GLOBAL RISK INSTITUTE

FEDERAL BUDGET 2026: NAVIGATING ECONOMIC UNCERTAINTY, FISCAL PRESSURES, AND PRODUCTIVITY CHALLENGES

NOVEMBER 2026

EXECUTIVE SUMMARY

The federal government released its 2026 budget on November 5, 2026.[i] Budget 2026, *Masters of our Destiny*, presents a cautiously optimistic outlook for Canada, built around stronger business investment, trade diversification, major infrastructure projects and policies to help improve productivity. The government expects real GDP growth of 1.0% in 2026, rising to 1.7% in 2027 and approximately 2.0% in 2028 and 2029. The outlook assumes that the economy can adjust to U.S. trade restrictions while investment and domestic demand support a gradual strengthening in growth.

The budget identifies important opportunities in energy, critical minerals, advanced manufacturing, artificial intelligence and housing construction. However, the outlook remains exposed to persistent U.S. trade uncertainty, geopolitical conflict, higher energy prices, global supply disruptions and the possibility that investment and productivity gains fall short of expectations. These risks are interconnected: weaker growth would reduce government revenues, while higher borrowing costs and ongoing spending commitments could constrain the government's capacity to respond to future crises.[ii]

Canada enters this period with comparatively strong public finances, low net debt relative to other G7 countries and favourable credit ratings.[iii] Nevertheless, fiscal sustainability will depend on maintaining spending discipline, generating the economic growth anticipated in the budget and ensuring that large public investments produce lasting economic benefits. However, there are certain unknowns and risks that the federal government has to contend with.

i https://budget.canada.ca/2026/report-rapport/pdf/budget-2026.pdf

ii Ragan, Christopher, “Canada borrows with no regard for tomorrow. The next crisis may break us – Governments must manage debt levels and maintain a credible fiscal plan”, *The Globe and Mail*, November 2, 2026. https://www.theglobeandmail.com/business/commentary/article-canada-borrows-with-no-regard-for-tomorrow-the-next-crisis-may-break/

iii Dahir, Nicholas and Drummond, Don “Canada has the Third Lowest Borrowing Costs in the G7. Let’s Keep it That Way” (July 29, 2026) *C.D. Howe Institute*. https://cdhowe.org/publication/canada-has-the-advantage-on-borrowing-costs-lets-keep-it/

Fiscal sustainability risk

The budget's fiscal strategy is based on two principal anchors: balancing day-to-day operating spending with revenues by 2027-28 and keeping the deficit-to-GDP ratio on a declining path. The government projects that the *operating* balance will move from deficits of $2.0 billion in 2025-26 and $3.5 billion in 2026-27 to surpluses beginning in 2027-28.

The principal fiscal risk is that the government's revenue assumptions may not be achieved if economic growth, employment, wages or corporate profits weaken. At the same time, significant commitments on the *capital expenditure* side in defence, housing, infrastructure, industrial development, energy and strategic sectors create pressures that may be difficult to reduce if economic conditions deteriorate. For now, fiscal sustainability appears manageable under the budget's baseline assumptions, but the margin for manoeuvre could narrow if growth disappoints, revenues weaken or major spending commitments increase.

Macroeconomic and growth risks

The budget forecasts a gradual strengthening in economic growth after a period of adjustment. Real GDP growth is projected at 1.0% in 2026, 1.7% in 2027 and around 2.0% annually in 2028 and 2029. Business investment is an important part of this outlook: investment increased at an annualized rate of 9% in the second quarter of 2026, its strongest pace in two years. The budget also points to stronger exports, household spending and investment in machinery, equipment and engineering structures. However, the near-term outlook remains vulnerable. The budget expects growth to moderate into 2027 as businesses adjust to U.S. trade measures and global geopolitical tensions that are causing energy-market disruptions and supply-chain reconfiguration. The baseline outlook is for continued growth, but the risks are tilted toward weaker outcomes if trade restrictions, geopolitical disruptions or subdued investment persist.

Ongoing tariff risks and trade diversification

The Canada-U.S. trading relationship remains one of the most significant risks facing the Canadian economy. The budget identifies export diversification as a central response. It reports that goods exports to non-U.S. markets were more than 50% above their 2024 average by August 2026, while the government has set a target of doubling non-U.S. exports by 2035. These developments are encouraging, but diversification will take time. Existing supply chains, infrastructure, customer relationships and production networks are deeply integrated with the U.S. market, making rapid adjustment difficult.

