

# The Fiscal Monitor

A Publication of the Department of Finance

## Highlights of financial results for May 1997

### Surplus recorded in May 1997

A surplus of \$1.4 billion was recorded in May 1997, compared to a deficit of \$0.6 billion in May 1996. As a result, there was a net improvement in the federal government's budgetary position of \$2.0 billion on a year-over-year basis. Budgetary revenues were up \$0.8 billion (6.8 per cent), while program spending declined \$0.8 billion (10.0 per cent). Public debt charges were down \$0.4 billion (9.4 per cent).

The increase in budgetary revenues was primarily due to higher personal income tax collections (\$0.7 billion), primarily reflecting higher taxes paid on filing relating to the 1996 taxation year, and increased employment insurance premiums (up \$0.3 billion), attributable to an acceleration of monthly payments. In contrast, excise taxes and duties were lower (down \$0.2 billion) on a year-over-year basis.

The decline in program spending reflected the impact of previous budget actions as well as timing factors. In May 1997, there were two government employee pay periods, whereas in May 1996, there were three. This accounted for about \$0.4 billion of the year-over-year decline in program spending.

### Deficit for April and May 1997 down \$2.6 billion

Over the first two months of the 1997-98 fiscal year, the deficit was estimated at \$2.0 billion, down \$2.6 billion from the same period last year. This decline in the deficit was attributable to the increasing strength in the economy, the impact of previous budget measures and timing considerations. Budgetary revenues were up \$1.4 billion (7.7 per cent), program spending declined \$0.8 billion (5.2 per cent), while public debt charges were \$0.3 billion lower (4.1 per cent).

Within budgetary revenues, personal income tax collections were up \$0.9 billion, employment insurance premiums increased \$0.7 billion, while corporate income tax collections increased \$0.3 billion. In contrast, excise taxes and duties were down by \$0.4 billion, while non-tax revenues declined by \$0.1 billion.

- The increase in personal income tax collections reflected both higher taxes paid on filing, relating to the 1996 taxation year, and an increase in deductions from employment income, due to increases in the number of people employed.
- The increase in employment insurance premiums was attributable to timing considerations, which will be reversed over the latter half of the calendar year, thereby having no effect on the deficit outcome for 1997-98. In January 1997, there was a change to the base on which premiums are levied, from weekly maximum insurable earnings to annual maximum insurable earnings. This change results in an acceleration of premium payments from the latter half of the calendar year to the first half. This change does not affect the amount paid by employees and employers for the calendar year as a whole. However, those earnings above the annual maximum insurable earnings will pay more of their premium liability earlier in the calendar year and less at the end.
- The increase in corporate income tax collections was attributable to an increase in corporate profits, in line with the strengthening economy.
- The decline in excise taxes and duties was largely due to lower GST collections. Net GST collections were down \$0.3 billion, compared to the same period last year. This decline was attributable to timing considerations, related to end-of-year accounting adjustments and the payment of refunds. Gross collections were up, in line with the growth in domestic demand. Custom import duties were also lower, reflecting the impact of tariff reductions, while other excise taxes and duties were up slightly.

With the exception of other transfer payments, all other major components of program spending were lower in the April and May 1997 period than in the same period last year.

- Major transfers to persons declined \$0.2 billion, solely due to lower employment insurance benefits, as elderly benefits were up. The decline in



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employment insurance benefits was primarily due to lower average benefits and a decline in beneficiaries, primarily reflecting the impact of reform measures.

- Major transfers to other levels of government were down \$0.5 billion. This decline was attributable to the reduction in entitlements under the Canada Health and Social Transfer (CHST), as announced in the February 1995 budget. In order to give provinces time to plan for these reductions, total entitlements – the most appropriate measure of federal support – were largely unaffected in 1995-96. Total entitlements were set at \$29.6 billion in 1995-96, up 1 per cent from 1994-95, \$26.9 billion in 1996-97 and \$25.1 billion in 1997-98. They are being held at this level till 1999-2000. For 2000-01 to 2002-03, these entitlements will grow at an increasing pace. These entitlements are paid to the provinces in the form of tax point transfers and cash. The tax point transfer component represents the value of “tax room” which the federal government made available to provinces, which allowed the provinces to increase their tax rates by an equivalent amount, with no impact on the taxpayer. The value of the tax point transfer increases in line with the growth in the applicable tax bases. The cash transfer, therefore, is the difference between the entitlement and an increasing value in the tax point transfer. Being a residual, the cash transfer, which affects program spending, is determined not only by the change in entitlements, but also by the growth in the value of the tax point transfer. As a result, even with no change in entitlements, cash transfers would decline in line with the growth in the value of tax point transfers. Conversely, if the value of the tax point transfer declined, assuming no change in entitlements, the cash component would rise correspondingly. For 1997-98, cash transfers are estimated at \$12.5 billion and were expected to fall to \$11.8 billion in 1998-99. However, the government has indicated that it would establish a floor whereby over the five-year period – 1998-99 to 2002-03 – cash transfers would never fall below \$12.5 billion.
- Excluding major transfers to persons and other levels of government, all other program spending declined by 1.2 per cent. This component includes subsidy and other transfer payments, payments to Crown corporations, and the operating and capital costs of government, including defence. In contrast to the reduction to entitlements to other levels of government, which took effect in 1996-97, this component of spending declined by 10 per cent in 1995-96, reflecting the major reductions announced

