

Global Economic Policy Lab

Canadian Fiscal Policy in the 21st Century: Navigating shocks and post-crisis fiscal consolidation

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Table of Contents

Introduction.....	3
Part One: Pre-Financial Crisis (2000-2007).....	3
1.1 The Chrétien-Martin Years.....	3
1.2 The Early Harper Years.....	3
Part Two: The Financial Crisis and Stabilization (2008-2019).....	4
2.1 Government Expenditure Trends.....	4
2.2 Government Fiscal Policies During this Period.....	5
Part Three: The COVID-19 Pandemic (2020-2022).....	5
3.1 The Unprecedented Scale and Speed of Fiscal Response.....	5
3.2 Composition of Pandemic Spending.....	5
Part Four: Post-Pandemic and Recovery (2023-present).....	6
4.1 The Trajectory of Fiscal Consolidation.....	6
4.2 Debt Servicing Costs.....	6
Part Five: Navigating a Dynamic Fiscal Landscape (present day).....	7
5.1 Budget 2025.....	7
5.2 New Fiscal Anchors.....	7
Conclusion.....	8

Introduction

This brief provides an overview of Canadian fiscal policy from 2000 to 2025, highlighting the fiscal policy responses to economic shocks across five key periods of the 21st century. In the early 2000s, Canada built fiscal capacity through sustained surpluses and debt reduction. Following the global financial crisis, fiscal policy shifted from debt reduction to stabilization, with rising spending and relatively stable debt levels. The COVID-19 pandemic marked an unprecedented economic shock, prompting record-level emergency fiscal intervention. In the post-pandemic period, debt fell relative to GDP as emergency programs ended and economic growth resumed. Most recently, fiscal policy has shifted in response to heightened trade tensions with the United States, prioritizing long-term investment and the attraction of foreign and domestic capital.

Part One: Pre-Financial Crisis (2000-2007)

1.1 The Chrétien-Martin Years

Canada was governed by the Liberal Party from 2000 until early 2006, first by Prime Minister Jean Chrétien, and subsequently by his former Finance Minister, Paul Martin. The policy landscape was built on fiscal consolidation that began in the 1990s, marked by budget surpluses and efforts to eliminate federal deficits. These actions resulted in several consecutive surpluses. A key priority of the government was a [“Five-Year Tax Reduction Plan.”](#) The 2000 budget included measures to reduce the tax burden on middle-income Canadians, such as refundable tax credits and reductions in personal income tax.

In parallel, the government focused on reducing net debt through the application of successive surpluses. [Net debt was reduced by \\$46.7 billion to \\$536 billion by the 2001-2002 fiscal year.](#) Beginning in 2003, a [global economic slowdown](#) threatened the ability of the government to maintain its spending targets.

1.2 The Early Harper Years

Fiscal conservatism continued following the election of the Conservative Party in 2006, with tax reductions and restraining programmatic spending central to the government’s priorities. Notably, the [Goods and Services Tax was reduced from 7% to 5%](#) and [personal and corporate income taxes were reduced.](#) This was coupled with modest increases in defence and infrastructure spending and targeted program growth directed towards families and seniors. Continued surpluses allowed the government to further reduce debt by 12.2 billion in 2005-06.

Federal transfers were the [fastest-growing category](#) of spending in the 2000s. By 2007-2008, these transfers accounted for nearly 19% of total federal spending.

Part Two: The Financial Crisis and Stabilization (2008-2019)

