

# HIGHLIGHTS FROM THE FEDERAL GOVERNMENT'S 2023 FALL ECONOMIC STATEMENT

NOVEMBER 2023



## INTRODUCTION

On Tuesday, November 21, 2023, the Honourable Chrystia Freeland, Deputy Prime Minister and Finance Minister, presented the *2023 Fall Economic Statement*. Despite ongoing economic uncertainty, the statement reiterated federal government commitments in *Budget 2023* by focusing on fiscal restraint and providing large-scale investment in housing and infrastructure. The *2023 Fall Economic Statement* targets two central challenges: 1) supporting the middle class and introducing targeted measures to help stabilize prices and improve the cost of living; and 2) investing in critical housing infrastructure to create affordable housing.

The *2023 Fall Economic Statement* noted that the budgetary balance is expected to remain just below the \$40.1 billion deficit projected for 2023-24, \$35 billion for 2024-2025, and \$26.8 billion for 2025-2026. In the 2028-2029 fiscal year, the deficit shows signs of improvement with projections of \$18.4 billion.

The statement outlined Canada's commitment to uphold its leadership in climate finance by advancing the implementation of mandatory reporting on climate-related financial risks across diverse sectors of the Canadian economy. It also indicated the federal government's plan to implement the necessary governance framework for open banking by 2025.

## ECONOMIC OUTLOOK

The government noted ongoing macroeconomic challenges and uncertainty. Specifically, geopolitical uncertainty due to the war in Ukraine and conflict in the middle east, inflation, high interest rates and continued supply chain disruptions. Decisions by Saudi Arabia and Russia to cut oil supply have also led to an increase in global energy prices, reversing some of the previous decreases in Canada's headline inflation. The government continues to be vigilant and monitor ongoing geopolitical and macroeconomic risks that are impacting Canadians and Canadian business.

### GDP Growth

The Canadian Economy is expected to see subdued growth in the coming quarters as the impacts of higher interest rates continue to build. Canada has entered a shallow recession and stronger economic growth is expected over the course of 2024. Additionally, the *2023 Fall Economic Statement* indicated that real GDP growth will be 1.1 percent in 2023—up from the 0.3 percent projected in *Budget 2023*. Growth of 0.4 percent is expected for 2024, compared to the 1.5 percent projected in *Budget 2023*, with growth projected to rebound to 2.2 percent in 2025.

The government will be focused on the following fiscal objectives in preparation for *Budget 2024*:

- Maintaining the 2023-2024 deficit at or below the Budget 2023 projection of \$40.1 billion.
- Lowering the debt-to-GDP ratio in 2024-25 and maintaining a decline.
- Maintaining a declining deficit-to-GDP ratio in 2024-25 and keeping deficits below 1 percent of GDP in 2026-27 and future years.

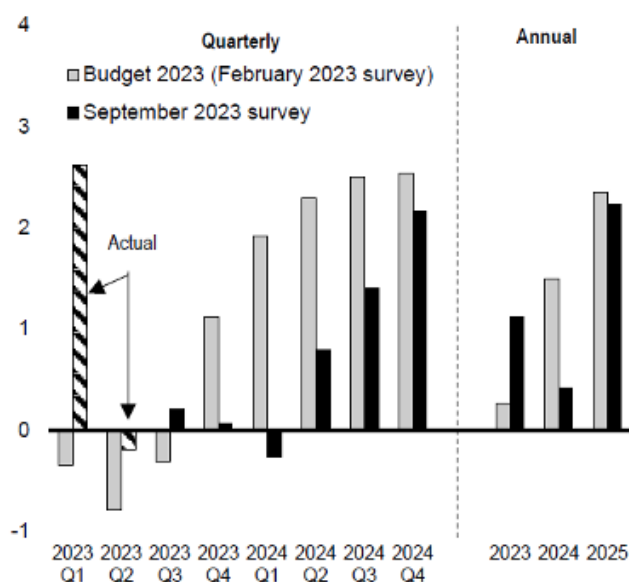
## Inflation

Inflation has emerged as a major global economic challenge in recent years. The Government has been monitoring inflation and noted that inflation in Canada fell from its June 2022 peak of 8.1 percent to 3.8 percent in September 2023. Food prices have fallen from 11.4 percent in January 2023 to 5.8 percent in September 2023. Furthermore, the government has noted that the cost of housing remains high and core inflation measures have remained elevated.

