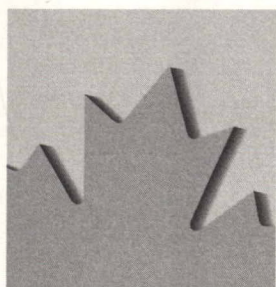


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1994/95



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# ANNUAL FINANCIAL REPORT

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of the Government of Canada

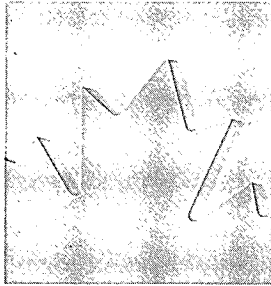
Fiscal year 1994-95

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# ANNUAL FINANCIAL REPORT

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Fiscal year 1994-95

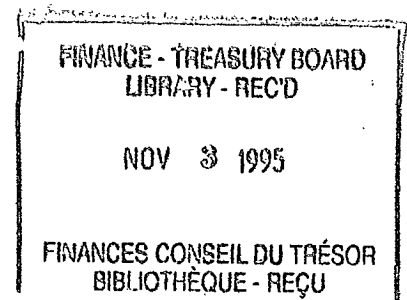
This is the second edition of the *Annual Financial Report* of the Government of Canada. It covers the government's spending and revenue performance for the past fiscal year (April 1, 1994 – March 31, 1995), and discusses the factors affecting these results.

This report responds to recommendations by the Auditor General and the House of Commons Public Accounts Committee. They felt – and the government agreed – that Canadians need more timely access to understandable, relevant information on the government's financial activity. Only with such information can Canada's citizens play an active and effective role in guiding government decision-making.

The financial data in this report are based on the audited results which will appear in the Public Accounts of Canada, scheduled for tabling in the House of Commons this fall.



The Honourable Paul Martin, P.C., M.P.  
Minister of Finance



Department of Finance  
Canada

Ministère des Finances  
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## REPORT HIGHLIGHTS

The federal deficit for 1994-95 was \$37.5 billion. This is the shortfall between government budgetary spending of \$160.8 billion and budgetary revenues of \$123.3 billion. The deficit of \$37.5 billion was:

- \$4.5 billion lower than the 1993-94 deficit of \$42.0 billion;
- \$2.2 billion lower than the February 1994 budget deficit target for 1994-95 of \$39.7 billion;
- \$0.4 billion lower than the February 1995 budget revised estimate for 1994-95 of \$37.9 billion.

Budgetary revenues exceeded program spending – total spending less interest charges – in 1994-95, resulting in an “operating” surplus of \$4.6 billion. Operating deficits were recorded in each of the previous two fiscal years.

The decline in the deficit in 1994-95, coupled with higher net source of funds from foreign exchange transactions, resulted in both financial requirements and unmatured debt transactions being the lowest since 1981-82.

The improvement of \$2.2 billion in the 1994-95 deficit compared to the February 1994 budget target of \$39.7 billion was the result of a number of factors, including:

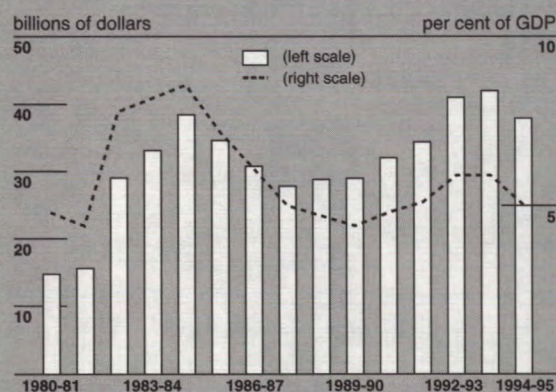
- lower program spending (down \$1.5 billion), despite the inclusion of the one-time restructuring costs associated with the February 1995 budget measures;
- the lower program spending was, however, offset by lower budgetary revenues (down \$0.6 billion) and higher public debt charges (up \$1.0 billion);
- but, in the February 1994 budget, the government set aside \$2.4 billion in a Contingency Reserve to cover the impact of adverse economic developments on the deficit. With lower program spending offsetting nearly all of the decline in revenues and higher public debt charges, most of the Contingency Reserve for 1994-95 was not required.

Table 1

### Financial highlights

	1994-95	1993-94	1992-93
	(billions of dollars)		
<b>Operating results</b>			
Revenues	123.3	116.0	120.4
Program spending	-118.7	-120.0	-122.6
Operating balance	4.6	-4.0	-2.2
Debt charges	42.0	38.0	38.8
Deficit	37.5	42.0	41.0
<b>Financial position</b>			
Financial assets	37.2	35.9	35.4
Total liabilities	582.9	544.1	501.6
Accumulated deficit (Net public debt)	545.7	508.2	466.2
<b>Financial results as % of GDP</b>			
Deficit	5.0	5.9	5.9
Accumulated deficit	72.8	71.3	67.6

### The deficit and the economy



Source: Public Accounts of Canada and Statistics Canada.



The decline in the deficit from \$42.0 billion in 1993-94 to \$37.5 billion in 1994-95, in combination with strong economic growth in 1994, resulted in a sharp drop in the deficit to economic output (GDP) ratio, from 5.9 per cent in 1993-94 to 5.0 per cent in 1994-95.

Each Canadian's share of the deficit – adults and children – was \$1,268 (down from \$1,440 the year before). This reflected government spending equal to \$5,444 per person and government revenues equal to \$4,176 from each individual.

### The public debt

The 1994-95 deficit brought the federal government's net public debt – the accumulation of annual deficits and surpluses – to \$545.7 billion.

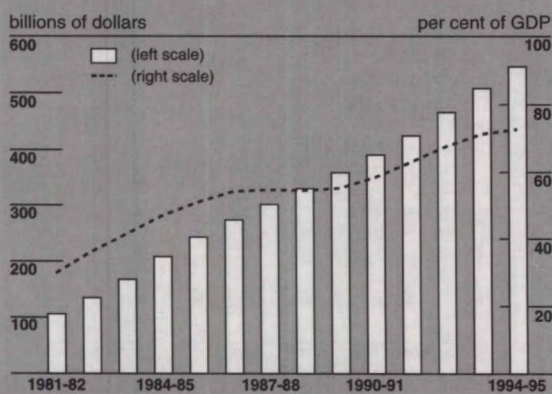
- As a share of Canada's economy, this deficit accumulation reached 72.8 per cent, up from 71.3 per cent in 1993-94. Ten years ago, the debt-to-GDP ratio was 46.8 per cent.
- On a per-person basis, the public debt at the end of 1994-95 reached \$18,477 for each and every Canadian – up from \$17,419 a year earlier.

### Deficit down from 1993-94

The deficit declined by \$4.5 billion between 1993-94 and 1994-95. Revenues increased by \$7.3 billion or 6.3 per cent, while program spending declined by \$1.3 billion or 1.1 per cent. In contrast public debt charges rose by \$4.1 billion (10.7 per cent), offsetting about half of the improvement in revenues and program spending. Among the various components of budgetary revenues:

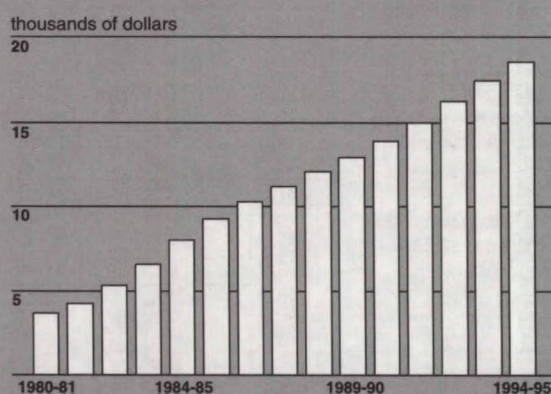
- net personal income tax collections were up \$4.9 billion (9.5 per cent), of which \$3.0 billion was due to special one-time factors, which dampened 1993-94 collections;
- corporate income tax collections increased by \$2.2 billion (22.9 per cent), reflecting strong growth in corporate profits;
- Goods and Services Tax (GST) collections were up \$1.1 billion (6.9 per cent), reflecting strength in consumer demand; while
- non-tax revenues declined \$1.0 billion (12.1 per cent), primarily due to lower Exchange Fund earnings; and
- other excise taxes and duties were down \$0.6 billion (7.7 per cent), largely due to the reduction in the tobacco excise tax announced on February 8, 1994.

#### Net federal debt and the economy



Source: Public Accounts of Canada and Statistics Canada.

#### Net debt per capita



Source: Public Accounts of Canada and Statistics Canada.

The decline in program spending was largely attributable to:

- lower spending on unemployment insurance benefits (down \$2.8 billion or 15.9 per cent), due to strong growth in employment and the effect of budget restructuring measures;
- lower transfers to provinces (down 3.3 per cent), primarily relating to the reduced liabilities for claims under the Stabilization program; and
- lower expenditures on Crown corporations, defence and departmental operations and capital, due to budget restraint measures.

These declines were partially offset by the impact of restructuring charges, which amounted to \$3.9 billion in 1994-95, compared to \$0.7 billion in 1993-94.

The increase in public debt charges was largely attributable to the increase in interest-bearing debt, up \$35.7 billion. The average effective interest rate on the interest-bearing debt rose from 7.5 per cent in 1993-94 to 7.7 per cent in 1994-95.



## ECONOMIC DEVELOPMENTS IN 1994

The main factors affecting the financial results are variations in economic conditions, the interaction of the tax system with economic developments and the impact of budget actions.

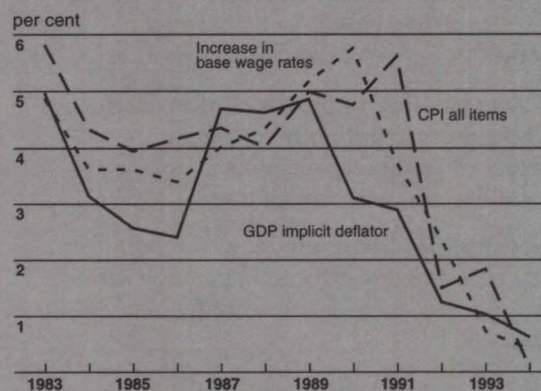
This section briefly looks at economic developments in 1994.

The economy grew at a strong pace in 1994. Real GDP – which excludes the effect of inflation – grew 4.6 per cent, following increases of 2.2 per cent in 1993 and 0.8 per cent in 1992.

In 1994, the economic expansion broadened with a pick-up in growth in consumer spending and residential and non-residential construction investment. Growth in exports and machinery and equipment investment, which had been leading the recovery, continued to be strong in 1994. Export growth was aided by the lower value of the Canadian dollar, improved cost performance of Canadian firms, and strong growth in foreign demand. The increase in exports in 1994 was the largest on record in both volume and value.

Inflation performance in 1994 was excellent, despite the ongoing depreciation of the Canadian dollar and its upward pressure on import prices. The increase in the consumer price index (CPI) in 1994 was 0.2 per cent, down from 1.8 per cent in 1993. Much of the decline was accounted for by a reduction in federal and provincial tobacco taxes

### Prices and costs



Source: Statistics Canada.

early in 1994. The GDP deflator – a broader measure of inflation across all sectors of the economy – increased only 0.6 per cent in 1994, its lowest rate of increase since 1961.

