

New Agenda for Achievement

# The Budget in Brief 2004



Department of Finance  
Canada

Ministère des Finances  
Canada

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## **Budget 2004—New Agenda for Achievement**

### **Introduction**

Canadians are united by a belief in equality of opportunity. It is a principle that defines us as a nation, a cause that unites us as a community and a goal that defines this government.

In the Speech from the Throne, the Government set out an ambitious agenda to improve the standard of living and quality of life of all Canadians. Its three themes are to strengthen Canada's social foundations, build a dynamic 21st century economy and restore Canada's influence in the world.

Just as Canadians are united by the belief in equality of opportunity, so too are the three themes of the Government's agenda. For it is by giving all Canadians the opportunity to succeed, to reach their potential, and to build a better life for themselves, their families and their communities that Canada will succeed and be a model for the world.

At the core of this budget is the recognition that to achieve our goal of better lives for all Canadians, our social and economic policies must be mutually reinforcing. Quite simply, there can be no strong economy without a secure society, and no secure society without a strong economy to support it. And underlying this must be the prudence of balanced budgets that comes with living within our means.

Therefore, this budget is built on the foundation of creating opportunity for individuals. It recognizes that opportunity has many dimensions and can be defined in many ways.

The measures in this budget have been designed to meet the test of what Canadians believe are our priorities as a nation. They focus on the importance of health care, learning, communities, the economy and our place in the world, each of which is crucial to the creation of opportunity for each and every Canadian. Each is a step down the path towards a Canada of opportunity and achievement.

This budget lays the foundation for that greater Canada, a nation where individual opportunity translates into economic achievement and social justice.

# Highlights

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## Economic Developments and Prospects

- During 2003 economic activity in Canada slowed because of a series of unforeseen shocks. As a result, real gross domestic product (GDP) expanded only 1.7 per cent for the year, well below the 3.2 per cent expected by private sector economists at the time of the 2003 budget.
- Nevertheless, strength in domestic demand through most of the year, supported by low interest rates, helped offset the weakness in exports.
- Canada's labour market strengthened in the latter part of 2003. Since December 2002 the economy has created 271,900 new jobs, all full-time.
- Solid domestic fundamentals, low interest rates and a more favourable global environment, particularly a stronger U.S. economy, are expected to support more robust Canadian economic growth this year.
- Private sector economists expect the Canadian economy to grow by an average of 2.7 per cent in 2004, significantly better than last year but still well below the 3.5 per cent forecast at the time of the 2003 budget.
- Private sector economists expect a further pickup in growth to 3.3 per cent in 2005.
- There are two main risks to the Canadian economic outlook:
  - The uncertainty surrounding the economic impact of the rapid rise of the Canadian dollar.
  - The sustainability of the U.S. economic recovery.

## Sound Financial Management

- The seventh consecutive balanced budget is projected for 2003–04, the first time since Confederation, and balanced budgets or better are forecast for 2004–05 and 2005–06.
- The \$3-billion Contingency Reserve is maintained, and \$1 billion in economic prudence restored, for 2004–05 and 2005–06.
- The federal debt-to-GDP ratio is expected to fall to 42 per cent in 2003–04, down from its peak of 68.4 per cent in 1995–96. The ratio is forecast to decline to 38 per cent by 2005–06.
- To be in a better position to deal with pressures related to an aging population, the Government has set a new objective of reducing the federal debt-to-GDP ratio to 25 per cent within 10 years.
- In this budget program expenses are projected to grow an average of 4.4 per cent in 2004–05 and 2005–06, roughly in line with projected growth in the economy.
- As part of instituting a new management approach in government, the budget implements \$1 billion in annual reallocation from existing spending in 2004–05 and beyond to meet Budget 2003 commitments.
- As well, the Cabinet Committee on Expenditure Review is examining all programs to identify at least \$3 billion annually in savings within four years for reinvestment in the priorities of Canadians while improving government management.
- Furthermore, a new plan for better spending management and oversight is being introduced under the leadership of the President of the Treasury Board, which includes re-establishing the Office of the Comptroller General of Canada, strengthening departmental comptrollers and internal audits.
- The Government intends to sell its remaining shares in Petro-Canada in 2004–05.

