

Background

April 2016

Comparing Government Debt Across Canada

Core Issue: The current economic climate across Canada is putting incredible pressure on government finances; the degree to which varies considerably across provinces. This report compares Canada's debt internationally, and the provincial debt levels of Canada's provinces by looking at the net debt and net debt as a percentage of provincial GDP. It also compares 2014-15 debt levels to 2010-11 debt levels to highlight how the situation has changed.

Introduction to Government Debt

Accumulating debt allows governments to provide services to their citizens today, while deferring the payment for those services onto future taxpayers. This means pressure on future tax revenues as the tax base tries to pay for current services as well as past ones with interest costs. For example, Canada's public debt charges were budgeted to be \$26.7 billion in 2014/15, which is almost 9.5% of the government's current total expenses being allocated for past services.¹ As the government's debt grows, the interest charge on that debt places pressure on future operating budgets.

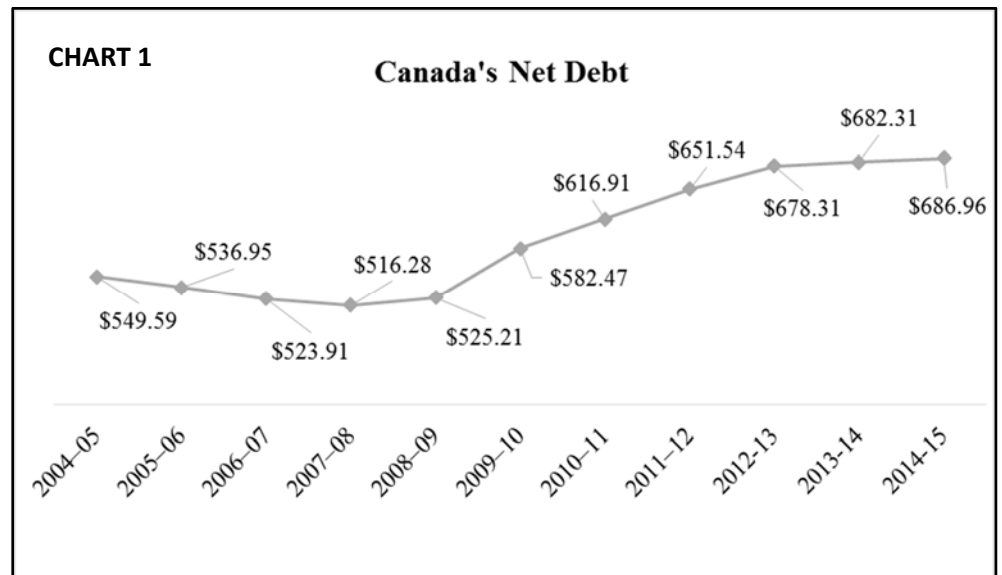
It is important to note that not all government debt is the same. In some cases debt is necessary, such as in times of emergency, short-term downturns in the economy, or debt incurred to finance large capital projects that otherwise might not be affordable; however, debt accumulation must be carefully managed and it must not become routine. While it can be attractive for governments in the short-term, minimizing government debt frees up future tax dollars and helps create a more stable and attractive tax environment, which benefits all businesses and residents over the long-term.

¹ Government of Canada. Strong Leadership: A Balanced-Budget, Low-Tax Plan for Jobs, Growth and Security. 21 April 2015. 01 March 2016 <<http://www.budget.gc.ca/2015/docs/plan/budget2015-eng.pdf>>.

Debt Reporting

Governments across Canada use a number of different practices to measure indebtedness.² This can make comparisons between provinces difficult. Therefore, for the purpose of comparison, this paper will look at 'net debt' and net debt as a percentage of gross domestic product (GDP).³ The Saskatchewan government's concepts of operational debt versus capital debt versus crown corporation debt are not analyzed in this paper, since clear comparisons to other jurisdictions are not available.

Net debt is equal to the government's liabilities minus its financial assets. "It represents the debt that has been used to finance capital investments as well as the debt that has been used to fund operational spending."⁴ For governments, liabilities would include pensions and partner-public partner obligations in addition to typical borrowing. In short, net debt provides a measure of the future revenues required to pay for past transactions and events.⁵



Source: Department of Finance Canada. "Fiscal Reference Tables: September 2015." September 2015. [Government of Canada](http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp). 24 February 2016 < <http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp>>.

