

### Further fiscal monitoring

By Warren Lovely & Taylor Schleich

Last week, in the hours leading up to Canada’s much-anticipated 2024 federal budget, the IMF presented its semi-annual [World Economic Outlook \(WEO\)](#). We used the occasion to draw attention to Canada’s relative fiscal standing, anticipating that Ottawa’s budgetary blueprint would once more play up our nation’s bona fides. Our earlier note (framed as an op-ed) is available [here](#).

Sure enough, the federal government’s budget heaped praise on Canada’s relative fiscal standing, contrasting a self-proclaimed ‘responsible’ plan with weaker budget balances and heavier net debt burdens on display in other G7 nations. The government’s official take on Canada’s international standing can be accessed [here](#). (Note: If you’re wondering, this section of the annual federal budget essentially writes itself. Or rather, it has generally required only

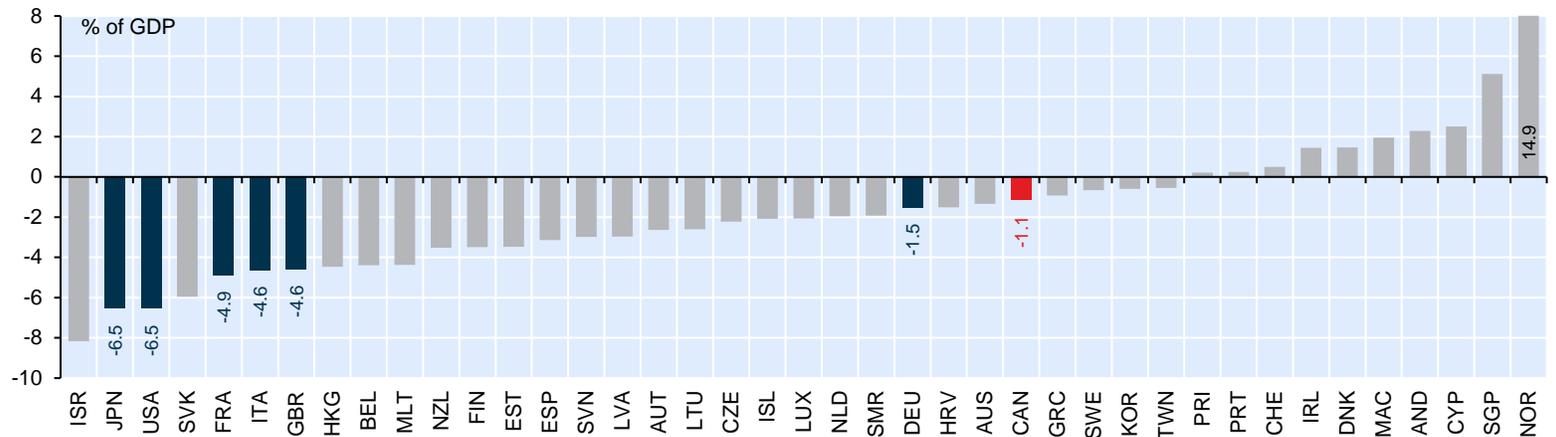
modest tweaks from year-to-year, such is the magnitude of Canada’s edge on preferred fiscal indicators.)

Given an entirely appropriate focus on budgetary policies (including potential interference with monetary policy objectives) and overall fiscal sustainability, we thought it useful to extend the fiscal lens to a few more areas. We are also taking the opportunity to lean into select elements of the IMF’s [Fiscal Monitor](#) (a sister publication to the aforementioned *WEO*, which also landed recently).

Our aim is not to refute the standard budgetary platitudes offered up in the federal budget. Rather, we have designed this note to provide greater fiscal perspective, particularly on the issue of government indebtedness. We think of this as further fiscal monitoring and it goes something like this...

