IN THE MATTER OF THE *JUDGES ACT*, R.S.C. 1985, c. J-1

2020 JUDICIAL COMPENSATION AND BENEFITS COMMISSION

GOVERNMENT'S SUPPLEMENTAL BOOK OF DOCUMENTS

April 30, 2021

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Counsel for the Government of Canada

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Office of the Commissioner for Federal Judicial Affairs Canada
Commissariat à la magistrature fédérale Canada

Ottawa, Canada
K1A 1E3

March 31, 2021

SALARY ADJUSTMENT

We have been advised by Statistics Canada that the Industrial Aggregate, for the purpose of section 25 of the *Judges Act*, is 6.6%.

The salaries of judges will therefore be increased by 6.6 % as of April 1, 2021.

Supreme Court of Canada:	
Chief Justice	$464,300
Judges	$429,900
Federally Appointed Judges:	
Chief Justices	$395,900
Judges	$361,100
Prothonotaries	$288,800

Le 31 mars 2021

RAJUSTEMENT DU TRAITEMENT

Statistique Canada nous a avisé que l'indice de l'ensemble des activités économiques, pour les fins de l'article 25 de la *Loi sur les juges*, est de 6,6 %.

Le rajustement du traitement des juges sera donc de 6,6 % à compter du 1er avril 2021.

Cour suprême du Canada :	
Juge en chef	464 300 $
Juges	429 900 $
Juges de nomination fédérale :	
Juges en chef	395 900 $
Juges	361 100 $
Protonotaires	288 800 $

Le commissaire,

Marc A. Giroux
Commissioner

Canada

16 April 2021

Mr. Christopher Rupar,
Senior General Counsel,
Department of Justice,
50 O'Connor Street,
Ottawa, ON K1B 6L2

RE: 2020 Quadrennial Commission – Supplemental Information

Dear Mr. Rupar:

You asked that I prepare a supplement to my report "Compensation Review of Federally Appointed Judges" dated 26 March 2021 (the "**March Report**") and address four items. This letter should be read in conjunction with that report.

You advised that the increase actually granted to federally appointed judges effective 1 April 2021 and based on the change in the Industrial Aggregate Index ("**IAI**") was 6.6%. Consequently, the annual salary of a puisne judge for the year beginning 1 April 2021 is $361,100 (the "**Base Judicial Salary**" for 2021) and the annual salary of a prothonotary is $288,800.

Average Age-Weighted Total Compensation

In the March Report, I discussed the difference between salary and total compensation at paragraphs 31 to 34. When comparing compensation between jobs, it is rare that looking only at cash compensation provides a true picture of any differences. Total compensation is a measure that looks at all forms of pay so that a fair "apples to apples" comparison is done.

The value of the Judicial Annuity is the main difference between the Base Judicial Salary and the Base Judicial Total Compensation[1]. I calculated the age-weighted value of the Judicial Annuity prior to tax considerations and net of judges' contributions to be 37.84% of Base Judicial Salary (see paragraphs 122 to 134 of March Report). That is the value of the Judicial Annuity if the entire amount is tax sheltered – such as happens under the Judicial Annuity. When I apply this gross-up to judicial salaries, I will refer to the total amount as "**Non-Tax-Adjusted Total Compensation**".

The Income Tax Act limits the total amount that a Canadian may contribute to a tax-sheltered plan, with a few exceptions, such as federally appointed judges. If a self-employed lawyer were to save 37.84% of annual earnings, some could be tax-sheltered in an RRSP, but about half would not be

[1] Base Judicial Total Compensation is the age-weighted average of judicial total compensation (see paragraph 13 of the March Report). It is the total of the Base Judicial Salary, the value of the Judicial Annuity and the value of the total CPP contribution made by the government. That value varies by age of the judge at their appointment. The age-weighted average of those values is equal to the average calculated for all 598 appointments between 2011 and 2020.

tax-sheltered. A self-employed lawyer would not be able to produce a pension equal to 2/3rds of final earnings because of the income tax paid on almost half of that 37.84%. I calculated the percent of annual earnings that would be required to provide a 2/3rds of final earnings pension for someone who is not a federally appointed judge to be 49.51% of earnings (see paragraphs 135 to 142 of March Report). When I apply this gross-up to judicial salaries, I will refer to the total amount as "**Base Judicial Total Compensation**".

Average Age-Weighted Total Compensation for Judges and Prothonotaries in 2021

In the March Report, I had estimated the Base Judicial Salary for 2021 would be $361,600 and the Base Judicial Total Compensation would be $543,800.

With the Base Judicial Salary for 2021 set at $361,100, the Non-Tax-Adjusted Total Compensation is $497,740 and the Base Judicial Total Compensation is $543,000. That $543,000 is equivalent to the net income of a self-employed lawyer at the 89th percentile[2].

With the annual salary for 2021 of prothonotaries set at $288,800, a prothonotary's Non-Tax-Adjusted Total Compensation is $398,080 and the total compensation is $434,900. That is equivalent to the net income of a self-employed lawyer at the 86th percentile.

Judicial and Prothonotary Salaries and Total Compensation in 2024 – Government Proposal

You asked that I project the Base Judicial Salary and the base prothonotary salary to 2024 and determine the Total Base Judicial Compensation and total prothonotary compensation expected in 2024 assuming the Commission accepts the Government's proposal:

1. salaries continue to increase in 2022 through to 2024 in line with changes in the IAI, but
2. subject to a 10% maximum total increase to the 2020 base salary of $338,800, giving a maximum Base Judicial Salary of $372,600 over the period 2021 to 2024 inclusive.

I have considered two patterns for increases in the IAI for the future – 2022 to 2024. For the first, I assumed the changes in the IAI for 2022 to 2024 will be the same as the assumptions set out in the letter from François Lemire of the Office of the Superintendent of Financial Institutions ("**OSFI**") to Anna Dekker dated 26 February 2021. For the second, I have assumed the 2022 change in the IAI will be an increase of 1.1%[3] and then 1.9% and 2.1% in 2023 and 2024 respectively - somewhat lower than the OSFI assumptions. The year-by-year assumptions are set out in Table 1 – the highlighted values are those that would be affected by the 10% maximum.

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2 All references in this letter to percentiles refer to the net income of self-employed lawyers adjusted by me to 2021 (see paragraph 155 of the March Report).

3 See paragraphs 86 to 89 of the March Report.

Table 1 – Assumptions for Future Changes in IAI – Government Proposal

Year	Assumption 1	Assumption 2	Assumption 1 With 10% Maximum	Assumption 2 With 10% Maximum
2021	6.6%	6.6%	6.6%	6.6%
2022	2.1%	1.1%	2.1%	1.1%
2023	2.6%	1.9%	1.1%	1.9%
2024	2.8%	2.1%	0.0%	0.2%
Sum of increases	14.1%	11.7%	9.8%	9.8%
Total increase over 4 years[4]	14.7%	12.1%	10.0%	10.0%
Annualised Increase	3.5%	2.5%	2.4%	2.4%

In my opinion, Assumption 1 is consistent with a strong economy over the coming three years and with little ongoing effect from the past year of global pandemic.

Assumption 2 is based on a return to normal employment levels over the balance of 2021 together with a muted economy for 2021 to 2023 as many businesses struggle with the increase in debt and corporate income tax rates[5] together with possible ongoing changes in consumer behaviour arising from the pandemic[6].

As can be seen from Table 1, the 10% limit on judicial salary increases will likely act to limit the increase in 2024 and possibly also in 2023. If there is a recession or a long and slow recovery from the pandemic, it is possible that the 10% maximum will not have any effect on the judicial salary increases.

The assumptions in Table 1 produce the following amounts for Base Judicial Salary for 2021 to 2024. The highlighted values are those affected by the 10% maximum.

Table 2 - Projected Base Judicial Salary 2021 to 2024 – Government Proposal

Year	Assumption 1	Assumption 2	Assumption 1 With 10% Maximum	Assumption 2 With 10% Maximum
2021	$ 361,100	$ 361,100	$ 361,100	$ 361,100
2022	368,600	365,000	368,600	365,000
2023	378,100	371,900	372,600	371,900
2024	388,600	379,700	372,600	372,600

Based on the Government's proposal, and the assumptions for changes in the IAI, the Base Judicial Salary effective 1 April 2024 will be $372,600.

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4 When the individual increase percentages are applied in each year, there is a compounding effect. When the Base Judicial Salary in 2024 is compared to the $338,800 for 2020, the actual total increase is greater than the sum of the four annual increases.

5 As of the date of this letter, there has been no announcement of any increase in corporate income tax rates, but I have assumed there will be an increase implemented either in 2021 or more likely in 2022.

6 The balance of the businesses would either experience little effect from the pandemic or have closed completely.

With a Base Judicial Salary of $372,600, the Non-Tax-Adjusted Total Compensation will be $513,600 and the Base Judicial Total Compensation will be $560,200.

For prothonotaries, these assumptions produce a base salary of $298,000 for 2024, a Non-Tax-Adjusted Total Compensation of $410,800 and a total compensation of $448,700.

Judicial and Prothonotary Salaries and Total Compensation in 2024 – Judiciary Proposal

You asked that I project the Base Judicial Salary and the base prothonotary salary to 2024 and determine the Total Base Judicial Compensation and total prothonotary compensation expected in 2024 assuming the Commission accepts the proposal made on behalf of the Judiciary:

1. salaries continue to increase in 2022 through to 2024 inclusive in line with the changes in the IAI, but
2. subject to an additional increase in each of 2022 and 2023 equal to 2.3%.

I have used the same two sets of assumptions as set out above for future expected changes in the IAI. These assumptions together with the resulting increase in salaries under the Judicial proposal are summarised in Table 3. The percentages that include an additional increase are highlighted.

Table 3 - Assumptions for Future Changes in IAI – Judiciary Proposal

Year	Assumption 1	Assumption 2	Assumption 1 With Added Increase	Assumption 2 With Added Increase
2021	6.6%	6.6%	6.6%	6.6%
2022	2.1%	1.1%	4.4%	3.4%
2023	2.6%	1.9%	4.9%	4.2%
2024	2.8%	2.1%	2.8%	2.1%
Sum of increases	14.1%	11.7%	18.8%	16.4%
Total increase over 4 years[7]	14.7%	12.1%	19.9%	17.2%
Annualised Increase	3.5%	2.5%	4.6%	4.0%

The assumptions in Table 3 produce the following amounts for Base Judicial Salary for 2021 to 2024. The highlighted values are those affected by the additional increase.

Table 4 - Projected Base Judicial Salary 2021 to 2024 – Judicial Proposal

Year	Assumption 1	Assumption 2	Assumption 1 With Added Increase	Assumption 2 With Added Increase
2021	$ 361,100	$ 361,100	$ 361,100	$ 361,100
2022	368,600	365,000	376,900	373,300
2023	378,100	371,900	395,300	388,900
2024	388,600	379,700	406,300	397,000

[7] When the individual increase percentages are applied in each year, there is a compounding effect. When the Base Judicial Salary in 2024 is compared to the $338,800 for 2020, the actual total increase is greater than the sum of the four annual increases.

Based on the Judiciary's proposal and the assumptions for changes in the IAI, the Base Judicial Salary as of 1 April 2024 will be $406,300 under Assumption 1 and $397,000 under Assumption 2.

With a Base Judicial Salary of $406,300, the Non-Tax-Adjusted Total Compensation will be $560,000 and the Base Judicial Total Compensation will be $610,600.

With a Base Judicial Salary of $397,000, the Non-Tax-Adjusted Total Compensation will be $547,200 and the Base Judicial Total Compensation will be $596,700.

For prothonotaries, Assumption 1 with added increase produces a base salary of $325,000 for 2024, Non-Tax-Adjusted Total Compensation of $448,000 and total compensation of $489,100.

For prothonotaries, Assumption 2 with added increase produces a base salary of $317,600 for 2024, Non-Tax-Adjusted Total Compensation of $437,800 and total compensation of $478,000.

Changes to March Report

You asked whether there were any other results that may have changed in the March Report.

The only such changes would be to reflect the actual Base Judicial Salary of $361,100 versus the assumed amount of $361,600.

1. In Table 151, the right column shows the Base Judicial Total Compensation effective 1 April 2021. The amounts in that column will be slightly lower (from $700 to $1,000) if calculated using the actual Base Judicial Salary of $361,100.
2. There are a number of references to the assumed Base Judicial Salary and Base Judicial Total Compensation (e.g., paragraphs 158 to 163 and 270 to 290) that are affected. I confirm that the difference in the dollar amount of salary is not enough to have any effect on the percentile ranking shown in the March Report.

I confirm that there are no other changes to the March Report due to events prior to or since I completed that report (26 March 2021).

If you have any questions or require additional information, please call me.

Yours truly,

JDM Actuarial Expert Services Inc.

Peter Gorham, F.C.I.A., F.S.A.
President and Actuary

Annex 1:
Details of Economic and Fiscal Projections

Economic Projections

The average of private sector forecasts has been used as the basis for economic and fiscal planning since 1994. This helps ensure objectivity and transparency, and introduces an element of independence into the government's economic and fiscal forecast. The economic forecast presented in this section is based on a survey conducted in March 2021.

The March survey includes the views of 13 private sector economists:

1. BMO Capital Markets,
2. Caisse de dépôt et placement du Québec,
3. CIBC World Markets,
4. The Conference Board of Canada,
5. Desjardins,
6. IHS Markit,
7. Industrial Alliance Insurance and Financial Services Inc.,
8. Laurentian Bank Securities,
9. National Bank Financial Markets,
10. Royal Bank of Canada,
11. Scotiabank,
12. TD Bank Financial Group, and
13. The University of Toronto (Policy and Economic Analysis Program).

Private sector economists expect real gross domestic product (GDP) to rebound from a contraction of 5.4 per cent in 2020 to growth of 5.8 per cent in 2021 and 4 per cent in 2022, a faster recovery than the growth rates of, respectively, 4.8 per cent and 3.2 per cent projected in the November 2020 Fall Economic Statement (FES 2020). This improved outlook reflects stronger-than-expected results in the last quarter of 2020, and higher projected growth starting in the second quarter of this year due to a faster anticipated rollout of vaccines (Table A1.1 below). Real GDP growth is expected to moderate to about 2 per cent on average per year over the remaining years of the forecast horizon, reflecting a return to trend long-run growth rates.

Along with the faster recovery in economic activity, the unemployment rate is expected to decline from its peak of 9.6 per cent in 2020 to 8 per cent in 2021 and 6.5 per cent in 2022, a faster projected decline than in FES 2020. The unemployment rate is expected to reach 5.9 per cent by 2025.

The outlook for GDP inflation (the broadest measure of economy-wide price inflation) in the March 2021 survey has also been revised up for 2021 compared to FES 2020 forecast (from 2.2 per cent to 3.3 per cent) reflecting better-than-expected results in the second half of 2020 and upward forecast revisions in the first quarter of 2021, in part attributable to higher oil prices. Going forward, GDP inflation is expected to stand at about 2 per cent per year.

As a result of these developments, the level of nominal GDP (the broadest measure of the tax base) is projected at $2,408 billion for 2021, $68 billion higher than projected in FES 2020 (but still $75 billion lower than projected in the Economic and Fiscal Update 2019). The nominal GDP level difference with FES 2020 is expected to average about $70 billion per year over the 2020-2025 period.

While the outlook for the short-term interest rate is broadly similar to FES 2020 projection, forecasts for the long-term interest rate have been revised up in the March 2021 survey by about 40 basis points over the 2020-2025 period compared to FES 2020 forecast.

Table A1.1

Average Private Sector Forecasts

per cent, unless otherwise indicated

	2020	2021	2022	2023	2024	2025	2020-2025
Real GDP growth[1]							
Fall Economic Statement 2020	-5.5	4.8	3.2	2.3	2.1	1.9	1.5
Budget 2021	-5.4	5.8	4.0	2.1	1.9	1.8	1.7
GDP inflation[1]							
Fall Economic Statement 2020	0.1	2.2	2.0	2.0	2.1	2.1	1.7
Budget 2021	0.8	3.3	2.0	2.0	2.1	2.0	2.0
Nominal GDP growth[1]							
Fall Economic Statement 2020	-5.4	7.0	5.3	4.4	4.3	4.0	3.3
Budget 2021	-4.6	9.3	6.0	4.0	4.0	3.8	3.8
Nominal GDP level (billions of dollars)[1]							
Fall Economic Statement 2020	2,186	2,340	2,465	2,572	2,682	2,789	
Budget 2021	2,204	2,408	2,553	2,657	2,763	2,869	
Difference between Fall Economic Statement 2020 and Budget 2021	18	68	89	84	81	79	70
3-month treasury bill rate							

Note: Forecast averages may not equal average of years due to rounding. Numbers may not add due to rounding.
[1] Figures have been restated to reflect the historical revisions in the Canadian System of National Accounts and in the Labour Force Survey. Sources: Statistics Canada; for the Fall Economic Statement 2020, Department of Finance Canada September 2020 survey of private sector economists; for the Budget 2021, Department of Finance Canada March 2021 survey of private sector economists.

