

Fiscal sustainability: No news is good news (for Canada at least)

By Warren Lovely

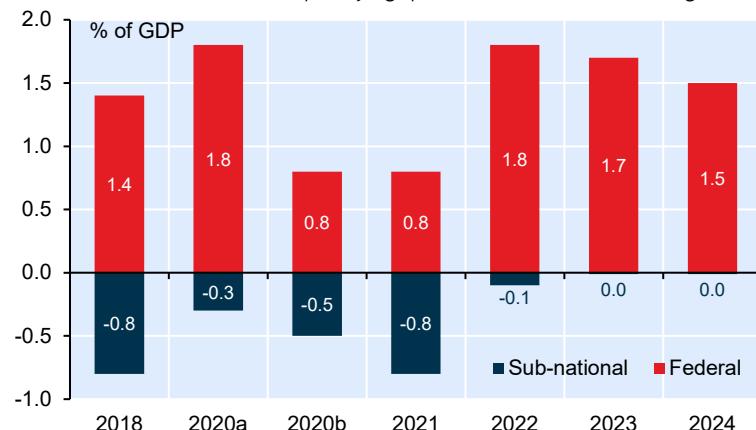
The Parliamentary Budget Officer's [Fiscal Sustainability Report \(FSR\)](#) might not be everyone's idea of 'light summer reading'. But this annual report deserves attention, as related simulations/scenarios—which are illustrative and NOT to be confused with official government commitments—highlight just how much (or how little) budgetary wiggle room exists across Canada's government sector.

Despite an unsettled global economic backdrop and some recent policy commitments, the PBO's 2024 baseline assessment isn't much changed from prior iterations. In Canada's case then, 'no news is good news', the nation's broad general government sector (inclusive of social security) remaining on a sustainable path. (Note: 'Fiscal sustainability' is here defined by a stable net debt burden over time.)

Admittedly, this year's report identifies a bit less excess fiscal room at the federal level than in 2023. All the same, the new baseline implies Ottawa's budgetary masters could *permanently* lower taxes and/or increase spending by 1.5% of GDP *without* driving the federal debt burden higher over time. In current dollars, that's equivalent to \$46 billion a year! Inspired by the 'fun with numbers' school of thought, you could theoretically do a lot with \$46 billion a year, Chart 2 putting this notional excess capacity into a current budgetary perspective.

Chart 1: Feds have excess room, provis sustainable (overall)

PBO estimate of Cdn fiscal capacity/(gap): Federal vs. sub-national gov'ts



Source: NBF, PBO | Note: Positive values imply excess fiscal room longer-term

Chart 2: Sing it with me... 'If I had 46 billion dollars'

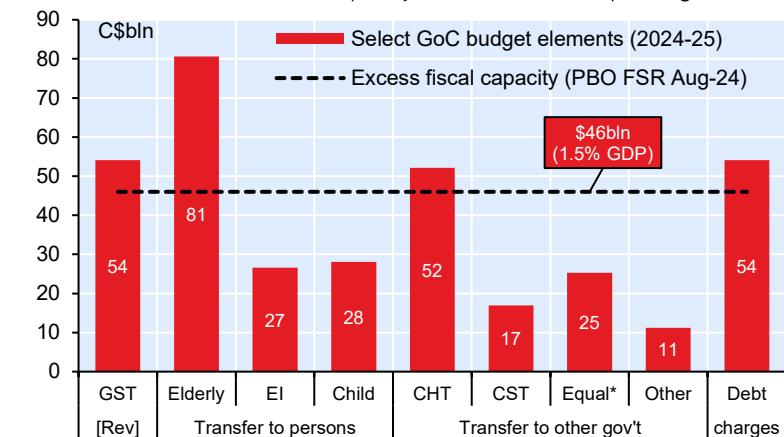
PBO estimate of federal fiscal capacity vs. select revenue/spending elements

Let us be clear: We are NOT actively encouraging Ottawa to squander hard-won fiscal sustainability, at least not without a clear/unambiguous mandate from Canadians. But it certainly highlights the relative advantage Canada's sovereign possesses vs. many advanced nations. From a fiscal sustainability perspective, the 'good news' didn't end there. Collectively, Canada's sub-national government sector remains on a sustainable footing. Digger deeper, the PBO deems current policies sustainable in 5 of 10 provinces.

