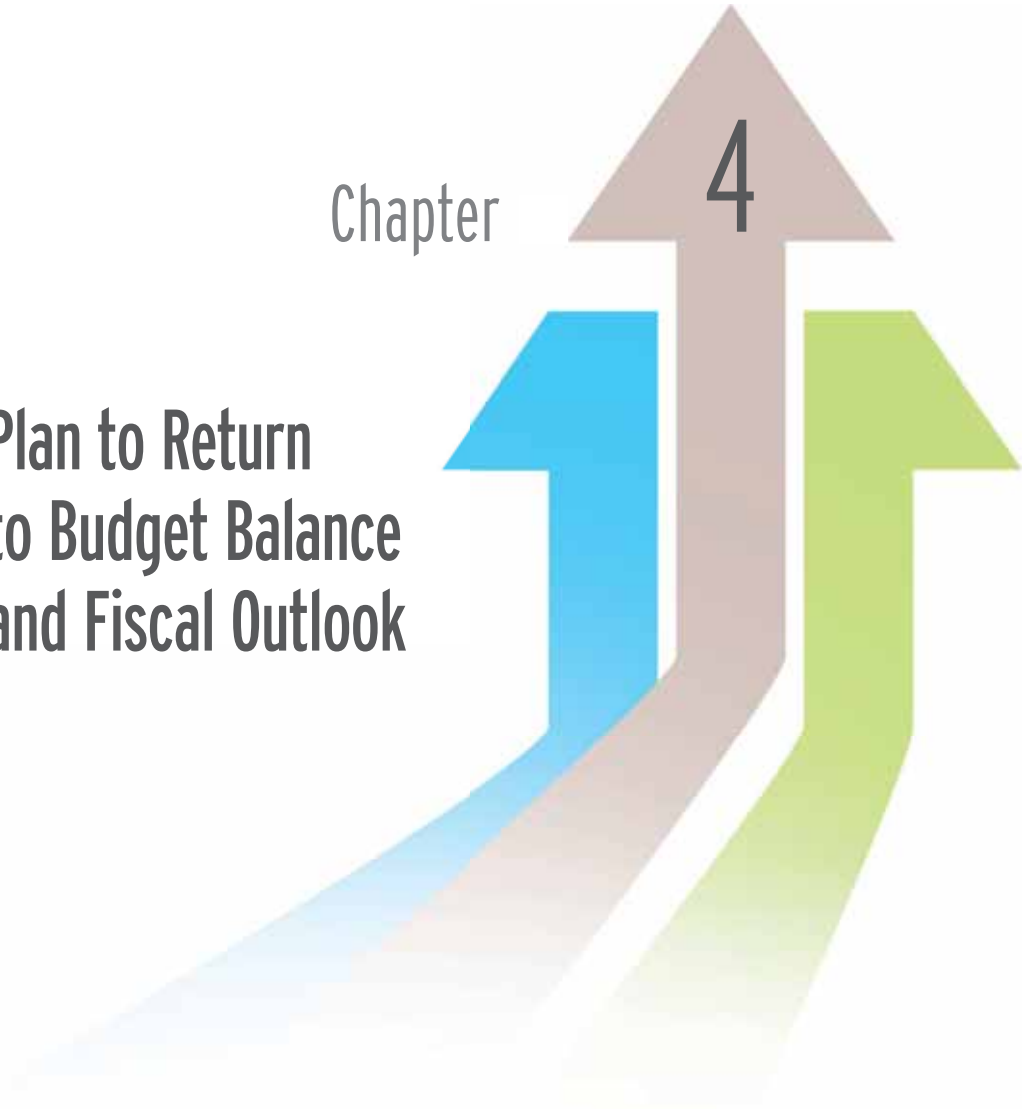


Chapter

4

**Plan to Return  
to Budget Balance  
and Fiscal Outlook**





## Highlights

- ✓ Budget 2010 outlines a three-point plan for returning to budgetary balance over the medium term and well before any other Group of Seven (G7) country.
  - First, the Government will follow through with the “exit strategy” built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
  - Second, the Government will restrain growth in spending through targeted measures. Towards achieving this objective, Budget 2010 proposes \$17.6 billion in savings over five years.
  - Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.
- ✓ The Government will not raise taxes. The Government will not cut major transfers to persons and other levels of government.
- ✓ As a result of the planned wind-down of the Economic Action Plan and the spending growth restraint measures in this budget, the deficit is projected to be cut by almost half to \$27.6 billion in 2011–12, and cut by two-thirds to \$17.5 billion in 2012–13.
- ✓ The debt-to-GDP (gross domestic product) ratio is expected to peak at 35.4 per cent in 2010–11 and then fall to 35.2 per cent in 2011–12 and 31.9 per cent by 2014–15.
- ✓ Program spending as a share of GDP is expected to decline from 15.6 per cent in 2009–10 to 13.2 per cent in 2014–15.

Plan to Return  
to Budget Balance





## Introduction

Canada's Economic Action Plan is a significant and extraordinary response, taken in co-operation with other G20 governments, to the deepest synchronized global recession since World War II. The Action Plan was necessary because governments around the world recognized that the normal cyclical stabilizers—employment insurance programs, the tax system and monetary policy actions—may not have been sufficient to stabilize the economy, raising the risk of a systemic global economic collapse.

The Action Plan is organized around three guiding principles—that stimulus should be:

- Timely: to support the economy when private demand is weakest.
- Targeted: to businesses and families most in need.
- Temporary: to avoid long-term deficits.

All of these principles have been followed. The Action Plan is working. Positive economic signs are emerging. Canadians and businesses in Canada have received significant benefits. With this budget, the Government is starting to phase out specific elements of the stimulus as planned in the 2009 budget.

For example, millions of Canadian families took advantage of the Home Renovation Tax Credit before its expiry on January 31, 2010 and will be able to claim the credit when they file their 2009 income tax returns.

*Overall, unprecedented policy efforts appear to have succeeded in limiting the severity of the downturn and fostering a recovery to a degree that was largely unexpected even six months ago. It is now time to plan the exit strategy from the crisis policies, even if its implementation will be progressive.*

—Organisation for Economic Co-operation and Development,  
November 2009

The decision to phase out the stimulus measures as planned reflects the Government's belief that, over the long term, the private sector is and should be the primary source of jobs and growth. Governments have an important role to play in creating the right conditions for Canadians and businesses to thrive.

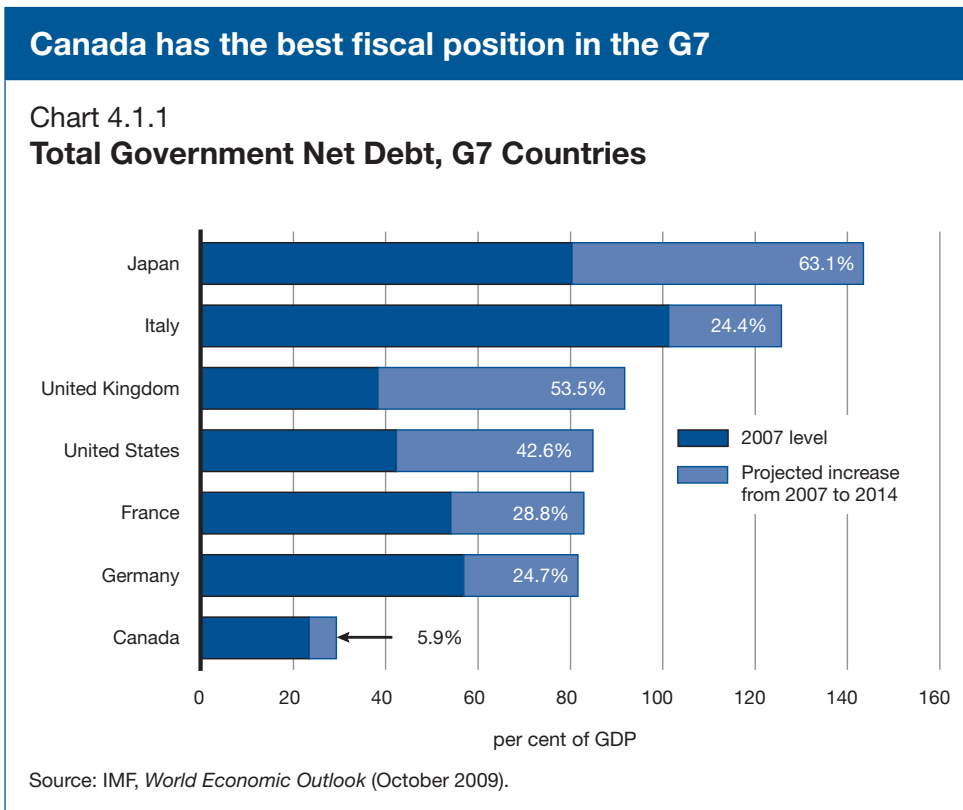


This role includes:

- Minimizing the tax burden.
- Reducing disincentives to work and save.
- Supporting high-quality education, training and skills development.
- Promoting competitive trade and investment policies.
- Providing effective regulation and public services.
- Managing public finances responsibly.

As signs of stabilization and recovery in the economy increasingly emerge, the Government will refocus its attention on its long-term economic plan.

