Economic and Fiscal Assessment

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www.parl.gc.ca/pbo-dpb

The *Federal Accountability Act* mandates the Parliamentary Budget Officer (PBO) to provide independent analysis to the Senate and House of Commons on the state of the nation's finances, government estimates and trends in the national economy.

In meeting the commitments of this mandate, the following provides the PBO's first *Economic and Fiscal Assessment,* which describes:

- The economic situation and outlook in Canada;
- How these economic developments may impact the Government of Canada's fiscal situation going forward;
- Short-term policy considerations and fundamental long-term policy challenges.

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Executive Summary

The purpose of this document is to provide analysis for Parliamentarians to enhance public dialogue and deliberations on key economic and fiscal policy issues — issues that are critically important in the current context of a weakening global economy and highly uncertain outlook.

The PBO's key findings are as follows:

1. The ongoing international financial crisis has heightened uncertainty in financial markets and the global economy. Worldwide economic growth has slowed abruptly and a global recession is expected.

2. Reflecting weaker global economic prospects, tighter domestic credit conditions and a deterioration in business and consumer confidence, private sector forecasters have significantly downgraded the near-term outlook for the Canadian economy.

3. The weaker Canadian economic outlook, in turn, poses a risk for the Government to achieve its stated short-term and medium-term fiscal targets. Assuming no major fiscal policy changes, the downgraded economic outlook suggests the Government would record modest and temporary deficits in the near term.

4. There is a range of policy approaches to address these complex economic and financial developments. Each policy option entails tradeoffs. A key challenge for policymakers is to address short-term pressures while maintaining a longer-term vision, enacting policies that are fiscally sustainable and address the fundamental long-term challenges.

Overview of the PBO's Economic and Fiscal Assessment

1. Prospects for the global economy have deteriorated significantly

- The global economic and financial situation has sharply deteriorated due to the spreading impacts of the collapse in the sub-prime mortgage market in the U.S. and ensuing financial market turmoil.
- The resulting credit tightening and increased uncertainty, stock market losses, and declines in consumer and business confidence have sharply reduced growth prospects around the world, especially in the advanced economies.
- The IMF projects real global GDP growth of only 2.2% in 2009.
- Canada's largest trading partner, the U.S., is expected to endure a protracted period of economic weakness.
- These economic and financial developments have led to unprecedented policy responses. For example, some major financial institutions have been partially nationalized, central banks have aggressively lowered interest rates and large-scale fiscal stimulus packages have been announced, or are currently being implemented.

2. Canada's recent economic performance has weakened and the outlook has deteriorated

As an open economy trading in world product and capital markets, the Canadian economy is highly exposed to global economic and financial developments. The external factors that supported growth in the Canadian economy in recent years have since reversed course. The bursting of the U.S. housing bubble and ensuing financial market turmoil have combined with slowing growth in emerging-market economies whose robust growth helped fuel historic increases in commodity prices.

Recent Economic Performance

Canadian real GDP has essentially stagnated since the third quarter of last year, largely reflecting weakness in exports. Until recently, however, the impact on Canadian incomes was softened by the extra purchasing power generated by the rise in commodity prices. Commodity prices have dropped sharply in recent months and a number of indicators now point to a period of weak growth in Canada:

- The stock market has declined substantially from its historic peak.
- Credit conditions have tightened reflecting the global financial market turmoil.
- The housing market has cooled, despite the fact that the Canadian market was less exposed to sub-prime mortgages and speculative investments.
- Consumer and business confidence have fallen sharply and employment gains have moderated.

Canadian Economic Outlook

As the IMF has noted, the use of a wide range of private sector macroeconomic forecasts is a key strength of the Government's fiscal forecasting process. Consequently, the office of the PBO conducted a survey of private sector forecasts to assess and quantify Canada's economic prospects over the next five years.

Real GDP Growth: In the PBO's survey average forecast, the near-term real (inflation-adjusted) GDP growth outlook has been revised down significantly since the budget to 0.6% in 2008 and 0.5% in 2009 (from 1.7% and 2.4% respectively in Budget 2008). Growth in 2010-2012, however, is expected to be slightly higher than in the budget as the economy partially rebounds from this weakness.

Nominal GDP: Nominal GDP measures economic activity at current prices, making it a better indicator of the overall tax base from which the Government collects its revenue. For 2008, despite weaker-than-expected real GDP growth, surging commodity prices during the first half of this year should leave nominal GDP higher than expected at the time of the budget. In 2009, however, the slowing economy and weaker price pressures are expected to lower nominal growth significantly below the budget forecast. Considerable uncertainty surrounds the 2009 nominal GDP forecast, reflecting differing views on the depth of the slowdown, the timing and strength of the recovery, and the impact of commodity prices on GDP inflation in Canada. For 2010 and beyond, nominal GDP growth is closer to the budget forecast, as the economy is expected to partially rebound from slower growth in the earlier years. Overall, however, the *level* of nominal GDP remains $45 billion lower, on average, in these years relative to the budget.

Interest Rates: Interest rates impact how much the Government spends on interest charges for its borrowing. Short-term rates are expected to be significantly lower than forecast in the budget due to an aggressive easing by the Bank of Canada, which has cut its policy interest rate in half to 2.25%.

Unemployment: To date, the Canadian labour market has performed slightly stronger than expected at the time of the budget. For 2009 and the duration of the forecast horizon, however, the slowing economy is expected to result in a weaker labour market with unemployment rising above that forecast in Budget 2008. The unemployment rate is expected to peak at 6.9% in 2009 vs. 6.4% in the budget. This implies higher government spending on Employment Insurance benefits.

To put the PBO survey results into historical context, we compare the forecast range for real GDP growth to past slowdowns and recessions. The outlook for real GDP based on the PBO survey average forecast is similar to 2001. At that time, the U.S. experienced a recession which coincided with a distinct economic slowdown in Canada. The forecast based on the PBO survey low forecast features a slightly more protracted slowdown. However, neither of these forecasts call for downturns that are as severe as the recessions Canadians experienced in the early 1980s and 1990s.

Risks to the Economic Outlook

The economic outlook based on the average of private sector forecasts provides a reasonable basis for fiscal planning. That said, the outlook for the Canadian economy is highly uncertain and depends crucially on developments in the global economy and global financial markets.

The key downside risks to the economic outlook based on the average of private sector forecasts are external and stem from the possibility of a more severe downturn in the U.S. economy and protracted weakness in emerging-market economies. There are, however, some upside risks including the possibility that the global financial crisis is resolved more smoothly and sooner than expected, which would help improve consumer and business confidence and boost equity markets.

Despite the downward revisions to the economic outlook since Budget 2008, the balance of risks remains tilted to the downside.

3. Given the weaker economic outlook, and assuming no major fiscal policy changes, modest near-term budget deficits are projected

To assess the potential impacts of the weaker economic outlook on federal finances, the PBO has constructed a fiscal projection based on a scenario using the PBO survey average of economic forecasts, described above. Further, to help assess the potential fiscal impacts of risks to this economic outlook, the PBO survey's low and high forecasts are used for illustrative purposes.

To be clear, the PBO's projection is not an 'alternative forecast' (i.e., the PBO's view of the most likely outcome) of the Government's fiscal position. Rather, the goal of the exercise is to enhance both Parliamentarians' and Canadians' understanding and raise issues for discussion by assessing the potential fiscal impacts of the downgraded economic outlook and potential risks, absent any major fiscal policy changes.[1]

Fiscal Situation and Projection Results

The budget balance for the first five months of the fiscal year is the lowest in recent years, largely attributable to previous policy decisions as opposed to weakened economic conditions. While the year-to-date fiscal results, as well as all of our projection scenarios, suggest a modest surplus in 2008-09, it will be some time before the implications for revenues of the recent financial market turmoil are known. As a result, a deficit for this fiscal year is a distinct possibility.

Looking forward, assuming status quo fiscal policy, the downgraded economic outlook translates into a deterioration in the budgetary balance, putting the Government's stated fiscal targets and objectives at risk. In the PBO survey average scenario, modest deficits are projected in the near-term of $3.9 billion in 2009-10 and $1.4 billion in 2010-11 with a return to modest surpluses in 2011-12 ($1.6 billion) and 2012-13 ($3.0 billion). As a share of the economy, however, the peak deficit in the PBO survey average scenario is negligible at 0.2% of GDP in 2009-10. The cumulative budgetary balance over the projection period is a surplus of $3.4 billion.

The PBO survey low scenario provides potential fiscal impacts from a more protracted economic slowdown and commodity price correction. In this low scenario, deficits peak at roughly $14 billion (0.9% of GDP) in the next fiscal year and persist for the duration of the projection horizon, averaging 0.8% of GDP. Under the more optimistic PBO survey high scenario, the Government's budget balance is projected to be in line with Budget 2008 in the near term and somewhat higher thereafter. Overall, given that the economic risks remain on the downside, our judgement is that the lower range of the budget projections represents a more likely range of possible outcomes.

In general, these projection results suggest the downgraded economic outlook will likely compromise the Government's ability to achieve its stated short-term and medium-term fiscal

[1] Our starting point takes account of recent economic developments and year-to-date fiscal results. To better perform this exercise the PBO required the detailed dataset used to produce the Budget 2008 economic and fiscal forecast. Our request to the Department of Finance for this information was denied.

targets of balancing the budget each year, and lowering the debt-to-GDP ratio to 25% by 2011-12, respectively.

That said, although modest deficits arise in the PBO survey average scenario, the budget balance is projected to return to modest surplus in 2011-12, while the medium-term debt-to-GDP target is achieved in 2012-13, only one year later than planned.

4. How might the Government respond to the current downturn?

Faced with the expected economic downturn, there are essentially three broad policy approaches the Government may adopt:

1) *No discretionary fiscal policy response.* In the current context, this means the Government would, as it has done thus far, focus its efforts on stabilizing the financial markets and introduce no major discretionary fiscal stimulus. This approach is based on the conventional view that easing monetary policy together with automatic fiscal stabilizers (i.e., reductions in tax collections and increases in government spending that happen automatically when incomes fall and unemployment rises) can reduce the impact of the economic slowdown and shorten its duration. However, in the current context some argue the risk of this approach is that there is limited scope for additional stimulus from monetary policy, given the already low level for the Bank of Canada's policy interest rate of 2.25% and the substantial uncertainty in financial markets.

2) *Strict adherence to balanced budgeting.* The Government may choose to take measures to balance the budget. This could involve selling government assets but is more likely to require a reduction in government spending, an increase in taxes, or a combination of the two. A risk of this approach is that this contractionary fiscal policy response could prolong or exacerbate the economic slowdown.

3) *Increase spending or reduce taxes to stimulate the economy in the short run.* This approach aims to alleviate the difficulties of reduced incomes and higher unemployment in the short run, and may provide policymakers some additional 'insurance' if the slowdown were expected to be particularly severe. Any discretionary fiscal stimulus measures would likely impact the short-run timing of activity in the Canadian economy, but could also impact economic activity in the long run — either positively or negatively — if, for example, the measures alter the incentives to create jobs, or save and invest. This approach would likely further weaken the Government's fiscal position in the short run, and if deficits were to persist, may pass the costs of today's policy actions onto future generations. Therefore, any discretionary fiscal response should be: timely; temporary; and targeted. Respecting these principles ensures that any new fiscal measures would be cost-effective and fiscally sustainable.

5. Issues for Parliamentarians

Parliamentarians may wish to raise a number of issues with the Government in the context of the 2008 Economic and Fiscal Update and the 2009 pre-budget deliberations.

Monitoring and Reporting to Parliament

The need to improve economic and fiscal monitoring and reporting to Parliament and Canadians. This may include strengthening the Department of Finance's quarterly reports with respect to the coverage and assessment of global, national and regional economic indicators and the potential implications for Canadians and the Government's finances.

Prudent Fiscal Policy

The need to review or re-affirm (where necessary) current fiscal targets and objectives in light of the current cyclical weakness including: the annual balanced budget target; the medium-term 25% debt-to-GDP by 2011-12 target; and the program spending growth target.

The need to ensure that the short-term fiscal policy stance of the Government is consistent with effective stabilization policy (i.e., that fiscal actions will not be taken to increase economic weakness) and will complement monetary policy to strengthen the economy.

Addressing Fundamental Long-term Policy Challenges

Notwithstanding the short-term policy challenges regarding financial stability and the economic slowdown, there is a need to examine and address key long-term policy challenges, which include:

- The economic and fiscal implications of Canada's aging population;
- The negative consequences for our standard of living as a result of Canada's low productivity growth;
- The need to reduce greenhouse gas emissions and further promote environmental sustainability;
- The need to facilitate appropriate adjustment in key sectors of the economy; and
- The need to address rising regional and family income inequality.

OFFICE OF
THE PARLIAMENTARY BUDGET OFFICER

BUREAU DU
DIRECTEUR PARLEMENTAIRE DU BUDGET

CANADA

Economic and Fiscal Assessment

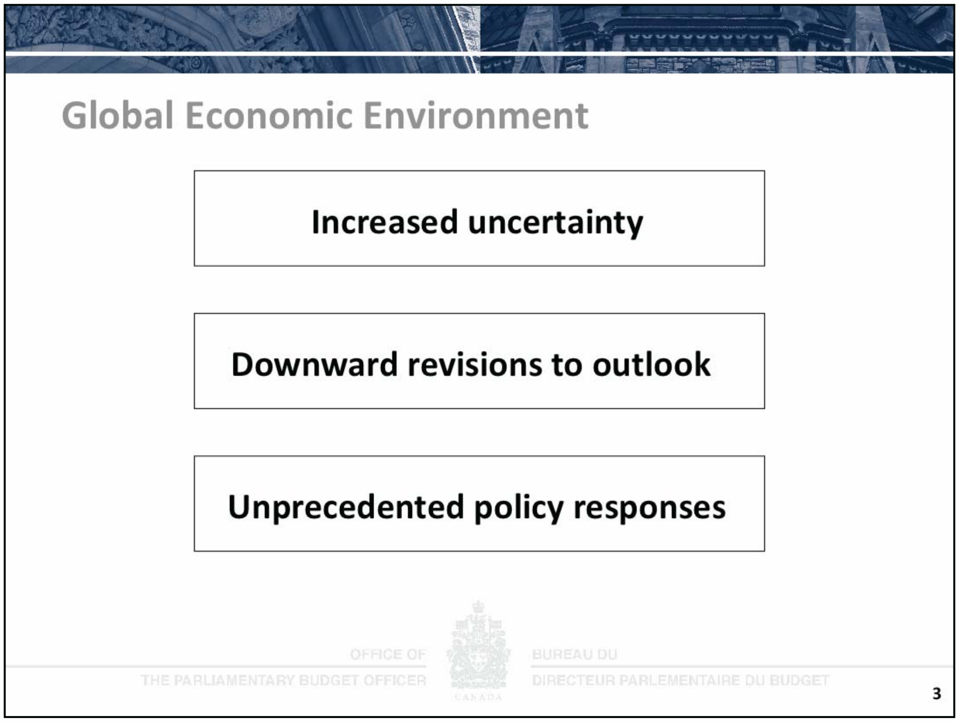
November 20, 2008

Outline of Report

1) Economic and Fiscal Situation

2) Outlook and Risks

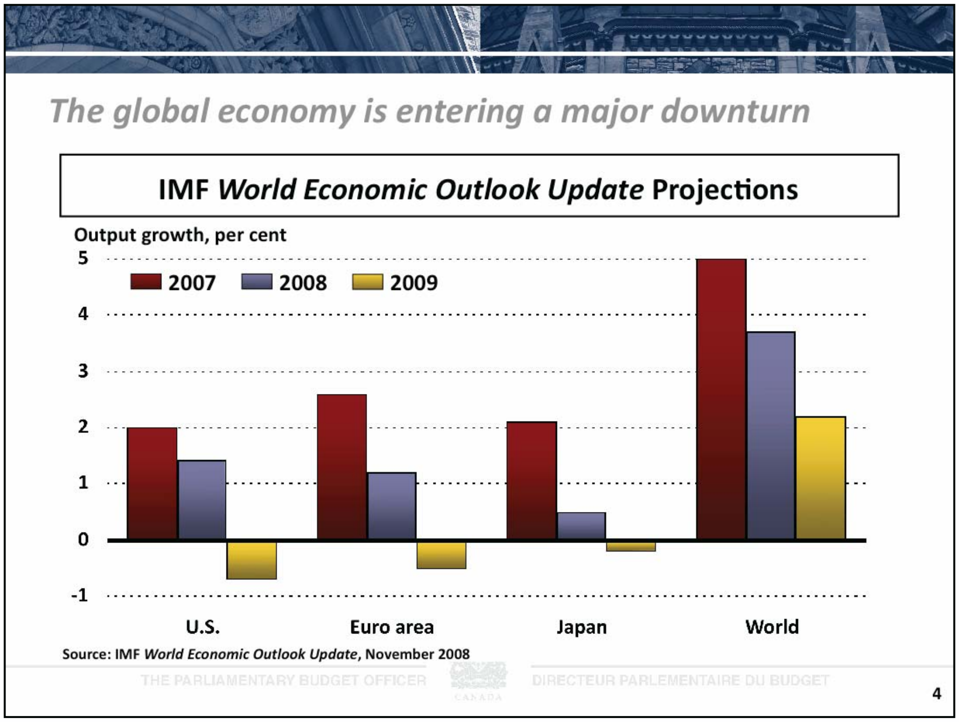
3) Policy Challenges



The global economic and financial situation has sharply deteriorated due to the spreading impacts of the collapse in the sub-prime mortgage market in the U.S. and ensuing financial market turmoil.