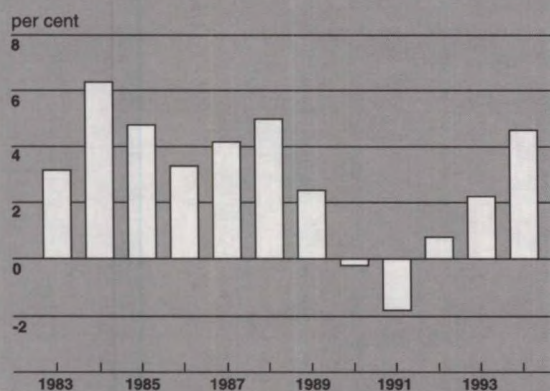
The key economic variables affecting the federal government's financial results are personal income, the unemployment rate, corporate profits, consumer demand and interest rates.

Table 2

### Key economic indicators

	1994	1993
	(year-to-year per cent change unless otherwise indicated)	
Real GDP	4.6	2.2
Inflation		
CPI	0.2	1.8
GDP implicit price deflator	0.6	1.1
Nominal GDP	5.2	3.3
Personal income	2.2	1.9
Labour income	3.0	1.7
Corporate profits	36.1	20.2
Personal expenditure on goods and services	3.7	3.3
Employment	2.1	1.3
Interest rates		
3-month Treasury bill rate (%)	5.4	4.9
10-year government benchmark rate (%)	8.4	7.2

### Real GDP growth



Source: Statistics Canada.



Personal income, the tax base for personal income tax collections, advanced by 2.2 per cent in 1994, up slightly from 1.9 per cent growth in 1993. Labour income, which represents 63.4 per cent of personal income, increased by 3.0 per cent, up from 1.7 per cent in 1993. Most of the increase in labour income in 1994 resulted from higher employment, up 2.1 per cent in 1994, following growth of 1.3 per cent in 1993. As over 80 per cent of the gain in employment was due to an increase in full-time employment, average income growth was stronger in 1994 than in 1993. Expressed on a per employee basis, labour income increased by 0.9 per cent in 1994, up from only an increase of 0.3 per cent in 1993.

Among the other components of personal income, net income of unincorporated businesses advanced by 2.5 per cent, down from 7.3 per cent in 1993. Interest and investment income rose 5.4 per cent, following three annual declines, as interest rates rose during the year.

The strong employment gains in 1994 led to a substantial decline in the unemployment rate, which fell to 10.4 per cent from 11.2 per cent in 1993. This drop in the unemployment rate also reflected continued decline in the participation rate, which has yet to rebound despite the recovery in employment following the recession.

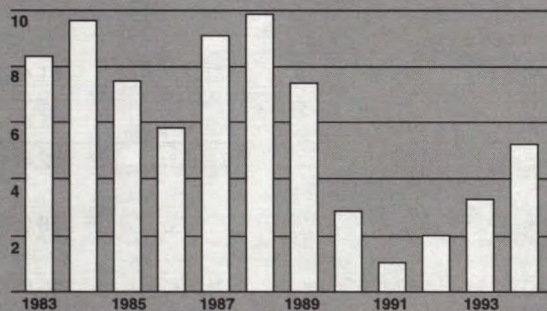
In contrast to the slow growth in personal income, corporate profits jumped 36.1 per cent in 1994, following growth of 20.2 per cent in 1993. The growth in profits reflects better cost control, advances in productivity, and higher export prices due to both rising world commodity prices and the lower Canadian dollar (which raises prices set in world markets when expressed in Canadian dollars). However, corporate profits in 1994 were still 11.3 per cent below their 1988 peak.

Personal spending on goods and services, a proxy for the applicable tax base for Goods and Service Tax and other indirect taxes, advanced by 3.7 per cent in 1994, up from the increase of 3.3 per cent reported in 1993. Spending on durable goods was up 7.5 per cent, including 9.0 per cent increase in spending on automobiles.

Interest rates rose throughout 1994 while the depreciation of the Canadian dollar moderated. From January to December 1994, the 3-month Treasury bill rate rose from 3.63 per cent to 7.14 per cent, and the 10-year government benchmark rate rose 268 basis points. The Canadian dollar declined 5.2 per cent relative to the U.S. dollar over the same period.

### Nominal GDP growth

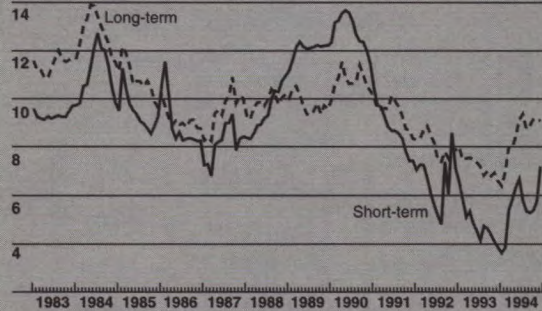
per cent  
12



Source: Statistics Canada.

### Interest rates

per cent  
16



Source: Statistics Canada.



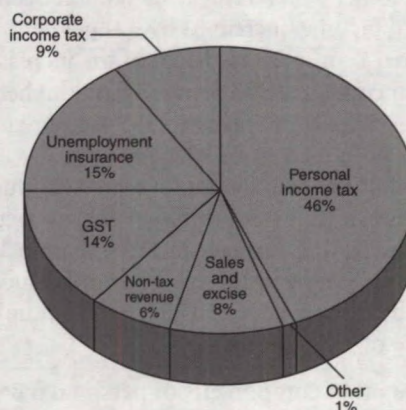
## BUDGETARY REVENUES

Table 3 shows budgetary revenues on both a budget or "net" basis as well as on a "gross" basis. The results on a gross basis are often more reflective of the underlying economic developments, whereas the net figures reflect the way in which the figures are presented to Parliament. The difference primarily relates to two factors:

- certain expenditures determined through the income tax system, such as the Child Tax Benefit (which is netted from personal income tax collections) and the low-income GST Credit (which is netted from GST collections); and
- certain revenues that are credited back to departments for specific services, such as the Air Transportation Tax (which is netted from air navigation expenditures).

Budgetary revenues, on a gross basis, amounted to \$135.1 billion in 1994-95, an increase of \$6.7 billion, or 5.2 per cent, from the level reported in 1993-94. The strength in revenues in 1994-95 reflects the improvement in economic activity as well as certain extraordinary factors, which dampened revenues in 1993-94.

Net revenue for 1994-95



Source: Public Accounts of Canada.

On a net basis, budgetary revenues amounted to \$123.3 billion, an increase of \$7.3 billion, or 6.3 per cent from the 1993-94 level. The stronger growth in net collections was attributable to lower tax expenditures due to one-time transitional costs in 1993-94 associated with the restructuring of the child benefit system in 1993.

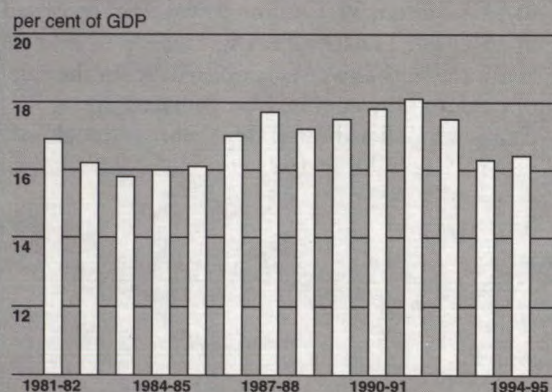
Table 3

### Budgetary revenues

	1994-95		1993-94	
	Gross	Net	Gross	Net
(millions of dollars)				
Income tax collections				
Personal income tax	61,676	56,329	57,953	51,427
Corporate income tax	11,604	11,604	9,444	9,444
Other	1,769	1,769	1,593	1,593
Total income tax	75,049	69,702	68,990	62,464
Unemployment insurance premiums contributions	18,928	18,928	18,233	18,233
Excise taxes and duties				
Goods and Services Tax	19,602	16,786	18,381	15,696
Customs import duties	3,575	3,575	3,652	3,652
Energy/other	7,317	6,728	7,817	7,287
Total excise	30,494	27,089	29,850	26,635
Total tax revenue	124,471	115,719	117,073	107,332
Non-tax revenue	10,608	7,604	11,297	8,652
Total revenues	135,079	123,323	128,370	115,984



### The tax bite



Source: Department of Finance.

As a percentage of GDP, net revenue, or the "tax bite" at 16.4 per cent, was up slightly from 1993-94. However, this is significantly lower than in previous years, largely due to the netting of the Child Tax Benefit from personal income tax collections.

The major components of budgetary revenues are:

- personal income tax collections;
- corporate income tax collections;
- other income tax collections, primarily consisting of non-resident taxes;
- unemployment insurance premiums;
- Goods and Services Tax;
- sales and excise taxes and duties, which include customs import duties, excise taxes on motive fuels, and excise taxes and duties, primarily on tobacco and tobacco products; and
- non-tax revenues, which include return on investments and other non-tax revenues.

Personal income tax collections, on a net basis, were up \$4.9 billion, or 9.5 per cent from 1993-94. The higher collections in 1994-95 reflected the improvement in economic activity as well as extraordinary factors which dampened collections in 1993-94.

These included:

- the faster processing of the 1993 tax returns in March 1994, thereby moving returns which would have been processed in the first half of the 1994-95 fiscal year into the previous fiscal year (one-time cost of \$1.2 billion);
- one-time transitional costs in 1993-94 associated with the restructuring of the child benefit system, whereby benefits are now paid on a monthly basis through the Child Tax Benefit; prior to 1994-95, part of the benefit was paid at the time of tax filing and included in refunds paid (\$1.2 billion); and
- extraordinary transfers to the Provincial Taxation Collection Account in 1993-94, due to underpayments with respect to taxation year 1993 (net \$0.6 billion).

Adjusting for these one-time factors, the underlying increase in personal income tax collections was in line with the gain in personal income.

Corporate income tax collections were up \$2.2 billion, or 22.9 per cent, in line with the growth in corporate profits.

Unemployment insurance premium contributions were up \$0.7 billion, due to somewhat higher premium rates in 1994 than in 1993, an increase in maximum insurable earnings and higher employment.

Total excise taxes and duties were up \$0.5 billion or 1.7 per cent from year earlier collections.

- Goods and Services Tax (GST) collections were up 6.9 per cent on a year-over-year basis, primarily reflecting the strong demand for consumer durables in 1994.
- Energy taxes rose 5.1 per cent, due to the pickup in economic activity in 1994.
- Customs import duties were down marginally, as the strong growth in imports in 1994 was offset by reductions in tariffs as specified under international agreements.

- However, other excise taxes and duties declined 20.4 per cent, primarily due to the impact of the reduction in the tobacco excise tax announced on February 8, 1994.

Non-tax revenues were \$1.0 billion lower, due largely to much lower Exchange Fund earnings in 1994-95 than in 1993-94.

- The earnings of the Exchange Fund Account are comprised primarily of interest on foreign currency reserves, the valuation gain or loss stemming from exchange rate developments

and net proceeds from the sale of gold. Exchange Fund earnings in 1994-95 amounted to \$1.8 billion, \$1.1 billion lower than recorded in 1993-94. The lower earnings were attributable to lower net proceeds from the sale of gold and lower valuation gains, as the Canadian dollar did not depreciate as much in 1994-95 as it did in 1993-94.



## BUDGETARY EXPENDITURES

Table 4 presents budgetary expenditures on both a gross and net basis. Gross budgetary expenditures include certain expenditures that are determined through the income tax system, such as the Child Tax Benefit and Low-income GST Credit. In addition, gross expenditures excludes certain revenues which are directly related to the services being provided, which on a net basis are credited directly to the department providing the service.