Canada entered the global recession in an enviable fiscal position. Canada's total government net debt-to-GDP ratio had declined to 23.5 per cent by 2007. Looking ahead, Canada's net debt burden is projected to increase by 5.9 percentage points between 2007 and 2014. This compares to expected increases of between 24.4 and 63.1 percentage points for other G7 nations (Chart 4.1.1).





Strong fiscal management, founded on the principle that governments should live within their means, is the cornerstone of the Government's economic plan. A balanced budget is not an end in itself. Rather, it is a means to better jobs and stronger, sustainable growth. Balancing the budget is the most direct way of ensuring that Canada's social infrastructure is sustainable for the long term.

- Returning to balanced budgets will minimize the amount of revenues absorbed by debt charges, thereby allowing ongoing investments in the areas that are critical to Canada's long-term growth and prosperity—infrastructure, education and training, science and technology, health care and elderly benefits.
- Returning to balanced budgets will provide Canadians and Canadian businesses with confidence that both their tax levels and public services are sustainable over the long term. This will also ensure fairness and equity toward future generations, by avoiding future tax increases or reductions in government services in the face of an aging population.
- By keeping debt levels low, the Government helps to keep interest rates low. High government debt in other countries has translated into higher borrowing costs for their economies. As investors become more concerned about rising debt loads around the globe, our strong fiscal position is helping insulate Canada from rising risk premiums and higher borrowing costs.



## Budget 2010 Plan for Returning to Balance

To ensure that the economic recovery is secured, the Government will complete the implementation of the second year of Canada's Economic Action Plan so that recent positive economic growth is supported and jobs are maintained and created. Budget 2010 delivers on this commitment.

Budget 2010 sets out a three-point plan to bring the budget back to balance.

First, the Government will follow through on the “exit strategy” that is built into the Action Plan by ensuring that the temporary measures end as scheduled.

Second, the Government will put in place targeted measures to direct program spending growth now that will build over the medium term, when the recovery is secure. This will provide Canadians and Canadian businesses with certainty that the fiscal position of the Government is solid, that tax cuts are permanent and core program spending secure.

Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery. It will also continue with and augment a number of review processes, including strategic reviews.

In achieving this plan:

- The Government will not raise taxes. It will ensure that the costs of goods and services intended to be charged to recipients are recovered as appropriate.
- The Government will not cut major transfers to persons—including those for seniors and children and Employment Insurance. These important benefits for Canadians will not be reduced.
- The Government will not cut major transfers to other levels of government in support of health care and social services, Equalization and the gas tax transfer to municipalities. The federal government will do its share to fund these essential services.



## Ending the Economic Action Plan on Time

Governments around the world are working together to stimulate their economies through significant short-term expenditures. These actions have been endorsed internationally, but with an emphasis on the need for sustainable medium-term fiscal plans. At the Pittsburgh Summit in September 2009, G20 Leaders committed to follow through on their stimulus plans in the near term, while preparing strategies to wind down stimulus and improve their fiscal positions as the recovery is established.

Canadians expect federal, provincial and municipal governments to work together to stimulate the economy and create and maintain jobs. But they also expect governments to return to balanced budgets as quickly as possible once the recovery takes hold. That is why many elements of the Economic Action Plan are time-limited. For the most part, funds are only available through March 2011.

Allowing the temporary elements of the Action Plan to wind down, as scheduled, is the first step in the Government's plan to return to balance over the medium term. This alone will cut the budget deficit almost in half between 2009–10 and 2011–12. The Government is starting to phase out specific elements of the stimulus, as planned in the 2009 budget.

- In December, the Government set a deadline of January 29, 2010, for partner authorities to secure firm commitments to implement projects. This deadline was set to allow for projects to be completed by March 31, 2011. Projects with partner authorities have now been finalized. In areas where funds were not committed, these have been reallocated to other priorities.
- On January 31, 2010, the Home Renovation Tax Credit came to an end after successfully boosting activity in the home renovation sector. Canadians will see the benefits upon filing their 2009 income tax returns.

## Targeted Measures

The second element of the Government's plan to bring the budget back to balance is to put in place targeted measures to reduce the rate of growth of spending that will build over the medium term. Budget 2010 announces \$17.6 billion in savings measures over the next five years. Each of these spending growth restraint measures is described below.



## Restraining Growth in National Defence Spending

In recent years, the Government has made major, necessary investments in the country's military capabilities in support of the *Canada First* Defence Strategy, the Government's long-term vision for the Canadian Forces. The *Canada First* Defence Strategy is a long-term commitment to modernize the Canadian Forces. The strategy sets out key objectives of growing the forces, recapitalizing air, land and naval fleets and other major equipment, restoring infrastructure, and ensuring the Canadian Forces are ready to deploy in the defence of Canada and Canada's interests both at home and abroad. The *Canada First* Defence Strategy continues to point the way forward for Canada's military.

In addition to incremental funding received for deployed operations, National Defence's annual expenses have increased from \$15 billion in 2005–06 to \$18 billion in 2008–09. In 2008–09, National Defence spending represented approximately one-fifth of total government direct program spending on an annual basis. These investments have strengthened the Canadian Forces and produced tangible results, as most recently demonstrated by the Afghanistan mission, support for relief efforts in Haiti, and the provision of security at the 2010 Winter Olympics in Vancouver.

The Government remains committed to continuing to build the Canadian Forces into a first-class, modern military. However, as part of measures to restrain the growth in overall government spending and return to budget balance in the medium term, the Government will slow the rate of previously planned growth in the National Defence budget. Budget 2010 reduces growth in National Defence's budget by \$525 million in 2012–13 and \$1 billion annually beginning in 2013–14. Defence spending will continue to grow but more slowly than previously planned (Chart 4.1.2).

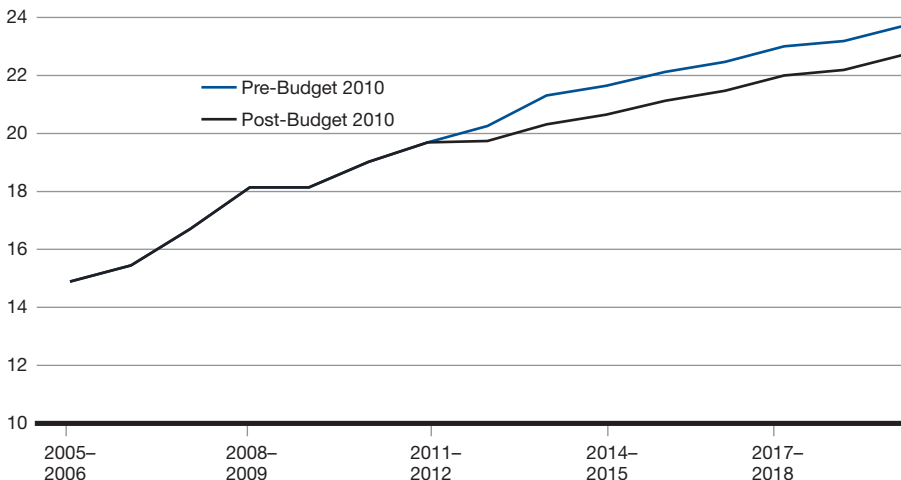


## National Defence funding continues to increase

Chart 4.1.2

### National Defence Budget

billions of dollars



Note: Excludes incremental funding for deployed operations in Afghanistan and in support of the 2010 Olympics.

Source: Department of Finance.

By implementing this measure beginning in 2012–13, the Government will ensure that it does not adversely affect military operations during the current Afghanistan mission, and that National Defence has sufficient time to adjust its long-term expenditure plans. The Government is confident that the long-term objectives of the *Canada First* Defence Strategy can be achieved and that the Canadian Forces will continue to fully meet its three key roles: defending Canada, defending North America and contributing to international peace and security.

National Defence has already begun work on a comprehensive strategic review to ensure its resources are fully aligned with the priorities set out in the *Canada First* Defence Strategy. This review will identify measures necessary to implement the Budget 2010 decision.

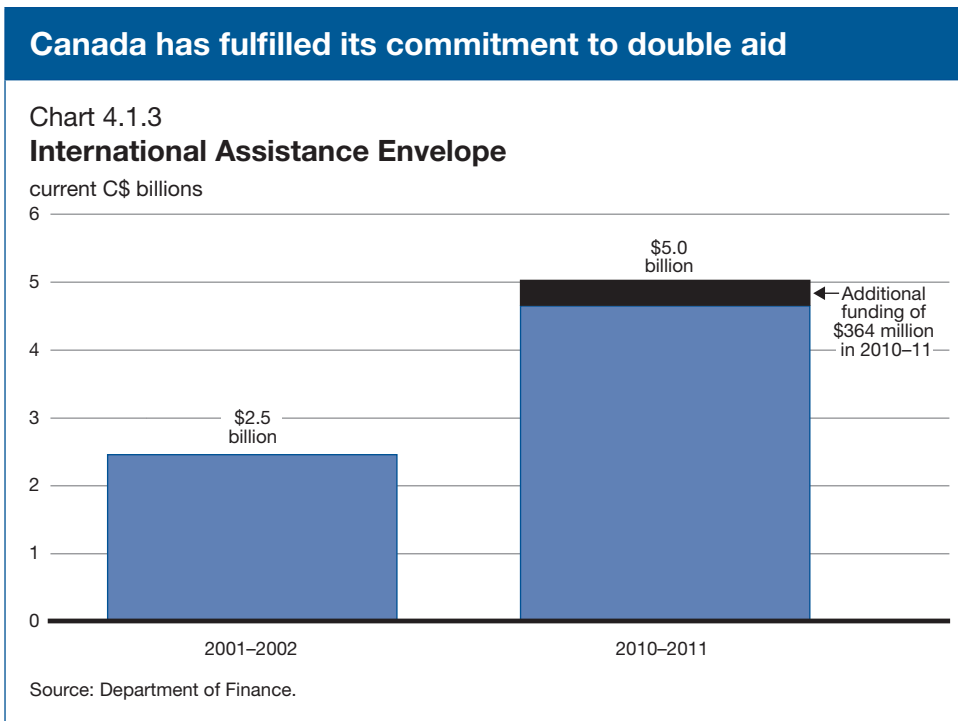


## International Assistance Envelope

In 2002, Canada committed to double international assistance by 2010–11. Budget 2010 fulfills this commitment by increasing the International Assistance Envelope (IAE) by \$364 million, or 8 per cent, in 2010–11, bringing it to \$5 billion (Chart 4.1.3).

