

NEWS RELEASE

Recession could push federal deficit to between \$46 and \$120 billion by 2020/21

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VANCOUVER—With the federal government running deficits during times of positive economic growth, Ottawa’s annual deficit could reach \$120 billion in the next few years if Canada enters a recession, finds a new study by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“By running deficits in good times, if and when Canada’s economy slows down—or worse, hits a recession—there’s a very real risk Canada’s existing deficits could grow substantially,” said Jason Clemens, executive vice-president of the Fraser Institute and co-author of *Federal Deficits and Recession: What Could Happen*.

The study analyzes three different economic downturns, and applied the same revenue declines and program spending increases (both automatic and discretionary) to the current government’s finances.

- If the economic conditions of the 1991/92 recession—which had a mild impact on federal finances—were repeated now, the 2020/21 federal deficit would increase from its projected \$13.8 billion to \$46.1 billion.
- If conditions similar to the 2000/01 slowdown—which had a moderate impact on federal finances—occurred now, the 2020/21 deficit would reach \$64.1 billion.
- And if Canada experienced a severe recession, similar to 2008/09, the 2020/21 deficit would hit a staggering \$120.5 billion.

“Recessions are inevitable, and the risks to federal finances from even a mild recession, let alone a more severe one, are substantial given Ottawa’s current deficits during times of economic growth,” Clemens said.

“The federal government should consider the very real risk of a future economic downturn when drafting future budgets to mitigate the potential damage of even larger deficits and debt accumulation.”

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