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Budget 2025: Issues for Parliamentarians



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

To assist parliamentarians in their budgetary deliberations, this report highlights key issues arising from Budget 2025.

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Highlights

Under Budget 2025 the deficit is projected to average \$64.3 billion annually over 2025-26 to 2029-30—more than double that projected in the 2024 Fall Economic Statement (FES). This deterioration primarily reflects new “day-to-day” operating measures and increased provisions for liabilities.

Absent measures since the 2024 FES and measures announced in Budget 2025, the day-to-day operating balance would be in a surplus position over 2026-27 to 2029-30. New operating measures since the 2024 FES and in Budget 2025 shift the day-to-day operating balance from a surplus to a deficit position in 2026-27 and 2027-28.

PBO maintains its view that the Government’s definition of capital investments is overly expansive. Based on PBO’s definition, capital investments would total \$217.3 billion over 2024-25 to 2029-30—approximately 30 per cent (\$94 billion) lower compared to Budget 2025. Moreover, based on PBO’s definition, the day-to-day operating balance after new measures would remain in a deficit position.

Given the subjectivity involved in defining federal capital investments and their role in guiding fiscal policy decisions and in assessing fiscal performance, the PBO recommends that the Government establish an independent expert body to determine which federal spending categories and measures qualify as capital investment under an expanded definition beyond the Public Accounts of Canada.

Finance Canada projects the deficit-to-gross domestic product (GDP) ratio to increase to 2.5 per cent in 2025-26, before declining over the medium term to reach 1.5 per cent in 2029-30. Based on PBO stress testing, there is a 7.5 per cent chance that the deficit-to-GDP ratio will decline in every year over 2026-27 to 2029-30. This suggests it is unlikely that the Government’s declining deficit-to-GDP fiscal anchor will be respected.

Based on the long-term baseline projection in Budget 2025, there is limited fiscal room for the Government to reduce revenues or increase program spending while ensuring the federal debt-to-GDP ratio in 2055-56 is at or below its initial (2024-25) level. This contrasts with fiscal policy settings over the last 3 years that would have provided more fiscal room to address future challenges and risks.

Deficit before and after new measures

Under the fiscal plan presented in Budget 2025, the deficit is projected to average \$64.3 billion annually over 2025-26 to 2029-30, which is more than double that projected in the 2024 Fall Economic Statement (FES).

The deterioration in the Government's outlook primarily reflects new "day-to-day" operating measures (totalling \$87.0 billion on a net basis) and higher direct program expenses¹ (totalling \$65.0 billion) related to increased provisions for contingent liabilities, doubtful tax accounts and other obligations such as environmental liabilities (Table 1). New capital investment measures contribute \$38.7 billion to the deterioration in the deficit outlook. Other revisions totalling \$23.1 billion² partially offset the new measures and increased provisions.

Table 1

Deficit before and after new measures, billions of dollars

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Budgetary balance – FES 2024	-42.2	-31.0	-30.4	-27.8	-23.0	
Revised direct program expenses	-16.8	-14.6	-10.9	-12.3	-10.4	-65.0
Other revisions	9.7	11.0	3.4	1.2	-2.2	23.1
Budgetary balance before measures	-49.2	-34.5	-37.9	-38.8	-35.6	
Capital investment measures*	-2.2	-8.1	-10.0	-9.0	-9.4	-38.7
Day-to-day operating measures*	-26.9	-22.8	-15.6	-10.1	-11.6	-87.0
Budgetary balance – Budget 2025	-78.3	-65.4	-63.5	-57.9	-56.6	

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

* Includes measures since FES 2024 and measures announced in Budget 2025. A negative number implies a deterioration in the budgetary balance (lower revenue or higher expenses). A positive number implies an improvement in the budgetary balance (higher revenue or lower expenses).

Day-to-day operating balance before and after new measures

Budget 2025 details the Government's new approach to budgeting that separates the budgetary balance into a "day-to-day" operating balance and capital investments.

Under this approach, capital investments include capital formation held directly on the Government's balance sheet (that is, the existing treatment in the Public Accounts of Canada), as well as spending that supports capital formation undertaken by "a private sector entity, Indigenous community or another level of government".³ Moreover, the operating balance forms the basis of one of the Government's fiscal anchors—to balance operating spending with revenues by 2028-29.

Given total baseline capital investments (Table A2.2)⁴ and the budgetary balance before measures (Table A1.3) provided in Budget 2025, the day-to-day operating balance before measures can be determined residually.

