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Op-ed: Canada's 'off-budget' budget

By Warren Lovely

The Carney government has just tabled its latest federal budget and one feature stands out: the growing disconnect between Ottawa's headline budget balance and underlying cash requirements.

Indeed, our analysis suggests that no federal government in more than 60 years (for which we have good data) has consistently steered so much fiscal activity to off-budget items, driving a large, persistent gap between the federal government's highly publicized budget balance and the comparatively less-transparent net cash requirement.

A clear preference for narrow fiscal measures

Consider the PM's second budget, cheerfully dubbed "Masters of our destiny". Here, you'll find the government playing up the attainment of a so-called 'operational balance' by 2027-28, with this notional milestone to be achieved one year earlier than previously pledged. Congrats.

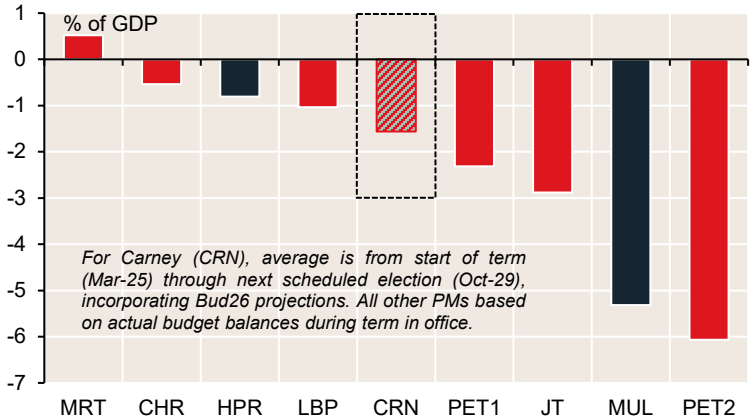
Perhaps less impressive, the official budgetary balance—traditionally the single most significant line item in the annual budget—shows non-trivial deficits extending through the forecast horizon. Emphasis continues to be placed on the expected moderation in the deficit-to-GDP ratio in future years, with this qualitative feature dubbed a 'fiscal anchor'. Never mind that the deficit-to-GDP ratio is slated to increase in 2026-27 relative to what we've now learned was a surprisingly limited prior-year shortfall.

Curiously, this rather substantial improvement in 2025-26's final balance (vs. April's preliminary estimate) received little attention. The ~$28 billion in budgetary red ink that vanished last fiscal year amounts to nearly 0.9% of GDP. That's more than double the positive 'surprise' Canada's ten provinces collectively confirmed via 2025-26 public accounts.

On the face of it, the relative size of the Carney administration's deficits (actual and projected) don't appear out-of-line with historical precedents. Reflecting on the fiscal track record of all prime ministers that have served since the early 1960s, Carney's average deficit-to-GDP ratio (as projected) lands him smack dab in the middle of the pack.

Chart 1: Carney's planned deficits put him 'middle of pack'

Average GoC budget balance by prime minister term: Ordered (1963 onwards)



Source: NBC, GoC, StatCan | Note: Shortform labels refer to prime ministers serving from 1963-current, with Carney designated 'CRN'; refer to an earlier NBC Infographic for the detailed approach (link), which has been updated to incorporate 2025-26 actuals & Bud26 projections

It perhaps follows that the anticipated growth in the 'federal debt' burden isn't all that alarming, moving essentially sideways over the forecast horizon. But we'd note that the government prefers the narrowest of all debt measures, an accounting concept known as the 'accumulated deficit'. In this way, growth in 'federal debt' equals the size of the annual deficit, no more no less.

That's where things get interesting, since budget deficits may not be telling us all we need to know.

