

The Accumulated Debt and Economic Performance of Industrialized Countries during COVID

by Tegan Hill and Milagros Palacios



MAIN CONCLUSIONS

■ Countries around the world accumulated significant debt in an effort to support their economies during the COVID pandemic.

■ From 2019 to 2021, Canada had the second-highest increase in its gross debt-to-GDP ratio out of 33 countries covered by the IMF, behind only Japan. Our gross debt-to-GDP ratio increased from 87.2% (2019) to 112.1% (2021), an increase of 24.9 percentage points.

■ Given that Canadian governments accumulated more debt as a share of our economy than nearly every other country in our peer group, the expectation would be that Canada's economy fared better than others during this period.

■ Despite leading our peers—save for Japan—in the accumulation of debt, Canada did not out-perform our peer group in economic growth during

the pandemic. Canada had the 11th lowest real GDP growth (−5.2%) in 2020 and the 12th lowest real GDP growth (4.6%) in 2021.

■ Canada also did not out-perform its peer group by achieving lower unemployment during the pandemic. In 2020, Canada had the third highest unemployment rate (9.58%) out of 33 industrialized countries, and the 8th highest unemployment rate (7.43%) in 2021.

■ It is telling that the United States, which also had a marked increase in its gross debt relative to the size of the economy, markedly out-performed Canada on both measures in 2020 and 2021. Moreover, Ireland, which reduced its gross debt-to-GDP ratio, also out-performed Canada on both measures and, in fact, led the group of 33 industrialized countries in the growth of real GDP in 2020 and 2021.

Introduction

Countries around the world accumulated significant debt in an effort to support their economies during the pandemic. In Canada, programs such as the Canada Emergency Wage Subsidy (CEWS), Canada Emergency Response Benefit (CERB), and Canada Recovery Benefit (CRB), which were intended to reduce unemployment and support the national economy, came with a price tag of \$200.1 billion (DOF, 2022). Overall, Canada's total government debt—including federal, provincial, and local governments—increased by \$783 billion from 2019 to 2021 (IMF, 2022).¹

Given the extent of Canada's debt-financed spending, it is important to assess exactly how our economy

performed during the pandemic. While it is difficult to compare Canada's economic performance to recessions of the past because of the unprecedented nature of the pandemic, it is both feasible and informative to compare Canada's accumulation of debt and economic performance to that of other industrialized countries.²

This is not meant to infer that a country's economic performance is entirely or exclusively explained by government policy. There are a host of factors that contribute to a country's economic performance both in absolute and comparative terms.³

