons of mental or physical infirmity;
- amending the Customs Tariff to provide duty-free entry for all goods designed for the use of persons with disabilities, as part of the tariff simplification review launched by the government in 1994;
- introducing a refundable supplement for low-income working Canadians with high medical expenses; and
- establishing an Opportunities Fund to provide active assistance for people with disabilities.

Investing in a stronger society

▪ SUPPORT FOR CHARITABLE GIVING

The budget proposes:

- raising the allowable amount for which the charitable credit can be claimed from 50 per cent to 75 per cent of net income and making this the standard for all charities;
- facilitating the donation of publicly-listed securities by cutting in half the normal 75-per-cent inclusion rate for capital gains taxation for a period of five years -- will return to the 75-per-cent inclusion rate after five years if not successful;
- changes to encourage donations of easements and covenants of ecologically-sensitive land and depreciable capital property;
- providing information to charities to explain the tax value of charitable donations for potential donors; and
- increasing the access to information on charities and the resources for Revenue Canada to ensure compliance with the Income Tax Act.

▪ PROPOSED ENHANCED TREATMENT OF DONATIONS OF PUBLICALLY-TRADED SECURITIES

- full exemption from capital gains tax as in the U.S. is not needed to achieve the same level of tax incentive.
- the reduction in the income inclusion rates will make the Canadian system of tax incentives more generous than the U.S. system for cash donations and as generous as the U.S. system for donations of publicly-traded securities.
- at up to 52 per cent, the combined federal/provincial tax assistance for cash donations by individuals in a typical Canadian province is already considerably higher than the 43 per cent tax assistance for cash donations by high-income earners in a typical U.S. state.
- combined federal/provincial tax assistance on a typical donation of publicly-traded securities in Canada will rise to as much as 64 per cent, compared to a combined federal and state tax assistance of up to 62 per cent in a typical U.S. state on a similar donation.

Investing in a stronger society

Investing in a stronger society

	1996-97	1997-98	1998-99	1999-00
		(millions of dollars)		
Sustaining and Improving Canada's Health Care System				
Health Transition Fund/ Canada Health Information System		50	75	75
Community Action Program & Prenatal Nutrition Program		33	33	33
Sub-total		83	108	108
Toward a National Child Benefits System				
Canada Child Tax Benefit[1]				
Sub-total		50	470	600
		50	470	600
Helping Canadians with Disabilities				
Broadening the medical expense tax credit/removing limit on attendant care deduction		5	30	30
Refundable medical expense supplement for earners		5	30	40
Opportunities Fund		30	30	30
Sub-total		40	90	100
Support for Charitable Giving				
Reduced inclusion rate on capital gains		20	90	90
Net income limit/CCA recapture changes		5	5	5
Increased resources for Revenue Canada		5	5	5
Sub-total		30	100	100
Total		203	768	908

[1] Figures based on proposed July 1998 start-up.