



CANADA

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2019

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 2019 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 June 19, 2019 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 June 19, 2019, following discussions that ended on May 15, 2019, 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 May 29, 2018.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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IMF Executive Board Concludes 2019 Article IV Consultation with Canada

On June 19, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Canada. The 2019 Article IV focused on policies to secure sustainable growth and a resilient financial system.

Growth has slowed to a more sustainable level following the stellar pace set in 2017. Several rounds of macroprudential measures, provincial and municipal tax measures, and tighter monetary policy have contributed to a reduction in housing-related financial stability risks. Private consumption and residential investment have decelerated, and a slowing global economy and low oil prices have dampened exports and business investment. A deal to overhaul NAFTA has been signed and awaits legislative approval, but trade tensions between the U.S. and its major trading partners continue to cast a shadow over the outlook.

Real GDP growth is projected to slow to 1.5 percent in 2019 and rise again in 2020 as the effects of a temporary slowdown in oil-related activity fades. Demand for exports will be supported by a robust U.S. economy and reduced uncertainty related to the approval of USMCA, contributing to a narrowing of the current account deficit. Business investment is expected to benefit from the new federal tax provision on investment expensing, while oil pipeline constraints will continue to weigh on investment in the energy sector. Over the medium-term, weak external competitiveness, low productivity growth, and population aging will limit potential growth to around 1.7 percent.

Risks to the outlooks are tilted to the downside. A key domestic risk is a sharp correction in the housing market, particularly if accompanied by a rise in unemployment and a collapse in private consumption, which could spark additional risks to financial stability and growth. External risks include a larger-than-expected global growth slowdown, a sharp tightening of global financial conditions, or an escalation of trade tensions between the U.S. and its major trading partners, which could include USMCA failing to get legislative approval. Against this backdrop, Canada should persevere with policies that preserve financial stability and focus efforts on supporting long-term growth.

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.

Executive Board Assessment²

Directors commended the Canadian authorities for their sound management of the economy and progress in reducing financial sector vulnerabilities. They noted that growth has slowed to a more sustainable level and inflation is well contained. The economic outlook is nevertheless susceptible to risks, including from housing market imbalances, high household debt, and continued trade tensions. Going forward, it would be important to rebuild policy buffers, preserve financial stability, and boost productivity and competitiveness.

Directors agreed that fiscal consolidation should remain gradual and growth-friendly. They welcomed the authorities' commitment to preserve Canada's low debt advantage and recommended using unexpected fiscal savings to reduce deficit and debt. They encouraged provinces with high deficits or high debt to make the necessary fiscal adjustment. Many Directors saw the benefits of well-designed fiscal rules in strengthening the credibility and transparency of the fiscal framework, although a number of Directors noted that, given Canada's sound fiscal management, an explicit fiscal rule has limited value added and could limit the ability of fiscal policy to respond to shocks. Directors concurred that if downside risks materialize, automatic stabilizers should be allowed to operate fully. They welcomed ongoing efforts to review key elements of the tax system, with a view to enhancing its efficiency and competitiveness.

Directors supported the current accommodative stance of monetary policy. Given the balance of risks and uncertainty around the outlook, they agreed that monetary tightening should proceed with caution, guided by incoming data.

Directors noted that macroprudential measures have mitigated housing-related risks to financial stability. They encouraged the authorities to stand ready to adjust macroprudential tools if needed, and to harmonize provincial and municipal tax measures into broad-based tax measures targeted at speculative activity more generally. Supply-side policies to improve housing affordability would help address housing imbalances on a more durable basis.

Directors welcomed the assessment that the overall financial system is healthy and resilient. They also noted that the informal framework for systemic risk surveillance and crisis management has served Canada well. While acknowledging that there is no one-size-fits-all solution, Directors encouraged continued efforts to modernize the arrangement, and strengthen microprudential oversight and safety nets along the lines of the FSAP recommendations. They welcomed Canada's voluntary participation in the Fund's enhanced governance framework on

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>.

the supply and facilitation of corruption. They looked forward to further progress on strengthening the AML/CFT and anti-foreign bribery frameworks.

Directors welcomed the authorities' commitment to trade diversification and free trade. They commended Canada for leading an international effort to improve the multilateral trade system and for rapid ratification of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership. Directors encouraged all levels of government to work together to continue reducing internal trade barriers and better facilitate infrastructure investment.

Directors stressed the importance of boosting long-term growth. They supported recent initiatives to promote a more productive workforce, a more competitive business environment, and greener infrastructure.

Canada: Selected Economic Indicators
(Percentage change, unless otherwise indicated)

Nominal GDP (2018): Can\$ 2,217 billion (US\$ 1,711 billion)

Quota: SDR 11,023.9 million

GDP per capita (2018): US\$ 46,243

Population (2018): 37.0 million

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

	2015	2016	2017	2018	Projections	
					2019	2020
Output and Demand						
Real GDP	0.7	1.1	3.0	1.8	1.5	1.9
Total domestic demand	-0.1	0.7	3.9	1.7	0.6	1.8
Private consumption	2.3	2.2	3.5	2.1	0.7	1.3
Total investment	-6.8	-4.4	6.5	-0.1	0.6	3.7
Net exports, contribution to growth	0.9	0.4	-1.1	0.1	0.7	0.1
Unemployment and Inflation						
Unemployment rate (average) 2/	6.9	7.0	6.3	5.8	5.9	6.0
CPI inflation (average)	1.1	1.4	1.6	2.2	1.7	1.9
Saving and Investment 1/						
Gross national saving	20.3	19.7	20.7	20.4	20.2	21.1
General government	3.8	3.7	3.8	3.5	3.0	2.9
Private	16.5	16.0	16.9	16.8	17.2	18.2
Personal	5.4	3.9	3.8	2.7	2.3	2.7
Business	11.0	12.1	13.1	14.1	14.9	15.5
Gross domestic investment	23.8	22.9	23.5	23.0	22.9	23.3
General Government Fiscal Indicators 1/ (NA basis)						
Revenue	40.0	40.1	39.9	40.1	39.8	39.9
Expenditures	40.0	40.6	40.3	40.6	40.6	40.7
Overall balance	-0.1	-0.4	-0.3	-0.4	-0.8	-0.8
Gross Debt	91.3	91.8	90.1	89.7	87.5	84.9
Net debt 3/	28.5	28.8	27.6	26.8	26.7	25.9
Money and Credit (Annual average)						
Household Credit Growth	4.9	5.5	5.5	4.0	2.6	4.2
Business Credit Growth	9.3	5.3	8.2	6.5	4.0	7.2
Three-month treasury bill 2/	0.5	0.5	0.7	1.4	1.7	1.9
Ten-year government bond yield 2/	1.5	1.3	1.8	2.3	2.3	2.5
Balance of Payments						
Current account balance 1/	-3.5	-3.2	-2.8	-2.6	-2.7	-2.2
Merchandise Trade balance 1/	-1.2	-1.3	-1.2	-1.0	-1.8	-1.6
Export volume (percent change)	3.4	0.6	0.7	3.1	2.4	2.6
Import volume (percent change)	0.3	-0.4	4.7	3.3	-0.1	2.1
Terms of trade	-7.1	-1.2	3.3	0.3	-4.6	0.3

Sources: Haver Analytics and Fund staff calculations.

1/ Percent of GDP.

2/ In percent.

3/ Excludes equity (authorities' definition).



CANADA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 29, 2019

KEY ISSUES

Context. Growth has slowed to a more sustainable level and financial vulnerabilities have eased. But risks remain. Household debt is high, the United States–Mexico–Canada Agreement (USMCA) awaits legislative approval, and ongoing trade tensions between the United States (U.S.) and its major trading partners are weighing on the global outlook.

Focus of consultation. The 2019 Article IV focused on policies to secure sustainable growth and a resilient financial system. The staff report incorporates findings from the 2019 Financial Sector Assessment Program (FSAP), which is conducted every five years for countries the IMF deems as having a systemically important financial sector. The FSAP is a comprehensive analysis of a country's financial sector stability and soundness.

Key Policy Messages:

Canada should stay the course to preserve financial stability and focus policies on supporting long-term growth:

- With growth slowing, fiscal consolidation should be gradual. The planned adjustment is appropriate at the federal level, but provinces should do more. Federal and provincial frameworks could explicitly incorporate fiscal rules to better demonstrate commitment to fiscal sustainability over the long term. Monetary policy should be on hold until sustained progress is made in closing the output gap.
- The current macroprudential policy stance is appropriate, and its effects should not be diluted. To durably address affordability concerns, governments at all levels should collaborate to expand housing supply. The framework for systemic risk oversight and crisis management has worked well, but there is a case for modernizing the arrangement. Macroprudential oversight should also be complemented with stronger microprudential supervision and safety nets.
- There are significant opportunities for productivity gains from reducing domestic barriers to inter-provincial trade. This is a longstanding issue that requires a sustained and concerted collective effort to address. In this context, a more detailed strategic infrastructure plan is needed to prioritize projects that best serve Canada's long-term interests, including facilitating inter-provincial trade. Federal and provincial authorities should also work together to better facilitate the flow of federal infrastructure funds.

Approved By
Krishna Srinivasan
(WHD) and Vitaliy
Kramarenko (SPR)

Discussions took place in Toronto and Ottawa during April 29–May 7, and May 15, 2019. The team comprised Ms. Lim (head), Messrs. Alvarez, Krznar, and Matheson (all WHD). Mr. Andrle (RES) join the mission during May 1–3, 2019. Ms. Pan and Mr. Ochoa (WHD) provided valuable assistance. Ms. Levonian (ED), Mr. Werner (WHD), and Mr. Shabsigh (MCM) attended the concluding meeting in Ottawa. Mr. Weil (OED) accompanied the mission for parts of the trip. The mission met with Finance Minister Morneau, Governor Poloz, Superintendent Rudin, Deputy Minister Rochon, Deputy Governors Beaudry, Schembri, and Patterson, other senior officials, regulators, provincial governments, representatives from the financial and business sector, academics, and think tanks. The concluding statement was issued on May 21, 2019.

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CONTEXT: RISKS EVOLVING IN ELECTION YEAR

1. Over the past five years, Canada has employed a judicious mix of policies to support inclusive growth and reduce vulnerabilities in the financial system. The use of fiscal space combined with accommodative monetary policy at the onset of the 2014 oil price shock was effective in overcoming the recession in 2015. The economy posted the strongest growth rate among G7 economies in 2017 and the unemployment rate fell to its lowest level in forty years. The positive economic momentum carried through to 2018 and the government took the opportunity to push through several important reforms to boost productivity growth. A deal to overhaul the North American Free Trade Agreement (NAFTA) was signed, the Canada Infrastructure Bank opened for business, and tax allowances for business investment were expanded to help preserve Canada's tax competitiveness following the 2018 U.S. Tax Cuts and Jobs Act. With the policy rate kept low amid a booming housing market, macroprudential policy was tightened to slow the rise in household debt and to enhance the resilience of the financial system.

2. Risks are evolving as federal elections approach. Growth has slowed to a more sustainable level following the stellar pace set in 2017. A slowing global economy and low oil prices, aggravated by domestic pipeline constraints, have dampened exports and business investment, while private consumption and residential investment—important contributors to Canada's recent rapid growth—have decelerated in line with the slowdown in the housing market, rising interest rates, and slower real income growth. While the deal to overhaul NAFTA was signed, the new USMCA awaits legislative approval and trade tensions between the U.S. and its major trading partners continue to cast a shadow over the economic outlook.

3. Canada should continue to preserve financial stability and focus policies on supporting long-term growth. Several rounds of macroprudential measures, provincial and municipal tax measures, and tighter monetary policy have contributed to a reduction in housing-related financial stability risks. The authorities have been under pressure to ease macroprudential policy or introduce new initiatives to buttress housing activity. This would be ill-advised. Household debt remains high and a gradual slowdown in the housing market is desirable to reduce vulnerabilities. Looking ahead, policy priorities should focus on ensuring that the financial system remains sound and resilient, cooperation between federal and provincial governments is enhanced, and structural reforms target productivity growth.

4. Traction of past advice has been strong. Staff and the authorities have shared the same views in many policy areas, including: (i) using available fiscal space to support the economy and to keep monetary policy accommodative until inflation pressures emerge; (ii) adjusting macroprudential policy to tackle housing sector vulnerabilities and mitigate financial stability risks; (iii) collecting more comprehensive and timely data on real estate transactions; and (iv) investing in infrastructure and structural reform to revitalize productivity and raise potential growth. Staff's recommendation to introduce a debt anchor and an operational fiscal rule, however, has not been adopted.

RECENT DEVELOPMENTS

A. Growth Slows to a More Sustainable Level

5. The economy grew by 1.8 percent in 2018, slightly below market expectations

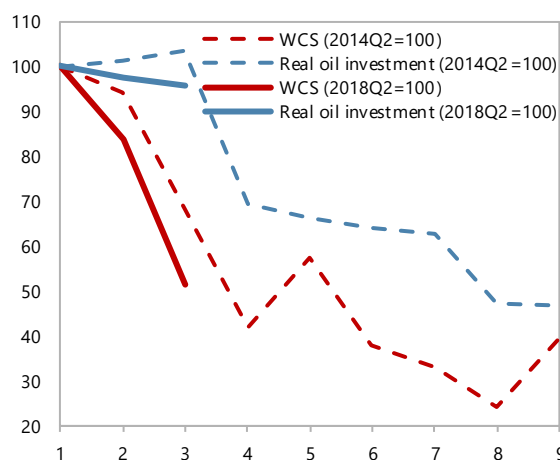
(Figure 1, Table 1). GDP growth was robust in the first three quarters of the year, averaging 2 percent annualized, but trickled to 0.4 percent in the last quarter.

- *Private consumption grew by 2.1 percent, the slowest pace in five years.* Consumer credit growth declined as households adjusted to higher interest rates. Despite strong employment figures (Figure 2), annual wage growth remained between 2-3 percent, largely due to a moderation of wage growth in the oil-producing regions.

- *Business investment rose slightly, with an increase in non-residential investment offset by a decline in residential investment.* The decline in housing market activity (Figure 3) was a drag on residential investment but challenges in the Canadian oil sector, including delays in pipeline projects and uncertainty about the regulatory process, also weighed on overall investment (Figure 4).¹ The Bank of Canada (BOC) estimates that the decline in oil prices in the second half of 2018 will reduce GDP by 0.5 percent by the end of 2020. While significant, this amounts to one quarter of the effect seen during the 2014-16 oil price decline.²

Canada: Oil Market Dynamics after Price Peak: 2018 vs 2014

(Index, peak period=100)



Sources: Bloomberg; Haver Analytics and IMF staff calculations.

- *Net exports were strong in early 2018 but a 15 percent terms of trade decline later in the year kept the trade balance in deficit.* The current account deficit narrowed slightly to 2.6 percent of GDP (Figure 5, Table 2). Overall, the external position was weaker than justified by fundamentals and desirable policies (Annex 1).

¹ Bill C-69, the pending legislation that overhauls the review and approval process for energy, mining and other major projects under federal jurisdiction, has been met with stiff opposition from the industry. The legislation broadens the scope of assessments, looking at not only the environmental impact but at issues such as sustainability, gender concerns, health and the government's commitment to achieve reconciliation with Indigenous people. It has passed the Commons and is now before the Senate.

² The smaller impact is due to two factors: (1) The price drop in 2018 was three times smaller than in the 2014-16 episode; and (2) the share of the Canadian oil and gas sector in total business investment has halved since 2014 (from 30 percent to 15 percent).

6. Core inflation has remained stable. All three core inflation measures (CPI-trim, CPI-median, and CPI-common) have been hovering around 2 percent, the mid-point of the central bank's target range (Figure 6). Annual headline inflation temporarily rose to 2.8 percent in mid-2018, driven by a spike in energy prices, but subsequently fell back towards the target by the end of the year. The BOC has gradually increased the policy interest rate by 125 basis points to 1.75 percent since the monetary tightening phase began in July 2017. Over this period, the 5-year mortgage rate has increased by around 80 basis points to 4.5 percent. The yield curve has inverted recently, reflecting changing expectations about the outlook and the monetary policy stance (Figure 7).

7. The overall fiscal stance was broadly neutral in 2018, but with major differences across the federal and provincial levels. The federal government cyclically-adjusted balance rose from a surplus of 0.1 percent of potential GDP in 2017 to a surplus of 0.4 percent of potential GDP in 2018 (Tables 3 and 4), largely owing to a rise in tax revenues. On the other hand, the overall cyclically-adjusted provincial deficit expanded sharply from 0.6 percent of potential GDP in 2017 to 1.1 percent of potential GDP in 2018 due to a combination of falling revenues and increased spending. In 2018, the Ontario budget deficit almost doubled to around Can\$11.7 billion following a change to the accounting treatment of income from the Fair Hydro Plan and two public pension plans,³ and the Alberta's projected deficit narrowed because of higher oil revenues. Overall, the cyclically-adjusted general government deficit widened slightly to 0.2 percent of potential GDP.

8. A combination of macroprudential measures and tighter monetary policy has made mortgage financing more expensive.⁴ Most mortgages are renewed every five years. Since the bulk of mortgages falling due over the next year have contractual rates below the current mortgage rate, households' debt service is expected to rise by 0.4 percentage points to 15.3 percent of disposable income.⁵ In addition, for uninsured mortgages, all federally regulated financial institutions are required to test the mortgage-servicing ability of new borrowers and households seeking refinancing from different lenders at an interest rate 200 basis points higher than the contracted rate, or the benchmark rate, whichever is higher. Provincial and municipal tax measures have also dampened price expectations in the Vancouver and Toronto areas.⁶

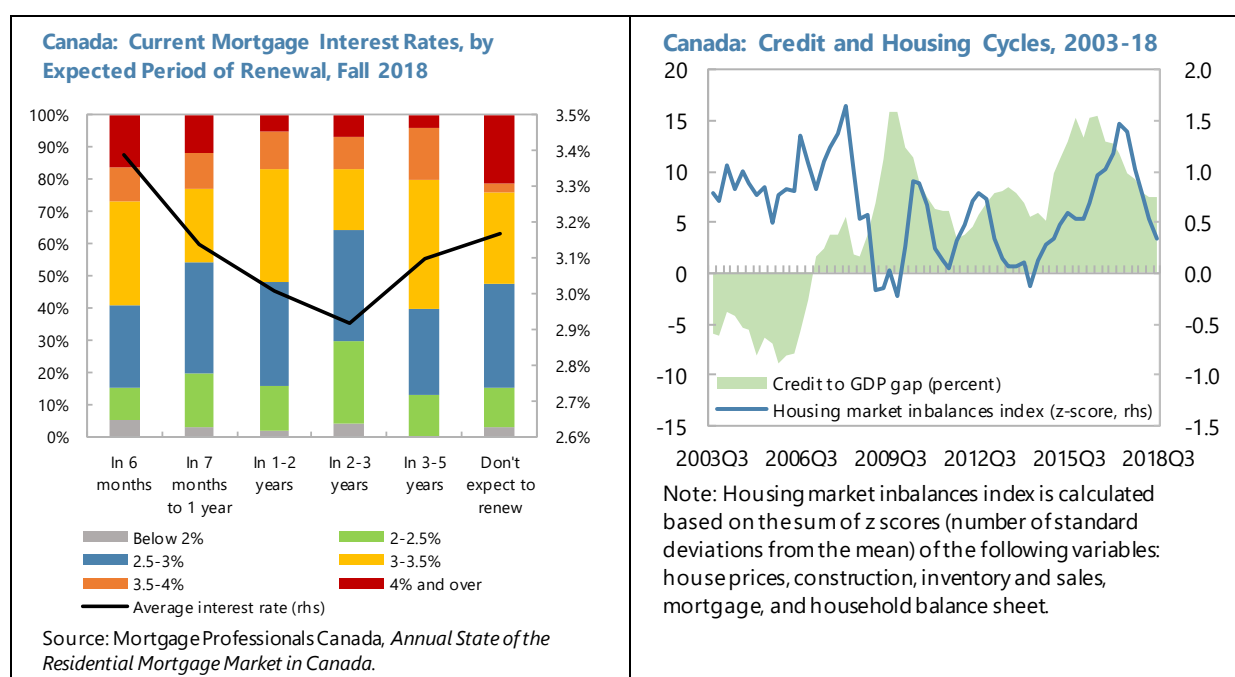
³ The new government in Ontario adopted the Auditor General's recommended accounting treatment.

⁴ See 2017 Selected Issues Papers, "Macroprudential Tools at Work in Canada", by Z. Arvai, I. Krznar, and Y. Ustyugova and Annex 4. A mortgage rate stress test was introduced in October 2016 for high LTV ratio (above 80 percent) insured mortgages and in January 2018 for low LTV ratio (80 percent or less) uninsured mortgages.

⁵ Roughly 20 percent of mortgages are refinanced every year; for a Can\$1.5 trillion market, this would imply Can\$300 billion (13.6 percent of GDP) are refinanced every year.

⁶ A 15 percent non-resident property transfer tax was introduced for the Toronto and Vancouver areas between 2016–17. In January 2018, British Columbia (B.C.) increased the tax to 20 percent and expanded its geographic coverage. B.C. also introduced a new speculation and vacancy tax that targets foreign and domestic speculators that own residential property in B.C. but do not pay income taxes in B.C. The vacancy tax ranges from 0.5 percent on secondary homes left vacant by B.C. residents to 2 percent for foreign-owned properties left vacant.

9. As a result, the housing market is softening. Residential mortgage credit growth has slowed to just 3.1 percent, a historical low, and the credit gap has declined to 5 percent of GDP. While the stock of household debt is still high at 176 percent of disposable income, the number of new mortgages extended to highly indebted borrowers (defined as those with loan-to-income ratios above 450 percent) has fallen sharply, declining by 39 percent in the year to mid-2018.⁷ Nationwide, house prices are 2.5 percent lower than the peak in mid-2018. In Toronto, Hamilton, and Vancouver, declines in house prices have narrowed the gaps between actual and “attainable” prices.⁸ Nevertheless, staff estimates that house prices in these cities remain overvalued by around 50 percent (Figure 8).



⁷ The share of new high LTV-ratio mortgages with LTI above 450 percent fell from 20 percent to 6 percent between 2016 and mid-2018, and the share of low-LTV ratio mortgages with LTI over 450 percent fell from 20 percent in mid-2017 to 14 percent in mid-2018.

⁸ Attainable house prices are estimated by assessing households' borrowing capacity based on household income, mortgage interest rates and leverage requirements (e.g. LTV and debt service to income ratios). Historically, house prices have moved rapidly in response to increases in households borrowing capacity. Actual house prices are compared with estimates of “attainable” house prices to determine whether they are aligned. If actual house prices are above “attainable” house prices (e.g. in Hamilton, Toronto and Vancouver), house prices are considered overvalued with respect to fundamentals. See Chapter 1 of Selected Issues Papers: “Assessing House Prices in Canada”, June 2019.

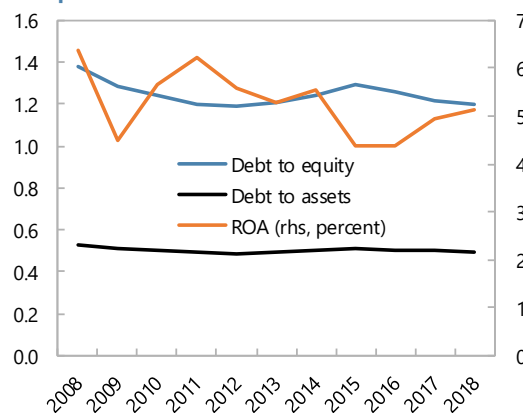
10. Corporate debt is high, but the balance sheet of the non-financial corporate sector remains solid.

Corporate profitability has recovered from the economic slowdown three years ago and leverage has declined. Nevertheless, firms in the oil and gas, and mining sectors continue to show weak earnings, which aggravate their debt burden. Overall, the energy sector has performed relatively poorly in the TSX compared with banking and technology stocks.

11. The banking sector posted strong profits and sizable capital buffers but has become more reliant on short-term foreign currency funding (Table 5).

Total assets of the banking sector have increased by 50 percent since end-2013, with total claims on nonresidents rising to 42 percent of banking sector assets (from 31 percent). Banks have steadily improved their capitalization, benefiting from universal banking business models that have generated solid earnings in the low interest rate environment. The aggregate Tier 1 capital ratio rose to 13.2 percent and the NPL ratio was low at 0.4 percent of total loans in 2018Q4. Banks rely on a mix of domestic and foreign currency funding, with foreign currency funding (54 percent of total funding) largely used for overseas operations. The six D-SIBs dominate the sector with a 90 percent market share.⁹

Canada: Leverage and Profitability of the Corporate Sector



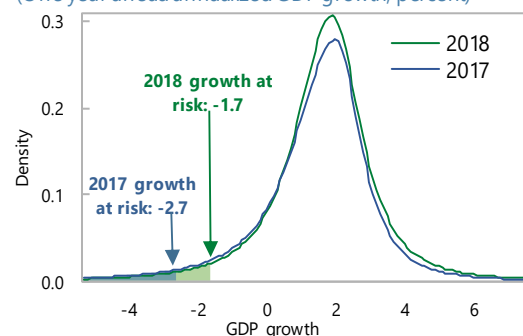
B. Macrofinancial Vulnerabilities have Declined but Remain Substantial

12. Growth-at-risk analysis points to lower downside risks.¹⁰ Reductions in housing market imbalances and the credit-to-GDP gap have led to somewhat lower near-term risks to growth and financial stability. The range of outcomes associated with a severely adverse scenario (5th percentile of the distribution) has shifted 100 basis points higher since last year.

