INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/54

CANADA

March 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Canada, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 12, 2021 consideration of the staff report that concluded the Article IV consultation with Canada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 12, 2021, following discussions that ended on February 12, 2021, with the officials of Canada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 25, 2021, i.e., prior to the approval of the United States "American Rescue Plan".
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Canada

FOR IMMEDIATE RELEASE

Washington, DC – March 18, 2021: On March 12, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV[1] consultation with Canada.

The Canadian economy was operating at close to capacity and had strong policy buffers when the COVID-19 pandemic hit. Official statistics indicate that over 20,000 lives were lost. Economic and social restrictions put in place since March 2020 have helped to mitigate the first and the second wave of the virus, but they came at significant cost.

The path of the recovery will be inexorably linked to the evolution of the pandemic. Following an estimated contraction of 5.4 percent in 2020, real GDP is projected to expand by 4.4 percent in 2021 as the pandemic fades. The United States recently approved "American Rescue Plan" will further boost Canadian growth. Moreover, higher oil prices and stronger-than-expected pent up domestic demand are important upside risks to the outlook. On the other hand, the recovery could be delayed by new waves of the virus.

The authorities took timely, decisive, and well-coordinated policy actions in response to the pandemic. Canada's strong history of prudent policymaking afforded it the policy space to respond forcefully to the crisis, helping it to contain the socio-economic impact of the pandemic. The size and scope of policy support has been unprecedented. Direct fiscal support provided by the federal government is expected to amount to almost 15 percent of GDP and includes spending on healthcare, and support for households, firms, and vulnerable groups through cash transfers and wage subsidies. In addition, the federal government provided liquidity support through tax deferrals, credit facilities, and loan guarantees. At the same time, the Bank of Canada responded by cutting its policy interest rate to an historical low and announced a range of programs to support liquidity in the financial system. An array of other financial sector policies was also deployed to support banks, insurers, and pension funds.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. The 2021 Article IV Consultation with Canada was held virtually.

Executive Board Assessment[2]

Executive recognized that Canada's strong history of prudent policymaking and ample buffers provided the authorities the policy space to respond forcefully to the COVID-19 pandemic. Directors noted that the recovery now hinges on the evolution of the pandemic and encouraged the authorities to continue to use public health measures to combat the virus while maintaining adequate policy support. At the same time, structural reforms should continue to focus on promoting a green and inclusive economy.

Directors noted the authorities' intention to review the employment insurance system, including its role as an automatic stabilizer. They welcomed the authorities' data-driven approach to the withdrawal of policy support, but saw scope for greater clarity about the conditions that would trigger such withdrawal. Addressing gaps in the social safety net would also be important going forward.

Directors encouraged the authorities to communicate the medium-term fiscal objectives more clearly. Noting that there may be need for continued fiscal support, as well as the recent rise in public debt, they generally considered that introducing a fiscal anchor, that clearly illustrates fiscal sustainability, would help strengthen the credibility of the fiscal framework.

Directors welcomed the Bank of Canada's communication strategy for maintaining and eventually withdrawing policy support and agreed that current monetary policy settings are broadly appropriate. Scaling back policy support once a recovery is firmly entrenched will promote financial stability and help to build policy space. Directors emphasized that clear and credible communication will be key to managing expectations.

Directors agreed that current macroprudential policy settings are broadly appropriate. The withdrawal of policy support should carefully balance short-term risks to growth and financial stability against longer-term vulnerabilities, including those emanating from a persistent buildup of leverage and rising house prices.

Directors emphasized that beyond the pandemic, it is important to continue to implement structural reforms to boost productivity, diversify beyond traditional sectors, and transition to a greener and more equitable economy. They commended Canada's commitment to fighting climate change.

Directors welcomed progress towards implementing recommendations from the 2019 Financial Sector Assessment Program. Looking ahead, it will be important to address outstanding macro-critical recommendations, particularly those related to regulatory capital requirements for mortgage exposures and ensuring that mortgage insurers are adequately capitalized.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Canada: Selected Economic Indicators

(Percentage change, unless otherwise indicated)

Nominal GDP (2019): Can$ 2,223 billion (US$ 1,676 billion) — Quota: SDR 11,023.9 million

GDP per capita (2019): US$ 44,574 — Population (2019): 37.6 million

Main exports: Oil and gas, autos and auto parts, gold, lumber, copper.

	2016	2017	2018	2019	Projections 2020	2021	2022
Output and Demand							
Real GDP	1.0	3.0	2.4	1.9	-5.4	4.4	4.1
Total domestic demand	0.4	4.1	2.2	1.5	-6.5	5.3	4.6
Private consumption	2.1	3.7	2.5	1.7	-5.6	6.4	4.5
Total investment	-4.9	7.2	1.0	0.7	-10.4	7.9	7.0
Net exports, contribution to growth	0.4	-1.1	0.1	0.3	0.6	-1.4	-0.6
Unemployment and Inflation							
Unemployment rate (average) 2/	7.1	6.4	5.9	5.7	9.6	8.1	6.9
CPI inflation (average)	1.4	1.6	2.3	1.9	0.7	1.6	1.8
Saving and Investment 1/							
Gross national saving	19.7	20.7	20.9	20.9	20.0	20.7	20.9
General government	3.7	4.2	4.4	4.5	-15.7	-3.8	-0.8
Private	16.0	16.6	16.5	16.4	35.7	24.5	21.8
Personal	4.1	4.0	1.6	2.8	35.8	9.0	3.9
Business	11.8	12.6	14.9	13.6	-0.1	15.5	17.8
Gross domestic investment	22.8	23.6	23.2	23.0	21.6	21.8	22.4
General Government Fiscal Indicators 1/ (NA basis)							
Revenue	40.3	40.3	41.1	41.5	38.6	38.2	39.4
Expenditures	40.8	40.5	40.9	41.0	58.4	45.8	43.8
Overall balance	-0.5	-0.1	0.3	0.5	-19.8	-7.6	-4.4
Gross Debt	91.7	88.8	88.8	86.8	115.4	114.3	112.1
Net debt	28.7	26.0	25.6	23.4	48.0	47.4	45.5
Money and Credit (Annual average)							
Household Credit Growth	5.6	5.7	4.8	3.7	3.7	8.9	7.5
Business Credit Growth	5.1	7.8	6.5	5.6	3.9	7.2	8.2
Three-month treasury bill 2/	0.5	0.7	1.4	1.7	0.5	0.2	0.3
Ten-year government bond yield 2/	1.3	1.8	2.3	1.6	0.8	0.9	1.0
Balance of Payments							
Current account balance 1/	-3.1	-2.8	-2.3	-2.1	-1.5	-1.0	-1.4
Merchandise Trade balance 1/	-1.2	-1.1	-0.9	-0.7	-1.4	-0.7	-1.1
Export volume (percent change)	0.5	0.7	3.0	0.9	-7.3	16.0	6.5
Import volume (percent change)	-0.3	4.9	3.0	0.7	-6.4	19.1	8.0
Terms of trade	-1.1	3.6	0.8	-0.1	-2.6	5.4	0.1

Sources: Haver Analytics and Fund staff calculations.

1/ Percent of GDP.

2/ In percent.

CANADA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 25, 2021

KEY ISSUES

Context. The Canadian economy was operating at close to capacity and had strong policy buffers when the COVID-19 pandemic hit. Economic and social restrictions put in place in March 2020 helped to mitigate the first wave of the virus, but they came at a significant cost. There was an unprecedented decline in activity in the first half of 2020, followed by a strong rebound in the third quarter as virus-related restrictions were eased. With the onset of the second wave of the virus in late September sparking renewed restrictions across the country, the recovery has slowed. Looking ahead, the strength and durability of the recovery hinges on the evolution of the pandemic.

Policy Response. The authorities' response to the pandemic has been strong, decisive, and well-coordinated. Fiscal support has focused on direct emergency income transfers, subsidies, and credit facilitation to provide support to individuals, businesses, and those hardest hit by the crisis. At the same time, the Bank of Canada cut its policy interest rate to an historical low and, together with the regulatory authority, provided a wide range of support to the financial sector.

Recommendations. As the economy transitions from crisis mode to recovery, it is vitally important to keep the spread of COVID-19 under control, and to avoid a premature withdrawal of fiscal and monetary support. Clear and credible communication about the path to normalcy will be key. The federal authorities could consider replacing the support given by temporary emergency measures with a more systematic framework for cyclical stabilization. The data-driven approach to the withdrawal of stimulus that has been announced is a step in the right direction, but the approach needs more clarity. Further, the recent sharp rise in public debt increases the importance of clearly specifying a medium-term fiscal anchor—something staff has long advocated—to guard against a potential weakening of credibility in the fiscal framework. Beyond the pandemic, it remains necessary to continue implementing structural reforms to increase the productive capacity of the economy.

Approved By
Krishna Srinivasan (WHD) and Bikas Joshi (SPR)

Discussions took place by video conference during February 1–12, 2021. The team comprised Messrs. Christou (head), Andrle, and Matheson, Ms. Pan (WHD), and Mr. Gross (MCM). Messrs. Parry and Black (both FAD) joined the climate change meetings. Ms. Levonian (ED), and Messrs. Werner and Srinivasan (both WHD) attended the concluding meeting. Mr. Weil and Ms. Vasishtha (OED) joined many meetings. Ms. Sirbu (WHD) provided valuable assistance. The mission met with Deputy Prime Minister and Finance Minister Freeland, Governor Macklem, Deputy Minister Sabia, Deputy Governors Beaudry, Gravelle, and Schembri, Superintendent Rudin, other senior officials, regulators, provincial governments, representatives from the financial and business sector, academics, and think tanks. The concluding statement was issued on February 16.

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CONTEXT

1. **The federal government had a renewed mandate to continue pursuing its policy agenda before the COVID-19 pandemic hit.** In late 2019, Prime Minister Trudeau's Liberal Party won enough seats in Parliament in the federal election to secure a second term in office. The government's policy agenda, which was initiated in 2015, had a focus on building a strong middle class, fighting climate change, and promoting inclusive and sustainable growth.

2. **The pandemic required policy priorities to be quickly reoriented towards protecting lives and livelihoods.** The authorities took timely and well-coordinated actions to mitigate the economic impact of the crisis. The federal government responded with a sizeable Economic Response Plan, which included spending on healthcare, and direct support for households and firms through cash transfers and wage subsidies. It also provided liquidity support to businesses through tax deferrals, and the provision of credit facilities and loan guarantees. At the same time, the Bank of Canada cut its policy interest rate by 150bps and announced a range of programs to support liquidity in the financial system, including the purchase of federal and provincial government bonds and commercial paper. An array of financial sector policies to support banks, insurers, and pension funds was also deployed.

3. **The recovery presents an opportunity for policymakers to refocus the policy agenda.** The government has announced a wide-ranging and ambitious agenda to support a stronger, greener, and more equitable recovery. As the economy transitions from crisis to recovery, it is vitally important to avoid a premature withdrawal of policy support while committing to maintaining fiscal discipline over the medium term. At the same time, it remains necessary to look beyond the pandemic horizon and continue implementing structural reforms to increase the productive capacity of the economy.

RECENT DEVELOPMENTS

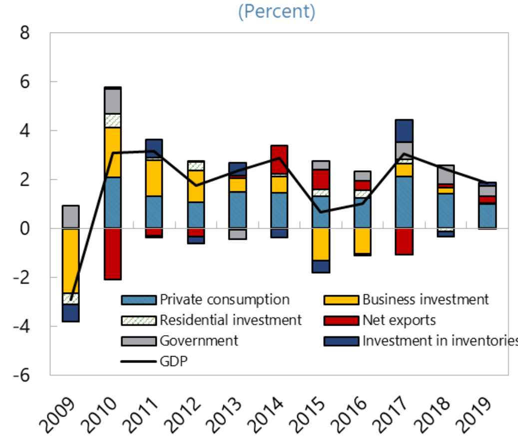
The Canadian economy was operating near capacity when the pandemic hit. The first wave of the virus peaked in early May after being mitigated with a range of measures. These measures were effective in limiting the initial spread of the virus, but they also came at a significant economic and social cost. The economy began to recover in late May amid a relaxation of mitigation efforts and strong policy support, but a surge in new virus cases toward end-2020 led to a tightening of restrictions and a slowing of activity, thus posing risks to the near-term outlook.

A. Before COVID-19

4. **Before COVID-19 hit, the economy was operating near its sustainable level.** Real GDP growth was 1.9 percent in 2019, slightly lower than the 2.4 growth posted in 2018, and inflation was close to target. In 2019:

- *Private consumption grew by 1.6 percent in 2019, its slowest pace in 10 years.* Consumer credit growth was moderating as households were adjusting to higher interest rates and tighter macroprudential policy settings. At the same time, business investment growth slowed, and net exports were contributing more positively to growth than in the previous two years.

Contributions to Real GDP Growth
(Percent)



Sources: Statistics Canada and IMF staff calculations.

- *All three core inflation measures (CPI-trim, CPI-median, and CPI-common) were hovering around 2 percent, the mid-point of the central bank's target range.* Despite strong employment numbers, annual wage growth remained around 2–3 percent, largely due to moderating wage growth in oil-producing regions.

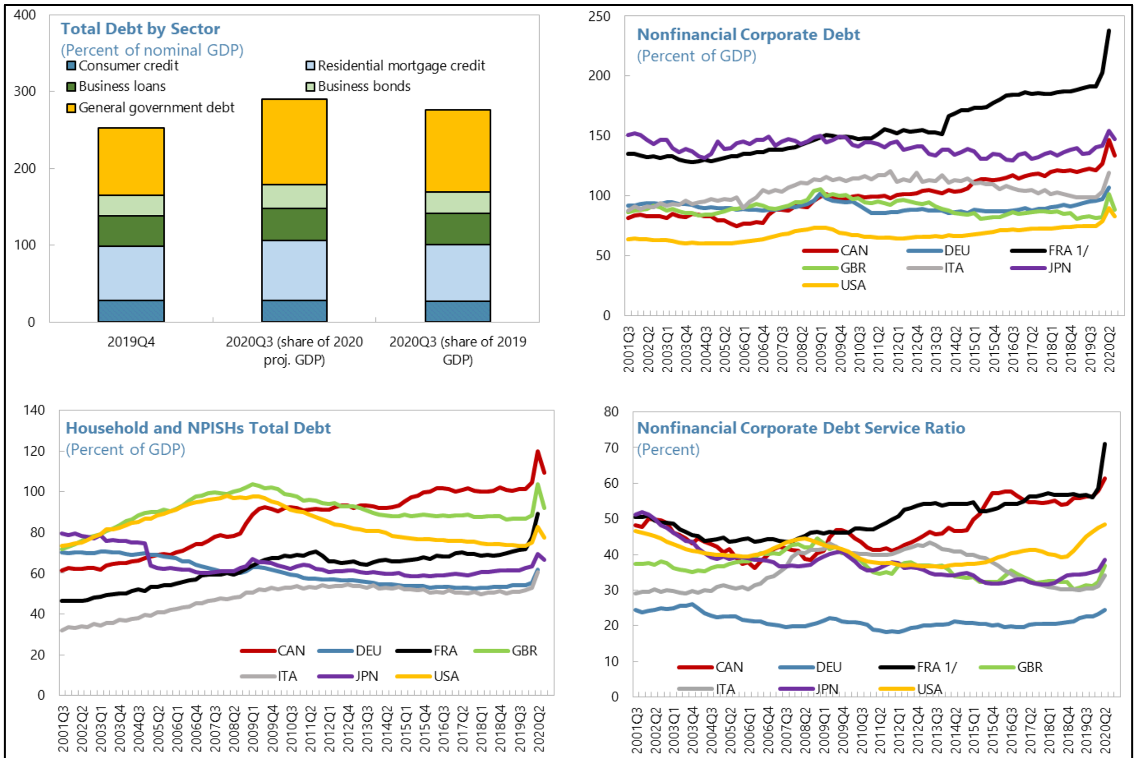
- *The central bank's policy interest rate ended 2019 at 1.75 percent, following a gradual tightening phase that began in July 2017.* Over this period, the 5-year mortgage rate climbed to 4.6 percent, but eased to 4 percent by early-January 2020.

5. The overall fiscal stance was broadly neutral in 2019 and net debt was relatively low. Canada's overall cyclically-adjusted fiscal balance rose to 0.4 percent of potential GDP in 2019 after being essentially balanced in 2018. The rise in the overall balance was driven by an improvement in the cyclically-adjusted provincial balance from -0.8 percent of potential GDP in 2018 to -0.3 percent in 2019, largely due to rising revenues. Canada had some fiscal space at end 2019, with total net public debt of 23.4 percent of GDP, the lowest level among G7 countries.

6. In contrast, households and firms had relatively high debt levels. Household debt exceeded 170 percent of disposable income in 2019, one of the highest levels among G20 countries. Non-financial corporations also entered 2020 with elevated debt (117 percent of GDP), which had been steadily increasing since 2010. Debt-to-assets and debt-service-to-income ratios for non-financial corporates at end 2019 were the highest among the G7.

7. As detailed in the 2019 Financial Sector Assessment Program (FSAP), Canada entered the crisis with a banking system that was sound and resilient. The FSAP also suggested that the corporate sector would be able to withstand large profitability and cost-of-funding shocks, while indicating some vulnerability among households and mortgage insurers. The adverse FSAP scenario, however, was very different from the current crisis, where the assumed recession was not as deep, but it was more persistent.[1]

[1] See: https://www.imf.org/en/Publications/CR/Issues/2019/06/24/Canada-Financial-System-Stability-Assessment-47024. The banking system was found to be broadly resilient, suggesting that it could also weather the stress of the current crisis. Banks' financial results reported through 2020 appear to corroborate this assessment.

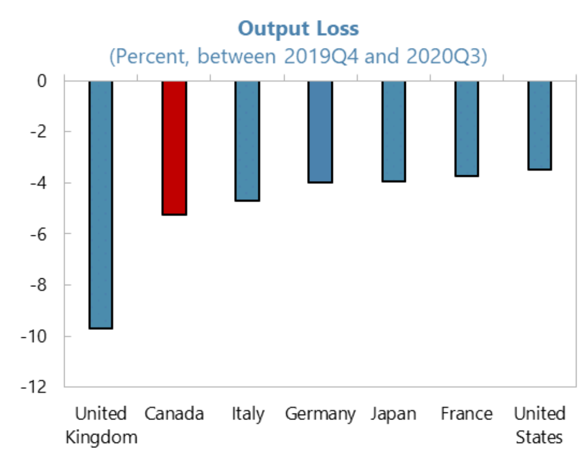


Sources: Haver Analytics, IMF World Economic Outlook, and IMF staff calculations.
1/ Corporate debt in France is reported on an unconsolidated basis and therefore not comparable.

B. The Pandemic

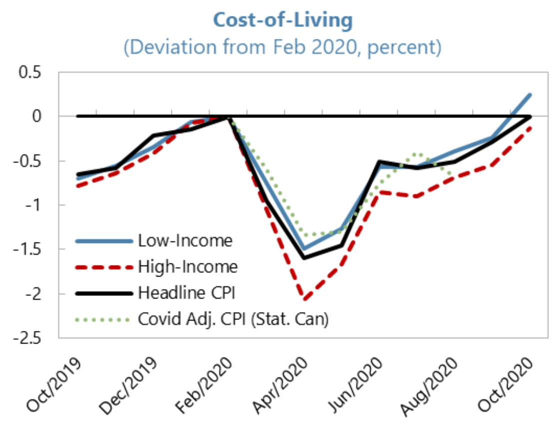
First Wave (from March until early May)

8. Canada entered the "Great Lockdown" soon after the WHO declared COVID-19 a pandemic. Community transmission was confirmed by mid-March and, by March 19, each province had declared a state of emergency. The strategy to contain the pandemic relied on cooperation between federal and provincial governments and focused on: (i) social distancing; (ii) identifying COVID-19 cases (testing); and (iii) contact tracing and quarantine measures. Public schools and non-essential businesses were closed across Canada.



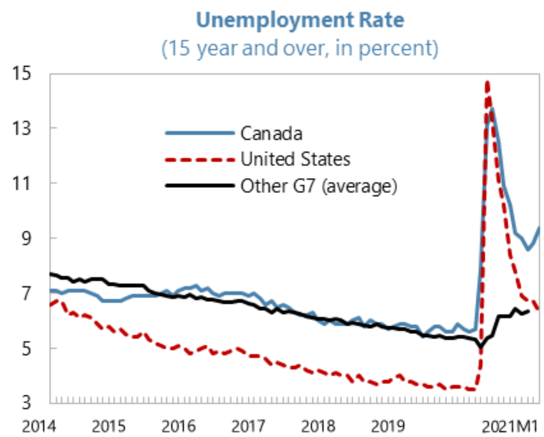
Sources: Haver Analytics and IMF staff calculations.

9. The lockdown triggered the largest output decline in Canada's modern history. GDP contracted by (an annualized) 7.3 percent and 38 percent in 2020:Q1 and 2020:Q2, respectively. After the economy began to reopen, it posted record growth in 2020:Q3 (40.5 percent, annualized). However, as with other G7 countries, the level of output remains significantly below the end-2019 level. Inflation also declined significantly, but by slightly less when accounting for a change in spending patterns during the pandemic.[2] High-income households also experienced larger declines in their cost of living than low-income households.[3]



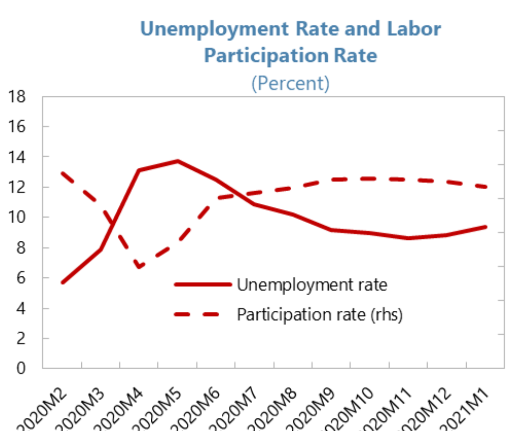
Sources: Statistics Canada and IMF staff calculations.

10. The unemployment rate briefly touched its highest level since the 1960s. It increased from below 6 percent in early 2020 to 13.7 percent in May. Roughly a third of the labor force either lost their jobs or had to accept a sharp decline in hours worked, with women being particularly hard hit (Box 1). A sharp drop in labor force participation helped to limit the effect of job losses on the unemployment rate.

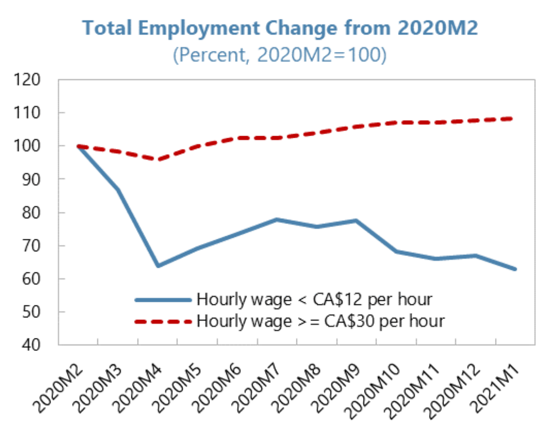


Sources: Haver Analytics, and IMF staff calculations.

11. The lockdown disproportionately affected workers in low-income jobs. Low-paid—yet often deemed "essential"—professions that cannot be carried out remotely suffered a much larger drop in employment and/or hours worked than professions that are more amenable to remote work. Through the crisis, employment among low-wage workers fell by 38 percent, a much higher drop than seen among higher-wage workers. By May, employment among higher-paid workers had essentially recovered, but employment among low-paid workers still suffered.



Source: Haver Analytics.



Source: Statistics Canada and IMF staff calculations.

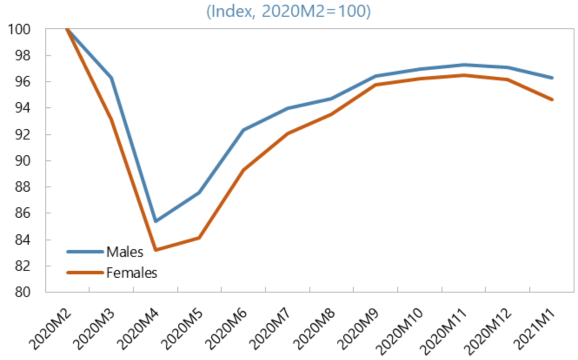
[2] See https://www150.statcan.gc.ca/n1/daily-quotidien/201008/dq201008a-eng.htm.

[3] Low-income households (1st quintile) spend 56 percent of income on food and shelter, while high-income household (5th quintile) spend 45 percent.

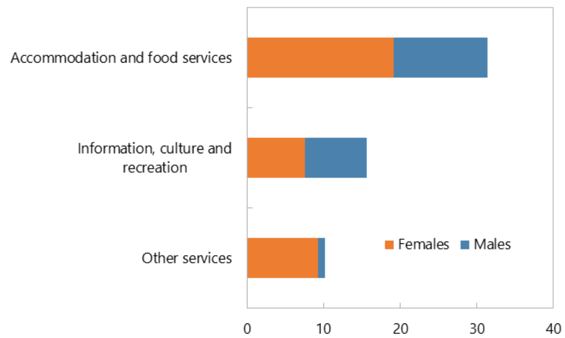
Box 1. The Impact of the Lockdown on Female Workers

Women suffered severe job losses during the initial COVID-19 lockdown. Sectors such as accommodation, food services, and other services were among the hardest hit. With part-time workers being more predominant in these sectors—and women making up 64 percent of the part-time workforce—women suffered more layoffs than men. Employment has begun to recover since the initial lockdown was lifted, but female employment gains still lag those of men.

Total Employment
(Index, 2020M2=100)



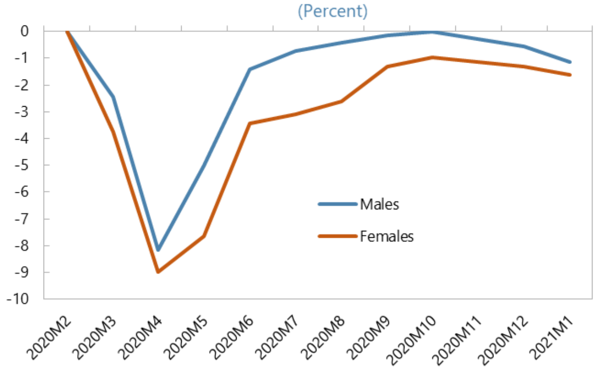
Contribution to Employment Drop between Feburary and Jan 2020



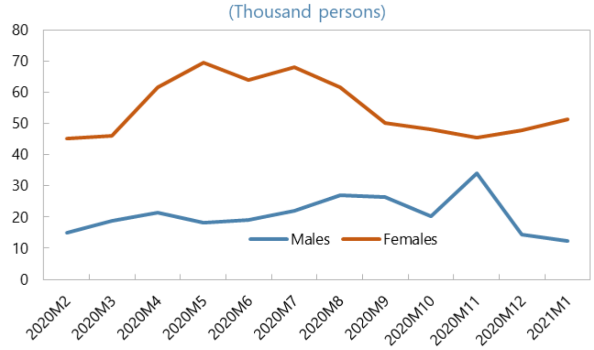
Sources: Statistics Canada and IMF staff calculations.

The recovery in female labor force participation (FLFP) could be prolonged. The FLFP rate reached its lowest level in almost two decades in March 2020, dropping below 60 percent. School shutdowns contributed to a disproportionate burden on women to take care of children as Canada entered the lockdown, as evidenced by a rise in the number of women leaving the labor force due to personal and family responsibilities. While Canada has made great strides in reducing gender inequality over the past half century, lingering inequities and uncertainty related to COVID-19 could prolong the recovery in FLFP. The federal government recently announced that it will develop a Canada-wide early learning and childcare system—a step in the right direction toward increasing FLFP over time.

Change of Labor Participation Rate from Feb-2020
(Percent)



Out of Labor Force Due to Personal and Family Responsibilities
(Thousand persons)



Sources: Statistics Canada and IMF staff calculations.

12. The crisis-induced drop in international demand for oil was accompanied by a supply shock and heightened uncertainty. A deteriorating global economic outlook began to reduce oil demand in February 2020, sparking a dispute between oil-producing countries about production cuts until an agreement was reached. Oil prices fell by half between February and March and hovered at around $20 per barrel through much of April, amid extreme volatility. On April 20, WTI oil prices briefly plunged into negative territory (to around -$37 per barrel), as traders rushed to offload their expiring May positions to avoid the physical delivery of oil.

13. The decline in oil prices was another hit to Canada's oil sector. Firms had already been experiencing lower earnings and had significant debt burdens following the 2014 price decline. The decline of oil demand and production cuts fell mainly on steam-driven oil facilities. In the case of steam-assisted gravity drainage operations—accounting for nearly half of oil-sands production—shutting down operations may pose the risk of permanent damage to oil reservoirs.

