



10/10 vision on provincial budgets (but volatility means picture still a bit blurry)

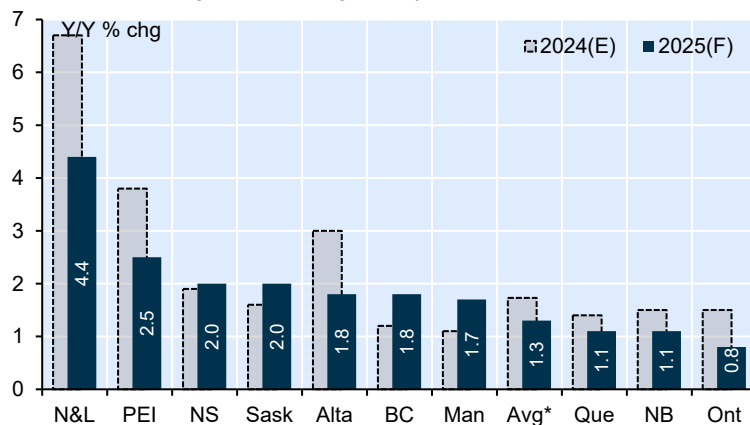
By Warren Lovely

With Ontario closing out the 2025 provincial budget season, we aim to highlight/summarize some key themes/takeaways. Economic growth is slow (or slowing), which isn't great news for own-source revenue. Meantime, plenty of new spending is being rushed in, much of it with a view to protecting/insulating against U.S. tariff-related fallout. The result is considerably more budgetary red ink, the combined provincial shortfall for 2025-26 essentially double the prior fiscal year and likewise double what provinces had previously thought possible. There's still plenty of uncertainty, so future fiscal updates will be vital to track.

Only Saskatchewan has planned for a surplus in 2025-26, with the weighted average provincial deficit equivalent to 7.5% of revenue or

Chart 1: Provinces plan for a slowdown in growth

Provincial real GDP growth: Planning assumptions from Bud25

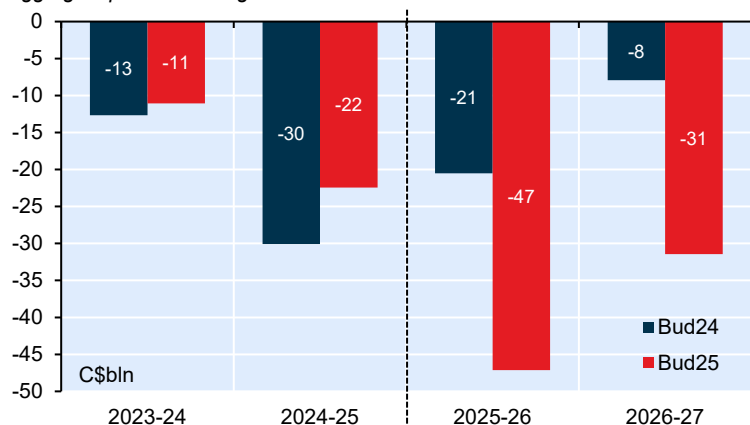


Source: NBC, prov govts | Note: Baseline planning assumptions from 2025 budgets; 'Avg' is 10-province weighted average

Trump tariffs have negatively impacted Canada, with confidence shaken. Most provinces expect real GDP growth to decelerate. Weighing out all 10 official forecasts, the implied pace for Canadian real GDP growth in 2025 is 1.3%, which might still be too optimistic. Slower growth impacts the revenue outlook, while spending commitments have been rushed in to support regional economies.

