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Federal: Taking action in a tough environment

By Warren Lovely, Taylor Schleich and Ethan Currie

Summary

- Everything is bigger in America, or so the saying goes. But Ottawa's much-anticipated budget—one of the more important fiscal policy blueprints in years—has big(ish) ambitions. Here, you'll find an expansive fiscal blueprint (running to nearly 500 pages), complete with larger and long-lasting after-capital deficits, sizeable and multifaceted stimulus/support measures, a significant shift in accounting rules, an expanded and more costly debt burden, not to mention historically elevated borrowing needs. It's a reasonably big swing for a small, open economy challenged on many fronts. Some necessary steps are outlined here, though it remains to be seen if Ottawa's actions are sufficient to shake off Canada's funk.
- The 2025-26 deficit is estimated at \$78.3 billion or 2.5% of GDP. Previously, a shortfall of \$42.2 billion had been eyed. The current fiscal year's enlarged deficit comes despite a better hand-off from 2024-25 and reflects new measures and a sober economic environment. The multi-year fiscal framework envisions a deficit of \$65.4 billion for 2026-27 (2.0% of GDP), the shortfall easing each fiscal year to reach \$56.6 billion (1.5% of GDP) by 2029-30. That's consistent with one of two stated 'fiscal anchors': a declining deficit-to-GDP ratio. Even allowing for an improved 2024-25 balance, the budget adds \$155 billion in total red ink over the 6-year horizon ending 2029-30, relative to prior official guidance. That makes this one of the more significant multi-year restatements in recent memory.
- Fall budgeting is now the norm. An enhanced accounting framework splits the budget into operating and capital categories. Restraint/efficiency will characterize the former, while the latter is designed to catalyze new investment as a means of secure lasting growth. As a second 'fiscal anchor', the government pledges to balance the operating budget by 2028-29. Progress is to be made quickly, as a 2025-26 operating shortfall of \$33 billion is set to shrink to less than \$9 billion in one year's time. Getting to operational balance will require a serious downshift in program spending growth. To that end, a comprehensive expenditure review process identifies \$12.5 billion/year in ongoing savings/efficiencies.
- In total, the budget proposes \$280 billion in capital spending through 2029-30 (some of which was previously announced) across three main axes: Build, Protect, and Empower. It includes a long list of action items—some offering short-term relief for vulnerable sectors and individuals, but most aimed at spurring investment, jobs, productivity, and long-term growth. Of the \$280 billion, \$115 billion is earmarked for infrastructure, \$110 billion for productivity and competitiveness, \$30 billion for defence, and \$25 billion for housing. Ottawa openly acknowledges Canada's under-investment problem and seeks to address root causes through tax competitiveness, regulatory reform, and industrial policy. Attracting investment will ultimately hinge on turning ambition into tangible outcomes; lowering corporate taxes is a positive step, though greater clarity on the role of conventional energy within Canada's re-industrialization plan would strengthen the overall investment proposition.
- Federal debt is equivalent to 42.4% of GDP in 2025-26, rising 1.2%-pts vs. the prior fiscal year. The debt burden is to edge slightly higher in each of the two coming fiscal years, peaking at 43.3% in 2027-28. Fiscal commitments or 'anchors' do not extend to the debt burden, a departure from the Liberal party's election platform which promised to keep the debt-to-GDP ratio on a downward trajectory over the budget horizon.
- At \$55.6 billion, annual public debt charges exceed a number of key spending envelopes (including the Canada Health Transfer). Interest consumed barely 7% of revenue prior to the pandemic, but the 'interest bite' is up to 11% and could exceed 13% by the end of the planning horizon.
- Despite the additional red ink, the *Debt Management Strategy* did *not* usher in a larger 2025-26 borrowing need. In fact, treasury bill issuance was trimmed slightly compared to the July DMS, while the bond program was left intact. Looking ahead, borrowing needs *decline* in 2026-27 due to a reduction in the deficit and less maturing debt. Gross bond issuance is seen dipping below \$300 billion next year, with modest reductions slated for the 2-, 5- and 10-year sectors. These changes slightly lengthen the weighted average term of issuance from 7.1 years to 7.3 years.
- After months of speculation, the DMS provided clarity on the government's Canada Mortgage Bond (CMB) purchases. These will continue at the current pace of up to \$30 billion annually. In addition, and as part of its agenda to catalyze major housing investments, the government will increase the CMB annual issuance limit to \$80 billion (from \$60 billion) starting in 2026. That leaves \$20 billion more CMBs for investors to absorb.
- We don't expect the fiscal plan to have a material impact on the Bank of Canada outlook. While policymakers wouldn't have been able to fully incorporate budget measures into their projections, this degree of fiscal expansion was likely in their range of expectations and thus, shouldn't lead them to re-think their economic/inflation outlook. Consistent with their recent guidance, the central bank is likely to remain on hold.
- In all, it has been 567 days between federal budgets. Has it been worth the wait? That's for investors, consumers, businesses, parliamentarians and perhaps even voters to ultimately determine. Equity, currency and fixed income markets can offer an early verdict. We'd emphasize that international investor attitudes are no trivial matter, given the material share of GoC debt currently held outside the country.
- Finally, a minority parliament means opposition parties will likewise have their say, the reaction of the Bloc and NDP apt to be eyed most carefully. A prospective defeat of the government's budgetary policy risks triggering a late-year election, which few Canadians seem keen on. Much then hangs in the balance, for what has increasingly become a make-or-break moment for Canada.

