Scotiabank

GLOBAL ECONOMICS

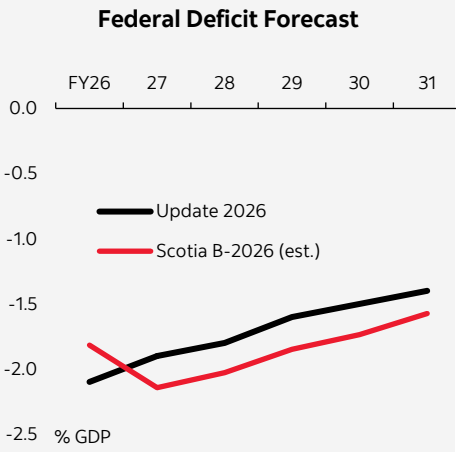
FISCAL PULSE

October 29, 2026

Contributors

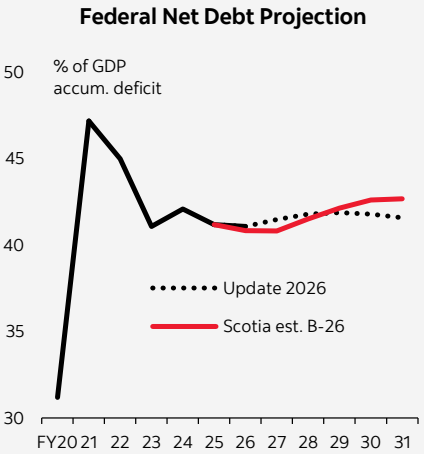
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Chart 1



Sources: Scotiabank Economics, Finance Canada.

Chart 2



Sources: Scotiabank Economics, Finance Canada.

Anticipating Canada's 2026 Federal Budget: Ambition, Meet Arithmetic

- **Canadians await Prime Minister Carney's second budget on November 5th.**
- **More spending is already in the pipeline. New measures since the Spring update likely total about $63 bn (and counting) over the budget horizon, led by September's $36 bn (over five years) Productivity Mega Deduction that broadens upfront write-offs for roughly two-thirds of capital investment.**
- **In pure guesswork, we wouldn't be surprised to see an all-in number closer to $80 bn on budget day. Pre-budget chatter points to further tax measures focused on the investment ecosystem.**
- **Economic resilience should help partially offset the bill. We have pencilled in roughly $30 bn in fiscal improvements over the five-year horizon (and another ~$10 bn last fiscal year), with nominal GDP likely finishing this year above even the Spring update's upside scenario.**
- **The net result would be a modest deterioration in the fiscal outlook. Deficits would still narrow over the horizon toward the mid- to high-1% range of GDP, with debt stabilizing about a percentage point higher than the spring trajectory (charts 1 & 2).**
- **The investment push complicates near-term policy calibration as the Bank of Canada begins removing accommodation. The build-out compounds inflation risk before expanding supply, while higher global bond yields add further headwinds.**
- **Provinces are also expected to open their pocketbooks this Fall, led by Ontario's move to match federal immediate-expensing measures (costed at $8 bn over five years) on the eve of its October 29th update.**
- **Execution risk is rising with the fiscal bill(s). Real-world constraints limit how quickly Canada can add productive capacity, putting a premium on credible steps to address them. Evidence of coordinated, disciplined delivery would strengthen investor confidence that fiscal commitments can translate into sustainable economic gains.**
- **Budget day will not settle Canada's investment case. Its initial reception may very well be overshadowed by global developments—including the aftermath of the US midterms just two days earlier.**
- **While the risks are substantial, so too are the costs of inaction. The imperative now is to lock in confidence through sustained delivery.**

SECOND ACT

Federal Finance Minister Champagne will table his second budget on November 5th. It will be dropped once again in an environment of persistent uncertainty that only serves to reinforce the case for the government's investment-led agenda. The Carney government heads into budget day with a solid majority, a still-strong mandate, and a two-plus year runway.

The trillion-dollar **plan**—originally set out in Budget 2025—continues to gain traction since the April 28th update. The government has moved aggressively to mobilize investment, capped by last month's immediate expensing provision on two-thirds of capital spending that was costed at $36 bn over five years. Ramped-up public investment is already showing up in data. Markets are taking notice—not only via portfolio flows—but increasingly FDI channels as well.

The investment landscape is also rapidly evolving. A national inventory of potential projects stands well-over a trillion dollars and continues to grow as **documented** by the Scotia Growth Institute. Project approvals appear to be gaining speed with further momentum expected under recently proposed legislation. Expected to pass, Bill C-39 aims to add a one-year commitment to last year's "one project, one review" framework.

Private investment has yet to show sustained gains in hard data, but early signals are positive. Capital investment plans are firming as per the Bank of Canada's Business Outlook Survey in readings that predate recent investment incentives. Meanwhile, second-quarter national accounts data recorded a 9.5% q/q (saar) lift in business investment, while more timely rising investment-related imports point to continued gains ahead (chart 3).

