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Budgetary trendspotting

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This is not the most stable environment to be crafting detailed, multi-year fiscal plans, but Canada's 2025 budget season is nonetheless upon us. Nova Scotia was first out of the gate (February 18th), followed by Alberta (February 27th) and most recently British Columbia (March 4th). Detailed budget briefs can be accessed from NBC's website (**link**).

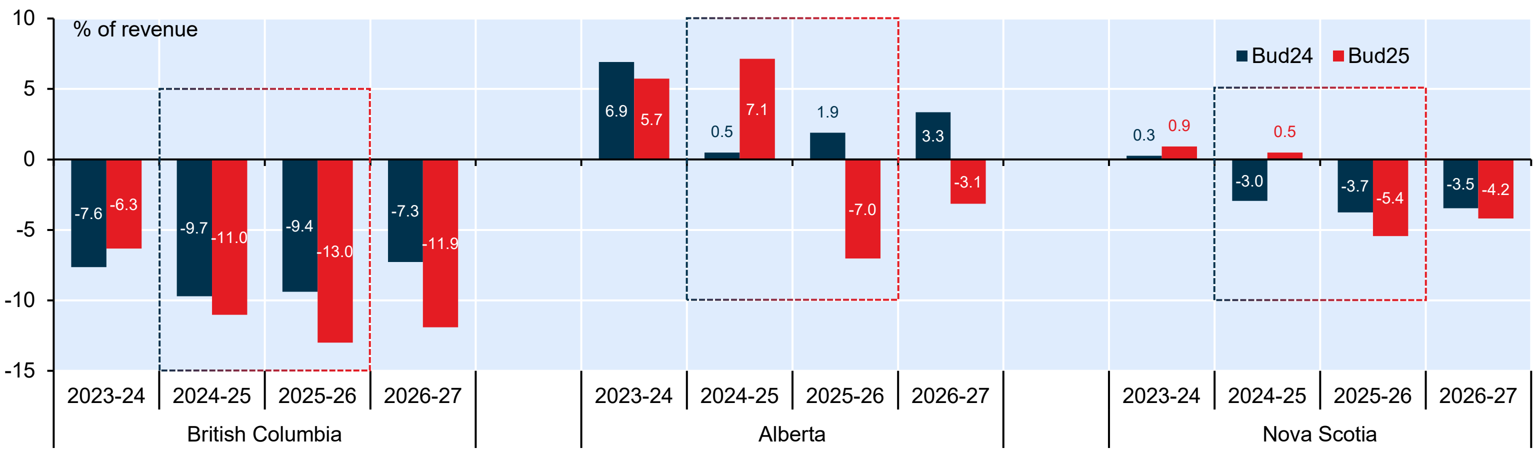
Three of 10 provinces is hardly a complete picture. Together, British Columbia, Alberta and Nova Scotia account for in and around 30% of Canada's national output or population. The three comprise an even smaller share of total provincial bond supply or debt outstanding. There are likewise noted differences across the three, whether that's in sheer size/scale, socio-economic make-up, fiscal/financial risk factors or political leaning. Increasingly topical/vital, trade dependence and export orientation can vary from one province to another.

All this can make generalization and extrapolation difficult. Saying that, a few trends emerged in the first three provincial budgets of 2025. Pressure points have shown up on government income statements and balance sheets alike. Certain budgetary and financial tendencies are apt to be repeated as provincial budget season progresses, with important implications for bondholders.

Note: Provincial budget season is ongoing, with New Brunswick (March 18th), Saskatchewan (March 19th) and Quebec (March 25th) budgets formally slated. Exact budget timing is yet to be confirmed elsewhere.

