January 22, 2025

Fall Economic Statement: Issues for Parliamentarians

The Parliamentary Budget Officer supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This note flags issues regarding the 2024 Fall Economic Statement that may be of interest to parliamentarians.

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Highlights

As the Parliamentary Budget Officer (PBO) estimated last year, the Government's 2023-24 budgetary deficit was worse than Budget 2024 indicated.

Given the uncertain and volatile global context, the Government's economic scenarios downplay risks.

The demographic assumptions underpinning the Fall Economic Statement's economic projection are not transparent, and likely inconsistent with current Government policy.

Expenses for contingent liabilities continue to grow and are an increasing source of fiscal risk.

The Public Service's ability to produce timely, high-quality Public Accounts is deteriorating.

2023-24 deficit worse than forecast

The 2023 Fall Economic Statement (FES) set a fiscal objective to keep the 2023-24 deficit below $40.1 billion. Budget 2024 estimated the 2023-24 deficit to be $40.0 billion. The 2024 FES indicates that the deficit in 2023-24 was $61.9 billion and that excluding $21.0 billion in one-time or exceptional items, the deficit would have been $40.8 billion.

A significant portion of the $21.0 billion in spending, however, was included in the fiscal framework at the time of Budget 2024 (including a substantial part of contingent liabilities). This suggests that absent the incremental number of one-time/exceptional items relative to Budget 2024, the deficit in 2023-24 would still have exceeded the $40.1 billion threshold. For example, total budgetary revenues in 2023-24 were $5.5 billion lower than forecast in Budget 2024 (of $40.0 billion), and all else equal, the deficit would have been $45.5 billion in 2023-24.

Looking at the Parliamentary Budget Officer's (PBO) recent fiscal forecast published in the October Economic and Fiscal Outlook, the audited deficit is $15.1 billion higher than our estimate ($46.8 billion, Table 1).

Table 1

Comparison of 2023-24 to October 2024 Economic and Fiscal Outlook, billions of dollars

	October 2024 EFO	Actual	Difference
Revenues	**461.0**	**459.5**	**-1.4**
Program Expenses	452.8	466.7	-13.9
Public debt charges	47.4	47.3	0.1
Actuarial losses	7.6	7.5	0.1
Expenses	**507.7**	**521.4**	**-13.7**
Budgetary Balance	**-46.8**	**-61.9**	**-15.1**

Source:
Finance Canada and the Office of the Parliamentary Budget Officer.

Note:
Totals may not add due to rounding. For the difference, a negative sign reflects a deterioration in the budgetary balance.

Overall, revenues were $1.4 billion (0.3 per cent) lower, and program expenses were $13.9 billion (3.1 per cent) higher than estimated for 2023-24.

No transparency on immigration assumptions

The economic outlook presented in the FES is based on Finance Canada's September 2024 survey of private-sector economists. Table 2 provides a high-level comparison of the average private sector forecast and PBO's Economic and Fiscal Outlook (EFO) published on October 17.[1]

We note that both our economic forecast and those from the private sector were prepared prior to the Government's announcement of the updated immigration level plans. As a result, private sector forecasters could not have incorporated the effects of this significant shift in immigration policy into their outlook. Furthermore, several private sector forecasters have published population projections that explicitly differ from the government's demographic outlook.

Incorporating these updated demographic factors would likely lead to a significant downward revision in both the baseline and downside scenarios.[2] This lack of transparency and consistency is particularly notable as positive impacts of the new immigration policies are highlighted throughout the FES 2024 Economic and Fiscal Overview while none of the negative impacts are mentioned.

Absent a current, transparent demographic baseline, the Government's FES forecast is not substantially different than the PBO's October outlook. On balance, the outlook for real GDP growth over 2024 to 2029 presented in the FES is slightly weaker. Nominal GDP in the FES 2024 is $21 billion (0.6 per cent) higher per year, on average, over 2024 to 2029 compared to PBO's October outlook.[3] The unemployment rate projected in the FES averages 5.9 per cent over 2024 to 2029, which is 0.2 percentage points higher than PBO's October outlook.

