

PBO Assessment

Spring Economic Update: Economic and Fiscal Track

PBO has prepared a series of notes assessing the Spring Economic Update 2026, tabled on April 28, 2026, in respect of Budget 2025 tabled on November 4, 2025. The objective of these notes is to support Parliamentary scrutiny of public finances. The notes review key elements of the budget cycle through time, notably the economic and fiscal track, fiscal anchors and fiscal sustainability, major government priorities guiding the capital investment strategy, and new spending measures announced since Budget 2025.

Key Findings

The Canadian economy continues to demonstrate resilience, with most indicators better than anticipated in Budget 2025. Notably, unemployment was improved from Budget 2025, despite continuing trade friction and recent oil price shocks.

Consistent with stronger economic fundamentals, the Government's fiscal space has also improved, due mostly to higher revenues and lower spending.

The additional fiscal space is mostly used for new policy priorities, resulting in a substantially unchanged deficit track.

Economic and Fiscal Track

Context

Compared to Budget 2025, the Government's economic outlook has strengthened. Real GDP growth is projected to be 1.1 per cent in 2026, effectively unchanged from 1.2 per cent previously, reflecting continued geopolitical uncertainty. However, nominal GDP — the broadest measure of the Government's tax base — is revised upward over 2026–2030, primarily reflecting greater anticipated GDP inflation in the near term driven by higher energy prices. The unemployment rate is projected to remain near 6.5 per cent in 2026 before gradually declining over the medium term. CPI inflation is now expected to average 2.5 per cent in 2026, compared to 2.0 per cent in Budget 2025, driven primarily by energy prices. It is projected to return to the Bank of Canada's 2 per cent target thereafter.

Table 1**Key Economic Assumptions in the Spring Economic Update and changes compared to Budget 2025**

Years	2025	2026	2027	2028	2029	2030
Real GDP growth (%)	1.7 (0.1)	1.1 (-0.1)	1.9 (-0.1)	1.9 (0.0)	1.9 (-0.1)	1.8 (NA)
Nominal GDP (\$ billions)	3,243 (14)	3,372 (46)	3,496 (35)	3,630 (31)	3,772 (29)	3,917 (NA)
Unemployment rate (%)	6.9 (-0.1)	6.5 (-0.3)	6.2 (-0.2)	6.1 (0.0)	6.0 (0.0)	5.9 (NA)
WTI oil price, \$US	65 (-1)	73 (8)	66 (-1)	66 (-3)	69 (-2)	70 (NA)
CPI inflation (%)	2.1 (0.0)	2.5 (0.5)	1.9 (-0.1)	2.0 (0.0)	2.0 (0.0)	2.0 (NA)

Source:

Government of Canada

Relative to Budget 2025, the Government projects the budgetary deficit to be lower by an average of \$2.5 billion per year over 2025-26 to 2029-30. This improvement is almost all due to 2025-26, which is projected to improve by \$11.5 billion. Overall, the improvement in the budgetary balance is attributable to two factors: economic and other fiscal developments, which improve the budgetary balance by \$12.1 billion on average by 2029-30, reflecting stronger income tax revenue and lower direct program expenses; and additional policy measures introduced since Budget 2025, which adds an average of \$9.5 billion annually in net new spending by 2029-30 and offsets almost all of the additional fiscal room created after 2025-26. By 2029-30, the projected deficit under the Spring Economic Update stands at \$56.2 billion (1.5 per cent of GDP), effectively unchanged from \$56.6 billion (1.5 per cent) in Budget 2025.

Table 2

Evolution of the budgetary balance, billions of dollars

	2025- 2026	2026- 2027	2027- 2028	2028- 2029	2029- 2030	2030- 2031
Budgetary balance – Budget 2025	-78.3	-65.4	-63.5	-57.9	-56.6	
Economic and other fiscal developments	17.7	15.7	10.7	8.6	7.6	
Total additional measures	-6.2	-15.7	-10.3	-8.4	-7.1	-6.8
Budgetary balance – Spring Economic Update	-66.9	-65.3	-63.1	-57.7	-56.2	-53.2

Source:

Government of Canada

Revenue growth has been revised upward, primarily reflecting higher personal and corporate income tax revenues, which are partially offset by lower projected Goods and Services Tax (GST) revenues. Program expenses are higher than previously projected over the medium term, largely due to new measures announced since Budget 2025. Public debt charges have decreased from Budget 2025 due to lower projected debt levels and lower average effective interest rates in the short term, with the debt service ratio now projected to reach 12.8 per cent in 2029-30. The federal debt is projected to reach \$1,576 billion (41.8 per cent of GDP) in 2029-30, representing a lower debt level than the prior outlook. The new sovereign wealth fund is anticipated to increase net borrowing by \$25 billion over the medium-term and commensurately raise public debt interest expenses.

Table 3

Changes to the fiscal outlook, billions of dollars (unless otherwise stated)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Revenues	4.0	6.4	5.5	5.7	6.5
Program expenses	-12.4	7.7	6.0	6.2	7.1
Public debt charges	-1.6	-1.3	-0.5	0.2	-0.4
Actuarial losses	6.6	-0.1	-0.3	-0.9	-0.7
Expenses	-7.4	6.3	5.2	5.5	6.0
Budgetary balance	11.5	0.1	0.4	0.2	0.4
Federal debt	-13.1	-13.1	-13.6	-13.8	-14.2
Budgetary balance, % of GDP	0.4%	0.1%	0.1%	0.0%	0.0%
Federal debt, % of GDP	-1.3%	-1.6%	-1.5%	-1.4%	-1.3%

Source:

Government of Canada

Note:

The 2025-26 amount for Actuarial losses is primarily driven by the reclassification of certain expenses from direct program expenses and do not impact the budgetary balance.

