Canadian Provinces

Credit Update And Fiscal Outlook

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S&P Global
Ratings

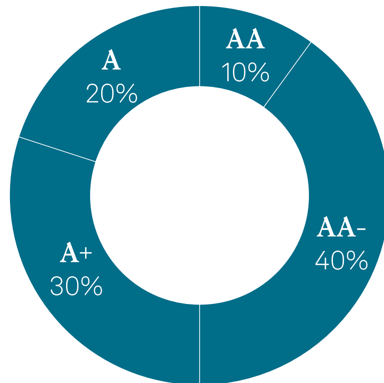
This report does not constitute a rating action

Rating Trends: Canadian Provinces

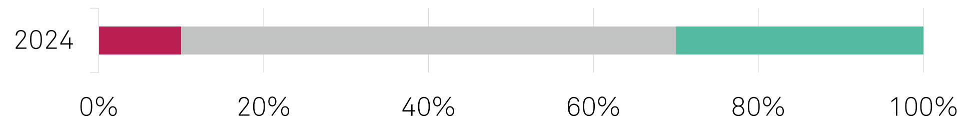
Credit ratings will remain less stable in 2024 as performance diverges

Rating and outlook distribution

2024 Year-To-Date



Negative Stable Positive



Ratings and key assessment factors

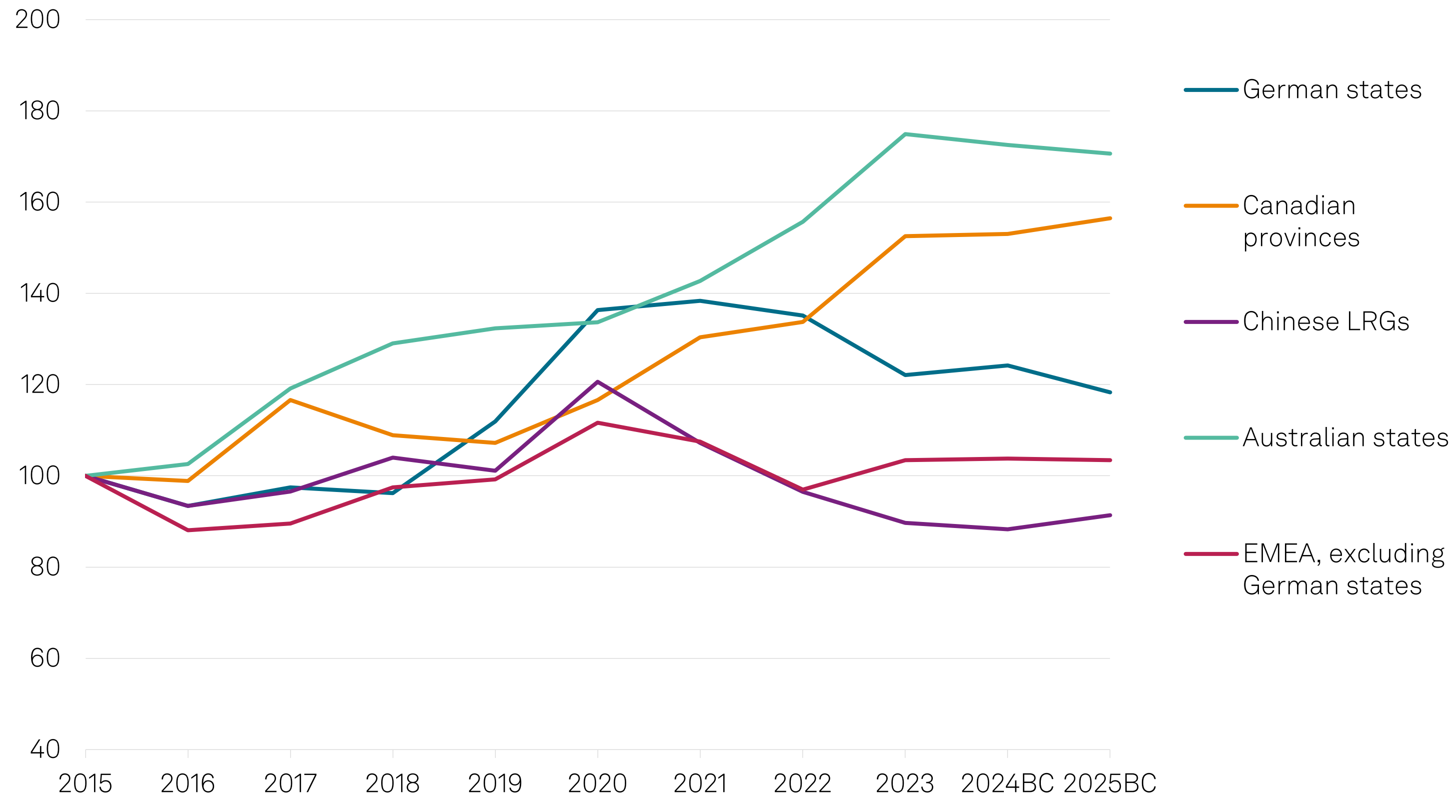
Strongest — Weakest

	Economy	Financial management	Budgetary performance	Liquidity	Debt burden
British Columbia (AA-/Negative/A-1+)					
Alberta (AA-/Stable/A-1)					
Saskatchewan (AA/Stable/A-1+)					
Manitoba (A+/Stable/A-1)					
Ontario (A+/Positive/A-1)					
Quebec (AA-/Stable/A-1+)					
Nova Scotia (AA-/Stable/A-1+)					
New Brunswick (A+/Positive/A-1+)					
Prince Edward Island (A/Positive/A-1)					
Newfoundland and Labrador (A/Stable/A-1)					

Source: S&P Global Ratings. Data as of September 2024.

