

# The Budget Chart Book 1998

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*Building Canada  
for the 21<sup>st</sup> Century*

Strong Economy  
&  
Secure Society

February 24, 1998



Department of Finance  
Canada

Ministère des Finances  
Canada

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*Cette publication est également disponible en français.*

Cat No.: F1-23/1998-7E  
ISBN 0-662-26572-6



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# ***Building a Strong Economy and a Secure Society***

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## **Key messages**

- The government's key priority is to build a strong economy and a secure society for the 21st century -- two mutually reinforcing goals.
  
- Budget highlights:
  - A commitment to maintain sound economic and financial management, anchored by three years of consecutive balanced budgets and a debt repayment plan.
  
  - The *Canadian Opportunities Strategy*, which will expand access for all Canadians to the knowledge, skills and learning needed for the jobs that will deliver a better standard of living in the 21st century.
  
  - A further increase to the proposed Canada Child Tax Benefit, the enrichment of the child care expense deduction and other targeted tax measures to promote a strong economy and a secure society.
  
  - Over the next three years, \$7 billion of tax relief is being provided, primarily to low- and middle-income Canadians.
  
  - Eighty per cent of spending initiatives reflect two of the highest priorities of Canadians -- access to knowledge and skills, and increased funding for health and education through increased transfers to the provinces.

## ***Budget Highlights: Policy Initiatives***

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### **Maintaining sound economic and financial management**

- The budget will be balanced in 1997-98 -- the first balanced budget since 1969-70.
- The budget will also be balanced in 1998-99 and 1999-2000 -- the first time in almost 50 years that the budget will be in balance for three consecutive years. As a result:
  - there will be ongoing financial surpluses; and
  - there will be a steady repayment of the federal government's market debt -- the debt that it had to borrow on credit markets.
- Canada's debt burden will be put on a permanent downward track through sustained economic growth and a debt repayment plan. *The Debt Repayment Plan* consists of three key elements:
  - as before, two-year fiscal plans based on prudent economic planning assumptions; the current plan commits to balanced budgets in 1998-99 and 1999-2000;
  - the inclusion in the fiscal plan of a Contingency Reserve of \$3 billion in each year; and
  - the use of the Contingency Reserve, when it is not needed, to pay down the public debt.
- The debt-to-GDP ratio is projected to drop to about 63 per cent in 1999-2000 from almost 72 per cent in 1995-96.
- Program spending will continue to decline relative to the size of the economy. It is projected to fall to 11.5 per cent of GDP in 1999-2000 -- its lowest level in 50 years.

### **Extension of inflation control targets**

- The government and the Bank of Canada have agreed to extend the current inflation control targets, which are to hold inflation inside the range of 1 per cent to 3 per cent, until the end of 2001.
  - The extension of the inflation targets will help to keep Canada's inflation rate among the lowest in the world and maintain low interest rates.
-

## ***Budget Highlights: Policy Initiatives***

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### **The Canadian Opportunities Strategy**

- This budget builds on actions taken in previous budgets to provide Canadians enhanced access to the knowledge and skills required for the job opportunities ahead. It announces the *Canadian Opportunities Strategy* which will:
  - provide more than 100,000 students with Canada Millennium Scholarships averaging \$3,000 per year, and up to 25,000 students who are in financial need and have children or other dependants with new Canada Study Grants;
  - increase assistance for advanced research and for graduate students through increased funding for the three granting councils;
  - help graduates manage their student debt loads by providing tax relief for interest payments on student loans, and improving the Canada Student Loans Program to help individuals facing financial difficulties;
  - help Canadians upgrade their skills throughout their working lives by allowing tax-free withdrawals from their registered retirement savings plan (RRSP) for lifelong learning, and by extending the education tax credit and the child care expense deduction to part-time students;
  - ensure that families can better afford higher education for their children by providing stronger incentives for saving through the new Canada Education Savings Grant -- a grant of 20 per cent on the first \$2,000 of annual contributions made to registered education savings plans (RESPs) for children up to age 18;
  - support youth employment by more than doubling funding for youth at risk who lack basic education and job skills, and by providing to employers an employment insurance premium holiday for any additional young Canadians hired in 1999 and 2000; and
  - increase funding for SchoolNet, the Community Access Program, and the Canadian Network for the Advancement of Research, Industry and Education (CANARIE) to help bring the benefits of information technology into more classrooms and communities across Canada.

## ***Budget Highlights: Policy Initiatives***

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### **Building a secure society**

- This budget provides:
  - funding for initiatives announced over the past year, including increased health and social transfers to provinces, a new partnership with aboriginal peoples, implementation of the treaty on landmines, and increased support for Canadian culture;
  - support for families with children through a further increase in the Canada Child Tax Benefit;
  - additional help for families with child care expenses;
  - support for individuals caring for infirm or elderly family members;
  - assistance for self-employed individuals who pay health and dental insurance premiums;
  - assistance for persons with disabilities;
  - support for communities and the voluntary sector;
  - measures to address environmental challenges; and
  - resources to further international co-operation.

### **General tax relief for Canadians**

- This budget marks the beginning of general tax relief for Canadians, starting with those who need it most -- low- and middle-income Canadians.
  - The amount of income that low-income Canadians can receive on a tax-free basis will be increased by \$500, taking almost 400,000 Canadians off the tax rolls.
  - The 3-per-cent general surtax will be eliminated for almost 13 million taxpayers with incomes up to about \$50,000 and reduced for an additional one million taxpayers.

# ***Budget Highlights: Summary of Policy Actions***

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## **Policy initiatives**

### *Spending and tax measures since the 1997 budget*

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	1997-98	1998-99	1999-00	2000-01
	(millions of dollars)			
<b>Spending and Tax Measures Announced in this Budget</b>				
Canadian Opportunities Strategy	2,555	650	1,085	1,230
Building a Secure Society	90	264	714	1,169
General Tax Relief for Canadians		880	1,445	1,680
Tax Fairness Measures		-5	-25	30
Subtotal	2,645	1,789	3,219	4,109
<b>Spending and Tax Measures Announced Before the Budget</b>				
Building a Secure Society				
Increase in CHST Transfer Payments	200	900	1,500	1,500
New Partnerships with Aboriginal Peoples	350	126	126	126
Other	40	136	191	161
Subtotal	590	1,162	1,817	1,787
Tax Relief for Canadians (EI premium rate reduction)	235	465		
Other <i>Securing Our Future Together</i>	3	85	85	83
Subtotal	828	1,712	1,902	1,870
<b>Total</b>	<b>3,473</b>	<b>3,501</b>	<b>5,121</b>	<b>5,979</b>

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- The fiscal cost of the spending and tax initiatives proposed in this budget amounts to \$2.6 billion in 1997-98, \$1.8 billion in 1998-99, \$3.2 billion in 1999-2000 and \$4.1 billion in 2000-01.
  - The initiatives proposed in the *Canadian Opportunities Strategy* and in *Building a Secure Society* include some initiatives which were originally announced in *Securing our Future Together*, as well as a number of tax expenditure measures.
- The cost of other actions announced since the 1997 budget amounts to \$828 million in 1997-98, \$1.7 billion in 1998-99, and \$1.9 billion in both 1999-2000 and 2000-01.



# ***Budget Highlights: Summary of Policy Actions***

## **Cumulative impact of spending and tax measures**

### *Spending and tax measures since the 1997 budget*

	1997-98	1998-99	1999-00	2000-01	Cumulative Total
	(millions of dollars)				
<b>Spending initiatives</b>					
The Canadian Opportunities Strategy					2,500
Canada Millennium Scholarships	2,500				
Other initiatives	55	530	725	850	2,160
Building a Secure Society					
Increased CHST cash transfers	200	900	1,500	1,500	4,100
Other initiatives	480	466	491	461	1,898
Other <i>Securing our Future Together</i>	3	85	85	83	256
Subtotal	3,238	1,981	2,801	2,894	10,914
<b>Targeted and general tax relief</b>					
The Canadian Opportunities Strategy		120	360	380	860
Building a Secure Society		130	610	1,065	1,805
General tax relief		880	1,445	1,680	4,005
Tax fairness measures		-5	-25	30	0
Actions before budget	235	395	-70	-70	490
Subtotal	235	1,520	2,320	3,085	7,160
<b>Total spending and tax initiatives</b>	3,473	3,501	5,121	5,979	18,074
<b>The Debt Repayment Plan: up to</b> (Assuming that the Contingency Reserve is not required)		3,000	3,000	3,000	9,000

- Over the four years 1997-98 to 2000-01, the net fiscal impact of the spending and tax initiatives since the 1997 budget amounts to \$18.1 billion.
  - Of this amount, \$10.9 billion represents spending initiatives. Eighty per cent of all spending initiatives reflect two of the highest priorities of Canadians -- access to knowledge and skills, and increased funding for health and education through increased transfers to the provinces.
  - The targeted and general tax relief actions total \$7.2 billion over the four years. Of this amount, \$7 billion is announced in this budget for the next three years.
  - Under *The Debt Repayment Plan*, the Contingency Reserve, if not required, will be used to pay down the public debt. Over this period, up to \$9 billion could be used to pay down the public debt.

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*Fiscal Developments -  
Key Achievements*

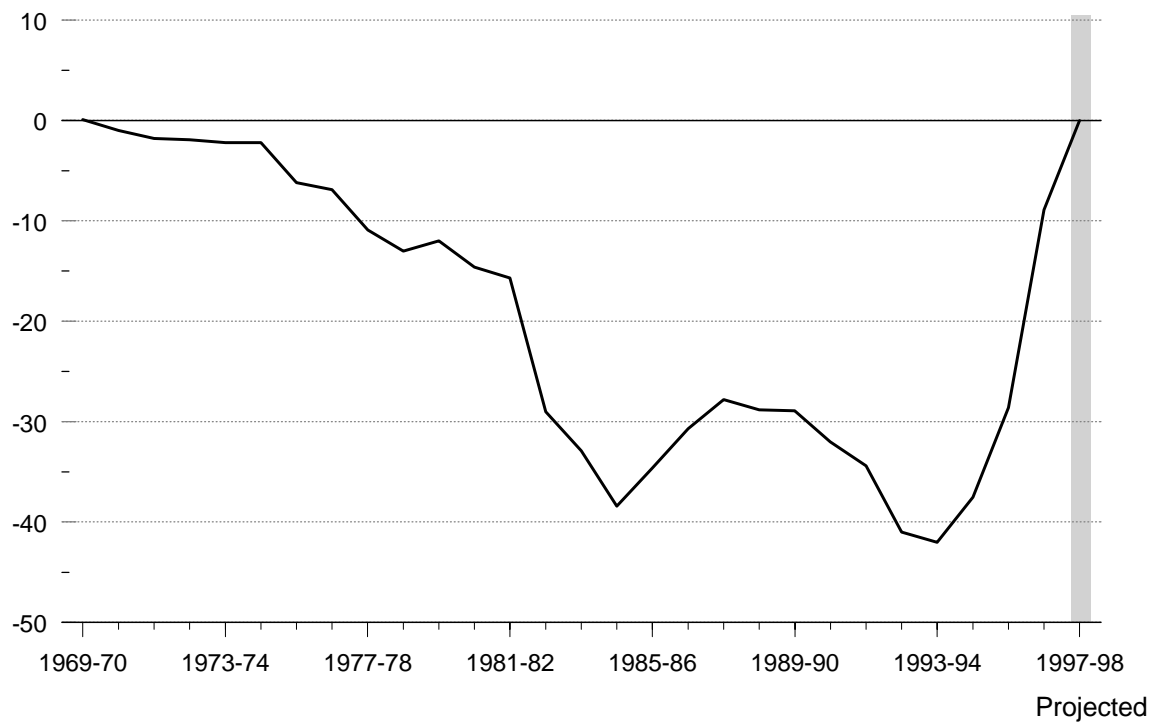
## *Fiscal Developments - Key Achievements*

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### **The first balanced budget in nearly 30 years**

*Federal deficit(-)/surplus(+)*

Public Accounts Basis  
billions of dollars



- Based on the financial results for the first nine months of 1997-98, expected developments over the balance of the fiscal year and including the measures announced in this budget, the budget will be balanced this fiscal year.
  - This will mark the first balanced budget since 1969-70.

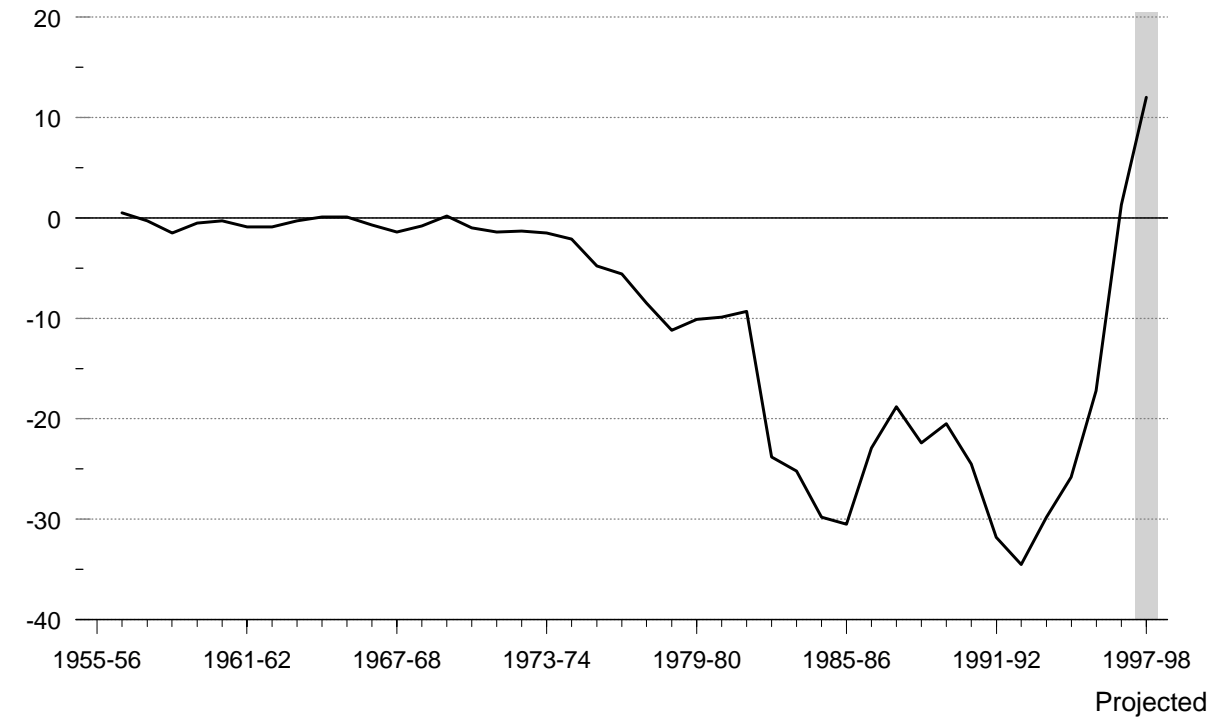
# *Fiscal Developments - Key Achievements*

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## **Financial surpluses continue**

### *Federal financial requirements(-)/surplus(+)*

Public Accounts Basis  
billions of dollars



- Federal financial requirements were eliminated in 1996-97.
- The financial surplus in 1997-98 is expected to be about \$12 billion. For the first nine months of 1997-98, the government paid down \$12.9 billion of its market debt -- the debt that it had to borrow on credit markets.
- With a commitment to balanced budgets in 1997-98 and in each of the next two fiscal years, the government will be in an ongoing net financial surplus position, allowing the government to steadily pay down its market debt.
- Financial requirements/surplus are broadly comparable to the measures of the budgetary balance used by other major industrialized countries, including the United States. On this basis, Canada is currently the only G-7 country with a balanced budget and indeed a budget surplus.

