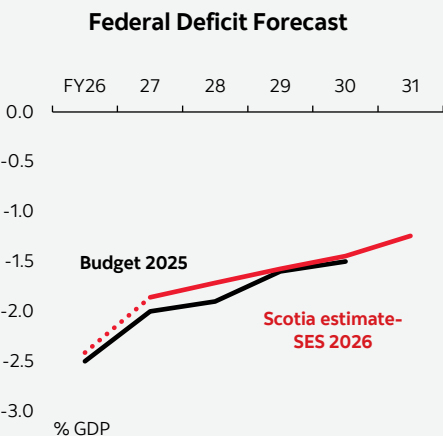


Contributors

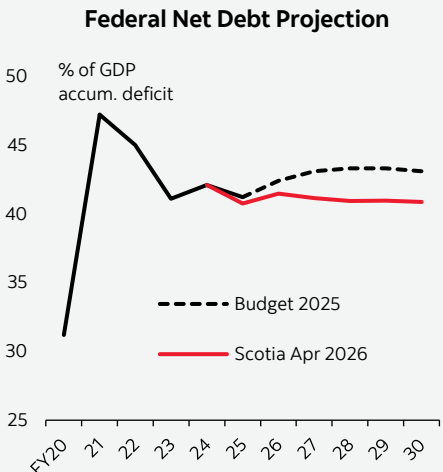
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Chart 1



Sources: Scotiabank Economics, Finance Canada.

Chart 2



Sources: Scotiabank Economics, Finance Canada.

April Showers Bring May Flowers?

CANADA'S SPRING ECONOMIC STATEMENT TO MAINTAIN MOMENTUM

- Canadians will get a first progress check on the Carney government's trillion dollar plan under its new fiscal framework on April 28th. The *2026 Spring Economic Statement* will be tabled in a highly uncertain global backdrop that only reinforces the case for Ottawa's ambitious investment-led strategy.
- While near-term economic activity remains weak, a recovery should take hold as risks dissipate. With inflation risk sidelining the Bank of Canada for now, the near-term burden shifts more squarely to fiscal policy—where preserving optionality may be the safer bet should downside risks materialize.
- Despite a long list of headwinds, a stronger nominal growth profile may point to additional fiscal head room in this update. That could open the door to additional spending though we assume they would do so within the contours of the earlier deficit profile. Debt ratios could look materially better under such a scenario, reflecting material historic GDP revisions (charts 1 & 2).
- The update will land in a highly volatile market environment. Well-channeled fiscal activism—combined with a bottom line that may not look materially different—is unlikely to move markets in the near term. More important will be signs that the investment agenda is gaining traction as some investors may remain cautious on execution—and geopolitical—risk.
- Overall, the update is likely to be about maintaining momentum and sharpening delivery, while laying the groundwork for bolder steps in Budget 2026.

FORWARD GUIDANCE

Canadians will get a fresh take on federal finances on April 28th. The *Spring Economic Statement* should provide a first progress check since the Carney government unveiled its [trillion-dollar](#) investment plan under a new fiscal framework in last year's [budget](#).

Policy rollout has been rapid with most campaign commitments already tabled barely a year in. The Major Projects Office is up and running with a robust project pipeline currently valued at \$126 bn. A new *Defence Industrial Strategy* now guides the budget's \$82 bn downpayment towards the 5% NATO pledge. A dedicated housing agency is operational, immigration targets are proving binding, and there has been early action on public-sector downsizing.

Momentum should continue. With a slim majority now in hand, the government is well positioned to further advance its agenda. While a fuller mandate reset is more likely in the Fall budget, this update should sustain momentum, using any near-term fiscal tailwinds to reinforce investment plans without straying far from November's fiscal path.

PENCILLING IN FORECASTS

The outlook remains highly uncertain. Risks have shifted since the budget, and while 2025 growth came in stronger than expected, the near-term horizon remains clouded by sizeable downside risks—notably CUSMA renegotiations. Private-sector forecasts therefore are at best placeholders in this update with a wide range of potential outcomes.

