



Canada's Defence Spending Commitments: A Primer



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.

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Canada has committed to NATO to substantially increase defence spending over the coming decade – to 4% of GDP by 2030, rising to 5% by 2035 – which will require a sustained expansion in total federal spending, defence procurement and investment.

This Primer provides an overview of fiscal, economic and operational implications of Canada's ambitious and complex commitments respecting defence spending.

It sets out key concepts and baseline facts to support parliamentary discussion of defence spending, while PBO continues to work with relevant departments and agencies to better understand forward defence spending plans and model their implications for regions, industries and labour markets.

1. Fiscal Considerations

NATO allies first agreed to spend at least 2 per cent of GDP on "core" defence capacities in 2006 and reaffirmed this commitment in 2014. Canada remained below the target throughout the following decade.¹ In 2024, the Trudeau Government released *Our North, Strong and Free* (ONSAF), a strategy which described a range of additional defence investments and projected that defence spending would reach 1.76 per cent of GDP by 2029-30.²

In 2025, the new Government under Prime Minister Mark Carney significantly accelerated Canada's planned core defence spending from the trajectory set out in ONSAF, announcing more than \$9 billion in additional defence spending for 2025-26, sufficient to reach the NATO target of 2 per cent of GDP that year. Later that month, Canada and other NATO allies agreed to a substantially higher defence spending commitment of 5 per cent of GDP by 2035, which reflected new definitions of core, ancillary and total defence spending.^{3, 4}

Figure 1**Evolution of Canada's defence spending commitments**

Source:

NATO; Department of National Defence; Prime Minister of Canada.

What is the new NATO 5% defence spending target?

At the 2025 NATO Summit in The Hague, allies agreed to invest 5 per cent of national GDP annually on defence by 2035. The commitment comprises two components. Allies will be required to allocate:

- 1) At least **3.5 per cent of GDP to core defence spending**, using NATO's existing definition of defence expenditure; and
- 2) Up to **1.5 per cent of GDP in ancillary defence and security-related spending**.

The 1.5 per cent component is a ceiling; ancillary spending above this amount does not reduce the requirement to spend at least 3.5 per cent of GDP on core defence.⁵

Allies committed to submit annual plans demonstrating a "credible, incremental path" toward the 3.5 per cent target for core defence spending.⁶

Canada has committed to reach total defence spending of 4 per cent of GDP in 2030, as an intermediate step toward meeting the NATO target of 5 per cent in 2035. Budget 2025 states that currently planned spending across all levels of government is expected to meet the ancillary commitment.⁷ As such, Canada's commitments are equivalent to increasing core defence spending from its current 2 per cent of GDP to 2.5 per cent in 2030 and 3.5 per cent in 2035, as shown in Table 1.

Table 1

Canada's commitments to meet NATO defence spending targets

	2025-26	2030-31	2035-36
Core defence spending target (at least)	2%	2.5%	3.5%
Ancillary spending target (up to)	-	1.5%	1.5%
Government of Canada commitment	-	4%	5%
New NATO defence target	-	-	5%

How do NATO and Canada measure defence spending?

NATO allies set common approaches to defining key variables across countries, notably nominal GDP and accepted components of core defence spending. Allies also agreed that spending would be measured on a cash basis by calendar year, which differs importantly from the accrual accounting basis by fiscal year profiled in Canadian federal budgets.

NATO measures **nominal GDP** based on economic data from the European Commission's Directorate-General for Economic and Financial Affairs (DG ECFIN), the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD). These estimates may differ from member countries' own nominal GDP forecasts, which we assess to be modest in the case of Canada.⁸

Core defence spending covers expenditures directly related to countries' armed forces, including personnel, operations and maintenance, major equipment, and research and development. The ancillary component is broader and includes investments to protect critical infrastructure and networks, strengthen civil preparedness and resilience, support innovation, and strengthen the defence industrial base.⁹

Neither component is limited to spending by the Department of National Defence (DND). Core defence expenditure can encompass eligible spending by other government departments (OGDs), while ancillary spending can include qualifying investments across federal, provincial, territorial and municipal levels of government.¹⁰

Table 2**Summary of the NATO 5% defence spending requirements**

NATO 5% defence spending requirement - 2035	
<i>At least 3.5% of GDP</i> Core defence spending • Personnel • Operations and maintenance • Major equipment • Research and development ➤ Eligible defence spending by other government departments Minimum requirement	<i>Up to 1.5% of GDP</i> Defence and security-related spending • Critical infrastructure and networks • Civil preparedness and resilience • Innovation • Defence industrial base ➤ Qualifying investments across multiple levels of government Maximum contribution: 1.5%

Source:

NATO.

Note:

Spending categories shown are illustrative and do not represent a comprehensive list of eligible expenditures.

NATO and the Government of Canada use **different accounting approaches** to measure defence spending. Under NATO's approach, eligible defence expenditures generally count toward the spending target when payments are made, i.e., they are broadly accounted on a cash basis.¹¹ By contrast, the Government of Canada's financial statements and fiscal indicators are prepared on an accrual basis. The timing of the recognition of such expenditures under the two approaches can differ considerably for capital investments.

