

October 13, 2022



# Economic and Fiscal Outlook – October 2022



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER  
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

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 a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings.

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# Table of Contents

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Summary	1
Economic outlook	1
Fiscal outlook	2
Key assumptions and risks	5
Appendix A: Detailed economic outlook	7
Appendix B: Composition of nominal GDP	8
Appendix C: Detailed revenue outlook	9
Appendix D: Detailed expense outlook	10
Appendix E: Employment Insurance Operating Account	11
Appendix F: Direct program expenses	12
Appendix G: Federal debt outlook	13
Appendix H: Comparison to March 2022 outlook	14
Appendix I: Comparison to Budget 2022	15
Notes	16

# Summary

This report provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings. Our outlook incorporates economic data up to and including September 30. It also includes new measures announced by the Government in Budget 2022 and through August, as well as measures announced on September 13 and October 4.

The following provides a condensed overview of PBO's outlook. Projection details are provided in Appendices A to I.

## Economic outlook

In March, the Bank of Canada increased its policy rate (by 25 basis points) and announced that it expected interest rates would need to rise further as inflation pressures remained elevated. In April, the Bank increased its policy rate (by 50 basis points) and implemented quantitative tightening.<sup>1</sup> The Bank noted that inflation was persisting well above its target and there was "an increasing risk that expectations of elevated inflation could become entrenched".<sup>2</sup>

Since the beginning of March, the Bank of Canada has increased its policy rate by a total of 300 basis points, bringing it to 3.25 per cent in early September.<sup>3</sup> Consistent with financial markets, we expect the Bank to increase its policy rate further, reaching 4.0 per cent by the end of this year (Table 1).

Table 1 Summary of the economic outlook

% unless otherwise indicated	Projection				
	2021	2022	2023	2024	2025-2027
<b>Real GDP growth</b>	4.5	3.1	1.2	2.3	2.0
<b>Employment (thousands)</b>	19,272	19,542	19,673	19,907	20,493
<b>Unemployment rate</b>	7.4	5.4	5.7	5.7	5.5
<b>WTI oil price (\$US)</b>	68	96	86	81	83
<b>CPI inflation</b>	3.4	6.6	3.5	2.3	2.0
<b>Bank of Canada policy rate</b>	0.25	4.00	3.75	2.50	2.50

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

Note: Employment and the Bank of Canada policy rate are end of period values.



Following a strong performance in the first half of the year, with the tightening of monetary policy, we expect real GDP growth in Canada to slow considerably in the second half of 2022 as consumer spending downshifts, residential investment continues to decline, and firms pull back on their inventory investment. We project real GDP growth to remain weak through 2023 before rebounding somewhat in 2024 as exports pick up and the drag from inventory investment diminishes.<sup>4</sup>

As supply constraints ease and commodity prices recede from elevated levels in the first half of 2022, softer demand in 2023 is expected to contribute to sustained reductions in consumer price inflation (measured by year-over-year changes in the Consumer Price Index (CPI)). With CPI inflation solidly on track to return to its 2 per cent target, we expect the Bank of Canada to lower the policy interest rate to its neutral level of 2.5 per cent by the end of 2024.<sup>5</sup> We project real GDP growth to moderate over the remainder of the projection horizon, converging toward its potential, or trend, growth rate.

After reaching a new record low of 4.9 per cent in June, the unemployment rate jumped to 5.4 per cent in August largely due to (net) job losses. We project the unemployment rate to rise further to 5.8 per cent in late 2023 and remain close to that level before gradually declining to 5.4 per cent by the end of our projection horizon. The projected increase in the unemployment rate is tempered by sustained decreases in the labour force participation rate as an increasing share of the population transitions into retirement.

Given upward revisions to our outlook for commodity and consumer prices, we have revised up our projection of nominal GDP—the broadest measure of the Government’s tax base—by \$77 billion (2.6 per cent) annually, on average, over 2022 to 2026 compared to our March 2022 *Economic and Fiscal Outlook*.<sup>6</sup> The significant upward revision to our nominal GDP outlook reflects stronger-than-expected GDP inflation in the second half of 2021 and over the first half of 2022.

## Fiscal outlook

Our outlook includes new measures announced in the Government’s 2022 budget and through August, as well as measures announced on September 13 and October 4<sup>7</sup>, which combined amount to \$39.9 billion over 2021-22 to 2026-27.<sup>8</sup>

In the absence of final financial results for the past fiscal year, we estimate that there was a budgetary deficit of \$97.0 billion (3.9 per cent of GDP) in 2021-22.<sup>9</sup> For the current fiscal year, 2022-23, we project the deficit to decline to \$25.8 billion (0.9 per cent of GDP) under status quo policy (Table 2).

Assuming no new measures are introduced and existing temporary measures sunset as scheduled, the budgetary deficit is projected to decline further, reaching \$3.1 billion (0.1 per cent of GDP) in 2027-28, as growth in tax revenue tracks gains in nominal GDP and growth in program spending remains constrained, averaging 2.9 per cent annually over 2023-24 to 2027-28.

