

## EDELMAN UPDATE

# 2023 FEDERAL BUDGET

MARCH 28, 2023

## SUMMARY

Finance Minister and Deputy Prime Minister Chrystia Freeland tabled Canada's 2023 Federal Budget, titled *A Made-in-Canada Plan: Strong Middle Class, Affordable Economy, Healthy Future*.

Today's Budget 2023 details \$497B in spending for 2023 with a deficit of \$40.1B, an increase from a forecast of \$30.6B in last fall's fiscal update. The government is no longer forecasting a return to balance by 2028, instead detailing \$70B in gross new spending the next five years, bringing Canada's total debt to \$1.31T.

Over the same time period, the government aims to offset the increase in spending through a 3% spending cut for all government departments, projected to save up to \$15B, and a 15% reduction (or \$7.1B) in spending on consulting, travel, and other professional services.

Inflation, cost-of-living, the green economy, and Canada's international standing were the focus of the Minister's speech to Parliament. She painted a positive outlook for Canada's economy, touting Canada's position in leading economic growth among G7 countries, with falling inflation, rising wages, and 830,000 more Canadians employed now than pre-pandemic.

Notable investments to help Canadians address cost-of-living challenges include: a \$2.5B grocery rebate of up to \$467 for families, \$13B over five years to continue support for increased access for dental care, \$46.2B in healthcare funding for provinces, and a 10% increase in Old Age Security (OAS) for seniors 75 and over.

The government is also looking to eliminate "junk fees" on services like concert tickets and roaming charges, targeting predatory lending practices by capping interest rates at 35%, and introducing new protections for air passengers and workers.

To bolster investments in Canada's green economy and clean tech sectors, Freeland is offering up a 30% refundable clean technology manufacturing tax credit, a clean hydrogen investment tax credit, and \$20B from the Canada Infrastructure Bank to support clean electricity and clean growth infrastructure projects.

Notably missing from the Budget are new commitments on pharmacare, a key commitment of the NDP-Liberal supply agreement, and any new or significant investments beyond already introduced measures targeting rising housing costs.



## MADE-IN-CANADA CLEAN ECONOMY

To grow Canada's clean economy, the Made-in-Canada plan provides three tiers of federal financial incentives. These include: clean investment tax credits, targeted investments and programing, and low-cost strategic financing. To support the Made-in-Canada plan, Budget 2023 proposes a refundable tax credit equal to 30% of the cost of investments in clean technology manufacturing.



## HEALTH & DENTAL CARE

Budget 2023 outlines the government's recently announced plan to provide \$198B over 10 years for Healthcare funding. It also allocates \$29.3B over the next five years with \$22B for improving health care systems and \$13B for expanding access to dental care.



## MAKING LIFE MORE AFFORDABLE

To support Canadians hardest hit by inflation, the budget proposes several measures including \$2.5B for one-time inflation relief payments for 11 million low/modest-income Canadians. Additionally, it proposes a 10% increase in Old Age Security (OAS) payments for seniors who are 75 and older. The Budget is also committing an additional \$4B over seven years (on top of \$6.7B since 2015) to implement Urban, Rural, and Northern Indigenous Housing Strategy.



## ADVANCING RECONCILIATION

To advance Indigenous self-determination, Budget 2023 proposes to provide \$76.3M to Indigenous Services Canada to support Indigenous governance and capacity. It also proposes \$5M to support the co-development of an Economic Reconciliation Framework.



## CANADA'S LEADERSHIP IN THE WORLD

Budget 2023 reinforces the government's commitment to defending the rules-based international order and contributing to global security. It proposes to provide \$13.5M over five years, and \$3.1M ongoing to Public Safety Canada to establish a National Counter-Foreign Interference Office. It also provides Ukraine with an additional loan of \$2.4B for 2023. Additionally, Budget 2023 announces that the Office of the Superintendent of Financial Institutions (OSFI) will consult federally regulated financial institutions on guidelines for publicly disclosing their exposure to crypto-assets.



## EFFECTIVE GOVERNMENT

The federal government is reducing spending on consulting, other professional services, and travel by roughly 15%, resulting in savings of \$7.1B over five years starting in 2023-24. They are also proposing new steps to protect passenger rights and improve airport operations and passenger screening by amending the Canada Transportation Act to strengthen airline obligations to compensate passengers for delays and cancellations and investing \$1.8B in CATSA.

## THE LIBERAL-NDP SUPPLY AND CONFIDENCE AGREEMENT

In late March 2022, the Liberals and NDP announced a new cooperation agreement that will see the NDP support the Liberal government until 2025. Earlier in the year, it was rumored that there was tension between the two leaders and support might have been wavering.

Budget 2023 did deliver on significant pieces of the agreement, including \$13B in spending to expand dental care, the introduction of amendments to the *Labour Code* prohibiting the use of replacement workers during a strike or lock out, as well as starting conversations with the provinces and territories on a Home Buyers Bill of Rights.

