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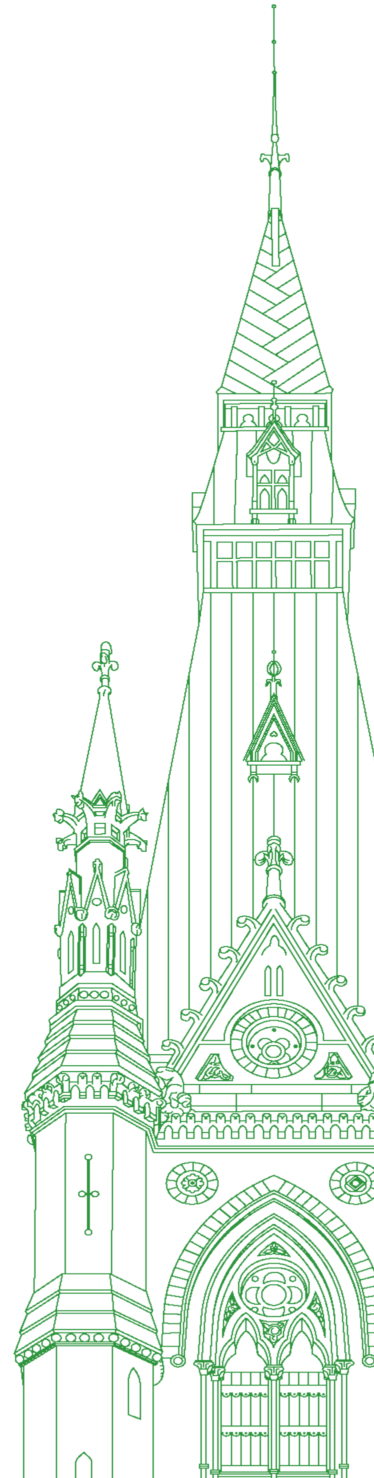

Chair: The Honourable Wayne Easter

Standing Committee on Finance

Tuesday, April 27, 2021

● (1600)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): We will call the meeting to order.

Welcome to meeting number 37 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) the committee is meeting to study the report of the Bank of Canada on monetary policy and the economic and fiscal outlook.

Today's meeting is taking place in a hybrid format, pursuant to the House order of January 25, 2021. Therefore, members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website, and as most everyone knows now, the website will show the person speaking rather than the entirety of the committee.

Based on the experience in the House, it's just as well not to take a screenshot of the proceedings.

With that, we will welcome our first guest, and before I get to the Governor of the Bank of Canada, I will give you a heads-up on the question list. In the first six-minute round, the first one up will be Mr. Poilievre, followed by a split between Julie Dzerowicz and Annie Koutrakis.

Turning then to the Governor of the Bank of Canada, Mr. Macklem, welcome.

You've been here before. It's a pleasure to see you again.

The floor is yours.

Mr. Tiff Macklem (Governor, Bank of Canada): Thank you, Chair. I hope you can hear me well.

Good afternoon to you and to all the committee members. I am very pleased to be back with you to discuss our monetary policy report, our economic outlook and the actions we're taking to support the recovery.

If I had to sum up the message for you in three words, these would be progress, time and commitment.

[*Translation*]

First, the economy is making good progress. Canadian households and businesses have shown impressive resilience to the pandemic. The economy is doing better than we expected. And with more and more Canadians getting vaccinated, we anticipate better times ahead. Reflecting these developments, last week, we revised up our outlook for the Canadian economy.

But second, a complete recovery will still take some time. The third wave of the virus is a new setback. It is straining health care systems in many regions and again hitting sectors where physical distancing is difficult. Important parts of the economy remain very weak, and too many Canadians are still unemployed.

[*English*]

Third, the bank remains steadfast in our commitment to support Canadian households and businesses through the full length of the recovery. For working Canadians, a complete recovery means a healthy job market with good opportunities, and that includes low-wage workers, women and young people who have been hit hardest by this pandemic.

A complete recovery means that companies have confidence that the pandemic is over and are investing to seize new opportunities. For households and businesses, a complete recovery means that they can count on inflation being sustainably at our 2% target.

Let me expand on these themes. At the time of our last MPR in January, Canada was facing a second wave of the pandemic, and we expected the economy to contract modestly in the first quarter of 2021. As it turns out, it now looks like the economy grew strongly in the first quarter. This is partly because the global economy is stronger, particularly in the U.S., but the most important factor is the resilience and adaptability of Canadian households and businesses. They have found new ways to shop, serve customers and work remotely.

As a result, lockdowns through the second wave had much less economic impact than they did through the first wave, and as restrictions were eased, the economy bounced back with substantial job gains in February and March.

Housing construction and resales have been particularly strong, rising to historic highs. This is being driven by a desire for more living space, low mortgage rates and limited supply, but we are seeing signs of extrapolative expectations in some housing markets, and there are risks that some households may overstretch financially. We'll continue to watch this closely.

[*Translation*]

With vaccination progressing, we are expecting strong consumption-led growth in the second half of this year. Fiscal stimulus from the federal and provincial governments will also make an important contribution to growth. Strong foreign demand and higher commodity prices are expected to drive a solid rebound in exports and business investment, leading to a more broad-based recovery. We now project that the economy will grow by around 6.5% this year, about 3.75% in 2022 and 3.25% in 2023.

● (1605)

[*English*]

With this improved outlook, we're hopeful that there will be less labour market scarring and less lost capacity than earlier feared, and we have revised upward our estimate of the economy's potential output. But I want to emphasize that considerable uncertainty surrounds our estimate of potential. As the recovery continues, we will be paying attention to a broad spectrum of indicators of slack, including a range of labour market indicators.

[*Translation*]

Last week, we saw that inflation rose slightly above our 2% target in March. This increase was expected. Indeed, over the next couple of months, we anticipate inflation will rise further to around the top of our 1% to 3% inflation-control target range. This largely reflects base-year effects combined with the recent rise in gasoline prices.

Governing council is looking through these temporary increases in inflation because we expect the ongoing excess supply in the economy to pull inflation back down. Inflation should return to 2% on a sustained basis as slack is absorbed in the second half of 2022.

[*English*]

Taking into account the improved economic outlook and the considerable slack that remains, the governing council judged last week that the economy still needs extraordinary monetary policy support. We remain committed to holding the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2% inflation target is sustainably achieved. As I just mentioned, based on our latest projection this is expected to happen sometime in the second half of 2022, although this timing is unusually uncertain, given the difficulties in assessing the economy's supply capacity.

Our forward guidance on the policy rate continues to be reinforced and supplemented by the bank's quantitative easing or QE program. Effective this week, we adjusted our weekly purchases of Government of Canada bonds to a target of $3 billion, down from the previous minimum of $4 billion. This adjustment reflects the progress we've already seen towards economic recovery.

Before I turn to your questions, let me say a few words about our QE program and its impact on our balance sheet, as I know this is a topic of interest to many committee members.

Around this time last year the bank launched a number of extraordinary programs—11 in all—to help restore functioning in financial markets and keep credit flowing. These programs worked, and with markets now functioning well we have wound down or announced the termination of all but one of our extraordinary programs. The one remaining is our QE program. It is still providing needed monetary stimulus by lowering borrowing costs for households and businesses across the yield curve.

With the other programs winding down and QE continuing, the size and composition of our balance sheet has shifted in the past several months. The size of our balance sheet peaked back in February at about $575 billion. It has since decreased to about $475 billion. This decline reflects the maturing of some of the shorter-term assets and the termination of most of our extraordinary programs.

We continue to buy Government of Canada bonds to provide stimulus in pursuit of our inflation objective. The bank currently holds about $354 billion of Government of Canada bonds, comprising more than 70% of the assets on our balance sheet. This is up from 55% last January.

I've provided you with a chart that shows the evolution of our balance sheet and a table that provides more detail on the maturity composition of our holdings. As you can see from the table, the Bank of Canada currently owns just over 40% of the outstanding stock of Government of Canada bonds.

Across the maturity spectrum of nominal bonds, our ownership ranges from 48% of five-year bonds to 36% of 10-year bonds. We routinely make available high demand bonds through our securities lending program, and this helps promote the smooth functioning of Canada's government bond market.

I've given you a lot of numbers. The message I want to leave with you is that our purchases have provided a lot of stimulus to the economy. With the progress toward economic recovery that we've already seen, we have adjusted the amount of incremental stimulus we are adding each week with our purchases. Looking ahead, further adjustments to the pace of net purchases will be guided by our ongoing assessment of the strength and durability of the recovery.

If the recovery evolves in line with or more strongly than our latest projection, the economy won't need as much QE stimulus over time. Further adjustments to our QE program will be gradual, and we will be deliberate in our assessment of incoming data and our communication of our analysis.

● (1610)

We remain committed to providing the appropriate degree of monetary stimulus to support the economy and achieve our inflation objective.

With that, Mr. Chair, let me stop and address the committee's questions.

The Chair: Thank you very much, Governor.

Starting with a six-minute round is Mr. Poilievre, followed by Ms. Dzerowicz.

Hon. Pierre Poilievre (Carleton, CPC): Governor, I was fascinated to hear you say that the purpose of your quantitative easing—that is, these mass purchases of government bonds—was to help households and businesses, but you didn't mention that it was designed to help governments spend borrowed money.

On April 19, the Minister of Finance introduced a budget that proposed a deficit of $154 billion. That works out to $3 billion a week. That's how many dollar-value worth of bonds the government will have to sell.

How much are you proposing to buy every single week, and just the number, please?

Mr. Tiff Macklem: Right now, we're buying $3 billion a week.

Hon. Pierre Poilievre: What a coincidence. The government is going to be selling three billion dollars' worth of bonds per week, and you're going to be buying $3 billion a week.

Mr. Chair, it is a miracle. What a coincidence that those two numbers line up so closely. You announced that $3 billion number exactly two days after the minister laid out the same number in her budget.

Is that a pure coincidence?

Mr. Tiff Macklem: Our purchases of government bonds are guided by our inflation target. We have seen considerable progress in the recovery. We don't need as much quantitative easing, and that's what guided our decision to reduce the number of purchases.

Hon. Pierre Poilievre: Right.

On an annual basis, the government will borrow a net $154 billion, and you will provide a net $156 billion, so there is an extra $2 billion. Keep the change, Mr. Government. That has to be a coincidence, but you're saying no, the purpose of this was the inflation target.

Three of your four measures of inflation are now above the target, which would presumably mean you would pull back. Even The Financial Post said, “Central banks and government out of touch with Main Street when it comes to rising cost of living”.

