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ECONOMIC AND FISCAL OUTLOOK – NOVEMBER 2019

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 presents PBO's economic and fiscal outlook. The outlook does not include commitments made by any party during the 2019 general election. PBO will provide an updated outlook including measures proposed by the government when further details on implementation are released during the new Parliament.

This report incorporates data available up to and including 1 November 2019. Unless otherwise specified, all rates are reported at annual rates.

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Executive Summary

PBO has downgraded its outlook for growth in the Canadian economy in the second half of 2019 reflecting, in part, increased trade tensions and related uncertainty. Real GDP growth is projected to be 1.7 per cent in 2020 and 1.6 per cent in 2021. This is, respectively, 0.3 percentage points and 0.2 percentage points lower than we projected in our June 2019 election proposal costing (EPC) baseline. The downward revision stems from weaker export performance, reduced contributions from inventory investment and lower provincial government spending in Alberta.

Summary Table 1 Economic outlook

		Projection			
%	2018	2019	2020	2021	2022-2024
Real GDP growth	1.9	1.5	1.7	1.6	1.6
Consumer price inflation	2.2	1.9	1.9	2.0	2.0
Unemployment rate	5.8	5.7	5.7	5.6	5.4
Bank of Canada policy rate	1.75	1.75	2.25	2.50	2.50

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: The Bank of Canada policy rate is presented on an end-of-period basis.

As the economy continues to operate close to its potential GDP and inflation remains close to its 2.0 per cent target, we expect the Bank of Canada to maintain its policy rate at its current level of 1.75 per cent until the second half of 2020. Thereafter, as trade tensions and related uncertainty dissipate, we project that the Bank of Canada will gradually increase its policy rate by 25-basis point increments until it reaches a neutral rate of 2.50 per cent.

We have revised down our assumption for Canada's neutral rate to 2.50 per cent from 2.75 per cent in our EPC baseline. In addition, we have revised down our long-term assumption for the term premium on 10-year Government of Canada bonds (relative to 3-month treasury bills) from 105 basis points to 80 basis points. Consequently, 10-year government bond rates are projected to ultimately settle at 3.25 per cent and 3-month treasury bills at 2.45 per cent.

PBO's economic outlook reflects the view that possible upside and downside outcomes are, broadly speaking, equally likely. Although we have adjusted our outlook to reflect increased trade tensions and trade policy uncertainty, we continue to judge that the most important downside risk is weaker export performance due to a further escalation of trade disputes and protectionist policies.

In terms of upside risks, we judge that the most important upside risk is stronger-than-expected government spending. Based on status quo fiscal policy we project total government expenditure (that is, combined federal, provincial, territorial and local government current and capital spending) to decrease from 24.7 per cent of GDP in 2019 to 23.5 per cent of GDP in 2024, which is 1.2 percentage points below its long-term (1981 to 2018) historical average. As a share of the economy, this would lower government expenditure to levels last seen in 2008.

The fiscal outlook presented in this report is based on PBO's current economic outlook. It incorporates policy measures announced in Budget 2019, as well as policy actions up to 11 September 2019. PBO is providing this outlook as an updated independent status quo planning assumption for the start of the 43rd Parliament. **The fiscal outlook does not include commitments made by any party during the 2019 general election**.

Final results for the 2018-19 fiscal year indicated that the budgetary deficit was $14.0 billion—essentially identical to our estimate in the EPC baseline. Revenues, program spending and public debt charges were each broadly in line with our June estimates.

Compared to our EPC baseline, we are projecting budgetary deficits that are $1.6 billion higher, on average, over 2019-20 to 2024-25 before any new policy decisions. Lower tax revenues and higher operating expenses more than offset the savings on debt charges resulting from downward revisions to our outlook for interest rates.

Summary Table 2 Fiscal outlook

$ billions	2018-2019	Projection 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Budgetary revenues	332.2	340.4	350.1	364.4	378.9	393.3	408.2
Program expenses	322.9	337.7	349.0	357.1	364.9	374.4	385.7
Public debt charges	23.3	23.8	24.4	26.3	28.6	31.4	33.6
Total expenses	346.2	361.5	373.4	383.4	393.5	405.8	419.3
Budgetary balance	-14.0	-21.1	-23.3	-19.0	-14.6	-12.5	-11.1
Federal debt	685.5	706.9	730.1	749.2	763.8	776.3	787.4
Federal debt (% of GDP)	30.9	30.8	30.8	30.5	30.0	29.4	28.7

Sources: Statistics Canada, Finance Canada and Parliamentary Budget Officer.

For the current fiscal year, on a status quo basis, we estimate that the budgetary deficit would rise to $21.1 billion, primarily due to a slowdown in corporate income tax revenues and spending increases on transfer payments. Thereafter, we project that the budgetary deficit would peak at $23.3 billion in 2020-21 before declining to $11.1 billion in 2024-25. We project the federal debt-to-GDP ratio would decline over the medium term, falling to 28.7 per cent in 2024-25.

The Government for the 43rd Parliament has not yet established fiscal anchors. Previously, the Government set anchors for the budgetary balance and the federal debt-to-GDP ratio. PBO will monitor the Government's progress toward achieving new fiscal objectives once they are announced.

Without further policy actions, and based on the uncertainty surrounding our economic outlook, we estimate that on a status quo basis, there is currently about a 30 per cent chance that the budget will be balanced or in surplus at the end of our medium-term outlook in 2024-25. In addition, we estimate that in 2024-25, there is approximately a 70 per cent chance that the federal debt-to-GDP ratio will be below its 2018-19 level of 30.9 per cent.

However, based on commitments made during the electoral campaign, it is expected that budgetary deficits over the medium term will be higher than our status quo projection, reducing the probability of balancing the budget by 2024-25, as well as reducing the probability that the debt-to-GDP ratio will be lower than 30.9 per cent in that year.

1. External Environment

1.1. The global economy

In its latest *World Economic Outlook*, the International Monetary Fund (IMF) assessed that the global economy is currently experiencing a synchronized slowdown.[1] The IMF has again downgraded its forecast of global growth, to 3.0 per cent in 2019, which it notes is the slowest pace since the global financial crisis. The weakness in economic growth stems primarily from rising trade barriers and from uncertainty related to future trade policy. The IMF notes that elevated uncertainty is "taking a toll on business confidence, investment decisions and global trade".

The IMF is projecting global growth to improve in 2020, picking up to 3.4 per cent. This improvement reflects a pickup in growth in emerging market and developing economies (from 3.9 per cent to 4.6 per cent) as growth in advanced economies languishes at 1.7 per cent. Moreover, the IMF notes that the pickup in global growth is "precarious" given that it is largely driven by improved performance in stressed emerging markets.

1.2. U.S. economic outlook

Since June, trade tensions between the U.S. and China have intensified. In September, the U.S. imposed a new tariff of 15 per cent on additional Chinese imports valued at approximately US$110 billion. The U.S. also plans to impose another tariff, set to take effect mid-December, which would leave virtually all Chinese imports subject to U.S. tariffs. In response, China intends to target US$75 billion worth of U.S. goods by December.