The increased uncertainty and resulting credit tightening have significantly reduced prospects for economic growth. A global recession is expected.

These developments have led to unprecedented policy responses. Several countries have taken extraordinary measures to provide liquidity to credit markets, some major financial institutions have been partially nationalized, central banks have aggressively lowered their policy interest rates, and large-scale fiscal stimulus packages have been announced, or are currently being implemented.

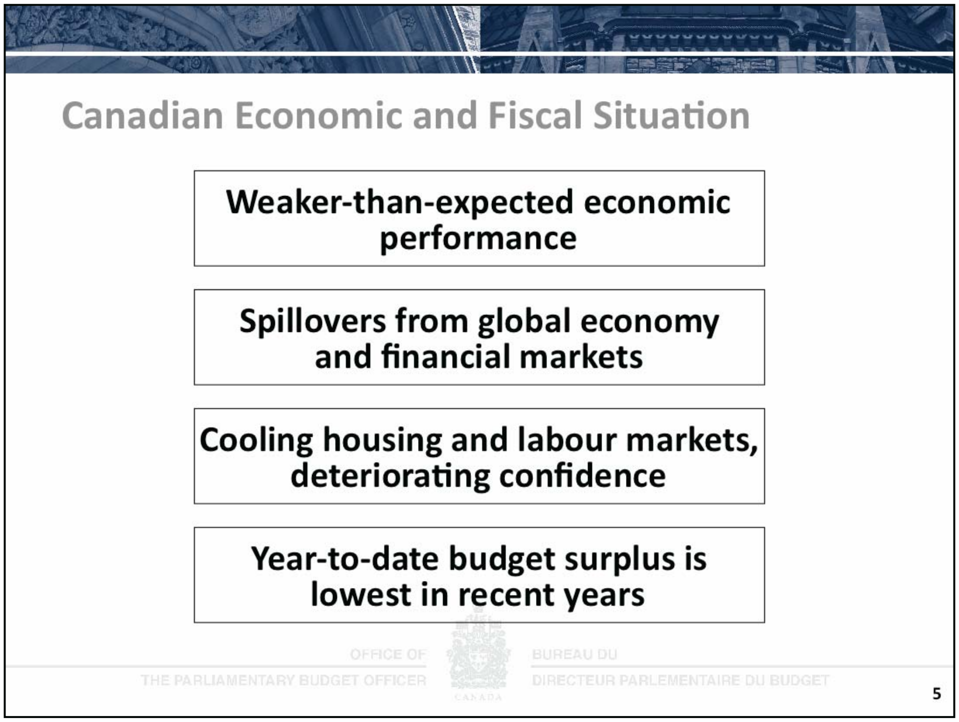


As an open economy trading in world product and capital markets, the Canadian economy is exposed to global economic and financial developments. The external factors that have supported growth in the Canadian economy in recent years have reversed course. The bursting of the U.S. housing bubble and ensuing tightening and turmoil in credit markets have now combined with slowing growth in emerging-market economies whose robust growth helped fuel historic increases in commodity prices.

The global economy is now entering a major downturn as the impacts of these external factors have intensified and spread more broadly across countries and economic sectors, increasing uncertainty and deteriorating business and consumer confidence.

Indeed, the International Monetary Fund (IMF) recently updated its outlook for the world economy in its *World Economic Outlook Update* released November 6th. The IMF has significantly downgraded its forecast, calling for further fiscal stimulus and monetary easing. Led by weaker growth in advanced economies, overall global growth in 2009 is now expected to be 2.2%, down from the 3.7% expected in 2008. The weak growth in 2009 is below the 3% mark, which is generally considered to be a global recession. Output in advanced economies – except Canada – is now forecast to decline in 2009 — this would be the first decline in the post-war period.

To give some historical context, the slowdown in advanced economies is expected to be similar in magnitude to that experienced in 1975 and 1982 (with regard to cyclical deviations from trend growth).



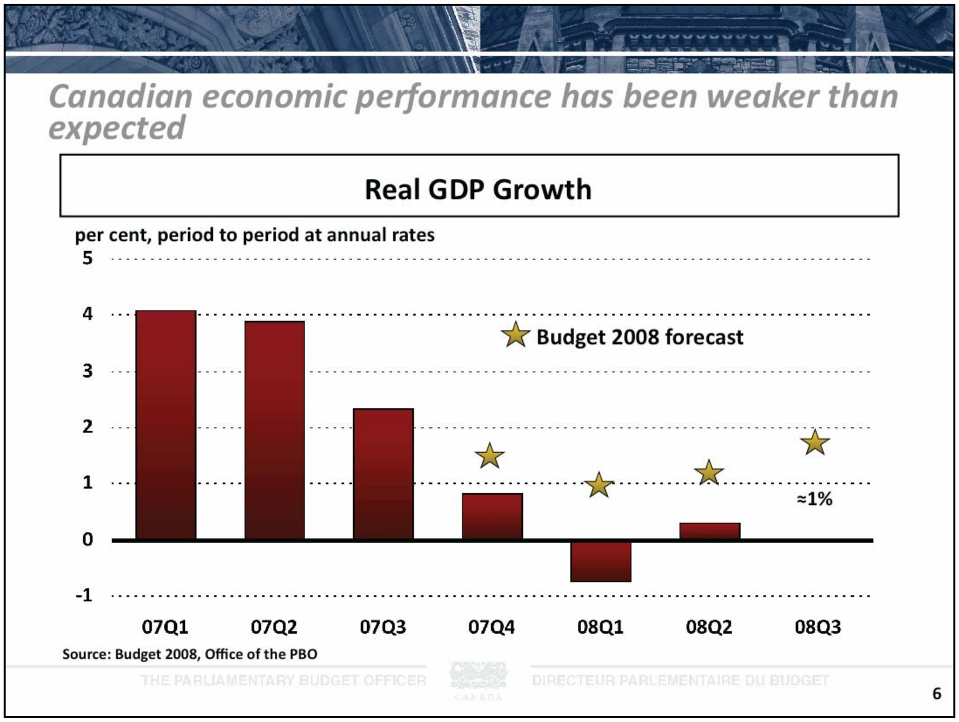
Relative to expectations at the time of Budget 2008, Canada's economic performance to date has been generally weaker than expected, primarily reflecting global economic and financial developments.

Weakness in demand for Canadian exports and, until recently, an exchange rate near parity with the U.S. dollar have weighed heavily on Canada's trade sector. In addition, the turmoil in global financial markets has continued to spill over into Canada, although domestic credit conditions have tightened to a lesser extent.

Higher-than-expected commodity prices fuelled gains in Canada's terms of trade (i.e., export prices relative to import prices) through the second quarter and into the third quarter of this year, providing substantial income gains to households, businesses and governments. Since July, however, commodity prices have reversed course and declined sharply, contributing to a record depreciation in the Canada-U.S. exchange rate and a sharp fall in stock prices.

Canada's housing and labour markets have also cooled following strong performances throughout 2007. At the same time, consumer and business confidence have deteriorated sharply, reflecting heightened concerns about the outlook for the global economy and financial markets.

The budget balance for the first five months of the fiscal year is the lowest in recent years, largely reflecting policy decisions taken in recent budgets. In August the year-to-date budget surplus stood at $1.2 billion, down from $6.6 billion the year earlier. The budget surplus for the entire fiscal year 2008-09 in Budget 2008 was projected at $2.3 billion.

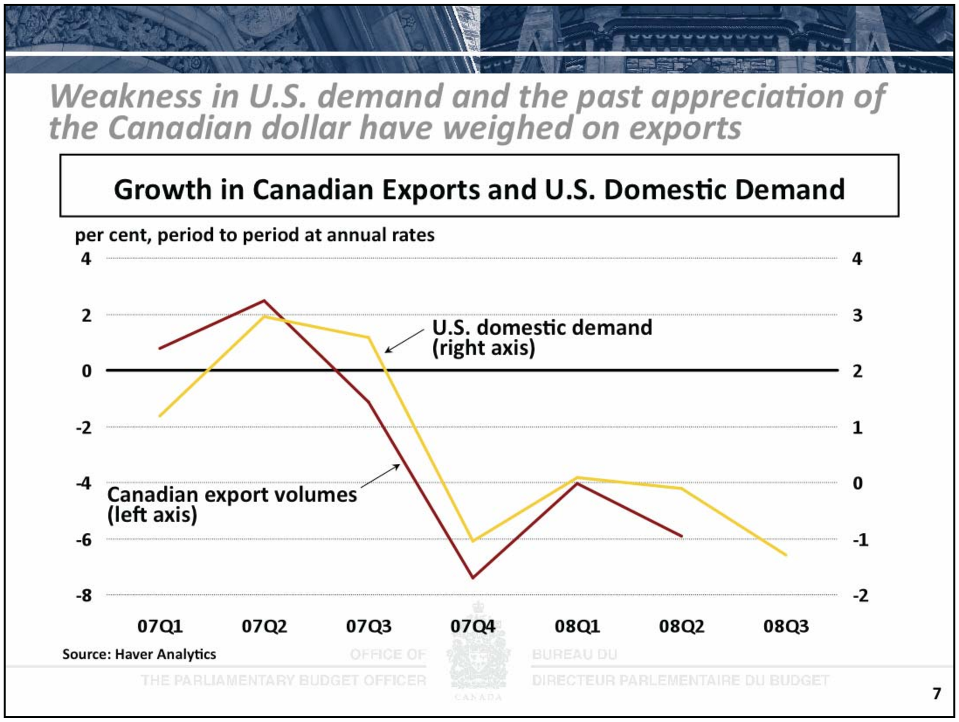


Growth in real GDP has been much weaker than expected at the time of Budget 2008, primarily reflecting weaker-than-expected growth in exports.

Business sector output declined in the first two quarters of the year as a result of further weakness in the goods producing sector, particularly in manufacturing, while growth in the services producing sector moderated.

Declines in business sector output and continued increases in the number of hours worked have resulted in three consecutive quarterly declines in business sector labour productivity (defined as output per hour worked), the worst performance since mid-1990.

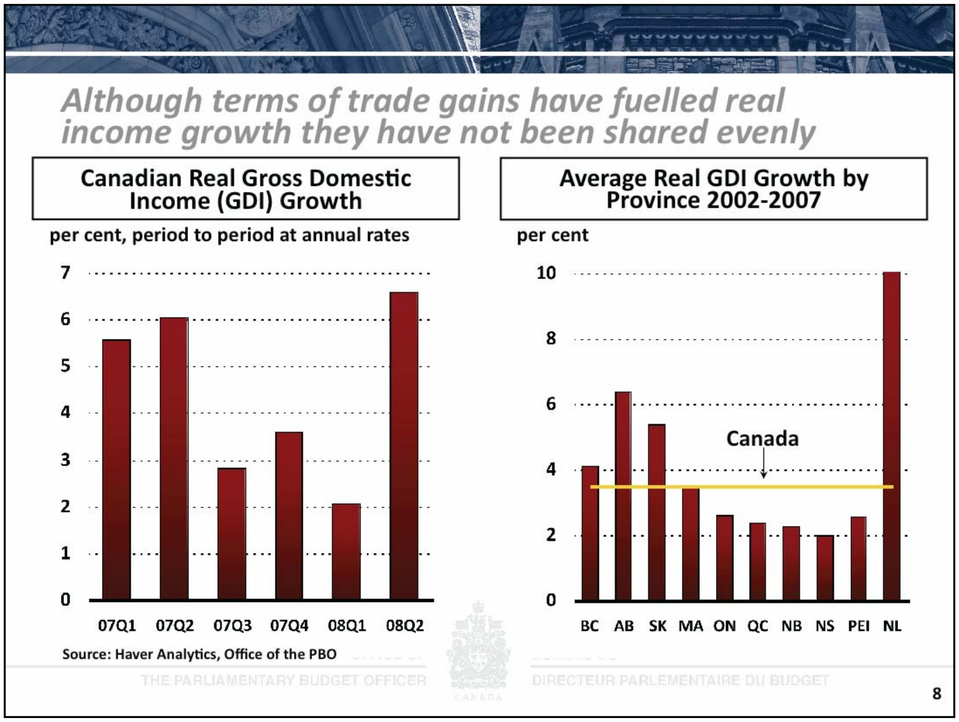
Statistics Canada is scheduled to release its estimate of real GDP growth for the third quarter on December 1. Recent economic indicators suggest that third-quarter real GDP should advance by around 1% (at annual rates).



Since the fourth quarter of 2007, declines in Canada's export volumes have subtracted approximately 2 percentage points on average from real GDP growth.

U.S. domestic demand has weakened significantly since mid-2007, which combined with the appreciation of the Canadian dollar from 85 cents U.S. in early 2007 has resulted in declines in Canadian export volumes over the past 4 quarters.

Exports of automotive and forestry products have been particularly hard hit over this period, reflecting weaker U.S. consumer spending and declines in U.S. residential investment. Exports of energy products have also retreated sharply in recent months.



To date, Canada's economic performance has not been as weak as suggested by growth in real GDP, which measures increases in the volume of Canada's domestic production.*

Statistics Canada now reports a measure called real Gross Domestic Income (GDI) to capture increases in purchasing power from terms of trade gains. This measure is a more relevant indicator of economic performance and well-being during periods when commodity prices fluctuate significantly. Real GDI is constructed by deflating nominal GDP by the final domestic demand price index (i.e., an index of domestic prices paid by households and businesses in Canada).

The rise in commodity prices beginning earlier this year has provided additional income gains to households, businesses and governments, cushioning the impacts of weakened U.S. demand. However, since resource production is not evenly distributed across the country, these terms of trade gains have been concentrated in resource producing provinces. Over the period 2002-2007, resource producing provinces enjoyed above average real GDI growth.

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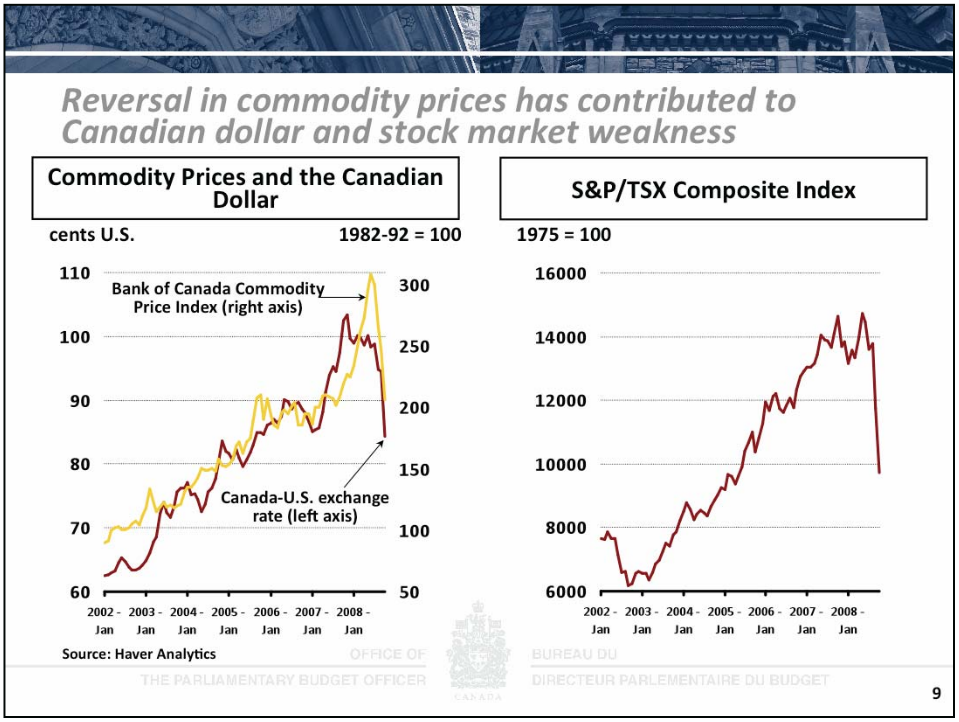
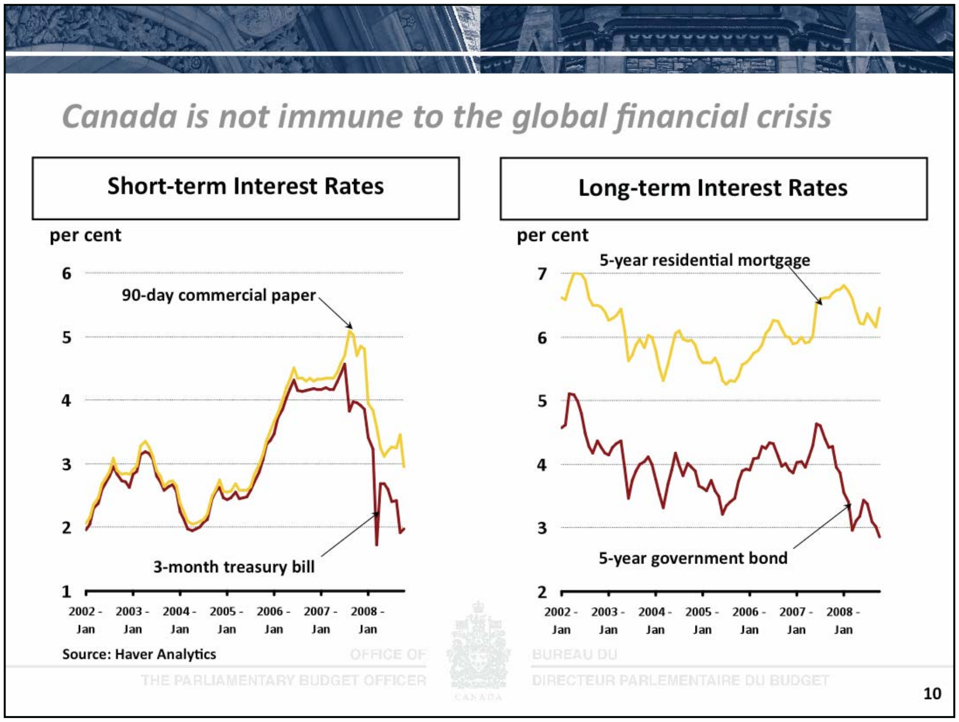
* Real GDP growth does not adequately reflect increases in purchasing power from terms of trade gains, which occur when the prices of Canada's exports rise relative to the prices of Canada's imports. These gains mean that Canadians can purchase more goods and services with additional earnings from exports than they would have otherwise.



