

Canada's Global Economic Leadership

A Report to Canadians

June 2010



CANADA'S ECONOMIC

**ACTION
PLAN**





Foreword

Thanks to the rapid and effective implementation of Canada's Economic Action Plan, Canada is on the right track to emerge from the global economic recession powered by one of the strongest economies in the industrialized world.

Indeed, Canada is leading the world. By key measures—job creation, economic growth, stability of our financial sector, and relatively low public debt—Canada is performing better than the United States and other Group of Seven (G-7) countries. Some facts:

- The decline in output in Canada during the recession was the smallest of G-7 countries.
- Canada is the only G-7 country to have virtually recouped the loss in output during the recession.
- Three quarters of the jobs lost during the recession have been recovered.
- Canada is the only G-7 country to record a year-over-year increase in employment in March 2010.

Looking ahead, both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) expect that Canada will have the strongest economic recovery of all G-7 countries over the next two years.

These globe-leading statistics are no accident.

When the world was faced with the deepest and most synchronized global economic recession since the 1930s, the Government of Canada put in place one of the largest stimulus packages among the G-7 countries—the Economic Action Plan—using all the tools at its disposal to stabilize the Canadian economy and put Canadians back to work.

Canada responded to the crisis from a position of strength, reflecting the stability of our financial sector, strong corporate and household balance sheets, the ongoing impact of our previous broad-based tax cuts and our solid fiscal position.

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But the global economic recovery remains uncertain, and at home, too many Canadians remain out of work. Just as the recession did not originate in Canada, our economy remains vulnerable to developments elsewhere. We must work together to finish the job.

This update takes stock of recent economic and fiscal developments in Canada in an international context.

- The first section, “Canada Is Leading the Way,” compares Canada’s economic performance to that of other industrialized countries.
- The second section, “Canada Is on the Right Track,” reviews Canada’s response to the global recession.
- The third section, “Finishing the Job,” sets out several priorities needed to secure the global recovery and to prevent future crises.

The World Takes Note of Canada

*We need to learn from those countries that evidently did it right.
And leading that list is our neighbor to the north.*

— Paul Krugman, *The New York Times*
January 31, 2010



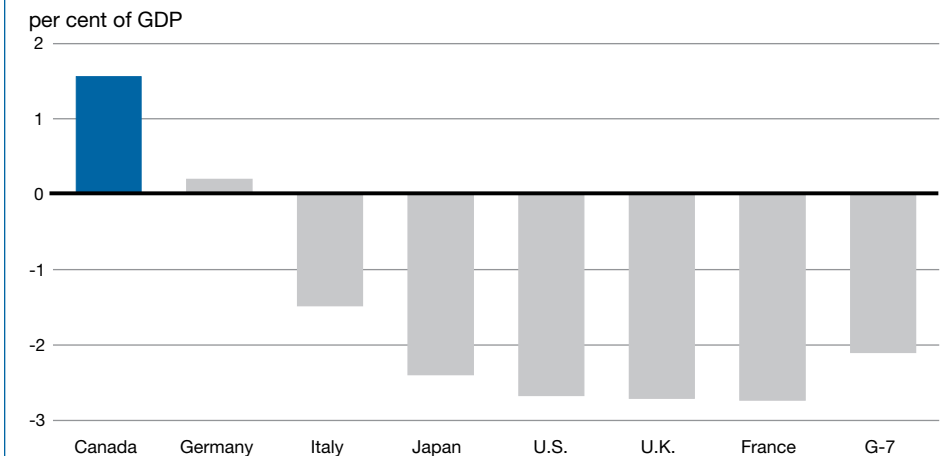
Canada Is Leading the Way

Canada had the strongest fiscal position in the G-7 at the onset of the global recession, which allowed Canada to respond quickly and forcefully to stimulate the economy and support Canadians through the worst of the recession (Chart 1). Indeed, the policy response set out in Canada’s Economic Action Plan remains one of the largest stimulus packages among G-7 countries (Chart 2).

Canada had the strongest fiscal position in the G-7 at the onset of the global recession



Chart 1
Total Government Budgetary Balance, 2007



Notes: Total government includes both national and sub-national levels of government. The average G-7 budgetary balance is calculated based on purchasing power parities.

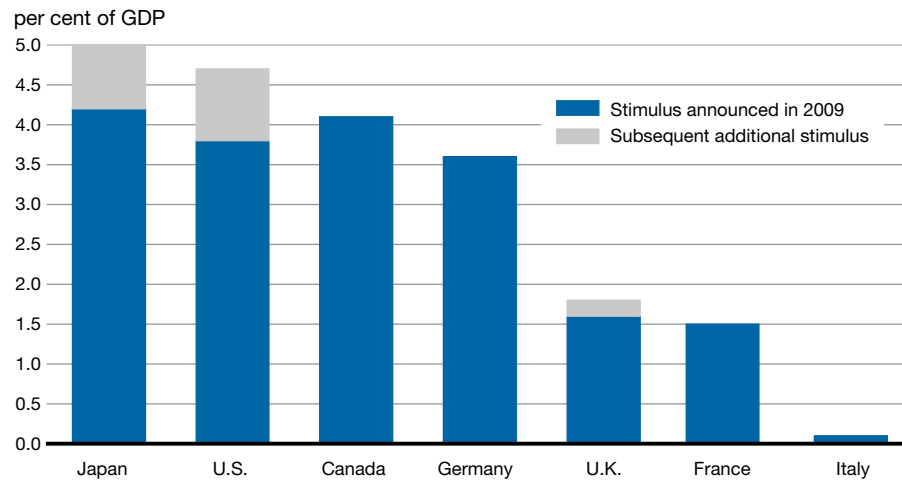
Source: IMF, *Fiscal Monitor*, May 2010.



Canada's Economic Action Plan remains one of the largest fiscal stimulus plans in the G-7



Chart 2
Fiscal Stimulus Flowing in 2009 and 2010



Notes: IMF estimates exclude loans, including those to the auto sector, for all countries. Figure for Canada includes provincial-territorial stimulus in addition to that assumed in the Economic Action Plan as estimated by the Department of Finance.

Source: IMF, *Fiscal Monitor*, May 2010.

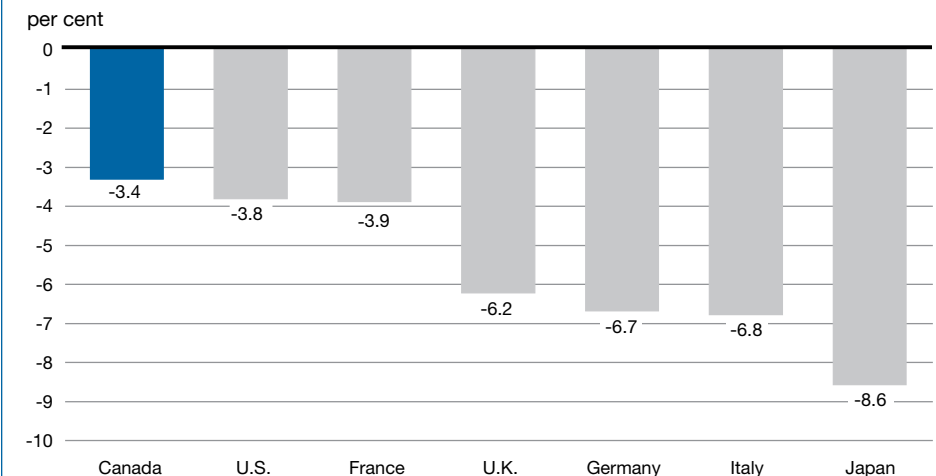
Canada's Solid Economic Performance

Canada weathered the global recession better than most other industrialized countries. Indeed, the decline in real gross domestic product (GDP) in Canada during the global recession was the smallest of all G-7 countries (Chart 3). Canada's ability to weather the global recession reflected not only the massive policy actions taken in Canada but also a number of core economic strengths, notably the stability of our financial sector, strong corporate and household balance sheets, the ongoing impact of previously announced tax cuts for businesses and households, and the solid fiscal positions of all orders of government.