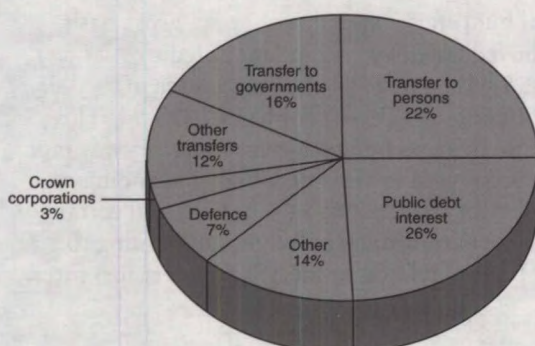
Total budgetary expenditures, on a gross basis, by the federal government amounted to \$172.5 billion in 1994-95, an increase of \$2.2 billion or 1.3 per cent from 1993-94. This increase in gross budgetary expenditures was more than accounted for by much higher spending on public debt charges (up \$4.1 billion) and certain one-time extraordinary charges (amounting to \$3.9 billion) related to the 1995 budget measures.

Table 4

### Budgetary expenditures

	1994-95		1993-94	
	Gross	Net	Gross	Net
(millions of dollars)				
Transfer payments to persons				
Old age security benefits	20,143	20,511	19,578	19,903
Unemployment insurance program payments	14,815	14,815	17,626	17,626
Child Tax Benefit/Low-Income GST Credit	8,137	0	9,154	0
<i>Total</i>	<i>43,096</i>	<i>35,326</i>	<i>46,358</i>	<i>37,529</i>
Transfers payment to other levels of government				
Established Programs Financing	10,177	10,177	9,610	9,610
Fiscal arrangements	9,549	9,156	11,031	10,649
Canada Assistance Plan	7,266	7,266	7,236	7,236
<i>Total</i>	<i>26,992</i>	<i>26,599</i>	<i>27,877</i>	<i>27,495</i>
Other transfer payments				
Agriculture	1,355	1,355	1,429	1,429
Indian Affairs and Northern Development	3,558	3,558	3,023	3,023
Industry Canada/Regional Agencies	2,236	2,236	1,805	1,805
Human Resources Development	2,477	2,477	2,192	2,192
Foreign Affairs	2,544	2,544	2,380	2,380
Other	7,945	7,945	7,515	7,515
<i>Total</i>	<i>20,115</i>	<i>20,115</i>	<i>18,344</i>	<i>18,344</i>
<b>Total transfer payments</b>	<b>90,203</b>	<b>82,040</b>	<b>92,579</b>	<b>83,368</b>
Crown corporation expenditures				
Canada Mortgage and Housing Corporation	1,987	1,987	1,945	1,945
Canadian Broadcasting Corporation	1,093	1,093	1,090	1,090
Other	2,661	1,923	2,878	2,263
<i>Total</i>	<i>5,741</i>	<i>5,003</i>	<i>5,913</i>	<i>5,298</i>
Defence				
Personnel	6,042	6,042	5,744	5,744
Capital	2,535	2,535	2,571	2,571
Other operating	2,486	2,116	3,283	2,967
<i>Total</i>	<i>11,063</i>	<i>10,693</i>	<i>11,598</i>	<i>11,282</i>
All other departmental spending				
Personnel	12,910	12,910	12,987	12,987
Capital	1,849	1,849	2,110	2,100
Other operating	8,729	6,244	7,213	4,979
<i>Total</i>	<i>23,488</i>	<i>21,003</i>	<i>22,310</i>	<i>20,066</i>
<b>Total program expenditures</b>	<b>130,495</b>	<b>118,739</b>	<b>132,400</b>	<b>120,014</b>
Public debt charges	42,046	42,046	37,982	37,982
<b>Total budgetary expenditures</b>	<b>172,541</b>	<b>160,785</b>	<b>170,382</b>	<b>157,996</b>

### Total net expenditure for 1994-95



Source: Public Accounts of Canada.

On a net basis, budgetary expenditures amounted to \$160.8 billion, an increase of \$2.8 billion, or 1.8 per cent. The lower increase in gross expenditures was attributable to the decline in income tax expenditures in 1994-95.

As a percentage of net budgetary revenues, net budgetary expenditures, or the "expenditure ratio" stood at 130.4 per cent, down from 136.2 per cent in 1993-94. This implies that an amount of net expenditures in 1994-95 equal to 30 per cent of revenues had to be financed by borrowings.

Public debt charges increased 10.7 per cent, or by \$4.1 billion in 1994-95. Of this increase about \$3.0 billion was due to the increase in interest-bearing debt (unmatured debt and pension liabilities), up \$35.7 billion, with the remainder due to the increase in interest rates during 1994-95. The average effective interest rate on the interest-bearing debt in 1994-95 increased to 7.7 per cent, from 7.5 per cent in 1993-94.

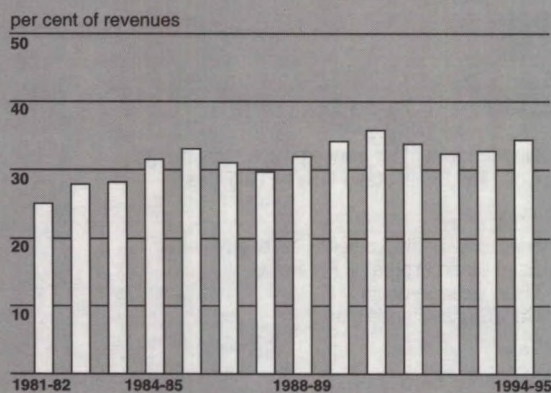
As a percentage of budgetary revenues, public debt charges rose from 32.7 per cent in 1993-94 to 34.1 per cent in 1994-95. This means that the government spent 34 cents of every revenue dollar in 1994-95 for interest on the public debt.

Net program spending – net budgetary expenditures less public debt charges – fell by \$1.3 billion in 1994-95 or by 1.1 per cent.

The decline in 1994-95 would have been larger had it not been for the inclusion of restructuring costs of \$3.9 billion associated with the February 1995 budget measures. This is the second consecutive year in which program spending has declined.

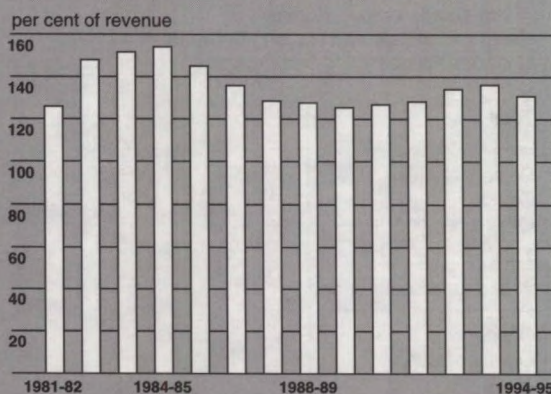
As a percentage of net revenues, program spending, or the "program share" amounted to 96.3 per cent, down from 103.5 per cent in 1993-94. This means that revenues exceeded program spending in 1994-95.

### The interest bite



Source: Department of Finance.

### The expenditure ratio



Source: Department of Finance.



Program spending can be divided into the following components:

- transfer payments, of which the largest portion goes to persons and to other levels of government, particularly to the provinces;
- expenditures related to certain Crown corporations;
- defence; and
- operating and capital costs of government departments and agencies, excluding defence.

The decline of \$1.3 billion in net transfer payments was largely attributable to the following:

- lower unemployment insurance benefits (down \$2.8 billion). About three-quarters of this decline was due to the improved labour market situation – the number of unemployed dropped by 157,000 in 1994-95 – with the remainder due to the structural changes announced in the December 1992 *Economic and Fiscal Statement*, and the February 1994 budget;

### Unemployment Insurance Account

Under the *Unemployment Insurance Act*, unemployment insurance premiums are earmarked for related expenditures, with the transactions accounted for in a special account. However, as the activities of the unemployment insurance program are similar in nature to departmental activities, unemployment insurance premiums and program costs are included as part of the federal government's revenues and expenditures. The annual activities of the unemployment insurance program, therefore, directly affect the federal government's deficit and net debt.

By the end of fiscal year 1993-94, successive deficits in the Unemployment Insurance Account had added \$6.6 billion to the federal government's net debt. In 1994-95, premium revenues exceeded program costs for the first time since fiscal year 1989-90. The unemployment insurance program generated a surplus of \$2.8 billion in 1994-95, leaving a debt of \$3.9 billion still to be repaid. The annual surplus resulted from an improvement in the labour market and the effect of structural changes announced in previous budgets.

- lower transfer payments to provinces (down \$0.9 billion), primarily due to lower potential claims under the Stabilization program reflecting the effect of revised data.

The impact of these declines was partially offset by a one-time charge of \$1.6 billion relating to the elimination of the subsidies under the *Western Grain Transportation Act*, as announced in the 1995 budget. Under the accounting principles followed by the government, such charges must be recognized in the year in which the policy decision is made.

Among the other transfer components:

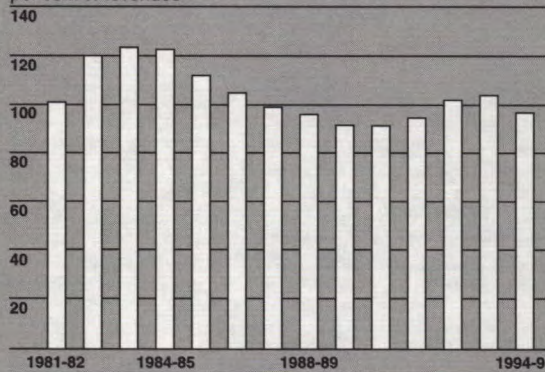
- elderly benefit payments were up \$0.6 billion, primarily reflecting increases in the eligible population;
- increased funding to Indian and Inuit programs by the Department of Indian Affairs and Northern Development (up \$0.5 billion); and
- spending by Industry Canada and the regional agencies was up \$0.4 billion, most of which was due to spending under the Canada Infrastructure Works program.

Expenditures related to Crown corporations declined \$0.3 billion. This decline was primarily due to the improved financial situation of enterprise Crown corporations in 1994-95.

Defence spending was also down \$0.6 billion, reflecting the impact of the 1994 budget reductions.

### Program share

per cent of revenues



Source: Department of Finance.

Other program spending includes the costs of government administration and specific services delivered to the public, such as:

- health care to natives and veterans;
- research undertaken by government employees;
- the operation of airports and national parks;
- collection of taxes;
- the operation of federal correctional institutions and provision of police services; and
- the delivery of programs such as elderly benefits and unemployment insurance.

Spending in this area was up by \$0.9 billion, reflecting a one-time charge of \$2.3 billion for the cost of reducing employment in the federal public service over the next three years, a key

1995 budget measure. This one-time charge was partially offset by reductions in regular personnel costs in 1994-95 relative to the previous year due to reductions in the number of employees and the ongoing effects of the salary and wage freeze.

Employment reduction costs of \$2.3 billion charged in 1994-95 include \$0.8 billion in future pension costs and \$1.5 billion in cash-based departure incentives. Incurring these costs is expected to save \$4.2 billion over the three-year program and will result in annual payroll savings of \$2.2 billion for each year thereafter. The direct cash based departure costs associated with reducing the federal public service by 45,000, which were estimated at \$1.0 billion in the 1995 budget, are now, on the basis of experience to date, estimated at \$1.5 billion.



