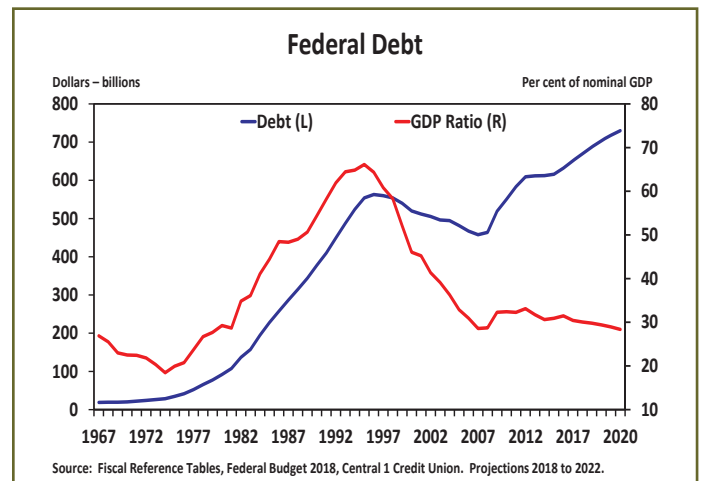
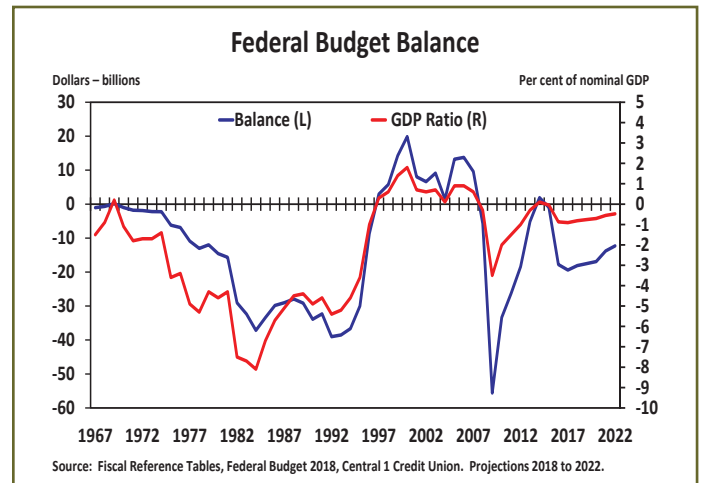


Summary: Budget 2018's theme is equality + growth. Gender equality was a major emphasis with expanded parental leave, pay equity in federally regulated industries, and measures to promote women entrepreneurship. Increased funding for sciences and research, cyber security, and Indigenous People. New tax measures to tighten tax rules, increase taxes on passive income earned within small businesses, and on tobacco and cannabis.

A declining budget deficit is projected through the five-year fiscal plan resulting in a rising federal debt, though not relative to the total economy. The fiscal plan is consistent with prior budgets by the government. Budget 2018 has a considerable focus on social and environmental policies while not addressing some economic issues and broader tax policies, such as potential trade disruptions, U.S. tax reform, lagging infrastructure investments, more support for economic diversification, among others.

Fiscal Plan: Budget 2018 is slightly restrictive during the five-year plan. Total revenue growth exceeds total program expenses each year, which results in smaller deficits, notwithstanding rising debt charges. The budget deficit is projected at \$18.1 billion in FY18/19 declining to \$12.3 billion in FY22/23. These deficit projections include a \$3.0 billion risk allowance. The federal debt rises each year reaching \$730.1 billion in FY22/23. As a share of the economy, debt-to-GDP edges down to 28.4 per cent in FY22/23 from 30.4 per cent in FY17/18. The deficit and debt-to-GDP ratios will be below historical levels.

The current fiscal plan is an extension of the fiscal and policy strategy under this government. Some will argue the budget does not go far enough to achieve a balanced budget sooner – the last long term plan projected a balanced budget sometime in the 30s or 40s, depending on growth outcomes. To achieve a balanced budget within the five-year plan would require either more revenue or reduced spending or both. On the other side of the aisle, the view is an opportunity is missed by not spending more on social and economic needs, because there is fiscal room or space, and to make up for past austerity or underfunding.



Economic Forecast: Budget 2018 uses the average private sector forecast for nominal GDP to calculate debt-to-GDP and other share-of-GDP metrics. The projection has nominal GDP growth between 3.5 per cent to 4.0 per cent annually comprised of slightly less than two per cent real GDP growth and annual inflation around two per cent.