13. Nevertheless, persistent housing market imbalances remain a key macrofinancial vulnerability:

Canada: Growth at Risk

(One year ahead annualized GDP growth, percent)



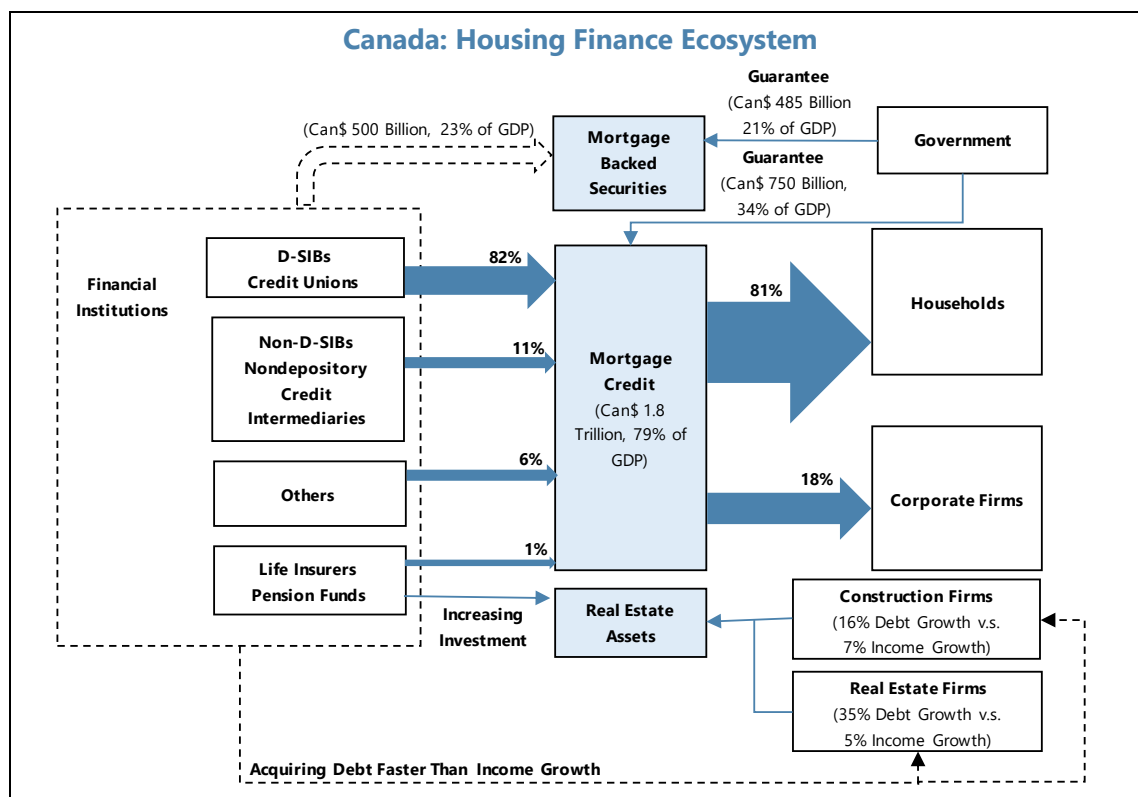
Source: IMF staff estimates.

Note: Shaded areas denoted 5th percentile.

⁹ D-SIBs are domestic systemically important banks and they include Bank of Montreal, Canadian Imperial Bank of Commerce (CIBC), National Bank of Canada, Royal Bank of Canada, Scotia Bank, and Toronto Dominion.

¹⁰ Growth-at-risk analysis provides a distribution of real GDP growth forecasts conditional on financial conditions and macrofinancial vulnerabilities, the latter capturing corporate and household sector vulnerabilities, housing market imbalances, and the credit-to-GDP gap.

- Housing imbalances in the major metropolitan areas remain significant. Assuming moderate income growth and rising interest rates, “attainable” house prices inferred from households’ borrowing constraints are expected to decline, widening the gap with current house prices and increasing the likelihood of a large correction. While such overvaluations are not without precedent (Edmonton and Calgary in 2006), these overvaluations took around six years to normalize, with a moderate decline in house prices, strong household income growth, and a decline in interest rates.
- Various parts of the financial system are directly exposed to the housing market or linked through housing finance. The government provides insurance through Canada Mortgage and Housing Corporation (CMHC) and backstops the bulk of the liabilities of private insurers. CMHC also provides investors in the MBS market a timely payment guarantee. These common exposures would amplify housing market shocks through the entire financial system, with consequential effects on the economy.
- Smaller regulated banks and private lenders outside the regulatory perimeter serve the smaller “non-prime” market because they are unable to compete in uninsured prime lending, reflecting the significantly lower cost of capital and funding of the D-SIFIs. With relatively concentrated exposures to higher-risk mortgages, and more reliance on less stable, higher-cost funding (e.g. brokered deposits and redeemable equity), some of these smaller institutions could be vulnerable to a pullback in market funding during economic downturns.



ECONOMIC OUTLOOK: MACROFINANCIAL RISKS ARE MANAGEABLE

14. Growth is expected to slow in the near term. Real GDP growth is projected to decline to 1.5 percent in 2019, partly due to a disappointing first quarter and more subdued global growth. Growth is expected to pick up in 2020 as the effects of the slowdown in oil-related activity wane and construction begins on a US\$40 billion LNG project in B.C. (Table 6). Demand for exports will be supported by a robust U.S. economy with Fed policy expected to remain accommodative, and the approval of USMCA, which will reduce trade uncertainty. Business investment is expected to benefit from the new federal tax provision on investment expensing, although pipeline constraints will limit investment in the energy sector. With the output gap becoming more negative in 2019, monetary policy is expected to remain on hold in the near term, and the fiscal stance is expected to be broadly neutral. Tight macroprudential policy will keep household credit and private consumption at modest growth rates.

15. Over the medium-term, the economy is expected to plateau at a modest potential growth rate. Weak external competitiveness, low productivity growth, and population aging will limit potential growth to 1.7 percent. The external position is expected to improve with the current account deficit narrowing to 1.9 percent by 2024.

16. Risks are tilted to the downside.

- *A key domestic risk is a sharp correction in the housing market, triggered by a sudden shift in price expectations or a faster-than-expected increase in mortgage interest rates.* If a house price correction is accompanied by a rise in unemployment and a sharp contraction in private consumption, additional risks to financial stability and growth could emerge.
- *External risks include a larger-than-expected global growth slowdown, a sharp decline in oil prices, or a disruption in global trade and supply chains.* Rising uncertainty due to a retreat from multilateralism, including a further escalation of trade tensions, could result in a global growth slowdown. This would weaken Canadian exports, impact global value chains, and lower business confidence and investment.
- *A sudden tightening of global financial conditions that raises risk premia (risk-off) could also spill over to Canadian financial markets, raising volatility, and triggering deleveraging.* Volatility could be exacerbated by a sell-off by institutional investors, which have taken on more risk in recent years, and by financial institutions serving the smaller “non-prime” mortgage market, which are comparatively less resilient.

17. FSAP stress tests show that the financial system is resilient to a materialization of these downside risks, but households and mortgage insurers would be vulnerable (see Financial Sector Stability

Adverse scenario	2019	2020	2021
Real GDP growth	-3.1	-4.2	1.3
Inflation rate	3.6	3.2	1.7
Unemployment rate	7.2	10.1	12.1
Exchange rate (CAD/USD)	1.52	1.55	1.47
House price (2017=100)	82	66	62
Bank of Canada policy rate	3.3	2.9	1.2
U.S. GDP growth rate	-2.4	-2.9	3.3

Assessment). The adverse scenario assumes a severe recession occurs concurrently with significant financial market stress, a large exchange rate depreciation, and a sharp housing market correction. This perfect storm would cause a snapback of interest rates. The BOC would initially be forced to tighten monetary policy to stabilize inflation expectations amid rising inflation from global supply shocks and a large currency depreciation. Monetary policy would be eased in later years due to recession-induced deflationary effects. Growth-at-risk analysis suggests that the likelihood of such a severe scenario is 3.8 percent.

18. D-SIFIs remain resilient, with all banks meeting the hurdle rates at the end of the stress testing horizon.¹¹ Most entities would run down their conservation capital buffers and would be subject to dividend restrictions until they rebuild capital. The aggregate CET1 capital ratio would decline by 4.8 percentage points to 7.4 percent in 2021 because of credit impairments, market losses, and higher risk-weighted assets.

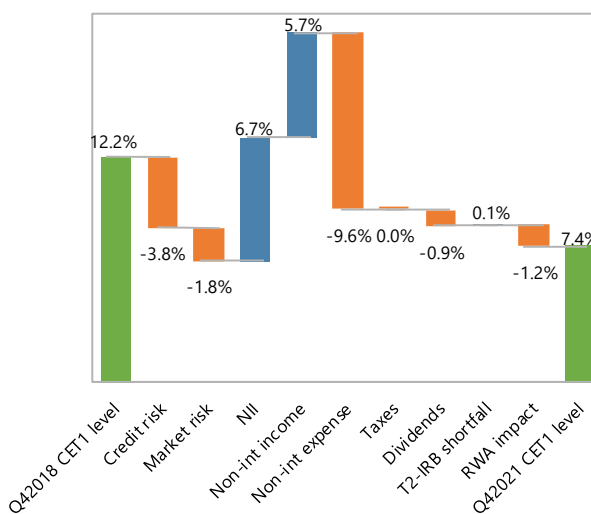
19. D-SIFIs hold enough liquidity buffers to withstand sizeable funding outflows.

Although loans to deposits are about 100 percent, D-SIFIs reliance on foreign-currency wholesale funding, which is less stable in nature, make them vulnerable to risk-off events. However, their ability to withstand shocks can be attributed to the large amount of securities held, which are liquid with a significant portion eligible for the BOC's liquidity facilities, and the absence of a material mismatch in repurchase transaction ("repo") books.

20. The corporate sector would be able to withstand large profitability and funding cost shocks. Assuming profitability declines by

25 percent and funding costs increase by 5 percentage points for all debt coming due within one year, the increase in the share of firms with *debt-at-risk* would be relatively small (from 5 percent to 8 percent). An oil price shock would raise the solvency risk of oil companies, particularly firms

Canada: D-SIFI Stress Test: Impact on Capital Ratio 1/ (Percent)



1/ Capital ratio is Common Equity Tier 1 (CET1). Results show the impact of the adverse scenario in the third year.

¹¹ D-SIFIs are domestic systemically important financial institutions and they include the six D-SIBs and Desjardins Group, a credit cooperative group in Quebec.

engaged in upstream activities. Since the 2014 collapse in oil prices, oil companies have cut operating costs to improve efficiency.

21. The impact on households, however, would be significant. The share of households with *debt at risk* would increase from 17 percent to 29 percent.¹² The effects would be larger for households living in Vancouver and Toronto where household debt is high.

22. Mortgage insurers would need a capital injection. CMHC and the private mortgage insurers would need additional capital of Can\$15 billion (around 0.7 percent of GDP) to meet the supervisory target ratio. Over the 3-year stress testing horizon, cumulative claims would amount to Can\$25 billion, consistent with the credit losses of banks' insured mortgage portfolios.

23. While the core financial system is resilient, there are some emerging vulnerabilities. Vulnerabilities stem from a rising risk appetite among life insurers, pension funds and other non-banks, non-prime mortgage lending, and banks' increased reliance on external, foreign-currency funding. Furthermore, the use of repos and derivatives has increased cross-sectoral linkages and counterparty risk, an area that was not covered by FSAP stress tests. Growing cross-border financial interconnectedness can also generate stronger spillovers.

24. Existing safety nets add another layer of buffer to mitigate macrofinancial risks. The federal government plays a central role in housing finance. While this means that the government is exposed to contingent liabilities, the implicit safety net instils confidence in the resilience of the financial system during periods of stress. Furthermore, the BOC's framework for market operations and liquidity provision is well-articulated, with many channels to provide liquidity against a broad range of collateral. Canada is also net creditor to the rest of the world with a sizable net international investment position (NIIP) of 23.8 percent of GDP.¹³ Canada has comprehensive social safety nets, including unemployment insurance and targeted fiscal transfers to support low income households.

¹² The scenario considered an average decline in house prices by 40 percent across cities, a decline in disposable income by 15 percent, and an increase in interest rates up to 230 basis points, depending on the renewal profile of borrowers. Households with debt-at-risk are those with debt service greater than 40 percent of disposable income. The share of households with negative equity (the value of their assets is less than the value of their debt) is small.

¹³ The market value of the NIIP rose to Can\$530 billion by the end of 2018, a 20 percent increase over the year, reflecting sizable valuation gains on external assets.

Canada: Risk Assessment Matrix 1/
(Scale—low, medium, and high)

Source of Risks	Relative Likelihood	Impact	Policy Response
Globally-sourced risks			
1. Rising protectionism and retreat from multilateralism	High	<p align="center">High</p> <p>A shift toward protectionism and economic isolationism would reduce global trade, capital and labor inflows, and global growth. A further escalation of trade tensions between the U.S. and its major trading partners would negatively affect Canada's exports and business investment. This could include the failure to secure legislative approval of USMCA and the potential break-up of NAFTA.</p>	<p><u>Short-term policy response</u></p> <p>The BOC should closely monitor inflation developments and be prepared to cut the policy rate and, if necessary, resort to unconventional measures.</p> <p>The federal government, as well as provinces with fiscal space, should ease fiscal policy and introduce discretionary measures, including bringing forward the infrastructure program and cutting personal income taxes which have a relatively high multiplier.</p>
2. Sharp tightening of global financial conditions.			
<ul style="list-style-type: none"> Market expectation of tighter U.S. monetary policy Sustained rise in risk premium 	Low/	<p align="center">Low/Medium</p> <p>An abrupt change in global risk appetite due to market expectation of tighter U.S. monetary policy or a sustained rise in risk premium could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. This could lead to higher long-term rates, raising the funding cost for indebted Canadian businesses and households. Growth would slow and defaults on mortgage and consumer loans could increase.</p>	<p><u>Medium-term policy response</u></p> <p>Structural reform policies should be accelerated to raise productivity, which would improve external competitiveness, foster trade, and boost potential growth. The marginal effective corporate tax rate could be cut, while adjusting indirect taxes to ensure revenue neutrality.</p>
	Medium		
3. Weaker-than-expected global growth/significant slowdown in			
<ul style="list-style-type: none"> U.S. Europe China 	Medium	<p align="center">Medium</p> <p>Weak demand and anemic productivity growth in some advanced and emerging economies would reduce demand for Canadian exports. Significant slowdown in the U.S., China, and Europe could create adverse spillovers to Canada's economy.</p>	
	High		
	Medium		
4. Large swings in energy prices	Medium	<p align="center">Medium</p> <p>An oil price drop due to materialization of downside global growth risks could spill over to the rest of the economy. Higher oil prices prompted by either rising global prices or an easing in domestic pipeline constraints that narrows the WTI-WCS spread could present upside risks to the outlook.</p>	<p>The exchange rate would act as a shock absorber and dampen the effects of an oil price decline. But monetary policy could be used if the effects are widespread.</p>
Domestically-sourced risks			
5. Sharp house price correction, with a sharp and persistent rise in unemployment	Medium	<p align="center">High</p> <p>With households highly indebted, housing markets could be destabilized, severely impairing banks' asset quality, and setting off negative feedback loops in the economy, with a sharp slowdown in private consumption and residential investment. The government balance sheet could be hit by claims on mortgage insurance. Companies could face declining sales and revenue, compromising their ability to service debt. A generalized slowdown in growth could threaten financial stability.</p>	<p>Ensure adequate loss absorbing buffers in the banking and insurance sectors, and provide emergency liquidity as needed.</p> <p>Ensure proactive supervisory and effective crisis management frameworks are in place.</p> <p>Loosen macroprudential policy if credit falls significantly.</p>
<p>1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

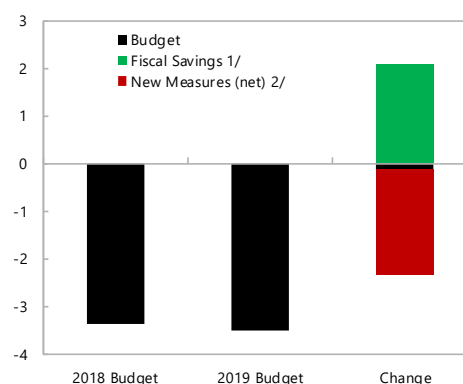
POLICY DISCUSSIONS: WORKING TOGETHER TO STEER THE ECONOMY

A. Fiscal Policy

25. The federal fiscal outlook remains broadly unchanged despite sizeable windfall gains from favorable economic conditions. With much higher than anticipated revenue collections, lower transfers to households, and lower projected interest rates, the federal government has realized sizeable fiscal savings since its 2018 Budget. The government decided to spend all these gains, leaving the cumulative federal deficit over the five years from FY2018/19 to FY2023/24 broadly the same (around 3.5 percent of GDP).

26. New spending initiatives have been targeted at supporting business investment and the middle class. In its 2018 Fall Economic Update, the federal government announced immediate and accelerated capital expensing for a range of assets in response to recent changes to corporate taxes in the U.S., and increased spending in other areas.¹⁴ The 2019 Budget contained more new measures, including initiatives to support training and education, gender equality, infrastructure and innovation, first-home buyers and housing affordability, reconciliation with Indigenous peoples, and to reduce the cost of prescription drugs. Overall, the measures taken over the past year will contribute just over 2 percent of GDP to the cumulative deficit over the next five years, essentially offsetting the fiscal gains from improved macroeconomic and fiscal conditions.

Canada: Projected Change in Accumulated Balances (FY2019-FY2023, percent of GDP)



1/ Fiscal savings are estimated as a change in the cumulative overall balance due to changes in macroeconomic forecasts and underlying fiscal developments (including net changes in "adjustment for risk"), which are presented in in the 2018 Fall Economic Statement and 2019 Budget.

2/ New measures are those announced in the 2018 Fall Economic Statement and 2019 Budget.

Canada: Contributions From New Measures to Change in Accumulated Deficit 1/ (FY2019 to FY2023)

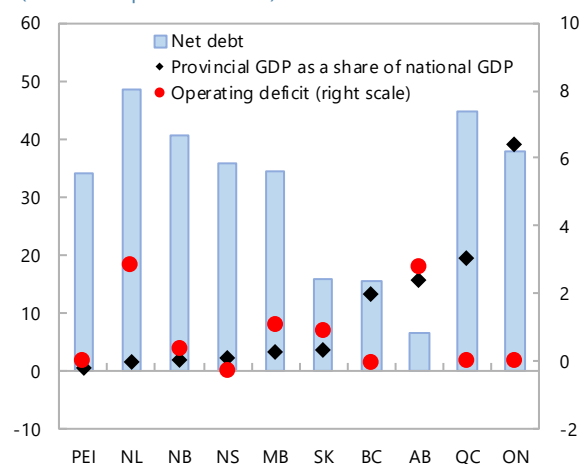
	\$C billion	% GDP	% Total
Total New Measures	51.5	2.2	100
New Measures 2018 FES	23.8	1.0	46.2
<i>of which:</i>			
<i>Accelerated Investment</i>	13.0	0.6	25.2
<i>Other Measures</i>	10.8	0.5	21.0
New Measures 2019 Budget	27.7	1.2	53.8
<i>of which:</i>			
<i>Housing affordability and sup)</i>	0.9	0.0	1.7
<i>Training and education</i>	4.6	0.2	9.0
<i>Prescription Drugs</i>	1.0	0.0	2.0
<i>Retirement</i>	1.9	0.1	3.6
<i>Advancing reconciliation</i>	4.7	0.2	9.2
<i>Infrastructure and innovation</i>	6.0	0.3	11.7
<i>Diversity, health, and justice</i>	5.4	0.2	10.5
<i>Other Measures</i>	3.1	0.1	6.1

1/ Change between Budget 2018 and Budget 2019

¹⁴ The capital cost allowance rate was increased to 100 percent for machinery equipment used in manufacturing and processing, and clean energy equipment. Enhanced first-year capital cost allowance rates (up to three times normal first-year rates) were also adopted for all other depreciable assets.

27. At the provincial level, progress on fiscal consolidation has been mixed while spending pressures loom large on the horizon. Quebec and B.C. are generating operating surpluses and are making good progress at reducing their net debt levels. The new government in Ontario appears to be committed to shoring up the province's public finances and has announced its intention to balance the budget by 2024. Alberta is still running a sizable operating deficit while it grapples with lower oil prices and its net debt has increased rapidly, albeit from a very low level.¹⁵ Against this backdrop, fiscal pressures continue to loom on the horizon with annual health care spending growth expected to rise from 3 percent to 4 ½ percent over a 10-20-year timeframe, contributing to rising net debt to GDP ratios by around 2025.

Canada: Provincial Fiscal Positions, FY2017
(Percent of provincial GDP)



Sources: Department of Finance, Statistics Canada; and Haver Analytics.

28. Fiscal policy should continue to focus on rebuilding buffers and supporting productivity-enhancing growth. Rebuilding buffers will ensure that the government has enough room to respond in case of a downturn and reducing debt faster would provide more options to handle future challenges, such as those related to aging and weak productivity growth. Nevertheless, the pace of fiscal consolidation should be gradual given the balance of risks around the outlook.

29. While both the federal and provincial governments have important roles to play, the burden of adjustment remains with provincial governments. The decision by the federal government to spend all its fiscal savings over the past year indicates a clear preference for addressing key social needs over more rapid fiscal consolidation. Meanwhile, the slow pace of fiscal consolidation envisaged at the provincial level means that at the aggregate level, the general government deficit will only decline from 0.8 percent of GDP in 2019 to 0.5 percent of GDP in 2024. Therefore:

- *Those provinces running large deficits or with high debt should take the lead in making the necessary fiscal adjustment.* Under the baseline, provincial governments are expected to only cut the overall deficit from 1.3 percent of GDP in 2019 to 1.0 percent in 2024, but the size of the adjustment could be doubled to 0.6 percent of GDP.
- *On the federal side, the overall size of the fiscal adjustment is broadly appropriate.* The federal government is expected to take a slightly expansionary stance in 2019 and gradually cut the overall deficit from 0.9 percent of GDP in FY2019/20 to 0.4 percent by FY2023/24 (authorities'

¹⁵ The energy sector is 20 percent of Alberta's GDP.

definition). The fiscal adjustment entails a gradual slowdown in direct program spending growth, including transfer payments and operating expenses, and broadly stable revenue growth.

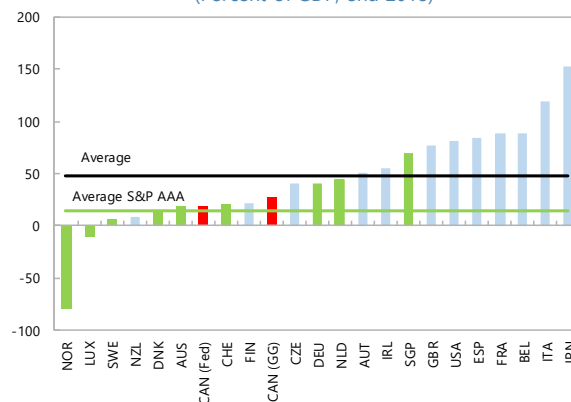
30. At both levels of government, fiscal consolidation should be gradual, and any unexpected fiscal savings should target deficit and debt reduction. If the economy turns out to be better than anticipated resulting in fiscal savings (higher revenues and/or lower expenditures), most of these savings should target deficit and debt reduction. On the other hand, if downside risks materialize and growth underperforms, automatic stabilizers should be allowed to operate fully, and some discretionary measures could be used, depending on the severity of the downturn.

31. To enhance the credibility and transparency of fiscal policy, the federal government could explicitly incorporate a fiscal rule.

While Canada has some fiscal space, general government gross debt is high relative to its triple A-rated peers (Annex II) and net debt is around 26.8 percent of GDP.¹⁶ The authorities project federal net debt to fall to 28.6 percent of GDP by 2024, but the government does not have an explicit commitment to reduce debt. It also does not have an operational rule to serve as an instrument to provide clear guidance to market participants. This raises the risk of fiscal slippage over time. There is broad consensus that fiscal accountability and credibility can be enhanced when fiscal policy is guided by well-designed rules.¹⁷ Rules can help to mitigate the risk of fiscal slippage and “deficit bias,” particularly during election cycles. The success of implementing such a rule is predicated on whether the initial spending level is consistent with the debt anchor. If spending is too high, a transitional arrangement should be put in place.

- *Debt anchor.* The federal government could explicitly aim to lower its net debt to the pre-crisis low of 28 percent of GDP (authorities’ definition). This should provide the government with ample fiscal space to respond to adverse shocks of similar magnitude to those experienced during the 2008 global financial crisis.

Canada: General Government Net Debt, Advanced Economies 1/
(Percent of GDP, end 2018)



Sources: WEO database and IMF staff estimates.

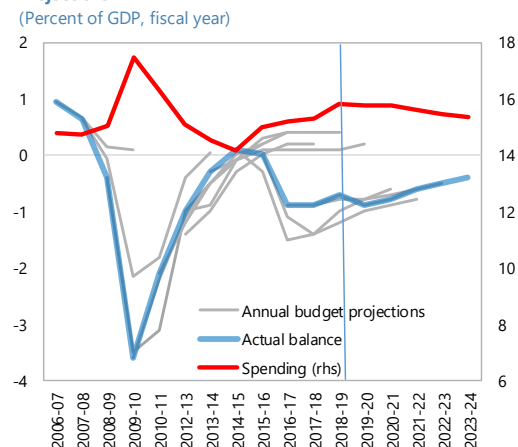
1/ CAN(GG) is general government debt and CAN(Fed) is federal government debt. Green indicates advanced economies with S&P AAA rating; blue indicates advanced economies without S&P AAA rating.

¹⁶ In the WEO database, Canada reports net debt as total liabilities less total assets and equity, including equity assets. Most other advanced economies remove accounts payable from liabilities and accounts receivable and equity holdings from assets, and then compute net debt by subtracting assets from liabilities.

¹⁷ See “Second-Generation Fiscal Rules: Balancing Credibility, Flexibility, and Simplicity”, IMF Staff Discussion Note, 2018. Canadian pundits also support some form of fiscal anchor to promote greater fiscal transparency and credibility.

- *Operational rule.* Any rule should be designed to strike the right balance between enforcement, flexibility, and simplicity. A cyclically-adjusted balance rule could prove too complex to communicate and measure in real time. The advantage of the expenditure rule (e.g. placing a cap on expenditure growth) is that it is much easier to measure and communicate, and it provides flexibility. In good times, the rule prevents higher-than-expected revenues from being used for new spending (which can be difficult to unwind), allowing fiscal buffers to build. During downturns, automatic stabilizers would be allowed to freely operate, and the rule would incorporate well-defined contingencies and escape clauses for exceptional circumstances.¹⁸

Canada: Federal Operating Balance and Spending Projections
(Percent of GDP, fiscal year)



Source: Department of Finance.

- *Enforcement:* Regularly scheduled reviews assessing whether the fiscal framework achieves its objectives would be an integral part of the system. These assessments would examine the efficacy of existing rules, and whether they should be kept, revised, or abandoned. The Parliamentary Budget Officer (PBO) is well placed to monitor compliance and ensure that rules are not circumvented (e.g. by macroeconomic and fiscal projections that are overly optimistic).

