

Economics  
**IN FOCUS**

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## Size matters, so just how big is Canada’s fiscal stimulus?

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With further interest rate relief looking less likely, the public policy lift to Canadian growth will reflect the lagged impact of prior rate cuts, and the impact of fiscal measures. There was a good deal of hoopla surrounding what the past year’s federal budget could deliver, largely focused on measures aimed at ramping up capital spending. But operating spending decisions also have implications for growth, and Canada’s provinces collectively wield more spending dollars than the federal government. Since size matters for economic impacts, we need to dig into the numbers to understand just how big Canada’s fiscal lift is likely to be, and when we’ll feel it.

Our analysis suggests that, including multiplier effects, fiscal measures will add a couple of decimal places added to Canada’s annualized real GDP growth rate in upcoming quarters, ramping up to about half a percentage point by the end of 2027 as capital spending kicks in. For some, that will sound disappointing, but in an economy otherwise chugging along at a mid-1% growth pace, every decimal counts. Those counting on a greater fiscal impulse are likely ignoring how long it takes for major projects to get underway, as well as two key offsets:

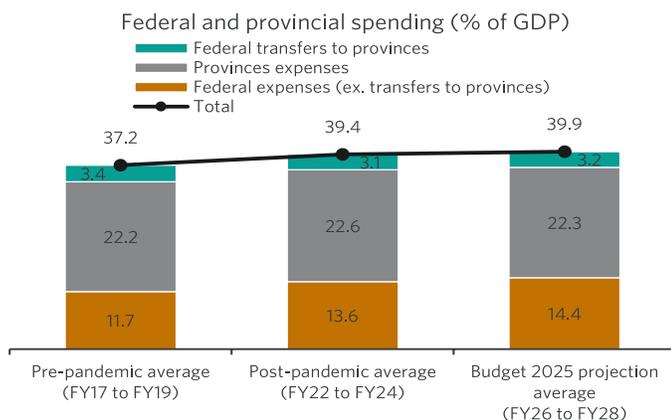
tighter plans for federal government operating spending and headcounts, and provincial government efforts to lean against budget deficits.

### A confederation, even in fiscal policy

While federal budgets attract the greatest attention, the provinces collectively have a larger footprint in Canadian fiscal policy. Federal spending is about two-thirds the size of total provincial spending, and federal revenues are about 70% of what the provinces take in. But even that overstates federal footprint, with nearly 20% of federal outlays being major transfers to the provinces (Canada Health Transfer, Canada Social Transfer, Equalization) that ultimately count as revenues for provinces. It’s the junior level of government that then decides where these funds end up in the economy. There are smaller federal transfers too, for infrastructure and economic development, that also end up in the coffers of provincial governments.

Separating out major transfers leaves about only a third of total government outlays in the economy coming from the federal government (Chart 1). But provincial spending has essentially grown at the pace of the economy since pre-pandemic days, and the latest round of provincial governments budgets suggest the modest spending trend will continue in order to meet deficit targets. In contrast, federal spending has become increasingly expansive, rising from just over 10% of GDP prior to COVID, to a projected 14% of GDP under the assumptions laid out in Budget 2025.

**Chart 1: The provinces, not the feds, play a bigger role in Canadian fiscal policy**

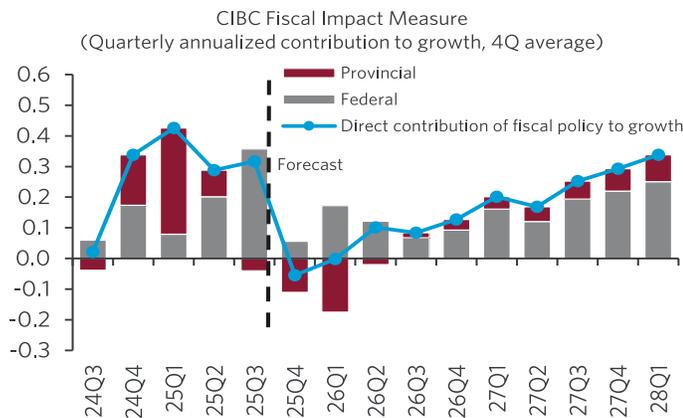


Source: Statistics Canada, CIBC, CIBC calculations

### A fiscal impact measure for Canada

Economists often measure changes in budget deficits after eliminating the impacts of the business cycle to assess whether policy is providing stimulus or restraint. While that cyclically-adjusted deficit is useful for looking at fiscal sustainability, it treats each spending and tax dollar as essentially equal, and misses the key details of when measures are rolled out, as well as differences in the multiplier benefits for the economy.