Housing and household affordability risks

The budget reports signs of improvement in housing affordability, supported by increased construction. Housing starts averaged approximately 250,000 units in the first half of 2026, around 20% above the 2015-19 average. Despite this progress, housing remains a significant affordability and economic risk. The budget acknowledges that housing costs remain too high for many Canadians and that affordability is still more challenging than before the pandemic. Supply constraints, construction costs, infrastructure capacity and regional differences in housing markets could slow further improvements. The budget's housing initiatives, including support for non-market housing, construction financing, federal land development and housing-enabling infrastructure, will take time to translate into additional supply. In addition, Household purchasing power also remains exposed to energy and food prices.

Productivity and competitiveness risks

Improving productivity is central to the budget's economic strategy. The government identifies Canada's historical productivity weakness, investment gap and barriers to competition as constraints on long-term growth and living standards. The budget supports stronger business investment, technology adoption, innovation, regulatory reform and improved infrastructure as necessary to strengthening Canada's competitiveness.

The Productivity Mega Deduction for example is a major component of this growth strategy. It allows businesses to immediately deduct the full cost of eligible new investments, with the objective of reducing the cost of investment in machinery, equipment, technology and other productive assets. The budget estimates that the measure could increase annual economic activity by approximately $22 billion over a 10-year horizon and support up to 80,000 jobs. Other initiatives include expanded support for research and development commercialization, strategic investment in AI, improvements to internal trade and measures to reduce regulatory barriers.

Productivity and competitiveness represent a significant medium- to long-term risk. The budget establishes a broad policy framework to address the problem, but its success will depend on whether incentives translate into sustained increases in business investment, innovation, commercialization and output per worker.

Sovereign borrowing, interest-rate and debt-service risks

Canada maintains a relatively strong sovereign credit position. The budget highlights Canada's low net debt-to-GDP ratio compared with other G7 countries, its AAA-equivalent ratings from major credit rating agencies, and its comparatively favourable borrowing costs. These strengths provide access to capital and some flexibility to manage economic shocks.

Nevertheless, the government's borrowing requirements and debt-service costs are increasing. The budget projects public debt charges of $60.2 billion in 2026-27, equivalent to 1.8% of GDP, rising to 2.2% of GDP by 2030-31. Although the budget characterizes this level as sustainable and below the 40-year historical average of 3.2% of GDP, the increase will absorb a growing share of federal revenues. Furthermoe, the interest-rate outlook remains uncertain. The budget's baseline assumes a 10-year Government of Canada bond yield of 3.6% in 2026 and 3.8% in 2027, before easing slightly. In its global supply-disruptions scenario, the 10-year yield rises to 4.1% in 2027. Rising debt charges and exposure to global interest-rate movements are material medium-term risks. Maintaining investor confidence will require credible fiscal management, stable debt dynamics and careful prioritization of new borrowing.

Key Economic Indicators

Indicator	Budget Forecast
Real GDP Growth	1.7%
CPI Inflation	2.2%
Unemployment Rate	Average of 6.1% over 2026-2030
Federal Deficit	$62.3 billion for 2026-27; declining to $52.9 billion for 2030-31
Federal Debt-to-GDP Ratio	39.9% in 2026-2027; rising to 40.1% in 2030-31
10-Year Government of Canada Yield	3.6 % in 2026 (remaining stable at 3.7% in 2030)
Housing Starts	250,000 units (H1 2026)

Overall assessment

The budget's central challenge is to convert a substantial investment and industrial policy agenda into durable economic growth without weakening Canada's fiscal position. The baseline fiscal projections show budgetary deficits declining from $62.3 billion in 2026-27 to $52.9 billion in 2030-31, while federal debt is projected to remain relatively stable at approximately 40% of GDP over the forecast period. The budget's alternative scenarios demonstrate that these projections are sensitive to economic conditions: stronger investment improves the budgetary balance by an average of $3.0 billion annually, while global supply disruptions worsen it by an average of $2.2 billion annually.

RISKS AND UNCERTAINTIES

While Budget 2026 presents a cautiously positive outlook for the Canadian economy, it acknowledges vulnerabilities. The budget anticipates a gradual strengthening in economic growth, supported by recovering business investment, export diversification, resilient domestic demand and improving productivity. However, this recovery is taking place against a backdrop of persistent U.S. trade restrictions, geopolitical uncertainty, volatile commodity markets and significant demands on public finances.

