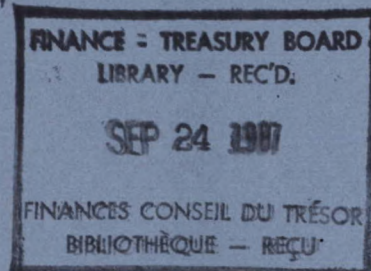


Res  
HJ13  
A292  
1987a

Extra

# The February 1987 Budget

## The Economic Outlook and Fiscal Plan The Agenda for Economic Renewal



Department of Finance  
Canada

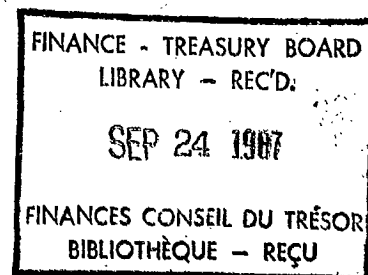
Ministère des Finances  
Canada



HJ13 Res  
A292  
1987a

## Contents

1. Recent economic developments in Canada and the OECD
2. Economic prospects for Canada
3. The February 1987 Budget
4. Canada-United States Fiscal Comparisons
5. The Agenda for Economic Renewal
6. Tax Reform
7. Annexes



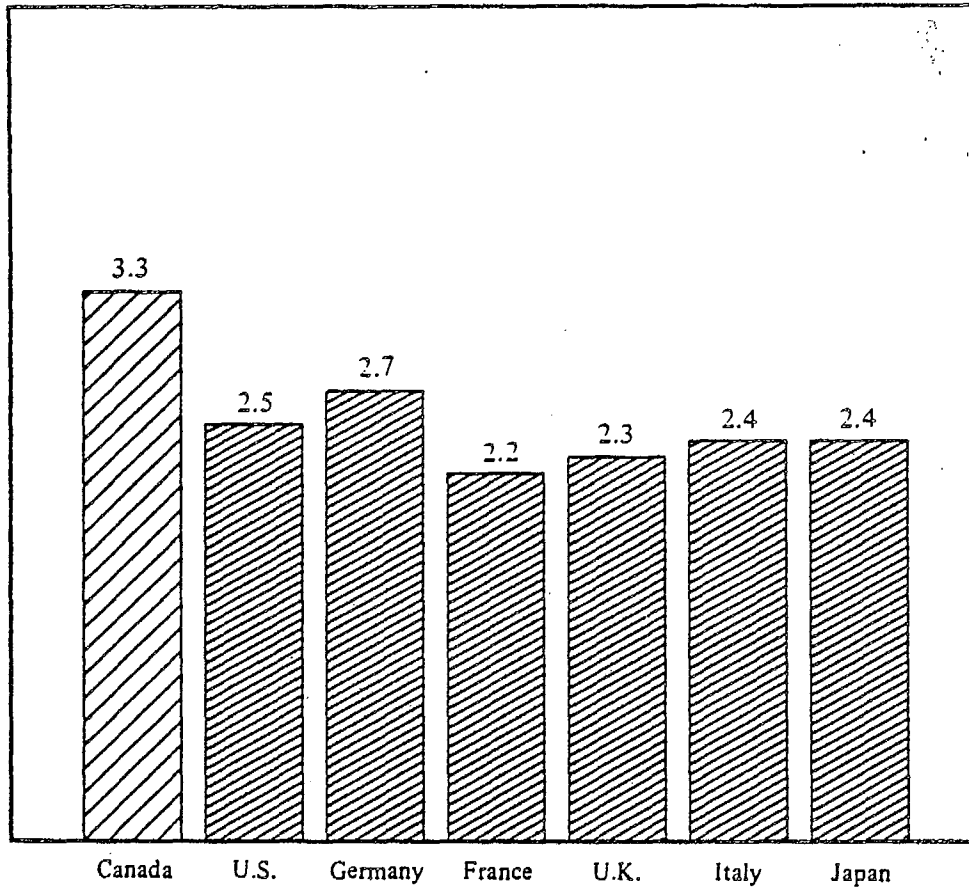
## **1. Recent Economic Developments in Canada and the OECD**

- Estimated Output Growth in Major OECD Countries in 1986
- Estimated Employment Growth in Major OECD Countries in 1986
- Canada-U.S. Comparisons of Real Output Growth, 1984-1987.
- Canada-U.S. Comparisons of Unit Labour Costs, 1984-1987.

Chart 1

**Estimated Output Growth  
in Major OECD Countries in 1986**

per cent



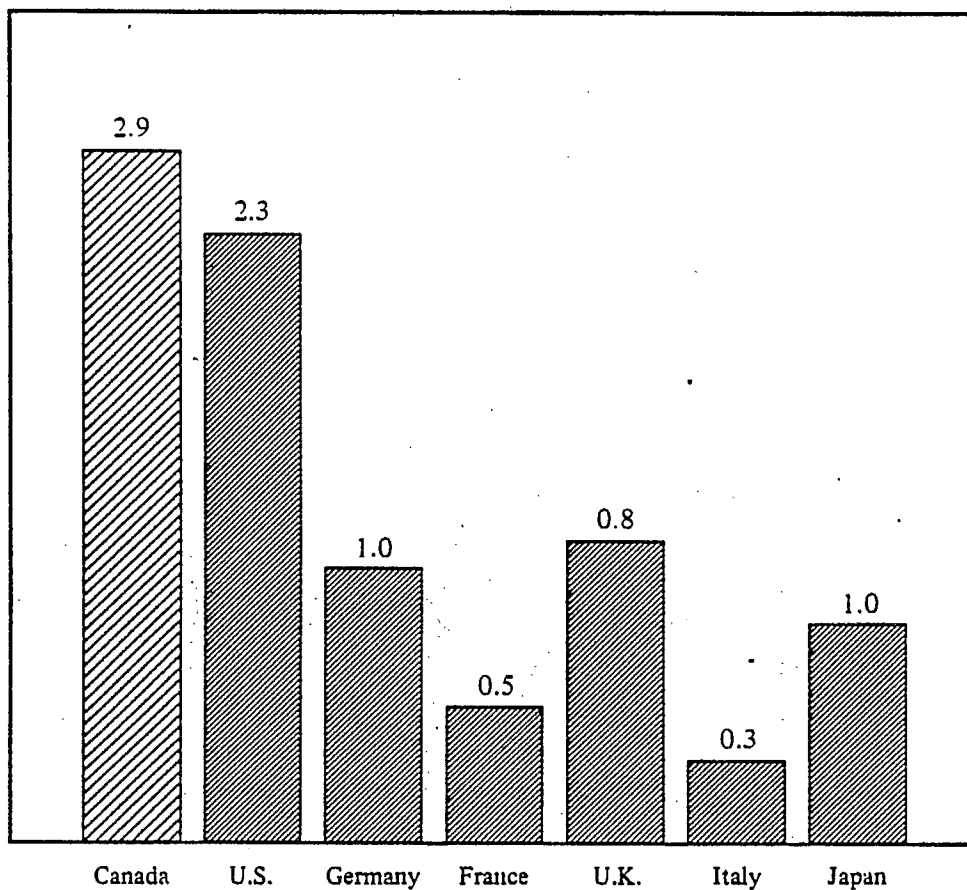
For 1986, the Canadian economy is estimated to have grown by 3.3 per cent, a rate of growth which exceeds those of all other major industrial countries.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.1.

