

# Federal and Provincial Debt-Interest Costs for Canadians

by Jake Fuss and  
Steve Lafleur



## 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 \$49.6 billion on interest payments in 2020/21.
- Residents in Newfoundland & Labrador face by far the highest combined federal-provincial interest payments per person (\$2,604). Quebec, Canada's second most populous province, is the next highest at \$1,417 per person.
- The federal government alone will spend \$20.2 billion on debt servicing charges in 2020/21, which is roughly equivalent to what the government expects to spend on Equalization (\$20.6 billion) and collect in Employment Insurance Premiums (\$21.5 billion).
- Ontarians are projected to spend \$20.3 billion on combined federal and provincial interest costs in 2020/21, which is more than the province will spend on infrastructure this year.
- Meanwhile, total expenditures on interest costs for Albertans (\$4.8 billion) is close to the expected spending on advanced education in the province. Combined federal-provincial interest costs for British Columbians (\$5.5 billion) are more than what the province expects to spend on its Medical Services Plan this year.

# Federal and Provincial Debt-Interest Costs

## Introduction

For more than a decade, deficit spending and growing government debt have become a trend for many Canadian governments. Persistent deficits are now the norm for governments in Alberta and Ontario, while the federal government has increased spending and debt considerably over the last decade. Indeed, combined federal-provincial net debt is expected to reach a record high \$2.0 trillion in 2020/21 (Fuss and Lafleur, 2021). It is expected that this trend will continue for the foreseeable future, as governments across the country deal with the fallout from the COVID-19 pandemic.

This accumulation of government debt has both long-term and 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.

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

**Table 1: Federal and Provincial Interest Costs, 2020-21**

	Interest costs (in millions of \$)	Interest costs as a percent of revenue (%)
BC	2,724	4.7
AB	2,413	5.8
SK	725	5.1
MB	959	5.5
ON	12,456	8.2
QC	7,573	6.4
NB	655	6.4
NS	743	6.5
PE	123	5.4
NL	1,073	15.1
FED	20,200	7.3
Total	49,643	7.0

Note: Interest costs for 2020-21 are based on the latest government projections available at the time of writing.

Sources: Canada, Department of Finance (2020a); Alberta, Ministry of Finance (2020); British Columbia, Ministry of Finance (2020); Saskatchewan, Ministry of Finance (2020); Manitoba, Ministry of Finance (2020); Ontario, Ministry of Finance (2020); Québec, Ministère des Finances (2020); Newfoundland & Labrador, Department of Finance (2020); New Brunswick, Department of Finance (2020); Nova Scotia, Department of Finance (2020); Prince Edward Island, Department of Finance (2020); calculations by authors.

displays the expected amount of interest that Canadian governments will pay in 2020/21. The 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 and Provincial Debt-Interest Costs

**Table 2: Combined Federal and Provincial Interest Costs, 2020-21**

	Provincial interest costs (\$ millions)	Federal portion of interest costs (\$ millions)	Combined interest costs (\$ millions)	Combined interest costs per person
BC	2,724	2,729	5,453	1,059
AB	2,413	2,346	4,759	1,076
SK	725	632	1,357	1,151
MB	959	736	1,695	1,229
ON	12,456	7,797	20,253	1,375
QC	7,573	4,579	12,152	1,417
NB	655	421	1,076	1,376
NS	743	523	1,266	1,293
PE	123	84	206	1,293
NL	1,073	287	1,360	2,604

Sources: Table 1; Statistics Canada (2020a); 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 (2016-2020) of their population as a share of Canada's total population.

Federal interest payments are expected to reach \$20.2 billion, or 7.3% of total federal revenues, in 2020/21. In other words, the federal government is currently spending about 7 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 15.1%. Ontario is expected to come in second by spending 8.2% of its provincial revenues on interest payments—a \$12.5 billion expense. Every province (except for British Columbia) is projected to spend 5.0% or more of their revenues on interest payments in 2020/21. In aggregate, the provinces and federal government will spend \$49.6 billion on interest payments this year.

It is also important to mention that these interest payments come at a time when governments are able to borrow at very low interest rates. Should interest rates rise in the future, the cost of borrowing would increase over time.<sup>1</sup> Under those circumstances, even more resources would need to be directed towards interest payments for governments with high debt levels, such as Ontario 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 fewer re-

<sup>1</sup> This would be a gradual change which 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.