#### Chart 1: Canada’s broad, general government sector runs smallest deficit of G7 nations

General government net lending/(borrowing): 2024

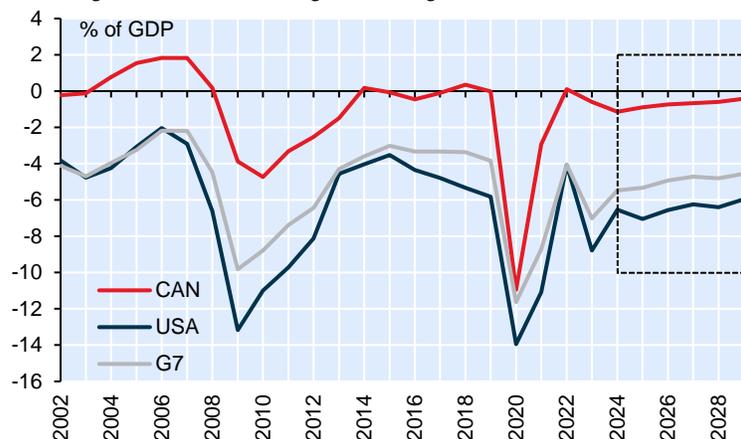


Source: NBF, IMF (WEO Apr-24) | Note: 41 advanced economies w/ G7 nations highlighted

As previously highlighted, Canada’s general government sector boasts a relatively better balance than our G7 peers, many of which are clustered at the weak end of the budgetary spectrum. Note: ‘General government’ is a broad concept inclusive of all levels of government (i.e., central, regional, local) and social security funds.

#### Chart 2: Canada’s fiscal edge seen extending into future...

General government net lending/(borrowing)

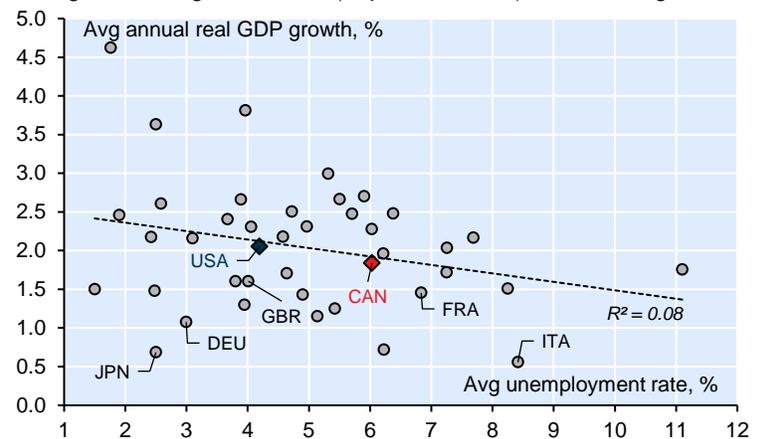


Source: NBF, IMF (WEO Apr-24) | Note: G7 is weighted avg

Canada’s superior fiscal standing in 2024 is nothing new. Nor is it likely to prove fleeting. The IMF projects an average annual shortfall of just 0.7% of GDP for Canada’s general government sector for the coming half-decade—much better than key peers, including the US, which remains on a somewhat perilous track. Of note, Canada’s projected fiscal edge does not hinge on economic outperformance, as IMF forecasts for GDP growth and unemployment place Canada in the middle of the pack.

#### Chart 3: ... despite ‘middle of the pack’ economic prospects

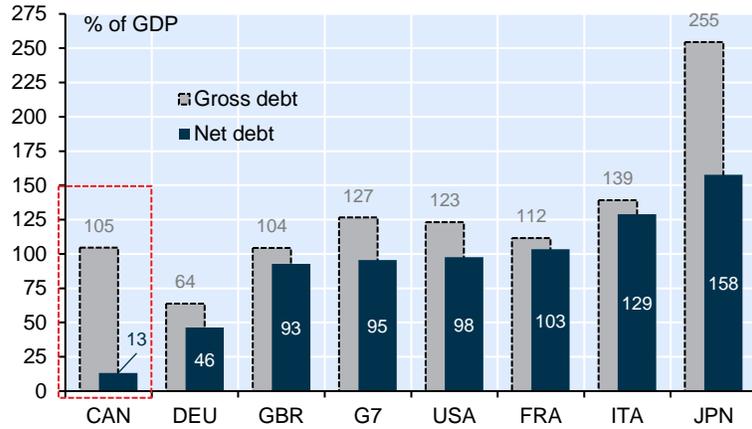
Average real GDP growth & unemployment rate: 5Y period covering 2025-29



