

# Fiscal Policy in Transition: Challenges, Opportunities and Risks in 2024

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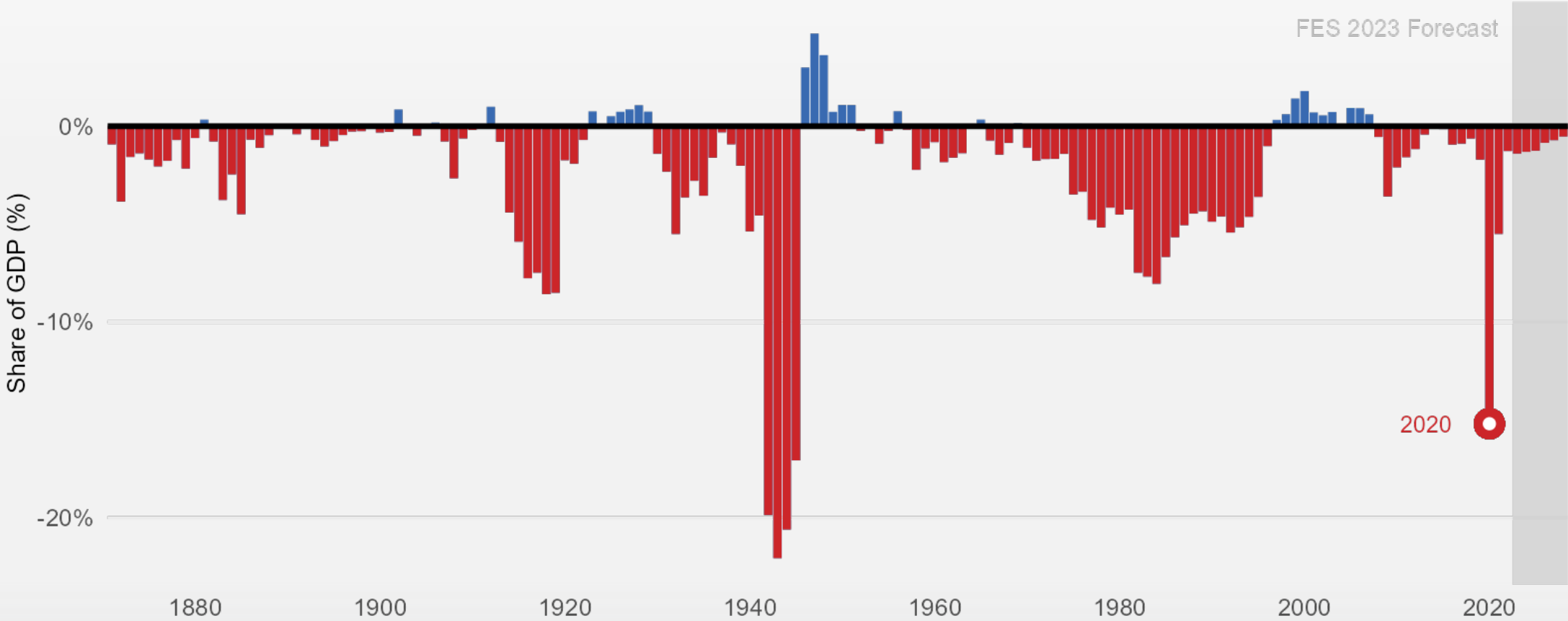
January 25, 2024



# Fiscal Lessons from 2020–2023 in Historical Perspective

## Federal Budget Surpluses and Deficits, 1867 to 2028

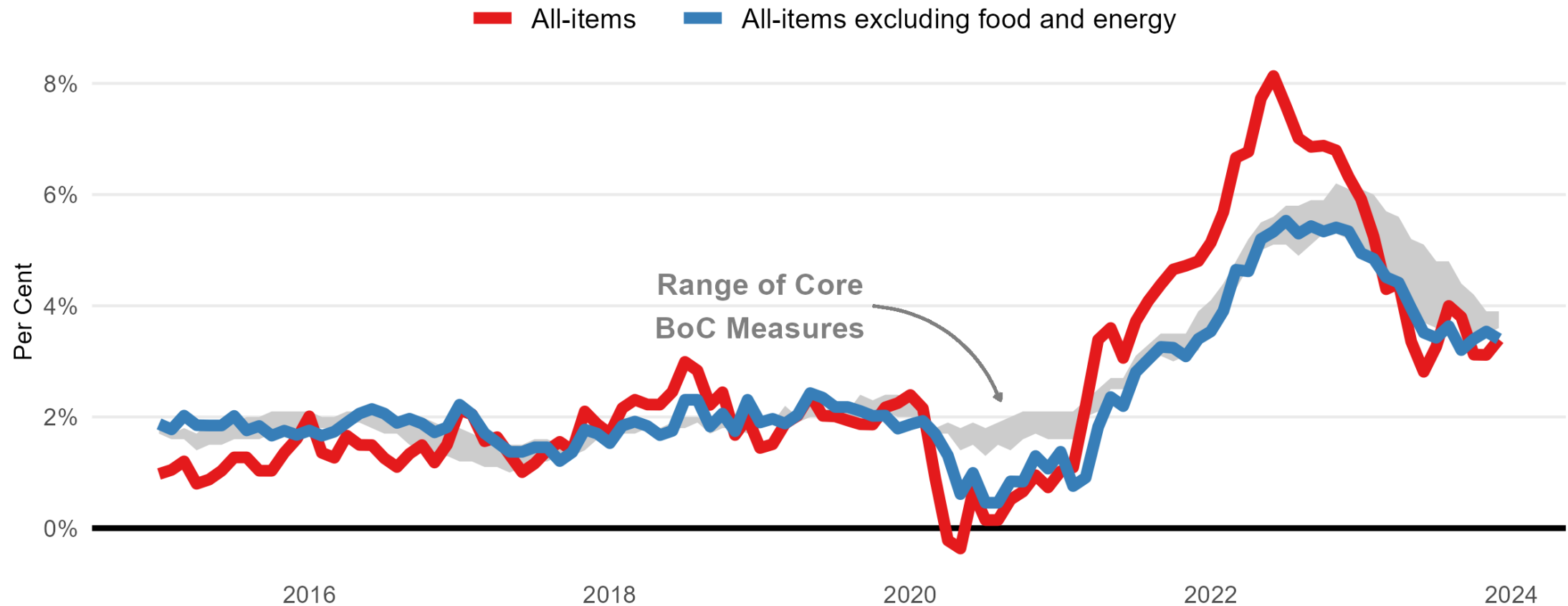
Sources: Historical Statistics of Canada, 1867-1965; Fiscal Reference Tables, 1966-2021; Budget 2023 and FES 2023 afterwards.



