

THE BUDGET CHART BOOK 1999



*Building today for
a better tomorrow*

February 16, 1999



Department of Finance
Canada

Ministère des Finances
Canada

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Highlights

- ✓ Despite negative external developments, employment growth remains strong: 453,000 jobs were created in 1998 and another 87,000 jobs were created in January 1999 alone. Unemployment is down to 7.8 per cent, its lowest level since June 1990.
- ✓ The most recent forecasts by the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) project that Canada will post one of the strongest growth rates of the G-7 countries in 1999.
- ✓ A balanced budget or better is expected this year and the government is committed to balanced budgets or better in 1999-2000 and 2000-01.
- ✓ From a peak of 71.2 per cent in 1995-96, the debt-to-GDP ratio is expected to be 65.3 per cent in 1998-99 and fall to just under 62 per cent in 2000-01.
- ✓ Major investments will be made in medicare through an \$11.5-billion increase in transfers to provinces and territories over the next five years through the Canada Health and Social Transfer (CHST).
 - ⇒ Total transfers to provinces for health care will increase by \$2 billion in 1999-2000 and in 2000-01 and by \$2.5 billion in each of following three years of the five-year commitment.
- ✓ A further \$1.4 billion will be invested over the remainder of this fiscal year and the next three years to strengthen Canada's health system through research and innovation, health information, improved health services for First Nations and health prevention.
- ✓ More than \$1.8 billion will be invested over the remainder of this fiscal year and the next three years to support the creation, dissemination and commercialization of knowledge and to support employment by building on the Canadian Opportunities Strategy.
- ✓ Over three-quarters of the new spending initiatives in the 1998 and 1999 budgets reflect two of the highest priorities of Canadians – increased funding for health care and for access to knowledge and innovation.
- ✓ Personal income tax cuts total \$7.7 billion over the next three years for a total reduction of \$16.5 billion from the 1998 and 1999 budgets.

Summary of policy actions

Spending and tax initiatives: the 1999 budget

	1998-99	1999-00	2000-01	2001-02	Cumulative Total
	(millions of dollars)				
Spending initiatives					
Building a Secure Society					
Strengthening health care for Canadians					
Increased CHST cash transfers			1,000	2,000	3,000
CHST supplement ¹	3,500				3,500
Total: CHST	3,500		1,000	2,000	6,500
<i>Potential cash flow to provinces</i>					
Increased funding for health care		2,000	2,000	2,500	6,500
<i>of which:</i>					
CHST			1,000	2,000	3,000
CHST supplement		2,000	1,000	500	3,500
Other health initiatives					
Improving health information systems	95	28	85	120	328
Promoting health-related research and innovation ²	160	50	115	225	550
First Nations and Inuit health services		20	60	110	190
Preventive and other health initiatives		49	104	134	287
Total	255	147	364	589	1,356
Other initiatives	247	510	710	804	2,271
Total – Building a Secure Society	4,002	658	2,074	3,393	10,127
Building a Strong Economy					
Building on the Canadian Opportunities Strategy					
Creating knowledge					
Canada Foundation for Innovation ²	100				100
Support for advanced research	16	50	55	55	176
Disseminating knowledge		27	42	27	96
Commercializing knowledge		121	232	317	670
Supporting employment		265	265	265	795
Total	116	463	594	664	1,837
Economic adjustment	1,241	645	152	69	2,107
Total – Building a Strong Economy	1,357	1,108	746	733	3,944
Total spending initiatives	5,358	1,766	2,820	4,126	14,070
General tax relief and fairness measures					
General tax relief		1,530	2,555	2,965	7,050
Canada Child Tax Benefit			225	300	525
Tax fairness measures		15	25	100	140
Reduction in EI premiums	300	800			1,100
Total tax initiatives	300	2,345	2,805	3,365	8,815
Total spending and tax initiatives	5,658	4,111	5,625	7,491	22,885

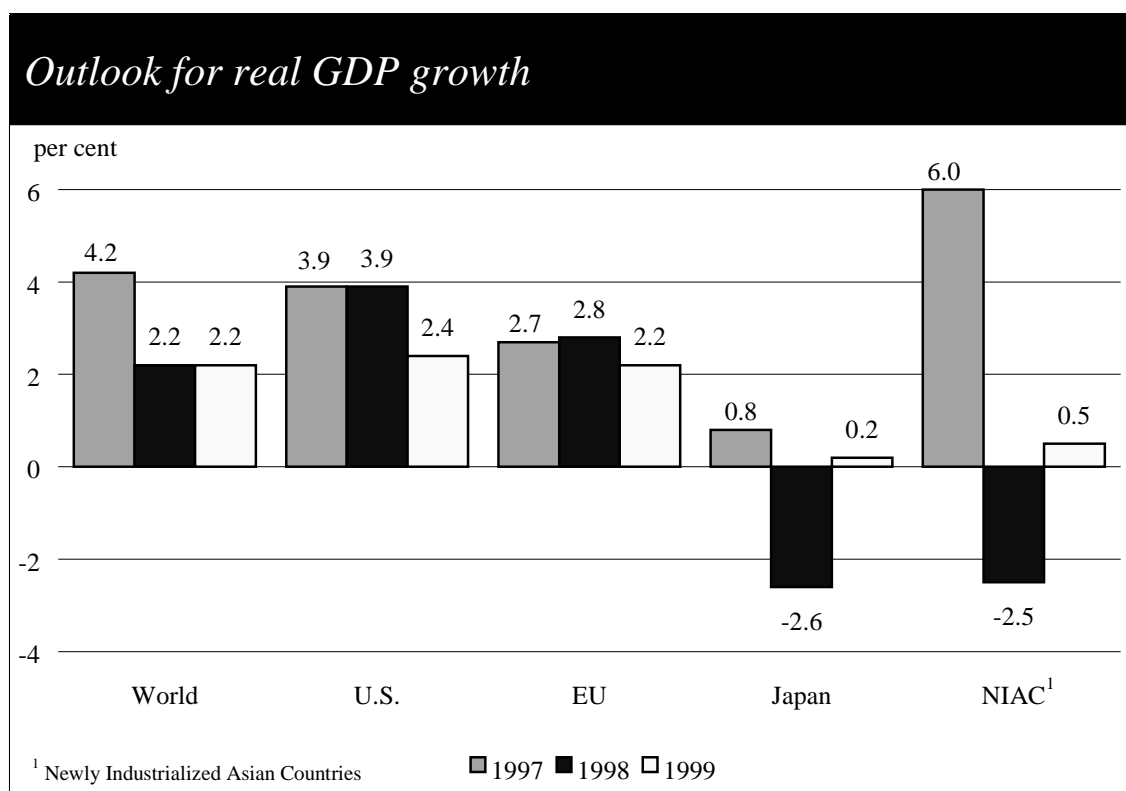
¹ The CHST supplement in 1998-99 will be paid to a third-party trust in 1999-2000, on passage of authorizing legislation.

² An additional \$200 million is being allocated to the Canada Foundation for Innovation. It is expected that about one-half will be used to improve infrastructure for health research and the other half will support research infrastructure in environment, sciences and engineering.

*Economic Developments
and Prospects –
Weathering the Global Storm¹*

¹ Based on data up to February 1, 1999, with the exception of Canadian financial and labour market data, which are up to February 5, 1999.

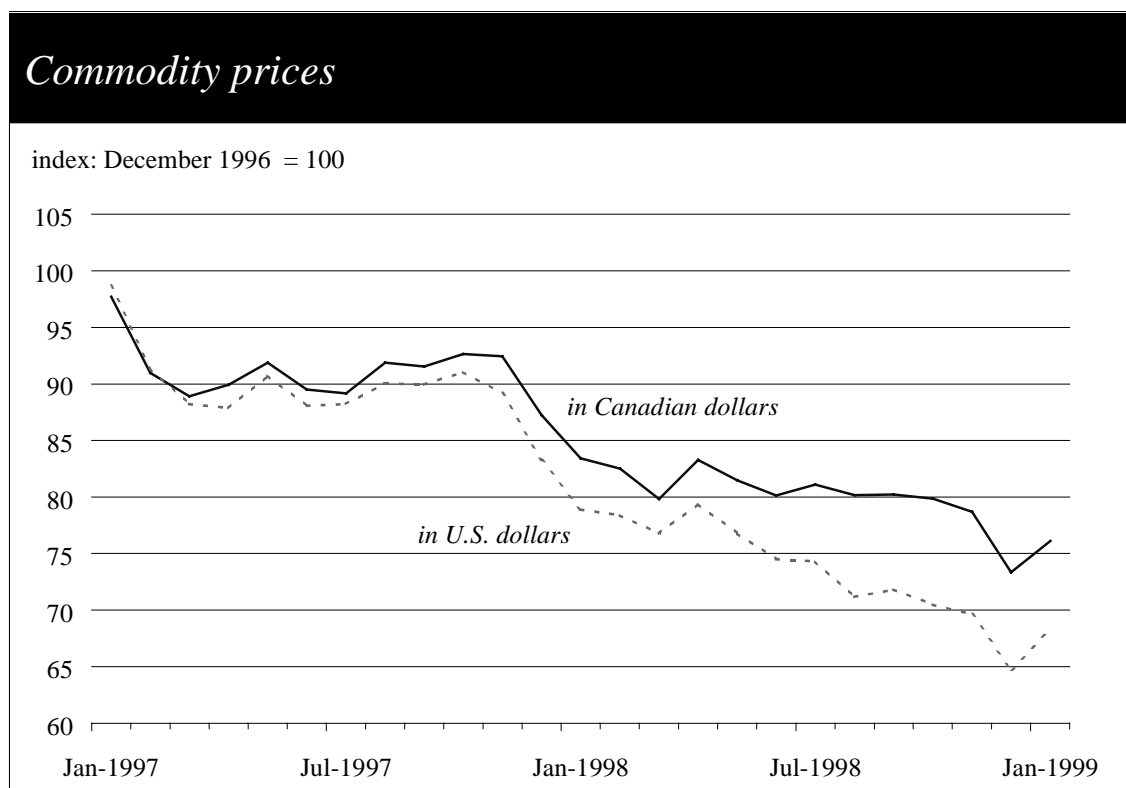
Global economic growth fell in 1998



Sources: IMF *World Economic Outlook* (December 1998) for World and NIAC; *OECD Outlook* (December 1998) for the EU and Japan; *Blue Chip Consensus* for the United States.

- ✓ World GDP growth fell from over 4 per cent in 1997 to 2.2 per cent in 1998, well below forecasts made at the end of 1997. In particular, forecasters failed to anticipate the economic contraction that occurred in several Asian countries.
- ✓ The financial instability that originated in Asia spread to other regions, including Russia and Latin America, weakening global demand.
- ✓ In contrast, growth in industrial countries, notably the United States, was more robust than projected by the IMF at the end of 1997. The strength of demand from the United States and Europe helped to cushion the impact on Canada of the Asian slowdown.
- ✓ Looking ahead, the IMF and other forecasters expect little growth to occur in Asia in 1999. The Japanese economy is expected to recover only later this year, leaving Japanese real GDP virtually unchanged on a year-over-year basis in 1999.
- ✓ According to most recent consensus forecasts, the U.S. and Europe should continue to expand in 1999, albeit at a more moderate pace.

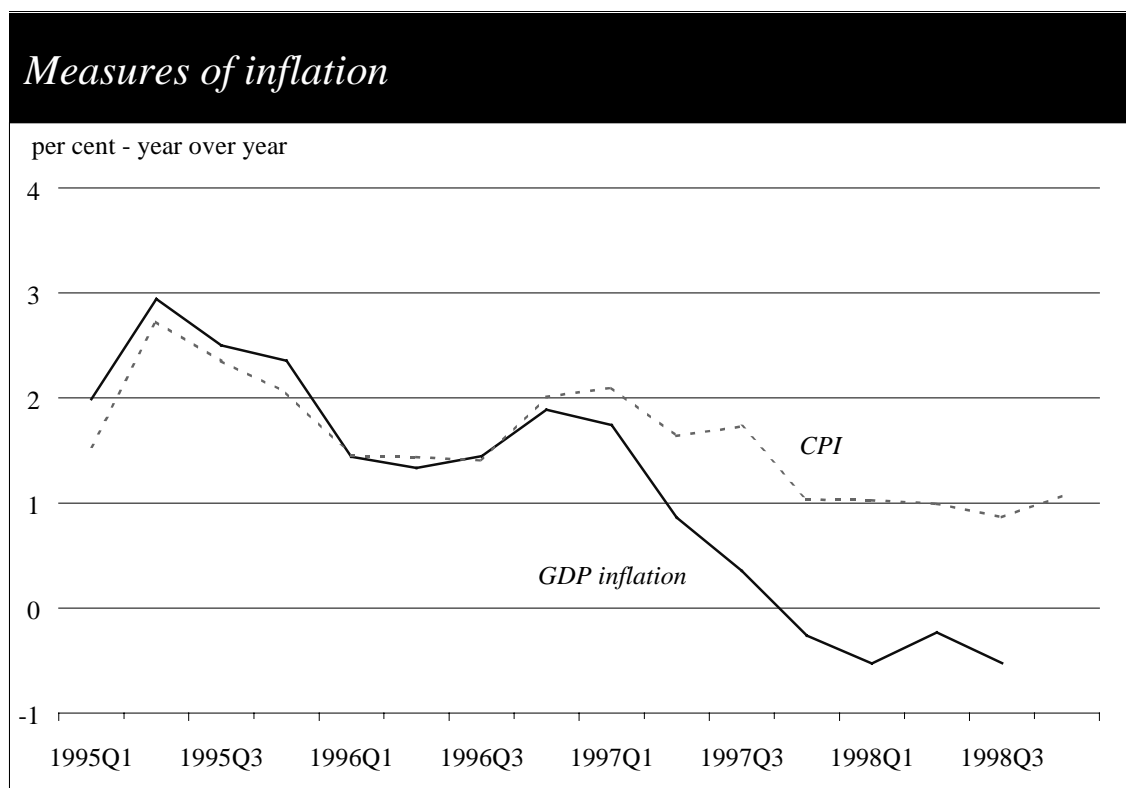
Lower global demand led to a sharp drop in commodity prices



Source: the Department of Finance Commodity Price Index (includes 17 major exported commodities, production-weighted).

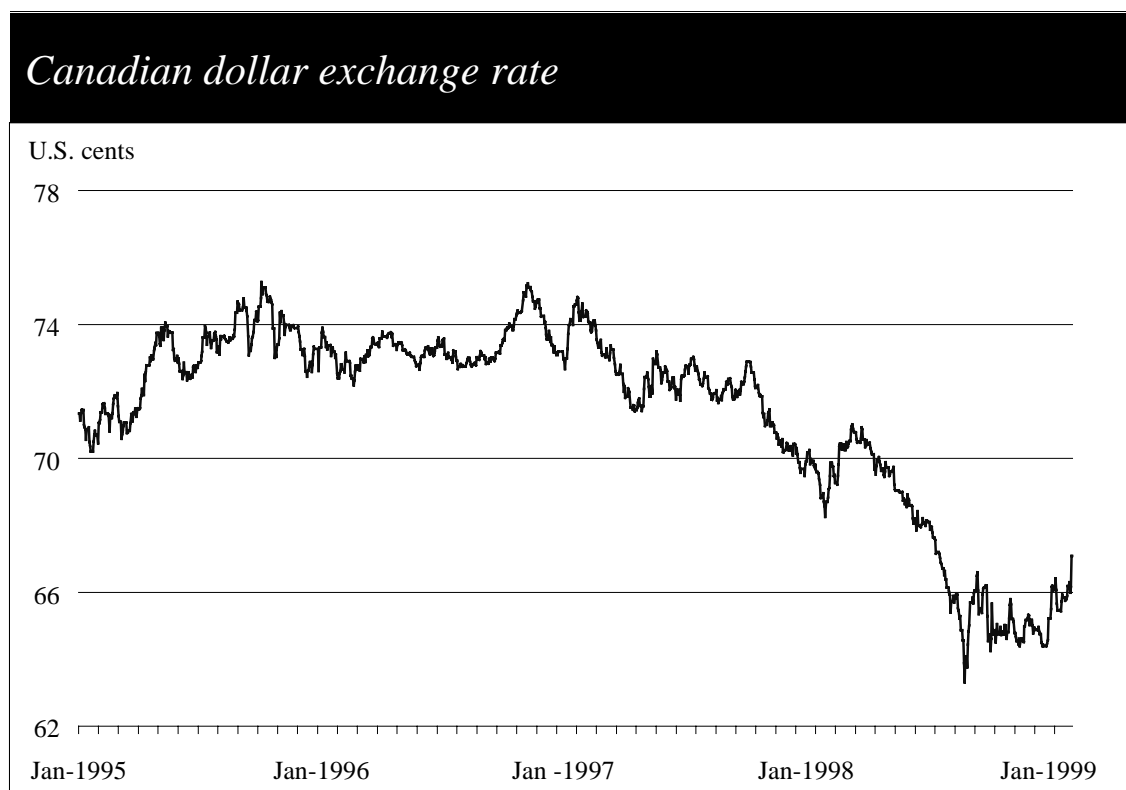
- ✓ Weaker global demand resulted in a fall in commodity prices, as large excess supplies were built up. The U.S. dollar price of resource-based commodities has fallen about 35 per cent from its peak in December 1996.
- ✓ Although the share of commodities in Canada's exports has declined to less than 35 per cent from nearly 60 per cent in 1980, Canada remains a net exporter of commodities. As a result, the decline in commodity prices has led to a decline in the price of Canada's exports relative to the price of our imports – our terms of trade.
- ✓ Indeed, lower commodity prices were the most significant channel through which the Asian crisis dampened Canadian economic growth in 1998.