Source: NBF, IMF (WEO Apr-24) | Note: 41 advanced economies w/ G7 nations labeled

**Chart 4: Gross vs. net distinction important for Canada...**

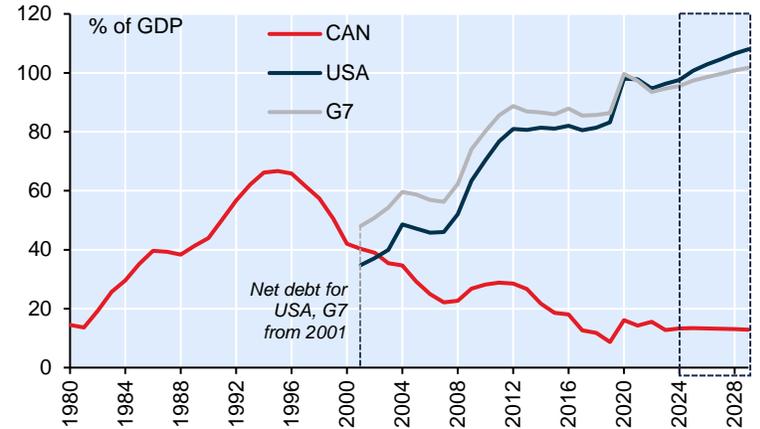
General government debt burden: 2024



Source: NBF, IMF (WEO Apr-24) | Note: G7 is weighted avg

**Chart 5: ... with net debt edge striking (& growing) vs. key peers**

General government net debt burden

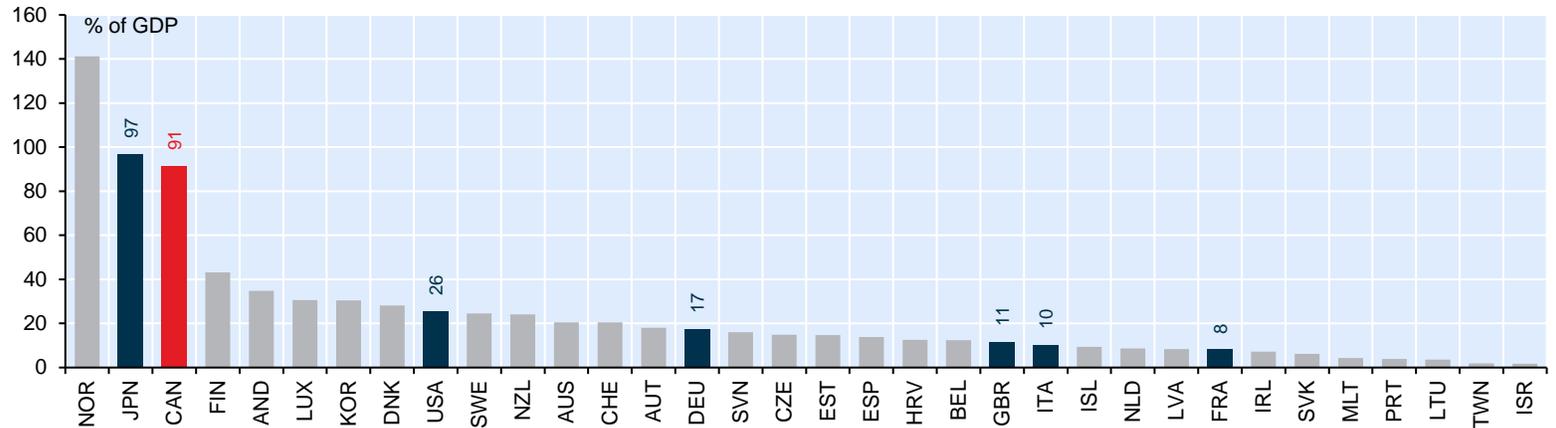


Source: NBF, IMF (WEO Apr-24) | Note: G7 is weighted avg

Turning to general government balance sheets, Canada's **gross debt** burden is none-too-trivial (>100% of GDP in 2024). But if you put any stock in the concept of **net debt**, Canada's relative advantage is something to behold. Moreover, Canada's firmer budget balance means the net debt edge will only widen in the years' to come.

