The Federal Budget Process in Canada

Department of Finance Canada
January 23, 2020

The Federal Budget

The Budget sets government policy and presents the economic outlook and fiscal forecast (5 year planning horizon)

- Main vehicle for the government to communicate its policy agenda, including changes to tax policy for present and future years and provides funding for new spending measures

- Provides a detailed economic outlook and projected expenditures, revenues, budgetary balance and financial requirements over the budget horizon

The Budget Decision-Making Context

Budget decisions are anchored by Canada's economic and fiscal outlook

Economic Outlook

- Informed by a survey of private sector economic forecasters to help ensure **objectivity** and **transparency**

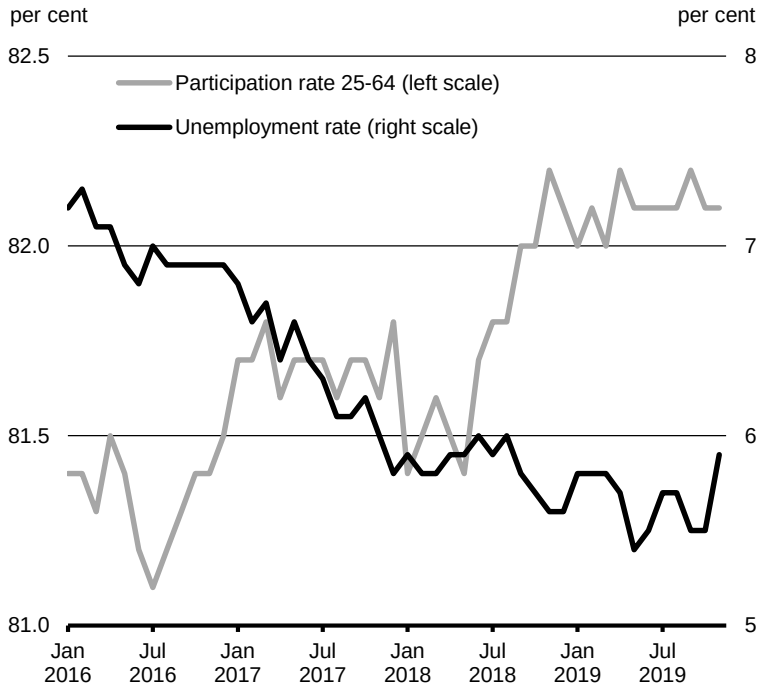
Fiscal Forecast

- Involves models that project federal expenses and revenues
- Includes other key information, for example, tax data and year-to-date results

The Budget Decision-Making Context

Economic Parameters – Unemployment Rate, Gross Domestic Product (GDP)

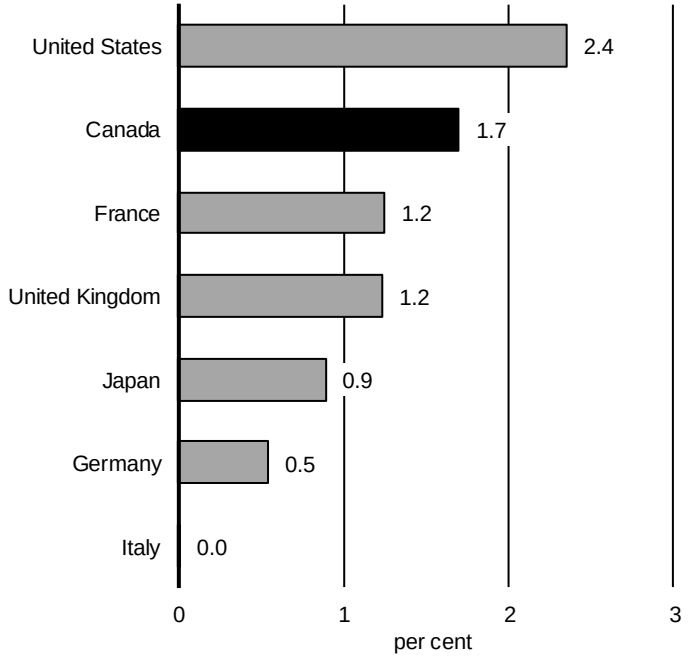
Labour Force Participation Rate and Unemployment Rate