Diverging Paths Of Public Investments

Total capital expenditure (indexed 2015=100)

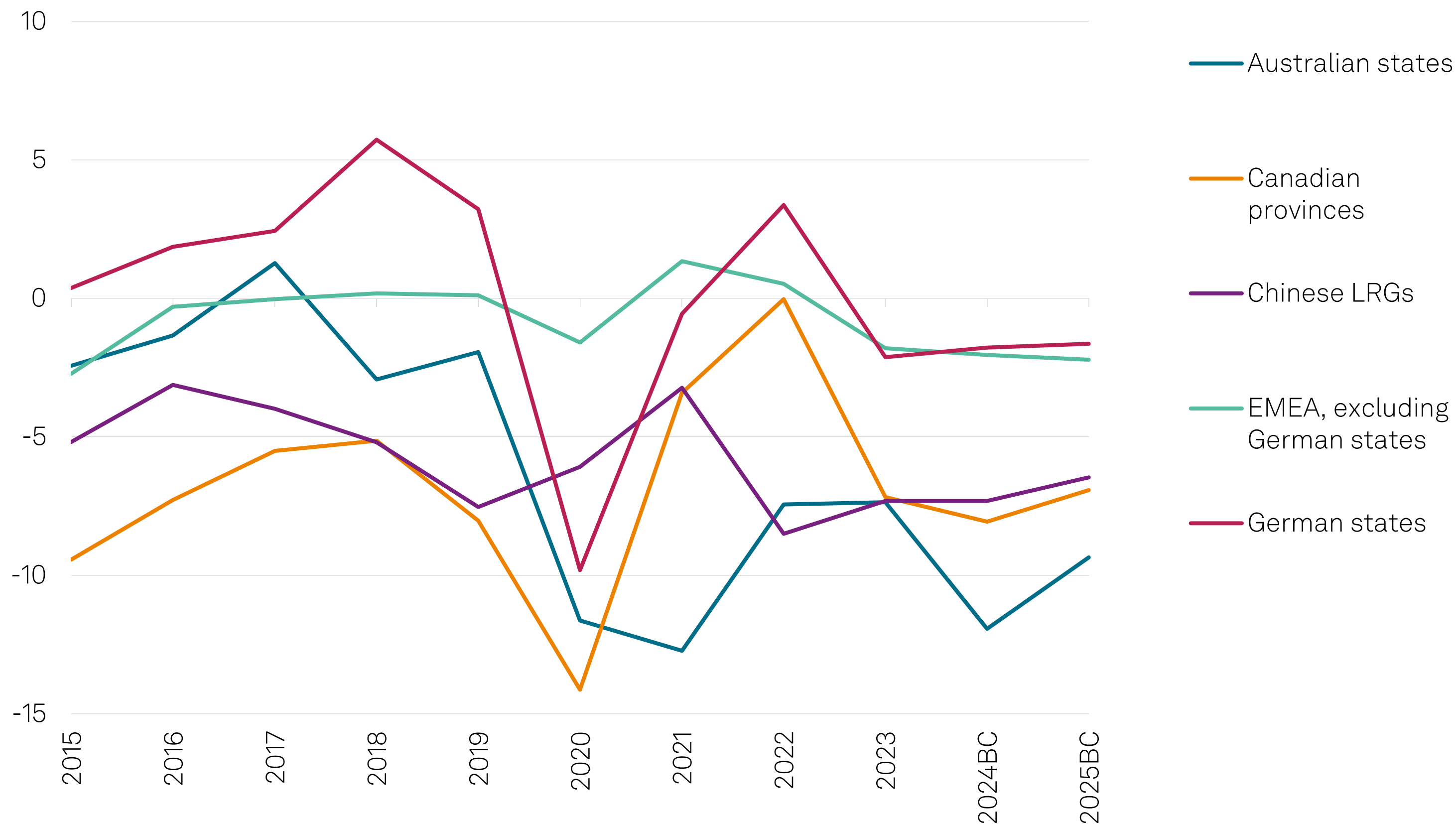


- The greater fiscal autonomy of Australian states and Canadian provinces, and their sizable spending needs, will keep investments elevated at more than 50% higher than in 2015 in real terms.
- In Europe and Japan, we expect LRGs to stabilize and even reduce capex, except for in Italy and Spain where LRGs have access to EU funds.
- In many emerging markets, including China, and Central and Eastern Europe, LRG investments are set to decline. This is due, respectively, to the property market crisis, limited management capacity, and the EU budget cycle.

Data in LC at current prices, except for EMEA, which uses US$ at current prices. Using actuals whenever available. Data for all rated LRGs, including confidential ratings. Note that data might differ from previously published reports, due to constant data analysis and change of entities included. LRGs--Local and regional governments.

Investments In Australia, Canada, And China Drag On Performance

Average balance after capital accounts (% of adjusted total revenues)