## FINANCIAL REQUIREMENTS AND DEBT

Financial requirements measure the amount by which cash going out from the government exceeds cash coming in. Financial requirements are lower than the deficit, as they also include the net source of funds from non-budgetary transactions. These include transactions in loans, investments and advances, government employees' pension accounts, other specified accounts, and other financial assets and liabilities.

Non-budgetary transactions in 1994-95 resulted in a net source of funds amounting to \$11.6 billion, down slightly from 1993-94.

In addition, financial requirements also include the transactions of the Exchange Fund Account.

The purpose of the Exchange Fund Account is to promote order and stability of the Canadian dollar in the foreign exchange market. It fulfils this function by buying foreign exchange (selling Canadian dollars) when there is upward pressure on the value of the Canadian dollar and selling foreign exchange (buying Canadian dollars) when there is downward pressure on the currency.

During 1994-95, foreign exchange transactions provided a net source of funds amounting to \$4.8 billion, compared to \$3.1 billion in 1993-94. The increase reflects the depreciation in the value of the Canadian dollar vis-à-vis other currencies during the course of 1994-95.

Table 5  
**Financial requirements and the debt**

	1994-95	1993-94	1992-93
	(billions of dollars)		
Budgetary deficit	-37.5	-42.0	-41.0
Non-budgetary transactions	11.6	12.2	6.5
Foreign exchange transactions	4.8	3.1	7.7
Financial requirements	-21.0	-26.7	-26.8
Increase in unmatured debt	20.8	26.0	28.9
Change in cash balances	-0.2	-0.7	2.1

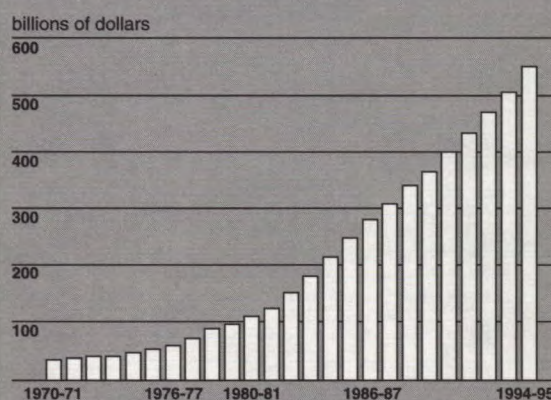
Total financial requirements – the budgetary deficit minus non-budgetary and foreign exchange transactions – were \$21.0 billion in 1994-95, down \$5.7 billion from 1993-94. This was the lowest requirement since 1981-82.

To finance these requirements, the government borrows from the private sector and/or draws down its cash reserves. Total borrowings from the private sector (unmatured debt transactions) amounted to \$20.8 billion in 1994-95, down \$5.2 billion last year, the lowest since 1981-82.

Interest-bearing debt, which includes unmatured debt and borrowings from pension and other accounts, amounted to \$550.2 billion at March 31, 1995, up \$35.7 billion from March 31, 1994. Of this amount, \$16.9 billion was payable in foreign currencies, up from \$10.7 billion in March 1994.

Foreign holdings of the Government of Canada's outstanding market debt are estimated at \$107 billion at the end of March 1995. This represented 25 per cent of the government's total market debt.

### Interest-bearing debt



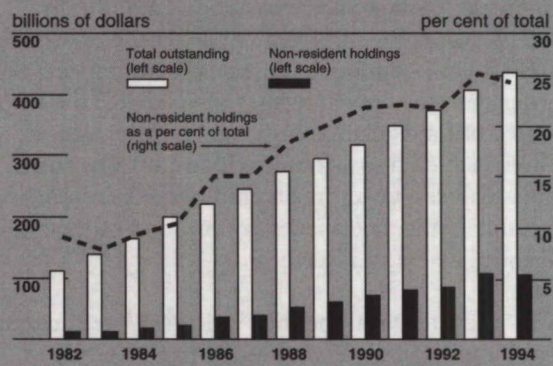
Source: Public Accounts of Canada.



Table 6

**Outstanding debt at year-end**

	1994-95	1993-94	1992-93
	(billions of dollars)		
Interest-bearing debt			
Unmatured debt	441.0	414.0	382.7
Pension and other accounts	109.2	100.5	94.2
Total interest-bearing debt	550.2	514.5	476.9
Other liabilities	32.7	29.6	24.6
Total liabilities (Gross debt)	582.9	544.1	501.6
Less: Financial assets	37.2	35.9	35.4
Accumulated deficit (Net debt)	545.7	508.2	466.2

**Foreign holdings of Government of Canada debt**

Source: Bank of Canada Review.



## THE “SCORECARD”

This section compares the actual outcome for selected economic indicators and for the financial results with the forecasts presented in the February 1994 and 1995 budgets.

In the February 1994 budget, the deficit for 1994-95 was estimated at \$39.7 billion. This was based on the assumption of relatively strong economic growth in 1994, low inflation, a moderate rise in interest rates from the early 1994 lows, and the impact of the restraint measures introduced in that budget. The economic outlook for 1994, presented in the February 1994 budget, was based on the lower end of the range of views of the economic forecasts prepared by the private sector. This reflected the advice given at a December 1993 meeting with economists that prudent economic assumptions should be used for fiscal planning. The February 1994 budget deficit target also included a Contingency Reserve of \$2.4 billion to cover risks arising from unpredictable events and unavoidable inaccuracies in the models used to translate the economic assumptions into detailed budget forecasts.

Economic growth in 1994 turned out more robust than forecast, advancing by 4.6 per cent, in large part reflecting strong demand in the United States. Inflation was somewhat lower than expected. The net impact resulted in stronger growth in nominal income – the applicable tax base for government revenues. The level of nominal income was \$11 billion higher than expected in the February 1994 budget. However, there were notable compositional shifts, which modified the overall impact of the higher level of nominal income on budgetary revenues. Labour income was \$7 billion lower than forecast in the February 1994 budget, while corporate profits were \$11.4 billion higher and capital consumption allowances were up \$5.4 billion.

Employment growth was substantially stronger than forecast in the February 1994 budget, increasing by 2.1 per cent in 1994, compared to the 1994 budget forecast of 1.4 per cent growth.

Short-term interest rates were 110 basis points and long-term rates 200 basis points above the February 1994 budget assumptions. The higher

interest rates were triggered by international developments, initially in the United States, as well as concerns over Canada's large government and external deficits.

The net effect of the economic changes on the financial outcome was positive. The lower outcome reflects a number of factors, including:

- the use of “prudent” economic assumptions for planning purposes with the result that most of the \$2.4 billion Contingency Reserve was not required;
- lower-than-expected unemployment insurance benefits, due to the stronger growth in employment;
- lower departmental operating spending, reflecting the impact of the restraint measures introduced in the February 1994 budget.

In terms of the major components of revenues and expenditures, revenues were \$0.6 billion lower than forecast in the February 1994 budget.

Personal income tax collections were \$3.2 billion lower than forecast due to the lower-than-expected growth in labour income. Corporate income tax collections were up \$1.3 billion, reflecting the strong growth in corporate profits during 1994-95. The “other” revenue component was \$1.2 billion higher than forecast due to higher Exchange Fund earnings and other non-tax revenues.

Total program spending, at \$118.7 billion, was \$1.5 billion lower than forecast in the February 1994 budget. Excluding the one-time charges associated with the 1995 budget measures, program spending would have been \$5.4 billion lower than the February 1994 budget estimate. Among the components, major transfers to persons were \$3.6 billion lower than forecast, virtually all of which was attributable to lower unemployment insurance benefits, reflecting the improved labour market conditions throughout 1994. Major transfers to other government were up slightly. The higher “other” transfer payments were due to the inclusion of the one-time charge of \$1.6 billion related to the elimination of the

subsidies under the *Western Grain Transportation Act*. Restructuring charges associated with personnel downsizing explain the increase in other departmental spending.

Public debt charges were \$1.0 billion higher than forecast in the February 1994 budget, due to the higher outturn for interest rates. The overall effect of the increase in interest rates on the fiscal outcome was somewhat muted. This is because the increase in the short-term interest rates was less than the increase in long-term rates, and in the

short run, it is the short-term rates that matter the most. In addition, financing requirements for 1994-95 were less than originally anticipated. Finally, the largest share of government borrowing occurs during the first quarter of the fiscal year. Interest rates were relatively lower in the first quarter than over the balance of the fiscal year.

In the February 1995 budget, the deficit was revised down to \$37.9 billion. The final outcome is consistent with that estimate, although there are some differences among components.

Table 7

**The scorecard**

	Actual	1994 budget (forecast)	1995 budget (estimate)
		(per cent)	
<b>Economic indicators</b>			
Real GDP	4.6	3.0	4.3
Inflation			
CPI	0.2	0.8	0.2
GDP deflator	0.6	0.9	0.6
Nominal GDP	5.2	3.9	4.9
Interest rates			
91-day Treasury bill rate	5.4	4.3	5.5
10-year government bond rate	8.4	6.4	8.4
<b>Financial results</b>			
		(billions of dollars)	
Budgetary revenues			
Personal income tax	56.3	59.5	56.8
Corporate income tax	11.6	10.3	13.0
Unemployment insurance premium	18.9	19.3	18.9
Goods and Services Tax	16.8	16.5	16.6
Sales and excise taxes/duties	10.3	10.1	10.5
Other revenues	9.4	8.2	9.2
<i>Total</i>	<i>123.3</i>	<i>123.9</i>	<i>125.0</i>
Program spending			
Major transfers to persons	35.3	38.9	35.9
Major transfers to other levels of government	26.6	26.3	26.9
Other transfers	20.1	19.1	19.2
Crown corporations expenditures	5.0	4.6	4.8
Defence	10.7	10.8	10.8
Other departmental spending	21.0	20.5	23.2
<i>Total</i>	<i>118.7</i>	<i>120.2</i>	<i>120.9</i>
Public debt charges	42.0	41.0	42.0
Contingency reserve	0.0	2.4	0.0
Deficit	37.5	39.7	37.9
Non-budgetary transactions	11.6	9.5	11.9
Financial requirements (excluding foreign exchange transactions)	25.8	30.2	26.0



**OPINION OF THE AUDITOR GENERAL  
ON THE CONDENSED FINANCIAL STATEMENTS  
OF THE GOVERNMENT OF CANADA**

To the Minister of Finance:

I have audited, in accordance with generally accepted auditing standards, the statement of assets and liabilities of the Government of Canada as at March 31, 1995 and the statements of revenues and expenditures, accumulated deficit, changes in financial position and transactions for the year then ended. In my report to the House of Commons dated July 24, 1995, I expressed an unqualified opinion on those financial statements. My audit report and the financial statements will be included in Volume I of the 1995 *Public Accounts of Canada* which is expected to be tabled in the House of Commons later this year.

In my opinion, the accompanying condensed financial statements of revenues and expenditures, assets and liabilities, and changes in financial position fairly summarize, in all material respects, the related information contained in the full financial statements from which they have been derived.



L. Denis Desautels, FCA  
*Auditor General of Canada*

Ottawa, Canada  
July 24, 1995





## PREFACE TO THE CONDENSED FINANCIAL STATEMENTS OF THE GOVERNMENT OF CANADA

The fundamental purpose of these condensed financial statements is to provide an overview to Parliament, and thus to the public, to facilitate an understanding of the full nature and extent of the financial affairs and resources for which the government is responsible. Responsibility for the integrity and objectivity of these statements rests with the government.