Absent measures since the 2024 FES and measures announced in Budget 2025, the operating balance would be in a surplus position over 2026-27 to 2029-30 (Table 2). That is, revenues would exceed operating spending starting in 2026-27. New day-to-day operating measures since the 2024 FES and in Budget 2025 shift the operating balance from a surplus to a deficit position in 2026-27 and 2027-28.

Table 2

Day-to-day operating balance before and after new measures, billions of dollars

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Budgetary balance before measures	-49.2	-34.5	-37.9	-38.8	-35.6
Capital investments – baseline*	43.2	48.5	48.1	50.6	50.3
Day-to-day operating balance – before measures	-6.0	14.0	10.2	11.8	14.7
Day-to-day operating balance – Budget 2025	-33.0	-8.7	-5.5	1.7	3.0

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

* Represents capital investments in the 2024 FES adjusted for economic and fiscal developments.

New Capital Budgeting Framework

The Government's [new Capital Budgeting Framework](#) adopts a definition of capital investment that expands beyond the current treatment in the Public Accounts and international practice based on the System of National Accounts (SNA), such as that adopted by the United Kingdom (see Table A2.1 in Budget 2025).⁵

By including corporate income tax expenditures, investment tax credits and operating (production) subsidies, the framework blends policy measures with capital formation. While such measures may influence corporate investment decisions to some extent, our assessment is that federal spending on these measures would not be considered capital formation within the SNA or U.K. frameworks. Federal spending under these categories represents their fiscal cost and not necessarily the amount of private sector capital formation that will be undertaken in the economy because of these measures.

To ensure greater consistency with the SNA framework, we constructed capital investments (from Table A2.2 in Budget 2025) to include only capital transfers, capital amortization, and selected measures targeting the housing stock. Based on our definition, capital investments would total \$217.3 billion over 2024-25 to 2029-30, which is approximately 30 per cent (\$94 billion) lower compared to Budget 2025 (Table 3). Moreover, based on our definition, the operating balance in Budget 2025 would remain in a deficit position over 2024-25 to 2029-30 (Table 4).

Given the subjectivity involved in defining federal capital investments and their role in guiding fiscal policy decisions and in assessing fiscal performance, the PBO recommends that the Government establish an independent expert body to determine which federal spending categories and measures qualify as capital investment under an expanded definition beyond the Public Accounts of Canada.

Table 3

Total capital investments, billions of dollars

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
(A) Capital transfers	16.4	20.6	26.1	28.0	26.2	24.4
(B) Amortization of federal capital	6.0	6.6	7.3	8.5	10.9	12.5
(C) Capital-focused tax incentives	1.3	6.3	9.3	9.3	10.9	10.6
(D) Private sector research and development	4.9	5.5	5.8	5.9	6.1	6.2
(E) Support to unlock large-scale private sector capital investment	0.1	0.5	1.4	2.4	2.8	3.2
(F) Measures to grow the housing stock	3.5	5.8	7.4	4.6	3.7	3.4
(G) Comprehensive Expenditure Review (CER)	0.0	0.0	-0.5	-0.6	-0.9	-0.7
Total capital investments – Budget 2025	32.2	45.4	56.7	58.0	59.7	59.6
Total capital investments based on PBO definition (A+B+F*)	25.8	32.5	40.1	40.2	39.8	39.0

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

* Excludes tax measures and other programs in the category “Measures to grow the housing stock” in Budget 2025 Table A2.2.

Table 4

Day-to-day operating balance, billions of dollars

	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Budget 2025 day-to-day operating balance	-4.1	-33.0	-8.7	-5.5	1.7	3.0
Budget 2025 day-to-day operating balance based on PBO definition	-10.5	-45.8	-25.3	-23.3	-18.1	-17.6

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Fiscal anchors

In Budget 2025, the Government identified two fiscal anchors:

- Balance operating spending with revenues by 2028-29; and
- Maintain a declining deficit-to-gross domestic product (GDP) ratio.

