ECONOMIC VIEWPOINT

CEBA Loan Repayment Deadline: What You Need to Know About the Economic and Fiscal Impacts

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- Nearly 900,000 businesses were approved for a Canada Emergency Business Account (CEBA) loan, of which almost 575,000 received an additional expansion, for a total of $49.2B in funds approved. More than half of businesses in Canada received the loan, a share that is highest among smaller businesses (5-19 employees) and in the accommodation and food services sector.
- While full repayment by January 18, 2024, will allow companies to take advantage of the grant portion (as much as 33% up to $20,000), it looks like more than one quarter of companies with CEBA loans will not be in a position to do so. As such, a meaningful share of outstanding CEBA loans is likely to be rolled into a 3-year loan with a 5% interest rate that will need to be repaid by the end of 2026.
- CEBA loans supported many small businesses in Canada during the pandemic. Real GDP and employment were higher than they would have been otherwise as a result. But so were inflation and interest rates. Looking ahead, real GDP and employment growth will be lower because of the federal government requiring CEBA loans to be repaid. We've estimated that compared to a scenario where CEBA loans were forgiven in their entirety, the level of employment will be nearly 85,000 lower at the end of 2026. However, inflation and interest rates will be lower as well, providing relative affordability relief to all Canadians.
- We think the near-term fiscal impact of the CEBA loan program will be minimal, with the federal government pushing much of the downside risk to the budget balance to the end of 2026. In fact, the federal government may well decide to extend the repayment deadline again in a few years to minimize the impact on deficits and net debt. Much will depend on the outcome of the next election. We haven't changed our federal deficit outlook as a result. That said, if the federal government were to delay or even forgive outstanding CEBA loans, it would contribute to larger deficits and higher debt, risking additional upward pressure on interest rates.

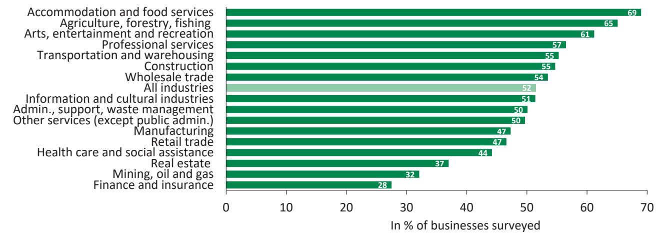
Early in the COVID-19 pandemic, the federal government introduced the Canada Emergency Business Account (CEBA), which provided an interest-free loan of up to $40,000 to eligible small businesses. This was meant to bridge them through public-health-mandated lockdowns and mobility restrictions. Nearly 900,000 businesses were approved for a CEBA loan, of which almost 575,000 received an additional expansion of up to $20,000. In total, funds approved by the federal government for CEBA loans and expansions came to $49.2B.

The original repayment deadline for CEBA loans was December 31, 2022. This was later extended to the end of 2023, and then again to January 18, 2024. For a CEBA loan repaid by the deadline, as much as 33% of the amount owing up to $20,000 would be treated as a grant.

In the final extension of CEBA repayment deadline, the federal government allowed companies that were unable to pay by January 18, 2024, to roll the amount outstanding into a 3-year loan with an interest rate of 5% (at the time of publication, the prime rate was 7.2%). The amount owing would then not need to be fully repaid until the end of 2026. However, in not repaying the CEBA loan in full by the January 2024 deadline, companies would lose the grant portion of the loan.

Graph 1
About half of Canadian businesses took out a CEBA loan

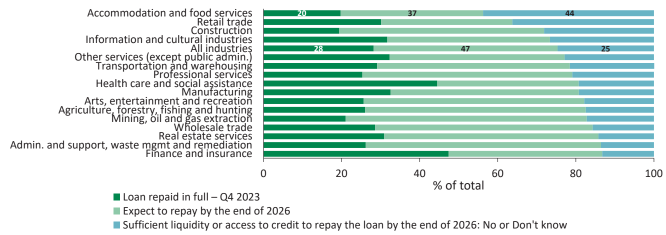
Proportion of businesses who received a CEBA loan, by industry



CEBA: Canada Emergency Business Account
Statistics Canada and Desjardins Economic Studies

Graph 3
Some Sectors Will Have a Harder Time Repaying CEBA Loans

CEBA loan repayment status, Q4 2023



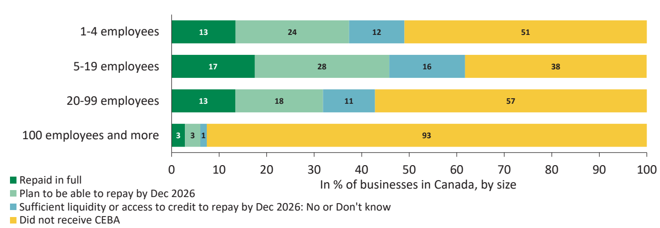
CEBA: Canada Emergency Business Account
Statistics Canada and Desjardins Economic Studies

Which Businesses Took CEBA Loans?