Canada fared better than all other G-7 countries during the global recession



Chart 3
Overall Contraction in Real GDP During the Recession



Note: The overall contraction in GDP is measured by the peak-to-trough decline in real GDP: 2008Q2–2009Q3 for U.K.; 2008Q2–2009Q2 for Italy; 2008Q2–2009Q1 for France, Germany and Japan; 2008Q3–2009Q2 for U.S.; 2008Q1–2009Q2 for Canada.

Sources: Statistics Canada; U.S. Bureau of Economic Analysis; Japan Cabinet Office; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica.

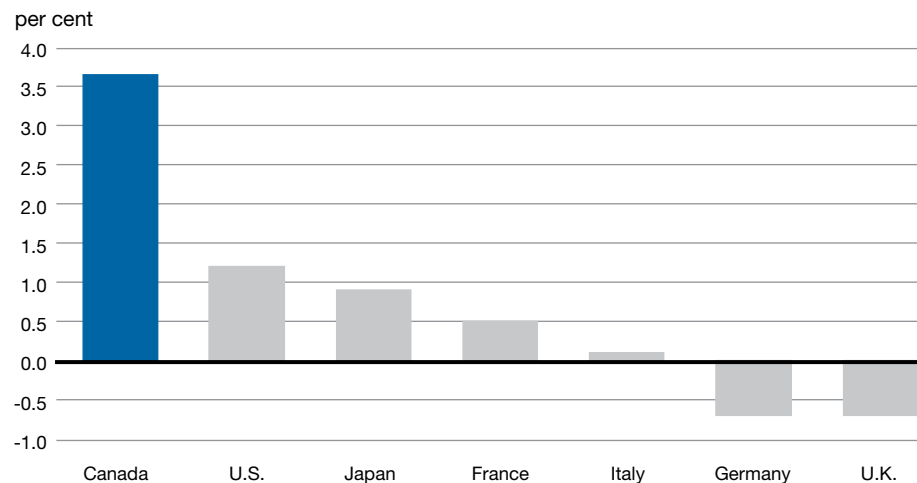


The economic recovery in Canada began in the third quarter of 2009, and has been led by a solid recovery in domestic demand—the sum of consumer, business and government expenditures. Since the start of 2009 domestic demand in Canada has grown significantly faster than in any other G-7 country (Chart 4). The rebound of Canadian domestic demand has been broad-based.

Domestic demand in Canada has grown significantly faster than in any other G-7 country since the start of 2009



Chart 4
Real Final Domestic Demand Growth From 2009Q1 to 2010Q1



Sources: Statistics Canada; U.S. Bureau of Economic Analysis; Japan Cabinet Office; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica; Department of Finance calculations.

The World Takes Note of Canada

Canada suffered a shallower recession and a speedier rebound than G-7 peers like the U.S. and the U.K., where growth levels are still low and recovery uncertain.

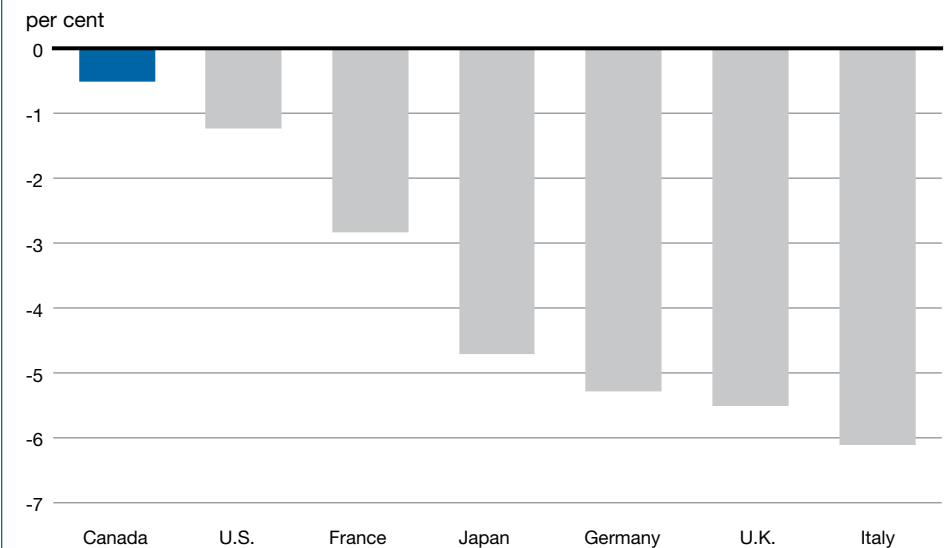
— The Wall Street Journal
June 2, 2010

As a result of Canada's strong economic performance both during the recession and over the recovery to date, output has now virtually returned to pre-recession levels. Canada is the only G-7 country to have virtually recouped the output lost during the recession (Chart 5).

Economic activity in Canada is virtually back to pre-recession levels—the best performance in the G-7



Chart 5
Change in Real GDP Since Pre-Recession Peak



Sources: Statistics Canada; U.S. Bureau of Economic Analysis; Japan Cabinet Office; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica.



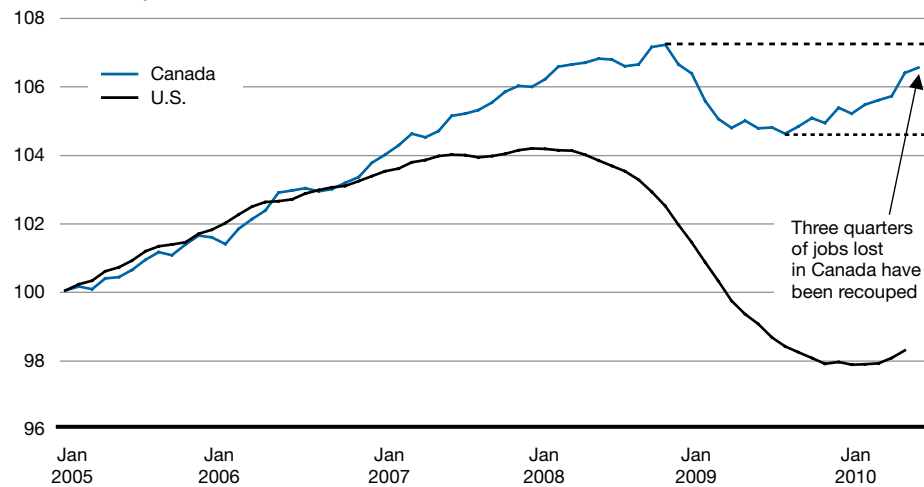
Canada's solid economic recovery has also supported a recovery in Canada's labour market. Since July 2009, employment is up by nearly 310,000, reflecting broad-based job growth in all regions of the country. As a result, three quarters of the jobs lost during the recession have been recouped. In comparison, the decline in employment in the U.S. was proportionately more than four times as large as in Canada and fewer jobs have been recouped to date (Chart 6). Across the G-7, Canada is the only country to have recorded a year-over-year increase in employment in March 2010 (Chart 7). With this increase in employment, the unemployment rate has fallen to 8.1 per cent from a peak of 8.7 per cent. Nevertheless, the level of unemployment in Canada remains too high.