Selected highlights

▪ **Economic backdrop** ➤ *An uncertain and fragile operating environment*

The budget comes at time of great economic upheaval for Canada. As a small, open economy heavily dependent on predictable/easy access to the U.S., friction with world's largest economy—still unresolved at time of budget—has weighed on the trade sector and spilled over to investment/jobs. Elevated uncertainty has sapped consumer and business confidence, imperiling future growth potential. A once-resilient labour market has been strained, while housing—long an outsized piece of Canada's economic puzzle—has sputtered despite interest rate cuts. It's not the most attractive economic backdrop, with many of budget's key measures aimed squarely at the country's shorter- and longer-term weak spots.

- Consistent with past practice, the budget's underlying economic assumptions reflect the prevailing private sector consensus. If there are quibbles with any specific variables, reservations should be directed to the external forecasting community (of which NBC is a part).
- Real GDP is estimated to have grown just 1.1% in 2025, as tariff-related fallout meant growth disappointed versus earlier expectations. In light of pronounced uncertainty, there's not much of a pick-up anticipated for 2026, with real growth of 1.2% projected. Annual growth of 2% or thereabouts is envisioned over the balance of the forecast horizon (which extends to 2029).
- Nominal GDP—a proxy for government revenue—is likewise falling short of earlier planning assumptions. After an estimated 3.5% advance this year, nominal growth is expected to slow to 3.0% in 2026 before returning to at least 4%/year thereafter. The implicit GDP deflator is thus seen averaging 2% in the medium-term, broadly a function of CPI inflation holding at the Bank of Canada's 2% target from next year onwards. (Private sector forecasters thus place faith in the central bank's ability to secure lasting price stability.)
- Downside and upside scenarios bookend the baseline outlook. An adverse scenario incorporates global headwinds, weaker U.S. growth and greater tariff adjustments. The more optimistic scenario contemplates an easing of trade tensions, with a more predictable business environment and structural reforms boosting output. Related fiscal implications are discussed below.

▪ **Fiscal outlook** ➤ *Positive base effect notwithstanding, Ottawa opts for larger and longer-lasting after-capital deficits*

The budget presents a noted shift in Canada's overall fiscal trajectory. Extra red ink and marginal debt signify a partial deployment of Canada's hard-won 'fiscal dividend'. Despite a better hand-off from the prior fiscal year, economic fragility and required protections contribute to a larger-than-planned shortfall for the current 2025-26 fiscal year. Meanwhile, new capital-focused measures will result in larger/stickier after-capital deficits throughout the fiscal framework. In all, it's a significant, though not necessarily surprising departure from prior budgetary guidance.