Table 2 Summary of the fiscal outlook

\$ billions	Estimate	Projection					
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Revenues	405.5	434.7	448.3	469.4	489.6	510.9	531.3
Program expenses	467.8	421.9	429.7	439.1	455.2	469.5	486.6
Public debt charges	24.4	31.2	42.0	44.8	45.0	46.3	47.6
Actuarial losses	10.3	7.4	2.1	0.1	0.1	-1.5	0.2
Expenses*	502.5	460.5	473.8	484.0	500.3	514.3	534.4
<b>Budgetary balance</b>	-97.0	-25.8	-25.6	-14.6	-10.7	-3.4	-3.1
<b>Federal debt</b>	1,141.6	1,167.4	1,192.9	1,207.5	1,218.2	1,221.6	1,224.7
% of GDP							
<b>Budgetary balance</b>	-3.9	-0.9	-0.9	-0.5	-0.3	-0.1	-0.1
<b>Federal debt**</b>	45.8	42.0	41.5	40.2	39.0	37.6	36.2

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: \* Expenses include actuarial losses. Totals may not add due to rounding.

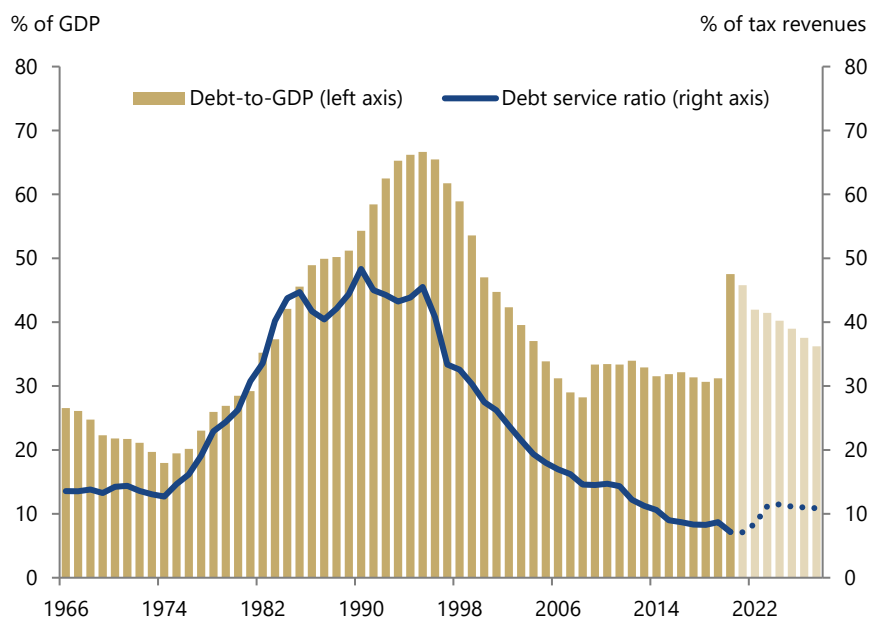
\*\* As of 2022-23, the Government adopted new Public Sector Accounting Board (PSAB) standards for both asset retirement obligations and financial instruments. These changes will impact the opening balance of the accumulated deficit for 2022-23 and will be reflected in the upcoming 2022 Public Accounts and are therefore not included in this outlook.<sup>10</sup>

Despite the projected decline in the budgetary deficit, public debt charges are projected to more than double from their 2020-21 level (of \$20.4 billion), reaching \$47.6 billion in 2027-28 due to higher interest rates and the additional accumulation of federal debt.<sup>11</sup>

We project the federal debt-to-GDP ratio to continue to decline from its peak of 47.5 per cent in 2020-21, gradually reaching 36.2 per cent by the end of our projection horizon, but remain above its pre-pandemic level of 31.2 per cent of GDP (Figure 1).

With the increase in interest rates, we project the debt service ratio (that is, public debt charges relative to tax revenues) will peak at 11.5 per cent in 2024-25 and then decline gradually, reaching 10.9 per cent in 2027-28, as growth in public debt charges moderates and interest rates return to their neutral levels.<sup>12</sup>

Figure 1 Federal debt and debt service ratios



Sources: Finance Canada, Statistics Canada and Office of the Parliamentary Budget Officer.

Note: Data are in fiscal years (2022 corresponds to fiscal year 2022-23). The projection period covers 2021-22 to 2027-28.

Compared to our March 2022 outlook, we are projecting budgetary deficits that are \$19.1 billion lower, on average, over 2021-22 to 2026-27, largely due to higher-than-anticipated tax revenues<sup>13</sup> that more than offset the Government's announced measures and the impact of higher interest rates on public debt charges (Table 3).

Table 3 Evolution of the budgetary balance since March 2022

\$ billions	Estimate	Projection				
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027
<b>Budgetary balance – March 2022</b>	-139.8	-47.9	-38.3	-25.7	-22.5	-17.5
Additional measures	-2.8	-13.6	-9.0	-6.9	-4.8	-2.9
Economic and other fiscal developments	45.6	35.6	21.7	18.0	16.6	17.1
Of which: budgetary revenues	32.2	39.2	24.2	22.1	20.6	20.9
Of which: total expenses*	13.4	-3.5	-2.5	-4.1	-4.0	-3.8
<b>Budgetary balance – October 2022</b>	-97.0	-25.8	-25.6	-14.6	-10.7	-3.4

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Additional measures include those announced in Budget 2022 and through August, as well as measures announced on September 13 and October 4.