Net debt as a percentage of GDP provides insight into the impact of a government's debt on its economy. In other words, it highlights the "degree to which a government can maintain existing service commitments and meet its existing financial obligations without increasing debt or taxes."⁶ A higher percentage indicates that a government's financial obligations are becoming an increasing burden on the economy, and may not be sustainable.⁷

² Finances Québec. [The Québec Government's Debt](http://www.budget.finances.gouv.qc.ca/Budget/2010-2011/en/documents/GovDebt.pdf). March 2010. 07 February 2012 <<http://www.budget.finances.gouv.qc.ca/Budget/2010-2011/en/documents/GovDebt.pdf>>.

³ Ibid.,

⁴ Ibid.,

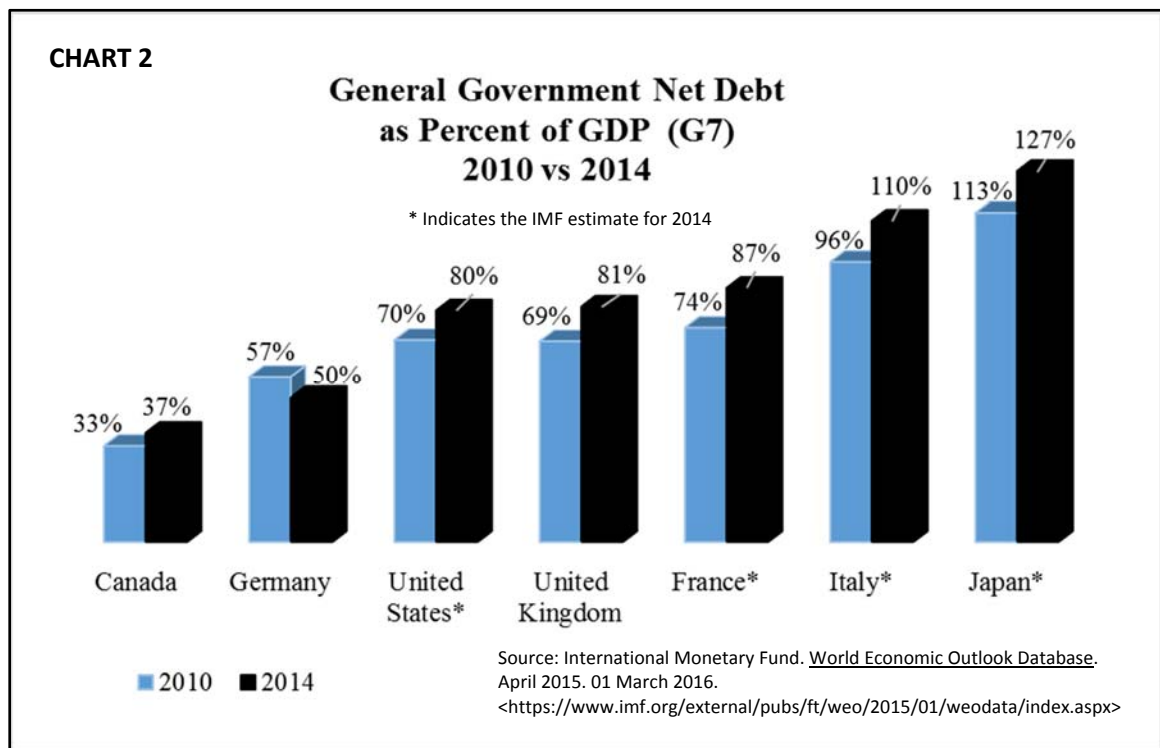
⁵ Office of the Provincial Auditor of Saskatchewan. "Financial reporting— Financial status of pensions—an update." 28 November 2011. [Provincial Auditor Saskatchewan 2011 Report – Volume 2](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/12_Pensions.pdf). 12 January 2011 <[http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/\\$file/12_Pensions.pdf](http://www.auditor.sk.ca/saskrepnew.nsf/html/2011vol2index.html/$file/12_Pensions.pdf)>.

