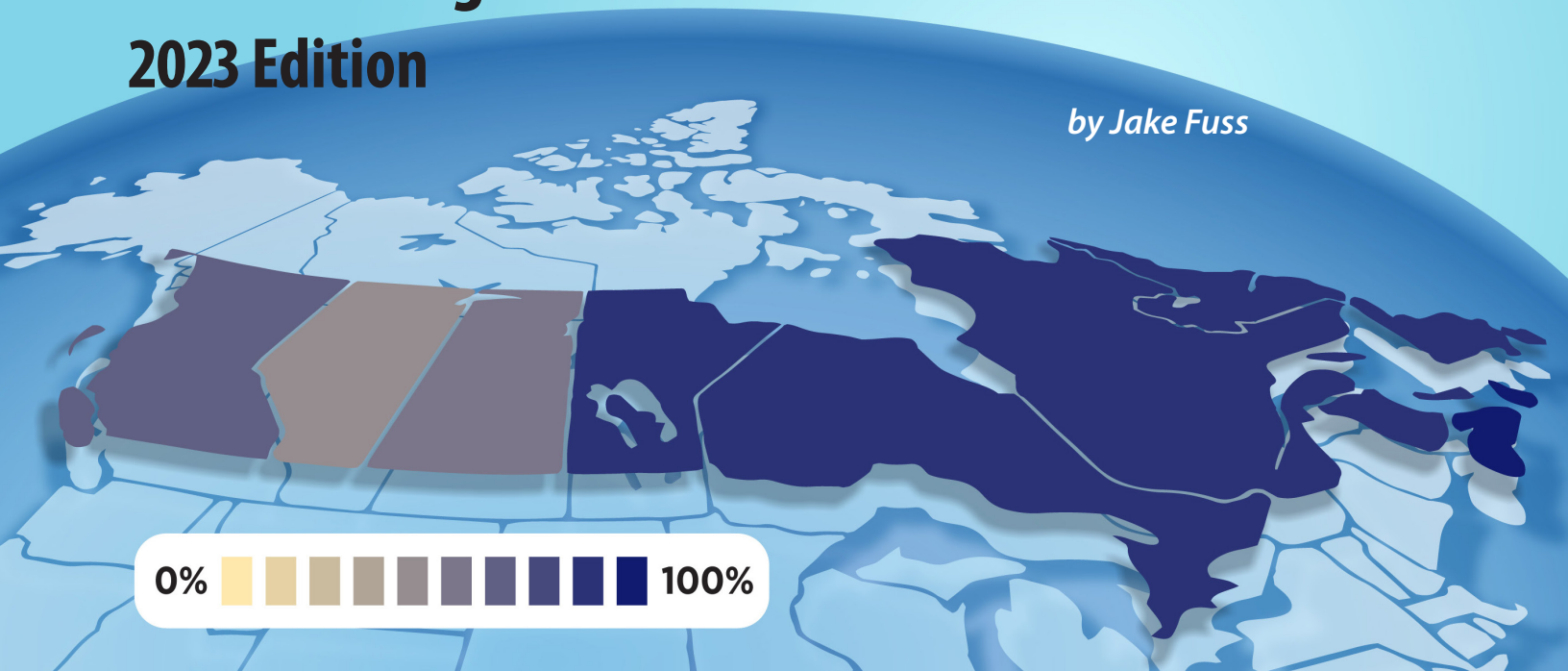


The Growing Debt Burden for Canadians: 2023 Edition

by Jake Fuss



Summary

- Budget deficits and increasing debt have become serious fiscal challenges facing the federal and many provincial governments recently. Since 2007/08, combined federal and provincial net debt (inflation-adjusted) has roughly doubled from \$1.1 trillion to a projected \$2.1 trillion in 2022/23.
- Between 2019/20 (the last year before COVID) and 2022/23, the combined federal-provincial debt-to-GDP ratio is expected to grow from 65.7% to 74.6%. Moreover, the federal and provincial governments are on track to have collectively accumulated \$395.9 billion (inflation-adjusted) in total net debt between 2019/20 and 2022/23, an increase of 23.4%.
- Among the provinces, Nova Scotia has the highest combined federal-provincial debt-to-

GDP ratio (92.6%), while Alberta has the lowest (43.5%). Newfoundland & Labrador has the highest combined debt per person (\$64,579), closely followed by Ontario (\$59,773). In contrast, Alberta has the lowest debt per person in the country at \$42,915.