Budget 2026 is widely expected to continue this government's approach to market-tested capital activism. Namely, the new fiscal plan is expected to pair more fiscal measures with further balance-sheet deployment under the broad objective of crowding in private investment but at a measured pace that preserves investor confidence.

WHATEVER IT TAKES

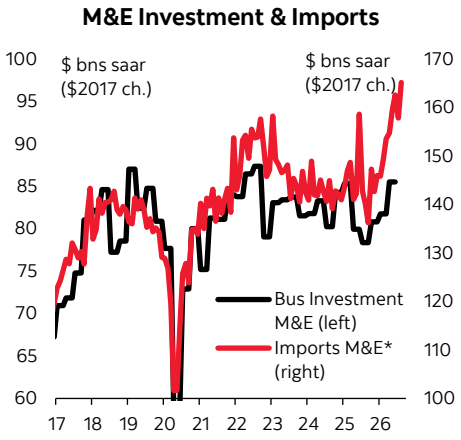
Economic resilience provides a stronger starting point for the budget. Scotiabank Economics projects nominal GDP could end this year alone $68 bn higher (or 2% of GDP) than assumed in the April update—and about $115 bn higher through 2028. This would surpass even the government's higher-investment scenario last spring. The Iran war's terms-of-trade boost explains much of the gain as real GDP is tracking only modestly above the April baseline—despite an escalating trade war in the interim (charts 4 & 5).

The budget is unlikely to fully book these economic tailwinds just yet. The private sector average underpinning its baseline will likely embed considerable caution, consistent with the Parliamentary Budget Office's conservative pre-budget **assessment**. Even discounting some momentum, fiscal windfalls could deliver roughly $30 bn over the budget horizon (FY27–31), with another ~$10 bn potentially recognized in FY26 when books close. Gains would come from revenues linked to higher wages, profits and spending, augmented by stronger oil prices. The Spring update put the net revenue boost at roughly $2 bn annually per 10% sustained increase in oil prices. This points to further fiscal upside in future updates.

Budget 2026 should reinforce our already constructive growth outlook. Our forecast includes a 0.3% lift to the medium-term GDP level from the budget's pre-announced $36 bn Productivity Mega Deduction, on top of the roughly 0.5% gain incorporated over the past year from the trillion-dollar plan (See Box 1, back). With considerable policy-driven momentum already embedded, the bar for further near-term upgrades is high. Clearing it would require evidence of faster delivery, limited import leakages and easing execution constraints to support the anticipated investment ramp-up.

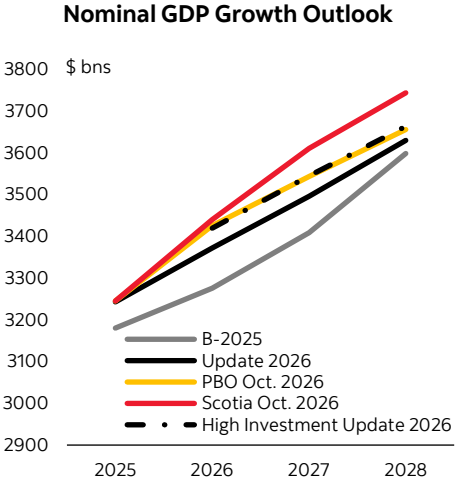
Still, we do expect further tax measures on budget day (or in the lead-up). The finance minister has signalled practical tax changes rather than broad reform. Pre-budget chatter points to potential capital gains incentives for Canadian start-ups, lower tax rates at higher incomes aimed at attracting and retaining entrepreneurs in the country, and/or possible capital gains exemptions on property sold to approved housing providers. These measures could strengthen the investment ecosystem, providing important growth enablers but with likely modest near-term multipliers in isolation. (It's also possible these could be offset by a commitment to a tax expenditure review to placate growing calls for a broader overhaul, but budget day would likely be short on detail.)

Chart 3



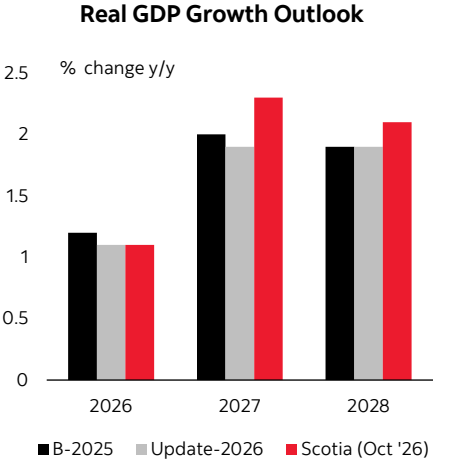
Sources: Scotiabank Economics, Statistics Canada.
**Industrial machinery & Electronics & electrical equipment.*

Chart 4



Sources: Scotiabank Economics, Finance Canada.

Chart 5



Sources: Scotiabank Economics, Finance Canada.