	2020	2021	2022	2023	2024	2025	2020-2025
Fall Economic Statement 2020	0.4	0.2	0.3	0.5	1.1	1.5	0.7
Budget 2021	0.4	0.1	0.2	0.5	1.1	1.6	0.7
10-year government bond rate							
Fall Economic Statement 2020	0.7	0.9	1.2	1.6	2.0	2.4	1.5
Budget 2021	0.7	1.5	1.8	2.1	2.5	2.7	1.9
Exchange rate (US cents/C$)							
Fall Economic Statement 2020	74.2	76.1	76.6	77.9	78.9	79.2	77.2
Budget 2021	76.6	79.4	79.8	80.8	81.0	81.0	79.4
Unemployment rate[1]							
Fall Economic Statement 2020	9.8	8.2	7.1	6.4	6.1	6.1	7.3
Budget 2021	9.6	8.0	6.5	6.2	6.0	5.9	7.0
Consumer Price Index inflation							
Fall Economic Statement 2020	0.7	1.7	1.9	2.0	2.1	2.1	1.7
Budget 2021	0.7	2.2	2.0	2.1	2.1	2.1	1.9
U.S. real GDP growth							
Fall Economic Statement 2020	-4.3	3.7	3.3	2.6	2.2	2.0	1.6
Budget 2021	-3.5	6.0	4.3	2.2	1.9	1.8	2.1
West Texas Intermediate crude oil price ($US per barrel)							
Fall Economic Statement 2020	39	46	52	54	58	59	51
Budget 2021	39	60	61	60	60	60	57

Note: Forecast averages may not equal average of years due to rounding. Numbers may not add due to rounding.
[1] Figures have been restated to reflect the historical revisions in the Canadian System of National Accounts and in the Labour Force Survey. Sources: Statistics Canada; for the Fall Economic Statement 2020, Department of Finance Canada September 2020 survey of private sector economists; for the Budget 2021, Department of Finance Canada March 2021 survey of private sector economists.

Fiscal Projections

Changes to the Fiscal Outlook since the 2020 Fall Economic Statement (FES 2020)

Table A1.2

Economic and Fiscal Developments since FES 2020 and Policy Actions and Investments

billions of dollars

	Projection					
	2020-2021	**2021-2022**	**2022-2023**	**2023-2024**	**2024-2025**	**2025-2026**
Budgetary balance – FES 2020 (before stimulus)	-381.6	-121.2	-50.7	-43.3	-30.9	-24.9
Economic and fiscal developments since FES2020 (Table A1.3)	35.2	15.8	19.3	16.0	12.8	10.3
Budgetary balance before policy actions and investments	**-346.4**	**-105.4**	**-31.4**	**-27.3**	**-18.1**	**-14.6**
Policy actions since FES 2020	0.2	0.3	0.9	-1.1	-0.7	-0.3
Investments in Budget 2021 (by chapter)						
1. Keeping Canadians Healthy and Safe	-5.0	-1.2	-1.0	-0.9	-0.8	-0.7
2. Seeing Canadians and Businesses Through to Recovery	-0.2	-27.0	-4.2	-1.0	-0.7	0.7
3. New Opportunities for Canadians	-0.5	-3.9	-9.0	-7.5	-7.6	-8.8
4. Helping Canadian Businesses Grow and Succeed	0.0	-3.7	-4.5	-5.0	-2.4	-0.8
5. A Healthy Environment for a Healthy Economy	0.0	-1.2	-1.9	-2.0	-1.8	-1.9
6. Strengthening the Cities and Communities We Call Home	-2.2	-4.6	-3.3	-2.3	-2.0	-3.1
7. A More Equal Canada	0.0	-1.8	-1.6	-2.1	-2.2	-2.4
8. Strong Indigenous Communities	0.0	-4.3	-3.5	-3.0	-1.3	-1.0
9. Protecting Our Shared Values	-0.1	-1.9	-1.1	-0.7	-0.5	-0.4
10. Responsible Government	0.0	-0.2	0.7	1.8	2.4	2.5
Total – Actions since FES 2020 and Budget 2021 Investments	**-7.7**	**-49.3**	**-28.3**	**-23.8**	**-17.7**	**-16.1**
Budgetary balance	**-354.2**	**-154.7**	**-59.7**	**-51.0**	**-35.8**	**-30.7**
Budgetary balance (%GDP)	-16.1	-6.4	-2.3	-1.9	-1.3	-1.1
Federal Debt (%GDP)	49.0	51.2	50.7	50.6	50.0	49.2
Note: FES 2020 Escalated Restrictions Scenario and $100 billion stimulus						
Budgetary balance	*-398.7*	*-166.7*	*-109.6*	*-71.7*	*-39.4*	*-33.4*
Budgetary balance (%GDP)	*-18.2*	*-7.3*	*-4.5*	*-2.9*	*-1.5*	*-1.2*
Federal Debt (%GDP)	*51.4*	*56.4*	*58.1*	*58.5*	*57.6*	*56.6*

Table A1.3
Economic and Fiscal Developments since FES 2020
billions of dollars

	Projection					
	2020-2021	**2021-2022**	**2022-2023**	**2023-2024**	**2024-2025**	**2025-2026**
Economic and fiscal developments by component[1]:						
Change in budgetary revenues						
(1.1) Income taxes	11.8	14.5	13.5	11.9	11.9	11.9
(1.2) Excise taxes/duties	0.2	1.5	1.8	1.5	1.3	1.0
(1.3) Proceeds from the pollution pricing framework	0.3	0.4	0.3	0.4	0.3	0.3
(1.4) Employment Insurance premiums	0.7	0.7	1.1	0.9	0.5	-0.5
(1.5) Other revenues	7.9	2.2	2.8	2.6	1.9	2.4
(1) Total budgetary revenues	**20.8**	**19.2**	**19.6**	**17.3**	**15.9**	**15.1**
Change in program expenses						
(2.1) Major transfers to persons	6.3	2.1	0.0	-0.7	-0.9	-1.2
(2.2) Major transfers to other levels of government	0.1	-4.4	-0.4	-1.1	-1.2	-1.1
(2.3) Direct program expenses	8.2	-2.7	0.2	2.4	1.8	1.0
(2) Total program expenses, excluding net actuarial losses	**14.6**	**-5.0**	**-0.2**	**0.6**	**-0.3**	**-1.3**
(3) Net actuarial losses	0.0	3.4	3.3	2.9	2.1	1.5
(4) Public debt charges	-0.1	-1.8	-3.3	-4.8	-4.9	-5.0
(5) Total economic and fiscal developments	**35.2**	**15.8**	**19.3**	**16.0**	**12.8**	**10.3**

[1] A negative number implies a deterioration in the budgetary balance (lower revenues or higher expenses). A positive number implies an improvement in the budgetary balance (higher revenues or lower expenses).

Budgetary revenues, particularly income tax revenues, have been revised up relative to FES 2020. In the near-term, this is driven by the faster-than-expected economic recovery in the second half of 2020. Over the longer-term, an improvement in the outlook for the labour market, personal income and corporate profitability drive revisions to personal and corporate income tax revenues.

- Because more people will be working, and earning more, income tax revenues are projected to be $11.8 billion higher in 2020-21 due to strong year-to-date results, and up on average by more than $12 billion per year over the forecast horizon.
- Excise taxes and import duty revenues have been revised upwards in large part due to an upward revision to Goods and Services Tax (GST) revenues, reflecting a stronger outlook for consumption.
- Proceeds from the federal pollution pricing framework that arise from the provinces and territories that are a part of the federal backstop are projected to be marginally higher reflecting an improved economic outlook. These proceeds will continue to be fully returned: primarily through Climate Action Incentive payments to eligible individuals and families in Alberta, Manitoba, Ontario and Saskatchewan and through a transfer to the governments of Yukon and Nunavut.
- Employment Insurance (EI) premium revenues have been revised up due to better-than-expected labour force participation and an improved outlook for economy-wide wage growth.
- Other revenues, such as those resulting from sales of goods and services, investments and loans, interest and penalties, and Crown corporations' net profits, are projected to be much higher in 2020-21 than expected at the time of FES 2020. This improvement is primarily due to better-than-expected financial performance by enterprise Crown corporations, and lower-than-expected premiums paid by the Bank of Canada in the course of its secondary market purchases of Government of Canada securities to support liquidity in financial markets. Upward revisions in future years largely reflect an improved outlook for enterprise Crown corporations profits, including income on increased asset balances held by the Bank of Canada.

Program expenses, particularly major transfers to persons and direct program expenses, are projected to be significantly lower in 2020-21 relative to FES 2020, largely reflecting the revised timing and re-estimation of the cost of COVID-response programs, such as the Canada Emergency Response Benefit.

- Over the remainder of the forecast horizon, adjustments to major transfers to persons reflect the impact of higher expected inflation, to which children's and elderly benefits rates are indexed.
- Major transfers to other levels of government are higher in 2021-22, reflecting a revised preliminary estimate of potential Fiscal Stabilization payments. In the outer years of the forecast, expenses have been revised upwards, as a result of the stronger economic outlook as the Canada Health Transfer and Equalization payments are indexed to growth in nominal GDP.
- Direct program expenses, which include pollution pricing proceeds returned, other transfer payments administered by departments, and departmental operating expenses, have been adjusted downward in 2020-21 and upward in 2021-22, largely due to the revised timing of COVID program expenses. Over the horizon, direct program expenses are revised downward, driven by lower anticipated pension and benefits current service costs, and slightly lower departmental spending projections.

Net actuarial losses, which represent changes in the measurement of the government's obligations for pensions and other employee future benefits accrued in previous fiscal years, are expected to be lower relative to FES 2020, reflecting upward revisions to projected long term interest rates used to value the obligations.

Public debt charges have increased to reflect higher expected interest costs on interest-bearing debt due to higher interest rates, and a revised financial requirement. Despite these developments, public debt charges remain on a sustainable long-term path and are $1.6 billion lower in 2022-23 than was forecast in the 2019 Economic and Fiscal Update (forecast of $27.3 billion at that time), before the onset of COVID. This is in spite of the substantial increase in federal debt as a result of the pandemic.

Summary Statement of Transactions

Table A1.4
Summary Statement of Transactions
billions of dollars

		Projection					
	2019 –2020	**2020 –2021**	**2021 –2022**	**2022 –2023**	**2023 –2024**	**2024 –2025**	**2025 –2026**
Budgetary revenues	**334.1**	**296.2**	**355.1**	**377.9**	**396.4**	**417.9**	**437.7**
Program expenses, excluding net actuarial losses	338.5	614.5	475.6	403.0	409.2	414.4	426.7
Public debt charges	24.4	20.4	22.1	25.7	30.5	35.4	39.3
Total expenses, excluding net actuarial losses	**362.9**	**634.9**	**497.6**	**428.7**	**439.7**	**449.8**	**466.0**
Budgetary balance before net actuarial losses	**-28.8**	**-338.8**	**-142.5**	**-50.9**	**-43.4**	**-31.9**	**-28.3**
Net actuarial losses	-10.6	-15.4	-12.2	-8.9	-7.7	-3.9	-2.4
Budgetary balance	**-39.4**	**-354.2**	**-154.7**	**-59.7**	**-51.0**	**-35.8**	**-30.7**
Financial Position							
Total liabilities	1,248.6	1,648.4	1,799.7	1,858.3	1,928.0	1,983.1	2,025.3
Financial assets[1]	435.7	472.4	466.2	459.6	473.6	488.8	496.8
Net debt	812.9	1,176.0	1,333.6	1,398.8	1,454.4	1,494.3	1,528.6
Non-financial assets	91.5	96.9	99.8	105.3	109.9	114.0	117.6
Federal debt	**721.4**	**1,079.0**	**1,233.8**	**1,293.5**	**1,344.5**	**1,380.3**	**1,411.0**
Per cent of GDP							
Budgetary revenues	14.5	13.4	14.7	14.8	14.9	15.1	15.3
Program expenses, excluding Net Actuarial losses	14.6	27.9	19.7	15.8	15.4	15.0	14.9

Note: Totals may not add due to rounding.
[1] The projected level of financial assets for 2020-21 includes an estimate of other comprehensive income.

		Projection					
	2019 –2020	2020 –2021	2021 –2022	2022 –2023	2023 –2024	2024 –2025	2025 –2026
Public debt charges	1.1	0.9	0.9	1.0	1.1	1.3	1.4
Budgetary balance	-1.7	-16.1	-6.4	-2.3	-1.9	-1.3	-1.1
Federal debt	31.2	49.0	51.2	50.7	50.6	50.0	49.2

Note: Totals may not add due to rounding.
[1] The projected level of financial assets for 2020-21 includes an estimate of other comprehensive income.

Outlook for Budgetary Revenues

Table A1.5
The Revenue Outlook
billions of dollars

		Projection					
	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Income taxes							
Personal income tax	167.6	168.2	180.4	187.5	195.5	204.0	213.5
Corporate income tax	50.1	46.2	50.3	52.8	56.7	62.9	66.8
Non-resident income tax	9.5	8.5	9.9	10.6	11.0	11.3	11.7
Total income tax	227.1	222.9	240.5	251.0	263.2	278.1	291.9
Excise taxes/duties							
Goods and Services Tax	37.4	29.8	41.0	43.6	45.2	46.7	48.2
Customs import duties	4.9	3.7	4.5	4.9	5.1	5.4	5.8
Other excise taxes/duties	11.6	10.5	11.7	12.4	12.7	12.8	12.9
Total excise taxes/duties	53.9	44.0	57.1	60.9	63.0	64.9	66.9
Digital Services Tax		0.0	0.2	0.7	0.8	0.8	0.9
Total tax revenues	**281.0**	**266.9**	**297.8**	**312.5**	**326.9**	**343.8**	**359.7**
Proceeds from the pollution pricing framework[1]	2.7	4.5	6.4	7.9	8.0	7.9	7.9

Note: Totals may not add due to rounding.
[1] This represents those charges applied through the federal backstop, excluding the Output Based Pricing System. All these proceeds will be returned to their province/territory of origin through Climate Action Incentive payments and other climate supports.

		Projection					
	2019–2020	**2020–2021**	**2021–2022**	**2022–2023**	**2023–2024**	**2024–2025**	**2025–2026**
Employment Insurance premium revenues	22.2	22.2	23.7	25.4	27.3	29.2	31.2
Other revenues							
Enterprise Crown corporations	5.1	-13.9	7.1	10.2	10.7	11.7	12.5
Other programs	20.8	14.2	18.5	19.9	21.2	22.6	23.4
Net foreign exchange	2.4	2.2	1.7	1.9	2.2	2.6	3.0
Total other revenues	28.3	2.6	27.3	32.0	34.2	36.9	38.9
Total budgetary revenues	**334.1**	**296.2**	**355.1**	**377.9**	**396.4**	**417.9**	**437.7**
Per cent of GDP							
Total tax revenues	12.2	12.1	12.4	12.2	12.3	12.4	12.5
Proceeds from the pollution pricing framework	0.1	0.2	0.3	0.3	0.3	0.3	0.3
Employment Insurance premium revenues	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Other revenues	1.2	0.1	1.1	1.3	1.3	1.3	1.4
Total budgetary revenues	14.5	13.4	14.7	14.8	14.9	15.1	15.3

Note: Totals may not add due to rounding.
[1] This represents those charges applied through the federal backstop, excluding the Output Based Pricing System. All these proceeds will be returned to their province/territory of origin through Climate Action Incentive payments and other climate supports.

Table A1.5 sets out the government's projection for budgetary revenues.

Personal income tax (PIT) revenues – the largest component of budgetary revenues – are projected to increase to $168.2 billion in 2020-21, or 0.4 per cent. This limited growth reflects the negative impact of the COVID-19 crisis on household incomes, partly compensated by measures put in place by the government to support income. PIT revenues are expected to rebound to $180.4 billion in 2021-22 as employment levels recover. For the remainder of the forecast, PIT revenue growth is expected to return to an average of 4.3 per cent, in line with projected nominal GDP growth.

Corporate income tax (CIT) revenues are projected to decrease by 7.6 per cent, to $46.2 billion in 2020-21. The decline is driven by lower corporate profitability and general economic weakness due to the impact of COVID-19. Starting 2021-22, CIT is expected to rebound and grow at an average rate of 7.6 per cent per year through to the end of the forecast horizon, reflecting the outlook for corporate profitability.

Non-resident income tax revenues are income taxes paid by non-residents on Canadian-sourced income, notably dividends and interest payments. These revenues are expected to decrease to $8.5 billion in 2020-21, or 10.7 per cent, as corporate profits and investment income were hit by the economic impacts of the crisis, before rebounding to $9.9 billion in 2021-22. From 2022-23 on, growth is expected to return to an average of 4.3 per cent.

