



Budget 2022: More fiscal room and some more spending



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April 7, 2022

KEY TAKEAWAYS

- **Improved Economic Outlook:** The average private-sector forecast for nominal GDP — the broadest measure of the government’s tax base — was revised up by an average of \$47 billion or 1.6% over the projection (see Table 1 below).

This upgrade largely reflects higher-than-expected GDP inflation. Interestingly, price pressures are pushing nominal GDP *above* its pre-pandemic trend, even as real GDP (i.e., “inflation-adjusted” output) lags behind its pre-pandemic trend. The outlook for commodity prices has improved, which benefits Canada’s economy. Interest rates are now expected to rise faster as the Bank of Canada attempts to control inflation.

- **Spending:** Even before Budget 2022, PBO [analysis](#) estimated that since the pandemic began, the government has spent, or plans to spend, \$542 billion in new measures over 2019-20 to 2026-27. Two-thirds (\$365 billion) of that spending was due to the COVID-19 response plan (Chart 1). Budget 2021 stimulus added \$69 billion in spending, while “non-pandemic” spending piled on \$107 billion (or 20% of the prior total).

With the Liberal-NDP supply and confidence agreement, spending was widely expected to continue to climb. Budget 2022 adds roughly \$35 billion more over six years on net (i.e., after accounting for new tax measures, and spending reviews, see Table 2 and Chart 2). The biggest areas of focus are the environment, Indigenous reconciliation, housing, defense and health care.

Given that \$86 billion in new fiscal room was available, I had expected even more spending and bigger ticket items. I estimate that about 40% of the fiscal room was allocated to new measures, which appears to be less than in previous budgets.

This budget also announced a modest spending review that aims to free up about \$3 billion annually.



- **Fiscal Guardrails on Spending:** In Fall 2020, the government introduced the concept of [fiscal guardrails](#), as illustrated by three labour market measures: the employment rate; hours worked; and unemployment. These guardrails were originally intended as data-driven triggers that would indicate when temporary stimulus spending was no longer needed. Chart 3 shows all these indicators have now recovered back to pre-pandemic levels.
- **Revenue Measures:** The government will raise taxes on finance and insurance companies in two ways. First, there's a one-time 15% levy for the 2021 tax year for those with taxable income over \$1 billion payable over five years. Second, is a *permanent* increase in the corporate income tax rate from 15% to 16.5% for these same firms with taxable income over \$100 million, which likely extends the reach beyond the "Big 6" financial institutions in Canada.
- **Fiscal Outlook:** Despite increased spending, the fiscal boost from higher inflation has improved the fiscal outlook relative to the last update (see "The Fiscal Charts").
 - **Deficits:** As a share of GDP, deficits are expected to shrink from 4.6% in 2021-22 down to 0.3% in 2026-27. The government doesn't plan to balance the books by the end of the projection, but in an alternative "moderate impact" scenario, their bottom line gets to within \$3 billion of balance.
 - **Debt:** As a share of GDP, federal debt ratio is expected to fall from 46.5% in 2021-22 to 41.5% in 2026-27.
- **Fiscal Anchors and Long-run Sustainability:** The government re-affirmed its fiscal anchor of unwinding COVID-related deficits and reducing the federal debt ratio over the medium term. Finance Canada's long-term projections show the status quo debt ratio is on track to decline steadily over the next 30 years. However, PBO [finds](#) that, while the federal government may be on a fiscally sustainable path, the provinces collectively are not. The so-called vertical fiscal imbalance will be a growing issue in the decades ahead.
- **The Growth Imperative:** Chart 4 shows that the government has acknowledged the scale of the work ahead for Canada's economy. A recent OECD forecast looking out to 2060, has Canada's real GDP per capita growth as the slowest among its 38 members.