⁶ Ibid.,

⁷ Lapointe, Jacques R. "Report of the Auditor General." 05 January 2012. [Office of the Auditor General](http://www.oag-ns.ca/jan2012fs/fullreport.pdf). 07 February 2012 <<http://www.oag-ns.ca/jan2012fs/fullreport.pdf>>.

Canada's Net Debt Level

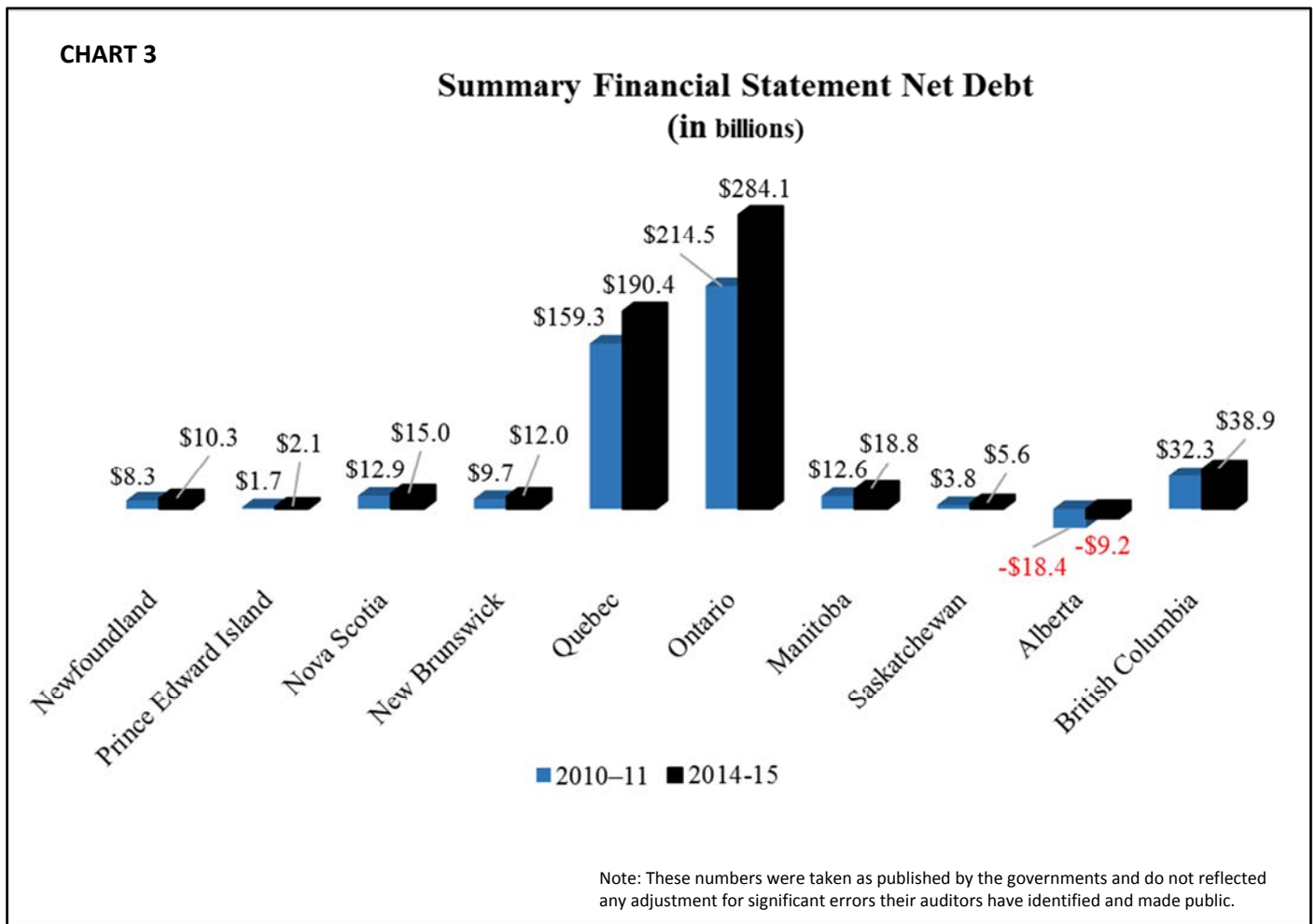
The Government of Canada's net debt stood at \$687 billion in 2014-15, up from \$616.9 billion in 2010-11, and up significantly from its recent low in 2007-08 of \$516.2 billion (see Chart 1, "Canada's Net Debt").