GST revenues are forecast to fall to $29.8 billion in 2020-21, or 20.3 per cent, reflecting the temporary shutdown of large portions of the retail sector and the introduction of the one-time enhanced GST credit payment, before increasing to $41 billion in 2021-22, or 37.4 per cent. Over the remainder of the projection period, GST revenues are forecast to grow by 4.1 per cent per year, on average, reflecting the outlook for taxable consumption.

Customs import duties are projected to fall from $4.9 billion in 2019-20 to $3.7 billion in 2020-21, or 22.8 per cent, due to lower imports and the government's waiver of customs duties on medical goods in order to better combat the spread of COVID-19, before rebounding to $4.5 billion in 2021-22, or 19.8 per cent. Over the remainder of the horizon, customs import duties are projected to grow at an average annual rate of 6.4 per cent due to expected growth in imports.

Other excise taxes and duties (OETD) are projected to decline to $10.5 billion in 2020-21, or 10.2 per cent, primarily reflecting lower air travel security surcharge and excise tax revenue from motive fuels as a result of decreased demand since the onset of the pandemic. OETD revenues are expected to increase to $11.7 billion in 2021-22, or 11.4 per cent, as demand recovers, and over the remainder of the projection period, are expected to grow at an average annual rate of 2.7 per cent, reflecting projected underlying consumption growth.

The new digital services tax (DST) is expected to be in effect as of January 1, 2022. DST revenues are projected to be $0.2 billion in 2021-22, and rise to $0.9 billion by 2025-26.

In 2020-21, EI premium revenues are projected to remain unchanged at $22.2 billion. Over the remainder of the projection horizon, premium revenues are anticipated to grow at an average annual rate of 7.1 per cent, largely due to the current outlook for the labour market, the end of the currently planned two-year freeze in premium rates as of 2023, and the return to a premium rate structure under current legislation that balances accumulated spending in the account over seven years. The current forecast anticipates a gradual increase in premium rates, beginning in 2023, from $1.58 to $1.83 per $100 insurable earnings by the end of the horizon. This would result in a premium rate that is still lower than the peak level of rates at $1.88 following the 2008-09 recession. The government will continue to review premium rates following the results of its consultations on future EI reforms over the course of the next year and where the labour market stands further on in the recovery.

Other revenues consist of three broad components: net income from enterprise Crown corporations; other program revenues from returns on investments, proceeds from the sales of goods and services, and other miscellaneous revenues; and revenues in the Exchange Fund Account.

Enterprise Crown corporation revenues are projected to decrease by $18.9 billion in 2020-21 and increase by $21 billion in 2021-22, before growing thereafter at an average annual rate of 15.2 per cent. These projections reflect the outlooks presented in corporate plans of respective enterprise Crown corporations, including the impact of COVID-19 on profits, and the impact of Bank of Canada programs introduced during COVID-19, including purchases of Government of Canada securities on the secondary market to support liquidity in financial markets.

Other program revenues are affected by consolidated Crown corporation revenues, interest rates, inflation and exchange rate movements (which affect the Canadian-dollar value of foreign-denominated assets). These revenues are projected to decline by 31.5 per cent or $6.6 billion in 2020-21, primarily due to a decline in interest and penalty revenue of $2.7 billion and return on investments of $1.3 billion as a result of lower interest rates and interest and penalty waivers provided as part of the government's COVID-19 response, along with a $1.6 billion projected decline in revenue from sales of goods and services. Over the remainder of the forecast horizon, these revenues are projected to grow at an average annual rate of 10.4 per cent, largely as a result of growth in revenue from return on investments and interest and penalty revenue.

Net foreign exchange revenues, which consist mainly of returns on investments held in the Exchange Fund Account, are volatile and sensitive to fluctuations in foreign exchange rates and foreign interest rates. These revenues are projected to decrease in 2020-21 due mainly to lower interest rates.

Employment Insurance Operating Account

Employment Insurance Operating Account Projections

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026		
EI premium revenues	22.2	22.2	23.7	25.4	27.3	29.2	31.2		
EI benefits[1]	21.8	33.5	41.2	28.1	24.5	24.9	25.6		
EI administration and other expenses[2]	2.0	2.1	2.1	2.2	2.0	1.9	1.9		
	2019[3]	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**(...)**	**2028**
EI Operating Account annual balance	2.1	-6.3	-21.9	-6.1	-0.7	2.2	3.8		6.5
EI Operating Account cumulative balance	5.9	-0.3	-22.2	-28.3	-29.0	-26.8	-22.9		-4.4[4]
Projected premium rate (per $100 of insurable earnings)	1.62	1.58	1.58	1.58	1.63	1.68	1.73		1.83

[1] EI benefits include regular EI benefits, sickness, maternity, parental, compassionate care, fishing and work sharing benefits, and employment benefits and support measures. EI benefits exclude EI-Emergency Response Benefit costs as these will not be recovered via EI premiums in line with the Government's commitment to credit the EI Operating Account.
[2] The remaining EI costs relate mainly to administration and are included in direct program expenses.
[3] Values for 2019 are actual data. Values for 2020 and future years are a projection.
[4] The EI Operating Account cumulative balance does not reach exactly zero at the end of the seven-year period as projected EI rates are rounded to the nearest whole cent per $100 of insurable earnings, in accordance with the *Employment Insurance Act*. In addition, the positive deficit amount in 2028 reflects the cost of new support measures that are not fully recovered due to the 5-cent limit on premium rate increases.

The Employment Insurance Operating Account operates within the Consolidated Revenue Fund. As such, EI-related revenues and expenses that are credited and charged to the Account, respectively, in accordance with the Employment Insurance Act, are consolidated with those of the government, and impact the budgetary balance. For consistency with the EI premium rate, which is set on a calendar-year basis with the objective of having the Account break even over time, the annual and cumulative balances of the Account are also presented on a calendar-year basis.

The EI Operating Account is expected to record annual deficits from 2020 to 2023 as a result of the increase in EI benefits (excluding the Emergency Response Benefit) and the temporary freeze on EI premiums through 2022. The Account is then projected to record annual surpluses starting in 2024 due to projected increases in the premium rate until reaching $1.83. The increases reflect the practice of the rate-setting mechanism that started with the setting of the 2017 premium rate.

Outlook for Program Expenses

Table A1.6

The Expense Outlook

billions of dollars

		Projection					
	2019–2020	**2020–2021**	**2021–2022**	**2022–2023**	**2023–2024**	**2024–2025**	**2025–2026**
Major transfers to persons							
Elderly benefits	56.2	58.8	62.5	68.0	72.5	76.7	81.0
Employment Insurance benefits[1]	21.8	59.8	41.2	28.1	24.5	24.9	25.6
Canada Emergency Response Benefit and Canada Recovery Benefits	4.7	57.3	13.9	0.0	0.0	0.0	0.0
Canada Child Benefit[2]	24.3	27.6	27.2	26.3	26.6	27.2	27.9
Total	107.1	203.5	144.8	122.3	123.7	128.7	134.4
Major transfers to other levels of government							
Canada Health Transfer	40.9	45.9	43.1	44.7	47.5	49.8	51.7
Canada Social Transfer	14.6	15.0	15.5	15.9	16.4	16.9	17.4
Equalization	19.8	20.6	20.9	21.7	23.1	24.1	25.1
Territorial Formula Financing	3.9	4.2	4.4	4.6	4.8	4.9	5.1
Canada Community-Building Fund	2.2	4.3	2.3	2.3	2.4	2.4	2.5
Home care and mental health	1.1	1.3	1.5	1.2	1.2	1.2	1.2
Other fiscal arrangements[3]	-3.3	15.5	-1.2	-6.0	-6.3	-6.6	-6.9
Total	79.2	106.7	86.6	84.3	89.1	92.7	96.1
Direct program expenses							
Proceeds from the pollution pricing framework returned[4]	2.6	4.8	6.9	8.1	8.3	7.9	7.9

		Projection					
	2019–2020	**2020–2021**	**2021–2022**	**2022–2023**	**2023–2024**	**2024–2025**	**2025–2026**
Canada Emergency Wage Subsidy	0.0	84.6	26.0	0.0	0.0	0.0	0.0
Canada-Wide Early Learning and Child Care[5]	0.0	0.0	3.0	4.5	5.5	6.5	7.7
Other transfer payments	54.4	103.3	85.9	76.1	74.0	70.1	70.5
Operating expenses[6]	95.2	111.6	122.5	107.7	108.6	108.4	110.1
Total	152.2	304.3	244.3	196.4	196.5	193.0	196.2
Total program expenses, excluding net actuarial losses	**338.5**	**614.5**	**475.6**	**403.0**	**409.2**	**414.4**	**426.7**
Net actuarial losses[7]	10.6	15.4	12.2	8.9	7.7	3.9	2.4
Per cent of GDP							
Major transfers to persons	4.6	9.2	6.0	4.8	4.7	4.7	4.7
Major transfers to other levels of government	3.4	4.8	3.6	3.3	3.4	3.4	3.3
Direct program expenses	6.6	13.8	10.1	7.7	7.4	7.0	6.8
Total program expenses	14.6	27.9	19.7	15.8	15.4	15.0	14.9

Note: Totals may not add due to rounding.
[1] EI benefits include regular EI benefits, sickness, maternity, parental, compassionate care, fishing and work-sharing benefits, and employment benefits and support measures. Remaining EI costs relate mainly to administration and are part of operating expenses. As in FES 2020, this includes the portion of payments for the Emergency Response Benefit charged to the EI Operating Account, totalling $1.8 billion in 2019-20, and an estimated $26.3 billion in 2020-21. These costs are not projected to be recovered with higher EI premiums given the government's commitment to credit the EI Operating account for the costs associated with the Emergency Response Benefit program.
[2] Includes the Children's disability benefits and residual payments for the Universal Child Care Benefit (UCCB), now replaced by the Canada Child Benefit.
[3] Other fiscal arrangements includes the Quebec Abatement (Youth Allowances Recovery and Alternative Payments for Standing Programs); payments under the Canada-Nova Scotia Arrangement on Offshore Revenues; Fiscal Stabilization payments; and established terms for repayable floor loans. In 2020-21 this also includes COVID-19 response measures.
[4] This includes the return of charges applied through the federal backstop, excluding those through the Output Based Pricing System, which are returned to their province/territory of origin through Climate Action Incentive payments and other climate supports.
[5] Amounts exclude funding for Indigenous Early learning and Child Care which are included in the other transfer payments line.
[6] This includes capital amortization expenses.
[7] Actuarial gains and losses were previously reported as "Losses (gains) from employee future benefit plans" and as a part of Direct program expenses, but are now presented in a new line item titled Net actuarial losses since FES 2020.

Table A1.6 provides an overview of the projection for program expenses by major component. Program expenses consist of three main categories: major transfers to persons, major transfers to other levels of government, and direct program expenses.

Major transfers to persons consist of elderly, Employment Insurance (EI) and children's benefits, as well as the Canada Emergency Response Benefit and Recovery Benefits.

Elderly benefits are projected to reach $58.8 billion in 2020-21, up 4.6 per cent, due to an increase in the population of seniors. Over the remainder of the horizon, elderly benefits are forecast to grow by $4.4 billion per year, on average, reflecting the ongoing demographic change, and projected consumer price inflation, to which benefits are fully indexed, as well as the planned 10 per cent increase to regular Old Age Security payments for pensioners 75 and over on an ongoing basis as of July 2022 announced in this budget.

EI benefits are projected to increase to $59.8 billion in 2020-21, largely reflecting the cost of Emergency Response Benefits ($26.3 billion) and higher unemployment resulting from the crisis. The government has committed to crediting the EI Operating Account for costs resulting from the Emergency Response Benefit, which means that they will not result in higher future EI premiums. EI benefits are expected to fall to $24.5 billion by 2023-24 as a result of the projected improvement in the labour market. After which, EI benefits are forecast to grow at an average of 2.3 per cent annually, as the unemployment rate is projected to stabilize at around 6 per cent after 2023.

The Canada Emergency Response Benefit (CERB) was introduced as part of Canada's COVID-19 Economic Response Plan to provide immediate assistance to Canadians not eligible for EI benefits. The government is committed to continuing to support all Canadians and has introduced the Canada Recovery Benefit (CRB), the Canada Recovery Sickness Benefit (CRSB) and the Canada Recovery Caregiving Benefit (CRCB). The CERB and the Canada Recovery Benefits (CRB, CRSB and CRCB) are expected to cost $57.3 billion in 2020-21, decreasing to $13.9 billion in 2021-22 as the economy recovers and temporary programs end.

Canada Child Benefit (CCB) payments are projected to increase 13.3 per cent to $27.6 billion in 2020-21, largely reflecting temporary top up transfers. These benefits will stay close to this level for 2021-22, mainly due to the temporary support for families with young children introduced in the 2020 Fall Economic Statement, before decreasing to $26.3 billion in 2022-23 as temporary supports expire. For the period 2022-23 to 2025-26, CCB payments are expected to grow at an average annual rate of 2 per cent, reflecting forecasted consumer price inflation to which the benefits are indexed.

Major transfers to other levels of government, which include the Canada Health Transfer (CHT), the Canada Social Transfer (CST), Equalization, Territorial Formula Financing and the Canada Community-Building Fund (formerly known as the Gas Tax Fund), among others, are expected to increase by 34.8 per cent to $106.7 billion in 2020-21, reflecting the unprecedented level of support provided to provinces and territories during the pandemic. The increase in 2020-21 is driven by previously announced COVID-19 response measures, including $4 billion for a one-time increase to the Canada Health Transfer, the $2.2 billion top-up to the Canada Community-Building Fund, and $1 billion that is being provided to assist provinces and territories with immunization campaigns.

As a result of the one-time, $4 billion increase to the CHT in 2020-21, total CHT support is $5 billion higher than in 2019-20. Beginning in 2021-22, the CHT is projected to grow from $43.1 billion to $51.7 billion in 2025-26, as it grows in line with a three-year moving average of nominal GDP growth, with funding guaranteed to increase by at least 3 per cent per year. The CST is legislated to grow at 3 per cent per year. Canada Community-Building Fund payments are indexed at 2 per cent per year, with increases applied in $100 million increments. Home care and mental health transfers are projected to be $1.3 billion in 2020-21, stabilizing at $1.2 billion starting in 2022-23.

Direct program expenses, which include proceeds from the pollution pricing framework returned, the Canada Emergency Wage Subsidy, the Canada-Wide Early Learning and Child Care plan, other transfer payments administered by departments, and operating expenses, are expected to increase about 100 per cent to $304.3 billion in 2020-21. The projected increase in direct program expenses is largely driven by COVID-19 response measures, including the wage subsidy, with an estimated cost of $84.6 billion in 2020-21. Direct program expenses are projected to fall to $193 billion in 2024-25. This fall is partially offset in the outer years by the new Canada-Wide Early Learning and Child Care System, which is expected to cost $3 billion in 2021-22 growing to $7.7 billion by 2025-26.

Other transfer payments administered by departments are projected to increase about 90 per cent to $103.3 billion in 2020-21, reflecting investments made to help Canadian families and businesses through the crisis. This includes the expected cost of the loan repayment incentive for the Canada Emergency Business Account $12.6 billion, and $3 billion for the Canada Emergency Student Benefit. Also contributing to the increased costs are supports for seniors through a one-time payment ($2.5 billion) provided in July 2020, and to small businesses through the Canada Emergency Commercial Rent Assistance ($1.9 billion), and through the Canada Emergency Rent Subsidy ($4.1 billion). Other transfer payments are projected to fall to $76.1 billion by 2022-23, as the economy recovers and support measures are lifted, after which they are projected to stabilize around $71.5 billion per year, on average.

Operating expenses reflect the broad range of day-to-day costs of government operations for more than 100 government departments, agencies and Crown corporations. Operating expenses are projected to increase to $111.6 billion in 2020-21, and to $122.5 billion in 2021-22. This includes spending related to the procurement of vaccines and personal protective equipment in response to the crisis. Operating expenses are projected to decrease to $107.7 billion by 2022-23, after which they are projected to grow at an average of 0.7 per cent, annually.

Net actuarial losses, which represent changes in the measurement of the government's obligations for pensions and other employee future benefits accrued in previous fiscal years, are expected to increase to $15.4 billion in 2020-21. This increase reflects losses stemming from the 2019-20 actuarial valuations of the government's pension and benefit plans, which are amortized to expense starting in 2020-21. These 2019-20 losses were due mainly to lower long-term interest rates used to value the obligations, as well as increased costs associated with the utilization of disability and other future benefits provided to veterans. Over the horizon, net actuarial losses are forecasted to decline reflecting the increase in projected long-term interest rates.

Financial Source/Requirement

The budgetary balance is presented on a full accrual basis of accounting, recording government revenues and expenses when they are earned or incurred, regardless of when the cash is received or paid. In contrast, the financial/source requirement measures the difference between cash coming in to the government and cash going out. This measure is affected not only by the budgetary balance, but also by the government's non-budgetary transactions. These include changes in federal employee pension liabilities; changes in non-financial assets; investing activities through loans, investments and advances; and changes in other financial assets and liabilities, including foreign exchange activities.