Chart 3: Provincial balance weakens (vs. prior year & prior plan)

Aggregate provincial budget balance: Bud25 vs. Bud24



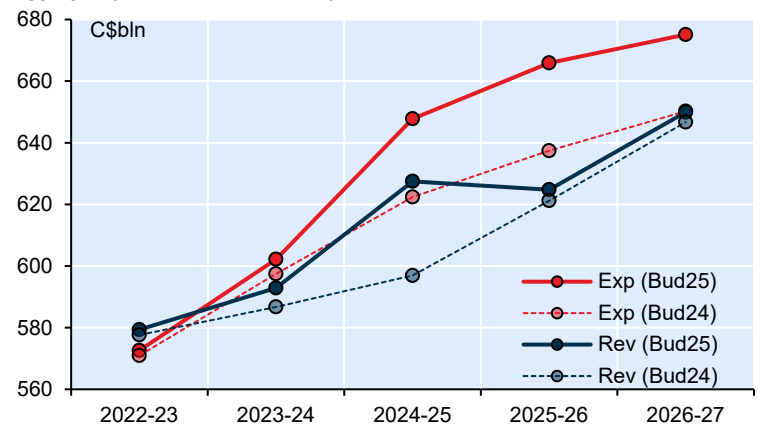
Source: NBC, prov govts | Note: Budget balances are actuals to 2023-24, latest estimates for 2024-25 & baseline projections for 2025-26 onwards

Baseline planning assumptions produce an aggregate provincial deficit of \$47 billion for 2025-26, equivalent to 1.5% of national GDP. There's some padding here, given extraordinary uncertainty. The combined shortfall is more than double the latest estimate for 2024-25 or the earlier thinking for the 2025-26 fiscal year (from last year's budgets). The extra red ink means provincial net debt is on a steeper curve, the weighted average net debt burden projected to rise to 31% of GDP in 2025-26 and higher still in future fiscal years. Debt remains relatively affordable mind you.

1.5% of GDP. Weighted averages mask material differences across individual provinces, fresh debt being taken on at different speeds (and from different starting points). The 'credit negative' nature of the budget season has not gone unnoticed, some provincial ratings under pressure (expressed via weaker outlooks if not outright downgrades). While this contributes to relative re-pricing, the overall fallout on provincial spreads has been relatively well contained to this point. Collectively, the provinces have flagged \$139 billion in gross bond supply for fiscal 2025-26. So don't be misled by April's relative lull, provincial supply is poised to pick up (quickly). There's plenty of domestic cash to issue into near term and foreign markets should remain a vital relief valve.

Chart 2: New spending commitments aim to protect economy

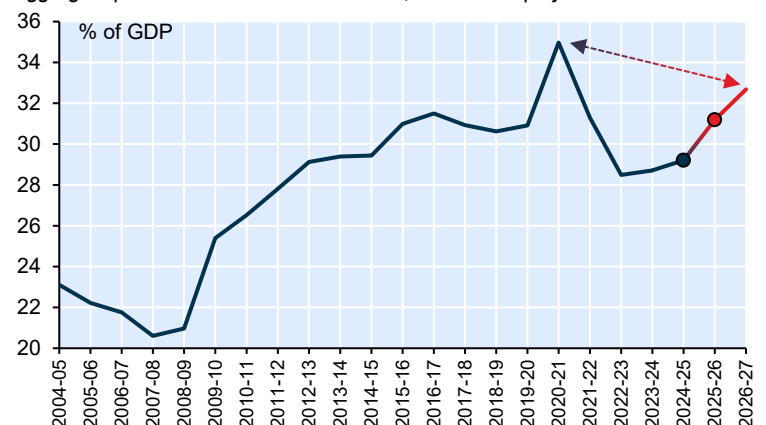
Aggregate provincial revenue & expenditure: Bud25 vs. Bud24



Source: NBC, prov govts | Note: Actuals to 2023-24, latest estimates for 2024-25 & baseline projections for 2025-26 onwards

