

CANADA'S ECONOMIC ACTION PLAN

A FIRST REPORT TO CANADIANS

Report in Brief

MARCH 2009



Department of Finance
Canada

Ministère des Finances
Canada

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FOREWORD



In the 42 days since the Budget, the Government has cut red tape and taken extraordinary and unprecedented action to stimulate the Canadian economy and combat the global recession. Taxes are being reduced, Employment Insurance benefits have been extended, the financial system has been strengthened and we will be ready to roll out \$12 billion in spending on roads, bridges, green infrastructure and other critical infrastructure starting in April if Budget 2009 is passed by the Senate and receives Royal Assent. This spending will create jobs in the short term while leaving a lasting legacy for Canadians.

Canada Is Weathering the Storm

The world is struggling with the worst economic crisis in generations.

Despite the challenges facing Canada, we are weathering the global economic storm far better than most other countries. Canada was the only Group of Seven (G7) country to have posted positive growth in the second and third quarters of last year. Our financial system is the strongest in the world. The Government's fiscal position remains solid; we entered this recession with a balanced budget.

Despite these strengths, Canada is not immune to this global economic crisis. That is why the Government tabled the earliest budget in history and presented Canadians with Canada's Economic Action Plan. This ambitious multi-year Plan will stimulate the economy and support those Canadians hit hardest by these difficult times.

Extraordinary and Unprecedented Early Action

The Government has been following a consistent plan since the day it took office, and the result of three years of responsible leadership has allowed Canada's economic fundamentals to remain strong despite foreign instability.

We have been making affordable tax reductions, reduced the public debt, kept spending under control and focused on results to protect our gains and ensure our tomorrows.

The Government is delivering \$220 billion in tax relief over this and the next five fiscal years to individuals, families and businesses with its actions since 2006. This includes more than \$75 billion in tax reductions from reducing the Goods and Services Tax to 5 per cent.



We were ahead of the curve on stimulus. We anticipated the prospect of a weaker global economy in 2007. While the U.S. introduced one-time tax rebates, we put in place broad-based tax reductions sustainable for the future.

Bold steps have been made to improve financial markets in Canada. We have taken steps to improve Canada's regulatory system through more proportionate, principles-based securities regulation, moving toward common securities regulation across provinces. We have been taking steps in improving market governance and enforcement.

We made early changes to Canada's mortgage industry by reducing the maximum term for new government-backed mortgages from 40 years to 35 years and requiring a minimum down payment of 5 per cent for new government-backed mortgages.

We introduced the Tax-Free Savings Account (TFSA), the most significant change to Canada's savings system since the introduction of Registered Retirement Savings Plans in 1957. Starting in 2009, Canadian residents over the age of 18 will be able to contribute up to \$5,000 annually to TFSAs. Investment income (including capital gains) and withdrawals will be tax-free.

Canada's Economic Action Plan

Building on these actions, on January 27 we introduced Canada's Economic Action Plan—the earliest budget in Canadian history—to boost the economy now and over the next 24 months.

The Plan has taken extraordinary steps to inject \$52 billion into the economy over the next two years, to jumpstart growth and sustain the recovery.

We are acting through all available means to protect our economy and Canadians affected by the downturn: the tax system, the Employment Insurance program, direct spending by federal and provincial governments, lending by Crown corporations and partnerships with the private sector.

In the 42 days since the Budget, we have laid the foundation for Canada's Economic Action Plan. This document sets out a detailed report to Canadians on results achieved and next steps required to complete the implementation of our shared national Plan.



The most important task at hand is passage of the Budget in the Senate and passage of the Estimates in the House of Commons and Senate. This is necessary to ensure that the actions highlighted in this report—building roads and bridges, reducing taxes, supporting Canadians hardest hit by the economic downturn and helping communities and businesses adjust and grow—move forward now when they are needed most.

Canada is a great country. We entered this period of tremendous economic challenge in a position of strength and will emerge even stronger.



REPORT
IN BRIEF



Canada Is Weathering the Storm

Canada's economic success has always depended on our ability to export our goods and services to other nations. Today, with the crisis in global financial markets and the economies of our major trading partners in steep decline, we face extraordinary difficulties, the likes of which have not been seen since the end of the Second World War.