Canada retains important economic and fiscal strengths, including a diversified resource base, access to international markets, a relatively strong sovereign credit position and capacity to invest in strategic industries. Nevertheless, the outlook depends on several favourable developments occurring together: trade conditions stabilizing, private investment strengthening, productivity improving and major public investment commitments generating economic returns. A failure in one or more of these areas could reinforce the others and weaken the growth and fiscal outlook.

Economic outlook – upside and downside scenarios

The budget's baseline forecast anticipates real GDP growth of 1.0% in 2026, increasing to 1.7% in 2027 and approximately 2.0% in 2028 and 2029. This represents a gradual recovery rather than a rapid acceleration. The forecast assumes that the economy can adjust to persistent U.S. trade restrictions, while stronger business investment, export diversification, energy exports and productivity gains support growth over the medium term.

The fiscal outlook is relatively stable under this baseline but does not eliminate longer-term pressures. The federal deficit is projected at $62.3 billion in 2026-27, declining to $52.9 billion by 2030-31. The federal debt-to-GDP ratio is projected to remain broadly stable, at approximately 40% over the forecast period. This provides some fiscal capacity to respond to future economic shocks, although persistent deficits and rising debt charges limit the scope for additional spending without affecting the fiscal outlook. The budget explicitly assesses two alternative scenarios to test the sensitivity of its economic and fiscal projections.

- Upside: Higher investment and stronger productivity. This scenario assumes that businesses respond more strongly to investment incentives, including the Productivity Mega Deduction, and adopt productivity-enhancing technologies such as AI more extensively. Stronger investment, capital formation and productivity would reinforce one another, raising economic output and business profitability. The budget estimates that real GDP growth would average approximately 0.3 percentage points higher annually than the baseline over the projection period, leaving the level of real GDP 1.3% higher by 2030.
- Downside: Global supply disruptions and prolonged geopolitical conflict. This scenario assumes that conflict in the Middle East persists, disrupting energy markets, refining capacity and critical shipping routes. Higher oil, diesel, transportation and other input costs would reinforce inflation, while tighter monetary policy and higher global bond yields would weaken investment and economic activity. These pressures would be compounded by existing uncertainty

surrounding U.S. trade policy. The budget estimates that real GDP would be 0.9% lower at the peak impact in 2027.

Interaction of fiscal, economic and geopolitical risks

The principal concern is that economic, fiscal, and geopolitical risks are interconnected and could reinforce one another.

- Geopolitical and trade risks affect growth and investment: Prolonged conflict, energy-market disruptions and additional trade restrictions could raise input costs, disrupt supply chains and weaken business confidence and defer investment.
- Economic weakness creates fiscal pressure: Weaker real and nominal GDP would reduce personal and corporate income tax revenues. At the same time, higher interest rates would raise public debt charges. This combination could widen deficits and increase borrowing requirements.
- Fiscal pressures can constrain economic policy: The government has made significant multi-year commitments to defence, infrastructure, industrial development and strategic sectors. If growth and revenues underperform, maintaining these commitments could require additional borrowing, or force spending restraint and reprioritization.
- Financial-market conditions can amplify the shock: Higher global bond yields and risk premiums can increase financing costs for governments and businesses. More expensive borrowing may delay infrastructure and private-sector projects, weaken investment and further constrain productivity growth.
- There are also potential positive interactions: Stronger global demand for Canadian energy and critical minerals could attract investment, support exports and improve government revenues. If this is accompanied by successful AI adoption, infrastructure development and productivity improvements, it could expand the tax base and strengthen fiscal sustainability.

The budget's central longer-term message is that productivity growth is essential to both economic prosperity and fiscal sustainability. If investment and productivity fail to improve, Canada could face a weaker growth trajectory, lower real wage gains and a narrower revenue base, while still carrying substantial spending and infrastructure commitments.

MACROECONOMIC RISKS

Business investment

Canada's near-term growth outlook remains modest, reflecting the effects of U.S. tariffs, trade-policy uncertainty and the adjustment of Canadian businesses to a changing international trading environment. The underlying assumption is that the near-term effects of trade uncertainty will gradually diminish, while stronger business investment, productivity gains and recovering exports support growth over the medium term.

The outlook assumes that the Canadian economy can sustain a recovery in private investment despite ongoing trade tensions, and there are encouraging signs: business investment increased at an annualized rate of approximately 9% in the second quarter of 2026, its strongest pace in two years. Investment in industrial buildings, machinery and equipment also strengthened, with

technology-related investment making an increasingly important contribution. Foreign direct investment averaged $98 billion in 2025, its highest level in nearly two decades, while reinvested earnings accounted for a majority of inflows in the first half of 2026. These developments suggest that some businesses continue to see opportunities to expand in Canada despite uncertainty. However, the recovery in investment is not assured. Businesses exposed to U.S. tariffs may delay or cancel capital spending, particularly where supply chains are highly integrated across the Canada-U.S. border or where alternative export markets are difficult to establish.

