



Department of Finance
Canada

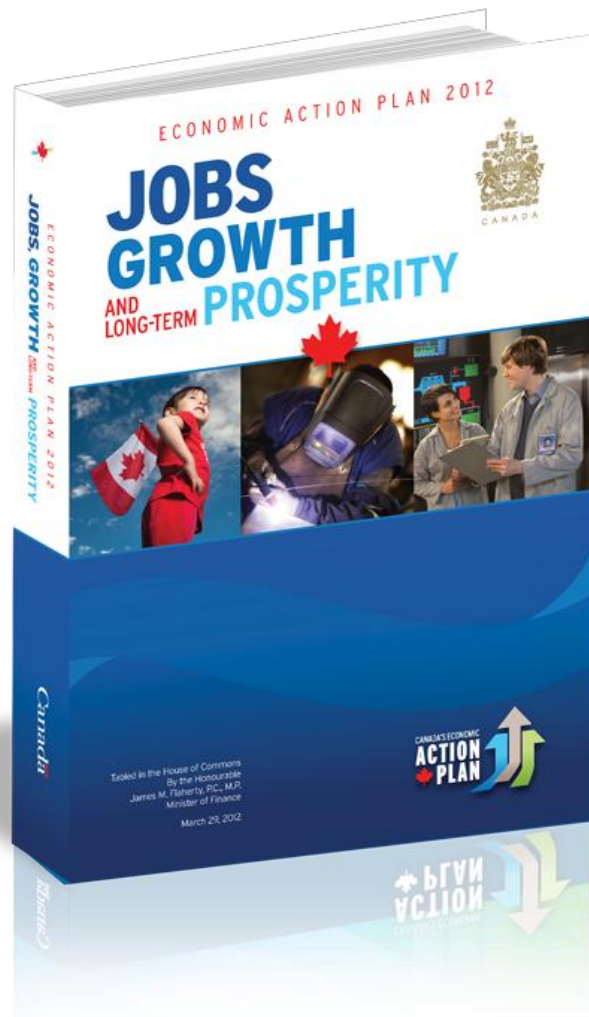
Ministère des Finances
Canada

Fiscal Consolidation in Canada

June 2012

Canada

Jobs, Growth and Long-Term Prosperity



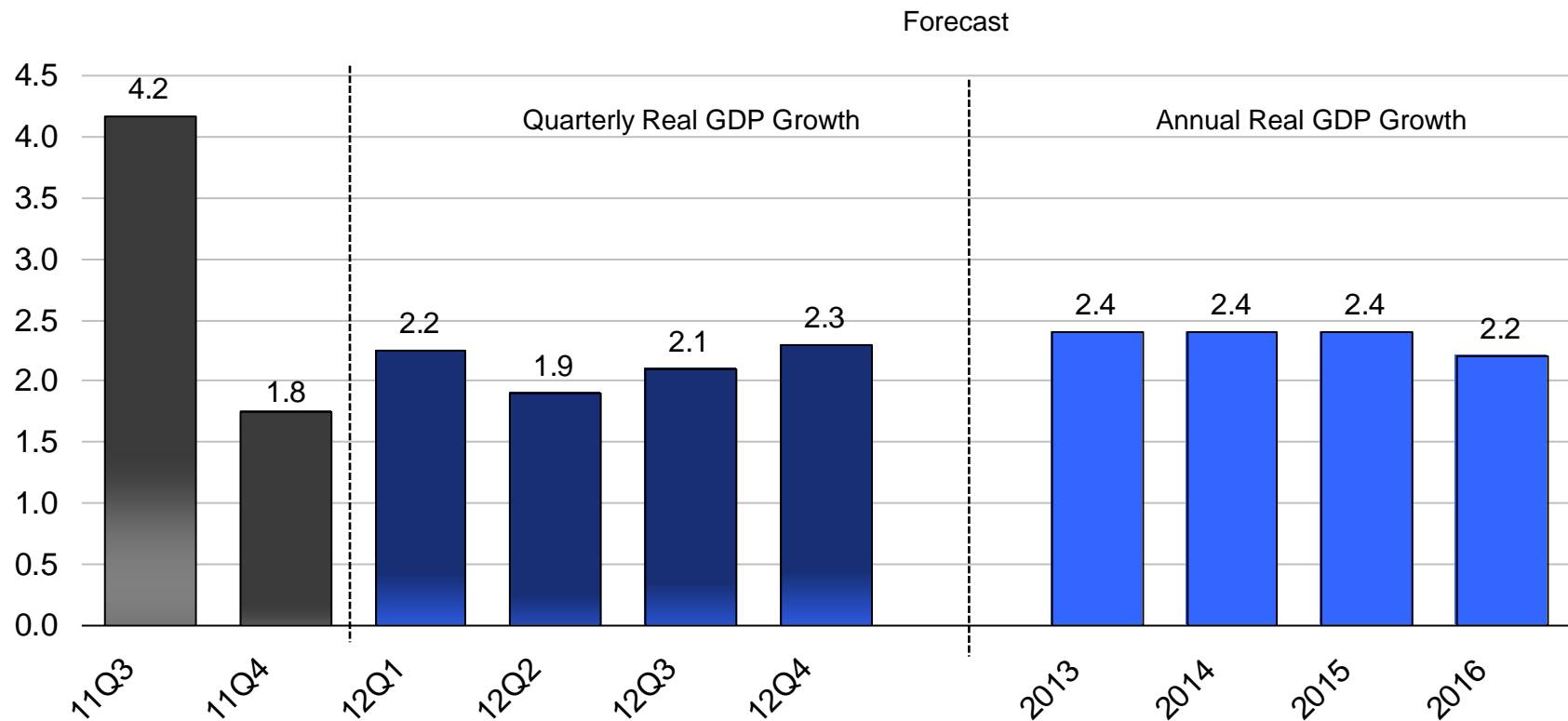
Economic Action Plan 2012:

- ✓ Balanced approach based on prudent economic planning assumptions
- ✓ Maintains Canada's **sound public finances**, supported by modest and pragmatic spending reductions