## OUR POINT OF VIEW



The federal budget will add \$46B in net new spending over the projected period, even as government revenues are projected to drop by about \$34B from their forecasts in November. Couple this with a slowing economy, and the result will be significantly higher deficits in each year ahead through 2028, and the government has no timeline or event commitment to balance the budget in sight.

The largest chunk of new commitments in the budget is roughly \$80B over 11 years in tax credits to encourage low-carbon electrification, clean economy, and manufacturing investments. The credits could cover between 15% and 40% of spending on hydroelectric and nuclear development by provincial crown corporations, and the funding could be available immediately. This could prove enticing for provincial governments who have large capital budgets booked in the coming couple of years.

Politically, the NDP has signaled that they will vote for the budget due to its commitment for expanded dental care and large increases in health transfers to provincial governments. The Conservatives will oppose the budget due to its lack of commitment to a balanced budget, tax relief, and for larger deficits at a time when economists are signaling a recession is near, rendering these measures unaffordable and possibly recessionary.

– HON. JAMES MOORE, P.C., SENIOR ADVISOR, EGA CANADA, FORMER MINISTER OF INDUSTRY



True to its brand, the Trudeau government has invested in priorities that matter most to Canadians: \$13B more to expand the Canada Dental Benefit, a GST rebate to address increasing food costs for families in need, and an extra \$46.2B over 10 years to address growing health demands in provinces and territories.

The budget also defined next steps on longstanding government tax commitments, including clean technology and hydrogen tax credits, a 2% tax on the net value of share buybacks, and a new minimum tax regime for wealthy Canadians.

Following the 2022 spending reviews, the government also announced over \$7B in cuts over five years, targeting non-essential travel and government outsourcing. Ongoing labor negotiations between the government and federal public service employees surely impacted this approach.

As for the Liberal-NDP supply and confidence agreement, NDP Leader Jagmeet Singh noticeably attempted to provide himself more wiggle-room in recent days in his support of the government. Given commitments made in the budget, it seems strongly the NDP will continue to support the Trudeau government. Behind the scenes, all signs within various party apparatuses indicate that no party is ready for an election.

– PIERRE CYR, MANAGING DIRECTOR, EGA (OTTAWA)



## BY THE NUMBERS - ANALYSIS



In her third budget, Canada's Minister of Finance adds \$46B of net new spending over the fiscal planning period, in accordance with the Government's ongoing thematic priorities and as signaled over the last two months. While time will tell what impact these initiatives will have, the announced efforts to restrain spending on items like government travel and consulting services are minor and at best indicate only the beginning of what will ultimately be a need for far more serious restraint.

Net new spending, along with a weak and uncertain economic forecast, ongoing inflation and high interest rates have a very significant impact on the fiscal environment and show a substantial deterioration from the fall Update. Deficits are now forecast right through the fiscal planning period; the debt to GDP ratio – the only fiscal anchor the government has used – is moving in the wrong direction over at least the next two years; and interest on the public debt is projected to increase incrementally, from \$0.5B in 2023-24, to \$5.3B by 2027-28, consuming more of every revenue dollar over the planning period.

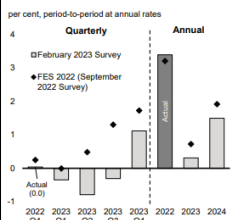
The deteriorating fiscal situation is beginning to resemble that of the 1970s. It will add further pressure to the Bank of Canada's monetary stance and could bring the rating agencies into play as they evaluate the Government's fiscal stance in the coming months.

– ROBERT FONBERG, SENIOR ADVISOR, EGA CANADA, FORMER DEPUTY MINISTER

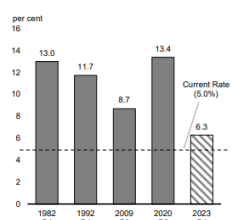


## BY THE NUMBERS

**Chart 16**  
Real GDP Growth Projections



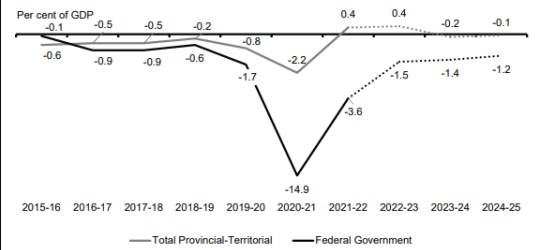
**Chart 17**  
Peak Unemployment Rates in Past Recessions



Sources: Statistics Canada; Department of Finance Canada September 2022 and February 2023 surveys of private sector economists.

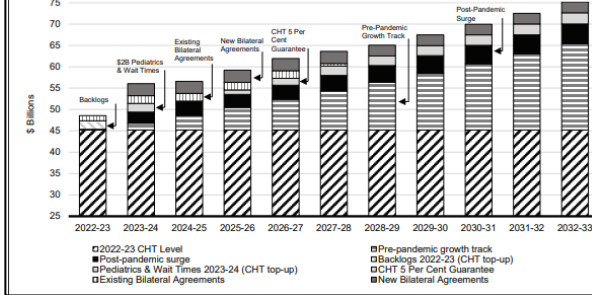
Sources: Statistics Canada; Department of Finance Canada February 2023 survey of private sector economists.