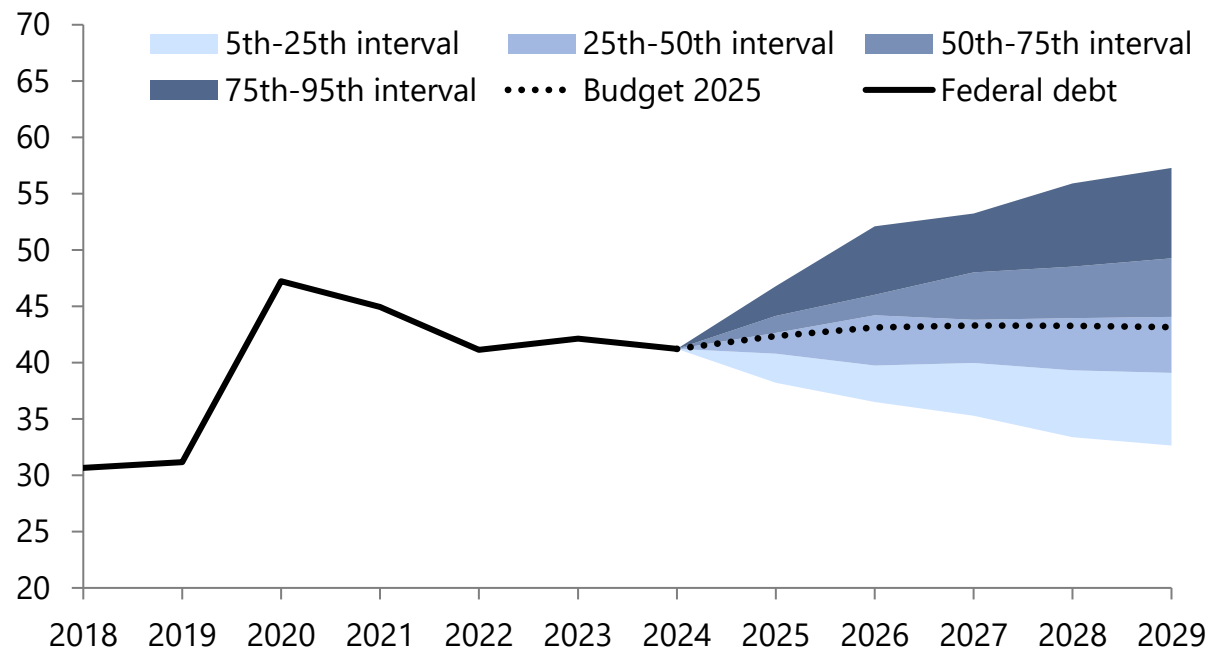
With Budget 2025 the Government abandoned the previous fiscal anchor to reduce the federal debt-to-GDP ratio over the medium term. Recall that in the 2024 FES, the Government reiterated its commitment to reducing the federal debt-to-GDP ratio over the medium term, noting that “[t]his metric is key not only for fiscal sustainability, but also to preserve Canada’s AAA credit rating, which helps maintain investors’ confidence and keeps Canada’s borrowing costs as low as possible.” This also represents a departure from the [U.K. Charter for Budget Responsibility](#), which aims to reduce debt (defined as net financial liabilities) as a share of the economy in addition to balancing day-to-day spending with revenues.

The federal debt-to-GDP ratio in Budget 2025 is projected to be higher compared to the 2024 FES and is no longer projected to be on a declining path over the medium term. Finance Canada projects the federal debt-to-GDP ratio to increase from 41.2 per cent in 2024-25 and remain slightly above 43.0 per cent over 2026-27 to 2029-30.

Budget 2025 provided a stress test to the Government’s fiscal plan by presenting downside and upside scenarios. These scenarios, however, provide a limited range of possible economic shocks and do not account for discretionary fiscal policy measures. Using the methodology developed in PBO’s [Stress Testing the Government’s Fiscal Anchor and Fiscal Objective](#), based on historical economic and fiscal shocks, we estimate that there is a 35.4 per cent chance that the federal debt-to-GDP ratio will be lower in 2029-30 compared to its 2024-25 level.

Figure 1 presents confidence intervals for the federal debt-to-GDP ratio over 2025-26 to 2029-30. These results suggest that the balance of risks to the federal debt-to-GDP ratio projection in Budget 2025 is tilted to the upside. That is, more than half of the distribution of simulated debt ratio paths lies above the budget projection in every year of the planning horizon.

Figure 1
Federal debt, per cent of GDP



Source:

Finance Canada and Office of the Parliamentary Budget Officer.

