Market View
Economics and Strategy

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Quantifying Ottawa's fiscal windfall

By Taylor Schleich & Warren Lovely

Last month, Bank of Canada Governor Macklem was asked if an oil price shock is net positive or negative for the Canadian economy. Too early to tell was his dissatisfying answer, but he did explain that "the energy sector will do better, while consumers will be more squeezed". One beneficiary he failed to mention were governments. Fiscal upside is easy to identify in oil-producing provinces, where crude futures curves imply a significant boost to non-renewable resource revenues (**link**). While not directly clipping oil royalties, the federal government stands to benefit too.

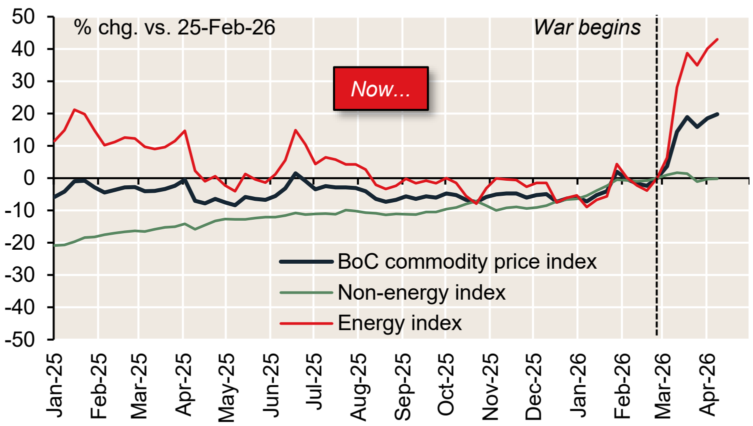
For resource-rich nations like Canada, rising commodity prices are a boon to the terms of trade. All else equal, this boosts the GDP deflator and overall nominal output, which is strongly correlated with government revenue. Even before the Middle East conflict began, GDP was trending on a higher plane due to economic resilience in 2025 and positive historical revisions. Together, it suggests that 2026 nominal output could be 4% (or $130 billion) higher than the feds assumed in their fall budget.

We estimate this GDP surprise is consistent with at least $20 billion in additional revenue in 2026-27, plus some upside to 2025-26. Extra cash last fiscal year is consistent with Ottawa under-borrowing relative to their DMS plan. Interim fiscal results imply the same. However much upside revenue is realized, one key fiscal benchmark has materially improved. Canada's 2026-27 net debt-to-GDP ratio is tracking 1.6%-pts below the budget plan due to the extra GDP (i.e., the denominator).

A natural comparison to this episode came in 2022. Back then, surging commodity prices saw an additional $56 billion flow into government coffers relative to earlier plans. The windfall won't be as large this time as the demand backdrop is weaker and the basket of commodity prices rising is narrower. Like four years ago though, it will be difficult to resist spending some of the surprise income. And right on cue, Ottawa temporarily cut federal gas taxes. Still, we'd imagine a government that aims to "spend less" will let *some* revenue flow to the bottom line. We'll see on April 28th…

Chart 1: Energy prices have surged more in '26 than '22

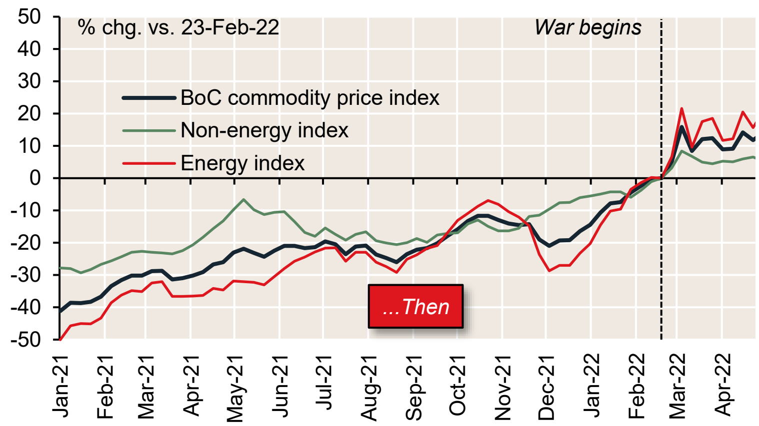
BoC Commodity Price Index (and sub-indices) relative to Feb 25th, 2026



Source: NBC, BoC | Note: In 2025, energy represented 51% of total index.

