

Fiscal fist bumping in Canada? (All depends on the comp)

By Warren Lovely & Taylor Schleich (with a nod to U.S. fiscal monitoring by our Jocelyn Paquet)

As fully expected, the IMF's fresh semi-annual outlook hands Canadian budget master's yet another opportunity for budgetary back-patting and fiscal fist-bumping. Here, we take the opportunity to freshen up a selection of international comparison charts which highlight how Canada's GENERAL GOVERNMENT sector stacks up vs. key peers.

Note: If you're unfamiliar with the 'general government' concept, it's a broad public sector definition encompassing all levels of government (i.e., central, regional, local) plus social security (which in Canada's case is CPP/QPP). In other words, there's much more than the sovereign included here. That's a non-trivial distinction, one we've been at pains to highlight many times previous, including [here](#).

Back to the IMF forecast... There's been some slippage in Canada's general government balance for 2024 (Chart 1). This isn't the first time the IMF has marked Canada down and reflects an underperforming domestic economy (and some marginal commitments). Despite the softer tone to the overall balance for 2024, Canada is seen to possess an underlying budgetary edge vs. many key peers. At 1.0% of GDP, the

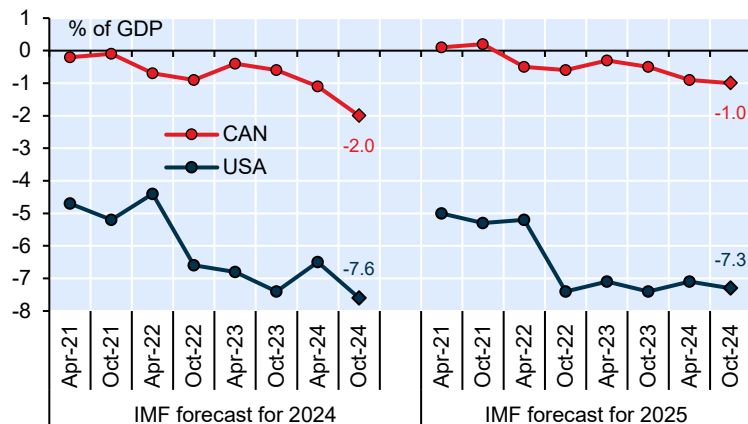
general government structural deficit in Canada is much narrower (and thus less worrisome) than other G7 nations (Chart 2). We agree with IMF: Canada's budgetary outperformance gap will have legs, extending as far as one can reasonably forecast (Chart 3).

Run a smaller shortfall year after year and a serious wedge can form in relative debt burdens (Chart 4). Canada, with its smaller deficit is increasingly on the favourable end of debt comparisons, even if the nation's edge on GROSS DEBT is nowhere near as large as NET DEBT metrics suggest. (Gross vs. net debt is a whole separate discussion.)

To be sure, the U.S. sets the budgetary bar pretty low, as our colleague Jocelyn Paquet nicely illustrated in a fresh [Hot Chart](#). Fiscal repair and debt containment are receiving precious little airtime during the ongoing U.S. presidential election campaign. Voters, it seems, have other things on their mind. Bond investors, to their credit, are increasingly aware of (and sensitive to) the rather perilous budgetary path the U.S. has opted to walk. If America is the comp, Canada looks the darling, supporting relative bond yields. Which we will illustrate in our next *Market View*.

Chart 1: IMF marks Canada's fiscal balance down (again)...

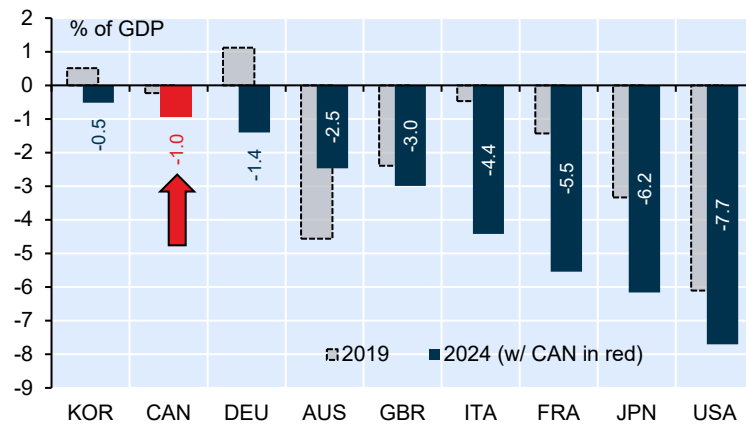
Evolution of IMF outlook for general government overall balance: 2024 & 2025