Chart 4: Net debt accumulates at a faster rate

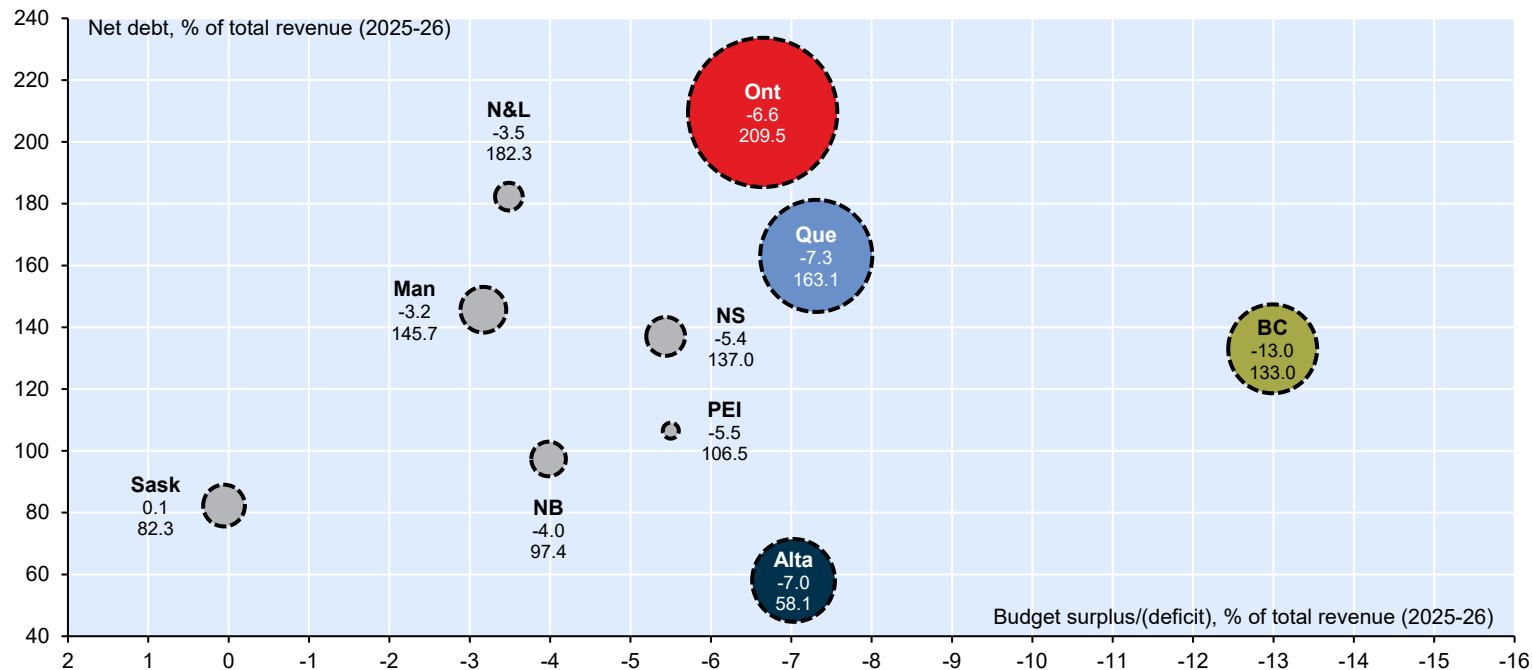
Aggregate provincial net debt-to-GDP ratio, incl. Bud25 projections



Source: NBC, prov govts | Note: Net debt based on actuals to 2023-24; latest estimates for 2024-25 & baseline projections for 2025-26 onwards; uses NBC GDP projections for Cda

Chart 5: Provincial fiscal snapshot (using baseline assumptions from 2025 budgets)

