



Federal Budget 2021 Review

April 19, 2021

The big spend: Something for everyone

The federal government tabled a wide-ranging budget Monday (April 19) that sprinkled funding across the Canadian landscape with a focus on an inclusive longer-term recovery plan to support women and families in the labour market through childcare, support for marginalized groups, while also providing ongoing support to navigate the immediate challenges of the COVID-19 pandemic. There were no major tax hikes. Not surprisingly, the federal government projects large fiscal deficits and a ballooning federal debt because of the pandemic and new spending initiatives. In line with the Fall Economic Statement (FES), net new spending over the three- year fiscal period came in at \$101.4 billion, which as expected was near the upper end of the range noted at the time.

At a high level, the government projects a deficit through 2025-26, with the 2020/21 fiscal year at \$354.1 billion and a sharp decline to a still large deficit of \$154.7 billion in 2021/22. The deficit shrinks to \$30.7 billion in 2025/26 but this compares to a deficit of \$39.4 billion in 2019/20. As a share of gross domestic product, the deficit declines from 16.1 per cent in 2020/21 to 1.1 per cent in 2025/26.

After an 11 per cent drop in 2020/21 revenue is forecast to rise 20 per cent in 2021/22, six per cent in 22/23 and hover near five per cent thereafter. Wind down of COVID-19 programs cut program expenses 23 per cent in 2021/22 after an 81 per cent increase the previous year, followed by growth of about 1.5 per cent thereafter. Expense growth will depend on the pandemic evolution.

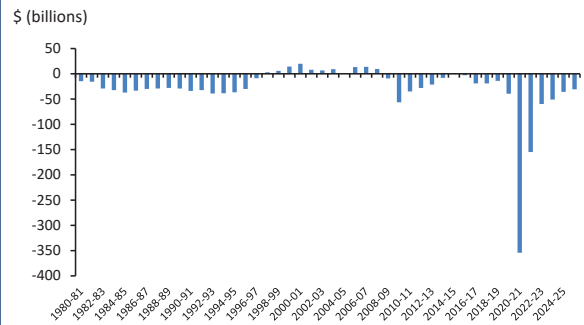
The federal debt is projected to increase through the five- year planning period but at a decelerating pace given the path of deficits. As a share of GDP, the ratio peaks in 2021/22 at 51.2 per cent before declining to 49.2 per cent by the end of the horizon.

Economy

While deficits balloon, a stronger than expected economy is helping to suppress deficits via higher revenues. The projected deficit is lower than that the FES scenario with a \$100 billion stimulus plan.

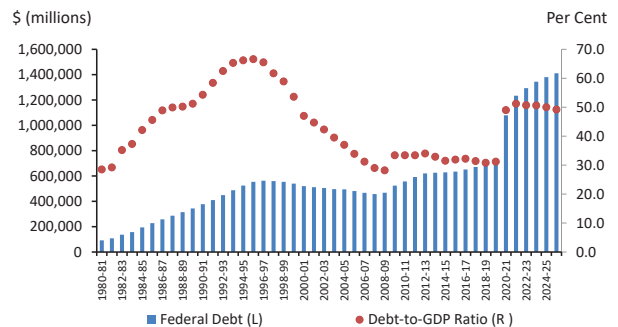
Compared to the Fall Economic Statement, the nominal GDP forecast which is the broadest measure

Deficit narrows as pandemic measures wind down



Source: Federal Budget 2021, Fiscal Reference Tables, Central 1

Federal debt balloons, projected to ease

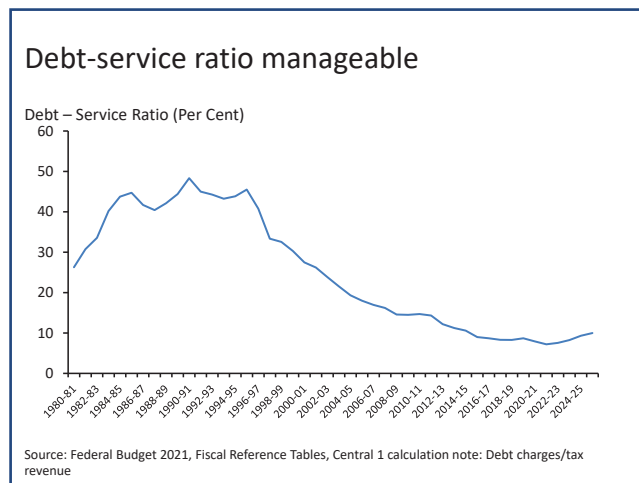


Source: Federal Budget 2021, Fiscal Reference Tables, Central 1

of the tax base, is forecast to rise 9.3 per cent this year (compared to 7.0 per cent in the FES) as the economy recovers more quickly than anticipated due to vaccine deployment, strength in the U.S. economy and commodity prices. Growth remains faster than projected in the FES in 2022 before slipping below on a growth basis but nominal GDP is about three per cent above the FES through the projection period. Broadly, the government is banking on economic growth to keep deficits and debt in check, and its economic assumptions look reasonable if not a bit cautious given the current environment.

