

## Federal fiscal update in 10 charts

By Warren Lovely, Taylor Schleich & Ethan Currie

In Canada, the mantra of the year-old Carney government has been “spend less, to invest more”. Upon the release of Tuesday’s budget update, FinMin Champagne declared the government is delivering on this pledge. He’s not wrong—spending in this administration’s first fiscal year (2025-26) was lower than planned by ~\$14 billion. However, that’s only one slice of the fiscal update. Looking to 2026-27, we’d propose a revised and slightly more accurate slogan: “spend less to *spend more*”. In contrast with contained expenses last year, spending in 2026-27 is set to rise ~5% with revenue measures (e.g., a gas tax cut) also introduced.

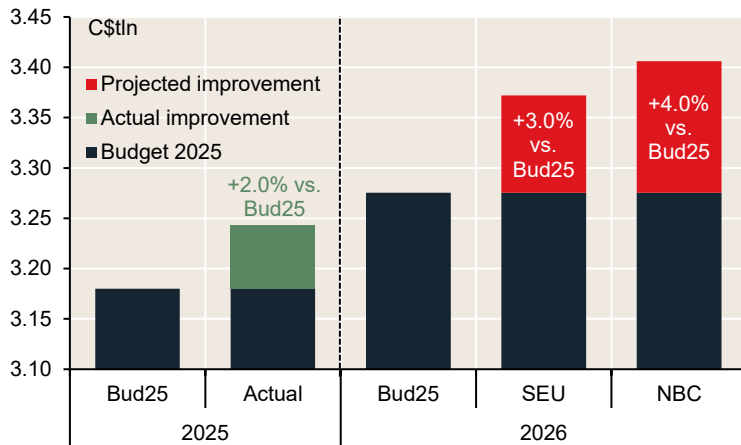
New policy initiatives didn’t lead to an *overall* fiscal deterioration. That’s in part because the national GDP profile is stronger than Budget 2025 planned for, which sets the revenue base higher. And if anything, a

conservative assumption for oil prices and nominal GDP implies the feds may be understating how much will be collected in 2026-27. It hints at a positive fiscal surprise in the fall budget or looked at differently, Ottawa may have more room to spend without needing to post a larger deficit.

In addition to our detailed examination of the fiscal update on Tuesday ([here](#)), we offer this supplemental *Market View* which takes a more visual perspective. We distill some of the key elements of the budget update into 10 charts covering the economy, the fiscal outlook, the debt trajectory and revised borrowing plans. With provincial-federal budget season now officially wrapped up, this won’t be our final word on Canadian governments’ evolving fiscal outlooks. See our updated Canadian Government Fact Sheet, out today ([link](#)).

### Chart 1: GDP upside acknowledged but underappreciated

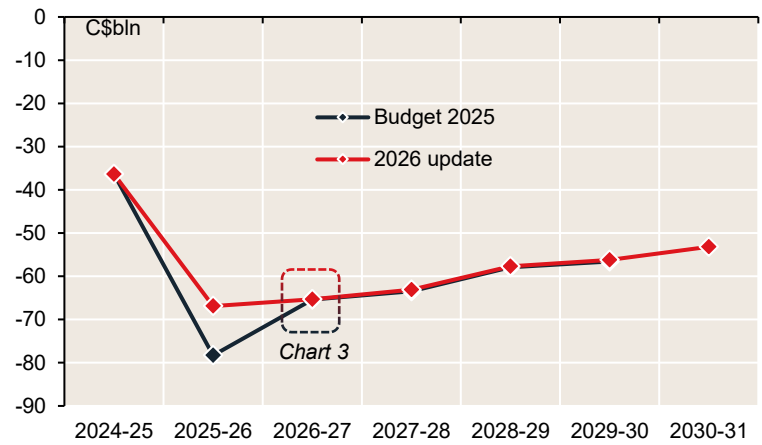
Canada nominal GDP: Budget 2025 vs. 2026 Update & NBC baseline forecast



Source: NBC, GoC | Note: SEU refers to Spring Economic Update.

