BUDGET ANALYSIS

Canada: Budget 2021

Across-the-Board Spending to Reduce Inequalities and Increase the Economy's Potential

HIGHLIGHTS

- A record $354.2B deficit is expected in 2020–2021. It could decrease to $154.7B in 2021–2022, gradually declining to $30.7B in 2025–2026.
- Federal debt will rise from $721.4B on March 31, 2020, to $1,411.0B on March 31, 2026.
- Budget 2021 contains a suite of new measures totalling $142.9B by 2025–2026.
- The federal government is also proposing a Canada-wide, community-based child care system.
- Many business and worker support measures have been extended and enhanced.

TABLE 1
Summary of transactions

	ACTUAL	PROJECTIONS					
IN $B (EXCEPT IF INDICATED)	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Budgetary revenues	334.1	275.4	335.9	357.8	377.3	398.5	417.3
Variation (%)	*0.6*	*-17.6*	*22.0*	*6.5*	*5.4*	*5.6*	*4.7*
Program spending	-338.5	-614.5	-475.6	-403.0	-409.2	-414.4	-426.7
Variation (%)	*7.6*	*81.6*	*-22.6*	*-15.3*	*1.5*	*1.3*	*3.0*
Debt charges	-24.4	-20.4	-22.1	-25.7	-30.5	-35.4	-39.3
Variation (%)	*5.1*	*-16.6*	*8.3*	*16.3*	*18.7*	*16.1*	*11.0*
Net actuarial losses	-10.6	-15.4	-12.2	-8.9	-7.7	-3.9	-2.4
Budgetary balance	-39.4	-354.2	-154.7	-59.7	-51.0	-35.8	-30.7
Federal debt[1]	721.4	1,079.0	1,233.8	1,293.5	1,344.5	1,380.3	1,411.0
Variation (%)	*5.2*	*49.6*	*14.3*	*4.8*	*3.9*	*2.7*	*2.2*
Budgetary revenues (% of GDP)	14.5	13.4	14.7	14.8	14.9	15.1	15.3
Program spending (% of GDP)	14.6	27.9	19.7	15.8	15.4	15.0	14.9
Public debt charges (% of GDP)	1.1	0.9	0.9	1.0	1.1	1.3	1.4
Budgetary balance (% of GDP)	-1.7	-16.1	-6.4	-2.3	-1.9	-1.3	-1.1
Federal debt (% of GDP)	31.2	49.0	51.2	50.7	50.6	50.0	49.2

[1] Debt representing the accumulated deficits including other comprehensive income.
Sources: Department of Finance Canada and Desjardins, Economic Studies

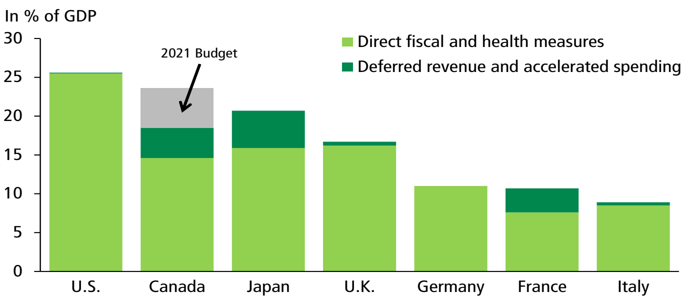
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Benoit P. Durocher, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

Heading for a Record Deficit

Since the publication of the economic statement on November 30, economic conditions have improved significantly. The economic recovery has been progressing well since May 2020, and real GDP was at 97.4% of its pre-pandemic level in last January. Canada's economy has notably shown great resilience during the second wave of COVID-19, and everything points to this being the case again with the third wave. Many sectors, such as commodities and residential investment, are posting robust growth. The vaccination campaign is moving along smoothly, which is bringing some optimism. That said, the recovery is still uneven across various sectors. Some businesses and workers therefore continue to be greatly affected by the negative impacts of the pandemic.