Note: Last data point is November 2019.
Source: Statistics Canada, *Economic and Fiscal Update 2019*

Gross Domestic Product (GDP)

G7 Real Gross Domestic Product (GDP) Growth Outlook for 2019

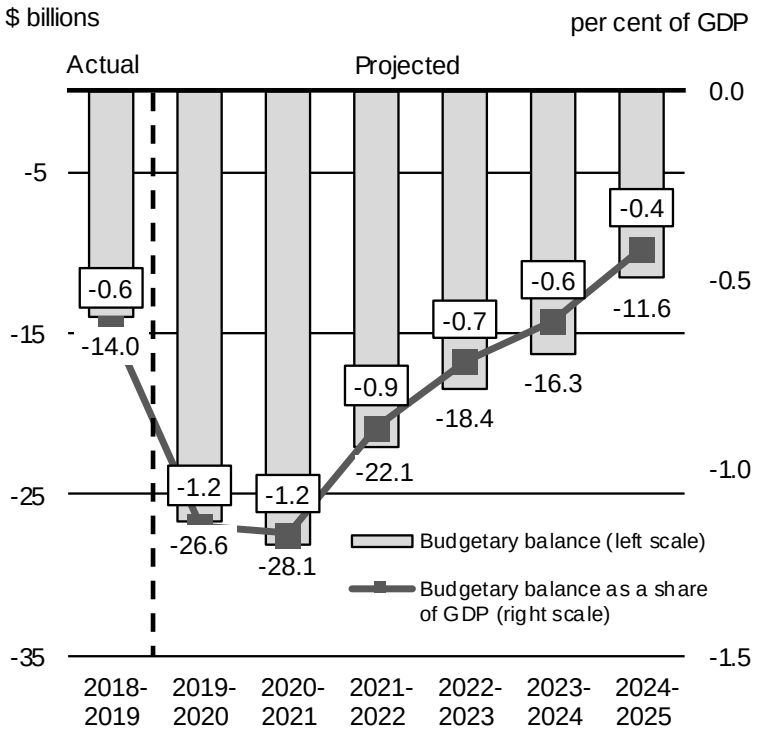


Sources: *Economic and Fiscal Update 2019*, International Monetary Fund (IMF), October 2019
World Economic Outlook (WEO) for other countries

The Budget Decision-Making Context

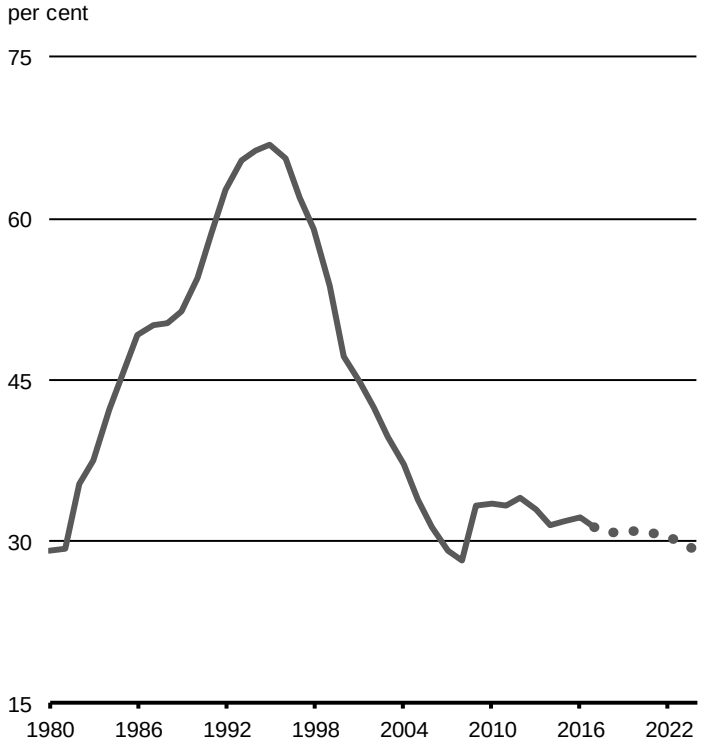
Fiscal Parameters – Budgetary Balance, Federal Debt-to-GDP Ratio

