



## **Federal Government's *Economic and Fiscal Update* November 14, 2005**

Today, Finance Minister Ralph Goodale appeared before the House of Commons Standing Committee on Finance to present the Government of Canada's annual *Economic and Fiscal Update*.

Typically, the *Update* provides an updated forecast for the economy and federal government finances. Generally, fiscal actions await the budget in February. Today's *Update* included some newly-announced measures with a focus on promoting job creation, stimulating learning, R&D, and boosting Canada's investment climate. Minister Goodale also unveiled a new economic plan (*A Plan for Growth and Prosperity*) aimed at improving Canada's productivity and securing the nation's long-term economic prosperity.

### **Federal Government Finances**

- Private sector forecasters project real economic growth of 2.8% this year, 2.9% in 2006, and 3.1% in 2007. Nominal GDP growth (the base that determines government revenue) is projected at 5.3% in 2005, 5.2% in 2006 and 4.7% in 2007.
- Federal government program spending is projected to rise by an average of 4.5% per year over the next five years, roughly in line with nominal growth in the economy. This compares with an average annual increase in program spending of 8.1% over the past five years.
- After taking into account measures announced since Budget 2005 and allocating the normal \$3-billion per year to the Contingency Reserve to cover unanticipated risks and setting aside funds for economic prudence, there is \$8.2 billion left over in fiscal 2005-2006 for budget-planning purposes (that is, for new program spending and/or tax reduction). Going forward, the amounts available for planning purposes are as follows: \$9.2 billion in 2006-2007, \$9.5 billion in 2007-2008, \$7.9 billion in 2008-2009, \$8.4 billion in 2009-2010 and \$11.3 billion in 2010-2011. These surplus forecasts, which total \$54.5 billion over the six-year period, have been revised upwards from Budget 2005, reflecting higher projected corporate and personal income tax receipts and lower public debt charges.
- The debt-to-GDP ratio is projected to fall from 38.7% in fiscal 2004-2005 to about 29% by 2010-2011, putting the Government on track to meet the objective set out in the 2004 budget of reducing the ratio to 25% by 2014-2015. This *Update* announces a new objective of reducing the debt-to-GDP ratio to 20% by 2020.
- Public debt charges as a percentage of GDP are projected to fall from 2.6% of GDP in fiscal 2004-2005 to 2.0% of GDP in fiscal 2010-2011. In fiscal 2004-2005, federal debt charges consumed about 17 cents of every dollar of revenue. By 2010-2011, public debt charges are forecast to consume about 14 cents of every dollar of revenue.



## **Measures Announced Today**

### **Tax Measures**

- Immediately increasing the basic personal amount – the amount of income that all Canadians can earn tax-free – by \$500, effective January 1, 2005.
- Immediately reducing the lowest personal income tax rate from 16% to 15%, effective January 1, 2005, with subsequent reductions of 1 percentage point to each of the two middle rates by 2010.
- Consulting with the provinces and territories to design and implement a Working Income Tax Benefit to help encourage low-income Canadians to join the workforce.
- Confirming the 2-percentage-point reduction in the general corporate tax rate to 19% by 2010 and the elimination of the corporate surtax for all corporations in 2008, as well as the elimination of the federal capital tax as of 2006, two years earlier than originally planned.
- The Minister stated that this new tax reduction plan will deliver \$30 billion in tax relief over the current year and the next five years, including immediate personal income tax relief of up to \$325 for all taxpayers this year, with further relief in years to come as other tax reductions are phased in. Legislation to implement the tax reduction plan will be introduced in due course.

### **Creating Opportunities for All Canadians**

- More than \$2.1 billion over five years to improve student financial assistance and help make post-secondary education more affordable for lower- and middle-income Canadians.
- \$3.5 billion over this year and the next five years to increase workplace-based training programs, and to enhance the participation of Aboriginal people, immigrants and persons with disabilities in the Canadian economy.
- \$1.3 billion over five years to improve settlement and integration services for new immigrants to Canada.
- \$1 billion in 2005–06 for provinces and territories for the Post-Secondary Education Innovation Fund.

### **Advancing an Innovative Economy**

- More than \$2.1 billion in additional funding, beginning in 2005–06 and over the next five years, to sustain Canada's leadership in university-based research.
- Almost \$200 million over the next five years to create up to 3,500 internships and up to 500 scholarships for natural and health sciences and engineering graduates.

### **Positioning Canada at the Centre of Global Commerce and Networks**

- \$590 million over the next five years to support transportation infrastructure investments and other initiatives enhancing Canada's Pacific gateway.
- \$485 million over five years to implement CAN-Trade—a new international commerce strategy to position Canadian companies, especially small and medium-sized firms, in priority markets such as China and India.
- An additional \$100 million over the next five years to continue supporting broadband installation in rural, remote and First Nations communities.



Initiatives proposed since the 2005 budget, including those in this *Update* toward implementing the Government's Plan for Growth and Prosperity, total \$49.8 billion through 2010-2011. The remaining planning surplus amounts to \$1.6 billion in 2005-06 and ranges from about \$2 billion to \$3.5 billion annually over the next five years, totalling \$15.5 billion.

### **Canadian Chamber's Reaction**

The emphasis on productivity-enhancing initiatives, including tax cuts for both individuals and businesses along with additional spending in high priority areas such as education, infrastructure and skills training, are welcome developments. Indeed, many of the measures announced in today's *Economic and Fiscal Update* echo the recommendations of the Canadian Chamber in its pre-budget submission. Of course, many of today's announcements could be a moot point if the government is soon defeated in an upcoming election.

In particular, the Canadian Chamber was pleased to see that the Plan accelerates the personal income tax cuts set out in Budget 2005, particularly benefiting those with low incomes, and it eliminates the federal capital tax as of 2006, two years earlier than originally planned. A number of the initiatives announced today are proposed for inclusion in Budget 2006. Two initiatives will be effective from the beginning of 2005 – increasing the basic personal amount by \$500 and reducing the lowest marginal personal tax rate from 16% to 15%. The Government stated that these two measures will be tabled in the House of Commons through a Notice of Ways and Means Motion at the earliest opportunity.

The Canadian Chamber will continue to call on the federal government to put a higher emphasis on reducing the general corporate income tax rate than what is currently planned for. Specifically, the Canadian Chamber will continue to advocate a reduction in the general corporate income tax rate to 20% for 2006 and a further reduction of one percentage point in each of the following three years to put Canada at an even stronger position to attract businesses.