More than half of Canadian businesses received a CEBA loan (52%), with some sectors relying on it more than others. Accommodation and food services (69%); agriculture, forestry, and fishing (65%); and arts, entertainment, and recreation (61%) were particularly heavy users of the CEBA program (graph 1). Small businesses were also most likely to have received a CEBA loan, with 62% of businesses with 5 to 19 employees reporting having received it (graph 2).

Graph 2
Businesses with 5-19 employees had the greatest share of CEBA loans

CEBA loan repayment status, Q4 2023



CEBA: Canada Emergency Business Account
Statistics Canada and Desjardins Economic Studies

But with the CEBA loan repayment deadline fast approaching, not all businesses are in the same position to pay it back. Based on Statistics Canada survey result, some 25% of businesses say they won't or don't know if they will have sufficient liquidity or access to credit to repay by the deadline of December 31, 2026. This share is highest (44%) in the accommodation and food services sector (graph 3).

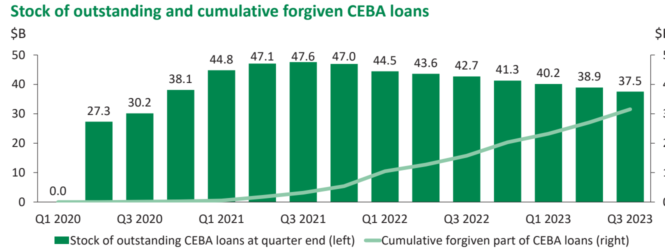
This indicates that some businesses and sectors are experiencing serious financial strain coming into 2024. Other indicators reinforce this vulnerability assessment (Table 1 on the next page). If we extend these survey results to the entire population of Canadian businesses, some 13% appear vulnerable, including roughly a third in accommodation and food services. There is generally higher vulnerability in sectors with higher proportion of small businesses as well (restaurants, retail, construction, information and cultural industries).

Economic Impacts of CEBA Loan Repayment

After reaching its peak in Q3 2021, the stock of outstanding CEBA loans has gradually fallen (graph 4). As of the end of Q3 2023, the remaining amount owed was $37.5B. Loan amounts forgiven to that point owing to the grant portion were $3.2B. Repayment is expected to have accelerated since as the repayment deadline approaches.

Graph 4
There Remains a Large Stock of CEBA Loans Outstanding

Stock of outstanding and cumulative forgiven CEBA loans



CEBA: Canada Emergency Business Account
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In our forecasts, we assumed that the majority of companies would repay their CEBA loans by the deadline in order to take advantage of the grant portion. Our thinking was those businesses that couldn't repay the loan with cash would instead mostly choose to borrow from financial institutions. However, a survey conducted by the CFIB in September 2023 found that those businesses that had repaid their CEBA loan had overwhelmingly done so out of existing deposits (graph 5 on page 3). Indeed, only 2% of businesses surveyed had approached a financial institution to refinance their CEBA loan. However, a greater share had used existing available credit, such as their line of credit. And more recent analysis from the CFIB suggests an increasing share of companies may be opting for this option.

According to a later survey published by Statistics Canada at the end of November 2023, 72% of businesses with a CEBA loan had yet to repay the full amount. But about two thirds of those