in the 1994 and 1995 budgets. Expenditures on Crown corporations, defence, and all other departmental expenditures were lower over the April and May 1997 period, while other major transfers were up \$0.2 billion. This increase primarily reflected the timing of payments.

Public debt charges were down \$0.3 billion, or 4.1 per cent. This decline was attributed both to a decline in unmatured, or market, debt (down \$0.7 billion) and lower average effective interest rates. This is the first time since the mid 1970s that the stock of unmatured debt has declined on a year-over-year basis. Net public debt, which is the cumulation of deficits and surpluses since Confederation and includes not only unmatured debt but also non-market debt (primarily public sector employee pension liabilities) did increase as there was a deficit over the April and May 1997 period.

## **Financial source (surplus) of \$1.9 billion for April and May 1997**

Non-budgetary transactions provided the government with a net source of funds, amounting to \$2.1 billion, compared to a source of \$0.3 billion in the same period last year. Most of this increase was attributable to a reopening of some bonds, which resulted in a one-time cash gain but has only minor impact on the monthly deficit as such gains are amortized over the life of the bond.

Foreign exchange transactions resulted in a net source of \$1.9 billion, compared to a net requirement of \$1.0 billion in the same period last year.

As a result, there was a financial source, including foreign exchange transactions, of \$1.9 billion in the April and May 1997 period. In the same period last year, there was a net requirement of \$1.3 billion.

Caution should be exercised in extrapolating the monthly results to gain an assessment of the possible outcome for the year as a whole. For example, the current increase in employment insurance premiums will be reversed by the end of the calendar year, thereby having no impact on the deficit outcome for the year as a whole. The increase in personal income tax collections due to higher taxes paid on filing, with respect of the 1996 taxation year, is a one-time development and is not repeated in subsequent months. In the fall, the Minister of Finance will present his annual update on economic and fiscal developments. At that time, there will be assessment of current developments on the government's deficit targets.

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Table 1  
Summary statement of transactions

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Budgetary transactions</b>				
Revenues	11,424	12,202	19,076	20,539
Program spending	-8,147	-7,332	-16,118	-15,284
Operating surplus	3,277	4,870	2,958	5,255
Public debt charges	-3,859	-3,498	-7,600	-7,290
Deficit/surplus	-582	1,372	-4,642	-2,035
<b>Non-budgetary transactions</b>	626	1,649	326	2,063
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	44	3,021	-4,316	28
<b>Foreign exchange transactions</b>	905	-1,698	-1,001	1,891
<b>Total financial requirements/source</b>	949	1,323	-5,317	1,919
<b>Unmatured debt transactions</b>	91	-3,224	-259	-8,317

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

Table 2  
Budgetary revenues

	May		April – May		Per cent change
	1996	1997	1996-97	1997-98	
	(millions of dollars)				(%)
<b>Income taxes</b>					
Personal income tax	5,612	6,273	10,140	11,079	9.3
Corporate income tax	1,097	1,126	1,647	1,938	17.7
Other	172	138	375	410	9.3
Total income tax	6,881	7,537	12,162	13,427	10.4
<b>Employment insurance premiums</b>	1,521	1,857	3,010	3,701	23.0
<b>Excise taxes and duties</b>					
Goods and services tax	1,664	1,561	1,648	1,312	-20.4
Customs import duties	170	193	264	215	-18.6
Other excise taxes/duties	769	616	1,065	1,079	1.3
Total excise taxes and duties	2,603	2,370	2,977	2,606	-12.5
<b>Total tax revenues</b>	11,005	11,764	18,149	19,734	8.7
<b>Non-tax revenues</b>	419	438	927	805	-13.2
<b>Total budgetary revenues</b>	11,424	12,202	19,076	20,539	7.7

