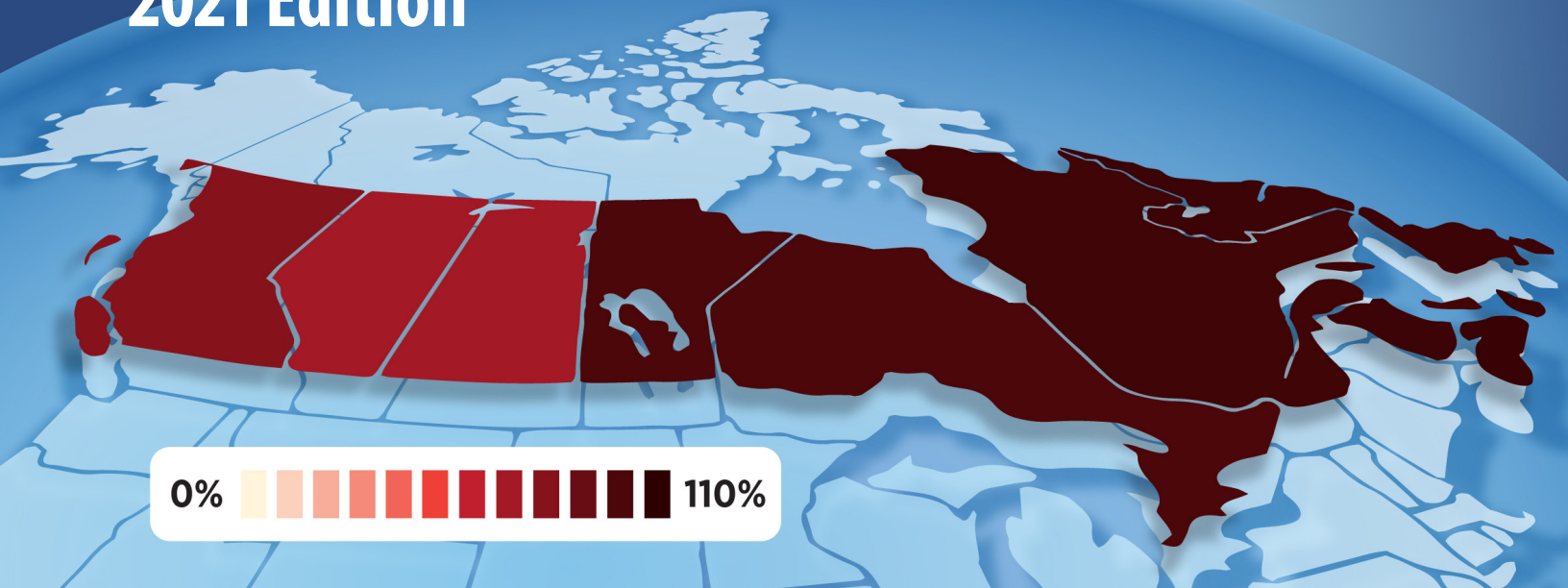


# The Growing Debt Burden for Canadians: 2021 Edition



by *Jake Fuss and Steve Lafleur*

## 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 doubled from \$1.0 trillion to a projected \$2.0 trillion in 2020/21.
- In 2020/21, combined federal and provincial net debt is expected to equal 91.6% of the Canadian economy, up from 65.2% last year.
- Among the provinces, Nova Scotia has the highest combined federal-provincial debt-to-GDP ratio (106.0%), while Alberta has the lowest (66.1%). Newfoundland & Labrador has the highest combined debt per person (\$64,224),

closely followed by Ontario (\$58,559). In contrast, British Columbia has the lowest debt per person in the country with \$43,635.

- 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.
- Post-COVID, 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. Debt has risen significantly for the federal and provincial governments since the 2008/09 recession, but there was a particularly sharp spike in debt levels in 2020 due to the COVID-19 pandemic. Provinces such as Alberta, Manitoba, and Ontario have not balanced their books in years, while Ottawa has chosen to consistently run deficits since the onset of the global financial crisis more than a decade ago. Overall net debt<sup>1</sup> for the federal and all 10 provincial governments is projected to grow substantially in 2020/21, 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 13 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 \$1.0 trillion that year (in 2020 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.

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 over \$2.0 trillion in 2020/21.

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 2020/21. 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 \$981.2 billion, or 95.4%.

