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CANADA

Statement by Jean-Denis Fréchette
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to the House of Commons Standing Committee on Finance
19 April 2016
(*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 2016 Economic and Fiscal Outlook. Today I am joined by Mostafa Askari, Chris Matier, Jason Jacques and Scott Cameron, who will help to respond to any questions you have regarding our outlook or other PBO analysis.

Since our November 2015 report, the outlook for the global economy has deteriorated further and commodity prices over the medium term have been revised lower. Despite this weaker external outlook, we anticipate that the combination of fiscal measures in Budget 2016 and accommodative monetary policy will help bolster the Canadian economy.

- We project that growth in real GDP will rebound to 1.8 per cent in 2016 and then rise to 2.5 per cent in 2017. Growth in the economy is then expected to moderate over 2018 to 2020, reflecting the tapering of fiscal measures and the normalization of monetary policy.

- The level of nominal GDP—the broadest single measure of the tax base—is projected to be almost $20 billion lower each year, on average, between 2016 and 2020 compared to our November report.

- However, relative to the Government's planning assumption for nominal GDP in Budget 2016 our projection is, on average, $40 billion higher per year over 2016 to 2020. The difference is most pronounced in 2016 and 2017, reaching close to $50 billion in those years.

Our November 2015 fiscal outlook provided an independent status quo planning assumption for the start of the 42nd Parliament. We have updated our fiscal outlook to include measures announced in Budget 2016, as well as measures announced prior to the budget.

- We estimate there was a small surplus in 2015-16 and forecast a budgetary deficit of $20.5 billion in 2016-17, which is mostly attributable to the introduction of measures since the Government's Fall Update.

- The deficit is then projected to rise to $24.2 billion in 2017-18 as the result of moving to the 7-year breakeven mechanism for EI premium rates, as well as increases in direct program expenses.

- Over the remainder of the planning horizon, we project the deficit to decline to $12.4 billion based on the Government's forecast that direct program expenses—in particular the operating costs of departments—will remain flat over the period 2017-18 to 2019-20.

- Compared to Budget 2016, our outlook for budgetary deficits over 2016-17 to 2020-21 is $4.5 billion lower on average. The average difference is roughly in line with $6 billion fiscal impact of the Government's adjustment to the private sector forecast of nominal GDP.

Budget 2016 highlights the Government's commitment to returning to balanced budgets and to reducing the federal debt-to-GDP ratio to a lower level by 2020-21. To provide a broader perspective on the sustainability of the Government's finances, we have extended our projection beyond 2020-21 to show the long-term trajectory of federal debt relative to GDP.

- Our projection shows the federal debt-to-GDP ratio declining continuously over the next several decades under current policy. This indicates that the federal fiscal structure underlying Budget 2016 is sustainable over the long term.

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

Thank you, Mr. Chair.