While many economists believe a turnaround in 2010 is likely, difficult conditions are expected to remain for the coming months. Our economy faces three major challenges:

- The high cost and reduced availability of financing caused by the global financial market crisis.
- Declining demand for Canadian exports caused by the slowdown in the U.S. and other key economies.
- Reduced profits and incomes due to the sharp drop in commodity prices.

Fortunately, Canada has a number of structural strengths that should allow us to manage through this period of economic weakness better than other countries. First, our financial system is the strongest in the world. Second, Canadian households and businesses are in much stronger financial positions than in most other industrialized countries—largely because our lending practices and housing markets avoided the excesses that occurred in those other countries. Third, the fiscal position of governments in Canada remains structurally solid.

Despite these strengths, Canada is clearly being affected by the cyclical downturn in the global economy, with both employment and output now falling. Canada's Economic Action Plan is designed to protect Canadians from the downturn and pave the way to recovery.

Extraordinary and Unprecedented Action

The economic slowdown began in 2007 with the freezing up of large segments of the global financial market and a sharp fall in U.S. housing prices. From the outset of these difficulties, the Government of Canada has acted to minimize the harm to our economy while building for the future.



The Bank of Canada and the Government have acted throughout the period of economic weakness to improve access to financing for Canadian consumers, households and businesses. A significant milestone in this regard is the agreement to restructure non-bank asset-backed commercial paper in Canada, a singular achievement that enhances financial stability and the health of Canada's capital markets.

Canada was one of the first countries to inject major fiscal stimulus into its economy to offset the downturn and encourage continued growth. On October 30, 2007, the Government introduced \$65 billion in permanent tax reductions over this and the next five fiscal years. At that time, the Government stated: "Given this global economic uncertainty, now is the time to act...to make broad-based tax reductions that will strengthen our economy, stimulate investment and create more and better jobs." These tax reductions took effect just at the moment they were most needed, when the U.S. entered recession in early 2008. The October 2007 permanent tax reductions continue to support growth and job creation today and will do so into the future.

The Canadian economy is also benefiting from previous investments in infrastructure and the resolution of fiscal balance between orders of government. For example, Budget 2007 set out a seven-year \$33-billion plan to boost Canada's public infrastructure—things such as the roads, bridges, sewer, water and public transit systems that support commerce—and provided long-term, growing transfer support to provinces and territories. With current federal transfer support at an unprecedented level, governments are in a position to work together on the current economic challenges.

Most recently, on January 27, 2009, the Government presented Canada's Economic Action Plan—the earliest Budget in Canada's history—to ease the impact of deepening global challenges on our economy and provide the solutions we need to secure our long-term growth and prosperity.



Canada's Economic Action Plan

Canada's Economic Action Plan is an important contribution to the global response to the current economic downturn. The world economy is highly globalized. It is only by acting together to boost global economic growth that countries can derive maximum impact from their actions.

Canada's Economic Action Plan comprises five main elements:

- ✓ **Action to Help Canadians and Stimulate Spending:** Providing \$8.3 billion for the Canada Skills and Transition Strategy to help Canadians weather today's economic storm and to provide them with the necessary training to prosper in tomorrow's economy. In addition, \$20 billion will be provided in additional personal income tax reductions over 2008–09 and the next five fiscal years.
- ✓ **Action to Stimulate Housing Construction:** Providing \$7.8 billion to build quality housing, stimulate construction, encourage home ownership and enhance energy efficiency.
- ✓ **Immediate Action to Build Infrastructure:** Accelerating and expanding the recent historic federal investment in infrastructure with almost \$12 billion in new infrastructure stimulus funding over two years, so that Canada emerges from this economic crisis with more modern and greener infrastructure.
- ✓ **Action to Support Businesses and Communities:** Protecting jobs and supporting sectoral adjustment during this extraordinary crisis with \$7.5 billion in extra support for sectors in need—automotive, forestry and manufacturing—regions and communities.
- ✓ **Action to Improve Access to Financing and Strengthen Canada's Financial System:** Providing up to \$200 billion through the Extraordinary Financing Framework to improve access to financing for Canadian consumers, households and businesses.

