Canada is a parliamentary democracy and a constitutional monarchy with a federal system of government composed of 10 provinces and 3 territories. Canada’s Constitution, enacted in 1867, and the 1982 Charter of Rights and Freedoms defined the country’s federal system of shared powers in which the federal government and the autonomous provinces have equal status. The choice to fund a federation was made to promote unity within the Canadian territory between the Province of Canada, New Brunswick and Nova Scotia for economic and military purposes, while preserving its diversity, and in particular the culture, institutions, laws and religions of Lower Canada (which later became Quebec) and the Maritime provinces. Canada is an exception among federal countries as federal states do not have their own constitution. In 1982, the enactment of the Canadian Charter of Rights and Freedom by new Constitution Act, which abolished Canada’s dependence on the British Parliament, made it applicable to all federal and provincial laws.

At the federal level, legislative power is vested in the bicameral parliament, which consists of the Senate (upper house) and the House of Commons (lower house). Members of the House of Commons, elected for four-year terms, are responsible for passing most federal legislation, which is then reviewed by the upper house. The Senate has an equal representation of the four geographic regions of Canada, with the purpose of representing the regional and social diversity of Canada. Its members are appointed by the governor-general on the advice of the Prime Minister. Executive authority at the federal level is formally vested in the Queen through the Constitution, and the executive function belongs to the Governor General, appointed by the Queen on the advice of the Prime Minister, usually for five years. In practice, the executive branch is directed by the Cabinet, a committee of ministers of the Crown responsible to the elected House of Commons of Canada and chosen and headed by the Prime Minister of Canada. The Prime Minister of Canada is the most important minister of the Crown and Canada’s head of government.

At the provincial level, there is a clear distinction between provinces and territories as province receive their power and authority from the 1867 Constitution Act, whereas territorial governments have powers delegated to them by the Parliament of Canada. Legislative powers were originally conferred to the provinces in 1867, including civil and criminal courts, and regulation of the civil procedure, and as of today each province and territory has its own legislative assembly, whose functioning is similar to that of the House of Commons of Canada. The Premier is the head of government, and is usually the head of the party with the most seats at the assembly. Each province also has its own representative of the Crown, the Lieutenant Governor. In territories, the Commissioner, a representative from the federal government, substitutes the Crown representative.

At local level, municipalities are not formally recognised in the federal constitution as a separate order of government, but they are mentioned as “coming under the exclusive jurisdiction of the provinces” (section 92 (8) of the constitution). Without constitutional status, municipalities remain “creatures of the provinces. They are governed by provincial legislation, and therefore their organisation, responsibilities and fiscal framework differ from one province/territory to another. The degree of local decentralisation and autonomy also varies from one province/territory to another. There is no uniformity in terms of local–provincial relations in the Canadian federation. The provincial/territory legislatures can set up local government structures in their area and grant them powers. Some provinces and territories have elections based on wards, others on a general vote. Councillors in single-tier and lower-tier governments are generally elected directly by the first-past-the-post system. Mayors may be directly or indirectly elected; those in single-tier councils or lower-tier councils are usually directly elected.

There are numerous instruments and mechanisms involved in intergovernmental relations that focus on federal–provinces/territories relations. However, they are not anchored in the Constitution and do not have any basis in law or statute, unlike several other federations. These forums for the exchange of information and negotiation are the Federal/provincial/territorial First Ministers Conferences or Meetings (FMMs), the Ministerial meetings in specific policy sectors, the Canadian Intergovernmental Conference Secretariat (CICS) and Federal/Provincial/Territorial (FPT) Agreements. They constitute an important element of Canadian federal governance to strengthen the economic and social union.

Horizontal coordination takes place through the Council of the Federation, established in 2003, which comprises Canada’s 13 provincial and territorial Premiers to provide a forum to discuss and work together on issues of mutual interest or concern. Through its Annual Premiers Conferences (APC), it develops and presents common positions, providing a “united front” when interacting with the federal government, fostering a “constructive relationship” with the federal government. At local level, the Federation of Canadian Municipalities, established in 1937, acts as a coordination forum among the local governments and an advocacy group.
**TERRITORIAL ORGANISATION**

<table>
<thead>
<tr>
<th>2017</th>
<th>MUNICIPAL LEVEL</th>
<th>INTERMEDIATE LEVEL</th>
<th>REGIONAL OR STATE LEVEL</th>
<th>TOTAL NUMBER OF SNGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 959 municipalities*</td>
<td></td>
<td>10 provinces and 3 territories</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average municipal size: 9,272 inhabitants</td>
<td></td>
<td>3 959</td>
<td>13</td>
<td>3972</td>
</tr>
</tbody>
</table>

* Indian reserves, Indian settlements and unorganised territories as well as special purpose entities are excluded from the count reported in the table.