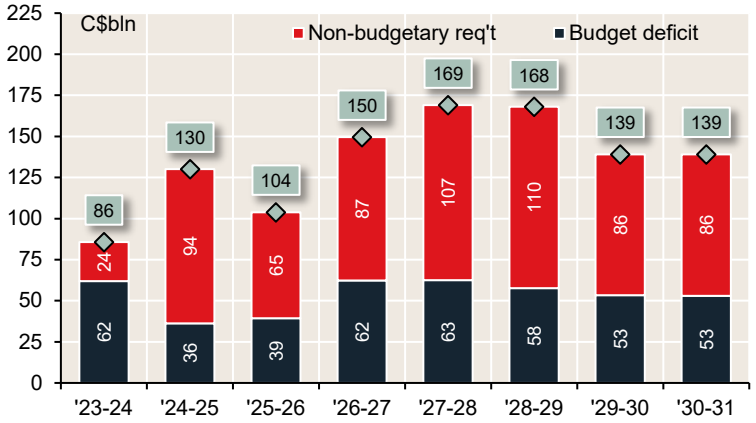
Historic use of non-budgetary transactions

Federal non-budgetary items are undeniably growing in importance. This movement towards off-budget relevance might have started a bit before Carney rose to power. But this PM has certainly kept his foot on the 'off-budget' pedal. The Prime Minister's first budget (presented in November 2025) outlined significant non-budgetary needs. His government's second fiscal blueprint (from last week) goes even further.

The sums involved are striking. Whereas the official budgetary deficit is seen averaging less than $60 billion over the five-year period spanning 2026-27 through 2030-31, non-budgetary needs average closer to $100 billion/year over the same period. (Looking at annual details, non-budgetary needs are set to eclipse $100 billion each of the next two fiscal years, peaking at $110.4 billion in 2028-29!)

Chart 2: Non-budgetary requirements to the fore!

GoC net financial requirement by primary component



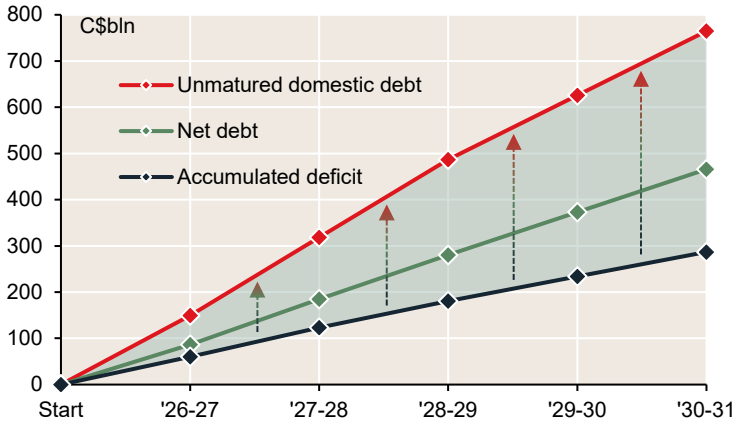
Source: NBC, GoC, StatCan | Note: Total column height/markers represent net financial req't

Once these hefty non-budgetary needs are added to the budget deficit, Ottawa's net financial requirement (i.e., the actual amount of cash needed) is none-too-trivial. For example, the net financial requirement in the coming fiscal year, 2027-28, is just shy of $170 billion. At 4.8% of GDP, that stands in stark contrast to a budget deficit of 'just' 1.8% of GDP or what we're told will be the first year of operational surplus.

Scaled to GDP, off-budget needs are set to range from 2.2% to 3.0% per year. No prime minister in the past 60-odd years routinely steered so much fiscal action off-budget. And the cumulative $475 billion in non-budgetary items the government aims to fund over five years drives a large wedge between narrow and broad debt measures.

Chart 3: Extent of debt accumulation depends on measure

Cumulative increase in three different GoC debt concepts



Source: NBC, GoC | Note: Budget emphasizes accumulated deficit (dubbed 'federal debt')

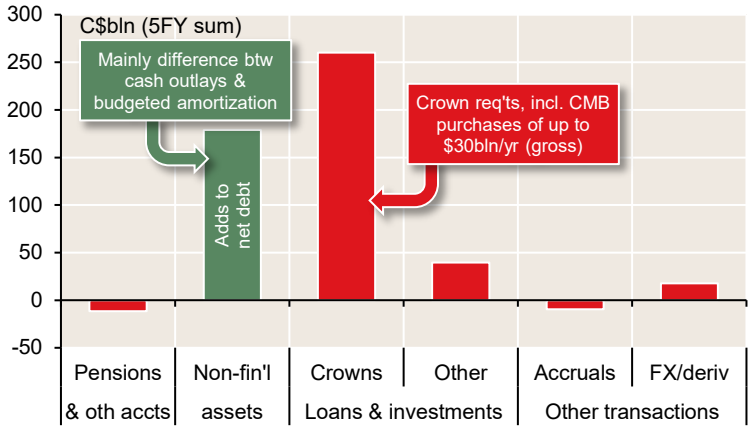
What's really behind the current non-budgetary splurge?