Lower commodity prices translated into downward pressure on overall producer prices



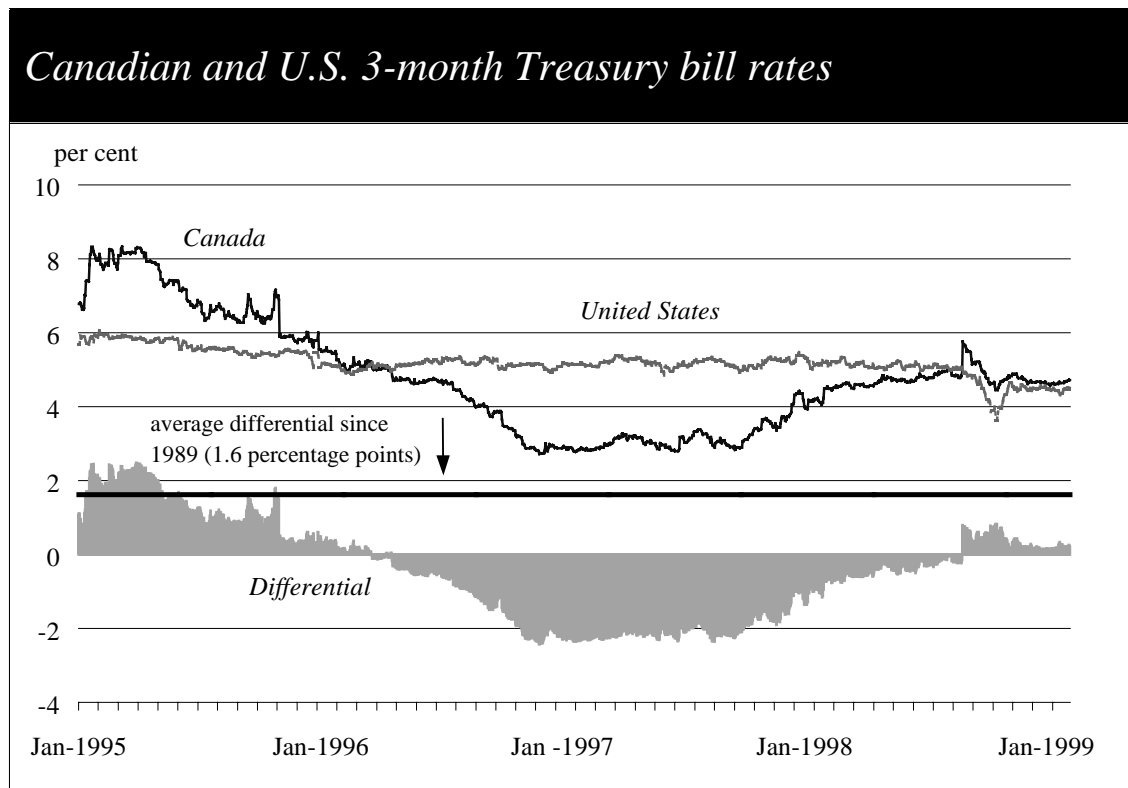
- ✓ The deterioration in our terms of trade put considerable downward pressure on the aggregate price of Canada's production or GDP.
- ✓ Indeed, the aggregate price of GDP actually *declined* since the end of 1997, mainly due to the decline in commodity export prices.
- ✓ However, the consumer price index (CPI), which is a broad measure of prices of goods and services that are purchased by Canadians, increased modestly in 1998, remaining in the lower range of the target band of 1 to 3 per cent set by the Bank of Canada.

The Canadian dollar depreciated considerably during 1998 but stabilized by year end



- ✓ As typically happens when world commodity prices fall, the Canadian dollar also came under downward pressure last summer.
- ✓ The Canadian dollar touched an all-time low against the U.S. dollar at the end of August, but subsequently stabilized and gradually appreciated in value.
- ✓ Global commodity prices have been relatively stable recently, providing support to the Canadian dollar.

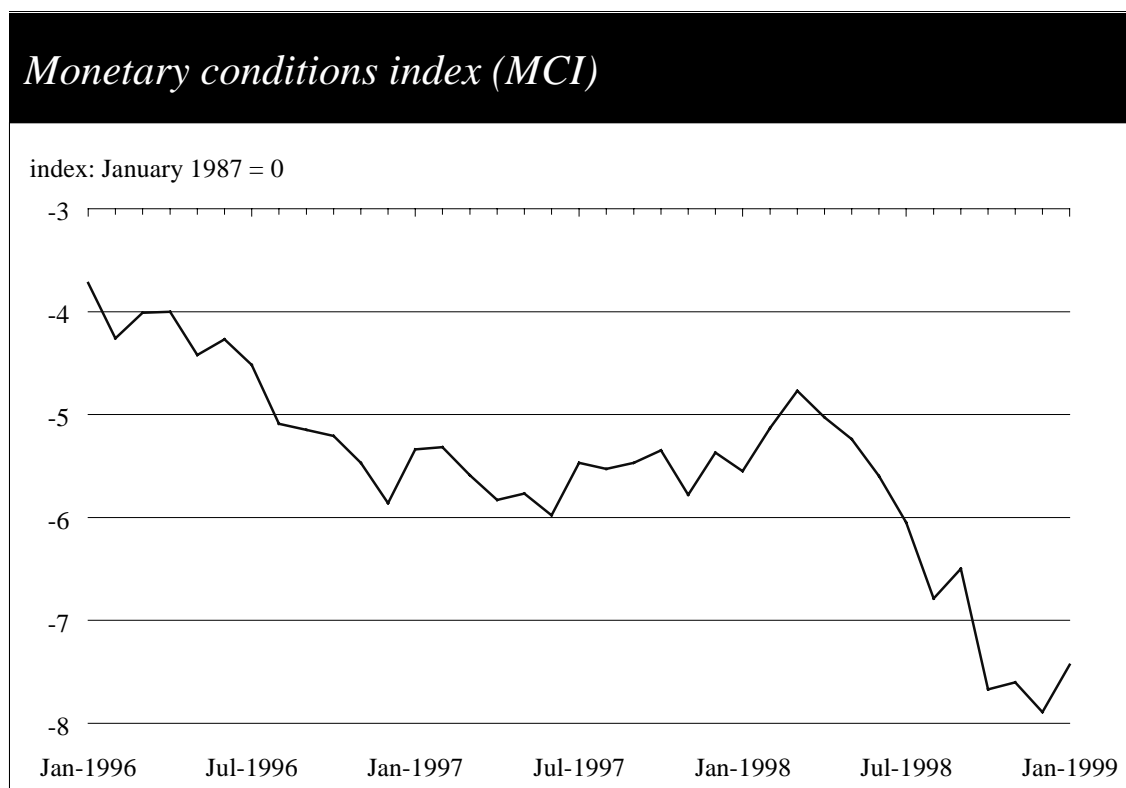
Short-term interest rates remained low



Note: rates are on a true-yield basis.

- ✓ The Bank of Canada increased the Bank rate by 100 basis points in August. Previously, short-term interest rates had been much lower than those in the United States.
- ✓ Subsequently, as U.S. rates declined, the Bank of Canada reduced its official rate by a total of 75 basis points on three separate occasions.
- ✓ At 4.7 per cent, short-term interest rates are now back to the levels seen early last year, virtually at parity with similar U.S. rates and low by historical standards.

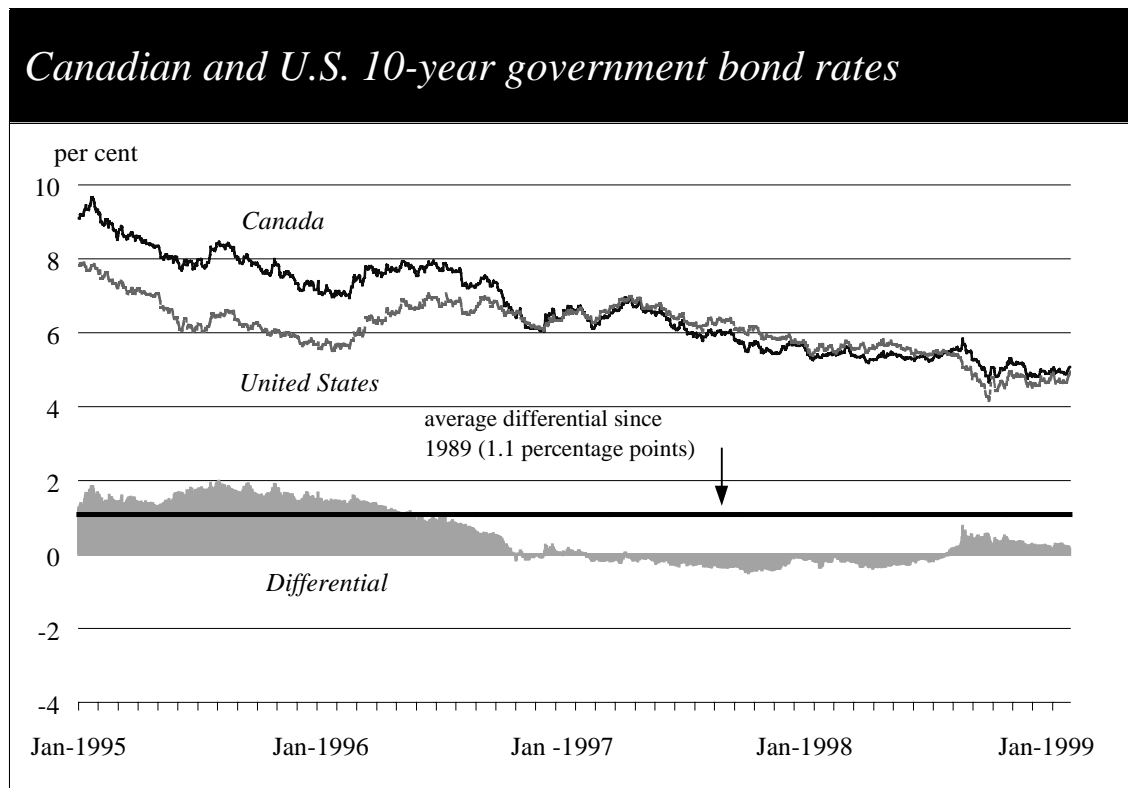
Monetary conditions eased in 1998, supporting growth through a period of negative external developments



Source: the Bank of Canada. The MCI is a combination of the short-term interest rate and the exchange rate. A decline of the MCI indicates an easing of monetary conditions.

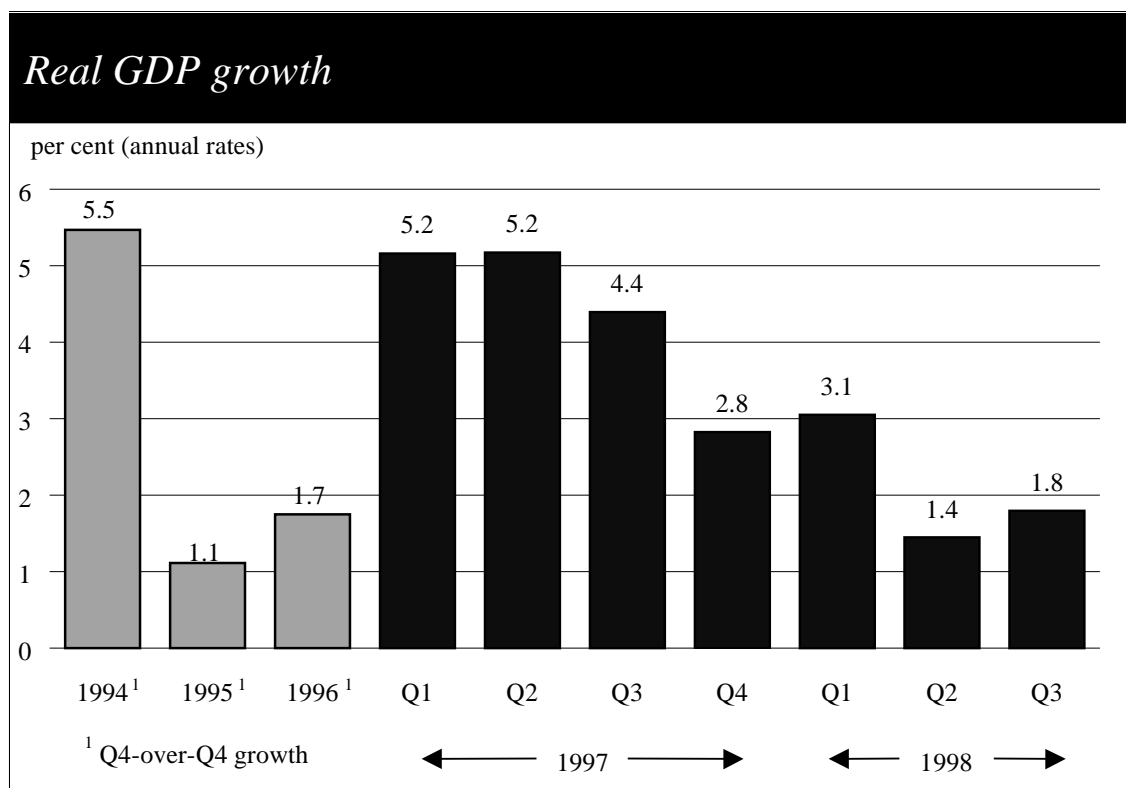
- ✓ With short-term interest rates roughly back to where they were in early 1998, a lower dollar means that overall monetary conditions have eased considerably over the past 12 months.
- ✓ By supporting growth monetary conditions have offset, and will continue to offset, some of the negative impacts of the global crisis.

Long-term interest rates continued to decline



- ✓ Similar to short-term interest rates, long-term interest rates moved above those in the United States in mid-1998, but have since tended to drift down in tandem with declines in U.S. rates during the year.
- ✓ Low long-term interest rates have reinforced easier monetary conditions, as measured by the MCI, supporting Canada's growth prospects.

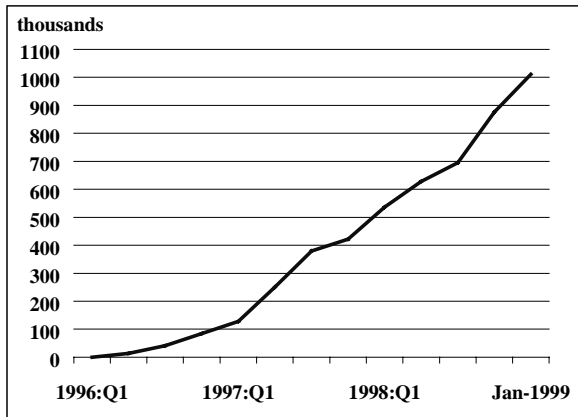
Growth slowed in mid-1998 but recent indicators suggest a rebound in the fourth quarter



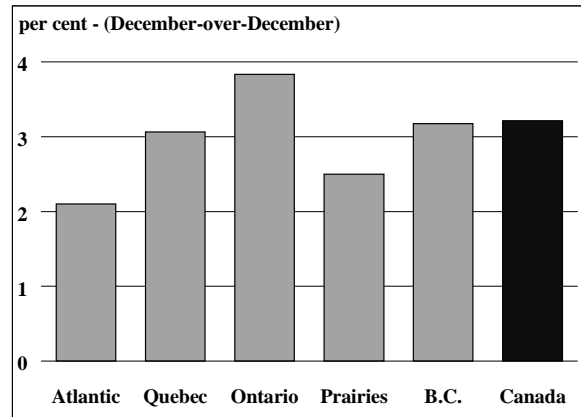
- ✓ The extraordinary uncertainty and turmoil on a global level resulted in a slowdown in economic growth in Canada.
- ✓ Real GDP growth slowed to an average annual rate of under 2 per cent in the second and third quarters of 1998, after having averaged a robust 3.7 per cent in the seven-quarter period ending in the first quarter of 1998.
- ✓ But the Canadian economy still performed relatively well, considering the difficult international context and the temporary impact of a number of major strikes.
- ✓ Indeed, recent economic indicators suggest that real GDP growth rebounded in the fourth quarter of 1998. In particular, employment growth, at 5.2 per cent in the fourth quarter (annual rate), was the best in over a decade.
- ✓ The resilience of the Canadian economy in 1998 reflects sound underlying economic policies that have allowed us to maintain generally stimulative macroeconomic conditions.

