



Fiscal Policy before and after COVID

Presentation to TABE / CABE

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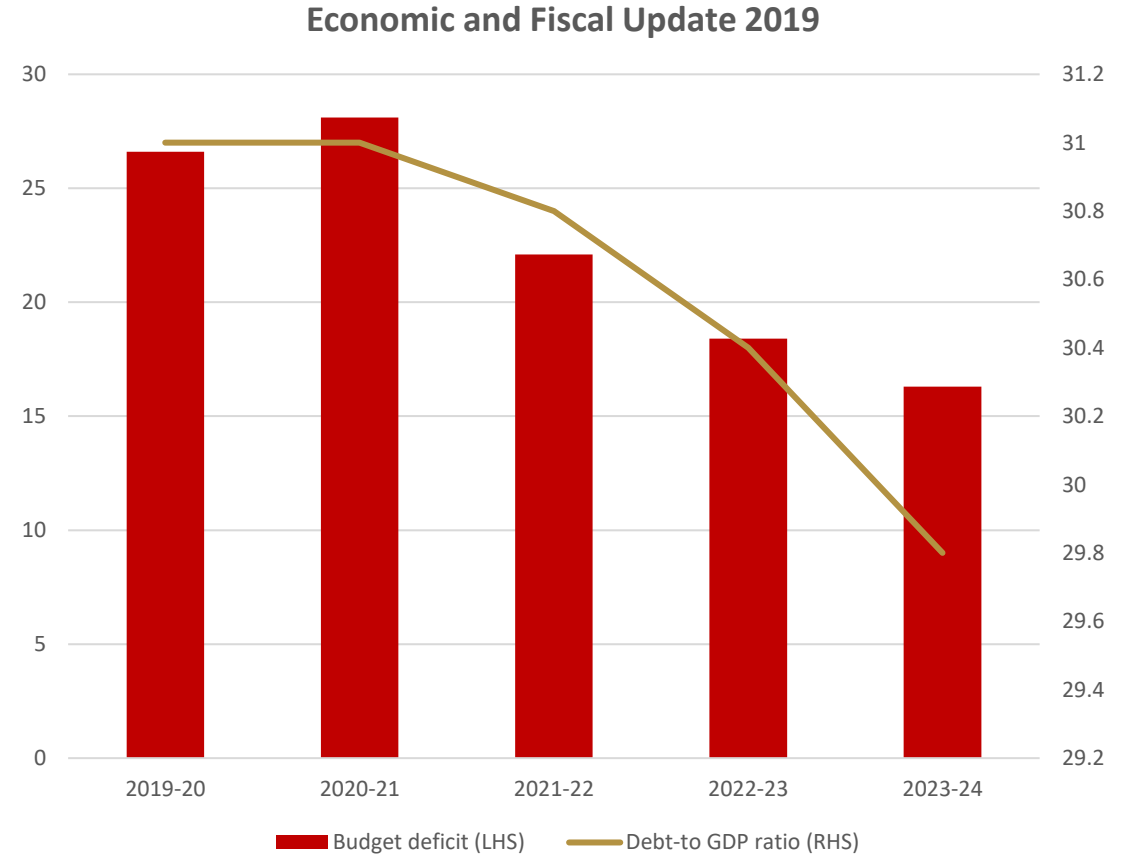
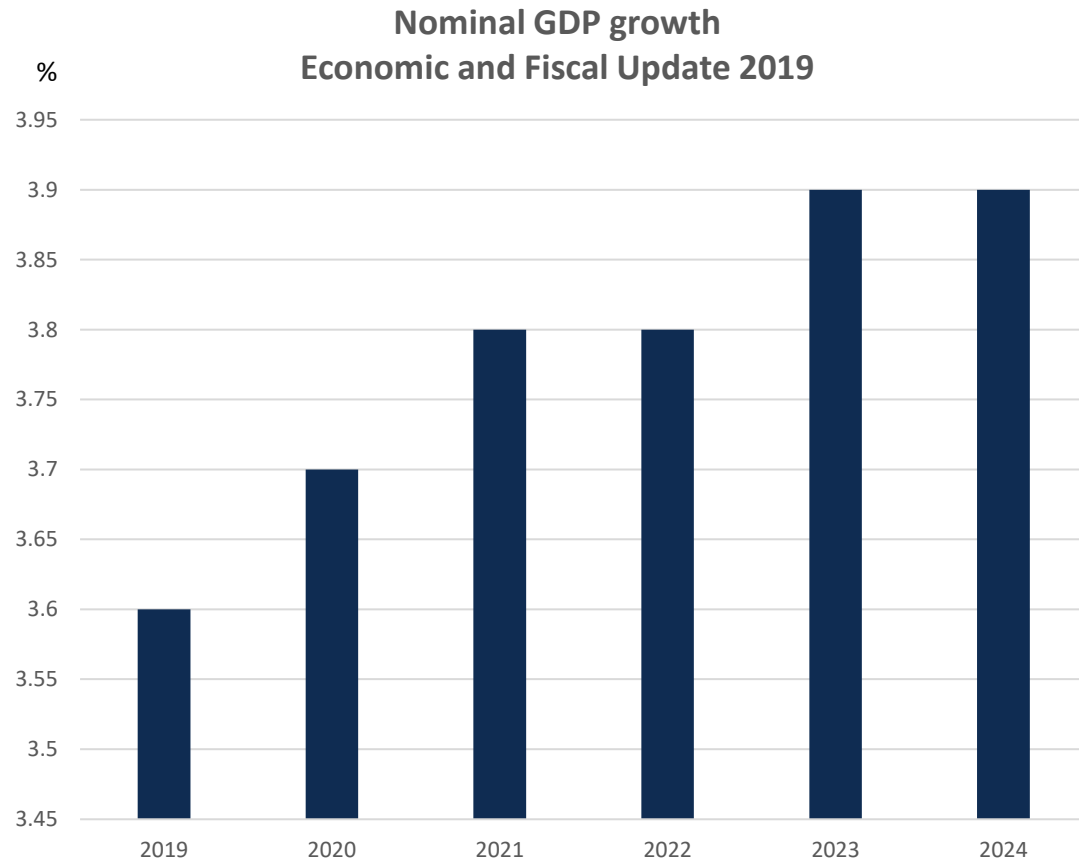
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March 16, 2021

