

Bi-annual budget benchmarking (courtesy of the IMF)

By Warren Lovely

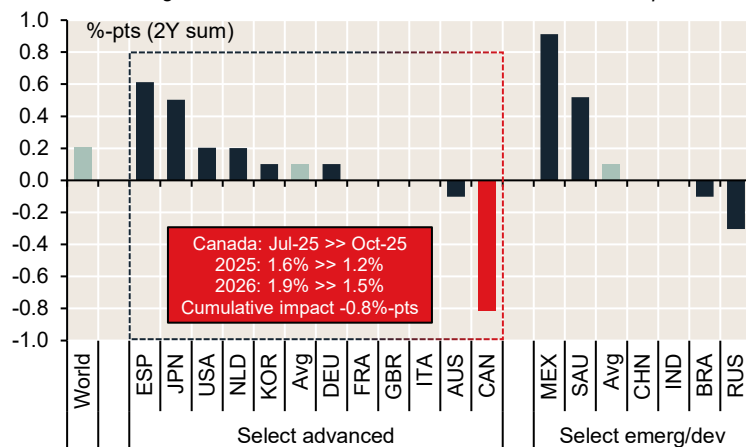
The IMF's *World Economic Outlook (WEO)* serves as a bi-annual benchmarking opportunity, whereby a country can be compared to peers across a broad range of indicators. With a fresh *WEO* in hand, we put Canada's relative fiscal standing in perspective.

First off, there's ample nuance to international fiscal comparisons. One idiosyncratic element in Canada is the social security system's heavy influence on general government statistics. For the uninitiated, the IMF's 'general government' concept is a broad one; in Canada's case it includes federal, provincial, local governments and CPP/QPP. The inclusion of an actuarially sound (and increasingly well endowed) social security system is a game-changer for Canada, aiding key fiscal comparisons.

Another caveat: IMF projections are based on the latest available official guidance. For the feds, that means going back to the Dec-24 *Fall Economic Statement*. So there's a distinct place-holder element here,

Chart 1: IMF downgrades Canada's economic outlook

Cumulative change in IMF's real GDP forecast for 2025-26: Latest vs. prior

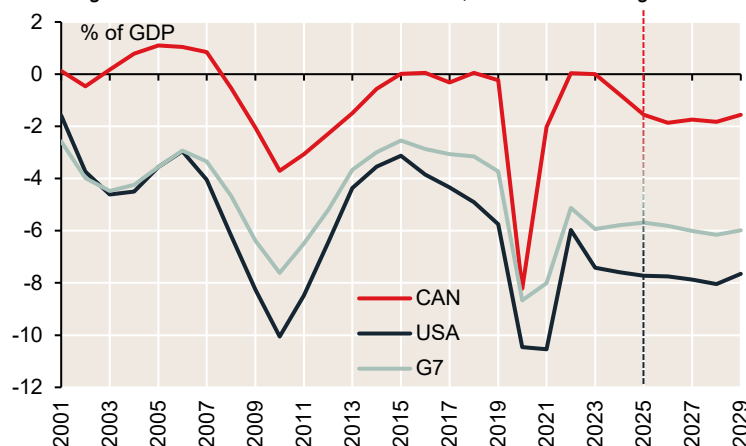


Source: NBC, IMF | Note: Latest is Oct-25 WEO; prior is Jul-25 WEO Update

The IMF's Oct-25 WEO made a not-so-subtle downgrade to Canada's outlook. For both 2025 and 2026, real GDP growth was cut 0.4%-pts relative to the IMF's prior forecast (Jul-25 WEO Update). Cutting through cyclical noise, Canada's broad general government sector (incl. surpluses at CPP/QPP) runs a more modest 'structural' deficit, with the U.S. clearly in more structural fiscal disarray.