**Chart 2: Fiscal impulse to be neutral in 2026 before turning positive in 2027**



Source: Statistics Canada, National and Provincial Budgets, CIBC calculations

That’s why we follow an approach inspired by the Brookings Institute and the US Congressional Budget Office (Sheiner et al, 2021; Nelson and Wilson, 2025). We thereby generate a fiscal impulse measure for Canada that evaluates how each of individual piece of federal and provincial fiscal policy (discretionary spending, transfers to households, subsidies, income tax, sales tax and other tax revenue) adds to or subtracts to growth.

In measuring the impulse of fiscal policy, one needs to define the counterfactual. It’s not realistic to compare current policy to a base case in which government spending or revenues were frozen in nominal terms. Following the Brookings methodology, after adjusting for inflation, we compare these individual pieces to a counterfactual in which they grew at the pace of potential output growth (assumed to average 1.8%). Spending adds to growth only if it advances at an inflation-adjusted rate above that benchmark, while taxes are a drag if they do so.

Direct government spending on items like civil service salaries or capital projects is including in the “G component” that shows up in GDP reports, and gets immediately included dollar-for-dollar in real GDP in the quarter that they happen. The other and larger parts of fiscal policy largely impact consumer spending, sometimes with a short lag, or in some cases, business capital spending. We anchor our estimates of transfer payments and taxes impacts using standard assumptions of how much transfer recipients spend the money they receive, and how taxpayers adjust their spending to shifts in taxes collected. Major federal transfers to provinces are treated as revenues for provinces, and excluded from the federal fiscal impulse.

To project our measure forward, we use the latest federal and provincial budgets to inform our assumptions about the growth of each component. A complication is that governments often project very low spending growth one year ahead, in order to meet a budget deficit target, but then add to spending if additional revenue comes in. We pencil in some, but not as much restraint as governments wrote down in the early years of

their projections, and assume a faster pick up in the later years. We expect that will be closer to reality, and also accounts for the lags inherent in new spending initiatives. For transfers and taxes, we follow budget assumptions more closely. We have included the latest GST rebate in these projections.

## Feds are doing the heavy lifting

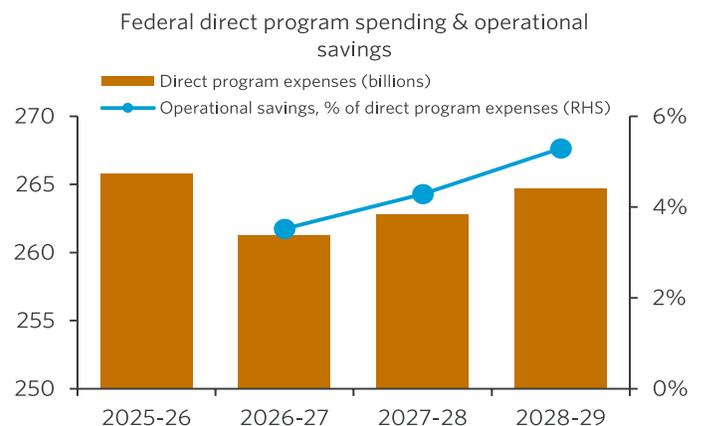
The results are shown in Chart 2 and suggest a moderate direct fiscal impulse, largely driven by federal policy. The combination of loose fiscal policy last year and a commitment to reign in operating spending, results in a muted impulse in 2026. The slowdown in provincial spending is already showing up in GDP data, and results in the overall fiscal impulse being a drag at the start of this year. Major provinces have committed lots to capital projects over the last few years, and like the federal government, are looking to curtail the pace of spending and keep bond supply manageable.

The recent increase in the federal GST rebate and steady growth in federal transfers to individuals drives the impulse in the first half of 2026, helping offset softer provincial spending and a dip in federal government program spending (Chart 3). As Ottawa’s infrastructure and capital money gets out the door, the impulse gradually rises.

