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Economic and Fiscal Outlook

March 2023



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 provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings.

Lead Analysts:

Nora Nahornick, Senior Analyst

Caroline Nicol, Senior Analyst

Jason Stanton, Advisor-Analyst

Contributors:

Nasreddine Ammar, Advisor-Analyst

Lisa Barkova, Analyst

Robert Behrend, Advisor-Analyst

Régine Cléophat, Analyst

Mark Creighton, Analyst

Matt Dong, Analyst

Rolande Kpekou Tossou, Analyst

Marianne Laurin, Analyst

Katarina Michalyszyn, Analyst

Kaitlyn Vanderwees, Analyst

This report was prepared under the direction of:

Kristina Grinshpoon, Acting Director

Chris Matier, Director General

Christopher E. Penney, Acting Director

Marie-Eve Hamel Laberge, Martine Perreault and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact pbo-dpb@parl.gc.ca.

Yves Giroux

Parliamentary Budget Officer

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Executive Summary

This report provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings. Our outlook incorporates economic data up to and including February 21. It also includes new measures announced by the Government in its 2022 Fall Economic Statement and the health funding plan announced on February 7.

The following provides a condensed overview of PBO's Economic and Fiscal Outlook (EFO). Projection details are provided in Appendices A to I.

Economic outlook

Following a stronger-than-expected performance in the second half of 2022, we project the Canadian economy to stagnate through 2023, with quarterly real GDP growth averaging 0.1 per cent.¹

As the tightening of monetary policy takes hold, we expect a further decline in residential investment and weakness in consumer spending in the first half of this year. Following large inventory builds in the past year, we expect firms to reduce their inventory investment over the course of 2023 as growth in sales slows.

We project real GDP growth in Canada to pick up in 2024 as residential investment and consumer spending recover and the drag from inventory investment diminishes (Table 1). Over 2025 to 2027, we project real GDP growth to average 2.1 per cent annually, which is slightly faster than our estimated growth in potential output (1.9 per cent) over the same period.

Table 1 Summary of the economic outlook

% unless otherwise indicated	Projection				
	2021	2022	2023	2024	2025-2027
Real GDP growth	5.0	3.6	1.0	1.6	2.1
Employment (thousands)	19,374	19,827	19,945	20,136	20,781
Unemployment rate	7.5	5.3	5.5	5.9	5.6
WTI oil price (\$US)	68	95	78	73	74
CPI inflation	3.4	6.8	3.7	2.3	2.0
Bank of Canada policy rate	0.25	4.25	4.50	2.50	2.50

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

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

Labour market performance in the fourth quarter of 2022 and in January was much stronger than we anticipated at the time of our October EFO. The unemployment rate has remained close to its record low as both employment and labour force participation rates have increased.

As the economy stagnates, we project the unemployment rate to rise steadily to reach 5.8 per cent by the end of this year. We project the unemployment rate to peak at 5.9 per cent in mid-2024 before gradually declining to 5.5 per cent by the end of our projection horizon.²

Continued easing of supply constraints and relatively stable commodity prices³, combined with weak demand, are expected to contribute to sustained reductions in consumer price inflation (as measured by year-over-year changes in the Consumer Price Index (CPI)) through 2024. On a quarterly basis, we project CPI inflation to fall below the 3 per cent upper bound of the inflation control range in the fourth quarter of this year.

We expect the Bank of Canada to maintain its “pause”, holding the policy interest rate at 4.5 per cent, through December of this year. With CPI inflation solidly on track to return to its 2 per cent target, we then expect the Bank to start lowering its policy rate in January 2024. We assume that the policy rate will be reduced by 25 basis points at each fixed announcement date over the course of 2024, returning the rate to its estimated neutral level of 2.5 per cent in December 2024.

Given historical revisions to real GDP in the first half of 2022 and stronger-than-expected real GDP growth in the second half of 2022, the level of nominal GDP—the broadest measure of the Government’s tax base—was revised up by \$13 billion in 2022 compared to our October 2022 EFO.⁴ However, relative to our October outlook, the level of nominal GDP over 2023 to 2027 is \$22 billion lower annually, on average, due to downward revisions to our outlook for real GDP growth, reflecting higher-than-expected policy interest rates both in Canada and the United States.

Fiscal outlook

Our status quo outlook includes new measures announced in the Government’s 2022 Fall Economic Statement (FES) and new health care funding announced on February 7⁵, which combined amount to \$69.1 billion in new spending over 2022-23 to 2027-28.⁶ This new spending includes \$8.5 billion in provisions for unspecified “anticipated near-term pressures” over 2022-23 to 2027-28 that the Government earmarked in its FES.⁷

Recall that PBO prepared its October outlook prior to the tabling of the 2021-22 Public Accounts.⁸ The results for fiscal year 2021-22 recorded a budgetary deficit of \$90.2 billion (3.6 per cent of GDP)—slightly lower than our estimate of \$97.0 billion (3.9 per cent of GDP) in the October EFO.

