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7-11 Canadian budgets: An *in*convenient fiscal picture

By Warren Lovely (with NBC's budgetary coverage team also comprising Taylor Schleich, Daren King and Ethan Currie)

With the release of Quebec's 2025 budget on March 25th, seven of ten provinces have presented detailed fiscal blueprints for what is clearly a pivotal fiscal year ahead. The budgetary tone, unsurprisingly, has shifted massively relative to prior guidance, tariff risks front and centre.

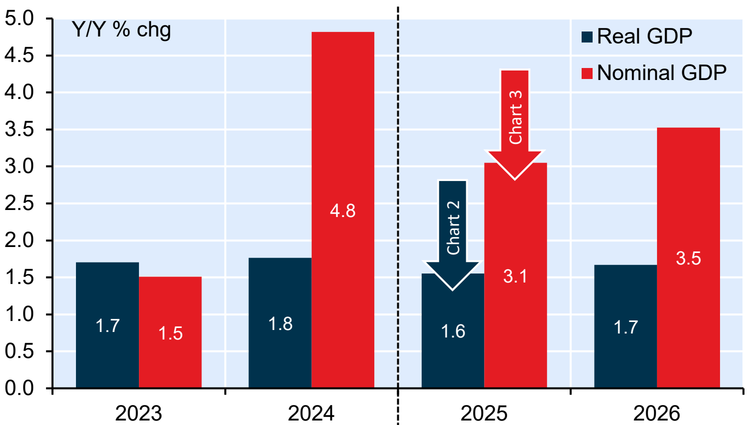
By subtraction, three provincial budgets remain. Two of those missing pieces—related to Newfoundland and Labrador and Prince Edward Island—will be slotted in soon enough. We will need to wait a bit longer for Canada's most populous province—Ontario—where a freshly composed legislature won't take a seat until April 14th. Then there's the federal government, where a general election campaign (culminating in an April 28th vote) puts Ottawa's budget on ice… at least for a time.

All that to say, we currently have seven of 11 federal-provincial budgets in hand. If you'll permit a play on words, this budgetary equivalent of '7-Eleven' ® isn't all that handy for bond investors. Rather, there are *in*convenient fiscal truths on display. Moreover, even if the picture is *in*complete, sky-high geopolitical uncertainty reveals the *in*exact nature of fiscal planning, with even less stock than normal to be placed on medium-term plans. Confidence bands being wide, tariff-related volatility could ultimately render many a fiscal forecast *in*accurate.

*In*convenient… *in*complete… *in*exact… *in*accurate (perhaps). That's the nature of the ongoing 2025 budget season, a summary of which follows.

Chart 1: Tallying up economic growth assumptions

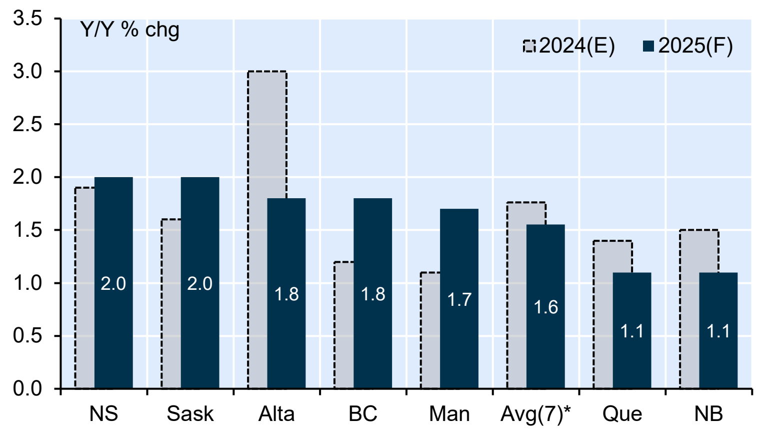
7-province average GDP growth, incl. Budget 2025 baseline assumptions



Source: NBC, StatCan, prov govts | Note: Weighted avg based on available 2025 budgets