Rising commodity prices fuelled terms of trade gains from 2002 through the first half of 2008. However, with growth moderating in industrial and emerging-market economies and with global economic prospects worsening, commodity prices, both energy and non-energy, have reversed course and declined sharply.

The Canadian dollar, which tends to respond to movements in commodity prices, has depreciated sharply back to around January 2007 levels of 85 cents U.S.

Heightened uncertainty about economic and financial prospects, combined with the reversal in commodity prices have contributed to a 34% drop in Standard and Poor's/ Toronto Stock Exchange (S&P/TSX) composite index from its historic peak.

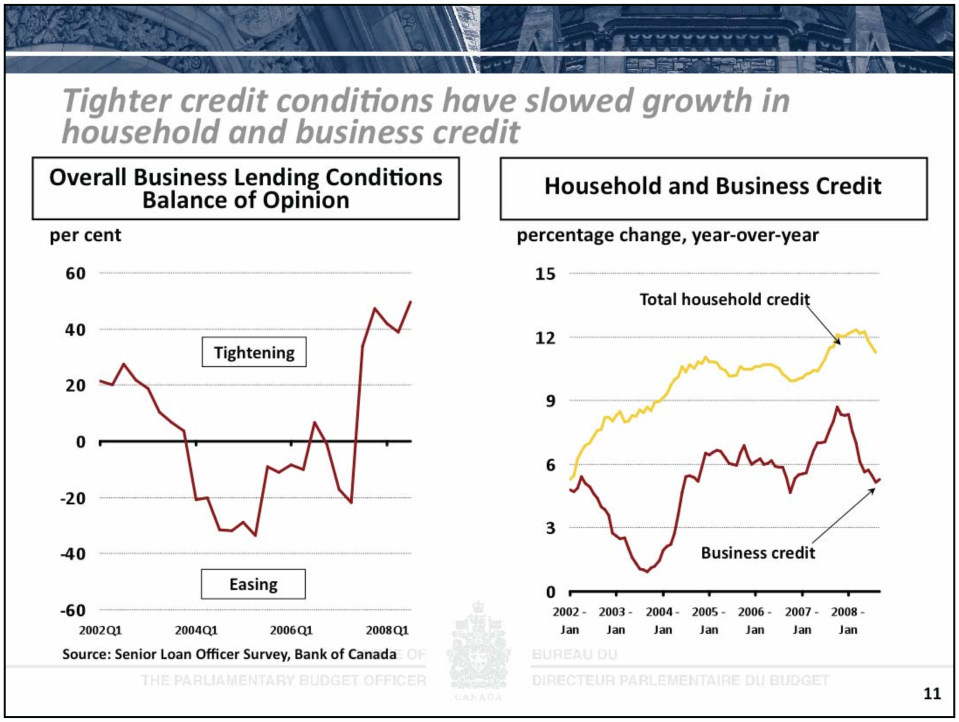


Canada has not been immune to the global financial market turmoil as credit conditions in Canada have tightened substantially, although to a lesser extent than in other industrialized economies.

One widely used indicator of credit tightening is the difference, or spread, between interest rates on debt issued by businesses (e.g., commercial paper) and interest rates on lower risk debt issued by governments. Prior to the beginning of the financial market turmoil in August 2007, these spreads were relatively low and stable compared to longer-term historical averages. Problems in the U.S. sub-prime mortgage market sparked a sudden re-pricing of the risk associated with borrowing by businesses and households.

The spread between interest rates on 90-day prime corporate commercial paper and 3-month Government of Canada treasury bills averaged roughly 10 basis points (a 'basis point' is 1/100 of a percentage point) over the January 2002-July 2007 period; since August 2007 this spread has averaged over 90 basis points. The spread between rates on 5-year residential mortgages and 5-year Government of Canada bonds averaged 200 basis points over January 2002-July 2007 and 300 basis points since August 2007.

Relative to lower risk securities, the price of credit has increased substantially since mid-2007. However, the Bank of Canada's cumulative 225-basis-point reduction in its policy interest rate since November 2007 has helped to lower the absolute cost of borrowing by businesses and households as several borrowing rates are at or below their pre-August 2007 levels.

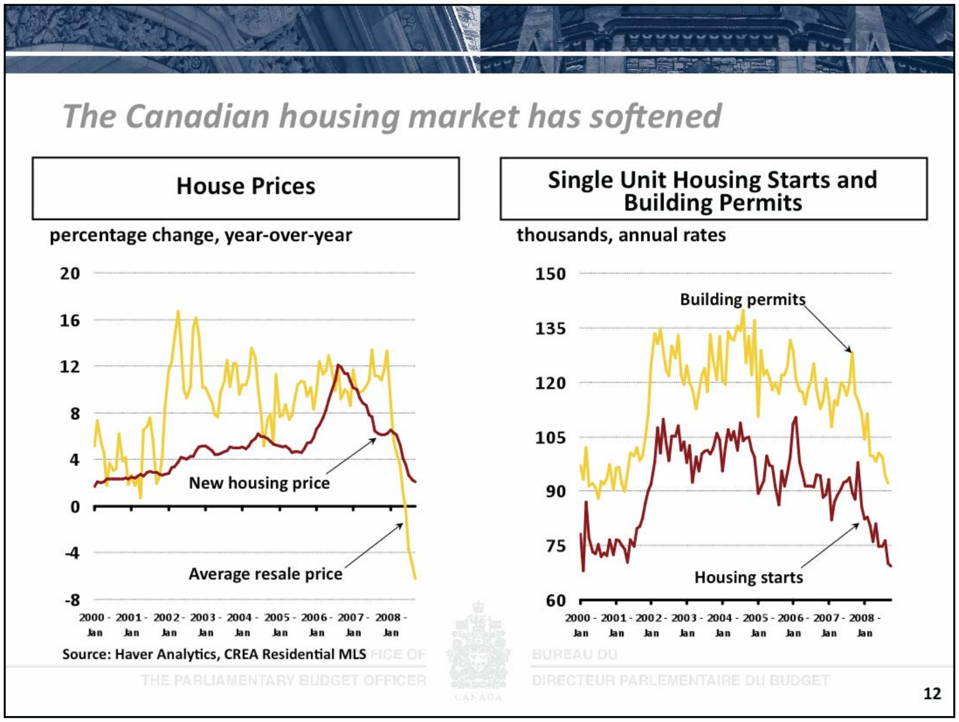


While the rise in short-term credit spreads for financial and non-financial firms has been more than offset by reductions in the Bank of Canada's policy interest rate, the Bank of Canada has noted that the terms and conditions for bank intermediated credit have continued to tighten.

Based on the Bank of Canada's recent *Senior Loan Officer Survey*, the overall balance of opinion on credit conditions (i.e., the weighted percentage of financial institutions reporting tightening credit conditions minus the percentage reporting easing) reached a record 50% in the third quarter of this year.

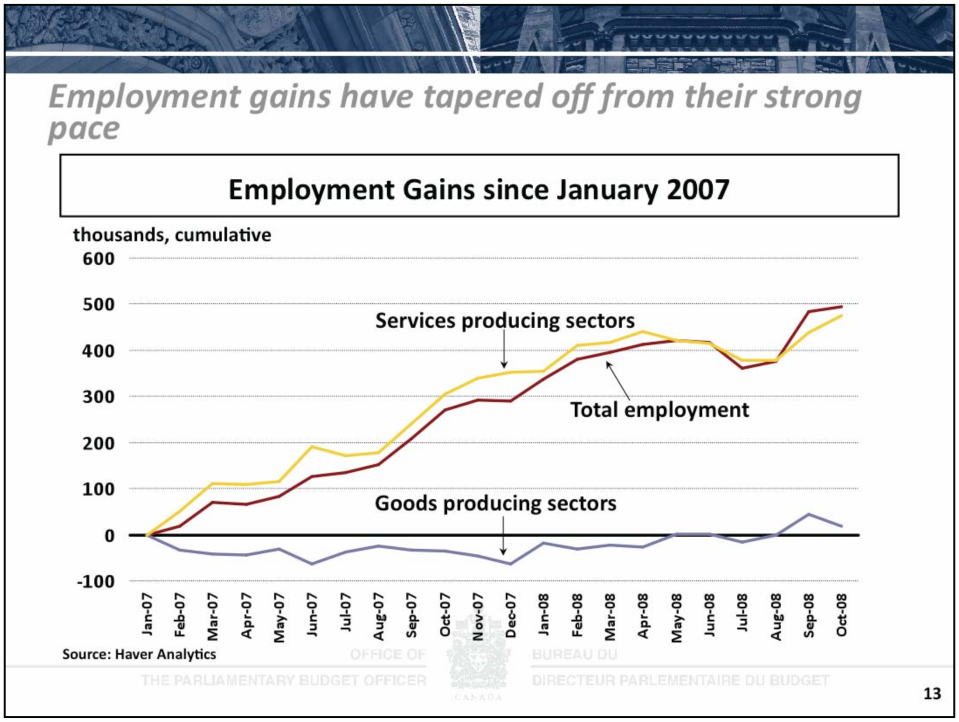
Reflecting the tightening in credit conditions, growth in business credit has fallen slightly below its historical average while household credit growth has slowed in recent months.

Although household credit growth in Canada has remained stronger compared to the U.S., Canadian household balance sheets remain much healthier. Based on the most recent national balance sheet accounts, Canadian household net worth relative to disposable income was 23% higher than the U.S.



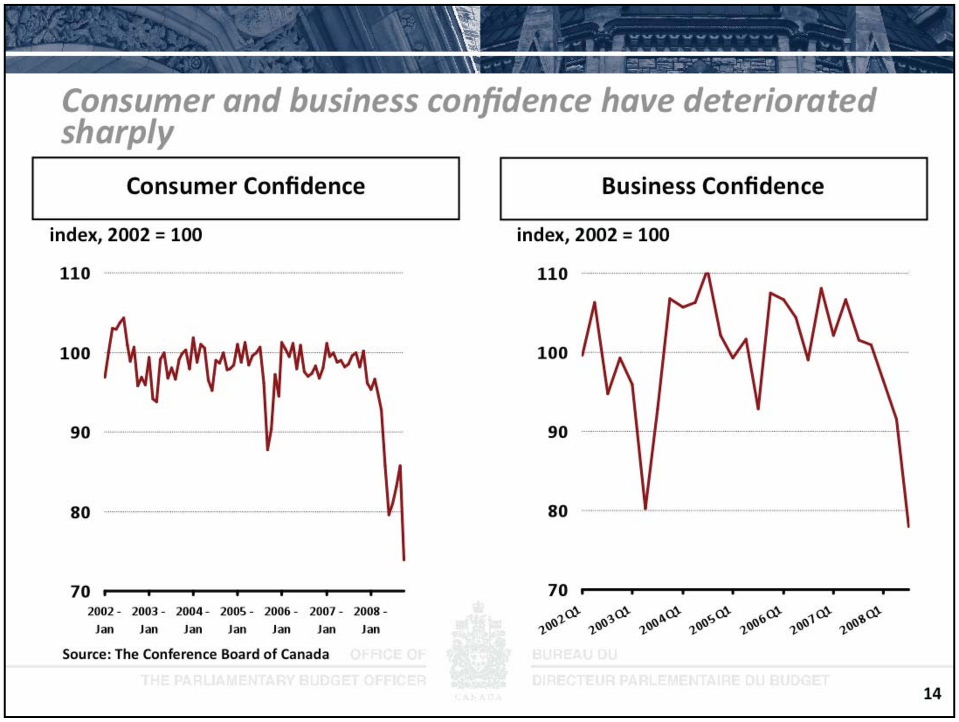
Following several years of robust activity in residential construction and substantial increases in house prices, the Canadian housing market has softened. Prices of new homes have continued to rise, but at a much slower pace than previous years, while resale prices started to decline in June of this year. Single unit housing starts have decreased sharply since late 2007. The recent deceleration and decline in housing prices and housing starts has been led by a weakening in Western Canada.

Some concern has been expressed that the Canadian housing market is headed for a U.S.-style collapse. While the Canadian housing market registered a strong performance from 2001 to 2007, this performance primarily reflected strong economic factors as opposed to sub-prime mortgage innovation and lax lending standards which helped to fuel the U.S. housing boom. Over this period Canadians experienced robust employment gains, and enjoyed higher incomes through commodity price-led improvements in the terms of trade and low interest rates. Lending practices and mortgage products in Canada have also been more conservative than in the U.S. In addition, Canada's performance since 2001 also reflected a resurgence from a period of pent-up housing demand in the 1990s.



Employment gains were strong throughout 2007 with an average of 30,000 new jobs created each month. This pace continued through April of this year but has since slowed, averaging 13,000 new jobs per month. Job gains since April have also been in part-time employment (+84,000 compared to -5,000 in full-time employment).

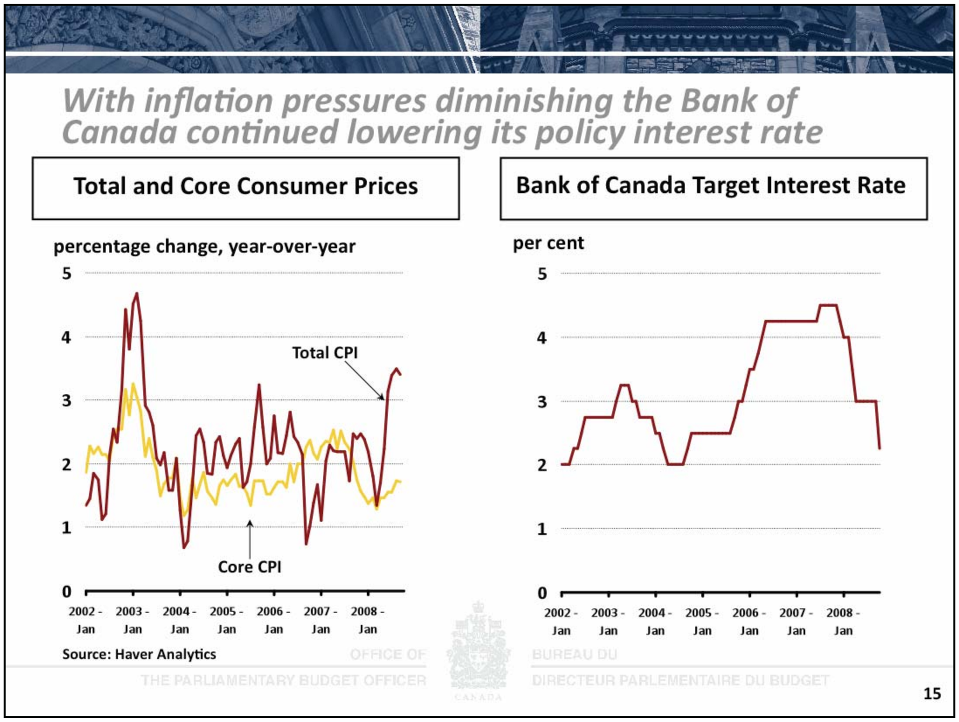
Since 2007, employment gains have been concentrated entirely in the service sector as the goods sector, in particular manufacturing, has struggled to cope with weak U.S. demand, the appreciation of the Canadian dollar and tighter domestic credit conditions.



