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Chair

The Honourable Wayne Easter

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● (1105)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We shall call the meeting to order. Pursuant to Standing Order 108(2), this is a study of the report of the Bank of Canada on monetary policy. As witnesses in the first hour and a half we have Mr. Poloz, who's the governor, and Ms. Wilkins, the senior deputy governor.

Welcome, Governor and Deputy Governor. The floor is yours. We'll start with an opening statement and then go to questions.

Mr. Stephen S. Poloz (Governor, Bank of Canada): Thank you very much, Chair.

My apologies for a couple of minutes of tardiness. We're not quite used to the new arrangements. This is our first visit to the new building.

The Chair: We get lost too and we've been here for a few weeks.

Mr. Stephen S. Poloz: Good morning, everyone.

Once again, Senior Deputy Governor Wilkins and I are pleased to be with you to talk about the bank's monetary policy report, which we published last week.

[*Translation*]

Six months ago, when we last appeared before this committee, we talked about some very positive developments. The Canadian economy had solid momentum and had essentially completed its journey home—that is to say, it was operating very close to its capacity, and inflation was running near our target. At the same time, we were monitoring the risks posed by protectionist trade measures and elevated levels of household debt.

Unfortunately, since then, there have been a couple of negative developments. These have caused a detour for the economy and are delaying its return home. Our forecast is based on the belief that the impact of these developments will be temporary, and that once the associated adjustments take place, stronger economic growth will resume. So, in the monetary policy report, we marked down our forecast for economic growth this year to 1.2%, and we project growth of near 2% for both 2020 and 2021.

[*English*]

Let me offer a few details. First, the global economy slowed toward the end of last year. To be clear, some slowing was expected as the stimulative impact of U.S. fiscal measures fades, but the slowdown was deeper than most forecasters projected and has persisted into 2019.

A major factor behind this global slowdown has been the U.S.-led trade war. This is delaying business investment decisions in many countries around the world. Uncertainty about future trade policies has risen. Here in Canada, doubts about the ratification of CUSMA have increased, and these remain a downside risk to our outlook for investment.

lt is certain that an escalation of trade conflicts would be a blow to the global economy; however, the global economy could receive a significant lift if there were progress in resolving these conflicts.

I should emphasize that businesses and economies will ultimately adjust to the heightened level of uncertainty around trade by adjusting their investment plans lower. Once those adjustments are complete, however, economic growth can pick up again.

The other major development since October was another sharp decline in oil prices late in 2018, which put Canada's oil sector under considerable stress. More recently, oil prices have firmed, including the prices our western producers receive, but transportation constraints on future growth remain a significant source of drag and uncertainty. This has led to another downward revision to investment intentions in the sector.

Some of this downgrade is likely more structural than cyclical in nature, as it represents the continued adjustment of the sector to global oil prices of $50 to $60 per barrel, rather than the much higher prices of five years ago. This adjustment process is also being reflected in wages and other costs and in developments in the housing market in Alberta.

lt's important to note that as investments in the oil patch are pared back, Canada's growth slows, but when those investment levels stop falling, Canada's growth will pick up again, even if oil sector investment does not, because other areas of growth will come to dominate the data. We saw exactly the same dynamic following the oil price shock of 2014-15.

ln addition to concerns about global trade and oil prices, we've continued to watch how the Canadian housing market is adjusting to a combination of factors: provincial and municipal housing policy measures, the revised guidelines for mortgage lending and past increases in interest rates. The adjustment of the housing market is particularly important given the context of elevated levels of household debt.

Our analysis has been complicated by activity in some previously frothy markets—the greater Toronto and Vancouver areas, in particular. Research by bank staff shows that the sharp rise in housing resales above fundamental levels in Ontario and British Columbia and then the subsequent fall correlate strongly with house price expectations. This suggests that provincial and municipal housing policy measures have had a much stronger impact on housing activity than changes to mortgage lending guidelines and past increases in interest rates.

● (1110)

[*Translation*]

Supporting this analysis is the fact that many other markets across the country are seeing solid activity even though they have the same mortgage lending guidelines and interest rates. This is what would be expected in an economy that is growing, with a rising population and strong labour market.

The implication is that as the situation in Toronto and Vancouver stabilizes, the Canadian housing sector should return to growth overall later this year.

[*English*]

Finally, I would note that the federal government and several provinces have made fiscal announcements during budget season. Our analysis suggests that the combined impact of adjusted spending plans announced to date would lead to a downward revision for our growth outlook of about 0.2 percentage points in 2020.

In sum, the Canadian economy is currently facing some headwinds, but there's good reason to believe the economy will accelerate in the second half of this year. In this context, the bank's governing council judges that an accommodative policy interest rate continues to be warranted.

We will continue to evaluate the appropriate degree of monetary policy accommodation as new data arrive. In particular, we are monitoring developments in household spending, oil markets and global trade policy to gauge the extent to which the factors weighing on growth and inflation outlook are dissipating

In case you have not heard, I should mention that since we last met, we launched the new $10 banknote featuring Viola Desmond and the Canadian Museum for Human Rights in Winnipeg. It has been named the best new banknote in the world for 2018.

With that, Senior Deputy Governor Wilkins and I will be happy to take your questions.

The Chair: Thank you very much, Governor. We always appreciate when you come before the committee and the work that both you and the senior deputy governor, as well as the Bank of Canada, do.

We'll start seven-minute rounds with Mr. Sorbara.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

Welcome, Senior Deputy Governor and Governor.

In the last three months we've had a series of data reports come out. We had the business outlook survey, the monetary policy report, this morning the February GDP, and in the last couple of weeks, the international trade report. One measure that we brought in, in the fall economic statement, and it's in the budget implementation act, is the accelerated capital cost allowance, which has been referred to in both the business outlook survey and the monetary policy report, and it seems to me that firms are responding to that measure.

Would you care to comment with regard to the immediate expensing and what that should do to firms' investment intentions?

Mr. Stephen S. Poloz: At this time, it's still difficult to say. Certainly you're right that in the surveys, our own survey in particular, companies are mentioning that. They were mentioning that as a possibility back in our previous survey.

It comes in the context in which expectations for future investment were actually pretty strong. However, as we've noted, companies have been holding back their investments because of uncertainty around the future of NAFTA. That uncertainty was lifted for a time late last year once the CUSMA was signed, but it seems to have re-emerged in light of the difficulties around ratification.

That's important context. All other things equal, I would expect to see a response to this tax change, but we haven't any data on investment yet for 2019. Our first data will be in about four weeks' time. At the end of May, we'll get the first quarter data on actual investment spending. Before that time, I would have to wait and see what the data would say.

● (1115)

Mr. Francesco Sorbara: Secondly, this deals with fiscal policy more than monetary policy, but StatsCan reported at the end of February on the poverty levels in Canada and how they have declined. They have declined considerably since we've come into government, in part owing to, I would say, the Canada child benefit, the impacts of which the Bank of Canada has measured in terms of households and household spending.

With a decline in poverty across Canada, over 800,000 Canadians have been lifted out of poverty. How powerful an instrument does the bank feel the Canada child benefit has been for Canadian household spending?

Mr. Stephen S. Poloz: I would just say that when we were analyzing the macro economy back when it was introduced, it made a significant difference to the level of the macro economy.

As for comments related to poverty and the distribution of income, I'll turn to Ms. Wilkins.

Ms. Carolyn A. Wilkins (Senior Deputy Governor, Bank of Canada): Clearly, the Bank of Canada doesn't have any control over the distribution of income. We deal with the inflation rate, but at the same time, the distributional aspects of the economy—the distribution of income, wealth and debt—can actually have a big impact on how the economy performs. For this reason, we pay close attention to labour income growth, which is a big part of people's well-being. We see that wages are growing across the country. They are growing less in areas that are affected by oil, actually quite a bit less. That's to be expected. Wage growth overall is a little over 2%. It's still a bit shy of where we would expect wage growth to be relative to productivity and inflation, but certainly we expect that to pick up.

Getting back to the distributional implications, one of the things you can look at is labour income's share in GDP. What's the share of the pie that labour is actually getting? I just happened to look at those numbers and could see that over the last...well, since 2005—so you kind of go and predate the crisis—labour's shared income has actually increased. It's nudged up a bit. It's certainly down from where it was in the eighties, but it has edged up.

Mr. Francesco Sorbara: Thank you.

One of the things in the monetary policy report that came out to me were the cuts that have been introduced by the provincial government in Ontario in terms of the fiscal impact on the economy. You've modelled it and it has come out to be—not directly—0.2% to 2020 growth. I want to put on the record that a provincial Conservative government in Ontario and its fiscal policies will negatively impact the Canadian economy in 2020.

Do you have any comments, Governor?

Mr. Stephen S. Poloz: I have no comments beyond the ones I think you've offered. For us, it's basically mechanics. It's not a judgment about how policies will perform or how the mix of policy may have changed things. For us, it's just a matter of taking the spending lines that are laid out in a budget and comparing them to the spending lines that were in the previous budget. In 2020, there is this difference and it subtracts relative to where our forecast was. It doesn't drag the economy per se, but it reduces where our forecast goes.

Mr. Francesco Sorbara: Thank you for that comment. We've seen, obviously, that teachers are being made surplus in many ridings across the province of Ontario, that there have been layoffs and that everything from a $4.7 million tree-planting program to inspections and so forth is being cut. The details have come out. Public health funding in the City of Toronto is being cut. It's sad to see that the province is adopting that measure. That's my personal opinion.

Going back to monetary policy, you have revised down the neutral rate by 25 basis points, and we're at 1.75, so—we can do the math—it would require two more rate increases to get to the lower bound of the neutral rate. A changing global growth has impacted us, but Brent prices today are up at $73. I don't know where the discount is, but I'm sure WCS is coming up a bit as well. Is the neutral rate revised down because of transitory factors or was it revised down, in your humble opinion, because of permanent factors?

● (1120)

Mr. Stephen S. Poloz: I would say that the revision down is primarily structural. I wouldn't quite use the word “permanent”, but that revision reflects four separate methodologies that look at it through different lenses.

The main thing that's going on there is that the global neutral rate appears to have drifted lower and has done so for the last couple of years. That happens in the context of important drivers such as a slowing labour force growth, because those of us who were baby boomers are gradually retiring. That big bulge in labour force participation is a 50-year period during which we had much stronger growth in the labour force globally, not just here. That's coming down to what you might consider to be historically more normal, if you think of the 50 years as abnormal. That is the primary driver and that's just.... Again, it's close to mechanics. It's not a very sophisticated analysis. It's just that you can't have much.... The economic growth trend line for the world is driven by that labour force and by productivity. Only if we did have a long-lasting rise in productivity would there be pressure for it to rise, which is why I wouldn't say “permanent”—because that, of course, is quite possible.