Chart 2: No recession planned for, but tariff risks flagged

Provincial real GDP growth: Budget 2025 baseline assumptions

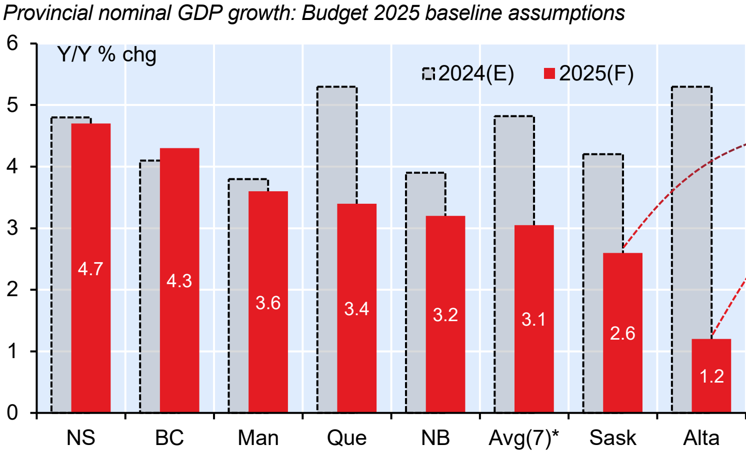


Source: NBC, prov govts | Note: Avg(7) is weighted; based on available 2025 budgets

Economic planning assumptions outlined in budgets are informed/guided by the consensus forecast, which currently signals modest yet positive real growth across the country. Based on the seven provinces having presented fresh budgets—with a combined economic and population weight of roughly 60%—2025 real GDP growth is thought to range from 1.1% to 2.0%. These are not recession scenarios obviously, though provincial budgets have attempted to highlight prospective downside economic risks should a sustained/serious trade war prove unavoidable.

Chart 3: Nominal GDP (generally) expected to downshift

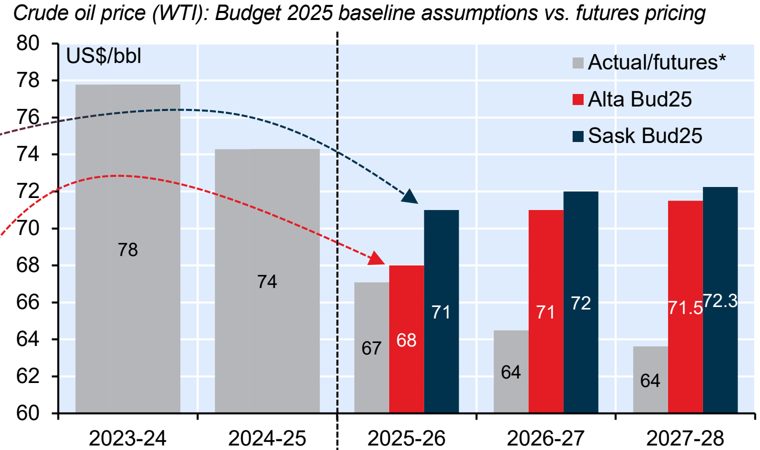
Provincial nominal GDP growth: Budget 2025 baseline assumptions



Source: NBC, prov govts | Note: Avg(7) is weighted avg; based on available 2025 budgets

Chart 4: Oil prices key for some (e.g., Alta, Sask)

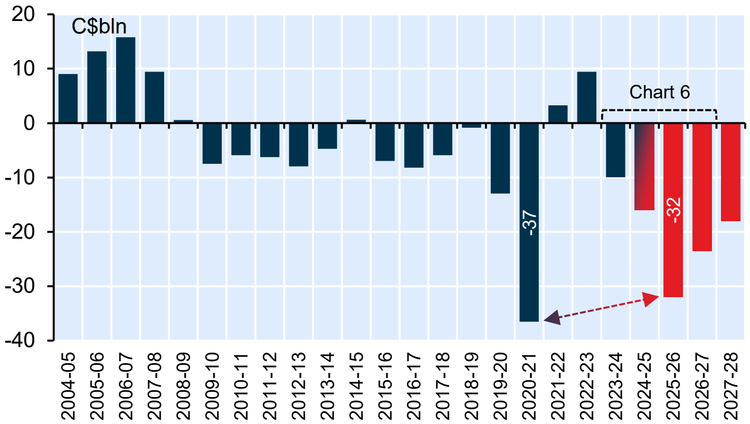
Crude oil price (WTI): Budget 2025 baseline assumptions vs. futures pricing



