



Extended April 2018 Economic and Fiscal Outlook



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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.

Consistent with the Parliamentary Budget Officer's legislated mandate, this report extends the economic and fiscal projections in PBO's April 2018 Economic and Fiscal Outlook, as well as its costing of Budget 2018 measures.

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

Prior to the start of the pre-election period, in early June 2019, the PBO will publish a 10-year economic and fiscal outlook based on an update of its April 2019 Economic and Fiscal Outlook (EFO).

This outlook is intended to provide a more comprehensive fiscal planning framework and to more transparently account for the budgetary implications of multi-year spending commitments, such as defence procurement and infrastructure investments.²

The extended outlook will include measures announced in Budget 2019. Similar to our Budget 2018 costing exercise, the PBO will also provide independent line-item costing of measures in Budget 2019 along with its 10-year outlook.³

Political parties may choose to remove some, or all, of the costed Budget 2019 measures to construct their own fiscal planning frameworks.⁴ In addition, political parties may choose to use the economic and fiscal projections in preparing their own cost estimates.

In preparation for the 2019 pre-election period, the PBO is taking this opportunity to produce an extended outlook and line-item costing. The PBO encourages parliamentarians and their political parties to provide feedback regarding this initiative.

The following tables extend the economic and fiscal projections in PBO's April 2018 Economic and Fiscal Outlook, as well as its costing of Budget 2018 measures.

To produce the outlook beyond calendar year 2023 and fiscal year 2022-23, PBO used the same macroeconomic, fiscal and policy costing models and assumptions that it used for its April 2018 EFO and Budget 2018 costing exercise.

Summary of the economic outlook – Extended April 2018 EFO

% unless otherwise indicated

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Real GDP growth	3.0	1.9	1.9	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.4
Potential GDP growth	1.2	1.5	1.7	1.8	1.8	1.7	1.6	1.5	1.4	1.4	1.4	1.4
GDP inflation	2.3	2.6	1.8	1.9	2.0	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth	5.3	4.6	3.7	3.5	3.6	3.6	3.5	3.4	3.4	3.4	3.4	3.4
Nominal GDP (\$ billions)	2,144	2,242	2,325	2,406	2,492	2,582	2,673	2,764	2,859	2,958	3,060	3,165
3-month treasury rate	0.7	1.5	2.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
10-year government bond rate	1.8	2.6	3.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Exchange rate (US cents/C\$)	77.1	77.9	76.6	76.4	76.5	76.7	76.8	76.8	76.9	77.0	77.0	77.1
Unemployment rate	6.3	5.9	6.0	5.8	5.7	5.7	5.6	5.6	5.5	5.5	5.5	5.5
CPI inflation	1.6	2.6	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0	2.0
U.S. real GDP growth	2.3	2.8	2.4	1.8	1.8	1.8	1.8	1.7	1.7	1.7	1.7	1.7
WTI oil price (\$US per barrel)	51	63	59	55	55	56	57	58	60	61	62	63

Sources: Statistics Canada and Parliamentary Budget Officer.

Summary of the fiscal outlook – Extended April 2018 EFO

<i>\$ billions</i>	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Budgetary revenues	308.3	323.9	337.7	352.4	365.6	379.8	394.1	408.9	424.4	439.9	456.7
Program expenses	303.2	318.3	327.5	334.5	343.0	351.3	362.4	375.1	386.3	399.8	412.9
Public debt charges	23.9	27.7	31.6	34.9	37.2	39.1	40.4	41.4	42.3	43.2	43.9
Total expenses	327.1	346.0	359.1	369.4	380.2	390.4	402.9	416.6	428.7	443.0	456.8
Budgetary balance	-18.8	-22.1	-21.4	-16.9	-14.6	-10.6	-8.8	-7.6	-4.3	-3.1	-0.1
Federal debt	650.9	673.1	694.5	711.5	726.0	736.6	745.5	753.1	757.4	760.5	760.6
<i>% of GDP</i>											
Budgetary revenues	14.4	14.4	14.5	14.6	14.7	14.7	14.7	14.8	14.8	14.9	14.9
Program expenses	14.1	14.2	14.1	13.9	13.8	13.6	13.6	13.6	13.5	13.5	13.5
Public debt charges	1.1	1.2	1.4	1.4	1.5	1.5	1.5	1.5	1.5	1.5	1.4
Total expenses	15.3	15.4	15.4	15.4	15.3	15.1	15.1	15.1	15.0	15.0	14.9
Budgetary balance	-0.9	-1.0	-0.9	-0.7	-0.6	-0.4	-0.3	-0.3	-0.2	-0.1	-0.0
Federal debt	30.4	30.0	29.9	29.6	29.1	28.5	27.9	27.2	26.5	25.7	24.8

