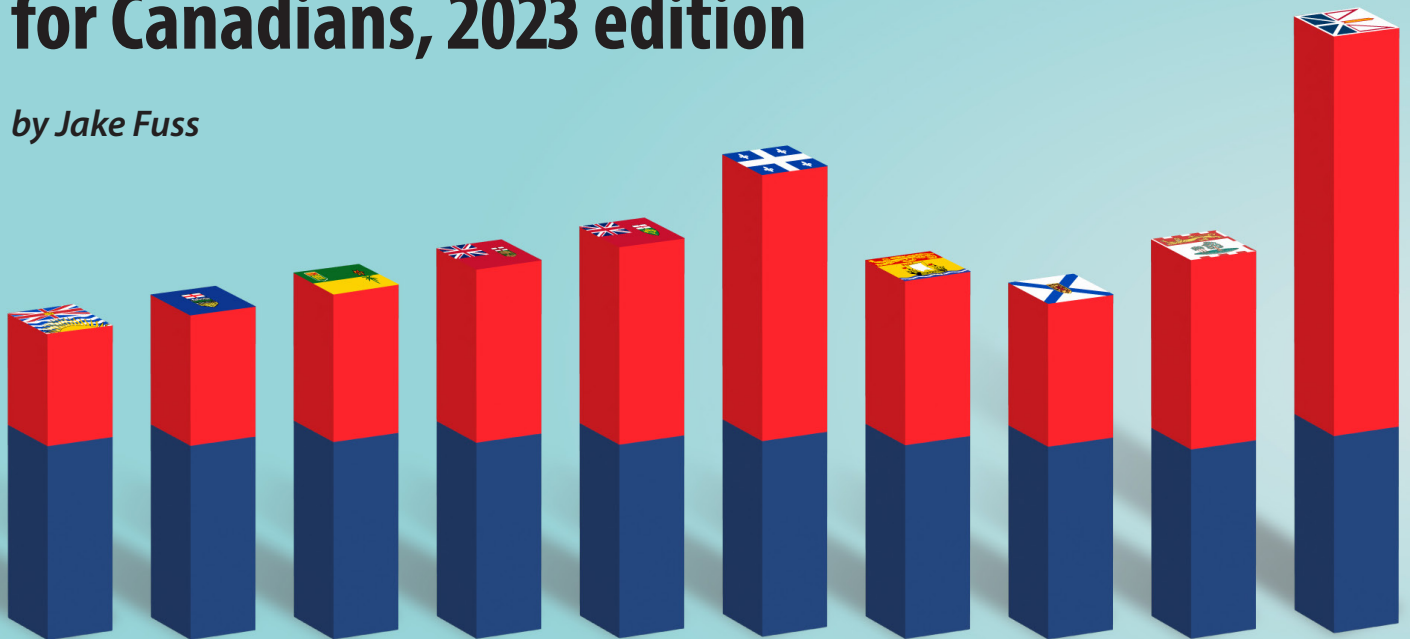


Federal and Provincial Debt-Interest Costs for Canadians, 2023 edition

by Jake Fuss



Summary

■ In recent years, deficit spending and growing government debt have become a trend for many Canadian governments. Like households, governments are required to pay interest on their debt.

■ In aggregate, the provinces and federal government are expected to spend \$68.6 billion on interest payments in 2022/23.

■ Residents of Newfoundland & Labrador face by far the highest combined federal-provincial interest payments per person (\$2,727). Quebec, Canada's second most populous province, is the next highest at \$2,110 per person.

■ The federal government will spend \$34.7 billion on debt servicing charges in 2022/23,

which is more than what the government expects to spend on child care benefits (\$29.4 billion) and employment insurance benefits (\$24.8 billion).

■ Ontarians are projected to spend \$27.0 billion on combined federal and provincial interest costs in 2022/23, which is nearly equivalent to the amount the province will spend on hospitals this year.