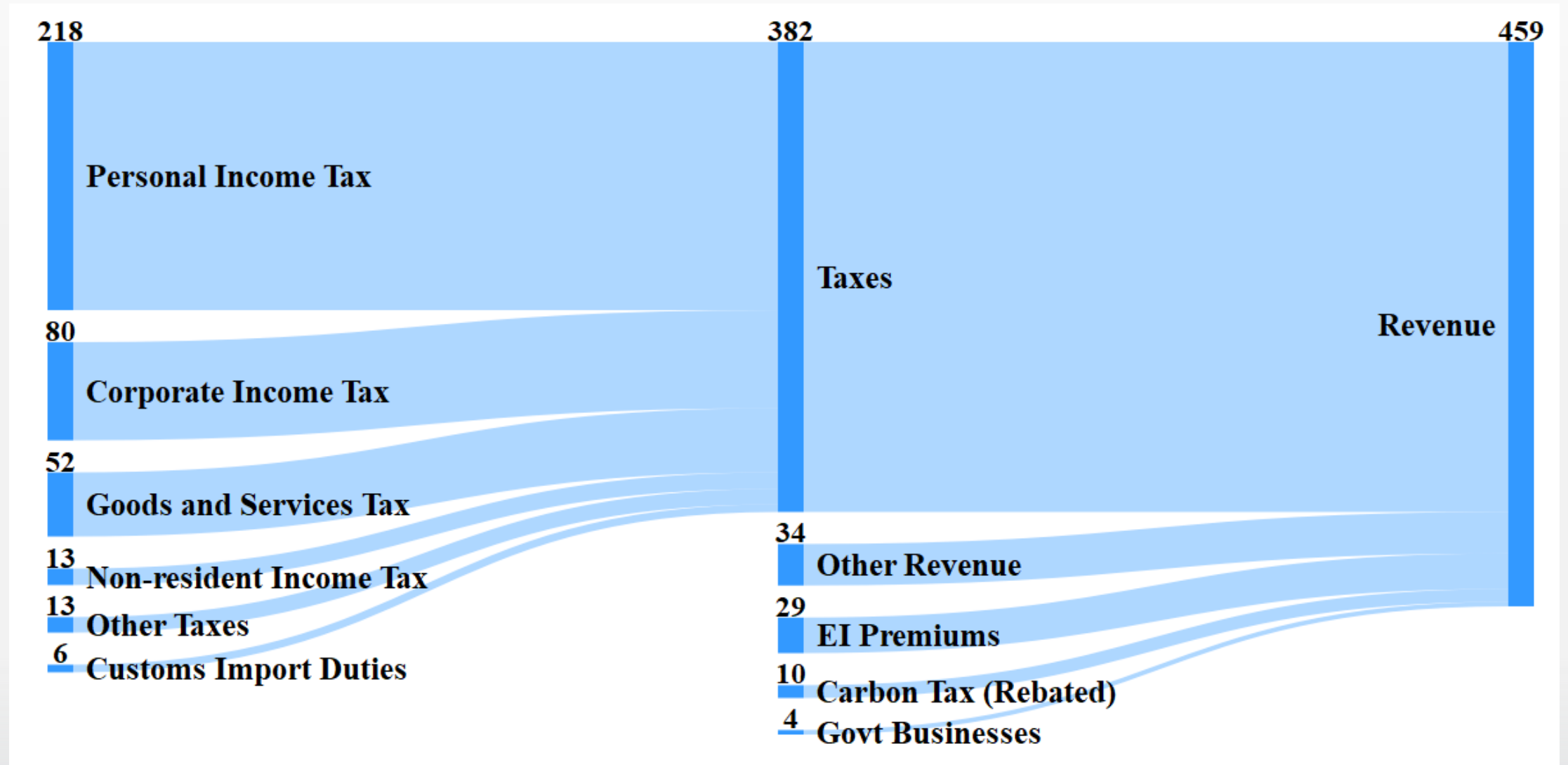
# Fiscal Lessons from 2020–2023

## Year-over-Year Change in Consumer Prices in Canada

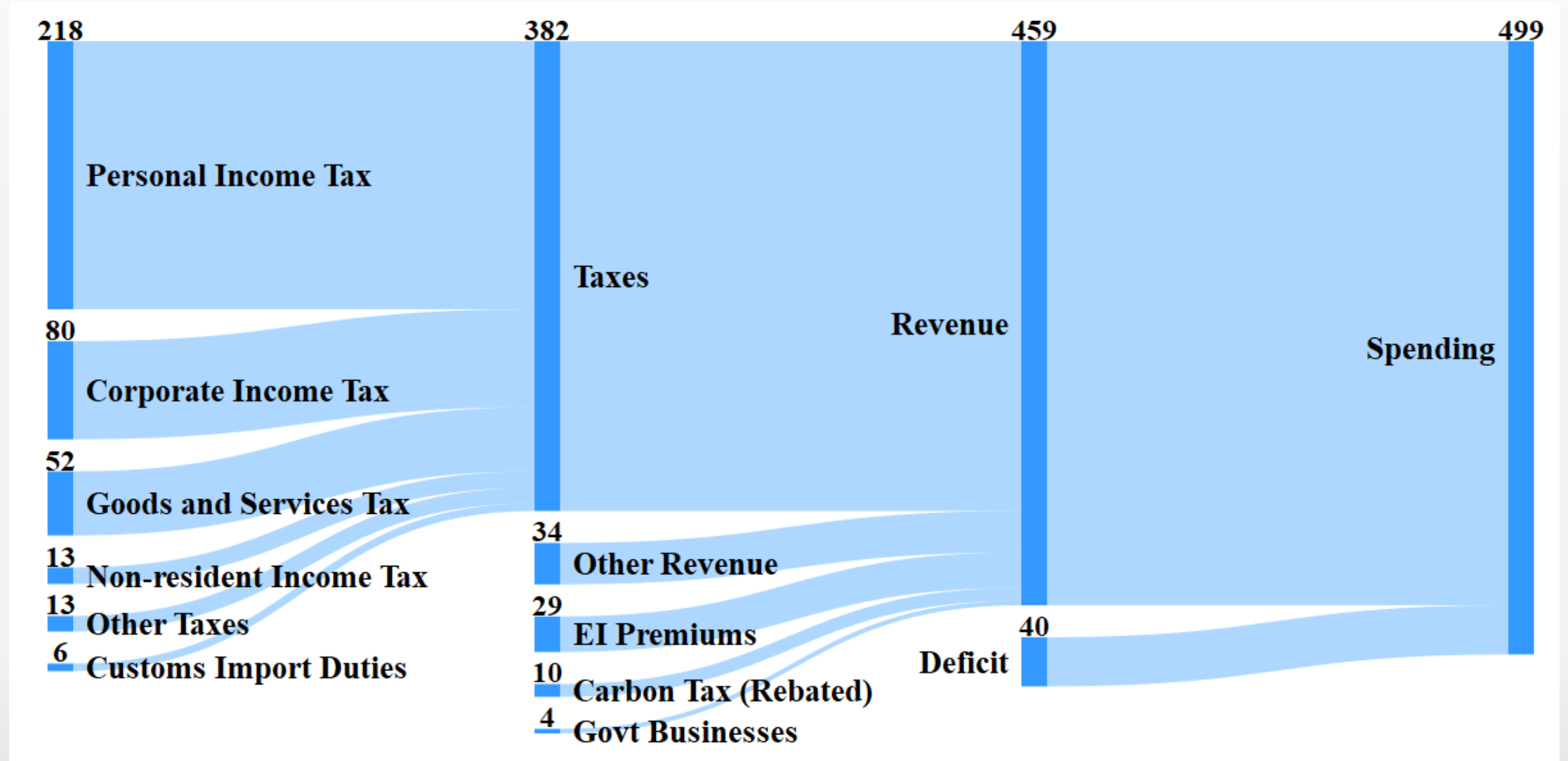
Source: Own calculations from Statistics Canada data table 18-10-0004