Growth outlook and budget assumptions

The budget assumes that domestic demand will remain sufficiently resilient to support growth while the economy goes through an adjustment phase. Household consumption is expected to benefit from income gains and relatively stable labour market conditions, while stronger energy exports and investment are expected to provide additional support. The projected strengthening in 2027 and beyond depends on the gradual recovery of exports and business investment.

There are risks to these assumptions. A more prolonged period of trade restrictions, weaker U.S. demand, or further disruptions to global supply chains could undermine exports and business confidence. Conversely, higher energy prices can support nominal income and export revenues, but may also increase production, transportation and household costs. The budget's outlook also incorporates expectations that AI adoption and investment incentives will support productivity and growth. These benefits are plausible, but their scale and timing remain uncertain, and current data points to a challenging growth environment.[i]

Productivity, competitiveness, and AI

A central concern identified in Budget 2026 is Canada's persistent productivity gap with the United States and other peer economies. The budget notes that the gap reflects weaker productivity growth within industries, rather than simply a shift in the composition of the Canadian economy. Canadian businesses also invest less than U.S. firms in productivity-enhancing assets, including machinery, software and research and development. This underinvestment constrains the ability of Canadian firms to innovate, adopt new technologies, compete internationally and increase wages over time.

In particular, Artificial intelligence represents an important opportunity within Canada's economic growth strategy. The budget identifies AI adoption as a potential source of significant productivity improvement. The budget also highlights growing investment in computers and computing infrastructure, as well as support for Canadian AI companies and research. The National AI Strategy is intended to expand access to computing capacity, support homegrown AI firms and encourage responsible adoption across the economy.[ii]

i RBC Economics Forward Guidance, November 6, 2023 – Industry data point to tepid Canadian growth in late Q3 - RBC Economics

ii Canada's National Artificial Intelligence Strategy: AI for All. https://ised-isde.canada.ca/site/ised/en/canadas-national-artificial-intelligence-strategy-ai-all

However, the economic benefits of AI are not automatic. Businesses must invest in the infrastructure, software, data, skills and organizational changes needed to use these technologies effectively. The expansion of data centres and computing capacity will also increase demand for electricity, transmission infrastructure and specialized workers. If these complementary investments are delayed or become too costly, they could constrain AI adoption and reduce the expected productivity gains.

Business investment incentives

Budget 2026 places considerable emphasis on reducing the cost and risk of private-sector investment. A major measure is the Productivity Mega Deduction, which extends immediate expensing to a broad range of productive assets. By lowering the after-tax cost of acquiring machinery, equipment and technology, the measure is intended to encourage businesses of all sizes to accelerate capital investment.[i] This is particularly relevant for small and medium-sized enterprises, which may face higher upfront costs and greater uncertainty about the returns from technology adoption.

The principal risk is that incentives may not generate the scale or type of investment required to improve productivity. Tax incentives can lower the cost of investment, but they cannot by themselves resolve uncertainty about future demand, access to skilled workers, infrastructure constraints or the competitiveness of Canadian firms. There is also a risk that some incentives support investment that would have occurred in any event, rather than generating additional investment. The effectiveness of these measures should therefore be assessed against tangible outcomes, including increased business capital formation, research and development, technology adoption, productivity growth, commercialization and expansion of Canadian firms.

Labour market risks

Employment outlook

Budget 2026 describes an improving labour market, with employment growth increasingly led by the private sector. Over the year to September 2026, private employment increased by approximately 214,000, while total employment rose by 95,000. The unemployment rate declined to 6.5%, close to its lowest level in two years. The budget attributes some of this improvement to the resumption of hiring as economic activity strengthened through the middle of 2026, following a period in which trade uncertainty had led businesses to reduce vacancies and slow recruitment rather than undertake widespread layoffs. The budget's outlook anticipates a gradual improvement in labour market conditions, with the unemployment rate declining over the forecast period to approximately 5.8% by 2030. This outlook is consistent with expectations for stronger economic growth and business investment.

i Government of Canda introduces new Productivity Mega Deduction to boost Canada's advantage as the most competitive G& country for new business investment, Government of Canada | Department of Finance. https://www.canada.ca/en/department-finance/news/2026/09/government-of-canada-introduces-new-productivity-mega-deduction-to-boost-canadas-advantage-as-the-most-competitive-g7-country-for-new-business-inve.html

However, an important risk is that employment gains may not be evenly distributed across sectors, regions and demographic groups. The budget reports that employment has been stronger in sectors less dependent on U.S. demand, while tariff-exposed industries remain more vulnerable.

