

What's a Canadian to make of the IMF's Fiscal Monitor

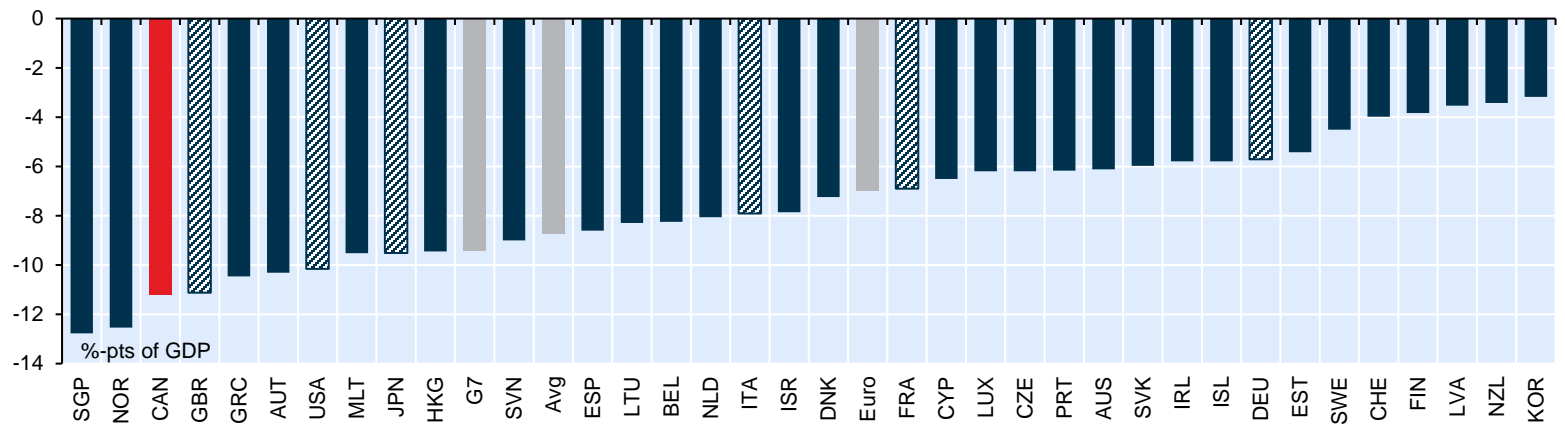
By Warren Lovely/Taylor Schleich

The IMF's *Fiscal Monitor*, chock full of budgetary balance, debt, financing, stimulus calcs, is a fiscal analyst's dream. What's a Canadian to make of the IMF's latest international assessment of government finances? Here are 8 quick observations, each with a matching chart:

(1) At more than 11%-pts of GDP, Canada suffered one of the largest declines in its general government budget balance last year. Note: IMF data are based on an internationally comparable system of national accounts, which explains the gap vs. public accounts (e.g., fed-prov deficit >20% of GDP in fiscal 2020-21). Fiscal carnage was partly cyclical (incl. a commodity price hit), but federal-provincial stimulus was the bigger story. Previously, Canada's virus response sat at the top end of the international charts, but others (notably the U.S.) have caught up/overtaken us. Canada's cyclically adjusted deficit was deemed to be 9% of GDP in 2020, giving a sense of how much repair is needed. **(2)** The IMF assumes Canada cleans up its red ink reasonably fast (e.g., average annual improvement of 2.6%-pts from 2021 to 2024). **(3)** This assumed consolidation would all but erase the general government deficit by 2024. But the IMF may be giving Canada's fiscal authorities too much credit. We'll see what Trudeau/Freeland have in mind April 19th, but this minority federal government (nicely ahead in the polls) appears willing to run deficits indefinitely. Most provinces will still be in the red come 2024-25. At least on a public accounts basis, the combined fed-prov deficit might still be ~C\$80 billion (about 3% of GDP) by mid decade. If pushed, we'd take the 'over'. **(4)** Given assumed economic growth, the IMF implies notable progress on Canada's debt burden. We'll see about that, the focus of governments clearly shifting away from debt burdens to interest bites. We're no saints when it comes to gross government debt. Look to Germany if you want to see what a really strong balance sheet looks like, as it relates to gross liabilities anyway. **(5)** As politicians and treasurers are fond of reciting, Canada's broad government sector has a hefty edge on NET debt. **(6)** As for "Structural Fiscal Indicators", Canada's gross financing needs are ~23% of GDP this year vs. a G7 average of ~40%. The U.S., for example, has greater near-term exposure to higher rates. **(7)** Still, the Government of Canada's debt portfolio is at the short end of the spectrum, which could argue for maintaining a terming-out strategy (even if the economics are less compelling). **(8)** As for non-resident investor exposure, our governments have some to be sure. But Canada's reliance on outside money is less acute than many. Saying that, issuers will welcome foreign investor demand in 2021-22 as the BoC gradually steps down its bond buying.