Over these 13 years, federal net debt has increased by \$570.2 billion (in 2020 dollars), or 89.9%. This stands in stark contrast to the period between 1996/97 and 2007/08 when the federal government reduced its net debt (in 2020 dollars) by \$304.0 billion. Put differently, in the past 13 years the federal government has accumulated nearly double the amount of debt that it repaid in the mid-1990s to late-2000s.

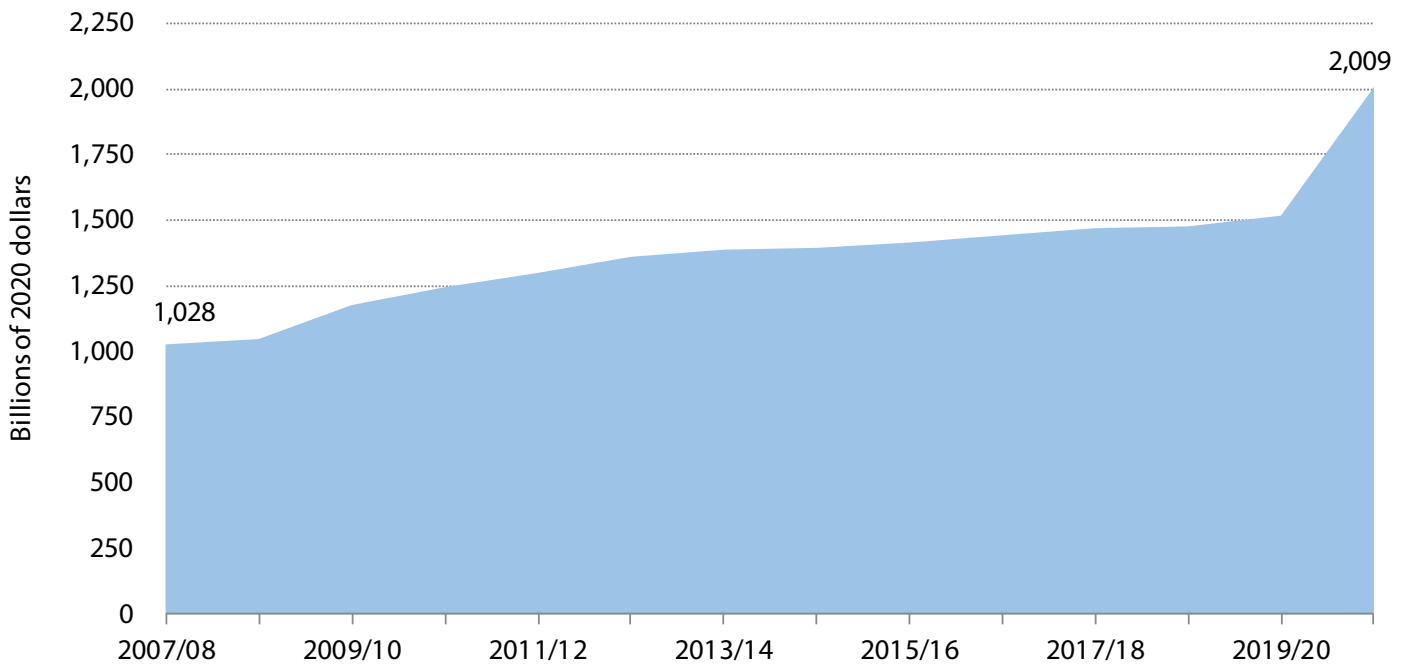
Among the provinces, Alberta experienced the largest percentage increase in its debt level at 247.4%. For an extended period Alberta has consistently increased real program spending and has run nearly uninterrupted deficits since 2008/09 regardless of the state of the economy.<sup>2</sup> In fact, Alberta has moved from being the only province in a net financial asset position in

<sup>1</sup> Throughout this bulletin, the authors refer to debt as net debt, which is defined as financial assets minus total liabilities.

<sup>2</sup> Eisen et al. (2019) found that Alberta's per-person program spending was substantially higher than in comparable provinces like British Columbia, Ontario, and Quebec. In 2018/19, for instance, Alberta

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**Figure 1: Combined Federal and Provincial Net Debt (in billions of 2020 dollars), 2007/08 to 2020/21**



**Notes:**

- (i) Debt levels for 2020/21 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: Canada, Department of Finance (2020a and 2020b); Alberta, Ministry of Finance (2020); British Columbia, Ministry of Finance (2020); Saskatchewan, Ministry of Finance (2020); Manitoba, Ministry of Finance (2020a and 2020b); Ontario, Ministry of Finance (2020); Québec, Ministère des Finances (2020); Newfoundland, Department of Finance (2020); New Brunswick, Department of Finance (2020); Nova Scotia, Department of Finance (2020); Prince Edward Island, Department of Finance (2020a and 2020b); Statistics Canada (2020c).