"[Budget 2009] provides the necessary support for economic stimulus and job creation."

—*Certified General Accountants Association of Canada,
press release, January 27, 2009*

"[Budget 2009 is] a clever package and hopefully it will win the support of the House. I am confident this will work."

—*Glen Hodgson, The Conference Board of Canada*

"A clear strategy should help to restore consumer and investor confidence over the medium term. We believe it is an important step forward."

—*Canadian Chamber of Commerce*



In total, Canada's Economic Action Plan will provide about \$40 billion over the next two years to support the economy and help create jobs. When combined with funds from expected partnerships with provincial and territorial governments, the total stimulus provided by the Plan over the two years is almost \$52 billion, or 3.2 per cent of gross domestic product (GDP).

Canada's Economic Action Plan meets Canada's commitments at the November 2008 Group of Twenty (G20) leaders' summit to provide timely stimulus to domestic demand, while maintaining long-run fiscal sustainability.

Table 1

Canada's Economic Action Plan

	2009	2010	Total
	(millions of dollars, cash basis)		
Action to Help Canadians and Stimulate Spending	5,880	6,945	12,825
Action to Stimulate Housing Construction	5,365	2,395	7,760
Immediate Action to Build Infrastructure	6,224	5,605	11,829
Action to Support Businesses and Communities	5,272	2,255	7,527
Total federal stimulus	22,742	17,200	39,942
Total leverage	6,557	5,115	11,672
Housing leverage	725	750	1,475
Infrastructure leverage	4,532	4,365	8,897
Sectoral leverage	1,300	–	1,300
Total stimulus (with leverage)	29,298	22,316	51,613
As a share of GDP (%)			
Total federal stimulus	1.5	1.1	2.5
Total stimulus (with leverage)	1.9	1.4	3.2

Notes: Totals may not add due to rounding. These cost estimates reflect projected cash expenditures over the next two years. The budgetary impact is somewhat smaller because certain of these expenditures represent assets to the federal government, including spending related to the construction and renovation of federal infrastructure and loans to third parties.



Highlights

Action to Help Canadians and Stimulate Spending

Canada's Economic Action Plan includes \$13.5 billion over three years to help those hardest hit, including enhancing Employment Insurance (EI) benefits, freezing EI rates and reducing personal income taxes.

- ✓ Unemployed workers will receive enhanced benefits by April 1— an extra five weeks, work-sharing and wage earner protection.
- ✓ Additional funding for enhanced training for unemployed Canadians will be available to provinces and territories by April 2009.
- ✓ Enhanced support for older workers in vulnerable communities will be available to participating provinces by April.
- ✓ Measures to provide more opportunities for youth employment are anticipated to be in place by June.
- ✓ Five Aboriginal training and employment projects will be approved in April and commence in June.
- ✓ Most Canadians will begin to see benefits from personal income tax reductions, for measures effective January 1, 2009, on their pay stubs as of April 1.

"The investments in worker training through EI, the extension of the EI work-sharing program and support to communities that have been affected by the economic downturn, are welcome initiatives that will help more Canadians keep their jobs and employers hold onto talented workers."

—Forest Products Association of Canada, press release, January 27, 2009

"They're lowering the lowest and middle income tax brackets. They're boosting the working tax benefit and the personal exemption. These are very good things particularly for low income Canadians."

—Craig Alexander, TD Bank Deputy Chief Economist, January 27, 2009

"These tax changes will put money back in the pockets of Canadians, boosting confidence and encouraging spending, which is critical to the retail sector and Canada's overall economic recovery."

—Retail Council of Canada, press release, January 28, 2009



Action to Stimulate Housing Construction

Canada's Economic Action Plan provides up to \$7.8 billion in tax reductions and funding to support home ownership, to help stimulate the housing sector and to improve housing across Canada.