Then there's the public pension system—an essential piece of Canada's general government picture. If the long-term health of the CPP is really your focus, the [triennial actuarial report](#) is surely required reading. But the PBO's *FSR* is informative too, where an already healthy outlook got a bit brighter (vs. 2023), as a higher rate of return more than offsets reduced net cash flow projections. None of the alternative scenarios presented in the *FSR* upend the CPP's long-term sustainability, the QPP assessed similarly. That stands in stark contrast to US Social Security. Conveniently, the CBO just offered its own [long-term outlook for Social Security](#), where trust fund depletion continues. The 'surprise factor' attached to CBO's latest findings? 0%. On US Social Security then, 'no news is bad news'. Sad but true.

Chart 2: Sing it with me... 'If I had 46 billion dollars'

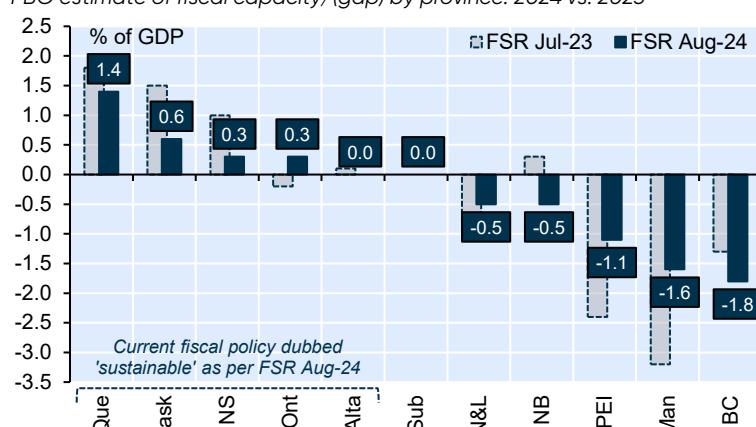
PBO estimate of federal fiscal capacity vs. select revenue/spending elements



Source: NBF, PBO | Note: Select revenue/spending items from 2024 federal budget

Chart 3: PBO's sustainability assessment varies by province

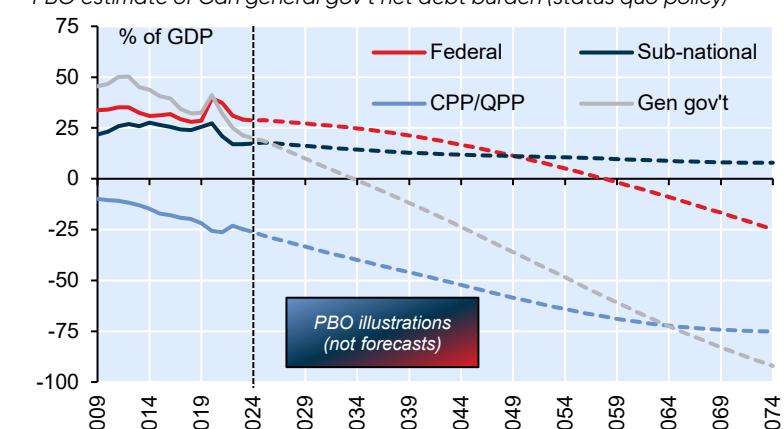
PBO estimate of fiscal capacity/(gap) by province: 2024 vs. 2023



