

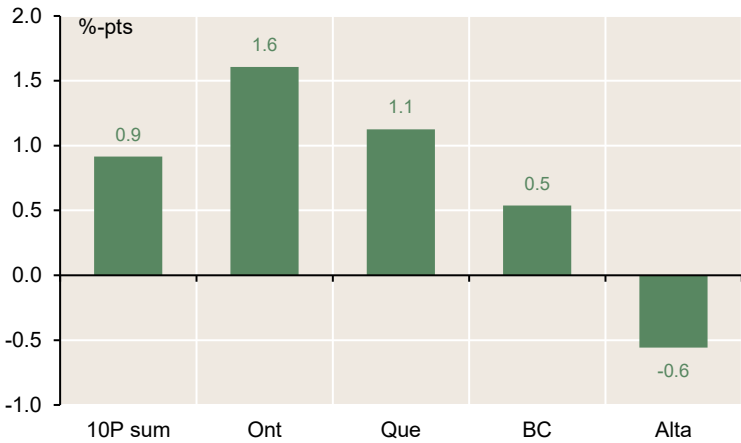
Half-time adjustments in the provincial locker room

By Warren Lovely

In sports, as in public administration, sometimes a well-developed strategy doesn't exactly go to plan. The opposition can be tougher-than-expected; important players can underperform and/or suffer injury; equipment can fail; conditions can shift, the field of play deteriorating. Sometimes, believe it or not, the rules of the game might even change unexpectedly. Whatever the reason, it's often necessary to make half-time adjustments. That's what good coaches/leaders do, right?

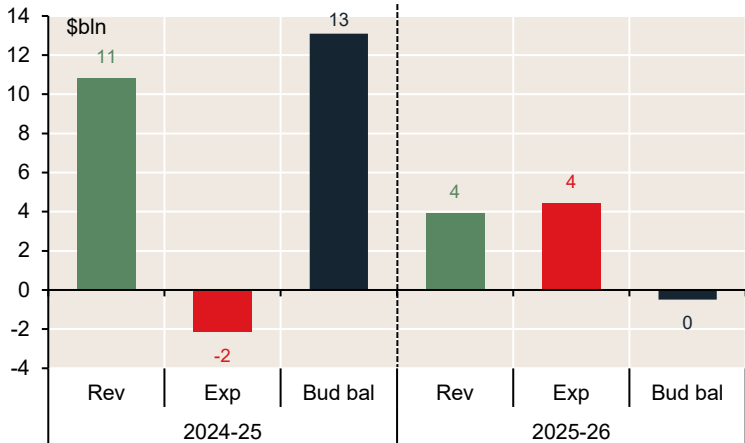
Well, with many (though not quite all) mid-year fiscal updates having been presented, we examine the half-time adjustments being adopted across the provincial government sector. For added context, we compare individual and collective half-time scores with what the feds are putting up. Hint: The federal vs. provincial contest isn't all that close at present, provinces enjoying an edge on everything from current budget balance, medium-term deficit track, debt evolution and borrowing needs.

Chart 1: Economic base (mostly) stronger than estimated...
Change in 2024 provincial nominal GDP: Actual level vs. Bud25 estimate



Source: NBC, StatCan, prov gov'ts | Note: StatCan actuals vs. gov't estimate

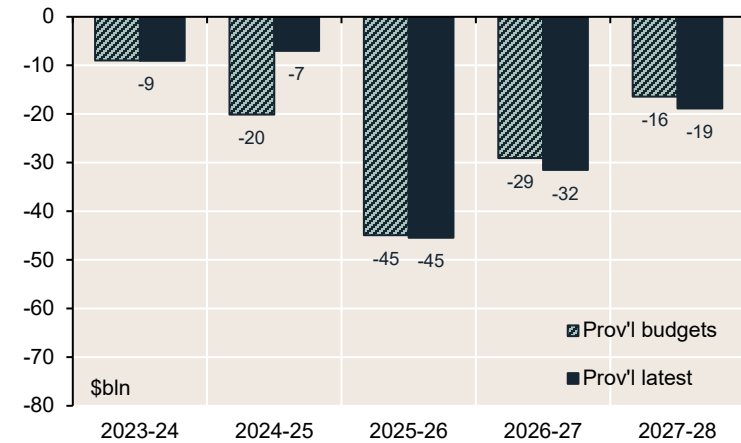
Chart 2: ... consistent with positive budget news for prior FY
Change in provincial revenue, expense & budget balance: Actual/latest vs. Bud25