- ✓ Canadian families can now undertake renovations that will be eligible for the Home Renovation Tax Credit. The Canada Revenue Agency has posted details on the credit on its website at www.cra.gc.ca.
- ✓ By April, Canada Mortgage and Housing Corporation will be in a position to process low-cost loan applications from municipalities for housing-related infrastructure initiatives.
- ✓ By April 1, funding will be available for provinces and territories who have signed new agreements for the renovation and retrofit of social housing units.
- ✓ By April, funding to support new housing, the renovation of existing social housing and complementary housing activities on reserves will start to be delivered.
- ✓ By April, funding will be available for provinces and territories who have signed new agreements for the construction of new housing units for low-income seniors and persons with disabilities.

"[Budget 2009] helps keep skilled workers on the job at a time when home building starts are sagging. I think it's a great opportunity to stimulate the renovation business across Canada."

—Canadian Home Builders' Association, January 27, 2009



Immediate Action to Build Infrastructure

Canada's Economic Action Plan allocates close to \$12 billion in new infrastructure funding over two years to create jobs across Canada and to ensure Canada emerges from the economic downturn with a more modern and greener infrastructure.

- ✓ Repair work and upgrades for federally owned infrastructure are slated to begin in buildings across Canada in April.
- ✓ An initial Request for Proposals for the \$4-billion Infrastructure Stimulus Fund will be issued early this spring.
- ✓ Funding will be available once the *Budget Implementation Act, 2009* receives Royal Assent to support shovel-ready projects of provinces, territories and municipalities who have signed agreements with the federal government to accelerate payments under the Provincial/Territorial Base Funding Initiative and the Bonus for Community Projects.
- ✓ Major projects such as the Telus World of Science in Calgary, Alberta, improvements to GO Transit in Ontario, and the Evergreen transit line in Vancouver, British Columbia, are being expedited under the Building Canada plan to begin construction over the next two construction seasons.

"FCM strongly supports the federal government's commitment to invest significant new dollars in infrastructure projects that will put Canadians to work in 2009 and 2010."

—Federation of Canadian Municipalities, January 27, 2009

"Our industry is pleased the government recognized that the best and quickest way to get Canadians back to work is through investments in infrastructure—every billion dollars invested means more than 11,500 jobs."

—Canadian Construction Association



Immediate Action to Build Infrastructure *(cont'd)*

- ✓ Since the Budget, close to \$1.5 billion in joint funding for 480 projects in smaller communities has been approved and announced under Building Canada in British Columbia, Alberta, Saskatchewan, New Brunswick and Ontario.
- ✓ First Nations ready-to-go infrastructure projects that will be funded have been identified and will commence construction.
- ✓ Proposals for priority post-secondary infrastructure projects are due from institutions and provincial and territorial governments in March 2009. Decisions on successful projects are expected to be announced in April and May 2009.
- ✓ Detailed design plans for the first year of the 10-year repair program on the Champlain Bridge in Montréal are complete and the tendering process for initial contracts is underway. A similar competitive bidding process will be undertaken for the Blue Water Bridge in Sarnia, Ontario, and the Peace Bridge in Fort Erie, Ontario, in early spring.



Action to Support Businesses and Communities

Canada's Economic Action Plan protects jobs and supports structural adjustment during this extraordinary crisis with \$7.5 billion in additional support for sectors, regions and communities.

- ✓ Once the *Budget Implementation Act, 2009* receives Royal Assent, \$500 million of the \$1-billion Community Adjustment Fund will be available to support economic adjustment and diversification initiatives in communities hardest hit across Canada.
- ✓ The Canada Revenue Agency is administering the increase in the amount of small business income eligible for the reduced federal tax rate to \$500,000, which took effect on January 1, 2009.
- ✓ The Canada Revenue Agency is administering the temporary accelerated capital cost allowance rate for investment in computers, which took effect after January 27, 2009.
- ✓ Tariff eliminations came into force on a range of imported machinery and equipment on January 28, 2009.
- ✓ The Industrial Research Assistance Program will ramp up its support to small and medium-sized firms starting April 1, 2009, with a doubling of its contributions budget.
- ✓ The Canada Revenue Agency will administer the one-year extension of the temporary Mineral Exploration Tax Credit when it comes into effect April 1, 2009.



