

Economics

FEDERAL BUDGET BRIEFS

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Federal economic and fiscal update: Money in, Money out

With more money coming in on the revenue side, as well as some improvement on the spending side, the Federal government is now projecting a smaller deficit for last fiscal year, as well as a higher base for tax revenue entering the current year. However, recent announcements of new spending to support a still-lacklustre economy, alongside some further actions today, mean that more money will also be flowing out. As a result, deficit projections for the current 2026/27 fiscal year and beyond are little changed compared to Budget 2025.

The \$66.9bn deficit now projected for the 2025/26 fiscal year is an \$11.5bn improvement relative to what was expected in last year's budget. Revenues, and in particular income tax revenues, are \$7bn stronger, while direct program expenses are \$14bn lower. However, that spending figure is flattered somewhat by a \$6.7bn reclassification of spending related to employee benefits, which is now considered a net actuarial loss and so didn't have an impact on the overall budget deficit. Other improvements on the spending side came from lower allowances for natural disasters, revised timings for certain programs, and reduced EI benefits due to a lower than expected unemployment rate. Public debt charges are also \$1.6bn lower than expected.

While the starting point has improved, new measures announced since last year's budget and accounted for for the first time in today's update, mean that the deficit projected for fiscal 2026/27 is almost unchanged relative to Budget 2025. At \$65.3bn the shortfall would be just under 2% of nominal GDP, and only slightly smaller than the prior year. Policy actions already taken since last year's budget have added \$4.4bn to the deficit, while today's update added \$11.3bn. However, that figure also includes some measures that were announced in advance of today's release, including the temporary suspension of the Federal Fuel Excise Tax (\$2.4bn) and the new Canada Groceries and Essentials Benefit (\$1.3bn in fiscal 2026/27, with the \$3.1bn one-time payment going out in June accounted for in fiscal 2025/26). A new program to aid in the recruitment and training of 80-100K skilled trades workers will cost \$6bn over 5 years, with \$800mn earmarked for the current fiscal year.

Longer-term projections also show the deficit running close to previous projections, as the higher revenue base continues to be offset by some of the measures announced today and in the previous weeks/months. The debt-to-GDP ratio rises to a peak of 41.9% in fiscal 2028/29, from 41.1%, although that peak is nearly 1.5% lower relative to Budget 2025 due largely to upward revisions in nominal GDP.

Today's update also announced that the government will introduce legislature to reduce the base contribution rate for Canada Pension Plan (CPP) premiums to 9.5%, from 9.9%, effective January 1st 2027. While that change doesn't impact government revenues, with CPP financed entirely through its own sources of revenue, assets and liabilities, it will save workers and employers a cumulative \$3bn a year. Last year's Triennial Review showed that a reduction was possible while still preserving the long-run sustainability of the fund.

Table 1: Budgetary Deficit Projections

\$bn	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Budgetary balance - Budget 2025	-36.3	-78.3	-65.4	-63.5	-57.9	-56.6	-
Budgetary balance - latest	-36.3	-66.9	-65.3	-63.1	-57.7	-56.2	-53.2
Budgetary balance (% GDP) – latest	-1.2	-2.1	-1.9	-1.8	-1.6	-1.5	-1.4
Federal debt (% GDP) – latest	40.7	41.1	41.5	41.8	41.9	41.8	41.6

Source: Canada Economic and Fiscal Update 2026

Yesterday's announcement that Canada will establish a sovereign wealth fund (the Canada Strong Fund) also doesn't have an immediate impact on deficit projections, apart from a \$2mn allocation to a Transition Office to lead engagement with the private sector and regulators to finalise the setup of the fund. Once established the government aims to provide \$25bn over 3 years to seed the fund, although that is not considered an expense in today's update and more details regarding this are still forthcoming.

The budgetary projections were based on expectations for sluggish economic growth in the near-term, but improving in 2027 and beyond. Real GDP growth forecasts of 1.1% in 2026 and 1.9% in 2027 were little changed relative to Budget 2025, but due to the recent rise in oil prices, projections for nominal GDP were stronger (now 4.0% in 2026 vs 3.0% previously). The government also presented economic and fiscal sensitivities related to both a temporary and permanent increase in oil price. A 10% permanent increase in oil price would produce a positive impact on the budget balance of \$2bn a year, with a \$3.5bn revenue improvement offsetting roughly \$1.5bn in increased costs.

Even though the budget deficit for fiscal 2026/27 is little changed relative to Budget 25, the narrower deficit last year means that financing needs for the current year are slightly lower than initially projected. Bond issuance is still expected to be the same at \$298bn, with the change in borrowing needs to be met through lower treasury bill issuance.

Table 2: Projected Gross Issuance of Bonds and Bills

\$bn	26/27 (Budget 25)	26/27 (Update)	chg from Budget
Treasury bills	291	268	-23
2yr	110	110	-
5yr	80	80	-
10yr	80	80	-
30yr	24	24	-
Green bonds	4	4	-
Total bonds	298	298	-
Total Gross Issuance	589	566	-23

Source: Canada Economic and Fiscal Update 2026

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