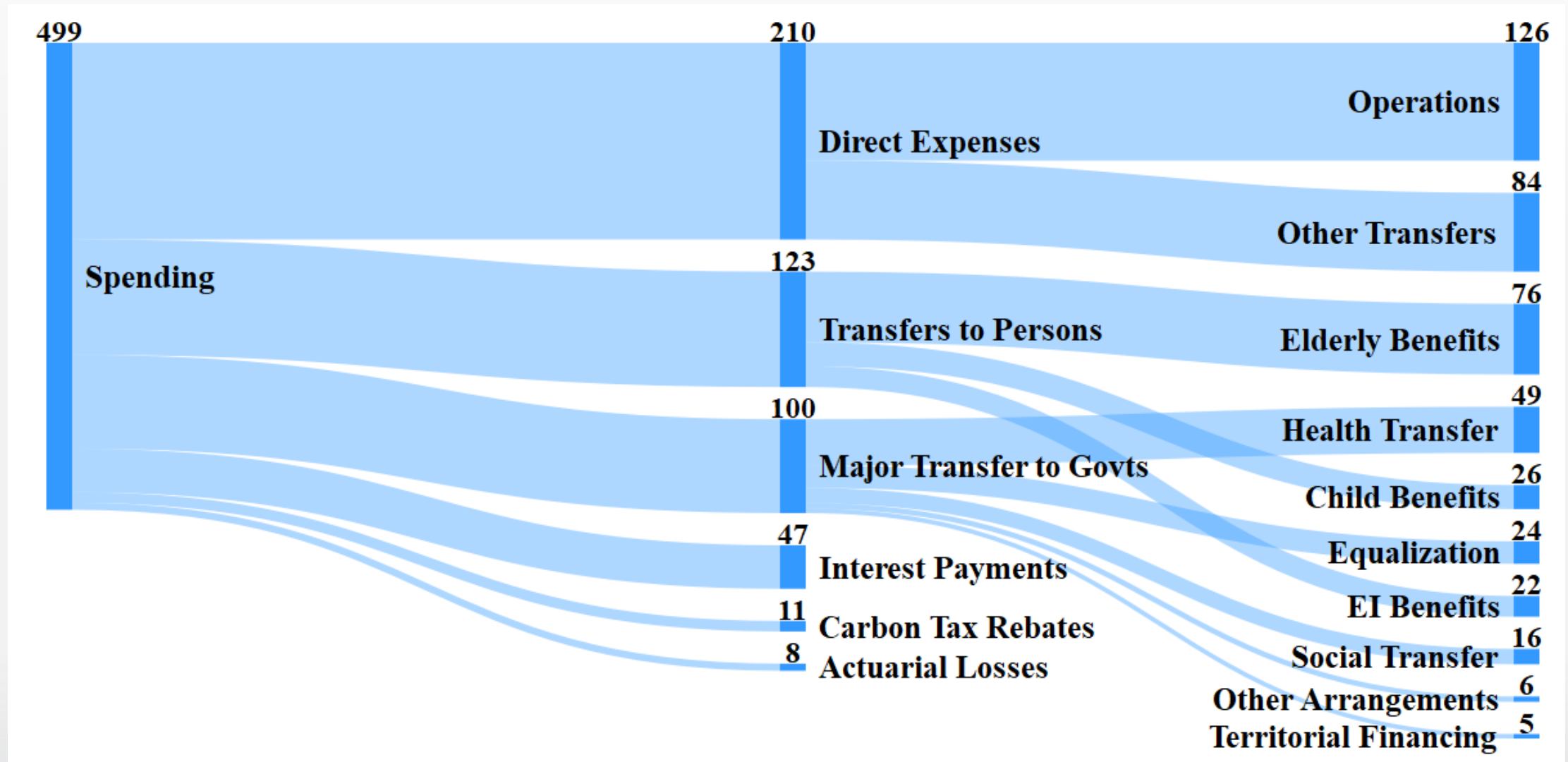
# Federal Revenues, 2023-24 (\$ billion)



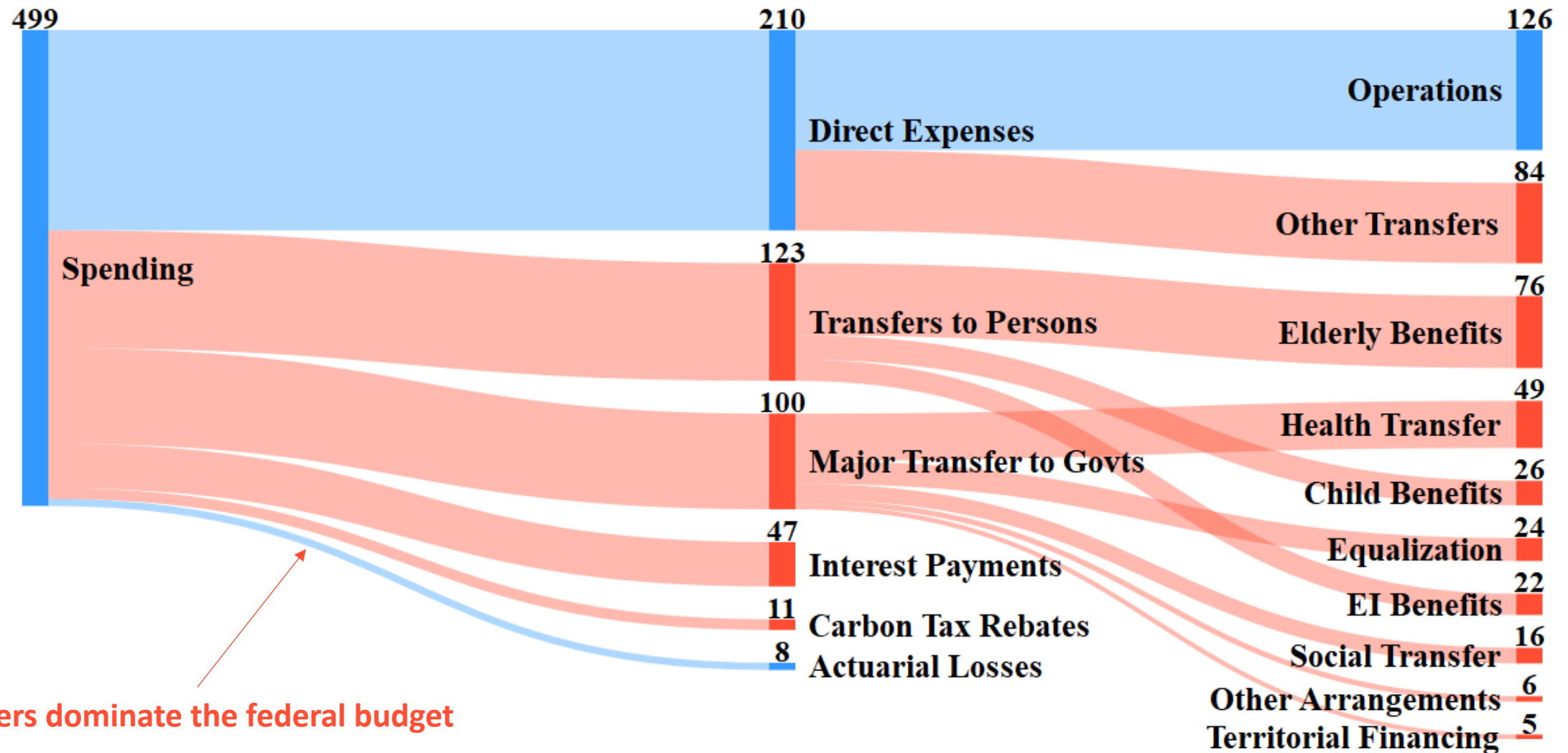
# Federal Revenues + Deficit, 2023-24 (\$ billion)



