

# Federal Election 2021: Liberals Stay in Power With Minority Government

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- The federal Liberal party remained in power with 158 seats (projected), again as a minority government. This is a one seat increase from the number of seats the party won in the 2019 election (Table 1).
- Meanwhile, the Conservative party is on track to win 119 seats, a decrease of two seats since 2019. The NDP is projected to gain one more to 25 seats, while the Bloc is expected to get to 34 seats from 32 in the 2019 election.
- Given the minority mandate, the Liberal party will have to seek compromise to enact new legislation. Although the major parties have a several overlapping priorities (see appendix A), the Liberals will still need to secure support to move forward with their commitments. Since the Conservatives are unlikely to provide backing, the Liberals may rely on the NDP, Bloc Québécois, and other parties for required votes.
- As a result, the minority government’s overall agenda could be shaped to attract opposition support. This dynamic could generate greater spending and deficit outcomes relative to the Liberal status-quo platform proposal. Still, in light of the high degree of continuity, investors showed little reaction to the results in overnight markets.

## Liberal Platform Brings New Stimulus While Widening The Deficit

- The Liberal Party campaigned on a platform that would introduce close to \$80 billion in new spending over the next five years. Although it’s unlikely to unfold exactly as prescribed, the platform as originally envisioned would inject greater stimulus into the economy, while also leading to moderately wider deficits over the medium term.
- Indeed, the costing of the platform shows a larger deficit in each year for the next five years compared to the Parliamentary Budget Office’s (PBO) baseline forecast (Table 2). As a result, the debt burden, measured using the debt-to-GDP ratio, remains higher than the PBO projection, with the discrepancy growing every year. By 2025-26, the Liberal platform’s debt-to-GDP ratio is 2.3 percentage points (ppts) higher than the PBO estimate. Notably, other major parties had drawn up fiscal plans that would also lead to even larger deficits over the next several years.
- Although the ratio would be maintained at a higher starting-point, the Liberal platform did maintain a downward trajectory. According to the platform, the debt-to-GDP ratio is projected to fall by 2 ppts from 48.5% in 2021-22 to 46.5% in 2025-2026.
- With the Liberal Party promising new outlays, GDP growth could be stronger in 2022 and 2023. But as stimulus wanes, there could

	<b>Election 2021 Outcome</b>	<b>2019 Outcome</b>	<b>Difference</b>
<b>Liberal</b>	158	157	1
<b>Conservative</b>	119	121	-2
<b>NDP</b>	25	24	1
<b>Bloc Québécois</b>	34	32	2
<b>Green</b>	2	3	-1
<b>Others</b>	0	1	-1

Note: Projected seats, subject to change.  
Source: TD Economics via media reports.

be small fiscal drag in 2024 (Table 3). Breaking it down, the platform committed around 40% of the planned spending in fiscal year 2021-22 and 2022-23. When translated to calendar year, it implies an impact in the range of 0.2 to 0.5 ppts in 2022 and 0.1 to 0.2 ppts in 2023. We have provided ranges for the economic impact due to uncertainty around multipliers. Given the economy will be further along in the recovery when stimulus is rolled out, we expect the contribution to growth from new spending to be on the lower end of the estimated range.

	2021-22	2022-23	2023-24	2024-25	2025-26
PBO Baseline	-138.2bn	-42.7bn	-35.6bn	-24.8bn	-24.6bn
Net Changes	-18.7bn	-20.0bn	-14.0bn	-10.1bn	-7.5bn
<b>Platform Projection</b>	<b>-156.9bn</b>	<b>-62.7bn</b>	<b>-49.6bn</b>	<b>-34.9bn</b>	<b>-32.1bn</b>
Platform Debt/GDP	48.5%	47.6%	47.6%	47.2%	46.5%
Difference, Debt/GDP	0.8pp	1.4pp	1.8pp	2.2pp	2.3pp

Source: Parliamentary Budget Office, Liberal Party of Canada.