Mr. Francesco Sorbara: Of course.

Thank you very much.

The Chair: Thank you all.

Mr. Kmiec, you have around seven minutes.

Mr. Tom Kmiec (Calgary Shepard, CPC): Thank you, Mr. Chair.

Governor, on November 23, 2018, on a Friday, the Bank of Canada put out a notice entitled “Expansion of Assets the Bank of Canada will Acquire for Balance Sheet Management Purposes”. Specifically, it was informing the markets that you would start buying Canada mortgage bonds. Why did you take that step?

The Chair: Just to interrupt for a sec, the bells are ringing. I'm assuming we have unanimous consent to continue until about seven minutes to or so. Is that okay?

Some hon. members: Agreed.

The Chair: All right.

Sorry, Governor, there's a vote in 30 minutes, but we'll go until about seven or five minutes before we have to vote.

Go ahead.

Ms. Carolyn A. Wilkins: Yes, that was a decision that was entirely related to how best to manage our balance sheet in a way that doesn't impede the performance of a major core funding market, which is the Government of Canada market.

Because of the size of the debt outstanding—that's either treasury bills or government bonds that are issued—and the needs of our balance sheet, we were taking up more and more of the bonds in the primary market. Because of that, we were not leaving enough for the private sector, which actually needs those bonds, so in our balance sheet management, we look at what other obligations that don't put the Bank of Canada's balance sheet at risk are suitable for balance sheet purposes. That was one asset that we considered a while ago and decided to start purchasing. It has nothing to do with anything other than that, including the state of the housing market.

Mr. Tom Kmiec: It says here that it's on the primary market on a non-competitive basis, but it sounds like you're actually going out and buying Canada mortgage bonds. According to your balance sheet, as of March 31, 2019, you have about half a billion of them under investments. Are you competing with the private sector on the market, then, to buy these bonds, or are these bonds that others don't want to buy?

Ms. Carolyn A. Wilkins: Others would want to buy them, but we buy them in the same context that they do. I can get back to you on the exact format of the purchasing arrangement.

Mr. Tom Kmiec: Please, yes. That would be very helpful.

Ms. Carolyn A. Wilkins: I can do that.

Mr. Tom Kmiec: Could we also get a breakdown?

When you purchase them, do they come from regulated lenders like the chartered banks or do they come from...?

Ms. Carolyn A. Wilkins: I will get you all that information. I can just tell you that our principles for anything that we purchase are heavily focused on mitigating any risk that we might have on our own balance sheet and also mitigating any impact we may have on the market. Market neutrality is a very important principle that we follow.

Mr. Tom Kmiec: How do you do that? There's a bidding system involved here, so if you're not competing, it's on a non-competitive basis.

● (1125)

Ms. Carolyn A. Wilkins: For Government of Canada bonds...?

Mr. Tom Kmiec: Do people not know that you're the ones buying them? Do you do it through an agent?

Ms. Carolyn A. Wilkins: I can tell you that for the Government of Canada bonds, we take up part of the auction. Exactly what I was trying to say earlier, when I talked about.... You know that you can take up a certain share of an auction or a certain share of what's actually being offered before you start affecting the price. Once you get too much of that as a share, then you start affecting the price, so we try to take that into account. I think it's impossible for us not to have any impact on the market, but we try to mitigate it.

With respect to our actual plans, I think it's—

Mr. Tom Kmiec: I'm sorry. I'm going to interrupt you because I only have seven minutes.

Ms. Carolyn A. Wilkins: Sure.

Mr. Tom Kmiec: On these Canada mortgage bonds—this is the product that you're going to the market for—what's your upper limit? You said it would be a small portion of your balance sheet. What is “small” for the Bank of Canada?

Ms. Carolyn A. Wilkins: That's a really good question. I don't actually have a number in my head, but it would be a much smaller proportion than the Government of Canada's that we purchase. That, of course, would change over time because, again, the reality is that what the government issues, their debt issuance, is dependent on their funding needs for any particular year.

When the funding needs are bigger, it's easier to take a bigger share of that Government of Canada market. When they're smaller, which they have been in other years, then we have to adjust. That proportion would change over time, but we certainly have guardrails around that, and I can get those to you.

Mr. Tom Kmiec: Would the guardrail be a percentage of total share? Do you have that number somewhere at the Bank of Canada?

Ms. Carolyn A. Wilkins: We would have guidelines around that in our balance sheet management process.

Mr. Tom Kmiec: This isn't a form of quantitative easing.

Ms. Carolyn A. Wilkins: Absolutely not.

Mr. Tom Kmiec: If you weren't buying Canada mortgage bonds, you'd be buying treasury bills or something else.

Ms. Carolyn A. Wilkins: It's absolutely not.... It is entirely for balance sheet management purposes. It's not even close to a form of quantitative easing.

Mr. Tom Kmiec: You are not adding on to the monetary supply, M3.

Ms. Carolyn A. Wilkins: Absolutely not.

Mr. Stephen S. Poloz: No.

Mr. Tom Kmiec: I have another question. This was put out in November, and by the end of December, you had already purchased them. How long were you considering doing this before you put out a notice ahead of time? I'm guessing you did some analysis internally.

Ms. Carolyn A. Wilkins: Yes, we did some analysis. We've been doing this analysis off and on for a number of years, in anticipation of knowing that we would have to take up too much of the market. We also considered other instruments. That analysis would have been done and approved by the governing council well before it was actually implemented.

The Chair: You have a minute or two.

Mr. Tom Kmiec: You said you're very careful to ensure that you don't affect the market and the price that is obtained at the end, not to move the price.

Ms. Carolyn A. Wilkins: We have a minimal effect.

Mr. Tom Kmiec: When you're purchasing them, people don't know that you're doing it. Do you purchase them through an agent you hire?

Ms. Carolyn A. Wilkins: I apologize. I don't have all of those details. I'd hate to give you what I have in my head and have it not be entirely correct. I would prefer to send you all of the information we have on our purchase policies, which may in fact be on our website, although I'm not entirely sure if that amount of detail—

Mr. Tom Kmiec: I've checked.

Ms. Carolyn A. Wilkins: Okay, if it's not there, we have them. I'm perfectly fine sharing them as soon as I can send them to you.

Mr. Tom Kmiec: Could you share them through the clerk of the committee?

Ms. Carolyn A. Wilkins: Sure.

Mr. Tom Kmiec: When do you think we could have these?

Ms. Carolyn A. Wilkins: I don't see why we wouldn't be able to have something by the end of the day or the end of the day tomorrow.

Mr. Tom Kmiec: This will be in writing, through the clerk.

Ms. Carolyn A. Wilkins: Yes.

Mr. Tom Kmiec: Great. Thank you.

The Chair: You still have a minute.

Mr. Tom Kmiec: Those were the main questions I was going to ask you. Will you also be able to share some of that internal analysis you did ahead of time on why this would be the best course of action?

Ms. Carolyn A. Wilkins: Absolutely. I think what I'd need to do is just check to see what kind of third party information might be there that we would have to extract—if any. I just have to ask the staff to look at that.

Mr. Tom Kmiec: Okay.

The Chair: Thank you.

We look forward to receiving that information.

Mr. Dusseault.

[*Translation*]

Mr. Pierre-Luc Dusseault (Sherbrooke, NDP): Thank you, Mr. Chair.

Thank you for being here with us once again today.

My first question is on a topic I raise with you regularly when you come before us, and that is household debt.

I wonder if you could provide us with a status report on household debt in Canada. The situation does not seem to be improving. Some studies show that there can be good debt. A mortgage, obviously, is a good debt. However, a recent study by the MNP firm has shown that 50% of Canadians are $200 away from insolvency, that is to say a few dollars away from bankruptcy at the end of every month.

I wondered if those numbers are of concern to you, with respect to the Canadian economy. What are your thoughts?

● (1130)

Ms. Carolyn A. Wilkins: The household debt level of Canadians represents a high level of risk to Canada's financial system. We have been saying so for a long time. We noted that for a year now, the ratio of debt to disposable income has stabilized. That is good news. We also note that the quality of mortgage loans has improved, and that is very good.

You have to be careful when it comes to surveys of the population. Some people certainly do find that their finances are tight, even very tight. When we do our analysis, we look at the economy and the population as a whole. We know that 30% of Canadians have no debt. As for those who do, they have seen the cost of servicing their debt increase. The ratio is higher than before, but it seems manageable, on average.

Among the factors we can study are whether or not people are behind on payments, and the rate of personal bankruptcies. In Canada that has not increased, or worsened. The levels are not very high at all. However, some data show that it is more difficult in Alberta and Saskatchewan. That is totally understandable, given the adjustments people in those regions have had to make.

Mr. Pierre-Luc Dusseault: When you must decide whether to increase the overnight rate, you take into consideration the effect that may have on people who are a few dollars away from bankruptcy.

Ms. Carolyn A. Wilkins: Of course. I think we spoke about this the last time we were here. We know that our overnight rate increases have a greater effect than before because people have more debt.

At the same time, as you mentioned last week I believe, mortgage rates increased, and then decreased again. Mortgage rates went down by 60 basis points since the beginning of the year.

Mr. Pierre-Luc Dusseault: What effect would a change in interest rates have on the federal debt and the cost of servicing the debt? Every year we pay between $20 billion and $30 billion to service the debt; those are approximate figures since I don't have the exact figures before me. Do you evaluate the effect of the overnight rate on the federal debt and the annual deficit?

Mr. Stephen S. Poloz: That is part of our net analysis of the effects of interest rates on the economy. People who have bonds receive interest. The yield curve is very flat and has not changed for a long time. For the moment, there is no very big change, but I expect that some risk may change the yield curve one day or another. This will probably increase longer term rates as compared to short-term rates.

Overall conditions lead us to think that the yield curve will remain somewhat flat for a long time. It is possible that interest payments may increase because of other reasons, but for the time being, that is not what we forecast. We see a slight increase.

● (1135)

Mr. Pierre-Luc Dusseault: I have another question about some figures that surprised me. I don't know if you can answer me.

In the Department of Finance financial review, it says that there will be a \$3.1-billion surplus during the first 11 months of 2018-19, and the deficit for the same year is expected to be \$15 billion.