Accumulation of gross debt, 2019–2021

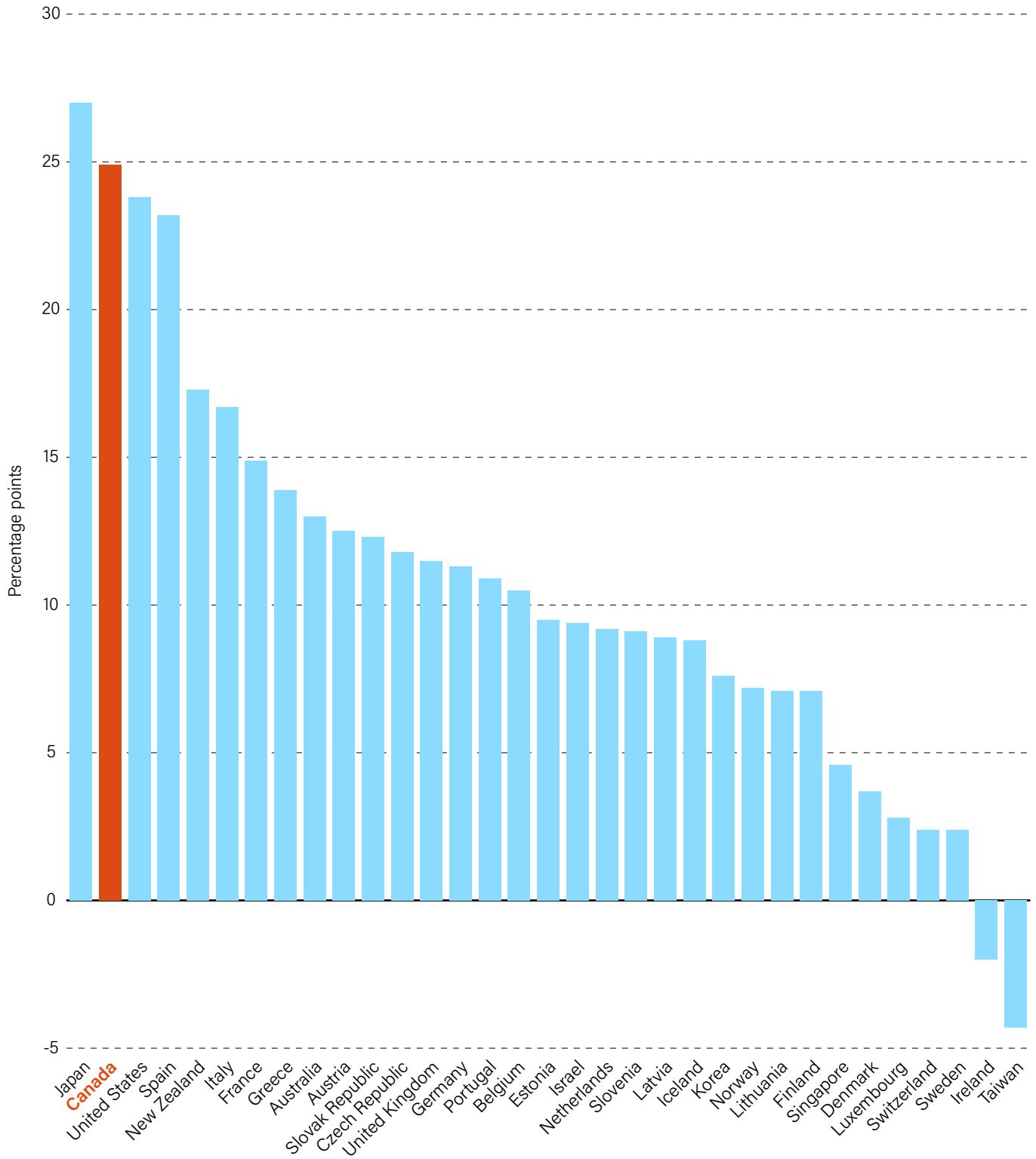
The international Monetary Fund (IMF) provides detailed data for gross debt, unemployment, and real GDP growth for a group of 33 industrialized countries.⁴ The first step of this analysis is to review Canada's accumulated gross debt within this peer group. Gross debt is used rather than net debt as net debt includes the assets of the Canada and Quebec Pension Plans and provides a misleading measure of Canada's indebtedness.⁵

In 2019, Canada had the 10th highest gross debt-to-GDP ratio of the 33 industrialized countries at 87.2%. Canada's gross debt position only worsened during the pandemic, reaching 112.1% of GDP by the end of 2021, an increase of 24.9 percentage points.

Figure 1 ranks the percentage-point increase in each country's gross debt-to-GDP ratio from 2019 to 2021. Canada had the second-highest increase in its gross debt-to-GDP ratio during the pandemic out of the 33 countries covered by the IMF—behind only Japan, which had a 27.0 percentage-point increase in its gross debt-to-GDP ratio. Two other countries saw pronounced increases in their gross debt-to-GDP ratios: United States (+23.8 percentage points) and Spain (+23.2). At the other end, during this period the gross debt-to-GDP ratio of Taiwan (−4.3) and Ireland (−2.0) improved.