We expect limited additional near-term household stimulus. War-related cost-of-living pressures keep affordability firmly in focus, but substantial support is already under way. In September, the government extended federal excise fuel tax relief into next year at a cost of $2.9 bn. Another roughly $10 bn announced since April—including childcare funding top-ups, the food strategy and home energy retrofits—will likely feature in the budget's affordability chapter. These come on top of last spring's Groceries & Essentials Benefit, with its one-time July top-up and 25% annual increase over the forecast horizon.

On balance, the budget should reinforce our hawkish Bank of Canada outlook. The investment agenda should expand supply over time, but the build-out could add to near-term inflation pressures, particularly as spending ramps up across orders of government. On the eve of its October 29th fiscal update, Ontario has already shown its cards, moving to **match** Ottawa's expanded immediate-expensing provisions at a cost of $8 bn over five years that would lower its METR to 3.6%. Whether or not other provinces had planned to follow suit, the pressure is now on.

The central bank kicked off its tightening cycle on October 28th with a 25 bp hike. With economic slack closing rapidly and no end in sight for the war, we expect another 75 bps of hikes over the next few quarters. Add in a potential trade deal and that rate call starts to look conservative.

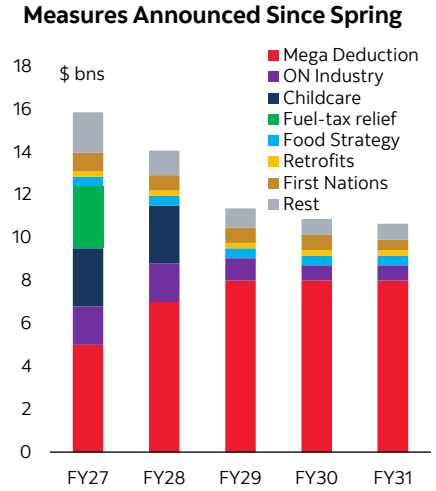
MULTIPLE TOP AND BOTTOM LINES

The headline spending tally could look substantial. Newswire announcements since last April approach $110 bn, spanning tariff relief, investment incentives, housing and infrastructure transfers, First Nations investments, major procurements—from icebreakers to railcars to drones—as well as support for transformative projects. But we estimate only about half (~$63 bn) would carry an incremental fiscal cost (chart 6). The balance has likely been previously provisioned or could be capitalized through existing (or planned) entities.

We wouldn't be surprised to see that incremental fiscal number scale to roughly $80 bn on budget day. This is highly speculative, but not out of line with this government (chart 7). After netting out our estimated $30 bn in fiscal improvements, a budget of this magnitude would add about $50 bn to cumulative deficits through FY31 including higher debt-related charges (chart 8). (The budget could also provide further details on existing commitments such as the defence spending plan, implementation of the sovereign wealth fund, as well as new immigration targets. See Box 2, back.)

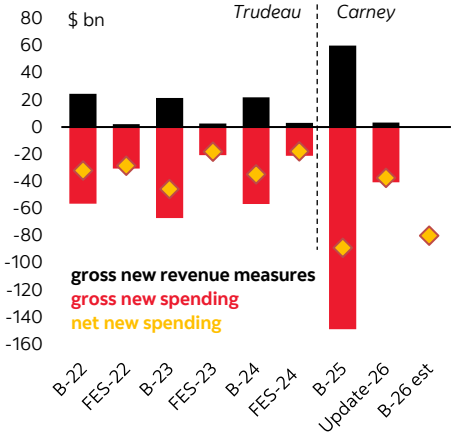
The fiscal path would deteriorate only modestly under these assumptions. Stronger nominal GDP would help absorb additional deficit spending. The Spring update projected the budgetary shortfall would narrow from 2.1% of GDP in FY26 to 1.4% by FY31. Our assumptions would add roughly 20 bps to that profile over the forecast horizon. This would leave the debt ratio stabilizing about a percentage point higher over the horizon (~42.5% of GDP), albeit from a lower starting point relative to

Chart 6



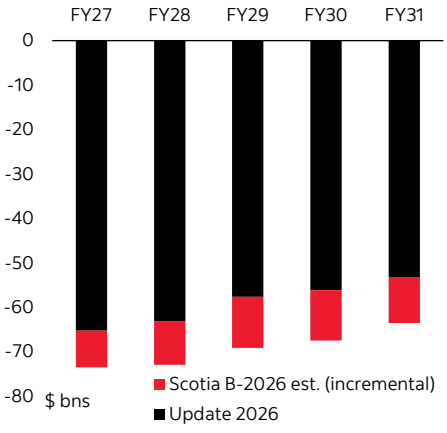
Sources: Scotiabank Economics, Gov. of Canada.