32. At the provincial level, fiscal rules should strengthen the link with debt while protecting public investment. Rules can be quite different across provinces. Options considered should identify and address the specific source of fiscal imbalance (e.g. excessive current spending or under-taxation) while protecting infrastructure investment. The balanced operating budget rules in B.C. and Quebec appear to be working well. It is urgent for Alberta to develop legislation that strengthens its commitment to fiscal sustainability and its management of resource revenues for future generations. Given its relatively high levels of debt, Ontario should enhance the credibility of debt reduction as a medium-term fiscal objective by exploring alternative operational rules and enforcement strategies to replace or support its existing balanced budget rule.¹⁹

33. As discussed in previous staff reports, the authorities should review the tax system to find ways to remove distortions and improve efficiency.²⁰ In this context, the recent expansion of tax allowances for investment is a step in the right direction. Canada should evaluate whether

¹⁸ See IMF Fiscal Monitor, April 2018. Automatic stabilizers comprise variations in taxes and transfers that occur automatically in response to changes in output and employment.

¹⁹ The new government is moving in this direction by proposing legislation to replace the Fiscal Transparency and Accountability Act with a new, modernized legislative framework that emphasizes fiscal sustainability, enhances transparency, and strengthens accountability and compliance.

²⁰ See 2018 Selected Issues Paper "Taxing Business in a Changing World".

further steps towards a cash-flow based corporate tax system would help reduce overall distortions. Such moves could include permanently allowing immediate expensing of all capital investments and removing the deductibility of interest for debt-financed investments.

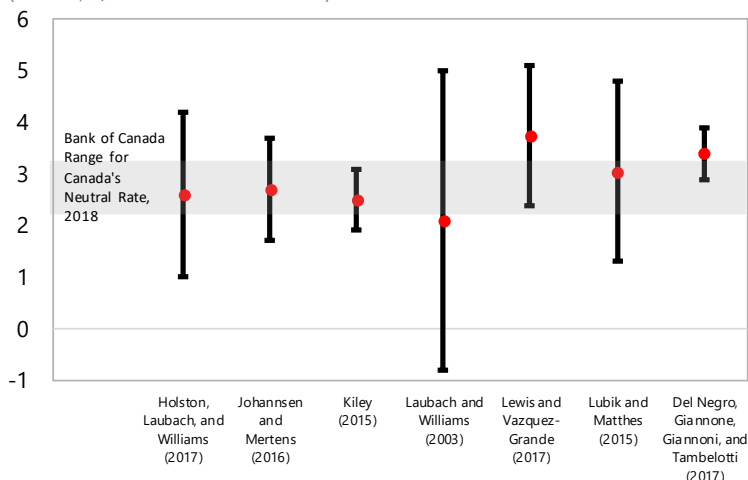
B. Monetary Policy

34. The accommodative stance of monetary policy has been appropriate. The three increases in the policy rate over the course of 2018 were justified by the inflationary pressures observed when the decisions were made. The current policy rate implies a slightly negative real interest rate, still well-below estimates of the real neutral interest rate of around 1 percent. The current accommodative stance reflects the balance of risks around the outlook, below-target core inflation, a negative and widening output gap, and slowing pace of wage growth.

35. Monetary policy should remain on hold in the near term.

Staff's baseline scenario projects a gradual increase of the policy rate towards its neutral nominal level (around 3 percent) after 2019 as the output gap closes. Gradualism is also warranted due to uncertainty about the level of the output gap and, perhaps more importantly, the long-run neutral policy interest rate, both in Canada and globally.²¹ If risks materialize and the outlook deteriorates, the Bank of Canada should be prepared to cut the policy rate.

Canada: Recent Estimates of the Long-Run Neutral Nominal Policy Rate (United States)
(Percent, +/- one standard deviation)



Source: Bank of Canada, FRB, staff estimates

C. Macroprudential Policy and Housing Supply

36. Macroprudential policy has been effective in containing financial stability risks and the current stance is appropriate. Macroprudential measures have reduced housing imbalances and the Bank for International Settlements (BIS) early warning indicator for domestic banking risks shows Canada's credit to GDP gap has declined below 10 percent. With the measures working well, the

²¹ See Chapter 2 of Selected Issues Papers: "Inflation Forecasting in Canada: How to Improve", June 2019. The paper shows that errors in forecasting non-core inflation (commodity prices etc.) are the largest contributors to headline inflation forecast errors made by Bank of Canada staff. Relatively small core inflation forecast errors, on the other hand, appear to have masked large and offsetting errors related to the output gap and the policy interest rate, partly reflecting a tendency to overestimate the neutral nominal policy rate in real time. Faced with these uncertainties, the Governing Council's gradual approach to changing its policy settings has served it well in the past.

authorities should refrain from diluting their effectiveness. For example, the CMHC First-Time Home Buyer Incentive, while well-intentioned and targeted, could encourage households to borrow more, adding to debt. The initiative would not fully address affordability issues in Toronto and Vancouver, where the median house price is higher than the maximum home value allowed (Can\$500,000). It could also have the perverse effect of inflating prices in cities where home values are not currently overvalued, thus undermining affordability there. In the event of a sharper than expected contraction in credit growth, the authorities should consider easing macroprudential policy settings. Provincial and municipal real estate taxes on non-residents could also be eliminated,²² or harmonized into broad-based tax measures targeted at speculative activity more generally.²³

37. The government should address affordability concerns by expanding housing supply in the key metropolitan areas.²⁴ The 2018 staff report recommendations to promote the efficient use of land in denser urban settings and speed up housing delivery remain valid (Box 1). In this regard, provincial programs for affordable housing²⁵ and the recently expanded Rental Construction Financing Initiative²⁶ to increase the supply of rental units for middle income households is welcome. Nevertheless, so far only a limited number of units have been built and demand for rental housing continues to outpace supply. Relevant authorities at multiple levels—municipal, provincial, and federal—need to work together to identify why delivery has been slow and develop a coherent housing supply strategy to remove bottlenecks and shorten the construction process. The recent establishment of an Expert Panel on the Future of Housing Supply and Affordability is a step in the right direction.

²² The provincial taxes on non-resident buyers and the B.C. speculation and vacancy tax amount to capital flow management measures (CFMs), because they limit capital flows (see the IMF's Institutional View on the Liberalization and Management of Capital Flows).

²³ See the 2018 Selected Issues Paper "Balancing Financial Stability and Housing Affordability: The Case of Canada".

²⁴ See the 2018 Staff Report and Selected Issues Paper "How to Improve Affordability in Canada's Dynamic Regions?"

²⁵ For example, Housing Vancouver sets targets for supportive and social housing and purpose built rental for households with income less than Can\$80,000.

²⁶ The initiative was introduced in 2017 to provide Can\$3.75 billion in low-cost loans to encourage the construction of rental housing across Canada. The 2019 Federal Budget has expanded the initiative by an additional Can\$10 billion over nine years. The additional funding would allow a net addition of 28,500 rental units relative to the 2018 Budget for a total of 42,500 units of middle-income housing.

Box 1. Measures to Increase Housing Supply and Improve Affordability

The supply of housing has not kept up with demand in Greater Toronto and Greater Vancouver. The following measures could contribute to a more effective housing supply response:

- Accelerating the delivery of land ready for development by municipalities and providing better and timely data about land availability
- Shortening the approval process for building permits and re-zoning, aided by modernizing the building approval system and increased personnel
- Improving the transparency and certainty about the timelines of the steps involved in the development approval process
- Providing greater certainty to developers: if an application meets the conditions of the designated zone where planning permission is being applied, permission must be granted
- Development plans should be time-limited to avoid construction delays
- Re-evaluating rent control policies to ensure that they do not constrain rental property supply
- Assessing the current funding and other incentives for purpose-built rental with a view to encourage a more balanced mix of rental supply
- Further improving regional coordination among municipalities on transportation and housing supply strategies

Reproduced from the 2018 Staff Report.

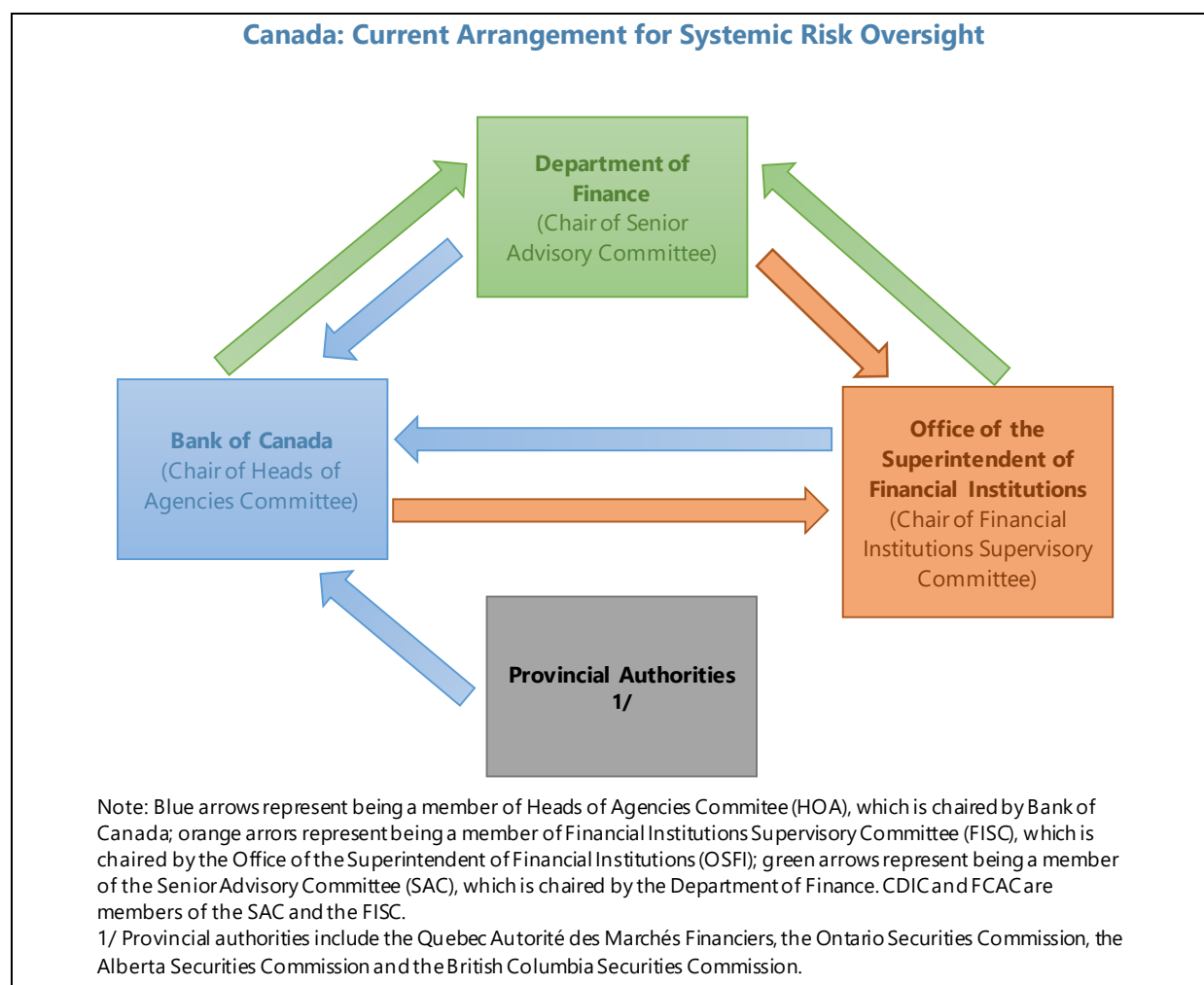
D. Modernizing the Financial Stability Architecture

38. The current systemic risk oversight arrangement has worked well, but there is a case for modernizing the arrangement. The Minister of Finance has the mandate of maintaining overall financial stability in Canada. However, the responsibilities for systemic risk oversight are spread over multiple levels of government and across financial sectors. This has prevented the development of a comprehensive Canada-wide framework for systemic risk surveillance and macroprudential policy implementation. While progress has been made since the 2008 global financial crisis to enhance financial surveillance and regulatory cooperation, important gaps remain in the current architecture. Furthermore, the financial sector has been evolving rapidly in recent years in terms of new exposures and instruments, and complex interconnectedness. This transformation will only deepen going forward with greater intensity driven by fintech developments that are blurring the traditional financial sector boundaries. These factors call for modernizing the current systemic risk oversight arrangement.

39. Drawing on the FSAP, modernizing the current architecture of systemic risk oversight would require addressing the following shortfalls:

- Significant data gaps, including information related to cross-sectoral exposures and activities, and unregulated nonbank financial intermediation.

- Capacity to effectively carry out important systemic risk analysis, particularly with respect to intra-system and cross-border interconnectedness and shadow banking.



- The ability to carry out broader and more inclusive dialogue on macroprudential policy. Policy coordination between federal and provincial authorities is critical to limit policy leakages and ensure the effectiveness of policy measures.
- Lack of a single mechanism to monitor and follow up on the implementation and outcome of policies that are relevant to mitigating the buildup of systemic risk.
- Lack of transparency around policy decisions, particularly when compared to the high-transparency standards adopted at the individual agency level, which weakens accountability and increases the chances of systemic risk policy failure.
- Strengthening the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) framework, particularly with respect to entity transparency, the legal profession, and virtual assets service providers, and supervision of the real estate sector.

40. The Heads of Agencies (HOA)²⁷ Committee could be one way to bring federal and provincial authorities together to discuss and formulate policies in a more formalized setting.

By using the HOA platform, the authorities could work within the confines of the current legal structure and would only need to redefine the HOA's terms of reference and expand its membership to all relevant provincial prudential regulators. The BOC could continue to act as chair of the HOA and lead systemic risk surveillance in cooperation with relevant authorities. The existing authorities should remain responsible for implementing policy, within their respective mandates and independent statuses. The envisaged Capital Markets Stability Act can further strengthen systemic risk surveillance and management in capital markets. The revamped HOA should be able to make recommendations to all relevant authorities on a "comply or explain" basis, or similar arrangements, to strike a right balance between enhancing accountability and respecting autonomy. The BOC's Financial System Review should remain the key instrument of communicating financial sector risk assessment to the public.

41. Canada-wide crisis preparedness should be further strengthened. There is no single body overseeing Canada-wide crisis preparedness. The SAC could fill this gap and act as the federal coordinator with provincial authorities to carry out contingency planning and testing exercises for the entire financial system. Such exercises would enhance inter-agency coordination, establish clear lines of communication during crisis situations, and identify potential impediments to crisis management. The SAC would adopt new terms of reference to clarify its role and accountability.

E. Microprudential Supervision and Safety Nets

42. Effective macroprudential oversight should be complemented with stronger microprudential supervision and safety nets. The FSAP highlighted the following areas:

- **Bank resolution.** The framework to compensate holders of bail-in debt should be further developed to increase certainty of outcomes for investors if bail-in is triggered.²⁸ Depositor preference should also be adopted to facilitate the application of certain resolution tools.
- **Liquidity provision.** Indemnity agreements still need to be established between the BOC and provincial governments to enable provincially regulated financial institutions to access the BOC's emergency lending assistance (ELA). The BOC should further develop contingency plans for market-wide support, particularly with regard to intervention in securities markets and provision of foreign-currency liquidity.

²⁷ The HOA act as a forum that allows federal authorities and provincial securities market regulators to exchange information, and to coordinate actions on issues of mutual concern mostly related to capital markets. It is chaired by the Governor of the BOC and includes the DOF, OSFI, and four provincial Securities Regulators (the Ontario Securities Commission, Autorité des Marchés Financiers, Alberta Securities Commission, and British Columbia Securities Commission).

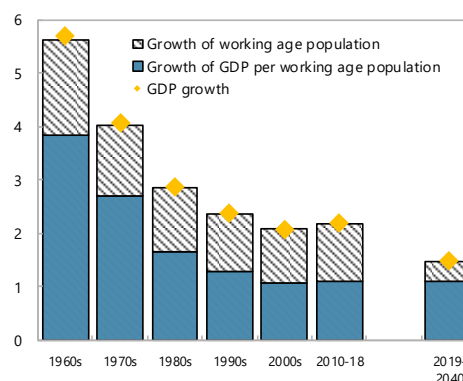
²⁸ A bail-in provides a mechanism to recapitalize failing banks by converting some forms of specified debt into equity.

- **Oversight of pension funds.** Large public pension funds have become systemic asset managers. Their investment and funding strategies have resulted in increased leverage and greater liquidity risk, which could magnify market volatility and stress. Increasing the detail, standardization, and reporting frequency of pension fund financial disclosures, as well as introducing standardized liquidity stress testing requirements, would improve risk monitoring and assessment.
- **OSFI oversight.** Since the use of guidelines may not work effectively in times of stress, OSFI should have the authority to issue its own legally enforceable regulations. While cooperation between federal and provincial authorities has improved in recent years, memorandums of understanding (MoUs) still do not exist between OSFI and provincial authorities, constraining the exchange of information and policy coordination.
- **Oversight of capital markets.** There is scope for further harmonization of the provincial regulatory frameworks to overcome risks from dispersed oversight of securities markets. This could be done through the Cooperative Capital Markets Regulatory System (CMRS) that would oversee securities markets in participating provincial jurisdictions and perform systemic risk surveillance and mitigation for Canada-wide securities markets.
- **Mortgage risk weights.** While overall capital is adequate, higher risk weights for mortgage exposures, along with measures to increase risk-based differentiation in mortgage pricing, are desirable.

F. Trade Diversification and Long-Term Growth

43. Canada needs to boost productivity to lift long-term growth. Investment growth over the last two decades has been insufficient to remove a sizable productivity gap relative to the U.S. (Figure 9),²⁹ and current levels of productivity growth will be insufficient to sustain GDP growth as the population ages. Canada faces the challenge of attracting productivity-enhancing investment that both diversifies the economy beyond traditional sectors and takes full advantage of opportunities provided by new trade agreements.³⁰

Canada: Long-Term Growth
(Contribution to GDP growth in percent, annual average)



Sources: Statistics Canada; Haver Analytics; and IMF staff calculations.

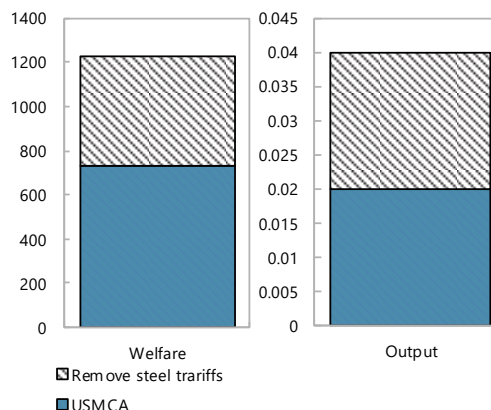
²⁹ Based on Organisation for Economic Co-operation and Development (OECD) data, there was a 7 percent gap in labor productivity in 2017 with respect to the United States.

³⁰ The dynamics and drivers of productivity and investment in Canada were discussed in the 2018 Selected Issues Paper, "A Closer Look at Labor Productivity in Canada".

44. New trade agreements have reduced uncertainty and Canada is leading an international effort to improve the multilateral trade system.

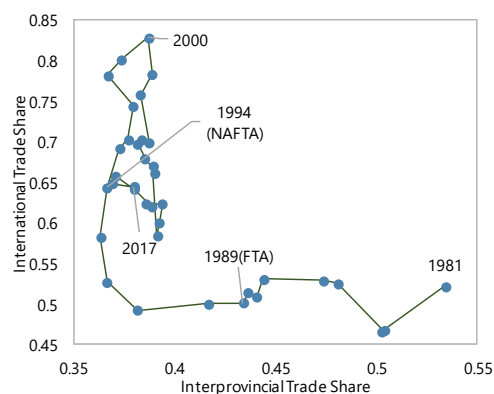
- The USMCA has been signed and awaits legislative approval. There are several new provisions in the agreement that are key, including higher regional value and labor content requirements for vehicles and auto parts, stricter rules for textiles and apparel, increased agricultural trade liberalization,³¹ and new trade facilitation measures. Staff analysis suggests that together these provisions will adversely affect trade in the automotive, textiles and apparel sectors, and resources will shift to other sectors of the economy generating very moderate positive effects on aggregate welfare and GDP.³² Overall, the trade effects at the aggregate level of those provisions modeled by staff are small. On the other hand, benefits will arise from the elimination of U.S. tariffs on steel and aluminum imports from Canada and Mexico and the elimination of the Canadian and Mexican retaliatory tariffs imposed after the U.S. tariffs were put in place.³³
- The USMCA is very complex and many aspects of it are difficult to quantify and have not been analyzed. For example, the negative effects of more onerous regional content requirements could be more than offset by non-tariff efficiency gains that support trade facilitation and lead to better outcomes. However, the provision that discourages members from negotiating free trade agreements with non-market economies could limit trade diversification depending on how it is operationalized.
- The newly-ratified Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) should also provide a boost to Canadian exports and greater opportunities for

Canada: Trade Agreement Effects
(US\$ million; percentage of GDP)



Sources: Staff calculations.

Canada: Interprovincial and International Trade, 1981-2017
(Share of Canada GDP)



Sources: Statistics Canada and IMF staff calculations.

³¹ The new agreement increases U.S. access to Canadian supply-managed markets while reducing U.S. barriers on Canadian dairy, sugar and peanut products.

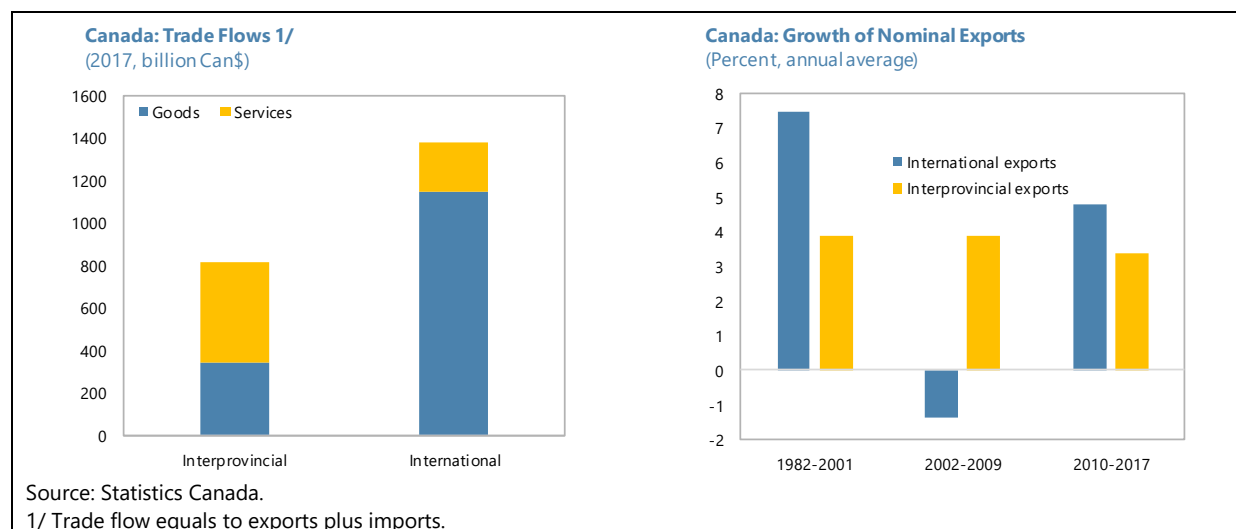
³² See "NAFTA to USMCA: What is Gained?", IMF Working Paper, February 2019, by M. Burfisher, F. Lambert, and T. Matheson.

³³ The United States imposed import tariffs of 25 percent on steel and 10 percent on aluminum due to national security concerns in March 2018. These were lifted on May 17, 2019.

diversification.³⁴ Canada's share of international trade in GDP fell significantly since peaking at 85 percent in 2000.

- Canadian leadership in organizing an effort to improve the World Trade Organization (WTO) is welcome, as it helps to reaffirm the importance of a multilateral trading system. The Ottawa Group identified the need for action to safeguard and strengthen the WTO dispute settlement mechanism, to reinvigorate the negotiating function of the WTO, and to strengthen the monitoring and transparency function of the WTO.³⁵

45. Beyond international trade, there are significant opportunities for productivity gains from reducing domestic barriers to inter-provincial trade. Many non-tariff trade barriers (NTBs) exist due to the division of powers and responsibilities between federal and provincial authorities. NTBs hinder labor mobility, narrow consumer choice, fragment markets, stifle competition, and limit the effective scale of production.³⁶ Between 1981-2017, the share of interprovincial trade declined from 54 percent to 38 percent in 2017. As a result, international trade flows and growth in nominal exports have exceeded interprovincial trade. Staff analysis suggests internal trade barriers are significant in most Canadian provinces and lowering NTBs could increase real GDP per capita by almost 4 percent—a much larger gain than expected from recently-signed international trade agreements.³⁷ Reducing barriers in the finance, business and insurance sectors would most benefit the economy, reinforcing the value of efforts to unify securities regulations across provinces and enhance labor mobility.



³⁴ The CPTPP entered into force on December 30, 2018 and is expected to cover 11 countries representing 13.5 percent of global GDP.

³⁵ See Global Affairs <https://www.canada.ca/en/global-affairs/news/2019/01/canada-led-wto-meeting-concludes-in-davos-switzerland.html>. The Ottawa Group comprise Australia, Brazil, Chile, the European Union, Japan, Kenya, Mexico, New Zealand, Norway, Singapore, South Korea and Switzerland.

³⁶ For example, the 2011 Survey on Financing and Growth of Small and Medium Enterprises suggests that SME firms that trade across provincial borders are also more export and growth oriented, and more innovative.

³⁷ See Chapter 3 of Selected Issues Papers: "Internal Trade: Case for Liberalization?".

46. With much at stake, federal, provincial and territorial governments should make reducing internal trade barriers their common priority. Internal trade barriers are a longstanding issue and nothing short of a sustained and concerted collective effort will be necessary to break down barriers that are impeding Canadian businesses from competing on a level playing field and scaling-up. A “coalition of the willing” could be one way to accelerate progress. The Canadian Free Trade Agreement (CFTA) signed in 2017 provides a platform for cooperation, but there are several problematic aspects that need to be resolved.

