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Fiscal frights (courtesy of the IMF)

By Ethan Currie, Taylor Schleich & Warren Lovely

The IMF's *World Economic Outlook (WEO)* seldom arrives at an uninteresting moment. This latest WEO fails to buck such a trend, with geopolitical uncertainties mounting, fiscal pressures building, and tightening in global rates adding to the stress.

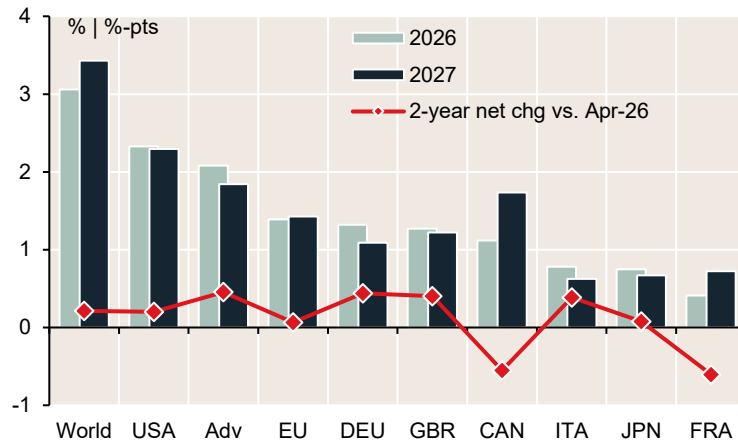
Despite a laundry list of shocks which may threaten growth prospects, the IMF sees little change to the global GDP picture relative to their prior WEO in April (nor is the picture much different from the provided July update). That's not to say there isn't variation in country-specific outlooks—Canada's prospects are notably weaker in the near-term, but encouragingly, growth is set to accelerate on a per capita basis (which struggled over the past decade). A modestly revised growth outlook shouldn't take away from the excitement, however... Dubbed "*Resilience*

Under Strain, Urgent Choices", this WEO (again) stresses that fiscal space must be "urgently rebuilt".

We fixate on this fiscal discussion and use this *Market View* to re-assess relative positioning around the globe, and what it might mean for bond investors. For Canada, it remains the case that the nation boasts a relative fiscal advantage and is far less indebted than its G7 peers on a net basis (thanks primarily to ample financial assets). That comparative balance sheet edge is set to be maintained, and grow vs. certain economies like the U.S., where fiscal frights continue to accumulate. Higher real rates, if sustained, will add significant pressure on global growth prospects—something that bondholders are taking note of.

Chart 1: Global growth outlook upgraded slightly...

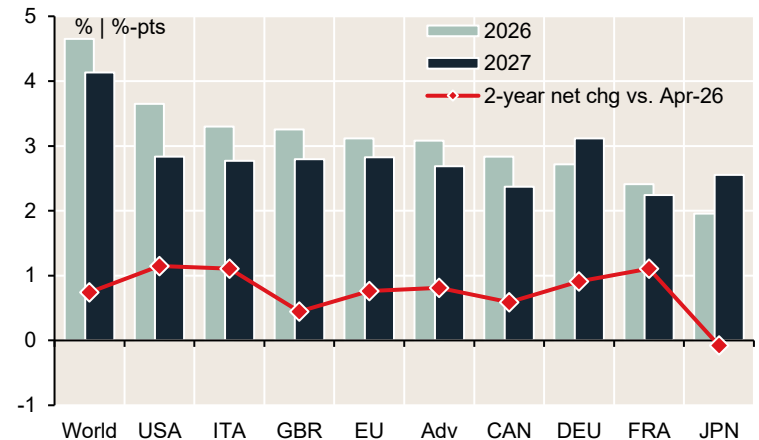
Real GDP growth projections: Latest WEO and 2Y change vs Apr-26 WEO