(1) Canada recorded one of the most severe fiscal hits last year... partly cyclical, but capturing big-time stimulus!

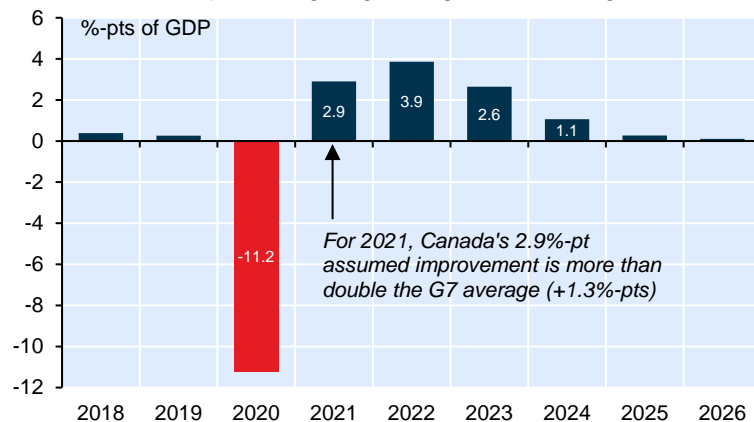
Year-over-year change in general government budget balance across advanced countries: 2020 vs. 2019



Source: NBF, IMF | Note: Canada shaded red; other G7 nations shown with patterned fill; grey shading refers to multi-country averages; 'Avg' refers to all advanced countries

(2) Erasing general government deficit in four years???

Canada: Year-over-year change in general government budget balance



Source: NBF, IMF

(3) Canada to regain/retain fiscal edge

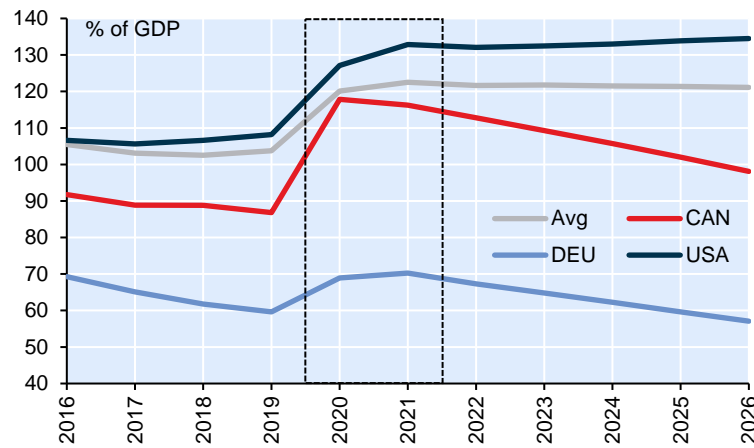
General government budget balance



Source: NBF, IMF | Note: 'Avg' refers to all advanced countries

(4) Bending debt curve lower? We'll see about that

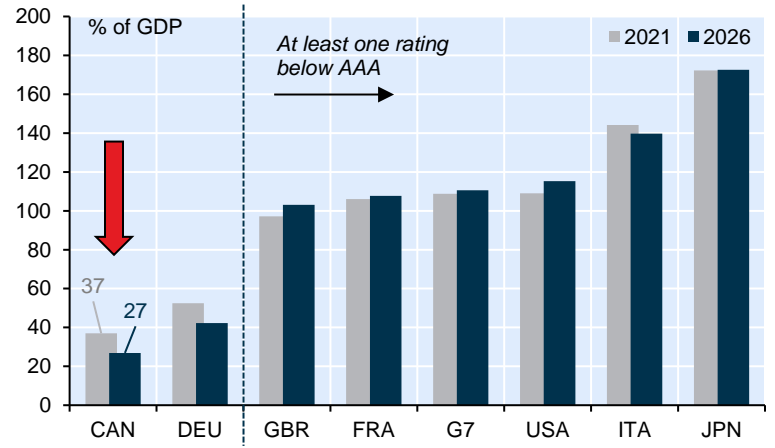
General government GROSS debt burden



Source: NBF, IMF | Note: 'Avg' refers to all advanced countries

(5) All hail Canada's NET debt edge

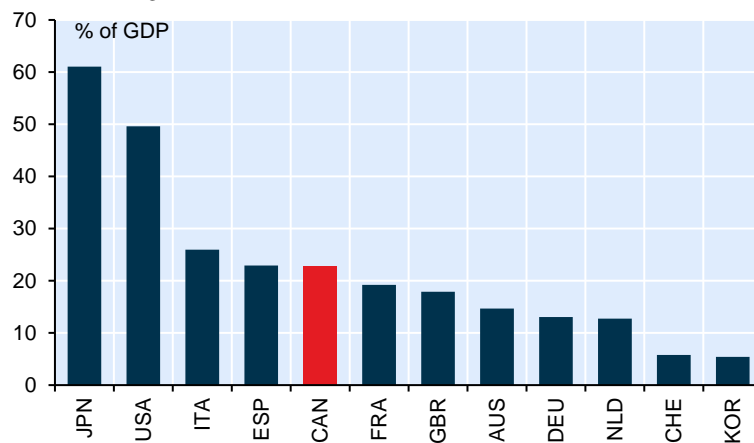
General government NET debt burden outlook: G7 nations