Outline

- Economic and fiscal context before COVID
- COVID impacts
- Long-term fiscal sustainability
- A fiscal plan for Budget 2021

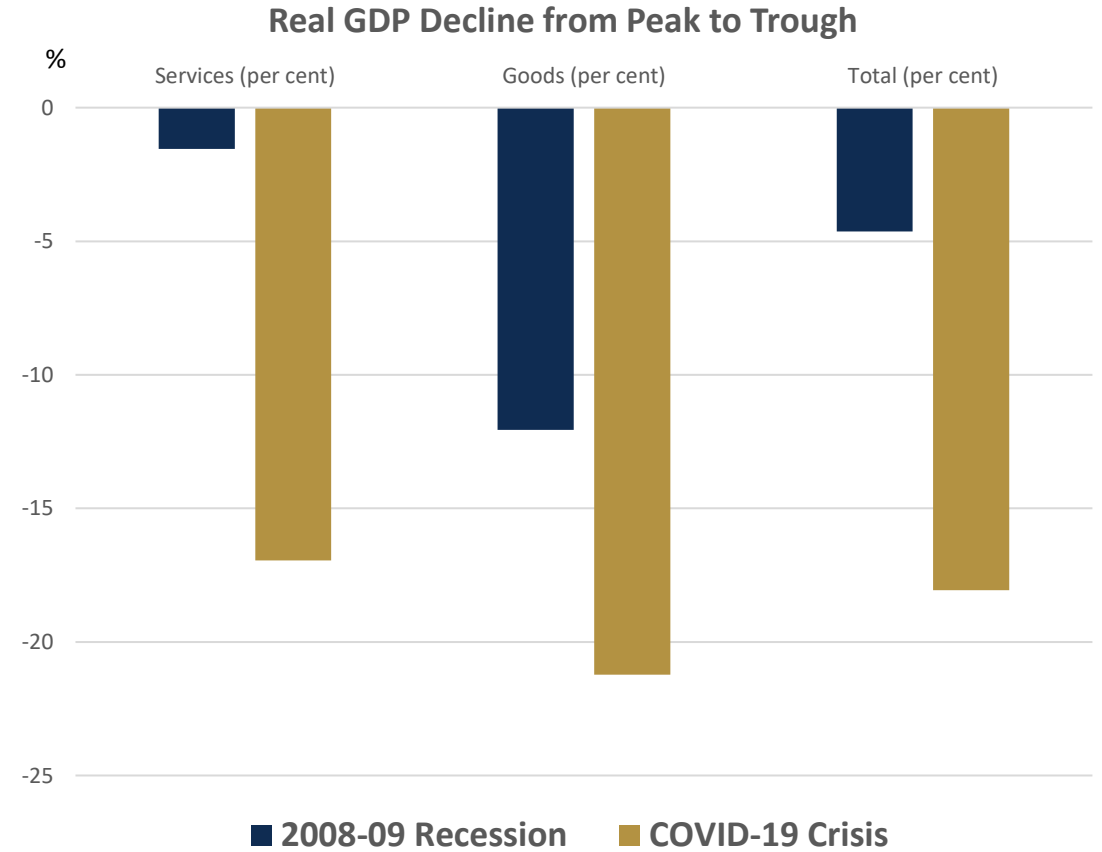
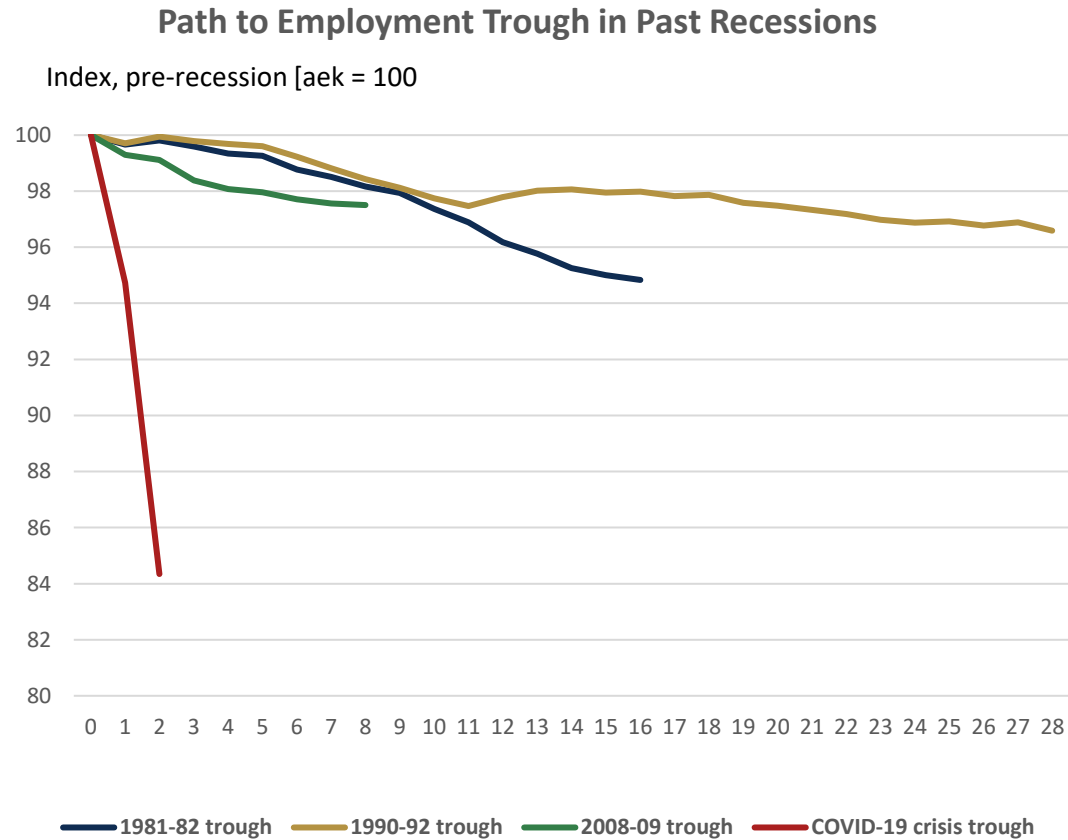
Economic and Fiscal Context before COVID