For the current fiscal year, 2022-23, we expect the deficit to decline further to \$36.5 billion (1.3 per cent of GDP) under status quo policy (Table 2). In 2023-24, we project the budgetary deficit to temporarily rise to \$43.1 billion due to a slowdown in revenue growth and higher program expenses.

In 2024-25, assuming no new measures are introduced, and existing temporary measures sunset as scheduled, the budgetary deficit is projected to resume its downward trajectory, reaching \$8.7 billion (0.3 per cent of GDP) in 2027-28, as growth in tax revenue tracks gains in nominal GDP and growth in program spending remains constrained.

Table 2 Summary of the fiscal outlook

\$ billions	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Revenues	413.3	446.8	453.3	476.4	495.3	517.1	539.2
Program expenses	468.8	438.8	447.1	457.1	469.9	483.8	500.7
Public debt charges	24.5	34.7	43.6	43.7	44.7	45.6	46.0
Actuarial losses	10.2	9.8	5.6	3.0	1.5	-0.3	1.2
Expenses*	503.5	483.3	496.4	503.8	516.1	529.2	547.9
Budgetary balance	-90.2	-36.5	-43.1	-27.5	-20.8	-12.1	-8.7
Federal debt	1,134.5	1,168.2	1,211.3	1,238.8	1,259.6	1,271.7	1,280.4
% of GDP							
Budgetary balance	-3.6	-1.3	-1.5	-0.9	-0.7	-0.4	-0.3
Federal debt**	45.2	41.8	42.2	41.6	40.7	39.4	38.1

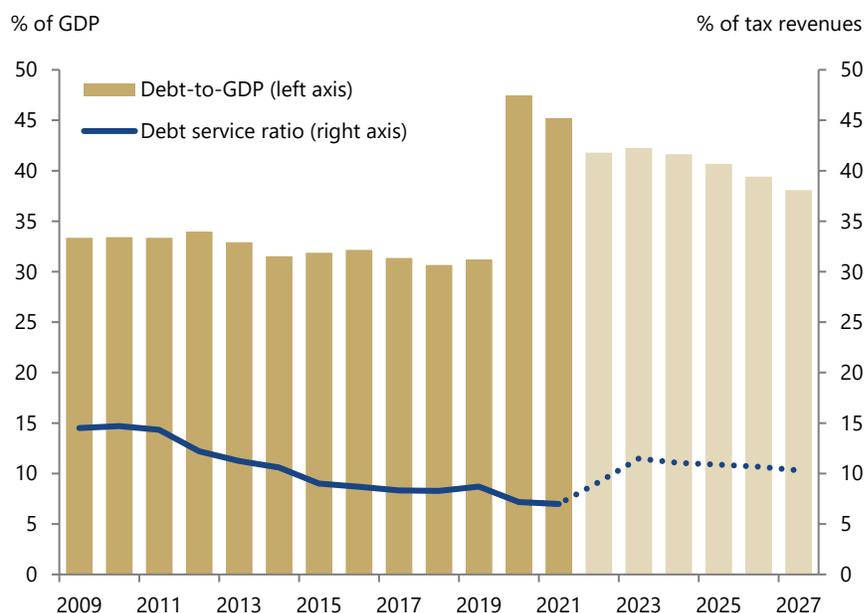
Sources: Finance Canada and Office of the Parliamentary Budget Officer.

Note: * Expenses include actuarial losses. ** As of 2022-23, the Government adopted new Public Sector Accounting Board (PSAB) standards for both asset retirement obligations and financial instruments. These changes impact the opening balance of the accumulated deficit for 2022-23 and not the budgetary balance. Totals may not add due to rounding.

With the increase in interest rates, we project the debt service ratio (that is, public debt charges relative to tax revenues) will peak at 11.5 per cent in 2023-24 (Figure 1). The debt service ratio is then projected to decline gradually, as growth in public debt charges moderates and interest rates return to their neutral levels, reaching 10.3 per cent in 2027-28—two percentage points above its pre-pandemic low of 8.3 per cent in 2018-19.

In the absence of additional spending, we expect the federal debt-to-GDP ratio to decline to 41.8 per cent in 2022-23 and then to temporarily rise to 42.2 per cent in 2023-24 due to the increase in the budgetary deficit and slowdown in nominal GDP growth. The federal debt ratio is then projected to resume its downward trajectory, reaching 38.1 per cent in 2027-28, but remain above its pre-pandemic level of 31.2 per cent of GDP.

Figure 1 Federal debt and debt service ratios



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

Note: Data are in fiscal years (2021 corresponds to fiscal year 2021-22). The projection period covers 2022-23 to 2027-28.

Compared to our October outlook, we are projecting budgetary deficits that are \$10.9 billion higher, on average, over 2022-23 to 2027-28. This revision is largely due to new measures and higher direct program expenses that are only partially offset by higher-than-anticipated tax revenues (Table 3).⁹

Table 3 Evolution of the budgetary balance since October 2022

\$ billions	Projection						
	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Budgetary balance – October 2022 EFO	-97.0	-25.8	-25.6	-14.6	-10.7	-3.4	-3.1
Additional measures		-10.6	-12.1	-11.8	-10.1	-11.0	-13.5
<i>Of which: provision for anticipated near-term pressures</i>		-1.0	-1.0	-2.0	-1.5	-1.5	-1.5
Economic and other fiscal developments	6.8	-0.1	-5.5	-1.1	-0.1	2.4	7.9
Budgetary balance – March 2023 EFO	-90.2	-36.5	-43.1	-27.5	-20.8	-12.1	-8.7

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

Note: Additional measures include those announced in the 2022 Fall Economic Statement and the health funding plan announced on February 7. Totals may not add due to rounding.