- ✓ Ensures the sustainability of Canada's social programs, including needed changes to the **Old Age Security** program

Private sector economists continue to see sustained, modest, domestic growth

Real GDP Growth

per cent, period to period at annual rates



Source: Statistics Canada; Department of Finance March 2012 Survey of Private Sector Economists.

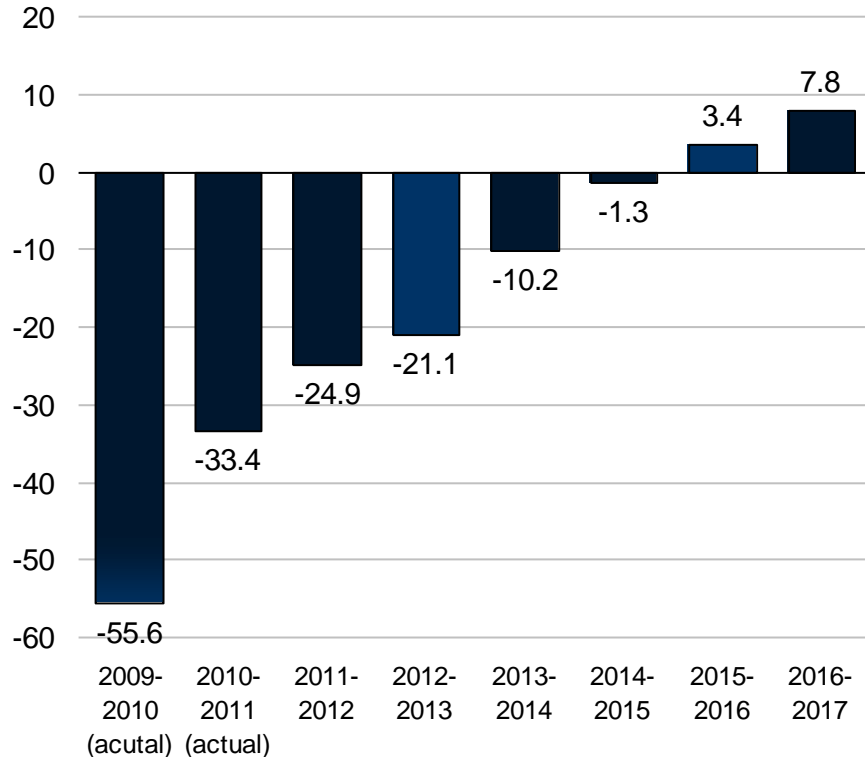
Budget 2012 planning assumptions are prudent