- Based on the established accounting framework, the 2025-26 deficit is now estimated at \$78.3 billion or 2.5% of GDP. Prior official guidance (via the Fall Economic Statement) had eyed a shortfall of \$42.2 billion. But Dec-24 was obviously a different time, economically and politically speaking. The governing party's leadership subsequently transitioned, with Canadians sent to the polls in Apr-25. Most significantly, a new U.S. administration quickly adopted a more antagonist and/or less-predictable stance with many trading partners, including Canada. No comparison then? Perhaps. But the 2025-26 shortfall is appreciably larger than what the Liberal party ran on this spring (a deficit of \$62.3 billion for 2025-26). More recently (in Sep-25), the independent Parliamentary Budget Officer identified an underlying deficit of \$68.5 billion before discounting as-yet-unknown budget measures.
- Of note, the enlarged 2025-26 deficit comes despite a notably positive 'base effect', as we've now learned that fully \$12 billion was shaved off the 2024-25 deficit vs. the level estimated in the FES (going from \$48.3 billion to \$36.3 billion). Considering the new-and-improved base, the federal deficit is more than doubling in 2025-26, be it in outright dollars or when scaled to nominal GDP.
- In reconciling the change in the 2025-26 deficit from \$42.2 billion to \$78.3 billion, a portion (\$7 billion) can be traced to a more sober economic environment. More of the extra red ink is down to assorted policy measures: \$29 billion in total, including \$20 billion announced in budget.
- The multi-year fiscal framework envisions a deficit of \$65.4 billion for 2026-27 (2.0% of GDP), Ottawa's shortfall easing modestly in each fiscal year to reach \$56.6 billion (1.5% of GDP) by 2029-30. Over the coming four fiscal years it is assumed that total revenues grow at an average annual rate of 3.5% vs. a 2.6% tempo for total spending (all types, operating and capital, inclusive of interest charges).
- A declining deficit-to-GDP ratio is one of two stated 'fiscal anchors'. The other budgetary commitment relates to attainment of operational balance and is discussed below. Nowhere to be seen is an election campaign commitment to keep the debt burden on a declining track. In general, Ottawa's fiscal pledges have been repeatedly watered down over a number of years. Fixed income investors are presumably eager to see the latest version of federal fiscal anchors hold.
- Even allowing for the improved 2024-25 balance, the budget adds \$155 billion in total red ink over the 6-year horizon ending 2029-30, relative that is to the government's prior official guidance from the Dec-24 FES. That's one of the more significant multi-year restatements in recent history.
- The budget's two main scenarios (downside and upside) give a sense of relative budgetary risks should the economic and/or trade backdrop surprise. Under the downside scenario, \$9.2 billion would be added to the annual deficit (on average for the planning horizon), driven by lower tax revenue. The upside or optimistic scenario would trim \$5.0 billion from the annual deficit (on average).
- Official sensitivity analysis is another way to gauge/ballpark fiscal risks should economic and/or financial market conditions veer away from the consensus view. For instance, a 1%-pt hit to real GDP growth would add \$5.4 billion to the deficit in year one. An equivalent



1%-pt surprise in the GDP deflator is worth \$2.3 billion in year one. Meanwhile, a 100 basis point parallel shift in Ottawa's borrowing rates would have a \$4.9 billion fiscal impact in year one, growing to \$7.9 billion by year four (as more and more debt is re-couponed).

■ **New accounting framework** ➤ *A tale of two budget balances (operating and capital)*

As previously announced, the federal government is implementing a new accounting framework, splitting the annual budget into operating and capital categories. Restraint/efficiency will characterize the former, while a host of actions in the latter sphere are designed to catalyze new investment as a means of secure lasting growth. The operating/capital presentation, which takes inspiration from U.K.-style budgeting, adds to and does not replace the pre-existing accounting. In this way, the new framework has been dubbed an enhancement or modernization. Make no mistake, the new approach—which jibes with a 'spend less to invest more' philosophy—will guide the government's fiscal commitments, which (as noted) have been somewhat watered down. Beyond the 'enhanced' budgetary presentation, Ottawa has now shifted to a fall budgeting cycle, meant to provide greater line of sight for builders and investors ahead of the all-important spring construction season. Economic updates will now come in the spring.