Let us be clear, off-budget items aren't inherently 'bad'. As per the budget, there are two main contributors to outsized non-budgetary requirements. The first is non-financial asset acquisition, which is a direct (and not necessarily surprising) byproduct of the PM's much-hyped capital investment strategy. To the extent actual cash outlays on new capital (be it defense hardware or otherwise) exceed the amortized amount included in the budget balance, tangible capital acquisition adds to the borrowing requirement. We routinely see this at the provincial level.

Of course, large-scale public capital investments might ultimately bolster productivity and raise the country's standard of living. That's kind of the whole idea. But the associated debt does not come for free. As we highlighted in earlier budget commentary/analysis (**link**, **link**), public debt charges are hard(er) to ignore. They are projected to grow a near-double digit rate over the forecast horizon, far faster than any major program spending envelop and consuming more of Ottawa's revenue dollar.

Chart 4: Breaking down outsized non-budgetary needs

Composition of GoC non-budgetary requirements/(source): 2026-27 to 2030-31



*Source: NBC, GoC | Note: Refer to Budget 2026 (Table A1.11) for available details (**link**)*

From a public accounting perspective, the debt needed to finance the acquisition of tangible capital assets is added to accumulated deficit. The resulting leverage measure—net financial liabilities or 'net debt' for short—is thus a more comprehensive measure. And it's arguably more relevant/telling when rapid capital acquisition is a focus, as is currently the case. Not for nothing, provincial governments generally focus on/target net financial debt rather than the narrower accumulated deficit concept. If Ottawa were to adopt this custom it would have to admit that federal net debt-to-GDP is not declining but is set to increase each year of the financial forecast. Semantics? Not really, given that the path for debt-to-GDP is routinely held up as an arbiter of fiscal responsibility.

Beyond non-financial asset accumulation, loans/investments/advances are the other main driver of non-budgetary requirements. Much of this relates to enterprise Crown corporations, including purchases of GoC-guaranteed Canada Mortgage Bonds (currently up to $30 billion/year gross). To be clear, direct borrowing to make investments involves accumulating financial assets and need not add to the government's net debt. (The relevant public sector accounting identity is: Gross liabilities *less* financial assets *equals* net financial debt.) In a sense, the loan/investment strategy comes down to a carry trade where what matters is the expected rate of return on the investment (in some cases uncertain) vs. the government's cost of funds (clearly observable).

Regardless of the source/origin, chunky non-budgetary needs heavily influence the amount of debt our sovereign issues, now and into the future. And related disclosures could be enhanced. If you know where to look in the lengthy budget plan, you'll find a table breaking out non-budgetary transactions across a few high-level categories. There follows a bit of commentary too. But just 489 words are used to describe ~$475 billion in off-budget transactions over the five-year planning horizon, an unofficial 'disclosure ratio' that leaves something to be desired.

We must acknowledge that certain off-budget commitments may never materialize if, for instance, capital cannot be deployed as is currently envisaged/planned. In such a scenario, actual borrowing requirements could be less than projected. Then again, one could conjure up downside economic risks that pressure the budget and add to cash needs. Long-term fiscal planning assumptions must always be treated with caution.

A few recommendations

Given that non-budgetary requirements exceed the budget deficit each year of the fiscal plan—often by a non-trivial margin—the historically high-profile budget balance and the government's preferred debt measure paint an incomplete picture of the nation's finances. Which brings us to some unsolicited suggestions for what can increasingly be thought of as an 'off-budget' budget.

