

Highlights from the 2024 Federal Budget

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INTRODUCTION

On Tuesday, April 16, 2024, Canada's Deputy Prime Minister and Minister of Finance Chrystia Freeland tabled the 2024 federal budget, titled *Fairness for Every Generation*. The budget targets the following policy areas: 1) More affordable homes, 2) Lifting up every generation, 3) Lowering everyday costs, 4) Economic growth for every generation, 5) Safer, healthier communities, 6) A fair future for Indigenous Peoples, 7) Protecting Canadians and defending democracy, and 8) Tax fairness for every generation.

The 2024 budget aims to make generational investments by raising tax revenues and investing in economic growth over the long term. Canadians and local businesses have had to navigate a complex and uncertain macroeconomic landscape. Housing affordability, inflation, high interest rates, and ongoing geopolitical tensions have all contributed to these challenges. The 2024 budget aims to make investments in the Canadian economy and population, while lowering the national debt and improving the federal deficit in the long term. The government has stated its major themes are building more affordable homes, making life cost less, and growing the economy in a way that is shared by all.

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FISCAL OUTLOOK

Canada's net debt-to-GDP ratio is below the average of the G7 economies. The federal deficit remains relatively modest and continues to decline, particularly relative to the size of the Canadian economy. Canada has maintained a AAA rating from both Moody's and Fitch, two of the three major credit rating agencies.

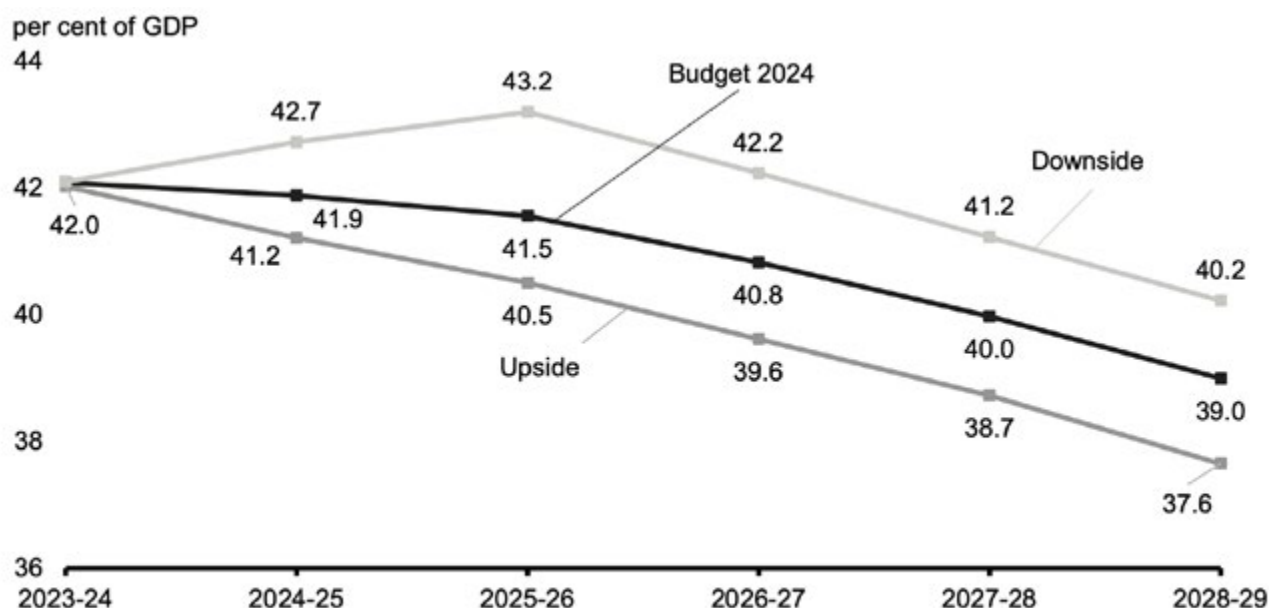
The 2024 budget projects an improvement from the \$40.1 billion deficit projected for the 2023-2024 fiscal year to \$40 billion or -1.4% of GDP. The fiscal outlook projects a continued and significant decline over the next five fiscal years:

- 2024-2025-\$39.8 billion
- 2025-2026-\$38.9 billion
- 2026-2027-\$30.8 billion
- 2027-2028-\$26.8 billion

In the 2028-2029, the deficit is expected to improve to \$20 billion, which is estimated at -0.6% of GDP.

