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PRE-BUDGET OUTLOOK



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
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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.

This report updates PBO's September 2020 Economic and Fiscal Outlook in advance of Budget 2021.

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Pre-Budget Outlook

This report updates PBO's September 2020 Economic and Fiscal Outlook in advance of Budget 2021.¹ Our updated outlook incorporates economic data up to and including 12 March 2021.

This pre-budget outlook includes fiscal measures announced by the Government in its November 2020 Fall Economic Statement, except for the \$70-to-\$100 billion earmarked in stimulus spending.

The following provides a condensed overview of PBO's updated outlook. Projection details are provided in Appendices A to J.

Economic outlook

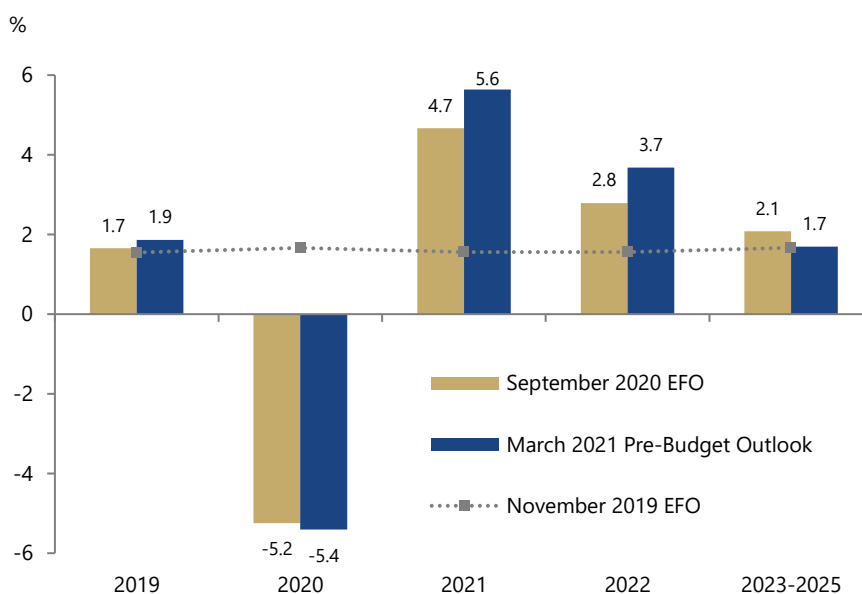
The outlook for the Canadian economy has improved significantly compared to our September 2020 report. This improvement reflects the earlier-than-expected arrival and administration of effective vaccines, higher commodity prices and a stronger U.S. recovery.

Despite a weaker-than-expected performance in the second half of 2020, we now project a stronger rebound in the Canadian economy, with the level of real GDP reaching its pre-crisis level later this year.² We have revised up annual growth in real GDP by almost a full percentage point in both 2021 and 2022 (Figure 1).

Crude oil prices have increased sharply since our September outlook. The improved global economic outlook and early arrival of vaccines has boosted oil demand. In addition, production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and partner countries have restrained oil supply. Non-energy commodity prices have also surged due to strong demand and the improved global outlook.

Based on February futures prices, we project West Texas Intermediate (WTI) and Western Canada Select (WCS) prices to average US\$59 and US\$47 per barrel, respectively over 2021 to 2025, which is US\$16 higher compared to our September outlook. This revised outlook effectively unwinds the negative oil price shock that hit the economy in 2020.³

Figure 1 Real GDP growth



Sources: Statistics Canada and Parliamentary Budget Officer.

Note: The March 2021 projection period covers 2021 to 2025.

Given the rebound in commodity prices and stronger economic recovery, we have revised up our outlook for nominal GDP—the broadest measure of the Government’s tax base—by \$95 billion (3.7 per cent) annually, on average, over 2021 to 2025.

Compared to our November 2019 outlook, the projected level of nominal GDP is effectively unchanged over 2022 to 2025.⁴

With the pickup in economic activity following the increased pace of vaccinations and eventual relaxation of public health measures, we project the labour market to recover sooner than anticipated in our September outlook. We project employment to reach its pre-pandemic level by the end of 2021 and the unemployment rate to decline steadily, falling below its pre-pandemic level by the end of 2022 (Table 1).

Based on our projection for the guardrail indicators the Government identified in its Fall Economic Statement, almost all of the ground lost in the labour market due to the pandemic will be made up by the end of 2021-22, the first year in which the earmarked stimulus would be implemented.⁵ This would again suggest that the size and timing of the \$70-to-\$100 billion for stimulus may be mis-calibrated.⁶

Table 1 Summary of the economic outlook

%	2019	2020	Projection			
			2021	2022	2023	2024-2025
Real GDP growth	1.9	-5.4	5.6	3.7	1.8	1.6
Employment (thousands)	19,058	18,502	19,070	19,471	19,668	19,966
Unemployment rate	5.7	9.5	7.5	6.0	5.5	5.5
WTI oil price (\$US)	57	39	57	58	59	61
Consumer price inflation	2.0	0.7	2.1	1.7	2.0	2.1
Bank of Canada policy rate	1.75	0.25	0.25	0.25	0.75	1.75

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Employment and the Bank of Canada policy rate are end-of-period values.