Can you explain those figures, which are at the very least surprising? Indeed, it is surprising that in a single month, the budget balance changed and went from a \$3.1-billion surplus to a \$15-billion deficit.

Mr. Stephen S. Poloz: That does not really fall under our purview. I did read something in the papers concerning the current budget and the moment when certain things are added.

According to our analysis, revenues are higher than anticipated. This is another indication of the economy's solidity, and that of the labour market. The way in which income is generated is another index that the economy is stronger than what newspapers lead people to believe, as they paint a somewhat darker picture. There are a lot of differences amongst such data, those on production and those on demand, at this time. Those data have to be reconciled.

Mr. Pierre-Luc Dusseault: It's true that the yields are—

[*English*]

The Chair: We're going to have to leave it there. We're a little over time.

Mr. Fergus.

[*Translation*]

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you very much for being here, Governor and Deputy Governor. Whenever you come here, like my colleague Mr. Dusseault, I take advantage of the opportunity to put questions to you about the indebtedness of Canadians.

When I go door to door in my riding, that is a question that comes up often. The advantage we have here is that you provide us with very clear explanations about the effects of this debt on the economy or the Canadian financial system.

Are you optimistic with regard to the stabilization of Canadian household debt, or are we still in a zone where we must be careful?

Mr. Stephen S. Poloz: As you said, this issue comes up constantly. Since last year, we have seen some encouraging developments.

First, obviously the new mortgage rules have changed things in a positive manner.

Secondly, household debt was on the upswing for a long time because of the increase in the cost of homes, particularly in Vancouver and Toronto. That is the factor that contributed the most to growing debt. However, that increase has declined considerably recently.

Third, the growth rate of debt is generally lower than the rate of nominal income.

I hope that this has already peaked and that we are entering a period of adjustment for households. This period may extend over several years, perhaps even 10 to 20 years. It is a gradual process, of course. That said, the situation is much more favourable than two years ago, that is certain.

Mr. Greg Fergus: Let's talk about mortgages and the measures included in the 2019 budget for first-time homebuyers, as well as the CMHC provisions.

Do you see this with a favourable eye? What effects will this have on the Canadian economy, and especially on the Canadian real estate market?

● (1140)

Ms. Carolyn A. Wilkins: Our role is really to evaluate economic effects.

Mr. Greg Fergus: Yes.

Ms. Carolyn A. Wilkins: It is up to you to make the difficult political decisions.

In fact, it is a bit soon to evaluate the economic effects because all of the parameters have not yet been clearly established for the moment. This is what we underscored in our monetary policy report. We will know more next fall.

Certain factors will be taken into account. We already know that certain program parameters will indicate to what extent the effect will be widespread.

For instance, limits have been placed on the ratio between mortgage debt and income. There are also limits on the loan amount one can obtain. In addition, if you are not buying a new house, the applicable figure is 5%, while for a new house, it is 10%. All of these parameters indicate that access to mortgages will probably be broadened, which corresponds to the objective of the program. Next fall, when we have all of the parameters, we will be able to determine more precisely to what extent the objective has been attained.

Mr. Greg Fergus: This may be my last question. This can be compared somewhat to what happened with the first-time home buyers assistance programs.

Do you think that the new price on pollution will have an inflationary effect, after taking into account the rebates that will be granted to Canadian households in the four or five provinces concerned, or do you think that it will have a neutral effect on economic growth?

Ms. Carolyn A. Wilkins: As for inflation, we calculated the direct effect, as we do for all the policies that affect inflation. We had to consider the effect of the tax on gas, oil, natural gas and fuel. According to our estimates, there will be an increase of 0.1 percentage points on the inflation rate in 2019. In 2020 and following years, the increase will be 0.05 percentage points. It will be lower because the increase will be lower. There will be an effect on inflation for a year, and afterwards there will be an effect on the level of inflation.

As to whether there will be effects on economic growth, there are complications that prevent us from determining that.

Mr. Stephen S. Poloz: It's certainly possible that it may affect investments in high carbon emission sectors. That is a potential consequence, and I would even say it is probable. When people have to pay a tax, this may encourage them to reduce their carbon emissions. It may also lead to lower investments in high carbon emission sectors.

The question is what will be done with the money that is collected, because this will encourage investments in other sectors. It's very difficult to analyze ahead of time.

As for me, I'd say that it will probably be a slight or neutral effect, but we will have to wait and see.

It is comparable to other factors that could affect the economy's potential; we can't really foresee them. We have to assess both sides of the coin and the situation eventually becomes clear.

In the final analysis, this will probably not have an effect on the economy, first because funds are being provided to absorb the costs to the economy.

● (1145)

Mr. Greg Fergus: Thank you.

[*English*]

The Chair: Okay. We will have time when we come back for about four questions in five-minute rounds. We'll have to suspend, Governor. We'll probably be back in about 15 minutes. You'll get an absolute break with nothing to do. Can you imagine that?

The meeting is suspended.

● (1145)

(Pause)

● (1205)

The Chair: We'll reconvene with the Governor and deputy governor of the Bank of Canada and start where we left off. We have time for four five-minute questions before we have to go to the Parliamentary Budget Officer's testimony. We'll start with Mr. Poilievre and then Ms. Rudd.

Mr. Poilievre, the floor is yours.

Hon. Pierre Poilievre (Carleton, CPC): Yes, it's normal for government leaders to make rosy predictions, and when they don't come true, to blame them on exterior factors in faraway lands.

I'm looking at your comments from the monetary policy update, Mr. Governor, and you attributed some of the downgrade to a structural matter, which was global oil prices. You compared oil prices to where they were five years ago. Of course, when you compare anything to a peak, you're going to be down, but it turns out oil prices are not low right now. Oil prices are actually quite high by historical standards. If you convert them into Canadian dollars, they're almost average for the last roughly 35 to 40 years. From 1980 on, we had an incredible expansion of Canada's oil sector at those average, inflation-adjusted prices.

What you didn't say in this remark—which astonished me and I'm sure many others—is that it has nothing to do with global oil prices, which are high. It has to do with reaching the market. I know it would have been politically inconvenient for the government if you had pointed out that market access, and not global oil prices, is the problem. Given that your job is not to help the government but to assess the facts, why did you attribute it to global oil prices rather than market access, which everyone agrees is the real problem?

● (1210)

Mr. Stephen S. Poloz: Sir, are you referring to our monetary policy report, or to my opening—

Hon. Pierre Poilievre: Your statement on April 30 that you presented....

Mr. Stephen S. Poloz: My opening statement here this morning...?

Hon. Pierre Poilievre: Yes. It was the same one you did in your press conference roughly a few days ago.

Mr. Stephen S. Poloz: Yes. There's quite a bit in our monetary policy report, not just this one but in the previous one about those constraints, transportation constraints and market access constraints. Various terms are used and quite a bit of analysis has been done by our staff on what the implications of that are. Today what I was drawing the distinction between is that yes, oil prices are indeed quite strong compared to where they were just four or five months ago. However, what firms are telling us is that they are still planning to invest less. The reason they're investing less is because of the uncertainty around market access.

That's what I was referring to in today's statement.

In the wake of the big oil decline in 2014-15, we basically had about a 50% decline in investment intentions. This only makes sense because investment intentions were framed around much more expensive oil. This year we are monitoring another 20% decline in investment intentions based on the situation. It's not necessarily just about oil prices but the situation, which I think is primarily about market access issues.

Hon. Pierre Poilievre: Right. It's just that I am looking at your statement from today and it mimics the statement you made publicly, where you said continued adjustments.... I'm going to read the whole sentence: “Some of this downgrade is likely more structural than cyclical in nature, as it represents the continued adjustment of the sector to global oil prices of US$50-60 per barrel”.

Mr. Stephen S. Poloz: Yes.

Hon. Pierre Poilievre: Again, I'm sure the industry would love to go back to the unusual peaks of 2013 and 2007 but those are anomalies. We're actually dealing with a fairly strong global oil price. It's not a global problem. It is a homemade one.

Another comment you made—you were giving an explanation for the poor economic growth Canada experienced in 2018 and the low forecasts for 2019, even more dismal—was about the U.S.-led trade war. Now I'm against all trade wars. I am a proudly ideological supporter of free trade in all circumstances, but what I find interesting is that the United States is growing almost twice as fast as Canada at 2.9% in 2018, and China is growing three and a half times as fast as Canada at 6.6% in 2018.

Given that they are our two largest trading partners, that they constitute 80% of our trade and that they are the principal participants in this so-called trade war, how can we possibly blame Canada's dismal growth on those two countries when their growth is significantly higher than ours?

Mr. Stephen S. Poloz: Just to close on the first question if I may, what I'm suggesting in that line that you quoted to me is that I believe the energy sector in Alberta continues to adjust to the previous decline in oil prices, from the $100 range to the $50 to $60 range. This is showing up in lower wage settlements and downward pressure on commercial real estate as well as residential real estate. Those adjustments, by our models, take three to five years to complete and they're still in train. That's just a reminder that we haven't fully adjusted to all that. I'm not trying to argue that our current conditions don't matter.

As for the U.S.-led trade war, it's giving rise to downgrades in investment intentions in about 47 countries. That's not a coincidence, 47 countries have experienced the same slowdown at exactly the same time in the fourth quarter of 2018. The mechanism that does this is business sentiment, and that too can be verified through surveys of business sentiment. Investment intentions have gone down across a wide swath of countries because of the uncertainty about the future of the global trading system. That is the primary channel that we are monitoring in Canada as an effect.

Going back to trade itself, it's a much more complex question: What direct effects are tariffs having? That is direct effects. Our staff have done all the hard labour around that, and we estimate it's only taken about 0.4 percentage points off of global growth so far. That's the direct effect on trade. Of course, it's distorting trade. It's making some trade categories go up a lot and others go down a lot. It's really not possible to think of that as having that effect on 47 countries, because that's a jumble. The one thing we have in common is weak investment, and I believe it's because of the uncertainty that the trade war raises.

● (1215)

The Chair: Thank you. We're a little over there, and that's fine.

Ms. Rudd.

Ms. Kim Rudd (Northumberland—Peterborough South, Lib.): Thank you once again for joining us.

I want to ask you to expand a bit. Foreign direct investment rose to $51.3 billion last year, which was a three-year high, the highest annual total since 2015. The inflows of about $16.5 billion in the final three months were the second-highest quarter that has happened since 2015.