PBO will publish its own estimates of the economic impacts arising from the Government's immigration plans later this winter.

Table 2

Economic outlook comparison

	2024	2025	2026	2027	2028	2029	2024-2029
Real GDP growth* (%)							
2024 FES	1.3	1.7	2.1	2.1	2.0	2.0	1.8
PBO-October EFO	1.2	2.2	2.0	1.9	1.9	1.9	1.9
Difference	0.1	-0.5	0.1	0.2	0.1	0.1	-0.1
GDP inflation* (%)							
2024 FES	3.0	1.9	2.0	2.0	2.0	2.0	2.2
PBO – October EFO	2.9	1.4	1.6	1.9	2.0	2.0	2.0
Difference	0.1	0.5	0.4	0.1	0.0	0.0	0.2
Nominal GDP* ($ billions)							
2024 FES	3,060	3,173	3,305	3,441	3,578	3,721	
PBO – October EFO	3,057	3,168	3,284	3,410	3,545	3,687	
Difference	3	5	21	31	33	34	
Unemployment rate (%)							
2024 FES	6.4	6.7	6.2	6.0	5.8	5.7	6.2
PBO – October EFO	6.4	6.4	6.0	5.7	5.6	5.6	6.0
Difference	0.0	0.3	0.2	0.3	0.2	0.1	0.2

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

* Figures from PBO's October outlook have been adjusted to reflect the historical revisions up to the third quarter of 2024. Numbers may not add due to rounding.

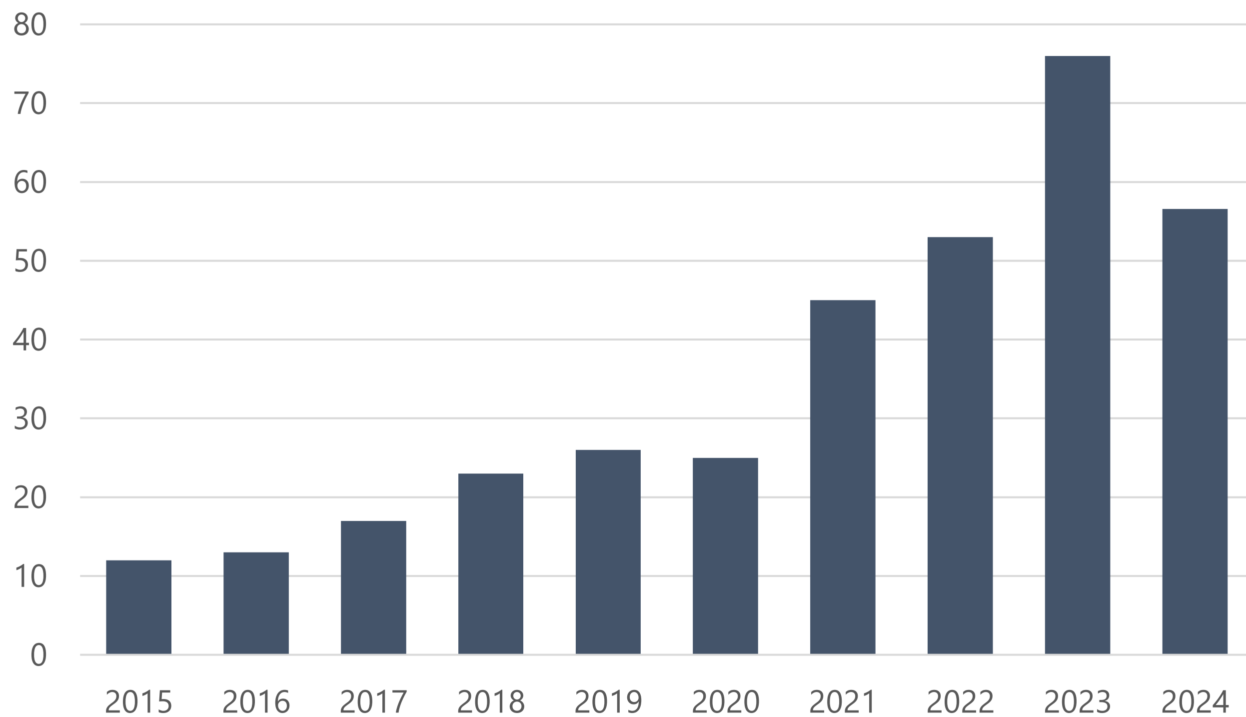
Another surprise on contingent liabilities