Despite rising total government net debt (defined as the total liabilities less the financial assets of the federal, provincial/territorial and local governments, as well as the Canada Pension Plan and the Québec Pension Plan) remains comparatively attractive in a global context. In 2014, Canada's net debt-to-GDP was almost 37% according to the International Monetary Fund's calculation. This percentage is significantly below all other G7 countries as Chart 2, "General Government Net Debt as Percentage of GDP (G7) 2010 vs 2014" shows.

Net Debt Levels Across Canada

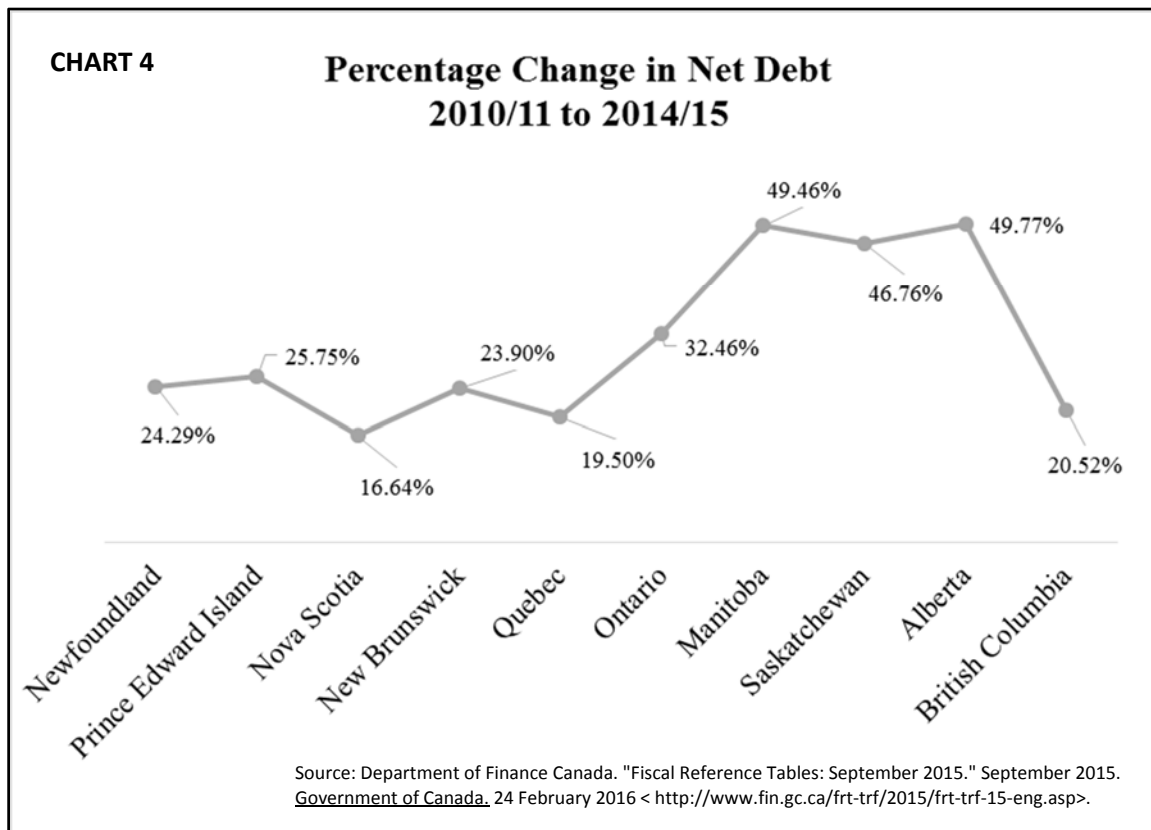
As illustrated by Chart 3, “Summary Financial Statement Net Debt,” the level of net debt across Canadian provinces varies significantly, however every province has seen its net debt increase over the past four years.