Despite the negative external environment, employment surged in 1998

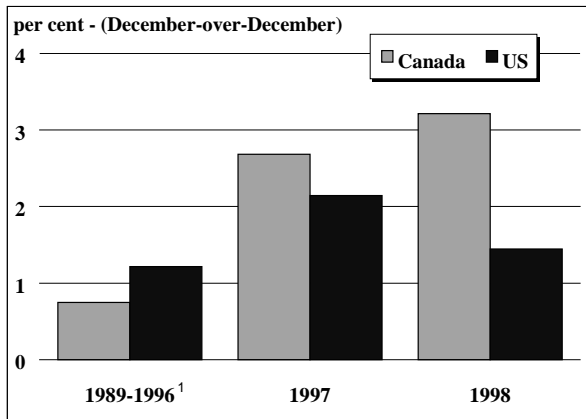
Cumulative employment growth since 1996



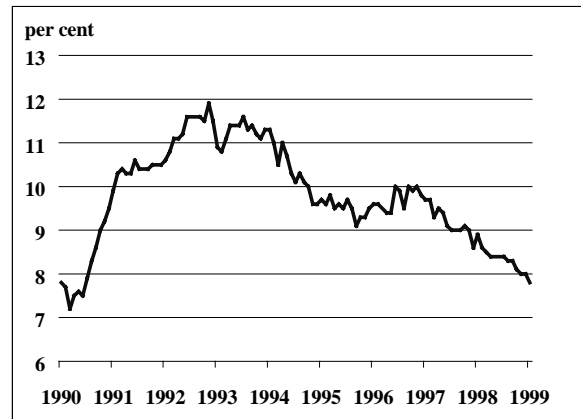
Employment growth by region, 1998



Relative employment growth



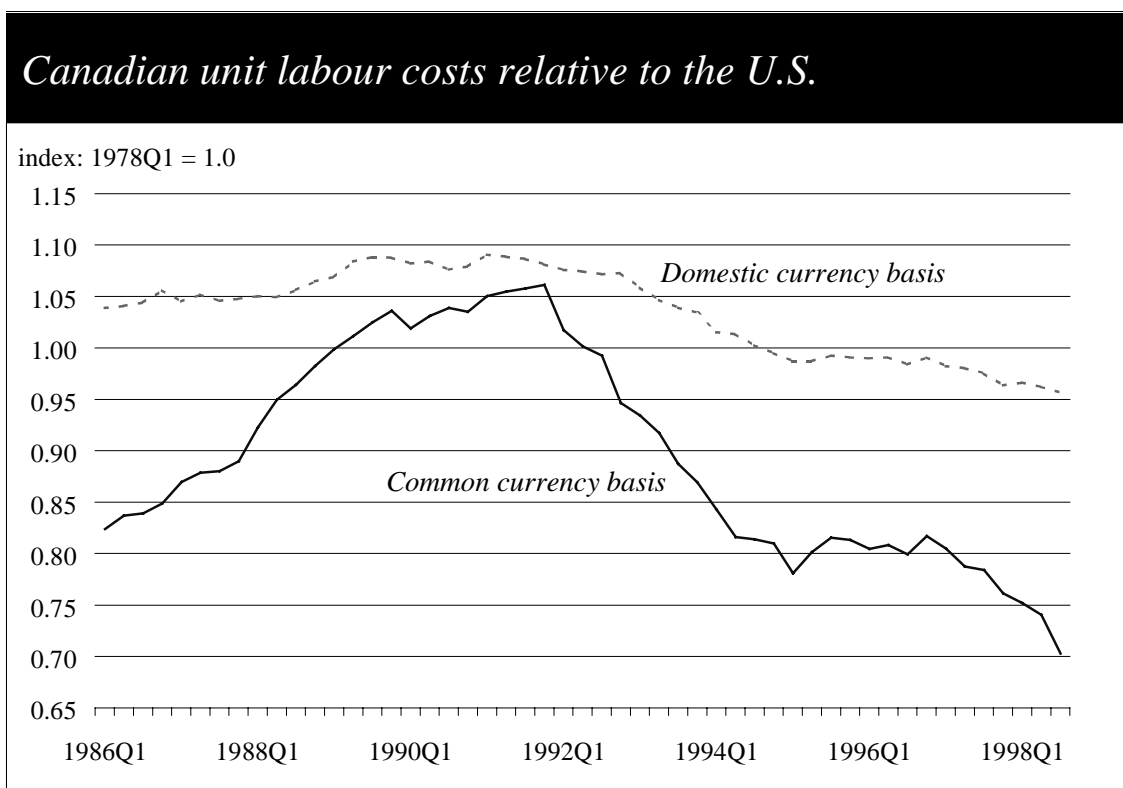
The unemployment rate



¹ Average annual rates.

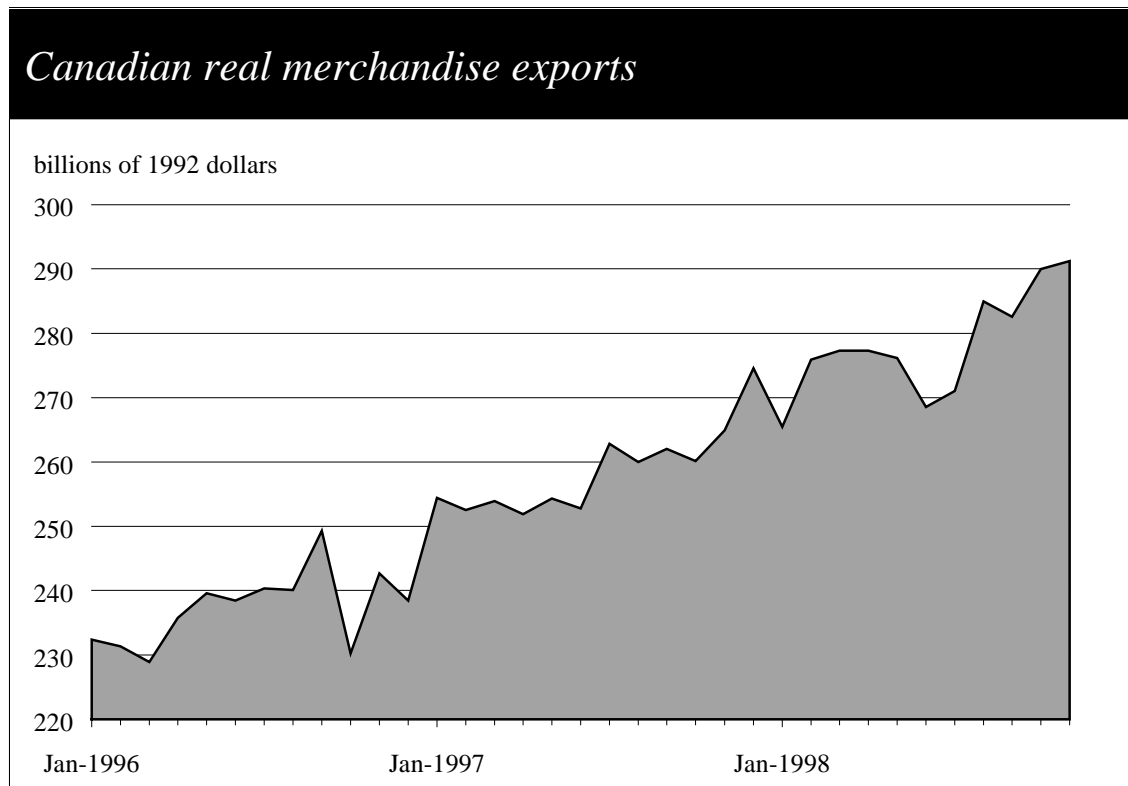
- ✓ Despite the negative impact from external developments, employment soared 453,000 in 1998 and a further 87,000 this January alone on the heels of already impressive gains in 1997. Employment growth in 1998 was the best annual performance of the decade and outpaces the performance of any other G-7 country.
- ✓ In fact, Canada even outpaced the U.S. in terms of job growth in both 1997 and 1998.
- ✓ Jobs were created in all regions of the country in 1998. Almost 40 per cent of the new jobs created in the last twelve months went to Canada's youth with growth of 10 per cent, the strongest yearly employment growth in over 25 years.
- ✓ This strong job performance pushed the unemployment rate down to 7.8 per cent in January, its lowest level since 1990.

Canada is becoming increasingly competitive vis-à-vis the United States



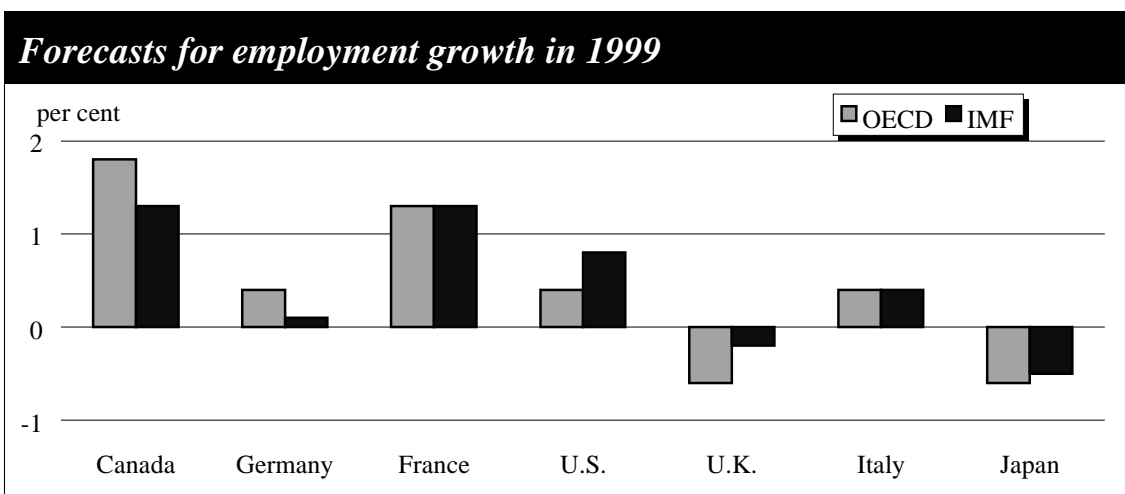
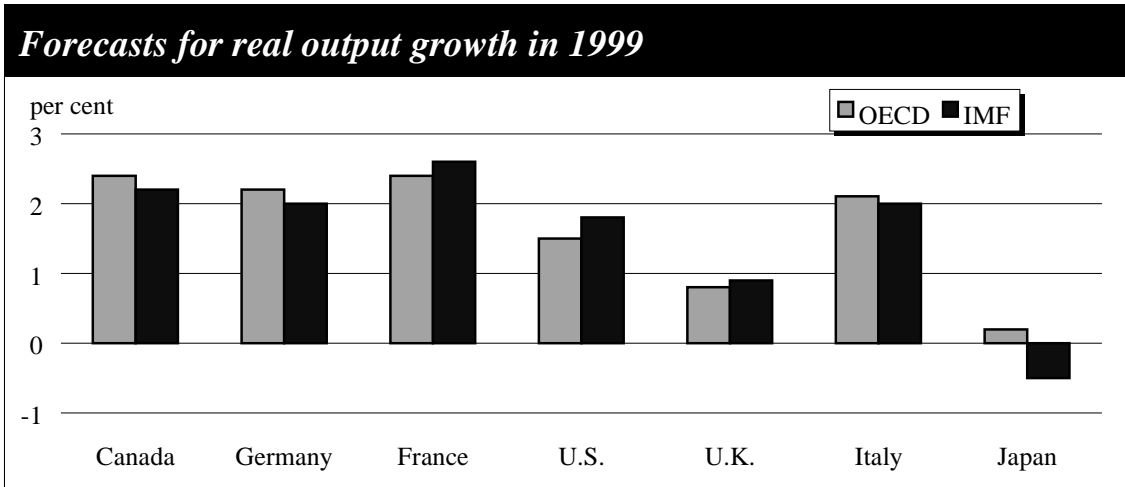
- ✓ Canada's low inflation environment is generating improved competitiveness.
- ✓ Unit labour costs (average wages adjusted for labour productivity) have risen about 7 per cent in Canada since 1990, while those in the United States rose at a more rapid pace of 19 per cent. This yielded an improvement in relative unit labour costs of approximately 12 per cent in domestic currency terms.
- ✓ The depreciation of the Canadian dollar has further improved Canada's competitive position vis-à-vis the United States on a common currency basis.

Despite lower global growth, real export growth has not slackened



- ✓ The improvement in Canada's competitive position, combined with strong demand from our U.S. and European trading partners, has allowed for continued strong merchandise export growth, despite the clear fall-off in Asian demand.
- ✓ Nevertheless, exports from regions with strong trade ties to Asia, especially British Columbia, were hard hit.
- ✓ In contrast, imports were virtually unchanged over the first three quarters of 1998, due to a slowdown in the growth of the components of aggregate demand that have a particularly large import content, such as machinery and equipment investment and consumption of durables. The slowing in imports also reflected an improvement in our competitiveness.
- ✓ As a result, Canada's real trade surplus improved in 1998.

Canada is expected to be among the top performers in the G-7 in terms of growth and to lead the G-7 in job creation in 1999



Sources: *OECD Outlook* (December 1998) and *IMF World Economic Outlook* (December 1998)

- ✓ The most recent forecasts by the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) project that Canada will post one of the strongest real output growth rates of the G-7 countries in 1999.
- ✓ Canada is also expected to register another year of strong employment growth – ranking first among the G-7 according to the OECD and first, along with France, according to the IMF.

Private sector consensus for 1999 and 2000

Private sector forecasters expect economic growth to moderate in 1999 and then to rebound in 2000.

- ✓ Real GDP growth is estimated to have been 2.9 per cent in 1998.
- ✓ Growth is expected to slow to 2.0 per cent in 1999, before picking up to 2.5 per cent in 2000.
- ✓ After falling below zero in 1998, GDP inflation is expected to pick up, contributing to growth in nominal GDP and hence, the tax base.

There is a consensus that interest rates will remain close to their currently low levels.

- ✓ The 3-month Treasury bill rate is expected to average 4.4 per cent in 1999 and 4.5 per cent in 2000, down slightly from its average in 1998.
- ✓ Canadian 10-year government bond yields are expected to drift up somewhat from current levels.

The labour market picture is predicted to continue to improve, although gains are not expected to match the strong performance of 1998.

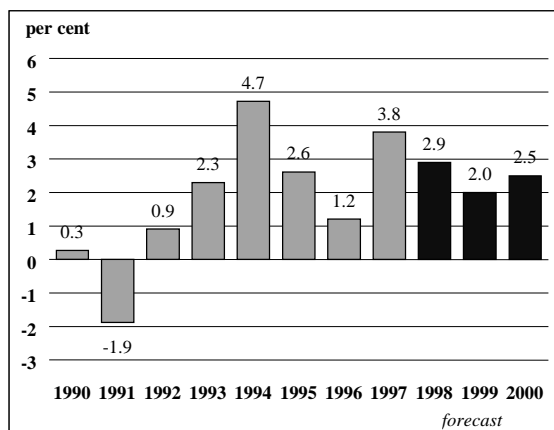
- ✓ Average employment growth is expected to moderate to 1.9 per cent in 1999 and 1.6 per cent in 2000.
- ✓ The unemployment rate is projected to be slightly above 8 per cent, as employment growth is expected to be matched by growth of the labour force.

About the survey

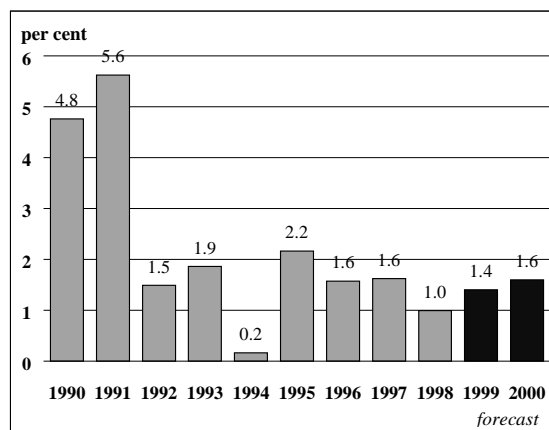
- ✓ The survey was conducted between late December 1998 and early January 1999 and is based on the views of 19 private sector forecasters.
- ✓ Since these forecasts were completed, new information has been released that may lead private sector forecasters to revise their economic outlook for 1999.

