

Canada Watch

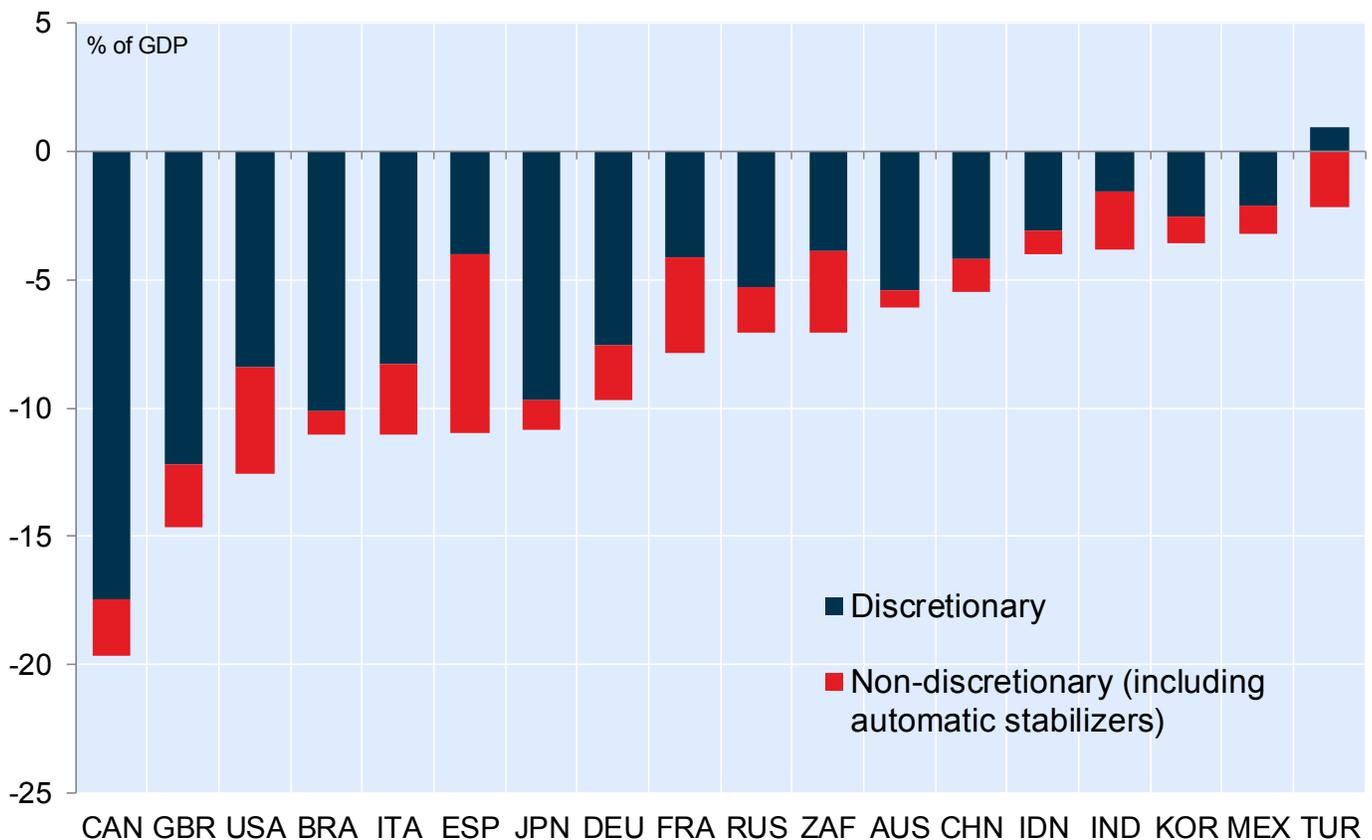
By Warren Lovely, Taylor Schleich and Jocelyn Paquet

With COVID-19 restrictions having ravaged the global economy in 2020, governments from all over the world have been forced to step in to take on debt to support its citizens and engineer a recovery. Safe to say, you won't find many countries (exactly zero advanced economies) whose income statement is on pace to improve in 2020. And while fiscal deterioration is the name of the game in the G-20, Canada holds the distinction of being the nation whose financial position is expected to worsen the most in 2020 (19.6% of GDP) as per the IMF's recently-released October Fiscal Monitor. And as can be seen in today's Hot Chart, the battle for first (rather, last) place isn't that close. Our closest rival (the U.K.) will see "just" a 14.6% deterioration.

Put more positively, this also implies that no other country has provided as much fiscal support for the economic recovery as Canada has. We're already seeing some the benefits here. The recovery in Canada's labour market by nearly all measurements has been much stronger than in the US where fiscal uncertainty and inaction has provided a headwind in recent months. Moreover, Canada's federal government entered the crisis with fiscal room to spare (less so the for the provinces)—at least if general government net debt was your focus. Even allowing for this year's outsized shortfall, the IMF puts Canada's general government net debt burden at less than 50%—easily the best among G7 nations. This appears to be something of the key yardstick for the minority Liberals, who have pledged to preserve a debt edge versus other large, industrialized nations. (To be fair, Canada's advantage isn't anywhere near as impressive in gross debt terms. And if you add private sector debt to government liabilities, Canada's overall debt load is looking pretty heavy... trailing just Japan and France in the G20.) Notwithstanding the bevy of financial assets on the balance sheet, Canada's rapid accumulation of public sector liabilities (at both the federal and provincial levels) have already cost the sovereign one triple-A rating. And it will be for Finance Minister Chrystia Freeland to put rating agencies and international bond investors at ease via a longer-term fiscal recovery plan. Then again, the Liberals and their NDP allies may have other priorities in mind.

Canada: Fiscal response to COVID-19 tops G-20 countries

Estimated change in general government deficit between 2019 and 2020, G-20 countries



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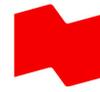
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