In the near term, we expect year-over-year increases in the Consumer Price Index (CPI) to temporarily overshoot the Bank of Canada's 2 per cent inflation target, due to base-year effects and higher gasoline prices. As excess supply dissipates and inflation expectations remain anchored, core inflation gradually reaches 2.0 per cent.

Based on our outlook for inflation and potential GDP, we assume that the Bank of Canada will maintain its policy interest rate at 0.25 per cent through 2022 and continue its program of quantitative easing. Monetary policy normalization is then assumed to occur gradually, with the Bank of Canada increasing its policy rate beginning in early-2023.

Fiscal outlook

Our updated outlook includes measures announced in the Fall Economic Statement except for the \$70-to-\$100 billion earmarked in stimulus spending.⁷ We have not provisioned for potential measures in Budget 2021.

PBO projects budgetary deficits of \$363.4 billion and \$121.1 billion in 2020-21 and 2021-22, respectively (Table 2).⁸ Relative to the size of the economy, the deficit in 2020-21 amounts to 16.5 per cent of GDP—the largest budgetary deficit since the beginning of the series in 1966-67.

Based on Finance Canada and PBO estimates, we calculate that total federal COVID-19 response measures will amount to \$331 billion.⁹

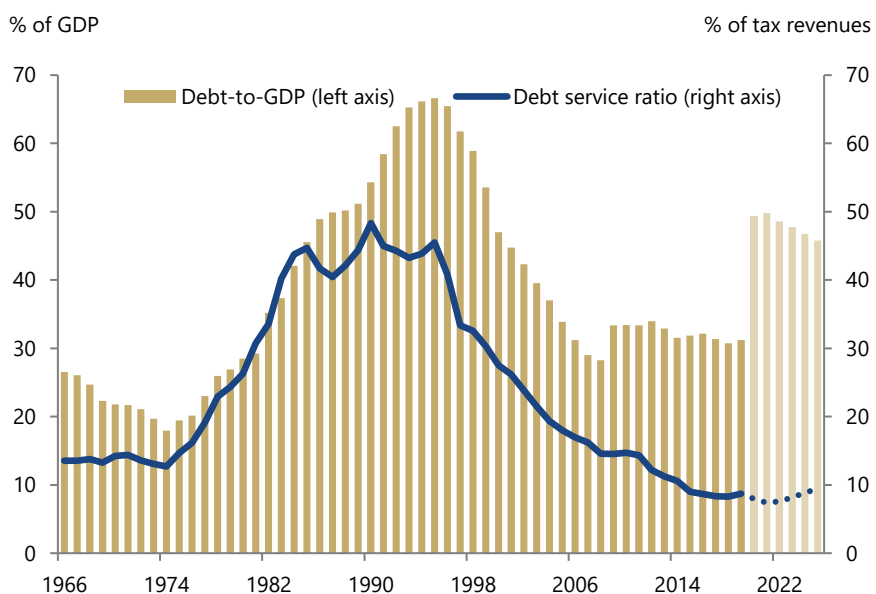
Table 2 Summary of the fiscal outlook

\$ billions	Projection						
	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Revenues	334.1	288.3	345.4	374.4	393.7	411.1	427.5
Program expenses	338.5	615.6	430.6	375.7	381.0	394.6	408.8
Public debt charges	24.4	21.0	21.7	23.7	26.4	29.8	33.0
Actuarial losses	10.6	15.1	14.2	12.9	12.8	7.4	5.0
Expenses*	373.5	651.7	466.5	412.2	420.2	431.7	446.7
Budgetary balance	-39.4	-363.4	-121.1	-37.8	-26.4	-20.6	-19.2
Federal debt	721.4	1,085.9	1,207.0	1,244.8	1,271.3	1,291.9	1,311.1
% of GDP							
Budgetary balance	-1.7	-16.5	-5.0	-1.5	-1.0	-0.7	-0.7
Federal debt	31.2	49.3	49.8	48.6	47.8	46.8	45.8

Sources: Finance Canada and Parliamentary Budget Officer.

Note: * Expenses shown here include actuarial losses.
Totals may not add due to rounding.

We project the Government's debt-to-GDP ratio to reach 49.8 per cent of GDP in 2021-22, but then gradually decline over the medium term. The last time the federal debt-to-GDP ratio was above 50 per cent occurred in 1999-2000 (Figure 2). This level, however, remains well below the peak (since the beginning of the series in 1966-67) of 66.6 per cent of GDP in 1995-96.

Figure 2 Federal debt and debt service ratios

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

Note: Data are in fiscal years (2020 corresponds to fiscal year 2020-21).
The projection period covers 2020-21 to 2025-26.

Moreover, because of low interest rates, the cost of servicing the federal debt remains at historically low levels. Despite the record increase in federal debt, we project that the Government's debt service ratio (that is, public debt charges relative to tax revenues) will reach its lowest recorded level in 2021-22 and gradually rise thereafter.

