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FEDERAL
BUDGET
2022

Introduction

In 2021, Finance Minister Chrystia Freeland delivered what was called an unprecedented budget on the backdrop of a global pandemic that was wreaking havoc globally on both the healthcare system and the economy. Now on the day of the 2022 Budget, we again find ourselves using the word “unprecedented” and hoping for peace and smooth sailing amongst a continued constant barrage of bad news.

Not since the mid-eighties has a federal government faced so much international economic and diplomatic uncertainty. The ongoing pandemic, Russia’s invasion of Ukraine, global supply chain shortages, and runaway inflation are all presenting major hurdles for the Trudeau Government.

To complicate matters, increased pandemic spending in fiscal years 20-21 and 21-22, in addition to the already high levels of deficit spending prior, have severely restricted the federal government’s fiscal capacity to deal with these emerging challenges.

Amongst all this uncertainty and in the face of a populist ‘freedom’ movement, the Liberal and NDP leadership sought out a way forward to provide some stability to government in the coming years, even at the expense of looking opportunistic. The recent Confidence-and-Supply Agreement signed with the NDP is supposed to guarantee the Trudeau Liberals three-plus years of stability if they meet key NDP spending priorities including dental care and pharmacare.

The budget— titled “A Plan to Grow Our Economy and Make Life More Affordable”— concludes that the deficit for fiscal year 2021-22 came in lower than expected at \$113.8 billion, down from a projected \$144.5 billion.

The deficit for this fiscal year is expected to be \$52.8 billion, and declining each year following, to \$8.4 billion by 2026-27. This year’s budget represents roughly \$60 billion in new spending initiatives.

Here are the top things you need to know

1. Ukraine and Canada’s Role in the World

The unprovoked invasion of Ukraine by Russia has unified the European Union and NATO in ways that many thought was impossible. As countries began assessing how to support Ukraine in defending democracy and their homeland, Finance Minister Chrystia Freeland was tasked by President Zelensky to lead the charge on pushing the West to do more. This came at the expense of budget timing. A large chunk of her time was devoted to working with allies to increase sanctions on the Russian regime and find ways to bring material support to Ukraine.

While the budget may have been delayed because of the many hats of Deputy Prime Minister and Finance Minister Freeland, Budget 2022 has been overseen by a Minister whose understanding of the big picture facing government is unrivaled. The question going forward is whether the measures announced in Budget 2022 reflect the big picture or lead to a number of blind spots that create increased domestic challenges down the road. Included in Budget 2022 are direct military investments to support Ukraine, as well as additional supports to target Russian Oligarchs and provide up to \$1 billion in loan assistance to Ukraine.

2. The Non-Formal Coalition to Govern as a Majority

Last month, amid global and domestic uncertainty, the NDP agreed to support Trudeau's minority government until the end of the Spring sitting in June 2025. While this is a non-binding agreement, it is certain that we can say Budget 2022 will pass the House of Commons.

While not a lot of time had passed between the announcing of this formal agreement and today's budget release, Budget 2022 contains several elements of the NDP-Liberal agreement resulting in \$15 billion of new investments including:

- The Liberals have moved forward "launching a Housing Accelerator Fund" by setting aside \$4 billion for municipalities to update their zoning and permit systems to allow for speedier construction of residential properties.
- The previously agreed on Universal Dental Care has found itself in today's budget representing new funding of \$5.3 billion over five years, starting in 2022-23, to provide dental care for Canadians. This will start with under 12-year-olds in 2022 and become fully implemented in 2025.
- \$4 billion over seven years in new money "to accelerate work in closing Indigenous housing gaps" on reserves and in Indigenous communities.
- Budget 2022 also reiterates the commitment made by the two parties to move ahead on introducing a "Canada Pharmacare Act" by the end of 2023.

3. (Re)building Canada's Military Capacity

The "Freedom Convoy" in Canada had many unintended consequences that are still playing out (see: Conservative leadership race). Among them was the reality that the governing Liberals had found themselves on the side of police intervention and restoring order in the Capital. Now with the ongoing war in Ukraine, it has again forced the current Liberal government to put an increased amount of focus on areas that they have traditionally not given much thought to.

Minister Freeland announced today a close to \$8 billion investment in the country's military capabilities. The Liberals inherited the 2% of GDP NATO Defence spending target from the Harper Conservatives and had been prepositioning efforts to meet the target in recent weeks. While the government will not immediately hit the 2% target, the government has announced \$7.5 billion in new funding to heavily improve the security of North America through investments in NORAD and to increase the capabilities of the Canadian Armed Forces. This also includes \$500 million in direct military aid to Ukraine, as well as \$875 million over the next five years to strengthen Canada's cybersecurity capabilities in light of increased misinformation and cyberwarfare tactics being used by the Russian Federation and its allies.

4. The Affordability Crisis

While the Trudeau Liberals have some certainty that they are years out from an election, runaway inflation backed by an even hotter housing market provides the government with one of the biggest existential threats to its electability.

Budget 2022 builds off Liberal campaign promises and seeks to inject cash and regulatory changes across Canada to help make life more affordable for the average Canadian. A large portion of these changes were specifically geared to the housing crisis.

These include a \$10 billion investment over five years to increase housing supply across the country, a multi-year ban on foreign buyers and a new Tax-Free Savings Account to help those under 40 save up to \$40,000 for their first home purchase.

5. Finding More Revenue

As the Liberal government unveils another high spending budget, there is a certain sigh of relief being felt by finance officials who benefited from a windfall of revenue based on Canada's economic rebound from the pandemic. Even with the country's balance sheet in better shape than expected, the government continues to look for new ways to bring in additional revenue. Some of these measures include:

- A one-time 15 per cent tax will be imposed on taxable income above \$1 billion that was earned by banking and life insurers' groups in the 2021 tax year,
- A permanent increase to the corporate income tax rate by 1.5 per cent on the taxable income of banks and insurance firms that is above \$100 million,
- A commitment to examine "a new minimum tax regime" that targets high-income earners.