\* Total expenses include actuarial losses. Totals may not add due to rounding.

Due to stronger-than-expected results in 2021-22 and strong in-year data for 2022-23, tax yields over the projection horizon have been revised up.<sup>14</sup> Combined with upward revisions to personal and corporate incomes, along with higher (nominal) consumer spending, our revenue outlook has been revised up by \$27.6 billion annually, on average, over 2021-22 to 2026-27.

Excluding Budget 2022 and off-cycle measures, program expenses were, on average, revised lower largely due to lower-than-anticipated other transfer payments administered by departments. However, the impact of this revision was partially offset by higher transfers to persons and other levels of government resulting from higher CPI inflation and nominal GDP growth.<sup>15</sup>

## Key assumptions and risks

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Our outlook provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings. That said, the uncertainty surrounding our outlook is high. Key assumptions and risks are identified below.

### **A more severe economic slowdown/contraction**

The global economy is slowing as major central banks are increasing their policy rates to reduce high inflation. Inflation remains elevated in the U.S., while the euro area is grappling with an energy crisis that is disrupting its economy and adding to inflationary pressures.

If major central banks overtighten monetary policy, this could result in a more severe global slowdown, which would negatively affect the Canadian economy and federal finances.

In addition, given high levels of household indebtedness and elevated levels of house prices in Canada, households could pull back their spending to a greater extent, and/or residential investment could decline more than anticipated under our current interest rate outlook, resulting in a more pronounced slowdown or contraction in the Canadian economy and deterioration in the Government's financial position.

### **Inflation**

Informed by external short-term forecasts and futures prices, we project that commodity prices will recede from elevated levels in the first half of 2022 as disruptions to production and geopolitical concerns are resolved.

Commodity prices, in particular prices for crude oil, could increase should production disruptions and geopolitical concerns persist for longer than expected, putting upward pressure on producer and consumer prices.

We assume that disruptions from global supply chains and supply shortages will be resolved over the course of 2023, helping to moderate quarter-over-quarter CPI inflation rates. However, supply constraints could persist longer than expected, putting upward pressure on CPI inflation.



### **Additional measures for major policy initiatives**

Upward revisions to tax revenues projected over the medium term will result in “fiscal room” for the Government relative to its 2022 budget plan. The Government could decide to use this projected room to fund new major policy initiatives, and/or expand existing programs.

For example, to address the call from Premiers<sup>16</sup> for the federal government to increase its share of provincial-territorial health care costs, the Government could increase the Canada Health Transfer (CHT), which would result in larger budgetary deficits and higher federal debt over the medium term. Permanent changes to the CHT could also have long-term implications.<sup>17</sup>

### **Additional spending related to natural disasters**

Extreme and large-scale weather-related natural disasters pose both economic and fiscal risks. If such events do occur, the Government would provide financial assistance to provincial and territorial governments through the Disaster Financial Assistance Arrangements (DFAA) program.

In its 2021 Economic and Fiscal Update, the Government provisioned \$5 billion in 2021-22 for its share of recovery costs under the DFAA, as well as other costs related to the recent natural disasters in British Columbia. More recently, on September 24 and 25, Hurricane Fiona swept through Atlantic Canada and part of Quebec. In response, the Government announced that it will provide financial assistance through the DFAA and the newly created Hurricane Fiona Recovery Fund.<sup>18</sup>

As the frequency of extreme weather events increases<sup>19</sup> additional financial assistance to provincial and territorial governments could be required under the DFAA, resulting in larger budgetary deficits and higher federal debt over the medium and long term.

# Appendix A: Detailed economic outlook

% unless otherwise indicated	2021	Projection						
		2022	2023	2024	2025	2026	2027	
Real GDP growth								
October 2022	4.5	3.1	1.2	2.3	2.1	2.0	1.9	
March 2022	4.7	3.9	2.9	1.8	1.8	1.8	---	
Potential GDP growth								
October 2022	0.9	1.4	1.7	1.8	1.9	1.9	1.9	
March 2022	1.0	1.5	1.8	2.0	1.9	2.0	---	
GDP inflation								
October 2022	8.1	8.2	2.2	2.0	1.9	2.0	2.0	
March 2022	7.7	4.3	1.7	2.0	2.1	2.1	---	
Nominal GDP growth								
October 2022	13.0	11.6	3.4	4.3	4.1	4.1	4.0	
March 2022	12.7	8.3	4.7	3.9	3.9	3.9	---	
Nominal GDP (\$ billions)								
October 2022	2,493	2,782	2,878	3,002	3,125	3,253	3,382	
March 2022	2,488	2,695	2,821	2,930	3,045	3,164	---	
3-month treasury rate								
October 2022	0.1	2.4	3.9	3.0	2.5	2.5	2.5	
March 2022	0.1	0.6	1.6	2.2	2.2	2.2	---	
10-year government bond rate								
October 2022	1.4	2.8	3.4	3.3	3.3	3.3	3.3	
March 2022	1.4	2.0	2.5	3.0	3.0	3.0	---	
Exchange rate (US\$/C\$)								
October 2022	79.8	77.7	78.9	80.4	81.2	81.6	81.8	
March 2022	79.8	81.7	84.7	85.9	86.3	86.4	---	
Unemployment rate								
October 2022	7.4	5.4	5.7	5.7	5.5	5.5	5.4	
March 2022	7.4	5.9	5.4	5.4	5.4	5.4	---	
CPI inflation								
October 2022	3.4	6.6	3.5	2.3	2.0	2.0	2.0	
March 2022	3.4	4.0	2.0	2.1	2.1	2.1	---	
U.S. real GDP growth								
October 2022	5.9	1.6	1.0	2.1	1.8	1.8	1.8	
March 2022	5.7	3.9	2.6	1.9	1.8	1.8	---	
WTI oil price (\$US)								
October 2022	68	96	86	81	81	83	84	
March 2022	68	79	70	71	72	73	---	

