

## ECONOMIC AND FISCAL UPDATE

### Some new measures to further the federal government's long-term vision

#### HIGHLIGHTS

- The budget update tabled today by the Minister of Finance of Canada includes some new initiatives, i.e.:
  - An additional \$81B investment in public transit, green infrastructure, social infrastructure, transportation infrastructure to support trade, as well as rural and northern communities.
  - The creation of a global skills strategy, supported by improvements to the Canadian immigration system.
  - The establishment of the Canada Infrastructure Bank, a new, arm's length body designed to increase investment in infrastructure focusing on growth, and transform the way infrastructure projects are planned, funded and carried out throughout Canada.
  - The creation of Invest in Canada, which will employ a new, dedicated high-impact sales force to promote Canada and to work with global companies.
  - The awarding of more independence for Statistics Canada and the Parliamentary Budget Officer.
- The net budget cost of these new measures will, however, be negligible over the coming years, as they will mainly be financed from funds existing in the financial framework of the federal government, or sourced from departmental resources.
- The worsening economic outlook since the 2016 budget was tabled, along with the net budget cost of the measures announced over the last few months (such as the enhancement of the Canada Pension Plan, the indexation of the Canada Child Benefit and the Immigration Levels Plan) have, however, had a negative impact on the deficits anticipated for the coming fiscal years.
- Surprisingly, the deficits projected in the update for the coming years are lower than those presented in the 2016 budget. As an example, a deficit of \$25.1B is now projected for fiscal 2016–2017 vs. \$29.4B in the budget. For 2017–2018, the deficit expected is now of \$27.8B vs. \$29.0B in the budget. This is explained by the disappearance of the \$6.0B leeway the 2016 budget included for each fiscal year, but which is no longer factored in in the update.

- As for the debt, the anticipated debt-to-GDP ratio is more or less the same as in the budget.

#### THE FEDERAL GOVERNMENT CONTINUES TO BANK ON ITS INFRASTRUCTURE PROGRAM

The fall update is meant first and foremost as an opportunity to recalculate the budget parameters in view of the recent changes in the economic situation and the impact of the new initiatives introduced since the last budget. Several hurdles affected the Canadian economy in the spring, such as the forest fires in Alberta and a rough patch in exports. This has brought to light the fragility of the Canadian economy, which could well be worsened by the potential negative effects of the new restrictive measures on mortgage credit recently announced by the federal government. Under such conditions, most forecasters, over the past few months, have downgraded anticipated growth for the Canadian economy in 2016 and 2017. That being said, the projected increase in interest rates has also been lowered for the coming years; this will translate into lower debt servicing costs.

However, the risks surrounding the Canadian economic outlooks remain on the downside. The update presented today no longer includes leeway from adjusted projections as in the last budget. Should the economic forecasts be downgraded again between now and next budget, this could translate into a more significant increase in the deficits projected for the coming fiscal years.

In the meantime, the federal government stays on course. The new infrastructure expenses announced in the update represent an improvement to the program presented in the last budget. On the other hand, the bulk of the additional \$81B in investments announced today will be made starting in 2018–2019, i.e. when the positive impact of Phase 1 of the infrastructure program in the last budget would have started to reverse (graph 1 on page 2). The short-term effects of these new expenses will therefore be almost nil.

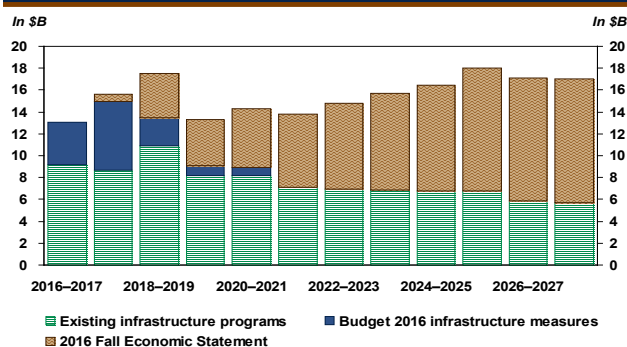
### Table 1 Summary statement of transactions

In \$B	<i>Actual</i>		<i>Projections</i>				
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020	2020–2021	2021–2022
<b>Budgetary revenues</b>	<b>295.5</b>	<b>291.1</b>	<b>303.3</b>	<b>313.2</b>	<b>326.2</b>	<b>339.5</b>	<b>355.0</b>
- Change (%)	4.7	-1.5	4.2	3.3	4.2	4.1	4.6
<b>Program spending</b>	<b>-270.8</b>	<b>-291.3</b>	<b>-306.5</b>	<b>-313.2</b>	<b>-317.2</b>	<b>-326.0</b>	<b>-336.5</b>
- Change (%)	6.7	7.6	5.2	2.2	1.3	2.8	3.2
<b>Debt charges</b>	<b>-25.6</b>	<b>-24.9</b>	<b>-24.6</b>	<b>-25.9</b>	<b>-28.2</b>	<b>-30.3</b>	<b>-33.1</b>
- Change (%)	-3.8	-2.7	-1.2	5.3	8.9	7.4	9.2
<b>Budgetary balance</b>	<b>-1.0</b>	<b>-25.1</b>	<b>-27.8</b>	<b>-25.9</b>	<b>-19.3</b>	<b>-16.8</b>	<b>-14.6</b>
<b>Federal debt<sup>1</sup></b>	<b>616.0</b>	<b>642.0</b>	<b>669.8</b>	<b>695.7</b>	<b>715.0</b>	<b>731.8</b>	<b>746.4</b>
- Change (%)	0.6	4.2	4.3	3.9	2.8	2.3	2.0
<b>In % of GDP</b>							
Budgetary revenues	14.9	14.4	14.4	14.3	14.4	14.4	14.5
Program spending	13.7	14.4	14.6	14.3	14.0	13.8	13.7
Public debt charges	1.3	1.2	1.2	1.2	1.2	1.3	1.3
Budgetary balance	0.0	-1.2	-1.3	-1.2	-0.8	-0.7	-0.6
Federal debt	31.1	31.8	31.8	31.9	31.5	31.0	30.4

<sup>1</sup> Debt representing the accumulated deficits including other comprehensive income.

Sources: Department of Finance of Canada and Desjardins, Economic Studies

#### Graph 1 – Federal infrastructure plan



Sources: Department of Finance of Canada and Desjardins, Economic Studies

One can only hope now that all these measures will eventually bear fruit. For the time being, one has to admit that the positive impact on economic growth is slow to materialize. However, the various projects are ramping up, and over half the amounts of Phase 1 of the 2016 budget are currently allocated, according to Infrastructure Canada. The Department of Finance Canada remains convinced that the positive effects on economic growth will start to make themselves felt soon, and that the impact on real GDP will largely meet expectations when the budget is tabled.

#### Table 2 Economic and financial outlook for Canada

In % (except if indicated)	2016f	2017f	2018f
<b>Real GDP</b>			
Budget 2016	1.4	2.2	2.2
2016 Fall Update	1.2	2.0	1.8
<b>Nominal GDP</b>			
Budget 2016	2.3	4.6	4.3
2016 Fall Update	1.8	4.3	3.7
<b>Treasury bills – 3 months</b>			
Budget 2016	0.5	0.7	1.6
2016 Fall Update	0.5	0.6	1.0
<b>Bonds – 10 years</b>			
Budget 2016	1.6	2.3	3.0
2016 Fall Update	1.2	1.6	2.1
<b>Exchange rate (US\$/C\$)</b>			
Budget 2016	72.1	75.9	79.1
2016 Fall Update	75.8	77.6	79.5

f: forecasts

Source: Department of Finance of Canada