Budget Analysis

Desjardins Economic Studies
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Update of economic and fiscal projections

A clear path

Despite a slightly gloomier economic outlook, Canada's Department of Finance is maintaining its goal of balancing the budget in fiscal 2015–2016 with a $3.7B surplus. For this fiscal year, the deficit will be slightly smaller than anticipated, at $17.9B rather than $18.7B, despite the $2.86B in assistance to be paid to the victims of the flooding in Alberta and the disaster in Lac-Mégantic. Given the two-year freeze on department operating expenditures starting in 2014–2015 and the precautionary measures taken in today's update, the government is exercising tight control over spending and providing for a solid margin. This means that the budget could be balanced a year earlier than anticipated, as of 2014–2015.

Table 1
Summary statement of transactions

	Actual	*Projections*					
In $B	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**
Budgetary revenues	**256.6**	**265.2**	**277.4**	**293.9**	**307.0**	**317.9**	**332.7**
- Change (%)	3.0	3.4	4.6	5.9	4.5	3.6	4.7
Program spending	**-246.4**	**-253.6**	**-253.1**	**-259.4**	**-268.8**	**-277.2**	**-286.8**
- Change (%)	0.9	2.9	-0.2	2.5	3.6	3.1	3.5
Debt charges	**-29.2**	**-29.5**	**-29.7**	**-30.8**	**-33.2**	**-35.0**	**-36.1**
- Change (%)	-6.1	1.0	0.7	3.7	7.8	5.4	3.1
Adjustment based on risk[1]	**0.0**	**-1.5**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Budgetary balance	**-18.9**	**-17.9**	**-5.5**	**3.7**	**5.0**	**5.7**	**9.8**
Federal debt[2]	602.4	617.9	623.3	619.6	614.6	608.9	599.1
- Change (%)	3.2	2.6	0.9	-0.6	-0.8	-0.9	-1.6
% of GDP							
Budgetary revenues	14.1	14.2	14.3	14.5	14.5	14.4	14.4
Program spending	13.5	13.6	13.1	12.8	12.7	12.5	12.4
Public debt charges	1.6	1.6	1.5	1.5	1.6	1.6	1.6
Budgetary balance	-1.0	-1.0	-0.3	0.2	0.2	0.3	0.4
Federal debt	33.1	33.1	32.2	30.6	29.1	27.6	26.0

[1] Reserve contained in budget revenues; [2] Debt representing the accumulated deficits including other comprehensive income.
Source: Department of Finance of Canada

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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.

THE DOWNSIDE RISKS TO ECONOMIC GROWTH REMAIN SUBSTANTIAL

In general, the Canadian economy's growth in recent months has been fairly consistent with the projections set out in last March's budget. The real GDP growth forecast for 2013 remains around 1.7%, while the expected unemployment rate is still 7.1%. Price growth has proven slightly weaker, however. Nominal GDP might only rise 2.9% in 2013, according to our projections, below the 3.3% rise forecast in the last budget.

The risks for 2014 remain tilted to the downside. Support for domestic demand growth is fairly weak and many uncertainties surround the forecast acceleration by exports. What's more, the climate of weak price growth should persist, to the point that nominal GDP could rise 3.8% in 2014, nearly 1% less than the forecast contained in last March's budget.

BALANCED BUDGET IN 2015–2016

Slightly weaker economic growth than forecast of course translates into slower growth by budgetary revenues. The Department of Finance is now calling for a rise of 3.4% for 2013–2014 and 4.6% for 2014–2015; last March, the budget had included increases of 3.8% and 5.9%. However, this shortfall is fully offset by slower growth by program spending and interest charges. On one hand, interest rates are a little lower than forecast, particularly in the shorter maturities. On the other, the government is showing evident caution with its program spending. For example, the Harper government announced another freeze on department operating expenditures as of 2014–2015, and the level of unused credits is fairly high, historically speaking.

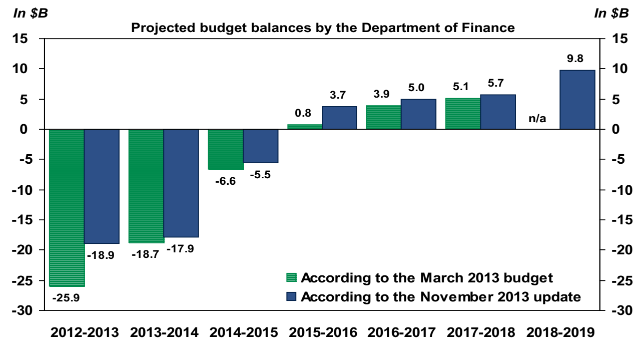
All in all, the budget deficit forecast for 2013–2014 has been lowered to $17.9B, $0.8B less than in last March's budget projections. This positive gap should widen in the coming years, enabling the government to stay on target for a surplus in 2015–2016, with a positive balance of $3.7B rather than the $0.8B forecast in the last budget. The balance now forecast for 2014–2015 is -$5.5B, which includes a $3.0B reserve that could likely go unused (graph 1).

Debt should peak in 2014–2015, with a high point that could be nearly $10B lower than last spring's forecast. It should then slowly decrease, with the federal government's debt to GDP ratio potentially down to 26.0% in 2018–2019, a level not seen since 1977–1978 (graph 2).

PUBLIC FINANCES UNDER CONTROL

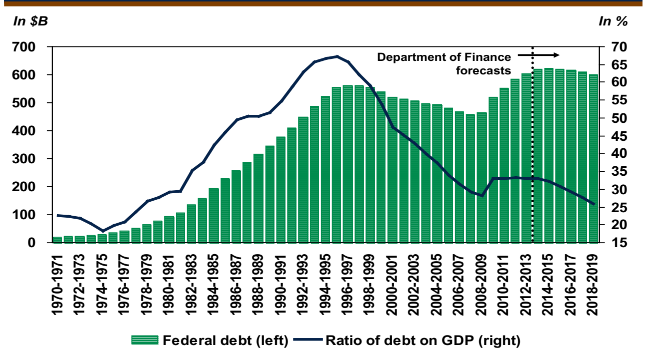
The financial projections tabled by the Department of Finance today point to very tight control over program spending. The results posted for the previous fiscal year

Graph 1 – Fiscal balances will improve faster



n/a: not available
Sources: Department of Finance Canada and Desjardins, Economic Studies

Graph 2 – The size of the debt is expected to decline again



Sources: Department of Finance Canada and Desjardins, Economic Studies

make these projections highly credible. The spending growth budgeted for 2012–2013 was 2.9%, while the actual performance showed an increase of just 0.9%. The government has therefore shown it can deliver the goods on controlling spending, and there is no reason to think the Department will go off track and miss its target. It could even get there earlier than forecast!

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