TABLE 1
Financial Strain is Felt More Strongly in Some Sectors

Industries [1]	Overall business outlook	PROFILE: % of GDP [2]	PROFILE: % of Jobs [3]	PROFILE: % of Jobs in Small Bus. [3]	CEBA: % of vulnerable businesses [4]	INSOLVENCIES: % of All Industries (2022)	INSOLVENCIES: Growth rate (%), 2023 [5]	DEBT: Leverage ratio [6]	DEBT: Debt cost & rising rates : most challenging obstacle [7]	BUSINESS SENTIMENT [7]: % of pessimists (12-month outlook)	BUSINESS SENTIMENT [7]: Change in demand, next 3 months (balance of opinion, %)
All industries (Total)		100	100	**62**	**13**	**100**	**40**	**58**	**11**	**21**	**-3**
Accommodation and food services	Challenged	2	6	91	30	15	44	82	13	28	-10
Retail trade	Challenged	5	16	76	17	11	58	62	11	19	-2
Wholesale trade	To watch	5			8	4	56	57	9	21	-5
Construction	To watch	8	7	79	15	15	31	73	15	20	-12
Information and cultural industries	To watch	3	4	59	14	2	32	67	7	21	2
Arts, entertainment and recreation	To watch	1			11	2	44	82	5	19	-2
Other services (except public administration)	To watch	2	3	90	11	7	47	59	4	13	10
Transportation and warehousing	To watch	4	5	52	12	8	14	64	12	24	-16
Agriculture, forestry, fishing and hunting	To watch	2	1	87	11	2	7	58	21	23	-7
Real estate and rental and leasing	To watch	13	7	53	5	3	25	62	22	25	-13
Finance and insurance	Above-average	7			4	1	88	n.a.	16	17	-6
Professional, scientific and technical services	Above-average	7	8	61	12	7	48	54	8	27	-7
Admin. and support, waste management services	Above-average	3	3	74	7	5	41	55	10	21	-8
Manufacturing	Above-average	10	10	48	9	8	51	52	8	16	-6
Mining, quarrying, and oil and gas extraction	Above-average	5	2	45	6	1	81	46	7	13	0
Health care and social assistance	Above-average	8	13	54	9	3	5	n.a.	8	15	21

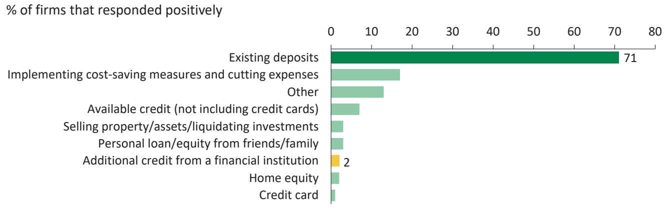
Legend: Challenged · To watch · Above-average

Sources: Statistics Canada, Office of the Superintendent of Bankruptcy, and Desjardins, Economic Studies

Graph 5
Most Firms that Repaid a CEBA Loan Did so with Existing Deposits

Strategies used by business owners that fully repaid CEBA loan

% of firms that responded positively



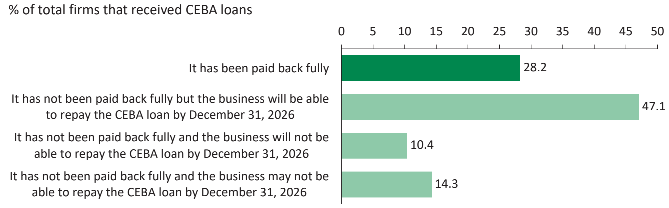
CEBA: Canada Emergency Business Account

Canadian Federation of Independent Business and Desjardins Economic Studies

Graph 6
Most Firms Have Yet to Repay Their CEBA Loan but Expect To

Status of repayment of loan from the CEBA

% of total firms that received CEBA loans



CEBA: Canada Emergency Business Account; Note: labels have been modified for brevity

Statistics Canada and Desjardins Economic Studies

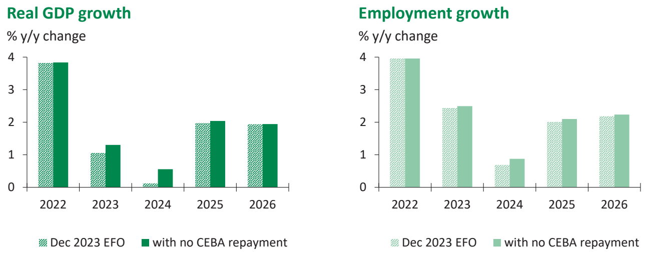
businesses expected to be able to by the end of 2026—47% of total businesses with a CEBA loan (graph 6). However, 14% of businesses had yet to repay the CEBA loan in full and are not sure if they will be able to do so by the end of 2026. An additional 10% are certain they won't be able to repay the CEBA loan in full by December 31, 2026.

