

CANADA'S ECONOMIC ACTION PLAN
YEAR 2

THE BUDGET IN BRIEF 2010

Leading the Way on Jobs and Growth

The Honourable James M. Flaherty, P.C., M.P.
Minister of Finance

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CANADA'S ECONOMIC
**ACTION
PLAN**



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Budget 2010—Leading the Way on Jobs and Growth

Introduction

Canada has returned to economic growth following the deepest global economic recession since the 1930s. The global recovery, however, remains fragile.

Budget 2010 aims to contribute to this recovery and sustain Canada's economic advantage now and for the future. The budget plan has three broad aims.

First, it confirms \$19 billion in new federal stimulus under Year 2 of Canada's Economic Action Plan to create and maintain jobs, complemented by \$6 billion from provinces, territories, municipalities and other partners.

Second, it invests in a limited number of new, targeted initiatives to build jobs and growth for the economy of tomorrow, strengthen Canadian innovation, and make Canada a destination of choice for new business investment.

Third, Budget 2010 charts a course to bring Canada's finances back to balance over the medium term and well before any other Group of Seven (G7) country.

By making timely investments that fit firmly within the Government's long-term economic vision for Canada, and thanks to the resilience and ingenuity of Canadians, our country will emerge from the recession with a stronger economic advantage than before.

The Canadian brand will be based on competitive taxes, renewed infrastructure and skills, a strong head start in clean energy, a tariff advantage, less red tape, and a more prominent voice as a global financial sector leader.

Together, we will create a stronger Canada and a stronger economy, now and for the future.



Delivering Year 2 of Canada's Economic Action Plan

Actions taken under Canada's Economic Action Plan have helped ensure the worst of the global recession lies behind us.

However, while a recovery has begun, it remains fragile and too many Canadians remain out of work. This is why the Government will follow through on its commitment to Canadians and its G7 and G20 partners to deliver Year 2 of the stimulus plan.

Over the next fiscal year, Year 2 of the Economic Action Plan will continue to maintain and create jobs, and help Canadian workers and families manage through still difficult economic conditions, including:

- **\$3.2 billion in personal income tax relief.** This includes allowing Canadians to earn more income before paying federal income tax and before being subject to higher tax rates. It includes the enhanced Working Income Tax Benefit to strengthen work incentives for low-income Canadians. Tax measures for 2010–11 also include higher child benefits for parents and lower taxes for low and middle-income seniors.
- **Over \$4 billion in actions to create and protect jobs.** This includes additional Employment Insurance (EI) benefits and more training opportunities to help unemployed Canadians through this difficult period, and help ensure they are equipped to re-enter the workforce and prosper in the future.
- **\$7.7 billion in infrastructure stimulus to create jobs.** This will modernize infrastructure, support home ownership and improve social housing across Canada. This builds on the \$8.3 billion investment in infrastructure and housing delivered in 2009–10.
- **\$1.9 billion to create the economy of tomorrow.** This investment will help develop and attract talented people, strengthen our capacity for world-leading research, improve commercialization, accelerate private sector investment, enhance the ability of Canadian firms to participate in global markets, and create a more competitive business environment.



- **\$2.2 billion to support industries and communities.** This will support adjustment and provide job opportunities in all parts of Canada that have been hit hard by the economic downturn. It provides support for affected sectors, including forestry, agriculture, small business, tourism, shipbuilding and culture. In addition, the proposed elimination of tariffs on manufacturing inputs and machinery and equipment will encourage investment in the manufacturing sector.

Canadians in all regions have already benefited from the implementation of Canada's Economic Action Plan in Year 1:

- Commitments are in place for almost 16,000 projects across the country. Over 12,000 of these projects have begun or have been completed.
- One objective of the Economic Action Plan was to maintain or create 220,000 jobs. The Action Plan is on track. It has contributed to the creation of over 135,000 jobs recorded in Canada since July 2009.

At the same time, the Action Plan will advance the objectives set out in our long-term economic plan, *Advantage Canada*.

New Investments in Jobs and Economic Growth

In addition to delivering Year 2 of Canada's Economic Action Plan, Budget 2010 introduces a limited number of new and targeted actions to protect Canadians from the global recession and create the jobs and economy of tomorrow.

Jobs Protection and Youth Employment Measures

Budget 2010 invests in measures that will directly protect jobs. This includes extensions to work-sharing and investments in training and skills development for youth.



Creating Economic Growth and Jobs Through Innovation

Budget 2010 builds on earlier investments with over \$600 million over three years to help develop and attract talented people, to strengthen our capacity for world-leading research and development, and to improve the commercialization of research.