The bulk of foreign direct investment last year was in non-energy sectors. As you talked about earlier in terms of the levelling off or stabilization of investment in particularly the oil sector, it appears that there is significant interest in investment outside that sector. Stats Canada stated that Canadian businesses are planning to increase by 2.5% their capital investments in 2019.

Can you talk maybe a little bit about what that means for growing areas of the economy, such as alternative sources of energy and the green economy, as we talk about electric vehicles and as we talk about the opportunities we have in the carbon-reduced economy that Canada is very engaged in?

Mr. Stephen S. Poloz: The data you give us are correct. Despite a lot of concern about Canada's competitiveness and its ability to attract investment, in 2018 there was about a 5% increase in inbound FDI, which is quite healthy. It's true that this increase was not in the energy sector, but of course, I could say the same thing about domestic investment. Domestic investment was being pared here in Canada in that sector.

The investment we are seeing is in what we would call more growth sectors. That's not to say that the energy sector won't attract investment, because it will and it still is, but it's lower than it was before. Its growth is perhaps constrained by transportation constraints, but slack makes more of an organic growth picture for the oil sector, until there is a pipeline, let's say, in which case we might then see a jump in activity.

In other sectors, I would say that the biggest investment area is intellectual property or softer forms of capital. If we look across, the strongest export sector now, in growth terms, is IT services. The strongest labour market and the strongest employment gains are in IT services. That's just for starters. The IT economy appears to be growing around 7% or 8% per year, attracting a lot of investment. Indeed, much of the investment is not even captured. If you just buy services on the cloud, you don't have to invest.

There are, then, some big transformations happening that make it hard to read, but we think that for investment overall, according to our survey of 100 firms in the BOS, everybody's ready to invest. We're hopeful, then, that the first quarter, when we get those data, shows it.

● (1220)

Ms. Kim Rudd: Thank you very much. It's a very interesting time, I guess, that we're living in.

One thing you mentioned earlier in your presentation was the impacts that provincial-municipal environments have on the housing market. I was just having a conversation with my colleagues before I came down. I asked if there was anything they'd like me to ask you. They said to ask about the Lower Mainland—Vancouver particularly, of course—and Toronto, and you mentioned these in your remarks, and about the rest of the country, particularly Vancouver and Toronto, where there are challenges in responding to the measures that have been put in place.

Do you believe those measures you mentioned, from a provincial-municipal perspective, are impacting some of these challenges in these two markets?

Ms. Carolyn A. Wilkins: The short answer is yes.

Those measures, if you're talking about the stress test and the tighter mortgage underwriting rules, certainly had a country-wide effect. That's because they were aimed at making the debt levels that were being taken on more sustainable for the people who were taking them on, and then, by virtue of that, ensuring a more stable Canadian economy.

The extra measures that were taken in Toronto and the greater Vancouver area, with respect to taxes, for example—the foreign buyer tax—added to the drag on the housing market. In fact, Toronto and Vancouver were different to begin with, just because of price expectations being so speculative. You can see in some of the data that we have on price expectations just how high they were getting. Those price expectations were reduced after the taxes, after B-20. Then, of course, our interest rate increases had an implication for these too. That's what's underlying the dynamic in the housing markets in those two jurisdictions.

Ms. Kim Rudd: Thank you.

The Chair: Thank you all.

We'll turn to Mr. Kmiec.

Mr. McLeod, you'll round it out with the final questions.

Mr. Kmiec.

Mr. Tom Kmiec: When the monetary policy report talks about the economy hitting a soft patch, what assumptions are you making about the TMX pipeline construction project actually going ahead? What would be the impact on the GDP forecasts if there continue to be delays and more construction seasons are lost because of dithering?

On the upside, if it does go ahead and is completed on time, what type of projections...or how have you accounted for that project?

Mr. Stephen S. Poloz: At this stage, I think that we just have a question mark around the timing of that, so if it were to.... Let's suppose that it was approved in the near term. There would be some additional investment spending this year, but the real impact on the economy would be after it's completed. There are, of course, the costs, the spending associated with its construction.

I know that Line 3, the other pipeline, is supposed to come in next year or later this year. Anyway, that's built in, and of course gradual growth in the capacity to ship oil by rail is also built into the forecast. The oil revenues and the oil exports that we have are modelled based on those assumptions.

● (1225)

Mr. Tom Kmiec: In your monetary report, you say that Line 3 is actually “delayed until the end of 2020”, but you say that rail is the anticipated marginal mode.

Mr. Stephen S. Poloz: That's right. It's 2020 for Line 3, but you have a marginal increase in rail capacity as new cars become available.

Mr. Tom Kmiec: Let's move on to the FTHBI, the first-time homebuyer incentive—the shared equity mortgages. Do you think that it will offset the effects of B-20 stress tests on the market, or do you think that they'll exceed it?

Those are all on the demand side. They're attempts to change the demand of people actually going to get mortgages. Do you think it will offset the impact of B-20 stress tests on the market, or will it exceed it in the future? Your growth projections are that the housing market recovers in 2020-21.

Mr. Stephen S. Poloz: The reason why the housing market recovers in that is that, as I described in my opening statement, when, in effect, B-20 is reducing the potential demand for housing on the margin, people are reacting in different ways: buying smaller houses or waiting a little longer to do it. However, once they've adjusted to those new rules, then the fundamental growth from population growth and labour force growth continues. That recovery is in the trend line.

The answer to the question that you're asking about the relative size of the B-20 effect macro versus this new first-time homebuyer incentive is very hard for us to know at this stage until we know the parameters of that program, as Ms. Wilkins answered a while ago. I think that the sketch around it was that it would be something like 100,000 households, that sort of thing. That's pretty significant, so we'll be figuring that in.

At the same time, B-20 is affecting everybody, so it's about how they adjust to that behaviour. That's something that we're monitoring closely as we go through.

It's very hard to compare them. It's an apple-and-orange kind of analysis, I'm afraid. I wouldn't want to commit to a balance on those two.

Mr. Tom Kmiec: Would it be fair to say, then, that the impact of the FTHBI is not included in your 2020-21 projections?

Mr. Stephen S. Poloz: That's correct. We don't know the parameters of it yet.

One of the things that is implied there is that it's designed to favour more housing building, so it's a fairly significant piece of analysis to work out just how big that might be. We have not included those things yet.

Mr. Tom Kmiec: Thank you.

The Chair: Thank you all.

Mr. McLeod.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, Mr. Chair.

Thank you to the presenters for a very interesting presentation and discussion today.

As an MP, I certainly encourage people from all walks of life to come to the north to visit us and to talk to the people who reside there. I think that over the last couple of years we've seen a good response. We've seen many MPs from all parties, and ministers, come to the north.

I saw that earlier this month you were able to address an audience during the Nunavut Mining Symposium in Iqaluit.

Mr. Stephen S. Poloz: Yes.

Mr. Michael McLeod: Last spring, you were in my riding and delivered a speech, which I was also very glad to see.

I want you to talk a little bit about the benefits, both for your work and for the local residents, of having you, the Governor of the Bank of Canada, come to the north to speak to and address the smaller and northern communities.

Mr. Stephen S. Poloz: Thank you.

When I became Governor, I committed to visiting all provinces and territories in Canada. I can now say that I've done so. It has been a great experience to talk to real people making real business decisions on a daily basis, in totally different settings.

I think the value to me is that it puts colour around numbers. Economics is mostly a bunch of numbers. Being able to stress-test forecasts or judgments with real conversations is very valuable, and has always been valuable to us. We put much higher weight these days on both our BOS and the interactive round tables we have when we're in a region. Both Carolyn and I do that whenever we're out there. We'll organize a dinner or a lunch or something with, say, 12 or 15 business people. Those things have been very valuable to us.

There are two sides of it. We get to explain some things to people that maybe they don't see every day, and we have those heart-to-hearts about how we think the economy is working. They let us know, “No, it isn't. This is what I see.” That's the kind of two-way conversation we have.

● (1230)

Mr. Michael McLeod: Your speech in Nunavut and the bank's latest monetary policy report mentioned advances in automation and artificial intelligence. Can you expand on your views regarding how these advancements are affecting Canada's economy, and the potential risks and rewards, as you see them?

Mr. Stephen S. Poloz: Often these things are discussed in a frame of risk. You think of automation or AI displacing jobs that are susceptible to that, jobs that are repetitive. It goes from manufacturing-type jobs to service-type jobs, such as in the financial sector. I was on the phone with an AI yesterday, trying to get something sorting out, and it was all sorted out. That's phase one that we hear about. The other side of it is the jobs being created by those people who are creating those things and jobs maintaining those things. If you put an automated machine in a factory, somebody makes sure it's working properly and so on.

The third thing that I think is helpful to bear in mind is that each of those major innovations in society generates incomes that we didn't have before. They kind of come out of thin air. Those incomes are spent everywhere in the economy. We create jobs in all the other nooks and crannies of the economy too. That is often forgotten when people discuss these things.

In what we call a general equilibrium, history has shown that we always benefit from technological progress. It's never a negative. We always create more jobs than get displaced. Of course, it doesn't mean that there aren't hard adjustments for people. We always need to be cognizant of that and make sure we have the right kinds of programs to help them transition.

Mr. Michael McLeod: Thank you.

The Chair: We will have to end it there, and move from one set of numbers to a second set of numbers with the PBO.

Thank you very much, Governor and Deputy Governor.

We will suspend for a couple of minutes for the Parliamentary Budget Officer and crew to come ahead.

● (1230)

(Pause)

● (1235)

The Chair: We shall reconvene, pursuant to Standing Order 108 (2), the study of the economic and fiscal outlook with the Office of the Parliamentary Budget Officer. Welcome to Mr. Giroux, PBO; Mr. Matier, senior director, economic and fiscal analysis; and Mr. Jacques, senior director, costing and budgetary analysis.

If one of you has an opening statement, we'll go from there.

Thank you for coming, and sorry for the bit of a wait.

[*Translation*]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you very much, Mr. Chair and ladies and gentlemen members of the committee.

Thank you for your invitation to appear before you to discuss our financial and economic perspectives from April 2019, which were published earlier today.

As you know, the Parliamentary Budget Officer provides parliamentarians with independent, non-partisan economic and financial analysis. As the Parliament of Canada Act indicates, we provide these analyses in order to raise the quality of parliamentary debate and promote greater transparency and accountability. Pursuant to the mandate of the Parliamentary Budget Officer, my office produces independent economic and financial cost estimates.