To maintain Canada's responsible fiscal anchor and reduce the federal debt-to-GDP ratio over time, the government is taking necessary legislative measures to continue investing in Canadians. This investment will be paid for by an increase in tax revenues. These increases maintain the government's commitment to its fiscal objectives and achieve its fiscal anchor. This metric is important for fiscal sustainability and maintaining Canada's AAA credit rating.

Figure 1
Federal Debt-to-GDP Ratio Under Economic Scenarios



Sources: Department of Finance Canada March 2024 survey of private sector economists; Department of Finance Canada calculations.

FISCAL AND ECONOMIC CHANGES FROM THE 2023 FALL ECONOMIC STATEMENT

Budgetary revenue projections have been revised from the 2023 fall economic statement (FES) by an average of \$7.6 billion annually. The changes primarily reflect stronger personal income tax revenues. This strength has been offset by lower-than-projected revenues in a number of other revenue streams. These streams include non-resident income tax, excise taxes and duties, and Crown corporation revenues.

Table 1: Economic and Fiscal Developments, Policy Actions and Measures

billions of dollars

	Projection					
	2023- 2024	2024- 2025	2025- 2026	2026- 2027	2027- 2028	2028- 2029
Budgetary balance - 2023 Fall						
Economic Statement (FES 2023)	-40.0	-38.4	-38.3	-27.1	-23.8	-18.4
Economic and fiscal developments since FES 2023	3.4	3.9	6.9	6.5	4.1	4.3
Budgetary balance before policy actions and measures	-36.7	-34.5	-31.3	-20.6	-19.7	-14.1
Policy actions since FES 2023	-3.3	-0.3	0.3	0.3	-0.9	-0.7

Economic Outlook

Gross Domestic Product (GDP)

Canada is expected to see moderate to below-potential growth over the next few financial quarters. These impacts are partly due to the effects of past interest rate increases and a gradual recovery towards higher growth. Real GDP is projected to slow from 1.1% in 2023 to 0.7% in the 2024 fiscal year. Real GDP is projected to rebound in 2025 to 1.9%. The fall economic statement projected real GDP at 0.5% in 2024 and 2.2% in 2025. The revised outlook will leave Canada's GDP at 0.2% below the fall economic statement projections.

Unemployment

Canada's economy is expected to slow in 2024 and the unemployment rate is expected to rise to 6.5% in the fourth quarter of 2024. Budget 2024 has noted that unemployment remains low and below the peaks experienced during major economic recessions. The unemployment rate is expected to stabilize in 2025 at an average rate of 6.3% and gradually decline to 5.7% by 2028. These projections are similar to the 2023 fall economic statement.

Inflation

Consumer Price Index (CPI) Inflation is expected to continue to ease and be around the Bank of Canada's 2% target at the end of 2024. The government projects that, on an annual basis, CPI inflation is expected to continue to decline from 3.9% in 2023 to 2.5% in 2024, and remain around 2% for the rest of the forecast horizon. The CPI projections remain unchanged from the 2023 fall economic statement.

GDP inflation in the second half of 2023 came in higher than projected in the fall economic statement, averaging 1.6% in 2023 compared to the 1% projected. In 2024, it is projected that GDP inflation is set to rise to 3% compared to 2% from the fall economic statement. Due to the higher-than-expected GDP inflation last year and upward revisions to the GDP inflation outlook for 2024, the level of nominal GDP is projected to be higher than the FES forecast by \$18 billion in 2023 and \$56 billion in 2024.

Interest Rates

Short-term interest rates are expected to decline from an average of 4.8% in 2023 to 4.5% in 2024. They are projected to continue declining to 3.1% in 2025. The estimates are on average 20 basis points higher each year compared with the projection in the 2023 FES. Furthermore, interest rates are expected to settle at 2.7% over the last three years of the forecast horizon. Long-term interest rates are expected to average about 3.3% over the forecast horizon.