■ Meanwhile, total expenditures on interest costs for Albertans (\$6.7 billion) is more than what the province will spend on physicians this year. Combined federal-provincial interest costs for British Columbians (\$7.4 billion) are roughly equivalent to what the province expects to spend on its social services this year.

Federal and Provincial Debt-Interest Costs, 2023

Introduction

For more than a decade, deficit spending and growing government debt have become a trend for many Canadian governments. Although many provinces recorded surpluses in 2021/22, debt has risen significantly for both the federal and provincial governments since the 2008/09

Table 1: Federal and Provincial Interest Costs, 2022-23

	Interest costs (in millions of \$)	Interest costs as a percent of revenue (%)
BC	2,723	3.4
AB	2,702	3.5
SK	812	4.2
MB	1,120	5.5
ON	13,605	7.3
QC	10,523	7.3
NB	609	5.0
NS	684	4.9
PE	149	5.3
NL	956	10.5
FED	34,700	7.8
Total	68,583	6.8

Note: Interest costs for 2022-23 are based on the latest government projections available at the time of writing.

Sources: Canada, Department of Finance (2022a); Alberta, Ministry of Finance (2022); British Columbia, Ministry of Finance (2022); Saskatchewan, Ministry of Finance (2022); Manitoba, Ministry of Finance (2022); Ontario, Ministry of Finance (2022); Québec, Ministère des Finances (2022); Newfoundland & Labrador, Department of Finance (2022); New Brunswick, Department of Finance (2022); Nova Scotia, Department of Finance (2022); Prince Edward Island, Department of Finance (2022); calculations by authors.

recession, especially during the COVID-19 pandemic. Combined federal-provincial net debt is expected to reach a record high \$2.1 trillion in 2022/23 (Fuss, 2023). It is expected that this trend will continue for the foreseeable future, as some governments project they will continue running deficits in 2022/23.

This accumulation of government debt has not only long-term, but also immediate costs. Like households, governments are required to pay interest on their debt. These interest payments consume resources that would otherwise be used for public priorities that would help families or improve Canada’s economic competitiveness. As a result, less revenue may be available in the future for tax relief or to support health care, education, and social services. Of particular note, the Bank of Canada has aggressively raised interest rates recently to combat high inflation. This has contributed to rising interest payments for many Canadian governments in 2022/23.

This research bulletin examines the current level of government spending on interest payments in order to put these costs into perspective for Canadians. In particular, it highlights the financial burden that interest costs place on families and shows the amount of revenue being spent to service the debt in comparison to other government budget items.

Current interest payments

The accumulation of government debt since the 2008/09 recession has added to the billions of dollars of interest costs Canadian governments incur each year. Interest payments are now a considerable budget expense for the federal and many provincial governments. Table 1 displays the expected amount of interest that Canadian governments will pay in 2022/23. The

Federal and Provincial Debt-Interest Costs, 2023

Table 2: Combined Federal and Provincial Interest Costs, 2022-23

	Provincial interest costs (\$ millions)	Federal portion of interest costs (\$ millions)	Combined interest costs (\$ millions)	Combined interest costs per person
BC	2,723	4,713	7,436	1,398
AB	2,702	4,033	6,735	1,482
SK	812	1,077	1,889	1,581
MB	1,120	1,262	2,382	1,690
ON	13,605	13,435	27,040	1,790
QC	10,523	7,821	18,344	2,110
NB	609	719	1,328	1,635
NS	684	900	1,584	1,553
PE	149	148	296	1,736
NL	956	478	1,434	2,727

Sources: Table 1; Statistics Canada (2022a); calculations by authors.

Note: The combined federal and provincial interest cost is a total of provincial interest costs and the federal portion. The federal interest cost is allocated to each of the provinces based on a 5-year average (2018-2022) of their population as a share of Canada's total population.

table also shows those interest payments as a percentage of total government revenues for the federal and provincial governments. This highlights the share of government resources directed to interest costs and provides a sense of their significance compared to other priorities.