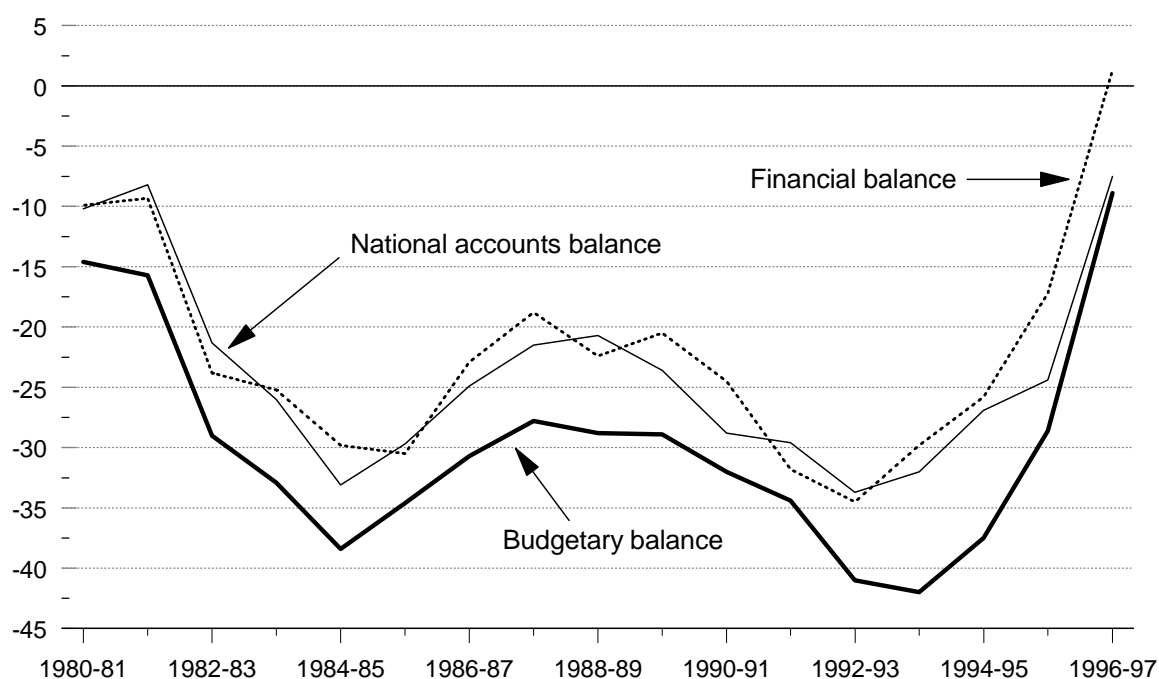
# *Fiscal Developments - Key Achievements*

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## **Alternative measures of the budget balance**

### *Alternative measures of the federal budget balance<sup>1</sup>*

billions of dollars



<sup>1</sup> A positive number denotes a surplus, a negative number denotes a deficit.

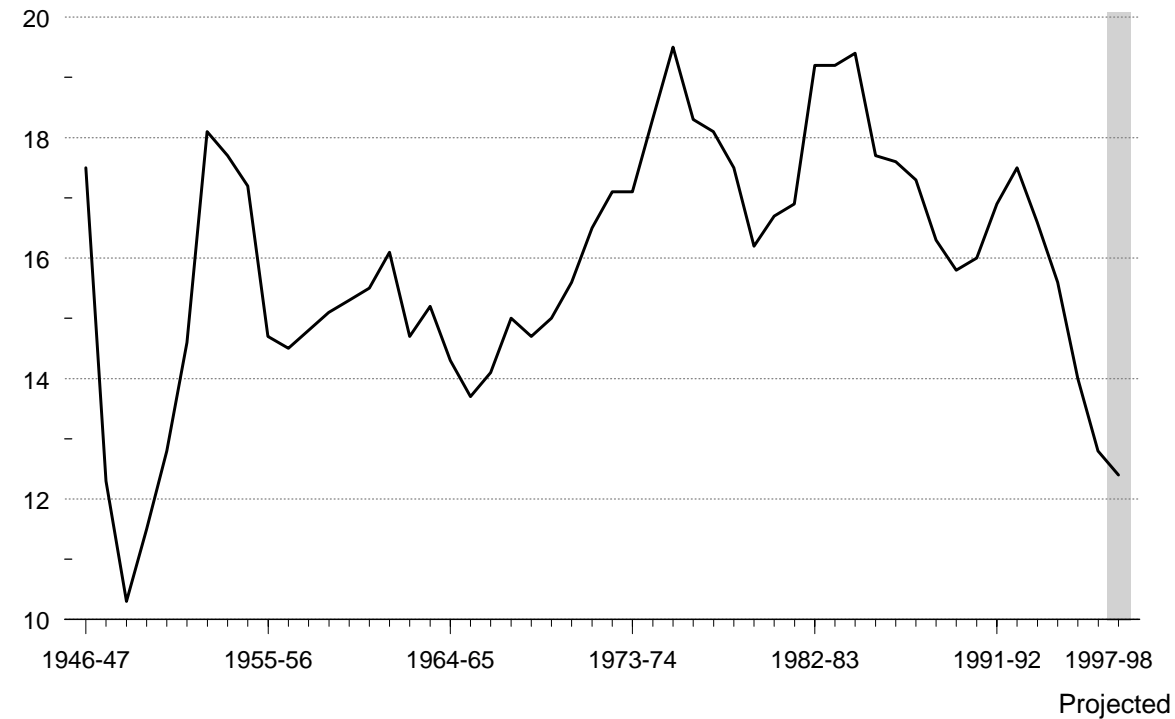
- There is one other measure of the fiscal balance -- the national accounts balance as produced by Statistics Canada.
  - This measure is most often used for international comparisons as identical accounting conventions are used throughout.
- The three measures -- public accounts budgetary balance, financial balance and national accounts balance -- provide important complementary perspectives on the government's fiscal position.
  - Although the measures differ in levels, their trends are broadly similar.

# *Fiscal Developments - Key Achievements*

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## **Continued decline in program spending**

*Federal program spending*  
Public Accounts Basis  
per cent of GDP



- As a share of GDP, program spending is estimated to fall to 12.4 per cent in 1997-98, from 16.6 per cent in 1993-94.

## *Fiscal Developments - Key Achievements*

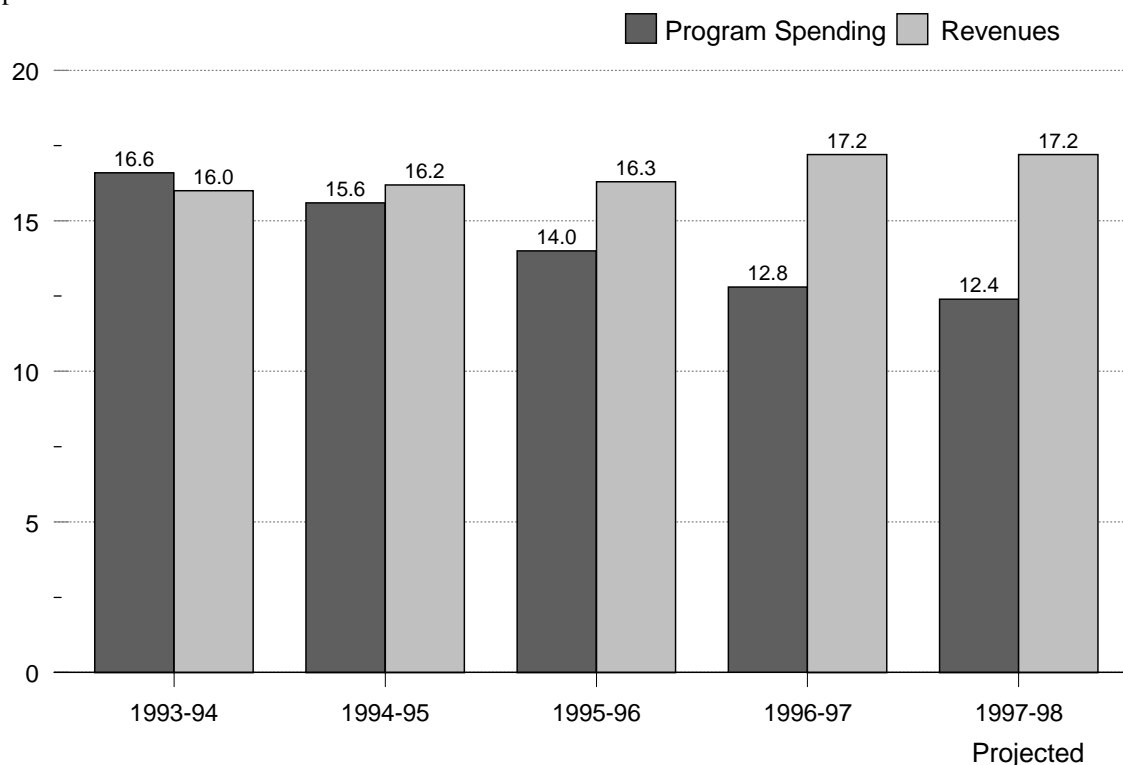
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### **Program spending reductions -- the major factor in deficit elimination**

#### *Federal program spending and revenues*

Public Accounts Basis

per cent of GDP



- With a balanced budget in 1997-98, the deficit relative to the size of the economy has declined by 5.8 percentage points since 1993-94.
  - Program spending declined 4.2 percentage points, largely as a result of the restraint measures introduced in the 1994 and 1995 budgets.
  - By comparison, budgetary revenues as a share of GDP grew by only 1.2 percentage points.

# *Fiscal Developments - Key Achievements*

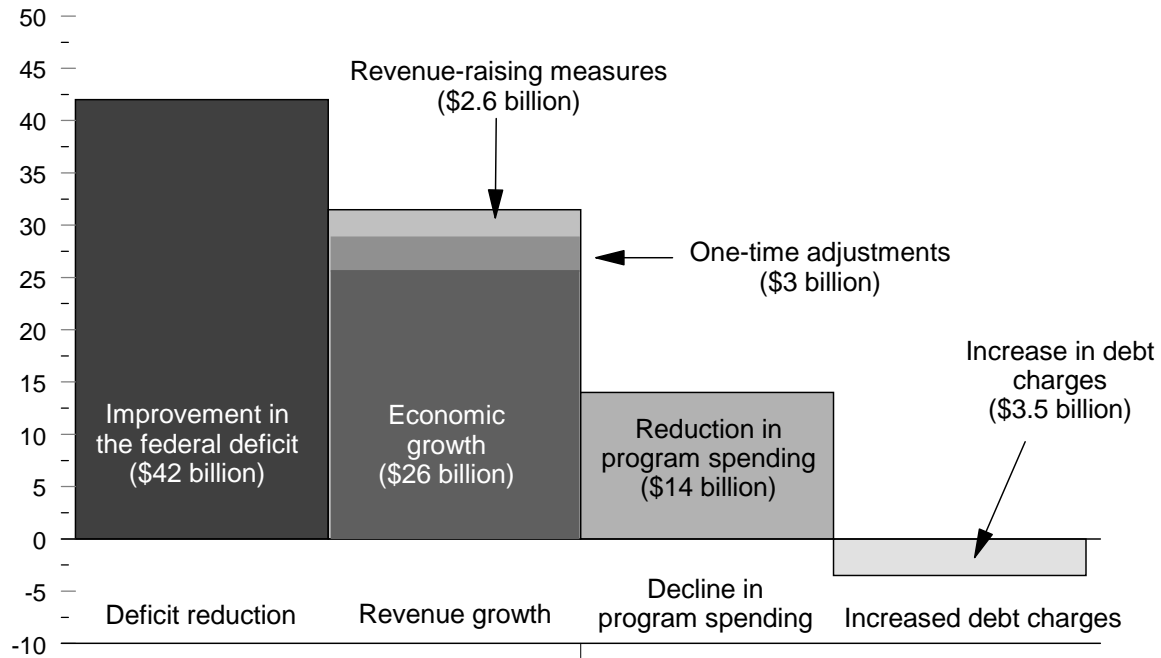
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## **Decomposition of the improvement in the federal deficit**

### *Improvement in the federal deficit*

Public Accounts Basis

billions of dollars



*Decomposition of the change in the deficit between 1993-94 and 1997-98*

- In dollar terms, the deficit has declined by \$42 billion between 1993-94 and 1997-98.
  - \$14 billion is attributable to a decline in program spending.
  - Budgetary revenues increased by about \$31.5 billion.
    - Nearly \$26 billion of this increase is attributable to economic developments. Of this amount, about 85 per cent was due to the growth of the economy alone while about 15 per cent is due to the interaction between the tax system and rising incomes.
    - One-time factors accounted for just over \$3 billion of the total increase in budgetary revenues.
    - Only \$2.6 billion of the increase was attributable to the net impact of revenue-raising measures introduced since 1993.
  - Partially offsetting these positive developments were somewhat higher public debt charges.

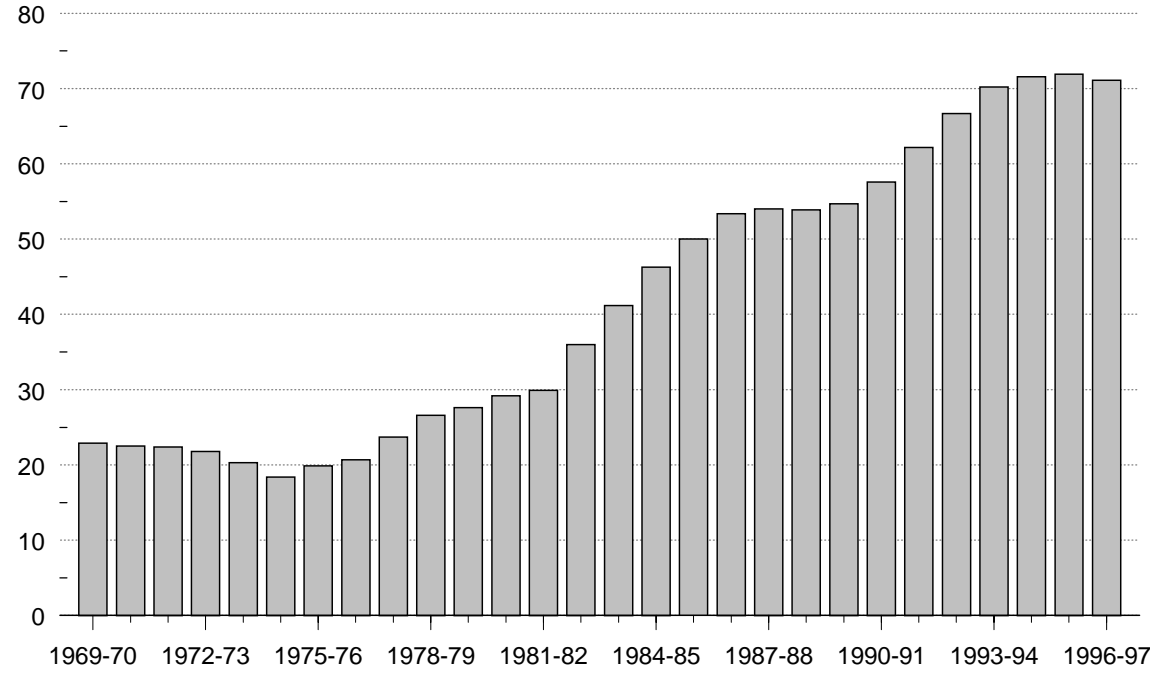


# *Fiscal Developments - Key Achievements*

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## **The first meaningful decline in the debt-to-GDP ratio since 1974-75**

*Federal net debt*  
Public Accounts Basis  
per cent of GDP



- In 1996-97, the debt-to-GDP ratio fell to 71.1 per cent -- the first meaningful decline since 1974-75.