**OVERALL DESCRIPTION.** Canada is a federal state with two levels of subnational government, with 10 provinces and 3 territorial governments, and 3 959 local authorities (general purpose governments according to the census subdivisions). In addition, Canada has Indian reserves, Indian settlements and unorganised territories (around 1 200 such entities) as well as around 2 570 special purpose authorities such as school boards, police service boards, public health units, transit authorities, library boards, public housing authorities, etc. Only the school boards however have directly elected boards, the other special purpose boards are made up of appointed representatives (often elected municipal councillors).

**REGIONAL LEVEL.** The regional level is composed of 10 provinces and three territories. The three territories of Northwest Territories, Yukon and Nunavut account for 39% of Canada’s surface area, but approximately 0.3% of its population. Population ranges from 36 000 inhabitants in the Territory of Yukon to 13.45 million inhabitants in the province of Ontario, while the average size is around 2.7 million inhabitants. The three provinces of British Columbia, Ontario and Quebec, which are also the three largest provinces both in terms of population and area, have a multi-tiered local government system, with a regional tier with some authority over local authorities. The local government system in British Columbia is particularly unique in the country because it is comprised of 27 regional districts, divided into smaller areas called electoral areas. This is explained because a large part of the province is made up of unincorporated areas, with sparse populations, which do not have local governments. The other provinces and territories have a single-tier municipal government. Canada has relatively low regional disparities compared to OECD countries and the regional gap in GDP per capita has decreased slightly in Canada over the last 16 years. In 2016, the highest regional GDP per capita (Northwest Territories) was 2.5 times higher than the lowest regional GDP per capita (Prince Edward Island). Main regional disparities are found in the areas of safety, health and jobs, which are largely due to the particular challenges faced by the sparsely populated territory of Nunavut and territory of Yukon.

**MUNICIPAL LEVEL.** In total, Canada counts 3 959 municipalities at the lower level. Subnational legislation is unique for each province and territory, and local governments in Canada are very diverse in size and legislation. There is a variety of municipal structures and names which differ from one province to another, including towns, municipalities, townships, cities, rural municipalities, municipal districts, villages, etc. Over the last 20 years, several provinces have carried out municipal merger policies such as Nova Scotia (1995-96), Ontario (1996-2002), Quebec (2000-06), etc. More recently, the 2013 Municipal Amalgamations Act in the province of Manitoba requires that municipalities with a population less than 1 000 inhabitants merge with one or more neighbouring municipalities by 2015. In May 2013, the Province of New Brunswick has introduced the “regional municipality” as a new restructuring option (municipalities with a population of greater than 15 000 and a community grouping that includes at least one municipality are required to become a regional municipality).

**INTER-MUNICIPAL LEVEL.** in the aim of providing specific services to groups of municipalities. takes place through special agencies, joint boards and commissions. Some provinces can have specific policies promoting inter-municipal cooperation such as New Brunswick which established in 2013 twelve Regional Service Commissions to assist communities to communicate and collaborate regionally. Inter-municipal cooperation at the scale of metropolitan areas is also encouraged. In 2016, 59% of the Canadian population was living in metropolitan areas with more than 500 000 inhabitants (compared to the OECD average of 55%). Overall, metropolitan areas of Canada generate more than 60% of national GDP yet they display great differences in terms of wealth. Several metropolitan governance reforms have been implemented by individual provinces or have been initiated by the municipalities themselves through voluntary associations of local governments (bottom-up strategies). Examples of metropolitan governance bodies include Metro Vancouver (district regional of Vancouver) and Communauté Métropolitaine de Montréal.

**SUBNATIONAL GOVERNMENT RESPONSIBILITIES**

Division of powers across levels of government in Canada adheres to the principle of subsidiarity, and it has been shifting throughout Canadian’s history. Allocation of powers is specified in the Constitution Acts of 1867 and 1982 (ss. 92, 92A and 93), and all residual powers are conferred to the federal government. The provinces have exclusive legislative jurisdiction over a large array of matters of a local nature, social programmes such as health (including hospitals), education and welfare, as well as highways, prisons, natural resources, and municipal affairs. They regulate both labour and capital markets and administer much of the justice system. Provinces and territories also have some concurrent powers with the federal government, including pensions, energy, water, agriculture and immigration.

