PBO Assessment of Budget 2026: Economic and Fiscal Track

Highlights

Real GDP growth softens to 1.0 per cent in 2026 and 1.7 per cent in 2027, but higher energy prices push growth in nominal GDP, the broadest measure of the tax base, up to 5.6 per cent in 2026 and 3.7 per cent in 2027.

Budget 2026 projects the deficit in 2026-27 to be $62.3 billion, which is an improvement from the deficit of $65.3 billion projected in the Spring Economic Update (SEU) 2026.

Had the government not introduced new tax or spending measures, this year's deficit would have fallen to $43.8 billion – due to windfall revenues and updated direct program expenses.

New measures of $151.5 billion over five years absorb 96 per cent of the $158.3 billion in new fiscal room anticipated in the coming five years relative to the SEU 2026. Since the 2024 Fall Economic Statement, new measures of $324.8 billion are nearly twice the $176.7 billion in fiscal room created.

Of the Budget 2026 new measures, $89.5 billion is classified as capital investment, led by the Productivity Mega Deduction, and $62.0 billion as day-to-day operating spending.

In Budget 2026, federal borrowing over 2026-27 to 2030-31 totals $764.7 billion, 2.6 times the total deficits of $288.7 billion. Higher borrowing raises exposure to interest rates.

Key findings and new measures

Budget 2026 introduces $151.5 billion in new measures over 2026-27 to 2030-31. Of this total, $89.5 billion is classified as capital investment under the Government's Capital Budgeting Framework. The six largest measures account for $80.7 billion.

- Productivity Mega Deduction, $36.1 billion
- Support for workers and businesses affected by tariffs, $11.3 billion
- Homelessness supports, supportive housing, and rental assistance (10-year goal to end homelessness), $11.2 billion
- Clean electricity tax credits and electricity infrastructure, $8.7 billion
- Housing and infrastructure in First Nations communities, $7.9 billion
- Funding for the Canada-wide early learning and childcare system, $5.4 billion

Economic and Fiscal Track

Context

This note assesses the Government's economic and fiscal track. For an update on the Government's fiscal anchors, please see PBO Assessment of Budget 2026: Fiscal Anchors and Fiscal Sustainability.

Economic outlook

The Government's outlook for real GDP growth is broadly consistent with the SEU 2026 over the medium term. The latest U.S. trade actions are expected to weigh on growth in the near term, with real GDP growth unchanged at 1.0 per cent in 2026 but revised down to 1.7 per cent in 2027, compared to 1.9 per cent in the SEU 2026. Over the medium term, Budget 2026 anticipates stronger business investment and productivity growth to contribute to a modestly stronger outlook; between 2028 and 2030, real GDP growth is expected to average 2.0 per cent, compared to 1.9 per cent in the SEU 2026.

Nominal GDP growth was revised upward to 5.6 per cent in 2026 compared to 4.1 per cent in the SEU 2026. Budget 2026 sees nominal GDP, the broadest measure of the Government's tax base, higher by an average of $48 billion over 2026 to 2030 relative to the SEU 2026, reflecting higher near-term GDP inflation driven by higher energy prices,

with a secondary contribution from stronger real GDP growth beginning in 2028. CPI inflation is projected to average 2.8 per cent in 2026, up from 2.5 per cent in the SEU 2026, before returning to the Bank of Canada's 2 per cent target by 2028.

Interest rate projections were also revised up modestly. Budget 2026 assumes a 3-month treasury bill rate of 2.6 per cent and a 10-year bond rate of 3.8 per cent in 2027, compared with 2.5 per cent and 3.6 per cent, respectively, in the SEU 2026.

Table 1

Key economic assumptions in Budget 2026 and changes compared with the Spring Economic Update 2026

Years	2026	2027	2028	2029	2030
Real GDP growth (%)	1.0 *(0.0)*	1.7 *(-0.2)*	2.0 *(0.1)*	2.0 *(0.1)*	1.9 *(0.1)*
GDP inflation (%)	4.6 *(1.5)*	1.9 *(0.1)*	1.6 *(-0.3)*	1.9 *(-0.1)*	1.9 *(-0.1)*
Nominal GDP growth (%)	5.6 *(1.5)*	3.7 *(0.0)*	3.6 *(-0.2)*	3.9 *(0.0)*	3.9 *(0.1)*
Nominal GDP ($ billions)	3,427 *(48)*	3,552 *(50)*	3,681 *(45)*	3,826 *(47)*	3,975 *(50)*
Unemployment rate (%)	6.6 *(0.1)*	6.2 *(0.0)*	5.9 *(-0.2)*	5.9 *(-0.1)*	5.8 *(-0.1)*
CPI inflation (%)	2.8 *(0.3)*	2.2 *(0.3)*	1.9 *(-0.1)*	2.0 *(0.0)*	2.0 *(0.0)*
WTI oil price (US$ per barrel)	85 *(12)*	79 *(13)*	69 *(3)*	67 *(-2)*	69 *(-1)*
3-month treasury bill rate (%)	2.3 *(0.1)*	2.6 *(0.1)*	2.7 *(0.0)*	2.7 *(0.1)*	2.7 *(0.1)*
10-year government bond rate (%)	3.6 *(0.2)*	3.8 *(0.2)*	3.7 *(0.0)*	3.6 *(-0.1)*	3.7 *(0.0)*