Source: NBC, IMF | Note: Adv=advanced economies per IMF, EU=European Union

Chart 2: ...despite inflation seen running hotter for longer

Average annual inflation projections: Latest WEO and 2Y change vs. Apr-26

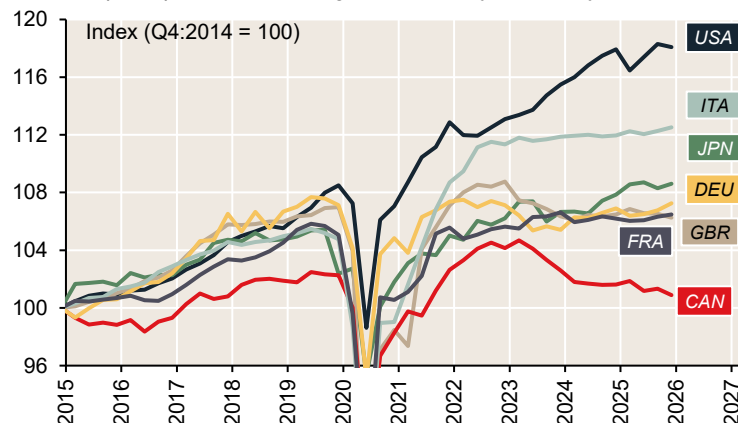


Source: NBC, IMF | Note: Adv=advanced economies per IMF, EU=European Union

The global growth outlook, despite contending with a slew of geopolitical and economic headwinds, is little changed in this WEO (in fact, it got a slight bump). That aggregate measure hides important variations, however, with some economies (like Canada) on a softer anticipated path vs. the April report. Meantime, a warmer global inflation outlook was reflected in nearly every advanced economy.

Chart 3: Pop-adjusted growth in Canada has lagged...

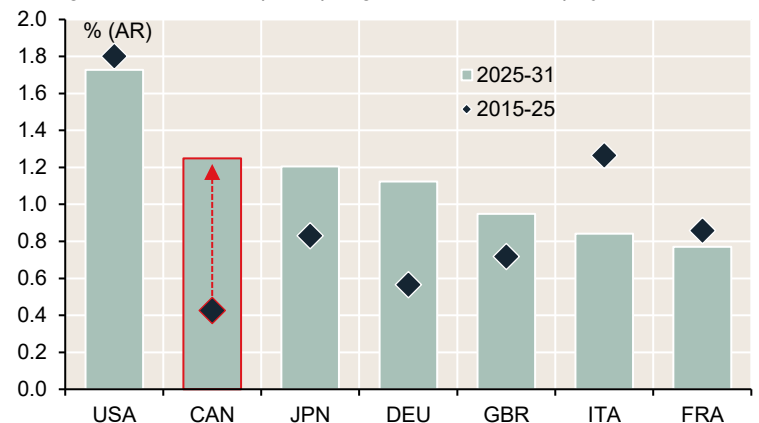
Real GDP per capita: Indexed change since 2014 by G7 country



Source: NBC, Bloomberg | Note: Real GDP divided by working age population

Chart 4: ...but that's set to change over the next half decade

Average annual real GDP per capita growth: 2015-25 and projected to 2031

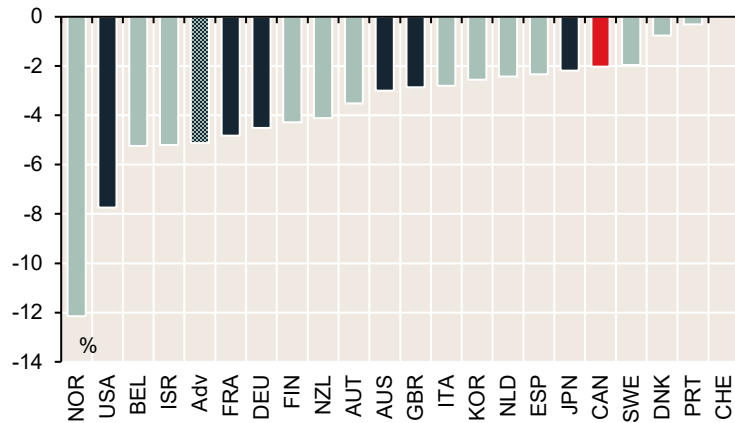


Source: NBC, IMF | Note: Per capita, constant prices in domestic currency

Real economic growth per capita has flatlined in Canada over the past decade, in part to a once-surging population. With immigration slowing aggressively, population-adjusted growth prospects are recovering. The slowest average annual growth rate in the G7 since 2015 will give way to the second fastest (surpassed only by the U.S.) through 2031 if the IMF outlook materializes.

