

**OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER**



**BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET**

Economic and Fiscal Challenges in Canada

**Presentation to the Alberta Chapter of the
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Edmonton, January 18, 2012**

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Finance Canada and PBO Economic Outlooks

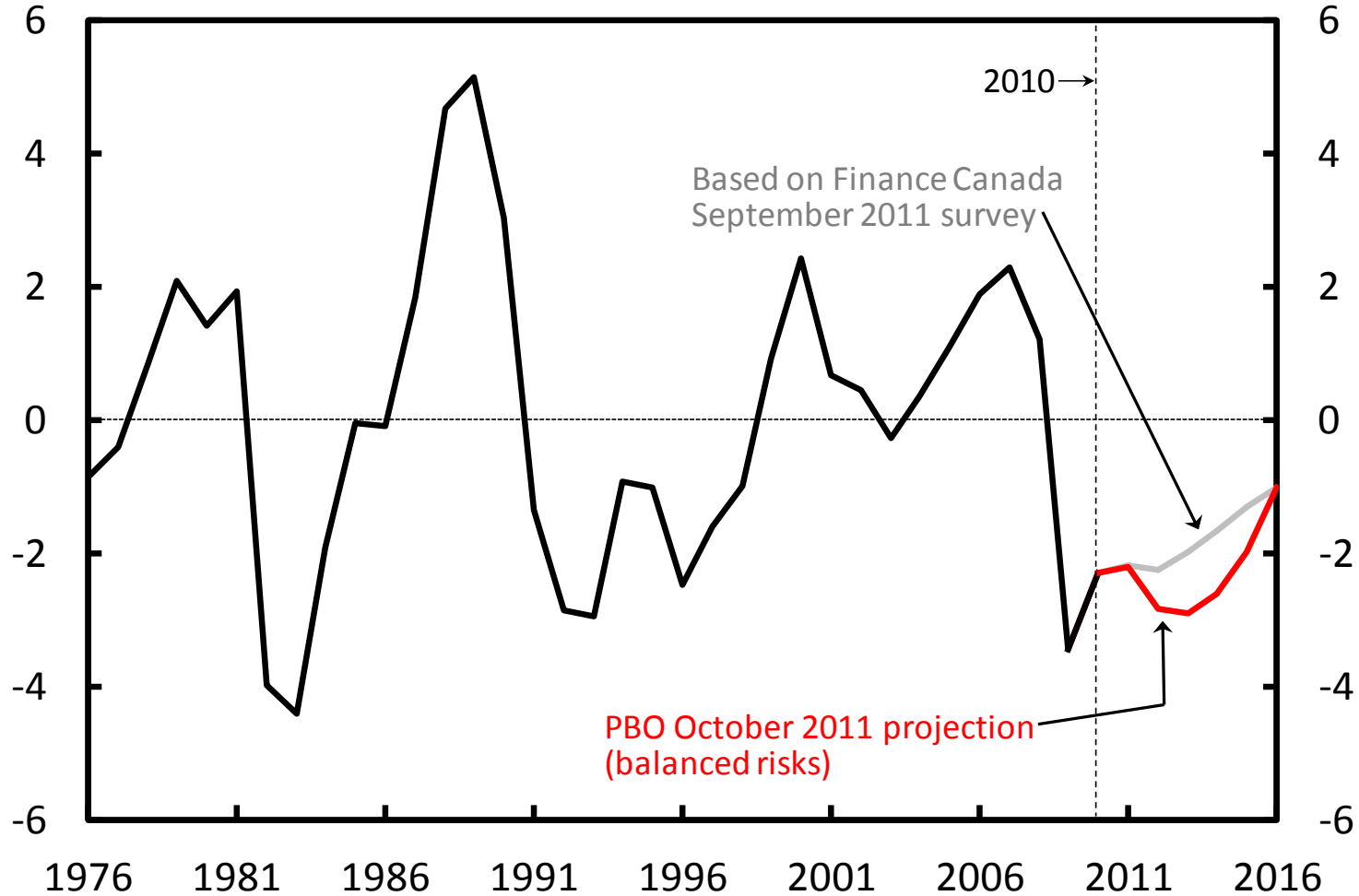
	2011	2012	2013	2014	2015	2016
Real GDP growth (%)						
Finance Canada September 2011 survey	2.2	2.1	2.5	2.5	2.5	2.3
PBO October 2011 projection	2.2	1.5	2.1	2.5	2.8	3.0
GDP inflation (%)						
Finance Canada September 2011 survey	3.0	2.0	2.0	2.0	2.0	2.0
PBO October 2011 projection	2.6	1.1	1.8	2.0	2.2	2.2
Nominal GDP growth (%)						
Finance Canada September 2011 survey	5.3	4.1	4.5	4.5	4.5	4.3
PBO October 2011 projection	4.8	2.6	4.0	4.5	5.0	5.3
Nominal GDP level (\$ billions)						
Finance Canada September 2011 survey	1,711	1,781	1,861	1,945	2,032	2,120
PBO October 2011 projection	1,703	1,747	1,817	1,899	1,995	2,100

Finance Canada and PBO Economic Outlooks

	2011	2012	2013	2014	2015	2016
3-month treasury bill rate (%)						
Finance Canada September 2011 survey	0.9	1.2	2.0	2.9	3.5	3.7
PBO October 2011 projection	1.0	1.0	1.0	1.8	2.8	3.8
10-year government bond rate (%)						
Finance Canada September 2011 survey	2.8	2.7	3.2	3.9	4.5	4.5
PBO October 2011 projection	2.9	3.1	3.8	4.5	5.0	5.3
Unemployment rate (%)						
Finance Canada September 2011 survey	7.5	7.2	7.0	6.8	6.6	6.4
PBO October 2011 projection	7.4	8.0	8.0	7.8	7.5	7.0
Exchange rate (US cents/C\$)						
Finance Canada September 2011 survey	101.2	102.1	102.1	98.8	97.9	98.0
PBO October 2011 projection	101.0	96.0	96.3	96.8	98.2	99.8
U.S real GDP growth						
Finance Canada September 2011 survey	1.6	2.0	2.4	2.9	2.9	2.8
PBO October 2011 projection	1.5	1.6	2.3	2.6	3.1	3.5

Output Gap

per cent of potential GDP





PBO Assessment of Key Risks to the Private Sector Economic Outlook

External

- weaker U.S. real GDP growth reflecting balance sheet repair, persistently high unemployment and fiscal consolidation
- sovereign debt concerns in Euro zone

Commodity prices

- larger negative impact on Canadian income from the recent fall in commodity prices
- lower nominal GDP due to the impact of the negative terms of trade shock on GDP inflation

Domestic

- high level of household debt further restraining consumer spending and residential investment

- Overall downside risk suggests a more sluggish economic recovery
- PBO's projection attempts to adjust for the balance of risks