The labour market in Canada has fared significantly better than in the U.S.



Chart 6
Total Employment

index, January 2005 = 100

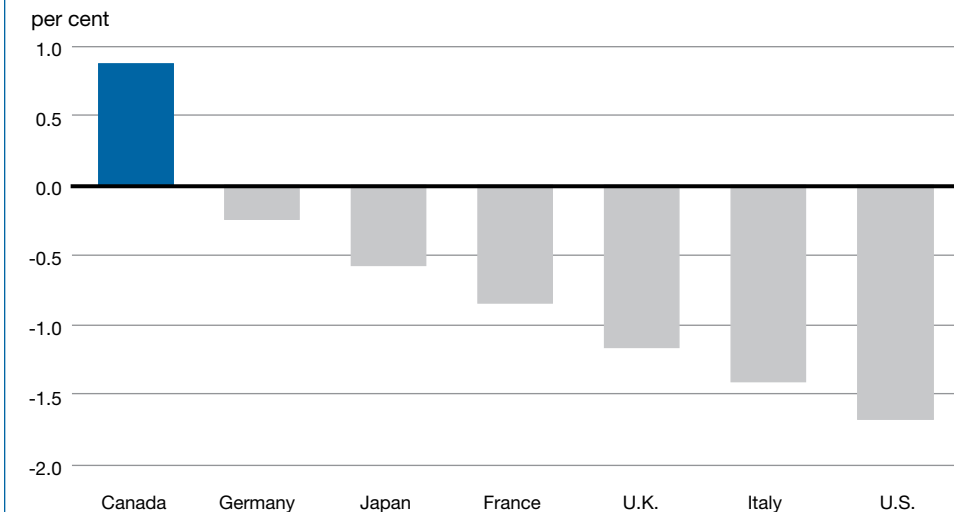


Sources: Statistics Canada; U.S. Bureau of Labor Statistics.

Canada is the only G-7 country to have posted a year-over-year increase in employment in March 2010



Chart 7
Year-Over-Year Change in Total Employment (March 2009 to March 2010)



Note: Change from March 2009 to December 2009 for France and Italy.

Sources: Statistics Canada; U.S. Bureau of Labor Statistics; Japan Ministry of Health, Labour and Welfare; U.K. Office for National Statistics; Deutsche Bundesbank; Institut national de la statistique et des études économiques; Istituto nazionale di statistica.

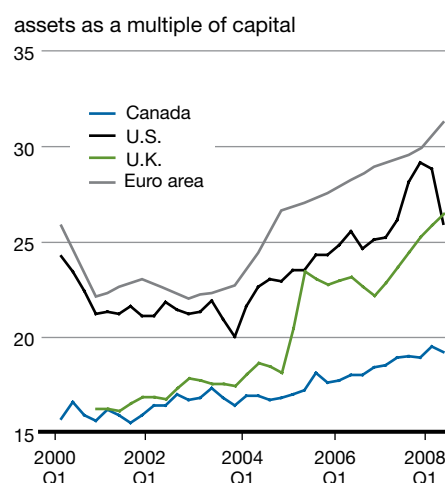


Stability of Canada's Financial Sector

Canada's banks and other financial institutions were better capitalized and less leveraged than their international peers going into the global recession, in part reflecting a strong financial regulatory and supervisory framework (Chart 8). The World Economic Forum has ranked Canada's banking system as the soundest in the world for two consecutive years. As well, the IMF has commented that Canada's financial sector has shown "remarkable stability amid the global turbulence, thanks in good part to strong supervision and regulation."¹

The Canadian banking system continues to be one of the soundest in the world

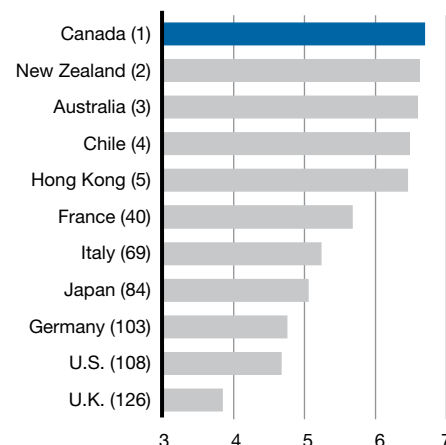
Chart 8
Bank Leverage Ratios



Notes: Based on data for the big six Canadian banks, seven major banks from the Euro area, six major U.K. banks and five large U.S. investment banks. Canadian data is based on the regulatory ratio of assets (including some off balance sheet items) to adjusted Tier 1 and Tier 2 capital. Leverage for other countries is measured as the ratio of balance sheet assets to shareholders' equity. Last data point is 2008Q2.
Source: Bank of Canada.

Soundness of Banks

index, reading of 1 = banks are insolvent and may require a government bailout, 7 = banks are generally healthy with sound balance sheets



Notes: Rankings are shown in parenthesis. The index includes 133 countries, with only select countries shown.

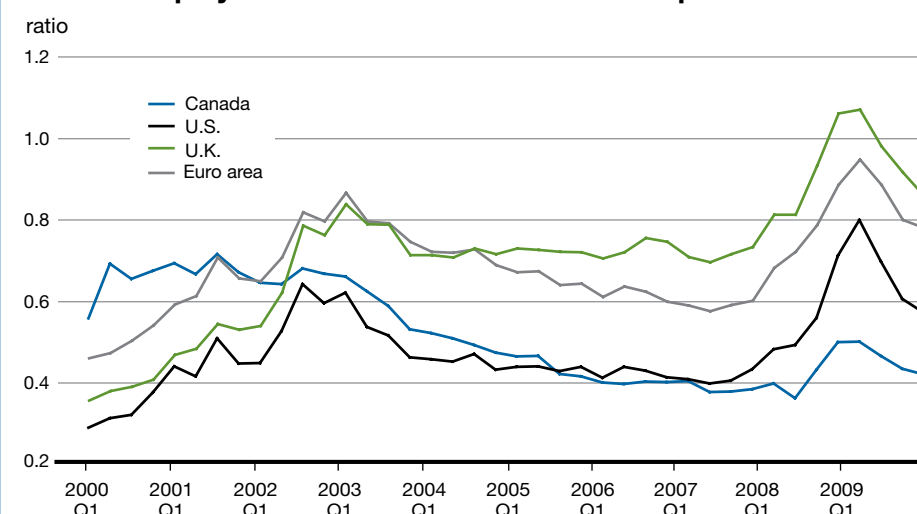
Source: World Economic Forum, *The Global Competitiveness Report 2009-2010*.

Strong Corporate and Household Balance Sheets

Balance sheets in the non-financial business sector in Canada were also very strong leading up to the global recession, and have emerged from the downturn stronger than in many other advanced economies. In particular, corporate debt-to-equity ratios were very low in Canada going into the recession, and have increased less than in other countries since the start of the financial crisis. This has reflected a lower reliance on debt in recent years, as well as a smaller decline in Canadian equity values over the recession than elsewhere (Chart 9).

Canada continues to have strong corporate balance sheets

Chart 9
Debt-to-Equity Ratios in the Non-Financial Corporate Sector



Sources: Statistics Canada; U.S. Federal Reserve Board; European Central Bank; U.K. Office for National Statistics.

¹ IMF, *Canada: 2009 Article IV Consultation*, May 2009.