- ✓ The private sector economic outlook is consistent with an expectation of a permanent loss of \$120 billion in the level of real GDP as a result of the global recession
- ✓ The private sector expectation for GDP inflation is consistent with largely flat commodity prices over the next five years
- ✓ The Government has adjusted downward the private sector forecast for nominal GDP by \$20 billion
 - ✓ This adjustment for risk represents a downward adjustment of \$3 billion in the budgetary balance in each year of the forecast.

The Government is on track to return to balanced budgets over the medium term

Budgetary Balance

billions of dollars

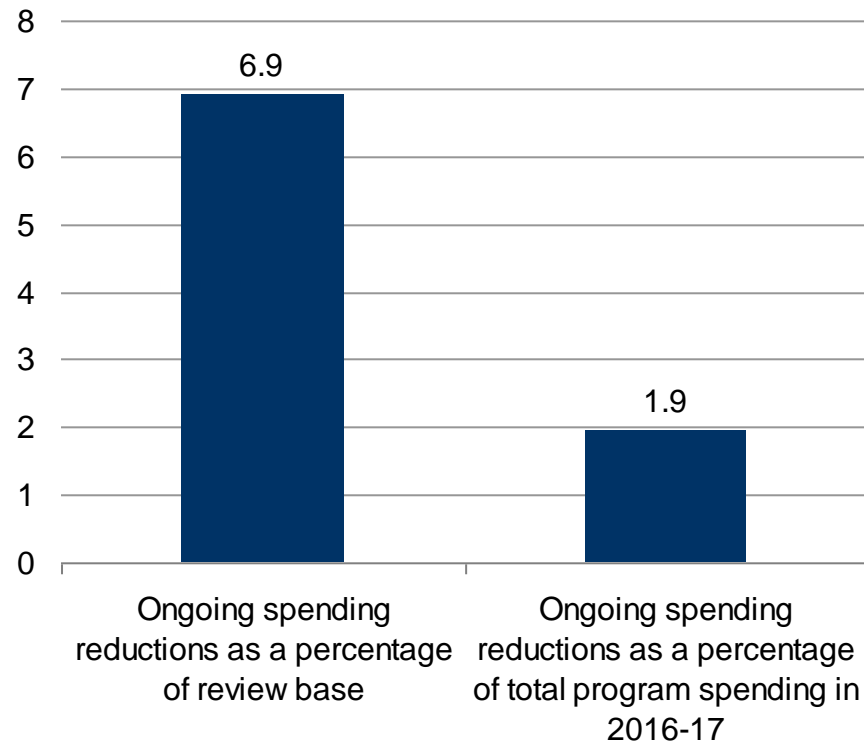


- ✓ By ending temporary stimulus and controlling the growth of spending, the deficit has been cut by more than half since 2009-10
- ✓ The measures taken in Budget 2012 will support the return to balance, and will help maintain Canada's public finances on a sustainable path

Departmental spending reductions will lead to a leaner, more efficient federal government...