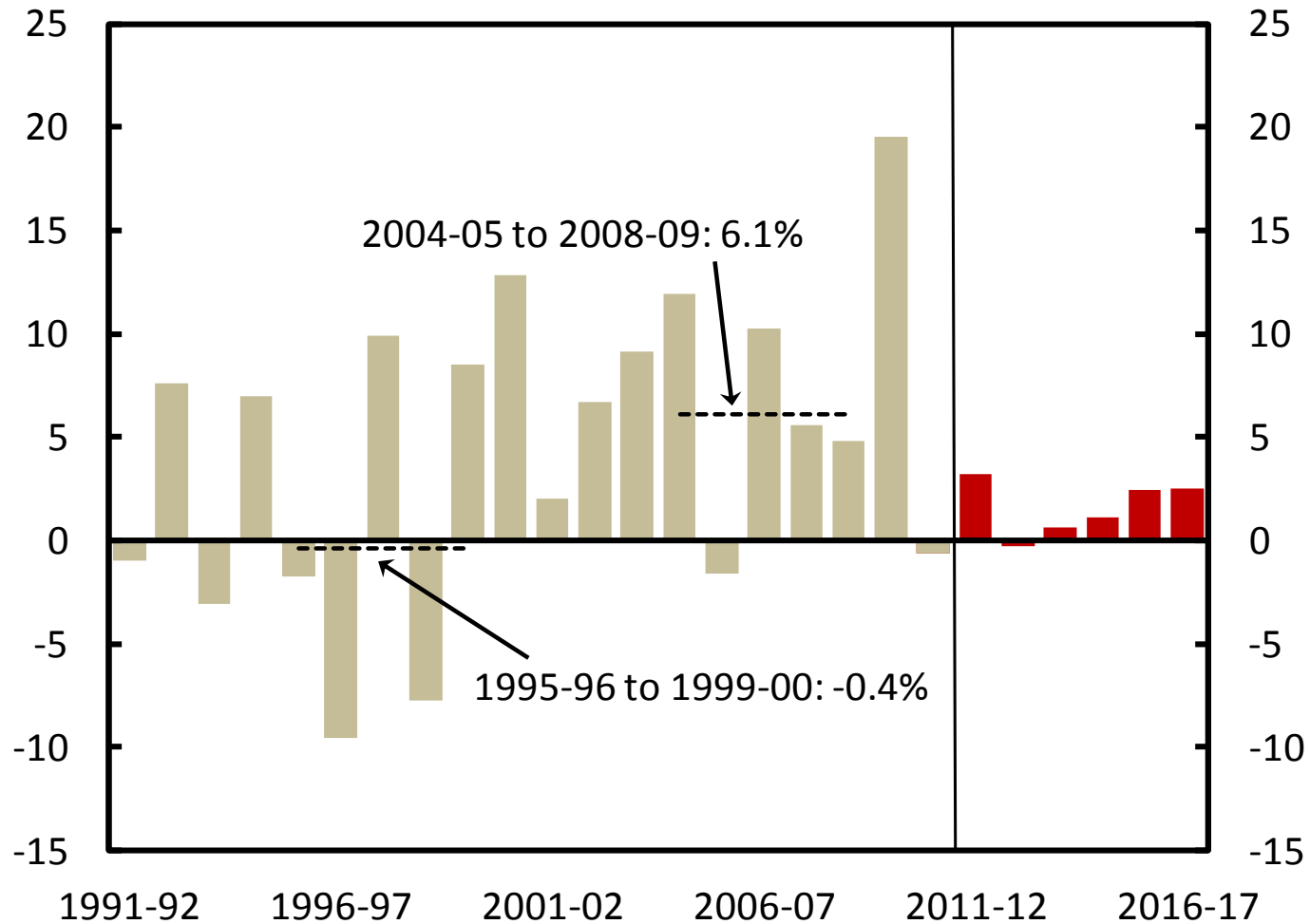
PBO Fiscal Projection – Summary

billions of dollars

	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Budgetary revenues	243.3	254.2	267.9	281.2	298.6	316.6
Program expenses	249.0	252.9	259.2	265.7	274.4	283.2
Public debt charges	31.6	31.8	32.9	34.2	37.4	40.7
Total expenses	280.6	284.7	292.1	299.9	311.8	323.9
Budgetary balance	-37.3	-30.5	-24.2	-18.7	-13.1	-7.3
Federal debt	587.6	618.1	642.3	661.0	674.1	681.4
Per cent of GDP						
Budgetary revenues	14.3	14.5	14.7	14.8	15.0	15.1
Program expenses	14.6	14.5	14.3	14.0	13.8	13.5
Public debt charges	1.9	1.8	1.8	1.8	1.9	1.9
Budgetary balance	-2.2	-1.7	-1.3	-1.0	-0.7	-0.3
Federal debt	34.5	35.4	35.4	34.8	33.8	32.5

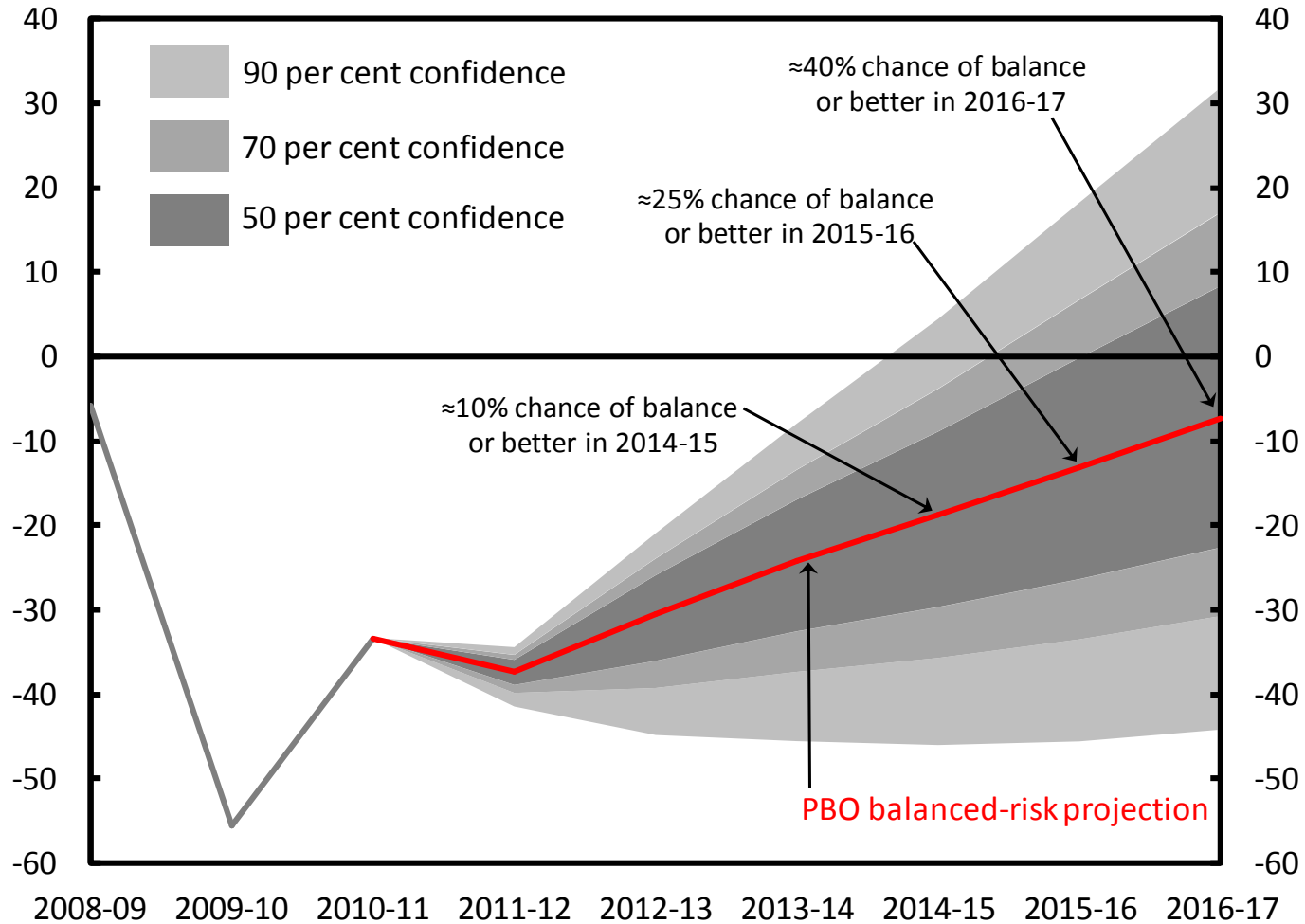
Growth in Direct Program Expenditure

per cent



Budgetary Balance Outcomes Given Economic Uncertainty

billions of dollars



Structural and Cyclical Budget Balance Estimates

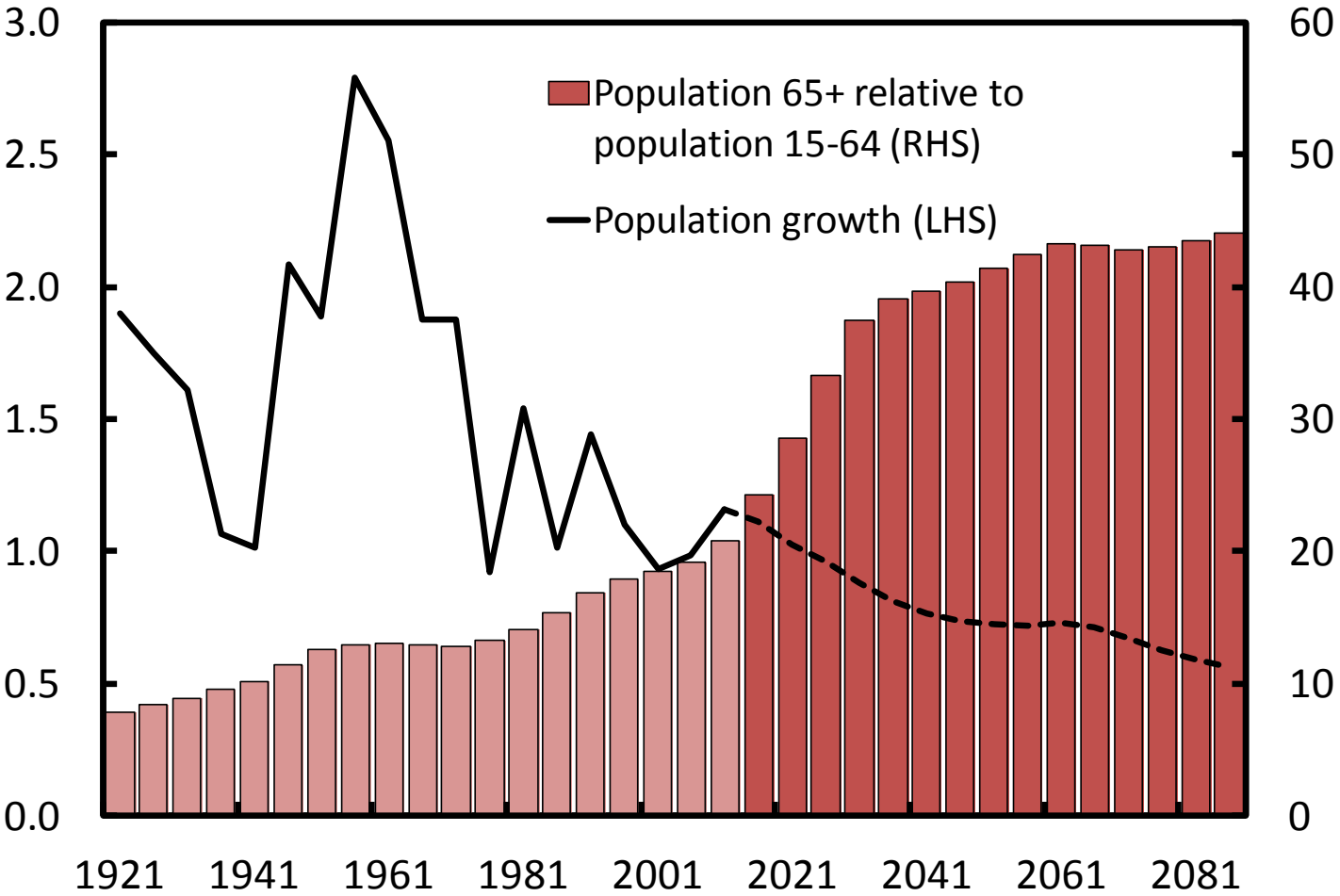
billions of dollars

	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017
Budgetary balance	-37.3	-30.5	-24.2	-18.7	-13.1	-7.3
Structural balance	-25.0	-14.1	-6.9	-2.9	-1.3	-1.6
Cyclical balance	-12.3	-16.4	-17.3	-15.9	-11.9	-5.7



