

# Canada enjoys foremost fiscal freedom (as per IMF)

By Warren Lovely & Ethan Currie

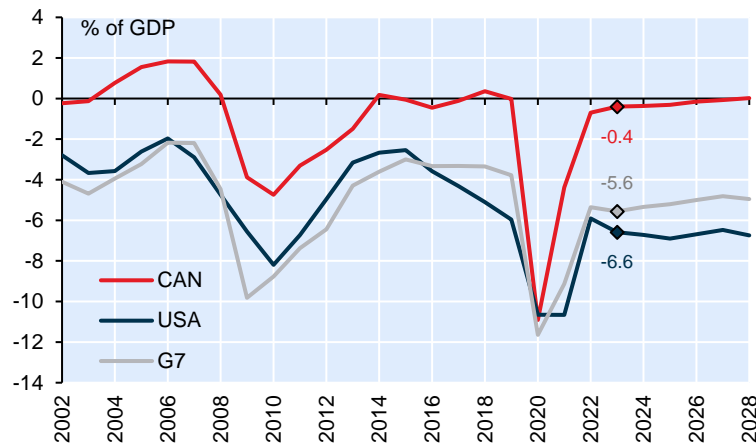
We were treated to the IMF's latest *World Economic Outlook (WEO)* today. And while a sister publication, the *Fiscal Monitor*, arrives with a one-day lag, the *WEO* nonetheless reveals how the IMF sees government financial health evolving across the globe. There's some interesting and encouraging news for Canadians, made all the more relevant by the fact that the federal government in Ottawa utilizes the IMF's international debt comparisons when setting/outlining its key 'fiscal anchors'.

So what does the IMF have to tell us? For starters, Canada's general government sector (which is a concept that covers all levels of government plus social security) has a pronounced budgetary edge vs. G7 peers. There's been more rapid fiscal repair here. Before fully ascribing fiscal traction to a couple of years of heady nominal GDP growth, consider that Canada's general government sector has a comparatively modest structural imbalance (just -0.5% of potential GDP as of 2023). Unlike other large, advanced nations, the IMF sees Canada's structural deficit being erased by 2028. As for the closely watched debt metrics, Canada's edge is better than ever and expected to only grow over time. The IMF puts Canada's general government net debt-to-GDP ratio at a relatively skinny 14% as of 2023. The G7 average? Well, it's currently 95% and set to turn one hundred in short order. For those familiar with the IMF's estimates on net debt, you'll perhaps notice a non-trivial revision to Canada's net debt load. That captures a move to market valuation for financial assets, boosting the country's already large pool of financial assets. Not for nothing, financial assets are netted from gross debt to arrive at net debt. Lest we Canadians get too cavalier, we must acknowledge that our gross debt-to-GDP ratio isn't nearly as impressive, which is something credit rating agencies tend to take note of.

Still, for investors placing any emphasis on how one nation's finances stack up against key peers, the IMF's fresh outlook shows Canada with the foremost fiscal freedom in the G7, particularly once you control for the nation's large and growing stockpile of financial assets.

### Chart 1: Canada's general gov't sector sops up red ink

General government net lending/(borrowing)

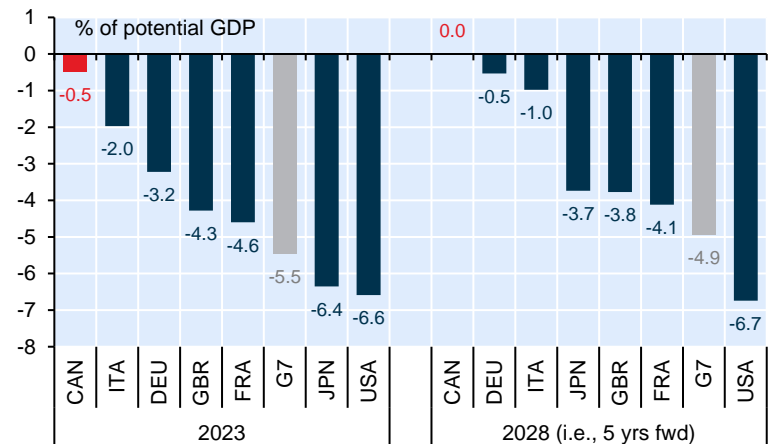


Source: NBF, IMF

After falling deep in the red to fight the pandemic, Canada's general government sector has staged a most impressive recovery, with increasingly negligible net borrowing vs. key peers.

