

**OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER**

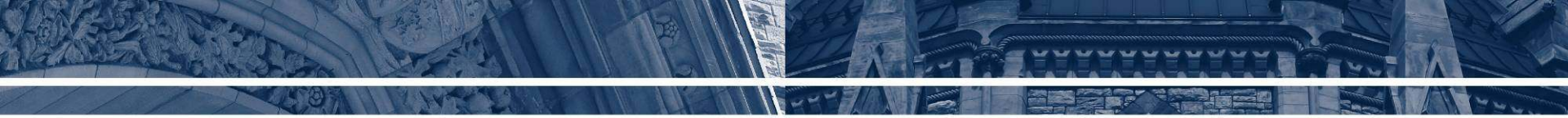


**BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET**

The Benefits of Long-term Fiscal Projections: A Canadian Perspective

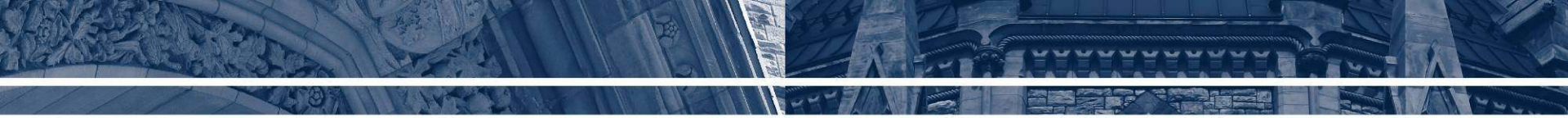
22 February 2013

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Office of the Parliamentary Budget Officer



Fiscal Sustainability Reports – Background

- Annual reports from PBO (2010, 2011, 2012), increasing in scope and transparency, improvements in methodology
- Long-term debt-to-GDP projections and fiscal gap estimates assuming constant tax burden and current program structure, given projected demographic and economic trends
- “Medium-scenario” demographic assumptions from Statistics Canada. Beyond medium term, labour productivity grows at historical average, demographics drive labour input
- Government of Canada committed to publish comprehensive fiscal sustainability and intergenerational report in Fall 2007 – *Aging Report* published in October 2012

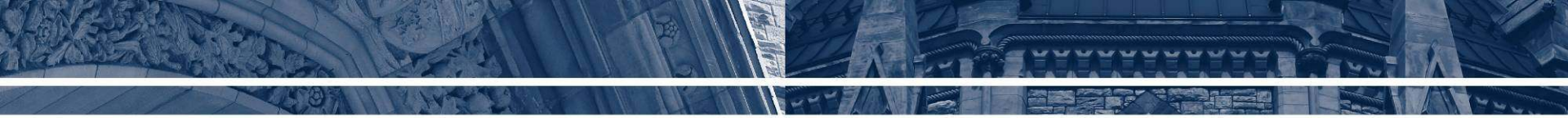


PBO Fiscal Indicators

- Revenue (own-source and intergovernmental transfers)
- Program spending categories (health, elderly, children, unemployment, social assistance, other)
- Operating balance (revenue less program spending)
- Net debt (liabilities less financial assets)
- Fiscal gaps and steady-state contribution rates (finite horizon)

Statistics Canada's National Accounts and GFS data.

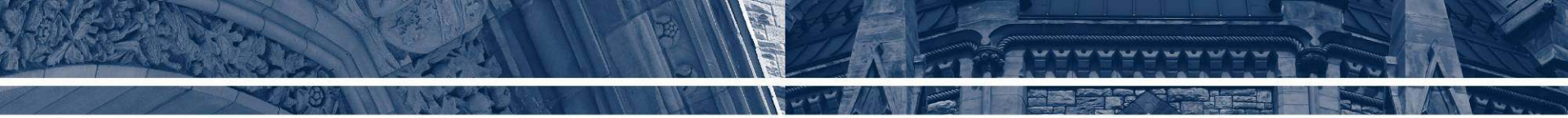
Indicators relative to GDP provided over history (50 years) and projection (75 years). Fiscal gaps and steady-state contribution rates provided for 25-, 50- and 75-year horizons.



PBO Sensitivity Analysis

- “Younger” and “older” demographic projections (alternative fertility, mortality and immigration assumptions)
- Alternative real GDP (productivity) growth and effective interest rates on government debt
- Alternative program “enrichment” assumptions for spending on health and elderly benefits
- Fiscal gap sensitivity (alternative debt-to-GDP endpoints and implementation dates)

Comparisons to “baseline” results (75-year fiscal gap and steady-state contribution rate estimates). Additional projections and estimates available upon request.