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Table 3

## Budgetary expenditures

	May		April – May		Per cent change (%)
	1996	1997	1996-97	1997-98	
(millions of dollars)					
<b>Transfer payments to:</b>					
Persons					
Elderly benefits	1,800	1,828	3,505	3,617	3.2
Employment insurance benefits	1,129	933	2,412	2,067	-14.3
Total	2,929	2,761	5,917	5,684	-3.9
Other levels of government					
Canada Health and Social Transfer	1,254	1,013	2,508	2,035	-18.9
Fiscal transfers	720	677	1,694	1,664	-1.8
Alternative Payments for Standing Programs	-169	-178	-336	-355	5.7
Total	1,805	1,512	3,866	3,344	-13.5
Other					
Agriculture	51	12	51	15	-70.6
Foreign Affairs	79	124	137	174	27.0
Human Resources Development	145	140	236	192	-18.6
Indian and Northern Development	298	259	1,005	975	-3.0
Industry & Regional Development	53	93	118	176	49.2
Veterans Affairs	116	116	225	228	1.4
Other	165	241	359	542	50.8
Total	907	985	2,131	2,302	8.0
Total transfers	5,641	5,258	11,914	11,330	-4.9
<b>Payments to Crown corporations</b>					
Canadian Broadcasting Corporation	101	71	233	183	-21.5
Canada Mortgage and Housing Corporation	145	109	274	249	-9.2
Other	62	70	200	207	3.6
Total	308	250	707	639	-9.6
<b>Operating and capital expenditures</b>					
Defence	638	615	1,030	970	-5.8
All other departmental expenditures	1,560	1,209	2,467	2,345	-4.9
Total	2,198	1,824	3,497	3,315	-5.2
<b>Total program expenditures</b>	8,147	7,332	16,118	15,284	-5.2
<b>Public debt charges</b>	3,859	3,498	7,600	7,290	-4.1
<b>Total budgetary expenditures</b>	12,006	10,830	23,718	22,574	-4.8

Table 4  
**The deficit and financial requirements/source**

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Deficit/surplus</b>	-582	1,372	-4,642	-2,035
<b>Loans, investments and advances</b>				
Crown corporations	-26	210	32	-43
Other	-73	-26	-110	-30
Total	-98	184	-78	-73
<b>Specified purpose accounts</b>				
Canada Pension Plan Account	754	691	1,286	1,204
Superannuation accounts	-209	-239	-371	-584
Other	17	-31	-53	-72
Total	562	421	862	548
<b>Other transactions</b>	162	1,044	-458	1,588
<b>Total non-budgetary transactions</b>	626	1,649	326	2,063
<b>Financial requirements/source (excluding foreign exchange transactions)</b>	44	3,021	-4,316	28
<b>Foreign exchange transactions</b>	905	-1,698	-1,001	1,891
<b>Total financial requirements/source</b>	949	1,323	-5,317	1,919

Table 5  
**Financial requirements/source and unmatured debt transactions**

	May		April – May	
	1996	1997	1996-97	1997-98
	(millions of dollars)			
<b>Total financial requirements/source</b>	949	1,323	-5,317	1,919
<b>Unmatured debt transactions: payable in Canadian dollars</b>				
Marketable bonds	500	2,824	3,300	2,824
Canada Savings Bonds	-286	-298	-556	-587
Treasury bills	-300	-5,900	-3,900	-9,600
Other	-1	-2	-2	-3
Less government's holdings	129	113	278	256
Total Canadian currency	42	-3,263	-880	-7,110
<b>Unmatured debt transactions: payable in foreign currencies</b>				
Marketable bonds	-	-	-	-
Notes and loans	-	-	-	-
Canada bills	49	39	10	-902
Canada notes	-	-	611	-305
Total foreign currencies	49	39	621	-1,207
<b>Total unmatured debt transactions</b>	91	-3,224	-259	-8,317
<b>Change in cash balance</b>	1,040	-1,901	-5,576	-6,398

Table 6

**Cash, unmatured debt and debt balances: at May 31**

	1996	1997
	(millions of dollars)	
<b>Cash balances at end of period</b>		
In Canadian dollars	2,981	2,965
In foreign currencies	6	3
Total cash balance	2,987	2,968
<b>Unmatured debt balance</b>		
Payable in Canadian dollars		
Marketable bonds	256,065	285,387
Treasury bills	162,200	125,800
Canada Savings Bonds	30,872	32,906
Other	3,476	3,465
Subtotal	452,613	447,558
<i>Less:</i>		
Government's holdings of unmatured debt	672	702
Total	451,941	446,856
Payable in foreign currencies		
Marketable bonds	9,501	12,460
Notes and loans	0	0
Canada bills	6,996	7,535
Canada notes	922	1,816
Total	17,419	21,811
<b>Total unmatured debt</b>	<b>469,360</b>	<b>468,667</b>

