BUDGET ANALYSIS

Federal Fall Economic Statement 2024

Long on Drama. Short on Fiscal Credibility.

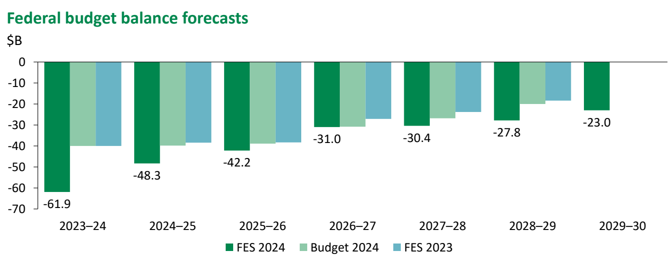
By Randall Bartlett, Senior Director of Canadian Economics

HIGHLIGHTS

- The Fall Economic Statement (FES) 2024 took a back seat to Canada's Deputy Prime Minister and Finance Minister, Chrystia Freeland, resigning from Cabinet shortly before the FES 2024 was set to be released. This delayed the sharing of embargoed copies by nearly four hours. As of the time of writing, Chrystia Freeland was replaced by Dominic Leblanc, Minister of Public Safety.
- The fiscal numbers in the FES were even worse than feared. While we expected the Government of Canada (GoC) to run larger deficits than anticipated in Budget 2024, nobody estimated the federal deficit to be a whopping $61.9B. This breached one of the federal government's deficit-related fiscal anchors—maintaining the 2023–24 deficit at or below the Budget 2023 projection of $40.1B—by a wide margin. However, the GoC expects to maintain a declining deficit-to-GDP ratio in 2024–25 while keeping deficits below 1% of GDP in 2026–27 and future years—the other deficit-related fiscal anchor. But it can thank upward revisions to nominal GDP for that as opposed to prudent fiscal stewardship.
- Program spending is expected to increase by $28.6B over six years in the FES 2024 relative to what was in Budget 2024, $24.2B of which is new spending. With program spending moving higher that previously anticipated, it comes as no surprise that public debt charges are also adding a little more to the deficit than in Budget 2024.
- On the revenue side, the federal government has booked $2.4B from cracking down on tax evasion and another $0.6B from stronger penalties for financial crimes over the next six years. This is the kind revenue measure that often gets included in the fiscal forecast to make the numbers work but rarely gets realized, so it's best to view with caution.
- Taken together, the debt-to-GDP ratio is expected to gradually decline but not as quickly as previously expected. As a result, the federal government expects to meet the threshold for its third and final fiscal anchor: lowering the debt-to-GDP ratio in 2024–25 relative to the FES 2023, and keeping it on a declining track thereafter. As a result, when compared to other major advanced economies, Canada remains one of the cleanest dirty shirts in the fiscal laundry basket.
- We're skeptical that the federal government will be able to meet those fiscal anchors it has yet to breach. Our more bearish outlook starting in 2026 accounts for likely tariffs on US imports, slower population growth and the impending mortgage renewal wall, and looks a lot more like the downside economic forecast presented in the FES 2024. And given spending edges higher with each new fiscal plan, tax revenues will need to rise to offset additional spending and/or deficits will be larger, leading to a further accumulation of debt.

As far as Fall Economic Statements go, they don't get much more dramatic than this one. While the federal government was almost universally expected to have run a larger-than-projected deficit last year, nobody expected it to balloon to over $60B (graph 1). That's teed up bigger deficits as far as the eye can see, worsened further by billions of dollars in additional spending financed by borrowing. It's put the level of debt on a higher track over the coming years, even if upwardly revised nominal GDP means the debt-to-GDP ratio remains on a declining path after this year. Add to that the resignation of the Finance Minister, and there is reason for concern regarding the sustainability of Government of Canada finances.

Graph 1
Eyepopping Deficits as Far as the Eye Can See



FES: Fall Economic Statement
Government of Canada and Desjardins Economic Studies

Goodbye Chrystia, Hello Dominic?

The FES 2024 took a back seat to Canada's Deputy Prime Minister and Finance Minister, Chrystia Freeland, resigning from Cabinet shortly before the FES 2024 was set to be released. In her resignation letter, Ms. Freeland cited losing the confidence of the Prime Minister as her motivation for stepping down. However, she also took shots at "costly political gimmicks, which we can ill afford…" and mentioned "… keeping our fiscal powder dry today, so we have the reserves we may need for a coming tariff war." This delayed the sharing of embargoed copies of the note with media and economists by nearly four hours as the federal Cabinet scrambled to contend with the lack of a Finance Minister. As of the time of writing, Chrystia Freeland was replaced by Dominic Leblanc, Minister of Public Safety and Prime Minister Justin Trudeau's "Fixer-in-Chief" for whatever problems pop up that need to be knocked down.