Fiscal sustainability

Undoubtedly the fiscal picture has been blown up by the pandemic. Nominal deficits and debt are unprecedented. That said, it looks to remain manageable. The deficit will unwind with the pandemic measures and the government aims to have small deficit relative to GDP in line with 2016/17 by mid-



decade (a fiscal anchor if you will). Meanwhile, Debt to GDP while elevated remains well below the mid-1990s and importantly, declining to below 50 per cent. Higher interest rates do put pressure on financing costs of debt, but even here the debt-service-ratio remains manageable at about 10 per cent, and consistent with 2014/15.

Key Policy Measures

Budget announcements were wide-ranging, with spending spread across the economy, including funding to support the economy through extension of current pandemic programs, funding to help businesses invest in digitization, a massive childcare programs, housing, climate, and supporting marginalized groups.

Major policy announcements included the following:

- Substantial **childcare investment** was the main plank of the budget as a driver to support women in the labour market. Up to \$30 billion funding is proposed over the next 5 years, and \$8.3 billion ongoing for Early Learning and Child Care and Indigenous Early Learning and Child Care. Funding is proposed to increase from \$4.9 billion in 2022-2023 to \$8.3 billion by 2025-26 on top of current funding levels to lower the cost of childcare. Ultimately, the goal is to move towards a \$10/day childcare and \$9 billion per year in ongoing funding.
- On the pandemic front, support of current economic support programs was proposed. Specifically, the current **wage subsidy** (set to expire in June) will be extended to September 25, 2021 but the subsidy rate will decrease gradually beginning July 4, 2021 at a cost of \$10.1 billion.

- The **Canada Emergency Rent Subsidy and Lockdown Support** will also be extended to September 25, 2021, albeit at a decreased rate beginning July 4, 2021.
- Further supporting business is the **Canada Recovery Hiring Program**. This program offset additional costs in re-open, supporting wage increases, hours worked or increased hiring. This support would only be available for active employees and will be available from June 6 to November 20, 2021. Employers would apply for this or the wage subsidy program, whichever is higher.
- Provision of an additional 12 weeks of the **Canada Recovery Benefit** to a maximum benefit of 50 weeks. The first 4 weeks is \$500/week with remaining at \$300 per week. All new claims after July 17, 2021 would be at the \$300 rate through September 25/2021.
- A one-time **OAS** payment of \$500 in August 2021 will be provided to those 75 or older as of June 2022, although it is unclear exactly the rationale for this payment. OAS is also proposed to be increased 10 per cent in July 2022 for those 75 and older.
- **Enhanced Canada Workers Benefit**. The government would raise the income level at which the benefit starts being reduced to \$22,944 for single individuals without children and to \$26,177 for families.
- **The Canada Student Grant**, which was doubled in 2020/2021, will be extended until July of 2023 to provide support for in need students.
- There were modest announcements for **housing**, with \$2.5 billion set aside for proposals largely to support affordable housing via CMHC and homelessness.
- There was little in the way of new taxation, with key measures being **tax on luxury products** including cars and personal, yachts. The government intends to implement **a national one per cent tax on non-**

resident, non-Canadian owned properties that are vacant or underused. That said, this will do little to slow the current market. A Digital Services Tax at a rate of three percent on revenue from digital services that rely on data and content contributions from Canadian users.

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Federal budget 2021, Key Economic Indicators

	2020	2021	2022	2023	2024	2025
Real GDP	-5.4	5.8	4.0	2.1	1.9	1.8
GDP Deflator	0.8	3.3	2.0	2.0	2.1	2.0
Nominal GDP	-4.6	9.3	6.0	4.0	4.0	3.8
Nominal GDP (level, \$billions)	2,204	2,408	2,553	2,657	2,763	2,869
Fall Economic Statement						
Real GDP	-5.5	4.8	3.2	2.3	2.1	1.9
GDP Deflator	0.1	2.2	2.0	2.0	2.1	2.1
Nominal GDP	-5.4	7.0	5.3	4.4	4.3	4.0

Fiscal Outlook (\$ billions)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Budgetary Balance	-39.4	-354.2	-154.7	-59.7	-51	-35.8	-30.7
Revenue	334.1	296.2	355.1	377.9	396.4	417.9	437.7
Program Expenses	338.5	614.5	475.6	403	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	362.9	634.9	497.7	428.7	439.7	449.8	466
Actuarial losses	-10.6	-15.4	-12.2	-8.9	-7.7	-3.9	-2.4
Federal Debt	721.4	1079	1233.8	1293.5	1344.5	1380.3	1411
Debt to GDP (%)	31.2	49.0	51.2	50.7	50.6	50.0	49.2