

Of fiscal imbalances, vertical and horizontal

By Warren Lovely

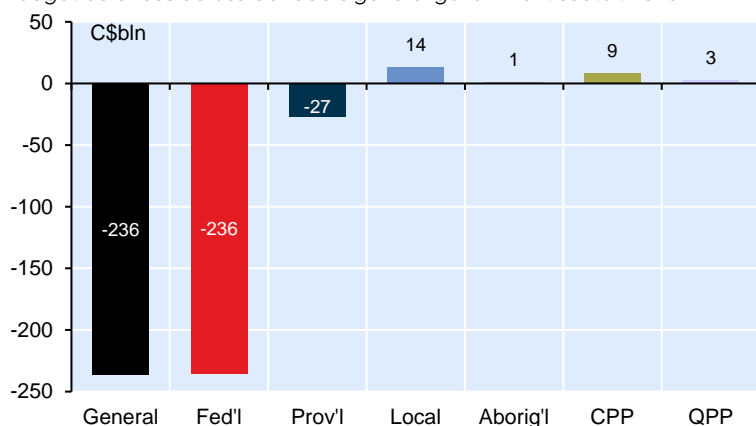
For those interested in the finer details of Canada’s fiscal federalism, spare a moment for today’s provincial economic accounts. This annual release provides regional context around a major 2020 storyline: the unprecedented and federally led effort to shore up the economy via the provision of extraordinary fiscal stimulus. The feds accounted for virtually every penny of the C\$236 billion general government deficit Canada ran last year (Chart 1). Looked at another way, you can trace 95% of Canada’s general government net borrowing back to Ottawa in 2020 (Chart 2). End investors weren’t exactly required to swallow all that federal debt, as the lion’s share was absorbed via BoC QE, but we digress.

Economic weakness and the resulting flurry of fiscal supports meant the feds ran a deficit in every single province in 2020. Keying on the fiscal delta, Ottawa’s per capita budget balance eroded by C\$5,000 to C\$7,000 depending where you live (Chart 3). In sheer dollars, the feds ran deficits of C\$70 billion in each of Ontario and Quebec. The federal shortfall was roughly C\$20 billion in British Columbia and amounted to less than C\$15 billion in Alberta (Chart 4). Notwithstanding last year’s deficit, the feds have still run a larger cumulative surplus in Alberta than any other province since 2007, in absolute and relative terms. That has rankled some out West.

For further perspective, Chart 5 scales Ottawa’s 2020 budget balance in each province to population and local federal revenue. Here again, you will see a relatively skinnier (less generous?) deficit in Alberta, the largest relative shortfalls having been run in the Maritimes. There’s no real secret to what’s going on here. Despite taking more than a few lumps since 2015, Alberta remains a relatively ‘rich’ province vs. its peers. Based on today’s fresh provincial GDP data, Alberta’s per capita output (in current dollars) was ~C\$67,000 in 2020. Yes, that’s off sharply vs. the prior peak but was still ~15% above the national average (Chart 6). At least temporarily, COVID leveled out (to a degree) this proxy for regional fiscal capacity. Nonetheless, no province is expected to record faster nominal output growth in 2021 than Alberta, as elevated commodity prices have sparked a striking economic and fiscal recovery in this higher beta province. The feds have long derived a larger share of their revenue from ‘richer’ regions (Chart 7), a situation that’s unlikely to change in the near-term... at least during the next minority parliament. Finally, it’s worth noting that provinces do not tax equally. As per today’s provincial economic accounts, Alberta possessed the lowest general government revenue-to-GDP ratio of all the provinces in 2020, partly due to the absence of a provincial consumption tax (Chart 8). That implies a greater degree of revenue flexibility if the provincial government opted/needed to use it.