While the Canadian constitution is based on a unified approach of federalism, it does enable asymmetric arrangements for Canadian provinces. More specifically, asymmetric decentralisation in Canada is mostly based on “menu federalism", where the "opt in" or “opt out” choices are made available to all provinces. The province of Quebec has been using this option more frequently than other provinces. Quebec has had and used specific powers for example in healthcare provision, the pension system, with the position of the French language in government, and immigration screening. Municipal tasks are set by provinces, which can also delegate to them some of their own responsibilities. As a result, they vary considerably across jurisdictions. Municipal functions typically include transport, civil protection, utilities, recreation and culture, land use planning, social housing. Municipalities are generally not in charge of education, social or health services, except when they share some of the province’s responsibilities (e.g. social assistance in Ontario). There have been significant changes in local government legislation over the last decade, including giving councils greater autonomy and powers of general competence to respond to structural changes in society. Most provinces and territories have enacted new or substantially-amended legislation accordingly. Primary and secondary education lies with independently elected local authorities (schools boards) who are directly answerable to provinces and territories. Councils in most provinces and territories can appoint committees and delegate responsibilities to them. Canada also has a dense network of provincially and municipally owned corporations, also called government business enterprises (GBEs) and including Crown corporations, which are engaged in selling goods and services to the public in the marketplace in a variety of sectors.
GENERAL INTRODUCTION. Canada is one of the most decentralised countries in the world, but while Canadian provinces and territories enjoy a significant degree of autonomy in terms of spending and revenue, local government authorities are, on the contrary, highly controlled and tightly constrained regarding their spending and revenue. Provinces are responsible for most major social expenditures and essentially face no constitutional restraints on tax rates, bases, or collection systems, in addition to perceiving large unconditional transfers from the federal government. Unlike provinces and territories, municipal fiscal autonomy is limited and Canadian municipalities operate within restrictive legislative frameworks and under strict provincial control, often as agents of provincial governments. Fiscal provisions are not specified in the Constitution, on – for instance – intergovernmental transfers or tax sharing, which leaves local government financing at the discretion of the provinces and territories. However, section 36 (2) of the Constitution Act, 1982, sets out in principle the requirement of federal equalisation payments, resulting in the development of a system of transfers between the federal government and the provinces and territories. The advanced decentralisation system also creates strong horizontal imbalances, and not all subnational governments enjoy equal levels of fiscal autonomy. For some provinces, transfers are more important sources of revenue than their own taxes. A fiscal equalisation scheme is enshrined in the Constitution, which was reformed in 2007, to compensate for the most disadvantaged provinces and territories.

## SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

<table>
<thead>
<tr>
<th>Year</th>
<th>DOLLARS PPP / INH.</th>
<th>% GDP</th>
<th>% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE</th>
<th>% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SNG State Local SNG State Local SNG State Local</td>
<td></td>
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<tr>
<td>2016</td>
<td>Total expenditure 14 153 10 289 3 863 31.6% 23.0% 8.6% 100% 100% 100%</td>
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<tr>
<td></td>
<td>Inc. current expenditure 12 327 9 168 3 159 27.5% 20.5% 7.0% 87.1% 89.1% 81.8%</td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Staff expenditure 4 821 2 969 1 952 10.8% 6.4% 4.4% 34.1% 27.9% 50.5%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intermediate consumption 2 704 1 899 894 6.0% 4.0% 2.0% 19.1% 17.6% 23.2%</td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>Social expenditure 1 971 1 874 97 4.4% 4.2% 0.2% 13.9% 18.2% 2.5%</td>
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</tr>
<tr>
<td></td>
<td>Subsidies and current transfers 1 933 1 800 133 4.3% 4.0% 0.3% 13.7% 17.5% 3.4%</td>
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<tr>
<td></td>
<td>Financial charges 838 768 71 1.9% 1.7% 0.2% 5.9% 7.5% 1.8%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Others 60 48 13 0.1% 0.1% 0.0% 0.4% 0.5% 0.3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Incl. capital expenditure 1 826 1 122 704 4.1% 2.5% 1.6% 12.9% 10.9% 18.2%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital transfers 287 287 0 0.6% 0.6% 0.0% 2.0% 2.8% 0.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Direct investment (or GFCF) 1 539 835 704 3.4% 1.9% 1.6% 10.9% 8.1% 18.2%</td>
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</tbody>
</table>
EXPENDITURE. The share of Canadian subnational government expenditure in GDP and public spending is by far the highest of all OECD countries, at 31.6% of GDP and 76.2% of public spending, well above the OECD average (16.2% of GDP and 40.4% of public spending in 2016) and above the OECD average for federal countries (19.2% of GDP and 50.0% of public spending). A vast majority of spending is made by the provinces (73%), but this share has decreased by 5 percentage points since 2013. SNGs are in charge of 36.4% of the financing of total social expenditure, which is high by international standard (16.7% in the OECD). Accounting for 84.7% of total public staff spending, SNGs are also key employers: SNG share in public staff spending is 20 percentage points above the OECD average of 62.9%, and 8 points above the average of the OECD federations (76.5%). Most of subnational jobs are located at provincial and territorial levels, who represented 50.4% of total public staff spending vs 34.3% for the local level.