Departmental Spending Reductions

per cent



- ✓ Savings will ramp up to \$5.2 billion, representing 6.9 per cent of the review base, but less than 2 per cent of total program spending
- ✓ Workforce impacts are estimated at 19,200 - 12,000 of which would be layoffs, with the balance through attrition (e.g. retirements, voluntary departures)
- ✓ Review focussed on achieving efficiencies and eliminating waste - almost 70 per cent of savings stem from operating expenses

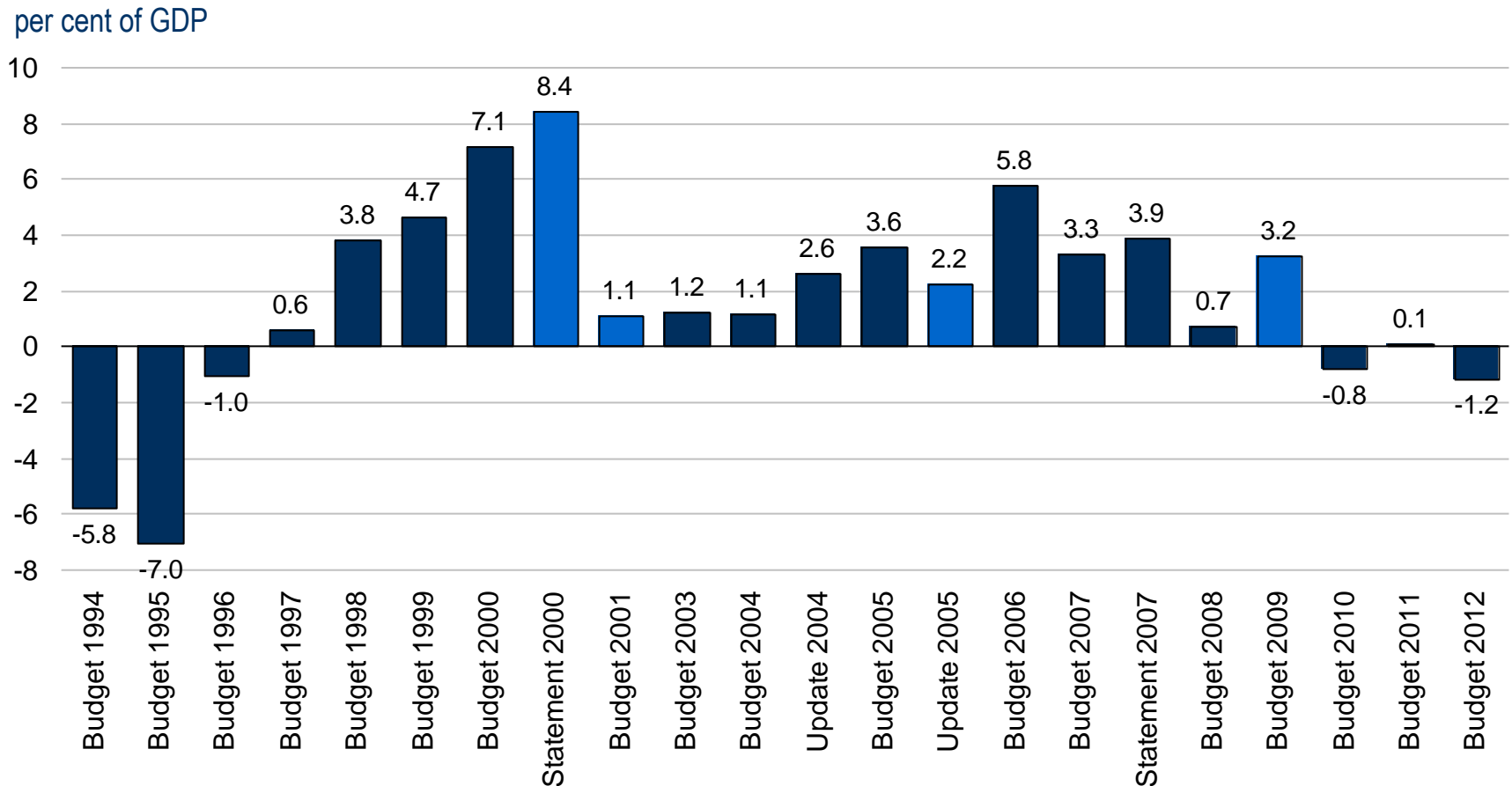
Builds on previous actions to help achieve a balanced budget over the medium term