Higher interest rates are forecast with the three-month T-bill rate, currently around 1.20 per cent, rising slightly in 2018 and faster every year thereafter, ending at 2.5 per cent in 2021. The 10-year Government of Canada bond yield, currently around 2.25 per cent, rises at a slower pace, reaching 3.3 per cent in the final year.

The U.S.-Canada exchange rate is held near current levels with a slight appreciation to 81.2 US cents per dollar in 2022.

Summary Statement of Transactions, billions of dollars

	Actual	Projection					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Budgetary revenues	293.5	309.6	323.4	335.5	348	362.1	373.9
Program expenses	287.2	304.6	312.2	321.5	331.5	340.7	350.1
Public debt charges	24.1	24.4	26.3	28.6	30.3	32.2	33.1
Total expenses	311.3	329	338.5	350	361.9	372.9	383.2
Adjustment for risk			-3	-3	-3	-3	-3
Budgetary balance	-17.8	-19.4	-18.1	-17.5	-16.9	-13.8	-12.3
Federal debt*	631.9	651.5	669.6	687.1	704	717.8	730.1
Per cent of GDP							
Budgetary revenues	14.4	14.5	14.5	14.5	14.5	14.6	14.5
Program expenses	14.1	14.2	14	13.9	13.8	13.7	13.6
Public debt charges	1.2	1.1	1.2	1.2	1.3	1.3	1.3
Budgetary balance	-0.9	-0.9	-0.8	-0.8	-0.7	-0.6	-0.5
Federal debt	31	30.4	30.1	29.8	29.4	28.9	28.4

Source: Federal Budget 2018. *Accumulated deficit

Percentage Growth in Key Fiscal Plan Elements

	Actual	Projection					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Budgetary revenues	-0.7	5.5	4.5	3.7	3.7	4.1	3.3
Program expenses	6	6.1	2.5	3	3.1	2.8	2.8
Public debt charges	-5.2	1.2	7.8	8.7	5.9	6.3	2.8
Total expenses	5	5.7	2.9	3.4	3.4	3	2.8
Federal debt*	2.7	3.1	2.8	2.6	2.5	2	1.7

Source: Federal Budget 2018. *Accumulated deficit

Overall, the economic assumptions are conservative, consistent with previous budgets. Possible negative trade policy impacts from NAFTA is not reflected in private sector forecasts or Budget 2018, which could address this risk, and other risks, by using a downward adjustment to nominal GDP as in past budgets.

Revenue: No new major revenue or tax changes are proposed Budget 2018. Overall revenue rises in line with nominal GDP. However, personal income tax revenue rises faster each year resulting in the share of personal income tax to total income tax rising to 75.6 per cent in FY22/23 from 73.0 per cent in FY17/18. Corporate income tax revenue is projected to decline in FY18/19 and as a share of total income decline to 20.8 per cent in FY22/23 from 23.1 per cent in FY17/18.

Notable revenue measures include:

Canada Workers Benefit - Budget 2018 has reworked the former Working Income Tax Benefit. The new version will come into effect in 2019 at a cost of \$500 million per year with the aim of encourage more low-income individuals and families to join and remain in the workforce.

Passive Investment Income – Budget 2018 proposes to reduce the amount of business income eligible for the small business tax rate for Canadian Controlled Private Corporations (CCPCs) earning between \$50,000 and \$150,000 from passive investments. The eligible income decreases by \$5 for every \$1 of passive income above \$50,000 up to \$150,000 after which it will no longer qualify for the small business tax rate. This will increase corporate taxation revenue by \$2.3 billion over five years.

Budget 2018 Planning Assumption for Nominal GDP						
	2017	2018	2019	2020	2021	2022
	(billions of dollars)					
Budget 2018 fiscal planning assumption	2,142	2,228	2,306	2,394	2,481	2,575
Average private sector forecasts						
Nominal GDP growth (per cent)						
February 2018 private sector survey	5.2	4	3.5	3.8	3.6	3.8
Real GDP growth (per cent)						
February 2018 private sector survey	3	2.2	1.6	1.7	1.6	1.8
3-month treasury bill rate (%)						
February 2018 private sector survey	0.7	1.4	2	2.3	2.5	2.5
10-year government bond yield (%)						
February 2018 private sector survey	1.8	2.3	2.8	3.1	3.2	3.3
Exchange rate (US cents/C\$)						
February 2018 private sector survey	77.2	79	79.6	80.3	80.6	81.2
U.S. real GDP growth (per cent)						
February 2018 private sector survey	2.3	2.4	1.9	1.9	1.8	1.9
WTI crude oil price (USD per barrel)						
February 2018 private sector survey	51	56	57	57	59	62

Source: Federal Budget 2018.