Chart 3: Sustained budgetary outperformance vs. peers

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



Source: NBC, IMF | Note: CAN includes federal outlook from Dec-24 FES

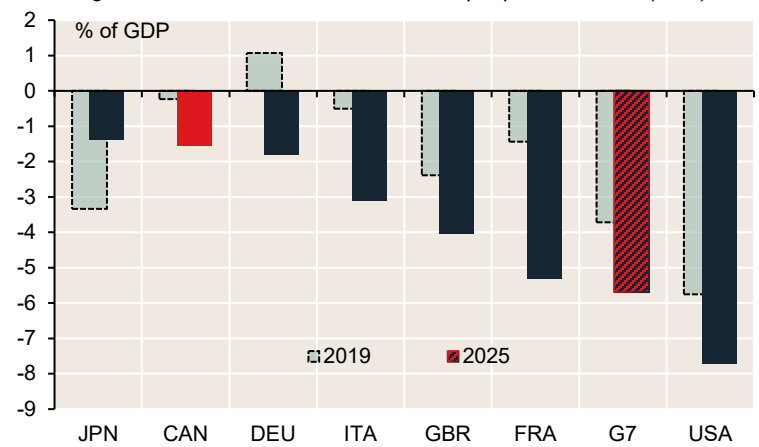
A structural budget advantage is nothing new for Canada. Historians may recall that Canada tackled a structural budget gap in the 1990s. That earlier hard work has paid dividends and/or created "fiscal space". Earlier social security reforms were likewise a fiscal game-changer for Canada, since a rapidly accumulating pool of financial assets contributes to a very favourable net debt standing.

since the upcoming federal budget (landing November 4th) is apt to alter Ottawa's medium-term fiscal trajectory. (For their part, all provinces provided timely 2025 budgets, which the IMF has dutifully incorporated.)

On the subject of federal budgeting, IMF head Georgieva endorsed Ottawa's new fiscal playbook—both the migration of the annual budget from spring to fall, and the notionally 'enhanced' accounting framework separating operating and capital. The IMF likewise acknowledged the "fiscal space" available to countries like Canada (and Germany). Canadian finance ministers are fond of holding up a chart of general government net debt burdens across the G7 to bolster this argument. While an IMF endorsement is no doubt gratifying, the feds need little encouragement. Given an uncertain geopolitical future and saddled with an unproductive economy, available fiscal space is being rapidly allocated in Canada, as the forthcoming budget will make clear.

Chart 2: Canada's smaller structural deficit

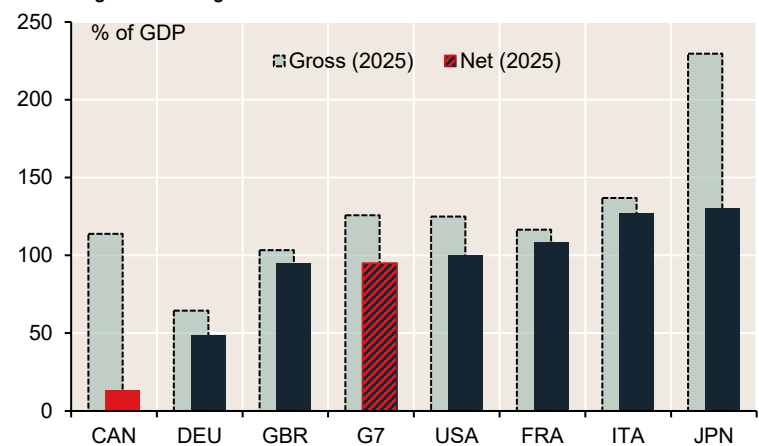
General government structural balance: 2025 vs. pre-pandemic level (2019)



Source: NBC, IMF | Note: CAN includes federal outlook from Dec-24 FES

Chart 4: A serious net debt edge (though gross debt is ample)