Action to Improve Access to Financing and Strengthen Canada's Financial System

Canada's Economic Action Plan provides up to \$200 billion through the Extraordinary Financing Framework to improve access to financing for Canadian households and businesses.

- ✓ Over \$50 billion in funding has been provided to Canadian financial institutions through the Insured Mortgage Purchase Program and the Canada Mortgage Bond program.
- ✓ The availability of financing support for businesses through Export Development Canada and the Business Development Bank of Canada has been expanded.
- ✓ Collaboration has been increased between financial Crown corporations and private sector lenders and credit insurers under the Business Credit Availability Program.
- ✓ Consultations are underway with interested market participants on the design of the Canadian Secured Credit Facility.
- ✓ The Canadian Lenders Assurance Facility has been launched and the Canadian Life Insurers Assurance Facility will be launched in March.

"[We] support the budget initiatives that provide short-term support to Canadians and businesses, facilitate the flow of credit through the capital markets, and lay the foundation for recovery."

—Investment Industry Association of Canada, January 27, 2009

"The government took critical steps in the budget to stimulate liquidity, provide incentives that will encourage manufacturers to invest in machinery and equipment."

—Canadian Manufacturers & Exporters, January 27, 2009



Putting the Plan to Work Quickly

Canada's Economic Action Plan is designed to boost the economy when it is needed most: now and over the next 24 months. To achieve this, the Government has taken extraordinary steps using a wide range of policy levers, including the tax system, the Employment Insurance system, direct spending by the federal and provincial governments, and lending by financial Crown corporations.

In only 42 days since the Economic Action Plan was presented, the Government has done what it needs to do to make the Plan fully operational by April 1. This is 6 to 12 months ahead of the usual Budget timeframe (Table 2):

- Virtually all Cabinet policy approvals are expected to be in place by the end of March.
- The *Budget Implementation Act, 2009*, which is now before the Senate, includes \$7.6 billion in spending authorities and seeks Parliamentary approval of \$2.4 billion in tax reductions in 2009–10.
- The 2009–10 Main Estimates include a new central Vote to enable Treasury Board Ministers to allocate up to \$3 billion in funding directly to departments for immediate cash requirements directly related to measures in the Economic Action Plan until formal Supplementary Estimates for these initiatives have received the usual Parliamentary approval. This will be used to fund specific Economic Action Plan measures such as building roads, fixing bridges and providing skills training for those Canadians hardest hit.
- The Canada Revenue Agency is administering a number of the proposed tax reductions in accordance with Budget 2009 and its associated Notices of Ways and Means Motions.



Table 2

Budget Implementation—The Usual Process vs. Budget 2009 Accelerated Approach

Steps in the Process	Timelines		Time Savings
	Usual Process	Accelerated Approach	
1. Tabling of Budget	Late February	January 27	1 month
2. Passage of Budget legislation	3-4 months after tabling	1½ months after tabling	1-2 months
3. Cabinet and Treasury Board approval of new initiatives	3-8 months	1-2 months	2-6 months
4. Appropriation of funding for new measures	4-10 months	Part of funding available by April (Main Estimates, <i>Budget Implementation Act, 2009</i>); remaining supply 5 months after the Budget	2-5 months

Following this approach, by April 1, 2009, the Government would have authority to proceed with providing about \$20 billion in measures—representing close to 90 per cent of the stimulus described in the Economic Action Plan for 2009–10—key highlights of which are summarized later.

The Government will act aggressively to implement the remaining portions of the Plan, although doing so will depend on the degree of cooperation and engagement of our key partners.



Actions Expected of Our Partners

The Economic Action Plan can only be fully effective with the full cooperation of national and international partners.

Parliament: None of the spending measures contained in the Economic Action Plan can proceed without approval by Parliament. The *Budget Implementation Act, 2009* and the 2009–10 Main Estimates are currently before Parliament.