At least the starting point is stronger. Nominal GDP growth in 2025 was almost a full percentage point firmer than expected at budget time, with historical revisions further lifting the base (chart 3). End-2025 GDP is now estimated to be roughly \$63 bn (2 ppts) higher than previously assumed. Looking ahead, a positive terms-of-trade shock linked to the Iran conflict should support higher nominal growth—a key benchmark for fiscal capacity.

It may be premature to fully bank those gains just yet. Early-year data have been soft, inflation risks remain elevated, and uncertainty is high. Activity is still being supported by past rate cuts and government spending, with slack persisting in the economy. A recovery should firm up as the year progresses according to Scotiabank Economics' latest [forecasts](#), but that hinges on private sector investment picking up the baton.

We remain cautiously optimistic around the longer-term investment plan but it is premature for definitive evidence. With a 0.5 ppt (of GDP) step-up in government investment already baked into our forecast—and a history of slippage and overruns—Ottawa may limit further balance-sheet commitments, at least for now, until its agenda gains further traction. (See *Box 1: Show Me the Shovel*.)

Fiscal calibration is more complicated in this environment. We will be watching for a stance that aligns with near-term economic conditions while reinforcing credibility around the longer-term investment agenda. With roughly \$4.2 bn in near-term support already set to flow in the coming months and inflation risk tilted to the upside, a prudent, risk-based approach would preserve optionality to deliver additional stimulus down the road should downside risks materialize.

Even so, this update likely leans modestly toward more fiscal activism at the margin.

FISCAL FOOT FORWARD

The federal government continues to signal a clear intent to lean on its balance sheet to support longer-term growth. It has shown a *relatively* contained responsiveness to affordability pressures. Since Budget 2025, Ottawa has announced roughly \$14.6 bn in additional stimulus (through FY30), including the GST Groceries & Essentials Benefit, a temporary fuel-tax suspension, and targeted tax relief for first-time buyers of new homes.

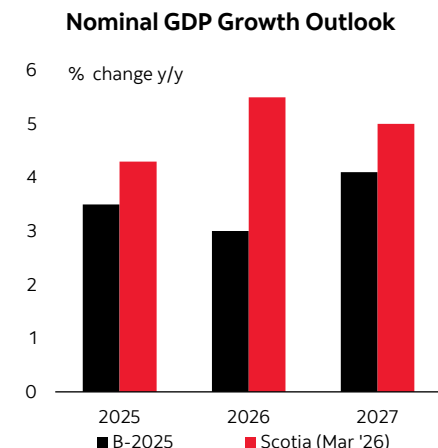
Any further spending should be largely contained within the existing deficit profile. Budget 2025 projected deficits peaking at 2.5% of GDP in FY26 before narrowing steadily to 1.5% by FY30. Since then, the stronger growth hand-off from 2025 and historical GDP revisions point to potentially meaningful fiscal improvement heading into this update. These impacts alone could shave several billion dollars per year off the deficit outlook before any new measures.

However, details remain uncertain. The preliminary fiscal balance for the year that ended only weeks ago is one wildcard, with data through January tracking materially tighter than projected—the ten-month shortfall stood at just \$31.2 bn versus a \$78.3 bn forecast in the Fiscal Monitor. But timelier bond-issuance data suggest activity broadly in line with the earlier plan so an uptick in late-year spending (or year-end adjustments) could reasonably narrow much of the apparent gap.

Our best-guess is that the government broadly preserves the Budget 2025 deficit path in dollar terms by containing any new spending (including measures already announced) within any potential fiscal windfalls (chart 4). With low conviction, we would pencil in a package on the order of \$20 bn on top of the earlier announced \$14.6 bn measures—broadly consistent with past mid-year updates (chart 5). If fiscal windfalls come in smaller (or larger) than expected, we would scale back (up) potential new measures accordingly to keep deficits aligned with Budget 2025. We will be watching defence as one possible area for a potential top-up in outer years. (See *Box 2: Putting a Price on Security*.)