- Interest payments are a major consequence of debt accumulation. Governments must make interest payments on their debt similar to households that must pay interest on borrowing related to mortgages, vehicles, or credit card spending. Revenues directed towards interest payments mean that in the future there will be less money available for tax cuts or government programs such as health care, education, and social services.
- The federal and provincial governments must develop long-term plans to meaningfully address the growing debt problem in Canada.

Introduction

Budget deficits and the growth of government debt have recently re-emerged as key fiscal challenges facing 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 recession. Specifically, there was a particularly sharp spike in debt levels in 2020 due to spending associated with the COVID-19 pandemic. The federal government has chosen to consistently run deficits since the onset of the global financial crisis more than a decade ago. Overall net debt¹ for the federal and all 10 provincial governments is projected to have grown considerably since 2008/09, which will pose significant problems for Canadians and our public finances in the future.

This research bulletin examines the growth of government debt in Canada since the 2008/09 recession, illustrates the differences among the provinces, and quantifies the burden of government debt currently held by Canadian citizens.

Accumulation of government debt

Over the past 15 years, government debt across Canada has been growing quickly. This accumulation of debt has reversed a positive trend towards balanced budgets and lower debt burdens that prevailed from the mid-1990s to the late-2000s at both the federal and provincial levels. This trend more or less lasted until 2007/08. Combined federal and provincial net debt totaled \$1.1 trillion that year (in 2022 dollars).

However, the 2008/09 recession brought this trend to a halt. Government spending increased

dramatically in 2009/10 and every Canadian government ran deficits in either 2008/09 or 2009/10. In subsequent years, growing debt and persistent deficits again became the norm for the federal and provincial governments. While several provinces ran operating surpluses in 2021/22, this is likely to only be a temporary development. Some of the same governments are projecting a return to deficits in 2022/23 and subsequent years.²

Figure 1 demonstrates how combined federal and provincial net debt has evolved since 2007/08. Notably, data indicate that total net debt will likely reach nearly \$2.1 trillion in 2022/23.

The growth in government debt is not limited to only a few provinces or one level of government. Real debt levels have risen federally and in every province between 2007/08 and 2022/23. Table 1 displays the change in net debt (inflation-adjusted) for the federal and provincial governments during these years. In just over a decade, combined federal and provincial debt has grown by nearly \$1.0 trillion, or 83.7%.

Over these 15 years, federal net debt has increased by \$582.7 billion (in 2022 dollars), or 83.2%. This stands in stark contrast to the period between 1996/97 and 2007/08 when the federal government reduced its net debt (in 2022 dollars) by \$335.7 billion. Put differently, in the past 15 years the federal government has accumulated nearly double the amount of debt that it repaid in the mid-1990s to late-2000s.