But that is only half of the story. What’s more relevant is the total effect of fiscal policy that considers both the direct effect of fiscal policy, as well as its multiplier effect on the rest of the economy. Ottawa is promising an extra 1% of GDP in terms of high capital investment (Chart 4) at a time when there is material slack in the economy. That implies fiscal stimulus should provide a larger than normal boost (Auerbach and Gorodnichenko, 2015; Ramey, 2020).

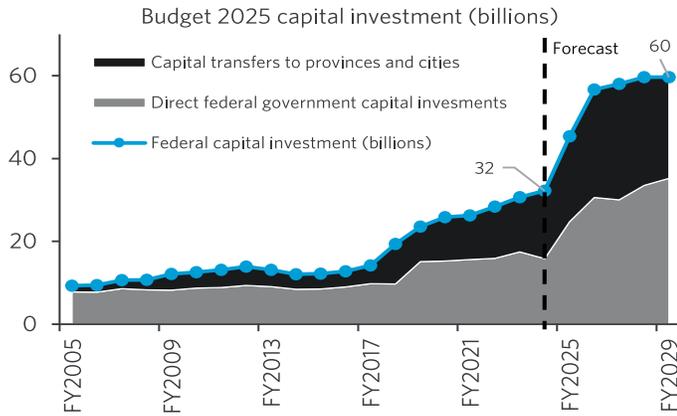
Using a dynamic multiplier approach, we estimate that adding these multiplier impacts results in a total lift to annualized growth of roughly half a percentage point by the back half of 2027, or a bit under 1% on the level of GDP by then. That’s not transformational, but it’s also not small, representing about a

**Chart 3: Ottawa is looking for 14B in savings over the next three years**



Source: Budget 2025, CIBC calculations

**Chart 4: Federal public capital investment is projected to double in absolute terms**

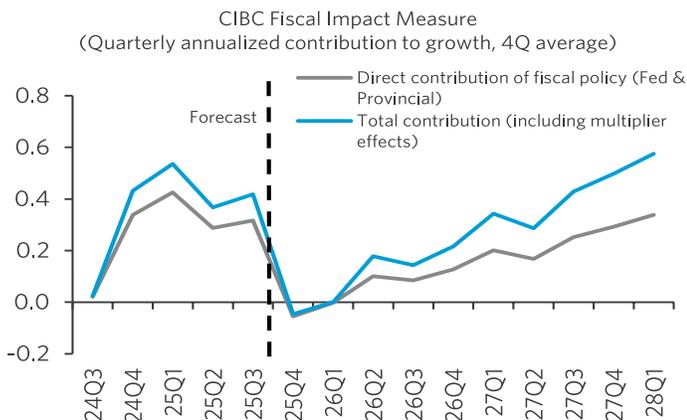


Source: Budget 2025, CIBC calculations

quarter of the economy’s trend growth rate. Moreover, some of that lift might not fade away even once we get past the peak contributions of government action, if we get the right kind of projects in place. We estimate that Canada’s long-term potential output growth could be higher by a quarter of a percentage point (Chart 5).

An increase in public investment can “crowd-in” additional private investment under certain conditions: when the public infrastructure makes the private investments more profitable, when there’s enough economic slack to undertake both types of projects, and when the way deficits are financed and monetary policy prevent a squeeze on the private sector’s cost of capital (Abdul Abiad et al, 2015). Most of those conditions are ripe in Canada at the moment, and economic literature has shown other countries and regions have been successful in spurring on more private sector capital spending (Moretti et al, 2019; De Santis and Vince, 2025). Of course, the opposite has also been true for investments that have been well planned and

**Chart 5: Accounting for multiplier effects, fiscal could boost growth by 0.5%-points by end-2027**



Source: Statistics Canada, National and Provincial Budgets, CIBC calculations

when financial and macro conditions have the public sector spending driving up capital costs or unduly competing for scarce resources.

## Beyond dollars and cents

Those hoping for a burst of fiscal stimulus will be disappointed. But this fiscal program is a slow and steady wins the race type of approach, that could deliver big benefits down the road, rather than a short-lived spike in spending that quickly fades away when the government taps are turned off.

That said, as with any fiscal measures, the devil is in the details. Outcomes will depend on which capital projects get funded, how efficiently they are executed, and their specific contributions to productivity and economic capacity. Beyond dollars and cents, we’ll need the right backdrop of regulatory, trade and other elements of public policy to maximize the longer term lift to Canada’s prospects.

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