

NEWS RELEASE

Atlantic Canada's finances unsustainable; spending reductions needed in coming provincial budgets

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For immediate release

HALIFAX—Public finances in all four Atlantic provinces are unsustainable and face multiple sources of risk, finds a new study released today by the Fraser Institute, an independent, non-partisan, Canadian public policy think-tank.

“The Atlantic Provinces were in a difficult financial position before COVID, and the shock of the COVID-recession has made their precarious financial situation even worse,” said Ben Eisen, a senior fellow at the Fraser Institute and co-author of *Atlantic Canada's Precarious Public Finances*.

The study finds that the financial positions of the four Atlantic provinces is unsustainable, meaning that they will face rising debt-to-GDP ratios in the coming years in the absence of policy changes or improved economic growth. While other provinces also face challenges with respect to financial sustainability, there are a number of economic and demographic factors that make the position of the Atlantic provinces more vulnerable. These include:

- **Greater dependency on fiscal transfers from Ottawa:** Prince Edward Island (37.2%), New Brunswick (35.4%) and Nova Scotia (31.8%) have the highest shares of provincial revenue coming from the federal government, which makes their finances particularly vulnerable to any change in federal transfers.
- **Older population:** The Atlantic provinces have the four highest shares of people 65 or older relative to the other provinces. With an average of almost 21 per cent of the population over 65 in the region, this puts upward pressure on health-care costs, and reduces labour force participation rates.
- **High tax rates:** The four Atlantic provinces have comparatively high tax rates in key areas including personal and corporate income taxes. The region's already high levels mean there is less room to raise tax rates in the future to meet debt service obligations.
- **High interest rates:** The current debt charges of the four Atlantic provinces (relative to own-source revenue) are four of the five highest rates in the country.

The study also shows that in 2019-20 (before the recession) P.E.I., Nova Scotia and New Brunswick have the highest shares of government spending as a percentage of GDP (Newfoundland and Labrador is 6th highest).

One strategy that governments in the region can embrace to address these challenges is to begin a process of bringing spending in line with other provinces across Canada (as a share of GDP). Achieving this objective would significantly relieve pressure on provincial finances in the region.

“With all four provinces preparing for upcoming budgets, spending reductions are one immediate action that governments should take to improve finances and sustainability,” said Alex Whalen, policy analyst and co-author of the study.

“In order to make provincial finances sustainable in Atlantic Canada, policymakers need to address the fiscal challenges that existed long before the pandemic. Bringing spending relative to the size of provincial economies down is the most promising strategy available to address these problems.”

MEDIA CONTACT:

Alex Whalen, Policy Analyst
Fraser Institute

Ben Eisen, Senior Fellow
Fraser Institute

To arrange media interviews or for more information, please contact:

Drue MacPherson, Fraser Institute

Tel: (604) 688-0221 Ext. 721

E-mail: drue.macpherson@fraserinstitute.org

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