**Chart 5: Canada's income statement remains healthy...**

General government structural balance as a % of GDP, 2027

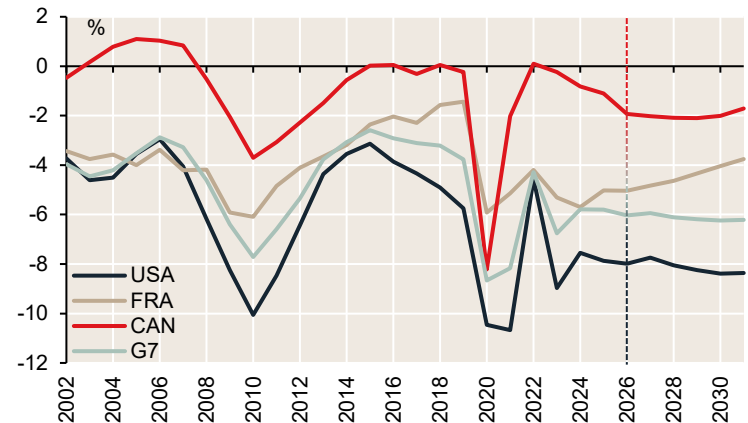


Source: NBC, IMF | Note: Darker bars denote G7; patterned bars denote IMF aggregates

Adjusting for the economic cycle (via a government's structural balance), Canada remains well positioned from a fiscal standpoint. Canada's structural deficit is the smallest in the G7, and while these shortfalls are set to persist, the IMF expects that Canada's relative advantage is expected to hold in the years ahead. Against the U.S., the fiscal advantage is only set to grow through 2031.

Chart 6: ...with its relative advantage expected to remain

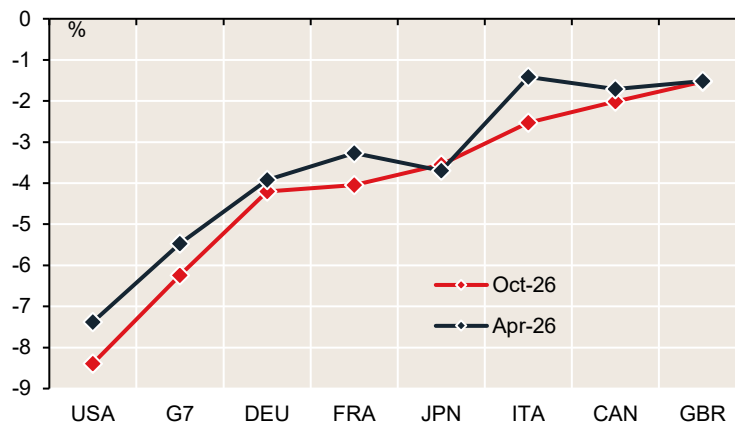
General government structural balance as a % of GDP: Actual and projected



Source: NBC, IMF | Note: Dotted line separates actuals from projections

Chart 7: Magnitude of fiscal slippage varies

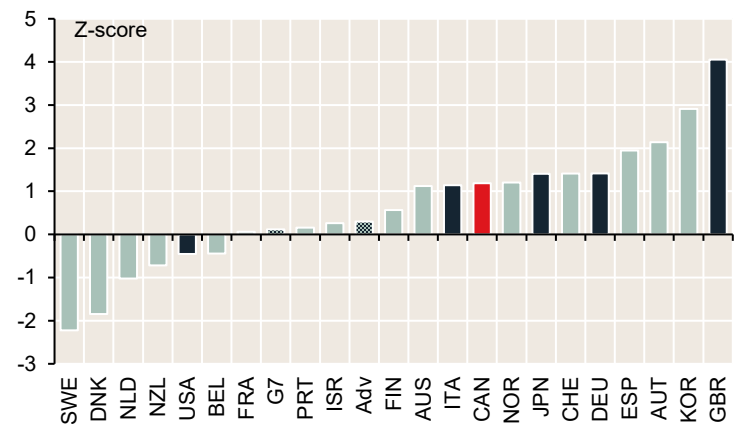
Projected general government structural balance as % of GDP, 2030



Source: NBC, IMF | Note: Projections from two latest IMF World Economic Outlook reports