- NTBs should be clearly identified and progress towards removing them should be assessed at regular intervals. Targets for a reduction in the number of exemptions to CFTA should be explicitly set out in future negotiations.
- The CFTA process of regulatory reconciliation could be more effective. It is administratively burdensome, negotiations are protracted, and a province can opt out of the process. A “comply or explain” approach would ensure better accountability and accelerate the work on harmonization of regulations.
- The Secretariat should be sufficiently resourced to assess and communicate progress on trade liberalization, including publishing an annual report on goals set and progress in achieving them.
- Penalties for non-compliance should be raised, calibrated to reflect the magnitude of the economic impact and to better distinguish large barriers from small.
- There is scope for recognizing unilateral provincial action. Recognizing the validity of extra-provincial certifications, standards, and registrations can benefit a single province even if the recognition is not reciprocated. Under such a “national recognition” regime, a province would consider a certification from another province as deemed-compliant with its own.

47. As noted in previous staff reports, structural reforms must remain a key objective of the government’s growth agenda. These reforms can help reduce internal barriers to trade. Implementation of the Innovation and Skills Plan is underway but addressing restrictive regulations in product markets and foreign direct investment (FDI) is still pending.³⁸ Efforts to encourage infrastructure investment are welcome, including progress in fully operationalizing the Canada

³⁸ See the 2018 Article IV Staff Report for a fuller discussion of the structural reforms that are underway, including the approval of high-skill immigrant applications, the streamlining of business innovation programs from 92 to 35, and the completion of project selection for the Superclusters initiative. The superclusters initiative is a federal program that leverages private funding to develop research and development (R&D) driven industries. Five superclusters were selected (expected 10-year GDP impact in parentheses): (i) the Ocean Supercluster in Atlantic Canada (Can\$14 bn); (ii) the AI-Powered Supply Chains Supercluster in Quebec (Can\$16.5 bn); (iii) the Advanced Manufacturing Supercluster in Ontario (Can\$13.5 bn); (iv) the Protein Industries Supercluster in the Prairies (Can\$4.5 bn) and, (v) the Digital Technology Supercluster in British Columbia (Can\$5 bn). The authorities have also committed Can\$795 million of public money for the Strategic Innovation Fund to leverage a total investment of Can\$8.1 bn, and investment commitments of Can\$1.5 bn for the Venture Capital Catalyst Initiative.

Infrastructure Bank.³⁹ However, challenges in project selection, execution and coordination—especially at the provincial and municipal levels—must be overcome to avoid delays in infrastructure investment. A more detailed strategic plan is needed to prioritize infrastructure projects that best serve the long-term national interest. This could include transportation projects that facilitate interprovincial trade. Federal and provincial authorities should continue to improve financial reporting and cost-tracking to better facilitate the flow of federal infrastructure funds.

Box 2. Internal Trade Barriers and the Effects of Liberalization

Non-tariff internal trade barriers are often cited as one of the factors behind Canada’s lagging productivity growth. While the Constitution Act of 1867 (Section 121) forbids explicit tariff barriers to internal trade, different rules and regulations that govern economic sectors across provinces and territories act as NTBs.

The Head-Ries index of trade restrictiveness was used to infer unobservable trade costs. The index covers 18 goods and services sectors and is used to calculate ad valorem tariff equivalents of NTBs between all Canadian provinces and territories, the U.S., and rest of the world.^{1/} Using panel regression analysis, NTBs are decomposed into a geographic component—driven by distance and border effects—and a residual non-geographic, policy relevant component.

The average tariff equivalent NTBs for all provinces is around 20 percent. The analysis suggests that geography accounts for 57 percent of total trading barriers across all regions in Canada. Alberta, British Columbia and Ontario have the lowest policy relevant, non-geographic NTBs (around 20 percent), while Prince Edward Island and Yukon exhibit the largest NTBs (around 60 percent). Across goods sectors, the lowest NTBs (below 10 percent) apply to petroleum and chemicals, and textiles, while the largest NTBs (30 percent) are on heavier metals, food products and other manufacturing goods. NTBs are significantly higher for services.

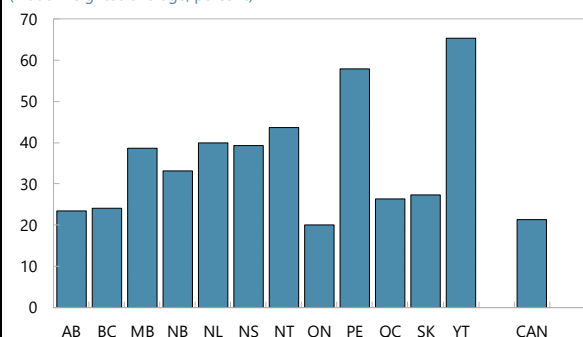
Removing internal trade barriers would have a significant impact on internal trade volumes and overall economic activity in Canada. A general equilibrium model that incorporates a full set of intersectoral input-output linkages was used to gauge how lower internal trade costs would affect real GDP and employment in Canada. Removing non-geographic NTBs increases trade volumes as a share of GDP by roughly 15 percentage points. This would bring internal trade volume to a similar level as international trade volume. Real GDP per worker would increase by over 4 percent nationally, with gains of around 16 percent in Prince Edward Island. Workers would migrate from provinces with below-average NTBs (B.C., Alberta, and Ontario) to those that are above average (Atlantic provinces), raising employment there by 6 percent. Reducing barriers in sectors that are most connected through the supply chain yield the highest economy-wide gains. For example, a 10 percent barrier reduction in the finance, business, wholesale and retail, and transportation services produces larger gains than the same reduction in other sectors.

³⁹ The CIB has a board and a designated CEO since mid-2018. They are currently conducting due-diligence on selected strategic projects and building operational capabilities.

Box 2. Internal Trade Barriers and the Effects of Liberalization (concluded)

Non-Geographic Trade Barriers by Province

(Trade-weighted average, percent)



Sources: Statistics Canada; and staff calculations.

Note: NT refers to Northwest Territories and Nunavut.

Effects from trade liberalization

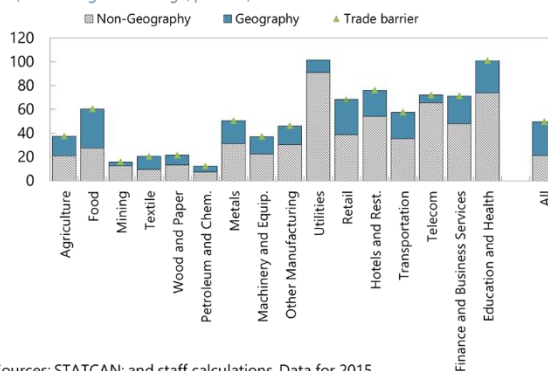
Region	Real GDP Per Capita (percentage change)			Employment (percentage change)		
	Internal	External	All Trade	Internal	External	All Trade
AB	3.2	6.5	8.9	-0.9	0.4	-0.2
BC	2.8	5.7	7.9	-1.5	-0.7	-1.6
MB	7.1	11.4	16.1	4.8	7.4	9.8
NB	6.0	5.6	10.0	3.1	-0.8	1.2
NL	12.8	12.0	21.2	13.3	8.3	17.1
NS	4.8	19.8	22.0	1.4	19.8	18.2
NT & NU	7.5	7.6	13.3	5.3	2.0	5.9
ON	2.9	4.8	7.0	-1.3	-2.0	-2.8
PE	16.2	9.6	22.1	18.4	4.8	18.4
QC	4.6	6.1	9.6	1.0	-0.2	0.7
SK	5.1	5.7	9.6	1.9	-0.7	0.7
YT	6.9	4.2	9.8	4.5	-2.8	1.0
Canada	3.8	6.2	9.1	-	-	-

Source: Staff calculations.

1/ The Head-Ries index implies that there are non-geographic interprovincial trade barriers if bilateral trade flows are lower relative to the province's own consumption of the good.

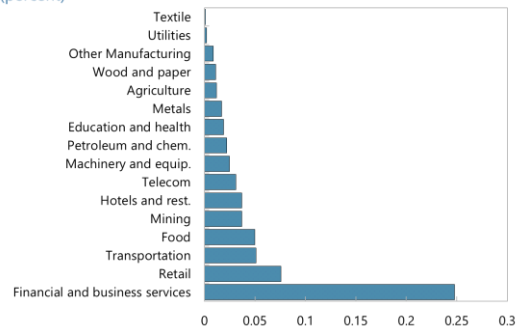
Trade barriers and geography

(Trade-weighted average, percent)



Sources: STATCAN; and staff calculations. Data for 2015.

Gains from a 10 percent reduction in sectoral trade barriers (percent)



Sources: Staff calculations.

G. Tackling the Supply and Facilitation of Corruption

48. Canada has an adequate framework to fight money-laundering and terrorist financing with strengthening efforts underway, including to mitigate the proceeds of foreign acts of corruption.⁴⁰ Amendments to the AML/CFT regulations will be finalized in 2019 strengthening preventive measures related to: reporting on suspicious transactions, verifying beneficial ownership, conducting client due diligence for life insurance companies, checking the source of wealth for politically exposed persons, and assessing risks of new technologies, prepaid cards and virtual currency dealers. Risks related to foreign tax crimes, corruption, the real estate sector, and third-party money launderers need to be further mitigated, including with more intensive supervision. Increased efforts to detect and prosecute money laundering cases are still necessary.

⁴⁰ Canada volunteered to be assessed under the IMF's Enhanced Governance Framework on the supply and facilitation of corruption.

49. Progress has been made on enhancing the transparency of beneficial ownership of companies. The 2018 reforms to the federal corporate legislation (Canada Business Corporations Act) prohibit options and rights in bearer form and requires federally-incorporated corporations to create and maintain a register of individuals with significant control. Further amendments have been announced to make the beneficial ownership information more readily available to tax authorities and law enforcement.

50. Canada should continue to strengthen its anti-foreign bribery legal framework and ensure its effective implementation.⁴¹ Reforms in this area include codifying corporate criminal liability in 2004, amending the Corruption of Foreign Public Officials Act (CFPOA) in 2013, and introducing remediation agreements in 2018. Canada is exploring an upgrade of the Integrity Regime for procurement and real estate transactions to publicly render companies ineligible or suspended for wrongdoing, including corruption. In 2011, the OECD Working Group on Bribery recommended that the authorities continue with the implementation of the codified corporate criminal liability Act and provide adequate resources to key institutions to support enforcement activities against bribery offenses.⁴² Canada has reported only six foreign bribery convictions to date.

AUTHORITIES' VIEWS

51. The authorities broadly agree with staff's macroeconomic outlook. Trade tensions, weaker foreign demand, and last year's decline in oil prices have weighed on business investment and exports. Changes in housing policies and increases in 2018 borrowing rates have decelerated residential investment and consumption that is sensitive to interest rates changes. The growth-dampening effects of low oil prices and tighter financial conditions should dissipate over 2019 and continuing strong immigration should support growth moving forward. The risks to the outlook are largely balanced.

52. The Bank of Canada views an accommodative monetary policy stance as warranted due to the recent slowdown in economic activity. It will evaluate the appropriate degree of monetary policy accommodation going forward, guided by incoming data.

53. The federal government is committed to investing in the middle class in a fiscally responsible way. The federal deficit is projected to decline by \$10 billion over the next five years, and the federal debt-to-GDP ratio is expected to decline to 28.6 per cent by 2023–24. Canada's low debt advantage, declining debt-to-GDP ratio and commitment to regular and transparent financial

⁴¹ The Phase 3 Report on Canada by the OECD Working Group on Bribery (WGB) adopted on 18 March 2011 and Canada's progress report with regards to recommendations of the Phase 3 report adopted on 14 May 2013, are the basis for this staff assessment. The paragraphs also incorporate information provided by Canada to IMF Staff. The OECD has not verified the accuracy of this information.

⁴² The information contained herein does not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention. Canada is scheduled to undergo its Phase 4 evaluation in June 2021.

reporting, obviates the need for a more explicit federal fiscal rule or debt target. Provinces with high deficits or debt should pursue fiscal consolidation.

54. The authorities will continue to review key elements of the Canadian tax system to make sure that it remains efficient and competitive. The investment incentives announced in the federal government's Fall Economic Statement, including the Accelerated Investment Incentive, are intended to provide focused, fiscally-responsible support for growth-generating investments in Canada. The authorities agree that Canada should continue to monitor international developments to ensure that the Canadian tax system remains competitive.

55. The authorities agree that the macroprudential policy stance is appropriate. Macro-financial vulnerabilities have begun to diminish but remain elevated. The First-Time Home Buyer Incentive will improve affordability, with a negligible effect on aggregate house prices, due to the size and targeted nature of the program. Supply-side policies are needed, and the newly established Expert Panel on the Future of Housing Supply and Affordability, the expansion of CMHC's Rental Construction Financing Initiative and other measures in the 2019 budget will help to address housing affordability concerns and housing market imbalances over the long term.

56. The authorities welcomed the assessment and recommendations of the recent FSAP. The stress tests, including an extreme adverse scenario, demonstrated the strength and resilience of the core financial system. Authorities welcomed the FSAP's views on systemic risk oversight and crisis management, and on the desired outcomes for related governance structures. The recent Supreme Court decision giving the federal government authority over systemic risk oversight in Canadian capital markets will bolster economy-wide systemic risk oversight.

57. The authorities reaffirmed that trade diversification and structural reforms are critical components of their growth agenda. They welcome staff's assessment of the effects of USMCA and removal of tariffs on steel and aluminum imports. They agree that reducing internal trade barriers can have positive effects on productivity and GDP, and that it will take a sustained and concerted collective effort to break down barriers. The Government of Canada continues to work with provincial and territorial partners to implement the Canadian Free Trade Agreement and remains committed to working with them to remove barriers to trade within Canada. The Innovation and Skills Plan is supporting high-quality and innovative business investment in Canada, including through a new Intellectual Property Strategy. Recent Budgets committed significant support for innovation and skills measures and for Canadian scientists and researchers. The authorities are working with provincial and local authorities to accelerate infrastructure investment under Phase 2 of the Investing in Canada plan, including deploying the advisory and investment role of the new Canada Infrastructure Bank in prioritizing projects and promoting long term infrastructure planning.

58. The authorities welcomed the consideration of supply and facilitation of corruption issues in the IMF Article IV consultations. They noted Canada's strong record of fighting

corruption and significant steps taken to deter Canadian companies and persons from paying bribes to foreign public officials (FPO) in conducting business. The authorities noted that they are implementing OECD Phase 3 recommendations. Amendments to CFPOA in 2013 granted jurisdiction over Canadian citizens, permanent residents, and Canadian companies who commit offences, regardless of where they take place; created a books and records keeping offence; clarified that the offence of bribing an FPO applies to international business transactions regardless of profit; increased maximum prison sentences; and repealed the facilitation payment exception.

STAFF APPRAISAL

59. With growth moderating to a more sustainable level, fiscal consolidation should be gradual. Rebuilding fiscal space creates room in the budget to finance policies that promote growth and enhance the economy's resilience to adverse shocks. The authorities continue to show a clear preference for investing in the middle class over more aggressive fiscal consolidation. On balance, the planned fiscal adjustment is appropriate at the federal level but provinces should aim to rebuild buffers faster to address long-term challenges. At both levels of government, any unexpected fiscal savings should target deficit and debt reduction. If growth underperforms, automatic stabilizers should be allowed to operate fully. Discretionary measures could be used, depending on the severity of the downturn.

60. Fiscal frameworks could more explicitly incorporate fiscal rules. A federal fiscal rule could include both a debt anchor and operational rules to better guide annual budget decisions and improve transparency. Fiscal rules can be quite different across provinces. The sources of fiscal imbalance (both current and expected) should be addressed. Transparency and accountability are crucial elements to ensure fiscal sustainability over the long term.

61. The authorities should continue to monitor and evaluate the effectiveness and efficiency of the tax system. Recent tax changes that allow for immediate and accelerated expensing are a step in the right direction. Further steps toward a cash-flow based system could include permanently allowing immediate expensing of all capital investments and removing interest deductibility.

62. Monetary policy should remain on hold in the near term. Monetary tightening will be warranted as the output gap closes. The balance of risks around the outlook and uncertainty about the level of the output gap and the neutral policy rate suggest that the tightening phase should be gradual.

63. Macroprudential policy has been effective and the current stance is appropriate. With the measures working well, their effectiveness should not be diluted by home buyer initiatives that inadvertently increase household debt. However, provincial and municipal real estate taxes should

be replaced by broad-based tax measures that target speculative activity more generally. A sharper than expected contraction in credit growth may warrant an adjustment to macroprudential policy settings. To alleviate housing market vulnerabilities on a more durable basis, regional and federal authorities need to work together to develop and implement a comprehensive housing supply strategy. In this context, the recent establishment of the Expert Panel on the Future of Housing Supply and Affordability is welcome.

64. The framework for systemic risk surveillance and crisis management has worked well in the past, but there is a case for modernizing the arrangement. A revamped HOA that includes all relevant agencies could be one way of carrying out economy-wide systemic risk analysis, with the objective of increasing transparency and cooperation around policy decisions and providing a broader, more inclusive dialogue on macroprudential policy. The SAC should assume the role of overseeing Canada-wide crisis preparedness, in collaboration with key provincial authorities.

65. Macroprudential oversight should be complemented with stronger microprudential supervision and safety nets. Gaps should be addressed in bank resolution, liquidity support, and monitoring of risk-taking by pension funds. OSFI should also have the authority to issue its own legally enforceable regulations. There is scope for further harmonization of provincial regulatory frameworks through the CMRS and increasing capital buffers for mortgage exposures.

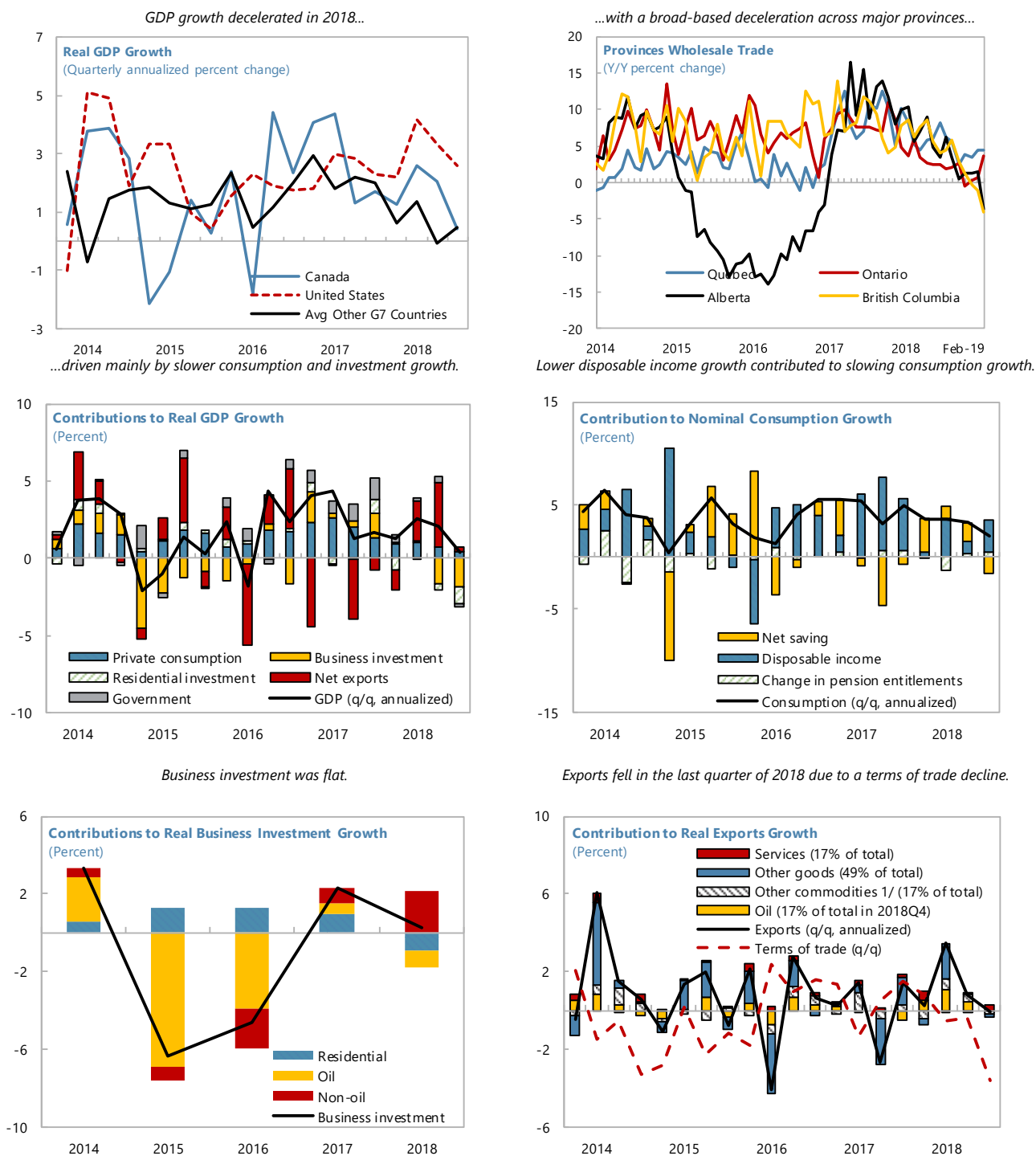
66. The reduction in trade uncertainty that came with the new USMCA is welcome. Benefits will also follow from the elimination of U.S. tariffs on steel and aluminum imports and Canada's retaliatory measures. Canada should also be commended for its rapid ratification of CPTPP and greater opportunities for diversification that it brings, and for its leadership in efforts to reaffirm the importance of a multilateral trading system.

67. Productivity is key to sustaining growth. Beyond international trade, there are significant opportunities for productivity gains from promoting internal trade. Breaking down barriers to interprovincial trade should be a priority deserving of unanimous political support. Efforts to encourage infrastructure investment are welcome, but a more detailed strategic plan is needed to prioritize projects that best serve the national interest. Better federal and provincial collaboration is needed to facilitate the flow of federal infrastructure funds that have already been allocated.

68. Canada's voluntary participation in the IMF's Enhanced Governance Framework on the supply and facilitation of corruption is commendable. The authorities are encouraged to continue enforcement actions against foreign bribery in line with OECD WGB recommendations, and further enhance the effectiveness of AML/CFT frameworks to tackle the proceeds of crime, including foreign corruption.

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

Figure 1. Canada: Growth has Slowed to a More Sustainable Level

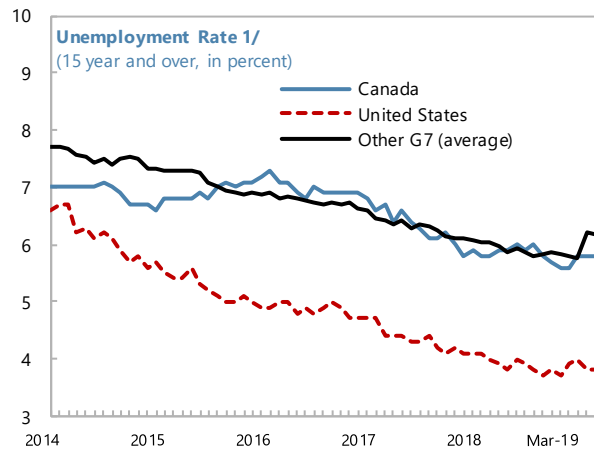


Sources: Statistics Canada; Haver Analytics; Bank of Canada; OECD Statistics and IMF staff calculations.

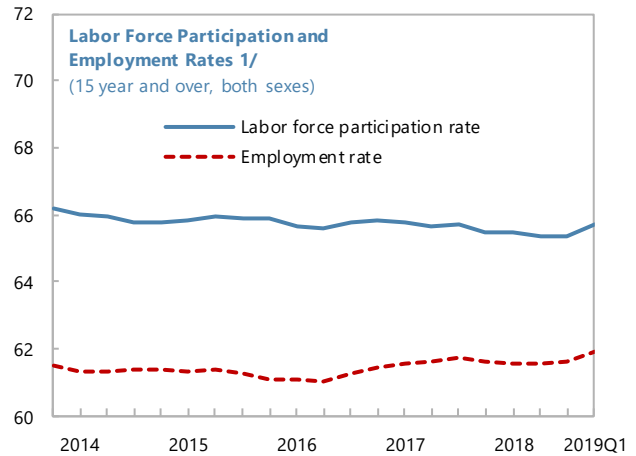
1/ Natural gas, refined petroleum products, electricity and other energy products, metal ores and nonmetallic minerals, metal and nonmetallic mineral products.

Figure 2. Canada: Wage Growth is Moderating but the Labor Market Remains Tight

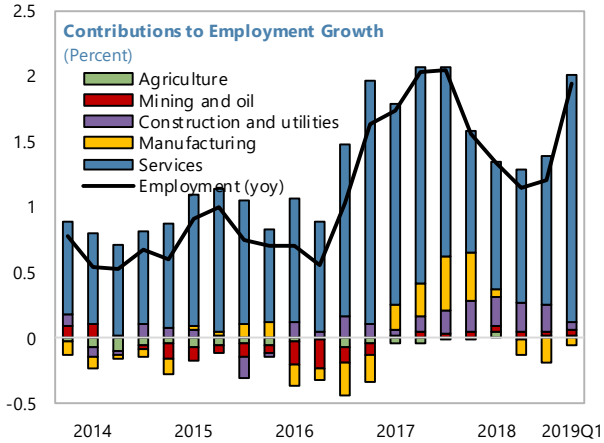
Canada's unemployment rate has fallen to a record low...



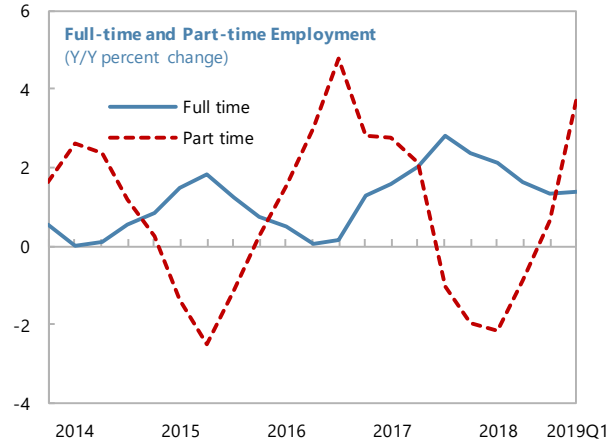
...while the employment rate has been gradually rising.



