

BUDGET ANALYSIS

Canada: Economic and Fiscal Update

Budget Deficits Will Be Close to \$34B Higher by 2023–2024

HIGHLIGHTS

- ▶ There is not one new initiative in today's update.
- ▶ The increase in the Basic Personal Amount announced on December 9, coupled with actuarial adjustments to pension plans, will push budget expenses up faster.
- ▶ Budget deficits will be higher than predicted. The 2019–2020 budget deficit could rise to \$26.6B, which is \$6.8B more than forecast in the last budget.
- ▶ In all, \$34.4B will be added to the budget deficit by March 31, 2024.

TABLE 1
Summary of transactions

IN \$B (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS					
	2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025
Budgetary revenues	332.2	340.1	352.3	367.2	381.8	395.9	411.9
Variation (%)	6.7	2.4	3.6	4.2	4.0	3.7	4.0
Program spending	-322.9	-340.8	-353.6	-361.0	-370.0	-379.8	-389.1
Variation (%)	4.7	5.5	3.8	2.1	2.5	2.6	2.4
Debt charges	-23.3	-24.4	-23.7	-25.3	-27.3	-29.5	-31.5
Variation (%)	6.4	4.7	-2.9	6.8	7.9	8.1	6.8
Adjustment for risk	---	-1.5	-3.0	-3.0	-3.0	-3.0	-3.0
Budgetary balance	-14.0	-26.6	-28.1	-22.1	-18.4	-16.3	-11.6
Federal debt ¹	685.5	713.2	741.4	763.4	781.8	798.1	809.7
Variation (%)	2.1	4.0	4.0	3.0	2.4	2.1	1.5
Budgetary revenues (% of GDP)	14.9	14.8	14.7	14.8	14.8	14.8	14.8
Program spending (% of GDP)	14.5	14.8	14.8	14.6	14.4	14.2	14.0
Public debt charges (% of GDP)	1.0	1.1	1.0	1.0	1.1	1.1	1.1
Budgetary balance (% of GDP)	-0.6	-1.2	-1.2	-0.9	-0.7	-0.6	-0.4
Federal debt (% of GDP)	30.8	31.0	31.0	30.8	30.4	29.8	29.1

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

Today's budget update from the federal government is rather brief. Not one new measure is included, which is somewhat rare, although the federal government had already announced an easing of the tax burden on individuals on December 9. The

Basic Personal Amount on which no federal taxes are paid will go up for taxpayers with net income below \$150,473 in 2020. It will rise from \$12,298 to \$13,229 in 2020, and should reach \$15,000 in 2023.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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TABLE 2
Economic and financial forecasts

AVERAGE ANNUAL GROWTH IN % (EXCEPT IF INDICATED)	2018			2019f			2020f		
	2019 Budget	2019 Update	Desj. Group	2019 Budget	2019 Update	Desj. Group	2019 Budget	2019 Update	Desj. Group
Real GDP	2.0	2.0	2.0	1.8	1.7	1.7	1.6	1.6	1.6
GDP deflator	1.8	1.8	1.8	1.6	1.9	1.7	1.9	2.0	1.5
Nominal GDP	3.9	3.9	3.9	3.4	3.6	3.5	3.5	3.7	3.1
Treasury bills—3-month	1.4	1.4	1.4	1.9	1.6	1.7	2.2	1.5	1.7
Federal bonds—10-year	2.3	2.3	2.3	2.4	1.5	1.6	2.7	1.6	1.8
Unemployment rate	5.8	5.8	5.8	5.7	5.7	5.7	5.9	5.8	5.7
Exchange rate (US\$/C\$)	77.2	77.2	77.2	76.3	75.4	75.4	77.2	76.2	76.6
Real GDP—United States	2.9	2.9	2.9	2.4	2.3	2.3	1.7	1.8	1.8

f: forecasts

NOTE: Data may not add to totals due to rounding.

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

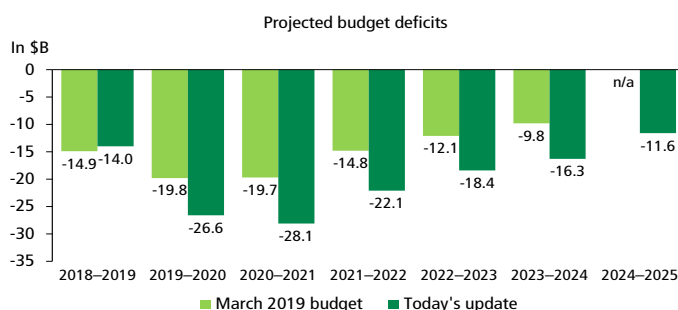
This new initiative will cost the federal government quite a bit. By March 31, 2025, the cumulative impact of raising the Basic Personal Amount will be \$25.1B. However, the negative impact of that measure on budget balances will be partially offset by higher revenues because the economic and financial situation will improve more than predicted in the last budget.

Another significant item in today's update is the adjustment to costs associated with pension plans and future benefits for federal government employees. Since expectations as to the future of interest rates are now lower than at the time of the last budget, the government's financial obligations with regard to pension plans have been revised upward, sparking higher budget costs. The current actuarial adjustment for pension plans will lead to additional cumulative costs of \$27.8B by March 31, 2024.

Overall, the increase in the Basic Personal Amount and the actuarial adjustment for pension plans will significantly raise anticipated budget deficits for the coming year. The 2019–2020 fiscal year could close with a deficit of \$26.6B, which is \$6.8B higher than predicted in the last budget. Compared to the March 2019 budget, the budget deficits will cumulatively increase by \$34.4B by March 31, 2024.

It is disappointing to see the federal government's fiscal situation decline like this while economic and financial conditions are quite favourable. The federal government appears vulnerable, since it does not have a proper plan to balance the budget; the significant budget deficit fluctuations presented today show that it would not take much to make a major impact on the fiscal plan. Global uncertainty is still high, and our projections show that Canada's economic growth could be lower than the Minister of Finance thinks, especially in 2020 and 2021. The federal government's fiscal situation could easily deteriorate if there was a significant slowdown in the Canadian economy.

GRAPH
Budget deficits will be higher than projected



n/a: not available

Sources: Department of Finance Canada and Desjardins, Economic Studies