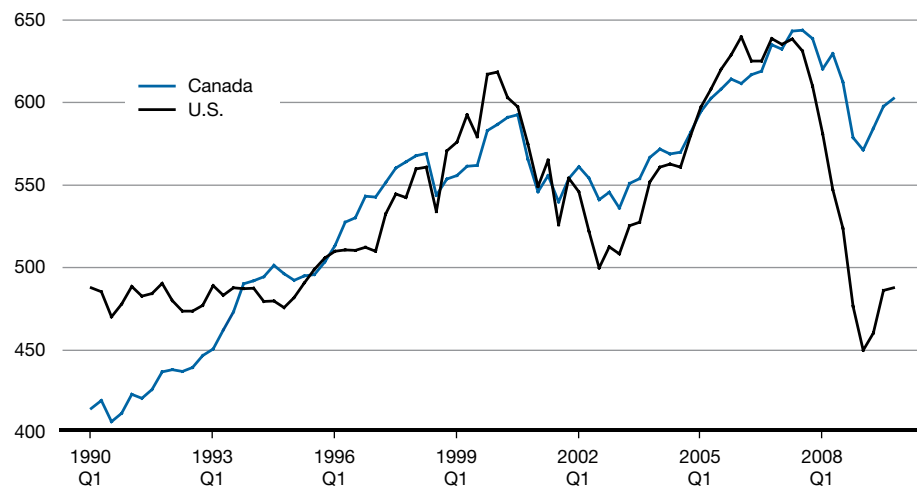


Household financial positions are also strong, after having improved steadily in the years prior to the recession. Household net worth (measured in relation to disposable income) stood at an all-time high prior to the recession. Moreover, reflecting the prudence of Canadian banks, households and regulators, Canada entered the global recession without the type of major housing market imbalances that were present in many other advanced economies. As a result, house prices and household net worth declined significantly less in Canada than in many other countries during the recession. Indeed, household net worth is over six times the value of disposable income, significantly higher than in the U.S. (Chart 10).

Household net worth in Canada is significantly higher than in the U.S.

Chart 10
Household Net Worth

per cent of personal disposable income



Sources: Statistics Canada; U.S. Federal Reserve Board; Department of Finance calculations.

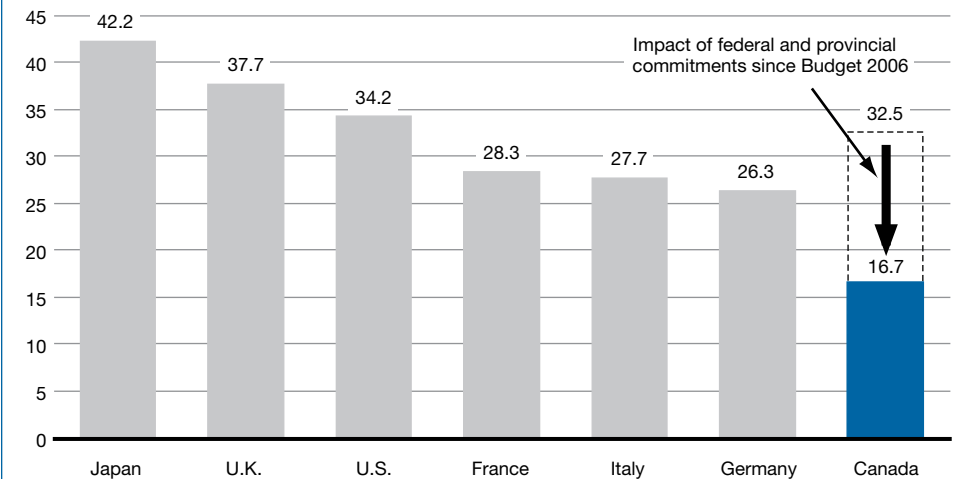
Strengthening Canada's Tax Advantage

The Government is strengthening Canada's business tax advantage to support investment, job creation and growth in all sectors of the economy. This year Canada will have an overall tax rate on new business investment that is the lowest in the G-7. Canada's tax advantage will grow as business tax rates continue to fall through 2012 (Chart 11). By 2012, Canada will also have the lowest statutory corporate income tax rate in the G-7.

Canada leads the G-7 with the lowest tax rate on new business investment

Chart 11
Tax Rate on New Business Investment, 2012

per cent



Notes: This chart shows the marginal effective tax rate on new business investment and includes measures announced as of April 30, 2010. It excludes resource and financial sectors and tax provisions related to research and development.

Source: Department of Finance.



Strong Fiscal Position

Canada was able to respond quickly and forcefully to the recession with a large and comprehensive package of stimulus measures, without putting at risk the country's long-term fiscal position.

Canada's fiscal position is recognized as one of the strongest in the world. Canada was the only G-7 country to consistently post surpluses in the years prior to the global recession. In 2007, Canada posted a total government surplus of 1.6 per cent of GDP, compared to a G-7 average deficit of 2.1 per cent of GDP. This year, the IMF projects that Canada will record a total government deficit of 5.2 per cent of GDP, about half of the average for G-7 countries. Going forward, the IMF expects Canada to be the only G-7 country to return to surplus by 2015. In contrast, the average total government deficit in the G-7 is expected to be 5.4 per cent of GDP in 2015 (Chart 12).

Sustained surpluses in the years prior to the recession were used to reduce the total government net debt burden. In 2007, Canada's net debt-to-GDP ratio stood at 23.1 per cent, less than half of the G-7 average of 53.0 per cent. Looking forward, the IMF projects that in 2015 Canada's net debt-to-GDP ratio will be 30.7 per cent, compared to 85.5 per cent in the U.S. (Chart 13). Moreover, Canada is projected to be the only G-7 country to put its net debt-to-GDP ratio back on a downward path during this period, thereby further strengthening our fiscal advantage.

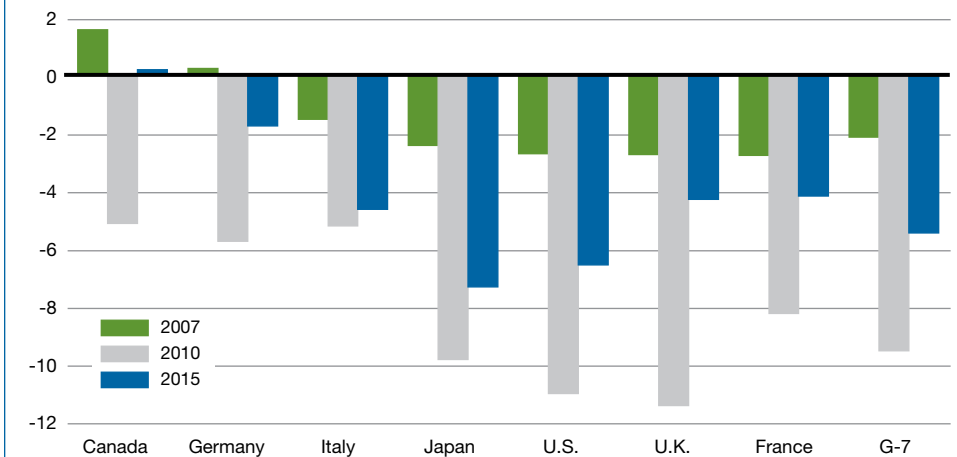
The IMF expects Canada will be the only G-7 country to return to surplus in 2015



Chart 12

Projected Total Government Budgetary Balance

per cent of GDP



Note: The average G-7 budgetary balance is calculated based on purchasing power parities.