Source:
Government of Canada, Spring Economic Update 2026 and Budget 2026.

Note:
Changes relative to the Spring Economic Update 2026 are shown in parentheses. SEU 2026 values are as restated in Budget 2026 to reflect historical revisions to the national accounts.

Economic Developments in Budget 2026

Budget 2026 introduces some new measures aimed at incentivizing business investment, such as the Canada Growth Incentive expanding preferential tax treatment for capital gains earned on investments in eligible Canadian companies. However, these measures are modest relative to the previously announced Productivity Mega Deduction. The incrementality of investments supported by the deduction will be a key factor in determining the aggregate economic impact of the tax measure. Direct federal support to a range of capital projects has the potential to raise residential and non-residential investment and contribute to productivity growth into the medium term, conditional on practical implementation success.

A new one-time initiative to transition up to 200,000 additional temporary residents to permanent residency by the end of 2027—over and above the published admission target of 380,000—will also be supportive of near-term growth relative to a scenario where those temporary residents were to instead leave the country, while helping to ease labour supply constraints in certain sectors of the economy.

In addition, Budget 2026 proposes a new 50 per cent top-up payment to the Canada Groceries and Essentials Benefit in 2026-27, which will provide a modest near-term boost to household budgets facing pressure from higher inflation and interest rates.

Fiscal outlook

Relative to the SEU 2026, Budget 2026 projects smaller deficits in every year of the projection, as the Government benefited from windfall revenues and lower projected direct program expenses, most of which it chose to direct to new spending and tax measures.

In 2025-26, windfall changes to revenues and lower-than-expected spending reduced the deficit anticipated in the SEU 2026 from $66.9 billion to $39.3 billion.

Absent new measures, the deficit would have been $43.8 billion in 2026-27 and would have fallen to a low of $20.8 billion in 2030-31 (Table 2). Instead, with new tax and spending measures, the projected deficit in 2026-27 is $62.3 billion, which is projected to decrease to $52.9 billion in 2030-31.

Table 2

Budgetary Balance 2025-26 to 2030-31, billions of dollars

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Deficit, SEU 2026	66.9	65.3	63.1	57.7	56.2	53.2
Deficit before new measures, Budget 2026	39.3	43.8	24.8	24.8	23.0	20.8
New measures, Budget 2026	0.0	18.4	37.7	32.8	30.5	32.1
Deficit, Budget 2026	**39.3**	**62.3**	**62.5**	**57.6**	**53.4**	**52.9**

Source:
Government of Canada (Budget 2026 and SEU 2026), and Parliamentary Budget Office.

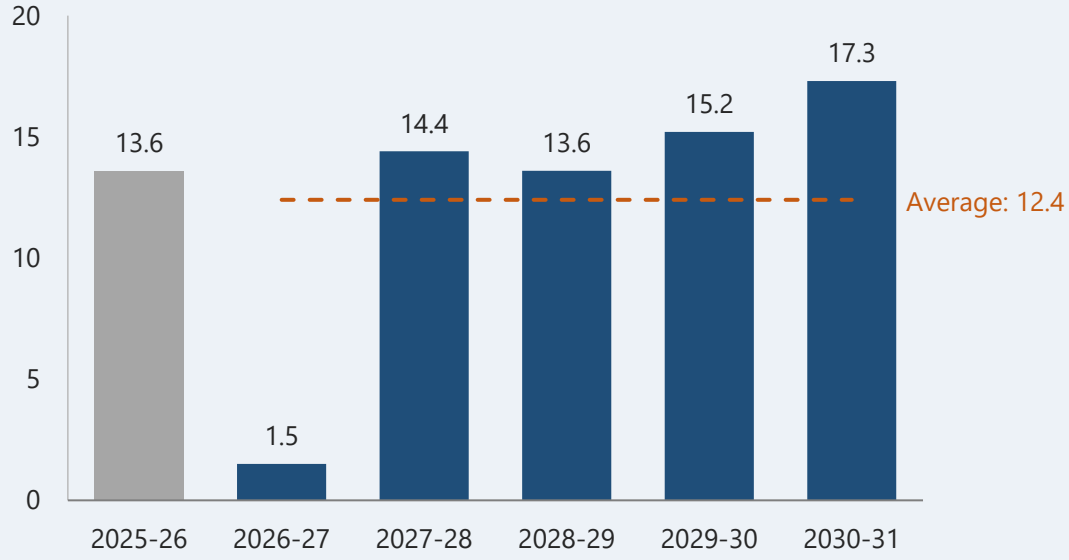
Note:
New measures include policy actions since the SEU 2026 and Budget 2026 measures. Numbers may not add due to rounding.