Government's Policy Plan before COVID

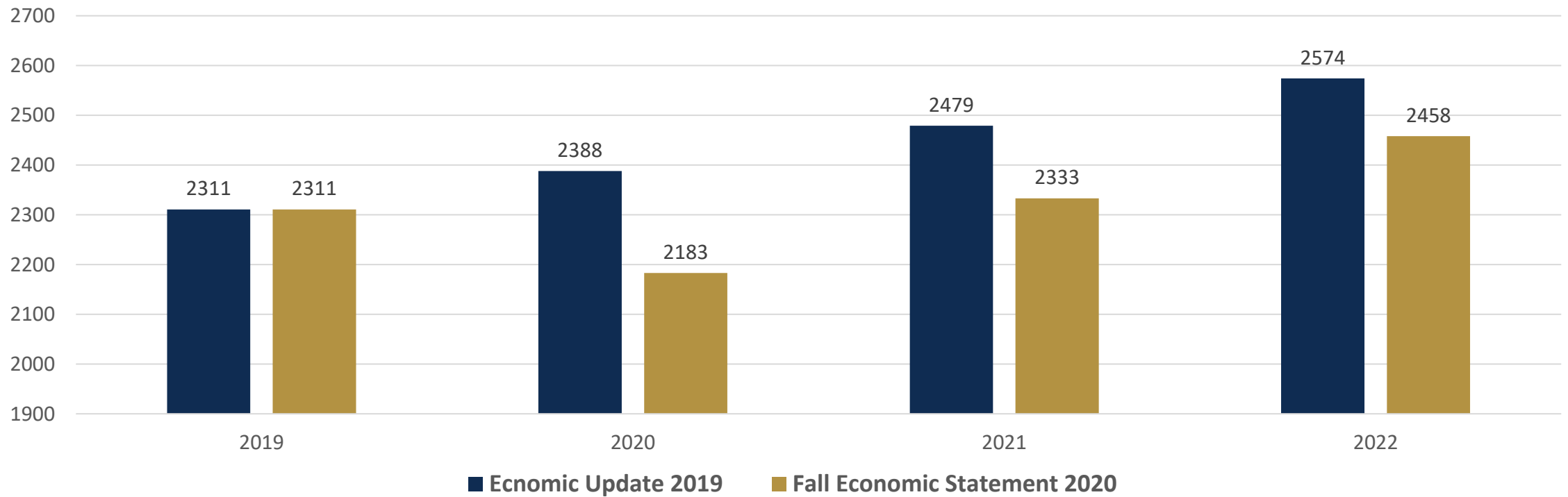
- Moderate 2019 election platform
 - The most important policy proposal was a gradual increase in the Basic Personal Amount exemption
 - Continued to commit to a declining debt-to-GDP ratio
 - There were soft commitments to other policies like pharmacare
- The 2019 Speech From the Throne
 - Strengthening the middle class
 - Reconciliation
 - Keeping Canadians safe and healthy
 - Fighting climate change – achieving net-zero emission by 2050
- But nothing concrete!
- PBO estimated that federal finances were sustainable in the long run with a negative fiscal gap of 1.8 per cent
- We hoped that Budget 2020 will provide details on how the government will achieve those goals

