

Economics and FICC Strategy

FEDERAL BUDGET BRIEFS

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Federal economic and fiscal update: Not a big splash

Following a day of drama, today's fiscal update brought fairly modest additions to spending alongside tax incentives focussed on supporting business investment in a time of increasing economic uncertainty. The \$2.1bn addition from new measures to the current year deficit (rising to \$3.7bn in fiscal 2025/26) represents only around 0.1% of GDP a year, and so at this stage is not the sort of large fiscal splash that would force us to change our forecasts for Bank of Canada interest rate cuts, particularly given the downside risks currently facing the economy. Moreover, for now two of the three previously-set fiscal anchors, reducing the deficit to 1% of GDP by 2026/27 and lowering debt as a proportion of GDP, remain intact. The phrases "for now" and "at this stage", though, are key, as the resignation of Chrystia Freeland as Finance Minister just hours before the release of today's update brings a new source of fiscal uncertainty heading towards the 2025 budget.

Table 1: Budgetary Deficit Projections

\$bn	23/24	24/25	25/26	26/27	27/28	28/29	29/30
Budgetary balance - Budget 2024	-40.0	-39.8	-38.9	-30.8	-26.8	-20.0	
Budgetary balance - latest	-61.9	-48.3	-42.2	-31.0	-30.4	-27.8	-23.0
Budgetary balance (% GDP) – latest	-2.1	-1.6	-1.3	-0.9	-0.9	-0.8	-0.6
Federal debt (% GDP) – latest	42.1	41.9	41.7	41.0	40.2	39.5	38.6

Source: Canada Economic and Fiscal Update 2024

The wider deficit now anticipated for fiscal 2024/25 (\$48.3bn vs. \$39.8bn at budget time) in part reflects a slightly weaker than anticipated economy, with income tax receipts tracking lower than expected and Employment Insurance claims higher. Relative to Budget 2024, economic factors have resulted in a \$3bn deterioration in the budget balance. The remaining \$5.5bn of fiscal deterioration has been the result of policy action since the budget, although only \$2.1bn was due to new measures announced or costed today. Those new measures include the temporary GST reduction and additional spending on border security. The previously discussed plan to send cheques to taxpayers making under \$150k was not met with support in parliament and as such not included in today's update.

The fiscal update also extended the Accelerated Investment Incentive, which was set up initially during at the time of Trump's first term to improve Canadian tax competitiveness. This extension is the single largest line item announced today, with a projected cost of \$17.4bn over 6 years. The fiscal update also boosted the Scientific Research and Experimental Development tax incentive program, also with the aim of supporting business investment in an increasingly uncertain economic environment.

The most eye-catching single number in today's update is the revision to fiscal 2023/24's deficit, which is now projected at \$61.9bn rather than the \$40.0bn expected at budget time. Almost all of this change was due to higher contingent liabilities, with the government provisioning for future payments related to Indigenous claims and losses on pandemic loans. While payments will only be made as and when a claim is settled, the money set aside adds to the deficit projection and borrowing requirements immediately. Absent of these expenses, the revised 2023/24 deficit would have been \$40.8bn - not greatly different from the previous \$40.0bn projection.

Borrowing requirements for the current year have risen, albeit mainly due to the reassessed prior year deficit projection. Total issuance is expected to be \$36bn higher than planned in Budget 2024, with that increase split roughly two-thirds to one-third towards higher bill issuance (+\$23bn) rather than bonds (+\$13bn).

Table 2: Projected Gross Issuance of Bonds and Bills

\$bn	24/25 (Budget 24)	24/25 (Update)	% chg from Budget
Treasury bills	272	295	8
2yr	88	94	7
3yr	0	0	na
5yr	60	63	5
10yr	60	63	5
30yr	16	17	6
Green bonds	4	4	0
Total bonds	228	241	6
Total Gross Issuance	500	536	7

Source: Canada Economic and Fiscal Update 2024

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