With nominal GDP effectively returning to its pre-crisis path over the medium term, it is informative to track how the fiscal outlook has evolved since our November 2019 projection.

The budgetary balance in 2020-21 and 2021-22 is impacted by extraordinary, but temporary factors—a record decline in economic activity and large-scale income support measures (Table 3). Our projected rebound in the Government's tax base effectively returns budgetary revenues to their pre-pandemic path over the medium term. Fiscal measures not related to the pandemic contribute \$63 billion to (cumulative) budgetary deficits over 2020-21 to 2024-25.

Table 3 Evolution of the budgetary balance since November 2019

\$ billions	Projection					
	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Budgetary balance – November 2019	-21.1	-23.3	-19.0	-14.6	-12.5	-11.1
COVID-19 measures	-7.2	-271.3	-48.5	-3.2	-0.3	-0.2
Additional fiscal measures	-2.9	-12.4	-23.6	-8.9	-9.7	-8.8
Economic and other fiscal developments	-8.2	-56.4	-30.1	-11.2	-4.0	-0.6
Budgetary balance – March 2021	-39.4	-363.4	-121.1	-37.8	-26.4	-20.6

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Additional fiscal measures include measures from the Government's December 2019 Economic and Fiscal Update, July 2020 Economic and Fiscal Snapshot and November 2020 Fall Economic Statement.
Totals may not add due to rounding.

Key assumptions and risks

Our updated outlook provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings. PBO's outlook is not a prediction of future economic and budgetary outcomes. Key assumptions and risks are identified below.

Uncertainty surrounding the outlook remains high. That said, setting aside the Government's earmarked stimulus and potential Budget 2021 measures, we judge that risks to our economic and fiscal projection are roughly balanced.

COVID-19 pandemic

PBO's economic and fiscal outlook is conditional on the future course of the pandemic, which itself is inherently uncertain. We have assumed there will not be a severe third wave of infections from the coronavirus and its variants¹⁰ and that widespread immunity¹¹ will be effectively achieved by the end of the year, as the proportion of the population that is vaccinated increases steadily in the coming months.

Although vaccination is occurring sooner than we had anticipated, the pandemic continues to pose a downside risk to the outlook. For example, a strong resurgence of cases could require more stringent containment measures.

Under a scenario with more stringent containment measures and lockdowns, the economy would be weaker than projected in our baseline and, combined with additional policy measures, would result in larger budgetary deficits and higher debt levels.

U.S. economy and commodity prices

Our revised U.S. outlook reflects the *American Rescue Plan Act of 2021* (ARPA) that was signed into law on March 11, providing US\$1.9 trillion to support the U.S. economy.¹² The recovery in the U.S. economy could be stronger than anticipated, particularly if additional fiscal measures are implemented. In addition, the impact of the ARPA on the Canadian economy could be larger than reflected in our projection.

Our commodity price projection was based on February futures. However, current spot prices for most commodities exceed our near-term outlook. Stronger-than-expected global demand and/or a further tightening of supply could result in a higher profile for commodity prices, both energy and non-energy, than projected in our baseline.

Stimulus spending and Budget 2021 measures

The Government's \$70-to-\$100 billion earmarked for stimulus spending and potential Budget 2021 measures pose an upside risk to our economic outlook.

Given the lack of detail surrounding the magnitude, timing and composition of the \$70-to-\$100 billion in stimulus that was earmarked in the Fall Economic Statement, we did not incorporate this spending in our updated outlook.

While temporary stimulus of this magnitude would likely provide a significant boost to the Canadian economy, it would result in materially larger budgetary deficits and higher federal debt over the medium term than projected in our baseline.

PBO's outlook does not provision for potential measures in Budget 2021. Should these measures translate into new permanent programs that are deficit financed, there is a risk that the sustainable debt-to-GDP trajectory we project over the medium- and long-term would be reversed.¹³