Then comes the pandemic



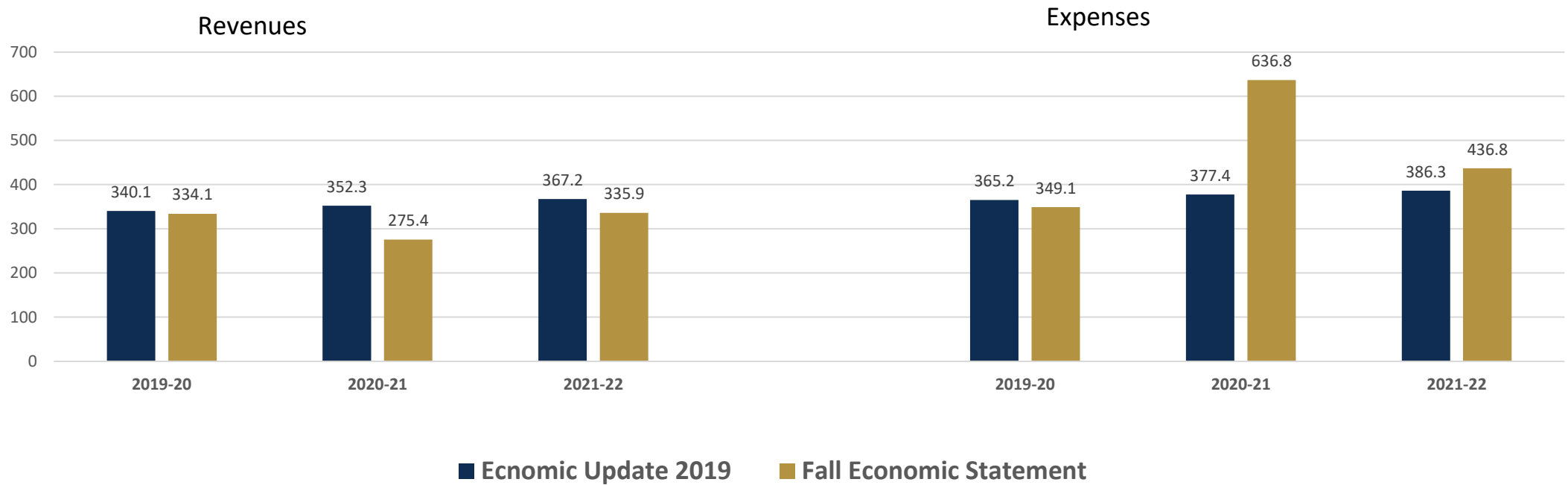
Record drop in nominal GDP

Nominal GDP
(billions of dollars)