The Demographic Transition

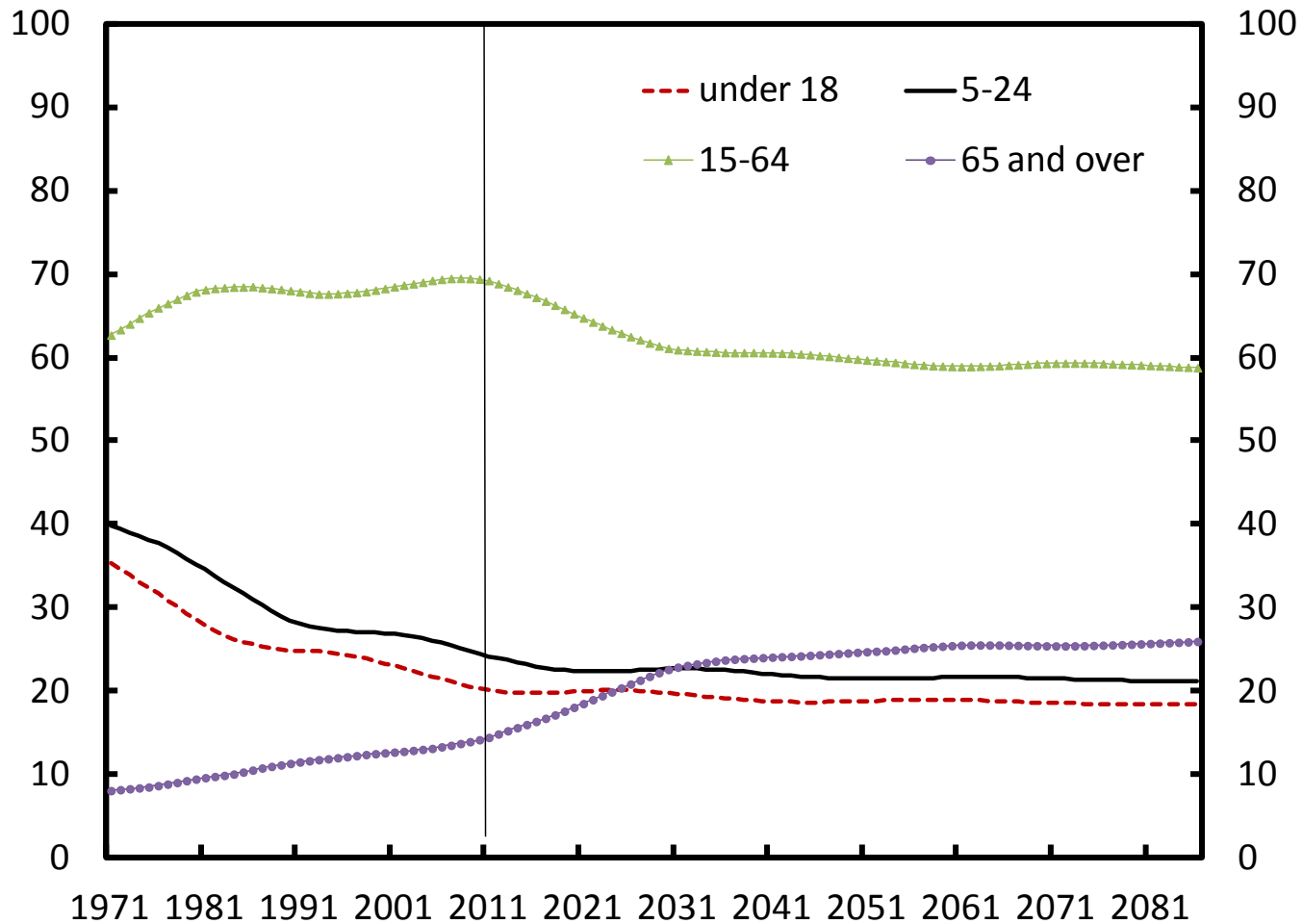
per cent



Source: Office of the PBO; Statistics Canada

Population Shares for Key Age Groups

(Per cent of total population)



Average Annual Real GDP Growth

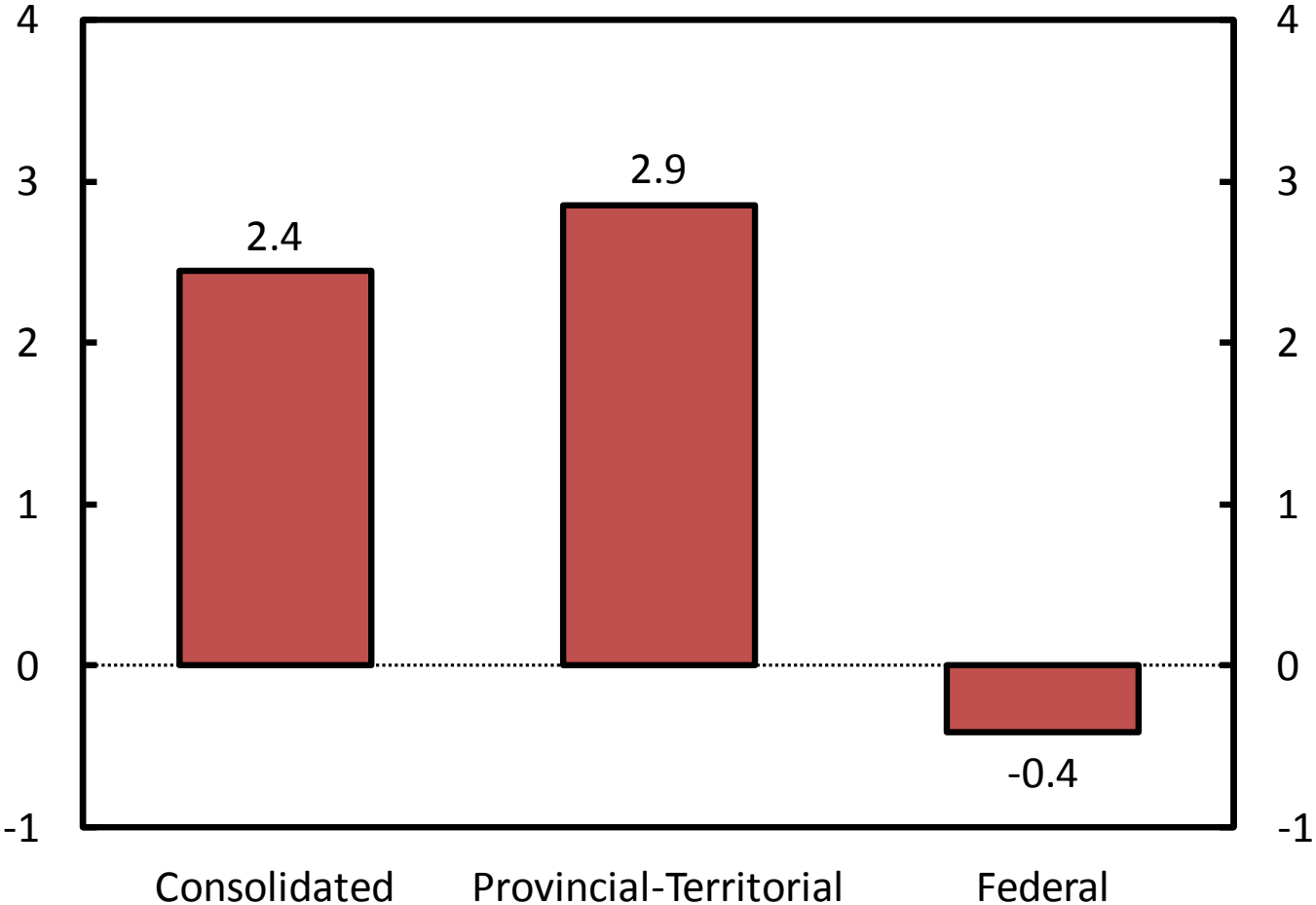
(Per cent)





