

BUDGET ANALYSIS

Canada: Fall Economic Statement 2020

New Initiatives Swell the Current Deficit to \$381.6B... with More Measures Yet to Come

HIGHLIGHTS

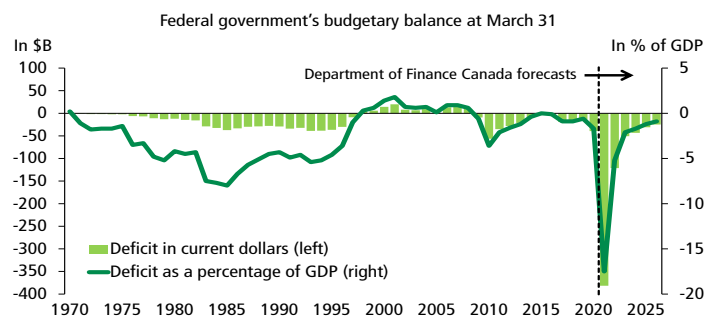
- ▶ Today's statement proposes several new measures totalling \$52.8B by 2025–2026.
- ▶ The budget deficit will be \$381.6B for fiscal 2020–2021. It should fall 68% as of the next fiscal year, with a projected deficit of \$121.2B in 2021–2022. The deficit should continue to decline in subsequent years.
- ▶ Federal debt will increase substantially in 2020–2021 and continue to rise after that, reaching \$1,378.3B in 2025–2026.
- ▶ In reality, the deficit could be somewhat larger in the coming years, as the federal government announced a plan to introduce several measures within the next three years to stimulate the Canadian economy once the pandemic is under control.

The economic statement that new Minister of Finance Chrystia Freeland presented today is a much more complete document than the economic and budgetary snapshot released last July. It takes into account the evolution of the economic and financial situation, and the budgetary impact of the measures announced since July, and it contains several new initiatives to combat COVID-19, support Canadians during the pandemic, and rebuild the Canadian economy on a stronger foundation. The bulk of the new measures are near-term, totalling \$25.1B in 2020–2021 and \$26.6B in 2021–2022. These new measures will cost a total of \$52.8B by 2025–2026.

In the end, the budget deficit will be a little higher than projected last July for 2020–2021, at \$381.6B rather than \$343.2B. The deficit could fall 68% as of the next fiscal year, with a projected deficit of \$121.2B in 2021–2022. The deficit should continue to decline in subsequent years, reaching \$24.9B in 2025–2026, representing 0.9% of GDP, which is similar to fiscal 2017–2018. Federal debt will increase substantially in 2020–2021 and continue to rise after that, reaching \$1,378.3B in 2025–2026. The debt-to-GDP ratio could peak at 52.6% in 2021–2022 then decline toward 49.6% in 2025–2026. Note that the debt-to-GDP ratio had hit a record 66.6% in 1995–1996.

That said, in reality, the deficit could be somewhat larger in the coming years. The federal government announced a plan to introduce several measures within the next three years to stimulate the Canadian economy once the pandemic is under control. These measures have not been established yet and are not currently included in the federal government's budget projections. These new initiatives could total between \$70B and \$100B, according to the Department of Finance's projections.

GRAPH 1
The deficit could correct as of 2021–2022



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

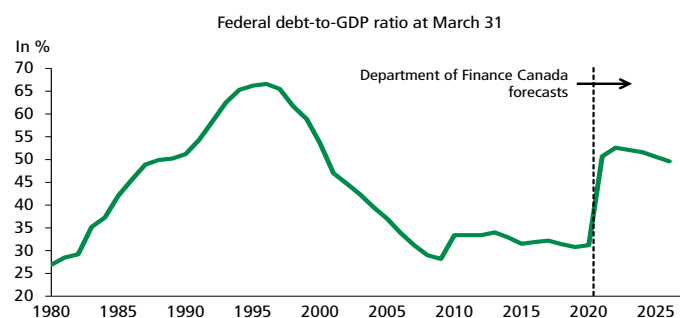
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2020, Desjardins Group. All rights reserved.

