



# ***PBO Perspectives on Budget 2009***

JDI 2009 Federal Budget Conference

Queen's University

May 7, 2009

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**Kevin Page,  
Parliamentary Budget Officer**



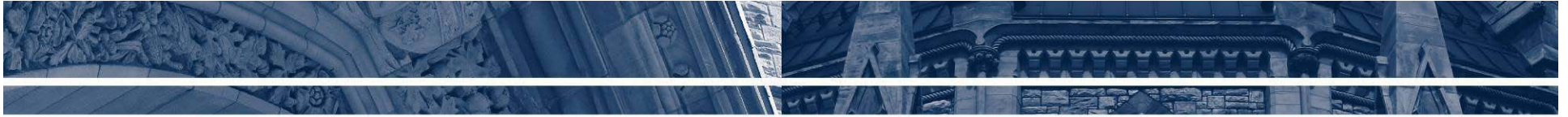
## A Prophetic Quote

**I am skeptical this Canadian value (of balanced budgets) will endure beyond the current business cycle...**

**The whole framework for fiscal policy will be revisited...**

**Eventually a large recession will occur in Canada, a deficit will result and there will be calls for fiscal stimulus. This is inevitable. Not *if*, but only *when*.**

**Richard Harris,  
JDI Budget Conference 2003**

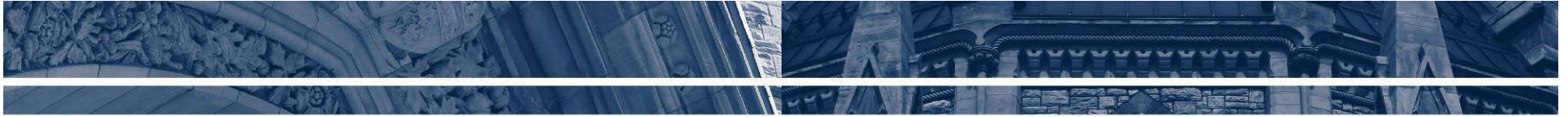


# Parliamentary Budget Officer (PBO)

**Created: March 2008**

**Mandate: Independent analysis to Parliament on:**

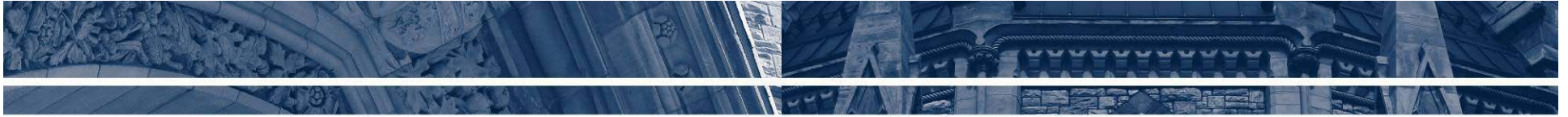
- **Canadian economy**
- **Federal budget issues:**
  - **Nation's finances**
  - **Government estimates**
  - **Financial costing**



# Presentation Outline

- **Context**
- **Budget 2009 Analysis**
- **Economic Outlook and Recovery**
- **Longer-Term Considerations**



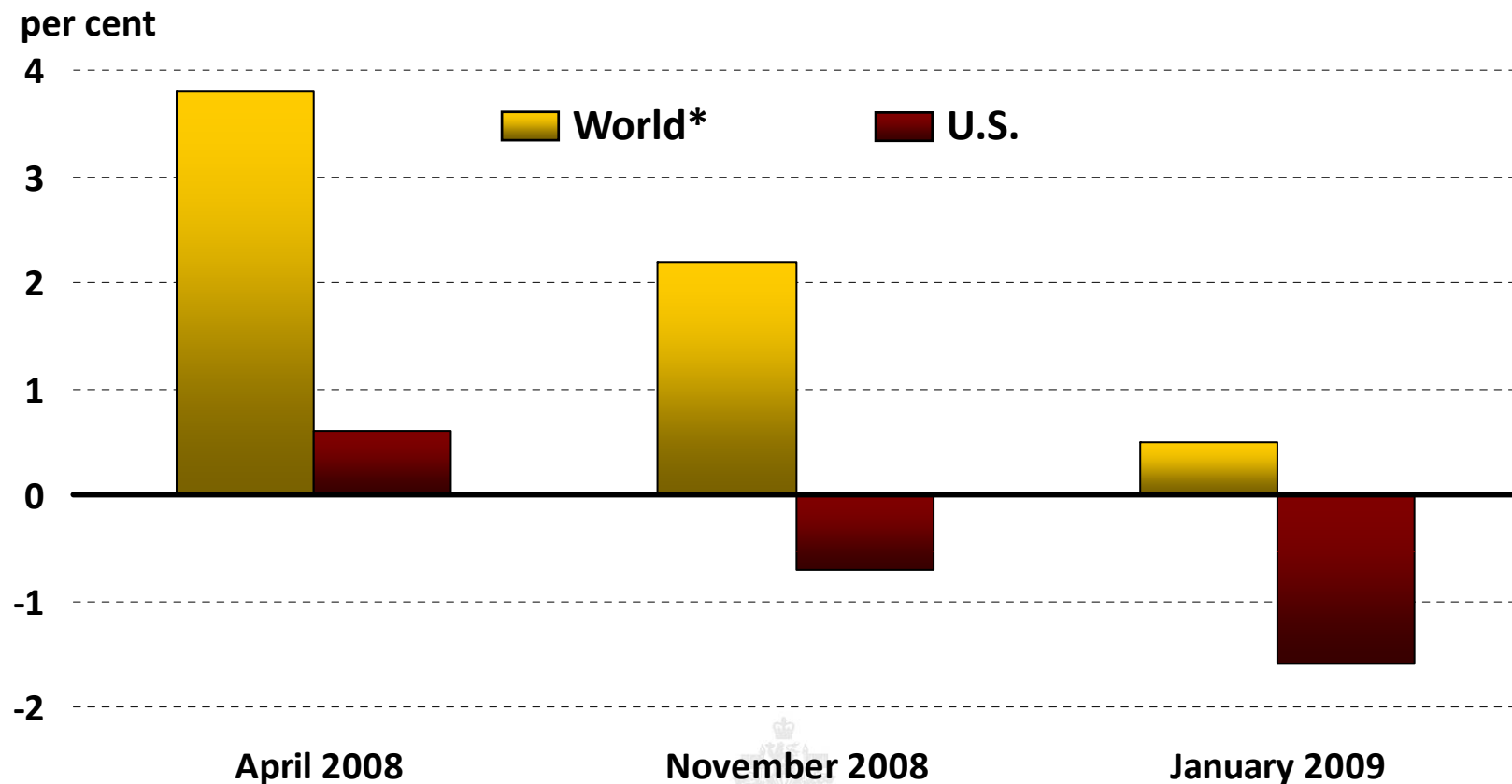


## Context

- **Sept 2008: Major global financial shock amplifies existing weakness in Canadian economy**
- **Limited scope for further conventional monetary stimulus puts onus on discretionary fiscal policy**
- **Political situation: Nov 2008 economic statement; Dec 2008 prorogation**

## *Weakened external environment: Significant downgrading of global economic forecasts*

### IMF 2009 Real GDP Growth Forecasts



Source: IMF

\* Based on purchasing-power-parity weights

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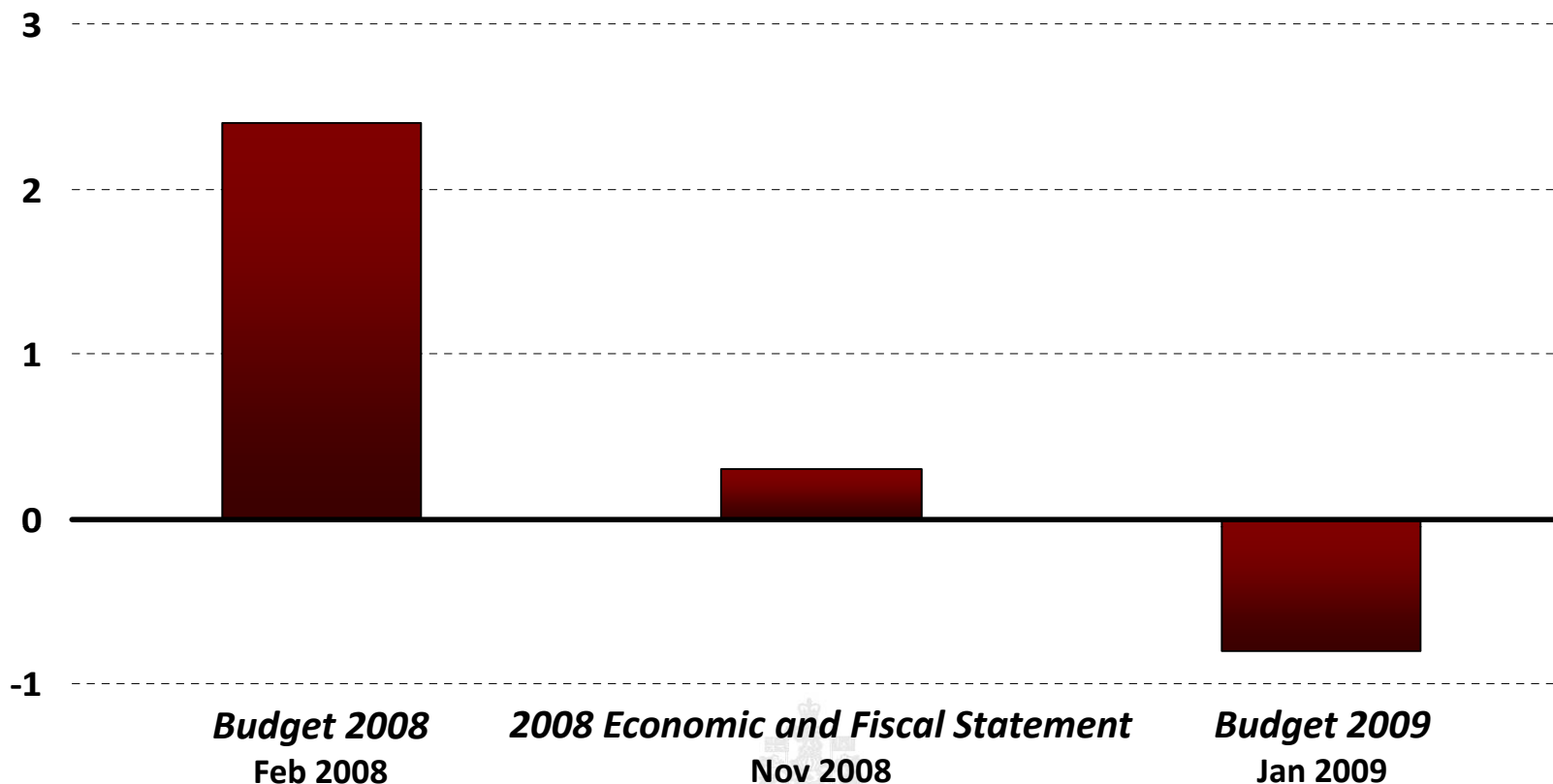


