

Economics and FICC Strategy

# FEDERAL BUDGET BRIEFS

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## Federal economic and fiscal update

Today's fiscal update saw a notable reduction in the deficit projection for the current fiscal year and, even with some less favourable economic projections from here and modest spending increases, the updated longer-term projections now show a slim surplus being achieved by fiscal 2027/28. The debt-to-GDP ratio is expected to fall to 42.3% in the current fiscal year, from 45.5% last year, and reach 37.3% by the end of the forecast horizon as it moves back closer to pre-pandemic levels (just above 30% debt-to-GDP).

The \$36.4bn deficit now projected for the current 2022/23 fiscal year (1.3% of GDP) is well below the \$52.8bn that was expected in Budget 2022, and the \$90.2bn shortfall (3.6% GDP) seen in the prior fiscal year. Revenues are expected to be ahead of those prior projections, largely due to higher income tax receipts. The upward revision to revenue projections more than offset somewhat higher spending, including increased public debt charges linked to the rapid rise in interest rates seen so far this year.

Table 1: Budgetary Deficit Projections

\$bn	21/22	22/23	23/24	24/25	25/26	26/27	27/28
Budgetary balance - Budget 2022	-113.8	-52.8	-39.9	-27.8	-18.6	-8.4	-
Budgetary balance - latest	-90.2	-36.4	-30.6	-25.4	-14.5	-3.4	4.5
Budgetary balance (% GDP) – latest	-3.6	-1.3	-1.1	-0.9	-0.5	-0.1	0.1
Federal debt (% GDP) – latest	45.5	42.3	42.2	41.6	40.4	38.9	37.3

Source: Canada Economic and Fiscal Update 2022

New spending within today's update totalled \$6.1bn in the current fiscal year, or around 0.2% of GDP, although this largely reflected previously announced initiatives which were costed for the first time in today's update. Efforts to help Canadians with the cost of living, including a doubling of the GST tax credit for 6 months (\$2.5bn cost) and top up to the Canada Housing Benefit (\$1.2bn cost in 2022/23) were announced for the first time back in September. The \$1.15bn to help rebuilding costs in Atlantic Canada and Eastern Quebec was announced in early October after Hurricane Fiona struck the region.

Additional initiatives announced today, including measures related to boosting business investment and making all student and apprentice loans permanently interest free represent spending increases in fiscal 2023/24 and beyond rather than the current fiscal year. Based on the consensus economic forecasts, and the threat of a downside recessionary scenario, next year may be one where the economy needs a greater boost from fiscal policy.

As was hinted at in the media prior to today's release, the government is imposing a corporate-level 2% tax on the net value of share buybacks by public corporations in Canada, similar to a recently introduced measure in the US. Full details will be announced in Budget 2023 and the tax would come into force on January 1, 2024. It is estimated that this measure would increase revenues by \$2.1 billion over five years.

The longer-term fiscal projections show the budget deficit continuing to slim, and actually reaching a marginal surplus of \$4.5bn (0.1% GDP) by fiscal 2027/28. Of course, the economic outlook is far from certain at the moment, and in keeping with prior updates, the Finance department also provided an update based on a downside scenario for the economy. Under this scenario, which sees a modest peak-to-trough recession of 1.6% in real GDP by 2023, the budget projections show a roughly \$50bn deficit both this year and next, and a modest deficit still at the end of the forecast horizon.

The baseline fiscal projections are, as is customary, centred around a survey of private sector economists and represent a downgrade from where they stood at the time of the budget. Real GDP is now expected to rise by only 0.7% in 2023 (previously 3.1%), with the unemployment rate increasing to 6.3% by the end of next year (previously 5.5%).

Table 2: Projected Gross Issuance of Bonds and Bills

\$bn	21/22	22/23 (Budget 22)	22/23 (Update)	Change from Budget
2yr	67	74	68	-6
3yr	29	24	20	-4
5yr	40	34	31	-3
10yr	79	54	52	-2
30yr	30	16	14	-2
Real return bonds	1	1	1	-
Ultra-long	4	4	-	-4
Green bonds	5	5	5	-
Total bonds	255	212	191	-21
Total Gross Issuance	442	425	383	-42

Source: Canada Economic and Fiscal Update 2022

Due to the improved budget projections for the current fiscal year, combined with a smaller deficit last year that had previously been borrowed for, bond issuance is expected to be a modestly lower \$191bn in the current fiscal year. That's a reduction of \$21bn relative to the Budget 2022 projections, with issuance in most areas expected to be lower.

Back in June, the government decided to cancel the issuance of an ultra-long bond maturing in December 2064 due to declining borrowing needs. Today's update announced that the government has also decided to cease issuance of Real Return Bonds (RRBs) effective immediately due to low demand for that product.

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