Chart 2

**Estimated Employment Growth  
in Major OECD Countries in 1986**

per cent

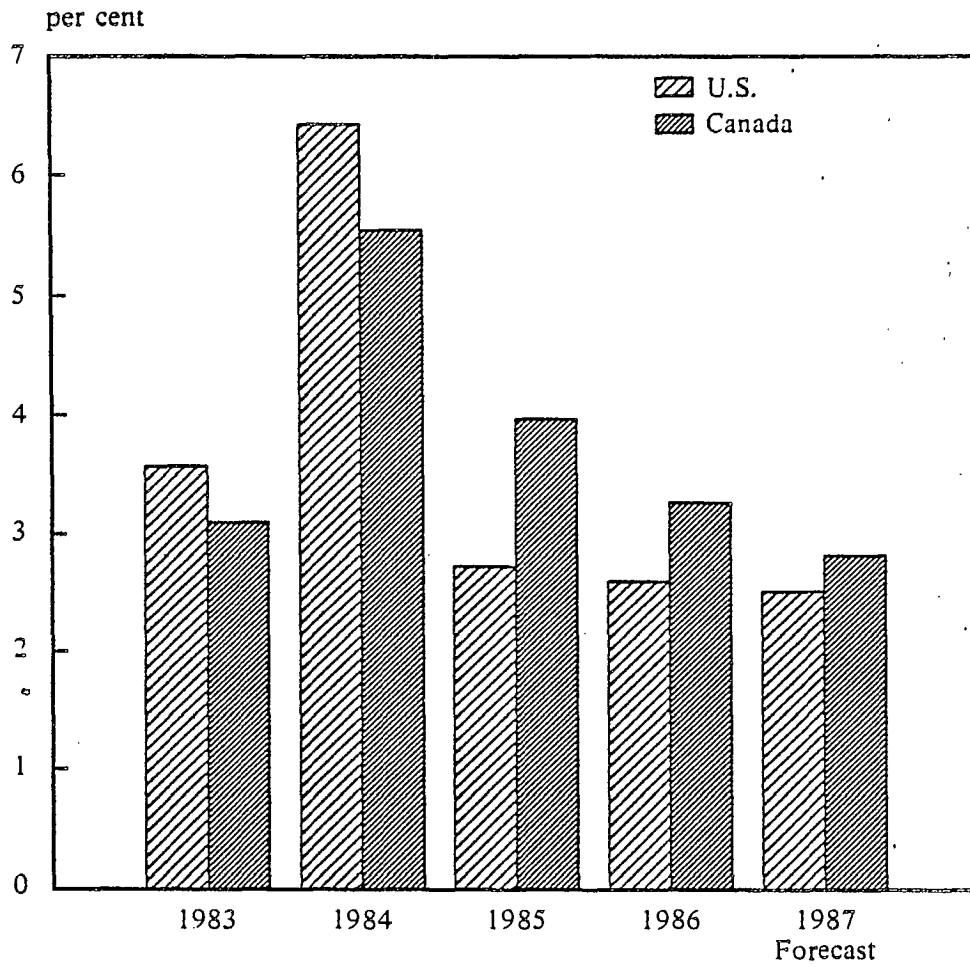


In 1986, the Canadian record on job creation continued to exceed performance in all other major industrial countries by a wide margin.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.2.