### Chart 2: Fiscal dividend deployed as deficit path unchanged

Federal budget balance: Budget 2025 vs. 2026 Update

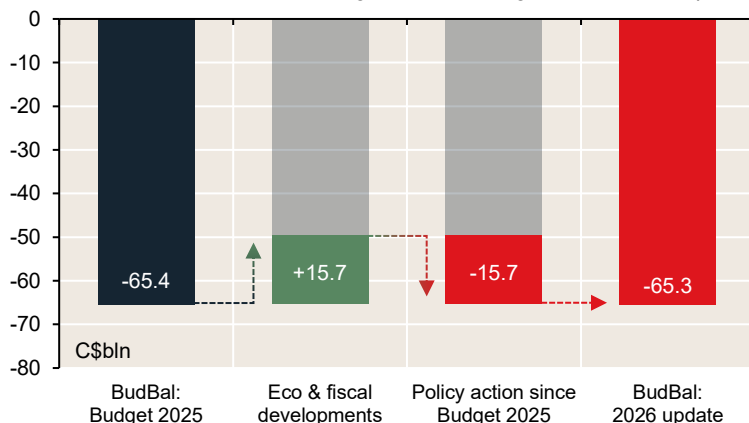


Source: NBC, GoC

Last year, GDP was much stronger than Budget 2025 anticipated which helps explain the smaller 2025-26 deficit. This fiscal update sees more GDP in 2026 too. However, in part due to a conservative oil price assumption, the feds may be underestimating the level of nominal GDP by 1%+. From 2026-27 on, the fiscal update assumes the deficit will evolve in line with what was envisioned in the fall. However, our economic outlook implies more revenue upside. The conditions are ripe for a positive fiscal surprise in the fall budget... or alternatively, more spending capacity for Ottawa.

### Chart 3: Fiscal windfall in one door, out the other

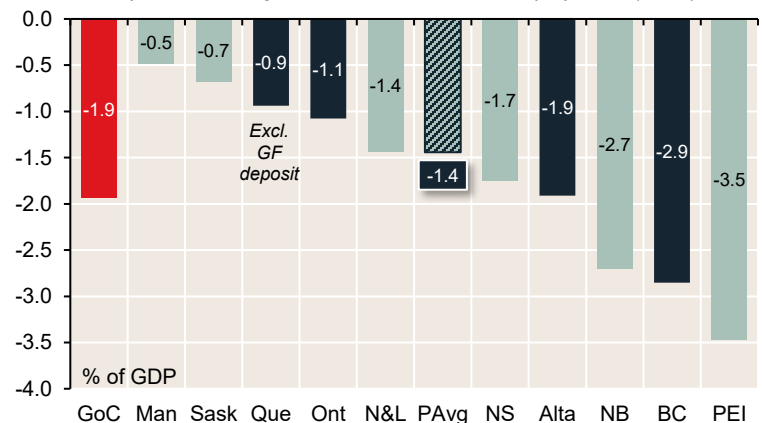
Contributions to revised 2026-27 budget balance: Budget 2025 to 2026 Update



Source: NBC, GoC

### Chart 4: Extent of shortfalls vary by region (and level of gov't)

Federal and provincial budget balance: 2026-27 official projection (latest)



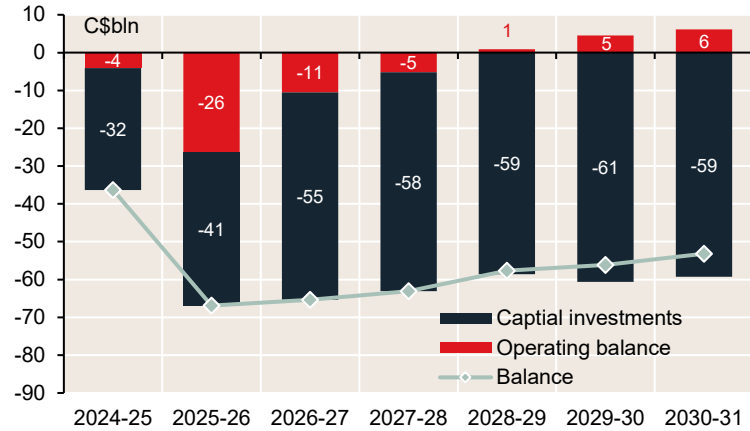
Source: NBC, GoC, Prov gov'ts | Note: GoC from Apr-26 SEU, prov from 2026 budgets