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*Economic Developments  
and Prospects*

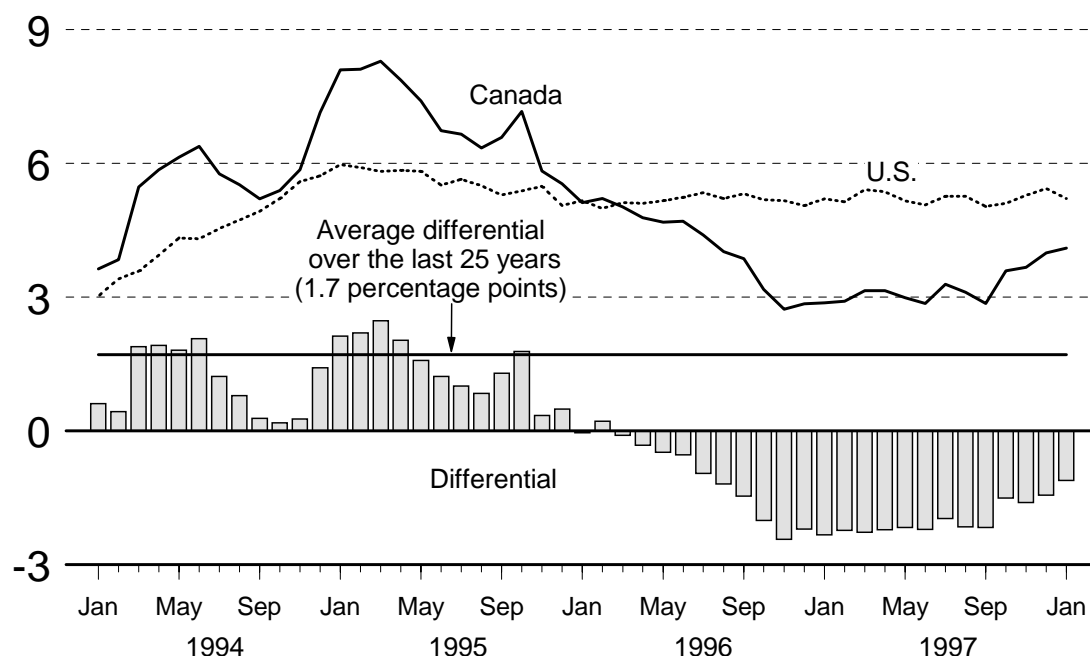
# *Economic Developments and Prospects*

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## Short-term interest rates remain low

### Canadian and U.S. 3-month Treasury bill rates

per cent



The U.S. 3-month Treasury bill rate has been adjusted from a discount basis

- Decisive fiscal measures adopted by both the federal and provincial governments have allowed interest rates to fall substantially.
- Despite recent increases, short-term interest rates remain more than 3.5 percentage points below their levels in early 1995.
- Canadian short-term rates have typically been above their U.S. counterparts. Indeed, in the past 25 years, Canadian 3-month Treasury bill rates averaged about 1.7 percentage points above those in the U.S. But since early 1996, Canadian short-term rates have been below those in the U.S, by as much as 2 percentage points through most of 1997. Canadian rates still remain about 0.7 percentage point below U.S. rates.

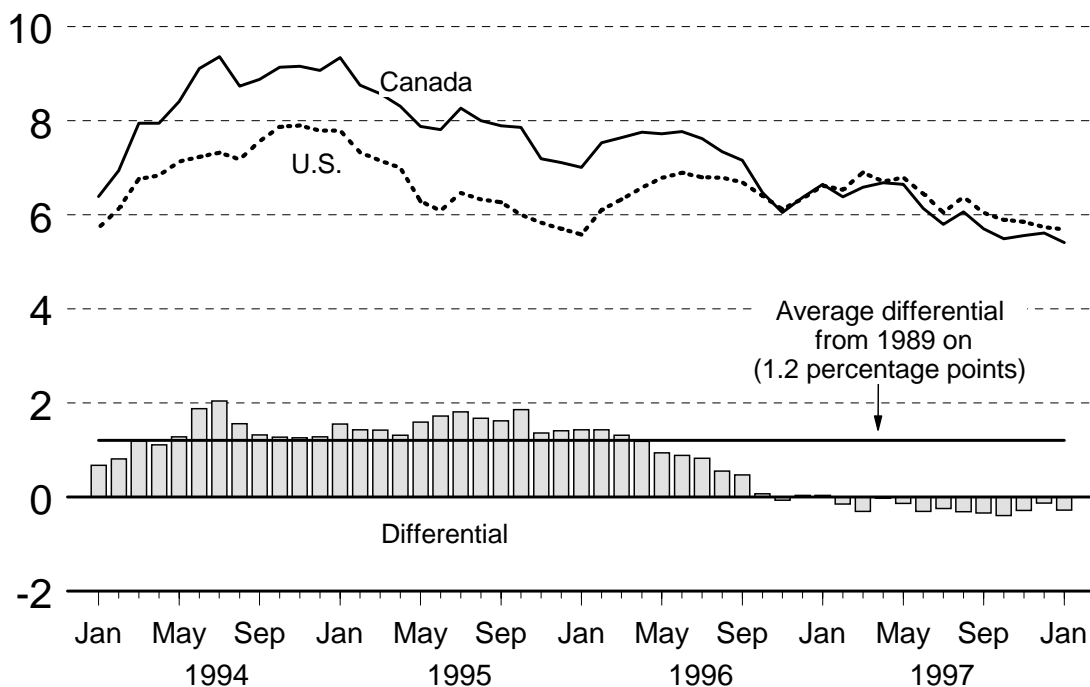
# *Economic Developments and Prospects*

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## **Long-term interest rates continue to decline**

### *Canadian and U.S. 10-year bond rates*

per cent



- Despite the turmoil in world financial markets, Canadian long-term interest rates have continued to decline. They have fallen more than 4 percentage points since early 1995.
- Canadian long-term rates are about one-third what they were in the early 1980s and at their lowest levels in about 30 years.
- Canadian long-term rates have also typically been above their U.S. counterparts. During the 1990s, Canadian 10-year bond rates have averaged about 1.2 percentage points above those in the U.S.
- Canadian long-term rates are now below U.S. long-term rates.

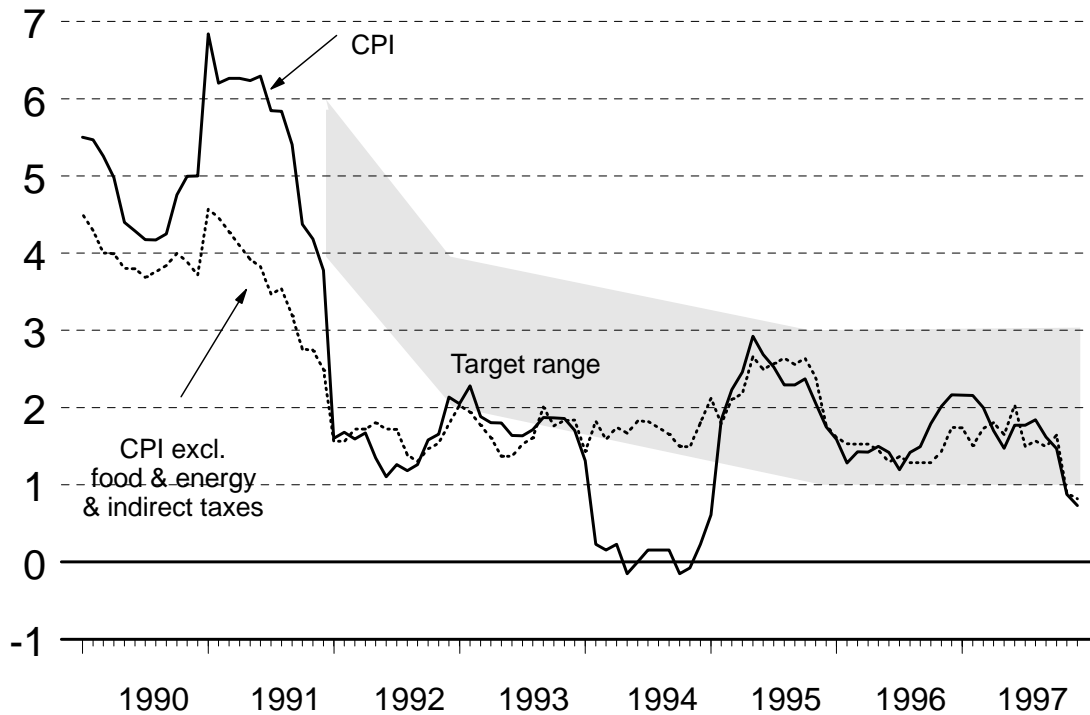
# *Economic Developments and Prospects*

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## **Inflation remains well under control**

### *CPI inflation*

per cent - year over year



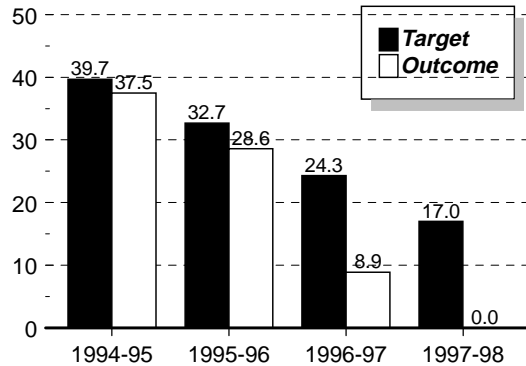
- Canada's commitment to low inflation has been affirmed and amply demonstrated.
- In late 1993, the government extended the inflation control target, setting a range for the inflation rate of 1 per cent to 3 per cent through the end of 1998.
- Inflation has averaged under 2 per cent over the last four years -- its lowest sustained level since the 1960s and well below that in the United States.

# Economic Developments and Prospects

## Recent developments show a virtuous circle of fiscal progress, lower interest rates, and confidence gains ...

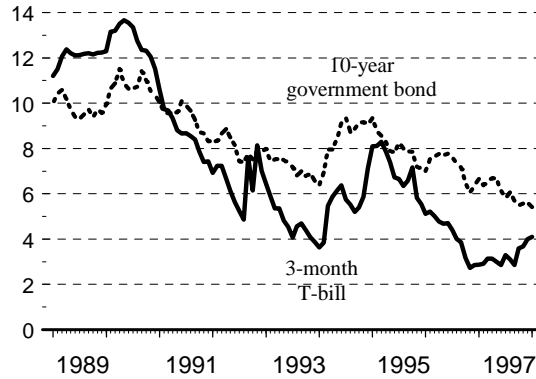
### Deficit targets and outcomes

Public Accounts basis  
billions of dollars



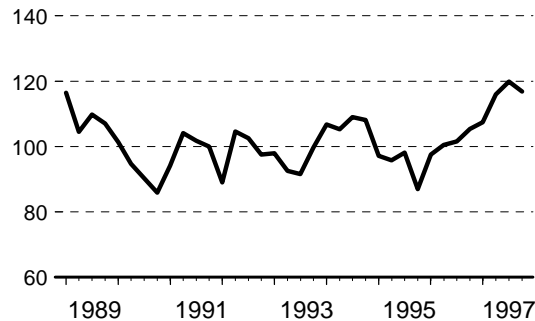
### Interest rates

per cent



### Consumer confidence

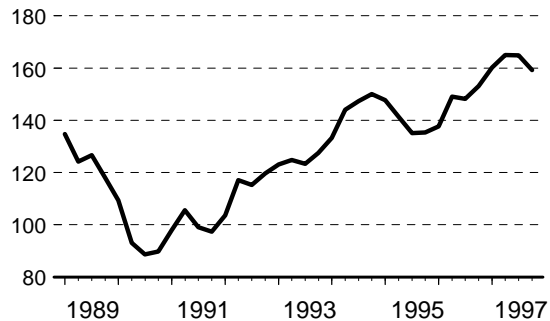
index - 1991 = 100



Source: Conference Board of Canada

### Business confidence

index - 1991 = 100



Source: Conference Board of Canada

- Deficit targets have been consistently bettered for each and every year since 1994-95.
- Sharp reductions in fiscal deficits at all levels of government have contributed to reducing interest rates and to restoring consumer and business confidence.

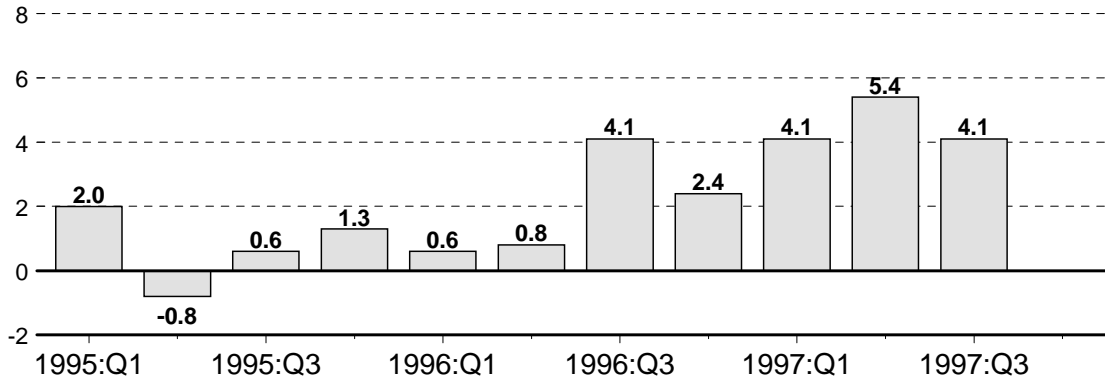
# *Economic Developments and Prospects*

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## **... and stronger GDP and employment growth**

### *Real GDP growth*

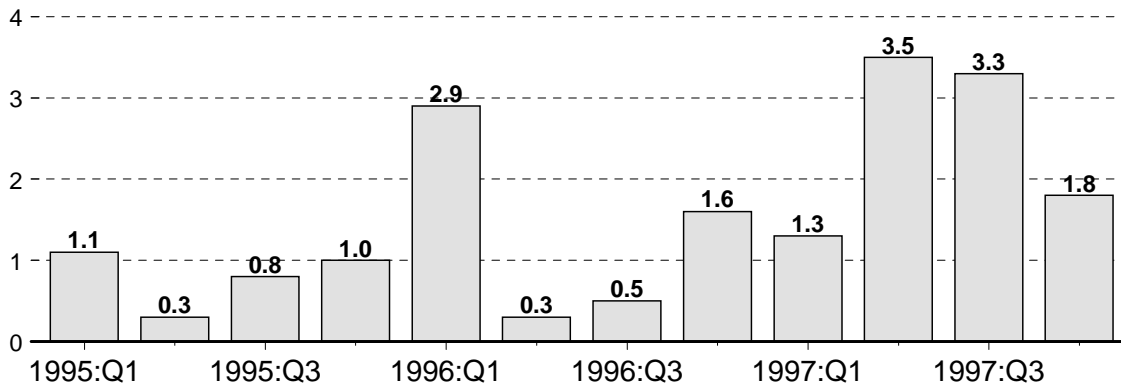
per cent - quarter over quarter at annual rates



- Output growth began to strengthen in the second half of 1996 and has averaged 4 per cent at an annual rate.

