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## COVID support – necessary and sustainable

If you're feeling thankful for the extensive social programs launched by government to protect and support Canadians during the pandemic, but also anxious about the costs to the government of such supports – you're not alone.

A poll conducted last month for the organization *Canada 2020* found that the vast majority of Canadians strongly or somewhat support the spending that has been undertaken, while an equally large number say they have concerns about the size of the deficit that has resulted from these supports.

The poll also revealed Canadians overwhelmingly agree that, after this pandemic is over, they expect our political leaders to ensure they will focus on putting Canada back on a more sustainable fiscal track.

There seems to be a strong consensus on these issues – which is not always the case in a country as diverse as ours. This is certainly not lost on the Government of Canada. Protecting and supporting Canadians during the most serious public health crisis this country has ever faced is, and will remain, government's top priority.

### Global consensus

With some \$250 billion committed to addressing the multi-layered effects of the pandemic, Canada will have a large budgetary deficit this year — likely in the range of \$350 billion. Canada is not alone in this regard. There is a global consensus that governments around the world must be aggressive in their spending in the face of COVID-19.

According to the International Monetary Fund (IMF), an organization of 189 countries, “The pace of economic recovery will depend on policies undertaken during this crisis. If policies ensure that workers do not lose their jobs, renters and homeowners are not evicted, companies avoid bankruptcy, and business and trade networks are preserved, the recovery will occur sooner and more smoothly.”

The Organization for Economic Co-operation and Development (OECD), an international body focused on promoting policies that will improve the economic and social well-being of people

around the world, recently stated, “Debt sustainability is not an immediate risk, at least in advanced economies.”

Fortunately, Canada's fiscal position entering the pandemic was among the strongest of its G7 partners. The primary reason for this is the record low cost of borrowing – interest rates. As *The Economist* magazine has noted, “In the long term, low interest rates change the dynamics of debt. If growth and inflation together exceed the interest rate, existing debts shrink relative to GDP over time.”

We are now locking in the low cost of borrowing for decades to come. In the words of the Throne Speech, “This Government will preserve Canada's fiscal advantage and continue to be guided by values of sustainability and prudence.”

In response to the Throne Speech, TD Bank stated, “While today's speech is likely to increase concerns around the upward debt trajectory, Canada's federal finances are still viewed favourably in a world where deficits have blown up virtually everywhere.”

And this from Scotiabank - “Canada should still have among the lowest net debt levels among the G7 even if it undertakes additional spending, as countries around the world are unleashing comparable spending.”

### Future costs a reality

There is no escaping the fact that, even with current low interest rates, there are future costs to higher government debt. But it is possible to support Canadians during the pandemic, ensure a strong economic recovery and return to a prudent fiscal track in the short- to medium-term. In the mid-1990s, Canada cut its debt-to-GDP ratio in half within a decade due to responsible fiscal policy and strong economic growth.

Later this fall, the Government will release an update on Canada's COVID-19 Economic Response Plan. It will detail the Government's commitments to protect and support Canadians, to ensure a strong and green recovery, and to maintain a sustainable fiscal track.

The COVID-19 emergency has had huge costs. But Canada would surely have had a deeper recession and a bigger long-term deficit if the Government had done less.

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