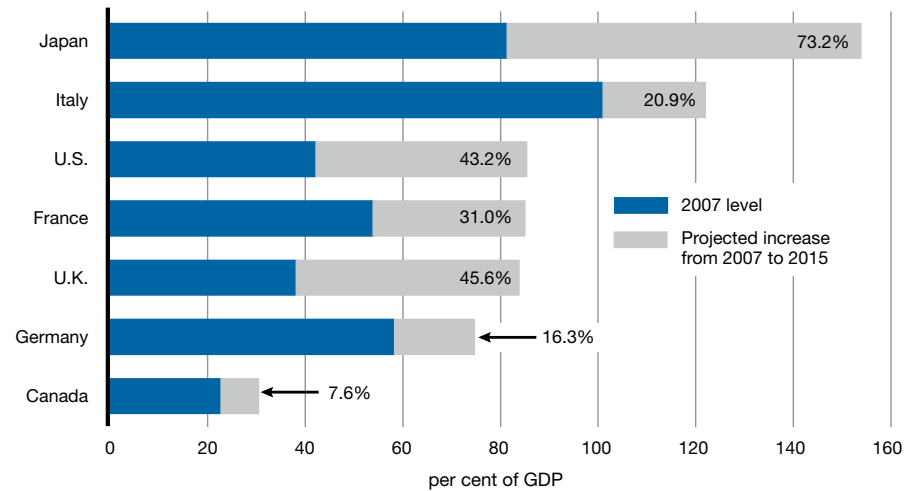
Source: IMF, *Fiscal Monitor*, May 2010.



Canada's fiscal position will remain the strongest in the G-7



Chart 13
Projected Total Government Net Debt



Source: IMF, *Fiscal Monitor*, May 2010.

The World Takes Note of Canada

Canada is benefiting from its past good policies, in spite of the fact that Canada was severely hit through trade...from south of the border.

— Pier Carlo Padoan, OECD Chief Economist
April 8, 2010

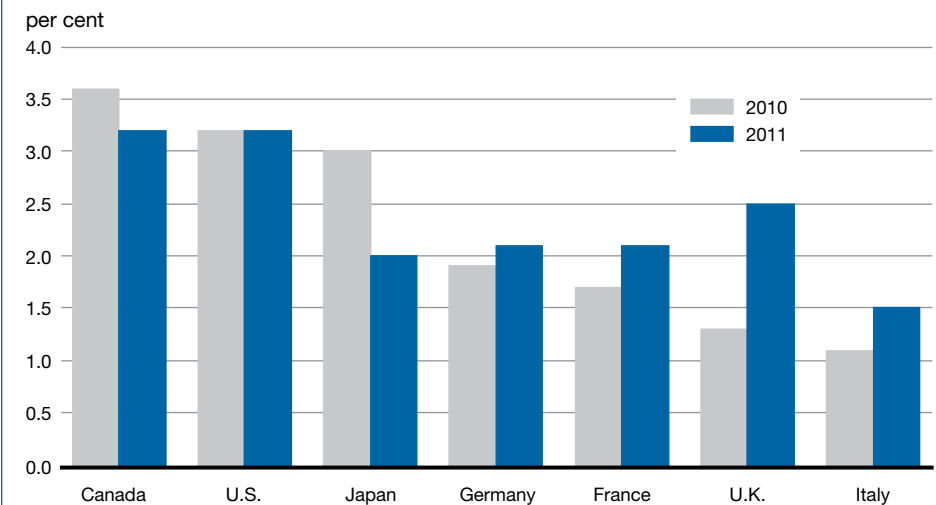
Canada Expected to Outpace Other G-7 Countries

Owing to Canada's strong economic fundamentals, both the IMF and the OECD expect Canada to have the strongest economic growth in the G-7 over the next two years (Chart 14).

Canada is expected to have the strongest economic growth among G-7 countries over the next two years



Chart 14
OECD Outlook for Real GDP Growth in G-7 Countries



Source: OECD *Economic Outlook*, No. 87, May 2010.



Canada Is on the Right Track

The Government of Canada put in place massive policy actions in response to the global financial crisis and recession, using all the tools at its disposal to support Canadians and the overall G-20 effort to stabilize the global economy.

The World Takes Note of Canada

...Canada's large fiscal stimulus package and unprecedented monetary easing are supporting domestic demand. In this context, and with household and financial institution balance sheets stronger than in many countries, Canada's economy is relatively well positioned to resume expansion.

— IMF
November 12, 2009

Canada's Economic Action Plan is a two-year \$62-billion plan amounting to 4 per cent of GDP, to protect and create jobs in response to the global recession (Table 1). In the first year of the Action Plan (2009–10), the Government provided \$28 billion in federal stimulus to the economy and to Canadians. The Government is delivering on Year 2 of the Action Plan by providing a further \$19 billion in federal stimulus in 2010–11. As outlined in the Government's Fifth Report to Canadians in March 2010, 92 per cent of the 2010–11 funding has been committed.

The Economic Action Plan is an investment in jobs now and in Canada's long-term growth. The Action Plan is:

- **Reducing the Tax Burden for Canadians:** Providing Canadians with significant, permanent personal income tax relief, and providing Canadian businesses with the lowest overall tax rate on new business investment among the major industrialized economies.
- **Helping the Unemployed:** Providing enhanced Employment Insurance benefits to support those who have lost their jobs and providing the training required to help Canadians acquire the additional skills they need to get new jobs. This includes providing additional benefits to long-tenured workers. The Government has also enacted measures to provide additional support for the self-employed.

- **Building Infrastructure to Create Jobs:** Providing new infrastructure and housing funding to create jobs across Canada and ensure Canada emerges from the economic downturn with a more modern and greener infrastructure, as well as an expanded capacity to provide affordable housing to lower-income Canadians. These projects are moving forward and benefiting workers and the economy across the country.
- **Creating the Economy of Tomorrow:** Improving infrastructure at colleges, universities, federal laboratories and research facilities; introducing additional support for graduate students and internships; and supporting research and technology leadership in Canada.
- **Supporting Industries and Communities:** Supporting local economies and protecting jobs in regions, communities and sectors that have been most affected by the economic downturn.

In addition to the actions set out in Table 1, the Government put in place measures to provide up to \$200 billion through the Extraordinary Financing Framework to support lending to consumers and businesses. As well, the Bank of Canada reduced its policy rate by 425 basis points between July 2007 and April 2009.

Table 1

Canada's Economic Action Plan

	2009–10	2010–11	Total
(millions of dollars—cash basis)			
Reducing the Tax Burden for Canadians	3,020	3,180	6,200
Helping the Unemployed	2,852	4,167	7,019
Building Infrastructure to Create Jobs	8,312	7,696	16,007
Creating the Economy of Tomorrow	2,139	1,880	4,018
Supporting Industries and Communities	11,768	2,231	13,998
Total federal stimulus measures	28,090	19,152	47,242
Assumed provincial and territorial actions	8,441	5,978	14,419
Total Economic Action Plan stimulus	36,531	25,131	61,661

Note: Totals may not add due to rounding.

Source: Budget 2010.



Canada's Economic Action Plan is designed to put Canadians back to work in the short term, and reduce taxes, build infrastructure, and invest in skills and training for long-term prosperity.

