

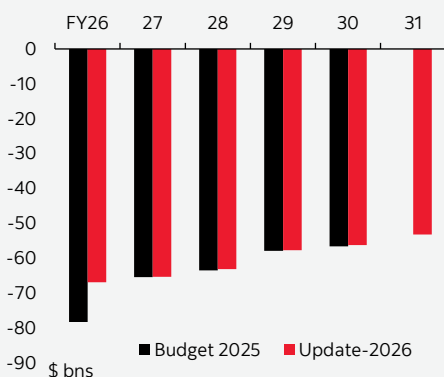
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Chart 1

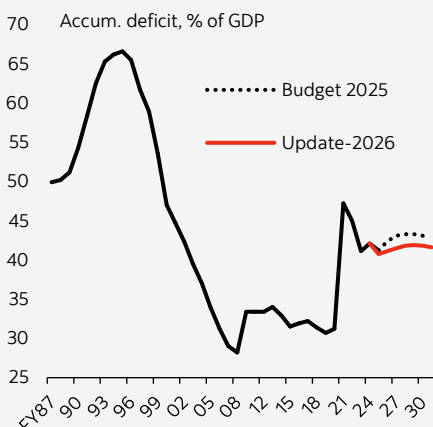
Federal Deficit Forecast



Sources: Scotiabank Economics, Finance Canada.

Chart 2

Federal Net Debt



Sources: Scotiabank Economics, Finance Canada.

Stay The Course (& Spend The Savings)

CANADA TABLES ITS SPRING ECONOMIC UPDATE

- Canada’s federal Finance Minister tabled its *Spring Economic Update* on April 28th.
- The Prime Minister had mostly scooped the story the day prior in announcing the intention to create a sovereign wealth fund with an initial \$25 bn capitalization. This was largely the extent of the ‘investment’ agenda in this update, with net incremental capital outlays otherwise amounting to \$1 bn over the horizon.
- Much of the anticipated fiscal windfall—at a sizeable \$60.3 bn—was ploughed back into an additional \$54.5 bn in spending. The picture is somewhat muddled with “new measures” (a net \$37.5 bn) encompassing known items such as the groceries benefit and the fuel tax suspension, while “policies since Budget 2025” at \$17.0 bn appear as a dizzying list of departmental spending extensions and adjustments in an annex.
- The update estimates the FY26 deficit came in substantially lower—at \$66.9 bn versus the earlier-projected \$78.3 bn but deficits in trailing years are otherwise near-identical to earlier projections after new spending is folded in (chart 1). Marginal improvements come from a stronger GDP profile over the horizon.
- The net debt profile is on a modestly faster pace of descent owing to lower debt levels as well as a stronger GDP denominator (chart 2).
- The growth impact of new measures is minimal in the near-term as supports were known heading into the budget. The cumulative tally announced in the past six months is growing though—at almost \$145 bn in federal fiscal support—but much still hinges on delivery.
- The Bank of Canada won’t be tearing up its playbook for decision day tomorrow (April 29th), but it will likely sharpen its upside narrative against an otherwise volatile backdrop. While a hold is widely expected, the update reinforces Scotiabank Economics’ view that the next move is likely a hike—perhaps sooner rather than later.
- Otherwise, the update will be a footnote in a crowded week. Canada’s investment agenda is gaining traction, but it’s a long-run play with markets likely pricing the potential payoff only gradually.
- Execution and geopolitical risk will dominate for now. Look for greater clarity—directionally at least—on both fronts come budget time this Fall.
- Today we get clarity that the government is comfortable continuing to spend.

MAINTAINING MOMENTUM

Canada’s federal government tabled a 2026 *Spring Economic Update* on April 28th. The mid-year update largely builds on the government’s earlier tabled [trillion-dollar investment plan](#) set out in last year’s [budget](#) with the announcement of the sovereign wealth fund but otherwise mostly presents a more traditional spend plan.

The update lands in a highly charged and uncertain geopolitical environment that underscores the imperative of the investment agenda. With a slim majority now, the federal government is expected to accelerate the pace of implementation in the months ahead. They have a lot on their plate—including now the creation of a sovereign wealth fund—that leaves little margin for distraction (and a lot hinging on details).

