

CBC News – May 5, 2024

Provincial governments facing higher debts and more financial pressure

Combined provincial budget deficit on track to swell from \$10.6B last year to \$28B this year



Kyle Bakx || May 5, 2024



Total provincial net debt is expected to climb by more than \$65 billion this upcoming fiscal year, which is a record annual increase. (DirkKafka/stock.adobe.com)

After riding a red-hot economy to shrink deficits and grow surpluses, provincial governments across the country are beginning to see their finances flounder.

Each province has released their budget for the upcoming year and collectively are facing higher spending and record-size debt.

Alberta and New Brunswick are the only provinces to publish balanced budget projections compared to eight of the 10 provinces reporting a surplus two years ago,

when a strong national economy and high commodity prices helped fill many provincial coffers.

Now, the "shine is wearing off," describes a report by BMO Capital Markets, as revenue growth is slowing and spending is on the rise.

The combined provincial budget deficit is on track to swell from \$10.6 billion last year to \$27.9 billion this year. Total provincial net debt is expected to climb by more than \$65 billion this upcoming fiscal year, which is a record annual increase and more than twice the underlying budget deficit, according to BMO.

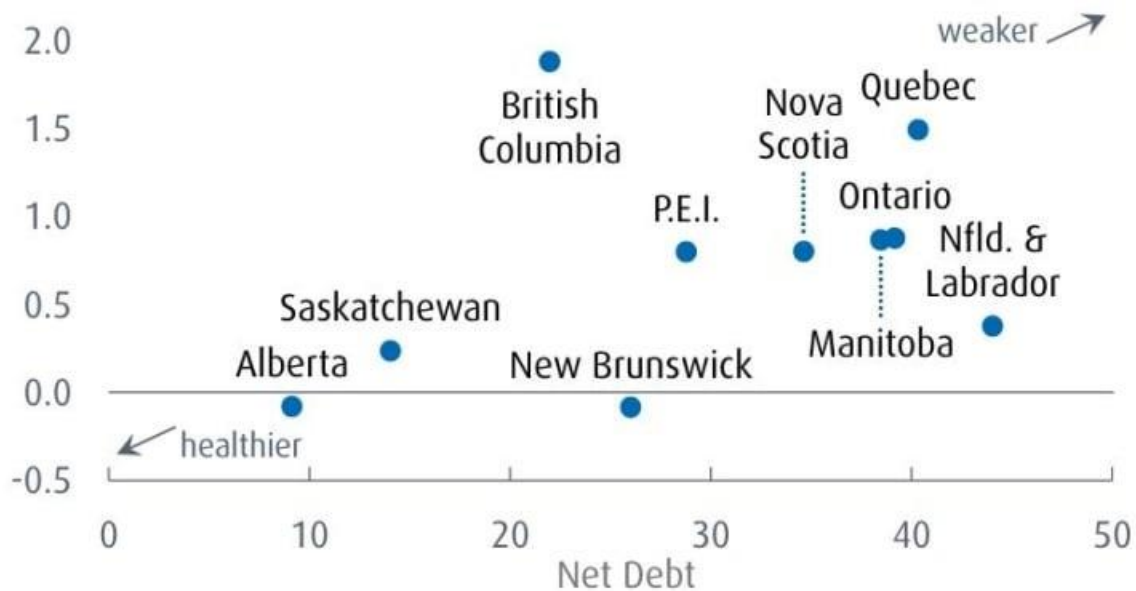
Total borrowing is on pace to climb past \$130 billion this year, which BMO described as the largest tally on record excluding the first year of the pandemic.

"The provinces are still in good fiscal shape, but the lustre and steady positive momentum is wearing off," the BMO report states.

Provincial Fiscal Landscape

FY24/25 (% of GDP : as of latest budgets and updates)

Budget Deficit vs. Net Debt



Alberta is in the healthiest financial shape when compared to other provincial governments because of its expected budget surplus for the upcoming year (2024-25) and its relatively low rate of debt-to-GDP. (BMO Economics, provincial budgets/updates)

Rising debt levels are also leading to higher expenses every year in interest payments.

"We're seeing most provinces feeling some financial pressure," said Pedro Antunes, chief economist at the Conference Board of Canada.

"Long-term financing costs are going to be much more elevated in the future than they were even pre-pandemic," he said. "It means more difficulty for provinces to deliver on other programs when they have essentially debt-financing growing as a share of their overall revenues."

Many provinces are increasing spending in the face of higher public sector wages and interest costs. At the same time, population growth is putting a strain on infrastructure, which is leading to higher capital spending.

"Across the board, budgeted deficits appear to be largely driven by substantial spending needs, particularly in health care, education and transportation," said Aditi Joshi, vice-president of global sovereign ratings at Morningstar DBRS, a credit ratings agency.

"Population gains of recent years have created immense pressure on public infrastructure that will continue to weigh on provincial finances through at least the medium term," she said.

The most recent data from Statistics Canada shows the Canadian economy grew a modest 0.2 per cent in February, with early estimates for March indicating little change to the GDP.

The Bank of Canada has said it is getting closer to cutting interest rates as inflation shows signs of coming down and economic growth slows.