PBO Assessment

Spring Economic Update: Fiscal Anchors and Fiscal Sustainability

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 Spring Economic Update (SEU) projections indicate that the Government is on track to respect its two fiscal anchors.

> The 2026 SEU preserves the reporting framework around capital budgeting adopted in Budget 2025. No additional precision on the definitions used for classification under the framework were provided.

> The projected long-term debt path in the 2026 SEU presents a steeper decline in the debt to GDP ratio compared to Budget 2025. That is, the current projections suggest greater fiscal room into the medium term.

Fiscal Anchors

Context

In its Spring Economic Update (SEU), the Government reaffirmed its commitment to its two fiscal anchors first introduced in Budget 2025:

- Maintain a declining deficit-to-gross domestic product (GDP) ratio; and,
- Balance operating spending with revenues by 2028-29.

Under the Government's Capital Budgeting Framework set forth in Budget 2025, spending is divided between operating and capital components. Capital investment is broadly defined to include expenditures - and certain tax measures - that support capital formation across the public and private sectors, including infrastructure, major equipment and defence capital, research and development, inventories, capital transfers, and selected tax expenditures. All other revenues and expenses are classified as operating by default. Under this framework, borrowing will be permitted only for capital investment after 2028-29, while operating spending must be funded by current revenues.

Assessment

The SEU projections indicate that the Government is on track to respect its two fiscal anchors.

The deficit-to-GDP ratio is projected to decline from 2.1 per cent in 2025-26 to 1.4 per cent by 2030-31. Compared with Budget 2025, the ratio is modestly improved reflecting upward revisions to nominal GDP and smaller deficits.

The Government is also projected to meet its target from Budget 2025 of "*balancing operating spending with revenues by 2028-29*". In the 2026 SEU, operating deficits are, over 2025-26 to 2029-30, on average $1.2 billion lower than in Budget 2025, reflecting higher operating revenues being partially offset by additional operating spending from new measures, including the temporary suspension of federal fuel excise tax on gasoline, diesel, and aviation over the summer. Additional details on the impact of new measures on the operating balance should follow.

- Of note, the 2026 SEU preserves the reporting framework around capital budgeting adopted in Budget 2025. No additional insights on the definitions used for classification under the framework were provided in terms of key concepts of capital expenditures, tax measures that will be considered as capital, operating expenditures and operating revenues. As such, it is not possible to advise in depth as to how updates to specific revenue and expenditure items presented in the SEU contribute to the government's assertion that this fiscal anchor remains in balance.

- This lack of definition among key operating and capital concepts related to the government's second fiscal anchor limits the possibility for evaluation of how capital investments (either through expenditures or tax measures) correspond to the creation of assets, which the Government is targeting to reach $1 trillion, and to eventual consideration of return on these assets.

- The International Monetary Fund (IMF) noted that clearer alignment between the Government's capital classifications and standard statistical frameworks, such as the System of National Accounts (SNA), "would improve transparency, ensure comparability over time, and maintain a clear link between borrowing and the debt path". The IMF has also called for an independent mechanism to validate classifications and compliance.

- Under the SNA, capital formation is more narrowly defined as gross fixed capital formation—covering produced assets such as structures, machinery, transport equipment, and intellectual property. The Government's broader definition, which includes certain tax expenditures and operating subsidies, may overstate capital formation, as these measures reflect fiscal costs and may not correspond directly to realized private investment.

Fiscal Sustainability

Context

The IMF's fiscal sustainability framework centers on the **debt-to-GDP ratio** as the primary metric, with sustainability assessed based on whether the ratio can be stabilized over the long term, in other words – do revenues, expenditures and debt charges align into the longer term based on the government's current set of planned initiatives and programs. This requires extending projections beyond a five-year horizon to capture pressures such as demographic aging, rising health care costs, climate adaptation, and structural changes in the economy.