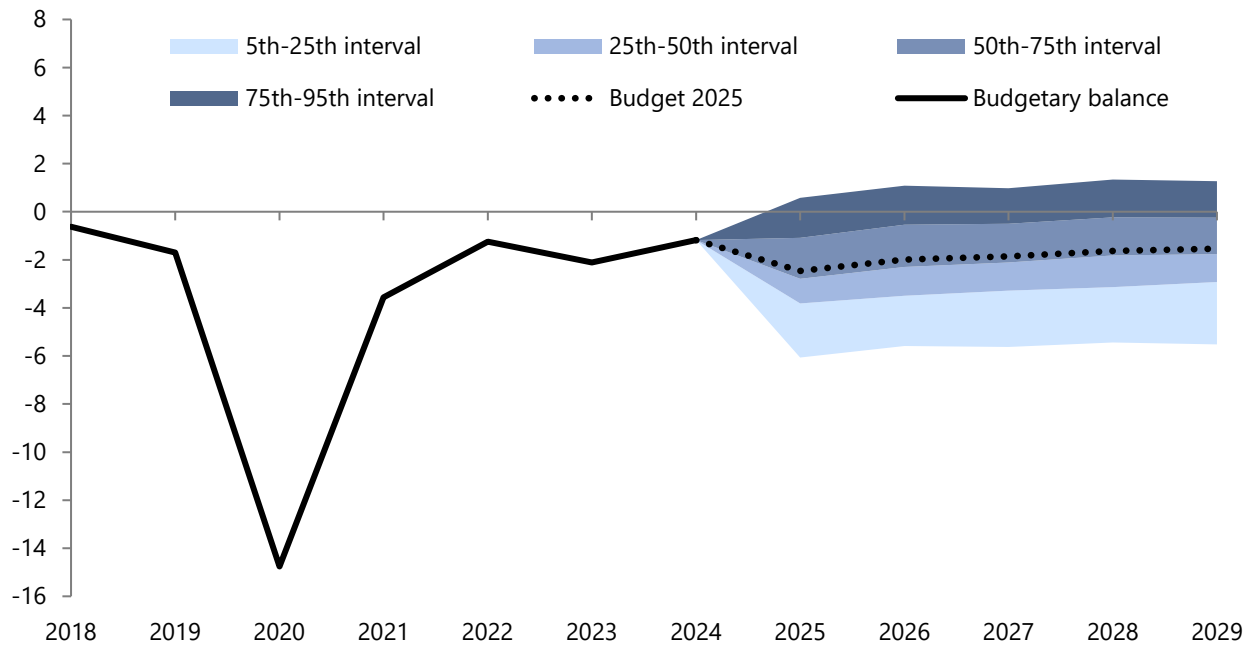
Note:

The series are presented on a fiscal-year basis where 2018 refers to 2018-19. The projection period covers 2025-26 to 2029-30.

Finance Canada projects the deficit-to-GDP ratio to increase to 2.5 per cent in 2025-26, before declining over the medium term to reach 1.5 per cent in 2029-30. We estimate there is a 7.5 per cent chance that the deficit-to-GDP ratio will decline in every year over 2026-27 to 2029-30. This suggests it is unlikely that the Government's declining deficit-to-GDP fiscal anchor will be respected.⁶ Figure 2 presents confidence intervals for the deficit-to-GDP ratio over 2025-26 to 2029-30.

A declining deficit-to-GDP ratio represents a reduction in new borrowing as a share of the economy but does not guarantee that the federal debt-to-GDP ratio will decline over the projection horizon. Its directional impact on the federal debt ratio depends on GDP growth and the size of the deficit relative to federal debt.