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*Reflected in significant weakening of Canada's economic outlook*

## Canadian 2009 Real GDP Growth Forecasts

per cent

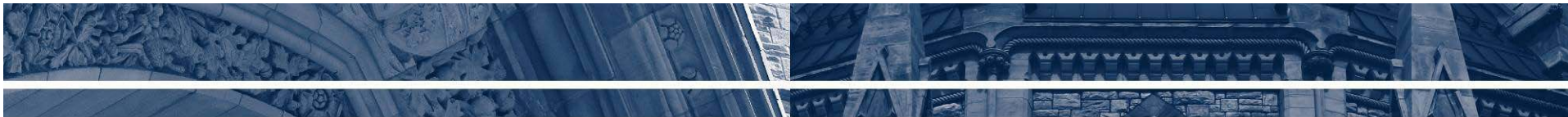


Source: Department of Finance Canada

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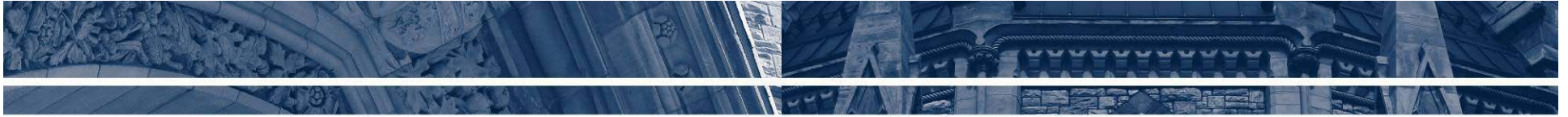


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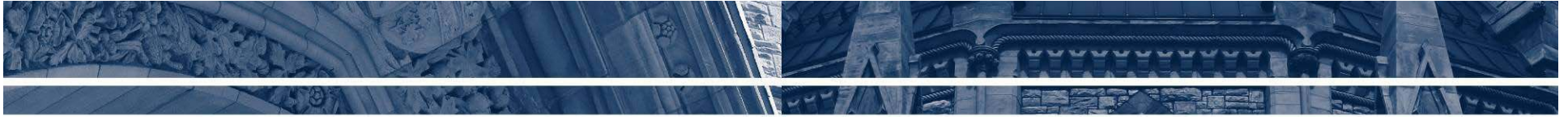
# Budget 2009 Analysis





## Budget 2009 – Canada's Economic Action Plan

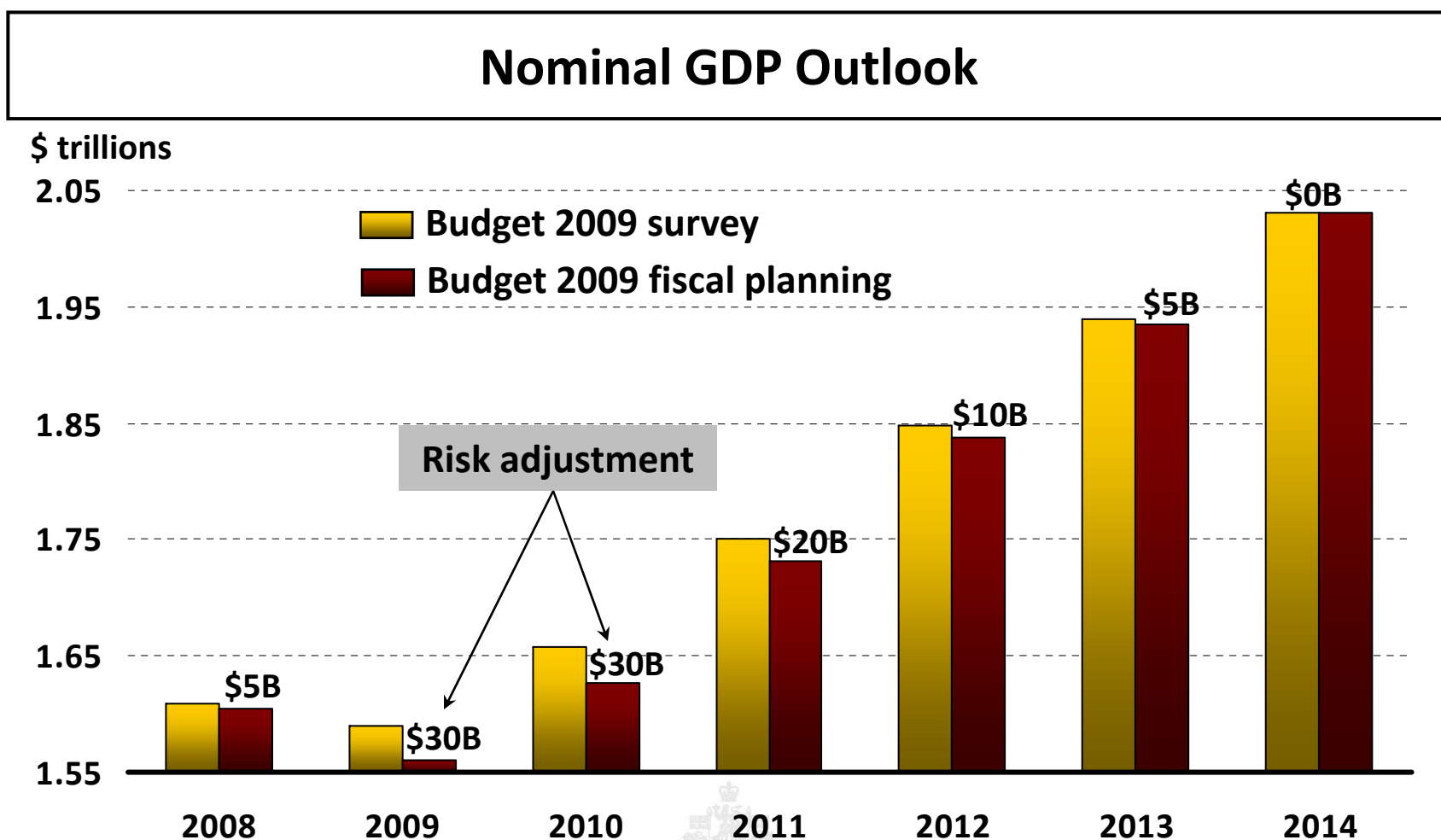
- **Designed largely as economic stimulus**
  - **Worth \$51.6 billion (3.2% of GDP) over 2009-2010 including provincial and municipal contributions**
  - **Estimated impacts: increase real GDP by 1.9% and create/maintain 189,000 jobs by 2010Q4**
- **Guiding principles: timely, targeted, and temporary**
- **Plan to return to budget surplus in 2013-14**



## Budget 2009 – Key Issues

- **Fiscal planning assumptions**
- **Measuring the size of the stimulus**
- **Assessing measures relative to principles**
- **Clarifying the current fiscal targets**
- **Monitoring budget implementation**