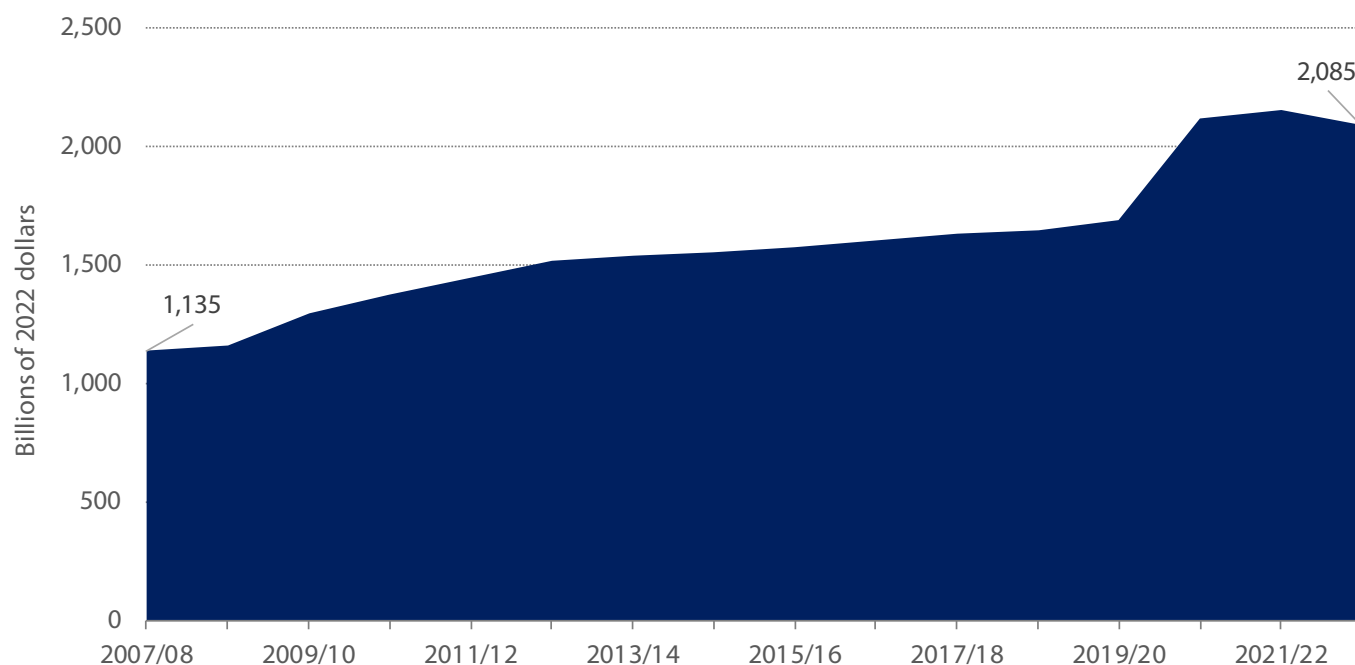
Among the provinces, Alberta experienced the largest percentage increase in its debt level at 196.8%. For an extended period, Al-

¹ Throughout this bulletin, the author refers to debt as net debt, which is defined as financial assets minus total liabilities.

² Ontario, Manitoba, Newfoundland & Labrador, and Nova Scotia are just a few examples of provinces expecting to return to deficits in 2022/23.

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Figure 1: Combined Federal and Provincial Net Debt (in billions of 2022 dollars), 2007/08 to 2022/23



Notes:

- (i) Debt levels for 2022/23 are based on the latest government projections available at the time of writing.
- (ii) Net debt is presented on a consolidated basis in each province.

Sources: Sources: Canada, Department of Finance (2022a; 2022b); 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); Statistics Canada (2022c).

Alberta had consistently increased real program spending and ran nearly uninterrupted deficits since 2008/09, regardless of the state of the economy.³ In fact, Alberta has moved from being the only province in a net financial asset position in 2007/08 to being the

province with the fastest growing debt burden over the last decade-and-a-half. However, Alberta recorded a budgetary surplus in 2021/22 and is projected to run another surplus in 2022/23 due to an economic rebound and higher than anticipated non-renewable resource revenues (Alberta, Ministry of Finance, 2022). Other provinces such as Manitoba, Saskatchewan, Ontario, and British Columbia have all increased their debt levels significantly as well.

³ Alberta has forecast it will run a surplus in 2022/23, largely due to higher than anticipated natural resource revenues stemming from high commodity prices for oil and gas.

Table 1: Federal and Provincial Net Debt (in billions of 2022 dollars), 2007/08 Compared to 2022/23

| | Net Debt 2007/08 | Net Debt 2022/23 | Change (\$ billions) | Change (%) |
|-----------------------|---------------------|---------------------|-------------------------|---------------|
| BC | 32.4 | 56.4 | 24.0 | 74.1% |
| AB | -47.5 | 46.0 | 93.6 | 196.8% |
| SK | 8.0 | 15.2 | 7.2 | 90.4% |
| MB | 14.3 | 29.4 | 15.0 | 104.9% |
| ON | 217.1 | 407.2 | 190.2 | 87.6% |
| QC | 169.1 | 199.6 | 30.5 | 18.0% |
| NB | 9.6 | 11.7 | 2.1 | 22.0% |
| NS | 16.4 | 18.0 | 1.6 | 9.7% |
| PEI | 1.8 | 2.5 | 0.7 | 39.5% |
| NL | 13.8 | 16.0 | 2.2 | 16.0% |
| FED | 700.2 | 1,282.9 | 582.7 | 83.2% |
| FED + PROV | 1,135.2 | 2,085.0 | 949.8 | 83.7% |

Sources: Figure 1; calculations by authors.