To get a sense of the economic impact of potential changes to the CEBA repayment conditions, we can make some assumptions regarding the rate of loan repayment. We then apply the Parliamentary Budget Officer's (PBO's) fiscal multipliers to the various repayment scenarios (PBO, 2021).

Real GDP growth will be lower as a consequence of the federal government requiring CEBA loan repayment, as will employment growth (graph 7 on page 4). According to our estimates, there would be nearly 85,000 more Canadians employed at the end of 2026 if the CEBA loans had all been entirely forgiven, albeit at a significant fiscal cost per job. At the same time, inflation and interest rates would tend to be higher as well, further eroding affordability for all Canadians (graph 8 on page 4). Further extending the CEBA loan repayment deadline as opposed to outright forgiveness would have smaller economic impacts but they would be in the same direction—higher real GDP, employment, inflation and interest rates.

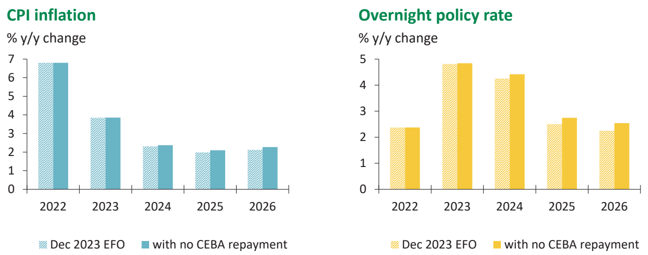
[1] Elements may not add to 100% because of industries not showed in the table: NAICS 22 (utilities), 55 (management of companies), 61 (education services), 91 (public admin.). [2] 2023 average, based on Jan-Oct. [3] Some categories are defined differently in Employment data. Agriculture excludes forestry, fishing and hunting. The latter are included in the Mining and oil and gas sector. The sectors of Information, Culture and Recreation are combined. The sectors of Retail trade and Wholesale trade are combined. Finance, insurance, and Real estate are combined. [4] Calculation: percent of businesses who received a CEBA loan multiplied by percent of those borrowers who are at risk of non-repayment (i.e. Say they won't have access to liquidity or credit to repay or Don't know if they will). CSBC Q4 2023. [5] Jan-Nov 2023 vs Jan-Nov 2022. [6] In this data, the following sectors are combined: Arts, entertainment, recreation, and Accommodation and food services. We therefore indicated the same leverage ratio for both. [7] Source: CSBC Q4 2023, Statistics Canada. Balance of opinion: percent of businesses expecting an increase minus percentage expecting a decrease in demand for their goods and services.

Graph 7
Forgiving CEBA Loans Would Boost Growth and Employment …



EFO: Economic and Financial Outlook; CEBA: Canada Emergency Business Account
Statistics Canada and Desjardins Economic Studies

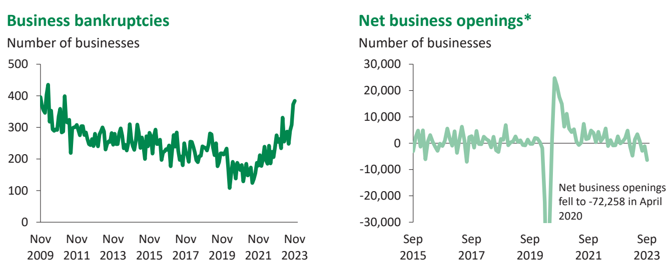
Graph 8
… But It Would Also Increase Inflation and Keep Rates Higher



EFO: Economic and Financial Outlook; CEBA: Canada Emergency Business Account
Statistics Canada, Bank of Canada and Desjardins Economic Studies

Notably, outstanding CEBA loans present a downside risk to our baseline economic forecast as it doesn't fully capture a possible spike in small business bankruptcies. Business bankruptcies have been on the rise since reaching a record low during the pandemic, hitting the highest level since 2011 in November 2023 (graph 9). At the same time, business closures have been outpacing openings at one of the fastest paces in recent memory outside of the darkest days of the COVID-19 pandemic in 2020. Our analysis also doesn't account for specific industry impacts over the next three years.