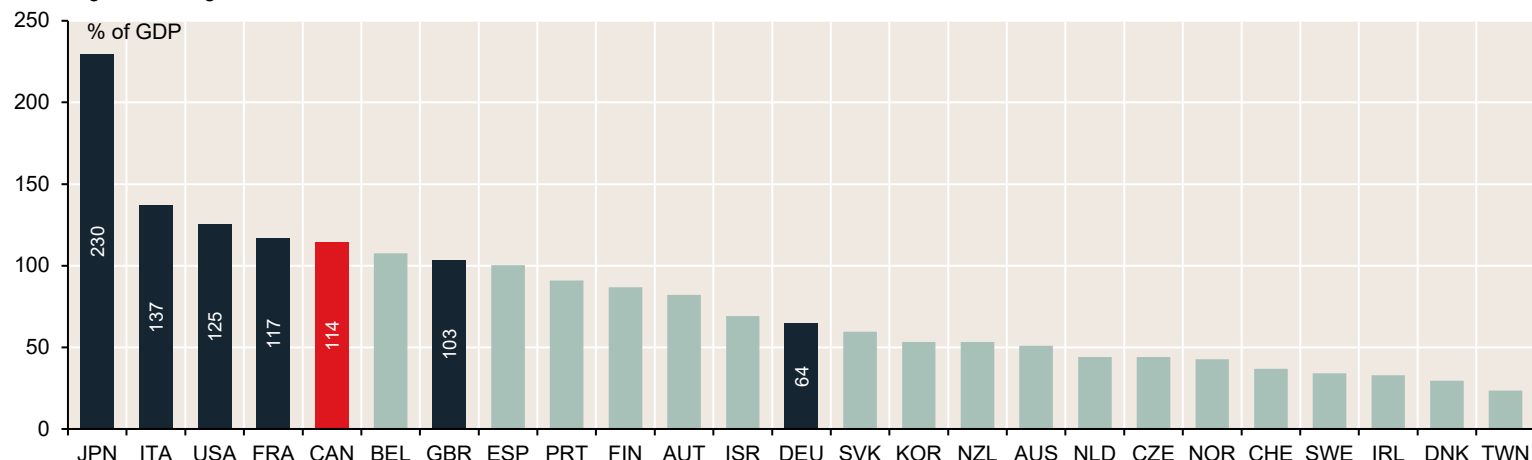
General government gross & net debt-to-GDP ratios: 2025



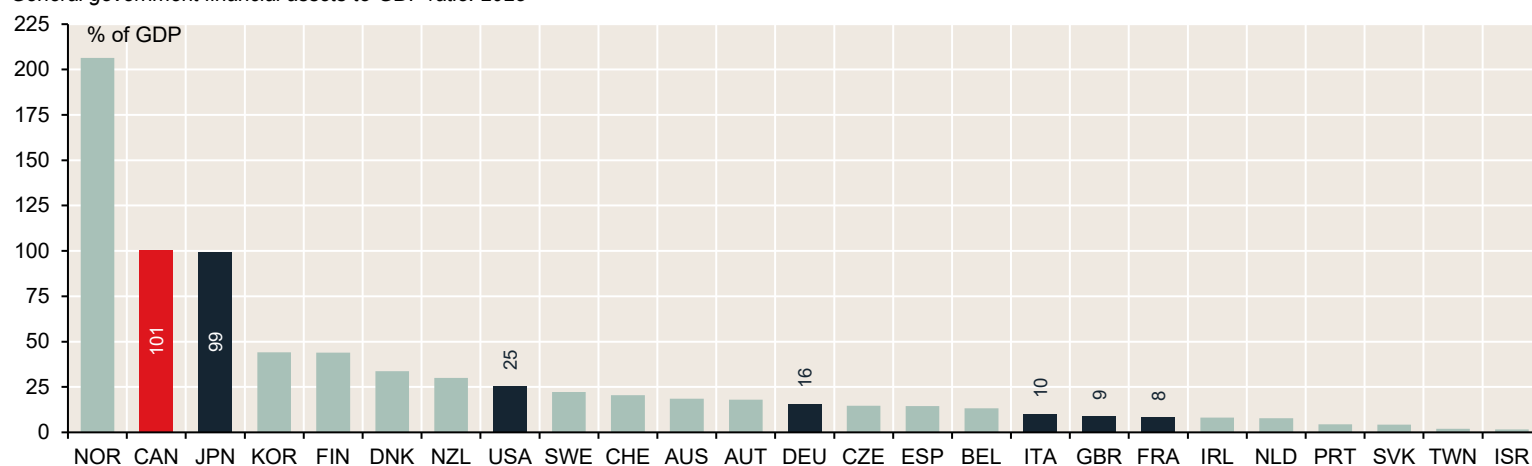
Source: NBC, IMF | Note: CAN includes federal outlook from Dec-24 FES