Source: Department of Finance Canada. "Fiscal Reference Tables: September 2015." September 2015. [Government of Canada, 24 February 2016 < http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp>](http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp).

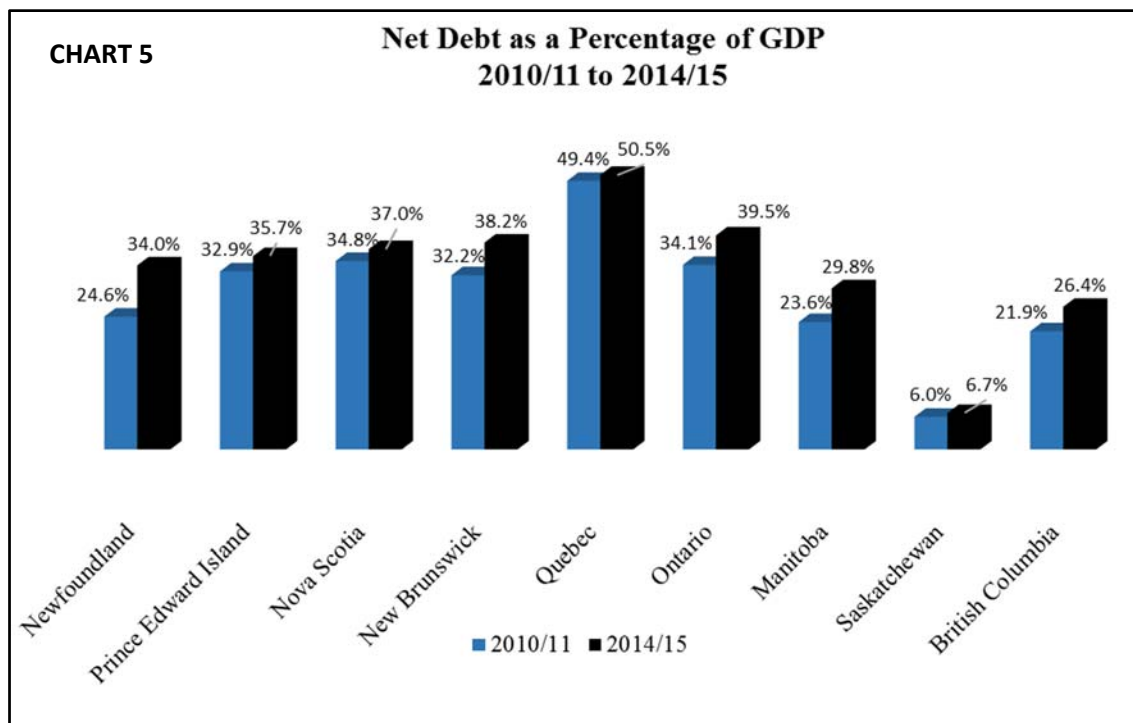
Chart 4 below, “Percentage Change in Net Debt”, shows how each province’s net debt has increased relevant to itself from 2010-11 to 2014-15.

Despite having the largest percentage increase between 2010-11 and 2014-15 Alberta still has the lowest level of net debt in the country with a surplus of \$9.2 billion. Prince Edward Island and Saskatchewan rank 2nd and 3rd respectively in terms of lowest net debt; but Saskatchewan’s debt had a percentage increase of 46.76%, the 3rd highest among the provinces. Ontario and Quebec lead the country with the highest levels of net debt and Ontario’s debt position continues to get worse as it recorded the 4th highest percentage increase among the provinces.



While the net debt amounts for several provinces seem quite small relative to others, Chart 5, “Net Debt as a Percentage of GDP” reflects a different reality. As noted earlier, net debt as a percentage of GDP provides insight on the degree to which existing service commitments and financial obligations can be met without increasing debt or taxes. A lower net debt-to-GDP ratio is desired as it indicates higher sustainability.⁸

Quebec leads the country with the highest debt-to-GDP ratios by a considerable margin, now over 50%. Ontario, New Brunswick, and Nova Scotia make up the rest of the top four. Other than Alberta, which has no net debt, Saskatchewan’s debt-to-GDP ratio is significantly lower than any other province at 6.7%. As such, Saskatchewan’s debt weighs less heavily on the provincial economy.