# Federal Expenditures, 2023-24 (\$ billion)



# Federal Expenditures, 2023-24 (\$ billion)



Transfers dominate the federal budget

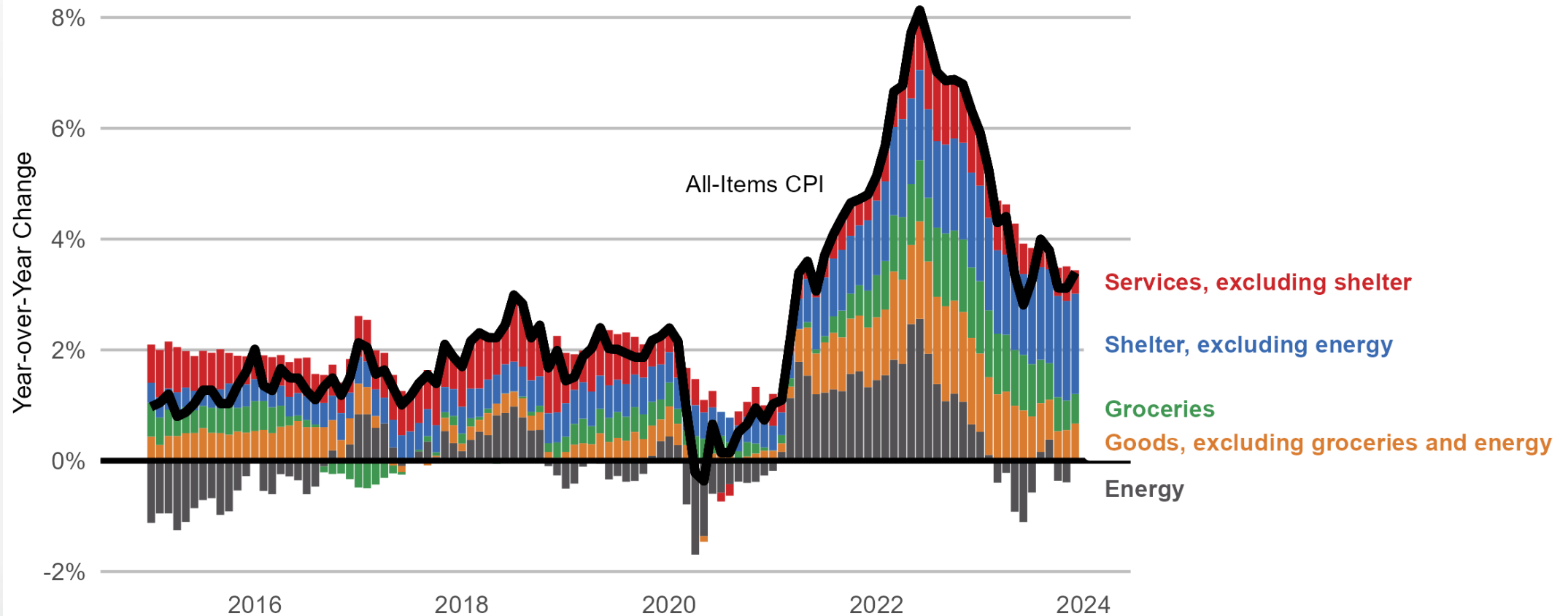
# Challenges



# Product-Level Drivers of CPI Changes

## Contribution of Selected Products to Canada's Inflation Rate

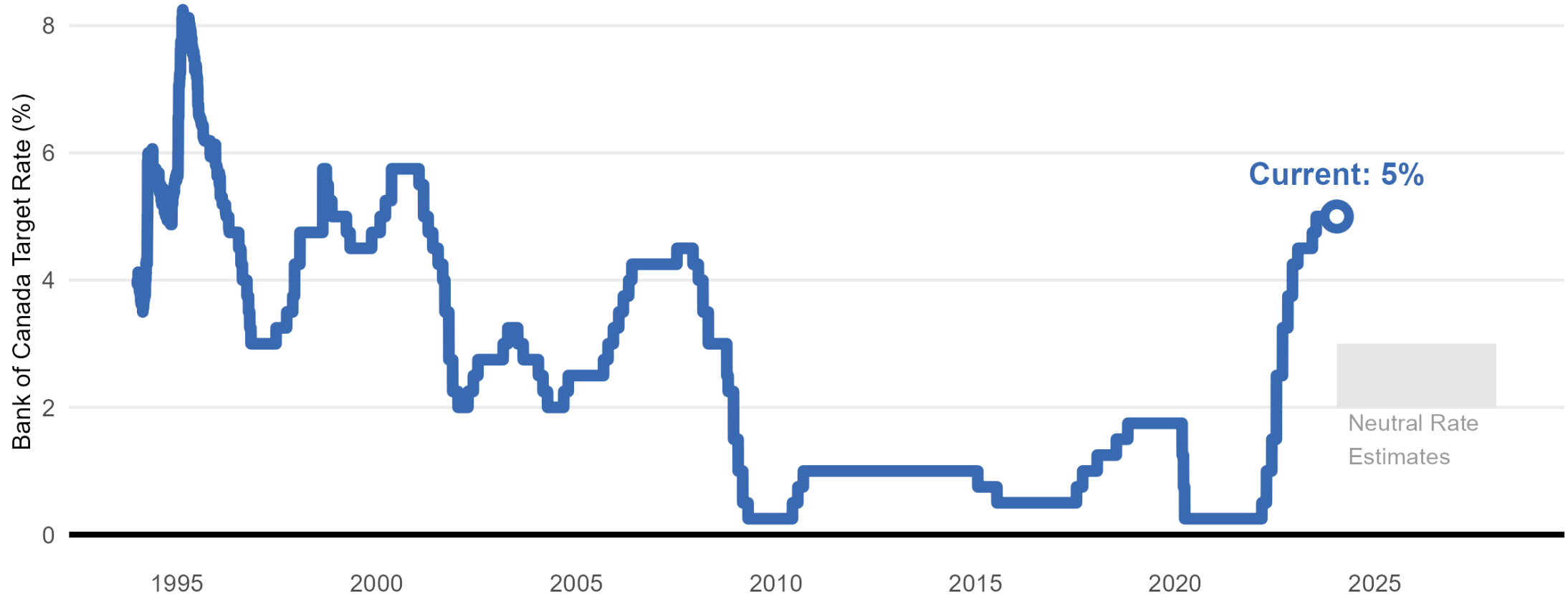
Source: own calculations from Statistics Canada data tables 18-10-0007 and 18-10-0004



