

## 2024 Federal Budget Highlights

On April 16, 2024, The Honourable Chrystia Freeland, Deputy Prime Minister and Minister of Finance, presented the 2024 Budget entitled *Fairness For Every Generation* (“Budget 2024”). Budget 2024 focuses on housing and strengthening the safety net for future generations, while also adjusting the tax system to offset some of the cost of the new spending initiatives. The net fiscal impact of the new measures introduced in Budget 2024 totals \$35 billion over the next five years.

This memo highlights items that may be of interest to plan administrators, employers, and members without comments from PBI.

### Retirement

#### Encouraging Pension Funds to Invest in Canada

The Minister of Finance had also already stated in the 2023 Fall Economic Statement that continued domestic investments by Canada’s pension funds could potentially boost the country’s economy. Budget 2024 confirmed this intent by the creation of a working group led by Stephen Poloz (former Governor of the Bank of Canada) and supported by the Deputy Prime Minister and Minister of Finance. This working group would focus on areas, such as digital infrastructure and AI investment, physical infrastructure, airport facilities, venture capital investments, building more homes (including on public lands) and removing the 30% rule for domestic investments.

As initially stated in the 2023 Fall Economic Statement, Budget 2024 also confirmed that large federally regulated pension plans will be required to disclose to OSFI the distribution of their investments by jurisdiction and, within each jurisdiction, by asset class.

#### Minor changes to the Canada Pension Plan

Regarding public pensions, following the series of measures enacted by the federal government since 2015 aimed at reducing seniors’ poverty, Budget 2024 only brings technical amendments to the Canada Pension Plan (CPP):

- Providing a top-up to the Death Benefit for certain contributors.
- Introducing a partial children’s benefit for part-time students.
- Extending eligibility for the disabled contributors’ children’s benefit when a parent reaches age 65.
- Ending eligibility for a survivor pension to people who are legally separated after a division of pensionable earnings.

#### Strengthening Long-Term Care

The federal government will also introduce the Safe Long-Term Care Act to support new national long-term care standards to ensure high-quality care to seniors and improve infection prevention and control practices. Since provinces are territories responsible for delivering and operating long-term care facilities, the government hopes this new act will encourage them to adopt better practices.

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## A Stronger Social Safety Net

To make sure that Canada's social safety net works for every generation, especially for Millennials and Gen Z, the federal government intends to make transformative investments in various fields, such as health care, childcare and education. Total investments over the next five years are expected to be \$10.5 billion, the main drivers of this cost being:

- The launch of the new Canada Disability Benefit, at a cost of \$6.1 billion over six years (and \$1.4 billion per year ongoing), which will fill the gap between the Canada Child Benefit and the Old Age Security for persons with disabilities. A maximum benefit amount of \$2,400 per year for low-income persons with disabilities between the ages of 18 and 64 will begin in July 2025. This measure should improve the financial security of 600,000 low-income persons with disabilities.
- The launch of the National Pharmacare Plan (\$1.5 billion), the first phase of which will be the coverage of contraceptives for nine million Canadian women and the medication, devices, and supplies for people with diabetes.
- The creation of a National School Food Program (\$1 billion) to expand access to school food programs and provide meals to \$400,000 children per year, saving as much as \$800 annually in grocery costs for lower income families.
- The extension by one year of the increase in full-time Canada Student Grants from \$3,000 to \$4,200 per year, and interest-free Canada Student Loans from \$210 to \$300 per week. This measure will cost \$1.1 billion in 2024-2025.

## Housing: More Affordable Homes

From the outset, the federal government highlighted the housing crisis in Canada as the main priority that needed to be addressed by Budget 2024. The government plans to invest more than \$8.5 billion over the next five years in an extensive list of new measures aimed at increasing the number of homes and apartment buildings for purchase and rent, as well as making housing more affordable for low to median income households. Some of the new measures announced are (but not limited to):

- The launch of a new \$1.5 billion Canada Rental Protection Fund (to be administered by the CMHC) to protect the stock of affordable housing in Canada, which will provide \$1 billion in loans and close to \$0.5 billion in contributions to support affordable housing providers to acquire units and preserve rents at a stable level for decades to come (thus preventing these units from being redeveloped into high-end condominiums or luxury rental units).
- The introduction of a temporary accelerated capital cost allowance (cost to the government of \$1.1 billion), at a rate of 10% for eligible new purpose-built rental projects for residents to move in before the year 2036.
- The funding of \$1 billion to Infrastructure Canada to stabilize funding of its existing program towards preventing and reducing homelessness, as well as \$250 million to address the urgent issue of encampments and unsheltered homelessness.
- The extension of the Interim Housing Assistance Program by providing \$1.1 billion, which helps provincial and municipal governments in preventing homelessness for asylum claimants.
- The funding of \$1 billion to the Canada Mortgage and Housing Corporation (through the Affordable Housing Fund) to build affordable and supportive housing, as well as shelters for the vulnerable.
- The launch of a new Canada Greener Homes Affordability program (\$0.8 billion) that will support the direct installation of energy efficiency retrofits for Canadian households with low to median incomes.
- The conversion of underused federal offices into homes, the cost of which is expected to be fully recovered through substantial short- and long-term cost savings.