Source: NBF, IMF

(6) Financing need significant but not overwhelming in Cda

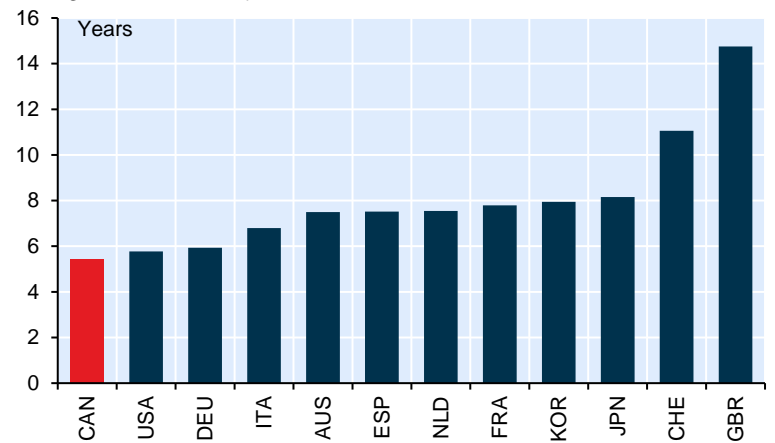
Gross financing need: 2021



Source: NBF, IMF, Bloomberg | Note: Defined as projected overall deficit & maturing government debt in 2021; for most, maturing debt refers to central government

(7) GoC's debt portfolio appears relatively short

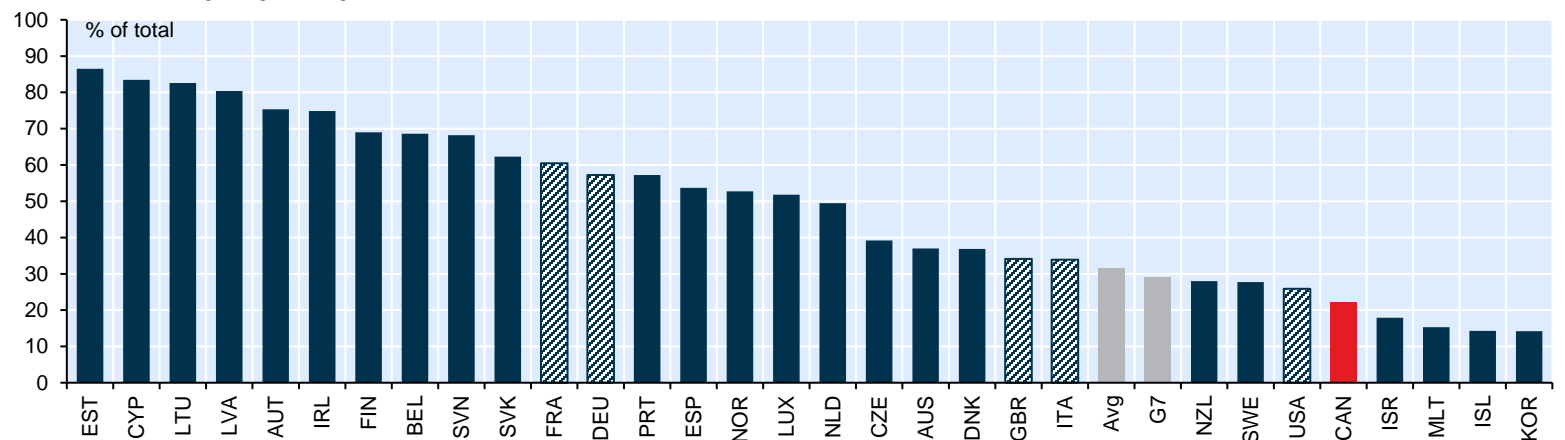
Average term to maturity: 2021



Source: NBF, IMF, Bloomberg | Note: For most economies, the average-term-to-maturity data refer to central government securities

(8) Canadian governments have exposure to non-resident investors to be sure, but relatively less than many other nations

Non-resident holdings of general government debt: 2020



Source: NBF, IMF | Note: Chart excludes Japan, Switzerland and Singapore where IMF reports <10% non-resident ownership; Canada shaded red; other G7 nations shown with patterned fill; grey shading refers to multi-country averages; 'Avg' refers to all advanced countries; non-resident holdings of general government debt data are for the third quarter of 2020 or latest available from the Joint External Debt Hub, Quarterly External Debt Statistics, which include marketable and nonmarketable debt; for some economies, tradable instruments in the Joint External Debt Hub are reported at market value; external debt in U.S. dollars is converted to local currency, then taken as a percentage of the 2020 gross general government debt



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