Figure 1

### Real GDP Growth Projections

per cent, period-to-period at annual rates



Sources: Statistics Canada; Department of Finance Canada February 2023 and September 2023 surveys of private sector economists.

## HOUSING

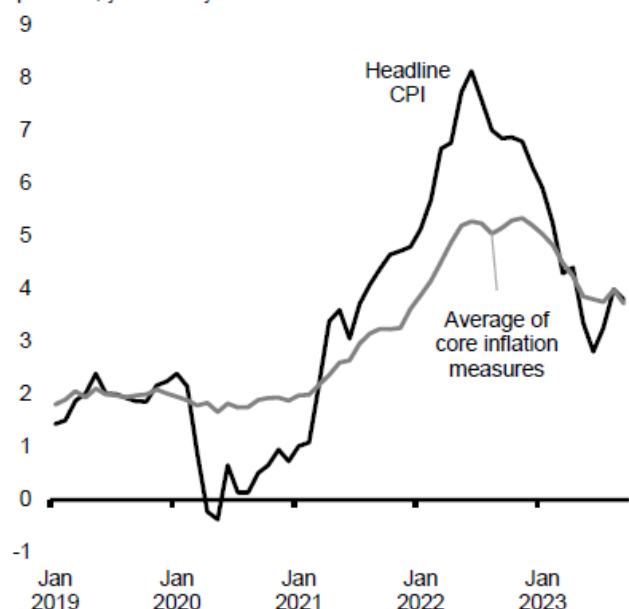
The central aspect of the *2023 Fall Economic Statement* is the plethora of new measures being introduced by the Federal government to incentivize the construction of new rental housing, protect renters and homeowners, and make it easier to buy a home for first time home buyers. Furthermore, the *Fall Economic Statement* reaffirmed the federal government's intention to tie access to federal infrastructure funding to actions by provinces, territories, and municipalities to increase housing supply.

The Government reiterated the role of the Canada Infrastructure Bank (CIB) and its expertise in leveraging private and institutional capital to support infrastructure projects. Further details on this work will be announced by *Budget 2024*.

Figure 2

### Consumer Price Inflation Is Falling

per cent, year over year



Note: Last data point is September 2023.

Source: Statistics Canada.

## Housing Incentives

The government is implementing several housing incentives package, including the removal of Goods and Services Tax (GST) from new purpose-built rental housing projects until 2030, additional funding of \$15 billion for the Apartment Construction Loan Program starting in 2025-26, and a \$20 billion annual increase to the Canada Mortgage and Housing Corporation's (CMHC) support limit for low-cost financing.

## Affordable Housing

The government announced an additional \$1 billion over three years, starting in 2025-2026, for the Affordable Housing Fund. This investment will support non-profit, co-op, and public housing providers to build more than 7,000 new homes by 2028. This top-up is to be supported by \$631 million previously intended for the one-time top-up to the Canada Housing Benefit.

## Co-op Housing Development and Mortgage Payment Relief

The government is fostering co-op housing development with a \$309.3 million investment in the Co-operative Housing Development Program. A new mortgage charter has also been announced to ensure that financial institutions offer personalized relief options and reasonable payment arrangements for borrowers.

## FINANCIAL SERVICES

### Pension Fund Investment

The government plans to explore lifting the "30 percent rule" limiting Canadian pension funds' voting shares in corporations to boost their participation in economic growth. Additionally, there is a proposal for large federally regulated pension plans to disclose the distribution of their investments, by jurisdiction and asset-type for each

jurisdiction, to the Office of the Superintendent of Financial Institutions (OSFI).

## More Affordable Banking Accounts

The government has asked the Financial Consumer Agency of Canada (FCAC) to work with banks to improve low and no-cost bank accounts, including by providing online bill payments and additional debit transactions with no extra fees.

## Open Banking Framework

The *Fall Economic Statement* announced that the federal government will introduce legislation through the *2024 Budget* to develop an open banking framework that would regulate access to financial data. This framework will ensure that Canadians and small businesses have safe and secure access to financial services and products that help them manage and improve their finances.

There are three key policy objectives for the open banking framework: 1) ensuring safety and soundness, 2) promoting consumer financial well-being, and 3) fostering economic growth and international competitiveness.

