



Federal Budget 2022 Review

April 8, 2022

The Federal government tabled a modest spending Budget 2022 this week with a focus on housing, the green economy, a renewed focus on military spending, health and a number of other measures. New program measures announced in the Budget reached nearly \$60 billion through 2026/27 period, although net new spending came in about \$30 billion, reflecting partial offsets of new taxation measures (\$16 billion) and a planned strategic policy review of government to seek savings.

Elevated budget deficits continue but are smaller than previously expected and projected to be nearly eliminated by 2026/27. Strength in the economy and inflation have generated a stronger nominal GDP and revenue profile. The government's nominal GDP estimate for 2021 came in at 13.1 per cent with a projection of 7.7 per cent this year. The budget deficit is projected at \$113.8 billion for fiscal year (FY) 2021-22 (compared to \$145B in the fall statement), declining to \$52.8 billion in 22/23 (\$58.5B), \$39.9B in 23/24 (\$43.9B). In 2020/21, the deficit was \$328 billion as expenses are in decline with roll off or elimination of pandemic programs. Deficits decline through 2026/27 when the deficit falls to 8.4 billion.

The government is showing some restraint, opting not to spend the entirety of the revenue windfall. The deficit to GDP ratio comes in at a manageable 2.0 per cent in 22/23 from 4.6 per cent in 21/22. By 2026/27 this declines to 0.3 per cent. As a share of GDP, debt is projected to shrink each year of the projection from 46.5 per cent in FY 2021-22, to 45.1 per cent in 22/23 toward 41.5% in 26/27. Elimination of the deficit and declining debt- to- GDP ratio is in line with the government's fiscal anchor. That said, debt- to- GDP was closer to 30 per cent before the pandemic.

Like any budget there are risks to the projections. Much of the revenue lift has come from the stronger economic recovery and inflation lift to nominal GDP. The government is incorporating real GDP of 3.9 per cent in 2022 and 3.1 per cent in 2023, which will depend on how consumers adapt to rapid hikes in interest rates from the Bank of Canada. That said, its GDP deflators of 3.7 per cent this year and 1.7 per cent next could prove to be low given global commodity price conditions and Russia- Ukraine conflict present upside for revenue.

Key Budget Announcements

Not surprisingly, housing was a key component of the budget although measure won't do much to solve the affordability crisis. The government allocated \$10.2 billion in additional spending towards an affordability plank. Key measures included \$4 billion over five years towards a Housing Accelerator Fund through CMHC to create 100,000 units of housing. Other measures including funding for the Rapid Housing Initiative for affordable housing, as well as measures for rental housing. Supply policies are much needed given current shortages but insufficient.

Meanwhile, the government followed through on its plans for vehicles to support buyers trying to enter the market. The **Tax Free First Home Savings Account** where homebuyers can save up to \$40,000, provides a new savings vehicle. Contributions are tax deductible, and withdrawals including investment income is tax free. The First- Time Home Buyers' Tax Credit was doubled to \$10,000. Additionally, the **Multi- Generational Home Tax Credit** (up to \$7,500) to support secondary suite construction for seniors or adults with disabilities.

Federal Budget Summary (\$ billions)							
	2020/21	21/22	21/22	22/23	23/24	24/25	26/27
Budgetary Revenues	316.4	394.4	408.4	429.5	450.8	475.1	496
Program Expenses	608.5	473	425.4	430.4	439.2	453.1	463.3
Public Debt Charges	20.4	24.9	26.9	32.9	37	39.8	42.9
Net actuarial losses	-15.3	-10.3	-8.9	-6.1	-2.4	-0.8	1.8
Budgetary Balance	-327.8	-113.8	-52.8	-39.9	-27.8	-18.6	-8.4
Deficit -to - GDP (%)	14.9	4.6	2	1.4	0.9	0.6	0.3
Debt to GDP (%)	47.5	46.5	45.1	44.5	43.8	42.8	41.5

Source: Budget 2022

In other housing policies, the government announced a ban on foreign purchasing for two years. It is unclear whether this will have much of an effect, as foreign ownership has not been shown to be a huge driver of demand in B.C. since inception. The government is also looking to tighten up corporate purchasers of housing via tax treatment, ensure properties flipped within 12 months is treated as business income, and apply GST/HST on all assignment sales as of May 7, 2022.

On economic growth and innovation, the government allocated \$6.3 billion. Investments were announced to support climate initiatives and a Canada Growth Fund. Meanwhile phase out of the small business tax rate of 15 per cent will be more gradual and fully phased out at \$50 million taxable capital rather than \$15 million. Funds were earmarked for the mining sector. Nearly \$600 million was focused on supporting supply chains. A smattering of funds were also allocated to indigenous tourism, with rail and transportation receiving significant bumps.

The green economy was allocated \$12 billion. This included \$2.6 billion for the Investment Tax Credit for Carbon Capture, Utilization, and Storage, \$2 billion for Expanding the Low Carbon Economy Fund, and other measures.

Driven by events in Ukraine, the government allocated \$9.4 billion to **defense spending**, including \$8 billion to boost military.

On the **taxation** front, the government announced that banks and life insurers will pay a one-time 15 per cent tax on taxable income over \$1 billion for 2021, payable over five years and yield \$4 billion. Income tax for these groups rise 1.5 per cent on taxable income above \$100 million (\$2 billion over 5 years). The government is also looking to raise taxes going forward for high income earners (\$400,000+) and focus on tax avoidance. The combination of tax fairness measures lift revenue by nearly \$16 billion through 2026/27.

Healthcare was boosted by \$7.1 billion, reflecting commitments to dental and a hat tip to the Liberal-NDP Confidence and Supply agreement. \$5.3 billion is provided over 5 years starting with under 12 year olds in 2022, and expanded to under 18 year olds, seniors and those with disabilities in 2023, before more widespread implementation and restricted by income.

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