# Monetary Policy Tightening

## Bank of Canada Target Rate (%)

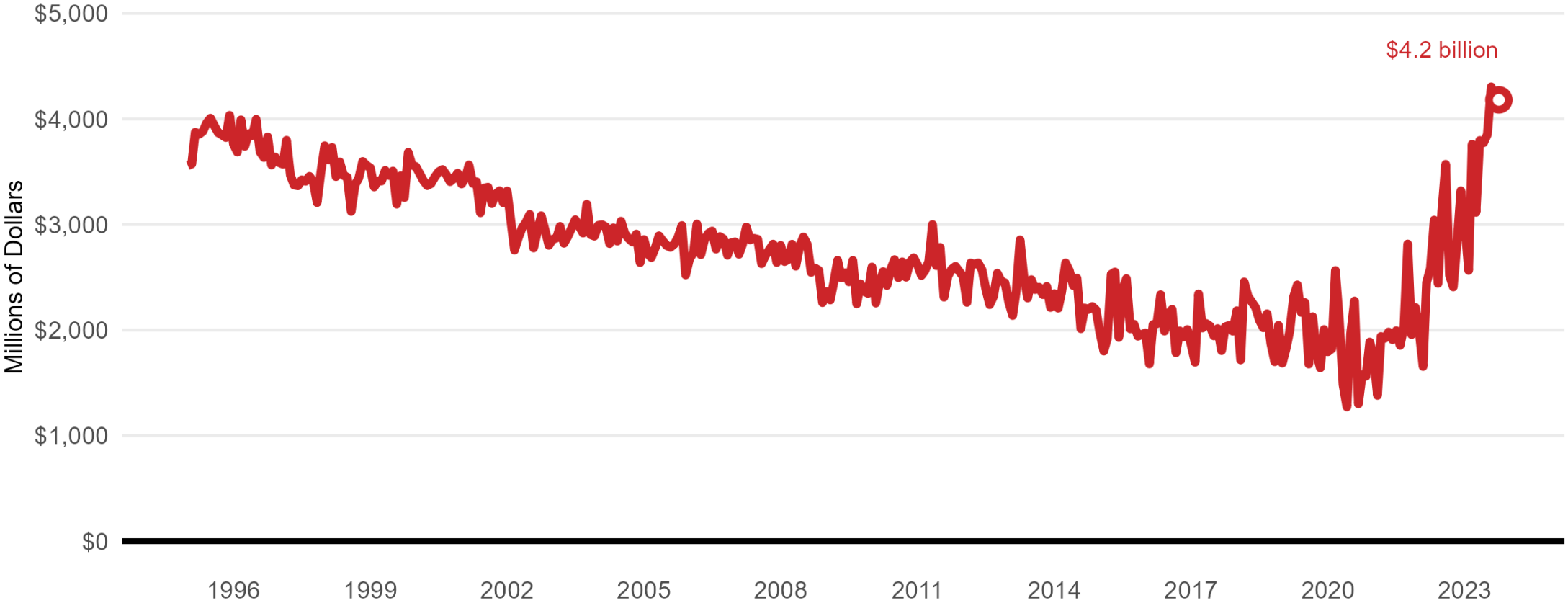
Source: Statistics Canada data table 10-10-0139. Neutral rate estimates from Faucher et al. (2022).



# Short-Term Challenge: Rising Interest Costs

## Canada's Monthly Federal Debt Service Costs

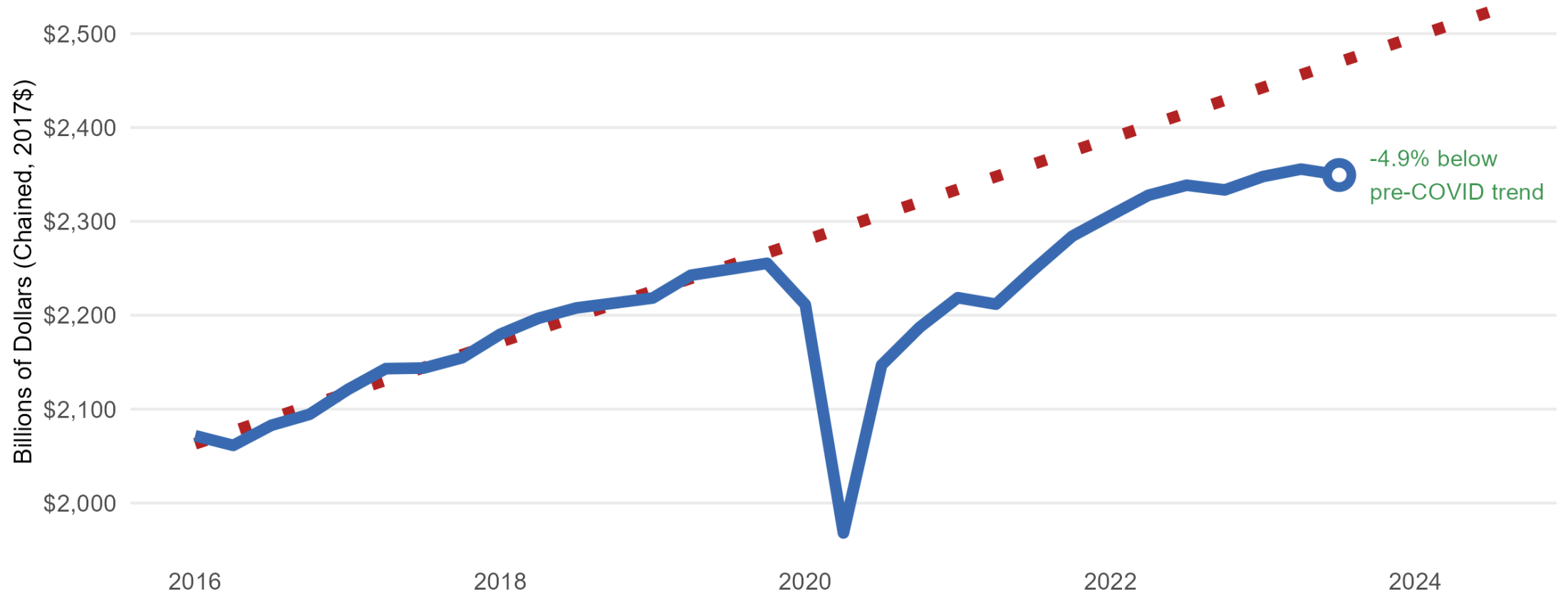
Source: Own calculations from the Finances of the Nation fiscal monitor database



# Medium-Term Challenge: Economic Scarring

## Real GDP in Canada, Actual vs Pre COVID Trend

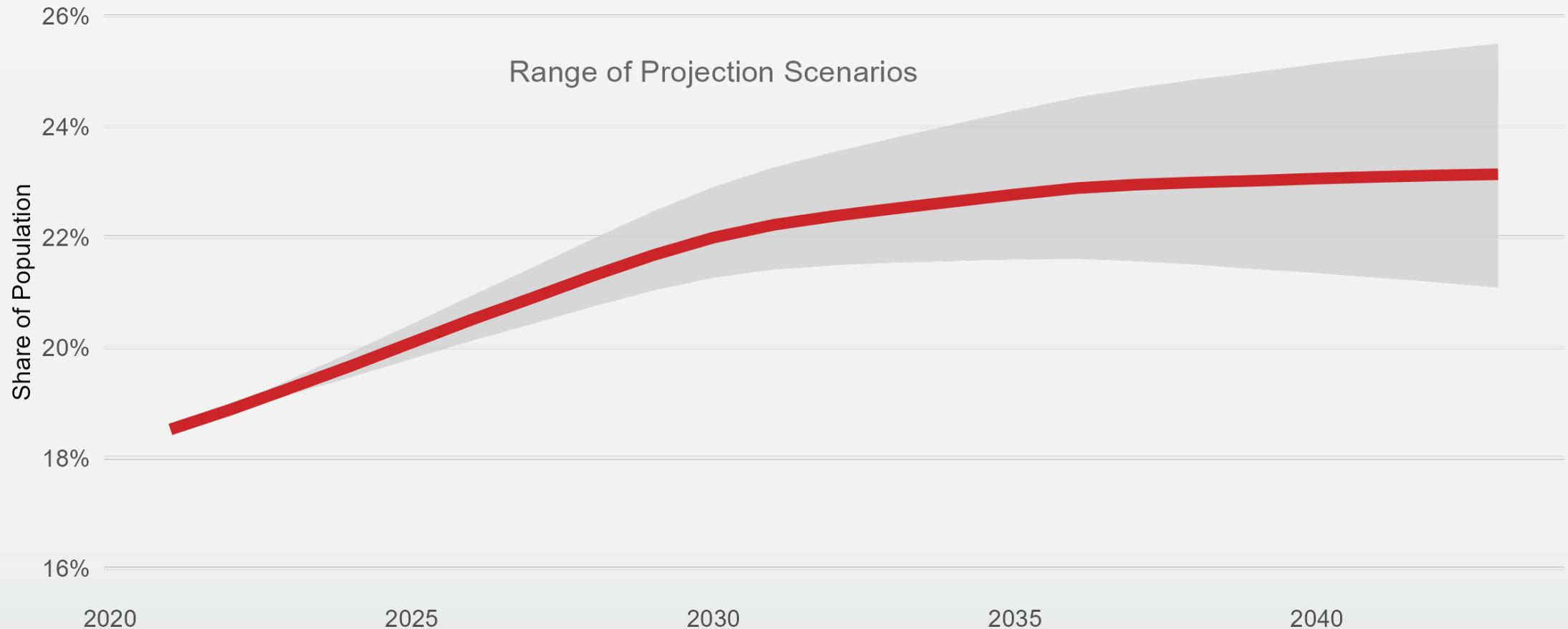
Source: Own calculations from Statistics Canada data table 36-10-0104.