2.1 Government Expenditure Trends

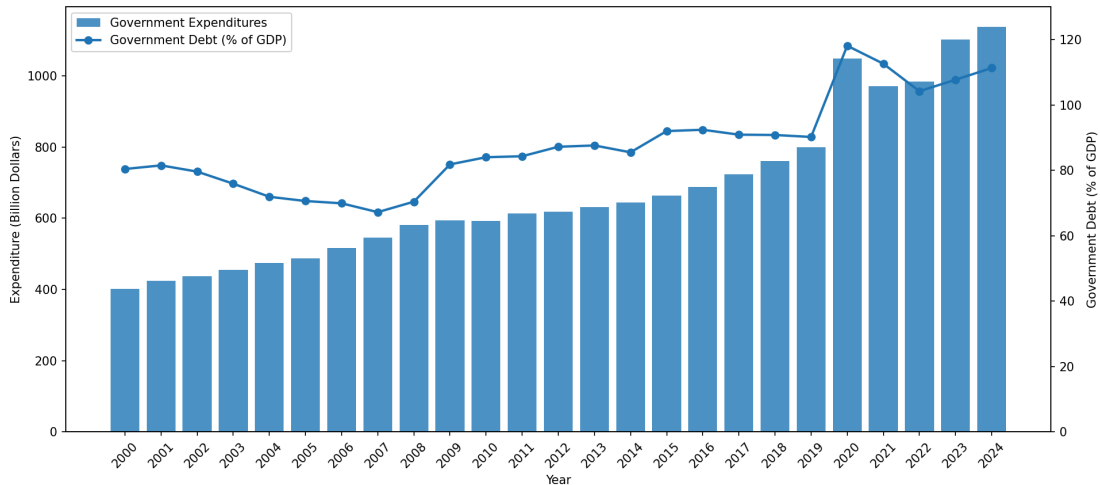


Figure 1: Canadian General Government Expenditures and Debt (2000-2024)

General government debt was downward trending until the financial crisis. Debt increased from 70.4% of GDP in 2008 to 81.8% in 2009. From 2009 to 2014, the debt remained relatively stable, increasing to 92% of GDP in 2015 and stabilizing around 90% until 2019. During this period, government expenses increased steadily from 2008 to 2019, from \$580 billion to \$800 billion (Figure 1). Health and social protection consistently accounted for the largest expenditure categories, followed by education and general public services.

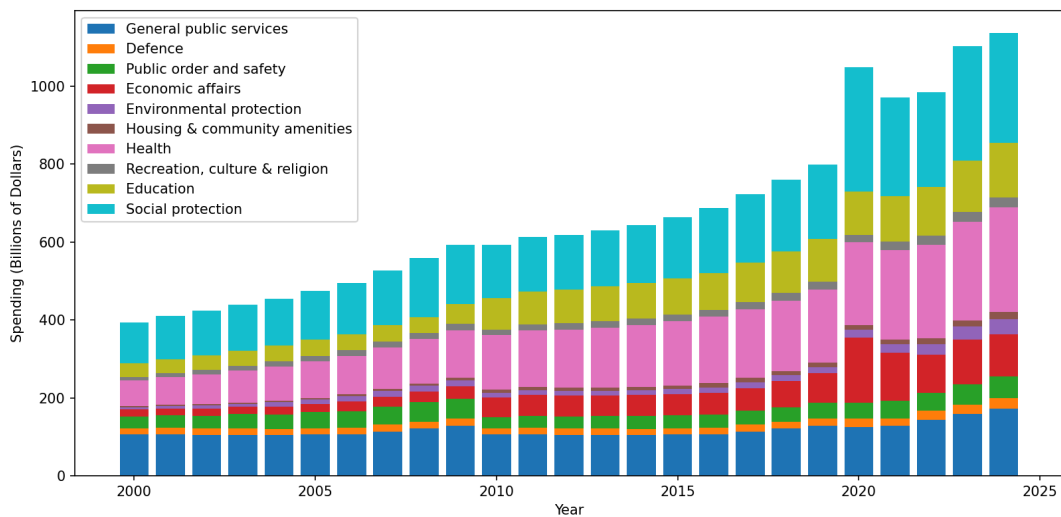


Figure 2: Canadian General Government Expenditures by Function, 2000-2024

2.2 Government Fiscal Policies During this Period

From 2008 to 2019, federal fiscal policy shifted in response to the economic situation and the government's priorities. Following the 2008 financial crisis, the government ran large deficits and introduced stimulus measures, including infrastructure spending, tax relief, and social programs, to support jobs and economic stability. Between 2013 and 2015, the focus shifted to balancing the budget and controlling spending.