# Federal and Provincial Debt-Interest Costs

sources for the private sector.<sup>2</sup> 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 2020/21 for each province. Federal interest payments were allocated to the provinces based on a 5-year average (2016-2020) of their share of the total Canadian population.<sup>3</sup>

Residents in Newfoundland & Labrador face by far the highest combined per-person federal-provincial interest payments (\$2,604). Quebec, Canada's second most populous province, is the next highest at \$1,417 per person—representing \$12.2 billion in total annual interest payments. In contrast, British Columbians face the lowest per-person interest costs in the country (\$1,059). These values make it clear that growing government debt is now a substantial burden for Canadian taxpayers to bear.

---

<sup>2</sup> Ontario and Newfoundland & Labrador are the provinces with the most debt as a share of their economy. In 2020-21 Ontario's net debt amounts to \$398.0 billion (or 46.3 percent of GDP) and Newfoundland & Labrador's net debt is \$16.4 billion (or 51.3 percent of GDP) (Fuss and Lafleur, 2021).

<sup>3</sup> This represents a minor change from last year's 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.<sup>4</sup> 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 2019/20 (the latest year of available data). Once local interest costs are included, total interest payments in Canada increase by billions of dollars 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

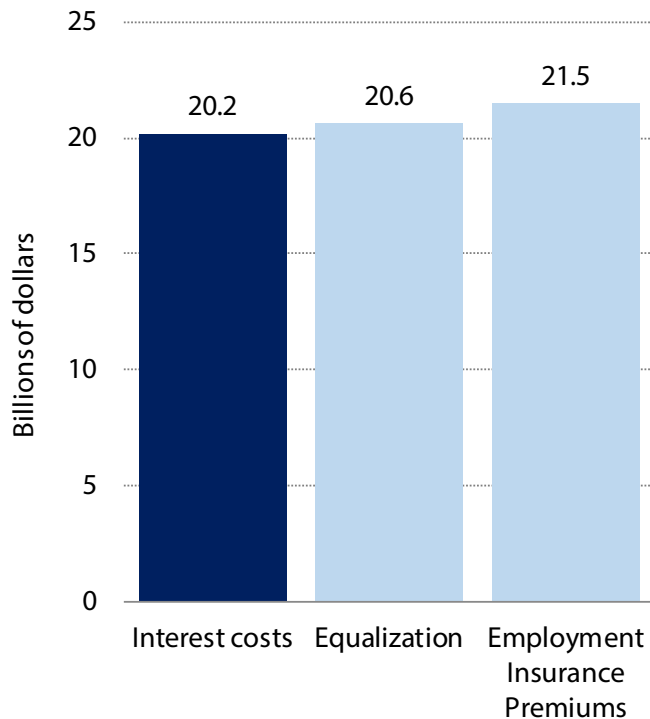
For the federal government, interest expenses are expected to equal \$20.2 billion in 2020/21 (Canada, Department of Finance, 2020a). To illustrate the magnitude of this cost, figure 1 shows how this compares to other spending items in the federal budget. For instance, the amount spent on interest payments this year is

---

<sup>4</sup> 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 \$3.3 billion in interest expenses in 2019/20 (the latest year of available data). See Statistics Canada, 2020b.

# Federal and Provincial Debt-Interest Costs

**Figure 1: Federal Interest Costs Compared to Other Budget Items, 2020-21**



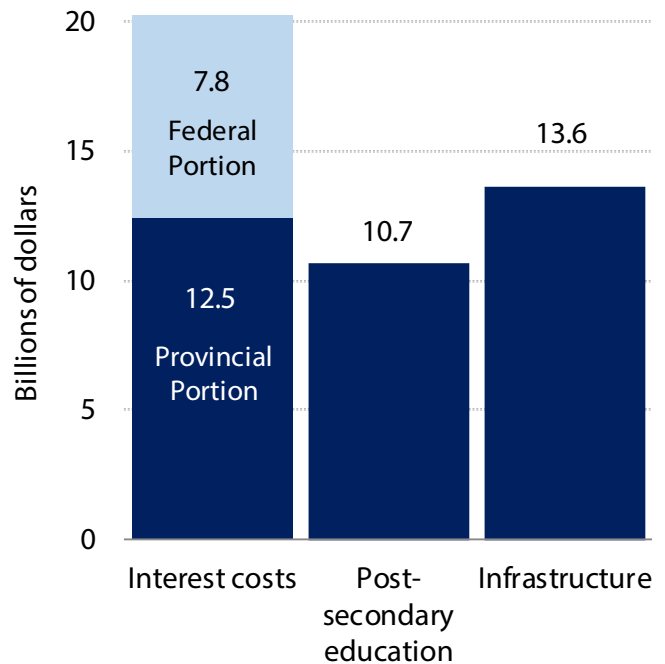
Source: Canada, Department of Finance (2020a).