Budgetary Balance



Source: Department of Finance Canada (*Economic and Fiscal Update 2019* Fiscal Reference Tables)

Federal Debt-to-GDP Ratio



Source: Department of Finance Canada (*Economic and Fiscal Update 2019* Fiscal Reference Tables)

The Budget Decision-Making Process

The Budget is a dynamic exercise mobilizing a variety of players.

Citizens and Stakeholders

- Elections set key platform commitments informing decisions
- Pre-budget consultations provide a forum for civil society, industry and public sector input

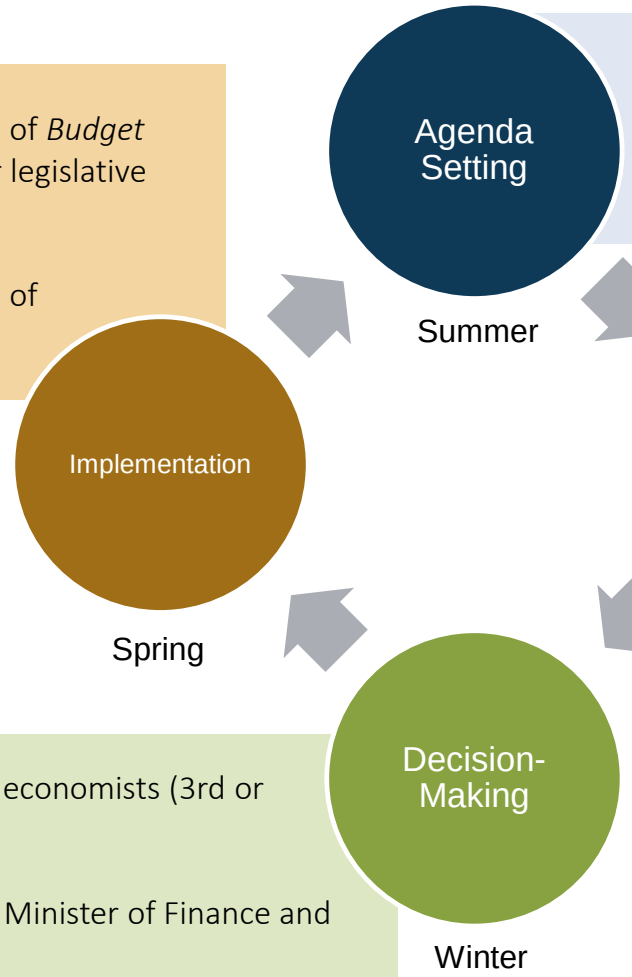
Ministers

- Ministers make budget proposals related to their portfolios
- Minister of Finance and Prime Minister set the policy and fiscal direction; make final budget decisions

Parliament of Canada

- Parliament approves the Budget motion and *Budget Implementation Act*

The Budget Cycle:



- For Budget 2020, the Agenda was primarily set through the 2019 Election campaign (i.e., the government's platform)

- Public consultations
- Review of Ministerial budget proposals
- Survey of private sector economists (2nd quarter)
- Publication of a Fall Economic Statement

- Survey of private sector economists (3rd or 4th quarter)
- Final decisions made by Minister of Finance and Prime Minister
- Budget tabled (usually February/early March)

- Parliamentary approval of *Budget Implementation Act* for legislative changes.
- Parliamentary approval of Estimates

The Budget and Canada's Legislative Process

In Canada, **all federal expenditures are enabled by law** in one form or another.

