PBO Assessment of Budget 2026: Government's Major Capital Priorities

Highlights

The government announced a number of ambitious priorities in Budget 2025 to bring forward $1 trillion in capital investment in Canada – notably infrastructure and major projects, productivity, housing and defence. Budget 2026 announces concrete steps to advance these priorities, with some nuancing of previously stated objectives, notably for housing.

Budget 2026 profiled $500 billion in commitments secured at the Investment Summit as tangible progress toward its $1 trillion capital target. Of note, these new commitments, largely by Canadian banks and pension funds, are to provide financing as future projects are advanced, and are not commitments to undertake specific projects.

Projects referred to the Major Projects Office (MPO) have increased from 15 to 18, and the number of transformative strategies from six to ten. Budget 2026 also introduces the Major Projects Management Entity, with limited detail on how its responsibilities differ from the MPO.

PBO analysis highlights that recent demographic restrictions are set to increase productivity from it's previous average of 0.1 per cent – independent of new measures introduced in Budget 2025 and 2026 to boost productivity. As such, the 1.2 per cent rise in productivity cited in Budget 2026 is in line with what PBO projected in September 2025, before the Government's capital investment agenda, and could serve as a reasonable baseline to assess if new measures are working.

While Budget 2026 announces new measures for homelessness and housing affordability, it is not on track to double housing starts per Budget 2025, with year-to-date housing starts 4 per cent lower in 2026 than 2025.

Budget 2026 significantly improves transparency by publishing annual cash and accrual projections for core defence spending and ancillary defence and security-related expenditures. Total NATO-eligible spending is projected to reach 4.1 per cent of GDP in 2027-28. The path to reach 5 per cent of GDP by 2035 remains unclear.

Major Priorities

Context

In Budget 2025, the government announced that it would enable $1 trillion in capital investment over five years, of which $500 billion would be new private sector capital investment. According to Budget 2026, the Canada Investment Summit generated nearly $500 billion in financing commitments, although they were largely not tied to specific investment projects. New financing commitments from the Investment Summit include: $325 billion from Canadian banks; $100 billion from pension funds, insurers and other institutional investors; $52.5 billion by Bell Canada and the Government of Saskatchewan for AI infrastructure; and over $14 billion in financing commitments from investment funds.

Budget 2025 further identified four priority areas to advance the overall capital objective infrastructure and major projects; productivity; housing; defence and security. With Budget 2026, the government provides further detail on how these priorities will be concretely advanced, as well as introducing greater detail on the structure of related Crown corporations and Indigenous programs and services. The focus of this note is to assess new progress on initiatives in light of objectives set in earlier budgets.

Assessment

Infrastructure and Major Projects

Budget 2025 committed $115 billion over five years to federal infrastructure, to be delivered in part through the Major Projects Office (MPO)—a new federal single-window coordination body mandated to fast-track approvals for nationally significant projects within a maximum of two years. At the time, the government committed that the MPO would "help structure and co-ordinate financing from the private sector, provincial and territorial partners, and the federal government, including through the Canada Infrastructure Bank, Canada Growth Fund, and the Canada Indigenous Loan Guarantee Corporation."

Budget 2026 notes that the MPO currently oversees 18 referred projects representing $194 billion in capital investments and is developing ten transformative strategies, up

from 15 projects representing $125 billion in capital investments, and six transformative strategies at the time of the SEU.

In October 2026, two projects were officially listed under the *Building Canada Act* as projects of national interest: the West Coast Oil Pipeline Project located in Alberta and British Columbia (Pacific Link) and the Roberts Bank Terminal 2 Project – a container terminal in the Port of Vancouver in British Columbia. According to estimates published in the Orders in Council, they represent up to $49.6 billion in capital investment. The amount of federal support these projects may receive has not yet been determined. If the government respects its original target for achieving all federal decisions on major projects within a maximum of two years (Bill C-5: Building Canada Act) or the recently proposed more aggressive target within one-year (Bill C-39: Building Canada Strong Act), these details could be available by Budget 2027.

Budget 2026 also revealed the following three projects being considered for listing as a project of national interest:

- Deep Geological Repository for Nuclear Waste (Ontario);
- Mackenzie Valley Highway (Northwest Territories); and
- Grays Bay Road and Port (Nunavut).

In addition, Budget 2026 announced support through a new Major Projects Management Entity for the Mackenzie Valley Highway and the Taltson Hydro Expansion project (Northwest Territories). The Mackenzie Valley Highway project will receive $3.1 billion in direct federal financing over five years to fully fund construction costs, as well as provide funding for certain maintenance costs.

The Major Projects Management Entity will receive $187.4 million over five years plus $24.2 million more beyond the forecast horizon. Budget 2026 provided limited detail on how its responsibilities will differ from those of the MPO. Any direct federal financing for the Taltson Hydro Expansion project remains unclear.