## **Moving Forward on the Priorities of Canadians**

### **The Importance of Health**

- Confirmation of an additional \$2 billion for the provinces and territories for health, bringing to \$36.8 billion the funding provided under the February 2003 First Ministers' Accord on Health Care Renewal.
- Establishment of a new Canada Public Health Agency as a focal point for disease control and emergency response.
- Immediate funding of \$665 million in this fiscal year and over the next two years to improve Canada's readiness to deal with public health emergencies. This is in addition to the approximately \$400 million to be transferred from Health Canada to the new Canada Public Health Agency.
- Improved tax fairness for Canadians with disabilities and caregivers.
- Increased funding of \$30 million annually to support employment assistance programming delivered by provinces and territories for Canadians with disabilities.

## **The Importance of Learning**

- Introduction of a new Canada Learning Bond, which will provide up to \$2,000 for children in low-income families born after 2003 for post-secondary education.
- Enhancement of the Canada Education Savings Grant matching rate for low- and middle-income families.
- Introduction of a new grant of up to \$3,000 for first-year, post-secondary dependent students from low-income families.
- Introduction of an up-front annual grant of up to \$2,000 for post-secondary students with disabilities.
- Increase in the ceiling for Canada Student Loans to \$210 a week from \$165.
- Increase in the income thresholds used for determining eligibility for student loan interest relief.
- Increase in the maximum amount of debt reduction for students facing financial difficulty to \$26,000 from \$20,000.
- Extension of the education tax credit to employees who pursue career-related studies at their own expense.
- Investment of \$125 million over five years for the Aboriginal Human Resources Development Strategy.
- Doubling to \$50 million support for the Urban Aboriginal Strategy.

## **The Importance of Knowledge and Commercialization**

- Annual increase of \$90 million to Canada's three federal granting councils.
- Increase of \$20 million annually to help offset the indirect costs of research by universities and research hospitals.
- An additional \$60 million to Genome Canada to strengthen its research.
- Additional funding to improve the capacity for commercialization at universities, hospitals and other research facilities.
- New funding of \$270 million set aside to enhance access to venture capital financing for companies turning promising research into new products and services.
- Acceleration by one year, from 2006 to 2005, of the increase in the small business deduction limit to \$300,000.
- Increase in the capital cost allowance rate for computer equipment to 45 per cent from 30 per cent, and in the rate for broadband, Internet and other data network infrastructure equipment to 30 per cent from 20 per cent.



## **The Importance of Communities**

- \$7 billion in GST/HST relief for municipalities of all sizes over the next 10 years.
- Acceleration of the \$1-billion Municipal Rural Infrastructure Fund, with spending over the next 5 years instead of 10.
- A stronger voice for municipalities in the federal decisions that affect them.
- New funding of \$15 million a year in support of enhanced language training to reduce labour market barriers faced by immigrants.
- Increased funding for the Urban Aboriginal Strategy.
- Funding of \$4 billion over 10 years to clean up contaminated sites.
- New funding (\$1 billion over 7 years) to support the development and commercialization of new environmental technologies, reflecting the sale of Petro-Canada.
- More effective tax rules for registered charities and ongoing support for the Voluntary Sector Initiative.
- Increased support for community-based economic development and the social economy.

## **The Importance of Canada's Relationship to the World**

- An additional \$250 million to cover the costs of Canada's participation in peacekeeping missions in Afghanistan and the fight against terrorism.
- An additional \$50 million for Canada's participation in the peacekeeping force in Haiti.
- Additional capital funding in 2005–06 to advance priority capital investments.
- Exemption from tax of the income earned by Canadian Forces personnel and police on high-risk international missions.
- Commitment of a further \$605 million to address security issues.
- A reduction in the Air Travellers Security Charge.
- An increase of \$248 million, or 8 per cent, in international assistance in 2005–06.