# Long-Term Challenge: Aging Population

## Share of Canada's Population Age 65+

Source: own calculations from Statistics Canada data table 17-10-0057

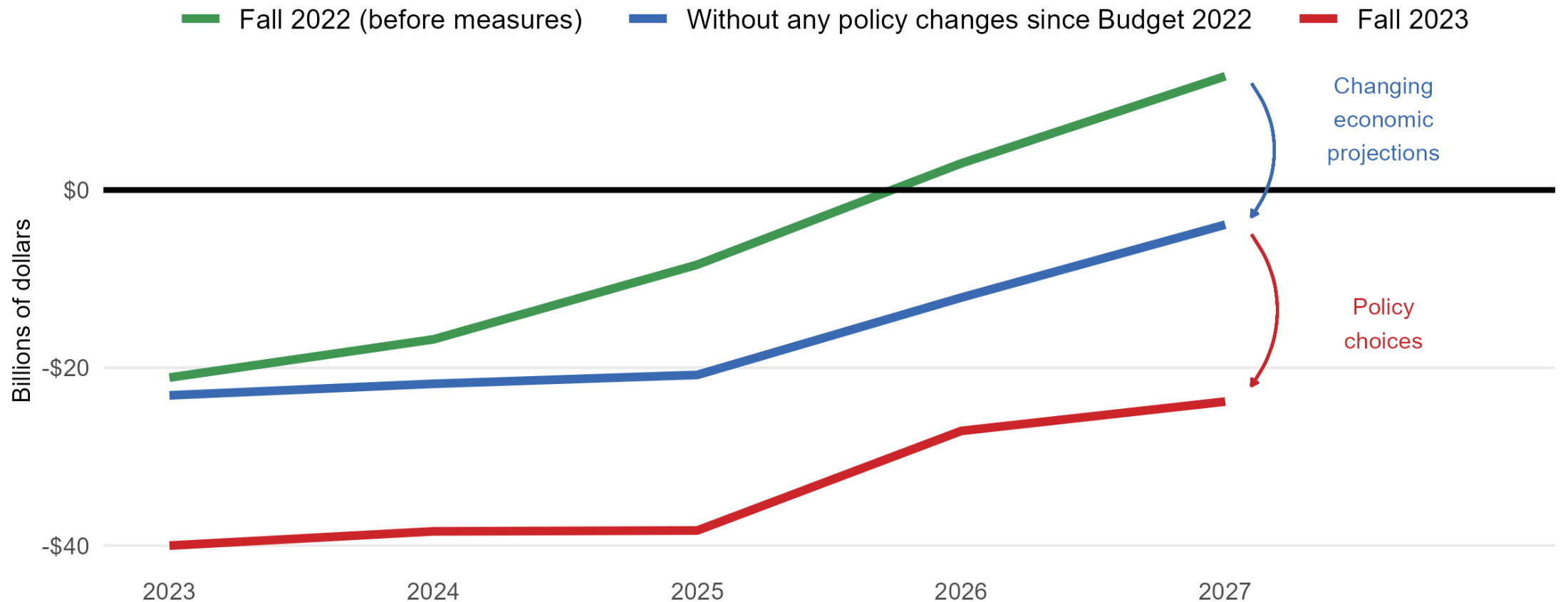


# Risks and Opportunities

# Economic Circumstances vs Policy Choices

## Canada's projected federal budget balance, 2023 to 2027

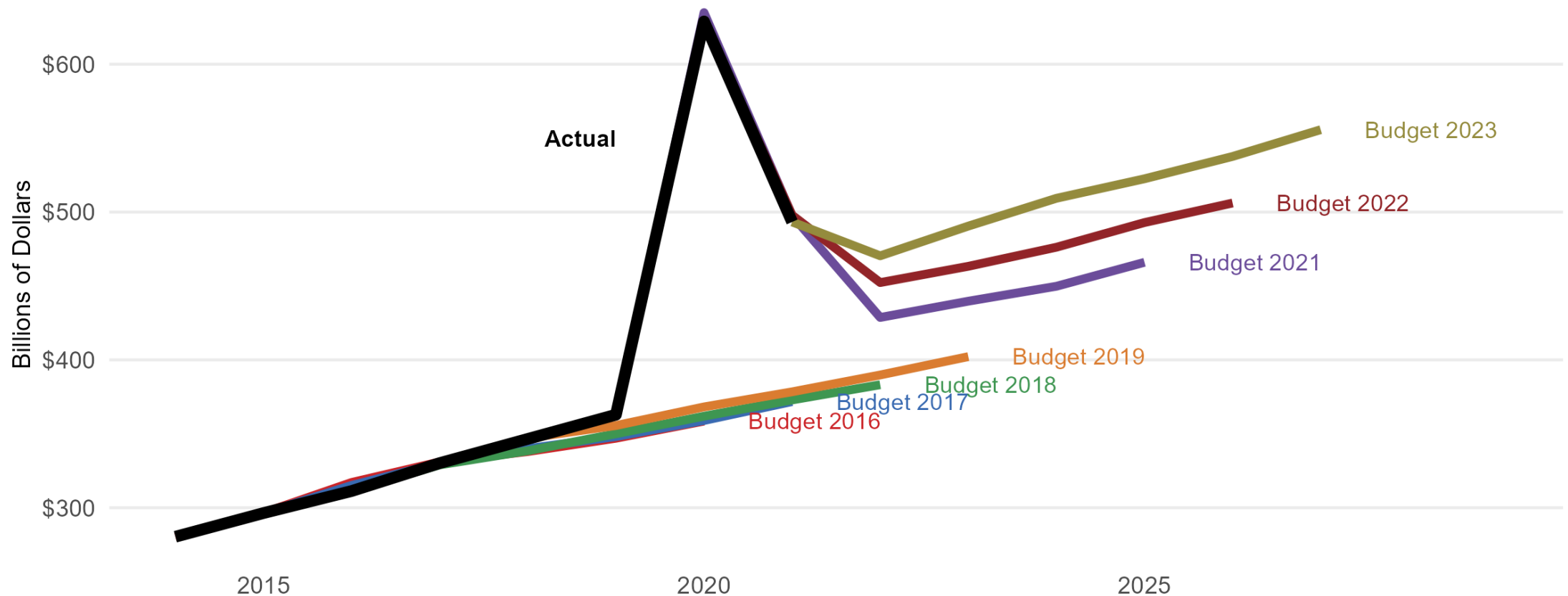
Source: own calculations from various federal budget documents