Chart 8: Revenue outlooks are generally above average

Z-score: Gen gov't revenue as % of GDP, 2027 vs. prior 20Y average

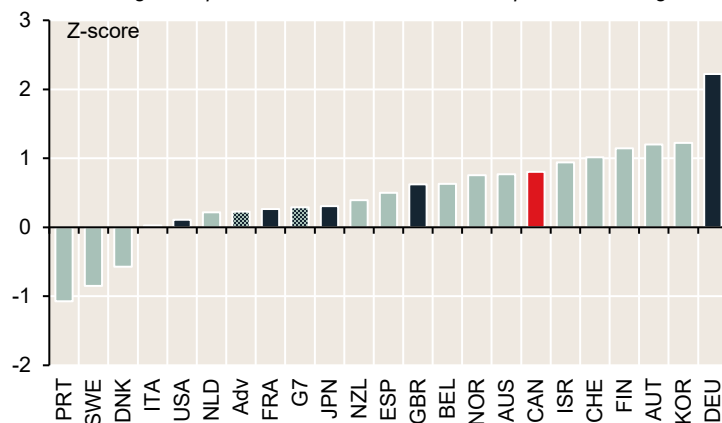


Source: NBC, IMF | Note: Note: Prior 20Y average covers 2006-2025; dark bars denote G7

Fiscal trajectories vary, but deficit projections have been revised slightly upwards for most of the G7 in the medium-term. This fiscal 'slippage' has been most evident in the U.S., where forecasters (not just the IMF) have continued to underestimate budgetary deterioration / indebtedness. For most of the G7 though, that's not from a lack of revenues—which are set to be above average in 2027.

Chart 9: Spending higher than historical norms across G7

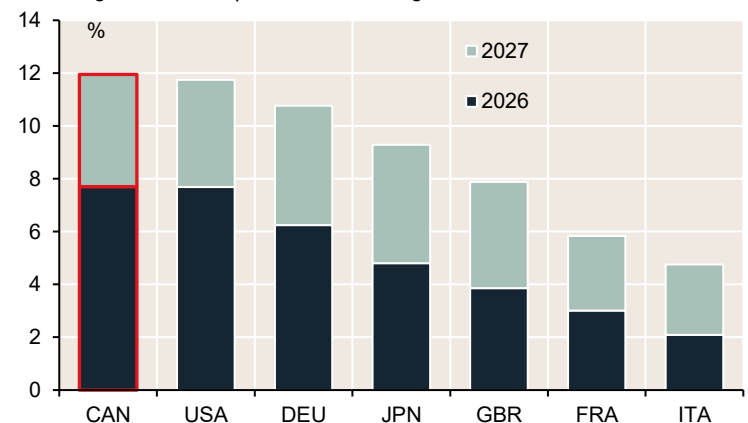
Z-score: Gen gov't expenditure as % of GDP, 2027 vs. prior 20Y average



Source: NBC, IMF | Note: Prior 20Y average covers 2006-2025; dark bars denote G7

Chart 10: Canada set to be biggest spender in G7

General government expenditures annual growth: 2026 & 2027

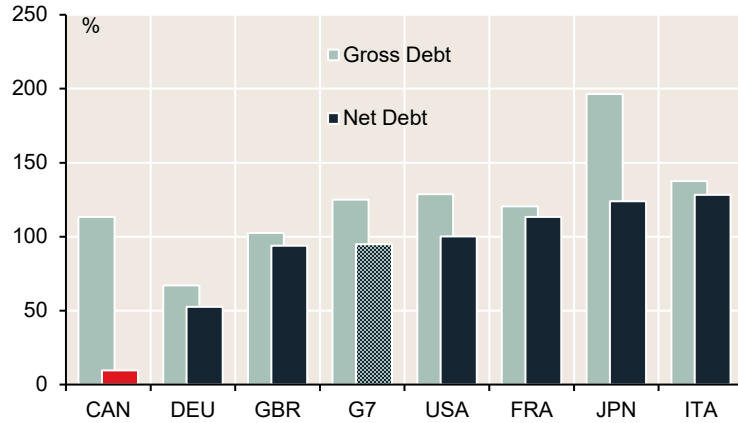


Source: NBC, IMF

In most advanced economies, government expenditures are set to be higher (relatively speaking) next year. A big contributor to these is military costs as NATO targets are keyed in on. Despite carrying the smallest structural deficit in 2026 and 2027, Canada is set to lead the G7 in spending growth through next year. Thankfully, with ample revenue pouring in, Canada's budget position won't deteriorate. The nature of this spending (i.e., investment intensive) may also be encouraging from an economic standpoint—much is to be learned here in the upcoming federal budget.