The condensed financial statements reflect the financial position of the government at the end of the year, as well as its results of operations,

deficit, financial requirements and changes in financial position for the year. These financial statements and the accompanying notes are extracted and summarized from the audited financial statements. The audited financial statements are included in Section 1 of Volume I of the 1995 Public Accounts of Canada, which are expected to be tabled in Parliament later this year. These condensed financial statements were prepared by the Government of Canada in accordance with the accounting policies set out in the accompanying notes.

Table 8

### Government of Canada Condensed statement of revenues and expenditures for the year ended March 31, 1995

	1995	1994
	(millions of dollars)	
<b>Revenues<sup>(1)</sup></b>		
Gross tax revenues		
Income tax	75,049	68,990
Excise taxes and duties	30,494	29,850
Unemployment insurance premiums	18,928	18,233
	<u>124,471</u>	<u>117,073</u>
Gross non-tax revenues	10,608	11,297
<b>Total gross revenues</b>	<b>135,079</b>	<b>128,370</b>
Amounts deducted to arrive at net revenues	11,756	12,386
<b>Total net revenues</b>	<b>123,323</b>	<b>115,984</b>
<b>Expenditures</b>		
Gross transfer payments		
Old age security and related payments	20,143	19,578
Unemployment insurance benefits	14,815	17,626
Payments to other levels of government	25,510	26,273
Other transfer payments	29,735	29,102
	<u>90,203</u>	<u>92,579</u>
Gross Crown corporations expenditures	5,741	5,913
Other gross program expenditures	34,551	33,908
<b>Total gross program expenditures</b>	<b>130,495</b>	<b>132,400</b>
Amounts deducted to arrive at net program expenditures	11,756	12,386
<b>Total net program expenditures</b>	<b>118,739</b>	<b>120,014</b>
Interest on debt	42,046	37,982
<b>Total net expenditures</b>	<b>160,785</b>	<b>157,996</b>
<b>Deficit for the year</b>	<b>37,462</b>	<b>42,012</b>
<b>Accumulated deficit</b>		
Beginning of year	508,210	466,198
<b>End of year</b>	<b>545,672</b>	<b>508,210</b>

(1) Detailed amounts on this statement are reported on a gross basis; see *Reporting of revenue and expenditure on a gross basis*, (page 22) for explanation.

Table 9

**Government of Canada**  
**Condensed statement of assets and liabilities**  
**as of March 31, 1995**

	1995	1994
	(millions of dollars)	
<b>Liabilities</b>		
Current liabilities and allowances		
Accounts payable and accruals	23,221	21,111
Allowances for guarantees and employee benefits	9,450	8,485
	32,671	29,596
Interest-bearing debt		
Pension and other accounts		
Public sector pensions	101,033	94,097
Canada Pension Plan (net of securities)	3,406	2,728
Other	4,755	3,710
	109,194	100,535
Unmatured debt		
Marketable bonds	225,679	203,392
Treasury bills	164,450	166,000
Canada Savings Bonds	30,460	30,418
Bonds for Canada Pension Plan	3,488	3,497
Total payable in Canadian currency	424,077	403,307
Payable in foreign currencies	16,921	10,668
	440,998	413,975
<i>Total interest-bearing debt</i>	<i>550,192</i>	<i>514,510</i>
<b>Total liabilities</b>	<b>582,863</b>	<b>544,106</b>
<b>Assets</b>		
Current assets		
Cash	1,383	1,435
Accounts receivable (net of allowance for doubtful accounts)	4,353	4,496
	5,736	5,931
Foreign exchange accounts including gold	14,350	12,925
Loans, investments and advances		
Enterprise Crown corporations	18,218	19,283
Other	13,787	13,757
	32,005	33,040
Less: Allowance for valuation	14,900	16,000
	17,105	17,040
<b>Total assets</b>	<b>37,191</b>	<b>35,896</b>
<b>Accumulated deficit</b>	<b>545,672</b>	<b>508,210</b>

**Notes to Government of Canada**  
**condensed financial statements**

**Introduction**

These notes are a brief summary of the accounting policies followed by the Government of Canada and other explanatory material related to the condensed financial statements. For more detailed notes on accounting policies and for more extensive information on the financial position and results of operations of the government, the reader is referred to the audited financial statements in Section 1 of Volume I of the 1995 Public Accounts of Canada.

**Significant accounting policies**

**Reporting entity**

The Government of Canada as a reporting entity includes the financial activities of all departments, agencies, corporations and funds which are owned or controlled by the government and which are accountable to Parliament, except for the Canada Pension Plan and enterprise Crown corporations. The Canada Pension Plan, which is under joint control of the government and participating provinces, is financed from contributions by employees, their employers, and self-employed persons, and interest earned on investments which are mainly in provincial government securities.



Table 10

**Government of Canada**  
**Condensed statement of changes in financial position**  
**for the year ended March 31, 1995**

	1995	1994
	(millions of dollars)	
<b>Cash requirements for:</b>		
<b>Operating activities</b>		
Deficit for the year	37,462	42,012
Less: Expenditures not requiring cash	12,146	13,801
	<u>25,316</u>	<u>28,211</u>
Net payments from pension and other accounts	2,033	3,435
Net change in current assets and liabilities	(664)	(1,505)
<i>Cash required for operating activities</i>	<u>26,685</u>	<u>30,141</u>
<b>Investing activities</b>		
Net (decrease) increase in loans, investments and advances	(1,035)	114
Net increase in foreign exchange accounts	1,425	2,128
<i>Cash required for investing activities</i>	<u>390</u>	<u>2,242</u>
<b>Total cash requirements</b>	<u>27,075</u>	<u>32,383</u>
<b>Financed by:</b>		
Net increase in borrowings		
Canadian currency	20,770	25,975
Foreign currencies	6,253	5,259
	<u>27,023</u>	<u>31,234</u>
<b>Net change in cash</b>	<u>(52)</u>	<u>(1,149)</u>
Cash at beginning of year	1,435	2,584
<b>Cash at end of year</b>	<u>1,383</u>	<u>1,435</u>

Enterprise Crown corporations, which are reported as investments, are not dependent on the government for financing their activities.

### Basis of accounting

In general, the government accounts for transactions on an accrual basis with two notable exceptions:

- Tax revenues and related refunds are generally accounted for on a cash basis (when taxes are collected and refunds are paid out respectively), except for certain significant refunds which are reported on an accrual basis.
- Capital assets and inventories are fully charged to expenditures at the time of acquisition or construction.

As a consequence, the only assets recorded on the Condensed Statement of Assets and Liabilities are financial claims, as they can

provide resources to discharge liabilities or finance future operations. These assets include cash, gold, receivables, as well as loans, investments and advances. Assets are recorded at the lower of cost or net expected realizable value, except for gold (1995 – 3.9 million ounces at \$76.42 per ounce; 1994 – 5.6 million ounces at \$68.40 per ounce), which is valued at its approximate cost in foreign currency terms.

Liabilities are generally recorded on an accrual basis. Public sector pension and severance liabilities are determined on an actuarial basis. Allowances are established for outstanding loan guarantees, concessionary and sovereign loans, and other obligations. Unmatured debt is recorded at face value with foreign currency amounts translated to Canadian dollar equivalents using rates at March 31.

**Reporting of revenues and expenditures on a gross basis**

Detailed amounts on the Condensed Statement of Revenues and Expenditures are presented on a full (gross) basis only. Gross revenues include revenues of consolidated Crown corporations, and revenues of government departments which, on the net basis, are deducted from expenditures for budget and parliamentary authority purposes. Gross expenditures include expenditures determined through the tax system, such as child tax benefits payments and quarterly GST tax credits, that are deducted from revenues on the net basis. The Statement of Revenues and Expenditures in the audited financial statements in Section 1 of Volume I of the Public Accounts of Canada presents detailed amounts on both a gross and net basis.

**Authorities for transactions**

Authority of Parliament is required before revenue can be raised and moneys spent or borrowed by the government. Spending authorities on a net basis granted by Parliament were \$164.6 billion (\$161.0 billion in 1994), whereas \$160.8 billion (\$158.0 billion in 1994) was spent. Of the total borrowing authority of \$34.3 billion (\$44.3 billion in 1994), \$26.9 billion (\$30.8 billion in 1994) was used.

**Public sector pensions**

Separate funds are not set aside to provide for payment of pension benefits to government employees, Members of Parliament, the Canadian Forces, the RCMP, and judges. Pension liabilities are estimated annually using the government's best estimates for demographic and economic assumptions affecting these pension obligations. Changes in assumptions can result in significantly higher or lower estimates of these liabilities.

**Significant liabilities**

Some significant transactions were recorded as liabilities of the government during the year. Transactions recorded were \$2.3 billion for the restructuring of the Public Service (of which \$0.8 billion was included as Public sector pensions) to reduce employment over the next three years, and \$1.6 billion for payments as a

result of the elimination of transportation subsidies for western grain. As well, \$0.7 billion was recorded for the estimated present value of subsidy payments relating to the construction of a bridge between the provinces of New Brunswick and Prince Edward Island (known as the P.E.I. Fixed Link), but this was offset by including the same amount as a deferred subsidy under loans.

**Contractual commitments**

The nature of the government's activities requires negotiation of contracts that are significant in relation to its current financial position or that will materially affect the level of future expenditure. Contractual commitments pertain to transfer payment agreements, fixed asset acquisitions, other purchases, operating and capital leases, funding of international organizations, and benefit plans for veterans. At March 31, 1995 contractual commitments amounted to approximately \$28.9 billion (\$31.8 billion in 1994). Estimated annual payments related to these commitments for the next five years decrease from \$7.5 billion in 1996 to \$3.7 billion in the year 2000.

**Insurance programs**

Three enterprise Crown corporations – Canada Deposit Insurance Corporation, Canada Mortgage and Housing Corporation, and Export Development Corporation – operate insurance programs for the government. These programs are intended to be self-sustaining, but in the event that the corporations have insufficient funds, the government will have to provide financing. Insurance in force at March 31, 1995 amounted to approximately \$435 billion (\$402 billion in 1994). The government expects that it will incur no costs to cover the costs of any claims for these insurance programs.

**Contingent liabilities**

The contingent liabilities of the government are potential liabilities which may become actual liabilities when one or more future events occur or fail to occur. At such time they may become actual liabilities and if so they are recorded in the accounts of Canada. An exception is made for losses on loan guarantees, including those in



respect of borrowings of enterprise Crown corporations, which are recorded as actual liabilities when it is likely that a future payment will be made and the amount of the loss can be reasonably determined.

Contingent liabilities result from the exercise of guarantees; environmental contingencies; callable share capital and lines of credit in international

organizations; claims; and pending and threatened litigation related to aboriginal land claims and treaty obligations; and like items. At March 31, 1995, these contingent liabilities amounted to approximately \$64.2 billion (\$54.8 billion in 1994), of which \$5.5 billion (\$4.9 billion in 1994) related to loan guarantees recorded as liabilities in the financial statements.

## Other sources of information

### *The Public Accounts of Canada*

The Public Accounts of Canada, as required under Section 64(1) of the Financial Administration Act, are tabled in the fall of each year by the President of the Treasury Board. This report is presented in two volumes:

- Volume I contains the government's audited financial statements and supporting schedules and information;
- Volume II contains details of financial operations by Ministry (Part I) and additional information and analyses (Part II).

### *The Budget*

The Budget that is introduced, usually in February, presents the government's overall fiscal plan, incorporating revenue projections and spending plans which combine to determine the resulting budgetary deficit. The Budget also introduces proposals for changes in taxation.