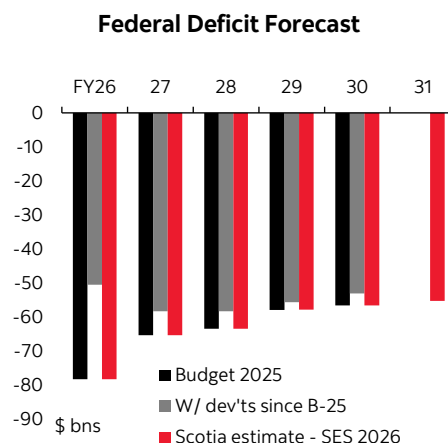
Under these assumptions, debt service projections would be broadly unchanged—creeping up somewhat uncomfortably given exposure to exogenous risk (chart 6). Budget 2025 assumed a 10-year GoC yield of 3.4%, not far from its current (albeit volatile)

Chart 3



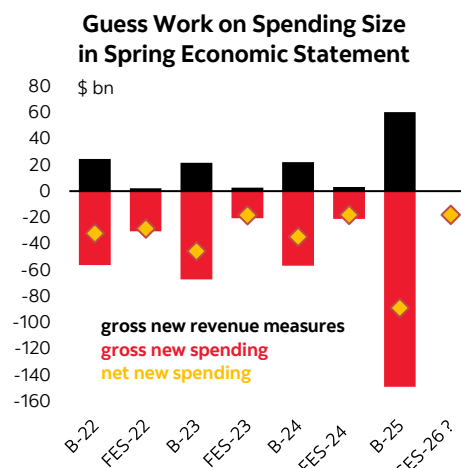
Sources: Scotiabank Economics, Finance Canada.

Chart 4



Sources: Scotiabank Economics, Finance Canada.

Chart 5



Sources: Scotiabank Economics, Finance Canada.

tracking. Debt as a share of the economy could show a material improvement—possibly as much as 2 ppts—owing to material denominator revisions. Such a scenario would not change bond issuance plans for FY27 set at \$298 bn in November’s Debt Management Strategy with some reprieve from lower refinancing needs ahead (charts 7 & 8).

We expect the government would adhere to the fiscal anchors set just months ago. These include deficits that decline steadily as a share of GDP—though recent backward-looking revisions may complicate that trajectory—and a commitment to a balanced operating budget within 3 years (chart 9). The latter is supported by an expenditure review expected to deliver \$60 bn in savings, with early progress evident in announced FTE reductions and scope for further clarity in this update. (See table 1 on page 4 for fiscal projections.)

If the government is to lean further on its balance sheet in this update, the safer bet is to channel that capacity toward longer-term investment mostly in outer years. Doing so would keep policy consistent with the fiscal framework set out last December, reflect likely limits to further near-term ramp-ups, while further distancing its approach from the prior government’s tendency to spend unexpected windfalls on operational spending.

RESERVING JUDGEMENT

The update will be digested in a volatile environment. Heightened geopolitical turmoil and renewed inflation risk are roiling sovereign bond markets at a time of elevated global issuance and fragile investor confidence. Term premia remain volatile, cross-market correlations have risen, and price action is increasingly headline-driven. In this environment, Canada remains exposed to spillovers from global repricing, even where domestic fundamentals compare favourably.

Canada enters this period from a position of relative fiscal strength. Across key metrics—gross and net general-government debt and the primary balance—Canada screens well against G7 peers (charts 10–12). Its status as a net energy exporter has become more salient amid a renewed global energy shock, but execution risk and CUSMA-related uncertainty remaining material downsides.

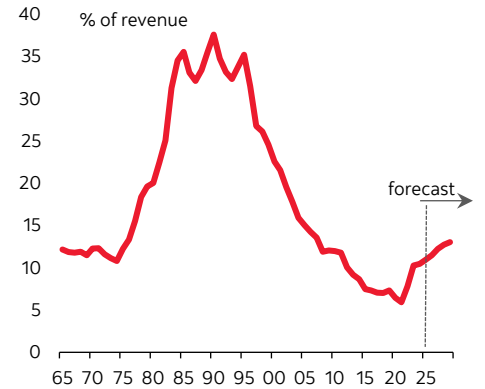
In the near term, a largely unchanged deficit profile—even alongside incremental investment—should largely be a market non-event.