## *Fiscal planning risk adjustment was front-end loaded*



Source: Budget 2009

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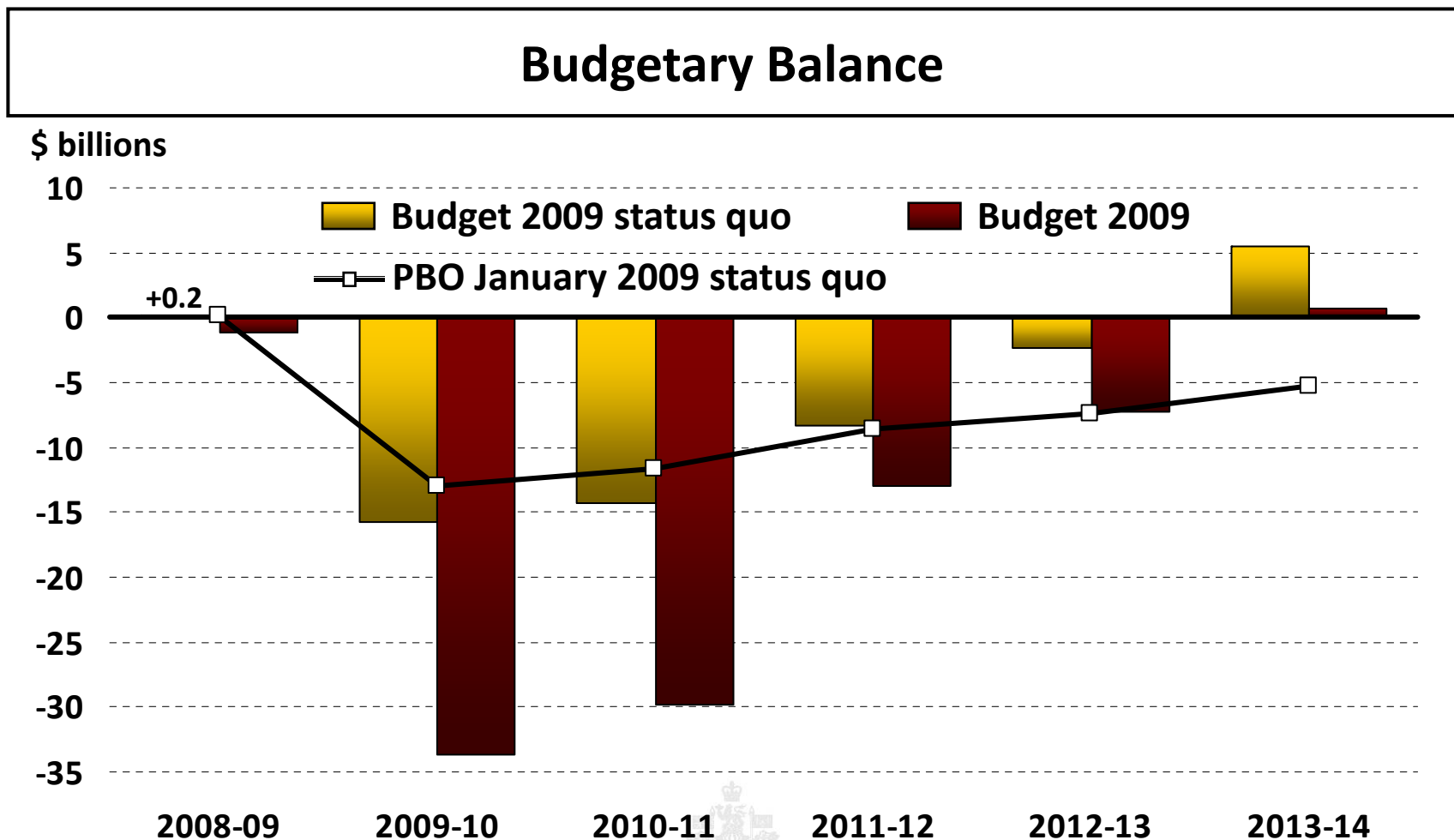
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## *Budget 2009 projected temporary deficits with a return to surplus by the end of the forecast horizon*



Source: Budget 2009, Office of the PBO

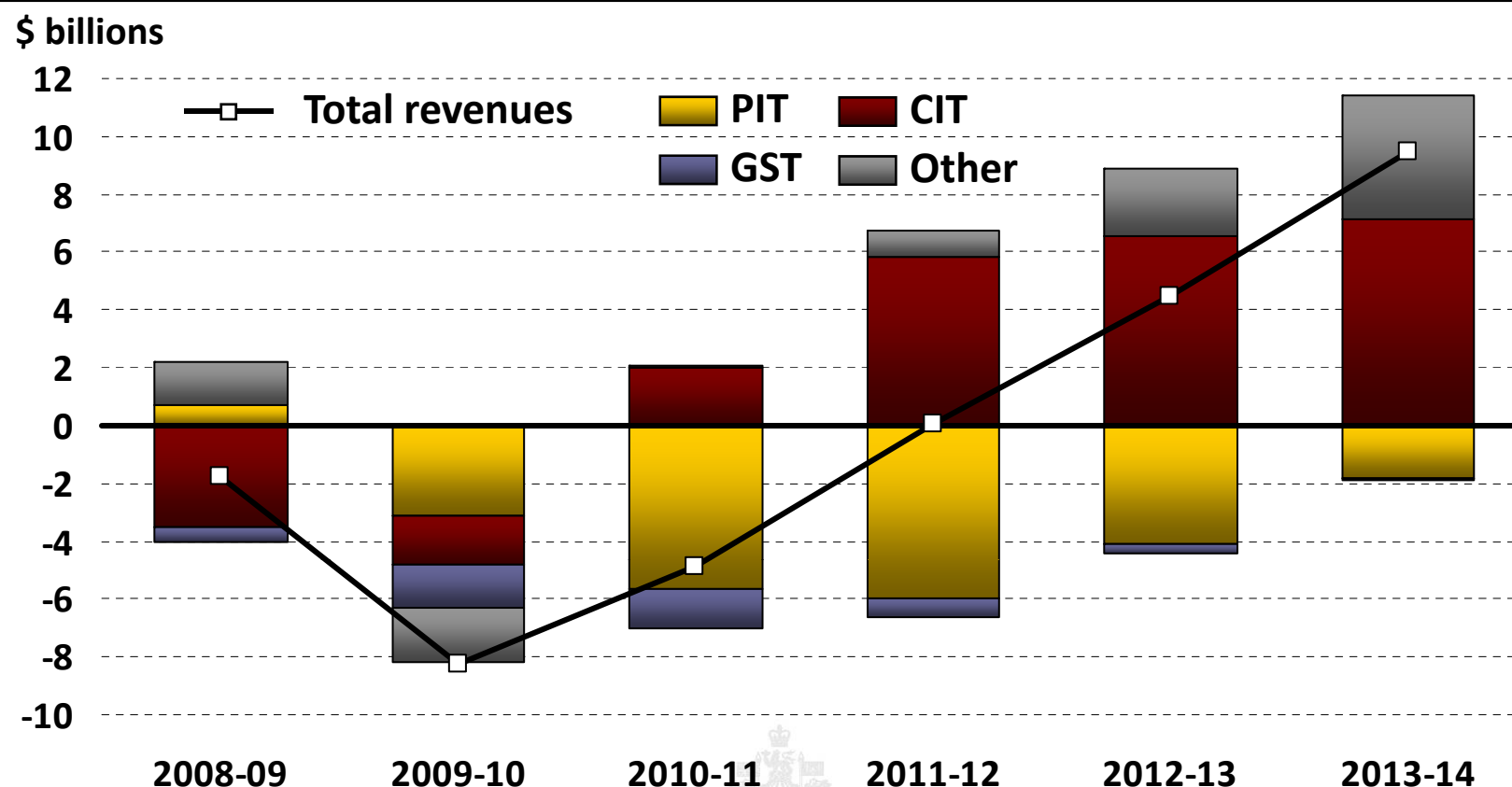
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*Despite similar nominal GDP outlooks, Budget 2009 had much higher revenues than PBO in the outer years*

## Status Quo Revenue Comparison (Budget 2009 minus PBO)



Source: Budget 2009, Office of the PBO

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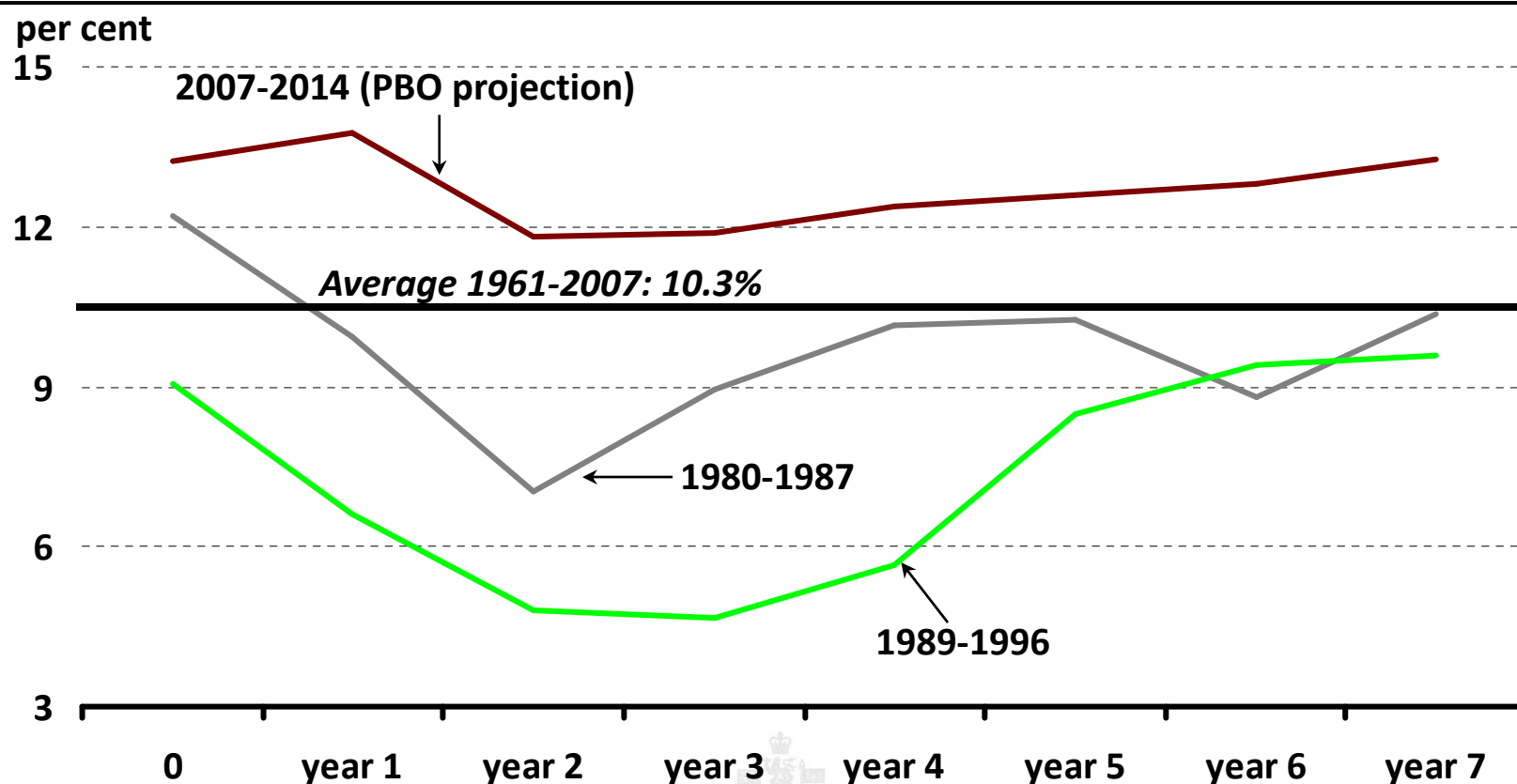