Appendix A: Detailed economic outlook

% unless otherwise indicated	2019	2020	Projection				
			2021	2022	2023	2024	2025
Real GDP growth							
March 2021	1.9	-5.4	5.6	3.7	1.8	1.7	1.6
September 2020	1.7	-5.2	4.7	2.8	2.4	2.0	1.9
Potential GDP growth							
March 2021	1.7	1.3	1.0	1.4	1.7	1.8	1.7
September 2020	1.8	1.4	0.8	1.0	1.3	1.7	1.8
GDP inflation							
March 2021	1.7	0.8	4.1	2.0	2.1	2.1	2.1
September 2020	1.9	0.5	1.8	1.6	1.9	2.0	2.0
Nominal GDP growth							
March 2021	3.6	-4.6	9.9	5.7	3.9	3.8	3.7
September 2020	3.6	-4.8	6.5	4.5	4.3	4.0	3.9
Nominal GDP (\$ billions)							
March 2021	2,311	2,204	2,423	2,562	2,661	2,763	2,865
September 2020*	2,311	2,203	2,351	2,455	2,562	2,663	2,769
3-month treasury rate							
March 2021	1.7	0.4	0.2	0.2	0.5	1.0	1.5
September 2020	1.7	0.4	0.2	0.2	0.2	0.6	1.1
10-year government bond rate							
March 2021	1.6	0.7	1.3	1.4	1.6	2.0	2.4
September 2020	1.6	0.7	0.7	0.9	1.0	1.3	1.8
Exchange rate (US\$/C\$)							
March 2021	75.4	74.6	78.6	80.6	81.7	82.2	82.3
September 2020	75.4	74.5	76.2	76.1	75.9	75.8	75.8
Unemployment rate							
March 2021	5.7	9.5	7.5	6.0	5.5	5.5	5.4
September 2020	5.7	9.7	8.1	6.5	5.7	5.5	5.4
CPI inflation							
March 2021	2.0	0.7	2.1	1.7	2.0	2.1	2.2
September 2020	2.0	0.6	1.1	1.6	1.9	2.0	2.0
U.S. real GDP growth							
March 2021	2.2	-3.5	6.1	4.3	2.4	1.9	1.8
September 2020	2.2	-5.0	3.9	3.4	2.8	2.3	1.9
WTI oil price (\$US)							
March 2021	57	39	57	58	59	60	61
September 2020	57	39	41	42	43	44	44

Sources: Statistics Canada and Parliamentary Budget Officer.

Note: Nominal GDP levels from the September 2020 projection have been adjusted for historical revisions.

Appendix B: Composition of nominal GDP

% of GDP	2019	2020	Projection				
			2021	2022	2023	2024	2025
Expenditure share							
Final household consumption	56.2	55.9	53.9	54.4	55.1	56.0	56.4
Nonprofit serving households expenditures	1.6	1.7	1.7	1.7	1.6	1.6	1.6
Government consumption expenditure	20.8	22.5	22.2	20.8	20.5	19.9	19.6
Government investment	3.9	4.3	4.3	3.9	3.9	3.8	3.8
Residential investment	7.3	8.4	9.0	8.5	8.2	7.9	7.8
Business investment	11.0	10.2	9.8	10.4	11.1	10.9	10.8
Inventory investment	0.7	-0.9	-0.5	-0.1	-0.4	0.1	0.2
Exports of goods and services	31.9	29.0	31.2	31.7	31.5	31.5	31.5
Imports of goods and services	33.5	31.0	31.4	31.3	31.4	31.7	31.8
Income share							
Compensation of employees	50.9	52.6	50.8	50.4	50.6	50.6	50.8
Net mixed income	8.9	9.6	9.1	8.9	8.8	8.8	8.8
Corporate profits before tax	10.0	9.8	12.5	11.1	10.5	10.1	9.5
Investment income	2.6	2.6	2.5	2.5	2.5	2.6	2.6
Consumption of fixed capital	16.5	17.7	16.3	15.8	15.8	15.8	15.9
Taxes less subsidies on production	4.4	1.7	1.9	4.3	4.3	4.3	4.3
Taxes less subsidies on products and imports	6.7	6.2	6.9	7.1	7.4	7.8	8.0

Sources: Statistics Canada and Parliamentary Budget Officer.

Appendix C: COVID-19 response measures

\$ billions	Projection						Total
	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	
Canada Emergency Wage Subsidy*	-	89.5	15.1	-	-	-	104.6
Canada Emergency Response Benefit*^	6.5	67.6	-	-	-	-	74.1
Recovery benefits**	-	18.0	11.0	-	-	-	29.0
Canada Emergency Business Account*	-	20.3	-	-	-	-	20.3
Safe Restart Agreement	-	18.8	-	-	-	-	18.8
Employment Insurance modifications*	-	4.9	8.6	2.7	-	-	16.2
Enhanced GST credit*	-	5.7	-	-	-	-	5.7
Canada Emergency Rent Subsidy and Lockdown Support*	-	4.2	1.1	-	-	-	5.4
Essential workers wage top-up	-	3.0	-	-	-	-	3.0
Canada Emergency Student Benefit*	-	3.0	-	-	-	-	3.0
Elderly benefits one-time payment*	-	2.5	-	-	-	-	2.5
Enhanced Canada Child Benefit*	-	1.9	-	-	-	-	1.9
Other	0.7	32.0	12.6	0.5	0.3	0.2	46.3
Total	7.2	271.3	48.5	3.2	0.3	0.2	330.6

Sources: Finance Canada and Parliamentary Budget Officer.

Note: * Indicates a PBO cost estimate, available at: <https://covid19.pbo-dpb.ca/#/en>.

** Recovery benefits include Canada Recovery Benefits, Canada Recovery Sickness Benefits and Canada Recovery Caregiving Benefits.

^ Includes the Employment Insurance portion of Canada Emergency Response Benefits.

Totals may not add due to rounding.