# Failure to Plan for Future Federal Spending

## Canada's Total Federal Expenditures, Actual and Planned

Source: Own calculations from various federal budgets

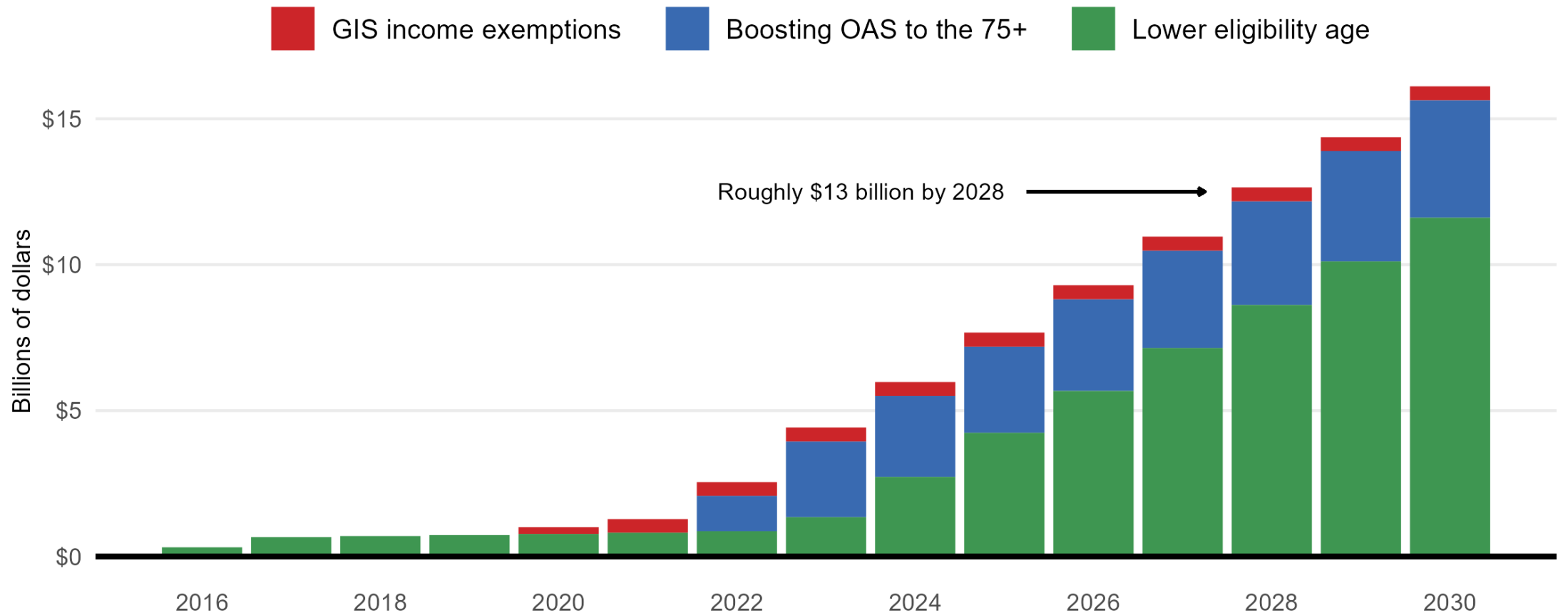




# Demographics and Rising Federal Spending

## Cost of various OAS/GIS amendments since 2016

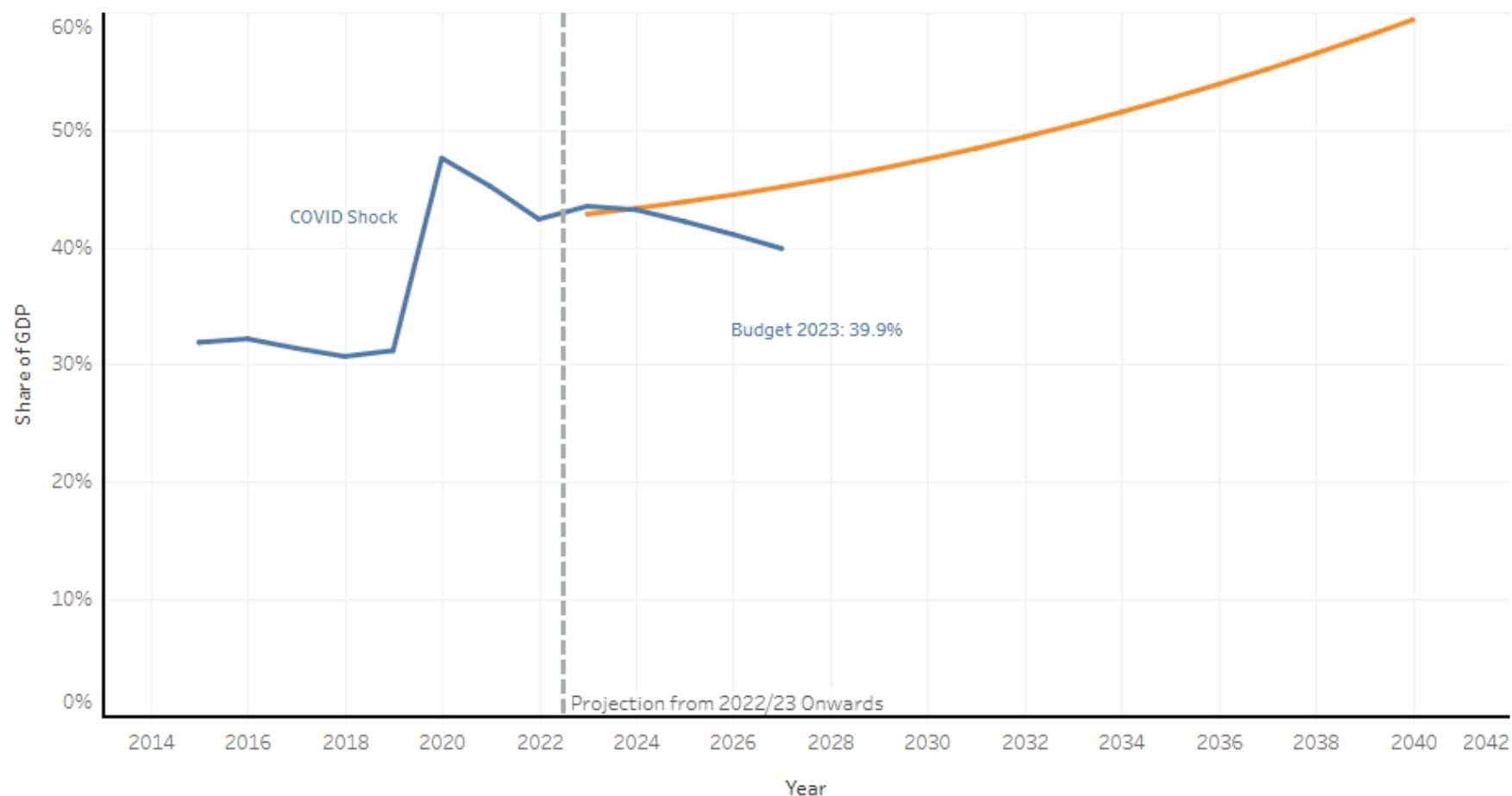
Source: own calculations from the 13th, 15th, and 17th actuarial reports on the OAS