Source: NBC, IMF (Apr-21 to Oct-24) | Note: Evolution in IMF fcst in post-pandemic period

Chart 2: ... but structural woes less acute vs. most peers

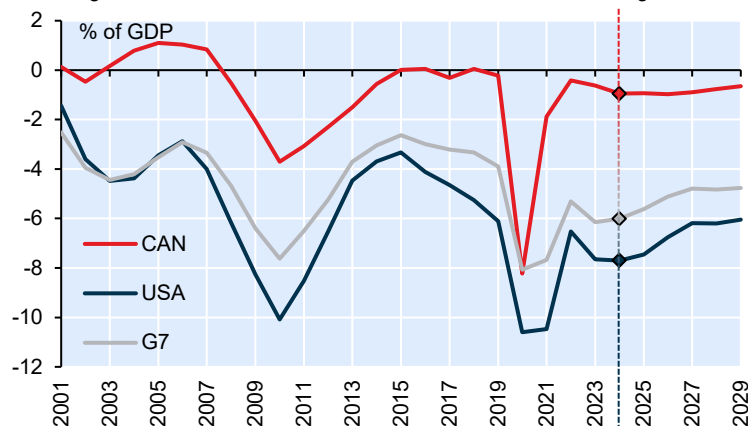
General government structural balance: 2024 vs. pre-pandemic level (2019)



Source: NBC, IMF (Oct-24) | Note: Results for 9 nations comprising the G20:Advanced group

Chart 3: Canada's sustained budgetary outperformance...

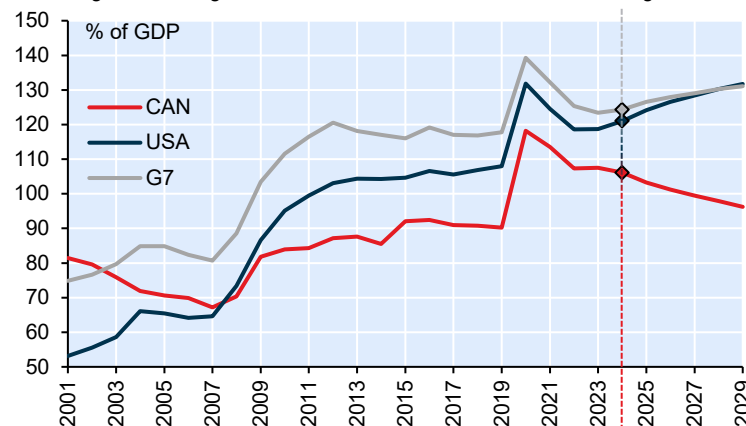
General government structural balance: Canada, U.S. & G-7 average



Source: NBC, IMF (Oct-24)

