Canada: Public Finances Seem To Be in Better Shape

The Department of Finance Canada recently released the July results for its current fiscal year (2018–2019). A $140 million surplus was recorded, the fourth consecutive monthly surplus since April. After four months, the year-to-date budgetary balance for the 2018–2019 fiscal year therefore stands at +$4,426 million. That is an excellent start compared to previous fiscal years (graph 1). For example, a $109 million deficit was recorded at this time last year.

These strong results are due to much more rapid growth of budgetary revenue, which is up 7.5% from the same time period last year. There were also significant increases in personal income taxes (+5.0%) and corporate income taxes (+18.0%) as well as revenue from the Goods and Services Tax (+8.1%). We are now observing the benefits of the rapid economic growth in recent quarters. Budget expenditures posted a more modest increase of 3.0%.

Even though budget deficits tend to balloon during the last month of every fiscal year, the most recent results indicate that the 2018–2019 budgetary balance could be better than expected. The last federal government budget projected an $18.1 billion deficit for 2018–2019. The correlation between monthly figures and the final public accounts is not exact, because some accounting adjustments have to be made, but it would be surprising if this year’s deficit was as high as last year’s (graph 2).

IMPLICATIONS

Of course, we do not yet have the results for the last eight months of fiscal 2018–2019 and many unforeseen events can still happen. The economic growth outlook remains favourable, however, especially since the recent free trade agreement between Canada, the United States and Mexico has greatly reduced uncertainty. It now remains to be seen to what extent the government will be able to rein in spending during the coming months. The fall update, which will be released shortly, may include good news about Canada’s public finances.

Benoit P. Durocher, Senior Economist

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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