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## *Budget 2009 assumption about corporate profits in outer years appears more optimistic than PBO*

### Corporate Profits relative to Nominal GDP



Source: Office of the PBO

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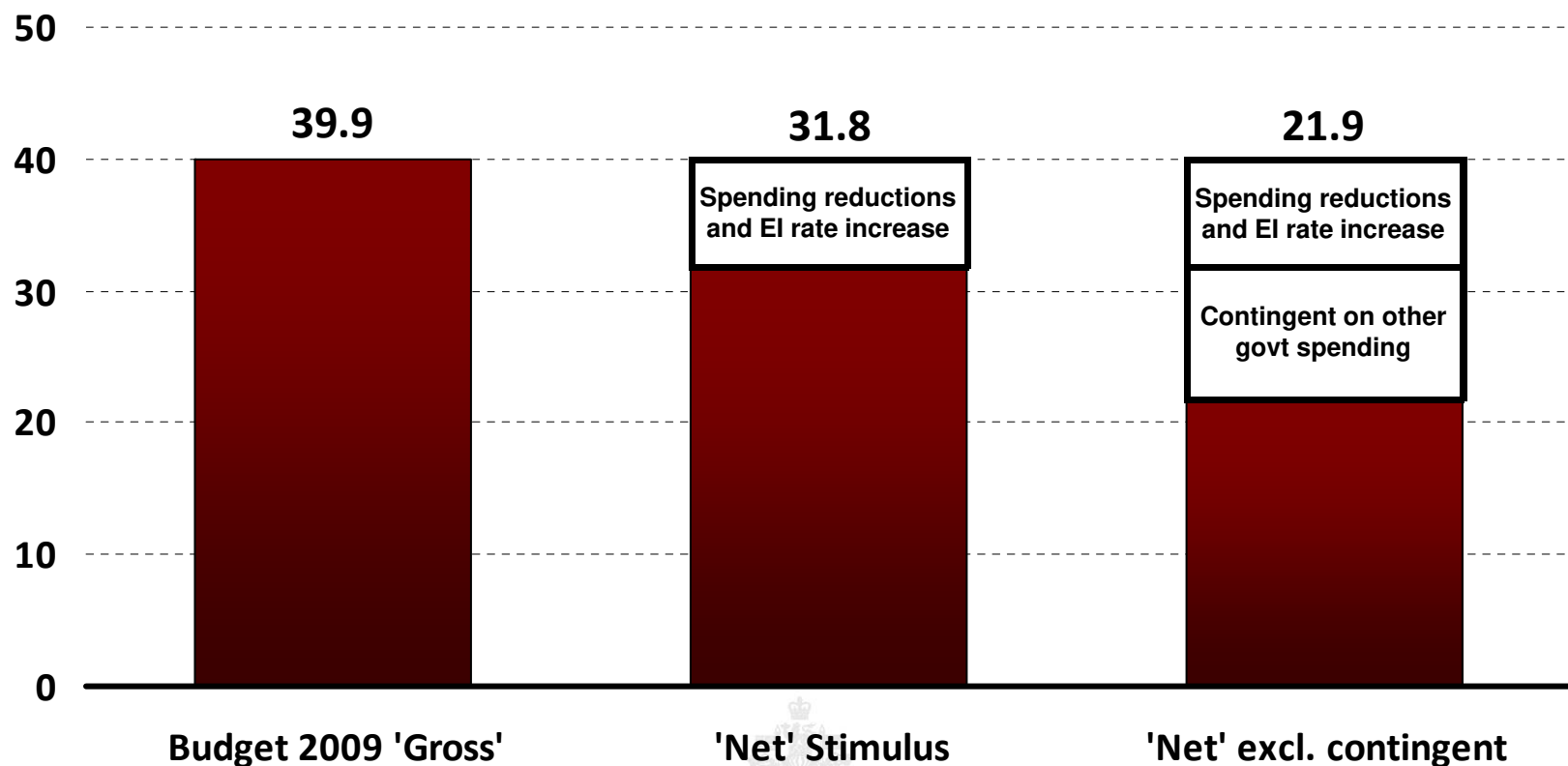


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## *Budget 2009 estimate of the size of the federal stimulus may be overstated*

### Estimates of Federal Fiscal Stimulus 2009-10 to 2010-11

\$ billions



Source: Budget 2009, Office of the PBO

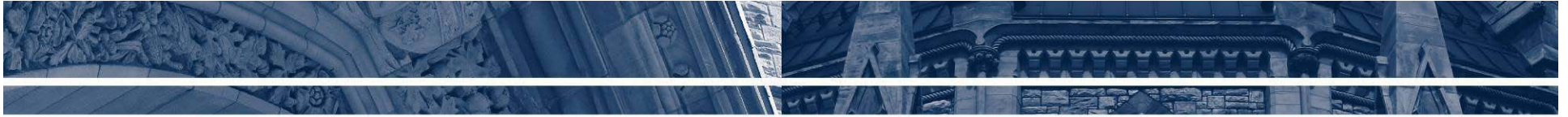
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# Stimulus – Budget 2009 Guiding Principles

## Targeted

- “To Canadian businesses and families most in need to trigger largest increase in Canadian jobs and output”

## Timely

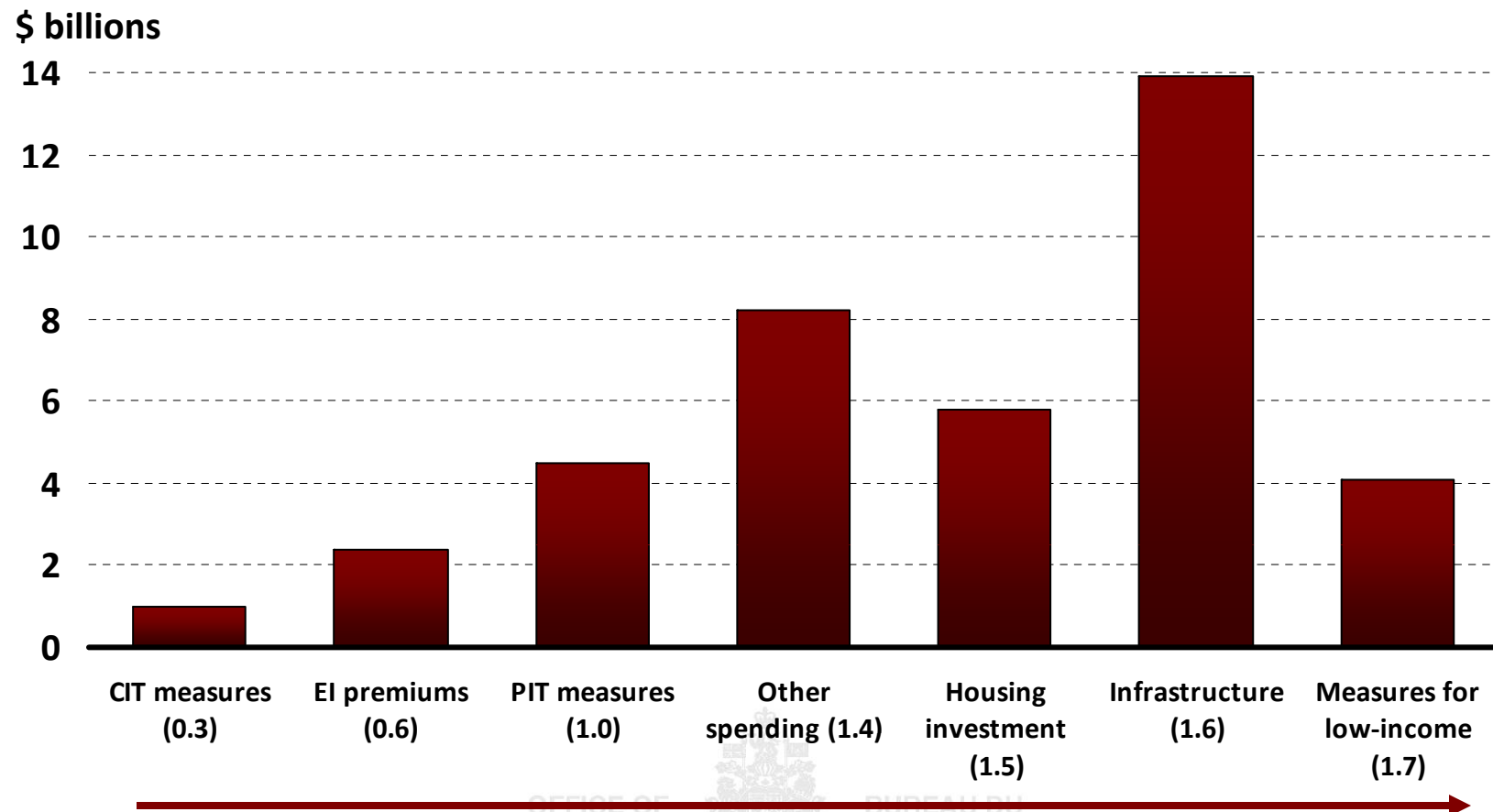
- “Begin within the next 120 days”

## Temporary

- “Should be phased out when economy recovers to avoid long-term structural deficits”

*Targeted: Based on Department of Finance estimates, federal measures appear targeted to increase output*