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

## Appendix B: Composition of nominal GDP

% of GDP	Projection						
	2021	2022	2023	2024	2025	2026	2027
<b>Expenditure share</b>							
Final household consumption	53.1	52.8	54.2	54.6	54.8	55.0	55.0
Nonprofit serving households expenditures	1.5	1.5	1.5	1.5	1.4	1.4	1.4
Government consumption expenditure	21.7	20.8	20.5	20.0	20.0	20.0	20.0
Government investment	4.0	3.9	3.9	3.8	3.8	3.8	3.8
Residential investment	9.8	8.8	8.1	7.9	7.8	7.8	7.8
Business investment	10.0	10.2	10.8	11.2	11.4	11.3	11.4
Inventory investment	-0.1	1.5	1.3	1.2	1.2	1.0	0.8
Exports of goods and services	30.7	33.6	32.8	32.3	32.3	32.5	32.5
Imports of goods and services	30.6	33.1	33.0	32.6	32.7	32.7	32.7
<b>Income share</b>							
Compensation of employees	50.7	49.7	49.7	50.1	50.8	51.0	51.2
Net mixed income	9.5	8.8	8.7	8.8	8.7	8.7	8.8
Corporate profits before tax	10.3	12.4	12.9	11.9	11.4	10.5	10.1
Investment income	2.7	2.3	2.6	2.6	2.6	2.6	2.6
Consumption of fixed capital	16.3	16.1	16.3	16.2	16.3	16.3	16.4
Taxes less subsidies on production	2.7	3.9	4.1	4.1	4.1	4.1	4.1
Taxes less subsidies on products and imports	6.3	6.4	6.6	6.9	7.0	7.2	7.2

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

# Appendix C: Detailed revenue outlook

\$ billions	Estimate	Projection					
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
<b>Income taxes</b>							
Personal income tax	189.7	201.9	213.3	223.5	234.1	245.6	256.8
Corporate income tax	80.5	88.0	78.6	79.5	81.2	82.7	84.7
Non-resident income tax	9.9	12.1	12.2	12.4	12.9	13.3	13.8
Total income tax	280.1	302.1	304.1	315.4	328.2	341.6	355.3
<b>Excise taxes/duties</b>							
Goods and Services Tax	45.6	48.1	50.9	52.2	54.2	56.3	58.4
Custom import duties	5.3	6.4	7.0	7.3	7.6	7.9	8.2
Other excise taxes/duties	11.8	12.8	13.1	13.3	13.4	13.5	13.6
Total excise taxes/duties	62.7	67.3	71.0	72.7	75.2	77.6	80.1
<b>Other taxes</b>	0.0	0.2	0.4	1.5	1.7	1.9	2.1
<b>Fuel charge proceeds</b>	6.3	8.4	10.8	13.0	15.1	17.1	19.0
<b>EI premium revenues</b>	24.5	26.7	28.4	30.3	32.5	34.4	35.6
<b>Other revenues</b>							
Enterprise Crown corporations	11.3	6.5	8.1	9.3	9.6	10.1	10.2
Other programs	19.3	20.7	22.1	24.0	24.4	25.1	25.9
Net foreign exchange	1.3	2.9	3.4	3.0	2.9	3.0	3.2
Total other revenues	31.9	30.1	33.6	36.4	36.9	38.2	39.2
<b>Total budgetary revenues</b>	<b>405.5</b>	<b>434.7</b>	<b>448.3</b>	<b>469.4</b>	<b>489.6</b>	<b>510.9</b>	<b>531.3</b>
<b>Per cent of GDP</b>							
Total tax revenues	13.7	13.3	13.1	13.0	13.0	12.9	12.9
Proceeds from the pollution pricing framework	0.3	0.3	0.4	0.4	0.5	0.5	0.6
Employment Insurance premium revenues	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Other revenues	1.3	1.1	1.2	1.2	1.2	1.2	1.2
<b>Total budgetary revenues</b>	<b>16.3</b>	<b>15.6</b>	<b>15.6</b>	<b>15.6</b>	<b>15.7</b>	<b>15.7</b>	<b>15.7</b>