Chart 3

**Canada-U.S. Comparison of  
Real Output Growth, 1983-1987**



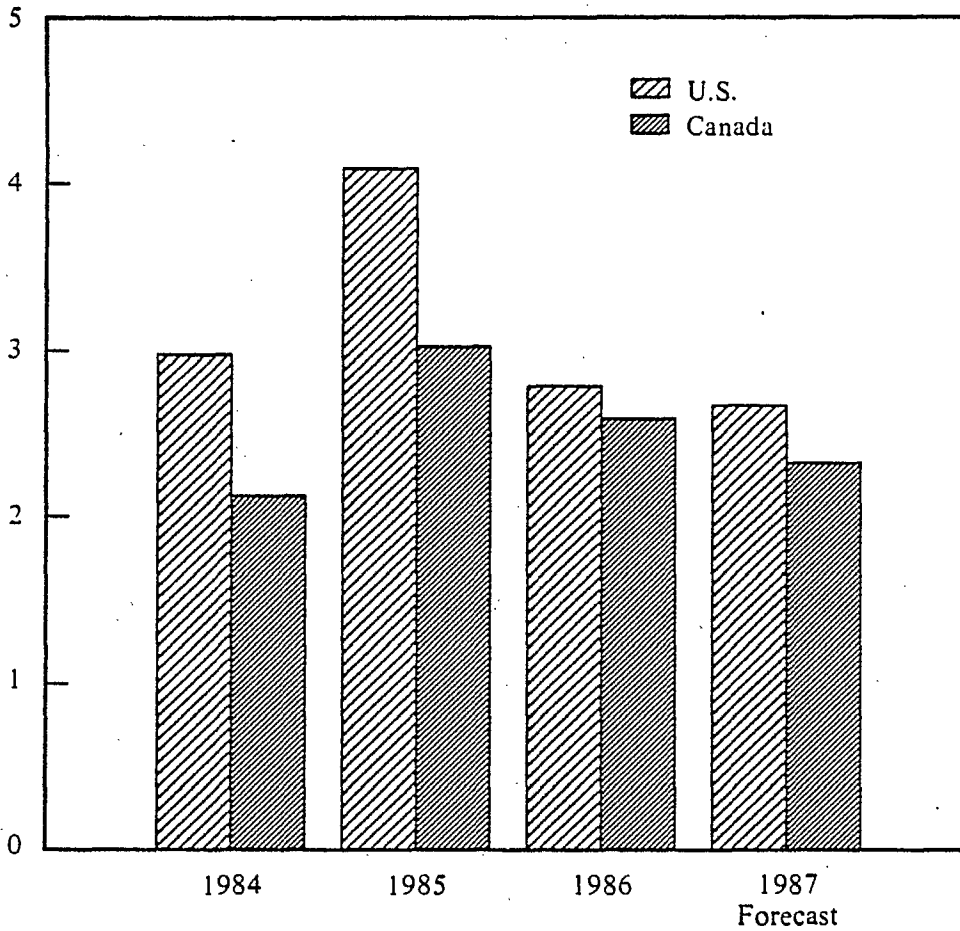
In the first two years of the recovery from the 1981-82 recession, real growth in Canada lagged behind the United States. Subsequently, real growth in Canada has outpaced that in the U.S. This is expected to continue this year.

Note: GDP for Canada and GNP for U.S.

Chart 4

**Canada-U.S. Comparison of  
Unit Labour Costs**

year-over-year percentage change



Canada's competitive position is strengthening. Unit labour costs are expected to continue to increase more slowly in Canada than in the United States, our major trading partner.

Source: Department of Finance.

## 2. Economic Prospects for Canada

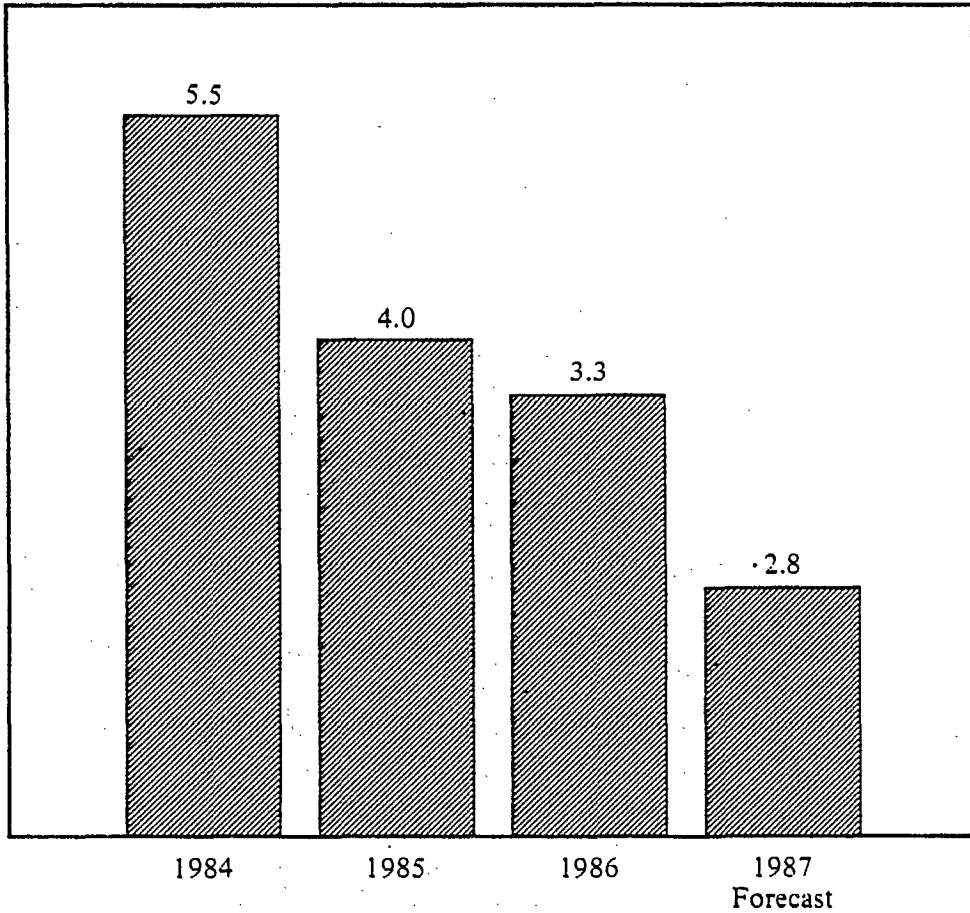
- Growth Rate of Real GDP
- Unemployment Rate
- Consumer Price Index