CLOUDED FORECASTS WITH UPSIDE POTENTIAL

The update continues to cast a cautious economic outlook despite a stronger starting point. Real GDP is now estimated at 1.7% in 2025—roughly 0.5 ppts stronger than previously assumed—leaving the level of GDP at end-2025 about \$63 bn higher (around 2 ppts) with an added lift from historic revisions. Looking ahead, an average of private sector forecasts points to muted momentum with growth of just 1.2% this year before a gradual recovery to 2.0% into 2027. Scotiabank Economics’ current [outlook](#) is somewhat more constructive, particularly in budget-relevant nominal terms, as we assume a meaningful terms-of-trade shock could bridge to a potentially stronger acceleration in activity as risks abate (chart 3).

The incremental fiscal impulse in the update is minimal. Much of the near-term support was already known coming into the update. Meanwhile the design of the new sovereign wealth fund still needs to pass the additionality test while the \$25 bn cash outlay appears roughly evenly spread over the next three years in an economy that invests roughly half a trillion annually—assuming there are no execution delays.

The cumulative impact of this government’s spending to-date is meaningful. The \$54.5 bn update (through FY31) stacks on top of the net \$90 bn booked in Budget 2025, bringing the 6-month tally to almost \$145 bn. This is unfolding in the context of a broader investment and regulatory reform agenda that should amplify leverage over time.

But it is reasonable to continue parking some of this in the upside for now. The update showed preliminary signs of growing pains with delays in tax credit uptake that drives a modestly lower profile in capital outlays in the near-term, and a range of other hints of hiccups (with course-corrections). While the government sticks to its balanced operational plan within three years, there is some modest slippage in the near-term in capital outlays (chart 4). Execution risk is likely further challenged by delivery spanning multiple levels of government and multipliers that are also contingent upon a private sector response which still remains cautious.

As flagged in our [preview](#), it would be premature to see signs of ‘shovels in the ground’ in aggregate data just yet, but there signs should grow as the year advances. This leaves material upside in growth (and inflation) forecasts.

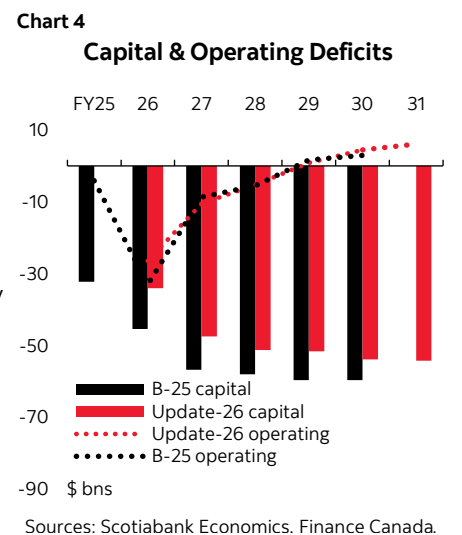
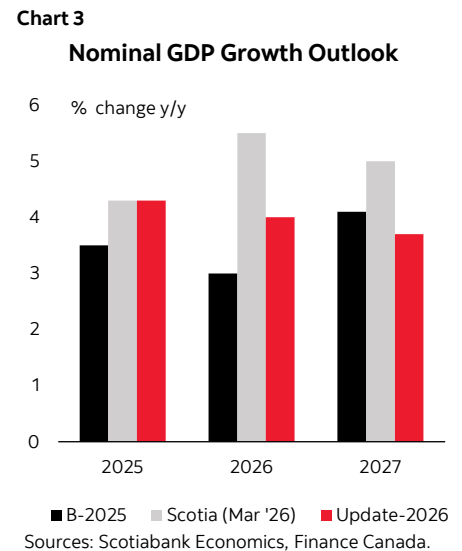
EXECUTION IS THE MULTIPLIER

The Prime Minister tabled the update’s signature measure the day prior. The federal government intends to create a sovereign wealth fund (or the “Canada Strong Fund”) that will invest alongside private investors—with a focus on equity ownership—in major domestic projects and companies across clean and conventional energy, critical minerals, agriculture, and infrastructure. A new arm’s-length Crown corporation will manage the fund on commercial terms with an initial capitalization of \$25 bn. A retail sleeve would allow Canadians to invest alongside the Fund and share in the upside.

The Fund is not expected to impact the deficit or net debt path as it would operate on commercial terms. The \$25 bn capitalization would, however, lift borrowing requirements over three years as a non-budgetary transaction, offset by a financial asset on the balance sheet. However, improvements in other non-budgetary items more than offset these new outlays lowering modestly financial requirements over the horizon.

There are otherwise still a host of unknowns that will be critical to its success including the ability to leverage—not displace—private investment. It is not entirely clear how the Fund will fit into the broader ecosystem of Crown corporations supporting the growth agenda, but the update indicates the government will undertake a review of mandates. A transition office has been set up to consult on design to address these (and many more) considerations.