Put simply, among its peer group, Canada had the second highest level of gross debt accumulation as a share of the economy during the pandemic.

Figure 1: Change (percentage point) in gross debt as a share of GDP, select advanced countries, 2019-2021



Source: International Monetary Fund, 2022.

Growth in GDP, 2020 and 2021

Given Canada's accumulation of debt in an effort to support the economy during the pandemic—overall accumulating more debt as a share of our economy than every other country in our peer group except Japan—the expectation would be that Canada's economy fared better than the economies of other countries during the pandemic. The next step in our analysis is to compare Canada's economic performance during the pandemic to the same 33 industrialized countries.

The broadest measure of a country's economic performance is growth in gross domestic product (GDP). For context, Canada was not a leader in GDP growth before the recession.⁶ Canada had the 12th lowest national GDP growth (1.9%) of the 33 industrialized countries in 2019.

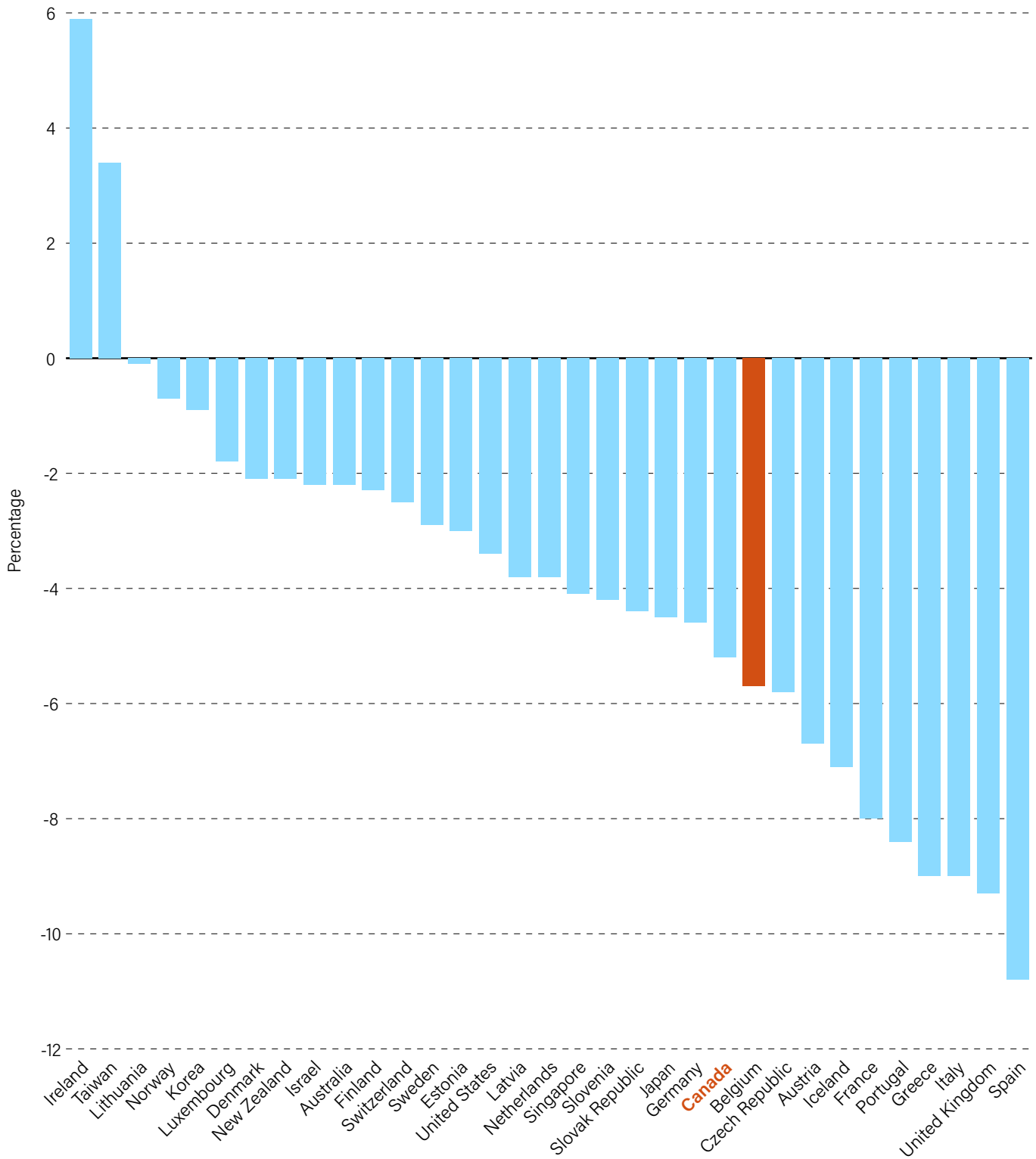
Despite leading our peers—save for Japan—in the accumulation of debt, Canada's economic growth did not outperform that of our peer group during the pandemic. **Figure 2** and **figure 3** rank each country's real GDP growth in 2020 and 2021. As shown, Canada had the 11th lowest real GDP growth (−5.2%)