Source: NBC, prov govts | Note: Futures prices captured as at 27-Mar-25

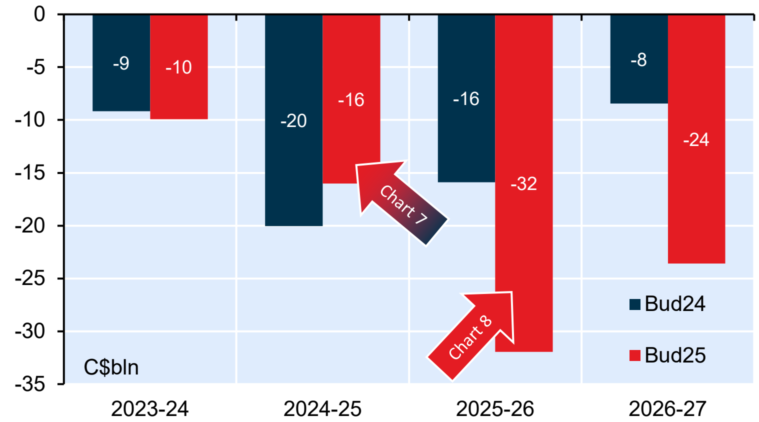
Nominal GDP is the better proxy for own-source revenue. Here, you will find a wider spread in official planning expectations for 2025, in/around a seven-province weighted average of 3.1%. Most baseline forecasts embed some moderation in nominal growth, the slowest tempo projected in the oil-levered jurisdictions of Alberta and Saskatchewan. That in turn captures an expectation of lower average crude oil prices in 2025-26. Beyond the WTI assumptions highlighted in Chart 4, the outlook for Canadian benchmark crude (expressed in loonies) must also control for the light-heavy differential (which Alberta sees widening) and CAD (unlikely to appreciate). For Alberta then, WCS is expected to average C$73/bbl in 2025-26 vs. an implied spot of nearly C$84/bbl today.

Chart 5: Seven-province combined deficit mounts in 2025-26
7-province aggregate budget balance, incl. Budget 2025 baseline forecasts



Source: NBC, prov govts | Note: Actuals to 2023-24; fcsts based on available 2025 budgets

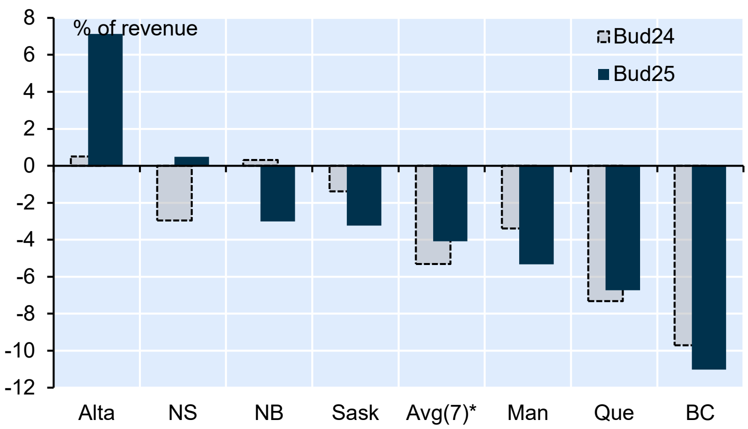
Chart 6: Combined balance weakens (vs. prior year & prior plan)
7-province aggregate budget balance: Budget 2025 baseline vs. Budget 2024



Source: NBC, prov govts | Note: Sums based on available 2025 budgets

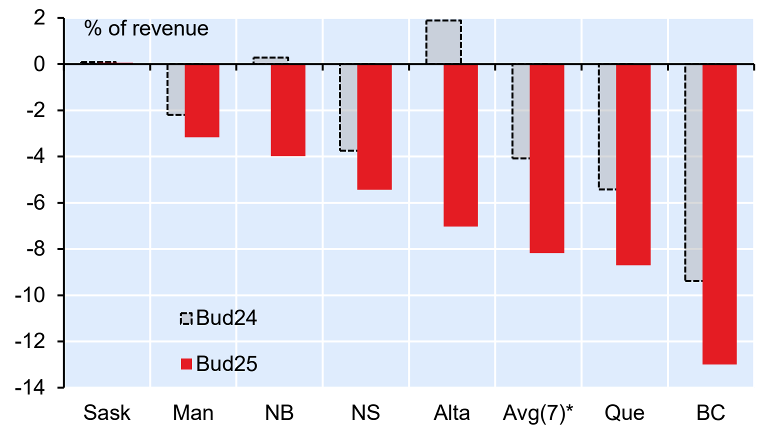
Converting baseline economic assumptions and announced policy decisions into dollars, the seven available budgets spit out a combined deficit of $32 billion for 2025-26. That sub-total is double what has been estimated for 2024-25. And it is likewise 2X the deficit those same seven provinces telegraphed for 2025-26 one year ago. There's an understandable focus on downside risks, with a less-than-uniform collection of tariff/slower growth/lower oil price scenarios hinting that the seven-province deficit could grow to ~$40 billion in 2025-26—a potentially record shortfall for the group.