### *The Estimates*

The Estimates are the detailed annual expenditure plans submitted to Parliament each spring. The estimates are presented in three parts:

- Part I presents an overview of the government expenditure plan;
- Part II outlines spending according to departments, agencies and programs;
- Part III provides additional detail on each department and its programs.

### *The Debt Operations Report*

This annual document provides an overview of the federal government's borrowing operations. It outlines the key elements of current federal debt strategy and describes various strategic and operational aspects of the government's debt program and cash management activities over the past fiscal year.

### *The Fiscal Monitor*

This monthly newsletter produced by the Department of Finance highlights the financial results of the government together with the reasons underlying major variances.





## SUPPLEMENTARY FINANCIAL INFORMATION

Table 11

**Government of Canada  
Public Accounts presentation  
Summary statement of transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>Budgetary transactions</b>										
Revenue	76,933	85,931	97,612	104,067	113,707	119,353	122,032	120,380	115,984	123,323
Expenditure	-111,528	-116,673	-125,406	-132,840	-142,637	-151,353	-156,389	-161,401	-157,996	-160,785
<i>Deficit</i>	-34,595	-30,742	-27,794	-28,773	-28,930	-32,000	-34,357	-41,021	-42,012	-37,462
<b>Non-budgetary transactions</b>										
Loans, investments and advances	27	1,335	1,127	897	995	291	-233	592	581	-65
Specified purpose accounts	5,413	5,271	5,716	5,617	6,786	7,030	5,724	5,997	6,242	8,659
Other transactions	-1,355	1,218	2,102	-165	619	141	-2,934	-65	5,339	3,026
<i>Net source</i>	4,085	7,824	8,945	6,349	8,400	7,462	2,557	6,524	12,162	11,620
<b>Financial requirements (excluding foreign exchange transactions)</b>	-30,510	-22,918	-18,849	-22,424	-20,530	-24,538	-31,800	-34,497	-29,850	-25,842
<b>Foreign exchange transactions</b>	5,626	-6,390	-7,149	-5,730	-697	-4,895	941	7,713	3,131	4,828
<b>Total financial requirements<sup>(1)</sup></b>	-24,884	-29,308	-25,998	-28,154	-21,227	-29,433	-30,859	-26,784	-26,719	-21,014
<b>Unmatured debt transactions</b>	23,770	29,182	22,913	28,454	20,906	30,490	29,064	28,891	25,975	20,770
<b>Change in cash<sup>(2)</sup></b>	-1,114	-126	-3,085	300	-321	1,057	-1,795	2,107	-744	-244
<b>Cash balance at end of year</b>	4,744	4,618	1,533	1,833	1,512	2,569	774	2,881	2,137	1,893

(1) Cash requirements (-).

(2) Cash decrease (-).

Table 12

**Government of Canada**  
**Public Accounts presentation**  
**Detailed statement of revenue transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>BUDGETARY TRANSACTIONS</b>										
Revenue										
Tax revenue										
Income tax:										
Personal	33,008	37,878	45,125	46,026	51,895	57,601	61,222	58,283	51,427	56,329
Corporation	9,210	9,885	10,878	11,730	13,021	11,726	9,359	7,206	9,444	11,604
Other income tax	1,179	1,499	1,369	1,843	1,587	1,651	1,534	1,462	1,593	1,769
	43,397	49,262	57,372	59,599	66,503	70,978	72,115	66,951	62,464	69,702
Unemployment insurance premiums	8,719	9,558	10,425	11,268	10,738	12,707	15,394	17,535	18,233	18,928
Excise taxes and duties:										
Goods and Services Tax							15,168	14,868	15,696	16,786
Sales tax	9,345	11,972	12,927	15,645	17,672	12,635	-1,969	-139	-62	-92
Customs import duties	3,971	4,187	4,385	4,521	4,587	4,001	3,999	3,811	3,652	3,575
Energy taxes	3,348	1,965	2,603	2,646	2,471	3,192	3,441	3,437	3,640	3,824
Other	2,827	2,925	3,026	2,959	3,425	3,711	4,557	4,103	3,709	2,996
	19,491	21,049	22,941	25,771	28,155	26,113	25,196	26,080	26,635	27,089
Total tax revenue	71,607	79,869	90,738	96,638	105,396	109,798	112,705	110,566	107,332	115,719
Non-tax revenue										
Return on investments:										
Bank of Canada	1,856	1,971	1,871	1,938	2,239	2,809	1,844	1,806	1,452	1,571
Canada Mortgage and Housing Corporation	892	866	853	845	822	772	753	800	719	706
Farm Credit Corporation	386	354	326	301	239	230	215	226	211	199
Exchange Fund Account	(505)	366	752	1,658	1,661	2,258	2,900	3,209	2,916	1,816
Interest on bank deposits	278	219	279	256	278	285	192	169	128	155
Other return on investments	754	479	656	549	611	453	617	628	716	574
	3,661	4,255	4,737	5,547	5,850	6,807	6,521	6,838	6,142	5,021
Other non-tax revenue	1,665	1,807	2,137	1,882	2,461	2,748	2,806	2,976	2,510	2,583
Total non-tax revenue	5,326	6,062	6,874	7,429	8,311	9,555	9,327	9,814	8,652	7,604
<b>Total net revenue</b>	<b>76,933</b>	<b>85,931</b>	<b>97,612</b>	<b>104,067</b>	<b>113,707</b>	<b>119,353</b>	<b>122,032</b>	<b>120,380</b>	<b>115,984</b>	<b>123,323</b>



Table 13

**Government of Canada**  
**Public Accounts presentation**  
**Detailed statement of expenditure transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>BUDGETARY TRANSACTIONS</b>										
Expenditure										
Transfer payments:										
Old age security benefits, guaranteed income supplements and spouses' allowances	12,525	13,445	14,349	15,202	16,154	17,131	18,393	19,106	19,903	20,511
Unemployment insurance benefits	10,036	10,444	10,487	10,972	11,694	14,665	18,126	19,065	17,626	14,815
Family allowances	2,501	2,534	2,564	2,606	2,653	2,736	2,821	2,194	7	
Fiscal arrangements	5,941	6,302	7,007	8,127	8,653	8,280	8,854	7,591	9,045	7,674
Insurance and medical care services	6,400	6,607	6,558	6,678	6,663	6,033	6,689	8,307	7,232	7,691
Canada Assistance Plan	3,916	4,051	4,246	4,556	5,006	5,788	6,099	6,686	7,236	7,266
Education support	2,277	2,232	2,242	2,227	2,166	1,862	2,142	2,887	2,378	2,486
Other transfer payments	15,387	15,291	17,436	17,535	17,139	16,607	18,829	19,624	19,941	21,597
	<u>58,983</u>	<u>60,906</u>	<u>64,889</u>	<u>67,903</u>	<u>70,128</u>	<u>73,102</u>	<u>81,953</u>	<u>85,460</u>	<u>83,368</u>	<u>82,040</u>
Crown corporations expenditures	4,479	4,936	5,872	5,572	5,237	5,713	5,252	6,219	5,298	5,003
Operating and capital expenditures:										
National Defence	8,937	9,788	10,554	10,761	11,217	11,518	10,901	10,939	11,282	10,693
All other departments and agencies	13,707	14,375	15,138	15,452	17,266	18,432	17,109	19,958	20,066	21,003
	<u>22,644</u>	<u>24,163</u>	<u>25,692</u>	<u>26,213</u>	<u>28,483</u>	<u>29,950</u>	<u>28,010</u>	<u>30,897</u>	<u>31,348</u>	<u>31,696</u>
<i>Total program spending</i>	<i>86,106</i>	<i>90,005</i>	<i>96,453</i>	<i>99,688</i>	<i>103,848</i>	<i>108,765</i>	<i>115,215</i>	<i>122,576</i>	<i>120,014</i>	<i>118,739</i>
Public debt charges	25,422	26,668	28,953	33,152	38,789	42,588	41,174	38,825	37,982	42,046
<b>Total net expenditure</b>	<b>111,528</b>	<b>116,673</b>	<b>125,406</b>	<b>132,840</b>	<b>142,637</b>	<b>151,353</b>	<b>156,389</b>	<b>161,401</b>	<b>157,996</b>	<b>160,785</b>

Table 14

**Government of Canada**  
**Public Accounts presentation**  
**Detailed statement of non-budgetary transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>NON-BUDGETARY TRANSACTIONS</b>										
Loans, investments and advances										
Enterprise Crown corporations:										
Canada Deposit Insurance Corporation	-895	-268	-131	-361	320	150	-560	-1,300	-66	991
Canada Mortgage and Housing Corporation	195	254	234	273	201	194	65	238	105	240
Canadian National Railway Company	9	352	29	12	12	13	15	16	17	19
Export Development Corporation	64	49	55	25	-75	-16			-25	-38
Farm Credit Corporation	214	591	-179	230	104	-82	-159	71	-68	-35
Federal Business Development Bank	119	93	51				-10			
Other	177	-241	1,391	555	-2	-9	-73	-412	297	-112
<i>Total enterprise Crown corporations</i>	<i>-117</i>	<i>830</i>	<i>1,450</i>	<i>734</i>	<i>560</i>	<i>250</i>	<i>-722</i>	<i>-1,387</i>	<i>260</i>	<i>1,065</i>
Other loans, investments and advances:										
Provincial and territorial governments	110	89	37	28	-140	86	118	268	-25	235
National governments including developing countries	-142	124	81	132	696	19	-59	152	-52	152
International organizations (subscriptions less notes)	-220	46	15	-24	-70	-37	-105	-197	-236	-185
Joint and mixed enterprises	-61	237	319	36	362			88		
Miscellaneous	171	60	-93	-418	142	-88	-86	495	-61	-232
	-142	556	359	-246	990	-20	-132	270	-374	-30
Allowance for valuation	286	-51	-682	409	-555	61	621	1,709	695	-1,100
<i>Total loans, investments and advances after allowance for valuation</i>	<i>27</i>	<i>1,335</i>	<i>1,127</i>	<i>897</i>	<i>995</i>	<i>291</i>	<i>-233</i>	<i>592</i>	<i>581</i>	<i>-65</i>
<b>Pension and other accounts</b>										
Liability accounts:										
Canada Pension Plan (net)	271	205	306	256	422	497	-278	-342	-111	678
Pension liability (net)	4,682	4,998	5,425	5,825	6,385	6,511	5,742	6,030	6,186	6,936
Other	460	68	-15	-464	-21	22	260	309	167	1,045
<i>Total pension and other accounts</i>	<i>5,413</i>	<i>5,271</i>	<i>5,716</i>	<i>5,617</i>	<i>6,786</i>	<i>7,030</i>	<i>5,724</i>	<i>5,997</i>	<i>6,242</i>	<i>8,659</i>



Table 14 (cont'd)

**Government of Canada****Public Accounts presentation****Detailed statement of non-budgetary transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>Other transactions</b>										
Accounts receivable	-74	-121	-127	-319	-264	-744	-1,043	239	27	-412
Outstanding cheques and warrants	-489	-64	-147	-354	177	1,476	-1,327	533	787	-264
Cash in transit	189	225	-854	235	52	-161	-706	-29	-382	72
Provincial tax collection agreements account	-227	57	1,050	-731	-368	-813	-241	-747	-151	870
Other liabilities	-754	1,121	2,180	1,004	1,022	383	383	-61	5,058	2,760
<b>Total other transactions</b>	<b>-1,355</b>	<b>1,218</b>	<b>2,102</b>	<b>-165</b>	<b>619</b>	<b>141</b>	<b>-2,934</b>	<b>-65</b>	<b>5,339</b>	<b>3,026</b>
<b>Net non-budgetary transactions after allowance for valuation</b>	<b>4,085</b>	<b>7,824</b>	<b>8,945</b>	<b>6,349</b>	<b>8,400</b>	<b>7,462</b>	<b>2,557</b>	<b>6,524</b>	<b>12,162</b>	<b>11,620</b>