DIRECT INVESTMENT. Canada SNGs are key investors, responsible for 87.5% of public investment, a share that tops the ranking of OECD countries together with Belgium (30 percentage points higher than the OECD average of 56.9% and 25 percentage points higher than the average of the OECD federations of 62.3%). Canada also ranks first in the OECD regarding SNG investment-to-GDP (3.4% vs. 1.7% on average in the OECD and 1.8% in OECD federations). Within SNGs, local governments are major investors, accounting for 46% of total SNG investment and 40.1% of total public investment while the provincial/territorial levels accounted for 54% of SNG investment and 47.5% of public investment. Investment amounted to 18.2% of local government expenditure, a ratio above the OECD average of 10.7%.

Despite their broad powers of taxation, provinces still rely on the federal government for some infrastructure finance, even for projects of primary benefit to provincial (and municipal) residents. Canada’s six regional development agencies (RDAs), which implement federal priorities, cover the entire country and, since 2015, are part of the country’s Innovation, Science and Economic Development portfolio. They intervene with provincial, territorial, municipal and indigenous governments on an ongoing basis. The RDAs are developing Regional Growth Strategy (RGS) with an all-of-government approach (federal/provincial/territorial) for their respective regions by collaborating on targeted, evidence-based actions around a common vision. As of September 2018, two regions had already launched their strategies: the Atlantic Growth Strategy, launched in 2016, and the Prosperity and Growth Strategy for Northern Ontario in 2018. The “Building Canada Fund”, part of “Infrastructure Canada”, helps fund specific transport infrastructure projects for municipalities, as well as water and sewerage systems. The establishment of the Canada Infrastructure Bank, a new federal crown corporation, in late 2017 contributes towards diversifying financing sources for public investment, notably by attracting private sector and institutional investment in new revenue-generating infrastructure projects. The Bank funding may be accessed by all levels of government – federal, provincial, territorial, municipal and Indigenous governments – and the private sector.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

In health, education, housing, economic affairs, housing and community amenities and environmental protection, Canadian SNGs, and provinces in particular, are responsible for the very large majority of total public spending. Primary areas of provincial spending are hospital and medical care, education, income support and other social services. On the other hand, primary areas of municipal spending are transport, environment and the protection of persons and property. SNGs dedicate on average one third of their expenditure on health, which is by far the highest spending category of subnational budgets. It is followed by education (in the hands of elected school boards), social protection and general public services.

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY
OVERALL DESCRIPTION. Tax revenues represent the primary source of revenue of Canadian SNGs, accounting for almost 54% of their revenues, well above the OECD average (44.6%) as well as the average of the OECD federations (47.5%). Consequently, the share of grants and subsidies in SNG revenues is more limited, well below the OECD average. While the share of tariffs and fees is in line with OECD average, the share of income from property assets is particularly high by international standards. There are great differences between provincial/territorial and local funding sources. While provinces and territories are funded mainly through taxation (59% of their revenues), municipalities depend more on grants and subsidies which accounted for 43% of their revenues, representing the primary source of municipal revenue. Yet data varies between provinces, and for some provinces and territories with few natural resources, transfers from central government are the main source of revenues. Likewise, the funding scheme at municipal level may differ from one province/territory to another. Overall, territorial and local governments in the territories are heavily dependent on federal funding, where it represents on average 74.4% of revenues, compared with 15.3% in the provinces in 2016.

TAX REVENUE. The share of SNG tax revenue in public tax revenue in Canada is the highest within OECD countries (31.9%) as well as within OECD federations (42.4%). Regarding the SNG tax-to-GDP ratio, Canada also stands out in the OECD: 16.3% vs 7.1% in the OECD and 8.8% in the OECD federations.