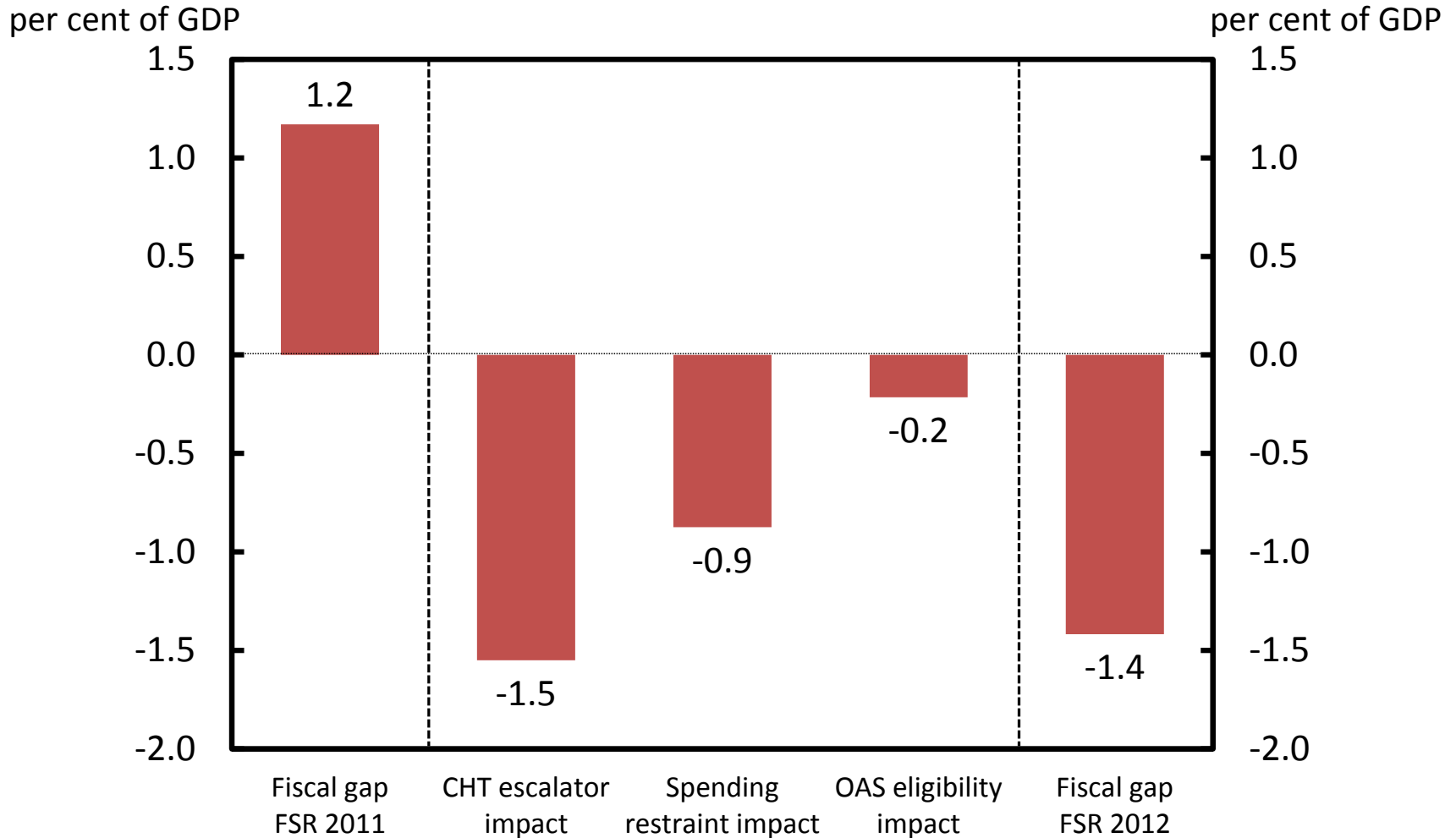


Fiscal Impacts of Policy Changes

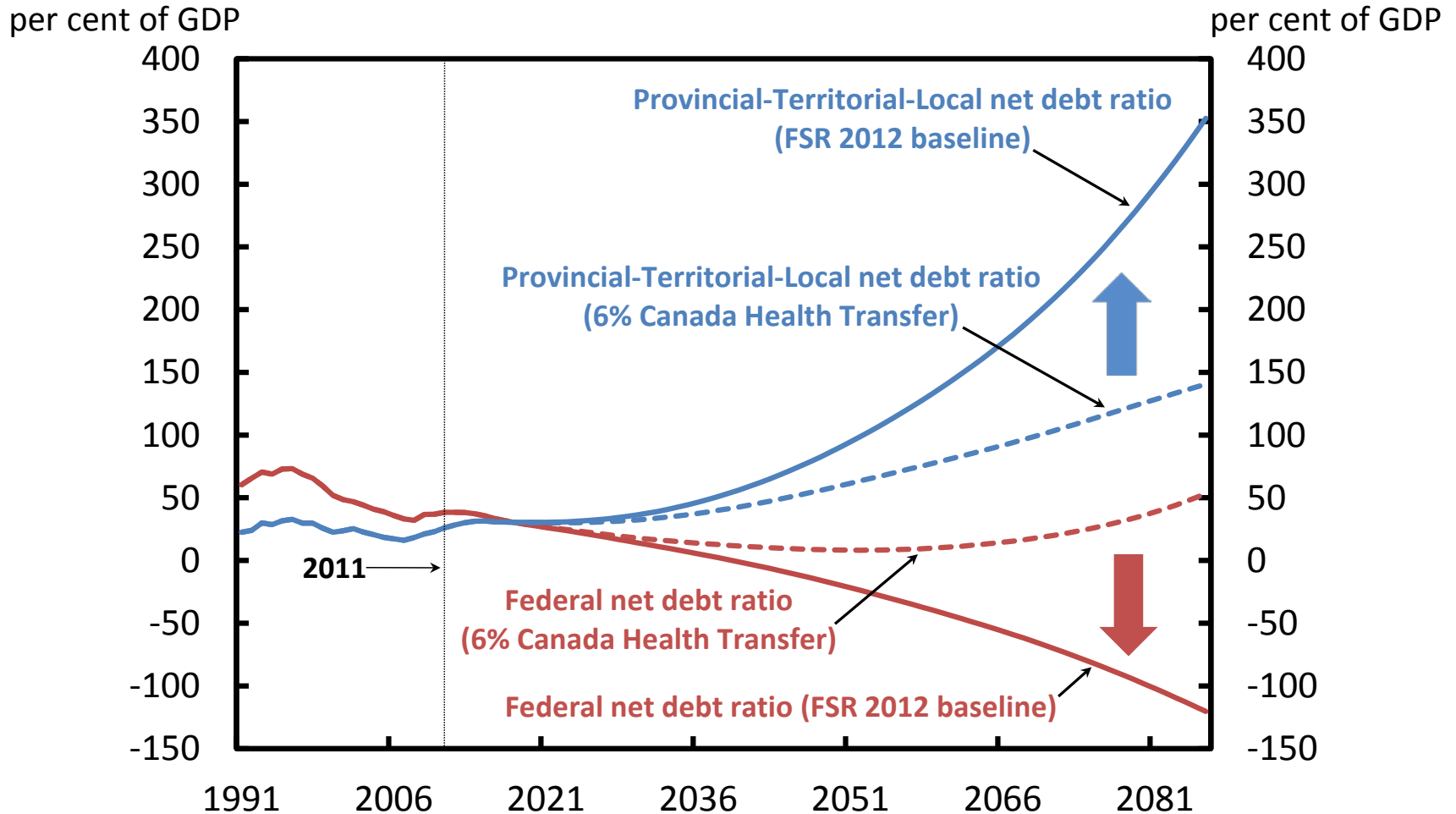
- Emphasis on baseline fiscal projection and gap estimates
- Fiscal gaps compared to estimates of structural operating balances over history
- Assumed tax burdens compared to historical experience
- Impacts of recent major federal policy changes on federal and provincial-territorial fiscal sustainability assessed

Example: Following 2011 FSR PBO assessed impacts of major federal policy changes (Canada Health Transfer, Old Age Security and reductions in operating costs)

Impacts of Recent Policy Changes – Federal Fiscal Gap



Federal and Provincial-Territorial-Local Net Debt Ratios



Government Sector Net Debt Ratio Projections