Liberal government budgets from 2016 to 2019 provided short-term support to individuals and channelled funding toward long-term investments in growth and social priorities. These included support for the middle class, investing in infrastructure, innovation, and inclusion, clean growth, skills training, and social programs, for example, the Canada Student Loans Program and the increase of the Guaranteed Income Supplement top-up, while keeping the debt-to-GDP ratio stable.

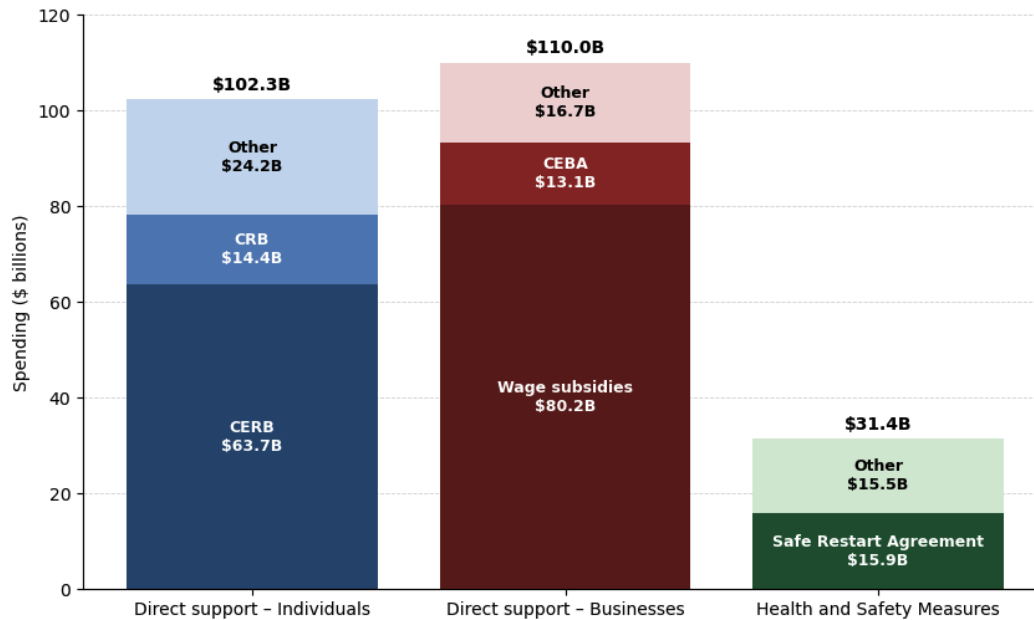
Part Three: The COVID-19 Pandemic (2020-2022)

3.1 The Unprecedented Scale and Speed of Fiscal Response

The COVID-19 pandemic marked a turning point in Canadian fiscal policy, as emergency federal intervention replaced conventional fiscal restraints in response to the unprecedented economic shock. Widespread job loss, uncertainty and lockdowns reduced consumption and increased precautionary savings. Global supply chain disruptions and the forced shutdown of sectors, such as tourism and hospitality, further strained the economy. This dual shock limited the effectiveness of the existing social safety net, instead requiring swift and broad intervention. Advanced economies, including Canada, adopted a “whatever it takes, at whatever cost” approach, prioritizing economic stabilization over deficit control. Federal government spending rose rapidly in 2020, contributing to a sharp increase in government debt (Figure 1). Spending was facilitated by historically low interest rates of 0.25%, strong investor confidence, and Canada’s pre-pandemic fiscal credibility and credit rating.

3.2 Composition of Pandemic Spending

The Government of Canada’s pandemic response under Prime Minister Justin Trudeau focused primarily on emergency income and liquidity support, spending \$243.7 billion on direct support measures in 2020-21 (Figure 3). Individuals who lost income due to the pandemic were eligible for the Canadian Emergency Response Benefit (CERB). CERB’s broad eligibility criteria reflected the government’s decision to prioritize speed and coverage to protect household income. Support for businesses focused primarily on wage subsidies and liquidity programs to prevent widespread firm closure. These included the Canadian Emergency Wage Subsidy and the Temporary Wage Subsidy, which together accounted for \$80.2 billion in business support (Figure 3).