Chart 1: Budget balances expected to deteriorate amidst intense economic uncertainty

Evolution of budget balance-to-revenue ratio: Bud25 vs. Bud24

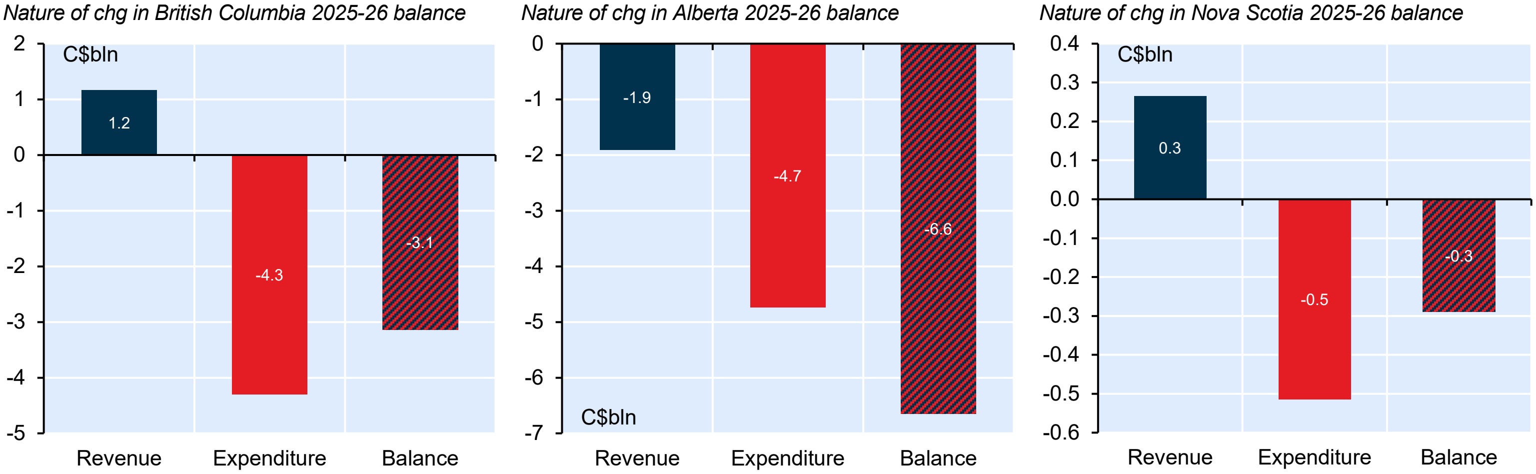


Source: NBC, BC, Alta, NS | Note: To aid inter-provincial comparability, budget balance scaled to total provincial revenue

Ok, three budgets is not an enormous sample. Nor do British Columbia, Alberta and Nova Scotia—the first three provinces out of the gate this budget season—possess identical socio-economic make-ups. There's some fiscal commonality here just the same, the outlook having in all cases deteriorated. All three currently project a weaker budget balance for 2025-26 vs. the prior fiscal year and vs. prior guidance. Alberta and Nova Scotia, which both managed surpluses in 2024-25, expect to slide into deficit in 2025-26. British Columbia's budgetary shortfall is expected to deepen.

Charts 2-4: Dissecting change in 2025-26 budget balance versus year-ago projection (i.e., Bud25 vs. Bud24)

Nature of chg in British Columbia 2025-26 balance | *Nature of chg in Alberta 2025-26 balance* | *Nature of chg in Nova Scotia 2025-26 balance*

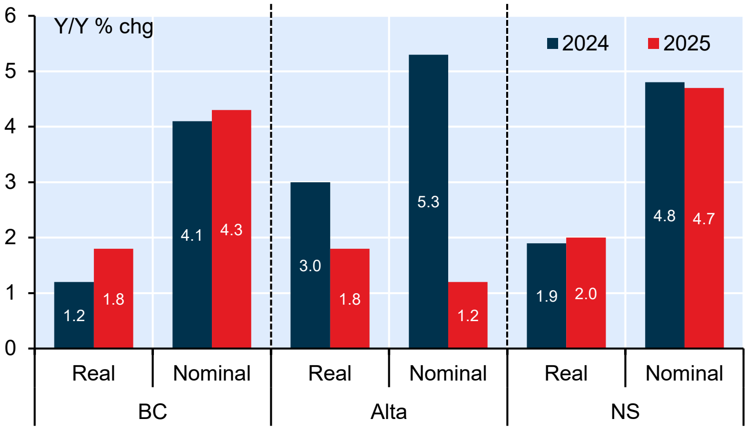


Source: NBC, BC, Alta, NS | Note: Based on level change for 2025-26 FY only; negative values imply lower revenue, higher spending and/or weaker budget balance vs. Bud24