### *Employment growth*

per cent - quarter over quarter at annual rates



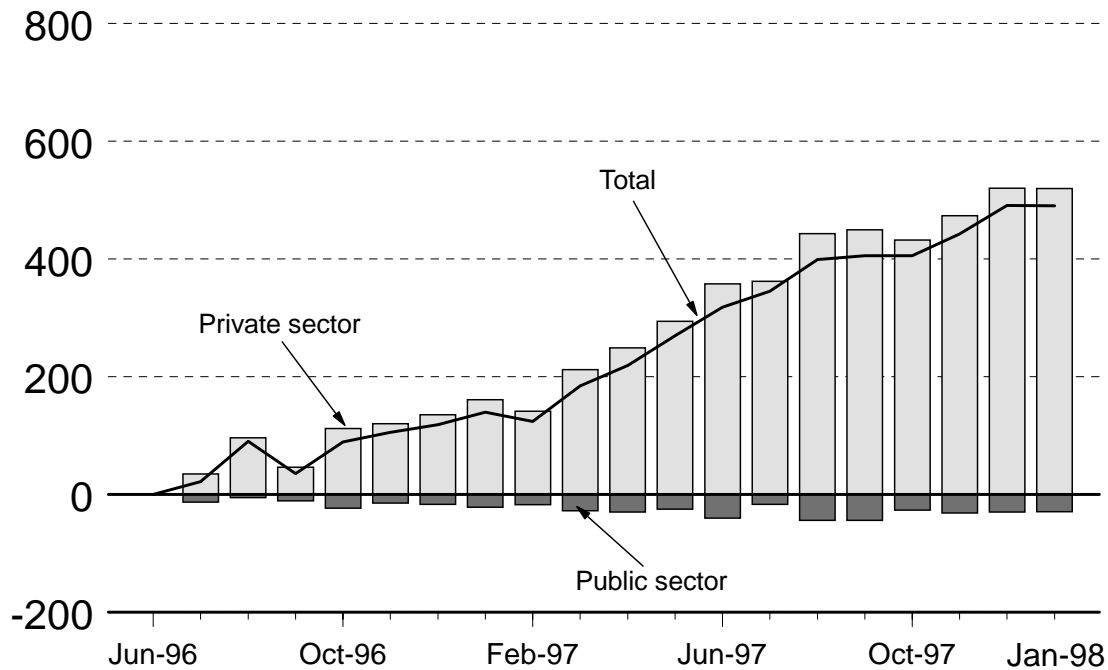
- Employment growth also strengthened, with 372,000 jobs created during 1997 alone -- all full-time. This brings the number of jobs created in the Canadian economy over the last four years to more than one million.

# *Economic Developments and Prospects*

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## **The private sector is creating jobs**

*Cumulative employment growth since June 1996 by sector*  
thousands



- Since growth strengthened in mid 1996, private sector job creation has been very healthy.
- Public sector cutbacks have cost jobs, but that retrenchment slowed during 1997. And in the last year, for every job lost in the public sector there have been about 45 jobs created in the private sector.
- In January 1998, despite the ice storm causing major but temporary lay-offs in Quebec, overall employment was unchanged.
- The strong job creation has brought the unemployment rate below 9 per cent for the first time since late 1990.

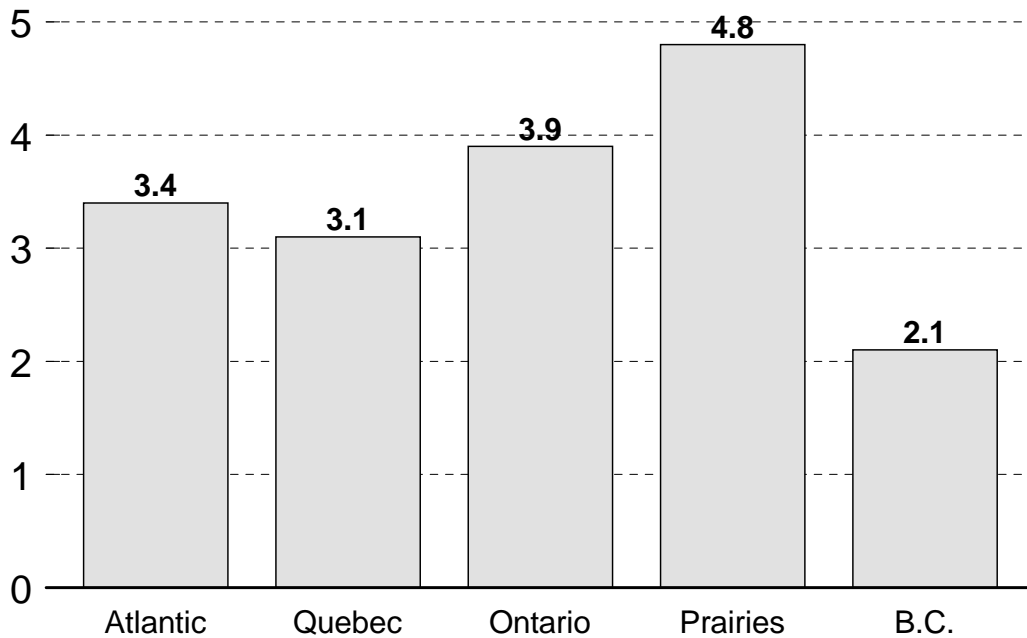


# *Economic Developments and Prospects*

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## **All regions share in the new jobs**

*Cumulative employment growth by region:  
June 1996 to December 1997*  
per cent



- The benefits of stronger employment are being enjoyed across the country. Employment has risen in all regions of the country over the past 18 months.
- Further, during 1997, Atlantic Canada and Quebec experienced strong job creation and their unemployment rates fell substantially.
- British Columbia, which has generally had healthy job growth throughout the 1990s, has recently been adversely affected by the Asian crisis.

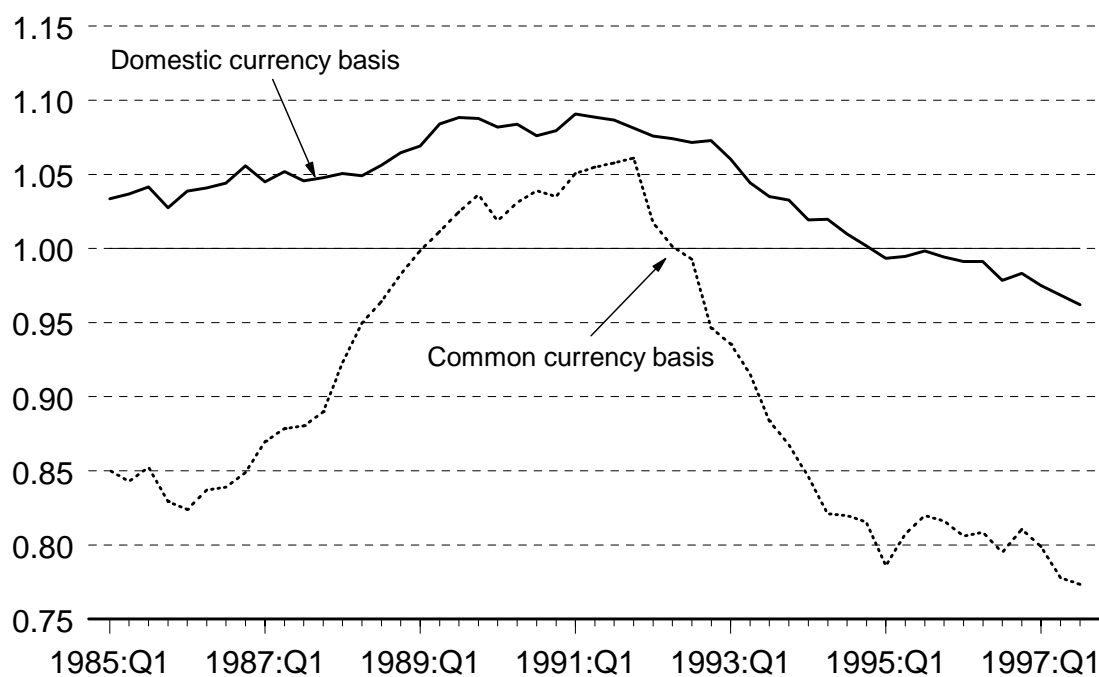
## *Economic Developments and Prospects*

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### **Canada is very competitive**

*Canada/U.S. relative unit labour costs (total economy)*

index - 1978:Q1 = 1.0



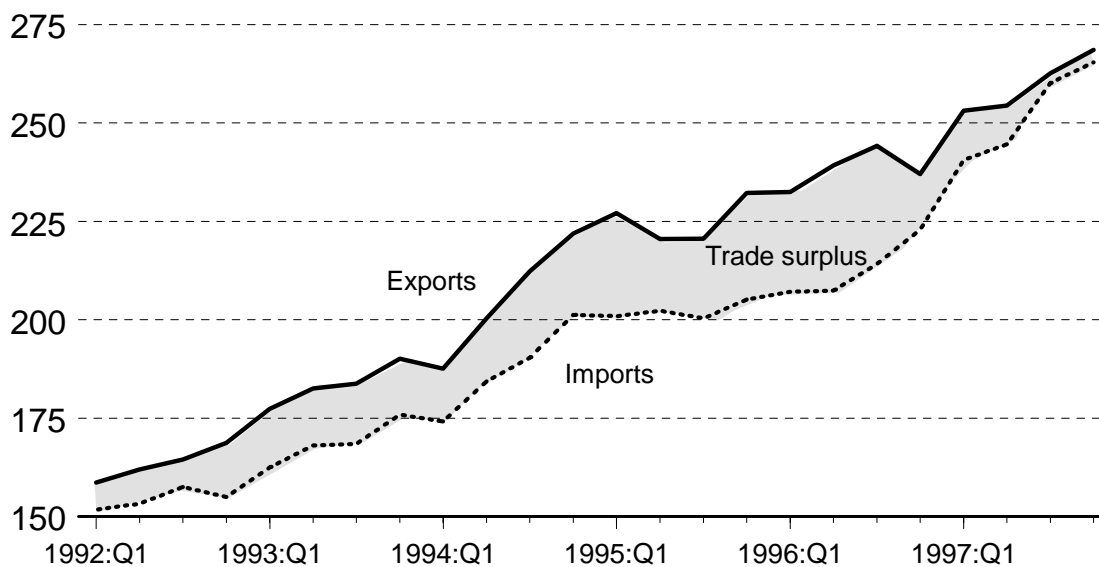
- Canada's competitiveness has improved and that strong position is being steadily reinforced by our success in controlling inflation.
- For the economy as a whole, domestic unit labour costs have risen about 5 per cent in total since 1990 while those in the U.S. have risen about 17 per cent, yielding a relative improvement in national currency terms of over 12 per cent.
- The depreciation in the Canadian dollar during the 1990s has further improved Canada's competitive position vis-à-vis the U.S.
- Continued success in controlling inflation will help ensure that exporters retain the gains they have made in recent years.

## *Economic Developments and Prospects*

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### **But strong domestic demand growth is boosting imports**

*Canadian real merchandise exports jump but imports soar*  
billions of 1992 dollars



- Canada's strong competitive position has allowed for continued strong merchandise export growth.
- But strong domestic demand, especially for import-intensive products, has resulted in even stronger growth in merchandise imports.
  - Growth rates in consumer demand for durable goods and business demand for machinery and equipment have been very strong. Further, business has been rebuilding inventory levels.
  - The strong export growth has boosted imports of intermediate inputs used to produce exportables. Automotive production is a good example here.
- As a result, the merchandise trade balance has narrowed noticeably in recent quarters.

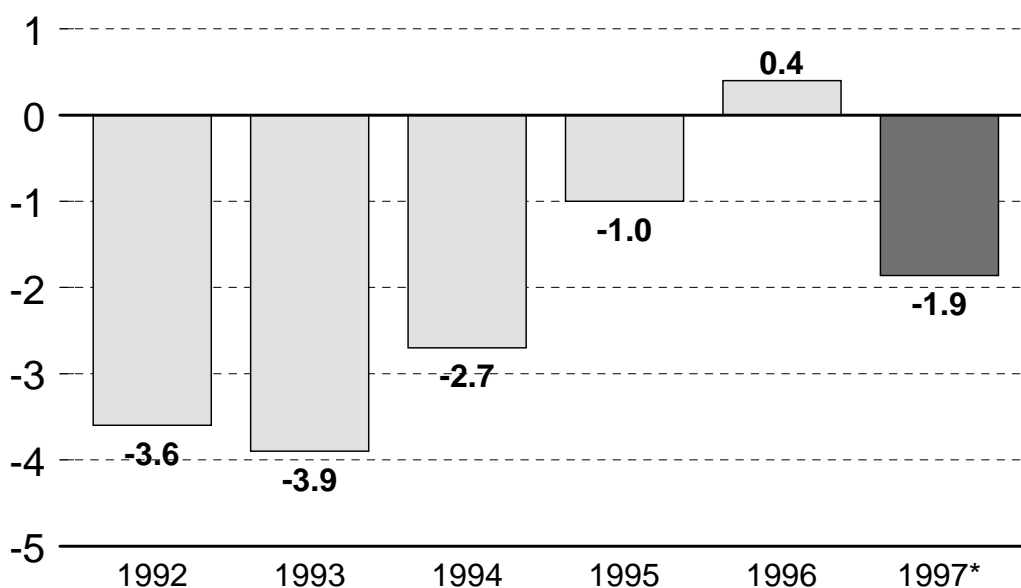
## *Economic Developments and Prospects*

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### **Current account returns to deficit as the trade balance is trimmed by strong domestic demand**

*Current account balance as a share of GDP*

per cent



*\* For 1997, the fourth quarter value is assumed to equal the third quarter.*

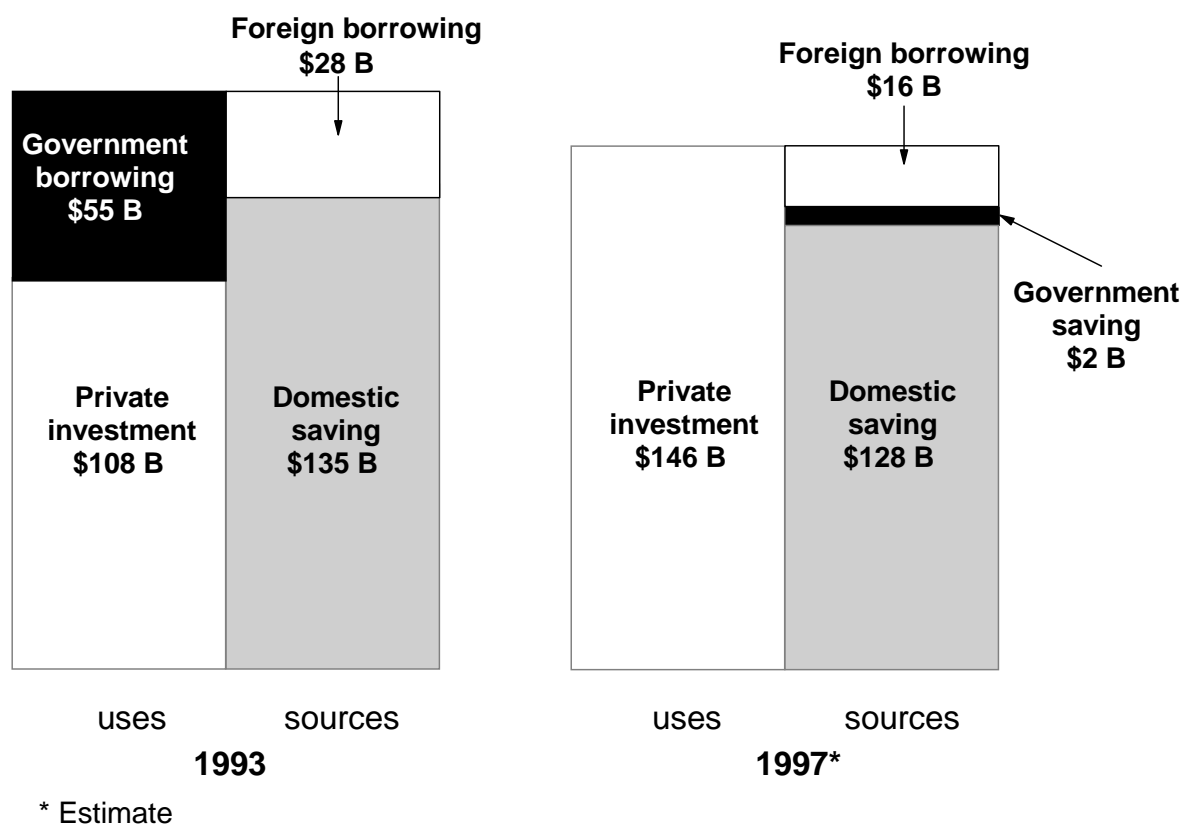
- As a result of the decline in the trade surplus, the current account has again moved into deficit, after having registered a surplus in 1996.
- But the deficit as a share of nominal GDP is significantly smaller than those from 1986 to 1993, when Canada ran eight consecutive, annual current account deficits of 3 per cent or more of GDP.