To help those Canadians most affected by the global economic downturn, Canada's Economic Action Plan is:

- Enhancing Employment Insurance (EI) benefits, freezing EI rates and reducing personal income taxes.
- Providing unemployed workers with an additional five weeks of benefits, work-sharing and wage earner protection.
- Providing long-tenured workers with extended EI benefits to enable access to longer-term training through the Career Transition Assistance initiative.
- Enhancing support for older workers in vulnerable communities through the Targeted Initiative for Older Workers.
- Making self-employed workers eligible for EI special benefits for the first time, including maternity, parental, sickness and compassionate care benefits.
- Investing in Aboriginal skills and training to create jobs in their communities.
- Providing over 30 tax relief measures, including measures in the Jobs and Growth Budget.
- Providing measures that will reduce the tax burden for Canadian families and businesses by more than \$20 billion over 2008–09 and the following five fiscal years.

Our Jobs and Growth Budget expands on these initiatives to support student employment and disadvantaged youth, and to extend the successful work-sharing program by an additional 26 weeks, to a maximum of 78 weeks.

To create jobs and put Canada on a path to long-term prosperity, Canada's Economic Action Plan is:

- Making unprecedented investments in Canada's infrastructure, supporting research and development, and helping those communities most affected by the downturn.
- Modernizing a broad range of infrastructure including our roads, bridges, public transit, parks and water treatment facilities, and supporting home ownership, helping stimulate the housing sector and improving housing across Canada.



- Supporting post-secondary education and research and making other investments to promote science and technology and protect the environment.
- Creating the Federal Economic Development Agency for Southern Ontario and Canadian Northern Economic Development Agency to support economic development in these important regions.
- Investing in Canada's agricultural sector through AgriFlexibility and the Slaughter Improvement Program.

Our Jobs and Growth Budget also focuses on building a strong economic foundation. It is significantly reducing tariffs on Canada's manufacturing sector, providing new funding for Canada's researchers, universities and colleges, improving the tax system, and continuing our efforts to cut red tape.

All in all, these initiatives have helped to stabilize the Canadian economy, put Canadians back to work, and set Canada up for long-term prosperity.

The World Takes Note of Canada

Canada's resilience bears testimony to its strong and credible policy frameworks that responded proactively to the global crisis.

— IMF
November 12, 2009

The Economic Action Plan has helped to support economic growth and employment in Canada



An assessment of the Economic Action Plan published in Budget 2010, our Jobs and Growth Budget, indicated that the Plan is on track to create or maintain 220,000 jobs by the end of 2010.

- In the first year of implementation, an estimated 130,000 jobs have been created or maintained as a result of the Economic Action Plan. This is in addition to over 112,000 Canadians who are benefiting from the work-sharing program.
- Since July 2009, Canada has created nearly 310,000 new jobs.
- The Action Plan is estimated to have added almost 2.0 percentage points to real GDP growth on average in the last three quarters of 2009.



Government capital investment has increased significantly over the past year, largely reflecting public infrastructure measures in Canada's Economic Action Plan. As of the first quarter of 2010, government capital investment was over \$6 billion higher than the trend prior to the implementation of the Action Plan (Chart 15).

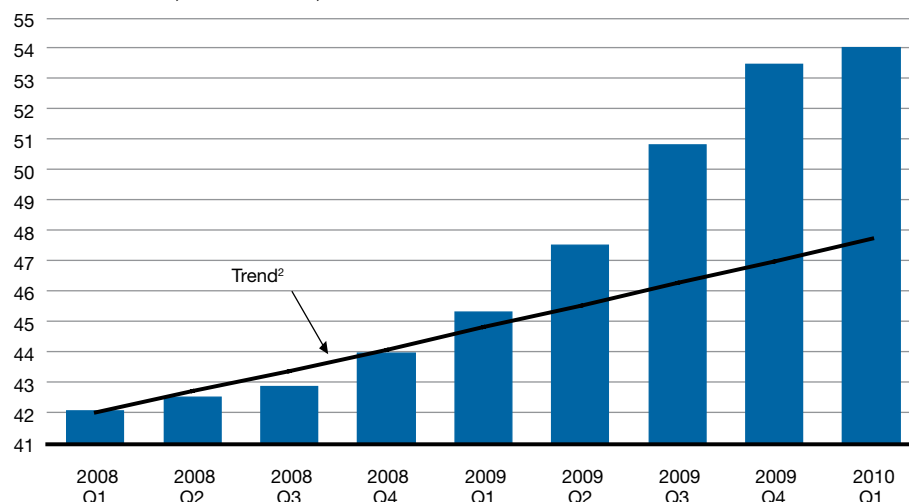
Government investment in infrastructure has increased significantly with the Economic Action Plan



Chart 15

Real Government Fixed Capital Formation¹

billions of dollars, 2002 chained, annualized



¹ Government fixed capital formation includes government expenditures on construction, engineering, and machinery and equipment.

² The trend extrapolates the level in 2008Q1 to the present using the average growth rate between 2000Q1 and 2008Q4.

Sources: Statistics Canada; Department of Finance calculations.

The Economic Action Plan helped individuals through the worst of the recession by providing tax relief and support for the unemployed. This had a positive impact on consumer confidence and household spending. As a result, real consumer spending has increased in each quarter since the implementation of the Economic Action Plan, with growth averaging nearly 4 per cent over the past three quarters (Chart 16). Real spending on residential renovations also rebounded strongly, with support from the Home Renovation Tax Credit (HRTC), which expired on January 31, 2010. Renovation spending increased by double-digit rates in each of the past four quarters, including a 27.6-per-cent increase in the first quarter of 2010, the largest increase in almost 10 years. An estimated 4.6 million Canadian families took advantage of the HRTC.

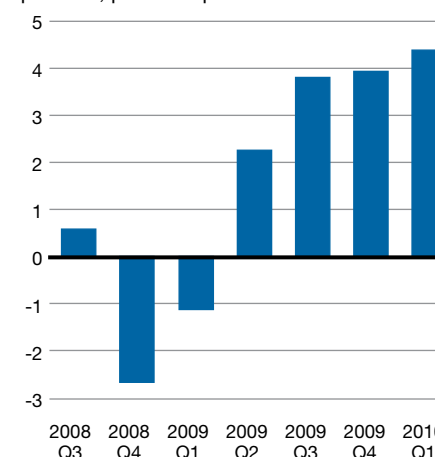
Consumer and renovation spending have rebounded strongly



Chart 16

Growth of Real Personal Expenditure on Goods and Services

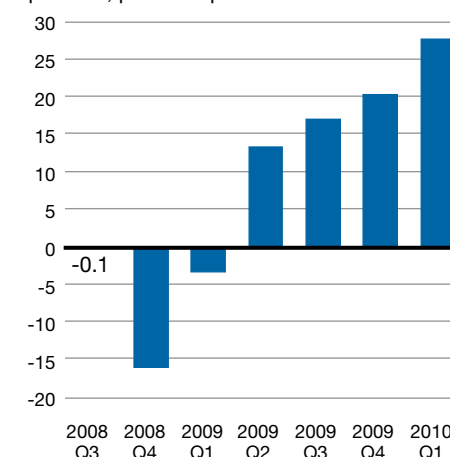
per cent, period to period at annual rates



Source: Statistics Canada.

Growth of Real Spending on Residential Renovations

per cent, period to period at annual rates



Source: Statistics Canada.



Supported by significant policy stimulus, an economic recovery in Canada began in the third quarter of 2009. Real GDP increased by 0.9 per cent in the third quarter of 2009 and 4.9 per cent in the fourth quarter. In the first quarter of 2010, real GDP growth strengthened further, increasing to 6.1 per cent—the strongest quarterly growth in 10 years (Chart 17).