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- The increase in the maximum mortgage amortization period for first-time buyers of newly constructed homes, which will now be extended to 30 years (an increase of 5 years), to bring the monthly cost down.
  - The withdrawal limit in the Home Buyers' Plan will be increased to \$60,000 (previously \$35,000) and the repayment period will begin in the fifth year (previously in the second year) after the year in which the withdrawal was made.

## Other Spending Measures

The 2023 Fall Economic Statement announced the introduction of the Clean Electricity investment tax credit of 15% for eligible investments in new equipment related to low-emitting generation systems and stationary electricity storage systems. The cost of this tax credit was revised to \$7.2 billion over five years.

To spur additional economic growth for future generations of Canadians, the federal government intends to invest \$7.6 billion of new monies over the next five years into specific areas of science, the two most noteworthy being:

- The launch of a new AI Compute Access Fund and Canadian AI Sovereign Compute Strategy (\$2 billion), to help researchers and businesses access the computational power of AI infrastructure, and
- The increase in core research grant funding (\$1.8 billion).

Lastly, the government also announced significant new spending on National Defence of close to \$10 billion over the next five years.

## Taxes

To offset the cost of the new measures introduced in Budget 2024, the federal government also announced measures to increase its revenue through higher taxes. The net fiscal impact of these measures is expected to total \$18.1 billion over the next five years. The largest contributor to this increase, by far, is the increase in the capital gains inclusion rate. The federal government will introduce a new tier, in which capital gains above \$250,000 will increase to 66% (currently at 50%). However, capital gains from the sale of a principal residence will continue to be exempted from this calculation. This measure will raise over the next five years a total of \$10.6 billion of tax revenue from corporations and about \$8.8 billion from the 40,000 Canadians impacted.

Among the many other tax measures proposed in Budget 2024, it was announced that the tobacco excise duty would rise by \$4 per carton of 200 cigarettes and the vaping excise duty rates would rise by 12%.

## Canadian Economic and Fiscal Outlook

### GDP growth

Canada's economic growth for 2023 was 1.1% (real gross domestic product – GDP) in 2023, a figure that is three times higher than the 2023 Budget's initial forecast of 0.3%. This better-than-expected performance was mostly driven by the 1% rise in the 4<sup>th</sup> quarter due to strong Canadian exports (in part influenced by surprising growth in the U.S. economy) and demand from households for goods and services. This momentum continued in the first quarter of 2024 with a 3.5% growth (annualized basis). Private sector economists that were surveyed expect growth of 0.7% for 2024 and 1.9% for 2025, in what could be commonly called a "soft landing."

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## Inflation and Interest Rates

Economists surveyed by the federal government expect CPI inflation to remain around 3% through the first half of 2024 but then will start declining to approximately 2% by the end of the fiscal year, resulting in an average of 2.5% for 2024. Despite this expected decrease in CPI inflation, costs remain high for groceries and housing.

Economists also expect short-term interest rates to decline to 4.5% in 2024 and 3.1% in 2025, and then finally settle at 2.7% at the end of 2028.

## Unemployment and Wages

The unemployment rate currently stands at 6.1%, a figure that the government deems low by historical standards. This solid labor market is also driving higher (real) wages, where wage growth has outpaced inflation for the past 13 months; real wages are now higher than pre-pandemic levels, adjusted for inflation. Real average weekly earnings have risen 4.6% since 2019 and are now above their 2009-2019 trend.

## Budgetary Balance and Federal Debt

For 2023-2024, the budgetary balance is expected to be a \$40.0 billion deficit (or 1.4% of GDP). The federal government is projecting this deficit to gradually decrease over the next five years, ending at \$20.0 billion (or 0.6% of GDP) for 2028-2029. However, due to uncertainties around the domestic policy rates and global geopolitical tensions, the government developed a *downside scenario* and an *upside scenario*. Under the *downside scenario*, the projected deficit in 2028-2029 is estimated at \$24.1 billion, while the *upside scenario* would bring down the deficit to \$13.2 billion.

Total federal debt is projected to be at \$1,255 billion at the end of 2024-2025 (or 41.9% of GDP). At the end of 2028-2029, the debt is expected to slightly decline to 39.0% of GDP.