Chart 7: Gauging the fiscal shift from outgoing 2024-25…
2024-25 budget balance-to-revenue ratio: Latest estimate vs. original plan



Source: NBC, prov govts | Note: Avg(7) is weighted; based on available 2025 budgets

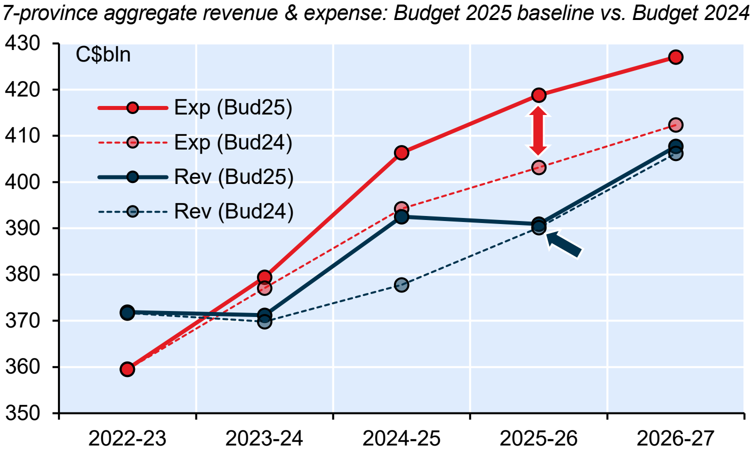
Chart 8: … to a 2025-26 fiscal year rife with uncertainties
2025-26 budget balance-to-revenue ratio: Baseline plan vs. prior forecast



Source: NBC, prov govts | Note: Avg(7) is weighted; based on available 2025 budgets

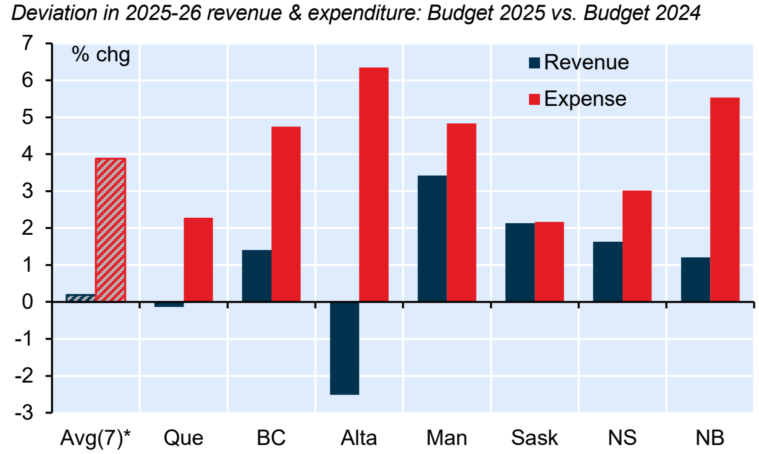
When comparing provinces, note certain differences in how prudence/contingencies/reserves are built in. Deposits to Quebec's Generations Fund add another accounting wrinkle. But taking headline deficit figures at face value and scaling to top-line revenue, the seven-province weighted average deficit for 2024-25 is now estimated at 4%. For the coming fiscal year—2025-26—baseline fiscal plans show the weighted average deficit doubling to 8% of GDP. Saskatchewan plans for balance; the other six (of seven) project red ink, with British Columbia's deficit ratio the largest.

Chart 9: Extra spending primary driver of budgetary erosion
7-province aggregate revenue & expense: Budget 2025 baseline vs. Budget 2024



Source: NBC, prov govts | Note: Sums based on available 2025 budgets

Chart 10: Seven of seven have boosted spending (vs. prior plan)
Deviation in 2025-26 revenue & expenditure: Budget 2025 vs. Budget 2024