Encouraging Investment and Trade to Create Jobs and Growth

Budget 2010 takes action to improve the environment for investment, enhance competition and reduce barriers for businesses. This includes making Canada a tariff-free zone for manufacturers, by eliminating all remaining tariffs on productivity-improving machinery and equipment and goods imported for further manufacturing in Canada. This initiative, when fully implemented, will provide \$300 million in annual duty savings to Canadian business.

Proposed improvements to the international tax system to attract new investment, cuts to red tape for businesses and increased competition for telecommunications will also foster investment and create jobs for Canadians.

Canada will emerge from the recession with a highly competitive tax system

- This year, Canada will have the lowest overall tax rate on new business investment in the G7.
- By 2012, Canada will have the lowest statutory corporate income tax rate in the G7.
- The Government introduced the Tax-Free Savings Account, the most important new vehicle for savings since the introduction of the Registered Retirement Savings Plan.
- The Government introduced the Working Income Tax Benefit, lowering the “welfare wall,” making work more attractive for low-income Canadians.
- Canada’s federal tax-to-GDP (gross domestic product) ratio is at its lowest level since 1961.

A highly competitive tax system will support the creation of jobs in Canada.



Green Jobs and Growth

Budget 2010 builds on Canada's position as an energy superpower with measures to encourage investments in energy projects and clean energy generation. The budget also includes measures to preserve Canada's natural heritage through environmental protection in the North and further protection of the Great Lakes.

Modernizing Canada's Infrastructure

Budget 2010 strengthens the Government's commitment to rebuild Canada's aging infrastructure by making priority investments in projects designed to ensure that Canadians have access to safe and effective transportation. This includes support for the operations of Atlantic ferry services, investments in federal bridges and new funding for aviation security.

Strengthening the Financial Sector

Canada's financial sector has been widely acknowledged as being one of the strongest in the world. Budget 2010 will further strengthen the sector by moving forward with the majority of provinces and territories toward a Canadian securities regulator, extending access to financing for Canadian businesses, and enhancing disclosure and financial institutions' business practices to better protect consumers.

Supporting Families and Communities and Standing Up for Those Who Helped Build Canada

Budget 2010 also introduces measures to support single parents and persons with disabilities, makes investments to assist Aboriginal Canadians and their communities, and provides support for participation in sport. Budget 2010 also recognizes those who helped build our country, with measures for military families, investments to recognize the efforts of veterans, and additional support for seniors.

Honouring Canada's International Commitments

Canada is a global leader and continuously demonstrates this by honouring its international commitments. The importance of accountability for promises will be a defining feature of Canada's G8 and G20 Summit year. Budget 2010 fulfills Canada's commitment to double international assistance by increasing the International Assistance Envelope by \$364 million, bringing it to \$5 billion in ongoing annual support.



The Three-Point Plan to Return to Budget Balance

The actions taken by the Government over the last two years are working. Stimulus measures are maintaining and creating jobs and securing the economic recovery. As the economy improves, the Government will refocus its attention on its long-term economic plan. The cornerstone of this plan is a return to balanced budgets.

Budget 2010 outlines a three-point plan for returning to budget balance once the economy has recovered.

- First, the Government will follow through with the exit strategy built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
- Second, the Government will restrain spending through targeted measures. Towards achieving this objective, Budget 2010 proposes \$17.6 billion in savings over five years.
- Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.

The Government will not raise taxes and will not cut major transfers to persons and other levels of government.

As a result of the expiration of the Economic Action Plan and the measures in this budget, the deficit is projected to decline by almost half over the next two years to \$27.6 billion in 2011–12, and by two-thirds to \$17.5 billion in 2012–13. In 2014–15, the deficit is projected to be \$1.8 billion.

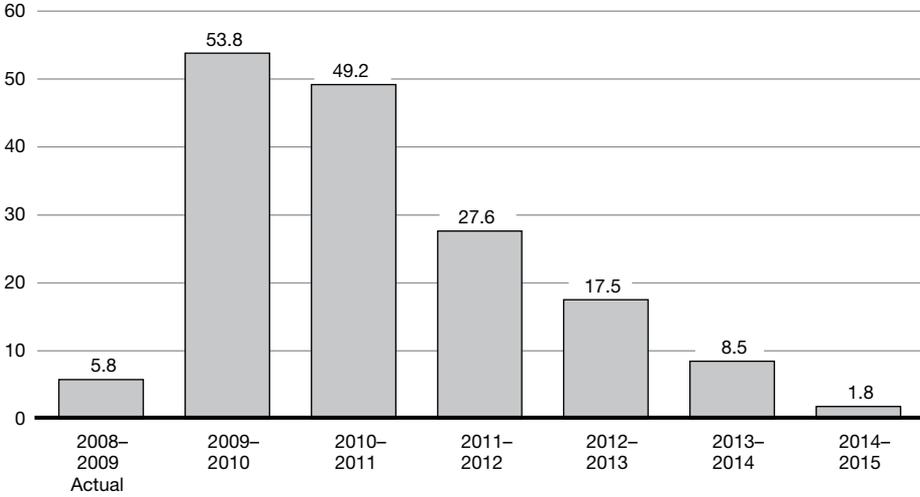
Canada's fiscal health is the envy of the world. The Government is fully committed to sustaining our fiscal advantage.