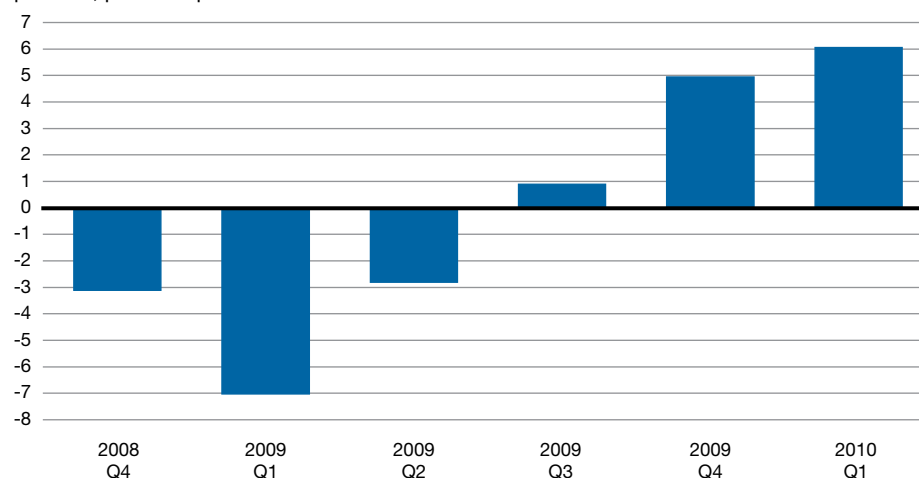
GDP growth has rebounded strongly in recent quarters



Chart 17

Real GDP Growth

per cent, period to period at annual rates



Source: Statistics Canada.

The World Takes Note of Canada

The main reason for [Canada's] economic resilience is that neither its financial system nor its housing market magnified the recession. The banks remained in profit. House prices held up fairly well and are now rising. And for that regulators deserve a chunk of the credit.

— *The Economist*
May 6, 2010

Tax Reductions

Tax reductions for families, individuals and businesses have been a central element of the Government's strategy to build a stronger economy and improve our competitiveness. The Government has introduced over 30 tax relief measures since January 2009, including those in Canada's Economic Action Plan. This brings the total number of tax relief measures introduced by the Government since 2006 to almost 120. Reflecting the Government's progress in this area, Canada's federal tax-to-GDP ratio is at its lowest level since 1961.

The Government has provided significant, permanent tax relief to Canadian individuals and families. These tax reductions not only allow Canadians to keep more of their hard-earned money, but also strengthen the competitiveness of our tax system by improving incentives to work and save, while providing important stimulus to the economy and creating jobs. For example, the Government introduced the Tax-Free Savings Account—the most important new vehicle for savings since the introduction of the Registered Retirement Savings Plan—which has improved the incentives for all Canadians to save. The Government also introduced the Working Income Tax Benefit, thereby lowering the “welfare wall” and making work more attractive for low-income Canadians.

Canada's Economic Action Plan is reducing the tax burden on families



The following table provides estimates of personal income tax relief and increases in Canada Child Tax Benefit (CCTB) and National Child Benefit supplement (NCBs) entitlements in 2010 resulting from the Economic Action Plan for a two-earner family with two children.

Total income	Personal income tax relief	Increase in CCTB/NCBs	Total
\$35,000	\$66	\$438	\$504
\$80,000	\$200	\$76	\$276
\$120,000	\$333	\$0	\$333

Notes: Assumes that one spouse earns 60 per cent of the family's total income and that the other spouse earns 40 per cent. CCTB/NCBs entitlements are for the July 2010 to June 2011 benefit year.



Returning to Balance

Budget 2010, our Jobs and Growth Budget, outlined a three-point plan to return the federal budget to balance over the medium term. The elements of the plan are as follows:

First, the Government will follow through on the “exit strategy” that is built into the Economic Action Plan by ensuring that the temporary measures end as scheduled. Certain elements of the stimulus are now being phased out:

- On January 31, 2010, the Home Renovation Tax Credit came to an end after successfully supporting economic activity in the home renovation sector.
- 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.

Second, the Government announced targeted measures to limit the growth in direct program spending. These savings will build over the medium term as the recovery becomes more secure. Following the end of the Economic Action Plan, growth in direct and total program expenses is forecast to average 1.3 per cent and 2.2 per cent, respectively, between 2012–13 and 2014–15. These actions will result in cumulative savings of \$17.6 billion between 2009–10 and 2014–15.

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 already underway.

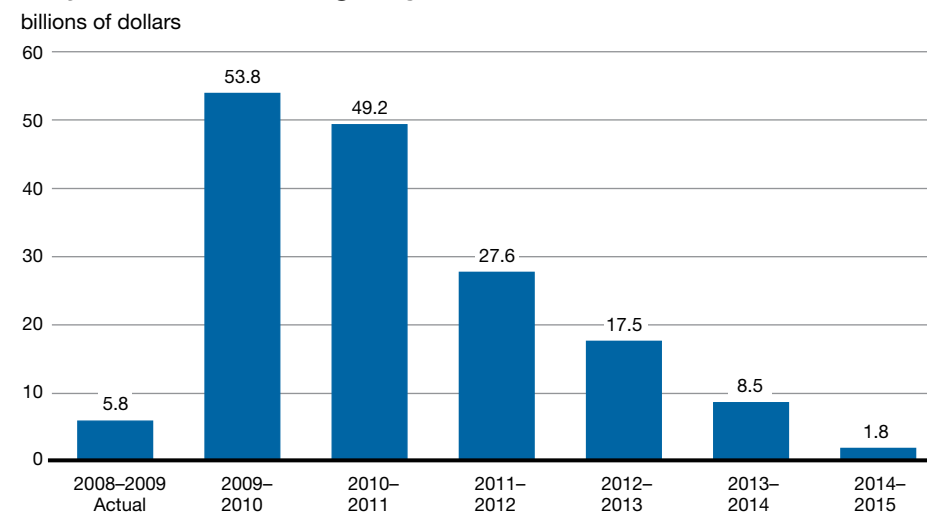
The Government’s three-point plan will allow the deficit to fall sharply over the medium term. As a result of the expiration of the Economic Action Plan and measures in Budget 2010, the deficit is projected to decline by almost half from \$53.8 billion in 2009–10 to \$27.6 billion in 2011–12, and by two thirds to \$17.5 billion in 2012–13. By 2014–15, the deficit is projected to be \$1.8 billion (Chart 18).



Rapid decline in deficits



Chart 18
Projected Federal Budgetary Deficit



Source: Budget 2010.

Recent developments indicate that the Government is on track to achieve the deficit reduction projections set out in Budget 2010. Economic growth in Canada in both the fourth quarter of 2009 and the first quarter of 2010 was stronger than assumed in the budget-planning assumptions. For the April 2009 to March 2010 period, there was a budgetary deficit of \$47 billion, indicating that the fiscal projection set out in Budget 2010 remains broadly on track.²

² While year-to-date results as reflected in the March 2010 *Fiscal Monitor* are stronger than anticipated in Budget 2010, they do not reflect a number of other significant adjustments to revenues and expenses that will be made once further information becomes available. Given the potential for these adjustments, the Government judges that the fiscal projection set out in Budget 2010 remains broadly on track.



Finishing the Job

As a result of the extraordinary measures G-20 countries agreed to at the Washington, London and Pittsburgh Summits, the global economy has now entered a recovery. G-20 countries remain committed to fully implement their stimulus plan through to the end of this year to secure the global recovery. As the global economy continues to transition from recession to recovery, G-20 countries must also deal with the collective challenges that remain. Canada will exercise its leadership position to promote the cooperation needed to secure the recovery and prevent future crises.