Table 1: The average private-sector forecast was revised up

Nominal GDP (\$, Billions)	2022	2023	2024	2025	2026	2022-2026 Average
<i>Budget 2022 (April 2022)</i>	2,689	2,819	2,929	3,040	3,153	2,926
<i>Economic and Fiscal Update (Dec 2021)</i>	2,656	2,771	2,879	2,987	3,100	2,879
<i>Difference</i>	33	48	50	53	53	47

Sources: Finance Canada; Canadian Chamber of Commerce

Chart 1: Over \$100 billion of new spending announced before Budget 2022 was not pandemic-related

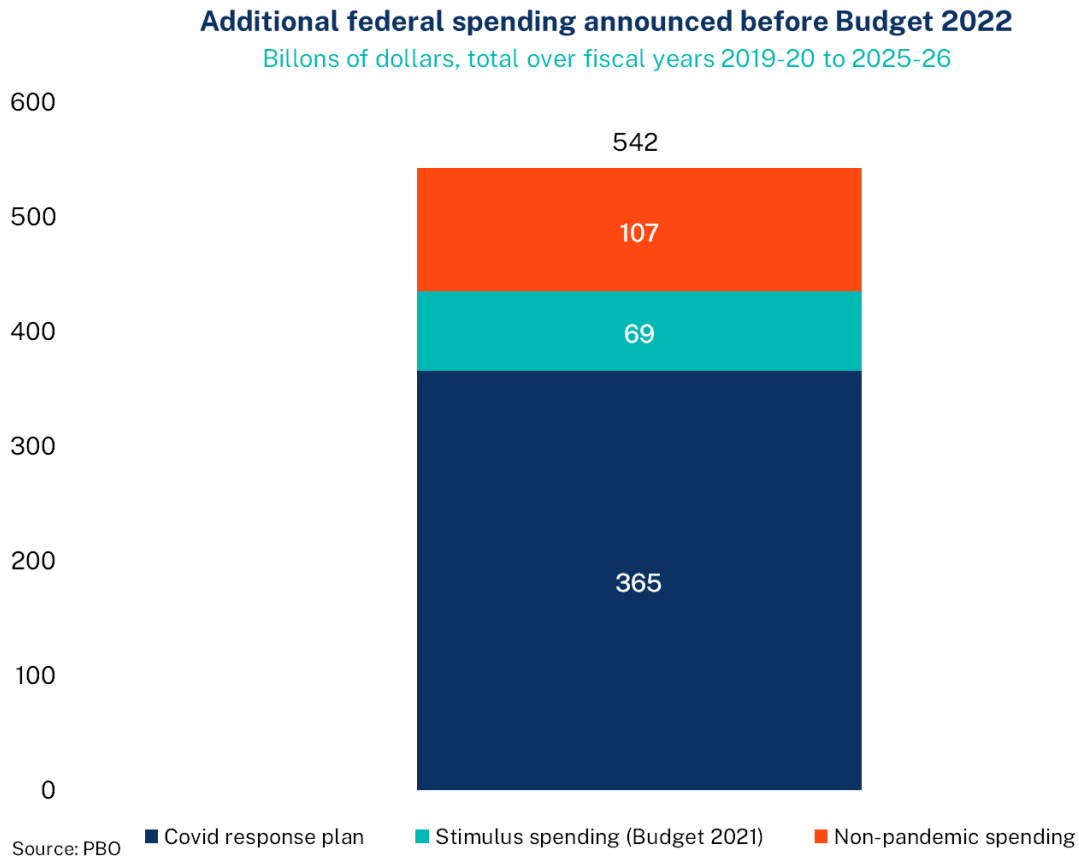