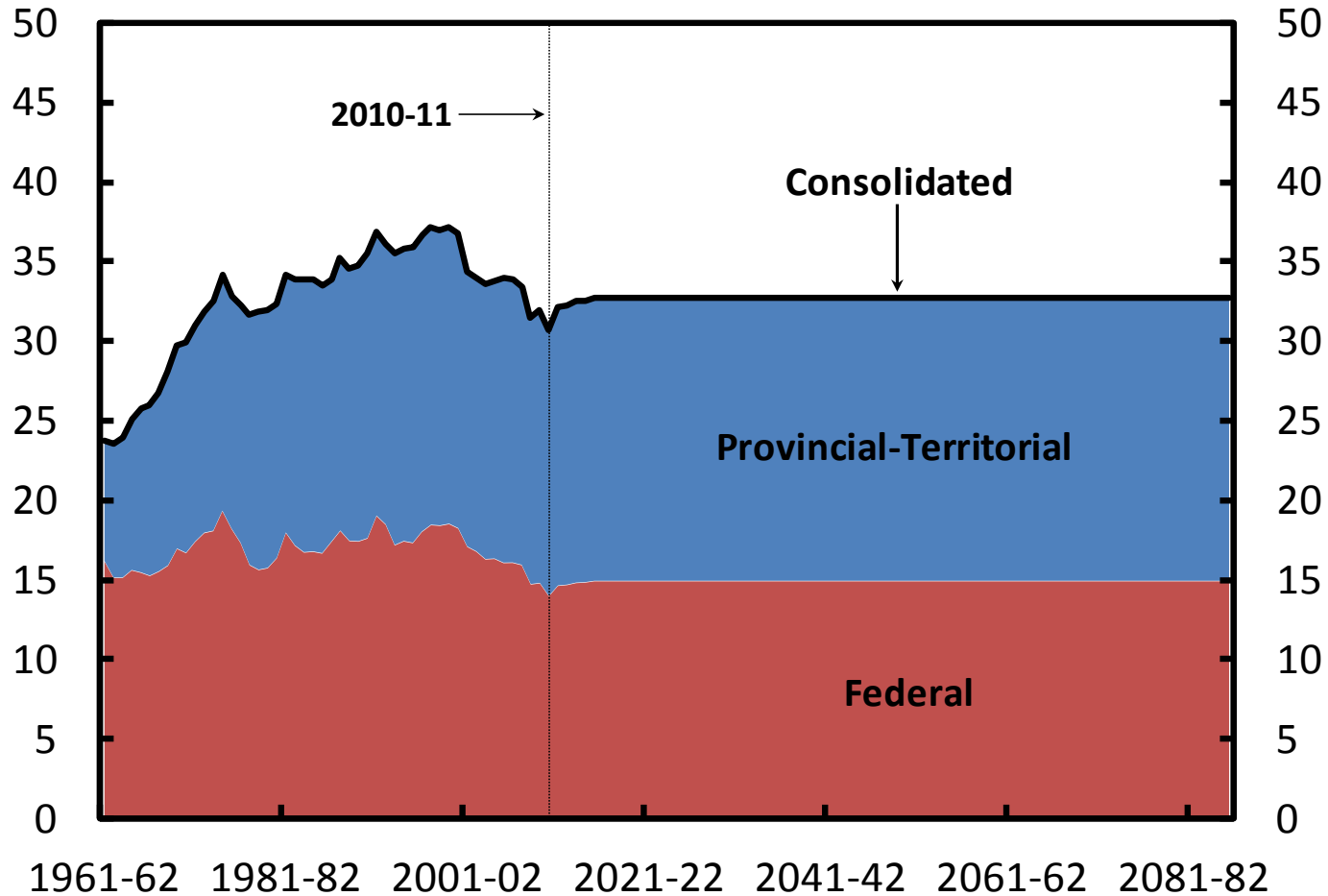
Fiscal Gap Estimates

(Per cent GDP)



Consolidated Federal and Provincial-Territorial Revenue

(Per cent of GDP)



Key Spending Categories

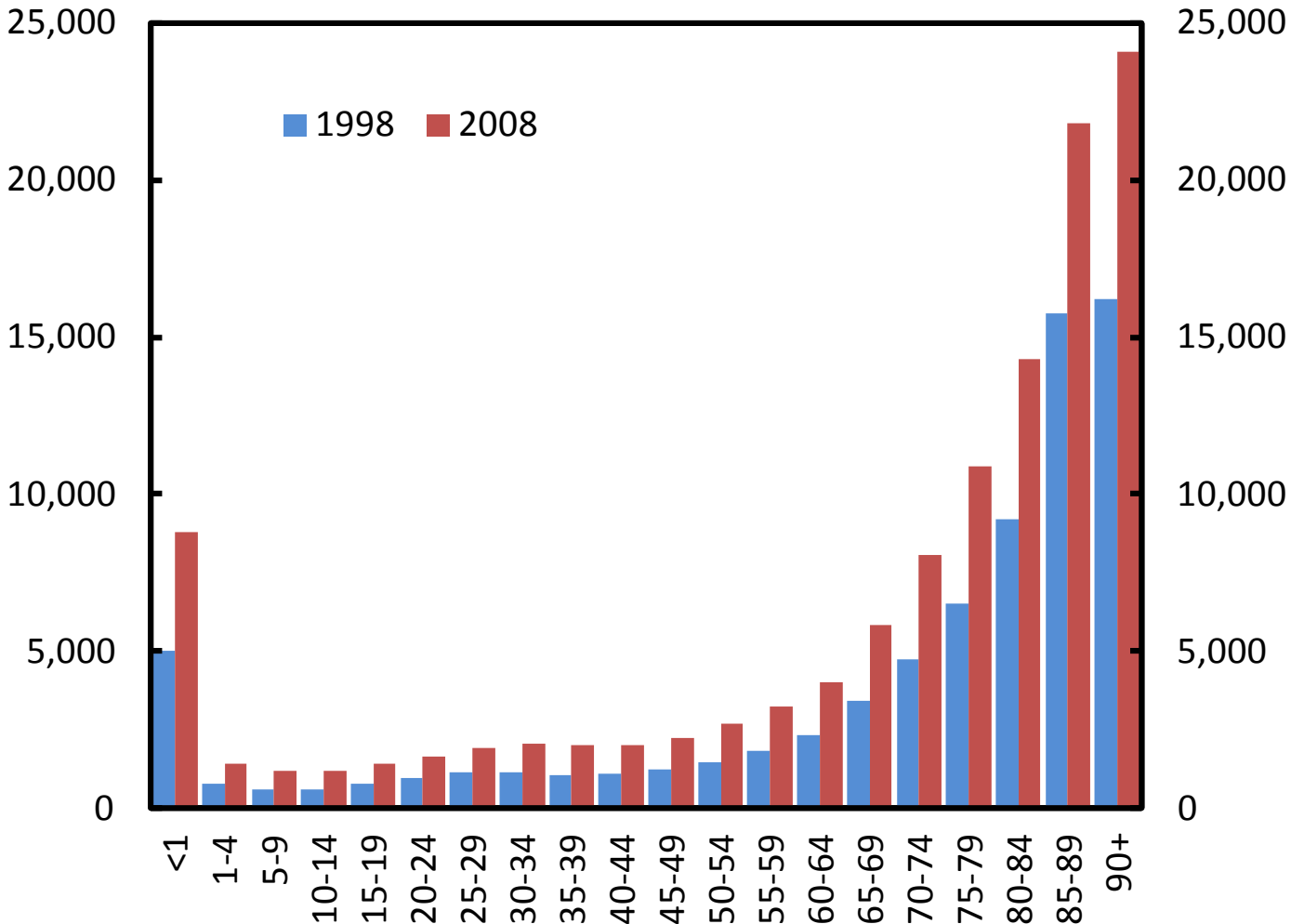
(Per cent)

	Share of program spending in 2010-11	Age groups	Long-term enrichment growth
Provincial-Territorial government:			
Health	34.6	all ages ^a	+0.4 ^b
Education	22.1	ages 5-24	0.0
Social benefits ^c	6.0	ages 15-64	0.0
Federal government:			
Elderly benefits	14.8	ages 65+	-0.5 ^d
Employment Insurance	7.1	labour force 15+	+0.2 ^e
Children's benefits	5.3	ages 0-17	0.0



Provincial-Territorial Government Health Expenditures by Age Group, 1998 and 2008

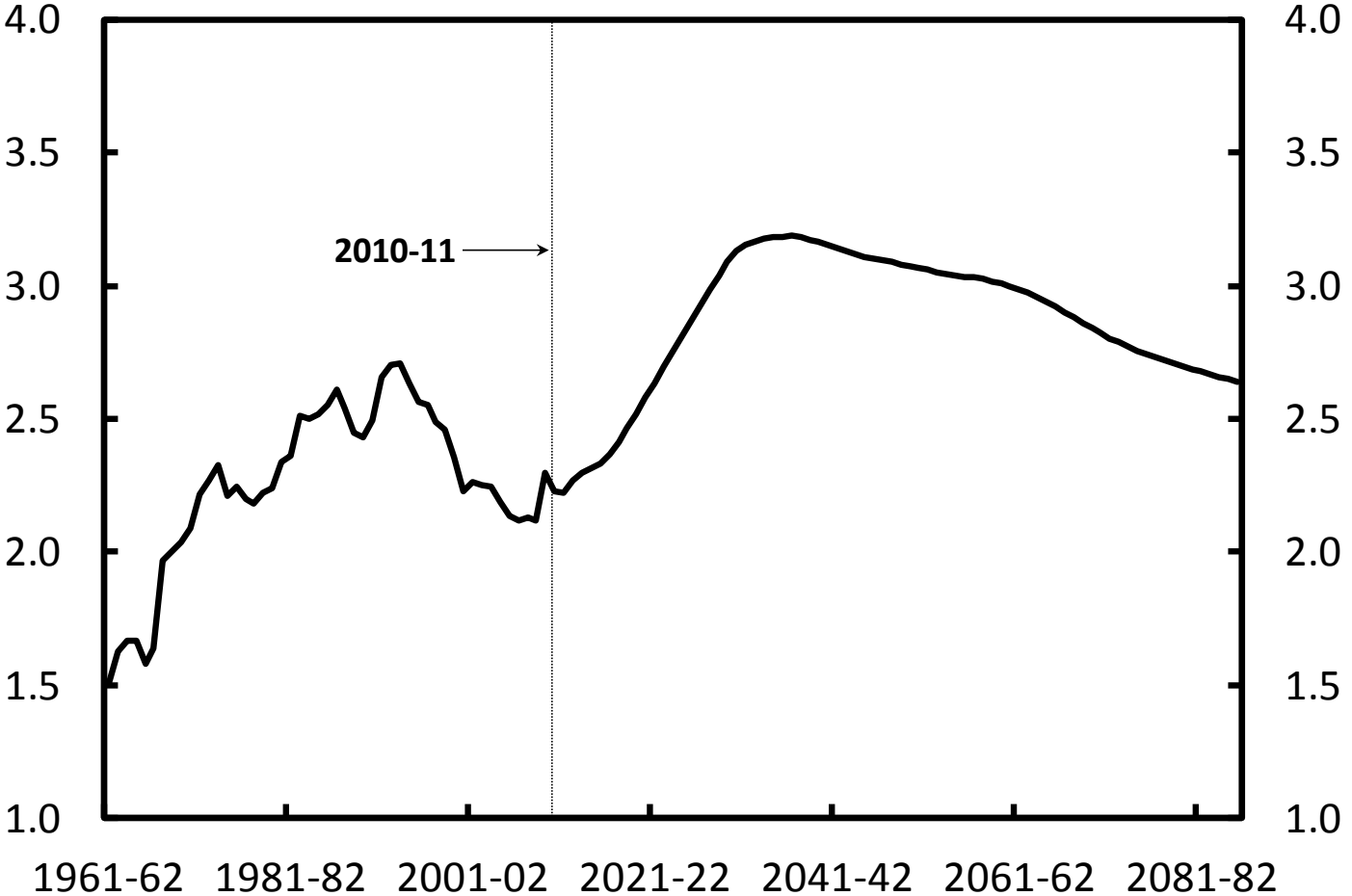
(Dollars per capita)