Before new measures, budgetary revenues are projected to be $119.3 billion higher over this period, led by income taxes ($78.3 billion), reflecting stronger preliminary 2025-26 results and a stronger outlook for corporate profits and wages. Projected direct program expenses are $62.0 billion lower (see box).

Direct Program Expenses

Budget 2026 includes a sizeable reduction of $62.0 billion to projected direct program expenses compared to the SEU 2026, before new measures. The Public Accounts for 2025-26 showed direct program expenses $13.6 billion below the SEU 2026 estimate, and Budget 2026 carries a similar amount forward, about $12.4 billion per year (Figure 1).

Figure 1: Direct program expenses were reduced by $62 billion over five years, $ billions



Sources: Government of Canada and Parliamentary Budget Office.

Budget 2026 describes this reduction as an aggregate forecasting adjustment to the expected timing and level of spending. The reduction is not attributed to specific programs and does not change approved funding.

Given the size of the revision, the PBO will seek further information from the Department of Finance.

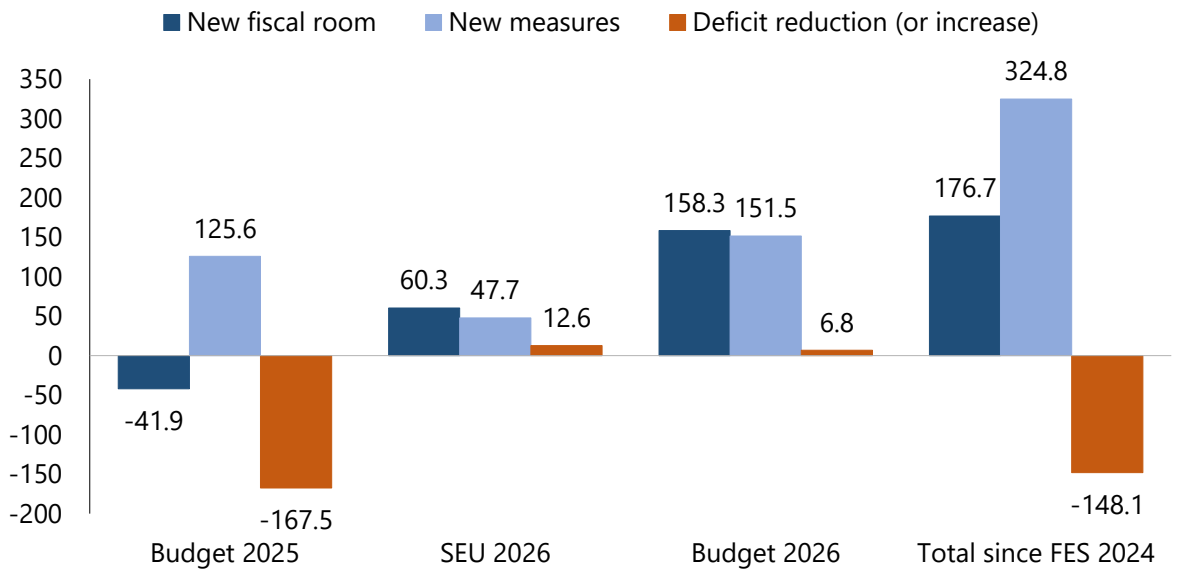
Despite this reduction, direct program expenses are still expected to increase when accounting for new measures. Relative to the SEU 2026, direct program expenses are $37.0 billion higher over the projection horizon.

Fiscal room and new measures since the 2024 Fall Economic Statement

Since the 2024 Fall Economic Statement (FES), new measures have totalled $324.8 billion, nearly twice the $176.7 billion in fiscal room created by economic and fiscal developments (Figure 2). In Budget 2025, developments reduced the budgetary balance, and new measures added a further $125.6 billion in net costs over 2025-26 to 2029-30, more than doubling projected deficits. In the SEU 2026, new measures absorbed 79 per cent of the room created by economic and fiscal developments, leaving the deficit track substantially unchanged from Budget 2025.