Due to stronger-than-expected results in 2021-22, tax yields over the projection horizon have been revised up.¹⁰ These are somewhat dampened by downward revisions to personal and corporate incomes, along with lower consumer spending. All in all, our revenue outlook has been revised up by \$7.3 billion annually, on average, over 2022-23 to 2027-28.

Excluding 2022 Fall Economic Statement measures and the most recent health care funding, expenses were revised higher largely due to changes in actuarial assumptions and increased usage of pensions and benefit service costs, as well as higher non-personnel operating expenses.¹¹ This is partially offset by lower transfers to other levels of government resulting from lower nominal GDP growth. On balance, excluding new measures, our expense outlook has been revised up by \$7.3 billion annually, on average, over 2022-23 to 2027-28.

Risks and uncertainty

Our outlook provides a baseline projection to help parliamentarians gauge potential economic and fiscal outcomes under current policy settings (that is, a “status quo” baseline). Setting aside new measures that are likely to be announced in the Government’s 2023 budget, we judge that the risks to our baseline economic and fiscal projection are roughly balanced.¹²

In terms of downside risks, we judge that the most important risk is a severe global economic slowdown (for example, due to an escalation of the war in Ukraine and/or excessive monetary policy tightening by major central banks), which would negatively affect the Canadian economy and federal finances.¹³

In terms of upside risks, we judge that the most important risk is stronger-than-expected household spending in Canada. High levels of household savings coupled with a resilient labour market could fuel consumer spending above levels projected in our baseline.

To illustrate uncertainty surrounding our economic and fiscal outlook, we construct distributions of possible future outcomes that are centred on our baseline projection, which are then used to calculate “confidence” intervals.¹⁴

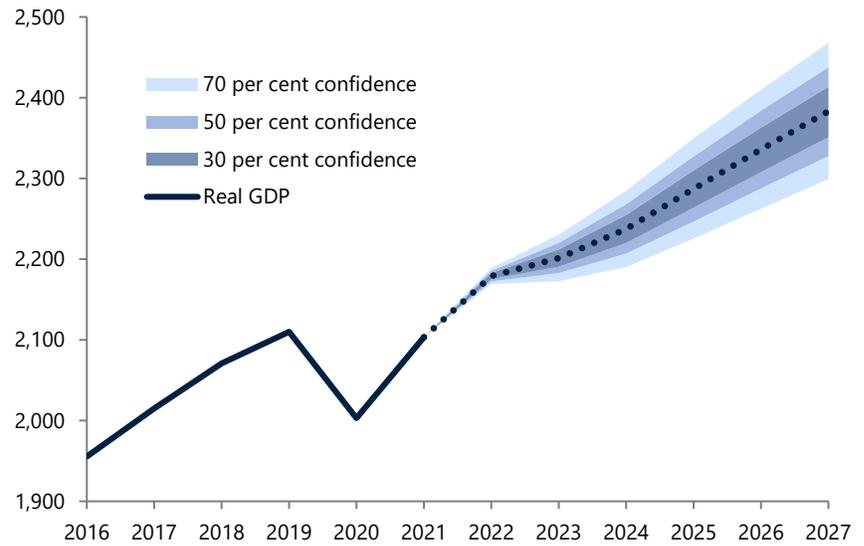
Relative to our baseline real GDP growth projection (2.1 per cent annually, on average, over 2022 to 2027), the 30, 50 and 70 per cent confidence intervals shown in Figure 2 are consistent with average annual growth of ± 0.2 , ± 0.4 and ± 0.6 percentage points respectively. The lower bound of the 70 per cent confidence interval in 2023 is consistent with a 0.3 per cent decline in real GDP from its 2022 baseline level.

Given the possible economic outcomes surrounding our baseline projection, and on a status quo basis, we estimate that a 70 per cent confidence interval for the federal debt-to-GDP ratio in 2027-28 would range from 33.4 per cent to 43.3 per cent (Figure 3). We estimate there is a 77 per cent chance that the debt-to-GDP ratio in 2027-28 would be below its 2022-23 baseline level of 41.8 per cent.

On a status quo basis, we estimate that a 70 per cent confidence interval for the budgetary balance in 2027-28 would range from a deficit of \$38.2 billion to a surplus of \$20.6 billion, with a 38 per cent chance of a balanced budget or better.