As you mentioned, Mr. Chair, I am accompanied today by Jason Jacques and Chris Matier, who will help me to answer your questions. They have a lot of knowledge and experience in the affairs of my office.

[*English*]

The Canadian economy is working its way through a temporary slowdown. Economic growth slowed sharply in the fourth quarter of last year following the decline in Canadian oil prices. We estimate that the real GDP growth remains subdued in the first quarter of this year but expect it to pick up over the remainder of the year as temporary factors dissipate.

Looking further ahead, we continue to expect the economy to rely less on consumer spending and housing and more on business investment and exports. We project real GDP growth to increase from 1.6% in 2019, the current year, to 1.9% in 2020, and then to average 1.6% annually through 2023. We judge that the risks surrounding our economic outlook are broadly balanced.

In terms of downside risks, we believe the most important risk is weaker export performance due to rising protectionism in global trade policies. On the upside, the most important risk is stronger consumer spending, fuelled by increased household indebtedness.

With respect to the fiscal outlook, since our October 2018 outlook we estimate that policy actions taken by the government will cost almost $10 billion per year, on average, over 2018-19 to 2023-24. Nonetheless, our updated outlook for the government's bottom line is, on balance, little changed compared to our October report. This reflects offsetting revisions to underlying revenues and expenses. In other words, we underestimated the amount of fiscal room in our economic outlook, mostly due to stronger than expected income tax revenues.

For fiscal year 2018-19, we expect the budgetary deficit will be $15.7 billion, which amounts to 0.7% of the Canadian economy. We project the deficit to rise to $22.3 billion in 2020-21, due in part to forgone revenues from introducing accelerated capital expensing. The budget deficit is then projected to decline to $11.9 billion, or 0.4% of GDP, in 2023-24. It's important to note this assumes no new policy actions are introduced.

We also project that the federal debt will consequently decline to 30.5% of GDP in 2020-21, which is almost 1.5 percentage points below the government's official debt anchor. We also project the federal debt-to-GDP ratio to fall to 28.9% of GDP in 2023-24.

Given the possible scenarios surrounding our economic outlook, and again without further policy actions, it's very unlikely that the budget will be balanced or in a surplus position over the medium term.

In our report today we also highlight some key issues arising from budget 2019 related to budget-estimates alignment, operating expenses and unannounced measures, among others. We would be happy to explain these issues if you wish us to and we can expand on that as well.

● (1240)

[*Translation*]

I would also like to direct your attention to another report we published this morning in which we independently established the cost of 11 Budget 2019 measures in order to prepare our estimate of the cost of electoral commitments, pursuant to my office's mandate.

The next general election will be the first in Canada where political parties will be able to ask us to prepare estimates that will be independent from the costs of their proposals. We acquired the necessary resources to manage the requests in an equitable and secure way while preserving the confidentiality of our clients. We are ready to seize this historic opportunity and provide the best possible cost estimates. We encourage all political parties to use our services in order to improve the quality of the information provided to Canadians.

My colleagues and I would be happy to answer your questions on our economic and financial projections, or on any other analysis from the Parliamentary Budget Officer.

Thank you very much.

[*English*]

The Chair: Thank you, Mr. Giroux.

We'll start with seven-minute rounds.

Mr. Fragiskatos is first up.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Mr. Chair, and thank you for being here today.

Mr. Giroux, you mentioned investment in exports in your opening statement as a source of real potential economic growth for Canada. Could you expand on that?

Mr. Yves Giroux: Yes. After the decline in business investments throughout 2017 to 2019, we expect that business investments will rebound, in good part because of the increase in oil prices in Canada and also abroad, but also because of the tax changes introduced in the fall economic statement. Both of these will be important contributing factors to increasing business investments. The exports should benefit from sustained growth—albeit at somewhat lower levels—in the U.S. going forward, as well as growth in Europe. Our main trading partners will continue to experience economic growth, which should help further expand our exports.

Mr. Peter Fragiskatos: Where are we with attracting foreign direct investment?

Mr. Yves Giroux: It's an issue we have not directly looked at as part of our economic and fiscal outlook, but Chris and Jason may want to expand a bit on it.

● (1245)

Mr. Chris Matier (Senior Director, Economic and Fiscal Analysis, Office of the Parliamentary Budget Officer): As Yves mentioned, we don't provide a forecast of it, but we have been tracking the quarterly data published by Statistics Canada, and we saw throughout 2018 a probably average performance, I would say. Initially there were some concerns, earlier on, about the tax changes made in the U.S. and about some investment probably being shifted out, but based on the data at least to date, I don't think we've really seen that materialize. Roughly, the investment levels are consistent with the average investment over the past four years.

Mr. Peter Fragiskatos: Thank you very much.

Mr. Giroux, in your statement you mentioned household indebtedness as a real source of potential risk in the Canadian economy. Could you speak more to that, but specifically from this perspective? We hear a lot, certainly from the opposition, and there are some economists out there as well who counsel that the stress test provides the wrong path for Canada and is not prudent economic policy. Could you put on the record your view of household indebtedness, with the stress test in mind?

We heard this morning from the Governor of the Bank of Canada, who, as you know, in previous remarks has spoken about the need for a mortgage stress test in order to offset the risk to the Canadian economy of creating a housing bubble.

Mr. Yves Giroux: With respect to household indebtedness, it's clear that one of the main factors is the relatively low level of interest rates, which of course encourages people to take on more debt. Another big factor contributing to high levels of debt is the relatively high price of housing. When household formation happens, people want to live somewhere, obviously, and they have a choice either to rent or to own. Owning means buying a house and incurring some mortgage debt, and when the prices are high and interest rates are low, that leads to high indebtedness.

It's not an issue, in and of itself, but it is a concern for us as economists when we see that households have high levels of debt. It's obvious that it's not sustainable in the optics of rising interest rates. It's bound to lead to some imbalances in the economy.

With respect to whether it is the right action to limit the growth in credit and have tighter mortgage rules, that's a very delicate question. It's obvious that something needs to be done. However, with the high prices of housing, it means that some people will be denied access to housing.

Something needs to be done, obviously, to rein in the high levels of debt, but it has the unfortunate collateral effect of preventing some people from accessing property, especially in the high-priced markets of Vancouver, Toronto and now, more and more, in Montreal.

Mr. Peter Fragiskatos: You're right. It is delicate because it's something that has come under debate, but as you say, something needs to be done.

Mr. Poloz is obviously gone, but I'll just read into the record comments he made a few months ago relating to household risk:

> The biggest risk we face in the financial system is that household debt is not able to cope with a more normal level of interest rates.
>
> ...If people can afford [a mortgage] today but can't afford it 100 basis points from now, then we're not doing them any favours.

I know you didn't want to get into the stress test side of things, but you did say that something needs to be done. The economists that I read and the economists that most Canadians look to, to provide an analysis of where we are, have worried in the past about the potential for a housing bubble and where household debt is. I think something such as a mortgage stress test is a prudent move.

On the debt-to-GDP ratio that you talked about, where is Canada compared to other industrialized countries in that regard?

Mr. Yves Giroux: When you look only at the federal debt-to-GDP ratio, it's quite low compared to international partners. However, if you want to compare things that are comparable, for example, the U. K. is a unitary state, so if you look only at the federal level, we obviously look advantaged.

A better gauge of debt levels to GDP take into consideration the federal, provincial and territorial debt levels. By that measure, I haven't looked at the numbers recently, but I think we're slightly below or close to the OECD average. I think we're slightly below, so we're faring very well.

Where we have a better advantage is when you take pension obligations into consideration. As you know, Canada has a three-pillar retirement income system. There is the public system with OAS, private savings and the public pensions of CPP and QPP. Canada is in the unusual situation of having prefunded a good proportion of its future obligations when it comes to the QPP and CPP. If we compare that with the pension obligations of most other major countries, we are in a better financial position when you take all of these into consideration for the debt-to-GDP ratio.

● (1250)

The Chair: Thank you. I'll end the round there.

Mr. Richards, the floor is yours.

Mr. Blake Richards (Banff—Airdrie, CPC): Thank you very much.

I have a number of topics that I want to try to ask you about. Hopefully we can get to them all.

The first one relates to your February 21 report, which said, "PBO found that the Pension Act regime", which was in place from 2006 to April 1 of this year, "is the most generous for the veterans". It also stated:

> From the perspective of the veteran, virtually all clients would be better off if they were to receive the benefits of the Pension Act.

Put a different way, that means veterans will now be worse off almost across the board under the new regime. Could you expand a little on your findings there and tell us exactly how much worse off you think veterans will be under that new regime?

Mr. Yves Giroux: We looked at the three main regimes—the one in place until April 1, 2006, the regime between 2006 and the end of March of this year, and the regime in place since April 1, 2019.

You'll have to forgive me, as I've forgotten the names of each of the regimes. As I've said on a few occasions, these are very complex regimes. I have a background in tax and I find these regimes, to be honest, more complicated than the Income Tax Act. That's one of my failings. I don't understand veterans' programs very well.

We found that the pre-2006 regime was the most generous for the vast majority, if not the totality, of veterans. The regime in place since April 1 is slightly more generous than what was in place between 2006 and 2019, but it also leaves out some veterans. It does not provide the same level of benefits to some of the veterans; I think it's 5% of the veterans and these tend to be the most highly disabled.

These are the main conclusions of the report, if I'm not mistaken. Jason is nodding, which means I haven't made any mistakes in characterizing the report.

Mr. Blake Richards: Let's touch on the April 30 report, not today's report. You indicated this quote in your opening remarks, "For 2018-19, we expect the budgetary balance will show a deficit of $15.7 billion". You go on to say, "We project the budgetary deficit to increase to $22.3 billion in 2020-21". Further on, you say, "We estimate that the probability the budget will be in balance or in a surplus position in 2019-20 and 2020-21 is effectively nil."

Just to be clear, in the year and the years following.... The year that Justin Trudeau said he would balance the budget, he's actually going to be increasing the deficit. Is that correct?

● (1255)

Mr. Yves Giroux: That's the conclusion we arrived at. We have seen no possibility of balancing the budget in 2019-20. In fact, we see the deficit increasing to $22.3 billion by 2020-21, which is a combination of policy actions that are significant and more than offset positive economic and fiscal developments. We see a significant increase in our forecast for the deficit. However, this deficit is expected to decrease over the planning horizon, to $11.9 billion by 2023-24.

