

Budget 2021: A Recovery Plan

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April 19, 2021



As Canada navigates the narrow path between lockdowns and vaccines, this year's federal budget delivered sweeping stimulus to help the economy along its path of recovery. Heavily focused on support and spending programs, the roadmap presented by the federal government is expansive and designed to provide additional momentum to the strong economic rebound expected through the latter half of the year.

Budget 2021, Canada's first in two years, focused on ensuring a robust recovery for Canada's economy as it battles against the pandemic. With major new spending initiatives worth \$101.4 billion over the next three years, the near-term focus is around creating jobs and supporting a recovery that provides for the individuals and businesses hardest hit by the lockdowns. Longer-term, the budget introduces plans to establish a national early learning and child care system to support continued growth, as well as investments in green energy and innovation.

Pandemic-specific spending initiatives

- The **extension of emergency support programs** for wage subsidies, rent subsidies and lockdown support for businesses, as well as increasing the number of weeks through which individuals are supported under the Canada Recovery Benefit and Canada Recovery Caregiving Benefit.
- A new **Canada Recovery Hiring Program**, which will support businesses in their efforts to rehire workers and create new positions.
- Investments of \$3 billion to **support long-term care facilities**, and increasing Old Age Security benefits for those 75+
- **More money for the tourism and hospitality sectors**, and for small businesses.
- A commitment to **spend even more if needed** into the autumn.

New initiatives

- Plans to **establish a national early learning and child care system**, in partnership with provincial governments and with a program intended to mimic that which currently exists in Quebec. The budget proposes new investments totaling nearly \$30 billion over the next five years in support of this initiative, though negotiations with the provinces still need to occur and the initiative is likely several years away from full implementation.
- Supporting national **capacity in bio-manufacturing and vaccine development and production** with a commitment of \$2.2 billion
- **Expansion of the Canada Workers Benefit**, to provide support of \$8.9 billion over the next six years, and introduction of a \$15 per hour minimum wage.
- Job creation programs geared at young Canadians, with a focus on skilled trade and high-tech industries as well as skill-development programs.
- **Interest-free loans** for green home renovations.

Revenue generation

Several new taxes were announced in the budget, though the capital gains inclusion rate, the top personal tax rate, and the corporate tax rate all remain unchanged. While there had been much debate around what measures might be

introduced to cool the housing market, the only changes were funding for CMHC to construct more affordable housing and a new 1% tax on foreign-owned homes.

Other tax hikes included:

- New restrictions on stock option deductions for high-income workers
- A luxury tax on cars and aircraft costing more than \$100,000 and boats costing more than \$250,000
- A digital services tax of 3% starting in 2022

Economic implications

The proposed spending is worth \$100 billion over three years, which amounts to 4-5% of GDP. This is considerably smaller than recent U.S. initiatives in which new spending amounts to well over 10% of GDP, though the comparison is imperfect. Several pre-existing Canadian programs were already budgeted through mid-year, whereas in the U.S. most programs expired last summer and had to be reintroduced.

It could be argued that both countries needn't be spending as much at a time when economic growth is rebounding rapidly. Indeed, a great majority of the remaining economic shortfall is due to artificial restrictions. Worries about overheating, excessive inflation and public debt loads are already on the rise. That said, a considerable amount of suffering persists, unemployment rates remain elevated, and borrowing costs are low. This makes it easier to justify higher spending and debt loads at this time.

Our own forecasts already assumed expansive spending, yielding a Canadian GDP forecast of nearly 6% for 2021. From a competitiveness standpoint, Canada may find itself tracking somewhat closer to the U.S. should the tax increases proposed by the Biden administration be implemented.

Fiscal considerations

The deficit for 2020 is now \$354 billion, down \$28 billion from initial estimates due primarily to faster-than-expected economic growth. The budget then projects that the deficit will shrink to \$155 billion in 2021, and to \$60 billion in 2022. Much of this improvement is due to naturally declining demand for government programs as the economy recovers.

Meanwhile, the federal debt is projected to surge. It will move from 31% to 51% of GDP this year, before beginning a gradual decline in subsequent years. The economy is expected to grow quickly enough in 2022 and beyond to more than offset the effect of persistent deficits on the debt ratio.

Notably, despite the government sitting in a tenuous minority position, this budget is unlikely to trigger an immediate election. That said, it certainly feels like an election budget given its many outlays for different groups, and the Liberals are thought likely to seek an election within the next several months.

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Publication date: April 19, 2021

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