BOTTOM LINE

Recent global events have reinforced—and emboldened—the federal government’s investment agenda. Interest is building, but it remains early days, with clearer proof points still needed to move markets from cautious optimism to conviction. Any decisive shift in policy or fiscal strategy is more likely a Budget 2026 story. This update is instead likely about keeping momentum going, with execution and delivery still expected to do the heavy lifting.

Chart 6

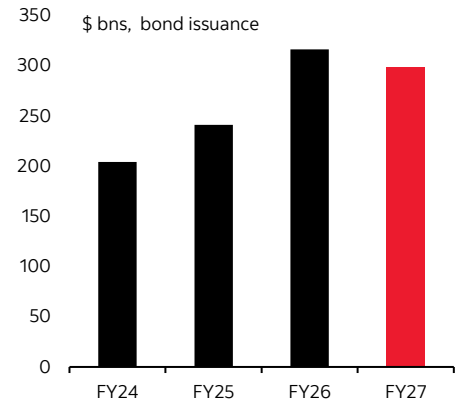
Federal Debt Service



Sources: Scotiabank Economics, Finance Canada.

Chart 7

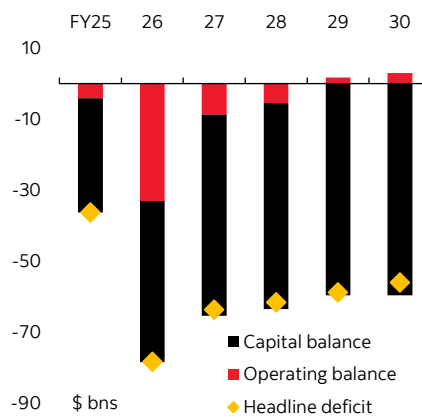
Bond Supply



Sources: Scotiabank Economics, Finance Canada.

Chart 9

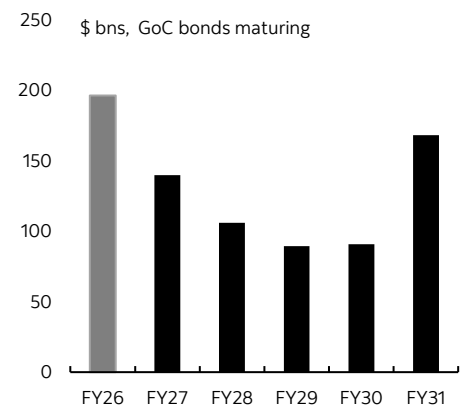
A New Double-Bottom Line



Sources: Scotiabank Economics, Finance Canada.

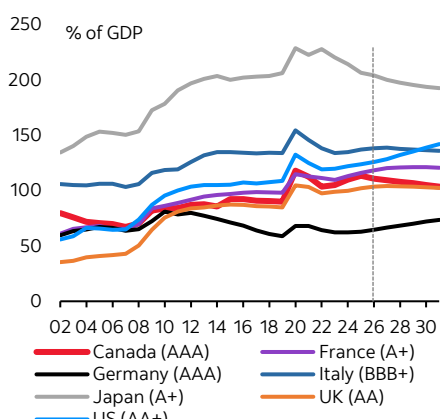
Chart 8

Lower Refinancing Needs Ahead



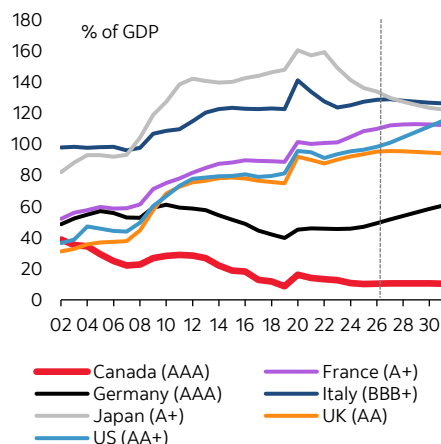
Sources: Scotiabank Economics, Bank of Canada.