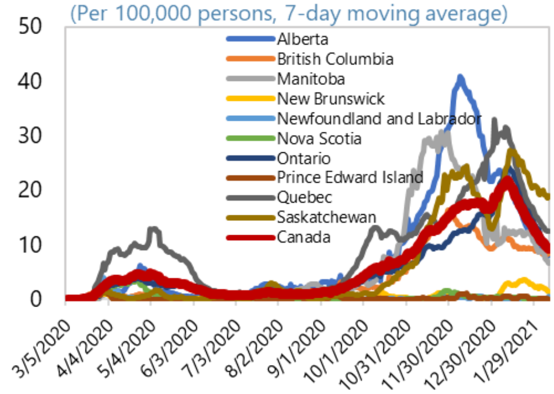
Second Wave (beginning in September)

14. The number of new daily cases began to surge again in September. The relatively low infection rate in the months following the first wave of virus allowed the authorities to gradually reopen the economy in a data driven and staggered way. New daily cases remained stable and low throughout the summer before picking up in September. By December, the number of new daily cases was surging, but with a lower positivity rate, and the rolling 7-day average of COVID-19-related deaths had reached half the peak seen during the first wave.

15. The second wave of the virus was much larger and more pervasive than the first. The first wave hit Quebec and, to a lesser extent, Ontario the hardest. In contrast, the second wave was more widespread across the country, with Ontario and Quebec again experiencing surges but with much higher infection rates seen in Alberta, British Columbia, and some of the other smaller provinces.

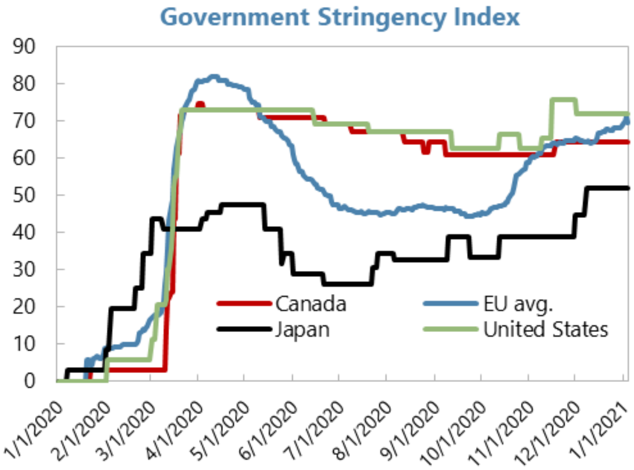
New Confirmed Covid-19 Cases

(Per 100,000 persons, 7-day moving average)

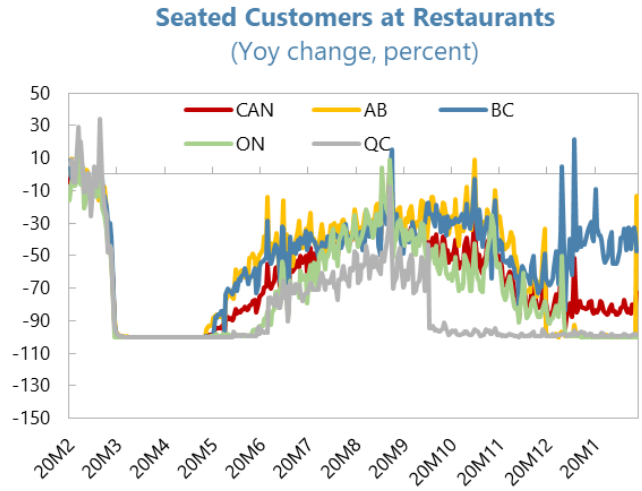


Sources: Government of Canada and IMF staff calculations.

16. The resurgence of the virus has added to near-term risks. The resurgence prompted a tightening of social and economic restrictions (reflected in declining mobility indicators), although not as stringently as in March 2020. Both Ontario and Quebec were in lockdown during January 2021 but began to ease restrictions in early February.



Sources: Oxford COVID-19 Government Response Tracker and IMF staff calculation.



Sources: Open Table and IMF staff calculation.

POLICY RESPONSE TO THE CRISIS

The economic policy response has been decisive, strong and well-coordinated. Canada's strong history of prudent policymaking afforded it the policy space to respond forcefully to the crisis, helping it to contain the socio-economic impact of the pandemic. The size and scope of the fiscal and monetary policy support is unprecedented. Fiscal support rightly focused on direct emergency income transfers, subsidies, and credit facilitation to provide support to individuals, businesses, and those hardest hit by the crisis. At the same time, the Bank of Canada slashed its policy rate to 25 basis points, an historical low, and adopted a range of measures to support financial markets. An array of policies was also adopted to support banks, insurers, and pension funds.

A. Fiscal Policy

17. The Economic Response Plan (ERP) was initiated less than a week after the WHO declared COVID-19 a pandemic.[4] ERP's key pillars are:

- *Health and Safety* to ensure the stability of the health-care system and enhance its services across the country;
- *Direct Support to Households* to compensate those that lost income due to the pandemic;

[4] See https://www.canada.ca/en/department-finance/economic-response-plan.html.

- *Direct Support to Businesses* to alleviate the financial burden on firms;

- *Liquidity Support* to provide short-term liquidity assistance through credit availability and tax deferrals.

18. Public health policies and spending were instrumental in containing the initial spread of the virus. The authorities quickly allocated resources to containing the pandemic, formed the COVID-19 Response Fund, contributed to funding Personal Protective Equipment (PPE) for frontline workers, and provided support for COVID-19 related research on therapeutics and vaccines. Crucially, the public health response has been guided by science and expert advice.

19. Beyond health and safety, direct fiscal support has been largely concentrated in two flagship programs:

Economic Response Plan (ERP): Main Measures

	$ billion	% GDP*
Direct Support	322.3	14.6
Health and Safety	52.5	2.4
Households	234.9	10.7
of which:		
Emergency Response Benefit (CERB)	83.0	3.8
Recovery Benefits and Enhanced EI	32.5	1.5
Emergency Wage Subsidy Programs	100.1	4.5
Other (incl. students, seniors, and vulnerable groups)	19.4	0.9
Businesses	35.0	1.6
of which:		
Emergency Business Account (loan forgiveness)	14.6	0.7
Emergency Rent Subsidy	6.5	0.3
Other (incl. sector-specific support and sub-nationals)	14.0	0.6
Liquidity Support (Credit)	83.4	3.8
of which:		
Emergency Business Account	27.9	1.3
Small and Medium-Sized Business Loan Guarantee	40.0	1.8
Other	15.5	0.7
memo: Loss Provisions (budget implications)	11.0	0.5
Liquidity Support (Tax Deferrals)	85.1	3.9
of which:		
Personal Income	25.0	1.1
Business Income	30.0	1.4
Other	30.1	1.4
memo: Deferral Provision (budget implications)	3.0	0.1
Total Support (Direct, Credit, and Tax Deferrals)	490.7	22.3
Net Fiscal Support (accrual basis, up to 2025/26)	338.4	15.4

Source: Department of Finance and staff estimates. *Estimated 2020 GDP

- ***Canada Emergency Response Benefit (CERB)***. The program was implemented to manage a surge in the number of people that lost income due to the pandemic but were not covered by existing benefits. The program, initiated in early April, provided a direct transfer of $2,000 per month to individuals for up to 16 weeks (it was later extended until end-September). The take up was massive, with the number of unique applicants exceeding 35 percent of the labor force. The program eventually provided direct transfers to households totaling $83 billion (3.8 percent of GDP). When it ended, two million claimants immediately made the transition to a newly simplified Employment Insurance (EI) system, but many remained ineligible for EI. To close this gap in the social safety net, the federal government launched three new recovery benefits to cover individuals that were unable to work due to COVID-19, with these benefits available until September 2021.

- ***Canada Emergency Wage Subsidy (CEWS).*** The program was designed to keep employees attached to their employer by subsidizing 75 percent of payroll, up to $847 per employee per week. After modifications, the program was extended up to 24 weeks. To be eligible, a company needed to have a revenue decline of at least 15 percent in March, or of at least 30 percent in April and subsequent months. Businesses not qualifying for the CEWS qualified for a 10 percent temporary wage subsidy. By July 2020, the CEWS program had been redesigned to be more inclusive, with the rate of support varying depending on the scale of revenue declines and with declining subsidy rates over time. The initial enrollment was much more gradual than for the CERB, but, as the CEWS evolved, the number of workers supported eventually reached

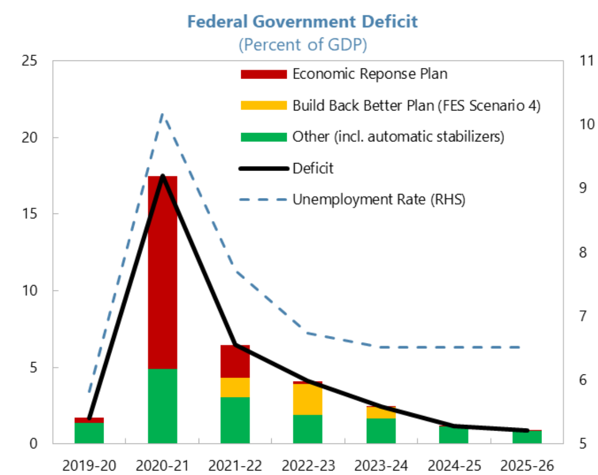
15 percent of the labor force, before it began to wind down as the economy reopened. In November, the program was extended until June 2021.

20. There has also been targeted fiscal support for hard-hit industries and vulnerable groups. Support has been given to industries most impacted by the pandemic, including tourism, air transportation, and culture, heritage, and sports organizations. The crisis response also focused on supporting vulnerable groups, and organizations that provide them financial support. Moreover, certain foreign investments in Canada were subjected to enhanced scrutiny under the Investment Canada Act, to counteract the possibility of opportunistic foreign investment behavior amid sizable firm valuation declines during the pandemic.[5]

21. Liquidity support to businesses has been tailored to circumstances, depending on the size of the firm and its access to credit. Unlike the CERB and CEWS, liquidity-support measures had little or no budgetary impact but helped to facilitate and maintain the flow of credit to firms. This consisted of interest-free or subsidized loans for small businesses (Canada Emergency Business Account, CEBA), co-lending or credit guarantees to medium-sized business (Business Credit Availability Program, BCAP), and large-scale financing for large employers (Large Employer Emergency Financing Facility, LEEFF).

22. Other complementary measures, without a direct fiscal impact, also played a key role. These included income and sales tax deferrals for businesses and individuals amounting to $85 billion (3.9 percent of GDP).

23. Overall, total support from the measures in the ERP amounts to almost $500 billion, more than 20 percent of GDP. As a result of the sharp rise in spending and a significant decline in economic activity, the federal government expects its fiscal deficit to widen sharply in FY 2020/21 to $381.6 billion (17.5 percent of GDP), driving net federal debt (authorities' definition) to 50.7 percent of GDP, an increase of almost 20 percentage points over the year.



Sources: Department of Finance, and IMF staff calculations.

24. Beyond this year, the federal stimulus will be unwound depending on data-driven triggers. The federal government has noted that the timeline for the withdrawal of fiscal support will not be locked into a pre-determined calendar. Instead, it will track the economy's progress against several indicators (so-called "fiscal guardrails"), including the employment rate, total hours worked, and the unemployment level. These triggers will provide a guide for when one-off stimulus spending measures will end.

[5] https://www.ic.gc.ca/eic/site/ica-lic.nsf/vwapj/Ministerial-Order.pdf/$file/Ministerial-Order.pdf.

25. Moreover, the federal government has committed to spending up to $100 billion (4 percent of GDP) over the next 3 years to help jumpstart the recovery once the virus is contained. While the "Build Back Better" plan for this new spending is scant on details (with more information to be provided in the 2021 Budget), it will include time-limited investments aimed to foster shared prosperity, quality of life, competitiveness and a green transformation.

Canada: Provincial Fiscal Balances, FY 2020/21

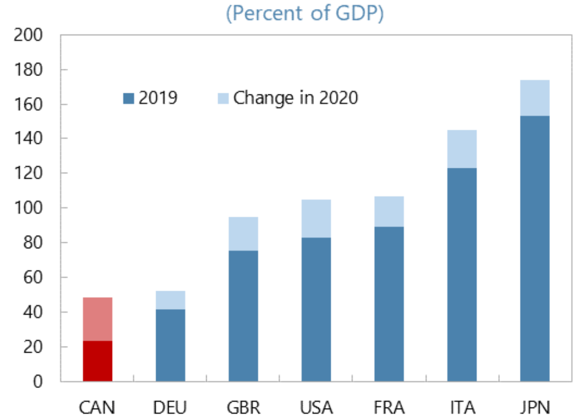
Province	Percent of 2019 Provincial GDP	Percent of 2019 National GDP
Alberta	-6.0	-0.9
British Columbia	-4.4	-0.6
Manitoba	-2.8	-0.1
New Brunswick	0.0	0.0
Newfoundland and Labrador	-5.2	-0.1
Nova Scotia	-1.7	0.0
Ontario	-4.3	-1.7
Prince Edward Island	-2.4	0.0
Quebec	-3.3	-0.7
Saskatchewan	-2.9	-0.1

Sources: Provincial governments and IMF staff calculations.

26. Provincial responses to the crisis have not been as strong as the federal response, but deficits have still widened sharply. The four largest provinces (Ontario, Quebec, Alberta, and British Columbia) account for more than 85 percent of Canada's economic activity and each projects a wide deficit for FY2020/21. Together with the sizable federal deficit, this will contribute to a historically large fiscal deficit on a consolidated general government basis (almost 20 percent of GDP) this fiscal year.

27. The substantial increase in the overall deficit will contribute to a significant increase in overall gross debt, but net debt remains relatively low. The wide general government deficit in 2020 will push overall gross debt to over 115 percent of GDP (an increase of almost 30 percentage points). However, while risks have risen, Canada still does not have substantial fiscal vulnerabilities (Annex III), partly due to its strong pre-crisis fiscal position and its sizable asset position. Overall, net public debt is expected to remain low—at 48 percent of GDP—relative to other G7 countries.

General Government Net Debt
(Percent of GDP)



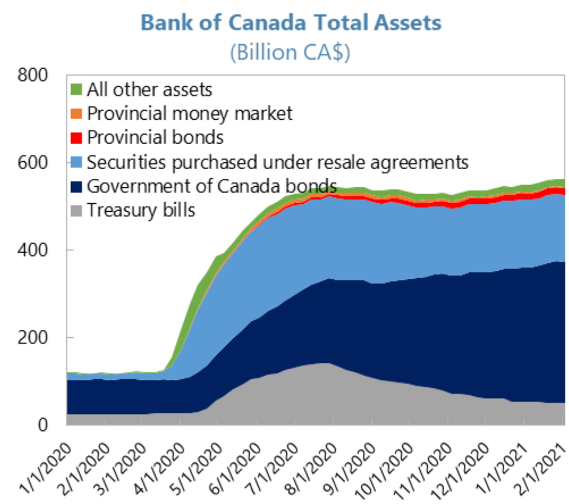
Sources: IMF World Economic Outlook.

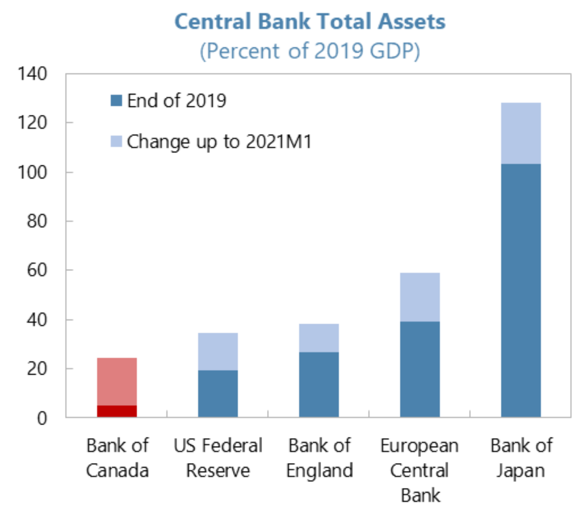
B. Monetary and Financial Policy

28. The Bank of Canada (BoC) responded forcefully to the crisis by cutting its policy interest rate and injecting liquidity to ensure the proper functioning of financial markets. The policy rate was lowered from 1.75 percent at end-2019 to 0.25 percent—the authorities' estimate of the effective lower bound at the time—and a significant amount of liquidity was injected into financial markets, increasing BoC's total assets from $150 billion in February to $546 billion in July. The Bank purchased central and provincial government debt securities, corporate short-term paper and medium-term securities, and mortgage bonds. Its balance sheet expansion was one of the largest (as a share of GDP) among advanced economy central banks. The Bank also bolstered its programs to secure liquidity provision for individual financial institutions through its repurchase operations and liquidity facility programs. These sizable liquidity injections have largely succeeded in reducing risk premia and bid-ask spreads on government and corporate bonds towards levels seen before the pandemic.

29. The Bank has committed to purchasing a large volume of federal government securities. BoC is authorized to purchase government debt both on the primary and secondary markets for balance-sheet management and providing monetary stimulus, which facilitates market absorption of newly-issued government debt. The share of total government debt held by the Bank has increased from 15 percent at end-2019 to 34 percent at end-2020.[6]

30. By October 2020, some emergency support programs had been scaled back due to improved market conditions. The bankers' acceptance facility and the Canada Mortgage Bond Purchase Program were discontinued, and the frequency of term repurchase operations was increased (to every two weeks).





Sources: Bank of Canada; Haver Analytics; and IMF staff calculations.

31. The BoC also supported liquidity by purchasing provincial government debt. Given Canada's overall government structure and the active participation of provinces and territories in implementing policy measures to combat COVID-19, the Bank's implementation of the Provincial Money Market Program and Provincial Bond Purchase Program were important steps towards ensuring the smooth functioning of this market segment.

[6] Most of the asset purchases were in secondary markets. For balance sheet management purposes, the Bank is allotted a portion of government securities on a non-competitive basis to meet the Bank's needs at the time of auction (around 13 percent of the issuance). During normal times, the BoC bought both treasury bills and bonds in the primary market. During the pandemic, additional bond purchases were conducted solely through secondary markets. As of end-January, the shares of holdings acquired through primary and secondary markets of bonds and bills combined amounted to 42 and 58 percent, respectively.

COVID-19 Liquidity Support Programs

	Title & Description	Current Status
GBBPP	**Government of Canada Bond Purchase Program** To provide monetary stimulus and support market functioning. To address strains in the Gov't of Canada bond market. After market stabilization the current focus is the quantitative easing (QE) to support growth, employment, and achive the inflation target	active
PBPP	**Provincial Bond Purchase Program** To support liquidity and market function of the provincial government funding market. Not more than 20% of an issuer's eleigible outstanding assets. Program up to $50 billion total.	active till May 2021
CBPP	**Corporate Bond Purchase Program** To support liquidity and function of corporate debt market. Eligible assets purchased on secondary market have remaining term to maturity of <5 years. No floating rate notes. Eligible assets will have at least BBB or higher rating.	active till May 2021
CPPP	**Commercial Paper Purchase Program** To support the flow of short-term credit to the economy. Eligible assets bought in the primary or secondary market with a tenor up to 3M sufficiently high rating.	active
BAPF	**Bankers' Acceptance Purchase Facility** To support the key source of financing for small- and medium-size corporate borrowers.	discontinued in Oct 2020
CMBP	**Canada Mortgage Bond Purchase Program** BoC purchases CMBs in the primary market as a part of its regular balance-sheet management. In exceptional cicrcumstances the bank makes purchases to promote market functioning.	discontinued in Oct 2020
PMMP	**Provincial Money Market Purchase Program** To support a liquid and well-functioning market for short-term provincial borrowing. Primary market purchases with <1Y maturity.	discontinued in Oct 2020

32. **The BoC does not plan to adopt a negative policy interest rate at this time, but it has introduced forward guidance.** It had stated that it considered 25 basis points to be the "effective lower bound" for the policy rate, suggesting that it will aim to avoid moving it into negative territory. However, it has pledged that it "will hold the policy interest rate at the effective lower bound until economic slack is absorbed so that the 2 percent inflation target is sustainably achieved."[7]

33. **The macroprudential policy stance was relaxed and additional measures were deployed to support the financial system.** Macroprudential policies for sustaining credit provisioning and enhancing banks' loss absorption capacity included: (i) capital requirements were modified by reducing the Domestic Stability Buffer from 2.25 percent to 1 percent; (ii) the regulatory capital relief measures were instructed to not be used by banks to increase dividends; (iii) banks' sovereign bond holdings and central bank reserve holdings could temporarily be excluded from the leverage ratio; (iv) some pending implementation steps regarding Basel III were postponed until 2023. In addition: (i) it was clarified that loans under deferral status were to be treated as performing from both a regulatory and an accounting perspective; (ii) insurers could pause reporting on progress regarding the IFRS 17 accounting standard; and (iii) pension funds could freeze their portability transfers and annuity purchases to protect members' benefits.[8]

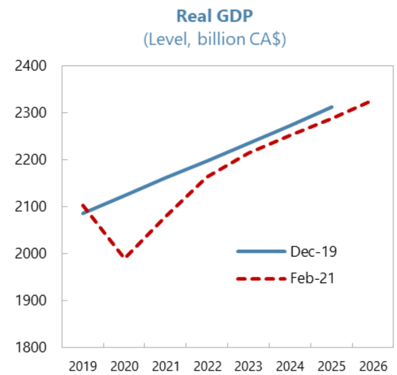
[7] https://www.bankofcanada.ca/2020/07/opening-statement-150720/.

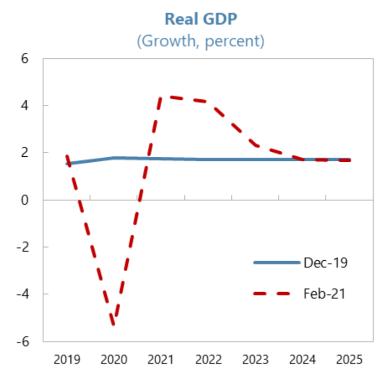
[8] https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/med/Pages/nr_20200327.aspx; and https://www.osfi-bsif.gc.ca/Eng/fi-if/dti-id/Pages/DTIFAQ_Cov.aspx.

OUTLOOK AND RISKS

34. The recovery will hinge on the evolution of the pandemic. The first phase of the recovery began when a significant portion of the economy came back online as COVID-19-related restrictions began to be lifted in May. A slower recovery is expected now, reflecting uncertainty related to the pandemic. Going forward, the strength and durability of the recovery will depend on Canada's ability to keep the spread of COVID-19 at a manageable level through expanded testing and contact tracing, maintaining capacity in the health system, and the successful vaccination of the population.

35. A gradual recovery is expected but there is significant uncertainty about the long-term impact of the crisis. Following an estimated contraction of 5.4 percent in 2020, real GDP is projected to expand by 4.4 percent in 2021 and 4.1 percent in 2022. Around half of the initial output decline in 2020 is assumed to come from a transitory drop in productive capacity and the remainder from a more persistent collapse in demand. The resulting negative output gap is expected to slowly narrow over coming years, consistent with a rise in inflation toward the target. Both fiscal and monetary policy support is assumed to gradually unwind in line with the recovery in output and employment. At the same time, the current account deficit is expected to reach 2.2 percent of GDP by 2026. Over the medium term, weak external competitiveness, low productivity growth, and population aging will limit potential growth to 1.7 percent. Moreover, there is significant uncertainty about how the pandemic will evolve and its eventual effect on Canada's long-term productive capacity. Staff's baseline projection assumes that real output will be around 1 percent below its pre-crisis trend by the end of the projection horizon. This is due to the disruptive effect of the pandemic on the labor market, capital accumulation, and sectoral shifts in the economy.





36. House prices and household debt-to-income ratios will likely continue to increase. This assessment rests on the expectation that policy rates and mortgage interest rates will remain low for some time. As discussed in the 2019 Article IV report, a decline in mortgage rates quickly translates to an increase in market prices in Canada. With lower interest rates, debt-to-income ratios for new mortgage holders will likely increase.

37. Risks to the outlook are broadly balanced. The expected adoption of the "American Rescue Plan" in the United States, higher oil prices, and stronger-than-expected pent up domestic demand are important upside risks. Downside risks include:

- *The pandemic.* A resurgence of the virus in Canada and/or its main trading partners could disrupt the recovery and have an adverse impact on confidence and activity. The sooner-than-expected rollout of vaccines provided a much-needed boost to confidence but vaccinating a large swathe of the population could take months. Until then, efforts to mitigate the virus must continue. Further disruptions to domestic and global supply chains could lead to stagflation and supply shortages in the short term.

- *Premature withdrawal of policy support.* The recovery could be derailed if monetary and fiscal policy support is removed (or scaled down substantially) before the recovery gains its footing. Clear and credible communication of the exit strategy will be key.

- *The legacy of the crisis.* A key risk to the long-term recovery relates to the degree of economic scarring and structural balance sheet impairments that result from the crisis. Many businesses have suffered, and the future viability of some industries and firms has been severely tested. Some firms will recover but other will be permanently shuttered. The longer it takes to contain the virus, the higher the long-term scarring. Many workers have been dislocated and could take time to be reskilled, which could have a lasting impact on unemployment trends.

- *Higher private-sector indebtedness.* A further increase in private sector debt raises the risk of overleverage, which could amplify macro-financial stress during a downturn. Growing mortgage debt could also go hand-in-hand with imbalances in the housing market, thus further increasing risks. Separately, if the pandemic lasts longer than expected, bank capitalization may come under pressure as borrowers move from being illiquid in the short term to being insolvent.

- *Oversupply and volatility in the oil market.* Continued low demand and an increase in global oil supply and associated uncertainty could threaten Canada's oil sector.

POLICY DISCUSSIONS

The authorities' immediate policy response to the crisis was effective. As the economy transitions from crisis mode to recovery, it is vitally important to keep the spread of COVID-19 under control and to avoid a premature withdrawal of policy support. The fiscal authorities could consider replacing the support provided by temporary emergency measures with a more systematic framework for cyclical stabilization. At the same time, the recent sharp rise in public debt increases the importance of more clearly specifying a medium-term fiscal anchor to guard against a potential weakening of the credibility of the fiscal framework. It also remains necessary to look beyond the pandemic horizon and continue implementing structural reforms to increase the productive capacity of the economy.

A. Immediate Response

38. Decisive actions and unprecedented fiscal support helped to avert an even sharper fall in output. While the fiscal deficit and public debt have increased sharply, sizeable fiscal support was necessary to help avert larger economic and social losses. Staff analysis suggests that the debt-to-GDP ratio would have risen sharply—and by a similar amount to staff's baseline projection—even if discretionary fiscal spending had not been ramped up to support demand. This is essentially due to the harmful effect that an even larger collapse in activity would have had on nominal GDP. Crucially, the choice for policymakers during the crisis seems not to have been about whether to increase spending to support demand, but rather about by how much to increase spending to ease economic and social pain (see Box 2).

39. The rapid rollout of the CERB and the CEWS provided crucial support to the economy, but elements of their initial design were limiting. The design of social benefits and subsidies should ensure that two almost identical subjects are treated in a very similar way. Sharp discontinuities in qualifying criteria could lead to distortions in economic behavior and suboptimal resource allocation. Both the CERB and CEWS programs initially featured such discontinuities:

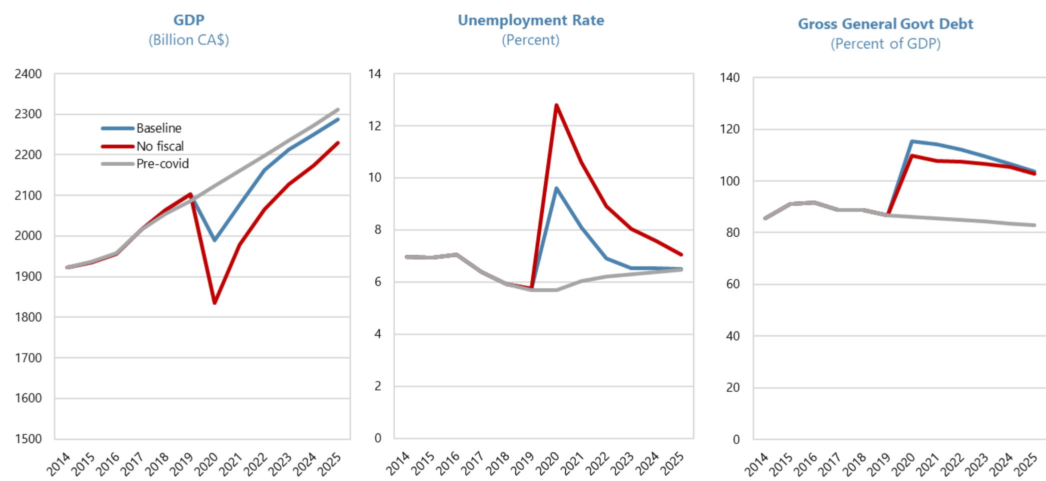
- *CERB.* Fear of losing the full $2,000 monthly payment after earning a dollar more than $1,000 per month may have disincentivized some workers from taking part-time or temporary jobs initially. The revamped benefit partly removes this discontinuity by allowing additional income to be earned, with households reimbursing half of the benefit for every dollar of net income above $38,000 annually.