Figure 2
Budgetary balance, per cent of GDP



Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

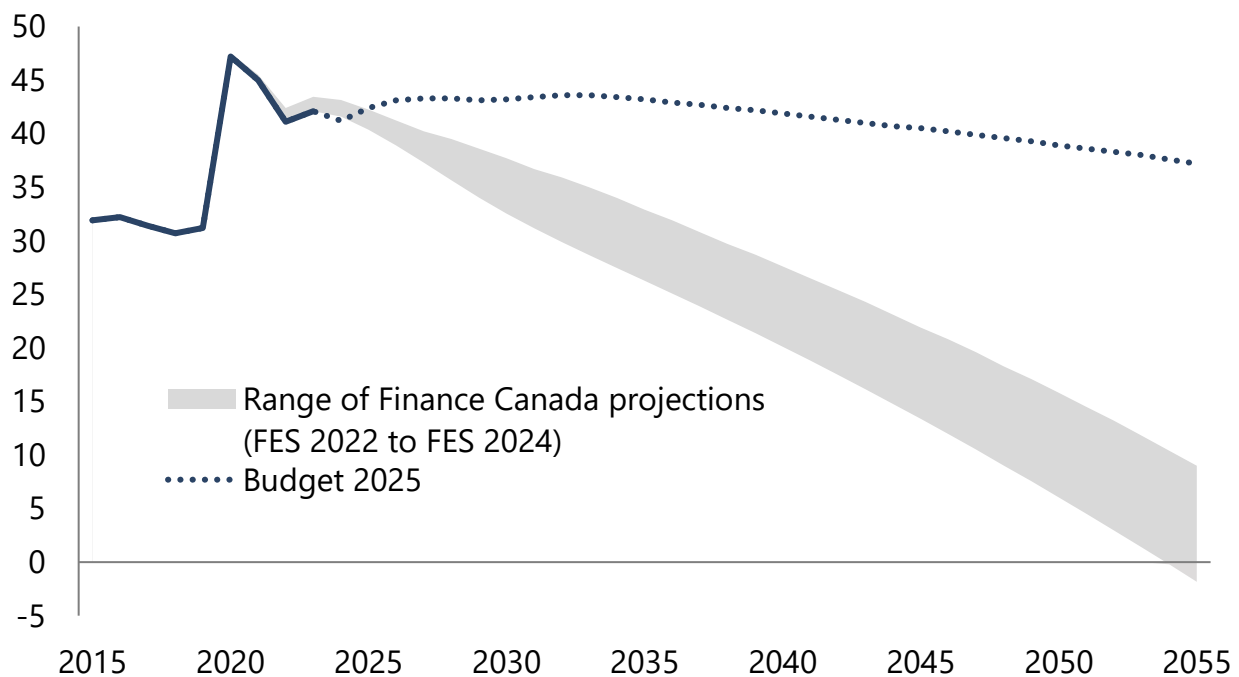
The series are presented on a fiscal-year basis where 2018 refers to 2018-19. The projection period covers 2025-26 to 2029-30.

Long-term fiscal sustainability

Under the long-term baseline scenario in Budget 2025, the federal debt-to-GDP ratio is projected to remain relatively stable over the next 30 years. Finance Canada projects the federal debt ratio to rise from its initial level of 41.2 per cent in 2024-25 to 43.6 per cent in 2033-34, before declining to 37.2 per cent in 2055-56. The long-term outlook for the federal debt-to-GDP ratio presented in Budget 2025 stands in contrast to the sharp declines projected in budgets and updates over the last 3 years (Figure 3).

Figure 3

Federal debt-to-GDP ratio, per cent



Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

The range is based on long-term projections from FES 2022, Budget 2023, FES 2023, Budget 2024 and FES 2024.

PBO assesses [fiscal sustainability](#) using the fiscal gap—the change in revenues or program spending (relative to a baseline projection) that is required to stabilize a government’s debt-to-GDP ratio at its initial level over a long-term horizon.⁷

A negative gap indicates that debt is projected to decline as a share of GDP and that there is room available to increase spending or reduce revenues (or some combination of both), while ensuring the debt-to-GDP ratio projected at the end of a long-term horizon returns to its initial level.

Given the proximity of the baseline federal debt-to-GDP ratio in 2055-56 to its initial level in 2024-25, our framework would suggest that there is a modest negative fiscal gap. That is, based on Finance Canada projections, current fiscal policy in Budget 2025 would be deemed sustainable over the long term. That said, there would be limited fiscal room to reduce revenues or increase program spending (relative to the baseline) while ensuring the federal debt-to-GDP ratio in 2055-56 is at or below its initial level. This contrasts with fiscal policy settings over the last 3 years that would have provided more fiscal room to address future challenges and risks.

Comprehensive Expenditure Review

Consistent with [OECD best practices](#) and lessons learned from [prior spending reviews](#) in Canada, spending reviews should clearly define the scope, methodology, and expected savings, as well as the anticipated effects on personnel and service levels. Transparent reporting on implementation and outcomes is essential to assess whether planned savings are achieved and at what cost to service delivery.

Budget 2025 outlines the scope and general methodology used to identify savings under the Comprehensive Expenditure Review (CER), structured around three themes: modernizing government operations, streamlining program delivery, and recalibrating federal programs. It also provides high-level outcomes associated with the planned savings and includes an annex presenting a departmental breakdown by theme.