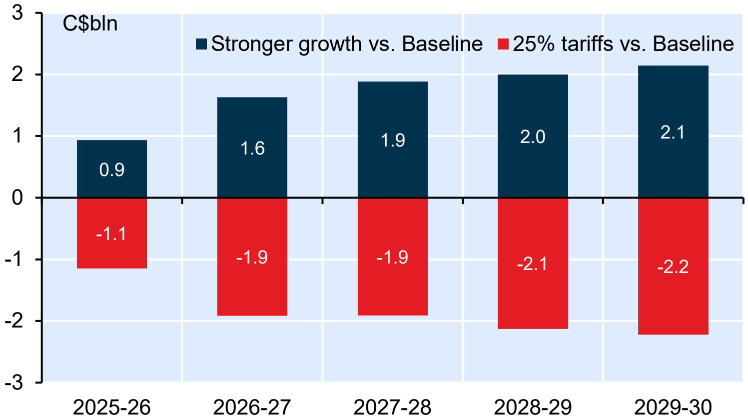


Source: NBC, prov govts | Note: Avg(7) is weighted

In decoding 2025-26's weaker budgetary state, note that expected revenue (across the seven budgets we've seen) is no weaker, in fact a bit firmer, than originally planned for one year ago. It means the fiscal deterioration now being flagged for 2025-26 owes primarily to a non-trivial step-up in expenditures. Specifically, baseline forecasts for total spending have jumped >$15 billion (or ~4%) above the level earlier telegraphed, with all seven provinces boosting outlays vs. prior budget guidance. Warning: Incremental spending/fiscal supports could be needed in a serious trade war.

Chart 11: Alternative scenarios increasingly in focus

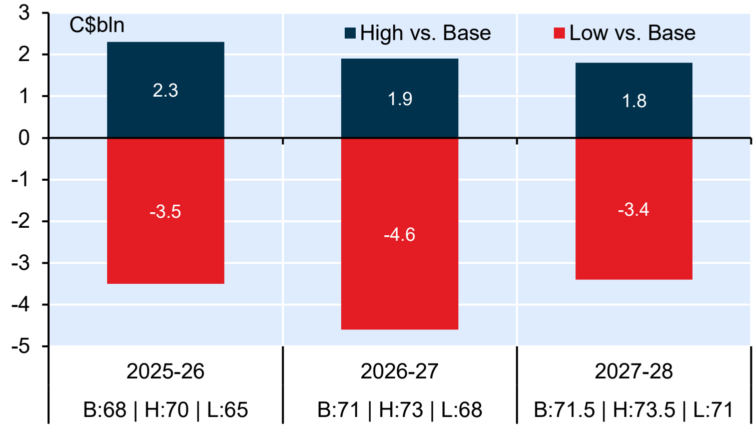
Deviation in Quebec budget balance under alternative economic scenarios



Source: NBC, Que | Note: Refer to Quebec budget for scenario details

Chart 12: Oil price sensitivity a key consideration in Alberta

Deviation in Alberta budget balance under alternative oil price scenarios

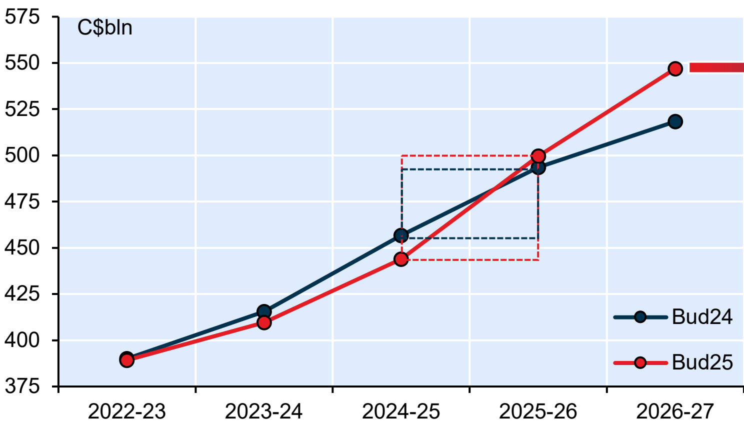


Source: NBC, Alta | Note: Values below fiscal year refer to base/high/low WTI price

Given relative exposures to key industries, relative dependence on trade, and the relative orientation of exports to the U.S., tariff risks vary. While less-than-strictly comparable, provincial budgets attempt to quantify tariff-related risks, though uncertainty remains. For example, Quebec presents a detailed scenario for a bigger tariff hit, while Alberta focuses on deviations in crude oil prices.

Chart 13: Provincial debt curve steepens up

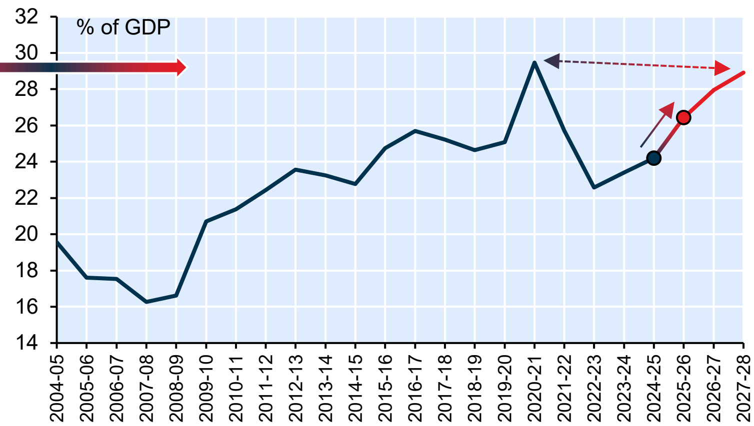
7-province aggregate net debt level: Budget 2025 baseline vs. Budget 2024



Source: NBC, prov govts | Note: Sums based on available 2025 budgets

Chart 14: Average debt burden headed to new heights?