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

# Appendix D: Detailed expense outlook

\$ billions	Estimate	Projection					
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
<b>Major transfers to persons</b>							
Elderly benefits	61.0	69.1	74.4	78.7	83.0	87.5	92.1
Employment Insurance	38.9	24.8	25.2	25.1	25.8	26.7	27.5
COVID-19 income support for workers	17.7	0.2	0.0	0.0	0.0	0.0	0.0
Children's benefits	26.2	25.5	27.3	28.8	29.7	30.2	30.6
<b>Total</b>	<b>143.8</b>	<b>119.6</b>	<b>126.9</b>	<b>132.6</b>	<b>138.4</b>	<b>144.4</b>	<b>150.2</b>
<b>Major transfers to other levels of government</b>							
Canada Health Transfer	45.1	45.2	49.4	52.6	54.7	57.0	59.3
Canada Social Transfer	15.5	15.9	16.4	16.9	17.4	17.9	18.5
Equalization	20.9	21.9	24.0	25.5	26.5	27.6	28.7
Territorial Formula Financing	4.4	4.6	4.8	5.0	5.2	5.5	5.8
Canada Community-Building Fund	2.3	2.3	2.4	2.4	2.5	2.5	2.6
Home care and mental health	1.5	1.2	1.2	1.2	1.2	1.2	1.2
Canada-Wide Early Learning and Child Care	2.9	4.5	5.6	6.6	7.9	7.9	7.9
Other transfers to government	-4.7	-5.6	-6.1	-6.4	-6.7	-7.1	-7.5
<b>Total</b>	<b>88.0</b>	<b>90.0</b>	<b>97.7</b>	<b>103.9</b>	<b>108.8</b>	<b>112.6</b>	<b>116.4</b>
<b>Fuel charge proceeds returned</b>	<b>3.8</b>	<b>8.2</b>	<b>12.6</b>	<b>13.1</b>	<b>15.2</b>	<b>17.1</b>	<b>19.0</b>
<b>Direct program expenses</b>							
Transfer payments	111.1	87.4	78.2	76.4	77.4	76.7	78.1
Operating and capital expenses	121.0	116.8	114.3	113.1	115.4	118.7	122.8
<b>Total direct program expenses</b>	<b>232.1</b>	<b>204.2</b>	<b>192.6</b>	<b>189.5</b>	<b>192.7</b>	<b>195.4</b>	<b>200.9</b>
<b>Total program expenses</b>	<b>467.8</b>	<b>421.9</b>	<b>429.7</b>	<b>439.1</b>	<b>455.2</b>	<b>469.5</b>	<b>486.6</b>
<b>Public debt charges</b>	<b>24.4</b>	<b>31.2</b>	<b>42.0</b>	<b>44.8</b>	<b>45.0</b>	<b>46.3</b>	<b>47.6</b>
<b>Total expenses, excluding net actuarial losses</b>	<b>492.1</b>	<b>453.1</b>	<b>471.7</b>	<b>483.9</b>	<b>500.2</b>	<b>515.8</b>	<b>534.2</b>
Net actuarial losses	10.3	7.4	2.1	0.1	0.1	-1.5	0.2
<b>Per cent of GDP</b>							
Major transfers to persons	5.8	4.3	4.4	4.4	4.4	4.4	4.4
Major transfers to other levels of government	3.5	3.2	3.4	3.5	3.5	3.5	3.4
Fuel charge proceeds returned	0.2	0.3	0.4	0.4	0.5	0.5	0.6
Direct program expenses	9.3	7.3	6.7	6.3	6.2	6.0	5.9
<b>Total program expenses</b>	<b>18.8</b>	<b>15.2</b>	<b>14.9</b>	<b>14.6</b>	<b>14.6</b>	<b>14.4</b>	<b>14.4</b>

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

# Appendix E: Employment Insurance Operating Account

\$ billions	Estimate	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	
Revenues								
Premium revenues	24.5	26.7	28.4	30.3	32.5	34.4	35.6	
Contributions for federal employees	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Total revenues	25.0	27.2	28.9	30.8	33.1	34.9	36.1	
Expenses								
Benefits	38.9	24.8	25.2	25.1	25.8	26.7	27.5	
Administration expenses	2.5	2.1	2.1	2.2	2.3	2.4	2.5	
Total expenses	41.4	26.9	27.3	27.3	28.1	29.1	30.0	
	2021	2022	2023	2024	2025	(...)	2028	2029
Annual balance	-24.6	-1.5	0.1	2.2	3.8		5.4	5.9
Cumulative balance	-25.9	-27.4	-27.3	-25.2	-21.3		-6.1	-0.2
Premium rate (per \$100 of insurable earnings)	1.58	1.58	1.63	1.68	1.73		1.76	1.76

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.  
The projection period covers 2021 to 2029.