Table A1.7

The Budgetary Balance, Non-Budgetary Transactions and Financial Source/Requirement

billions of dollars

		Projection					
	2019–2020	**2020–2021**	**2021–2022**	**2022–2023**	**2023–2024**	**2024–2025**	**2025–2026**
Budgetary balance	**-39.4**	**-354.2**	**-154.7**	**-59.7**	**-51.0**	**-35.8**	**-30.7**

		Projection					
	2019–2020	**2020–2021**	**2021–2022**	**2022–2023**	**2023–2024**	**2024–2025**	**2025–2026**
Non-budgetary transactions							
Pensions and other accounts	10.3	15.8	11.0	8.7	7.3	3.4	1.8
Non-financial assets	-4.9	-5.4	-2.9	-5.5	-4.6	-4.1	-3.6
Loans, investments and advances							
Enterprise Crown corporations	-13.5	1.0	-0.3	-5.5	-4.7	-5.8	0.9
Other	-1.7	-32.7	-10.6	19.1	-1.8	-1.1	-1.3
Total	-15.1	-31.7	-10.9	13.6	-6.6	-6.9	-0.4
Other transactions							
Accounts payable, receivable, accruals and allowances	7.1	26.9	-30.3	-4.3	-3.5	-2.8	-2.5
Foreign exchange activities	-5.2	7.9	-2.8	-3.9	-4.0	-4.1	-3.4
Total	1.8	34.8	-33.1	-8.2	-7.5	-6.9	-5.9
Total	**-7.8**	**13.5**	**-36.0**	**8.6**	**-11.3**	**-14.4**	**-8.1**
Financial source/requirement	**-47.2**	**-340.6**	**-190.7**	**-51.1**	**-62.4**	**-50.2**	**-38.8**

As shown in Table A1.7, a financial requirement is projected in each year over the forecast horizon, largely reflecting financial requirements associated with the projected budgetary balance.

A financial source is projected for pensions and other accounts for 2020-21 to 2025-26. Pensions and other accounts include the activities of the Government of Canada's employee pension plans and those of federally appointed judges and Members of Parliament, as well as a variety of other employee future benefit plans, such as health care and dental plans, and disability and other benefits for veterans and others. The financial source for pensions and other accounts largely reflects adjustments for pension and benefit expenses not funded in the period.

Financial requirements for non-financial assets mainly reflect the difference between cash outlays for the acquisition of new tangible capital assets and the amortization of capital assets included in the budgetary balance. They also include disposals of tangible capital assets and changes in inventories and prepaid expenses. A net cash requirement of $2.9 billion is projected for 2021-22.

Loans, investments and advances include the government's investments in enterprise Crown corporations, including Canada Mortgage and Housing Corporation, Export Development Canada, the Business Development Bank of Canada, and Farm Credit Canada. They also include loans, investments and advances to national and provincial governments and international organizations, and under government programs, including the Canada Emergency Business Account (CEBA). The projected financial requirements for 2020-21 and 2021-22 mainly reflect the disbursement of loans under CEBA and loans advanced to enterprise Crown corporations under the consolidated borrowing framework. A financial source is projected for 2022-23, largely reflecting the expected repayment of CEBA loans. Financial requirements are projected from 2023-24 to 2025-26, reflecting retained earnings of enterprise Crown corporations, as well loans provided to Crown corporations and third-parties.

In general, loans, investments and advances are expected to generate additional revenues for the government in the form of interest or additional net profits of enterprise Crown corporations, which partly offset debt charges associated with these borrowing requirements. These revenues are reflected in projections of the budgetary balance.

Other transactions include the payment of tax refunds and other accounts payable, the collection of taxes and other accounts receivable, the conversion of other accrual adjustments included in the budgetary balance into cash, as well as foreign exchange activities. A financial source is projected for 2020-21, primarily reflecting adjustments for accrued expenses not paid in the period and non-cash exchange rate impacts. Projected cash requirements over the remainder of the forecast horizon mainly reflect the payment of accounts payable, forecast increases in the government's official international reserves held in the Exchange Fund Account, as well as projected growth in accounts receivable, in line with historical trends.

Alternative Economic Scenarios

There is still a large amount of uncertainty regarding the ultimate path of the recovery and the eventual return to normal economic activity. The outlook continues to be shaped by the path of the virus and its variants as well as by the vaccination rollout.

At the same time, Canada's performance through the second wave over the winter was stronger than projected in the *Fall Economic Statement*. Indeed, the Canadian economy was more resilient during the second wave than the initial wave, suggesting that Canadian households and businesses have adapted to operating under public health restrictions.

To illustrate the consequences of different health outcomes and the associated responses of households and businesses, the Department of Finance has considered two alternative scenarios to the projections of the private sector economists which reflect downside and upside risks to the outlook.

Scenario: Slower Recovery

In this scenario, new and more contagious variants of the virus broaden their circulation in Canada, leading to tighter restrictions on businesses vulnerable to social distancing and a delay in the reopening of borders (e.g. restaurants, shopping malls, hairdressers and other personal care) until progress on vaccination can help bring down cases more sustainably. While these restrictions would be less severe than those assumed in previous downside scenarios, activity restrictions induce Canadians to consume less and add further to their accumulated savings.

Further, this scenario assumes that vaccine supply disruptions delays the projected roll out, and assumes vaccines have less efficacy against new variants. In this scenario, getting a critical mass of Canadians vaccinated would take until the end of the year either due to the rise of new variants or some delay in getting the second dose for the two-dose vaccines, resulting in delays of the return to normality.

Overall, the downside risks scenario suggests a reduced pace of growth over the second and third quarters compared to the March survey outlook, with the recovery accelerating in the final quarter of 2021. This reduces the rebound in real GDP to around 5.4 per cent in 2021 but slightly increases the growth outlook for 2022 to around 4.1 per cent, compared to growth rates of, respectively, 5.8 per cent and 4 per cent expected in the March 2021 survey (Chart A1.1 and Table A1.8, below). This is still faster than the baseline forecast for 2021 of the Fall Economic Statement, which expected growth of 4.8 per cent of GDP.

Scenario: Faster Recovery

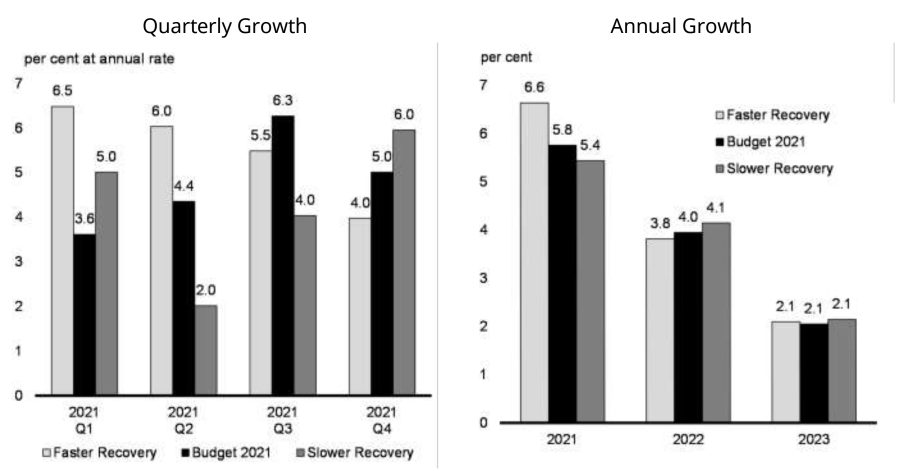
In this scenario, Canada's diversified portfolio of vaccines allows vaccination rollout to progress faster than expected and most Canadians are vaccinated by the summer. Most importantly, COVID-19 related deaths and hospitalizations plummet rapidly as vulnerable populations are vaccinated. With hospital capacity restored, provinces are able to quickly lift the most stringent public health and border restrictions (e.g. restaurant and retail closures). Public fears of the virus start to recede by the spring and a more robust rebound occurs in the hospitality sector, quickly lifting employment and economic activity.

Further, the prospect of significant fiscal stimulus and a faster vaccination rollout in the U.S. drives demand for Canadian exports and provides upward support to global commodity prices, helping to close the remaining gaps in activity in manufacturing, mining, and energy.

Overall, the upside risks scenario suggests much faster growth in the first half of this year compared to the March survey forecast, with growth slowing thereafter, resulting in a rebound of about 6.6 per cent in 2021 followed by slightly slower growth of around 3.8 per cent in 2022.

Chart A1.1

Real GDP Growth Outlook



Sources: Department of Finance Canada March 2021 survey of private sector economists; Department of Finance Canada calculations.

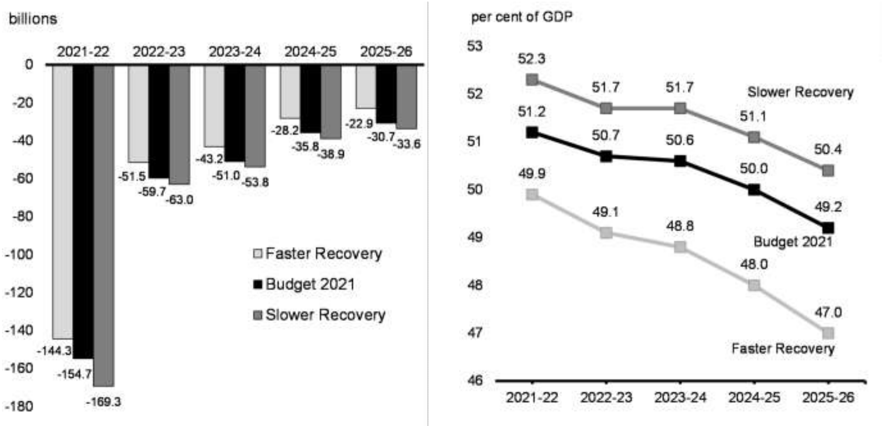
The potential impact of these alternative scenarios on the projected federal deficit and debt-to-GDP ratio is shown in Chart A1.2 below. The relative change in economic activity under both scenarios would be expected to affect tax revenues, and expenses such as Employment Insurance benefits and the government's COVID emergency response programs including the Canada Recovery Benefit, and Canada Emergency Wage Subsidy, and, in the downside scenario, may require the government to delay the scaling down of those programs. Notably, in a slower growth scenario, the federal government's business and income supports would need to be extended further.

In total, the downside scenario could be expected to add about $15 billion to the deficit in 2021-22, and 1.2 percentage points to the federal debt-to-GDP ratio by the end of the forecast horizon. In the upside scenario, the deficit would be reduced by approximately $10 billion in 2021-22 and the federal debt-to-GDP ratio would fall to 47 per cent by 2025-26. Under this scenario, inflation is expected to reach a peak of 2.3 per cent in 2023, within the Bank of Canada's inflation-control target range of 1 to 3 per cent, inducing a faster normalization in policy rates.

Chart A1.2

Deficit under alternative economic scenarios

Federal Debt-to-GDP under alternative economic scenarios



Source: Department of Finance Canada calculations.

Notably, in all cases, the debt-to-GDP ratio forecasted here is lower across the planning horizon than the upper limits projected in the Fall Economic Statement, including the impact of planned stimulus. This reflects a generally better economic environment against which the recovery may unfold faster or slower.

Table A1.8

Department of Finance Alternative Scenarios

per cent, unless otherwise indicated

	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024	2025

Sources: Statistics Canada; for the Budget 2021, Department of Finance Canada March 2021 survey of private sector economists; Department of Finance Canada calculations.

	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024	2025
Real GDP Growth									
Budget 2021	3.6	4.4	6.3	5.0	5.8	4.0	2.1	1.9	1.8
Scenario: Slower Recovery	5.0	2.0	4.0	6.0	5.4	4.1	2.1	1.9	1.8
Scenario: Faster Recovery	6.5	6.0	5.5	4.0	6.6	3.8	2.1	1.9	1.8
GDP Inflation									
Budget 2021	2.9	1.9	2.6	2.1	3.3	2.0	2.0	2.1	2.0
Scenario: Slower Recovery	2.5	1.1	2.1	2.2	3.1	2.1	1.9	2.0	2.0
Scenario: Faster Recovery	7.0	2.8	2.2	2.1	4.5	2.1	1.9	2.0	2.0
Nominal GDP Growth									
Budget 2021	6.6	6.3	9.0	7.2	9.3	6.0	4.0	4.0	3.8
Scenario: Slower Recovery	7.6	3.2	6.2	8.3	8.6	6.3	4.1	3.9	3.8
Scenario: Faster Recovery	13.9	9.0	7.8	6.2	11.4	6.0	4.1	3.9	3.8
Nominal GDP Level ($ billions)									
Budget 2021					2,408	2,553	2,657	2,763	2,869
Scenario: Slower Recovery					2,394	2,545	2,650	2,754	2,859
Scenario: Faster Recovery					2,455	2,603	2,709	2,815	2,923
Difference between Budget 2021 and Scenario: Slower Recovery					-14	-8	-7	-9	-9
Difference between Budget 2021 and Scenario: Faster Recovery					47	49	52	52	54
Unemployment Rate									
Budget 2021	9.1	8.4	7.6	7.0	8.0	6.5	6.2	6.0	5.9
Scenario: Slower Recovery	8.4	8.3	7.9	7.4	8.0	6.7	6.3	6.0	5.9
Scenario: Faster Recovery	8.4	7.9	7.2	6.7	7.6	6.2	6.0	5.9	5.9
3-month Treasury Bill Rate									
March 2021 Survey	0.1	0.1	0.2	0.2	0.1	0.2	0.5	1.1	1.6
Scenario: Slower Recovery	0.1	0.2	0.2	0.2	0.2	0.2	0.3	1.0	1.5
Scenario: Faster Recovery	0.1	0.2	0.2	0.2	0.2	0.2	0.5	1.2	1.7

Sources: Statistics Canada; for the Budget 2021, Department of Finance Canada March 2021 survey of private sector economists; Department of Finance Canada calculations.

	2021Q1	2021Q2	2021Q3	2021Q4	2021	2022	2023	2024	2025
10-Year Government Bond Rate									
March 2021 Survey	1.3	1.5	1.6	1.6	1.5	1.8	2.1	2.5	2.7
Scenario: Slower Recovery	1.2	1.4	1.5	1.6	1.5	1.8	2.0	2.3	2.5
Scenario: Faster Recovery	1.2	1.6	1.7	1.8	1.6	2.0	2.3	2.6	2.9
Sources: Statistics Canada; for the Budget 2021, Department of Finance Canada March 2021 survey of private sector economists; Department of Finance Canada calculations.									

Supplementary Information

Sensitivity of Fiscal Projections to Economic Shocks

Changes in economic assumptions affect the projections for revenues and expenses. The following tables illustrate the sensitivity of the budgetary balance to a number of economic shocks:

- A one-year, 1-percentage-point decrease in real GDP growth driven equally by lower productivity and employment growth.
- A decrease in nominal GDP growth resulting solely from a one-year, 1-percentage-point decrease in the rate of GDP inflation (assuming that the Consumer Price Index (CPI) moves in line with GDP inflation).
- A sustained 100-basis-point increase in all interest rates.

These sensitivities are generalized rules of thumb that assume any decrease in economic activity is proportional across income and expenditure components, and are meant to provide a broad illustration of the impact of economic shocks on the outlook for the budgetary balance. The sensitivity analysis conducted in this section has been presented routinely in budgets since 1994, and is separate from the scenarios for a faster or slower recovery presented earlier in this Annex. Actual economic shocks may have different fiscal impacts. For example, they may be concentrated in specific sectors of the economy or cause different responses in key economic variables (e.g. GDP inflation and CPI inflation may have different responses to a given shock).

Table A1.9

Estimated Impact of a One-Year, 1-Percentage-Point Decrease in Real GDP Growth on Federal Revenues, Expenses and Budgetary Balance

billions of dollars

	Year 1	Year 2	Year 5
Federal revenues			
Tax revenues			
Personal income tax	-2.9	-3.0	-3.4
Corporate income tax	-0.5	-0.5	-0.6
Goods and services tax	-0.4	-0.4	-0.4

	Year 1	Year 2	Year 5
Other	-0.1	-0.1	-0.2
Total tax revenues	-3.9	-4.0	-4.6
Employment Insurance premiums	-0.1	-0.1	0.8
Other revenues	-0.1	-0.1	-0.1
Total budgetary revenues	-4.1	-4.2	-3.9
Federal expenses			
Major transfers to persons			
Elderly benefits	0.0	0.0	0.0
Employment Insurance benefits	1.3	0.9	1.1
Canada Child Benefit	0.0	0.0	0.0
Total major transfers to persons	1.3	0.9	1.1
Other program expenses	-0.2	-0.3	-0.5
Public debt charges	0.0	0.1	0.5
Total expenses	1.1	0.8	1.0
Budgetary balance	-5.2	-5.0	-4.9

A 1-percentage-point decrease in real GDP growth proportional across income and expenditure components reduces the budgetary balance by $5.2 billion in the first year, $5 billion in the second year and $4.9 billion in the fifth year (Table A1.9).