**Table 1**  
*Spending and Revenue Initiatives: 2004 Budget*

	2003-04	2004-05	2005-06
	(millions of dollars)		
<b>Importance of Health</b>			
Canada Health and Social Transfer cash supplement	2,000		
Strengthening Canada's public health system	500	80	85
Inclusion of persons with disabilities		50.5	57.9
<b>Total</b>	<b>2,500</b>	<b>131</b>	<b>143</b>
<b>Importance of Learning</b>			
Caring for Canada's children		91	93
Helping families plan ahead for post-secondary education		105	302
Encouraging lifelong learning		25	40
Economic opportunities for Aboriginal Canadians		30	31
<b>Total</b>		<b>251</b>	<b>466</b>
<b>Importance of Knowledge and Commercialization</b>			
Building research foundations		170	115
Commercialization of research		20	20
Venture capital financing <sup>1</sup>		(255)	(15)
Investing in offshore development		7	7
Small business and entrepreneurship		1	24.5
Strengthening the Canadian tax advantage		95	200
<b>Total</b>		<b>293</b>	<b>367</b>
<b>Importance of Communities</b>			
New Deal for communities: first steps	100	605	655
The community-based and non-profit sector		15	15
Supporting the social economy		35	43
Environment and sustainable development		205	10
Other initiatives in support of communities		52.5	53
<b>Total</b>	<b>100</b>	<b>913</b>	<b>776</b>
<b>Importance of Canada's Relationship to the World</b>			
Defence		277	85
Security reserve		115	115
International assistance <sup>2</sup>			248
Canada Corps		5	10
<b>Total</b>		<b>397</b>	<b>458</b>
<b>Other</b>			
Agriculture assistance	1,000		
Equalization and Territorial Formula Financing renewal		195	202
Other		37.5	100
<b>Total</b>	<b>1,000</b>	<b>233</b>	<b>302</b>
<b>Total: spending and revenue initiatives</b>	<b>3,600</b>	<b>2,216</b>	<b>2,511</b>
<i>of which:</i>			
Spending initiatives	3,500	1,486	1,621
Revenue initiatives	100	730	890

<sup>1</sup> Federal support will be in the form of an equity injection, i.e. the purchase of shares. As a result, there will be no budgetary impact.

<sup>2</sup> In the 2003 budget, the International Assistance Envelope was increased by 8 per cent in both 2003-04 and 2004-05.

**Table 2**  
*Summary Statement of Transactions (Including March 2004 Budget Measures)*

	<b>Actual</b>			
	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
	(billions of dollars)			
<b>Budgetary transactions</b>				
Budgetary revenues	177.6	181.1	187.2	195.8
Total expenses				
Program expenses	-133.3	-143.4	-147.9	-156.1
Public debt charges	-37.3	-35.8	-35.4	-35.7
<b>Total expenses</b>	-170.6	-179.2	-183.3	-191.8
Underlying budgetary surplus	7.0	1.9	4.0	4.0
Prudence				
Contingency Reserve		1.9	3.0	3.0
Economic prudence			1.0	1.0
<b>Total</b>		1.9	4.0	4.0
<b>Budgetary balance</b>	7.0	0.0	0.0	0.0
<b>Federal debt (accumulated deficit)</b>				
Balanced budget (no debt reduction)	510.6	510.6	510.6	510.6
Apply Contingency Reserve to debt	510.6	508.7	505.7	502.7
Non-budgetary transactions	0.7	2.0	-4.5	-4.0
<b>Financial source/requirement</b>	7.6	2.0	-4.5	-4.0
<b>Per cent of GDP</b>				
Budgetary revenues	15.4	14.9	14.8	14.7
Program expenses	11.5	11.8	11.7	11.7
Public debt charges	3.2	2.9	2.8	2.7
Budgetary balance	0.6	0.2	0.3	0.3
Federal debt (accumulated deficit)				
Balanced budget (no debt reduction)	44.2	42.0	40.4	38.4
Apply Contingency Reserve to debt	44.2	41.9	40.0	37.8
<b>Other</b>				
Public debt charges as a share of revenues	21.0	19.8	18.9	18.2
Annual per cent change				
Budgetary revenues	3.4	2.0	3.4	4.6
Program expenses	6.6	7.6	3.1	5.6
Total expenses	3.6	5.0	2.3	4.7

Note: Numbers may not add due to rounding.