



## A budget that maintains Canada's brand

### Highlights

- **Budget deficits of \$53.8 billion in the current fiscal year, \$49.2 billion next year and \$27.6 billion in 2011-12, declining to \$1.8 billion (0.1% of GDP) in 2014-15.**
- **The budget maintains the \$19-billion federal stimulus provided in Year 2 of Canada's Economic Action Plan.**
- **New measures permanently increase the deficit by about \$1 billion a year. They include elimination of all remaining tariffs on machinery, equipment and input goods imported by manufacturers.**
- **Federal transfers to provinces are maintained through the planning horizon.**
- **The plan to return to budget balance incorporates measures expected to save \$17.6 billion over five years (\$5.8 billion in 2014-15). The government will continue its comprehensive review of administrative functions and overhead costs.**
- **Real GDP growth is assumed at 2.6% in 2010 and 3.2% in 2011.**
- **The debt-to-GDP ratio is projected to peak at 35.4% in 2010-11 and decline to 31.9% in 2014-15.**
- **The 2010-11 borrowing requirement is budgeted at \$265 billion, including \$220 billion in refinancing.**
- **Financing source(+)/requirement(-) – the difference between cash coming in to the Government and cash going out – will swing from -\$71.1 billion in 2009-10 to +\$34.1 billion in 2013-2014 as assets purchased under the Insured Mortgage Purchase program mature.**

### Commentary

Despite a notable improvement in the Canadian economy since last summer, considerable uncertainty persists about the sustainability of the global recovery. Under these conditions, we believe that Mr. Flaherty's decision to keep Year 2 of Canada's Economic Action Plan intact was well-justified. Even with this stimulus, Canada's deficit will not exceed 3.5% of GDP and the debt will top out at roughly 35% of GDP. This is well below the peak ratios of 5.6% and 68% reached in the nineties. Budget 2010 will not tarnish Canada's brand in the eyes of global investors.

The deficit for the fiscal year about to end comes in slightly lower than the \$55.9 billion budgeted last September. But this is due to a deferral to 2010-11 of some of the expenses of the Economic Action Plan. As a result the deficit for 2010-11 now budgeted at \$49.2 billion compared to \$45.3 billion in September. With the end of the Plan, the deficit drops substantially to \$27.6 billion in 2011-12. The real challenge starts at that point.

The projected path to a balanced budget assumes that the economy will resume its pre-recession growth rate. The private-sector consensus on which this assumption is based forecasts real GDP growth of roughly 3% annually from 2011 to 2014. On this assumption, the effort required on the spending side to balance the budget is not dramatic. Even with the

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savings announced in the budget, total program spending is projected to grow at 2.5% annually toward the end of the planning horizon. With this favourable backdrop, the budget will be balanced with no tax increases.

If economic growth turns out to be slower, the government will face more difficult decisions. If we are right in forecasting real GDP growth roughly a quarter point slower than the 3% assumed in the budget, the structural hit to the budgetary balance could approach \$5 billion after five years. That is about the amount gained through the savings measures announced today. The line between structural and cyclical deficits could get thinner in the latter part of the forecast horizon. Revenues need to be there to meet the rising costs of our social programs.

One way to maintain services while not increasing the tax burden is to foster higher productivity in the Canadian economy. On this point, we are happy with the elimination of all remaining tariffs on machinery, equipment and input goods imported by manufacturers (cost: \$300 million a year). This structural productivity-enhancing initiative comes on top of previous measures that will leave Canada with the lowest corporate income tax rate in the G-7 in 2012 (combined federal-provincial rate of 25%), as well as the lowest tax rate on new business investment.

All in all, we are satisfied with Mr. Flaherty's decision to maintain a "steady as she goes" approach to let the Canadian economy emerge from the global financial storm. Compared to other G-7 countries, he had the means to do so. In our opinion, the real test for our policymakers could be further down the road.

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**Summary Statement of Transactions  
(Including Budget 2010 Measures)**

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)						
Budgetary revenues	233.1	213.9	231.3	249.0	266.5	282.7	296.5
Program expenses	207.9	237.8	249.2	241.4	245.2	251.4	257.7
Public debt charges	31.0	29.9	31.3	35.3	38.9	39.6	40.6
<b>Total expenses</b>	<b>238.8</b>	<b>267.7</b>	<b>280.5</b>	<b>276.7</b>	<b>284.0</b>	<b>291.2</b>	<b>298.3</b>
<b>Budgetary balance</b>	<b>-5.8</b>	<b>-53.8</b>	<b>-49.2</b>	<b>-27.6</b>	<b>-17.5</b>	<b>-8.5</b>	<b>-1.8</b>
<b>Federal debt</b>	<b>463.7</b>	<b>517.5</b>	<b>566.7</b>	<b>594.3</b>	<b>611.9</b>	<b>620.3</b>	<b>622.1</b>
<b>Per cent of GDP</b>							
Budgetary revenues	14.6	14.0	14.4	14.8	15.0	15.2	15.2
Program expenses	13.0	15.8	15.6	14.3	13.8	13.5	13.2
Public debt charges	1.9	2.0	2.0	2.1	2.2	2.1	2.1
Budgetary balance	-0.4	-3.5	-3.1	-1.6	-1.0	-0.5	-0.1
Federal debt	29.0	33.9	35.4	35.2	34.4	33.3	31.9

Note: Totals may not add due to rounding.