Payments for a major defence procurement can thus count toward NATO's spending target years before their full effect on the federal budgetary balance is realized. As Canada increases defence capital spending on a cash basis, progress toward NATO's targets will therefore follow a different timeline than the associated impacts on the deficit and debt.¹²

Table 3**Treatment of defence spending under NATO and Government of Canada accounting**

<i>NATO measure of defence spending</i>	<i>Canadian fiscal accounting</i>
Cash basis: Eligible defence expenditures generally count toward NATO's spending measure when payments are made.	Accrual basis: Operating expenses are generally recorded when incurred, while the costs of capital assets are amortized over their useful lives.
Capital spending: Payments for major equipment and other capital investments can count toward NATO defence spending during the acquisition period.	Capital spending: Amortization generally begins when a capital asset enters service, spreading its cost over its useful life.
Calendar year: January 1 to December 31	Fiscal year: April 1 to March 31

Source:

NATO; Government of Canada

Note:

The table provides a simplified comparison of the accounting treatment most relevant to defence spending. Treatment of individual expenditures may vary.

The difference between cash and accrual accounting profiles can differ significantly. In its Economic and Fiscal Outlook from June 2026, PBO estimated the fiscal cost of meeting the 4 per cent NATO target - equivalent to a core defence spending target of 2.5 per cent - by 2030-31 on an accrual basis, using public announcements of planned government defence investments and outlays. Table 4 shows the difference in these estimates on a cash vs accrual basis.

Table 4

PBO illustrative estimates of Canadian defence spending required to meet 2.5% core defence spending target by 2030-31

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Cash profile (\$ billions)	63.5	74.8	82.9	87.9	93.5	95.7
Notional accrual profile (\$ billions)	43.6	50.0	54.7	58.8	60.8	63.2
Difference (\$ billions)	19.8	24.8	28.2	29.1	32.7	32.4
Difference (%)	31%	33%	34%	33%	35%	34%

Source:

Parliamentary Budget Officer, June 2026 Economic and Fiscal Outlook.¹³

Note:

The accrual profile presents PBO's high level estimates of the fiscal expenses associated with defence spending measured under NATO's definition for the June 2026 Economic and Fiscal Outlook. The estimates rely on internal approximations to translate NATO-defined "cash" spending into an accrual-based measure for forecasting purposes and should be viewed as illustrative more so than a detailed forecast. The PBO is continuing to refine this methodology in consultation with relevant federal departments, and will revise estimates as this work progresses.

Cash will typically be notably higher than accrual profiles during periods of significant capital investment as it often takes many years for a given defence platform to come into service and start the amortization of costs over its useful life. The ambitious cash spending plan required to meet NATO targets in the next 5-10 years can be expected to elevate accrual fiscal profiles into the medium term.

Issues for Parliamentarians

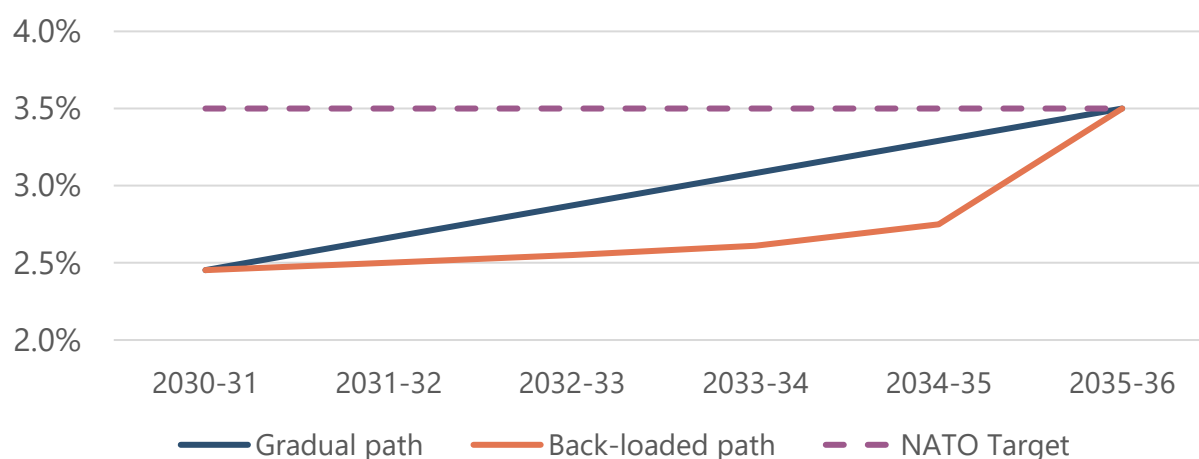
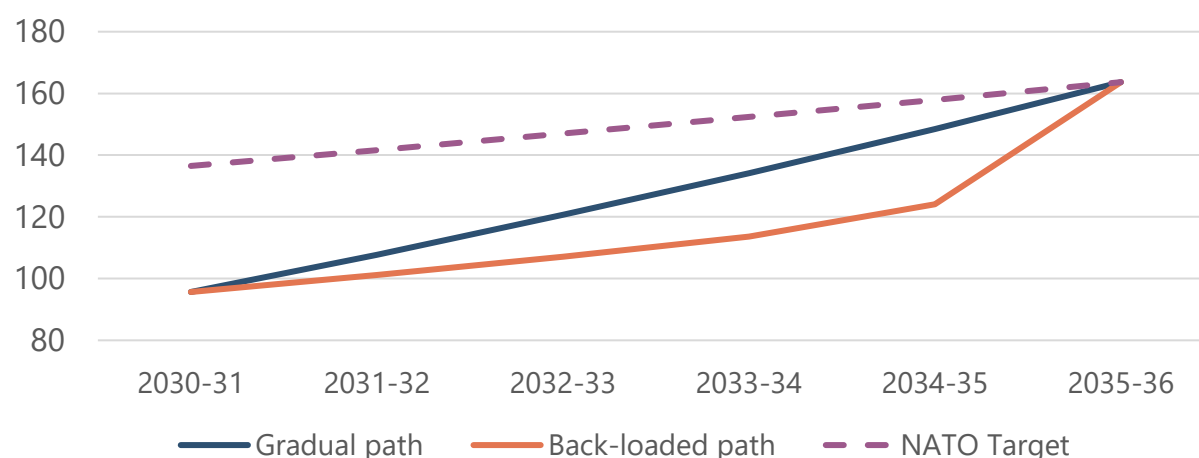
Progress toward NATO's defence spending targets will not necessarily correspond to an equivalent change in the federal budgetary balance or debt in the same year. Under accrual accounting, the cost of major capital investments is spread over many years, which differs materially from the NATO defence spending targets, which generally measure cash outlays in the year they are spent.