## *Economic Developments and Prospects*

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### Foreign borrowing finances investment boom

*Sources and uses of saving: 1993 and 1997*



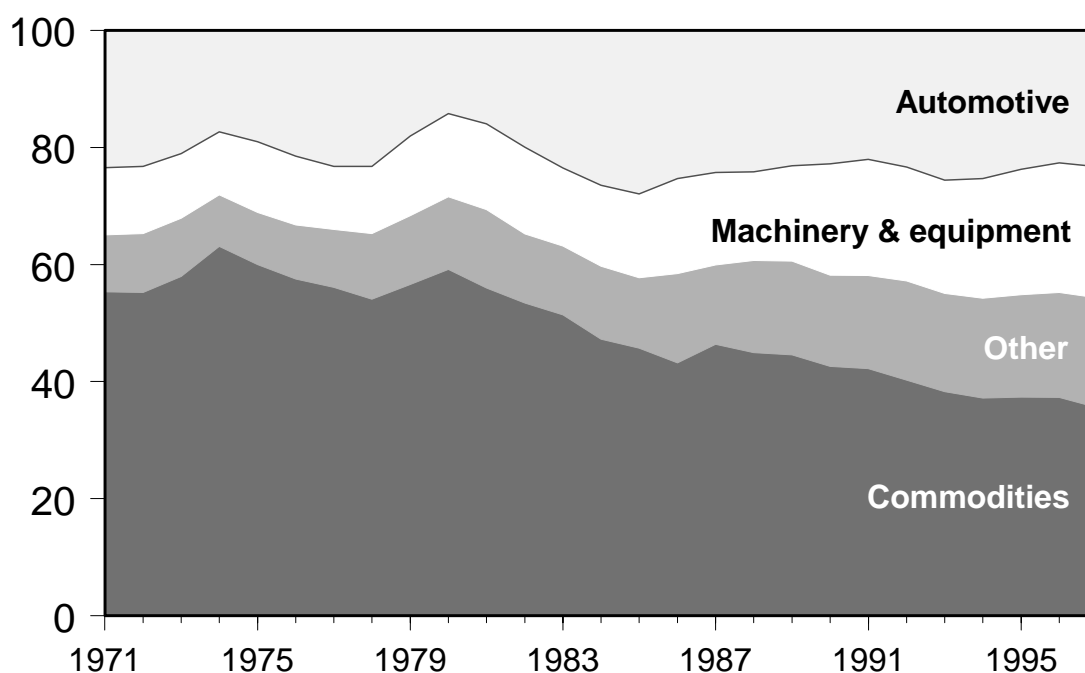
- The current account deficit of today is different in nature from that in 1993.
- In 1993, massive government borrowing was absorbing a substantial portion of available domestic savings, meaning Canada had to borrow extensively abroad.
  - Canada's external indebtedness and interest payments to foreigners rose to record levels.
- But by 1997, net borrowing by all levels of government had been eliminated and governments have become net savers (on a national accounts basis).
- Recent foreign borrowing by Canada, as seen in the current account deficit, reflects strong investment demand, not government borrowing.

## *Economic Developments and Prospects*

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### **Canada is less vulnerable than before to weakening commodity prices**

*Shares of merchandise exports by type*  
per cent



- Canada has been affected by the recent declines in world commodity prices. However, the extent to which Canada's exports have shifted towards higher value-added products is often underestimated. The commodity share of Canada's exports has fallen from around 60 per cent in 1980 to around 35 per cent in 1997. The combined share of machinery and equipment and automotive exports has risen from 28 per cent in 1980 to 46 per cent in 1997.
- The crisis in South East Asia has focused attention on that region. But the whole South East Asian region taken together accounted for less than 8 per cent of total Canadian merchandise exports in 1997, which represented less than 3 per cent of nominal GDP.

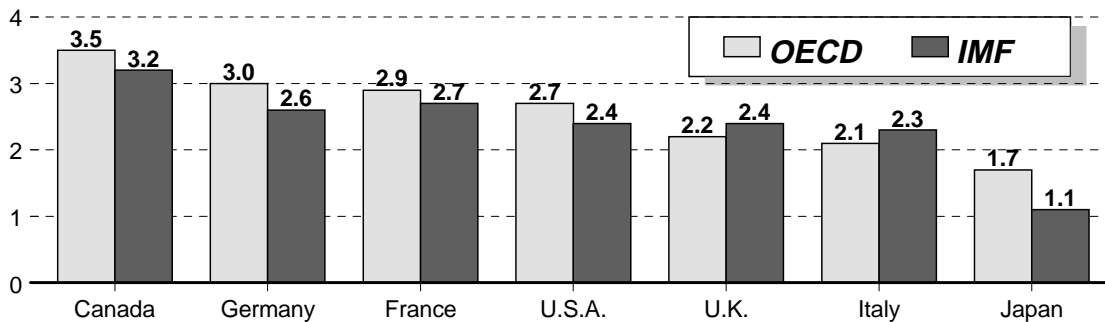
# *Economic Developments and Prospects*

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## **Canada to lead the G-7 in job creation and growth in 1998**

### *OECD and IMF forecasts for real output growth in 1998*

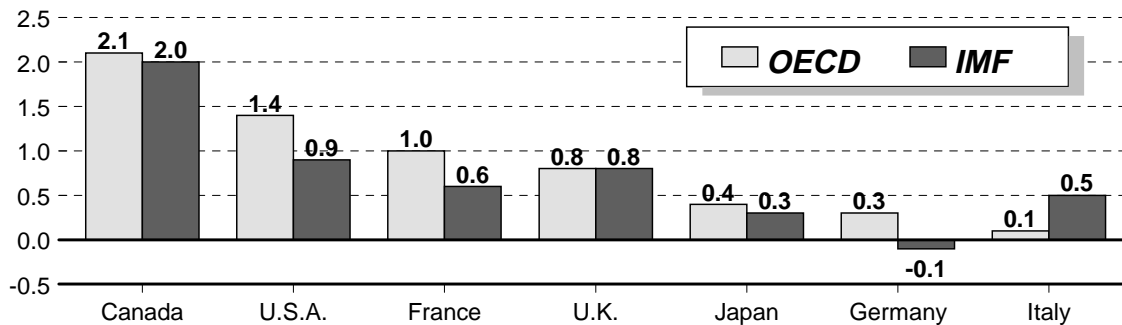
per cent



*OECD Economic Outlook and IMF World Economic Outlook, Interim Assessment, December, 1997*

### *OECD and IMF forecasts for employment growth in 1998*

per cent



*OECD Economic Outlook and IMF World Economic Outlook, Interim Assessment, December 1997*

- The most recent forecasts by the Organization for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) project that Canada will lead the G-7 countries in economic growth in 1998.
- Canada is also projected to have the strongest employment growth by far among the G-7 countries in 1998.

## ***Economic Developments and Prospects***

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### **Private sector forecasts for 1998 and 1999\***

**There is a consensus that interest rates will remain low in 1998.**

- The consensus among forecasters is for the 3-month Treasury bill rate to average 4.6 per cent in 1998 and 1999.
- Canadian 10-year government bond yields are expected, on average, to be similar to their 1997 level in both 1998 and 1999.

**Private sector forecasters expect strong economic growth in 1998 and 1999.**

- Growth is expected to be 3.5 per cent in 1998 and 2.9 per cent in 1999.
- Demand growth is expected to come largely from domestic demand.

**The outlook also calls for improved labour market conditions.**

- Employment is expected to grow by 2.3 per cent in 1998 and 2.1 per cent in 1999.
- Private sector forecasters expect the unemployment rate to average 8.6 per cent in 1998 and 8.2 per cent in 1999.

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\* Responses to the survey were received between late December 1997 and mid-January 1998.

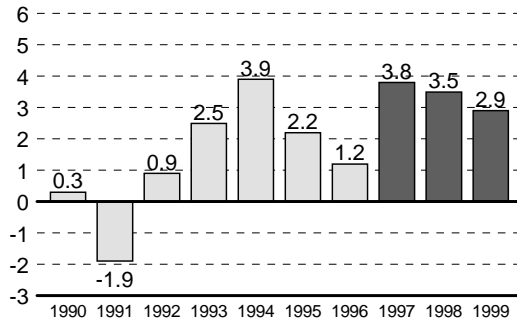


# Economic Developments and Prospects

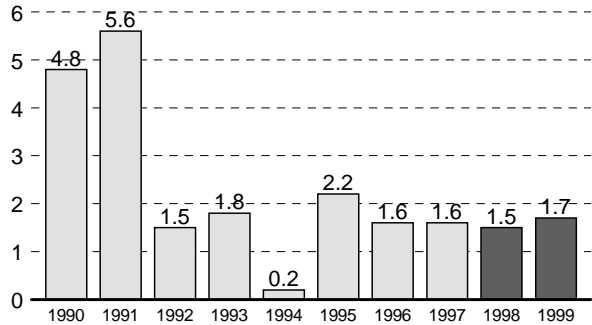
## Private sector forecasts for 1998 and 1999



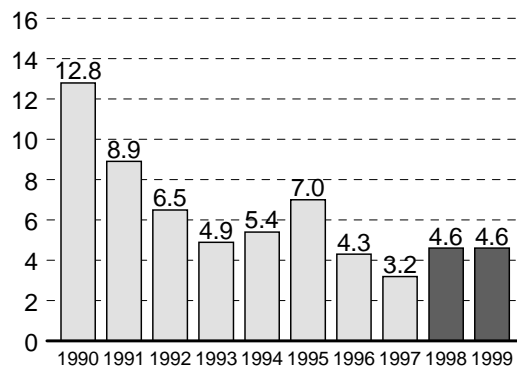
*Real GDP growth*  
per cent



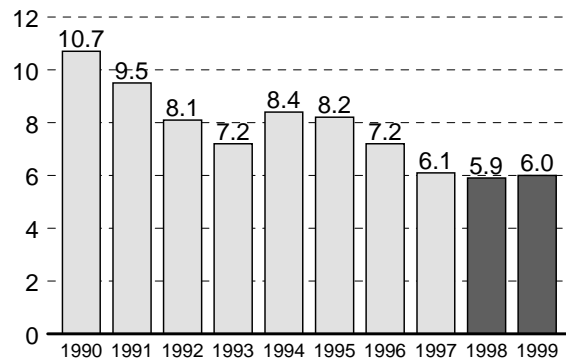
*CPI inflation*  
per cent



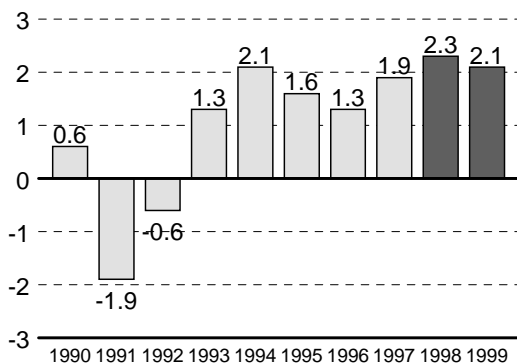
*3-month Treasury bill rate*  
per cent



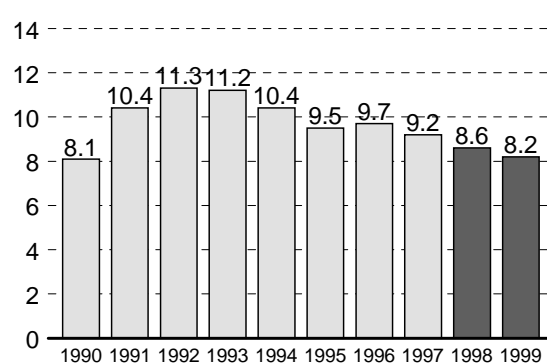
*10-year government bond rate*  
per cent



*Employment growth*  
per cent



*Unemployment rate*  
per cent



# *Economic Developments and Prospects*

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## **Economic assumptions for fiscal planning remain prudent**

### *Prudent planning assumptions for fiscal planning*

	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Nominal GDP growth (%)</b>			
Private sector average	4.5	4.7	4.9
1998 budget	4.5	4.1	3.9
<b>Nominal GDP (\$ billion)</b>			
Private sector average	857	897	941
1998 budget	857	892	927
<b>3-month T-bill rate (%)</b>			
Private sector average	3.2	4.6	4.6
1998 budget	3.2	5.4	5.6
<b>10-year gov't. bond rate (%)</b>			
Private sector average	6.1	5.9	6.0
1998 budget	6.1	6.4	7.0

**NOTE:** 1997 GDP data are estimates since only three quarters of data are currently available.

- As in the past, economic assumptions for fiscal planning include prudence factors.
  - Short-term interest rates are assumed to be 80 basis points higher than the private sector average in 1998 and 100 basis points higher in 1999.
  - Long-term interest rates are assumed to be 50 basis points higher than the private sector average in 1998 and 100 basis points higher in 1999.
- Taking the economic impact of these more prudent interest rates and risks stemming from Asian developments, the rate of nominal GDP growth used for budget planning purposes is about ½ percentage point lower than the private sector consensus in 1998 and 1 percentage point lower in 1999.

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*Policy Initiatives:  
Building a Strong Economy*

## *Policy Initiatives: Building a Strong Economy*

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### **Maintaining sound economic and financial management**

- With the elimination of the deficit, Canada's remaining fiscal challenge is to significantly lower the government's debt burden -- measured as the ratio of net public debt to GDP. Although the debt-to-GDP ratio has begun to decline, it is still too high -- both by historical Canadian and international standards. It is important to ensure that the debt-to-GDP ratio is put on a permanent downward track as:
  - a high debt burden means that a large portion of the revenue the government collects from taxpayers must go towards debt servicing payments rather than to valued programs and services, to reduce taxes or to reduce the debt;
  - reducing the high debt-to-GDP ratio will lessen the exposure of Canada's fiscal situation to economic shocks, especially an increase in interest rates or prolonged slowdowns in economic activity; and
  - reducing the debt-to-GDP ratio will ensure that future generations are left with a legacy of sound social and economic programs.
- The government intends to put the debt-to-GDP ratio on a permanent downward track by pursuing a two-pronged strategy of supporting long-term economic growth and achieving reductions in the absolute level of debt.
  - First, as the fiscal situation permits, the government will undertake strategic initiatives to improve the growth potential of the Canadian economy.
  - Second, the overall stock of public debt will be reduced through the government's *Debt Repayment Plan* (see box below).

*The Debt Repayment Plan* consists of three key elements:

- as before, two-year fiscal plans based on prudent economic planning assumptions; the current plan commits to balanced budgets in 1998-99 and 1999-2000;
- the inclusion in the fiscal plan of a Contingency Reserve of \$3 billion in each year; and
- the use of the Contingency Reserve, when it is not needed, to pay down the public debt.