### Chart 2: Canada more structurally sound than G7 peers

General government structural balance: 2023 & 2028

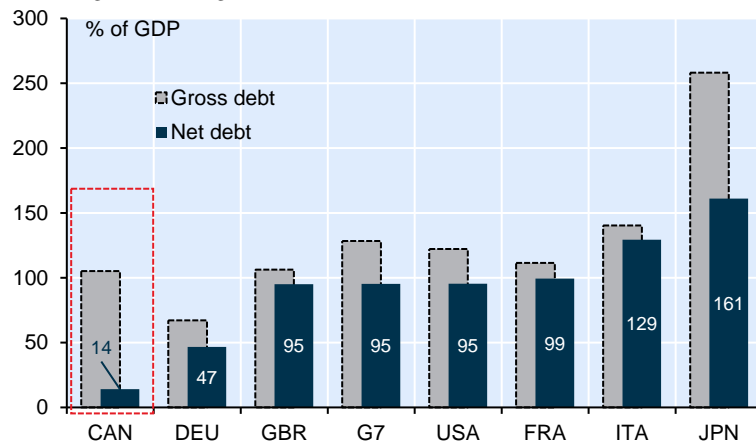


Source: NBF, IMF

Explosive nominal growth in 2021-22 won't be repeated, but Canada's general government sector has a smaller structural deficit to work down, the gap vs. the U.S. particularly striking.

### Chart 3: No comparison on net debt (but gross debt another story)

General government gross & net debt-to-GDP ratio: 2023

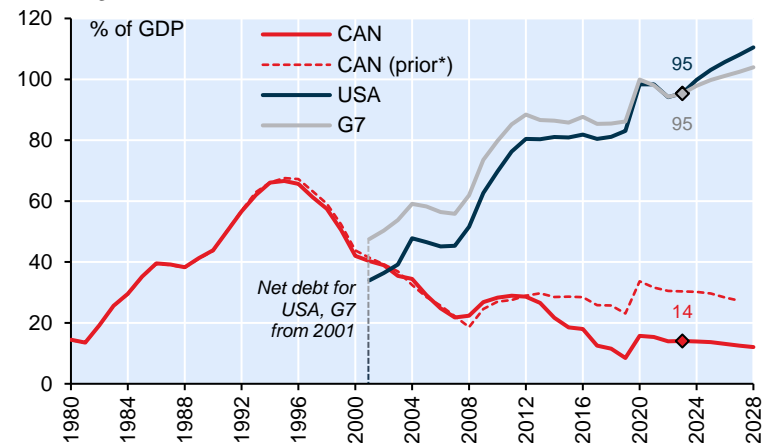


Source: NBF, IMF | Note: Net debt = Gross debt less financial assets

There's no shortage of gross debt in Canada's general government sector, but when it comes to the net debt burden—a noted fiscal anchor in Ottawa—we've been best in the G7 since 2005.

### Chart 4: Canada's net debt edge is new, improved, growing

General government net debt-to-GDP ratio

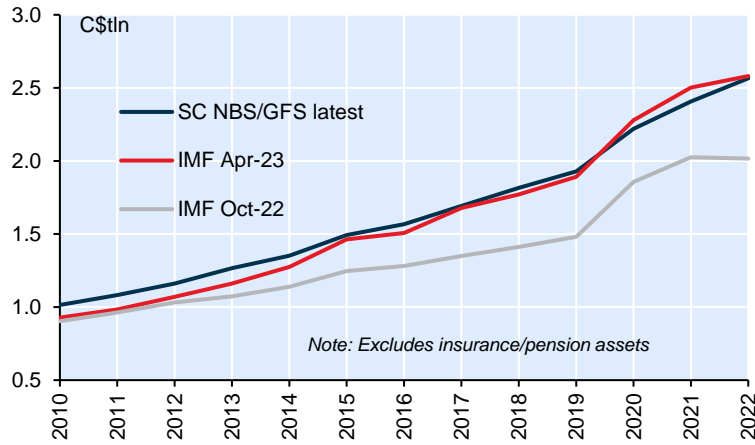


Source: NBF, IMF | Note: Prior estimates for CAN from IMF WEO Oct-22 database

Fresh IMF data show Canada with a new-and-improved net debt-to-GDP ratio, our nation's advantage over a more profligate U.S. (or the G7 as a whole) only expected to grow over time.