For planning purposes, the Government had provisioned for annual IAE growth of 8 per cent. With the achievement of the \$5-billion aid target, future IAE spending levels will be capped at 2010–11 levels and will be assessed alongside all other government priorities on a year-by-year basis in the budget. Relative to the planning track that was assumed in the September 2009 Update of Economic and Fiscal Projections, which assumed automatic ongoing growth for international assistance spending of 8 per cent per annum, this results in savings of \$438 million in 2011–12, rising to \$1.8 billion by 2014–15.

International assistance remains a priority for the Government. Honouring the commitment to double our international assistance budget by 2010–11 will mean significant new ongoing resources to allow Canada to respond to global challenges with strong leadership, including support for reconstruction in Haiti and our G8 and G20 Summit priorities. More details on these initiatives can be found in Chapter 3.5.





## Containing the Administrative Cost of Government

The Government is also proposing to reduce the rate of growth of its operating expenditures and improve efficiency while lowering the rate of growth in the size and operations of the public service.

The Government will lead by example, introducing legislation to freeze the salaries of the Prime Minister, Ministers, Members of Parliament and Senators for 2010–11, 2011–12 and 2012–13. It will also freeze the overall budget of Ministers' offices and calls on Members of both Houses of Parliament to do the same. It will also maintain the freeze at 2008–09 levels on departmental spending on travel, conferences and hospitality.

This budget proposes two further significant actions to reduce the growth in operating expenses.

- For 2010–11, departmental budgets will not be increased to fund the 1.5-per-cent increase in annual wages for the federal public administration. Employees will continue to see their wages increase as set out in collective agreements and the Expenditure Restraint Act, which is in effect through 2011. However, departments will be required to reallocate from the remainder of their operating budgets to fund these increases.
- For 2011–12 and 2012–13, operating budgets of departments, as appropriated by Parliament, will be frozen at 2010–11 levels. Departmental spending is appropriated through the Main and Supplementary Estimates. The Government tabled the 2010–11 Main Estimates on March 3, 2010. The spending in the Main Estimates is generally consistent with the program expenses set out in the budget. However, the Estimates do not take into account measures announced in Budget 2010 or expected adjustments to fund cost pressures related to essential services, payments that arise from liabilities and other contingencies. An allowance for these adjustments is included in the fiscal framework. Treasury Board will set departmental operating spending levels for 2011–12 and 2012–13 at 2010–11 amounts, adjusted to reflect the expiration of operating budget authorities to deliver the Economic Action Plan. Practically speaking, salary and operating budgets of departments will be frozen at their 2010–11 levels in 2011–12 and 2012–13.

While the Department of National Defence will be subject to the overall operating budget constraint, the Defence escalator will continue to apply over those years, such that the Defence budget will continue to increase.



The Government expects that other federal organizations, for which expenses are not appropriated by Parliament (for example, enterprise Crown corporations), will follow suit and freeze their operating expenses.

Given the constraints on departments' operating budgets, the Government will engage with public sector bargaining agents and will assess measures taken by other jurisdictions in Canada to ensure that total costs of compensation are reasonable, the organization of work is effective, technology is used appropriately to drive productivity, and the federal public service maintains its reputation for excellence. The Government will also continue to examine ways in which all compensation costs, including benefits, could be better managed.

Actions to reduce growth in operating expenses proposed in this budget are projected to save \$0.3 billion in 2010–11, \$0.9 billion in 2011–12 and \$1.8 billion in 2012–13, as reflected in Table 4.1.1 below.

## **Review of Government Operations**

The third element of the Government's plan to return the budget to balance is to undertake, continue with, and in some cases augment, a number of review processes aimed at reducing costs while improving efficiency. Over time this should result in a reduction in the size of the public service.

- Strategic reviews, through which departments assess all their programs and identify 5 per cent of the lowest-priority and lowest-performing ones, will continue. Strategic reviews are carried out under the leadership of the President of the Treasury Board. Over the first two years of the strategic review exercise, almost \$1.0 billion has been identified in ongoing annual savings. This budget proposes savings in respect of the 2009 round of strategic reviews that reach \$287 million in 2012–13. To maximize savings in future strategic reviews, departments will no longer be asked as a matter of course to suggest reinvestments of strategic review savings. Detailed outcomes of the 2009 round of strategic reviews are provided in Annex 2.
- The Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery. Simplification of processes and delivery mechanisms will improve access to government services and reduce costs of program delivery. The Government will report on the results of this review in the 2011 budget.



- The Government will ensure that, as part of its ongoing assessment processes of grants and contributions, including renewal of program terms and conditions, the funding provided to organizations is tied to furthering government priorities and achieving results for Canadians.
- The Corporate Asset Management Review is continuing, consistent with the Budget 2009 commitment. The Review assesses selected assets under the leadership of the Minister of Finance, with a view to improve their efficiency and effectiveness and ensure that resources of the Government are employed in ways that focus on the priorities of Canadians. Reviews consider a wide set of options for the future of selected assets, including the status quo, amendments to current mandates or governance, and divestment. A systematic review of corporate assets is a normal part of good governance and contributes to the ongoing reallocation of financial resources from low to high priorities in order to maximize economic benefits to taxpayers.
- The Government is proceeding with a reduction of 245 Governor in Council (GiC) positions. This reduction represents 9.1 per cent of the approximately 2,700 positions covered by the GiC review announced in the 2009 budget. This streamlining exercise will provide for more effective governance and operations and strengthen the management of Canada's federal agencies, boards, commissions and Crown corporations.

In addition to the expenditure restraint announced above, this budget introduces a number of measures intended to protect the integrity of the Canadian tax system. The introduction of these measures will yield \$355 million in savings in 2010–11, rising to \$625 million by 2014–15. These measures are detailed in Chapter 3 and Annex 5.

In total, Budget 2010 savings measures amount to \$17.6 billion in savings. Table 4.1.1 outlines these major actions. As a result of the actions taken in this budget, average annual growth in direct program spending after the expiry of the Economic Action Plan will slow to 1.3 per cent.



Table 4.1.1

**Budget 2010 Savings Measures—Expected Savings**

	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015	Total
	(millions of dollars)						
Restraining growth in National Defence spending				525	1,000	1,000	2,525
International Assistance Envelope			438	869	1,337	1,842	4,486
Containing the administrative cost of government		300	900	1,800	1,800	2,000	6,800
2009 strategic reviews		152	248	287	288	288	1,262
Tax fairness—closing tax loopholes	20	355	440	500	565	625	2,505
<b>Total</b>	<b>20</b>	<b>807</b>	<b>2,026</b>	<b>3,981</b>	<b>4,990</b>	<b>5,755</b>	<b>17,578</b>

Note: Totals may not add due to rounding.

**Budget 2010 Plan for Returning to Balance: Results**

Chart 4.1.4 shows the projected deficit for this fiscal year and the next five years. This projection takes into account the wind-down of the Economic Action Plan, the savings from direct program spending growth restraint outlined above, the impact of the new actions outlined in Chapter 3, and the impact of recent economic developments on government revenues and expenses, as described later in this chapter.

- The deficit is projected to be cut by almost half from \$53.8 billion in 2009–10 to \$27.6 billion in 2011–12. This significant drop in the deficit for the most part reflects the Government’s commitment to make certain that Action Plan stimulus measures expire as scheduled on March 31, 2011.
- The deficit is projected to be cut by two-thirds from \$53.8 billion in 2009–10 to \$17.5 billion in 2012–13.

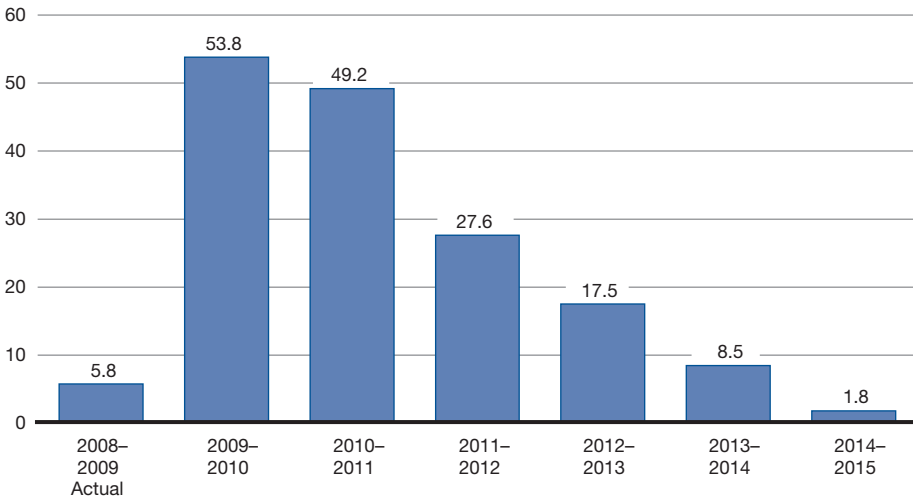
The projected deficit in 2009–10 of 3.5 per cent of GDP is considerably below the deficits recorded in previous recessions of 5.6 per cent of GDP in 1992–93 and 7.6 per cent of GDP in 1982–83. By 2014–15, the deficit measured in relation to the size of the economy is projected to be 0.1 per cent of GDP (Chart 4.1.5).