The Government primarily attributes its deficit miss to "Future Potential Payments to Resolve Indigenous Claims". [4]

The volatility and magnitude of annual changes in provisions for contingent liabilities have grown since 2015 (Figure 1). Most of this increase pertains to Indigenous claims (Table 3).

Figure 1

Increasing magnitude and volatility in contingent liabilities (in billions of dollars)



Source:
Public Accounts of Canada.

Note:
The years reference the Public Accounts of Canada. Hence, 2024 reflects the 2023-24 fiscal year results.

Table 3

Components of the provision for contingent liabilities (in billions of dollars)

Year	2019-20	2020-21	2021-22	2022-23	2023-24
Pending and threatened litigation and other claims	6.7	25.6	30.8	42.7	19.7
Specific claims	10.8	11.5	15.2	23.6	26.3
Comprehensive land claims	6.7	6.9	7.1	9.3	10.0
Total claims	**24.2**	**44.1**	**53.0**	**75.5**	**56.0**
Provision for guarantees provided by the government	0.8	0.7	0.4	0.5	0.6
Total provision recorded	**24.9**	**44.8**	**53.4**	**76.0**	**56.6**

Source:

Public Accounts of Canada.

Note:

The amounts are as of March 31 of each year. Numbers may not add due to rounding.

As PBO noted earlier this year, expenses related to the provision for contingent liabilities can have a substantial impact on the federal government's budgetary balance.[5] Moreover, the actual legal payouts can significantly vary from the original estimate. This is especially the case for claims proceeding through the courts and alternative dispute resolution mechanisms.

There is a clear and pressing need for additional transparency in the Government process for estimating contingent liabilities as well as to reconcile settlements of these claims with provisions previously booked. The Government agrees and has committed to establishing an internal working group to assess the issue. Nevertheless, PBO recommends that parliamentarians initiate a study of contingent liabilities and provide the Government with recommendations to rectify current weaknesses. PBO staff are available to support efforts promoting fiscal transparency.

Public Accounts unaccountably late

The federal government's ability (or willingness) to produce high-quality, timely financial statements continues to deteriorate. As depicted in Figure 1, it reached a new low this year with a historically long delay in the signing of the Public Accounts by the Auditor General (253 days after the fiscal year ended). The Public Accounts were tabled almost a full nine months after the fiscal year closed. Even worse, the audited financial statements were inexplicably tabled the day after the FES, rather than prior to, or alongside, the Government's economic and fiscal plan.