Chart 1: Ottawa picked up the fiscal slack in 2020

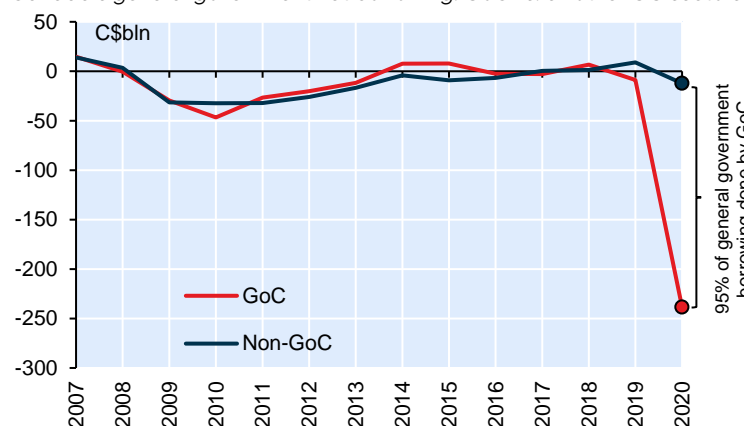
Budget balances across Canada’s general government sector: 2020



Source: NBF, StatCan | Note: National accounts basis, calendar year

Chart 2: Feds accounted for 95% of net borrowing last year

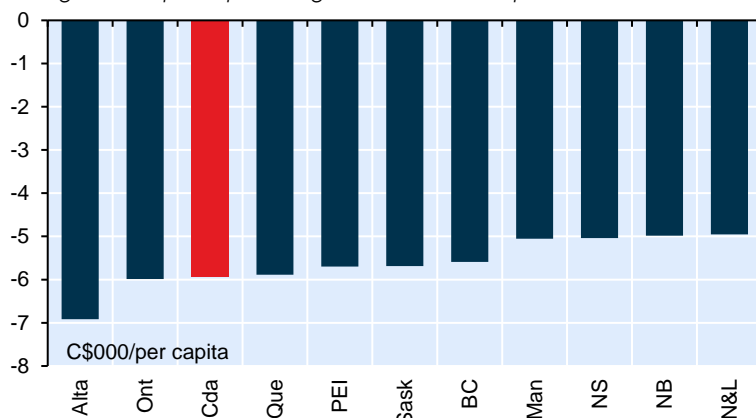
Canada’s general government net borrowing: GoC vs. all other GG sectors



Source: NBF, StatCan | Note: Net borrowing, as opposed to budget balance

Chart 3: Ottawa steered big-time support to every region

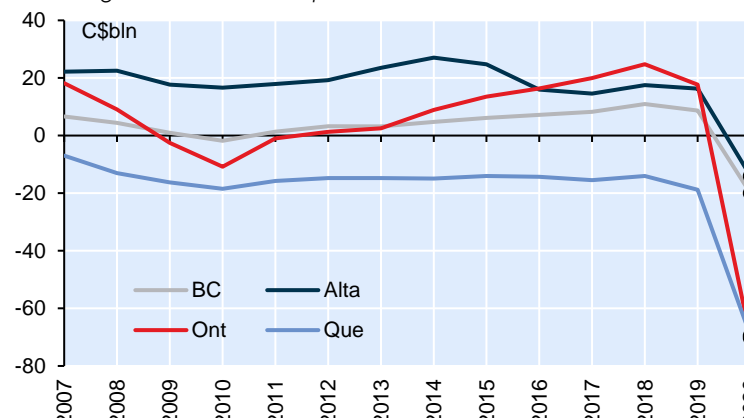
Change in GoC per capita budget balance in each province: 2019 to 2020



Source: NBF, StatCan | Note: Year-over-year change

Chart 4: Smaller GoC deficit in Alta (& \$240bln surplus since '07)