Source: Office of the Auditor General of Canada (analysis of Government of Canada financial statements; 2020-21).

Figure 3: Composition of Federal COVID-19 Direct Support Spending, 2020-21 Fiscal Year

Part Four: Post-Pandemic and Recovery (2023-present)

4.1 The Trajectory of Fiscal Consolidation

Following a period of historic fiscal expansion during the pandemic, Canada went through a consolidation phase, devoted to diminishing budget deficits and stabilizing the debt-to-GDP ratio. The post-pandemic fiscal trajectory was the combination of strong nominal GDP growth and the wind-down of emergency programs, enabling faster debt reduction than private sector economists had [predicted](#). Instead of engaging in austerity, the normalization trajectory after the initial pandemic spending in 2020 came from the Canadian economy "[growing](#)" [out of its debt](#). This nominal GDP growth was fueled by increased employment, population growth and high commodity prices, particularly oil and gas. Supply chain disruptions and tighter labour markets [pushed inflation](#) higher. As emergency supports expired, the economy started to grow consistently faster than spending, bringing down the debt ratios even while there remained large deficits to pay off.

4.2 Debt Servicing Costs

While the debt-to-GDP ratio improved during this period, annual debt servicing costs more than doubled. Federal revenue recovered strongly to approximately 15.5-16% of GDP, notably above pre-pandemic levels. This was driven by increased income tax revenue captured from

inflation-driven wage increases and [corporate tax revenue](#) from strongly performing commodity and financial sectors.

After inflation surged in June 2022, the Bank of Canada began to [raise interest rates](#). Public debt charges on federal debt surged as low-rate pandemic debt matured and was refinanced at higher rates. As a result, these interest payments began to consume an increasing share of federal fiscal spending. In 2020, the federal government paid [5.5 cents](#) in interest for every dollar of revenue it received. By 2024, this figure exceeded [8 cents](#). Canada's debt servicing costs are playing an increasing role in budget allocations and may constrain future fiscal decisions.

Part Five: Navigating a Dynamic Fiscal Landscape (present day)

5.1 Budget 2025

Against the backdrop of heightened trade tensions with the United States, Prime Minister Mark Carney's [Budget 2025](#) signals a shift in fiscal priorities under the plan of "Building Canada Strong". The budget emphasizes objectives such as strengthening sovereignty and protecting communities, reflecting a renewed focus on economic and strategic resilience.

A central feature of Budget 2025 is the government's distinction between capital investment and day-to-day operating spending. The government committed [\\$280 billion in capital investments over five years](#), investing heavily in defence, infrastructure, productivity and competitiveness.

5.2 New Fiscal Anchors

Measures of fiscal discipline have also evolved with the introduction of two new anchors. First, the government committed to balancing day-to-day operating spending by 2028-29, signalling an intention to limit borrowing solely for purposes of capital investment. Second, the government reaffirmed a commitment to maintaining a declining debt-to-GDP ratio "[to ensure disciplined fiscal management for future generations](#)". Together, these anchors reflect a deliberate move toward fiscal expansion aimed at long-term economic capacity rather than short-term consumption.

While credit rating agencies have so far maintained Canada's ratings, concerns remain that sustained fiscal expansion could erode credibility over time. [Fitch Ratings](#) noted that the country's rising debt burden has "[weakened its credit profile and could increase rating pressure over the medium term](#)". Whether expanded capital investment ultimately strengthens confidence will depend on its success in raising productivity and supporting long-term growth.

Conclusion

The last 25 years of Canadian fiscal policy demonstrate the country's ability to respond to shocks while managing debt. The 2008 financial crisis and the COVID-19 pandemic highlight moments in which fiscal policy expanded rapidly to address global disruptions. In the post-pandemic years, rising interest rates have increased debt servicing costs, placing a significant burden on taxpayers. Currently, the fiscal policy landscape reflects a recognition of the need to invest in building a resilient economy in the face of heightened geopolitical uncertainty. Recent trade tensions signal shifting economic conditions for Canada, prompting the government to invest in domestic economic growth, focusing on using public investment to spur productivity.

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