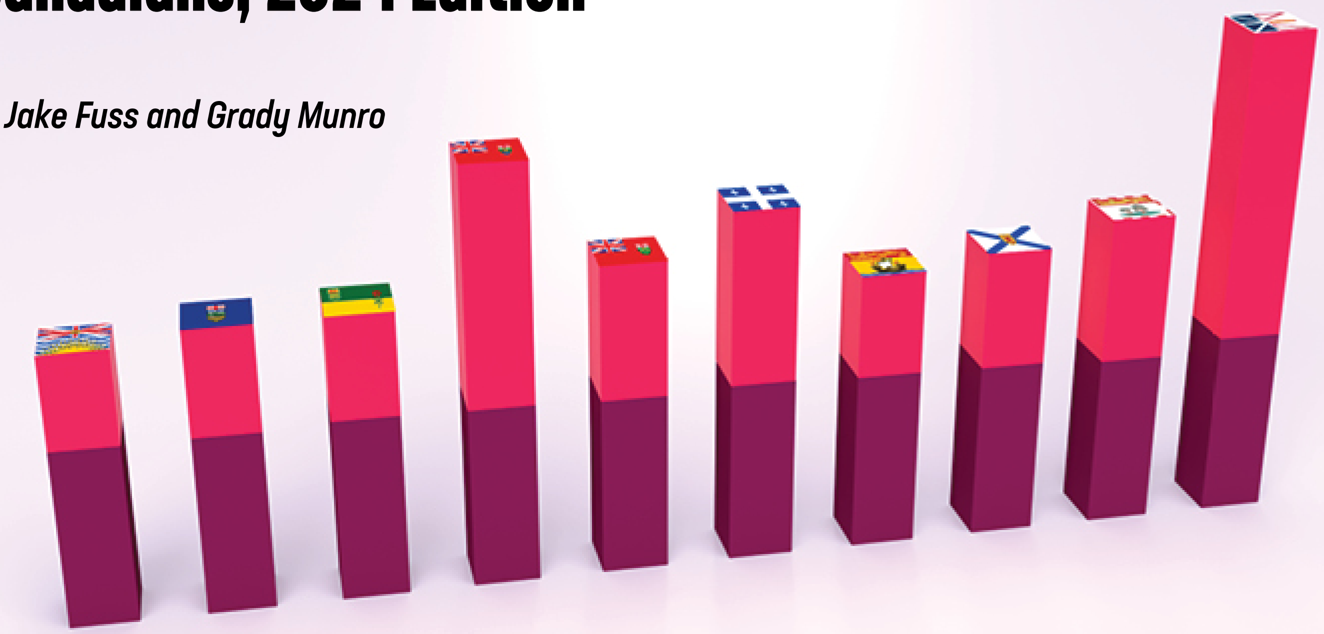
FRASER RESEARCH BULLETIN

FRASER INSTITUTE

January 2024

Federal and Provincial Debt-Interest Costs for Canadians, 2024 Edition

by Jake Fuss and Grady Munro



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 $81.8 billion on interest payments in 2023/24.
- Residents of Newfoundland & Labrador face by far the highest combined federal-provincial interest payments per person ($3,225). Manitoba is the next highest at $2,728 per person.
- The federal government will spend $46.5 billion on debt servicing charges in 2023/24, which is nearly what the government expects to spend on the Canada Health Transfer ($49.4 billion), and significantly more than it expects to spend on childcare benefits ($31.2 billion).
- Combined federal-provincial interest costs in Ontario ($31.5 billion), Quebec ($20.3 billion), and Alberta ($8.6 billion) are nearly as much, or more than, what these provinces will spend on K-12 education in 2023/24.
- Meanwhile, combined federal-provincial interest costs for British Columbians ($9.6 billion) are higher than what the province expects to spend on its social services this year.