This sizeable growth in provincial debt is an important development for the future of Canada's public finances. Before COVID-19, the federal government had been increasing its debt level, while most provinces had been increasing their debt levels at an even faster rate. Figure 2 shows that the portion of total net debt held by the federal and provincial governments has shifted substantially over time. For example, the federal portion of total government debt shrunk from 61.7% in 2007/08 to a low of 53.3% in 2018/19. However, this trend of shifting debt burdens was halted, at least temporarily, in 2020 and 2021, as the federal government took on considerably more debt than its provincial

counterparts in response to the COVID-19 pandemic. Indeed, the federal portion of total government debt grew more than eight percentage points from 2019 to 2021 to reach 61.4%.

Measures of debt

Government debt is commonly measured relative to the size of the economy using gross domestic product (GDP). The debt-to-GDP ratio is a useful way to compare government debt between different jurisdictions and evaluate the sustainability of government debt accumulation. Figure 3 shows federal, provincial, and combined federal-provincial net debt as a share of the economy in 2007/08 and 2022/23.

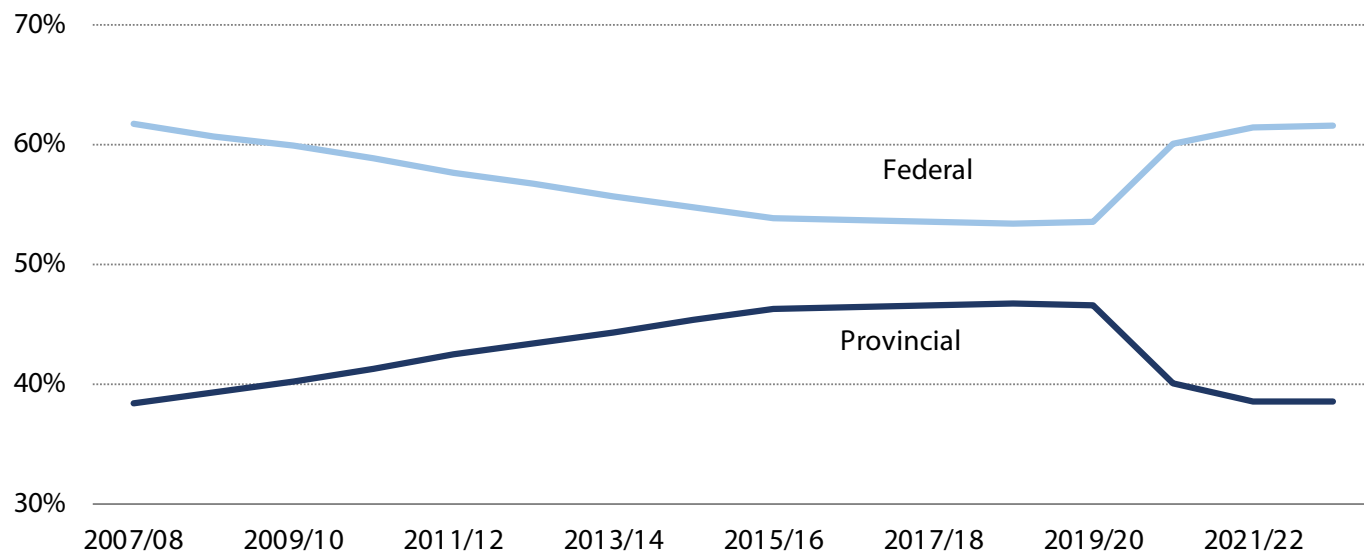
The federal net debt-to-GDP ratio has grown from 32.7% to 45.9% over this period. Growth in debt as a share of the economy was not limited to the federal government during this period. Provincial net debt as a share of the economy has increased by more than eight percentage points over the last 15 years, from 20.3% to 28.7%. Overall, the combined federal-provincial debt-to-GDP ratio is projected to climb from 53.1% in 2007/08 to 74.6% in 2022/23.