Figure 2 Uncertainty surrounding the outlook for real GDP

\$ billions, chained (2012) dollars

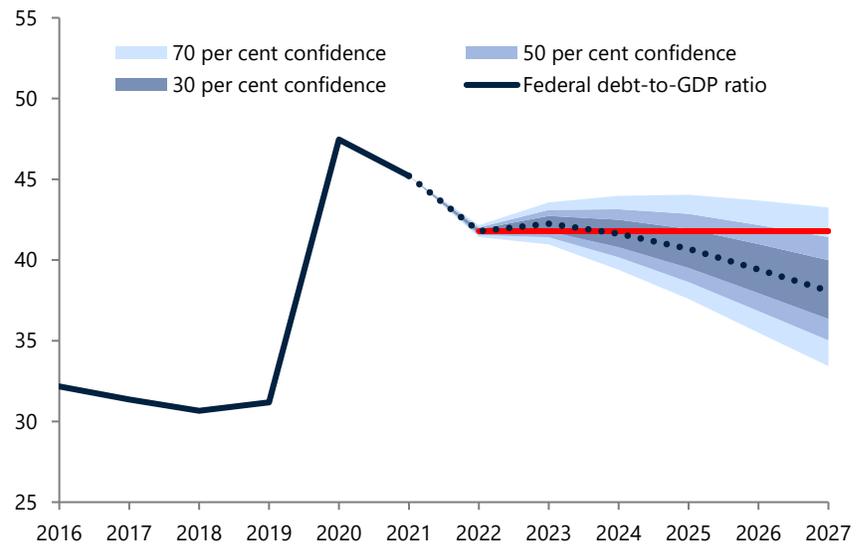


Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

Note: The series are presented on a calendar-year basis. The projection period covers 2022 to 2027.

Figure 3 Uncertainty surrounding the outlook for the federal debt-to-GDP ratio

% of GDP



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

Note: The series are presented on a fiscal-year basis (2022 corresponds to fiscal year 2022-23). The projection period covers 2022-23 to 2027-28. The red line corresponds to the baseline level of the federal debt-to-GDP ratio in 2022-23.

Appendix A: Detailed economic outlook

% unless otherwise indicated	Projection						
	2021	2022	2023	2024	2025	2026	2027
Real GDP growth							
March 2023	5.0	3.6	1.0	1.6	2.2	2.1	2.0
October 2022	4.5	3.1	1.2	2.3	2.1	2.0	1.9
Potential GDP growth							
March 2023	0.9	1.5	1.8	1.8	1.9	1.9	1.9
October 2022	0.9	1.4	1.7	1.8	1.9	1.9	1.9
GDP inflation							
March 2023	8.2	7.5	1.5	2.1	1.8	2.1	2.1
October 2022	8.1	8.2	2.2	2.0	1.9	2.0	2.0
Nominal GDP growth							
March 2023	13.6	11.4	2.6	3.8	4.0	4.2	4.2
October 2022	13.0	11.6	3.4	4.3	4.1	4.1	4.0
Nominal GDP (\$ billions)							
March 2023	2,510	2,796	2,867	2,976	3,096	3,227	3,362
October 2022	2,493	2,782	2,878	3,002	3,125	3,253	3,382
3-month treasury rate							
March 2023	0.1	2.4	4.4	3.2	2.5	2.5	2.5
October 2022	0.1	2.4	3.9	3.0	2.5	2.5	2.5
10-year government bond rate							
March 2023	1.4	2.8	3.4	3.3	3.3	3.3	3.3
October 2022	1.4	2.8	3.4	3.3	3.3	3.3	3.3
Exchange rate (US¢/C\$)							
March 2023	79.8	76.9	76.7	79.2	79.9	80.5	80.8
October 2022	79.8	77.7	78.9	80.4	81.2	81.6	81.8
Unemployment rate							
March 2023	7.5	5.3	5.5	5.9	5.7	5.6	5.5
October 2022	7.4	5.4	5.7	5.7	5.5	5.5	5.4
CPI inflation							
March 2023	3.4	6.8	3.7	2.3	2.0	2.0	2.0
October 2022	3.4	6.6	3.5	2.3	2.0	2.0	2.0
U.S. real GDP growth							
March 2023	5.9	2.1	0.7	1.3	2.0	1.8	1.8
October 2022	5.9	1.6	1.0	2.1	1.8	1.8	1.8
WTI oil price (\$US)							
March 2023	68	95	78	73	72	74	75
October 2022	68	96	86	81	81	83	84

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

Appendix B: Composition of nominal GDP

% of GDP	Projection						
	2021	2022	2023	2024	2025	2026	2027
Expenditure share							
Final household consumption	52.9	52.6	53.9	54.6	55.2	55.5	55.8
Non-profit institutions serving households	1.6	1.5	1.6	1.6	1.6	1.6	1.7
Government consumption expenditure	21.9	20.9	20.9	20.3	20.2	20.1	20.0
Government investment	3.8	3.7	3.7	3.7	3.7	3.7	3.7
Residential investment	9.7	8.5	7.6	7.6	7.6	7.7	7.7
Business investment	10.3	10.7	11.2	11.4	11.5	11.5	11.6
Inventory investment	-0.2	2.0	1.1	0.5	0.5	0.5	0.4
Exports of goods and services	30.9	33.5	32.4	31.8	31.6	31.6	31.6
Imports of goods and services	31.0	33.5	32.3	31.5	31.9	32.3	32.4
Income share							
Compensation of employees	50.6	49.8	50.7	50.5	50.9	51.1	51.2
Net mixed income	8.7	8.5	8.7	8.7	8.7	8.8	8.8
Corporate profits before tax	12.8	12.6	10.6	10.6	10.2	9.9	9.6
Investment income	2.8	2.9	2.8	2.7	2.6	2.6	2.6
Consumption of fixed capital	16.4	16.1	16.3	16.2	16.0	16.0	16.1
Taxes less subsidies on production	2.6	3.9	4.2	4.2	4.2	4.2	4.2
Taxes less subsidies on products and imports	6.1	6.2	6.8	7.1	7.3	7.4	7.6

Sources: Statistics Canada and Office of the Parliamentary Budget Officer.