### Federal Measures (2009 to 2010) by Multiplier Impact



Source: Budget 2009

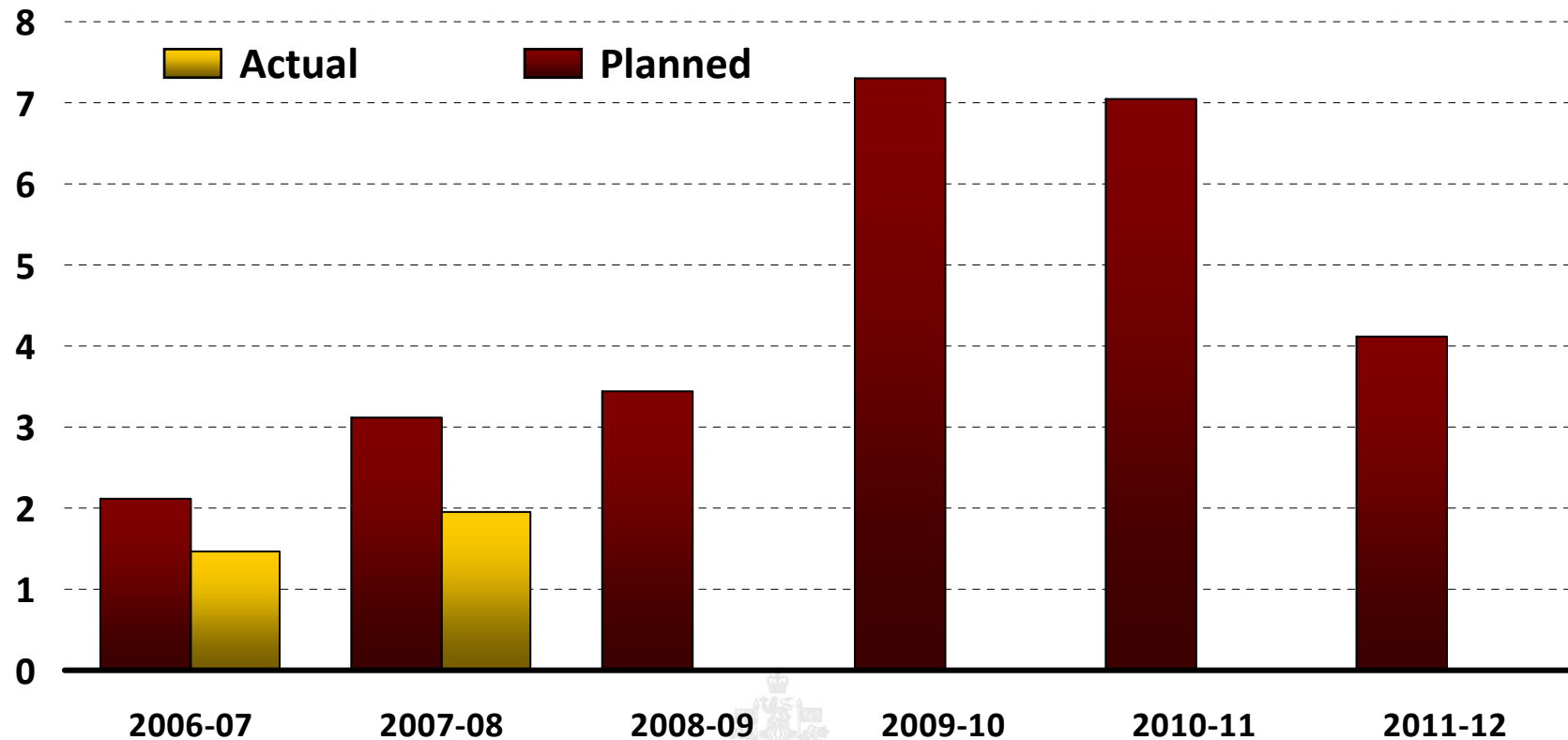
\*Budget 2009 estimated multipliers shown in parentheses

**Increasing Multipliers**

*Timely: Infrastructure is the largest stimulus component, but recent track record may raise concerns*

## Infrastructure Canada Planned and Actual Spending

\$ billions



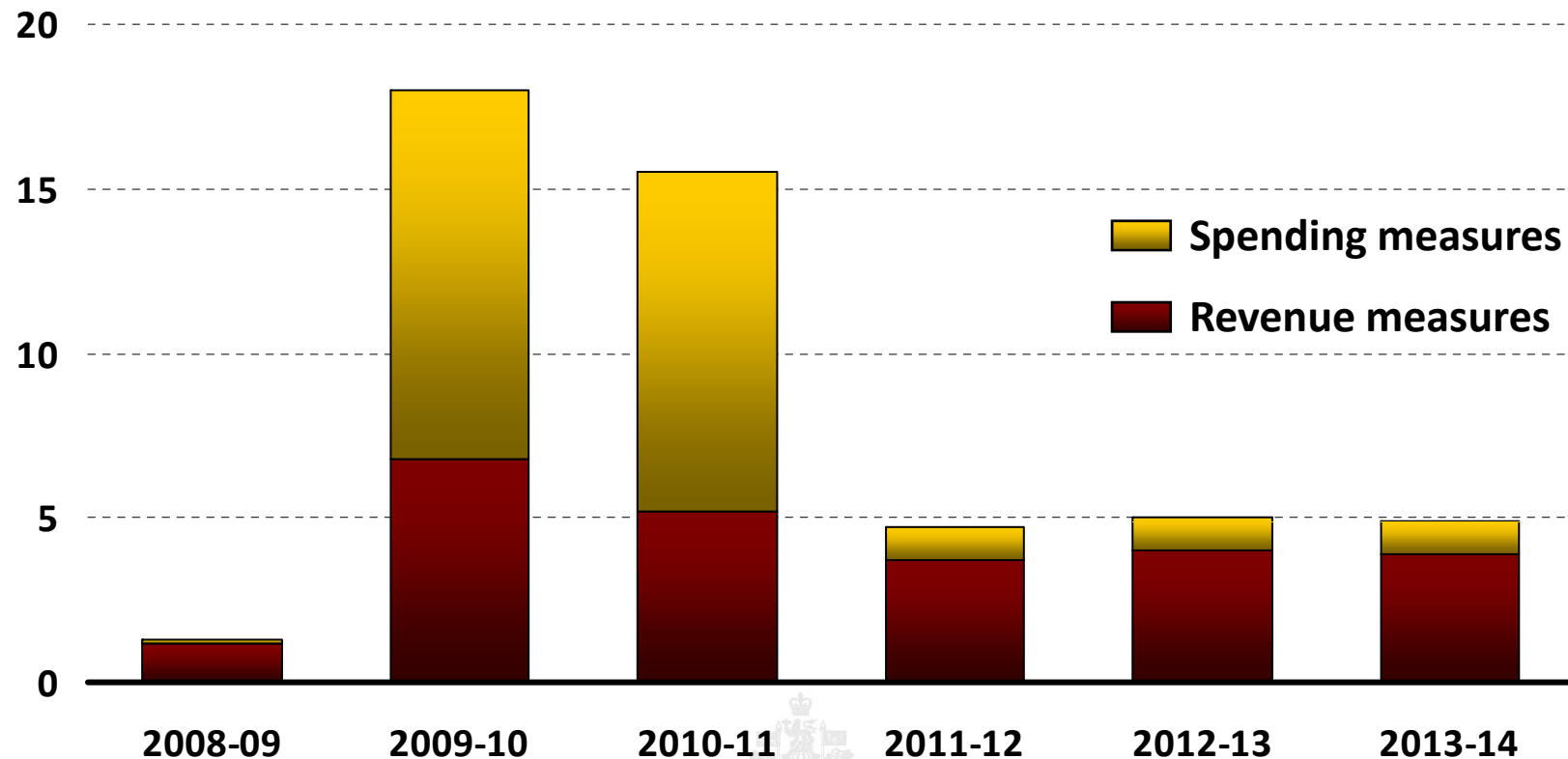
Source: Public Accounts of Canada and Infrastructure Canada's 2009-10 Report on Plans and Priorities



*Temporary: Measures are largely temporary with \$5 billion in ongoing measures beyond 2010-11*

## Fiscal Cost of Budget 2009 Measures

\$ billions



Source: Budget 2009, Office of the PBO

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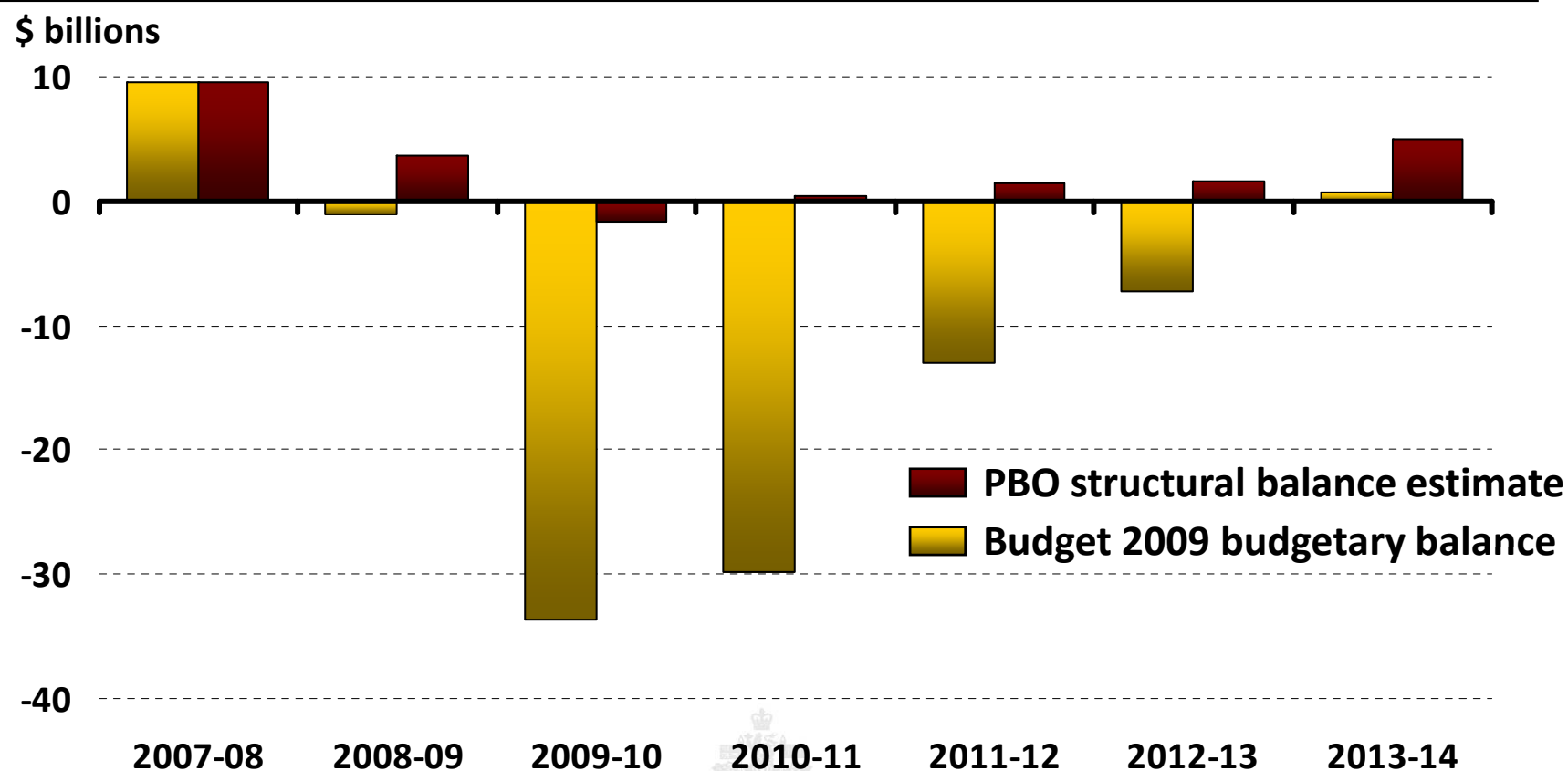