Table 2: New fiscal room and net new policy measures

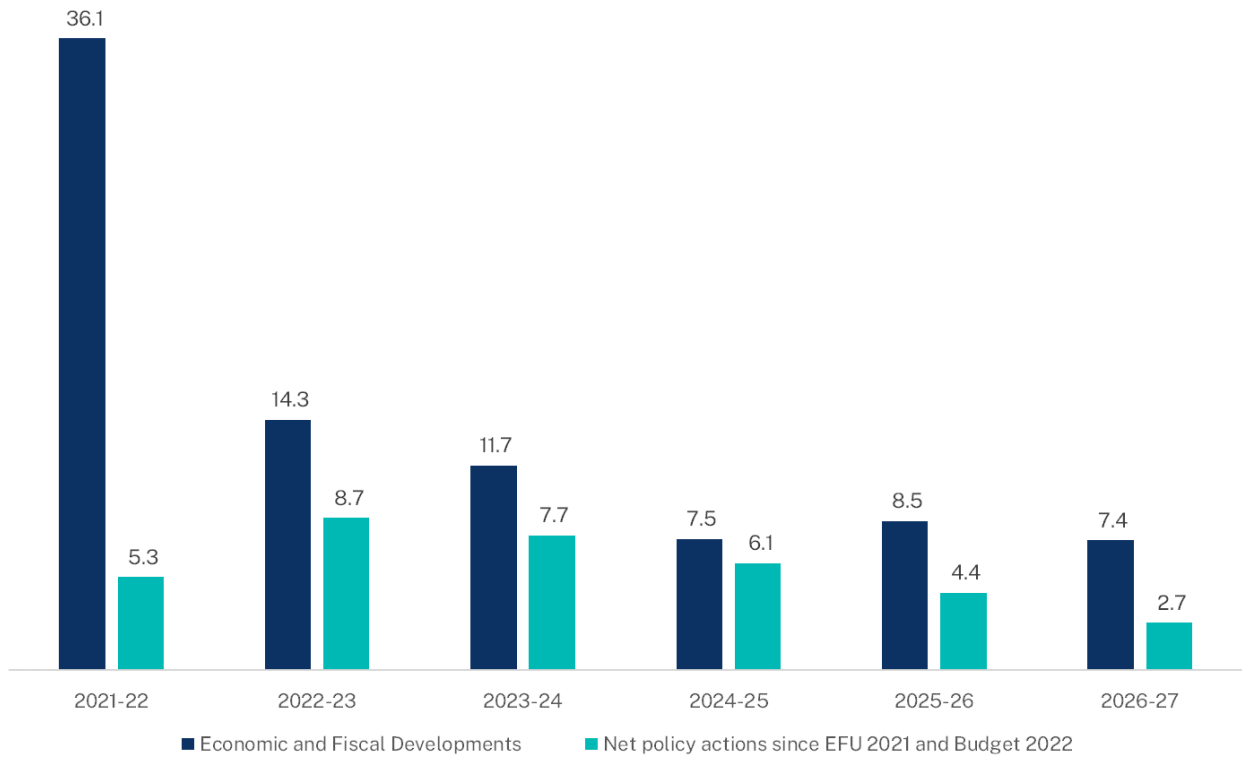
Billions of dollars	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	FY2021-2026 Total
<i>Economic and Fiscal Developments</i>	36.1	14.3	11.7	7.5	8.5	7.4	85.5
<i>Net policy actions since EFU 2021 and Budget 2022</i>	5.3	8.7	7.7	6.1	4.4	2.7	34.9

Sources: Finance Canada; Canadian Chamber of Commerce

Chart 2: Budget 2022 received a significant fiscal boost from higher inflation, new spending increased, but did not fully exhaust new fiscal room