Canada's food price report shows that food costs increased almost 3% last year, with an expected increase of almost 7% in meat, almost 6% in bakery and almost 7% in vegetables, not to mention housing prices are up more than one-third in just over a year.

I think we have enough inflation, Mr. Governor. Why do you keep printing money?

Mr. Tiff Macklem: It's really quite straightforward. We're in an economy that still has major parts that are very weak. There are still far too many unemployed Canadians. There are large parts of the economy that remain well below their capacity. That is all putting downward pressure on inflation.

To give you a picture in terms of actual Canadians, we're still 300,000 jobs below where we were pre-pandemic. For more than a year, Canadian students who have graduated and Canadians who have entered the labour force, it's about 500,000 below the pre-pandemic level.

That is putting downward pressure on inflation. We are committed to supporting the recovery, getting Canadians back to work, and that is critical to get inflation sustainably at our 2% target. That is what is guiding our policy decisions.

● (1615)

Hon. Pierre Poilievre: Mr. Governor, I have no doubt that unemployment is high. The job market is terrible, but inflation is high too.

You admitted today, for the first time, that you're going to bump up on 3% inflation. That is something you told us, and your predecessor told us, was not possible, when you first testified about this quantitative easing program only a year ago.

The people you claim to be helping, low-wage workers, women and young people, are the victims of inflation. You have admitted at this committee that the poor, the young and the dispossessed are disproportionately harmed by inflation, because they deal more in cash and because they don't own assets that inflate.

Why are you, once again, pumping billions of dollars into the system to inflate the things that the rich own, but that the poor have to buy, thus widening the gap between rich and poor?

Mr. Tiff Macklem: Let me clarify a couple of points.

First of all, we are committed to achieving our 2% inflation target. That, as you highlighted, is important, particularly to low-income Canadians because they tend to hold more cash than other Canadians, so they suffer more from inflation. It is really important, and we have a very strong record over the last 30 years of achieving our 2% inflation target on average. We absolutely intend to continue that.

Second, as I've highlighted and as you've mentioned, there are many unemployed Canadians. There are far too many Canadians out of work.

Hon. Pierre Poilievre: With respect, Governor, my question—

Mr. Tiff Macklem: The best thing we can do to help those Canadians is to get them back to work.

The Chair: Ask your last question, Pierre.

Hon. Pierre Poilievre: Printing cash won't do that. Your method was tried in the early eighties and it led to stagflation: high unemployment and high inflation. You claimed that this money printing was about restoring the functioning of markets, but credit and capital markets are flush with cash more than ever before. You claim it's about getting to the 2% target, but we're already over the 2% target.

The only thing that makes any sense is that you're printing about exactly the same amount of money that this government needs to borrow. However, by funding the government with printed money, you're making housing unaffordable for young people in my riding, and you're making food and other essentials unaffordable for seniors and the poor. This policy has to come to a—

The Chair: Where is your question here?

Hon. Pierre Poilievre: Mr. Chair, will the governor commit that he'll stop printing money and giving it to the government once we hit 3% inflation, yes or no?

Mr. Tiff Macklem: With respect, our policies are working. This is a bad third wave, and we need to get through this, but we have seen impressive resilience in this economy. That has a lot to do with the adaptability and resilience of Canadians. It also has a lot to do with the fiscal and monetary supports that have been provided. This economy still has some way to go before we hit that complete recovery, and what we are committed to doing is supporting the economy through the full length of the recovery to get inflation sustainably back on target.

The Chair: Thank you, both. We're a little over.

We'll turn to Ms. Dzerowicz, who will split her time with Ms. Koutrakis.

Julie.

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you so much, Mr. Chair.

I want to thank the governor for being here. Thank you so much for making time today, and thank you so much for your service to our nation during these unprecedented times.

I'm going to continue the conversation around our labour market. As you mentioned, it has been remarkably resilient. You also mentioned that, despite the fact that we've actually had substantial job growth over the last couple of months, it still remains very difficult for many Canadians, particularly low-wage workers, young people and women. Our federal budget 2021 has invested significantly in these three key groups.

Can you talk to us about how focusing and investing in these groups is good economic policy?

Mr. Tiff Macklem: Before I go any further, let me just underline that I am here as the Governor of the Bank of Canada to talk about our outlook, monetary policy and the actions that we're taking. It's not my role to comment on the government's budget and the individual measures. What I am prepared to talk about are the implications of fiscal policy for monetary policy. We take federal and provincial budgets, and we build those into our own projections. Certainly, over the last year through this pandemic, the fiscal supports from the federal government and from provincial governments have been instrumental in supporting Canadians. As I underlined in my previous answer, while we still have a considerable way to go, this combination of fiscal and monetary policy is working.

There is a range of measures in the budget. The budget came out, obviously, two days before our monetary policy report, so we don't have every detail in there, but from a macro perspective, we have included the essential features of the federal budget. That is built into our projections. The support that is provided in the budget is built into those projections.

● (1620)

Ms. Julie Dzerowicz: Thank you.

I'll ask one more question before I turn it over to my colleague.

What would you say at this point are the key risks to the Bank of Canada's economic projections, and how do they compare to those of the IMF and OECD, which are actually quite favourable?

Mr. Tiff Macklem: Look, the biggest risk is clearly the evolution of the pandemic itself. This third wave is straining our health care systems. It is requiring new public health measures and new containment measures. Unfortunately, that's putting some of the same people who have been hardest hit by this pandemic out of work again or delaying their return to work.

The good news is that vaccines are rolling out. I got my vaccination a couple of weeks ago. Roughly about 30% of Canadians now have a first shot, but we've seen that this virus is very unpredictable. There are new variants out there. That is certainly the biggest risk to the projection.

When you look at our projection, there are some upside risks as well as some downside risks. Canadians have accumulated a substantial amount of excess savings through this pandemic, which I can go into detail on. We're assuming, based on what Canadians have told us, by and large, that.... We expect Canadians to reduce their savings rate to where it was pre-pandemic, again, in consumption, in consuming again at the same sort of rate that they did before, but we are assuming that the extra accumulated savings that they've built up will be used to pay down debt, invest or buy houses.

They could end up dipping into more of those savings, and consumption could be even stronger than our forecast, so there are upside risks and there are downside risks.

The Chair: Okay.

We'll have to move on to Ms. Koutrakis.

Ms. Julie Dzerowicz: Thank you so much.

The Chair: You have about two minutes, Annie.

Ms. Annie Koutrakis (Vimy, Lib.): Thank you, Mr. Chair.

Welcome, Governor Macklem. It's nice to see you at the finance committee again.

Governor, in your opinion, are we on the right fiscal and monetary path? How can you assure Canadians that the Bank of Canada can prevent a negative outcome of inflation and high interest rates?

Mr. Tiff Macklem: There are really two questions there.

On the first one, I don't see it as my role to opine on fiscal policy.

I will say in terms of the budget that it lays out a track for spending. Underlying the budget is a forecast that is an average of private sector forecasts. That forecast is not that different from the forecast that we published last week. We are actually a little bit stronger. Our forecast is a bit stronger this year, which I think largely reflects the fact that the data coming out in the last month or so has been fairly positive, but for next year or the year after, the forecasts are fairly similar. These are forecasts. As I just highlighted, there are risks around them, but it's a reasonable planning basis.

In terms of your own assessment as parliamentarians of the fiscal track—and I know you're speaking with the Parliamentary Budget Officer—I think you want to look at international comparisons. We were fortunate in Canada to go into this crisis with the lowest net debt-to-GDP ratio, and we will still be retaining that position. The other thing you can do is look at credit rating agencies. Yesterday, S and P reaffirmed Canada's AAA rating. Different agencies have different assessments. Those are I think all good resources at your disposal.

With respect to the Bank of Canada, which is really what I want to talk about, what can we do to assure Canadians that we will control inflation? We have a very clear mandate. We have a strong record now of 30 years of inflation targeting, and we have consistently realized that objective. I can tell you that as governor I am committed to getting the economy back to its potential output, with inflation sustainably at 2%. As I said, we still have some way to go, but we're closer than we were the last time I was in front of this committee.

● (1625)

The Chair: Okay.

Thanks very much, all of three of you.

We'll turn now to Mr. Ste-Marie, who will be followed by Mr. Julian.

You have six minutes, Gabriel.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

Good afternoon, Mr. Macklem.

Here's an excerpt from an article by Nouriel Roubini:

> Central banks have been monetizing large fiscal deficits in what amounts to "helicopter money" or an application of Modern Monetary Theory. At a time when public and private debt is growing from an already high baseline (425% of GDP in advanced economies and 356% globally), only a combination of low short- and long-term interest rates can keep debt burdens sustainable. Monetary-policy normalization at this point would crash bond and credit markets, and then stock markets, risking a recession. Central banks have effectively lost independence.

What is your reaction to those comments?

Mr. Tiff Macklem: I am very confident in our independence. As I already pointed out, our policy is focused on our inflation target. That is our guiding light. We have already shown that, when the situation changes, we change our policies. When we implemented the quantitative easing program, we were buying $5 billion in bonds a week. We reduced those purchases a first time, from $5 billion to $4 billion, and we changed the bond mix to have more long-term bonds.

In addition, last week, we reduced the minimum target from $4 billion a week to $3 billion a week. That reflects the progress we have already seen in this recovery. We will continue to adjust as needed to achieve our inflation target.

So I have no concerns about our independence. Those are indeed extraordinary tools. This is an extraordinary policy, and we find ourselves in extraordinary circumstances. However, I think we have shown that we will adjust our measures to meet the needs of the economy, without doing too much.

Mr. Gabriel Ste-Marie: Thank you for your answer. It is also nice to hear you answer in French. We are seeing the Montrealer in you.

I would now like to hear you comment on Ben Bernanke's analysis. Feel free to correct me if I am reporting his comments incorrectly.

He said there was an excess of savings and too low of an investment level globally, which would lead to low interest rates and low inflation.

Do you agree with that?

Mr. Tiff Macklem: When Ben Bernanke was a professor at Princeton University—he's still actually a professor—he wrote a series of important articles on what he referred to as the global savings glut. In other words, this means there is an excess of savings in the world and not enough investment projects. That is why we have seen a downward trend in long-term interest rates. A number of factors are involved, but population aging in a number of countries is one of the factors that stand out. This leads to a savings glut compared with demand in investment. When there are more savings and less investment, interest rates are lower.

The reason why that affects monetary policy is the implication that we will probably reach the effective lower bound of our key interest rate more often. That suggests that we will need, as is the case now, to use other tools, such as quantitative easing, to strengthen our forward guidance in relation to our key interest rate.