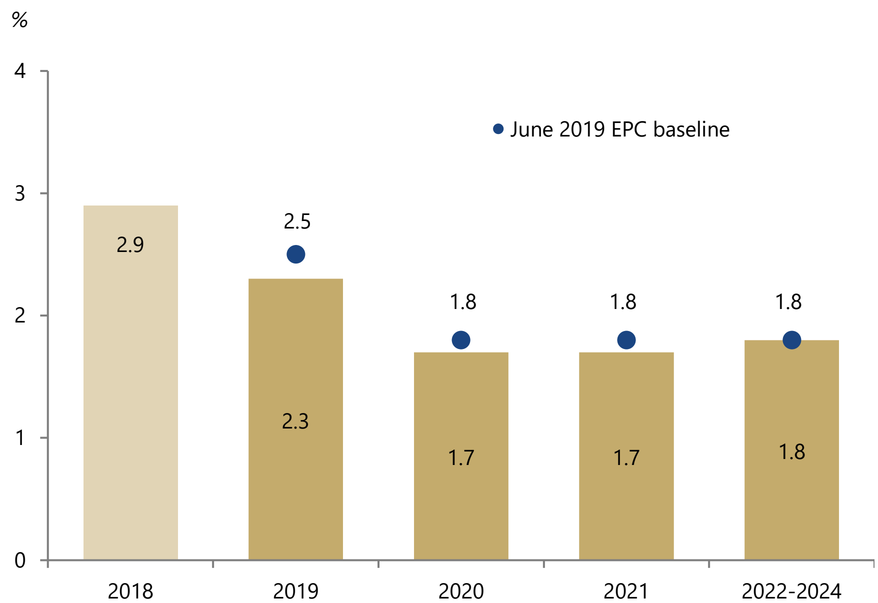
In mid-October, the U.S. and China began talks of a Phase 1 trade agreement, which would involve China purchasing U.S. agricultural products, and the U.S. reducing tariff levels on Chinese imports. As no formal agreement has been reached at this time, uncertainty around trade negotiations between these two countries remains.

Heightened trade tensions have caused the U.S. manufacturing sector to continue to contract as export performance has stalled. In September, U.S. manufacturing activity fell to its lowest point in over ten years.[2] The uncertainty from trade tensions has also weakened business investment. That said, the U.S. unemployment rate has continued to decrease, reaching a 50-year low in September at 3.5 per cent. However, (net) job creation has fallen from a monthly average of 223,000 in 2018 to 167,000 so far this year.

With inflation running below the 2 per cent target since late 2018 and given downside risks from weak global growth and trade policy uncertainty, the Federal Reserve has lowered the target range for its policy rate by a cumulative 75 basis points since July.

We have revised down our short-term outlook for U.S. growth (Figure 1-1). We project U.S. real GDP growth to moderate from 2.9 per cent in 2018 to 2.3 per cent in 2019 and then to 1.7 per cent in 2020. This is 0.2 percentage points lower per year, on average, compared to our June 2019 election proposal costing (EPC) baseline. The downward revision is largely driven by increased trade barriers and increased uncertainty surrounding U.S. trade policy. Over the medium term, we project U.S. real GDP growth to settle at 1.8 per cent, which is unchanged from our EPC baseline.

Figure 1-1 U.S. real GDP growth projection



Sources: Bureau of Economic Analysis and Parliamentary Budget Officer.

In light of the weaker growth prospects for the U.S. economy and muted inflationary pressures, we have delayed the resumption of monetary policy normalization. We expect that the Federal Reserve will maintain the current target range for the federal funds rate until the last quarter of 2020. Thereafter, we project that the target range will be increased gradually in 25-basis point increments, as trade tensions and related uncertainty dissipate, until the longer-run target of 2.5 per cent is reached.

Consistent with the June re-assessment by Federal Reserve board members and bank presidents, we have revised down our assumption for the U.S. neutral policy rate from 2.8 per cent to 2.5 per cent.

1.3. Commodity prices

Due to the oil production curtailment by the Government of Alberta, the price of Western Canadian Select (WCS) crude oil continues to trade well above the near-record lows observed at the end of 2018. In the third quarter, the price of WCS averaged US$44 per barrel. However, the price of WCS has since decreased with recent spot prices reaching US$34 per barrel. This decrease is due, in part, to policy changes in Alberta that allow for higher curtailment limits and special production allowances for operators who ship additional crude by rail.

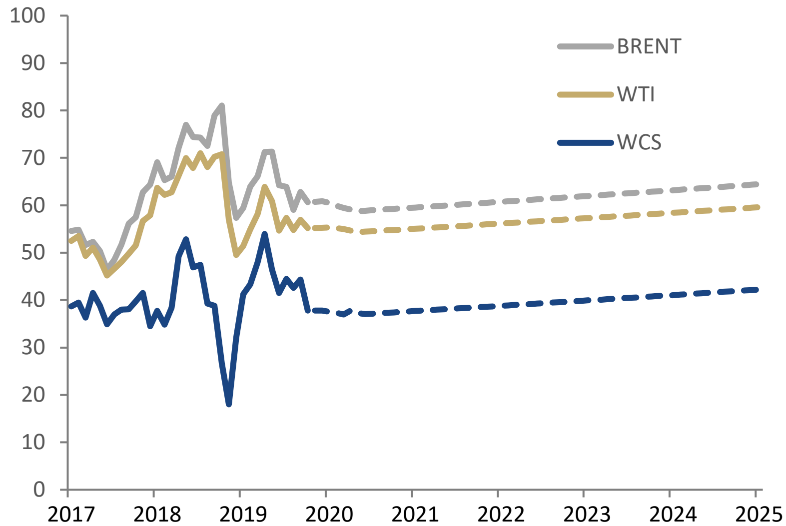
Supply disruptions in Saudi Arabia boosted the price of West Texas Intermediate (WTI) crude oil to US$63 per barrel in September. WTI prices, however, quickly retreated shortly after the supply shock, averaging US$54 per barrel in October.

The WTI-WCS price differential narrowed to US$13 in the third quarter of 2019 compared to our June projection of US$17 for the same quarter. However, current spot prices show a wider differential of US$22, reflecting the policy changes in Alberta that were announced in October.

Looking ahead, we project WTI oil prices to reach US$59 per barrel by the end of 2024 (Figure 1-2). Consistent with weaker global demand, our outlook for WTI prices is US$3 lower compared to our EPC baseline. Weaker global demand is expected to be accompanied by increased production in non-OPEC countries, putting further downward pressure on global prices.

Figure 1-2 The outlook for crude oil prices

US$ per barrel



Sources: Kent Group Limited, CME Group and Parliamentary Budget Officer.

Note: WCS refers to Western Canadian Select; WTI refers to West Texas Intermediate. The projection period covers 2019Q4 to 2025Q1.

However, our outlook for WCS oil prices is only slightly revised reflecting, in part, the extension of the oil production curtailment in Alberta[3] as well as a downward revision to the WTI-WCS differential. The WTI-WCS differential is projected to average US$17 per barrel over 2020 to 2024, down US$4 per barrel from our EPC baseline over the same period.

As a result of downward revisions to global crude oil prices, our outlook for the Bank of Canada's energy commodity price index is 4 per cent lower, on average, over 2020 to 2024.

In terms of non-energy commodities, our outlook for gold prices has been revised upward by 14 per cent, on average, over 2020 to 2024. This upward revision stems from higher-than-expected prices in the third quarter, reflecting global uncertainty, specifically related to the European Union, and the consequent increase in safe-haven demand. Our overall outlook for non-energy commodity prices over 2020 to 2024 is 2 per cent higher, on average, compared to our EPC baseline.

Overall, our outlook for the Bank of Canada's commodity price index is 1 per cent lower over 2020 to 2024 compared to our EPC baseline.

2. Canadian Economy

Our outlook for the Canadian economy in 2020 and 2021 has been revised down. This downward revision results from weaker export performance, reduced contributions from inventory investment and lower provincial government spending in Alberta. That said, economic growth is projected to remain close to its potential over the medium term. We expect that the Bank of Canada will further delay normalizing monetary policy, which should provide additional support to the economy.