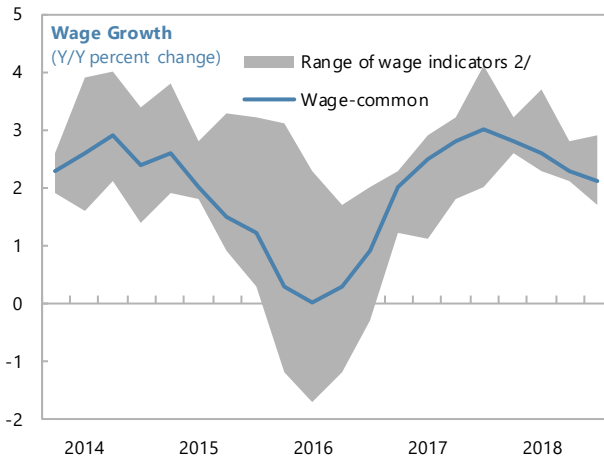
Employment growth continues to be driven mainly by the service sector...



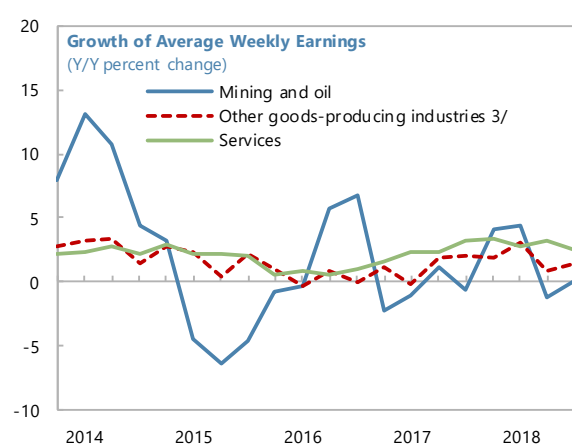
...with strong gains in part-time jobs...



...but the pace of wage growth has been moderate...



...reflecting lower wage growth in the oil and mining sector.



Sources: Statistics Canada; Haver Analytics; and IMF staff calculations.

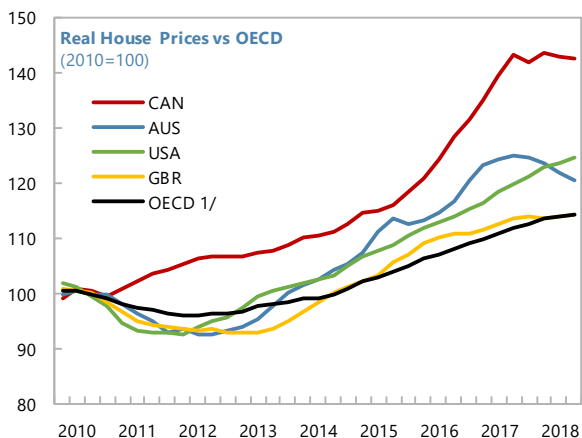
1/ Seasonally adjusted.

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.

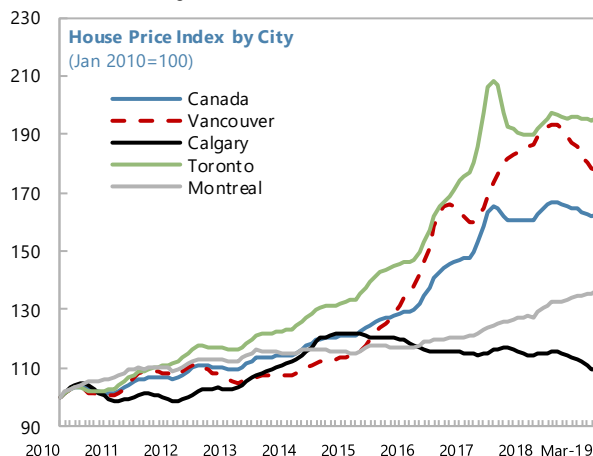
3/ Weighted average using real GDP.

Figure 3. Canada: The Housing Market has Cooled

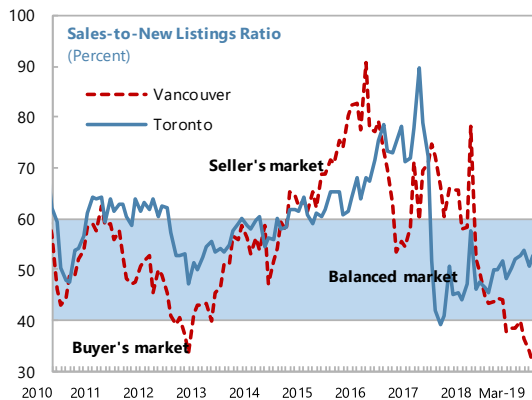
Canadian house prices have stabilized...



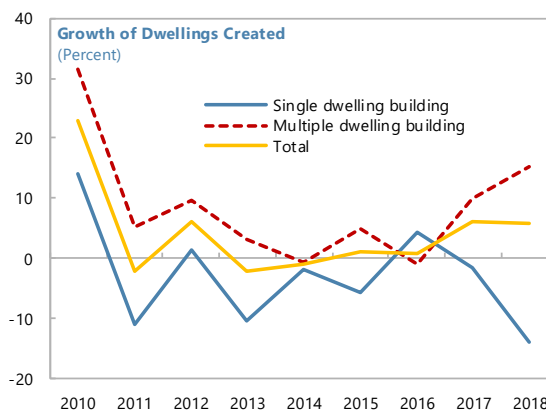
...as housing markets softened in Vancouver and Toronto...



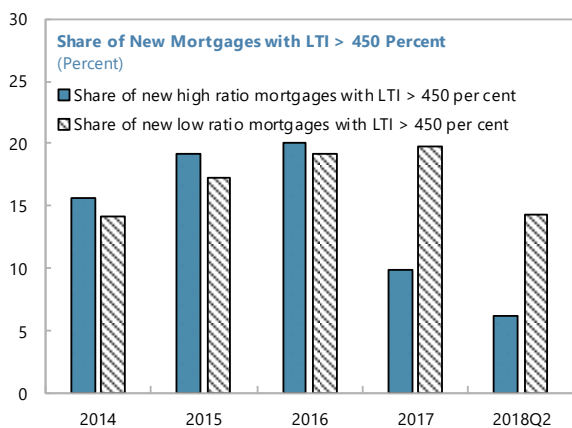
Toronto and Vancouver now have more balanced market conditions.



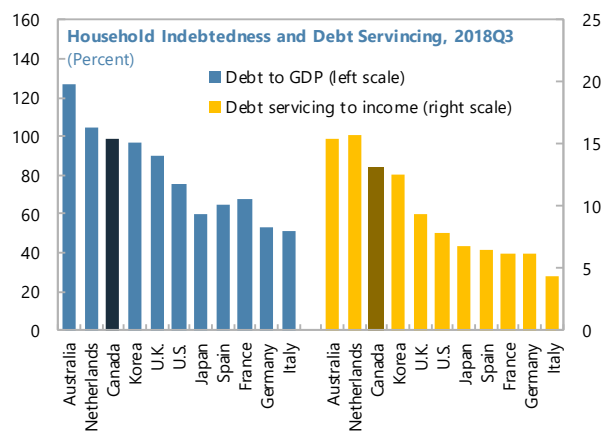
Housing supply has increased...



...and the share of highly indebted households has declined. 2/



But household indebtedness is still high by global standards.



Sources: CREA; RPS Real Property Solution; Tera Net; OECD Statistics; Haver Analytics; and IMF staff calculations.

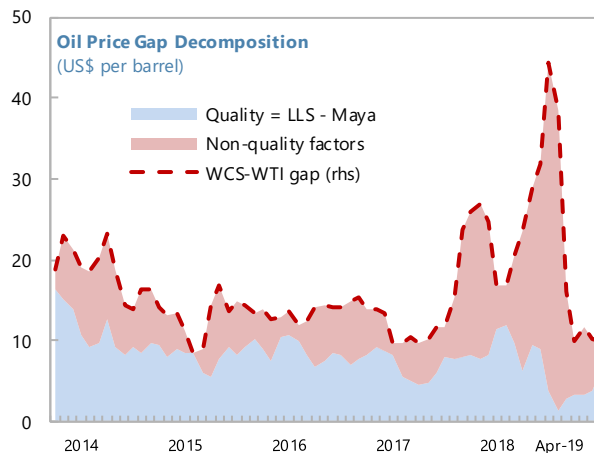
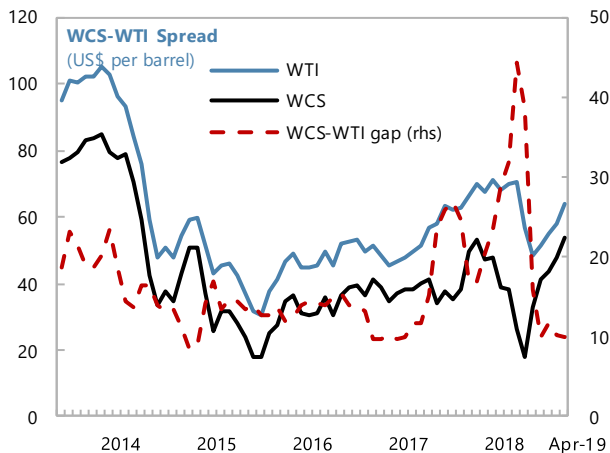
1/ Average based on a limited number of countries due to lack of data.

2/ Bank of Canada Staff Analytical Note 2018-35: "The Impact of Recent Policy Changes on the Canadian Mortgage Market"

Figure 4. Canada: The Oil Market was Weaker in 2018

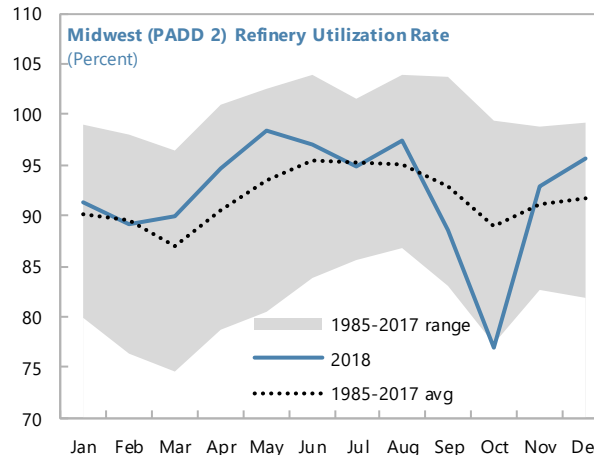
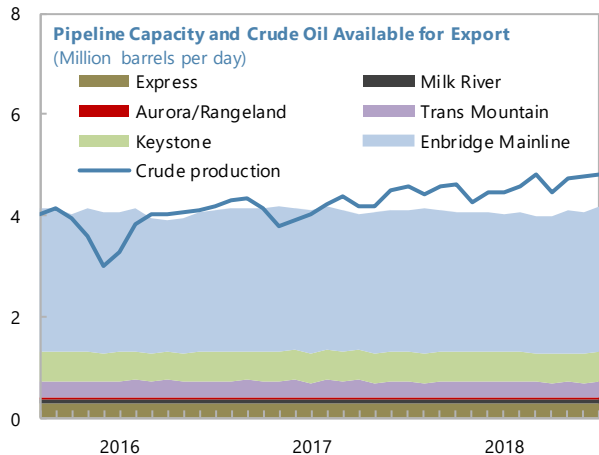
The discount on Canada heavy crude oil widened...

...reaching almost \$50 dollars in 2018Q3...



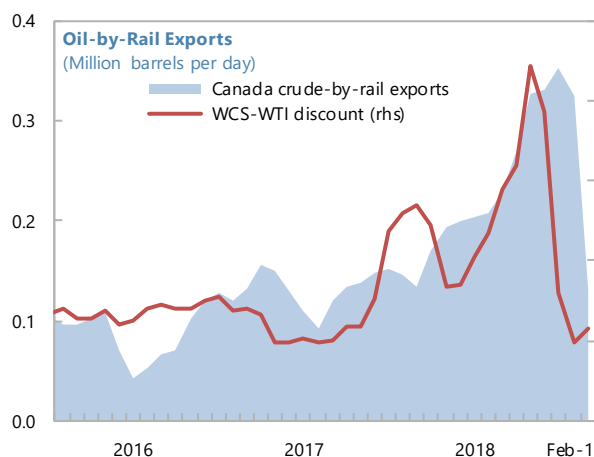
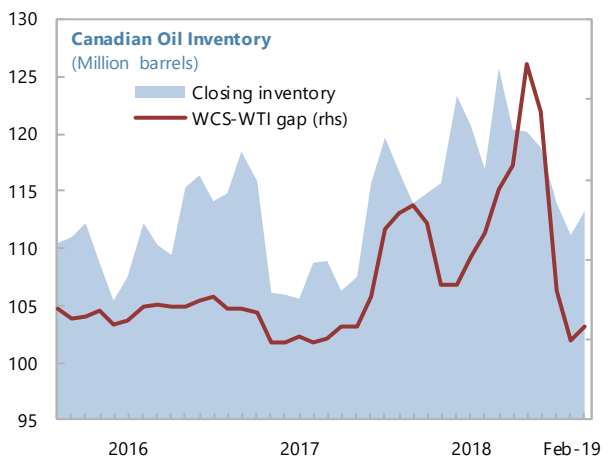
...driven by excess supply...

...and longer-than-expected shutdowns of refineries in the Midwest...



...resulting in record high inventories...

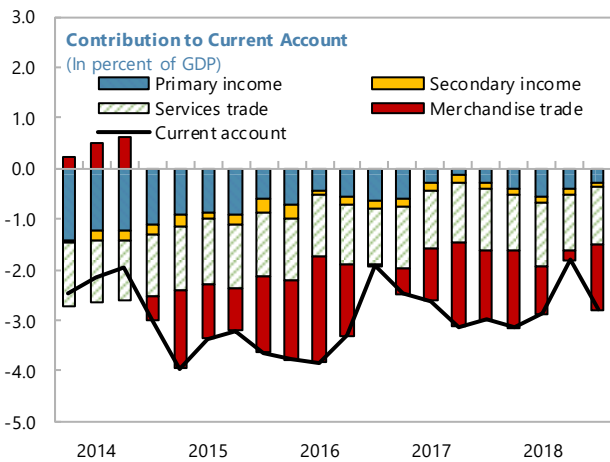
...and record high shipments by rail.



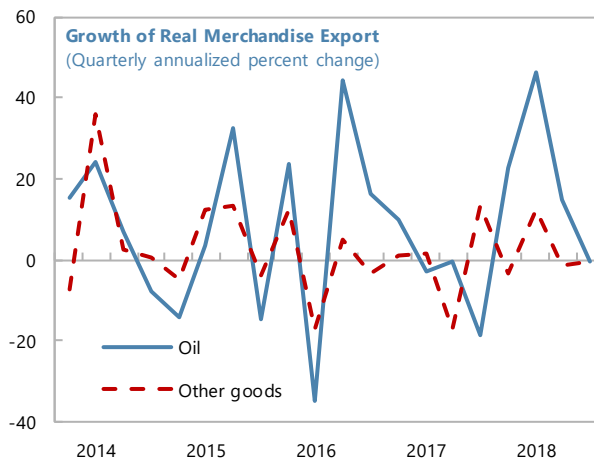
Sources: Statistics Canada; Haver Analytics; Bank of Canada; National Energy Board; U.S. Energy Information Administration; Bloomberg and IMF staff calculations.

Figure 5. Canada: The External Sector is Stable but Challenges Remain

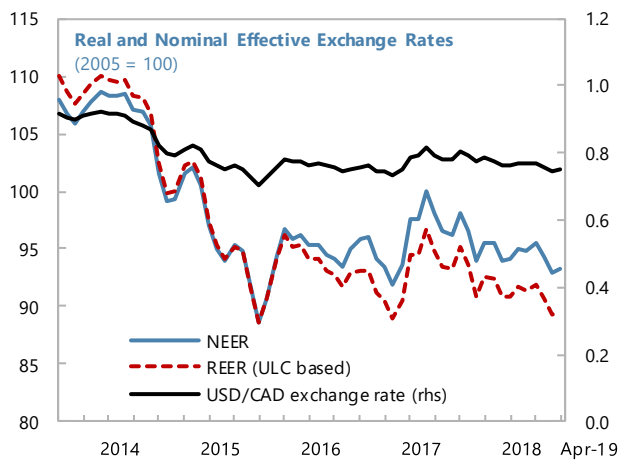
The current account deficit has narrowed slightly...



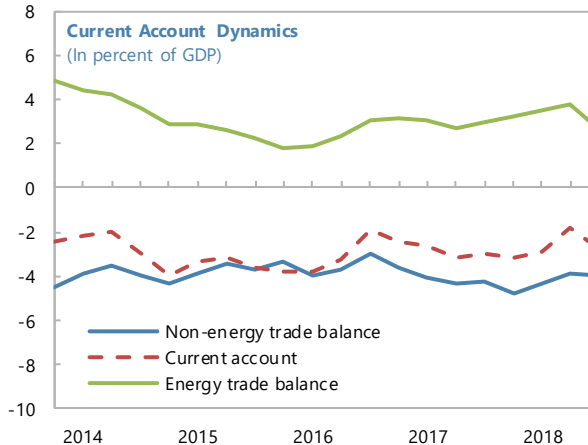
...with growth in energy and non-energy exports...



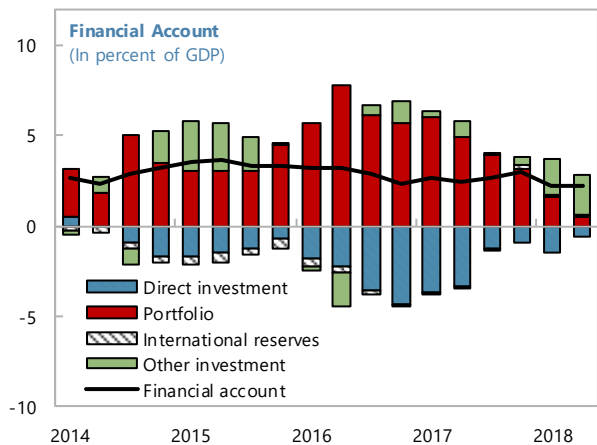
...along with a lower exchange rate.



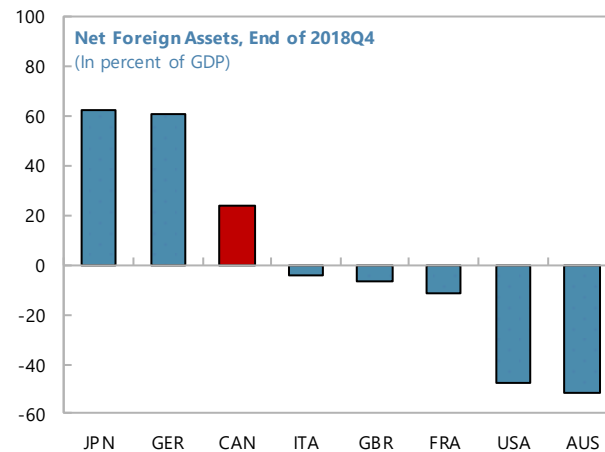
But the non-energy trade balance remains deeply in deficit.



The CA deficit is largely financed by portfolio and deposit inflows.

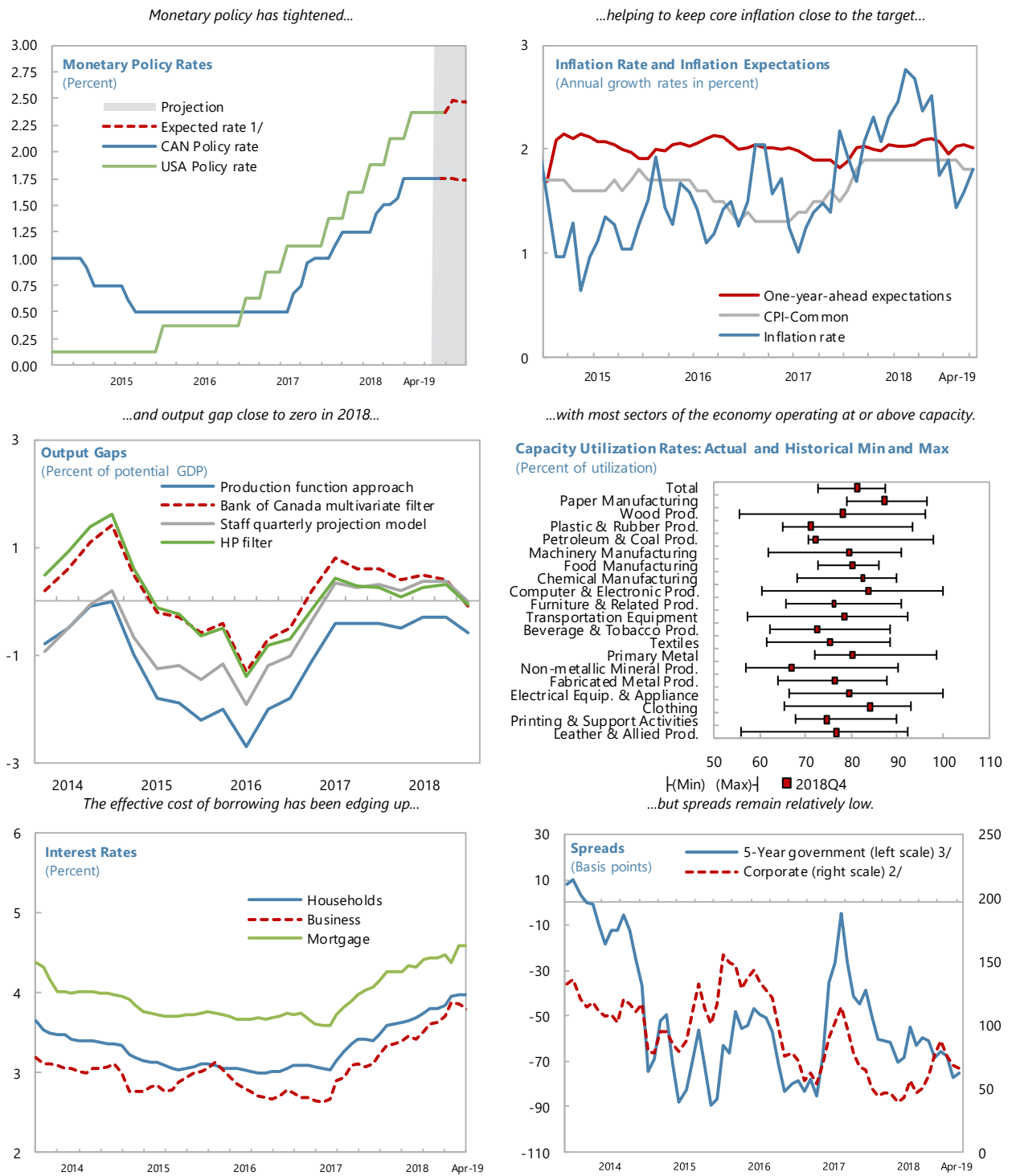


Despite its CA deficit, Canada remains a net creditor with the rest of the world.



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

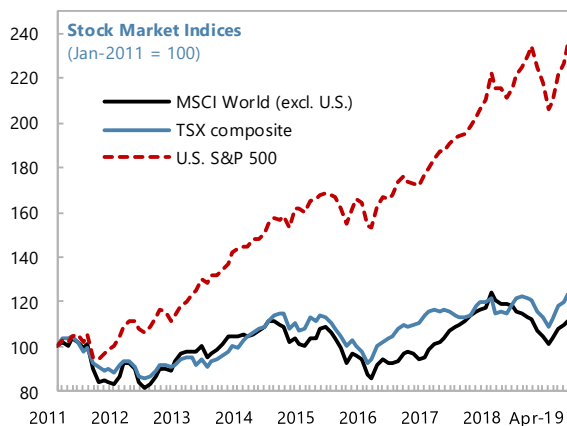
Figure 6. Canada: Monetary Conditions Have Tightened



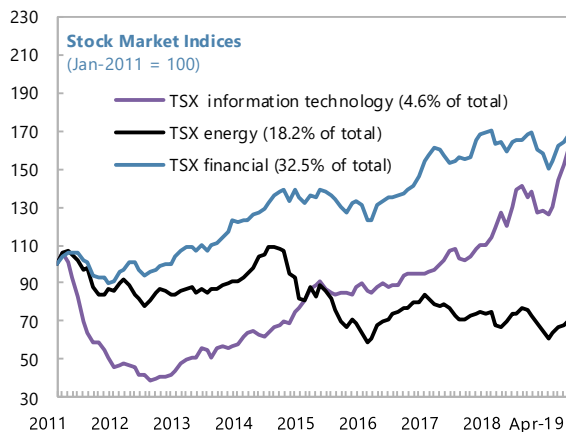
Source: Haver Analytics, Consensus Economics, Statistics Canada, Bank of Canada, Bloomberg, and IMF Staff estimates.
 1/ Estimated rate as of Feb 2019 using Bloomberg's World Interest Rate Implied Probability (WIRP).
 2/ ICE BofA Merrill Lynch Canada Corporate Effective Yields minus U.S. 5-Year Treasury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

Figure 7. Canada: Capital Markets Have Improved While Long-term Yields Have Fallen Back

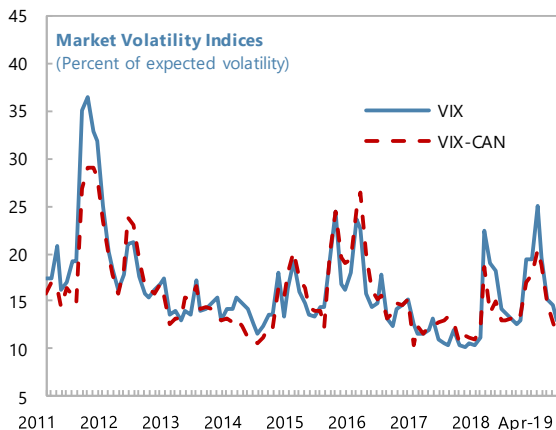
TSX index has evolved broadly in line with global indices....