Figure 2

New fiscal room and new measures since the 2024 Fall Economic Statement, billions of dollars



Source:

Government of Canada and Parliamentary Budget Office.

Note:

FES 2024, Budget 2025 and SEU 2026 amounts apply to fiscal years 2025-26 to 2029-30, and Budget 2026 amounts to 2026-27 to 2030-31. SEU 2026 measures exclude $6.8 billion in 2030-31. New measures include policy actions taken since the previous plan. Negative fiscal room indicates a deterioration in the budgetary balance. Numbers may not add due to rounding.

In Budget 2026, new measures use $151.5 billion of the $158.3 billion in room created since the SEU 2026, reducing the deficit by $6.8 billion (Figure 2). Of these measures, $89.5 billion is classified as capital investment, led by the Productivity Mega Deduction, and $62.0 billion as day-to-day operating spending (Table 3). Operating measures exceed capital measures in 2026-27, but capital measures are larger from 2027-28 onward, the year the day-to-day operating balance returns to surplus.

Table 3

New measures in Budget 2026, billions of dollars

	2026-27	2027-28	2028-29	2029-30	2030-31	Total
Capital investment	3.7	19.9	22.2	20.9	22.8	89.5
Day-to-day operating spending	14.7	17.8	10.6	9.6	9.3	62.0
Total new measures	**18.4**	**37.7**	**32.8**	**30.5**	**32.1**	**151.5**

Source:
Government of Canada, Budget 2026.

Note:
Includes all new measures since the SEU 2026, that is, policy actions and Budget 2026 announcements. Capital investment is defined under the Government's Capital Budgeting Framework. Numbers may not add up due to rounding.

Revenues, expenses and federal debt

Relative to the SEU 2026, revenues were revised up by $15.4 billion per year on average over 2026-27 to 2030-31, mainly reflecting higher personal income revenues ($10.0 billion per year). Corporate income tax revenues are lower than in the SEU 2026 from 2027-28 onward, by $6.4 billion in 2030-31. This reflects the Productivity Mega Deduction and weaker year-to-date results.

Program expenses are higher by $10.8 billion per year on average. New measures more than offset the downward revision to the direct program expense projection of about $12.4 billion per year. Public debt charges were revised up by $2.5 billion per year on average, reflecting higher interest rates and borrowing requirements. Relative to the SEU 2026, the financial requirement, which measures the Government's net borrowing need, is higher by $18.5 billion per year on average over 2026-27 to 2030-31 (Table 4).

Federal debt is projected to reach $1,593.0 billion (40.1 per cent of GDP) in 2030-31, compared with $1,629.4 billion (41.6 per cent of GDP) in the SEU 2026. The debt-to-GDP ratio is 1.5 to 1.6 percentage points lower than in the SEU 2026 in every year from 2026-27. About 60 per cent of the difference reflects lower federal debt, mainly from a smaller deficit in 2025-26, and about 40 per cent reflects higher nominal GDP. It edges up from 39.9 per cent in 2026-27 to a peak of 40.4 per cent in 2028-29 before declining.

Table 4

Changes in fiscal aggregates, Budget 2026 relative to the Spring Economic Update 2026, billions of dollars

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Revenues	14.9	10.7	17.4	15.6	17.9	15.4
Program expenses	-14.3	6.6	15.4	12.4	10.9	8.6
Public debt charges	-0.5	1.5	1.6	2.2	2.7	4.6
Net actuarial losses	2.0	-0.5	-0.2	0.9	1.6	1.9
Total expenses	-12.6	7.6	16.9	15.4	15.2	15.2
Budgetary balance	27.6	3.0	0.6	0.1	2.8	0.3
Non-budgetary transactions	26.0	19.1	20.6	19.1	17.3	22.9
Financial requirement (net borrowing need)	-1.4	16.1	20.0	19.0	14.5	22.7
Federal debt	-27.8	-32.8	-33.4	-33.5	-36.2	-36.4
Budgetary balance (% of GDP)	0.9	0.1	0.0	0.0	0.1	0.1
Federal debt (% of GDP)	-0.9	-1.6	-1.6	-1.5	-1.5	-1.5

Sources:
PBO calculations based on Government of Canada, SEU 2026 and Budget 2026.

Note:
A positive value for revenues and the budgetary balance denotes an improvement; a positive value for expenses, financial requirement and federal debt denotes an increase. Program expenses exclude net actuarial losses.