**Chart 5: A different approach to valuing financial assets**

Canada general government select financial assets: StatCan & IMF estimates

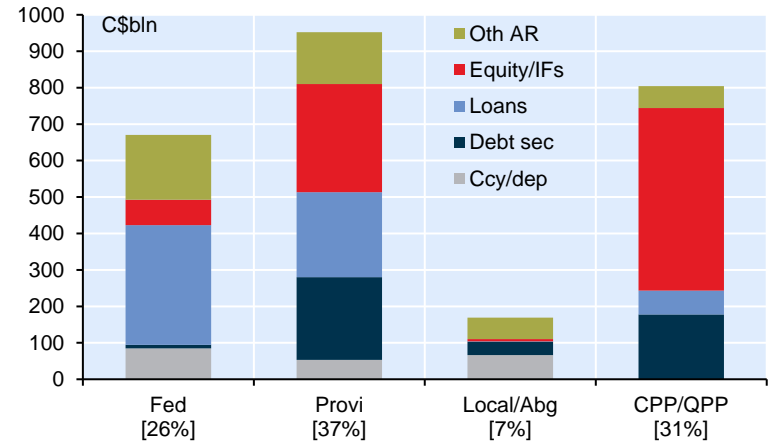


Source: NBF, StatCan, IMF | Note: SC are avgs of qtrly data; IMF are inferred annuals

As for the restated net debt ratio, it reflects a different asset valuation method. By adding ~\$500bln to financial assets, the net debt ratio dropped >15%-pts as of 2022 vs. prior estimates.

**Chart 6: Closer examination of general gov't financial assets**

Canada general government select financial assets by sector/type: 2022:Q4

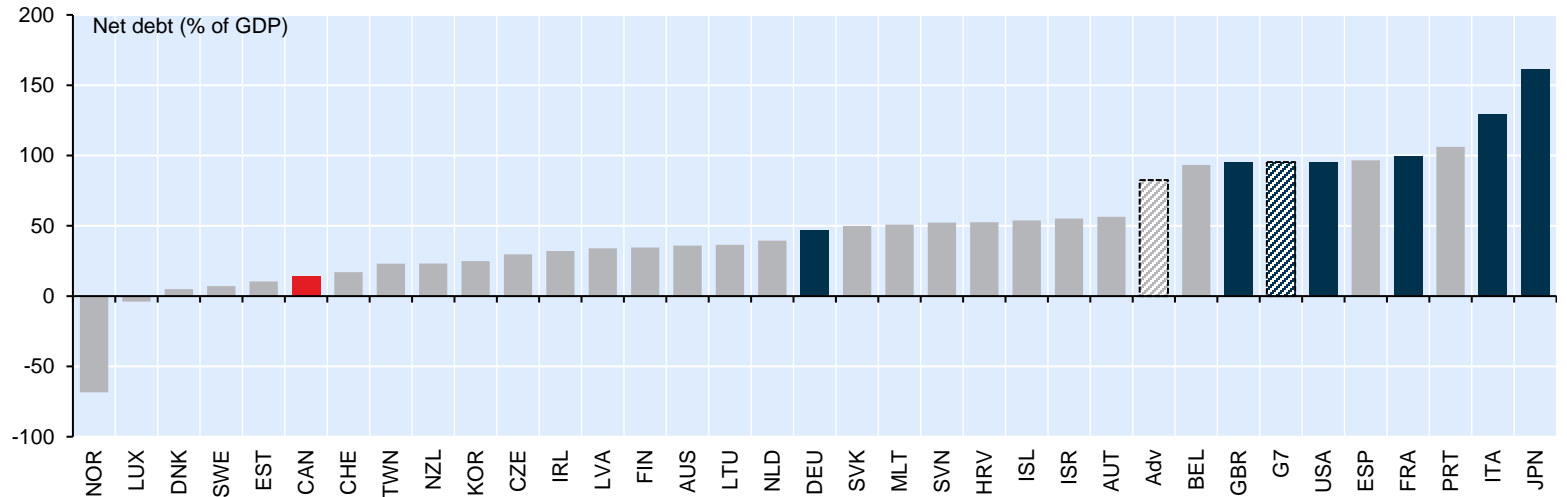


Source: NBF, StatCan | Note: Market value; figures in [:] are share of GG total

Rapid asset growth in the social security system (CPP/QPP) is a big part of the net debt edge, but an even larger stockpile of financial assets at the provincial level aids net debt metrics here.