roughly equivalent to the \$20.6 billion the federal government spends on Equalization. Federal interest costs are also near the amount of revenue collected for Employment Insurance premiums. Clearly, significant resources are being directed towards interest costs.

## **Interest costs in Ontario**

In 2020/21, the Ontario government will spend \$12.5 billion on interest costs alone. This is \$1.8 billion more than what the province spends on post-secondary education (\$10.7 billion) and translates into more than \$1 billion in interest costs each month (Ontario, Ministry of Finance, 2020). Debt is expected to continue rising for the foreseeable future, which means that inter-

**Figure 2: Ontario's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2020-21**



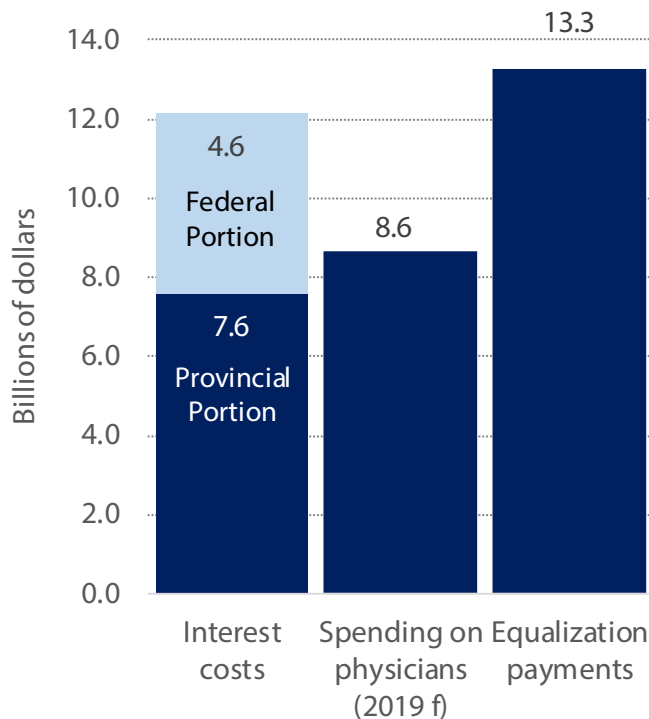
Sources: Table 2; Ontario, Ministry of Finance (2020); calculations by authors.

est costs are likely to increase more than will other items on which the government spends. According to the 2020 provincial budget, interest costs are projected to grow at an average annual rate of 3.6% between 2019/20 and 2022/23. In contrast, annual growth rates on spending for health care and education are expected to be 2.5% and 1.2%, respectively. 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 \$20.3 billion in 2020/21 (see figure 2). This is substantially more than the total \$13.6 billion

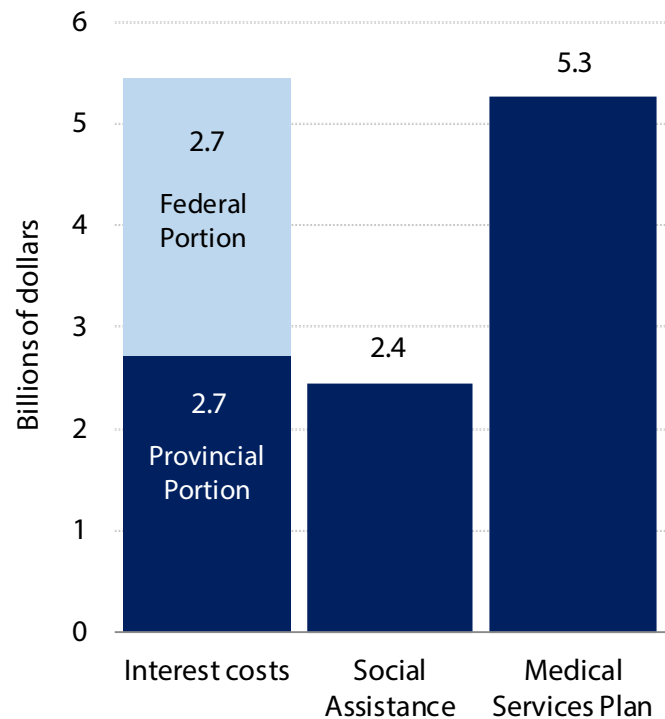
# Federal and Provincial Debt-Interest Costs

