



**Statement by Jean-Denis Fréchette
Parliamentary Budget Officer
to the House of Commons Standing Committee on Finance
28 April 2015
(Check Against Delivery)**

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

Thank you again for the invitation to appear and discuss our April 2015 economic and fiscal outlook. Today I am joined by Dr. Mostafa Askari, Chris Matier and Scott Cameron, who will help to respond to any questions you have regarding our outlook or other PBO analysis.

As you know, given the timing of this year's budget, we provided the Committee with a pre-budget economic and fiscal outlook. This outlook was constructed on a status quo basis and was intended to provide parliamentarians with an independent point of reference that could be used to assess budget projections as well as the scope for new measures.

First, I would like to briefly highlight some key findings from our pre-budget report.

- We have expanded on our January analysis of the impact of lower oil prices. Based on model simulation results, our estimates indicate that the impact of the decline in oil prices on the Canadian economy is ultimately negative, albeit relatively modest.
- In preparing our pre-budget outlook we assumed, based on recent futures prices, that oil prices will increase gradually from US\$50 per barrel for West Texas Intermediate (WTI) in the first quarter of 2015 to a high of US\$66 per barrel by the end of 2020.
- PBO's pre-budget economic outlook indicated that real GDP growth would slow to 2.0 per cent in 2015 and then average 1.8 per cent over 2016-2020, which is in line with our estimate of potential growth in the Canadian economy.
- Prior to accounting for Budget 2015 measures, PBO's fiscal outlook showed that the Government's budget would be in surplus in 2014-15 and would be roughly balanced over the next five years.

We have updated our economic and fiscal projections to incorporate Budget 2015 measures as well as revisions to the Government's forecast of direct program expenses (see Appendix A). There are some notable points of contrast between PBO's updated economic and fiscal outlook and the outlook presented in Budget 2015 that I would like to draw your attention to.

- The Budget 2015 oil price assumption is that WTI oil prices will rise sharply to US\$67 per barrel in 2016 and continue rising, ultimately reaching US\$78 per barrel in 2018 (Table 1). In contrast, PBO assumes that oil prices will rise only gradually to US\$64 per barrel in 2019, which is also in line with recent futures prices.

Table 1 WTI oil price assumptions (USD per barrel)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------|------|------|------|------|------|
| PBO | 52 | 59 | 62 | 63 | 64 |
| Budget 2015 | 54 | 67 | 75 | 78 | 78 |

- While near-term projections of real gross domestic product (GDP) growth are similar, the budget outlook over 2017-2019 is relatively optimistic, with real GDP growth 0.4 percentage points higher annually on average (Table 2).

Table 2 Real GDP growth (per cent)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|-------------|------|------|------|------|------|
| PBO | 2.1 | 2.3 | 1.8 | 1.8 | 1.8 |
| Budget 2015 | 2.0 | 2.2 | 2.3 | 2.2 | 2.0 |

- Reflecting differences in oil price assumptions and real GDP growth projections, the outlook for nominal GDP in Budget 2015 is \$20 billion higher annually, on average, over 2017-2019 compared to PBO's updated projection.
- Updating PBO's fiscal outlook for Budget 2015 measures and for the Government's new direct program expense forecast results in relatively small projected budget deficits over 2017-18 to 2019-20 (Table 3).

Table 3 Budgetary balance (\$ billions)

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|-------------|---------|---------|---------|---------|---------|---------|
| PBO | 1.8 | 1.1 | 0.0 | -2.6 | -2.7 | -2.5 |
| Budget 2015 | -2.0 | 1.4 | 1.7 | 2.6 | 2.6 | 4.8 |

Conclusion

On balance, our judgement is that the economic and fiscal outlook presented in Budget 2015 is relatively optimistic and that there is downside risk to the medium-term outlook over 2017-18 to 2019-20.

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.

