

Investment Multipliers

Budget 2025 introduced \$41.3 billion in new federal measures to support investment activity across five program areas: infrastructure, private research and development, housing, industrial development programs, and tax measures.

The Standing Senate Committee on National Finance requested an assessment of the economic rates of return on these measures by investment type and under different scenarios.

This note responds to that request by estimating investment multipliers using PBO's macroeconomic model. Each multiplier measures the net impact on real GDP of a permanent, inflation-adjusted one-dollar increase in the relevant investment category, accounting for behavioural responses including monetary policy, import leakages, and capital accumulation. Multipliers are estimated under two scenarios: one in which monetary policy responds to higher investment activity, and one in which it does not.

Infrastructure and private research and development generate the largest and most sustained returns, growing over the five-year horizon as investment accumulates into productive capacity. Housing generates strong short-run returns, with additional benefits possible beyond those captured in the model, such as labour mobility effects. Industrial development programs produce the lowest multipliers, reflecting the high import content of machinery and equipment. Tax measures generate modest returns in the short run that grow substantially over five years as capital accumulates and productivity rises.

Key Findings

The Standing Senate Committee on National Finance requested an assessment of the economic rates of return on these measures by investment type and under different scenarios.

Budget 2025 introduced \$41.3 billion in new federal measures to support third-party investment activity. Finance Canada estimates that, through cost-sharing with other governments and the private sector, these measures could support a total of \$165.8 billion in incremental investment activity. Finance Canada assesses that previously-announced federal investments of \$243.7 billion will generate \$914.2 billion in total investment using similar cost-sharing assumptions, which sums to the government's stated investment target of \$1.08 trillion.

This note provides PBO's independent estimates of the real GDP impact of the \$41.3 billion in announced new capital measures, using multipliers derived from PBO's macroeconomic model. These estimates are distinct from, and should not be compared with, PBO's previous note on the government's stated target of \$1.08 trillion in total investment, which analyzed Finance Canada's cost-sharing methodology.

Budget 2025 introduced \$41.3 billion in new measures to support third-party investment activity across five program areas: infrastructure, private research and development (R&D), housing, industrial development programs, and tax measures, which include accelerated depreciation and immediate expensing, as well as other tax incentives. As documented in a previous PBO [note](#), Finance Canada estimates that, through assumed cost-sharing ratios with other governments and the private sector, this \$41.3 billion could support a total of \$165.8 billion in investment activity. That note explained Finance Canada's methodology and assessed its assumptions; it did not constitute an endorsement of Finance Canada's approach, nor did it estimate the macroeconomic impact of the measures.

The Standing Senate Committee on National Finance requested a study of the rates of return on the new investment of \$41.3 billion announced in Budget 2025 by type of

investment and under different scenarios. To assess these rates of return, PBO estimates economic multipliers that measure the impact of additional investment on real GDP on a net National Accounts basis; in other words, how much economic activity can be expected to be generated in Canada from this spending, after taking account of factors like current import leakages to other countries to purchase investment inputs. This methodology does not include a calculation for the deadweight costs of taxation to finance these investments, or their debt service costs.

Since the five program areas of the \$41.3 billion in total investment are not explicitly represented in PBO's existing macroeconomic model, each is proxied by a corresponding National Accounts component that is most aligned to that category, as shown in Table 1. The impact of a permanent, inflation-adjusted one-dollar increase in that component is then simulated. For accelerated depreciation, immediate expensing, and other tax incentives, the multiplier is approximated by simulating a reduction in the effective federal corporate income tax rate.

Table 1
Proxy by program area

Program areas	National Account proxies
Infrastructure	Business capital formation in non-residential structures
Supports for private R&D	Business capital formation in intellectual property products
Housing	Business capital formation in residential structures: new housing construction
Industrial development programs	Business capital formation in machinery and equipment
Tax measures*	Corporate income tax rate

Source:

Parliamentary Budget Office

Note:

*Tax measures include accelerated depreciation and immediate expensing, as well as other tax incentives.

Investment multipliers provide a simple, indicative estimate of the potential impact on real GDP of a permanent (inflation-adjusted) one-dollar increase in gross fixed capital

formation. As with all macroeconomic analysis, multiplier estimates depend on the structure of the model used and the economic environment in which the shock occurs.

Each multiplier measures the impact of a one-dollar increase in the relevant investment category taken in isolation. They should therefore not be interpreted as a measure of the combined economic impact of Budget 2025 investment measures; when the measures are implemented together, projects will compete for the same workers, capital and material inputs and financing. These interactions across program areas mean that the combined impact differs from the sum of the individual multiplier effects.

As noted above, these estimates also do not account for how government support is financed—whether through higher taxes, lower spending elsewhere, or higher deficits—and they do not capture other potential spillover effects that are not represented in the model. Monetary policy can also affect the size of multipliers if higher investment leads to stronger economic activity and/or inflationary pressures.

PBO estimates investment multipliers under two scenarios: one in which monetary policy responds to changes in economic activity and inflation generated by higher investment, and one in which it does not. Table 2 summarizes the multiplier estimates for each program area under both scenarios using the macroeconomic model used in PBO's [June 2026 Economic and Fiscal Outlook](#).

Table 2

Public investment multipliers by program area, with and without monetary policy response (\$, impact on real GDP)

Program areas*	Year 1	Year 2	Year 3	Year 4	Year 5
Infrastructure	0.8 (0.9)	0.9 (1.0)	0.9 (1.1)	1.0 (1.2)	1.1 (1.2)
Supports for private R&D	0.8 (0.8)	0.8 (0.9)	0.8 (1.0)	0.9 (1.0)	0.9 (1.1)
Housing	0.9 (1.0)	0.9 (1.1)	0.8 (1.1)	0.7 (1.1)	0.6 (1.1)
Industrial development programs	0.2 (0.2)	0.1 (0.2)	0.1 (0.2)	0.1 (0.2)	0.1 (0.2)
Tax measures	0.2 (0.2)	0.4 (0.4)	0.5 (0.6)	0.6 (0.7)	0.7 (0.8)

Source:

Parliamentary Budget Office

Note:

Numbers in brackets show estimates without a monetary policy response. These are slightly higher, as no offsetting increase in interest rates reduces the effect of the investment.

The multipliers for tax measures are estimated by simulating a reduction in the effective federal corporate income tax rate.

*These estimates are not directly comparable with the [fiscal multipliers PBO published in 2024](#). The measures analyzed in 2024 were mostly demand stimulus, and potential GDP was held exogenous in those estimates. In contrast, the present analysis treats investment as a supply-side shock, with potential GDP responding endogenously to higher capital accumulation. In addition, residential investment is now modelled at a more disaggregated level than in the 2024 analysis, which also affects the comparability of the housing multiplier.

Prepared by

- Rolande Kpekou Tossou, Senior Analyst

Prepared under the direction of

- Diarra Sourang, Director