# Appendix F: Direct program expenses

\$ billions	Estimate	Projection					
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
<b>Other transfer payments</b>							
Canada Emergency Wage Subsidy	20.1	0.0	0.0	0.0	0.0	0.0	0.0
Other payments	91.0	87.4	78.2	76.4	77.4	76.7	78.1
<b>Total other transfer payments</b>	<b>111.1</b>	<b>87.4</b>	<b>78.2</b>	<b>76.4</b>	<b>77.4</b>	<b>76.7</b>	<b>78.1</b>
<b>Operating expenses</b>							
Personnel expenses	57.5	56.1	55.6	57.3	59.4	61.5	63.6
Consolidated Crown corporations	8.0	8.0	8.3	8.7	9.0	9.3	9.7
Other operating expenses	38.8	35.7	35.2	35.8	36.7	37.7	39.1
Policy actions	9.8	9.6	7.4	3.3	1.9	1.5	1.5
<b>Total operating expenses</b>	<b>114.2</b>	<b>109.3</b>	<b>106.6</b>	<b>105.0</b>	<b>107.0</b>	<b>110.1</b>	<b>113.9</b>
<b>Capital amortization expenses</b>	<b>6.8</b>	<b>7.5</b>	<b>7.7</b>	<b>8.1</b>	<b>8.4</b>	<b>8.7</b>	<b>9.0</b>
<b>Operating and capital expenses</b>	<b>121.0</b>	<b>116.8</b>	<b>114.3</b>	<b>113.1</b>	<b>115.4</b>	<b>118.7</b>	<b>122.8</b>
<b>Total direct program expenses</b>	<b>232.1</b>	<b>204.2</b>	<b>192.6</b>	<b>189.5</b>	<b>192.7</b>	<b>195.4</b>	<b>200.9</b>

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

# Appendix G: Federal debt outlook

\$ billions	Estimate	Projection					
	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
<b>Accounts payable and accrued</b>	234.2	227.5	234.7	243.7	255.3	268.0	281.4
<i>Market debt*</i>	1,233.0	1,258.9	1,284.4	1,299.0	1,309.7	1,313.1	1,316.1
<i>Pensions and other future benefits</i>	357.5	291.8	313.2	340.9	352.8	363.8	378.6
<i>Other liabilities</i>	17.1	17.4	17.8	18.0	18.1	18.2	18.2
Total interest-bearing debt	1,607.6	1,568.1	1,615.4	1,657.9	1,680.6	1,695.0	1,713.0
<b>Total liabilities</b>	<b>1,841.8</b>	<b>1,795.6</b>	<b>1,850.2</b>	<b>1,901.6</b>	<b>1,935.9</b>	<b>1,963.0</b>	<b>1,994.4</b>
Financial assets	595.6	519.8	545.0	577.9	597.4	616.8	640.7
Non-financial assets	104.7	108.4	112.2	116.2	120.3	124.6	129.0
<b>Total assets</b>	<b>700.2</b>	<b>628.2</b>	<b>657.2</b>	<b>694.1</b>	<b>717.7</b>	<b>741.4</b>	<b>769.7</b>
<b>Federal debt (liabilities less assets)</b>	<b>1,141.6</b>	<b>1,167.4</b>	<b>1,192.9</b>	<b>1,207.5</b>	<b>1,218.2</b>	<b>1,221.6</b>	<b>1,224.7</b>
Federal debt (% of GDP)	45.8	42.0	41.5	40.2	39.0	37.6	36.2
Market debt: agent Crown corporations*	308.7	306.3	313.6	318.3	328.0	333.6	338.2
<b>Borrowing requirements, as per the <i>Borrowing Authority Act</i></b>	<b>1,541.8</b>	<b>1,565.2</b>	<b>1,598.0</b>	<b>1,617.3</b>	<b>1,637.7</b>	<b>1,646.7</b>	<b>1,654.3</b>

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: \* Borrowing requirements under the *Borrowing Authority Act* pertain to the sum of Government of Canada and agent Crown corporation market debt. Totals may not add due to rounding.

As of 2022-23, the Government adopted new Public Sector Accounting Board (PSAB) standards for both asset retirement obligations and financial instruments. These changes will impact the opening balance of the accumulated deficit for 2022-23 and will be reflected in the upcoming 2022 Public Accounts and are therefore not included in this outlook.

# Appendix H: Comparison to March 2022 outlook

\$ billions	Estimate	Projection				
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027
<b>Income taxes</b>						
Personal income tax	4.0	3.9	4.9	5.8	6.0	7.2
Corporate income tax	22.4	28.7	16.6	12.7	10.8	9.2
Non-resident income tax	0.4	2.1	1.8	1.6	1.6	1.6
Total income tax	26.8	34.7	23.3	20.1	18.4	18.0
<b>Excise taxes/duties</b>						
Goods and Services Tax	3.9	2.6	3.1	2.1	2.1	2.1
Custom import duties	0.1	0.3	0.4	0.3	0.3	0.4
Other excise taxes/duties	-0.1	0.3	0.5	0.5	0.5	0.6
Total excise taxes/duties	3.9	3.2	4.0	3.0	3.0	3.0
<b>Other taxes</b>	0.0	0.0	-0.5	0.6	0.7	0.9
<b>Fuel charge proceeds</b>	-0.6	0.0	0.0	0.0	0.0	0.0
<b>El premium revenues</b>	0.2	0.0	-0.1	0.1	0.4	-0.1
<b>Other revenues</b>	1.8	-0.2	-0.4	0.5	0.3	0.6
<b>Total budgetary revenues</b>	32.2	37.7	26.3	24.4	22.8	22.4
<b>Major transfers to persons</b>						
Elderly benefits	-0.6	0.5	1.1	1.2	1.2	1.2
Employment Insurance	-0.9	-2.2	0.7	0.3	0.3	0.3
COVID-19 income support for workers	1.2	0.0	0.0	0.0	0.0	0.0
Children's benefits	-0.2	0.0	0.7	1.5	1.7	1.6
Total	-0.5	-1.7	2.5	3.0	3.2	3.0
<b>Major transfers to other levels of government</b>						
Canada Health Transfer	2.0	0.0	0.3	0.8	0.7	0.9
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.0	0.2	0.4	0.3	0.4
Territorial Formula Financing	0.0	0.0	0.0	0.0	0.1	0.1
Other transfers to government	0.6	-0.1	0.0	0.0	0.1	0.0
Total	2.6	-0.1	0.5	1.2	1.1	1.4
<b>Fuel charge proceeds returned</b>	-1.2	-0.1	1.0	0.1	0.0	0.0
<b>Direct program expenses</b>						
Other transfer payments	-6.7	8.9	1.0	2.4	3.6	1.9
Operating and capital expenses	-4.6	4.7	3.6	3.5	2.6	2.2
Total direct program expenses	-11.2	13.6	4.6	5.9	6.2	4.1
<b>Total program expenses</b>	-10.3	11.7	8.5	10.3	10.6	8.6
<b>Public debt charges</b>	-0.1	4.6	9.5	5.6	1.6	0.3
<b>Total expenses</b>	-10.4	16.3	18.1	15.8	12.1	8.9
<b>Budgetary balance before net actuarial losses</b>	42.5	21.4	8.2	8.6	10.7	13.5
<b>Net actuarial losses</b>	-0.2	-0.7	-4.5	-2.6	-1.2	-0.6
<b>Budgetary balance</b>	42.8	22.1	12.7	11.2	11.8	14.1
<b>Federal debt</b>	-45.2	-67.2	-79.9	-91.1	-102.9	-117.1

