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Fall Economic Statement 2022

Issues for Parliamentarians



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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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.

To assist parliamentarians in their budgetary deliberations, this report highlights key issues arising from the 2022 Fall Economic Statement.

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Summary

To assist parliamentarians in their budgetary deliberations, this report highlights key issues arising from the 2022 Fall Economic Statement (FES).

Economic outlook

Nominal GDP in the Fall Economic Statement is \$27 billion (0.9 per cent) lower per year, on average, over 2022 to 2027 compared to PBO's October outlook. This difference reflects both slightly lower real GDP growth and inflation projected by private sector economists in the FES.

The unemployment rate projected in the FES averages 5.9 per cent, which is 0.3 percentage points higher than PBO's October outlook. Given that the outlook for employment growth is in line with PBO's projection, the higher unemployment rate reflects higher labour force participation underlying the private sector forecast.

Fiscal outlook

When put on a comparable basis (that is, our October projection adjusted for new FES measures), PBO's projected budgetary deficits would be \$4.3 billion higher, on average, compared to the budgetary outlook in the FES.

In general, PBO's adjusted budgetary balance over 2022-23 to 2027-28 shows higher deficits compared to the FES projection, primarily due to lower projected revenues, specifically personal and corporate income taxes. This reflects our lower tax yield assumptions for corporate income taxes and stronger-than-anticipated end-of-year results for personal income taxes, which were released following the completion of our October projection.

New measures

Revisions to the private sector economic outlook and fiscal developments in the Fall Economic Statement provide a total of \$81.2 billion in new "fiscal room", which finances \$52.2 billion in (net) new measures over 2022-23 to 2027-28.

Over 40 per cent (\$21.6 billion) of new measures are "off-cycle" in nature, that is, they preceded the \$30.6 billion in new spending identified as Fall Economic Statement measures.

Spending reviews

In its Fall Economic Statement, the Government highlighted that it exceeded its first spending review target of \$3.0 billion by achieving savings of \$3.8 billion from lower-than-anticipated spending on certain COVID-19 support measures in the previous fiscal year, 2021-22.

However, the source of this savings is inconsistent with the intention and timing that was announced in Budget 2022. The savings result from lower spending on COVID-19 programs, and they are not due to a specific review of spending plans.

Further, the timing of the savings differs significantly from what was outlined in Budget 2022 (to start in 2023-24), with the savings being realized in the 2021-22 fiscal year that ended prior to the publication of Budget 2022.

Fiscal transparency

Measures without specific details

In this year's FES, the Government identified \$14.2 billion in new measures without providing specific details on this spending. This spending represents 27 per cent of all new measures (\$52.2 billion) in the Fall Economic Statement.

This lack of transparency presents challenges for parliamentarians and the public in scrutinizing the Government's spending plans, particularly given the magnitude of measures, \$14.2 billion—the largest amount announced without specific details since the 2016 Fall Economic Statement.

Timeliness of financial reporting

This year the Public Accounts were tabled on October 27—seven months after the close of the fiscal year.

Canada continues to fall short of the standard for advanced practice in the International Monetary Fund's financial reporting guidelines, which recommends that governments publish their annual financial statements within six months.

Parliamentarians may wish to request that the Government publish the Public Accounts and the Departmental Results Reports within six months of the close of the fiscal year.

1. Economic outlook

Table 1-1 provides a high-level comparison of the average private sector forecast in the Government's Fall Economic Statement (FES) and PBO's Economic and Fiscal Outlook (EFO) published on October 13.¹

Nominal GDP in the Fall Economic Statement is \$27 billion (0.9 per cent) lower per year, on average, over 2022 to 2027 compared to PBO's October outlook.² This difference reflects both slightly lower real GDP growth and inflation projected by private sector economists in the FES.

The unemployment rate projected in the FES averages 5.9 per cent, which is 0.3 percentage points higher than PBO's October outlook. Given that the outlook for employment growth³ is in line with PBO's projection, the higher unemployment rate reflects higher labour force participation underlying the private sector forecast.

