June 4, 2020

The Honourable Percy Mockler, Chair
Standing Senate Committee on National Finance
The Senate of Canada
Ottawa, Ontario
Canada, K1A 0A4

Dear Senator Mockler:

On May 26, 2020, I met with the Standing Senate Committee on National Finance in the context of the Committee's study on the Government's response to the COVID-19 pandemic and its economic consequences.

In responding to questions from Committee members, I agreed to follow up with supplementary details or respond to written questions. Responses prepared by my staff can be found in the attached document.

Yours sincerely,

Yves Giroux
Parliamentary Budget Officer

Cc: Senator Éric Forest, Deputy Chair, Standing Senate Committee on National Finance

Attachment: Supplementary Responses

Supplementary Responses

Senator Marshall

When you calculate the federal debt-to-GDP ratio, what debt do you use? Do you use the debt that is on the government's balance sheet, or do you also take into consideration the debt of the Crown corporations?

The federal debt (also referred to as the accumulated deficit) is the federal government's main measure of debt. It is the debt measure we refer to in our presentation of the federal debt-to-GDP ratio, and is equal to total liabilities, less total assets. The Government's balance sheet can be found in Public Accounts, Volume 1, section 2 - Consolidated Statement of Financial Position.

Total liabilities are the broadest measure of the federal government's financial obligations under current public-sector accounting practices. Total liabilities include the government's obligations to external creditors, as well as accrued obligations such as pension and benefit plans for federal public servants. On March 31, 2020, the Government's total liabilities reached $1,229.4 billion.

When the Government borrows, it does so to fund not only operating expenses, but also to invest in financial and fixed capital assets. Major financial assets include taxes owed and financial interest in Crown corporations. Non-financial assets are mainly real property. On March 31, 2020, the Government's total assets were measured at $525.2 billion. In our most recent scenario, we projected federal debt to reach $962.3 billion (48.4 per cent of GDP) in fiscal year 2020-21.

Generally speaking, the assets and liabilities of consolidated Crown corporations[1] are included in the Government's balance sheet (within gross assets and gross liabilities) but the assets and liabilities of enterprise Crown corporations are not included. Enterprise Crown corporations sell goods and services to parties outside government and are sustainable without parliamentary appropriations, whereas consolidated Crowns rely primarily on parliamentary appropriations.

Enterprise Crown corporations are government business enterprises that can raise substantial portions of their revenues through commercial business activity and are therefore considered self-sustaining. They are accounted for using the modified equity method, where the Government records its equity in these Crown corporations as a financial asset but excludes the corporations' assets and liabilities. In general, enterprise Crown corporations' gross debt is excluded from consolidation with debts of the Government because enterprise Crown

[1]. The financial activities of all these entities (including balance sheet items) are consolidated in these financial statements on a line-by-line and uniform basis of accounting after eliminating significant inter-governmental balances and transactions. Detailed information on the consolidated entities is included in Public Accounts 2019, Volume 1, Section 4.

corporations are expected to repay their debt from their own revenues, not appropriations. Some enterprise Crown corporations borrow directly from the Government of Canada under the Crown Borrowing Program. These loans from the Government to enterprise Crown corporations are recorded in the Government's balance sheet as assets.[2,3]

An additional measure of market debt requires parliamentary approval. The *Borrowing Authority Act* came into force in November 2017 and set a maximum amount on the total stock of market debt of the Government of Canada (including borrowing on behalf of Crown corporations) and direct borrowing by *agent* enterprise Crown corporations from entities other than the Government of Canada.[4] This maximum amount requires parliamentary approval.[5] As such, the Government of Canada is legally liable to repay the debt of these corporations in the event of their default. However, the direct borrowing incurred by agent enterprise Crown corporations does not appear on the Government's balance sheet.

---

[2]. Beginning in 2008, the Government directed lending to the Business Development Bank of Canada, the Canada Mortgage and Housing Corporation and Farm Credit Canada, under the Crown Borrowing Program. Export Development Canada was excluded at that time because the majority of its borrowing is in foreign denominations. Borrowing undertaken by the Government of Canada on behalf of enterprise Crown corporations generates loans receivable for the Government, which are recorded as assets. The Treasury bills and bonds issued to fund these loans appear as part of market debt, a liability on the Government's balance sheet.

[3]. Detailed information on the enterprise Crown corporations is included in Public Accounts Volume 1, Section 9.

[4]. Prior to the start of each fiscal year, the *Financial Administration Act* (*FAA*) requires that the Government table a report on its expected borrowing for the upcoming fiscal year.

[5]. Examples of agent enterprise Crown corporations are: Business Development Bank of Canada, Canada Mortgage and Housing Corporation and Export Development Canada

Summary federal balance sheet

$ billions	2018-19	2019-20
Liabilities		
Accounts payable and accrued liabilities	159.7	146.3
Market debt	736.9	783.9
Non-market debt	288.5	299.2
Total liabilities	1,185.2	1,229.4
Assets		
Financial assets	413.0	435.0
Non-financial assets	86.7	90.3
Total assets	499.7	525.2
Federal debt*	**685.5**	**704.2**

Sources: Finance Canada and Parliamentary Budget Officer.
Note: Data for 2018-19 are from the Public Accounts. Data for 2019-20 are from Finance Canada's *Fiscal Monitor – March 2020*.