Fiscal Room and Net New Measures Since EFU 2021

Billions of dollars



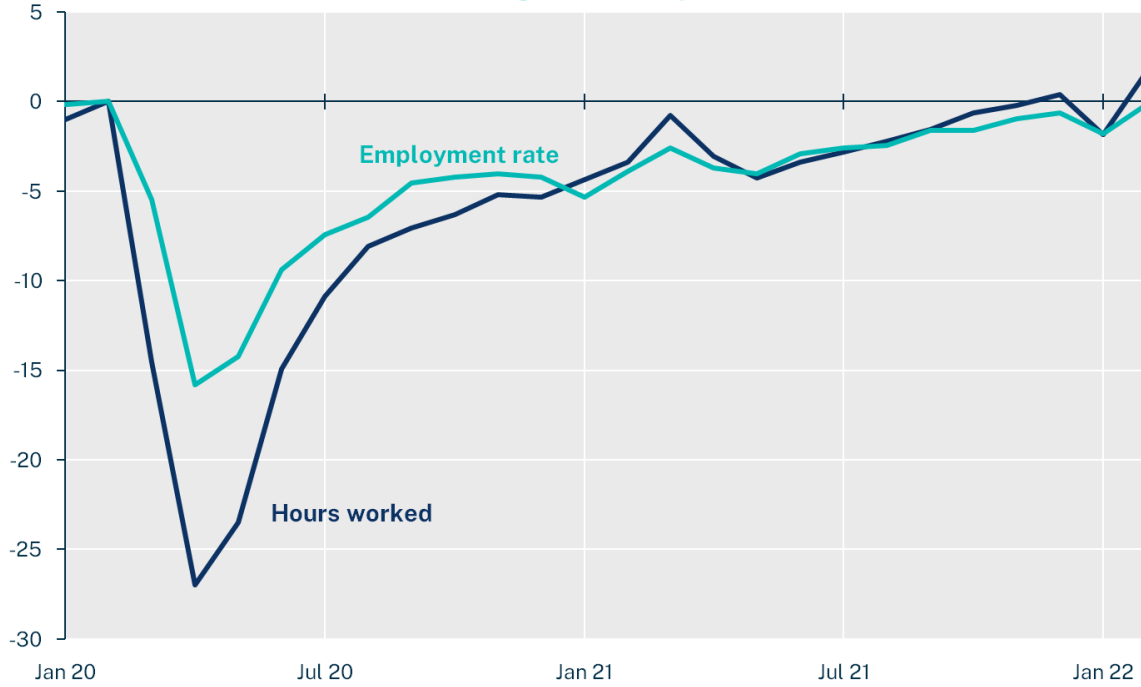
Sources: Finance Canada; Canadian Chamber of Commerce