Appendix D: Detailed fiscal outlook

\$ billions	Projection						
	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Income taxes							
Personal income tax	167.6	168.0	179.6	188.3	195.8	203.4	211.9
Corporate income tax	50.1	43.5	49.2	52.0	54.0	55.9	57.7
Non-resident income tax	9.5	8.5	9.5	10.1	10.5	11.0	11.5
Total income tax	227.1	220.0	238.3	250.5	260.3	270.2	281.1
Excise taxes/duties							
Goods and Services Tax	37.4	29.4	39.2	42.9	45.1	47.8	49.8
Custom import duties	4.9	4.1	5.3	5.8	6.1	6.4	6.6
Other excise taxes/duties	11.6	10.7	11.3	11.9	12.1	12.3	12.4
Total excise taxes/duties	53.9	44.2	55.8	60.6	63.3	66.4	68.8
Fuel charge proceeds	2.7	5.0	6.8	8.5	11.0	13.3	15.4
EI premium revenues	22.2	21.8	22.6	24.2	26.3	28.4	29.7
Other revenues	28.3	-2.7	21.9	30.6	32.9	32.8	32.5
Total budgetary revenues	334.1	288.3	345.4	374.4	393.7	411.1	427.5
Major transfers to persons							
Elderly benefits	56.2	59.1	62.4	65.8	69.5	73.5	77.6
Employment Insurance	21.8	68.8	41.7	27.2	21.1	20.7	21.0
Emergency and recovery benefits	4.7	54.7	11.0	0.0	0.0	0.0	0.0
Children's benefits	24.3	27.5	27.9	26.8	27.4	27.8	28.4
Total	107.1	210.1	143.1	119.9	118.1	122.0	127.0
Major transfers to other levels of government							
Canada Health Transfer	40.9	41.9	43.1	44.5	46.0	49.1	51.3
Canada Social Transfer	14.6	15.0	15.5	15.9	16.4	16.9	17.4
Equalization	19.8	20.6	20.9	21.5	22.2	23.7	24.8
Territorial Formula Financing	3.9	4.2	4.4	4.6	4.8	5.0	5.2
Other transfers to government	-0.1	12.3	1.8	-3.4	-3.6	-3.9	-4.1
Total	79.2	94.0	85.7	83.1	85.9	90.7	94.5
Direct program expenses							
Other transfer payments	57.0	204.3	97.8	70.2	74.2	77.7	80.1
Operating and capital expenses	95.2	107.3	104.1	102.6	102.9	104.2	107.2
Total direct program expenses	152.2	311.6	201.9	172.8	177.1	181.9	187.3
Total program expenses	338.5	615.6	430.6	375.7	381.0	394.6	408.8
Public debt charges	24.4	21.0	21.7	23.7	26.4	29.8	33.0
Total expenses	362.9	636.6	452.3	399.4	407.4	424.3	441.7
Budgetary balance before net actuarial losses	-28.8	-348.3	-106.9	-25.0	-13.7	-13.3	-14.2
Net actuarial losses	-10.6	-15.1	-14.2	-12.9	-12.8	-7.4	-5.0
Budgetary balance	-39.4	-363.4	-121.1	-37.8	-26.4	-20.6	-19.2
Federal debt	721.4	1,085.9	1,207.0	1,244.8	1,271.3	1,291.9	1,311.1

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

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

Per cent of GDP	Projection						
	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Income taxes							
Personal income tax	7.3	7.6	7.4	7.4	7.4	7.4	7.4
Corporate income tax	2.2	2.0	2.0	2.0	2.0	2.0	2.0
Non-resident income tax	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Total income tax	9.8	10.0	9.8	9.8	9.8	9.8	9.8
Excise taxes/duties							
Goods and Services Tax	1.6	1.3	1.6	1.7	1.7	1.7	1.7
Custom import duties	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other excise taxes/duties	0.5	0.5	0.5	0.5	0.5	0.4	0.4
Total excise taxes/duties	2.3	2.0	2.3	2.4	2.4	2.4	2.4
Fuel charge proceeds	0.1	0.2	0.3	0.3	0.4	0.5	0.5
El premium revenues	1.0	1.0	0.9	0.9	1.0	1.0	1.0
Other revenues	1.2	-0.1	0.9	1.2	1.2	1.2	1.1
Total budgetary revenues	14.5	13.1	14.3	14.6	14.8	14.9	14.9
Major transfers to persons							
Elderly benefits	2.4	2.7	2.6	2.6	2.6	2.7	2.7
Employment Insurance	0.9	3.1	1.7	1.1	0.8	0.7	0.7
Emergency and recovery benefits	0.2	2.5	0.5	0.0	0.0	0.0	0.0
Children's benefits	1.1	1.2	1.2	1.0	1.0	1.0	1.0
Total	4.6	9.5	5.9	4.7	4.4	4.4	4.4
Major transfers to other levels of government							
Canada Health Transfer	1.8	1.9	1.8	1.7	1.7	1.8	1.8
Canada Social Transfer	0.6	0.7	0.6	0.6	0.6	0.6	0.6
Equalization	0.9	0.9	0.9	0.8	0.8	0.9	0.9
Territorial Formula Financing	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other transfers to government	0.0	0.6	0.1	-0.1	-0.1	-0.1	-0.1
Total	3.4	4.3	3.5	3.2	3.2	3.3	3.3
Direct program expenses							
Other transfer payments	2.5	9.3	4.0	2.7	2.8	2.8	2.8
Operating and capital expenses	4.1	4.9	4.3	4.0	3.9	3.8	3.7
Total direct program expenses	6.6	14.1	8.3	6.7	6.7	6.6	6.5
Total program expenses	14.6	27.9	17.8	14.7	14.3	14.3	14.3
Public debt charges	1.1	1.0	0.9	0.9	1.0	1.1	1.2
Total expenses	15.7	28.9	18.7	15.6	15.3	15.4	15.4
Budgetary balance before net actuarial losses	-1.2	-15.8	-4.4	-1.0	-0.5	-0.5	-0.5
Net actuarial losses	-0.5	-0.7	-0.6	-0.5	-0.5	-0.3	-0.2
Budgetary balance	-1.7	-16.5	-5.0	-1.5	-1.0	-0.7	-0.7
Federal debt	31.2	49.3	49.8	48.6	47.8	46.8	45.8