- To get a sense of what the new budgeting rules imply, consider the current 2025-26 fiscal year. As noted above, the deficit is now pegged at ~\$78 billion. That can be broken down into a day-to-day operating shortfall of \$33 billion and a capital plan of \$45 billion.
- A primary fiscal commitment stipulates balancing the operating budget by 2028-29. This is one of two 'fiscal anchors' and reiterates a pledge made by the Liberals on the campaign trail. Much progress is to be made in 2026-27, where the operating shortfall is to shrink to less than \$9 billion.
- Achieving operational balance will require a noted downshift in direct program spending (from 8.1%/year in the prior decade to just 0.5%/year over the fiscal plan). Getting there will require restructuring and consolidation, including a leaner and more sustainable headcount (some cutbacks achieved through attrition). The budget outlines a collection of savings/efficiencies pursuant to a comprehensive expenditure review process totaling \$12.5 billion/year on an ongoing basis.
- The capital side is where the budget's primary focus lies. Indeed, the government dubs this an 'investment budget'. Some \$280 billion of capital outlays (accrual basis) have been outlined over five years, which on a cash basis is more like \$450 billion. Capital-focused initiatives—which vary from infrastructure to R&D to housing to industrial development, etc.—are meant spur more than \$1 trillion in total investment over five years, which the government estimates could boost the level of real GDP by 3.5%-pts by 2030.

■ **New measures** ➤ *Advancing on many fronts, from nearer-term supports to longer-term initiatives*

The 2025 Budget plan sprawls over 493 pages (a step up from 2024's 430), calling for capital spending of \$280 billion over the 5-year horizon ending in 2029-30. Plans to '*build, protect, and empower*' Canada(ians) key in on an opportunity to concentrate spending on investment-intensive, economically transformative avenues, financed *in part* by increased government efficiencies and a more prudent approach to 'operational' expenses. In all, there's a long list of action items, some designed to provide short-term relief for vulnerable sectors/individuals and many more designed to spur investment, jobs, productivity gains and thus long-term economic growth. In keeping with past practice, a collection of measures were known and/or announced ahead of time. Some significant new actions were only unveiled today. Comprising the \$280 billion capital investments to be made over the next five years are: \$115 billion earmarked for infrastructure, \$110 billion related to improving productivity and competitiveness, \$30 billion allocated to defence and \$25 billion set aside for housing. Beyond these high-level aggregates, key components of the plan include:

- **Build** → The first chapter of the plan focuses on 'building a stronger Canadian economy'. With the government's clear focus on major nation-building projects, it's no surprise to see these lead off the budgetary batting order. Spearheading this initiative is the new *Major Projects Office* (MPO), which will oversee and help co-ordinate financing from the private sector, provinces / territories, federal government and certain Crown corporations required for a slew of previously announced projects (from pipelines, to mine expansions, to high-speed rail). In all, the Budget proposes to provide just shy of \$214 billion over five years to the MPO. Larger costs in this chapter are associated with 'supercharging growth'. That comes in many forms, but most significantly through generational infrastructure investments with a ~\$20 billion fiscal impact (though about half of this draws on funds previously provisioned). Federal infrastructure investments are expected to reach over \$115 billion in five years. Paramount to this is the introduction of a new 'Build Communities Strong Fund', which proposes \$51 billion over the next decade to support a wide range of projects to be administered by Housing, Infrastructure and Communities Canada. Other infrastructure projects include those related to trade and transport, Indigenous and municipal initiatives, core public services (water, wastewater, transit), and health innovation. The Budget also proposes a set of enhanced tax incentives which allow businesses to write off a larger share of initial investments immediately. Accelerated capital cost allowances are also highlighted for LNG facilities. Competing for corporate attention with the U.S. 'One Big Beautiful Bill Act', Budget 2025 proposes to reduce the marginal effective tax rate (METR) for businesses by over 2%-pts. That would reinforce Canada as the country with the lowest marginal rate in the G7 in hopes of attracting and retaining foreign investment and scale. In a similar tone, the 'International Talent Attraction Strategy and Action Plan', will position the country's immigration system to meet labour market needs, offering up \$1.7 billion for a suite of recruitment measures. Canada's 'Climate Competitiveness Strategy' communicates the economic importance of energy transition, and aims to boost clean investment through tax credits, provide clarity on emission regulations, and build infrastructure that facilitates this global movement, among other initiatives. In recognition that Canada has in-demand resources and capabilities, the Budget also highlights a plan to diversify trade arrangements and bolster export volumes overseas.
- **Protect** → With rising geopolitical tensions and calls for greater military alliance contributions, Budget 2025 puts pen to paper on the government's pledge to reach NATO spending targets. Announced in June, over \$9 billion in 2025-26 will be allocated to the Canadian