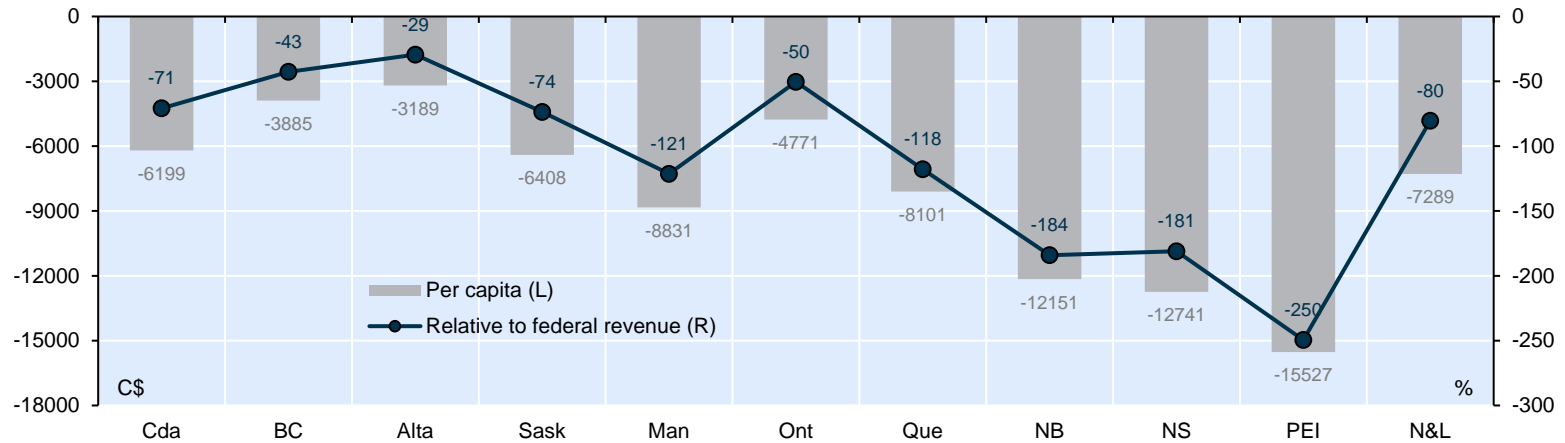
GoC budget balance in select provinces over time



Source: NBF, StatCan | Note: 4 largest provinces currently comprising 87% of population

Chart 5: Scaling GoC budget balance in each province to underlying population & federal revenue

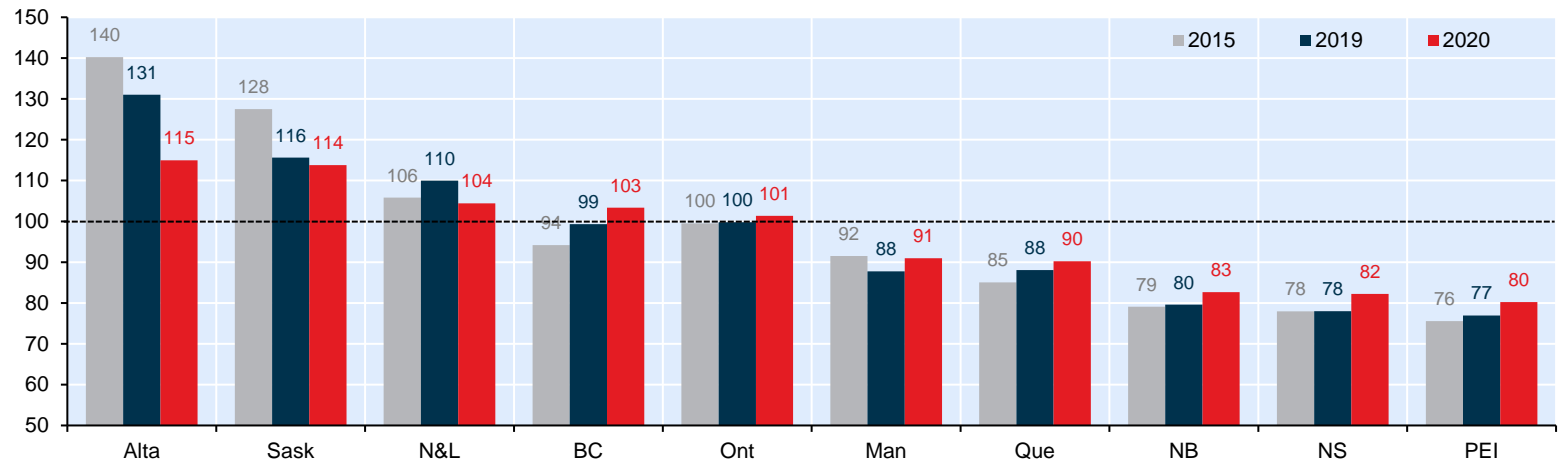
GoC budget balance in each province on per capita basis & relative to total federal revenue raised in each province: 2020