	2022	2023	2024	2025
<b>GDP Growth Impact (p.p.)</b>	<b>0.2 to 0.5</b>	<b>0.1 to 0.2</b>	<b>0 to -0.1</b>	<b>0.0</b>

Note: GDP growth impacts estimated off PBO baseline. Source: TD Economics.

- There are a number of commitments contributing to wider deficits. To name a few, the extension of COVID-19 support programs, increased health transfers, and a string of promises on the housing market front are big ticket items in the Liberal platform. The planned introduction of employment insurance for self-employed Canadians is also a high spend promise. Policies on climate change and the promotion of clean technology are noteworthy potential outlays as well. A table summarizing major promises is provided in the Appendix.
- On the other side of the ledger, the Liberals plan to introduce many measures to boost revenues by \$25.5 billion in the next five years. Around 40% of this amount is expected to be raised through a 3% surtax on the largest banks and insurers as well as a “Canada Recovery Dividend” which would place an additional levy on these businesses for the next four years. The Liberal platform also assumes that a more stringent Canada Revenue Agency can generate \$12 billion over the medium term. Other personal tax measures such as a minimum tax for top earners, and a vaping tax, round out the revenue side of the Liberal fiscal plan.

### Shared commitments could mean greater policy action by minority government

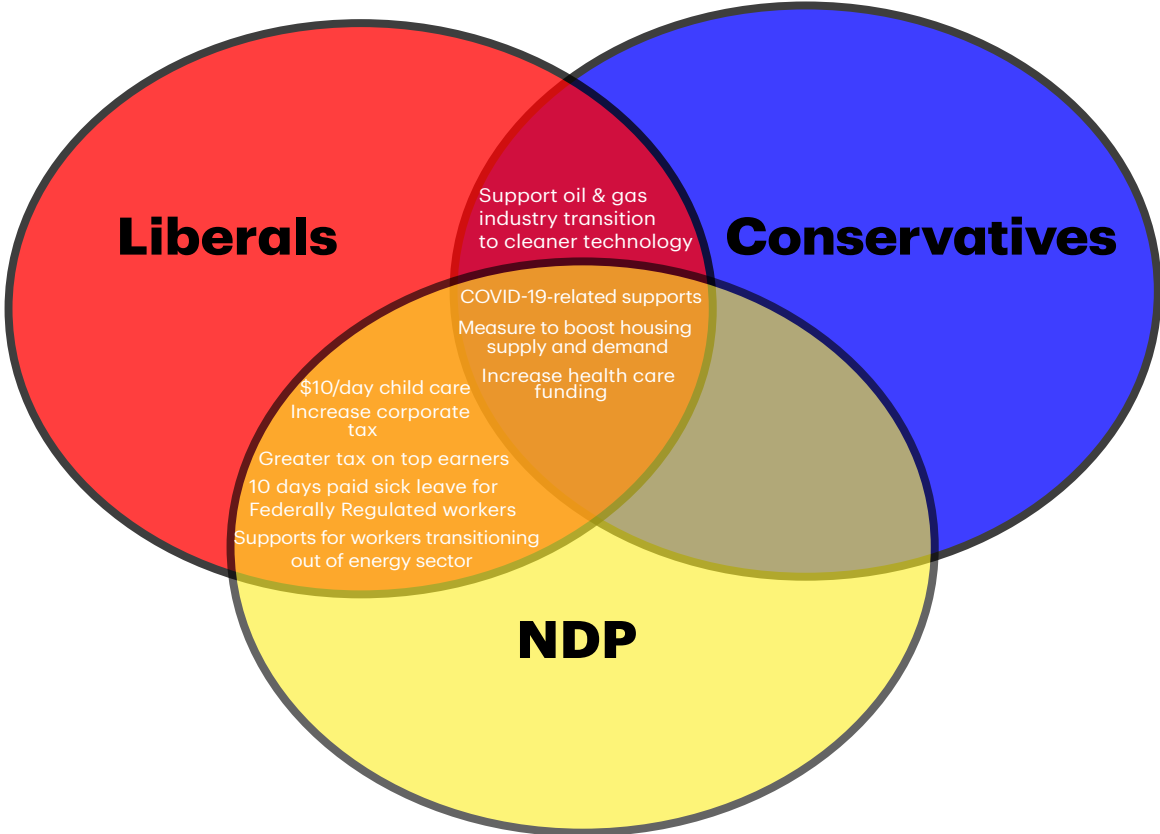
- Given the minority status of the incoming Liberal government, it is uncertain as to which platform promises will be enacted. The Liberals may have to seek compromise with other major parties to implement parts of their fiscal plan.
- That said, there are many priorities that overlap between the Liberals, Conservatives, and NDP, raising the prospect of substantial policy moves in the near future. Figure 1 in the Appendix shows the commonalities of parties on important policies. Judging by recent experience, Conservatives would not be expected to support a Liberal agenda or fiscal plan, meaning that the Liberals would be outlining an agenda that could receive the support of one or more of the other parties.
- The first such measure that could receive multi-party support is the extension of COVID-19 programs and the introduction of enhancements to the employment insurance program. The minority government will probably waste no time in finding opposition party backing to pass pandemic support measures in the coming months.
- Increasing housing affordability is another commonality among all parties. With significant overlap in the respective platforms on plans to lower the barrier to entry for homeownership while also boosting housing supply, it is likely that we will see new housing policies from the minority government.

