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NEWS RELEASE

44 per cent chance Ottawa increases debt over 10-year period; likelihood of failure jumps to 59 per cent over 20 years

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VANCOUVER—With current fiscal policies, and prior to the 2024 budget being presented, the federal government faces a 44 per cent chance the federal debt as a share of the economy will increase over ten years, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

"The federal government has committed to gradually reducing federal debt as a share of the national economy over the medium term, but they have not accounted for the impact of recessions that will result in larger budget deficits," commented Jake Fuss, director of fiscal studies at the Fraser Institute.

Adrift without an Anchor: Federal Fiscal Policy and Canada's Long-Term Debt Ratio finds that that there is a 44 per cent chance that the federal debt to GDP ratio will *increase* by 2036-37, and a 59 per cent chance it will increase by 2046-47—meaning the federal government would fail to stick to its core fiscal goal.

The deterioration in the federal fiscal position over the past year, with larger projected deficits, interest rates, and debt levels, has increased the likelihood of higher debt ratios in the future.

Critically, major economic downturns, such as recessions, directly impact public debt due to declines in government revenues and increases in government spending, leading to larger budget deficits.

The direct and indirect effects of a recession could set off a debt "doom loop", with debt continuing to increase relative to the size of the economy if the government does not quickly respond by reducing its post-recession budget deficits. This means the federal government's claim that debt-to-GDP will decline over time is not credible because it ignores the likelihood that future recessions will result in larger budget deficits.

"The combination of the high likelihood that Ottawa will miss its current fiscal goal coupled with the pattern of abandonment for previous fiscal goals, indicates the federal government lacks any sincere initiative to hold itself accountable with effective fiscal rules or constraints," Fuss said.

"It is critical policymakers evaluate how major economic downturns like a recession could affect the public debt in the future, and conclude the best way to lower budget deficits and public debt is through meaningful government spending restraint that would keep federal finances in check."

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