

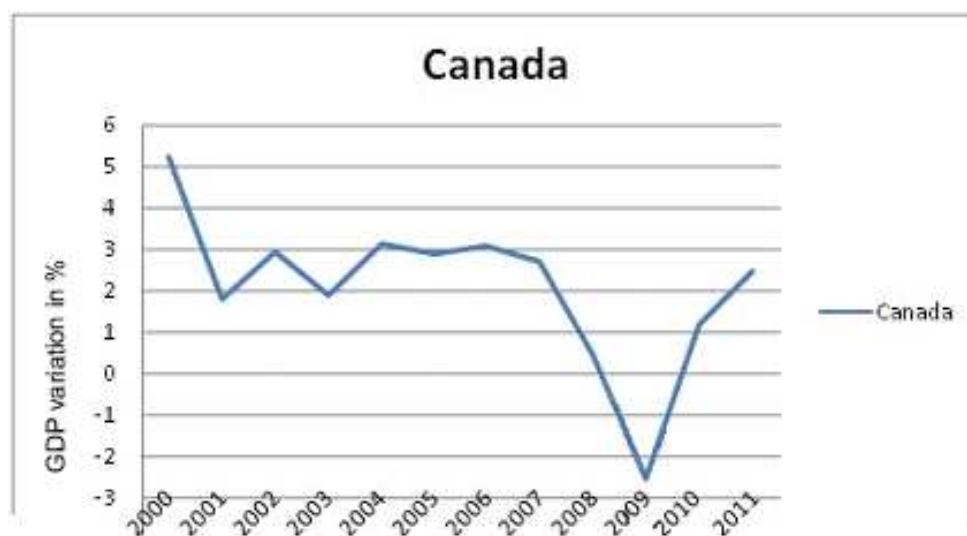
Canada

Impact of the Crisis

Canada is reminiscent of the US in terms of its market-oriented economic system, its mode of production and the living standard of its population. Since World War 2 the industrial, mining and service sectors have all shown impressive growth; the country changed from relying on a mainly rural economy to an industrial and urban one. The free trade agreement between the US and Canada from 1989 and the North American Free Trade Agreement from 1994 (which includes Mexico) led to a spectacular amount of trade and thus to even more economic integration with the US. As the foremost trading partner of the world's largest economic superpower, Canada has a large trade surplus vis-à-vis the US, which absorbs almost 80 per cent of Canadian exports yearly. Canada is also one of the US' largest foreign energy suppliers, meeting its neighbour's demands for oil, gas, uranium and electrical power. Because of its great natural resources, qualified workforce and modern factories Canada has had solid economic growth, and prudent budgeting has secured balanced budgets every year from 1997 to 2007. In 2008, because of the sharp fall in growth resulting from the global economic downturn, demand in the car industry plummeted and the price of consumer goods fell worldwide. Canada's public finances therefore deteriorated for the first time in a decade. Tightened credit worldwide led to reductions in corporate and household investments, despite the cautious lending practices that have made Canadian banks some of the stablest in the world.

Even though it is economically dependent on its neighbour in the south, Canada has not suffered very much from the decline in growth that the US has had since the beginning of the economic crisis. The impact of the recession can still be felt. In particular, Canada is hit by the heightened cost and lowered availability of financing that the crisis in the world's financial markets has led to; by a drop in demand for Canadian exports brought on by the downturn in the US; and by reduced profit and income caused by the sharp decline in raw material prices. Figure 1 shows Canada's economic growth in terms of GDP, and illustrates perfectly how the country entered into recession in 2007, with a negative peak in 2009-2010, and a slow pickup forecast for 2011.

Figure 1¹



1 Statistics Canada

Impacts on and Challenges to the Social Security System

Canada provides extensive social security to its citizens. Since 2005 the Government's programmes and services have been grouped under the institution Service Canada so that access should be easier. In short, these services include services aimed at elderly persons (i.e., pensions), disabled persons, families (i.e., family benefits), workers and employers (i.e., unemployment insurance).

For health insurance, the federal and the provincial and territorial governments shares the responsibility: Under the Canada Health Act – the federal law on health insurance – provincial and territorial health insurance schemes have to meet certain requirements to be eligible for the full amount of contributions paid by the federal government under the Canada Health Transfer (CHT). Provincial and territorial governments are responsible for managing, organizing and administering health care services to their residents. Figure 2 shows that Canada spends relatively little on social protection compared to the OECD average.