Sources: Finance Canada and Parliamentary Budget Officer.

Detailed revenue outlook – Extended April 2018 EFO

<i>\$ billions</i>	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Income taxes											
Personal income tax	150.9	161.0	169.6	177.0	184.2	191.7	199.7	208.0	216.6	225.8	235.3
Corporate income tax	46.6	45.8	46.3	48.4	50.4	52.6	54.7	56.8	58.9	60.9	63.0
Non-resident income tax	7.8	7.7	7.8	8.0	8.3	8.6	8.9	9.2	9.5	9.8	10.2
Total income tax	205.3	214.4	223.7	233.4	242.9	252.9	263.3	273.9	285.0	296.6	308.5
Excise taxes/duties											
Goods and Services Tax	35.9	37.8	39.0	40.4	41.8	43.2	44.6	46.2	47.7	49.3	50.9
Custom import duties	5.6	5.6	5.8	6.0	6.3	6.5	6.7	7.0	7.2	7.5	7.7
Other excise taxes/duties	11.6	12.1	12.3	12.5	12.7	12.8	13.1	13.5	14.0	14.5	15.0
Total excise taxes/duties	53.0	55.5	57.2	58.9	60.7	62.5	64.5	66.7	68.9	71.3	73.7
EI premium revenues	20.8	22.4	23.4	24.2	25.1	26.0	27.0	28.0	28.8	29.0	30.1
Other revenues											
Enterprise crown corporations	6.7	6.9	7.4	7.6	7.9	8.1	8.3	8.5	8.7	9.0	9.3
Other programs	20.7	22.1	22.9	24.9	25.7	26.8	27.4	28.1	29.1	30.1	31.1
Net foreign exchange	1.9	2.5	3.1	3.4	3.4	3.5	3.6	3.7	3.8	3.9	3.9
Total other revenues	29.2	31.5	33.5	35.9	36.9	38.3	39.3	40.3	41.6	43.0	44.4
Total budgetary revenues	308.3	323.9	337.7	352.4	365.6	379.8	394.1	408.9	424.4	439.9	456.7

Sources: Finance Canada and Parliamentary Budget Officer.