Data indicate that seven provinces are likely to see an increase in their ratio of debt to GDP between 2007/08 and 2022/23 (see table 2). Analysts expect Alberta to have the largest percentage point increase in this ratio, which is projected to grow from -13.4% to 10.3%—an increase of 23.7 percentage points. Manitoba is projected to have the second largest percentage point increase in its ratio, rising by 12.5 points.

Ontario has the highest debt-to-GDP ratio among the provinces at 38.7% and recorded a substantial increase in its debt-to-GDP ratio between 2007/08 and 2022/23. At 37.8%, Newfoundland & Labrador has the second highest

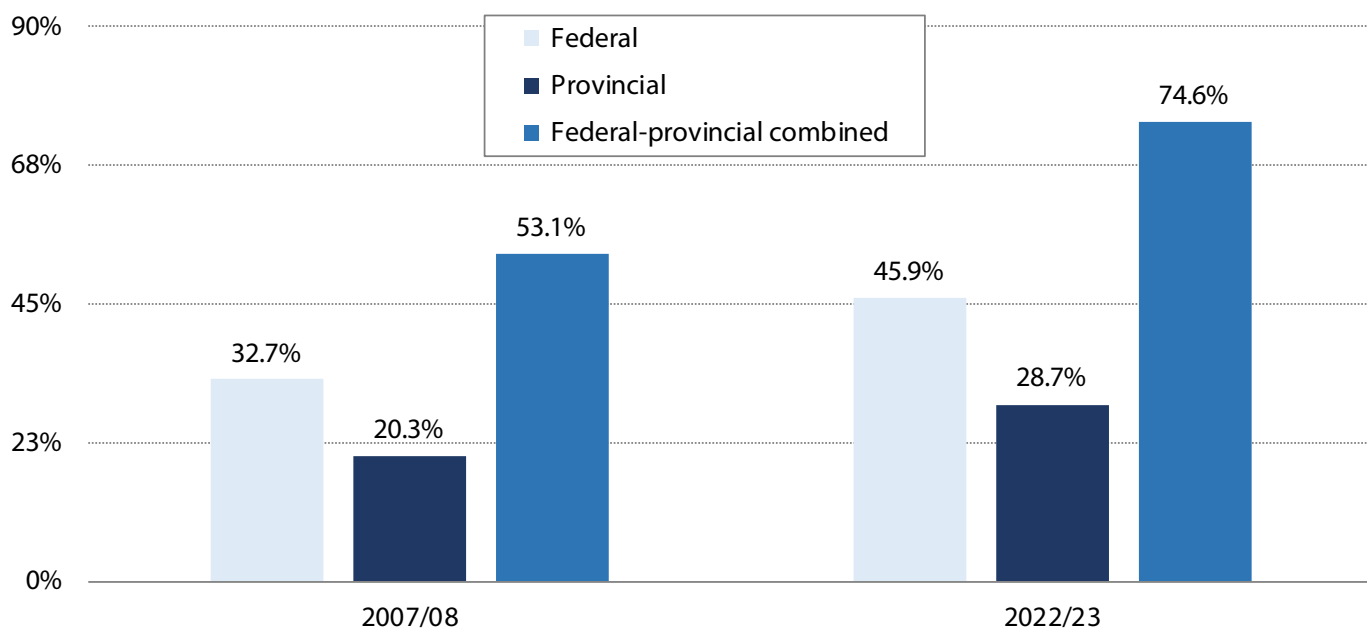
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Figure 2: Share of Total Net Debt (%) Held by Provincial vs. Federal Governments, 2007/08 to 2022/23



Sources: Figure 1; calculations by authors.