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

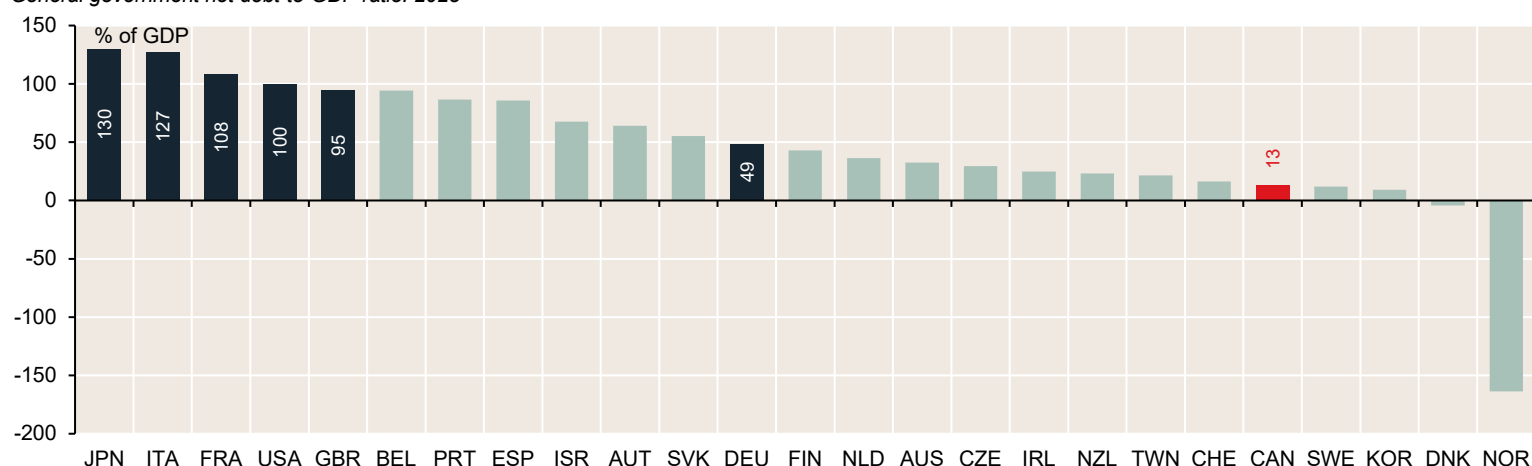
General government gross debt-to-GDP ratio: 2025

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

General government financial assets-to-GDP ratio: 2025

**Chart 5c: ... and taking those assets into account, Canada boasts a serious **NET DEBT** edge (easily the lowest ratio in the G7)**