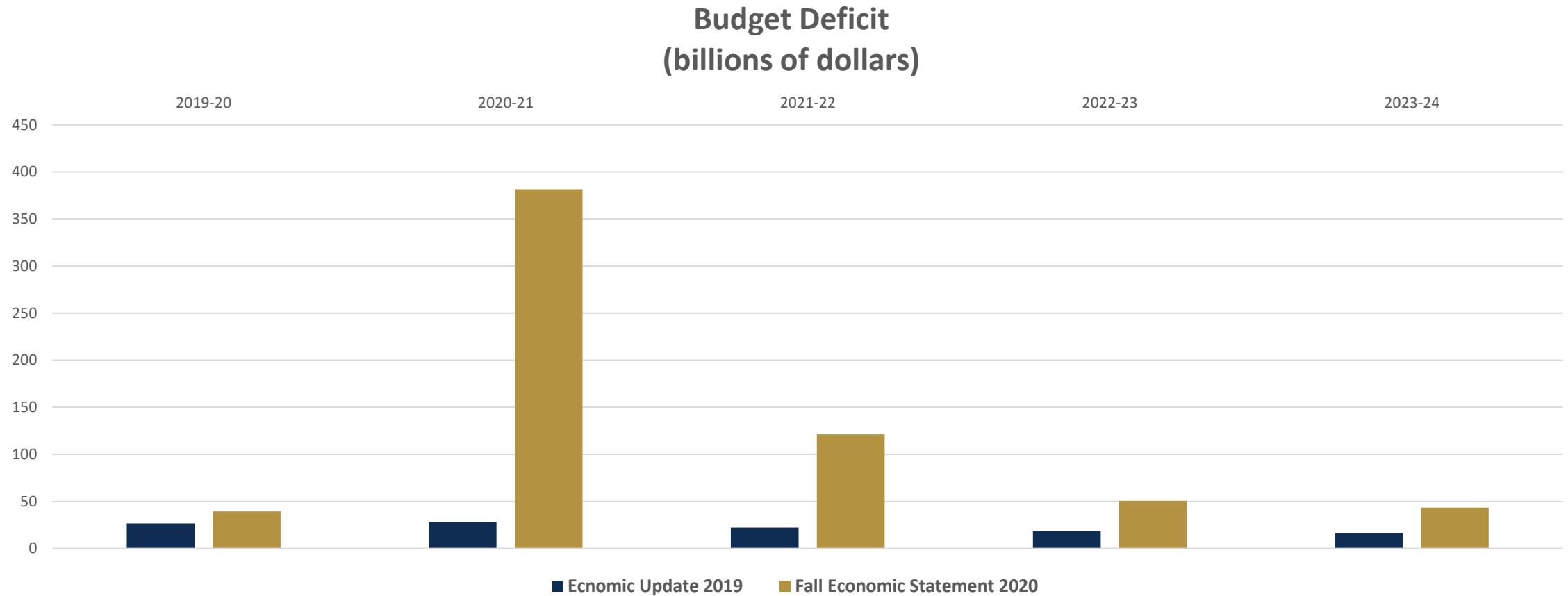


Fiscal Change

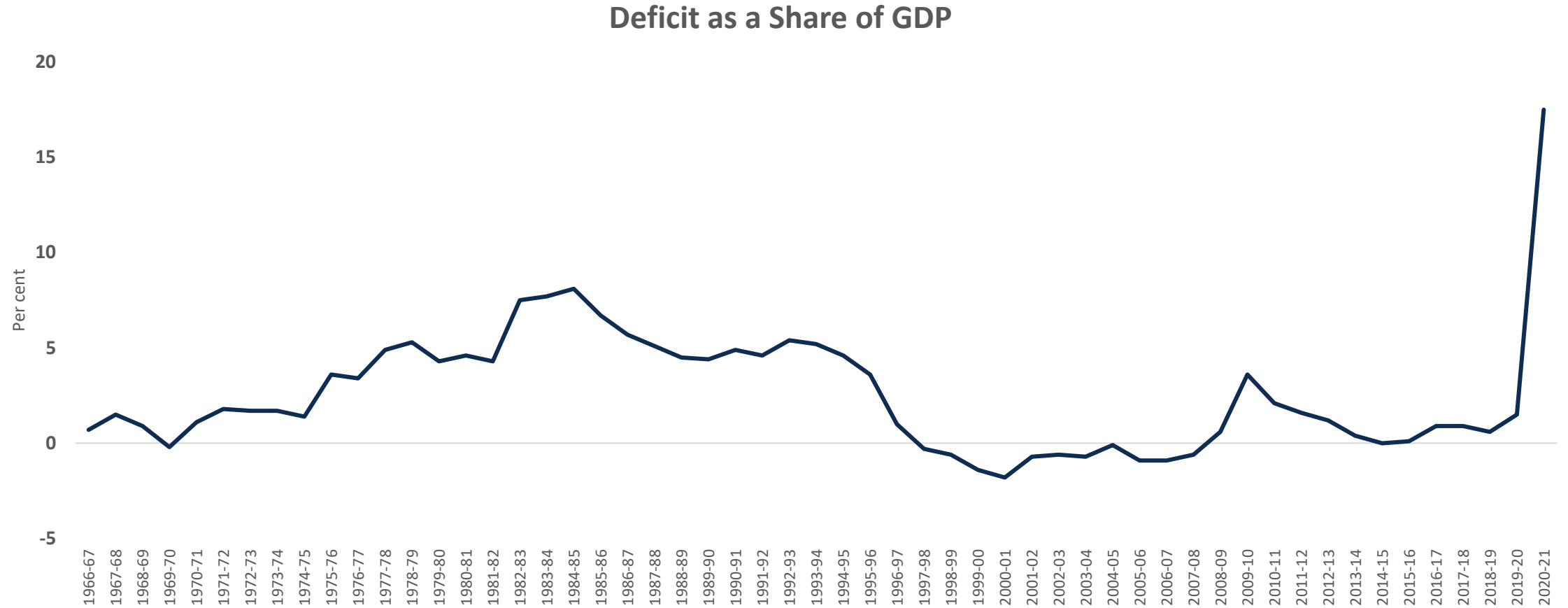
Revenues and Expenses (billions of dollars)