in 2020. For comparative purposes, Spain had the lowest GDP growth at −10.8%, while Ireland—which reduced its debt-to-GDP ratio from 2019 to 2021—had the highest, 5.9%.

In 2021, Canada had the 12th lowest real GDP growth (4.6%) out of the 33 industrialized countries. For comparison, Japan had the lowest at 1.6%, and Ireland once again experienced the highest real GDP growth at 13.5%. Put simply, Canada was out-performed by approximately two thirds of our peer group in terms of economic growth.

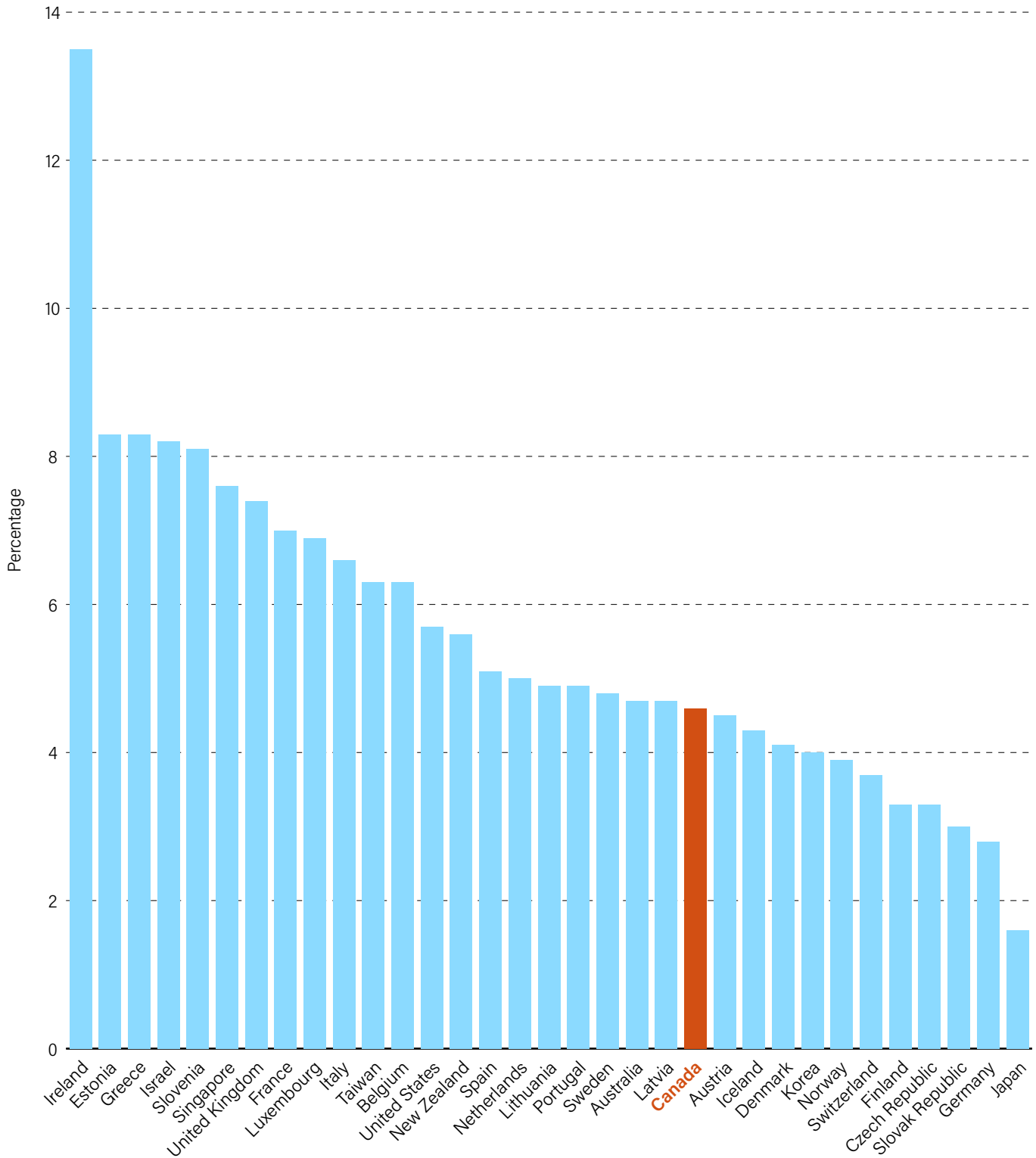
The results for the three other countries that experienced marked increases in their gross debt as a share of the economy—Japan, the United States and Spain—are mixed. Japan, like Canada, performed comparatively poorly in both years: its real GDP growth was the 13th lowest in 2020 and the lowest of all 33 industrialized countries in 2021. Spain's performance for real GDP growth was more mixed: it ranked lowest in 2020 but 15th highest in 2021. For the United States, real GDP growth fell in the middle in both years, ranking 15th highest in 2020 and 13th highest in 2021.

Figure 2: Real GDP growth (%) for industrialized countries, 2020



Source: International Monetary Fund, 2022.

Figure 3: Real GDP growth (%) for industrialized countries, 2021



Source: International Monetary Fund, 2022.

Unemployment, 2020 and 2021

A second useful measure with which to assess economic performance is a comparison of unemployment rates. It is important to note that the IMF data is standardized to allow for inter-country comparisons. For context, Canada's unemployment rate was higher than a majority of its peers before the pandemic. More specifically, Canada had the 10th highest unemployment rate (5.75%) out of the 33 countries covered by the IMF in 2019.⁷

Our comparative position in terms of unemployment only worsened during the pandemic. **Figure 4** and **figure 5** show Canada's rank for its unemployment rate in 2020 and 2021. In 2020, Canada had the third highest unemployment rate (9.58%) out of the 33 industrialized countries, behind only Greece (16.4%) and Spain (15.53%). The Czech Republic had the lowest unemployment rate at 2.54%.

