



Research Insight

Highlights of Budget 2024

April 18, 2024

Below you'll find insights and analysis from some of our fund company partners on the Federal Budget's anticipated impact on the macroeconomic and fiscal landscape.

Partner	Analysis	Full Article
iA Global Asset Management	<p>First, the projected deficit for the coming fiscal year was in line with last year's forecasts, at about \$40B, despite close to \$20B of new spending. The balancing act was achieved through 1) stronger nominal growth expectations, and 2) a hike in the capital gains tax, which was announced as targeting the upper end of the income distribution (more on this below).</p> <p>Second, it is true that Canada's debt-to-GDP figure shines in contrast to the G7 countries, but there's reasons to worry about the continuing absence of a target for a return to balance over the coming five years. Credit agencies are likely to take notice as well and should soon knock on the door to ask difficult questions. Canada is one of 11 countries benefitting from a AAA rating from all major agencies, helping it finance its debt at quite advantageous rates (as of April 17, Canada's 10-year rate stands at 3.7%, a full 90 bps lower than the U.S. 10-year rate at 4.6%). The reason is simple: global pension plans have an appetite for AAA rated debt, and Canada's weight in this basket far outweighs its economic weight, thus pushing its cost of financing lower. Any hints at a potential downgrade for the country's debt would significantly impact the cost of servicing the debt.</p> <p>Third, the choice to finance the new spending through a hike in the inclusion rate for capital gains exceeding \$250K to 66% was the most discussed element of the budget. While this measure was packaged as targeting the wealthiest Canadians (the figure of 0.13% of Canadians being impacted was mentioned explicitly), there is a case to be made that it will be much more far-reaching than intended. For example, anyone with real estate investments (e.g., a plex purchased a few decades ago, or a cabin they planned to sell to finance their eventual retirement) will de facto pay more taxes on the sale.</p> <p>Overall, there is little to like in this budget from an economic perspective: deficits continue to be the star of the show, the measures announced do not add to Canada's productivity or prosperity and the path to balance remains an afterthought, at best.</p> <p>Not much to move markets here, but mostly positioning the Liberals for a potential election in 2025.</p>	N/A

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BMO	<p>This budget is another swing of the tax-and-spend policy hammer, with billions of dollars worth of economic upside and tax increases fully churned over into more program spending. However, the bottom-line fiscal metrics have held their ground, debt services costs remain contained at just under 11% of revenues, and Canada might still look downright responsible compared to the U.S.</p> <p>But, this is another case where an opportunity for fiscal consolidation has been passed over, while another round of tax increases will only leave more questions about future policy moves – and the only thing worse than higher taxes might be uncertainty over taxes.</p>	Click here
Scotiabank (Dynamic Funds)	<p>This budget lays the foundation for a heightened and potentially prolonged election season for Canadians. A relatively benign outlook underpinning the budget leaves little room for surprise (pie-in-the-sky thinking on the eve of U.S. elections?), nor does it leave much space for costly campaign platforms under current anchors. But it is reasonable to assume policy (and fiscal) resets at election time – or crisis mode – under the current or new government.</p> <p>Let’s hope all parties find a compelling and digestible way of bringing growth and productivity back to the fore in Canadian discourse and in a meaningful way to all Canadians. Only this will secure better living standards for all Canadians over time.</p>	Click here
RBC	<p>While we’re glad to see the government abide by fiscal anchors – and note this as a step towards building up credibility near term – we’re weary of the impact that these new taxes could have on the Canadian economy over the medium and longer term. We continue to see the narrow targeting of revenue measures weighing on business investment – which is key to bringing Canada’s productivity growth up to more sustainable levels. Canada already levies the highest tax on corporate profits among triple A-rated countries and G7 economies. We also think the likelihood of higher business costs being passed down to consumers further exacerbates Canada’s affordability challenge and high inflation. Disciplined spending is a preferred strategy to achieve Ottawa’s fiscal anchors – and is one that would shield households and businesses from rising federal debt funding costs.</p> <p>The Canadian economy has been beating expectations, prompting the government to increase its revenue growth projections markedly from the 2023 Fall Economic Statement – and spend it fast. While economic growth assumptions are prudent and continue to align with our own, hefty spending is pushing the boundaries of the fed’s fiscal anchors – leaving little room to address any potential negative developments.</p>	Click here
TD	<p>Going into Budget 2024, Minister Freeland had indicated the government would help create the conditions for interest rates to fall. Was that achieved? The results are mixed. Using tax increases may dampen the inflationary force of new spending, but deficits are on track to widen over the next five years. Moreover, provinces are ramping up spending and deficits in the near term, so the overall government sector is still getting in the BoC’s way. As for the risk to Canada’s AAA credit rating, the country is not currently on a negative watch. And given that this budget didn’t stray too far from the FES, it shouldn’t change the narrative much around the credit rating.</p> <p>Having said that, the fiscal plan is still reliant on a steadily expanding economy, even if modest. Any major economic potholes would leave Canada vulnerable to missing the fiscal anchors. While the government will tout the potential for its new policies to boost economic growth through higher productivity, new taxes on capital gains may run afoul. All told, higher taxes won’t be beneficial to investment, something which is sorely needed given the significant underperformance in capital spending, meaning it will not improve the trajectory of Canadian economic growth nor boost the real incomes of Canadians.</p>	Click here

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