Note • Motion M-99

Extension of repayment deadline and interest-free period for CEBA loans to 31 Dec. 2024

Legislative Costing Note

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Motion M-99, *Extension of the Canada Emergency Benefit Account Loan Forgiveness Deadline*, introduced by Member of Parliament Don Davies, proposes to extend the deadline to repay Canada Emergency Business Account (CEBA) loans from 18 January 2024 to 31 December 2024 and to extend the interest-free period until the same date. Businesses must repay their loans by the deadline in order to receive partial loan forgiveness. After the deadline, outstanding loans will convert to three-year term loans, subject to interest of five per cent per annum.

The PBO estimates that this extension would cost $907 million.

5-Year Cost

$ millions

Fiscal year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	Total
Total cost	192	715	0	0	0	907

Notes

· Estimates are presented on an accrual basis as would appear in the budget and public accounts.

· A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).

Estimation and Projection Method

The PBO assumes that all CEBA loan holders will enjoy 348 additional days of interest-free loans. This means that for different shares of the loan balance Canada will either delay a reduction in its debt (for the portion of loans that would have been repaid), suffer no net impact (for the portion of loans that would have been forgiven), or forgo interest at the 5 per cent per annum rate (for the portion of loans that would have been left outstanding). The share of debts that will be repaid was estimated based on a Statistics Canada survey of CEBA loan holders' repayment intentions and assuming that loan holders qualify for loan forgiveness of 33 percent of their loan value. The interest cost from the delayed reduction in debt was estimated based on the average interest rate for Canada's market debt.

Sources of Uncertainty

The cost would be lower if CEBA loan holders repay before the new deadline. The interest cost of the delayed reduction in debt depends on the extent to which delayed repayment results in either avoided new borrowing or a reduction in existing borrowing.

Significantly extending the deadline to repay in order to qualify for partial loan forgiveness may increase qualifying repayments, and therefore loan forgiveness. For example, a 10% increase in repayment would result in an additional $1 billion in loans being forgiven.

Extending the deadline to repay in order to qualify for partial loan forgiveness and extending the interest free period will improve both cash flow and net equity position for borrowers. This could theoretically allow some marginal businesses that would have otherwise closed to continue operating, increasing both the share of loans repaid and other tax revenues. However, this impact is not expected to be financially significant.[1]

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Data Sources

CEBA Outstanding Balance
2023 Public Accounts of Canada

Interest Rates
PBO Economic Model (Fall 2023 EBO)

CEBA Repayment Intentions
Statistics Canada, Survey of the Canada Emergency Business Account

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[1] At 5% annual interest with loans up to $60,000, each borrower would avoid up to $3,000 in interest costs over the year, which is relatively small compared with the cash flow of most small businesses with employees. In Q3 2023, 1.9% of businesses reported planning to close over the next 12 months, which is lower than Q4 2022 when businesses did not expect to have to start repayment within the next 12 months. Finally, businesses which are unable to pay interest now but would be able to repay interest starting 31 December 2023 have the options of taking on other debt or negotiating with creditors.

Planned closures over the next 12 months

Statistics Canada, Business or organization plans to expand, restructure, acquire, invest, transfer, sell or close over the next 12 months, third quarter of 2023

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