Federal interest payments are expected to reach \$34.7 billion, or 7.8 percent of total federal revenues, in 2022/23. In other words, the federal government is currently spending about 8 cents of every dollar in revenue on interest payments.

Among the provinces, current projections suggest Newfoundland & Labrador will dedicate the largest percentage of its revenue to interest payments at 10.5 percent. Ontario and Quebec are expected to be tied for second by spend-

ing 7.3 percent of their provincial revenues on interest payments. In aggregate, the provinces and federal government will spend \$68.6 billion on interest payments this year.

It is also important to mention that these interest payments come at a time when interest rates have been rising. Should interest rates rise more in the future, the cost of borrowing would increase over time.¹ Under those circumstances, even more resources would need to be directed towards interest payments for governments with high debt levels, such as Ontario

¹ This would be a gradual change that would occur as debt is rolled over. If both interest rates and debt grow, then expenditures on interest payments will grow in government budgets as well.

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and Newfoundland & Labrador. Growing interest costs as a percentage of the economy could lead to a vicious cycle where more revenue is required to finance government debt, leaving less for the private sector.² This could also raise the spectre of tax increases to finance the increased debt burden, which could undermine investor confidence.

Burden on Canadians

Federal and provincial interest payments are ultimately paid by Canadians in the form of taxes. Table 2 shows the combined federal and provincial interest costs in total dollars and per person for 2022/23 for each province. Federal interest payments were allocated to the provinces based on a 5-year average (2018-2022) of their share of the total Canadian population.³

Residents in Newfoundland & Labrador face by far the highest combined per-person federal-provincial interest payments (\$2,727). Quebec, Canada's second most populous province, is the next highest at \$2,110 per person—representing \$18.3 billion in total annual interest payments. In contrast, British Columbians face the lowest per-person interest costs in the country (\$1,398). These values make it clear that government debt is now a substantial burden for Canadian taxpayers to bear.

² Ontario and Newfoundland & Labrador are the provinces with the most debt as a share of their economy.

³ This represents a minor change from the 2020 version of this bulletin. Federal interest payments were previously allocated to provinces based on a 5-year average (2013-2017) of net federal tax payable by provinces as a share of Canada's total net federal tax payable. The most pronounced difference is that the previous method allocated more federal interest payments to Alberta and less to Quebec than the current method.

Notably, however, interest payments incurred by local governments are excluded from these numbers.⁴ Generally, local governments are unable to accumulate much debt because provinces place regulations and restrictions on local government debt. However, local interest costs did account for roughly 5 percent of total government interest expenses in Canada in 2021/22 (the latest year of available data). Once local interest costs are included, total interest payments in Canada increase by billions more.

Interest costs in perspective

When interest costs rise, fewer resources remain for tax relief and important public programs. To put this into perspective, interest costs will now be compared with other government spending initiatives, sources of government revenue, and other budgetary items. In addition to exploring the federal government and the country as a whole, this section will provide comparisons for the four most populous provinces (Ontario, Quebec, Alberta, and British Columbia).