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	334.1	275.4	335.9	357.8	377.3	398.5	417.3
<i>Variation (%)</i>	0.6	-17.6	22.0	6.5	5.4	5.6	4.7
Program spending	-338.5	-621.4	-421.2	-373.9	-384.4	-392.9	-404.0
<i>Variation (%)</i>	7.6	83.6	-32.2	-11.2	2.8	2.2	2.8
Debt charges	-24.4	-20.2	-20.3	-22.4	-25.7	-30.5	-34.3
<i>Variation (%)</i>	4.7	-17.2	0.5	10.3	14.7	18.7	12.5
Net actuarial losses	-10.6	-15.4	-15.6	-12.1	-10.5	-6.0	-3.9
Budgetary balance before stimulus	-39.4	-381.6	-121.2	-50.7	-43.3	-30.9	-24.9
Planned stimulus	0.0		between \$70B and \$100B over three years				
Budgetary balance after planned stimulus	-39.4	?	?	?	?	?	?
Federal debt ¹	721.4	1,107.4	1,228.5	1,279.3	1,332.6	1,353.4	1,378.3
<i>Variation (%)</i>	5.2	53.5	10.9	4.1	4.2	1.6	1.8
Budgetary revenues (% of GDP)	14.5	12.6	14.4	14.6	14.7	14.9	15.0
Program spending (% of GDP)	14.6	28.5	18.1	15.2	15.0	14.7	14.5
Public debt charges (% of GDP)	1.1	0.9	0.9	0.9	1.0	1.1	1.2
Budgetary balance (% of GDP)	-1.7	-17.5	-5.2	-2.1	-1.7	-1.2	-0.9
Federal debt (% of GDP)	31.2	50.7	52.6	52.1	51.6	50.6	49.6

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

GRAPH 2
The debt's relative size will increase


Sources: Department of Finance Canada and Desjardins, Economic Studies

It is difficult to assess the new measures' full impact on the budgetary balance. It is, however, certain that the new measures will increase the deficits and debt for the coming fiscal years.

Here is a summary of the main highlights of the new measures introduced in today's statement:

- ▶ To fight COVID-19, investments are being made in screening and contact tracing, to acquire personal protective equipment, and in a set of measures to protect people in long-term care, while \$150M is being invested to improve ventilation in public buildings and help reduce the spread of COVID-19.

- ▶ To support businesses of all sizes during the second wave, the maximum subsidy rate for the Canada Emergency Wage Subsidy has been increased to 75% for the period between December 20, 2020 and March 13, 2021. Application of the current rates for the Canada Emergency Rent Subsidy and Lockdown Support has been extended until March 13, 2021. Businesses can apply for both programs until June 2021.
- ▶ To support Canada's hardest-hit industries, including tourism, hospitality, arts and culture, and aviation, new assistance measures are offered, including the new Highly Affected Sectors Credit Availability Program.
- ▶ To provide relief for families with young children during the pandemic, temporary support totalling up to \$1,200 will be provided in 2021 for each child under the age of six who is eligible for the Canada Child Benefit.
- ▶ As a down payment toward the economic recovery, support is offered to Canadians to make their homes greener and more energy efficient, a plan to plant 2 billion trees is tabled, and the foundation for a Canada-wide early learning and child care system is being laid.

The economic and financial projections used in developing the statement are quite similar to our latest forecasts. There is a downside risk in the short term, however. Based on September's survey of private sector forecasters, the Department of Finance's

TABLE 2
Economic and financial forecasts

AVERAGE ANNUAL GROWTH IN % (EXCEPT IF INDICATED)	2019		2020f		2021f	
	2020 Update	Desj. Group	2020 Update	Desj. Group	2020 Update	Desj. Group
Real GDP	1.7	1.7	-5.8	-5.7	4.8	4.5
GDP deflator	1.9	1.9	0.3	0.0	2.0	1.5
Nominal GDP	3.6	3.6	-5.5	-5.8	6.9	5.8
Treasury bills—3-month	1.7	1.7	0.4	0.5	0.2	0.3
Federal bonds—10-year	1.6	1.6	0.7	0.8	0.9	0.8
Unemployment rate	5.7	5.7	9.7	9.5	8.1	7.9
Exchange rate (US\$/C\$)	75.4	75.4	74.2	74.5	76.1	77.4
Real GDP—United States	2.2	2.2	-4.3	-3.5	3.7	4.0

f: forecasts

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

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

scenario calls for Canada's real GDP to grow a quarterly annualized 5.1% in the fourth quarter of 2020, followed by a 4.6% gain in the first quarter of 2021. However, the outlook for economic growth has deteriorated recently as the second wave of the pandemic intensified in several provinces. Economic growth is therefore likely to be below these projections for the two quarters.

All in all, today's statement does provide more detail on the evolution of Canada's public finances in the coming years, but the uncertainties remain very high. The pandemic is far from over and its repercussions for the Canadian economy and public finances remain highly uncertain. Moreover, the Canadian government's response is not finished. For one thing, further measures could well be ordered in the coming months to deal with the pandemic's adverse impacts. For another, the post-COVID-19 economic stimulus plan has yet to be determined. Clearly, the federal government's budget picture could erode further. Let's hope the next budget provides more answers there.