The update also takes a baby step towards further “asset optimization” for airports. Budget 2025 had committed to explore options to privatization; this update notes they plan to table legislation to obtain the information they need to complete the review, while also modernizing governance structure of airport authorities. Scotia Economics has earlier laid out the [case](#) for asset recycling while the sovereign wealth fund release alludes to this direction, but there are few firm plans in the update. While federal leadership in this space could provide an



important demonstration effect for other orders of government where the bulk of Canada’s infrastructure assets sits, reading between budget lines resistance is evident.

There is also a material spending package to support younger workers in skilled trades. There is almost \$6 bn over five years (settling around \$1.3 bn ongoing) to recruit and train 80–100 k Red Seal skilled trades under a Team Canada Strong program that targets youth. This is a positive step in recognizing the serious skills shortage the ambition build agenda will confront. (Another \$1.1 bn is provided in student grant and loan relief.)

AND THEN SOME

Earlier-announced near-term supports are folded into ‘new’ measures. For example, the Groceries & Essential Benefit, the temporary suspension of the federal fuel tax, and various known housing measures account for almost \$17 bn in the \$54.5 bn spending package. Otherwise, it is difficult to pin down broad themes or key measures across the rest of the spending. See table 1, back for a few of the key line items.

There is also a range of tax changes. There is a reduction in the CPP base rate (from 9.9% of 9.5% in 2027). The Employee Ownership Trust tax exemption has been made permanent. Enhanced oil recovery will now qualify for tax incentives under the CCUS program as per the MoU signed in November with Alberta (this is booked in the update as a revenue source assuming it spurs incremental investment). The update provides details around low-carbon LNG eligibility for accelerated capital cost allowance eligibility, while taking steps to address delays in processing of clean economy tax credits.

The update also promises a number of plans, strategies, reviews and summits. This includes a “Whole of Government Competition Plan” that will “focus on removing inefficient government policies that impede competition arising from regulation, procurement, and industrial support”. The Finance Minister will provide details in the coming months. A nuclear strategy is promised, an investment summit is in the books for September, and a Sustainable Investment Summit is forthcoming.

SPOT THE DIFFERENCE

The stronger 2025 economic handoff provides a solid lift to the fiscal baseline. A combination of revenue out-performance and a lower-than-expected expenditure profile drive this improvement. The net effect of economic and fiscal developments are projected to deliver an estimated \$17.7 bn windfall in FY26 alone and a cumulative \$60.3 bn through FY30.

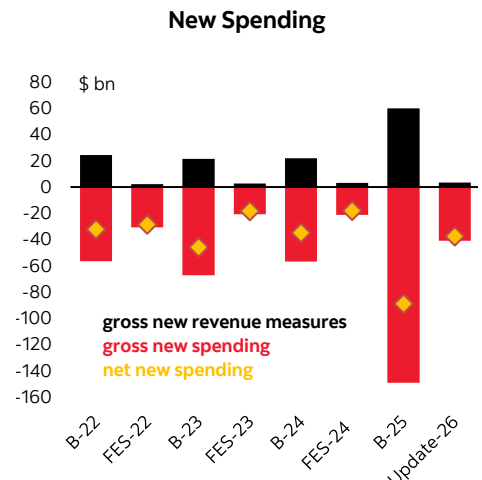
Most of the new fiscal headroom is absorbed by new measures. Net new spending in the update itself totals \$54.5 bn over the horizon (or according to the update, \$37.5 bn in ‘new’ measures (chart 5) and \$17.0 bn in measures since Budget 2025). After banking the \$11.4 bn savings in FY26, banked, deficit projections are near-identical over the horizon in dollar terms—and slightly tighter as a share of GDP owing to revisions (chart 6). This profile maintains a declining deficit as a share of GDP—one of the government’s fiscal anchors.

The debt outlook also benefits from a strong GDP baseline as well as modest improvement in outstanding debt levels. Debt is now estimated at 41.1% of GDP in FY26, peaking in FY29 at 41.9% before pivoting to 41.6% by FY31. This reflects over a percentage point improvement over the horizon. Debt charges are expected to rise modestly over the horizon (chart 7).

Debt issuance plans for FY27 remain at \$298 billion. Lower financial requirements in FY27 will be accommodated through treasury adjustments, and the profile benefits from a continued descent in refinancing needs.