The Contingency Reserve is included in the budget projections primarily to cover risks arising from (i) unavoidable inaccuracies in the models used to translate economic assumptions into detailed budget forecasts, and (ii) unpredictable events. The Contingency Reserve also provides an extra measure of backup against adverse errors in the economic forecast. **The Contingency Reserve is not a source of funding for new policy initiatives.**

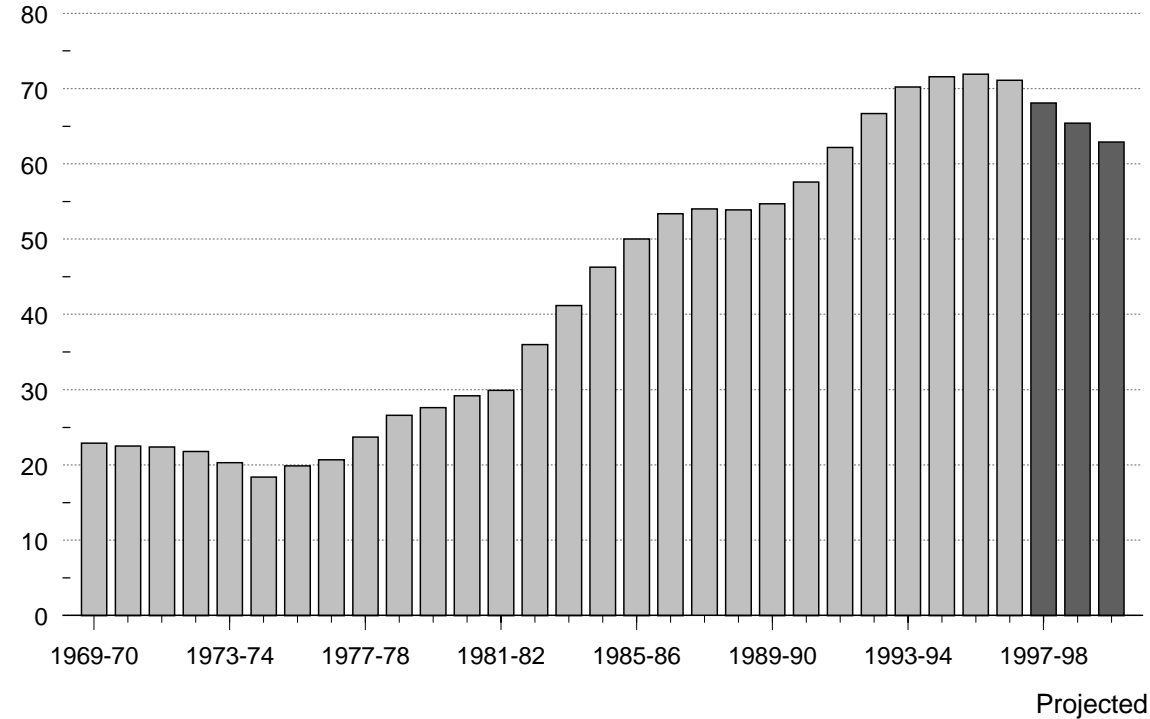
# *Policy Initiatives: Building a Strong Economy*

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## **Debt-to-GDP on a clear downward track**

### *Federal net debt*

Public Accounts Basis  
per cent of GDP



- With sustained economic growth and *The Debt Repayment Plan*, the federal net debt ratio will be put on a permanent downward track.
- Using prudent assumptions about the growth of nominal GDP, the debt-to-GDP ratio is projected to drop to about 63 per cent in 1999-2000.

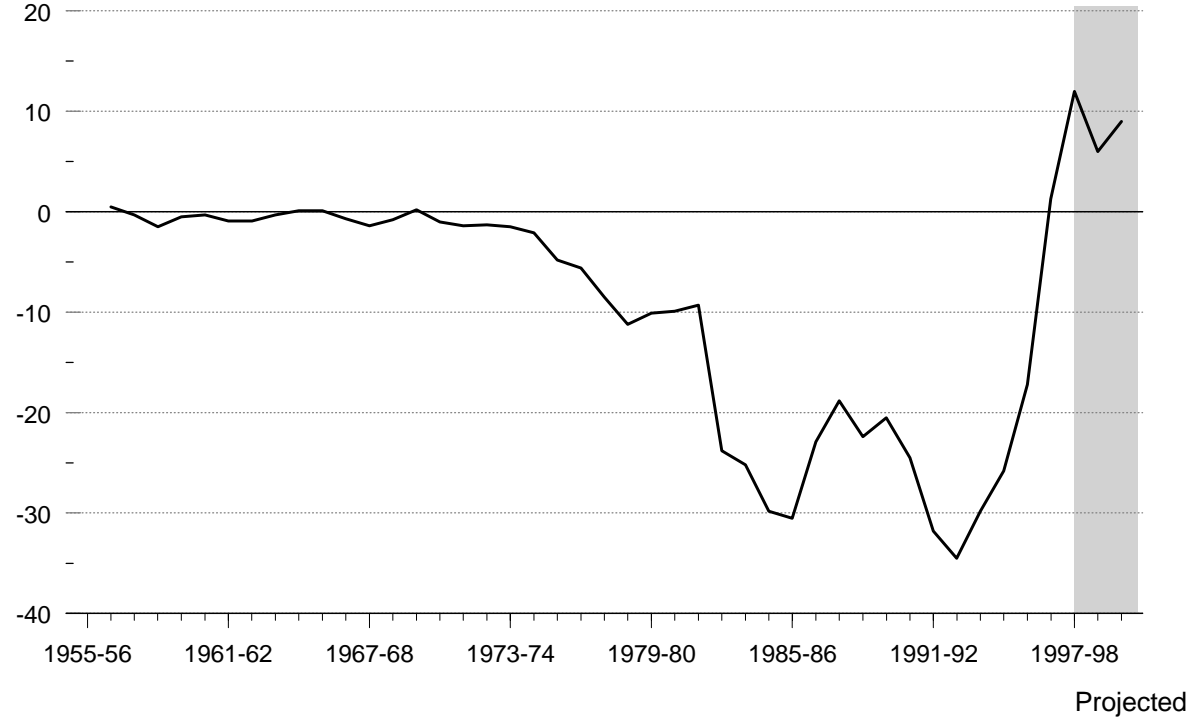
# *Policy Initiatives: Building a Strong Economy*

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## **Financial surpluses continue**

*Federal financial requirements(-)/surplus(+)*

Public Accounts Basis  
billions of dollars



- Sizeable financial surpluses are expected to continue through 1999-2000.

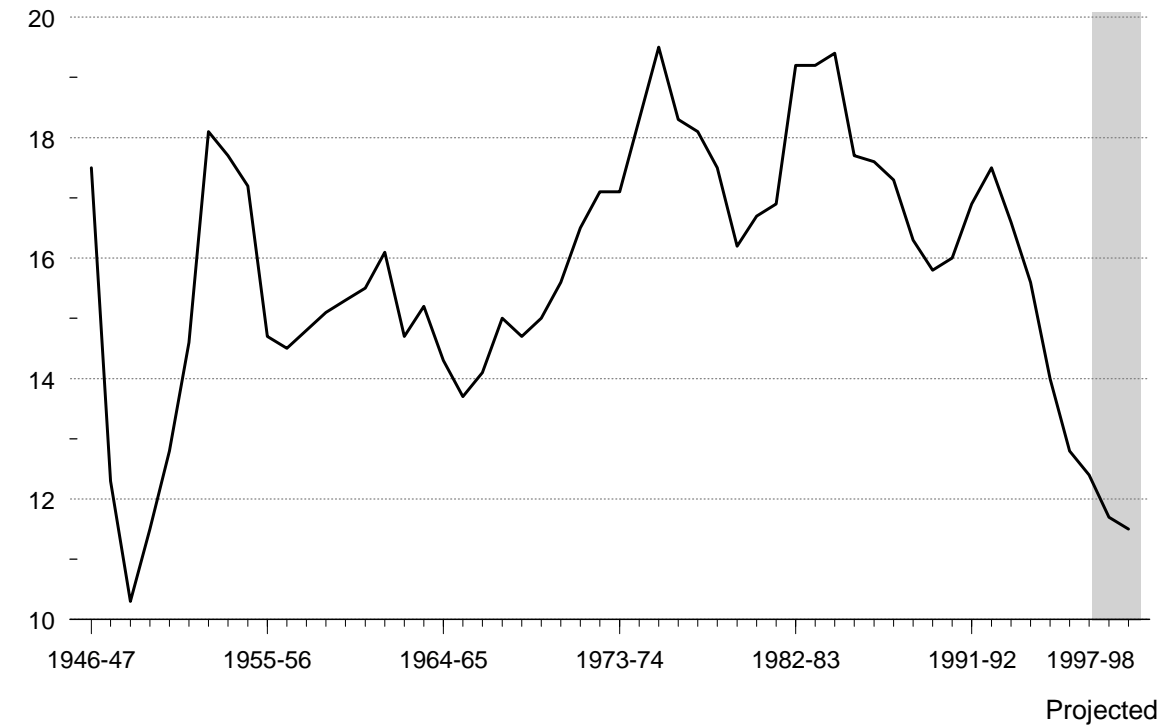
# *Policy Initiatives: Building a Strong Economy*

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## **Program spending at its lowest level in 50 years**

### *Federal program spending*

Public Accounts Basis  
per cent of GDP



- Even taking into account the initiatives introduced since the 1997 budget, total program spending as a percentage of the economy (GDP) will continue to decline over the next two years, to 11.5 per cent by 1999-2000.
  - This will mark its lowest level in 50 years.

## ***Policy Initiatives: Building a Strong Economy***

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### **Extension of inflation control targets**

- Another cornerstone of sound economic and financial management is control of the rate of inflation.
  
- The objective of Canadian monetary policy is to contribute to sustainable economic expansion, high levels of employment, and rising standards of living. The best contribution monetary policy can make to these goals is through preserving confidence in the value of money by providing an environment of stable average prices.
  
- The government and the Bank of Canada have agreed to extend the current inflation control targets, which are to hold inflation inside the range of 1 per cent to 3 per cent, until the end of 2001.
  
- The extension of the inflation targets will help to keep Canada's inflation rate among the lowest in the world and assist Canadians in economic planning.
  
- And it will secure Canada's international reputation as a low inflation country, enhancing the credibility of Canadian policies and helping to maintain low interest rates.



## ***Policy Initiatives: Building a Strong Economy***

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### **The Canadian Opportunities Strategy**

- The *Canadian Opportunities Strategy* will expand access for all Canadians to the knowledge, skills and learning needed for the jobs that will deliver a better standard of living in the 21st century.
- The aim of the seven-pronged *Canadian Opportunities Strategy* is to help ensure that all Canadians -- especially those with low and middle income -- have an equal opportunity to participate in the changing labour market. This means reducing the financial barriers and other obstacles to acquiring skills and knowledge.

#### **1. Financial assistance for students**

- The centrepiece of the *Canadian Opportunities Strategy* is the Canada Millennium Scholarship Foundation -- an independent arm's-length body which will manage a \$2.5 billion initial endowment to award scholarships annually to over 100,000 students. Awards will be available in 2000.
  - Scholarships averaging \$3,000 per year for full-time study will be awarded to individuals who need help in financing their studies and demonstrate merit. Scholarships for part-time study will be provided as well.
  - The scholarships will be available for up to four years of full- or part-time study towards undergraduate degrees, diplomas or certificates, in publicly funded universities, community colleges, CEGEPs and technical institutions. Individuals can receive up to \$15,000 over the course of their studies, which could reduce the debt load many students would otherwise incur by over half.
  - The Foundation will have the discretion to adjust the average and cumulative amounts of the scholarships over time.
  - The scholarships will support a wide range of learning and skills acquisition and will be available to persons of all ages.
  - Awards will help recipients of scholarships to study away from home and particularly outside their province, and support limited terms of study outside Canada.
- To complement other measures in this budget that significantly improve access and affordability, and in keeping with the government's commitment in *Securing our Future Together*, new Canada Study Grants of up to \$3,000 per year will be made available to over 25,000 needy students with dependants, effective 1998-99.

# ***Policy Initiatives: Building a Strong Economy***

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## **The Canadian Opportunities Strategy (continued)**

### **2. Support for advanced research and graduate students**

- The budgets of the three granting councils (the Natural Sciences and Engineering Research Council of Canada, the Medical Research Council of Canada and the Social Sciences and Humanities Research Council of Canada) will be increased by over \$400 million over three years -- \$120 million in 1998-99, \$135 million in 1999-2000 and \$150 million in 2000-01.

### **3. Helping manage student debt**

- Effective in 1998, all individuals repaying student loans will receive tax relief on the interest payments on their loans.
- Five measures under the Canada Student Loans Program are proposed to help borrowers in financial hardship.
  - Interest Relief: First, in April 1998, the definition of "financial difficulty" will be eased by raising the income thresholds used for interest relief by 9 per cent. Second, beginning in 1999, systems will be put in place to extend interest relief further up the income scale for graduates facing financial hardship, with the government paying partial interest relief depending on the borrower's income.
  - Repayment Period: Third, for individuals who have exhausted their interest relief, lenders will be asked to extend the repayment period of the loan from 10 to 15 years.
  - Extension of Interest Relief: Fourth, if after the extension of the repayment period to 15 years, an individual remains in financial hardship, interest relief will be extended from 30 months to up to 54 months during the five years after leaving school.
  - Debt Reduction: Fifth, for the small minority of individuals who still remain in financial difficulty, the government will reduce the loan principal so that payments are more affordable.
- The federal government will also take a number of steps to improve the performance and accountability of the Canada Student Loans Program.

## ***Policy Initiatives: Building a Strong Economy***

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### **The Canadian Opportunities Strategy (continued)**

#### **4. Helping Canadians upgrade their skills**

- To give Canadians greater access to funds for retraining, individuals will be allowed to make tax-free RRSP withdrawals for full-time education and training, subject to certain conditions.
- In addition to a tuition credit, part-time students enrolled in eligible programs will have access to an education credit.
- Single parents will be allowed to claim a deduction in respect of child care expenses for periods during which they are enrolled in part-time course work. In a two-parent family, the higher-income spouse will be allowed to claim expenses arising out of part-time education of the other spouse.

#### **5. Encouraging families to save for education**

- In order to help families save for the education of their children, the government will provide a Canada Education Savings Grant of 20 per cent on the first \$2,000 of annual contributions made to registered education savings plans (RESPs) for children up to age 18.

#### **6. Supporting youth employment**

- To encourage employers to hire young Canadians, employers will be provided an employment insurance (EI) premium holiday on additional young Canadians hired in 1999 and 2000.
- By investing a further \$50 million in 1998-99, \$75 million in 1999-2000, and \$100 million a year thereafter, the government will more than double funding for youth at risk. The principal focus will be on assisting youth who have not completed high school.

#### **7. Connecting Canadians to information and knowledge**

- This budget will make available an additional \$205 million over three years, beginning in 1998-99, for SchoolNet and the Community Access Program.
- In order for the Canadian Network for the Advancement of Research, Industry and Education (CANARIE) to continue its work and create the next generation of high speed networks across Canada, the federal government will provide a one-time contribution of \$55 million in this fiscal year.

# *Policy Initiatives: Building a Strong Economy*

## **The Canadian Opportunities Strategy (continued)**

### *The Canadian Opportunities Strategy*

	1997-98	1998-99	1999-00	2000-01
	(millions of dollars)			
<b>Financial Assistance for Students</b>				
Canada Millennium Scholarship Foundation	2,500			
Canada Study Grants <sup>1</sup>		100	100	100
<b>Total</b>	<b>2,500</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Support for Advanced Research and Graduate Students</b>				
Granting Councils		120	135	150
<b>Helping Manage Student Debt</b>				
Tax Relief for Interest on Student Loans		80	130	145
Canada Student Loans Program Improvements		50	145	150
<b>Total</b>		<b>130</b>	<b>275</b>	<b>295</b>
<b>Helping Canadians Upgrade Their Skills</b>				
Tax-Free RRSP Withdrawals for Lifelong Learning		15	40	45
Tax Relief for Part-Time Students		25	90	90
<b>Total</b>		<b>40</b>	<b>130</b>	<b>135</b>
<b>Encouraging Families to Save for Education</b>				
Canada Education Savings Grant		150	200	275
<b>Supporting Youth Employment</b>				
EI Premium Holiday for Youth Employment			100	100
Youth at Risk		50	75	100
<b>Total</b>		<b>50</b>	<b>175</b>	<b>200</b>
<b>Connecting Canadians to Information and Knowledge</b>				
SchoolNet/Community Access Program/CANARIE <sup>2</sup>	55	60	70	75
<b>Total Measures Announced in the Budget</b>	<b>2,555</b>	<b>650</b>	<b>1,085</b>	<b>1,230</b>

<sup>1</sup> Initiatives contained in *Securing Our Future Together*.