Source: NBC, prov gov'ts | Note: Sums all provinces

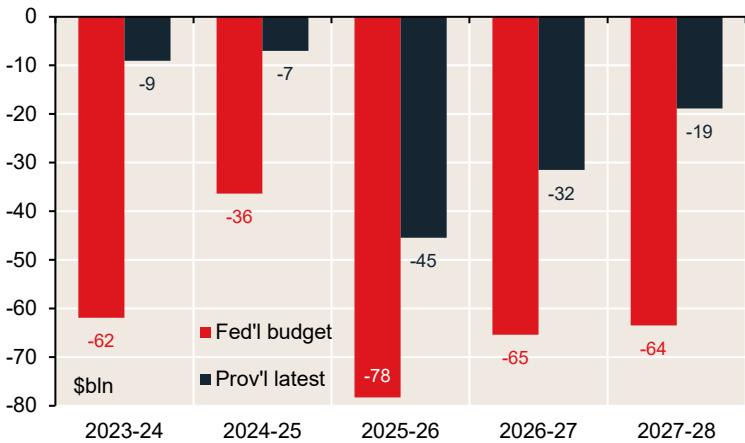
Even before recent revisions to Canadian quarterly GDP, we knew the underlying economic base had firmed across much of the country. After all, provincial economic accounts for 2024 had confirmed more nominal GDP than many had assumed in budget. This firm(er) economic picture jibed with significant and broad-based improvements to 2024-25 budget balances. In all, provincial public accounts slashed \$13bln from the sector-wide shortfall for 2024-25 (using actuals vs. earlier-year estimates). Overall, the 2025-26 balance looks to be hanging in there vs. plan...

Chart 3: Provincial sector remains in deficit but...
Aggregate provincial budget balance: Actual/latest vs. Bud25



Source: NBC, prov gov'ts | Note: Sums all provinces

Chart 4: ... shortfall & path forward looks better than for feds
Federal & provincial budget balances: Actual/latest