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

Appendix F: Employment Insurance Operating Account

\$ billions	Projection							2028
	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	
Revenues								
Premium revenues	22.2	21.8	22.6	24.2	26.3	28.4	29.7	
Contributions for federal employees	0.4	0.4	0.4	0.4	0.4	0.4	0.4	
Total revenues	22.6	22.2	23.0	24.6	26.7	28.8	30.1	
Expenses								
Benefits	20.0	37.9	41.7	27.2	21.1	20.7	21.0	
Administration expenses	1.9	2.1	2.0	2.0	2.1	2.2	2.3	
Total expenses	21.9	39.9	43.7	29.3	23.3	22.9	23.3	
	2019	2020	2021	2022	2023	2024	(...)	2028
Annual balance	1.9	-12.3	-19.4	-10.0	1.5	5.4		8.3
Cumulative balance	5.2	-7.1	-26.5	-36.5	-35.1	-29.7		0.4
Premium rate (per \$100 of insurable earnings)	1.62	1.58	1.58	1.58	1.63	1.68		1.70

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

Appendix G: Direct program expenses

\$ billions	Projection						
	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Other transfer payments							
Fuel charge proceeds returned	2.6	5.5	7.2	9.1	11.5	13.8	15.9
Canada Emergency Wage Subsidy	0.0	89.5	15.1	0.0	0.0	0.0	0.0
Other payments	54.4	109.2	75.5	61.1	62.6	63.9	64.1
Total other transfer payments	57.0	204.3	97.8	70.2	74.2	77.7	80.1
Operating expenses							
Salaries, wages and miscellaneous	49.5	46.1	48.2	48.1	48.4	50.1	52.0
Current service costs: future benefit plans	3.9	7.7	8.5	8.1	7.2	6.1	5.6
Consolidated Crown corporations	7.4	7.7	8.1	8.2	8.4	8.7	9.0
Other operating expenses	28.6	29.6	30.1	30.8	31.5	32.6	33.8
Policy actions	0.0	10.6	2.7	0.8	1.0	0.8	0.8
Total operating expenses	89.4	101.8	97.5	96.0	96.6	98.4	101.2
Capital amortization expenses	5.8	5.6	6.5	6.6	6.3	5.8	6.0
Operating + capital expenses	95.2	107.3	104.1	102.6	102.9	104.2	107.2
Total direct program expenses	152.2	311.6	201.9	172.8	177.1	181.9	187.3

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

Appendix H: Federal debt outlook

\$ billions	Projection						
	2019- 2020	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Accounts payable & accrued liabilities	163.8	225.4	205.0	192.0	194.6	204.7	215.7
<i>Market debt*</i>	765.2	1,179.2	1,299.2	1,334.4	1,358.4	1,370.9	1,358.2
<i>Pensions and other future benefits</i>	301.0	351.6	271.5	269.6	245.3	223.7	207.7
<i>Other liabilities</i>	18.6	25.9	28.5	29.3	29.8	30.1	29.8
Total interest-bearing debt	1,084.8	1,556.8	1,599.2	1,633.3	1,633.6	1,624.7	1,595.8
Total liabilities	1,248.6	1,782.2	1,804.2	1,825.3	1,828.1	1,829.4	1,811.5
Financial assets	435.7	599.4	497.0	476.6	449.3	426.1	385.1
Non-financial assets	91.5	96.9	100.3	103.8	107.5	111.3	115.3
Total assets	527.2	696.3	597.2	580.4	556.8	537.4	500.4
Federal debt (liabilities less assets)	721.4	1,085.9	1,207.0	1,244.8	1,271.3	1,291.9	1,311.1
Federal debt (% of GDP)	31.2	49.3	49.8	48.6	47.8	46.8	45.8
Market debt: agent Crown corporations*	317.4	354.1	357.7	353.3	347.1	349.1	336.6
Borrowing requirements, as per the <i>Borrowing Authority Act</i>	1,082.6	1,533.3	1,656.9	1,687.8	1,705.5	1,720.1	1,694.9

Sources: Finance Canada and Parliamentary Budget Officer.