Keying on fiscal 2025-26, the first three budgets collectively outlined a $10 billion net erosion vs. what was jointly projected one year ago. Revenue adjustments/pressures are less-than-uniform, owing to different economic/tariff assumptions and varied approaches to tax relief. But spending is up in all three cases, making extra government outlays (in various forms) the primary driver of 2025-26's budgetary erosion. All this reflects the current "baseline", which could be seriously revised as the geopolitical picture morphs. Economic and budgetary uncertainty is truly exceptional here.

Chart 5: How much growth are provinces planning for?

Planning assumptions for provincial economic growth: Budget 2025



Source: NBC, BC, Alta, NS | Note: Planning assumptions may differ from consensus est/fcst

Chart 6: Alternative scenarios should be studied closely

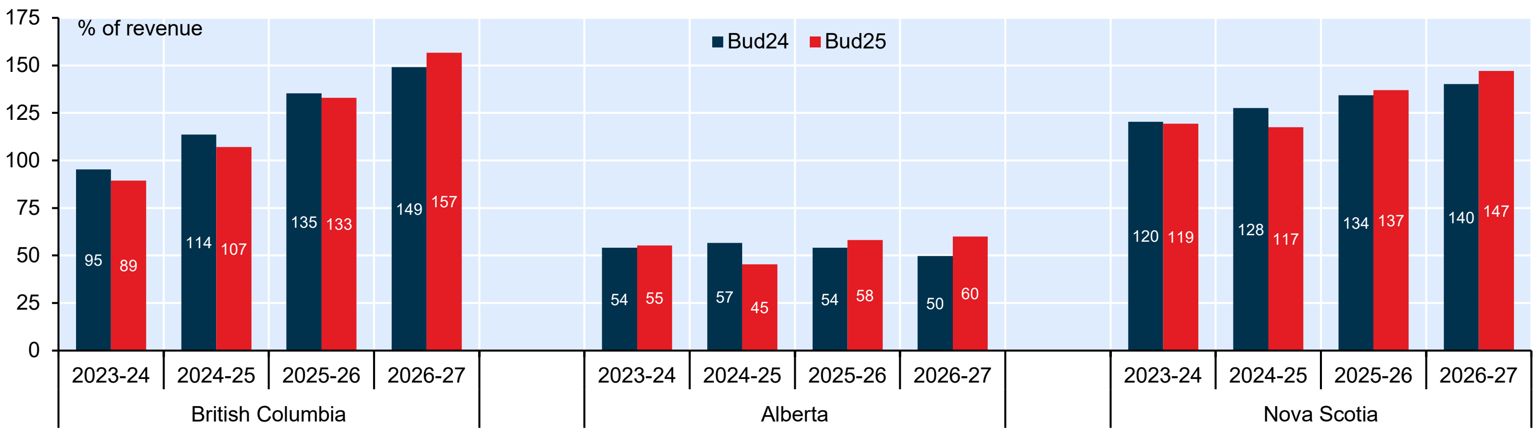
Alberta estimated revenue impacts from "High" & "Low" oil price scenarios

Source: NBC, Alta | Note: Axis label figures are base(B), high(H), low(L) WTI price (US$/bbl)

Budget planning assumptions are informed by the consensus, but these days the outlook is anything but certain. Credit Alberta for most directly factoring in U.S. tariffs. As always, the outlook for oil prices is vital for this resource-leveraged jurisdiction and Alberta's budget once-more offered "high" and "low" oil price fiscal scenarios. B.C. outlined a revised tariff scenario hinting at ~$1½ billion in direct revenue pressure vs. a budget baseline already influenced by tariff-related uncertainty. In a nod to today's exceptional economic uncertainty, Nova Scotia introduced a fiscal contingency.