Private sector forecasts for 1999 and 2000

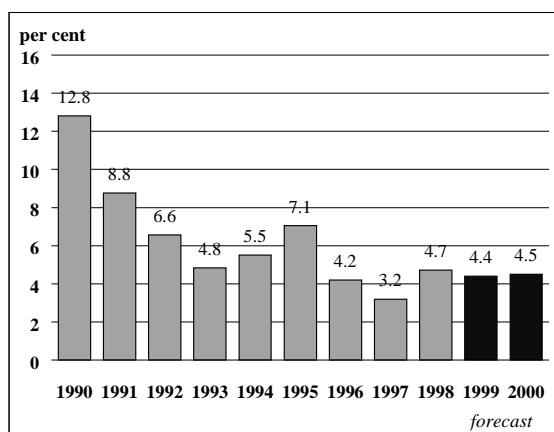
Real GDP growth



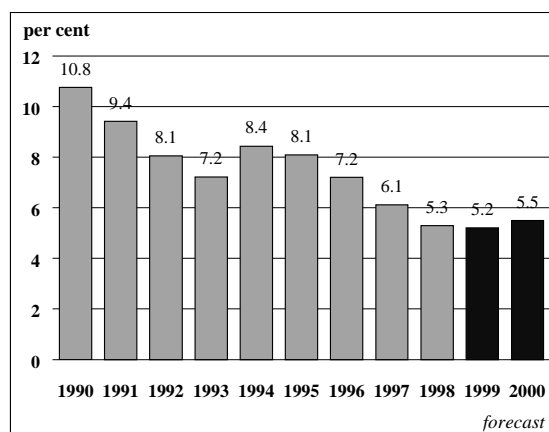
CPI inflation



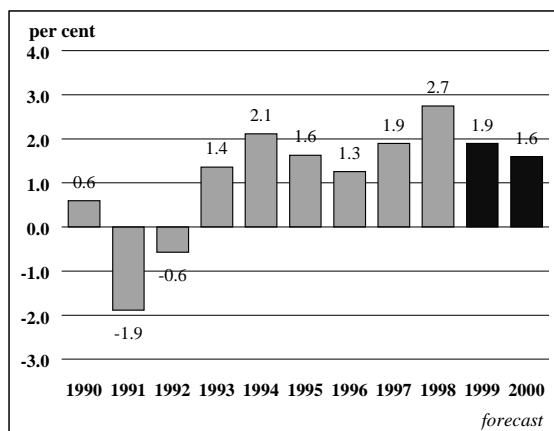
3-month Treasury bill rate



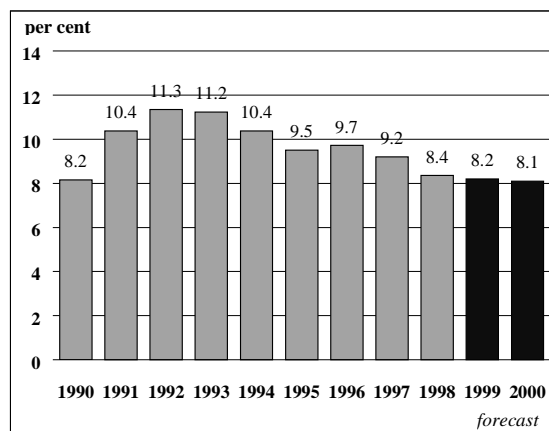
10-year government bond rate



Employment growth



Unemployment rate



Economic assumptions for fiscal planning remain prudent

Prudent planning assumptions for fiscal planning

	1998	1999	2000
Nominal GDP growth (per cent)¹			
Private sector average	2.5	2.7	3.9
1999 budget	2.5	2.5	3.3
Nominal GDP (billions of dollars)¹			
Private sector average	887	911	947
1999 budget	887	910	940
3-month Treasury bill rate (per cent)			
Private sector average	4.8	4.4	4.5
1999 budget	4.8	5.1	5.2
10-year government bond rate (per cent)			
Private sector average	5.3	5.2	5.5
1999 budget	5.3	5.7	6.0

¹ 1998 GDP data are estimates since only three quarters of data are currently available.

- ✓ As is the usual practice, the economic assumptions for fiscal planning include prudence factors.
 - ⇨ Short-term interest rates are assumed to be 70 basis points higher than the average private sector forecast for 1999 and 2000.
 - ⇨ Long-term interest rates are assumed to be 50 basis points higher than the average private sector forecast in 1999 and 2000.
- ✓ The prudence factors introduced to the interest rate assumptions translate into lower nominal GDP growth amounting to 0.2 percentage points in 1999 and 0.6 percentage points in 2000.
- ✓ The ongoing uncertainty about the full impact of the Asian crisis demonstrates the wisdom of basing fiscal planning on prudent assumptions.

The Government's Strategy

- ✓ The government has consistently followed a strategy designed to advance living standards by promoting well-paying jobs, productivity growth and equal opportunities for all, and by providing a safety net for those in need.
- ✓ This strategy entails actions on three fronts:
 - ⇨ **maintaining sound economic and financial management;**
 - ⇨ **investing in key economic and social priorities; and**
 - ⇨ **providing tax relief and improving tax fairness.**

*Maintaining Sound
Financial Management*

Highlights

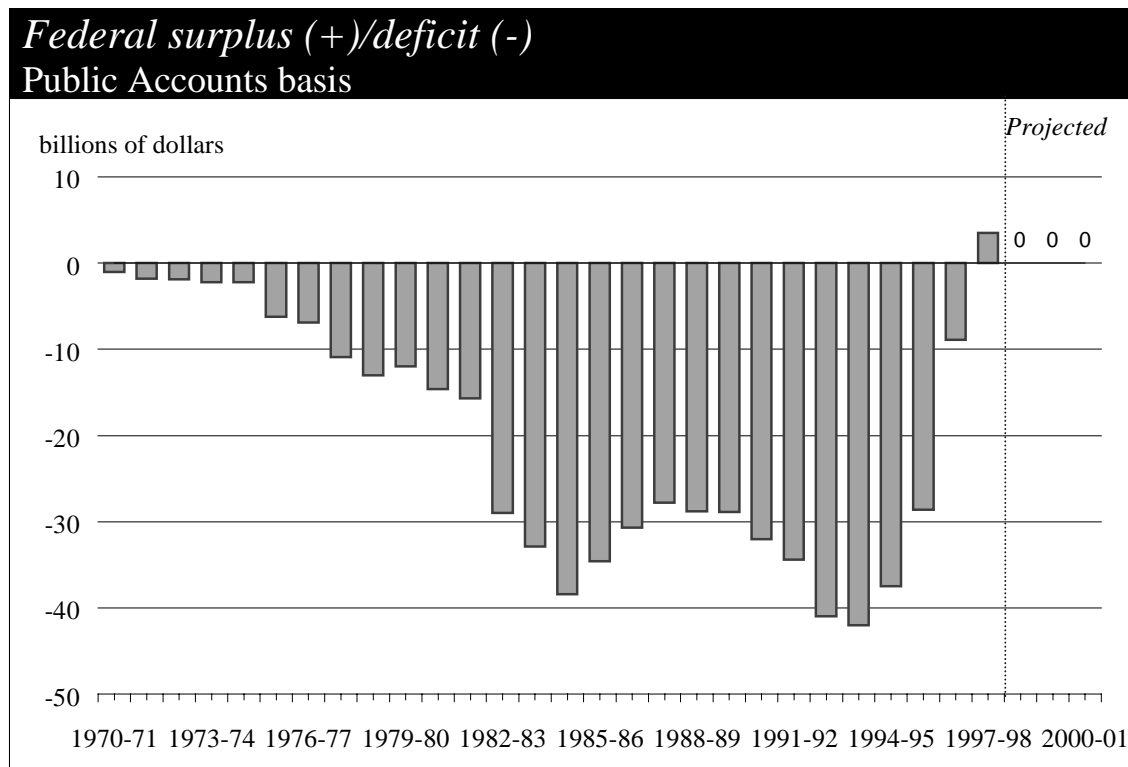
- ✓ A balanced budget or better is expected for 1998-99 – the second consecutive year in which the budget has been deficit-free. This will be the first back-to-back balanced budget or surplus in almost 50 years.
- ✓ The government is committed to balanced budgets or better in both 1999-2000 and 2000-01. This will mark four consecutive years in which the budget will be in balance or surplus, only the third time since Confederation.
- ✓ A financial surplus is expected for the third consecutive year in 1998-99 – the only G-7 country to do so.
- ✓ Market debt – the debt issued on public markets to investors – is expected to decline to about \$457 billion in 1998-99, down about \$20 billion from its peak of \$476.9 billion in 1996-97.
- ✓ The debt-to-GDP ratio continues to fall. From a peak of 71.2 per cent in 1995-96, it should fall to 65.3 per cent in 1998-99 and to just under 62 per cent in 2000-01.
- ✓ The portion of each dollar of revenues required to service the debt has dropped from 36 cents in 1995-96 to 27 cents this year.
- ✓ Including the new spending initiatives in this budget, federal program spending is expected to decline from 12.6 per cent of GDP in 1998-99 to 12 per cent by 2000-01 – the lowest level in 50 years.

*Summary statement of transactions:
fiscal outlook with budget measures*

	1997-98	1998-99	1999-00	2000-01
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	153.2	156.5	156.7	159.5
Program spending	108.8	112.1	111.2	113.2
Operating balance	44.4	44.4	45.5	46.3
Public debt charges	40.9	41.4	42.5	43.3
Underlying balance	3.5	3.0	3.0	3.0
Contingency reserve		3.0	3.0	3.0
Budgetary balance	3.5	0.0	0.0	0.0
Net public debt	579.7	579.7	579.7	579.7
Non-budgetary transactions	9.3	11.5	5.0	7.0
Financial requirements/surplus (excluding foreign exchange transactions)	12.7	11.5	5.0	7.0
Per cent of GDP				
Budgetary revenues				
Including budget measures	17.7	17.6	17.2	17.0
Excluding 1998 & 1999 budget measures and EI rate reductions	17.7	17.9	17.8	17.7
Program spending	12.6	12.6	12.2	12.0
Public debt charges	4.7	4.7	4.7	4.6
Budgetary balance	0.4	0.0	0.0	0.0
Financial requirements/surplus	1.5	1.3	0.5	0.7
Net public debt	66.9	65.3	63.7	61.7

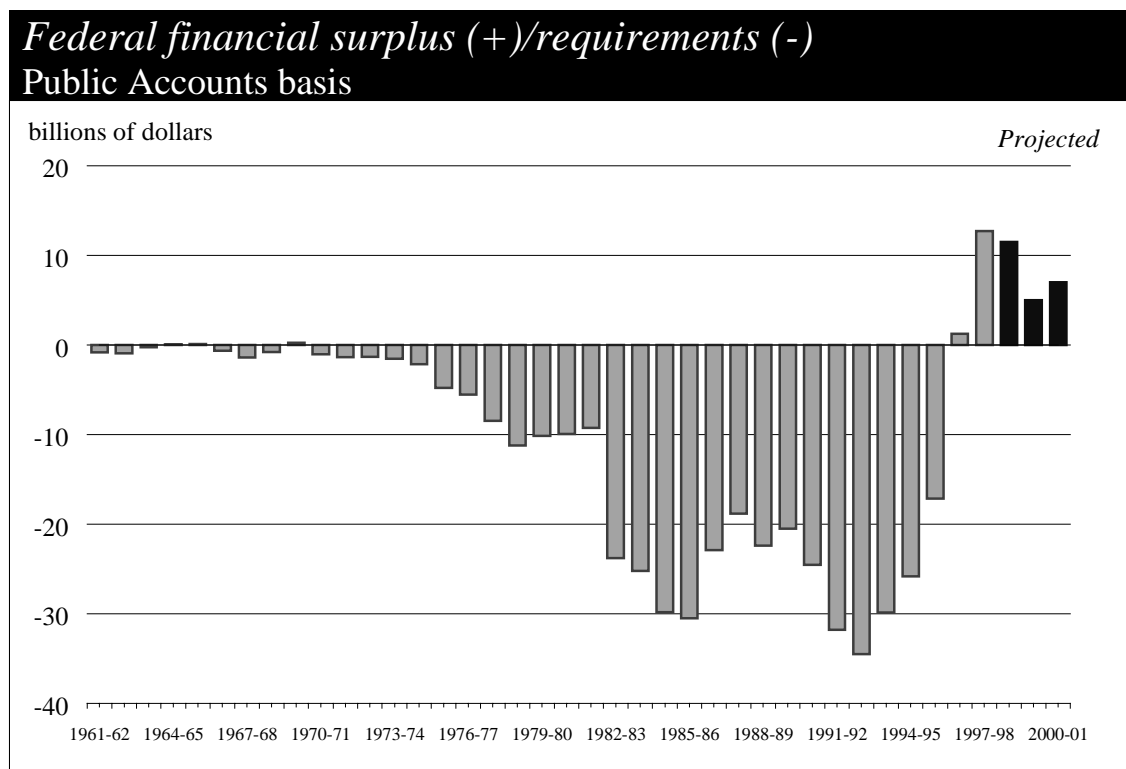
Note: numbers may not add due to rounding.

First back-to-back balanced budgets in nearly 50 years



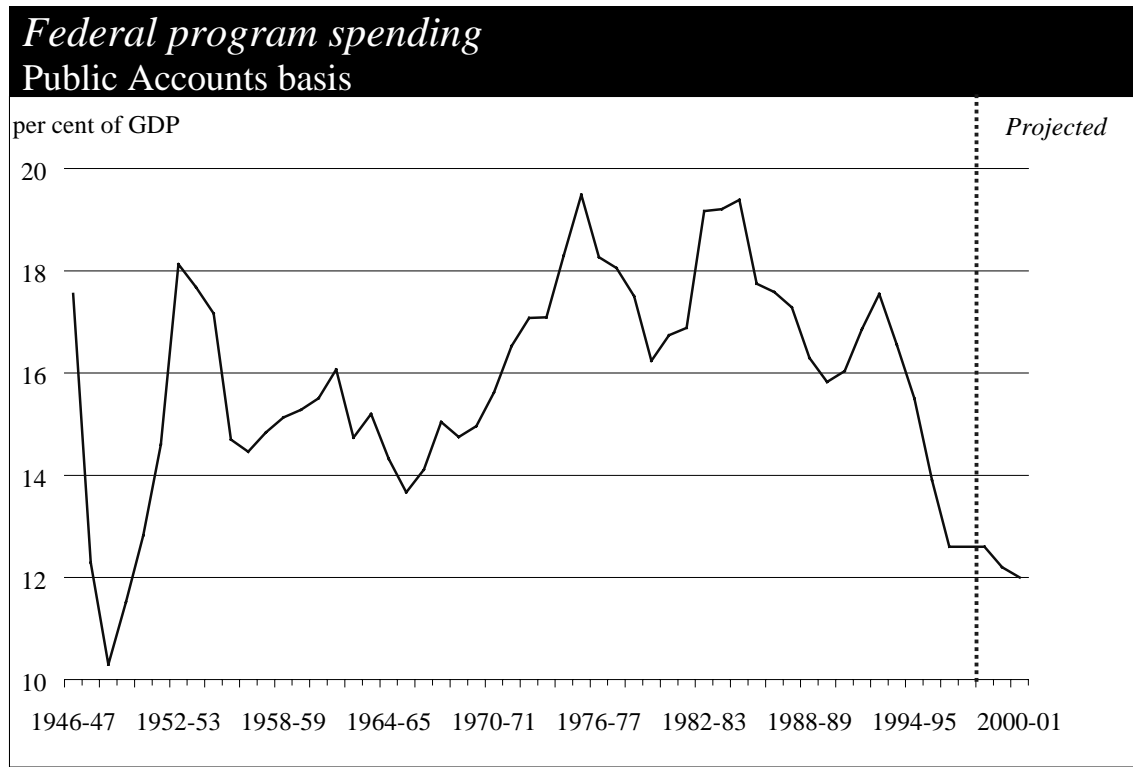
- ✓ Based on financial results for the first nine months of 1998-99, and including measures announced in this budget, a balanced budget or better is expected in 1998-99.
 - ⇒ To the extent that the \$3-billion Contingency Reserve is not required for 1998-99, it will be used to reduce the public debt.
 - ⇒ This will mark the first time that the federal government has recorded back-to-back balanced budgets since 1951-52.
- ✓ The government is committed to balanced budgets or better in both 1999-2000 and 2000-01.
 - ⇒ This will mark only the third time since Confederation that the federal budget will be balanced for at least four consecutive years.

Financial surpluses continue



- ✓ The financial balance (surplus/requirements) provides a measure of the net cash requirements needed to fund the government's programs and debt charges.
- ✓ A financial surplus of about \$11.5 billion is expected in 1998-99, marking the third consecutive year of surpluses.
- ✓ Financial surplus/requirements are broadly comparable to the measures of the budgetary balance used by other major industrialized countries, including the United States.
- ✓ Within the G-7, Canada was the first country to record a financial surplus in this decade. Only Canada and the United States are expected to continue to record financial surpluses over the near term.

Continued decline in program spending



- ✓ As a share of GDP, program spending is expected to fall to 12.6 per cent in 1998-99, from 16.6 per cent in 1993-94.
- ✓ Program spending is expected to decline to 12 per cent of GDP in 2000-01, the lowest level in 50 years.