Source: NBF, PBO | Note: Positive values imply excess fiscal room longer-term

Chart 4: Envyable debt path for Canada's broad gov't sector

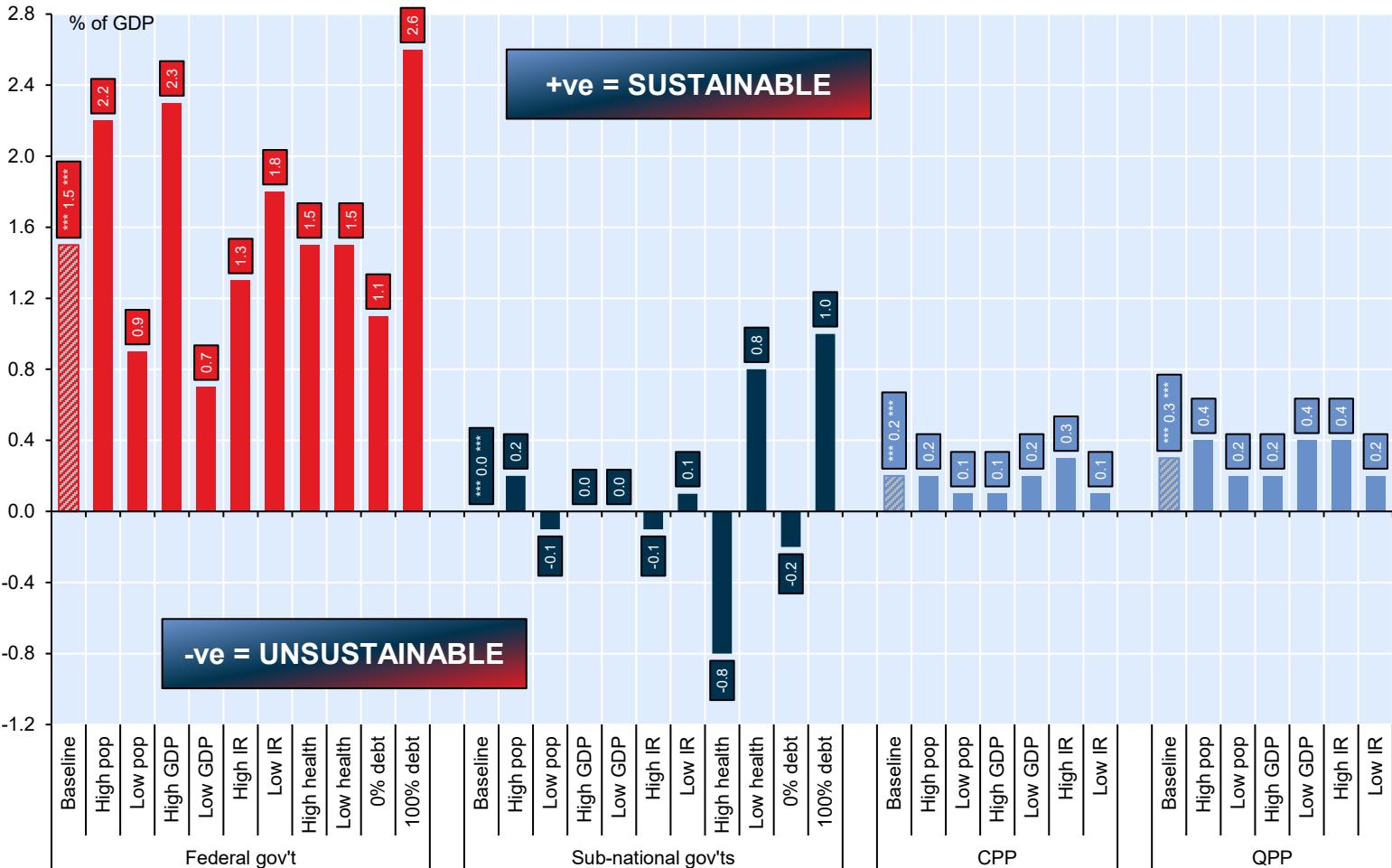
PBO estimate of Cdn general gov't net debt burden (status quo policy)



