

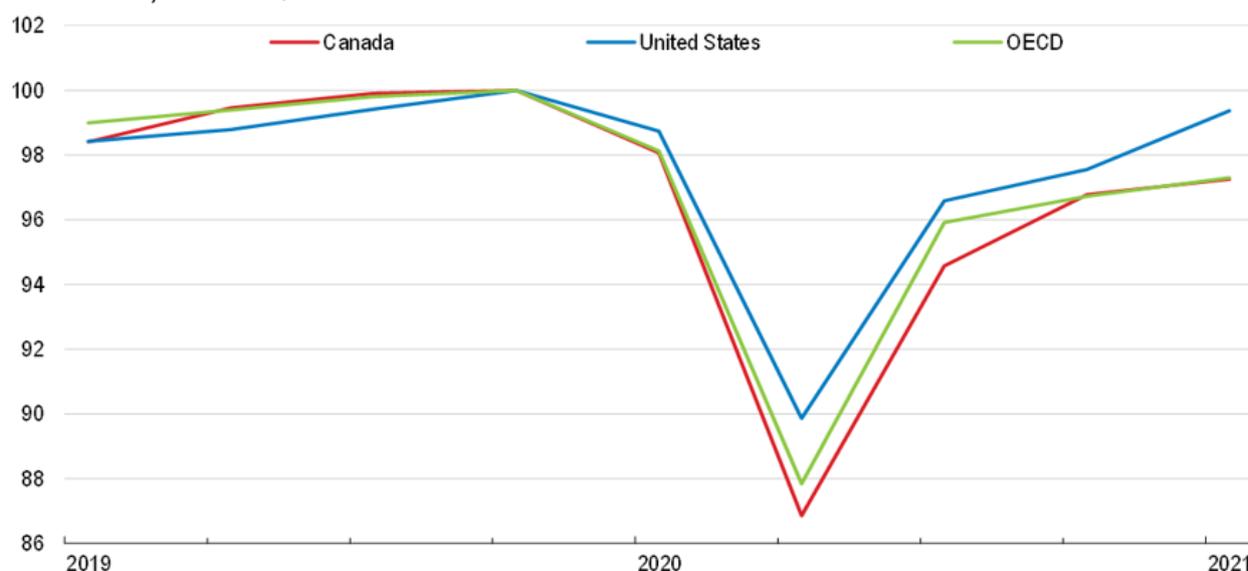
Canada: Ensuring sustainable economic recovery

by Philip Hemmings, OECD Economics Department

Canada's economic support averted an even larger downturn in 2020. The latest OECD Economic Survey of Canada underscores that the economic policy response to the crisis has been rapid, entailing one of the biggest support packages of OECD countries. Even with this support, the economic activity fell by over 12% between Q4 2019 Q2 2020.

Recovery in output is taking time

Real GDP, index Q4 2019 = 100



Note: The last quarter is an estimate.
Source: OECD *Economic Outlook database*.

Economic recovery is in sight. Although the latest round of containment measures has slowed the rebound in activity, the easing of restrictions as vaccination progresses will see the recovery gather momentum. Following a shrinkage in output of 5.4% in 2020, the *Survey* sees growth of 4.7% for 2021 and 4% in 2022.

Substantial risks and uncertainties surround the economic

outlook:

- Many households accumulated sizable savings during lockdowns. How fast consumer confidence, and therefore spending, will rebound is uncertain—implying risks to the projection.
- On the upside, the boost from US stimulus could be larger than expected.
- On the downside, high household and corporate debt contributes to macro-financial vulnerabilities.

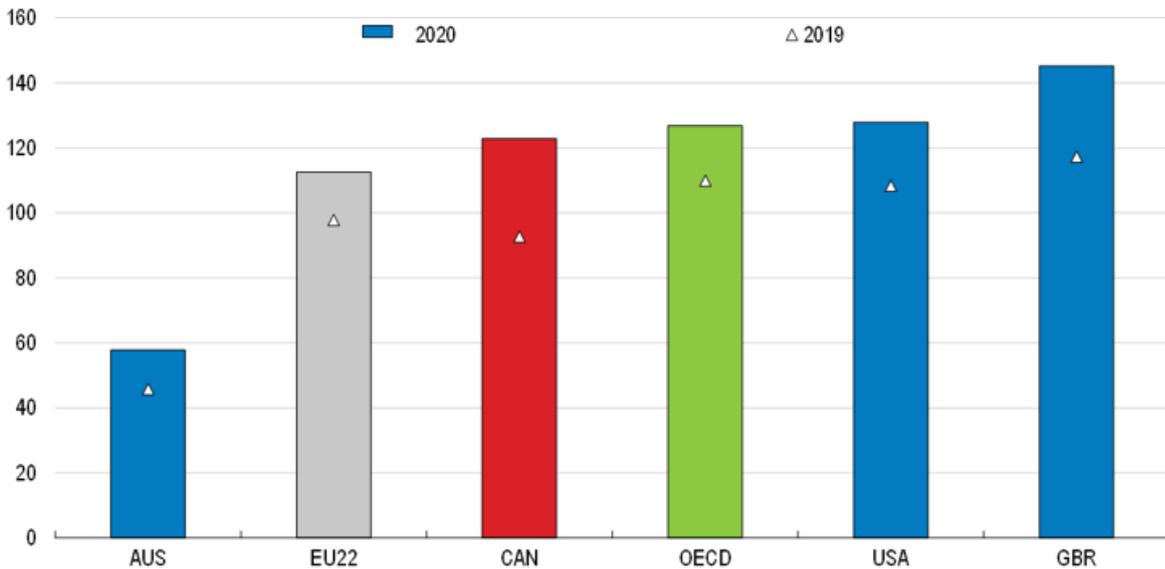
The economy still needs macroeconomic support while the economy is fragile:

