



**Opening Statement of Kevin Page, Parliamentary Budget Officer  
to the House of Commons Standing Committee on Finance  
April 26, 2012**

Good afternoon Mr. Chair, Vice-chairs, and members of the Committee. Thank you for inviting me and my colleagues to speak to you today. Yesterday, in preparation for this meeting, PBO released two reports to parliamentarians and Canadians. In my introductory remarks, I would like to highlight three key messages and possible issues for discussion.

First, **PBO's updated projections show a significant improvement in the Government's budgetary balance over the medium term, which is primarily attributable to policy actions to restrain operating expenses.** These fiscal projections — which are based on our own independent economic assumptions — are broadly similar to the Government's fiscal outlook presented in Budget 2012.

Second, PBO's [Economic and Fiscal Outlook](#) highlights a key policy trade-off that we feel has been largely absent from fiscal policy discussions — namely that **while the benefit of spending restraint is increased fiscal room in the future, the expected cost is a weaker Canadian economy and slower recovery.**

My final message is that **improvements are needed in the Government's budget reporting to Parliament.** Just as increased budget scrutiny was warranted during the fiscal stimulus phase of the *Economic Action Plan*, so too is scrutiny required during the spending restraint phase, in order for Parliament to carry out its fiduciary responsibility to scrutinize the Estimates and approve appropriations.

In my view, PBO's two reports provide some guidance on what this improved budget reporting to Parliament might entail. Specifically, our [Economic and Fiscal Outlook](#) provides projections of Canada's potential GDP, the Government's structural budget balance, and illustrates the uncertainty around the outlook. In addition, we provide economic impact estimates of Budget 2012 measures and include quantitative estimates of the impacts of policy changes with far-reaching impacts, such as changes to the age of eligibility for elderly benefits. Comparable analysis was not provided in Budget 2012.

Our second report, [Budget and Expenditure Reporting to Parliament](#), highlights the management challenges associated with the Strategic and Operating Review. This report advances a reporting framework for your consideration that would be unlikely to increase the administrative burden on departments, as collecting this information is already required as part of Treasury Board Policies.

### **PBO's Economic and Fiscal Outlook**

Recent economic indicators suggest that the global economic recovery is gaining some traction following setbacks in 2011. While recent growth in Canada has been stronger than anticipated in our November report, its pace remains modest. Going forward PBO expects that Canadian fiscal policy (at the federal and provincial levels) will act as a drag on the economy, pushing us further away from potential and delaying the recovery. Based on Finance Canada's estimates of expenditure and tax multipliers published in previous budgets, PBO estimates that real GDP will be roughly 1 per cent lower and employment reduced by just over 100,000 jobs in 2014 as a result of tighter fiscal policy.

PBO projects real GDP growth to slow to 1.9 and 1.6 per cent in 2012 and 2013, resulting in an increase in the unemployment rate to 7.9 per cent in 2013. As the recovery eventually takes hold, real GDP growth is projected to rebound, averaging 2.8 per cent over 2014 to 2016, while the unemployment rate is projected to decline gradually to 7.0 per cent by 2016.

Relative to the average private sector forecasts in Budget 2012, PBO projects slower economic growth and lower GDP inflation over 2012 to 2014. PBO judges that the balance of risks is tilted to the downside for the private sector forecast for nominal GDP, which is the broadest measure of the Government's tax base. In addition to the downside risks identified in PBO's report last November — namely, a more sluggish U.S. recovery, larger impacts of commodity price weakness and high levels of household indebtedness — PBO believes that fiscal policy will exert a larger drag on real GDP growth than appears to be factored in by private sector forecasters.

PBO's current fiscal projection incorporates the planned departmental spending reductions contained in Budget 2012, as well as the Government's forecast of operating expenses subject to freeze that was initially announced in Budget 2010. These changes represent significant reductions to PBO's projection of federal direct program expenses, amounting to approximately \$60 billion over 2011-12 to 2016-17.