Appendix C: Detailed revenue outlook

\$ billions	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Income taxes							
Personal income tax	198.4	210.2	217.3	227.8	239.4	251.2	263.2
Corporate income tax	78.8	88.1	78.1	80.3	81.2	82.7	85.4
Non-resident income tax	10.8	13.9	13.4	13.2	13.5	14.0	14.4
Total income tax	288.0	312.2	308.8	321.3	334.1	347.8	363.0
Excise taxes/duties							
Goods and Services Tax	46.2	48.5	51.4	52.9	55.0	57.2	59.6
Custom import duties	5.2	6.2	6.7	7.0	7.3	7.7	8.0
Other excise taxes/duties	11.3	12.2	12.7	12.8	13.0	13.2	13.2
Total excise taxes/duties	62.7	66.9	70.7	72.7	75.3	78.1	80.9
Other taxes	0.0	0.2	0.4	1.5	1.7	1.9	2.1
Fuel charge proceeds	6.3	8.5	11.5	14.0	16.1	18.1	19.9
EI premium revenues	23.9	26.8	28.6	29.8	30.9	32.2	33.3
Other revenues							
Enterprise Crown corporations	12.8	7.6	5.2	8.0	8.8	9.8	9.8
Other programs	18.7	22.1	24.8	26.2	25.6	26.0	26.7
Net foreign exchange	0.9	2.5	3.2	2.8	2.9	3.2	3.4
Total other revenues	32.4	32.2	33.2	37.1	37.3	39.0	39.9
Total budgetary revenues	413.3	446.8	453.3	476.4	495.3	517.1	539.2
Per cent of GDP							
Total tax revenues	14.0	13.6	13.3	13.3	13.3	13.3	13.3
Proceeds from the pollution pricing framework	0.3	0.3	0.4	0.5	0.5	0.6	0.6
Employment Insurance premium revenues	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other revenues	1.3	1.2	1.2	1.2	1.2	1.2	1.2
Total budgetary revenues	16.5	16.0	15.8	16.0	16.0	16.0	16.0

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

Note: Totals may not add due to rounding.

Appendix D: Detailed expense outlook

\$ billions	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Major transfers to persons							
Elderly benefits	60.8	69.9	76.2	80.6	84.9	89.3	93.9
Employment Insurance	38.9	22.2	23.8	25.2	25.7	26.5	27.2
COVID-19 income support for workers	15.6	0.2	0.0	0.0	0.0	0.0	0.0
Children's benefits	26.2	25.1	26.7	28.0	28.8	29.3	29.8
Total	141.5	117.3	126.6	133.8	139.4	145.1	150.9
Major transfers to other levels of government							
Canada Health Transfer	45.1	47.2	49.4	52.3	55.0	57.7	60.6
Canada Social Transfer	15.5	15.9	16.4	16.9	17.4	17.9	18.5
Equalization	20.9	21.9	24.0	25.4	26.3	27.3	28.4
Territorial Formula Financing	4.4	4.6	4.8	5.1	5.4	5.7	5.9
Canada Community-Building Fund	2.3	2.3	2.4	2.4	2.5	2.5	2.6
Home care and mental health	2.5	1.2	1.2	1.2	1.2	1.2	0.0
Canada-Wide Early Learning and Child Care	2.9	4.5	5.6	6.6	7.9	7.9	7.7
Other transfers to government	-5.3	-6.4	-3.9	-4.2	-4.6	-5.0	-5.5
Total	88.4	91.2	100.0	105.8	111.1	115.3	118.3
Fuel charge proceeds returned	3.8	8.4	13.1	14.2	16.2	18.1	19.9
Direct program expenses							
Transfer payments	110.8	93.2	83.7	82.4	82.5	82.5	84.9
Operating and capital expenses	124.3	128.6	123.8	121.0	120.6	123.0	126.8
Total direct program expenses	235.1	221.8	207.5	203.4	203.2	205.4	211.6
Total program expenses	468.8	438.8	447.1	457.1	469.9	483.8	500.7
Public debt charges	24.5	34.7	43.6	43.7	44.7	45.6	46.0
Total expenses, excluding net actuarial losses	493.3	473.5	490.7	500.8	514.6	529.5	546.7
Net actuarial losses	10.2	9.8	5.6	3.0	1.5	-0.3	1.2
Per cent of GDP							
Major transfers to persons	5.6	4.2	4.4	4.5	4.5	4.5	4.5
Major transfers to other levels of government	3.5	3.3	3.5	3.6	3.6	3.6	3.5
Fuel charge proceeds returned	0.2	0.3	0.5	0.5	0.5	0.6	0.6
Direct program expenses	9.4	7.9	7.2	6.8	6.6	6.4	6.3
Total program expenses	18.7	15.7	15.6	15.4	15.2	15.0	14.9

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

Note: Totals may not add due to rounding.