Appendix A

Table A1 Updated PBO economic outlook, including Budget 2015 measures

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------------------------------|-------|-------|-------|-------|-------|
| Real GDP growth (%) | | | | | |
| Updated PBO outlook | 2.1 | 2.3 | 1.8 | 1.8 | 1.8 |
| GDP inflation (%) | | | | | |
| Updated PBO outlook | -0.8 | 2.5 | 2.1 | 2.0 | 2.1 |
| Nominal GDP growth (%) | | | | | |
| Updated PBO outlook | 1.3 | 4.8 | 4.0 | 3.9 | 3.9 |
| Nominal GDP level (billions of dollars) | | | | | |
| Updated PBO outlook | 2,001 | 2,097 | 2,180 | 2,265 | 2,354 |
| 3-month treasury bill rate (%) | | | | | |
| Updated PBO outlook | 0.7 | 0.8 | 1.8 | 2.6 | 3.0 |
| 10-year government bond rate (%) | | | | | |
| Updated PBO outlook | 1.8 | 2.6 | 3.4 | 4.0 | 4.4 |
| Exchange rate (US cents/C\$) | | | | | |
| Updated PBO outlook | 80.0 | 80.1 | 80.0 | 79.8 | 79.7 |
| Unemployment rate (%) | | | | | |
| Updated PBO outlook | 6.7 | 6.6 | 6.4 | 6.3 | 6.2 |
| Total CPI inflation (%) | | | | | |
| Updated PBO outlook | 1.1 | 2.3 | 2.0 | 2.0 | 2.0 |
| US GDP growth (%) | | | | | |
| Updated PBO outlook | 3.0 | 3.0 | 2.6 | 2.3 | 2.2 |
| WTI crude oil price (\$US/barrel) | | | | | |
| Updated PBO outlook | 52.1 | 58.7 | 61.7 | 63.3 | 64.4 |

Table A2 Updated PBO fiscal outlook, including Budget 2015 measures

| \$ billions | 2013- 2014 | 2014- 2015 | 2015- 2016 | 2016- 2017 | 2017- 2018 | 2018- 2019 | 2019- 2020 |
|-----------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Income taxes | | | | | | | |
| Personal income tax | 130.8 | 134.2 | 142.4 | 148.9 | 155.4 | 162.4 | 170.0 |
| Corporate income tax | 36.6 | 38.8 | 33.9 | 37.7 | 38.8 | 39.6 | 40.3 |
| Non-resident income tax | 6.4 | 6.1 | 6.2 | 6.7 | 6.9 | 7.2 | 7.5 |
| Total income tax | 173.8 | 179.0 | 182.4 | 193.3 | 201.0 | 209.2 | 217.8 |
| Excise taxes/duties | | | | | | | |
| Goods and Services Tax | 31.0 | 31.9 | 33.6 | 34.8 | 35.9 | 37.2 | 38.6 |
| Custom import duties | 4.2 | 4.5 | 4.8 | 4.6 | 4.8 | 5.0 | 5.2 |
| Other excise taxes/duties | 10.9 | 11.4 | 11.5 | 11.5 | 11.4 | 11.4 | 11.3 |
| Total excise taxes/duties | 46.1 | 47.8 | 49.9 | 50.8 | 52.1 | 53.6 | 55.1 |
| El premium revenues | 21.8 | 22.5 | 23.6 | 22.9 | 19.7 | 20.3 | 20.5 |
| Other revenues | 30.0 | 30.0 | 34.1 | 34.2 | 37.3 | 39.2 | 40.9 |
| Total budgetary revenues | 271.7 | 279.4 | 290.0 | 301.2 | 310.1 | 322.3 | 334.3 |
| Major transfers to persons | | | | | | | |
| Elderly benefits | 41.8 | 43.6 | 45.8 | 48.5 | 51.2 | 54.1 | 57.3 |
| Employment Insurance benefits | 17.3 | 17.6 | 18.3 | 19.2 | 19.8 | 20.2 | 20.3 |
| Children's benefits | 13.1 | 14.2 | 18.3 | 18.5 | 18.8 | 19.0 | 19.3 |
| Total | 72.2 | 75.4 | 82.3 | 86.2 | 89.8 | 93.4 | 97.0 |
| Major transfers to other levels of government | 60.5 | 62.7 | 65.5 | 68.4 | 70.5 | 72.7 | 75.5 |
| Direct program expenses | 115.9 | 112.4 | 115.8 | 120.8 | 123.5 | 127.2 | 130.1 |
| Public debt charges | 28.2 | 27.0 | 25.3 | 25.9 | 28.9 | 31.7 | 34.1 |
| Total expenses | 276.8 | 277.6 | 288.9 | 301.2 | 312.7 | 325.0 | 336.7 |
| Budgetary balance | -5.1 | 1.8 | 1.1 | 0.0 | -2.6 | -2.7 | -2.5 |
| Structural balance | -2.4 | 4.6 | 1.2 | 0.5 | 0.7 | -0.9 | -1.6 |
| Federal debt | 611.9 | 612.3 | 613.6 | 613.6 | 616.2 | 619.0 | 621.4 |