Source/requirement (-)

Table 15

**Government of Canada**  
**Public Accounts presentation**

**Detailed statement of foreign exchange, unmatured debt and cash transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>FOREIGN EXCHANGE TRANSACTIONS</b>										
International reserves held in the Exchange Fund Account	752	-4,753	-6,567	-2,643	2,029	-3,673	1,918	6,269	-2,277	-1,200
International Monetary Fund – Subscriptions	-685	-266	-102	504	60	-91	-232	-2,802	-844	-990
	67	-5,019	-6,669	-2,139	2,089	-3,764	1,686	3,467	-3,121	-2,190
Less: International Monetary Fund –										
Notes payable	-637	-359	-208	495	126	5	-275	-2,181	-841	-586
Special Drawing Rights allocations	-182	-70	-27	134	15	-23	-62	-100	-152	-179
	-819	-429	-235	629	141	-18	-337	-2,281	-993	-765
Unmatured debt transactions payable in foreign currencies	4,740	-1,800	-715	-2,962	-2,645	-1,149	-1,082	1,965	5,259	6,253
<b>Total foreign exchange</b>	<b>5,626</b>	<b>-6,390</b>	<b>-7,149</b>	<b>-5,730</b>	<b>-697</b>	<b>-4,895</b>	<b>941</b>	<b>7,713</b>	<b>3,131</b>	<b>4,828</b>
<b>UNMATURED DEBT TRANSACTIONS</b>										
Marketable bonds	15,447	13,512	9,787	10,951	10,575	15,404	14,499	19,781	27,142	25,142
Treasury bills	9,650	15,000	4,100	21,650	15,850	20,600	13,150	9,750	3,950	-1,550
Canada Savings Bonds	2,312	-703	8,786	-5,693	-6,812	-6,482	1,339	-1,224	-2,947	43
Bonds issued for the										
Canada Pension Plan Investment Fund	240	1,351	696	513	67	420	9	4	-8	-9
Notes and loans	861	-2,823	-1,171	-2,015	-1,734	-163	-7	-7		
Canada bills		1,045		86	315	-438	-1,008	2,552	3,097	3,397
	28,510	27,382	22,198	25,492	18,261	29,341	27,982	30,856	31,234	27,023
Less: Unmatured debt transactions payable in foreign currencies	4,740	-1,800	-715	-2,962	-2,645	-1,149	-1,082	1,965	5,259	6,253
<b>Total unmatured debt transactions payable in Canadian currency</b>	<b>23,770</b>	<b>29,182</b>	<b>22,913</b>	<b>28,454</b>	<b>20,906</b>	<b>30,490</b>	<b>29,064</b>	<b>28,891</b>	<b>25,975</b>	<b>20,770</b>
<b>CASH IN BANK AT END OF YEAR</b>										
In Canadian currency	4,566	4,479	1,381	1,708	1,369	2,459	677	2,774	2,032	1,817
In foreign currencies	178	139	152	125	143	110	97	107	105	76
<b>Total</b>	<b>4,744</b>	<b>4,618</b>	<b>1,533</b>	<b>1,833</b>	<b>1,512</b>	<b>2,569</b>	<b>774</b>	<b>2,881</b>	<b>2,137</b>	<b>1,893</b>

Source/requirement (-)

Table 16

**Government of Canada**  
**Public Accounts presentation**  
**Comparative statement of financial assets and liabilities**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>FINANCIAL ASSETS</b>										
<b>Current assets</b>										
Cash in bank	4,744	4,618	1,533	1,833	1,512	2,569	774	2,881	2,137	1,893
Cash in transit	1,693	1,468	2,322	2,087	2,035	2,196	2,902	2,931	3,313	3,241
	6,437	6,086	3,855	3,920	3,547	4,765	3,676	5,812	5,450	5,134
<i>Less: outstanding cheques and warrants</i>	2,934	2,870	2,723	2,369	2,546	4,022	2,695	3,228	4,015	3,751
<b>Total cash</b>	3,503	3,216	1,132	1,551	1,001	743	981	2,584	1,435	1,383
Accounts receivable	1,590	1,711	1,838	2,157	2,421	3,165	4,208	4,372	4,496	4,353
<b>Total current assets</b>	5,093	4,927	2,970	3,708	3,422	3,908	5,189	6,956	5,931	5,736
<b>Foreign exchange accounts</b>										
International reserves held in the Exchange Fund Account	3,459	8,212	14,779	17,422	15,393	19,066	17,148	10,879	13,156	14,356
International Monetary Fund – Subscriptions	4,670	4,936	5,038	4,534	4,474	4,565	4,797	7,599	8,443	9,433
<i>Less: International Monetary Fund – Notes payable and Special Drawing Rights allocations</i>	5,151	5,580	5,815	5,186	5,045	5,063	5,400	7,681	8,674	9,439
<b>Total net foreign exchange accounts</b>	2,978	7,568	14,002	16,770	14,822	18,568	16,545	10,797	12,925	14,350
<b>Loans, investments and advances</b>										
Enterprise Crown corporations	21,252	20,422	18,972	18,238	17,678	17,428	18,150	19,543	19,283	18,218
Joint and mixed enterprises	5,520	5,283	4,964	4,928	4,461	4,461	4,461	4,374	4,374	4,374
National governments including developing countries	4,529	4,404	4,323	4,191	3,495	3,476	3,535	3,382	3,434	3,282
International organizations (net of notes)	2,751	2,705	2,690	2,714	2,784	2,821	2,926	3,124	3,360	3,545
Provincial and territorial governments	1,037	948	911	883	1,023	937	819	1,086	1,111	876
Other	1,329	1,270	1,363	1,781	1,744	1,832	1,918	1,417	1,478	1,710
	36,418	35,032	33,223	32,735	31,185	30,955	31,809	32,926	33,040	32,005
<i>Less: Allowance for valuation</i>	13,793	13,742	13,060	13,469	12,914	12,975	13,596	15,305	16,000	14,900
<b>Total loans, investments and advances</b>	22,625	21,290	20,163	19,266	18,271	17,980	18,213	17,621	17,040	17,105
<b>Total assets</b>	30,696	33,785	37,135	39,744	36,515	40,456	39,947	35,374	35,896	37,191



Table 16 (cont'd)  
**Government of Canada**  
**Public Accounts presentation**  
**Comparative statement of financial assets and liabilities**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>LIABILITIES</b>										
<b>Current liabilities and allowances</b>										
Accounts payable and accrued liabilities	7,014	7,486	9,441	10,113	11,348	11,192	11,297	10,832	14,646	18,390
Interest and matured debt	8,592	8,583	9,043	6,549	5,683	5,489	6,576	5,866	6,465	4,831
Allowance for employee benefits	2,050	2,350	2,500	4,300	4,200	3,950	3,050	3,285	3,555	3,910
Allowance for loan guarantees and borrowings of Crown corporations	2,240	2,655	3,320	3,615	4,000	4,170	4,020	4,555	4,930	5,540
<b>Total current liabilities and allowances</b>	<b>19,896</b>	<b>21,074</b>	<b>24,304</b>	<b>24,577</b>	<b>25,231</b>	<b>24,801</b>	<b>24,943</b>	<b>24,538</b>	<b>29,596</b>	<b>32,671</b>
<b>Interest-bearing debt</b>										
Unmatured debt –										
Payable in Canadian currency:										
Marketable bonds	80,883	94,416	103,748	115,732	127,532	143,485	158,051	178,412	203,392	225,679
Treasury bills	61,950	76,950	81,050	102,700	118,550	139,150	152,300	162,050	166,000	164,450
Canada saving bonds	44,154	43,452	52,237	46,544	39,733	33,250	34,589	33,365	30,418	30,460
Bonds for the Canada Pension Plan	445	1,796	2,492	3,005	3,072	3,492	3,501	3,505	3,497	3,488
	<b>187,432</b>	<b>216,614</b>	<b>239,527</b>	<b>267,981</b>	<b>288,887</b>	<b>319,377</b>	<b>348,441</b>	<b>377,332</b>	<b>403,307</b>	<b>424,077</b>
Payable in foreign currencies	13,797	11,997	11,282	8,320	5,675	4,526	3,444	5,409	10,668	16,921
	<b>201,229</b>	<b>228,611</b>	<b>250,809</b>	<b>276,301</b>	<b>294,562</b>	<b>323,903</b>	<b>351,885</b>	<b>382,741</b>	<b>413,975</b>	<b>440,998</b>
Pension and other accounts										
Public sector pensions	46,994	51,992	57,417	63,241	69,626	76,139	81,881	87,911	94,097	101,033
Canada Pension Plan	1,773	1,978	2,284	2,540	2,962	3,459	3,181	2,839	2,728	3,406
Other	3,385	3,453	3,438	2,975	2,954	2,974	3,234	3,543	3,710	4,755
	<b>52,152</b>	<b>57,423</b>	<b>63,139</b>	<b>68,756</b>	<b>75,542</b>	<b>82,572</b>	<b>88,296</b>	<b>94,293</b>	<b>100,535</b>	<b>109,194</b>
<b>Total interest-bearing debt</b>	<b>253,381</b>	<b>286,034</b>	<b>313,948</b>	<b>345,057</b>	<b>370,104</b>	<b>406,475</b>	<b>440,181</b>	<b>477,034</b>	<b>514,510</b>	<b>550,192</b>
<b>Total liabilities</b>	<b>273,277</b>	<b>307,108</b>	<b>338,252</b>	<b>369,634</b>	<b>395,335</b>	<b>432,276</b>	<b>465,124</b>	<b>501,572</b>	<b>544,106</b>	<b>582,863</b>
<b>ACCUMULATED DEFICIT</b>	<b>242,581</b>	<b>273,323</b>	<b>301,117</b>	<b>329,890</b>	<b>358,820</b>	<b>390,820</b>	<b>425,177</b>	<b>466,198</b>	<b>508,210</b>	<b>545,672</b>

## NATIONAL ACCOUNTS PRESENTATION

There are three basic measures of the federal fiscal position in Canada – the public accounts deficit, financial requirements, and the national accounts deficit. This section explains the differences between the three measures and presents a reconciliation between the public accounts and the national accounts.

Differences in the measures arise because the accounting frameworks are designed for different purposes. The purpose of the **public accounts** is to record revenues, expenditures, assets and liabilities in order to permit parliamentary control of public funds into and out of the Consolidated Revenue Fund. The difference between annual budgetary revenues and expenditures is the budgetary deficit or surplus for the year, and the accumulation of the annual deficits (and surpluses) since Confederation is the net public debt.

**Financial requirements** (excluding foreign exchange transactions) correspond to the public accounts deficit plus non-budgetary transactions such as loans and advances, specified purpose accounts and certain other financial transactions. The main difference between the public accounts and financial requirements stems from the non-budgetary transactions of the government employees' superannuation accounts. Financial requirements measure the net financial impact on all budgetary and non-budgetary operations. This measure is the closest counterpart in Canada to the deficit measures most commonly used in both the United States and United Kingdom. It approximates the net direct impact of the federal government's borrowing activities on the capital markets.

