Market View
Economics and Strategy

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53,366,000,000 reasons to like provincial credit right now

By Warren Lovely

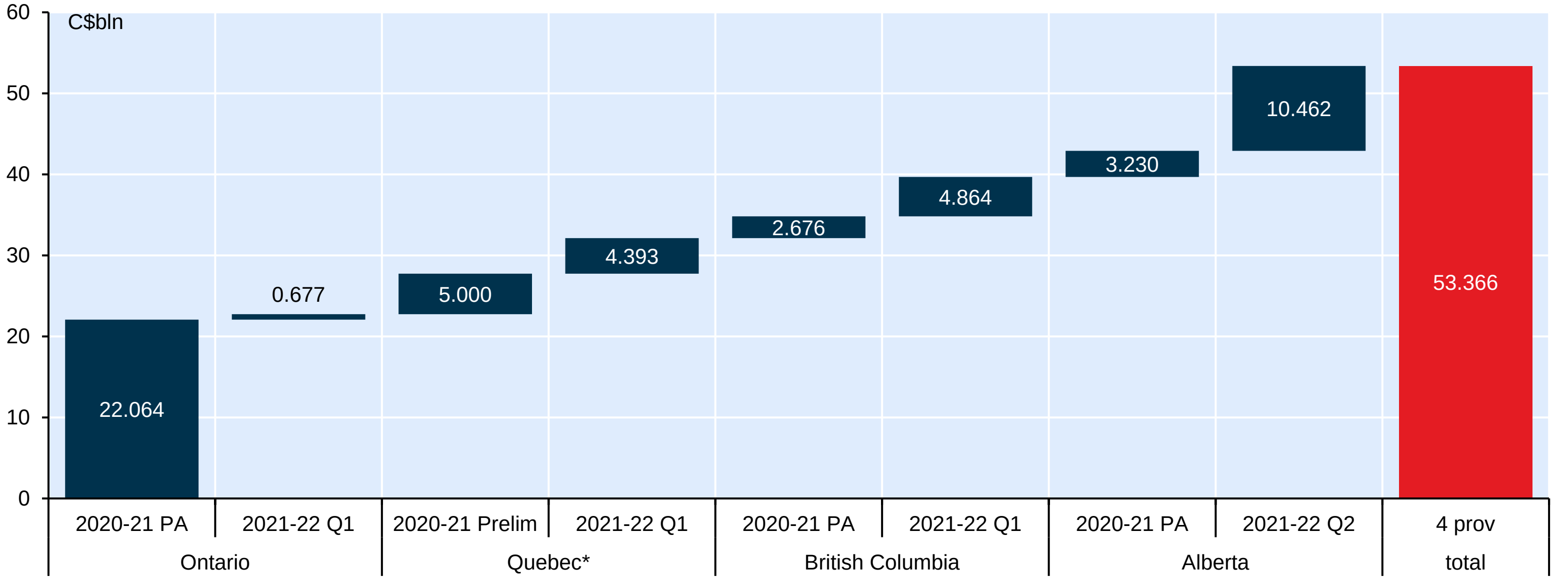
With just a handful of financial releases, Canada's four largest provinces have collectively erased 53.4 billion dollars in budgetary red ink, either from 2020-21 (last fiscal year) or 2021-22 (the current fiscal year). In describing the magnitude of the improvement in provincial finances vs. budget estimates/forecasts presented earlier this year, 'unprecedented' doesn't quite cut it; the sums involved are legitimately staggering.

The following chart illustrates the nature of the fiscal improvement that's so far transpired in Ontario, Quebec, British Columbia and Alberta. Official public accounts, or in Quebec's case preliminary estimates, have collectively wiped C$33 billion from the combined shortfall for 2020-21. In other words, 40% of the aggregate deficit these four had estimated a handful of months ago has since evaporated, as revenue proved considerably stronger than expected and certain outlays failed to materialize.

There are lot of moving parts to a provincial budget balance as one might expect, but the vastly improved fiscal picture for 2020-21 is at least party carrying over to the current 2021-22 fiscal year. At this point, the four largest provinces have lopped C$20 billion from their combined deficit for 2021-22, Alberta currently making the single largest contribution to that upgrade as revenue exploded higher vs. budget plans.

Chart: Monumental fiscal revisions, all to the upside, in Canada's four largest provinces… with more to come this fall

Announced changes to 2020-21 & 2021-22 budget balances: Four largest provinces | Positive numbers indicate smaller deficits vs. prior guidance



Source: NBF, Ontario, Quebec, British Columbia, Alberta | Note: For Quebec, 2020-21 improvement is based on June estimate, while 2021-22 Q1 improvement reflects April-June change in budget balance vs. the prior fiscal year (with full-year guidance as yet unavailable); C$53.4 billion combined figure is two-year total

Importantly, the fiscal upgrades aren't over. Indeed, Ontario's *Q1 Finances*—which arrived prior to last week's stunning provincial public accounts—had made only modest preliminary tweaks to revenue and spending. With such an immensely positive base effect having been subsequently confirmed, Ontario's *Fall Economic Statement* (due no later than November 15th) can be expected to mark the 2021-22 deficit down to size. Quebec can likewise be expected to communicate a serious improvement in its full-year 2021-22 deficit, as results for the first three months of the fiscal year revealed that Quebec ran a near-balanced position from April to June.

Notwithstanding marginal good news in fall updates, the fiscal revisions already confirmed are major game changers in terms of provincial borrowing needs. With budget deficits materially smaller than what had been officially assumed, it follows that provincial cash balances are miles above plan. For context, the C$53.4 billion of reduced budgetary red ink vs. most recent budget estimates compares to the C$125 billion in gross long-term borrowing that these four provinces had originally intended for 2021-22. Alberta and British Columbia have already knocked down their official long-term requirements owing to the better budget picture. Ontario and Quebec will be next to usher in *considerably* lower long-term borrowing requirements this fall. Expected revisions to their funding programs will likely dwarf anything we've seen before and would, arithmetically, vault borrowing status ahead in no small way.

While we've trained our focus on the four largest provinces here, we'd note that other provinces are releasing public accounts and/or fiscal updates. As but one example, Nova Scotia's recent 2020-21 public accounts succeeded in slashing last fiscal year's deficit by more than half, from an estimated C$706 million to an actual C$342 million. Impressive stuff in its own right. Finally, don't lose sight of the fresh pledges made during the recent federal election campaign, which could result in incremental federal support (including for health care) starting this fall.

We're not saying that provincial bonds are going extinct. Hardly. Nor has economic or fiscal uncertainty entirely faded from view. But what we're witnessing is an overwhelmingly rapid and truly historic fiscal improvement for Canada's provincial government sector, not just in terms of budgetary accounting but where it matters most: net borrowing requirements.

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