Source: NBF, StatCan | Note: Federal budget balance in each province scaled to annual population estimate & also relative to total federal revenue raised in each province

Chart 6: Alberta's nominal GDP per capita notably recast since 2015, but still above national average (& surging in 2021)

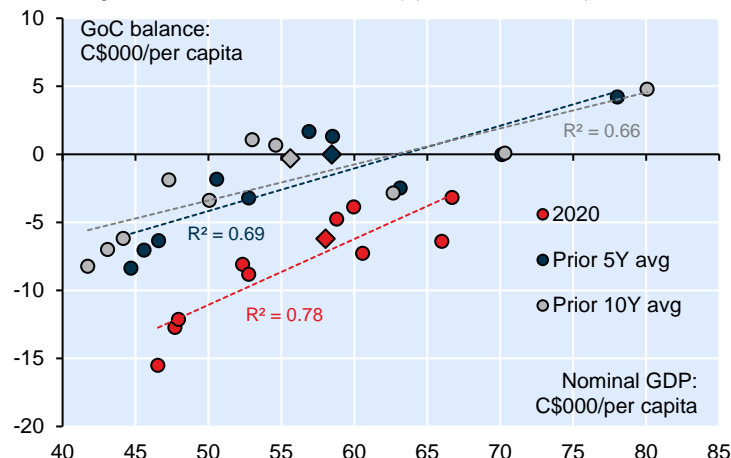
Index of nominal GDP per capita by province (Canada=100): 2015 to 2020



Source: NBF, StatCan | Note: Nominal GDP scaled to annual population estimates & compared to national average; sorted highest to lowest based on 2020 levels

Chart 7: 'Richer' provinces get less help from feds

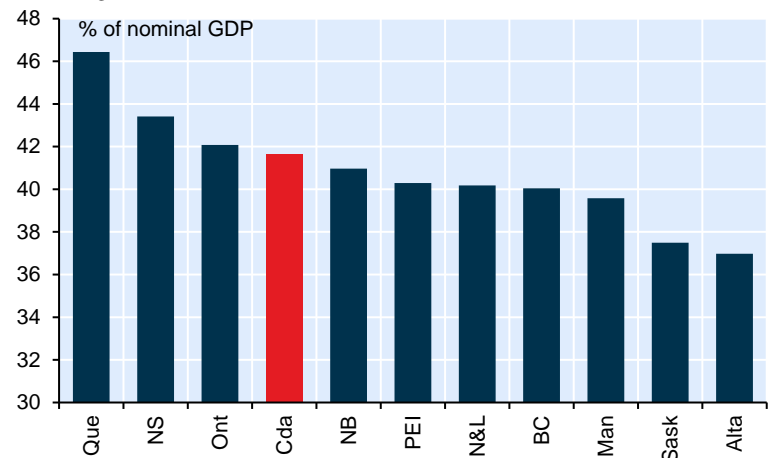
GoC budget balances & nominal GDP by province: 2020 & prior trends



Source: NBF, StatCan | Note: For each time period/set of dots, the diamond bullet refers to weighted national average

Chart 8: Alberta has opted for lighter tax touch, all else equal

General government revenue-to-GDP ratio: 2020



Source: NBF, StatCan | Note: General government includes all levels of government plus social security



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