



NEWS RELEASE

Federal interest costs will increase—perhaps substantially—if interest rates continue to rise

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For Immediate Release

VANCOUVER—As the Bank of Canada seeks to reduce inflation by increasing interest rates, interest costs on government debt—including federal debt—will also rise, finds a new essay published today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“While the federal government continues to borrow money to fund high levels of spending, the cost of servicing Ottawa’s growing debt is poised to increase if interest rates continue to rise,” said Philip Cross, former chief economic analyst at Statistics Canada, senior fellow at the Fraser Institute and author of *Low Interest Rates and the Cost of Government Debt*.

The inflation rate in Canada recently hit a 30-year high, prompting the Bank of Canada in April to raise its policy interest rate by half a percentage point, with more rate hikes possible before the end of the year. Higher interest rates help slow the rate of inflation by increasing the cost of borrowing, which slows demand pressures. Yet the increase in interest rates also increases government interest costs.

According to the latest federal budget forecasts, interest costs for Ottawa’s debt will increase from \$26.9 billion in 2022-23 to \$42.9 billion in 2026-27. Again, this cost increase could grow even larger if interest rates continue to rise.

A second essay notes the similarities between today’s federal fiscal situation and the mid-1990s when interest costs consumed one of every three dollars of revenue. Back then, the government enacted major reforms—including spending reductions—to help dramatically reduce the federal debt.

“Unless the federal government heeds the lessons from the past and reins in spending, Canadians will continue to pay a steep price for Ottawa’s mounting debt,” said David R. Henderson, professor emeritus of economics, senior fellow at the Fraser Institute and author of *Canada’s Budget and Deficit Cuts in the Late 20th Century: An Amazing Success Story*.

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