The ***Budget Implementation Act*** (BIA) enacts the necessary legislative changes required to implement budget decisions

- E.g., New or amended tax rules, changes to transfers to persons and other levels of government

The **Estimates** Process is the mechanism for Parliament to approve departmental funding proposed in the budget through Appropriation Acts

- Supported by the Treasury Board, which approves departmental funding, based largely on the parameters set out in the budget

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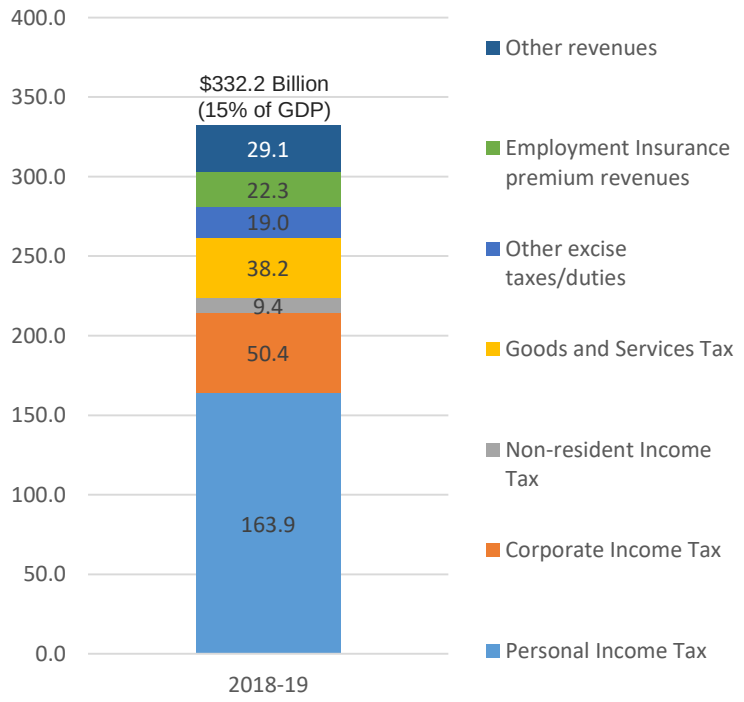
The Budget Decision-Making Context

Fiscal Parameters - sources of Revenues and Expenditures (2018-19 Actuals)

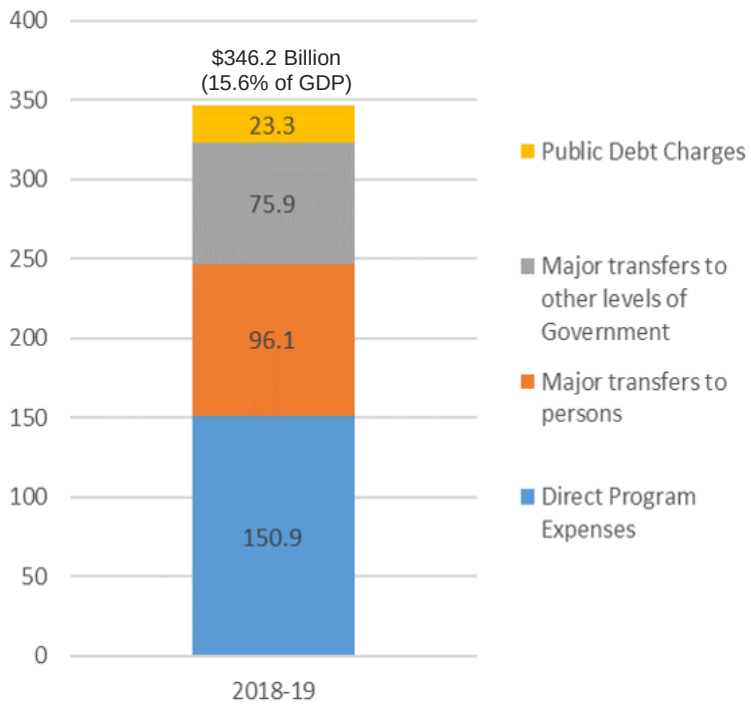
Revenues

($Billion)



Expenses

($Billion)



Source: Annual Financial Report of the Government of Canada Fiscal Year 2018-2019