Chart 7: Relative height and slope of provincial debt burden curves remain informative

Evolution of consolidated net financial debt-to-revenue ratio: Bud25 vs. Bud24

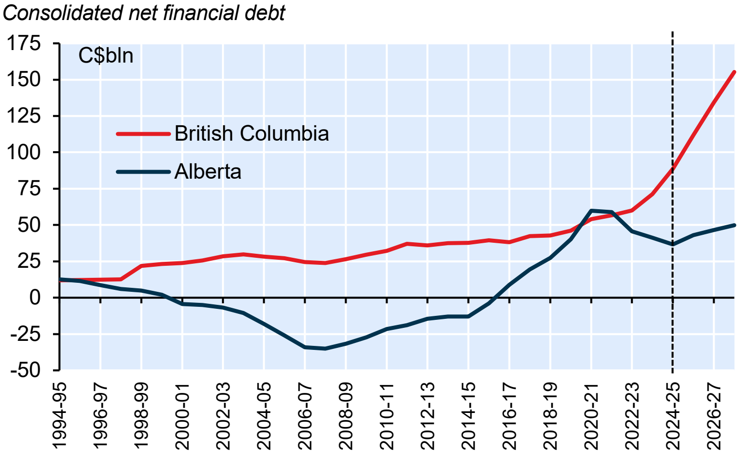


Source: NBC, BC, Alta, NS | Note: Consolidated net financial debt differs from taxpayer-supported liabilities; to aid inter-provincial comparability, net debt scaled to total provincial revenue

If not a pure study in contrasts, relative indebtedness varies across the provinces. Alberta retains the strongest relative balance sheet in the sector. Debt accumulation remains comparatively rapid in British Columbia, which has not gone unnoticed at credit rating agencies. In all three cases, budget deficits and capital spending plans should see debt burdens mount in the coming years.

Chart 8: Historical perspective on BC/Alta indebtedness

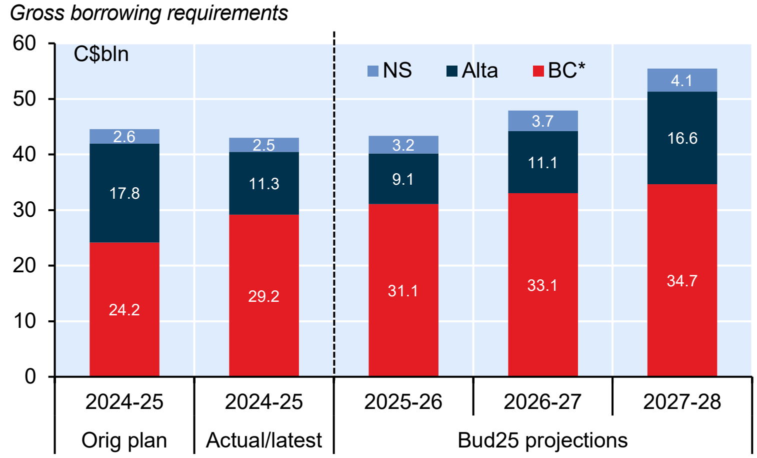
Consolidated net financial debt



Source: NBC, BC, Alta | Note: 2024-25 is est; 2025-26 onwards are Bud25 fcsts

Chart 9: Recalibrating provincial borrowing expectations

Gross borrowing requirements



Source: NBC, BC, Alta, NS | Note: Alta/NS refers to term debt only; BC includes all sources

Where the proverbial rubber hits the road—in debt capital markets—larger deficits/extra debt are consistent with sizeable provincial funding needs for fiscal 2025-26 and beyond. Both British Columbia and Nova Scotia expect to be more active in the coming fiscal year, whereas Alberta's pre-funding efforts could result in less term issuance in 2025-26 (all else equal). These three provinces typically account for 20-25% of total provincial bond issuance (all currencies), so this hardly a complete picture. We'll learn more as budget season progresses, but on balance, there's a credit negative tilt.

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