Source: NBF, PBO | Note: General gov't includes fed/sub-national gov'ts & CPP/QPP

Chart 5: Scenario analysis hints at underlying risks (or lack thereof) to baseline fiscal sustainability assessment

PBO estimates of long-term fiscal capacity/(gap): Baseline assessment vs. alternative scenarios across Canadian general government sectors

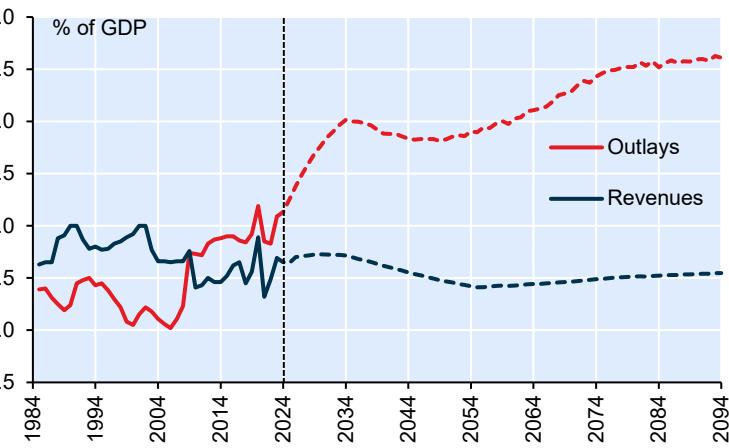


Source: NBF, PBO | Note: Positive values imply excess fiscal room longer-term; refer to PBO FSR Aug-24 for complete scenario details; high/low pop refers to higher/lower population growth; high/low GDP refers to higher/lower GDP growth; high/low IR refers to higher/lower interest rates; high/low health refers to higher/lower health spending growth; 0%/100% debt refers to 0%/100% net debt-to-GDP ratio endpoint; health spending growth & debt-to-GDP ratio endpoint analysis is not applicable to CPP/QPP

On same day PBO presented FSR, CBO offered another (sobering) assessment of US Social Security

Chart 6: Widening hole in US Social Security

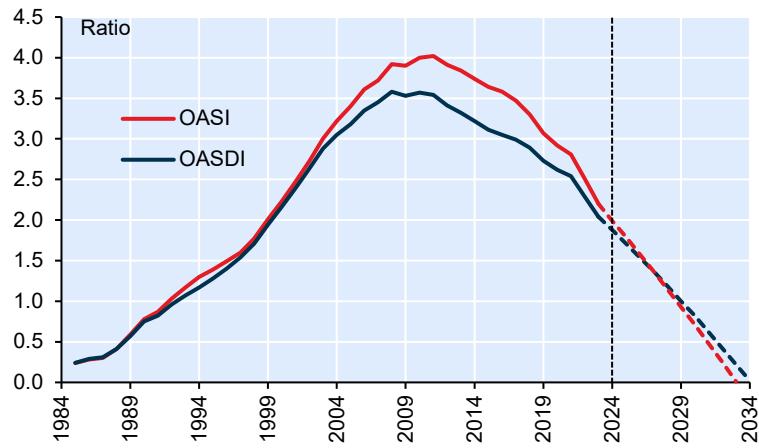
US Social Security outlays & revenues, based on scheduled benefits



Source: NBF, CBO | Note: Based on CBO's 2024 Long-Term Projections for Social Security (released Aug-24, [link](#))

Chart 7: Trust fund exhaustion (not new, but ugly just the same)

US Social Security ratio of trust fund balances to scheduled payments



Source: NBF, CBO | Note: OASI refers to Old-Age & Survivors Insurance (exhausted fiscal 2033); OASDI combines Old-Age, Survivors & Disability Insurance (exhausted fiscal 2034)



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