Table 2: Average Private Sector Forecasts

	2023	2024	2025	2026	2027	2028	2023-2028
Real GDP growth¹							
2023 Fall Economic Statement	1.1	0.5	2.2	2.4	2.2	2.0	1.7
Budget 2024	1.1	0.7	1.9	2.2	2.1	2.0	1.7
GDP inflation¹							
2023 Fall Economic Statement	1.0	2.0	2.0	2.1	2.1	2.1	1.9
Budget 2024	1.6	3.0	1.9	2.0	2.0	2.0	2.1
Nominal GDP growth¹							
2023 Fall Economic Statement	2.1	2.5	4.3	4.5	4.3	4.2	3.6
Budget 2024	2.7	3.8	3.9	4.2	4.2	4.0	3.8
Nominal GDP level (billions of dollars)¹							
2023 Fall Economic Statement	2,871	2,942	3,067	3,207	3,346	3,486	
Budget 2024	2,889	2,998	3,115	3,246	3,382	3,518	
Difference between FES 2023 and Budget 2024	18	56	47	39	36	32	38

More Affordable Homes

Housing

The focus of the 2024 budget centres on a range of new initiatives launched by the federal government to enhance housing affordability. Building on the initiatives in the 2023 FES, the budget, alongside Canada's Housing Plan, outlines the government's strategy to facilitate the creation of 3.87 million new homes by 2031. This includes a minimum of 2 million net new homes on top of the 1.87 million homes expected to be built by 2031. To achieve this goal, newly introduced legislative measures aim to build more homes, simplify the processes of buying or renting a home, and assist Canadians who cannot afford housing.

Building More Homes

The government is launching several new initiatives to boost the housing supply across the country. It plans to build homes on public lands, Canada Post properties, and National Defence lands. The 2024 budget introduces taxes on vacant lands to encourage construction. To build more apartments and reduce rents, the budget proposes an additional \$15 billion in new loan funding starting in the 2025-2026 fiscal year for the Apartment Construction

Loan Program, raising its total to over \$55 billion. Additionally, the budget allocates \$400 million over four years to the Housing Accelerator Fund. In 2024-2025, the budget proposes an additional \$6 billion over 10 years to Infrastructure Canada to establish a new Canada Housing Infrastructure Fund. These initiatives and funding plans are aimed at making it easier for future generations of Canadians to own and rent a home.

The budget aligns immigration policies with housing capacities and stabilizes international student intake to reduce housing pressures. Additionally, it offers new credit for renters, enhances protections for renters' rights, and improves the Home Buyers' Plan and the Canadian Mortgage Charter. These initiatives aim to create a more accessible and equitable housing market.

Lifting Up Every Generation

Social Spending

Last year, the government had announced an increase of \$200 billion for health spending and this budget reiterates the government's commitment to a National Universal Pharmacare program, starting with contraceptives and diabetes. This budget also launches the Canada Disability Benefit, with funding of \$6.1 billion over six years.

Registered Education Savings Plans (RESP)

This budget announces that the government will introduce legislation to automatically open RESPs for those eligible children who do not have them, and that eligible Canada Learning Bond payments will be deposited into these accounts.

Lowering Everyday Costs

Banking Fees and Finances

The 2024 budget announces changes to make banking more affordable and efficient for Canadians. To ensure that banking remains affordable, the Financial Consumer Agency of Canada (FCAC) is in negotiations to secure agreements from FIs for enhanced free and affordable banking accounts.

Non-sufficient funds (NSF) fees are being changed. These fees can reach approximately \$50, and the impacts remain largely disproportionate. The government plans to cap NSF fees at \$10 under specific instances. More regulatory information and guidelines will become available in the coming months.

Helping Canadians with More Free Investment Advice and Cracking Down on Predatory Lending

This budget proposes to give Prosper Canada, a national charity, \$60 million over five years to continue to provide and expand community delivered financial help services. The budget also indicates the government's intention to make changes to the Criminal Code to enhance enforcement of the criminal interest rate and work with the provinces and territories to improve consumer protections.