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*However, structural budget deficits could result if:  
1) some temporary measures become permanent...*

## Budget Balance Projections



Source: Budget 2009 and Office of the PBO

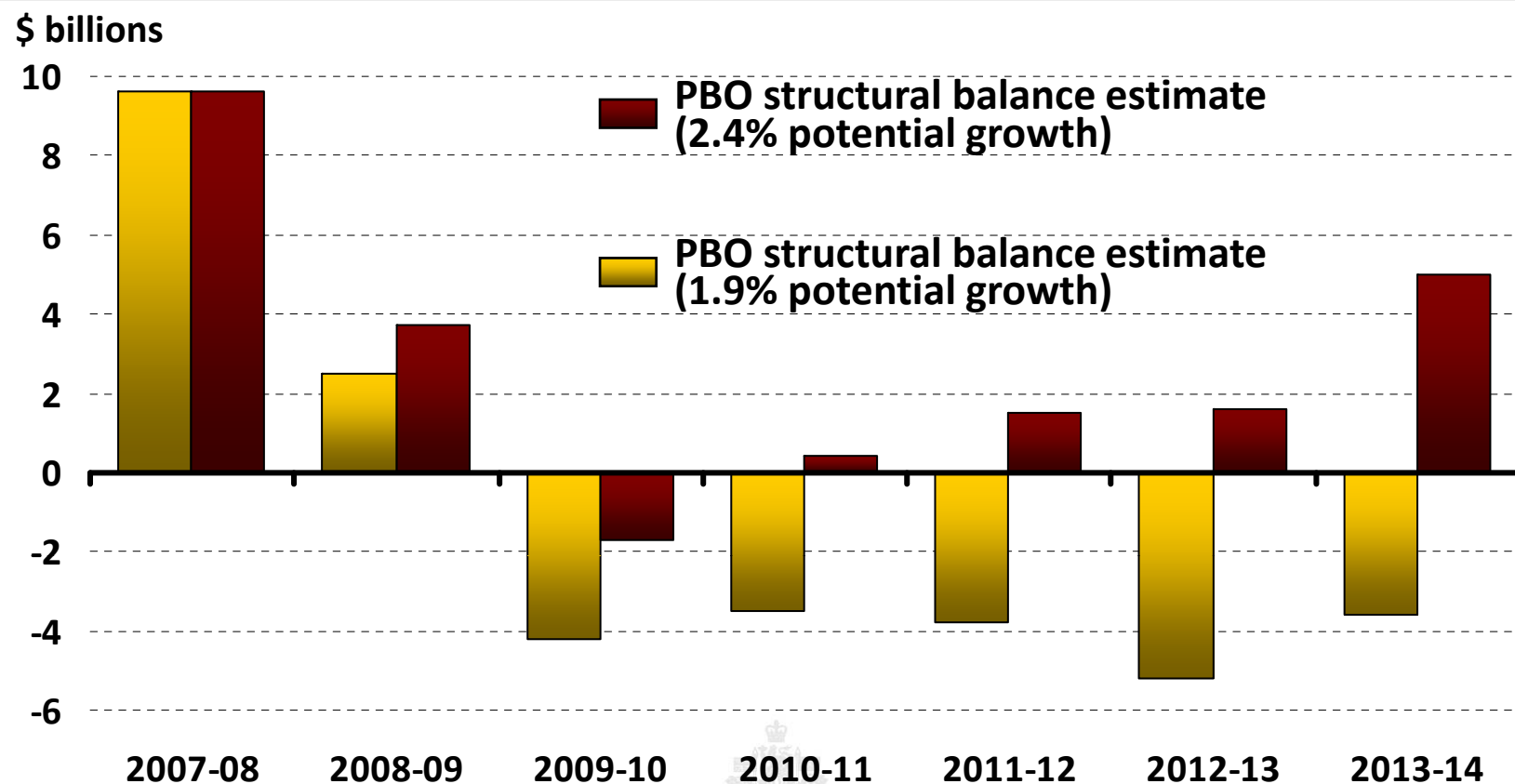
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*...and/or 2) if potential output growth slows thereby restraining revenues*

## Structural Budget Balance Estimates



Source: Office of the PBO

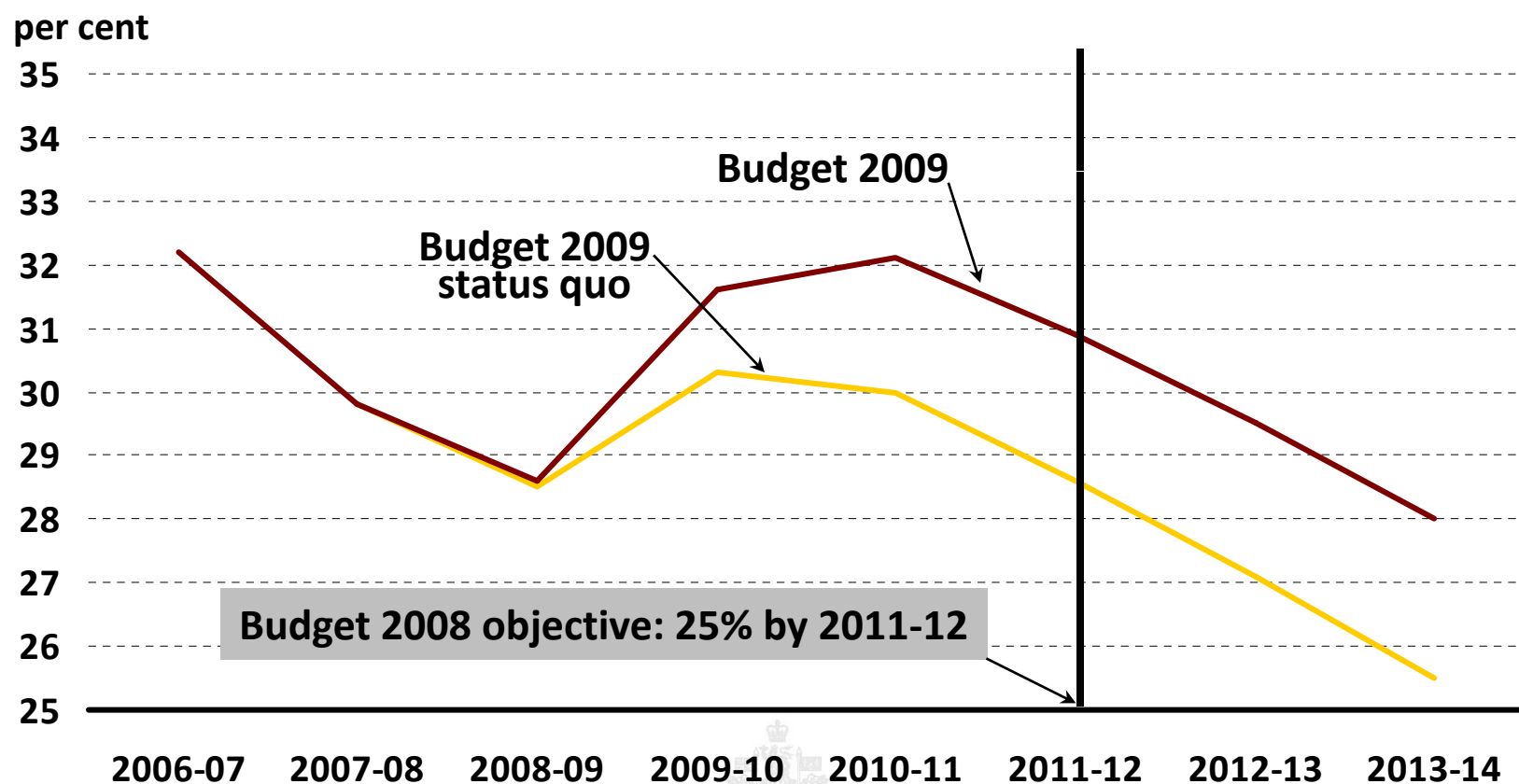
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## *Budget 2009 unclear on the current status of some previously-stated fiscal targets*