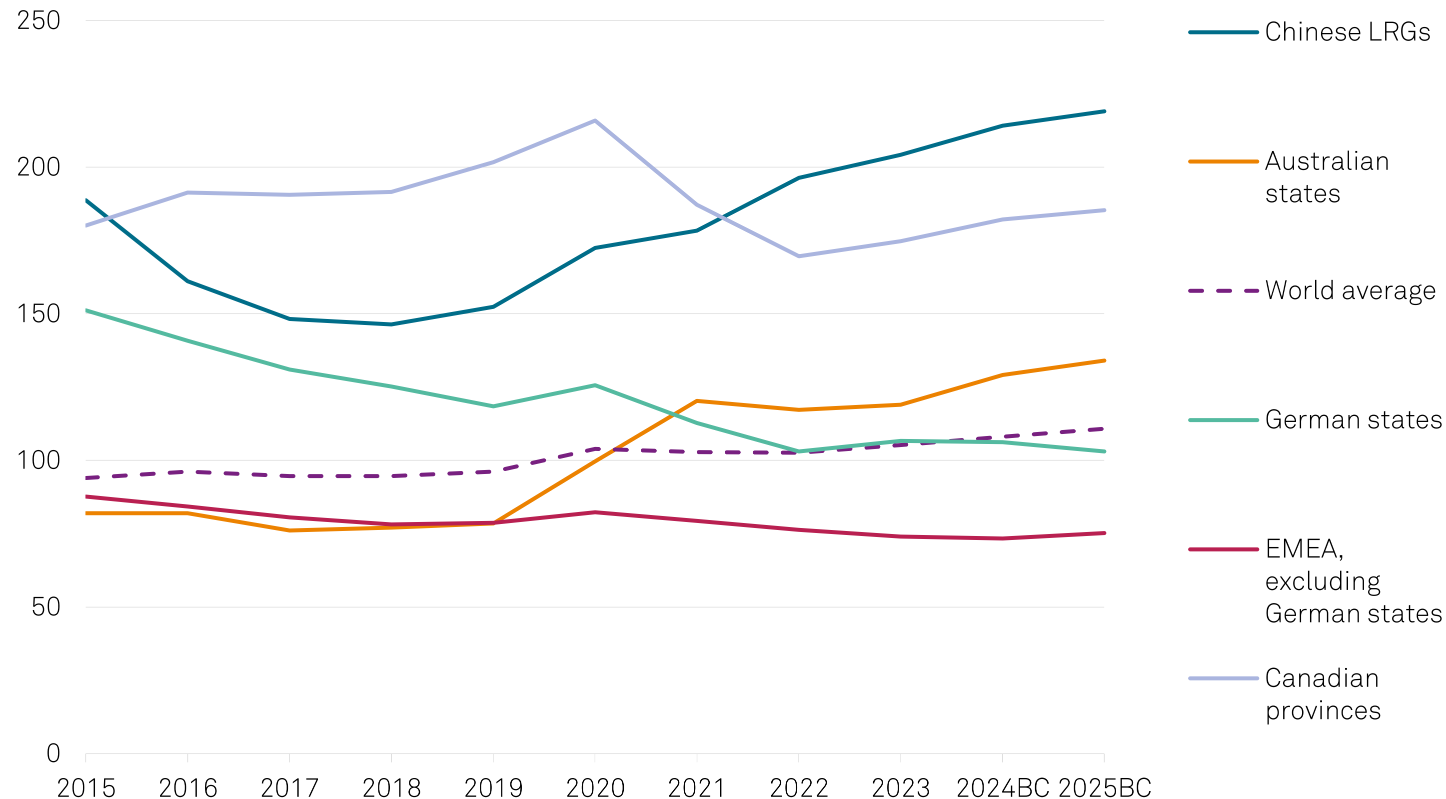


- With the projected weakening in operating performance and sizable investment spending, we anticipate some deterioration in total budget deficits.
- Limited regulation and high infrastructure investment needs will keep Australian states', Canadian provinces', and Chinese LRGs' deficits relatively high.
- In 2023 and 2024 the post-pandemic return to stricter national regulations on debt and deficits led to only minor deficits for LRGs in Europe.

BC--Base case. LRGs--Local and regional governments. Using actuals whenever available. Data for all rated LRGs, including confidential ratings. Note that data might differ from previously published reports, due to constant data analysis and change of entities included. Source: S&P Global Ratings.

Provinces' Debt Burden Will Moderate, But Remain High By Global Standards

Average tax-supported debt (% of cons. operating revenues)

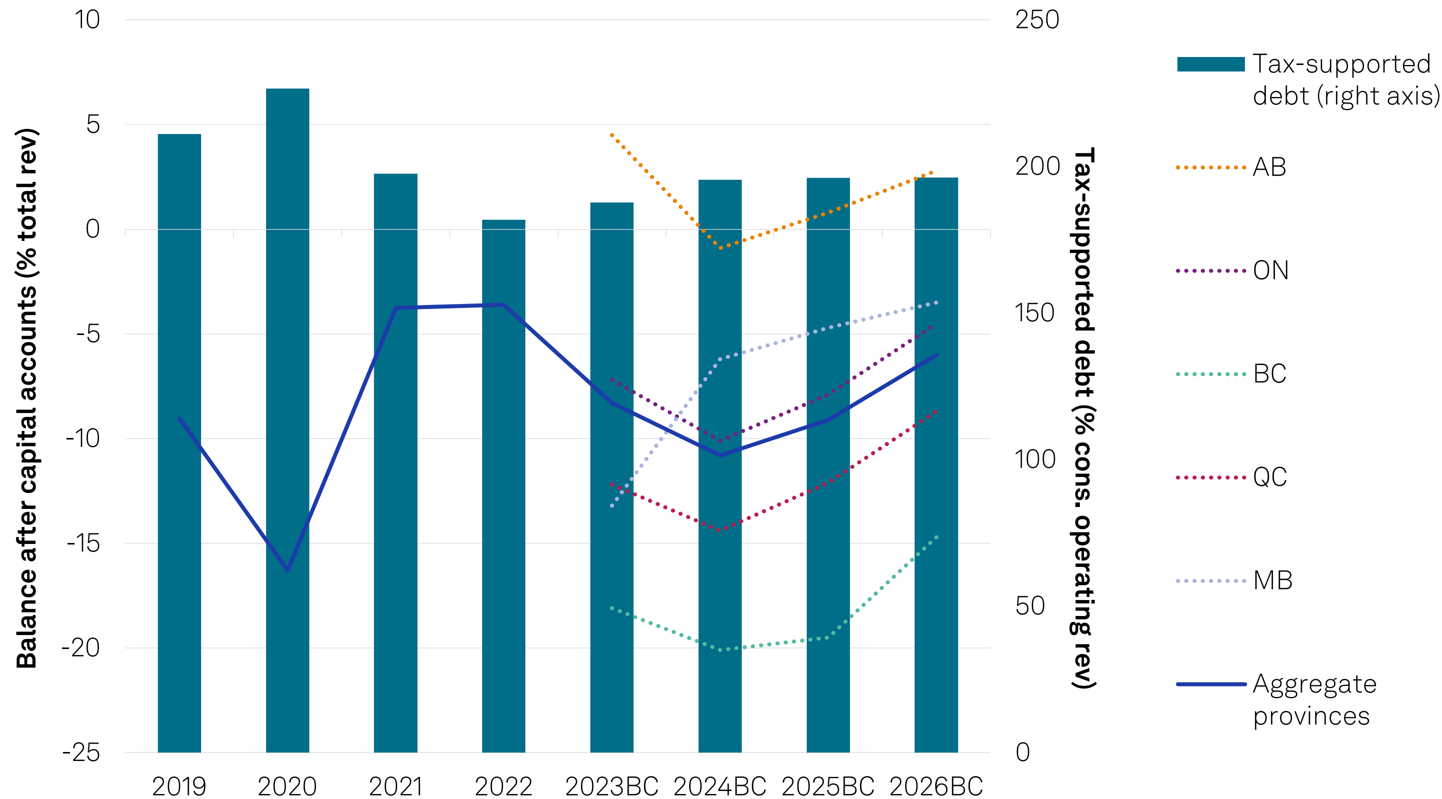


BC--Base case. Using actuals whenever available. Data for all rated LRGs, including confidential ratings.
Note that data might differ from previously published reports, due to constant data analysis and change of entities included.
Source: S&P Global Ratings.

- While debt growth is moderate compared with other regions, Canadian provincial debt levels will remain among the highest by global standards.
- In China, tax-supported debt (TSD), excluding onlending, will continue to increase, albeit at a slowing pace, because of consolidation of government-related company debt and support for property markets.
- TSD as a percentage of operating revenues is growing relatively fast in Australia where governments are prioritizing infrastructure development for ballooning population growth.
- Debt burdens for German states will stabilize after a pronounced deleveraging since 2015. Fiscal rules appear to contain rising spending.

Provinces' Fiscal Performance Will Diverge As Debt Burdens Grow Modestly

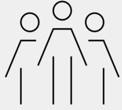
As expenditures rise and revenue growth slows, the path to structural balance will take budget discipline



- High inflation in the past year has led to stagnant economic growth, negatively affecting tax revenue. This, combined with expenditures growth, particularly in personnel, led to weaker-than-expected performance in fiscal 2024.
- We expect fiscal results to steadily improve for most provinces starting in 2025 as revenue growth modestly recovers and capex slows thereafter.
- For most, the path to budget balance will take longer than previously expected.