According to the Conference Board of Canada, consumer confidence has fallen to its lowest level in 26 years, the third quarter of 1982, when the economy was in a deep recession.

Slumping consumer confidence does not bode well for household consumption going forward, particularly for big-ticket financed purchases, such as housing and durables.

Measures of business confidence have also fallen sharply. In this uncertain economic environment with tighter credit conditions, businesses may delay new capital investment and hiring new employees.

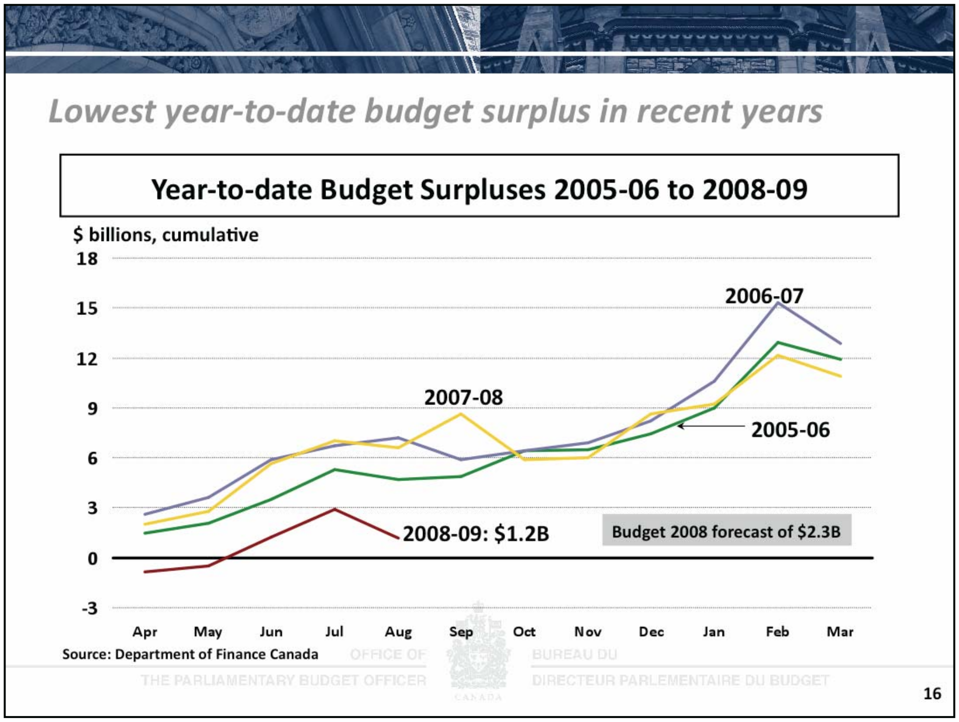


The sharp increase in energy and food prices earlier this year boosted total consumer price inflation to 3.5% in August 2008 — above the Bank of Canada's 1% to 3% target range.

While the Bank of Canada's 2% inflation target is specified in terms of total CPI inflation, the Bank uses core CPI inflation (which removes the prices of the 8 most volatile components and the effects of changes in indirect taxes) as an operational guide to policy because it provides a better indication of underlying trend inflation.

The Bank of Canada and several other central banks worldwide are now engaged in an aggressive easing cycle. The Bank of Canada has cut its policy interest rate in the past year, from 4.50% in November 2007 to 2.25% in November 2008. Moreover, in its recent interest rate announcement the Bank noted that "some further monetary stimulus will likely be required to achieve the 2% inflation target over the medium term".

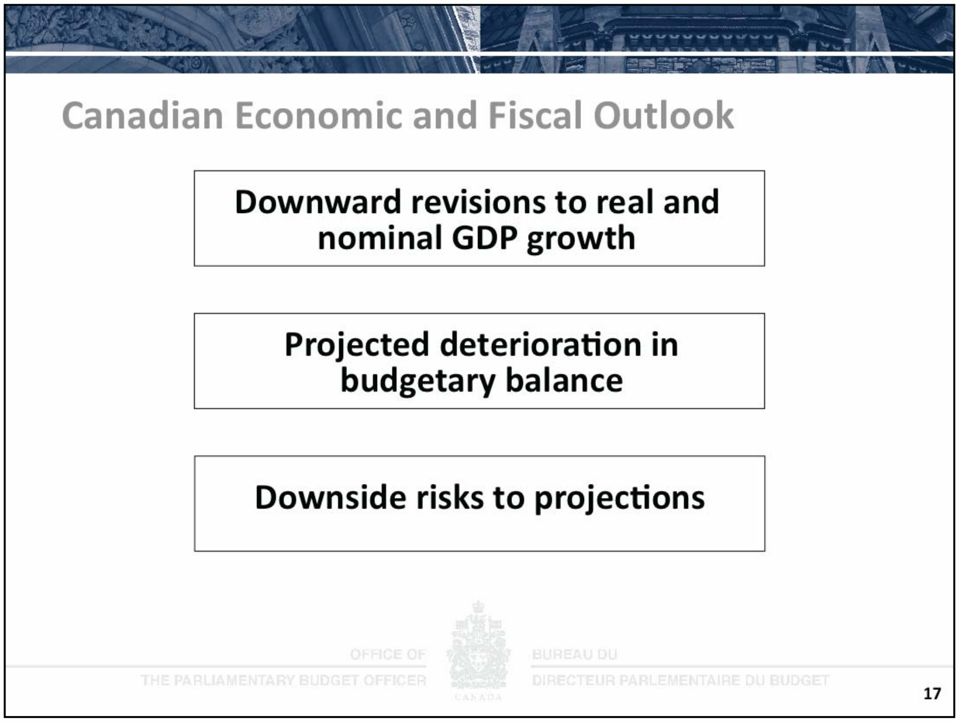
In addition to its aggressive interest rate easing, and in concert with the recent G-7 Plan of Action, the Bank of Canada has also taken extraordinary measures to provide liquidity to the Canadian financial system.



The budget balance for the first five months of the fiscal year is the lowest in recent years, based on the information from the Department of Finance's monthly Fiscal Monitor.

In August the year-to-date budget surplus stood at $1.2 billion, down from $6.6 billion the year earlier. The surplus for the entire 2008-09 fiscal year forecast in the budget was $2.3 billion.

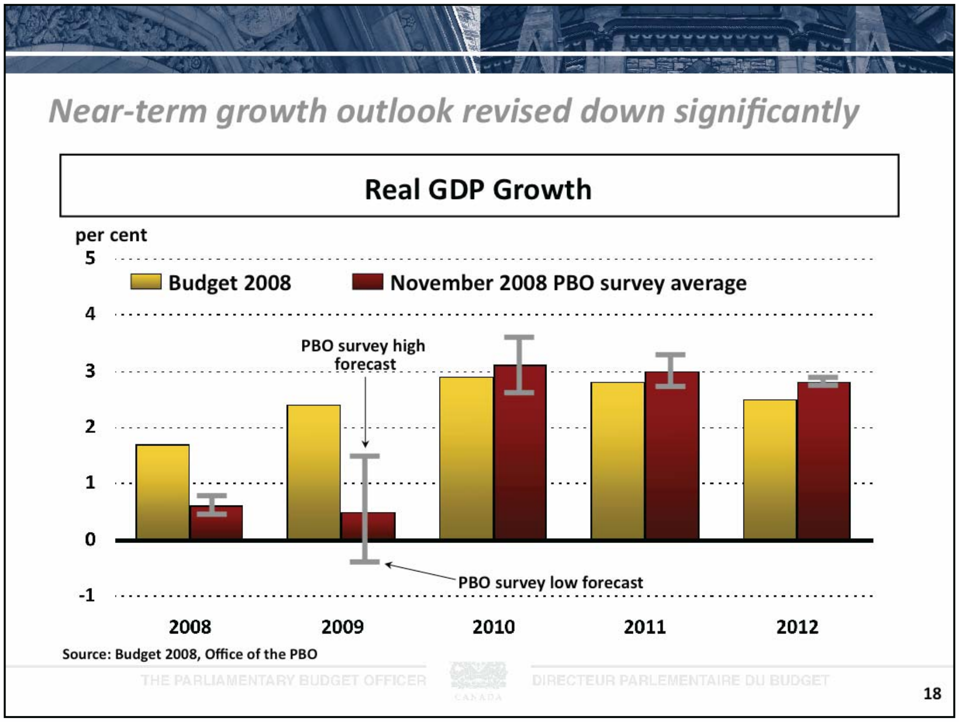
The weak fiscal performance to date is largely attributable to previous policy decisions as opposed to weakened economic conditions, since nominal GDP is higher than expected in Budget 2008. Tax revenues are down $353 million year to date compared to a year earlier, due in large part to recent policy measures, such as the second one-percentage point reduction in the Goods and Services Tax and reductions in corporate income taxes.



As the IMF has noted, the explicit use of a wide range of private sector macroeconomic forecasts is a key strength of the Government of Canada's fiscal forecasting process. Consequently, the economic outlook presented in this section and on which the following fiscal projections are based, is taken from a survey (conducted by the office of the PBO) of private sector forecasts completed on November 10. The forecasters included are: Scotiabank, BMO Capital Markets, TD Economics , RBC, CIBC World Markets, The Conference Board of Canada, Desjardins, Global Insight, University of Toronto – PEAP, Centre for Spatial Economics and Merrill Lynch.

Private sector forecasters have marked down their outlook for near-term real GDP and nominal GDP growth substantially from the outlook presented in the 2008 budget. In line with weaker growth and diminished inflationary pressures, private sector forecasters have also downgraded their outlook for interest rates. While the economic outlook based on the average of private sector forecasts provides a reasonable basis for fiscal planning, the balance of risks around this outlook is tilted to the downside.

Under a status quo fiscal scenario, the downgraded economic outlook translates into a deterioration in the budgetary position, putting the Government's stated fiscal targets and objectives at risk.

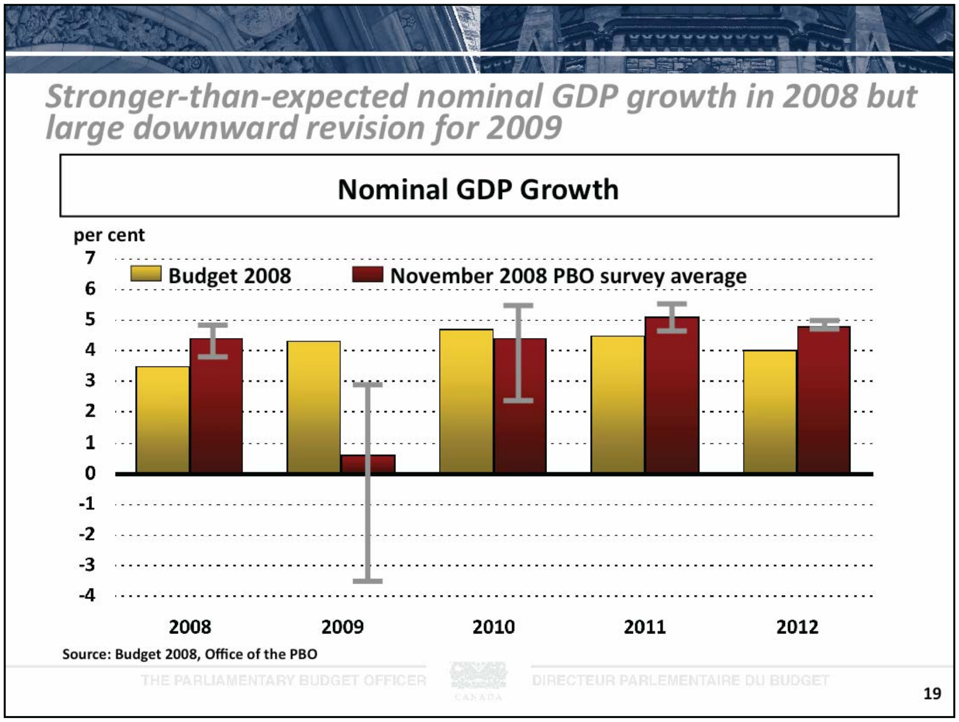


Reflecting weaker global economic prospects, tighter domestic credit conditions and the deterioration in confidence and financial wealth, private sector forecasters have revised down significantly their outlook for Canadian real (i.e., inflation-adjusted) GDP growth.

Private sector forecasters now expect real GDP to grow at 0.6% in 2008 and 0.5% in 2009, down substantially from the 1.7% and 2.4% expected at the time of Budget 2008. While some of the downward revision to growth in 2008 reflects weaker-than-expected quarterly growth realized to date, the current private sector outlook also implies that real GDP growth, on a quarterly basis, would decline in the final quarter of this year and the first quarter of 2009 before edging above 2% by the year's end.

Real GDP growth over 2010-2012 has been revised up slightly relative to expectations at the time of the budget, averaging 3.0% compared to 2.7% forecast in Budget 2008. This implies that the economy will only partially recover from the recent economic and financial shocks.

The range of forecasts increases significantly in 2009 to 1.8 percentage points, reflecting a wide range of views on the near-term economic prospects. For the outer years, the range of forecasts is significantly lower, averaging 0.4 percentage points.

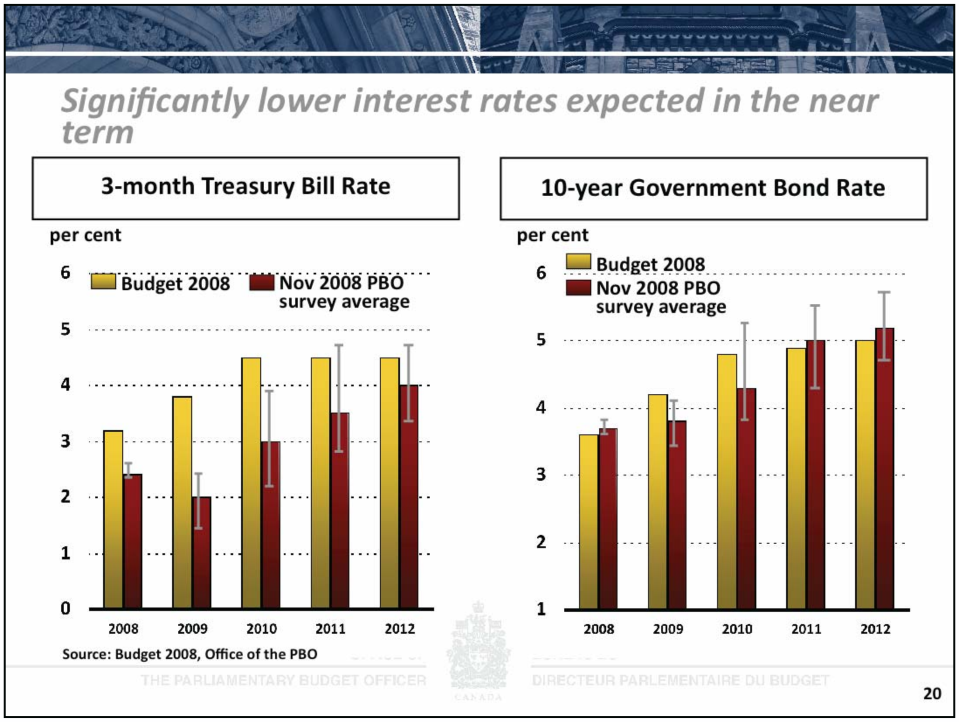


While real GDP growth is widely used to assess economic performance, from a fiscal perspective, growth in nominal GDP (i.e., GDP at current prices) provides a better indication of the growth in the Government's tax base. The composition of nominal GDP also matters crucially for government revenues because different components of GDP income and expenditure are taxed at different rates.

Private sector forecasters have revised up significantly their forecasts of GDP inflation (i.e., the percentage increase in prices of goods and services produced in Canada) in 2008 from 1.8% to 3.8%, reflecting much stronger-than-expected commodity prices in the first half of 2008. The current private sector forecast of GDP inflation is consistent with the recent weakness in commodity prices persisting, pushing GDP inflation down significantly in 2009 to 0.2%, well below expectations at the time of Budget 2008 (1.9%).

As a result, despite downward revisions to real GDP growth in 2008, the outlook for nominal GDP growth has been revised up from 3.5% to 4.4%. For 2009, nominal growth has been revised down to 0.6% in 2009 from 4.3%, reflecting weaker real GDP growth and GDP inflation. There is however a large range (6.5 percentage points) surrounding the average forecast of nominal GDP growth in 2009, mainly reflecting outliers in the range of GDP inflation forecasts (i.e., -3.3% and +1.4%). Nominal GDP growth is then projected to average 4.8% over the period 2010-2012.