- Tax revenues from all sources fall by a total of $3.9 billion in the first year. Personal income tax revenues decrease as employment and the underlying tax base fall. Corporate income tax revenues fall as output and profits decrease. GST revenues decrease as a result of lower consumer spending associated with the fall in employment and personal income.
- EI premium revenues are relatively unchanged in the first two years due to the 2021 premium rate already being in effect, and the 2022 rate being frozen. EI revenues increase in the fifth year as the EI premium rate increases, which, under the seven-year break-even mechanism, adjusts to offset the increase in benefits such that the EI Operating Account balances over time.
- Expenses rise, mainly reflecting higher EI benefits (due to an increase in the number of unemployed) and higher public debt charges (reflecting a higher stock of debt due to the lower budgetary balance). This rise is partially offset by lower other program expenses (as certain programs are linked to growth in nominal GDP).

Table A1.10

Estimated Impact of a One-Year, 1-Percentage-Point Decrease in GDP Inflation on Federal Revenues, Expenses and Budgetary Balance

billions of dollars

	Year 1	Year 2	Year 5
Federal revenues			
Tax revenues			
Personal income tax	-2.9	-2.5	-2.5
Corporate income tax	-0.5	-0.6	-0.7
Goods and services tax	-0.4	-0.4	-0.4
Other	-0.1	-0.1	-0.2
Total tax revenues	-3.9	-3.6	-3.7
Employment Insurance premiums	0.0	-0.1	-0.2
Other revenues	-0.1	-0.1	-0.1
Total budgetary revenues	-4.0	-3.8	-4.0
Federal expenses			
Major transfers to persons			
Elderly benefits	-0.4	-0.7	-0.8
Employment Insurance benefits	0.1	0.1	0.2
Canada Child Benefit	0.0	-0.1	-0.3
Total major transfers to persons	-0.3	-0.7	-0.8
Other program expenses	-0.6	-0.6	-1.4
Public debt charges	-0.6	0.1	0.3
Total expenses	-1.5	-1.2	-2.0
Budgetary balance	-2.4	-2.6	-2.1

A 1-percentage-point decrease in nominal GDP growth proportional across income and expenditure components resulting solely from lower GDP inflation (assuming that the CPI moves in line with GDP inflation) lowers the budgetary balance by $2.4 billion in the first year, $2.6 billion in the second year and $2.1 billion in the fifth year (Table A1.10).

- Lower prices result in lower nominal income and, as a result, personal income tax revenues decrease. As the parameters of the personal income tax system are indexed to inflation, the fiscal impact is smaller than under the real shock. For the other sources of tax revenue, the negative impacts are similar under the real and nominal GDP shocks.
- EI premium revenues decrease in response to lower earnings.
- Other revenues decline slightly as lower prices lead to lower revenues from the sales of goods and services.
- Partly offsetting lower revenues are the declines in the cost of statutory programs that are indexed to inflation, such as elderly benefit payments, which puts downward pressure on federal program expenses. In addition, other program expenses are also lower as certain programs are linked directly to growth in wages and nominal GDP.

- Public debt charges decline in the first year due to lower costs associated with Real Return Bonds, then rise due to the higher stock of debt.

Table A1.11

Estimated Impact of a Sustained 100-Basis-Point Increase in All Interest Rates on Federal Revenues, Expenses and Budgetary Balance

billions of dollars

	Year 1	Year 2	Year 5
Federal revenues	2.1	2.7	3.6
Federal expenses	-3.1	-5.3	-8.2
Of which: public debt charges	-3.1	-5.3	-8.2
Budgetary balance	-1.0	-2.5	-4.6

A one per cent increase in interest rates decreases the budgetary balance by $1 billion in the first year, $2.5 billion in the second year and $4.6 billion in the fifth year (Table A1.11). Higher interest rates directly impact estimated public debt charges on marketable debt in two ways. First, interest costs increase as existing debt matures and is refinanced at higher rates. Second, rising rates increase the expected cost of future borrowing needs. Public debt charges are estimated based on the current expectations for future changes in interest rates, which are subject to change based on economic conditions.

It is important to note that interest rates also directly affect other government revenue and expenses and that they typically do not change in isolation. That is, with higher interest rates, the government would realize some offsetting benefits, including:

- Higher revenues from the government's interest-bearing assets, which are recorded as part of other revenues;
- Corresponding downward adjustments that reduce public sector pensions and employee benefits obligations, which are not incorporated in the table above; and,
- Higher government tax revenues if interest rate increases were due to stronger economic growth (also not included in the table above).

Short-term Economic Impacts of Government Support and Investment

There are two primary channels through which government spending can affect short-term output and employment. First, governments can invest in infrastructure or purchase goods and services, which translates into an immediate, dollar-for-dollar increase in final domestic expenditure. Second, governments can induce spending increases by households and businesses through tax measures or transfers. The extent to which these measures boost domestic expenditure and production will be determined by changes in saving and imports.

To estimate the economic impacts of fiscal measures, the Department of Finance allocates spending into expenditure categories, which correspond to those used in the Department's macroeconomic and fiscal model: infrastructure investment, personal income tax and transfer measures, measures for modest- and low-income households, government spending measures (such as government support for research, training, and innovation), and corporate income tax measures. Each of these categories has a different fiscal multiplier, a summary measure that takes into account the channels by which spending affects economic activity, including direct, indirect and induced impacts, and leakages to saving and imports.

Table A1.12 shows the total value of support and investments included in the economic impact assessment. It is expected that support and investments will raise the level of real GDP by 2 per cent by the second year (Table A1.13). This is expected to translate into an increase in employment of more than 330 thousand jobs created or maintained by 2022-2023.

Table A1.12
Value of Recovery Plan for Economic Impact Assessment
$ billions

	2021-2022	2022-2023	2023-2024
Fall Economic Statement 2020[1]	21.6	1.3	1.8
Actions since FES 2020 and Budget 2021 Investments	**49.3**	**28.3**	**23.8**
Recovery Plan Total (accrual basis)	70.9	29.6	25.6
Recovery Plan Total (cash basis)	81.7	35.6	32.1
Measures excluded from impact assessment[2]	-6.6	-1.3	-1.7
Total Value for Economic Impact Assessment	75.1	34.3	30.4

Note: Totals may not add due to rounding.
[1] Includes investments in FES 2020 Chapter 3 and the extension of CEWS/CERS to June 2021.
[2] Actions that have no impact on GDP (e.g., contingencies, international initiatives) are excluded.

Table A1.13
Impacts on Real GDP and Employment
per cent, unless otherwise indicated

	2021–2022	2022–2023	2023–2024
Real GDP (per cent)	1.6	2.0	1.9
Employment (jobs created or maintained, thousands)	315	334	280

Policy Actions Taken since the 2020 Fall Economic Statement

Since 2016, the government has provided a transparent overview of all off-cycle spending. The investments (Table A1.14) ensure that Canadians are continually well served by the programs they rely on and that government operations carry on as usual.

Table A1.14

Policy Actions Since the 2020 Fall Economic Statement

millions of dollars

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Government Operations, Fairness and Openness	**92**	**476**	**170**	**149**	**149**	**150**
Global Affairs Canada Adjustments for Non-Discretionary Cost Fluctuations	26	89	92	74	74	74
Funding provided to Global Affairs Canada for non-discretionary cost increases affecting missions abroad, such as changes in exchange rates and inflation. This will allow Canada's missions to continue delivering a high standard of services to support the needs of Canadians.						
Establish Pandemic-related safety measures in Elections[1]	0	110	0	0	0	0
Temporary amendments to the Canada Elections Act to ensure the health and safety of electors and election workers during a general election if it takes place during the pandemic, including introducing a 3-day polling period.						
Price and Volume Inflation Protection for Federal Banking and Postage	0	6	0	0	0	0
Funding for Public Services and Procurement Canada for credit and debit card and postage costs incurred when mailing cheques to Canadians on behalf of the federal government.						
Public Inquiry into the Tragedy in Nova Scotia	2	12	8	1	0	0
Less: Costs to be Recovered	-1	-6	-4	0	0	0
Less: Funds Sourced From Existing Departmental Resources	-1	0	0	0	0	0
Funding for the Privy Council Office, to support a joint federal-provincial public inquiry into the April 2020 tragedy in Nova Scotia.						
Price and Volume Inflation Protection for Federal Real Property	1	14	14	14	14	14
Funding for Public Services and Procurement Canada to maintain current office, common use accommodation, and related real property service levels for federal departments and agencies.						
CRA administration costs to deliver the COVID recovery benefits.	63	199	0	0	0	0
Less: Funds Previously Provisioned in the Fiscal Framework	-45	0	0	0	0	0

Note: Totals may not add due to rounding.

1. Timing of estimated costs is notional and would depend on timing of federal election.

2. Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.

3. Recent year-over-year reallocation shown for information. Not included in totals.

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Funding for the CRA to administer COVID recovery benefits including the Canada Recovery Benefit, Sickness Benefit, and Caregiving Benefit.						
Resolving Complex Tax Disputes and Litigation	47	52	59	60	61	61
Funding to bolster legal resources at the Department of Justice and the CRA. These resources will support the government's efforts to recover tax revenue in high-complexity cases and protect the integrity of the tax system.						
Growth, Innovation, Infrastructure and the Environment	**12**	**650**	**999**	**1,300**	**784**	**403**
***A Healthy Environment and a Healthy Economy* Climate Plan Measures – Announced December 11, 2020[2]**						
Creating the Strategic Innovation Fund Net Zero Accelerator	0	267	398	780	785	404
Funding for Innovation, Science and Economic Development Canada of $3 billion (cash basis) over five years to create a Net Zero Accelerator within the Strategic Innovation Fund. The Net Zero Accelerator will help Canada meet its climate change goals by supporting projects that will rapidly expedite decarbonization projects, scale-up clean technology and accelerate Canada’s industrial transformation.						
Integrating Climate Considerations in Government Decision-Making	0	2	0	0	0	0
Funding for Environment and Climate Change Canada to develop an analytical lens to integrate climate mitigation and adaptation considerations into federal decisions on policies, programs and proposals.						
Green and Inclusive Community Buildings	0	400	600	500	0	0
Year-over-year reallocation of funding[3]	0	0	-150	0	75	75
Funding for Infrastructure Canada to support retrofits, repairs or upgrades of existing public buildings and the construction of new public buildings that serve communities across Canada.						
Net-Zero Challenge for Large Industrial Emitters	0	1	1	1	1	1
Funding for Environment and Climate Change Canada to launch a Net-Zero Challenge for large industrial emitters to encourage companies to develop and implement plans to transition their facilities to net-zero greenhouse gas emissions by 2050.						
Returning Carbon Pricing Proceeds	0	37	74	73	74	74
Less: Funds Sourced From Existing Departmental Resources	0	-2	0	0	0	0

Note: Totals may not add due to rounding.
1. Timing of estimated costs is notional and would depend on timing of federal election.
2. Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.
3. Recent year-over-year reallocation shown for information. Not included in totals.

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Less: Fuel Charge Proceeds Booked in the Fiscal Framework	0	-5	0	0	0	0
Less: Estimates of OBPS Proceeds Not Yet Booked in the Fiscal Framework	0	-108	-159	0	0	0
Funding for Environment and Climate Change Canada to continue to administer the Low Carbon Economy funds and return federal carbon pricing proceeds to provinces that do not meet federal carbon pricing benchmark stringency requirements as well as funding for the Canada Revenue Agency to return a portion of carbon fuel charge proceeds collected in New Brunswick directly to the Government of New Brunswick.						
Advancing Smart Renewable Energy and Grid Modernization	0	85	293	293	293	0
Funding to Natural Resources Canada to support renewable power generation projects such as wind and solar, and the deployment of grid modernization technologies such as power storage. This will support emissions reduction and the electrification of the economy.						
Supporting the Net Zero Advisory Body	1	6	4	1	1	1
Funding for Environment and Climate Change Canada to support the Net-Zero Advisory Body, which is an independent expert group that will provide advice to the Government of Canada on the best pathways to achieve net-zero greenhouse gas emissions by 2050.						
Promoting the Demonstration of Clean Technologies	0	60	130	160	175	225
Funding to Sustainable Development Technology Canada to support start-ups and to scale-up companies to enable pre commercial clean technologies to successfully demonstrate feasibility as well as to support early commercialization efforts.						
Transitioning Diesel-Reliant Indigenous Communities onto Clean Energy	0	0	60	60	60	60
Funding to advance the Government's commitment to ensure that rural, remote and Indigenous communities that currently rely on diesel have access to clean and reliable energy by 2030.						
Supporting the Adoption of Clean Technologies in the Agriculture Sector	0	16	34	34	34	34
Funding to support the agriculture industry in developing transformative clean technologies and help farmers adopt commercially available clean technology.						
Less: Funds Provisioned in the 2020 Fall Economic Statement for Climate Plan	-1	-92	-437	-622	-638	-395
Other Measures						

Note: Totals may not add due to rounding.
[1.] Timing of estimated costs is notional and would depend on timing of federal election.
[2.] Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.
[3.] Recent year-over-year reallocation shown for information. Not included in totals.

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Federal Carbon Pricing Backstop and Litigation	20	18	0	0	0	0
Less: Funds Sourced From Existing Departmental Resources	-8	-8	0	0	0	0
Funding for Environment and Climate Change Canada to further develop and implement the Output-Based Carbon Pricing System and for legal costs associated with defending the Greenhouse Gas Pollution Pricing Act against various legal challenges.						
Wood Buffalo National Park Action Plan	0	17	23	21	0	0
Less: Funds Previously Provisioned in the Fiscal Framework	0	-5	-5	0	0	0
Less: Funds Sourced From Existing Departmental Resources	0	-12	-18	-21	0	0
Less: Year-Over-Year Reallocation of Funding	0	-26	2	21	0	0
Funding for the Parks Canada Agency and Environment and Climate Change Canada to continue to implement federal commitments under the Wood Buffalo National Park World Heritage Site Action Plan.						
Labour Markets, Health, Safety and Economic Prosperity of Canadians	**0**	**654**	**0**	**0**	**0**	**0**
Enhanced Border and Quarantine Measures	0	1,059	0	0	0	0
Less: Funds Previously Provisioned in the Fiscal Framework	0	-165	0	0	0	0
Funding of $895 million in 2021-22 to the Public Health Agency of Canada to support strengthened border health and quarantine measures in response to the COVID-19 pandemic.						
Canada Emergency Wage Subsidy Parameters From March 14 to June 5, 2021	0	13,860	0	0	0	0
Less: Funds Previously Provisioned in the Fiscal Framework	0	-14,100	0	0	0	0
Canada Emergency Rent Subsidy and Lockdown Support Parameters From March 14 to June 5, 2021	0	2,125	0	0	0	0
Less: Funds Previously Provisioned in the Fiscal Framework	0	-2,125	0	0	0	0

Note: Totals may not add due to rounding.
1. Timing of estimated costs is notional and would depend on timing of federal election.
2. Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.
3. Recent year-over-year reallocation shown for information. Not included in totals.

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
To provide certainty and continued support for workers, businesses and other affected organizations in the face of ongoing challenges presented by the pandemic, this measure extended the existing rate structures for the wage subsidy, the rent subsidy and Lockdown Support from March 14 to June 5, 2021. In particular, the maximum wage subsidy rate for active employees was kept at 75%; the maximum rent subsidy rate was kept at 65%; and Lockdown Support was kept at 25%.						
Tax Policy	**242**	**43**	**2**	**1**	**0**	**0**
Adjust Certain Deductions for Employment Insurance and COVID-19 Benefits	2	3	2	1	0	0
Temporarily allow Employment Insurance and Quebec Parental Insurance Plan benefit recipients to deduct eligible expenses for the Child Care Expense Deduction and the Disability Supports Deduction against this benefit income, to align with the treatment of CERB and other COVID-19 emergency income.						
CERB Repayment for Self-employed Individuals and Interest Relief on 2020 Tax Debt	240	40	0	0	0	0
In February 2021, the Government of Canada announced that self-employed individuals who applied for the CERB and would have qualified based on their gross income will not be required to repay the benefit, provided they also met all other eligibility requirements. The Government of Canada also announced targeted interest relief on income tax debt for the 2020 tax year for Canadians who received COVID-related income support benefits.						
Trade, International Relations and Security	**1**	**4**	**4**	**4**	**4**	**4**
Renewal of Operating Funding for the National Security and Intelligence Committee of Parliamentarians	0	4	4	4	4	4
Funding for the National Security and Intelligence Committee of Parliamentarians to continue its mandate to review national security and intelligence matters in Canada.						
Support for the Office of the Intelligence Commissioner	1	0	0	0	0	0
Funding for the Office of the Intelligence Commissioner to enable it to meet the legislated requirements of the Intelligence Commissioner Act.						
(Net) Fiscal Impact of Measures Discussed in Tax Measures: Supplemental Information (Annex 6)	2	7	-5	0	-10	-20
(Net) Fiscal Impact of Non-Announced Measures in this Budget	-509	-2,102	-2,109	-317	-269	-243

Note: Totals may not add due to rounding.
[1] Timing of estimated costs is notional and would depend on timing of federal election.
[2] Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.
[3] Recent year-over-year reallocation shown for information. Not included in totals.