Chart 7



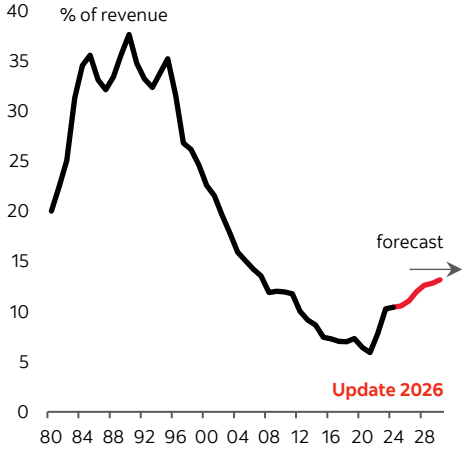
Sources: Scotiabank Economics, Finance Canada.

Chart 8



Sources: Scotiabank Economics, Finance Canada.

Chart 9



Sources: Scotiabank Economics, Finance Canada.

springtime. (The debt path would largely trace the update's trajectory under Scotia's growth assumptions, but we use the PBO's nominal output path for the denominator as we expect this likely reflects budget consensus.) See Tables, back.

A larger debt stock and higher borrowing costs would push debt service above the spring trajectory. Our assumption of a 10-year GoC yield ~20 bps above the April profile at least over the next two years could add roughly $3 bn to interest costs over the 5-year horizon. This month's earlier move toward 4% amid the global bond sell-off leaves risks tilted higher. Debt service remains historically low as a share of revenue, but it is edging higher (chart 9). Stronger growth could provide medium-term relief, but relying on it leaves the plan exposed to further near-term pressures in sovereign bond markets in what could prove a volatile period ahead.

We expect most new fiscal outlays to sit on the capital side of the government's new budgeting framework. Introduced in Budget 2025, the framework distinguishes day-to-day operating spending from capital investment, broadly defined as spending that supports capital formation. The government now expects to balance its operating ledger a year before its original FY29 target, consistent with the PBO's recent assessment (chart 10). While the PBO has **questioned** how the operating–capital distinction is drawn, durable gains in the country's capital stock will be the ultimate test.

The final FY26 deficit could also draw headlines, even though the fiscal year ended seven months ago. Public Accounts, expected on or around budget day, could put the final budgetary shortfall between the $55.3 bn reported in the year-end Fiscal Monitor and April's $66.9 bn estimate. Our best guess is that it lands halfway between those two numbers, but with higher non-budgetary pressures absorbing the balance as bond issuance appears broadly consistent with last spring's debt plan. (Perhaps provisioning for the new Defence, Security and Resilience Bank?)

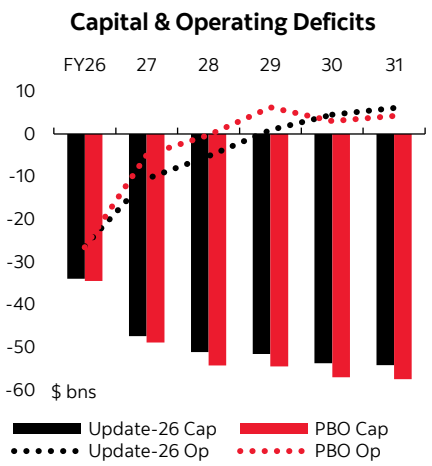
Borrowing needs to extend well beyond the deficit. The PBO projects borrowing will substantially exceed cumulative deficits over the forecast horizon, also reflecting loans to Crown corporations, other financial asset acquisitions and capital spending. Financial assets require financing but generally create no immediate expense. Capital purchases such as military equipment also require cash outlays before their costs impact the deficit through amortization over their useful lives. The Spring update projected $377 bn in non-budgetary financing requirements through FY31 (chart 11). On balance we would guess that goes higher.

A modest deterioration in deficit ratios could therefore understate the financing costs ahead. Slightly larger deficits, likely higher non-budgetary requirements and maturing debt must all be funded in volatile sovereign bond markets. Budget 2026 is expected to update the FY27 bond issuance plan (projected at $298 bn last April), while setting out the borrowing plan for FY28. Refinancing needs are expected to remain elevated over the next few years (chart 12).

WATCH THE TAPE

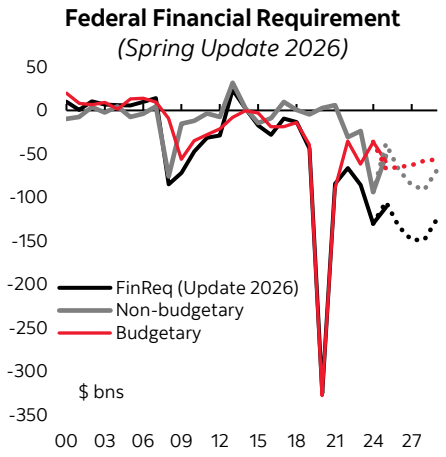
Canada's fiscal fundamentals remain a relative strength. Its debt and deficit metrics—federal and general government—compare favourably with those of its G7 peers, while its position as a net energy exporter offers some protection from war-related shocks. Its debt structure is middle of the pack on both average maturity and gross financing needs this year (charts 13-16). Growth should outpace real borrowing costs of around 1% from next year onward—a helpful counterweight to debt pressures as some peers confront the harder arithmetic of weak growth, large deficits and rising yields.