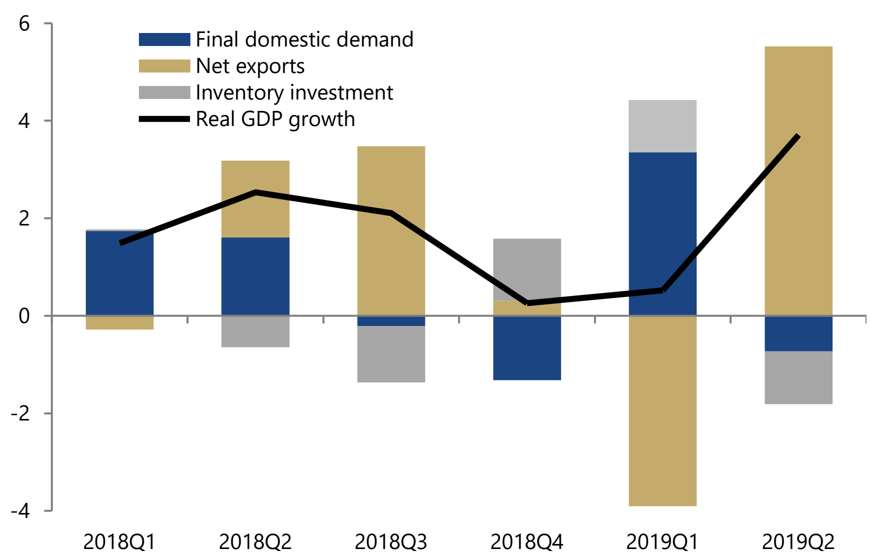
2.1. Recent economic developments

Following a weak performance in the last quarter of 2018 and first quarter of 2019, the Canadian economy exceeded expectations in the second quarter, advancing by 3.7 per cent—well above the 2.0 per cent growth anticipated in the EPC baseline (Figure 2-1). The surge in real GDP growth was driven by a resurgence in export volumes following two quarters of declines.

Figure 2-1

Contributions to real GDP growth

Percentage points



Sources: Statistics Canada and Parliamentary Budget Officer.

Note: The contribution to growth from inventory investment also includes the contribution from the statistical discrepancy.

However, stronger-than-expected growth in exports masked an abrupt slowdown in household spending and a sharp decline in business investment in the second quarter. Consequently, final domestic demand declined by 0.7 per cent, which marks the third decline in the last four quarters.

The Canadian labor market has remained robust, with monthly (net) job gains averaging 40,000 since January, driven mainly by full-time employment. The unemployment rate has remained close to historical lows in the third quarter. Year-over-year growth in hourly wages has picked up sharply, rising to the fastest pace observed since the global financial crisis.

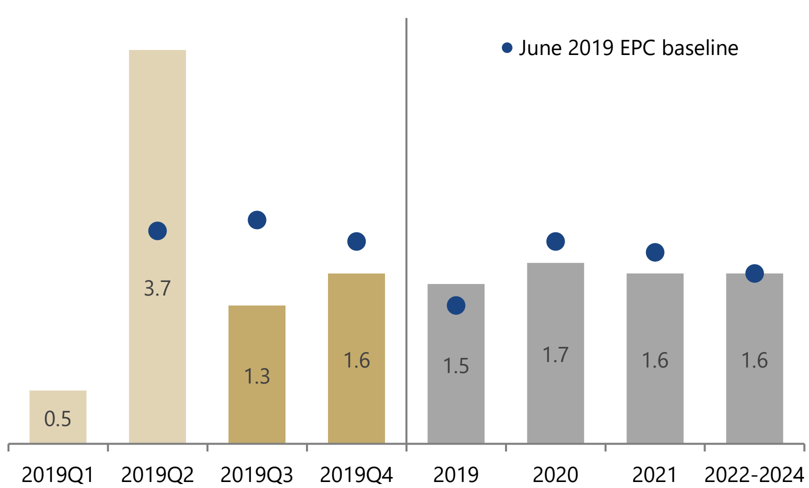
While the U.S. Federal Reserve lowered its policy rate by a cumulative 75 basis points since July, the Bank of Canada maintained the target for its policy rate at 1.75 per cent as core inflation remained close to the inflation target and the Canadian economy continued to operate close to its potential GDP.

2.2. Economic outlook

We project real GDP growth to average 1.4 per cent in the second half of 2019, resulting in growth of 1.5 per cent for the year as a whole (Figure 2-2). Our outlook for the second half has been revised down, primarily due to slower growth in exports and weaker business investment reflecting, in part, increased trade tensions and related uncertainty. Appendix A presents our detailed economic outlook.

Figure 2-2 **Revisions to the outlook for real GDP growth**

%



Sources: Statistics Canada and Parliamentary Budget Officer.

Real GDP growth is projected to be 1.7 per cent in 2020 and 1.6 per cent in 2021. This is, respectively, 0.3 percentage points and 0.2 percentage points lower than we projected in our EPC baseline. The downward revision reflects weaker export performance, reduced contributions from inventory investment and lower provincial government spending in Alberta. We project real GDP growth to average 1.6 per cent annually, on average, over 2022 to 2024, which is in line our EPC baseline.

GDP inflation in the second quarter was also much stronger than we anticipated. This strength, however, is offset by weaker energy prices in the near term, which unwinds the upward revision to GDP inflation in 2019. Beyond 2020, our outlook for GDP inflation is unchanged from the EPC baseline.

Stronger-than-expected real GDP growth and GDP inflation in the second quarter boosted the outlook for nominal GDP growth in 2019. However, downward revisions to real GDP growth and GDP inflation in 2020 and 2021 result in lower nominal GDP growth over this period compared to our EPC baseline. As a result, the level of nominal GDP is $7 billion lower per year, on average, over 2020 to 2024 relative to our EPC baseline.

Final domestic demand is projected to be the fundamental driver of real GDP growth, contributing 1.6 percentage points annually, on average, over 2020 to 2024 (Table 2-1). The contribution to growth from exports is projected to increase slightly in 2020 before moderating over the medium term as non-energy export volumes grow in line with foreign activity.

Table 2-1 Composition of economic growth

Contributions to real GDP growth, percentage points

		Projection			
	2018	**2019**	**2020**	**2021**	**2022-2024**
Consumption	1.2	0.9	1.1	1.1	1.0
Housing	-0.1	-0.2	-0.1	0.0	0.1
Business investment	0.2	-0.2	0.5	0.5	0.4
Government	0.7	0.3	0.0	0.0	0.2
Exports	1.0	0.8	0.9	0.7	0.6
Imports	-0.9	-0.2	-0.2	-0.6	-0.7
Inventory investment	-0.2	0.1	-0.5	-0.1	0.1
Real GDP growth	**1.9**	**1.5**	**1.7**	**1.6**	**1.6**
Additional indicators, %					
Potential GDP growth	1.6	1.6	1.5	1.6	1.7
Output gap	0.0	-0.1	0.1	0.1	0.0

Sources: Statistics Canada and Parliamentary Budget Officer.

As trade tensions and related uncertainty dissipate, business investment is expected to rebound in 2020 and contribute solidly to real GDP growth thereafter. We continue to expect residential investment to contract through 2020. Appendix B presents our projection of the expenditure and income composition of nominal GDP.

We project the economy to operate close to its sustainable productive capacity (that is, potential GDP) over 2020 to 2024. This reflects relatively stable growth in real GDP combined with a temporary slowdown in potential GDP growth due to the recent and continued weakness in business investment.

As the economy continues to operate close to its potential GDP and inflation remains close to target, we expect the Bank of Canada to maintain its policy rate at its current level of 1.75 per cent until the second half of 2020. Thereafter, as trade tensions and related uncertainty dissipate, we project that the Bank of Canada will gradually increase its policy rate by 25-basis point increments until it reaches a neutral rate of 2.50 per cent. Similar to the revision to our U.S. neutral rate assumption, we have revised down our assumption for Canada’s neutral rate to 2.50 per cent from 2.75 per cent in our June baseline.

In addition, we have revised down our long-term assumption for the term premium on 10-year Government of Canada bonds (relative to 3-month treasury bills) from 105 basis points to 80 basis points. Consequently, 10-year government bond rates are projected to ultimately settle at 3.25 per cent and 3-month treasury bills at 2.45 per cent.