Key Risks and considerations

Geopolitical Uncertainty in the Middle East

Geopolitical uncertainty presents a downside risk to global growth. A sustained escalation could disrupt global oil supply chains, pushing WTI prices materially above the baseline projection and generating inflationary pressure beyond what monetary policy is currently positioned to absorb. Should the Bank of Canada respond with a tighter policy stance than projected, the resulting increase in borrowing costs would weigh on household spending and business investment, dampening real GDP growth. Conversely, a rapid de-escalation could unwind the commodity price support embedded in the current outlook, reducing nominal GDP.

Higher Oil Prices

As noted in the Spring Economic Update (SEU), ongoing conflict in the Middle East, including the war in Iran, represents a source of upside risk to energy prices. For the Government of Canada, the major fiscal gain from higher oil prices would be reflected in

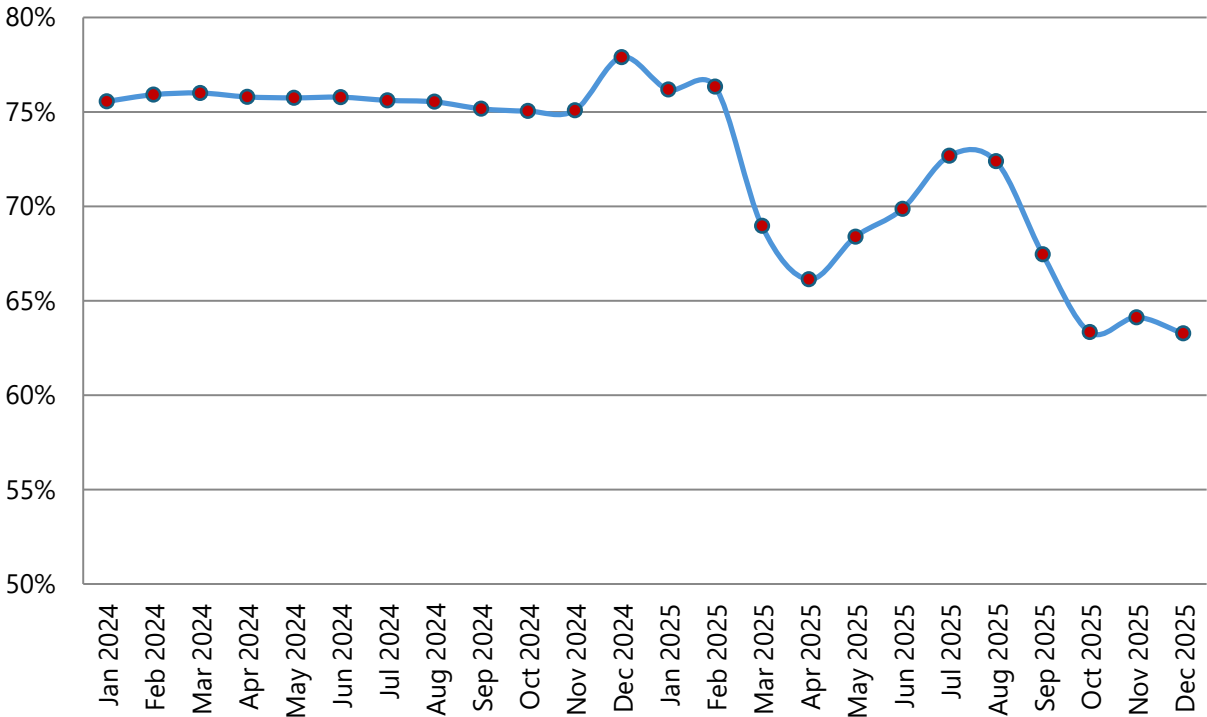
increased income tax revenue, largely due to heightened activity in the oil and gas sector. This would be partly offset by higher expenses, such as increased public debt charges and indexation of programs, such as Old Age Security.

Trade Uncertainty

Trade uncertainty represents a material downside risk to Canada's economic and fiscal outlook. U.S. tariffs on key Canadian exports are suppressing manufacturing output and investment. Resolution of the Canada-U.S.-Mexico (CUSMA) trade negotiations will provide a clearer planning environment for investment in Canada. At the same time, the ultimate level of tariffs on Canadian exports, if any, will influence future business investment prospects.

Budget 2025 set forth a target to “double exports to non-US markets over the next decade”. As noted in the SEU and as depicted in Figure 1 (below), since early 2024, Canada’s exports to non-U.S. markets have risen by 36 percent. This adjustment has been uneven, influenced in part by weaker U.S. demand and concentrated in a limited set of sectors and regions rather than broad based export growth. Since November 2025, non-US trade has increased modestly by 4.5 per cent, toward the Government’s target to double exports over a decade.

Figure 1
 US Share of Canadian Goods Exports (%)



Source:
 Government of Canada

Affordability

The Spring Economic Update notes that wage growth has now outpaced inflation for more than three consecutive years, supporting continued gains in real incomes. Since Budget 2025, the Government has also provided further support to improve affordability, including enhancing the GST tax credit to lower income Canadians, a gasoline excise tax holiday, and a reduction to the Canada Pension Plan contribution rate.

Defence Spending

It is unclear that the full cost of Canada's NATO 5 per cent GDP commitment — estimated by PBO at approximately \$63 billion in additional deficit impact by 2035–36 — is reflected in these figures, representing a material upside risk to the deficit and debt projections.