Chart 5

**Growth Rate of Real GDP**

per cent



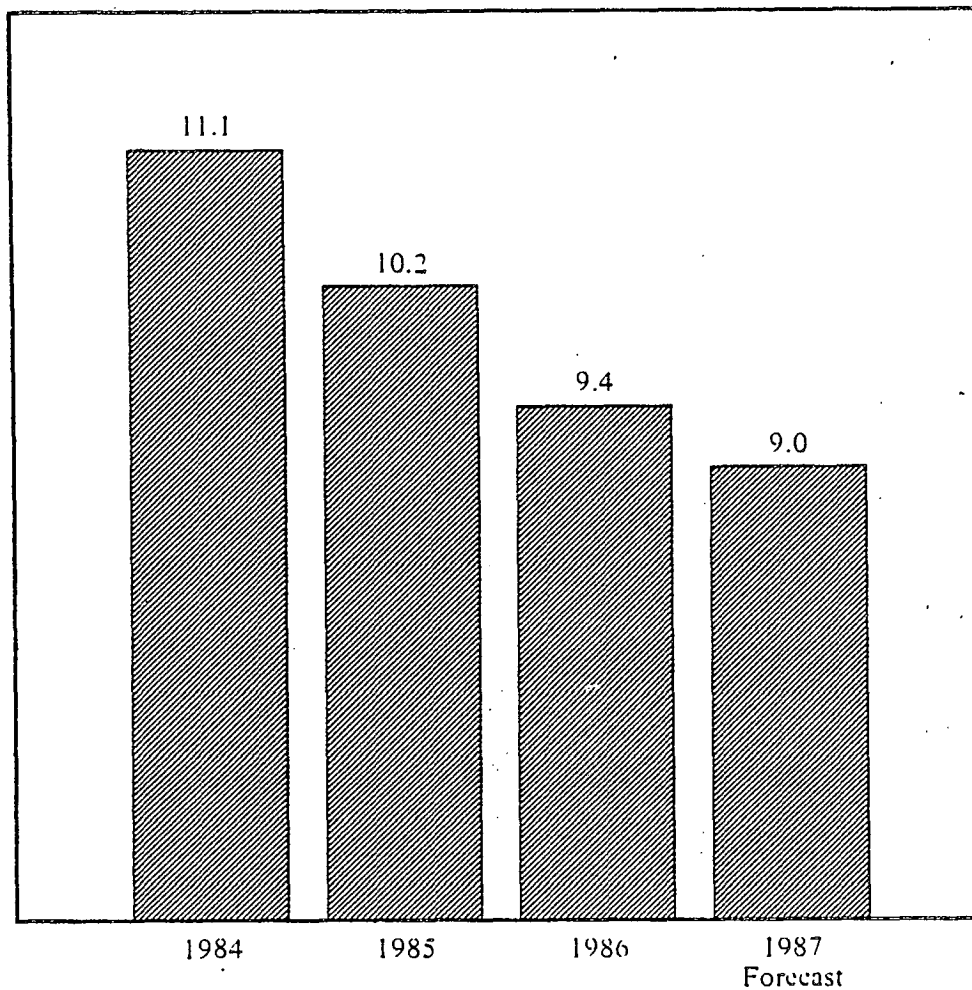
Growth in real GDP is expected to be 2.8 per cent in 1987. While this is slower than the average growth rate in 1986, growth during the course of this year is forecast to be stronger and more regionally balanced. On a fourth-quarter-to-fourth-quarter basis, real GDP is forecast to grow 3.2 per cent in 1987 compared to 2 per cent in 1986.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.3.

Chart 6

### Unemployment Rate

per cent level in fourth quarter



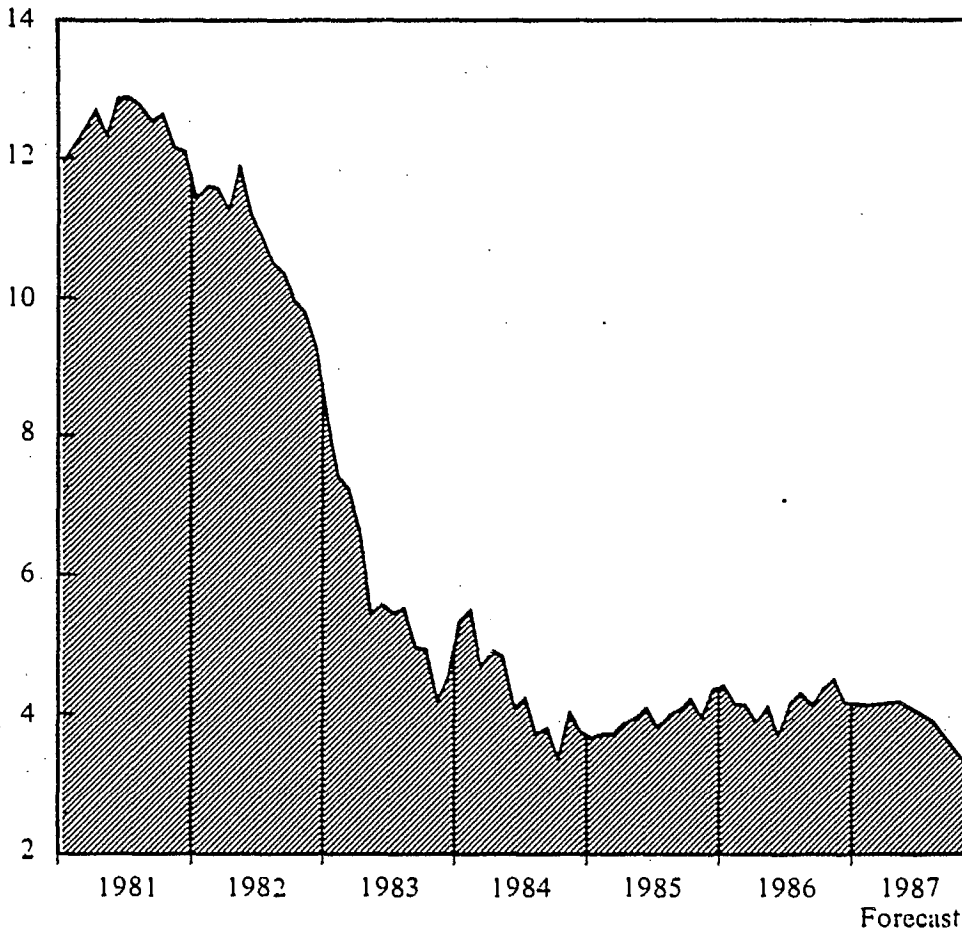
By the end of 1987, with both strong employment and labour force growth anticipated, the unemployment rate is expected to decline to 9.0 per cent.

Source: *The Economic Outlook and Fiscal Plan*, Chart 2.3.

Chart 7

**Consumer Price Index  
1981-1987**

year-over-year per cent change



Inflation is forecast to average 3.9 per cent in 1987, declining substantially over the course of the year to just over 3 per cent by year-end.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 6.