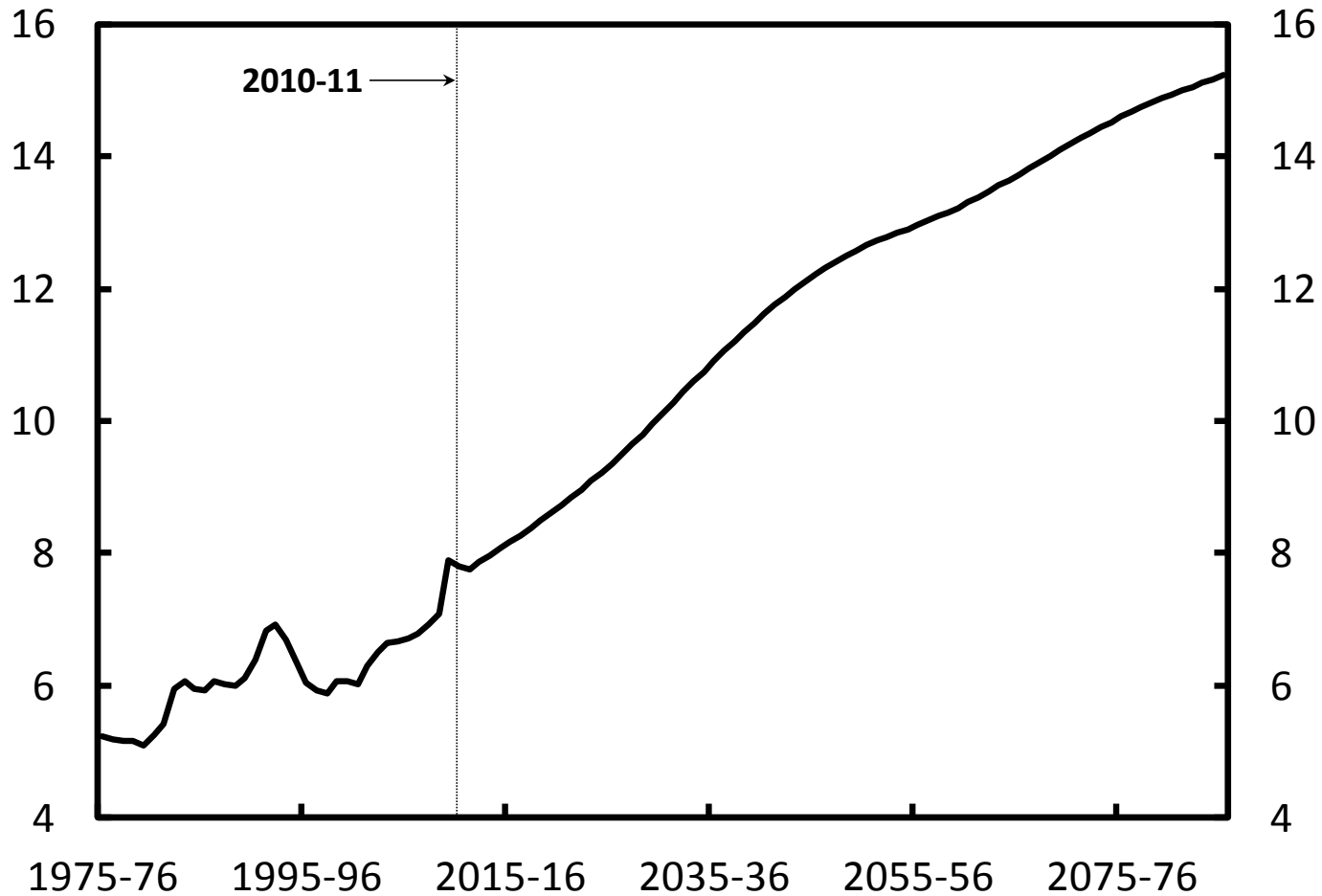
Federal Elderly Benefits

(Per cent of GDP)



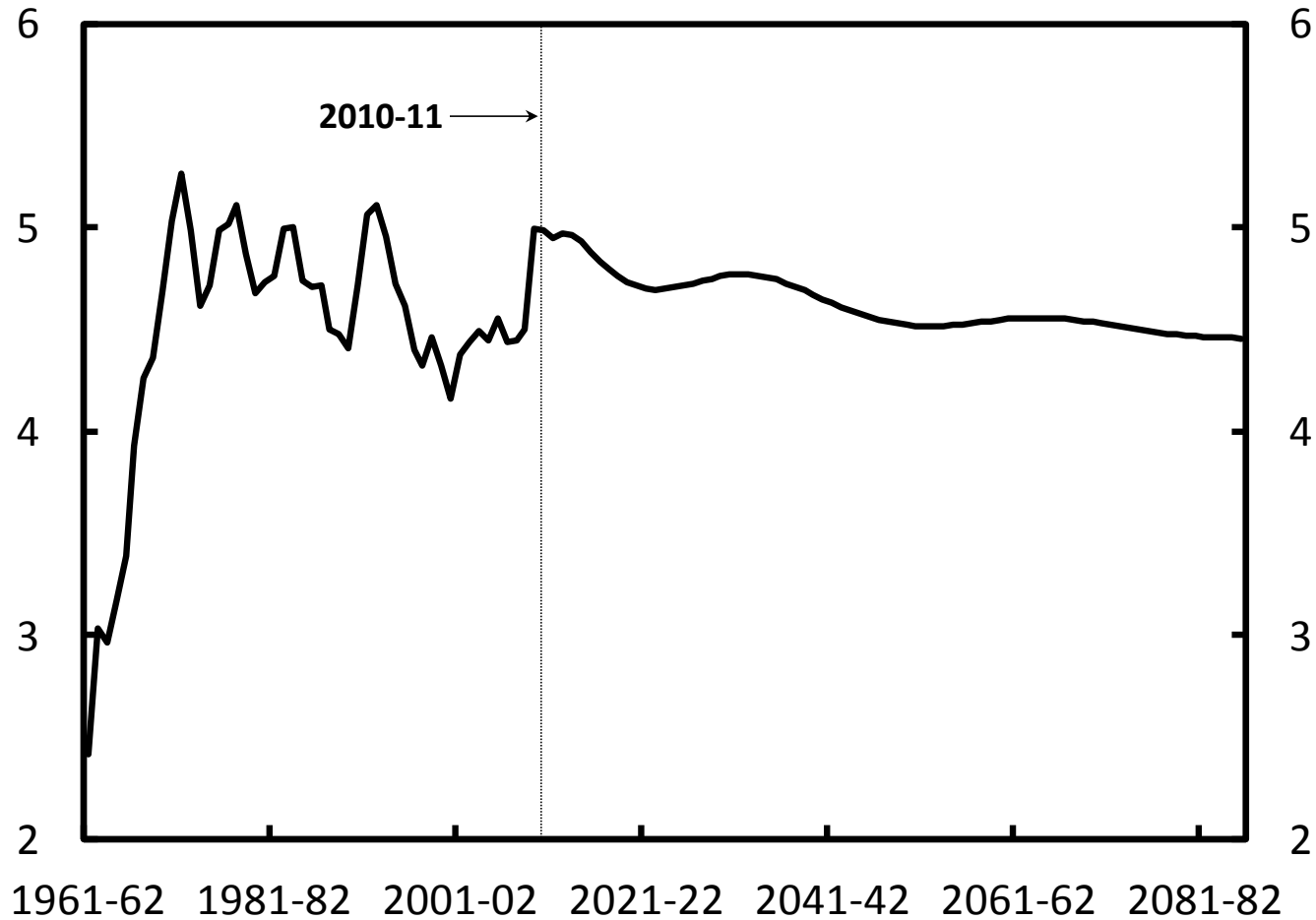
Provincial-Territorial Health Spending

(Per cent of GDP)