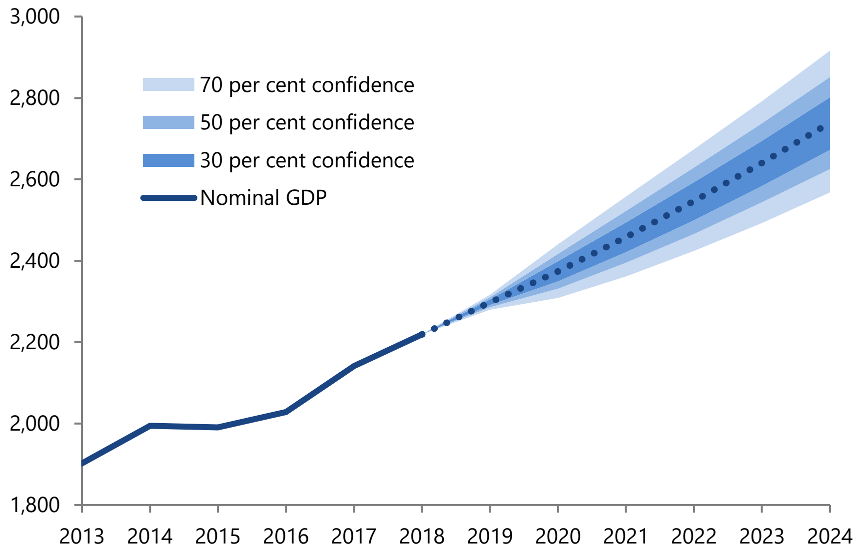
2.3. Risks and uncertainty

PBO’s economic outlook reflects the view that possible upside and downside outcomes are, broadly speaking, equally likely. Further, to illustrate the uncertainty around our nominal GDP projection, we construct a fan chart that provides confidence intervals based on historical forecasting errors.

Relative to our (central) nominal GDP growth projection (3.6 per cent annually, on average, over 2019 to 2024), the 30, 50 and 70 per cent confidence intervals shown in Figure 2-3 are consistent with average nominal GDP growth of ±0.4, ±0.7 and ±1.1 percentage points respectively.

Figure 2-3 **Uncertainty around PBO's nominal GDP projection**

$ billions



Sources: Statistics Canada and Parliamentary Budget Officer.

Although we have adjusted our outlook to reflect increased trade tensions and trade policy uncertainty, we continue to judge that the most important downside risk is weaker export performance due to a further escalation of trade disputes and protectionist policies. Another key downside risk is a weaker-than-expected rebound in business investment.

In terms of upside risks, we judge that the most important upside risk is stronger-than-expected government spending. Based on status quo fiscal policy[4] we project total government expenditure (that is, combined federal, provincial, territorial and local government current and capital spending) would decrease from 24.7 per cent of GDP in 2019 to 23.5 per cent of GDP in 2024, which is 1.2 percentage points below its long-term (1981 to 2018) historical average. As a share of the economy, this would lower government expenditure to levels last seen in 2008. Another key upside risk is a weaker-than-expected adjustment in residential investment.

3. Fiscal Outlook

Compared to our EPC baseline, on a status quo basis—that is, before taking account of any new policy measures resulting from the 21 October 2019 general election—we are projecting budgetary deficits that are $1.6 billion higher, on average, over 2019-20 to 2024-25. Lower tax revenues and higher operating expenses more than offset the savings on debt charges resulting from downward revisions to our outlook for interest rates. Appendices C and D present our detailed fiscal outlook.

3.1. 2018-19 final results

Final results for the 2018-19 fiscal year indicated that the budgetary deficit was $14.0 billion—essentially identical to our estimate in the EPC baseline (Table 3-1). Revenues, program spending and public debt charges were each broadly in line with our June estimates.

Table 3-1 Financial results for 2018-19

$ billions	Actual	PBO June 2019	Difference
Revenues			
Personal income taxes	163.9	162.9	1.0
Corporate income taxes	50.4	51.7	-1.3
Non-resident income taxes	9.4	9.5	-0.1
Excise taxes/duties	57.2	57.3	-0.0
EI premium revenue	22.3	22.4	-0.1
Other revenue	29.1	28.5	0.6
Total revenue	332.2	332.1	0.1
Program expenses			
Major transfers to persons	96.1	96.0	0.1
Major transfers to other levels of government	75.9	75.5	0.4
Direct program expenses	150.9	151.4	-0.5
Total program expenses	322.9	322.9	0.0
Public debt charges	23.3	23.1	0.1
Total expenses	346.2	346.1	0.1
Budgetary balance	-14.0	-14.0	0.0

Sources: Finance Canada and Parliamentary Budget Officer.

Personal income tax revenues were $1.0 billion higher than our EPC baseline due to larger-than-expected accrual adjustments at year end. Other revenues were $0.6 billion higher than our June estimate, primarily because of an unforeseen $1.7 billion increase in interest and penalties on federal tax liabilities. These revenues were largely offset by corporate income tax revenues that were $1.3 billion lower than expected.

2018-19 results for major spending categories were also broadly in line with PBO estimates. Direct program expenses were $0.5 billion lower than our EPC baseline, offset by higher-than-expected major transfers to other governments ($0.4 billion), major transfers to persons ($0.1 billion) and public debt charges ($0.1 billion).

3.2. Developments since June 2019

Changes in our outlook for the Canadian economy contribute $0.6 billion per year, on average, to increasing projected budgetary deficits over 2019-20 to 2024-25 (Table 3-2). In 2019-20, we have revised up our outlook for corporate profits, which drives short-term growth in corporate income tax revenues. Over the remainder of the projection horizon, the negative impact on tax revenues from slower nominal GDP growth are roughly offset, on average, by lower debt charges resulting from downward revisions to our outlook for interest rates.

Table 3-2 Economic and fiscal developments

$ billions	2018-2019	Projection 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Budgetary balance – EPC baseline	**-14.0**	**-20.7**	**-23.3**	**-15.4**	**-12.5**	**-11.2**	**-9.0**
Economic developments		1.5	-1.3	-3.4	-1.5	0.2	0.7
Fiscal developments		-1.9	1.4	-0.2	-0.6	-1.4	-2.9
Budgetary balance – November 2019	**-14.0**	**-21.1**	**-23.3**	**-19.0**	**-14.6**	**-12.5**	**-11.1**

Sources: Finance Canada and Parliamentary Budget Officer.

Fiscal developments contribute $0.9 billion annually, on average, to increasing projected budgetary deficits. These developments primarily reflect 2018-19 final results and year-to-date data for 2019-20. Notable developments include a somewhat higher profile for operating expenses, which is partly offset by lower spending on elderly benefits and Employment Insurance.

Compared to our EPC baseline, we are projecting budgetary deficits that are $1.6 billion higher, on average, over 2019-20 to 2024-25. The revision is due to lower tax revenues and higher operating expenses, which more than offset

the savings on debt charges resulting from revisions to our outlook for interest rates. Appendix E provides a detailed comparison to our EPC baseline fiscal outlook.

3.3. Summary of the fiscal outlook

We estimate that the budgetary deficit will increase from $14.0 billion in 2018-19 (0.6 per cent of GDP) to $21.1 billion in 2019-20 (0.9 per cent of GDP), primarily due to a slowdown in corporate income tax revenue and growth in spending on transfer payments (Table 3-3).[5]

Over the remainder of our outlook, we project the budgetary balance to decrease to $11.1 billion (0.4 per cent of GDP) in 2024-25, reflecting revenues growing roughly in line with nominal GDP over the medium term, while expenses grow more slowly. Again, these projections do not take into consideration of any new policy actions the Government may introduce as a result of the October election.