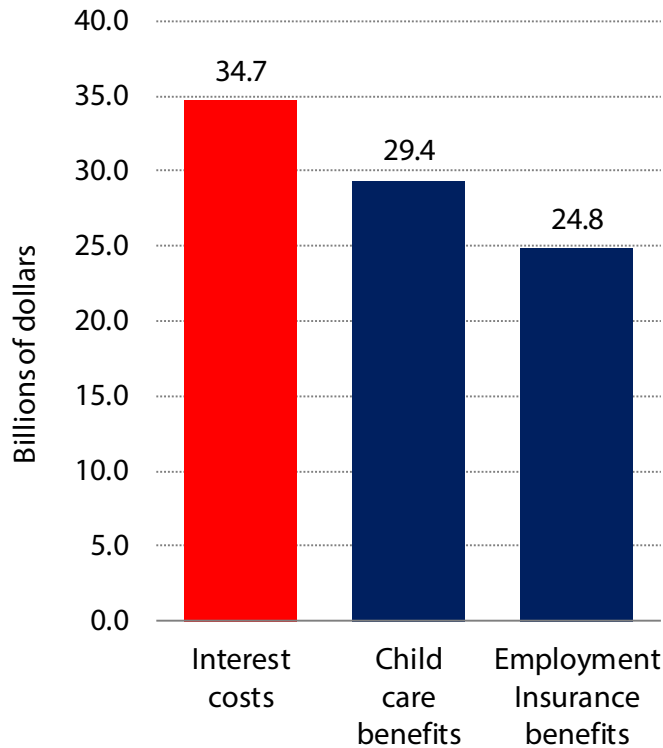
Federal interest costs

For the federal government, interest expenses are expected to equal \$34.7 billion in 2022/23 (Canada, Department of Finance, 2022a). To illustrate the magnitude of this cost, figure 1 shows how this compares to other spending items in the federal budget. For instance, the amount spent on interest payments this year is more than the \$29.4 billion the federal govern-

⁴ Public Accounts data for federal and provincial interest costs are not directly comparable to the Statistics Canada data pertaining to local interest costs. However, Statistics Canada data indicate that local governments incurred \$3.4 billion in interest expenses in 2021/22 (the latest year of available data). See Statistics Canada, 2022b.

Federal and Provincial Debt-Interest Costs, 2023

Figure 1: Federal Interest Costs Compared to Other Budget Items, 2022-23



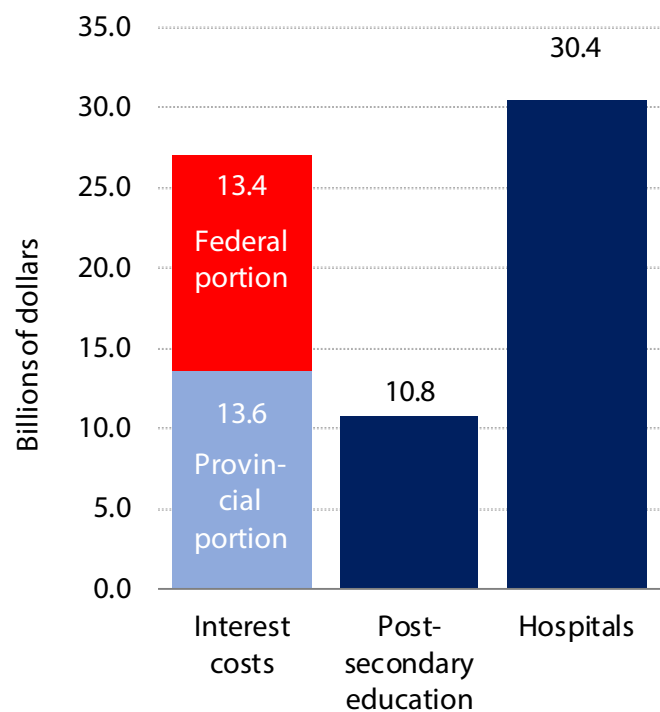
Source: Canada, Department of Finance (2022a).

ment spends on child care benefits. Federal interest costs are also greater than the amount of money spent on Employment Insurance benefits. Clearly, a significant amount of resources is being directed towards interest costs.

