



**Statement by Jean-Denis Fréchette
Parliamentary Budget Officer
to the House of Commons Standing Committee on Finance
3 November 2014
(Check Against Delivery)**

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

Thank you again for the invitation to appear and discuss the recent economic and fiscal research published by the PBO team, including Dr. Mostafa Askari, Haiyun Lao and Scott Cameron, who join me today.

Over the past month, the PBO team published four reports discussing pressing fiscal and economic issues. All highlight issues for short-, medium- and long-term federal fiscal management that should receive further parliamentary attention.

Two of our papers highlighted questions regarding how the government manages its **short-term** fiscal targets.

- Our analysis of the [Employment Insurance Account](#) demonstrates that Parliament has passed legislation that sets premium rates higher than necessary over the short term, in apparent conflict with the intended management of the program.
- Our report on [Balanced Budget Legislation](#) should be of great interest for your Committee because it is a theme of your pre-budget consultations. This report offers parliamentarians a solid source of analysis and information that could be very useful when they will review this topic. They will then have to identify the incentives that such legislation can create in terms of policy making to ensure that potential incentives that go against economically and socially optimal fiscal management are mitigated.

Over the **medium term**, the challenges relate to how much of the projected surplus can be allocated toward permanent fiscal measures.

- As the [Economic and Fiscal Outlook Update](#) highlights, we now expect Canadian economic growth in 2014 to be higher than originally anticipated in our April outlook.
- As a result of this, we projected that the budget would move into a surplus this year, following six years of deficits. On average, we projected annual surpluses of \$8.8 billion over the outlook. However, measures announced on October 30, 2014 have eliminated roughly half of this surplus (Table 1 and Table 2). Much of the

remaining fiscal room over the next two years is the result of temporary policies such as the direct program expenses operating freeze, the EI premium rate freeze, and asset sales (Table 3).

- There is no longer any fiscal room for permanent tax cuts or spending increases. Introducing additional tax relief or spending initiatives would increase the risk of returning to deficits even further.

Over the **long term**, Parliament will need to consider the best policy response to the economic and fiscal consequences of an ageing population, particularly with respect to health-care costs.

- Our [Fiscal Sustainability Report](#) highlights that the federal government is able to meet these demographic challenges with considerable fiscal room to spare. If the government takes a long-term approach to fiscal management, then there is room to maintain a sustainable debt burden while increasing borrowing for permanent tax relief or new spending by as much 1.4 per cent of GDP, or \$28 billion in 2014-15. This increased borrowing would then be repaid as demographic pressures drop dramatically after 2033.

Conclusion

These reports were prepared because of the Parliament's interest in these issues and, as I mentioned above, the specific interest your committee in particular had in some of them. We also remain dedicated to find new ways and approaches for our reports to meet your needs.

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

Thank you Mr. Chair.

Revised Fiscal Outlook

Tables 1, 2, and 3 use the government's estimated fiscal cost of new measures. The budgetary balance projection is based on PBO's [Economic and Fiscal Outlook Update 2014](#) economic outlook, which does not reflect the effect of new measures on employment and output.

Table 1: Fiscal impact of announcements made October 30, 2014

\$ millions	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
Personal income tax						
Family tax cut	-2,395	-1,935	-1,995	-2,050	-2,110	-2,165
Income tax on enhanced Universal Child Care Benefit	140	565	570	580	585	595
Elimination of Child Tax Credit	435	1,750	1,780	1,810	1,835	1,870
Increase in Child Care Expense Deduction Limits	-15	-65	-70	-75	-80	-90
Total impact	-1,835	315	285	265	230	210
Program spending						
Increase in Universal Child Care Benefits	-1,230	-4,935	-4,965	-5,000	-5,030	-5,065
Total proposed new measures	-3,065	-4,620	-4,680	-4,735	-4,800	-4,855

Note: Numbers may not add due to rounding.

Table 2: Revised budgetary balance outlook

\$ billions	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
Budget balance	3.6	10.1	10.4	8.1	9.4	11.3
Structural balance	7.8	9.4	5.5	1.2	1.9	3.6
Less:						
New announcements	3.1	4.6	4.7	4.7	4.8	4.9
Revised budgetary balance	0.6	5.5	5.8	3.4	4.6	6.4
Revised structural balance	4.8	4.8	0.8	-3.6	-2.9	-1.3

Note: Numbers may not add due to rounding.

Table 3: Revised estimate of permanent policy room

\$ billions	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020
Budgetary balance	3.6	10.1	10.4	8.1	9.4	11.3
Less new announcements:						
The Family Tax Cut	2.4	1.9	2.0	2.1	2.1	2.2
Universal Child Care Benefit	1.1	4.4	4.4	4.4	4.4	4.5
Eliminating Child Tax Credit	-0.4	-1.8	-1.8	-1.8	-1.8	-1.9
Child Care Expense Deduction	0.0	0.1	0.1	0.1	0.1	0.1
Updated budgetary balance	0.6	5.5	5.8	3.4	4.6	6.4
Less temporary measures:						
Asset sales	0.5	1.5	-	-	-	-
EI freeze	0.7	2.7	3.2	-0.9	-0.8	-0.7
DPE adjustments	2.7	2.5	2.3	1.0	0.9	-
Economic cycle	-4.2	0.7	4.9	6.9	7.5	7.7
Permanent policy room	0.9	-1.9	-4.6	-3.6	-3.0	-0.6

Note: Numbers may not add due to rounding.