Per capita indicators

On a per capita basis, federal revenues are projected to increase from $12,926 in 2026-27 to $14,784 in 2030-31, and total expenses from $14,417 to $16,030 (Table 5). The deficit is $1,490 per person in 2026-27, peaks at $1,497 in 2027-28 and narrows to $1,243 by 2030-31. Over the same period, federal debt per capita increases by 15 per cent, from $32,693 to $37,437, while public debt charges per capita increase by 40 per cent, from $1,440 to $2,009. Interest costs grow faster than debt, reflecting higher interest rates and borrowing for loans, investments and capital purchases that federal debt does not capture.

Table 5

Per capita indicators in Budget 2026, dollars

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Personal income tax	5,953	6,189	6,484	6,766	7,035	7,269
Corporate income tax	2,504	2,457	2,325	2,316	2,383	2,355
Goods and Services Tax	1,245	1,232	1,374	1,417	1,471	1,530
All other revenues	2,949	3,048	3,326	3,370	3,506	3,631
Total revenues	12,651	12,926	13,510	13,868	14,394	14,784
Program expenses	11,981	12,984	13,392	13,554	13,887	14,105
Public debt charges	1,286	1,440	1,612	1,760	1,857	2,009
Total expenses	13,596	14,417	15,009	15,242	15,659	16,030
Budgetary balance	-945	-1,490	-1,497	-1,374	-1,265	-1,243
Federal debt	31,390	32,693	34,217	35,455	36,480	37,437
Total liabilities	55,716	59,430	63,976	68,097	71,152	74,068
Population (millions)	41.61	41.80	41.76	41.93	42.22	42.55

Source:
Budget 2026, and PBO population projections.

Note:
Total expenses include net actuarial losses.

Federal borrowing

The budgetary balance does not capture the Government's full borrowing needs. Under accrual accounting, loans and investments are recorded as financial assets rather than expenses, and capital purchases are expensed gradually through amortization. The cash

to fund them is nonetheless needed when they occur, adding to the Government's financial requirement. These non-budgetary transactions add to market debt and public debt charges, partly offset by the interest and returns they generate.

Financial requirement, borrowing and market debt

The financial requirement measures the Government's net borrowing need. It excludes the refinancing of maturing debt, which is included in gross borrowing.

The financial requirement closely tracks the increase in market debt. In 2027-28, Budget 2026 projects a financial requirement of $169.0 billion and an increase in market debt of $174 billion. The difference is in foreign-currency debt, which the Government issues to fund Canada's official international reserves.

The Government projects the financial requirement over the full planning horizon, but market debt only one year ahead. This note therefore uses the financial requirement to measure federal borrowing, which was projected at $764.7 billion in Budget 2026 as compared to $732.9 billion in PBO's Economic and Fiscal Outlook – October 2026.

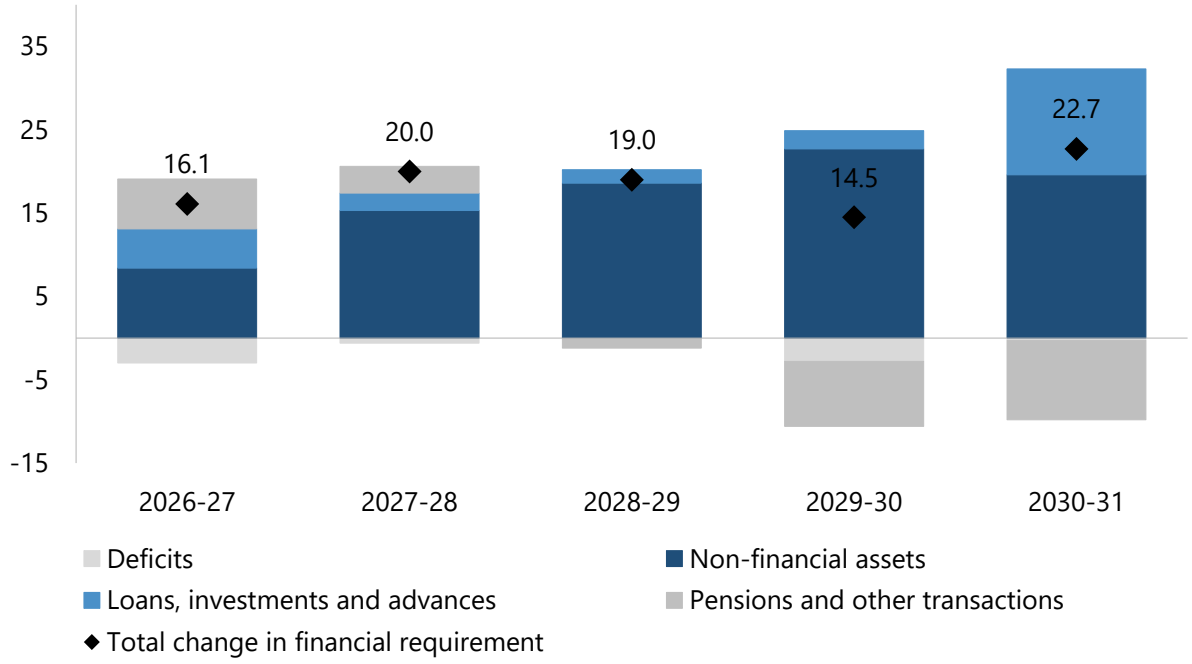
Total liabilities include market debt, pension obligations and accounts payable. Budget 2026 projects them to rise from $2,318.3 billion in 2025-26 to $3,151.7 billion in 2030-31. Federal debt nets out the financial and non-financial assets that borrowing finances, so it reflects only the accumulated deficit.