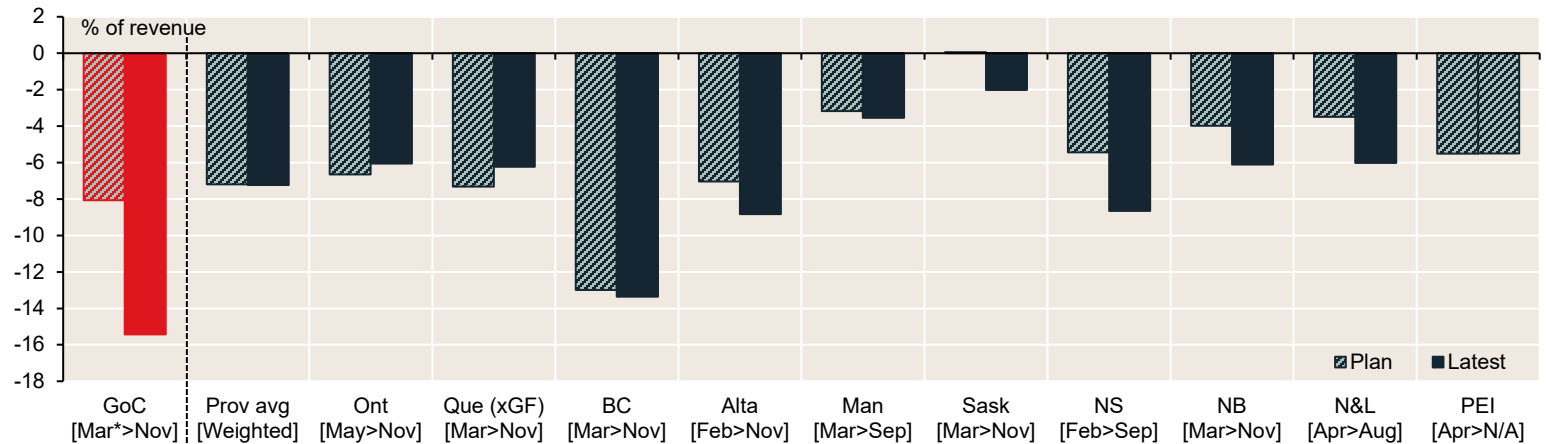


Source: NBC, fed-prov gov'ts | Note: Sums all provinces vs. GoC

As for 2025-26... The aggregate provincial budget deficit, now pegged at \$45bln or 1.5% of GDP (weighted average), is hardly inconsequential. And all ten provinces anticipate being in the red this fiscal year. Still, the combined provincial deficit is materially leaner than the federal government's current budgetary shortfall. Setting aside Ottawa's new operating vs. capital accounting gymnastics, the federal budget deficit just appears stickier and/or more intractable than what the provinces have collectively aimed for. Ontario, for one, remains committed to erasing its deficit by 2027-28. It means the largest province in the land aims to lead the way on budgetary repair/deficit reduction—a message that resonates reasonably well with bond investors.

**Chart 5: A closer look at the deficits projected for 2025-26 (current vs. plan... provis vs. feds... one provi to another)**

Federal & provincial budget balances for 2025-26 (scaled to revenue): Latest official projection vs. early year plan/baseline

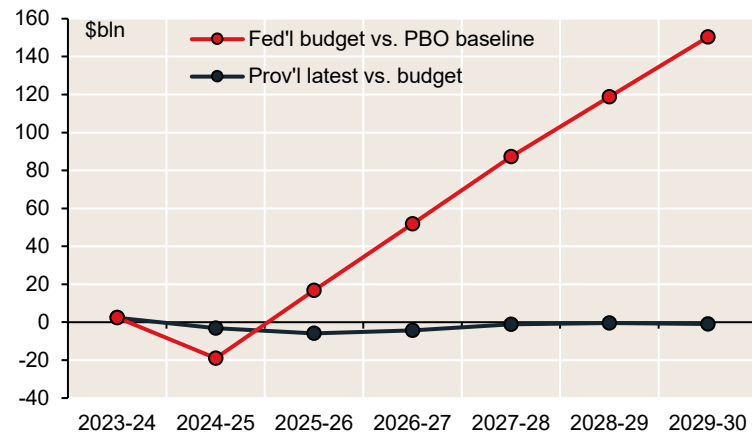


Source: NBC, fed-prov gov'ts | Note: For prov, latest estimate compared to 2025 budget; for fed, compares Nov-25 budget to PBO's Mar-25 baseline; [:] refers to date of budget/update

Examining 2025-26 budget balances, you'll see: (i) less pronounced restatement at the provincial level than for the feds; (ii) mixed results for individual provinces (some making positive tweaks, others acknowledging slippage); (iii) divergence in budgetary health across provinces. Overall, credit the provinces for providing timely fiscal updates despite extreme geopolitical uncertainty.

Chart 6: Provinces stick to planned debt track (feds not so much)

Cumulative change in federal-provincial debt level: Latest vs. prior plan/baseline

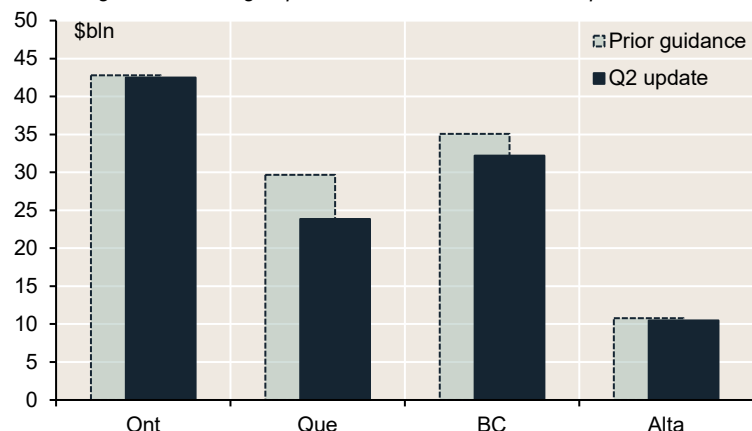


Source: NBC, fed-prov gov'ts | Note: Fed based on accumulated deficit; prov based on net debt

As we've explored previously, Ottawa's debt is likely to accumulate rapidly from here. That's part of an investment-heavy strategy that will hopefully pay dividends. Provincial indebtedness is generally on the rise too, but official updates put the combined level of net debt no higher (actually a bit lower) than was planned for in 2025 budgets. Again, a positive hand-off from 2024-25 has helped.