We've also made a long-range forecast, or projection. We expect the deficit to return to balance, in the absence of any further policy actions, in 2028-29.

Mr. Blake Richards: That's about 10 years after it was promised to be.

Let's move from deficit to debt. What are your numbers for where the current federal debt stands?

Mr. Yves Giroux: We have as a proportion of GDP, which is a useful measure because it puts it into perspective—

Mr. Blake Richards: Sure, but what I'm actually interested in is the number.

Mr. Yves Giroux: For the absolute level of debt, we forecast federal debt at $687 billion—

Mr. Blake Richards: Almost $700 billion.

Mr. Yves Giroux: —in the previous fiscal year. That's 2018-19, and rising to $766 billion by 2023-24.

Mr. Blake Richards: What are the current interest payments on that debt?

Mr. Yves Giroux: In 2018-19, we believe they were at $23.4 billion. That's our estimation.

Mr. Blake Richards: Okay.

Mr. Yves Giroux: The final numbers are not in yet, but they would be rising to almost $34 billion by the end of the forecast period, which is 2023-24.

Mr. Blake Richards: What percentage of government spending is actually going towards servicing the debt?

Mr. Yves Giroux: Of government spending...? I'd have to do some mental math, which is always tricky. Chris is much better than me. As a percentage of GDP, it is 1.1% rising to 1.3%, but as a percentage of government expenditures....

The Chair: Go ahead.

Mr. Chris Matier: Sorry, as Yves said, I'm not very good with on-the-fly simple arithmetic, but it looks to be below 10%. It's probably, I would guess, around 7% of total expenses.

The Chair: Okay.

This is your last question, Mr. Richards.

Mr. Blake Richards: Sure.

In the mandate letter that the Prime Minister gave to the Minister of Finance, he identified meeting the government's fiscal anchors as one of the top priorities, saying:

> Ensure that our fiscal plan is sustainable by meeting our fiscal anchors of balancing the budget in 2019/20 and continuing to reduce the federal debt-to-GDP ratio throughout our mandate.

You indicate, though, that the government has been inconsistent in its reporting on progress towards meeting those two fiscal anchors in budgets and in its fall economic statements. It sounds like what you're saying is that the government is moving the goalposts on how it judges its fiscal management. If so, can you explain how the Liberal government has, in fact, done that?

Mr. Yves Giroux: We flag that in our report by raising a couple of issues of interest to parliamentarians. One of them is the government's progress in meeting its fiscal anchors.

As you pointed out, one of the fiscal anchors that the government had was balancing the budget by 2019-20. It never—to my knowledge, at least—has explicitly abandoned that fiscal anchor. As you pointed out in the mandate letter from the Prime Minister to the Minister of Finance, there was a commitment to balance the budget in 2019-20.

Mr. Blake Richards: Are you saying that it hasn't abandoned this so there's some possibility that this could occur?

Mr. Yves Giroux: Officially, not to my knowledge or explicitly. In fact, the website that tracks mandate letter commitments still shows that commitment as “Actions taken, progress made, facing challenges”.

● (1300)

Mr. Blake Richards: It sounds like it, yes.

Mr. Yves Giroux: There are challenges, yes, but it's obvious that this fiscal anchor has been abandoned. There's no doubt about that.

In our report, we suggest that the government might want to be more explicit about that and focus instead on the federal debt-to-GDP ratio.

Mr. Blake Richards: Or to put it differently, it could be more honest about it.

The Chair: Did you not ask for the debt-to-GDP ratio, as well? No? You don't want that stated.

We'll go to Mr. Dusseault. Then we'll go over to Mr. McLeod.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I thank the Parliamentary Budget Officer's representatives for being here today.

Among the thoughts you submitted to parliamentarians, there is a section on measures that were not announced. I can give you the opportunity to talk about them.

What do you think of the new way of projecting government budgetary expenses and including them in the budget? What effect will that have on the transparency of certain expenses that are not explained, although parliamentarians must nevertheless express opinions about them?

Mr. Yves Giroux: You have raised two points.

The first is the fact that the federal budget and the estimates will be better aligned, that is to say the parliamentary appropriations which you, as parliamentarians, must make decisions about. I think this is an improvement to transparency. According to the old presentation, budget measures were subject to a vote; parliamentarians had to approve them. This year, we have a new way of doing things. From now on, the Treasury Board Secretariat and the government present certain budget measures by department. It is now possible to match budget measures and parliamentary votes on which you must make decisions. I think this is an improvement.

However, this does not fully meet some of the criticism addressed to the government, according to which parliamentarians must speak out on budget items before Treasury Board has carried out its meticulous review of them. It is possible that changes will be made after parliamentarians vote on the appropriations. That criticism remains valid, but in my opinion, there are not many ways to remedy this unless we change the very structure of parliamentary appropriations.

In your question you also raise the matter of measures that have not been announced. There has also been an improvement in that regard, as compared to the transparency of previous budgets. However, there are a lot of unannounced measures. In fact, we do not know the exact number but the amounts are rather large. That said, it is a bit surprising that there is a negative amount in the 2019 budget.

There is a negative of $3.8 billion over a five- or six-year horizon. This suggests two possibilities, or a combination of both; a decrease in expenditures that have already been provisioned, or increases in taxes and tariffs. Without having details, we can't know whether these are expenditure reductions or funds that are no longer needed, so that budget space has been freed up. There is a lot of uncertainty about that.

The upside is that in the past, that uncertainty would not even have been mentioned. Today, we mention the existence of a large amount that corresponds to unannounced measures or expenses. We mention their impact, but the measures themselves are not specified.

Mr. Pierre-Luc Dusseault: So, there is a negative amount of $3.8 billion.

Mr. Yves Giroux: Yes. It's a big cloud of uncertainty.

Mr. Pierre-Luc Dusseault: I have another question.

I think you were the one who raised the alarm a few years ago about the fact that government program expenditures were not increasing every year at the same rate as government forecasts, which would translate into a type of quiet austerity. From one year to the next, the percentage of increase in program expenditures was not very high. Is this still your impression, or has the situation been corrected since?

As an illustration, expense forecasts did increase substantially, as they went from $308 billion in 2017-18 to $371 billion in 2023-24. In your opinion, is that realistic, or could those figures indicate a type of insufficient growth?

● (1305)

Mr. Yves Giroux: We talk about that in the report. We talk about the distinction the budget makes between departmental spending—which is projected to increase at an annual growth rate of approximately 3%—and spending obligations related to the public service pension and benefits plan—which are expected to decrease or have almost no growth. Our estimate was based on government numbers that weren't disaggregated. Given what we know about the pension plan liabilities and interest rate projections, we concluded that operating expenses would increase by approximately 3%.

Is that enough? Determining the right level of spending is a highly political matter, so I will make just one editorial comment: the projected 3% growth in operating expenses is not in line with historical data for recent years. Expenses are to be expected. The forecasts or projections do not assume the introduction of new policies, but every year, the government does make policy changes. It is therefore reasonable to expect that real growth and expected growth will not be the same.

Mr. Pierre-Luc Dusseault: I have another question, which I could have put to the Bank of Canada officials, but I'm going to take advantage of the fact that you are here and ask you.

We can see a fairly significant difference in the GDP growth projections. The bank forecasted a GDP increase of 1.2% in 2019, as compared with 1.8% projected by private sector economists. In fact, 1.8% is what the government used in its 2019 budget. To my mind, 0.6 percentage points remains a pretty big difference. You are the parliamentary budget officer, and you projected a 1.6% increase in GDP.

Could you please explain to parliamentarians how GDP growth projections can be so different? It does, after all, have a major impact on overall economic forecasts.

Mr. Yves Giroux: It has to do with the relative weight given to various factors. I can't speak for private sector economists or the Bank of Canada.

As for our office, we expect business investment to pick up during the second half of 2019, with energy prices and the curtailment of Alberta oil production favouring investment and economic recovery. We also expect interest rates to remain relatively stable until the end of 2019. In addition, the labour market should remain fairly strong across the country, nationally speaking. Given all those considerations, our projections are likely to be a bit more optimistic than others.

Some uncertainty does, however, persist, particularly on the international trade front. Therefore, our projections are probably not as optimistic as others in that regard.

[*English*]

The Chair: Thank you all.

We'll now turn to Mr. McLeod and then back to Mr. Poilievre.

Mr. McLeod.

Mr. Michael McLeod: Thank you, Mr. Chair.

Thank you to the witnesses for presenting here today.

I wanted to touch on a report that was put together by your office in the middle of April on the infrastructure investments in the territories. The report was critical of infrastructure spending in the north. I found it odd that in spite of many announcements on roads, highways, airports and housing, the report came out in the fashion that it did. It raised a lot of questions.

Can you verify that your report was looking solely at the investing in Canada plan and not at the broader scope of infrastructure?

I raise this because without including measures such as the trade and transportation corridors initiative, the investments in housing, the investments in broadband, disaster mitigation and everything else, it really doesn't paint the bigger picture when it comes to infrastructure investments.

● (1310)

Mr. Yves Giroux: We wanted to look at the impact of the investing in Canada plan, so we focused mostly on this. With respect to the specifics, I think Jason would be in a better position to answer your question.

Mr. Jason Jacques (Senior Director, Costing and Budgetary Analysis, Office of the Parliamentary Budget Officer): With respect to the specific elements that we looked at, it contained the entire envelope of federal spending, the roughly $180 billion. To your point, broadband is of course a part of that overall envelope.

To the extent to which you mentioned that there are significant investments occurring, one of the key findings of our report, both in the case of the territories and of the provinces, is the fact that there is money being spent and new infrastructure being built. It was more focused on the question of whether it is actually incremental in nature.

Based upon our analysis, the preliminary data seems to clearly indicate that incrementality is not being met.

Mr. Michael McLeod: The report generated a lot of discussion, and many people have pointed to the fact that this is more of an accounting exercise. They also point to the fact that the report and the exercise lags quite a bit behind in actual activity. Sometimes it's behind in years until all the bills are paid.

It makes me question the logic of the report. It only focused on one piece. It didn't look at the big picture, so why the report? Why not do a comprehensive report rather than just one section of investment, one program, only the investing in Canada plan, when there are many other investments being made? If this is supposed to be to our benefit, I don't see it.

Mr. Yves Giroux: As Jason mentioned, the aim of the report was to look at whether there was indeed incrementality as a result of the federal investments. That was one of the main goals of the federal government's programs when they were announced in 2016. Incrementality at that point was an important aspect, with a view to stimulating economic growth and creating jobs.

