

Fed-prov snapshot: Not exactly 'all smiles' in latest fiscal portrait

By Warren Lovely & Taylor Schleich

It's around this time of year, following the tabling of assorted fiscal updates and audited financial statements, that Canada's federal-provincial governments ostensibly pose for a fiscal snapshot.

Not everyone is looking their budgetary best in the latest picture we just developed (Chart 1). To be fair, a couple provincial jurisdictions have looked relatively sharp of late. A handful of others have congregated not too terribly far from the provincial average. You will, however, find the odd name at the rougher edge of the fiscal picture frame. That's certainly the case for the federal government.

Amidst an extraordinary (and still unfolding) political drama, Ottawa's long-awaited fall update spilled more red ink for past, current and future fiscal years. It means the sovereign's debt continues to pile up. Put another way, pandemic-related damage looks increasingly permanent as the current federal government locks in a structural deficit.

Fiscal updates also offer a necessary, and in some cases painful, reminder that debt is not free. Federally, public debt charges—what some consider the definition of a dead-weight loss—have shot higher. Thankfully, we're still far removed from the bad ol' days of the mid-

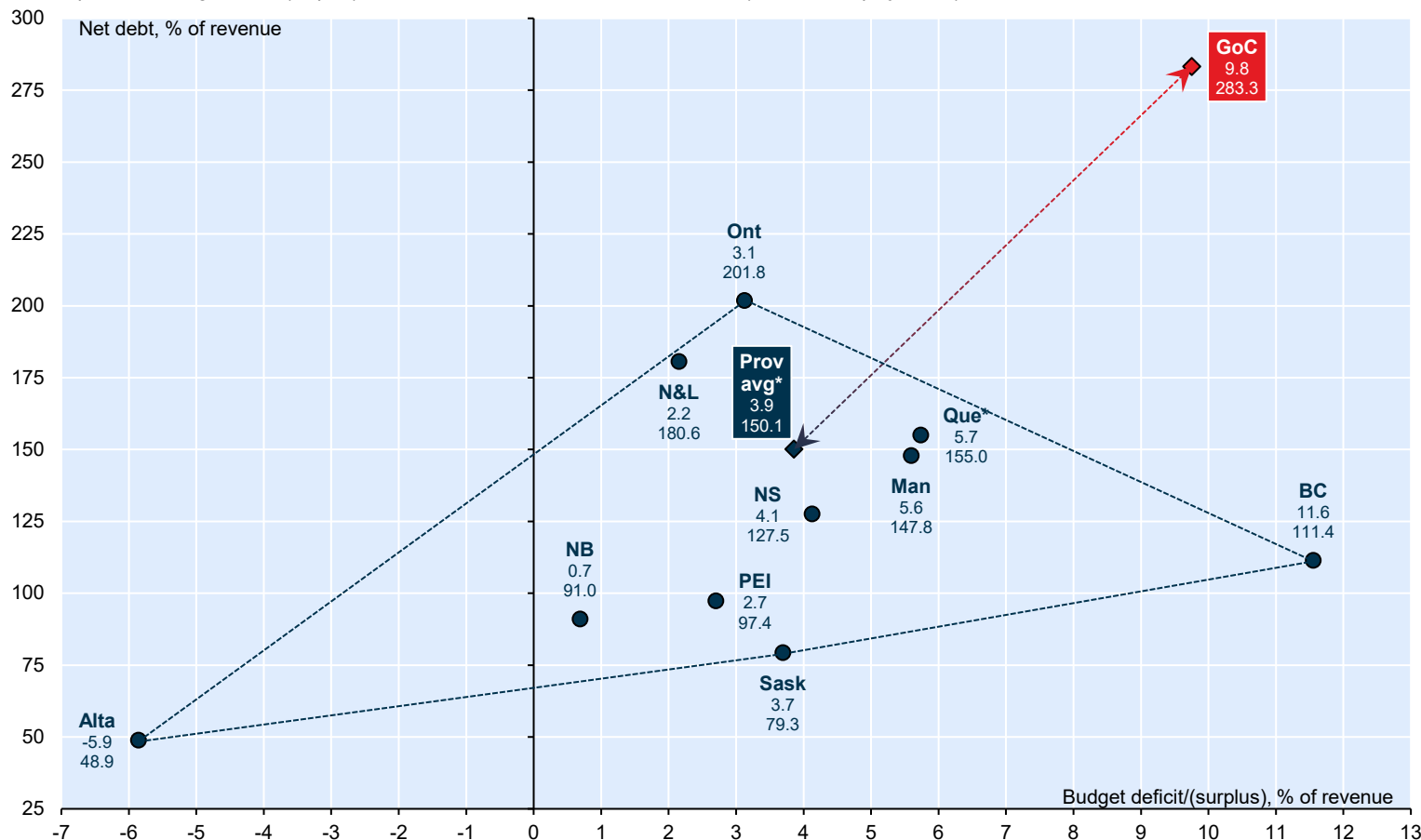
1990s, but debt servicing costs are eating up a non-trivial share of the federal revenue dollar. The ~\$54 billion now needed to service Ottawa's debt has more than doubled in three years' time, consuming resources that could have been saved or steered to genuine productivity enhancing measures. Despite BoC rate cuts, there's no relief in sight.