Federal and Provincial Debt-Interest Costs, 2024

Introduction

For more than a decade, deficit spending and growing government debt have become a trend for many Canadian governments. Although many provinces recently recorded surpluses in 2021/22, several of those (most notably Ontario and Quebec) returned to deficits the following year, in 2022/23. Overall, debt has risen significantly for both the federal and provincial governments since the 2008/09 recession. Combined federal-provincial net debt is expected to reach a record high $2.2 trillion in 2023/24.[1] It is expected this trend will continue for the foreseeable future, as most governments project they will continue running deficits in 2023/24.

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 over the last two years to combat high inflation. This has contributed to rising interest payments for many Canadian governments in 2023/24.

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 2023/24. 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.

Table 1: Federal and provincial interest costs, 2023/24

	INTEREST COSTS (IN MILLIONS OF $)	INTEREST COSTS AS A PERCENT OF REVENUE (%)
BC	3,257	4.2
AB	3,157	4.2
SK	823	4.2
MB	2,193	10.1
ON	13,449	6.7
QC	9,867	6.6
NB	548	4.4
NS	790	5.3
PE	165	5.5
NL	1,052	10.6
FED	46,500	10.2
TOTAL	81,802	7.9

Note:
Interest costs for 2023/24 are based on the latest government projections available at the time of writing.
Sources: Canada, Department of Finance (2023a); Alberta, Ministry of Finance (2023); British Columbia, Ministry of Finance (2023); Saskatchewan, Ministry of Finance (2023); Manitoba, Ministry of Finance (2023b); Ontario, Ministry of Finance (2023); Québec, Ministère des Finances (2023); Newfoundland & Labrador, Department of Finance (2023a; 2023b); New Brunswick, Department of Finance (2023); Nova Scotia, Department of Finance (2023); Prince Edward Island, Department of Finance (2023); calculations by authors.

1 Combined federal-provincial net debt is calculated using government net debt estimates reported in the various federal and provincial fiscal updates. Refer to the references section for the complete list of these sources.

Federal interest payments are expected to reach $46.5 billion, or 10.2 percent of total federal revenues, in 2023/24. In other words, the federal government is currently spending more than 10 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 10.6 percent. Manitoba comes second—spending 10.1 percent of revenues on interest.[2] Ontario and Quebec (Canada's two most populous provinces) follow Manitoba by spending 6.7 percent and 6.6 percent of their provincial revenues on interest payments, respectively. In aggregate, the provinces and federal government will spend $81.8 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.[3] Under those circumstances, even more resources would need to be directed towards interest payments for governments with high debt levels, such as Newfoundland & Labrador and Quebec. Growing interest costs as a percentage of the economy could lead to a vicious cycle where more

Table 2: Combined federal and provincial interest costs, 2023/24

	PROVINCIAL INTEREST COSTS ($ MILLIONS)	FEDERAL PORTION OF INTEREST COSTS ($ MILLIONS)	COMBINED INTEREST COSTS ($ MILLIONS)	COMBINED INTEREST COSTS PER PERSON ($)
BC	3,257	6,315	9,572	1,764
AB	3,157	5,405	8,562	1,854
SK	823	1,443	2,265	1,880
MB	2,193	1,691	3,884	2,728
ON	13,449	18,003	31,452	2,048
QC	9,867	10,480	20,347	2,323
NB	548	963	1,512	1,846
NS	790	1,205	1,996	1,931
PE	165	198	363	2,084
NL	1,052	641	1,693	3,225

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

2 Manitoba's reported debt interest costs and revenues for the years 2018/19 to 2022/23, as restated in Manitoba (2023a), are significantly higher than previously reported values for those same years from Canada, Department of Finance (2023b). Increases in reported revenues are the result of a change to the estimation methodology for personal and corporate tax revenues. Increases in reported debt charges are the result of an accounting policy change on the presentation of Manitoba Hydro debt—the interest recovery is now reported as income and expense. These methodological changes have also been applied to estimates for 2023/24, as reported in Manitoba (2023b).