**Figure 3: Quebec's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2020-21**



Sources: Table 2; Québec, Ministère des Finances (2020); CIHI (2019); Statistics Canada (2020b); Canada, Department of Finance (2020c); calculations by authors.

**Figure 4: British Columbia's Federal and Provincial Combined Interest Costs Compared to Other Expenditures, 2020-21**



Sources: Table 2; British Columbia, Ministry of Finance (2020); calculations by authors.

the Ontario government will spend on infrastructure this year.

## **Interest costs in Quebec**

The Quebec government expects provincial interest costs will equal \$7.6 billion in 2020/21 (Québec, Ministère des Finances, 2020). Provincial interest expenses are projected to be nearly equivalent to the amount Quebec spends on physicians (\$8.6 billion in 2019) (CIHI, 2019). However, Quebecers are also responsible for \$4.6 billion in federal interest costs. This allocation means that total interest payments paid by Quebecers this year could amount to \$12.2 bil-

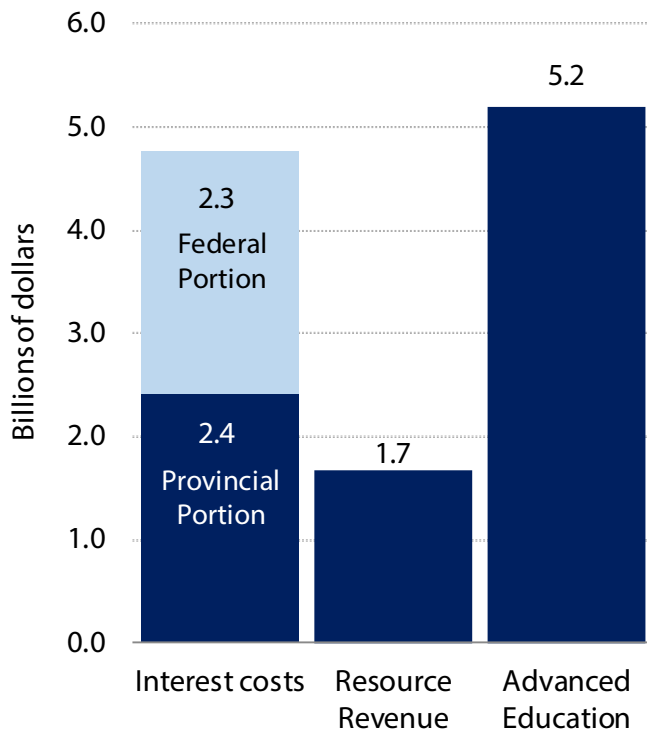
lion (figure 3). That is nearly what the province collected in equalization payments (\$13.3 billion) in 2020/21.

## **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 2020/21. This is more than what the province spends on social assistance (\$2.4 billion) (British Columbia, Ministry of Finance, 2020). The province's share of fed-

# Federal and Provincial Debt-Interest Costs

**Figure 5: Alberta's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2020-21**



Sources: Table 2; Alberta, Ministry of Finance (2020); calculations by authors.

eral interest costs (roughly \$2.7 billion) increases the total interest bill for British Columbians to approximately \$5.5 billion. Overall interest expenses for BC are comparable to what the province expects to spend on its Medical Services Plan this year (\$5.3 billion).