2007/08 to a province with the fastest growing debt burden today. Other provinces such as British Columbia, Saskatchewan, Manitoba, and Ontario have all increased their debt levels by more than 100% as well.

This sizeable growth in provincial debt is an important development for the future of Canada's

spent \$12,622 per person, which is 18.5% higher than the \$10,647 spent in British Columbia.

public finances. While the federal government has increased its debt level, the provinces have been increasing their debt levels at a much 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 as low as 53.8% in 2018/19. However, this trend of shifting debt burdens was halted, at least temporarily, in 2020 as the federal gov-

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**Table 1: Federal and Provincial Net Debt (in billions of 2020 dollars), 2007/08 Compared to 2020/21**

	Net Debt 2007/08	Net Debt 2020/21	Change (\$ billions)	Change (%)
BC	29.3	61.9	32.6	111.1%
AB	-43.0	63.5	106.5	247.4%
SK	7.2	14.8	7.5	104.6%
MB	13.0	27.7	14.7	113.3%
ON	196.6	398.0	201.4	102.5%
QC	153.1	189.4	36.3	23.7%
NB	8.7	14.1	5.4	62.0%
NS	14.9	16.8	1.9	12.9%
PEI	1.7	2.5	0.8	51.2%
NL	12.5	16.4	3.9	31.4%
FED	634.1	1,204.3	570.2	89.9%
FED + PROV	1028.1	2,009.3	981.2	95.4%

Sources: Figure 1; calculations by authors.

ernment took on considerably more debt than its provincial counterparts in response to COVID-19. Indeed, the federal portion of total government debt has grown approximately 6 percentage points this year to reach 59.9%.

## Measures of debt

Government debt is commonly measured based on its share 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 2020/21.

The federal net debt-to-GDP ratio has grown from 32.7% to 54.9% 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 16 percentage points over the last 13 years, from 20.3% to 36.7%. Overall, the combined federal-provincial debt-to-GDP ratio is projected to climb from 53.1% in 2007/08 to 91.6% in 2020/21.

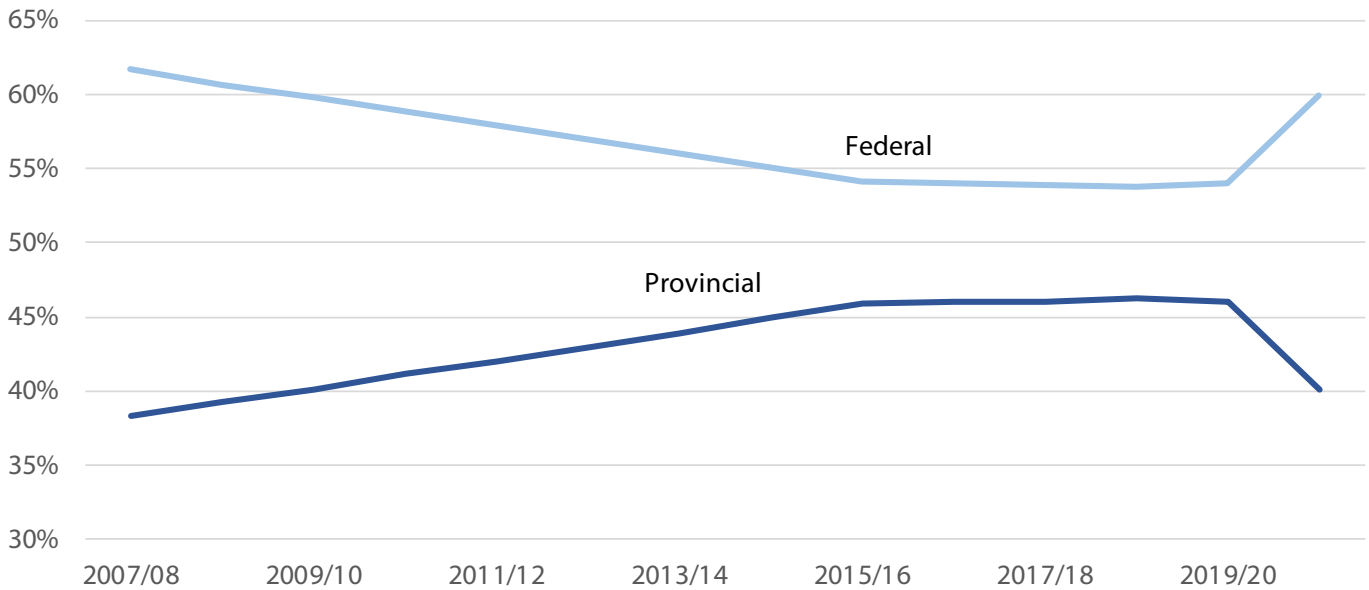
Data indicate that every province is likely to see an increase in their ratio of debt to GDP between 2007/08 and 2020/21 (see table 2). Analysts expect Alberta to have the largest percentage point increase in this ratio, which is projected to grow from -13.4% to 20.6%—an increase of 34.0 percentage points. Ontario is projected to have the second largest percentage point increase in its ratio, rising by nearly 20.0 points.