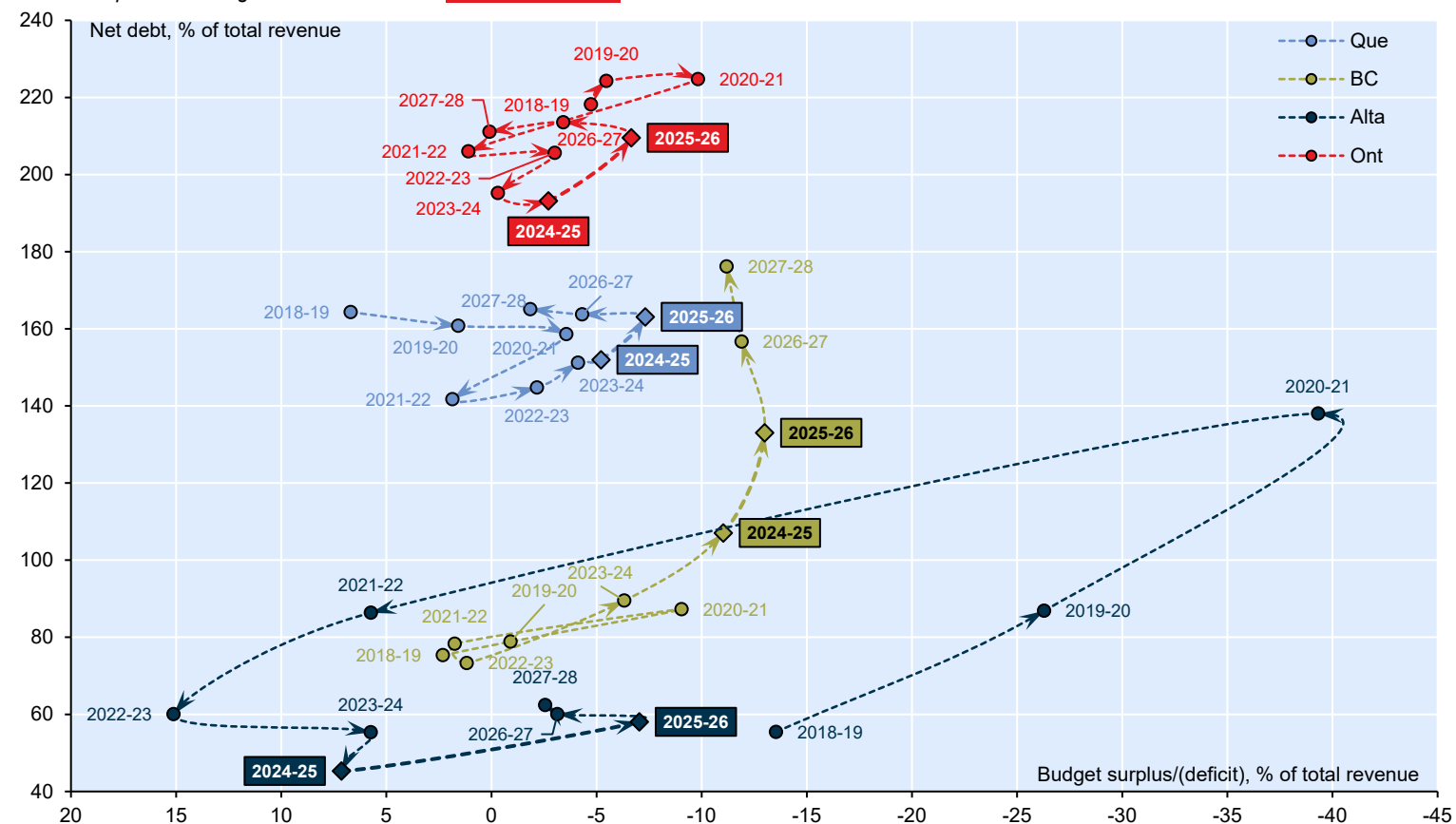
Provincial budget balance & net debt, scaled to total revenue: **2025-26**



Source: NBC, prov gov'ts, StatCan | Note: Baseline planning projections for 2025-26 fiscal year; Que is budget balance before GF deposit; first data label refers to relative budget surplus/(deficit); second data label refers to net debt burden; bubble size based on total population as at 2025:Q1

Chart 6: When it comes to fiscal migration, distinct paths are being traveled in the four largest provinces