These definitional complexities amplify the importance of the Government providing transparent fiscal profiles on an accrual basis of its plans to meet ambitious NATO spending commitments, which are expected to be yet higher into the medium term.

What is Canada's path to the NATO 5% target?

Canada has committed to increase combined defence and security-related spending to approximately 4 per cent of GDP by 2030, when core spending will reach 2.5 per cent. The Government has stated that the fiscal framework has already provisioned for total defence spending to reach 4 per cent of GDP by the end of the decade, but that additional provisions will be required to reach the 5 per cent target by 2035.

Figure 2 presents two illustrative paths for increasing core defence spending from 2.5 per cent of GDP in 2030-31 to the 3.5 per cent target by 2035-36 on a cash basis. The gradual path assumes steady annual increases as a share of GDP, while the back-loaded path delays most increases until later in the period. Panel A shows the resulting paths as a share of GDP, while Panel B shows the annual spending required under each path. Assuming ancillary spending remains at 1.5 per cent of GDP, reaching the 3.5 per cent core defence spending target would fulfill Canada's overall 5 per cent commitment.

Figure 2**Illustrative paths to NATO's 3.5% core defence spending target***Panel A: Percentage of nominal GDP**Panel B: Core defence spending (\$ billions)*

Source:

PBO calculations based on nominal GDP projections from Budget 2025.

Note:

Both scenarios assume Canada reaches core defence spending of approximately 2.5 per cent of GDP in 2030-31 and maintains ancillary spending at 1.5 per cent of GDP through 2035-36. Dollar values in Panel B are calculated using nominal GDP for the corresponding calendar year. The scenarios are illustrative and do not represent PBO projections.

The timing of future increases in core defence spending will therefore be important.

Under the gradual path, annual core defence spending would increase from \$95.7 billion in 2030-31 to \$163.6 billion in 2035-36, with relatively steady annual increases over the period. Under the back-loaded path, spending would reach only \$124.1 billion by 2034-

35, requiring an increase of approximately \$39.6 billion in the final year to reach the 3.5 per cent target; by comparison, the largest annual increase under the gradual path would be approximately \$15.2 billion.

Issues for Parliamentarians

Canada has not yet specified its path for increasing core defence spending from approximately 2.5 per cent of GDP in 2030 to 3.5 per cent by 2035. The timing of these increases will determine the scale of the annual spending increases required as 2035 approaches and the overall fiscal pressure.

What are the fiscal implications of meeting NATO's 5% commitment?

To assess the incremental fiscal impact of meeting NATO's 5 per cent commitment, we compare two scenarios for core defence spending. In the first, core defence spending increases from 2 per cent of GDP in 2025-26 to 3.5 per cent by 2035-36; in the reference scenario, it remains at 2 per cent of GDP. Ancillary defence and security-related spending is assumed to remain at 1.5 per cent of GDP under both scenarios, allowing the fiscal impact of the additional core defence spending to be isolated.

Under the 3.5 per cent scenario, core defence spending reaches \$163.6 billion in 2035-36, \$70.1 billion higher than under the reference scenario, which has not yet been reflected in fiscal projections of recent Budget documents.¹⁴

As discussed earlier in this Primer, the increase in spending measured under NATO's framework does not translate directly into an equivalent increase in the Government of Canada's accrual-based budgetary deficit. After accounting for differences in when expenses are recognized, the PBO estimated that the additional core defence spending would increase the budgetary deficit by \$63.7 billion, or 1.4 per cent of GDP, in 2035-36 relative to the 2 per cent core defence spending reference scenario; federal debt would be 5.7 percentage points of GDP higher.¹⁵

Issues for Parliamentarians

The fiscal impact of meeting Canada's NATO commitment will depend in part on how additional defence spending is financed. PBO estimates assume that additional spending is financed through borrowing. Offsetting some or all of this spending through revenue-raising measures or spending restraint elsewhere would reduce its impact on the budgetary deficit and federal debt.

Can Canada execute its planned defence funding?

Canada's defence commitments will require a sustained increase in annual expenditures against strict time horizons. Achieving this increase will depend on the Government's ability to execute complex procurement agendas.