- *CEWS*. The 30 percent decline in sales threshold to obtain a 75 percent wage subsidy proved to be a significant hurdle for many firms to access the program initially, and likely contributed to the sharp rise in unemployment, and the much larger-than-initially-expected take up of the CERB. The redesigned CEWS eliminated this sharp discontinuity, with the subsidy rate linked to the rate of decline in revenues.[9]

[9] https://www.canada.ca/en/department-finance/news/2020/07/adapting-the-canada-emergency-wage-subsidy-to-protect-jobs-and-promote-growth.html.

Box 2. The Impact of the Fiscal Stimulus

A large-scale economic model (FSGM) is used to analyze the effect of fiscal policy during the crisis.[1] Specifically, a counterfactual scenario is developed where discretionary fiscal spending would not have been ramped up to support the economy during the crisis. Estimates suggest that without the fiscal stimulus real output would have declined by an additional 7.8 percentage points in 2020 and the unemployment rate would have been 3.2 percentage points higher.



Interestingly, in this scenario, the behavior of the debt-to-GDP ratio would have been very similar to staff's baseline projection—it would have been only 5.6 percentage points lower compared to the baseline projection in 2020, with the difference becoming even smaller over the projection horizon. Essentially, this is because higher fiscal spending boosts output (i.e., fiscal multipliers are positive) and without it the decline in nominal output would have been much larger. This is consistent with the analysis in Chapter 2 of the April 2020 WEO.

[1]FSGM is a multi-country non-linear structural economic model of G20 countries. See https://www.imf.org/external/pubs/ft/wp/2015/wp1564.pdf.

40. **Despite the rise in federal debt, debt service has been stable due to low interest rates.** However, over 60 percent of federal debt issuance during March–November 2020 was short-term, with less than 10 percent for maturities greater than 10 years. Looking across G7 countries, a relatively high proportion of short-term debt issued has been issued by Canada, the U.S., Japan, and France, while the U.K., Germany, and Italy issued larger shares of long-term debt in 2020. While the federal government is planning to expand its share of long-term issuance, it still has not "locked in" favorable interest rates for long, and thus, the relatively short maturity structure of newly-issued debt exposes the government to higher interest rate risk.

41. **Monetary easing has supported the economy.** The BoC has a rich toolbox of policy measures that can be deployed if necessary. While it has communicated a reluctance to drive the policy interest rate to negative territory, the adoption of forward guidance and quantitative easing

strikes the right balance between the potential for diminishing benefits from a moderately negative interest rate and the potential for negative side effects from using other tools.[10]

42. BoC's forward guidance is contingent on reducing economic slack and achieving the inflation target. Canada's impressive inflation targeting record has kept inflation and inflation expectations low and stable for the past few decades. Forward guidance should help to sustain the credibility of the inflation target.

43. The BoC's efforts to facilitate credit and support liquidity have largely been successful. Major disruptions in financial markets were avoided in the initial phase of the crisis and BoC's actions, together with similar actions by other G7 central banks, have helped to lower risk spreads to levels close to pre-pandemic levels.

44. Staff estimates suggest that monetary easing contributed notably to avoiding firm defaults and adverse macroeconomic feedback. Using an integrated micro-macro simulation model for the non-financial sector,[11] in a scenario with policy interest rates assumed to be 150 basis points higher than levels observed since March 2020, the analysis shows that the firm industry-aggregate debt-weighted probability of default could have approached 6 percent, compared with the 3.2 percent seen in 2020 (on average). The counterfactual estimates (inclusive of feedback effects) suggest that real GDP growth could have been 3.4 percentage points lower, the unemployment rate 1 percentage point higher (year average), and risk spreads for corporate debt about 120 basis points wider. Combined with the base interest rate shift, the counterfactual scenario therefore entailed a debt cost increase for firms of close to 300 basis points. The impact on bank capitalization, assuming no policy support nor deferrals or state-instructed moratoria, ranges between -25 basis points and -240 basis points (min-max) for the seven largest banks' CET1 capital ratios. The RWA-weighted banking system-wide impact would stand at -70 basis points inclusive of second-round feedback.[12]

45. The banking system has remained sound. Despite a significant decline in economic activity, bank capital ratios have remained steady and even increased slightly during 2020. Payment deferrals have thus far allowed banks to avoid costly borrower defaults.[13] Banks considering moratoria for their borrowers are doing so under the presumption that repayment of principal and payment of interest will resume once the pandemic ends. However, the longer the pandemic lasts, the greater the risk of future bank losses, which could eventually imply a drag on bank capital ratios.

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[10] International experience with negative policy rates varies, reflecting different macroeconomic circumstances, but also ongoing debates about the effectiveness and implementation challenges. E.g., see: "Negative Interest Rates: Taking Stock of the Experience so Far", IMF Departmental Paper (forthcoming).

[11] See "Corporate Sector Risk Analysis, Covid-19 Policy Counterfactuals, and Link to Bank Balance Sheets" of the accompanying Selected Issues Paper.

[12] The quantitative effects on banks pertain to only banks' corporate loan portfolios. If the impact through household portfolios were also accounted for, the impact estimates would likely be larger.

[13] https://www.bankofcanada.ca/2020/11/monitoring-payment-deferrals-during-the-covid-19-pandemic/.

One underlying source of pressure is the accrual of interest and the implied need for considering further restructuring of loans to not overburden borrowers by the end of a moratorium.

B. From Crisis Management to Supporting the Recovery

Public Health Policy

46. **The path of the recovery is inexorably linked to the evolution of the pandemic.** Swift vaccination of Canadians must remain a key short-term policy priority. However, before vaccine protection becomes widespread, mitigation efforts must continue. These efforts should focus on reducing the risks and costs associated with social contact while minimizing economic disruptions.

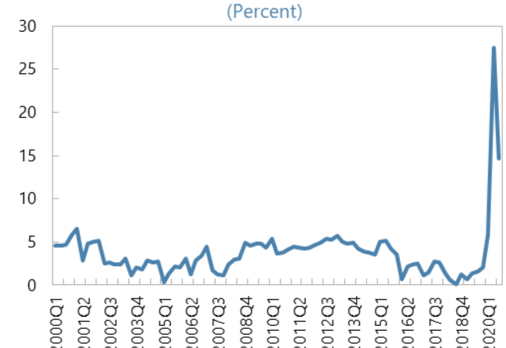
47. **Identifying and isolating infectious individuals remains a very effective strategy for combating the pandemic and ensuring a durable recovery**. Quickly identifying infectious individuals is crucial to avoiding costly lockdowns and social distancing mandates—see Annex VI.[14] Widespread and frequent use of rapid tests—with continued mask wearing—would help, as long advocated for by experts.

Fiscal Policy

48. **The crisis exposed gaps in Canada's social safety net that should be addressed.** The significant job losses at the onset of the crisis put pressure on the employment insurance (EI) system, and many Canadians did not qualify for income support. These factors prompted the rapid rollout of the CERB to help fill the gaps. When the benefit ended, many of the CERB claimants transitioned to a newly revamped EI system, and those still not covered by the revamped system transitioned to temporary recovery benefits. The lessons from the crisis represent an excellent opportunity to review the EI system, including its role as an automatic stabilizer.

49. **The federal government could consider developing a more systematic framework for cyclical stabilization.**[15] Fiscal spending can boost output through the income channel (replacing a portion of lost labor income) and the expectations/insurance channel (lowering precautionary saving). Benefits that abruptly expire complicate planning decisions and could increase precautionary saving. This could delay the recovery and ultimately increase fiscal costs. In contrast, linking temporary fiscal spending to a timely and well-understood macroeconomic variable that reflects the cyclical position of the economy (e.g., the unemployment rate) could provide an automatic trigger for initiating stimulus and for its withdrawal. In the current

Personal Savings Rate
(Percent)



Sources: Statistics Canada and IMF staff calculations.

[14] See Dizioli and Pinheiro (2020) and COVID-19 Hits the Poor Harder, but Scaled-Up Testing Can Help – IMF Blog.

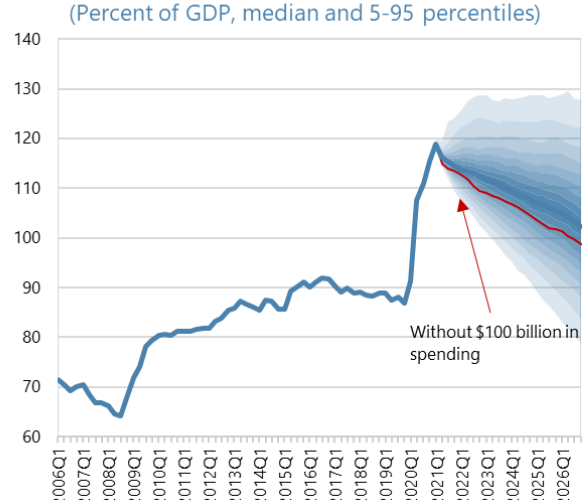
[15] See Chapter 2 of April 2020 WEO.

context, for example, the expiration of some emergency support programs later this year could complicate decisions of households and firms, add to uncertainty, and potentially increase fiscal costs.

50. The federal government's data-driven approach to the withdrawal of policy stimulus (its "fiscal guardrails") is a step in the right direction, but the approach requires more clarity. The projected adjustment in 2021 is appropriate given the sharp recovery in activity and employment that occurred when nationwide lockdowns were lifted. While the data-driven approach represents a strong signal of the authorities' commitment to avoid a premature withdrawal of policy support, lack of information about the specific conditions that would trigger the withdrawal of stimulus complicates communication and could add to uncertainty.

51. While Canada still has some fiscal space, prior to embarking on any new spending, it would be important to ensure its composition achieves well-defined objectives, including enhancing long-term growth. The federal government's commitment to spend up to 4 percent of GDP over the next three years to support the recovery needs further justification. The government has stated that the additional stimulus will be designed to provide the fiscal support the economy needs to operate at its full capacity and to stop COVID-19 from doing long-term damage to potential output. In this context, it is essential that the strength and durability of the recovery is evaluated against these objectives, and the government's broader policy agenda to boost long-term growth, before a commitment to a significant new spending initiative is made. While the federal government still has some fiscal space, the additional spending, if deemed unjustified, could weaken the credibility of the fiscal framework. In addition, historical experience suggests that there is a significant risk that the gross debt-to-GDP ratio could drift higher over the projection horizon. [16,17]

General Government Gross Debt
(Percent of GDP, median and 5-95 percentiles)



Sources: Statistics Canada and IMF staff calculations.

[16] Staff's baseline projection includes $100 billion in additional federal spending that has been announced, broadly evenly phased over three years, and assumes a gradual withdrawal of the current fiscal support at a pace consistent with the recovery.

[17] The percentiles in the fan chart were derived by resampling historical shocks from a Trend -Cycle VAR of the Canadian economy, with a well-defined steady state, and simulating shocks over the projection horizon (around staff's baseline projection).

52. As staff has recommended in the past, the federal government needs to more clearly communicate its fiscal objectives.[18] There is little clarity at this stage about the federal government's medium-term fiscal anchor. While the federal fiscal support provided is well justified and more support may be needed as the pandemic wanes, fiscal risks have risen. Commitment to a well thought-through debt anchor supported by a well-understood operational rule, or the regular publication of longer-term fiscal projections that clearly illustrate fiscal sustainability, would go a long way towards ensuring that credibility in the fiscal framework is maintained over the medium term.[19] An operational rule need not constrain the role of government or the structure of the tax system. During an economic downturn, automatic stabilizers would be allowed to freely operate. Indeed, an enhanced form of automatic stabilizers based on specific macroeconomic triggers (along the lines outlined above) would help to further enhance fiscal transparency and economic outcomes during downturns.

53. Fiscal rules should also be strengthened at the provincial level to ensure that fiscal credibility is maintained. A wide fiscal deficit and rapidly-rising debt—as currently seen in many provinces—increases the need for a clear and credible strategy for maintaining medium-term fiscal sustainability. Well-designed fiscal rules can help. Options considered should identify and address the structural sources of imbalance (e.g., excessive current spending or under-taxation) and key sources of revenue volatility (e.g., in oil prices in Alberta and Saskatchewan), protect infrastructure investment, and ensure fiscal sustainability over the medium term.

Monetary Policy

54. The central bank should continue to clearly communicate its strategy for both maintaining and eventually withdrawing policy support. Current monetary policy settings (forward guidance and the QE) are well-aligned with the needs of the economy. Financial vulnerabilities stemming from the high leverage of firms and households have risen, partly due to low interest rates both in Canada and globally. Scaling back asset purchases and lifting the policy rate to its estimated "natural level" once the economy has robustly recovered will promote financial stability and help create policy space for the next downturn. Clear communication about future policy intentions will be key to managing expectations during the recovery and maintaining policy credibility over the medium term. In 2021, the Bank of Canada and the Government of Canada will renew their agreement on Canada's inflation-control target after a thorough review of the existing inflation-targeting framework.

55. The interaction between monetary and fiscal policy will take the center stage. Historically low interest rates ease the cost of financing and allow households, corporations, and the government to manage much higher debt loads. The federal government is openly counting on

[18] This is also the view of the Parliamentary Budget Office https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/RP-2021-016-S/RP-2021-016-S_en.pdf.

[19] The 2019 Article IV report had discussed fiscal rule options—e.g., a cyclically-adjusted balance or an expenditure rule; also, see: https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2018/04/12/Second-Generation-Fiscal-Rules-Balancing-Simplicity-Flexibility-and-Enforceability-45131 for design options.

historically low interest rates to finance itself.[20] This may put pressure on the central bank to not raise interest rates if inflation exceeds the target, especially given the relatively short maturity structure of recently-issued federal debt and highly-indebted firms and households. Clear and credible communication of objectives and a commitment to the 2 percent inflation target will thus remain key.

Financial Sector Policy

56. Temporary financial sector support should be phased out as the effects of the pandemic fade. Current macroprudential policy settings are broadly appropriate. Going forward, the pace of withdrawal should carefully balance short-term risks against longer-term macro-financial vulnerabilities stemming from lower interest rates and higher debt. Banks should be encouraged to lend under prudent conditions and be forward-looking concerning their pricing. For longer duration mortgages, for example, mortgage contract parameters should be set such that borrowers can cover higher interest payments in the future. This would help to mitigate a system-wide buildup of leverage. Provincial and municipal real estate taxes on non-residents could be eliminated or harmonized into broad-based tax measures targeted at speculative activity more generally.[21]

57. Progress has been made towards implementing FSAP recommendations (see Annex V)**.** Information sharing and collaboration among financial oversight authorities has been enhanced through the establishment of the Systemic Risk Surveillance Committee in 2019. Going forward, it will be important to address macro-critical recommendations, including the enhancement of regulatory capital requirements for banks' mortgage exposures and ensuring that mortgage insurers are adequately capitalized. This recommendation has become even more relevant as interest rates have fallen and housing market conditions have tightened, increasing the risk of household overleverage and a housing market correction.

58. Ongoing work on climate-change related financial risk will be very important. All sectors of the economy must adjust to the new reality of climate change. The pilot project on climate risk scenarios launched by the BoC and OSFI will offer valuable lessons for managing and evaluating climate risks.

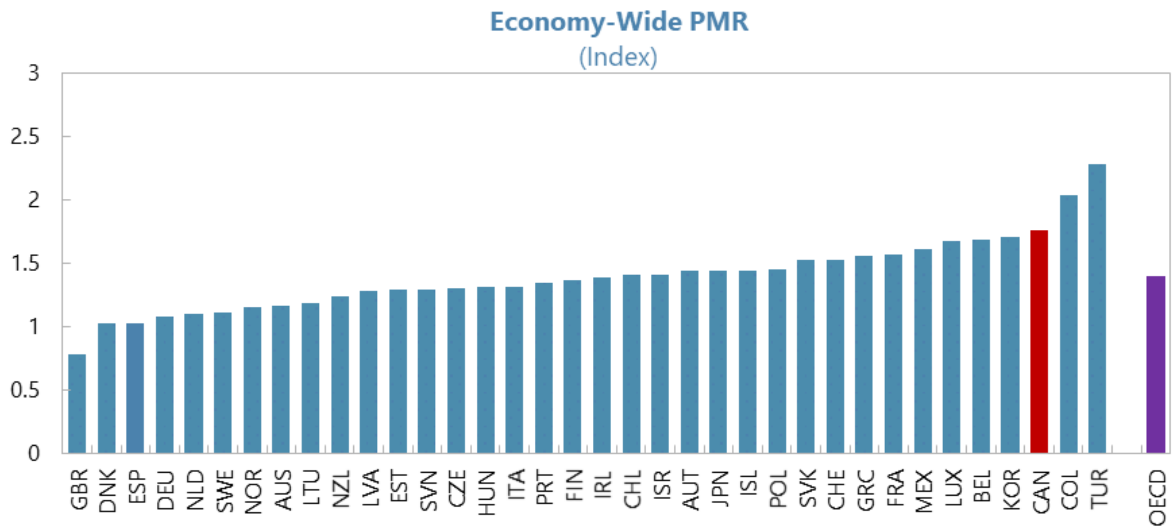
C. Beyond the Pandemic: Supporting Sustainable and Inclusive Growth

Many of the structural challenges that existed prior to the pandemic remain. The federal government has outlined a bold plan to "Build Back Better". The policies in the plan include investing in learning and training skills, promoting equal opportunity and diversity, and supporting the green economy.

[20] The 2020 Fall Economic Statement notes: "But as our fiscal plan shows, there are brighter days ahead. And we can afford to do this."

[21] These taxes are designated as capital flow management measures (CFMs). See the IMF's institutional view on the liberalization and management of capital flows.

59. Canada still needs to boost its productivity. Low productivity and an aging population will not be able to sustain output growth in the long run. Canada needs to attract and support productivity-enhancing investments that can diversify the economy beyond traditional sectors, including the oil sector.[22] As detailed in previous staff reports, this includes facilitating internal and international trade, continuing to focus on the design and implementation of infrastructure investment, cutting regulatory barriers, and reviewing the tax system to find ways to remove distortions and improve efficiency.[23] Research shows that product market reforms can help to support the recovery and thus could be a useful complement to fiscal and monetary support.



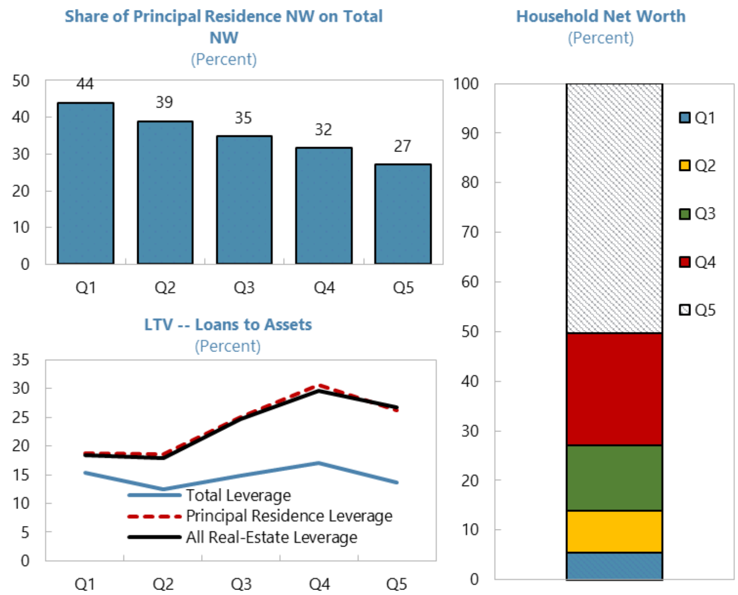
Sources: OECD Economy-wide Product Market Regulation Indicators.

60. The "build back better" plan aims to foster an inclusive recovery. While this is a welcome step, any new spending should also be evaluated against the government's broader policy objectives, including its desire to increase the productive capacity of the economy. Key initiatives that have been announced include investing in training and skills, an action plan for women (including laying the groundwork for a Canada-wide childcare system), and creating more opportunities for vulnerable groups (e.g., young and minority groups). All these steps, complemented by the ones recommended above, would help to increase productivity, thus also boosting the rates of return to investment in human and physical capital. Moreover, higher productive capacity would help reduce the public debt burden over the medium term.

[22] Overall, the external position in 2020 was moderately weaker than the level implied by medium-term fundamentals and desirable policies (Annex II). Canada's strong international investment position and its composition suggests low external debt sustainability risks (Annex IV).

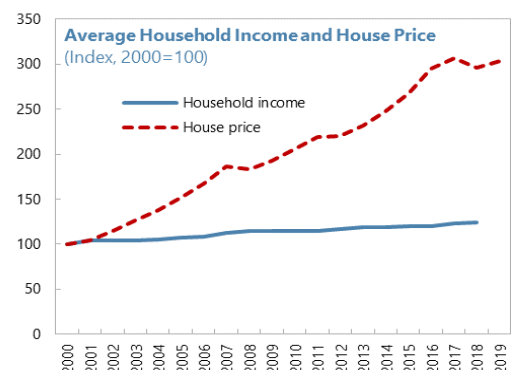
[23] See 2018 Selected Issues Paper "Taxing Business in a Changing World".

61. The crisis will have a long-lasting impact on income and wealth inequality. It could have markedly different impacts on households, depending on their initial wealth, income levels, and ability to maintain employment through the crisis.[24] The crisis will also exacerbate wealth differences between asset-rich and asset-poor households. Historically, low long-term yields—including mortgage rates—have supported holders of financial assets and homeowners through capital gains and mortgage refinancing. Policy measures that either directly or indirectly support asset prices represent wealth gains for those that tend to hold more such assets. Pre-crisis data show that 20 percent of households account for almost 50 percent of total household net worth in Canada and are more exposed to real estate assets and loans than lower-income households. A smaller share of student, auto, and credit-card loans also contributes to high-income households' lower effective borrowing costs.



Sources: Statistics Canada and IMF staff calculations.
Note: Q1= lowest-income quintile, Q5-highgest-income

62. Staff welcome the federal government's emphasis on housing affordability as a key for sustainable and inclusive growth. However, as detailed in the 2019 staff report, it is important that policies focus on expanding the supply of housing and removing distortions in housing markets. Even well-intended measures—like direct subsidies and tax deductions—can have perverse effects on housing affordability by favoring those that can already afford to buy a house at the long-term disadvantage of those that cannot, thus worsening existing inequalities.



63. The federal government's recovery plan has a strong focus on supporting the green economy, but continued effort will be needed to achieve its objectives. Canada has set ambitious intermediate and long-term targets to mitigate greenhouse gas emissions. The Canadian Net-Zero Emissions Accountability Act, if passed by Parliament, will legally bind the government to a process to achieve net-zero emissions by 2050 and require it to report annually on key measures that the federal government, including Crown Corporations, has taken to manage climate-related financial risks and opportunities. This is a welcome step, but continued effort is needed to achieve

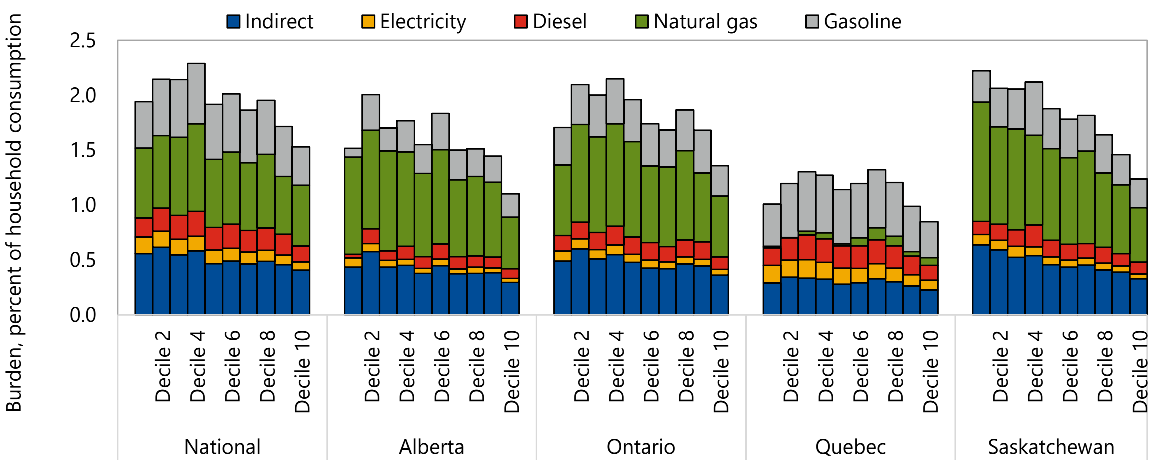
[24] See "Income Inequality in Canada: Where Do We Stand?" of the accompanying Selected Issues Papers for a description of income inequality across Canadian provinces before the COVID-19 pandemic.

intermediate and longer-term emission reduction goals. Available financing and the right setup of market incentives will be crucial. Carbon pricing is now the centerpiece of efforts, but other measures may help to better align incentives without putting significant burden on households and firms.[25]

Box 3. Carbon Pricing in Canada: A Prototype for Other Countries

Canada has ambitious pledges to cut greenhouse gases (GHGs) about 30 percent below current levels by 2030 and to achieve zero net GHGs by 2050. The centerpiece of the mitigation strategy is a requirement that provinces and territories impose a carbon pricing scheme with prices rising rapidly to CAN$50 per ton by 2022 and proposed to rise to $170 by 2030—a federal pricing backstop applies where this requirement is not met. Carbon pricing is the most efficient mitigation instrument and success in Canada provides a model for others.

Figure 1. Burden from Increasing the CO2 Price to $170 per ton by Household Income Declie and Region Prior to Revenue Recycling, 2030



Source. Fund staff estimates updating from IMF (2019b).
Note. Deciles are ordered poorest to weathiest.

The price floor is aligned with the 2030 target, but uncertainties surround emissions-price responsiveness and the (political and legal) acceptability of pricing. Complementary sectoral fiscal policies can enhance the effectiveness and acceptability of the mitigation strategy. Feebates—sliding scales of fees on products/activities with above-average emission rates and rebates for products/activities with below-average emission rates—can reinforce mitigation incentives in the transport, power, industry, building, forestry, and agricultural sectors without a new tax burden on the average household or firm or a fiscal cost.

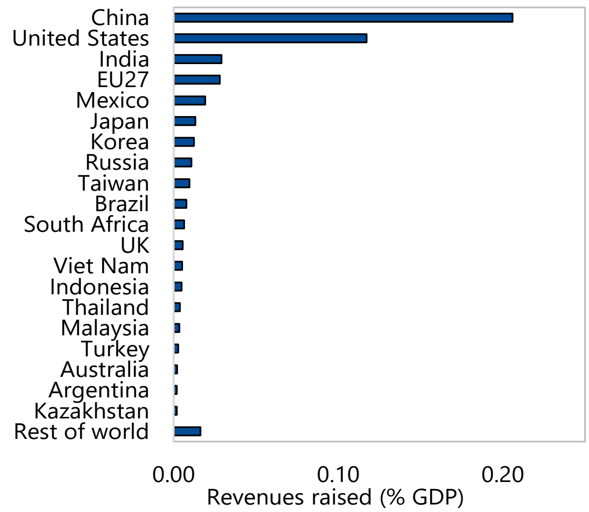
[25] See Box 3 and "Scaling up Climate Mitigation Policy in Canada" in the accompanying Selected Issues Paper for an, extensive quantitative analysis of these policies and guidance on practical design issues.

Box 3. Carbon Pricing in Canada: A Prototype for Other Countries (concluded)

The carbon pricing scheme would impose an average household burden of 2 percent of consumption in 2030 with burdens fairly evenly distributed across income deciles. However, recycling revenues to households in lower income taxes offsets about 80 percent of this burden while providing an employment boost. Net burdens are representative of the national average in most provinces though significantly lower in Quebec.

A border carbon adjustment (as slated for introduction in the EU) could level the playing field for Canada's energy-intensive, trade-exposed industries. It would have raised revenues of 0.5 percent of GDP in 2015 with 41 and 23 percent of the revenues from charges on China and US, imports respectively. An international carbon price floor (ICPF) among large emitters would however be far more effective at scaling up global mitigation and Canada's price floor provides a valuable prototype for an ICPF mechanism.

Figure 2. Revenue by Trading Partner from $170 BCA, 2015



Source. OECD (2021).

AUTHORITIES' VIEWS

64. The authorities broadly agree with staff's macroeconomic outlook. The expected fiscal stimulus in the United States, higher oil prices, and higher-than-expected pent up domestic demand are important upside risks to the outlook. On the other hand, the recovery could be delayed by new waves of the virus. Swift vaccination of the population is the authorities' key short-term policy priority. In the meantime, mitigation efforts will continue to focus on reducing the spread of the virus while minimizing economic disruptions.

65. The authorities will continue to review the EI system to ensure that it satisfies its objectives, including its role in cyclical stabilization. The crisis prompted changes to the EI system before the CERB expired in September 2020. The authorities agree that the crisis represents an opportunity to review the system, including its role as an automatic stabilizer.

66. The federal government is committed to avoiding a premature withdrawal of policy support. Canada's low-debt advantage has given it the policy space to deal with the fallout from the pandemic. The announcement that policy support will be withdrawn in a data-dependent way represents a strong signal that policy support will be withdrawn gradually as the economy continues to regain its footing. The authorities agree that any new spending should be directed towards initiatives that satisfy the federal government's broader policy objectives, including its desire to support stronger, more sustainable and equitable growth over the long term. The federal government is committed to outlining a long-term fiscal anchor when the economy is stable.