Evolution in provincial budget balance & net debt: **2018-19 to 2027-28**

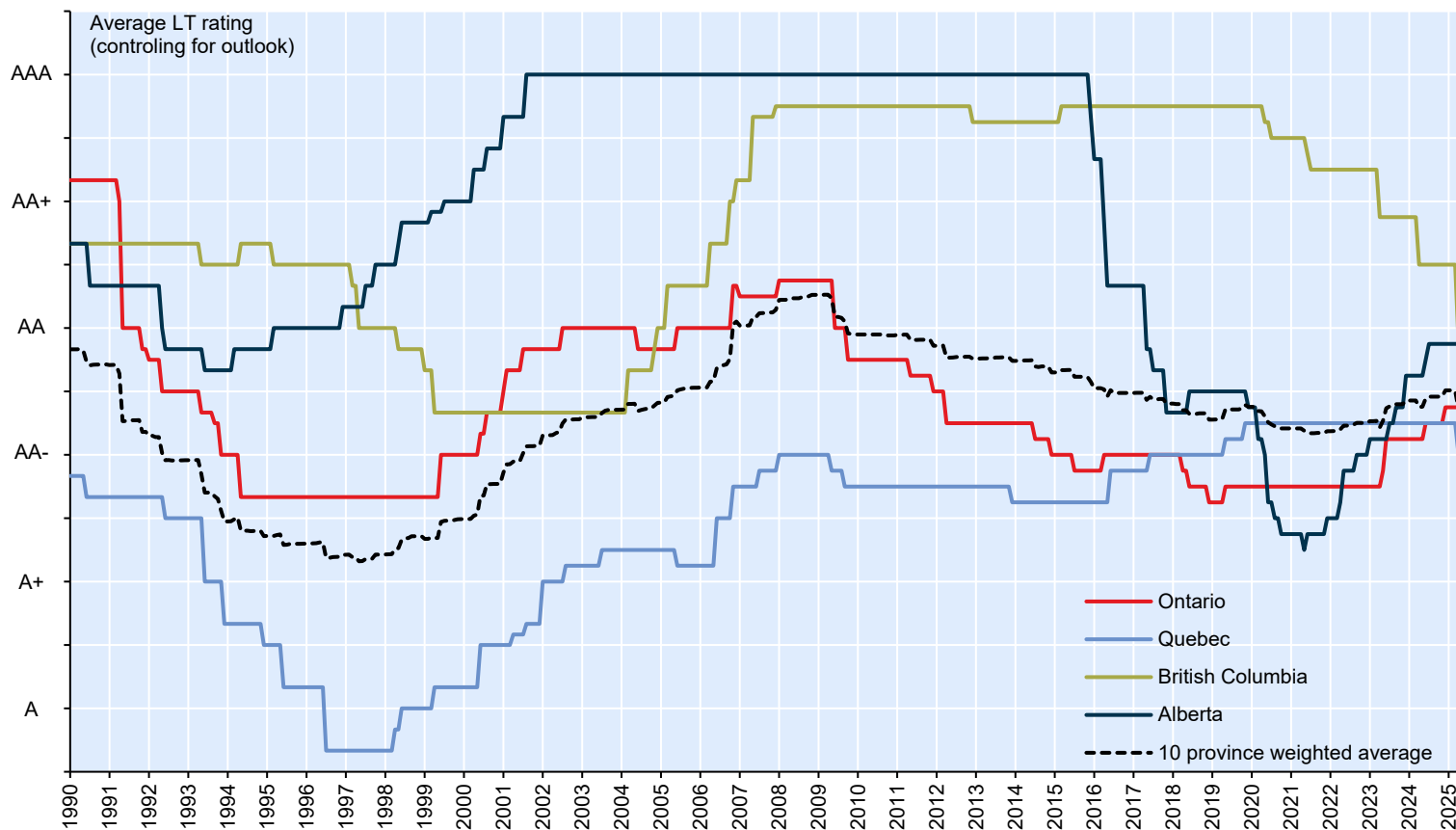


Source: NBC, prov gov'ts | Note: Lines/arcs denote actual/intended path traveled for given province for period covering 2018-19 to 2027-28; actuals to 2023-24; current/future fiscal year values represent baseline forecasts from 2025 budgets; to better capture underlying pattern, Quebec budget balance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

Only Saskatchewan has planned for a surplus in 2025-26. Baseline fiscal projections for the other nine provinces put the deficit between 3.2% to 13.0% of top-line provincial revenue. That's a wide spread with relative debt burdens likewise varied. Clearly, the four largest provinces are on distinct fiscal journeys, reflecting idiosyncratic risks and different priorities. There's no uniform approach for discounting tariff risks, which can muddy province-to-province comparisons. Once more, we'd emphasize the uncertain nature of key projections, alternative scenarios being informative.