So I do think that is an important study.

● (1630)

Mr. Gabriel Ste-Marie: Thank you.

Should another extraordinary crisis occur, would you go as far as to consider using negative interest rates?

Mr. Tiff Macklem: Negative interest rates are a tool we can use. We don't think that is necessary right now, and I don't expect us to need them. Should the situation change to an extreme degree, we could in fact use that tool.

[*English*]

The bar is pretty high before we would go to negative rates.

[*Translation*]

I would like to add one last thing. To help us with the renewal of the inflation-control target framework, we have surveyed Canadians to better understand their opinions. That was a very worthwhile initiative. There were differences of opinion, but, overall, we learned that Canadians encourage the use of the quantitative easing policy, but they don't really like the idea of negative interest rates.

Mr. Gabriel Ste-Marie: Thank you very much.

[*English*]

The Chair: Thank you, both.

Peter Julian, the other three got seven minutes each so you will have seven too, and then we'll go to Mr. Fast.

Mr. Peter Julian (New Westminster—Burnaby, NDP): Thanks very much, Mr. Chair.

Thank you, Governor Macklem, for being here today. Your availability over the course of this pandemic has been very important, and we thank you for that.

I have a couple of questions around both the Bank of Canada's mandate and the implications on monetary policy of fiscal policy, which you mentioned earlier. We know that it really is a tale of two countries. During this pandemic we have seen Canada's billionaires increase their wealth by $78 billion so far. We've seen massive profiteering in certain sectors and we have seen some Canadians, wealthier Canadians, being able to put away savings as you mentioned.

Canada continues to have the worst level of family debt in the G7 and the lowest saving rate in the G7. At the same time, over 50% of Canadians struggle to put food on the table. According to the most recent figures, as you know, half of Canadians are within $200 of insolvency on any given month. That has been exacerbated by this pandemic.

What we see is a growing chasm between a smaller number of Canadians who are increasingly wealthy and a large mass of Canadians who are absolutely struggling to make ends meet, yet we have a government that has practised failed fiscal policy, hasn't put in place a wealth tax like other countries and hasn't put in place a pandemic profit tax, even though during the Second World War we had that in place and it allowed us to fight Nazism and fascism and, after the war, put in place all of the infrastructure contributing to health, education, transport and housing that allowed us to build a prosperous economy.

My question is twofold. First is on the implications on monetary policy of what is a failed fiscal policy where the wealthiest citizens are simply not paying anywhere remotely like their fair share of taxes. Then secondly, in terms of the consultations that the Bank of Canada has done, increasingly people have been raising in the course of those consultations the impacts of targeting full employment at the same time as there is inflation targeted. In other words, having a dual mandate for the Bank of Canada on monetary policy.

I recognize that monetary policy can't solve all of the problems of failed fiscal policy, but increasingly, as you note, with half a million people who haven't been able to return to their jobs and knowing from the past that it takes up to 10 years for the economy to recover for lower-income people, as we saw during the Spanish flu pandemic, what do you think the implications are for having a mandate that actually takes into consideration full employment?

● (1635)

Mr. Tiff Macklem: Peter, let me answer that in two parts.

First of all, I want to assure you that employment is an important element of our framework. You can't keep inflation sustainably at 2% if you have a large number of unemployed people, because the economy is missing income and that means there will be downward pressure on inflation.

At the same time, having inflation well anchored at 2%, the lesson from history is that it reduces these inflationary boom-bust cycles that we had, particularly in the 1970s, in which you get big buildups in inflation and then you have to have a big recession that puts a lot of people out of work.

It's these two things. Stable inflation stabilizes the labour market and you get less cyclical unemployment, and at the same time, full employment, a complete recovery, is critical to keeping inflation sustainably at 2%.

The labour market is an integral part, as you've no doubt seen, particularly given, as you highlighted, the very unequal impacts this pandemic is having on the labour market. We've been talking a lot about the labour market. We've been looking at a broad range of labour market indicators. Because there are some big divides, we are looking at labour markets at a more granular level.

You referenced what we heard from Canadians. It was very interesting what we heard with respect to our inflation target regime. Overall, our flexible inflation targeting regime was the preferred alternative of Canadians, but as you suggested, many Canadians did highlight that they want to make sure that employment and jobs are a central part of our framework.

Some Canadians suggested that a dual mandate might be a way to do that. I will say, though, there was quite a bit of diversity around that view. Some Canadians thought a dual mandate would be a good idea. Others were concerned that, unlike inflation, the Bank of Canada ultimately can control inflation but we don't have as direct control of labour markets, so it might not be a good idea to have a dual target.

The main message from Canadians was that this should be an important part of the considerations, and I think we all found that feedback very interesting.

The Chair: Peter, you have time for just a fairly quick question.

Mr. Peter Julian: Just to follow up, as you mentioned earlier, you are prepared to comment on implications on monetary policy of fiscal policy.

Many people are saying that the government's fiscal policy has failed because of this creation of a very profoundly unfair tax regime. Do you feel that it has implications for monetary policy, understanding that monetary policy can't solve a bad fiscal policy but that there are implications of a bad fiscal policy on monetary policy?

Mr. Tiff Macklem: What I would highlight, as I said before, is that fiscal policy, federal and provincial, has played an extremely important role in helping Canadians get through this pandemic. Indeed, I think fiscal policy has played a leading role.

Monetary policy has played an important role, but monetary policy does not have the ability to target certain groups. It's a broad macro tool.

Fiscal policy does have the ability to target certain groups. The supports they've given, particularly to the most vulnerable Canadians who have lost their jobs, have been very important to supporting Canadians and helping us through this recovery.

I'll leave it there.

● (1640)

The Chair: Okay, and we'll leave it there, too. That was seven minutes for all four of you.

We're into five-minute rounds, with Mr. Fast, followed by Mr. Fraser.

Ed.

Hon. Ed Fast (Abbotsford, CPC): Thank you, Mr. Macklem, for appearing at the committee. I believe it's the first time I've had a chance to speak with you here.

I want to return to the issue of quantitative easing. I'm not going to tell you how to do your job, but I do want to ask you this question.

You've signalled that you'll be winding down your QE program at some point in time. Did you suggest that might be the second half of 2022, or did I get you wrong?

Mr. Tiff Macklem: It is a bit complicated.

The second half of 2022 refers to, based on our forecast, when we expect slack is likely to be absorbed. What we have indicated with respect to our forward guidance for our policy interest rate is that we would hold the policy interest rate at its current level of a quarter of a per cent until slack is absorbed.

That forward guidance is really more about the policy rate, and I would underline that this is a commitment not to raise it. It doesn't mean we will automatically raise it when we get there. We'll have to see what the economy needs when we get there.

Hon. Ed Fast: Yes, I understand.

Mr. Tiff Macklem: We are committing to hold it there.

With respect to our quantitative easing program—

Hon. Ed Fast: Actually, I have a specific question on that, because my time is limited.

As you wind down, obviously the government will continue to have to borrow at, say, an average of $3 billion a week, as my colleague, Mr. Poilievre suggested.

Am I correct?

Mr. Tiff Macklem: Are you asking whether that's in the budget? Yes.

Hon. Ed Fast: No, it's not whether it's in the budget. Given the size of the deficit as projected for this year, the government is going to have to borrow money to make up that deficit.

Mr. Tiff Macklem: That's correct.

Hon. Ed Fast: As you wind down your QE program, I'm assuming that the government is going to have to go to the market.

Mr. Tiff Macklem: The government is going to the market. The government auctions this debt into the market. What we're buying through quantitative easing we buy in the secondary market.

Hon. Ed Fast: Okay. You're buying it, then, at market interest rates. Is that correct?

Mr. Tiff Macklem: That's correct. It is bought in a competitive reverse auction process.

Hon. Ed Fast: All right.

Let me also ask you about the stimulus program. You have $100 billion-plus of so-called stimulus that is being injected, but you also have influences from the United States. You have a very large infrastructure program and a large stimulus program. You yourself have referred to there being record household savings sitting on the sidelines right now.

What impact, if any, will these different elements have on the inflationary pressures that the bank is going to have to deal with?

Mr. Tiff Macklem: With respect to the U.S. recovery, it is one reason that our outlook is stronger. With the U.S. combination of the rapid rollout of vaccines and a large fiscal stimulus package, the U.S. economy is growing strongly. That will certainly help our exports, and this is reflected in our outlook.

That's an important element of our projection. The main reason for the recovery in our projection is that we are expecting a strong consumption-led recovery. As we can get back to more normal activities, we think Canadian consumers are going to spend money and that will lead the recovery. The U.S. element is helpful, because it will broaden the recovery of consumption. We'll get more exports. That should lead to more investment.

This all means you get a more broad-based recovery, and a more broad-based recovery is more sustainable. This is something we'll certainly be evaluating, going forward, in assessing how much monetary policy stimulus we would need.

Hon. Ed Fast: Actually, my question was directly on inflationary pressures. Do you expect that this massive stimulus from different directions is going to stoke some inflationary fires?

Mr. Tiff Macklem: You can see our projection for inflation in the outlook we published. We revised upward our outlook for the U.S. economy, substantially, and we've built in at a macro level the fiscal stimulus that's in the budget.

What you see is that inflation is rising right now, temporarily, to about 3%. That really reflects some special factors. I can get into them, but it's more to do with what happened a year ago, when a number of prices plummeted. A year later that creates a temporary blip of inflation.

As I highlighted, however, we still have high unemployment in this country. There are still many people out of work. This is putting downward pressure on inflation. We expect this slack to be absorbed, which is a good thing, and as that slack is absorbed we should get inflation sustainably back to 2%.

What you can see is that inflation goes up to 3%, it comes back slightly below 2% and then it goes slightly above 2% and settles into 2%. In our projection it's staying pretty close to 2%, and we've factored those things in.

● (1645)

Hon. Ed Fast: Mr. Chair, how much time do I have?

The Chair: You have zero time left, Ed. I'm sorry.

Hon. Ed Fast: Okay.

The Chair: We will go to Mr. Fraser. Then we'll go to one question from Mr. Ste-Marie and one from Mr. Julian.

Mr. Fraser, you have five minutes.

Mr. Sean Fraser (Central Nova, Lib.): Governor Macklem, thank you so much for being here.

I'll jump right to my questions in the interest of time.

During your testimony you indicated that the mix of fiscal and monetary supports that had been provided to the economy have largely been effective. You described the downward pressure on the economy that could lead to deflation and potentially job losses had those supports not been there.

I'm curious to know whether you've done any analysis or have any views on what effect the premature withdrawal of significant fiscal and monetary supports would have by way of impact upon real people and businesses across the Canadian economy.