Table 3-3 Fiscal outlook

		Projection					
$ billions	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Budgetary revenues	332.2	340.4	350.1	364.4	378.9	393.3	408.2
Program expenses	322.9	337.7	349.0	357.1	364.9	374.4	385.7
Public debt charges	23.3	23.8	24.4	26.3	28.6	31.4	33.6
Total expenses	346.2	361.5	373.4	383.4	393.5	405.8	419.3
Budgetary balance	-14.0	-21.1	-23.3	-19.0	-14.6	-12.5	-11.1
Federal debt	685.5	706.9	730.1	749.2	763.8	776.3	787.4
% of GDP							
Budgetary revenues	15.0	14.8	14.7	14.8	14.9	14.9	14.9
Program expenses	14.6	14.7	14.7	14.5	14.3	14.2	14.1
Public debt charges	1.0	1.0	1.0	1.1	1.1	1.2	1.2
Total expenses	15.6	15.7	15.7	15.6	15.5	15.4	15.3
Budgetary balance	-0.6	-0.9	-1.0	-0.8	-0.6	-0.5	-0.4
Federal debt	30.9	30.8	30.8	30.5	30.0	29.4	28.7

Sources: Finance Canada, Statistics Canada and Parliamentary Budget Officer.

The slower growth in spending largely reflects the Governments' pre-election plans for restrained growth in direct program expenses, particularly operating expenses.[6] Direct program expenses are projected to grow on average by 1.2 per cent annually. Public debt charges are projected to increase from 1.0 per cent of GDP in 2019-20 to 1.2 per cent in 2024-25 as interest rates rise and the stock of interest-bearing debt increases. That said, the federal debt-to-GDP ratio is projected to decline over the outlook, falling to 28.7 per cent in 2024-25.

3.4. Outlook for budgetary revenues

We project that revenues will be $340.4 billion in 2019-20 (14.8 per cent of GDP), which is $2.6 billion higher compared to our EPC baseline (Table 3-4). The increase is mainly due to upward revisions to our estimates for personal and corporate income tax revenues, reflecting robust year-to-date economic and financial data.[7]

Table 3-4 Revenue outlook

		Projection					
$ billions	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Income taxes							
Personal income tax	163.9	169.9	177.0	184.2	191.9	200.1	209.1
Corporate income tax	50.4	49.3	48.9	51.0	52.9	54.8	56.8
Non-resident income tax	9.4	8.6	8.3	8.4	8.6	8.9	9.3
Total income tax	223.6	227.8	234.2	243.7	253.4	263.9	275.2
Excise taxes/duties							
Goods and Services Tax	38.2	39.2	40.5	41.8	43.3	44.8	46.4
Custom import duties	6.9	6.0	5.3	5.3	5.4	5.6	5.8
Other excise taxes/duties	12.1	12.7	12.8	13.1	13.4	13.6	13.8
Total excise taxes/duties	57.2	57.9	58.5	60.2	62.1	64.0	66.0
Fuel charge proceeds	0.0	2.9	5.3	6.9	8.5	8.4	8.4
EI premium revenues	22.3	22.7	22.8	23.0	23.7	24.5	25.3
Other revenues							
Enterprise Crown corporations	7.1	7.2	7.1	7.5	7.8	8.6	8.8
Other programs	20.3	20.1	20.0	20.5	20.9	21.3	21.9
Net foreign exchange	1.7	1.9	2.2	2.5	2.6	2.6	2.7
Total other revenues	29.1	29.1	29.3	30.6	31.2	32.5	33.4
Total budgetary revenues	332.2	340.4	350.1	364.4	378.9	393.3	408.2

Sources: Finance Canada and Parliamentary Budget Officer.

Beyond 2019-20, we are projecting marginally lower revenues compared to our EPC baseline, less than $100 million lower per year, on average, over the medium term. This reflects a somewhat lower outlook for personal income and excise taxes that is partially offset by higher corporate income tax revenues.[8]

Over the medium term, budgetary revenues are projected to grow at an average annual rate of 3.7 per cent, reaching $408.2 billion in 2024-25 (14.9 per cent of GDP). These projections do not take into consideration tax changes the Government may wish to implement.

3.5. Outlook for program expenses

We project that total program expenses will be $337.7 billion in 2019-20, which amounts to 14.7 per cent of GDP and represents close to a $15 billion increase from 2018-19 levels (Table 3-5). Part of this increase reflects the first full year of fuel charge rebate payments and the Hibernia Dividend Backed Annuity Agreement. We are also projecting increases to elderly benefits and to transfer payments, which are spread across a number of departments.[9] Appendix F presents our outlook for the Employment Insurance (EI) Operating Account.

Table 3-5 **Program expense outlook**

		Projection					
$ billions	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**	**2023-2024**	**2024-2025**
Major transfers to persons							
Elderly benefits	53.4	56.1	59.9	63.5	67.2	71.1	74.7
Employment Insurance	18.9	19.6	21.5	22.6	23.2	23.6	24.3
Children's benefits	23.9	24.2	24.9	25.6	26.3	26.9	27.4
Total	96.1	99.9	106.3	111.8	116.7	121.5	126.5
Major transfers to other levels of government	75.9	78.7	79.8	82.5	84.8	87.4	90.3
Direct program expenses							
Fuel charge rebates	0.7	3.6	5.8	7.4	8.5	8.4	8.4
Transfer payments	51.8	54.0	55.1	54.6	55.2	56.5	58.6
Operating and capital expenses	98.4	101.6	102.0	100.9	99.7	100.6	102.1
Total direct program expenses	150.9	159.1	162.8	162.9	163.3	165.5	169.0
Total program expenses	322.9	337.7	349.0	357.1	364.9	374.4	385.7

Sources: Finance Canada and Parliamentary Budget Officer.

PBO projects that operating and capital expenses will be held below 2020-21 levels ($102.0 billion) until 2024-25 ($102.1 billion). Declining personnel expenses related to pensions and other future benefits offset increases in other operating spending and are the main factor underlying our outlook for subdued growth in overall operating and capital expenses over this period. Appendix G presents our detailed outlook for direct program expenses.

Over the medium term, we project that total program expenses will decline relative to nominal GDP, from 14.6 per cent of GDP in 2018-19 to 14.1 per cent of GDP in 2024-25.

Appendix H presents our detailed debt projection.

3.6. Fiscal outcomes under alternative economic scenarios

To illustrate the fiscal implications of the uncertainty surrounding our economic outlook, using our fiscal sensitivities, we mapped the distributions of economic scenarios into budgetary components and constructed fan charts with confidence intervals around our (central) fiscal projection.

A key limitation of these charts and distributions is that they reflect only the uncertainty related to our economic outlook. They do not reflect uncertainty related to the translation of economic projections into fiscal projections; discretionary fiscal policy responses to different economic outcomes; or, non-economic risks (for example, expenses related to legal liabilities).

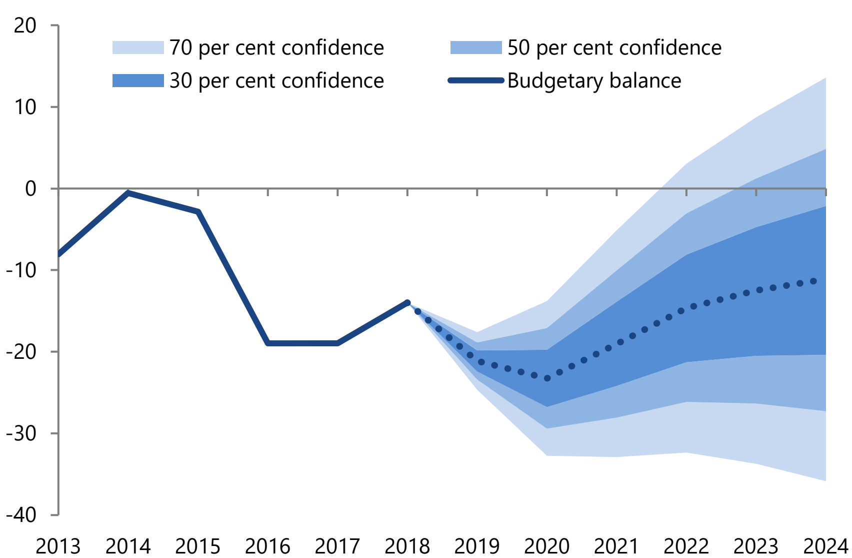
Given the possible scenarios surrounding our economic outlook, and on a status quo basis, it is unlikely that the budget will be balanced, or in a surplus position, over the medium term (Figure 3-1).[10] We estimate that the probability the budget will be in balance or in a surplus position in 2019-20 to 2020-21 is effectively nil.