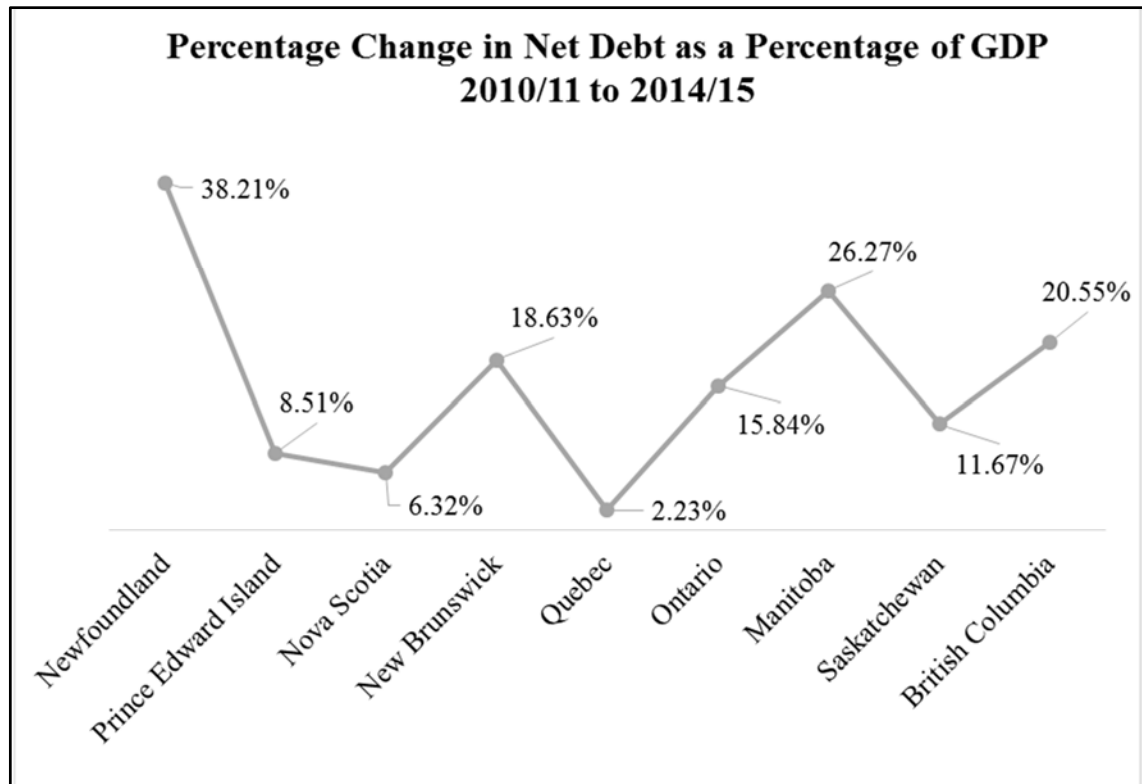


Source: All net debt as a percentage of GDP numbers, with the exception of Quebec, are based on each province’s 2014-2015 Public Accounts. See the Works Cited for details.

⁸ Government of Saskatchewan. 2014-15 Public Accounts - Volume 1 - Main Financial Statements. June 2015. 03 March 2015 <<http://www.finance.gov.sk.ca/paccts/paccts15/compendium/reports/Volume1-2014-15.pdf>>.

Recent debt growth has negatively impacted the net debt-to-GDP ratios. Every province has experienced an increase in their ratio over the last four year. As illustrated on Chart 6, “Percentage Change in Net Debt as a Percentage of GDP 2010/11 to 2014/15” Newfoundland’s increase has been the largest at 38%, followed by Manitoba at 26%. Relative to other provinces, Saskatchewan has experienced a moderate increase of almost 12%.