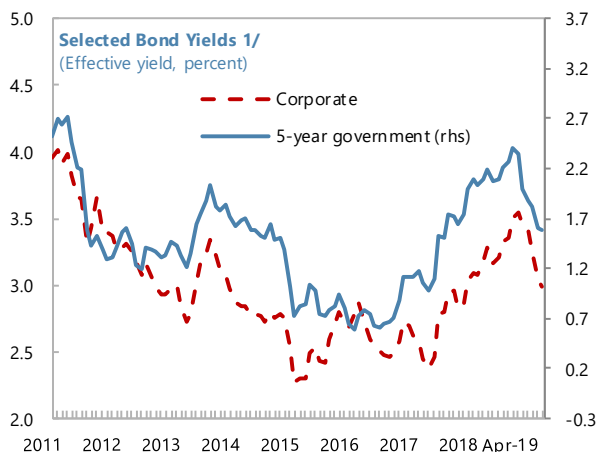
...with increases in most sectors, but energy stocks remain weak



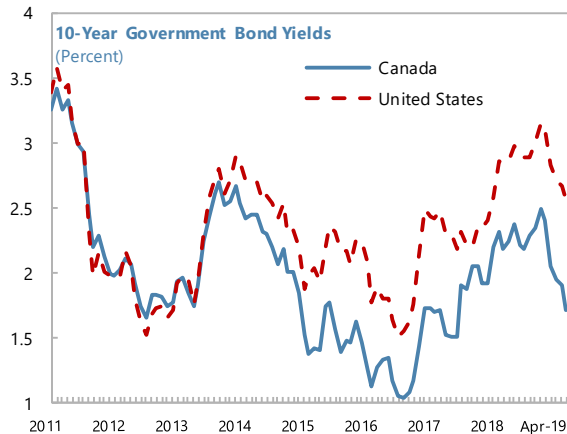
Market volatility fell recently...



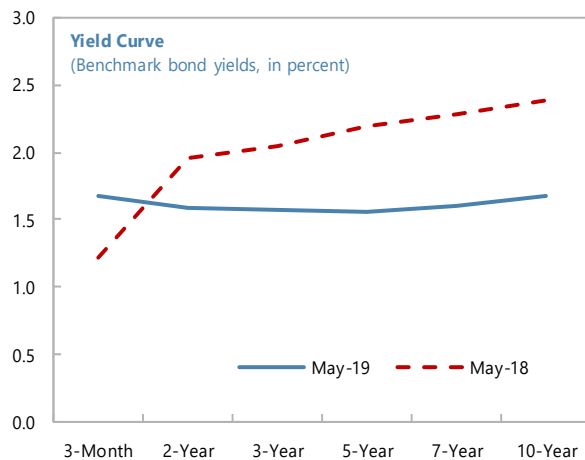
...along with falling sovereign and corporate bond yields.



Long-term yields are closely correlated with U.S. long-term yields.



The yield curve has flattened over the past year.

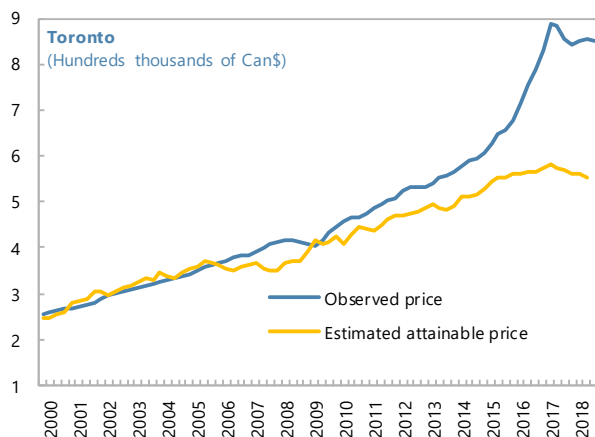


Source: Haver Analytics, Statistics Canada, Bank of Canada, Bloomberg, and IMF Staff estimates.

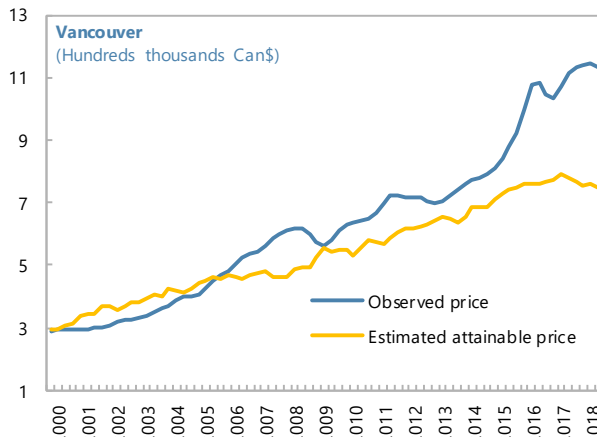
1/The corporate yields correspond to the ICE BofA Merrill Lynch Canada Corporate Bonds index

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

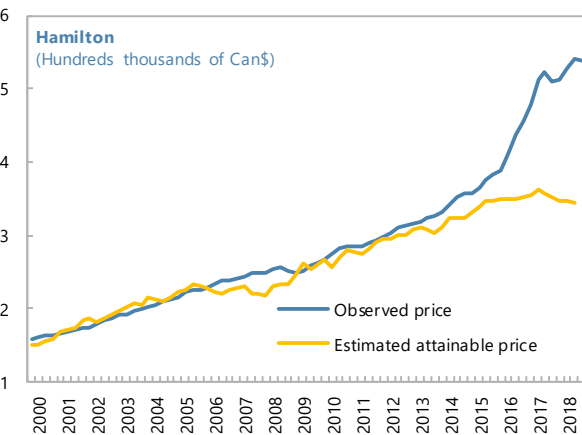
The Toronto market is still overvalued...



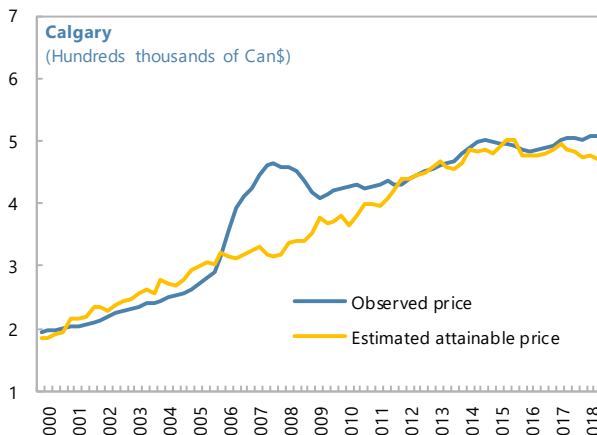
...as well as Vancouver...



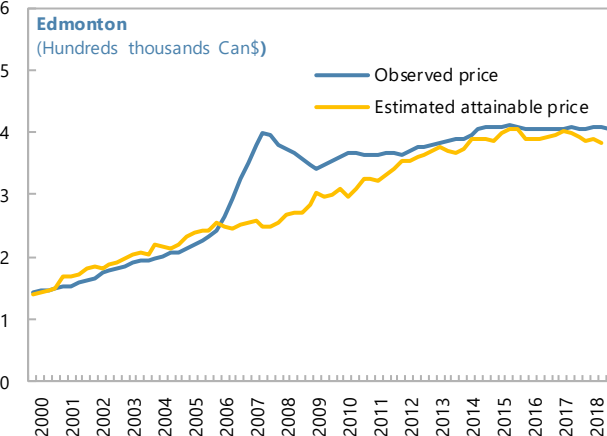
...and Hamilton.



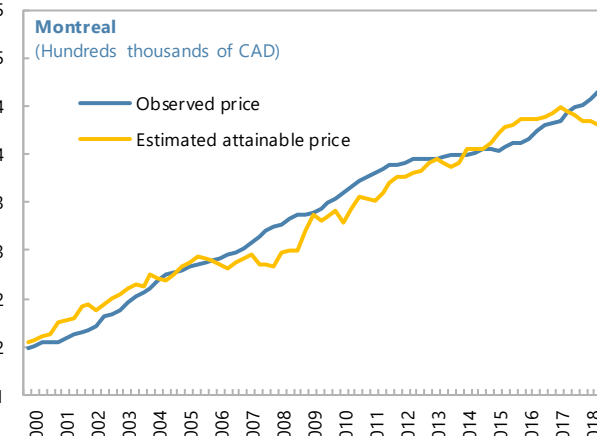
House prices in Calgary and Edmonton...



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



House prices have been consistent with fundamentals in Montreal.

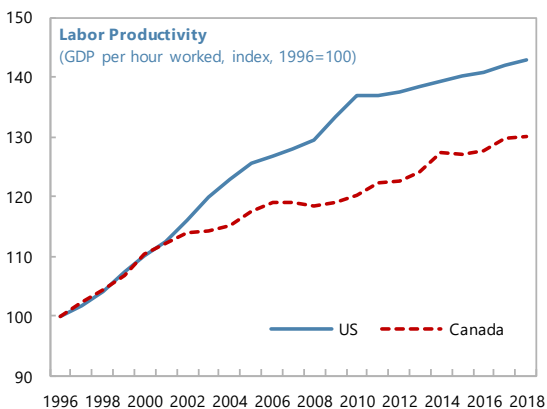


Sources: Statistics Canada; CREA; RPS Real Property Solution; Teranet; Haver Analytics; and IMF staff calculations.

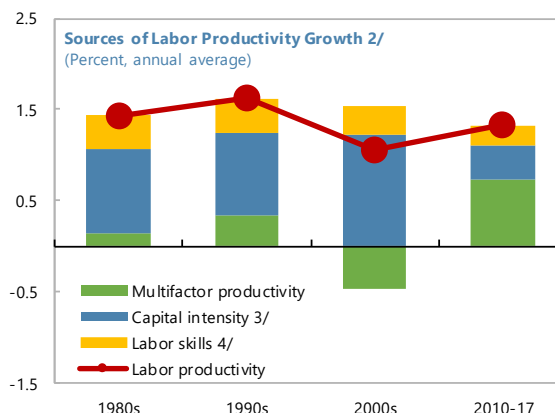
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Figure 9. Canada: Business Investment and Productivity Growth Have Been Sluggish 1/

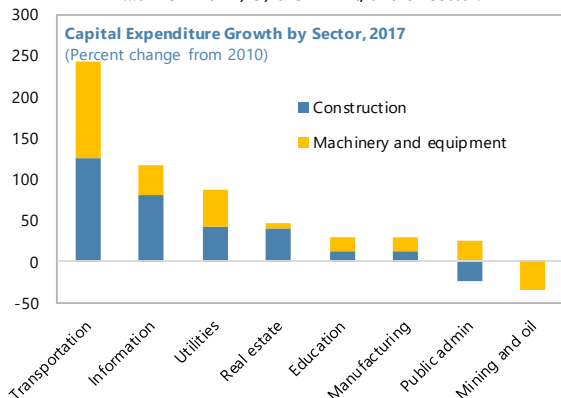
Canada's productivity has lagged the US since early 2000s.



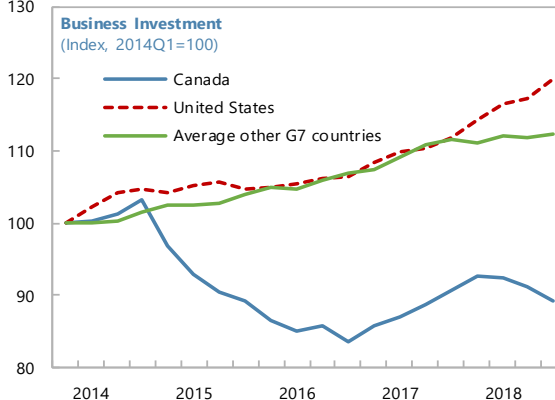
Capital intensity has declined since 2010...



...driven mainly by the mining and oil sector.



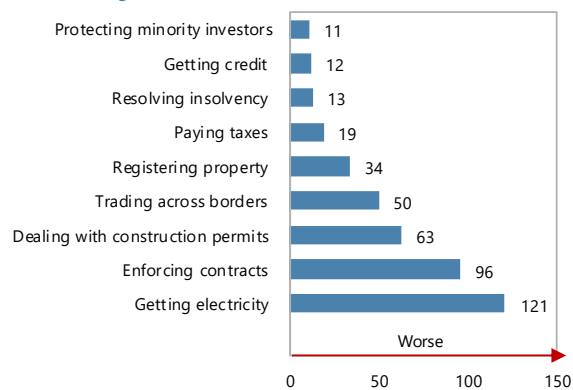
Investment has severely lagged developments seen in G7 countries.



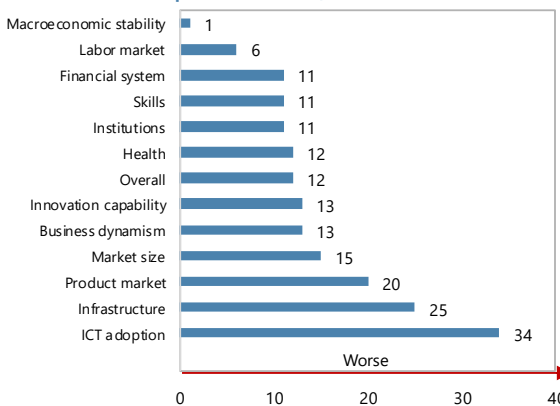
Canada slipped in the Doing Business Ranking from 18th place to 22nd...

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

Rank on Doing Business, 2019



Rank on Global Competitiveness Index, 2018



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.
- 2/ The business sector, which includes the whole economy less public administration, non-profit institutions and the rental value owner-occupied dwellings.
- 3/ Growth in capital stock per total hours worked.
- 4/ Growth in the educational attainment and work experience of the labor force.

Table 1. Canada: Selected Economic Indicators, 2015–20

(Percentage change, unless otherwise indicated)

Nominal GDP (2018): Can\$ 2,217 billion (US\$ 1,711 billion)

Quota: SDR 11,023.9 million

GDP per capita (2018): US\$ 46,243

Population (2018): 37.0 million

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

	2015	2016	2017	2018	Projections	
					2019	2020
Output and Demand						
Real GDP	0.7	1.1	3.0	1.8	1.5	1.9
Total domestic demand	-0.1	0.7	3.9	1.7	0.6	1.8
Private consumption	2.3	2.2	3.5	2.1	0.7	1.3
Total investment	-6.8	-4.4	6.5	-0.1	0.6	3.7
Net exports, contribution to growth	0.9	0.4	-1.1	0.1	0.7	0.1
Unemployment and Inflation						
Unemployment rate (average) 2/	6.9	7.0	6.3	5.8	5.9	6.0
CPI inflation (average)	1.1	1.4	1.6	2.2	1.7	1.9
Saving and Investment 1/						
Gross national saving	20.3	19.7	20.7	20.4	20.2	21.1
General government	3.8	3.7	3.8	3.5	3.0	2.9
Private	16.5	16.0	16.9	16.8	17.2	18.2
Personal	5.4	3.9	3.8	2.7	2.3	2.7
Business	11.0	12.1	13.1	14.1	14.9	15.5
Gross domestic investment	23.8	22.9	23.5	23.0	22.9	23.3
General Government Fiscal Indicators 1/ (NA basis)						
Revenue	40.0	40.1	39.9	40.1	39.8	39.9
Expenditures	40.0	40.6	40.3	40.6	40.6	40.7
Overall balance	-0.1	-0.4	-0.3	-0.4	-0.8	-0.8
Gross Debt	91.3	91.8	90.1	89.7	87.5	84.9
Net debt 3/	28.5	28.8	27.6	26.8	26.7	25.9
Money and Credit (Annual average)						
Household Credit Growth	4.9	5.5	5.5	4.0	2.6	4.2
Business Credit Growth	9.3	5.3	8.2	6.5	4.0	7.2
Three-month treasury bill 2/	0.5	0.5	0.7	1.4	1.7	1.9
Ten-year government bond yield 2/	1.5	1.3	1.8	2.3	2.3	2.5
Balance of Payments						
Current account balance 1/	-3.5	-3.2	-2.8	-2.6	-2.7	-2.2
Merchandise Trade balance 1/	-1.2	-1.3	-1.2	-1.0	-1.8	-1.6
Export volume (percent change)	3.4	0.6	0.7	3.1	2.4	2.6
Import volume (percent change)	0.3	-0.4	4.7	3.3	-0.1	2.1
Terms of trade	-7.1	-1.2	3.3	0.3	-4.6	0.3

Sources: Haver Analytics and Fund staff calculations

1/ Percent of GDP.

2/ In percent.

3/ Excludes equity (authorities' definition).

Table 2. Canada: Balance of Payments, 2017–24

(Percent of GDP)

	2017	2018	Projections					
			2019	2020	2021	2022	2023	2024
Current Account								
Current account balance	-2.8	-2.6	-2.7	-2.2	-2.0	-2.0	-1.9	-1.9
Merchandise trade balance	-1.2	-1.0	-1.8	-1.6	-1.4	-1.3	-1.2	-1.1
Exports, goods	25.7	26.4	24.9	24.5	24.3	23.8	23.5	23.2
Export volume growth (percentage change)	0.7	3.1	2.4	2.6	3.0	2.0	1.9	0.7
Imports, goods	26.8	27.4	26.7	26.1	25.7	25.2	24.7	24.3
Import volume growth (percentage change)	4.7	3.3	-0.1	2.1	2.2	2.1	2.0	0.8
Services balance	-1.2	-1.2	-1.0	-1.0	-0.9	-0.9	-0.8	-0.8
Primary Income Balance	-0.3	-0.4	0.2	0.5	0.4	0.2	0.3	0.0
Secondary Income Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital and Financial Accounts								
Direct investment, net	-3.3	-0.6	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Portfolio investment, net	4.9	0.5	2.1	1.7	1.6	1.6	1.6	1.5
Other investment, net 1/	0.9	2.2	0.8	0.6	0.6	0.6	0.5	0.5
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International reserves	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items								
Terms of trade (percent change)	3.3	0.3	-4.6	0.3	0.1	0.3	0.5	0.6
Net international investment position 2/	20.6	17.8	15.2	12.9	10.9	8.8	7.0	5.2
Assets	225.7	181.5	180.4	177.3	174.6	172.2	169.9	167.8
FDI	91.6	...	...	...	...	...	...	...
Portfolio 2/	95.4	...	...	...	...	...	...	...
Other	33.6	...	...	...	...	...	...	...
Reserves	5.1	...	...	...	...	...	...	...
Liabilities	205.1	163.7	165.2	164.4	163.7	163.3	162.9	162.6
FDI	67.4	...	...	...	...	...	...	...
Portfolio 2/	100.6	...	...	...	...	...	...	...
Other	37.1	...	...	...	...	...	...	...
Gross external debt	115.6	121.4	123.7	123.9	124.2	124.7	124.9	125.2
Real effective exchange rate 3/	1.6	...	...	...	...	...	...	...

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, 2016–24 1/

(Percent of GDP, unless otherwise indicated)

	2016	2017	2018	Projections					
				2019	2020	2021	2022	2023	2024
Federal Government									
Revenue	14.3	14.4	14.8	14.6	14.7	14.7	14.7	14.7	14.7
Income taxes	9.3	9.4	9.7	9.5	9.5	9.5	9.5	9.5	9.5
Expenditures	14.5	14.4	14.5	14.6	14.6	14.5	14.5	14.4	14.4
Program spending	14.6	14.6	14.7	14.5	14.4	14.2	14.1	14.0	13.9
Transfers	9.3	9.3	9.2	9.3	9.4	9.5	9.6	9.5	9.5
Interest payments	1.1	1.0	1.1	1.1	1.1	1.2	1.2	1.3	1.3
Budgetary balance	-0.2	-0.1	0.3	0.0	0.1	0.2	0.2	0.3	0.4
Cyclically-adjusted balance 2/	0.2	0.1	0.4	0.1	0.1	0.1	0.2	0.2	0.4
Net federal debt	22.2	21.1	19.3	18.3	18.1	17.7	17.2	16.8	16.5
Gross federal debt	38.9	37.7	35.4	34.3	33.3	32.5	31.6	30.8	30.1
Provincial and Local Governments									
Revenue	26.6	26.4	26.1	26.0	26.0	26.0	26.0	26.0	26.0
Income taxes	6.3	6.2	6.1	6.1	6.1	6.1	6.1	6.2	6.2
Expenditures	27.4	27.2	27.4	27.2	27.3	27.2	27.2	27.1	27.0
Interest payments	1.9	1.8	1.9	1.7	1.7	1.6	1.6	1.5	1.4
Budgetary balance	-0.8	-0.8	-1.3	-1.3	-1.2	-1.2	-1.2	-1.1	-1.0
Canada/Quebec Pension Plans									
Revenue	3.5	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Total spending	2.9	2.9	2.9	3.0	3.0	3.1	3.1	3.2	3.2
Budgetary balance	0.6	0.6	0.5	0.4	0.4	0.3	0.3	0.2	0.2
Consolidated General Government 3/									
Revenue	40.1	39.9	40.1	39.8	39.9	39.9	39.9	40.0	40.1
Expenditure	40.6	40.3	40.6	40.6	40.7	40.6	40.6	40.6	40.5
Overall balance	-0.4	-0.3	-0.4	-0.8	-0.8	-0.7	-0.6	-0.6	-0.5
Primary balance	0.2	0.0	-0.1	-0.5	-0.4	-0.3	-0.2	-0.1	0.1
Cyclically-adjusted balance 2/	0.6	0.0	-0.2	-0.7	-0.8	-0.8	-0.8	-0.7	-0.5
Net public debt 4/	28.8	27.6	26.8	26.7	25.9	25.1	24.3	23.5	22.7
Gross public debt	91.8	90.1	89.7	87.5	84.9	82.3	79.9	77.5	75.3
Memorandum Items									
Real GDP growth (percentage change)	1.1	3.0	1.8	1.5	1.9	1.8	1.6	1.6	1.7
Nominal GDP growth (percentage change)	1.9	5.6	3.6	3.3	3.9	3.9	3.8	3.8	3.6
Three-month treasury bill (percent)	0.5	0.7	1.4	1.7	1.9	2.3	2.7	2.9	3.0
Ten-year government bond (percent)	1.3	1.8	2.3	2.3	2.5	2.9	3.2	3.4	3.5

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

1/ National Accounts basis; the numbers are different from the authorities' public sector accounts.

2/ Percent of potential GDP.

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

4/ Excludes equity (authorities' definition).

**Table 4. Canada: Statement of General Government Operations and Balance Sheet,
2010–18 1/**

(Percent of GDP, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Government operations									
Revenue	38.4	38.3	38.5	38.5	38.6	40.0	40.2	40.0	40.2
Taxes	26.5	26.4	26.7	26.6	26.8	28.2	28.5	28.4	28.6
Social contributions	4.5	4.5	4.6	4.7	4.6	4.8	4.8	4.6	4.6
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other revenue	7.2	7.3	7.1	7.2	7.2	7.0	6.8	7.0	7.0
Total expenditure	43.1	41.6	40.9	40.0	38.4	40.0	40.6	40.3	40.6
Expense	41.3	40.4	39.9	39.3	38.2	39.6	40.2	39.7	39.9
Compensation of employees	12.4	12.2	12.1	12.1	11.9	12.1	12.2	12.0	12.1
Use of goods and services	9.0	8.8	8.7	8.4	8.2	8.5	8.6	8.6	8.6
Consumption of fixed capital	3.1	3.1	3.2	3.2	3.2	3.3	3.3	3.2	3.2
Interest	3.7	3.6	3.5	3.4	3.2	3.1	3.0	2.9	3.0
Subsidies	1.1	1.1	1.1	0.9	0.9	0.9	0.9	1.0	0.9
Grants	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.2
Social benefits	9.6	9.3	9.3	9.2	9.0	9.7	10.0	9.9	9.9
Other expense	2.2	2.0	1.8	1.8	1.7	1.7	1.8	1.9	2.0
Net acquisition of nonfinancial assets	1.8	1.2	1.0	0.7	0.2	0.4	0.4	0.6	0.6
Gross operating balance	0.2	1.1	1.8	2.4	3.6	3.7	3.4	3.5	3.5
Net operating balance	-2.9	-2.1	-1.5	-0.8	0.4	0.4	0.0	0.3	0.3
Net lending or borrowing	-4.7	-3.2	-2.5	-1.4	0.2	0.0	-0.4	-0.3	-0.4
Balance sheet (market value)									
Net worth	-1.7	-2.1	-8.7	1.1	-0.5	-3.6	1.5	8.1	10.6
Nonfinancial assets	48.2	50.8	44.8	49.4	46.6	42.7	46.3	46.9	48.2
Net financial worth	-49.9	-52.8	-53.5	-48.3	-47.1	-46.3	-44.7	-38.8	-37.6
Financial assets	62.7	62.2	65.8	67.8	69.4	76.4	77.1	78.1	78.5
Currency and deposits	3.2	3.1	3.9	4.5	4.7	5.0	5.4	5.3	5.1
Securities other than shares	14.7	14.0	14.3	15.4	15.0	16.4	15.6	15.6	16.0
Loans	15.8	15.8	15.7	15.2	14.7	17.0	17.0	16.4	17.5
Shares and other equity	17.0	17.2	18.8	20.2	21.8	25.0	26.4	28.6	29.2
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	12.0	12.0	13.0	12.5	13.3	13.0	12.8	12.1	10.6
Financial liabilities 2/	112.6	115.0	119.3	116.1	116.5	122.7	121.9	116.9	116.1
Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities other than shares	75.3	78.6	81.8	78.2	78.4	82.6	83.6	80.2	79.6
Loans	4.2	4.3	4.2	4.4	4.4	4.4	4.4	4.3	4.3
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	19.1	18.8	18.4	17.5	16.5	17.2	16.3	15.2	15.2
Other accounts payable	13.7	13.0	14.6	15.8	17.0	18.1	17.2	16.8	16.8
Memorandum items:									
Nominal GDP (in billions of Can\$)	1,666	1,774	1,827	1,902	1,995	1,990	2,028	2,142	2,218

Sources: Statistics Canada; and Haver Analytics.

1/ Government Finance Statistics basis.

2/ Includes unfunded public sector pension liabilities.

Table 5. Canada: Financial Soundness Indicators, 2012–18

(Percent, unless otherwise indicated)

	2012	2013	2014	2015	2016	2017	2018
Total Assets							
Total assets 1/	3,682	3,854	4,179	4,666	5,014	5,277	5,643
Percent of GDP	201.5	202.6	209.5	234.4	247.2	246.4	254.5
Nominal GDP 1/	1,827	1,902	1,995	1,990	2,028	2,142	2,218
Capital Adequacy							
Total capital ratio	16.2	14.3	14.2	14.2	14.8	14.8	15.2
Tier 1 ratio	13.4	11.7	11.9	12.1	12.5	12.9	13.2
Capital to assets	4.9	5.0	4.9	5.1	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	...
NPLs to Gross Loans	0.7	0.6	0.5	0.5	0.6	0.4	0.4
Provisions (Individual) to NPL	22.3	16.3	17.5	17.3	16.7	15.1	...
<i>Sectoral Distribution of Loans</i>							
Residents	74.3	73.6	71.4	67.5	68.2	67.0	64.2
Nonresidents	25.7	26.4	28.6	32.5	31.8	33.0	35.8
Profitability							
Return on assets	1.1	1.1	1.1	1.0	1.0	1.1	1.2
Return on equity	22.7	22.3	22.5	20.7	19.9	21.4	22.0
Interest margin on gross income	52.0	52.5	51.2	51.1	50.7	50.8	50.7
Trading income to gross income	5.3	4.5	3.7	3.8	4.8	4.7	6.0
Non-interest expenses to gross income	63.3	62.6	62.8	63.8	63.6	61.0	59.8
Liquidity							
Liquid assets to total assets	11.9	11.3	11.0	11.5	10.9	10.7	10.5
Liquid assets to short-term liabilities	51.8	47.8	50.5	45.4	54.6	49.4	48.0
Customer deposits to loans	96.3	98.2	99.3	101.0	101.4	99.9	99.4
FX and Derivative Risk							
FX loans to total loans	26.8	27.7	30.1	33.4	34.3	35.5	37.4
FX liabilities to total liabilities	42.4	42.7	49.2	48.4	55.0	54.0	54.5

Sources: IMF FSI database; and IMF staff calculations.