Chart 11: Canada maintains net debt edge...

General government gross- and net-debt-to-GDP ratio: 2027

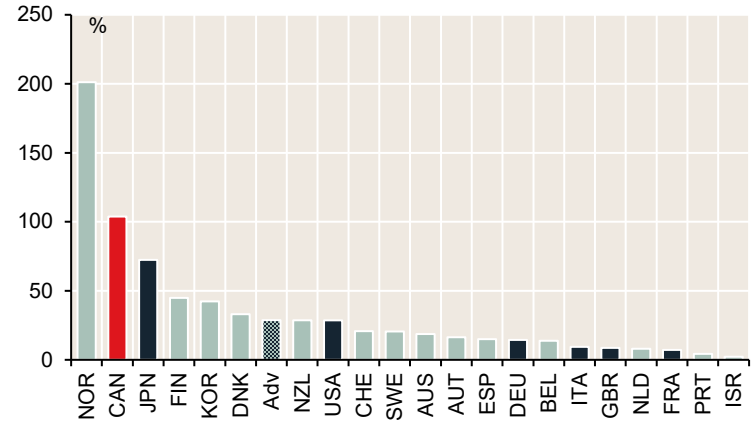


Source: NBC, IMF

While Canada's gross indebtedness is in line with its G7 peer set, it remains the case that the country's net debt burden is—by far—the lowest of the bunch. Ample financial assets (reflective of a well-funded social security system) is the driver of this relative fiscal advantage. Those assets are plentiful on the global scale, too (Canada second only to Norway among advanced economies).

Chart 12: ... thanks to plentiful financial assets

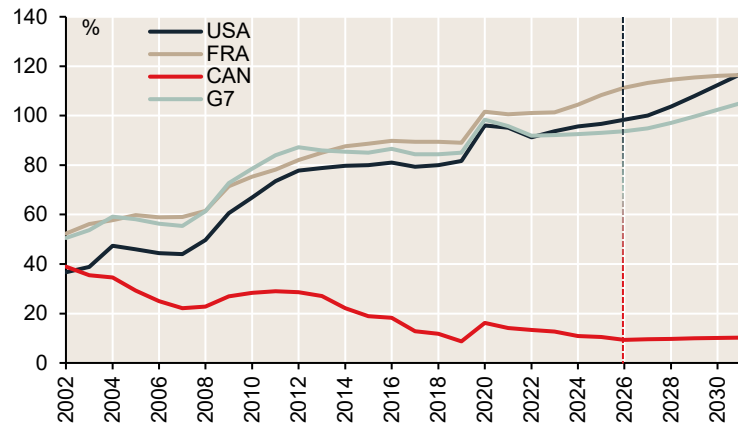
Financial assets as a share of GDP by country: 2027



Source: NBC, IMF | Note: Darker bars denote G7 economies; other select adv eco shown

Chart 13: Canada's balance sheet advantage set to grow...

General government net debt-to-GDP

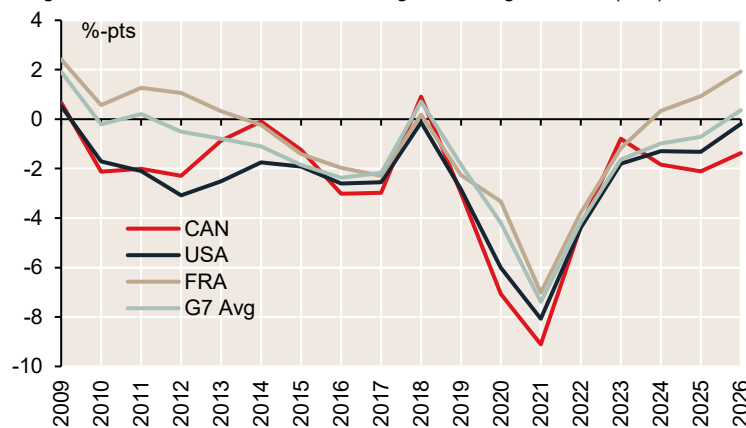


Source: NBC, IMF | Note: Dotted line separates actuals / projections

As Canada's favourable budgetary position is set to be maintained, so too is its relative net debt advantage. In fact, while key peers are expected to accumulate more net debt, Canada's burden should stabilize from here, allowing for a growing advantage. Certain advanced economies (with more abrupt rates repricing) may be especially vulnerable to debt 'snowballing' effects.