We knew we had a good idea from the federal numbers, so the intent of the report was to look at whether the federal investments had really triggered incremental spending by provinces and territories or whether there was some displacement. We had heard that anecdotally and we had heard that also from parliamentarians who were not convinced there was full incrementality, quoting very valid reasons. For example, some provinces and territories were cash-strapped. In some regions there was believed to be a lack of a sufficient number of projects that were ready.

We looked at this and looked in aggregate at expenditure plans of provinces and territories when they were available. For sure, though, the data is not perfect, and our reports—this is valid for this report as well as for any other—can only be as good as the quality of the data we're provided.

Mr. Michael McLeod: I'm hoping that at some point we're going to see a comprehensive report with all the different investments included.

My final question is a question regarding one of the projections you have in the economic and fiscal outlook in table 1. You have listed the contribution of exports to real GDP growth at 1.2% in 2020. Then it drops down to 0.6% in 2021.

I'm curious as to why. Maybe you could explain to us the cause of this projected decrease.

Mr. Chris Matier: Those are the contributions to real GDP growth from the export sector. Actual export volumes are growing faster than that, but that's the actual impact on the headline “Real GDP Growth” numbers. You're correct, though, that we have fairly solid growth up until 2020 and then the decline after that.

It's more of the moderation in the U.S. economy that we see. We had U.S. growth of around 2.5% per year. We also have the world economy more broadly returning back to growth in 2020—rebounding. Then, for the U.S. economy, there's the moderation after that.

● (1315)

The Chair: Thank you all.

We will turn to Mr. Poilievre and then go back to Ms. Rudd, who will be after Pierre.

Hon. Pierre Poilievre: You find that the government has almost $4 billion of unannounced spending and no way identified to pay for it. Is that an accurate characterization?

Mr. Yves Giroux: Do you mean in the non-announced measures?

Hon. Pierre Poilievre: Yes.

Mr. Yves Giroux: That's not what we find. In fact what we find is that in aggregate there could be $4 billion of non-announced measures, but it translates into a net minus $3.8 billion. It's thus either a net reduction in expenditures, increases in taxes or a combination of both.

In your scenario, in the example you mentioned, $4 billion of non-announced expenditures would probably mean $7.8 billion of other, offsetting reductions or tax increases, for a net of minus $3.8 billion. That, then, is what we find: the government mentioned in its budget non-announced measures for a net of minus $3.8 billion.

We asked Finance officials and were not provided with concrete explanations—budget secrecy or decisions still to be made. Whatever the reasons, valid or not, we don't know. We interpret this as expenditure reductions or tax increases or a combination of both for the forecast period, totalling a net $3.8 billion.

Hon. Pierre Poilievre: What is an non-announced measure?

Mr. Yves Giroux: It could be anything that the government has not yet announced. It could be a tax increase. It could be an expenditure reduction of any sort. It can be virtually anything.

Hon. Pierre Poilievre: Why would a government include an unannounced measure like that?

Mr. Yves Giroux: It's quite common, when the government has valid reasons to believe that it will indeed announce such measures. It has either made a decision already or there is a certain level of certainty with respect to actions the government will make, but it's not ready to announce it. That could be for commercial confidentiality reasons. It could be for strategic reasons. It could be for the sake of negotiations.

Hon. Pierre Poilievre: In other words, when you say $3.8 billion, that means that for the overall fiscal framework to go ahead as foreseen, they would have to find either $3.8 billion in new revenue or $3.8 billion in spending cuts or some combination thereof.

Mr. Yves Giroux: Yes.

The fact that it was a non-announced measure in the budget suggests it's more advanced and they will have to find—

Hon. Pierre Poilievre: I got it.

Just quickly, in what years will they have to find it? We're running out of time.

Mr. Yves Giroux: It's laid out on page 30 of the English version.

Hon. Pierre Poilievre: Okay. I'll take a look at that.

Can you also provide us with the direct program spending of the government in the years 2015-16, 2016-17, 2017-18, 2018-19, 2019-20 and all the way through to 2025-26?

Mr. Yves Giroux: We can certainly provide that.

Hon. Pierre Poilievre: Thank you.

On infrastructure, you indicate, Mr. Jacques, that you did not find incrementality. In laymen's terms, what you're telling us is that the government's infrastructure programs didn't actually deliver additional infrastructure that would not have otherwise occurred.

Is that an accurate description of incrementality?

Mr. Jason Jacques: That's an accurate description.

I think the key finding in our report is that you do see a bit of a boost, but the boost that the government said we were going to get out of it, in terms of the matching of one dollar of federal spending by three dollars from other levels of government is certainly not borne out by the data.

Again, this is something that, when you look at the empirical research, is borne out in other jurisdictions.

Hon. Pierre Poilievre: Government includes a bunch of spending under its infrastructure envelope that doesn't actually necessitate additional construction of anything.

For example, transfers to the provinces for so-called child care programs could pay staff members at a provincial level, even staff members who don't necessarily provide child care, but it doesn't necessitate new child care facilities actually being built.

Do you have any evidence with regard to how much of the so-called $180 billion the government has committed to “infrastructure” will actually go to the construction of new assets that would not otherwise have been built?

● (1320)

Mr. Yves Giroux: I don't think we have that level of granularity, because there are thousands of projects in Infrastructure Canada's database and we have not gone through each and every one of them and made that judgment call.

Hon. Pierre Poilievre: Let me just conclude by asking, do you have a different definition of infrastructure from the government's?

The Chair: I'm sorry, Pierre, you're out of time. We've been holding people close.

Ms. Rudd.

Ms. Kim Rudd: Thank you, Mr. Chair, and thank you for coming to present to us today.

There are a couple of questions coming out of your remarks and something I would like to clarify, if you could give me one second here. We were talking about the money for veterans.

I found your summary table in your report. Thank you very much. I'm a numbers person; I appreciate the clarity of numbers.

Just for the record, based on the former program under the last government, the present clients would receive $22 billion. Under the pension-for-life scenario that has come in under 2019, those same present clients will receive $25 billion, an increase of $3 billion. New entrants would receive the same, as they did in the plan preceding this plan.

There is a net increase of $3 billion, just for the record. I know you were struggling there about the 5% and what have you, so I thought this would be helpful.

The other thing in your fiscal outlook and in your remarks today is that you said you project that federal debt will “decline to 30.5% of GDP in 2020-21, which is almost 1.5 percentage points below the government's official debt anchor. We also project the federal debt-to-GDP ratio to fall to 28.9% of GDP in 2023-24.”

Could you explain to people who might be watching or interested in hearing this what a “debt anchor” is?

Mr. Yves Giroux: A debt anchor can be defined in a few ways. It could be the absolute level of debt or it could be the debt in proportion to the size of the economy. The government has chosen to opt for the second version: federal debt as a proportion of the economy. The government's stated goal is for the debt to stand at 31.9% of GDP.

One can reach that by adjusting the level of debt or accumulated deficits. It can also stimulate the economy or slow it down—a very unlikely event—because it's a denominator and a numerator: the debt divided by GDP. Of course, if the GDP grows faster, you don't need to do that much with the debt to make it represent a smaller share of the economy. That's the type of anchor the government has chosen.

Ms. Kim Rudd: Thank you very much.

When we talk about debt-to-GDP ratios, I think often people's eyes glaze over and they're not necessarily—

Mr. Yves Giroux: I don't understand that type of reaction, being an economist, but yes, apparently it happens.

Ms. Kim Rudd: There you go.

You also mentioned something about the three pillars of our pension system and the fact that it has positioned us in a very good place as a country, compared with others.

You talked about the Canada pension plan, the OAS and the private plans. As we know, there has been a shift in the past number of years away from defined benefit plans and even defined contribution plans to more self-contributing RRSPs, TFSAs and all of that.

One thing our government did was increase contributions to the Canada pension plan, with a long-term view of increasing the income that future recipients would have. Did you include that in your projection of the numbers you were talking about concerning the strength of this program?

● (1325)

Mr. Yves Giroux: Yes. These types of government policies that have been announced and implemented are included in our forecast.

Ms. Kim Rudd: Okay, thank you.

In your "Labour Market Prospects" section, you talk about the decline. Largely we're talking about employment rate. You say, "This decline largely reflects demographic factors as an increasing number of baby-boomers"—I am one of those—"leave the labour force. However, employment levels will continue to increase over this period given solid population growth averaging 1.2 per cent annually."

Is immigration factored into that number?

Mr. Yves Giroux: Yes, we have factored in immigration levels, and our demographic assumptions are based on those from StatsCan. I don't have the numbers off the top of my head, of course—

Ms. Kim Rudd: No?

Mr. Yves Giroux: —but yes, they are included.

Ms. Kim Rudd: Okay. Thank you very much.

The Chair: We'll turn to Mr. Poilievre, and then to Mr. Fergus.

Hon. Pierre Poilievre: Do you have a different definition of "infrastructure" from the government's definition?

The Chair: Who wants to respond?

Mr. Giroux, go ahead.

Mr. Yves Giroux: When we do our reports on infrastructure programs, we have used the government's definition of infrastructure because of the nature of the program, the number of infrastructure projects. We have not decided what should be counted as infrastructure and what should not be classified as infrastructure, because the objective of our report was to determine whether there was incrementality in provincial spending or not.

That being said, there are various definitions of infrastructure, and I have to say that when I glanced at some of the projects, some didn't strike me as infrastructure in the sense I had expected. For example, I saw communications equipment for public transit systems, bus shelters.... These are a couple of examples I remember that struck me as, at the very least, light infrastructure projects.

To answer your question, we have used the government's definition of infrastructure.

Hon. Pierre Poilievre: You comment on the lack of incrementality in the infrastructure programs. Can you give us examples of the type of so-called infrastructure spending that has displaced other provincial and local spending that would otherwise have occurred?

Mr. Yves Giroux: We don't have specific examples because we looked at macro levels. What that means is that we looked at provincial and territorial investment plans when they were available, as well as at municipal plans, pre-announcement and post-announcement.

In the presence of incrementality, the pre-federal announcement plans should have been augmented or bonified to take advantage of the federal plan. This means that before the government announced its plan, there were projected levels of investment by provinces and territories, so when the government announced an increase in its infrastructure programs, we expected to see a corresponding increase to provincial plans, which did not materialize to the same extent.

Hon. Pierre Poilievre: Right.

