



Election Proposal Costing Baseline



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The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides PBO's economic and fiscal baseline projection for the 2019 election proposal costing period.

Lead Analysts:

Kristina Grinshpoon, Senior Analyst

Tim Scholz, Advisor-Analyst

Contributors:

Robert Behrend, Senior Analyst

Tessa Devakos, Research Assistant

Eskandar Elmarzougui, Senior Analyst

Raphaël Liberge-Simard, Analyst

Sarah MacPhee, Analyst

Caroline Nicol, Analyst

Christopher Penney, Senior Analyst

Ben Segel-Brown, Analyst

Jason Stanton, Analyst

Nigel Wodrich, Research Assistant

This report was prepared under the direction of:

Chris Matier, Senior Director

Nancy Beauchamp, Jocelyne Scrim and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca.

Yves Giroux

Parliamentary Budget Officer

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In January 2018, the PBO provided guidelines about how it plans to implement its mandate to deliver financial costing of election campaign proposals made by political parties during the 120 days before the 2019 general election.¹

Consistent with this mandate, the PBO committed to publish a 10-year economic and fiscal baseline projection prior to the start of the pre-election period. The baseline projection and its underlying assumptions will be used to prepare financial cost estimates during the election proposal costing (EPC) period. Political parties may use these assumptions and projections to prepare their own cost estimates.

The baseline projection incorporates Budget 2019 measures. In addition, we have incorporated new policy actions that were not reflected in Budget 2019 projections.

To assist political parties and the public with estimating the potential revenue impacts that would arise from adjusting various federal tax rates, credits, and brackets for the current calendar year, we have updated our online Ready Reckoner tool to incorporate the EPC baseline.² In addition, we are providing an online tool³ that political parties and the public can use to estimate the potential impact of policy measures on public debt charges.⁴

The EPC baseline projection presented below is an update of the baseline presented in PBO's April 2019 Economic and Fiscal Outlook.⁵ The EPC baseline incorporates data and information up to and including 10 June 2019. The following highlights key changes to the baseline projection.

EPC economic baseline projection (Table 1)

The economic baseline is largely unchanged from our April outlook.

Although first quarter real GDP growth was weaker than we anticipated at the time of our April report, we are projecting slightly stronger economic growth from net exports over the medium term that offsets this weakness. GDP inflation in the first quarter was higher than we expected, however, we have revised down modestly our near-term outlook for GDP inflation to reflect lower commodity prices.

Consequently, our projection of nominal GDP growth (that is, real GDP growth and GDP inflation combined) is 0.1 percentage points lower per year, on average, over 2019 to 2023 compared to our April outlook. The level of nominal GDP—the single broadest measure of the Government's tax base—is \$7 billion (0.3 per cent) lower per year, on average, over 2019 to 2029.⁶

We have also revised slightly our near-term assumptions for monetary policy in the U.S. and Canada. Consistent with recent communications by the U.S. Federal Reserve and the Bank of Canada, we have delayed the resumption of policy interest rate increases by one quarter. In our April report, we assumed that gradual increases in policy rates would begin in October 2019.

EPC fiscal baseline projection (Table 2)

On balance, the fiscal baseline projection for the budgetary balance is marginally lower compared to our April outlook.

Based on monthly financial results through March 2019, we expect that the budgetary deficit in 2018-19 will be \$14.0 billion (0.6 per cent of GDP), which is \$1.8 billion lower than we anticipated in April. This downward revision is primarily due to stronger-than-expected income tax revenues. However, over the medium term, revenues are projected to be largely unchanged from April as lower nominal GDP offsets the underlying strength in income tax revenues.⁷

We project higher program expenses due to new policy actions announced after Budget 2019 (such as the *Hibernia Dividend Backed Annuity Agreement* with Newfoundland and Labrador announced on 1 April 2019) and from revisions to estimates of policy measures in Budget 2019. Public debt charges are projected to be lower, reflecting the revised trajectory for interest rates.

Over the period 2019-20 to 2028-29, the budgetary balance is projected to be \$0.7 billion lower per year, on average, compared to our April outlook. The profile of the federal debt-to-GDP ratio is 0.2 percentage points higher, on average, due to larger budgetary deficits and lower nominal GDP.