6. The Never-Ending Supply Chain Challenge

One side effect of COVID has been the government's new focus on supply chains. Challenged by rolling lockdowns across the globe, Canada entered 2022 with a sizable challenge of making our supply chain more reliable and removing some of the associated pressure that is driving up the domestic cost of living. The ongoing invasion of Ukraine has added to those global supply chain challenges.

In an attempt to address this, Budget 2022 included \$450 million over five years, starting in 2022-23, to support supply chain projects through the National Trade Corridors Fund; \$136.3 million over five years, starting in 2022-23, to develop industry driven solutions to use data to make our supply chains more efficient, building on the success of initiatives like the West Coast Supply Chain Visibility Program; and \$16.9 million over five years, starting in 2022-23, to continue making Canada's supply chains more competitive by cutting red tape, including working to ensure that regulations across various modes of cargo transportation (e.g., ship, rail) work effectively together.

Rallying the Liberal Base

Budget 2022 is a balancing act. As geo-political and external pressures force the government to spend money and communicate with Canadians on areas that are not of direct interest to their voter base, this budget seeks to address a little bit of everything.

Though like any budget, the fiscal plan tabled today contains key pillars that are aimed at shoring up the Liberal base and making progress on files that the Liberals have remained committed to since coming into power. Families and progressive voters have long been the target audience of the Liberal government and investments in this budget seek to give their base assurances that they are focused on the issues that matter most to them. Below we break down some of these key files.

Reconciliation

Budget 2022 proposes to invest an additional \$11 billion over six years to continue to support Indigenous children and families, and to help Indigenous communities continue to grow and shape their futures. Key investments include:

- \$4 billion for housing in Indigenous Communities
- \$4 billion for health, social and educational services for First Nations Children
- \$600 million for clean drinking water in First Nations communities
- \$267 million for Indigenous business and community economic development
- \$210 million to support the work of communities to document, locate and memorialize unmarked graves at the sites of former Indian Residential Schools.

This builds on the \$18 billion allocated in last year's budget to support Indigenous peoples and communities, including infrastructure, health care and education.

Fighting Climate Change

This has proven to be a tricky file for the Liberals over the years as they deal with rising costs and the need for Canada to be more energy independent. While signalling to the world that they would take drastic action on fighting climate change, the Trudeau government also has a track record of approving pipeline projects and new oil investments. Key investments in this budget include:

- \$2.2 billion over seven years, starting in 2022-23, to expand and extend the Low Carbon Economy Fund.
- \$780 million over five years, starting in 2022-23, to expand the Nature Smart Climate Solutions Fund, to enhance emissions reduction and carbon storage in the natural environment.
- \$120.6 million over five years, starting in 2022-23 to support the development of modular reactor technology.
- Budget 2022 also proposes a refundable investment tax credit for businesses that incur eligible carbon capture, utilization and storage (CCUS) expenses. The credit would be set at 60 per cent for investment in direct air capture technology, 50 per cent for all other carbon capture projects and 37.5 per cent for investment in equipment for transportation, storage and use.

Climate Change and Canada's Farmers

With sustainability as a major focus of this budget, several agriculture and agri-food programs also saw funding increases to improve the sector's carbon footprint. Agricultural Clean Technology Program will see an additional \$329.4 million over six years, which triples the fund. Agriculture and Agri-Food Canada also receives \$469.5 million over six years to expand the Agricultural Climate Solutions program's On-Farm Climate Action Fund. To support carbon sequestration, adaptation, and other environmental benefits, Budget 2022 provides \$150 million for a resilient agricultural landscape program. Finally, \$100 million over six years, will be provided to the federal granting councils for post-secondary in technologies and crop innovation to improve emissions in agriculture.

Next Steps

The Confidence-and-Supply Agreement with the NDP takes the usual suspense out of the delivery of a budget in a minority government. This budget is guaranteed passage, even with some major items like increased defence spending, included over NDP objections.

Next up for this budget is a Budget Implementation Act. The Parliamentary calendar in the House of Commons has proceeded unusually slowly for the first few months of 2022 which heavily suggests a backloaded spring of legislative activity is on deck. Many of the measures announced today will have legislative or regulatory implications that will require further consultation before they become law.

The budget is also an indication of how the government sees the developing political landscape. Having secured the NDP's backing for the next three years, the Liberals have more political flexibility to meet unforeseen demands both at home and abroad.

The bait-and-switch on the Defence spending increase that the government pledged is likely to be noticed in foreign capitals. In a world where Germany, Lithuania and other allies have pledged major increases, \$7.5 billion in new funding represents a commitment well short of what the government spent weeks prepositioning both with allies abroad and the Canadian media.

Other changes, such as those proposed to the Canada Labour Code, the Employment Insurance Act, the Employment Equity Act and others will all require either new regulation or legislation to bring them into effect.

As all federal budgets are, Budget 2022 is, first and foremost, a political document. In that regard, it likely succeeds. It has a little bit of something to manage every current hot button issue. What it lacks in depth, it more than makes up for in the breadth of what it tries to address. The task of a good budget is to allow the government to deliver good news, and only good news. Budget 2022 does that.

It is just as likely to be viewed as not enough by New Democrats who thought the Confidence-and-Supply Agreement would lead to major changes as it is by Bay Streeters who wanted productivity and growth taken seriously. For the Liberals, though, that's a feature. Not a bug.

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