Economic Growth for Every Generation

Artificial Intelligence

According to the budget, Canada's AI sector and ecosystem ranks among the best in the world. AI continues to act as a transformative economic opportunity for Canada, and the government is committed to continuing support for research and development in the AI space. The 2024 budget allocates an increase in targeted AI support of \$2.4 billion that comprises launching a new AI Compute Access Fund and Canadian AI Sovereign Compute Strategy to boost research, support AI startups and assist the National Research Council's AI Assist Program. To ensure the safe and responsible use of AI, the 2024 budget proposes \$50 million over five years, starting in the 2024-25 fiscal year, to create an AI Safety Institute of Canada and to ensure AI's safe development and deployment. The budget proposes \$5.1 million in the 2025-2026 fiscal year to equip the AI and Data Commissioner's Officer with the necessary resources to begin enforcing the proposed *Artificial Intelligence and Data Act*.

Economic Investment Tax Credits

The global investment in net-zero economics reached \$2.4 trillion in 2023, as economies embraced clean energy and sustainability to remain competitive. The budget implements the tax credits from the 2023 budget to reinforce this commitment. The government is prioritizing the implementation of six major economic investment tax credits, which represent \$93 billion in federal incentives, all part of the 2023 federal budget. These tax credits include Carbon Capture, Utilization, and Storage; Clean Technology Adoption; Clean Hydrogen; Clean Technology Manufacturing; Clean Electricity; and EV Supply Chains.

EV Supply Chain Investment Tax Credit is New in 2024

Canada has positioned itself as a hub in the EV supply chain, facilitating businesses with supportive measures. In line with this, the 2023 budget unveiled a 30% Clean Technology Manufacturing investment tax credit, empowering EV manufacturers and their suppliers to offset a significant portion of their investments in new machinery and equipment. Building upon this momentum, the 2024 budget announces the government's intention to introduce an additional 10% tax credit for investments in buildings essential to key segments of the EV supply chain, reinforcing Canada's commitment to fostering sustainable innovation and growth in the EV industry.

Canada Growth Fund

The Canada Growth Fund, which is a \$15 billion investment vehicle launched by the federal government, is led by Canada's major public sector pension professionals. Focusing on clean energy and technology, its investments are supporting Canada's clean economy while generating substantial employment opportunities nationwide. The fund is playing a significant role in issuing Carbon Contracts for Difference (CCFDs) and is instrumental in incentivizing decarbonization efforts. The budget aims to expand its offerings to cater to diverse market needs.

Investment and Actions to Advance Nuclear Energy

Nuclear energy is one of the key tools to reach net-zero emissions by 2050. As a global nuclear energy leader, Canada has announced significant investments and actions to advance nuclear energy technology and develop a robust supply chain around it. Building upon the momentum in the 2023 budget, which introduced tax credits for Clean Electricity and Clean Technology Manufacturing to incentivize investments in nuclear electricity generation, power supply chains, and fuel production, the 2024 budget proposes allocating \$3.1 billion over 11 years. Beginning in the 2025-2026 fiscal year, these investments will bolster Canadian Nuclear Laboratories' continuous efforts in nuclear science research, environmental protection, and site remediation work.

Canadian Sustainable Investment Guidelines

Informed by recommendations from the Sustainable Finance Action Council's Taxonomy Roadmap Report, the Department of Finance is planning to establish criteria for identifying "green" or "transition" economic activities within the financial sector, with an update on the progress expected later this year.

Safer, Healthier Communities

Health Care

To reduce emissions, this budget provides \$607.9 million over two years, starting in 2024-2025, to Transport Canada to increase the Incentives for Zero-Emission Vehicles program. In addition, the Canadian health care system will continue to receive investments from the 2024 budget. To fill labour shortages in the health care industry and integrate foreign medical professionals the budget allocates \$77.1 million over four years to effectively integrate internationally educated health care professionals. This funding will begin in the 2025-2026 fiscal year and create training positions, assessment capacities, and provide support to navigate credential recognition systems.

A Fair Future for Indigenous Peoples

This budget includes \$2.3 billion over five years for the renewal of existing programming. The budget also includes new investments in housing and health strategies for Indigenous Peoples.