The detailed fiscal baseline projection is provided in an online spreadsheet that can be accessed at:

<https://www.pbo-dpb.gc.ca/en/blog/news/election-proposal-costing-baseline>

Summary of Budget 2019 measures and new policy actions (Table 3)

PBO is also providing a line-item costing of Budget 2019 measures based on Finance Canada and PBO estimates, should political parties choose to adjust the baseline for their fiscal planning purposes. Table 3 below presents a high-level summary of Budget 2019 measures as well as new policy actions that were not reflected in Budget 2019 projections.

The detailed line-item costing of Budget 2019 measures and new policy actions is provided in an online spreadsheet that can be accessed at:

<https://www.pbo-dpb.gc.ca/en/blog/news/election-proposal-costing-baseline>

Table 1 2019 EPC economic baseline projection

<i>% unless indicated otherwise</i>	Projection											
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP growth	1.9	1.3	1.9	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Potential GDP growth	1.6	1.7	1.6	1.6	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.6
GDP inflation	1.7	1.6	1.8	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth	3.6	3.0	3.8	3.8	3.7	3.7	3.7	3.7	3.7	3.6	3.6	3.6
Nominal GDP (\$ billions)	2,219	2,285	2,371	2,462	2,553	2,646	2,744	2,845	2,949	3,057	3,167	3,282
3-month treasury rate	1.4	1.7	2.3	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
10-year government bond rate	2.3	2.0	3.1	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8
Exchange rate (US cents/C\$)	77.2	74.7	74.8	75.3	75.6	75.7	75.7	75.7	75.6	75.6	75.6	75.5
Unemployment rate	5.8	5.6	5.7	5.6	5.5	5.4	5.4	5.3	5.3	5.3	5.3	5.3
CPI inflation	2.2	1.9	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
U.S. real GDP growth	2.9	2.5	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7	1.8
WTI oil price (\$US per barrel)	65	58	59	59	59	61	62	63	64	66	67	68
<i>Expenditure shares of GDP (%)</i>												
Household consumption	58.3	59.1	59.1	58.7	58.4	58.3	58.2	58.2	58.2	58.2	58.3	58.3
Government expenditures	24.7	24.8	24.5	24.2	23.9	23.8	23.7	23.7	23.7	23.7	23.7	23.7
Residential investment	7.4	7.0	6.8	6.8	6.9	6.9	7.0	7.1	7.1	7.2	7.2	7.2
Business investment	11.1	11.2	11.3	11.4	11.6	11.8	11.9	11.9	11.9	11.8	11.8	11.8
Inventory investment	0.5	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Exports of goods and services	31.8	31.8	32.4	32.4	32.4	32.5	32.6	32.7	32.7	32.8	32.9	33.0
Imports of goods and services	33.9	34.3	34.4	33.9	33.6	33.6	33.7	33.7	33.8	33.9	34.0	34.0
<i>Income shares of GDP (%)</i>												
Compensation of employees	50.5	51.2	51.2	50.9	50.8	50.7	50.7	50.8	50.8	50.8	50.8	50.8
Net mixed income	9.0	9.0	8.9	9.0	9.1	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Corporate profits before tax	10.2	9.3	9.8	10.2	10.4	10.3	10.2	10.1	10.0	9.8	9.8	9.7
Investment income	2.5	2.6	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Consumption of fixed capital	16.5	16.5	16.2	15.9	15.9	16.0	16.1	16.2	16.3	16.4	16.4	16.5
Taxes less subsidies	11.3	11.3	11.3	11.2	11.2	11.2	11.2	11.2	11.2	11.2	11.3	11.3

Sources: Statistics Canada and Parliamentary Budget Officer.

Table 2 2019 EPC fiscal baseline projection (summary level)