In Budget 2026, the cumulative financial requirement over 2026-27 to 2030-31 is $764.7 billion, 2.6 times the cumulative deficit of $288.7 billion, compared with $672.4 billion and 2.3 times in the SEU 2026. The $92.3 billion increase is driven by non-budgetary transactions (Figure 3). Net acquisitions of non-financial assets add $84.6 billion, nearly doubling from the SEU 2026 and reflecting higher cash spending on capital, including defence equipment. Loans, investments and advances add a further $23.3 billion, most of it to enterprise Crown corporations ($19.1 billion) and concentrated in 2030-31.

Slightly smaller deficits and lower requirements from pensions and other transactions offset $16.0 billion of this increase.

Figure 3

Changes in the financial requirement, Budget 2026 relative to the Spring Economic Update 2026, billions of dollars



Source:
PBO calculations based on Government of Canada, Spring Economic Update 2026 and Budget 2026.

Note:
A positive value denotes a higher borrowing requirement than the SEU 2026. Loans, investments and advances include enterprise Crown corporations and other. Pensions and other transactions combine pensions and other accounts with other transactions. The total is calculated from published financial requirements. Numbers may not add due to rounding.

Comparison with PBO's October 2026 Economic and Fiscal Outlook

Compared to PBO's October 2026 EFO, Budget 2026 assumes stronger real GDP growth over the horizon and stronger GDP inflation in the later years of the projection. As a result, the level of nominal GDP, the broadest measure of the tax base, is $29 billion higher per year, on average, over 2026 to 2030 than in PBO's October 2026 EFO, with the additional strength concentrated in the later years of the projection.

On a comparable basis, which includes only the measures reflected in both outlooks, PBO's October 2026 EFO projects deficits that are $28.7 billion per year larger than Budget 2026, on average, over 2026-27 to 2030-31. The difference is split almost evenly between revenues and expenses, and much of it stems from the Public Accounts of Canada for 2025-26, which were not available when the EFO was prepared.

Revenues in the EFO are $14.7 billion per year lower. The Public Accounts show 2025-26 revenues $15.3 billion above our estimate, raising the starting point for Budget 2026. The gap narrows to $7.9 billion in 2026-27, then widens to $18.9 billion by 2030-31.

Expenses in the EFO are $14.0 billion higher per year, mainly because direct program expenses are $17.3 billion per year higher. Results for 2025-26 show direct program expenses $13.4 billion below our estimate, and Budget 2026 carries some of this lower level forward, reducing its direct program expense projection by about $12.4 billion per year.

Key risks and considerations

Budget 2026 projections rest on assumptions about future economic conditions and on policy commitments not yet fully reflected in the fiscal plan.

The following key risks could cause debt and deficits to diverge materially from the fiscal track presented in Budget 2026.

Commodity prices

Budget 2026 assumes the price of West Texas Intermediate (WTI) will average US$79 per barrel in 2027, compared with US$66 in the SEU 2026. Higher prices for crude oil and other commodities are the main driver of upward revisions to nominal GDP and additional fiscal room generated since the SEU 2026: PBO estimates that a sustained US$10 per barrel increase in oil prices relative to baseline could raise federal revenues by about $2.9 billion per year and nominal GDP by 0.6 per cent.

However, higher revenues driven by higher commodity prices represent a less durable source of fiscal room than stronger real GDP growth. For example, a steeper decline in energy prices relative to Budget 2026 assumptions could unwind much of the additional fiscal room accrued since Budget 2025, resulting in larger deficits.