67. The Bank of Canada will continue to clearly communicate its strategy for both maintaining and eventually withdrawing policy support. It agrees that current monetary policy settings are well-aligned with the needs of the economy and that clear communication about future policy intentions will be key to managing expectations during the recovery.

68. The authorities will continue to closely monitor the macroprudential policy stance to ensure it remains appropriate in light of household debt and housing market risks. Remaining financial sector support will be appropriately phased out as the effects of the pandemic wane. Policy will continue to aim at mitigating a broad-based and persistent buildup of leverage while addressing vulnerabilities.

69. The authorities recognize that many of the structural challenges that existed prior to the pandemic still need to be addressed. The federal government's policy agenda, including its build-back better plan, aims to support productivity-enhancing investments towards ensuring greener, more equitable, and stronger growth. The authorities agree that carbon pricing is the most efficient policy for reducing emissions, and welcome staff's suggestion that Canada's carbon price floor could be a valuable prototype for an international carbon price floor arrangement among large emitting countries.

70. The authorities confirmed that significant progress has been made towards implementing recommendations from the 2019 FSAP. For example, the authorities have enhanced information sharing and collaboration among financial oversight authorities with the establishment of the Systemic Risk Surveillance Committee in 2019. Progress has also been made on many other recommendations, including bolstering contingency planning and crisis preparedness by the effective development, testing, and implementation of coordinated measures aimed at addressing stress events.

STAFF APPRAISAL

71. The authorities took timely, decisive, and well-coordinated policy actions in response to the pandemic. Canada's strong history of prudent policymaking afforded it the policy space to respond forcefully to the crisis and helped it to lower the socio-economic impact of the pandemic. The size and scope of policy support has been unprecedented and appropriate.

72. The path of the recovery is inexorably linked to the evolution of the pandemic. To this end, the authorities should continue to combat the pandemic using available public health measures, while sustaining support to households and firms until the pandemic is under control.

73. The crisis exposed gaps in Canada's social safety net that should be addressed. The significant job losses at the onset of the crisis put pressure on the employment insurance (EI) system, and many Canadians did not qualify for income support. The lessons from the crisis represent an excellent opportunity to review the system, including its role as an automatic stabilizer.

74. The federal government could consider developing a more systematic framework for cyclical stabilization. This could include enhancing the current EI system's response to the business cycle and linking discretionary spending to a timely and well-understood macroeconomic variable (e.g. the unemployment rate). These enhanced automatic stabilizers could maximize policy effectiveness over the business cycle and reduce uncertainty about the size and duration of fiscal support.

75. The authorities should avoid a premature withdrawal of policy support. The federal government's data-driven approach to the withdrawal of policy stimulus (its "fiscal guardrails") represents a strong signal of the authorities' commitment to support the economy. However, more clarity about the specific conditions that would trigger withdrawal would enhance communication and reduce uncertainty.

76. The federal government needs to elaborate and clearly communicate its medium-term fiscal objectives. While the federal fiscal support provided is well justified and more support may be needed still, fiscal risks have risen. Commitment to a well thought-through fiscal anchor, or the regular publication of longer-term fiscal projections that clearly illustrate fiscal sustainability, would help to maintain the credibility of the fiscal framework.

77. The central bank should continue to clearly communicate its strategy for both maintaining and eventually withdrawing policy support. Current monetary policy settings are well-aligned with the needs of the economy. Scaling back asset purchases and gradually lifting the policy rate once the economy has robustly recovered will promote financial stability and help create policy space for the next downturn. Clear communication about future policy intentions will be key to managing expectations.

78. Financial sector support should also be gradually phased out as the effects of the pandemic fade. While current macroprudential policy settings are broadly appropriate, the future policy stance should carefully balance short-term risks to growth and financial stability against longer-term macro-financial vulnerabilities. Financial sector policies should help pre-emptively contain a broad-based and persistent buildup of leverage that is likely fueled by low interest rates as well as counteract further rising overvaluation in the housing market.

79. Structural challenges that existed prior to the pandemic remain. Canada still needs to boost its productivity, support productivity-enhancing investments, diversify beyond traditional sectors, and continue the transition to a greener and more equitable economy. Carbon pricing is the most efficient policy for reducing emissions. At the global level, Canada's carbon price floor could be a valuable prototype for an international carbon price floor arrangement among large emitting countries.

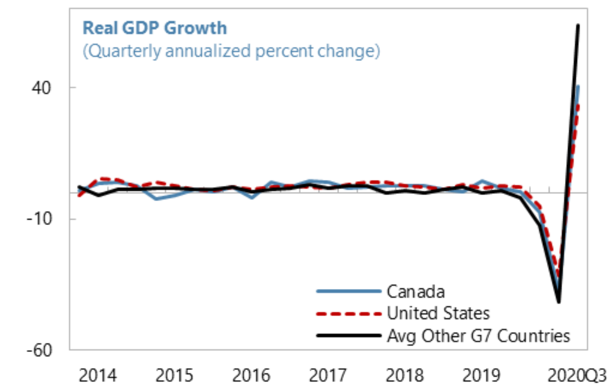
80. Canada's external position was moderately weaker than the level implied by medium-term fundamentals and desirable policies in 2020. Canada also has a strong international investment position.

81. Welcome progress has been made towards implementing recommendations from the 2019 Financial Sector Assessment Program. Notably, information sharing and collaboration among financial oversight authorities has been enhanced through the establishment of the Systemic Risk Surveillance Committee in 2019. Going forward, it will be important to address outstanding macro-critical recommendations, in particular the enhancement of regulatory capital requirements for banks' mortgage exposures and ensuring that mortgage insurers are adequately capitalized.

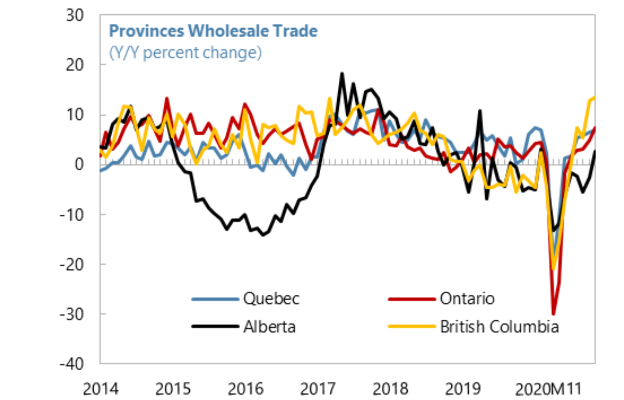
82. It is recommended that the next Article IV consultation be held on a standard 12-month cycle.

Figure 1. Canada: Recovery Began After a Severe Contraction

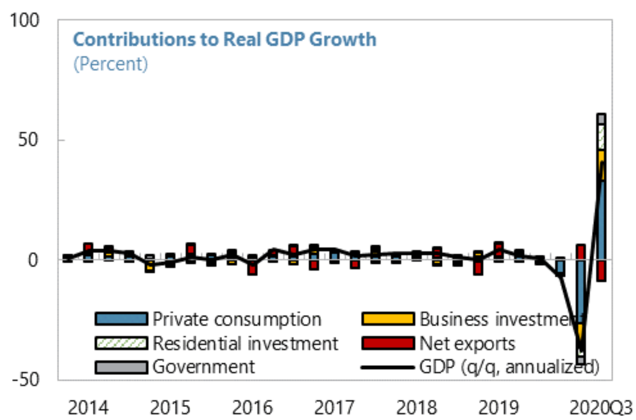
After a historic slump in 2020:Q2, a recovery began in Q3…



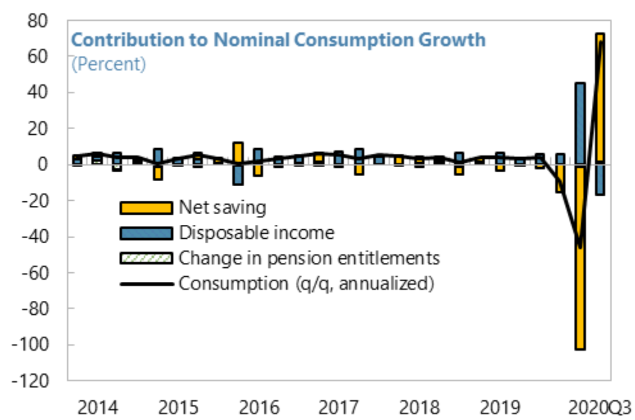
…with both the contraction and the recovery being broad-based across provinces…



…driven mainly by consumption and investment.

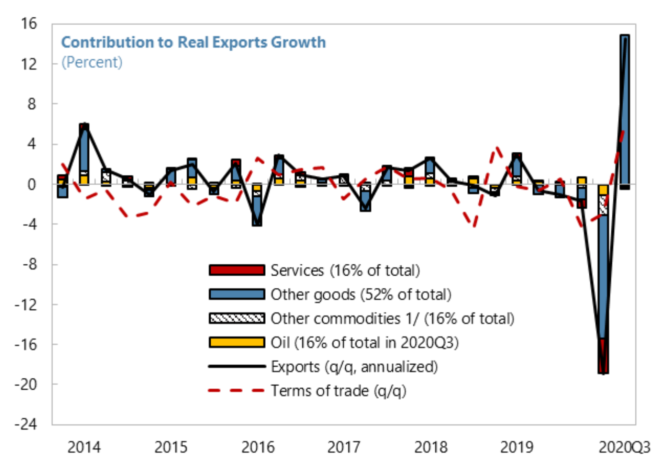


Consumption plummeted in Q2, despite significant public transfers boosting disposable income.



World trade contracted sharply…

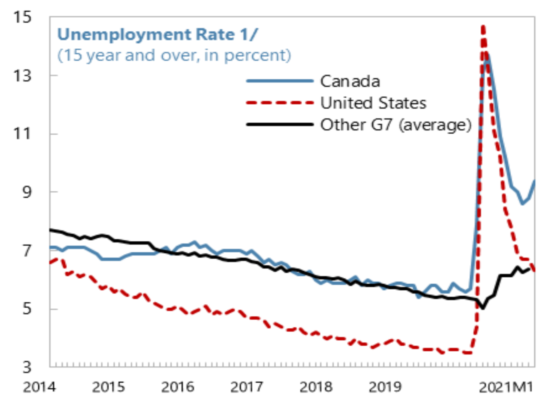
…reflected most clearly in Canada's non-commodity exports. experiencing no exception.



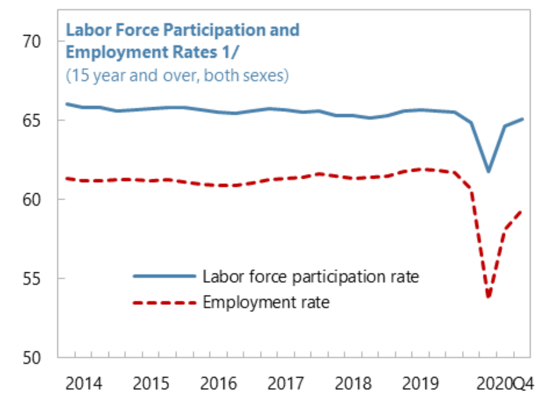
Sources: Statistics Canada; Haver Analytics; Bank of Canada; OECD Statistics and IMF staff calculations.
1/ Natural gas, refined petroleum products, electricity and other energy products, metal ores and nonmetallic minerals, metal and nonmetallic mineral products.

Figure 2. Canada: Significant Impact on the Labor Market

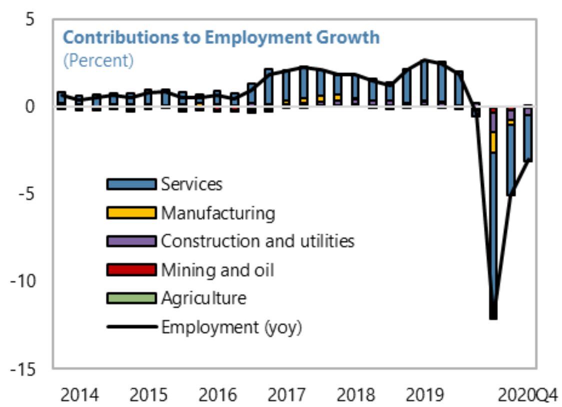
Canada's unemployment rate rose to an historical high...



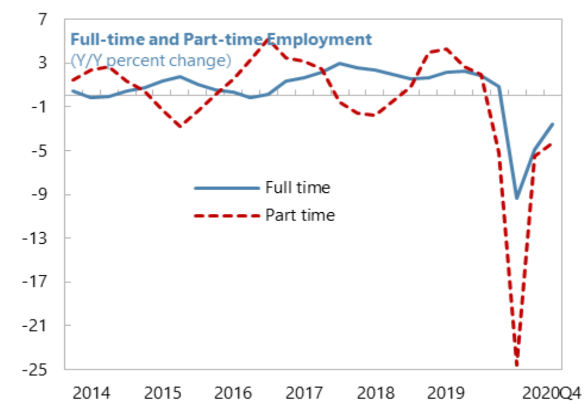
...with sharp declines in both employment and participation rates.



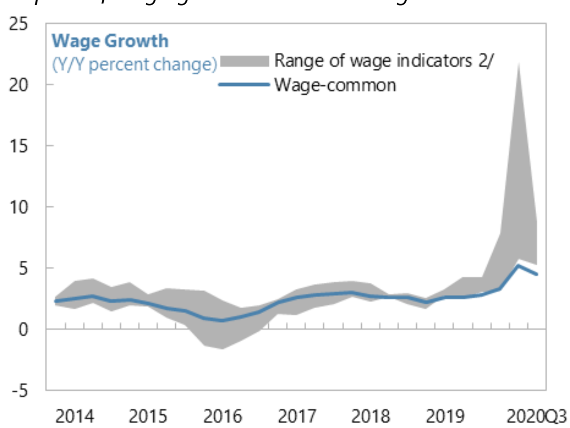
While jobs were lost in all sectors, sectors with a predominance of non-essential workers suffered most....



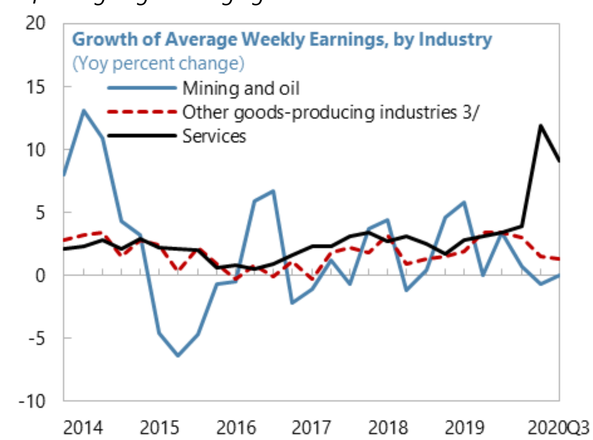
...and part-time workers were particularly hard hit.



The pace of wage growth has been rising...



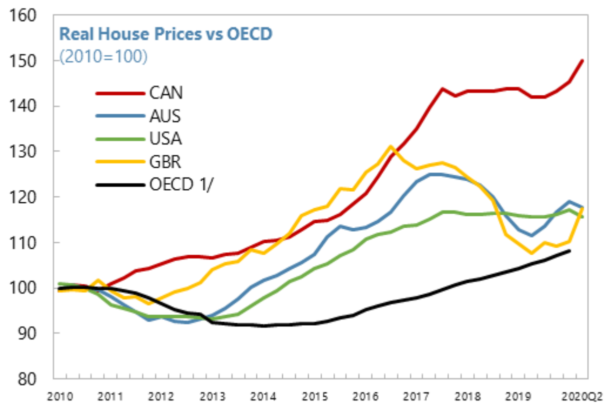
...reflecting higher wage growth in the service sector.



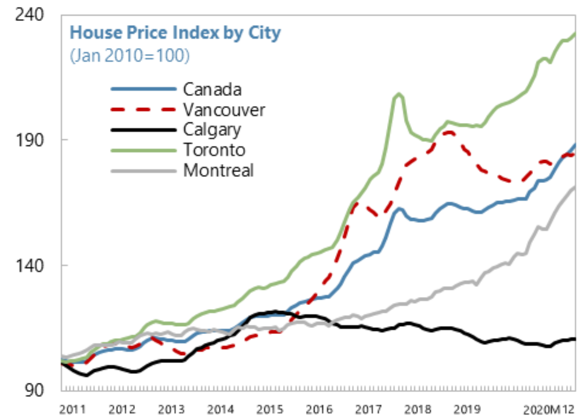
Sources: Statistics Canada; Haver Analytics; and IMF staff calculations.
1/ Seasonally adjusted.
2/ Wage indicators include available hourly wage measures from the Labor Force Survey, the Survey of Employment, Payrolls and Hour, the Productivity Accounts and the National Accounts.
3/ Weighted average using real GDP.

Figure 3. Canada: Housing Market Resilient Despite Recession

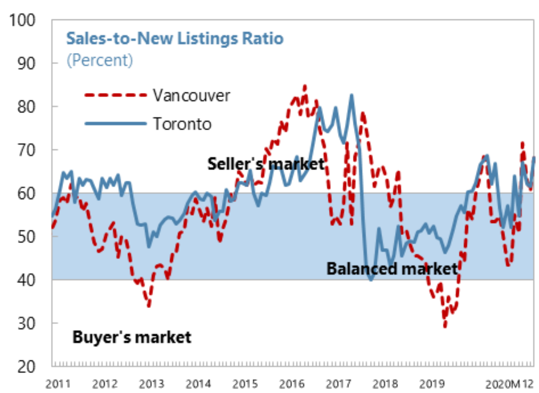
House prices have increased across advanced economies, despite the COVID-19 crisis.



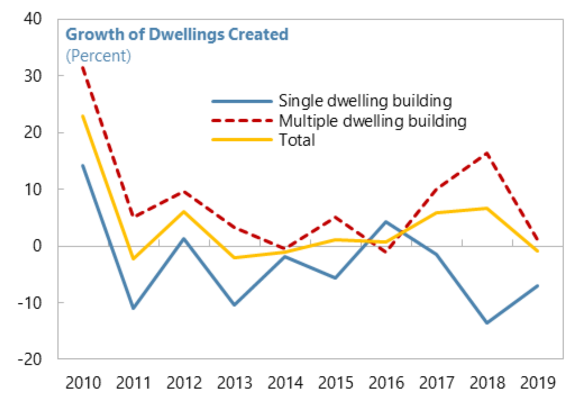
Increases have been broad-based across metropolitan areas in Canada.



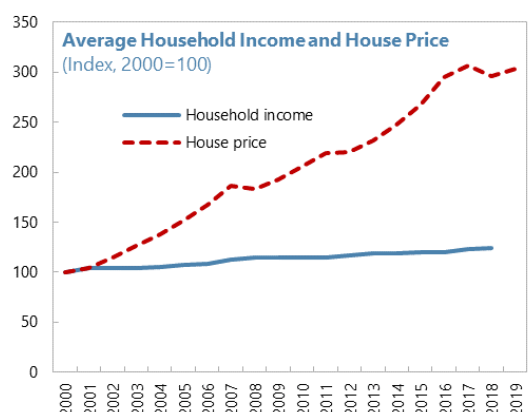
It is a "sellers" market in some areas...



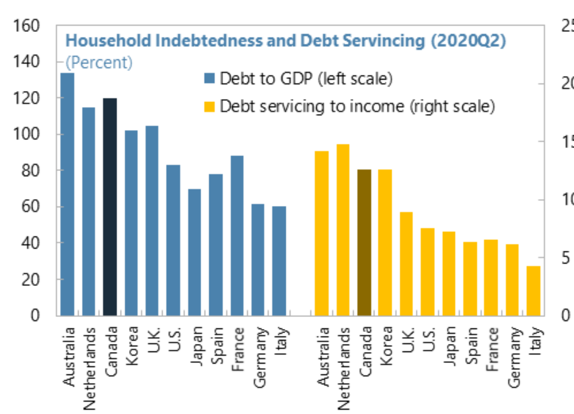
...as supply continues to lag demand.



House price-to-income ratios continue to climb...



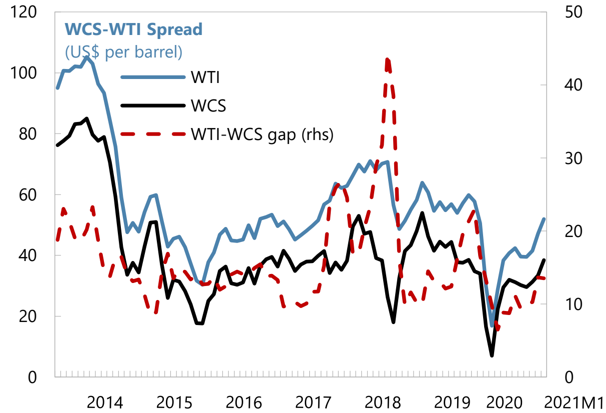
...as low mortgage rates and rising household debt-to-income ratios fuel demand.



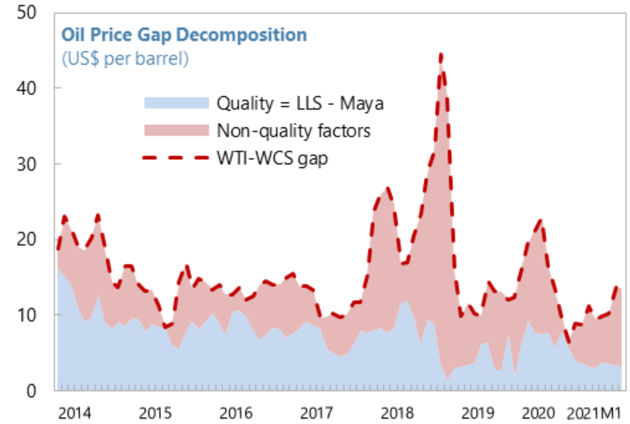
Sources: CREA; RPS Real Property Solution; Tera Net; OECD Statistics; Haver Analytics; and IMF staff calculations.
1/ Average based on a limited number of countries due to lack of data.

Figure 4. Canada: Oil Market Has Been Volatile

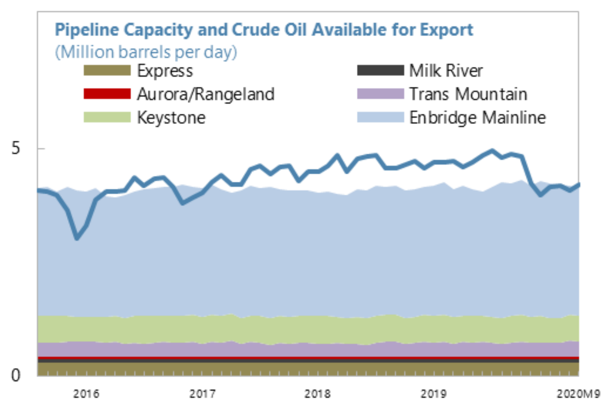
The discount on Canada heavy crude oil widened in 2020 again...



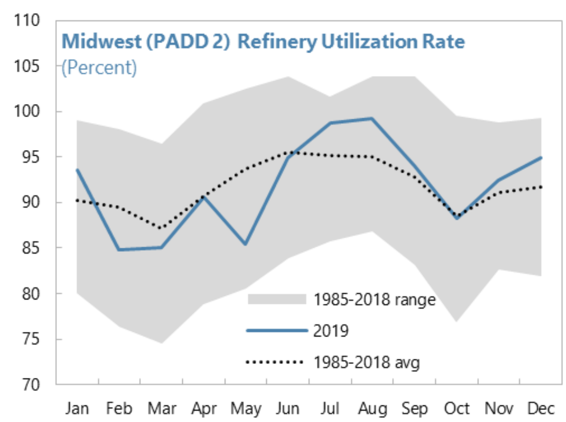
...but has since fallen to very low levels.



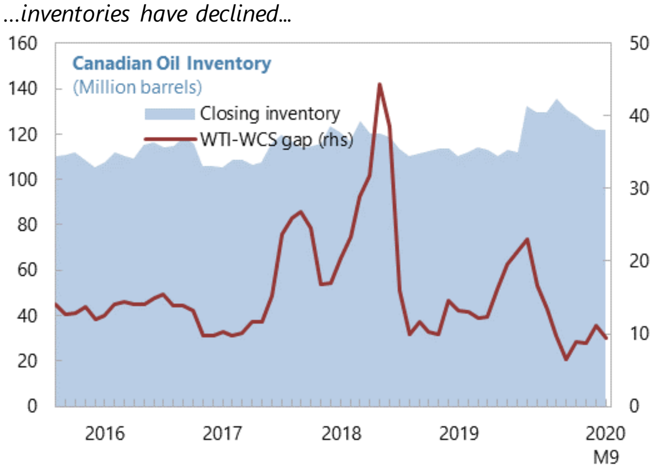
Crude oil production has fallen close to pipeline capacity.



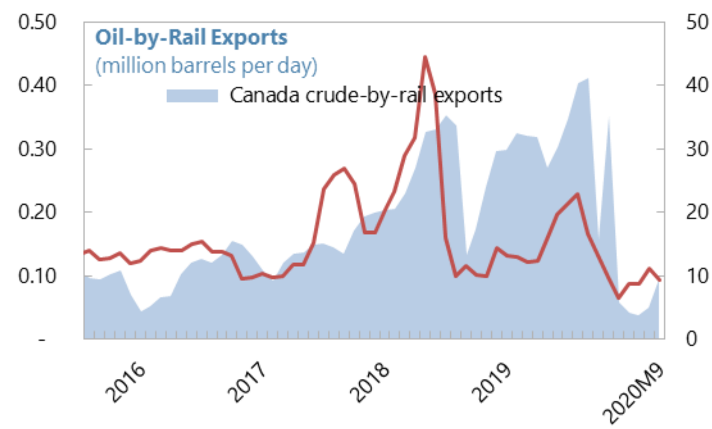
With refinery capacity being broadly stable...



...inventories have declined...



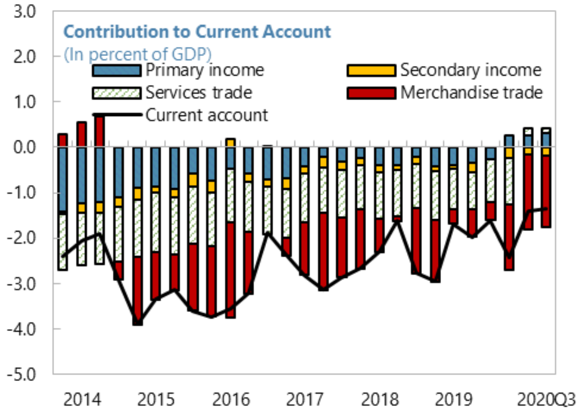
...and (more expensive) shipments by rail.



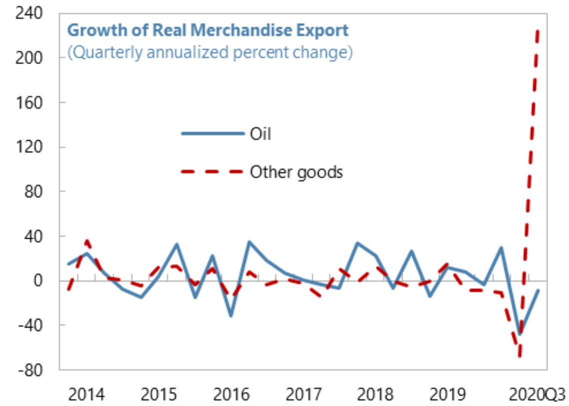
Sources: Statistics Canada; Haver Analytics; Bank of Canada; National Energy Board; U.S. Energy Information Administration; Bloomberg and IMF staff calculations.

Figure 5. Canada: External Sector Broadly Stable

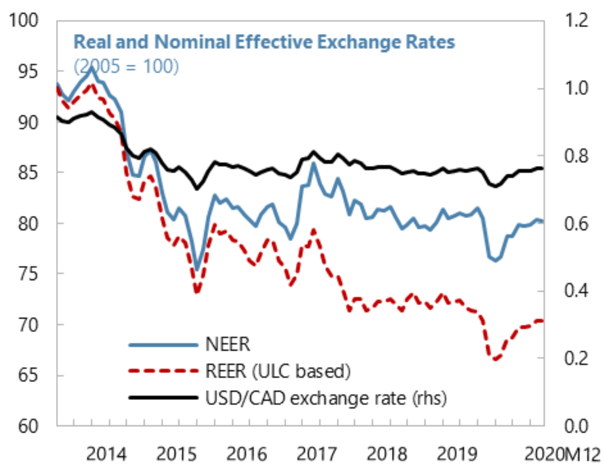
The current account deficit narrowed with lockdowns having a large impact on services trade…



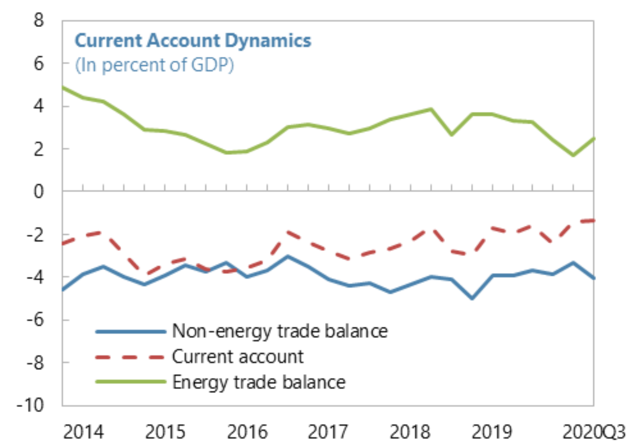
…and volatility in energy and non-energy exports.