BC—Base case. Source: S&P Global Ratings.

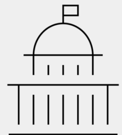
Credit And Rating Trends: Ongoing Risks For Provinces



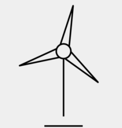
Population growth: Canada's recent population growth boosts tax revenue and consumer spending during a period of slower economic growth; it also adds to affordability challenges in urban areas, and will increase demand for public assets and services, including health care, which make up a large share of provincial budgets.

Infrastructure and climate adaptation: Provinces' long-term plans for climate adaptation, mitigation, and transition will increase in importance as climate-related events become more frequent and severe. Disaster recovery arrangements, such as Canada's Disaster Financial Assistance Arrangements, will need to evolve to balance long-term financial sustainability and risk-sharing. This could increase the cost to recover from disasters and affect long-term investment and borrowing needs.

Wage pressure: Years of austerity and labor market tightness are putting upward pressure on wages. That will hit budgets at different times depending on wage-contract structures and terms.



Elections: Elections in the next two years at both the federal and provincial level for various provinces could lead to changes in priorities and fiscal trajectories.



Provincial utilities: Large capital projects, including by BC Hydro, Hydro-Quebec, and NB Power, could affect the tax-supported debt burdens of their respective governments depending on the pace of investment.

Fiscal and debt forecasts

Fiscal 2025 Expectations: Base Case

Generally, provinces face stagnant growth in 2024 but should benefit from a modest recovery starting in 2025

Base Case

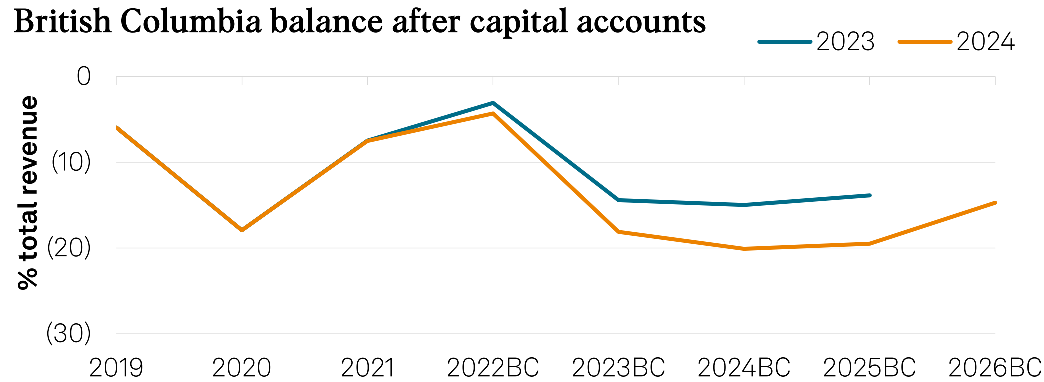
- More subdued growth in the national economy in 2024 is negatively affecting fiscal 2025 provincial results, but revenue growth should improve over the course of 2025 as Bank of Canada rate cuts support a pick-up in growth.
- Provincial operating demands have increased, stemming from stronger-than-expected population gains and upward pressure on wages.
- With narrowing operating balances, most provinces continue to focus on cost containment and fiscal consolidation.
- Capital investment is easing in the outer years from record highs.
- Generally, the pace of debt growth has modestly increased versus previous base case for most provinces.

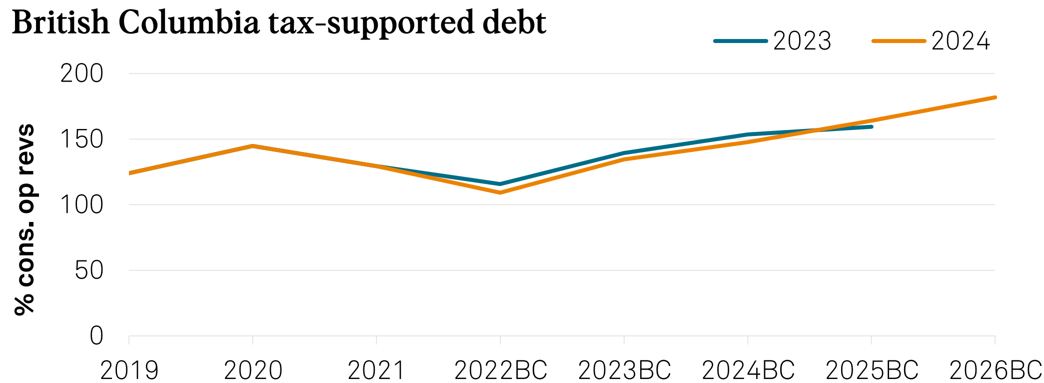
Downside Risks

- More stagnant economic growth could further stifle fiscal 2025 and 2026 budgetary outcomes.
- Large capital programs, either at the province level or for Crown utilities, could lead to sizable increases in future debt burdens.
- The larger-than-expected collective agreement renewals could hamper forecast budgetary performance.
- Upcoming elections in B.C., N.B., and Sask., and newly elected governments (Man.), will bring some uncertainty to fiscal trajectories.
- Prior-year adjustments could bring volatility in fiscal outcomes.

British Columbia

AA-/Negative/A-1+





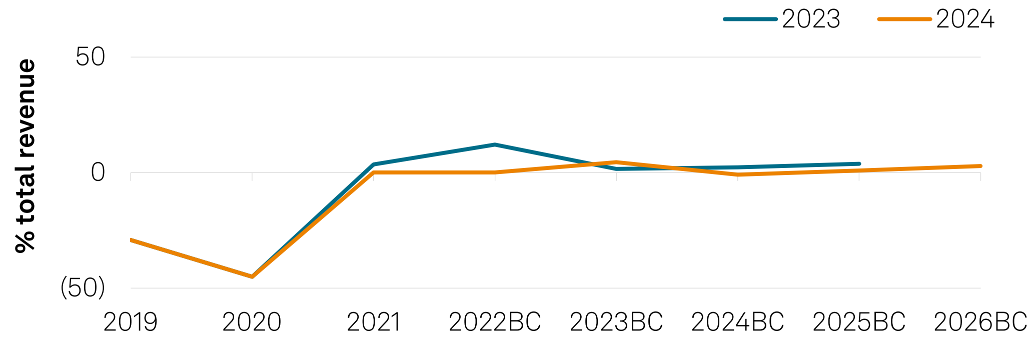
BC--Base case. Source: S&P Global Ratings.