Chart 15: Debt ratios set to climb barring primary deficit fix

Marginal interest rate less 3Y ahead average nominal growth rate (R-G)

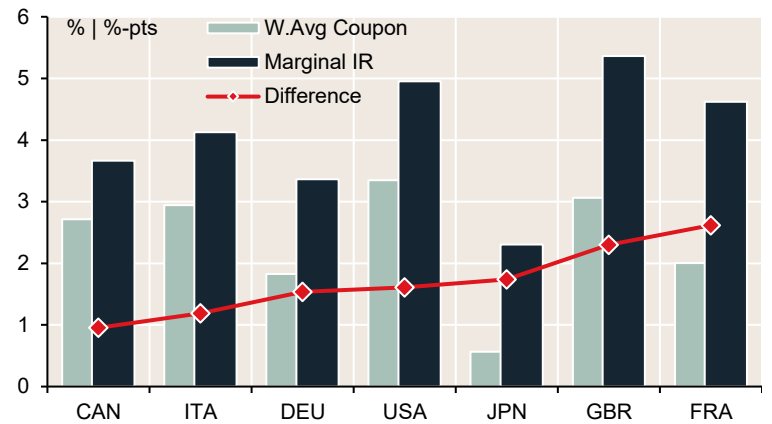


Source: NBC, IMF, Bloomberg | Note: G7 is a simple average measure

As interest rates grind higher (in part a function of growing fiscal concerns), the spread between borrowing costs and expected growth narrows, which will pose a risk to the resilience of the global economy. These 'R-G' measures vary across economies, as do relative debt burdens. Here, the relationship between relative fiscal (mis)behaviour and bond pricing has been particularly prominent.

Chart 14: ...especially when considering refinancing shocks

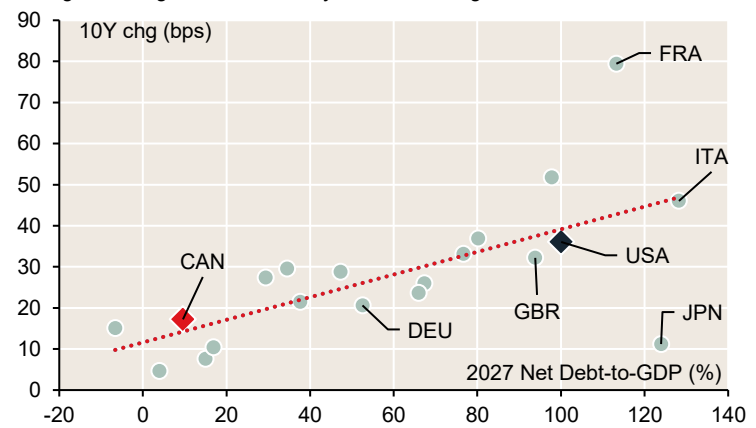
W.Avg coupon of G7 bond stocks vs. marginal interest rate at current bond yields



Source: NBC, Bloomberg | Note: Marginal effective interest rate is calculated using current yields, assuming W.Avg term of bond stock is held constant