Interest costs in Ontario

In 2022/23, the Ontario government will spend \$13.6 billion on interest costs alone. This is \$2.8 billion more than what the province spends on post-secondary education (\$10.8 billion) and translates into well over \$1 billion in interest costs each month (Ontario, Ministry of Finance, 2022). Debt is expected to continue rising for the foreseeable future, which means that interest costs are likely to increase further com-

Figure 2: Ontario's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2022-23



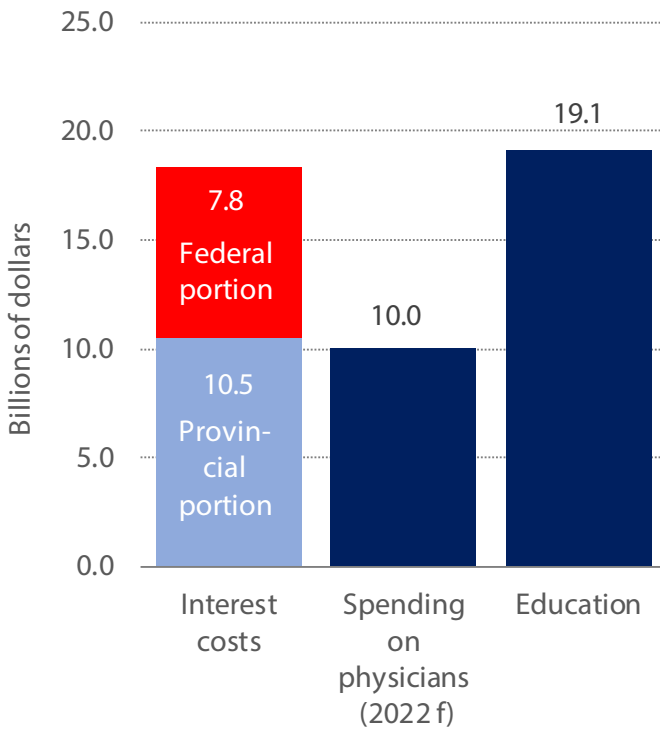
Sources: Table 2; Ontario, Ministry of Finance (2022); CIHI (2022); calculations by authors.

pared to other spending items. According to the 2022 fall fiscal update, interest costs are projected to grow at an average annual rate of 5.8 percent between 2021/22 and 2024/25. In contrast, the annual growth rate on spending for health care is expected to be 4.0 percent. Put simply, interest costs are one of the fastest growing line items in the Ontario budget.

Ontarians are also responsible for paying a portion of the federal interest costs. The combined federal-provincial interest costs for Ontario will total \$27.0 billion in 2022/23 (see figure 2). This is almost as much money as the \$30.4 billion Ontario will spend on hospitals this year (CIHI, 2022).

Federal and Provincial Debt-Interest Costs, 2023

Figure 3: Quebec’s Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2022-23

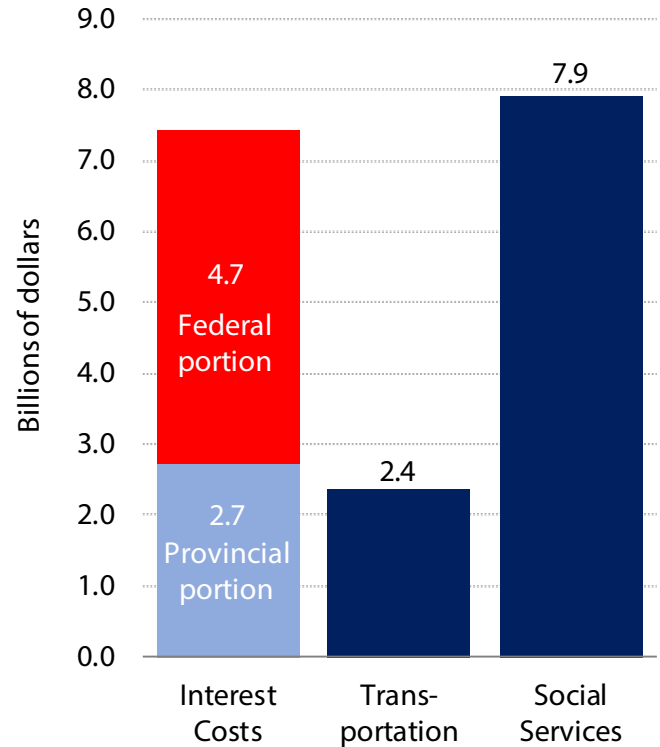


Sources: Table 2; Québec, Ministère des Finances (2022); CIHI (2022); Statistics Canada (2022b); calculations by authors.

