ECONOMIC NOTES

TAXATION SERIES

A Fiscal Scorecard for Canada's Provinces

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Canada's provincial debt levels, and where they're headed, deserve much more attention than they usually receive. Of course, federal debt rose sharply during the COVID-19 pandemic as Ottawa responded with extraordinary spending measures. But provincial finances have also been under growing strain. In 2025, every single provincial government was running a deficit, something last seen during the 2008 financial crisis. Combined federal and provincial government debt as a share of GDP is now above where it stood in the mid-1990s.[1]

The most immediate concern is what comes next. Provinces face pressures that are in many ways more difficult than those confronting the federal government, especially due to rising healthcare costs and aging populations.[2] In an increasingly uncertain economic environment,[3] strong public finances may be even more important, as they provide governments with room to respond to shocks. Sustainable finances allow taxes to be more predictable, and lower debt can also mean lower interest costs and, more broadly, a healthier environment for investment.

So where do the provinces stand? Which one is best placed to manage future pressures? One useful way to understand changes in public debt is to split them into two broad forces: policy choices that governments can influence, and economic fundamentals that they often cannot. That distinction reveals a striking story about the past several years, and points to some difficult choices that need to be made over the coming decades.

WHY DEBT RISES

Government debt can change for many reasons, but the basic arithmetic is simple. Two forces matter most. First, if program spending exceeds government revenue, debt rises. Second, if the average interest rate on public debt exceeds the growth rate of the economy, the debt burden also tends to rise.

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Think of it like any other debt. Left on its own, how much you owe grows according to the interest rate charged on your existing debt. Governments, however, are better able to carry debt when their economies are growing. As most government revenue ultimately comes from taxing income and consumption, economic growth leads to higher tax revenue, which makes a given amount of debt easier to support.

This is why economists usually focus on debt relative to GDP, rather than debt measured only in absolute dollar terms. If debt grows faster than the economy, the debt-to-GDP ratio rises; if the economy grows faster than the debt, the ratio falls.

A DECADE OF VERY DIFFERENT RECORDS

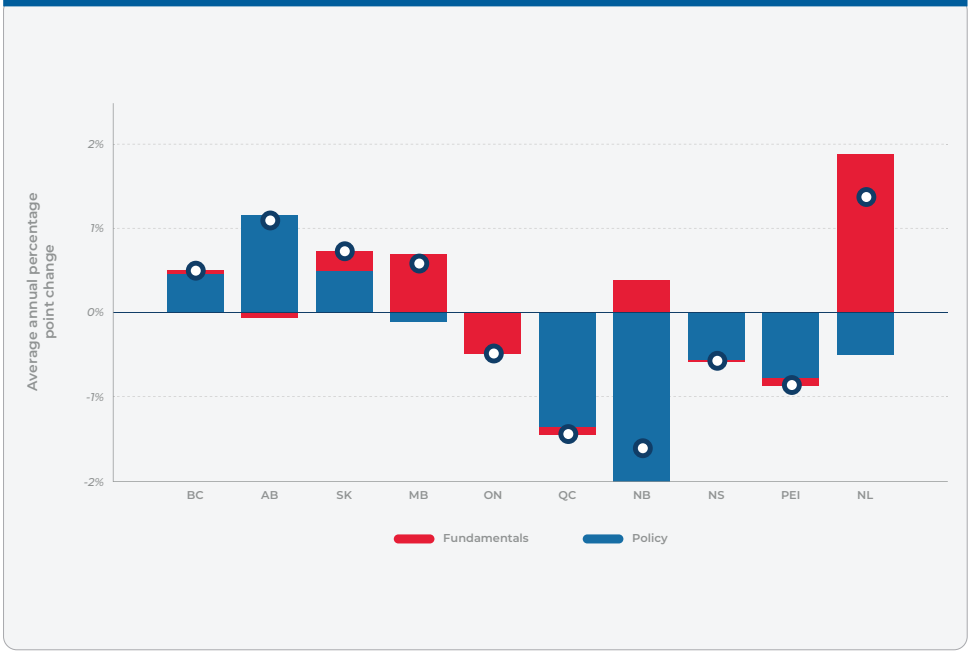
Provincial public accounts from 2015 through 2024 reveal dramatically different provincial experiences across Canada.[4] Newfoundland and Labrador recorded the largest increase

in net debt-to-GDP ratio, at 14 percentage points. Alberta was a close second, with an increase of roughly 11 points. Yet five central and eastern provinces (from Prince Edward Island through Ontario) saw their debt ratios fall. New Brunswick recorded the largest improvement, with its net debt-to-GDP ratio falling by more than 16 percentage points.