SNG tax revenue comes from shared taxation (between provinces and the federal government) and own-source taxation (in particular at the municipal level). Provinces represent almost 80% of all SNG tax revenue, and have a wide-ranging tax autonomy. Their tax revenue includes the personal income tax (PIT), the corporate income tax (CIT), provincial sales tax and payroll tax (all shared taxes).

Provincial tax systems are to a large extent harmonised with federal taxes, through a series of tax collection agreements and the supervision of the independent Canada Revenue Agency. Provinces must agree to common bases, but keep considerable discretion over tax rates and credits, provided that the latter do not discriminate against non-resident taxpayers. Revenues collected by the Canada Revenue Agency are allocated among provinces according to estimates of aggregate consumption. Most non-participating provinces levy a single-stage retail sales tax. The province of Quebec remains outside the income tax collection agreements, but nonetheless it adopted similar tax bases. Besides, for corporations that earn income in multiple provinces, revenues are allocated to provinces using a formula apportionment, which gives equal weight to revenues, payrolls and capital assets. Six of the ten provinces harmonise their sales taxes with the federal Goods and Services Tax, which is a value-added tax. Different tax arrangements exist among provinces with respect to shared responsibility for immigration, training, tourism and agriculture. In the past, provinces have been allowed to opting out of certain federal transfer programmes with compensation, although Quebec has been the only one to take advantage. A 1982 constitutional amendment (92A) granted provinces an unrestricted taxing power (“any mode or system”) in the natural-resource field, which clarified and expanded their powers over non-renewable resources, forestry resources and electricity generation.

The most significant sources of tax revenues for provinces is the PIT (41% of total PIT income at the national level, representing 38% of provincial tax revenue and 22% of their total revenue), over which provinces have considerable autonomy, followed by the general sales taxes (20.9% of provincial tax revenue and 12.3% of their revenue) and CIT (10.7% of provincial tax revenue and 6.3% of their revenue, representing 40% of total CIT revenue collected at the national level). Other provincial taxes include excise taxes on motor fuel and tobacco (6% of provincial tax revenue), payroll tax (5%) and taxes on property (5%). At local level, most tax revenues come from recurrent taxes on immovable property (land and buildings), which accounted for 85% of local tax revenue and 34% of local revenue. This tax is composed of the personal property tax paid by residents and business owners and special assessments and charges on local property. Municipalities have discretion over the tax rates. Each municipality (and province) has its own tax formula specificities but municipal property tax bases are harmonised within all provinces. Assessment of the property value is typically conducted by a provincial authority and the frequency of assessments can differ by province. Property value assessment takes different factors into account such as neighbouring, the age of the home, the size of the lot, etc.

Other minor local taxes include licences and permits, and a share of the tax on financial and capital transactions.

Overall, revenue form the provincial and municipal recurrent taxes on immovable property represented 3.2% of GDP in 2016, and 2.9% for the municipal level only, which is very high by international comparison (the OECD average was 1.1% of GDP in 2016).

GRANTS AND SUBSIDIES. Canada subnational fiscal system is composed of large and unconditional federal-provincial fiscal transfers and a revenue equalisation system enshrined in the constitution and revised in 2007, in order to ensure that all provinces and territories of various sizes, resources and wealth can provide relatively comparable level of public services at relatively comparable tax rates.

The high degree of revenue decentralisation in Canada results in significant horizontal imbalance. High-income provinces and those heavily endowed with natural resources have relatively high fiscal capacity, and transfers represent a very low share of their revenue, whereas in some provinces transfers from the federal government represent a more important source of revenue than their own taxes. On the other hand, this imbalance generates fiscal pressures for the federal government, obliged to finance equalisation from its own revenues.