# Future Federal Debt Trajectory

## Federal Debt as a Share of GDP

Budget 2023 and User-Defined Projections Beyond 2022/23



### Legend

- Budget 2023 Projection
- Future Debt/GDP Ratio

### Average Borrowing Costs

3.2%

### Nominal GDP Growth

3.4%

### Program Spending Growth

3.8%

### Revenue Growth

3.4%

### Fiscal Adjustment

0.0%

Finances of the Nation

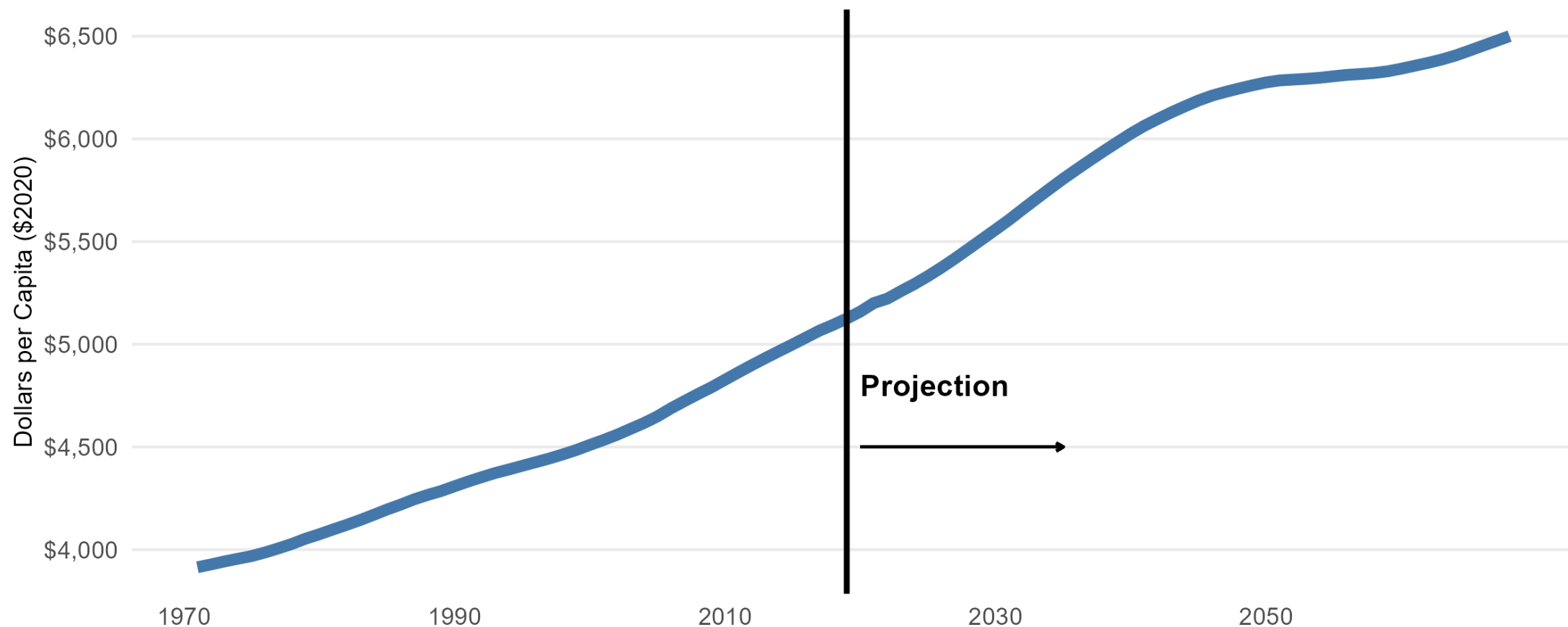
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Note: fiscal adjustments are level changes in annual revenue/(spending) as a share of GDP from 2022/23 onwards.

# Demographics and Rising Provincial Spending

## Real Per Capita Healthcare Expenditures by Provincial Governments

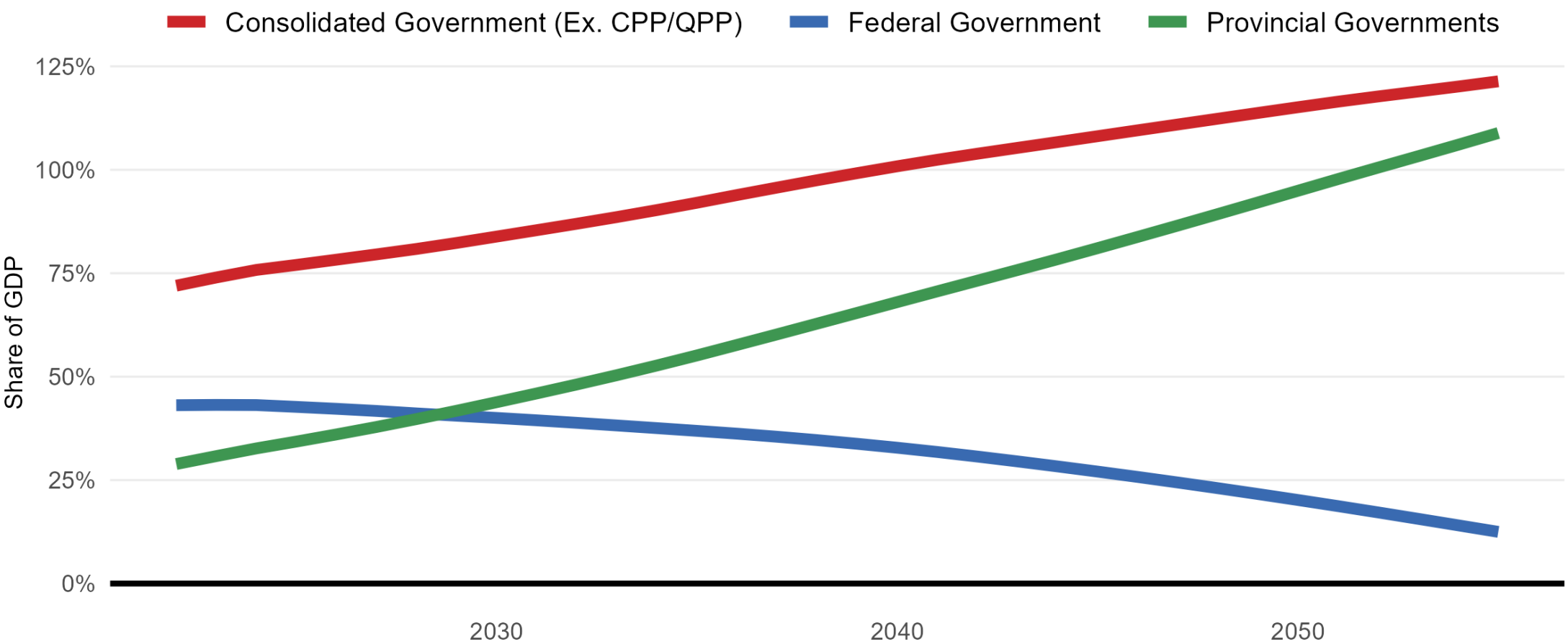
Source: Own calculations from CIHI health spending data and population projections based on provincial projections (Sept 2018) during the period 2021 to 2041 and extrapolated beyond with national StatCan M1 scenario (17-10-0057).



# Canada's Fiscal Future is Cloudy for Provinces

## Long-Run "Fiscal Space" in Canada

Displays the hypothetical debt/GDP for levels of government in Canada over a 80-year horizon.



# Future U.S. Federal Debt Trajectory

## Federal Government Debt-to-GDP Ratios

Source: Own calculations using U.S. Treasury Department data and Finances of the Nation federal debt database