Interest costs in Quebec

The Quebec government expects provincial interest costs will equal \$10.5 billion in 2022/23 (Québec, Ministère des Finances, 2022). Provincial interest expenses are projected to be more than the amount Quebec spends on physicians (\$10.0 billion in 2022) (CIHI, 2019). However, Quebeckers are also responsible for \$7.8 billion in federal interest costs. This allocation means that total interest payments paid by Quebeckers this year could amount to \$18.3 billion (figure 3). That is nearly what the province projects it will spend on public education (\$19.2 billion) in 2022/23.

Figure 4: British Columbia’s Federal and Provincial Combined Interest Costs Compared to Other Expenditures, 2022-23



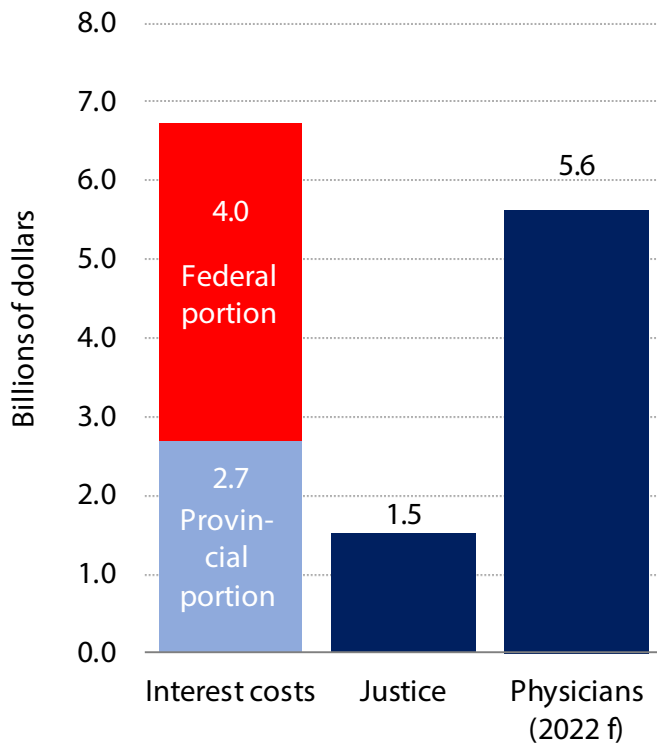
Sources: Table 2; British Columbia, Ministry of Finance (2022); calculations by authors.

Interest costs in British Columbia

Even though British Columbians face one of the lowest debt burdens in the country, interest costs are still a considerable expense for the provincial government. Figure 4 shows that the BC government expects to spend \$2.7 billion on interest payments in 2022/23. This is more than what the province spends on transportation (\$2.4 billion) (British Columbia, Ministry of Finance, 2022). The province’s share of federal interest costs (\$4.7 billion) increases the total interest bill for British Columbians to approximately \$7.4 billion. Overall interest expenses for BC are comparable to what the province ex-

Federal and Provincial Debt-Interest Costs, 2023

Figure 5: Alberta's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2022-23



Sources: Table 2; Alberta, Ministry of Finance (2022); CIHI (2022); calculations by authors.

pects to spend on social services this year (\$7.9 billion).

Interest costs in Alberta

Recently, interest costs have been rising in Alberta. From the 1990s to mid-2000s, the province substantially reduced debt (and eventually eliminated it). However, the province's financial health deteriorated significantly in 2016/17 when debt once again began to accumulate during an economic recession. In a relatively short time, the province's annual interest costs grew from less than \$1 billion in 2015/16 (\$776 million) to \$2.7 billion in 2022/23. Spending on

interest payments this year is larger than the amount the province expects to spend on its justice department (see figure 5).