Table 1-1 Economic outlook comparison

	2022	2023	2024	2025	2026	2027	2022-2027
Real GDP growth (%)							
Fall Economic Statement	3.2	0.7	1.9	2.3	2.1	1.9	2.0
PBO – October EFO	3.1	1.2	2.3	2.1	2.0	2.0	2.1
	0.1	-0.5	-0.4	0.2	0.1	-0.1	-0.1
GDP inflation (%)							
Fall Economic Statement	8.3	1.9	1.8	1.9	1.9	1.9	3.0
PBO – October EFO	8.2	2.2	2.0	1.9	2.0	2.0	3.1
	0.1	-0.3	-0.2	-	-0.1	-0.1	-0.1
Nominal GDP level (\$ billions)							
Fall Economic Statement	2,787	2,859	2,965	3,091	3,217	3,342	
PBO – October EFO	2,782	2,878	3,002	3,125	3,253	3,382	
	5	-19	-37	-34	-36	-40	-27
Unemployment rate (%)							
Fall Economic Statement	5.4	6.1	6.2	6.0	5.8	5.7	5.9
PBO – October EFO	5.4	5.7	5.7	5.5	5.5	5.4	5.5
	-	0.4	0.5	0.5	0.3	0.3	0.3

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

Note: Totals may not add due to rounding.

Risk scenarios

The Fall Economic Statement also included a downside scenario, developed by Finance Canada, to reflect the possible consequences of "more persistent inflationary pressures and further tightening in monetary policy".

On November 10, PBO published a risk scenario analysis⁴ to help parliamentarians gauge potential implications of central banks over-tightening monetary policy.

While these risk scenarios help to reflect some of the uncertainty surrounding the economic outlook, they depict two different risks: an over-tightening of monetary policy (the PBO scenario); and more persistent inflationary pressures that require tighter monetary policy (the FES scenario).

Table 1-2 provides a high-level comparison of the economic outcomes under the FES downside scenario and PBO's risk scenario.

On balance, real GDP growth under the two scenarios is broadly similar; however, the contraction in 2023 and rebound in 2024 are somewhat sharper in the FES scenario. The level of nominal GDP under the FES downside scenario is only \$7 billion lower annually, on average, compared to PBO's risk scenario.

Short-term interest rates in the FES scenario are lower in 2023 and 2024 compared to PBO's scenario, but they are higher over 2025 to 2027. The average difference in the unemployment rate profile in the two scenarios is in line with that in the "baseline" outlooks in Table 1-1.

Table 1-2 Risk scenario comparison

	2022	2023	2024	2025	2026	2027	2022-2027
Real GDP growth (%)							
FES downside scenario	3.1	-0.9	2.3	2.7	2.3	2.1	1.9
PBO risk scenario	3.1	-0.3	1.3	2.5	3.0	2.3	2.0
	-	-0.6	1.0	0.2	-0.7	-0.2	-0.1
Nominal GDP level (\$ billions)							
FES downside scenario	2,767	2,793	2,913	3,046	3,177	3,305	
PBO risk scenario	2,781	2,806	2,883	3,042	3,199	3,334	
	-14	-13	30	4	-22	-29	-7
3-month treasury bill rate (%)							
FES downside scenario	2.4	4.4	3.5	3.2	3.0	3.0	3.3
PBO risk scenario	2.4	5.0	3.7	2.5	2.5	2.5	3.1
	-	-0.6	-0.2	0.7	0.5	0.5	0.2
Unemployment rate (%)							
FES downside scenario	5.5	6.6	6.6	6.3	6.0	5.9	6.2
PBO risk scenario	5.4	5.9	6.2	5.9	5.6	5.4	5.7
	0.1	0.7	0.4	0.4	0.4	0.5	0.4

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

Note: Totals may not add due to rounding.

2. Fiscal outlook

The Fall Economic Statement included \$52.2 billion in new measures (relative to Budget 2022) over 2022-23 to 2027-28. This represents an increase in (net) new spending of \$48.3 billion relative to PBO's October outlook.

When put on a comparable basis (that is, our October projection adjusted for new FES measures), PBO's projected budgetary deficits would be \$4.3 billion higher, on average, compared to the budgetary outlook in the FES (Table 2-1).