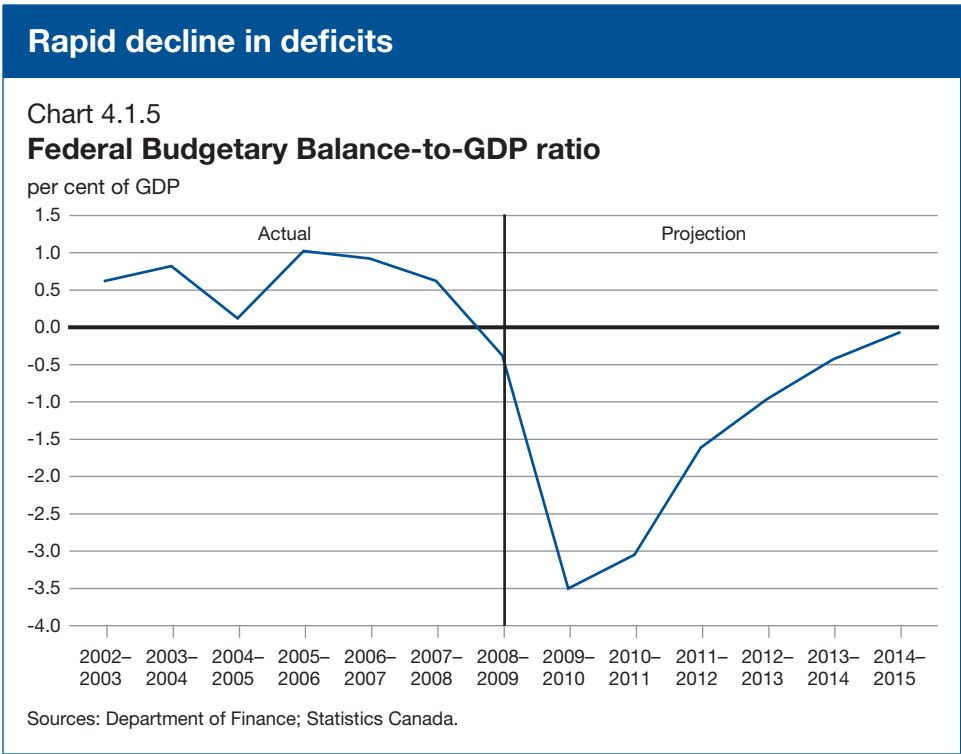
## Rapid decline in deficits

Chart 4.1.4  
**Federal Budgetary Deficit**

billions of dollars



Source: Department of Finance.



An important measure of fiscal sustainability is the debt burden as measured by the debt-to-GDP ratio. Reductions in the debt burden in recent years have provided Canada with the flexibility to put in place measures to support the economy that are sustainable. Chart 4.1.6 shows that the federal debt, measured in relation to the size of the economy, is projected to increase from 29 per cent of GDP in 2008–09—the lowest debt ratio in 29 years—to a peak of 35.4 per cent in 2010–11. The debt ratio over this year and next will be about equal to the ratio in 2005–06, when the Government recorded a \$13.2-billion surplus. In 2011–12, following the expiry of the measures in the Economic Action Plan, the debt ratio is projected to fall once more to 35.2 per cent of GDP, and to continue to fall to 31.9 per cent of GDP by 2014–15.

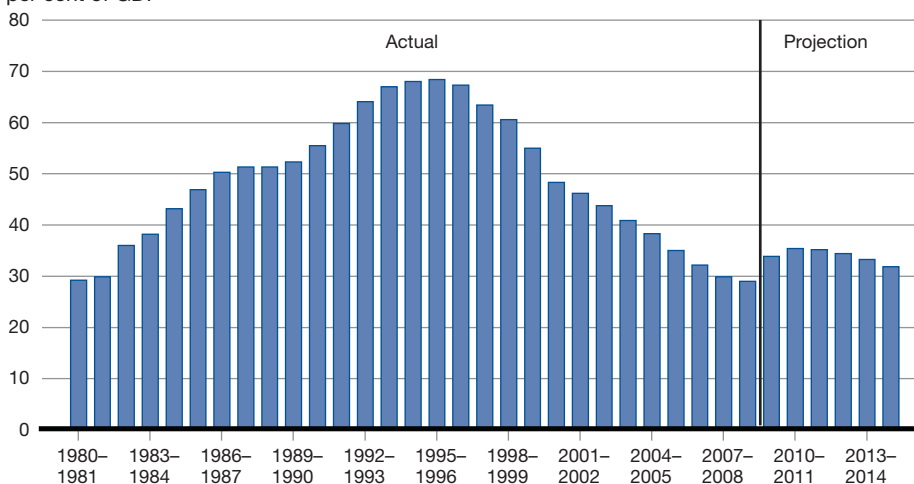


## Falling debt burden

Chart 4.1.6

### Federal Debt-to-GDP Ratio

per cent of GDP



Sources: Department of Finance; Statistics Canada.

The total government net debt-to-GDP ratio in Canada<sup>1</sup> is the lowest of all G7 countries and will continue to be so over the medium term (Chart 4.1.7). In fact, by 2014, Canada’s debt-to-GDP ratio is expected to be proportionately much lower than in other G7 countries than it is now.

<sup>1</sup> Includes federal, provincial-territorial and local governments, as well as the Canada Pension Plan and the Québec Pension Plan.

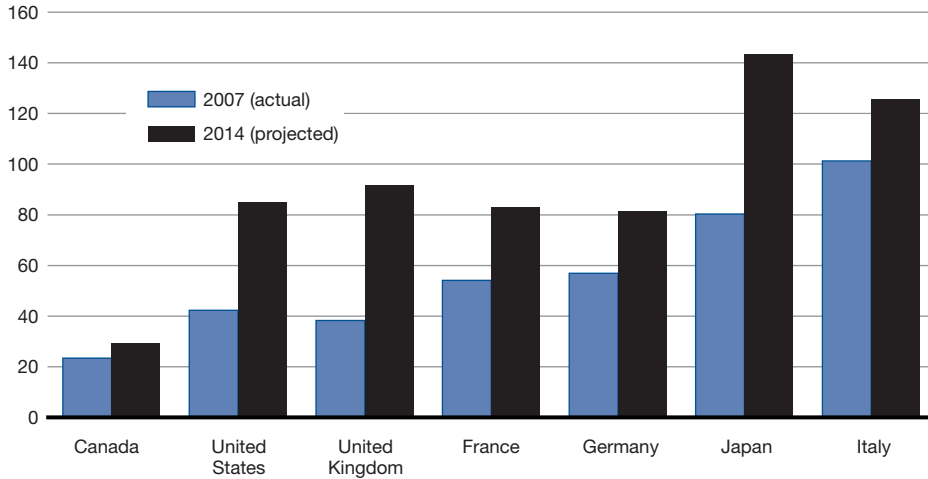


## Canada's fiscal advantage

Chart 4.1.7

### Total Government Net Debt-to-GDP Ratio

per cent of GDP



Source: International Monetary Fund, *World Economic Outlook*, (October 2009).

Fiscal Planning  
Framework





## Fiscal Outlook Before the Measures Proposed in Budget 2010

Table 4.2.1 provides a summary of the changes in the fiscal projections since the September 10, 2009 Update of Economic and Fiscal Projections. Although budget measures have been presented over two years, this section provides a five-year forecast as part of the Government's medium-term economic plan. In the Update, underlying budgetary deficits of \$55.9 billion in 2009–10, \$45.3 billion in 2010–11, \$27.4 billion in 2011–12, \$19.4 billion in 2012–13, \$11.2 billion in 2013–14 and \$5.2 billion in 2014–15 were projected.

Table 4.2.1

### Summary of Changes in the Fiscal Outlook Since the September 2009 Update of Economic and Fiscal Projections

	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)					
<b>September Update budgetary balance</b>	<b>-55.9</b>	<b>-45.3</b>	<b>-27.4</b>	<b>-19.4</b>	<b>-11.2</b>	<b>-5.2</b>
Decisions since the September Update	-0.1	-0.5	-0.1	-0.1	-0.1	-0.1
Impact of economic and fiscal developments						
Budgetary revenues	-2.7	-2.0	-2.3	-2.5	-2.5	-2.1
Budgetary expenses <sup>1</sup>	5.0	-1.1	1.0	1.4	1.4	0.9
Total economic and fiscal developments	2.3	-3.1	-1.2	-1.1	-1.1	-1.3
<b>Revised status quo budgetary balance</b>	<b>-53.7</b>	<b>-48.9</b>	<b>-28.7</b>	<b>-20.6</b>	<b>-12.5</b>	<b>-6.6</b>

Note: Totals may not add due to rounding.