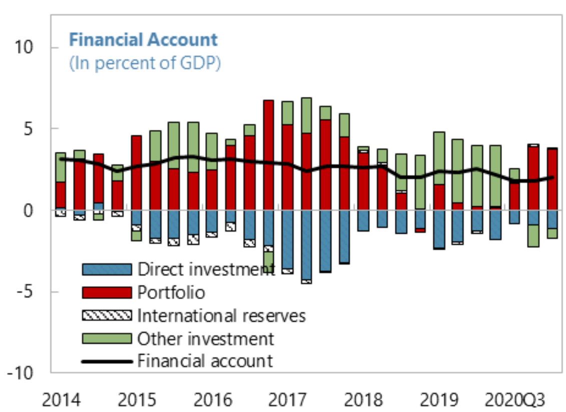
The exchange rate has risen….



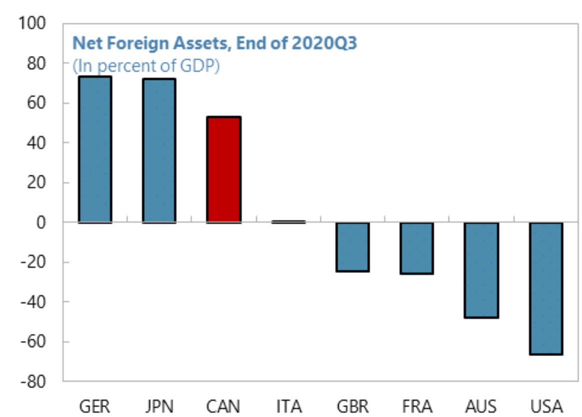
…and the non-energy trade balance remains in deficit.



The CA deficit has largely been financed by portfolio inflows recently…



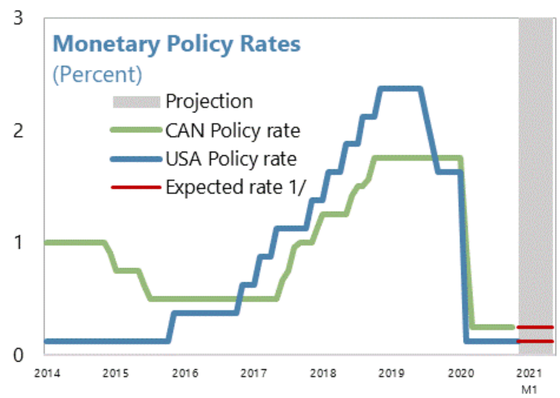
…but, despite its CA deficit, Canada continues to be a net creditor with the rest of the world.



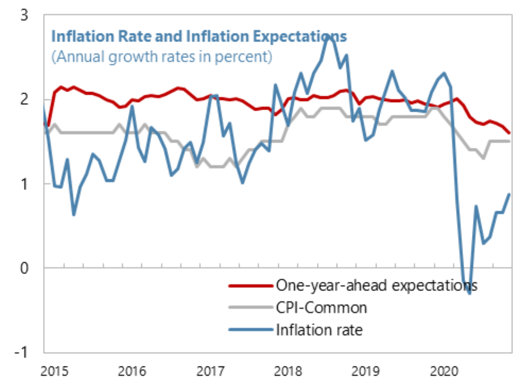
Source: Statistics Canada, Bank of Canada and IMF staff estimates.

Figure 6. Canada: Monetary Conditions Have Eased Substantially

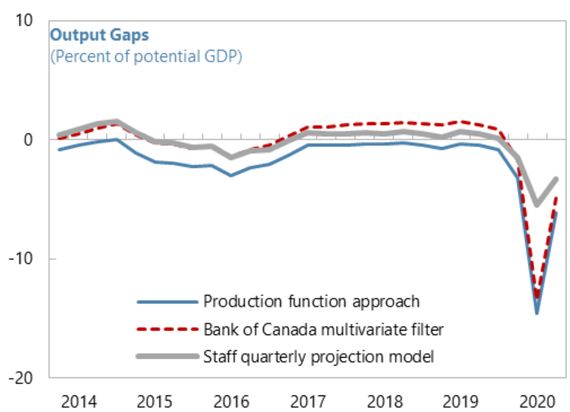
Monetary policy has eased to its "effective lower bound" …



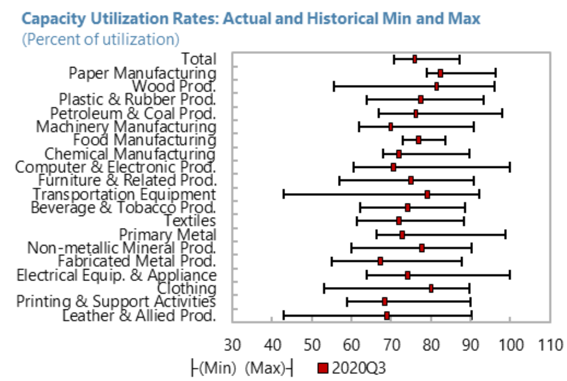
…as inflation and inflation expectations have declined…



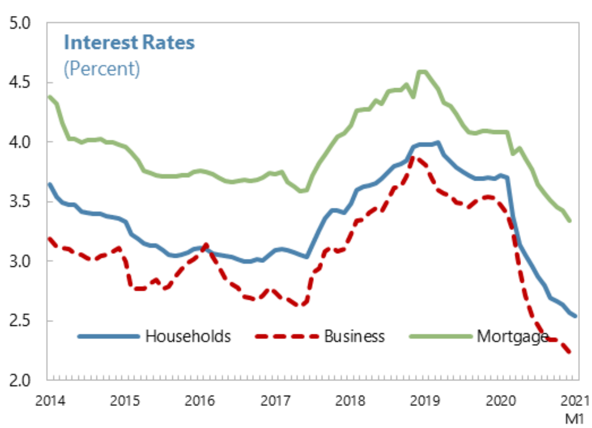
…and output gap has turned negative…



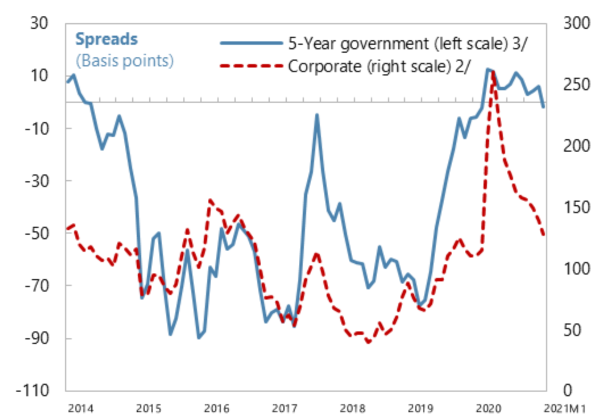
…with most sectors of the economy operating well-below capacity.



The effective cost of borrowing has also declined…



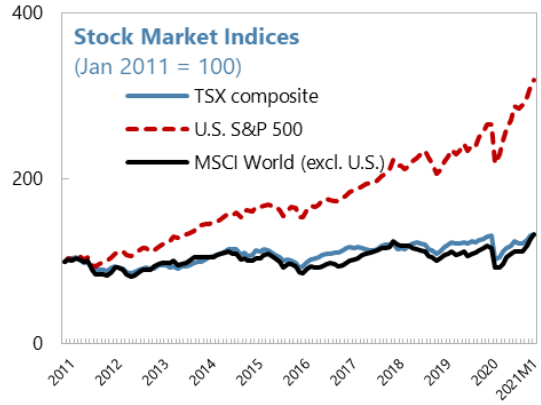
…while spreads have been narrowing.



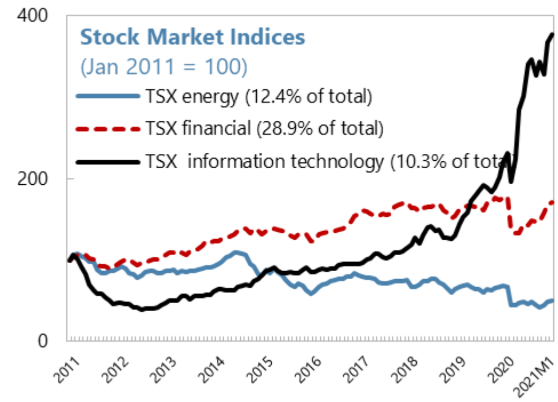
Source: Haver Analytics, Consensus Economics, Statistics Canada, Bank of Canada, Bloomberg, and IMF Staff estimates.
1/ Estimated rate as of Feb 2019 using Bloomberg's World Interest Rate Implied Probability (WIRP).
2/ ICE BofA Merrill Lynch Canada Corporate Effective Yields minus U.S. 5-Year Treasury Note Yields.
3/ Canada Benchmark Bond 5-years Yields minus U.S. 5-Year Treasury Note Yields.

Figure 7. Canada: Capital Markets Have Improved Since the Lockdown

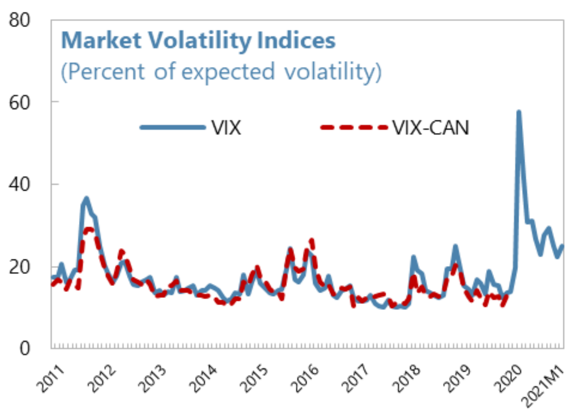
TSX index has evolved broadly in line with global indices, recovering since lockdowns were lifted....



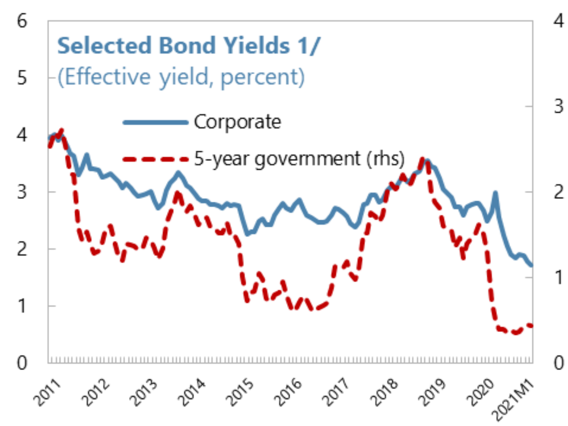
...with recent increases driven by the technology sector; energy stocks remain weak.



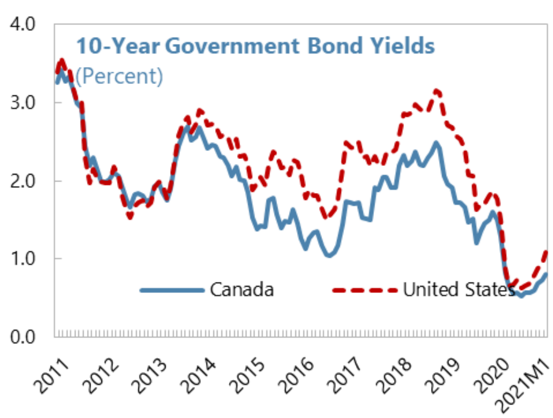
Market volatility has declined but remains elevated...



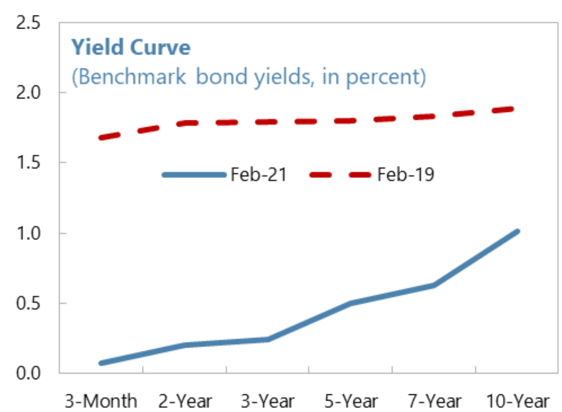
...while sovereign and corporate bond yields have fallen, due to actions by the central bank.



Long-term yields remain closely tied to developments in the U.S....



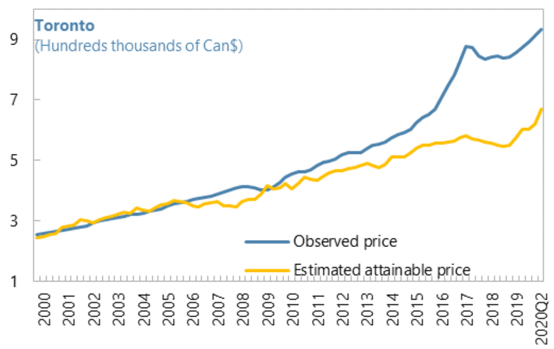
...and the yield curve has shifted.



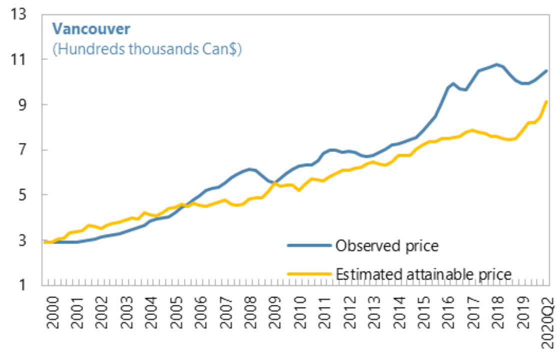
Source: Haver Analytics, Statistics Canada, Bank of Canada, Bloomberg, and IMF Staff estimates.
1/The corporate yields correspond to the ICE BofA Merrill Lynch Canada Corporate Bonds index

Figure 8. Canada: House Prices in Some Major Cities Remain Overvalued 1/

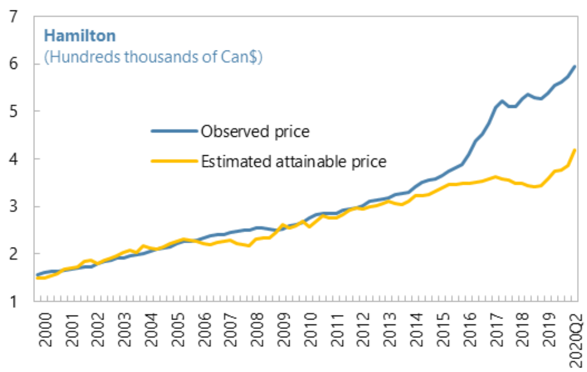
The Toronto market remains overvalued…



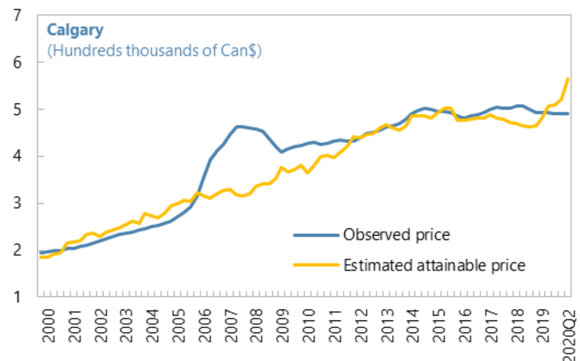
…as well as Vancouver…



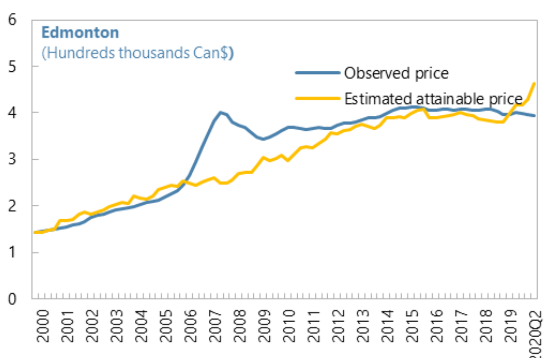
…and Hamilton.



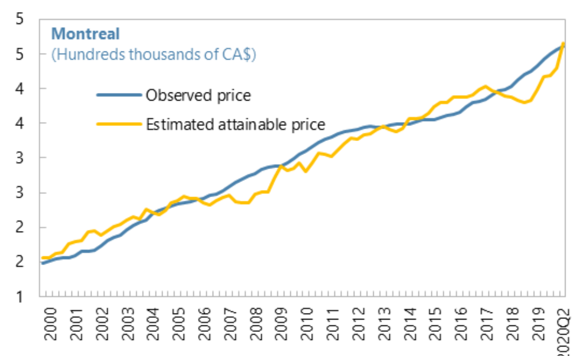
House prices in Calgary and Edmonton correspond to households borrowing capacity…



…but it took around six years to normalize after large overvaluations in the past.



House prices have been broadly consistent with fundamentals in Montreal and some other parts in Canada.



Sources: Statistics Canada; CREA; RPS Real Property Solution; Teranet; Haver Analytics; and IMF staff calculations.
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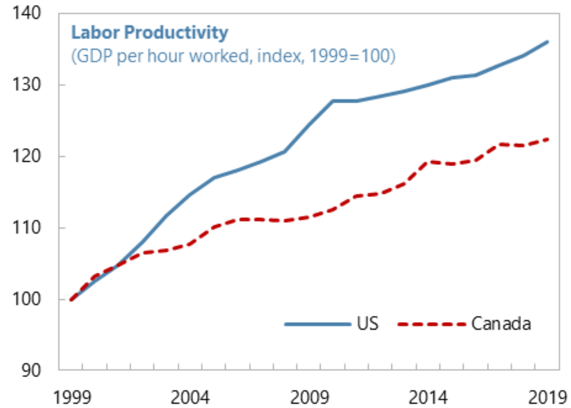
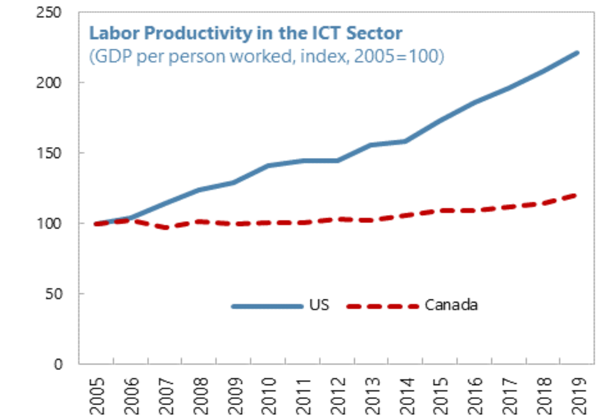
Figure 9. Canada: Business Investment and Productivity Growth Have Been Sluggish 1/

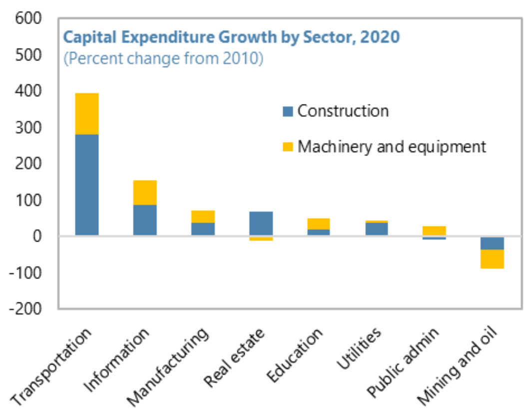
Canada's productivity has lagged the U.S. since the early 2000s....



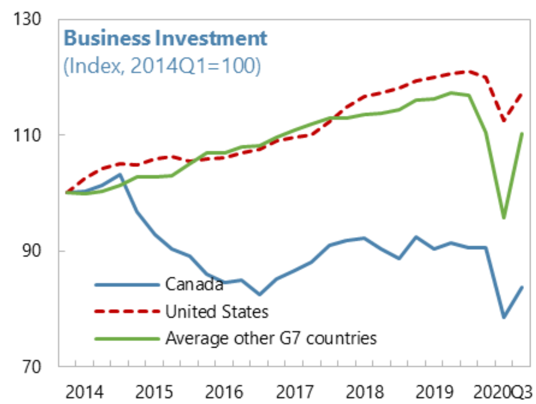
...even in critical sectors like the information technologies



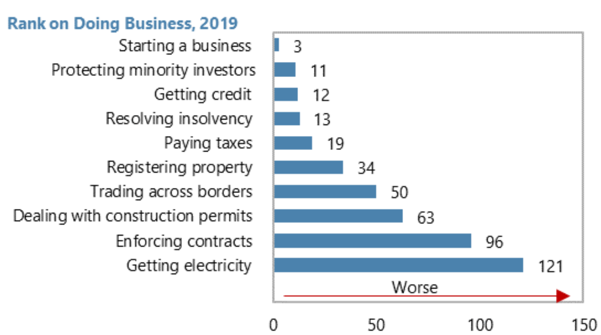
Capital expenditure drags mainly in the oil and mining...



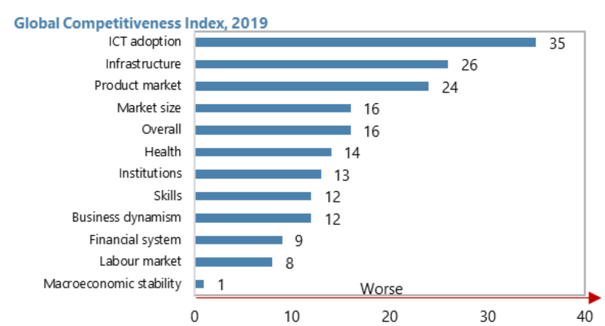
...but business investment continues to lag developments seen in other G7 countries.



Canada has slipped in the OECD's "Doing Business" Ranking from 18th place to 22nd...



...and from 10th to 12th place in the "Global Competitiveness Index".



Source: Statistics Canada; Haver Analytics; World Bank, Doing Business Database; Bank of Canada; OECD Statistics, IMF staff calculations and World Economic Forum.

1/ Business investment is defined as gross fixed capital formation, constant prices excluding residential investment.

Table 1. Canada: Selected Economic Indicators

(Percentage change, unless otherwise indicated)

Nominal GDP (2019): Can$ 2,223 billion (US$ 1,676 billion) — Quota: SDR 11,023.9 million
GDP per capita (2019): US$ 44,574 — Population (2019): 37.6 million
Main exports: Oil and gas, autos and auto parts, gold, lumber, copper.

					Estimates		
	2016	2017	2018	2019	2020	2021	2022
Output and Demand							
Real GDP	1.0	3.0	2.4	1.9	-5.4	4.4	4.1
Total domestic demand	0.4	4.1	2.2	1.5	-6.5	5.3	4.6
Private consumption	2.1	3.7	2.5	1.7	-5.6	6.4	4.5
Total investment	-4.9	7.2	1.0	0.7	-10.4	7.9	7.0
Net exports, contribution to growth	0.4	-1.1	0.1	0.3	0.6	-1.4	-0.6
Unemployment and Inflation							
Unemployment rate (average) 2/	7.1	6.4	5.9	5.7	9.6	8.1	6.9
CPI inflation (average)	1.4	1.6	2.3	1.9	0.7	1.6	1.8
Saving and Investment 1/							
Gross national saving	19.7	20.7	20.9	20.9	20.0	20.7	20.9
General government	3.7	4.2	4.4	4.5	-15.7	-3.8	-0.8
Private	16.0	16.6	16.5	16.4	35.7	24.5	21.8
Personal	4.1	4.0	1.6	2.8	35.8	9.0	3.9
Business	11.8	12.6	14.9	13.6	-0.1	15.5	17.8
Gross domestic investment	22.8	23.6	23.2	23.0	21.6	21.8	22.4
General Government Fiscal Indicators 1/ (NA basis)							
Revenue	40.3	40.3	41.1	41.5	38.6	38.2	39.4
Expenditures	40.8	40.5	40.9	41.0	58.4	45.8	43.8
Overall balance	-0.5	-0.1	0.3	0.5	-19.8	-7.6	-4.4
Gross Debt	91.7	88.8	88.8	86.8	115.4	114.3	112.1
Net debt	28.7	26.0	25.6	23.4	48.0	47.4	45.5
Money and Credit (Annual average)							
Household Credit Growth	5.6	5.7	4.8	3.7	3.7	8.9	7.5
Business Credit Growth	5.1	7.8	6.5	5.6	3.9	7.2	8.2
Three-month treasury bill 2/	0.5	0.7	1.4	1.7	0.5	0.2	0.3
Ten-year government bond yield 2/	1.3	1.8	2.3	1.6	0.8	0.9	1.0
Balance of Payments							
Current account balance 1/	-3.1	-2.8	-2.3	-2.1	-1.5	-1.0	-1.4
Merchandise Trade balance 1/	-1.2	-1.1	-0.9	-0.7	-1.4	-0.7	-1.1
Export volume (percent change)	0.5	0.7	3.0	0.9	-7.3	16.0	6.5
Import volume (percent change)	-0.3	4.9	3.0	0.7	-6.4	19.1	8.0
Terms of trade	-1.1	3.6	0.8	-0.1	-2.6	5.4	0.1

Sources: Haver Analytics and Fund staff calculations.
1/ Percent of GDP.
2/ In percent.

Table 2. Canada: Balance of Payments, 2016–26

(Percent of GDP)

	2016	2017	2018	2019	Projections 2020	2021	2022	2023	2024	2025	2026
Current Account											
Current account balance	-3.1	-2.8	-2.3	-2.1	-1.5	-1.0	-1.4	-1.7	-1.7	-1.9	-2.2
Merchandise trade balance	-1.2	-1.1	-0.9	-0.7	-1.4	-0.7	-1.1	-0.9	-0.7	-0.8	-1.1
Exports, goods	25.8	25.7	26.3	25.9	24.1	27.4	27.5	27.3	27.2	26.7	26.2
Export volume growth (percentage change)	0.5	0.7	3.0	0.9	-7.3	16.0	6.5	3.3	3.1	1.8	1.4
Imports, goods	27.0	26.9	27.2	26.6	25.5	28.1	28.6	28.2	27.9	27.5	27.3
Import volume growth (percentage change)	-0.3	4.9	3.0	0.7	-6.4	19.1	8.0	3.0	2.5	2.4	1.8
Services balance	-1.1	-1.0	-1.0	-0.9	-0.4	-0.7	-0.7	-0.7	-0.7	-0.7	-0.7
Primary Income Balance	-0.6	-0.4	-0.3	-0.3	0.4	0.4	0.5	0.1	-0.1	-0.2	-0.3
Secondary Income Balance	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital and Financial Accounts											
Direct investment, net	-2.2	-3.2	-1.1	-1.8	-0.3	-1.2	-1.9	0.0	-0.7	-0.6	-0.3
Portfolio investment, net	6.8	4.5	-0.2	0.1	7.7	0.0	0.7	1.1	0.7	0.9	1.0
Other investment, net 1/	-1.3	1.4	3.3	3.8	-5.4	2.0	2.1	0.5	1.3	1.2	1.2
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International reserves	-0.4	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	0.1	0.3	-0.2	-0.5	0.2	0.5	0.1	0.3	0.3	0.3
Memorandum Items											
Terms of trade (percent change)	-1.1	3.6	0.8	-0.1	-2.6	5.4	0.1	0.1	0.2	0.1	0.0
Net international investment position 2/	20.2	33.9	32.8	42.4	41.5	36.9	33.0	29.6	26.5	23.3	20.0
Assets	218.8	231.8	229.5	256.7	249.5	244.0	241.9	234.5	231.9	228.3	224.0
FDI	89.4	93.5	88.9	101.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Portfolio 2/	88.0	99.5	97.8	112.1	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other	35.9	33.8	37.6	38.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Reserves	5.5	5.1	5.1	4.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Liabilities	198.7	197.9	196.6	214.4	208.0	207.1	208.9	204.9	205.4	205.0	204.0
FDI	63.8	58.6	56.2	63.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Portfolio 2/	98.1	102.4	99.1	102.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Other	36.7	36.9	41.4	47.7	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Gross external debt	116.0	114.8	120.5	125.6	130.7	131.5	133.9	132.4	133.9	134.8	135.3
Real effective exchange rate 3/	-1.9	1.5	-0.5	-1.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

Sources: Haver Analytics and Fund staff calculations.

1/ Includes bank, nonbank, and official transactions other than reserve transactions.

2/ Based on market valuation of portfolio stocks and official international reserves.

3/ Percentage change.