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Total
	(\$ millions)							
Budget 2010								
Spending restraint	452	1,586	3,481	4,425	5,130	5,130	5,130	25,334
Tax fairness—closing tax loopholes	355	440	500	565	625	625	625	3,735
Total for Budget 2010	807	2,026	3,981	4,990	5,755	5,755	5,755	29,069
Budget 2011								
Spending restraint		194	271	569	525	534	534	2,627
Tax fairness—closing tax loopholes		240	730	1,095	1,040	990	990	5,085
Total for Budget 2011		434	1,001	1,664	1,565	1,524	1,524	7,712
Budget 2012								
Spending restraint		-900	1,762	3,481	5,332	5,175	5,219	20,069
Tax fairness—closing tax loopholes			120	320	415	440	490	1,785
Total for Budget 2012		-900	1,882	3,801	5,747	5,615	5,709	21,854
Total Savings	807	1,560	6,864	10,455	13,067	12,894	12,988	58,635
Per cent of GDP	0.0	0.1	0.4	0.6	0.7	0.6	0.6	

Note: Totals may not add due to rounding.

Over the next five years, Budget 2012 provides a net saving of \$21 billion, or 1.2 per cent of GDP

Five-year cumulative budget measures as a per cent of budget-year GDP



Source: Department of Finance calculations.

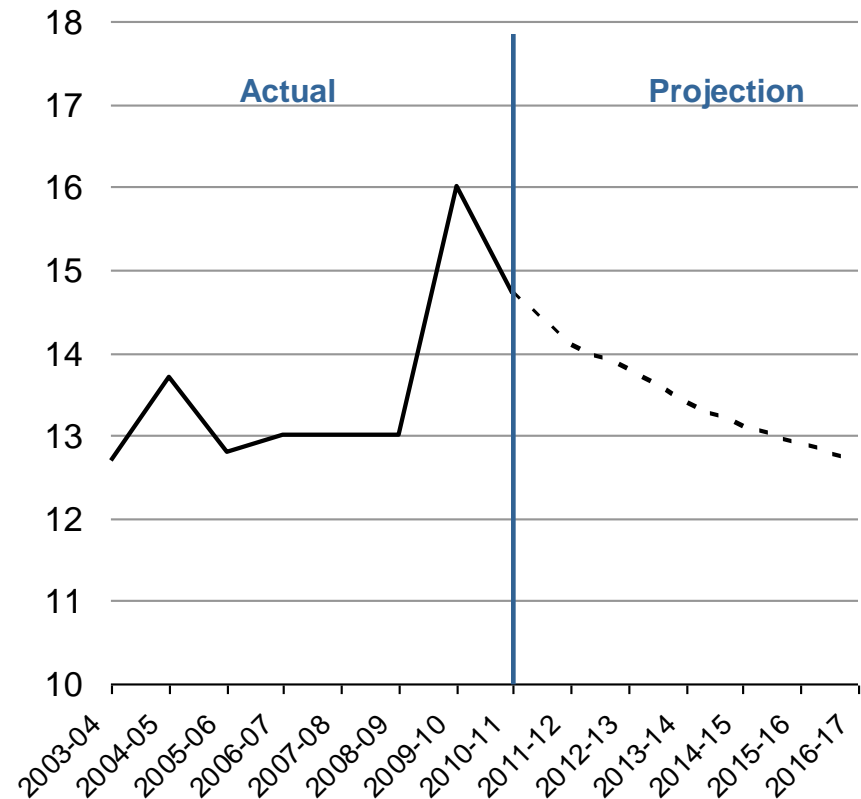
Program spending is expected to broadly return to pre-recession levels

First launched in Budget 2010, the Government's plan to return to balanced budgets has largely been focused on spending restraint:

- ✓ Departmental operating budgets were frozen for 2 years; planned growth in defence spending reduced; and, international assistance capped (Budget 2010).
- ✓ Final year of the 4-year strategic review process completed (Budget 2011).
- ✓ Results of a comprehensive review of departmental spending (Budget 2012).