<i>\$ billions unless otherwise indicated</i>	Projection											
	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Income taxes	209.3	224.0	225.9	233.1	244.6	254.6	264.9	276.3	287.5	299.0	310.7	322.8
Excise taxes/duties	53.8	57.3	58.2	59.5	61.0	62.7	64.5	66.4	68.5	70.7	73.0	75.3
Fuel charge proceeds	0.0	0.0	2.8	3.9	5.1	6.2	6.2	6.2	6.2	6.1	6.1	6.0
EI premium revenues	21.1	22.4	22.5	22.8	23.5	24.6	25.5	26.4	27.3	28.3	29.3	30.4
Other revenues	27.0	28.5	28.4	29.6	30.9	31.4	32.3	33.2	34.3	35.5	36.7	37.9
Total budgetary revenues	311.2	332.1	337.9	348.9	365.1	379.6	393.3	408.5	423.8	439.6	455.8	472.4
Major transfers to persons	93.8	96.0	101.1	107.1	112.4	117.4	122.3	127.0	132.3	138.0	144.0	150.1
Major transfers to other levels of governments	70.5	75.5	76.7	79.6	82.3	84.5	87.4	90.2	93.2	96.2	98.3	101.5
Direct program expenses	144.0	151.4	157.2	158.5	156.1	158.4	161.5	165.4	168.8	174.1	178.2	182.9
Total program expenses	308.3	322.9	334.9	345.2	350.7	360.3	371.2	382.6	394.4	408.3	420.4	434.5
Public debt charges	21.9	23.1	23.7	27.0	29.8	31.8	33.4	34.8	35.9	36.7	37.5	38.2
Total expenses	330.2	346.1	358.6	372.2	380.5	392.1	404.5	417.4	430.3	445.1	457.9	472.7
Budgetary balance	-19.0	-14.0	-20.7	-23.3	-15.4	-12.5	-11.2	-9.0	-6.5	-5.5	-2.2	-0.2
Federal debt	671.3	685.4	706.2	729.4	744.9	757.4	768.6	777.6	784.0	789.5	791.6	791.9
<i>% of GDP</i>												
Budgetary revenues	14.5	15.0	14.8	14.7	14.8	14.9	14.9	14.9	14.9	14.9	14.9	14.9
Total expenses	15.4	15.6	15.7	15.7	15.5	15.4	15.3	15.2	15.1	15.1	15.0	14.9
Budgetary balance	-0.9	-0.6	-0.9	-1.0	-0.6	-0.5	-0.4	-0.3	-0.2	-0.2	-0.1	0.0
Federal debt	31.3	30.9	30.9	30.8	30.3	29.7	29.0	28.3	27.6	26.8	25.9	25.0

Sources: Finance Canada and Parliamentary Budget Officer.

Table 3 Summary of Budget 2019 measures and new policy actions

\$ billions	Projection										
	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Actions since Fall Economic Statement 2018	0.2	0.5	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Chapter 1 <i>(Investing in the middle class)</i>	0.0	0.6	1.4	1.8	2.4	2.5	2.5	2.6	2.6	2.7	2.7
Chapter 2 <i>(Building a better Canada)</i>	3.2	0.3	0.8	0.8	0.6	0.4	0.5	0.5	0.5	0.5	0.5
Chapter 3 <i>(Advancing reconciliation)</i>	0.9	0.7	1.0	1.0	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Chapter 4 <i>(Delivering real change)</i>	0.1	1.9	1.7	0.8	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Other Budget 2019 measures*	1.2	1.2	1.1	-1.4	-0.6	-1.2	-1.3	-1.3	-1.4	-1.4	-1.5
Budget 2019 measures**	5.6	5.1	6.4	3.4	3.6	3.0	3.0	3.0	3.1	3.1	3.1
New policy actions	0.0	2.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Budget 2019 measures and new policy actions	5.6	7.1	6.5	3.5	3.8	3.1	3.1	3.2	3.2	3.3	3.3

Sources: Finance Canada and Parliamentary Budget Officer.

Note: * Includes non-announced measures since Fall Economic Statement 2018 and in Budget 2019.

** Includes measures announced after Fall Economic Statement 2018 and before Budget 2019.

A positive number implies a reduction in the budgetary balance (lower revenues or higher spending).

A negative number implies an increase in the budgetary balance (higher revenues or lower spending).

Notes

1. Available at: https://www.pbo-dpb.gc.ca/web/default/files/Documents/General/Guidelines%20on%20Cost%20Estimates%20for%20Electoral%20Platform%202018-01-24_EN.pdf.
2. Available at: <http://readyreckoner.ca/?locale=en-CA>.
3. Available at: https://www.pbo-dpb.gc.ca/en/blog/news/public_debt_calculator.
4. For example, the baseline fiscal projection could be adjusted by removing certain Budget 2019 measures, which would have a direct impact on the fiscal room available for planning purposes. However, there would also be a secondary impact on public debt charges that could increase or decrease (depending on the measure) the amount of fiscal room. Our online tool can be used to provide an estimate of this secondary impact.
5. Available at: https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2019/EFO%20April%202019/EFO_APR2019_EN.pdf.
6. The difference in projected nominal GDP levels is adjusted for historical revisions.
7. To assess contributions of revisions to the budgetary balance, we control for flow-through changes to revenue and expense categories. For example, revisions to our projection of revenues fuel charge proceeds flow through one-for-one to expenses of fuel charge proceeds returned.