3 This would be a gradual change which would occur as debt is rolled over. Similarly, the effects of past rate changes are only now beginning to be felt. If both interest rates and debt grow, then expenditures on interest payments will grow in government budgets as well.

revenue is required to finance government debt, leaving less resources for the private sector.[4] 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 2023/24 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.[5]

Residents in Newfoundland & Labrador face by far the highest combined per-person federal-provincial interest payments ($3,225). Manitobans face the next highest combined interest payments at $2,728 per person. Quebec ranks third highest at $2,323 per person—representing $20.3 billion in total annual interest payments. In contrast, British Columbians face the lowest per-person interest costs in the country ($1,764). These values make it clear that government debt is now a substantial burden for Canadian taxpayers to bear.

Notably, however, interest payments incurred by local governments are excluded from these numbers.[6] 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 4.4 percent of total government interest expenses in Canada in 2022/23 (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

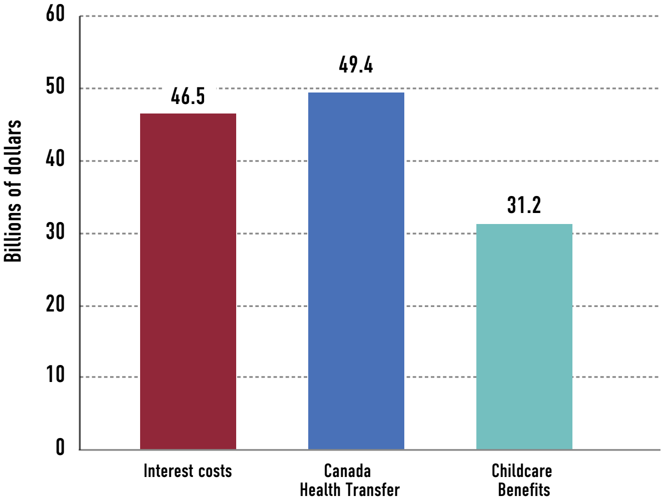
For the federal government, interest expenses are expected to equal $46.5 billion in 2023/24 (Canada, Department of Finance, 2023a). To illustrate the magnitude of this cost, figure 1 shows how this compares to other spending items in the federal budget. For instance, the amount spent on interest payments this year is expected to be nearly as much as the federal government will pay out to provinces through the Canada Health Transfer—the federal government's primary mechanism to ensure comparable levels of healthcare across the country. Interest payments are also significantly more than the $31.2 billion the federal government expects to spend on childcare benefits this year. Clearly, a

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

5 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.

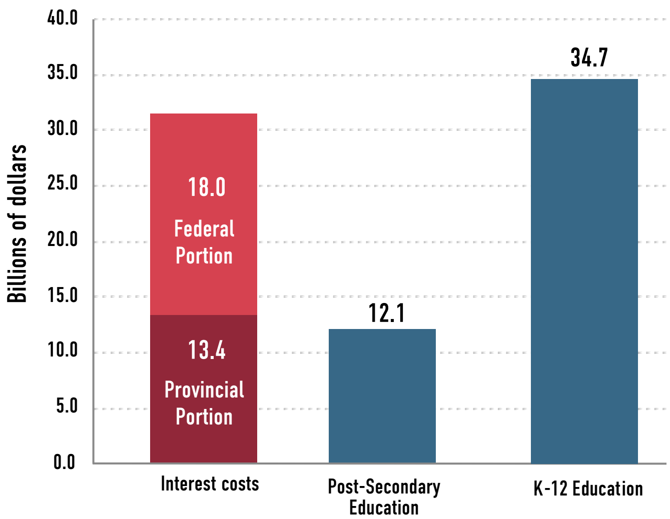
6 Public Accounts data for federal and provincial interest costs are not directly comparable to the Statistics Canada data pertaining to local interest costs. However, Statistics Canada data indicate that local governments incurred $3.6 billion in interest expenses in 2022/23 (the latest year of available data). See Statistics Canada, 2023b.