### 3. The February 1987 Budget

- The Economic Record
- Continuing Fiscal Progress
- Progress on the Agenda for Economic Renewal
- Forthcoming Tax Reform

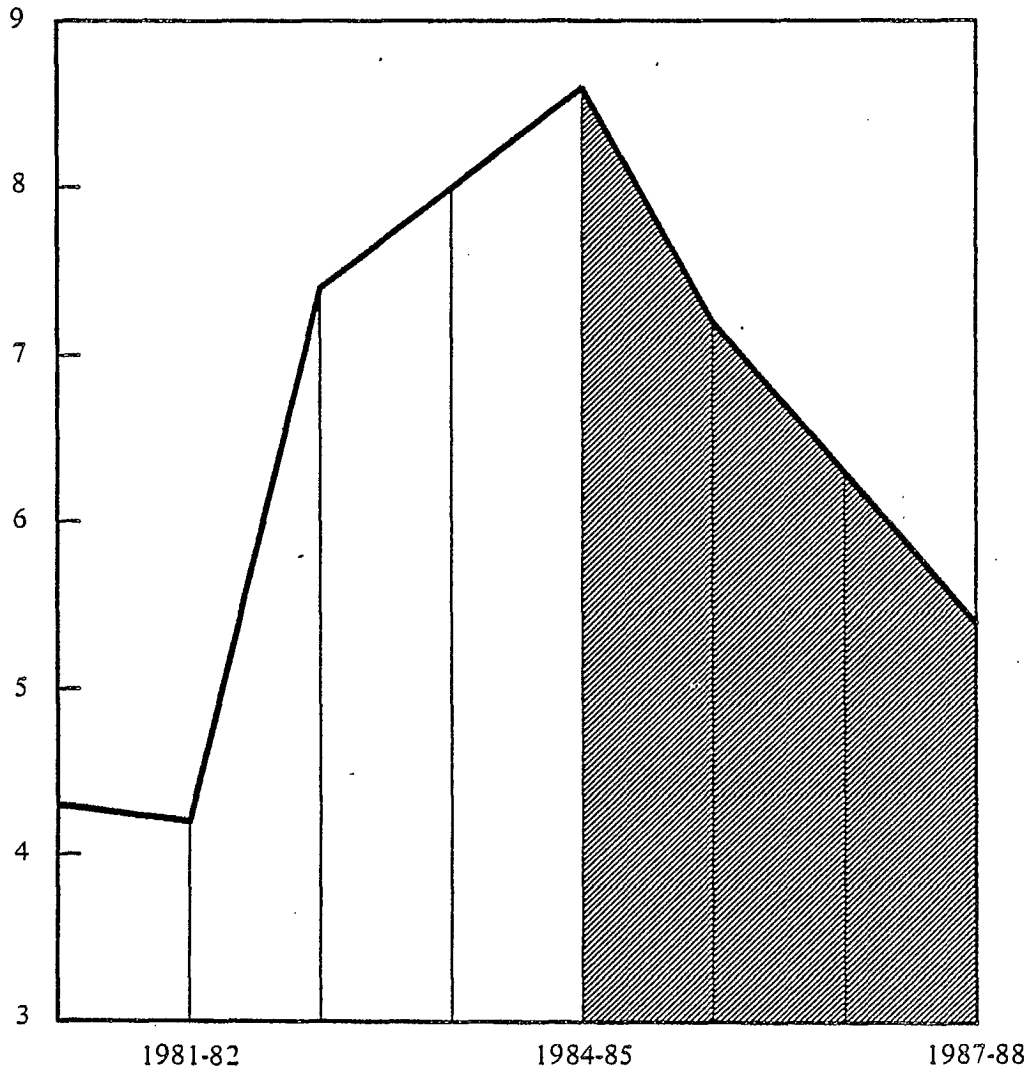
## **Fiscal Planning Principles and Progress**

- (1) To reduce the growth in the debt to no more than the growth of the economy.
  - The growth rate of the debt is halved – from 23.5 per cent in the four years ending in 1984-85 to 11 per cent in 1987-88.
- (2) To achieve continuing, sizeable year-over-year reductions in the deficit.
  - The deficit declines 23.5 per cent in three years – the first consecutive three-year decline in the deficit in three decades.
- (3) To ensure substantial year-over-year reductions in financial requirements.
  - Financial requirements decline 28.5 per cent in the three years – relative to GDP, in 1987-88 financial requirements will be at their lowest ratio in six years.
- (4) To ensure that the greater part of the progress is achieved through expenditure restraint and good management.
  - Program expenditures in real terms decline on average by more than one per cent per year over the three years ending in 1987-88 – accounting for 69 per cent of the decline in the deficit relative to the size of the economy.

Chart 8

**The Deficit as a Percentage of the Economy**

per cent of GDP



Fiscal years end March 31.