Chart 4: ... to drive ever-larger wedge between debt burdens

General government gross debt burden: Canada, U.S. & G-7 average

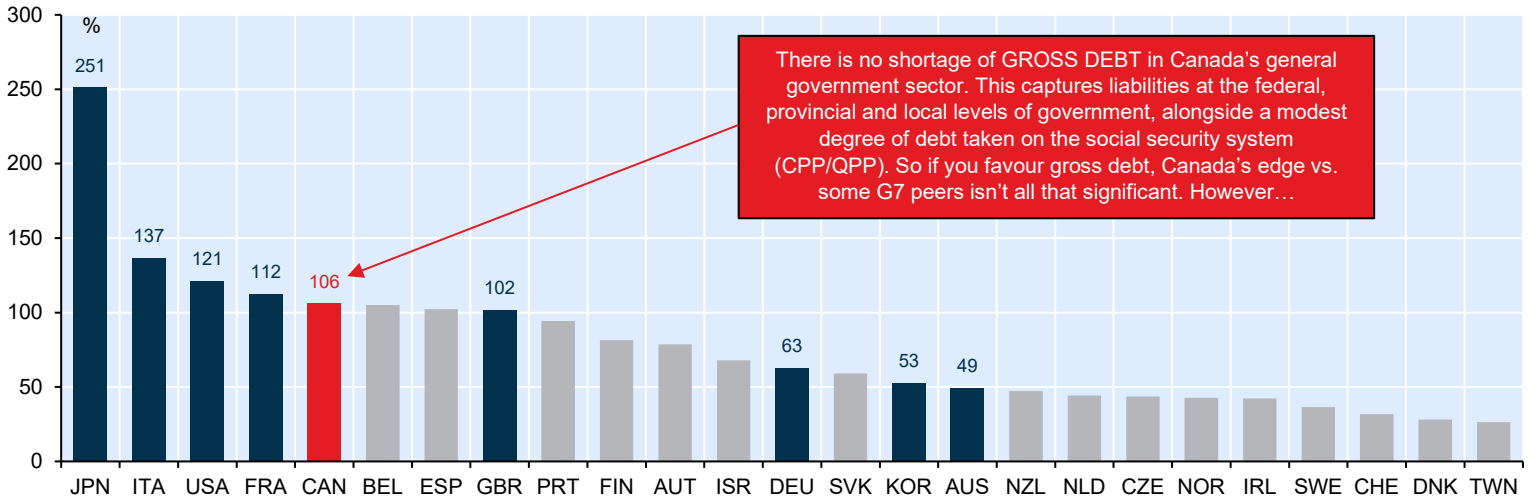


Source: NBC, IMF (Oct-24)



Chart 5a: General government balance sheet 101 > Canada's edge doesn't look that significant in GROSS DEBT terms...

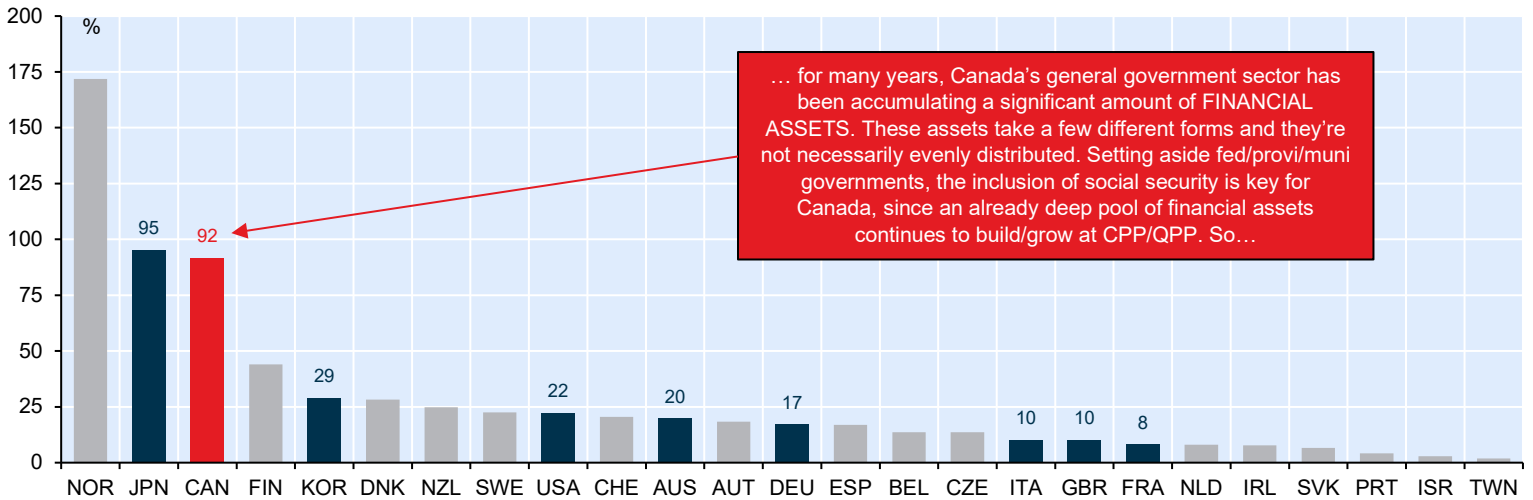
General government gross debt-to-GDP ratio: 2024



There is no shortage of GROSS DEBT in Canada's general government sector. This captures liabilities at the federal, provincial and local levels of government, alongside a modest degree of debt taken on the social security system (CPP/QPP). So if you favour gross debt, Canada's edge vs. some G7 peers isn't all that significant. However...