Chart 2: Back then, pressure was building before war began

BoC Commodity Price Index (and sub-indices) relative to Feb 23rd, 2022

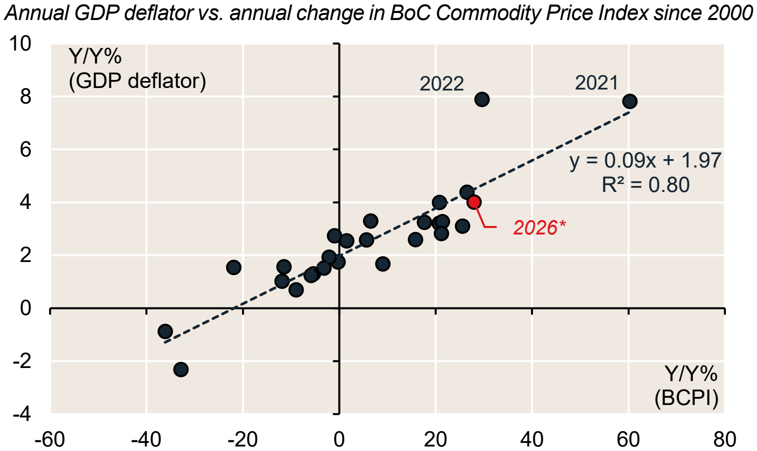


Source: NBC, BoC | Note: In 2021, energy represented 53% of total index.

Energy prices are up >40% since fighting in Iran began. That's a much larger jump than in 2022 after Russia invaded Ukraine. There are two key differences vs. that shock: (1) non-energy commodity prices also increased back then, but these haven't in Mar-Apr 2026. (2) There was major momentum in *all* commodities before the 2022 war began, as demand was surging too. Not the case in '26.

Chart 3: Higher commodity prices ➔ higher GDP deflator

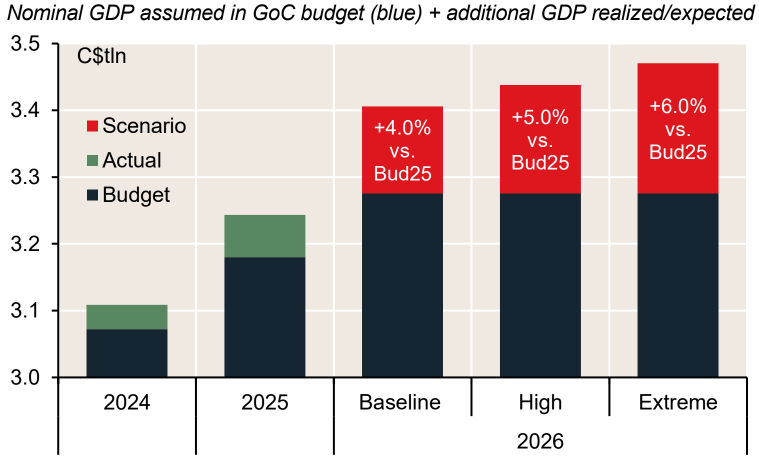
Annual GDP deflator vs. annual change in BoC Commodity Price Index since 2000



*Source: NBC, BoC, StatCan | Note: *2026 = NBC deflator forecast, current Y/Y BCPI increase*

Chart 4: Nominal GDP tracking well above prior thinking

Nominal GDP assumed in GoC budget (blue) + additional GDP realized/expected

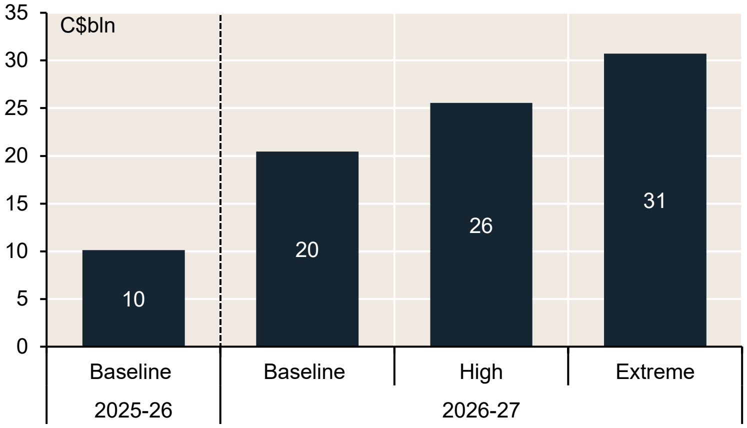


Source: NBC, GoC, StatCan | Note: EoY WTI assumption by scenario = $75, $100, $125/bbl.