Table 2-1 Fiscal outlook comparison

\$ billions	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
PBO budgetary balance in the October EFO	-25.8	-25.6	-14.6	-10.7	-3.4	-3.1
New measures detailed in FES 2022*	-8.8	-9.1	-8.7	-6.3	-6.8	-8.6
(A) Adjusted PBO budgetary balance	-34.6	-34.7	-23.3	-17.0	-10.2	-11.7
(B) Budgetary balance in FES 2022	-36.4	-30.6	-25.4	-14.5	-3.4	4.5
Difference in the budgetary balance (A-B)	1.8	-4.1	2.1	-2.5	-6.8	-16.2
<i>Of which: from revenues</i>	-11.3	-15.1	-10.4	-11.6	-9.8	-11.4
<i>Of which: from direct program expenses</i>	8.7	6.7	9.0	6.2	1.3	-3.9
<i>Of which: from other expenses**</i>	4.4	4.4	3.6	2.8	1.7	-0.9

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

Note: * Adjusted for measures already included in PBO's October outlook.

** Other expenses consist of major transfers to persons, major transfers to other levels of government, net actuarial losses, and public debt charges.

Totals may not add due to rounding.

In general, PBO's adjusted budgetary balance over 2022-23 to 2027-28 shows higher deficits compared to the FES projection, primarily due to lower projected revenues, specifically personal and corporate income taxes. This reflects our lower tax yield assumptions for corporate income taxes and stronger-than-anticipated end-of-year results for personal income taxes, which were released following the completion of our October projection.

The impact of differences in revenue projections is partially offset by lower expenses. Higher direct program expenses projected in the FES reflect higher pension and benefit services costs, higher bad debt expenses on taxes receivable and the accelerated timing of the Budget 2022 commitment to reduce planned spending by \$3 billion, which were not included in our October projection.

Risk scenarios: impacts on the budgetary balance

Under our risk scenario, the budgetary balance is \$13.5 billion lower per year, on average, compared to our October outlook (Table 2-2). Despite different economic risks, this impact is only slightly smaller than the budgetary impact under the downside scenario in the FES, which projected that the budgetary balance would be \$15.9 billion lower annually, on average.

Table 2-2 Risk scenarios: budgetary balance impacts

\$ billions	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Average
PBO budgetary balance							
Risk scenario	-28.9	-42.9	-36.5	-28.1	-14.9	-12.8	-27.4
October EFO	-25.8	-25.6	-14.6	-10.7	-3.4	-3.1	-13.9
Impact on the budgetary balance	-3.0	-17.3	-21.9	-17.5	-11.5	-9.7	-13.5
FES budgetary balance							
Downside scenario	-49.1	-52.4	-42.3	-30.4	-18.6	-8.3	-33.5
Baseline projection	-36.4	-30.6	-25.4	-14.5	-3.4	4.5	-17.6
Impact on the budgetary balance	-12.7	-21.8	-16.8	-15.9	-15.3	-12.8	-15.9

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

Note: Totals may not add due to rounding.

3. New measures

Revisions to the private sector economic outlook and fiscal developments in the Fall Economic Statement provide a total of \$81.2 billion in new “fiscal room”, which finances \$52.2 billion in (net) new measures over 2022-23 to 2027-28 (Table 3-1).

Over 40 per cent (\$21.6 billion) of new measures are “off-cycle” in nature, that is, they preceded the \$30.6 billion in new spending identified as Fall Economic Statement measures.

Of note is the Government’s \$4 billion enhancement to the Canada Workers Benefit, which will automatically provide advance payments to individuals that qualified for the benefit in the previous tax year. The substantial cost of this FES measure is largely due to the Government’s policy decision not to recoup these advance payments when recipients’ incomes rise and they become ineligible for benefits, or eligible for lower benefits. Not requiring repayment of federal benefits for ineligible individuals is a pronounced departure from the existing federal tax and transfer system.

In the absence of the \$52.2 billion in new measures, the budgetary deficit would be \$8.7 billion lower each year, on average, over 2022-23 to 2027-28 and the debt-to-GDP ratio would be 2.0 percentage points lower in 2027-28 than projected in the FES, all else being equal.⁵

Table 3-1 New measures in the 2022 Fall Economic Statement (net basis)

\$ billions	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Off-cycle measures since Budget 2022	7.3	4.3	2.9	1.8	1.8	3.5	21.6
FES measures	6.1	5.2	5.8	4.2	4.6	4.7	30.6
Total measures in the 2022 FES	13.4	9.5	8.7	6.0	6.4	8.3	52.2

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

Note: Totals may not add due to rounding.

Due to stronger-than-expected budgetary revenues since Budget 2021, the Government has projected a total of \$257.6 billion in new fiscal room, of which almost half (\$125.1 billion) has been used to finance new non-COVID-19 measures over 2022-23 to 2027-28 (Table 3-2).