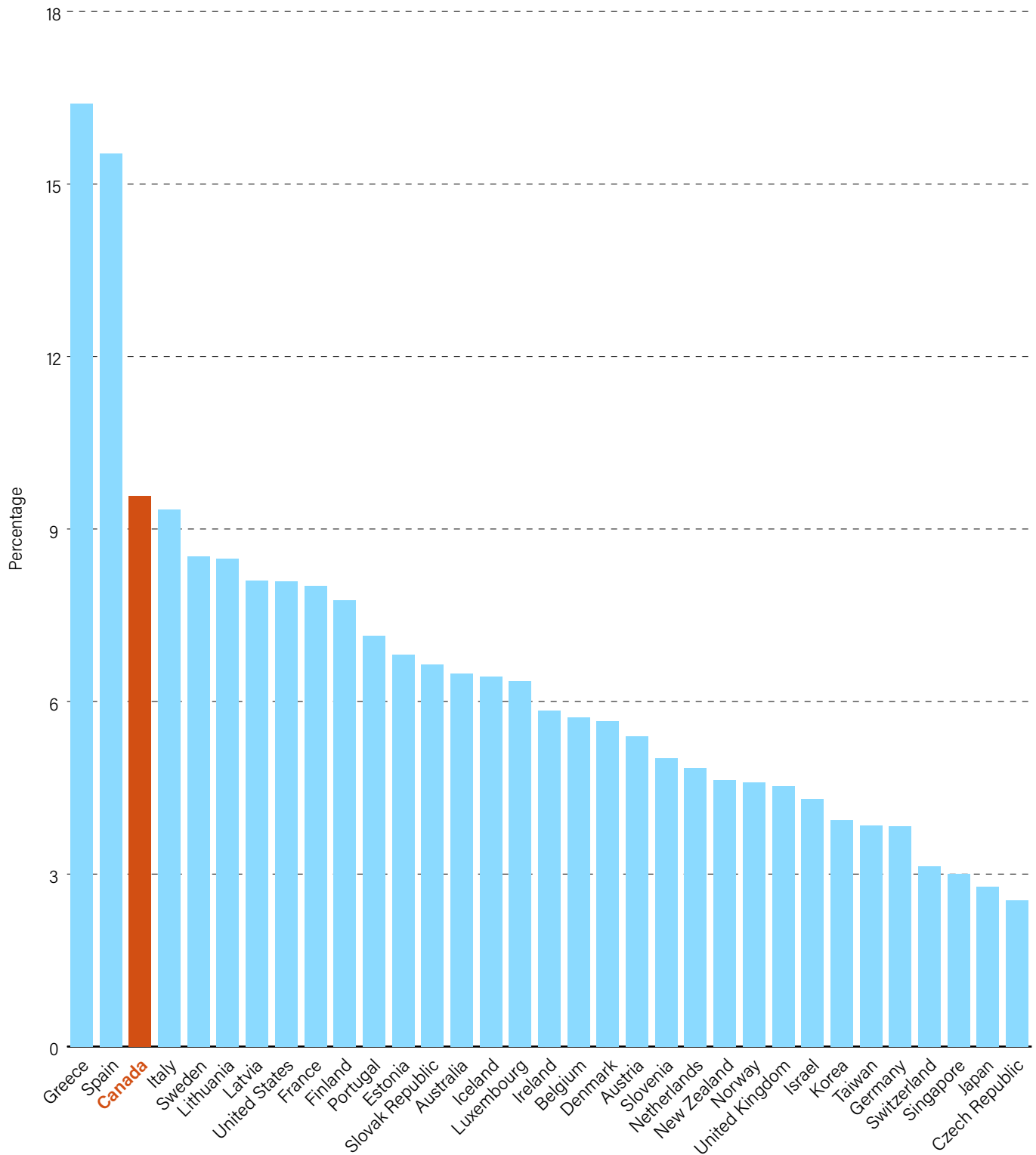
While Canada's unemployment rate declined to 7.43% in 2021, it still ranked relatively poorly compared to its peers. As shown in figure 5, Canada had the 8th highest unemployment rate among 33 industrialized countries. Clearly, despite leading its peers in the accumulation of debt, Canada did not outperform its peer group by achieving lower unemployment during the pandemic.

The other three countries that saw marked increases in their ratios of gross debt as a share of the economy, namely Japan, the United States and Spain, had mixed experiences with unemployment. Japan, for instance, was among the countries with the lowest unemployment rates in both 2020 and 2021 (ranked second lowest in both years). However, Japan's low unemployment rate is certainly not a result of strong economic growth since it ranked among the lowest of the 33 countries in both years. Rather, Japan's low unemployment rate is likely more a function of the country's aging population than a result of economic growth.