7-province weighted average net debt burden, incl. Budget 2025 baseline forecasts

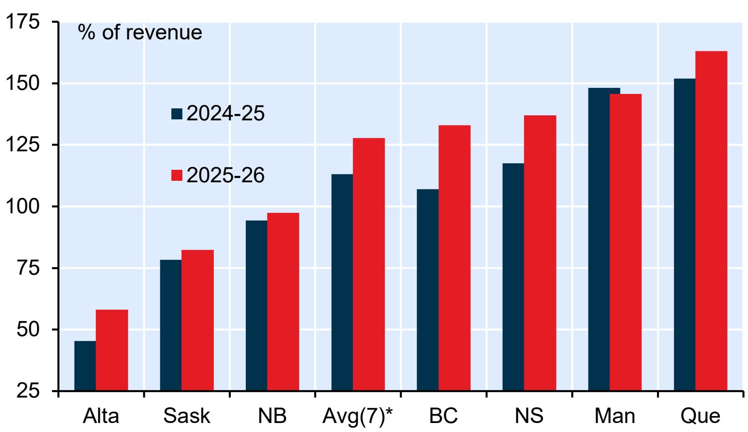


Source: NBC, prov govts | Note: Weighted average based on available 2025 budgets

On debt, adjustments to the outgoing 2024-25 fiscal year offer (in aggregate) a bit of good news. But from a lower-than-planned starting point in 2024-25, net debt is expected to grow somewhat rapidly in 2025-26 and beyond. The steeper net debt curve flagged this provincial budget season could see average provincial indebtedness (based on our seven-province sample) approaching record levels by 2027-28… or perhaps sooner should a more adverse tariff scenario play out (since budgets would be pressured and more extra net debt would likely be taken on quickly).

Chart 15: Relative leverage varies across provincial sector

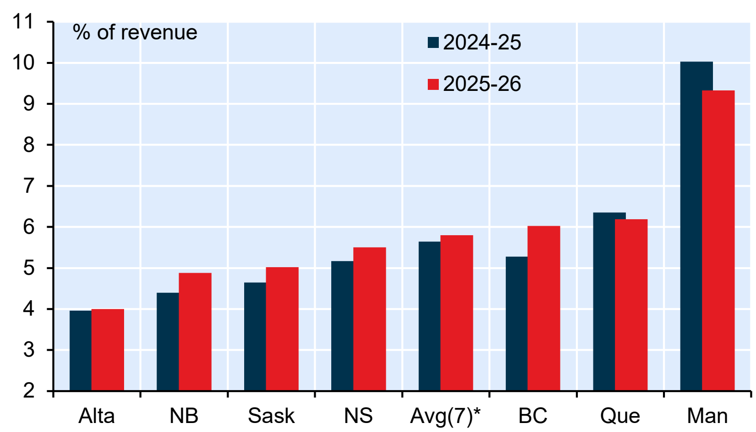
Provincial net debt-to-revenue ratio



Source: NBC, prov govts | Note: Avg(7) is weighted; based on available 2025 budgets