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

# Appendix I: Comparison to Budget 2022

\$ billions	Estimate	Projection				
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027
<b>Income taxes</b>						
Personal income tax	0.3	4.6	7.6	8.8	8.6	9.5
Corporate income tax	7.7	19.6	8.7	7.0	4.4	3.2
Non-resident income tax	-0.4	1.2	0.7	0.4	0.5	0.3
Total income tax	7.6	25.5	17.0	16.2	13.5	13.0
<b>Excise taxes/duties</b>						
Goods and Services Tax	1.6	0.3	1.4	1.0	1.4	1.6
Custom import duties	0.2	0.9	1.1	1.1	1.1	1.0
Other excise taxes/duties	0.7	0.8	0.6	0.7	0.7	0.7
Total excise taxes/duties	2.5	2.0	3.1	2.8	3.2	3.2
<b>Other taxes</b>	0.0	0.0	-0.5	0.6	0.7	0.9
<b>Fuel charge proceeds</b>	-0.4	0.2	0.6	0.7	0.9	0.9
<b>El premium revenues</b>	0.7	0.9	0.4	-0.1	0.3	1.1
<b>Other revenues</b>	0.7	-2.2	-1.8	-1.7	-4.0	-4.1
<b>Total budgetary revenues</b>	11.1	26.3	18.8	18.6	14.5	14.9
<b>Major transfers to persons</b>						
Elderly benefits	0.0	0.9	0.8	0.7	0.4	0.3
Employment Insurance	-0.1	-6.5	0.8	0.3	0.4	0.4
COVID-19 income support for workers	0.0	-0.2	0.0	0.0	0.0	0.0
Children's benefits	-0.1	0.3	0.7	1.2	1.2	0.8
Total	-0.2	-5.5	2.3	2.2	2.0	1.5
<b>Major transfers to other levels of government</b>						
Canada Health Transfer	0.0	0.0	0.3	0.8	0.8	1.0
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.0	0.2	0.4	0.4	0.5
Territorial Formula Financing	0.0	0.0	-0.1	-0.1	0.0	0.1
Other transfers to government	0.5	0.0	0.4	0.4	0.4	0.4
Total	0.6	0.0	0.8	1.7	1.6	2.1
<b>Fuel charge proceeds returned</b>	-0.3	0.2	0.7	0.7	0.9	0.9
<b>Direct program expenses</b>						
Other transfer payments	-4.0	1.1	-5.5	-4.9	-3.9	-2.4
Operating and capital expenses	-1.4	0.8	0.9	0.2	1.6	4.2
Total direct program expenses	-5.3	2.0	-4.6	-4.7	-2.4	1.9
<b>Total program expenses</b>	-5.2	-3.5	-0.7	-0.1	2.1	6.2
<b>Public debt charges</b>	-0.5	4.3	9.1	7.8	5.2	3.4
<b>Total expenses</b>	-5.8	0.8	8.4	7.7	7.3	9.6
<b>Budgetary balance before net actuarial losses</b>	16.8	25.5	10.3	11.0	7.2	5.3
<b>Net actuarial losses</b>	0.0	-1.5	-4.0	-2.3	-0.7	0.3
<b>Budgetary balance</b>	16.8	27.0	14.3	13.2	7.9	5.0
<b>Federal debt</b>	-49.6	-83	-100.9	-115	-127.7	-136.9

Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

# Notes

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1. Under quantitative tightening (QT), the Bank of Canada reduces its balance sheet by not replacing maturing government bonds that it holds, or by selling them in the open market. QT complements the Bank of Canada's main monetary policy instrument (the overnight rate) by putting upward pressure on longer-term government bond yields, raising borrowing costs for households and firms. See: <https://www.bankofcanada.ca/2022/06/understanding-quantitative-easing/>.
2. See: <https://www.bankofcanada.ca/2022/04/fad-press-release-2022-04-13/>.
3. Since the end of April, Bank of Canada holdings of Government of Canada bonds have decreased by \$36.6 billion to \$380.8 billion as of the end of August.
4. We estimate that the Government's affordability plan measures announced on September 13, totalling \$4.7 billion over 2022-23 to 2024-25, would increase real GDP by 0.19 per cent in the first quarter of 2023 and the rate of inflation by 0.01 percentage points in the third quarter of 2023 (peak impacts).  
  