However, we estimate that in 2022-23 there is, approximately, a 20 per cent chance that the budget will be balanced or in a surplus position. The probability of budgetary balance/surplus rises to about 30 per cent in 2024-25.

Figure 3-1

Uncertainty surrounding the budgetary balance

$ billions



Sources: Finance Canada and Parliamentary Budget Officer.

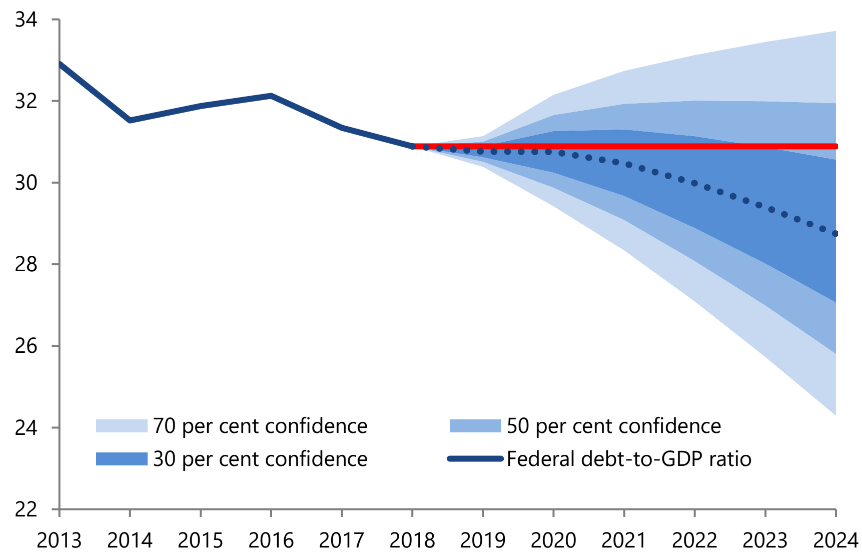
Note: The series are presented on a fiscal-year basis where 2013 refers to 2013-14. Projection period covers fiscal years 2019-20 to 2024-25.

In terms of the federal debt-to-GDP ratio, we estimate that a 70 per cent confidence interval in 2024-25 is about 9 percentage points (Figure 3-2), which is approximately ±4.5 percentage points relative to our (central) projection.

Figure 3-2

Uncertainty surrounding the federal debt-to-GDP ratio

Per cent of GDP



Sources: Finance Canada, Statistics Canada and Parliamentary Budget Officer.

Note: The series are presented on a fiscal-year basis where 2013 refers to 2013-14. Projection period covers fiscal years 2019-20 to 2024-25. The red line corresponds to the level of the federal debt-to-GDP in 2018-19.

Given the possible scenarios surrounding our economic outlook, and on a status quo basis, it is likely that the federal debt-to-GDP ratio will fall below its 2018-19 level of 30.9 per cent over the period 2019-20 to 2024-25. We estimate that in 2024-25, there is approximately a 70 per cent chance that the federal debt-to-GDP ratio will be below its 2018-19 level of 30.9 per cent.

However, based on commitments made during the electoral campaign, it is expected that budgetary deficits over the medium term will be higher than our status quo projection, reducing the probability of balancing the budget by 2024-25, as well as reducing the probability that the debt-to-GDP ratio will be lower than 30.9 per cent in that year.

The Government for the 43rd Parliament has not yet established fiscal anchors. Previously, the Government set anchors for the budgetary balance and the federal debt-to-GDP ratio. PBO will monitor the Government's progress toward achieving new fiscal objectives once they are announced.

Appendix A: Detailed economic outlook

% unless otherwise indicated		Projection					
	2018	2019	2020	2021	2022	2023	2024
Real GDP growth							
November 2019	1.9	1.5	1.7	1.6	1.6	1.6	1.7
June 2019	1.9	1.3	1.9	1.8	1.6	1.6	1.6
Potential GDP growth							
November 2019	1.6	1.6	1.5	1.6	1.6	1.7	1.7
June 2019	1.6	1.7	1.6	1.6	1.7	1.7	1.7
GDP inflation							
November 2019	1.7	2.0	1.6	2.0	2.0	2.0	2.0
June 2019	1.7	1.6	1.8	2.0	2.0	2.0	2.0
Nominal GDP growth							
November 2019	3.6	3.6	3.3	3.5	3.6	3.7	3.7
June 2019	3.6	3.0	3.8	3.8	3.7	3.7	3.7
Nominal GDP ($ billions)							
November 2019	2,219	2,298	2,374	2,458	2,547	2,641	2,739
June 2019*	2,219	2,288	2,375	2,466	2,557	2,650	2,748
3-month treasury rate							
November 2019	1.4	1.7	1.9	2.5	2.5	2.5	2.5
June 2019	1.4	1.7	2.3	2.7	2.7	2.7	2.7
10-year government bond rate							
November 2019	2.3	1.7	2.0	3.1	3.3	3.3	3.3
June 2019	2.3	2.0	3.1	3.7	3.8	3.8	3.8
Exchange rate (US¢/C$)							
November 2019	77.2	75.4	75.7	75.8	76.0	76.0	76.0
June 2019	77.2	74.7	74.8	75.3	75.6	75.7	75.7
Unemployment rate							
November 2019	5.8	5.7	5.7	5.6	5.5	5.4	5.3
June 2019	5.8	5.6	5.7	5.6	5.5	5.4	5.4
CPI inflation							
November 2019	2.2	1.9	1.9	2.0	2.0	2.0	2.0
June 2019	2.2	1.9	2.0	2.0	2.0	2.0	2.0
U.S. real GDP growth							
November 2019	2.9	2.3	1.7	1.7	1.8	1.8	1.8
June 2019	2.9	2.5	1.8	1.8	1.8	1.8	1.7
WTI oil price ($US)							
November 2019	65	57	55	56	57	58	59
June 2019	65	58	59	59	59	61	62

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: * June 2019 nominal GDP levels have been adjusted for historical revisions

Appendix B: Composition of nominal GDP

% of GDP	2018	Projection 2019	2020	2021	2022	2023	2024
Expenditure share							
Final household consumption	56.7	56.6	56.7	56.7	56.7	56.6	56.5
Nonprofit serving households expenditures	1.7	1.7	1.7	1.8	1.8	1.8	1.8
Government consumption expenditure	20.8	20.9	20.6	20.4	20.0	19.9	19.9
Government investment	3.9	3.8	3.7	3.7	3.6	3.6	3.6
Residential investment	7.4	7.1	7.0	7.0	7.1	7.0	7.0
Business investment	11.1	10.7	10.9	11.2	11.4	11.7	11.8
Inventory investment	0.5	0.6	0.1	0.0	0.1	0.1	0.2
Exports of goods and services	31.8	31.8	31.8	31.9	32.0	32.1	32.1
Imports of goods and services	33.9	33.1	32.5	32.5	32.7	32.8	32.9
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income share							
Compensation of employees	50.5	50.7	51.0	50.9	50.8	50.8	50.8
Net mixed income	9.0	9.0	8.9	9.0	9.1	9.0	9.0
Corporate profits before tax	10.2	10.2	10.0	10.1	10.2	10.3	10.2
Investment income	2.5	2.4	2.6	2.7	2.7	2.7	2.7
Consumption of fixed capital	16.5	16.5	16.2	16.0	16.0	16.0	16.1
Taxes less subsidies on production	4.4	4.4	4.5	4.5	4.5	4.5	4.5
Taxes less subsidies on products and imports	6.9	6.7	6.8	6.8	6.8	6.7	6.7
Statistical discrepancy	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Statistics Canada and Parliamentary Budget Officer.