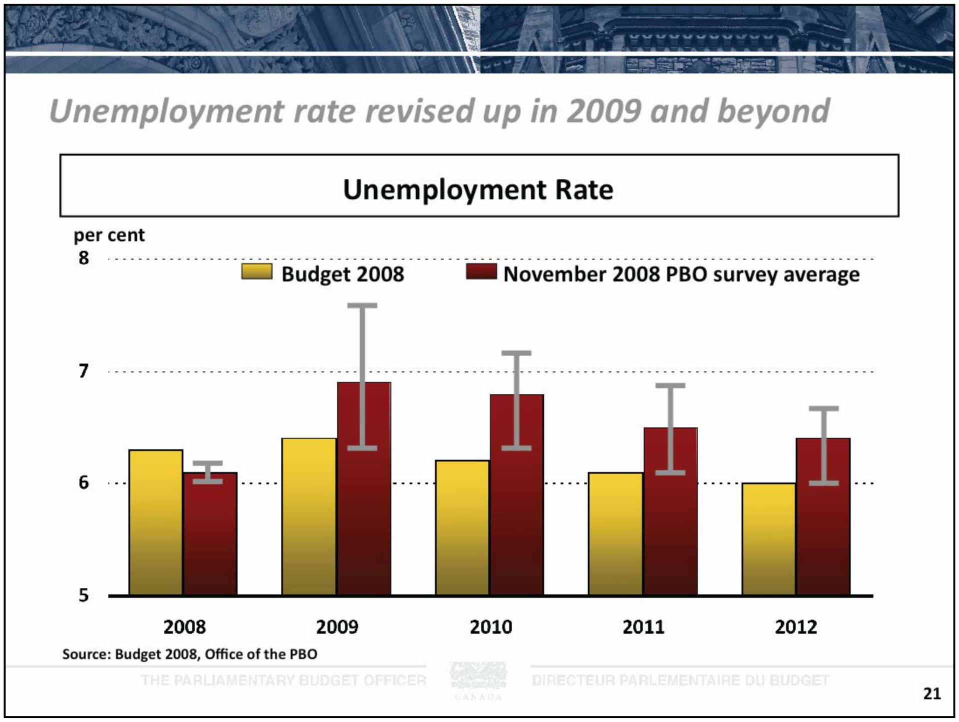
Based on the nominal GDP growth profile of the survey's average forecast, the *level* of nominal GDP is now projected to be \$13 billion higher in 2008 but lower, by \$45 billion on average, in each year thereafter.



The direct effect of short- and long-term interest rates on the Government's budget balance is felt through their impact on public debt charges, which is the interest the government pays on the public debt.

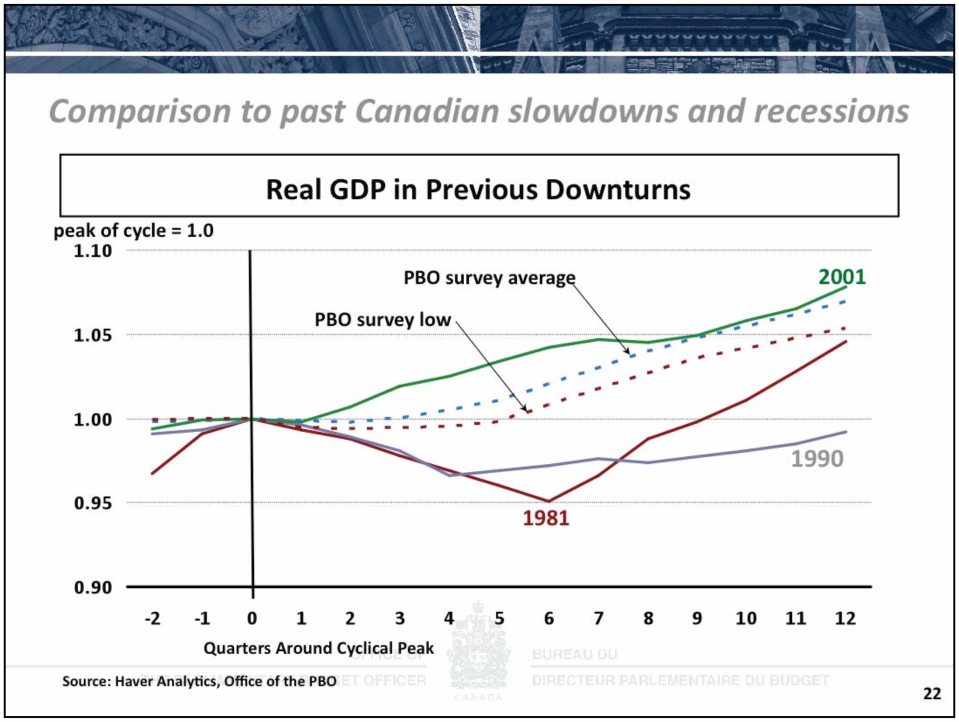
Relative to expectations at the time of Budget 2008, the private sector outlook for interest rates through 2010 has been revised down significantly, reflecting the aggressive monetary easing to date and some further expected easing as indicated by the Bank of Canada in its recent interest rate announcement. Short-term rates are expected to average 2.0% in 2009 and 3.0% in 2010, substantially lower than expected at the time of the budget. Short rates are forecast to then rise gradually back to 4.0% by 2012, remaining below budget levels over this period. The forecast range averages about 150 basis points over the 2009-2012 period.

In line with the downward revisions to short rates, long-term interest rates on government debt have been revised to 3.8% in 2009 and 4.3% in 2010, approximately 50 basis points lower on average compared to expectations at the time of Budget 2008.



Private sector forecasters expect that the slowdown in the economy will translate into a sizeable increase in the unemployment rate from its current 6.1% to average 6.9% in 2009 and 6.8% in 2010, approximately one-half of a percentage point higher than expected at the time of Budget 2008. There is also a considerable range of forecasts over this period: 1.3 percentage points in 2009 and 0.9 percentage points in 2010.

The unemployment rate is then expected to gradually decline as the economy rebounds although it is expected to remain above levels forecast in the 2008 budget in 2011 and 2012.



The chart places the current economic outlook in its historical context.*

Canada experienced two significant recessions in the early 1980s and 1990s. While Canada has not experienced another recession since, in 2001, the U.S. experienced a recession which coincided with a distinct economic slowdown in Canada. Overall, the 1981 recession featured the sharpest decline in output, but a strong subsequent recovery. In contrast, during the 1990 recession, the economic weakness was more prolonged.

How do the PBO survey results compare to these past slowdowns and recessions? The outlook for real GDP growth based on the PBO survey's average forecast is similar to Canada's 2001 economic slowdown. The forecast based on the survey's low forecast features a slightly more protracted slowdown. However, both of these forecasts imply slowdowns that are much less severe than the recessions Canadians experienced in the early 1980s and 1990s.

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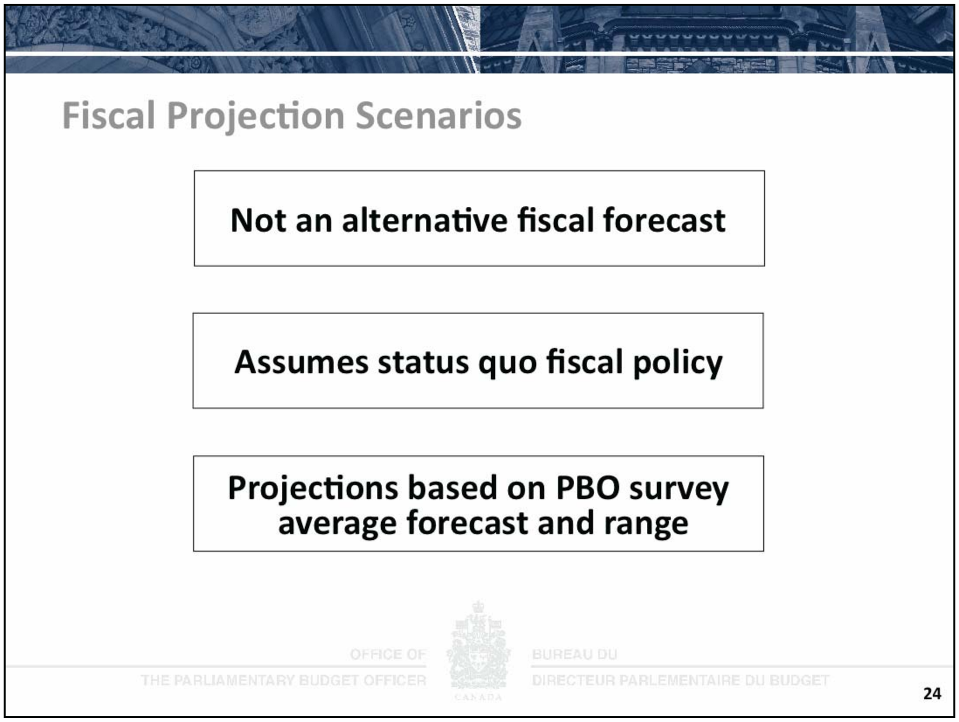
* In this figure, the data are normalized so that GDP is 1.0 at the cyclical peak of the respective economic cycles. This makes movements comparable across episodes because the data are relative to a common reference point.

The economic outlook based on the average of private sector forecasts provides a reasonable basis for fiscal planning. That said, the outlook for the Canadian economy is highly uncertain and depends crucially on developments in the global economy and global financial markets.

The key risks to the economic outlook based on the average of private sector forecasts are external and stem from the possibility of a more severe downturn in the U.S. economy and protracted weakness in emerging-market economies. Together these developments would further reduce demand for Canadian exports and depress commodity prices resulting in both weaker Canadian real GDP growth and GDP inflation relative to the outlook based on the average of private sector forecasts in the PBO survey.

There are, however, some upside risks including the possibility that the global financial crisis could be resolved more smoothly and sooner than expected which would help to improve consumer and business confidence and boost equity markets.

All told, despite the downward revisions to the economic outlook since Budget 2008, the balance of risks remains tilted to the downside.



To assess the impact of the weaker economic outlook on finances of the Government of Canada, the PBO has constructed a fiscal projection scenario based on the PBO survey average of publicly-available economic forecasts. Further, to help assess the potential fiscal impacts of upside and downside risks to this economic outlook, the survey's high and low forecasts are used for illustrative purposes.

The PBO is <u>not</u> presenting an alternative *forecast* (i.e., PBO's view of the most likely outcome) of the Government of Canada's fiscal position. Instead, the PBO has constructed a fiscal *projection* scenario (i.e., one possible outcome among many) based on a detailed economic and fiscal model to quantify potential impacts on the Government's finances. This assumes a fiscal policy setting unchanged from Budget 2008, however, the starting point takes account of recent economic developments and year-to-date fiscal results. Three scenarios are considered based on the economic forecasts from: 1) the PBO survey average, 2) the PBO survey low; and, 3) the PBO survey high.*

Producing detailed fiscal projections requires additional economic assumptions to generate forecasts of the individual tax bases. The PBO has maintained relatively neutral assumptions regarding the income and expenditure composition of GDP and has attempted to align effective tax rates on personal, corporate and indirect taxes to those of Budget 2008. The PBO has also maintained the direct program spending profile from the Budget 2008 forecast.

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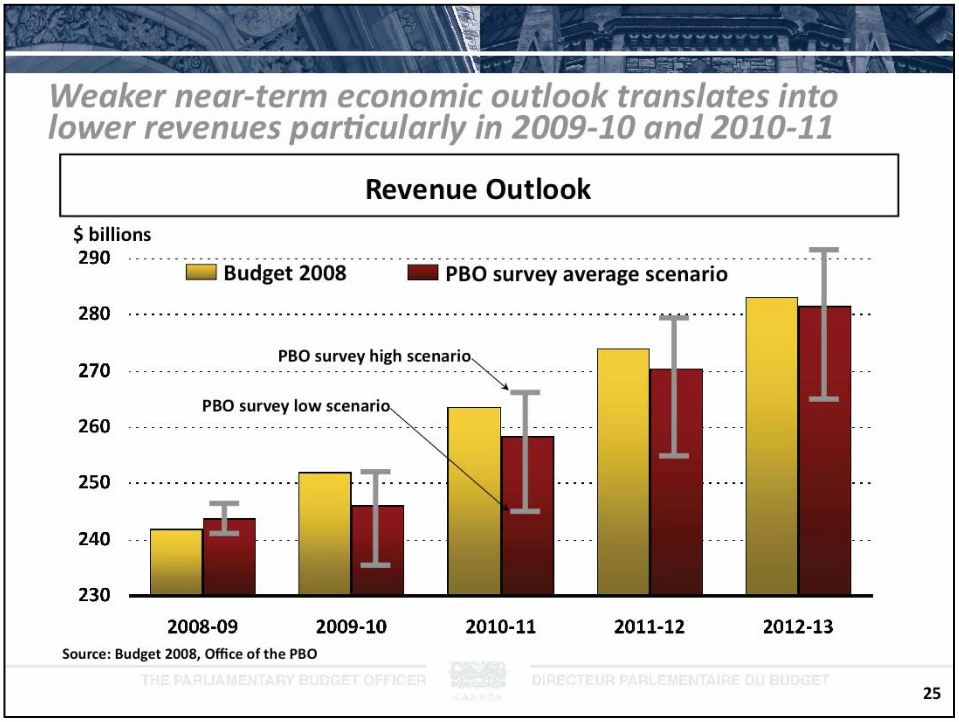
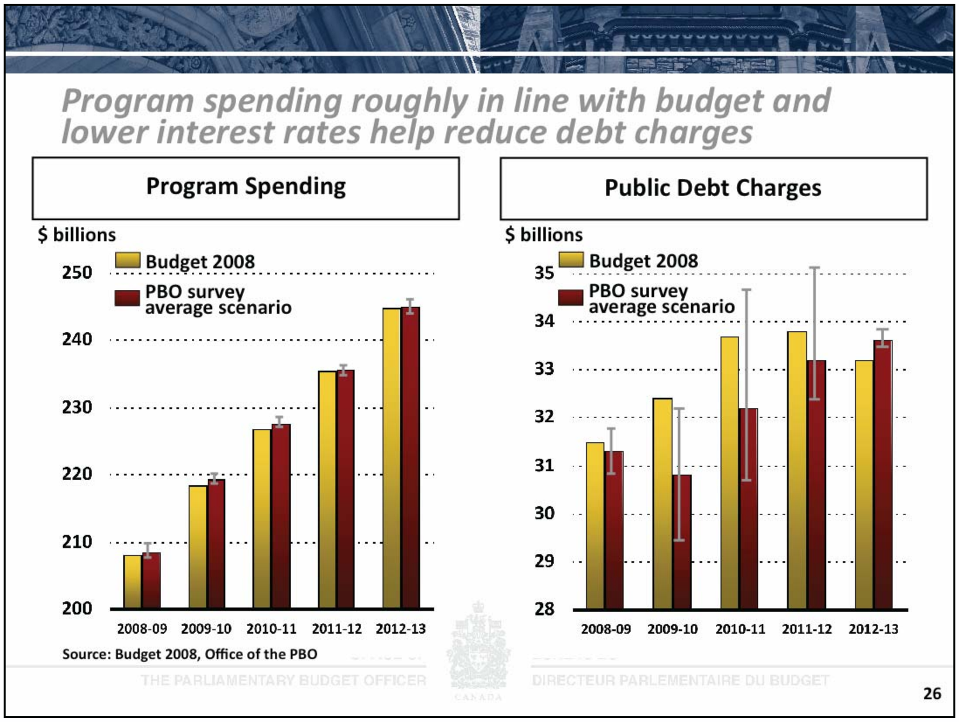
* The PBO survey low scenario, for each year, takes the lowest forecast for real GDP growth, GDP and CPI inflation, short-term and long-term interest rates, and the highest unemployment rate. The PBO survey high scenario, for each year, takes the highest forecast for real GDP growth, GDP and CPI inflation, short-term and long-term interest rates, and the lowest unemployment rate.



The higher nominal GDP forecast for this year in the PBO survey average scenario compared to the budget indicates that government revenues may in fact be stronger in 2008-09 than anticipated. This does not, however, take into consideration possible lower personal income tax revenues related to capital gains/losses nor possible negative year-end adjustments, particularly related to corporate income taxes, which may lower revenues. Revenue is projected to be lower after this fiscal year, down $5.9 billion in 2009-10, before returning closer to the Budget 2008 forecast by 2012-13 (down $1.8 billion from the budget – less than 1% of total revenues).

Based on the PBO survey low scenario, revenues would be significantly lower, declining in 2009-10 and then rising at a much slower pace.