Rapid decline in deficits

Chart 1
Federal Budgetary Deficit

billions of dollars



Source: Department of Finance.



Highlights

Recent Economic Developments and Prospects

- ✓ The global economy has begun to stabilize after undergoing a deep and synchronized recession, which stemmed from the worst global financial crisis since the 1930s.
- ✓ With support from the extraordinary measures in Canada's Economic Action Plan, the Canadian economy has started to recover.
- ✓ Canada has weathered the global recession better than all other major industrialized countries, reflecting several important financial, economic and fiscal strengths.
- ✓ Canadian labour markets have fared much better than in the U.S., where job losses to date have been proportionately more than three times as large as in Canada.
- ✓ Domestic demand in Canada has also rebounded more strongly than in all other G7 countries since the beginning of 2009.
- ✓ While unemployment remains a concern, the rise in the unemployment rate has been smaller than was initially forecast by private sector forecasters.
- ✓ The Department of Finance conducted a survey of private sector forecasters in December 2009. In early February, private sector forecasters met with the Minister of Finance to discuss the economic forecast from the survey as well as the risks associated with that forecast.
- ✓ The average private sector economic forecast from the December 2009 survey forms the basis of the Government's fiscal planning.
- ✓ The use of private sector forecasts introduces an element of independence into the Government's economic and fiscal forecast.



- ✓ Over the short term, the average private sector economic forecast has improved somewhat since the September 2009 Update of Economic and Fiscal Projections. Private sector forecasters expect the Canadian economic recovery to build momentum through 2010.
- ✓ Private sector forecasters have not materially changed their medium-term outlook since the September Update. Over the medium term, the level of uncertainty surrounding the outlook has declined since the Update but remains high.
- ✓ The average private sector forecast from the December survey provides a prudent basis for fiscal planning.

New Investments in Jobs and Economic Growth

Delivering Year 2 of Canada's Economic Action Plan— \$19 Billion in New Stimulus in 2010–11

Budget 2010 will deliver Year 2 of Canada's Economic Action Plan, with \$19 billion in new federal stimulus in 2010–11, by:

- ✓ Providing \$3.2 billion in personal income tax relief to support growth and job creation.
- ✓ Delivering \$1.6 billion to strengthen benefits for the unemployed.
- ✓ Providing \$1 billion to enhance training opportunities for all Canadian workers.
- ✓ Freezing the Employment Insurance premium rate at \$1.73 per \$100 of insurable earnings to the end of 2010—the lowest rate since 1982—in order to leave more money in the hands of employers and employees.
- ✓ Providing \$7.7 billion in new stimulus to modernize infrastructure, support home ownership, and improve social housing across Canada.
- ✓ Investing almost \$1.9 billion in post-secondary education infrastructure, research, technology innovation and environmental protection.



- ✓ Providing \$2.2 billion in stimulus spending to support adjustment and secure job opportunities in regions, communities and industries that have been most affected by the economic downturn.
- ✓ Introducing new measures to strengthen Canada's financial sector, allowing businesses to continue growing and creating jobs.

Building on a Strong Economic Foundation

Jobs Protection and Youth Employment Measures

Budget 2010 builds on the Economic Action Plan with targeted actions to protect Canadian workers from the effects of the global economic recession by:

- ✓ Temporarily extending the maximum length of work-sharing agreements to protect jobs.
- ✓ Supporting the next generation of business leaders with \$10 million in new funding for the Canadian Youth Business Foundation.
- ✓ Providing \$60 million in 2010–11 to assist more young Canadians while the labour market recovers.
- ✓ Investing \$20 million in support of Pathways to Education Canada's work to support disadvantaged youth.
- ✓ Committing \$30 million to support better elementary and secondary education outcomes for First Nations students.