The PBO has tracked DND's planned and actual capital spending since 2018. From 2017-18 to 2023-24, the cumulative shortfall relative to the original capital spending projections under Canada's previous defence policy was \$18.5 billion. When planned expenditures do not occur, funding may be reprofiled to later years to reflect changes in project scope, schedule delays or revised cost estimates. PBO analysis of the new capital spending plan under ONSAF similarly identified material reprofiling into later years.¹⁶

More recently, however, DND has increased capital expenditures in recent years and reduced lapses of planned spending. Public Accounts data show that expenditures under DND's capital vote increased from \$4.9 billion in 2022-23 to \$8.8 billion in 2024-25, while lapses fell from approximately \$1.0 billion to \$0.2 billion.¹⁷ DND's capital vote does not capture all capital expenditures relevant to Canada's NATO commitments, and capital spending itself represents only one component of overall NATO-eligible defence spending. Meeting those commitments will require this ramp-up to continue on a much larger scale. Historical lapses and reprofiling do not necessarily reduce defence spending over the longer term, but they can shift expenditures into later years and affect the timing of progress toward Canada's NATO targets.

Issues for Parliamentarians

DND has increased capital expenditures in recent years, but Canada's NATO commitments will require defence spending to increase further and remain at substantially higher levels. Whether this increase can be sustained as planned will affect the timing of Canada's progress toward the NATO targets.

2. Defence Spending and the Canadian Economy

Meeting Canada's defence commitments will require substantial increases in government expenditure and investment, with important implications for economic activity, industrial capacity and the composition of production in Canada. While many aspects of the government's defence expenditure strategy remain in development, current defence spending already supports economic activity across a range of

industries and regions and can inform potential forward dynamics for the Canadian defence industrial base and wider economy.

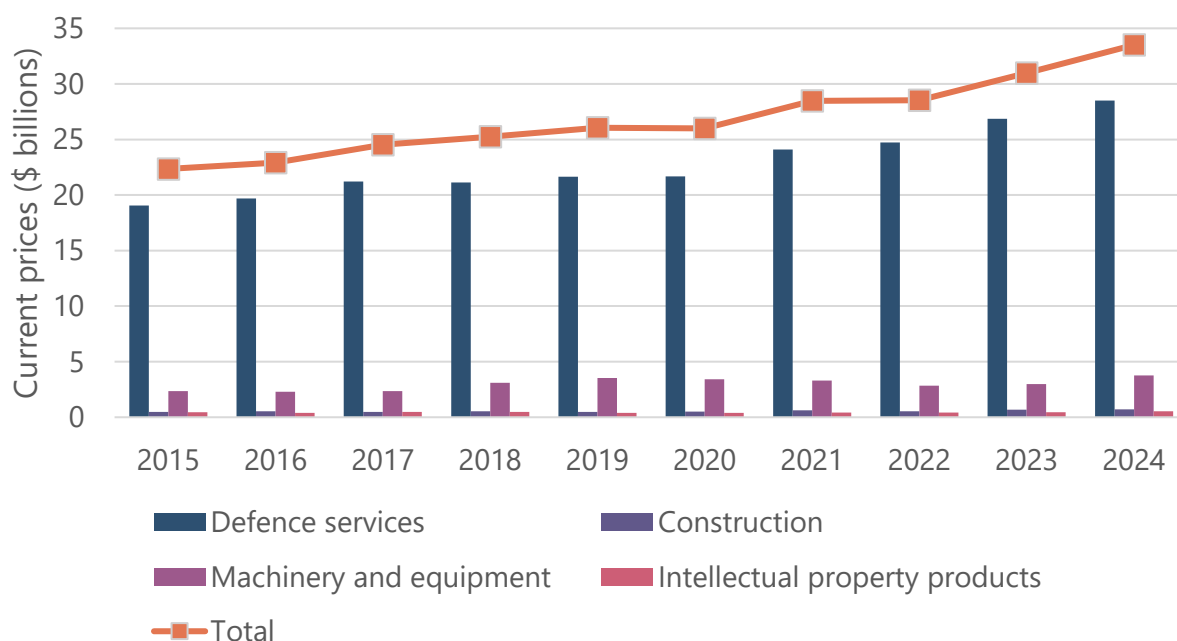
What is the economic footprint of defence spending in Canada?

Statistics Canada's economic accounts provide a different measure of defence expenditure than NATO's definition discussed previously. The Statistics Canada data presented in this section measures defence activity within the Canadian economy, including current defence services and investment, and should not be interpreted as a breakdown of the spending that counts toward Canada's NATO commitments.¹⁸

Within this framework, defence spending falls into two broad categories: current spending on defence services and long-term investment, termed gross fixed capital formation. Current spending supports defence services, including personnel, supplies, maintenance, training and other operational activities. Long-term investment includes expenditures on construction, machinery and equipment, and intellectual property products that strengthen future defence capabilities.

As shown in Figure 3, current defence services account for the largest share of defence expenditure and have risen substantially in recent years, reaching nearly \$29 billion in 2024. Investment is considerably smaller, with machinery and equipment representing its largest component. Overall, defence expenditure has increased since 2015, with growth becoming more pronounced after 2020.