Figure 1: Federal interest costs compared to other budget items, 2023/24



Source: Canada, Department of Finance (2023a).

Figure 2: Ontario's federal and provincial combined interest costs compared to other budget items, 2023/24



Source: Table 2; Ontario Ministry of Finance (2023); calculations by authors

significant amount of resources is being directed towards interest costs.

Interest costs in Ontario

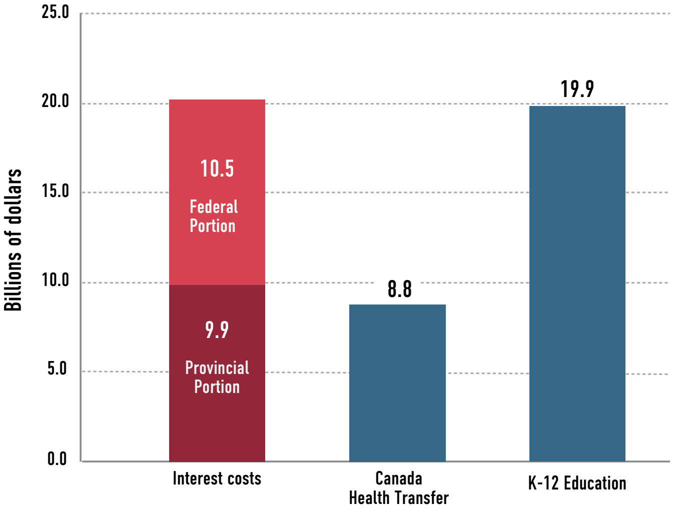
In 2023/24, the Ontario government will spend $13.4 billion on interest costs alone. This is over $1.0 billion more than what the province spends on post-secondary education ($12.1 billion) and translates into well over $1.0 billion in interest costs each month (Ontario, Ministry of Finance, 2023). Debt is expected to continue rising for the foreseeable future, which means that interest costs are likely to increase further compared to other spending items. According to the 2023 fall fiscal update, interest costs are projected to grow at an average annual rate of 7.0 percent between 2022/23 and 2024/25. In contrast, the annual growth rate on spending for health care is expected to be 5.3 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 $31.5 billion in 2023/24 (see figure 2). This is almost as much money as the $34.7 billion Ontario plans to spend on K-12 education in 2023/24.

Interest costs in Quebec

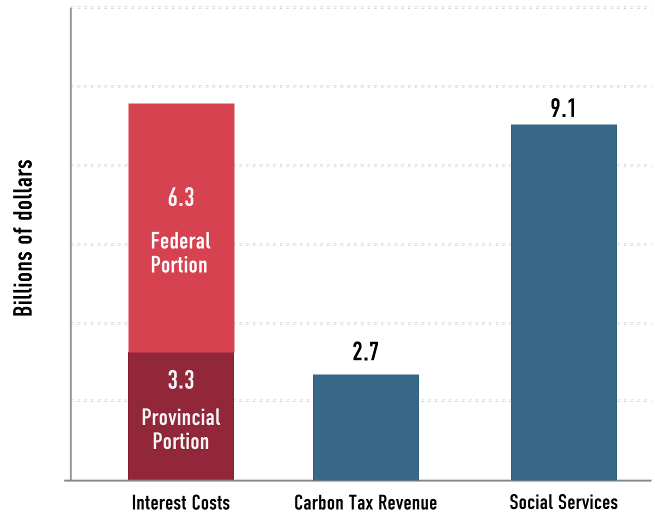
The Quebec government expects provincial interest costs will equal $9.9 billion in 2023/24 (Québec, Ministère des Finances, 2023). Provincial interest expenses are projected to be more than the amount Quebec received from the Canada Health Transfer ($8.8 billion in 2023/24). However, Quebeckers are also responsible for $10.5 billion in federal interest costs. This allocation means that total interest payments paid by Quebeckers this year could amount to $20.3 billion (figure 3). That is more than the province projects it will spend on K-12 education ($19.9 billion) in 2023/24.