Federal transfers to provinces and territories aim at ensuring funding for providing social programmes, mostly in the area of health, welfare and post-secondary education services. They include a vertical equalisation function through unconditional equalisation transfers (determined by assessing each province’s revenue-raising capacity from tax revenues and natural resource revenues), and social transfers, transferring revenues from high-income to low-income provinces. The latter are based on equal per capita transfers and include the Canada Health Transfer (CHT), with broad conditions in order to support the public health care programme, and the Canada Social Transfer (CST), conditional on provincial programmes. In addition, there exist many other small transfers to provinces for specific purposes. Territories also receive specific unconditional transfers that also take expenditure needs into account, in recognition of the higher cost of providing programmes and services in the north of the country.
Municipalities receive both federal and provincial transfers. Federal transfers take the form of earmarked grants, such as the Gas Tax Fund (GTF), dedicated to support municipal infrastructure that contributes to cleaner air and water and reduced greenhouse gas emissions. Most grants from provincial to local level are conditional grants aimed at financing specific services at levels and standards that are set by the province. Most provinces provide some form of equalisation grants to municipalities, and each province can define its own municipal equalisation scheme, but these do not generally constitute the major component of grants. Disagreements exist over the structure of the equalisation system, particularly the extent to which natural resources should be equalised, and the extent to which it incentivises local economic development.

OTHER REVENUES. The level of user charges and fees in SNG revenues is high, in particular in local government revenues. Charges for services (e.g., water, wastewater, and sewer fees) and development permits are a significant source of revenue for municipalities. Property income (dividends, rents, assets sales) also represented a significant source of revenues for SNGs in 2016 (6.1% of SNG revenues vs 2.0% in the OECD), especially for the provincial/territorial level (6.3%). In fact, property income includes proceeds from natural resources exploited on provincial territory (royalties), which can be significant for some provinces. Provinces receive direct payment from mining companies, such as in Australia or Argentina. Revenue from oil and gas royalties had tended to decline sharply.

FISCAL RULES. Almost all provincial and territorial governments in Canada have adopted fiscal rules in the form of balanced-budget requirements since the mid-1990s, prior to which most provinces ran deficits and failed to balance their budgets. Only recently, did the Canadian Federal Government followed the example of provinces and introduced its first balanced-budget legislation in 2014. There have been three waves of fiscal rules in Canada, the first focusing on spending limits (early 1990s), the second one on more wide-reaching rules for deficit reduction (mid-1990s) and the third one for the completion of provincial fiscal consolidation (late 1990s). Fiscal rules vary significantly among provincial governments, in both the types and stringency of rules. Manitoba and Alberta are the provinces with the strongest rules, including an annual general prohibition of deficits, limited tax rate increases without a referendum, debt repayment requirements, and sanctions in case of non-compliance, such as a decrease in politicians’ salaries. However, the use of fiscal rules in Canadian provinces has been changing frequently, and their efficiency was particularly questioned during the great recession, to which provinces responded in different ways. Indeed, During the 2007-08 economic crisis, some provinces ignored their rules, making them become functionally non-operative (Ontario, Nova Scotia and New Brunswick), whereas other actively confronted the constraints set by their rules and made changes accordingly (British Columbia, Quebec and Manitoba). Eventually, Nova Scotia and New Brunswick abandoned their budget-balance legislation post-2008 (respectively in 2009 and 2014), and more than 40% of the stability laws that were enacted were repealed or significantly amended. The Parliamentary Budget Officer (PBO), established by the 2006 Federal Accountability Act (FedAA), provides independent analysis on public finance and since 2011, provides an assessment of the long-term sustainability of government finances for three government sub-sectors (federal, provincial/territorial and local).

DEBT. Provinces can borrow and lend at their discretion, although they set fiscal rules, impose balanced budgets and restrict borrowing for their municipalities. A common rule is to restrict borrowing to the financing of capital expenditure (golden rule). The debt-GDP ratio varies widely across provinces, some of them reaching levels comparable to the federal government debt. Yet all provinces can borrow at similar terms to the federal government. On average the SNG debt ratio as a share of GDP and public debt is the highest in the OECD, where it amounted 24.5% of GDP and 20.7% of public debt, even when considering OECD federations only (31.3% of GDP and 27.1% of public debt). The financial debt accounted for 68.5% of total outstanding debt while insurance pension and other accounts payable accounted respectively for 13.5% and 18% of debt stock. The financial debt is made up mainly of bonds (93%) while the share of loans is more limited (7%). Provinces account for 84.5% of SNG outstanding debt (i.e. 56.8% of GDP), compared to municipalities whose debt is much smaller (15% of SNG debt i.e. 10.4% of GDP). Some provinces have run up significant debt-GDP ratios, which are sustainable as long as interest rates remain low, but could cause financial difficulties if interest rates were to rise. Financial debt is higher for the provinces/territories (74% of debt stock) than for the local government sector (39%) whose debt is largely composed of other accounts payable (61% of debt stock). Bond financing is predominant at both provincial/territorial and local government levels.

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Sustainable Development, Socio-economic Development and Local Government

Last update: 02/2019

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