Mr. Tiff Macklem: What we've seen in past recoveries, and coming out of 2008-09 would be the most current example, is that if you withdraw stimulus prematurely the recovery stalls and then you have to put in some new stimulus to get it back. You lose the momentum and you have to restart it. That is certainly a lesson we've all taken to heart.

There are other lessons from history. If you go back to the late sixties and the early seventies, when there wasn't enough attention paid to inflation, the result of that was that we built up a big head of steam on inflation, and then it was very difficult, very costly, to drive that out of the system. I think the lesson from history is that you do want to support the recovery through its full length, and that will require some patience. However, you also need to react to the data as you see it coming in and adjust accordingly so you don't overheat the economy.

Mr. Sean Fraser: I have two quick questions to follow up on that.

Picking up where you left off, you mentioned the indicators that you need to pay attention to. What kind of economic conditions would you need to be observing before you would have fears that inflation is going to be a serious problem for the Canadian economy?

Mr. Tiff Macklem: Let me say a word about our forward guidance that we've put out, and how it works.

Let's just remember where we were a year ago. A year ago, the economy was basically going over a cliff. Inflation was extremely low; it was actually negative. Our biggest fear was deflation, which would have been very damaging. Against that background we used a number of extraordinary tools. One of them is exceptional forward guidance.

We've indicated that we will hold the policy rate at a quarter of a per cent until slack is absorbed. We take that commitment seriously, and it was done very deliberately to prevent a much worse crisis. As I said, we still have some way to go, but it is working.

What that means going forward is that, given that we're going to hold it at the effective lower bound until slack is absorbed, we probably will get some excess demand, because as we move from excess supply, we'll probably get a little excess demand. You can that in the forecast we've put out. With that you'll probably get inflation going a little over the 2% target.

We have a control band of 1% to 3% and we're prepared to use it. That's part of a flexible, inflation-targeting regime. As we get there it will be very important to assess pressures in labour markets and pressures on physical capacity of companies, and it will be very important to look at the information in inflation itself. If it's coming in above what we think it should be, that's an indication that maybe things are tighter than we thought.

On the other hand, if it's coming in a little less than we thought it would be, that's a suggestion that maybe there's a bit more room for the economy to grow without inflationary pressures, and those are the kinds of assessments we'll be making. I look forward to that day when we get to do those assessments, but that is still some ways off. We have to get there first.

● (1650)

Mr. Sean Fraser: I very much look forward to those times as well.

I have a final question with only about one minute left. It segues perfectly from your description of the 1% to 3% band that you're aiming for.

One of my committee colleagues Mr. Poilievre tweeted several minutes ago, “Now, Central Bank governor admits to Finance Committee that inflation will be well above 2% target for the next two months—after saying for months that would not happen.”

That is not my view of your testimony today whatsoever. Would you care to offer any clarifying remarks so your testimony is not misrepresented?

Mr. Tiff Macklem: If you look back, you'll see that we've actually been saying for some time that inflation would go above the 2% target for a period on roughly the first anniversary of the pandemic. Just to elaborate, I think you'll remember that a year ago the economy went over a cliff. Oil prices actually went negative. Gasoline prices were incredibly low, and prices of things that were deeply affected by the pandemic—airfares, for example, since airlines were seriously constrained—plummeted.

We measure inflation as the 12-month rate of change of the CPI. We have the March number of 2.2, which is relative to March of last year. When prices were highly depressed a year ago we had a temporary rise in inflation. That's a temporary effect due to these technical base-year effects. The underlying pressure on inflation from the economy is still downward because there is still considerable end-use capacity still. Those technical effects will fade, and inflation will come down because of these downward pressures. That's why we need to continue to provide support.

The Chair: Thank you, Governor.

Mr. Sean Fraser: That's my time.

Thank you, Governor, and thank you for your service throughout this pandemic.

The Chair: We will go with one question each from Mr. Ste-Marie, Mr. Julian, Mr. Kelly and Mr. Fragiskatos, and then we'll have to end.

I would say, Governor, that I'm sure glad we're learning from the lessons of history. I'm one—and there may be others on this committee—who faced a 23% interest rate in the 1980s, and I'll tell you we paid for that for a very long time. Lessons from history are a good thing.

Mr. Ste-Marie, you can have one question.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

If I have understood correctly, Mr. Macklem, you reminded us that monetary policy focuses on the economy as a whole and that, if we want to have more targeted interventions, tax and fiscal policy should rather be used.

If we are worried about the mismatch between the real economy—consider the job market, for example—and the rise of certain assets—think of the residential real estate industry—we should rather turn to fiscal and tax policy to resolve that mismatch.

Could you comment on this issue?

Mr. Tiff Macklem: As you implied, monetary policy is a macroeconomic tool, and it should be managed in a way so as to support the economy as a whole. The demand is now very strong in the real estate market. For the most part, we are all working from home. Our children are studying at home. Our leisure activities are taking place at home.

Canadians want more space because they are home all the time. In addition, they no longer need to go to work. Many of them are thinking that, in the future, even after the pandemic, working conditions will be more flexible. They are prepared to move further away from downtown, to the suburbs of major cities. So we are seeing a surge in demand, and the supply is slow to catch up, so home prices are rising.

We predict that the supply will meet the demand and that the market will become more balanced, but it will take time. There are risks involved, especially if home owners think that the price increases we have been seeing will continue. They risk taking on mortgages that are too high for their means.

However, measures have been taken. For example, the Office of the Superintendent of Financial Institutions, or OSFI, recently announced changes to its 2020 guide, and that's a good idea. It creates some dynamism. There is talk of a minimum mortgage rate. However, when interest rates are very low, as they are now, the likelihood of them increasing in the future is higher. Canadians should be protected against that risk.

The federal budget also contains a few initiatives that can increase the housing inventory, and that will also be useful.

● (1655)

Mr. Gabriel Ste-Marie: Thank you very much.

[*English*]

The Chair: Thank you.

Mr. Julian, you can have one fairly quick question, so that we get a couple of others in.

Mr. Peter Julian: Thanks, Mr. Chair.

Governor Macklem, at the beginning of this pandemic we asked OSFI to give us an accounting of the overall level of the liquidity supports provided to Canada's big banks. They stated at the beginning of the pandemic—this was in days of the pandemic hitting—that it was $750 billion, which is an astronomical amount, of course.

You have stated that the programs that were providing support have been wrapped up. Can you give us a figure of the overall level of liquidity supports given by the Bank of Canada to the banking sector through this pandemic?

Mr. Tiff Macklem: As I indicated, there were 11 programs in all that provided extraordinary liquidity support. Ten of those 11 programs have been wound down or we've announced that they will be terminated. The last ones end in May.

In terms of the overall support, there are 10 programs. They each have different supports at different timings. It's hard to give you one number to summarize all of this, but the committee has requested a report on the liquidities and you will be getting that shortly. You'll have all the numbers on all those programs.

The Chair: Mr. Kelly, you can have a fairly quick question, followed by Mr. Fragiskatos with a fairly quick question.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Your testimony today has confirmed something that was offered to the committee from an expert witness a while ago, which I think was then speculative. He said, “Both the Fed and the Bank of Canada will tolerate whatever inflation occurs in 2021 as both transitory and salutary” and that inflation would increase to 3% and likely go a little higher than that.

If I understood you correctly, you said that you do expect to hit that outward bound at 3%, come back down to 2%, come up a little bit more and then come back down. It sounds like fairly precise targeting.

I have maybe a two-part question. How much inflation will you tolerate in 2021 and 2022 and keep interest rates where they are?

On which factors does this fairly precise guess about this up and down between 2% and 3% rely?

● (1700)

Mr. Tiff Macklem: First of all, I want to thank you for highlighting that there is uncertainty around these forecasts. They are forecasts. We do our analysis and we're transparent with Canadians, but there are risks on both sides of these.

I'll remind you that our band is 1% to 3%. We actually had inflation that was well below the band. At this time last year it was negative, actually, for a few months. It has been around the lower end of the band for quite a few months—around 1%. We do think it will go up temporarily, as I indicated, to 3%, due to a number of technical factors, before coming back down.

One of the reasons we put out a forecast and we are so transparent is so that the market and Canadians can see if things are evolving the way we think they're going to evolve. If inflation starts to go higher than we thought, and particularly if that turns out not to be temporary and it turns out to be more durable, it would suggest that the economy is tighter than we thought and that there is not as much excess capacity. We would start to reassess our evaluations.

You can't just look, though, at what inflation is doing. You have to see why it is doing that. When there are temporary technical factors, as your expert witness suggested, we will look through those. Monetary policy takes time to work. It doesn't make sense to overreact to temporary factors that are going to work their way out.

If we saw that inflation was sustainably higher than our forecast and sustainably higher than our target, yes, we would react. We have the tools and we know how to control inflation.

The Chair: Thank you.

This is the last question, Peter. Be fairly snappy, if you could.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Chair.

Governor, thank you for being here. You shared with the committee in your remarks that you and the bank are foreseeing very robust economic growth in the year to come.

What are some key sources of potential risk, things that could stand in the way of that, things you worry about?

I know it's hard to predict that, but sources of risk are important.

Mr. Tiff Macklem: I couldn't agree more, and as I said previously, there is a lot of uncertainty.

As I highlighted in a previous answer, the biggest uncertainty is the course of the pandemic itself. We're assuming this is a very nasty third wave. We are not through it yet. In our base-case projection, we have restrictions being lifted toward the end of May through June. If that gets extended, if there are new variants, if there are problems with vaccines, those will all have consequences for our economic outlook.

Beyond the pandemic itself, there are a number of uncertainties. I highlighted, in a previous answer, that the U.S. economy is doing well. We expect we will get some positive spillover effects from that. That will boost our exports, but there are risks to our exports. To be frank, we've been disappointed in the past.

Certainly, if the Canadian dollar were to be materially stronger, that could undermine the competitiveness of our exports and create a new headwind for our exports. There are also some risks with respect to protectionism. The U.S. has a buy America program. Hopefully, Canada and the U.S. can sit down and work this out, so that we can have an integrated North American market, but if there were new protectionist measures that limited our access to the U.S. market, for example, that would also dampen our exports.

To date, corporate bankruptcies have actually been quite low. That has a lot to do with the various supports that have been provided, but there's no question that there are many companies just hanging on. It gets back a bit to my earlier risk with respect to the pandemic. The sooner we can get through this and we can gradually reopen the economy in a safe way, those businesses can restart, but if that gets delayed, there are risks that bankruptcies could increase.