### Federal Debt-to-GDP Ratio and 25% Target by 2011-12

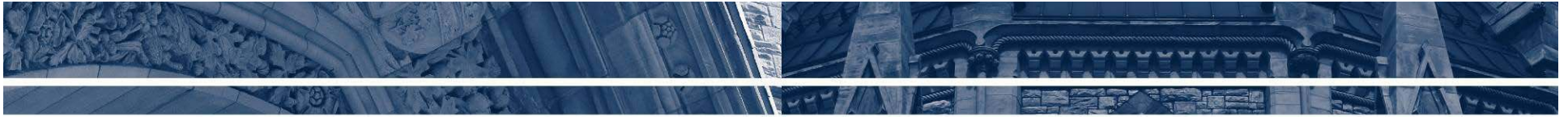


Source: Budget 2009

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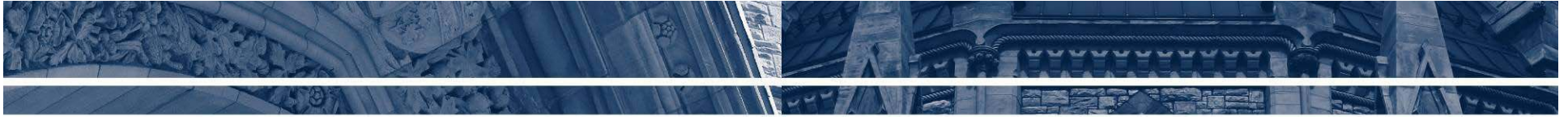
## Budget Progress Reports

- **Government is providing quarterly budget reports**
- **First report in March 2009 focused on spending authorizations — i.e., stimulus ‘inputs’**
  - **Limited information on: expected outputs; outcomes; implementation benchmarks; or Canadian economy**
- **Future reports may allow for real-time assessment of program implementation and results vs. objectives**





# Revised Outlook and Prospects for Recovery



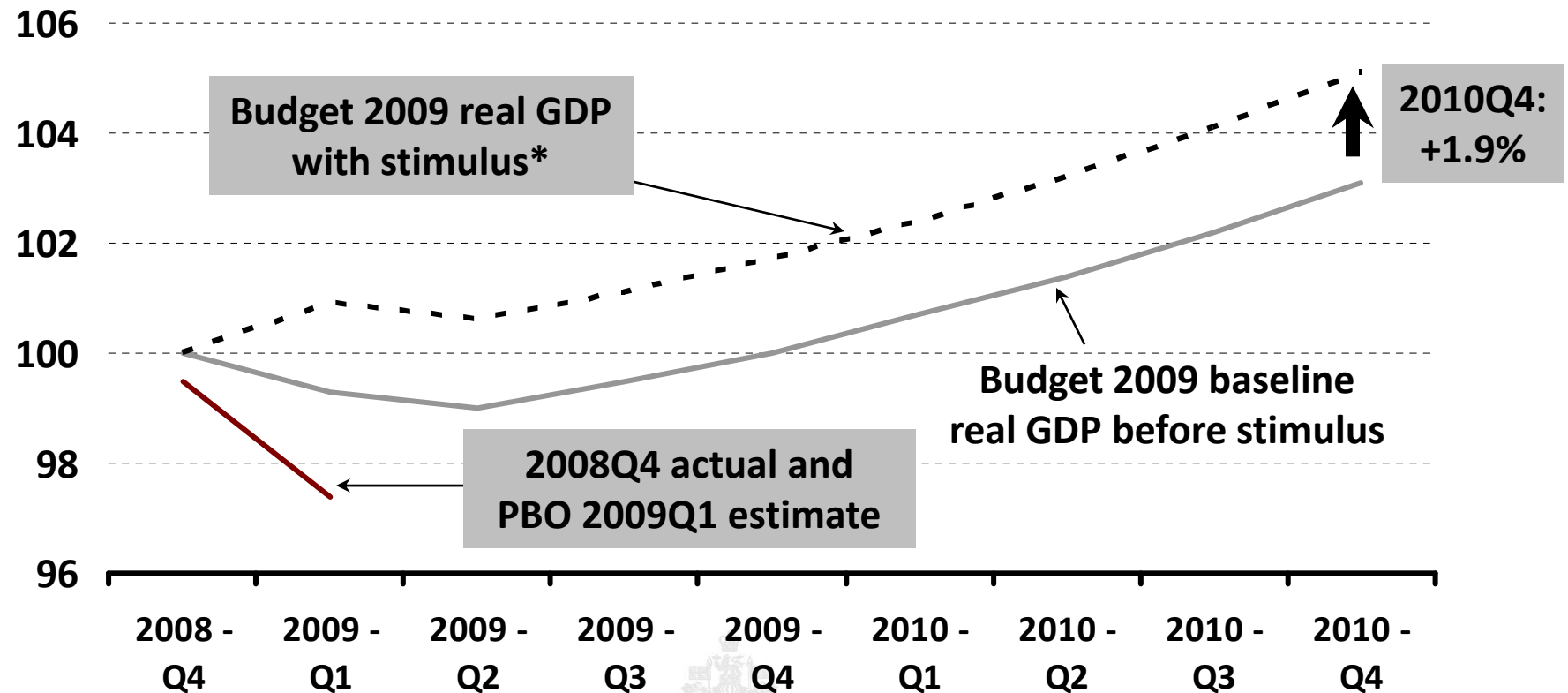
## Revised Outlook and Recovery

- **Part of current downturn reflects longer-run structural adjustments — possibly implying prolonged weakness in potential output, labour markets, and public finances**
- **As a small open economy and commodity exporter, Canada's recovery depends crucially on global economic and financial developments**
  - **Global and domestic monetary and fiscal policy actions will help**
- **Downgraded economic outlook since Budget 2009 exceeds expected positive incremental fiscal stimulus impacts**

## Near-term weakness in real GDP offsets the expected increase from Budget 2009 stimulus

### Budget 2009 Stimulus – Real GDP Impact

index, Budget 2009 2008Q4 = 100



Source: Office of the PBO

\* total stimulus plan (i.e., with leverage)

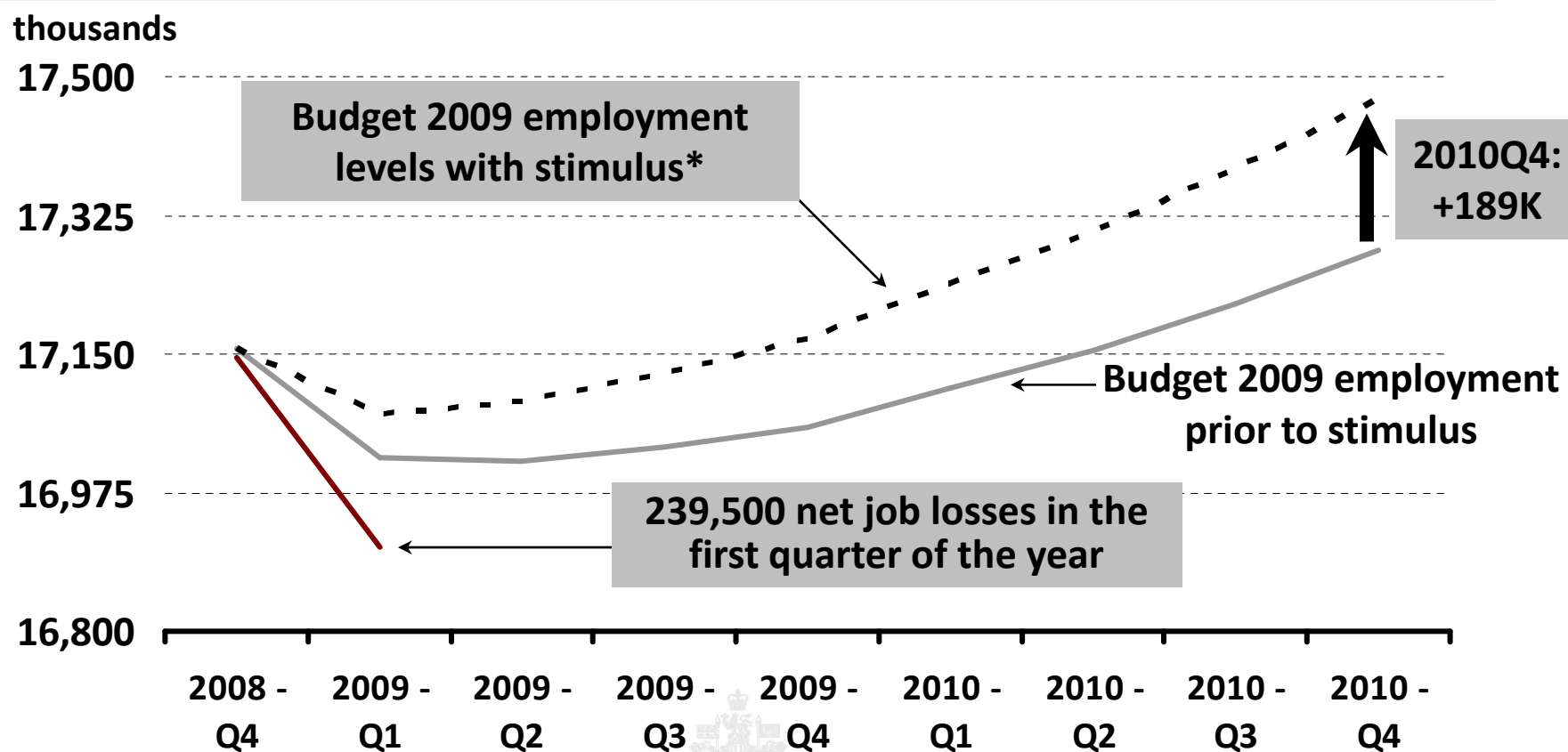
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## *Job losses to-date more than offset the expected employment impacts from Budget 2009*

### Budget 2009 Stimulus – Employment Impact



Source: Office of the PBO

\* total stimulus plan (i.e., with leverage)