Chart 10



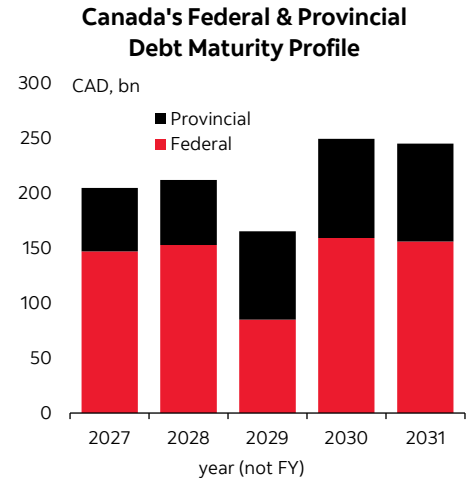
Sources: Scotiabank Economics, Finance Canada, PBO (Oct. pre-budget baseline).

Chart 11



Sources: Scotiabank Economics, Finance Canada.

Chart 12



Sources: Scotiabank Economics, Bloomberg.

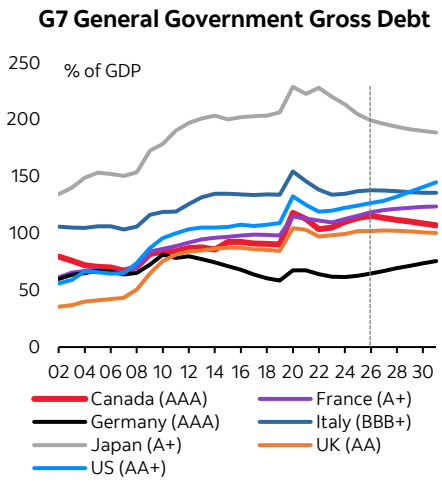
Those strengths could be tested by heightened market volatility and policy uncertainty. Trade uncertainty, along with execution risk weigh on Canada's relative advantage, while heavy global bond issuance and persistent inflation risk leave it exposed to broader repricing—so far more muted in Canada (charts 17 & 18). Public pension assets strengthen its net debt position but do little to ease near-term funding pressures under stress. Nor can Canada count on safe-haven demand.

Global developments may overshadow the budget's initial reception, but delivery will determine its lasting impact. Fiscal activism has been well signalled and, so far, well received. Canada now needs to lock in that confidence by turning commitments into productive capacity and investable opportunities.

BOTTOM LINE

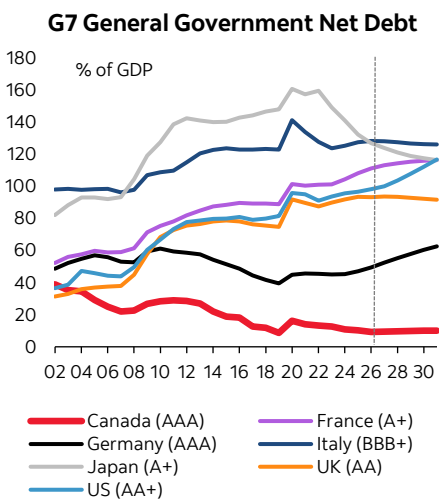
Budget 2026 will bring ambition and arithmetic together. The government has room to advance its investment agenda, but borrowing costs and global volatility raise the bar for delivery. The ultimate measure will be whether fiscal activism produces durable gains in Canada's productive capacity. Only time will tell.

Chart 13



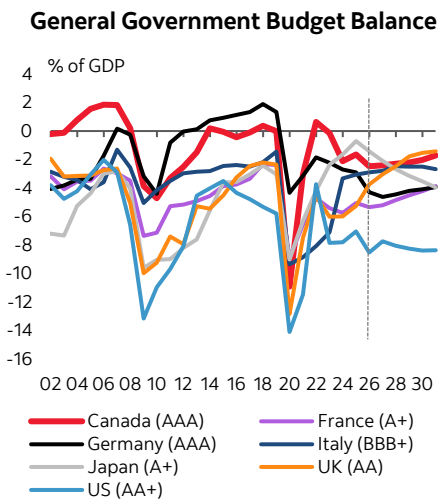
Sources: Scotiabank Economics, IMF, S&P.

Chart 14



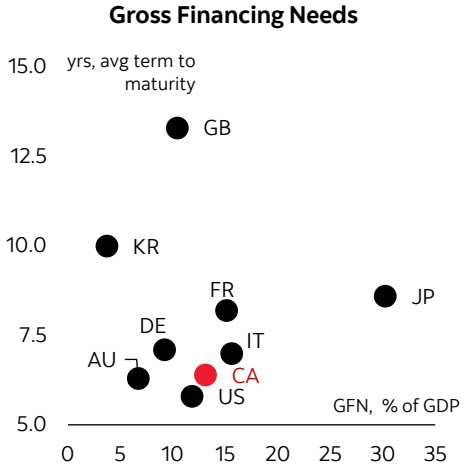
Sources: Scotiabank Economics, IMF, S&P.