This projection assumes that the Government will recognize the revenue from the recent wireless spectrum license auction over a 10-year period, as is consistent with the Government's current accounting practices. This adds $425 million per year to other revenues. We have not, however, included an estimate of profits arising from the purchase of insured residential mortgages from Canadian financial institutions under the Insured Mortgage Purchase Program. The program may purchase up to $75 billion of these securities. The Minister of Finance has indicated the program will provide a modest return for the Government.

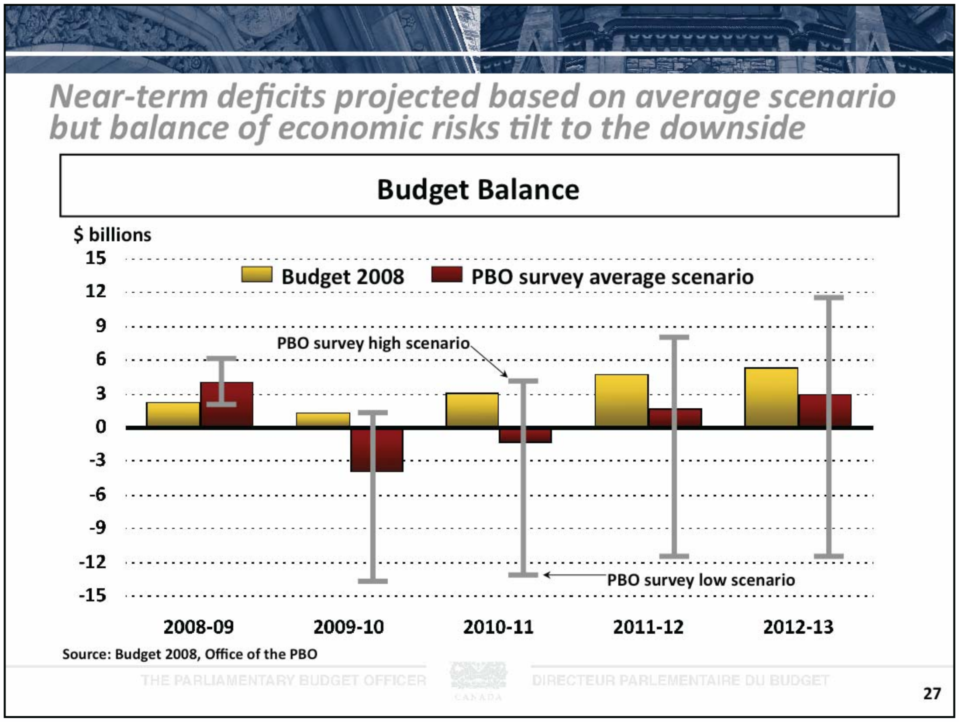


Program spending is projected to be slightly higher in the near term, based on the PBO survey average scenario. This is a result of higher Employment Insurance (EI) expenditures in the near term, as well as higher transfers to other levels of government, largely reflecting a carry forward of a lower-than-expected Alternative Payments for Standing Programs (APSP) payment in 2007-08.

In the outer years, these increases are more than offset by lower Old Age Security (OAS) and Equalization payments owing to the lower inflation forecast, as OAS payments are indexed to inflation and lower nominal GDP, and Equalization payments are capped at a 3-year moving average of nominal GDP. This cap has eliminated the risk to the Government's budget balance that existed under the formula adopted in Budget 2007.

In the PBO survey scenarios considered, direct program expenses have been maintained at the Budget 2008 forecast although they were $2.0 billion lower-than-expected in 2007-08 (compared to the Budget 2008 forecast).

Public debt charges in the PBO survey average scenario are projected to be lower over most of the projection period, owing to substantially reduced interest rates compared to the budget. Debt charges are higher in the final year, reflecting higher interest rates and a higher stock of debt.

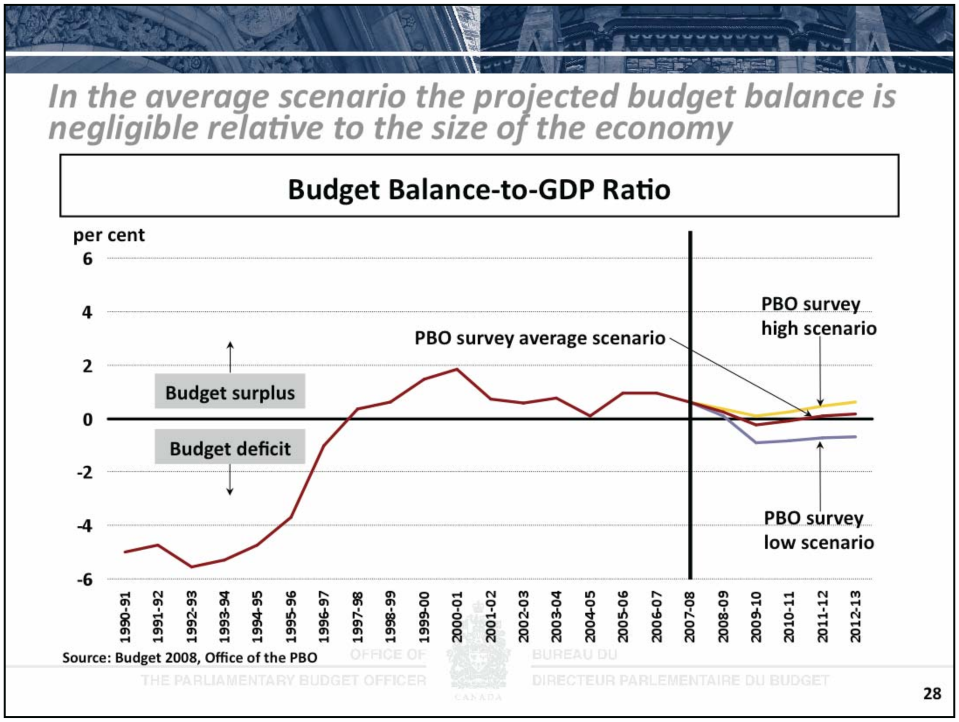


Based on PBO's assumptions and the PBO survey average scenario, the downgraded economic outlook results in projected deficits in the near term ($3.9 billion in 2009-10 and $1.4 billion in 2010-11), with a return to modest surpluses in 2011-12 ($1.6 billion) and 2012-13 ($3.0 billion).

Under the PBO low survey scenario, the weaker-than-expected outlook results in a larger and more persistent budgetary deficits over 2009-10 to 2012-13, reflecting a much weaker nominal GDP forecast and higher unemployment. It is important to note that the PBO survey low scenario includes an unprecedented decline in GDP inflation and a more protracted slowdown in the real economy.

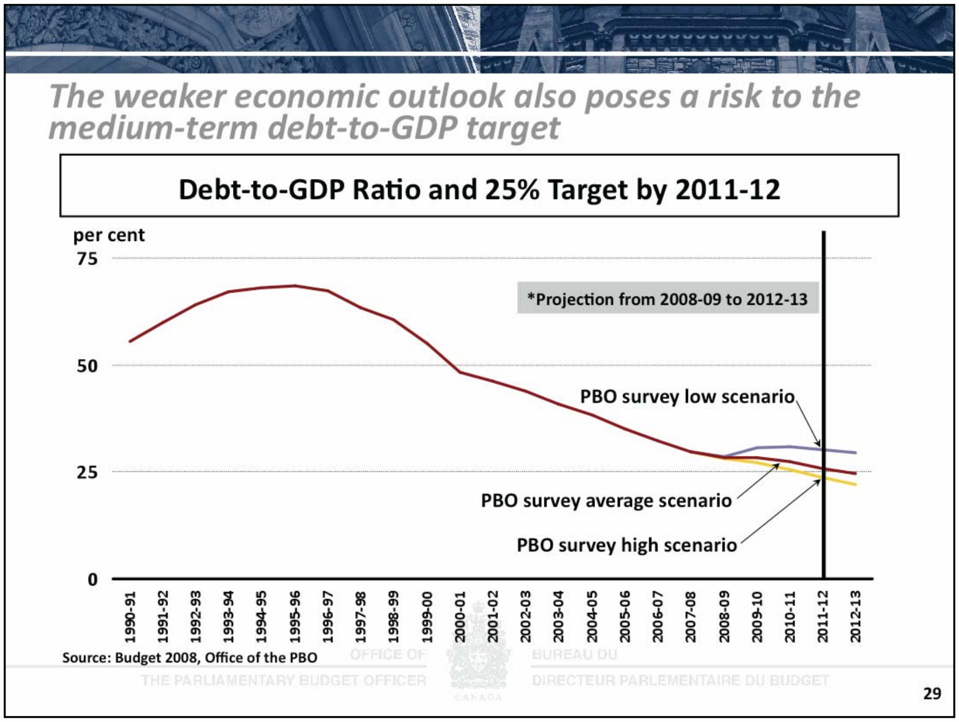
Under the PBO survey high scenario, the stronger-than-expected outlook results in a modest budgetary surplus of $1.3 billion in 2009-10 – equivalent to the forecast in Budget 2008 – and only a slightly higher surplus in 2010-11 ($4.2 billion) compared to the budget.

Overall, given that the balance of economic risks is tilted to the downside, our judgement is that the lower range of budget projections represents a more likely range of actual outcomes.



As a share of the economy, the peak deficit in the PBO survey average scenario is negligible at 0.2% of GDP in 2009-10. The cumulative budgetary balance over the projection period (2008-09 to 2012-13) is a surplus of $3.4 billion.

In the PBO survey low scenario, the deficit-to-GDP ratio rises to 0.9% in 2009-10 and averages 0.8% over the remainder of the projection period. This should not, however, be interpreted as a structural deficit, as the economy remains below reasonable estimates of potential GDP over the entire projection period in this scenario.

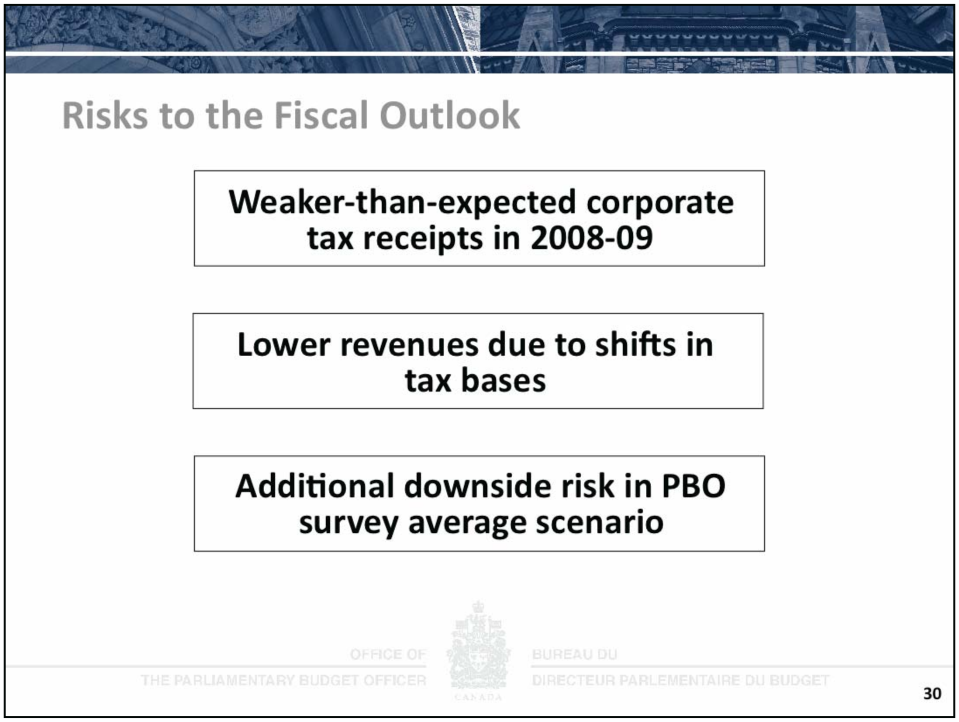


The Government of Canada's debt-to-GDP ratio peaked at 68% in 1995-96. Since then a dramatic turnaround to budget surpluses combined with healthy growth have steadily lowered the debt-to-GDP ratio, which currently stands at just under 30%.

Based on the PBO survey average scenario, the Government does not meet its medium-term debt target of 25% by 2011-12. This is of little material significance, however, as this target would eventually be achieved one year later than planned.

In the PBO survey low scenario the Government's debt target is not achieved, as the debt-to-GDP ratio stabilizes around 30% over the projection horizon.

Only under the PBO high survey scenario does the Government achieve its medium-term debt target of 25% by 2011-12, reaching just under 24% in the target year.



Though not shown explicitly by either the PBO survey low or average scenarios, there is a distinct possibility of a deficit in 2008-09. While the year-to-date surplus as of August is currently at $1.2 billion, it will be some time before the implications for revenues of the recent financial market turmoil are known. Corporate tax revenues are subject to significant adjustments in settlement periods (i.e., February, March and after the Government's fiscal-year end). In addition, the turmoil in financial markets has adversely affected stock values and dividends, which will negatively affect taxes paid on capital gains and dividends.

In addition to the downside risks to the economic outlook based on the PBO survey average forecast, there exists further risk even if the forecasts prove accurate. For example, shifts can occur in the composition of nominal GDP (e.g., wages and salaries, and corporate profits vs. non-taxable components such as capital consumption allowances), as well as changes in the income distribution within taxable income components, which could significantly affect tax revenues. The PBO has assumed that the income components of GDP remain relatively stable as a share of nominal GDP. However, the amount of taxable income would likely be lower under the PBO survey average scenario, suggesting downside risk to the projected budget balances.

Fiscal Policy Considerations

- Weakened economic situation will likely compromise government's ability to achieve its stated fiscal targets under status quo policies
- Distinct near-term risk to balanced budgets …
- … Medium-term targets remain attainable but possibly over a longer timeline

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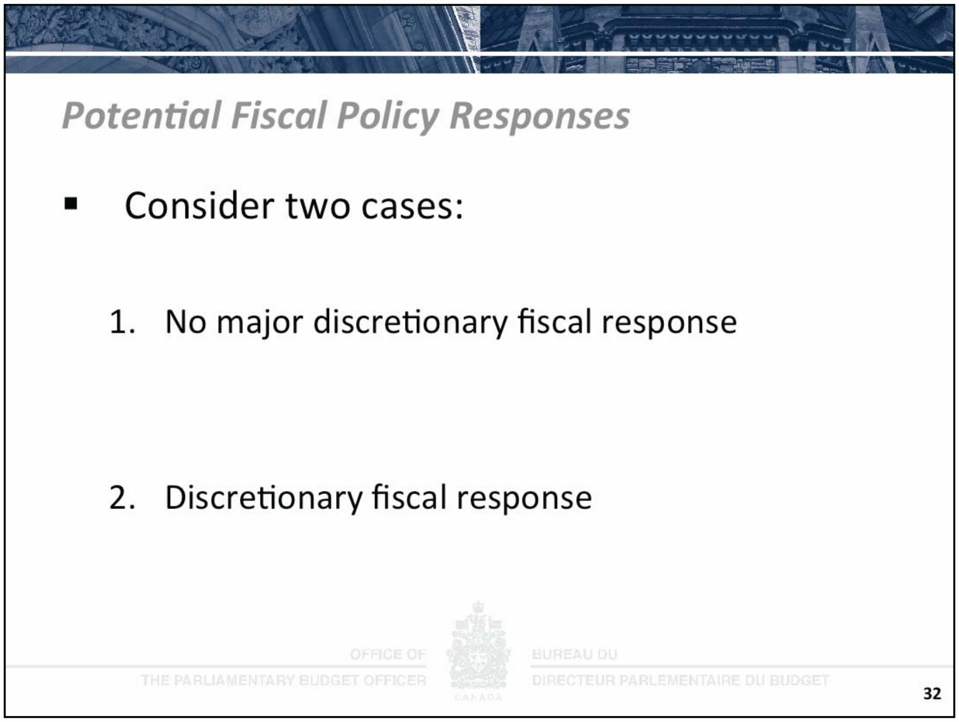
31

In the short term, the Government's stated target requires balancing the budget each fiscal year, with a goal of applying $3 billion to debt reduction. There are also two medium-term targets. The first is a debt-to-GDP target of 25%, to be achieved by 2011-12. The second goal is to keep program spending growth below the growth rate of the economy (i.e., growth in nominal GDP) on average.

In general, the fiscal projection results suggest the downgraded economic outlook will likely compromise the government's ability to achieve its stated short-term and medium-term fiscal targets of balancing the budget each year, and lowering the debt-to-GDP ratio to 25% by 2011-12, respectively.

However, in the PBO survey average scenario the budget balance is projected to fall into a modest deficit in 2009-10 and 2010-11 but return to modest surplus over the remainder of the projection period. While the debt target of 25% is not projected to be achieved by 2011-12, it is achieved one year later. In the PBO survey low scenario it is not achieved within the projection horizon.



