

Statement by Jean-Denis Fréchette
Parliamentary Budget Officer
to the House of Commons Standing Committee on Finance
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(*Check Against Delivery*)

Good afternoon Mr. Chair, Vice-chairs, and members of the Committee.

Thank you again for the invitation to appear and discuss our April 2017 Economic and Fiscal Outlook. Today I am joined by Mostafa Askari, Jason Jacques, Chris Matier, Tim Scholz and Trevor Shaw who will help respond to any questions you have regarding our outlook or other PBO analysis.

The Economic Outlook

On balance, our outlook for real GDP growth in Canada is essentially unchanged from October. Although the Canadian economy outperformed our forecasts in the second half of 2016 and the first quarter of this year, we expect growth in consumer spending to moderate and residential investment to decline in the second half of 2017 and through 2018. We project real GDP to grow, on average, at 2.0 per cent annually over 2017 to 2021.

We project growth in nominal GDP—the broadest single measure of the tax base—to average 4.1 per cent annually over 2017 to 2021, the same as in our October outlook. Adjusted for historical revisions, the level of nominal GDP is, on average, \$10 billion (0.4 per cent) higher per year over 2017 to 2021. This is due to stronger-than-anticipated nominal GDP growth in the second half of 2016. We have also revised upward our outlook for long-term interest rates, reflecting higher-than-anticipated long-term rates in the United States.

The Fiscal Outlook

Based on financial data through the first 10 months of 2016-17, we expect that the budgetary deficit will be \$20.7 billion (1.0 per cent of GDP) in 2016-17. This is \$1.6 billion lower than we projected in October. For fiscal years 2017-18 to 2021-22, we are projecting budgetary deficits that are \$2.2 billion larger, on average, compared to our October outlook. This is primarily due to higher spending resulting from new policy decisions and higher long-term interest rates.

In Budget 2016, the Government committed to reducing the federal debt to-GDP ratio to a lower level over a five-year period ending in 2020-21. This translates into a fiscal target of 31 per cent (or lower) for the federal debt-to-GDP ratio in 2020-21. Under

current tax and spending plans, we project that the federal debt-to-GDP ratio will be 29.6 per cent in 2020-21, which is 1.4 percentage points of GDP lower than the Government's target.

Given the possible scenarios surrounding our economic outlook, and on a status quo basis, it is unlikely that the budget will be balanced, or in a surplus position, over the medium term. However, it is likely that the federal debt-to-GDP ratio will fall below its 2015-16 level of 31 per cent over the period 2017-18 to 2021-22. We estimate that there is, approximately, a two-thirds chance that the federal debt-to-GDP ratio will be below its targeted level in 2020-21.

Budget 2017: Key Issues for Parliamentarians

Our report also identifies some key issues for parliamentarians related to Budget 2017.

Budget 2017 economic fiscal outlook

- PBO projects budgetary deficits that are \$5.9 billion lower, on average, than Budget 2017 over 2016-17 to 2021-22. This reflects the Government's \$3 billion annual risk adjustment and PBO's stronger economic outlook.
- PBO believes that the Government's outlook for the budgetary balance over 2017-18 to 2021-22 is overly prudent. This results from using an outdated economic outlook and from incorporating a risk adjustment.

Federal infrastructure spending

- Data indicates that federal spending on infrastructure has lagged the timing set out in Budget 2016. We expect that roughly half of the \$4.0 billion in infrastructure funding in 2016-17 will be spent as planned in Budget 2016.
- PBO expects that spending will pick up in 2017-18 to above the level projected in Budget 2016, resulting in overall infrastructure spending of \$10.1 billion over two years, which is close to 90 per cent of originally projected levels.

Operating expenses

- Budget 2017 provisions for 1 per cent annual growth in operating expenses over the medium term yet collective agreements promise annual wage growth exceeding this amount.
- Parliamentarians may wish to seek further detail on the Government's strategy to manage operating expenses.

My colleagues and I would be happy to respond to any questions you may have regarding our Economic and Fiscal Outlook.

Thank you, Mr. Chair.