**Chart 7: A broader snapshot of NET debt burdens in advanced world**

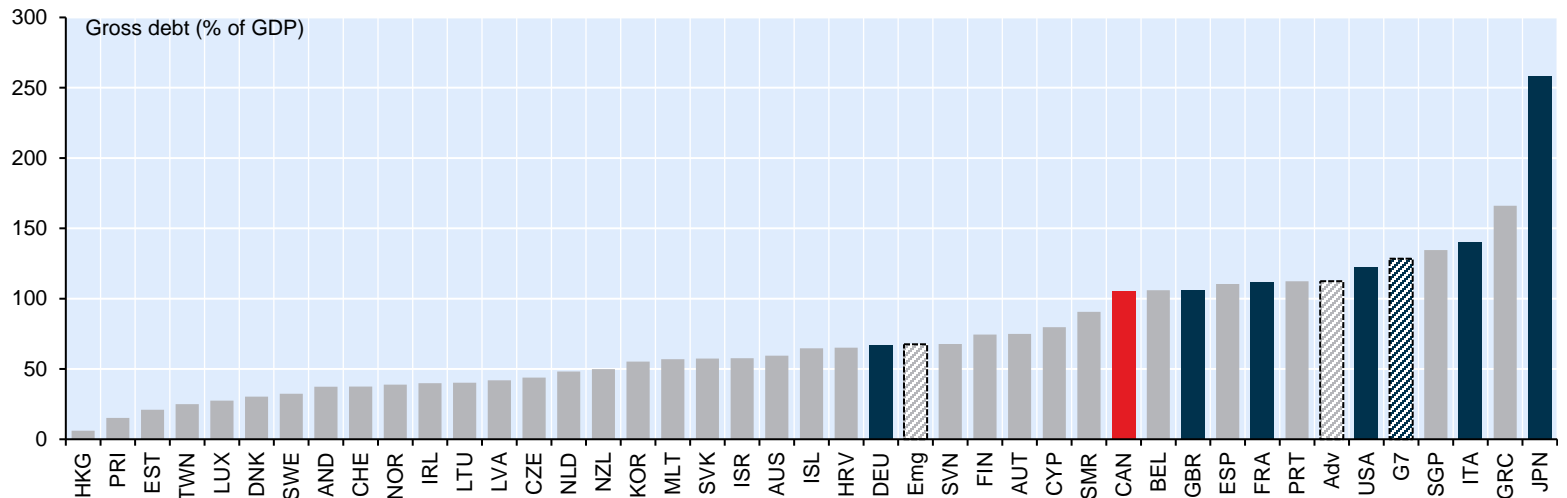
General government net debt-to-GDP ratio: 2023



Source: NBF, IMF | Note: Results for 33 advanced nations from IMF WEO (Apr-23); weighted average for select country groups denoted by patterned fill

**Chart 8: A broader snapshot of GROSS debt burdens in advanced world**

General government gross debt-to-GDP ratio: 2023



Source: NBF, IMF | Note: Results for 40 advanced nations from IMF WEO (Apr-23); weighted average for select country groups denoted by patterned fill

### IMF's country specific notes on Canada's general government finance statistics:

Source: Ministry of Finance or Treasury. Some historical data is also from National Statistics Office

Latest actual data: 2022

Notes: Fiscal data are on a calendar year basis. Canada's net debt corresponds to net financial liabilities as reported by Statistics Canada and includes equity and investment fund shares, which Canada has built up substantially. Statistics Canada has made a recent methodological change to value assets at market value instead of book value, which has decreased net debt.

Fiscal assumptions: Projections use the baseline forecasts from the Government of Canada's Fall Economic Statement 2022 and the latest provincial budgets. The IMF staff makes some adjustments to these forecasts, including those for differences in macroeconomic projections. The IMF staff's forecast also incorporates the most recent data releases from Statistics Canada's National Economic Accounts, including quarterly federal, provincial, and territorial budgetary outturns.

Reporting in calendar year: Yes

Start/end months of reporting year: January/December

GFS Manual used: Government Finance Statistics Manual (GFSM) 2001

Preliminary data: Based on quarterly data

Basis of recording: Accrual

General government includes: Central Government; State Government; Local Government; Social Security Funds; Other

Valuation of public debt: Face value

Instruments included in gross and net debt: Securities Other than Shares; Loans; Other Accounts Receivable/Payable; Other. Gross debt includes debt securities, loans, life insurance and pension, and other accounts payable but excludes unfunded pension liabilities. Net debt is estimated as gross debt minus financial assets which include currency and deposits, debt securities, loans, equity and investment fund shares, and accounts receivable.

Primary domestic currency: Canadian dollar

Data last updated: 03/2023

*NBF Note: For additional information refer to the IMF (<http://www.imf.org>)*



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