All provinces save one (Alberta) currently project a budget deficit for 2024-25. But at the margin, and in the aggregate, the weighted average provincial deficit is a mere fraction of Ottawa's shortfall. Momentum has been better too, the total provincial balance net improved vs. budget. That means less provincial debt than earlier telegraphed, a more contained interest bite and reduced borrowing needs vs. prior guidance.

Now a snapshot is just that: a portrait of where things stand at a moment in time. The economic and fiscal ground risks shifting under our feet, with the spectre of U.S. tariffs enough to dampen enthusiasm in even high-performing jurisdictions. There's no telling how radically Canada's fiscal picture could be redrawn if President-elect Trump were to make good on his trade threats. In the meantime, our governments pose for debt investors, some finding this process more comfortable than others.

Chart 1: Ottawa makes itself a fiscal outlier, as provinces (on average) enjoy income statement & balance sheet edge

Federal-provincial budget deficit/(surplus) & net debt, scaled to total revenue: 2024-25 (latest official projections)

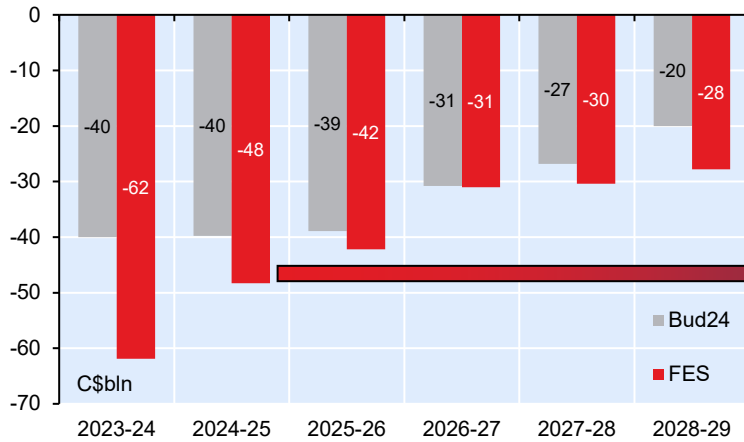


Source: NBC, GoC, prov gov'ts | Note: Based on latest official projections for 2024-25 fiscal year; prov avg is weighted by 2024:Q4 population; Que is budget balance before GF deposit; first data label refers to budget deficit/(surplus); second data label refers to net debt



Chart 2: Federal finances deteriorate (again)...