Program spending reductions – the major factor in deficit elimination

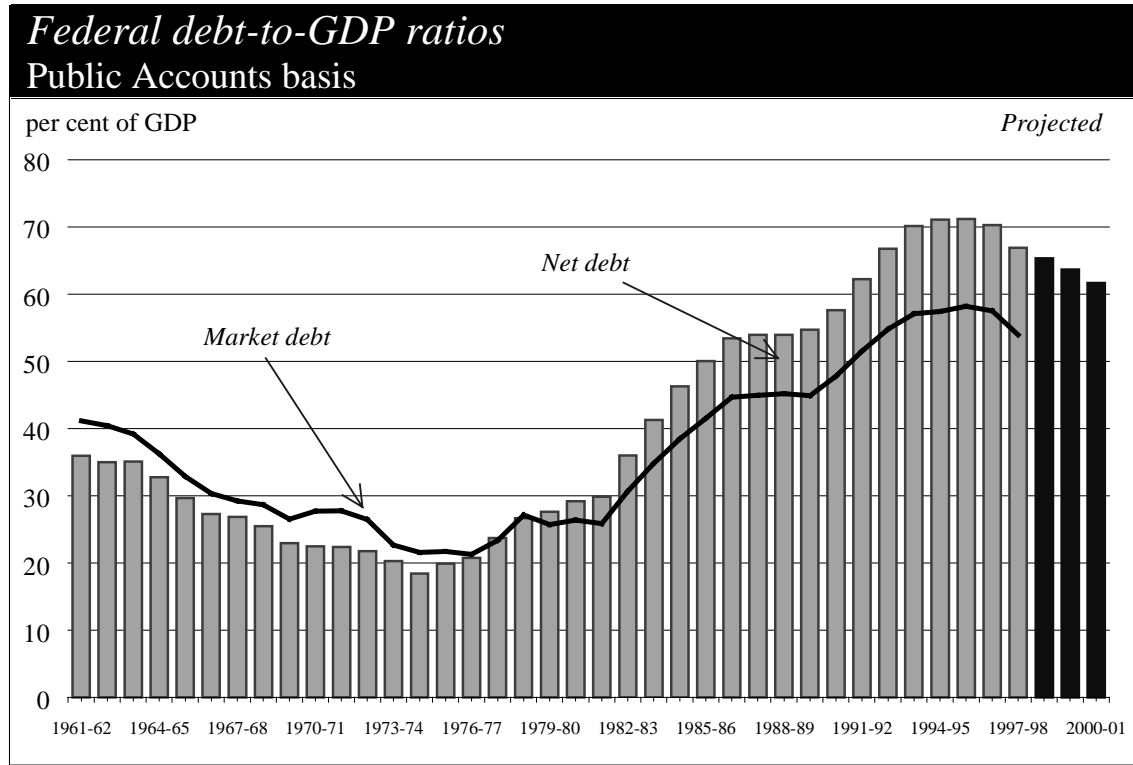
Sources of changes in the federal budgetary balance

	1993-94	1998-99	Change
Per cent of GDP			
Budgetary revenues	16.0	17.6	1.6
Program spending	16.6	12.6	-3.9
Operating balance	-0.6	5.0	5.6
Public debt charges	5.2	4.7	-0.6
Contingency Reserve		0.3	0.3
Budgetary balance	-5.8	0.0	5.8

Note: numbers may not add due to rounding.

- ✓ The sources of improvement in the federal budgetary balance are best illustrated by looking at budgetary expenditures and revenues relative to the size of the economy.
 - ⇒ Program spending has declined 3.9 percentage points since 1993-94, largely as a result of the restraint measures introduced in the 1994 and 1995 budgets.
 - ⇒ By comparison, budgetary revenues as a share of GDP grew only 1.6 percentage points – 1.3 percentage points of which is due to the interaction of the growth of the economy with the tax system.
 - ⇒ Public debt charges have fallen 0.6 percentage points since 1993-94.

Debt-to-GDP ratio on a sustained downward track



Note: forecasts of market debt have not been included because of the uncertainty involved in forecasting these amounts.

- ✓ The net debt-to-GDP ratio is expected to be 65.3 per cent in 1998-99 and fall to just under 62 per cent in 2000-01. This compares to a peak of 71.2 per cent in 1995-96.
- ✓ Market debt – the debt issued on public markets to investors – is expected to fall even faster than the net debt. In 1997-98, the government retired \$9.6 billion of market debt, and based on results to the end of December 1998, is expected to retire a similar amount in 1998-99, for a total pay-down of about \$20 billion over the two years.
 - ⇒ This would bring market debt as a percentage of GDP to about 52 per cent in 1998-99.

***Investing in Key Economic
and Social Priorities –
Strengthening Health Care
for Canadians***

Highlights

This budget proposes to strengthen Canada's publicly-funded health care system by:

- ✓ Investing in medicare by increasing transfers to provinces and territories. Over the next five years, provinces and territories will receive an additional \$11.5 billion specifically for health care.
 - ⇨ \$8 billion will be provided through future-year increases in the Canada Health and Social Transfer (CHST) and \$3.5 billion as an immediate one-time supplement to the CHST from funds available this fiscal year to be paid into a third-party trust, on passage of authorizing legislation.
 - ⇨ Allowing for a gradual and orderly draw-down in the supplement over the next three years by the provinces and territories means that total support for health care would increase by \$2 billion in 1999-2000 and in 2000-01 and by \$2.5 billion in each of the following three years of the five-year commitment.
 - ⇨ However, individual provinces and territories could draw down the supplement over the next three years in a pattern which best meets the needs of their health care systems.
 - ⇨ The \$2.5 billion increases CHST cash from \$12.5 billion to \$15 billion and takes what is regarded as the health component of the CHST as high as it was before the period of expenditure restraint of the mid-1990s.
 - ⇨ Together with the growing value of CHST tax transfers, federal support is expected to reach a new high by 2001-02, surpassing where transfers stood prior to restraint.
- ✓ This budget also invests close to \$1.4 billion over the remainder of this fiscal year and the next three years to:
 - ⇨ improve health information systems;
 - ⇨ promote health-related research and innovation;
 - ⇨ improve First Nations and Inuit health services; and
 - ⇨ strengthen program design to prevent health problems from occurring.
- ✓ Projected Equalization payments over the next five years will be \$5 billion higher than over the previous five years.
- ✓ Over the next three years, disparities in the way the CHST is allocated across provinces will be completely eliminated.

Canada Health and Social Transfer

	1999-00	2000-01	2001-02	2002-03	2003-04	5 years
	(billions of dollars)					
Increased funding for health care	2.0	2.0	2.5	2.5	2.5	11.5
Of which:						
CHST		1.0	2.0	2.5	2.5	8.0
CHST supplement ¹	2.0	1.0	0.5			3.5
Existing CHST cash	12.5	12.5	12.5	12.5	12.5	62.5
Total CHST cash	14.5	14.5	15.0	15.0	15.0	74.0
CHST tax transfers	13.9	14.4	15.0	15.6	16.4	75.3
Total	28.4	28.9	30.0	30.6	31.4	149.3

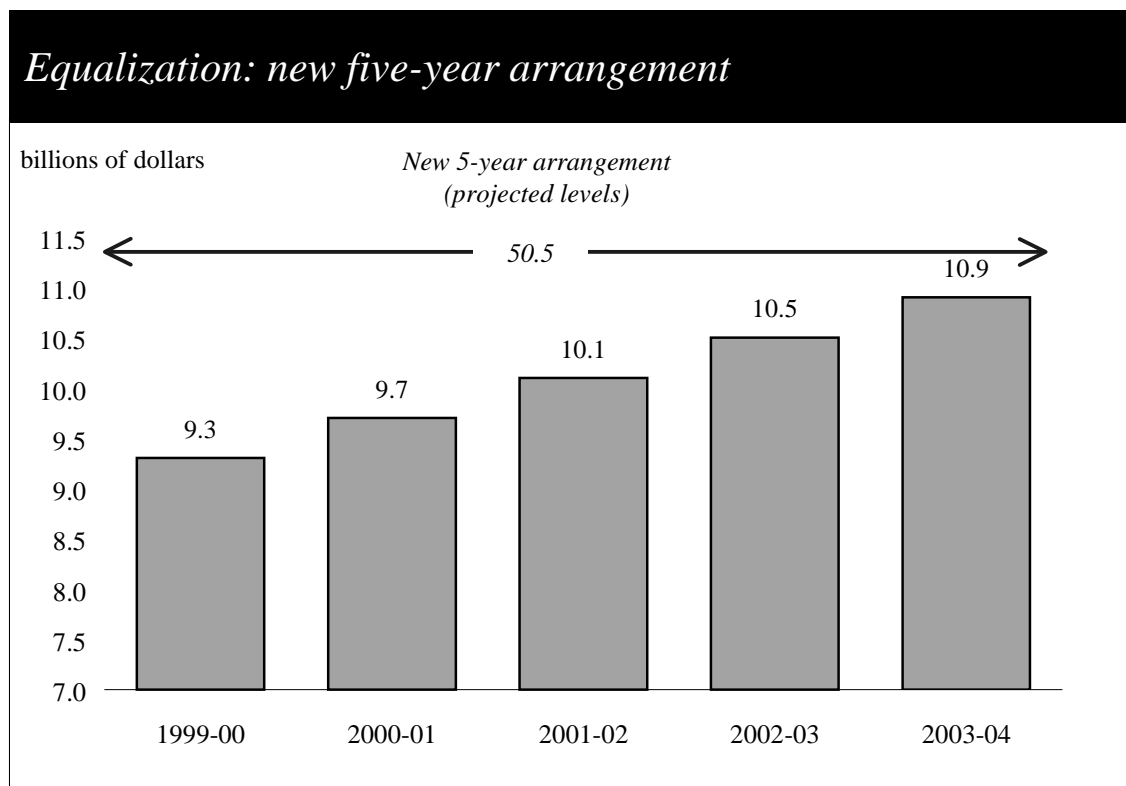
¹ The \$3.5-billion CHST supplement will be accounted for in 1998-99 by the federal government. Payments will be made in a manner that treats all jurisdictions equitably, regardless of when they draw down funds.

Other 1999 budget health initiatives

	1998-99	1999-00	2000-01	2001-02	Cumulative Total
	(millions of dollars)				
Improving health information systems					
Canadian Institute for Health Information		95			95
Other health information initiatives			20	70	190
Accountability for federal health programs			8	15	43
Total		95	28	85	328
Promoting health-related research and innovation					
Canadian Institutes of Health Research			65	175	240
Increased health funding for research councils/organizations		35	50	50	185
Canada Foundation for Innovation ¹		100			100
NURSE Fund		25			25
Total		160	50	115	550
First Nations health services			20	60	190
Preventive and other health initiatives			49	104	287
Total		255	147	364	1,356

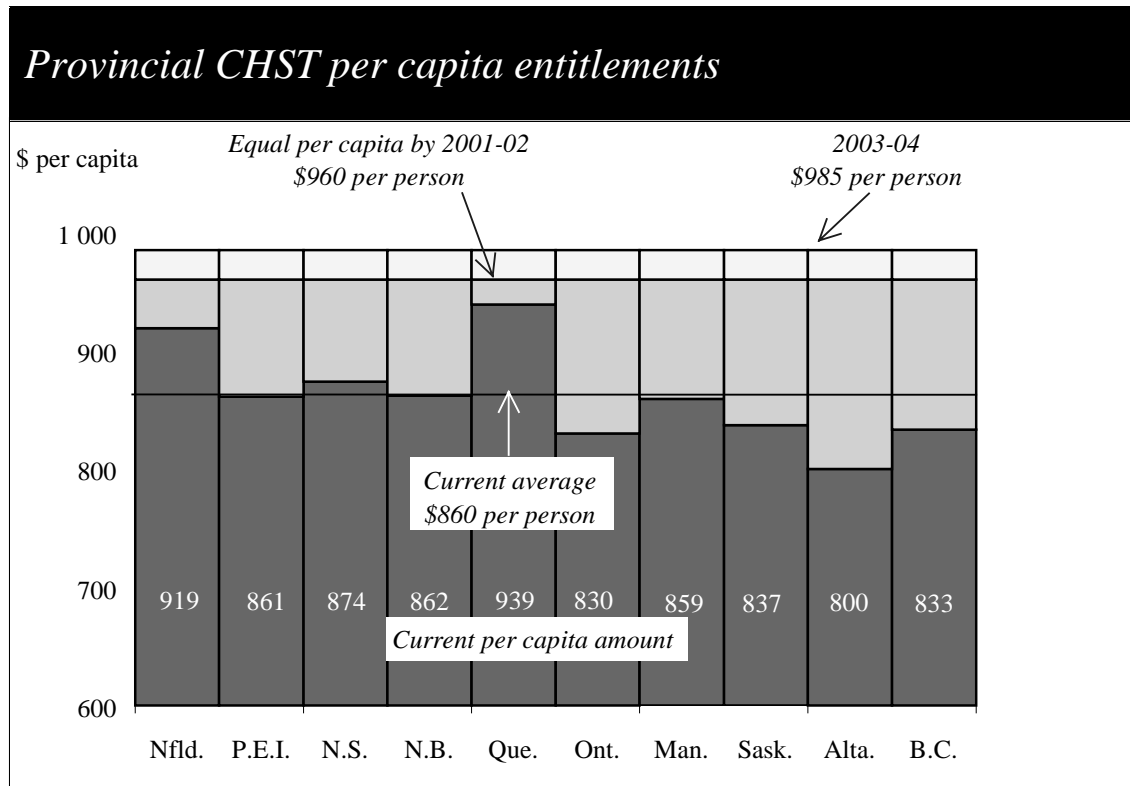
¹ Funding for the Canada Foundation for Innovation will be increased by \$200 million. Based on awards in 1998, it is expected that about one-half of this amount will be allocated to support health-related research infrastructure.

Renewing Equalization



- ✓ Equalization payments over the next five years will reach \$50.5 billion, \$5 billion more than the previous five years.
- ✓ Improvements to the Equalization program will provide an estimated \$48 million in additional funding to provinces in 1999-2000, rising to \$242 million by 2003-04.
- ✓ Over the next five years, technical improvements mean that an additional estimated \$700 million will be transferred to Equalization-receiving provinces.
- ✓ As a result of economic developments – especially strong economic growth in Ontario – Equalization payments have been revised up by \$2.2 billion in 1998-99, of which \$1.1 billion is attributable to prior-year adjustments, and \$0.6 billion in 1999-2000 relative to the 1998 budget

Equal per capita CHST entitlements by 2001-02



- ✓ In 1998-99, the average CHST per capita entitlement amounts to \$860.
 - ⇒ Provincial entitlements range from a high of \$939 per capita in Quebec to a low of \$800 per capita in Alberta.
- ✓ By 2001-02, all provinces will receive equal per capita transfers of \$960.
 - ⇒ The disparities in funding among provinces which exist today will be entirely eliminated.
- ✓ By 2003-04, with the increased funding provided in this budget, every province will receive \$985 per capita.

Growing total transfers: CHST/Equalization/Territorial Formula Financing (TFF) (cash and tax)

	Estimates				
	1999-00	2000-01	2001-02	2002-03	2003-04
	(millions of dollars)				
Total	37,977	38,802	40,312	41,367	42,499
Newfoundland	1,416	1,432	1,457	1,486	1,518
Prince Edward Island	327	334	349	361	369
Nova Scotia	2,002	2,068	2,141	2,205	2,275
New Brunswick	1,648	1,686	1,739	1,783	1,823
Quebec	11,020	11,236	11,517	11,839	12,148
Ontario	10,600	10,836	11,389	11,674	11,991
Manitoba	1,924	1,953	1,994	2,018	2,068
Saskatchewan	1,210	1,233	1,285	1,318	1,362
Alberta	2,669	2,727	2,885	2,951	3,023
British Columbia	3,765	3,873	4,090	4,216	4,352
Yukon	332	337	349	363	375
Northwest Territories	532	535	547	565	585
Nunavut	533	551	569	589	610

Growing Equalization

	Estimates					
	1999-00	2000-01	2001-02	2002-03	2003-04	5-year total
	(millions of dollars)					
Total	9,288	9,696	10,094	10,492	10,892	50,462
Technical improvements ¹	48	96	144	192	242	722
Newfoundland	1,003	1,025	1,050	1,078	1,108	5,264
Technical improvements	3	6	9	11	14	43
Prince Edward Island	222	229	241	251	258	1,201
Technical improvements	1	1	2	3	3	10
Nova Scotia	1,239	1,305	1,358	1,414	1,473	6,790
Technical improvements	10	20	31	41	51	153
New Brunswick	1,054	1,094	1,130	1,169	1,202	5,648
Technical improvements	1	1	2	3	4	11
Quebec	4,464	4,690	4,931	5,162	5,365	24,612
Technical improvements	38	75	113	151	189	566
Manitoba	929	955	965	974	1,008	4,832
Technical improvements	-7	-15	-22	-30	-37	-111
Saskatchewan	377	399	420	444	477	2,117
Technical improvements	3	6	9	11	14	43

¹ Figures in shaded areas include technical improvements.