- Although recent budget announcements from other provinces have a similar theme of slightly weaker forecast budgetary performance, the size and persistence of material after-capital deficits are what differentiates British Columbia.
- The government's affordability budget in light of economic headwinds will continue to drive up relatively large operating deficits and significant after-capital deficits for the next two years, in particular.
- Sizable fiscal deficits will increase borrowing requirements and continue to dampen internal liquidity in the next three years
- In addition, the fall election adds uncertainty to the fiscal trajectory, keeping downside risks on the table.

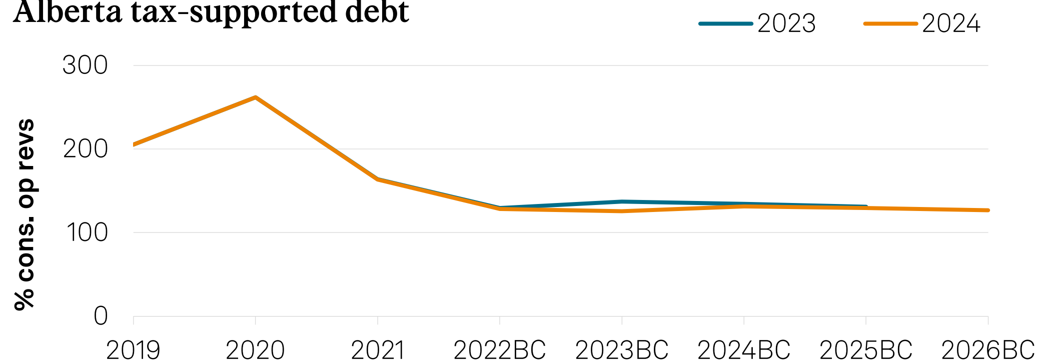
Alberta

AA-/Stable/A-1+

Alberta balance after capital accounts



Alberta tax-supported debt

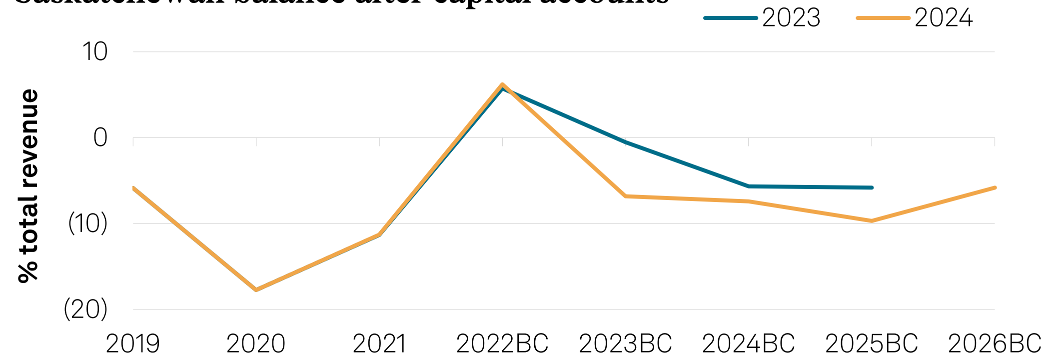


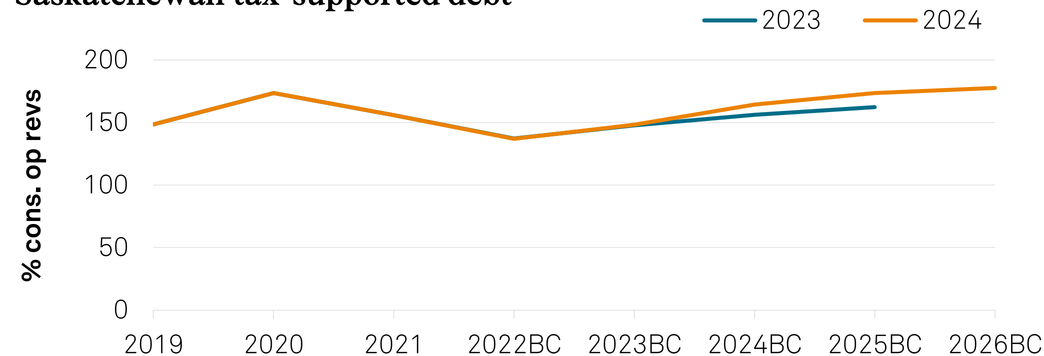
BC--Base case. Source: S&P Global Ratings.

- Additional pipeline capacity is poised to expand market access to Alberta oil producers and bolster Alberta oil prices and drilling activity, leading to high tax revenue and robust budgetary performance.
- Alberta's debt burden will decline notably as the province repays maturities and liquidity will remain robust.
- Prior to the end of this year, the government will release its long-term plan to grow the Heritage Fund.
- Financial management is important as unexpected shifts in policies could result in higher contingent liabilities or materially negatively affect finances.

Saskatchewan

AA/Stable/A-1+



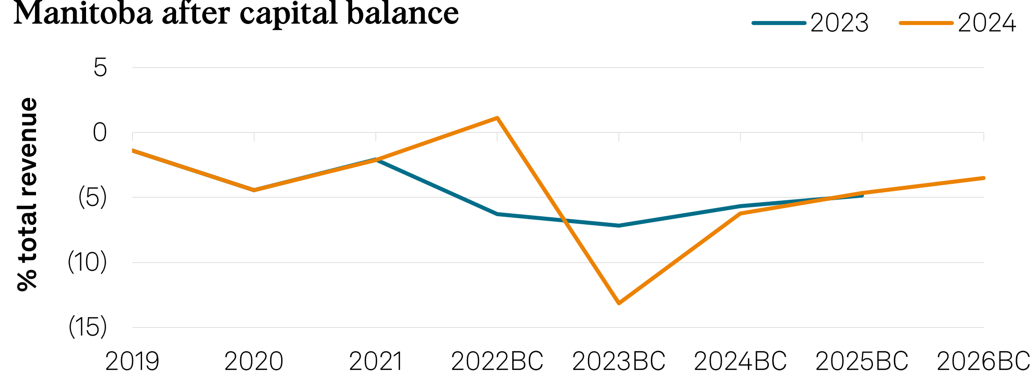


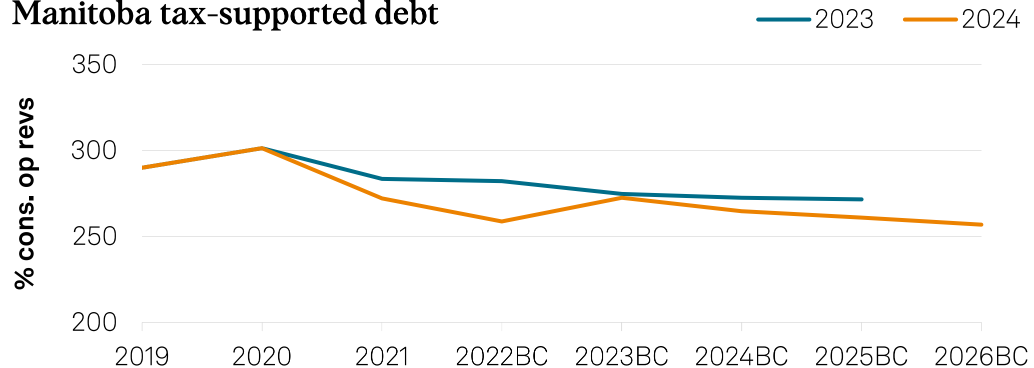
BC--Base case. Source: S&P Global Ratings.