<sup>1</sup> A positive number implies a decrease in spending and an improvement in the budgetary balance. A negative number implies an increase in spending and a deterioration in the budgetary balance.

The status quo budgetary balance (before actions in this budget) has been revised to deficits of \$53.7 billion in 2009–10, \$48.9 billion in 2010–11, \$28.7 billion in 2011–12, \$20.6 billion in 2012–13, \$12.5 billion in 2013–14 and \$6.6 billion in 2014–15.

The revision reflects both the cost of decisions taken by the Government since the September Update and the impact of economic changes.



The cost of decisions taken since the September Update amount to \$500 million in 2010–11 and \$100 million per year in 2009–10 as well as in 2011–12, 2012–13, 2013–14 and 2014–15. These costs include the Government’s December 2009 commitment to provide one-time protection payments to Newfoundland and Labrador, Prince Edward Island, Nova Scotia, New Brunswick, Manitoba and Saskatchewan totalling \$525 million. This measure ensures that no province experiences a decline in its combined entitlements under the Canada Health Transfer, Canada Social Transfer and Equalization in 2010–11. In addition, it reflects the fiscal impact of the extension of certain Employment Insurance benefits to the self-employed, funding for repairs to the Atomic Energy of Canada Limited’s isotope facility, and an increase to the pension surplus threshold. Additional funds have also been provided for the ecoENERGY Retrofit – Homes program.

While the economic outlook has been revised up in the near term, revenues have been weaker than expected to date in 2009–10. As well, a lower than projected take-up in the Insured Mortgage Purchase Program (IMPP) has lowered projected interest earnings of the Government. This results in a corresponding reduction in debt charges. As a result, revenues are projected to be somewhat lower than projected in the September Update through 2014–15. Revenues are revised down by \$2.7 billion in 2009–10, \$2.0 billion in 2010–11, \$2.3 billion in 2011–12, \$2.5 billion in 2012–13, \$2.5 billion in 2013–14 and \$2.1 billion in 2014–15.

In 2009–10 budgetary expenses, which include program expenses and public debt charges, are projected to be \$5.0 billion below the level estimated in the September Update. This results from a change in the profile of Economic Action Plan spending, as some spending initially planned for 2009–10 is now expected to take place in 2010–11. In addition, savings have been realized due to the upward valuation of the General Motors of Canada Inc. shares the Government acquired as part of its support to the auto industry. In 2010–11, budgetary expenses are projected to be higher than projected at the time of the September Update, largely reflecting the shift of some spending under the Economic Action Plan into 2010–11. Starting in 2011–12, budgetary expenses are projected to be lower than projected at the time of the September 2009 Update. This is due to significantly lower projected debt charges, which more than offset higher projected Employment Insurance (EI) benefits (reflecting higher average benefits and the extension of certain EI benefits to the self-employed). Lower projected public debt charges reflect both lower forecast interest rates and a lower projected take-up of the IMPP.



In total, economic and fiscal developments since the September Update have led to a decrease of \$2.3 billion in the projected budgetary deficit for 2009–10, and to projected increases in the budgetary deficit of \$3.1 billion in 2010–11, \$1.2 billion in 2011–12, \$1.1 billion in 2012–13, \$1.1 billion in 2013–14 and \$1.3 billion in 2014–15.

## Fiscal Cost of Measures Proposed in Budget 2010

Table 4.2.2 sets out the impact of measures proposed in this budget. The reductions proposed in Budget 2010 result in cumulative savings of \$17.6 billion over five years.

Table 4.2.2

### Fiscal Outlook

	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)					
<b>Status quo budgetary balance (before budget measures)</b>	<b>-53.7</b>	<b>-48.9</b>	<b>-28.7</b>	<b>-20.6</b>	<b>-12.5</b>	<b>-6.6</b>
<b>Return to budget balance— savings measures</b>						
Restraining growth in National Defence spending	0.0	0.0	0.0	0.5	1.0	1.0
International Assistance Envelope	0.0	0.0	0.4	0.9	1.3	1.8
Containing the administrative cost of government	0.0	0.3	0.9	1.8	1.8	2.0
2009 strategic reviews	0.0	0.2	0.2	0.3	0.3	0.3
Tax fairness—closing tax loopholes	0.0	0.4	0.4	0.5	0.6	0.6
Subtotal—savings measures	0.0	0.8	2.0	4.0	5.0	5.8
<b>Measures proposed in this budget<sup>1</sup></b>						
Building on a strong economic foundation	-0.1	-0.9	-0.6	-0.7	-0.8	-0.7
Supporting Families and Communities and Standing Up for Those Who Helped Build Canada	0.0	-0.2	-0.3	-0.2	-0.2	-0.2
Subtotal—policy measures	-0.1	-1.1	-0.9	-0.9	-1.0	-0.9
Total (net savings)	-0.1	-0.3	1.1	3.1	4.0	4.8
<b>Budgetary balance (after Budget measures)</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>

Note: Totals may not add due to rounding.

<sup>1</sup> A positive number implies a decrease in spending and an improvement in the budgetary balance. A negative number implies an increase in spending and a deterioration in the budgetary balance.



Savings proposals are designed to build over the medium term as the economy recovers. The cost of proposed new policy measures totals \$1.1 billion in 2010–11 and about \$0.9 billion per year thereafter.

As a result of the expiration of the Economic Action Plan and the measures in this budget, the deficit is projected to decline by almost half over the next two years, to \$27.6 billion in 2011–12, and by two-thirds to \$17.5 billion in 2012–13. In 2014–15, the deficit is projected to be \$1.8 billion.

## Summary Statement of Transactions

Table 4.2.3 provides a summary of the Government's financial position, including the cost of measures and the savings proposed in Budget 2010.

Expressed as a share of the economy, budgetary revenues are projected to increase from a low of 14.0 per cent of GDP in 2009–10 to 15.2 per cent of GDP in 2014–15. This increase reflects the impact of the economic recovery. In contrast, savings measures proposed in this budget are expected to lower the ratio of program spending to GDP from 15.6 per cent in 2009–10 to 13.2 per cent in 2014–15. As a result, the federal deficit is projected to be 0.1 per cent of GDP in 2014–15.

The federal debt-to-GDP ratio (accumulated deficit) stood at 29.0 per cent in 2008–09, down significantly from its peak of 68.4 per cent in 1995–96. The debt ratio is expected to increase to 35.4 per cent in 2010–11, the second year of the Economic Action Plan, before declining steadily to 31.9 per cent in 2014–15.



Table 4.2.3

**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)						
<b>Budgetary revenues</b>	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	39.8	40.6
<b>Total expenses</b>	238.8	267.7	280.5	276.7	284.0	291.2	298.3
<b>Budgetary balance</b>	-5.8	-53.8	-49.2	-27.6	-17.5	-8.5	-1.8
<b>Federal debt</b>	463.7	517.5	566.7	594.3	611.9	620.3	622.1
<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	15.6	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.



## Outlook for Budgetary Revenues

Table 4.2.4

### Revenue Outlook (Including Budget 2010 measures)

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
(billions of dollars)							
Income taxes							
Personal income tax	116.0	108.2	117.0	124.5	133.3	141.9	150.6
Corporate income tax	29.5	22.3	25.5	28.9	29.5	31.6	33.2
Non-resident income tax	6.3	4.9	5.5	5.9	6.4	6.9	7.0
Total income tax	151.8	135.4	148.0	159.4	169.3	180.3	190.8
Excise taxes/duties							
Goods and Services Tax	25.7	25.8	27.3	28.8	30.5	32.1	33.7
Customs import duties	4.0	3.4	3.4	3.5	3.7	3.8	4.1
Other excise taxes/duties	10.0	10.1	10.3	10.3	10.3	10.3	10.4
Total excise taxes/duties	39.8	39.3	41.0	42.7	44.4	46.3	48.3
Total tax revenues	191.6	174.7	188.9	202.0	213.7	226.6	239.1
Employment Insurance premium revenues	16.9	16.6	17.6	20.0	22.6	25.2	26.6
Other revenues	24.6	22.6	24.8	27.0	30.3	30.8	30.8
<b>Total budgetary revenues</b>	<b>233.1</b>	<b>213.9</b>	<b>231.3</b>	<b>249.0</b>	<b>266.5</b>	<b>282.7</b>	<b>296.5</b>
<b>Per cent of GDP</b>							
Personal income tax	7.3	7.1	7.3	7.4	7.5	7.6	7.7
Corporate income tax	1.8	1.5	1.6	1.7	1.7	1.7	1.7
Goods and Services Tax	1.6	1.7	1.7	1.7	1.7	1.7	1.7
Total tax revenues	12.0	11.4	11.8	12.0	12.0	12.2	12.2
Employment Insurance premium revenues	1.1	1.1	1.1	1.2	1.3	1.4	1.4
Other revenues	1.5	1.5	1.5	1.6	1.7	1.7	1.6
Total	14.6	14.0	14.4	14.8	15.0	15.2	15.2

Note: Totals may not add due to rounding



Personal income tax revenues—the largest component of budgetary revenues—are projected to decline by \$7.8 billion, or 6.7 per cent, to \$108.2 billion in 2009–10. This primarily reflects the impact of tax relief measures, notably the increases in the basic personal amount and personal income tax bracket thresholds, the enhancement of the Working Income Tax Benefit and the Home Renovation Tax Credit, as well as the impact of the weaker economy. Personal income tax revenues are projected to rise by 8.1 per cent in 2010–11, reflecting the resumption of growth in personal income, as well as the end of the Home Renovation Tax Credit. From 2011–12 onwards, personal income tax revenues are projected to grow on average by 6.5 per cent per year, reflecting the progressive nature of the income tax system combined with growth in the personal income tax base.