Spending Like There's No Tomorrow

So why all the controversy around FES 2024? Let's start with what happened last year. After committing to maintain the 2023–24 deficit at or below the Budget 2023 projection of $40.1B, the deficit came in a whopping $61.9B (table 1). Contingent liabilities for Indigenous land claims ($16.4B) and provisions for presently unrecovered loans and benefits from support delivered during the COVID-19 pandemic ($4.7B) explain the bulk of the fiscal flop. But even looking past these costs, the deficit would have come in at $40.8B last year. As such, the federal government would have missed its own fiscal anchor, if only just barely.

TABLE 1
Summary of Transactions

	ACTUAL	DESJARDINS PROJECTIONS					
IN $B (EXCEPT IF INDICATED)	2023–2024	2024–2025	2025–2026	2026–2027	2027–2028	2028–2029	2029–2030
Budgetary revenues	459.5	495.2	516.2	537.1	563.1	586.3	612.8
Growth (%)	*2.6*	*7.8*	*4.2*	*4.0*	*4.8*	*4.1*	*4.5*
Program spending	-466.7	-485.7	-500.3	-509.3	-529.7	-549.7	-570.3
Growth (%)	*4.1*	*4.1*	*3.0*	*1.8*	*4.0*	*3.8*	*3.7*
Debt charges	-47.3	-53.7	-54.2	-57.6	-62.0	-66.3	-69.4
Growth (%)	*35.3*	*13.5*	*0.9*	*6.3*	*7.6*	*6.9*	*4.7*
Net actuarial losses	-7.5	-4.0	-3.8	-1.1	-1.8	1.9	4.0
Budgetary balance	**-61.9**	**-48.3**	**-42.2**	**-31.0**	**-30.4**	**-27.8**	**-23.0**
Federal debt[1]	1,236.2	1,281.5	1,323.6	1,354.6	1,385.0	1,412.7	1,435.7
Growth (%)	*5.4*	*3.7*	*3.3*	*2.3*	*2.2*	*2.0*	*1.6*
Budgetary revenues (% of GDP)	15.7	16.2	16.3	16.3	16.4	16.4	16.5
Program spending (% of GDP)	-15.9	-15.9	-15.8	-15.4	-15.4	-15.4	-15.3
Public debt charges (% of GDP)	-1.6	-1.8	-1.7	-1.7	-1.8	-1.9	-1.9
Budgetary balance (% of GDP)	**-2.1**	**-1.6**	**-1.3**	**-0.9**	**-0.9**	**-0.8**	**-0.6**
Federal debt (% of GDP)	**42.1**	**41.9**	**41.7**	**41.0**	**40.2**	**39.5**	**38.6**

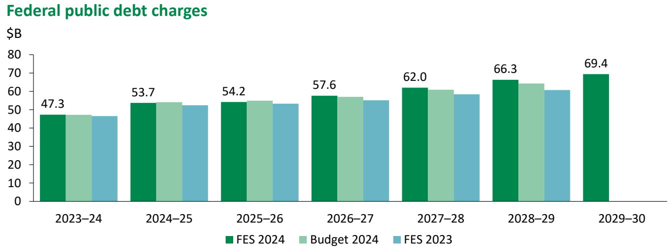
[1] Debt representing the accumulated deficits including other comprehensive income.
Department of Finance Canada and Desjardins Economic Studies

Turning to the current fiscal year, the ballooning deficits continue, projected to be $48.3B (up from $39.8B in Budget 2024). Higher spending than previously planned explains most of the miss, including the widely expected $1.6B for the recently announced and implemented GST holiday. However, lower expected revenues added insult to injury by further bloating the deficit planned for the 2024–25 fiscal year.

Looking ahead, things don't look much better. Larger deficits than were projected back in Budget 2024 are expected to be largely the result of new program spending ($22.1B starting in the 2025–26 fiscal year). Notable new measures include $17.4B for extending the accelerated investment incentive; $1.1B for the expansion of the SR&ED tax credit; and $1.3B to tighten up border security in the hope of avoiding a trade war with the incoming Trump administration. The investment-boosting measures are of the kind that we have been advocating for years, but it might be too little too late now, with business investment likely to be significantly held back by trade uncertainty. However, conspicuously absent from the FES 2024 is the Canadian Workers Rebate, with its $250 cheques for select 2023 tax filers held up until the Liberals can find a dance partner in Parliament. With a price tag of $4.7B, that will further compound the federal government's fiscal woes if it ever comes to pass. Further, there is little in the way of new revenues to offset new spending measures. Indeed, the federal government has booked $2.4B from cracking down on tax evasion and another $0.6B from stronger penalties for financial crimes over the five years starting in the 2025–26 fiscal year. This is the kind of elusive source of revenue that often gets included in the fiscal forecast to make the numbers work but rarely gets realized, so it's best to view with caution. Compounding this is the fact that larger deficits mean higher public debt charges (graph 2), widening the deficit even further.

