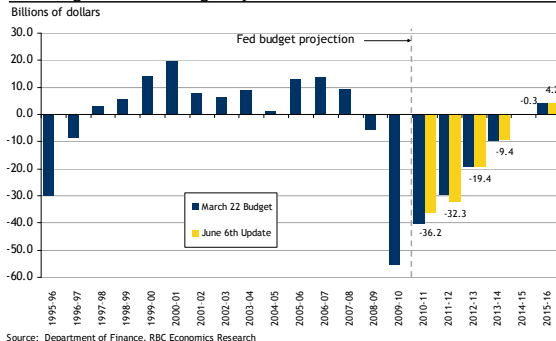


2011 FEDERAL BUDGET – TAKE 2

June 6, 2011

Federal government budgetary balance



Source: Department of Finance, RBC Economics Research

Highlights

- The FY2010-2011 deficit is now estimated at \$36.2B, revised lower once again from \$40.5B in the March 22 documents (and from \$45.4B in the October Fiscal Update and \$49.2B in the March 2010 budget).
- The projected deficit for this year has been increased to \$32.3B.
- The fiscal balance profile for upcoming years has been left unchanged; the federal government still officially projects a return to surplus by FY2015-2016. Finance Minister Flaherty, however, indicated that targeted expenditure savings (\$11B over four years) yet to be recognized in the profile will bring the budget into surplus in FY2014-15.
- The boost in the FY2011-2012 deficit mainly reflected a \$2.2B transfer to Quebec as compensation to the province for harmonizing its provincial sales tax with the HST.
- Other than the transfer to Quebec, there are no spending or tax measures relative to the March version of the budget.

Overview

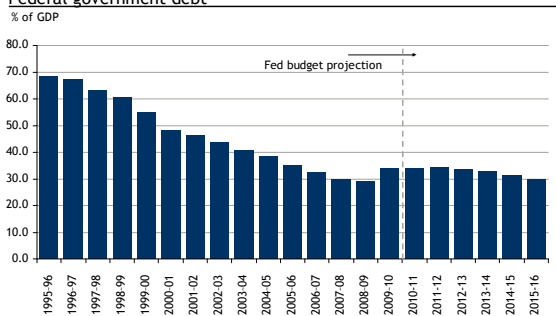
As expected, this afternoon's federal budget contained no surprises and was essentially a re-tabling of the budget presented on March 22nd, which was not adopted by the House of Commons prior to the dissolution of Parliament on March 26th (for our analysis of the previous budget, please see <http://www.rbc.com/economics/market/pdf/fedbud11.pdf>)

The one policy change that will have a noticeable impact on this year's deficit is an HST deal with Quebec, promised by the Conservatives during the election. Although an agreement has not yet been finalized, the government has booked the spending in FY2011-12. This accounts for most of the \$2.7 billion upward revision from \$29.6 billion to \$32.3 billion in the deficit for FY2011-12 relative to the March budget (most of the rest is a shift in the profile of stimulus infrastructure spending which contributed to the lower deficit in FY2010-11.) Most other big campaign promises (in terms of dollar impact), including family income splitting and a number of targeted tax credits, will be implemented only when the budget is balanced (currently scheduled in FY2015-2016).

In the March budget, the government hinted at the possibility of balancing the budget a year earlier than officially projected due to a strategic spending review. Today's budget reaffirmed that commitment, promising \$11 billion in savings over the next four years. The deficit projections in this budget still do not incorporate the planned savings, so the projected deficit path in upcoming years is similar to that presented in March.

Reflecting the slightly higher deficit this year, financing requirements for FY2011-12 have been revised up to \$35.6 billion from \$34.0 billion in the March budget; financing requirements for other years have been left essentially unchanged (up \$0.1 billion in each year from FY2012-13 to FY2014-15.)

Federal government debt



Source: Department of Finance, RBC Economics Research

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The 2010-11 deficit has been revised down to \$36.2 billion from \$40.7 billion in the March budget; this does not affect the deficit profile but does have a marginal effect on the debt-to-GDP path.

The budget assumptions are the same as those in the March budget, with the government expecting 2.9% economic growth in 2011 and 2.8% in 2012. This is conservative relative to our forecast of 3.2% and 3.1%, respectively. Furthermore, the budget incorporates a risk adjustment of \$1.5 billion per year to revenues, which provides some cushion in the event that the economy grows more slowly than expected.

Summary statement of transactions (billions of dollars)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>
Budgetary transactions						
Budgetary Revenues	235.6	249.1	264.4	281.2	296.8	309.2
Program Expenses	240.8	248.4	247.3	252.0	257.7	265.6
Public debt charges	30.9	33.0	36.5	38.6	39.4	39.4
Total Expenses	271.7	281.4	283.8	290.7	297.1	305.0
Budgetary Balance	-36.2	-32.3	-19.4	-9.4	-0.3	4.2
Federal Debt	553.1	585.4	604.8	614.2	614.5	610.3
Per cent of GDP						
Budgetary revenues	14.5	14.6	14.7	14.9	15.1	15.0
Program Expenses	14.8	14.5	13.8	13.4	13.1	12.9
Public Debt Charges	1.9	1.9	2.0	2.1	2.0	1.9
Budgetary Balance	-2.2	-1.9	-1.1	-0.5	0.0	0.2
Federal Debt	34.0	34.3	33.7	32.6	31.2	29.7

(Year-over-year % change)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Real GDP growth	3.2	2.9	2.8	2.7	2.5	2.5
GDP Inflation	2.9	2.8	2.1	2.1	2.0	2.0
Nominal GDP growth	6.3	5.8	5.0	4.9	4.5	4.5
3-month Treasury bill rate*	0.6	1.3	2.5	3.4	3.9	4.1
Ten-year government bond rate*	3.2	3.5	4.0	4.6	4.8	5.0
Unemployment rate	8.0	7.5	7.2	7.0	6.7	6.5
U.S. real GDP growth	2.9	3.1	3.1	3.2	3.3	3.2

* %, end of period

Source: Statistics Canada, Bureau of Economic Analysis, RBC Economics Research

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