IMF warns of ‘new dangerous phase,’ but Flaherty resists second stimulus

THE CANADIAN PRESS

Posted on Tue, Sep 20, 2011, 10:29 pm by Julian Beltrame

OTTAWA — The Harper government is resisting calls for a second round of stimulus — for now — after a leading international organization warned of a global slowdown and Canada’s central banker voiced concern about the impact at home.

New Democrats in the House of Commons blasted the government Tuesday for stubbornly refusing to act in light of the grave risks facing Canada.

But Finance Minister Jim Flaherty shot back that he won’t rush headlong into a second stimulus package that would sink the country further into debt.

“The NDP and the Liberals want to spend money we don’t have, which means run up the deficit, run up the public debt. You’d think they were blind to what’s going on around the world,” he told reporters after a grilling in the House of Commons.

“Nothing has changed this week. If we’re hit with an external shock from (Europe) or the United States, we would react as we’ve done before.”

The upshot of the furor was a morning International Monetary Fund report warning of a “new dangerous phase” for the global economy, and downgrades of Canada’s growth prospects to 2.1 per cent this year and 1.9 per cent next, about three-quarters of a point lower than a spring estimate.

Bank of Canada governor Mark Carney added to the alarm, saying if European governments don’t get their act together and soon, a second financial crisis could ensue.

Canada’s own prospects are now tilted to the downside, he said, suggesting he too is readying to slice growth projections.

Neither Carney nor the IMF are forecasting a recession, but both said the risks are rising.

Last week, the Bank of Nova Scotia speculated that Canada could be facing an early technical recession if the current third quarter, which runs to the end of September, comes in negative. The Bank of Montreal put the odds of a recession at one in three Tuesday.

Economists generally define a recession as at least two consecutive quarters of economic contraction.

There is unanimity among forecasters, however, that the best case scenario going forward is a lumpy and slow-paced expansion and high unemployment.

The IMF says Canadians can expect to see the current 7.3 per cent jobless rate rise to an average of 7.7 per cent next year.

That should be enough cause for government intervention, said the NDP. If the situation deteriorates, the government response will come too late, Peggy Nash, the party's finance critic, said.

"We don't want another situation that we had in 2008 where we sleepwalked into a recession," said Nash.

"We went into our biggest deficit ever. So what we need to be doing is investing in our economy, infrastructure investment, stop cutting the services and programs that Canadians need."

Nash accused the government of being fixated on the deficit. She said if Ottawa puts Canadians back to work, the deficit will take care of itself because tax revenues will rise.

Liberal Leader Bob Rae asked Flaherty "to show some flexibility and leadership in the face of these changed circumstances."

He noted that even the IMF says Canada is one of the few advanced countries with the fiscal room to spend more.

However, the IMF stopped short of recommending a new round of stimulus for Canada. It said Ottawa should proceed with its tightening phase with caution, while preparing to pause if the economic slowdown worsens.

Flaherty said he understands that some countries do need additional stimulus, citing U.S. President Barack Obama's US$447-billion jobs plan as an example. Canada is not in that position, he added.

But if the economists are correct, and conditions continue to slide, Flaherty may have no choice, said David Madani in a report for Capital Economics.

"As the outlook for global economic growth deteriorates markedly, there is a growing likelihood that more policy stimulus will eventually be required in Canada," he writes. "Thankfully, there is at least scope for a significant fiscal stimulus if needed."

Ottawa has one of the most sound fiscal situations in the G7 with a deficit about two per cent of gross domestic product and national debt at about 35 per cent.