BUDGET ANALYSIS

Canada: Economic and Fiscal Snapshot

A Federal Deficit of $343.2B in 2020–2021!

HIGHLIGHTS

- The COVID-19 pandemic has significantly affected the federal government's public finances.
- Based on private sector expectations, the government anticipates Canada's real GDP to decline 6.8% in 2020, before rebounding by 5.5% in 2021.
- The uncertainty caused by the pandemic prevents the government from providing forecasts beyond the current fiscal year.
- Canada's COVID-19 Economic Response Plan should cost $227.9B in 2020–2021.
- The federal government's budgetary balance should go from -$34.4B (-1.5% of GDP) in 2019–2020 to -$343.2B (-15.9% of GDP) in 2020–2021.
- Federal debt will increase from $716.8B (31.1% of GDP) in 2019–2020 to $1,060.0B (49.1% of GDP) in 2020–2021.

When Minister of Finance Bill Morneau presented the *2019 Economic and Fiscal Update* in December 2019, we concluded our analysis as follows: "The federal government's fiscal situation could easily deteriorate if there was a significant slowdown in the Canadian economy." This risk eventually materialized in an unusual and completely unpredictable way. Seven months later, the forecast deficit for the current year is ten times higher than the Minister had envisioned.

Minister Morneau stressed the fact that "accurate long-term forecasting is impossible in such a volatile environment." This is why the budget document submitted today does not provide a description of the future evolution of the Canadian economy and the federal government's public finances. Minister Morneau also highlighted "the possibility of further outbreaks." Furthermore, the Minister of Finance considered two alternative scenarios to the projections presented. The first scenario involves a slower recovery where "households remain cautious due to repetitive peaks of viral transmission of the virus." This scenario would lead to a decline of 9.6% in real GDP in 2020. The second scenario "considers a resurgence of uncontrolled transmission of the virus later this year followed by a series of smaller waves in 2021," which would lead to a decline of 11.2% in real GDP in 2020.

TABLE 1
Summary of transactions

	ACTUAL	PROJECTIONS	
IN $B (EXCEPT IF INDICATED)	2018–2019	2019–2020	2020–2021
Budgetary revenues	332.2	341.0	268.8
Variation (%)	*6.7*	*2.6*	*-21.2*
Program spending	-322.9	-350.8	-592.6
Variation (%)	*4.7*	*8.6*	*68.9*
Debt charges	-23.3	-24.5	-19.5
Variation (%)	*6.4*	*5.2*	*-20.4*
Budgetary balance	-14.0	-34.4	-343.2
Federal debt[1]	685.5	716.8	1,060.0
Variation (%)	*2.1*	*4.6*	*47.9*
Budgetary revenues (% of GDP)	14.9	14.8	12.5
Program spending (% of GDP)	14.5	15.2	27.5
Public debt charges (% of GDP)	1.0	1.1	0.9
Budgetary balance (% of GDP)	-0.6	-1.5	-15.9
Federal debt (% of GDP)	30.8	31.1	49.1

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

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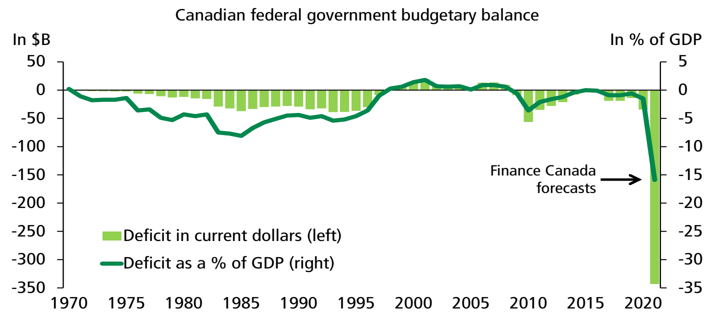
Naturally, Canada is not alone in navigating these choppy waters. Every economy across the globe has been hard hit by the pandemic and by the range of measures aimed at fighting it. The snapshot provided today by the Canadian government will surely resemble those to be drafted by finance ministers around the world. When considered by itself rather than on a global level, the deterioration of public finances appears to be substantial, but is nevertheless in keeping with other countries.

The measures taken by the federal government to curtail the damage caused by the COVID-19 crisis were not lacking in ambition, however. They even seem to cover a broader range of interventions than most advanced countries, particularly by going further than enhancements to Employment Insurance benefits or wage subsidies. Direct support for students, seniors and businesses (through Canada Emergency Commercial Rent Assistance) was not as common in other countries. According to Minister Morneau, all the measures taken by the government prevented the real GDP for 2020 from contracting by more than 10%. According to the same estimates, the unemployment rate would have increased by 2 percentage points more (it was 13.7% in May). These measures come with an enormous budgetary cost, however. Grouped together in Canada's COVID-19 Economic Response Plan, they amount to $227.9B for the current year, including $19.0B for health and safety, $188.6B for direct support to individuals (including $80.5B for the Canada Emergency Response Benefit and $82.3B for the Canada Emergency Wage Subsidy). To this can be added $21.3B to support businesses and $7.1B for other support measures.

The contraction of economic activity also has a budgetary cost. The Minister of Finance estimates that the change in the economic situation since the December 2019 update has added $81.3B to the deficit for 2020–2021.

All this naturally inflates the deficit. The $343.2B shortfall is by far the worst deficit the federal government has had, but in proportion to the GDP, the deficit of 15.9% expected for 2020–2021 is still below the peak reached during the Second World War, when the deficit hit 22.5% in 1943. On the debt side, we do not have to go back nearly so far, to 1999, to find a debt-to-GDP ratio higher than the 49.1% expected for the current year.

GRAPH
COVID-19 increases the deficit tenfold



Sources: Finance Canada and Desjardins, Economic Studies

The fact remains that the situation is highly uncertain. The Canadian economy, like that of the entire world, has been deeply affected by a pandemic that is not yet over. The Canadian government offered significant support so that economic activity would not collapse too much in the last few months. The figures provided today by Minister Morneau attest to the high financial cost of these measures. But without them, the economic and social costs would undoubtedly have been much more serious. Now it remains to be seen what role the federal government will play in the recovery of the Canadian economy, in the hopes, of course, that there will not be a second wave so severe that it further complicates the situation.