Creating Economic Growth and Jobs Through Innovation

Budget 2010 makes targeted changes to improve Canada's productivity growth through innovation by:

- ✓ Providing \$45 million over five years to establish a post-doctoral fellowship program to help attract the research leaders of tomorrow to Canada.
- ✓ Delivering \$222 million in funding over five years to strengthen the world-leading research taking place at TRIUMF, Canada's premier national laboratory for nuclear and particle physics research.



- ✓ Increasing the combined annual budgets of Canada's research granting councils by an additional \$32 million per year, plus an additional \$8 million per year to the Indirect Costs of Research Program.
- ✓ Providing Genome Canada with an additional \$75 million for genomics research.
- ✓ Doubling the budget of the College and Community Innovation Program with an additional \$15 million per year.
- ✓ Providing \$135 million over two years to the National Research Council Canada's regional innovation clusters program.
- ✓ Providing \$48 million over two years for research, development and application of medical isotopes.
- ✓ Providing a total of \$497 million over five years to develop the RADARSAT Constellation Mission.
- ✓ Launching a new Small and Medium-sized Enterprise Innovation Commercialization Program with \$40 million over two years.
- ✓ Renewing and making ongoing \$49 million in annual funding for the regional development agencies to support innovation across Canada.

Encouraging Investment and Trade to Create Jobs and Growth

Budget 2010 takes further action to improve conditions for investment, enhance competition, and reduce barriers for businesses by:

- ✓ Making Canada a tariff-free zone for industrial manufacturers by eliminating all remaining tariffs on machinery and equipment and goods imported for further manufacturing. When fully implemented, this will provide \$300 million in annual duty savings for Canadian business to support investment and growth and create jobs.
- ✓ Improving Canada's system of international taxation to facilitate investment, cut red tape, and streamline the compliance process associated with the taxation of cross-border activity.



- ✓ Establishing a new Red Tape Reduction Commission.
- ✓ Providing \$7.2 million over two years to improve Canadian fish and seafood industry access to the international marketplace.
- ✓ Delivering \$75 million over three years to support investments by Canadian cattle processing plants to help improve their operations to ensure cattle producers have access to competitive cattle processing operations in Canada.

Green Jobs and Growth

Budget 2010 includes measures to promote energy investments, help develop and deploy clean energy technologies, and protect and enrich Canada's unique environmental heritage by:

- ✓ Establishing the Next Generation Renewable Power Initiative, with \$100 million over the next four years to support the development, commercialization and implementation of advanced clean energy technologies in the forestry sector.
- ✓ Modernizing the regulatory system for project reviews, and supporting consultation with Aboriginal peoples on major resource projects.
- ✓ Expanding eligibility for accelerated capital cost allowance for investment in clean energy generation assets.

Modernizing Canada's Infrastructure

Budget 2010 strengthens the Government's already significant investments in Canada's infrastructure by:

- ✓ Providing \$175 million over two years to renew Marine Atlantic's fleet and shore facilities and improve its services.
- ✓ Providing \$28 million to ensure Atlantic ferry services continue to operate in a safe and reliable condition.
- ✓ Providing \$51 million over two years to The Jacques Cartier and Champlain Bridges Incorporated to maintain the safety of Montréal's bridges.



Strengthening the Financial Sector

Budget 2010 introduces measures that will support Canada's strong and competitive financial sector by:

- ✓ Moving forward with the majority of provinces and territories to establish a Canadian securities regulator within the next three years.
- ✓ Extending access to financing through continuation of the Business Credit Availability Program (BCAP) and the creation of the Vehicle and Equipment Financing Partnership under BCAP.
- ✓ Moving ahead with a Code of Conduct for the Credit and Debit Card Industry in Canada and proposing legislation to provide the Minister of Finance with the authority to regulate the market conduct of the credit and debit card networks, if required.
- ✓ Introducing a legislative framework to enable credit unions to incorporate and continue federally, which will promote the continued growth and competitiveness of the sector and enhance financial stability.
- ✓ Enhancing the financial consumer protection framework through new measures to improve the business practices and disclosure regime for federally regulated financial institutions.

Supporting Families and Communities and Standing Up for Those Who Helped Build Canada

Budget 2010 takes action to support vulnerable Canadian families and communities by:

- ✓ Providing \$6.6 million to enhance the existing Federal Victims Strategy, including facilitating access to Employment Insurance sickness benefits for families affected by a crime.
- ✓ Improving the taxation of the Universal Child Care Benefit so single parents receive comparable tax treatment to single-earner two-parent families.
- ✓ Providing \$62 million to support Canada's elite athletes and encourage participation in amateur sport.