Table 3-2 New fiscal room and new measures since Budget 2021

\$ billions	New fiscal room projected	COVID-19 measures	New non-COVID-19 measures	Deficit reduction
2022 Fall Economic Statement	81.2	0.0	52.2	29.0
Budget 2022	85.5	5.9	29.0	50.6
2021 Economic and Fiscal Update	90.9	17.7	43.9	29.3
Total	257.6	23.6	125.1	108.9

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

Note: Amounts for Budget 2022 and the 2021 Economic and Fiscal Update apply to fiscal years 2021-22 to 2026-27. The 2022 FES amounts apply to fiscal years 2022-23 to 2027-28.

Totals may not add due to rounding.

In the absence of new non-COVID-19 measures since Budget 2021⁶, the budgetary deficit over 2022-23 to 2027-28, would be \$18.8 billion lower each year, on average, and the debt-to-GDP ratio would be 4.1 percentage points lower in 2027-28 than projected in the Fall Economic Statement, all else being equal.⁷

4. Spending reviews

The Government provided an update on the status of the first of two spending reviews it announced in Budget 2022. Through these reviews the Government planned to reduce spending by \$9.0 billion, on a cumulative basis, over four years beginning in 2023-24.

Reducing Planned Spending in the Context of a Stronger Recovery

As outlined in Budget 2022, the first review, “Reducing Planned Spending in the Context of a Stronger Recovery”, intended to launch a process to “re-examine previously announced spending plans to ensure government programs are fit to changing circumstances, including a stronger than anticipated economic recovery.”⁸ The Government estimated that this review would generate annual savings of \$750 million over four years (\$3.0 billion in total savings), starting in 2023-24.

In its Fall Economic Statement, the Government highlighted that it exceeded its first spending review target of \$3.0 billion by achieving savings of \$3.8 billion from lower-than-anticipated spending on certain COVID-19 support measures in the previous fiscal year, 2021-22.

However, the source of this savings is inconsistent with the intention and timing that was announced in Budget 2022. The savings result from lower spending on COVID-19 programs, and they are not due to a specific review of spending plans.

Further, the timing of the savings differs significantly from what was outlined in Budget 2022 (to start in 2023-24), with the savings being realized in the 2021-22 fiscal year that ended prior to the publication of Budget 2022.

Strategic Policy Review

The second, “Strategic Policy Review”, is intended to review whether programs are effective in meeting the Government’s key priorities and identify areas where resources could be saved or reallocated. The Government estimated that this review would result in total savings of \$6.0 billion by 2026-27, with \$3.0 billion in annual savings by 2026-27.

Even excluding the new measures in this year’s Fall Economic Statement, direct program expenses have been revised up from Budget 2022 by \$29.0 billion over 2022-23 to 2026-27. This increase more than offsets the planned savings from the Strategic Policy Review announced in Budget 2022.⁹

Moreover, the Government has provided \$2.25 billion in additional funding over 6 years for more effective service delivery, rather than reducing spending by reviewing the effectiveness of its operations.

5. Fiscal transparency

Measures without specific details

In this year's FES, the Government identified \$14.2 billion in new measures without providing specific details on this spending (Table 5-1). This spending represents 27 per cent of all new measures (\$52.2 billion) in the Fall Economic Statement.

Table 5-1 Measures in the 2022 Fall Economic Statement without specific details

\$ billions	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	Total
Non-announced spending	2.7	0.7	0.7	0.5	0.7	0.4	5.7
Anticipated near-term pressures	1.0	1.0	2.0	1.5	1.5	1.5	8.5
Total measures without specific details	3.7	1.7	2.7	2.0	2.2	1.9	14.2

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

Note: Totals may not add due to rounding.

Since the 2016 FES, the Government has been quantifying "non-announced" spending decisions that could relate to either confidential planned spending or provisions for anticipated Cabinet decisions.¹⁰ In this year's FES, the Government identified \$5.7 billion in non-announced spending.

The Government also earmarked an additional \$8.5 billion in spending over 2022-23 to 2027-28 as a "Provision for anticipated near-term pressures" in this year's FES. However, the Government has not provided any details on this provision except for tautologically noting in the FES that this "is for pressures that are anticipated to materialize in the near term".

