Fall Economic Statement 2020

Nov. 30, 2020

central 1 Economics

Highlights

- New measures to support households and businesses
- Economic recovery in jeopardy due to second wave
- Higher deficits and debt, but necessary and affordable
- Uncertainty remains high with grounds for optimism

The *Fall Economic Statement 2020* (FES 2020) released by the federal government contained more income support measures, new resources to deal with the virus, and a three-year stimulus package to 'jumpstart' the recovery. While officially not a budget, this statement has all of its ingredients: detailed program revenue and expense projections, a five-year projection horizon, tax measures, and legislative proposals.

These new spending measures result in a larger budget deficit and a higher debt level than in the *Federal Economic and Fiscal Snapshot* released in early July. A three-year stimulus package amounting to between $70 billion to $100 billion was outlined only in general terms with details coming with the release of *Budget 2021*.

The Snapshot laid the groundwork for this latest fiscal update, which was prompted by a resurgence in COVID-19 and some prior program gaps. The budget deficit for fiscal 2020-21 is now projected at $381.6 billion compared to $343.2 billion in July. Relative to Gross Domestic Product (GDP), the deficit is 17.5 per cent compared to 15.9 per cent earlier. The budget deficit is projected to see a major decline to $121.2 billion in the upcoming fiscal year and to decline each year thereafter.

Federal debt climbs to $1.107 trillion this fiscal year, up from $1.060 trillion estimated last July. This represents 50.7 per cent of GDP. In fiscal 2019-20, the federal debt was $721.4 billion or 31.2 per cent of GDP. Debt levels continue to rise through the projection period, but at a slower pace due to smaller deficits. The debt-to-GDP ratio increases until fiscal 2021-22 and then declines when the economy grows at a faster pace than debt.

The emergence of a second wave, and the ongoing impacts from the first, prompted a renewed government effort to support individuals and businesses with and through this pandemic. The main support measures are scheduled to expire in fiscal 2021-22 when the pandemic is no longer a major threat to the economy and society. Without these and earlier program measures, the economy would be in a more serious position and its recovery delayed and starting from a much weaker base. In addition, long-term scarring, or permanent job, labour force, and business losses,

Summary Statement of Transactions

	Actual	Projection					
Billions of dollars	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Budgetary revenues	334.1	275.4	335.9	357.8	377.3	398.5	417.3
Public debt charges	24.4	20.2	20.3	22.4	25.7	30.5	34.3
Total expenses	373.5	626.2	425.9	384.3	399.6	417.4	434.5
Budget balance	39.4	-381.6	-121.2	-50.7	-43.3	-30.9	-24.9
Federal debt	721.4	1,107.4	1,228.5	1,279.3	1,322.6	1,353.4	1,378.3
Per cent of GDP							
Budgetary revenues	14.5	12.6	14.4	14.6	14.7	14.9	15.0
Public debt charges	14.6	28.5	18.1	15.2	15.0	14.7	14.5
Total expenses	1.1	0.9	0.9	0.9	1.0	1.1	1.2
Budget balance	-1.7	-17.5	-5.2	-2.1	-1.7	-1.2	-0.9
Federal debt	31.2	50.7	52.6	52.1	51.6	50.6	49.6

Source: Fall Economic Statement 2020

Budget Balance under Virus Resurgence Scenarios							
	Actual	Projection					
Billions of dollars	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25	2025–26
Budget balance FES 2020	39.4	-381.6	-121.2	-50.7	-43.3	-30.9	-24.9
Fiscal impact of virus resurgence scenarios							
Extended resrictions							
Fiscal impact		-7.1	-6.5	-4.2	-4.0	-4.0	-3.7
Budget balance	39.4	-388.8	-127.7	-54.9	-47.3	-34.8	-28.6
Escalated restrictions							
Fiscal impact		-17.0	-15.5	-8.9	-8.4	-8.6	-8.5
Budget balance	-39.4	-398.7	-136.7	-59.6	-51.7	-39.4	-33.4

Source: Fall Economic Statement 2020

would be more significant and reduce the economy's potential growth even more.

Concerns about the highest deficit and debt levels in the post-war era need to be put into that context. The government's fiscal response comes with a monetary policy stance that is at its maximum accommodation, short of negative rates. With borrowing costs at all-time lows, new debt issued to finance these deficits and the refinancing of existing debt is much more affordable. One of the keys to debt sustainability is that the economy grows at a faster pace than debt servicing costs.