Protecting Canadians and Defending Democracy

Geopolitics: Defence and National Security Policy

The budget includes a long-promised update to the Canadian defence policy which includes a modernization to better combat new geopolitical threats such as cyber security and artificial intelligence. The 2024 budget proposes an increase in \$8.1 billion over five years, beginning in the 2024-2025 fiscal year. \$73 billion over 20 years will be allocated to the Department of National Defence, Global Affairs Canada (GAC), and the Communications Security Establishment.

Over the next five fiscal years, the government is allocating continued investment in Canada's national defence. The government is expected to reach 1.76% of defence spending-to-GDP by the 2029-2030 fiscal year. However, the spending increase falls below the NATO member target of 2% of GDP.

Due to the ongoing challenge climate change poses to the Canadian arctic the government has announced plans to allocate \$46.9 million over five fiscal years to Canadian research operations in the arctic. This funding would begin in 2024-2025 and aims to maintain Canada's ongoing presence, assert Canada's sovereignty and enable important scientific work to advance.

Anti-Money Laundering and Terrorist Financing

The Canadian government will continue to look for new ways to combat financial crime. The government will develop a robust legal framework that keeps pace with evolving financial crimes. The budget notes that the government intends to introduce legislative amendments to the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)*, the *Criminal Code*, the *Income Tax Act*, and the *Excise Act*.

The Canada Financial Crimes Agency will become Canada's lead enforcement agency against financial crime. The agency will bring together a broad range of expertise necessary to increase money laundering charges, prosecutions, and convictions, and the seizure of criminal assets.

Supply Chains and Forced Labour Regulations

Geopolitical events have exposed critical supply chains. Canada and its allies have made investments to respond to supply chain disruptions by *derisking* and *friendshoring* critical supply chains. The 2024 budget notes the federal government's commitment to introduce legislation in 2024 to eradicate forced labour from Canadian supply chains and to strengthen the import ban on goods produced with forced labour. Furthermore, the government has noted that it will also work to ensure existing legislation fits within the overall framework to safeguard supply chains.

Tax Fairness for Every Generation

Tax Policy

The 2024 budget has proposed new measures that will update the tax system and make it fairer and generate \$21.9 billion in revenue over five years to invest locally. The government is proposing an increase in taxes on capital gains. Budget 2024 announces the government's intention to increase the inclusion rate on capital gains annually above \$250,000 by individuals and on all capital gains by corporations and trusts from one-half to two-thirds by amending the *Income Tax Act*. These changes will be effective June 25, 2024.

The increase in the inclusion rate on capital gains is also expected to generate significant new revenue for provincial and territorial governments. The government plans to use the revenues generated to make transformative investments in the Canadian economy, including investments in housing, health care, education, childcare, and infrastructure.

Tax Revenues

The government is projecting personal income tax revenues to increase by 6.9% to \$223.3 billion in 2023-2024, reflecting strong wage growth and the amount of tax revenues collected already this fiscal year. In the 2024-2025 fiscal year, personal income tax is expected to grow by 4.6% due to an increase in the capital gains inclusion rate. Lastly, over the remainder of the forecast horizon, personal income tax revenue is expected to average 4.3% per year.

In the 2023-2024 fiscal year, corporate tax revenues are expected to decrease by 10.7% to \$89.3 billion due to lower corporate profitability. In 2024-2025, these revenues are expected to rebound, supported by an increase in the capital gains inclusion rate for corporations and higher than projected corporate profits. The capital gains measure proposed by the government would raise corporate income tax revenues by \$4.9 billion in 2024-2025 and by \$10.6 billion over the forecast horizon.

Financial Services

Open Banking Framework

In the 2023 fall economic statement, the federal government announced it would introduce legislation to establish Canada's Consumer Driven Banking Framework (open banking). This framework will regulate access to financial data, providing Canadians and small businesses with safe and secure access to financial services and products that can help manage and improve their finances. The 2024 budget announces that the Financial Consumer Agency of Canada (FCAC) will have the mandate to oversee, administer, and enforce Canada's Consumer-Driven Banking Framework.

The government proposes \$1 million in the 2024-2025 fiscal year for the FCAC to support its development, responsibilities, and the creation of a consumer awareness campaign. The FCAC will transition to a full cost-recovery basis once the framework is in place. Furthermore, the 2024 budget proposes to allocate \$4.1 million over three years, beginning in the 2024-2025 fiscal year, for the Department of Finance to complete the relevant policy work to establish and create a consumer-driven banking oversight entity and framework. This includes the implementation of a national security regime.