All G-20 countries must work together to finish the job. The priority must be to put their fiscal positions on a sustainable track, strengthen the global financial system, and pursue policies that foster strong, sustained and balanced growth for all countries.

Fiscal Consolidation

The negative impact of the global recession on the long-term fiscal positions of most countries underscores the importance of achieving sustainable fiscal positions well before the next economic downturn. The recent financial turbulence in Europe highlights the importance of putting the fiscal positions of G-20 countries on a sustainable track before markets force this adjustment. There is a consensus that much of the policy effort going forward must focus on fiscal consolidation. Canada has proposed a set of principles for countries that need to transition from fiscal stimulus to consolidation. The principles are:

- **Fiscal consolidation plans must be credible.** They must be based on prudent economic and fiscal assumptions and they must identify specific measures that put countries on a path to fiscal sustainability.
- **The time to act is now.** G-20 countries must elaborate clear and credible plans that put our fiscal positions on a sustainable footing. The speed and timing of withdrawing fiscal stimulus and implementing further consolidation plans will depend on the state of the economy and financial system in each country. However, it is clear that substantial fiscal consolidation is needed in most advanced countries and should begin in 2011 at the latest.
- **Fiscal consolidation should focus on measures that will foster long-term economic growth.** The evidence from past successful consolidations strongly suggests that the primary focus should be spending restraint. In that context, the current situation is a good opportunity to implement structural reforms that will prove beneficial to long-term growth.

Based on these principles, advanced economies must move ahead with strong, credible, growth-friendly consolidation plans that put their countries on a path to fiscal sustainability. Canada will be pushing for firm, realistic consolidation plans at the G-20 that will result in lower deficits, reduced debt and greater global economic stability.

G-20 countries should agree that these plans will halve deficits by 2013 and stabilize government debt-to-GDP ratios, or put them on a downward path by 2016. These targets should be a minimum as some G-20 countries will meet these objectives sooner.

The efforts to rebuild public finances will be more effective if coordinated actions are undertaken to foster a rebalancing of global demand. The Framework for Strong, Sustainable and Balanced Growth launched at the Pittsburgh G-20 Leaders' Summit is the means by which this policy coordination will take place within the G-20. Canada strongly supports the framework exercise and co-chairs the G-20 working group that manages the process. In this role, we are working with our partners to identify the policies G-20 countries will need to implement to achieve the strong, sustained and balanced global growth that is the foundation of job creation.

Financial Sector Policy

The Government is committed to building on the strengths of Canada's financial sector and working with our international peers to reform and repair the global financial system. Jurisdictions must make the global financial system more resilient and able to provide the credit needed to fuel sustainable economic growth.

As host of the June 2010 G-20 Leaders' Summit in Toronto, Canada's priority is to maintain momentum to fully implement the existing financial sector reform agenda by the agreed, or accelerated, timelines. The reform agenda recognizes that the foundation of a more resilient global financial sector rests on three pillars: a strong regulatory framework, effective supervision and peer review.

A strong regulatory framework: At the core of this agenda is improving the quality, quantity and transparency of capital and liquidity standards with a limit on leverage.



Jurisdictions must also have systems in place to address financial institutions in crisis, without taxpayers bearing the burden. To this end, Canada has put forward principles on bank resolution for the consideration of G-20 Leaders, including:

- Proper allocation of losses to limit excessive risk-taking and protect taxpayers;
- Continuity of critical financial services, including uninterrupted service for insured depositors;
- Maximization of firm value;
- Credibility of the resolution regime in the market; and
- Effective cooperation among jurisdictions in the event of a cross-border failure of an institution.

Canada is also proposing the use of embedded contingent capital as a tool to aid in the effective resolution of financial institutions in crisis. Contingent capital is a security that converts to common equity when a bank is in serious trouble, thereby replenishing the core capital of the bank without the use of taxpayer dollars.

Canada will continue to oppose the introduction of a global tax on the financial sector, as Canadian banks did not require taxpayer bailouts. Not only would such a tax reduce the flow of credit and encourage excessive risk-taking by financial institutions, it would be unfair to Canadian consumers, who would ultimately bear the burden through higher costs for financial services. All G-20 members agree with the principle that taxpayers should not bear the costs of rescuing the financial sector, and there needs to be recognition that there are a variety of ways to implement this principle.

Effective supervision: The financial crisis has clearly illustrated that rules alone are insufficient, and the G-20 recognizes that new rules should be complemented by strong supervision. Supervisory authorities must have the proper authority, tools, flexibility and resources to hold financial institutions to account and ensure they respect the rules.

Peer review: The integrated nature of our global financial system requires that all G-20 countries live up to their commitments to implement global standards. Through international fora such as the Financial Stability Board and the IMF, progress on the reform agenda will be measured through international assessment and peer review.



Canada's financial sector emerged from the crisis in a position of strength. The Government will continue to demonstrate leadership in enhancing the soundness of the global financial sector.

Trade Liberalization and Support for the Most Vulnerable

The global economic crisis threatened to reverse years of progress in helping the world's poorest people. In response, Canada continued to reinforce its standing as a global and accountable leader in development by honouring its international assistance commitments. For example, Canada has already met its commitment to double aid to Africa. In addition, our Jobs and Growth Budget honours Canada's commitment to double international assistance by 2010–11 by increasing the International Assistance Envelope by \$364 million to a total of \$5 billion. As host of the G-8 and G-20 Summits, the Government will work with its partners to ensure international assistance is used effectively to address global challenges, including immediate and long-term recovery in Haiti, maternal and child health, and food security.

Over the past year, Canada also demonstrated leadership in helping developing countries through the economic and financial crisis, providing over US\$22 billion in financing for special initiatives, mainly through partnerships with international financial institutions, such as the IMF, World Bank and other development banks, as they were on the front lines in providing crisis assistance to these countries. For example, Canada pioneered an innovative initiative to provide vital financial support to the Inter-American Development Bank and the African Development Bank, allowing them to continue lending to developing countries during this critical period. Looking ahead, Canada will work with the G-20 and other countries to move forward on reforming the international financial institutions to strengthen their legitimacy, credibility and effectiveness.

Securing the global economic recovery requires maintaining open markets. To this end, the Government has signed bilateral free trade agreements and implemented unilateral tariff reductions. Budget 2009 eliminated tariffs on a wide range of imported machinery and equipment, providing \$88 million in average annual duty savings to Canadian manufacturers. Our Jobs and Growth Budget went further by announcing the elimination of all remaining tariffs on machinery and equipment and manufacturing inputs, for an additional \$300 million in annual duty savings for Canadian businesses. The Government is committed to continuing to identify areas where trade liberalization could take place. At the G-20 Leaders' Summit in Toronto, Canada will work with G-20 members to reconfirm our commitment to resist protectionism.



Conclusion

One of the key lessons of the global recession and financial crisis is that policies matter. Countries that weathered the recession better—including Canada—have generally been those with strong fiscal and monetary policy frameworks, as well as robust financial regulatory systems. The global recession has also demonstrated that problems that originate in one country can quickly spread around the globe.

As a dynamic trade-oriented economy, Canada remains exposed to financial and economic shocks that originate elsewhere. That is why Canada will exercise its leadership position to promote the cooperation to secure the global recovery and prevent future crises. As chair of the G-7 and host of the June 2010 G-20 Leaders' Summit, Canada is taking a leadership role as we move toward a sustainable global recovery.