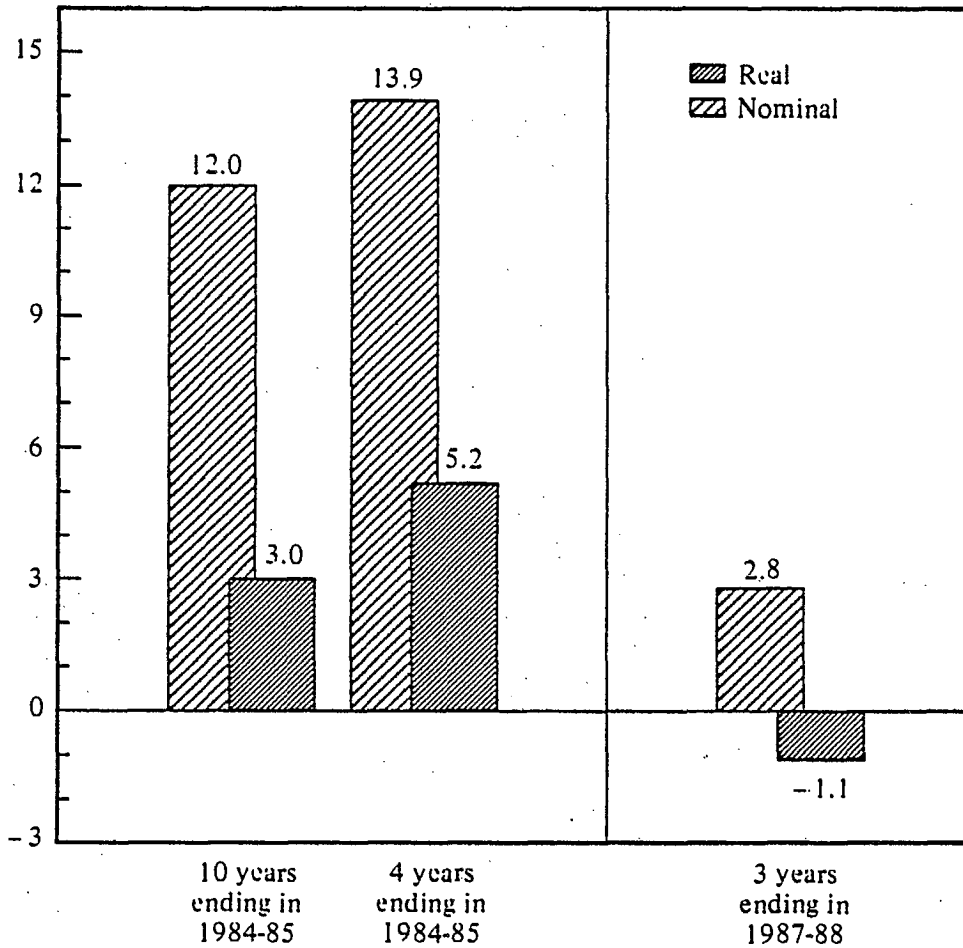
Reflecting the measures of the February 1987 and previous budgets, the deficit is expected to decline from 8.6 per cent of GDP in 1984-85 to 5.4 per cent in 1987-88.

Source: *An agenda for Economic Renewal: Principles and Progress*, Chart 2.

Chart 9

**Nominal and Real  
Program Expenditure Growth**

annual average growth - per cent



Since the start of the 1980s, program spending was growing almost 14 per cent per year, and over 5 per cent per year in "real" terms. In the three years ending in 1987-88, real program spending will have declined by over 1 per cent per year.

Source: *The Economic Outlook and Fiscal Plan*, Chart 3.3.

## The Three-Year Fiscal Record (as a percentage of GDP)

- From 1984-85 to 1987-88, relative to GDP program expenditures are down 2.2 percentage points and account for 69 per cent of the reduction in the deficit

	1984-85	1987-88	Change	Contribution to change <sup>1</sup> (per cent)
Budgetary revenues	16.0	17.2	1.2	37
Budgetary expenditures	<u>24.6</u>	<u>22.6</u>	<u>-2.0</u>	<u>63</u>
Deficit	8.6	5.4	-3.2	100
Program expenditures	19.6	17.4	-2.2	69
Public debt charges	5.1	5.2	0.2	-6

Note: Figures may not add due to rounding.

<sup>1</sup>A positive sign indicates a contribution to a reduction in the deficit as a percentage of GDP.

Source: *The Economic Outlook and Fiscal Plan*, Table 3.1.



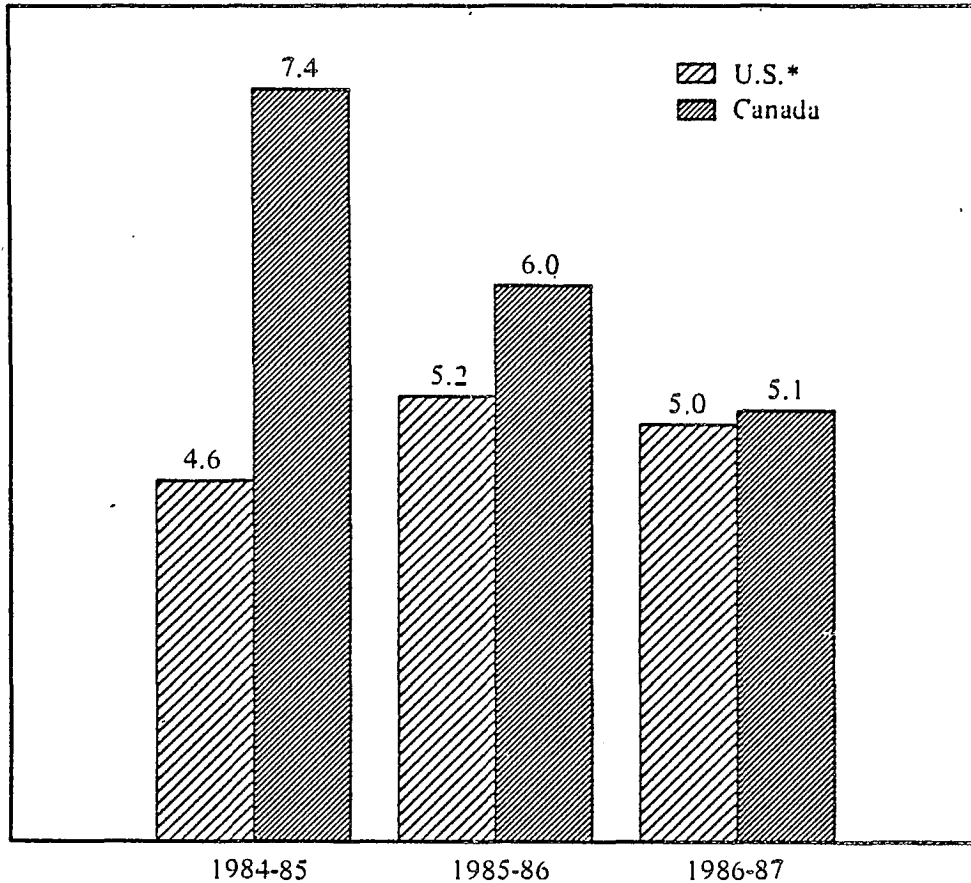
#### 4. Canada-United States Fiscal Comparisons

- Canada-United States Deficit Comparison, National Accounts Comparable Basis
- Canada-United States Comparison of Changes in Deficits, Revenues and Expenditures, 2 Years Ending in 1986-87, National Accounts Basis
- Canada-United States Comparison of Growth in Real Program Spending, National Accounts Basis

Chart 10

**Canada-United States Deficit Comparison,  
National Accounts Comparable Basis**

per cent of gross domestic product



\*The U.S. deficit figures are calculated on an equivalent (April to March) fiscal year basis.