*CHST: \$11.5 billion of new funds for health care
Equal per capita to all provinces and territories*

	Estimates					5-year total
	1999-00	2000-01	2001-02	2002-03	2003-04	
(millions of dollars unless otherwise specified)						
Total	2,000	2,000	2,500	2,500	2,500	11,500¹
Amount each year per capita (\$)	65	65	80	79	78	
Newfoundland	35	35	42	42	41	195
Prince Edward Island	9	9	11	11	11	51
Nova Scotia	61	61	76	75	75	348
New Brunswick	49	49	61	60	59	278
Quebec	482	479	596	592	589	2,738
Ontario	755	757	949	953	956	4,370
Manitoba	75	74	92	92	91	425
Saskatchewan	67	67	83	82	81	379
Alberta	192	192	241	241	241	1,107
British Columbia	268	270	341	344	347	1,570
Yukon	2	2	3	3	3	12
Northwest Territories	3	3	3	3	3	16
Nunavut	2	2	2	2	2	10

¹ Includes a CHST supplement of \$3.5 billion which will be accounted for in 1998-99 by the federal government. It is anticipated that provinces will draw down this one-time CHST supplement by \$2 billion in 1999-2000, by \$1 billion in 2000-01 and by \$0.5 billion in 2001-02

Equal support for all Canadians through CHST by 2001-02

	Estimates				
	1999-00	2000-01	Equal per capita		
			2001-02	2002-03	2003-04
(\$ per capita)					
Newfoundland	948	951	960	971	985
Prince Edward Island	928	934	960	971	985
Nova Scotia	933	938	960	971	985
New Brunswick	929	935	960	971	985
Quebec	954	956	960	971	985
Ontario	918	926	960	971	985
Manitoba	928	934	960	971	985
Saskatchewan	920	928	960	971	985
Alberta	908	917	960	971	985
British Columbia	919	927	960	971	985

CHST: equal per capita support by 2001-02
Equalization: additional support for less prosperous provinces

		Estimates				
		1999-00	2000-01	2001-02	2002-03	2003-04
		(share of Canada total – per cent)				
Newfoundland	Total transfers	3.7	3.7	3.6	3.6	3.6
	Population	1.8	1.7	1.7	1.7	1.6
	CHST	1.8	1.8	1.7	1.7	1.6
	Equalization	10.8	10.6	10.4	10.3	10.2
Prince Edward Island	Total transfers	0.9	0.9	0.9	0.9	0.9
	Population	0.4	0.4	0.4	0.4	0.4
	CHST	0.4	0.4	0.4	0.4	0.4
	Equalization	2.4	2.4	2.4	2.4	2.4
Nova Scotia	Total transfers	5.3	5.3	5.3	5.3	5.4
	Population	3.1	3.1	3.0	3.0	3.0
	CHST	3.1	3.1	3.0	3.0	3.0
	Equalization	13.3	13.5	13.5	13.5	13.5
New Brunswick	Total transfers	4.3	4.3	4.3	4.3	4.3
	Population	2.5	2.4	2.4	2.4	2.4
	CHST	2.5	2.4	2.4	2.4	2.4
	Equalization	11.3	11.3	11.2	11.1	11.0
Quebec	Total transfers	29.0	29.0	28.6	28.6	28.6
	Population	24.1	24.0	23.8	23.7	23.6
	CHST	24.8	24.5	23.8	23.7	23.6
	Equalization	48.1	48.4	48.9	49.2	49.3
Ontario	Total transfers	27.9	27.9	28.3	28.2	28.2
	Population	37.7	37.9	38.0	38.1	38.2
	CHST	37.3	37.5	38.0	38.1	38.2
	Equalization	10.0	9.9	9.6	9.3	9.3
Manitoba	Total transfers	5.1	5.0	4.9	4.9	4.9
	Population	3.7	3.7	3.7	3.7	3.7
	CHST	3.7	3.7	3.7	3.7	3.7
	Equalization	10.0	9.9	9.6	9.3	9.3
Saskatchewan	Total transfers	3.2	3.2	3.2	3.2	3.2
	Population	3.4	3.3	3.3	3.3	3.2
	CHST	3.3	3.3	3.3	3.3	3.2
	Equalization	4.1	4.1	4.2	4.2	4.4
Alberta	Total transfers	7.0	7.0	7.2	7.1	7.1
	Population	9.6	9.6	9.6	9.6	9.6
	CHST	9.4	9.4	9.6	9.6	9.6
	Equalization	10.0	9.9	9.6	9.3	9.3
British Columbia	Total transfers	9.9	10.0	10.1	10.2	10.2
	Population	13.4	13.5	13.6	13.8	13.9
	CHST	13.3	13.4	13.6	13.8	13.9
	Equalization	10.0	9.9	9.6	9.3	9.3
Yukon	Total transfers	0.9	0.9	0.9	0.9	0.9
	Population	0.1	0.1	0.1	0.1	0.1
	CHST	0.1	0.1	0.1	0.1	0.1
	TFF	23.2	23.1	23.2	23.3	23.3
Northwest Territories	Total transfers	1.4	1.4	1.4	1.4	1.4
	Population	0.1	0.1	0.1	0.1	0.1
	CHST	0.1	0.1	0.1	0.1	0.1
	TFF	37.9	37.4	37.0	37.0	37.0
Nunavut	Total transfers	1.4	1.4	1.4	1.4	1.4
	Population	0.1	0.1	0.1	0.1	0.1
	CHST	0.1	0.1	0.1	0.1	0.1
	TFF	38.9	39.5	39.7	39.7	39.7

***Investing in Key Economic
and Social Priorities –
Building a Strong Economy through
Knowledge and Innovation***

Highlights

- ✓ This budget builds on the Canadian Opportunities Strategy by investing more than \$1.8 billion over the remainder of this fiscal year and the next three years in additional support for creating, disseminating, and commercializing knowledge, and for employment programs.
- ✓ Creating knowledge: \$200 million is invested in the Canada Foundation for Innovation to continue to meet the research infrastructure challenge through the acquisition of state-of-the-art equipment and facilities. It is expected that about \$100 million will support research infrastructure in the areas of the environment, science and engineering. Additional funding is also provided to the granting councils, the National Research Council and federal science-based departments.
- ✓ Disseminating knowledge: \$60 million will be invested over the next three years to establish Smart Community Demonstration Projects to show how information and communication technologies can be harnessed by communities to support economic development and to enrich community life for Canadians. An additional \$36 million will be invested over three years to make critical geographic-related information available on the information highway through the “GeoConnections” initiatives.
- ✓ Commercializing knowledge: \$90 million over three years will be provided to the Networks of Centres of Excellence. A further \$150 million will be provided over three years to Technology Partnerships Canada for strategic investments with companies to commercialize innovative products and processes. The government will inject an additional \$50 million in equity in the Business Development Bank of Canada. An additional \$430 million over the next three years is provided to the Canadian Space Agency with ongoing funding of \$300 million per annum thereafter to make strategic investments in space projects, science and technology.
- ✓ Supporting employment: a total of \$795 million over three years is provided for the recently announced Youth Employment Strategy and the Canada Jobs Fund.

Highlights

Building on the Canadian Opportunities Strategy: knowledge and innovation

	1998-99	1999-00	2000-01	2001-02	Cumulative Total
	(millions of dollars)				
Creating knowledge					
Canada Foundation for Innovation ¹	100				100
NSERC		25	25	25	75
SSHRC		5	5	5	15
National Research Council	16	5	5	5	31
Biotechnology		15	20	20	55
Disseminating knowledge					
Smart Communities		15	30	15	60
GeoConnections		12	12	12	36
Commercializing knowledge					
Business Development Bank of Canada ²	50				50
Technology Partnership Canada		50	50	50	150
Canadian Space Agency		41	152	237	430
Networks of Centres of Excellence		30	30	30	90
Supporting employment					
Youth Employment Strategy		155	155	155	465
Canada Jobs Fund		110	110	110	330
Total	166	463	594	664	1,887

¹ Funding will be increased by \$200 million. Based on actual awards to date, it is expected that about one-half of this amount will support research infrastructure in areas other than health.

² Federal support for the Business Development Bank of Canada is in the form of an equity injection – i.e. the purchase of shares. As such, it is not counted as a budgetary expenditure.

*Providing Tax Relief
and Improving Tax Fairness*

Highlights

- ✓ Tax reductions in the 1999 budget build on the tax reductions in the 1998 budget.
 - ⇨ The 1998 budget provided a \$500 increase in the amount of income low-income Canadians can receive tax-free. The 1999 budget increases this amount to \$675, and extends this tax relief to all taxpayers. The \$675 increase more than offsets the effect of inflation since 1992 on the value of the tax-free amount.
 - ⇨ The 1998 budget began the process of eliminating the 3-per-cent surtax by providing complete relief for taxpayers with incomes up to about \$50,000 and reductions for those with incomes between \$50,000 and \$65,000. The 1999 budget completes this process by eliminating the surtax for all remaining taxpayers.
 - ⇨ The 1998 budget, on top of the \$850 million provided in the 1997 budget, committed an additional \$850 million to the Canada Child Tax Benefit (CCTB) targeted exclusively at low-income families. The 1999 budget sets out the design for this increased assistance, agreed to by federal, provincial and territorial governments, and also commits an additional \$300 million to increase CCTB payments for modest- and middle-income families.
- ✓ The personal income tax reductions are in addition to the 15-cent reduction in the Employment Insurance (EI) employee premium rates to \$2.55 per \$100 of insurable earnings for 1999 for \$1.1 billion in savings on a full-year basis, \$800 million of which is in 1999-2000.
- ✓ The 1998 and 1999 budgets provide Canadians with substantial tax relief.
 - ⇨ Together, the 1998 and 1999 budgets provide tax relief of \$3.9 billion in 1999-2000, \$6.0 billion in 2000-01 and \$6.6 billion in 2001-02 for a total of \$16.5 billion.
 - ⇨ In combination, the 1998 and 1999 budget actions, and the \$800-million EI premium rate reduction for 1999-2000, provide tax relief of \$17.3 billion over the next three years.
 - ⇨ The proposed measures provide the largest proportionate federal income tax reductions at the lowest income levels.
 - ⇨ As a result of the 1998 budget, 400,000 low-income Canadians will no longer pay any federal income tax. The 1999 budget removes an additional 200,000 from the tax rolls for a total of 600,000.
 - ⇨ Single taxpayers earning \$20,000 and less will have their federal income taxes reduced by at least 10 per cent.

Highlights

- ⇒ A typical Canadian one-earner family of four that receives income of \$30,000 or less will pay no net federal income tax.
- ⇒ Families with incomes of \$45,000 or less will have their federal income taxes reduced by a minimum of 10 per cent and some will receive much larger reductions.

Impact on taxpayers – mature system

General tax relief and Canada Child Tax Benefit (CCTB)	1998 & 1999		
	budgets	1998 budget	1999 budget
	(number of taxpayers or families)		
Changes to personal amounts¹			
Number with tax reductions ²	15,700,000	5,000,000	15,300,000
Number removed from the tax rolls	600,000	400,000	200,000
Elimination of the 3-per-cent surtax			
Number with tax reductions ³	15,100,000	14,000,000	2,700,000
Increase to the CCTB			
Number of families with CCTB increases ⁴	3,300,000	1,400,000	2,000,000
Number of families added to CCTB eligibility ⁵	100,000	-	100,000

¹ Includes extension of \$500 supplement to all taxpayers and \$175 increase in tax-free income.

² The 1999 budget provides tax reductions to all 15.3 million taxpayers remaining after the 1998 budget removed 400,000 from the tax rolls. Consequently, all 15.7 million taxpayers receive tax reductions from the two budgets combined.

³ The 1999 budget eliminates the surtax for the 2.7 million taxpayers who remained liable for the surtax following the 1998 budget measures. This number includes taxpayers who received only partial relief from the surtax in the 1998 budget.

⁴ The total number of families receiving CCTB benefits following full implementation of the 1999 budget measures will be 3.3 million. Some families gain from benefit increases provided by both the 1998 and 1999 budgets.

⁵ As a result of the 1998 budget, the number of families eligible for the National Child Benefit supplement will increase by 175,000. However, the number of families eligible for the CCTB remains unchanged as these families were already receiving the base benefit.

*Typical one-earner family of four
full-year impact of proposed measures*

Total Income	1999 budget tax relief measures									Federal tax post- 1999 budget
	Federal tax ¹ pre-1998 budget	1998 budget impacts	Extending the \$500 supplement	\$175 increase to basic amounts	Surtax elimination	Canada Child Tax Benefit ²	Total 1999 budget	Total 1998 and 1999 budgets	Total 1998 and 1999 as a % of federal tax ^{3,4}	
(dollars unless otherwise specified)										
13,500	-3,708	-163	0	0	0	-700	-700	-863	-863	-4,571
15,000	-3,462	-174	-7	-60	0	-700	-767	-941	-941	-4,403
20,000	-2,643	-164	-41	-60	0	-700	-801	-965	-965	-3,608
25,000	-1,000	-154	-75	-60	0	-719	-854	-1,008	-1,008	-2,008
30,000	451	-145	-109	-60	0	-184	-353	-498	-110.4%	-47
35,000	2,233	-149	-143	-60	0	-184	-387	-536	-24.0%	1,697
40,000	3,938	-160	-170	-60	0	-184	-414	-574	-14.6%	3,364
45,000	5,527	-199	-170	-60	0	-184	-414	-613	-11.1%	4,914
50,000	7,116	-238	-170	-60	0	-184	-414	-652	-9.2%	6,464
55,000	8,705	-197	-185	-65	-60	-184	-494	-691	-7.9%	8,014
60,000	10,319	-117	-185	-65	-179	-184	-613	-730	-7.1%	9,589
65,000	12,063	-30	-185	-65	-310	-184	-744	-774	-6.4%	11,289
75,000	15,469	0	-184	-64	-440	0	-688	-688	-4.4%	14,781
100,000	23,299	0	-184	-64	-658	0	-906	-906	-3.9%	22,393

¹ Includes federal income tax, refundable Canada Child Tax Benefit (CCTB), and the goods and services tax (GST) credit. It does not include provincial income tax. Negative values indicate that refundable CCTB and GST credits received are greater than income tax paid.

² Design change announced in the 1999 budget – includes the effect of the \$850-million increase announced in the 1998 budget as well as the \$300-million increase announced in the 1999 budget.

³ Negative values indicate a reduction in net tax paid to the federal government.

⁴ Typical one-earner families of four at incomes of about \$25,000 and less receive more in federal refundable credits (CCTB and GST credits) than they pay in federal income tax. The federal tax reduction indicated in bold therefore represents the increase in the net benefits they receive from the tax and transfer system. Percentages are not meaningful so the dollar amounts are repeated.

*Typical single individual
full-year impact of proposed measures*

Total Income	Federal tax ¹ pre-1998 budget	1999 budget tax relief measures						Total 1998 and 1999 budgets	Total 1998 and 1999 as a % of federal tax ^{2,3}	Federal tax post-1999 budget
		1998 budget impacts	Extending the \$500 supplement	\$175 increase to basic amounts	Surtax elimination	Canada Child Tax Benefit	Total 1999 budget			
(dollars unless otherwise specified)										
7,500	-98	-85	-4	-30	0	0	-34	-119	-119	-217
10,000	262	-80	-21	-30	0	0	-51	-131	-50.0%	131
15,000	1,047	-70	-55	-30	0	0	-85	-155	-14.8%	892
20,000	1,866	-63	-85	-30	0	0	-115	-178	-9.5%	1,688
25,000	2,685	-87	-85	-30	0	0	-115	-202	-7.5%	2,483
30,000	3,746	-112	-85	-30	0	0	-115	-227	-6.1%	3,519
35,000	5,128	-149	-85	-30	0	0	-115	-264	-5.1%	4,864
40,000	6,429	-187	-85	-30	0	0	-115	-302	-4.7%	6,127
45,000	7,768	-226	-85	-30	0	0	-115	-341	-4.4%	7,427
50,000	9,107	-219	-93	-32	-35	0	-160	-379	-4.2%	8,728
55,000	10,446	-141	-93	-32	-152	0	-277	-418	-4.0%	10,028
60,000	11,810	-62	-93	-32	-272	0	-397	-459	-3.9%	11,351
65,000	13,324	0	-92	-32	-384	0	-508	-508	-3.8%	12,816
75,000	16,456	0	-92	-32	-471	0	-595	-595	-3.6%	15,861
100,000	24,286	0	-92	-32	-689	0	-813	-813	-3.3%	23,473

¹ Includes federal income tax, refundable and the goods and services tax (GST) credit. It does not include provincial income tax.

² Negative values indicate that refundable GST credit received is greater than income tax paid.

³ Negative values indicate a reduction in net tax paid to the federal government.

³ Typical singles at an income of about \$7,500 and less receive more in federal refundable credits (GST credit) than they pay in federal income tax. The federal tax reduction indicated in bold therefore represents the increase in the net benefits they receive from the tax and transfer system. Percentages are not meaningful so the dollar amount is repeated.

Impact on federal revenues

General tax relief and Canada Child Tax Benefit (CCTB)	1999-2000	2000-01	2001-02	3-year cumulative impact
	(millions of dollars)			
Measures effective July 1, 1999				
Extension of the \$500 supplement to all taxpayers	-665	-1,110	-1,290	-3,065
\$175 increase in tax-free income	-270	-450	-525	-1,245
Elimination of the 3-per-cent surtax	-595	-995	-1,150	-2,740
Total	-1,530	-2,555	-2,965	-7,050
Tax fairness measures	-15	-25	-100	-140
Increase to the CCTB for middle-income families ¹	0	-225	-300	-525
Total – 1999 budget	-1,545	-2,805	-3,365	-7,715
Memorandum items: 1998 budget				
General and tax fairness measures	-2,070	-2,405	-2,425	-6,900
Increase to the CCTB for low-income families ²	-320	-750	-850	-1,920
Total – 1998 budget	-2,390	-3,155	-3,275	-8,820
Total 1998 and 1999 budgets	-3,935	-5,960	-6,640	-16,535

¹ Effective July 2000. The amount is in addition to the cumulative \$1.7-billion increase in CCTB in the 1997 and 1998 budgets.