Armed Forces (CAF), as Canada's military expenditure as a share of GDP will finally reach (a promised) 2%. Further out the budgetary horizon, over \$20 billion of additional investment will be dedicated to recruit and retain CAF personnel (aided by a substantial pay raise implemented earlier this year), \$19 billion will go towards defence infrastructure, and just shy of \$29 billion will be put towards expanding Canadian military capabilities, including digital infrastructure required for modern warfare. A 'Defence Industrial Strategy' is also introduced, aiming to develop the domestic industrial base so that more military procurement can be sourced from Canadian supply chains. This involves \$6.6 billion over five years. There are also new measures that aim to the strengthen federal law enforcement, enhance the Canada Border Services Agency, crack down on financial crime and tighten gun control.

- **Empower** → This segment of the Budget plan homes in (pun absolutely intended) on housing (and affordability), and Canadian culture. To 'supercharge' home building across the country, the plan proposes ~\$13 billion of spending through 2029-30. This will be driven by the launch of the 'Build Canada Homes' initiative and the elimination of the GST for first-time home buyers, both of which were announced earlier. ~\$2.3 billion is also earmarked for First Nation infrastructure financing and clean water access. The lion's share (80%+) of the \$33 billion set aside to tackle affordability comes from the middle-class tax cut, originally presented in May, and effective since Canada Day. The marginal personal income tax rate cut from 15% to 14% benefits nearly 22 million Canadians, who will save up to \$420 a year. The cancellation of the consumer carbon tax, and measures directed at supporting youth and personal support employment, among others, are also included in the affordability component. Other smaller initiatives, including support for the FIFA Men's World Cup in 2026, proposed funding for the Terry Fox Research Institute, and a temporary top-up tax credit all contribute to ~\$270 million in spending aimed at 'protecting Canadian culture, values, and identity'.

- **Other considerations**

Budget 2025 announces that the 2026–2028 Immigration Levels Plan will stabilize annual permanent resident admissions at 380,000, down from 395,000 in 2025, while increasing the share of economic immigrants from 59 to 64 per cent. At the same time, the government plans to reduce new temporary resident admissions from 673,650 in 2025 to 385,000 in 2026, and 370,000 in both 2027 and 2028. The budget also introduces a one-time measure to fast-track up to 33,000 work-permit holders to permanent residency in 2026 and 2027. Further details on the 2026–2028 Immigration Levels Plan will be released when the Minister of Immigration, Refugees and Citizenship tables the 2025 Annual Report to Parliament on Immigration. For fiscal planning purposes, the budget assumes that Canada's working-age population will grow by an average of 1 per cent per year over the next five years.

For the first time in decades, Ottawa openly acknowledges that Canada's chronic under-investment problem is structural, not cyclical. Budget 2025 identifies the root causes—slow permitting, fragmented internal markets, tax complexity, and capital-formation disincentives—and responds with a coherent framework built around regulatory acceleration (MPO, Red Tape Reduction Act), tax competitiveness ('Productivity Super-Deduction'), industrial policy (critical minerals, clean manufacturing, defence and energy), and capital-budgeting discipline. However, investability must be demonstrated through execution. In an increasingly competitive global environment for private capital, timely implementation will be key to translating ambition into tangible outcomes. The inclusion of "conventional energy" (the real super in energy superpower) in the budget is a constructive signal that Ottawa recognizes the contribution of fossil and resource production to the national industrial strategy. Still, the absence of detailed measures suggests that conventional-energy producers and industrial stakeholders should regard this as an encouraging direction rather than a firm policy commitment. Lower corporate taxes are a positive step, but greater clarity on the role of conventional energy within Canada's re-industrialization plan would strengthen the country's overall investment proposition.

While not a new measure, we'd note that transfers to provinces are slated for continued growth pursuant to established escalators. The single largest transfer stream—the Canada Health Transfer, which all provinces receive—currently benefits from a 5% growth guarantee through 2027-28 (and no less than 3% thereafter, subject to trend growth in nominal GDP).