Interest rates and debt charges

As energy prices have remained elevated, putting upward pressure on inflation around the world, financial conditions have tightened. Some central banks, including the Bank of Canada, have begun raising their policy rates, while long-term bond yields have also risen as markets anticipate further monetary tightening and as fiscal sustainability concerns mount in some advanced economies.

If price pressures continue to intensify, and especially if fiscal concerns drive further increases in the term premium, interest rates could rise higher than assumed in Budget 2026. This would add to fiscal pressures through higher public debt charges, which are already the fastest-growing expense in the fiscal framework. Budget 2026 projects public debt charges will rise to $85.5 billion in 2030-31, or 13.6 per cent of revenues. PBO estimates that a sustained 100 basis point increase in interest rates relative to baseline would raise public debt charges by $5.1 billion in the first year and $15.8 billion by the fourth year, although the impact depends on the magnitude of the increase across different maturities.

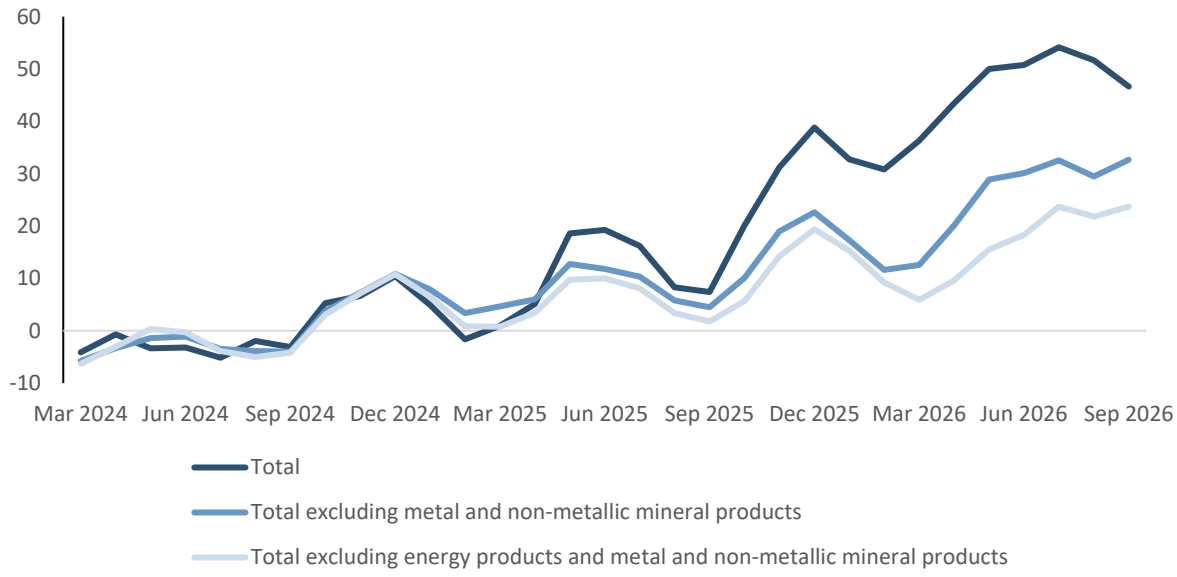
In addition, higher interest rates alongside more persistent inflation could weigh on business investment and household spending while also slowing global economic growth, reducing demand for Canadian exports and offsetting some of the economic and fiscal benefit to Canada from higher energy prices.

Trade uncertainty and diversification

Strong foreign demand is key to achieving the Government's objective of doubling non-U.S. exports by 2035. While exports of goods to non-U.S. markets across all product sections were up nearly 50 per cent in the third quarter of 2026 relative to 2024 in nominal terms, this growth was led by higher exports of metal and non-metallic mineral products, primarily reflecting higher prices and increased cross-border flows of gold and other precious metals.

Higher energy exports have also contributed to growth, reflecting higher volumes but also a lift from higher energy prices, which Budget 2026 assumes will normalize over the horizon. Excluding these two broad product sections, exports to non-U.S. markets were up more modestly, just over 20 per cent in the third quarter relative to 2024 (Figure 4).

Figure 4
Exports to Non-U.S. Markets, change from 2024, per cent



Source:
Statistics Canada.

Note:
Data are on a nominal customs basis and are presented as a three-month moving average. Last data point is September 2026.

At the same time, trade relations with the United States remain an important risk to the outlook. An agreement that reduces the U.S. effective tariff rate on Canadian imports from its current level and eases uncertainty for businesses would support stronger real GDP growth in the near term through higher exports and investment.