Chart 15



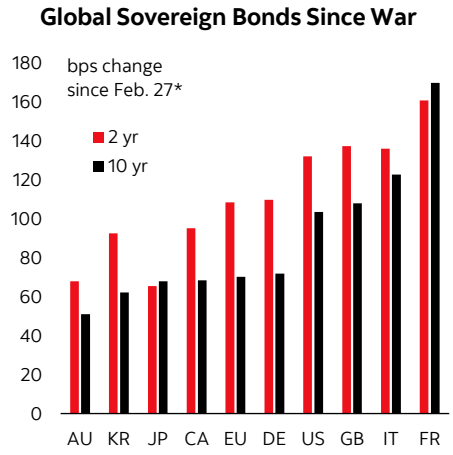
Sources: Scotiabank Economics, IMF, S&P.

Chart 16



Sources: Scotiabank Economics, IMF (gross financing needs, 2026).

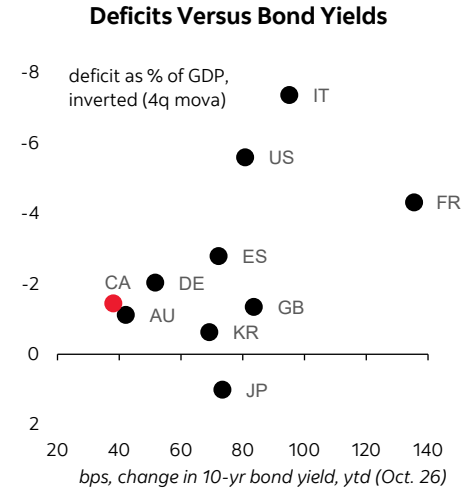
Chart 17



**As of Oct. 26, 2026.*

Sources: Scotiabank Economics, Bloomberg.

Chart 18



Sources: Scotiabank Economics, Bloomberg, IMF.

BOX 1: CANADA'S PRODUCTIVITY MEGA DEDUCTION HOLDS MORE UPSIDE…AND RISK

The federal **Productivity Mega Deduction** is a very positive development for Canada's investment outlook. This measure is expected to be the centrepiece of Budget 2026 though it was **announced** ahead as part of the Prime Minister's Investor Summit in mid-September. Scotiabank had provided an immediate **take** and has also incorporated its expected impact into its October 13th **forecasts**.

The new measure materially lowers the after-tax cost of capital and improves near-term cash flow by extending immediate expensing to roughly two-thirds of business investment from an earlier 15% eligibility on a permanent basis. It covers most capital spending outside buildings. This should strengthen incentives to invest, support capital deepening and lift productivity over time. It also widens Canada's relative tax advantage, cutting its marginal effective tax rate on business investment from 13% to 6.4%.

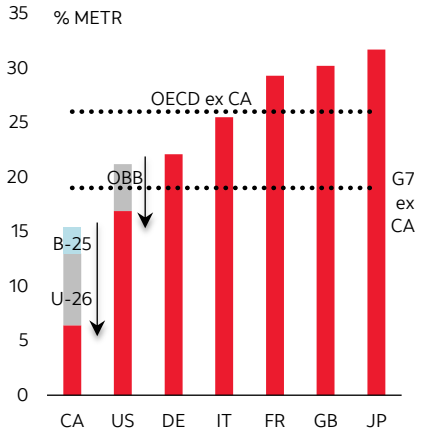
Potential impact: The government expects about $8.5 billion in additional annual investment and up to $22 billion in broader economic gains. Against roughly $140 bn in newly eligible annual investment (from a total capital outlay of $280 bn), the government's projections imply a response of about 6% rise in the pace of investment. Scotia's modelling points to a somewhat smaller—though still material—long-run lift of about 0.3% of GDP, with some impulse in 2027 but most effects arriving later.

What could amplify it: A large project pipeline, rising capital demand in energy, critical minerals and defence, and stronger business confidence could produce a larger response than Canada's recent investment record suggests. Complementary actions by the government to improve the broader investment landscape through regulatory reform, as well as the use of government balance sheets to de-risk investment could also support a stronger uptake. Ontario has recently announced it will mirror these investment incentives under a common tax base ($8 bn over five years) and other provinces could follow. Current estimates may ultimately prove to be a floor rather than a ceiling, particularly if the investment response moves closer to the upper end of the range observed in recent IMF **research** on capital cost recovery reforms.

What could limit it: Tax incentives are only one input into investment decisions. Demand, financing costs, regulatory timelines, labour and material constraints, and firms' confidence will shape take-up. For firms considering new investment in Canada, the average effective corporate tax rate (not just on incremental investment) also factors into decisions and Canada is middle-of-the-pack on this broader measure. High import content—particularly for machinery and equipment—could also leak a meaningful share of the spending impulse abroad.