Chart 16: Interest bite aided by prudent debt management

Provincial debt service-to-revenue ratio

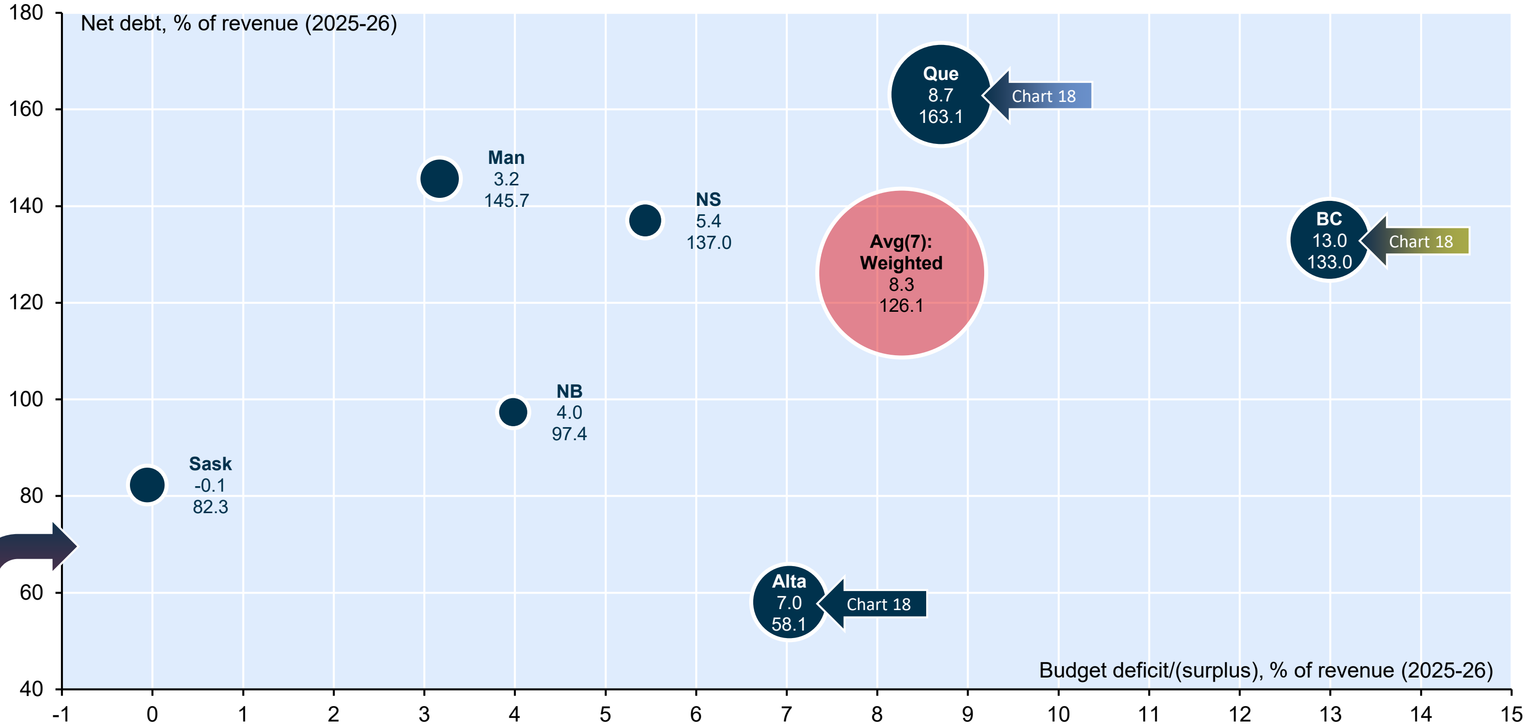


Source: NBC, prov govts | Note: Avg(7) is weighted; based on 7 available budgets

As reflected in credit ratings, balance sheet health varies across the provinces. Resource-rich Alberta and Saskatchewan—not-coincidentally boasting higher-than-average 'fiscal capacity'—reside at the lower end of net debt spectrum. Even where debt burdens are higher and/or rising more rapidly, prudent debt management—including the long-standing practice of locking in contracted borrowings for long(er) terms—can slow the increase in the 'interest bite'. So even as leverage mounts, debt should remain relatively affordable. Moreover, provinces have demonstrated access to debt capital markets, both at home and abroad. That will come in handy as gross provincial borrowing is set to run at a near-record pace. See our related provincial borrowing analysis **here**.

Chart 17: A seven-province snapshot for fiscal 2025-26 (with Ontario, Newfoundland and Labrador, and Prince Edward Island still to come)

Provincial budget deficit/(surplus) & net debt, scaled to total provincial revenue: 2025-26 (based on available 2025 budgets)