That said, consistent with our reports⁸ on the Budget 2012 spending review exercise, there is a lack of detail regarding the impact on individual programs within each organization, including the reduction in personnel and potential service level impacts. It is unclear if or when the Government plans to publish this information, or how it will report on the progress and results of the exercise. In the absence of such detail, it is difficult for PBO to assess the fiscal and operational risks to achieving the stated savings.

To address this information gap, the PBO has submitted [information requests](#) to a selected number of organizations, seeking program-level details on planned savings, staffing reductions, and service implications. The PBO intends to publish follow-up analysis; however, its thoroughness will depend on the information received.

Defence spending

Budget 2025 announced \$81.8 billion in defence spending over five years on a cash basis. This total includes funding already appropriated through Supplementary Estimates (A), 2025-26, which provided over \$9 billion in 2025-26 as [announced](#) by the Prime Minister in June 2025.

While the budget provides some detail, it remains unclear how much of this funding is incremental to existing projections. Key baselines include “[Our North, Strong and Free: A Renewed Vision for Canada’s Defence](#)”, released in 2024, which outlined departmental and total defence spending under the NATO definition, and the [Department of National Defence \(DND\)’s 2025-26 Departmental Plan](#). The budget does not specify how this funding interacts with those plans or with the capital investment framework detailed in PBO’s latest report on [planned capital spending under Canada’s defence policy](#).

Moreover, Budget 2025 does not set out a path to the Government’s stated goal of increasing total defence spending to 5 per cent of GDP under the revised NATO framework.⁹ Of this target, 1.5 percentage points are expected to reflect related security and resilience measures outside core defence spending. Budget 2025 states that the Government expects currently planned spending by federal, provincial, territorial, and municipal governments will meet this 1.5 per cent of GDP commitment but provides no supporting detail or estimates.

The PBO has submitted an [information request](#) to DND to clarify how Budget 2025 measures compare with existing spending projections and to determine how much of the funding represents new resources rather than reallocations within existing plans.

Public Accounts timeliness

The Public Accounts of Canada for 2024-25 were tabled more than seven months after the close of the fiscal year (March 31). This follows the 2023-24 Public Accounts, which were published with a record delay of almost nine months after the close of the fiscal year.

PBO has repeatedly noted that timely publication of the Public Accounts is critical for transparency and accountability in federal finances. Delays in tabling audited results limit Parliament's ability to reconcile in-year fiscal developments with final outcomes, assess progress toward fiscal anchors, and evaluate the credibility of the Government's economic and fiscal plan.

While the *Financial Administration Act* permits the Public Accounts to be tabled as late as December 31 following the close of the fiscal year, the PBO continues to recommend advancing this deadline to no later than September 30. This will ensure that audited financial information is available in time to support Parliament's scrutiny of the Government's fiscal performance.

Notes

¹ Revisions reflect economic and fiscal developments since FES 2024 (see [Table A1.6](#) in Budget 2025). As noted in Budget 2025, these developments do not “include policy actions and measures introduced since FES 2024”.

² Other revisions include higher budgetary revenues that are partially offset by higher public debt charges.

³ See [Modernizing Canada’s Budgeting Approach](#).

⁴ Table A2.2 in Budget 2025 provides a detailed breakdown of capital investments: baseline (that is, projected capital spending prior to new measures); new measures since FES 2024; and, new measures announced in Budget 2025.

⁵ See [PBO’s initial assessment](#) of the Government’s New Budgeting Approach.

⁶ Given data limitations, we did not estimate the likelihood that the Government’s operating balance fiscal anchor would be respected. Budget 2025 provided capital investment data only back to 2005-06.

⁷ The fiscal gap methodology was developed in [The Sustainability of Fiscal Policy: New Answers to an Old Question](#) and [The U.S. Fiscal Problem: Where We Are, How We Got Here, and Where We’re Going](#). The fiscal gap measure has been used by organizations such as the Congressional Budget Office (United States), the Office for Budget Responsibility (United Kingdom), the Organisation for Economic Co-operation and Development, and the International Monetary Fund to quantify governments’ long-term fiscal imbalances.

⁸ See [Budget and Expenditure Reporting to Parliament: Strengthening Transparency and Oversight in an Era of Fiscal Consolidation](#); [Federal Expenditure Restraint: Monitoring Framework](#); and, [Fiscal Savings from Budget 2012](#).

⁹ See [Canada joins new NATO Defence Investment Pledge](#).

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