General government net debt-to-GDP ratio: 2025

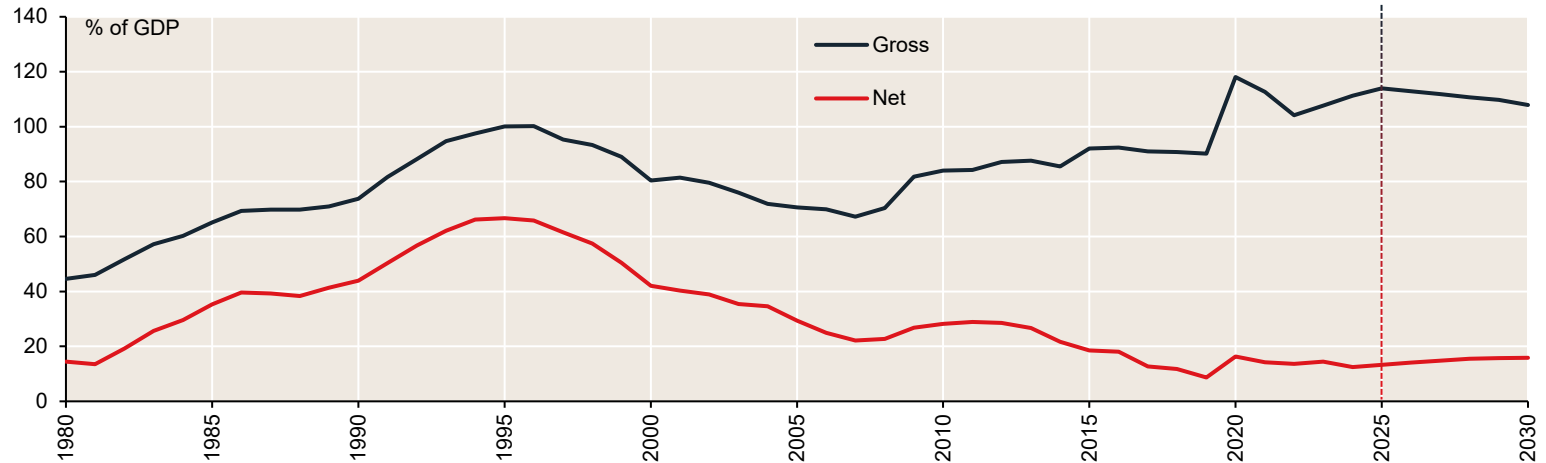


Source for Charts 5a-5c: NBC, IMF | Note: Charts order gross debt, financial assets & net debt ratios for available advanced nations each accounting for no less than 0.1% of global GDP; data/calculations relate to 'general government' sector, which in Canada's case includes federal, provincial, local governments and CPP/QPP; the IMF has adopted/followed StatCan methodology, which values financial assets at market value instead of book value; Canada includes federal outlook from Dec-24 FES; G7 nations are shaded blue, except Canada which is shaded red

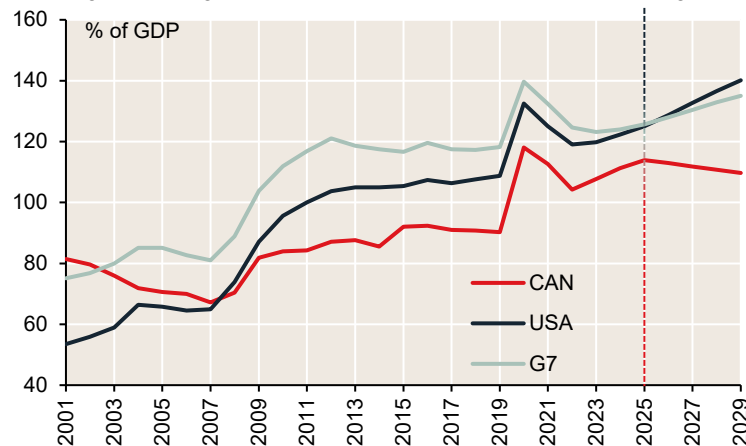
There is no shortage of **gross debt** in Canada's general government sector, where the country's edge vs. some G7 peers isn't all that significant. However, Canada's general government sector possesses considerable **financial assets**, equivalent to roughly 100% of GDP and second only to Norway when scaled to GDP. These financial assets take a variety of forms and are not necessarily evenly distributed. Of particular note, the inclusion of social security is key for Canada, since an already deep pool of financial assets continues to build/grow at CPP/QPP. In fiscal accounting terms, financial assets are subtracted from gross debt to arrive at **net debt**. It is here, on net debt, where Canada's relative edge over all other major advanced nations is most striking.

**Chart 6a: Canada's general government debt burden through the years**

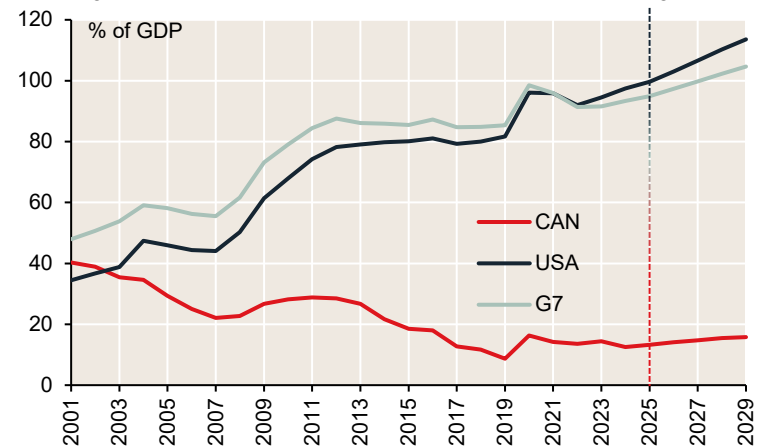
Canada general government gross & net debt-to-GDP ratios, incl. latest IMF projections (before Nov-25 federal budget)