- Health care funding could also see a meaningful boost. Canada's health care system has come under the microscope during the pandemic, and each major party platform proposed increasing transfers, although with different aims. Since the Liberals, NDP, and Green parties championed additional targeted support for mental health, and long-term care, among other initiatives, overall health care outlays are likely to see a bump up in the future.
- The Liberal minority will not have to seek agreement with every major party to push through new policies. With support from just the NDP, where the Liberals share greater policy and historical cooperation, important measures can be enacted such as the 10 days of paid sick leave for federally regulated workers, hiking corporate tax for banks and insurers, and higher tax on top earners.
- If the Liberal minority looks for support from the NDP, that may result in additional fiscal outlays as the party's platform had called for over \$200 billion in new spending over then next five years. This would further increase Canada's fiscal deficit.

### Liberal Housing Platform Should Have a Mixed, But Ultimately Benign Impact on Prices

- As noted previously, Canadian political parties have identified housing affordability as a crucial issue in their campaign platforms. There were many similarities among housing plans, so its reasonable to expect tangible policy action by the minority government on this front.
- The Liberal party's platform will likely form the basis for future legislation. The party's housing plan was a multi-layered one, which included several proposals to put more money in the pockets of both first-time and other home buyers. At the same time, it had measures to boost housing supply, as well as a tax on properties sold which are held for less than 1 year (with several exception). The plan also notably included a temporary ban on foreign buying.
- Overall, we judge that their plan will be mildly demand supportive over the next few years. Preliminary modelling suggests that sales could be slightly higher by the end of 2023 relative to baseline (with a very modest, but positive impact on prices) as the proposed 2-year ban on foreign buying is more than offset by income support measures and the move to raise the cut-off for CMHC insured mortgages from \$1 million to \$1.25 million.
- Notably, the latter could unlock a greater share of the market for purchasers, but also might worsen affordability, and could result in larger mortgages being taken on, creating some risk for the financial system. Demand could strengthen further after the next few years if the ban on foreign buying is removed, with an attendant boost to prices.
- An important takeaway relates to when these policies will impact the market. The Liberal costing plan implies a start to both demand and supply enhancing measures in FY 2022/23. However, while demand could see immediate support from the plan, it would take some to create new supply. This implies that affordability could worsen a touch at first, with any potential relief through new supply coming with a lag.

