



**Statement by Jean-Denis Fréchette
Parliamentary Budget Officer
to the House of Commons Standing Committee on Finance
October 29, 2013**

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

Thank you for your invitation and for maintaining the tradition of inviting the PBO at least twice a year. Speaking of tradition, as you know, I sat to the right of many committee chairs for a number of years and enjoyed a unique view of the proceedings. My view may have changed, but my goal of serving parliamentarians remains the same.

My colleagues and I are pleased to be here to present the PBO's Economic and Fiscal Outlook, which we released yesterday. While here, I would also like to briefly discuss the results of PBO's 2013 Fiscal Sustainability Report, which examines Canada's fiscal structure from a longer-term perspective.

Economic Outlook

The global economic outlook has deteriorated somewhat since the April 2013 Economic and Fiscal Outlook (EFO). According to the recent International Monetary Fund World Economic Outlook, weaker global growth prospects are driven to a large extent by appreciably weaker domestic demand and slower growth in several key emerging market economies, accompanied by modestly stronger growth in some advanced economies.

In the United States, despite improving fundamentals, PBO has marked down its U.S. economic outlook in the near term. This reflects continued fiscal drag as well as historical revisions to the U.S. System of National Accounts. Further, the commodity price outlook has been revised down over the projection, reflecting downward revisions to crude oil futures prices resulting, in part, from the continued strength of U.S. production.

These developments have led PBO to revise down the outlook for the Canadian economy relative to its April 2013 EFO. Currently, PBO projects Canadian real GDP to grow by 1.6 per cent this year, 2.0 per cent next year and 2.6 per cent in 2015. As the economy reaches its potential level of economic activity, PBO projects real GDP growth to average 2 per cent annually over the period 2016 to 2018.

PBO's current outlook for the Canadian economy reflects the impacts of the Government's Economic Action Plan 2013 that resulted in projected savings of \$10.8 billion as well as the freezing of the EI premium rate that was announced in September 2013.

Continued downward revisions to the private sector average forecast of real GDP growth have brought it broadly in line with the PBO projection through 2016. However, PBO's outlook for nominal GDP – the broadest measure of the Government's tax base – is, on average, \$25 billion lower than the projection

based on average private sector forecasts in part due to the downward revision to the GDP inflation projection. PBO judges that the balance of risks to the private sector outlook for nominal GDP is tilted to the downside, likely reflecting larger impacts from government spending reductions, as well as differences in views on commodity prices and their impacts on real GDP growth and GDP inflation.

Fiscal Outlook

On the basis of the revised economic outlook, PBO projects that the budgetary balance will improve from a deficit of \$18.9 billion in 2012-13 to a surplus of \$5.1 billion in 2018-19 due to a cyclical recovery of tax revenues and restrained operating expenses of the Government. The improvement in the budgetary balance is less pronounced than in PBO's April projection due mainly to the lower level of nominal GDP.

Assuming that the Government does not increase its spending above the planned levels, PBO estimates that, given the economic uncertainty, the likelihood of realizing a budgetary balance or better is approximately 50 per cent in 2015-16, 55 per cent in 2016-17, and 60 per cent in 2018-19.

The weaker improvement in the budgetary balance relative to PBO's April projection is reflected in PBO's projection of the Government's structural budget balance. PBO estimates that the structural balance will improve from a deficit of \$6.0 billion in 2013-14 to a surplus of \$4.2 billion in 2015-16 and remain in surplus, on average, thereafter.

Fiscal Sustainability

Assessing whether a government's fiscal structure is sustainable requires looking over a longer horizon to take into account the economic and fiscal implications of population ageing in the context of the existing policy environment. PBO provided such an assessment for the federal government and provincial-territorial-local-aboriginal (PTLA) governments, as well as the Canada and Quebec Pension Plans, in Fiscal Sustainability Report 2013. PBO's analysis shows that the federal government's fiscal structure is sustainable with fiscal room of 1.3 per cent of GDP, while the Canada and Quebec Pension Plans are also sustainable. In contrast, the consolidated PTLA government sector is not sustainable, with a fiscal gap of 1.9 per cent of GDP.

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