Newfoundland & Labrador has the highest debt-to-GDP ratio among the provinces at 51.3% and recorded a substantial increase in its debt-to-GDP ratio between 2007/08 and 2020/21. At 46.3%, Ontario has the second highest debt-to-GDP ratio, followed closely by Quebec (42.7%). Quebec, however, is one of only three provinces to increase its debt burden relative to the economy by less than 5 percentage points since 2007/08.

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 2020 dollars) in 2007/08 and 2020/21. Newfoundland & Labrador has the

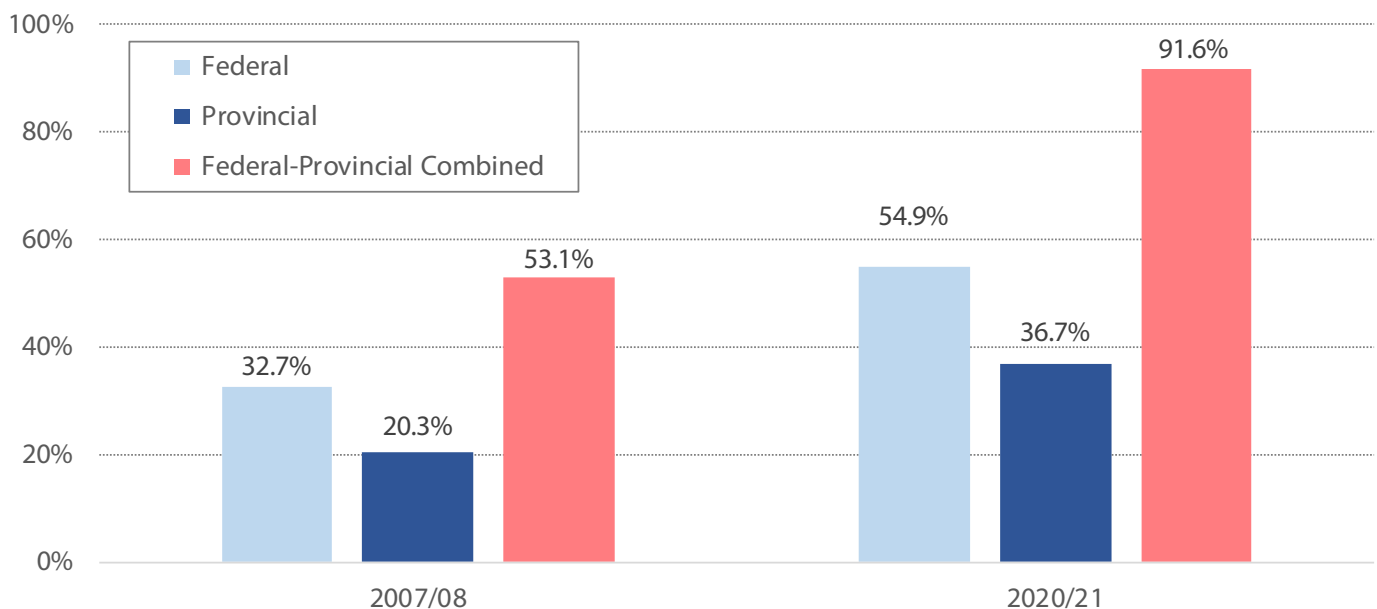
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**Figure 2: Share of Total Net Debt (%) Held by Provincial vs. Federal Governments, 2007/08 to 2020/21**



Sources: Figure 1; calculations by authors.