There are a number of upsides, as I mentioned. There are a lot of accumulated savings. That creates some upside risks. The U.S. economy is strong, but there are downside risks, and we're certainly weighing both of those. We will be assessing how those evolve going forward. I look forward to coming back to the committee and updating you.

● (1705)

The Chair: Thank you very much, Governor. That last question shows what we appreciate about your leadership and the bank's leadership, and that is your frankness. We appreciate that very much, and we do thank you for the leadership of the Bank of Canada and for answering our questions today.

We hope that the next time you appear before this committee, this pandemic will be behind us. We all want to see that, regardless of what political differences there might be.

Thank you for appearing today.

We will have to suspend and go to our next witness.

Mr. Tiff Macklem: Thank you for having me. Good afternoon.

The Chair: The meeting is suspended for about one or two minutes.

● (1705)

_____________________(Pause)_____________________

● (1710)

The Chair: We will reconvene the meeting, and call the meeting to order.

On this panel, we are looking at the economic and fiscal outlook.

From the Office of the Parliamentary Budget Officer, we have the Parliamentary Budget Officer, Yves Giroux; director of fiscal analysis, Trevor Shaw; and senior director, economic and fiscal analysis, Chris Matier.

Welcome, Mr. Giroux, I assume you have a few opening comments. I read them earlier, in fact.

The first one up on the question round will be Mr. Fast, followed by Mr. Fragiskatos, shared with Mr. McLeod.

Mr. Giroux, the floor is yours.

[*Translation*]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Thank you, Mr. Chair.

Good afternoon, Mr. Chair and members of the committee.

Thank you for the invitation to appear before you today to discuss Canada's economic and fiscal outlook. I am also pleased to highlight some key issues arising from budget 2021, tabled on April 19.

I am joined today by Chris Matier and Trevor Shaw, who will help respond to your questions.

We released our pre-budget outlook on March 31. Our outlook showed a significant improvement in the economy owing to the earlier-than-expected arrival and administration of effective vaccines, higher commodity prices and a stronger U.S. recovery.

While the more recent surge in new COVID-19 infections presents a near-term risk, the resilience and adaptability that the Canadian economy exhibited during the second wave—combined with increased vaccination—should limit the economic impact of the third wave. Nevertheless, we will continue to closely monitor developments.

Our outlook, of course, did not include the new measures that were announced in last week's budget. Nor did it include the up to $100 billion in stimulus spending earmarked in the government's fall economic statement.

Our outlook showed the level of nominal GDP and budgetary revenue returning to their pre-pandemic paths over the medium term. On a status quo basis, we projected the budget deficit to hit 16.5% of GDP, or $363 billion, in 2020-21 and then decline to 0.7% of GDP over the medium term. The federal debt-to-GDP ratio was projected to peak at 49.8% of GDP before gradually declining over the medium term to 45.8% of GDP.

As noted in our report, uncertainty surrounding the outlook remains high. That said, setting aside the government's earmarked stimulus and budget 2021 measures, we judged that risks to our economic and fiscal projections were roughly balanced.

I will now turn to budget 2021.

[*English*]

Key issues in budget 2021, from our perspective, are, first, the fiscal guardrails. In our December report we judged that the $70 billion to $100 billion earmarked in stimulus spending could be miscalibrated if the focus was solely on returning selected labour market indicators to pre-pandemic benchmarks.

Given the improved labour market outlook, our pre-budget report reiterated this assessment. Based on our projection of the guardrail indicators, the government identified in its fall statement, almost all of the ground lost in the labour market due to the pandemic will be made up by the end of 2021-22. To be clear, we're not referring to temporary COVID-19 measures, but rather, as the fall statement indicated, to targeted stimulus to jump-start the economy. Moreover, measurers could be fully justified based on policy objectives other than providing economic stimulus.

In budget 2021 the revision to the private sector economic outlook and fiscal developments provides $109 billion in terms of new fiscal room over six years; that is, before any new measures were introduced, the budget deficit would be over $100 billion lower on a cumulative basis than forecasted in the fall statement.

This new fiscal room is used to finance over three-quarters of the $143 billion in measures detailed in budget 2021. While the budget refers to all these measures as “investments”, $37 billion is tied to COVID-19 spending. Up to $69 billion over the next three fiscal years could be construed as stimulus spending.

● (1715)

Budget 2021 also estimates the economic impact of $126 billion in recovery plan measures over the next three fiscal years. These estimates, however, likely overstate the impact of stimulus spending on the economic outlook presented in budget 2021.

The impact of $25 billion in measures from the fall statement should already be reflected in the March 2021 private sector survey. The recovery plan also includes $32 billion in additional COVID-19 supports, which are not, per se, stimulus measures. Moreover, some of the remaining measures were anticipated by economists and would also be included in their forecasts as the government had clearly signalled its intention to spend $70 billion to $100 billion in the fall statement.

We will be providing our own estimate of the economic impacts of the $69 billion in budget 2021 stimulus spending in a future report.

Finally, concerning the fiscal anchor, budget 2021 sets out a fiscal anchor, which is reducing federal debt as a share of the economy over the medium term and unwinding COVID-19-related deficits.

Over the medium-term horizon, the government projects the federal debt ratio to decline marginally to 49.2% of GDP from a peak of 51.2%, and remain well above its pre-pandemic level of 32.1% of GDP. Long-term projections presented in the budget also show the federal debt ratio remaining above its pre-pandemic level through 2055.

This suggests that the government has decided to effectively stabilize the federal debt ratio at a higher level, potentially exhausting its fiscal room over the medium and long term. This means that any substantial new permanent spending would either lead to an increasing debt-to-GDP ratio, or have to be financed through higher revenues or spending reductions in other areas.

With that, we'll be pleased to respond to your questions.

The Chair: Thank you very much, Mr. Giroux.

We were a little late starting so I'm going to hold the subcommittee on agenda and procedure report until the next meeting, because we do have a hard stop at six o'clock, Ottawa time.

We'll go to the six-minute round, started by Mr. Fast, followed by Mr. Fragiskatos.

Ed.

Hon. Ed Fast: Thank you very much, Mr. Giroux. It's good to see you at committee.

There are some who have suggested that we shouldn't get our knickers in a knot about the size of the debt because debt servicing costs are so low. However, there are some fears that the Bank of Canada rate may rise earlier than expected, perhaps some time in 2022.

Can you speak to the risk of rising interest rates, and has your office modelled what each 1% increase in rates would mean for the debt that the federal government has incurred over the last six years?

Mr. Yves Giroux: Yes, I have heard that very often, that it's not a concern to be had about the increasing level of debt because the current debt servicing costs are very low, which is true. However, that's taking the point of view that because the cost to service that debt is low now, the debt that will have to be supported by the government over the next decades does not matter as much as it used to, which is taking the point of view, I assume, that interest rates will never rise.

We have done calculations and what we call “sensitivity analysis” and the cost of a 100 basis points shock to interest rates—so a one percentage point increase in interest rates—has an impact in the first year on public debt charges of increasing them by $4.5 billion. That rises as the debt needs to be refinanced. By year five, the additional debt servicing cost amounts to $12.8 billion per year. That's when interest rates rise by one percentage point.

● (1720)

Hon. Ed Fast: Do you see this as being a significant risk to the sustainability of the budgetary deficits that the government is running?

Mr. Yves Giroux: It is indeed a risk, and we saw that in the government's budget.

The government's budget assumes slightly higher interest rates than we have assumed, and that has led the interest cost of the government to increase by about $17 billion over a five-year horizon, compared with our own outlook for the same period. Just because the government forecasts slightly higher interest rates than we at the PBO have done, that leads to $17.7 billion, I think, over five years, in additional debt servicing costs. That's the same medium-term perspective.

For example, due to an international financial crisis, for example, or just rising interest rates because the economy is picking up speed, that could lead to additional spending on debt servicing costs alone.

Hon. Ed Fast: Thank you.

To be very clear, you have said that the $100 billion-plus of federal stimulus that was supposedly spent in this budget, that there's a good chunk of this that was not stimulus. Is that correct?

Mr. Yves Giroux: Yes, indeed.

Some of it is support measures for COVID-19, so it's not stimulus per se. When we heard the Minister of Finance in the fall economic statement, it was to be $70 billion to $100 billion additional to kick-start the economy. That was understood, at least by me, to be distinct from COVID-19 support measures. However, the measures that were announced in last week's budget....

What the government has quoted as $101 billion in economic stimulus also includes COVID-19 support measures, an extension of previously announced measures for the most part.

Hon. Ed Fast: I had the same understanding as you did—that the stimulus spending wouldn't include those emergency measures—but, in fact, that was all included in that $100 billion.

Let me ask you something. One of the finance officials on budget day suggested that all government spending is stimulus. Do you agree with that assessment?

Mr. Yves Giroux: I would say that most government spending leads to increased economic activity. It's a matter of magnitude as to what the different impacts are of different government investments or spending. For example, if you're sending money or providing income support to individuals, it has a different economic impact than if you are providing economic supports that are then spent on imports.

You could say that all government spending leads to some level of economic activity; however, it's to varying degrees.

Hon. Ed Fast: Could you comment again about the rigour of the fiscal anchor that the minister chose in her budget?

We're really not talking about much below 50% debt-to-GDP over the next five years. Is there anything in the budget that would signal that there's a plan to return to balance at some point in the future?

Mr. Yves Giroux: I haven't seen any indication to that effect in the budget.

We have seen the fiscal forecast until 2025-26. Even over that horizon, the government shows a decreasing deficit, but it's still a deficit of about 1% of GDP, if my memory serves me correctly. This would lead to a debt-to-GDP ratio that is barely decreasing from the peak that it's supposed to reach in the next year.

● (1725)

The Chair: Okay. Thank you both.

I'm sorry, Ed. We are just slightly over time.

We'll go to Mr. Fragiskatos, who will be sharing his time with Mr. McLeod.

Peter.

Mr. Peter Fragiskatos: Thank you, Mr. Chair.

Thank you, Mr. Giroux and your officials, for being here.

I want to ask you the same question I asked Governor Macklem a few minutes ago, and that relates to impediments to growth posed by risk.

At the end of March, I saw that you and your office forecast that this year, 2021, 5.6% is what's predicted in terms of economic growth for the country. In 2022, that drops a bit to 3.7%, but it's still robust. Those predictions are roughly in line with where the Bank of Canada forecasts things, as we heard earlier today.

My question to you is this: What sources of potential risk do you see that we all need to be mindful of and that could stand in the way of that strong growth?