Chart 3: The government's fiscal guardrails fully recovered before Budget 2022

Labour market indicators

% change vs. February 2020

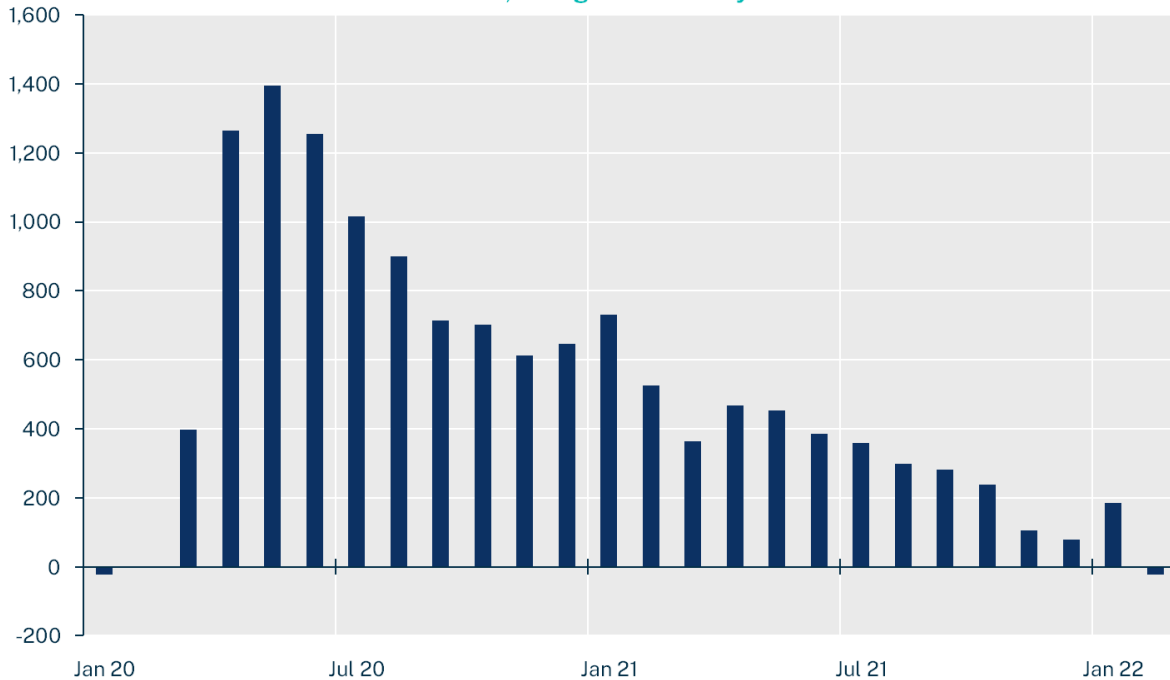


Source: Statistics Canada

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Unemployment

Thousands, change vs. February 2020



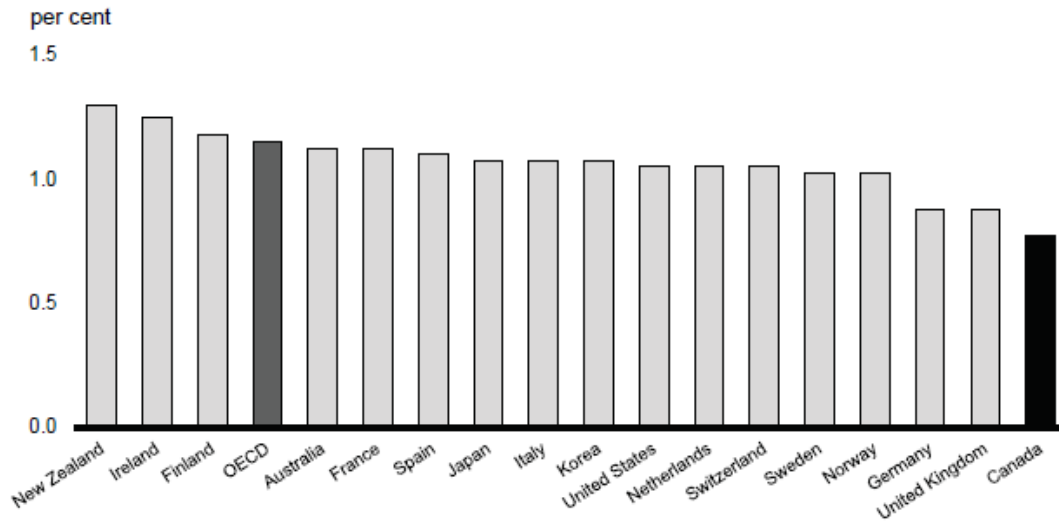
Source: Statistics Canada

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Chart 4: Canada's growth challenge: The OECD forecasts Canada will have the slowest real GDP per capita growth among its member countries over the next four decades

Average Potential Annual Growth in Real GDP per capita, Selected OECD Countries, 2020-2060

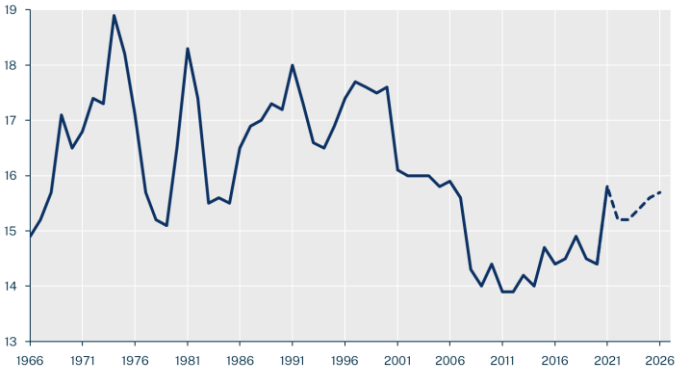


Note: The 2020-2060 annual growth rate reflects the weighted average of growth for the 2020-30 and 2030-60 periods. Sources: OECD (2021), "The Long Game: Fiscal Outlooks to 2060 Underline Need for Structural Reform"; Department of Finance Canada calculations.