Appendix C: Detailed fiscal outlook

$ billions	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Income taxes							
Personal income tax	163.9	169.9	177.0	184.2	191.9	200.1	209.1
Corporate income tax	50.4	49.3	48.9	51.0	52.9	54.8	56.8
Non-resident income tax	9.4	8.6	8.3	8.4	8.6	8.9	9.3
Total income tax	223.6	227.8	234.2	243.7	253.4	263.9	275.2
Excise taxes/duties							
Goods and Services Tax	38.2	39.2	40.5	41.8	43.3	44.8	46.4
Custom import duties	6.9	6.0	5.3	5.3	5.4	5.6	5.8
Other excise taxes/duties	12.1	12.7	12.8	13.1	13.4	13.6	13.8
Total excise taxes/duties	57.2	57.9	58.5	60.2	62.1	64.0	66.0
Fuel charge proceeds	0.0	2.9	5.3	6.9	8.5	8.4	8.4
EI premium revenues	22.3	22.7	22.8	23.0	23.7	24.5	25.3
Other revenues	29.1	29.1	29.3	30.6	31.2	32.5	33.4
Total budgetary revenues	**332.2**	**340.4**	**350.1**	**364.4**	**378.9**	**393.3**	**408.2**
Major transfers to persons							
Elderly benefits	53.4	56.1	59.9	63.5	67.2	71.1	74.7
Employment Insurance	18.9	19.6	21.5	22.6	23.2	23.6	24.3
Children's benefits	23.9	24.2	24.9	25.6	26.3	26.9	27.4
Total	96.1	99.9	106.3	111.8	116.7	121.5	126.5
Major transfers to other levels of government							
Canada Health Transfer	38.6	40.4	42.1	43.6	45.1	46.6	48.3
Canada Social Transfer	14.2	14.6	15.0	15.5	15.9	16.4	16.9
Equalization	19.0	19.8	20.7	21.4	22.1	22.9	23.7
Territorial Formula Financing	3.8	3.9	4.0	4.0	4.0	4.1	4.1
Gas Tax Fund	4.3	2.2	2.2	2.2	2.3	2.3	2.4
Home care and mental health	0.8	1.1	1.3	1.5	1.2	1.2	1.2
Other fiscal arrangements	-4.7	-3.3	-5.4	-5.6	-5.9	-6.1	-6.4
Total	75.9	78.7	79.8	82.5	84.8	87.4	90.3
Direct program expenses							
Fuel charge proceeds returned	0.7	3.6	5.8	7.4	8.5	8.4	8.4
Other transfer payments	51.8	54.0	55.1	54.6	55.2	56.5	58.6
Operating and capital expenses	98.4	101.6	102.0	100.9	99.7	100.6	102.1
Total direct program expenses	150.9	159.1	162.8	162.9	163.3	165.5	169.0
Total program expenses	322.9	337.7	349.0	357.1	364.9	374.4	385.7
Public debt charges	23.3	23.8	24.4	26.3	28.6	31.4	33.6
Total expenses	**346.2**	**361.5**	**373.4**	**383.4**	**393.5**	**405.8**	**419.3**
Budgetary balance	**-14.0**	**-21.1**	**-23.3**	**-19.0**	**-14.6**	**-12.5**	**-11.1**
Federal debt	685.5	706.9	730.1	749.2	763.8	776.3	787.4

Sources: Finance Canada and Parliamentary Budget Officer.

Appendix D: Detailed fiscal outlook (per cent of GDP)

% of GDP	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Income taxes							
Personal income tax	7.4	7.4	7.5	7.5	7.5	7.6	7.6
Corporate income tax	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Non-resident income tax	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Total income tax	10.1	9.9	9.9	9.9	9.9	10.0	10.0
Excise taxes/duties							
Goods and Services Tax	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Custom import duties	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Other excise taxes/duties	0.5	0.6	0.5	0.5	0.5	0.5	0.5
Total excise taxes/duties	2.6	2.5	2.5	2.4	2.4	2.4	2.4
Fuel charge proceeds	0.0	0.1	0.2	0.3	0.3	0.3	0.3
EI premium revenues	1.0	1.0	1.0	0.9	0.9	0.9	0.9
Other revenues	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Total budgetary revenues	**15.0**	**14.8**	**14.7**	**14.8**	**14.9**	**14.9**	**14.9**
Major transfers to persons							
Elderly benefits	2.4	2.4	2.5	2.6	2.6	2.7	2.7
Employment Insurance	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Children's benefits	1.1	1.1	1.0	1.0	1.0	1.0	1.0
Total	4.3	4.3	4.5	4.5	4.6	4.6	4.6
Major transfers to other levels of government							
Canada Health Transfer	1.7	1.8	1.8	1.8	1.8	1.8	1.8
Canada Social Transfer	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Equalization	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Territorial Formula Financing	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Gas Tax Fund	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Home care and mental health	0.0	0.0	0.1	0.1	0.0	0.0	0.0
Other fiscal arrangements	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Total	3.4	3.4	3.4	3.4	3.3	3.3	3.3
Direct program expenses							
Fuel charge proceeds returned	0.0	0.2	0.2	0.3	0.3	0.3	0.3
Other transfer payments	2.3	2.3	2.3	2.2	2.2	2.1	2.1
Operating and capital expenses	4.4	4.4	4.3	4.1	3.9	3.8	3.7
Total direct program expenses	6.8	6.9	6.9	6.6	6.4	6.3	6.2
Total program expenses	14.6	14.7	14.7	14.5	14.3	14.2	14.1
Public debt charges	1.0	1.0	1.0	1.1	1.1	1.2	1.2
Total expenses	**15.6**	**15.7**	**15.7**	**15.6**	**15.5**	**15.4**	**15.3**
Budgetary balance	**-0.6**	**-0.9**	**-1.0**	**-0.8**	**-0.6**	**-0.5**	**-0.4**
Federal debt	30.9	30.8	30.8	30.5	30.0	29.4	28.7

Sources: Finance Canada and Parliamentary Budget Officer.