Note: * Borrowing requirements under the *Borrowing Authority Act* pertain to the sum of Government of Canada and agent Crown corporation market debt. Totals may not add due to rounding.

Appendix I: Comparison to September 2020 outlook

\$ billions	Projection					
	2020- 2021	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026
Income taxes						
Personal income tax	3.0	2.7	8.1	9.5	9.1	8.9
Corporate income tax	-0.6	8.2	7.5	5.0	2.6	-0.5
Non-resident income tax	0.0	1.2	1.5	1.6	1.6	1.8
Total income tax	2.4	12.0	17.2	16.1	13.3	10.2
Excise taxes/duties						
Goods and Services Tax	-1.8	-0.4	1.7	2.4	3.5	3.9
Custom import duties	0.7	0.5	0.9	1.0	1.0	1.0
Other excise taxes/duties	-0.3	-0.9	-0.8	-0.8	-0.9	-0.9
Total excise taxes/duties	-1.4	-0.7	1.8	2.5	3.6	4.0
Fuel charge proceeds	0.6	0.7	0.9	3.3	5.7	7.9
El premium revenues	-0.6	-0.3	0.4	1.6	2.4	2.8
Other revenues	-1.1	-6.5	1.5	1.8	1.4	-0.1
Total budgetary revenues	-0.1	5.2	21.8	25.4	26.4	24.8
Major transfers to persons						
Elderly benefits	-0.8	-1.1	-1.1	-1.1	-1.2	-1.1
Employment Insurance	33.6	8.2	1.7	-3.5	-4.7	-5.1
Emergency and recovery benefits	-27.1	6.4	0.0	0.0	0.0	0.0
Children's benefits	0.8	2.0	0.2	0.2	0.2	0.2
Total	6.5	15.4	0.8	-4.4	-5.7	-6.0
Major transfers to other levels of government						
Canada Health Transfer	0.0	0.0	0.1	0.3	0.9	1.1
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.2	0.4	0.8	1.1	1.2
Territorial Formula Financing	0.0	0.2	0.4	0.6	0.7	0.9
Other transfers to government	-2.4	4.0	-0.7	-0.8	-0.8	-0.8
Total	-2.4	4.4	0.1	0.8	2.0	2.4
Direct program expenses						
Other transfer payments	34.5	31.3	1.9	4.4	6.8	7.9
Operating and capital expenses	-2.9	4.0	1.7	0.6	0.0	0.2
Total direct program expenses	31.6	35.3	3.6	5.0	6.8	8.1
Total program expenses	35.7	55.1	4.5	1.4	3.1	4.4
Public debt charges	-1.0	0.7	3.3	5.2	6.6	7.0
Total expenses	34.7	55.8	7.7	6.6	9.6	11.4
Budgetary balance before net actuarial losses	-34.8	-50.6	14.1	18.8	16.8	13.3
Net actuarial losses	0.1	-3.3	-3.4	-2.8	-2.6	-2.3
Budgetary balance	-34.9	-47.3	17.5	21.6	19.4	15.6
Federal debt	36.1	83.5	66.0	44.4	25.0	9.4

Source: Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

Appendix J: Comparison to Fall Economic Statement 2020

\$ billions	Projection					
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026
Income taxes						
Personal income tax	5.9	7.5	9.0	8.3	7.3	6.2
Corporate income tax	4.3	4.9	3.6	1.3	-1.4	-3.1
Non-resident income tax	-1.4	-0.5	0.0	0.2	0.5	0.5
Total income tax	8.9	11.8	12.7	9.8	6.3	3.6
Excise taxes/duties						
Goods and Services Tax	0.0	0.3	1.0	1.1	2.0	2.1
Custom import duties	0.4	0.9	1.1	1.2	1.1	1.0
Other excise taxes/duties	-0.1	-0.6	-0.2	-0.2	-0.1	-0.1
Total excise taxes/duties	0.4	0.6	1.9	2.1	3.0	3.1
Fuel charge proceeds	0.7	0.8	0.9	3.4	5.7	7.8
EI premium revenues	0.3	-0.4	-0.1	-0.1	-0.1	-0.4
Other revenues	2.6	-3.4	1.3	1.2	-2.3	-4.0
Total budgetary revenues	12.9	9.5	16.6	16.4	12.6	10.2
Major transfers to persons						
Elderly benefits	-0.4	0.0	0.0	0.1	0.2	0.2
Employment Insurance	1.6	9.2	2.5	-2.3	-3.2	-3.4
Emergency and recovery benefits	-0.1	0.7	0.0	0.0	0.0	0.0
Children's benefits	-0.4	0.5	0.8	0.9	0.8	0.9
Total	0.8	10.5	3.5	-1.3	-2.2	-2.3
Major transfers to other levels of government						
Canada Health Transfer	0.0	0.0	0.1	-0.9	0.0	0.2
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.0	0.1	-0.4	0.1	0.2
Territorial Formula Financing	0.0	0.0	0.0	0.0	0.1	0.2
Other transfers to government	-5.8	3.6	-1.0	-1.0	-0.9	-0.9
Total	-5.7	3.6	-0.8	-2.1	-0.8	-0.4
Direct program expenses						
Other transfer payments	5.6	1.4	3.5	5.9	8.9	10.2
Operating and capital expenses	-6.4	-6.0	-4.3	-5.8	-4.2	-2.7
Total direct program expenses	-0.9	-4.6	-0.8	0.1	4.7	7.5
Total program expenses	-5.8	9.4	1.8	-3.4	1.7	4.8
Public debt charges	0.8	1.4	1.3	0.7	-0.7	-1.3
Total expenses	-5.0	10.8	3.0	-2.7	0.9	3.3
Budgetary balance before net actuarial losses	17.9	-1.3	13.6	19.1	11.6	6.9
Net actuarial losses	0.3	1.4	-0.8	-2.3	-1.4	-1.1
Budgetary balance	18.2	0.1	12.9	16.9	10.3	5.7
Federal debt	-21.5	-21.5	-34.5	-51.3	-61.5	-67.2