Chart 7: 'Credit negative' provincial budget season does not go unnoticed at rating agencies

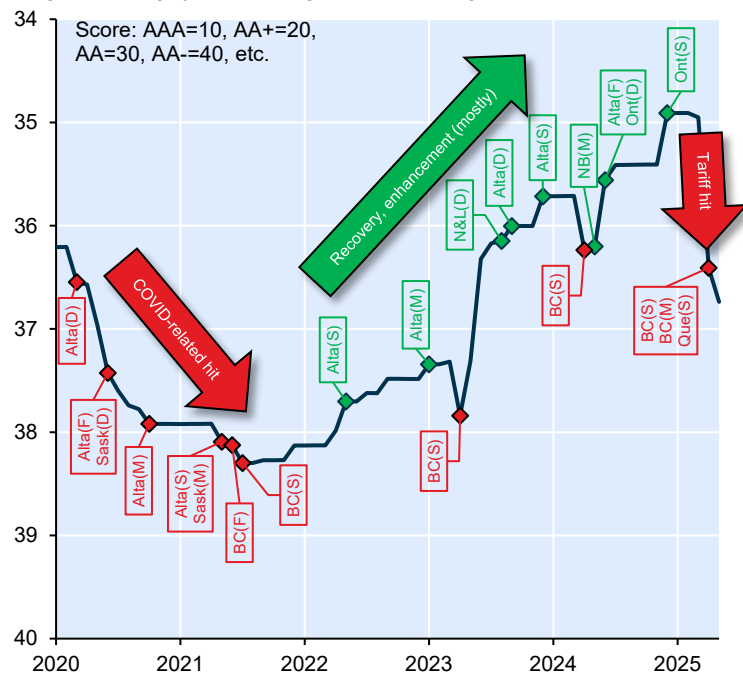
Provincial government average long-term credit rating



Source: NBC, S&P, Moody's, DBRS | Note: Provincial average is weighted by monthly working age population; average rating adjusts for positive/negative outlooks; monthly to May-25

Chart 8: Tracking provincial rating adjustments

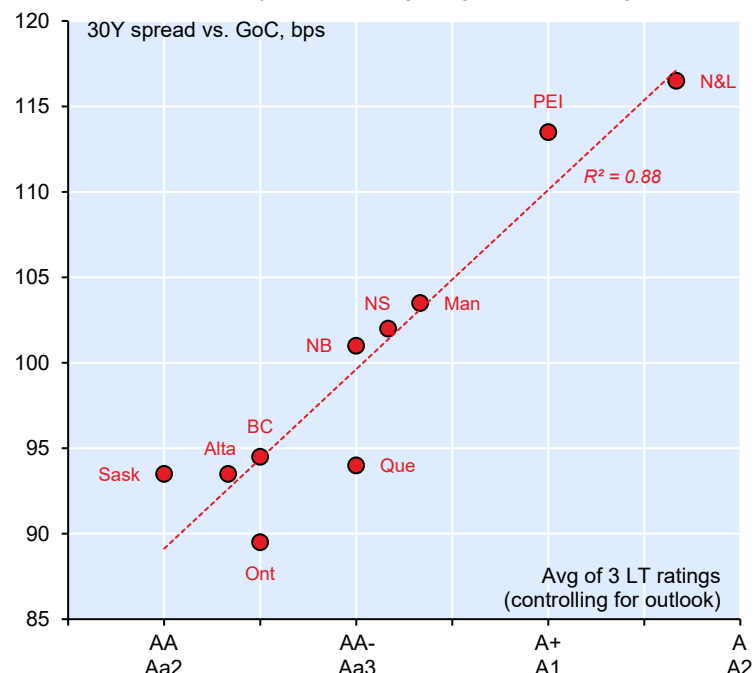
Weighted average provincial long-term credit rating score



Source: NBC, S&P, Moody's, DBRS, Fitch | Note: Linear transformation of ratings; bullets denote upgrade/downgrade to 15-May-25

Chart 9: Ratings help as valuation tool (but don't forget liquidity)