Budget 2026 also announced a new strategy, Powering Canada Strong, in respect of national electrical infrastructure and capacity with investments to double Canada's electricity generation by 2050. This $50 billion strategy includes among other measures: $38.5 billion to extend and expand the Clean Technology and Clean Electricity investment tax credits to 2040 with potentially higher credits for domestic content; and $4 billion over 10 years, starting in 2027-28 to support electricity infrastructure expansion, renewable energy, and priority electricity sector projects across Canada. For

the 2027-28 to 2030-31 period, the Budget indicates this strategy will cost $8.7 billion. As this strategy becomes more concrete, we anticipate specific projects would be referred to the MPO, notably Churchill Falls development and the Labrador Trough Corridor.

The MPO has not yet published progress reports or approval-timeline scorecards assessing performance against its two-year mandate.

Productivity

Budget 2025 announced the government's intention to "boost competition, innovation, and productivity through various measures".

Budget 2026 introduces several new measures with a goal, according to the government, to "build a stronger, more competitive, more resilient Canadian economy." One key measure is the Productivity Mega Deduction, which has an estimated incremental cost of $36 billion over five years, starting in 2026-27. This is incremental to the Productivity Super-Deduction, announced in Budget 2025 and legislated through Bill C-15. As stated by the Government, these types of immediate expensing measures are a key part of how they intend to stimulate business investment and catalyze the additional one trillion in investments.[1] Of note, while accelerated depreciation and immediate expensing impose costs over the first five years, they serve as tax deferrals (the assets would still be depreciated, albeit at a lower pace). Fiscal room may be recovered through time depending on the forward path of incremental capital spending that defers future tax liability.

In June 2026, the federal government announced Canada's National Artificial Intelligence Strategy: *AI for All*. Budget 2026 includes $2.0 billion over five years for this strategy, which according to the Government, has three guiding principles: building trust, creating opportunities, and reinforcing Canadian sovereignty. Budget 2026 further notes that private sector forecasters expect continued AI adoption to support productivity and growth, with those providing quantitative estimates expecting an average contribution of about 0.2 percentage points annually to real GDP growth.

Benchmarking Productivity

A baseline view of productivity is useful to assess whether new government initiatives are having an incremental impact on Canada's aggregate productivity. This is particularly useful in the context that the government has also taken steps to slow immigration; this has a mechanical impact on productivity, in that workers in the labour force then benefit from higher per capita access to technology and capital.

The private sector forecast underlying Budget 2025, prepared before the government's measures were announced, already had labour productivity growth picking up to 1.0 per cent a year over 2025 to 2029, from 0.1 per cent over 2023 to 2025, as labour supply growth slowed to 0.6 per cent a year. Faster productivity growth in the next few years is therefore expected with or without new policy measures, should be considered if accelerating productivity growth is presented as evidence that new measures are working.

PBO projections prior to the government's capital investment agenda underscore this dynamic. In our Economic and Fiscal Outlook – September 2025, we projected output per hour to grow 1.6 per cent a year over 2026 to 2028 and 1.3 per cent over 2029 to 2030. The rise reflects a sharp slowdown in the growth of population and hours worked, rather than policy gains in efficiency or impacts of proposed tax policy changes. The test for the capital investment agenda, the Productivity Mega Deduction and the AI strategy is whether output per hour rises above this path, *not* whether productivity rises above the recent weak productivity performance of 2023 to 2025 at 0.1 per cent growth annually for Canada.

Housing

Budget 2025 announced that its new Build Canada Homes would "help double the pace of construction to build millions of more homes." Budget 2026 profiled its housing strategy, part of its broader strategy on affordability, as based on three pillars:

- Measures to address homelessness;
- Measures to support the construction of non-market housing; and,

- Measures to support the broader housing market.

The plan proposes approximately $14.8 billion in new funding between 2026-27 and 2030-31 for housing related items. This includes funding for new programs and renewals of some National Housing Strategy programs including Reaching Home, the Veterans Homelessness Program and the Canada Housing Benefit. Budget 2026 significantly expands funding for Build Canada Homes to support the construction of non-market housing, supportive and transitional housing, and to provide health and social supports.

- The Federal Government had previously committed to ending chronic homelessness by 2030. Budget 2026 now commits to a new 10-year window to end homelessness.
- Since Budget 2025, when the government reiterated its commitment to doubling the pace of homebuilding in 10 years, construction activity has remained relatively flat. Cumulative housing starts from January to September 2026 were roughly 4 per cent lower than during the same period in 2025.[2]
- While Budget 2026 does not explicitly reiterate this goal, it introduces new measures aimed at facilitating homebuilding, including mortgage insurance changes committed to in the 2026 Spring Economic Update intended to facilitate "missing middle" housing construction.
- Budget 2026 announced significant new funding to increase the pace of non-market housing construction. However, with previous reductions in funding for housing programs under the Comprehensive Expenditure Review and many existing National Housing Strategy programs set to expire in the coming years, the long-term outlook on support for social and affordable housing remains unclear.

Defence

Budget 2026 provides substantially greater detail on the government's plans to meet its NATO defence spending commitments, including annual expenditure projections through 2030-31.