When commodity prices rise, Canada's terms of trade improves. All else equal, this means more GDP inflation and nominal output. Even before Iran, GDP was tracking above earlier estimates due to positive historical revisions and economic resilience. 2026 GDP may end up 4% (or more) above GoC budget assumptions. GDP is a tax base proxy, so federal revenue may surprise higher too.

Chart 5: New GDP outlook to spin off more federal revenue

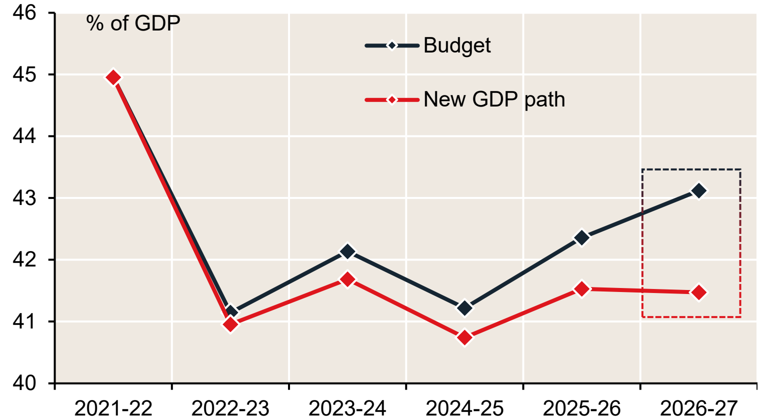
Estimated additional revenue from higher GDP profile, by fiscal year/scenario



Source: NBC, GoC, StatCan | Note: Upside revenue = marginal GDP × revenue share of GDP

Chart 6: The debt burden will look healthier in spring update

*Canadian net debt-to-GDP ratio: Budgeted vs. latest**

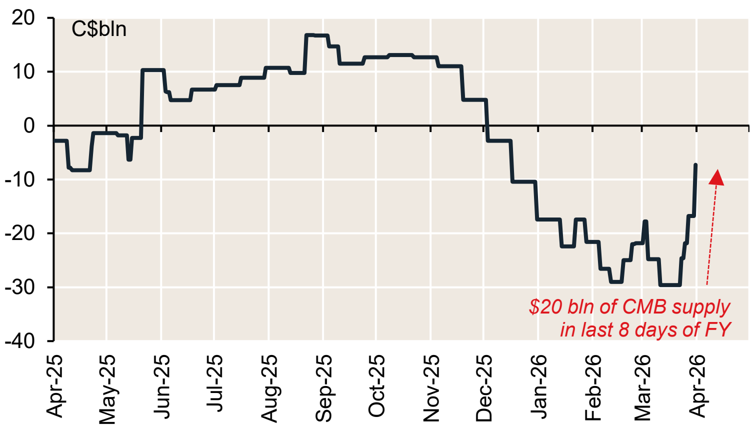


*Source: NBC, GoC, StatCan | *Latest = Net debt from Bud25 ÷ actual/NBC-projected GDP*

Having underestimated GDP, Bud25 likely underestimated revenue too. Based on a constant revenue share of GDP, we see $10 billion of revenue upside in 2025-26 and $20+ billion in 2026-27. That's more than enough to fund the federal gas tax cut. While this new measure alone won't lead to a larger deficit, the 28-Apr budget update *could* usher in more spending, limiting how much new revenue hits the bottom line. A higher GDP level also materially improves Canada's net debt burden. It's now tracking 1.6%-pts below budget assumptions, equivalent to $56 billion in net debt.

Chart 7: The government undershot its T-bill target

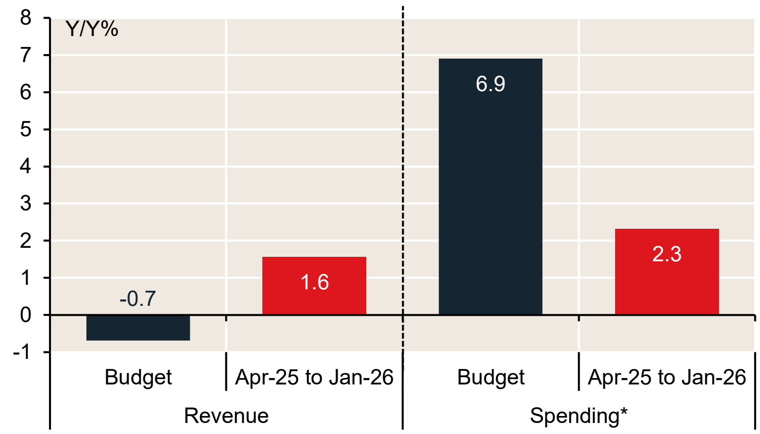
Outstanding GoC T-bills less end of fiscal year (2025-26) T-bill stock target



