

## Bumps ahead for deficit cutting: TD

OTTAWA -- The federal and provincial governments are off to a flying start in their deficit-cutting plans, but they will run into difficulty as economic growth slows, the population ages and interest rates rise, economists at Toronto-Dominion Bank warned Tuesday.

In a published analysis, the bank's analysts, Derek Burleton and Pascal Gauthier, said Canadian legislators have moved ahead of their international counterparts in terms of laying out targets, and better-than-expected GDP growth has delivered richer tax revenue than anticipated.

But the TD economists say the tough work begins in earnest next year, once stimulus programs end and the impact of automatic stabilizers, such as Employment Insurance benefits, begin to fade. They calculate governments have to keep program spending growth to no more than 2% per year to meet their balanced-budget goals.

"To get down to zero, the picture is still somewhat murky on how these fairly ambitious spending targets will be achieved," Mr. Burleton said .

"We are seeing, at the early stages, governments getting ahead of plans. But don't count on that pace continuing."

Preliminary data suggest the federal budget deficit last year was 13% smaller than anticipated, and for the first two months of the present fiscal year the shortfall is \$4.4-billion versus a \$7.5-billion deficit in the comparable year-ago period. The Conservatives anticipate reaching near balanced budget by mid-decade, but the Conference Board of Canada and TD suggest Ottawa could hit its target a year early.

As for the provinces, a report from CIBC World Markets says the combined provincial deficit for the past fiscal year could end up being as much as \$8-billion lower than anticipated, based on the four governments that have reported to date and an assumption Ontario will match its peers' performance.

This momentum is bound to lose steam, the TD analysis said, identifying three factors: a modest recovery, as Canada's growth rate "slows very significantly," Mr. Burleton said, as its big trading

partners struggle under intense fiscal challenges; the aging population, which will force increased spending on health care and old-age benefits; and rising interest rates, which will boost the debt-servicing costs for governments to roughly \$71-billion in 2014, from \$51-billion in the last fiscal year.

These factors, among others, will force legislators to roll back program spending — which will prove to be no easy task, as it grew at the federal level since the late 1990s an annual rate of between 6% and 8% prior to the recession. Plus, health care represents 40% of provinces' operating budgets, and politicians have opted to put off reform of health care delivery for fear of political backlash.

In the last budget, Ottawa identified cuts to the public service, a freeze on foreign aid, and limited growth in defence spending as areas where enough savings can be obtained. Stockwell Day, president of the Treasury Board, said Tuesday Ottawa would not “be easing off our plans for fiscal restraint.”

The TD economists say while some provinces and Ottawa have yet to detail spending cut plans, they have increased, or plan to hike, existing sales taxes or sin taxes, and the federal government has built-in higher EI premiums as part of its forecast.