The Fiscal Charts

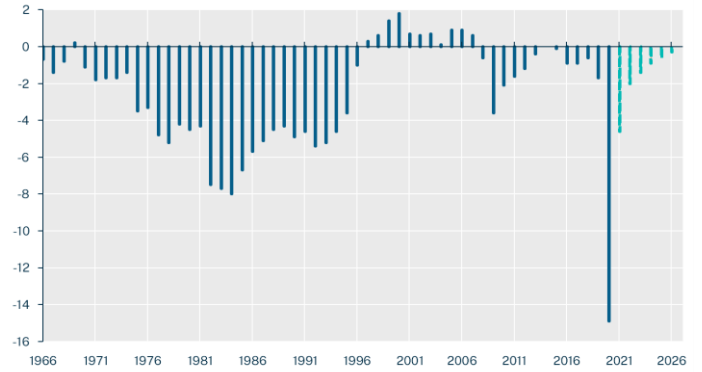
Federal Revenue
% of GDP



Sources: Finance Canada; Canadian Chamber of Commerce Business Data Lab

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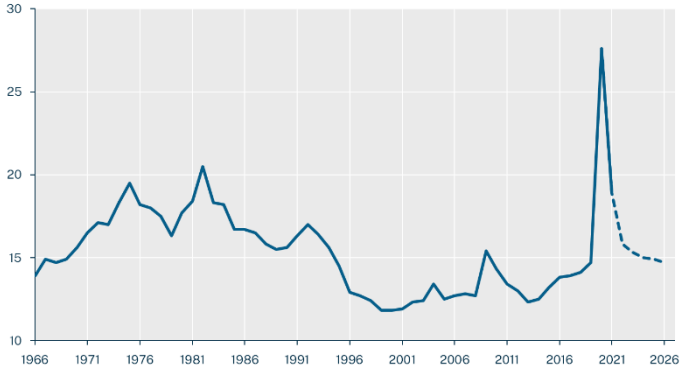
Federal Budget Balance
% of GDP



Sources: Finance Canada; Canadian Chamber of Commerce Business Data Lab

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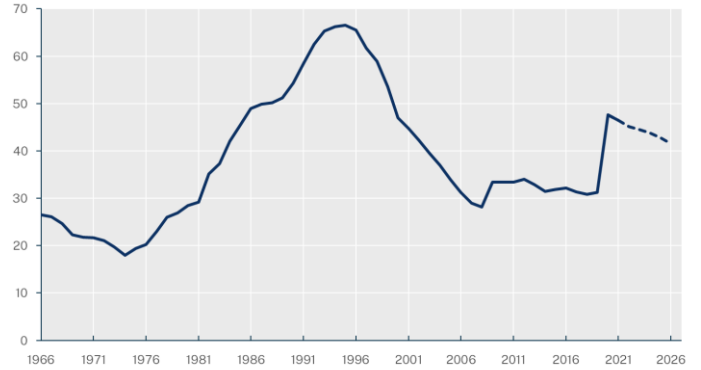
Federal Program Spending
% of GDP



Sources: Finance Canada; Canadian Chamber of Commerce Business Data Lab

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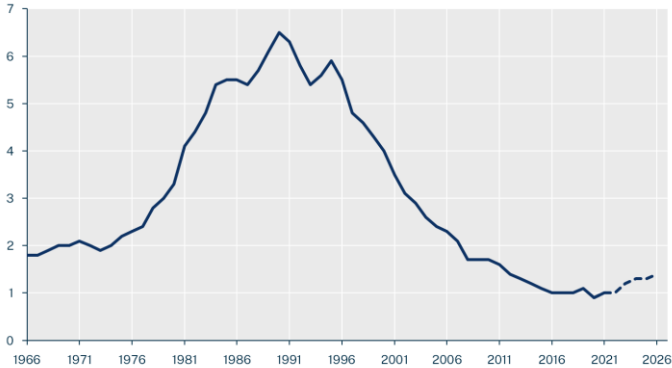
Federal Debt
% of GDP



Sources: Finance Canada; Canadian Chamber of Commerce Business Data Lab

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Federal Public Debt Charges
% of GDP



Sources: Finance Canada; Canadian Chamber of Commerce Business Data Lab

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