In contrast, further escalation—such as the imposition of threatened 50 per cent auto tariffs on January 1, 2027—would have the opposite effect, deepening and prolonging the negative impact on growth relative to Budget 2026 assumptions. In addition, as the private sector forecasts underlying Budget 2026 projections assume some de-escalation relative to current tariff conditions, the prospect of the status quo tariff environment persisting over the horizon also represents a downside risk to the outlook.

Investment and productivity growth

Despite the latest U.S. trade actions weighing on growth in 2026 and 2027, Budget 2026 assumes that real GDP growth will pick up over the medium term due to stronger business investment and productivity growth. This reflects the expected impact of policy measures aimed at boosting investment, including major projects and fiscal incentives such as the Productivity Mega Deduction, as well as increased AI adoption.

Generally, these substantial positive impacts are anticipated in future years rather than reflecting developments observed to date. Despite the uptick observed in the second quarter, annual real GDP growth in 2026 is projected at only 1.0 per cent, its slowest growth rate in a decade outside of the COVID-19 pandemic, as U.S. tariffs and related uncertainty have suppressed Canada's GDP relative to its pre-tariff growth path.

Beginning in 2027, actual growth in business investment and productivity could fall short of expectations, resulting in a weaker rebound in real GDP growth and larger deficits. Persistent structural headwinds and tighter financial conditions could hold back investment plans, while major projects face various delivery and execution risks ranging from labour supply constraints to potential delays due to legal or procedural obstacles.

Sustained productivity gains from AI investment could also fail to materialize. This would represent an additional downside risk—including to economic activity in the United States, where Budget 2026 assumes a substantially stronger growth outlook compared to the SEU 2026, powered by AI investment.

Crown corporation lending

Loans and advances to enterprise Crown corporations are the largest source of federal borrowing beyond the deficit. Federal claims on these corporations rose from $91.1 billion at the end of 2015-16 to $227.4 billion at the end of 2024-25. Budget 2026 projects net lending and investment in enterprise Crown corporations of $260.2 billion over 2026-27 to 2030-31, 55 per cent of non-budgetary transactions.

Much of this lending reflects purchases of Canada Mortgage Bonds (CMBs). The Government purchases up to $30 billion of CMBs a year, or up to $150 billion over the same period in gross terms, a significant share of projected lending to enterprise Crown corporations. Net additions are smaller, as earlier purchases mature. With CMBs guaranteed by the Canada Mortgage and Housing Corporation, the main risk is interest rate risk. The Government earns a fixed yield on CMBs held to maturity and funds them

through its overall borrowing. Its return depends on the spread between CMB yields and its cost of borrowing, which has narrowed since purchases began in 2024 and would turn negative if that cost rose above CMB yields.

Other enterprise Crown corporations use federal loans to fund their own lending and assets, such as small business loans through the Business Development Bank of Canada, farm loans through Farm Credit Canada, and the Trans Mountain pipeline. For this lending, the main risk is credit risk. Loan defaults or declines in asset values would reduce these corporations' profits and, in turn, the budgetary balance.

Budget documents report loans, investments and advances to enterprise Crown corporations as a single line. They do not separate loans from equity investments or show amounts by corporation, which makes it difficult to assess the risks the Government is taking on.

Budget 2026 also launches a transition to combine the Business Development Bank of Canada and Export Development Canada into a single federal development bank. The two institutions currently serve different purposes and carry different risks, with BDC lending mainly to Canadian small and medium-sized businesses and EDC providing financing and insurance to exporters. Parliament's ability to monitor these activities will depend on how the new institution reports them.

Defence spending

The Government has committed to the NATO target of spending 5 per cent of GDP on defence by 2035, including 3.5 per cent on core defence. On a cash basis, Budget 2026 projects total defence spending of 4.1 per cent of GDP from 2027-28 to 2030-31, including 2.6 per cent on core defence. Budget 2026 does not project defence spending to 2035, and spending beyond the projection horizon to reach the target is not reflected in the fiscal projections. If the commitment is met, deficits and debt would be higher than projected.

On an accrual basis, which is used for the budgetary balance, Budget 2026 projects core defence spending to rise from $54.6 billion in 2026-27 to $65.1 billion in 2030-31, about 11 per cent of program expenses and nearly as much as the Canada Health Transfer. Defence accounts for $10.4 billion of the $16.4 billion increase in direct program expenses over this period. On a cash basis, which NATO uses, core defence spending totals $451.3 billion over the five years, $148.2 billion more than on an accrual basis,

mainly reflecting equipment purchases that are paid for up front but expensed over their useful lives.

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