Policy choices were the reason. Figure 1 illustrates the components of debt changes for all provinces over the past decade, expressed as the average annual change. Quebec provides a clear example. Its fiscal policy choices reduced its net debt-to-GDP ratio by roughly 1.4 percentage points per year, on average. New Brunswick did even better by this measure, with policy contributing to a reduction of nearly 2 percentage points per year.

FIGURE 1

Average annual change in net debt as a share of GDP, 2015-2024



Source: Author's calculations. Government of Canada, Fiscal Reference Tables, November 2025, consulted August 18, 2026.

Newfoundland and Labrador recorded the largest increase in net debt-to-GDP ratio, at 14 percentage points.

Economic fundamentals can partly offset those policy gains, however. In New Brunswick, for example, interest rates and economic growth together pushed the net debt-to-GDP ratio higher by about 0.4 percentage points per year.

Newfoundland and Labrador provides an even clearer illustration of the distinction. Despite its large overall increase in debt, policy choices worked to reduce the debt ratio by roughly 0.5 percentage points per year. The problem was weak economic fundamentals. Nominal economic growth averaged only about 2.1% annually over this period, well below the borrowing rates the province typically faced.

In much of Western Canada, the pattern was different. Policy tended to push the net debt-to-GDP ratio higher, ranging from roughly 0.5 percentage points per year in British Columbia to 1.2 points in Alberta. But these averages hide important changes that will impact fiscal health for decades to come.

REVERSALS OF FORTUNE

In Alberta, I estimate that policy-related factors increased debt in every year from 2015 through 2020. Lower resource revenue and higher spending both played a role. Beginning in 2021, that changed sharply. A significant fiscal adjustment under Premier Jason Kenney, combined with stronger revenues,

reduced the policy contribution to debt. It has remained negative since.

British Columbia, meanwhile, has moved in the opposite direction. I estimate that its fiscal position was broadly balanced for much of the decade before the pandemic. More recently, however, policy has become a major source of debt growth. Policy choices increased net debt-to-GDP ratio by roughly 1.9 percentage points in 2023 and another 2.8 points in 2024. That is a 4.7-percentage-point increase in only two years.

I also estimate that for many years, Quebec's policy choices steadily reduced its debt burden. But in 2022, 2023, and 2024, policy began pushing debt upward instead. The province has also recorded headline deficits every year since the pandemic, while its economic fundamentals have weakened.

THE NEXT 25 YEARS LOOK HARDER

Long-term projections are necessarily uncertain, but provincial finances are unusually well suited to this kind of analysis because many of their biggest pressures move slowly and predictably. For instance, health care is the most important factor and already accounts for roughly 40% of provincial operating spending. As populations age, this proportion is likely to rise further.

To quantify the scale of future debt increases, my 2020 debt-sustainability model using the latest available data provides the following projections.[5] Nearly every province faces deterioration of some kind.

British Columbia stands out, with a net debt-to-GDP ratio projected to increase by roughly 3.7 percentage points per year over the next 25 years. That pace cannot continue indefinitely. Long before 2050, something would have to give.

Quebec faces a sharp reversal. After posting one of the strongest fiscal records of the past decade, as we saw in Figure 1, it is projected to experience net debt-to-GDP ratio increases of roughly 3 percentage points per year.

Alberta is the exception. Stronger resource revenues, rapid population growth, and an inflow of younger residents give it a more favourable outlook. Still, there is considerable uncertainty, since oil prices remain an important driver of provincial revenue.

Freezing demographics reveals how much population aging matters. Suppose each province keeps its current age structure and share of Canada's population. There is no interprovincial migration and no rise in the share of seniors, though overall population can still grow. The outlook under these assumptions improves considerably. Net debt would decline in Ontario, Alberta, New Brunswick, and Newfoundland and Labrador.

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Yet, demographics do not explain everything. British Columbia would still face a considerable fiscal gap. Its challenge lies in the current relationship between program spending and revenue, and it should be graded accordingly.

A PROVINCIAL FISCAL SCORECARD

It is worth zeroing in on the part of the equation that provinces more easily control: the policy component of debt changes. Figure 2 shows the estimated policy-driven change in net debt ratios for each province.