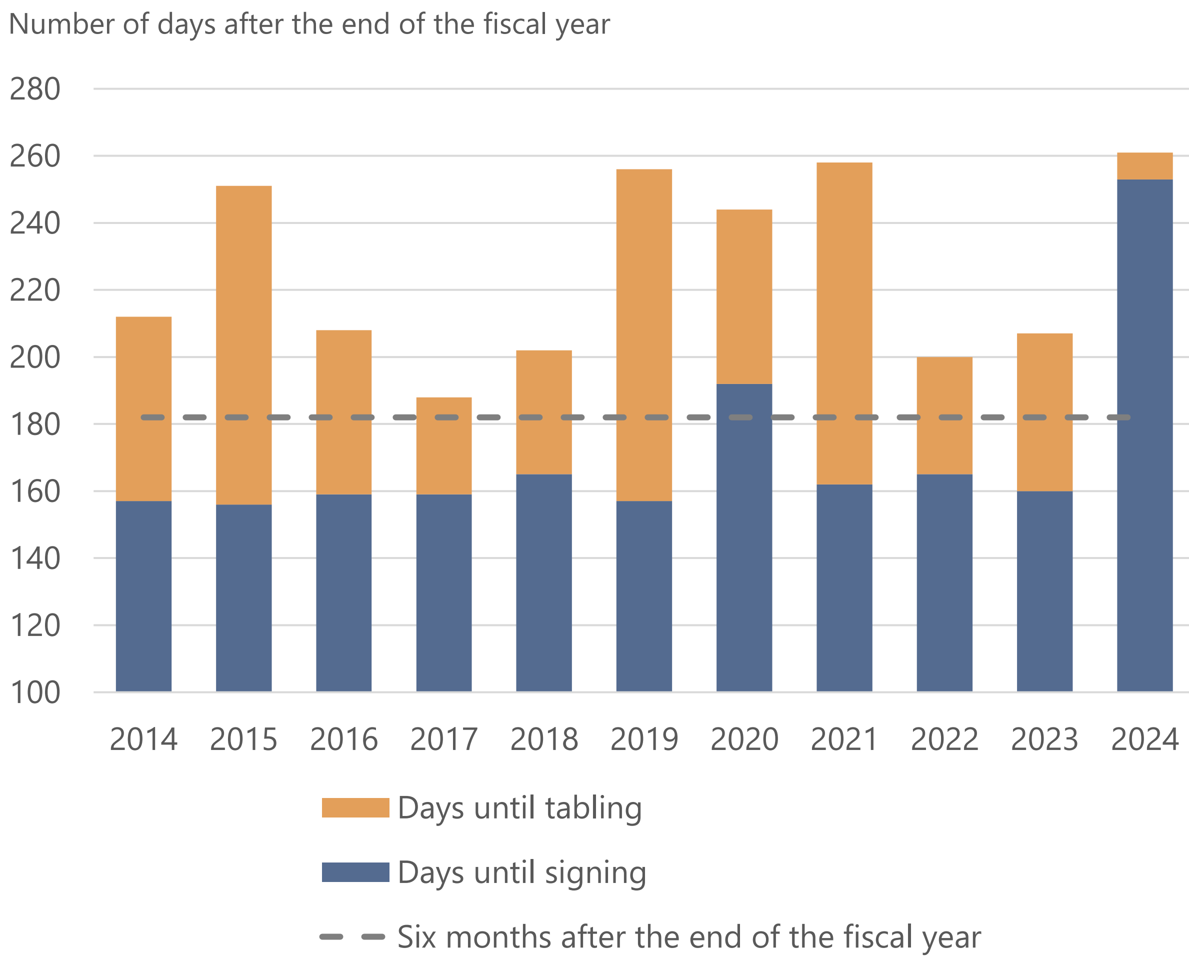
Such a delay is typically associated with a fall election (2014-15, 2018-19, 2020-21) or a global pandemic (2020-21). This time, the Comptroller General suggested that there were "several new and significant transactions" that led to the delay, but it was unclear how this differs from previous years.[6] The Chair of the House of Commons Public Accounts Committee noted that parliamentarians have repeatedly asked for more timely release of financial information and the previous Comptroller General of Canada agreed that it would be both beneficial and feasible.

As noted ad nauseam by the PBO, the timely publication of the Public Accounts is crucial for transparency and accountability in government finances. By publishing the Public Accounts earlier, the Government would provide parliamentarians with more time for ex-post financial scrutiny and better information for assessing the Government's budget plans and estimates. As such, this inexplicable backsliding is of acute concern.

The Comptroller General pointed out to Public Accounts Committee members that "the government is legally required to table the public accounts no later than December 31 following the end of the fiscal year, or within the first 15 days once the House reconvenes if it is not sitting during that period". Given the emphasis on meeting legal obligations rather than promoting fiscal transparency and accountability, the PBO reiterates its recommendation that the publication date for the Public Accounts be moved to September 30th.[7]

Figure 2

Timing of the Public Accounts of Canada



Source:

Treasury Board of Canada Secretariat, Public Accounts of Canada.

Note:

Years reference the Public Accounts of Canada. Hence, 2024 reflects the 2023-24 fiscal year results.