Chart 5b: ... but few nations have a relatively larger stockpile of FINANCIAL ASSETS in broad general gov't sector...

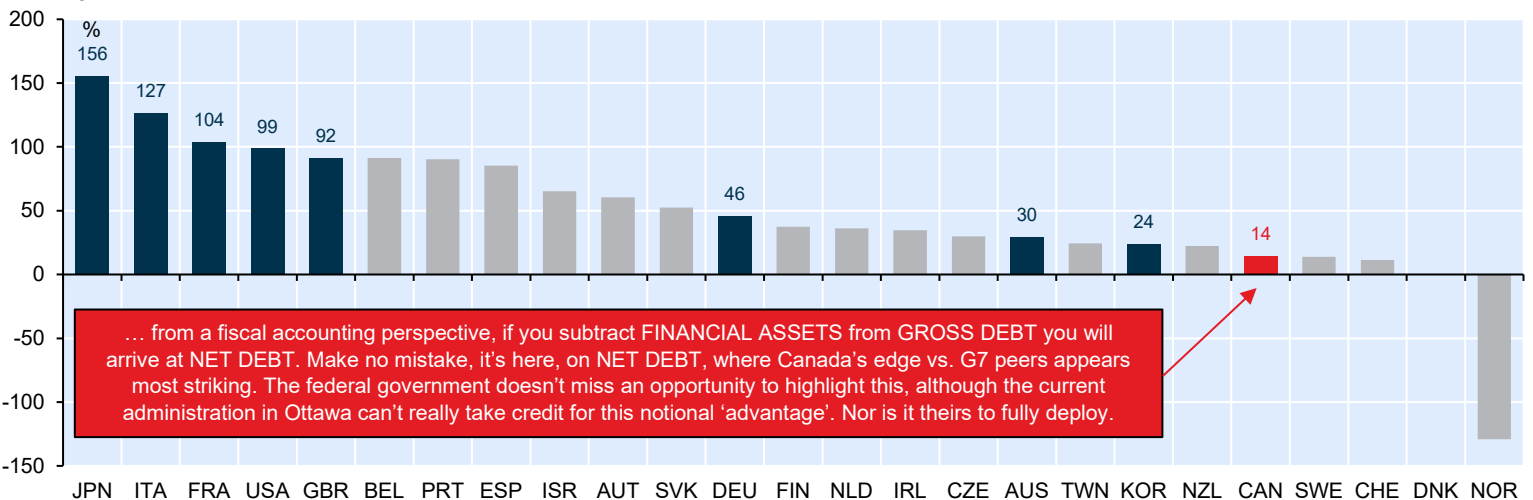
General government financial assets-to-GDP ratio: 2024



... for many years, Canada's general government sector has been accumulating a significant amount of FINANCIAL ASSETS. These assets take a few different forms and they're not necessarily evenly distributed. Setting aside fed/provi/muni governments, the inclusion of social security is key for Canada, since an already deep pool of financial assets continues to build/grow at CPP/QPP. So...

Chart 5c: ... which is why Canada's general government NET DEBT edge looks so impressive (as the feds constantly remind us)

General government net debt-to-GDP ratio: 2024



... from a fiscal accounting perspective, if you subtract FINANCIAL ASSETS from GROSS DEBT you will arrive at NET DEBT. Make no mistake, it's here, on NET DEBT, where Canada's edge vs. G7 peers appears most striking. The federal government doesn't miss an opportunity to highlight this, although the current administration in Ottawa can't really take credit for this notional 'advantage'. Nor is it theirs to fully deploy.

Source: NBC, IMF (Fiscal Monitor Oct-24) | Notes to 5a-5c: The above 3 charts rank/order gross debt, financial assets and net debt relative to GDP for a collection of advanced nations that each account for no less than 0.1% of global GDP; as per earlier cautions, these data/calculations relate to the general government sector, which in Canada's case would include federal, provincial and local governments plus social security (CPP/QPP); the IMF has adopted/ followed StatCan methodology, which includes valuing assets at market value instead of book value; nations comprising the G20:Advanced group are shaded blue, except for Canada which is shaded red



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