**Figure 3: Federal, Provincial, and Combined Net Debt as a Share of GDP, 2007/08 vs. 2020/21**



Sources: Figure 1; Statistics Canada (2020a); RBC (2020); calculations by authors.

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**Table 2: Provincial Net Debt as a Percentage of GDP (%), 2007/08 and 2020/21**

	2007/08	2020/21	Percentage point change
BC	11.9%	20.9%	9.0
AB	-13.4%	20.6%	34.0
SK	11.2%	19.6%	8.4
MB	21.2%	38.2%	17.0
ON	26.6%	46.3%	19.8
QC	40.6%	42.7%	2.1
NB	24.9%	37.7%	12.8
NS	35.6%	37.1%	1.5
PEI	29.0%	33.9%	1.8
NL	35.0%	51.3%	16.3

Sources: Figure 3; calculations by authors.

highest debt per person at \$31,489. Ontario has the second highest at \$27,010 per person, while Quebec comes in third at \$22,089 per person. Total federal net debt per person has risen 64.3% since 2007/08 and is expected to reach \$31,688 this year.

Further, according to the federal government's 2020 fiscal update, this growth in government debt is far from over. The federal government is expecting that net debt will increase 24.1% by 2025/26 and reach \$1.5 trillion (DOF, 2020b). Several provinces are also poised to continue accumulating debt for the foreseeable future. This includes provinces such as Alberta, which is projected to have a nearly \$10 billion deficit in 2022/23, by which time it is projected that revenue will have recovered to slightly more than its 2019/20 level.

**Table 3: Federal and Provincial Net Debt per Person (in 2020 \$), 2007/08 Compared to 2020/21**

	2007/08	2020/21	Percent change
BC	6,836	12,028	76.0%
AB	-12,249	14,350	217.1%
SK	7,199	12,525	74.0%
MB	10,906	20,060	83.9%
ON	15,400	27,010	75.4%
QC	19,907	22,089	11.0%
NB	11,647	18,002	54.6%
NS	15,914	17,154	7.8%
PEI	12,015	15,671	30.4%
NL	24,582	31,489	28.1%
FED	19,281	31,688	64.3%

Sources: Figure 1; Statistics Canada (2020b); calculations by authors.

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 pop-

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**Table 4: Combined Federal and Provincial Net Debt, 2020/21**

	<b>Provincial net debt (\$ billions)</b>	<b>Federal portion of net debt (\$ billions)</b>	<b>Combined net debt (\$ billions)</b>	<b>Net debt as a percentage of GDP (%)</b>	<b>Net debt per person (\$)</b>
BC	61.9	162.7	224.6	75.9	43,635
AB	63.5	139.8	203.3	66.1	45,974
SK	14.8	37.7	52.5	69.5	44,501
MB	27.7	43.9	71.5	98.9	51,867
ON	398.0	464.8	862.8	100.5	58,559
QC	189.4	273.0	462.4	104.2	53,927
NB	14.1	25.1	39.1	105.0	50,095
NS	16.8	31.2	48.0	106.0	49,010
PE	2.5	5.0	7.5	101.6	46,917
NL	16.4	17.1	33.5	104.7	64,224

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 (2016-2020) of their population as a share of Canada's total population.

Sources: Figure 1; Statistics Canada (2020a and 2020b); RBC (2020); calculations by authors.

ulation, 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 2020b).<sup>3</sup> 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 66.1% in Alberta to a high of 106.0% in Nova Scotia. New Brunswick has the second highest debt burden relative to GDP at 105.0%.

Newfoundland & Labrador has the highest combined debt per person (\$64,224), closely followed by Ontario (\$58,559). In contrast, British Columbia has the lowest debt per person in the country with \$43,635.

<sup>3</sup> This represents a minor change from last year's version of this bulletin. Federal debt was 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.

## 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 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 enhance 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, both as a share of the economy and per person. Rising government debt has severe consequences for Canadians as more and more re-

sources are directed toward interest payments and away from programs that help families or improve Canada's economic competitiveness. Post-COVID, the federal and provincial governments must develop long-term plans to meaningfully address the growing debt problem in Canada.

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