Graph 2
Bigger Deficits Lead to Greater Borrowing Costs and Still Bigger Deficits

Federal public debt charges



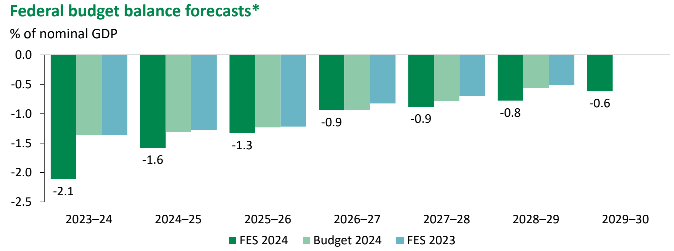
FES: Fall Economic Statement
Government of Canada and Desjardins Economic Studies

The Economy Rescues Some Fiscal Anchors, Yet Again

As bad as things look in the FES 2024, it would have been even worse had it not been for Statistics Canada revising up historical GDP. Indeed, the level of real GDP was 1.4% higher after recent historical revision to the data than it was before, which helps to lower the debt-to-GDP ratio by a similar amount. And when applied to the growth forecasts provided by economists back in September 2024, this has allowed the Government of Canada to meet its second deficit-related fiscal anchor— a declining deficit-to-GDP ratio in 2024–25 while keeping deficits below 1% of GDP in 2026–27 and future years (graph 3).

Graph 3
Falling Deficit-to-GDP Ratio Despite Much Larger Deficits Thanks to GDP

Federal budget balance forecasts*

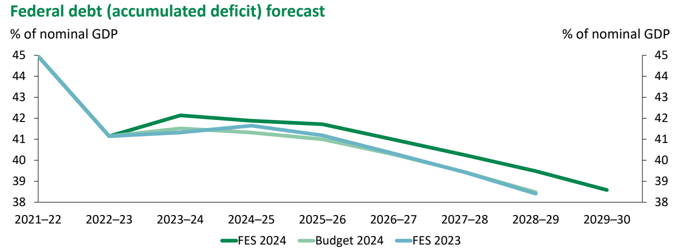


FES: Fall Economic Statement
*adjusted for revisions to historical nominal GDP values
Government of Canada and Desjardins Economic Studies

Importantly, had the federal government managed to keep the level of deficits in line with its prior projection, it could have crowed by bringing down the debt-to-GDP ratio faster than ever. But with continued borrowing and spending, the debt-to-GDP ratio will be higher throughout the outlook compared to previous projections (graph 4).

Graph 4
Despite Higher Nominal GDP, Debt-to-GDP Is Climbing in 2024–25

Federal debt (accumulated deficit) forecast



FES: Fall Economic Statement
*adjusted for revisions to historical nominal GDP values
Government of Canada and Desjardins Economic Studies

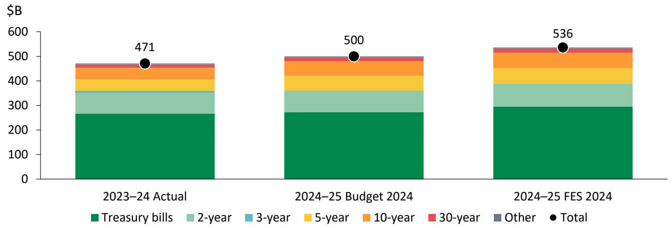
But keep in mind that the economic forecast that underpins the latest fiscal forecast is well out of date, preceding the announcement of lower immigration targets and Donald Trump winning the US presidential election. As such, it might be best to look to the downside scenario for guidance on where federal deficits and debt are going. And it's not pretty.

Debt Getting High on Its Own Bond Supply

As we outlined in our preview for the FES 2024, higher deficits and debt were expected to result in greater debt issuance to meeting federal financing needs. Indeed, most of the additional $36B expected to be issued in the current fiscal year is expected to come from Treasury bills (+$23B to $295B) (graph 5). Of the remainder, $6B is likely to come from 2-year GoC bonds, with equal parts of the remained coming in 5-year ($3B to $94B) and 10-year ($3B to $94B) maturities, and a final $1B in additional 30-year bond issuance (to $17B) rounding out the total. The size of the green bond program was left unchanged at $4B. That leaves the share of long bonds in total issuance broadly unchanged, although the share of Treasury bills edged slightly higher (+1% to 55%). Planned auction sizes have increased to accommodate the larger borrowing program.

Graph 5
Higher Debt to be Financed by More Short-term Bill and Bond Issuance

Projected gross issuance of bonds and bills



FES: Fall Economic Statement
Government of Canada and Desjardins Economic Studies

Conclusion

The FES 2024 won't be one that economists or political watchers soon forget. It was both long on drama and short on fiscal credibility. Deficits are ballooning and are seemingly beyond the control of the federal government to keep them in check. The Government of Canada's inability to meet its own fiscal targets may cast doubt on its ability to manage its finances, possibly raising concerns that our coveted triple-A credit rating could be at risk. However, this shouldn't be exaggerated as, when compared to other major advanced economies, Canada remains one of the cleanest dirty shirts in the fiscal laundry basket.