**Chart 6: Few advanced nations can match Canada in terms of relative scale of financial assets in broader public sector**

General government financial assets (i.e., difference between general government gross & net debt, scaled to national GDP): 2024

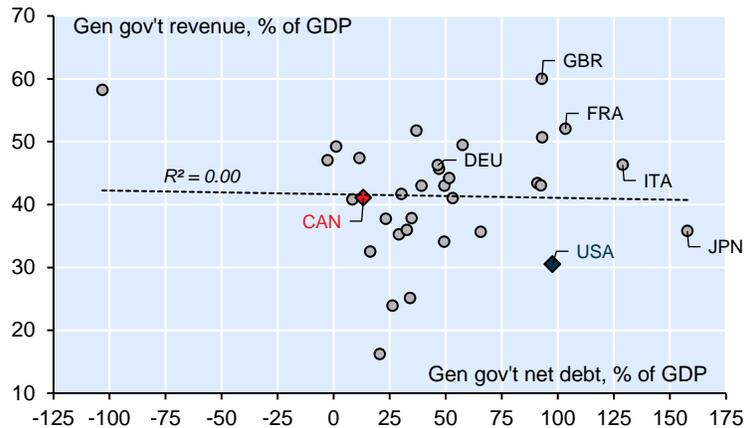


Source: NBF, IMF (WEO Apr-24) | Note: Data available for 34 advanced economies w/ G7 nations highlighted

As Chart 4 should make clear, the distinction between gross and net debt is particularly vital for Canada. Few advanced countries can match Canada when it comes to the relative scale of the financial assets accumulated across the broad general government sector, including in the nation's social security system.

**Chart 7: Low(er) debt doesn't mean light revenue bite...**

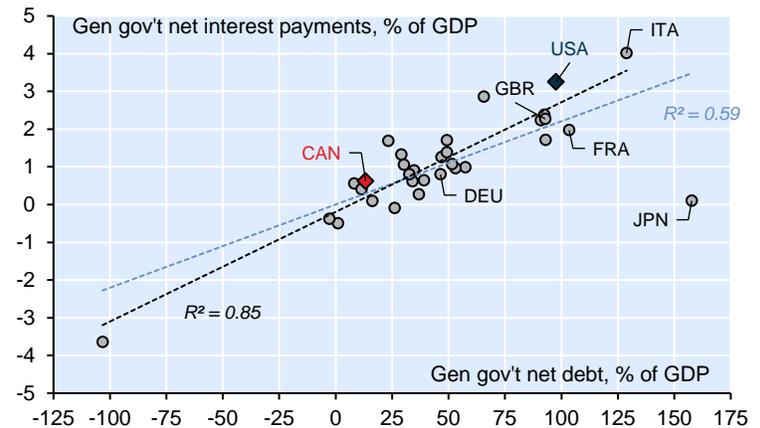
General government net debt burden & revenue share of economy: 2024



Source: NBF, IMF (WEO Apr-24) | Note: 33 advanced economies w/ G7 nations labeled

**Chart 8: ... but it does translate into a smaller net interest bite**

General government net debt burden & net interest payments: 2024

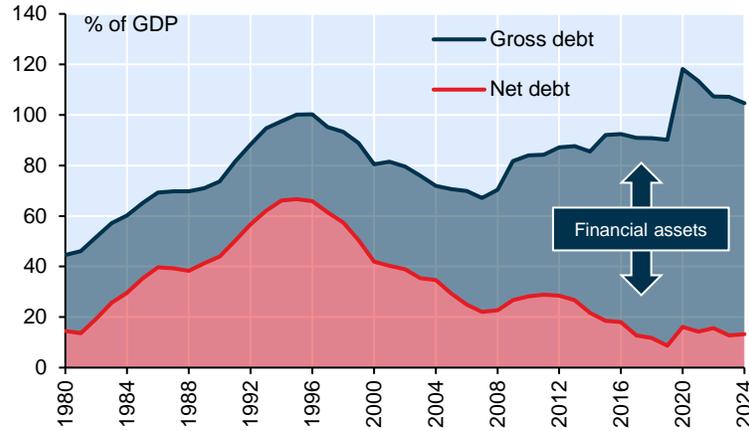


Source: NBF, IMF (WEO Apr-24) | Note: 33 advanced economies w/ G7 nations labeled

As Ottawa's 2024 budget made clear, Canada's net debt advantage doesn't translate into a smaller tax bite. Looking across advanced nations, there's seemingly limited correlation between debt loads and the amount of revenue collected by government. There are heavily indebted nations opting for a low(er) tax model (e.g., the U.S.) and vice versa. But a lower net debt burden (and/or abundant financial assets) generally means a more manageable net interest bill. So at least there's that.