Corporate income tax revenues are expected to decline by \$7.2 billion, or 24.3 per cent, to \$22.3 billion in 2009–10, reflecting a projected decline in corporate profits, refunds of taxes paid in previous years and a 0.5-percentage-point reduction in the general corporate income tax rate in 2009. Corporate income tax revenues are projected to increase by 14.1 per cent in 2010–11 and 13.7 per cent in 2011–12, lifted by a recovery in profits, but partly offset by the carry-forward of losses recorded during the recession, as well as ongoing tax relief. Growth in corporate income tax revenues is projected to moderate to 2.0 per cent in 2012–13, largely due to the decline in the general corporate income tax rate to 15 per cent in 2012 and other tax relief measures, as well as a moderation in profit growth. Growth in corporate income tax revenues is projected to average 6.0 per cent in 2013–14 and 2014–15.

Non-resident income tax revenues are expected to decline by 22.3 per cent to \$4.9 billion in 2009–10, reflecting the drop in corporate profits in 2009, as well as the impact of the phase-out of the withholding tax on non-arm's length payments of interest to the U.S. under the Fifth Protocol to the Canada-U.S. Tax Treaty. Non-resident income tax revenues are projected to rise by 13.3 per cent in 2010–11 as the economy recovers, and then to grow at an average rate of 6.2 per cent over the remainder of the forecast period.

Goods and Services Tax (GST) revenues are projected to be flat in 2009–10, reflecting weak growth in consumption. Consistent with a projected recovery in consumption in 2010–11, growth in GST revenues is projected to average 5.5 per cent over the remainder of the projection period.



Customs import duties are projected to decline by 15.4 per cent to \$3.4 billion in 2009–10, reflecting a decline in imports combined with tariff relief for machinery and equipment announced in Budget 2009. Customs import duties are projected to decline a further 1.4 per cent in 2010–11, reflecting tariff relief on manufacturing inputs and machinery and equipment announced in this budget. Growth in customs import duties is projected to average 5.3 per cent through 2014–15.

Other excise taxes and duties are projected to rise by 0.6 per cent to \$10.1 billion in 2009–10, and then rise to \$10.3 billion in 2010–11.

Employment Insurance (EI) premium revenues are projected to decline by 1.6 per cent in 2009–10, reflecting a decline in employment. The EI premium rate was kept stable in 2009 and 2010 at \$1.73 per \$100 of insurable earnings. When the temporary freeze of EI premiums is lifted in 2011, premium rates will be set by an independent arm's length Crown corporation, the Canada Employment Insurance Financing Board (CEIFB). Under the EI financing regime passed into law in Budget 2008, the CEIFB will set EI premium rates in order to balance the EI program over time, subject to a 15-cent limit on annual changes. Based on current economic projections, it is expected that the deficits incurred by the EI program during the recession will be paid back by 2014. Consistent with the Government's commitment in Budget 2009, the CEIFB will not be mandated to recover any EI deficits resulting from the \$2.9 billion in benefit enhancements announced in Budget 2009.

Other revenues include those of consolidated Crown corporations, net gains/losses from enterprise Crown corporations, foreign exchange revenues, returns on investments and revenues from the sales of goods and services. These revenues are volatile, owing partly to the impact of exchange rate movements on the Canadian-dollar value of foreign-denominated interest-bearing assets and to net gains/losses from enterprise Crown corporations. Other revenues are projected to decline by 8.1 per cent in 2009–10, due in part to a decline in revenues under the Atlantic Offshore Revenue Accounts, reflecting lower oil prices as well as a decline in offshore production. This decline in revenues is offset by a corresponding decline in projected transfers to Newfoundland and Labrador and Nova Scotia under the Atlantic Offshore Accords, such that there is no net impact on the budgetary balance. Other revenues are projected to rise by 9.6 per cent in 2010–11, by 9.0 per cent in 2011–12 and by 12.1 per cent in 2012–13, largely reflecting rising interest rates, along with measures introduced in this budget to reduce the interest rate paid by the Government on tax



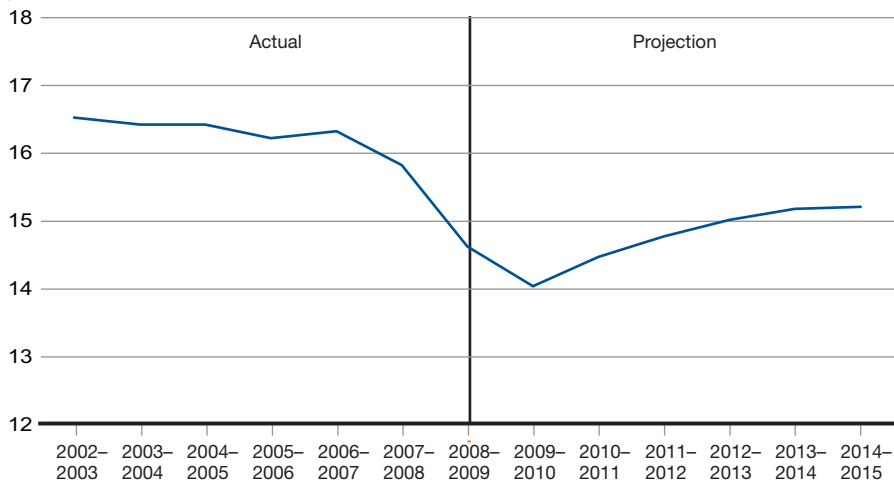
overpayments by corporations. Other revenue growth is then projected to slow to 1.8 per cent in 2013–14 and remain largely unchanged in 2014–15, reflecting the winding down of the Insured Mortgage Purchase Program.

The revenue projections include foregone revenues of \$12 million over two years due to the extension by one year, to May 2011, of the current fee waiver for firearms licence renewals or upgrades.

## Recovery from the recession

Chart 4.2.1  
**Revenue-to-GDP Ratio**

per cent of GDP



Sources: Department of Finance; Statistics Canada.

Chart 4.2.1 shows that revenues as a share of GDP are projected to fall to 14.0 per cent in 2009–10. The projected decline in the revenue ratio reflects tax relief measures announced in previous budgets, as well as the impact of automatic fiscal stabilizers, which lower collections when the economy slows in order to dampen the impact of the recession. The revenue ratio is expected to increase to 15.2 per cent in 2014–15 as the economy recovers.



## Outlook for Program Expenses

Table 4.2.5

### Program Expense Outlook (Including Budget 2010 Measures)

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)						
Major transfers to persons							
Elderly benefits	33.4	35.0	36.7	38.6	40.7	42.9	45.2
Employment Insurance benefits <sup>1</sup>	16.3	22.4	22.6	19.6	18.8	18.4	18.4
Children's benefits	11.9	12.3	12.7	13.2	13.4	13.4	13.5
<b>Total</b>	<b>61.6</b>	<b>69.7</b>	<b>72.0</b>	<b>71.4</b>	<b>72.9</b>	<b>74.8</b>	<b>77.1</b>
Major transfers to other levels of government							
Federal transfers in support of health and social programs	33.3	35.7	37.1	38.7	40.7	42.7	44.7
Fiscal arrangements <sup>2</sup>	15.2	16.1	16.4	16.8	17.7	18.6	19.5
Alternative Payments for Standing Programs	-3.0	-2.7	-2.9	-3.1	-3.3	-3.5	-3.7
Canada's cities and communities	1.0	2.0	2.0	2.0	2.0	2.0	2.0
Other <sup>3</sup>	0.0	0.3	4.3	1.9	0.0	0.0	0.0
<b>Total</b>	<b>46.5</b>	<b>51.4</b>	<b>56.8</b>	<b>56.3</b>	<b>57.1</b>	<b>59.8</b>	<b>62.4</b>
Direct program expenses							
Transfer payments	30.2	39.8	39.4	33.7	33.6	32.8	32.1
Capital amortization	4.1	4.4	4.6	4.9	5.1	5.3	5.4
Other operating expenses	20.6	20.8	21.5	22.9	24.2	25.2	25.8
Operating expenses subject to freeze	44.9	51.8	54.9	52.2	52.4	53.5	54.8
<b>Total</b>	<b>99.8</b>	<b>116.8</b>	<b>120.4</b>	<b>113.7</b>	<b>115.2</b>	<b>116.7</b>	<b>118.2</b>
<b>Total program expenses</b>	<b>207.9</b>	<b>237.8</b>	<b>249.2</b>	<b>241.4</b>	<b>245.2</b>	<b>251.4</b>	<b>257.7</b>



Table 4.2.5 (cont'd)

### Program Expense Outlook (Including Budget 2010 Measures)

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
<b>Per cent of GDP</b>							
Major transfers to persons	3.8	4.6	4.5	4.2	4.1	4.0	3.9
Major transfers to other levels of government	2.9	3.4	3.5	3.3	3.2	3.2	3.2
Direct program expenses	6.2	7.6	7.5	6.7	6.5	6.3	6.1
Total program expenses	13.0	15.6	15.6	14.3	13.8	13.5	13.2

Note: Totals may not add due to rounding

<sup>1</sup> EI benefits include EI regular benefits, sickness, maternity, parental, compassionate care, fishing and work-sharing benefits, and employment benefits and support measures. These represent 90 per cent of total EI program expenses. The remaining EI costs relate mainly to administration costs.