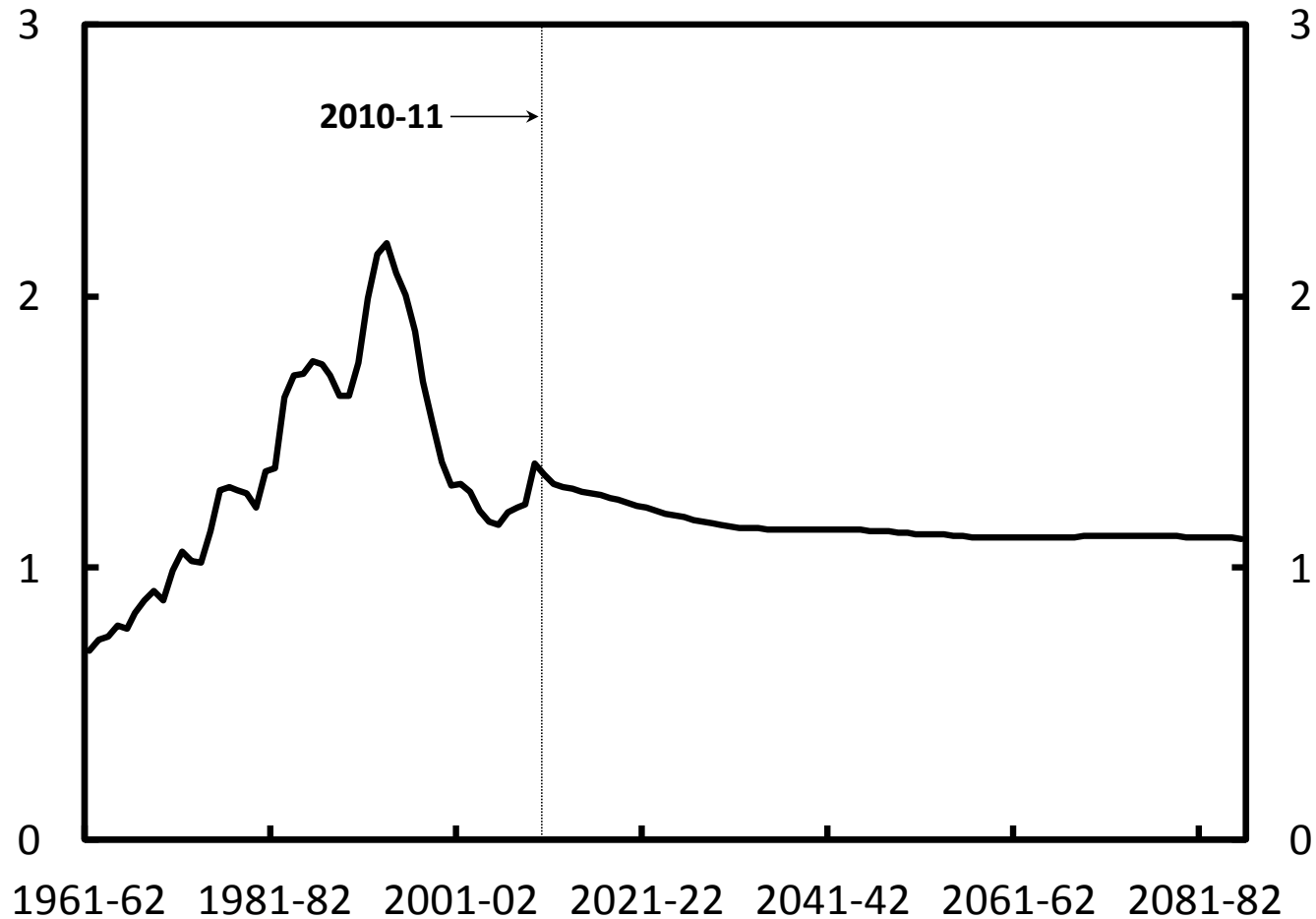
Provincial-Territorial Education Spending

(Per cent of GDP)



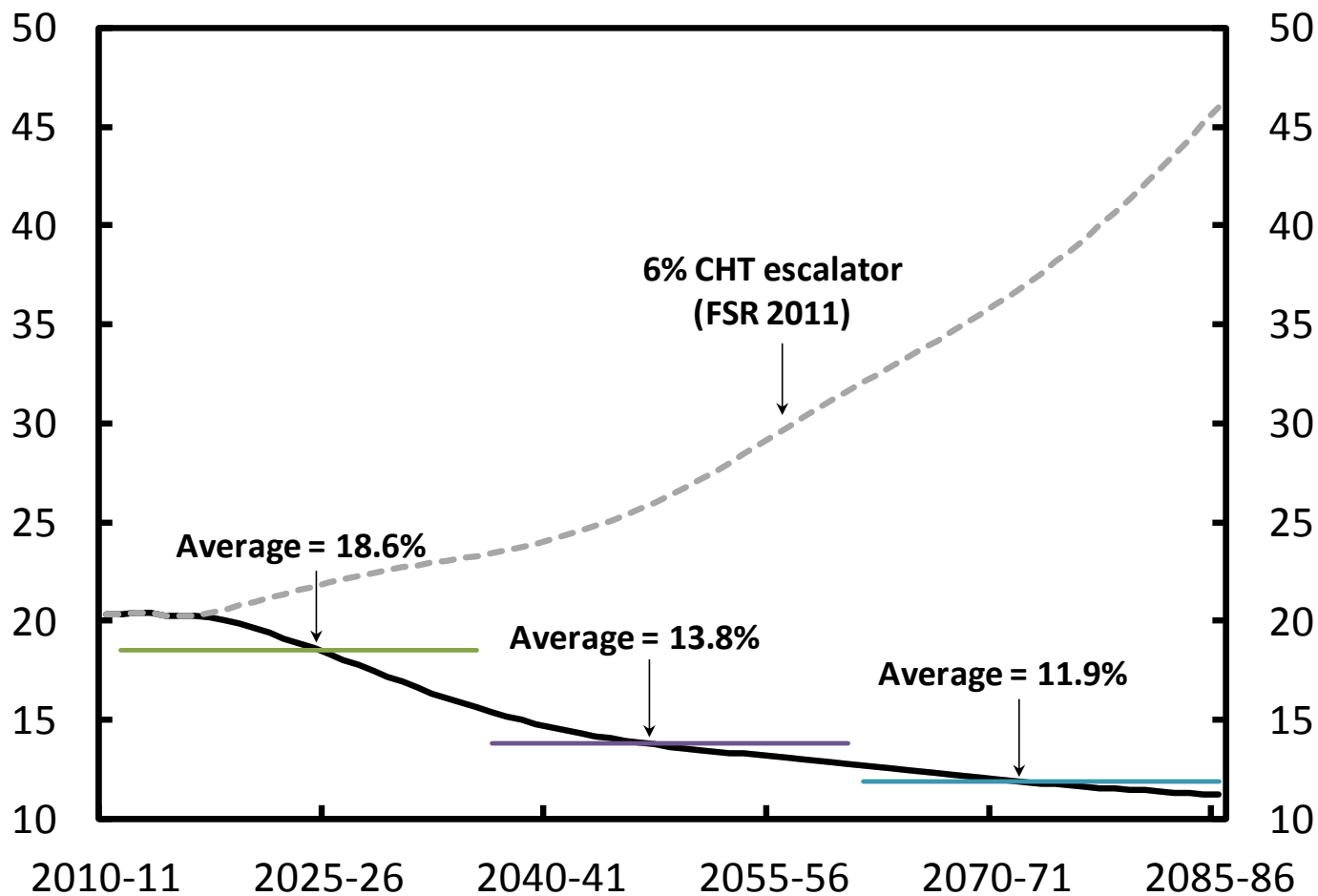
Provincial-Territorial Spending on Social Benefits

(Per cent of GDP)



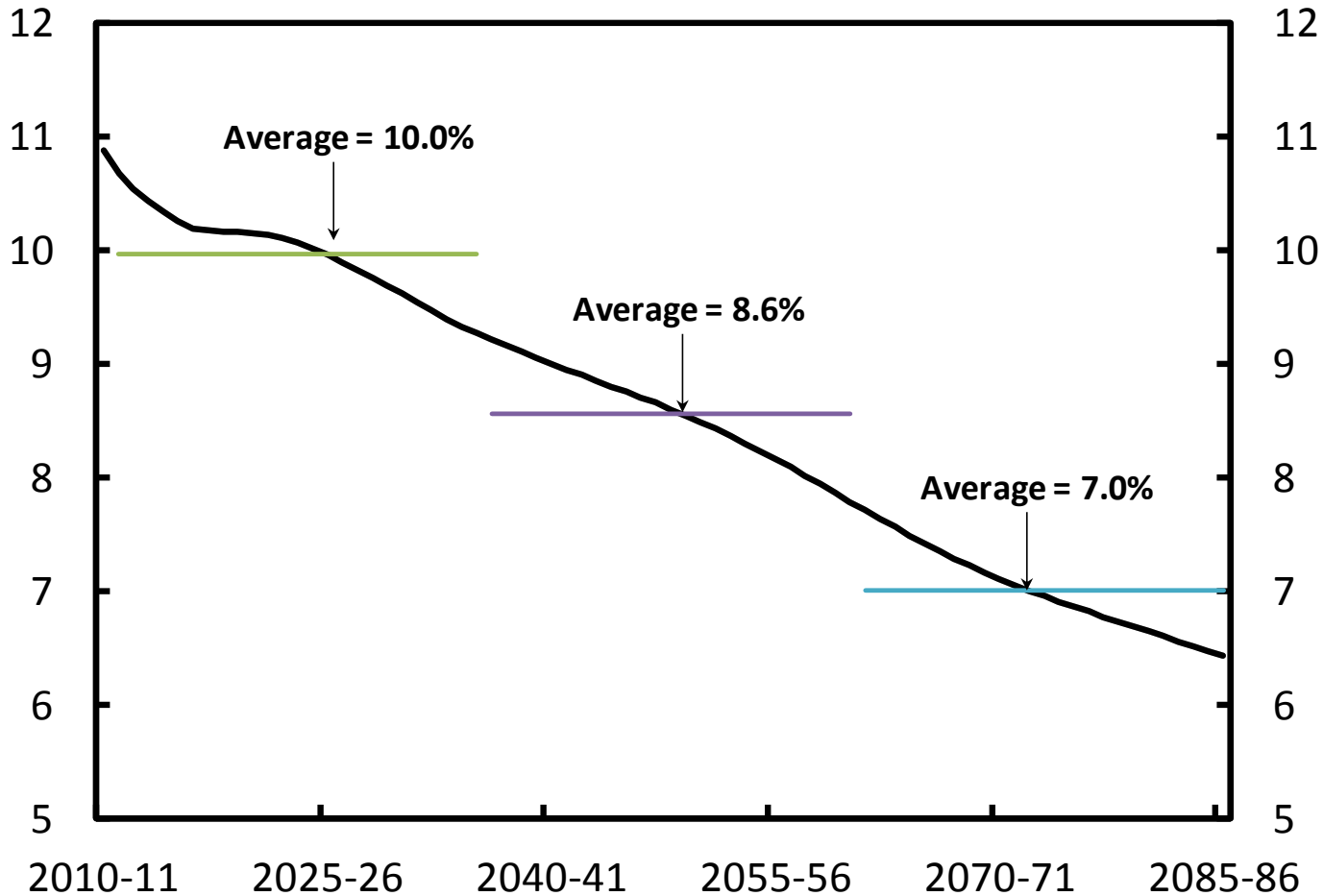
Federal CHT Relative to Provincial-Territorial Health Spending