This lack of transparency presents challenges for parliamentarians and the public in scrutinizing the Government's spending plans, particularly given the magnitude of measures, \$14.2 billion—the largest amount announced without specific details since the 2016 Fall Economic Statement.

Parliamentarians may wish to request more details on the provision for anticipated near-term pressures and that provisions for anticipated Cabinet decisions not yet made be presented as a separate item within the category of non-announced measures.

Timeliness of financial reporting

This year the Public Accounts were tabled on October 27—seven months after the close of the fiscal year. While the Independent Auditor's Report concluded on September 12, it took another 35 days for the Receiver General's approval and then an additional 10 days before being tabled in

Parliament. On average, over the past decade, the Public Accounts have been tabled more than two months after the conclusion of the Auditor General's audit.

As noted in our previous reports, the federal public accounts are published later than most provincial public accounts, with nearly half of the provinces publishing their respective public accounts within six months.¹¹ Further, Canada continues to fall short of the standard for advanced practice in the International Monetary Fund's financial reporting guidelines, which recommends that governments publish their annual financial statements within six months.

Another area in which the Government could improve the timeliness of financial reporting relates to its Departmental Results Reports (DRRs).¹² For fiscal year 2020-21, the DRRs were not tabled until February 1, 2022, ten months after the close of the fiscal year.¹³ This means that parliamentarians were required to consider nearly all new spending in the 2021-22 fiscal year without knowing what results had been achieved in the previous fiscal year. To date, no DRRs have been published for the 2021-22 fiscal year.

Parliamentarians may wish to request that the Government publish the Public Accounts and the Departmental Results Reports within six months of the close of the fiscal year. This would inform Parliament and Canadians several months earlier about the Government's year-end financial position, providing parliamentarians with more time for ex-post financial scrutiny and better information for assessing the Government's budget plans and estimates.

Notes

1. PBO's October 2022 Economic and Fiscal Outlook is available at: <https://www.pbo-dpb.ca/en/publications/RP-2223-018-S--economic-fiscal-outlook-october-2022--perspectives-economiques-financieres-octobre-2022>.
2. Relative to Budget 2022, the private sector forecast of nominal GDP in the FES was revised up by \$54 billion per year, on average, over 2022 to 2026. This revision is almost entirely due to higher-than-expected GDP inflation in 2022.
3. Employment growth in Finance Canada's September survey is forecast to average 1.4 per cent annually over 2022 to 2027, which is only slightly higher than the 1.3 per cent average growth projected in our October EFO. Finance Canada's September survey is available at: <https://www.canada.ca/en/department-finance/services/publications/private-sector-survey.html>.
4. PBO's Risk Scenario Analysis report is available at: <https://www.pbo-dpb.ca/en/publications/RP-2223-020-S--risk-scenario-analysis-novembre-2022--analyse-scenario-risque-novembre-2022>.
5. For simplicity, this calculation does not include the impact on public debt charges of removing these measures.
6. New non-COVID-19 measures since Budget 2021 that apply to fiscal years 2022-23 to 2027-28 amount to \$112.6 billion. This is lower than the total of \$125.1 billion shown in Table 3-2 since measures that apply to 2021-22 (\$12.6 billion) have been excluded.
7. See Note 5.
8. See: <https://www.budget.gc.ca/2022/report-rapport/chap9-en.html#2022-2>.
9. The Government committed to providing details of how it will achieve the Strategic Policy Review targets in Budget 2023.
10. For example, spending decisions related national security, commercial sensitivity, contract obligations and litigation issues.
11. In its October 2022 Twentieth Report, the Standing Committee on Public Accounts recommended that the Government amend the *Financial Administration Act* to change the deadline for tabling the Public Accounts from December 31 to October 15, "to align with the tabling date of some Canadian provinces and peers in the Organization for Economic Co-operation and Development. See: <https://www.ourcommons.ca/DocumentViewer/en/44-1/PACP/report-20/>.
12. Departmental Results Reports are part of the Estimates documents that "support appropriation acts, which specify the amounts and broad purposes for which funds can be spent by the government". See: <https://www.canada.ca/en/treasury-board-secretariat/services/departmental-performance-reports.html>.

13. See: <https://www.canada.ca/en/treasury-board-secretariat/news/2022/02/minister-fortier-tables-202021-departmental-results-reports.html>.