Spain, on the other hand, like Canada, performed comparatively poorly on unemployment, ranking second highest in both years. The performance of the United States was more mixed, ranking 8th highest in 2020 but then moving to the middle of the pack, ranking 16th lowest in 2021.

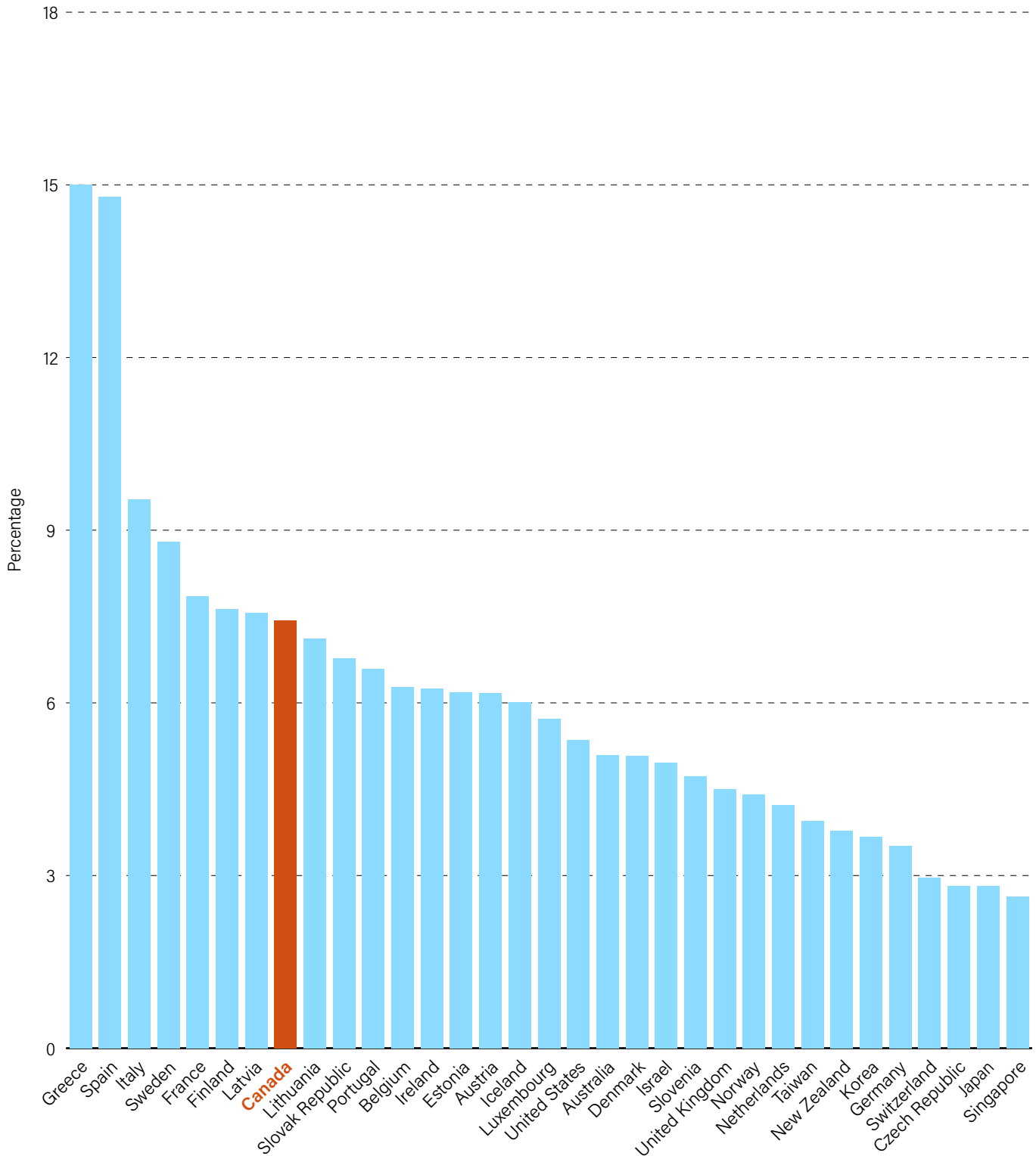
Ireland, a country of interest because it had the highest real GDP growth in 2020 and 2021, while reducing its debt-to-GDP ratio from 2019 to 2021, ranked 17th highest for its unemployment rate in 2020, and 13th in 2021.