On that basis, Quebec and New Brunswick stand out as the strongest performers over the past decade. But only New Brunswick will continue to outperform. It is an outlier (in a good way). Quebec occupies a position

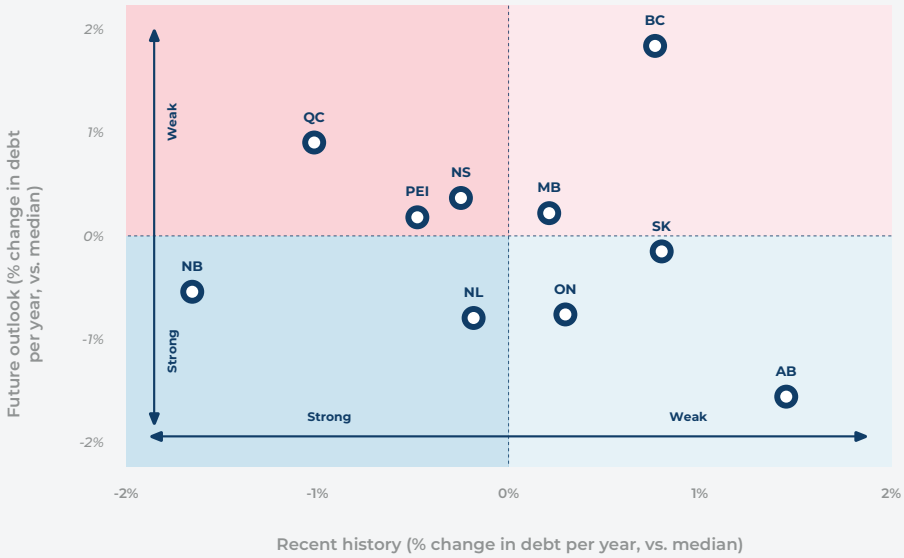
along a fiscal plane mapped out by eight of the ten provinces: those with weaker recent histories have stronger future outlooks, and vice versa.

For Quebec, that past discipline matters. Quebec reduced its net debt from more than 50% of GDP in 2015 to about 38% in 2024, and has therefore built some fiscal capacity to absorb future pressures. Meanwhile, other provinces, like Alberta, had a weaker recent history but look like they will offset some of that accumulated debt with stronger future performance.

British Columbia is the most striking outlier from this general pattern. Its recent history and its outlook are both weak. Recent debt as a share of GDP has risen, on average, by 0.8 points per year more than the median province, and the province is facing triple that pace of relative increase over the coming decades. This is not sustainable.

FIGURE 2

Fiscal scorecard for provinces, recent policy-driven debt changes vs. outlook



Source: Author's calculations. See text for details.

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GOVERNMENTS HAVE CHOICES

The long-term provincial fiscal challenge is serious, but not insurmountable. Faster productivity growth would help. So would stronger investment and higher rates of economic growth. But expecting economic growth alone to solve the problem is unrealistic.

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Across provinces, policy-related pressures are projected to add roughly 1.5 percentage points to debt-to-GDP ratios each year, on average. Raising economic growth enough to offset a gap of that size would be an enormous task.

That leaves policy reforms, and especially spending reforms. Provinces could find ways to provide health care more efficiently, for instance, and slow projected cost increases.

Revenues may also need to change. As people retire, they generally earn less employment income and therefore pay less income tax. With an older population, governments rely more heavily on consumption and property taxes. Over time, provinces could therefore shift some of their tax room away from income taxes and toward these broad-based taxes.

New Brunswick's recent experience offers a useful reminder. Over the past decade, it faced economic fundamentals that pushed its net debt-to-GDP ratio upward by roughly half a percentage point each year. Yet policy more than offset that pressure, and its overall debt ratio fell.

Provincial governments cannot easily control interest rates, aging, global trade disruptions, or technological change. They can much more easily influence spending growth and how revenues are raised. Those choices will matter enormously.

The next 25 years will be harder than the last ten for most provinces. The sooner governments adjust, the less painful those adjustments will need to be.

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5. Trevor Tombe, "Finances of the Nation – Provincial Debt Sustainability in Canada: Demographics, Federal Transfers, and COVID-19," *Canadian Tax Journal*, Vol. 68, No. 4, 2020, pp. 1083-1122.

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