	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
The net fiscal impact of measures that are not announced is presented at the aggregate level, and would include provisions for anticipated Cabinet decisions not yet made (including the use of such provisions from previous budgets or updates) and funding decisions related to national security, commercial sensitivity, contract negotiations and litigation issues.						
Net Fiscal Impact – Total Policy Actions Taken Since the 2020 Fall Economic Statement	**-160**	**-268**	**-939**	**1,138**	**659**	**295**

Note: Totals may not add due to rounding.
1. Timing of estimated costs is notional and would depend on timing of federal election.
2. Supporting the Production and Use of Clean Fuels was also announced as part of the Climate Plan on December 11, 2020 and is included in Chapter 5.
3. Recent year-over-year reallocation shown for information. Not included in totals.

COVID-19 Economic Response Plan

Since March 2020, the government has committed over $345 billion – 15.7 per cent of 2020 GDP – to support Canadians through the pandemic, with major investments in health care, procuring vaccines and personal protective equipment, in income support and responding to businesses' urgent needs. Altogether, these investments by the federal government represent more than 8 out of every 10 dollars spent in Canada to fight COVID-19 and support Canadians.

Table A1.15 below updates the overview of Canada's COVID-19 Response Plan detailed in Chapters 1 and 2 of the *Fall Economic Statement 2020*, with new COVID response measures included in this Budget.

Table A1.15
Canada's COVID-19 Economic Response – Detailed Overview

		Net Fiscal Impact (Accrual)			
	Impact Value[1]	**2019–2020**	**2020–2021**	**2021–2022**	**Future Years[2]**
Protecting Health and Safety					
Safe Restart Agreement	19,909	-	19,909	-	0
Safe Return to Class	2,000	-	2,000	-	0
Vaccines and Therapeutics	14,340	-	7,520	6,530	826

Note: Numbers may not add due to rounding.
[1] The impact value reflects projected cash expenditures and liquidity support primarily in 2020-21 (some measures also include projected expenditures in 2019-20, and 2021-22). The fiscal (budgetary) impact on an accrual basis is lower, owing to cash-accrual accounting differences and the fact that some of these measures relate to loans and tax deferrals, for which only provisions for potential losses, and forgone interest and penalties would affect the budgetary balance, respectively.
[2] 2022-2023 to 2025-2026.
[3] Announced in March 2021.
[4] Includes the cost of extensions and changes announced in February 2021.
[5] Net fiscal impact, after amounts provisioned in the 2020 Economic and Fiscal Snapshot for Anticipated Decisions.

		Net Fiscal Impact (Accrual)			
	Impact Value[1]	2019–2020	2020–2021	2021–2022	Future Years[2]
PPE and Medical Equipment	5,352	200	3,331	1,821	289
Long-Term Care	1,340	-	824	516	1
Other Public Health Support	9,579	382	6,830	2,025	308
Helping Health Care Systems Recover[3]	4,000	-	4,000	-	0
Canada's COVID-19 Immunization Plan[3]	1,000	-	1,000	0	0
Supporting the Mental Health of Those Most Affected by COVID-19	140	-	-	140	118
Supporting Indigenous Communities in the Fight Against COVID-19	1,239	-	-	1,225	6
Safe Return to School on Reserve	112	-	-	112	0
International COVID-19 Response and Recovery	375	-	-	375	0
Total - Protecting Health and Safety	**59,385**	**582**	**45,414**	**12,744**	**1,547**
Of which:					
Policy Actions in FES 2020	*52,520*	*582*	*40,414*	*10,892*	*1,424*
Measures in Budget 2021	*7,040*	-	*5,000*	*1,852*	*124*
Direct Support Measures					
Canada Emergency Wage Subsidy	110,545	-	84,590	25,955	-
Canada Emergency Rent Subsidy and Lockdown Support	8,405	-	4,065	4,340	-
Canada Emergency Recovery Benefit	73,056	6,505	66,551	-	-
Enhancements to Employment Insurance[4]	13,046	-	3,240	9,806	2,905
Canada Recovery Benefit[4]	26,794	-	14,462	12,332	69
Canada Recovery Sickness Benefit[4]	738	-	456	282	15

Note: Numbers may not add due to rounding.
[1] The impact value reflects projected cash expenditures and liquidity support primarily in 2020-21 (some measures also include projected expenditures in 2019-20, and 2021-22). The fiscal (budgetary) impact on an accrual basis is lower, owing to cash-accrual accounting differences and the fact that some of these measures relate to loans and tax deferrals, for which only provisions for potential losses, and forgone interest and penalties would affect the budgetary balance, respectively.
[2] 2022-2023 to 2025-2026.
[3] Announced in March 2021.
[4] Includes the cost of extensions and changes announced in February 2021.
[5] Net fiscal impact, after amounts provisioned in the 2020 Economic and Fiscal Snapshot for Anticipated Decisions.

		Net Fiscal Impact (Accrual)			
	Impact Value[1]	**2019 –2020**	**2020–2021**	**2021–2022**	**Future Years[2]**
Canada Recovery Caregiver Benefit[4]	3,546	-	1,953	1,593	22
Canada Emergency Business Account - Incentive	13,822	-	12,618	1,205	-
Other Direct Support Measures (FES 2020)	34,460	106	31,276	1,715	812
Additional Direct Support Measures in Budget 2021	1,829	-	-	1,879	1,104
Total - Direct Support Measures	**286,242**	**6,611**	**219,141**	**59,117**	**4,926**
Of which:					
Policy Actions in FES 2020	*269,797*	*6,611*	*226,873*	*34,960*	*1,515*
Impact of Re-estimated Costs	*-10,014*	-	*-7,974*	*-2,040*	-
Measures in Budget 2021	*26,459*	-	*241*	*28,224*	*3,411*
Total - Protecting Health and Safety and Direct Support Measures	**345,628**	**7,193**	**264,555**	**71,861**	**6,473**
Tax and Customs Duty Payment Liquidity (in FES 2020)	85,050	56	2,938	15	-5
Business Credit Availability Program and Other Credit Liquidity Support	81,889	-	5,989	4,453	2,592
Of which:					
Policy Actions in FES 2020	*83,400*	-	*6,355*	*4,689*	*2,424*
Impact of Re-estimated Costs	*-1,511*	-	*-366*	*-236*	*168*
Total - COVID-19 Economic Response Plan	**512,516**	**7,249**	**272,129**	**76,329**	**9,060**
Of which:					
Policy Actions in FES 2020[5]	*490,716*	*7,249*	*275,227*	*50,556*	*5,358*
Impact of Re-estimated Costs	*-11,525*	-	*-8,340*	*-2,276*	*168*

Note: Numbers may not add due to rounding.
[1] The impact value reflects projected cash expenditures and liquidity support primarily in 2020-21 (some measures also include projected expenditures in 2019-20, and 2021-22). The fiscal (budgetary) impact on an accrual basis is lower, owing to cash-accrual accounting differences and the fact that some of these measures relate to loans and tax deferrals, for which only provisions for potential losses, and forgone interest and penalties would affect the budgetary balance, respectively.
[2] 2022-2023 to 2025-2026.
[3] Announced in March 2021.
[4] Includes the cost of extensions and changes announced in February 2021.
[5] Net fiscal impact, after amounts provisioned in the 2020 Economic and Fiscal Snapshot for Anticipated Decisions.

		Net Fiscal Impact (Accrual)			
	Impact Value[1]	2019–2020	2020–2021	2021–2022	Future Years[2]
Measures in Budget 2021	*33,325*	*-*	*5,241*	*28,049*	*3,534*

Note: Numbers may not add due to rounding.
[1] The impact value reflects projected cash expenditures and liquidity support primarily in 2020-21 (some measures also include projected expenditures in 2019-20, and 2021-22). The fiscal (budgetary) impact on an accrual basis is lower, owing to cash-accrual accounting differences and the fact that some of these measures relate to loans and tax deferrals, for which only provisions for potential losses, and forgone interest and penalties would affect the budgetary balance, respectively.
[2] 2022-2023 to 2025-2026.
[3] Announced in March 2021.
[4] Includes the cost of extensions and changes announced in February 2021.
[5] Net fiscal impact, after amounts provisioned in the 2020 Economic and Fiscal Snapshot for Anticipated Decisions.

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Date modified:
2021-04-19

Government of Canada Gouvernement du Canada

March 2015 Report of the Advisory Committee on Senior Level Retention and Compensation

Date: March 24, 2015

Dear President:

I am pleased to submit, on behalf of members of the Advisory Committee on Senior Level Retention and Compensation, this letter and its recommendations to the Government for consideration.

The Committee has met several times since August 2014 and reflected on issues related to senior level compensation, as requested in your letter of November 19, 2014. Our immediate recommendations are with regard to an economic increase for 2015-2016 and the corporate commitment. In addition, we are proposing a work plan for the coming year to support us in the development of subsequent recommendations.

Principles Underlying Compensation of Senior Leaders

Since 2000, the Advisory Committee has considered a series of compensation principles in formulating its recommendations. We have reviewed these principles and examined those adopted by private as well as public sector organizations. We believe that the total compensation of senior leaders should be fair, reasonable, affordable and transparent and that it should serve to attract, retain and motivate public service senior leaders to deliver modern, cost-effective and responsive services to Canadians. We also believe that elements of senior leader compensation should be differentiated from the total compensation of collectively bargained employees in a manner which reflects the levels of responsibility and accountability inherent in management and leadership positions.

We have agreed to principles, attached, which demonstrate respect for senior leaders and the work they do, while recognizing the requirement for fiscal restraint. These principles have guided our recommendations and will continue to frame our future deliberations and recommendations.

Economic Increase for 2015-2016

You asked the Committee to provide you with recommendations for economic increases for senior leaders for the next two fiscal years, that is to say 2015-2016 and 2016-2017. We have taken into account several factors, including the Government's commitment to achieve a balanced budget in 2015-2016, the current economic and fiscal context and affordability. We also realize that the Government is involved in negotiations with bargaining agents at this time; that these negotiations could be impacted by an announcement regarding senior leader compensation prior to their completion; and that the outcomes of these negotiations could influence compensation decisions regarding senior leaders. In considering these issues, we are able to provide a recommendation for an economic increase for 2015-2016, but would propose to return as part of our subsequent work with regard to a recommendation for 2016-2017.

We recognize the complexity of the work facing public service leaders in today's context. While traditionally senior leaders have received economic increases at least commensurate with those negotiated with unionized employees, that has not always been the case. We believe it is important for senior leaders' compensation to be addressed in a timely and transparent manner. We recommend senior leaders be given an economic increase for fiscal year 2015-2016 that is no less than what is provided to unionized employees as a result of the current round of negotiations. If this recommendation is accepted, we believe that an announcement to this effect should be made as soon as the Government makes a decision.

Corporate Commitment for 2015-2016 and Beyond

In July of 2011, the Advisory Committee endorsed the use of at-risk pay to achieve results in support of a government-wide corporate commitment. The Government accepted this recommendation and implemented a corporate commitment for fiscal years 2011-2012 and 2012-2013 and for an additional two years in support of its fiscal priorities and goal of returning to a balanced budget by 2015. A portion of at-risk pay was awarded for results achieved in support of the corporate commitment.

In reviewing the results and experience to date with the corporate commitment, we have noted challenges in its implementation, particularly with regard to the establishment of the link between it and the specific outcomes that individual executives are expected to achieve. It has also been difficult to distinguish between various levels of performance, given the nature of the commitment. We are aware that the requirement to allocate a specific portion of at-risk pay to the corporate commitment increased the complexity of administering performance management programs by requiring a separate performance assessment process. The Committee was advised that the cascading of the corporate commitment was not effective in motivating individual performance to a degree that justifies the complexity it introduced. It is important that the performance management process be managed effectively and in a way that draws a clear link between the desired corporate commitment outcomes and the individual contributions expected of each senior leader. These issues should be addressed to ensure engagement on the part of senior leaders, providing them with a greater sense of empowerment and individual as well as organizational control over their contribution to an enterprise-wide objective.

We support the continued use of a corporate commitment aligned with government-wide priorities. We recommend that changes be introduced to make its implementation more flexible. Specifically, we recommend that:

- A public service-wide commitment reflecting Government priorities continue to cascade down from the most senior level to all participants in the performance pay regime;
- The performance agreement for each executive and Governor in Council appointee establish a commitment adapted from the Government-wide corporate commitment to reflect each senior leader's particular role and organizational context, with a view to increasing direct and personal accountability for the results; and
- The split in at-risk pay between corporate and individual commitments be eliminated and the assessment of the corporate commitment be integrated into the overall assessment of the individual commitments of each senior leader. This would allow deputy heads to truly assess and reward the contribution of each senior leader to the final results according to each individual's unique context.

We are of the opinion that these changes would increase the effectiveness of the corporate commitment and recommend that they be implemented for the 2015-2016 performance cycle. In addition, we recommend that a review of this new approach be conducted after the 2015-2016 performance management cycle to determine whether this simplified method of administering the corporate commitment enhanced or impaired its effectiveness in meeting Government objectives.

Work Plan for 2015-2016 and 2016-2017

When we met on December 1, 2014 in Ottawa, you asked us not to be constrained in our thinking by the parameters of the current senior leader compensation approach and to examine issues from many different perspectives. We have initiated discussions and analysis to identify appropriate comparators for public service total compensation. We have begun to consider potential linkages between recruitment and retention of senior leaders and the approach to total compensation.

As we look ahead to the next two years of the Committee's mandate, we plan to explore:

- The ability to recruit and retain talent in the public service with the current approach to compensation;
- A proposed structure for senior level total compensation; and
- Further options for performance incentives for senior leaders.

To achieve this, we would like to understand more fully how senior leader work is compensated in other jurisdictions and what we can learn from them. We would like to consider options for short and long term financial incentives and non-financial incentives. This work would also inform our recommendations for an economic increase for 2016-2017.

I am honoured to provide you with our recommendations to date and with our plan for the next two years.

We anticipate presenting the Government with our next report by March 2016.

Sincerely,

Vijay Kanwar
Chair, Advisory Committee on
Senior Level Retention and Compensation

Principles Underlying Compensation of Senior Leaders

Fairness and Transparency:

- The quantum and form of total compensation for senior public servants is fair, reasonable and transparent in light of the changing and increasingly complex demands placed on senior leaders and the distinctions in managerial and leadership responsibilities between senior leaders and collectively bargained employees.
- Internal equity and the incidence of compression and inversion are considered in deliberations.

Fiscal Responsibility:

- Total compensation is affordable, and responsive to the economic and social environment.

Performance:

- Compensation rewards senior leaders to meet and exceed strategic and operational objectives that are aligned with enterprise-wide strategies on an individual and unit basis and respect public service values.
- Performance pay is part of a total compensation package.

Comparability:

- Senior leader compensation is comparable to that of positions with similar scope and responsibilities in other organizations from which recruitment is likely or desirable.

Recruitment and Retention:

- Compensation attracts qualified individuals into the senior levels from both inside and outside the public service and serves to retain them.

Structure:

- Total compensation of senior leaders is comprised of base salary, incentives and benefits.

- Incentives are performance based and senior leaders understand the individual and unit objectives they are required to achieve.
- Increases to compensation are made in a timely manner.

Date modified:

2015-07-31

Judicial Compensation and Benefits Commission

Commission d'examen de la rémunération des juges

99 Metcalfe Street, Ottawa ON K1A 1E3

NOTICE

Recommendation 14 of the 2008 Judicial Compensation and Benefits Commission's Report stated, in effect, that the parties should not view the establishment of a new commission as an opportunity to reopen settled issues, absent a change in facts or circumstances which would justify reconsideration of the matter. This Commission has determined to adopt that principle and apply it rigorously, with the following implications:

(a) With regard to the selection of the appropriate comparator, paragraphs 47 to 120 of the report of the previous Commission provide an exhaustive review of the relevant factors. That Commission concluded in paragraph 118 that "…the mid-point of the DM-3 salary range, plus one half of maximum performance pay…" is a comparator that meets the section 26(1.1) criteria of the *Judges Act* to which the Commission is directed by the statute to turn its mind. This Commission intends to regard that determination of the previous Commission as a settled matter of principle in the absence of submissions which convince this Commission that, since the previous Commission reported, there has been a change in facts or circumstance which justify a rehearing of the question.

(b) This Commission has made the same determination with respect to Recommendations 2, 3, 5, 6, 7, 8, 10 and 11 of the report of the previous Commission as well as with respect to the portion of Recommendation 4 which relates to salary differentials.