## Interest costs in Alberta

Interest costs have been rising rapidly in Alberta in recent years. 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 over \$2.4 billion in 2020/21. Spending on interest payments this year is larger than the amount the province expects to collect in resource revenues (see figure 5). Interest costs are likely to grow further in future years, as the Alberta government expects to continue increasing debt and spend almost \$3 billion on annual interest expenses by 2022/23 (Alberta, Ministry of Finance, 2020).

After accounting for the province's portion of federal interest costs, the combined federal-provincial interest costs in Alberta will amount to \$4.8 billion in 2020-21. Figure 5 shows the magnitude of total government interest payments in Alberta compared to the province's other budget items. The \$4.8 billion expenditure on interest costs is close to what Alberta's government expects to spend on advanced education (\$5.2 billion) this year (Alberta, Ministry of Finance, 2020).

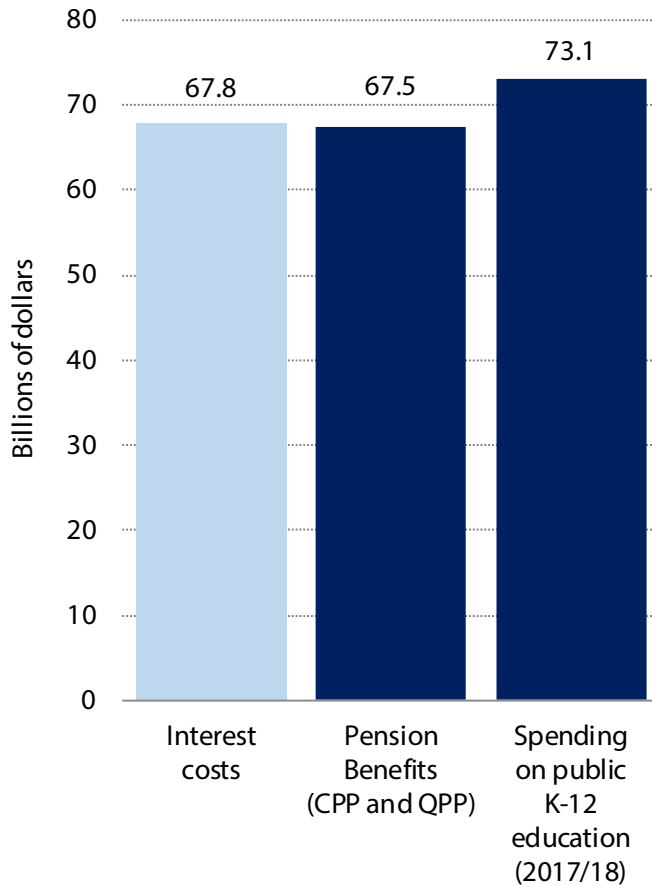
## Overall interest costs

In total, interest costs for Canadian governments<sup>5</sup> (federal, provincial, and local) amounted to \$67.8 billion in 2019/20 (the latest year of available data). As figure 6 illustrates, this is equivalent to the amount spent on pension benefits (\$67.5 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 (\$73.1 billion in 2017/18, the latest year of available data). These comparisons enable us to demonstrate the

<sup>5</sup> 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.

# Federal and Provincial Debt-Interest Costs

**Figure 6: Consolidated Government Interest Costs Compared to Other Expenditures, 2019-20**



**Notes:**

- a) Public elementary and secondary school education expenditures are for 2017-18, 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](http://www23.statcan.gc.ca/imdb-bmdi/document/5174_D4_T9_V1-eng.pdf).

Sources: Statistics Canada (2020b and 2020c); Service Canada (2020).

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 growing government debt come at a substantial cost to Canadians. More resources are typically directed to interest payments when government debt 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 governments should begin developing a plan to address the trend of growing debt and interest costs. Failure to do so will have adverse consequences for Canadian families in the coming years.

## References

Alberta, Ministry of Finance (2020). *2020-21 Mid-Year Fiscal Update and Economic Statement*. Government of Alberta.

British Columbia, Ministry of Finance (2020). *Fall 2020 Economic & Fiscal Update*. Government of British Columbia.

Canada, Department of Finance [DOF] (2020a). *Fall Economic Statement 2020*. Government of Canada.

Canada, Department of Finance [DOF] (2020b). *Fiscal Reference Tables 2020*. Government of Canada.