**Chart 2.2**  
Federal and Provincial Budgetary Balances Following Emergency Federal Pandemic Spending

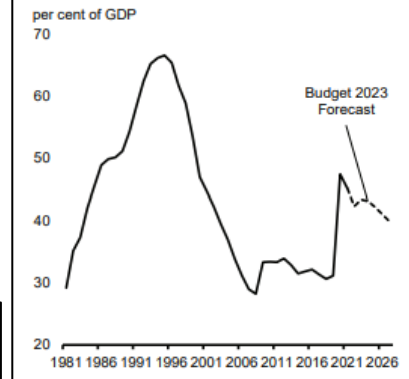


Note: Actual data up to 2021-22. The provincial-territorial aggregate for 2022-23 reflects 2022 fall updates and 2023 budgets; for 2023-24 and 2024-25, the balance reflects 2022 budgets, 2022 fall updates, and 2023 budgets.

**Chart 2.3**  
Federal Health Transfers to Provinces and Territories

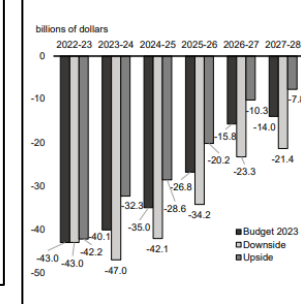


**Chart 23**  
Federal Debt

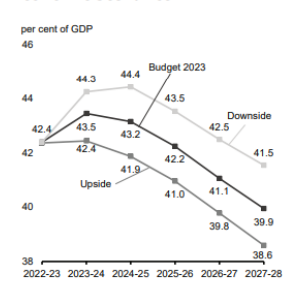


Source: Department of Finance Canada.

**Chart A1.1**  
Deficit Under Economic Scenarios



**Chart A1.2**  
Federal Debt-to-GDP Ratio Under Economic Scenarios



## STAKEHOLDER REACTIONS



“Today’s budget shows that when New Democrats use our power, we get real things done for people. This is a difficult time for Canadians. The cost of everything is up. That’s why we fought for a budget that saves you money and creates good jobs with better wages. Justin Trudeau voted against dental care twice and he didn’t want to double the GST rebate, but we didn’t take “No” for an answer. We fought and we got those things for working people. And if Pierre Poilievre had his way in this budget, there would be no dental care. Your pension, and the services that your family relies on would be cut to benefit the big bosses.”

- Jagmeet Singh, Leader of the NDP



“After eight years, Justin Trudeau’s inflationary taxes and spending have created a cost-of-living crisis that is hurting the hard-working people of this country. Conservatives demanded that this budget must work for the people who work. We had three clear demands. This budget meets none of these demands. It is a \$43 billion bonanza of new inflation, debt, and taxes.”

- Hon. Pierre Poilievre, Leader of the Official Opposition



“The 2023 Federal Budget is set against a backdrop of still-elevated inflation, disruption in the global financial sector, and a likely looming recession. Despite uncertainty on a number of fronts, and a weaker-than-expected underlying budget balance, Ottawa continues to roll out net new stimulus to the tune of \$4.8 billion in FY23/24, and \$43 billion over six years. While tax revenues are raised in a few areas and there is some trimming of government operations, the budget deficit sits at \$43.0 billion in FY22/23, and about \$10 billion per-year deeper through the forecast horizon, with no plan to balance the books. Indeed, the first hint of a balanced budget that we’ve seen in years, which showed up in the Fall Economic Statement for the out-years, lasted all of four months.”

- Robert Kavcic, Senior Economist and Director Economics, BMO



“The federal government can’t borrow our way to prosperity. It’s writing cheques on a bank account that is already overdrawn. What we were looking for is economic growth and to achieve that you need an environment that encourages private sector investors. So far, we haven’t seen that clear focus.”

What we are seeing is mixed signals. The government has responded to the U.S. Inflation Reduction Act but the initiatives aren’t targeted across the board. It is a missed opportunity to unlock private sector capital.”

- Hon. Perrin Beatty, President and CEO, Canadian Chamber of Commerce



“We applaud the federal government’s continued commitment to improve the oral health of Canadians and increase access to dental care for those who need it most. The Canadian Dental Association (CDA) has long advocated for targeted investments to improve access to oral health care. This additional funding reflects the recommendations found in our most recent policy paper and promises to yield even more long-term gains in oral and overall health. As dentists, we see firsthand the impact that poor oral health can have on a person’s overall health. We look forward to continued collaboration with the Health Minister and his federal colleagues, as we continue to narrow the gaps in access to dental care, while minimizing disruptions for Canadians who already have dental coverage.”

- Dr. Lynn Tomkins, President of the Canadian Dental Association



DARCY WALSH

Canadian Chair, & General Manager, Ottawa  
Darcy.Walsh@edelmanega.com