June 5, 2020

Mr. Tom Lukiwski, Chair
Standing Committee on Government Operations and Estimates
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6
Canada

Dear Mr. Lukiwski:

On May 29, 2020, I met with the House of Commons Standing Committee on Government Operations and Estimates in the context of the Committee's study on the Government's response to the COVID-19 pandemic.

In responding to questions from Committee members, I agreed to follow-up with supplementary details. Responses prepared by my staff can be found in the attached document.

Yours Sincerely,

Yves Giroux
Parliamentary Budget Officer

Cc: Mr. Francis Drouin, Vice-Chair, Standing Committee on Government Operations and Estimates
Ms. Julie Vignola, Vice-Chair, Standing Committee on Government Operations and Estimates

Attachment: Supplementary Responses

Supplementary Responses

Mr. McCauley

We talked about the debt to GDP and the change from 1996, but, of course, it's very different. The provinces are in bad shape. Do you have any thoughts on that, or on the municipalities, and how we're going to deal with that?

PBO's most recent analysis of the fiscal sustainability of provincial and municipal governments was published in February 2020, in Fiscal Sustainability Report 2020.

In that report, we project that, as a whole, subnational governments (which includes consolidated provincial, territorial, local and aboriginal governments) are not fiscally sustainable. Despite this result, some individual provinces are on a sustainable path.

We estimated that permanent tax increases or spending reductions amounting to 0.3 per cent of GDP ($6 billion in current dollars) would be required to stabilize the consolidated subnational government net debt-to-GDP ratio. Since the onset of the COVID-19 pandemic and oil price shocks, subnational governments have increased spending.

Provinces will face slower economic growth in the near term, which would lower tax revenues. In our projection framework, if spending increases and revenue declines are not permanent, these factors would not generally materially change our sustainability assessment for subnational governments, as we are assessing the sustainability over the next 75 years.

That said, we will need to update our medium- and long-term projections for all subnational governments in a future FSR update to quantify the effects of recent events on subnational fiscal sustainability.

Mr. Barsalou-Duval

My second question is about assistance with fixed rent costs. Basically, there are very few companies that use it. We think it is probably an ineffective measure on the government side. I would like to know if that was your opinion as well.

To benefit from the Canada Emergency Commercial Rent Assistance (CECRA) program, a tenant business must:

- have suffered a 70% revenue decline;
- have total revenues at the consolidated level of less than $20 million; and,
- pay less than $50,000 a month in rent at the location for which the rent assistance is requested.

Our model estimates that about 10% of overall rent expenditures by businesses would be eligible for support under the CECRA program. This represents $1.6 billion in eligible rents over the three-month period.

Furthermore, the businesses' landlord must decide to apply for the program. To be eligible, the landlord must agree to reduce rents by 75% for the three months. This leaves a 25% net loss of revenue to the landlord, which may deter some landlords from participating.

Our model assumes that landlords will choose to apply for the program in relation to about 80% of rents paid by eligible tenants. We have estimated the fiscal cost of the Canada Emergency Commercial Rent Assistance to be $520 million.

Mr. Kusmierczyk

I'm just curious, knowing that the $250 billion, a big chunk of it, was focused on helping families pay their bills and pay down some of their debts as well, how important was the federal stimulus in light of the household debt that we have in Canada to be able to help and support families?

We have not estimated the impact of the Government's support measures on household debt.

Of course, the impact of the COVID-19 pandemic and oil price shocks on household indebtedness is mitigated by the Government's support measures and the Bank of Canada's actions to lower interest rates and to ensure that financial markets continue to function properly. However, with household debt standing above 170% of disposable income on average, government support measures introduced as a result of the pandemic are not expected to lower, by themselves, the indebtedness of households.

We will be monitoring incoming data and information on household indebtedness and will provide our analysis in a future report.