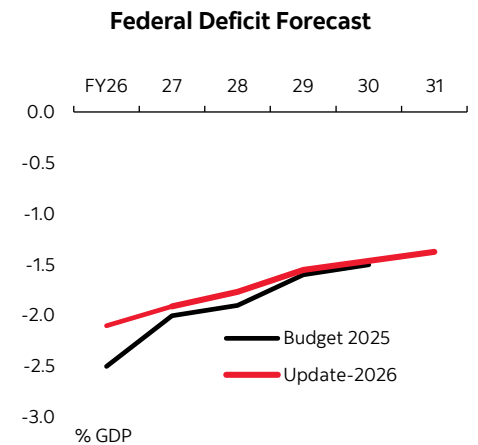
See table 2, back for summary of fiscal projections.

Chart 5



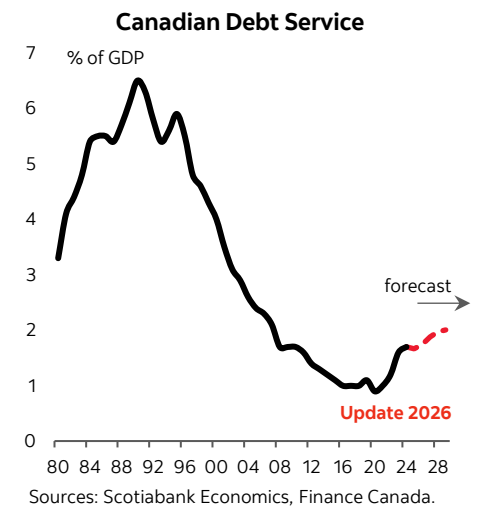
Sources: Scotiabank Economics, Finance Canada.

Chart 6



Sources: Scotiabank Economics, Finance Canada.

Chart 7



Sources: Scotiabank Economics, Finance Canada.

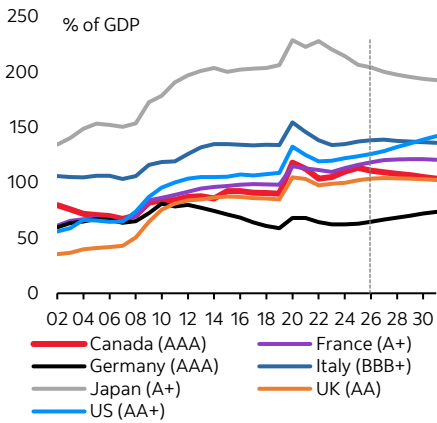
BOTTOM LINE

The update is unlikely to generate significant market attention in a busy landscape. It lands just before key decisions from the Bank of Canada and a series of major central bank announcements—including the FOMC, ECB, and BoE—in the coming days. Ongoing geopolitical uncertainties continue to shape daily sentiment.

Nevertheless, it signals sustained ambition (and spending bias) over the medium term. Canada’s largely stay-the-course fiscal path preserves its relative advantage—across metrics such as gross and net government debt and its primary balance (charts 8–10)—while its net energy exporter status increasingly sets it apart from peers. It remains one of the few with meaningful fiscal space and the political will to use it in the face of serious geoeconomic threats.

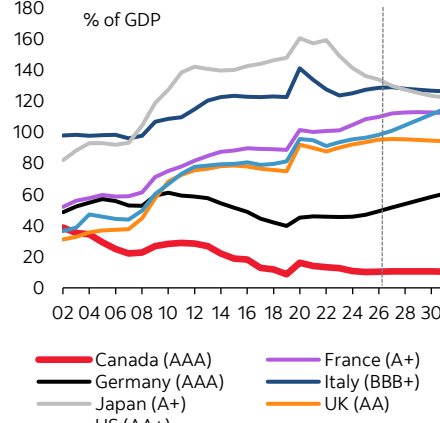
Whether execution can live up to ambition remains to be seen. Greater evidence of solid, sustained implementation is still needed to turn tentative optimism into genuine conviction. With a bit of luck—and a lot of hard work—that is hopefully the foundation of Budget 2026 later this year.

Chart 8
G7 General Government Gross Debt



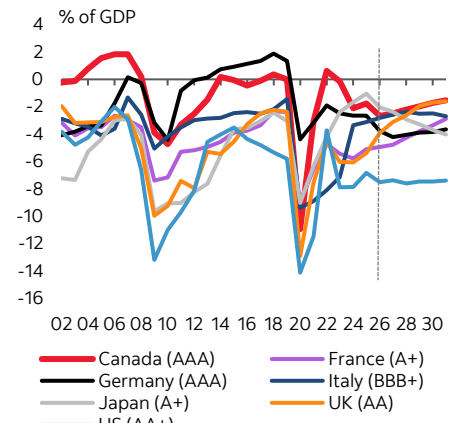
Sources: Scotiabank Economics, IMF, S&P.