Mr. Yves Giroux: Like the governor said, I will probably identify the same risks as he did. The biggest risk, by far, is how the pandemic evolves and, flowing from that, how Canadians behave. What I mean by that is how secure they feel to resume what will be the new normal if it is back to where we were pre-pandemic. The recovery will be highly dependent on Canadians' confidence that they can go about their daily lives with travel, going out, etc., without getting sick. A lot depends on how the pandemic evolves.

Another big risk or uncertainty is the level of recovery in the U.S. If the pace of recovery in the U.S. is faster, as many expect, then it will have beneficial impacts on Canada.

Another risk is the risk of faster-than-expected rising interest rates. Faster interest-rate rises could dampen growth by weighing on households and businesses that then have to support a higher burden of debt servicing costs—and governments as well.

I could go on. There are upside risks and downside risks, but these are the main ones that come to mind.

Mr. Peter Fragiskatos: Thank you very much.

I don't usually ask the same question twice. It's simply because we had the governor here today and you, and I think it's important to get on the record where both of you think the risk is, how both of you judge it and the sources of potential risk. The fact that your answers line up almost entirely with each another—you gave virtually the same answer, Mr. Giroux, as Governor Macklem did—says a great deal about these factors. They are the key things to pay attention to for us as a committee, so I appreciate it.

With that, I'll turn it over to my colleague Mr. McLeod.

Mr. Michael McLeod (Northwest Territories, Lib.): Thank you, and thank you to the presenter today.

I have two quick questions I want to ask. First, the IMF estimates that we would face much higher unemployment and debt costs of about the same amount as has been spent but with much worse economic scarring. Can you comment on their analysis and whether you agree with the notion that the economy would have been worse off without government intervention?

Mr. Yves Giroux: It's a tough question to answer because to be certain of that answer would require running a sadistic experiment, in which two identical countries would be subject to very different treatments.

One thing is sure. Without government support, widespread support, there would have been tremendous amounts of economic and social distress, even if we are talking only about all the small business owners who would have had to put the key under the mat and close down business, let alone all these millions of individuals who would have found themselves unemployed, facing bankruptcy. There would certainly have been a high cost to no government intervention or much smaller government intervention, not only in terms of dollar costs but also in terms of the tremendous social costs.

That's why it's difficult to comment precisely on whether it would have been worse or not that bad to have less intervention or no government intervention at all. It certainly would have led to a very high amount of fiscal, financial and social distress.

● (1730)

Mr. Michael McLeod: My second question is regarding the national guaranteed basic income. Earlier this month, your office released an analysis of the national guaranteed basic income and your office noted that because of the lack of data included in the Stats Canada database and the model that was used for this analysis, the report does not show how such a potential program could affect the people in the Yukon or the Northwest Territories or Nunavut.

Given how different our three economies are from those in the rest of Canada, could you speak to how useful it would be, not only for analysis but also for policy-makers and for the public at large, if Stats Canada were able to provide data that truly reflects the whole of Canada?

Mr. Yves Giroux: That's a very good point, sir. We often face the same issue when we are looking at policies or costings that apply nationally. When we look at the territories, the data is not as robust. We often imply that the impacts would be broadly similar in the territories to what they would be in the provinces, but we all know that the realities are different, especially when it comes to social issues. A guaranteed basic income is a very good example of a social policy that would have impacts that would probably be very different in the three territories from what they would be in provinces such as Ontario, Quebec, Alberta or B.C. because of the very different structures and natures of the populations.

In that case, especially in the case of a GBI, it would be very useful to have solid, robust data related to the territories and their inhabitants.

The Chair: Thank you, all.

We'll turn to Mr. Ste-Marie, followed by Mr. Julian.

Gabriel, you have six minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Good afternoon, Mr. Giroux. I also want to say hello to your colleagues Mr. Shaw and Mr. Matier.

I am somewhat hesitant to put specific questions to you on this 800-plus-page budget that was just tabled. I think it would be preferable to give you and your team time to analyze it in detail. I will rather come back to your opening remarks.

You are announcing that you will analyze the $69 billion in stimulus spending. Ultimately, the question we ask ourselves is whether this is a good investment. As you said during your discussion with Mr. McLeod, the urgent income support measures implemented during the pandemic had social objectives, including the preservation of income, but also economic objectives. We want to have the best possible economy when the pandemic ends. The idea is to incur a debt, but to know at the end of the day that it was worth it and that it will have helped preserve the economy as much as possible.

Do you already have an opinion on that $69–billion envelope?

Mr. Yves Giroux: I have no opinion on whether it is appropriate or not.

I can reiterate what I previously said. In its fall economic update, the government said it would use $70 billion to $100 billion to stimulate the economy and help it recover to ensure that labour market indicators would return to their pre-pandemic levels.

As I have said several times, even without that kind of economic stimulus, forecasters—us included—predict that most labour market indicators will return to their pre-pandemic levels by late 2021 or early 2022. That is why I said that the chosen moment and amount may have been poorly evaluated—in other words, this could be too little money too late—if the objective is solely to return to the pre-pandemic labour market indicators.

What is more, some think that the economic impact of those amounts may have been overestimated in last week's budget. That is what we will try to estimate over the coming days and weeks to determine the positive economic impact of those economic stimulus measures. The government may have been overly optimistic when estimating the impact of those measures on employment and GDP.

Mr. Matier and Mr. Shaw are currently working on this to get a clearer picture. We will have to appear before the committee again to tell you about the more detailed estimate of the specific impact of those measures on GDP and employment.

● (1735)

Mr. Gabriel Ste-Marie: We look forward to seeing your findings on this key issue.

How do you think this $69-billion in stimulus spending compares with the spending committed by other industrialized countries? We are seeing that this debate is giving rise to controversy around the world.

Mr. Yves Giroux: That is indeed the case.

We looked at the comparisons done internationally before we appeared here. No distinction can be made between economic stimulus measures and economic support measures related to the COVID-19 pandemic. Most comparisons take both types of measures into account, without distinguishing between them.

When we look at comparisons made by the International Monetary Fund, we realize that Canada is ranked fifth out of the 29 major economies for its direct support and stimulus measures. When it comes to access to credit or financing measures, especially for businesses, Canada is a bit further behind the leading countries.

My colleague Mr. Shaw has a better understanding of those international comparisons.

Mr. Shaw, do you have anything else to add?

Mr. Trevor Shaw (Director, Fiscal Analysis, Office of the Parliamentary Budget Officer): I don't have anything to add on this issue.

Mr. Gabriel Ste-Marie: Thank you.

Do I have any time left, Mr. Chair?

[*English*]

The Chair: You have one minute.

[*Translation*]

Mr. Gabriel Ste-Marie: Mr. Giroux, you reminded us that the debt-to-GDP ratio has increased to about 50%. That is clearly attributable to the high spending. You were saying that, over the medium term, it should be about 45%, which is higher than the pre-pandemic ratio.

You also talked about a potential increase of half a percentage point, which would have certain consequences.

Owing to the current interest rates, will this ratio lead to higher spending than before the pandemic, or will the spending be the same?

Mr. Yves Giroux: Investments and budget spending clearly increase the deficit. Before the budget, we had predicted that the debt-to-GDP ratio would stabilize at levels slightly below that. The debt-to-GDP ratio, with the budget spending, will exceed 51% and will decrease only slightly over the next four or five years. If we combine that with the increase in interest rate predictions, it means that interest spending over those five or six years, between the budget and the end of the planning period, will be about $17 billion or $18 billion more than what we predicted in late March or what the government predicted in late November.

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: Thank you very much to both of you.

We will now have Mr. Julian followed by Ms. Jansen.

[*Translation*]

Mr. Peter Julian: Thank you very much, Mr. Chair.

Good afternoon, Mr. Giroux, Mr. Shaw and Mr. Matier. We are very happy to have you with us. You make an amazing team. You don't have a huge amount of resources, but you do extremely important work. We are also very impressed with your availability to participate in the committee's work. We thank you for that.

Today, your office published an important study on applying a tax to excessive profits earned during the pandemic. I would like you to highlight the importance of that analysis, which is added to the other studies you have conducted over the past two years. You have carried out a number of studies that are very important, but I am also thinking about the financial repercussions of the wealth tax, especially when it comes to tax havens and the money transferred to them.

Can you talk a bit about all those analyses and about what this means for the country's tax policy?

● (1740)

Mr. Yves Giroux: Thank you for your kind words, Mr. Julian.

The report we released earlier today on corporate profits is designed to estimate how much extra revenue the government could raise if it imposed an additional tax on companies that earned higher profits than would have been expected based on the average of previous years.

Businesses that have revenues of $10 million or more and that have had revenues above that threshold in any of the previous three years are targeted, and their profit margins and the transactions in 2020 are taken into account. Profits in excess of what would normally be expected based on previous years' profits are subject to an additional tax of 15%, and this tax in the 2020 tax year would generate almost $8 billion in revenue.

This is part of a series of other work we've done at the request of various political parties, yours included, Mr. Julian. We've concluded that a tax on the web giants could generate between $2 billion and $3 billion, depending on the parameters. We've also done some work over the years on the tax gap. This concept tries to estimate how much money the government would raise if all the money it is owed were paid to it. We estimate that about $25 billion is lost to the government through a combination of tax evasion, tax avoidance, and loss caused by people who report their income but fail to remit the money they owe the government.

So there is a range of measures that could be taken to reduce this gap. It isn't realistic to eliminate it completely, since there are people who go bankrupt between the time they report their income and the time they should be paying their taxes. So there are some unrecoverable taxes, but it would be possible to reduce the tax gap by $25 billion with some legislation and some tax collection measures, including at the Canada Revenue Agency.

[*English*]

Mr. Peter Julian: Thank you for this. Those studies are extremely important, I think, for the public domain, because we have, in my opinion, an absolutely failed fiscal policy under the previous government. Under the current government it is even worse. We're seeing increasingly this chasm between very wealthy Canadians, with billionaires increasing their wealth by $78 billion during the course of this pandemic, and most Canadian families, who are within $200 of insolvency in any given month. I mean, there is this chasm now of the very wealthy and an increasing number of very poor people in this country, which has been exacerbated by the pandemic.

You mentioned in your comments “exhausting” the fiscal room. You indicated in the past at committee, and you indicated again today, that there really are only two doors. One door is to slash and cut existing programs and simply remove those supports from Canadians who already are struggling to make ends meet. The other is to create new categories of taxation that allow the wealthy, the ultra- rich in this country, to pay closer to their fair share of taxes.

Could you comment on what the impact would be, if we talk about the policies you mentioned—the wealth tax, the excess profits tax, shutting down overseas tax havens—and what that could mean in terms of expanding the fiscal room and allowing for investments that will actually make a difference in people's lives?