The general consensus among academic economists and policymakers has been that monetary policy should play the primary stabilization role. For its part, fiscal policy can best contribute by allowing automatic stabilizers* to work and by avoiding a pro-cyclical policy response to balance the budget. The recent financial market crisis and large-scale fiscal policy stimulus packages worldwide, however, have re-opened the debate about the appropriate use of fiscal policy to stimulate the economy during downturns.

In general, the Government has two options: 1) stay the course; or 2) respond.

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* Automatic fiscal stabilizers are the reductions in tax collections and increases in government spending that happen automatically when incomes fall and unemployment rises.

In the current context, the stay the course path would focus mainly on stabilizing financial markets. There is a risk however that monetary policy alone may be unable to provide sufficient stimulus in the current situation. The concern is that further interest rate reductions may be less effective when rates are already at low levels and financial markets particularly unstable. If this is the case, the economy may slow sharply for a significant period of time. Of course, government action on its own may not be sufficient to ensure sustained growth in the near term, given the downgraded global economic outlook.

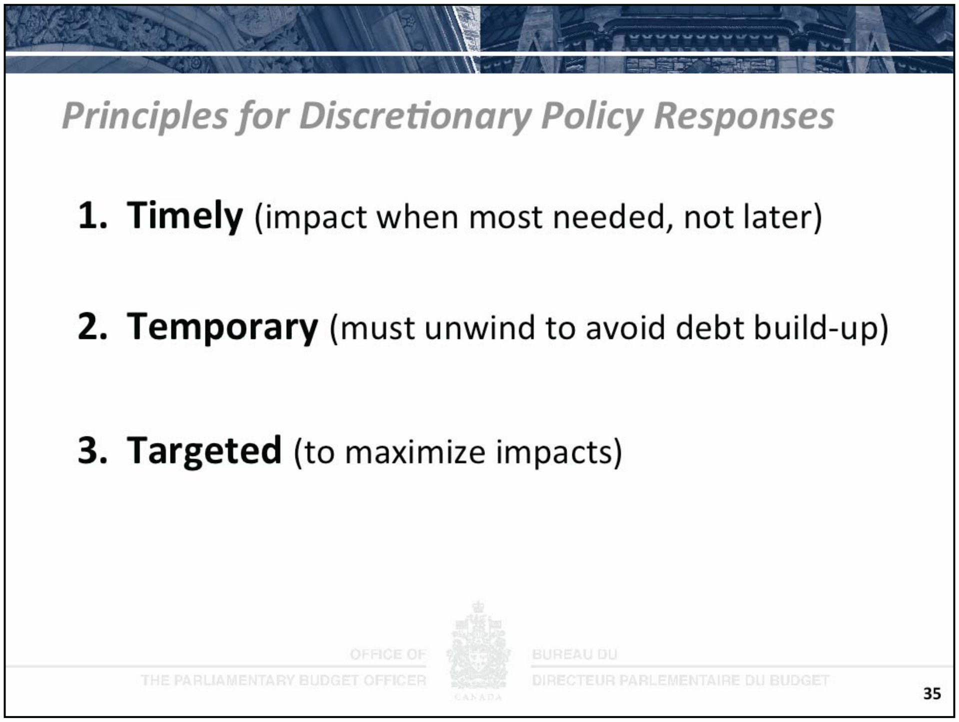
The Government could also announce new policy initiatives. In this case there are two objectives to distinguish.

The first objective involves policy actions designed to balance the budget and meet the stated fiscal policy targets. This may require contractionary fiscal measures to increase tax collections, cut or delay spending, or sell government assets. The major risk of strict adherence to balancing the budget is that pro-cyclical fiscal policies may exacerbate or prolong an economic slowdown by increasing the tax burden or by removing spending stimulus.

A second policy objective could be to provide fiscal stimulus to the economy. This would require the opposite response of expansionary fiscal policy to lower taxes or increase spending and would likely entail further delaying the attainment of the medium-term debt target and abandoning the short-term budget balance target.

Discretionary fiscal stabilization measures would likely impact the level and timing of activity in the Canadian economy. Stabilization policy aims to smooth the fluctuations in economic activity. For example, while output would be higher in 2009, the rebound in 2010 would be less pronounced, other things equal, because planned consumption and investment would occur a year earlier than they otherwise would have.

However, fiscal policy can also have longer-run impacts on economic activity, for example, by affecting the incentives to create jobs, save and invest. As well, some well-targeted government spending programs can increase the economy's productive capacity.

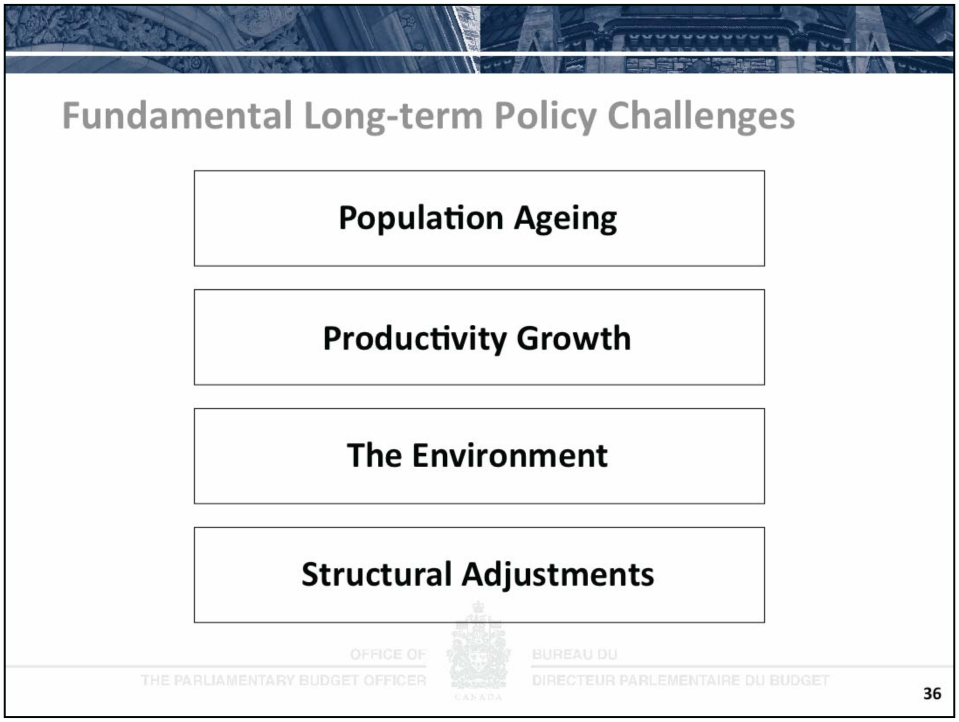


If the Government determines that discretionary fiscal policy is necessary to stabilize the economy, there are several well-accepted principles that can be used to guide policymakers.

First, appropriate policies should be timely. Based on the current private sector outlook, economic weakness is likely to be concentrated in 2009.

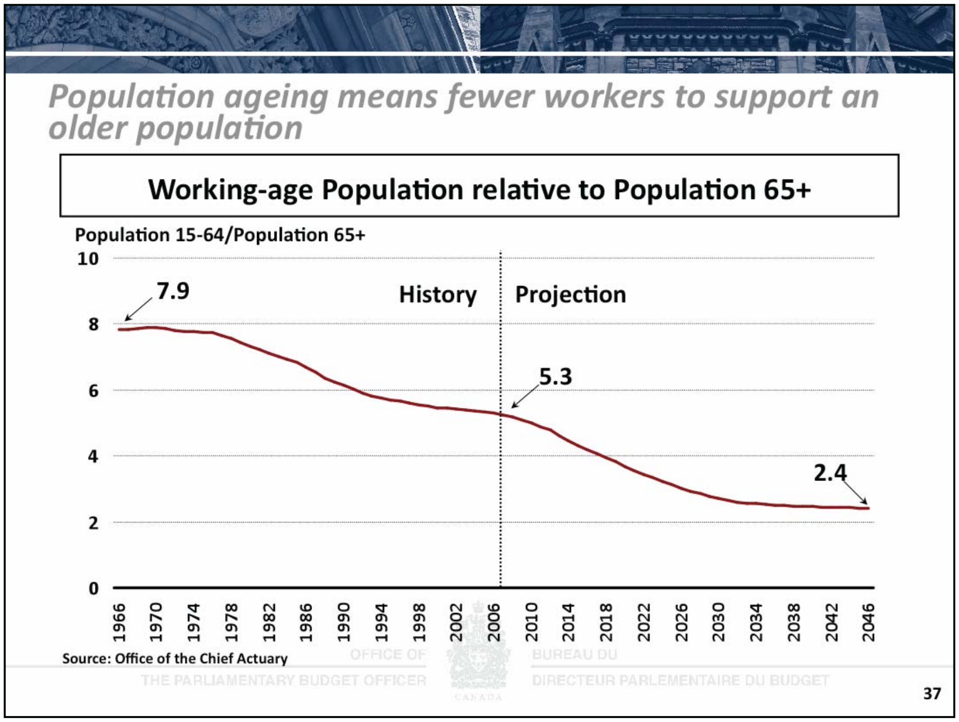
Second, appropriate policies should be temporary because if the extension or introduction of new programs is not ultimately funded or reversed, the increase in debt would simply shift the fiscal costs of these policies onto future generations.

Third, appropriate policies should be targeted so that they are effective and maximize their potential economic benefits for every tax dollar dispensed.



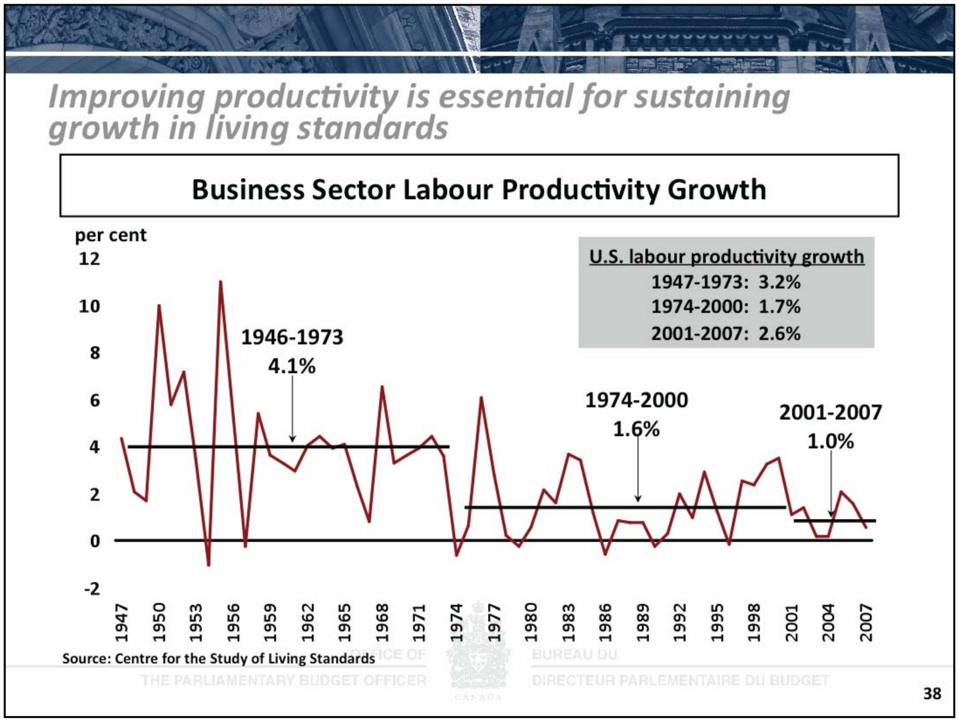
The current challenges have rightly focused attention on the near-term outlook and potential policy responses. However, it is also necessary not to lose sight of longer-term policy challenges that will fundamentally affect living standards and the quality of life of current and future generations.

The key challenges highlighted here are: population ageing; improving productivity performance; addressing climate change; and managing on-going structural adjustments taking place in the Canadian economy – across industries, regions, and the income distribution.



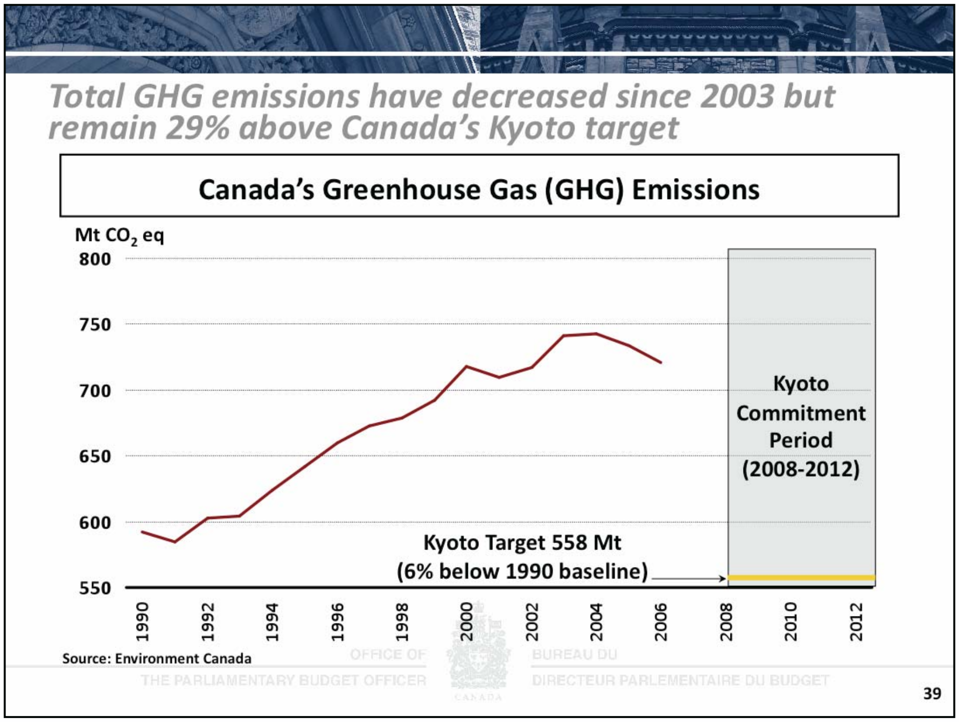
Canada is undergoing an unprecedented demographic transition. There are currently just over five people of working age for every person of retirement age. This ratio is projected to fall to nearly two within the next generation. A higher birth rate and/or higher immigration may slow this transition but would not prevent it.

Population ageing will slow growth in the labour force dramatically. Without higher productivity growth, this will lead to slower growth in output and living standards for current and future generations.



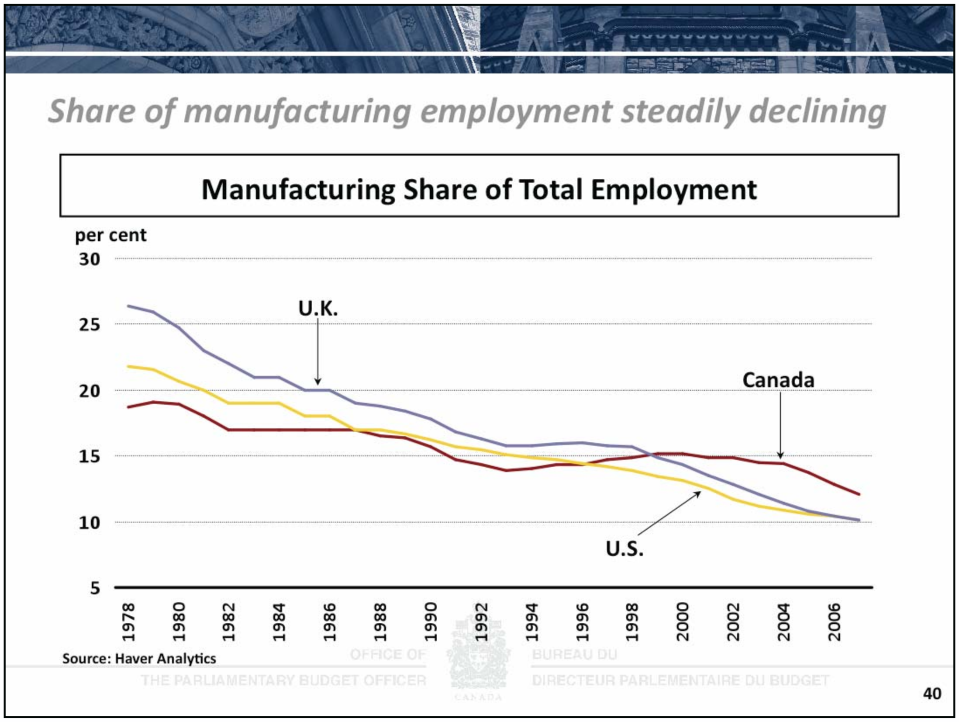
With population ageing reducing growth in the labour force going forward, fostering productivity growth will be absolutely essential for ensuring sustained increases in living standards. Unfortunately, Canada's recent productivity performance has been weak, both compared to historical experience and the recent U.S. performance, likely reflecting both cyclical and structural factors.