Detailed expense outlook – Extended April 2018 EFO

<i>\$ billions</i>	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Major transfers to persons											
Elderly benefits	50.9	53.7	56.9	60.2	63.7	67.3	71.1	75.0	79.0	83.2	87.4
Employment Insurance	19.8	21.6	23.0	23.2	23.8	24.4	24.9	25.5	26.4	27.0	27.7
Children's benefits	23.6	23.8	24.7	25.4	26.1	26.8	27.3	28.1	29.0	29.9	30.8
Total	94.2	99.1	104.5	108.8	113.6	118.5	123.3	128.6	134.4	140.1	145.9
Major transfers to other levels of government											
Canada Health Transfer	37.2	38.6	40.1	41.9	43.6	45.1	46.7	48.4	50.1	51.8	53.6
Canada Social Transfer	13.7	14.2	14.6	15.0	15.5	15.9	16.4	16.9	17.4	17.9	18.5
Equalization	18.2	19.0	19.7	20.6	21.4	22.2	23.0	23.8	24.6	25.5	26.4
Territorial Formula Financing	3.7	3.8	3.9	4.0	4.1	4.2	4.2	4.3	4.3	4.4	4.4
Gas Tax Fund	2.1	2.2	2.2	2.3	2.3	2.4	2.4	2.5	2.5	2.6	2.6
Home care and mental health	0.3	0.9	1.1	1.3	1.5	1.2	1.3	1.3	1.3	1.3	0.0
Other fiscal arrangements	-4.6	-5.0	-5.1	-5.4	-5.6	-5.9	-6.1	-6.3	-6.6	-6.9	-7.2
Total	70.6	73.6	76.5	79.7	82.8	85.2	88.0	90.8	93.7	96.6	98.3
Direct program expenses											
Transfer payments	43.8	47.8	50.7	52.6	52.2	52.3	53.3	55.1	57.0	58.9	61.0
Operating and capital expenses	94.6	97.8	95.7	93.3	94.4	95.4	97.9	100.6	101.3	104.1	107.7
Total direct program expenses	138.4	145.6	146.5	145.9	146.6	147.6	151.2	155.7	158.2	163.1	168.7
Total program expenses	303.2	318.3	327.5	334.5	343.0	351.3	362.4	375.1	386.3	399.8	412.9
Public debt charges	23.9	27.7	31.6	34.9	37.2	39.1	40.4	41.4	42.3	43.2	43.9
Total expenses	327.1	346.0	359.1	369.4	380.2	390.4	402.9	416.6	428.7	443.0	456.8

Sources: Finance Canada and Parliamentary Budget Officer.

Budget 2018 measures – Extended April 2018 EFO

<i>\$ billions</i>	2017- 2018	2018- 2019	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Measures in Budget 2018											
CWB: Enhancement	0.0	-0.1	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6	-0.6
CWB: Accessibility	0.0	-0.1	-0.4	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5	-0.5
Parenting & Work	0.0	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
CPTTP: Foregone Revenues	0.0	-0.1	-0.4	-0.5	-0.6	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Early-Stage Mineral Exploration	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expanding Medical Expense Tax Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tobacco Taxation	0.0	0.3	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4
Cannabis Taxation	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.3
QPP: Deductibility of Employer Contributions	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2
Child Benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax Support for Clean Energy	0.0	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0	0.0	0.1
Other policy actions	-4.0	-3.3	-3.3	-2.3	-1.4	-1.4	-1.5	-1.5	-1.5	-1.5	-1.6
Total measures in Budget 2018	-4.0	-3.3	-4.5	-3.8	-3.0	-3.0	-3.2	-3.2	-3.2	-3.2	-3.2

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Includes off-cycle policy measures. Estimates of other policy measures are taken from Budget 2018. CWB refers to the Canada Workers Benefit; CPTTP refers to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership; and QPP refers to the Quebec Pension Plan. Detailed cost estimates are available on our website: <http://www.pbo-dpb.gc.ca/en/our-publications>.

Notes

1. See PBO's January 2018 report *Guidelines for Cost Estimates of Election Campaign Proposals*. Available at: http://www.pbo-dpb.gc.ca/web/default/files/Documents/General/Guidelines%20on%20Cost%20Estimates%20for%20Electoral%20Platform%202018-01-24_EN.pdf.
2. The choice of a 10-year projection horizon follows the U.S. Congressional Budget Office (CBO).
3. See PBO's April 2018 report *Costing Budget 2018 Measures*. Available at: http://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2018/Costing%20Budget%202018/Budget%202018_EN_Final.pdf.
4. Consistent with PBO's Budget 2018 costing exercise, the costing of Budget 2019 measures will not include the impact on public debt charges. Consequently, measures that are removed or added to PBO's fiscal outlook will not reflect the impact on public debt charges or any potential corresponding macroeconomic impact. That said, to a first approximation, the resulting fiscal outlook should provide a reasonable basis for fiscal planning for political parties.