Mr. Yves Giroux: It's all a matter of policy choices that the government makes or could make. For example, if we were to look at more aggressive tax compliance measures, either legislative or administrative policies in terms of actually enforcing more aggressively the legislative pieces that are already on the books, that could contribute to narrowing the fiscal gap of $25 billion. That is the difference between what should be paid to the government, if everybody fully complied and paid the amounts owed under the legislation, and what the government actually ends up collecting. Plugging some of that gap could allow the government to either spend or reduce taxes, depending on policy choices the government would decide to make.

There's also the possibility, as you mentioned, Mr. Julian, of increasing taxes, or rather levying new taxes, on corporations or individuals. These are all policy choices.

As your humble servant, parliamentarians, it's not up to me to comment on whether one should be implemented or not. It's for you collectively to decide as parliamentarians, but additional revenues, of course, could lead to more government spending on programs or reducing other types of taxes.

● (1745)

The Chair: Thank you to both.

We will turn to Ms. Jansen, followed by Ms. Koutrakis.

Tamara, you have a five-minute round.

Mrs. Tamara Jansen (Cloverdale—Langley City, CPC): Thank you.

Mr. Giroux, can you tell us how much permanent spending is actually in the budget?

Mr. Yves Giroux: That's a tough question. It's permanent to the extent that we have a five-year horizon. That's usually where the budget horizon ends. It's nothing unusual. In the last year of the horizon, 2025-26, I see $16.7 billion of new spending.

I will rely heavily on Chris and Trevor to correct me, because there are lots of numbers in the budget and lots of pages too. One of your colleagues alluded to the fact that there are 840 pages in French and over 700 pages in English. I glanced at every single one of them. Forgive me I got it wrong, but I think it's $16 billion or $17 billion of spending—

Mrs. Tamara Jansen: No worries. Thank you.

The Chair: Do Trevor or Chris want to come in?

Mr. Trevor Shaw: I believe in the final year, the total budget actions since the fall statement and budget 2021 were categorized at $16.1 billion.

Mrs. Tamara Jansen: Okay. Thank you.

When you reviewed the numbers, did you detect any commitment to future reasonable deficits in this budget—yes or no?

Mr. Yves Giroux: You'd have to define “reasonable”. The last year—

Mrs. Tamara Jansen: Similar to in the last days, yes.

Mr. Yves Giroux: —of the forecast horizon has a deficit of $30 billion, which is higher than 1%. If your definition of reasonable is $30 billion and above, you're fine. If it's way below that, then that gives you an answer.

Mrs. Tamara Jansen: Okay, thank you.

Without a commitment to a reasonable deficit reduction plan, what risk do we run of losing credibility with the international community?

Mr. Yves Giroux: The risk of losing credibility is not immediate because we're in relatively good company in the league of countries that have deficits as far as the eye can see on the horizon, but it doesn't mean it will stay like that for most G7 countries. In the league of international comparison, Canada is the 11th lowest for net debt in 2020 among 29 advanced economies, and it's scheduled to be the 6th lowest, but that's as things stand now. It doesn't mean that future budgets won't have additional spending measures. In fact, in my opinion, that is very likely, so this will change, of course.

Mrs. Tamara Jansen: Right.

Earlier the Governor of the Bank of Canada asserted that he will control inflation. Is it accurate to state conclusively that the Bank of Canada completely controls inflation simply with monetary policy? Aren't there other factors that impact inflation over which he has no control whatsoever?

Mr. Yves Giroux: You're right. There are other factors. One of them is the reason I am here. It's fiscal policy or budgetary policy, so the more a government spends, the more likely it is to generate inflation, or at least inflation expectations. Last week's budget probably made the governor's job slightly more difficult.

Mrs. Tamara Jansen: Would relatively small pressure from these sorts of outside influences have serious consequences for us, yes or no?

Mr. Yves Giroux: For small, I would say no. Small pressures would probably not have a big impact.

● (1750)

Mrs. Tamara Jansen: Okay. The Department of Finance's own numbers say we could be back within spitting distance of more historical deficit numbers as early as the next fiscal year with no austerity measures necessary.

What risk does Canada face with taking on this enormous debt, considering the fact that interest rates are on the move and all signs point to rising inflation?

Mr. Yves Giroux: What the government and the Department of Finance published in the budget is a worst-case scenario. What I would have liked to have seen in the budget was a status quo scenario—that is, what the fiscal track would look like, the budget or the debt would look like, without the budget interventions or the budget investments.

To respond directly to your question, the risks of higher deficits and higher debt with interest rates rising, especially if there were to be new permanent spending in future budgets or in future government decisions, is that the debt-to-GDP ratio, rather than stabilize or even decline a bit, could start to rise. Then it would become a bit more.... Every time you have a debt-to-deficit ratio that is increasing, the longer you wait to stabilize it, the more difficult it is to course-correct. That is the risk.

The Chair: We'll have to end that there.

We'll go to five minutes split between Ms. Koutrakis and Ms. Dzerowicz.

I'm told by the clerk that we can go a little past six, so we can probably go to Mr. Ste-Marie for one, Mr. Julian for one, Mr. Falk for one and Mr. Fraser for one.

Ms. Koutrakis.

[*Translation*]

Ms. Annie Koutrakis: Thank you, Mr. Chair.

Thank you, Mr. Giroux, for being with us this afternoon. It's always a pleasure to see you.

We know that economic growth is the best way to deal with rising debt after a crisis.

Do you think the federal government's policy response throughout the pandemic, as well as the measures announced in the 2021 budget, will be effective in generating the economic growth needed to address the pandemic-related debt?

Mr. Yves Giroux: Thank you for the question.

This is a very risky question for me as a non-partisan officer of Parliament. It's difficult for me to answer this question.

My team and I will certainly focus on determining the economic impact of the measures announced in the budget. In particular, we'll be looking at the impact it will have on the economic growth as well as the level of employment.

However, it isn't for me to determine whether or not the measures are appropriate from a public policy perspective. These are eminently political choices. If you ask people of different views, they will have different opinions on how best to generate economic growth. It's a question to which, unfortunately, I can't give a clear and definitive answer.

Ms. Annie Koutrakis: So I asked you a pretty tough question, didn't I?

Mr. Yves Giroux: Yes, you chose a particularly delicate question for me.

Ms. Annie Koutrakis: Thank you for your answer.

[*English*]

The projected deficit for 2021 of $354 billion is approximately $16 billion lower than what was forecast in the fall economic statement. To what do you attribute this improvement?

Mr. Yves Giroux: It's mostly due to better than expected economic activity, what we call "economic development", so stronger economic activity and a stronger labour market than expected in the fall. That's the gist of the improvement. There are also some lower costs than expected for some COVID-related measures. Off the top of my head, I don't remember exactly which ones came in lower than expected. I think it was the wage subsidy, but I'm not totally sure.

Trevor and Chris can complement that.

Mr. Trevor Shaw: Certainly. Yves is absolutely right that a very important part of the reason that Finance Canada's projected deficit is coming in lower in 2020-21, prior to measures, is the story on income taxes. The economy is doing better than they had previously forecast and that leads to higher taxes.

One other aspect on the spending side to take into account is that the government forecast to spend less on its operations, in part because the higher interest rates that were previously forecast mean that anticipated pension and current service costs for pension benefits will be lower, so that, in turn, leads to lower operating expenses. Those are two very important factors for why Finance Canada's estimates have come in with a lower deficit projection for 2020-21 than in the fall economic statement.

● (1755)

The Chair: Ms. Dzerowicz.

Ms. Julie Dzerowicz: Thank you so much, Mr. Chair.

Thank you, Mr. Giroux, for the important role that you play in our nation.

We've been talking about budget 2021, and we know it's a huge-spend budget. It's the first budget that we've put out in two years. Today, Canada has been reaffirmed by S and P Global with an AAA credit rating. How is this reaffirmation a signal that Canada is on the right path to recovery?

Mr. Yves Giroux: It's the assessment of one very important credit rating agency and it has signalled that at least some actors in the financial markets have confidence in the solidity and creditworthiness of Government of Canada bonds. In that sense, it's good news for governments in Canada, not just the federal government but also provincial and local governments, because a downgrade would have had potential repercussions throughout federal, provincial and municipal finances.

In that sense, it's good news. It means that interest rates, or the cost of borrowing for these levels of government, will not unduly go up. It will go up if interest rates rise, but there won't be a premium to be paid because of a potential downgrade.

The Chair: We will have to move on. I'm sorry, Julie.

We'll go to Mr. Ste-Marie for one question and Mr. Julian for one question.

[*Translation*]

Mr. Gabriel Ste-Marie: How concerned should we be about rising house prices and household debt in relation to economic stability?

Mr. Yves Giroux: This is an important risk factor in our economic scenarios and forecasts. The rise in real estate prices means that those who want to access property must take on more debt. They therefore become more exposed to a potential increase in interest rates.

This is part of a trend where Canadians are carrying a fair amount of debt. Businesses and governments also have debt. This further exposes the real economy to interest rate increases. As real estate prices rise, there is a risk of a real estate bubble being created, which can eventually burst.

We saw what happened in the United States in 2008 when a housing bubble burst. I don't think we're there yet. However, the difficulties of access to property have, in themselves, a rather negative and important effect that encourages a rise in property prices.

[*English*]

The Chair: Thank you, both.

We have Mr. Julian, followed by Mr. Falk.

We'll have about four minutes for you, Mr. Falk.

Go ahead, Mr. Julian.

[*Translation*]

Mr. Peter Julian: Thank you very much, Mr. Chair.

Mr. Giroux, you spoke earlier about measures that could be taken against the web giants. You mentioned a tax that could generate $2 billion to $3 billion. However, these measures don't take into account the excessive profits that these giants may have made during the pandemic.

What tools do you need to properly calculate excessive profits of a sector that doesn't typically provide accurate sales and revenue figures?

Mr. Yves Giroux: To make such a calculation, we obviously need sales and profit data from comparable firms. We also need historical data to see what reasonable profits look like, as long as “reasonable” is defined.

When a limited number of players largely dominate a sector, as is the case in the technology and social network industries, it's difficult to find comparable companies to turn to in order to determine what a reasonable profit is.

In the absence of such data, we can look at the rate of return on investment that investors typically expect, but it's difficult to use only this type of information since it doesn't take into account the risk associated with very specific sectors.

So we need historical data on sales, costs and profits. This is the best way to determine what a normal profit is and what constitutes upward deviations that can be defined as excessive profits.

● (1800)

[*English*]

The Chair: Thank you, both.