Chart 10
G7 General Government Gross Debt



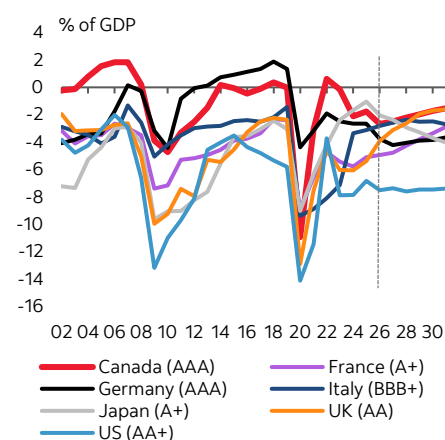
Sources: Scotiabank Economics, IMF, S&P.

Chart 11
G7 General Government Net Debt



Sources: Scotiabank Economics, IMF, S&P.

Chart 12
General Government Budget Balance



Sources: Scotiabank Economics, IMF, S&P.

Table 1: Fiscal Projections

Headline Projections

	Est.	Projection					
		FY25	FY26	FY27	FY28	FY29	FY30
\$ billions							
Budgetary Balance							
Budget 2025 (Nov. 2025)		-36.3	-78.3	-65.4	-63.5	-57.9	-56.6
<i>% of GDP</i>		-1.2	-2.5	-2.0	-1.9	-1.6	-1.5
ScotiaEcon est. (Apr. 2026)		-36.3	-78.3	-65.4	-63.5	-57.9	-56.6
<i>% of GDP</i>		-1.2	-2.4	-1.9	-1.8	-1.6	-1.5
Federal Net Debt (accumulated deficit)							
Budget 2025 (Nov. 2025)		1267	1347	1412	1476	1534	1591
<i>% of GDP</i>		41.2	42.4	43.1	43.3	43.3	43.1
ScotiaEcon est. (Apr. 2026)		1267	1345	1410	1474	1531	1588
<i>% of GDP</i>		40.7	41.5	41.2	41.0	41.0	41.0

Budget 2025 Twin Deficit Framework

	FY25	FY26	FY27	FY28	FY29	FY30
\$ billions						
Budgetary Balance Split						
Operating deficit (B-25)	-4.1	-33	-8.7	-5.5	1.7	3
<i>as % of GDP</i>	-0.13	-1.0	-0.3	-0.2	0.0	0.1
Capital deficit (B-25)	-32.2	-45.4	-56.7	-58	-59.6	-59.6
<i>as % of GDP</i>	-1.0	-1.4	-1.7	-1.7	-1.7	-1.6

Sources: Scotiabank Economics, Finance Canada.

Box 1: Show Me the Shovel

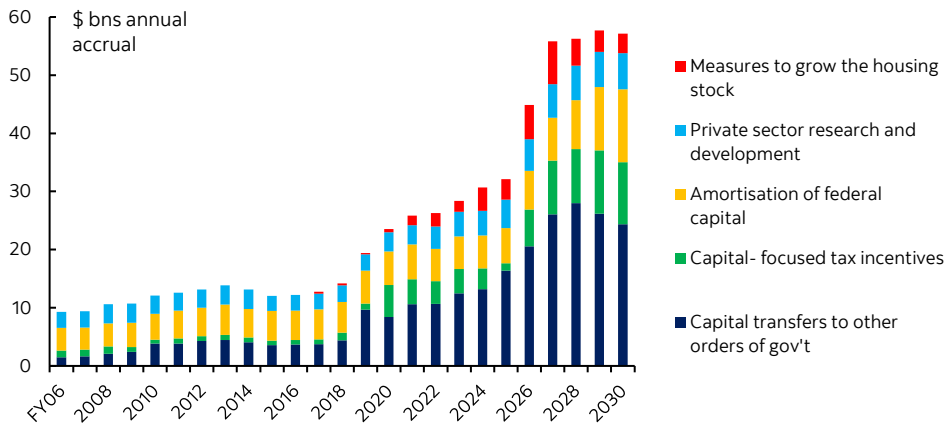
The government has set out an ambitious plan to use its balance sheet to catalyze over a trillion dollars in investment over the next five years. Early signs of a public-sector ramp-up are already visible in macro data, notably via a surge in defence- and security-related outlays in late-2025, alongside an anticipated step-change in transfers to other orders of government embedded in the fiscal framework. Together, these should help underpin broader general-government capital spending going forward.

