Budget Analysis

Desjardins Economic Studies
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Update of economic and fiscal projections

Return of budget surpluses and tax relief for families and small business

HIGHLIGHTS

- The update confirms some measures the federal government had announced in recent weeks, such as:
  - An increase to the Universal Child Care Benefit (UCCB) for children under age 6. According to the proposed changes, parents would receive $160 a month for each child under the age of 6, up from the current $100 as of January 1, 2015.
  - A broader scope for the UCCB for children 6 to 17 years old. Under the expanded benefit, parents would get $60 a month as of January 1, 2015, for each child aged 6 to 17 years old. The enhanced UCCB will replace the existing child tax credit for the 2015 and later tax years.
  - Introduction of a non-refundable federal tax credit for families with minor children which will allow one spouse to effectively transfer up to $50,000 in taxable income to the spouse in the lower income tax bracket.
  - A $1,000 increase to the ceiling on the deduction for child care expenses as of the 2015 tax year. The maximum amount that could be requested would go from $7,000 to $8,000 for a child under 7, $4,000 to $5,000 for a child aged 7 to 16 (as well as children over 16 with disabilities), and from $10,000 to $11,000 per child eligible for the tax credit for persons with disabilities.
  - Introduction of a new job credit for small business. The credit should help save small businesses more than $550M in 2015 and 2016. Any firm paying up to $15,000 in employment insurance contributions in either of these years will be eligible for the credit—90% of all employers in Canada paying contributions.
- The new measures are expected to cost about $5B a year as of the 2015–2016 fiscal year.
- The federal government is maintaining its goal of a balanced budget in 2015–2016, with a surplus forecast of $1.9B. The surplus should then subsequently increase gradually, reaching $13.1B in 2019–2020.
- A $2.9B deficit is still expected for fiscal 2014–2015. However, this projection includes a $3.0B reserve for contingencies.
- The federal government plans to introduce a bill that would require balanced budgets to be tabled during normal economic situations; it would set precise time lines for getting the budget back into balance during economic crises.

THE GOVERNMENT STILL HAS SUBSTANTIAL LEEWAY

Today's update from the Finance Minister contained no surprises. Not only did we already know that the federal government's financial position was better than expected, Messrs. Harper and Oliver had, in the preceding weeks, already announced the measures that the update would contain.

However, it is still reassuring to see that the federal government is maintaining its goal of balancing the budget despite the new tax relief measures. It even seems obvious that the Finance Minister still has substantial financial leeway. Firstly, the budget projections still include a $3B reserve per fiscal year to deal with contingencies, even for fiscal 2014–2015. As the economic and financial outlooks have barely changed from the 2014 budget (table 2 on page 2), it is quite possible the reserve will not be needed in the near term, opening the door to balancing the budget as of March 31, 2015.

Secondly, the new budget projections contain a downside adjustment to accommodate the impact of the recent drop in commodity prices. In our view, however, prices have fallen too steeply in the last few weeks against market fundamentals, so an upswing by commodity prices could potentially materialize in the coming weeks. If so, the federal government's surplus could be up to $2.5B more than forecast for the 2015–2016 and later fiscal years.

However, such precautions are justified given the many uncertainties surrounding the economic and financial

François Dupuis
Vice-President and Chief Economist

Benoit P. Durocher
Senior Economist

514-281-2336 *or* 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

Table 1
Summary statement of transactions

In $B	Actual 2013-2014	Projections 2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	2019-2020
Budgetary revenues	**271.7**	**277.6**	**294.5**	**307.6**	**318.6**	**332.8**	**347.9**
- Change (%)	5.9	2.2	6.1	4.4	3.6	4.5	4.5
Program spending	**-248.6**	**-252.7**	**-263.9**	**-273.0**	**-281.3**	**-292.2**	**-299.6**
- Change (%)	1.0	1.6	4.4	3.4	3.0	3.9	2.5
Debt charges	**-28.2**	**-27.7**	**-28.7**	**-30.4**	**-32.3**	**-33.8**	**-35.2**
- Change (%)	-2.3	-1.8	3.6	5.9	6.3	4.6	4.1
Adjustment based on risk[1]	**0.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**
Budgetary balance	**-5.2**	**-2.9**	**1.9**	**4.3**	**5.1**	**6.8**	**13.1**
Federal debt[2]	**611.9**	**615.8**	**613.9**	**609.5**	**604.4**	**597.6**	**584.5**
- Change (%)	0.4	0.6	-0.3	-0.7	-0.8	-1.1	-2.2
In % of GDP							
Budgetary revenues	14.3	14.2	14.5	14.5	14.4	14.4	14.5
Program spending	13.1	12.9	13.0	12.9	12.7	12.7	12.5
Public debt charges	1.5	1.4	1.4	1.4	1.5	1.5	1.5
Budgetary balance	-0.3	-0.1	0.1	0.2	0.2	0.3	0.5
Federal debt	32.3	31.5	30.3	28.8	27.3	25.9	24.3

[1] Reserve contained in budget revenues; [2] Debt representing the accumulated deficits including other comprehensive income.
Sources: Department of Finance of Canada and Desjardins, Economic Studies

Table 2
Economic and financial outlook for Canada

In % (except if indicated)	*2014f*	*2015f*	*2016f*
Real GDP			
Budget 2014	2.3	2.5	2.5
2014 Fall Update	2.4	2.6	2.4
Nominal GDP			
Budget 2014	3.9	4.5	4.5
2014 Fall Update	4.4	4.3	4.4
Treasury bills – 3 months			
Budget 2014	1.0	1.5	2.7
2014 Fall Update	0.9	1.2	2.1
Bonds – 10 years			
Budget 2014	3.0	3.5	4.1
2014 Fall Update	2.3	3.0	3.6
Exchange rate (US¢/C$)			
Budget 2014	93.7	95.3	95.9
2014 Fall Update	91.3	89.6	90.8

f: forecasts
Source: Department of Finance of Canada

outlooks in Canada and elsewhere in the world. Despite adjustments to factor in risk, substantial budget surpluses have been maintained for upcoming fiscal years, attesting to the solidity of the federal government's financial position.

The budget surpluses projected for the next few years should enable a large cut to the federal government's debt load. The federal government's debt to GDP ratio should keep retreating in future years, edging just below the 25% mark as at March 31, 2020, a year ahead of the Finance Minister's initial objective. What now remains to be seen is whether these future surpluses will in fact be allocated to repaying the debt, given the enormous pressures to use them for other purposes. There, a clearer strategy from the federal government would be desirable; perhaps the upcoming bill on balanced budgets will provide a better framework.