- The House of Commons has passed the *Budget Implementation Act, 2009*, which now requires passage by the Senate before it becomes law.
- Special Parliamentary authority has also been requested to allow payments to be made to fund additional Action Plan initiatives which are not included in the *Budget Implementation Act, 2009*. These initiatives include, for example, community recreational infrastructure, investments for First Nations infrastructure and Aboriginal Skills and Employment Partnerships. To allow departments to start funding these initiatives before the summer, the Government has requested authority from Parliament to make payments of up to \$3 billion.

The rapid passage of the Budget and Estimates is necessary to ensure that the actions highlighted in this report—building roads and bridges, reducing taxes, supporting Canadians hardest hit by the economic downturn and helping communities and businesses adjust and grow—move forward now when they are needed most.

Supplementary Estimates will also be tabled in Parliament this spring to provide spending authority for most of the remaining measures in the Economic Action Plan. The Government anticipates that Parliament will approve the Supplementary Estimates by late June.

Provincial and Territorial Governments: Important elements of the Action Plan involve cooperation with partners in provincial and territorial governments. All governments will need to take innovative approaches to ensure that stimulus is provided in a timely manner and where it is most needed.

Provincial and territorial government approval and administrative processes may need to be accelerated—in similar fashion to recent action taken by the federal government—to ensure that economic stimulus is delivered in a timely fashion, is truly incremental to existing programs already underway or planned, and is administered in as transparent a manner as possible.



Building on the First Ministers' Meeting on January 16, 2009, all governments are committed to moving forward on infrastructure, housing and training programs. Negotiations and consultations are underway to secure final agreements on a range of measures, including increased training programs, social housing investments, the Working Income Tax Benefit and infrastructure funding enhancements. Many provincial governments will be tabling their budgets in the coming weeks. Federal, provincial and territorial Ministers of Finance will meet on May 25, 2009 to ensure efficient progress.

Canadians and Canadian Businesses: It is vitally important for the private sector to continue to work closely with governments to ensure that all have the necessary information to make full use of the Economic Action Plan. For example, the chartered banks are working with the Business Development Bank of Canada and Export Development Canada to maximize the flow of financing to businesses in Canada. The Government is concluding discussions with third-party organizations and finalizing funding agreements with private sector partners who will be delivering components of the Action Plan, such as the Institute for Quantum Computing, the Canada Youth Business Foundation, the YMCA/YWCA and the Canada Health Infoway.

The Government will continue to consult extensively with Canadians and businesses in implementing Action Plan initiatives. For example, the Economic Advisory Council to the Minister of Finance has met once since the Budget was tabled and will continue to provide the Minister with updates and advice on both the economic situation and progress in implementing the Economic Action Plan. In addition, the Minister of Finance is forming the Advisory Committee on Financing to advise the Minister on financing conditions and the design, scope and scale of initiatives under the \$200-billion Extraordinary Financing Framework.

G20 Countries: The actions included in the Economic Action Plan fulfill Canada's commitments at the November 2008 G20 leaders' summit to provide timely stimulus to boost domestic demand, while maintaining the Government's strong fiscal position for the long term.

Stabilization of the global financial system is a precondition for economic recovery globally and in Canada. Since the beginning of the crisis, governments around the world have taken extraordinary measures to address the problems in financial markets. However, there is still work to be done. Decisions taken in the coming weeks in the United States and in other major economies to address problems in their financial sectors will be critical. The proper and timely implementation of such programs is the key to restoring confidence in financial markets.



G20 leaders are meeting in April to take stock of global economic conditions. In addition, leaders will review reports of working groups on financial sector regulatory issues, including the results of a working group co-chaired by Canada on enhancing sound regulation and strengthening transparency in the financial sector.

Next Steps

In the near term, the most important task at hand is passage of the *Budget Implementation Act, 2009* in the Senate and passage of the Main Estimates in the House of Commons and Senate.

Looking ahead, the Government will report regularly to Canadians on the implementation of the Economic Action Plan. Further reports will be issued in June, September and December. These will focus on substantive milestones—dollars spent and outcomes achieved. In the 2009 Economic and Fiscal Update, the Government will provide a comprehensive analysis of the impact of coordinated policy actions across all G7 countries, including Canada's.