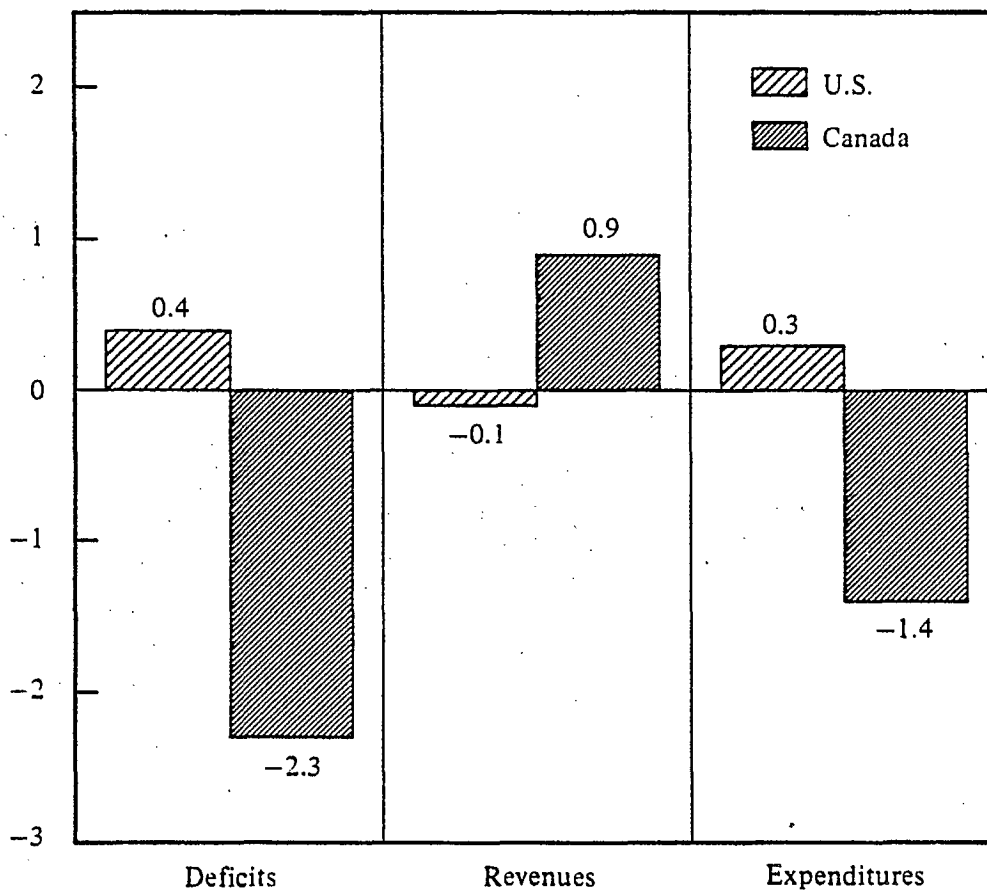
As ratios to GDP, the Canadian deficit is down 2.3 percentage points whereas in the United States the deficit is up 0.4 percentage point, from 1984-85 to 1986-87. The deficits in Canada and the United States, relative to GDP, are virtually identical in 1986-87.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 8.

Chart 11

**Canada-United States Comparison of Changes  
in Deficits, Revenues and Expenditures  
2 years Ending in 1986-87,  
National Accounts Basis**

per cent of GDP



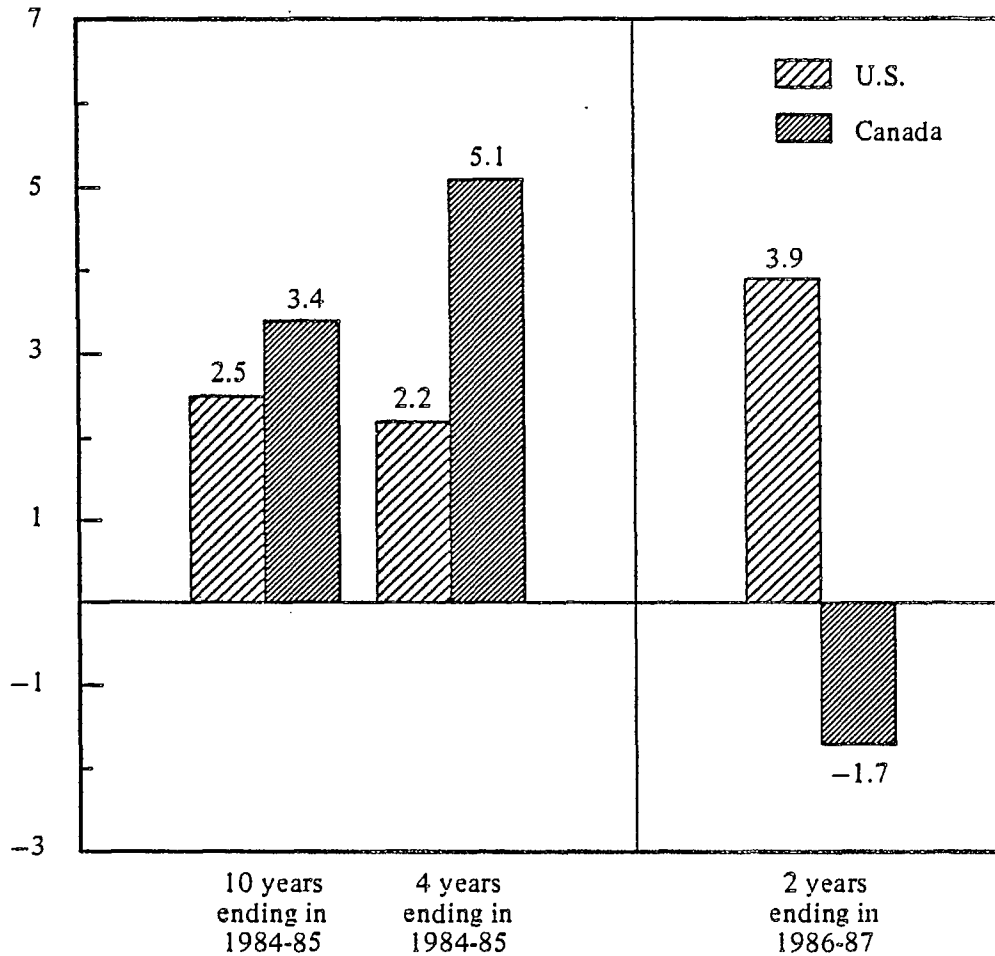
Expenditure restraint has been much greater in Canada. From 1984-85 to 1986-87, as ratios to GDP expenditures are down 1.4 percentage points in Canada and up 0.3 percentage point in the United States.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 9.