Mr. Yves Giroux: There was some level of displacement, but we didn't do the microanalysis, looking project by project, because I would have needed much more analysis and many more analysts than the number we have.

Hon. Pierre Poilievre: As federal spending on so-called infrastructure has increased dramatically over the last 25 to 30 years in Canada, we've also seen a very dramatic increase in the personnel budgets of the municipalities.

One would ask what one has to do with the other. It's clear to me that what's happening is that federal spending is displacing spending that would otherwise have happened, and then municipalities are taking the freed-up money and using it to expand their personnel. Does that sound like a realistic hypothesis to you?

Mr. Yves Giroux: That sounds like something very plausible that has probably happened at least in part. To say that it has entirely displaced provincial or municipal spending—or the opposite—is probably too strong, but it has happened at least in part, based on what we found in our reports.

● (1330)

Hon. Pierre Poilievre: How does your estimated growth impact of the government's new infrastructure spending compare to the government's promised impact?

Mr. Yves Giroux: I don't remember off of the top of my head. Maybe Jason has a better memory than I do because he's younger, but maybe not.

Voices: Oh, oh!

Mr. Jason Jacques: In terms of what the government actually originally tabled as part of budget 2016 versus our most recent report around the economic impacts, it's roughly about half, but that half is primarily attributable to the fact that there were delays in actually getting the program out the door, initial delays in negotiating the agreement with the provinces and the municipalities and then further delays in cutting the cheques to get the projects approved.

All that said, at some point in the future with those delays, the government still has indicated that the money is on the table, so potentially there's going to be some pickup or recapture at some point.

Hon. Pierre Poilievre: When the government spends borrowed money, that money has to be borrowed out of the economy. Do you take that into consideration when you determine the impacts on economic growth of infrastructure and other governmental spending?

Mr. Yves Giroux: No, we don't take that into account when we look specifically at the infrastructure programs. We take that into account when we do our macroeconomic projections, but when we look specifically at infrastructure programs we don't take that into account, because that would require second- and third-order impacts, and it would require dynamically estimating the impacts of these programs, which would be significantly more complex.

The Chair: We will turn to Ms. Rudd and then back to Mr. Dusseault.

Ms. Kim Rudd: Thank you.

Can you provide some clarification? I think we've been skirting around this in a number of ways. Mr. McLeod talked about the infrastructure in the north and you talked about the lack of incremental progress. As I'm understanding from your report, the programs by which the federal government puts infrastructure money out are supported by provincial and municipal governments as partners, usually with a third, a third and a third, but there are variations on that theme.

Further, my understanding is that in provinces—as an example, Ontario, where the provincial government has not released their infrastructure programs—the federal money is not being leveraged to the degree it could be and indeed should be in order to realize those incremental increases in infrastructure growth. Is that fair?

Mr. Yves Giroux: What I'd say is that we have not been made aware of any instances where provinces, territories or municipalities did not cough up their share of the program funding that they were supposed to provide under the agreements. What we have seen at the aggregate impact is that some provinces and territories have displaced a portion of the funding in order for them to meet the matching requirements. They have limited financial capacity and they were not either able or willing to fully provide a totally incremental funding for the infrastructure program.

We have not looked at specific programs, but in looking at the aggregate numbers, our suspicion is that some provinces and territories did slow down some other projects that were not subjected to the cost sharing with the federal government.

Ms. Kim Rudd: I'll go back to the example of Ontario. There are four streams of infrastructure. There is an agreement between Ontario and the federal government. It's been in place for almost two years now.

Recently, the roads and bridges stream was opened for a four- or five-week application process, but there has been no opening of the streams for water, waste water, rural broadband and cell, or housing. What we're finding are challenges within municipalities that are ready to contribute and be partners, but because the provincial government has not stepped up to the plate and honoured the agreement, things are being slowed down.

I guess my question to you is this: Do you have any sense of what that would do—Ontario is a very large province—to the results you're talking about, if in fact that were to be realized as per the agreement?

● (1335)

Mr. Yves Giroux: That would obviously slow down the pace of implementation for that stream of the program. These are questions that Infrastructure Canada officials would be in a very good position to answer, and they would be able to provide you with specific examples, I'm sure.

Ms. Kim Rudd: Thank you.

Peter?

Mr. Peter Fragiskatos: Is there time for a question?

The Chair: We will be coming back a little while later anyway, but go ahead.

Mr. Peter Fragiskatos: I just have a question. We hear from the Conservative opposition and from Conservative provincial governments—not exclusively but many—and provincial leaders who carry the Conservative banner and have joined with their federal colleagues to say that there is economic ruin that will result from putting a price on pollution, and carbon pollution in particular.

Is there evidence from other jurisdictions that putting a price on pollution results in economic devastation? You're an economist and an expert and very neutral.

Voices: Oh, oh!

Mr. Yves Giroux: These are very harsh words, so I will not venture into these types of adjectives. We looked at the impact of putting a price on carbon in Canada, the economic impact, and what we found was a 0.1% impact on GDP, a negative impact on GDP, per year. It's a level difference, a 0.1% difference.

If Chris is not kicking me, it's probably because I have the.... Okay, no, he wants to kick me. We found a small negative impact on the level of GDP, which is probably not 0.1%, contrary to what I'm saying.

Mr. Chris Matier: Just to clarify, it is an impact of 0.1%, but it's a percentage point on real GDP growth per year. Over a five-year period, at the end, the level of real GDP would be 0.5% lower. That's considering a scenario with the federal plan in place, let's say, versus a scenario without any carbon pricing in the economy.

Mr. Peter Fragiskatos: Canadians get rebates to offset increased costs.

Mr. Yves Giroux: In the provinces where the federal backstop is in place.

Mr. Peter Fragiskatos: Thank you.

The Chair: We'll go to Mr. Dusseault, and then, if anybody over here has a question, we'll probably conclude with that.

[*Translation*]

Mr. Pierre-Luc Dusseault: Thank you, Mr. Chair.

I'd like to come back to a question I wanted to ask you earlier about program expenses. I had a reference in mind, but I didn't have the document in front of me. It's on page 37 of your report. Program expenses are decreasing. The figures in the table are expressed as a share of GDP, not in absolute numbers, of course. Total program expenses are going from 14.6% in 2018-19 to 14% in 2023-24.

Would you say that's normal or worrisome?

Mr. Yves Giroux: I wouldn't call it worrisome, but I wouldn't call it normal either.

As I mentioned in my opening statement, our projections assume that no new measures or major policy changes are introduced. For our projections, we assume a status quo in policy actions. We look at the effects of economic changes over the long term that are a bit more predictable, such as demographic changes. Our projections take into account energy prices, the global economic and macro-economic environment, current policy and announced policy actions whose implementation is almost certain. All of those considerations result in the figures you have before you.

That said, it's rare for a government not to make changes to government programs. Is it plausible to think that nothing will change and that government programs will carry on at the same rate? I don't think that's what's going to happen, because successive governments make changes to programs. However, government spending as a share of GDP can be expected to remain stable over time. That would not be unusual.

Regardless, a government may wish to play a stronger role and be more involved in the economy or, conversely, play a smaller role in the economy. That can happen in a variety of ways, either through direct spending or through higher or lower transfer payments to individuals.

Looking at program expenses in isolation likely paints a slightly distorted picture of real total government spending.

● (1340)

Mr. Pierre-Luc Dusseault: Thank you.

My last question is about the scenario of a 100-basis point interest rate increase. According to the numbers on page 43, such an increase would have little fiscal impact overall, except with respect to public debt charges, which would increase rather significantly. In 2019-20, the increase would be $3 billion, and in 2023-24, the increase would be $7.6 billion.

That leads me to ask you about the Bank of Canada's policy rate. The governor appeared before the committee earlier today. You're projecting that the rate will increase by one percentage point by next year.

Mr. Yves Giroux: Yes.

Mr. Pierre-Luc Dusseault: That's pretty substantial. That may cause many to be concerned about interest rates, especially when it comes to mortgages. Household indebtedness is high, with more and more Canadians nearing insolvency. That can have a huge impact.

How can we determine the risks of such a substantial increase, not just in terms of public debt charges—which are considerable— but also in terms of the Canadian economy overall?

Mr. Yves Giroux: Historically speaking, our projected increase in the Bank of Canada rate isn't all that high. Canada has experienced rates between 18% and 20% in the past. If the Bank of Canada's policy rate went from 1.75% to 2.75%, it would be significant in absolute terms, but not that high in relative terms.

We believe such an increase would lead to a neutral rate. The monetary policy would have neither the effect of stimulating the economy, nor the effect of curtailing it. For that reason, we project the rate will rise until it reaches 2.75%, a rate that, in our view, is consistent with a neutral monetary policy. In other words, it neither stimulates the economy nor curbs growth.

The impact on households would not be negligible, to be sure. It would be significant, but not overly negative.

Mr. Pierre-Luc Dusseault: Thank you.

[*English*]

The Chair: Okay, if there are no further questions, I just have one to close off.

In the executive summary of your report on the expenditure plan and main estimates, you mention that elderly benefits are the largest major transfer to persons. You also mention that the increases in the gas tax fund and the Canada health transfer account for the two most significant increases in major transfers to other levels of government.

Do you have the bottom line there? You outline the $2.2 billion increase in the gas tax fund, which is doubling it, and the $1.8 billion increase in the Canada health transfer. What is the total amount of expenditures in those two categories?

One of the problems, even in the budget documents, is that we often talk about the increased percentage or the increased amount, but you have to search here and there to find the bottom-line figure. I find that a problem.

I'm looking for the bottom-line figure. I guess if the gas tax fund is now doubling 100%, it would be $4.4 billion.

What is it for the Canada health transfer? That's a question we get a lot.

Mr. Yves Giroux: It's going up by $1.8 billion in cash terms.

The Chair: Yes, I know that's what it's going up, but what's the bottom line? How much is the total transfer annually on the Canada health transfer from the federal government to the provinces?

● (1345)

Mr. Jason Jacques: The total transfer is $40.4 billion.

The Chair: It's $40.4 billion.

Do you have before you what the transfer is to persons in terms of elderly benefits? Do you have that there as well? I know it's increasing $2.5 billion.

Mr. Jason Jacques: It's $56.2 billion.

The Chair: Okay. With that, are we all in, all done?

Thank you very much, gentlemen, for your presentation and for answering our questions. It's unusual for us to be done a wee bit ahead of time, but we'll take it.

The meeting is adjourned. We'll see you all again at 3:30.