Chart 8: Some relief on provincial borrowing needs

Gross long-term borrowing requirement for 2025-26: Latest vs. prior estimate

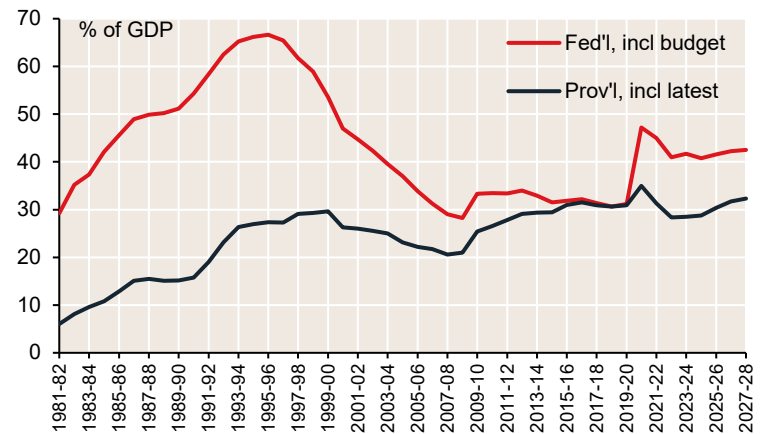


Source: NBC, prov gov'ts | Note: BC is Q2 vs. Q1; others are Q2 vs. budget

There was additional relief for provincial bond holders, as borrowing needs were in many cases marked down. Meanwhile, most provincial funding programs appear nicely advanced. Quebec has commenced pre-funding towards 2026-27 and Ontario is nearly there. Above-average utilization of international markets has shielded the domestic market from marginal bond supply. As a diversionary funding tactic, more international supply lends a degree of technical support to CAD spreads—which in some cases are at or near the tightest levels observed in the post-GFC era.

Chart 7: New normal = relatively greater federal leverage

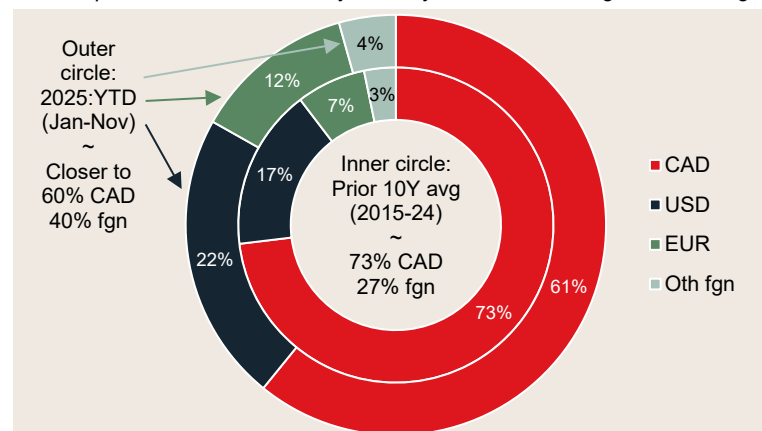
Federal-provincial net debt-to-GDP ratio



Source: NBC, fed-prov gov'ts | Note: Actuals to 2024-25; latest projections thereafter