Provincial domestic credit spread vs. average long-term credit rating

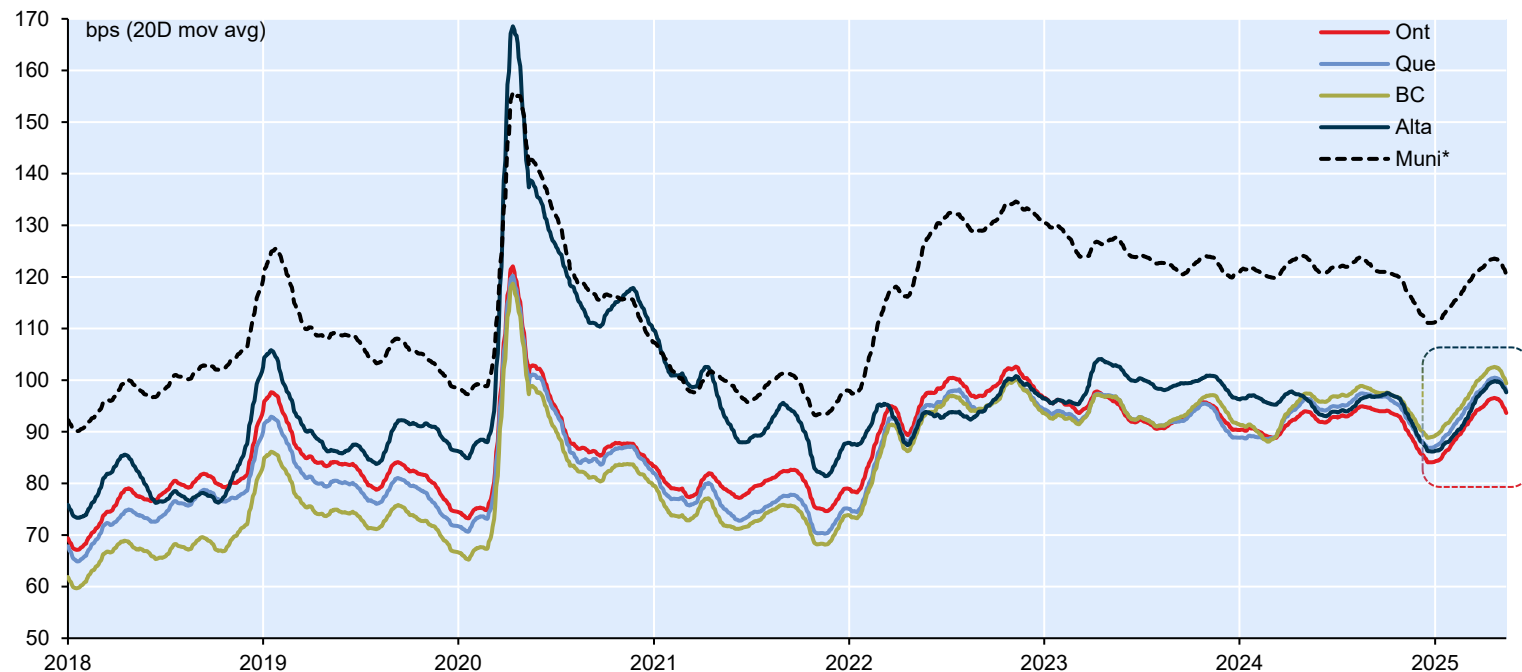


Source: NBC, S&P, Moody's, DBRS | Note: Average rating controls for negative/positive outlooks; 30Y domestic spread indications as at 16-May-25

From a credit rating perspective, larger shortfalls and extra debt lean 'credit negative'. For the sector as a whole, evident tariff-related fallout means the weighted average provincial credit rating is moving lower, as select downgrades and/or weaker outlooks reverse some of the net improvement earlier secured. In some cases, post-budget rating decisions are still outstanding, Ontario being the last province to present its 2025 budget on 15-May. Notwithstanding unprecedented convergence across the provinces, ratings remain a useful RV tool (in CAD and USD markets).