<sup>2</sup> Fiscal arrangements include Equalization, Territorial Formula Financing, the Youth Allowances Recovery and statutory subsidies.

<sup>3</sup> Includes transfer protection and transitional payments.

Table 4.2.5 provides an overview of the projections for program expenses by major component, including the cost of measures proposed in this budget. Program expenses consist of major transfers to persons, major transfers to other levels of government and direct program expenses.

Major transfers to persons consist of elderly, Employment Insurance (EI) and children's benefits.

Growth in elderly benefits, which include Old Age Security and the Guaranteed Income Supplement, is expected to average about 5 per cent annually over the planning period due to increases in the seniors' population and consumer price inflation, to which benefits are fully indexed. The Government makes ongoing efforts to ensure that all those who are eligible for these programs receive payments.



EI benefits are projected to increase by 37.2 per cent to \$22.4 billion in 2009–10. This large increase is due to higher unemployment, growth in average weekly benefits, and significant measures to support Canadians affected by the recession. These measures include enhanced EI benefits, a significant increase in funding for training, and the temporary extension of benefits for long-tenured workers enacted on October 25, 2009. EI benefits are projected to remain high in 2010–11, at \$22.6 billion, as a small decline in unemployment is largely offset by an increase in costs associated with the extension of benefits for long-tenured workers. EI benefits are projected to decline by 13.2 per cent in 2011–12, as the level of unemployment declines and as the temporary enhancements under the Economic Action Plan are phased out. EI benefits are projected to decline gradually over the remainder of the projection period.

Children's benefits, including the Canada Child Tax Benefit and the Universal Child Care Benefit, are projected to increase moderately over the forecast horizon, largely reflecting increases to the National Child Benefit supplement and Canada Child Tax Benefit related to Budget 2009 measures and projected temporary reductions in personal income.

Major transfers to other levels of government include transfers in support of health and social programs as well as Equalization. Transfers are projected to grow at current legislated rates over the forecast period. Also included in major transfers are amounts for transitional assistance for the provinces of Ontario and British Columbia, related to their respective decisions to adopt the Harmonized Sales Tax framework.

Direct program expenses include operating expenses for National Defence and other departments, transfers administered by departments for farm income support, natural resource royalties paid to provinces, student financial assistance and expenses of Crown corporations. The projected growth in direct program expenses reflects the impact of past budget measures, as well as initiatives announced in Budget 2010.

Within direct program expenses, transfers administered by departments are projected to decline over the projection period. This reflects the expiration of Economic Action Plan measures and changes to the International Assistance Envelope proposed in this budget.



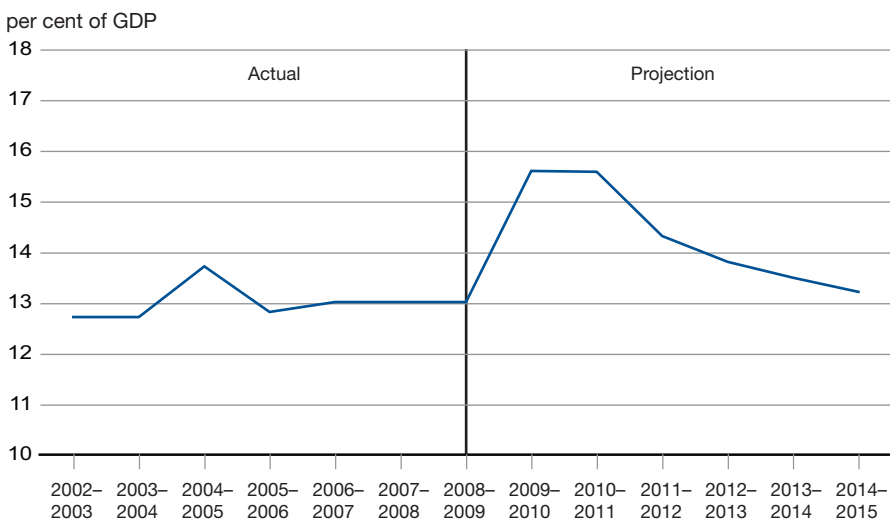
Expenses for capital projects are not being constrained in this budget. Amounts for capital expenses are presented on an accrual basis. The Government will carefully manage capital expenses and capital assets. However, in general and as a matter of principle, the Government will not run down the stock of capital assets to eliminate the deficit, as this only results in deferring spending to future years.

Other direct program expenses include costs for employee pensions and other benefits, non-wage expenses of National Defence and accrual amounts for items such as the allowance for bad debt. Employee pension and other benefits are not subject to the general operating budget freeze. However, as noted above, the Government will continue to examine ways in which these costs can be better managed and will engage with public sector bargaining agents to ensure that total costs of compensation are reasonable. The National Defence budget is being adjusted as described above.

As described earlier in this chapter, operating budgets of departments and Crown corporations, as appropriated by Parliament, are being adjusted in 2010–11 and then frozen at 2010–11 levels for both 2011–12 and 2012–13. The budgetary impact of the operating budget freeze is shown in Table 4.1.1.

### Gradual decline in program expenses

Chart 4.2.2  
**Program Expenses-to-GDP Ratio**



Sources: Department of Finance; Statistics Canada.



Chart 4.2.2 shows program expenses as a share of GDP. The Economic Action Plan will strengthen Canada's economy and support Canadians, and will result in a temporary increase in the program expenses-to-GDP ratio.

The Government remains committed to focused and disciplined spending, and will ensure that spending as a share of GDP, after 2010–11, declines over the medium term. As a result of the actions taken in this budget, average annual growth in direct program spending after the expiry of the Economic Action Plan will slow to 1.3 per cent.

In 2014–15, the program expenses-to-GDP ratio is projected to fall to about 13 per cent. This would bring the program spending ratio in line with spending ratios in the 2006–07 to 2008–09 period. Achieving this would also be consistent with the Government's commitment in *Advantage Canada* to keep the rate of growth in program spending, on average, below the rate of growth in the economy.

## Financial Source/Requirement

The budgetary balance is presented on a full accrual basis of accounting, recording government liabilities and assets when they are incurred or acquired, regardless of when the cash is paid or received.

In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by the budgetary balance but also by the Government's non-budgetary transactions. These include changes in federal employee pension accounts; changes in non-financial assets; investing activities through loans, investments and advances; changes in other financial assets and liabilities; and foreign exchange activities.



Table 4.2.6

### The Budgetary Balance, Non-Budgetary Transactions and Financial Source/Requirement

	Projection						
	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	2014– 2015
	(billions of dollars)						
Budgetary balance	-5.8	-53.8	-49.2	-27.6	-17.5	-8.5	-1.8
<b>Non-budgetary transactions</b>							
Pensions and other accounts	5.0	5.6	5.6	5.4	5.0	4.7	4.5
Non-financial assets	-2.9	-3.3	-3.6	-3.3	-3.3	-3.1	-2.8
Loans, investments and advances							
Enterprise Crown corporations	-20.0	-28.3	-6.3	-5.4	-3.7	-5.6	-5.9
Insured Mortgage Purchase Program	-54.2	-9.0	4.5	3.3	2.4	40.2	12.8
Other	-0.3	3.7	-0.7	-0.5	-0.4	-0.3	-0.3
Total	-74.5	-33.6	-2.6	-2.7	-1.7	34.3	6.6
Other transactions	-11.9	14.0	5.2	5.2	3.9	6.7	3.2
Total	-84.3	-17.3	4.6	4.6	3.9	42.6	11.5
<b>Financial source/ requirement</b>	<b>-90.1</b>	<b>-71.1</b>	<b>-44.6</b>	<b>-23.0</b>	<b>-13.6</b>	<b>34.1</b>	<b>9.7</b>

Note: Totals may not add due to rounding.

As shown in Table 4.2.6, significant financial requirements are projected from 2009–10 to 2012–13 (\$71.1 billion in 2009–10, \$44.6 billion in 2010–11, \$23.0 billion in 2011–12 and \$13.6 billion in 2012–13), followed by financial sources of \$34.1 billion in 2013–14 and \$9.7 billion in 2014–15. The requirements mainly reflect the budgetary balance. Financial requirements also arise because of direct lending to certain Crown corporations and government initiatives to support access to financing under the Extraordinary Financing Framework.

The large increase in market debt associated with the Insured Mortgage Purchase Program does not affect federal debt or the federal government's net debt as the borrowings are offset by an increase in revenue-earning assets. Other borrowings undertaken to strengthen the financial system are also offset by interest-earning assets.



The financial source associated with pensions and other accounts is expected to be \$5.6 billion in 2009–10. Pensions and other accounts include the activities of the Government of Canada’s employee superannuation plans, as well as those of federally appointed judges and Members of Parliament. Since April 2000, the net amount of contributions less benefit payments related to post-March 2000 service has been invested in capital markets. Contributions and payments pertaining to pre-April 2000 service are recorded in the pension accounts. The Government also sponsors a variety of future benefit plans, such as health care and dental plans and disability and other benefits for war veterans and others.