Appendix E: Employment Insurance Operating Account

\$ billions	Projection							2029
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	
Revenues								
Premium revenues	23.9	26.8	28.6	29.8	30.9	32.2	33.3	
Contributions for federal employees	0.5	0.5	0.5	0.5	0.5	0.5	0.5	
Total revenues	24.3	27.3	29.0	30.3	31.3	32.7	33.8	
Expenses								
Benefits	38.9	22.2	23.8	25.2	25.7	26.5	27.2	
Administration expenses	2.6	2.6	2.7	2.8	2.9	3.0	3.1	
Total expenses	41.6	24.8	26.4	27.9	28.5	29.4	30.3	
Annual balance	-24.6	2.5	3.1	2.5	2.8	(...)	3.9	4.3
Cumulative balance	-25.9	-23.3	-20.2	-17.8	-15.0		-4.4	-0.1
Premium rate (per \$100 of insurable earnings)	1.58	1.58	1.63	1.68	1.67		1.67	1.67

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

Note: Totals may not add due to rounding.
The projection period covers 2023 to 2029.

Appendix F: Direct program expenses

\$ billions	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Other transfer payments							
Canada Emergency Wage Subsidy	22.3	-0.1	0.0	0.0	0.0	0.0	0.0
Other payments	88.5	93.3	83.7	82.4	82.5	82.5	84.9
Total other transfer payments	110.8	93.2	83.7	82.4	82.5	82.5	84.9
Operating expenses							
Personnel expenses	61.3	58.3	57.7	59.1	61.1	63.1	65.1
Consolidated Crown corporations	8.5	9.4	9.3	9.6	9.4	9.5	9.9
Other operating expenses	49.1	40.5	38.5	37.6	37.7	38.1	39.0
Policy actions	0.0	14.2	11.6	7.3	4.5	3.9	3.4
Total operating expenses	118.9	122.3	117.0	113.6	112.8	114.6	117.4
Capital amortization expenses	5.4	6.3	6.7	7.4	7.9	8.4	9.4
Operating and capital expenses	124.3	128.6	123.8	121.0	120.6	123.0	126.8
Total direct program expenses	235.1	221.8	207.5	203.4	203.2	205.4	211.6

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

Note: Totals may not add due to rounding.

Appendix G: Federal debt outlook

\$ billions	Projection						
	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Accounts payable and accrued liabilities	260.3	264.0	269.8	278.2	289.4	302.9	317.0
<i>Market debt*</i>	1,232.7	1,266.4	1,309.6	1,337.0	1,357.8	1,369.9	1,378.6
<i>Pensions and other future benefits</i>	335.1	317.8	310.0	306.6	306.1	310.0	317.7
<i>Other liabilities</i>	10.6	10.9	11.2	11.5	11.6	11.7	11.8
Total interest-bearing debt	1,578.4	1,595.1	1,630.8	1,655.1	1,675.6	1,691.6	1,708.2
Total liabilities	1,838.7	1,859.1	1,900.6	1,933.3	1,965.0	1,994.5	2,025.1
Financial assets	600.3	583.3	577.9	579.1	586.0	599.2	616.7
Non-financial assets	103.9	107.6	111.4	115.3	119.4	123.6	128.0
Total assets	704.2	690.8	689.3	694.5	705.4	722.9	744.7
Federal debt (liabilities less assets)	1,134.5	1,168.2	1,211.3	1,238.8	1,259.6	1,271.7	1,280.4
Federal debt (% of GDP)	45.2	41.8	42.2	41.6	40.7	39.4	38.1
Market debt: agent Crown corporations*	304.9	305.9	313.2	317.9	327.6	332.8	337.0
Borrowing requirements, as per the <i>Borrowing Authority Act</i>	1,537.6	1,572.3	1,622.8	1,654.9	1,685.4	1,702.8	1,715.7

Sources: Finance Canada and Office of the 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 H: Comparison to October 2022 outlook