Figure 2²

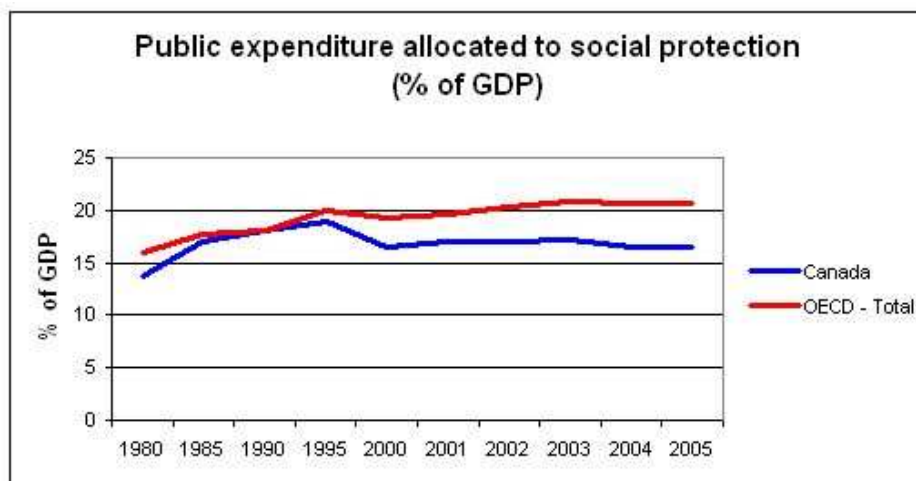
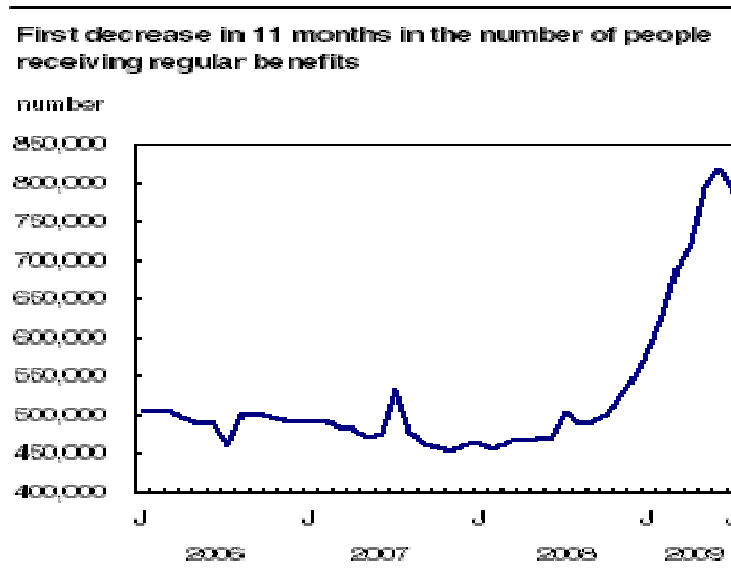


Figure 3 shows the number of persons receiving ordinary unemployment benefits in Canada. Since the crisis began the number of beneficiaries has risen exceptionally.

In July 2009, however, 787,000 persons received ordinary unemployment benefits, i.e., 31,500 or 3.8 per cent fewer than in the following month and the first reduction in 11 months. The greatest drops occurred in Ontario, Quebec and Alberta. Canadian workers contribute to a central fund that they can rely on if they lose their job. Since 1990 the Government has not contributed to this fund.

Figure 3³



Canada's pension scheme is a mix of schemes run by the governments and schemes run by private companies. The governmental schemes include the Canadian Pension Plan and the Quebec Pension Plan. The Canadian Pension Scheme is a mandatory contributory salary-based social insurance scheme that pays three kinds of benefits: old-age pension, disability pension and survivors' benefits. The purpose of the Quebec Pension Scheme is the same as that of the Canadian Pension Scheme, only at a provincial level. The aim is to provide the same services to residents of Quebec. It is also possible to enrol in the Registered Retirement Savings Plan (RRSP), which is administered by the Canada Revenue Agency (CRA) and which offers tax-free retirement savings under a special savings scheme registered with the CRA. Among the schemes run by private companies are the Registered Pension Plans (RPPs). These are schemes established by employers with the aim of paying retirement pension to their employees. There are two types of RPPs: based on defined contributions or on defined benefits. Canadian citizens also have the possibility to contribute to defined-contribution pension funds.

