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Financial
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TD Economics

Federal Economic & Fiscal Update

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PATH TO A BALANCED BUDGET PUSHED BACK BY TWO YEARS

Today, Finance Minister Jim Flaherty provided an Update to federal economic and fiscal projections. Budget shortfalls over the next several years have been hiked substantially since the 2009 budget, with the government acknowledging today that it will not likely be able to return to a surplus until 2015-16 – two years later than it had been projecting. Despite these changes, budget deficits as a share of GDP are still expected to remain well below the 6-8% levels recorded in the 1980s and the 5-6% levels in the early 1990s. In addition, the nation's debt-to-GDP ratio would peak at about one-half of its recent high-water mark of just under 70% hit in the mid-1990s.

The changes to the budget path mostly reflect the downgrading in private-sector expectations on the economy.

This year's estimated GDP declines have been hiked sharply. And with most analysts still expecting a tepid recovery over the next several years, those higher near-term GDP losses are widely being viewed as permanent. As a result, the level of nominal GDP in 2014 is now expected to be some \$76 billion lower than had been forecast earlier this year. (At an effective tax rate of 15%, the lower GDP translates into a \$12 billion hit to revenues). The Update acknowledged the wide degree of dispersion around the private-sector average GDP prediction, however.

The weaker economic outlook has also translated into a higher spending track, notably for Employment Insurance (EI). Since the budget, the government has earmarked about \$15 billion in one-off assistance to the auto sector and

FEDERAL GOVERNMENT FISCAL POSITION													
(C\$ billions, unless otherwise indicated)													
Fiscal Year	Actual					Est.	Projection						
	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	
Budgetary revenues	198.6	211.9	222.2	236.0	242.4	233.1	216.6	233.1	250.9	268.7	284.7	298.2	
% change	4.2	6.7	4.8	6.2	2.7	-3.8	-7.1	7.6	7.6	7.1	6.0	4.7	
% of GDP	16.4	16.4	16.2	16.3	15.8	14.6	14.2	14.7	15.0	15.2	15.3	15.3	
Program expenses	153.7	176.4	175.2	188.3	199.5	207.9	241.9	244.7	240.6	246.8	253.9	261.4	
% change	4.8	14.8	-0.7	7.5	6.0	4.2	16.4	1.2	-1.7	2.6	2.9	3.0	
% of GDP	12.7	13.7	12.8	13.0	13.0	13.0	15.8	15.4	14.4	14.0	13.6	13.4	
Public debt charges	35.8	34.1	33.8	33.9	33.3	31.0	30.7	33.7	37.7	41.2	42.1	42	
% change	-4.0	-4.6	-1.0	0.5	-1.8	-7.0	-1.0	9.8	11.9	9.3	2.2	-0.2	
Total expenditures	189.4	210.5	209.0	222.2	232.8	238.8	272.5	278.4	278.3	288.1	296.0	303.4	
% change	3.0	11.1	-0.7	6.3	4.8	2.6	14.1	2.2	0.0	3.5	2.7	2.5	
% of GDP	15.6	16.3	15.2	15.3	15.2	14.9	17.9	17.5	16.6	16.3	15.9	15.5	
Budgetary balance	9.1	1.5	13.2	13.8	9.6	-5.8	-55.9	-45.3	-27.4	-19.4	-11.2	-5.2	
% of GDP	0.8	0.1	1.0	0.9	0.6	-0.4	-3.7	-2.8	-1.6	-1.1	-0.6	-0.3	
Federal debt*	496.2	494.7	481.5	467.3	457.6	463.7	519.6	564.9	592.3	611.7	622.9	628.1	
% of GDP	40.9	38.3	35.0	32.2	29.9	29.0	34.0	35.5	35.4	34.6	33.5	32.1	

* Accumulated deficits. Source: Department of Finance Canada.

Ontario and B.C. for sales-tax harmonization. Higher deficits have also driven up estimates of debt-service charges.

While Canada's finances remain the envy of the G-7, the Minister underscored that the road to balance will remain a challenging one. In his remarks, the Minister vowed to complete the implementation of the stimulus plan in order to promote the economic recovery, but will allow temporary measures such as the extension of EI benefits

as scheduled. He has committed to protecting the growth track of transfers to persons and other levels of government, while not raising taxes. In order to fulfill these promises in view of the revenue outlook, program spending growth will need to be held to about 3% per annum in outlying years – which is a far cry from the trend rate of 6-8%. We'll have to wait for the 2010 budget for further details on how the government plans to pull off this balancing act.

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