\$ billions	Projection						
	2021- 2022	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Income taxes							
Personal income tax	8.7	8.3	4.0	4.2	5.3	5.6	6.3
Corporate income tax	-1.7	0.1	-0.5	0.8	0.0	0.0	0.7
Non-resident income tax	0.9	1.7	1.2	0.8	0.7	0.6	0.7
Total income tax	7.9	10.1	4.7	5.8	6.0	6.2	7.7
Excise taxes/duties							
Goods and Services Tax	0.6	0.3	0.5	0.7	0.7	0.9	1.3
Custom import duties	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.1
Other excise taxes/duties	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
Total excise taxes/duties	0.0	-0.4	-0.3	-0.1	0.1	0.5	0.8
Other taxes							
Fuel charge proceeds	0.1	0.1	0.8	1.0	1.0	1.0	0.9
El premium revenues	-0.6	0.1	0.2	-0.5	-1.7	-2.2	-2.3
Other revenues	0.5	2.1	-0.4	0.7	0.3	0.7	0.7
Total budgetary revenues	7.8	12.1	5.0	7.0	5.7	6.2	7.9
Major transfers to persons							
Elderly benefits	-0.2	0.8	1.8	1.9	1.9	1.8	1.8
Employment Insurance	0.0	-2.6	-1.4	0.1	-0.1	-0.2	-0.3
COVID-19 income support for workers	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
Children's benefits	0.0	-0.4	-0.6	-0.8	-0.8	-0.8	-0.9
Total	-2.3	-2.2	-0.3	1.2	1.0	0.7	0.6
Major transfers to other levels of government							
Canada Health Transfer	0.0	2.0	0.0	-0.3	0.3	0.7	1.3
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	-0.3	-0.3	-0.3
Territorial Formula Financing	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Other transfers to government	0.4	-0.7	2.2	2.2	2.2	2.1	0.7
Total	0.4	1.3	2.3	1.9	2.3	2.7	1.9
Fuel charge proceeds returned	0.0	0.2	0.5	1.1	1.0	1.0	0.9
Direct program expenses							
Other transfer payments	-0.4	5.8	5.5	6.0	5.2	5.7	6.8
Operating and capital expenses	3.3	11.8	9.5	7.9	5.3	4.2	3.9
Total direct program expenses	3.0	17.6	14.9	13.9	10.4	10.0	10.7
Total program expenses	1.1	16.9	17.4	18.0	14.7	14.4	14.1
Public debt charges							
Total expenses	1.2	20.3	19.0	16.9	14.4	13.7	12.5
Budgetary balance before net actuarial losses	6.7	-8.3	-14.0	-10.0	-8.7	-7.5	-4.6
Net actuarial losses	-0.1	2.4	3.6	2.9	1.4	1.2	1.0
Budgetary balance	6.8	-10.7	-17.6	-12.9	-10.1	-8.7	-5.6
Federal debt	-7.1	0.8	18.4	31.3	41.4	50.1	55.7

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

Note: Totals may not add due to rounding.

Appendix I: Comparison to Fall Economic Statement 2022

\$ billions	Projection					
	2022- 2023	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028
Income taxes						
Personal income tax	0.8	1.0	1.6	0.7	1.7	1.6
Corporate income tax	-2.9	-8.3	-4.9	-5.9	-5.5	-6.2
Non-resident income tax	0.1	-0.3	0.3	0.5	0.6	0.1
Total income tax	-2.0	-7.6	-3.0	-4.7	-3.3	-4.6
Excise taxes/duties						
Goods and Services Tax	1.3	-0.1	-1.0	-0.8	-0.7	-0.4
Custom import duties	-0.2	0.1	0.2	0.3	0.4	0.4
Other excise taxes/duties	-0.1	0.1	-0.1	0.0	0.0	-0.1
Total excise taxes/duties	1.1	0.1	-0.8	-0.6	-0.3	0.0
Other taxes						
Fuel charge proceeds	0.7	1.7	2.2	2.7	3.1	3.6
El premium revenues	0.2	0.4	0.2	0.2	0.5	0.5
Other revenues	0.8	-3.4	-2.1	-3.8	-4.0	-3.9
Total budgetary revenues	0.9	-9.2	-3.0	-5.5	-3.2	-3.2
Major transfers to persons						
Elderly benefits	0.9	-0.4	-1.0	-1.7	-2.4	-2.7
Employment Insurance	-2.6	-0.5	-0.7	-0.8	-0.5	-0.5
COVID-19 income support for workers	0.0	0.0	0.0	0.0	0.0	0.0
Children's benefits	0.2	0.4	0.3	0.1	-0.1	-0.3
Total	-1.6	-0.5	-1.3	-2.4	-2.9	-3.5
Major transfers to other levels of government						
Canada Health Transfer	2.0	0.1	0.0	0.9	1.4	2.0
Canada Social Transfer	0.0	0.0	0.0	0.0	0.0	0.0
Equalization	0.0	0.1	0.0	0.0	0.0	0.0
Territorial Formula Financing	0.0	-0.1	-0.1	0.0	0.2	0.1
Other transfers to government	0.2	3.1	3.1	3.1	3.1	2.9
Total	2.2	3.2	3.1	3.9	4.7	5.2
Fuel charge proceeds returned	0.7	2.0	2.3	2.7	3.1	3.6
Direct program expenses						
Other transfer payments	-2.7	-3.0	-3.4	-2.3	-0.5	1.4
Operating and capital expenses	2.4	1.7	-1.1	-1.2	0.8	2.3
Total direct program expenses	-0.3	-1.2	-4.5	-3.4	0.1	3.6
Total program expenses	1.0	3.3	-0.5	0.8	4.8	8.8
Public debt charges	0.0	0.3	1.0	1.8	1.5	1.2
Total expenses	1.0	3.6	0.5	2.6	6.4	10.0
Budgetary balance before net actuarial losses	-0.1	-12.9	-3.5	-8.2	-9.7	-13.2
Net actuarial losses	0.0	-0.4	-1.6	-1.8	-0.9	0.0
Budgetary balance	-0.1	-12.5	-2.1	-6.3	-8.7	-13.2
Federal debt	-9.3	3.1	5.6	12.2	20.8	33.3

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

Note: Totals may not add due to rounding.