PBO projects a significant improvement in the Government's budgetary balance over the medium term. PBO's fiscal balance projections are in line with the Government's forecasts. PBO projects a budgetary deficit of \$24.2 billion or 1.4 per cent of GDP in 2011-12 which steadily improves over the projection horizon, resulting in a budgetary surplus of \$10.8 billion or 0.5 per cent of GDP in 2016-17.

PBO estimates that the likelihood of realizing budgetary balance or better is roughly 35 per cent in 2014-15, 55 per cent in 2015-16 and 70 per cent in 2016-17, respectively.

The projected improvement in the budgetary balance over the medium term is largely the result of policy actions to restrain spending on programs. As a result, PBO projects that the Government's structural deficit will be eliminated by 2013-14, ultimately giving rise to a structural surplus of \$14.3 billion in 2016-17.

### **Fiscal Sustainability**

While medium-term projections are an essential element of fiscal planning, it is also necessary to take a longer-term perspective to assess whether a government's fiscal structure is sustainable, given economic and demographic trends. Fiscal sustainability requires that government debt cannot ultimately grow faster than the economy.

In January 2012, PBO estimated that the federal fiscal structure was sustainable over the long term, owing to the Government's decision to reduce growth in the Canada Health Transfer after 2016-17. Furthermore, our analysis at that time, assumed OAS eligibility at age 65 and did not incorporate the Government's forecast of its operating expenses.

The proposed increase in the age of eligibility for elderly benefits would, according to Budget 2012, ensure that the program is "on a sustainable path". However, no analysis of the sustainability of the program was provided, nor were the fiscal impacts of this policy change presented. In our report, PBO projects that the proposed change would reduce spending on elderly benefits by roughly 12 per cent (\$12 billion) in 2029-30. Elderly benefits would rise from 2.2 per cent of GDP today, to a peak of 2.7 per cent of GDP in 2033-34, which is 0.3 percentage points of GDP lower than without this policy change.

## **Fiscal Transparency, Debate and Scrutiny**

The last issue I will discuss is the need for the Government to improve its budget reporting to Parliament.

Parliamentarians need more transparency from the Government. This issue is particularly important in the current context given the sums of money involved. Taken together, the savings measures enacted since Budget 2010, represent almost \$60 billion over the next five years, according to the Government's estimates. These actions are larger than the federal fiscal stimulus implemented in Budgets 2009 and 2010. At that time, stimulus measures were accompanied by commendable levels of transparency and analysis, which included quarterly reporting on implementation and economic impacts of the budget measures. This level of transparency and analysis is absent in Budget 2012. If we can deliver transparency to parliamentarians and Canadians on fiscal stimulus, then we can do the same on fiscal consolidation.

Parliamentarians also need more analysis from the Government. The current context features both short-run and long-run challenges. In the near term fiscal consolidation is being undertaken in the context of an economy operating below its potential. Over the long term, significant policy decisions are being undertaken on the Canada Health Transfer and the Old Age Security program without sufficient analysis to support these policy actions. Without such analysis there is potential for a misleading view that parliamentarians face no policy trade-offs.

Parliamentary debate on fiscal policy could be enhanced if the Government provided its estimates and analysis of:

- the performance of the Canadian economy relative to its potential;
- the Government's structural balance over the medium term;
- the economic impacts of the spending restraint; and,
- fiscal sustainability.

Finally, parliamentarians need more detailed spending plans from the Government. Scrutiny on Government spending would be enhanced if parliamentarians had details, at the level of departments and agencies, for:

- baseline spending levels;
- public service job numbers; and,
- service-level information on program activities that will be restrained or eliminated.

Parliamentarians need to assess fiscal and service-level risk *before* they vote on appropriations for Budget 2012 measures. Recent Government announcements suggest this reporting may be delayed until 2013. In my opinion, this should not be acceptable.

## **Conclusions**

To sum up, PBO expects the Government's fiscal position to improve over the medium term, due primarily to spending restraint. This fiscal improvement needs to be weighed against the cost of a weaker Canadian economy that is currently operating below its productive capacity. Finally, informed Parliamentary debate on important fiscal policy issues requires more information than the Government is currently providing.

Thank you again for us here today. We would be happy to take your questions.