



## ***Economic and Fiscal Statement – November 27, 2008***

### **Where's the Plan?**

The Government acknowledged that slowing economic growth over the coming quarters will substantially reduce government revenues.

“Although the Government continues to plan on balanced budgets, given the volatility of the economic situation, particularly the rapid decline in commodity prices, a deficit cannot be ruled out. If the Government does run deficits, it will ensure that they are contained and temporary.”

At a time when most private sectors forecasters and the Parliamentary Budget Officer believe Canada will be facing deficits in the years ahead, the federal government is extremely hesitant to use the “D” word.

Today's *Economic and Fiscal Statement* not only appears to be optimistic, it fails to provide concrete measures to stimulate the economy.

### ***Measures Announced***

The Government is taking steps to protect Canada's fiscal position:

- Ensuring that departmental spending is reduced.
- Ensuring that public sector compensation reflects the current economic situation.
- Putting the Equalization program on a growth path that is in line with the economy.

Short-term Measures:

- The Government is providing EDC with an additional \$350 million in capital to support up to about \$1.5 billion in increased credit capacity for those most affected by the credit crisis, most notably auto-related and other manufacturing enterprises.
- The Government will also provide BDC with an additional \$350 million in capital so that it can increase its credit capacity by about \$1.5 billion for term lending activities and a new time-limited facility providing guarantees to financial institutions for their lines of credit for viable small and medium-sized companies.
- Measures are being proposed to provide temporary relief to private pension plans affected by the global financial turmoil. The Government proposes to allow plans to extend their solvency funding payment schedule from 5 to 10 years in respect to solvency deficiencies as at December 31, 2008, subject to conditions. A consultation process on issues facing defined benefit and contribution pension plans will be initiated.
- Taxpayer support for political parties is being eliminated.
- Measures are being proposed to provide temporary relief to seniors with Registered Retirement Income Funds. The Government plans to reduce the required minimum withdrawal amount for RRIFs by 25 percent for 2008.

Forward Agenda:

- Accelerating infrastructure investments in 2009.
- A reiteration of what already has been announced to improve opportunities for workers such as investing in education and training, implementing the Canadian Experience Class, and investing in labour market training..
- Strengthening financial markets. The Government is waiting for the Expert Panel on Securities Regulation on the best way forward to improve securities regulation in Canada.

In preparing for Budget 2009, the Government will consult with Canadians and provinces and territories to develop responses to short-term economic issues, while continuing to implement its long-term economic plan.

The debt-to-GDP ratio is expected to fall below 25 percent in 2012-13, one year later than projected in Budget 2008.

### ***Canadian Chamber's Reaction***

In the short-term, the challenge is to accelerate, strengthen and ensure economic recovery. Beyond the short-term, it's how to improve productivity and raise the standard of living of Canadians.

After the impressive Speech from the Throne, today's *Economic and Fiscal Statement* was especially disappointing. The Canadian Chamber urges the federal government to implement a stimulus package quickly to kick-start the economy. Time is of the essence. Given the heightened degree of uncertainty, rapidly deteriorating consumer and business confidence and an economy on a brink of recession, we cannot afford to delay.

"The Government has acknowledged that the economy is in a recession. We need to get a plan to get us moving forward again. The government does not have a plan now and should recall Parliament in the first week in January to present a new budget," says Perrin Beatty, President and CEO of the Canadian Chamber of Commerce. The Government must be prepared to react sooner if the situation demands it.

Going forward, the Government must adopt more prudent budgeting principles including keeping spending growth to no more than nominal growth in the economy (i.e. about 4 percent per year) and allocating funds (i.e. an allowance for economic prudence and an annual contingency reserves) within the budget to safeguard it from unforeseen economic developments and forecasting errors.

Beyond short-term measures, the Government must embrace longer-term plans that promote and enhance the flexibility of our economy so that businesses of all sizes can readily adapt to current and future circumstances. It is in our interest to eliminate all internal trade barriers that impede the free flow of goods, services and people by 2010; accelerate the approval and funding process for major infrastructure projects currently in the works; harmonize provincial sales taxes with the GST; ensure Canada's tax environment remains competitive; and focus government spending on productivity-enhancing areas that have the greatest potential in terms of maximizing economic growth.

Lastly, the Bank of Canada also has a critically important role to play to jump-start the economy. Its key policy interest rate – the overnight rate – is currently 2.25 percent. It could cut it by 50 basis points on December 9, the next scheduled date for announcing the overnight rate target. Changes in the target for the overnight rate influence other interest rates, such as those for consumer loans and mortgages and, therefore, can have a powerful and immediate effect in stimulating consumer spending and supporting the Canadian economy.

Extraordinary times call for extraordinary measures. The well-being of every Canadian family depends on both short-term measures and wide-ranging structural reforms that can help our businesses compete in the future. To delay would risk the jobs of Canadian workers and the prosperity of communities across our country.