<sup>2</sup> Includes Voluntary Sector Networks contained in *Securing Our Future Together*.

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*Policy Initiatives:  
Building a Secure Society*

## ***Policy Initiatives: Building a Secure Society***

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### **Building a secure society**

- Canadians need to know that their health care system will provide quality care for them when they need it.
  - This is why the very first and largest expenditure the government made as a result of the better fiscal performance was to introduce legislation in December 1997 to raise the cash floor of the Canada Health and Social Transfer (CHST) from \$11 billion to \$12.5 billion.
  - Between 1997-98 and 2002-03, provinces will receive an additional \$7 billion in transfer payments.
- Canadians also need to know that the retirement income system will be secured for them.
  - Last year, reforms were introduced that preserve the Canada Pension Plan for the long term. The government will be introducing legislation to reform the second pillar of Canada's retirement income system -- the Old Age Security (OAS) and the Guaranteed Income Supplement (GIS) programs -- replacing them with a new Seniors Benefit. The Seniors Benefit will ensure that those who need public pensions in the future can count on them.
- This budget provides funding for initiatives set out in *Securing Our Future Together*, as well as other policy initiatives announced since the last budget. These policy initiatives include:
  - renewing Canada's blood system in partnership with the provinces, implementing the international treaty on the prohibition and destruction of anti-personnel mines, building a new partnership with Canada's aboriginal peoples and increased support for Canadian culture.
- In addition, this budget announces:
  - a second increase in the proposed Canada Child Tax Benefit by \$425 million effective July 1999 with a further \$425 million in July 2000 and increased limits for the child care expense deduction;
  - deductibility of health and dental plan premiums for self-employed Canadians; and
  - increased support for families, notably through a new caregiver tax credit and increased support for persons with disabilities.

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*Policy Initiatives:  
Tax Relief for Canadians*

## ***Policy Initiatives: Tax Relief for Canadians***

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### **Tax relief for Canadians**

- This budget begins general personal income tax relief, starting with those who need it most -- low- and middle-income Canadians.
  - The amount of income that low-income Canadians can receive on a tax-free basis will be increased by \$500, taking almost 400,000 Canadians off the tax rolls.
  - The 3-per-cent general surtax will be eliminated for almost 13 million taxpayers with incomes up to about \$50,000 and reduced for an additional one million taxpayers.
  
- These income tax reductions are in addition to the decrease in the employment insurance (EI) premium rate from \$2.90 to \$2.70 per \$100 of insurable earnings that took effect in January 1998.
  
- This budget also continues the process of targeted tax relief begun in previous budgets to achieve important national social and economic objectives.



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*Policy Initiatives:  
Summary of Budget  
Measures*

# *Policy Initiatives: Summary of Budget Measures*

## *Spending and tax measures since the 1997 budget*

	1997-98	1998-99	1999-00	2000-01	Cumulative Total
	(millions of dollars)				
<b>Spending initiatives</b>					
<b>The Canadian Opportunities Strategy</b>					
Canada Millennium Scholarships	2,500				2,500
Canada Study Grants		100	100	100	300
Granting Councils		120	135	150	405
Improvements to Canada Student Loans Program		50	145	150	345
Canada Education Savings Grant		150	200	275	625
Youth at Risk		50	75	100	225
Connecting Canadians to Information and Knowledge	55	60	70	75	260
Subtotal	2,555	530	725	850	4,660
<b>Building a Secure Society</b>					
Increase CHST Cash Floor	200	900	1,500	1,500	4,100
National HIV/AIDS Strategy		41	41	41	123
Establishing a New Blood System		30	30		60
Increased Funding for EAPD <sup>1</sup>		15	20	20	55
New Partnerships with Aboriginal Peoples	350	126	126	126	728
Promoting Canadian Culture and Sports	40	100	150	150	440
Strengthening Communities and the Voluntary Sector			20	20	40
Addressing Environmental Challenges		84	84	84	252
Furthering International Co-operation	90	70	20	20	200
Subtotal	680	1,366	1,991	1,961	5,998
<b>Other</b>					
Other <i>Securing Our Future Together</i>	3	85	85	83	256
<b>Total Spending Initiatives</b>	<b>3,238</b>	<b>1,981</b>	<b>2,801</b>	<b>2,894</b>	<b>10,914</b>

<sup>1</sup> Employability Assistance for Persons with Disabilities.

# *Policy Initiatives: Summary of Budget Measures*

## *Spending and tax measures since the 1997 budget (continued)*

	1997-98	1998-99	1999-00	2000-01	Cumulative Total
	(millions of dollars)				
<b>Targeted and General Tax Actions</b>					
<b>The Canadian Opportunities Strategy</b>					
Tax Relief for Interest on Student Loans		80	130	145	355
Tax-Free RRSP Withdrawals for Lifelong Learning		15	40	45	100
Tax Relief for Part-Time Students		25	90	90	205
EI Premium Holiday for Youth Employment			100	100	200
Subtotal		120	360	380	860
<b>Building a Secure Society</b>					
Deductibility of Health/Dental Insurance Premiums			90	110	200
Alternative Minimum Tax and RRSPs		70	20	20	110
Canada Child Tax Benefit			320	750	1,070
Child Care Expense Deduction		20	45	45	110
Caregiver Credit		30	120	125	275
Disability Tax Assistance Measures		5	5	5	15
Emergency Service Volunteers		5	10	10	25
Subtotal		130	610	1,065	1,805
<b>General Tax Relief for Canadians</b>					
Increase in Tax-Free Income for Low-Income Canadians		170	270	315	755
General Surtax Relief		710	1,175	1,365	3,250
Subtotal		880	1,445	1,680	4,005
<b>Tax Fairness Measures</b>		-5	-25	30	0
<b>Measures Announced Before the Budget</b>					
Increase in Excise Tax on Tobacco Products		-70	-70	-70	-210
Reduction in EI Premiums	235	465			700
Subtotal	235	395	-70	-70	490
<b>Net Targeted and General Tax Actions</b>	235	1,520	2,320	3,085	7,160
<b>Total Spending and Tax Initiatives</b>	3,473	3,501	5,121	5,979	18,074
<b>The Debt Repayment Plan: up to</b> (Assuming that the Contingency Reserve is not required)		3,000	3,000	3,000	9,000

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*Fiscal Outlook:  
Summary Tables*

# *Fiscal Outlook: Summary Tables*

## **Summary statement of transactions**

### *Summary statement of transactions: fiscal outlook with budget measures<sup>1</sup>*

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(billions of dollars)						
Budgetary revenues	116.0	123.3	130.3	140.9	147.5	151.0	155.0
Program spending	120.0	118.7	112.0	104.8	106.0	104.5	107.0
Operating balance	-4.0	4.6	18.3	36.1	41.5	46.5	48.0
Public debt charges	38.0	42.0	46.9	45.0	41.5	43.5	45.0
Underlying balance	-42.0	-37.5	-28.6	-8.9	0.0	3.0	3.0
Contingency Reserve						3.0	3.0
Budgetary balance	-42.0	-37.5	-28.6	-8.9	0.0	0.0	0.0
Net public debt	508.2	545.7	574.3	583.2	583.2	583.2	583.2
Non-budgetary transactions	12.2	11.6	11.4	10.2	12.0	6.0	9.0
Financial requirements/surplus (excluding foreign exchange transactions)	-29.8	-25.8	-17.2	1.3	12.0	6.0	9.0
Per cent of GDP							
Budgetary revenues	16.0	16.2	16.3	17.2	17.2	16.9	16.7
Program spending	16.6	15.6	14.0	12.8	12.4	11.7	11.5
Operating balance	-0.6	0.6	2.3	4.4	4.8	5.2	5.2
Public debt charges	5.2	5.5	5.9	5.5	4.8	4.9	4.9
Budgetary balance	-5.8	-4.9	-3.6	-1.1	0.0	0.0	0.0
Net public debt	70.2	71.6	71.9	71.1	68.1	65.4	62.9
Financial requirements/surplus	-4.1	-3.4	-2.2	0.2	1.4	0.7	1.0

<sup>1</sup> A positive number indicates a source of funds, a negative number indicates a requirement.

Numbers may not add due to rounding.

## *Fiscal Outlook: Summary Tables*

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### **The revenue outlook**

#### *The revenue outlook*

	1996-97	1997-98	1998-99	1999-00
	(billions of dollars)			
Income tax revenue				
Personal income tax	63.3	68.4	71.0	73.5
Corporate income tax	17.0	20.0	20.5	20.9
Other	2.8	2.4	2.3	2.4
Total	83.1	90.8	93.8	96.8
Employment insurance premium revenue	19.8	18.7	18.6	19.0
Sales and excise taxes/duties				
Goods and services tax	18.1	19.8	20.9	21.8
Customs import duties	2.7	2.7	2.5	2.5
Other	8.3	8.8	8.6	8.5
Total	29.1	31.3	32.0	32.7
Non-tax revenue	8.8	6.8	6.7	6.6
Total budgetary revenues	140.8	147.5	151.0	155.0
(per cent of GDP)	(17.2)	(17.2)	(16.9)	(16.7)

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# *Fiscal Outlook: Summary Tables*

## Outlook for program spending

### *Outlook for program spending*

	1996-97	1997-98	1998-99	1999-00
	(billions of dollars)			
Major transfers to persons				
Elderly benefits	21.6	22.2	22.9	23.6
Employment insurance benefits	12.4	12.0	12.6	13.2
Total	34.0	34.2	35.5	36.8
Major transfers to other levels of government				
CHST				
Total Entitlements	26.9	25.3	26.0	26.6
Tax Point Transfer	-12.1	-12.8	-13.5	-14.1
Cash Payment	14.8	12.5	12.5	12.5
Equalization	8.7	8.8	8.5	8.7
Transfers to Territories	1.1	1.1	1.1	1.1
Other Fiscal Transfers	-0.4	-0.4	-0.4	-0.5
Alternative Payments for Standing Programs	-2.0	-2.1	-2.2	-2.3
Total Cash Transfers	22.2	19.9	19.5	19.5
Reference: Total Entitlements	36.0	34.2	34.7	35.4
Direct Program Spending				
Departmental Transfers				
Agriculture	1.1	1.0	1.0	0.9
Industry and Regional Development	1.6	1.9	2.0	1.8
Foreign Affairs	2.1	2.2	1.9	1.9
Health	0.9	0.9	1.1	1.1
Human Resources Development	2.1	2.1	2.2	2.0
Indian and Northern Development	3.9	4.0	4.1	4.1
Other	6.1	7.6	4.7	5.1
Total	17.9	19.6	17.0	16.8
Crown Corporations	3.6	3.9	3.8	3.8
Defence	8.5	8.4	7.9	8.2
Other	18.7	20.0	20.9	21.9
Total Direct Program Spending	48.7	52.0	49.5	50.7
Total Program Spending	104.8	106.0	104.5	107.0
(per cent of GDP)	(12.8)	(12.4)	(11.7)	(11.5)

Numbers may not add due to rounding.

## *Fiscal Outlook: Summary Tables*

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### *Fiscal sensitivity analysis:*

1 per cent increase in nominal GDP

	Estimated changes in fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
Budgetary transactions				
Revenue increases	1.2	1.3	1.4	1.6
Expenditure reductions	0.1	0.2	0.1	0.1
Budgetary balance improvement	1.3	1.5	1.5	1.7

### *Fiscal sensitivity analysis:*

100 basis-point increase in interest rates

	Estimated changes in fiscal position			
	Year 1	Year 2	Year 3	Year 4
	(billions of dollars)			
Budgetary transactions				
Revenue increases	0.4	0.5	0.5	0.6
Expenditure increases	1.4	2.2	2.6	3.0
Budgetary balance deterioration	1.0	1.7	2.1	2.4

- Assuming the increase in nominal income comes solely from an increase in output, with no impact on interest rates and no net affect on the employment insurance program, the budgetary balance would improve by \$1.3 billion in the first year, rising to \$1.7 billion after four years.
  - If the increase in nominal GDP is solely due to inflation, the deficit impact would be smaller.
- A sustained 100-basis-point increase in all interest rates would cause the budgetary balance to deteriorate by \$1.0 billion in the first year.
  - As longer-term debt matures and is refinanced at the higher interest rates, the negative impact on the budgetary balance grows, reaching \$2.4 billion by year four.



## *Fiscal Outlook: Summary Tables*

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### **Deficit sensitivity to interest rates has been reduced**

	Total Debt <sup>1</sup>	Per cent of Fixed-Rate Debt <sup>2</sup>	Deficit Sensitivity 100-basis-point increase in all interest rates			
			Year 1	Year 2	Year 3	Year 4
(billions of dollars)						
1994 budget	514.5	53.3	1.7	2.5	3.0	3.5
1995 budget	550.2	55.1	1.8	2.6	3.1	3.6
1996 budget	586.4	56.9	1.3	2.2	2.6	3.0
1997 budget	600.6	61.7	1.0	1.9	2.3	2.6
1998 budget	591.8	65.0	1.0	1.7	2.1	2.4

<sup>1</sup> Interest-bearing debt as of March 31st in budget year.

<sup>2</sup> Fixed-rate debt is generally defined as debt that will mature or debt for which the interest rate will be reset after one year (mainly marketable bonds).

- The government has reduced the sensitivity of the budgetary balance by pursuing a prudent debt management strategy. That strategy has been realigned towards increasing the fixed share of the debt stock.
  - In 1992-93, about 50 per cent of the stock of public debt was at fixed rates (one-year maturities and over). Today, 65 per cent of the debt is at fixed rates, in line with that of other G-7 countries. This means that a 100-basis-point increase in interest rates would now raise public debt charges by \$1 billion in the first year; in the early 1990s, the first-year impact of a 100-basis-point increase was estimated at about \$1.8 billion.