**Chart 9: Canada built up financial assets over the years...**

Canada general government debt burden

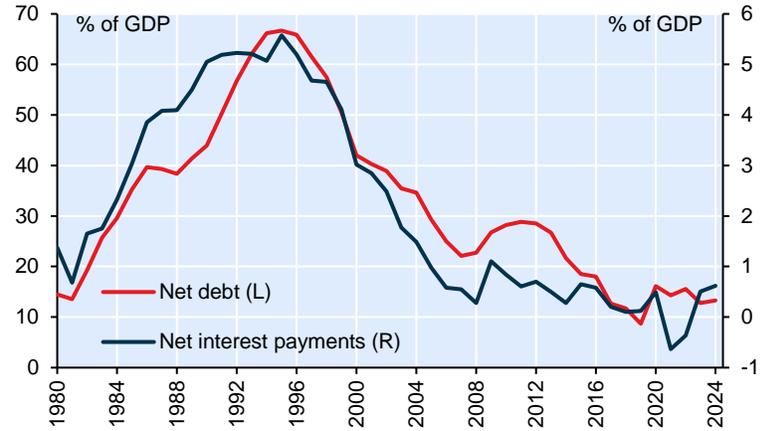


Source: NBF, IMF (WEO Apr-24)

Canada hasn't always been a fiscal boy scout. Structural reforms in the 1990s paid dividends, however, keying growth in general government financial assets and contributing to a lighter net interest burden. Today's high(er) rates mean a larger interest bite. But debt is still more affordable in Canada than many advanced locales.

**Chart 10: ... with today's net interest bill more manageable**

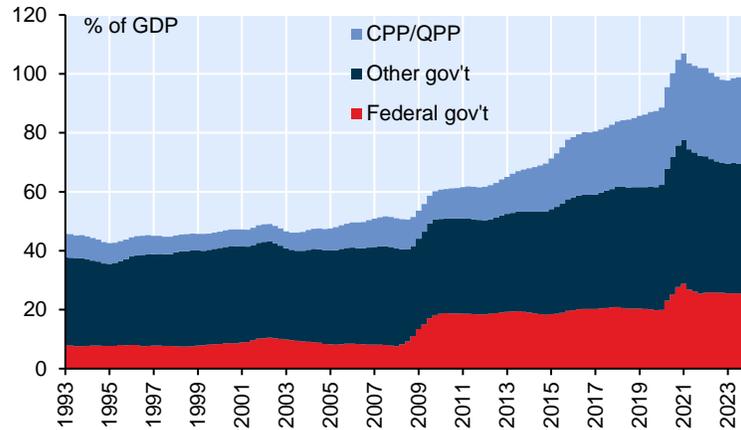
Canada general government net debt burden & net interest payments



Source: NBF, IMF (WEO Apr-24)

**Chart 11: Where do these financial assets reside?**

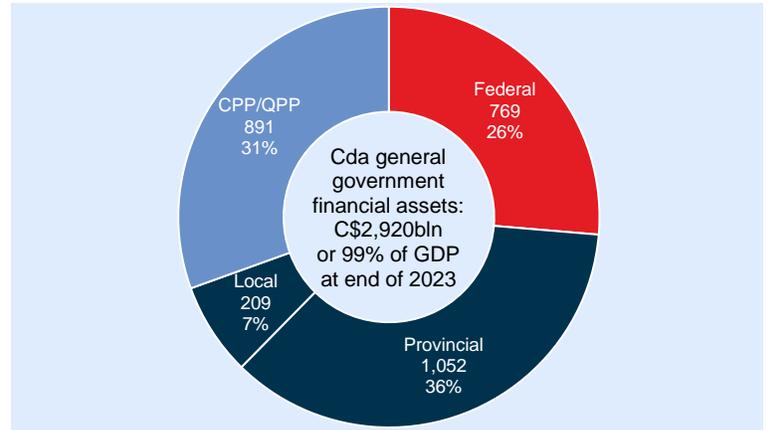
Canada general government financial assets