Table 3. Canada: General Government Fiscal Indicators, 2016–26 1/

(Percent of GDP, unless otherwise indicated)

					Projections						
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Federal Government											
Revenue	14.5	14.6	15.1	15.2	13.1	14.1	14.6	14.8	15.0	15.0	15.0
Income taxes	9.4	9.5	9.9	10.0	9.8	9.7	9.6	9.7	9.8	9.8	9.8
Goods and services tax	2.8	2.8	2.8	2.8	2.4	2.6	2.6	2.7	2.6	2.6	2.6
Expenditures	14.6	14.7	14.8	15.1	29.3	19.9	17.5	15.6	15.3	15.1	14.9
Program spending	14.5	14.6	14.8	18.2	26.6	17.9	15.4	15.1	14.7	14.4	14.0
Transfers	9.3	9.4	9.3	9.7	20.5	13.8	11.9	10.0	9.6	9.3	9.0
Capital spending	0.5	0.5	0.6	0.4	0.6	0.5	0.5	0.5	0.5	0.6	0.6
Interest payments	1.1	1.0	1.1	1.1	1.0	0.9	1.0	1.1	1.3	1.4	1.6
Budgetary balance	-0.1	-0.1	0.3	0.1	-16.2	-5.8	-2.9	-0.8	-0.3	-0.1	0.1
Primary Balance	0.6	0.3	0.8	0.7	-15.7	-5.3	-2.4	-0.2	0.5	0.9	1.3
Cyclically-adjusted balance 2/	0.0	-0.2	0.2	0.1	-15.4	-5.5	-2.9	-0.8	-0.3	-0.1	0.1
Net federal debt	22.2	21.0	18.9	17.9	35.7	37.6	37.5	36.1	34.5	32.8	31.4
Gross federal debt	39.0	37.6	34.8	33.9	51.6	53.6	53.4	52.0	50.5	48.7	47.3
Provincial and Local Governments											
Revenue	26.7	26.7	26.8	27.3	30.5	27.2	27.2	27.2	27.3	27.2	27.2
Income taxes	6.4	6.3	6.4	6.5	6.2	5.9	6.1	6.3	6.4	6.5	6.5
Expenditures	27.6	27.2	27.5	27.5	34.7	29.6	29.2	29.0	28.7	28.6	28.5
Transfers	2.2	2.3	2.3	2.3	4.2	2.4	2.4	2.4	2.4	2.4	2.3
Capital spending	3.3	3.4	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Interest payments	1.9	1.8	1.9	1.8	1.8	2.2	1.8	1.6	1.3	1.2	1.1
Budgetary balance	-0.9	-0.6	-0.7	-0.3	-4.2	-2.3	-2.1	-1.8	-1.5	-1.4	-1.3
Primary Balance	-0.6	-0.3	-0.5	-0.2	-4.1	-1.8	-1.9	-2.0	-1.9	-2.0	-1.9
Cyclically-adjusted balance 2/	-0.6	-0.7	-0.8	-0.3	-3.2	-1.8	-2.0	-1.8	-1.5	-1.4	-1.3
Net provincial debt 3/	19.2	17.9	19.6	19.1	24.2	24.7	23.3	22.3	21.5	20.7	20.0
Gross provincial debt 3/	53.1	51.5	53.4	52.4	59.7	58.2	55.4	53.7	52.3	51.0	49.7
Canada/Quebec Pension Plans											
Revenue	3.4	3.5	3.5	3.6	3.8	3.7	3.7	3.7	3.7	3.7	3.7
Total spending	2.9	2.9	2.9	2.9	3.2	3.1	3.1	3.1	3.2	3.2	3.1
Budgetary balance	0.5	0.6	0.6	0.7	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Consolidated General Government 3/											
Revenue	40.3	40.3	41.1	41.5	38.6	38.2	39.4	40.6	41.1	41.3	41.4
Expenditure	40.8	40.5	40.9	41.0	58.4	45.8	43.8	42.6	42.3	42.2	42.0
Public consumption	21.0	20.7	20.7	20.8	22.8	22.6	22.3	22.2	22.0	22.0	21.9
Public investment	3.8	3.9	4.0	3.9	4.1	4.0	4.0	4.0	4.0	4.0	4.1
Overall balance	-0.5	-0.1	0.3	0.5	-19.8	-7.6	-4.4	-2.1	-1.3	-0.9	-0.6
Primary balance	0.1	0.1	0.3	0.6	-19.8	-7.1	-4.3	-2.2	-1.4	-1.0	-0.6
Cyclically-adjusted balance 2/	-0.1	-0.3	0.0	0.4	-18.2	-6.8	-4.4	-2.1	-1.3	-0.9	-0.6
Fiscal impulse	0.1	0.2	-0.3	-0.3	18.6	-11.3	-2.5	-2.3	-0.8	-0.3	-0.4
Net public debt	28.7	26.0	25.6	23.4	48.0	47.4	45.5	43.2	40.4	37.4	34.0
Gross public debt	91.7	88.8	88.8	86.8	115.4	114.3	112.1	109.4	106.6	103.6	100.2
Memorandum Items											
Real GDP growth (percentage change)	1.0	3.0	2.4	1.9	-5.4	4.4	4.1	2.3	1.7	1.7	1.7
Nominal GDP growth (percentage change)	1.8	5.7	4.2	3.6	-4.4	8.1	6.1	4.3	3.8	3.7	3.8
Three-month treasury bill (percent)	0.5	0.7	1.4	1.7	0.5	0.2	0.3	0.8	1.5	1.9	2.1
Ten-year government bond (percent)	1.3	1.8	2.3	1.6	0.8	0.9	1.0	1.4	1.8	2.1	2.4

Sources: Statistics Canada; Department of Finance Canada; provincial budget reports; Haver Analytics; and IMF staff estimates.

1/ National Accounts basis.

2/ Percent of potential GDP.

3/ Includes federal, provincial, territorial, and local governments; and Canada and Quebec pension plans.

Table 4. Canada: Statement of General Government Operations and Balance Sheet, 2012–2019 1/

(Percent of GDP, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019
Government operations								
Revenue	38.5	38.5	38.6	40.0	40.4	40.4	41.2	41.6
Taxes	26.7	26.6	26.8	28.2	28.5	28.6	29.1	29.4
Social contributions	4.6	4.7	4.6	4.8	4.8	4.6	4.6	4.6
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	7.1	7.2	7.2	7.0	6.9	7.2	7.4	7.5
Total expenditure	40.9	40.0	38.4	40.0	40.8	40.5	40.9	41.0
Expense	39.9	39.3	38.2	39.6	40.3	39.8	40.2	40.5
Compensation of employees	12.1	12.1	11.9	12.1	12.2	12.0	12.0	12.1
Use of goods and services	8.7	8.4	8.2	8.5	8.6	8.6	8.7	8.7
Consumption of fixed capital	3.2	3.2	3.2	3.3	3.3	3.3	3.3	3.3
Interest	3.5	3.4	3.2	3.1	3.0	2.9	3.0	3.0
Subsidies	1.1	0.9	0.9	0.9	1.0	0.9	1.1	1.2
Grants	0.3	0.3	0.2	0.2	0.3	0.2	0.2	0.2
Social benefits	9.3	9.2	9.0	9.7	10.0	10.0	9.9	10.0
Other expense	1.8	1.8	1.7	1.7	1.9	2.0	2.0	2.0
Net acquisition of nonfinancial assets	1.0	0.7	0.2	0.4	0.5	0.6	0.7	0.5
Gross operating balance	1.8	2.4	3.6	3.7	3.4	3.8	4.3	4.4
Net operating balance	-1.5	-0.8	0.4	0.4	0.1	0.6	1.0	1.1
Net lending or borrowing	-2.5	-1.4	0.2	0.0	-0.4	-0.1	0.3	0.6
Balance sheet (market value)								
Net worth	-8.6	1.3	-0.5	-3.8	1.8	9.4	11.5	13.3
Nonfinancial assets	44.9	49.6	46.6	42.5	46.7	47.3	47.7	46.7
Net financial worth	-53.5	-48.3	-47.1	-46.3	-44.9	-37.9	-36.2	-33.4
Financial assets	65.8	67.8	69.4	76.4	77.2	78.6	79.0	81.6
Currency and deposits	3.9	4.5	4.7	5.0	5.4	5.5	5.5	5.6
Securities other than shares	14.3	15.3	15.0	16.4	15.5	15.3	15.7	16.8
Loans	15.7	15.2	14.7	17.0	17.2	16.7	17.6	17.5
Shares and other equity	18.8	20.2	21.8	25.2	26.5	28.9	29.3	30.1
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	13.0	12.5	13.3	12.7	12.6	12.2	10.8	11.6
Financial liabilities 2/	119.3	116.1	116.5	122.7	122.1	116.5	115.2	115.0
Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities other than shares	81.8	78.2	78.4	82.6	84.0	80.0	78.6	79.8
Loans	4.3	4.4	4.4	4.5	4.4	4.4	4.4	4.5
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	18.4	17.5	16.5	17.2	16.3	15.3	15.1	14.5
Other accounts payable	14.6	15.7	16.9	18.0	17.1	16.5	16.8	15.9
Memorandum items:								
Nominal GDP (in billions of Can$)	1,827	1,902	1,995	1,990	2,026	2,141	2,231	2,311

Sources: Statistics Canada; and Haver Analytics.
1/ Government Finance Statistics basis.
2/ Includes unfunded public sector pension liabilities.

Table 5. Canada: Financial Soundness Indicators 2012-19

(Percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets								
Total assets 1/	3,682	3,854	4,179	4,666	5,014	5,277	5,675	6,116
Percent of GDP	201.5	202.6	209.5	234.4	247.5	246.5	254.3	264.7
Nominal GDP	1,827	1,902	1,995	1,990	2,026	2,141	2,231	2,311
Capital Adequacy								
Total capital ratio	16.2	14.3	14.2	14.2	14.8	14.8	15.2	15.3
Tier 1 ratio	13.4	11.7	11.9	12.1	12.5	12.9	13.2	13.2
Capital to assets	4.9	5.0	4.9	5.1	5.2	5.2	5.2	5.2
Credit Risk								
NPLs net of provisions to capital	6.4	6.2	5.5	5.3	6.0	4.7	5.1	4.7
NPLs to Gross Loans	0.7	0.6	0.5	0.5	0.6	0.4	0.5	0.5
Provisions (Individual) to NPL	22.3	16.3	17.5	17.3	16.7	15.1	19.8	25.8
Sectoral Distribution of Loans								
Residents	74.3	73.6	71.4	67.5	68.2	67.0	64.3	63.9
Nonresidents	25.7	26.4	28.6	32.5	31.8	33.0	35.7	36.1
Profitability								
Return on assets	1.1	1.1	1.1	1.0	1.0	1.1	1.2	1.1
Return on equity	22.7	22.3	22.5	20.7	19.9	21.4	22.1	20.4
Interest margin on gross income	52.0	52.5	51.2	51.1	50.7	50.8	50.8	52.1
Trading income to gross income	5.3	4.5	3.7	3.8	4.8	4.7	6.0	5.1
Non-interest expenses to gross income	63.3	62.6	62.8	63.8	63.6	61.0	59.7	61.5
Liquidity								
Liquid assets to total assets	11.9	11.3	11.0	11.5	10.9	10.7	10.6	9.8
Liquid assets to short-term liabilities	51.8	47.8	50.5	45.4	54.6	49.4	48.5	44.1
Customer deposits to loans	96.3	98.2	99.3	101.0	101.4	99.9	98.9	98.0
FX and Derivative Risk								
FX Assets to Total Assets	39.1	42.8	49.2	56.6	51.6	46.6	60.4	47.5
FX loans to total loans	26.8	27.7	30.1	33.4	34.3	35.5	37.2	38.5
FX liabilities to total liabilities	42.4	42.7	49.2	48.4	55.0	54.0	54.4	49.1

Sources: IMF FSI database; and IMF staff calculations.

1/ Billions of Canadian dollars.

Table 6. Canada: Medium-Term Scenario 2016–26

(Percentage change, unless otherwise indicated)

					Projections						
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
National Accounts in constant prices											
Real GDP	1.0	3.0	2.4	1.9	-5.4	4.4	4.1	2.3	1.7	1.7	1.7
Q4/Q4	1.7	3.1	2.3	1.7	-3.5	3.5	3.4	1.9	1.6	1.7	1.7
Net exports 1/	0.4	-1.1	0.1	0.3	0.6	-1.4	-0.6	0.0	0.1	-0.2	-0.5
Final domestic demand	0.5	3.3	2.5	1.4	-4.1	5.9	4.6	2.2	1.5	1.8	2.1
Private consumption	2.1	3.7	2.5	1.7	-5.6	6.4	4.5	2.2	1.4	1.9	2.3
Public consumption	1.8	2.1	2.9	2.0	1.3	5.4	2.9	1.7	1.2	1.3	1.5
Private fixed domestic investment	-5.6	2.7	1.3	0.2	-2.5	10.2	7.0	3.0	2.3	2.3	2.3
Public investment	-0.1	6.5	4.3	0.3	-0.7	5.0	3.8	2.5	2.2	2.1	2.1
Change in inventories 1/	0.0	0.9	-0.2	0.2	-1.6	-0.5	0.0	0.0	0.0	0.0	0.0
Nominal GDP	1.8	5.7	4.2	3.6	-4.4	8.1	6.1	4.3	3.8	3.7	3.8
Employment and inflation											
Unemployment rate 3/	7.1	6.4	5.9	5.7	9.6	8.1	6.9	6.5	6.5	6.5	6.5
Employment	0.7	2.1	1.6	2.2	-5.1	4.8	2.4	1.5	1.0	1.0	1.0
CPI inflation	1.4	1.6	2.3	1.9	0.7	1.6	1.8	2.0	2.0	2.0	2.0
Core CPI inflation (y/y)	1.9	1.6	1.9	2.1	1.1	1.2	1.7	2.0	2.0	2.0	2.0
GDP deflator	0.8	2.6	1.8	1.7	1.0	3.5	1.9	2.0	2.1	2.0	2.1
Potential output growth	1.8	1.7	2.2	2.1	-2.1	3.0	2.5	2.1	1.8	1.7	1.7
Output gap 4/	-0.9	0.4	0.6	0.4	-3.0	-1.7	-0.1	0.1	0.0	0.0	0.0
Indicators of fiscal policies											
Federal fiscal balance	-0.1	-0.1	0.3	0.1	-16.2	-5.8	-2.9	-0.8	-0.3	-0.1	0.1
Billions of Can$	-2.5	-2.8	7.4	2.4	-357.5	-138.3	-74.0	-21.8	-9.4	-2.3	3.1
General government fiscal balance 5/	-0.5	-0.1	0.3	0.5	-19.8	-7.6	-4.4	-2.1	-1.3	-0.9	-0.6
Billions of Can$	-9.2	-2.4	6.2	12.5	-438.2	-181.2	-112.2	-54.4	-34.7	-26.8	-17.2
General government gross debt 2/	91.7	88.8	88.8	86.8	115.4	114.3	112.1	109.4	106.6	103.6	100.2
General government net debt 2/	28.7	26.0	25.6	23.4	48.0	47.4	45.5	43.2	40.4	37.4	34.0
Three-month treasury bill 3/	0.5	0.7	1.4	1.7	0.5	0.2	0.3	0.8	1.5	1.9	2.1
Ten-year government bond yield 3/	1.3	1.8	2.3	1.6	0.8	0.9	1.0	1.4	1.8	2.1	2.4
External indicators											
Current account balance 2/	-3.1	-2.8	-2.3	-2.1	-1.5	-1.0	-1.4	-1.7	-1.7	-1.9	-2.2
Merchandise trade balance 2/	-1.2	-1.1	-0.9	-0.7	-1.4	-0.7	-1.1	-0.9	-0.7	-0.8	-1.1
Export volume	0.5	0.7	3.0	0.9	-7.3	16.0	6.5	3.3	3.1	1.8	1.4
Import volume	-0.3	4.9	3.0	0.7	-6.4	19.1	8.0	3.0	2.5	2.4	1.8
Terms of trade	-1.1	3.6	0.8	-0.1	-2.6	5.4	0.1	0.1	0.2	0.1	0.0
Real effective exchange rate	-1.9	1.5	-0.5	-1.0	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Saving and investment 2/											
Gross national saving	19.7	20.7	20.9	20.9	20.0	20.7	20.9	20.9	21.1	21.1	20.9
General government	3.7	4.2	4.4	4.5	-15.7	-3.8	-0.8	1.4	2.1	2.3	2.5
Private	16.0	16.6	16.5	16.4	35.7	24.5	21.8	19.5	19.0	18.8	18.4
Gross domestic investment	22.8	23.6	23.2	23.0	21.6	21.8	22.4	22.6	22.8	23.0	23.1
Personal savings 6/	2.0	2.0	0.8	1.4	15.6	4.5	2.0	1.9	2.1	1.6	1.4
Memorandum Items											
Nominal GDP (billions of Can$)	2,026	2,141	2,231	2,311	2,209	2,387	2,533	2,642	2,742	2,845	2,954

Sources: Haver Analytics; and IMF staff estimates.

1/ Contribution to growth.
2/ Percent of GDP.
3/ Percent.
4/ Percent of potential GDP.
5/ Includes federal, provincial, territorial, and local governments; and Canada and Quebec pension plans.
6/ Percent of disposable income.

Table 7. Canada: External Debt 2008-19 1/

(End of period, market value)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					(In percent of GDP)							
Total All Sectors	67.7	73.2	73.6	75.8	84.3	86.4	93.9	111.9	116.0	114.8	120.5	125.6
Short-term	23.5	22.9	21.7	22.6	24.2	24.3	28.1	34.3	35.9	35.2	40.1	46.1
Long-term	33.1	38.6	41.3	44.5	50.8	51.7	55.6	66.1	68.2	69.6	69.3	69.2
General Government	11.4	14.6	17.4	20.2	22.4	20.6	20.1	22.1	22.4	22.7	21.0	20.3
Short-term	1.4	1.6	1.6	3.1	3.2	2.7	2.3	2.2	2.0	1.3	1.7	1.7
Long-term	10.0	13.0	15.8	17.1	19.2	17.8	17.8	19.9	20.5	21.4	19.3	18.7
Monetary Authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	20.1	20.0	19.4	20.2	24.8	26.7	32.4	40.9	43.3	43.7	48.9	54.8
Short-term	19.4	19.2	17.3	16.6	17.8	18.3	22.8	28.1	29.4	29.4	32.8	38.4
Long-term	0.7	0.9	2.1	3.6	7.0	8.4	9.5	12.8	13.9	14.3	16.2	16.4
Other Sectors	25.1	26.8	26.1	26.5	0.5	0.5	0.5	0.6	0.7	0.9	1.2	1.5
Short-term	2.7	2.1	2.7	2.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term	22.4	24.7	23.4	23.8	0.5	0.5	0.5	0.6	0.7	0.9	1.2	1.5
					(In billions of US dollar)							
Total All Sectors	916	1,100	1,234	1,323	1,549	1,545	1,615	1,610	1,750	1,958	1,971	2,234
Short-term	318	343	363	394	444	435	483	494	542	601	656	820
Long-term	448	579	692	776	933	925	957	950	1,029	1,188	1,134	1,232
General Government	154	218	292	353	411	368	346	317	339	387	343	362
Short-term	19	23	27	54	58	49	40	32	30	22	28	29
Long-term	136	195	265	299	353	319	306	286	309	365	315	332
Monetary Authorities	0	0	0	0	0	0	0	0	0	0	0	0
Banks	272	301	326	353	455	477	557	588	654	746	801	975
Short-term	263	288	290	290	327	328	393	405	443	501	536	684
Long-term	9	13	35	63	128	149	164	184	210	245	264	291
Other Sectors	340	403	437	463	9	9	8	8	11	16	20	26
Short-term	37	31	45	49	-	-	-	-	-	-	-	-
Long-term	303	371	392	414	9	9	8	8	11	16	20	26

Sources: Haver Analytics and IMF staff estimates.

1/ Short-term instruments include: money market, loans, deposits, trade credits, and other debt liabilities. Long term includes: bonds and notes, loans, and other debt liabilities.

Annex I. Risk Assessment Matrix

(Scale—low, medium, and high)			
Source of Risks	**Relative Likelihood**	**Impact**	**Policy Response**
Globally-sourced risks			
1. Unexpected shift in the Covid-19 pandemic	**Medium**	**High** The disease proves harder to eradicate (e.g. due to vaccines' ineffectiveness and difficulties in distribution) requiring more containment efforts and impacting economic activity directly and through persistent behavioral changes (prompting costly reallocations of resources). The risk of asynchronous progress with limited access to, and longer-than-expected deployment of, vaccines in some countries.	Continue preparing for vaccination, securing vaccines and their swift distribution. In the meantime, encourage uniform masking, limit risky and less economically critical activities, and ramp up rapid testing of asymptomatic population (screening).
2. Accelerating de-globalization	**Medium**	**High** Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	Work actively to strengthen the rules-based multilateral trading system and promote cooperative approaches to climate change mitigation.
3. Oversupply and volatility in the oil market	**Medium**	**Medium** Supply increases (due to e.g. OPEC+ disagreements or an unexpected surge in shale production) and lower demand leads to renewed weakness in energy prices. Uncertainty about production cuts, prospects for the shale gas industry, and the pace of demand recovery lead to bouts of volatility.	Continue to diversify out of reliance on the fossil fuels to limit the sensitivity to oil prices disruption and support the climate change initiatives. Support modern and efficient techniques of oil extraction.
Domestically-sourced risks			
4. House price correction	**Medium**	**Medium** With households highly indebted, housing markets could be destabilized, should the recovery from the crisis, the unexpected shift in the covid-19 pandemic occurs, or interest rates normalize.	Ensure adequate loss absorbing buffers in the banking and insurance sectors and provide emergency liquidity as needed. Ensure proactive supervisory and effective crisis management frameworks are in place. Loosen macroprudential policy if credit falls significantly.
5. Drag on growth due to balance-sheet impairment or sharp rise in risk premia	**Medium**	**Medium** Non-financial corporations entered the crisis with leverage at historical highs and elevated with respect to many peer countries. The hit from the crisis to income and balance sheet may prompt companies to re-build buffers and focus on balance sheet repair rather than on productive investment. Exposed financial vulnerabilities may lead to spike in risk premia.	Support access of solvent companies to credit, secure quick resolution of the insolvent ones. Motivate prudent leverage position using macro-prudential tools and phase out tax advantage of borrowing relative to equity financing.

Annex II. External Sector Assessment

<table>
<tr><td colspan="7">**Overall Assessment:** *On a preliminary basis, and adjusting for transitory factors, recent developments suggest that the external position in 2020 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the lack of full-year data for 2020 and the COVID-19 crisis, and a complete analysis will be provided in the 2021 External Sector Report.* It will take time for the economy to adjust to structural shifts in the allocation of resources, restore lost production capacity, and address productivity underperformance. The current account deficit narrowed in 2020 due to the contraction of demand -induced imports but will moderately widen in the medium term as the domestic demand rebounds.

Potential Policy Responses: If imbalances that existed prior to the COVID-19 outbreak persist in the medium term, policies should aim to boost Canada's non-energy exports. These policies include measures geared toward improving labor productivity; investing in R&D and physical capital; promoting FDI; developing services exports; and diversifying Canada's export markets. The planned increase in public infrastructure investment should boost competitiveness and improve the external position in the medium term. The recent sharp increase in government debt that resulted from the government's response to COVID-19 increases the importance of developing a credible medium -term fiscal consolidation plan to support external rebalancing.</td></tr>
<tr><td>**Foreign Asset and Liability Position and Trajectory**</td><td colspan="6">**Background.** Despite running a current account (CA) deficit, Canada's net international investment position (NIIP) has improved since 2010, reaching *estimated* 41.5 percent of GDP in 2020, up from 22.5 percent in 2015 and -17.7 percent in 2010. This largely reflects valuation gains on external assets. At the same time, gross external debt increased to estimated 131 percent of GDP at the end of 2020, of which about one-third is short term.

Assessment. Canada's foreign assets have a higher foreign currency component than its liabilities, which provides a hedge against currency depreciation. The NIIP level and trajectory are sustainable.</td></tr>
<tr><td>2020 (% GDP)</td><td>NIIP: 41.5</td><td>Gross Assets: 249.5</td><td colspan="2">Debt Assets: 53.7</td><td>Gross Liab.: 208.9</td><td>Debt Liab.: 99.9</td></tr>
<tr><td>**Current Account**</td><td colspan="6">**Background.** The estimated CA deficit stands at 1.5 percent of GDP in 2020, down from 2.1 percent of GDP in 2019, reflecting improvements in primary income balance and in services. The CA deficit has been financed by non-FDI net financial inflows, which have more than offset net outflows of FDI.

Assessment. The EBA estimates a CA norm of 2.5 percent of GDP, and a cyclically adjusted CA of -1.0 percent of GDP for 2020. Staff assess the CA gap to be narrower after considering: (i) CA measurement issues 2/; (ii) the authorities' demographic projections and current immigration targets /3, and (iii) the temporary impact of the COVID-19 crisis on tourism and oil balances./4 Taking these factors into consideration, staff assess the CA to be moderately lower than warranted by fundamentals and desired policies, with a gap in the range between -2.8 and 0.2 percent of GDP.</td></tr>
<tr><td>2020 (% GDP)</td><td>Actual CA: -1.5</td><td>Cycl. Adj. CA: -1.0</td><td>EBA CA Norm: 2.5</td><td>EBA CA Gap: -3.5</td><td>Staff Adj.: 2.1</td><td>Staff CA Gap: -1.4</td></tr>
<tr><td>**Real Exchange Rate**</td><td colspan="6">**Background.** Relative to the 2019 average, the REER depreciated by 0.23 percent through November 2020.

Assessment. The EBA REER index model points to an overvaluation of 3.2 percent in 2020, while the REER level model points to an undervaluation of around 8 percent. In staff's view, the REER level model could overstate the extent of undervaluation. Consistent with the staff CA gap, staff assesses the REER to be overvalued in the range of 1 to -10 percent, with a midpoint of 5.2 percent. 5/</td></tr>
<tr><td>**Capital and Financial Accounts: Flows and Policy Measures**</td><td colspan="6">**Background.** The CA deficit in 2020 was financed by non-FDI net financial flows: portfolio (7.7 percent of GDP) other investment (-5.5 percent of GDP). FDI recorded net outflows of 0.3 percent of GDP (lower than the net outflows of 2019 and in the previous years). In 2020, estimated errors and omissions recorded an outflow of 0.5 percent of GDP.

Assessment. Canada has an open capital account. Vulnerabilities are limited by a credible commitment to a floating exchange rate.</td></tr>
</table>

FX Intervention and Reserves Level	**Background.** Canada has a free-floating exchange rate regime and has not intervened in the foreign exchange market since September 1998 (with the exception of participating in internationally concerted interventions). Canada has limited reserves, but its central bank has standing swap arrangements with the U.S. Federal Reserve and four other major central banks (it has not drawn on these swap lines). **Assessment.** Policies in this area are appropriate to the circumstances of Canada. The authorities are strongly committed to a floating regime which, together with the swap arrangement, reduces the need for reserve holdings.
Notes:	1/ All 2020 numbers are staff estimates. 2/ The statistical treatment of retained earnings on portfolio equity and inflation is estimated to generate a downward bias in the income balance of the current account of the order of 1.5 percent of GDP. 3/ EBA uses UN demographic projections. The COVID-19 decline in net immigration is considered transitory and immigration will continue to be one of the main sources of population growth in Canada. An EBA CA norm is lowered by 0.4 ppt to account for this. 4/ The estimates of the temporary impact of the COVID-19 crisis on tourism and oil balances are 0.5 and -0.4 percent of GDP, respectively, with the net impact of 0.1 percent of GDP. 5/ The semi-elasticity of the CA with respect to the REER is set to 0.27.

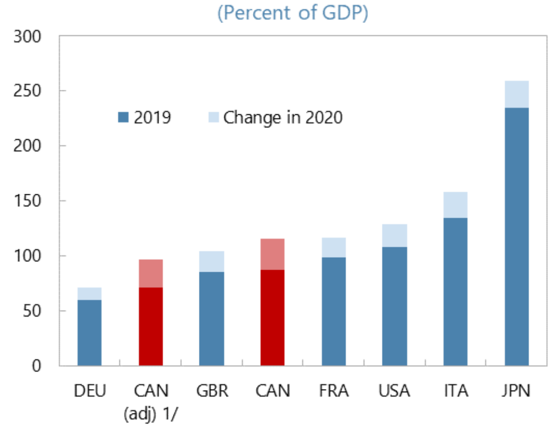
Annex III. Public Debt Sustainability Analysis

The overall assessment is broadly unchanged from the 2019 Article IV staff report. Canada still has some fiscal space. While public debt has increased significantly, it remains on a sustainable trajectory over the medium term. Following a sizable fiscal response following the COVID-19 pandemic, Canada's ratio of gross debt to GDP is expected to rise sharply from 86.8 percent in 2019 to 115.4 percent in 2020. Under the baseline scenario, the gross debt-to-GDP ratio is projected to gradually decline after 2020, reflecting fiscal consolidation and favorable growth-interest rate differentials. The most significant stress scenario examined pushes debt to almost 120 percent of GDP, but sizable financial assets (about 67.5 percent of GDP projected in 2020) would provide an additional cushion. The net debt-to-GDP ratio is projected to peak at 48 percent of GDP in 2020, before declining to 34 percent by the end of the projection horizon.