(c) With respect to Recommendations 1 and 9, and with respect to the portion of Recommendation 4 which fixes actual amounts, the Commission requests that submissions be made as to what those amounts should be currently based on the reasoning enunciated in those Recommendations.

The Commission has noted the time elapsed between the submission of the previous Commission's report and the Government's response thereto as well as the substance of that response. The Commission invites submissions providing guidance as to whether the relevant body of judge made law suggests that it is necessary or advisable for this Commission to turn its mind to the timeliness and substance of that response.

Chairperson	***Commissioners***	***Executive Director***
Brian Levitt	Paul Tellier, P.C., C.C., Q.C. Mark Siegel	Suzanne Labbé

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Policy and Economic Analysis Program

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PEAP Memo 2021-3

March 19, 2021

Subject: New Forecast for Canada – Much More Optimistic Than Our Recent Outlooks

Attached is our new Canadian economic forecast based on Statistics Canada's 2020Q4 national accounts release, as well as subsequent data and policy announcements, and coronavirus developments.

It was almost exactly one year ago that instead of sending out our usual quarterly forecast for the Canadian economy based on the new national economic accounts, we instead sent out a memo that included the following:

"Producing an economic forecast for Canada in the face a rapidly changing environment of the coronavirus and the drop in oil prices in our minds is untenable. There is no doubt that second quarter GDP will fall, indeed probably quite dramatically (although given survey challenges, how accurate Statistics Canada's first estimate will be is certainly a question). But how long will the downturn last and will there be a significant snapback? We just do not know and to publish point estimates for growth in the coming quarters seems foolhardy. And frankly, not very helpful for PEAP members' planning purposes since each day might produce information that radically changes our outlook."

While in the intervening time period we have indeed produced a number of quarterly forecasts, much uncertainty remains even a year later. Statistics Canada, rightly, keeps reminding us that "Given the unprecedented economic situation in 2020, revisions for this period are expected to be higher than normal". COVID-19 variants remain a real concern. The less-than-stellar rollout of approved vaccines, together with sometimes confusing guidelines, have also contributed to the difficulty in getting a good handle on the quarterly pattern of the continued recovery. But it would appear that there is little doubt that the recovery will continue to take hold. Vaccines are indeed getting into arms at an increasing pace. Canadian governments (at all levels) continue to provide support to individuals and businesses, the U.S. has passed a huge new stimulus package that will meaningfully support growth, and both the U.S. Fed and the Bank of Canada have sent clear signals that they will continue to backstop growth, even if there are some short-term inflation impacts.

We admit to feeling somewhat misled by the national monthly GDP at basic prices data (including Statistics Canada's recent commitment to providing a "flash" estimate for the upcoming month) in both 2020Q3 (monthly numbers overestimated growth) and 2020Q4 (monthly numbers underestimated growth). Given the challenges facing Statistics Canada, however, it is difficult to feel too aggrieved. We do continue to use the data together with other monthly indicators including numbers from the labour force survey, international trade data and housing starts estimates, as a guide to how we expect the very short term to play out.

In aggregate, the monthly data indicate a much stronger 2021Q1 than we were expecting in January. We have struggled to understand why the data seem to be so strong (and we will not even pretend that we understand the housing market) and have concerns that the data will be revised or are merely part of monthly fluctuations. However, if the data do indeed hold up, and the 1st quarter is anywhere near as strong as we have it, then it should be the case that growth for 2021 should be much higher than we have been expecting in recent forecast memos/conference presentations. We do not expect "the third wave" of COVID-19 to derail this recovery. Indeed, while we certainly do not believe that we will recover all of the GDP that has been lost as a result of COVID-19, we do expect to recover much more of it over the forecast period than in any of our forecasts since January 2020. Key to this recovery will be how, or indeed if, households, when they are allowed to, spend the "forced" savings that have accumulated over the past year. Given measurement issues, some may have indeed already found its way into the housing investment numbers. We have not been overly aggressive in drawing down household savings, which could mean that the recovery might be even more robust than what we currently forecast.

After falling by 5.4% in 2020, given our new forecasted quarterly growth path (and recent history), we now expect real GDP to grow by 6.0% in 2021 (compared to 4.0% in our late January forecast), and a still robust 3.8% in 2022 (compared to the previous 4.4%). But given probable data revisions, and of course other possible COVID-19 developments, the numerical outcomes could be and probably will be somewhat to very different.

For further information please contact Steve Murphy (416-978-6652 or steve.murphy@rotman.utoronto.ca) or Peter Dungan (416-978-4182 or pdungan@rotman.utoronto.ca).

FOCUS Model - Policy and Economic Analysis Program
CANADA: Base Forecast - March 19, 2021

				History	Forecast							
Summary of Forecast	2020:1	2020:2	2020:3	2020:4	2021:1	2021:2	2021:3	2021:4	2022:1	2022:2	2022:3	2022:4
Real Gross Domestic Product (Chained $12 Bill)	2073.3	1836.2	1999.5	2045.9	2067.3	2096.7	2122.5	2142.8	2163.3	2180.2	2195.1	2210.1
Real Gross Domestic Product (%ch)	-1.9	-11.4	8.9	2.3	1.0	1.4	1.2	1.0	1.0	0.8	0.7	0.7
Expenditure by Households	-1.8	-14.1	13.1	-0.1	-0.2	2.0	2.1	1.3	1.3	0.9	0.8	0.8
Expenditure by NPISH	-0.3	-13.0	7.5	4.1	1.1	0.1	0.1	0.1	0.4	0.4	0.4	0.4
Expenditure by Governments	-0.4	-3.6	3.8	1.8	0.6	0.7	0.2	0.1	0.1	0.1	0.1	0.2
Investment Expenditure	-0.8	-16.0	16.3	2.6	0.4	1.7	1.3	0.9	1.7	1.4	1.2	1.3
Residential Structures	-0.5	-15.6	30.7	4.3	1.8	-0.1	-2.6	-2.7	-0.4	-0.2	0.0	0.0
Non-Residential Structures	0.0	-15.4	-0.2	-2.7	-2.4	3.3	5.5	5.0	4.7	3.7	2.7	2.7
Machinery and Equipment	-3.2	-22.3	17.6	7.0	0.3	4.3	5.2	3.4	2.7	2.1	2.0	2.0
Intellectual Property	-0.4	-8.9	5.8	0.5	0.7	2.3	3.4	2.1	0.8	0.8	0.8	0.8
Exports	-2.7	-17.7	14.7	1.2	4.3	1.2	3.0	2.1	0.9	0.7	0.7	0.7
Imports	-2.2	-23.0	21.6	2.6	1.5	2.4	4.2	2.5	1.4	1.0	0.9	0.8
Inventory - Non-Farm (Chained $12 Bill)	0.2	-34.9	-30.7	-1.9	1.0	5.0	9.0	14.0	16.0	18.0	18.5	18.5
Inventory - Farm (Chained $12 Bill)	2.4	3.7	-4.1	1.9	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	0.0
Residual Error (Chained $12 Bill)	0.5	0.4	-1.2	1.5	1.2	1.0	0.8	0.5	0.2	0.0	0.0	0.0
Gross Domestic Product ($ Bill)	2276.0	2001.3	2231.5	2307.4	2355.2	2401.3	2440.3	2473.8	2509.7	2542.0	2571.5	2601.3
Gross Domestic Product (%ch)	-2.9	-12.1	11.5	3.4	2.1	2.0	1.6	1.4	1.5	1.3	1.2	1.2
Implicit Price Deflator for GDP (%ch)	-1.0	-0.7	2.4	1.0	1.0	0.5	0.4	0.4	0.5	0.5	0.5	0.5
Unemployment Rate	6.4	13.1	10.1	8.8	8.6	7.8	7.5	7.2	7.0	6.8	6.6	6.4
Employment (%ch)	-1.4	-11.4	8.5	2.4	-0.2	1.4	0.9	0.8	0.8	0.7	0.7	0.7
Labour Force (%ch)	-0.7	-4.5	4.9	0.9	-0.4	0.6	0.6	0.5	0.6	0.5	0.5	0.5
Participation Rate (%)	64.8	61.8	64.7	65.1	64.7	65.0	65.2	65.4	65.5	65.6	65.6	65.6
3-Month Treasury Bill Rate (%)	1.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
10-Year Gov't of Canada Bond Rate (%)	1.1	0.5	0.6	0.7	1.2	1.6	1.7	1.7	1.9	2.1	2.3	2.5
Inflation Rate - CPI (%)	0.0	-0.7	0.7	0.8	0.8	0.7	0.3	0.5	0.6	0.6	0.5	0.5
Annual Wage per Employee - Pvt (%ch)	0.1	2.9	-0.6	0.1	0.5	0.1	0.2	0.4	0.6	0.6	0.6	0.6
Real Ann Wage per Emp - Pvt (%ch)	0.0	3.7	-1.2	-0.7	-0.2	-0.6	-0.1	-0.1	0.0	0.0	0.2	0.2
Labour Productivity (%ch)	-0.5	-0.1	0.4	-0.1	1.2	0.0	0.3	0.1	0.2	0.0	-0.1	0.0
Exchange Rate (US $/Cdn $)	0.744	0.722	0.751	0.767	0.790	0.790	0.785	0.780	0.778	0.779	0.780	0.780
Terms of Trade (%ch)	-4.8	-2.7	6.1	1.7	2.1	0.3	0.1	0.1	0.2	0.1	0.1	0.1
Balance on Current Account ($ Bill)	-65.4	-34.3	-42.0	-29.1	-15.0	-25.0	-35.0	-40.0	-44.0	-46.5	-48.0	-49.0
Consolidated Government Balance ($ Bill)	-63.5	-443.8	-259.3	-173.5	-149.4	-126.6	-100.2	-67.6	-56.5	-45.8	-38.5	-30.6
Federal Gov't Balance (NA Basis) ($ Bill)	-48.9	-409.0	-283.7	-146.7	-120.8	-110.0	-83.8	-55.7	-50.3	-48.4	-38.3	-33.0
Federal Balance as % of GDP	-2.1	-20.4	-12.7	-6.4	-5.1	-4.6	-3.4	-2.3	-2.0	-1.9	-1.5	-1.3
Ratio: Federal Debt to GDP (%)	25.6	34.6	34.3	34.9	35.5	35.9	36.2	36.3	36.3	36.3	36.3	36.1
Prov'l Gov't Balance (NA Basis) ($ Bill)	-26.6	-61.3	5.3	-46.8	-50.2	-36.0	-32.9	-25.6	-24.3	-15.5	-18.1	-15.3
Household Savings Rate (%)	5.1	27.8	13.7	12.7	12.3	10.1	7.4	4.9	4.3	3.9	3.7	3.5
Real Household Disposable Income (%ch)	1.3	12.7	-5.0	-1.5	-0.4	-0.1	-0.4	-0.9	0.9	0.7	0.8	0.7
Net Operating Surplus - Corporations (%ch)	-10.3	-14.7	37.1	-0.7	7.5	3.3	2.9	1.9	0.6	0.2	0.1	0.2
U.S. Real GDP Growth (%)	-1.3	-9.0	7.5	1.0	1.7	2.8	1.0	1.0	0.8	0.7	0.7	0.6
U.S. Inflation (GDP Deflator) (%)	0.4	-0.5	0.9	0.5	0.4	0.5	0.6	0.6	0.5	0.5	0.5	0.5
U.S. 3-Month Treasury Bill Rate (%)	1.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
U.S. 10-Year Gov't Bond Rate (%)	1.4	0.7	0.7	0.9	1.3	1.7	1.8	1.9	2.1	2.3	2.5	2.7
U.S. Unemployment Rate (%)	3.8	13.0	8.8	6.7	6.2	5.7	5.2	4.7	4.5	4.3	4.2	4.1

			History	Forecast					
Summary of Forecast	2018	2019	2020	2021	2022	2023	2024	2025	2026
Real Gross Domestic Product (Chained $12 Bill)	2063.9	2102.3	1988.7	2107.3	2187.1	2240.2	2285.7	2331.5	2379.2
Real Gross Domestic Product (%ch)	2.4	1.9	-5.4	6.0	3.8	2.4	2.0	2.0	2.0
Expenditure by Households	2.5	1.6	-6.1	4.8	5.1	3.0	2.3	2.1	2.2
Expenditure by NPISH	3.0	2.7	-4.7	4.4	1.2	1.6	1.6	1.6	1.6
Expenditure by Governments	3.2	1.7	-0.2	3.6	0.7	0.9	1.4	1.6	1.9
Investment Expenditure	1.3	0.3	-5.3	7.6	5.5	3.7	2.4	2.0	1.8
Residential Structures	-1.7	-0.2	3.9	12.0	-3.9	0.2	0.6	0.9	1.1
Non-Residential Structures	2.7	1.1	-11.2	-2.5	17.9	7.8	4.5	3.2	2.4
Machinery and Equipment	3.7	1.0	-16.4	14.3	12.5	5.9	3.3	2.4	2.3
Intellectual Property	5.2	-1.9	-3.8	5.6	6.0	2.7	2.3	2.3	2.3
Exports	3.7	1.3	-9.8	10.2	5.4	2.7	2.5	2.5	2.5
Imports	3.4	0.4	-11.3	11.3	7.5	3.2	2.7	2.4	2.5
Inventory - Non-Farm (Chained $12 Bill)	15.6	17.1	-16.8	7.2	17.8	18.6	18.7	19.0	19.3
Inventory - Farm (Chained $12 Bill)	-0.2	1.7	1.0	-0.2	-0.2	0.1	0.3	0.3	0.3
Residual Error (Chained $12 Bill)	0.5	0.1	0.3	0.9	0.1	0.0	0.0	0.0	0.0
Gross Domestic Product ($ Bill)	2231.2	2310.7	2204.1	2417.7	2556.1	2672.1	2784.6	2898.9	3018.2
Gross Domestic Product (%ch)	4.2	3.6	-4.6	9.7	5.7	4.5	4.2	4.1	4.1
Implicit Price Deflator for GDP (%ch)	1.8	1.7	0.8	3.5	1.9	2.1	2.1	2.1	2.0
Unemployment Rate	5.9	5.7	9.6	7.8	6.7	6.2	5.8	5.8	5.8
Employment (%ch)	1.6	2.2	-5.1	4.4	3.4	2.0	1.5	1.0	0.8
Labour Force (%ch)	1.0	2.0	-1.1	2.4	2.2	1.4	1.1	1.0	0.8
Participation Rate (%)	65.3	65.6	64.1	65.1	65.6	65.6	65.4	65.3	65.0
3-Month Treasury Bill Rate (%)	1.4	1.7	0.4	0.1	0.2	0.7	2.5	3.1	3.1
10-Year Gov't of Canada Bond Rate (%)	2.3	1.6	0.7	1.6	2.2	3.0	3.9	4.3	4.3
Inflation Rate - CPI (%)	2.3	1.9	0.7	2.3	2.1	2.1	2.0	2.0	2.0
Annual Wage per Employee - Pvt (%ch)	3.9	2.5	3.7	1.3	2.0	2.7	2.9	3.3	3.3
Real Ann Wage per Emp - Pvt (%ch)	1.6	0.5	2.9	-1.0	-0.1	0.6	0.8	1.2	1.3
Labour Productivity (%ch)	0.9	-0.3	-0.3	1.5	0.4	0.4	0.5	1.0	1.2
Exchange Rate (US $/Cdn $)	0.772	0.754	0.746	0.786	0.779	0.782	0.785	0.788	0.791
Terms of Trade (%ch)	0.7	-0.1	-3.5	6.1	0.5	0.7	0.8	0.5	0.4
Balance on Current Account ($ Bill)	-52.2	-47.4	-42.7	-28.7	-46.9	-50.3	-50.5	-50.0	-49.0
Consolidated Government Balance ($ Bill)	6.2	12.5	-235.0	-110.9	-42.8	-12.2	2.1	11.0	14.8
Federal Gov't Balance (NA Basis) ($ Bill)	7.4	2.4	-222.1	-92.6	-42.5	-24.0	-18.5	-16.4	-14.3
Federal Balance as % of GDP	0.3	0.1	-10.1	-3.8	-1.7	-0.9	-0.7	-0.6	-0.5
Ratio: Federal Debt to GDP (%)	26.7	25.3	32.4	36.0	36.3	35.8	35.1	34.3	33.5
Prov'l Gov't Balance (NA Basis) ($ Bill)	-16.5	-5.5	-32.4	-36.2	-18.3	-9.4	-4.9	-2.2	-0.6
Household Savings Rate (%)	0.8	1.4	14.8	8.7	3.9	3.0	2.7	2.6	2.6
Real Household Disposable Income (%ch)	1.5	2.2	9.0	-1.7	1.1	2.6	2.4	2.5	2.5
Net Operating Surplus - Corporations (%ch)	3.8	0.6	-6.1	24.7	4.6	1.1	2.4	2.7	3.4
U.S. Real GDP Growth (%)	3.0	2.2	-3.5	6.6	3.8	2.4	2.1	2.1	2.0
U.S. Inflation (GDP Deflator) (%)	2.4	1.8	1.2	2.0	2.2	2.1	2.1	2.1	2.1
U.S. 3-Month Treasury Bill Rate (%)	1.9	2.1	0.4	0.1	0.2	0.9	2.7	3.3	3.3
U.S. 10-Year Gov't Bond Rate (%)	2.9	2.1	0.9	1.7	2.4	3.2	4.1	4.5	4.5
U.S. Unemployment Rate (%)	3.9	3.7	8.1	5.4	4.3	4.0	4.0	4.0	4.0