- Monetary policy should continue to be geared towards supporting the recovery.
- The targeted fiscal support to people and businesses should evolve as the recovery progresses to ensure assistance focuses support policies for workers in hard-hit sectors and youth and viable companies.

Fiscal policy needs to look ahead. After the pandemic subsidies, it will be necessary to stabilise public debt and find ways to accommodate additional spending commitments. Canada's significant policy support also means the public debt has increased substantially. Furthermore, the ageing-related spending pressures present before the pandemic will continue. There is need for a clear and transparent roadmap in fiscal policy that ensures the public debt burden does not spiral out of control.

Public debt has increased

Gross public debt, % of GDP



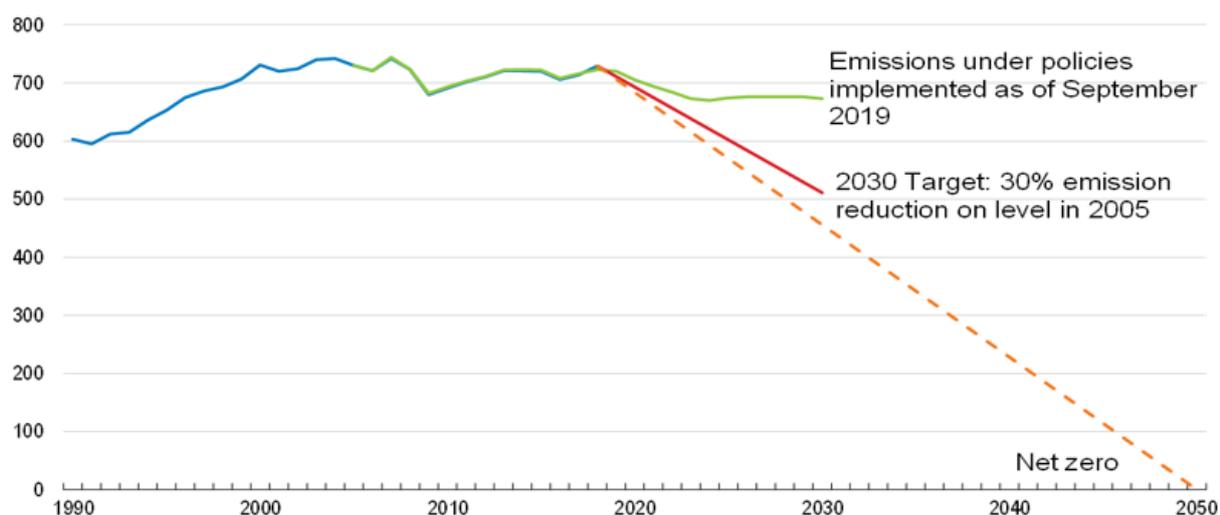
Source: OECD Economic Outlook108 database; and Statistics Canada.

Structural reform is also needed to reach a stronger and greener growth in the post-covid era. Businesses need conditions that will help them adapt to the future:

- Stronger incentives for business to become greener are also needed to help drive decline in greenhouse gas emissions—Canada has a long way to go to achieve its goals. The report supports the recent federal government proposals for substantial carbon-price increases, announced as part of a strengthened climate plan. It also suggests Canada could expand its use of environmental taxes more generally, which are low relative to other countries’.
- The economy would benefit from lower barriers to inter-provincial trade and better high-speed Internet infrastructure.
- Evidence points to a need to re-examine insolvency procedures to ensure that viable companies running into difficulty have an opportunity to recover.

Greenhouse gas emissions have yet to begin a substantive downward path

Total greenhouse gas emissions, megatons of carbon dioxide equivalent



Source: Environment and Climate Change Canada.

The crisis has exacerbated socio-economic inequalities. Job losses have been greatest in low-wage sectors that employ substantial numbers of young people and women. The crisis has also highlighted disadvantages among ethnic minorities and Indigenous groups, who tend to fare poorly in terms of income, life expectancy, housing and health, even in normal times. It has also exposed shortcomings in areas like long-term care for the elderly, health policy and the provision of affordable housing. The recovery should be used to address these vulnerabilities. These issues are covered in the *Survey's* in-depth chapter on well-being.

Reference:

OECD (2021), *OECD Economic Surveys: Canada 2021*, OECD Publishing, Paris, *OECD Economic Surveys: Canada 2021* – OECD.Kappa <https://doi.org/10.1787/16e4abc0-en>