It is still too early to see a material private-sector response in macro data. In our baseline, business investment begins to firm up toward late-2026, with the heavier lift arriving from 2027 onward. That should eventually show up in national accounts investment data, preceded—imperfectly—by investment-intentions data that are already turning positive albeit from subdued lows.

We are also watching project-level signals: the Major Projects Office pipeline now totals roughly \$126 bn in proposed investment, and project entries into federal Impact Assessment Agency have risen sharply as approval timelines accelerate with a slew of ‘early decisions’ flowing in recent weeks. Not all proposals will proceed, and not all provinces have yet signed on to a one-project, one-assessment framework, warranting a sizeable haircut—as reflected in our modelling for now.

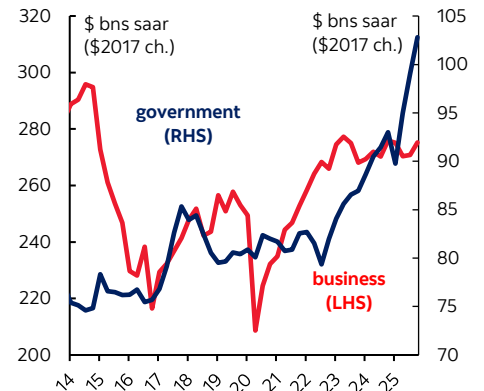
Even so, taken together, these indicators tilt risks modestly to the upside. This is a space to watch.

Components of Federal Capital Budget



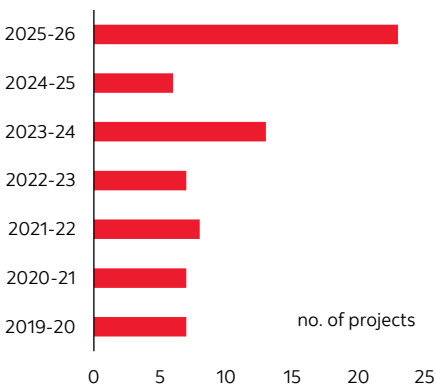
Sources: Scotiabank Economics, Finance Canada.

Quarterly Non-Residential Fixed Capital Investment (Canada)



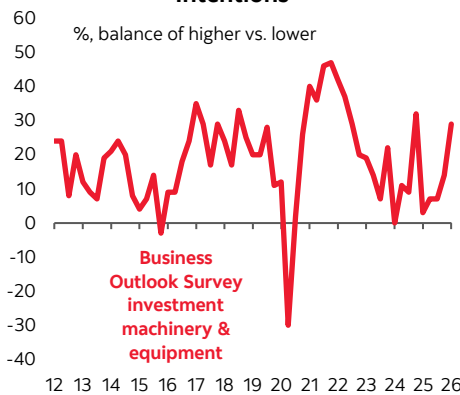
Sources: Scotiabank Economics, Statistics Canada. Note: 2025-Q4 gov't investment related to defence.

Projects Entering the Impact Assessment System



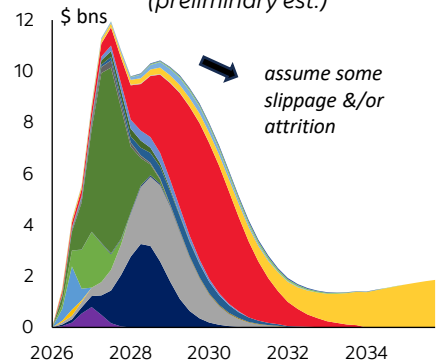
Source: Impact Assessment Agency.

Canadian Business Investment Intentions



Sources: Scotiabank Economics, Bank of Canada (Q1-2026 - pre-war).