## *Fiscal Outlook: Summary Tables*

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### **Federal debt and the maturity structure of unmatured debt**

#### *Federal debt (March 31, 1997)*

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	(\$ billions)
Net debt	583.2
Financial assets	57.5
Gross debt	640.7
of which:	
Unmatured debt	476.9
Pension and other accounts	123.7
Current liabilities	40.1

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#### *Distribution of unmatured debt (March 31, 1997)*

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	(per cent)
Treasury bills	28.4
Canada Savings Bonds	6.8
Bonds	
under 3 years	21.1
3 - 5 years	10.8
5 -10 years	15.9
over 10 years	14.1
Other	2.9
	100.0

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*Total Government Sector  
Fiscal Situation*

## *Total Government Sector Fiscal Situation*

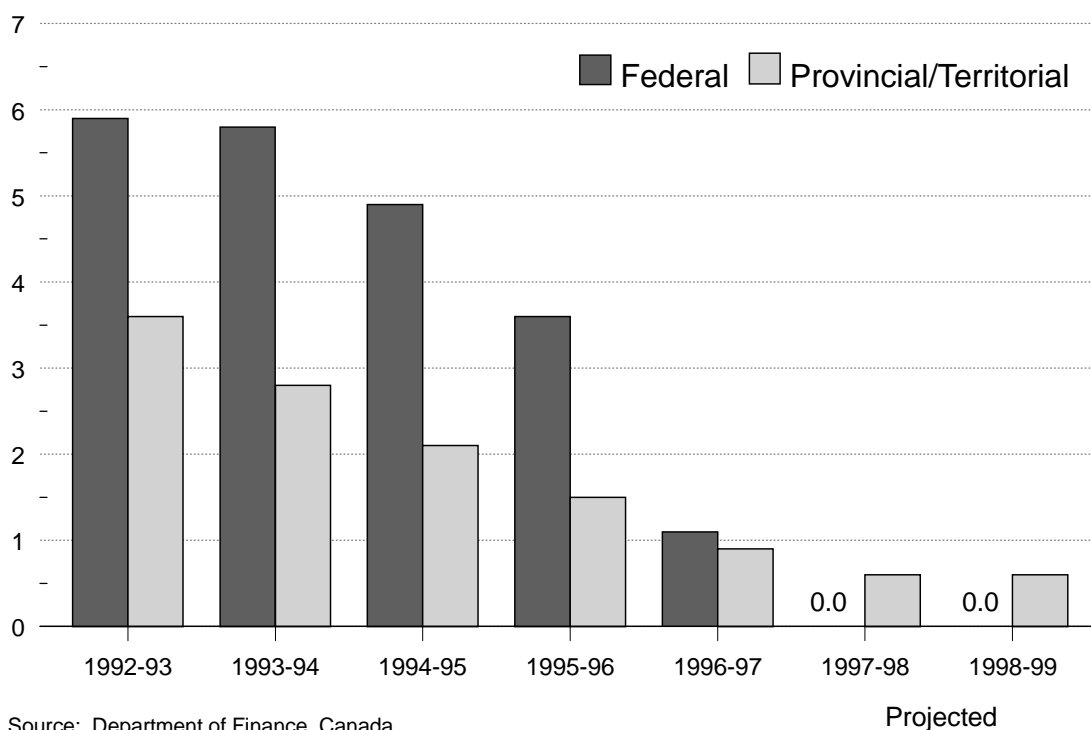
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### **Substantial deficit reduction at both the federal and provincial/territorial government level**

#### *Federal and provincial/territorial budgetary deficits*

Public Accounts Basis

per cent of GDP



- As with the federal government, provincial/territorial governments have made substantial progress toward eliminating their deficits.
  - Six provinces/territories forecast a balanced budget or a budgetary surplus for 1997-98 and all of the provinces/territories are expected to have balanced their respective budgets by the end of the decade.
  - With the elimination of the federal deficit and the projected improvement at the provincial/territorial level, an aggregate deficit of 0.6 per cent of GDP is forecast for 1998-99 -- down from 9.4 per cent in 1992-93.
  - In 1997-98, operating surpluses are expected to grow at both levels of government.

# *Total Government Sector Fiscal Situation*

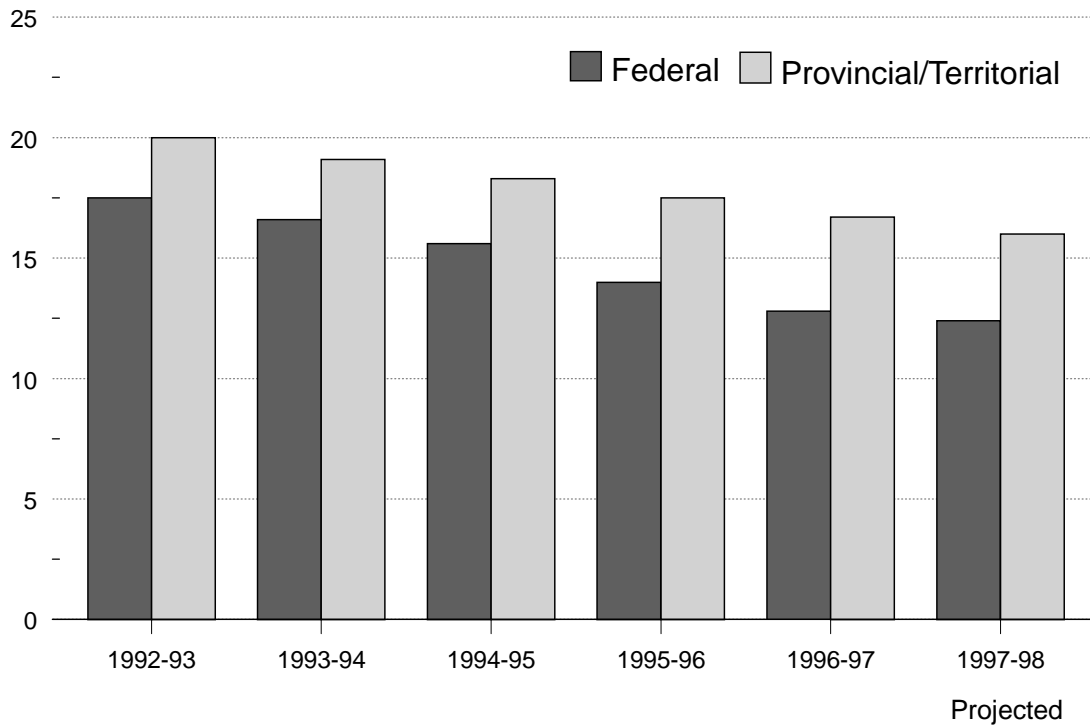
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## **Federal and provincial/territorial program spending continues to fall**

### *Federal and provincial/territorial program spending*

Public Accounts Basis

per cent of GDP



Source: Department of Finance, Canada.

- Program spending reductions have been the cornerstone of the budget consolidation process of Canadian governments.
- Between 1992-93 and 1997-98 program spending has declined:
  - from 17.5 to 12.4 per cent of GDP at the federal level; and
  - from 20.0 to 16.0 per cent of GDP at the provincial/territorial level.

# *Total Government Sector Fiscal Situation*

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## **Potential debt charge savings**

*Estimated cumulative savings from lower debt charges by province from January 1995 to December 1997<sup>1</sup>*

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	Millions of dollars
Newfoundland	35
Prince Edward Island	6
Nova Scotia	145
New Brunswick	90
Québec	1,050
Ontario	975
Manitoba	135
Saskatchewan	45
Alberta	340
British Columbia	340
Total Provincial	3,161

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<sup>1</sup> Finance Canada estimates. Potential savings based on a status quo scenario where interest rates would have remained at their January 1995 levels. Actual savings will differ due to various provincial debt strategies.

- Like the federal government, the provinces and territories have benefited from the reduction in interest rates since early 1995.
  - Based on the debt structure of the provinces in early 1995, it is estimated that provinces would have saved on average \$1 billion annually in interest charges over the last three years with the reduction in interest rates.

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*International Fiscal  
Comparisons*

# *International Fiscal Comparisons*

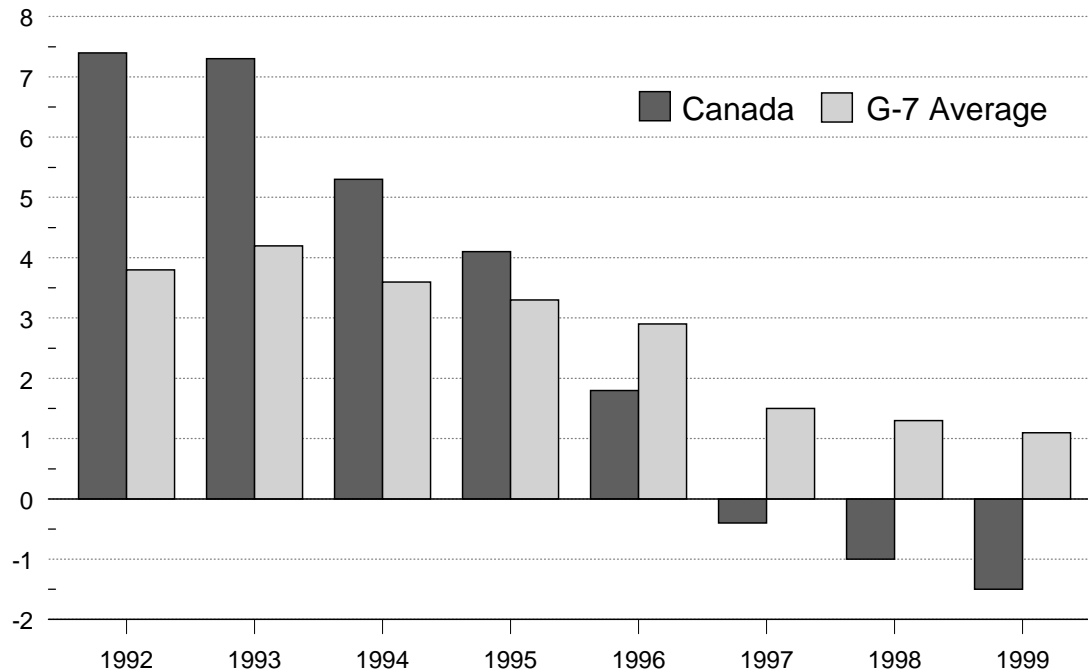
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## **Canada's total government budgetary balance remains below the G-7 average**

*Total government deficit(+)/surplus(-)*

National Accounts Basis

per cent of GDP



Source: *OECD Economic Outlook No. 62* (December 1997).

Note: The OECD has not yet adjusted its national accounts data to incorporate recent revisions in the Canadian System of National Accounts.

- In 1996, Canada's total government deficit fell below the G-7 average.
  - In 1992, the total Canadian deficit stood at 7.4 per cent of GDP - nearly twice the G-7 average of 3.8 per cent.
  - According to projections by the Organization for Economic Co-operation and Development (OECD) -- which do not include the policy actions announced since the 1997 budget -- Canada's overall government sector will show a budgetary surplus in 1997, compared to an average deficit of 1.5 per cent of GDP in the G-7 countries.
  - Canada's surpluses are projected to grow through 1999.



# *International Fiscal Comparisons*

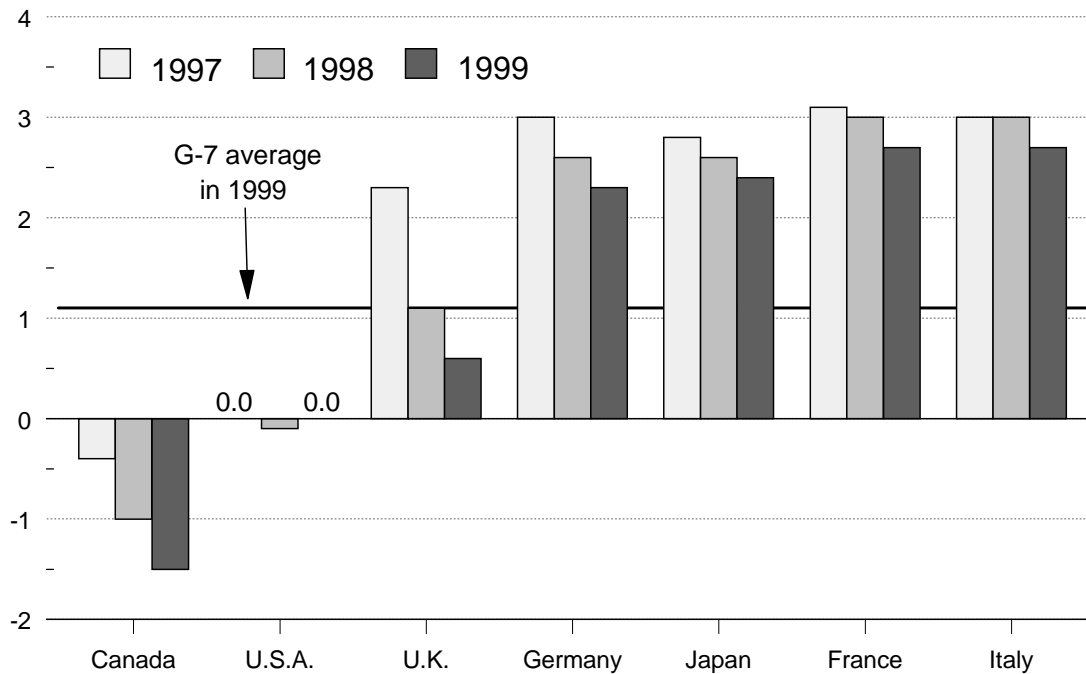
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## **Canada's total government budgetary balance is projected to be the best of the G-7**

*Total government deficit(+)/surplus(-)*

National Accounts Basis

per cent of GDP



Source: *OECD Economic Outlook No. 62* (December 1997).

Note: The OECD has not yet adjusted its national accounts data to incorporate recent revisions in the Canadian System of National Accounts.

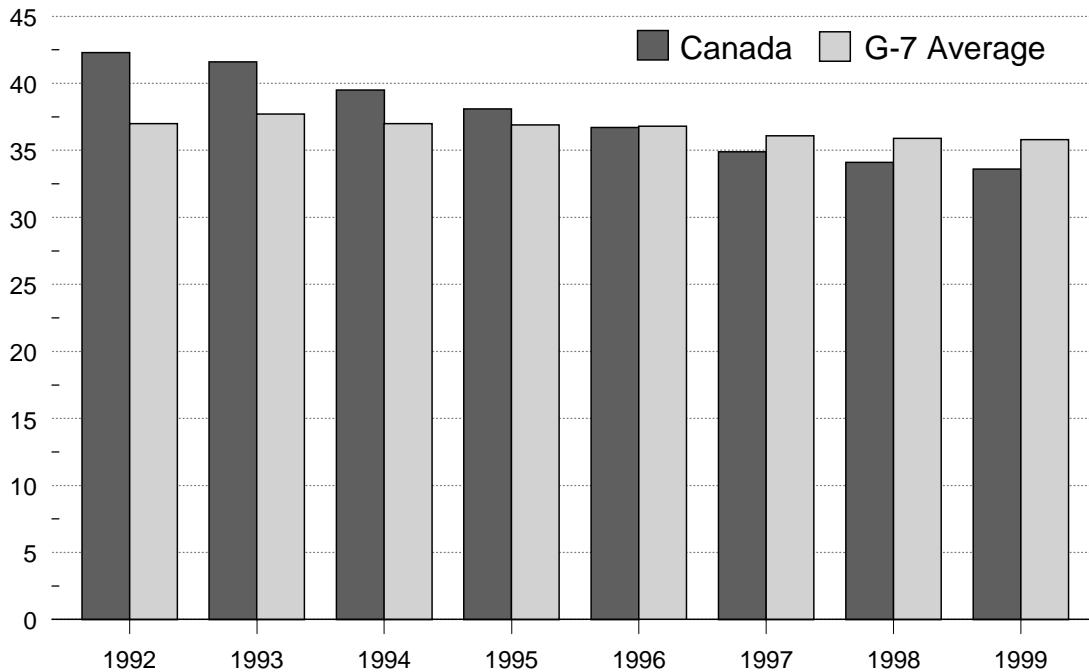
- According to OECD estimates, Canada was the only G-7 country to post a surplus in 1997.
  - In 1998 and 1999, Canada is projected to further consolidate its leading position, with surpluses of 1.0 and 1.5 per cent of GDP, excluding the policy actions announced since the 1997 budget, again the best performance of the G-7 countries.

# *International Fiscal Comparisons*

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## **Canada's total government program spending is falling faster**

*Total government program spending*  
National Accounts Basis  
per cent of GDP



Source: *OECD Economic Outlook No. 62* (December 1997).

Note: The OECD has not yet adjusted its national accounts data to incorporate recent revisions in the Canadian System of National Accounts.

- The sharp turnaround in Canada's public finances can be traced back to a sharp reduction in program spending.
  - Since 1992, program spending has fallen much faster in Canada than in other G-7 countries.
  - Canada's program spending as a percentage of GDP is lower than the G-7 average and is projected by the OECD to remain lower.