Chart 9
G7 General Government Net Debt



Sources: Scotiabank Economics, IMF, S&P.

Chart 10
General Government Budget Balance



Sources: Scotiabank Economics, IMF, S&P.

Table 1: New Measures

	5-Year Total (FY27-31)	FY26	FY27	FY28
\$ millions				
Building Canada	9,883	26	2807	2273
of which capital	- 230	-	3	-1
Expanded CCUS tax credit to EOR	- 395	0	0	-10
Accelerated CCA for low-carbon LNG	640	0	0	50
Supporting workers and businesses	3,932	26	1545	812
Clean growth & conservation	3,808	0	708	671
Defence - Ukraine support	1,970	0	499	703
Benefiting Canada	27,585	4,887	8494	4060
<i>of which capital investment</i>	1,250	1	104	334
Team Canada Support (trades for youth)	5,982	-	802	1223
Increasing student grants & loans	1,107	-	1197	-25
Canada Groceries & Essentials Benefit	11,806	3,136	1355	1785
Temporary suspension of federal fuel excise tax	2,410	-	2410	0
Housing agenda	2,659	1,695	93	238
Community safety	511	-	65	100
Empowerment (Indigenous communities, persons with disabilities, vulnerable persons)	5,459	57	2475	
Employment Insurance premium revenues	- 2,930	-	-220	-637
New spending	40,793	4,913	11,521	6,980
New revenues or savings	- 3,325	- -	220 -	647
Net budgetary impact	37,468	4,913	11,301	6,333
<i>of which capital investment</i>	1,020	1	107	333

Sources: Scotiabank Economics, Finance Canada.

Table 2: Fiscal Projections

Headline Fiscal Projections							
		Est.	Projection				
\$ billions	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Budgetary Balance							
Budget 2025 (Nov. 2025)	-36.3	-78.3	-65.4	-63.5	-57.9	-56.6	
% of GDP	-1.2	-2.5	-2.0	-1.9	-1.6	-1.5	
Spring Economic Update 2026	-36.3	-66.9	-65.3	-63.1	-57.7	-56.2	-53.2
% of GDP	-1.2	-2.1	-1.9	-1.8	-1.6	-1.5	-1.4
Federal Net Debt (accumulated deficit)							
Budget 2025 (Nov. 2025)	1267	1347	1412	1476	1534	1591	
% of GDP	41.2	42.4	43.1	43.3	43.3	43.1	
Spring Economic Update 2026	1267	1334	1399	1462	1520	1576	1629
% of GDP	40.7	41.1	41.5	41.8	41.9	41.8	41.6
Key Drivers of Fiscal Developments							
\$ billions	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Budgetary Balance - Economic & Fiscal Developments and Policy Actions							
Budget 2025 budgetary balance	-36.3	-78.3	-65.4	-63.5	-57.9	-56.6	
Economic & fiscal developments		17.7	16.7	10.7	8.6	7.6	
Policy actions since B-2025		-1.3	-4.4	-4.0	-2.8	-2.4	-2.1
New measures in SES 2026		-4.9	-11.3	-6.3	-5.6	-4.8	-4.6
Spring Economic Update 2026		-66.9	-65.3	-63.1	-57.7	-56.2	-53.2
Twin Deficit Framework							
\$ billions	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Operating Balance							
B-25 operating deficit	-4.1	-33.0	-8.7	-5.5	1.7	3.0	
as % of GDP	-0.13	-1.0	-0.3	-0.2	0.0	0.1	
Update-26 operating deficit		-26.4	-10.5	-5.2	0.9	4.5	6.1
as % of GDP		-0.8	-0.3	-0.1	0.0	0.1	0.2
Capital Balance							
B-25 capital deficit	-32.2	-45.4	-56.7	-58.0	-59.6	-59.6	
as % of GDP	-1.0	-1.4	-1.7	-1.7	-1.7	-1.6	
Update-26 capital deficit		-34.0	-47.4	-51.2	-51.6	-53.8	-54.2
as % of GDP		-1.0	-1.0	-1.0	-1.0	-1.0	-1.0

Sources: Scotiabank Economics, Finance Canada.

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