Appendix E: Comparison to EPC baseline fiscal outlook

$ billions	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Income taxes							
Personal income tax	1.0	0.1	-0.5	-1.3	-1.8	-1.8	-1.6
Corporate income tax	-1.3	1.5	1.6	0.3	0.5	0.8	0.5
Non-resident income tax	-0.1	0.3	0.1	0.0	0.0	0.0	0.0
Total income tax	-0.4	1.9	1.1	-0.9	-1.3	-1.0	-1.1
Excise taxes/duties							
Goods and Services Tax	0.2	-0.6	-0.8	-0.6	-0.5	-0.4	-0.4
Custom import duties	-0.3	0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Other excise taxes/duties	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Total excise taxes/duties	0.0	-0.3	-1.0	-0.8	-0.6	-0.5	-0.5
Fuel charge proceeds	0.0	0.1	1.4	1.8	2.2	2.2	2.2
EI premium revenues	-0.1	0.1	-0.1	-0.6	-0.9	-1.0	-1.1
Other revenues	0.6	0.7	-0.3	-0.3	-0.2	0.3	0.3
Total budgetary revenues	**0.1**	**2.6**	**1.2**	**-0.7**	**-0.7**	**0.0**	**-0.2**
Major transfers to persons							
Elderly benefits	0.1	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
Employment Insurance	-0.2	-0.8	-0.5	-0.4	-0.3	-0.4	-0.1
Children's benefits	0.3	0.0	0.0	-0.1	-0.1	-0.2	-0.3
Total	0.1	-1.2	-0.7	-0.6	-0.6	-0.7	-0.5
Major transfers to other levels of government							
Canada Health Transfer	0.0	0.0	0.1	0.1	0.1	0.0	-0.1
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Territorial Formula Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gas Tax Fund	0.0	0.0	-0.1	-0.1	0.0	-0.1	0.0
Home care and mental health	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other fiscal arrangements	0.3	1.9	0.1	0.2	0.2	0.2	0.2
Total	0.4	2.0	0.2	0.2	0.3	0.0	0.1
Direct program expenses							
Fuel charge proceeds returned	-0.1	0.4	1.5	1.9	2.2	2.2	2.2
Other transfer payments	-2.0	-1.5	0.0	0.0	0.0	0.0	0.0
Operating and capital expenses	1.5	3.1	2.8	4.9	2.7	1.8	1.4
Total direct program expenses	-0.5	1.9	4.3	6.8	4.9	4.0	3.6
Total program expenses	0.0	2.8	3.7	6.4	4.6	3.3	3.1
Public debt charges	0.1	0.2	-2.5	-3.6	-3.2	-2.0	-1.3
Total expenses	**0.1**	**3.0**	**1.2**	**2.9**	**1.4**	**1.3**	**1.9**
Budgetary balance	**0.0**	**-0.4**	**0.0**	**-3.6**	**-2.1**	**-1.3**	**-2.1**
Federal debt	0.0	0.7	0.7	4.3	6.4	7.7	9.8

Source: Parliamentary Budget Officer.

Appendix F: Outlook for the EI Operating Account

$ billions	2018-2019	Projection 2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025		
Revenues	**22.7**	**23.1**	**23.2**	**23.4**	**24.1**	**24.9**	**25.7**		
Premium revenues	22.3	22.7	22.8	23.0	23.7	24.5	25.3		
Contributions for federal employees	0.4	0.4	0.4	0.4	0.4	0.4	0.4		
Expenses	**20.7**	**21.4**	**23.4**	**24.6**	**25.2**	**25.6**	**26.4**		
Benefits	18.9	19.6	21.5	22.6	23.2	23.6	24.3		
Administration expenses	1.8	1.8	1.9	1.9	2.0	2.0	2.1		
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**(...)**	**2027**
Annual balance	1.2	2.1	0.2	-1.1	-1.3	-0.8	-0.9	(...)	-0.3
Cumulative balance	3.3	6.2	6.4	5.2	3.9	3.1	2.2	(...)	0.7
(per $100 of insurable earnings)	**Actual**		**Projection**						
	2019	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**(...)**	**2027**
Premium rate (PBO)	1.62	1.58	1.54	1.54	1.54	1.54	1.54	(...)	1.54
Premium rate (Chief Actuary)	1.62	1.58	1.58	1.58	1.58	1.58	1.58	(...)	1.58

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

Note: Administration expenses are an estimate as the complete Volume I of the 2019 Public Accounts of Canada has not been released yet.

Appendix G: Outlook for direct program expenses

$ billions	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
	Projection					
Fuel charge proceeds returned	3.6	5.8	7.4	8.5	8.4	8.4
Other transfer payments	54.0	55.1	54.6	55.2	56.5	58.6
Operating expenses						
Personnel - current costs	47.3	47.6	48.6	49.7	50.9	52.1
Personnel - future and other benefits	10.5	10.6	9.9	6.8	5.6	4.4
Enterprise Crown corporations	2.0	2.0	2.0	2.0	2.1	2.2
Consolidated Crown corporations	7.5	7.8	7.7	8.0	8.3	8.6
Other operating expenses	26.7	26.4	26.5	26.7	27.3	28.1
Policy actions	1.7	2.0	-0.2	-0.3	-0.6	-0.5
Total operating expenses	95.7	96.2	94.5	92.9	93.5	94.7
Capital amortization expenses	5.9	5.8	6.5	6.8	7.1	7.3
Total direct program expenses	159.1	162.8	162.9	163.3	165.5	169.0

Sources: Finance Canada and Parliamentary Budget Officer.

Appendix H: Detailed debt projection

		Projection					
	2018-2019	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
$ billions							
Federal debt	685.5	706.9	730.1	749.2	763.8	776.3	787.4
Interest-bearing debt	1,025.5	1,038.7	1,075.2	1,099.2	1,115.2	1,128.0	1,139.0
Market debt: Government	721.1	743.4	766.7	785.7	800.3	812.8	823.9
Non-market debt	288.5	279.5	292.7	297.6	299.0	299.3	299.2
Other debt	15.8	15.8	15.8	15.8	15.8	15.8	15.8
Market debt: agent Crown corporations	301.0	305.3	312.7	311.8	318.3	324.9	331.8
Borrowing requirements, as per the Borrowing Authority Act	1,022.1	1,048.7	1,079.4	1,097.5	1,118.6	1,137.7	1,155.7
% of GDP							
Federal debt	30.9	30.8	30.8	30.5	30.0	29.4	28.7
Interest-bearing debt	46.2	45.2	45.3	44.7	43.8	42.7	41.6
Market debt: Government	32.5	32.3	32.3	32.0	31.4	30.8	30.1
Non-market debt	13.0	12.2	12.3	12.1	11.7	11.3	10.9
Other debt	0.7	0.7	0.7	0.6	0.6	0.6	0.6
Market debt: agent Crown corporations	13.6	13.3	13.2	12.7	12.5	12.3	12.1
Borrowing requirements, as per the Borrowing Authority Act	46.1	45.6	45.5	44.6	43.9	43.1	42.2

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Market debt from agent Crown corporations is an estimate as Volume II of the 2019 Public Accounts of Canada has not been released yet.

Notes

1. PBO uses the IMF's outlook for the world economy to inform assumptions and judgements underlying its economic projections. The IMF's October 2019 *World Economic Outlook* is available at: https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019.

2. The Institute of Supply Management's (ISM) index of U.S. manufacturing activity fell to 47.8 in September. The last time the index was close to this level was in June 2009. A reading below 50 indicates a contraction in the manufacturing sector.

3. In August, the Government of Alberta announced an extension of the curtailment with an end date of 31 December 2020.

4. That is, based on Budget 2019 fiscal measures, and including the Government's announcements up to 11 September 2019, as well as the latest provincial and territorial government budgets.

5. Our outlook reflects policy actions up to 11 September 2019, but it does not account for the commitments made by any party during the 2019 general election.

6. The medium-term outlook does not account for the September ruling of the Canadian Human Rights Tribunal on First Nations Child Welfare, as the exact payment schedule has yet to be determined. As part of the September ruling, the Government and the Caring Society and Assembly of First Nations were ordered to develop a process for the disbursement of the compensation and report back to the Tribunal by 10 December 2019.

7. Our outlook for corporate income tax revenues in the EPC baseline accounted for anticipated foregone revenues from introducing accelerated expensing of capital investment for businesses (announced in the 2018 *Fall Economic Statement*), which somewhat slows revenue growth in our outlook for 2019-20 and 2020-21. Based on the strength of year-to-date results, our revised outlook discounts some of these forgone revenues.

8. Our outlook for federal fuel charge revenues is also higher because the federal backstop comes into force in Alberta on 1 January 2020. Our outlook reflects PBO estimates of new fuel charge proceeds in Alberta, as well as the four provinces already covered by the federal carbon pricing backstop (Ontario, New Brunswick, Manitoba and Saskatchewan). We do not expect federal output-based pricing to be applied in Alberta.

9. See *The Fiscal Monitor – August 2019*: https://www.fin.gc.ca/fiscmon-revfin/2019/2019-07-eng.asp.

10. Recall that in Budget 2016, the Government abandoned its fiscal anchor of balancing the budget in 2019-20 and committed to "returning to balanced budgets".