Program Expenses-to-GDP Ratio

per cent of GDP

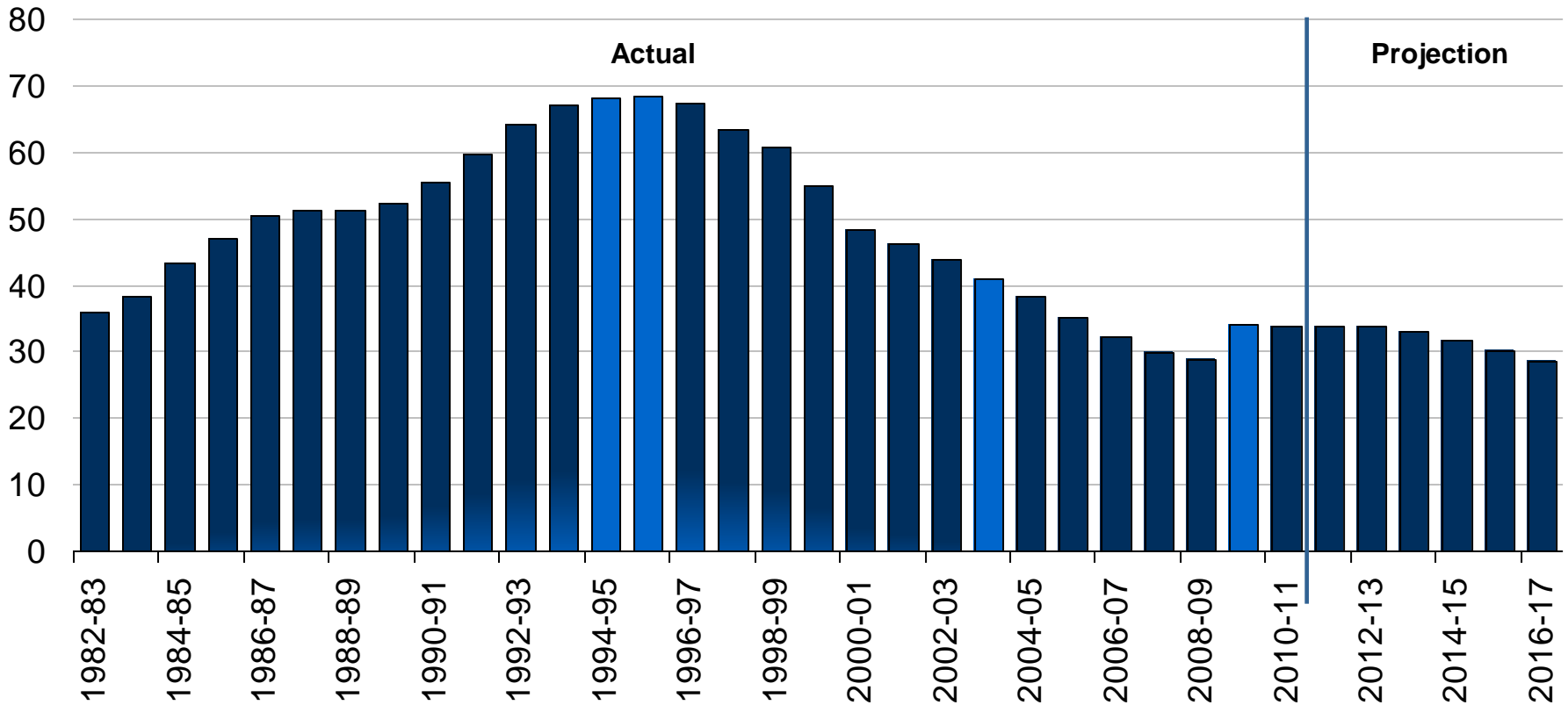


Sources: Department of Finance; Statistics Canada.