(Per cent)



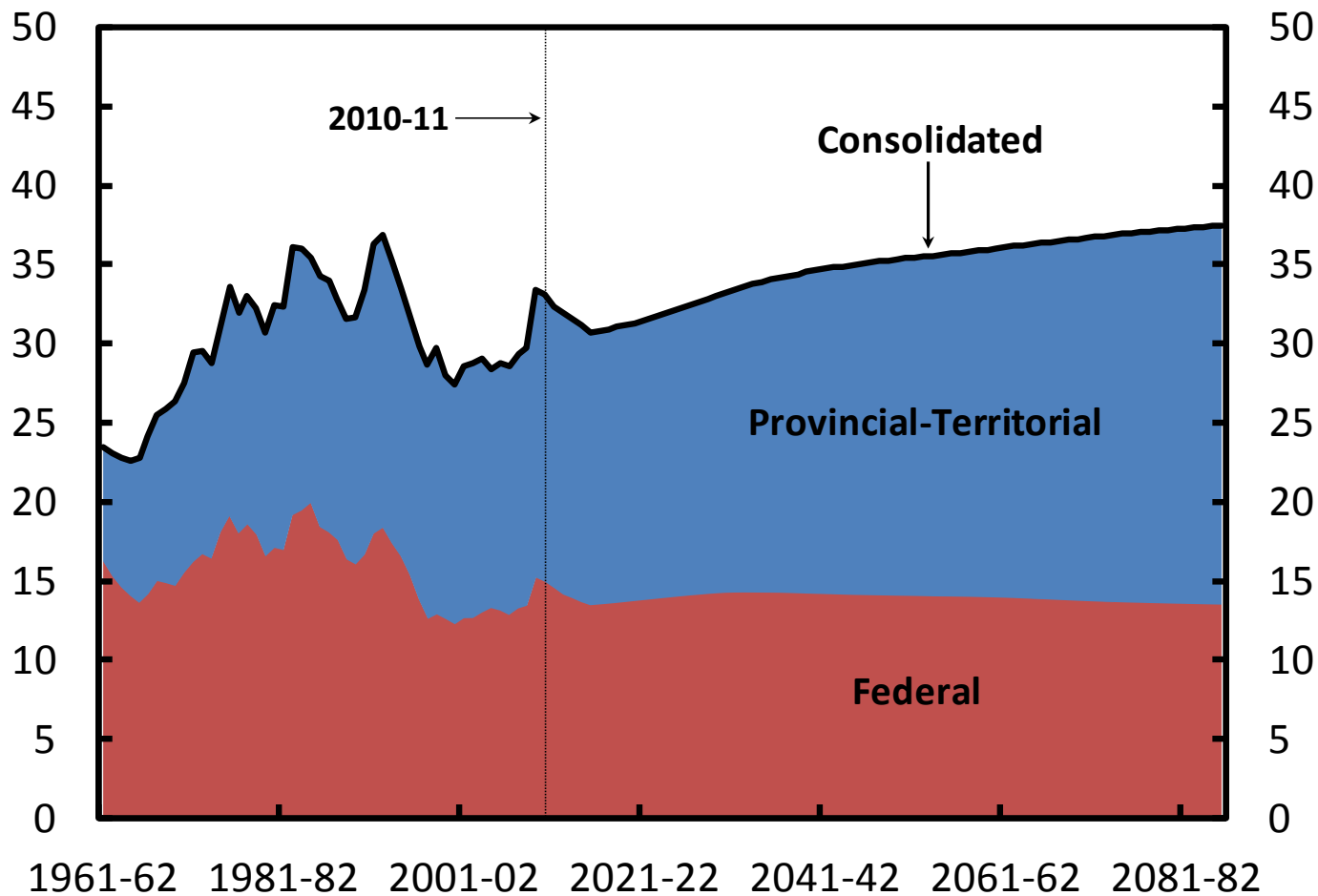
Federal CST Relative to Provincial-Territorial Education and Social Benefits Spending

(Per cent)



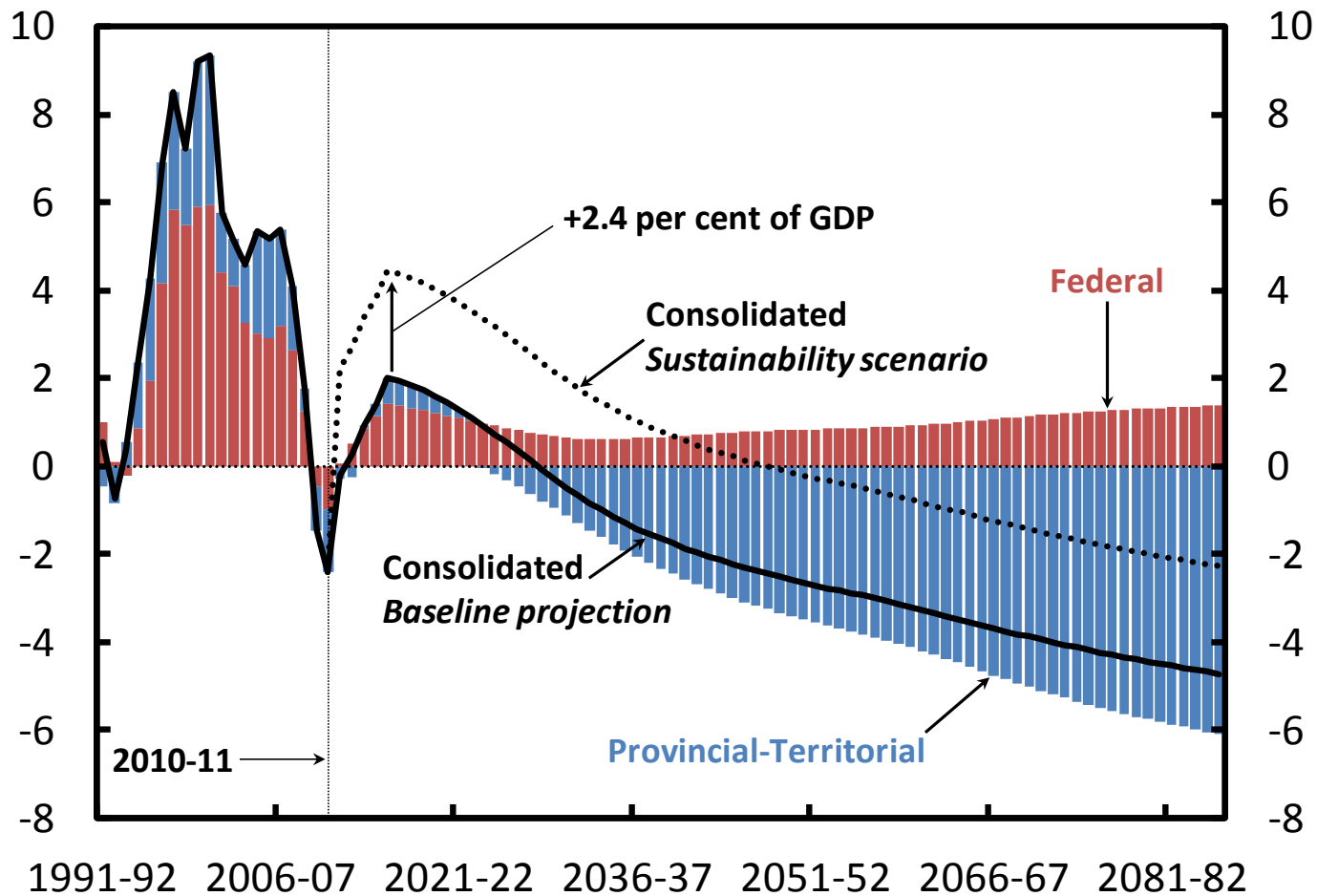
Consolidated Federal and Provincial-Territorial Program Spending

(Per cent of GDP)