Chart 12

**Canada-United States Comparison of Growth  
in Real Program Spending\*,  
National Accounts Basis**

annual average growth - per cent



\*Spending adjusted for the consumer price index.

Over the two fiscal years ending in 1986-87, real program spending in Canada declined on average by 1.7 per cent per year while rising by 3.9 per cent per year in the United States. This is a sharp reversal from the trend in the previous four-year and 10-year periods when real program spending growth in Canada significantly outpaced that in the United States.

Source: *An Agenda for Economic Renewal: Principles and Progress*, Chart 10.

## **5. The Agenda for Economic Renewal**

In addition to the goals of fiscal responsibility, the government has undertaken structural policy initiatives consistent with reducing the size and role of government and providing a better framework for private sector growth.

- **Removing Obstacles to Growth**
  - Government Efficiency
  - Business Framework Legislation
  - Competition Policy
  - Intellectual Property
  - Financial Sector Reform
  - Regulation and the Marketplace
- **Promoting Private Sector Growth**
  - Research and Development
  - International Investment
  - Small Business
  - Tax Reform
- **Meeting International Challenges**
  - Trade
  - International Economic Relations
- **The Regional Dimensions**
- **Responsiveness to Individual and Social Needs**
  - Labour Market
  - Pension System
  - Social Programs

## 6. Tax Reform

### Objectives

- Fairer sharing of burden among taxpayers
- Strengthen economic performance, job creation and growth
- Reduced reliance on personal income tax
- Simpler system

### Means

- Reduction of tax rates: personal, corporate and sales
- Reduction or elimination of preferences
- Conversion of personal exemptions and some deductions to tax credits
- Broadening of corporate tax base
- Improved anti-avoidance rules
- Overhaul of antiquated sales tax system
- Building on refundable sales tax credit

**7. Annexes**

## Annex 1

**Economic Outlook: Main Economic Indicators 1985-1987**

	1985 (actual)	1986 (estimate)	1987 (forecast)
	(annual per cent changes unless otherwise specified)		
<b>Expenditures (volumes)</b>			
Gross domestic product (GDP)	4.0	3.3	2.8
Consumer expenditure	5.0	4.2	3.4
Residential investment	12.6	13.8	5.2
Business non-residential investment	4.1	-1.2	1.5
Machinery and equipment	4.4	6.9	5.4
Non-residential construction	3.7	-10.2	-3.6
Government expenditure	2.0	0.7	1.9
Final domestic demand	4.6	3.3	2.9
Current account balance (billions of dollars)	-0.6	-9.1	-7.8
Consumer price index	4.0	4.1	3.9
GDP deflator	3.3	2.9	4.0
Unemployment rate (% level, fourth quarter)	10.2	9.4	9.0
<b>Financial market assumptions</b>			
90-day commercial paper rate (% level)			
Nominal	9.6	9.2	7.8
Real <sup>1</sup>	5.6	5.1	3.9
<b>Oil price assumption</b>			
West Texas intermediate at Chicago (U.S. \$/bbl.)	28.45	15.50	17.00

<sup>1</sup> Nominal interest rates minus the percentage change in the consumer price index.

Source: *The Economic Outlook and Fiscal Plan*, Tables 2.1 and 2.2.



## Annex 2

## Summary Statement of Transactions, 1984-85 to 1987-88

	1984-85 (actual)	1985-86 (actual)	1986-87 (estimate)	1987-88 (forecast)
(billions of dollars)				
Budgetary transactions				
Revenues	70.9	76.8	84.7	93.2
Expenditures	-109.2	-111.2	-116.6	-122.6
Deficit	-38.3	-34.4	-32.0	-29.3
Net non-budgetary receipts	8.5	4.1	7.9	8.0
Financial requirements <sup>1</sup>	-29.8	-30.3	-24.0	-21.3
Budgetary revenues				
Percentage change	10.4	8.4	10.2	10.1
Percentage of GDP	16.0	16.1	16.7	17.2
Budgetary expenditures				
Percentage change	13.0	1.8	4.9	5.1
Percentage of GDP	24.6	23.3	23.0	22.6
Program expenditures				
Percentage change	86.8	85.8	89.4	94.4
Percentage of GDP	10.5	-1.1	4.2	5.6
Public debt charges				
Percentage change	19.6	18.0	17.7	17.4
Percentage of GDP	22.5	25.4	27.3	28.2
Percentage change	24.2	13.3	7.2	3.4
Percentage of GDP	5.1	5.3	5.4	5.2
Budgetary deficit				
Percentage of GDP	8.6	7.2	6.3	5.4
Financial requirements <sup>1</sup>				
Percentage of GDP	6.7	6.4	4.7	3.9
Net public debt				
Percentage change	199	234	266	295
Percentage of GDP	23.8	17.3	13.7	11.0
Percentage of GDP	44.9	49.0	52.4	54.4

Note: Figures may not add due to rounding.

<sup>1</sup>Excluding foreign exchange transactions.

Source: *The Economic Outlook and Fiscal Plan*, Table 3.2.