Chart 16: Bondholders taking note of relative fiscal standing

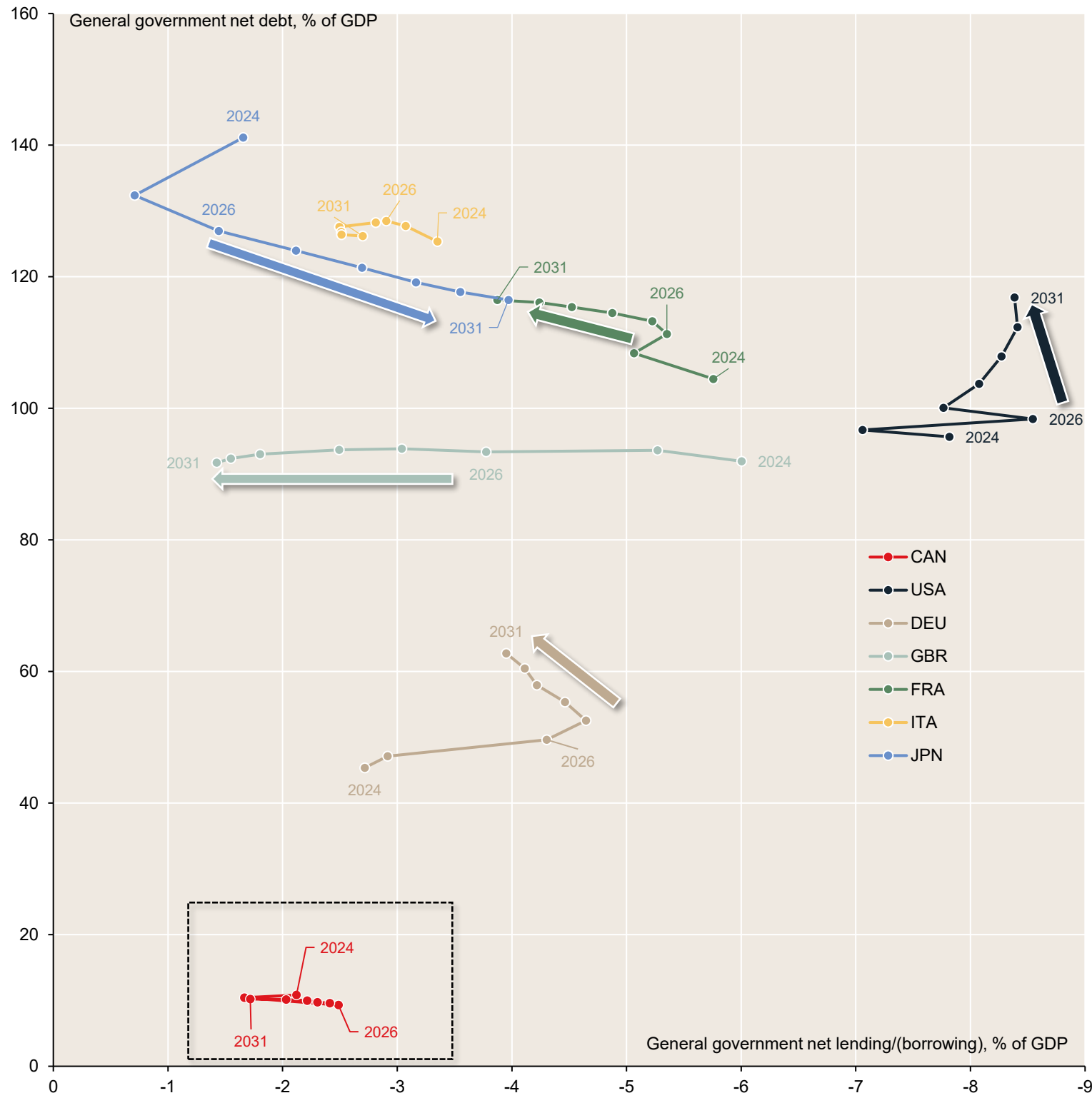
Change in 10Y government bond yield since 1-Aug-2026 vs. net debt-to-GDP



Source: NBC, IMF | Note: G7 countries labeled; 2027 net debt ratio projection per IMF

Chart 17: Plotting the anticipated fiscal ‘migration’ across the G7 (where Canada holding relatively in place)

General government net debt vs. net lending as a share of GDP: 2024–2031 as projected by the IMF Oct-26 WEO, for G7 countries



Source: NBC, IMF

In some cases, general government fiscal metrics (and borrowing) are meant to move in response to economic shocks. To that end, there's significant fiscal 'migration' expected in the years ahead for many in the G7. With interest rates surpassing expected growth rates in several jurisdictions (visualized in Chart 15 above), that means that indebtedness metrics will grow worse without primary deficit consolidation. That was the case in the U.K. (which had debt curves pointed higher in the IMF's Oct-21 WEO) before bond markets began to force fiscal correction. France's bond market might be hinting at something similar, though perhaps investors need a U.K.-style plan before pressures can materially step down. Meantime, large U.S. deficits are expected to persist, and indebtedness is set to grow—at some point, investors may force the U.S. to go through a similar budgetary pathway revision, though we're clearly not there yet. What about in Canada? While the country isn't immune from global shocks, it's expected that fiscal positioning will be little changed in the years ahead. Notwithstanding an excellent / relatively favourable starting position, the stability of Canada's fiscal stance may also find favour with bondholders—that's perhaps been the case with a growing non-resident investor base, which we've outlined previously.



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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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