Figure 3
Defence expenditure by component

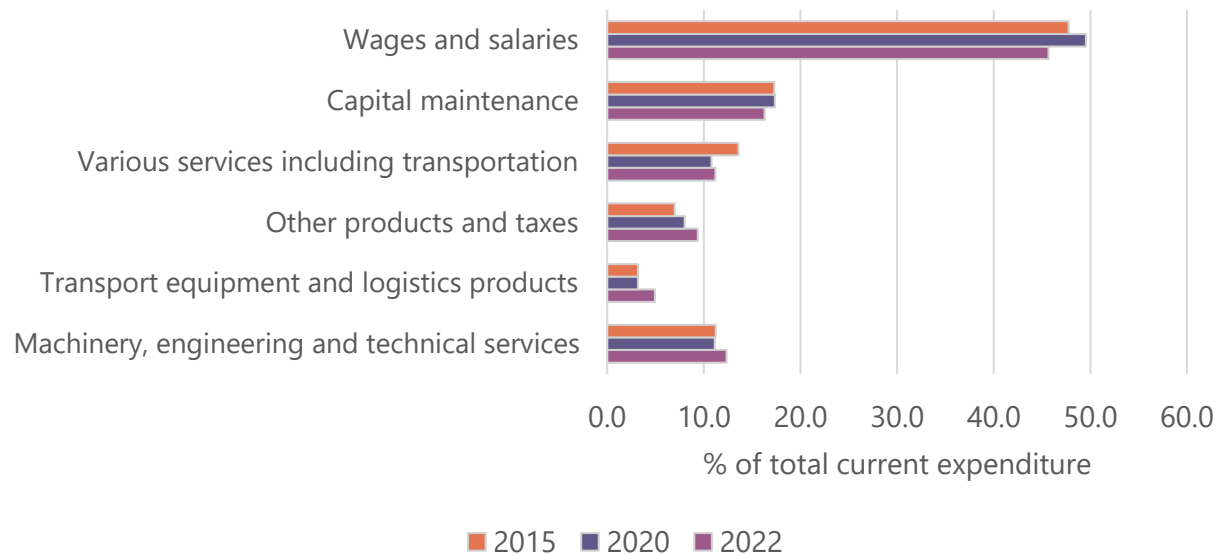


Source:

PBO calculations using Statistics Canada D-level supply and use tables (various years).¹⁹

Current defence services can be further broken down into their underlying expenditure components (Figure 4). In 2022, wages and salaries accounted for nearly half of current defence services expenditure, followed by capital maintenance. Spending composition has remained relatively stable over time, with only modest shifts across categories.

Figure 4
Components of current defence services expenditure



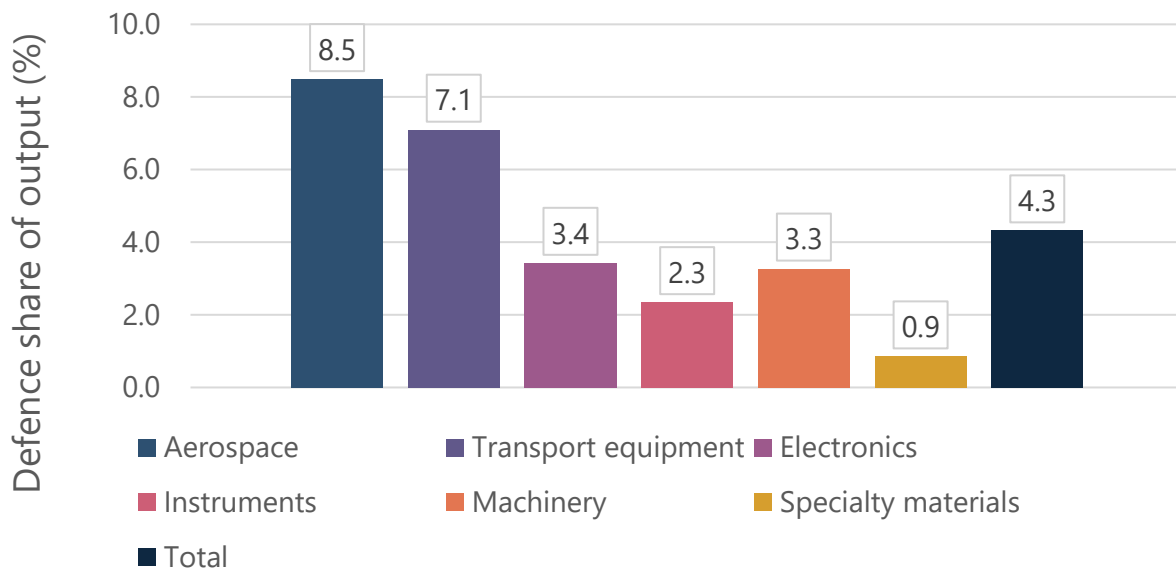
Source:

PBO calculations using Statistics Canada D-level supply and use tables (various years). ²⁰

The economic footprint of defence spending can also be examined through defence-related production and sales. These measures provide a different perspective from the defence expenditure presented above.

The importance of defence-related production varies considerably across Canadian industrial sectors. Figure 5 presents defence intensity across six broad sector groups, measured as defence-related sales as a share of industry output. Across the industries represented in Figure 5, defence-related sales accounted for 4.3 per cent of combined industry output in 2022, with aerospace and transport equipment the most defence-intensive broad sector groups, at 8.5 per cent and 7.1 per cent, respectively.