Budget deficit



Budget deficit



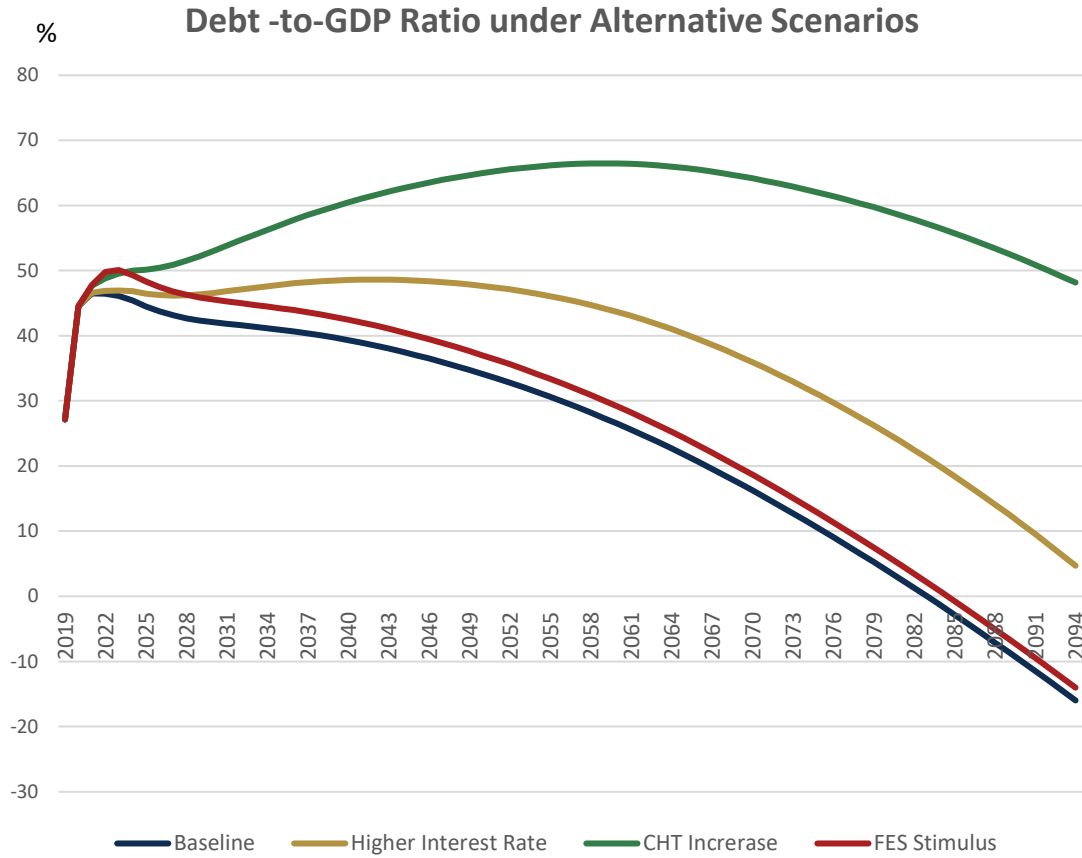
Government's current plan

- No budget plan in almost two years
- September Speech From the Throne: Four priorities with 45 spending commitments:
 - ✓ protecting Canadians from COVID19;
 - ✓ helping Canadians through the pandemic;
 - ✓ build back better;
 - ✓ and stand up for values.
- **But, not much on fiscal responsibility or sustainability**
- Fall Economic Statement (FES)
 - ✓ Largest FES, which looked more like a budget plan
 - ✓ Some policy measures focusing on the pandemic
 - ✓ Promise to spend up to \$100 billion to stimulate the economy subject to a few guardrails

Is the current fiscal structure sustainable?

- PBO's update of long-term fiscal sustainability
 - ✓ Continue to be sustainable at the federal level but with a much smaller negative fiscal gap
 - ✓ At the provincial level seven provinces have unsustainable fiscal structures with large fiscal gaps
- PBO estimates was based on information as of September 1, 2020, which did not include some of the COVID-related spending measures and the \$100 billion stimulus fund announced in the FES.
- How the stimulus fund, potential new policy measures in the upcoming budget measures and higher interest rates would affect long-term sustainability of federal finances?
- What would be the implications for the Budget 2021?

Fiscal Sustainability under Alternative Scenarios



Fiscal Gap / Room

	Baseline	Scenario 1	Scenario 2	Scenario 3
		FES stimulus	CHT increase	Interest rate increase
25 years	0.48	0.62	1.63	0.88
50 years	-0.24	-0.18	0.93	0.19
75 years	-0.79	-0.76	0.39	-0.29

A Fiscal Plan for 2021 Budget

- Need a comprehensive plan with a strategy on how fiscal policy will be used to support both recovery and long-term transformation of the Canadian economy.
 - ✓ The Budget should provide economic outlook scenarios that cover the range of possible outcomes related to success in vaccination.
 - ✓ Using the guardrails, the budget should include temporary and targeted stimulus measures to help the economy return to its normal path quickly.
 - ✓ Given the sharp increase in government spending and public debt, it is essential to establish a fiscal framework that imposes discipline on future spending plans. The budget should establish measurable fiscal anchors that guide future fiscal plans.
 - ✓ Any new permanent spending commitments in the budget should be funded by new tax revenues or reallocation from other programs.
 - ✓ A detailed and transparent accounting of COVID-related spending (including planned spending on vaccines)

Thank-you



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Additional slides for background

- Debt dynamics

$$d_t - d_{t-1} = [(i - g)/(1 + g)] * d_{t-1} - pb_t$$

Primary Balance