By comparison, the primary objective of the **national accounts** is to measure economic production and national income. Thus the government sector is treated on the same basis as other sectors of the economy, such as the personal, business and foreign sectors. The objective of measuring economic activity means that certain transactions are recorded on an accrual basis in order to measure when revenues and expenditures are incurred. International comparisons of government budget balances by organizations, such as the United Nations, the Organization for Economic Co-operation and Development, and the International Monetary Fund, are typically based on the national accounts framework. The national accounts also provide a consistent framework for aggregation and comparisons of the fiscal positions of the various levels of government in Canada.

While the three measures are derived with different purposes in mind, each provides important complementary perspectives on the government's fiscal position. Although the levels are different, the trends are broadly similar. Financial requirements and the national accounts deficit are considerably lower than the public accounts budgetary deficit, reflecting the inclusion of the net surplus of the federal government's employees' pension funds.



Table 17

**Government of Canada**  
**National Accounts presentation**  
**Detailed statement of revenue and expenditure transactions**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>NATIONAL ACCOUNTS TRANSACTIONS<sup>(1)</sup></b>										
<b>Revenue</b>										
Direct taxes:										
Persons	44,218	50,110	56,688	58,872	65,350	74,742	79,671	79,965	76,058	82,621
Corporations	11,418	10,357	11,968	12,503	12,409	11,215	10,220	10,103	10,132	12,492
Non-residents	1,192	1,448	1,418	1,808	1,421	1,589	1,617	1,493	1,685	1,665
<i>Total direct taxes</i>	<i>56,828</i>	<i>61,915</i>	<i>70,074</i>	<i>73,183</i>	<i>79,180</i>	<i>87,546</i>	<i>91,508</i>	<i>91,561</i>	<i>87,875</i>	<i>96,778</i>
Indirect taxes	18,708	21,812	24,254	26,362	29,348	26,271	30,963	30,556	30,619	30,444
Other current transfers from persons	24	23	25	28	32	36	44	68	48	48
Investment income	7,933	8,067	9,023	10,406	11,459	12,553	12,834	12,763	12,464	13,714
Capital consumption allowances	1,255	1,303	1,354	1,452	1,538	1,585	1,557	1,570	1,633	1,673
<b>Total revenue</b>	<b>84,748</b>	<b>93,120</b>	<b>104,730</b>	<b>111,431</b>	<b>121,557</b>	<b>127,991</b>	<b>136,906</b>	<b>136,518</b>	<b>132,639</b>	<b>142,657</b>
<b>Expenditure</b>										
Current goods and services:										
Defence	9,203	9,505	10,226	10,618	11,069	11,736	11,682	11,879	11,890	11,923
Non-defence	14,115	14,600	14,803	15,612	17,460	18,512	19,992	20,257	20,909	20,746
<i>Total current goods and services</i>	<i>23,318</i>	<i>24,105</i>	<i>25,029</i>	<i>26,230</i>	<i>28,529</i>	<i>30,460</i>	<i>31,872</i>	<i>32,314</i>	<i>32,799</i>	<i>32,675</i>
Transfer payments to persons	31,809	33,570	34,799	36,419	38,916	43,907	51,364	54,187	56,556	54,887
Subsidies	5,206	5,405	6,347	5,583	4,907	5,350	7,067	4,883	4,258	4,440
Capital assistance	2,716	2,414	1,792	1,561	1,572	1,565	1,261	1,124	1,063	1,213
Current transfers to non-residents	1,537	1,904	2,262	2,471	2,954	2,332	2,722	2,711	2,312	2,281
Interest on the public debt	25,102	26,385	28,680	32,885	38,570	42,656	41,011	38,450	38,649	41,964
Transfers to provinces	20,269	20,959	22,781	23,953	25,226	25,971	27,060	30,266	28,288	29,238
Transfers to local governments	488	523	653	702	885	913	875	1,118	1,331	1,194
Gross capital formation	2,175	1,944	1,897	2,219	2,251	2,253	2,376	2,525	2,737	2,703
<b>Total expenditure</b>	<b>112,620</b>	<b>117,209</b>	<b>124,240</b>	<b>132,023</b>	<b>143,810</b>	<b>155,407</b>	<b>165,608</b>	<b>167,578</b>	<b>168,003</b>	<b>170,595</b>
<b>Deficit</b>	<b>-27,872</b>	<b>-24,089</b>	<b>-19,510</b>	<b>-20,592</b>	<b>-22,253</b>	<b>-27,416</b>	<b>-28,702</b>	<b>-31,060</b>	<b>-35,364</b>	<b>-27,938</b>
<b>Reference</b>										
Deficit on a Public Accounts basis	-34,595	-30,742	-27,794	-28,773	-28,930	-32,000	-34,357	-41,021	-42,012	-37,462
Financial requirements excluding exchange	-30,510	-22,918	-18,849	-22,424	-20,530	-24,538	-31,800	-34,497	-29,850	-25,842

<sup>(1)</sup> These "National Accounts transactions" are consistent with those released by Statistics Canada in August 1995.

## RECONCILIATION OF THE PUBLIC AND NATIONAL ACCOUNTS DEFICITS

Table 17 sets out the federal government's revenues, expenditures and deficit on a national accounts basis. The national accounts deficit is estimated to be lower than the public accounts deficit by \$9.5 billion in 1994-95. Financial requirements (excluding foreign exchange requirements) are \$2.1 billion lower than the national accounts deficit in 1994-95.

Table 18 shows the key reconciliation factors between the deficit on a public accounts basis and the national accounts. The difference is largely accounted for by the superannuation accounts, which are included in the national accounts deficit and financial requirements but excluded from the public accounts deficit. Other major conceptual differences relate to cash versus accrual accounting.

### *Government superannuation accounts*

Most of the difference between the public accounts deficit and the national accounts deficit is explained by the different treatment of the government superannuation accounts.

Government employee pension benefits are financed through employer and employee contributions and interest generated on surplus funds. In the national accounts, employer and employee contributions to the superannuation accounts and the accrued interest on surplus funds are included as part of government revenues. Only benefit payments, accrued interest, and the government's contribution as an employer are part of government expenditures.

In the public accounts, budgetary revenues are unaffected by superannuation transactions, while budgetary expenditures include only the

government's contribution as an employer and interest paid on surplus funds (included in interest on the public debt). The adjustment for the superannuation accounts represents the excess of government pension receipts over employee pension payments.

### *Excess of accruals over collections*

Tax revenues in the public accounts are recorded on a collections or cash basis, while non-tax revenues are recorded on an accrual basis. The national accounts primarily uses the accrual method of accounting with the result that revenues are recorded when funds are earned. Expenditures on both the public and national accounts basis are largely recorded on an accrual basis.

### *Other factors*

A number of other factors arise as a result of conceptual differences between the public accounts and the national accounts. Among these are public accounts transactions excluded from the national accounts, such as the purchase and sale of capital assets, allowances for valuation and write-offs. It also includes adjustments to reflect differences in the treatment of goods purchased and services rendered prior to March 31, but for which no payment has yet been made. In the public accounts, these payments are recorded in the end-of-year period (supplementary period), while in the national accounts, such payments are allocated to either the first or second quarters of the calendar year, and therefore are spread out over two fiscal years.



Table 18

**Government of Canada**  
**Public Accounts and National Accounts reconciliation**

	Year ended March 31									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
	(millions of dollars)									
<b>Budgetary revenue – Public Accounts</b>	76,933	85,931	97,612	104,067	113,707	119,353	122,032	120,380	115,984	123,323
Reconciling items										
Government pension receipts	6,070	6,548	7,176	7,756	8,523	9,441	10,926	11,133	11,767	12,468
Corporate income tax – Excess of accruals over collections	-138	-58	1,428	773	-612	-511	861	2,897	688	1,888
Capital consumption allowances	1,255	1,303	1,354	1,452	1,538	1,585	1,557	1,570	1,633	1,673
Petroleum compensation charge <sup>(1)</sup>	690				-1	3				
Non-tax revenue <sup>(2)</sup>	-989	-968	-1,260	-1,190	-1,315	-1,276	-1,291	-1,540	-1,492	-1,492
Deficits of Government business enterprises	-933	-938	-937	-907	-991	-849	-806	-792	-773	-550
Goods and Services Tax						1,198	2,620	3,114	2,852	2,526
Child tax credit								1,312	5,240	5,286
Miscellaneous <sup>(3)</sup>	1,860	1,302	-643	-520	708	-953	1,007	-1,556	-3,260	-1,465
<b>Total revenue – National Accounts</b>	<b>84,748</b>	<b>93,120</b>	<b>104,730</b>	<b>111,431</b>	<b>121,557</b>	<b>127,991</b>	<b>136,906</b>	<b>136,518</b>	<b>132,639</b>	<b>142,657</b>
<b>Budgetary expenditure – Public Accounts</b>	111,528	116,673	125,406	132,840	142,637	151,353	156,389	161,401	157,996	160,785
Reconciling items										
Government pension payments	1,285	1,437	1,600	1,801	1,978	2,073	2,489	3,782	4,052	4,155
Net expenditure of funds and agencies <sup>(4)</sup>	1,442	1,568	1,555	1,336	1,661	1,153	1,314	1,284	1,040	895
Capital consumption allowances	1,255	1,303	1,354	1,452	1,538	1,585	1,557	1,570	1,633	1,673
Petroleum compensation program <sup>(5)</sup>	1,133	6	60							
Non-tax revenue <sup>(6)</sup>	-989	-968	-1,260	-1,190	-1,315	-1,276	-1,291	-1,540	-1,492	-1,492
Deficits of Government business enterprises	-933	-938	-937	-907	-991	-849	-806	-792	-773	-550
Budgetary transfers to funds and agencies	-1,273	-1,213	-1,336	-1,335	-1,265	-1,063	-1,223	-1,069	-1,066	-1,547
Goods and Services Tax – Transfer and subsidies						725	3,176	2,574	2,698	2,884
Child tax credit								1,312	5,240	5,286
Miscellaneous <sup>(7)</sup>	-828	-659	-2,202	-1,974	-433	1,706	4,003	-944	-1,325	-1,494
<b>Total expenditure – National Accounts</b>	<b>112,620</b>	<b>117,209</b>	<b>124,240</b>	<b>132,023</b>	<b>143,810</b>	<b>155,407</b>	<b>165,608</b>	<b>167,578</b>	<b>168,003</b>	<b>170,595</b>

(1) In the Public Accounts, the petroleum compensation charge is netted against petroleum compensation payments and included in budgetary expenditure. Gross revenues and payments are recorded in the National Accounts.

(2) Various items of non-tax revenue, such as service fees and proceeds from the sale of current goods, which are reported as revenue in the Public Accounts, are netted to expenditure in the National Accounts.

(3) Major items under miscellaneous include adjustments for proceeds from the sale of used capital assets, air transportation tax, imputed items, the treatment of revenue in the supplementary accounting period after March 31, and the treatment of the acceleration of source deductions and sales and excise taxes by large firms.

(4) In the National Accounts, budgetary appropriations to various funds and agencies are replaced by net actual expenditures of the funds and agencies.

(5) This item represents the difference between the gross payments recorded on the National Accounts basis and net payments recorded on the Public Accounts basis.

(6) Various non-tax revenues, such as service fees and proceeds from the sale of current goods, which are reported as revenue in the Public Accounts, are netted to expenditure in the National Accounts.

(7) Major items under miscellaneous include adjustments for reserves and write-offs, provision for the valuation of assets and liabilities, purchase of used capital assets, imputed items, the treatment of expenditure and for all items in the reconciliation in the supplementary accounting period after March 31.