1/ Billions of Canadian dollars.

Table 6. Canada: Medium-Term Scenario 2016–24

(Percentage change, unless otherwise indicated)

	2016	2017	2018	Projections					
				2019	2020	2021	2022	2023	2024
National Accounts in constant prices									
Real GDP	1.1	3.0	1.8	1.5	1.9	1.8	1.6	1.6	1.7
Q4/Q4	1.8	2.9	1.6	1.8	1.8	1.7	1.6	1.6	1.6
Net exports 1/	0.4	-1.1	0.1	0.7	0.1	0.2	0.0	-0.1	0.0
Final domestic demand	0.6	3.1	1.9	0.7	1.9	1.6	1.7	1.7	1.7
Private consumption	2.2	3.5	2.1	0.7	1.3	1.6	1.7	1.6	1.6
Public consumption	1.8	2.1	2.5	0.7	1.1	1.0	1.0	1.0	1.0
Private fixed domestic investment	-4.7	2.3	0.3	0.6	4.1	2.5	2.5	2.4	2.4
Public investment	-2.3	6.3	3.4	1.6	2.5	0.7	1.2	1.7	1.9
Change in inventories 1/	0.0	0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	1.9	5.6	3.6	3.3	3.9	3.9	3.8	3.8	3.6
Employment and inflation									
Unemployment rate 3/	7.0	6.3	5.8	5.9	6.0	6.1	6.3	6.4	6.5
Employment	0.7	1.9	1.3	1.0	0.8	0.8	0.8	0.8	0.8
CPI inflation	1.4	1.6	2.2	1.7	1.9	2.0	2.1	2.1	2.0
Core CPI inflation (y/y)	1.9	1.1	1.5	1.6	1.7	2.0	2.2	2.2	2.1
GDP deflator	0.8	2.5	1.7	1.8	1.9	2.1	2.1	2.2	2.0
Potential output growth	1.5	1.3	1.6	1.3	1.5	1.6	1.6	1.7	1.7
Output gap 4/	-2.4	-0.8	-0.5	-0.4	0.1	0.3	0.3	0.2	0.1
Indicators of fiscal policies									
Federal fiscal balance	-0.2	-0.1	0.3	0.0	0.1	0.2	0.2	0.3	0.4
Billions of Can\$	-3.5	-1.1	7.1	1.1	1.7	4.5	5.9	7.2	10.2
General government fiscal balance 5/	-0.4	-0.3	-0.4	-0.8	-0.8	-0.7	-0.6	-0.6	-0.5
Billions of Can\$	-8.5	-6.6	-9.6	-18.5	-18.8	-16.9	-16.5	-15.7	-12.9
General government gross debt	91.8	90.1	89.7	87.5	84.9	82.3	79.9	77.5	75.3
General government net debt 7/	28.8	27.6	26.8	26.7	25.9	25.1	24.3	23.5	22.7
Three-month treasury bill 3/	0.5	0.7	1.4	1.7	1.9	2.3	2.7	2.9	3.0
Ten-year government bond yield 3/	1.3	1.8	2.3	2.3	2.5	2.9	3.2	3.4	3.5
External indicators									
Current account balance 2/	-3.2	-2.8	-2.6	-2.7	-2.2	-2.0	-2.0	-1.9	-1.9
Merchandise trade balance 2/	-1.3	-1.2	-1.0	-1.8	-1.6	-1.4	-1.3	-1.2	-1.1
Export volume	0.6	0.7	3.1	2.4	2.6	3.0	2.0	1.9	0.7
Import volume	-0.4	4.7	3.3	-0.1	2.1	2.2	2.1	2.0	0.8
Terms of trade	-1.2	3.3	0.3	-4.6	0.3	0.1	0.3	0.5	0.6
Real effective exchange rate	-2.4	1.6	...	...	...	...	...	...	...
Saving and investment 2/									
Gross national saving	19.7	20.7	20.4	20.2	21.1	21.4	21.4	21.8	21.8
General government	3.7	3.8	3.5	3.0	2.9	2.9	2.8	2.7	2.7
Private	16.0	16.9	16.8	17.2	18.2	18.5	18.7	19.1	19.2
Gross domestic investment	22.9	23.5	23.0	22.9	23.3	23.4	23.5	23.6	23.8
Personal savings 6/	1.7	1.6	1.1	1.0	1.2	2.0	2.0	2.0	2.1
Memorandum Items									
Nominal GDP (billions of Can\$)	2,028	2,142	2,218	2,290	2,379	2,472	2,566	2,664	2,760

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.

7/ Excludes equity (authorities' definition).

Table 7. Canada: External Debt 2008–18 1/

(End of period, market value)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
(In percent of GDP)											
Total All Sectors	67.7	73.2	73.6	75.8	82.4	84.8	92.6	113.3	116.8	115.6	121.4
Short-term	23.5	22.9	21.7	22.6	24.6	25.2	29.3	38.0	39.2	37.0	42.1
Long-term	33.1	38.6	41.3	44.5	48.5	49.2	53.1	63.7	66.5	67.8	68.4
General Government	11.4	14.6	17.4	20.2	22.3	20.5	20.2	22.0	22.4	22.7	21.2
Short-term	1.4	1.6	1.6	3.1	3.2	2.7	2.3	2.2	2.0	1.3	1.7
Long-term	10.0	13.0	15.8	17.1	19.1	17.8	17.9	19.8	20.4	21.4	19.4
Monetary Authorities	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	22.3	24.3	30.2	41.5	44.7	43.9	49.8
Short-term	19.4	19.2	17.3	16.6	18.0	19.1	23.7	31.3	32.3	30.7	34.4
Long-term	0.7	0.9	2.1	3.6	4.3	5.2	6.5	10.2	12.4	13.3	15.4
Other Sectors	25.1	26.8	26.1	26.5	28.5	29.5	32.0	38.1	38.5	38.1	39.6
Short-term	2.7	2.1	2.7	2.8	3.5	3.4	3.2	4.5	4.9	5.0	6.0
Long-term	22.4	24.7	23.4	23.8	25.1	26.2	28.8	33.6	33.6	33.1	33.6
(In billions of US dollar)											
Total All Sectors	916	1,100	1,234	1,323	1,514	1,516	1,593	1,629	1,764	1,974	1,973
Short-term	318	343	363	394	453	451	504	547	591	632	685
Long-term	448	579	692	776	890	880	913	916	1,004	1,157	1,112
General Government	154	218	292	353	410	367	347	317	338	388	344
Short-term	19	23	27	54	59	49	40	32	29	22	28
Long-term	136	195	265	299	351	318	308	285	309	366	316
Monetary Authorities	0	0	0	0	0	0	0	0	0	0	0
Banks	272	301	326	353	409	435	519	597	676	750	810
Short-term	263	288	290	290	330	342	408	450	488	523	559
Long-term	9	13	35	63	79	94	111	147	188	227	251
Other Sectors	340	403	437	463	524	528	550	549	581	651	643
Short-term	37	31	45	49	64	60	56	65	73	86	97
Long-term	303	371	392	414	460	468	495	484	508	565	546

Source: 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.

	Canada											Overall Assessment	
Foreign asset and liability position and trajectory	<p>Background. Despite running a current account (CA) deficit, Canada's net international investment position (NIIP) has improved since 2010, reaching [23.8] percent of GDP in 2018, up from [20.6] percent in 2017 and [-18] percent in 2010. This largely reflects valuation gains on external assets. At the same time, gross external debt increased to 121 percent of GDP, of which about one-third is short-term.</p> <p>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.</p>											<p>Overall Assessment:</p> <p><i>The external position in 2018 was weaker than implied by medium-term fundamentals and desirable policies, mainly reflecting sustained current account deficits.</i></p> <p>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. Recent developments do not suggest a material change in the assessment of the external position for 2018.</p> <p><i>The current account is expected to weaken in 2019 and then strengthen over the medium-term as non-energy exports gradually benefit from improved price competitiveness and investment in services and manufacturing capacity.</i></p> <p>Potential policy responses:</p> <p>Policies to boost Canada's non-energy exports include measures geared at 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. A credible medium-term consolidation plan for fiscal policy will also be necessary to support the external rebalancing.</p>	
2018 IIP (% GDP)	NIIP	17.2	Gross Assets	223.4	Debt Assets	57.3	Gross Liab.	206.2	Debt Liab.	105.0			
Current account	<p>Background. The CA deficit narrowed further to 2.6 percent of GDP in 2018 (from 2.8 percent of GDP in 2017), driven by an improvement in energy exports, which were partly by offset import growth. The CA deficit has been partially financed by equity portfolio inflow and deposits, which have more than offset direct investment outflows.</p> <p>Assessment. The EBA estimates a CA norm of 2.2 percent of GDP, and a cyclically-adjusted CA gap of -5.1 percent of GDP for 2018. The EBA gap widened relative to 2017, as the improvement in the CA was less than expected given output gap movements. Staff assess the CA gap to be lower after taking into account (i) CA measurement issues 1/; (ii) the authorities' demographic projections and current immigration targets 2/; and (iii) the steeper-than-usual discount between Canadian oil prices and international prices. 3/ Taking these factors into consideration, staff assess the CA lower than warranted by fundamentals and desired policies, with a gap in the range between -0.6 and -3.6 percent of GDP.</p>												
CA Assessment 2018	Actual CA	-2.6	Cycl. Adj. CA	-2.9	EBA CA Norm	2.2	EBA CA Gap	-5.1	Staff Adj.	-3.0	Staff CA Gap		-2.1
Real exchange rate	<p>Background. The real effective exchange rate (REER) depreciated by around 0.6 percent on an annual average basis between 2017 and 2018. As of [February] 2019, the REER has depreciated by about [1] percent relative to the 2018 average.</p> <p>Assessment. The EBA REER index model points to an overvaluation of 2.0 percent in 2018, while the REER level model points to an undervaluation of around 7.0 percent. In staff's view, the REER level model could overstate the extent of undervaluation. 4/ Consistent with the staff-assessed CA gap, staff assesses the REER to be overvalued in the range of 2 to 13 percent. 5/</p>												
Capital and financial accounts: flows and policy measures	<p>Background. The CA deficit in 2018 has been partially financed by net portfolio inflows and deposits. Non-resident investors mostly purchased corporate debt securities. In 2018 foreign direct investment recorded a lower net outflow of 0.6 percent of GDP (3.3 percent of GDP in 2017).</p> <p>Assessment. Canada has an open capital account. Vulnerabilities are limited by a credible commitment to a floating exchange rate.</p>												
FX intervention and reserves level	<p>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).</p> <p>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 holding.</p>												
Technical Background Notes	<p>1/ 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 1.7 percent of GDP.</p> <p>2/ EBA uses UN demographic projections. These differ from the authorities' projections due to methodological differences. The authorities' projections suggest slightly higher population growth and a slightly lower CA norm. The authorities' demographic projections also do not incorporate recent increases in immigration targets, which are assumed to be permanent. Together, these effects reduce the EBA estimate of the CA norm by around 0.4 percent.</p> <p>3/ The price discount between Canadian crude (WCS) and the West Texas benchmark increased in 2018 to an average of \$26 per barrel (from \$13 in 2017). The estimated temporary effect on the CA is about 0.9 percent of GDP.</p> <p>4/ The approach includes commodity terms of trade rather than oil prices as an explanatory variable, while Canada's REER has mirrored movements in oil prices much more closely than its commodity terms of trade.</p> <p>5/ The semi-elasticity of the CA with respect to the REER is estimated at 0.27.</p>												

Annex II. Public Debt Sustainability Analysis

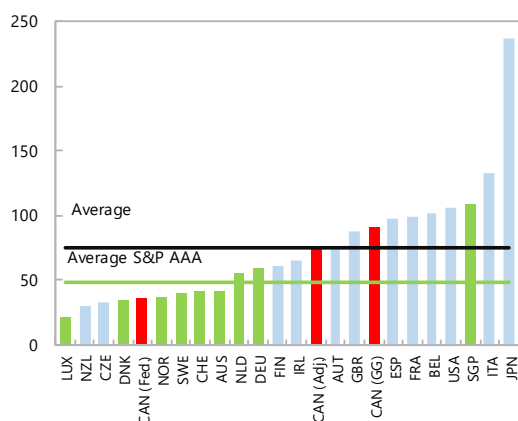
The overall assessment is broadly unchanged from the 2018 Article IV staff report. Canada's public debt remains on a sustainable trajectory over the medium term. After peaking at 91.8 percent in 2016, the ratio of gross debt to GDP fell to 89.7 percent in 2018. Under the baseline scenario, the gross debt-to-GDP ratio is projected to gradually decline to 75 percent by 2024, reflecting fiscal consolidation and favorable growth-interest rate differentials for most of the projection horizon. The most significant stress scenario pushes debt to 95 percent, but the probability for debt remaining below 85 percent of GDP is high over the projection horizon. Sizable financial assets (about 61 percent of GDP) provide an additional cushion. The net debt-to-GDP ratio stood at 26.8 percent in 2018 and is expected to fall below 23 percent by 2024.

Fiscal Space

1. Canada has some fiscal space, even though its gross debt is relatively high compared to its triple-A rated peers.

Canada's general government gross debt is 89.7 percent of GDP. If accounts payable are excluded to make it internationally comparable, gross debt falls to 73.7 percent of GDP, just below the average debt level of economies with AAA ratings.¹ Nonetheless, the general government holds sizable financial assets (about 61 percent of GDP), which includes a broad range of assets (currency and deposits, debt securities, loans, equity and investment fund shares, and accounts receivable), and net debt stood at 26.8 percent of GDP in 2018. At the federal level, gross debt is considerably lower at around 35 percent of GDP.

General Government Gross Debt, Advanced Economies 1/ (Percent of GDP, end 2018)



Sources: WEO database and IMF staff estimates.
Note: Green indicates advanced economies with S&P AAA rating; blue indicates advanced economies without S&P AAA rating.
1/ CAN(Adj) is general government debt adjusted for accounts payable; and CAN(Fed) is federal government debt.

Baseline Scenario and Realism of Projections

- *Fiscal adjustment.* The general government is expected to gradually consolidate over the projection horizon. The general government primary deficit is projected to decline from 0.8 percent of GDP in 2019 to 0.5 percent by 2024.
- *Gross debt dynamics.* Interest rate and growth differentials are expected to be favorable in the near term, with real GDP growth exceeding real interest rates until 2022, contributing to a reduction in the gross debt to GDP ratio. Beyond 2022, real interest rates are expected to be slightly higher than real GDP growth, putting upward pressure on debt dynamics. Nonetheless,

¹ The average debt of 10 S&P AAA-rated economies (including Japan) is 74.1 percent of GDP.

due to the steady decline in the primary deficit, the general government gross debt-to-GDP ratio is expected to fall to 75 percent by 2024.

- *Net debt dynamics.* The general government holds sizable financial assets, with around 27 of GDP in highly-liquid assets (currency, deposits, and bonds) and around 32 percent of GDP in other financial assets (including accounts receivable and equity). The net debt ratio is expected to fall below 23 percent by 2024.
- *Gross financing needs.* Gross financing needs were around 14 percent of GDP in 2018 and are expected to remain within a range of 13-17 percent of GDP through the projection horizon, below the indicative high-risk threshold of 20 percent.
- *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 is high. Canada has maintained AAA ratings since 2002. At end-March 2019, Canada's benchmark 10-year bond yields were around 1.6 percent, about 80 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 more than a 75 percent probability that debt will be below 85 percent 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 below 85 percent of GDP over the projection horizon.

Stress Tests

- *Primary balance shock.* A deterioration in the primary balance by about one percent of GDP would raise the gross debt-to-GDP ratio by about 3 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 1-2 percentage points of GDP compared to the baseline.
- *Growth shock.* A one standard deviation shock to growth in 2020 and 2021 will reduce real GDP growth rates to about 0-0.1 percent. This would lead to a deterioration in the primary balance, with the deficit peaking at 2 percent in 2021. The gross debt-to-GDP ratio will peak at 88.2 percent in 2021 but would gradually decline as GDP growth recovers. Gross financing needs will also be about 1 percentage point higher than the baseline over 2020-21.

- *Interest rate shock.* An increase in the sovereign risk premium by 200 basis points for two years would raise the effective interest rate 0.3-0.6 percentage points higher than the baseline. The impact on debt and gross financing needs are mild.
- *Exchange rate shock.* Given that about 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 23 percent (which Canada experienced in 2008).
- *Stagnant growth in major economies.* Structurally weak growth in key advanced and emerging economies would reduce demand for Canadian exports. Canada's real GDP growth could fall below the baseline scenario by ½ percentage points over the projection horizon. In this scenario, the gross debt-to-GDP ratio will still fall but at a much slower pace.
- *FSAP stress test scenario* (see page 11 of this report and FSSA, appendix): The stress-test scenario assumes a severe recession, significant financial market stress, a large exchange rate depreciation, and a sharp housing market correction. Mortgage insurers are assumed to receive a capital injection of Can\$15 billion from the federal government so that they can meet the supervisory target ratio. In this scenario, the gross debt would peak at 94.7 percent of GDP and gross financing needs would peak at 22.4 percent of GDP.

Accounting Issues for International Comparisons.

- Canada's general government debt includes sizable accounts payable, which many advanced economies do not report. If accounts payable were excluded, general government debt would be about 73.7 percent of GDP in 2018.
- Public debt increased in recent years, 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. General government debt, including unfunded pension liabilities, would be about 104 percent of GDP on a gross basis in 2018.

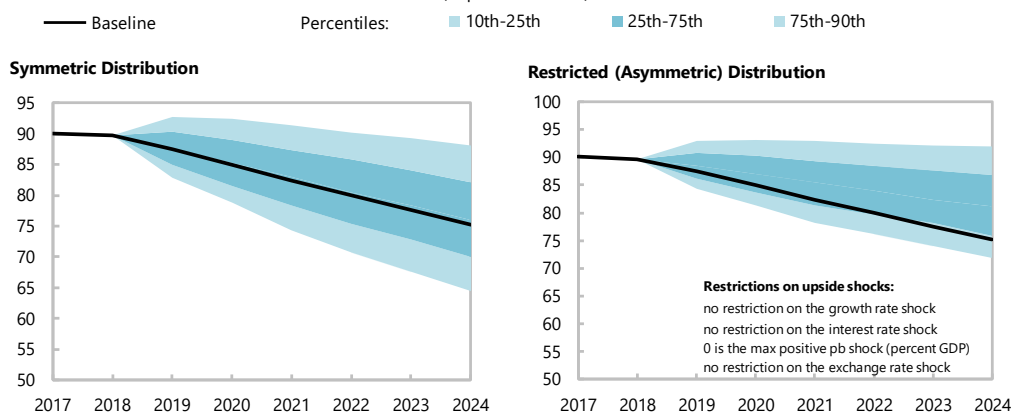
Annex II. Figure 1. Canada Public DSA Risk Assessment

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

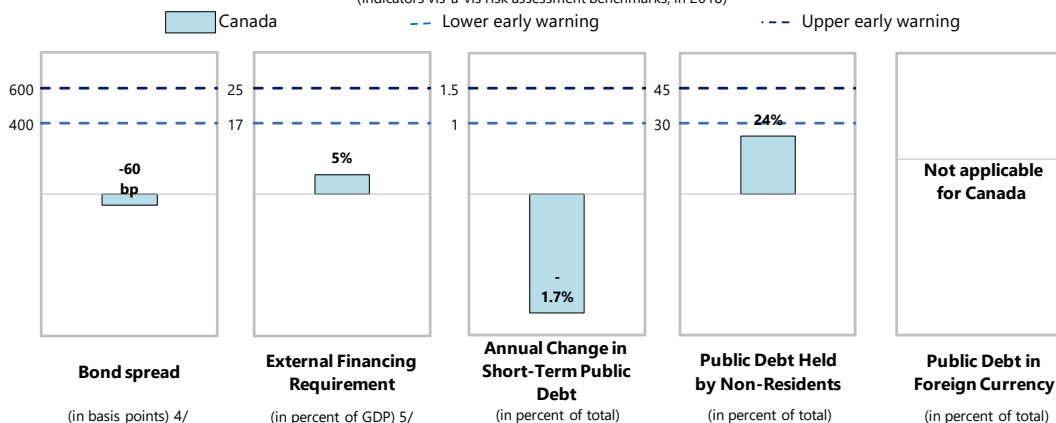
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2018)



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, 20-Dec-18 through 20-Mar-19.

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.

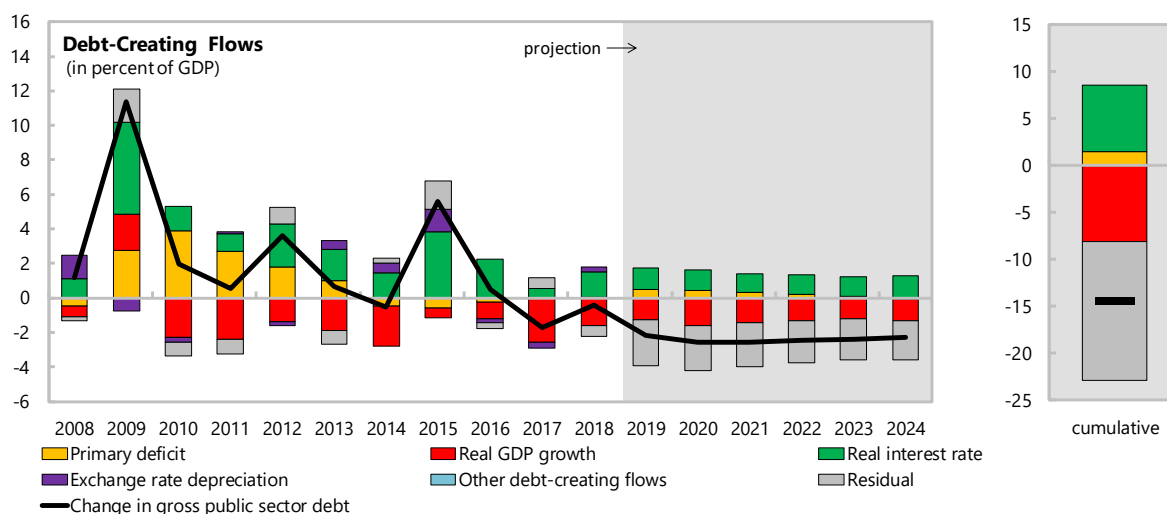
Annex II. Figure 2. Canada Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario (in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections						As of March 20, 2019		
	2008-2016 ^{2/}	2017	2018	2019	2020	2021	2022	2023	2024	Sovereign Spreads		
Nominal gross public debt	83.5	90.1	89.7	87.5	84.9	82.4	79.9	77.6	75.3	EMBIG (bp) 3/ -74		
Public gross financing needs	16.4	15.1	14.4	13.8	16.7	16.9	16.0	15.4	14.6	5Y CDS (bp) ...		
Net public debt	27.0	27.6	26.8	26.7	25.9	25.1	24.3	23.5	22.7			
Real GDP growth (in percent)	1.5	3.0	1.8	1.5	1.9	1.8	1.6	1.6	1.6	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.4	2.5	1.7	1.8	1.9	2.1	2.1	2.2	2.0	Moody's	Aaa	Aaa
Nominal GDP growth (in percent)	2.9	5.6	3.6	3.3	3.9	3.9	3.8	3.8	3.6	S&P's	AAA	AAA
Effective interest rate (in percent) ^{4/}	4.4	3.3	3.4	3.2	3.4	3.4	3.5	3.7	3.8	Fitch	AAA	AAA

Contribution to Changes in Public Debt

	Actual			Projections						cumulative	debt-stabilizing primary balance ^{9/}
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024		
Change in gross public sector debt	2.8	-1.7	-0.4	-2.2	-2.6	-2.6	-2.4	-2.4	-2.3	-14.4	
Identified debt-creating flows	2.6	-2.3	0.2	0.4	0.0	-0.1	0.0	0.0	0.0	0.4	
Primary deficit	1.2	0.0	0.1	0.5	0.4	0.3	0.2	0.1	-0.1	1.4	0.1
Primary (noninterest) revenue and grants	36.2	37.4	37.6	37.3	37.4	37.5	37.6	37.7	37.8	225.4	
Primary (noninterest) expenditure	37.4	37.4	37.6	37.8	37.8	37.8	37.8	37.8	37.7	226.8	
Automatic debt dynamics ^{5/}	1.4	-2.3	0.2	0.0	-0.4	-0.4	-0.2	-0.1	0.1	-1.0	
Interest rate/growth differential ^{6/}	1.1	-2.0	-0.2	0.0	-0.4	-0.4	-0.2	-0.1	0.1	-1.0	
Of which: real interest rate	2.3	0.6	1.4	1.2	1.2	1.1	1.1	1.1	1.3	7.1	
Of which: real GDP growth	-1.2	-2.6	-1.6	-1.3	-1.6	-1.5	-1.3	-1.2	-1.2	-8.1	
Exchange rate depreciation ^{7/}	0.3	-0.3	0.3	...	...	...	...	...	...	...
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/}	0.2	0.6	-0.6	-2.6	-2.6	-2.5	-2.4	-2.4	-2.3	-14.8	



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 $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$ 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).