Source: NBF, StatCan | Note: Quarterly market value as per NBS accts to 2023:Q4

**Chart 12: Social security one part of financial asset story**

Canada general government financial assets: By sector (2023:Q4)

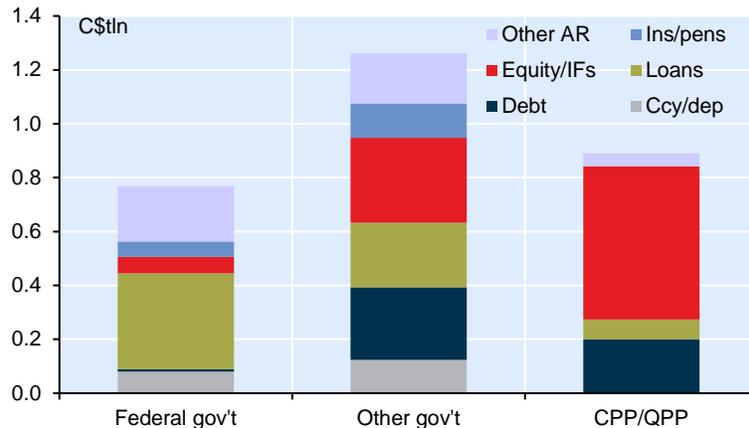


Source: NBF, StatCan | Note: Market value as per latest NBS accts

The market value of Canada's general government financial assets is approaching C\$3 trillion or almost 100% of GDP. Where does this enormous stockpile of investments reside? There are significant financial assets federally, across the provinces and at the local government level too. And then there's social security...

**Chart 13: Nature/structure of assets varies by sector**

Canada general government financial assets: By sector/type (2023:Q4)



Source: NBF, StatCan | Note: Market value as per latest NBS accts

**Chart 14: Social Security fix top of mind for more Americans**

Bloomberg/Morning Consult 'swing state' poll: April 8-15, 2024

**Voter opinions on U.S. Social Security**

- 89% consider senior services (Social Security & Medicare) 'very important' or 'somewhat important' when deciding who to vote for in Nov-24 election
- Senior services (Social Security & Medicare) cited as 'single most important' issue for Nov-24 election by 7%, trailing only economy (34%), immigration (15%), abortion (9%) and democracy (9%) on detailed list of key issues
- Who do you trust to handle senior services (Social Security & Medicare)? Biden: 45% | Trump: 39% | Neither: 16%