In recognition of the uncertainty surrounding the pandemic's second wave, the government provided alternative fiscal and economic scenarios. The first alternative scenario had extended restrictions implemented and the second scenario had escalated restrictions in place to help contain the virus. Both scenarios resulted in weaker economic conditions and poorer fiscal outcomes than in the base case.

Economic Outlook

Canada's economy is projected to contract 5.8 per cent in real GDP this year and grow 4.8 per cent next year and 3.2 per cent in 2022 under the base scenario. The quarterly growth pattern has real GDP growth falling to 5.1 per cent annualized in the fourth quarter of 2020 following a 42.8 per cent rebound in the third quarter. The economy fell into its deepest and one-quarter recession with a 38.1 per cent annualized contraction in the second quarter of this year.

Expectations are that quarterly growth will continue at a slower pace and there is no double-dip recession. The alternative scenarios have progressively worse economic outcomes and weaker recovery paths in the near term.

Economic growth is poised to accelerate when the pandemic is largely in the rear-view mirror and consumer and business confidence rebuilds. The large amount of cash in household savings accounts and in business reserves can fuel the release of pent-up demand accumulated during the pandemic. The base projection in the FES 2020 does not adequately capture this impact, though this possibility is recognized.

The next two quarters and how the second wave unfolds will be critical in setting the stage for the economy and the federal government's fiscal position. *Budget 2021* will be the federal government's next response to this once-in-a century pandemic.

The government announced a plan to boost the economic recovery with investments of between $70 billion up to $100 billion over the next three fiscal years.

Department of Finance Alternative Economic Scenarios							
	2020Q3	2020Q4	2021Q1	2021Q2	2020	2021	2022
Real GDP growth, per cent annual rate							
Fall Economic Statement 2020	42.8	5.1	4.6	3.0	-5.8	4.8	3.2
Scenario: Extended Restrictions	47.5	4.6	2.0	2.3	-5.5	4.1	2.9
Scenario: Escalated Restrictions	47.5	2.6	-2.6	3.5	-5.6	2.9	3.1
Unemployment rate, per cent							
Fall Economic Statement 2020	10.3	9.1	8.6	8.3	9.7	8.1	7.0
Scenario: Extended Restrictions	10.0	9.0	8.9	8.6	9.6	8.5	7.6
Scenario: Escalated Restrictions	10.0	9.2	9.6	9.0	9.6	8.9	7.9

Source: Fall Economic Statement 2020

This stimulus will end when the virus is under control and the economy free of restrictions. The plan sees growing a green economy, investing in infrastructure and workers, and supporting inclusive participation in the workforce. Details will be forthcoming in *Budget 2021*.

Main Support Measures

Transitioning Income Support from the CERB to Recovery Benefits and Enhanced Employment Insurance

The Canada Emergency Response Benefit (CERB) was introduced as part of Canada's COVID-19 Economic Response Plan to provide immediate assistance to Canadians not eligible for EI benefits. The Canada Recovery Benefit (CRB), which provides $1,000 per two-week period to eligible individuals not entitled to regular EI Benefits, for up to 26 weeks. In addition, the Canada Recovery Sickness Benefit (CRSB) and the Canada Recovery Caregiving Benefit (CRCB) are available to eligible individuals, providing $500 per week of eligibility. The CERB and the Canada Recovery Benefits (CRB, CRSB and CRCB) are forecasted to cost $54.8 billion in 2020-21, decreasing to $10.3 billion in 2021-22 as the economy recovers and temporary programs end.

The Canada Emergency Rent Subsidy

The government is proposing to extend the current subsidy rates of the Canada Emergency Rent Subsidy for an additional three periods. This means a base subsidy rate of up to 65 per cent will be available on eligible expenses until March 13, 2021.

Under the new Lockdown Support program, organizations that are subject to a lockdown and must shut their doors or significantly restrict their activities under a public health order are eligible for an additional 25 per cent top-up, in addition to the Canada Emergency Rent Subsidy base subsidy of up to 65 per cent, until December 19, 2020. The government is proposing to extend the rate of 25 per cent for the Lockdown Support for an additional three periods, until March 13, 2021.

Canada Emergency Business Account (CEBA)

The CEBA program will be expanded, allowing qualifying businesses to access an additional interest-free $20,000 loan. Half of this additional amount, up to $10,000, would be forgivable if the loan is repaid by December 31, 2022. The deadline to apply for a CEBA loan has been extended to March 31, 2021.

Highly Affected Sectors Credit Availability Program

The Highly Affected Sectors Credit Availability Program (HASCAP) is a new program for the hardest hit businesses, including those in sectors, like tourism and hospitality, hotels, arts and entertainment. This stream will offer 100 per cent government-guaranteed financing for heavily impacted businesses and provide low-interest loans of up to $1 million over extended terms, up to ten years. Rates will be lower than those offered in BCAP and beneath typical market rates for hard hit sectors.

