



Federal Budget 2023 Review

March 29, 2023

More spending on tap, but deficits runneth over

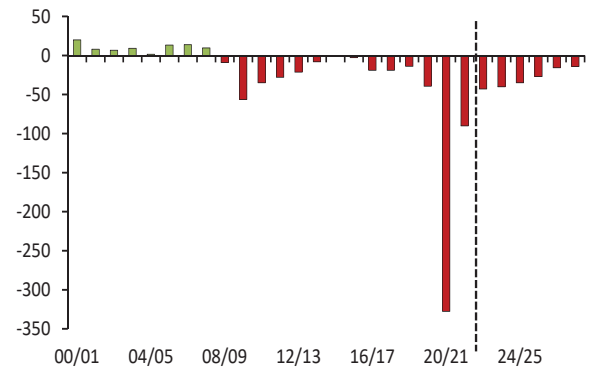
Canada's Federal Budget 2023 can be summarized as one of more spending and larger deficits despite the constraints of more challenging economic conditions. Indeed, the federal government has taken a path of least resistance, allocating more spending on the clean economy, measures to cushion the blow of higher cost of living on Canadian families, allocating more to health spending. There were limited new tax measures, but the budget arguably lacked an economic vision or growth lens, while housing there was little to support a deepening housing crisis despite record levels of immigration.

The primary story for the budget is a ballooning of the deficit that exceeds both year-ago projections from Budget 2022 and the recent Fall Economic Statement. There is no end in sight to the red ink, although the government has pointed to progress with respect to its fiscal anchors. On the taxation front there was little news.

The federal deficit is set to reach \$43 billion in the current fiscal year compared to \$36.4 billion in the Fall Economic Statement (FES) for 2022/23. In the coming fiscal year, the deficit is projected at \$40.1 billion and nearly \$10 billion more than the FES. This is down from the near \$330 billion in 2019/20, but in line with the bloated figures from 2019/20 which included the early hit of the pandemic. Expenses are considerably higher than seen in the pre-covid era by more than \$100 billion per year, but revenues have also marched higher on inflation and expansion in the tax base but not to the same pace. Expenses are higher even as emergency COVID-measures have rolled off. Relatively large deficits continue through the projection period with a \$26.8 billion deficit in 2025/26 and whittled down only

Canada budget deficits to persist

Budgetary Balance, \$ billion



Source: Canada Budget 2023

to \$14 billion in 2027/28. Relative to GDP, deficits remain above 1 per cent through 2024/25 before trending towards 0.5 per cent.

Higher deficits reflect a combination of more program expenditures and weaker projections for the economy. The Budget can be distilled to clean energy and affordability. Based on the change in deficit from the FES, about 2/3 of the net increase reflects new programs. Budget 2023 adds \$43 billion in new measures over planning period, with 13 billion in 2022/23 and 4.8 billion in 2023/24. After a dip in 2022/23 as temporary measures rolled off, program expenses climb 2.4 per cent in 2023/24 and 3.7 per cent in 2024/25. Public debt charges climb 27 per cent in 2023/24, with growth decelerating thereafter.

Among measures announced:

Clean energy received a big lift in support as the government response to the U.S. Inflation Reduction

Federal Budget Summary (\$ billions)

	21/22	22/23	23/24	24/25	26/27	26/27	27/28
Budgetary Revenues	413.3	437.3	456.8	478.5	498.4	521.8	542.8
Program Expenses	468.8	435.9	446.6	463.3	475.9	489.2	505.4
Public Debt Charges	24.5	34.5	43.9	46	46.6	48.3	50.3
Net actuarial losses	-10.2	-9.8	-6.4	-4.2	-2.8	0	-1.1
Budgetary Balance	-90.2	-42.9	-40.1	-35	-26.9	-15.7	-14
Federal Debt	1,134.5	1,180.7	1,220.8	1,255.8	1,282.7	1,298.4	1,312.5
Deficit -to - GDP (%)	3.6	1.5	1.4	1.2	0.9	0.5	0.4
Debt to GDP (%)	45.2	42.4	43.5	43.2	42.2	41.1	39.9

Source: Budget 2023

Act, albeit at risk of picking a winning industry. Net impacts of investments came to \$21 billion over the fiscal planning period, led by investment tax credits for clean electricity (solar, abated natural gas systems, wave, tidal, and other systems) to the tune of \$6.3 billion projected impact. Additionally, tax credits for clean tech machinery (\$4.5 billion), and hydrogen (\$5.5 billion) were the other big drivers. Fiscal impacts largely start in 2024/25.

Affordability-themed program announcement came in at \$5.24 billion from 2022/23 – 2027/28. The budget focused on affordability and a key plank is one-time Grocery Rebate which is costed at \$2.475 billion for 2022/23. Delivered through GST credits, couples with two children could receive up to \$467 relief, with couples without kids potentially receiving \$234, and seniors \$225 on average. While modest, this provides some relief after seeing food prices rise 10 per cent over the past year.

Housing in cities took a back seat despite the massive flow of immigrants into the country, although it can be argued that housing is more of a provincial issue. The only measures included reallocation of funding from the National Housing Co-Investment Fund's repair stream to its new construction stream, as needed. \$4 billion is proposed to be committed to indigenous housing over 7 years. The government announced that the Tax-Free First Home Savings Account would be available as of April 1, 2023. Announced a year ago, the registered investment plan would allow \$40,000 to be saved on a tax free basis.

Health measures partially dovetail with the affordability theme. Specifically, \$13 billion is allocated over years starting in 2023/24, with \$4.4 billion ongoing to implement the Canadian Dental Care Plan. Already in place for eligible parent for children, *the plan will provide dental coverage for uninsured Canadians with annual family income of less than \$90,000, with no co-pays for those with family incomes under \$70,000.* Net impact on the Budget was \$7.3 billion after previous provisions.

Economic assumptions underlying the Budget projection is for a slowdown this year, including prospects of a mild recession during the first three quarters of the year. By convention, the government uses private sector forecasts as a basis for planning. Federal government budget assumptions is for a slowing in economic growth and a sharper downgrade of nominal GDP which is a proxy for the tax base. Projected real GDP grows at only 0.3 per cent in 2023 and 1.5 per cent in 2024 before moving to 2 per cent thereafter. Nominal GDP is projected at only 0.9 per cent for 2023 compared to 2.6 per cent in the fiscal

update reflecting lower GDP inflation than previously projected. Revenue is projected to rise 4.5 per cent in 2022/23 and 4.7 per cent in 2023/24, with more weakness in corporate income tax revenue. There is considerable uncertainty for the economy, and downside risk has emerged since February due to U.S. banking sector woes suggesting little upside risk for revenues.

Federal debt climbs through the fiscal planning period to the tune of 4 per cent in 2022/23 and 3.3 per cent in 2023/24 when it peaks as a share of GDP. This declines thereafter but stays near 40 per cent through the planning period. Essentially given deficits, the government is looking for the economy to drive the fiscal anchor of declining debt to GDP ratios.

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