Economic/fiscal developments after the fall budget produced an ~\$18 billion windfall in 2025-26. With only \$6 billion of new initiatives, the bottom line improved by over \$11 billion. There’s a similar fiscal tailwind set for 2026-27 but that’s to be fully deployed through new measures. Hence, the unchanged deficit projection. At 1.9% of GDP, federal red ink is relatively more pronounced than the weighted provincial average. However, the provincial fiscal advantage vs. Ottawa is narrowing even if there’s significant unrealized fiscal upside in some provinces (e.g., Alberta).



### Chart 5: Fiscal update still illustrates “spending less”

GoC budget balance by component: 2026 Spring Economic Update

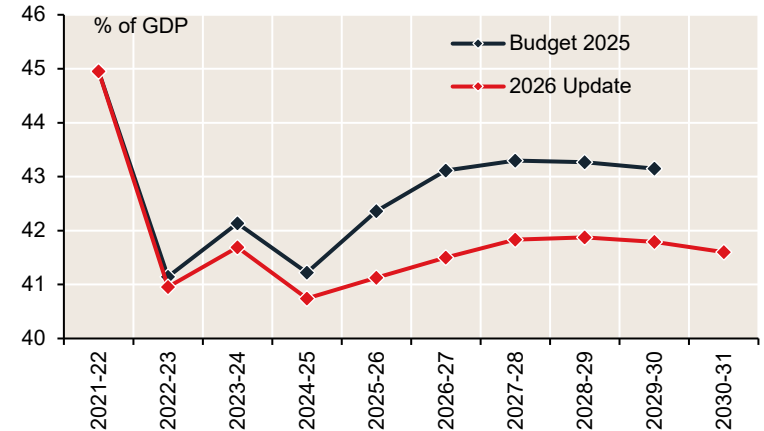


Source: NBC, GoC

The fiscal update sees slightly more operational spending in '26-27 than initially planned. Still, the “spend less to invest more” pledge remains evident, as the operational deficit is set to be erased by '28-29 (1 of 2 fiscal anchors). Ottawa’s debt burden is improved via much higher nominal GDP (and a bit less borrowing). The key leverage ratio is now rising slower and peaking at a lower level.

### Chart 6: Debt burden lower via stronger denominator (GDP)

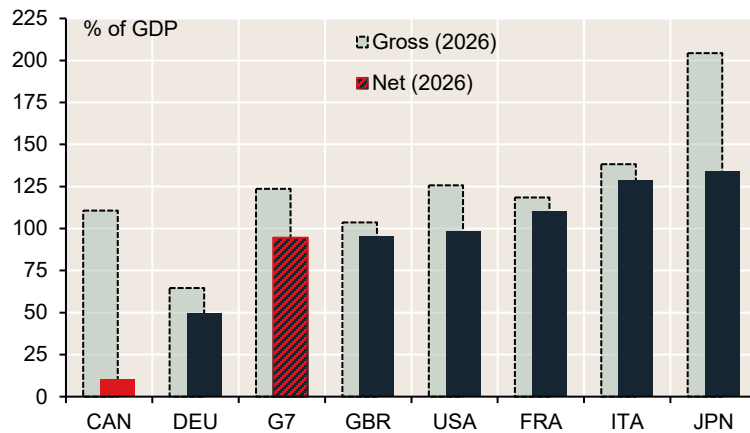
Federal debt-to-GDP ratio: Budget 2025 vs. 2026 Update



