



'Show me your [budget update] and I'll show you mine'

By Warren Lovely

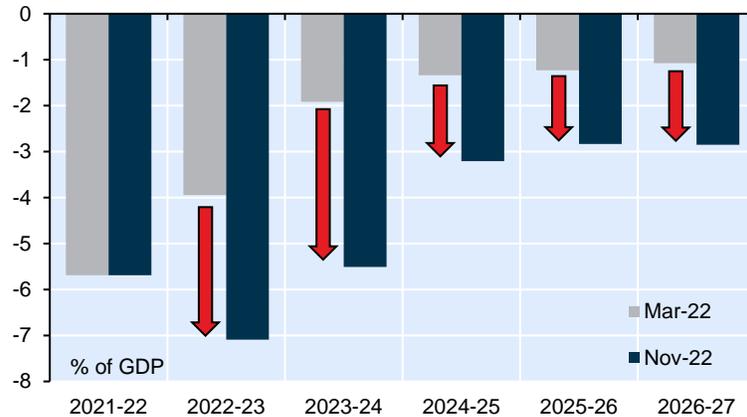
The UK's much-anticipated budget update (aka 'Autumn Statement 2022') has arrived, providing an opportunity to compare and contrast with mid-year snapshots from the Government of Canada and Ontario. Apologies to our friends across the pond, but these comparisons are hardly the most flattering. It might just surprise you where fiscal/financing revisions are arguably most favourable (hint: Ontario). Then again, maybe it won't since fiscal budgetary traction and debt containment have been relatively impressive at the provincial level for some time now.

Let's start with the UK update, which His Majesty's Government concedes "comes at a time of significant economic challenge for the UK and global economy". Despite reversing most of the ill-timed measures in September's Growth Plan, there's still a hefty budgetary imbalance. The UK update outlines £558 billion in cumulative net borrowing over the five years ending 2026-27—more than double the tally in March's budget (Chart 1). We won't suggest that all is rosy in Canada. Rapid-fire rate hikes are working their way through the system, with sentiment souring. Downside scenarios can hardly be dismissed. Still, baseline assumptions entail net positive budgetary adjustments for both the GoC and Ontario vs. spring budgets (Chart 2). Improved fiscal profiles imply scope for a quicker return to balance and mean less debt to carry/finance.

It's on debt servicing where recent developments are particularly noteworthy. A record £120 billion UK debt service bill will consume nearly 12% of revenue in 2022-23 (Chart 3). As per the UK's Office for Budget Responsibility (OBR): "increases in debt interest spending... are not just large but also take hold quickly, reflecting a significant increase in the sensitivity of the debt stock to changes in interest rates and inflation". Note that index-linked gilts, which comprise barely 20% of the UK debt stock, will temporarily account for ~60% of debt interest this fiscal year. There's interest-rate (and inflation) sensitivity at the Government of Canada too, where average debt charges are now tracking ~15% higher than in the budget. More interest consumes valuable fiscal resources to be sure, but a relatively low(er) debt stock makes the adjustment to higher borrowing costs more manageable for Canada's sovereign. As for Ontario, the C\$55.6 billion cumulative interest bill from 2021-22 to 2024-25 is no higher than in April's budget. It's here where Ontario's recent budgetary consolidation pays dividends. Meanwhile, the province's long-standing focus on locking in for longer also means less immediate pressure when borrowing costs move up. For the record: Higher debt servicing costs tied to previously issued inflation-linked debt are not, on their own, a sufficient argument for ditching real return bonds. In our opinion, this type of product still has merit, including as an anti-inflation signal and market-based indicator of long-term inflation expectations.

Chart 1: Still-heavy UK net borrowing (despite ditching tax cuts)

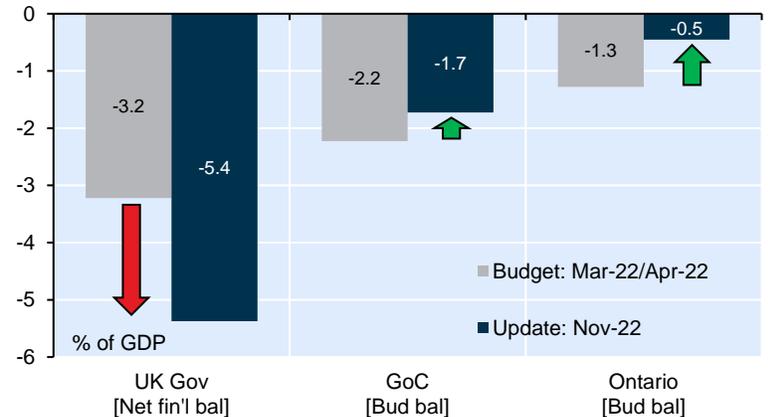
UK gov't net financial balance (i.e., negative values = net borrowing)



Source: NBF, UK OBR

Chart 2: Fiscal revisionism (it's advantage Canada, really Ontario)

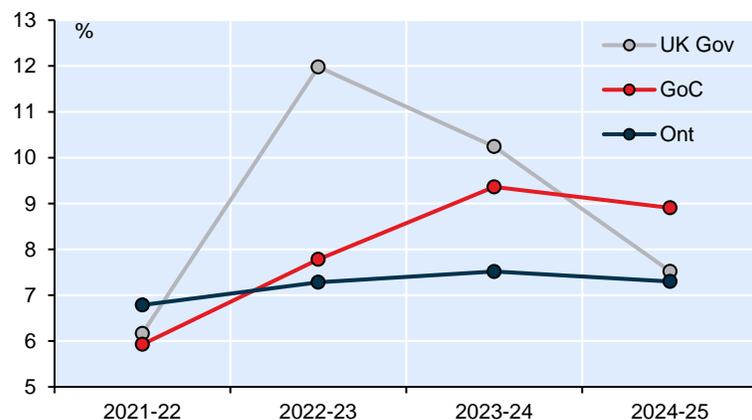
Average net borrowing or budget balance: 2021-22 to 2024-25



Source: NBF, UK OBR, GoC, Ont | Note: Simple average of FY balances over four years

Chart 3: Shifting interest bite particularly noteworthy

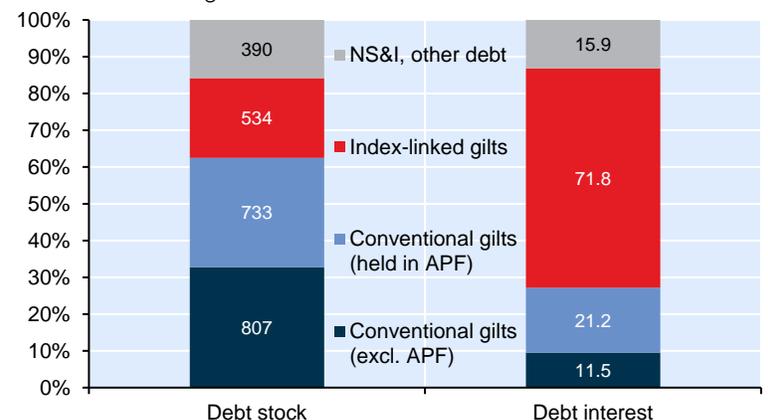
Government debt interest relative to revenue



Source: NBF, UK OBR, GoC, Ont | Note: Based on Nov-22 updates

Chart 4: Dissecting the UK's record interest bill

Share of UK central gov't debt stock & debt interest: 2022-23



Source: NBF, UK OBR | Note: Based on Nov-22 update, figures in bars are £bn



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