Financial requirements for non-financial assets include the cash outlay for the acquisition of new tangible capital assets, proceeds from the net losses or gains of tangible capital assets, the amortization of existing tangible assets, losses on the disposal of tangible capital assets, the change in inventories, and prepaid expenses. In the calculation of the budgetary balance, the acquisition of new capital assets is not included; only the amortization of existing tangible assets is included. In the calculation of the financial source/requirement, this is reversed. A net cash requirement of \$3.3 billion is estimated for 2009–10.

Loans, investments and advances include the Government’s investments in enterprise Crown corporations, such as Canada Mortgage and Housing Corporation (CMHC), Canada Post Corporation, Export Development Canada and the Business Development Bank of Canada (BDC). They also include loans, investments and advances to national and provincial governments and international organizations, and for government programs. The requirements projected from 2009–10 to 2012–13 under this category are the result of the Government’s decision to purchase mortgages under the Insured Mortgage Purchase Program of CMHC. The increase in loans also reflects the Government’s commitment to meet all the borrowing needs of CMHC, BDC and Farm Credit Canada through direct lending in order to reduce overall borrowing costs and support a well-functioning Government of Canada securities market.



## Risks to the Fiscal Projections

Risks associated with the fiscal projections primarily relate to risks to the Canadian economic outlook and volatility in the relationship between fiscal variables and the underlying economic activity to which they relate.

Tables illustrating the sensitivity of the budget balance to a number of economic shocks are provided later in this chapter. These tables are generalized rules of thumb that provide a guide to the impact of changes in economic assumptions on the fiscal projections. Even if the economic outlook were known with certainty, there would still be risks associated with the fiscal projections because of the uncertainty in the translation of economic developments into spending and tax revenues. The following are the key sources of uncertainty:

- The corporate income tax projections in this chapter assume a sharp rise in corporate losses. The income tax system allows corporations to use certain losses to reduce taxable income in the 3 preceding years or the 20 following years. As a result, there is considerable uncertainty around the timing of the application of these losses, in addition to uncertainty as to the size of the losses.
- There is considerable uncertainty around the timing of the recovery in markets following the sharp decline in the S&P/TSX Composite Index over the latter months of 2008 and early 2009. In addition, there is significant uncertainty as to how these fluctuations in the market will affect market-related income and, in turn, personal and corporate income tax revenues.
- On the expense side, the extent to which departments and agencies do not fully use all of the resources appropriated by Parliament varies from year to year and can materially affect the fiscal outcome. In addition, during the course of the fiscal year, departments and agencies often incur liabilities for which no payments are made. These liabilities are recognized throughout the year and are updated following the close of the fiscal year as part of the normal year-end accrual adjustments. Changes in estimates of liabilities can be significant.



## Sensitivity of the Budget Balance to Economic Shocks

Changes in economic assumptions affect the projections for revenues and expenses. The following tables illustrate the sensitivity of the budgetary balance to a number of economic shocks:

- A one-year, 1-percentage-point decrease in real GDP growth driven equally by lower productivity and employment growth.
- A decrease in nominal GDP growth resulting solely from a one-year, 1-percentage-point decrease in the rate of GDP inflation.
- A sustained 100-basis-point increase in all interest rates.

These sensitivities are generalized rules of thumb that assume any decrease in economic activity is proportional across income and expenditure components.

Table 4.2.7

### Estimated Impact of a One-Year, 1-Percentage-Point Decrease in Real GDP Growth on Federal Revenues, Expenses and Budgetary Balance

	Year 1	Year 2	Year 5
	(billions of dollars)		
<b>Federal revenues</b>			
Tax revenues			
Personal income tax	-1.7	-1.8	-2.2
Corporate income tax	-0.3	-0.4	-0.4
Goods and Services Tax	-0.3	-0.3	-0.4
Other	-0.2	-0.2	-0.3
Total tax revenues	-2.5	-2.7	-3.3
Employment Insurance premiums	-0.1	-0.2	-0.3
Other revenues	0.0	0.0	0.0
Total budgetary revenues	-2.6	-2.9	-3.6
<b>Federal expenses</b>			
Major transfers to persons			
Elderly benefits	0.0	0.0	0.0
Employment Insurance benefits	0.6	0.6	0.7
Children's benefits	0.0	0.0	0.0
Total	0.6	0.6	0.7



Table 4.2.7 (cont'd)

**Estimated Impact of a One-Year, 1-Percentage-Point Decrease in Real GDP Growth on Federal Revenues, Expenses and Budgetary Balance**

	Year 1	Year 2	Year 5
	(billions of dollars)		
Other program expenses	-0.2	-0.2	-0.4
Public debt charges	0.0	0.1	0.5
Total expenses	0.5	0.5	0.8
<b>Budgetary balance</b>	<b>-3.1</b>	<b>-3.4</b>	<b>-4.4</b>

Note: Numbers may not add due to rounding.

A 1-percentage-point decrease in real GDP growth reduces the budgetary balance by \$3.1 billion in the first year, \$3.4 billion in the second year and \$4.4 billion in the fifth year.

- Tax revenues from all sources fall by a total of \$2.5 billion in the first year, \$2.7 billion in the second year and \$3.3 billion in the fifth year. Personal income tax revenues decrease as employment and wages and salaries fall. Corporate income tax revenues fall as output and profits decrease. GST revenues decrease as a result of lower consumer spending associated with the fall in employment and personal income.
- EI premiums decrease as employment and wages and salaries fall.
- Expenses rise, mainly reflecting higher EI benefits (due to an increase in the number of unemployed) and higher public debt charges (reflecting a higher stock of debt due to the lower budgetary balance).



Table 4.2.8

**Estimated Impact of a One-Year, 1-Percentage-Point  
Decrease in GDP Inflation on Federal Revenues,  
Expenses and Budgetary Balance**

	Year 1	Year 2	Year 5
	(billions of dollars)		
<b>Federal revenues</b>			
Tax revenues			
Personal income tax	-1.7	-1.4	-1.5
Corporate income tax	-0.3	-0.4	-0.4
Goods and Services Tax	-0.3	-0.3	-0.4
Other	-0.2	-0.2	-0.3
Total tax revenues	-2.5	-2.3	-2.6
Employment Insurance premiums	-0.1	-0.2	-0.3
Other revenues	-0.1	-0.1	-0.1
Total budgetary revenues	-2.6	-2.5	-2.9
<b>Federal expenses</b>			
Major transfers to persons			
Elderly benefits	-0.2	-0.4	-0.5
Employment Insurance benefits	-0.1	-0.1	-0.1
Children's benefits	-0.1	-0.1	-0.1
Total	-0.4	-0.6	-0.7
Other program expenses	-0.4	-0.4	-0.8
Public debt charges	-0.3	0.0	0.2
Total expenses	-1.1	-0.9	-1.3
<b>Budgetary balance</b>	<b>-1.6</b>	<b>-1.5</b>	<b>-1.6</b>

Note: Numbers may not add due to rounding.



A 1-percentage-point decrease in nominal GDP growth resulting solely from lower GDP inflation (assuming that the Consumer Price Index moves in line with GDP inflation) lowers the budgetary balance by \$1.6 billion in the first year, \$1.5 billion in the second year and \$1.6 billion in the fifth year.

- Lower prices result in lower nominal income and, as a result, personal income tax, corporate income tax and GST revenues all decrease, reflecting declines in the underlying nominal tax bases. For the other sources of tax revenue, the negative impacts are similar under the real and nominal GDP shocks. EI premium revenues decrease marginally in the price shock in response to lower earnings. However, unlike the real GDP shock, EI benefits do not rise since unemployment is unaffected by price changes.
- Partly offsetting lower revenues are the declines in the cost of statutory programs that are indexed to inflation, such as elderly benefit payments and the Canada Child Tax Benefit, as well as federal wage and non-wage expenses. Payments under these programs are smaller if inflation is lower. Public debt charges decline in the first year due to lower costs associated with Real Return Bonds, then rise due to the higher stock of debt.



Table 4.2.9

**Estimated Impact of a Sustained 100-Basis Point Increase  
in All Interest Rates on Federal Revenues,  
Expenses and Budgetary Balance**

	Year 1	Year 2	Year 5
	(billions of dollars)		
Federal revenues	0.9	1.1	1.4
Federal expenses	1.9	3.1	4.4
<b>Budgetary balance</b>	<b>-1.0</b>	<b>-2.1</b>	<b>-3.0</b>

An increase in interest rates decreases the budgetary balance by \$1.0 billion in the first year, \$2.1 billion in the second year and \$3.0 billion in the fifth year. The decline stems entirely from increased expenses associated with public debt charges. The impact on debt charges rises through time as longer-term debt matures and is refinanced at higher rates. The impact on debt charges also rises due to the higher stock of debt. Moderating the overall impact is an increase in revenues associated with the increase in the rate of return on the Government's interest-bearing assets, which are recorded as part of non-tax revenues. The lower sensitivity to interest rates of expenses and revenues relative to previous estimates reflects decreased borrowing and returns on investments related to the Government's Extraordinary Financing Framework initiatives, notably the Insured Mortgage Purchase Program. The greater sensitivity of the budgetary balance to interest rates reflects the larger budgetary deficit.