Graph 9
Business Bankruptcies and Closures Have Been Accelerating



* Opening businesses minus closing businesses
Innovation, Science and Economic Development Canada, Statistics Canada and Desjardins Economic Studies

Fiscal Impacts of CEBA Loan Repayment

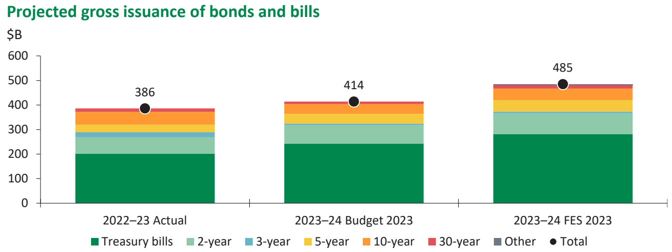
There would be other costs to further delaying or even forgiving CEBA loans beyond just higher inflation and interest rates. If the federal government had forgiven the CEBA loans entirely, it would have increased federal deficits and debt by the full $49.2B. That's materially higher than forgiving just the grant portion had all of the loans been repaid by the deadline. And according to the PBO (2023), just an extension of the repayment deadline and interest-free period for CEBA loans to December 31, 2024, would cost the federal government about $900M. That would be in addition to the realized fiscal cost of the prior CEBA loan repayment deadline extension to the end of 2023, which was projected to come in at a net cost of about $400M in Budget 2022.

Higher deficits and debt push up interest rates and, hence, borrowing costs for everyone. That said, it's difficult to estimate the overall federal fiscal impact of the changes to the CEBA loan program under different repayment scenarios. That's because we don't know what repayment profile the federal government had baked into its previous fiscal plans. Indeed, there was no mention of how the deficit would be impacted by CEBA program changes in the Fall Economic Statement 2023.

But we do know that the outstanding CEBA loans yet to be repaid are treated as an asset on the federal government's consolidated financial statements. In the Public Accounts of Canada 2023, the federal government booked $24.6B in loans receivable from CEBA loans—just less than two thirds of the stock of outstanding CEBA loans at the end of the 2022–23 fiscal year. According to the Auditor General of Canada (2021), "The value of these assets is reduced when a loan is determined to be unlikely to be repaid or in order to reflect amounts that are likely to be forgiven. This reduction in the value of assets increases the annual deficit." As such, the asset value booked in the most recent Public Accounts suggests the federal government expected most CEBA loans to ultimately be repaid by the end of December 2023.

While this could well be the case, it remains that a large share of the outstanding CEBA loans is unlikely to be repaid in full by the January 2024 deadline. Consequently, the CEBA program changes announced in September 2023 should impact how the outstanding loans were recorded in the Government of Canada's balance sheet. That's because the loans not repaid by January 18, 2024, won't receive the grant portion. As such, even if as much as one third of outstanding CEBA loan amounts were repaid or forgiven by the January 2024 deadline, that would leave nearly $33B left to be repaid with no accompanying grant portion. Hence, the asset value recorded will be substantially higher than in the recent Public Accounts if the federal government assumes all CEBA loans are repaid by the end of 2026. That will have the added benefit of lowering the level of federal net debt (gross debt less financial assets). However, the lower inflow of cash to federal government coffers at the end of 2023 and beginning of 2024 is also expected. This may help explain part of the sharp increase in planned debt issuance this fiscal year relative to the level projected in Budget 2023 (graph 10).

Graph 10
Planned Debt Issuance Has Increased Substantially Since Budget 2023



FES: Fall Economic Statement
Finance Canada and Desjardins Economic Studies

Of course, not all of the outstanding CEBA loans will ultimately be repaid. Indeed, the Public Accounts of Canada 2023 included the caveat that "… given the unique nature of the COVID-19 pandemic there is limited historical experience to assess the expected recoveries of the Canada Emergency Business Account (CEBA) loans which may lead to a material variance in the valuation of the loans receivable." Since it appears that the federal government has thus far assumed most of the outstanding CEBA loans will be repaid, this poses a downside risk to the federal fiscal outlook.

The federal government will need to decide at the end of 2026 if it will pursue repayment on outstanding balances or extend the ultimate repayment deadline further. In the former case, some of the businesses unable to pay may be forced into bankruptcy. The federal government will have to book losses that will show up in larger deficits and lower assets on its balance sheet. But by extending the loan repayment deadline beyond 2026 subject to ongoing interest payments, the federal government can avoid booking large losses. As such, we think the latter outcome is most likely. Of course, this will come after the next federal election, adding further uncertainty to the treatment of outstanding CEBA loans at the end of 2026. For these reasons, we don't see the need to include a material downside adjustment to the federal government budget balance or net debt forecast at this time.