Federal budget balance: FES vs. Budget 2024

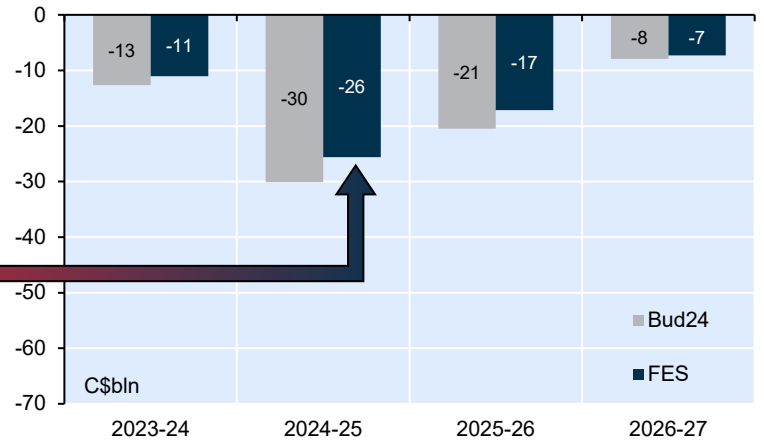


Source: NBC, GoC

Ottawa busted its pledge to limit the 2023-24 deficit, the prior year's shortfall confirmed at \$62 billion (2.1% of GDP). There is more red ink for 2024-25 and future years too (relative to Budget 2024). In contrast, the all-province budget balance has net improved vs. budget, where the \$26 billion aggregate provincial shortfall for 2024-25 is a mere fraction of the deficit the feds have opted for.

Chart 3: ... while provi shortfall smaller & better (vs. budget)

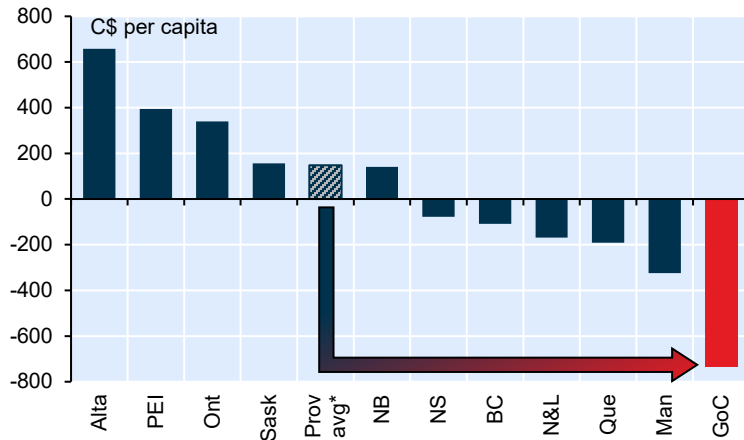
Aggregate provincial budget balance: Latest updates vs. Budget 2024



Source: NBC, prov gov'ts

Chart 4: Taking stock of budgetary revisions

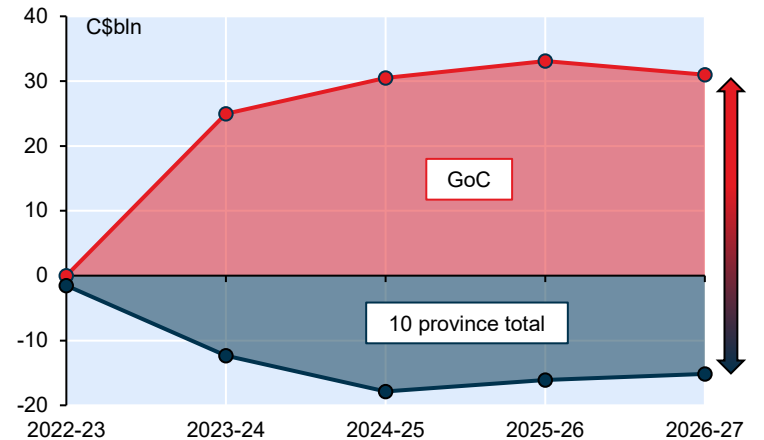
Two-year change in budget balance vs. population: Actual/latest vs. Budget 2024