- Budget 2026 significantly improves transparency by publishing annual cash and accrual projections for core defence spending (3.5 per cent of GDP under Canada's NATO commitment), alongside projections for ancillary defence and security-related expenditures (up to 1.5 per cent of GDP). The government now

expects total NATO-eligible spending to reach 4.1 per cent of GDP in 2027-28, three years ahead of its previously announced target, with core defence spending projected to reach 2.6 per cent of GDP. The government projects that Canada already meets, and will continue to meet, the 1.5 per cent ancillary spending target, although it has not published supporting details, including how spending by sub-national levels of government is calculated. The spending path beyond 2030-31 to reach 5 per cent of GDP by 2035 remains unclear.

- Several defence initiatives are announced, including $7.6 billion over five years (on a cash basis) to extend and expand Operation REASSURANCE and $2.3 billion over five years (on a cash basis) for the Defence Drone Initiative. Funding for Operation REASSURANCE will be sourced entirely from existing National Defence resources. The Canadian Patrol Submarine Project and Airborne Early Warning & Control capability are also highlighted, without additional expenditure details. The limited information on the cash and accrual costs of individual initiatives complicates an assessment of their contribution to the government's broader defence spending objectives.
- Canada and its international partners are expected to sign the Articles of Agreement establishing the Defence, Security and Resilience Bank on November 30, 2026. The budget does not specify Canada's expected capital contribution or the potential fiscal exposures associated with participation in the institution.

Crown Corporations

As noted in separate PBO assessments, the government will be financing and executing many of its capital objectives through the use of Crown Corporations. Budget 2026 announces a number of changes to these entities such as the Business Development Bank of Canada, (BDC), Export Development Canada (EDC), the potential Cananda Strong Fund, and the Canada Infrastructure Bank (CIB).

- Budget 2026 announced the government's intention to establish the $25 Billion Canada Strong Fund as an arm's length and standalone Crown corporation that would provide loans, with the option to convert to equity, to project proponents and would invest directly with an equity stake in projects. It's unclear how the Canada Strong Fund will work with other Crown corporations and the Major Projects Office while ensuring transparency for retail investors that would like to purchase Canada Strong Notes and share in the returns generated by the Fund.

- BDC and EDC will be merged to provide more integrated financial services. CIB will focus on loans and loan guarantees for investments in Canadian infrastructure and Indigenous loan guarantees. All financing Crown corporations will support projects with greater risk than those supported by the private sector. According to the Debt Management Report 2024-25, in 2024-25 the federal government loans and advances to BDC totalled $34 billion and EDC borrowed $61 Billion from the market. The fiscal considerations of loans to higher risk projects was not presented in the Budget.
- According to Budget 2026, total loans to enterprise Crown corporations will be $66 billion in 2027-28. It is unclear whether this amount includes loans to the new Canada Strong Fund and the integrated BDC/EDC.

Indigenous Programs and Services

Budget 2026 provides over $50 billion over 10 years for advancing reconciliation with Indigenous Peoples, with the intended purpose of providing more predictable long-term funding in core programs, many of which involve capital investments.

First Nations housing and infrastructure investments account for over $32 billion, of which:

- $18.7 billion is for First Nations infrastructure;
- $12.7 billion is for First Nations housing; and,
- $0.7 billion is for transformation initiatives for financing First Nations housing and infrastructure.

The remaining $18 billion, which is over 6 years, is for measures to support Indigenous education and skills training, health and community safety, support for children and families, and emergency management.

While some of this funding relates to new announcements, there are also funds allocated to the extension of existing programs that were either set to expire or were not fully allocated. As noted in a previous PBO report, the Budget 2022 commitment of providing additional funding for On-Reserve housing was set to expire after 2026-27, to which Budget 2026 provides $12.7 billion over 10 years for First Nations housing. Budget 2026 also provides additional funding required under Jordan's Principle ($6 billion over six years, starting in 2026-27).

The inclusion of more long term-funding in Budget 2026 for measures for Indigenous Peoples is an improvement in fiscal transparency as it provides parliamentarians with a more accurate picture of the expected costs and the impact on the fiscal framework. However, it is unclear whether incremental funds for existing programs will still be required in subsequent budgets or updates, as other measures with temporary funding expire. As an example, PBO has previously noted that Funding for Métis Housing, Inuit Housing and Modern Treaty Self-Governing First Nations Housing is set to expire in 2027-28 or 2028-29.[3]

Risks and considerations

The availability of skilled trades remains a critically important enabler of the government's capital investment strategy, with Budget 2026 reiterating the government's previous commitment to "recruit, train and hire" up to 100,000 Red Seal trades. To the extent that Canadians can be fully accredited in relevant trades, major projects will face fewer delays and cost pressures and lessened need to recruit skilled workers internationally.

Notes

[1] Productivity Mega Deduction backgrounder.

[2] Monthly Housing Starts and Other Construction Data Tables. September 2026 Edition.

[3] Build Canada Homes and the Outlook for Housing Programs under Budget 2025.

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