Revenue Outlook, billions of dollars							
	Actual	Projection					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Income taxes (\$ billions)							
Personal income tax	143.7	152.3	161.4	168.6	175.2	182.8	190
Corporate income tax	42.2	48.2	47.3	47.9	49.4	51.4	52.2
Non-resident income tax	7.1	8.2	8.3	8.5	8.7	8.8	9
Total income tax	193	208.6	217	225	233.2	243	251.2
Excise taxes/duties							
Goods and Services Tax	34.4	36.5	37.7	39.2	40.6	42	43.5
Customs import duties	5.5	5.5	5.5	5.3	5.4	5.5	5.7
Other excise taxes/duties	11.5	11.6	12.1	12.3	12.5	12.7	12.8
Total excise taxes/duties	51.3	53.7	55.4	56.7	58.4	60.2	62
Total tax revenues	244.3	262.3	272.3	281.7	291.6	303.2	313.2
E.I. premium revenues	22.1	20.6	21.7	22.6	23.3	24.1	25
Other revenues	27.1	26.8	29.4	31.3	33.1	34.8	35.8
Total budgetary revenues	293.5	309.6	323.4	335.5	348	362.1	373.9
Per cent of GDP							
Personal income tax	7.1	7.1	7.2	7.3	7.3	7.4	7.4
Corporate income tax	2.1	2.3	2.1	2.1	2.1	2.1	2
Goods and Services Tax	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Total tax revenues	12	12.2	12.2	12.2	12.2	12.2	12.2
E.I. premium revenues	1.1	1	1	1	1	1	1
Other revenues	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Total budgetary revenues	14.4	14.5	14.5	14.5	14.5	14.6	14.5

Source: Federal Budget 2018

Artificial Losses Using Equity-Based Financial Arrangements - Budget 2018 proposes to tighten rules restricting deductions to corporations on certain dividends received on shares of a Canadian-resident corporation. Closing this avenue will raise an estimated \$1.2 billion over five years.

Stop-Loss Rule on Share Repurchase Transactions – Budget 2018 proposes to tighten the stop loss rules to include a denial of the portion of the loss associated with the marked-to-market incremental share value. This measure raises an estimated \$1.35 billion over five years.

Tobacco taxation - Budget 2018 proposes advancing timing of inflationary adjustments applied to excise duties to annual adjustments and an additional \$1 per carton of 200 cigarettes. Inventories held by manufacturers, importers, wholesalers, and retailers will be subject to an inventory tax of \$0.011468 per cigarette. Revenue raised is projected at \$1.47 billion over five years.

Cannabis taxation - Budget 2018 proposes an excise duty framework for cannabis products. A flat rate duty will be imposed on a dollar-per-gram basis, or dollar per-seed/seedling. Revenue raised projected at \$690 million over five years.

Expenses: Program spending will grow at a slightly slower pace than nominal GDP bringing down the spending-GDP ratio to 13.6 per cent in FY22/23 from 14.2 per cent in FY17/18. During the five-year plan spending on persons is projected to rise 23.0 per cent, led by a 31.6 per cent rise in elderly benefits, which is driven by demographic changes. Transfers to other governments lags nominal GDP growth each year, increasing 20.1 per cent over the five-year period.

Real per capita program-spending slides each year from a near-term high at \$6,362 per person in 2002 dollars in FY17/18 to \$6,259 in FY22/23. During the recession in 2009, real per capita program-spending hit \$6,452 in constant dollars.

Servicing the public debt is slated to increase at a faster pace due to higher interest rates and higher debt. Public debt charges are projected to increase 5.5 per cent annually through FY22/23 with a near nine per cent increase in FY19/20.

Notable spending measures:

.Parental Leave – \$1.2 billion to create a new five-week “use-it-or-lose-it” incentive for new fathers to take parental leave. The Employment Insurance Parental Sharing Benefit would increase EI parental leave to a maximum of 40 weeks in cases where the second parent agrees to take at least five weeks off. The benefit covers 55 per cent of the second parent’s income for as much as 12 months.

Cyber Security - \$508 million over five years to improve cyber security. Funds will be used primarily by the Communications Security Establishment to create a new Canadian Centre for Cyber Security, as well as a National Cybercrime Coordination Unit for the RCMP.