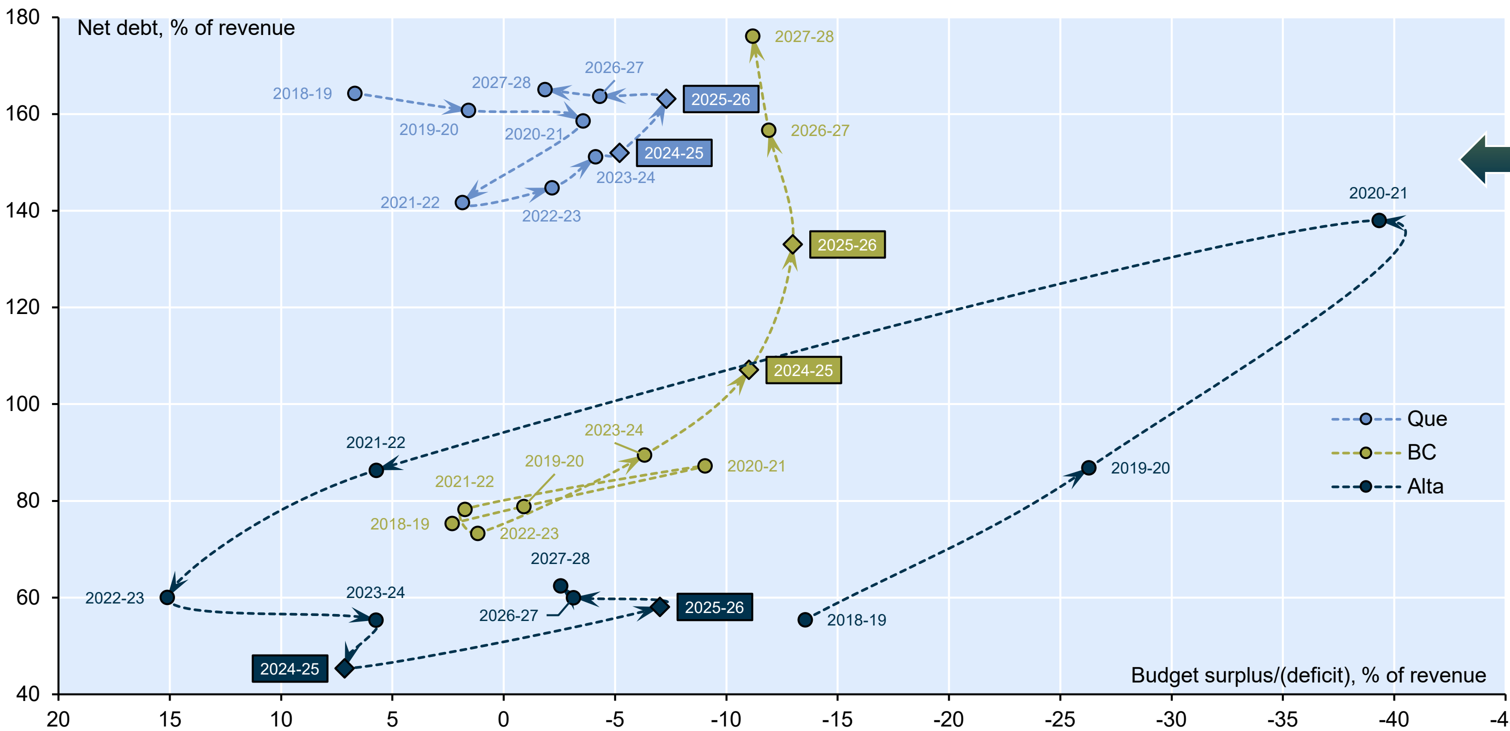
Source: NBC, prov govts | Note: 7-province average weighted by population; bubble size scaled to 2025:Q1 population count; Quebec budget balance is after GF deposit

Above: Though an incomplete picture, provincial budgets (7 of 10 released) stake out notably different area codes when it comes to relative budget balances and net debt burdens.

Below: Fiscal migration patterns are fundamentally different for three large provinces, both in terms of the starting point and the speed/scale of projected changes presented in 2025 budgets.

Chart 18: Fiscal migration patterns… distinct paths traveled in three large provinces (Quebec, British Columbia, Alberta)

Migration in provincial budget deficit/(surplus) & net debt: 2018-19 to 2027-28



Source: NBC, prov govts | Note: Lines/arcs denote actual/intended path traveled for given province for period covering 2018-19 to 2027-28; actuals to 2023-24; current/future fiscal year values represent baseline forecast from 2025 budgets; to better capture underlying pattern, Quebec budget balance refers to 'accounting balance' (i.e., operating balance on public accounting basis)

To be continued… Three chapters of the 2025 provincial budget season are yet to be written, with Ontario the most important story to tell. A pivotal federal budget is some ways off, as Canadians first need to choose a new government. Stay tuned for related coverage. Other related reports will explore rating and spread risks associated with the evolving fiscal outlook, leveraging our latest thinking on provincial borrowing needs and expected funding strategies. We will also extend our already detailed analysis of Canada's (outsized) reliance on non-resident bond investors.

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