Yet, into the medium term, risks cannot be assumed to remain constant, and so a wider set of metrics are also relevant to assess if the overall level and composition of debt and deficits are stable through time. As circumstances change, these additional metrics may signal that a government may wish to course correct its fiscal plans for greater stability and resilience.

The **fiscal gap** is the principal complementary metric to debt-to-GDP, measuring the immediate and permanent adjustment to revenues or program spending (as a share of GDP) required to maintain a stable debt trajectory, with a negative gap indicating fiscal room to address future fiscal priorities and pressures. In other words, the fiscal gap relates to the government's capacity to absorb shocks such as recessions, natural disasters, pandemics, or geopolitical events.

In parallel, the IMF looks to additional indicators such as **gross financing needs**, **interest burdens** (for example, public debt charges as a share of revenues), and **debt structure** to assess medium-term financing pressures and risks that could influence the debt trajectory and, over time, fiscal sustainability.

Additionally, reviewing past fiscal projections are also important, as repeated upward revisions to spending in subsequent planning cycles, and as a consequence to the debt-to-GDP track, can erode the **credibility of fiscal plans** and weaken confidence in the fiscal framework and raise concerns about long-term fiscal sustainability.

Assessment

The federal debt-to-GDP ratio is projected to be 1.4 percentage points lower in SEU than projected in Budget 2025 and is forecast to remain broadly stable over the medium term. In the short to medium term, the SEU projects the federal debt-to-GDP ratio is projected to rise from 40.7 per cent in 2024-25 to an average of 41.7 per cent over 2026-27 to 2030-31. Over the same horizon, debt per capita increases from $33,592 to $38,295, rising at a rate broadly in line with nominal GDP per capita.

The 2026 SEU introduced the Canada Strong Fund, a new sovereign wealth fund with an initial capitalization of $25 billion over three years. This new initiative is reflected in the fiscal framework as additional borrowing and reflected in the budgetary balance through additional public debt charges.

The SEU also includes a long-term projection, with the debt-to-GDP ratio declining to 25.1 per cent by 2060-61. Based on this path, current policy would be assessed as sustainable under the IMF framework, with a modest negative fiscal gap.

The interest burden, measured as public debt charges as a share of revenues, is broadly unchanged compared with Budget 2025, but still showing a concerning upward track. The Government expects it will rise from 10.6 per cent to 13.2 per cent of revenues between 2025-26 and 2030-31. On a per capita basis, public debt charges are projected to climb from $1,409 in 2026-27 to $1,901 in 2030-31 reflecting low population growth and a rising debt stock.

- Of note, the IMF recently recommended reinstating the debt-to-GDP ratio as the primary fiscal anchor for Canada, noting that it would “strengthen discipline, transparency, and credibility while preserving fiscal space for high-return investment.”

- The projected long-term debt path in the 2026 SEU presents a steeper decline in the debt to GDP ratio compared to Budget 2025. That is, the current projections suggest greater fiscal room to reduce revenues or increase program spending (relative to the baseline scenario) while ensuring the federal debt ratio in 2055-56 is at or below its initial level. However, the contrast with fiscal policy settings prior to Budget 2025 remains. Additionally, these projections do not include all the anticipated spending related to defence.

- In Budget 2025, the Government argued that it would use available fiscal room for investments that will grow the economy over the long-term, while ensuring that the debt-to-GDP ratio remains stable, despite higher deficits. The economic impact of these measures is contingent upon the successful implementation of the investments and their ability to attract incremental third-party investments in a way that leads to subsequent economic activity. Debts remain repayable, independent of implementation success of the growth objectives.

- Parliamentarians may wish to press for more comprehensive reporting on risks and mitigations to implementation objectives. The SEU provided a substantive update, for example, on how the Government plans to address the specific implementation risk of the availability of skilled labour to advance capital investments across major projects, defence and housing.

Errata Log

2026-05-04, 09:01 a.m.	Publication
2026-05-05, 12:55 p.m.	In the French version only, the expression “deficit-to-GDP ratio” had been replaced during translation by “debt-to-GDP ratio”.

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