Science, Research, and Innovation - \$3.2 billion research councils, new equipment for researchers, and improving access to big data for researchers; \$700 million for Improving innovation and skills through the Industrial Research Assistance Program; \$700 million for Federal Economic Development Agency for Southern Ontario; \$540 million to the National Research Council; \$449 million for more summer job placements through the Youth Employment Strategy.

Indigenous - \$1.4 billion for Indigenous children; \$1.5 billion for health care; \$300 million to improve skills and employment training program.

Equality - \$2 billion for Feminist International Assistance Policy; \$100 million supporting community women’s organization. The budget proposes pay-equity legislation for employees in the federal government and federal-regulated sectors. In Budget 2018, no budget decision was taken without being informed by Gender-based Analysis Plus (GBA+) and GBA+ legislation will be introduced to make gender budgeting a permanent part of the federal budget-making process. Budget 2018 proposes to invest \$6.7 billion over five years, starting in FY18/19, for Statistics Canada to create a new Centre for Gender, Diversity and Inclusion Statistics, a Centre that will act as GBA+ data hub to support future, evidence-based policy development and decision-making. New Women Entrepreneurship Strategy encompassed in development agencies such as the Western Economic Diversification Canada Fund.

Program Expense Outlook, billions of dollars

	Actual Projection						
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2021-22
Major transfers to persons							
Elderly benefits	48.2	50.9	53.6	56.7	60.1	63.5	67
El benefits	20.7	20.1	20.7	21.7	22.5	23.3	24
Children's benefit	22.1	23.4	23.7	23.9	24.3	24.7	25.1
Total	90.9	94.4	98.1	102.3	106.8	111.5	116.1
Major transfers to other government							
Canada Health Transfer	36.1	37.1	38.6	40.2	41.7	43.3	44.9
Canada Social Transfer	13.3	13.7	14.2	14.6	15	15.5	15.9
Equalization	17.9	18.3	19	19.8	20.5	21.3	22.1
Territorial Formula Financing	3.6	3.7	3.8	3.9	4	4.1	4.2
Gas Tax Fund	2.1	2.1	2.2	2.2	2.2	2.3	2.3
Home care and mental health	0	0.3	0.9	1.1	1.3	1.5	1.2
Other fiscal arrangements	-4.3	-4.7	-4.9	-5.3	-5.4	-5.6	-5.9
Total	68.7	70.5	73.6	76.5	79.3	82.3	84.7
Direct program expenses							
Transfer payments	41.6	44.1	47.5	50.4	52.4	52	52
Operating expenses	86	95.6	93.1	92.3	92.9	94.9	97.3
Total	127.6	139.7	140.5	142.7	145.3	147	149.3
Total program expenses	287.2	304.6	312.2	321.5	331.5	340.7	350.1
Per cent of GDP							
Major transfers to persons	4.5	4.4	4.4	4.4	4.5	4.5	4.5
Major transfers to government	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Direct program expenses	6.3	6.5	6.3	6.2	6.1	5.9	5.8
Total program expenses	14.1	14.2	14	13.9	13.8	13.7	13.6

Environment - \$1.3 billion over five years to expand protected areas and help endangered and threatened species; comprised of \$500 million from the federal government to create a new \$1 billion Nature Fund in partnership with corporate, not-for-profit, provincial, territorial and other partners, \$167.4 million to preserve and recover endangered whale species.

Significant Measures:

Financial Services: Budget 2018 proposes a review of the Canadian Payments Acts to implement a new framework for the oversight of retail payments. Budget 2018 also proposes to introduce legislative amendments that would implement a resolution framework for Canada's systemically important Finan-

cial Market Infrastructures (FMIs) such as the Large-Value Transfer System, CDSX for securities trading, the Canadian Derivatives Clearing Services for derivative transactions among others. The objectives of the FMI resolution regime are to maintain the critical services of the FMI, promote financial stability, and reduce potential public exposure to loss.

Provides credit unions, and other regulated deposit-taking institutions, the flexibility to use generic bank terms, subject to disclosure.

Infrastructure: Spending profile is altered by pushing \$2.4 billion into future years, i.e. beyond the fiscal plan.

National Pharmacare: Creation of advisory council on implementing national pharmacare to be chaired by Eric Hoskins, former health minister of Ontario, tasked with performing an economic assessment and running consultations on the feasibility of a national pharmacare program.

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