Quarterly Investment Profile of Major Project Office Pipeline (preliminary est.)



Source: Scotiabank Economics, MPO, company websites.

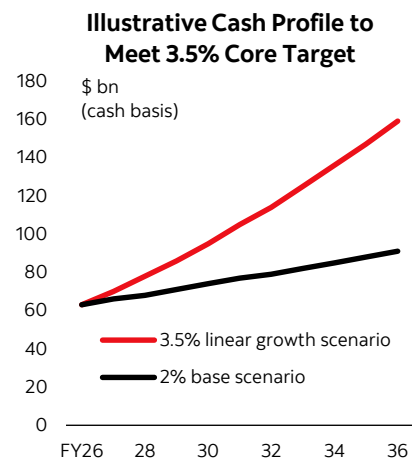
Box 2: Putting a Price on Security

The federal government has committed to meeting NATO’s new defence and security spending target of 5% of GDP by 2035. This includes 3.5% of GDP for core defence spending under NATO definitions, and up to 1.5% for defence- and security-related items, with the latter largely expected to be met through existing plans. Canada reached the prior 2% benchmark in FY26 following a sharp ramp-up in defence outlays shortly after Prime Minister Carney took office.

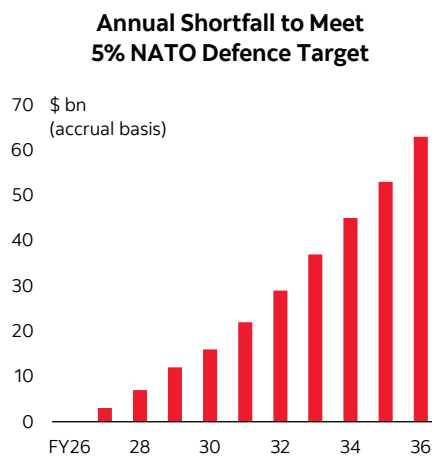
Budget 2025 added \$81.8 bn over five years—including \$6.6 bn to launch Canada’s Defence Industrial Strategy—but stopped short of laying out a clear fiscal path to the 3.5% core target. The Parliamentary Budget Officer estimates that meeting this benchmark could require roughly \$159 bn in annual defence spending by 2035–36, implying a sizeable gap relative to currently specified plans.

With a relatively short budget planning horizon, the upcoming update offers scope to fold in additional outer-year commitments as a way to credibly signal intent while deferring the bulk of fiscal pressure beyond the forecasting horizon—signalling that may carry added weight ahead of forthcoming CUSMA negotiations. Near-term acceleration, however, is likely constrained by absorption and capacity limits, particularly after last year’s rapid ramp-up and alongside a stated policy tilt toward boosting domestic production from roughly 30% of procurement today toward a long-run goal near 70%.

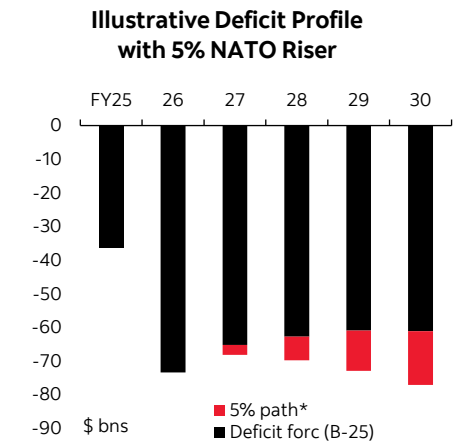
The PBO estimates that a NATO-consistent path could add roughly \$30 bn in cumulative defence spending by FY30, which—relative to Budget 2025 projections—would push deficits modestly higher before accounting for any potential fiscal windfalls in this update. Still, with NATO’s classification of defence- and security-related spending continuing to evolve, some definitional flexibility remains—making defence a key area to watch for both signaling and medium-term fiscal trade-offs.



Sources: Scotiabank Economics, PBO.



Sources: Scotiabank Economics, PBO (assumes linear growth to 5%).



Sources: Scotiabank Economics, Finance Canada, PBO (*costing assumes linear growth to 5%).

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