Fiscal Space

1. **Canada still has some fiscal space, even though its gross debt has risen sharply.** Canada's general government gross debt is expected to be 115.4 percent of GDP in 2020. If accounts payable is excluded to make it more internationally comparable, gross debt would fall to 96.7 percent of GDP in 2020, the second lowest level projected among G7 countries for the year. It is also important to note that Canada's general government holds sizable financial assets (about 67.5 percent of GDP), which include a broad range of assets (currency and deposits, debt securities, loans, equity and investment fund shares, and accounts receivable). Almost half of these assets are highly liquid (currency, deposits, and bonds) and the remainder largely relate to pension fund investments. Canada's net debt is expected to reach 48 percent of GDP in 2020.

General Government Gross Debt
(Percent of GDP)



Sources: IMF World Economic Outlook.
1/ CAN(adj) is general government debt adjusted for accounts payable.

Baseline Scenario and Realism of Projections

- *Fiscal adjustment.* The general government is expected to consolidate its fiscal position over the projection horizon. The general government primary deficit is projected to decline from 20 percent of GDP in 2020 to 0.6 percent by 2026.

- *Gross debt dynamics.* The gross debt-to-GDP ratio is projected to peak at 115.4 percent in 2020 and gradually decline to 100.2 percent by 2026, reflecting fiscal consolidation and favorable growth-interest rate differentials.

- *Net debt dynamics.* The general government has sizable financial assets, with almost half being highly liquid (currency, deposits, and bonds). The net debt ratio is expected to peak at 48 percent in 2020 and decline to 34 percent by 2026.

- *Gross financing needs.* Gross financing needs were around 27.6 percent of GDP in 2020 and are expected to remain within a range of 27-32 percent of GDP through the projection horizon.

- *Realism of baseline projections.* Projection errors in recent years for real GDP growth, primary balance, and inflation were moderate, with the median forecast error in line with other economies. There is no evidence of a systematic projection bias in the baseline assumptions that could undermine the DSA assessment.

- *Market perceptions.* Confidence in Canada's sovereign debt remains high. Canada had AAA ratings from all 3 major ratings agencies between 2002 in June 2020, when Fitch downgraded it to AA+. At the end of 2020, Canada's benchmark 10-year bond yields were around 0.7 percent, about 20 basis points *below* U.S. 10-year treasury note yields.

Public DSA Risk Assessment

2. The fan charts illustrate the possible evolution of the debt ratio over the medium term and are based on both the symmetric and asymmetric distributions of risk. Under the symmetric distribution of risk, there is slightly less than a 75 percent probability that debt will be below its current level as a share of GDP over the medium term. If restrictions are imposed on the primary balance (i.e., the asymmetric scenario, where it is assumed that there are no positive shocks to the primary balance), there is a 75 percent chance that the debt path will remain above its current level as a share of GDP over the projection horizon.

Stress Tests

- *Primary balance shock.* A deterioration in the primary balance by about 2 percent of GDP in 2022 would raise the gross debt-to-GDP ratio by about 6 percentage points over the projection period. The sovereign risk premium is assumed to increase by 25 basis points for each one percent of GDP deterioration in the primary balance, resulting in higher gross financing needs of 3-4 percentage points of GDP relative to the baseline projection.

- *Growth shock.* A one standard deviation shock to growth in 2020 and 2021 will reduce real GDP growth rates to about -0.4 percent. This would lead to a deterioration in the primary balance, with the deficit peaking at 7.1 percent in 2021. The gross debt-to-GDP ratio will peak at 119.9 percent in 2023 but would gradually decline as GDP growth recovers. Gross financing needs would also peak at about 5 percentage points higher than the baseline in 2023.

- *Interest rate shock.* An increase in the sovereign risk premium by 200 basis points for two years would raise the effective interest rate 0.8 percentage points higher than the baseline. The impact on debt and gross financing needs is mild.

- *Exchange rate shock*. Given that more than 90 percent of general government outstanding marketable debt instruments are in Canadian dollars, the fiscal impact of an exchange rate shock is minimal, even with a substantial exchange rate depreciation of about 20 percent (which Canada experienced in 2008).

- *Contingent liabilities*. Households and firms have high debt levels. If risks are not managed appropriately, some of these liabilities could be transferred to the government balance sheet, which would lead to an increase in debt.

Accounting Issues for International Comparisons.

- Canada’s general government debt includes sizable accounts payable (around 19 percent of GDP), which many advanced economies do not report.

- Public debt increased in recent years (prior the COVID-19 crisis), reflecting the government’s policy to fund public sector employee pension plans by issuing new debt. General government debt as reported here does not include unfunded pension liabilities. Many advanced economies do not report unfunded pension liabilities and as such they are excluded from measures of public sector debt to allow for consistent international comparison.

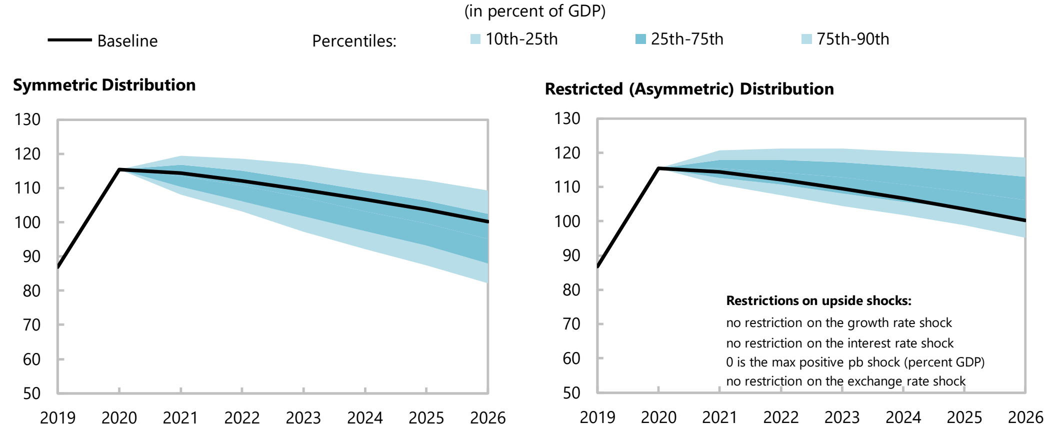
Annex III. Figure 1. Canada: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

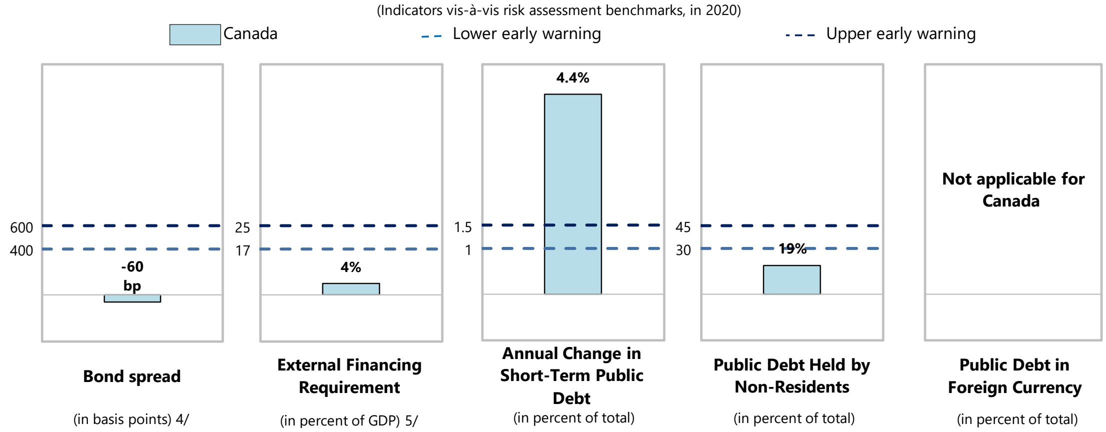
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 30-Sep-20 through 29-Dec-20.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Annex III. Figure 2. Canada: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

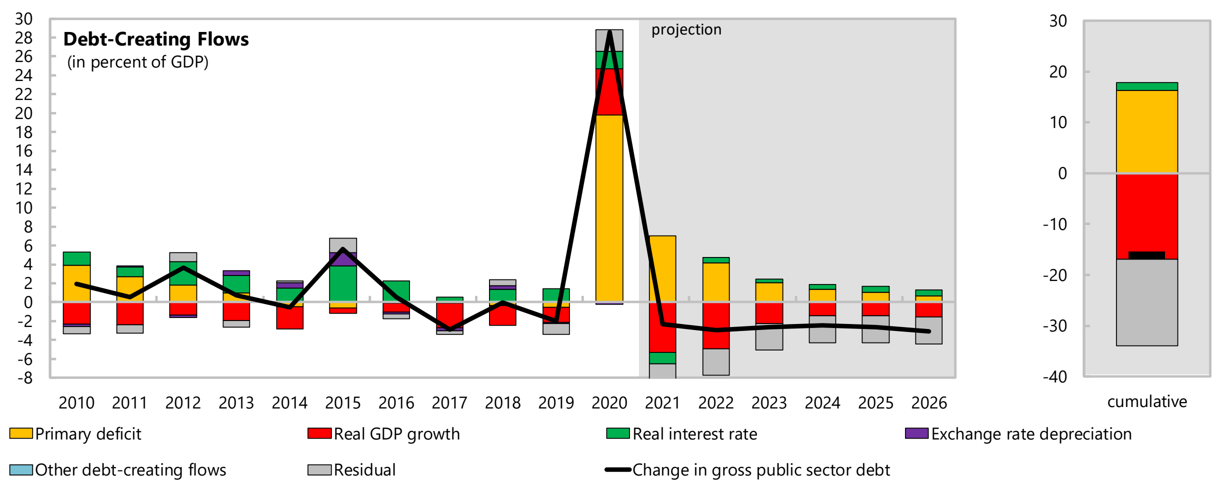
(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of February 24, 2020		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026	Sovereign Spreads		
Nominal gross public debt	86.7	86.8	115.4	113.1	110.1	107.5	105.0	102.4	99.3	EMBIG (bp) 3/		-74
Public gross financing needs	16.9	11.9	27.5	29.4	31.6	29.8	28.1	29.6	27.0	5Y CDS (bp)		...
Net public debt	27.8	23.4	48.0	46.6	44.2	41.9	39.3	36.5	33.3			
Real GDP growth (in percent)	2.3	1.9	-5.4	5.0	4.7	2.1	1.4	1.4	1.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.7	1.7	1.0	3.9	1.9	2.0	2.0	1.9	2.1	Moody's	Aaa	Aaa
Nominal GDP growth (in percent)	4.0	3.6	-4.4	9.1	6.7	4.2	3.4	3.4	3.7	S&Ps	AAA	AAA
Effective interest rate (in percent) [4/]	3.9	3.4	3.1	2.9	2.6	2.5	2.5	2.6	2.8	Fitch	AA+	AA+

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.1	-2.0	28.6	-2.3	-3.0	-2.6	-2.4	-2.6	-3.1	-16.1	
Identified debt-creating flows	1.0	-0.9	26.3	0.4	-0.2	0.2	0.4	0.2	-0.2	0.9	
Primary deficit	0.9	-0.6	19.8	7.0	4.1	2.0	1.4	1.0	0.7	16.3	-0.9
Primary (noninterest) revenue and grants	36.6	38.6	35.8	35.6	36.7	37.8	38.3	38.5	38.6	225.5	
Primary (noninterest) expenditure	37.5	38.1	55.6	42.6	40.8	39.9	39.7	39.5	39.2	241.7	
Automatic debt dynamics [5/]	0.2	-0.3	6.5	-6.5	-4.3	-1.8	-1.0	-0.8	-0.9	-15.4	
Interest rate/growth differential [6/]	0.0	-0.2	6.8	-6.5	-4.3	-1.8	-1.0	-0.8	-0.9	-15.4	
Of which: real interest rate	1.8	1.4	1.9	-1.2	0.6	0.4	0.5	0.6	0.6	1.6	
Of which: real GDP growth	-1.8	-1.6	4.9	-5.3	-4.9	-2.2	-1.4	-1.4	-1.5	-16.9	
Exchange rate depreciation [7/]	0.2	-0.1	-0.2	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.0	-1.1	2.3	-2.8	-2.8	-2.8	-2.9	-2.9	-2.9	-17.0	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over U.S. bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

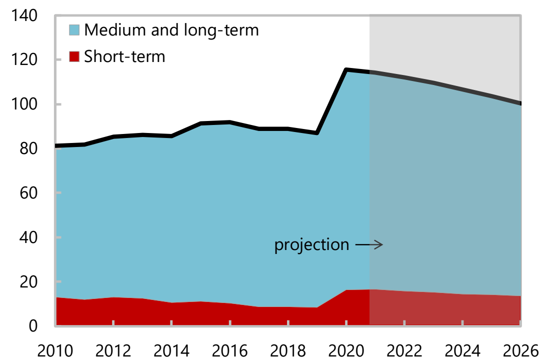
8/ Includes asset changes and interest revenues (if any). Note: Canada has sizable interest revenue (around 2-3 percent of GDP per year).

9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

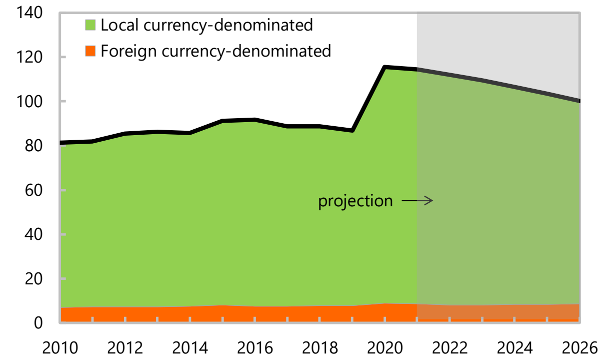
Annex III. Figure 3. Canada: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



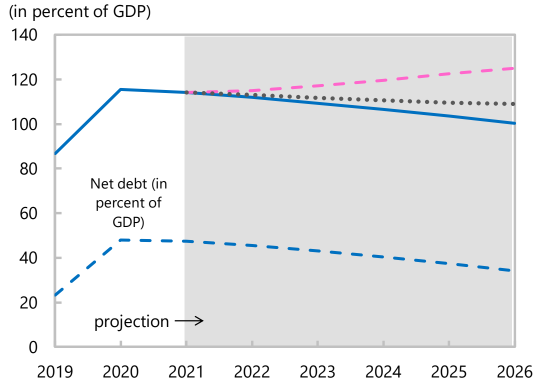
By Currency
(in percent of GDP)



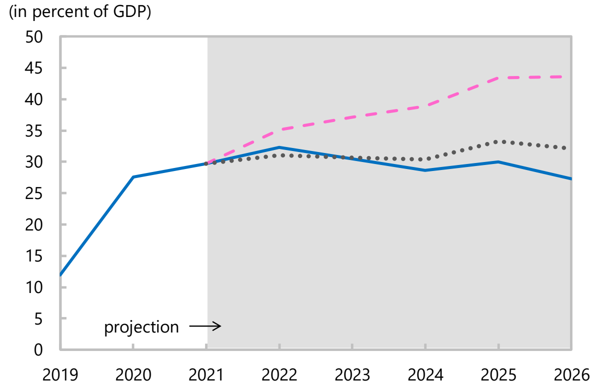
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

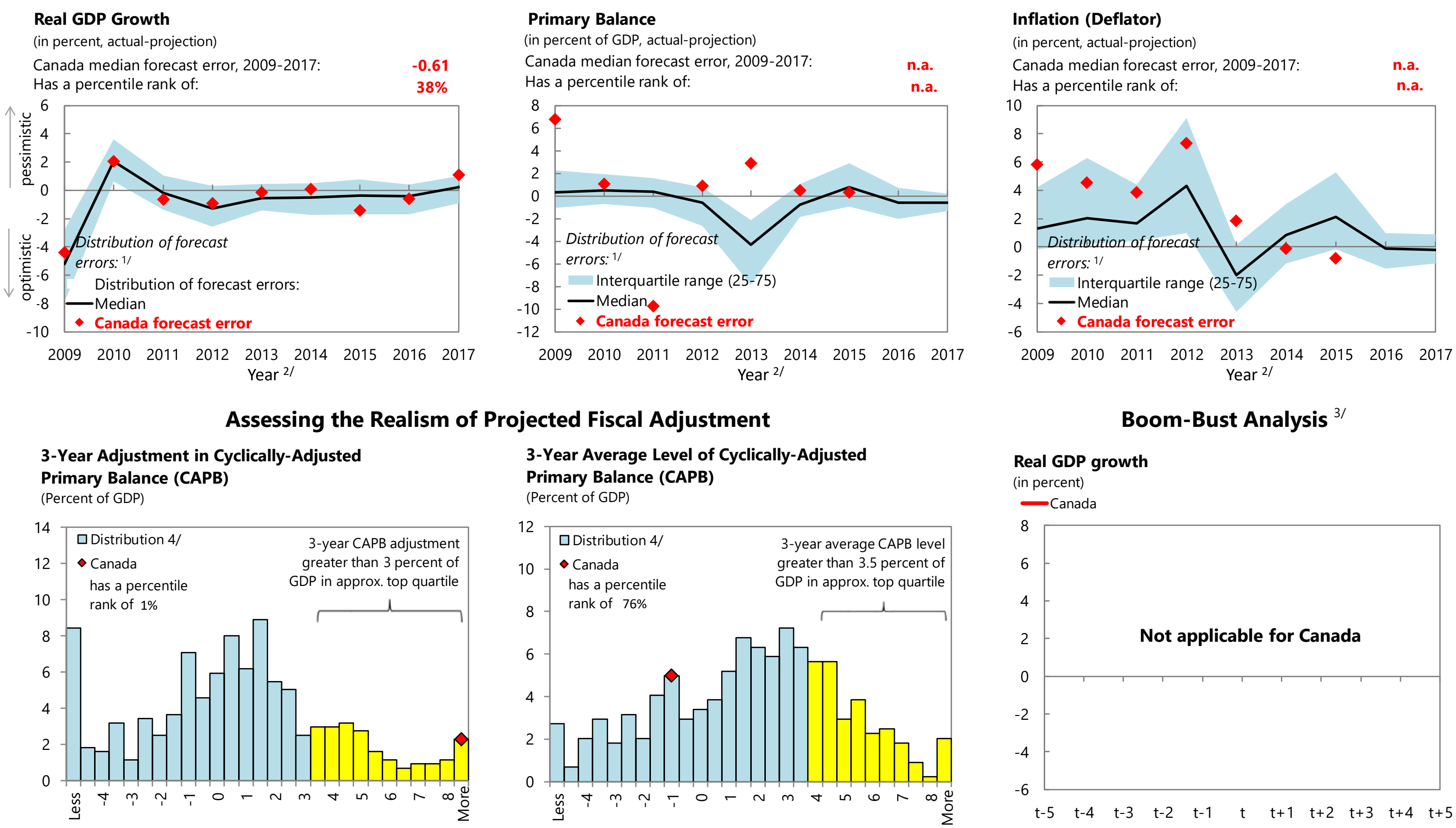
Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.4	4.1	2.3	1.7	1.7	1.7
Inflation	3.5	1.9	1.9	2.1	2.0	2.1
Primary Balance	-7.1	-4.3	-2.2	-1.4	-1.0	-0.6
Effective interest rate	2.9	2.6	2.5	2.5	2.6	2.8
Constant Primary Balance Scenario						
Real GDP growth	4.4	4.1	2.3	1.7	1.7	1.7
Inflation	3.5	1.9	1.9	2.1	2.0	2.1
Primary Balance	-7.1	-7.1	-7.1	-7.1	-7.1	-7.1
Effective interest rate	2.9	2.6	2.4	2.3	2.4	2.5

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	4.4	1.4	1.4	1.4	1.4	1.4
Inflation	3.5	1.9	1.9	2.1	2.0	2.1
Primary Balance	-7.1	-2.3	-2.3	-2.3	-2.3	-2.3
Effective interest rate	2.9	2.6	2.9	3.0	3.2	3.4

Source: IMF staff.

Annex III. Figure 4. Canada: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus all countries



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

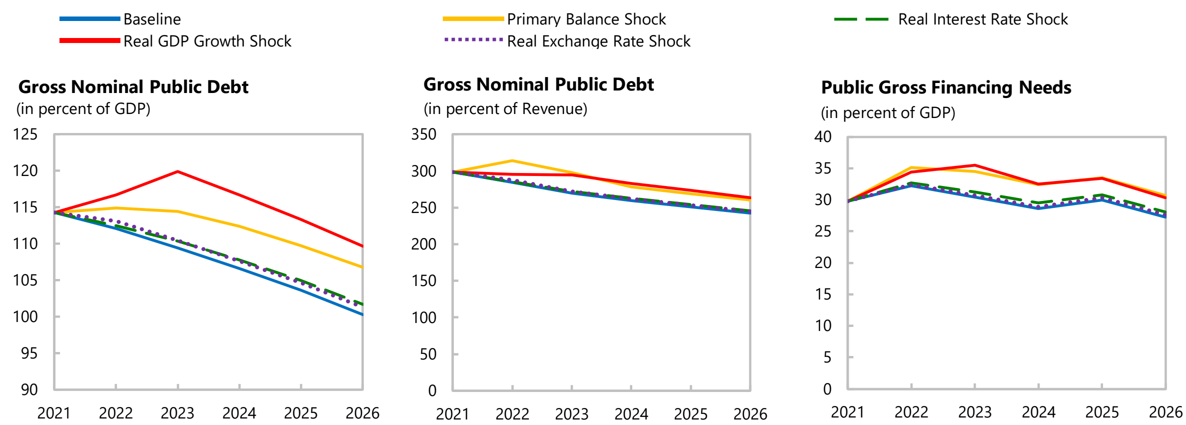
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Canada, as it meets neither the positive output gap criterion nor the private credit growth criterion.

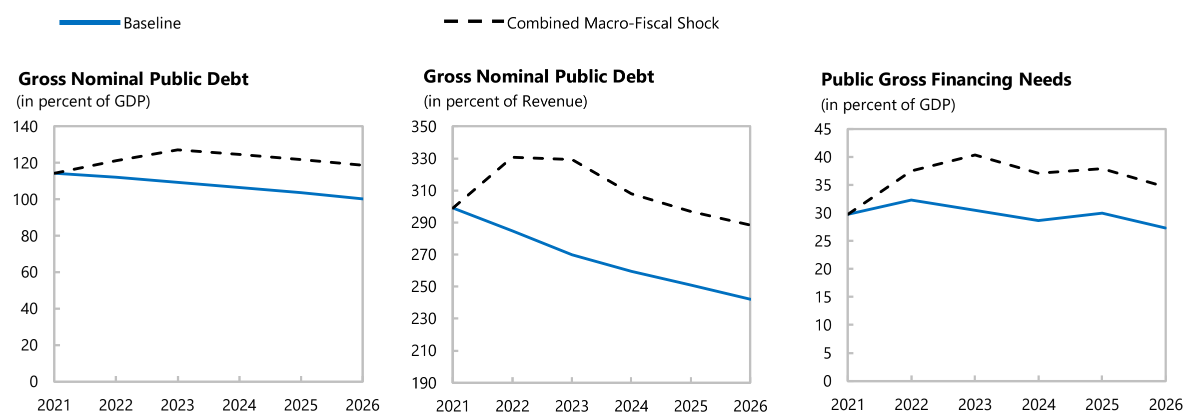
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex III. Figure 5. Canada: Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	4.4	4.1	2.3	1.7	1.7	1.7
Inflation	3.5	1.9	1.9	2.1	2.0	2.1
Primary balance	-7.1	-7.1	-4.3	-2.2	-1.4	-1.0
Effective interest rate	2.9	2.6	2.6	2.6	2.6	2.8
Real Interest Rate Shock						
Real GDP growth	4.4	4.1	2.3	1.7	1.7	1.7
Inflation	3.5	1.9	1.9	2.1	2.0	2.1
Primary balance	-7.1	-4.3	-2.2	-1.4	-1.0	-0.6
Effective interest rate	2.9	3.0	3.0	2.7	2.8	2.9
Combined Shock						
Real GDP growth	4.4	1.6	-0.2	1.7	1.7	1.7
Inflation	3.5	1.2	1.3	2.1	2.0	2.1
Primary balance	-7.1	-8.4	-6.8	-2.2	-1.4	-1.0
Effective interest rate	2.9	2.7	2.9	2.6	2.7	2.8

Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	4.4	1.6	-0.2	1.7	1.7	1.7
Inflation	3.5	1.2	1.3	2.1	2.0	2.1
Primary balance	-7.1	-5.6	-4.7	-1.4	-1.0	-0.6
Effective interest rate	2.9	2.6	2.5	2.4	2.6	2.7
Real Exchange Rate Shock						
Real GDP growth	4.4	4.1	2.3	1.7	1.7	1.7
Inflation	3.5	2.4	1.9	2.1	2.0	2.1
Primary balance	-7.1	-4.3	-2.2	-1.4	-1.0	-0.6
Effective interest rate	2.9	2.7	2.5	2.5	2.6	2.8

Source: IMF staff.

Annex IV. Table 1. Canada: External Debt Sustainability Framework, 2015-2025

(In percent of GDP, unless otherwise indicated)

	Actual 2015	2016	2017	2018	2019	10-Year Historical Average	10-Year Standard Deviation	Projections 2020	2021	2022	2023	2024	2025	Debt-stabilizing non-interest current account 6/
Baseline: External debt	93.7	103.5	106.6	105.8	116.1			**120.7**	**115.5**	**116.4**	**115.0**	**116.5**	**117.5**	**-0.4**
Change in external debt	13.5	9.9	3.0	-0.8	10.3			4.6	-5.3	1.0	-1.5	1.6	1.0	
Identified external debt-creating flows (4+8+9)	15.6	12.7	3.6	-1.2	2.0			16.2	-2.4	-0.4	0.3	1.2	1.5	
Current account deficit, excluding interest payments	1.1	0.3	-0.1	-0.6	-1.3			-1.6	-1.6	-1.3	-1.2	-1.5	-1.4	
Deficit in balance of goods and services	2.5	2.4	2.2	1.9	1.6			1.8	1.4	1.8	1.7	1.4	1.5	
Exports	31.8	31.5	31.5	32.3	31.9			29.3	32.0	32.1	31.9	31.8	31.4	
Imports	34.3	33.9	33.6	34.2	33.5			31.0	33.3	33.9	33.6	33.3	32.9	
Net non-debt creating capital inflows (negative)	3.8	9.0	7.8	0.9	1.9			8.0	1.3	2.6	1.2	1.4	1.5	
Automatic debt dynamics 1/	10.6	3.4	-4.1	-1.5	1.4			9.8	-2.0	-1.7	0.4	1.3	1.5	
Contribution from nominal interest rate	2.4	2.7	2.9	3.0	3.3			3.2	2.6	2.7	2.9	3.1	3.3	
Contribution from real GDP growth	-0.6	-1.0	-2.9	-2.5	-1.9			6.6	-4.7	-4.5	-2.5	-1.8	-1.8	
Contribution from price and exchange rate changes 2/	8.8	1.6	-4.0	-2.0	0.0			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	-2.1	-2.8	-0.6	0.4	8.2			-11.5	-2.9	1.4	-1.8	0.4	-0.5	
External debt-to-exports ratio (in percent)	294.1	328.7	338.8	327.1	363.7			412.7	360.9	362.3	360.4	366.1	373.8	
Gross external financing need (in billions of US dollars) 4/	836.6	827.0	901.9	890.6	967.7			1165.1	1198.9	1287.6	1356.2	1399.4	1472.4	
in percent of GDP	53.8	54.1	54.7	51.7	55.6			70.7	63.9	64.0	63.9	62.7	62.9	
Scenario with key variables at their historical averages 5/								**120.7**	**134.2**	**145.1**	**152.8**	**163.4**	**173.1**	**5.9**
Key Macroeconomic Assumptions Underlying Baseline														
Nominal GDP (US dollars)	1556.5	1528.0	1649.3	1721.8	1741.6			1647.1	1877.5	2013.1	2123.7	2230.6	2342.3	
Real GDP growth (in percent)	0.7	1.0	3.0	2.4	1.9	2.2	0.9	-5.4	4.4	4.1	2.3	1.7	1.7	
GDP deflator in US dollars (change in percent)	-14.4	-2.8	4.8	1.9	-0.7	0.4	7.6	-0.1	9.2	3.0	3.1	3.3	3.3	
Nominal external interest rate (in percent)	2.6	2.9	3.0	2.9	3.2	3.1	0.4	2.6	2.5	2.5	2.7	2.9	3.0	
Growth of exports (US dollar terms, in percent)	-13.5	-2.9	7.8	7.4	-0.2	3.9	9.7	-13.3	24.6	7.7	4.7	4.8	3.7	
Growth of imports (US dollar terms, in percent)	-9.4	-3.1	7.3	6.2	-1.0	3.9	8.9	-12.4	22.5	9.0	4.5	4.1	4.0	
Current account balance, excluding interest payments	-1.1	-0.3	0.1	0.6	1.3	-0.4	0.9	1.6	1.6	1.3	1.2	1.5	1.4	
Net non-debt creating capital inflows	-3.8	-9.0	-7.8	-0.9	-1.9	-4.5	3.0	-8.0	-1.3	-2.6	-1.2	-1.4	-1.5	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

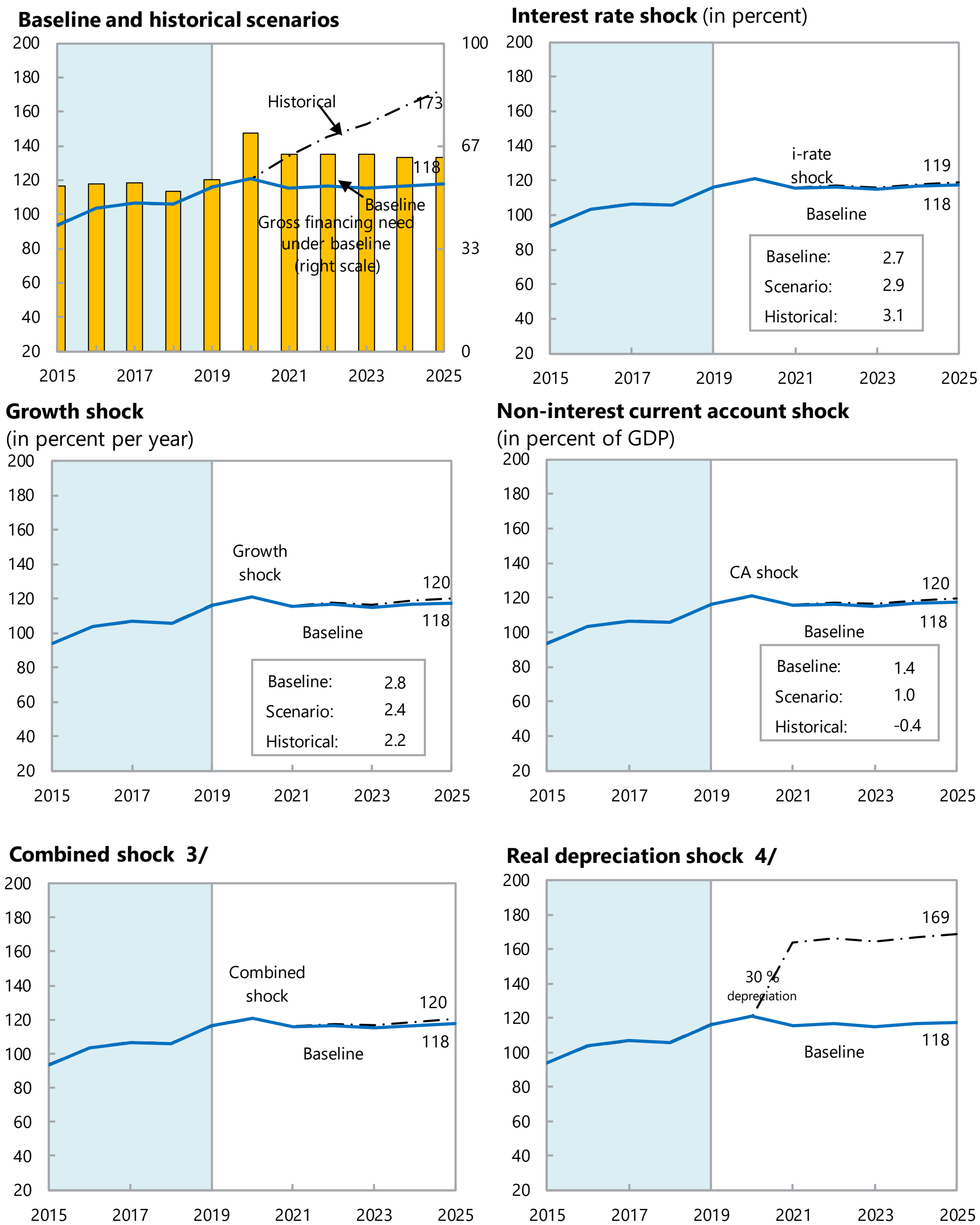
3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Figure 1. Canada: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2010.