Figure 5
Defence intensity at broad sector level: 2022

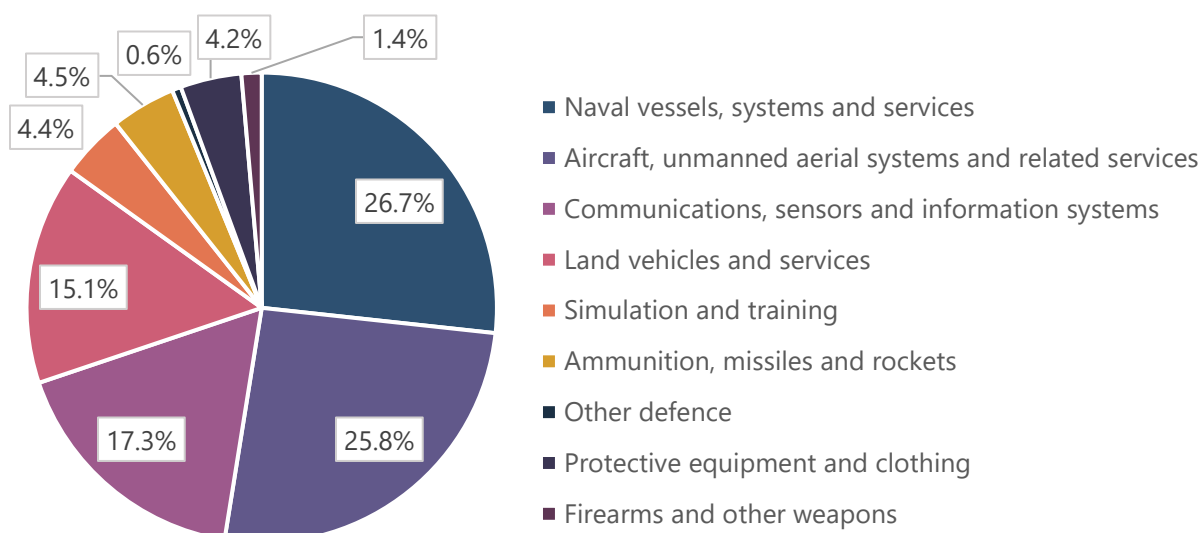


Source:

PBO calculations using Statistics Canada D-level supply and use tables (2022) and the Canadian Defence, Aerospace, Marine and Cybersecurity Industries Survey, 2022; Innovation, Science and Economic Development Canada.²¹

Canadian defence industry sales totalled \$14.3 billion in 2022, including both domestic and export sales. Domestic sales constituted slightly over 50 per cent of the total. These sales reflect goods and services sold by Canadian defence firms and should not be interpreted as a measure of Canadian government defence procurement. Sales were concentrated in a relatively small number of product groups. Naval vessels, systems and services accounted for the largest share, at 26.7 per cent, followed by aircraft, unmanned aerial systems and related services at 25.8 per cent. Communications, sensors and information systems and land vehicles and services accounted for a further 17.3 per cent and 15.1 per cent, respectively (Figure 6). Together, these four product groups accounted for approximately 85 per cent of total defence industry sales.

Figure 6
Composition of Canadian defence industry sales, 2022



Source:

PBO calculations using data from Canadian Defence, Aerospace, Marine and Cybersecurity Industries Survey, 2022; Innovation, Science and Economic Development Canada.²²

Note:

Categories are presented clockwise from the top of the chart, beginning with Naval vessels, systems and services.

The economic footprint of defence expenditure also varies across provinces and territories. Ontario accounts for the largest share of total defence expenditure, including investment, although its share has remained stable since 2015 (Table 5). Over the same period, British Columbia's share increased substantially, while the shares of Quebec and Nova Scotia declined somewhat.

Table 5
Distribution of defence expenditure by location

Location	2015	2020	2022
Alberta	7.7	7.4	7.4
British Columbia	9.5	9.5	13.6
Manitoba	3.5	3.4	3.5
New Brunswick	4.1	4.1	4.1
Newfoundland and Labrador	0.9	0.9	0.8
Nova Scotia	13.4	16.3	12.6
Northwest Territories	0.2	0.3	0.2
Nunavut	0.1	0.0	0.0
Ontario	41.6	41.8	41.8
Prince Edward Island	0.3	0.3	0.2
Quebec	16.3	13.5	13.1
Saskatchewan	1.1	1.0	1.1
Yukon	0.0	0.0	0.0
Canadian Enclaves Abroad	1.5	1.5	1.6
Canada	100	100	100

Source:

PBO calculations using Statistics Canada D-level supply and use tables (various years). ²³

Issues for Parliamentarians

As defence spending increases, the composition and regional distribution of defence-related industrial activity in Canada may change. The industry and regional data presented above provide a baseline against which these changes can be assessed over time.

Assessing the economic impacts of increased defence spending

Meeting Canada's NATO defence spending commitments will require a substantial and sustained increase in defence spending over the coming decade. The scale and composition of this increase could have broader implications for the Canadian economy. The PBO is undertaking empirical research and developing analytical tools to assess these impacts, including their macroeconomic, sectoral and regional dimensions. This work will examine how the economic effects of higher defence spending may vary over the short, medium and long term.

3. Defence Procurement, Programs and Investment

Defence procurement in Canada involves several federal organizations with distinct responsibilities. DND identifies capability requirements, while Public Services and Procurement Canada (PSPC) has historically served as the contracting authority for major defence procurements. Innovation, Science and Economic Development Canada (ISED) supports the use of defence procurement to advance industrial and economic objectives, including through the Industrial and Technological Benefits (ITB) Policy.²⁴ These arrangements are evolving as the Government establishes new institutions and approaches to defence procurement and investment, alongside a significant expansion in major defence procurement activity.

What is Canada's Defence Industrial Strategy?

