FEDERAL GOVERNMENT'S *ECONOMIC AND FISCAL UPDATE* 2008

November 27, 2008

The Canadian government's "Economic and Fiscal Statement" provided an update of the federal fiscal situation reflecting the worsening economic situation. The document suggests that the government intends to avoid any near-term deficit though only barely so. As well, the projections are based on no additional fiscal stimulus. As Finance Minister Flaherty commented "today's Statement lays out a plan that keeps our budget balanced for now. However, in the week's ahead, we will determine the extent to which we will inject additional stimulus to our economy, joining the efforts of our international partners." This provides the implication that deficits may yet eventually emerge in the face of needed fiscal stimulus. The Statement is in many ways setting the stage for more aggressive fiscal stimulus that will likely move the economy into a deficit situation.

The revised fiscal outlook is mainly the result of a reduction in the near-term growth outlook for the Canadian economy based on the average of private sector forecasts. The revision was attributed to "slower US growth and the anticipated negative effects of the global financial market turmoil." Growth this year and next has been significantly reduced to 0.6% and 0.3% relative to a previously projected 1.7% and 2.4%, respectively. Embodied in the forecast is the expectation that Canadian growth will turn negative in the fourth quarter of this year and the first quarter of 2009 and thus fall into a "technical recession." These growth numbers are broadly in line with the revised RBC forecast for the Canadian economy.

The Statement suggests that this will result in the surpluses for fiscal 2008-09 and 2009-10 being reduced to $0.8B and $0.1B from the $2.3B and $1.3B, respectively, projected in the February 2008 budget. A deficit is avoided in 2009-10 only by various initiatives detailed in the statement that in total are projected to raise an additional savings of $6.0B. In other words, without these additional initiatives, the weaker growth outlook would result in a deficit of $5.9B in 2009-10. A key area of savings is a projected $4.3B from a more "effective management of government spending." This will in part reflect closer scrutiny of departmental spending but may also entail asset sales. In the past, it is often the latter that has the greater success in providing a one-off lift to revenue than the former does for decreasing spending.

Some specific measures proposed in the Statement include:

- ▲ Eliminating the 1.75-per-vote taxpayer subsidy for politicians and political parties
- ▲ Limiting pay increases for the public sector to 2.3% for 2007/08 and 1.5% for the following three years alongside suspending the right to strike.
- ▲ Increased flexibility for the Minister of Finance to support the financial system.
- ▲ A one-time change that will allow RRIF holders to reduce their required minimum withdrawals by 25% for this tax year.
- ▲ Allow pension plans to double the length of time required for solvency payments from 5 to 10 years.

Initial comments by all opposition parties are that they intend to vote against the Statement as it currently stands.

Summary statement of transactions (billions of dollars)

	Actual	Projection					
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Budgetary transactions							
Revenues	242.4	239.0	248.5	258.9	270.9	283.9	297.3
Program expenses	199.5	206.6	216.5	224.6	233.4	243.2	253.0
Public debt charges	33.3	31.6	31.9	34.3	36.5	36.5	36.2
Total expenses	232.8	238.2	248.4	258.8	269.8	279.7	289.1
Surplus	9.6	0.8	0.1	0.1	1.1	4.2	8.1
Federal debt	457.6	456.8	456.7	456.6	455.5	452.5	449.5
Per cent of GDP							
Budgetary revenues	15.8	14.9	15.4	15.3	15.2	15.2	15.2
Program expenses	13.0	12.9	13.4	13.3	13.1	13.0	12.9
Public debt charges	2.2	2.0	2.0	2.0	2.1	2.0	1.8
Total expenses	15.2	14.9	15.4	15.3	15.2	15.0	14.7
Federal debt	29.8	28.5	28.3	27.1	25.6	24.2	22.9