Figure 4: Unemployment rates (%) for industrialized countries, 2020



Source: International Monetary Fund, 2022.

Figure 5: Unemployment rates (%) for industrialized countries, 2021



Source: International Monetary Fund, 2022.

Conclusion

Given Canada's accumulation of debt in an effort to support the economy during the pandemic, it is important to assess how our economy actually performed. Despite accumulating more gross debt as a share of the economy than every other country except Japan from 2019 to 2021, Canada's economy clearly did not outperform our peer group of 33 industrialized countries on either economic growth or unemployment rates. Indeed, it is

telling that our southern neighbour, which also experienced a marked increase in gross debt relative to the size of the economy, markedly outperformed Canada on both measures in both 2020 and 2021. Ireland, which reduced its gross debt-to-GDP ratio from 2019 to 2021, also outperformed Canada on both measures and, in fact, led the group of 33 industrialized countries in real GDP growth in 2020 and 2021.

Endnotes

1. To be clear, Canadian governments were accumulating debt well before the COVID pandemic. However, the situation was exacerbated by the government response to COVID-19. See Fuss and Lafleur, 2021 for more information.
2. The accumulation of debt has important consequences. For instance, higher debt (all else equal) leads to higher interest payments. On aggregate, interest payments on federal debt alone will cost Canadian taxpayers approximately \$180 billion from 2022/23 to 2026/27 (DOF, 2022). Indeed, debt comes with costs that Canadians will have to pay for through additional taxation at a later date. One study estimated that Canadians aged 16 to 80 in 2025 can expect to pay an additional \$332.5 billion in personal income taxes over their lifetimes (on a present-value basis) to pay for the projected accumulation of federal debt from 2019, or \$10,498 in additional taxes (on average) per Canadian (Fuss and Palacios, 2021). Moreover, the purchase of government debt by the central bank to finance spending (as occurred in Canada during the pandemic) can trigger inflation (Globerman, 2021).
3. For instance, demographics have an important impact on economic growth. In Canada, studies have found that an aging population will dampen economic growth as a larger share of the population retires or reduces their engagement in the labour market (Fuss and Globerman, 2020).
4. Please note that Macao SAR, Hong Kong SAR, Puerto Rico, San Marino, Andorra, Cyprus, and Malta were excluded from the group of industrialized countries covered by the IMF data because of their size and/or special democratic or economic status.
5. For more information, see Clemens and Palacios, 2021. The IMF defines gross debt as: "All liabilities that require future payment of interest and/or principal by the debtor to the creditor" (IMF, 2022). It includes the central government, state governments, and local governments. However, it is worth noting that many of the countries included in this analysis are unitary states, meaning that they do not have sub-national governments such as provinces in Canada or states in the United States.
6. In fact, Canada's economic performance in the last five years before the recession (2016–2019) was relatively weak compared to other pre-recession periods (Clemens, Palacios, and Veldhuis, 2021).
7. Canada's unemployment rate was actually trending downwards beginning in 2017. However, the main reason for the decline was, and remains, demographics and the aging of the population, which reduced the labour force relative to the overall population, rather than robust job creation by the private sector (Clemens and Palacios, 2018).

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