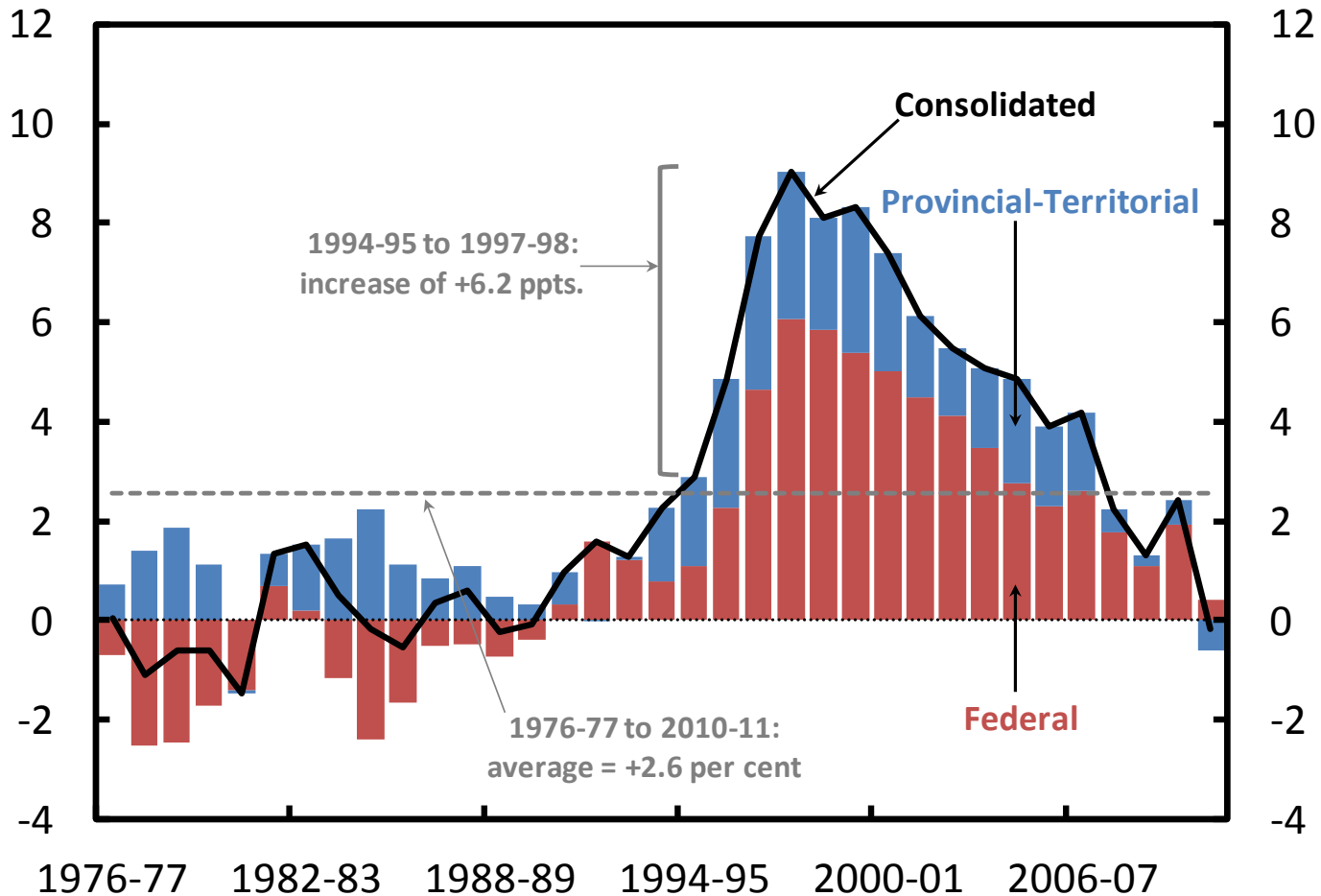
Increase in the Baseline Consolidated Operating Balance Required to Achieve Fiscal Sustainability

(Per cent of GDP)



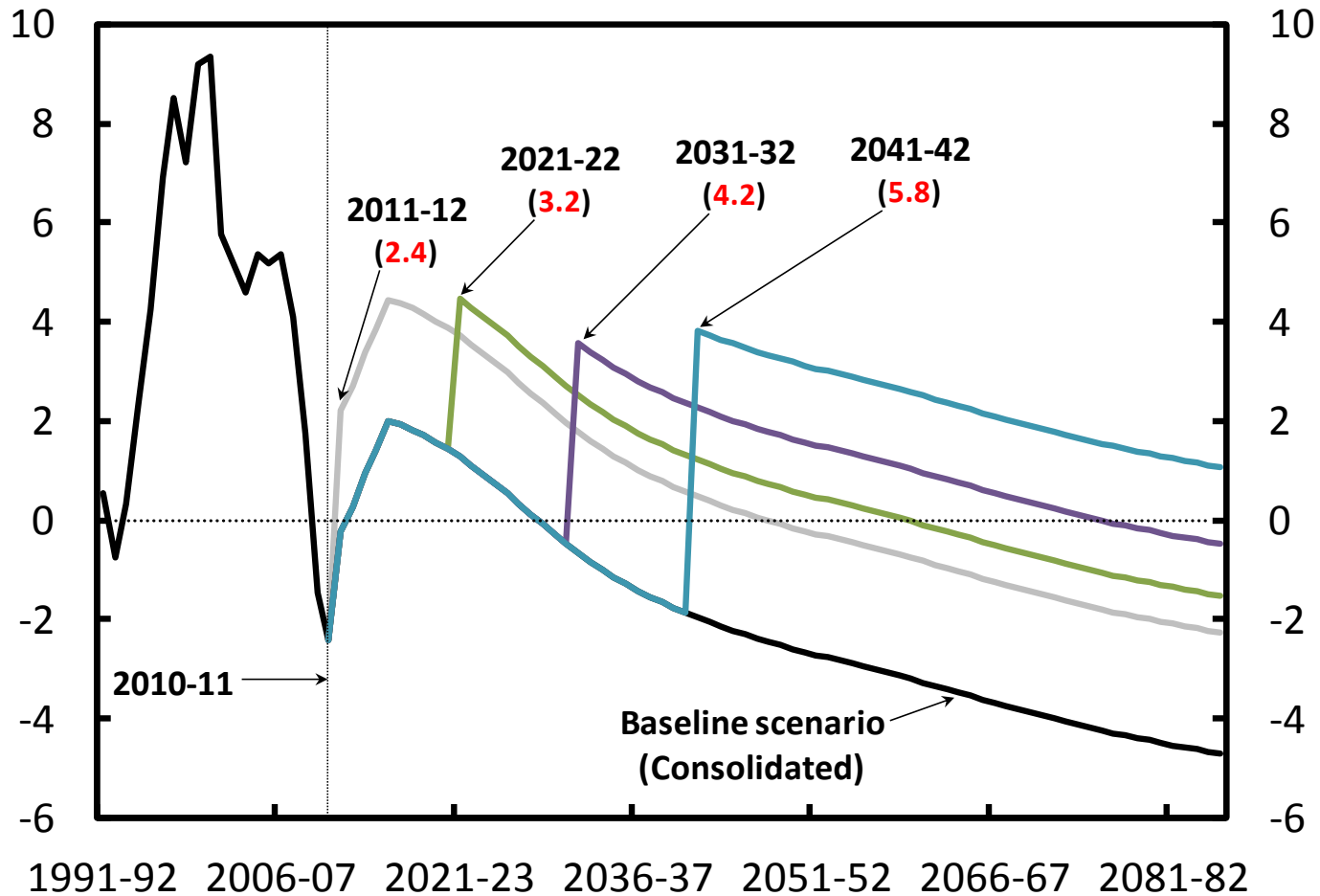
Structural Consolidated Federal and Provincial-Territorial Operating Balance, 1976-77 to 2010-11

(Per cent of potential nominal income)



Fiscal Gap Estimates under Various Implementation Dates

(Per cent of GDP)



Fiscal Gap Estimates assuming Balanced Federal and Provincial-Territorial Budgets in 2015-16

(Per cent of GDP)

	Budget balance in 2015-16	<i>Baseline</i>
Consolidated	0.8	2.4
Federal	-0.9	-0.4
Provincial-Territorial	1.7	2.9

Components of Provincial-Territorial Government Health Expenditures, 1976-2010

(Per cent)

	Total	Age	Income (GDP)	Enrichment
1976-2010	7.9	0.8	6.6	0.4
1981-1990	10.4	0.8	8.0	1.4
1991-2000	4.1	0.6	4.7	-1.1
2001-2010	7.0	1.0	4.2	1.7

Fiscal Gap Estimates assuming Alternative Enrichment Growth Rates

(Per cent of GDP)

	Lower enrichment	Higher enrichment	<i>Baseline</i>
Consolidated	0.7	9.1	2.4
Federal	-0.8	0.0	-0.4
Provincial-Territorial	1.4	9.1	2.9

Fiscal Gap Estimates under Alternative CHT and CST Escalators

(Per cent of GDP)

	6% CHT and 3% CST	P-T spending	<i>Baseline</i>
Consolidated	2.7	2.5	2.4
Federal	1.2	0.3	-0.4
Provincial-Territorial	1.5	2.2	2.9

Assumptions underlying Alternative Population Projections

(Per cent)

	'Older' population	'Younger' population	<i>Baseline</i>
Total fertility rate	1.5	1.9	1.7
Life expectancy at birth (in 2061)			
Males	88.8	85.8	87.4
Females	91.3	88.6	90.0
Immigration rate (per 1,000)	6.1	9.1	7.6

Fiscal Gap Estimates under Alternative Demographic Projections

(Per cent of GDP)

	'Older' population	'Younger' population	<i>Baseline</i>
Consolidated	3.1	1.8	2.4
Federal	-0.1	-0.8	-0.4
Provincial-Territorial	3.1	2.6	2.9

Fiscal Gap Estimates under Alternative Real GDP Growth Projections

(Per cent of GDP)

	Lower GDP growth	Higher GDP growth	<i>Baseline</i>
Consolidated	2.7	2.1	2.4
Federal	0.0	-0.8	-0.4
Provincial-Territorial	2.8	3.0	2.9

Fiscal Gap Estimates under Alternative Effective Interest Rate Projections

(Per cent of GDP)

	Lower interest rate	Higher interest rate	<i>Baseline</i>
Consolidated	2.3	2.5	2.4
Federal	-0.6	-0.2	-0.4
Provincial-Territorial	2.9	2.8	2.9