In your report, you had indicated that given the temporary nature of the budgetary measures that the government could undertake additional borrowing if required. Do you still hold that opinion? How close are you to the edge?

Yes, we believe that the Government, if needed, could still borrow significant amounts. Before the pandemic started, Canada's government net debt-to-GDP ratio was relatively low by international standards and the Government of Canada received the highest possible credit rating by the major international credit rating agencies. Given the temporary nature of budgetary measures, credit market access at historically low rates, and looking to historical experience, indicate that the Government could still undertake additional borrowing if required.

The budgetary measures are intended to be temporary, so as they expire and the economy recovers, the federal debt-to-GDP ratio should stabilize and then start declining under pre-crisis fiscal policy settings. However, should some of the measures be extended or made permanent, the federal debt ratio could keep rising, which could make the fiscal situation unsustainable in the longer term.

That said, it is not possible to determine, with any reasonable degree of confidence, where the fiscal "edge" is and therefore to know how close we are to it. Many advanced economies are facing similar fiscal pressures, and at this point it is difficult to see why Canada would be singled out in sovereign debt markets, particularly given its position going into the crisis and its track record of fiscal probity.

Senator Harder

Does the consolidated balance sheet that you have include the borrowings of the Bank of Canada?

The Government of Canada’s consolidated balance sheet does not include the Bank of Canada’s assets nor its liabilities.

The Government’s equity in the Bank of Canada is recorded as a federal financial asset, categorized under loans, investments and advances. On March 31, 2019, the Government’s equity, as sole shareholder of the Bank of Canada, was valued at $527 million.

This accounting approach is consistent with the modified equity method.

Further, the Bank of Canada is a non-agent enterprise Crown corporation. As such, its liabilities are not subject to the *Borrowing Authority Act* and the Government of Canada is not legally or financially liable for the Bank’s borrowing (unless it is directed by the Crown or deemed an agent by the courts).

What is the overall balance sheet of the Government of Canada?

The Government's balance sheet can be found in Public Accounts, Volume 1, section 2 - Consolidated Statement of Financial Position.

The Statement discloses the Government's cash balance and investments, amounts owing to and by the Government at the end of the year, and the Government's non-financial assets such as its tangible capital assets and inventories. It also presents both the federal debt (also referred to as the accumulated deficit) of the Government.

A summarized version of the Consolidated Statement of Financial Position is below.

Summary federal balance sheet

$ billions	2018-19	2019-20
Liabilities		
Accounts payable and accrued liabilities	159.7	146.3
Market debt	736.9	783.9
Non-market debt	288.5	299.2
Total liabilities	1,185.2	1,229.4
Assets		
Financial assets	413.0	435.0
Non-financial assets	86.7	90.3
Total assets	499.7	525.2
Federal debt*	**685.5**	**704.2**

Sources: Finance Canada and Parliamentary Budget Officer.
Note: Data for 2018-19 are from the Public Accounts. Data for 2019-20 are from Finance Canada's *Fiscal Monitor – March 2020*.

Senator Richards

Could you [...] send to the committee [...] a report on all the government programs listed for COVID-19?

The table in the link below summarizes the estimated cost of all COVID-19 response measures up to April 24, 2020. These measures are consistent with PBO's latest economic and fiscal scenario, published on April 30, 2020.

https://www.pbo-dpb.gc.ca/en/covid-19

Senator Galvez

Because of your reasoning, shouldn’t we also study the sectors that will produce revenues if we help them? I know we shouldn’t be choosing sectors, but this is what we have been doing anyway. Will you be doing analysis on other sectors such as, I don’t know, renewable energy, cleaner recovery?

The economic impacts of the COVID-19 pandemic and oil price shocks are spread across all major sectors of the Canadian economy. Of course, the magnitude of the sectoral impacts will vary, and we will be closely monitoring how these sectors perform as monthly data become available. That said, we are not planning to undertake a cost-benefit analysis of alternative sector-specific measures.

Senator Pate

As part of your costing of CERB, you identified that 8.5 million people would likely access CERB between March and October. How did you arrive at this number? Also, as of the end of April, the Canadian Centre for Policy Alternatives found that of approximately 8.7 million people who are unemployed, only 6.8 million had applied for CERB. According to these numbers, 20% of those identified as unemployed are not receiving support. Is this your conclusion as well? We are also interested in which groups are not covered by CERB and therefore not included in your calculations and who else is being left out?

To determine the number of potential recipients of the CERB program, up to and including April 24, the PBO developed a model that accounts for factors that would cause workers to become eligible for the CERB. Thus, workers that would stop working due to sickness, caregiving for a relative who is sick, taking care of children due to school closures, being laid off, as well as workers who have seen their hours of work reduced, and those who have exhausted their EI regular benefits would be considered eligible in the PBO model. PBO's model combined demographic and labour force projections from the PBO's scenario analysis of April 30, with assumptions on the expected spread of COVID-19 in Canada. We have not performed a thorough analysis of the groups that could be excluded from the CERB. However, as the CERB covers many groups not eligible for Employment Insurance (such as the self-employed), it has a much broader coverage than regular supports for the unemployed.