Chart 9: International markets absorb good share of supply

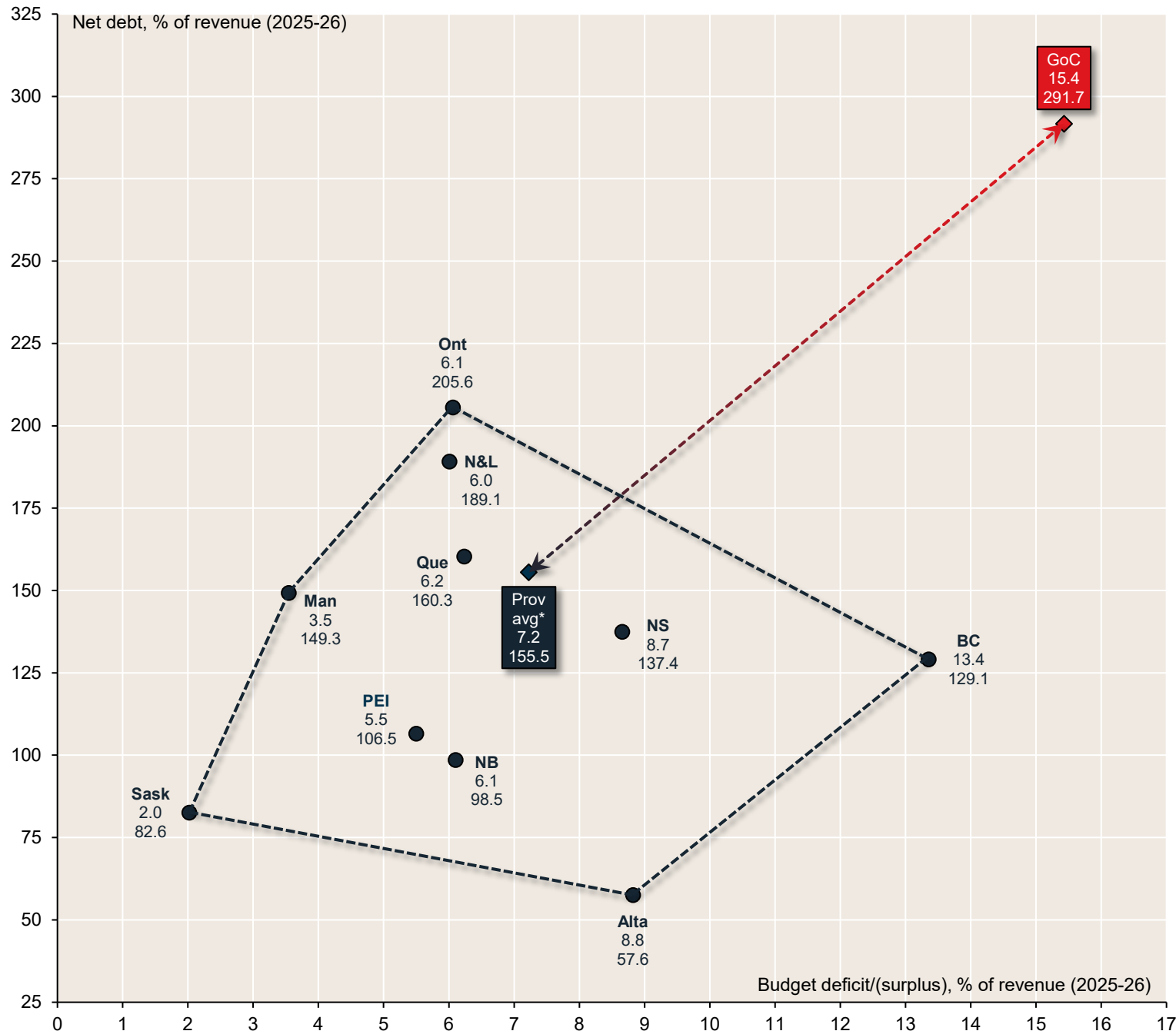
Share of provincial bond issuance by currency: 2025:YTD vs. longer-term average



Source: NBC, BBG | Note: 2025 is based on calendar year-to-date through Nov

Chart 10: Scattered? Somewhat! Non-trivial divergence in federal-provincial income statements and balance sheets

Federal-provincial budget deficits (horizontal axis) vs. federal-provincial net debt burden (vertical axis): Latest official estimates for 2025-26 | Scaled to total revenue



Source: NBC, fed-prov gov'ts | Note: Based on latest official guidance for 2025-26 fiscal year; scales budget deficit & net financial liabilities to total revenue; Quebec balance is accounting deficit; GoC net debt differs from government's preferred debt measure, which relates to the narrower 'accumulated deficit' accounting concept



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