The government plans to table framework legislation that will expand FCAC's mandate and establish aspects of the foundational framework related to scope, system participation, criteria, and process for the technical standard. Furthermore, safeguards regarding personal financial data security and integrity will be considered.

Deposit Insurance Review

The budget notes plans to uphold Canada's robust deposit insurance framework and protect Canadians' savings. The government plans to undertake a review of the federal deposit insurance framework. This review will begin in 2024, with the long-term goal of maintaining effectiveness and adapting to the evolving financial system and marketplace.

The Department of Finance will collaborate with the Canada Deposit Insurance Corporation and other financial sector regulatory agencies. The government plans to hold consultations during the latter part of 2024 to explore the depositor protection framework.

Pension

In the 2023 FES, the government announced plans to encourage Canadian pension funds to invest locally and to create an investor-friendly environment for international pension plans. The 2024 budget announced that the government will be creating a working group with pension plans, former Bank of Canada Governor Stephen Poloz, and the Deputy Prime Minister and Minister of Finance, to better explore the creation of investment opportunities for Canadian pension funds. The working group will identify priority investment opportunities that will grow Canadian pension savings.

The government proposes to amend the *Pension Benefit Standards Act, 1985*. Changes to this legislation will enable and require the Office of the Superintendent of Financial Institutions to publicly release information related to the investments of large federally regulated pension plans.

Crypto Regulation and Tax Transparency

To ensure a fair and transparent tax system for Canadians, the government has announced a new reporting framework for crypto asset transactions and modifications to the Common Reporting Standard. These changes are efforts to modernize the existing reporting framework and to ensure that new digital technologies cannot be used to avoid existing reporting requirements. Crypto assets have shown to be a high-risk investment and unregulated crypto asset markets can act as a platform for significant tax evasion.

In collaboration with many other advanced economies, the 2024 budget announces the government's intention to begin the implementation of the Organization for Economic Cooperation and Development's (OECD) crypto-asset reporting framework into domestic law. The changes include consequential amendments to the Common Reporting Standard that are to be effective as of 2026. Furthermore, the new and amended reporting guidelines will become effective in 2027.

Legislative Changes and Amendments

Canada Pension Plan (CPP)

The 2024 budget proposes to amend the Canada Pension Plan to provide a top-up to the death benefit for certain individuals, improve children's benefits, and end entitlement to a survivor's benefit following a CPP credit split.

Diversity Disclosure in the Financial Institutions Statutes

The 2024 budget proposes to introduce legislative amendments to the Financial Institutions Statutes to adapt the *Canada Business Corporations Act (CBCA)* diversity disclosure model for application to federally regulated financial institutions. The CBCA model requires annual disclosure of diversity on boards and in senior management.

OSFI Cashflow and Flexibility

The 2024 budget proposes to amend the *Office of the Superintendent of Financial Institutions Act* to increase the maximum amount that may be advanced to the Office of the Superintendent of Financial Institutions from the consolidated revenue fund. These changes would increase the current \$40 million to \$100 million.

Financial Crimes

To better protect Canadians from financial crimes the government is proposing to introduce amendments to the *PCMLTFA*, the *Criminal Code*, the *Income Tax Act*, and the *Excise Tax Act* with consequential and coordinating amendments to other statutes to strengthen the supervision, enforcement, and information-sharing tools of Canada's anti-money laundering and anti-terrorist financing framework.

CONCLUSION

The 2024 budget reflects the federal government's commitment to invest in the Canadian economy. The budget strongly emphasizes taxes, notably the capital gains tax for individuals and corporations. The government has made efforts in a number of areas to address the ongoing increase in the cost of living. The ongoing and uncertain geopolitical environment has led the government to invest in Canada's national security and defence policy. There are significant changes that have the potential to impact the financial services industry, notably the launch of open banking, a review of deposit insurance and a committee to study pension investment in Canada. Additionally, there are investments in areas likely to be of interest to the industry, notably artificial intelligence.