The new measures introduced in Budget 2021 as well as those contained in the fall statement are aimed primarily at reducing the effect of these disparities among businesses and workers. However, it is clear that the federal government is aiming very wide by introducing a slew of new measures. One of the objectives is to increase Canada's economic growth potential to firmly position Canada for the post-COVID-19 era. For the next three years, the new measures taken since the statement and in Budget 2021 total $101.4B. That is slightly above the $70B–$100B range targeted in the fall. Factoring in the measures announced for 2024–2025 and 2025–2026, the federal government's new initiatives amount to $142.9B. In total, the federal government's fiscal policy support exceeds 23% of Canada's GDP, according to the Department of Finance. In that respect, Canada is one of the most generous G7 countries, narrowly outdone only by the United States.

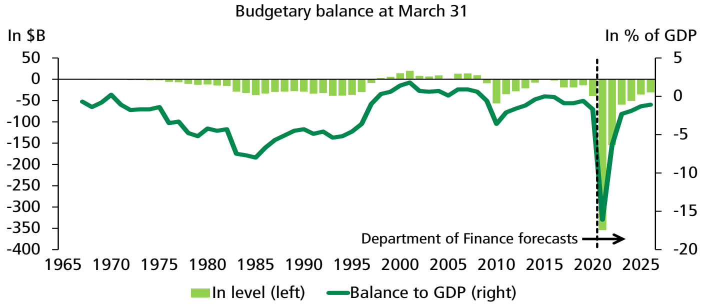
GRAPH 1
Significant fiscal policy support announced across G7 countries



Sources: Department of Finance Canada and Desjardins, Economic Studies

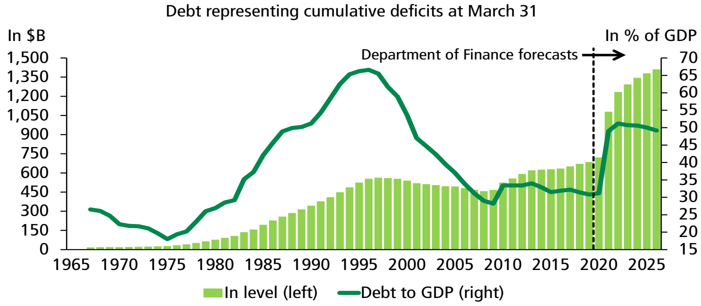
At the end of the day, the deficit projected for 2020–2021 has been revised to $354.2B. This is a slightly more favourable forecast than the one presented in the fall statement largely due to improved economic conditions. This will nevertheless be a record deficit since the 1960s. The size of the fiscal deficit should gradually shrink to $30.7B in 2025–2026, a level similar to that observed before the pandemic. These cumulative deficits will substantially increase federal government debt, which could go from $721.4B on March 31, 2020, to $1,411.0B on March 31, 2026. The debt-to-GDP ratio is expected to peak at 51.2% on March 31, 2022, gradually declining from there to 49.2% on March 31, 2026. This ratio had fallen to 28.2% on March 31, 2009.

GRAPH 2
Record deficit for 2020–2021 should gradually decline afterward



Sources: Department of Finance Canada and Desjardins, Economic Studies

GRAPH 3
The relative size of debt will not reach the peak of the mid-1990s



Sources: Department of Finance Canada and Desjardins, Economic Studies

TABLE 2
Economic and financial forecasts

AVERAGE ANNUAL GROWTH IN % (EXCEPT IF INDICATED)	2020		2021f		2022f	
	2021 Budget	Desj. Group	2021 Budget	Desj. Group	2021 Budget	Desj. Group
Real GDP	-5.4	-5.4	5.8	6.3	4.0	3.7
GDP deflator	0.8	0.8	3.3	4.4	2.0	2.1
Nominal GDP	-4.6	-4.6	9.3	10.9	6.0	5.9
Treasury bills—3-month	0.4	0.4	0.1	0.2	0.2	0.3
Federal bonds—10-year	0.7	0.7	1.5	1.6	1.8	1.9
Unemployment rate	9.5	9.5	8.0	7.4	6.5	6.1
Exchange rate (US¢/C$)	76.6	76.6	79.4	80.5	79.8	80.6
Real GDP—United States	-3.5	-3.5	6.0	7.0	4.3	3.9

f: forecasts
NOTE: Data may not add to totals due to rounding.
Sources: Department of Finance Canada, Statistics Canada and Desjardins, Economic Studies