Chart 10: All things considered, provincial credit spread fallout relatively well contained

Select provincial government 30-year constant maturity domestic credit spread indications vs. GoC curve



Source: NBC | Note: Only largest provinces shown; NBC daily indications smoothed (i.e., averaged) over 20 days to emphasize trend/relationships; last data point is 15-May-25; Muni is representative AAA-rated Ontario municipal issuer

Provincial credit spreads continue to take their cue from broader risk sentiment, with key risk proxies having roundly cheered the de-escalation on U.S. tariff policy. Provincial bond investors should have ample opportunity to express a view (on the sector and individual credits) near-term. Budgets jointly telegraph \$139 billion in gross supply for fiscal 2025-26, which in most cases does not include any potential pre-funding. With April having been quieter-than-normal (owing to intense geopolitical uncertainty and Ontario's election), it's likely that activity will pick up from here, the precise nature of supply (term, currency, format) calibrated to underlying market conditions and investor demand. International markets remain an important relief valve when funding needs are elevated.

Table: Putting gross provincial borrowing needs in perspective

NBC provincial borrowing program update: 2025-26 fiscal year (as at 16-May-25)

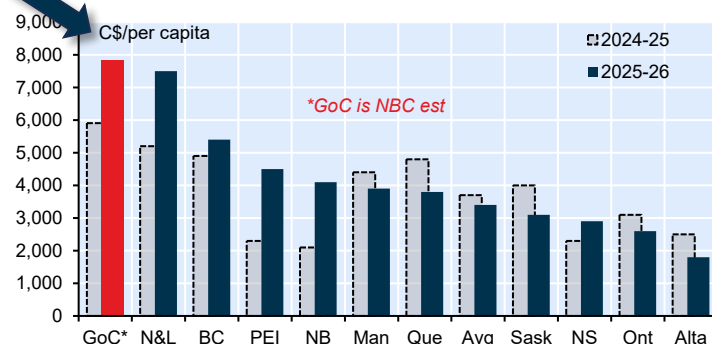
Province / Agency	Ticker	Completed C\$bln 2024-25	Required ^a C\$bln 2025-26	Required ^a ~C\$/per capita ^b 2025-26	Completed ^c C\$bln 2025-26	Domestic % 2025-26	Foreign % 2025-26	Remaining C\$bln 2025-26	Funded Status % 2025-26
British Columbia ^d	BRCOL	27.56	31.07	5,400	2.25	100%	0%	28.82	7%
Alberta	ALTA	11.95	9.13	1,800	2.07	0%	100%	7.06	23%
Saskatchewan	SCDA	4.88	3.92	3,100	0.74	54%	46%	3.18	19%
Manitoba ^e	MP	6.46	5.93	3,900	0.50	100%	0%	5.43	8%
Ontario ^f	ONT	49.50	42.80	2,600	5.00	100%	0%	37.80	12%
Québec ^g	Q	36.70	29.66	3,800	9.18	49%	51%	20.48	31%
Hydro-Québec ^h	QHEL	6.10	5.00		3.50	100%	0%	1.50	70%
New Brunswick ⁱ	NBRNS	1.78	3.49	4,100	0.50	100%	0%	2.99	14%
Nova Scotia	NS	2.50	3.17	2,900	0.50	100%	0%	2.67	16%
Prince Edward Island	PRINCE	0.40	0.80	4,500	0.00	--	--	0.80	0%
Newfoundland & Labrador ^j	NF	2.80	4.10	7,500	0.90	100%	0%	3.20	22%
TOTAL		150.6	139.1	3,400	25.1	72%	28%	113.9	18%

% FY elapsed: 13%

Source: NBC, prov govts, BBG, StatCan

Notes:

- Long-term gross funding requirement based on latest available official estimates; includes capital needs, loans/advances, other cash adjustments & refinancings; requirements generally exclude pre-funding for future years (with some exceptions)
- Per capita requirement is rounded & based on 2025:Q1 population estimates from StatCan
- Funds borrowed to date, based on known issuance
- Budget requirement refers to gross borrowing from all sources
- Budget requirement includes \$1.9bln in pre-funding (equivalent to roughly six months of needs)
- Includes requirement for certain hydro-related financing under province's banner
- Includes requirement for Financement-Québec
- Funds in own name with explicit provincial guarantee;
- fiscal year is January - December
- Includes requirements for NB Power & NB Municipal Finance Corp.
- Includes requirement for N&L Hydro





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