CHART 6



Source: All net debt as a percentage of GDP numbers, with the exception of Quebec, are based on each province's 2014-2015 Public Accounts. See the Works Cited for details.

Saskatchewan's Net Debt Situation

Saskatchewan's net debt was \$5.6 billion in 2014-15, although up from its recent low of \$3.5 billion in 2008-09, the province's debt situation is far from the high of \$10.6 billion that it reached in 1993-94.⁹ Saskatchewan's 2015-16 debt charges were projected to be \$305 million, or 2% of expenses,¹⁰ which while a considerable expense, is a fairly manageable amount.

The majority of the province's debt management policies are laid out in *The Growth and Financial Security Act*. This Act addresses debt management through three major components: it requires a four year debt management plan to be prepared annually, it establishes the rules for transfers to or from the Growth and Financial Security Fund, and it puts in place the Debt Retirement Fund.¹¹

According to the Act, if Saskatchewan's General Revenue Fund has a surplus (without any money being transferred in from the Growth and Financial Security Fund) 50% of the surplus is to be transferred to the Debt Retirement Fund with the remaining 50% being moved to the Growth and Financial Security Fund.¹² While this is a valuable policy to have in place, it is not a definite repayment plan as governments are understandably tempted to spend an anticipated surplus before it is officially counted, and therefore subject to the policy. More stringently, according to an Order in Council, the Government of Saskatchewan must annually contribute not less than 1% of debentures outstanding into sinking funds.¹³ The sinking funds are monies set aside for retiring debt as bonds mature.¹⁴

Based on the province's historic debt reduction and these practices, Saskatchewan's debt situation is much more favourable than in other parts of Canada. However, spending controls and sound fiscal management need to be maintained in order to preserve this position.

⁹ Source: Department of Finance Canada. "Fiscal Reference Tables: September 2015." September 2015. [Government of Canada](http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp). 24 February 2016 <<http://www.fin.gc.ca/frt-trf/2015/frt-trf-15-eng.asp>>.

¹⁰ Government of Saskatchewan. [Saskatchewan Provincial Budget 15-16: Keeping Saskatchewan Strong](http://www.finance.gov.sk.ca/budget2015-16/201516Budget.pdf). 18 March 2015. 01 March 2016 <<http://www.finance.gov.sk.ca/budget2015-16/201516Budget.pdf>>

¹¹ Government of Saskatchewan. [The Growth and Financial Security Act](http://www.qp.gov.sk.ca/documents/English/Statutes/Statutes/G8-1.pdf). 14 May 2008. 08 February 2012 <<http://www.qp.gov.sk.ca/documents/English/Statutes/Statutes/G8-1.pdf>>.

¹² Ibid.,

¹³ Government of Saskatchewan. [2010-11 Public Accounts - Volume 1 - Main Financial Statements](http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf). June 2011. 14 January 2012 <<http://www.finance.gov.sk.ca/paccts/paccts11/201011Volume1.pdf>>.

¹⁴ Government of Saskatchewan. [Debt Reduction](http://www.finance.gov.sk.ca/Default.aspx?DN=2027985a-c4ec-46a7-9df8-3b74d4c837bb). 14 January 2011 <<http://www.finance.gov.sk.ca/Default.aspx?DN=2027985a-c4ec-46a7-9df8-3b74d4c837bb>>.

Saskatchewan Chamber of Commerce Position

While debt is often a reality in building a business, it is wise to ensure that it is used in a clear and defined manner. Saskatchewan's recent debt use has primarily been for infrastructure expenses, including P3 liabilities, which is an investment in capital our organization has supported. We are also aware of the recent growth in pension debt, and we urge the government to continue to manage and accurately account for these costs. However, it is anticipated that the 2016-17 and 2017-18 budgets will table deficits for both operational as well as capital expenditures. The low net debt-to-GDP ratio Saskatchewan enjoys give the Saskatchewan Chamber of Commerce confidence that the economy can manage some new debt, assuming it is used in a prudent manner with clear repayments plans. Nevertheless we recommend the provincial government use these two deficit years to make the modifications necessary to prevent the routine accumulation of debt, , and establish clear plans to manage all its debt obligations over the long term

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