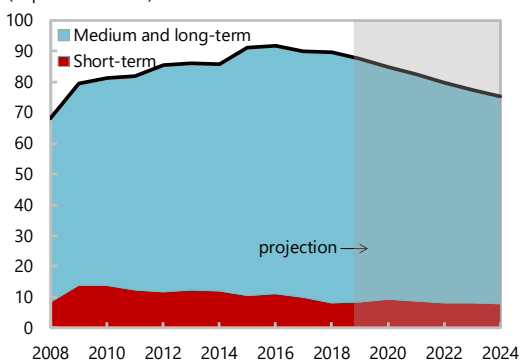
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

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

Composition of Public Debt

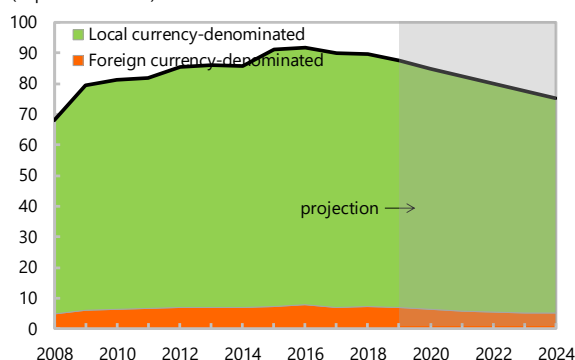
By Maturity

(in percent of GDP)



By Currency

(in percent of GDP)



Alternative Scenarios

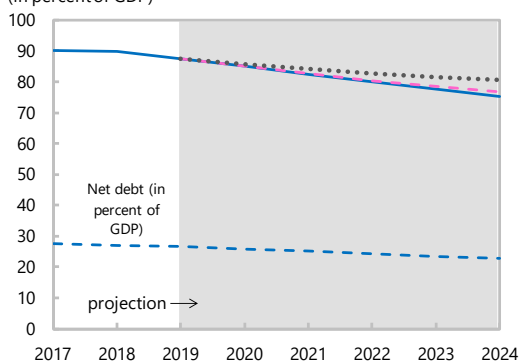
— Baseline

..... Historical

- - - Constant Primary Balance

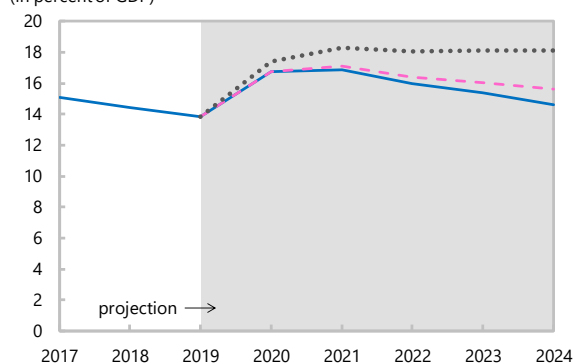
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

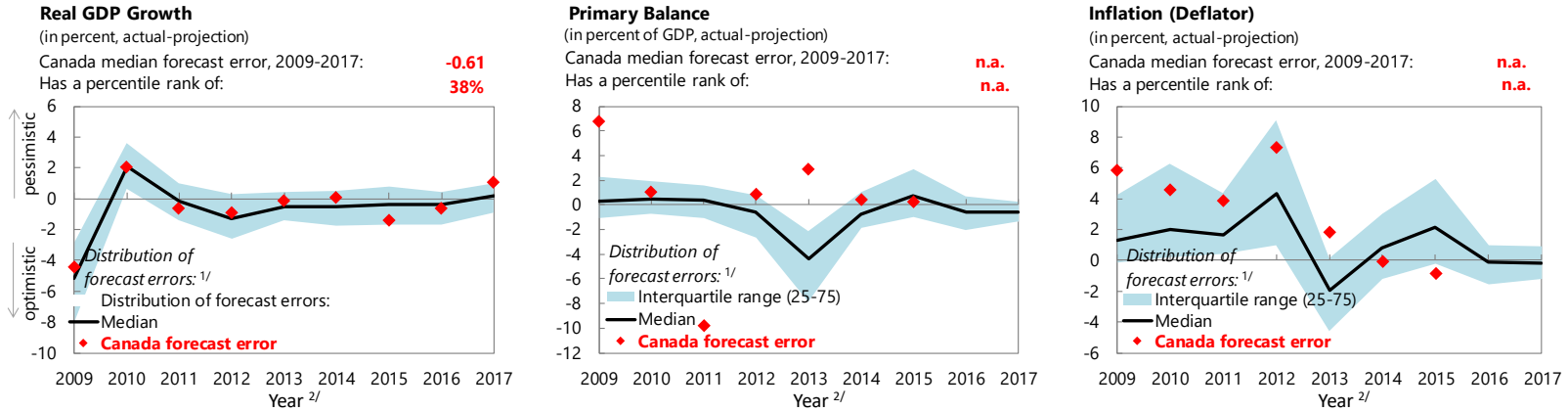
Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.5	1.9	1.8	1.6	1.6	1.6
Inflation	1.8	1.9	2.1	2.1	2.2	2.0
Primary Balance	-0.5	-0.4	-0.3	-0.2	-0.1	0.1
Effective interest rate	3.2	3.4	3.4	3.5	3.7	3.8
Constant Primary Balance Scenario						
Real GDP growth	1.5	1.9	1.8	1.6	1.6	1.6
Inflation	1.8	1.9	2.1	2.1	2.2	2.0
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	3.2	3.4	3.4	3.5	3.7	3.7

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	1.5	1.7	1.7	1.7	1.7	1.7
Inflation	1.8	1.9	2.1	2.1	2.2	2.0
Primary Balance	-0.5	-1.1	-1.1	-1.1	-1.1	-1.1
Effective interest rate	3.2	3.4	3.6	3.8	4.0	4.1

Source: IMF staff.

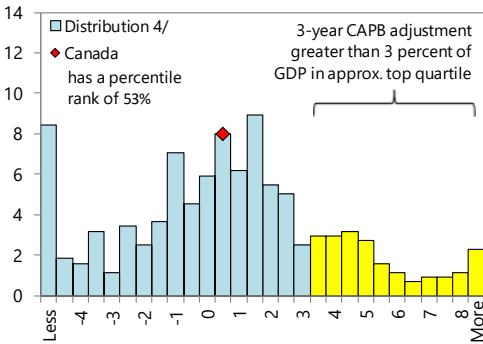
Annex II. Figure 4. Canada Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus all countries

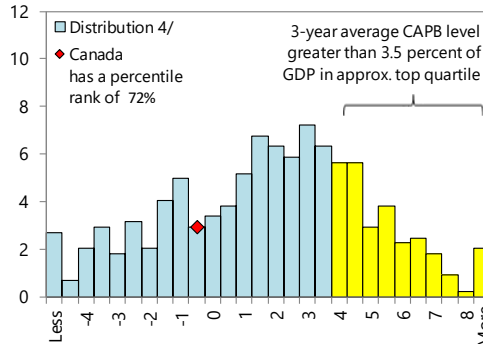


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB) (Percent of GDP)

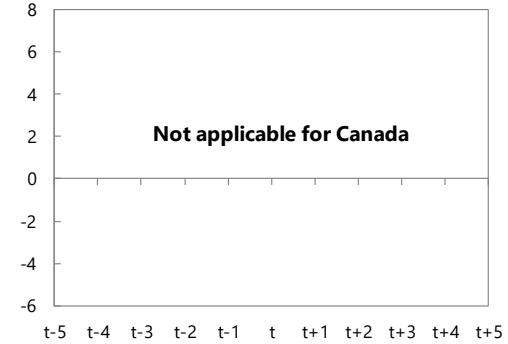


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB) (Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth (in percent)



Source : IMF Staff.

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

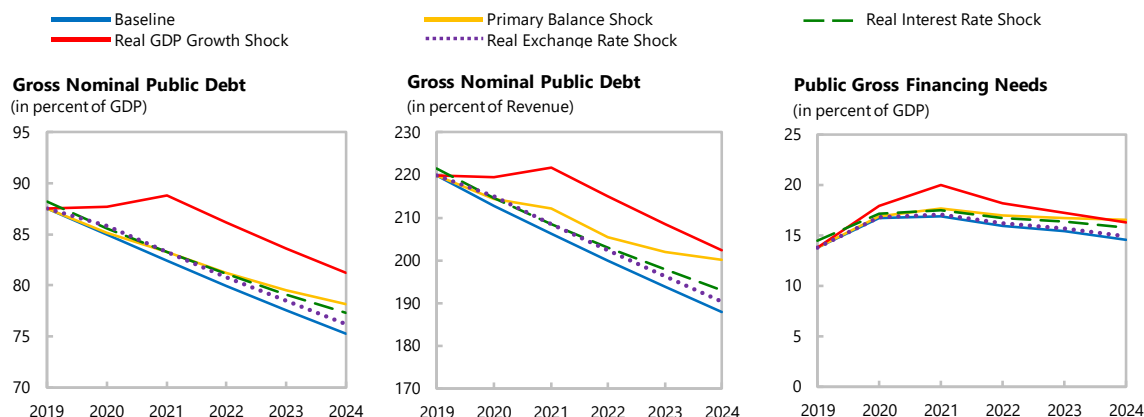
2/ Projections made in the spring WEO vintage of the preceding year.

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

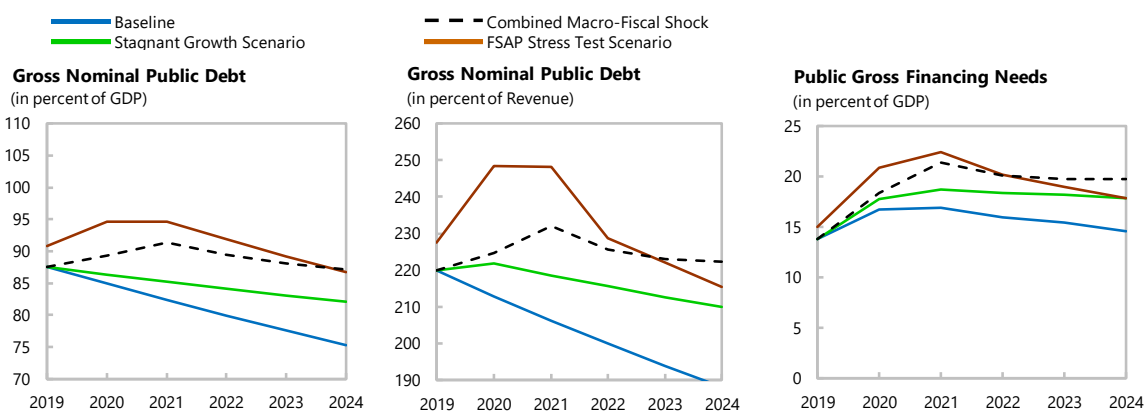
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Annex II. Figure 5. Canada Public DSA – Stress Test

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions (in percent)

	2019	2020	2021	2022	2023	2024		2019	2020	2021	2022	2023	2024
Primary Balance Shock							Real GDP Growth Shock						
Real GDP growth	1.5	1.9	1.8	1.6	1.6	1.6	Real GDP growth	1.5	0.1	0.0	1.6	1.6	1.6
Inflation	1.8	1.9	2.1	2.1	2.2	2.0	Inflation	1.8	1.5	1.6	2.1	2.2	2.0
Primary balance	-0.5	-0.6	-1.0	-0.6	-0.7	-0.9	Primary balance	-0.5	-1.3	-2.1	-0.2	-0.1	0.1
Effective interest rate	3.2	3.4	3.4	3.6	3.7	3.8	Effective interest rate	3.2	3.4	3.4	3.5	3.6	3.7
Real Interest Rate Shock							Real Exchange Rate Shock						
Real GDP growth	1.5	1.9	1.8	1.6	1.6	1.6	Real GDP growth	1.5	1.9	1.8	1.6	1.6	1.6
Inflation	1.8	1.9	2.1	2.1	2.2	2.0	Inflation	1.8	2.5	2.1	2.1	2.2	2.0
Primary balance	-0.5	-0.4	-0.3	-0.2	-0.1	0.1	Primary balance	-0.5	-0.4	-0.3	-0.2	-0.1	0.1
Effective interest rate	3.2	3.4	3.7	3.9	4.2	4.3	Effective interest rate	3.2	3.5	3.5	3.6	3.7	3.8
Combined Shock							FSAP Stress Test Scenario						
Real GDP growth	1.5	0.1	0.0	1.6	1.6	1.6	Real GDP growth	-3.1	-4.2	1.3	1.6	1.6	1.6
Inflation	1.8	1.5	1.6	2.1	2.2	2.0	Inflation	3.6	3.2	1.7	2.1	2.2	2.0
Primary balance	-0.5	-1.5	-2.7	-0.6	-0.7	-0.9	Primary balance	-1.2	-2.4	-2.3	-0.2	-0.1	0.1
Effective interest rate	3.2	3.5	3.7	3.9	4.2	4.4	Effective interest rate	3.2	3.5	3.4	3.5	3.6	3.7
Stagnant Growth Scenario													
Real GDP growth	1.5	1.4	1.3	1.1	1.1	1.1							
Inflation	1.8	1.9	2.1	2.1	2.2	2.0							
Primary balance	-0.5	-1.4	-1.3	-1.2	-1.1	-0.9							
Effective interest rate	3.2	3.4	3.4	3.5	3.6	3.7							

Source: IMF staff.

Annex III. 2019 FSAP Recommendations

Annex III. Table 1. Canada: 2019 FSAP Key Recommendations	
Recommendations	Timeframe
<i>Bolstering the financial system's resilience and enhancing systemic risk oversight</i>	
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 *
Develop the policy framework for managing a housing market downturn (BOC, AMF, BCSC, OSC)	NT *
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 *
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 *
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 *
Strengthen oversight of large public pension funds, and increase transparency of their financial disclosures (DOF, provincial governments)	NT
<i>Improving financial sector oversight</i>	
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 FMI's (DOF, provincial governments; BOC; AMF, BCSC, OSC)	MT
Complete the Cooperative Capital Markets Regulatory System initiative (DOF, provincial governments)	MT
Enhance inter-agency cooperation, particularly between federal and provincial authorities, with additional MoUs (OSFI, AMF, other relevant provincial authorities)	NT *
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
Strengthen legal foundation underpinning insurance group-wide supervision; apply the regulatory framework more consistently to group-side supervision (OSFI, AMF; DOF, Québec government)	NT
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
<i>Strengthening crisis management and safety net</i>	
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 *
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 *
Operationalize emergency lending assistance (ELA) with key provinces; improve testing to ensure smooth ELA operations (BOC; British Columbia, Ontario and Québec governments)	NT *
Further develop contingency plans for market-wide liquidity provision, particularly intervention in securities markets and foreign-currency liquidity provision (BOC; DOF, provincial governments)	NT *
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 IV. Housing-Related Measures to Safeguard Financial Stability

Annex IV. Table 1. Canada: Changes in Mortgage Insurance Rules	
July 2008 (effective on October 2008)	<p>Maximum amortization for new government backed insured mortgages was lowered (from 40 to 35 years)</p> <p>Maximum LTV for new mortgages was reduced (from 100 to 95)</p> <p>Minimum credit score requirement (of 620) was introduced</p> <p>Maximum of 45 per cent total debt service ratio was introduced (the amount of gross income that is spent on servicing debt and housing-related expenses such as heat or condo fees).</p> <p>Loan documentation standards strengthened to ensure reasonableness of property value and of the borrower's sources and level of income</p>
February 2010 (effective on April 2010)	<p>Maximum LTV for insured refinanced mortgages was lowered (from 95 to 90 percent)</p> <p>Minimum down payment on properties not occupied by owner was raised (from 5 to 20 percent)</p> <p>More stringent eligibility criteria were introduced (all borrowers are required to meet the standards for a 5-year benchmark fixed-rate mortgage, even if they choose a mortgage with a variable interest rate and shorter term.</p>
January 2011 (effective on March 2011)	<p>Maximum amortization for new government backed insured mortgages was lowered (from 35 to 25 years)</p> <p>Maximum LTV refinanced mortgages was lowered (from 90 to 85 percent)</p> <p>Government-backed insurance on non-amortizing lines of credit secured by houses (HELOCs) withdrawn in April</p>
June 2012 (effective on July 2012)	<p>Maximum amortization for new government backed insured mortgages was lowered (from 30 to 25 years)</p> <p>Maximum LTV for refinanced mortgages was lowered (from 85 to 80 percent)</p> <p>Maximum gross debt service ratio and maximum total debt service ratios were capped at 39 percent and 44 percent respectively</p> <p>Government-backed insured mortgages limited to homes with a purchase price of less than \$1 million</p>
February 2014 (effective on May 2014)	Mortgage insurance premiums were raised
November 2014 (full implementation by June 30, 2015)	<p>Residential mortgage insurance Underwriting Practices and procedures (Guideline B21) was issued. This guideline:</p> <ul style="list-style-type: none"> -outlines OSFI's expectations concerning mortgage insurers' governance and internal risk management practices -outlines principles for mortgage insurers on internal underwriting operations, including setting prudent requirements for lenders and applying appropriate due diligence to lenders' practices -enhances disclosure requirements, which will support greater transparency, clarity and public confidence in mortgage insurers' residential mortgage insurance underwriting practices
April 2015 (effective on June 2015)	Mortgage insurance premiums were raised
December 11, 2015 (effective on February 2016)	The minimum down payment for new insured mortgages increased from 5 to 10 percent for the portion of the house price above \$500,000. The 5 percent minimum down payment for properties up to \$500,000 remained unchanged
December 11, 2015 (effective on July 2016)	Issuance limits for NHA MBS in 2016 will be kept effectively unchanged as part of the ongoing effort to limit government involvement in the mortgage market
December 11, 2015 (effective on July 2016)	Guarantee fee for NHA MBS and the CMB program will be increased to encourage the development of private market funding alternatives by narrowing the funding cost difference between government sponsored and private market funding sources
October 3, 2016 (effective on October 17, 2016)	To ensure the uniform rules for all insured mortgages, all new mortgage borrowers with a down payment of less than 20% and seeking mortgage insurance are required to qualify at the posted rate for a conventional mortgage for a five-year term or the contract rate, whichever is higher
October 3, 2016 (effective on November 30, 2016)	The standard for a low-ratio mortgage portfolio insurance are tightened to become uniform with those for insured high ratio-mortgages

Annex IV. Table 2. Canada: Other Housing Finance Related Regulatory Measures

June 2011 (effective on January 1, 2013)	Protection of Residential Mortgage Hypothecation Insurance Act (PRMHIA) and amendments to the National Housing Act assented -Formalizes the rules for government-backed mortgage insurance and other existing arrangements with private mortgage insurers - Provision for the Minister of Finance to charge fees to compensate the Government for its exposure to risk represented by loan insurance
November 2011/January 2012	FIRS standards were implemented requiring banks to report debt securitizations on balance sheet
March 2012	Economic Action Plan 2012 announcements -Canadian banks prohibited from issuing covered bonds backed by government-insured mortgages (sets strong eligibility criteria for mortgages in the cover pool) -CMHC designated as administrator of the covered bond framework -CMHC's mandate was enhanced to include financial stability as an objective of CMHC's commercial activities -CMHC commercial activities subject to OSFI examination
June 2012	Guideline on Sound Residential Mortgage Underwriting Practices (B-20) -A guideline for residential mortgage underwriting practices and procedures was issued by OSFI (including assessment of borrower's background and demonstrated willingness to service debt payment in a timely manner, assessment of borrower's capacity to service debt, assessment of property value/collateral, effective credit and counterparty risk management, comprehensive residential mortgage underwriting policy) - Maximum LTV on the revolving portion of HELOCs cut (from 80 to 65 percent) -Stated income mortgages are no longer allowed without some verification of income
February 2014	Economic Action Plan 2014 announcements -CMHC will pay guarantee fees to the Receiver General to compensate for mortgage insurance risks (pursuant to NHA 8.2), effective January 1, 2014. This will align CMHC with guarantee fees paid by private mortgage insurers. Fees are 3.25 percent of premiums written and 10 basis points on new portfolio insurance written -CMHC will reduce its annual limit of issuance of portfolio insurance from \$11 billion to \$9 billion - For 2014, the Minister of Finance authorized \$80 billion for NHA MBS (down from \$85 billion in 2013) and \$40 billion for CMB (down from \$50 billion in 2013)
September 2014 (effective on January 1, 2015)	Revised Minimum Capital Test Guideline for property and casualty insurers -The guideline introduces new and updated risk factors and margins plus a revised definition of available capital
May 15, 2015	Amendments to PRMHIA. Substitution of loans in portfolio insurance pools was prohibited to increase market discipline in residential lending and reduce taxpayer exposure to the housing sector
December 11, 2015	CMHC announced changes to its securitization programs -Changes in the guarantee fee schedule (effective on July 1, 2016). Fees were raised for large MBS issuers - For 2016, the Minister of Finance authorized \$105 billion for NHA MBS and \$40 billion for CMB. - OSFI announced its plan to update the regulatory capital requirements for residential mortgages -OSFI will propose a risk-sensitive floor for one of the model inputs (losses in the event of default) that will be tied to increases in local property prices and/or to house prices that are high relative to borrower incomes - For federally regulated private mortgage insurers, OSFI will introduce a new standardized approach that updates the capital requirements for mortgage guarantee insurance risk. It will require more capital when house prices are high relative to borrower incomes
February 10, 2016 (effective on July 1, 2016)	The DOF required that portfolio-insured loans be funded only through CMHC securitization programs
July 25, 2016 (effective on August 2, 2016)	British Columbia introduced a new 15 percent property transfer tax on foreign real estate buyers in Vancouver.
April 20, 2017 (effective on April 21, 2017)	Foreign purchasers of residential property in the Greater Golden Horseshoe will be liable for a new 15% non-resident speculation tax.
October 17, 2017 (effective on January 1, 2018)	OSFI revised its Guideline on Residential Mortgage Underwriting Practices and procedures (B20): -setting a new minimum qualifying rate, or "stress test" for uninsured mortgages: the minimum qualifying rate for uninsured mortgages has to be the greater of the five-year benchmark rate published by the Bank of Canada or the contractual mortgage rate +2 percent; -federally regulated financial institutions must establish and adhere to appropriate LTV ratio limits that are reflective of risk and are updated as housing markets and the economic environment evolve; -placing restrictions on certain lending arrangements that are designed or appear designed to circumvent LTV limits.
January 2018	B.C. increased the tax to 20 percent and expanded its geographic coverage. B.C. also introduced a new speculation and vacancy tax that targets foreign and domestic speculators that own residential property in B.C. but do not pay income taxes in B.C. The vacancy tax ranges from 0.5 percent on secondary homes left vacant by B.C. residents to 2 percent for foreign-owned properties left vacant.
March 19, 2019	Federal Budget 2019: -First-Time Home Buyer Incentive: CMHC will offer low-income first-time home buyers a 10 percent shared equity mortgage for a newly built home or 5 percent shared equity mortgage for a resold home. -Home Buyers' Plan: increase withdrawal limit of registered retirement savings plans (RRSPs) from \$25,000 to \$35,000 for people who want to buy or build a qualifying home.



CANADA

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

May 29, 2019

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

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FUND RELATIONS

(As of April 30, 2019)

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	9,177.94	83.25
Reserve Tranche Position	1,845.96	16.75
Lending to the Fund		
New Arrangements to Borrow	294.20	

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	5,988.08	100.00
Holdings	6,107.66	102.00

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				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.16	0.09	0.09	0.09	0.09
Total	0.16	0.09	0.09	0.09	0.09

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 exchange rate regime is free from exchange restrictions and multiple currency practices. 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. 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 2018 consultation with Canada was considered by the Executive Board on July 13, 2018 (IMF Country Report No. 18/221). 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.

2019 Article IV Consultation: Discussions took place in Toronto and Ottawa during April 29–May 7, 2019, and May 15. The team comprised Ms. Lim (head), Messrs. Alvarez, Krznar, and Matheson (all WHD). Mr. Andrie (RES) joined the mission during May 1–3, 2019. Ms. Pan and Mr. Ochoa (WHD) provided valuable assistance. Ms. Levonian (ED), Mr. Werner, and Mr. Shabsigh (MCM) attended the concluding meeting in Ottawa. Mr. Weil (OED) accompanied the mission for parts of the trip. The mission met with Finance Minister Morneau, Governor Poloz, Superintendent Rudin, Deputy Minister Rochon, Deputy Governors Beaudry, Schembri, and Patterson, other senior officials, regulators, provincial governments, representatives from the financial and business sector, academics, and think tanks. The concluding statement was issued on May 21, 2019.

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. Canada has subscribed to the Fund's Special Data Dissemination Standard (SDDS), and its metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). The data ROSC was published on October 23, 2003.

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 quarterly data (a Statement of Government Operations along with a Balance Sheet) on the general government and its subsectors following the *Government Finance Statistics Manual 2001 (GFSM 2001)* recommendations. In November 2014, Statistics Canada published the provisional (unconsolidated) data on Canadian Government Finance Statistics (CGFS) for 2008–2012. This covers the statement of operations for all components of general government, as well as federal and provincial and territorial government business enterprises. Data on the functional expenses were also released. Subsequently, in February 2015, estimates for financial flows and the balance sheet of the general government and government business enterprises for 2007–2012 were published. Statistics Canada published Consolidated Government Finance Statistics data for 2008–2014 for the first time in March 2016 and for 2015 in March 2017. 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.

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	Memo Items:	
						Data Quality – Methodological soundness ⁷	Data Quality – Accuracy and reliability ⁸
Exchange Rates	Same day	Same day	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	May 15, 2019	May 20, 2019	W	W	W		
Reserve/Base Money	March, 2019	May 20, 2019	M	M	M	LO, O, LO, LO	O, O, O, O, O
Broad Money	March, 2019	May 20, 2019	M	M	M		
Central Bank Balance Sheet	March, 2019	May 20, 2019	M	M	M		
Consolidated Balance Sheet of the Banking System	March, 2019	May 20, 2019	M	M	M		
Interest Rates ²	Same day	Same day	D	D	D		
Consumer Price Index	March, 2019	May 13, 2019	M	M	M	O, O, O, O	O, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2018 Q4	May 20, 2019	Q	Q	Q	O, O, O, O	O, O, O, O, O
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2018 Q4	May 20, 2019	Q	Q	Q		
External Current Account Balance	2018 Q4	May 13, 2019	Q	Q	Q	O, O, LO, O	O, O, O, O, O
Exports and Imports of Goods and Services	2018 Q4	May 13, 2019	Q	Q	Q		
GDP/GNP	2018 Q4	May 13, 2019	Q	Q	Q		
Gross External Debt	2018 Q4	May 13, 2019	Q	Q	Q		
International Investment Position ⁵	2018 Q4	May 13, 2019	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).

⁷ Reflects the assessment provided in the data ROSC published on October 23, 2003 and based on the findings of the mission that took place during January 22–February 5, 2003 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), not observed (NO); and not available (NA).

⁸ Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.