- Fiscal 2024 results came in ahead of our forecast but still significantly worse than budget, while higher-than-expected compensation costs will be a drag on fiscal 2025 performance.
- Saskatchewan is projecting real GDP growth of 1.3% in 2024, supported by higher-than-budget oil prices and a good outlook for the agricultural sector at the midpoint of the harvest season.
- Risks related to the agriculture sector weigh to the downside, which could limit near-term operating revenue growth somewhat, e.g. the effect of the albeit brief rail labor disruption, weak potash prices, and a potential Chinese import ban on Canadian canola.
- Higher planned capital spending should push up the province's debt burden in the next several years, but the upcoming provincial election could result in a change to longer-term fiscal policy.

Manitoba

A+/Stable/A-1



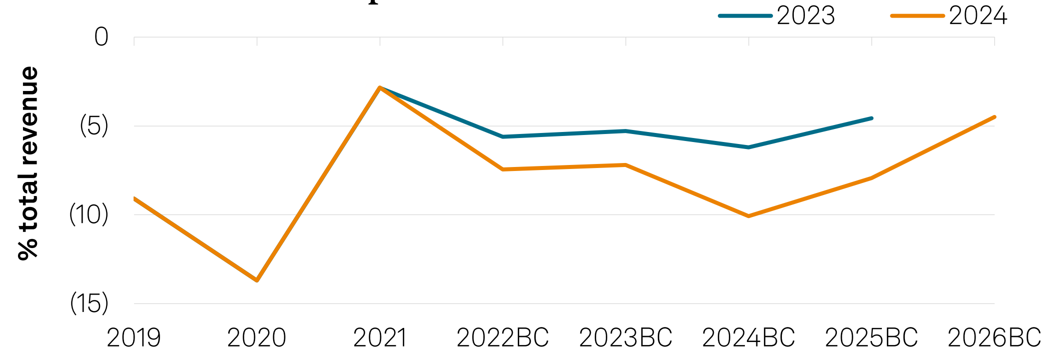


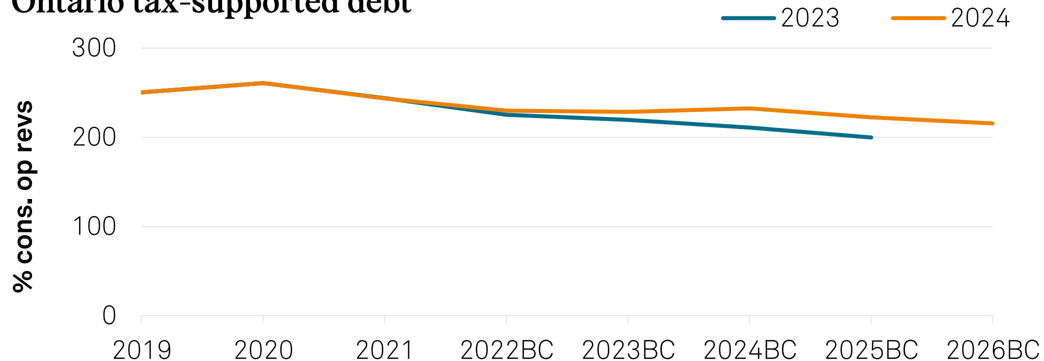
BC--Base case. Source: S&P Global Ratings.

- In October 2023, the New Democratic Party of Manitoba (NDP) formed a majority government, defeating the two-term Progressive Conservative government.
- While we believe that the NDP is committed to fiscal consolidation, it will be important to monitor the performance of this new government against its budget targets as well as to see how the medium-term outlook evolves in the next budget cycle.
- The NDP has adjusted its capital plan down from previously higher levels by almost 40%, driving an improvement in projected after-capital performance and the province's debt burden.
- The province is working on a high-level draft of its energy policy, including its view of Manitoba Hydro, which will help inform plans at the utility.

Ontario

A+/Positive/A-1



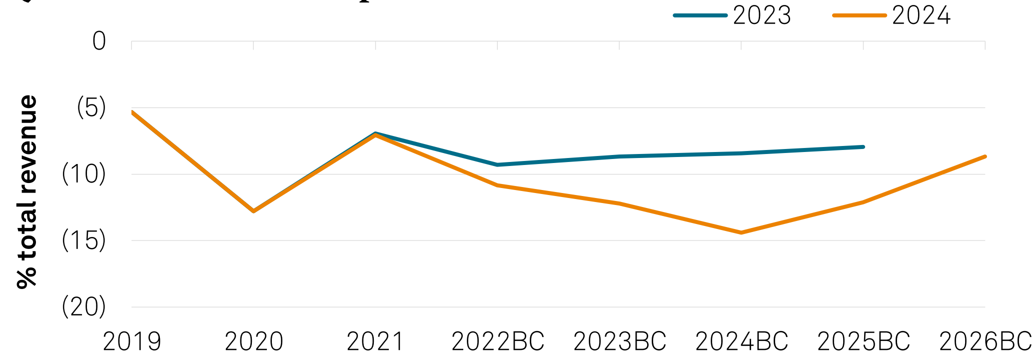


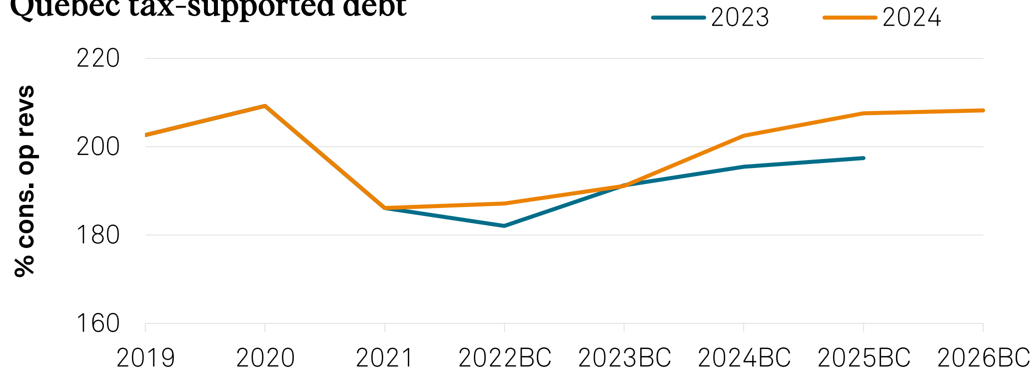
BC--Base case. Source: S&P Global Ratings.