Figure 3: Federal, Provincial, and Combined Net Debt as a Share of GDP, 2007/08 vs. 2022/23



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

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Table 2: Provincial Net Debt as a Percentage of GDP (%), 2007/08 and 2022/23

| | 2007/08 | 2022/23 | Percentage point change |
|-----|---------|---------|-------------------------|
| BC | 11.9% | 15.0% | 3.1 |
| AB | -13.4% | 10.3% | 23.7 |
| SK | 11.2% | 14.3% | 3.1 |
| MB | 21.2% | 33.7% | 12.5 |
| ON | 26.6% | 38.7% | 12.1 |
| QC | 40.6% | 35.9% | -4.7 |
| NB | 24.9% | 26.0% | 1.1 |
| NS | 35.6% | 32.6% | -3.0 |
| PEI | 29.0% | 27.6% | -1.4 |
| NL | 35.0% | 37.8% | 2.8 |

Sources: Figure 3; calculations by authors.

debt-to-GDP ratio, followed closely by Quebec (35.9%). Quebec, however, is one of only three provinces to have decreased its debt burden relative to the economy since 2007/08, the others being Nova Scotia and Prince Edward Island.

An alternative way to evaluate government debt is to measure it per person. Debt per person is important because it demonstrates just how much government debt, on average, each Canadian citizen is responsible for repaying. Table 3 presents the estimated federal and provincial debt per person (in 2022 dollars) in 2007/08 and 2022/23. Newfoundland & Labrador has the highest debt per person at \$30,486. Ontario has the second highest at \$26,952 per person, while Quebec comes in third at \$22,957 per

Table 3: Federal and Provincial Net Debt per Person (in 2022 \$), 2007/08 Compared to 2022/23

| | 2007/08 | 2022/23 | Percent change |
|-----|---------|---------|----------------|
| BC | 7,548 | 10,601 | 40.4% |
| AB | -13,526 | 10,131 | 174.9% |
| SK | 7,950 | 12,697 | 59.7% |
| MB | 12,043 | 20,829 | 73.0% |
| ON | 17,005 | 26,952 | 58.5% |
| QC | 21,982 | 22,957 | 4.4% |
| NB | 12,861 | 14,409 | 12.0% |
| NS | 17,573 | 17,685 | 0.6% |
| PEI | 13,267 | 15,610 | 17.7% |
| NL | 27,145 | 30,486 | 12.3% |
| FED | 21,291 | 32,954 | 54.8% |

Sources: Figure 1; Statistics Canada (2022b); calculations by authors.

person. Total federal net debt per person has risen 54.8% since 2007/08 and is expected to reach \$32,954 this year.

Between 2019/20 and 2022/23, the combined federal-provincial debt-to-GDP ratio is expected to grow from 65.7% to 74.6%. Moreover, the federal and provincial governments are on track to have collectively accumulated \$566.0 billion in nominal net debt from the last year before COVID (2019/20) to the end of the current fiscal year (2022/23). In inflation-adjusted terms, total net debt is projected to rise by \$395.9 billion between 2019/20 and 2022/23, an increase of 23.4%.

Further, according to the federal government's 2022/23 fall fiscal update, this growth in government debt is far from over. The federal gov-

Table 4: Combined Federal and Provincial Net Debt, 2022/23

| | Provincial net debt (\$ billions) | Federal portion of net debt (\$ billions) | Combined net debt (\$ billions) | Net debt as a percentage of GDP (%) | Net debt per person (\$) |
|----|-----------------------------------|---|---------------------------------|-------------------------------------|--------------------------|
| BC | 56.4 | 173.8 | 230.2 | 61.2 | 43,271 |
| AB | 46.0 | 148.9 | 195.0 | 43.5 | 42,915 |
| SK | 15.2 | 40.0 | 55.2 | 52.1 | 46,180 |
| MB | 29.4 | 46.7 | 76.1 | 87.4 | 53,998 |
| ON | 407.2 | 495.9 | 903.1 | 85.7 | 59,773 |
| QC | 199.6 | 290.1 | 489.7 | 88.0 | 56,320 |
| NB | 11.7 | 26.6 | 38.3 | 85.2 | 47,176 |
| NS | 18.0 | 33.2 | 51.2 | 92.6 | 50,248 |
| PE | 2.5 | 5.4 | 7.9 | 86.0 | 46,492 |
| NL | 16.0 | 17.9 | 34.0 | 80.0 | 64,579 |

Note: The combined federal and provincial net debt is a total of provincial net debt and the federal portion. The federal net debt is allocated to each of the provinces based on a 5-year average (2017-2021) of their population as a share of Canada's total population.