We'll turn to Mr. Falk for four minutes, Mr. Fraser for the last four, and then we'll close it off.

Go ahead, Ted.

Mr. Ted Falk (Provencher, CPC): Thank you, Mr. Chairman.

Thank you to Mr. Giroux and your associates there.

We've seen significant increases in the cost of everything this last year. Food has gone up, and real estate has gone up 20% to 100% depending on what area of the country you live in. Crude oil has seen a 300% increase this year. Wood products like OSB have seen a 500% increase.

We know that we're right around the corner from seeing significant inflation and, with that, there are going to be higher interest rates. How rate sensitive—and you partially addressed it with the $17-billion answer—is our federal debt?

Mr. Yves Giroux: That's a very good question, and that's a question that gets asked of me and my colleagues quite regularly. We have determined that one point of percentage is 100 basis points. If, for example, an interest rate goes from 1% to 2%, we call that a 100-basis-point increase.

With public debt charges following such a shock of one percentage point, federal debt charges go up by $4.5 billion in the first year, and they rise to $12.8 billion additional by year five if that one-time shock is sustained throughout the period. As the government refinances itself, it's financing costs go up by $12.8 billion by year five for a one-time shock of one percentage point.

Mr. Ted Falk: Is all of our federal debt rate sensitive? Is it all in a term and only sensitive to renewal dates, or is it also in a variable market-sensitive plan?

Mr. Yves Giroux: I think they're specific debt instruments that have a floating rate, but I'm not aware that there are such instruments. There are real return bonds, but they tend to form a very small portion of the overall market debt.

Market debt is sensitive to interest rates as it gets renewed, but with treasury bonds that are 30 days, 90 days and 180 days, plus bonds that have one, two, five and 30 years, there's an ongoing turnover or churn of market debt. The moment interest rates rise, there is debt that needs to be refinanced.

Mr. Ted Falk: The Liberal government—and you stated this in your presentation—has a fiscal anchor, and that fiscal anchor is reducing federal debt. To me that's not a fiscal anchor; it's a wish list. They haven't attached any hard stops to that. They haven't said that a 51.2% debt-to-GDP is a hard stop and they will not exceed that. They've used it as a goal there. I would liken it more to the guardrail terminology that they've been using.

The debt-to-GDP is only one of the markers. In all my years as a banker and as a businessman, if I fixated on only one ratio, I wouldn't do a service to the application or to the business. There are multiple ratios that you have to look at, and I think the government needs to establish a variety of anchors.

Are there other anchors that you as the PBO consider should be looked at and considered by this government?

Mr. Yves Giroux: That's a very good question.

Because there's only one taxpayer that supports all levels of government debt, I think it would be useful for parliamentarians and Canadians to look at government debt as an integrated debt. There's the federal debt that we focus on today, and that's normal—we're federal parliamentarians or servants to parliamentarians—but there's also provincial debt. I think it would be advisable for the government and governments in this country to look at the overall government debt burden, because provincial debt is also of concern, especially in several jurisdictions that are on a path to an ever-increasing debt-to-GDP ratio.

● (1805)

Mr. Ted Falk: That's right.

We've been talking mostly about one side of the ledger, which is the debt side and the expenditure side, but how about the revenue side? Are you confident that our revenues are going to remain consistent, or is there a potential that we're going to see a hiccup on the revenue side?

Mr. Yves Giroux: I'm relatively confident in the robustness of the revenue numbers because the tax base of the government tends to be fairly reliable. It's mostly personal and corporate income taxes, as well as the GST, and these are usually well-established tax bases in Canada. I don't have any major concerns with respect to the revenue projections. They are very closely tied to GDP, so it's not an area of concern that revenues could dip.

Mr. Ted Falk: Thank you.

The Chair: Thanks to both of you.

You have about four minutes, Mr. Fraser. Then we will deal with the report from the subcommittee. We'll have 10 minutes following the last question.

Go ahead, Mr. Fraser.

Mr. Sean Fraser: Thank you, Chair.

Thank you to the Parliamentary Budget Officer for being with us today.

I want to pick up from where my colleague Ms. Dzerowicz left off with the recent reports of certain credit rating agencies.

We've seen S and P reaffirm the AAA rating roughly about a month ago. DBRS Morningstar made the same decision. You've seen commentary from some of the credit rating agencies about the fundamental underpinnings of the economy being strong, in part due to the substantial and timely release of economic supports for households and businesses at the outset of the pandemic.

If you can follow the bouncing ball with me, the IMF tabled a report—I hope you can stay with these various reports—also a little more than a month ago, indicating that, had those same measures the credit rating agencies spoke of not been advanced, the deficit would have been roughly the same as it is today, as a result of lost economic activity. With businesses shutting down and people not working, it makes sense to me.

I'm curious to know if you would agree with the IMF's conclusion, not only in that the scale of the deficit would have been the same without those measures in place, but also with their supplementary conclusion that the economic scarring that would have fallen upon the Canadian economy would have left us far worse off in terms of our ability to rebound from this pandemic once the economic recession comes to an end.

Mr. Yves Giroux: It's an interesting question. I don't know if I can say that I agree with the IMF that without any of these support measures the deficit would have been roughly similar to what it was in 2020-21. I haven't done the math. I haven't looked at that, because, as I said before, to me, it would have been very sadistic to inflict that type of pain on Canadians.

Maybe they're right. Personally, I doubt the deficit would have been the same or roughly the same in 2020-21, but there would have been, clearly, a scarring effect, so maybe over a five- or 10-year period deficits would be roughly similar. I don't know for sure. I wouldn't say, yes, the IMF is totally right and I agree with them 100%, but what is clear is that there would have been unprecedented scarring of the Canadian economy and the labour markets and, as I said before, the social impacts would have been catastrophic, even worse than what we have seen due to the loss of life during the pandemic.

Mr. Sean Fraser: Look, it really was your testimony during your last appearance that provoked this question. Is it possible for you to conduct an analysis to get an answer to that question as to whether or to what extent you would agree with the IMF's assessment?

Mr. Yves Giroux: I will certainly take that under advisement. We have a lot on our plate and, as one of your colleagues mentioned, we have limited resources, so we'll see what we can do.

Mr. Sean Fraser: Mr. Chair, do I have any time left?

The Chair: You have one minute.

Mr. Sean Fraser: I'll make it quick, then.

One piece of testimony you gave today, Monsieur Giroux, was about Canada's deficit or debt position in comparison with that of its international counterparts. It struck me that we may be a little better than middle of the pack right now.

Is that a fair assessment, insofar as it impacts our overall debt and our debt-to-GDP ratio?

● (1810)

Mr. Yves Giroux: Yes, I would say that 11 out of 29 is slightly better than middle of the pack. That's a fair assessment.

Mr. Sean Fraser: Was that for the total national debt?

Mr. Yves Giroux: Yes, it's overall net debt, but the IMF also includes assets of public pension plans such as CPP and QPP. These offset some of the other levels of debt. Most other countries don't have assets to pay for future benefits. In that sense, Canada is in a privileged position.

Mr. Sean Fraser: With respect to our debt-to-GDP ratio, within the same group where do we sit?

Mr. Yves Giroux: I'd say that's what I was referring to: we're 11th out of 29.

Mr. Sean Fraser: Thank you so much.

The Chair: You slid in a little more than one question there, Mr. Fraser.

We've had many good questions and a lot of good information put out here. Gentlemen, thank you very much for your work. I used to look forward more to your reports when I was in opposition than now on the government side, but I think we all, as MPs, as soon as a report is tabled from the PBO, go to see what it states.

I want to thank not just the three of you, but also your teams for the analysis they do. We appreciate it, and it gives us good information with which to raise further questions. Thank you very much for your presentation. We can release you folks now.

Turning to the committee, we have 10 more minutes. You have the subcommittee report that was sent to you by the clerk. I'll table it now. I won't read it all; I'll just highlight it. It's before you.

The subcommittee met on Monday evening and agreed to invite again, on Tuesday, May 4, Dr. Paul Kershaw from Generation Squeeze, as well as witnesses from CMHC and two additional witnesses, one from the governing party.

I won't read Mr. Julian's motion, but we agreed to basically continue the study on tax evasion and to pull forward the evidence from the previous Parliament on the tax evasion study for the benefit of the committee. We would meet on May 6 on this issue and invite six witnesses for that panel and possibly further panels.

We agreed to call another subcommittee meeting within a couple of weeks.

The subcommittee report goes on:

> That if the Budget Implementation Act is presented in the House, the committee commence a pre-study of the said Act on May 11 and 13, 2021 and that the Minister be invited as well as senior officials....

It also says, “That the committee continue its study on the Budget Implementation Act during the week of May 17...with witnesses”. Although it says “from the public” here, it's actually from both the government and the public. If we're not done with the government witnesses, that means that your constituency week has, I'm sorry to say, gone by the wayside.

The report further orders:

> That the Analysts work with the Chair and the Clerk to provide the committee with a summary of recommendations in regard to [our] study on COVID-19 Spending, Programs, and Related Monetary Policy for an eventual report to the House.

That's what the subcommittee agreed to.

Could we have somebody move acceptance of that report? Then we'll get into a discussion of it, if necessary.

It is moved by Peter Julian.

Is there any discussion, or are there questions?

Ms. Dzerowicz.

Ms. Julie Dzerowicz: Thank you, Mr. Chair.

I want to thank the subcommittee for putting forward this report. It always takes a lot more time than any of us ever imagined.

I want to put on the record how disappointed I am that, after the OECD, the Canadian Chamber of Commerce, the Council of Chief Executives and even the current leader of the Conservatives, in his leadership platform, put forward that interprovincial trade barriers are an urgent priority for us to deal with, that's not on the agenda.

We spend a lot of time during our meetings, and today was no exception, talking about how we gain more revenues and how we deal with some of the structural deficiencies in our economy. This is absolutely one of the key ways for us to do so, and it wasn't seen as an urgent priority for the group.

I want to express my disappointment. That's not to say that we're not studying important things, but I do want to express my disappointment that we're not moving forward urgently on a matter that needs to be looked at immediately, so we can start putting things into place.

Those were my comments, Mr. Chair.

● (1815)

The Chair: Thank you. You're not moving an amendment, I take it, but you'd be more pleased if that was included in the report.

Is there any other discussion?

(Motion agreed to)

The Chair: We will go forward with that, and we will plan another steering committee meeting as soon as possible in a couple of weeks.

Thank you, all, and thank you, Mr. Clerk, for gaining us the extra few minutes to have an hour with the PBO and also get this subcommittee report done.

The meeting is adjourned.

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