A Suite of New Measures

Budget 2021 contains over 200 new measures. It is therefore difficult to provide a comprehensive summary. However, below is an overview of the main measures that caught our attention:

- The federal government will work with its provincial, territorial and Indigenous partners to build a Canada-wide, community-based child care system. Budget 2021 therefore proposes new investments totaling $30B over the next five years and $8.3B ongoing for Early Learning and Child Care. The federal funding would allow for:
  - A 50% reduction in average fees for regulated early learning and child care in all provinces outside Quebec, to be delivered before or by the end of 2022.
  - An average of $10 a day by 2025–2026 for all regulated child care spaces in Canada.
  - Ongoing annual growth in quality affordable child care spaces across the country.
  - Meaningful progress in improving and expanding before- and after-school care in order to provide more flexibility for working parents.
- The federal government is extending and enhancing a number of support measures for businesses and workers:
  - Budget 2021 proposes to extend the wage subsidy until September 25, 2021. It also proposes to gradually decrease the subsidy rate, beginning July 4, 2021, in order to ensure an orderly phase-out of the program as vaccinations are completed and the economy reopens.
  - Budget 2021 also proposes to extend the rent subsidy and Lockdown Support until September 25, 2021. It also proposes to gradually decrease the rate of the rent subsidy, beginning July 4, 2021, in order to ensure an orderly phase-out of this program.
  - To continue to support workers through a transition away from emergency income supports and position Canadians for the recovery, the government wants to provide up to 12 additional weeks of the Canada Recovery Benefit to a maximum of 50 weeks.
  - Budget 2021 proposes to extend the Canada Recovery Caregiving Benefit an additional 4 weeks, to a maximum of 42 weeks, at $500 per week.
  - Budget 2021 introduces a new Canada Recovery Hiring Program for eligible employers that continue to experience qualifying declines in revenues relative to before the pandemic. The proposed subsidy would offset a portion of the extra costs employers take on as they reopen, either by increasing wages or hours worked, or hiring more staff. This support would only be available for active employees and will be available from June 6 to November 20, 2021. Eligible employers would claim the higher of the Canada Emergency Wage Subsidy or the new proposed subsidy.
- Through this budget, the federal government is proposing a historic, new investment of over $18B over the next five years to improve the quality of life and create new opportunities for people living in Indigenous communities.

Better Too Much than Not Enough

True to its approach since the start of the pandemic, the federal government is not skimping on support measures. Some would say that the federal government is going overboard, especially considering that the economic recovery is already well underway and the vaccination campaign is progressing faster than initially planned. With over 200 new measures, were all the new initiatives laid out in Budget 2021 absolutely necessary? Certainly not. That being said, great uncertainty still looms, and we are still seeing major disparities between sectors. Therefore, the federal government's calculation is that the negative impact on Canada's economy of not doing enough outweighs the cost of most measures. And, if ever signs of economic overheating were to emerge, which would increase inflationary risks, the federal government could decide to take a step back and not spend all of the amounts provided for in Budget 2021.

COVID-19 will nonetheless leave its mark on public finances. Although Department of Finance projections point to a return to fiscal deficits similar to those observed before the pandemic, federal government debt will have virtually doubled between March 31, 2020, and March 31, 2025. With the current low interest rates and the federal government's willingness to focus more on longer-term loans, the consequences of such an increase in debt are not overly concerning. However, the weight of such additional debt could possibly be felt more heavily on public finances in the event of a sharper rise in interest rates in the coming years or even decades.