To achieve the secure implementation of consumer-permissioned financial data sharing, the government will follow a phased approach. In the initial phase, FRFIs meeting a specified retail volume threshold will be mandated to participate, while credit unions and accredited third parties have the option to opt-in to the framework.

## FINANCIAL STABILITY

### Addressing Integrity Risks

The Department of Finance is collaborating with security and intelligence partners to implement a national security review process for payment service providers as outlined in the Retail Payment

Activities Act. OSFI, with an expanded mandate from *Budget 2023*, has released a draft Integrity and Security guideline for public consultation and plans to issue the final guideline in January 2024 after industry engagement. Additionally, the government is conducting a review of federally regulated financial institutions statutes, seeking input until December 4, 2023, on necessary changes to address technological and geopolitical shifts and safeguard Canadians, national security, and the integrity of the financial sector.

## Protecting From Crypto Risks

The federal government is implementing measures from *Budget 2023* to mandate disclosures of crypto-asset exposures in federally regulated pension plans, aiming to safeguard Canadians' pensions.

In addition, OSFI is poised to initiate consultations with federally regulated financial institutions (FRFIS) in November, aligning with efforts by the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB), regarding public disclosure of crypto-asset exposures.

## Combating Financial Crimes

The *2023 Fall Economic Statement* outlines the government's plan to enhance Canada's Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Regime through legislative measures. Proposed changes to the *Criminal Code* and the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA)* and its regulations include measures to combat sanctions evasion, address fraud and money laundering risks in real estate, extend requirements to title insurers and real estate representatives, broaden the framework for intermediary companies offering cash withdrawal services for ATMs, combat environmental crime, and improve strategic intelligence products of the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)

by allowing the listing of names of foreign entities posing AML/ATF risks.

Proposed changes to the Criminal Code aim to enhance the AML/ATF Regime's operational effectiveness by addressing challenges in prosecuting third-party money launderers, adapting the production order for financial data to encompass digital assets, and modernizing provisions related to the search, seizure, and restraint of crime proceeds.

## SUSTAINABLE FINANCE

### A Canadian Taxonomy

Department of Finance, Environment and Climate Change Canada (ECCC), and Natural Resources Canada (NRC) will consult with regulators, the financial sector, industry, and independent experts, to develop a taxonomy that is aligned with reaching net-zero climate targets by 2050. The *2023 Fall Economic Statement* proposes to provide \$1.5 billion in the 2024-25 fiscal year to the department of Finance to support this work.

Most notably, the government announced that the Department of Finance, Innovation, Science and Economic Development Canada (ISED) and ECCC will develop options to make climate disclosures mandatory for private companies.

### Climate Tax Incentives

In *Budget 2023*, the federal government announced multiple tax incentives to combat climate change and build a clean economy and shared a timeline for the Clean Economy Investment Tax Credits and a priority-based system. It is expected that all the investment tax credits will be delivered in 2024. The investment tax credits pertain to carbon capture, utilization, and storage; clean technology adoption; clean hydrogen; clean technology manufacturing; and clean electricity.

## LEGISLATIVE UPDATES

### Artificial Intelligence

Updated federal legislation and regulations on *The Digital Charter Implementation Act* were announced. *The Digital Charter Implementation Act* introduces three proposed Acts, aiming to create a national legislative framework on privacy and artificial intelligence. The proposed *Consumer Privacy Protection Act* seeks to safeguard the privacy of Canadians and provide businesses with clear guidelines amid the evolving landscape of technology.

### Modernization of the Competition Framework

The Modernization of the Competition Framework, based on a broad public consultation on competition reform undertaken by the government, will increase the robustness of competition enforcement across all industries to ensure more competitive, open, and dynamic markets across Canada.

### The Investment Canada Act

If passed, it would ensure that Canada can continue to address changing threats that can emerge from foreign investment. Furthermore, this will safeguard economic growth and Canadian jobs without compromising national security or national interests.

## FINAL THOUGHTS

The *2023 Fall Economic Statement* contains a heavy focus on measures that take aim at the serious social issues of affordability and housing. It also introduces new measures aimed at shielding Canadians from emerging threats and ensuring the ongoing protection of the integrity of our financial system. At the same time, the government reiterates its commitment to fiscal restraint and responsibility. Successful management by the government of its significant debt payments in the coming years is posited on a very optimistic outlook and there are many risks that could affect this rosy projection.

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