Notes

1. Expressed at quarterly rates. At annual rates, quarter-over-quarter real GDP growth in 2023 is projected to average 0.28 per cent.
2. The projected increase in the unemployment rate to 5.9 per cent in mid-2024 is tempered by sustained decreases in the labour force participation rate from current levels as an increasing share of the population transitions into retirement.
3. Our short-term outlook for commodity prices is based on average futures prices observed over January 23 to February 6.
4. PBO's October 2022 Economic and Fiscal Outlook is available at: <https://www.pbo-dpb.ca/en/publications/RP-2223-018-S--economic-fiscal-outlook-october-2022--perspectives-economiques-financieres-octobre-2022>.
5. The Government's February 7 announcement included \$46.2 billion in new health care funding for provinces and territories over 2022-23 to 2032-33 but did not detail the annual spending profile. For additional details see: <https://pm.gc.ca/en/news/news-releases/2023/02/07/working-together-improve-health-care-canadians>.

For simplicity, we assumed that the new funding outside the Canada Health Transfer (CHT) will be equally allocated over 2023-24 to 2032-33. Adjusting for differences in projected nominal GDP growth (on which the guaranteed 5 per cent top-up to growth in CHT payments is based) and the shorter time horizon, we estimate the new federal health care funding will amount to \$20.4 billion over 2022-23 to 2027-28.

6. This amount includes PBO's cost estimates of measures included in the 2022 Fall Economic Statement.
7. In our report on the 2022 Fall Economic Statement, we noted that the lack of details on this provision presents a transparency challenge for parliamentarians and the public in scrutinizing the Government's spending plans. For additional details see: <https://www.pbo-dpb.ca/en/publications/RP-2223-021-S--fall-economic-statement-2022-issues-parliamentarians--enonce-economique-automne-2022-enjeux-parlementaires>.
8. The 2021-22 Public Accounts were tabled on 27 October 2022—seven months after the close of the fiscal year. As noted in previous reports, the Government continues to fall short of the standard for advanced practice in the International Monetary Fund's financial reporting guidelines, which recommends that governments publish their annual financial statements within six months of the close of the fiscal year. For additional details see: <https://www.pbo-dpb.ca/en/publications/RP-2223-021-S--fall-economic-statement-2022-issues-parliamentarians--enonce-economique-automne-2022-enjeux-parlementaires>.

9. The upward revision to our outlook for tax revenues largely reflects a carry-forward of stronger-than-expected personal income tax revenues in 2021-22. Consequently, income tax revenues are projected to be \$6.8 billion higher per year, on average, over 2022-23 to 2027-28 compared to our October outlook.
10. Driven largely by personal income tax revenues, tax yields over the projection horizon are higher compared to our October projection. With higher interest rates and the projected economic stagnation, we anticipate that tax yields will decline over the medium term from their peak levels in 2021-22 but remain above their pre-pandemic levels.
11. The Government's non-personnel operating expenses include spending related to transportations and communication, information, professional and special services, rental, repair and maintenance, utilities, materials and supplies, as well as other subsidies (including bad debt expenses).

Over the last two years, these expenses have increased significantly, from \$34.1 billion in 2019-20 to \$55.5 billion in 2021-22. Some of this increase was temporary (for example, due to COVID-19) and assumed to sunset.

However, the November 2022 Fiscal Monitor shows that these expenses have continued to increase in 2022-23 (by 12 per cent on a year-to-date basis). As such, we have carried some of this strength forward into future years.

12. In our baseline projection, under status quo policy, we assumed that federal public sector compensation continues to grow in line with previously signed collective agreements. We also included the Government's non-announced measures and provision for anticipated near-term pressures from the 2022 FES—totalling \$14.2 billion, without providing specific details—that could include provisions for higher compensation growth.

Similar to new measures anticipated in Budget 2023, new collective agreements with higher compensation growth could pose a risk to our status quo outlook. However, given the lack of detail pertaining to the 2022 FES provisions, the magnitude of this risk is unknown and, to some extent, may already be reflected in our outlook.

13. Another key downside risk is a larger-than-expected deterioration in the Canadian housing market. Although our baseline projection includes a substantial decline in house prices and residential investment, this decline could be larger than we have anticipated.
14. For additional details on the approach used to construct confidence intervals for our economic and fiscal projections, see PBO's Impact Assessment of Budget 2021 Measures, available at: <https://www.pbo-dpb.ca/en/publications/RP-2122-007-S--impact-assessment-budget-2021-measures--evaluation-incidence-mesures-budget-2021>.

As noted in our previous reports, a key limitation of the distributions of the budgetary components is that they reflect only "economic" uncertainty. 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.