- **Debt burden & interest bite** ➤ *Rising, yet still-affordable debt burden, with no firm commitment on indebtedness*

Notwithstanding the new operating/capital breakdown, larger sustained deficits mean a rising federal debt burden in absolute and relative terms. In a departure from the governing Liberal party's election platform, debt-to-GDP will not be targeted as part of the so-called 'fiscal anchors'. While lamentable, this is not all that surprising. We saw no viable scenario where the federal debt burden could be held in check near-term and the budget admits as much, debt-to-GDP seen peaking in 2027-28 and more-or-less moving sideways from there. Debt remains relatively affordable, even if public debt charges are a fast-growing expense item consuming a larger share of total revenue.

- Ottawa has long favoured a narrow debt measure known as the accumulated deficit. At \$1,347 billion, this specific measure of federal debt is equivalent to 42.4% of GDP in 2025-26, this key leverage metric rising 1.2%-pts vs. the prior fiscal year. (For additional context, the debt-to-GDP was closer to 30% pre-COVID.) Under the baseline scenario, the debt burden is expected to edge slightly higher in each of the two coming fiscal years, peaking at 43.3% in 2027-28.
- In the final year of the fiscal framework (i.e., 2029-30), the anticipated debt burden of 43.1% stands 4.5%-pts higher than the Dec-24 FES projection. The government's fiscal commitments/anchors do not extend to the debt burden. Absent is a campaign commitment to keep the debt-to-GDP ratio on a downward trajectory over the budget horizon. Saying that, the budget pledges to 'preserve fiscal firepower for future generations', pointing to the expected reduction in the debt ratio over the *long run*. Fiscal sustainability could be enhanced if the budget's significant investment incentives successfully translate into a larger denominator (i.e., more nominal GDP).

- Once more referring to alternative paths, the larger deficits associated with downside economic scenario would see debt-to-GDP rising for longer (until 2028-29) and peaking at a higher level (45.3%) than the official budget plan. Should the upside economic scenario lead to smaller deficits, it is estimated that debt-to-GDP could top out at 42.6% next fiscal year, a gradual descent commencing thereafter.
- With Ottawa's debt burden having shifted higher, there's growing focus on interest charges. Public debt charges are estimated at \$55.6 billion for 2025-26, exceeding a number of key program spending envelopes (including, believe it or not, the amount transferred to the provinces annually via the Canada Health Transfer). Interest charges had consumed barely 7% of total revenue prior to the pandemic. Today, Ottawa's interest bite amounts to roughly 11% and could exceed 13% by the end of the planning horizon. The debt burden has thus become relatively less affordable over time, even if the interest bite remains far, far removed from the punishing levels that characterized the federal government's early-to-mid 1990s fiscal crisis.
- In keeping with a long-standing practice, the budget plays up Canada's relative debt edge vs. G7 peers. Canada does indeed stand out most favourably when it comes to general government net debt-to-GDP. We note, however, that this 'general government' definition is a broad one, lending the country's relative debt edge a somewhat nuanced flavour given Canada's decentralized model and the fact that most of the financial assets netted from gross liabilities are not available to, or held by, the feds. Alas, the sovereign's mostly triple-A ratings attest to a more sustainable fiscal model, with key credit rating agencies having made reassuring noises more recently.

■ Debt Management Strategy ➤ *Fewer GoCs, more CMBs for investors*

Presented as an Annex to the budget, this Debt Management Strategy offers both an update to the current fiscal year's borrowing program and the 'preliminary' plan for 2026-27 (it's assured that an update will be provided in advance of the 2026-27 fiscal year). While the deficit is much larger than earlier guidance, that did not produce marginal borrowing needs in 2025-26. That's due to a couple factors: (i) Ottawa already provided the 2025-26 borrowing plan in July ([link](#)) which reflected *some* new measures and (2) non-budgetary transactions seem to have been revised down significantly. Looking ahead, borrowing needs *decline* in 2026-27 thanks to a smaller deficit and less maturing debt. Overall, the path for federal borrowing is not as steep as feared, sentiment reflected in GoC bond yields which fell ~4 basis points after the budget's release.