While there is no single policy prescription for improving productivity, policies should focus on encouraging human and physical capital accumulation as well as innovation – the drivers of productivity growth.



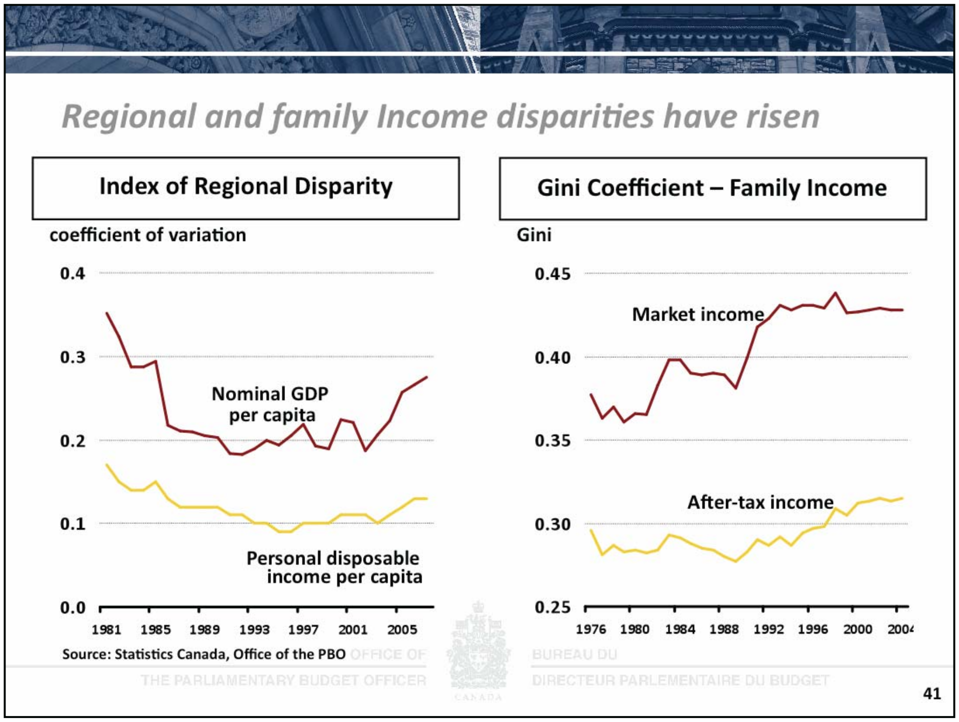
Sustaining improvements in living standards and quality of life for Canadians will also require concerted policy action to significantly reduce greenhouse gas (GHG) emissions in Canada and globally.

To reduce GHGs, the most effective policies would either raise the price of carbon or limit emissions under a cap and trade system. Continued research on the relative strengths and weaknesses of each approach using economic and environmental cost-benefit analysis would be worthwhile.



Canada's economy, like other industrialized economies, is continuing to adjust to the increasing integration of the global economy.

Managing this adjustment is crucial because workers can face large and persistent earnings losses upon job loss. Policies in this area can best contribute by focusing on education and training programs.



Regional income disparities were relatively stable through the 1990s until around 2002 when there was a dramatic increase in commodity prices, which favored resource-producing regions. While commodity prices have recently reversed course, over the longer term there may be more widening of income disparities across provinces, putting pressure on federal intergovernmental transfers.

Since 1989, family market income inequality has increased.* Comparing market income and after-tax income inequalities shows that in earlier periods, government taxes and transfers more than offset the increase in market income inequality. More recently, however, government programs have offset only 19% of this increase resulting in increased family income disparity in Canada.

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* The Gini coefficient in the above chart is a widely-used index (bounded by 0 and 1) that measures income inequality where zero represents perfect income equality (i.e., all families have the same income) and one represents perfect income inequality (i.e., all income belongs to one family).

Conclusions

1. Economy has weakened, downside risks to the outlook

2. Budget 2008 fiscal projections and targets are at risk

3. Fundamental short- and long-term policy challenges need to be addressed

PBO Economic Outlook Scenarios

	2008	2009	2010	2011	2012
Real GDP growth (%)					
Budget 2008	1.7	2.4	2.9	2.8	2.5
PBO Survey Average Scenario	0.6	0.5	3.1	3.0	2.8
PBO Survey Low Scenario	0.4	-0.3	2.7	2.8	2.8
PBO Survey High Scenario	0.8	1.5	3.6	3.2	2.8
GDP inflation (%)					
Budget 2008	1.8	1.9	1.8	1.6	1.5
PBO Survey Average Scenario	3.8	0.2	1.2	2.0	2.0
PBO Survey Low Scenario	3.3	-3.3	-0.5	1.8	1.8
PBO Survey High Scenario	4.1	1.4	1.7	2.2	2.0
Nominal GDP growth (%)					
Budget 2008	3.5	4.3	4.7	4.5	4.0
PBO Survey Average Scenario	4.4	0.6	4.4	5.1	4.8
PBO Survey Low Scenario	3.7	-3.6	2.1	4.6	4.7
PBO Survey High Scenario	4.9	2.9	5.4	5.5	5.0
Nominal GDP level ($ billions)					
Budget 2008*	1,590	1,659	1,738	1,816	1,888
PBO Survey Average Scenario	1,603	1,613	1,684	1,769	1,855
PBO Survey Low Scenario	1,593	1,535	1,568	1,641	1,717
PBO Survey High Scenario	1,611	1,659	1,748	1,843	1,935
3-month treasury bill rate (%)					
Budget 2008	3.2	3.8	4.5	4.5	4.5
PBO Survey Average Scenario	2.4	2.0	3.0	3.5	4.0
PBO Survey Low Scenario	2.3	1.3	2.1	2.8	3.3
PBO Survey High Scenario	2.6	2.3	3.9	4.7	4.7
10-year government bond rate (%)					
Budget 2008	3.6	4.2	4.8	4.9	5.0
PBO Survey Average Scenario	3.7	3.8	4.3	5.0	5.2
PBO Survey Low Scenario	3.6	3.4	3.8	4.3	4.6
PBO Survey High Scenario	3.8	4.1	5.2	5.4	5.6
Unemployment rate (%)					
Budget 2008	6.3	6.4	6.2	6.1	6.0
PBO Survey Average Scenario	6.1	6.9	6.8	6.5	6.4
PBO Survey Low Scenario	6.2	7.6	7.2	6.8	6.6
PBO Survey High Scenario	6.0	6.3	6.3	6.1	6.0
Total CPI inflation (%)					
Budget 2008	1.5	1.9	2.0	2.1	2.0
PBO Survey Average Scenario	2.6	1.6	1.7	1.9	2.0
PBO Survey Low Scenario	2.4	0.9	0.6	1.9	1.9
PBO Survey High Scenario	2.7	2.4	2.1	1.9	2.0

* Adjusted for Statistics Canada's May 30, 2008 revisions to the National Income and Expenditure Accounts

PBO Survey Average Scenario

$ billions	Actual 2007-08	Projection 2008-09	2009-10	2010-11	2011-12	2012-13
Budgetary revenues						
Total revenues						
Budget 2008	242.4	241.9	252.0	263.5	273.9	283.2
Impact	0.0	1.9	-5.9	-5.3	-3.6	-1.8
PBO survey average scenario	**242.4**	**243.8**	**246.1**	**258.3**	**270.3**	**281.5**
Personal income tax						
Budget 2008	113.1	118.6	125.5	132.8	139.8	146.9
Impact	0.0	1.4	-2.5	-2.0	-1.1	0.0
PBO survey average scenario	113.1	119.9	123.0	130.8	138.7	146.8
Corporate income tax						
Budget 2008	40.6	36.8	36.6	37.7	37.8	36.8
Impact	0.0	-0.2	-2.9	-2.8	-2.5	-2.4
PBO survey average scenario	40.6	36.7	33.7	34.9	35.3	34.4
Goods and Service Tax						
Budget 2008	29.9	27.6	28.9	30.3	31.5	32.7
Impact	0.0	0.2	-0.2	-0.5	-0.4	-0.1
PBO survey average scenario	29.9	27.8	28.6	29.8	31.1	32.5
Employment Insurance premium revenues						
Budget 2008	16.6	16.5	17.3	17.7	18.2	18.7
Impact	0.0	0.0	-0.7	-0.2	0.2	0.5
PBO survey average scenario	16.6	16.6	16.7	17.5	18.4	19.3
All other revenues						
Budget 2008	42.3	42.4	43.8	45.1	46.6	48.2
Impact	0.0	0.4	0.3	0.2	0.2	0.2
PBO survey average scenario	42.3	42.8	44.1	45.3	46.8	48.4
Expenses						
Total program expenses						
Budget 2008	199.5	208.1	218.3	226.8	235.4	244.8
Impact	0.0	0.4	0.9	0.7	0.1	0.2
PBO survey average scenario	**199.5**	**208.5**	**219.2**	**227.5**	**235.5**	**244.9**
Major transfers to persons						
Budget 2008	58.1	60.5	62.6	64.7	67.2	70.0
Impact	0.0	0.0	0.3	0.1	-0.3	-0.3
PBO survey average scenario	58.1	60.5	62.9	64.8	66.9	69.6
Major transfers to other levels of government						
Budget 2008	46.2	46.2	49.5	51.6	53.9	56.4
Impact	0.0	0.4	0.6	0.5	0.4	0.5
PBO survey average scenario	46.2	46.6	50.1	52.1	54.3	56.9
Public debt charges						
Budget 2008	33.3	31.5	32.4	33.7	33.8	33.2
Impact	0.0	-0.2	-1.6	-1.5	-0.6	0.4
PBO survey average scenario	**33.3**	**31.3**	**30.8**	**32.2**	**33.2**	**33.6**
Budgetary balance						
Budget 2008	9.6	2.3	1.3	3.0	4.7	5.3
Impact	0.0	1.7	-5.2	-4.4	-3.1	-2.3
PBO survey average scenario	**9.6**	**4.0**	**-3.9**	**-1.4**	**1.6**	**3.0**
Budgetary balance-to-GDP ratio (%)	0.6	0.2	-0.2	-0.1	0.1	0.2
Federal debt-to-GDP ratio (%)	29.8	28.3	28.4	27.3	25.8	24.5

PBO Survey Low Scenario

$ billions	Actual 2007-08	Projection 2008-09	2009-10	2010-11	2011-12	2012-13
Budgetary revenues						
Total revenues						
Budget 2008	242.4	241.9	252.0	263.5	273.9	283.2
Impact	0.0	-0.6	-17.1	-19.9	-19.7	-18.8
PBO survey low scenario	**242.4**	**241.3**	**234.9**	**243.7**	**254.1**	**264.4**
Personal income tax						
Budget 2008	113.1	118.6	125.5	132.8	139.8	146.9
Impact	0.0	-0.1	-9.0	-10.4	-10.4	-10.0
PBO survey low scenario	113.1	118.5	116.5	122.3	129.4	136.8
Corporate income tax						
Budget 2008	40.6	36.8	36.6	37.7	37.8	36.8
Impact	0.0	-0.8	-5.3	-5.8	-5.5	-5.3
PBO survey low scenario	40.6	36.0	31.2	31.9	32.3	31.5
Goods and Service Tax						
Budget 2008	29.9	27.6	28.9	30.3	31.5	32.7
Impact	0.0	0.0	-1.2	-2.1	-2.4	-2.4
PBO survey low scenario	29.9	27.6	27.7	28.2	29.1	30.2
Employment Insurance premium revenues						
Budget 2008	16.6	16.5	17.3	17.7	18.2	18.7
Impact	0.0	-0.2	-1.6	-1.4	-1.2	-0.9
PBO survey low scenario	16.6	16.3	15.7	16.2	17.0	17.8
All other revenues						
Budget 2008	42.3	42.4	43.8	45.1	46.6	48.2
Impact	0.0	0.4	0.1	-0.1	-0.2	-0.2
PBO survey low scenario	42.3	42.8	43.9	45.0	46.4	48.0
Expenses						
Total program expenses						
Budget 2008	199.5	208.1	218.3	226.8	235.4	244.8
Impact	0.0	0.7	1.1	-0.6	-1.7	-2.1
PBO survey low scenario	**199.5**	**208.8**	**219.4**	**226.2**	**233.6**	**242.7**
Major transfers to persons						
Budget 2008	58.1	60.5	62.6	64.7	67.2	70.0
Impact	0.0	0.2	0.4	-1.0	-1.6	-1.9
PBO survey low scenario	58.1	60.7	63.0	63.7	65.6	68.1
Major transfers to other levels of government						
Budget 2008	46.2	46.2	49.5	51.6	53.9	56.4
Impact	0.0	0.4	0.8	0.4	-0.1	-0.2
PBO survey low scenario	46.2	46.6	50.2	52.0	53.8	56.2
Public debt charges						
Budget 2008	33.3	31.5	32.4	33.7	33.8	33.2
Impact	0.0	-0.7	-3.0	-3.0	-1.5	0.3
PBO survey low scenario	**33.3**	**30.8**	**29.4**	**30.7**	**32.3**	**33.5**
Budgetary balance						
Budget 2008	9.6	2.3	1.3	3.0	4.7	5.3
Impact	0.0	-0.6	-15.2	-16.2	-16.5	-17.1
PBO survey low scenario	**9.6**	**1.7**	**-13.8**	**-13.2**	**-11.8**	**-11.8**
Budgetary balance-to-GDP ratio (%)	0.6	0.1	-0.9	-0.8	-0.7	-0.7
Federal debt-to-GDP ratio (%)	29.8	28.6	30.6	30.8	30.2	29.5

PBO Survey High Scenario

$ billions	Actual 2007-08	Projection 2008-09	2009-10	2010-11	2011-12	2012-13
Budgetary revenues						
Total revenues						
Budget 2008	242.4	241.9	252.0	263.5	273.9	283.2
Impact	0.0	4.0	0.3	3.2	5.9	8.4
PBO survey high scenario	**242.4**	**245.9**	**252.3**	**266.7**	**279.8**	**291.6**
Personal income tax						
Budget 2008	113.1	118.6	125.5	132.8	139.8	146.9
Impact	0.0	2.5	1.0	2.9	4.4	5.9
PBO survey high scenario	113.1	121.1	126.5	135.6	144.2	152.8
Corporate income tax						
Budget 2008	40.6	36.8	36.6	37.7	37.8	36.8
Impact	0.0	0.3	-1.9	-1.6	-1.2	-1.2
PBO survey high scenario	40.6	37.1	34.7	36.1	36.6	35.6
Goods and Service Tax						
Budget 2008	29.9	27.6	28.9	30.3	31.5	32.7
Impact	0.0	0.6	0.9	1.0	1.3	1.8
PBO survey high scenario	29.9	28.1	29.7	31.3	32.9	34.5
Employment Insurance premium revenues						
Budget 2008	16.6	16.5	17.3	17.7	18.2	18.7
Impact	0.0	0.2	-0.1	0.5	1.0	1.4
PBO survey high scenario	16.6	16.7	17.2	18.2	19.2	20.1
All other revenues						
Budget 2008	42.3	42.4	43.8	45.1	46.6	48.2
Impact	0.0	0.5	0.4	0.4	0.4	0.5
PBO survey high scenario	42.3	42.9	44.2	45.5	47.0	48.6
Expenses						
Total program expenses						
Budget 2008	199.5	208.1	218.3	226.8	235.4	244.8
Impact	0.0	0.1	0.6	1.0	0.9	1.1
PBO survey high scenario	**199.5**	**208.2**	**218.9**	**227.8**	**236.3**	**245.9**
Major transfers to persons						
Budget 2008	58.1	60.5	62.6	64.7	67.2	70.0
Impact	0.0	-0.2	0.1	0.4	0.2	0.3
PBO survey high scenario	58.1	60.2	62.7	65.1	67.4	70.2
Major transfers to other levels of government						
Budget 2008	46.2	46.2	49.5	51.6	53.9	56.4
Impact	0.0	0.4	0.5	0.6	0.6	0.8
PBO survey high scenario	46.2	46.6	50.0	52.2	54.6	57.2
Public debt charges						
Budget 2008	33.3	31.5	32.4	33.7	33.8	33.2
Impact	0.0	0.2	-0.2	1.1	1.5	0.7
PBO survey high scenario	**33.3**	**31.7**	**32.2**	**34.8**	**35.3**	**33.9**
Budgetary balance						
Budget 2008	9.6	2.3	1.3	3.0	4.7	5.3
Impact	0.0	3.7	-0.1	1.1	3.5	6.6
PBO survey high scenario	**9.6**	**6.0**	**1.3**	**4.2**	**8.2**	**11.8**
Budgetary balance-to-GDP ratio (%)	0.6	0.4	0.1	0.2	0.4	0.6
Federal debt-to-GDP ratio (%)	29.8	28.0	27.1	25.5	23.8	22.0