- ✓ Reforming the disbursement quota to reduce administrative complexity and better enable charities to focus their time and resources on charitable activities.
- ✓ Improving Registered Disability Savings Plans to allow more flexibility for contributions.
- ✓ Providing \$45 million over three years for the Enabling Accessibility Fund to remove barriers for Canadians with disabilities.
- ✓ Providing \$199 million to meet higher than expected funding needs in support of the settlement agreement with former students of the Indian residential school system.
- ✓ Providing \$53 million to ensure further progress toward a prevention-focused approach to child and family services for First Nations children and parents.
- ✓ Reforming the Food Mail Program to improve access to affordable healthy food for Northerners.

Budget 2010 also stands up for those who helped build Canada by:

- ✓ Providing \$2 million for a Community War Memorial Program.
- ✓ Improving access for military families to Employment Insurance parental and sickness benefits.
- ✓ Providing \$10 million for the New Horizons for Seniors Program to support projects that focus on volunteering among seniors.
- ✓ Reaffirming the Government's commitment to ensure that Canada's retirement income system remains strong and efficient through spring consultations and a review of policy options at the May Finance Ministers' meeting.



Honouring Canada's International Commitments

Budget 2010 fulfills Canada's commitment to double international assistance by:

- ✓ Increasing the International Assistance Envelope, the principal means by which Canada allocates foreign aid, by \$364 million, bringing it to \$5 billion in ongoing annual support.
- ✓ Providing a further \$800 million of loan resources and \$40 million in subsidy resources to support concessional lending to the poorest countries through the International Monetary Fund's Poverty Reduction and Growth Trust.

Plan to Return to Budget Balance and Fiscal Outlook

- ✓ Budget 2010 outlines a three-point plan for returning to budgetary balance over the medium term and well before any other G7 country.
 - First, the Government will follow through with the “exit strategy” built into the Economic Action Plan. Temporary measures in the Action Plan will be wound down as planned.
 - Second, the Government will restrain growth in spending through targeted measures. Towards achieving this objective, Budget 2010 proposes \$17.6 billion in savings over five years.
 - Third, the Government will undertake a comprehensive review of government administrative functions and overhead costs in order to identify opportunities for additional savings and improve service delivery.
- ✓ The Government will not raise taxes. The Government will not cut major transfers to persons and other levels of government.
- ✓ As a result of the planned wind-down of the Economic Action Plan and the spending growth restraint measures in this budget, the deficit is projected to be cut by almost half to \$27.6 billion in 2011–12, and cut by two-thirds to \$17.5 billion in 2012–13.
- ✓ The debt-to-GDP ratio is expected to peak at 35.4 per cent in 2010–11 and then fall to 35.2 per cent in 2011–12 and 31.9 per cent by 2014–15.
- ✓ Program spending as a share of GDP is expected to decline from 15.6 per cent in 2009–10 to 13.2 per cent in 2014–15.



Canada's Economic Action Plan: A Fifth Report to Canadians

- ✓ Canada's Economic Action Plan is delivering a \$62-billion shot in the arm to the economy.
- ✓ By the end of this month, most of the \$37 billion in planned 2009–10 federal and provincial/territorial stimulus will have flowed into the economy.
- ✓ Since July 2009, over 135,000 jobs have been created across the country.
- ✓ For 2010–11, the Action Plan will deliver a further \$19 billion in federal stimulus spending, complemented by \$6 billion in stimulus funding from provinces, territories, municipalities and other partners.
- ✓ 92 per cent of 2010–11 funding has been committed.
- ✓ The Government has commitments in place for almost 16,000 projects across the country under the Economic Action Plan. Over 12,000 of these projects have begun or have been completed.
- ✓ Canadians are benefiting from permanent tax relief. As well, millions of Canadian families took advantage of the temporary Home Renovation Tax Credit.
- ✓ Due to unprecedented demand under the ecoENERGY Retrofit – Homes program, the Government is allocating a further \$80 million to support additional retrofits by Canadian homeowners. In total, the Government has provided \$585 million to the program under the Economic Action Plan.
- ✓ The Government is providing exceptional support for the unemployed, with total Employment Insurance (EI) payments up by more than \$6 billion from last year. Enhancements to EI are flowing and continue to be available.



- ✓ The Government has committed all of the funding available for projects under the \$4-billion Infrastructure Stimulus Fund.
- ✓ Almost all of the \$500 million available under the Recreational Infrastructure Canada program has been committed to almost 2,000 projects across the country to build and upgrade hockey arenas, soccer fields, swimming pools and other community-based recreational facilities. Over 1,500 projects are already underway or completed.
- ✓ Over 3,500 projects are underway to improve social housing and First Nations housing across the country.
- ✓ Under the Knowledge Infrastructure Program, work has begun on 361 projects and an additional 20 projects have been completed.