**Voter opinions on prospective options to extend life of U.S. Social Security**

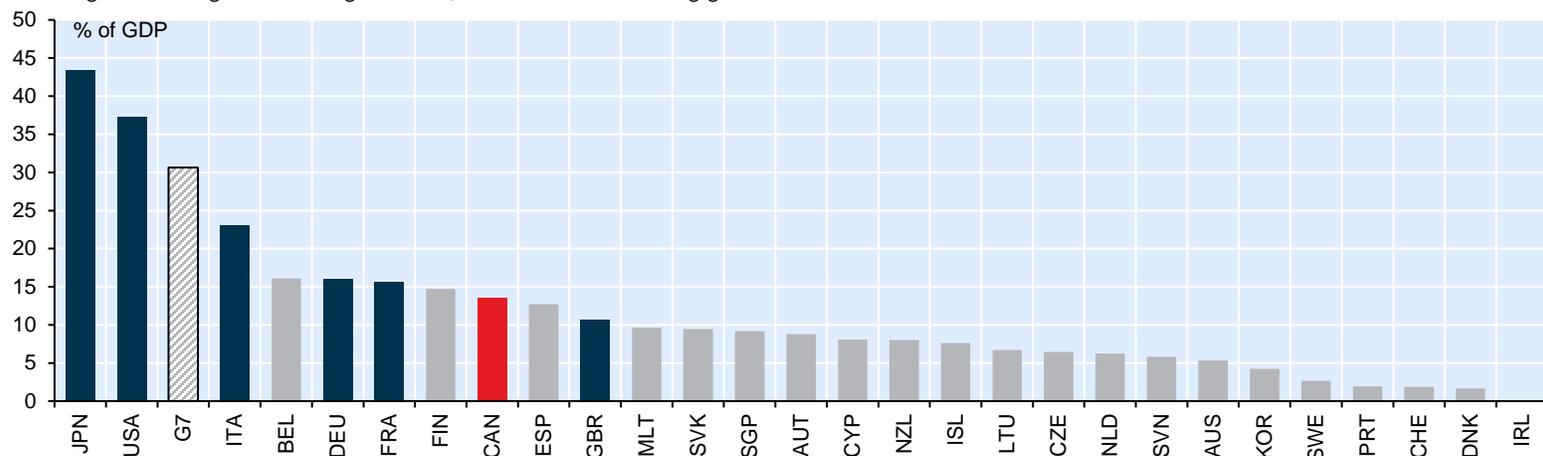
- 25% support raising minimum retirement age to receive full benefits from 67 to 69
- 56% support collecting social security tax on wages beyond first \$169K/year
- 35% support increasing payroll tax rate from 6.2% to 7.75%
- 27% support smaller cost of living adjustments over time
- 57% support trimming benefits for higher-income recipients
- 77% support raising taxes on billionaires

Source: NBF, BBG, Morning Consult | Note: Poll of 4,969 registered voters in 7 swing states

The growing pool of net assets in Canada's social security system (i.e., CPP/QPP) are genuinely diversified, by asset class and geography. To us, an actuarially sound social security system is a key strategic advantage for Canada. The contrast with U.S. Social Security is truly striking, as the CBO regularly reminds us. And based on a fresh Bloomberg/Morning Consult survey, it seems more Americans are begrudgingly coming to terms with the relatively sorry state of their Social Security system.

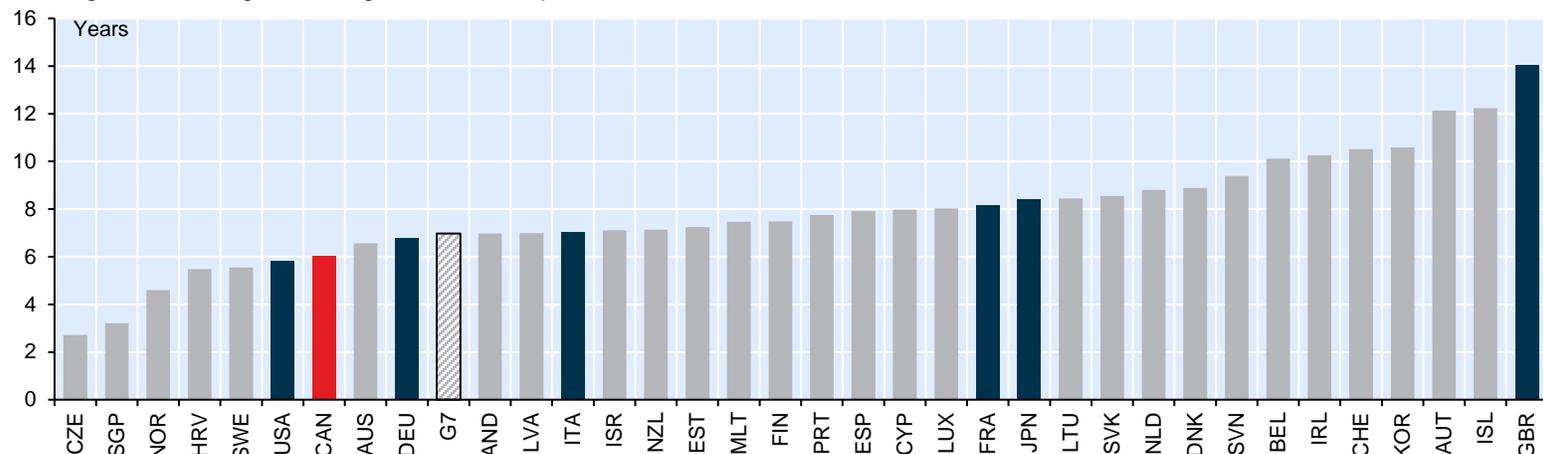
**Chart 15a: IMF's 'structural fiscal indicators' highlights sizeable financing needs for G7 governments, including Canada**