In the spirit of increased transparency, we favour the following:

(i) Rather than focusing on a somewhat subjective 'operational balance' concept, or the budget balance itself, Ottawa should place as much emphasis on its net borrowing need. Given that it deviates so much from the budget balance, the net financial requirement (due to approach 5% of GDP in short order) deserves prominent placement/emphasis. In that way, Canadians might better understand how much cash their federal government really needs and how much taxpayer-backed debt must be issued in a given period. Believe it or not, you won't even find a quantification of the budget deficit (let alone the net financial requirement) in the 50-page *Budget in Brief* document—which, let's be fair, isn't really all that brief;

(ii) Greater transparency and/or more detailed disclosure of non-budgetary transactions is appropriate given the sums involved. It may sound funny to ask for *more* information in a budget document that already runs to some 530 pages. And let us acknowledge that the *Debt Management Strategy*—a standing *Annex* to the budget—does quite a

good job explaining *how* Ottawa intends to fund itself. We'd refer you to our recent summary the official borrowing strategy (**link**). Still, Canadian taxpayers deserve a more detailed explanation as to *why* the government is borrowing so much to begin with. The same courtesy should be extended to fixed income investors, including non-residents who now hold $675 billion of GoC debt securities and directly control 45% of the sovereign's domestic bond stock;

(iii) When there's a material restatement to a prior fiscal year—which dramatically alters the budgetary base—offer more than a passing reference. The latest episode, for fiscal 2025-26, is again worth highlighting. Back in April, which is to say after the 2025-26 fiscal year was officially over, the preliminary estimate for the budget deficit was $67 billion. Come budget day, we find out the actual shortfall was $39 billion, an astonishing $28 billion net improvement in just a handful of months. That vastly outstripped the equivalent public accounts 'surprise' factor for the entire provincial sector. As the vehicle first delivering this news, the budget might have offered a more fulsome explanation. Aside: Perhaps the best part about Ottawa's 'positive' prior-fiscal year adjustment is that it came too late to be spent, meaning the narrower-than-expected 2025-26 deficit was forced to go to relative debt containment;

(iv) On the subject of the 'federal debt', we endorse a shift away from the narrow 'accumulated deficit' concept to net financial liabilities or 'net debt'. This would provide a more accurate picture of the government's leverage, matching the convention generally in use at the provincial level of government (where strategic capital investments have long been a priority). It would likewise be appropriate to target net debt-to-GDP as a so-called 'fiscal anchor'. Just to be clear, we'd advise shooting for an outright *level* for this ratio rather than simply a *direction* (i.e., 'lower');

(v) Finally, to the extent the feds continue to play up Canada's general government net debt-to-GDP advantage, let the essence and form of this fiscal edge be made clear. As reported by the IMF (twice a year), Canada's broadly defined general government net debt edge is fact not fiction. However, it's less a function of ultra-lean balance sheets at the federal or provincial levels of government. There's a massive assist from the large (and growing) pool of financial assets in the country's social security system (i.e., CPP/QPP). We've long considered social security a fiscal linchpin for Canada. But make no mistake, related assets are not for the federal government to claim nor to direct. Invoking Canada's uber-impressive general government net debt ratio without proper context can sow confusion, judging from the numerous questions from thoughtful investors we've fielded on this topic over the years.