Source: NBC, GoC, prov gov'ts | Note: Net change for 2 FYs (2023-24 & 2024-25)

Chart 5: More debt in Ottawa, less than planned provincially

Change in federal-provincial net debt level: Actual/latest vs. Budget 2024

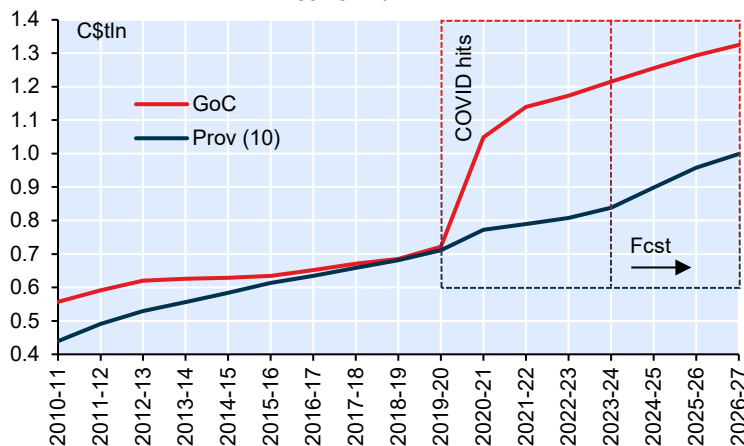


Source: NBC, GoC, prov gov'ts

Provincial totals/averages mask performance differences from one jurisdiction to another. While flagging oil price-related risks, Alberta's relative fiscal position has improved the most vs. budget. Ontario—that most vital provincial bellwether—is on a brighter budgetary path too. Total provincial net debt gets marked down then (vs. budget), while the feds add to an already sizeable debt load.

Chart 6: Ottawa's hefty COVID debt made permanent...

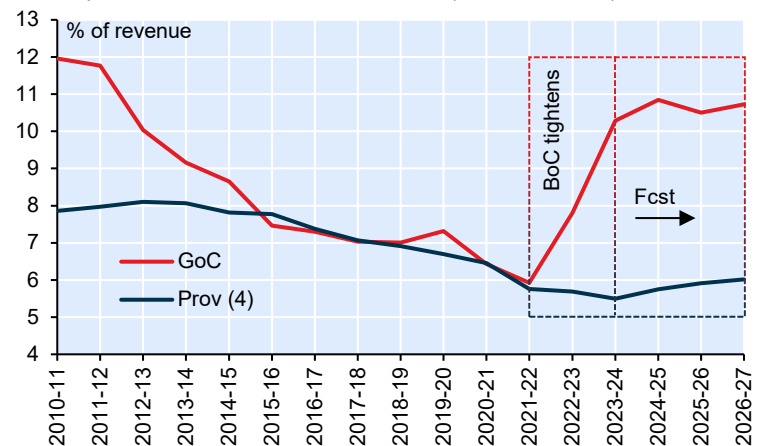
Federal accumulated deficit & aggregate provincial net debt level



Source: NBC, GoC, prov gov'ts | Note: Prov is sum of all 10 provinces

Chart 7: ... with the federal interest bill having come due

Federal-provincial debt service-to-revenue ratio (aka 'interest bite')



Source: NBC, GoC, prov gov'ts | Note: Prov is weighted average of Ont, Que, BC, Alta

Having locked in larger deficits, Ottawa's pandemic-era debt has become permanent. And the fiscal tab is still running. That reduces financial flexibility for the sovereign, the annual interest bill much enlarged. Federal debt charges have more than doubled in the past three fiscal years (to 2024-25). And Ottawa's interest bite doesn't look to lighten up from here, despite BoC interest rate relief.



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