Canada Emergency Wage Subsidy (CEWS)

The Canada Emergency Wage Subsidy is extended until June 2021 and the maximum subsidy rate is increased to 75 per cent for the period beginning December 20, 2020 and to extend this rate until March 13, 2021. The CEWS provides a wage subsidy for eligible employers covering 75 per cent of an employee's wages, up to $847 per week.

Other measures

The First-Time Home Buyer Incentive

The First-Time Home Buyer Incentive is enhanced in the higher priced markets of Toronto, Vancouver and Victoria. The expansion will allow eligible buyers to purchase a home up to 4.5 times their household income, an increase from the current limit of 4 times household income. Also, the eligible buyer's income threshold is raised from $120,000 to $150,000 for Toronto, Vancouver and Victoria. These changes will come into effect in spring 2021. With a minimum down payment, this will raise the maximum house price for eligible first-time home buyers in these cities from about $505,000 to about $722,000.

The Rental Construction Financing Initiative

The Rental Construction Financing Initiative will receive new funding to provide an additional $12 billion in new lending over seven years, staring in 2021-22. This funding will increase the Rental Construction Financing Initiative's total lending capacity from $13.75 billion to $25.75 billion in low-interest loans and enable the construction of an additional 28,500 rental units.

Home Energy Retrofits

A program to provide $2.6 billion over seven years, starting in 2020-21, to help homeowners improve their home energy efficiency by providing grants of up to $5,000 to help homeowners make energy-efficient improvements to their homes. Additional information will be provided in a future announcement, and eligibility for these grants will be retroactive to December 1, 2020.

A Fair Tax System for the Digital Economy

Under current rules, foreign-based digital businesses can sell their goods and services to Canadians without charging the Goods and Services Tax/Harmonized Sales Tax (GST/HST), which puts the burden on Canadian consumers to remit the sales tax. This gives foreign-based digital corporations an unfair advantage and undercuts the competitiveness of Canadian companies. It also deprives the government of tax revenues.

The government proposes a number of changes to level the playing field by ensuring that the GST/HST applies to all goods and services consumed in Canada, regardless of how they are supplied, or who supplies them. The government is also proposing action with respect to corporate-level tax to ensure that digital corporations pay their fair share of taxes in respect of their activity in Canada.

The propose measures include: taxation of cross-border digital products and services, taxation of goods supplied through fulfillment warehouses, taxation of short-term accommodation through digital platforms, taxing unproductive use of Canadian housing by foreign non-resident owners, and the government proposes more funding for the Canada Revenue Agency to fund new initiatives and extend existing programs targeting international tax evasion and aggressive tax avoidance.

Financial Sector Legislative Measures

Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime
The government proposes to amend the Proceeds of Crime (Money Laundering) and Terrorist Financing Act to enable the Financial Transactions and Reports Analysis Centre of Canada to recover its compliance costs, clarify its ability to obtain additional information from reporting entities and expand the information it can disclose; strengthen criminal penalties and the registration framework for money services businesses; regulate armoured car services for AML/ATF purposes; clarify certain definitions and disclosure recipients; and make other technical amendments to the Act.

Financial Consumer Protection

The government proposes to make technical amendments to the Financial Consumer Protection Framework in the Bank Act to clarify that the statutory right of cancellation provision does not extend to contracts between banks and large business clients.
Financial Stability Measures

The government proposes to introduce amendments to the Canada Deposit Insurance Corporation Act to: clarify the scope of, and support, the cross-border enforceability of the stay provisions applicable to eligible financial contracts and clarify how investors, creditors and other participants may be compensated as a result of actions taken by financial sector authorities to sell, wind-down or restore to viability a failing bank.

The government also proposes to introduce amendments to the Payment Clearing and Settlement Act to clarify how investors, creditors and other participants may be compensated as a result of actions taken by financial sector authorities to sell, wind-down or restore to viability a failing financial market infrastructure.

Modernizing the Federal Unclaimed Assets Regime

Modernizing the federal unclaimed assets regime by implementing amendments aimed at improving the current framework managed by the Bank of Canada and expanding its scope to include unclaimed balances from terminated federally regulated pension plans and foreign denominated bank accounts.

Payment Clearing and Settlement Act

Clarify the Bank of Canada's authority to oversee payment exchanges as clearing and settlement systems in the Payment Clearing and Settlement Act.

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