Figure 3: Quebec's federal and provincial combined interest costs compared to other budget items, 2023/24



Sources: Table 2; Québec, Ministère des Finances (2023); calculations by authors.

Figure 4: British Columbia's federal and provincial combined interest costs compared to other budget items, 2023/24



Sources: Table 2; British Columbia, Ministry of Finance (2023); calculations by authors.

Interest costs in British Columbia

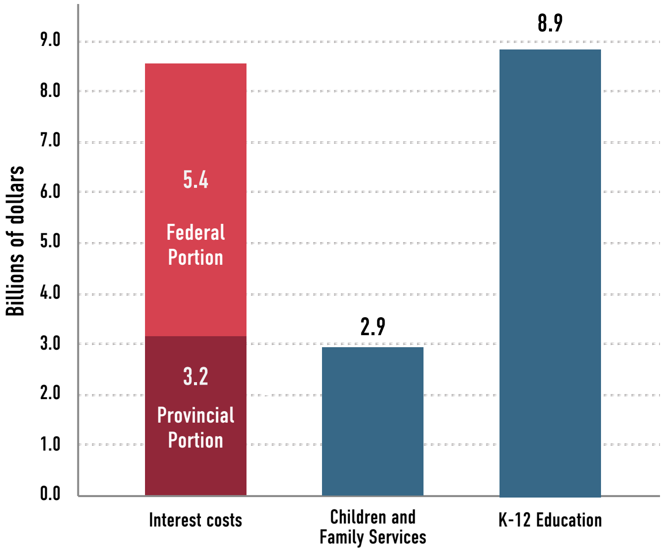
Even though British Columbians face one of the lowest debt burdens in the country, interest costs are still a considerable expense for the provincial government. Figure 4 shows that the BC government expects to spend $3.3 billion on interest payments in 2023/24. This is more than what the province expects to generate in revenue from the carbon tax ($2.7 billion) (British Columbia, Ministry of Finance, 2023). The province's share of federal interest costs ($6.3 billion) increases the total interest bill for British Columbians to approximately $9.6 billion. Overall interest expenses for BC are higher than what the province expects to spend on social services this year ($9.1 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 $3.2 billion in 2023/24. Spending on interest payments this year is larger than the amount the province expects to spend on the department of Children and Family Services (see figure 5).

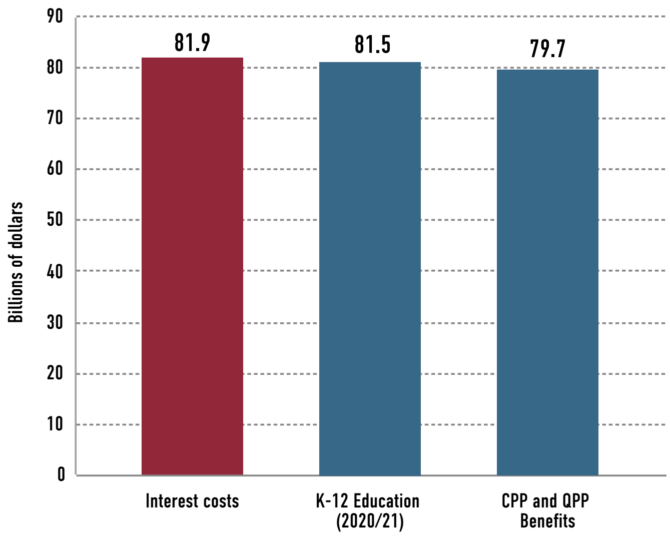
After accounting for the province's portion of federal interest costs, the combined federal-provincial interest costs in Alberta amount to $8.6 billion in 2023/24. Figure 5 shows the magnitude of total government interest payments in Alberta compared to the province's other budget items. Similar to Ontario and Quebec, Alberta's expenditure on interest costs is nearly as much as the province plans to spend on K-12 education this year (Alberta, Ministry of Finance, 2023).