Released in February 2026, Canada's Defence Industrial Strategy (DIS) establishes a "whole-of-government" approach to strengthening Canada's domestic defence industrial base as defence spending increases. The strategy aims to align defence procurement with domestic industrial capacity, provide greater certainty about future requirements, and increase Canada's ability to produce and sustain military capabilities domestically. As part of this approach, the Government introduced a "Build-Partner-Buy" framework that prioritizes domestic production where feasible, partnerships with trusted allies where appropriate, and purchases from foreign suppliers where building or partnering is not feasible.²⁵

Budget 2025 committed \$6.6 billion over five years, beginning in 2025-26, to support implementation of the DIS. Of this amount, the Government identified \$4.6 billion as initial investments, or "Early Moves," to improve access to capital, support research and innovation, strengthen domestic supply chains, and increase critical resource stockpiles.²⁶ Subsequent announcements have provided additional detail on how this funding will be allocated, although the Government has not publicly provided a complete reconciliation of the \$6.6 billion envelope.²⁷

The Government has established a series of economic and industrial objectives for the DIS over the next decade. These include increasing the share of defence acquisitions awarded to Canadian firms to 70 per cent, increasing Canadian defence exports by 50 per cent, and creating 125,000 new jobs across the Canadian economy. The Government

also projects \$125 billion in downstream economic activity from defence procurement by 2035. This \$125 billion estimate is based on achievement of the DIS and related targets, reasonable estimates for economic growth over the next decade, and positive spillovers from increased domestic procurement.²⁸

Issues for Parliamentarians

The DIS establishes measurable objectives for increasing domestic procurement, defence exports, employment and economic activity over the next decade. These objectives provide benchmarks for evaluating the implementation and economic outcomes of the strategy.

What is the Industrial and Technological Benefits Policy?

Under the ITB Policy, companies awarded certain defence procurement contracts²⁹ are required to undertake business activity in Canada equal to the value of those contracts. The Policy is intended to use defence procurement to support Canadian industry, including by creating opportunities for Canadian suppliers and small and medium-sized businesses, supporting research and development, and developing skills. ISED estimates that business activity associated with the ITB Policy contributes approximately \$5 billion annually to Canada's GDP and supports approximately 40,000 jobs.³⁰ ITB obligations can be fulfilled through business activity directly related to the procurement (direct) or through other eligible activity in Canada (indirect).³¹

ITB obligations have increased considerably in recent years. According to ISED's 2025 ITB Annual Report, 117 contracts active in 2024 were associated with \$83.8 billion in economic obligations, an increase of 95 per cent in the value of obligations since 2020.³² As Canada continues to increase investment in major defence procurement projects, the value of contracts subject to ITB obligations could increase further.

Independently assessing the economic impact of the ITB Policy remains challenging. In 2024, the Auditor General found that ISED could not demonstrate that the Policy was meeting its objectives and lacked effective means to measure its economic benefits and job creation. These limitations make it difficult to independently assess claims regarding the broader economic benefits associated with ITB commitments.³³

Issues for Parliamentarians

ITB commitments associated with major defence procurements represent substantial obligations for companies to undertake business activity in Canada. As the scale of these obligations increases, existing limitations in measuring the economic outcomes of the ITB Policy will constrain the ability to independently assess the benefits attributable to these commitments.

What is the Defence Investment Agency?

The Defence Investment Agency (DIA) was established in October 2025 to accelerate and modernize defence procurement by centralizing expertise and streamlining decision-making. The DIA currently operates as a Special Operating Agency within PSPC and is led by the Secretary of State (Defence Procurement), a position established earlier in 2025.³⁴ This arrangement is transitional: the Government intends to establish the DIA as a stand-alone entity with expanded authorities, supported by \$103.8 million over five years, beginning in 2026-27, and \$22.3 million annually thereafter.³⁵

The DIA will also play a central role in delivering the Defence Industrial Strategy, including through industry engagement and the integration of industrial considerations into defence procurement. The new procurement model is intended to involve procurement and contracting expertise earlier in the development of projects, including during planning and options analysis. The DIA may provide input on procurements for the Canadian Armed Forces, the Canadian Coast Guard and other security-related requirements at any stage of the procurement process.³⁶

The DIA's evolving responsibilities also include the ITB Policy. Effective July 16, 2026, the Government transferred authority for the Policy to the DIA. Current Government guidance nevertheless continues to identify the Minister of Industry as having authority for the Policy, ISED as the ITB Policy Authority, and the DIA and ISED as jointly responsible for administering the Policy for eligible procurements.³⁷

Issues for Parliamentarians

The transfer of authority for the ITB Policy to the DIA changes the institutional arrangements for its administration. As the DIA continues to be established, the division of responsibilities between the DIA and ISED will affect where accountability rests for administering the policy.

Further, it appears that the DIA will have an active role in channeling appropriated funds among departments and agencies and in investing in discrete projects with considerable financial flexibility. Clarity of fiscal and financial reporting arrangements for the DIA will be critical for maintaining Parliament's ability to scrutinize financial aspects of specific projects as well as overall fiscal accountability of responsible Ministers.

What is the proposed Defence, Security and Resilience Bank?