- A downward revision of economic growth through the medium term has led to deterioration in projected fiscal performance but revenue should steadily increase as growth recovers and operating expenses are contained.
- In the near term, the government is focused on rebuilding the economy to accommodate both the existing and growing population but is also mindful of sustainability.
- We project that Ontario will be able to continue to achieve modest operating surpluses and manageable after-capital deficits, leading to a reduction in new debt issuance, despite a large capital program.

Quebec

AA-/Stable/A-1+



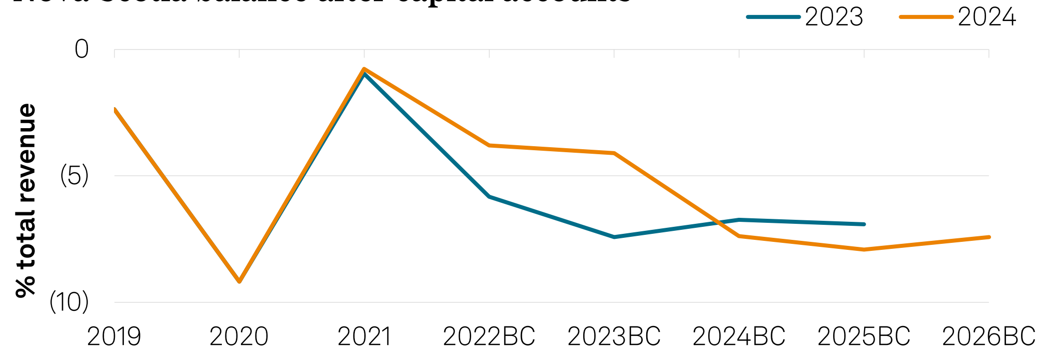


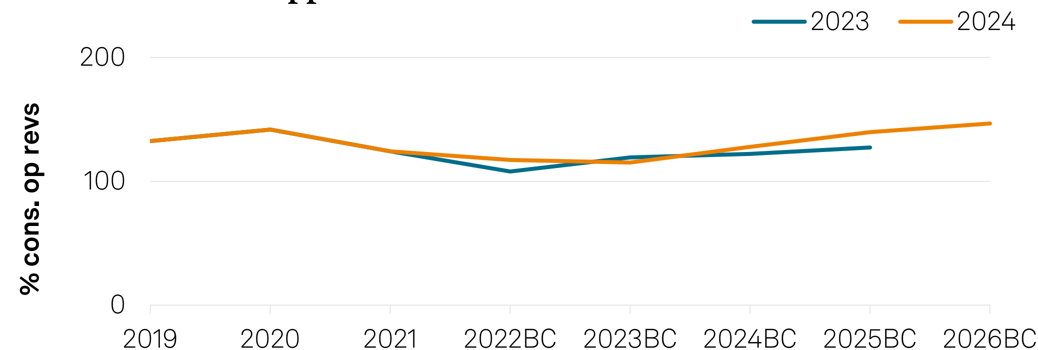
Source: S&P Global Ratings. BC--Base case.

- With a tight labor market and years of austerity, the government entered collective bargaining negotiations in late 2023 from a structurally weak position, and finalized the majority of its mandates at a notably higher level than what was forecast.
- Budget 2024 presented significant adjustments resulting essentially from the resolution of collective agreement negotiations, stagnant economic activity, and stronger-than-expected demographic growth, leading to weaker medium-term metrics, as reflected by operating deficits and larger after-capital deficits.
- Given the uncertain economic context, the government will table a plan to restore fiscal balance in the next budget release.

Nova Scotia

AA-/Stable/A-1+



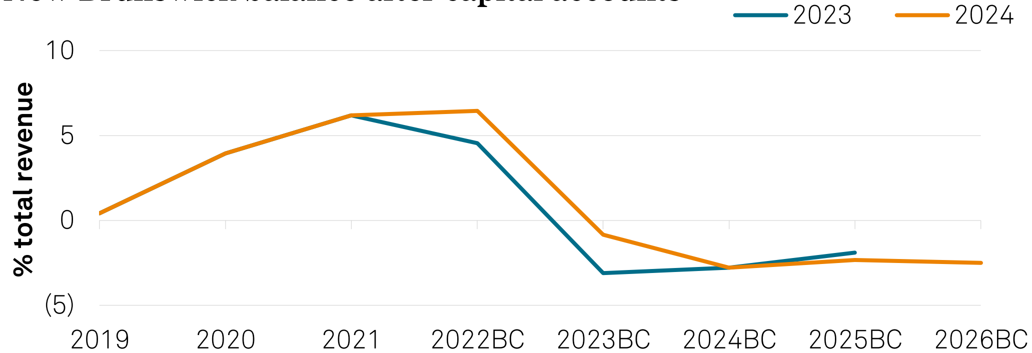


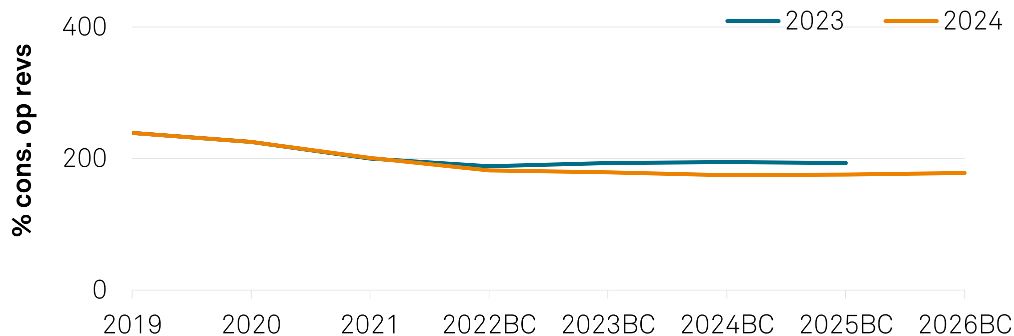
BC--Base case. Source: S&P Global Ratings.

- Strong population growth supports a higher spending profile, but we expect it to subside in the medium term.
- A large capital program centered on health care-related infrastructure and major highway projects will keep after-capital results in a moderate deficit, maintaining the province's debt on an upward trajectory.
- While we expect the current government will return to the path of fiscal consolidation, an election in 2025 adds uncertainty to future government policy.