Sources: Figure 1; Statistics Canada (2022a and 2022b); Gu (2022); calculations by authors.

ernment is expecting that net debt will increase 6.8% by 2027/28 and reach almost \$1.4 trillion (DOF, 2022). Several provinces are also poised to continue accumulating debt for the foreseeable future. This includes provinces such as Ontario, which is not projected to balance its budget until after 2024/25.

Canadian governments have collectively increased debt since 2007/08 and have decisively broken from the era of fiscal prudence that lasted from the mid-1990s through to the late-2000s. A long-term plan to return to balanced budgets post-COVID is necessary if Canadian governments are going to begin the difficult task of stemming debt accumulation and eventually reducing the debt burden.

Allocating federal debt to the provinces

Canadians face different debt burdens depending on the province in which they live and there are several different methods that can be used to allocate federal debt to each province. Provinces can be allocated federal debt based on their share of federal revenues, the total population, or Canada's gross domestic product (GDP). For simplicity's purposes, this bulletin allocates federal debt to each province based on their share of the total Canadian population (per capita basis).

Table 4 shows the level of provincial government debt, each province's share of the federal debt, and the combined federal and provincial debt in each province. Again, federal debt is distributed based on each province's share of

the total Canadian population (5-year average), which is derived from Statistics Canada data (see Statistics Canada 2022b).⁴ The table also displays the combined federal-provincial debt in each province both as a share of its GDP and per-person.

The combined federal-provincial debt burden as a share of the economy ranges from a low of 43.5% in Alberta to a high of 92.6% in Nova Scotia. Quebec has the second highest debt burden relative to GDP at 88.0%.

Newfoundland & Labrador has the highest combined debt per person (\$64,579), closely followed by Ontario (\$59,773). In contrast, Alberta has the lowest debt per person in the country at \$42,915.

Why growing government debt is a problem

Various studies and reports have found that there is a negative relationship between government debt and economic growth (Reinhart and Rogoff, 2010; Woo and Kumar, 2014; Chudik et al., 2015; Eberhardt and Presbitero, 2015; Swamy, 2015; Egert, 2015; Congressional Budget Office, 2019). In particular, government debt has a significant effect on private investment.

Long-term interest rates can rise, as they are doing now, when government debt expands, which increases the cost of borrowing in the private sector. Higher borrowing costs can reduce the incentive for private capital investment. Declining investment levels then pose great challenges to the country's ability to en-

⁴ In a previous version of this bulletin, federal debt was 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.

hance productivity and can reduce future economic performance. Growing debt can also cause governments to raise taxes to pay back debt or finance their interest payments, which in turn impedes economic growth.

Interest payments, or debt servicing costs, are another consequence of debt accumulation. Like households, governments are required to pay interest on their debt. Revenues directed towards interest payments leave less money available for government programs such as health care, education, social services, or tax relief.

Conclusion

The debt burden for families across Canada has been growing substantially for more than a decade. As was the case in the 1970s to mid-1990s, deficit spending and debt accumulation have become the norm for the federal and many provincial governments. Since 2007/08, total net debt (inflation-adjusted) has nearly doubled in absolute dollar terms. Rising government debt has severe consequences for Canadians as more and more resources are directed toward interest payments and away from programs that help families or improve Canada's economic competitiveness. As we emerge from the COVID-19 pandemic, the federal and provincial governments must develop long-term plans to meaningfully address the growing debt problem in Canada.

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Acknowledgments

The author would like to acknowledge the contributions of Conrad Eder and express appreciation to the anonymous reviewers of this paper. Any remaining errors or omissions are the sole responsibility of the author. As the researcher has 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.

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ISSN 2291-8620

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