Assessment of Fiscal Objectives and Anchor

In addition to re-iterating the Government's commitment to achieve its fiscal anchor (to reduce the federal debt-to-GDP ratio over the medium term), the 2023 FES outlined the Government's fiscal objectives to guide Budget 2024 decision making. Results and projections presented in the 2024 FES can be assessed relative to these objectives.[8]

- Objective #1: Maintaining the 2023-24 deficit at or below the Budget 2023 projection of $40.1 billion.

As noted earlier, the Government failed to meet its first fiscal objective.

- Objective #2: Lowering the federal debt-to-GDP ratio in 2024-25 relative to the 2023 FES projection (of 42.7 per cent) and keeping it on a declining track thereafter.

The 2024 FES also notes that the federal debt-to-GDP ratio in 2023-24 was 42.1 per cent— "exactly as forecast in Budget 2024"—reflecting stronger growth after historical revisions. Absent the historical revision to the level of nominal GDP in 2023 (which was known at the time of Budget 2024), the federal debt-to-GDP ratio in 2023-24 would have been 42.8 per cent.

Based on the private sector forecast of nominal GDP growth in 2024, the federal debt-to-GDP ratio in 2024-25 would have been 42.5 per cent in the absence of the historical revision to the level of nominal GDP in 2023, slightly below the threshold for this fiscal objective.

- Objective #3: Maintaining a declining deficit-to-GDP ratio in 2024-25 and keeping deficits below 1 per cent of GDP in 2026-27 and future years.

Given the larger-than-expected deficit in 2023-24 (2.1 per cent of GDP versus 1.4 per cent of GDP), the deficit in 2024-25 shows a decline to 1.6 per cent of GDP despite an upward revision of $8.5 billion in the 2024 FES. Further, the forecast in FES 2024 shows the deficit falling below 1.0 per cent of GDP in 2026-27 and remaining below this threshold in the remaining years of the planning horizon. While this is consistent with the Government's ongoing fiscal objective, the fiscal room projected over 2026-27 to 2029-30 would be limited to $7.1 billion annually, on average, based on the outlook presented in the 2024 FES. This would leave little fiscal capacity to deal with a decrease in revenue or additional expenses without raising taxes.

- Fiscal anchor: to reduce the federal debt-to-GDP ratio over the medium term.

The 2024 FES shows the federal debt-to-GDP ratio rising to 42.1 per cent in 2023-24 before declining over the medium term to 38.6 per cent in 2029-30. That said, the federal debt ratio is projected to remain well above its pre-pandemic level of 31.2 per cent of GDP.

The 2024 FES also presents upside and downside economic scenarios that incorporate uncertainties around the outlook, considering slower and faster growth tracks. These scenarios provide a limited range of possible economic outcomes, reflecting largely temporary shocks to nominal GDP over the medium term. For example, in the downside scenario, the level of nominal GDP in 2029-30 is only 0.8 per cent lower than the planning assumption for the same year. Consequently, without discretionary fiscal policy measures in response to this economic shock, the federal debt-to-GDP reverts to a downward trajectory and the deficit-to-GDP ratio gradually falls below 1 per cent of GDP by the end of the medium-term horizon.

Notes

[1] Office of the Parliamentary Budget Officer. Economic and Fiscal Outlook – October 2024.

[2] More details on the economic impact of the immigration changes announced in 2024 will be available in a forthcoming PBO report.

[3] PBO's economic projection has been adjusted to incorporate the historical revisions and the actual results of the National Accounts for the third quarter of 2024 released on November 29, 2024.

[4] Annual Financial Report of the Government of Canada 2023-24.

[5] Office of the Parliamentary Budget Officer. Overview of Contingent Liabilities.

[6] Standing Committee on the Public Accounts of Canada. Meeting of December 18, 2024.

[7] Timely Financial Reporting: A Path Forward for the Public Accounts of Canada. Published on September 13, 2024.

[8] In Budget 2024 the Government stated that going forward it "will keep deficits below 1 per cent of GDP beginning in 2026-27 and future years". The 2024 FES refers to this as the Government's "ongoing fiscal objective".

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