Figure 5: Alberta's federal and provincial combined interest costs compared to other budget items, 2023/24



Sources: Table 2; Alberta, Ministry of Finance (2023); calculations by authors.

Figure 6: Consolidated government interest costs compared to other expenditures, 2022/23



Note: 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 (2023a; 2023b).

Overall interest costs[7]

In total, interest costs for Canadian governments (federal, provincial, and local) amounted to $81.9 billion in 2022/23 (the latest year of available data). As figure 6 illustrates, this is more than the amount spent on public K-12 education in Canada ($81.5 billion in 2020/21, the latest year of available data). Moreover, total interest costs also exceeded spending on pension benefits ($79.7 billion) acquired through the Canada and Quebec Pension Plans (CPP and QPP) in 2022/23. 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 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. Canadian governments must develop plans to address the trend of growing interest costs, as failing to do so will have adverse consequences for Canadian families in the coming years.

7 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.

References

Alberta, Ministry of Finance (2023). *2023–24 Mid-year Fiscal Update and Economic Statement*. Government of Alberta.

British Columbia, Ministry of Finance (2023). *Second Quarterly Report November 2023*. Government of British Columbia.

Canada, Department of Finance (2023a). *Fall Economic Statement 2023*. Government of Canada.

Canada, Department of Finance (2023b). Fiscal Reference Tables 2023. Government of Canada.

Manitoba, Ministry of Finance (2023a). *Annual Report and Public Accounts for the Year Ended March 31, 2023*. Government of Manitoba.

Manitoba, Ministry of Finance (2023b). *2023/24 Second Quarter Report Fiscal and Economic Update*. Government of Manitoba.

Newfoundland & Labrador, Department of Finance (2023a). *Budget 2023 Statements and Schedules*. Government of Newfoundland & Labrador.

Newfoundland & Labrador, Department of Finance (2023b). *Fall Fiscal and Economic Update 2023*. Government of Newfoundland & Labrador.

New Brunswick, Department of Finance (2023). *Fiscal and Economic Update Second Quarter 2023–2024*. Government of New Brunswick.

Nova Scotia, Department of Finance (2023). *Forecast Update December 18, 2023*. Government of Nova Scotia.

Ontario, Ministry of Finance (2023). *2023 Ontario Economic Outlook and Fiscal Review*. Government of Ontario.

Prince Edward Island, Department of Finance (2023). *2023 Fall Fiscal and Economic Update*. Government of Prince Edward Island.

Québec, Ministère des Finances (2023). *Update on Québec's Economic and Financial Situation Fall 2023*. Government of Québec.

Saskatchewan, Ministry of Finance (2023). *2023-24 Mid-Year Report*. Government of Saskatchewan.

Statistics Canada (2022a). 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 October 23, 2023.

Statistics Canada (2022b). Table 17-10-0057-01: Projected Population, by Projection Scenario, Age and Sex, as of July 1. Government of Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710005701>, as of October 23, 2023.

Statistics Canada (2023a). 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 October 27, 2023.

Statistics Canada (2023b). 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.gc.ca/t1/tbl1/en/tv.action?pid=1010001501>, as of October 23, 2023.

Jake Fuss is Director of Fiscal Studies 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.

Grady Munro is a policy analyst at the Fraser Institute. He holds a Bachelor of Arts in Economics from Macalester College in Minnesota, and a Masters of Public Policy from the University of Calgary.

Acknowledgments

The authors would like to express appreciation to the anonymous reviewers of this paper. 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.

ISSN 2291-8620

Media queries: For media enquiries, please contact our communications department via e-mail: communications@fraserinstitute.org; telephone: 604.714.4582.

Support the Institute: call 1.800.665.3558, ext. 574 or e-mail: development@fraserinstitute.orgVisit our **website**: www.fraserinstitute.org