² \$425 million effective July 1999 and an additional \$425 million effective July 2000.

Summary of Budget Measures

Spending and tax initiatives: 1999 budget

	1998-99	1999-00	2000-01	2001-02
	(millions of dollars)			
Building a Secure Society				
Strengthening health care for Canadians				
Canada Health and Social Transfer ¹	3,500		1,000	2,000
Other health care initiatives				
Improving health information systems	95	28	85	120
Promoting health-related research and innovation ²	160	50	115	225
First Nations health services		20	60	110
Preventive and other health initiatives		49	104	134
Total	255	147	364	589
New partnerships with Aboriginal peoples		49	144	159
Crime prevention	13	95	128	159
Furthering international co-operation	187	55	80	80
Addressing environmental challenges	12	18	17	17
Other				
Equalization – technical improvements		48	97	145
Official languages in education		70	70	70
Parks Canada	35			
Compensation and benefits in the military		175	175	175
Total	247	510	711	805
Total – Building a Secure Society	4,002	658	2,074	3,393
Building a Strong Economy				
Building on the Canadian Opportunities Strategy				
Creating knowledge				
Canada Foundation for Innovation ²	100			
Support for advanced research	16	50	55	55
Disseminating knowledge		27	42	27
Commercializing knowledge		121	232	317
Supporting employment		265	265	265
Total	116	463	594	664
Other Economic Adjustment				
Canadian Fisheries Adjustment and Restructuring Program	600	355	116	48
Agriculture Income Disaster Assistance Program	600	285	15	
DEVCO	41	5	21	21
Total	1,241	645	152	69
Total – Building a Strong Economy	1,357	1,108	746	733
Total spending initiatives	5,358	1,766	2,820	4,126
Targeted and general tax actions				
Building a Secure Society				
Increase in Canada Child Tax Benefit			225	300
General tax relief and fairness measures				
Extension of the \$500 supplement to all taxpayers		665	1,110	1,290
Increase in tax-free income by \$175		270	450	525
Elimination of the 3-per-cent surtax		595	995	1,150
Tax fairness measures		15	25	100
Reductions in 1999 EI premiums	300	800		
Total	300	2,345	2,580	3,065
Total tax initiatives	300	2,345	2,805	3,365
Total spending and tax initiatives	5,658	4,111	5,625	7,491

¹ The CHST supplement will be paid to a third-party trust in 1999-2000, on passage of authorizing legislation.

² An additional \$200 million is being allocated to the Canada Foundation for Innovation. It is expected that about one-half will be used to improve infrastructure for health research.

Spending and tax initiatives: February 1998 budget

	1997-98	1998-99	1999-00	2000-01	2001-02
	(millions of dollars)				
The Canadian Opportunities Strategy					
Millennium Scholarship Foundation	2,500				
Canada Study Grants		100	100	100	100
Increased funding for granting councils		120	135	150	150
Student Loans Program		50	145	150	158
Canada Education Savings Grant ¹		325	385	560	735
Connecting Canadians to information and skills	55	60	70	75	75
Supporting Youth Employment		50	75	100	100
Total	2,555	705	910	1,135	1,318
Building a Secure Society					
Increase in CHST cash floor	200	900	1,500	1,500	1,400
Other health initiatives					
National AIDS Strategy		41	41	41	41
Canadian Breast Cancer Initiative		7	7	7	7
Sustaining Canada's blood system ¹		55	55	25	25
Hepatitis C ¹	800				
Tobacco Demand Reduction Strategy		10	10	10	10
Total	800	113	113	83	83
Total	1,000	1,013	1,613	1,583	1,483
Support for Families					
Increased funding for employability assistance for persons with disabilities		15	20	20	20
New partnership with Aboriginal people	350	126	126	126	126
Promoting Canadian culture and sports	43	103	153	153	153
Strengthening communities		42	67	67	67
Environmental efficiency and innovation		94	94	94	94
Furthering international cooperation	90	70	20	20	20
Total	1,483	1,463	2,093	2,063	1,963
Total spending initiatives	4,038	2,168	3,003	3,198	3,281

¹Revised from February 1998 budget.

Spending and tax initiatives: February 1998 budget (continued)

	1997-98	1998-99	1999-00	2000-01	2001-02
	(millions of dollars)				
Targeted and General Tax Actions					
The Canadian Opportunities Strategy					
Credit for interest on student loans		80	130	145	155
Lifelong learning (RRSPs)		15	40	45	50
Part-time education tax credit (includes part-time CCED)		25	90	90	90
EI premium holiday for youth			100	100	
Total		120	360	380	295
Building a Secure Society					
Deductibility of health/dental insurance premiums			90	110	125
Caregiver credit		30	120	125	130
Canada Child Tax Benefit			320	750	850
Child care expense deduction		20	45	45	45
Disability measures		5	5	5	5
Alternative Min. Tax & RRSPs		70	20	20	20
Emergency services		5	10	10	10
Total		130	610	1,065	1,185
General tax relief and fairness measures					
Eliminate surtax for taxpayers up to \$50,000		710	1,175	1,365	1,430
Tax relief for low-income taxpayers		170	270	315	330
Reduction in EI premiums	235	465			
Tax fairness measures		-5	-25	30	35
Total	235	1,340	1,420	1,710	1,795
Total targeted and general tax actions	235	1,590	2,390	3,155	3,275
Total spending and tax actions	4,273	3,758	5,393	6,353	6,556

Spending and tax initiatives in the 1998 and 1999 budgets

	1997-98	1998-99	1999-00	2000-01	2001-02	Cumulative
	(millions of dollars)					
Spending initiatives						
Building a Secure Society						
Strengthening health care for Canadians						
Canada Health and Social Transfer	200	4,400	1,500	2,500	3,400	12,000
Other health initiatives	800	368	260	447	672	2,546
Other	483	697	991	1,190	1,284	4,645
Total	1,483	5,465	2,751	4,137	5,356	19,191
Building a Strong Economy						
Canadian Opportunities Strategy	2,555	821	1,373	1,729	1,982	8,460
Economic adjustment		1,241	645	152	69	2,107
Total	2,555	2,062	2,018	1,881	2,051	10,567
Total spending initiatives	4,038	7,527	4,769	6,018	7,407	29,758
Targeted and general tax relief						
Canadian Opportunities Strategy		120	360	380	295	1,155
Building a Secure Society		130	610	1,290	1,485	3,515
General tax relief		880	2,975	4,235	4,725	12,815
Tax fairness measures		-5	-10	55	135	175
EI premium reductions	235	765	800			1,800
Total tax initiatives	235	1,890	4,735	5,960	6,640	19,460
Total spending and tax initiatives	4,273	9,417	9,504	11,978	14,047	49,218

*Fiscal Outlook –
Summary Tables*

*Summary statement of transactions:
fiscal outlook with budget measures*

	1997-98	1998-99	1999-00	2000-01
	(billions of dollars)			
Budgetary transactions				
Budgetary revenues	153.2	156.5	156.7	159.5
Program spending	108.8	112.1	111.2	113.2
Operating balance	44.4	44.4	45.5	46.3
Public debt charges	40.9	41.4	42.5	43.3
Underlying balance	3.5	3.0	3.0	3.0
Contingency reserve		3.0	3.0	3.0
Budgetary balance	3.5	0.0	0.0	0.0
Net public debt	579.7	579.7	579.7	579.7
Non-budgetary transactions	9.3	11.5	5.0	7.0
Financial requirements/surplus (excluding foreign exchange transactions)	12.7	11.5	5.0	7.0
Per cent of GDP				
Budgetary revenues				
Including budget measures	17.7	17.6	17.2	17.0
Excluding 1998 & 1999 budget measures and EI rate reductions	17.7	17.9	17.8	17.7
Program spending	12.6	12.6	12.2	12.0
Public debt charges	4.7	4.7	4.7	4.6
Budgetary balance	0.4	0.0	0.0	0.0
Financial requirements/surplus	1.5	1.3	0.5	0.7
Net public debt	66.9	65.3	63.7	61.7

Note: numbers may not add due to rounding.

The revenue outlook

	1997-98	1998-99	1999-00	2000-01
	(billions of dollars)			
Income tax revenue				
Personal income tax	70.8	73.7	75.0	76.2
Corporate income tax	22.5	22.0	20.9	21.1
Other	3.0	2.9	2.9	2.9
Total	96.3	98.5	98.7	100.2
Employment insurance premium revenues	18.8	19.2	18.3	18.5
Sales and excise taxes/duties				
Goods and services tax	19.5	20.6	21.6	22.4
Customs import duties	2.8	2.5	2.5	2.5
Other	8.6	8.3	8.2	8.3
Total	30.9	31.4	32.3	33.2
Non-tax revenue	7.2	7.5	7.5	7.6
Total budgetary revenues	153.2	156.5	156.7	159.5
Per cent of GDP				
Including budget measures	17.7	17.6	17.2	17.0
Excluding 1998 and 1999 budget measures and EI premium rate reductions	17.7	17.9	17.8	17.7

The outlook for program spending

	1997-98	1998-99	1999-00	2000-01
	(billions of dollars)			
Major transfers to persons				
Elderly benefits	22.2	22.8	23.5	24.1
Employment insurance benefits	11.8	12.1	13.4	13.8
Total	34.1	34.9	36.9	37.9
Major transfers to other levels of government				
CHST cash ¹	12.6	16.0	12.5	13.5
Equalization	8.9	10.7	9.3	9.7
Other fiscal transfers	1.1	0.9	0.9	0.8
Alternative Payments for Standing Programs	-2.1	-2.2	-2.3	-2.3
Total cash transfers	20.5	25.4	20.4	21.7
Direct program spending				
Subsidies and other transfers				
Agriculture	0.8	1.6	1.1	0.7
International assistance ²				
Base funding	2.1	1.9	2.0	2.0
One-time adjustment	0.1	0.2		
Health	0.9	1.2	1.2	1.3
Human Resources Development	2.1	2.5	2.5	2.5
Indian and Northern Development	4.0	4.1	4.2	4.3
Industry and Regional Development	2.2	2.4	2.3	2.1
Other	10.3	5.1	5.3	5.2
Total	22.5	19.0	18.6	18.1
Crown corporations	2.5	3.8	3.9	3.8
Defence	8.9	8.3	8.7	8.7
Other	20.3	20.7	22.7	23.0
Total direct program spending	54.2	51.8	53.9	53.6
Total program spending	108.8	112.1	111.2	113.2

Note: numbers may not add due to rounding.

¹ Reflects profile of CHST cash as accounted for by the federal government.

² The 1998 budget provided one-time additional funding of \$90 million in 1997-98 and of \$50 million in 1998-99. The 1999 budget provides additional one-time funding of \$187 million in 1998-99 for humanitarian assistance and for the acceleration of payments of international subscriptions.

Fiscal sensitivity analysis

1-per-cent increase in nominal GDP

	Estimated changes in fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
Budgetary transactions				
Revenue increases	1.4	1.4	1.5	1.6
Expenditure reductions	0.1	0.1	0.2	0.2
Budgetary balance improvement	1.5	1.5	1.7	1.8

Fiscal sensitivity analysis

100-basis-point increase in interest rates

	Estimated changes in fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
Budgetary transactions				
Revenue increases	0.3	0.3	0.4	0.4
Expenditure increases	1.2	1.9	2.3	2.7
Budgetary balance deterioration	0.9	1.6	1.9	2.3

- ✓ Assuming the increase in nominal incomes comes solely from an increase in output, the budgetary balance would improve by \$1.5 billion in the first year, rising to \$1.8 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 budgetary balance to deteriorate by \$0.9 billion in the first year.
 - ⇨ As longer-term debt matures and is refinanced at the higher interest rates, the negative impact on the budgetary balance goes up, reaching \$2.3 billion by year four.

Fiscal sensitivity to interest rates has been reduced

	Total debt ¹	Per cent of fixed-rate debt ²	Budgetary balance sensitivity 100-basis-point increase in all interest rates			
			Year 1	Year 2	Year 3	Year 4
(billions of dollars unless otherwise specified)						
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	600.6	61.7	1.0	1.9	2.3	2.6
1998 budget	591.8	65.0	1.0	1.7	2.1	2.4
1999 budget	587.2	2/3	0.9	1.6	1.9	2.3

¹ Interest-bearing debt as of March 31st in budget year.

² 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 reduction in the sensitivity of the budgetary balance to interest rates since the 1998 budget can be explained by:
 - ⇒ a lower stock of interest-bearing debt; and
 - ⇒ the slight increase in the proportion of fixed-rate debt (i.e., debt with an effective term of greater than twelve months) to about two-thirds, compared to 65 per cent at the time of the 1998 budget.

Federal debt and the maturity structure of unmatured debt

Federal debt (March 31, 1998)

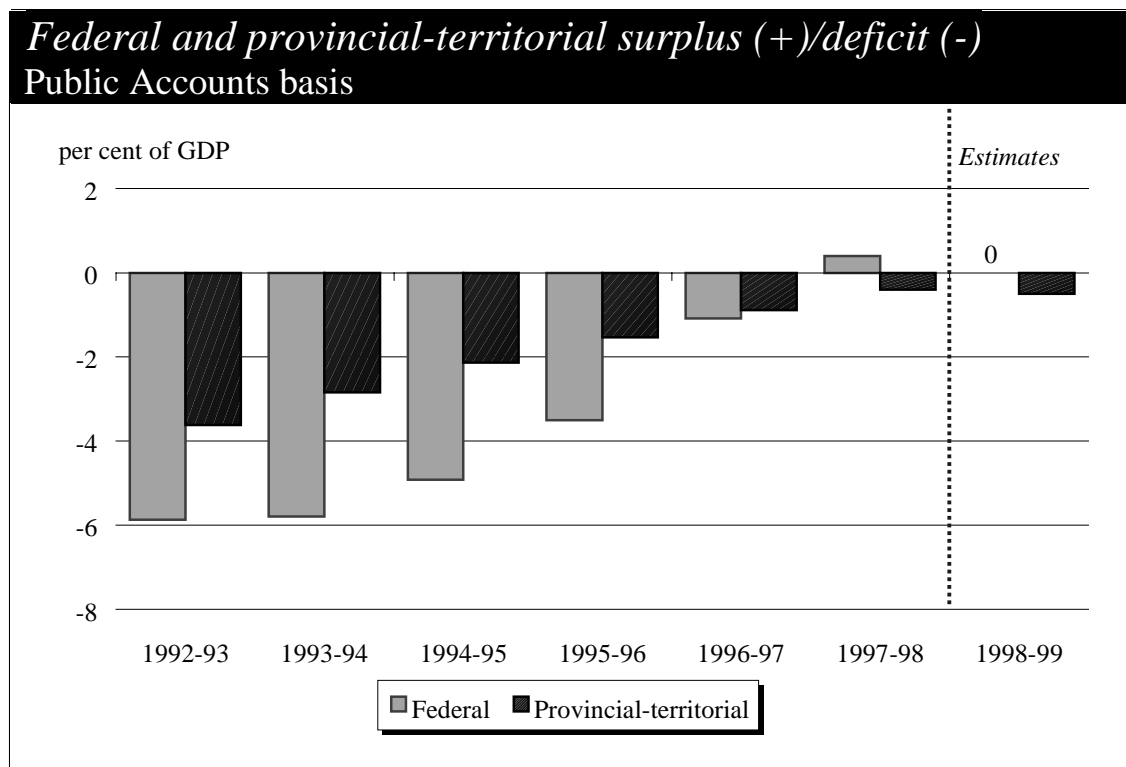
	(billions of dollars)
Net debt	579.7
Financial assets	58.8
Gross debt	638.5
Of which:	
Unmatured debt	467.3
Pension and other accounts	127.5
Current liabilities	43.7

Distribution of unmatured debt (March 31, 1998)

	(per cent)
Treasury bills	24.0
Canadian Savings Bonds	6.4
Bonds	
Under 3 years	24.1
3-5 years	10.4
5-10 years	16.2
Over 10 years	15.5
Other	3.4
	<u>100.0</u>

***Total Government Sector
Fiscal Situation***

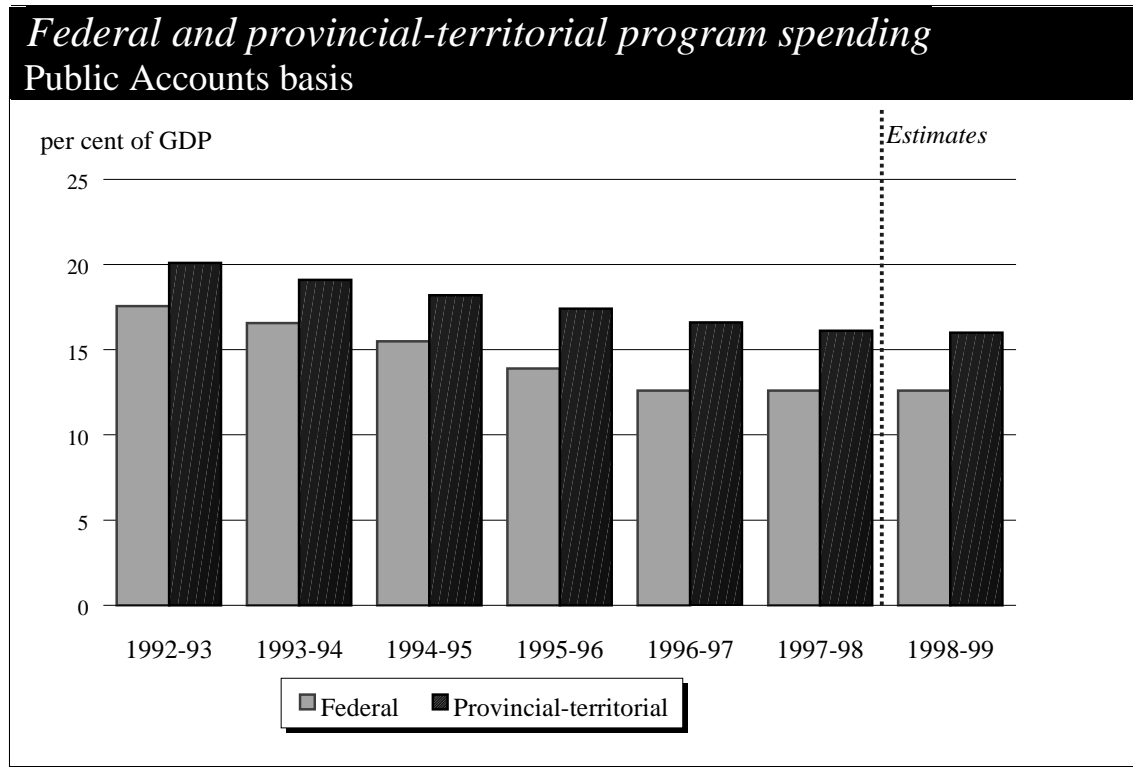
Significant restoration of the fiscal health of Canada's total government sector



Source: Department of Finance, Canada.