Source: NBC, GoC | Note: Budget 2025 uses Budget 2025 GDP estimates

### Chart 7: Perspective on Canada’s balance sheet advantage

General government gross and net debt-to-GDP, 2026

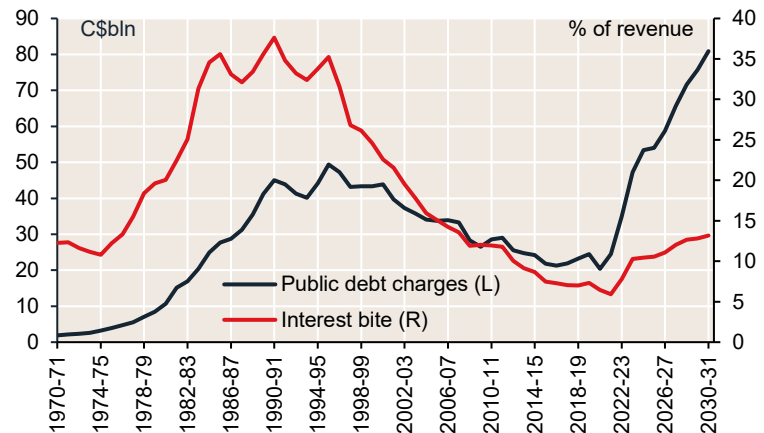


Source: NBC, IMF

Though net debt is set to rise in the coming fiscal year(s), Canada will maintain its fiscal advantage globally, boasting the lowest net debt-to-GDP ratio in the G7. That said, the federal government’s gross debt remains substantial. Despite edging higher, the ‘interest bite’ will stay well below levels seen in the 1980s and 1990s, even as debt servicing costs continue to reach record highs.

### Chart 8: Ottawa’s interest bill is climbing

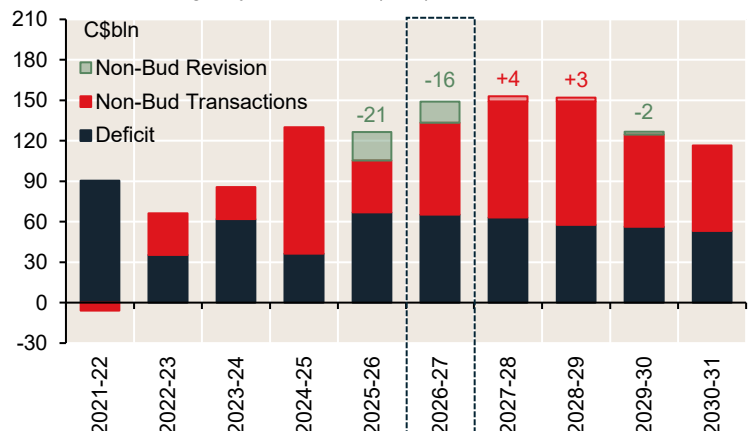
GoC public debt charges (PDC) & ‘interest bite’ (ratio of PDC vs. total revenue)



Source: NBC, GoC | Note: Projections from 2025-26 onwards from Apr-26 SEU

### Chart 9: Non-budgetary needs revised down, bills to absorb

Deficit and non-budgetary transactions (NBT) and revisions to NBT since Bud25



Source: NBC, GoC | Note: Stacked column height (red + blue) is net financial requirement

### Chart 10: How low can the bill stock go (relative to bonds)?

Treasury bill share of marketable GoC debt stock



Source: NBC, GoC, BoC | Note: 2026-27 FY end projected using DMS

Non-budgetary transactions (NBTs) have become a key ingredient in the borrowing equation lately. Disclosure is limited but borrowing related to CMB purchases and deposits to the Canada Strong Fund (i.e., the new SWF) are included here. While the '26-27 deficit estimate was unchanged vs. Bud25, NBTs were revised down. This means less borrowing. T-bills will accommodate the lower need, keeping the bond program steady. However, the bill stock may not be able to fall much further, on a relative or absolute basis. The T-bill share of the GoC debt stock is nearing historic lows.



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