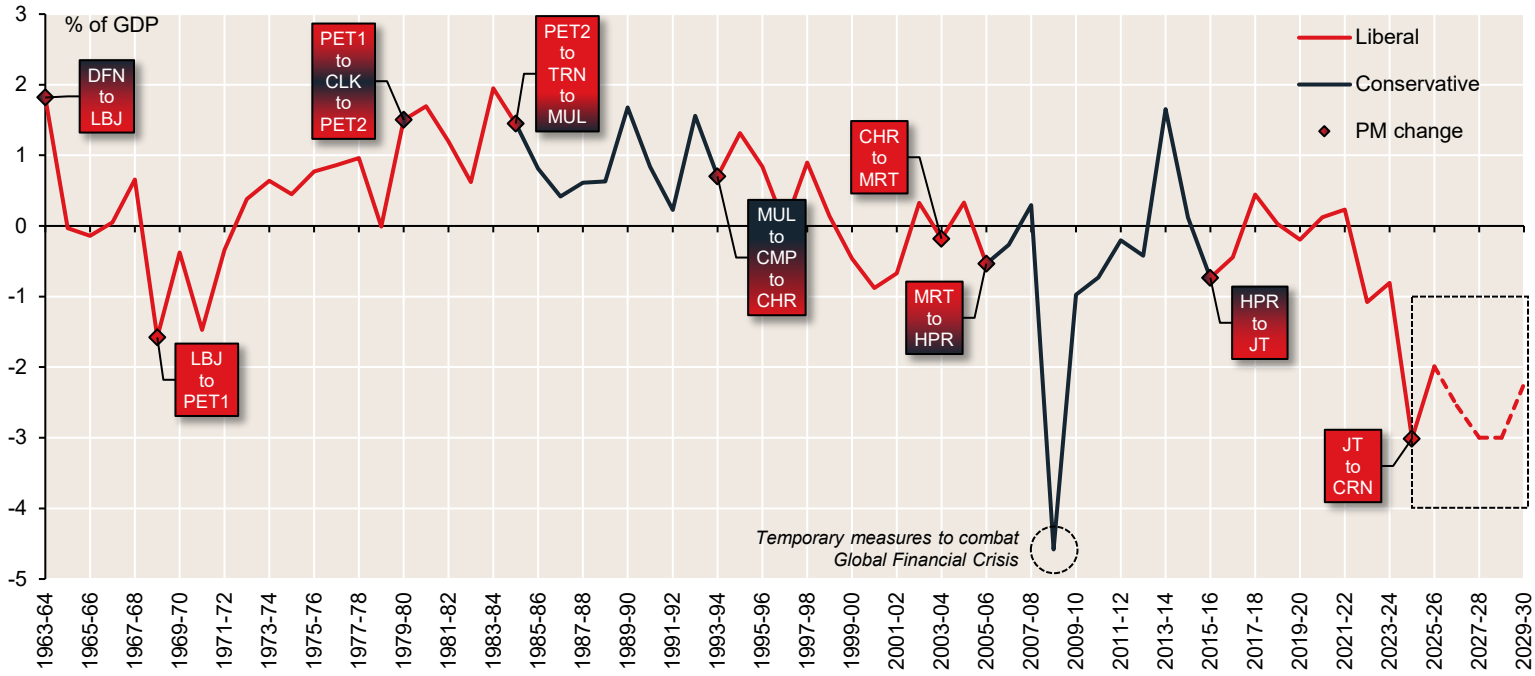
Taxpayers/investors deserve maximum transparency

We understand that the recommendations we're making would paint a less-flattering picture of federal finances. Politically speaking, that's a consideration/complication. Clearly, an operational balance sounds better than a hefty net cash requirement. Similarly, a sideways-moving accumulated deficit-to-GDP ratio looks more responsible than an upward-sloping net debt burden. Most extreme, a general government net debt ratio of just 9% of GDP sounds almost too good to be true in an era of international fiscal dysfunction. Never mind that the federal government's own net financial debt burden is 45% of GDP and rising. Alas, playing up narrow income statement and/or balance sheet measures might come across as financial 'cherry picking' to savvy readers.

Enhanced disclosure and greater emphasis on comprehensive and/or commonly accepted leverage measures would allow taxpayers to better understand how much debt they're ultimately on the hook for. Greater transparency would also clearly benefit investors at a time when governments worldwide are competing for capital to finance their growing borrowing needs. Surely, this is a reasonable expectation of sound fiscal management.

Chart 5: Off-budget items take on extraordinary importance, more heavily influencing Ottawa's net borrowing requirement

Relative impact of non-budgetary transactions on Government of Canada's net financial source/(requirement): By political party & prime minister



Source: NBC, GoC, StatCan | Note: Shortform labels refer to prime ministers serving from 1963-current, with Carney designated 'CRN'; based on actual results through 2025-26; projections from 2026-27 to 2029-30 based on Budget 2026; positive values imply non-budgetary transactions create a net source of funds, whereas negative values imply non-budgetary transactions create a net cash requirement; non-budgetary transactions (illustrated above) are combined with the budget balance to arrive at the overall net financial source/(requirement)

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