Annex V. 2019 FSAP Key Recommendations and Implementation

Recommendations	Timeframe	Progress by end-January 2021
Bolstering the financial system's resilience and enhancing systemic risk oversight		
Raise required capital for mortgage exposures at both banks and mortgage insurers to fully account for through-the-cycle risks; increase risk-based differentiation in mortgage pricing (OSFI, AMF; DOF)	NT; MT *	OSFI: Its Model Risk Division conducted analyses regarding banks' residential mortgage models and will be prescribing additional requirements for probability of default (PD) calibration in the future. The CAR Guideline is being updated (public consultation in March 2021 and implementation targeted for Q1 2023) to require IRB banks' PDs to be based on a data sample that includes a minimum amount of stress period data to ensure that PD estimates are not watered down by benign conditions in the market. CMHC continues to tighten its eligibility requirements for its mortgage insurance program (last in July 2020). The AMF considered no further regulatory changes since the 2019 FSAP and does not plan any further changes for the time being.
Develop the policy framework for managing a housing market downturn (BOC, AMF, BCSC, OSC)	NT *	DOF: The Senior Advisory Committee (SAC) and Financial Institutions Supervisory Committee (FISC) continue to develop and maintain contingency planning and crisis management frameworks while monitoring vulnerabilities in the housing and mortgage markets. The BOC launched the Standing Term Liquidity Facility to provide emergency liquidity support to financial institutions and enhance the resilience of the Canadian financial system. It also formalized an interagency working group (previously informal and ad hoc in nature) to assess the need for and recommend policy measures related to housing market vulnerabilities, including contingency planning for a downturn. The OSFI made regulatory adjustments to support the financial and operational resilience of federally regulated financial institutions.
Modernize the systemic risk oversight framework, underpinned by a federal-provincial platform (potentially, HOA) to discuss systemic issues and formulate policy responses, supported by enhanced transparency (HOA, BOC)	NT *	BOC: The Heads of Regulatory Agencies (HoA) created the Systemic Risk Surveillance Committee (SRSC) in late 2019, to improve financial system monitoring and systemic risk assessment. This committee also incorporates views from the Canada Mortgage and Housing Corporation, Canada Deposit Insurance Corporation, BC Financial Services Authority and the Financial Services Regulatory Authority of Ontario. The group's work contributes to the BOC's financial system assessment as published through the Financial System Review. The Committee's work also helps inform discussions at the Senior Advisory Committee. For enhanced transparency, the Terms of Reference for the HoA and SRSC were made public. The FSR also now includes a box updating on the work of the HoA.
Develop a comprehensive systemic risk surveillance framework, supported by a more unified approach to data collection; address data gaps, particularly related to cross-sectoral exposures, unregulated nonbank financial intermediation, and funding market activities (BOC, competent authorities, governments) (BOC; competent authorities, governments)	NT/MT *	BOC: Addressing data gaps is included as an item in the SRSC ToR. Statistics Canada enhances the NBFI economic account to provide better balance sheet data for NBFI entities.

Recommendations	Timeframe	Progress by end-January 2021
Enhance risk monitoring of banks' funding, risk-taking by nonbanks, housing finance-related vulnerabilities, and cross-border and intra-system interconnectedness; carry out Canada-wide surveillance in key sectors such as banking and insurance (BOC lead; HOA, SAC; OSFI, AMF)	NT*	BOC: The BOC introduced its dynamic stress-testing model as part of its suite of top-down stress testing models. The BOC analyzes banks' funding liquidity and the risks of runoffs on different bank funding types and how it can force banks to re-optimize their lending ability across asset types. The BOC develops a framework that combines the financial firm network as perceived by investors and the actual network from balance sheet exposures. It will allow for simulation of contagion across various types of financial institutions and across multiple asset classes. The BOC kept analyzing cross-border funding and connectedness and concluded that there are no notable risks in that context. The BOC formalized an interagency working group (previously informal and ad hoc in nature) to assess the need for and recommend policy measures related to the housing market, including contingency planning for a downturn. AMF: Regarding capital and disclosure requirements at the solo level, the activities of Québec chartered insurers outside Canada is relatively small. The AMF closely follows the development of solo capital made by OSFI and will consider its application to Québec chartered insurers when it will be deemed necessary. CSA: The CSA is involved through participation at the HoA level.
Strengthen oversight of large public pension funds, and increase transparency of their financial disclosures (DOF, provincial governments)	NT	There are plans to consider whether enhanced oversight of large public pension funds and increased transparency of their financial disclosures is necessary.
Improving financial sector oversight		
Strengthen autonomy and governance of financial sector authorities, including BOC and OSFI (powers), and FICOM (overall); clarify the roles and responsibilities of the authorities in charge of overseeing systemically important FMIs (DOF, provincial governments; BOC; AMF, BCSC, OSC)	MT	DOF: OSFI has the required autonomy and governance to carry out its mandate. OSFI's guidelines are enforceable in practice as regulated entities recognize that OSFI has intervention powers that are legally enforceable. BOC: The BOC and the provincial securities commissions have overlapping mandates with respect to oversight of FMIs. They have established a memorandum of understanding and co-operate in all oversight matters. This proved effective during the pandemic and related financial market volatility, when the authorities met frequently, including with the FMIs, to discuss oversight matters. The BOC is solely responsible for resolution of FMIs and plans to establish memoranda of understanding with the securities commissions covering resolution. AMF: Operationalized its MoUs with the BoC and CDIC in 2018 through regular technical and quarterly executive meetings. The AMF and BOC met on a regular basis at the onset of the COVID-19 pandemic to identify and address emerging issues and continue to meet frequently to discuss all oversight matters for the D-SIFI under its supervision. CSA: The CSA and BOC continue to coordinate and cooperate with each other to ensure at the Provincial level (CSA) and Federal level (BoC) each continues to meet its mandate. This coordination and cooperation was documented through the establishment of an MOU "Respecting the Oversight of Certain Clearing and Settlement Systems" between certain CSA jurisdictions (AMF, BCSC & OSC) and the BoC in 2014, with a main objective to ensure we promote the safety and efficiency of the clearing and settlement systems. Further to the existing MOU, the BOC is working with the CSA to develop a second MOU for Resolution to ensure they continue

Recommendations	Timeframe	Progress by end-January 2021
		to coordinate and cooperate in the event an FMI is put into resolution by the BOC.
Complete the Cooperative Capital Markets Regulatory System initiative (DOF, provincial governments)	MT	Participating governments remain committed to establishing the Cooperative Capital Markets System. However, timelines for drafting the proposed legislative framework will need to be extended, given the current focus on combating the pandemic and managing the economic recovery, as well as provincial reviews of securities legislation. All participating governments have made significant investments in the Cooperative System, and work continues to develop the proposed legislative framework.
Enhance inter-agency cooperation, particularly between federal and provincial authorities, with additional MoUs (OSFI, AMF, other relevant provincial authorities)	NT *	OSFI: Finalizing MoU on information sharing among federal and provincial members of the HoA committee. More frequent and structured contact with provincial deposit-taking and insurance regulatory associations (CUPSA/CCIR). Recurring engagement with Quebec's financial services regulator (AMF) and presented exchange plan to map out various annual discussions. In conversation with several provincial regulators regarding increased information sharing. Initiated in 2021 a provincial engagement project that seeks to increase two-way dialogue between OSFI and provincial regulators and associations. At the beginning of 2019, federal and provincial regulators and securities commissions began meeting and working more closely together in discussing potential areas of systemic risk at the SRSC. This group is chaired by the BOC and reports to the HoA. AMF: No MoU between OSFI and the AMF has yet been signed. The AMF is still of the view that a more formal means of exchange of information between the two organizations is needed. CSA: The CSA is working on this recommendation in coordination with the HoA. On May 1, 2020, Heads of Agencies (HoA) agreed to terms of reference for the HoA and Systemic Risk Surveillance Committee (SRSC). The HoA also developed an MOU for sharing of confidential information among the HoA and SRSC, which was agreed to in principle at the HoA meeting in October 2020 and is expected to be signed in 2021.
Address shortcomings in the regulatory and supervisory frameworks related to credit risk of mortgage exposures; adopt a common loan forbearance framework in all jurisdictions (OSFI, AMF, other provincial credit union supervisors)	NT	OSFI does not intend to pursue the recommendation to adopt a common framework to monitor forborne exposures in all jurisdictions. OSFI will consult publicly in spring 2021 on proposed revisions to the capital treatment of mortgages backed by private mortgage insurers (PMIs). The revised treatment will increase capital requirements for these mortgages and will better align the capital treatment with the structure of the government guarantee provided to PMIs. AMF: Insofar as the AMF wants more integration and less multiplication of guidelines it intends to draft a single guideline that will include the accounting for expected credit losses and the definitions of non-performing loans and forbearance. The regulatory monitoring and the benchmarking exercise have already been carried out. Regarding the implementation agenda, considering that the Basel guidance on expected credit losses was published in 2015 and the one pertaining to non-performing loans was published in 2016, and also considering the fact that OSFI has already published its IFRS 9 Guideline Financial Instruments and Disclosures (2016), it is planned that the drafting of the AMF guideline will continue through the spring of 2021, and is expected to come into force in late fall 2021.

Recommendations	Timeframe	Progress by end-January 2021
Strengthen legal foundation underpinning insurance group-wide supervision; apply the regulatory framework more consistently to group-side supervision (OSFI, AMF; DOF, Québec government)	NT	OSFI's judges that its current arrangements to obtain information and apply prudential requirements for the insurance groups have functioned well in practice. Further innovations in this area may be considered as part of OSFI's ongoing work in developing a robust supervisory framework. AMF: The AMF discusses with the Quebec Ministry of Finance about possible legislative amendments to address its lack of legal powers over unregulated holding companies and to enhance its group-wide supervision capability.
Complete reforms in the areas of OTC derivatives and duties towards clients; increase the focus of oversight on high-impact firms; ensure the capacity to handle market-wide stress (CSA, relevant provincial governments)	NT	No information could be sourced related to this item during the mission.
Strengthening crisis management and safety net		
Task the SAC with responsibility of overseeing Canada-wide crisis preparedness, thus performing the roles of the coordination body at the federal level and the federal coordinator with key provincial authorities; strengthen CDIC's operational independence (MoF; SAC; DOF)	NT*	DOF: The agencies continue to develop and maintain inter-agency contingency planning and crisis management frameworks. Conducting regular tabletop exercises to test implement coordinated crisis preparedness measures aimed at addressing stress events under different scenarios.
Expand recovery planning to all deposit-taking institutions and resolution planning to those performing critical functions; further develop the valuation framework for compensation; adopt depositor preference; strengthen resolution powers (OSFI; AMF and CDIC; DOF and Québec government)	NT*	CDIC: Resolution planning for D-SIBs is advanced. All D-SIBs submit resolution plans to CDIC annually. CDIC continues to build out its plans for member institutions who are not considered systemic, but whose failure could generate adverse systemic effects. OSFI: All D-SIBs must have recovery plans, and OSFI uses a range of criteria to determine which other banks must prepare recovery plans. AMF: Expand recovery planning to all deposit-taking institutions and resolution planning to those performing critical functions. Recovery and resolution plans have been drafted for Desjardins Group (the only one performing critical functions). These documents are updated by Desjardins Group and the AMF to insure their development and maintenance. Further develop the valuation framework for compensation: Work is underway to develop a valuation framework for resolution. AMF is in the process of selecting a firm to support in the implementation of the valuation framework. Beginning of work is planned for spring of 2021. Adopt depositor preference: Work on depositor preference will have to be carried out jointly with the federal counterpart (CDIC) since the law allowing the introduction of this power is under federal purview. Strengthen resolution powers: Work on resolution is completed on a regular basis, which include the improvement of the resolution framework when deemed appropriate. ELA and Backup funding: Provincial indemnity has been put in place for the ELA. Technical meetings between the AMF and BOC should ensure smooth ELA operations. Discussions are underway with the Quebec ministry of Finance to formalize backstop funding arrangements.
Operationalize emergency lending assistance (ELA) with key provinces; improve testing to ensure smooth ELA operations (BOC; British Columbia, Ontario and Québec governments)	NT*	The BOC established information-sharing MoUs with prudential authorities and resolution authorities in all provinces except two Atlantic provinces which have small provincially regulated financial systems to facilitate timely ELA decision-making. Established a MoU (which includes an indemnity agreement as an annex) with the Quebec government with respect to provision of ELA to Desjardins.

Recommendations	Timeframe	Progress by end-January 2021
Further develop contingency plans for market-wide liquidity provision, particularly intervention in securities markets and foreign-currency liquidity provision (BOC; DOF, provincial governments)	NT *	The BOC expanded the range of liquidity facilities and asset purchase programs available to provide market-wide liquidity and support market functioning during the peak of the COVID-19 crisis.
Note: Institutions in the parenthesis are the agencies with leading responsibilities. The * denotes macro-critical. In terms of the timeframe, NT and MT stand for near-term (within one year) and medium-term (within 2–3 years).		

Annex VI. Rapid Testing to Get Ahead of the COVID-19 Crisis

1. **Canada is facing a resurgence of SARS-CoV-2 (COVID-19) infections.** The first wave of the virus peaked in May 2020 after being mitigated with a range of measures, including social distancing mandates, and closures of schools and non-essential businesses. These measures were effective in limiting the initial spread of the virus, but they also came at a significant economic and social cost. As the world waits for widespread rollout of vaccines and infections have been surging again across Canada, this raises the question: is there a complementary way (to the current strategies) to get ahead of the health and economic impacts of the virus? The short answer is yes.

2. **Since March 2020, a number of economists, including Nobel laureate Paul Romer, have proposed testing schemes to control the pandemic.**[1] They clearly show that even imperfect tests, when used frequently and widely in combination with uniform mask usage, can dramatically slow the spread of the virus. Indeed, South Korea and Taiwan—countries with centralized and consistent COVID-19 strategies—contained the virus early in the pandemic in large part due to meticulous testing and tracing. In most countries, however, testing capacity has been constrained, with test results often only available with a significant delay. While Polymerase Chain Reaction (PCR) tests—the cornerstone of most testing strategies— are very effective, they are also costly to produce and difficult to scale up.

3. **Greater use of rapid tests could help.** The technology for rapid, self-administered, COVID-19 tests that can produce results in minutes has been available for months. However, these tests have not been effectively deployed to combat the pandemic globally, largely due to informational frictions and regulatory barriers. This may be changing. The European Union has allocated €100 million for such tests. And recently, the U.S. Administration’s National Strategy for the COVID-19 Response has vowed to scale and “expand the rapid testing supply and double test supplies and increase testing capacity”, fund rapid test acquisition, and work to spur development and distribution of at-home tests and work to ensure that tests are widely available.[2]

4. **In Canada, a recently established COVID-19 Testing and Screening Expert Advisory Panel declared its Priority strategies in January 2021, supporting the use of rapid tests for screening.** The federal government has also distributed more than 25 million rapid tests, though only up to 17 percent of those had been deployed as of February 22, 2021. Moreover, a consortium of some of the country’s largest companies

[1] Paul Romer, L. Kotlikoff, James Stock, A. Atkeson contributed with research, also jointly with the epidemiologist Michael Mina.

[2] https://www.whitehouse.gov/wp-content/uploads/2021/01/National-Strategy-for-the-COVID-19-Response-and-Pandemic-Preparedness.pdf

launched a rapid testing program with the aim of protecting their employees and publishing a playbook for businesses across Canada on how to reopen safely relying on rapid tests.

5. The main concern raised about rapid tests relates to their reliability. However, these concerns are overblown. First, rapid tests have become increasingly reliable over time, with current sensitivity rates standing at over 90 percent.[3] Second, it is important to understand that the key aim of these tests is to identify infectious individuals, not infected individuals; in contrast, PCR tests show positive results long after an individual is infectious. That, together with relatively long turnaround times to get test results, limits their usefulness in mitigating the spread of the virus. Third, it is easy to show that even imperfect but frequent testing could dramatically reduce virus spread.[4]

6. The current cost of a single rapid test ranges between $1.30 and $30 (CAD), with ample room for economies of scale and other technological improvements to lower the cost further. To put this into perspective, testing every Canadian at a cost of $6.50 per test every day for one month would cost just 0.33 percent of GDP. By way of comparison, the federal government has spent around 15 percent of GDP in 2020 on fiscal support for firms and households to help mitigate the economic impact of the pandemic in 2020. The tests could be self-administered at home and thus would not involve any additional burden on medical personnel and equipment.

7. Proactive identification and isolation of infectious individuals should be a key part of any strategy to mitigate the spread of infectious diseases, especially since it will take time for vaccinations to stamp out the virus. Deploying moderate resources to implement a large-scale and decentralized rapid-testing strategy could deliver extremely large payoffs at relatively low cost.

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[3] Comparing PCR tests with rapid tests is not straightforward. A PCR test can show a positive result long after a person is not infectious. Antigen tests, on the other hand, are designed to detect viable virus. Igloi et al. (2020) and Lindner et al. (2020) are recent studies that evaluate rapid tests. Lindner et al. (2020) conclude that 97 percent of individuals for whom virus could be cultured were detected by a rapid test.

[4] See research by Atkeson et al (2020), Baquaee et al (2020), Dizioli and Pinheiro (2020), and Romer (2020) for more illustrations of the effectiveness of "screening testing" in refined economic-epidemiological models.

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INTERNATIONAL MONETARY FUND

CANADA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 25, 2021

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of January 31, 2021)

Membership Status: Joined 12/27/1945; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11,023.90	100.00
Fund holdings of currency	7970.93	72.31
Reserve Tranche Position	3063.57	27.79
Lending to the Fund		
New Arrangements to Borrow	166.00	

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	5,988.08	100.00
Holdings	6,094.36	101.77

Outstanding Purchases and Loans: None.

Latest Financial Arrangements: None.

Projected Obligations to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

Forthcoming

	2021	2022	2023	2024	2025
Principal					
Charges/Interest	0.08	0.08	0.08	0.08	0.08
Total	0.08	0.08	0.08	0.08	0.08

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Exchange Rate Arrangements: The authorities maintain a “free floating” exchange rate regime. The Canadian authorities do not maintain margins with respect to exchange transactions. However, the authorities may intervene to maintain orderly conditions in the exchange market. There are no taxes or subsidies on purchases or sales of foreign exchange. Canada has accepted the obligations of Article VIII, Sections 2, 3, and 4 (a), and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices. Canada maintains exchange restrictions for security reasons, based on UN Security Council

Resolutions, that have been notified to the Fund for approval (most recently in June 10, 2014) under the procedures set forth in Executive Board Decision No. 144–(52/51).

Last Article IV Consultation: The Staff Report for the 2019 consultation with Canada was considered by the Executive Board on June 19, 2019 (IMF Country Report No. 19/175). Canada is on a 12-month consultation cycle. The Financial Sector Assessment Program (FSAP) took place in 2000, and was updated in 2008, 2014, and 2019.

2021 Article IV Consultation: Discussions took place by video conference during February 1–12. The team comprised Messrs. Christou (head), Andrle, and Matheson, Ms. Pan (WHD), and Mr. Gross (MCM). Messrs. Parry and Black (both FAD) joined the climate change meetings. Ms. Levonian (ED), and Messrs. Werner and Srinivasan (both WHD) attended the concluding meeting. Ms. Vasishtha and Mr. Weil (OED) joined many meetings. Ms. Sirbu (WHD) provided valuable assistance. The mission met with Deputy Prime Minister and Finance Minister Freeland, Governor Macklem, Deputy Minister Sabia, Deputy Governors Beaudry, Gravelle, and Schembri, Superintendent Rudin, other senior officials, regulators, provincial governments, representatives from the financial and business sector, academics, and think tanks. The concluding statement was issued on February 16.

Technical Assistance: Not Applicable.

Resident Representative: Not Applicable.

STATISTICAL ISSUES

The quality, coverage, periodicity, and timeliness of Canada's economic data are considered to be adequate both in the context of the Article IV consultation and for purposes of ongoing surveillance. Since April 2017, Canada has adhered to the Fund's Special Data Dissemination Standard (SDDS) Plus, the third and highest tier of the three Fund's Data Standards Initiatives. The purpose of the SDDS plus is to assist statistically advanced countries with the publication of comprehensive economic and financial data according to an advanced release calendar with specific timeliness and frequency.

Real Sector. Statistics Canada provides timely and adequate data in monthly, quarterly, and annual frequency thereby facilitating the analyses of economic developments and policy assessments within a quantitative macroeconomic framework. In October 2012, Statistics Canada started aligning the Canadian System of National Accounts (CSNA) with the SNA2008 international standard. The changes introduced in the CSNA2012 included, among others, capitalization of research and development, move to replacement cost-based valuation of consumption of fixed capital, and valuing equity more consistently at market price. Additional changes were introduced with the 2014 release of the CSNA, which for the most part did not have a significant impact on GDP and represented the development of new accounts, improved integration between the CSNA and Government Finance Statistics, additional detail, and presentational changes that better align with international standards (see, Statistics Canada). In 2015 Statistics Canada carried out comprehensive revision to the Canadian System of Macroeconomic Accounts (CSMA). The four main sources of revision with that release of the CSMA were: the integration of Government Finance Statistics, the improved treatment of defined benefit pension plans, the measurement of financial services purchased by households', and updated measures of national wealth.

Fiscal Sector. Statistics Canada provides timely quarterly and annual data (a Statement of Government Operations along with a Balance Sheet) on the general government and its subsectors, following the *Government Finance Statistics Manual 2014* (*GFSM 2014*) recommendations. It also compiles data on the functional classification of expenditure. In addition, the Department of Finance Canada provides monthly and annual data on the federal government's budget (according to the national presentation) and tax policies. The provided data enable adequate assessment of the impact of fiscal policy measures on Canada's economic performance.

Financial Sector. The Bank of Canada and OSFI provide monthly and quarterly data on the broad range of financial variables. However, the 2013 FSSA Update recommended that financial sector data collection and dissemination should be expanded with a view to enhancing coverage, regularity, and availability of time-series to facilitate analysis.

Monetary Sector. The Bank of Canada provides timely and adequate coverage of daily, weekly, monthly, and quarterly data related to the monetary sector.

Canada reports data on several series indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial Soundness Indicators. Canada reports all core financial soundness indicators (FSIs) and most additional FSIs for all sectors.

External Sector. Statistics Canada provides timely information on a quarterly frequency on the balance of payments, external debt, and the international investment position. Department of Finance Canada provides monthly data on Official International Reserves in a format comparable to the IMF's reserve data template, thus enabling adequate surveillance.

Canada: Table of Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Same day	Same day	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	November 25, 2020	December 1, 2020	W	W	W
Reserve/Base Money	November, 2020	December 18, 2020	M	M	M
Broad Money	November, 2020	December 18, 2020	M	M	M
Central Bank Balance Sheet	February 3, 2021	February 9, 2021	W	W	W
Consolidated Balance Sheet of the Banking System	November, 2020	January 20, 2020	M	M	M
Interest Rates[2]	Same day	Same day	D	D	D
Consumer Price Index	November, 2020	December 18, 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2020 Q3	December 18, 2020	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	2020 Q3	December 18, 2020	Q	Q	Q
Stock of Central Government and Central Government-Guaranteed Debt	2020 Q3	December 18, 2020	Q	Q	
External Current Account Balance	2020 Q3	December 18, 2020	Q	Q	Q
Exports and Imports of Goods and Services	2020 Q3	December 18, 2020	Q	Q	Q
GDP/GNP	2020 Q3	December 18, 2020	Q	Q	Q
Gross External Debt	2020 Q3	December 18, 2020	Q	Q	Q
International Investment Position[5]	2020 Q3	December 18, 2020	Q	Q	Q

1 Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
2 Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
3 Foreign, domestic bank, and domestic nonbank financing.
4 The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
5 Includes external gross financial asset and liability positions vis-à-vis nonresidents.
6 Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

Statement by the IMF Staff Representative
March 12, 2021

1. This statement provides information that has become available since the staff report was finalized. This information does not alter the thrust of the staff appraisal.

2. National accounts data for the fourth quarter of 2020 were released. The data confirmed that real GDP contracted by 5.4 percent last year. At the end of 2020, real GDP was still about 3 percent below the (pre-pandemic) level seen in February 2020. Moreover, according to national accounts data, Canada's overall fiscal deficit as a share of GDP was 10.7 percent in 2020, well-below consolidated estimates based on federal and provincial government projections. Nevertheless, staff continue to expect Canada's gross debt to have increased from 89 percent of GDP in 2019 to around 115 percent of GDP in 2020.

3. Latest high frequency indicators point to a solid recovery. The flash estimate for monthly real GDP growth in January was 0.5 percent, above market expectations of more subdued growth in the month (due to tighter COVID-19-related restrictions in many parts of the country). Also, export growth in January was strong, with broad-based increases across all product categories; the trade surplus was $1.4 billion in the month—the first surplus since May 2019.

4. The decline in new COVID-19 cases has stalled recently, and although the vaccine rollout remains slow it is set to gather momentum. New cases peaked in early January and have stabilized at around 2,900 cases on a rolling 7-day average basis, a level comparable to that seen in early November. The rollout of COVID-19 vaccines remains slow due to supply bottlenecks. As of March 9, 5.1 percent of the Canadian population had received at least one vaccine dose. However, in recent comments, Prime Minister Trudeau indicated that supply bottlenecks will soon ease with the delivery of more vaccines in the coming weeks. By the end of March, Canada should have access to a total of 8 million vaccine doses, up from 6 million doses that were originally committed.