Central government gross financing need (i.e., overall deficit + maturing government debt): 2024



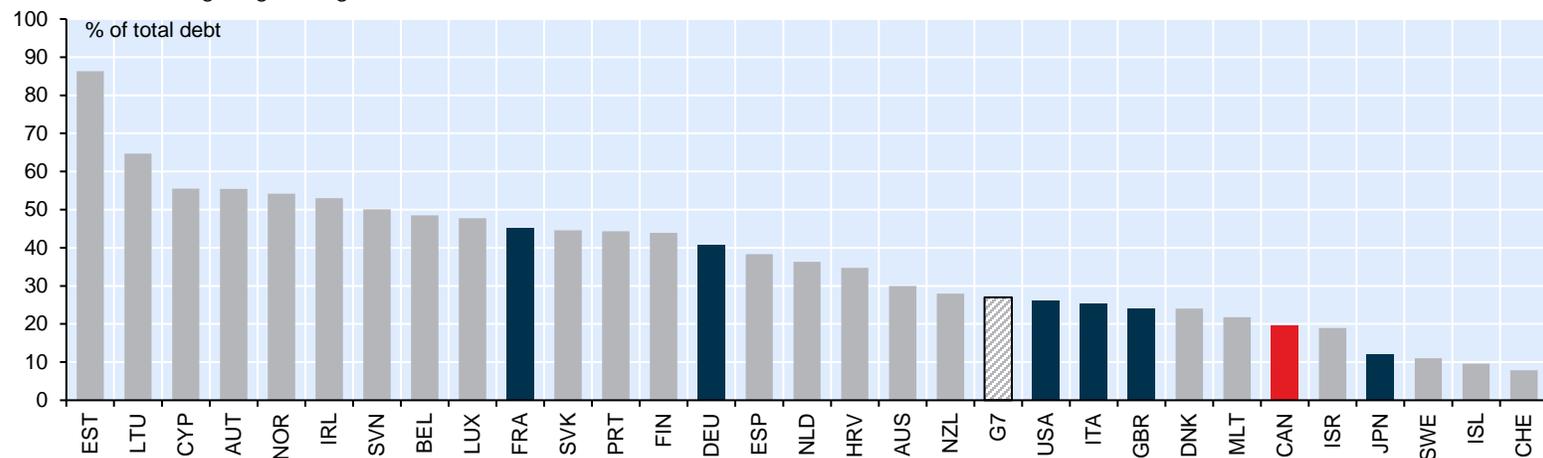
**Chart 15b: All else equal, Canada's relatively short(er) average term to maturity means more debt to refinance**

Central government weighted average term to maturity: 2024



**Chart 15c: Non-resident flows into (or out of) Canadian securities a hot topic, but foreign exposure less pronounced than many**

Non-resident holdings of general government debt: 2023



Source: NBF, IMF (Fiscal Monitor Apr-24) | Notes to 16a-16c: Depending on indicator, 29-36 advanced economies w/ G7 nations highlighted; G7 is weighted avg

Notwithstanding the strongest budget balance in the G7, gross financing needs are non-trivial in Canada. That's partly a function of the federal government opting (over time) for a relatively shorter weighted average term. Aside: Canada's provinces have generally favoured locking in for longer, thereby limiting the amount of interest rate reset risk faced in a given year. As our ongoing analysis has made clear, there will be no shortage of Canadian government debt to issue in fiscal 2024-25. Moreover, end investors must also absorb the GoC bonds running off the Bank of Canada's balance sheet via QT. Non-resident bond investors, it seems likely, will be welcomed with open arms. Mind you, recent data suggest a less-than-rabid appetite for Canadian dollar product on the part of foreign investors. That's part of a broader 'portfolio capital flight' story that has attracted attention. The good news? While non-residents have long been an important buyer base for Canada, the foreign investor footprint is lighter here than in many other advanced nations. And last we checked, Canadian public sector issuers were being warmly received in foreign debt capital markets.



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