At the 2026 NATO Summit in Ankara, Canada and eight partner countries announced their intention to establish the Defence, Security and Resilience Bank (DSRB), a new multilateral financial institution designed to mobilize public and private capital for defence, security and resilience investments. The DSRB is intended to provide long-term, low-cost financing to address financing gaps across defence supply chains, including for small and medium-sized enterprises and member governments. Canada's six largest banks have also expressed support for the proposed institution.³⁸

Following multilateral negotiations in Montreal in April 2026, participating countries agreed to the DSRB's founding Articles of Agreement and selected Canada to host its future headquarters. The DSRB is expected to become operational as early as 2027. However, important details regarding the Bank's capitalization, eligible investments and member financial commitments have not yet been publicly specified, leaving the nature and magnitude of any financial commitment or fiscal exposure for Canada uncertain.³⁹

Issues for Parliamentarians

Canada has committed to participate in the DSRB, but the financial implications of its participation have not yet been precisely determined. These implications will depend on how the Bank is financed and the financial commitments required of participating countries.

Illustrative major defence procurement projects

Major defence procurement projects are at different stages of development and implementation, with significant differences in their scope, cost and timelines. Table 6

presents a selection of high-profile projects across air, maritime, land and continental defence that are currently underway or under consideration by the Government.

The selected projects also highlight several significant procurement decisions that remain outstanding, such as the Government's review of the Future Fighter Capability Project and ongoing supplier negotiations for the Canadian Patrol Submarine Project and Airborne Early Warning and Control capability. Some projects remain subject to Government review or supplier negotiations, while others have recently entered or expanded implementation.

Table 6

Selected major defence procurement projects

Project	Capability	Status	Publicly announced cost	Timeline
Future Fighter Capability Project	88 F-35A fighter aircraft to replace Canada's CF-18 fleet	Implementation underway; acquisition remains under Government review, including potential alternatives; Saab's Gripen E was the other final eligible bidder ¹	\$27.7 billion	First aircraft to arrive in Canada in 2028; initial operational capability planned for 2029-2030
Canadian Patrol Submarine Project	Up to 12 conventionally powered, under-ice-capable submarines	TKMS selected as preferred supplier; contract negotiations underway	Not yet announced ²	First four submarines targeted for delivery in 2034
River-class Destroyer Project	15 warships to replace the Halifax-class frigates and retired Iroquois-class destroyers	Construction underway; implementation contract awarded for first three ships	\$22.2 billion for first three ships ³	First ship expected to be delivered in early 2030s
Airborne Early Warning and Control	Airborne command, control and surveillance capability	Options analysis phase underway; Saab selected as preferred supplier ⁴	Not yet announced	To be determined

Armoured Combat Support Vehicle	550 armoured support vehicles in eight variants; based on the LAV 6.0 platform	Implementation phase underway; fleet expanded by 190 vehicles in 2026 ⁵	\$4.0 billion	Full operational capability planned for 2029
Arctic Over-the-Horizon Radar	Long-range radar to detect and track threats approaching Canada's Arctic and northern regions	Capability delivery underway through partnership with Australia	More than \$6.0 billion ⁶	Initial capability planned for December 2029

Source:

PBO analysis of information from the Government of Canada.⁴⁰

Note:

Publicly announced cost figures are not directly comparable and may reflect different project scopes, procurement stages and cost components.

1. Canada remains committed to acquiring an initial tranche of 16 F-35A aircraft while the review is ongoing. The \$27.7 billion project budget does not include all elements required to achieve full operational capability; the Auditor General identified at least \$5.5 billion in additional infrastructure and advanced weapons requirements outside the project estimate.
2. The Government has stated that it has provisioned funding for the acquisition in its fiscal framework but has not publicly disclosed the related total amounts while contract negotiations are underway.
3. The \$22.2 billion estimate includes the construction and delivery of the first three ships, as well as associated equipment, ammunition, spares, training and support. An initial \$8.0 billion implementation contract was awarded to Irving Shipbuilding in March 2025 for the first six years of construction and delivery of the first three ships.
4. Engagement with Saab as the preferred supplier does not constitute a procurement commitment. Saab's proposed "GlobalEye" platform is based on the Bombardier Global 6500 aircraft.
5. The additional 190 vehicles were announced in July 2026 as part of a new strategic partnership with General Dynamics Land Systems-Canada, the first company selected under the Defence Industrial Strategy's Strategic Partnership Framework. The Government announced an investment of nearly \$2 billion over four years for the additional vehicles.
6. The project is part of Canada's broader NORAD modernization plan. The Government has announced an investment of more than \$6 billion in the program, including a \$2.5 billion commitment to Australia for procurement of the radar system itself. The broader program also includes infrastructure, installation, integration and other program-related costs.

Issues for Parliamentarians

Major defence procurement projects can involve substantial expenditures and commitments extending over decades. Changes to project scope, costs and timelines as projects progress can therefore affect both the timing and magnitude of planned defence spending.

Notes

¹ North Atlantic Treaty Organization, "[Defence investment and NATO's 5% commitment](#)," 2014 Wales Summit 2% commitment.

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⁶ *Ibid.*

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¹⁴ PBO calculations based on series obtained from the PBO's [June 2026 Economic and Fiscal Outlook](#), and the Government of Canada's [2026 Spring Economic Update](#).

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¹⁶ Office of the Parliamentary Budget Officer, "[Planned Capital Spending under Canada's Defence Policy: 2025 Update](#)," October 29, 2025.

¹⁷ Receiver General for Canada, [Public Accounts of Canada 2023, Volume II, "National Defence"](#); Receiver General for Canada, [Public Accounts of Canada 2025, Volume II, "National Defence"](#). Vote 5 capital expenditures do not represent all DND spending associated with capital investment; some capital-related expenditures may be recorded under other votes. Vote 5 is used here as a consistent indicator of changes in DND capital spending over time.

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