- The aggregate amount to be borrowed in 2025-26 was revised down to \$614 billion (from \$623 billion). In 2026-27, aggregate borrowing will decline by \$20 billion (to \$594 billion). 75% of this is maturity financing, meaning the other 25% (\$149 billion) will be net new debt.
- As signaled in July, the treasury bill market will act as the shock absorber for the (modest) changes in borrowing needs. The 2025-26 end-of-year treasury bill stock is now expected to be \$3 billion smaller (\$293 billion) than was signaled earlier. In 2026-27, the bill stock will inch down another \$2 billion to \$291 billion.
- Again consistent with guidance from the July DMS, the 2025-26 domestic bond program will enjoy greater stability. Gross bond issuance in 2025-26 is unchanged at \$316 billion. The placement of bonds on the curve also remains intact (\$120 billion of 2s, \$84 billion of 5s and 10s and \$24 billion of 30s). Similarly, the \$4 billion target for green bond issuance was retained.
- In 2026-27, gross bond issuance will fall by \$18 billion to \$298 billion. The drop is a function of a smaller deficit and fewer maturing bonds. The composition of bond supply will undergo modest but non-trivial changes. 2-year issuance will be reduced by \$10 billion (to \$110 billion). 5-year and 10-year issuance will be reduced by \$4 billion (to \$80 billion). 30-year issuance will remain at \$24 billion. The resulting weighted average term of issuance increases from 7.1 years to 7.3 years. Again, \$4 billion in green bond supply is penciled in.
- The number of auctions in 2026-27 will remain unchanged (20 x 2-year, 16 x 5-year, 16 x 10-year and 8 x 30-year). With less issuance in 2s, 5s, and 10s, that means marginally smaller auction sizes next fiscal year.
- Benchmark target ranges were left intact, except for in the 30-year sector where they will now aim for a \$28-38 billion issue size (previously \$22-32 billion). This is done to 'ensure that the current benchmark building cycle is maintained'.
- After months of speculation, we finally have clarity on the government's Canada Mortgage Bond (CMB) purchases. These will continue at the current pace of up to \$30 billion annually. In addition, and as part of its agenda to catalyze major housing investments, the government will increase the CMB annual issuance limit to \$80 billion (from \$60 billion) starting in 2026. That leaves \$20 billion more CMBs for investors to absorb.

Summary Statement of Transactions

Table A1.7
Summary Statement of Transactions

billions of dollars

	Projection					
	2024– 2025	2025– 2026	2026– 2027	2027– 2028	2028– 2029	2029– 2030
Budgetary revenues	511.0	507.5	523.2	541.3	560.2	583.3
Program expenses, excluding net actuarial losses	489.9	525.2	528.4	537.9	549.7	568.3
Public debt charges	53.4	55.6	60.0	66.2	71.4	76.1
Total expenses, excluding net actuarial losses	543.3	580.9	588.3	604.1	621.2	644.4
Budgetary balance before net actuarial losses	-32.3	-73.4	-65.2	-62.8	-60.9	-61.1
Net actuarial losses	-4.0	-5.0	-0.2	-0.7	3.0	4.5
Budget 2025 budgetary balance	-36.3	-78.3	-65.4	-63.5	-57.9	-56.6
Financial Position						
Total liabilities	2,182.3	2,350.5	2,497.0	2,644.6	2,787.2	2,910.1
Financial assets	788.8	870.1	937.1	1,000.5	1,064.2	1,112.3
Net debt	1,393.6	1,480.4	1,559.9	1,644.0	1,723.0	1,797.8
Non-financial assets	127.1	133.3	147.4	168.0	189.2	207.4
Federal debt ¹	1,266.5	1,347.0	1,412.4	1,476.0	1,533.9	1,590.5
Per cent of GDP						
Budgetary revenues	16.6	16.0	16.0	15.9	15.8	15.8
Program expenses, excluding net actuarial losses	15.9	16.5	16.1	15.8	15.5	15.4
Public debt charges	1.7	1.8	1.8	1.9	2.0	2.1
Budgetary balance	-1.2	-2.5	-2.0	-1.9	-1.6	-1.5
Federal debt	41.2	42.4	43.1	43.3	43.3	43.1

¹ The projected level of federal debt for 2025-26 includes an estimate of other comprehensive income of \$0.4 billion for enterprise Crown corporations and other government business enterprises, and an estimate of \$2.6 billion for net remeasurement losses on swap agreements, foreign exchange forward agreements, and other financial instruments.



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