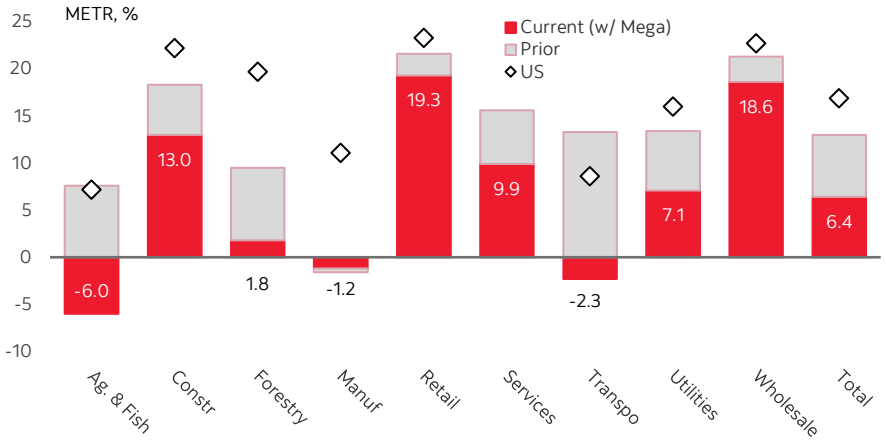
Key uncertainties: It is difficult to separate genuinely incremental investment from projects already planned or embedded in forecasts. Historical and international evidence provides only loose guideposts, and incoming data are limited. Assumptions warrant active monitoring.

Marginal Effective Tax Rate



Sources: Scotiabank Economics, Gov. of Canada.

Marginal Effective Tax Rate by Sector



Sources: Scotiabank Economics, Government of Canada.

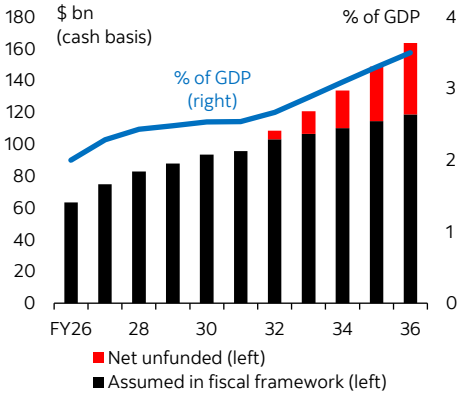
BOX 2: OTHER KEY FILES TO WATCH

A new **defence fiscal plan** could be tabled this fall. Although Ottawa has announced substantial commitments over the past 18 months, the funding path remains difficult to assess, with outstanding questions around new versus incremental commitments, capital versus operating spending, and the timing and budgetary treatment of associated costs. The government has stated that current provisions would lift direct defence spending to roughly 2.5% of GDP by 2030, while Canada already spends about 1.5% on related security, leaving a one-percentage-point gap to NATO's 5% target. The decade-long timeline *should allow most of that incremental fiscal cost to sit beyond the five-year fiscal framework*, but a detailed fiscal plan would lend credibility to Canada's ambitions.

The **Canada Strong Fund** is another key area to watch. The Spring update proposed this $25 bn nation-building investment vehicle that could take equity stakes in projects of national significance while giving Canadians an opportunity to invest alongside them. After summer consultations, Budget 2026 could offer greater clarity on governance, capital deployment, and the fund's role within the federal financing landscape. The eventual asset mix is still an open question, including how asset recycling (notably, airports) could help seed the fund as Ottawa looks to streamline and better align its investment vehicles.

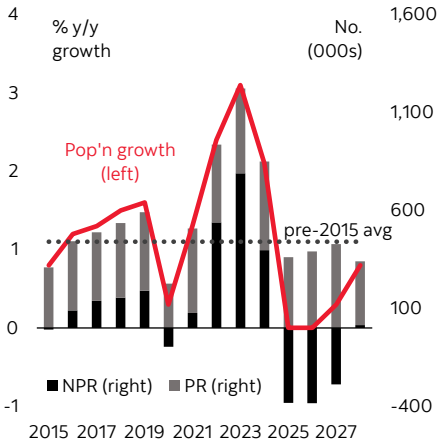
Another area to watch is the **immigration plan**. Folded into last year's budget, the three-year plan aimed to slow population growth through a range of levers, including transitioning more temporary residents already in Canada into permanent residency. Recent methodological revisions leave the government short of its temporary resident reduction target. Nevertheless, labour markets have been resilient, while skilled labour shortages are expected to intensify as investment projects advance. The government estimated last year that Canada could face a shortage of 1.4 mn skilled trades workers over the next decade. To put this in perspective, last spring's update flagship measures aimed to skill 80–100 k new trades workers over the next five years. Earlier in October, the immigration minister **announced** modest changes to accelerate the retention of high-skilled workers but this also falls short of the potential gap. Overall, we expect a shift in tone, if not numbers, towards a growth-oriented immigration plan—or in the words of the Prime Minister, a "controlled increase" with more targeted pathways for high-demand immigrants.