Figure 1: Areas Of Overlap Exist Between All Parties



## Appendix: Summary of Key Party Promises By Major Area

Agendas	Conservatives	Liberals	NDP
<b>Budget Balance</b>	Balanced budget within 10 years via fiscal discipline	No promise to balance the budget, but commits to declining debt/GDP ratio; deficit decreases every year	Promises to reduce debt/GDP ratio, no balance commitment
<b>COVID-19 Support</b>	Subsidize hiring new workers for six months following the end of Canada Emergency Wage Subsidy  Partially forgivable loans to small and medium-sized businesses  Targeted support for struggling sectors	Extend Canada Recovery Hiring Program to March next year  Offer zero interest loans and increase loan amount for small businesses  Targeted support for struggling sectors	Continue wage and rent subsidies for small businesses until they are fully reopen  Start long-term hiring bonus to subsidize EI and CPP for new or rehired staff
<b>Corporate Taxation</b>	Targeted or time-limited tax credits to incentivize business investment	3% surtax on large banks and insurers  Establish "Canada Recovery Dividend" on same financial institutions to contribute more to recovery over next 4 years	Higher corporate income tax for wealthier firms  One-time excess profits tax
<b>Personal Taxation</b>	Tax credits for low income workers  GST holiday for one month	Minimum tax of top earners  Vaping products tax	Increase capital gains tax to 75%  Increase tax rate on top income earners
<b>Climate Change</b>	Return Canada to previous target of 30% reduction in emission by 2030  Cap carbon price at \$50 per tonne and return payment to low carbon savings account  At least 30% of 2030 auto sales should be electric vehicles  Require 20% reduction in carbon intensity of domestically sold transportation fuels	Reduce emissions by 40-45% below 2005 levels by 2030  Increase carbon price to \$170 per tonne by end of the decade  At least 50% of passenger vehicle sales should be electric by 2030  \$8 billion industrial decarbonization fund already introduced in 2021 Budget	Reduce emissions by 50% by 2030  2030 target for net zero power grid
<b>Energy Sector</b>	Assist oil and gas sector in reducing emissions through clean-technology supports  Eliminate Bill C-69	Increase caps on oil and gas sector emissions using 5-year targets  End subsidies and public financial for fossil fuel  Establish fund to help workers transition to new employment from oil and gas sector	End subsidies to oil and gas sector  Promise strategy to help workers in the sector transition to new employment
<b>Housing</b>	Increase supply of homes by 1 million in the next three years  Review federal real estate portfolio and release at least 15% for housing  Ban foreign investors not living in or moving to Canada from buying homes for a 2-year period  Encourage new market in 7-10 year fixed-mortgages and remove requirement to conduct stress test when a homeowner renews a mortgage with another lender	A first home savings account which allows Canadians up to age 40 to save \$40k toward first home and withdraw it tax-free when buying; money that's added will also be tax-free  Double first time homebuyer tax credit from \$5k to \$10k  CMHC to reduce mortgage insurance rate by 25% (amounts to \$6,100 in savings on average)  Start rent-to-own program with \$1 billion in new funding  Build/preserve/repair 1.4 million homes in the next four years  \$2.7 billion over four years to build or repair more affordable homes, convert empty office space to housing, and a tax credit to offset costs to adding a secondary unit to a home  A federal bill to ban blind bidding  Ban foreign ownership of Canadian homes over the next two years  Introduce anti-flipping tax on residential properties, which requires properties to be held for one year	Build at least 500,000 affordable homes over 10 years, with half done within next 5  Waive GST on the construction of affordable home and use federal land  Re-introduce 30-year terms to CMHC insured mortgages  Double Home Buyer's Tax Credit to \$1,500  20% foreign buyer's tax on sales of home to those who are not Canadian citizens or permanent residents
<b>Child Care</b>	Introduce refundable tax credits covering up to 75% of the cost of child care for lower income families	Promises to transfer \$29.8 billion to provinces and territories for child care over the next five years  Aims to reduce costs of child care to \$10 a day on average in 2025-26	Implement \$10 a day child care system
<b>Health Care</b>	Increase health transfer by at least 6% each year  Create national mental health plan which provides incentives to employers to provide mental health coverage to workers	Invest \$6 billion to reduce waitlists  Increase funding to hire health care professionals  Provide \$5 billion to provinces and territories to increase mental health care availability	Introduce national pharmacare program with a yearly investment of \$10 billion  Improve health care wait times and improve access to virtual care, dental, vision, and mental health

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