Sources: Finance Canada and Parliamentary Budget Officer.

Note: Totals may not add due to rounding.

Notes

1. The September 2020 Economic and Fiscal Outlook is available at: <https://pbo-dpb.gc.ca/en/blog/news/RP-2021-027-S--economic-fiscal-outlook-september-2020--perspectives-economiques-financieres-septembre-2020>.
2. However, we continue to expect that the pandemic will have a permanent impact on the Canadian economy. Compared to our pre-crisis November 2019 outlook, real GDP is projected to be 0.9 per cent lower in 2024.
3. Our updated outlook for oil prices is somewhat higher than projected in our November 2019 report. WTI and WCS prices are, respectively, US\$1 and US\$7 per barrel higher, on average, over 2021 to 2025.
4. Relative to our November 2019 outlook, the level of nominal GDP projected over 2022 to 2025 is only \$2.3 billion (0.1 per cent) higher per year, on average (adjusted for historical data).
5. Recall that in the Fall Economic Statement, the employment rate, total hours worked and the level of unemployment were identified as data triggers to mark “when the job of building back from the COVID-19 recession is accomplished” and the stimulus spending will be brought to an end. These indicators were benchmarked to their February 2020 pre-pandemic levels.
6. For additional detail, see PBO’s December 2020 Issues for Parliamentarians report, available at: <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-037-S--fall-economic-statement-2020-issues-parliamentarians--enonce-economique-automne-2020-enjeux-parlementaires>.
7. We have also included enhancements to recovery benefits that were announced on February 19. PBO cost estimates for the enhancements to Canada Recovery Benefits and Employment Insurance are available at: <https://www.pbo-dpb.gc.ca/en/legislative-costing-notes--notes-evaluation-cout-mesure-legislative>. Other fiscal actions taken since the Fall Economic Statement are not included in our pre-budget outlook.
8. In its November Fall Economic Statement, the Government projected a budgetary deficit of \$381.6 billion in 2020-21, which is \$18.2 billion larger than our pre-budget estimate. We project higher income tax revenues and lower operating expenses, even after accounting for the enhancements to recovery benefits announced in February.
9. See Appendix C for details.
10. This assumption is informed by the February 19 Public Health Agency of Canada presentation, Update on COVID-19 in Canada: Epidemiology and Modelling. Available at: <https://www.canada.ca/content/dam/phac-aspc/documents/services/diseases-maladies/coronavirus-disease-covid-19/epidemiological-economic-research-data/update-covid-19-canada-epidemiology-modelling-20210219-en.pdf>. Our outlook is broadly consistent with enhanced public health measures and individual precautions in the

coming months that limit the spread of coronavirus variants and avert a spike in reported cases.

11. Herd immunity from a disease occurs when a sufficient proportion of the population has already had the disease or has been vaccinated. According to the Public Health Agency of Canada, “[t]he proportion of the population required to be immune to reach herd immunity depends on a number of factors, the most important one being the transmissibility of the infectious agent either from a symptomatically infected person or from an asymptotically colonized person.” For additional detail, see: <https://www.canada.ca/en/public-health/services/publications/healthy-living/canadian-immunization-guide-part-1-key-immunization-information/page-14-basic-immunology-vaccinology.html>.
12. Our revised U.S. outlook also reflects the faster-than-expected administration of vaccines.
13. PBO released an update to its February 2020 Fiscal Sustainability Report just prior to the Government’s Fall Economic Statement. PBO’s assessment indicated that fiscal policy at the federal level was sustainable over the long term. We estimated that the federal government could permanently increase spending or reduce taxes by 0.8 per cent of GDP (\$19 billion in current dollars, growing in line with GDP thereafter) while stabilizing the net debt ratio at its pre-pandemic level. See: <https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-033-S--fiscal-sustainability-report-2020-update--rapport-viabilite-financiere-2020-mise-jour>.