According to Statistics Canada, the market value of the retirement savings in employer pension funds sank with 19.8 billion dollars, or 2.4 per cent, over the first quarter of 2009. This decrease came on top of reductions of 8.7 and 6.7 per cent in the third and fourth quarter of 2008. Contributions from employers and employees were 8.9 billion dollars in the first quarter of 2009, while benefits paid to pensioners amounted to 10 billion dollars. The amount of benefits paid was therefore greater than the contributions received for the seventh quarter running.

General Response to the Crisis

The Canadian Government has proposed an Economic Action Plan clearly aimed at stimulating the economy, protecting Canadian jobs and helping those who are most severely hit. Over the next two years, the stimulus measures, including those of other administrations, will total over 50 billion dollars, or 3.2 per cent of real GDP. To finance this action plan, the Government is making "a deliberate choice to run a substantial short-term

3 Statistics Canada, Le Quotidien, 28 September 2009.

deficit", according to the Canadian Finance Minister, Jim Flaherty. In the budget a 63.5 billion dollar deficit is planned for the next two years and 85 billion over four years; a return to surplus is planned for 2013-2014.

Table 1⁴

Canada's Economic Action Plan			
	2009	2010	Total
	(\$bn, cash-based accounting)		
Measures to help Canadians and stimulate spending	5 880	6 945	12 825
Measures to stimulate home building	5 365	2 395	7 760
Leverage – housing	725	750	1 475
Immediate infrastructure measures	6 224	5 605	11 829
Leverage – infrastructure	4 532	4 365	8 897
Measures to support companies and communities	5 272	2 255	7 527
Leverage – sector adaptation	1 300		1 300
Total – federal stimulus measures	22 742	17 200	39 942
Total – stimulus measures (including leverage)	29 298	22 316	51 613
As a percentage of GDP			
Total – federal stimulus measures	1.5	1.1	2.5
Total – stimulus measures (including leverage)	1.9	1.4	3.2

Note – Because the numbers have been rounded off the sum may not correspond to the total given. In the estimates the withdrawals planned for the next two years have been taken into account. The impact on the budget is slightly smaller because some expenses are linked to construction and repair of federal assets (for which only amortization is recorded in cash-based accounting) or to loans to third parties (which only have an impact on the budget in case of loss risk).

Crisis Response in Terms of Social Protection

The following is a list of the measures taken by the Government in terms of social protection to counter the economic crisis:

REDUCING THE TAX BURDEN

- Increased working income tax benefits to boost motivation to work;
- Better credit as a function of age to make retirement more affordable;
- Substantial tax cuts for persons who invest in their home and first-time home buyers.

HELPING THE UNEMPLOYED

The Government's investment in unemployment benefits will probably be 5.5 billion dollars this year. These are the key measures:

- Persons who receive unemployment benefits may get up to five additional weeks of

⁴ Canadian Ministry of Finance: 2009 BUDGET: Canada Economic Action Plan

- benefits, or up to \$2,235 more, as an extra support while they are looking for work;
- Benefits are paid out more quickly, as additional staff are charged with processing requests and respond to questions, and the opening hours of unemployment insurance call centres are extended;
- The duration of work sharing agreements is extended to one year, so that workers are able to reduce their working week and claim benefits for the days where they do not work.

EDUCATION AND UNEMPLOYMENT INSURANCE SUPPORT FOR MORE CANADIANS

- Long-time employees who are following long-term education may claim benefits for a period of up to two years;
- Persons who are eligible for unemployment benefits and those who are not get more support and better access to training;
- Additional support is given to young persons, elderly workers, aboriginal Canadians and apprentices;
- Contribution rates are frozen for 2010, so that employers can save.

INVESTMENT IN SOCIAL HOUSING

Under the action plan it is also provided for significant spending on building or renovating social housing. This will both stimulate creation of jobs considerably and lead to improvements in the quality and energy efficiency of the country's near 200,000 social housing units.

Under the plan 400 million dollars are also allocated over two years to building and renovating affordable housing in First Nation communities.