Source: NBC, BoC

Chart 8: Interim fiscal data imply stronger budgetary results

Planned 2025-26 revenue/spending change: Bud25 vs. fiscal YTD results (Apr-Jan)

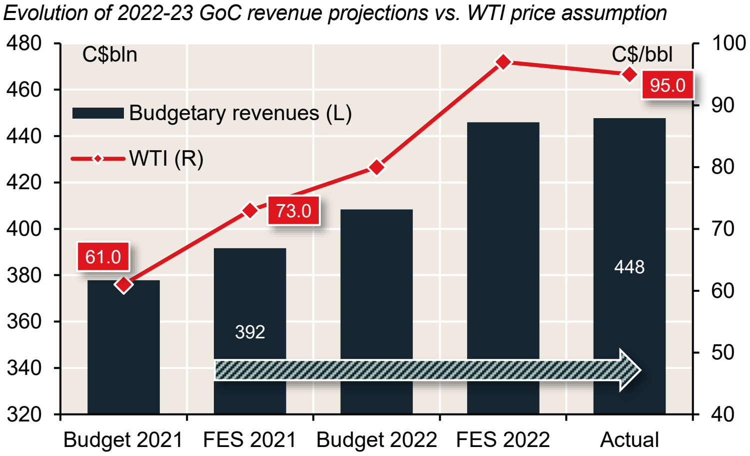


*Source: NBC, GoC | Note: *Spending excludes net actuarial gains/losses*

Other indicators support our view that the revenue base is firmer: (1) The feds under-borrowed relative to the 2025-26 plan, as the T-bill stock settled ~$7 billion below target (and it only got that close due to a $20 billion cash management bill supply surge in late-March). (2) Canada's fiscal monitor, reflecting budgetary results through 10 months of the FY, show revenues up 1.6% Y/Y while the budget assumed revenues would be down slightly. Spending is up less than planned too but treat these interim results with caution. Major budgetary swings often come at fiscal year-end (March).

Chart 9: 4Y ago, rising oil prices coincided with more revenue

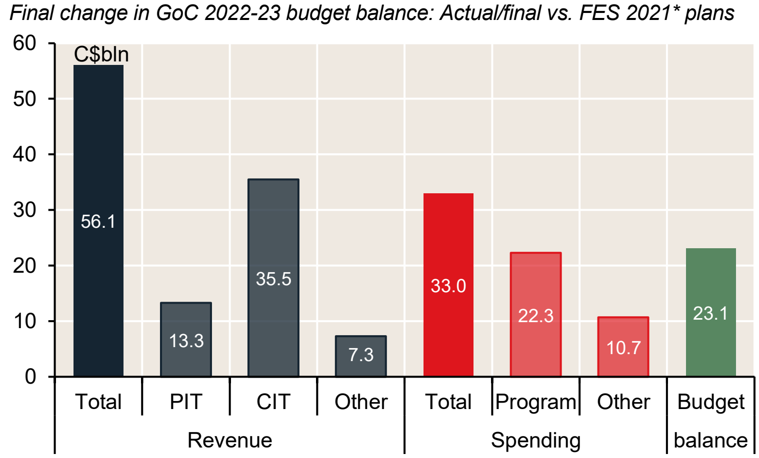
Evolution of 2022-23 GoC revenue projections vs. WTI price assumption



Source: NBC, GoC | Note: FES 2021 was last fiscal plan prior to Russian invasion of Ukraine

Chart 10: More revenue opened the door to more spending

Final change in GoC 2022-23 budget balance: Actual/final vs. FES 2021 plans*



*Source: NBC, GoC | Note: *FES 2021 was last fiscal plan prior to Russian invasion of Ukraine*

It's natural to compare this oil price shock to 2021-22. Back then, federal fiscal plans were constantly revising up WTI assumptions and thus, the revenue outlook. Ultimately, $56 billion in 'unexpected' revenue was collected, mostly via corporate taxes. This wasn't all from oil producers though. Aggregate demand was also surging on low rates and the economy's 're-opening'. There's less revenue upside in 2026 as this tailwind doesn't exist. In 2022-23, Ottawa let less than half of the upside revenue flow to the bottom line. Spending temptation exists today too. See: This week's gas tax cut.

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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca

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