**Chart 6b: Gross debt edge is less striking...**

General government gross debt-to-GDP ratio: Canada, U.S. & G-7 average

**Chart 6c: ... but Canada stands out on net debt burden**

General government net debt-to-GDP ratio: Canada, U.S. & G-7 average

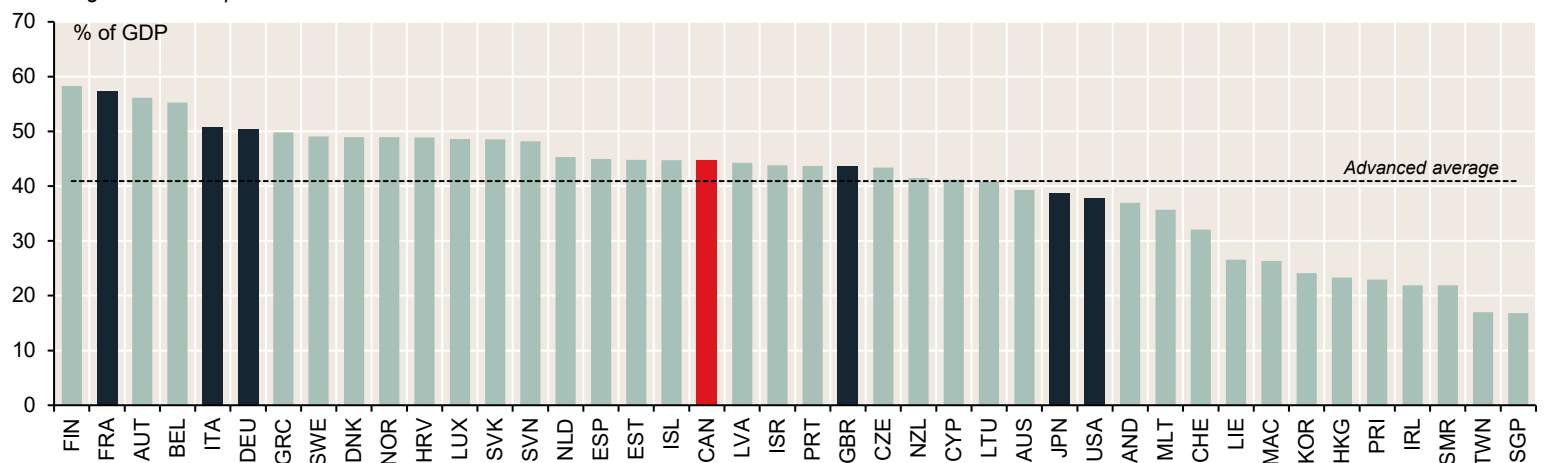


Source for Charts 6a-6c: NBC, IMF | Note: CAN includes federal outlook from Dec-24 FES; USA & G7 gross/net debt ratios available from 2001 onwards

The above charts provide historical perspective on Canada's general government debt burden, in gross and net terms (with the latter factoring in the value of accumulated financial assets). As noted on page 2, Canada's gross debt edge is much less striking. Saying that, whether keying on gross or net debt, the IMF's latest projections imply Canada debt advantage vs. the U.S. and/or the G7 average could be extended through the fiscal horizon. Mind you, Canada's medium-term fiscal trajectory will need to be recalibrated following what is meant to be a transformative federal budget.

Chart 7: How big a footprint for the general government sector?

General government expenditure-to-GDP ratio: 2025



Source: NBC, IMF | Note: Based on 42 advanced economies jointly comprising 39.1% of global GDP

One final chart, leveraging IMF data, to put the relative size of a given country's general government sector in context. Canada hasn't exactly opted for a 'small government' model, as the ratio of government expenditure to GDP sits above the advanced economy average. (Canadian government outlays also remain well above the pre-COVID level.) But it's in select parts of Western Europe where government outlays are relatively more expansive and potentially less sustainable longer term, given underlying demographic pressures and in some cases already stretched balance sheets.



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