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CANADA

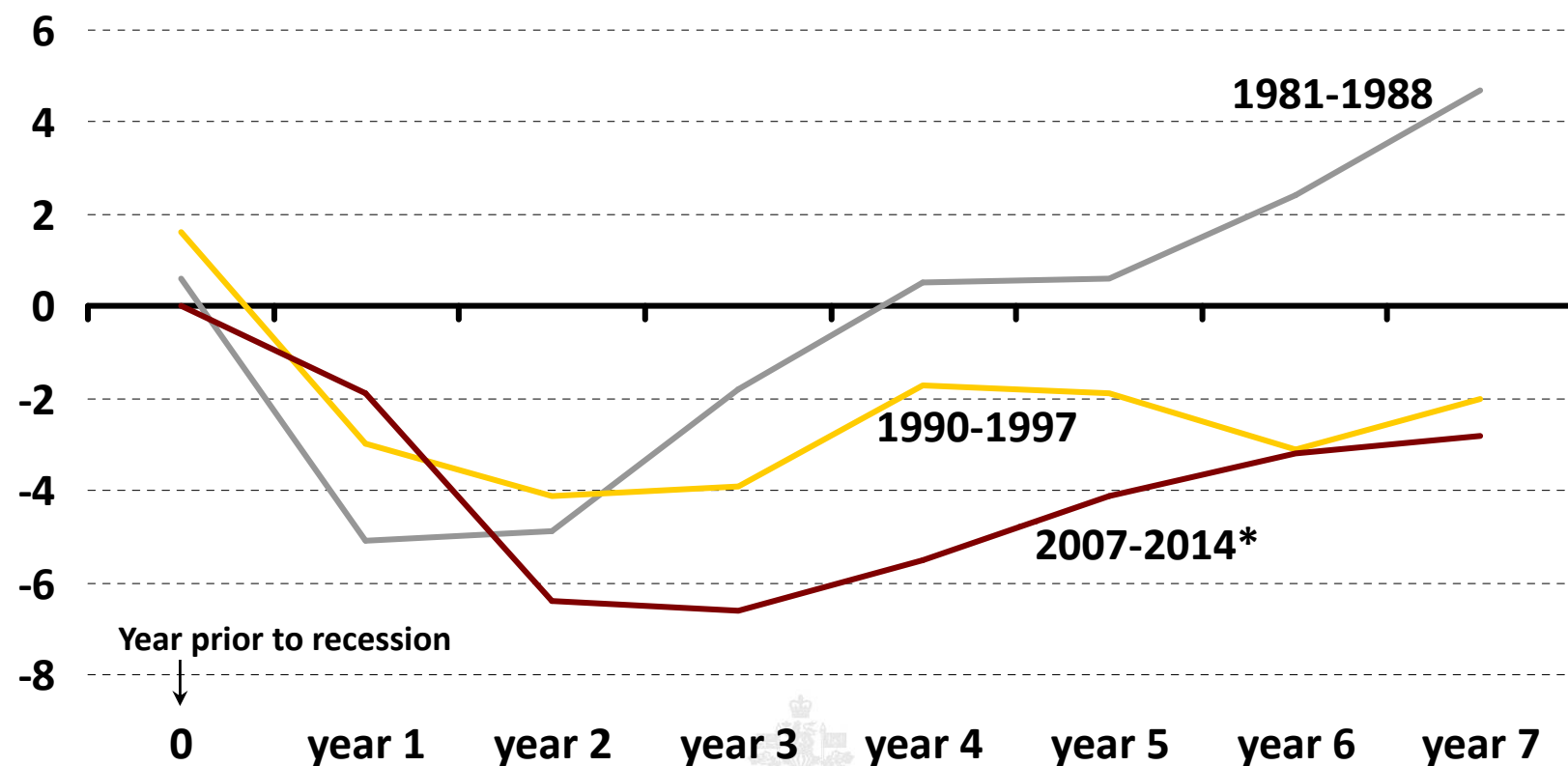
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## *Revised outlook implies that the current recession is expected to be more severe than past recessions*

### Estimated Output Gap in Recessions

per cent of potential GDP

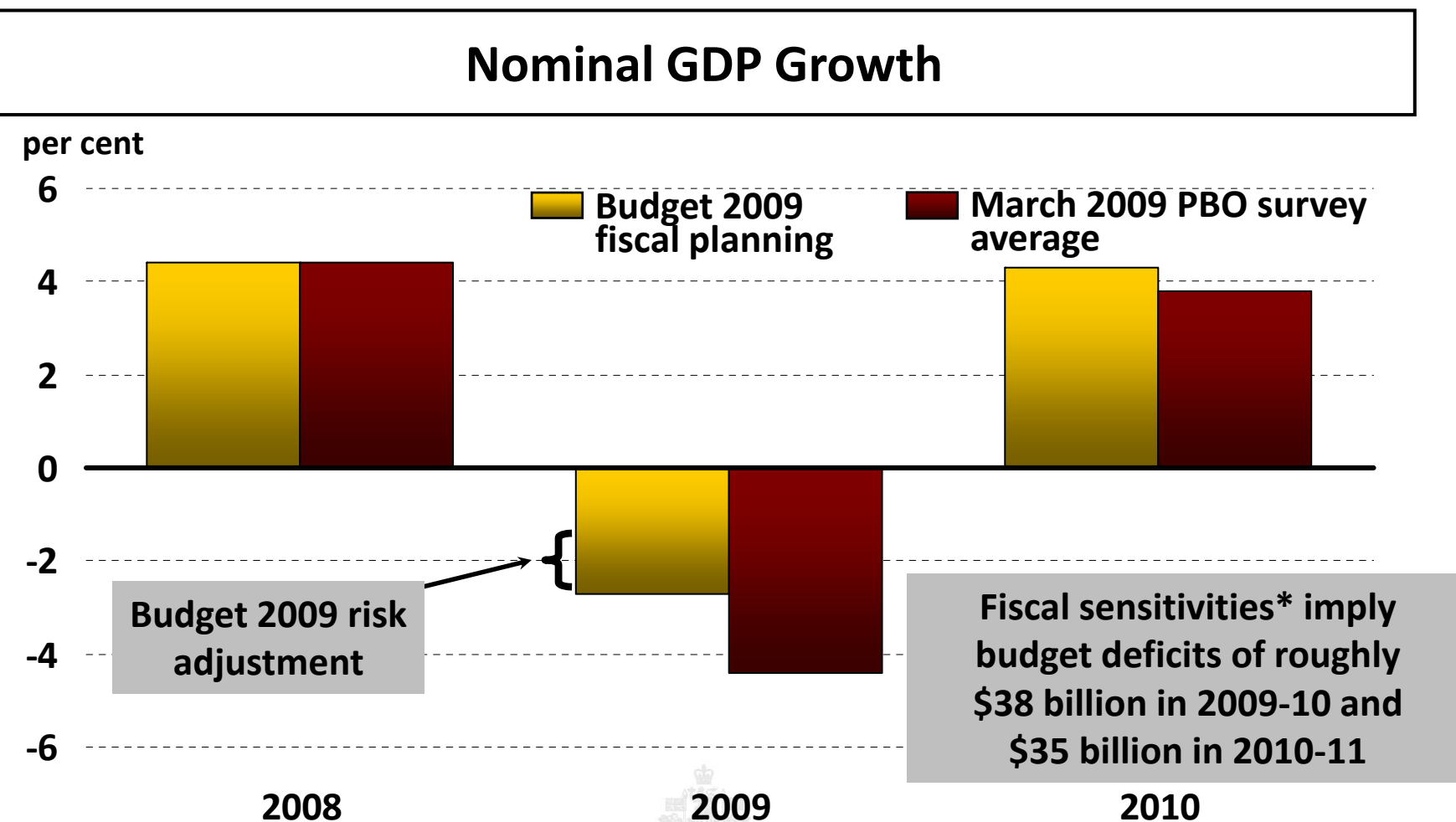


Source: Department of Finance Canada, Office of the PBO

\* Assumes potential growth of 2.4% and 2009-2014 outlook for real GDP from March 2009 PBO survey



## *Fiscal Implications: Revised outlook for nominal GDP going forward is below Budget 2009 risk-adjustment*



Source: Budget 2009, Office of the PBO

\*Based on Department of Finance Canada

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# Longer-Term Considerations



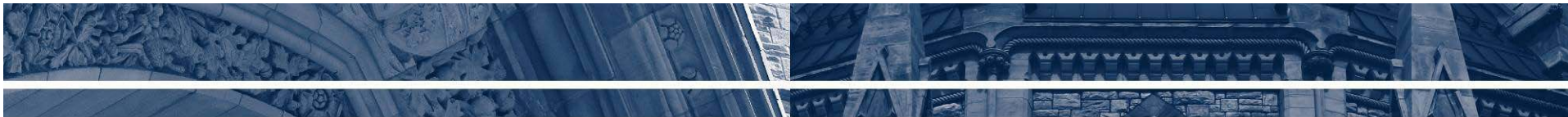
## Post-recovery issues

### Economic

- Will there be longer-term impacts on potential output?

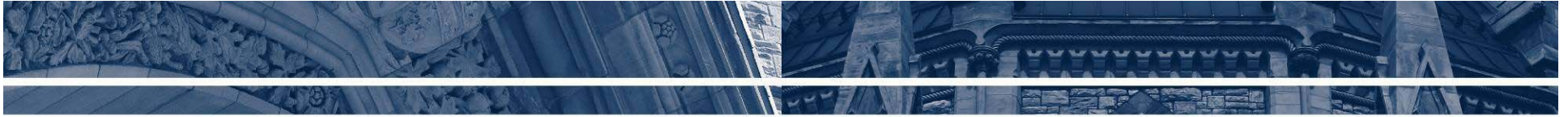
### Policy Considerations

- What are the fiscal and monetary policy exit strategies?
- What are the fiscal targets and objectives going forward?
- Will fiscal policy stabilization be revisited (automatic vs. discretionary)?



## Takeaways

- 1. Global financial crisis underscores importance of transparency in financial reporting and decision-making***
- 2. Increased scrutiny provides opportunity to improve budget oversight and reporting to Parliament for Budget 2009 and beyond***
- 3. Manage near-term expectations, with focus to address long-term policy challenges and preserve policy credibility***



# Longer-Term Policy Challenges

- **Population ageing**
- **Climate change**
- **Productivity and structural adjustments**
- **Regional and household income disparities**