New Brunswick

A+/Positive/A-1+



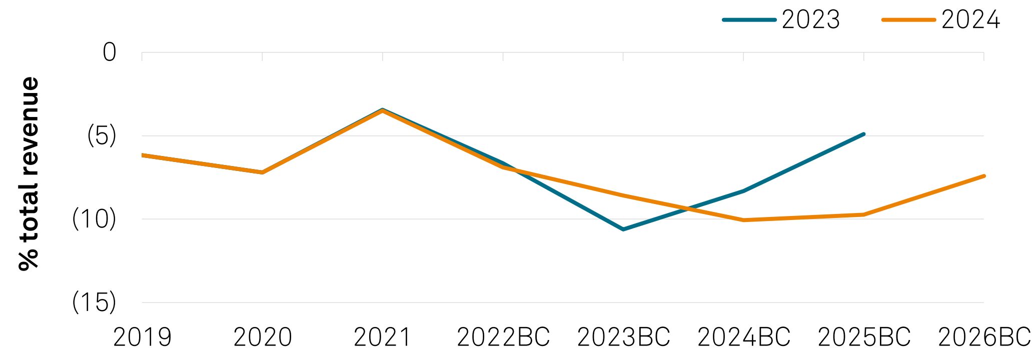


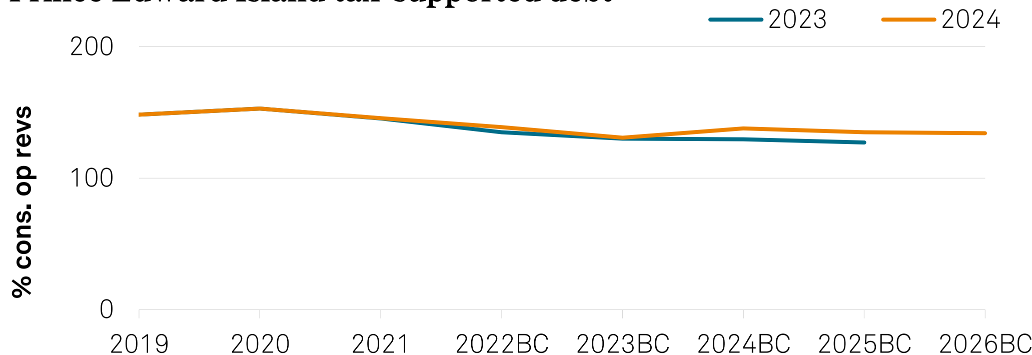
BC--Base case. Source: S&P Global Ratings.

- Projected normalization in population growth following years of strong gains will test the government's ability to maintain solid operating balances.
- A track record of prudent financial management supports our expectation of healthy budgetary results.
- The government has notably reduced the debt burden in the past decade but debt could increase in the medium term to support energy-related needs.
- A fall election brings uncertainty to policy direction.

Prince Edward Island

A/Positive/A-1



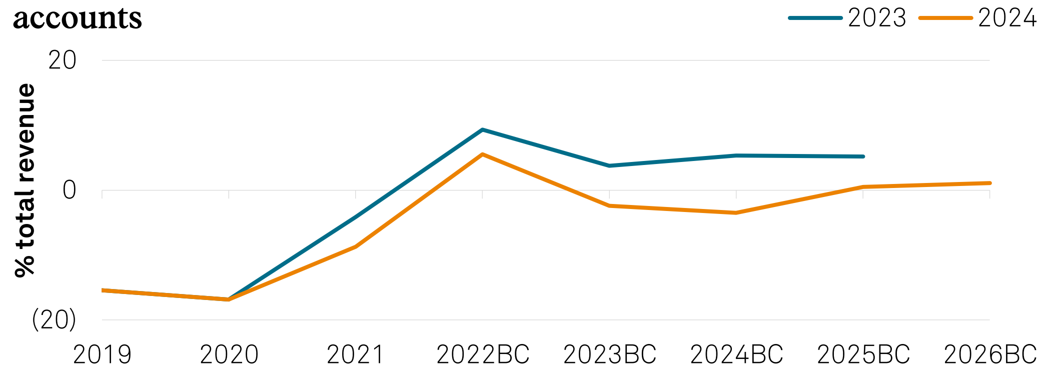


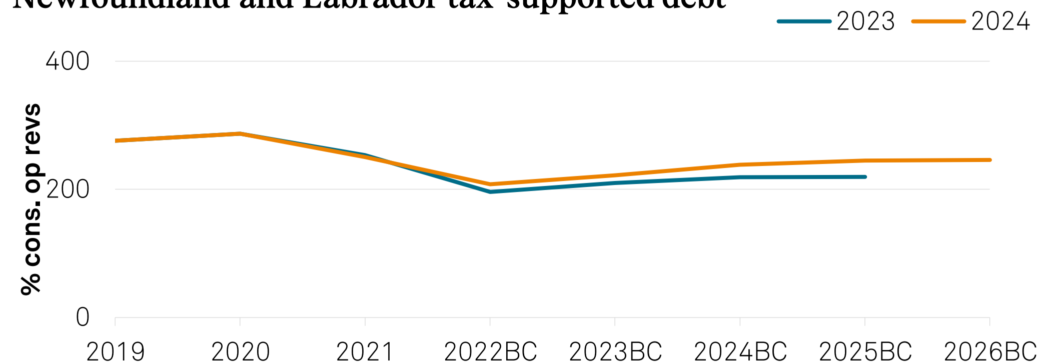
BC--Base case. Source: S&P Global Ratings.

- Continued strong population growth helped PEI generate real GDP growth of 2.2% in 2023, again leading all provinces but at a slower pace than the budget assumption of 3.0%.
- This growth has increased operating and capital investment pressures in core health care, education, and transportation infrastructure that will push up borrowing in the next several years, although PEI's debt burden will remain modest relative to that of provincial peers.
- The positive outlook reflects our expectation that the province's medium-term budgetary performance will show steady improvement, supported by robust population and economic growth.

Newfoundland And Labrador

A/Stable/A-1





BC--Base case. Source: S&P Global Ratings.

- The pace of debt accumulation has quickened from higher-than-expected wage settlements and cost of living supports, keeping the debt burden among the highest of Canadian provinces.
- The province's fiscal turnaround has slowed but we believe the government continues to demonstrate commitment to fiscal consolidation.
- Fiscal results are significantly tied to the rise and fall of oil prices and Newfoundland's fiscal performance is very volatile compared with that of Canadian and global peers.
- Wind-hydrogen generation offers upside to medium-term economic activity.

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