- ✓ With a surplus of \$3.5 billion at the federal government level, the total federal-provincial-territorial government sector was in a slight surplus in 1997-98.
- ✓ The rate of fiscal improvement is expected to pause in 1998-99. A number of provinces have been adversely affected by the Asian crisis and its contagion effects, which led to slower economic growth, lower commodity prices and the increased cost of servicing foreign currency debt as a result of a weaker Canadian dollar.
 - ⇨ With a balanced budget expected for the federal government in 1998-99, the total government budgetary balance is expected to be in a small deficit position in 1998-99.
 - ⇨ Five provincial-territorial jurisdictions are expected to be in balance or surplus in 1998-99, compared to seven in 1997-98.
- ✓ All jurisdictions expect to balance their budgets by 2000-01.

Federal and provincial-territorial program spending continues to fall

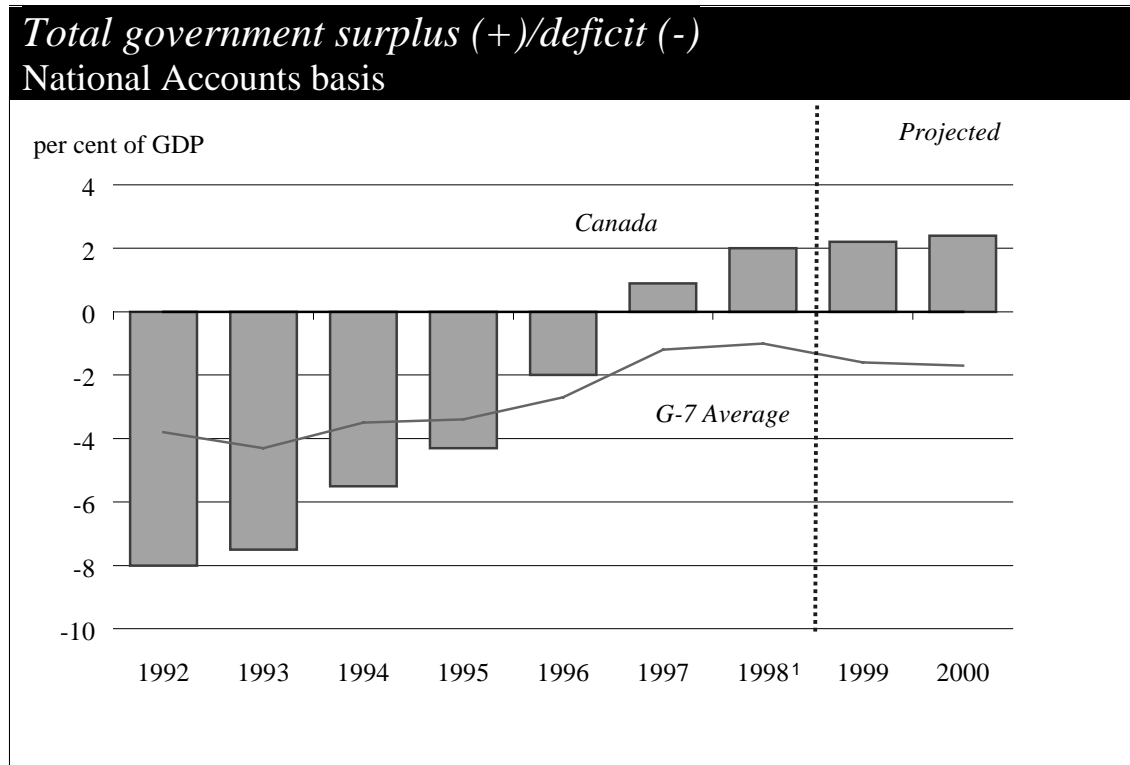


Source: Department of Finance, Canada.

- ✓ Although new spending initiatives have been announced, total government program spending as a percentage of GDP will continue to decline in 1998-99.
 - ⇒ Federal program spending will fall to 12.6 per cent in 1998-99, compared to 17.5 per cent in 1992-93.
 - ⇒ Provincial-territorial program spending is expected to decrease from 20.1 per cent of GDP in 1992-93 to 16 per cent for 1998-99.

International Fiscal Comparisons

Canada's total government budgetary balance is the best among G-7 countries

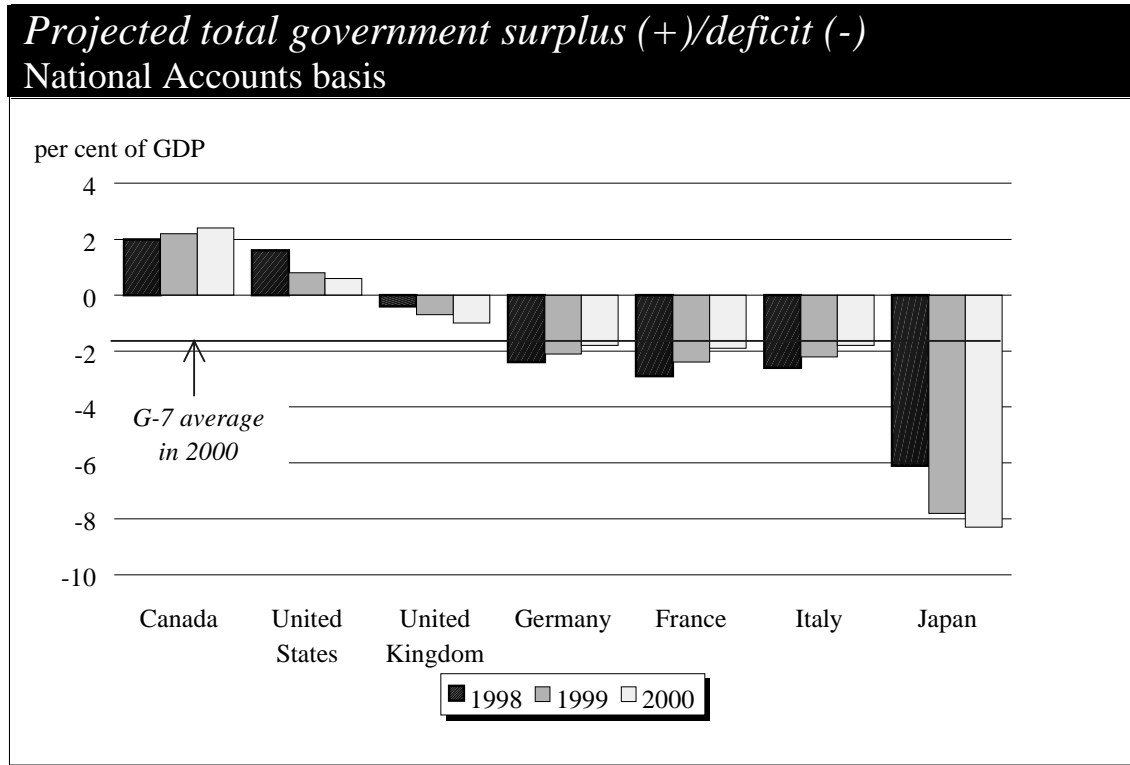


¹ Estimate.

Source: *OECD Economic Outlook* No. 64 (December 1998).

- ✓ Canada's budgetary position has improved from being among the worst in the G-7 in the early 1990s, to the best.
 - ⇒ In 1992, Canada's total government deficit (on a National Accounts basis, including federal, provincial and local governments, and the balances in the Canada and Quebec Pension Plans) reached a high of 8 per cent of GDP, compared to the G-7 average deficit-to-GDP ratio of 3.8 per cent.
 - ⇒ Since 1996, Canada's total government budgetary balance has been better than the G-7 average.
 - ⇒ According to projections by the Organization for Economic Co-operation and Development (OECD), which do not include the policy initiatives announced in this budget, Canada's overall government sector will post a budgetary surplus of 2 per cent of GDP for 1998.

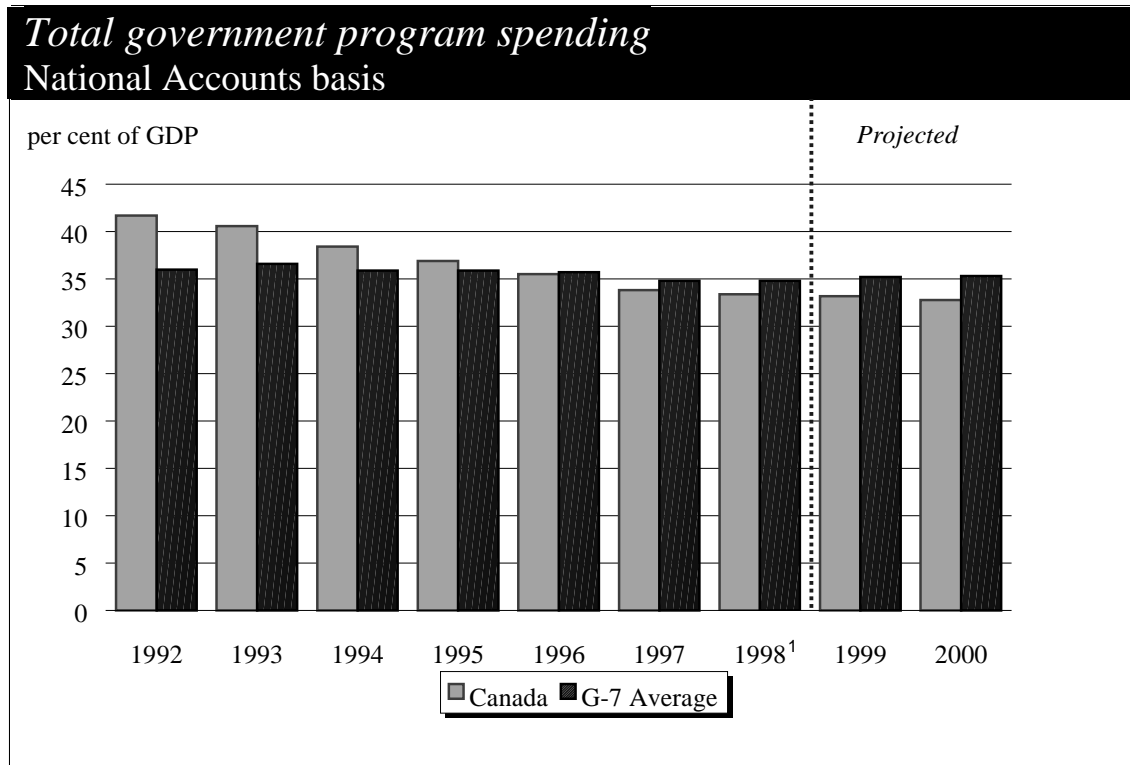
Canada continues to outperform other G-7 countries



Source: OECD Economic Outlook No. 64 (December 1998).

- ✓ According to the OECD, Canada's budget surpluses are expected to grow steadily in the years to come if no new tax or spending initiatives are undertaken. Canada is expected to continue to outperform every other G-7 country.
- ✓ The OECD predicts that by 2000, (on the basis of current programs and policies) Canada and the United States will be the only G-7 countries to have achieved four consecutive annual surpluses.

Canada experienced the largest reductions in program spending as a share of GDP

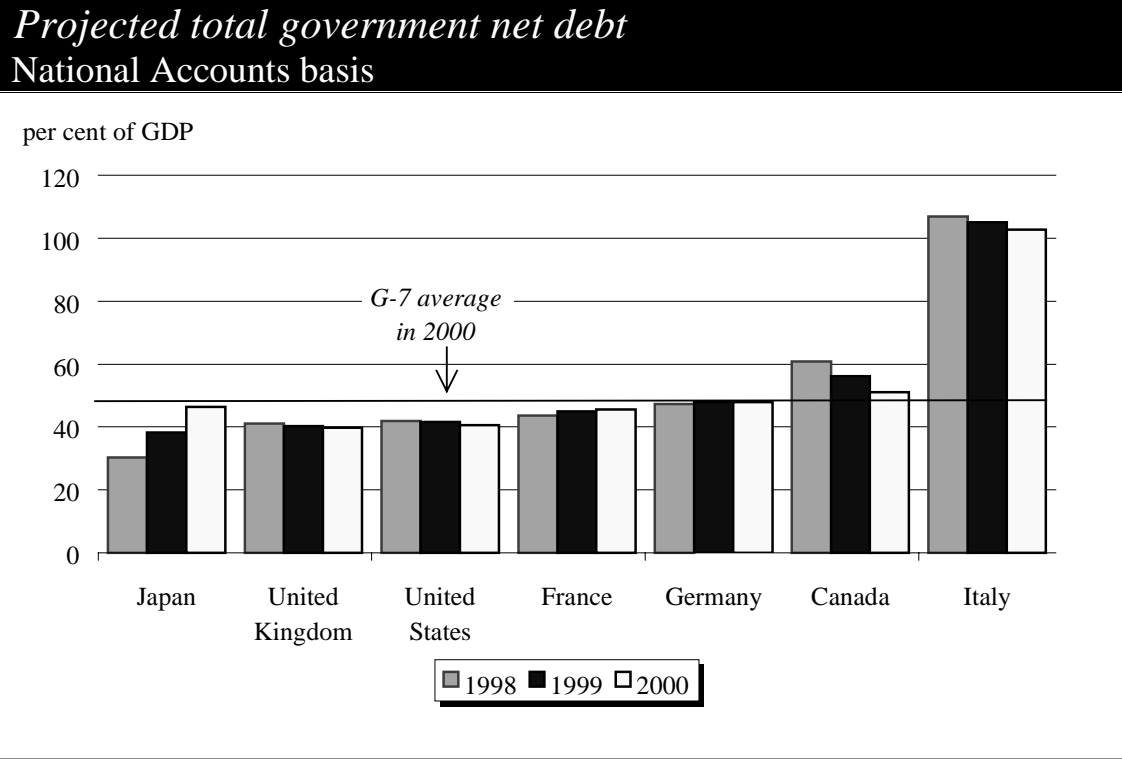


¹ Estimate.

Source: *OECD Economic Outlook* No. 64 (December 1998).

- ✓ As a percentage of GDP, program spending by all levels of government in Canada fell by 7.9 percentage points between 1992 and 1997, compared to an average of 1.2 points for the G-7 countries.
- ✓ In relation to the size of the economy, Canada's program spending is now below the G-7 average, a trend that is expected to continue.
 - ⇒ In 1999 and 2000, the ratio of program spending to GDP will place Canada second lowest among the G-7 countries, above only the United States.

Rapid decline in Canada's net debt-to-GDP ratio



Source: OECD Economic Outlook No. 64 (December 1998).

- ✓ Canada's net debt-to-GDP ratio is high by international as well as by historical standards.
- ✓ However, after peaking in 1996, the debt-to-GDP ratio is now on a clear downward track.
 - ⇒ According to OECD estimates, between 1998 and 2000, Canada's net debt-to-GDP ratio will decline by almost 10 percentage points, the sharpest decline among the G-7 countries.
 - ⇒ This will reduce the gap between Canada's net debt ratio and the G-7 average from about 20 percentage points in 1997 to just over 3 percentage points in 2000.