These impacts are estimated relative to a scenario that excludes the \$4.7 billion in affordability plan measures. Based on our model's monetary policy reaction function, the policy interest rate would be 5 basis points higher in the second quarter of 2023 (peak impact).
5. Consistent with the Bank of Canada's estimates, we have revised up our assumption of the (nominal) neutral policy interest rate (by 25 basis points) to 2.50 per cent. Accordingly, the (nominal) steady-state levels of the 10-year government benchmark bond and long-term benchmark bond (30-year maximum) are now 3.25 and 3.50 per cent respectively, and the steady-state 3-month treasury bill rate is 2.45 per cent.
6. Available at: <https://www.pbo-dpb.ca/en/publications/RP-2122-030-S--economic-fiscal-outlook-march-2022--perspectives-economiques-financieres-mars-2022>.
7. These measures include the Government's affordability plan (announced on September 13, see: <https://pm.gc.ca/en/news/news-releases/2022/09/13/making-life-more-affordable-canadians-year>) and funding for the creation of the Hurricane Fiona Recovery Fund (announced on October 4, see: <https://pm.gc.ca/en/news/news-releases/2022/10/04/rebuilding-after-hurricane-fiona>).
8. These amounts include PBO's cost estimates of measures announced in Budget 2022 and on September 13 under the Government's affordability plan. These measures amount to \$3.2 billion in additional spending compared to the Government's estimates, largely due to differences in costing of the Government's Tax-Free First Home Savings Account.
9. As the 2022 Public Accounts have not yet been published, the estimate for 2021-22 relies on data from Finance Canada's March 2022 *Fiscal*

*Monitor* along with PBO assumptions and estimates. The March 2022 *Fiscal Monitor* is available at: <https://www.canada.ca/en/department-finance/services/publications/fiscal-monitor/2022/03.html>.

10. As a result of PSAB's new standard on financial instruments, derivatives will be recognized at fair value. The changes in fair value will not be reflected in the budgetary balance but will impact other comprehensive income.
11. Compared to pre-pandemic projections, public debt charges are more sensitive (in absolute terms) to a permanent increase in interest rates. This is mainly because the Government must now service a higher stock of interest-bearing debt.
12. In our current outlook, we project both short- and long-term interest rates to increase above their long-term (or steady-state) levels until 2023, after which they are projected to gradually decline to their long-term levels.
13. Stronger-than-expected GDP inflation drove the significant upward revision to nominal GDP relative to our March 2022 outlook.  
  
Based on a rough estimate, stronger-than-expected GDP inflation accounts for approximately half of the increase in our revenue outlook over 2021-22 to 2026-27 relative to our March projection. The remaining increase in revenue reflects upward revisions to tax yields that we assume are independent of stronger-than-expected inflation.  
  
Stronger-than-expected inflation also contributed to upward revisions to our outlook for expenses, dampening the budgetary impact of higher inflation on revenues.
14. Driven largely by corporate yields, tax yields over the projection horizon are higher compared to their pre-pandemic levels and compared to our March 2022 projection. With higher interest rates and the projected economic slowdown, we anticipate that tax yields will normalize over the medium term from their peak levels in 2021-22.
15. Based on the 2022-23 Departmental Plans, other transfer payments administered by departments were revised down, on average, over 2021-22 to 2026-27 due to lower-than-anticipated departmental spending compared to our March 2022 outlook.
16. See: [https://www.canadapremiers.ca/wp-content/uploads/2022/07/COF\\_2022\\_Health\\_Communique\\_July11.pdf](https://www.canadapremiers.ca/wp-content/uploads/2022/07/COF_2022_Health_Communique_July11.pdf).
17. In our most recent Fiscal Sustainability Report we estimated that the federal government could permanently increase spending or reduce taxes by 1.8 per cent of GDP while stabilizing its net debt ratio over the long term at its current level. For additional detail see: <https://www.pbo-dpb.ca/en/publications/RP-2223-012-S--fiscal-sustainability-report-2022--rapport-viabilite-financiere-2022>.
18. The recovery costs under the DFAA have not yet been announced. The Hurricane Fiona Recovery Fund will provide up to \$300 million over two years starting in 2022-23.

The Government also announced a donation-matching program with the Canadian Red Cross and deployed the Canadian Armed Forces members.



19. The United Nations Office for Disaster Risk Reduction found that globally over the last 20 years, major disaster events have sharply increased from 4,212 disaster events between 1980 and 1999 to 7,348 disaster events over the period 2000 to 2019. For additional detail see: <https://www.undrr.org/publication/human-cost-disasters-overview-last-20-years-2000-2019>.