Percentage changes are period to period

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Feature

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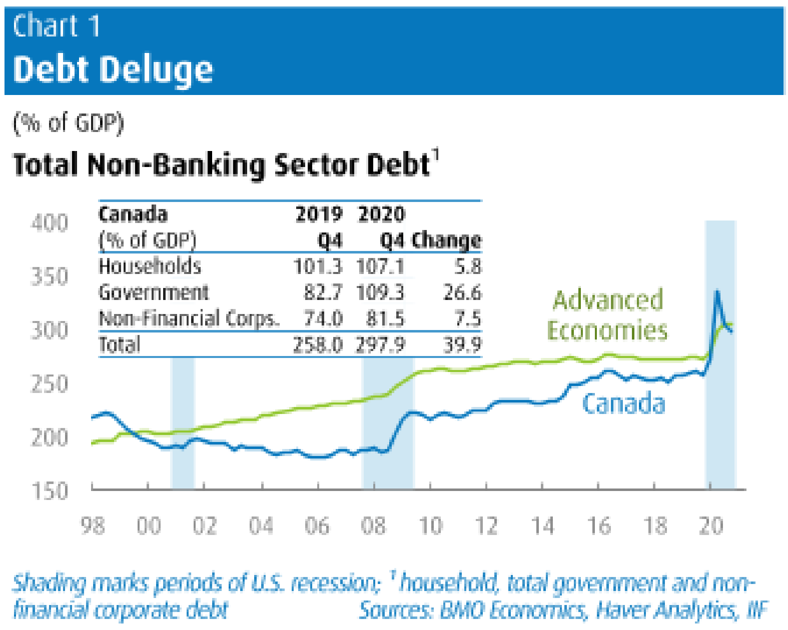
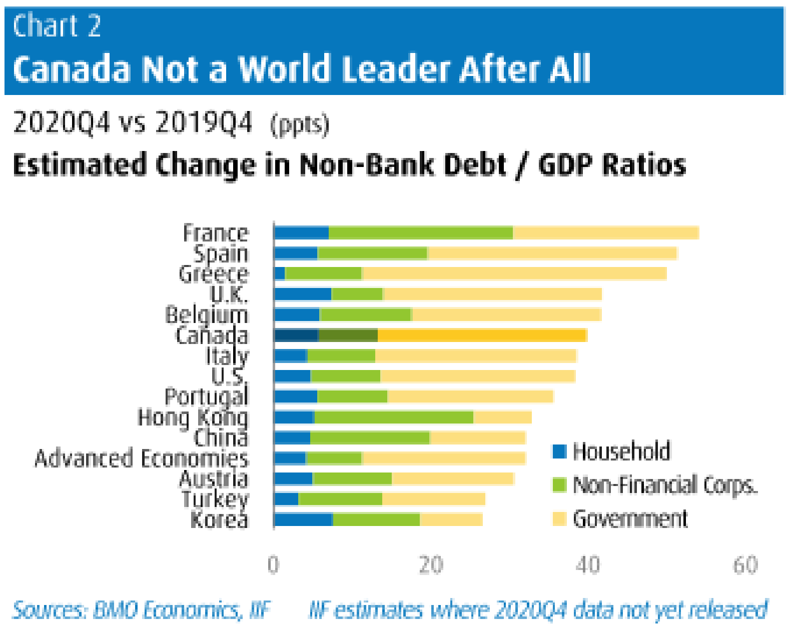
Confronting Canada's Debt Deluge

The story of the pandemic's impact on the economy is still being written, but it's readily apparent that the epilogue will include a big section on the enormous debt build-up. The recently published Q4 national accounts reveal that overall Canadian debt levels vaulted in 2020, with our preferred measure of non-financial sector debt jumping to around 300% of GDP by the end of last year (*Chart 1*). That's up almost 40 percentage points in a single year, larger than in the prior 26 years combined. True, some of that dramatic move reflects the fact that the denominator (i.e., nominal GDP) fell last year for only the third time in 60 years of records. But the growth rate in the numerator (overall debt) was a prodigious 14%, roughly double the pace in the 2009 recession.



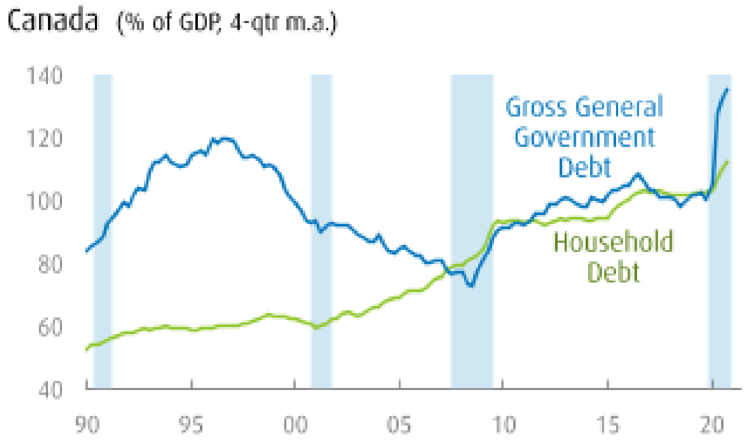
Of course, Canada was not alone in the heavy-duty debt increase. The combination of massive government support programs, and the revenue-sapping mandated closures of chunks of the economy, sent deficits soaring globally. But Canada was on the front edge of both these trends. According to the latest IMF Fiscal Monitor, the country was among the most aggressive, with the broad government deficit leaping around 20% of GDP in the past year. In terms of overall debt—including households and non-financial corporations—Canada's increase was clearly above average, but not a world leader (*Chart 2*). This is contrary to an infamous chart that made the rounds in recent months, suggesting Canada's debt surge was, almost literally, off the charts versus all other major economies. (The misstep appears to have been that the big Q3 rebound in GDP wasn't taken into account in Canada's figures.)



The main point, though, is that Canada's increase in overall debt was close to the top of the leaderboard in relative terms and was a record in domestic terms. There is no mystery on where that debt spike came from; government borrowing exploded last year, as fiscal policy shouldered the burden (*Chart 3*). While debt ratios for both businesses and households climbed notably in the pandemic, this was driven more by the weakness in GDP rather than an acceleration in borrowing (which, in fact, was remarkably stable on balance for both sectors). A very broad measure of total government sector debt, which includes pension liabilities, has fully separated from household debt. That's after the two ratios largely tracked each other higher for the past decade. We would note that there was plentiful hand-wringing over household debt over that period, and almost no concern on government debt. Yet the latter is now above levels seen in the bad old days of the 1990s.

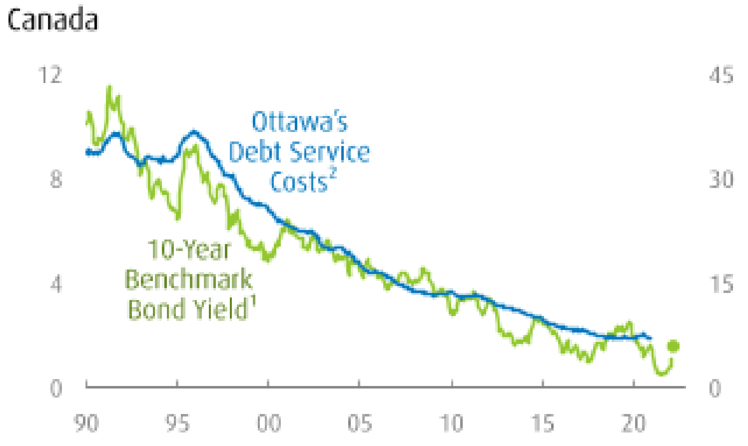
The counterpoint is that borrowing costs are in a different world than three decades ago. Even with the recent back-up, real interest rates remain negative all the way out to 10 years. In staggering contrast, even long-term real rates were well north of 4 percentage points for much of the 1990s, presenting policymakers with entirely different debt dynamics. After pushing above a punishing 30% of revenues in that decade, federal interest costs have plunged to little more than 7% now. (Some analysts, including former BoC Governor David Dodge, have recommended using this measure as a fiscal anchor, aiming to keep it to below 10%.) However, the much milder interest rate backdrop does not give policymakers free rein. First, the recent snap-back in bond yields—in some cases to above pre-pandemic levels—is a loud warning shot that the low-rate environment cannot be taken for granted (*Chart 4*). Second, even at very low borrowing costs, there is a clear limit on the long-term trend in the budget deficit in order to stabilize debt ratios (a limit we peg at roughly 2% of GDP federally, or just under $50 billion per year).

Chart 3
Government Shoulders the Burden



Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Chart 4
Interest Costs Low... But Bond Warning



¹ (lhs : %, advanced 1 year); ² (rhs : % of revenues)
Sources: BMO Economics, Haver Analytics

The recent back-up in bond yields, alongside a slew of upgrades to the North American growth forecast, lands at an awkward time for Canadian fiscal policy. Just weeks ahead of the Budget, the sudden shift in the economic landscape raises serious doubts on the wisdom or the necessity of additional support from Ottawa. Specifically, since the fiscal update last year, when a $70 billion-to-$100 billion "jumpstart" was mooted, we have seen five big changes in the economic backdrop:

1) President Biden's $1.9 trillion stimulus package has heavily lifted growth forecasts markedly in the U.S. and Canada in the past three months.

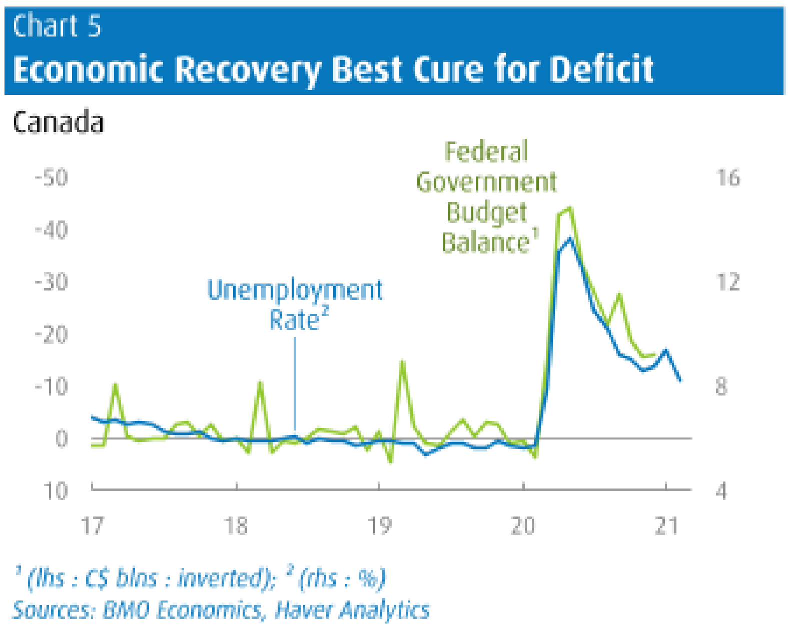
2) Broad-based strength in commodity prices, but especially oil rising to around US$60, points to better Canadian growth.

3) The outsized and relentless strength in housing markets suggests that households are already very confident in the outlook, and won't require prompting to spend.

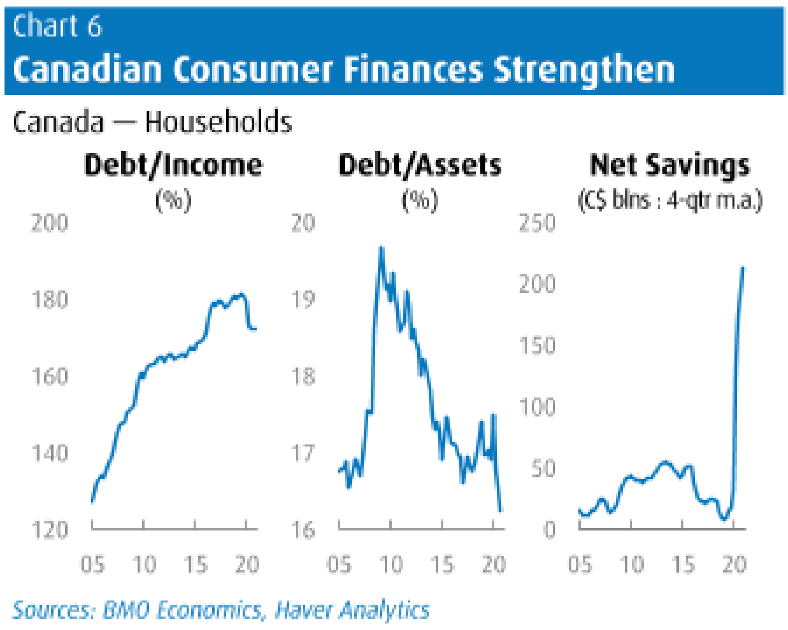
4) The sharp back-up in long-term rates dims the narrative that heavy borrowing is perfectly fine "because interest rates are historically low".

5) The performance of the Canadian economy around the turn of the year was much better than expected, reducing the need for major additional support.

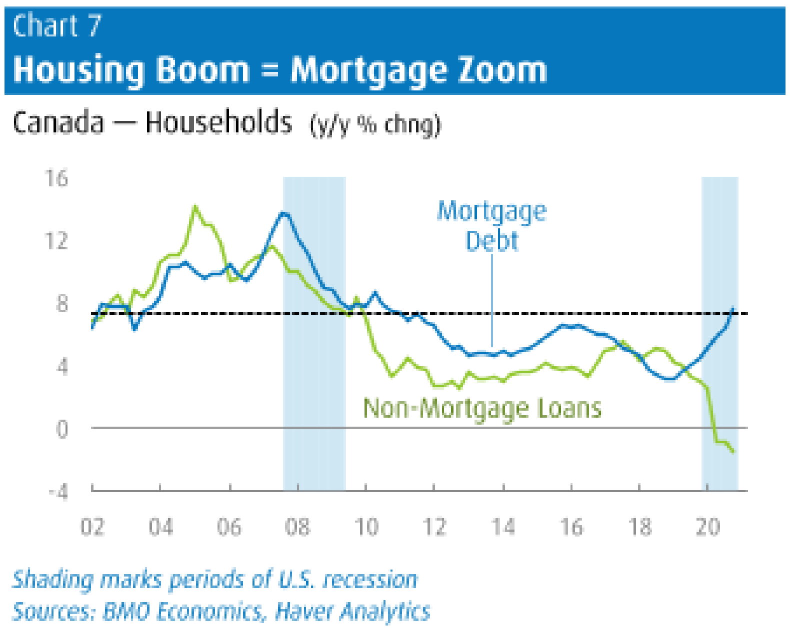
It is perfectly reasonable for policy to prepare for the risk of a downside surprise for the economy, given the wide range of possibilities for growth in the coming year. However, it's not obvious that this potential support will be necessary, given the rapid improvement in the economic outlook, and stacked against the historic debt accrued in the past year. Barring a severe third wave, government support should be solely directed at the hardest hit areas of the economy and the vaccine program. On the flip side, we would also push strongly back at those proposing significant tax increases to "pay for" the deficit. The best cure for the budget deficit would be a strong economic recovery (*Chart 5*). And anything that could potentially frustrate that recovery—such as tax hikes—would be counter-productive.



While the primary focus of the debt deluge has, appropriately, fallen on government borrowing, the household sector still bears close watch. After all, prior to the pandemic, tenuous household finances were widely viewed as Canada's most serious economic vulnerability. One—frankly shocking—development of the past year has been an overall improvement in household balance sheets. The run-up in asset values (real estate and equities), alongside the powerful 10% sprint in disposable incomes (driven by government support), strengthened a variety of household financial metrics in 2020 (*Chart 6*).



Government balance sheets were weakened to help support or even strengthen household finances. It would thus be extremely unfortunate if households now broadly squandered that improved position by promptly re-leveraging themselves to the limit. And, the rapid rebound in the housing market suggests that we are potentially headed squarely in that direction. Even as non-mortgage debt has dropped in the past year, for one of the few times on record, mortgage borrowing has sprinted back up to its fastest pace in a decade (*Chart 7*). Overall household debt has picked up only moderately in the past year (to a 4.5% y/y clip from 4% in 2019), but any increase is notable during a recession. Based on the recent acceleration in housing prices, mortgage borrowing is primed to forge higher yet. As a result, it appears that household debt will join the build-up of government debt as a primary concern in the aftermath of the pandemic.



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