Illustrative Path to Meet 5% NATO Target



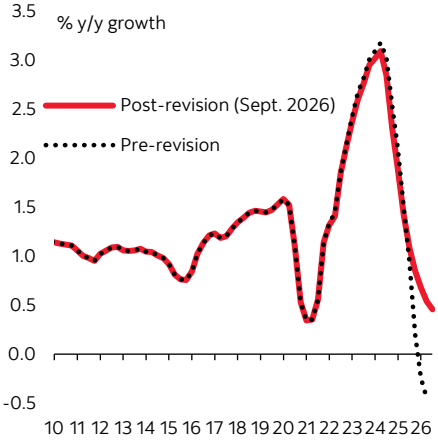
Sources: Scotiabank Economics, Budget 2025, PBO (Oct. 2026, "gradual path").

2026-28 Immigration Plan



Sources: Scotiabank Economics, PBO.

Canadian Population Growth



Sources: Scotiabank Economics, Statistics Canada.

Economic Assumptions

%	2026	2027	2028
Real GDP			
B-2025	1.2	2.0	1.9
Update-2026	1.1	1.9	1.9
Scotia (Oct '26)	1.1	2.3	2.1
High Investment	*1.2*	*1.9*	*2*
Global Supply Disruption	*0.8*	*1*	*1.8*
Nomimal GDP			
B-2025	3.0	4.1	4.0
Update-2026	4.0	3.7	3.8
Scotia (Oct '26)	6.0	5.0	3.7
High Investment	*5.5*	*3.6*	*3.4*
Global Supply Disruption	*5.1*	*3*	*3.2*
Nomimal GDP (bns)			
B-2025	3276	3409	3599
Update-2026	3372	3496	3630
Scotia (Oct '26)	3440	3611	3744
High Investment	*3420*	*3545*	*3664*
Global Supply Disruption	*3409*	*3512*	*3623*
Unemployment rate			
B-2025	6.8	6.4	6.1
Update-2026	6.5	6.2	6.1
Scotia (Oct '26)	6.5	6.2	6.1
CPI			
B-2025	2.0	2.0	2.0
Update-2026	2.5	1.9	2.0
Scotia (Oct '26)	2.9	2.6	2.0
GDP Deflator			
B-2025	1.8	2	2
Scotia (Mar '26)	4.2	2.9	
Update-2026	2.8	1.8	1.9
Scotia (Oct '26)	4.8	2.7	1.5
3-month T-bill			
B-2025	2.3	2.5	2.6
Update-2026	2.2	2.5	2.7
Scotia (Oct '26)	2.4	3.2	3.3
10-Yr GoC Yield			
B-2025	3.4	3.5	3.6
Update-2026	3.4	3.6	3.7
Scotia (Oct '26)	3.7	3.8	3.8
WTI crude oil price (USD/bbl)			
B-2025	65	67	69
Update-2026	73	66	66
Scotia (Oct '26)	86	80	74
US real GDP			
B-2025	1.6	2.0	2.0
Update-2026	2.4	2.0	2.0
Scotia (Oct '26)	2.2	2.1	2.0
USD-CAD			
B-2025	75.1	76.4	77.0
Update-2026	73.7	75.4	75.5
Scotia (Oct '26)	71.1	73.7	74.9

Sources: Scotiabank Economics, Finance Canada.

Budget Assumptions

	Est.	Projection				
$ billions	**FY26**	**FY27**	**FY28**	**FY29**	**FY30**	**FY31**
Budgetary Balance						
Spring Economic Update 2026	**-66.9**	**-65.3**	**-63.1**	**-57.7**	**-56.2**	***-53.2***
% of GDP	*-2.1*	*-1.9*	*-1.8*	*-1.6*	*-1.5*	*-1.4*
PBO Pre-budget Baseline (Oct. 2026)	**-67.6**	**-63.3**	**-70.2**	**-64.2**	**-67.9**	***-67.8***
% of GDP	*-2.1*	*-1.8*	*-2.0*	*-1.8*	*-1.8*	*-1.7*
Scotia est. Budget 2026	**-58.9**	**-73.6**	**-73.0**	**-69.2**	**-67.5**	**-63.6**
% of GDP	*-1.8*	*-2.1*	*-2.0*	*-1.8*	*-1.7*	*-1.6*
Federal Net Debt (accumulated deficit)						
Spring Economic Update 2026	**1334**	**1399**	**1462**	**1520**	**1576**	**1629**
% of GDP	*41.1*	*41.5*	*41.8*	*41.9*	*41.8*	*41.6*
PBO Pre-budget Baseline (Oct. 2026)	**1334**	**1398**	**1468**	**1532**	**1600**	**1668**
% of GDP	*41.1*	*40.8*	*41.4*	*41.9*	*42.4*	*42.6*
Scotia est. Budget 2026	**1325**	**1399**	**1472**	**1541**	**1609**	**1672**
% of GDP	*40.8*	*40.8*	*41.5*	*42.2*	*42.6*	*42.7*

Sources: Scotiabank Economics, Finance Canada, PBO.

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