Canada, Department of Finance (2020c). *Major Federal Transfers: Federal Support to Provinces and Territories*. Government of Canada. <<https://www.canada.ca/en/department-finance/programs/federal-transfers/major-federal-transfers.html>>, as of January 27, 2021.



# Federal and Provincial Debt-Interest Costs

- Canadian Institute for Health Information [CIHI] (2019). *National Health Expenditure Trends, 1975-2019*. Canadian Institute for Health Information. <<https://www.cihi.ca/en/national-health-expenditure-trends-1975-to-2019>>, as of January 26, 2021.
- Fuss, Jake, and Steve Lafleur (2021). *The Growing Debt Burden for Canadians: 2021 Edition*. Fraser Institute.
- Manitoba, Ministry of Finance (2020a). *2020-21 Mid-Year Report*. Government of Manitoba.
- Manitoba, Ministry of Finance (2020b). *2019-20 Public Accounts*. Government of Manitoba.
- Newfoundland & Labrador, Department of Finance (2020). *Budget 2020*. Government of Newfoundland & Labrador.
- New Brunswick, Department of Finance (2020a). *Fiscal and Economic Update Second Quarter 2020-2021*. Government of New Brunswick.
- Nova Scotia, Department of Finance (2020). *December 2020 Budget Forecast Update*. Government of Nova Scotia.
- Ontario, Ministry of Finance (2020). *Budget 2020*. Government of Ontario.
- Prince Edward Island, Department of Finance (2020a). *2020-2021 Fall Fiscal Update*. Government of Prince Edward Island.
- Prince Edward Island, Department of Finance (2020b). *Budget 2020*. Government of Prince Edward Island.
- Québec, Ministère des Finances (2020). *Update on Québec's Economic and Financial Situation—Fall 2020*. Government of Québec.
- Saskatchewan, Ministry of Finance (2020). *2020-21 Mid-Year Report*. Government of Saskatchewan.
- Service Canada (2020). *Quarterly Report of Canada Pension Plan and Old Age Security Monthly Amounts and Related Figures – October to December 2020*. Government of Canada. <<https://www.canada.ca/en/employment-social-development/programs/pensions/pension/statistics/2020-quarterly-october-december.html>>, as of January 26, 2021.
- Statistics Canada (2020a). *Table 17-10-0005-01: Population Estimates on July 1, by Age and Sex*. Government of Canada. <<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000501>>, as of January 26, 2021.
- Statistics Canada (2020b). *Table 10-10-0015-01: Statement of Government Operations and Balance Sheet, Government Finance Statistics (x 1,000,000)*. Government of Canada. <<https://www150.statcan.ca/t1/tbl1/en/cv.action?pid=1010001501>>, as of January 26, 2021.
- Statistics Canada (2020c). *Table 37-10-0066-01: Public and Private Elementary and Secondary Education Expenditures (x 1,000)*. Government of Canada. <<https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3710006601>>, as of January 26, 2021.

Copyright © 2021 by the Fraser Institute. All rights reserved. Without written permission, only brief passages may be quoted in critical articles and reviews.

ISSN 2291-8620

**Media queries:** For media enquiries, please contact our communications department via e-mail: [communications@fraserinstitute.org](mailto:communications@fraserinstitute.org); telephone: 604.714.4582.

**Support** the Institute: call 1.800.665.3558, ext. 574 or e-mail: [development@fraserinstitute.org](mailto:development@fraserinstitute.org)

Visit our **website:** [www.fraserinstitute.org](http://www.fraserinstitute.org)

# Federal and Provincial Debt-Interest Costs



**Jake Fuss** is a Senior Economist at the Fraser Institute. He holds a Bachelor of Commerce and a Master's Degree in Public Policy from the University of Calgary. His research covers a wide range of policy issues including government spending, debt, taxation, labour policy, and charitable giving.



**Steve Lafleur** is Senior Policy Analyst at the Fraser Institute. He holds an M.A. in Political Science from Wilfrid Laurier University and a B.A. from Laurentian University where he studied Political Science and Economics. His current research focus is on the economic competitiveness of the Prairie provinces.

## Acknowledgments

The authors would like to acknowledge the past contributions of Charles Lammam, Hugh MacIntyre, Feixue Ren, and Sazid Hasan in previous versions of this study. Any remaining errors or omissions are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.