After accounting for the province's portion of federal interest costs, the combined federal-provincial interest cost in Alberta amounts to \$6.7 billion in 2022/23. Figure 5 shows the magnitude of total government interest payments in Alberta compared to the province's other spending items. The \$6.7 billion expenditure on interest costs is more than what Alberta spends on physicians (\$5.6 billion) this year (CIHI, 2022).

Overall interest costs⁵

In total, interest costs for Canadian governments (federal, provincial, and local) amounted to \$67.7 billion in 2021/22 (the latest year of available data). As figure 6 illustrates, this is nearly equivalent to the amount spent on pension benefits (\$70.3 billion) acquired through the Canada and Quebec Pension Plans (CPP and QPP). It is also just under the amount spent on public K-12 education in Canada (\$74.7 billion in 2019/20, the latest year of available data). These comparisons enable us to demonstrate the scale of interest costs across the country. They also provide a sense of the extent to which debt accumulation diverts resources away from important public priorities.

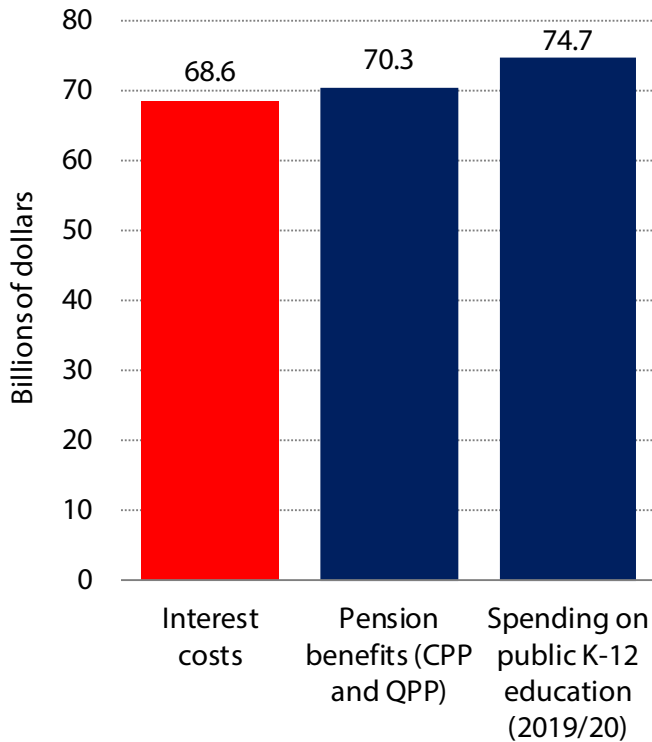
Conclusion

This bulletin shows that deficit spending and government debt come at a substantial cost to Canadians. More resources are typically directed to interest payments when government debt

⁵ Data discussed in this section come from Statistics Canada. As mentioned earlier, these data are not comparable to the combined federal-provincial data illustrated earlier, which come from the Public Accounts.

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Figure 6: Consolidated Government Interest Costs Compared to Other Expenditures, 2021-22



Notes:

a) Public Elementary and Secondary School Education Expenditures is for 2019/20, the most recent year available.

b) Pension benefits for the CPP and QPP are the social benefits as defined by Government Finance Statistics, which are payments to protect people against certain social risks. For more information, see: http://www23.statcan.gc.ca/imdb-bmdi/document/5174_D4_T9_V1-eng.pdf

Sources: Statistics Canada (2022b and 2022c); Service Canada (2022).

rises. This is money that has been shifted away from important public priorities like tax relief and spending on health care, education, and social services. Post-COVID, Canadian govern-

ments must develop plans to address the trend of growing interest costs. Failing to do so will have adverse consequences for Canadian families in the coming years.

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