The federal debt-to-GDP ratio will return back to pre-recession levels

Federal Debt-to-GDP Ratio

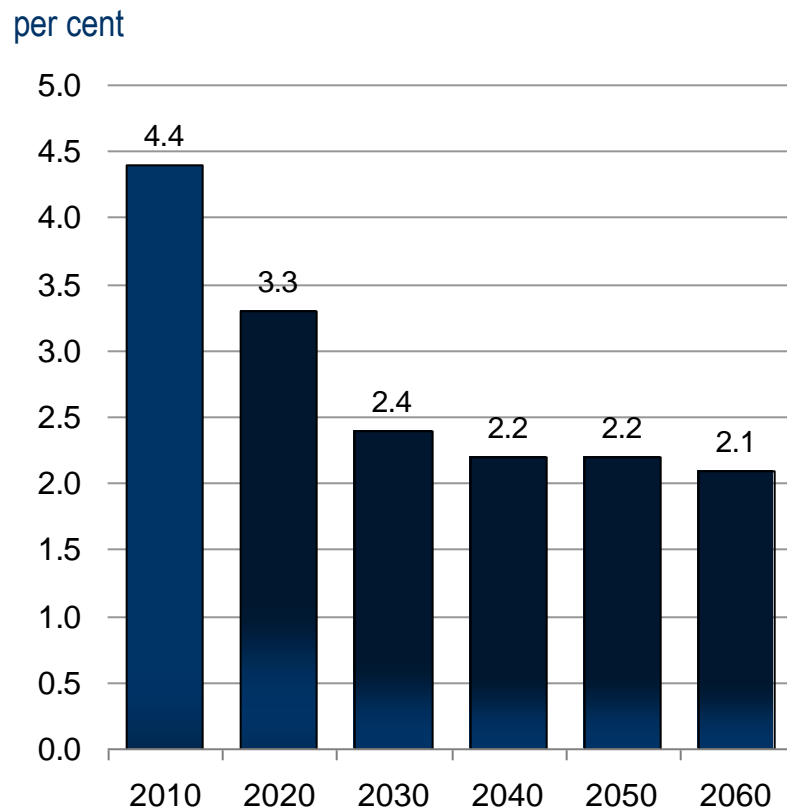
per cent of GDP



Source: Department of Finance.

For the longer term, Economic Action Plan 2012 ensures the sustainability of the retirement income system

Ratio of Working-Age People to Seniors



Source: 9th Actuarial Report on the Old Age Security Program

Economic Action Plan 2012:

- ✓ Increases the age of eligibility for OAS and GIS benefits from 65 to 67 beginning in 2023, with full implementation in 2029
- ✓ Maintains current benefits for Canadians age 54 and over as of March 31, 2012
- ✓ Adds flexibility – as of July 1st, 2013, individuals who wish to work longer can defer their OAS pension and receive higher benefits upon retirement

Main risks to the Canadian economic outlook are external and tilted to the downside

- Further escalation of the euro area sovereign debt and banking crisis
- Direction of U.S. fiscal policy in 2013 and beyond
- Key domestic risk – high household debt

Lessons Learned in Managing Fiscal Consolidation

- **Flexibility, “intelligence” and adaptability are key**
- **Requires:**
 - High societal consensus
 - Strong political leadership
 - Organizational preparedness for strategic change
 - Effective communications
 - Integration with the expenditure management and budgeting system to ensure follow-through (announcement, implementation, monitoring)



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