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International

Prepared by: Ravi Kurjah, Senior Economic Analyst (Research & Analytics)

ravi.kurjah@firstcitizenstt.com

Canada: IMF 2018 Article IV Consultation

Key issues:

- Canada's growth prospect is threatened by trade tensions, uncertainty about the outcome of NAFTA negotiations and the impact of the U.S. Tax Cuts and Jobs Act.
- Against this framework, the 2018 Article IV consultation focused on policies to secure stronger, more inclusive, and sustainable growth.

IMF Policy Recommendation:

- According to IMF, the current economic environment presents an opportunity to rebuild policy buffers, and forge ahead with structural reforms to boost Canada's global competitiveness.
- The fiscal framework could also explicitly incorporate fiscal rules to better demonstrate a commitment to well-managed public finances. The current balance of risks around the outlook supports the Bank of Canada's cautious approach to monetary policy normalization.
- A review of the Canadian tax system is necessary to assess the scope for improving efficiency and preserving Canada's tax position globally.

- More can also be done to reduce domestic barriers to trade, regulatory red-tape, and restrictions to foreign direct investment.
- Investment in infrastructure, immigration and a successful NAFTA agreement, would enhance Canada's ability to seize the potential benefits offered by greater market access and export diversification.

Economic performance:

- In 2017, economy grew by 3%, supported by accommodative fiscal and monetary policies, a strong U.S. economy, and higher oil prices.
- Private consumption has been the largest contributor to Canada's recent rapid growth. Private consumption has been supported by strong gains in disposable incomes, which started accelerating in late 2016. Fiscal transfers contributed to the initial boost in incomes, but more recent increases have been the result of rising wages and a strengthening labor market.
- Investment in the oil sector has been largely flat because oil prices have not reached levels sufficient to spark renewed capital spending.
- Growth in exports of oil and gas increased over 2017, in line with a rebound in prices. However, the non-energy goods exports sector disappointed, with declining exports of automobiles, aircraft, and consumer goods. Services exports, in contrast, have continued to grow at a relatively steady pace, led by commercial and transportation services.
- The current account balance narrowed to 2.9% of GDP in 2017 (from 3.2% in 2016), driven by an improvement in the energy trade balance. The current account deficit has been largely financed by portfolio inflows.
- Overall, despite its current account deficit and rising external debt, Canada remains a net creditor to the rest of the world. The market value of the net international investment position was \$400 billion at the end of 2017, almost doubling over the year as external assets showed significant valuation gains.

Economic Outlook:

- Real GDP growth is projected to slow to 2.1% in 2018 and 2.0% in 2019.
- With higher revenue collections and lower transfers to households, the federal government anticipates a decline in the cumulative fiscal deficit over the next five years (FY2017/18 - FY2021/22) from 5% to 2.25% of GDP.
- Fiscal pressures are expected to mount over the long term. The Office of the Parliamentary Budget Officer (PBO) expects annual growth of health care spending to accelerate from 3% to 4.25% within a 10-20-year time-frame. As a result, net debt to GDP ratios are expected to start accelerating by mid 2020s.
- The implementation of the long-term infrastructure program is underway, but about CAD4.8 billion (equivalent to 0.2 % of GDP) planned for FY2016–18 has been deferred to FY2019 and beyond, in part reflecting complexities in contracting projects and a delay in funding requests from sub-national governments. However, the government's commitment to CAD95.6 billion (3.6% of GDP) in infrastructure spending through FY2028 remains intact.

Canada: Selected Economic Indicators

(Percentage change, unless otherwise indicated)

	2014	2015	2016	2017	Projections	
					2018	2019
Output and Demand						
Real GDP	2.9	1.0	1.4	3.0	2.1	2.0
Total domestic demand	1.8	0.1	0.9	3.8	3.2	1.3
Private consumption	2.6	2.2	2.3	3.4	1.8	1.4
Total investment	1.0	-5.9	-3.9	6.4	7.6	1.8
Net exports, contribution to growth	1.1	0.9	0.7	-0.9	-0.6	0.7
Unemployment and Inflation						
Unemployment rate (average) 2/	6.9	6.9	7.0	6.3	6.1	6.2
CPI inflation (average)	1.9	1.1	1.4	1.6	2.5	2.2
Saving and Investment 1/						
Gross national saving	22.5	20.5	20.0	20.8	20.9	21.9
General government	3.8	3.7	3.2	3.1	2.8	2.8
Private	18.7	16.8	16.8	17.6	18.1	19.1
Personal	4.8	5.6	5.0	5.0	4.4	5.0
Business	13.9	11.2	11.8	12.6	13.7	14.1
Gross domestic investment	24.9	24.1	23.2	23.7	23.8	23.9
General Government Fiscal Indicators 1/						
(NA basis)						
Revenue	38.6	39.8	39.6	39.2	39.2	39.2
Expenditures	38.5	39.9	40.7	40.3	40.4	40.3
Overall balance	0.2	-0.1	-1.1	-1.1	-1.2	-1.1
Gross Debt	85.0	90.5	91.1	89.7	87.3	84.7
Net debt	28.0	27.7	28.5	27.8	27.6	27.2
Money and Credit (Annual average)						
Household Real Credit Growth	2.3	3.7	4.1	4.0	3.1	3.1
Business Real Credit Growth	5.7	7.2	3.9	6.8	7.1	7.9
Three-month treasury bill 2/	0.9	0.5	0.5	0.7	1.1	1.7
Ten-year government bond yield 2/	2.2	1.5	1.3	1.8	2.3	2.7
Balance of Payments						
Current account balance 1/	-2.4	-3.6	-3.2	-2.9	-2.9	-2.0
Merchandise Trade balance 1/	0.2	-1.2	-1.3	-1.1	-0.8	-0.1
Export volume (percent change)	5.9	3.5	0.5	0.7	2.2	4.0

Sources: Haver Analytics and Fund staff calculations.

1/ Percent of GDP.

2/ In percent.

Source: IMF

Canada

Moody's		Fitch	
1) Outlook	STABLE	17) Outlook	STABLE
2) CC LT Foreign Bank Depst	Aaa	18) LT Issuer Default Rating	AAA
3) CC LT Foreign Curr Debt	Aaa	19) LT LC Issuer Default	AAA
4) CC ST Foreign Bank Depst	P-1	20) Foreign Currency LT Debt	AAA
5) CC ST Foreign Curr Debt	P-1	21) Local Currency LT Debt	AAA
6) Long Term Rating	Aaa	22) Foreign Currency ST Debt	F1+
7) LC Curr Issuer Rating	Aaa	23) ST Issuer Default Rating	F1+
8) FC Curr Issuer Rating	Aaa	24) ST LC Issuer Default	F1+
9) Foreign Currency LT Debt	Aaa		
10) Local Currency LT Debt	Aaa		
		DBRS	
11) Standard & Poor's		25) Outlook	STABLE
12) Outlook	STABLE	26) Foreign Currency LT Debt	AAA
13) Foreign Currency LT Debt	AAA	27) Local Currency LT Debt	AAA
14) Local Currency LT Debt	AAA	28) Short Term	R-1H
15) Foreign Currency ST Debt	A-1+		
16) Local Currency ST Debt	A-1+	Rating And Investment	
		29) Domestic Curr Issuer Rtg	NR
		30) Foreign Curr Issuer Rtg	NR

Source: Bloomberg



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