Labour shortages and skills constraints

Although the budget reports some remaining labour market slack, it also identifies skills mismatches and shortages in particular occupations as constraints on economic growth. Skilled-trades shortages are a concern for housing construction, infrastructure development and major projects. Limited training, barriers to worker mobility and difficulties matching workers with available jobs can prevent labour from moving to areas where it could be more productive. These constraints could delay major investments, increase project costs and limit the economy's ability to expand productive capacity.

Despite programs to address these challenges, the risk is that the supply of skilled workers may not increase quickly enough to meet demand from major infrastructure, housing, energy, defence and industrial projects. Competition for specialized technical workers could also increase labour costs and contribute to project delays. In addition, the transition to new technologies, including AI, will change the types of skills required by employers. Without sufficient investment in training and reskilling, shortages in some occupations could coexist with unemployment or underemployment in others.

Immigration and labour supply

Immigration remains an important source of labour-force growth and a means of addressing skills shortages. Budget 2026 proposes implementing the 2027-2029 Immigration levels, which sets annual targets of 380,000 permanent resident admissions and 370,000 new temporary resident arrivals in each of those years.

The main labour market risk is that moderating immigration could constrain labour supply in sectors and regions that depend on newcomers, particularly where domestic recruitment and training cannot readily fill vacancies. At the same time, the budget's approach reflects concerns about aligning population growth with housing, infrastructure and public-service capacity. The challenge is to manage immigration in a way that supports sustainable population growth without creating avoidable shortages of workers in essential and strategically important industries.

Wage growth and labour costs

The budget points to improving household incomes and purchasing power. Real hourly wages were approximately 6.1% above their 2019 level, while real disposable income per capita had increased by 6.4% over the same period. These gains have supported household consumption and helped sustain domestic demand. The budget also emphasizes that stronger productivity is necessary to generate durable increases in real wages and living standards.

The key risk is whether wage growth can be sustained without creating cost pressures that undermine business competitiveness. In sectors facing shortages of skilled tradespeople and specialized workers, employers may need to offer higher wages to attract and retain staff. This can increase operating costs, particularly for smaller businesses and firms facing tariff-related pressures or limited ability to pass costs on to customers. There is also a risk that wage gains will be uneven. Workers in high-demand technical occupations may benefit from stronger wage growth, while workers in tariff-exposed industries or occupations affected by technological change may face weaker bargaining power, reduced hours or employment displacement.

Ultimately, the labour market outlook is improving, but it remains exposed to trade uncertainty, sectoral differences in employment conditions and constraints on the supply of appropriately skilled workers.

FISCAL AND SOVEREIGN RISKS

Budget 2026 presents a fiscal outlook that is improving relative to the 2026 Spring Economic Update, but it does not eliminate the underlying risks to federal finances. The government projects a smaller deficit over the forecast period, a broadly stable federal debt-to-GDP ratio, and a return to a balanced day-to-day operating position in 2027–28. These are positive indicators, particularly when considered alongside Canada's relatively favourable sovereign credit position and access to deep domestic and international capital markets.

However, the fiscal outlook is exposed to several important risks:

- Revenue sensitivity to economic conditions: A significant portion of the projected improvement in revenues depends on stronger nominal GDP, corporate profits, wages and salaries, and taxable consumption.
- Structural expenditure commitments: Health and other major transfers, defence spending, industrial support, infrastructure investment, and climate-related tax incentives create significant spending obligations over multiple years.
- Higher debt-servicing costs: Public debt charges are projected to rise substantially in dollar terms, reducing the fiscal room available for other priorities.
- Contingent liabilities and financing exposure: Loan guarantees, insurance programs, legal claims, and government-backed investment mechanisms create potential obligations that may not be fully reflected in the headline deficit until risks materialize.

The central issue is not that Canada faces an immediate sovereign financing crisis. The budget indicates that Canada retains a strong credit profile and comparatively low net debt relative to other G7 countries. Rather, the concern is that a combination of weaker economic growth, lower tax revenues, persistent expenditure pressures, and higher borrowing costs could gradually weaken fiscal flexibility and increase the sensitivity of the federal debt position to economic or financial shocks.

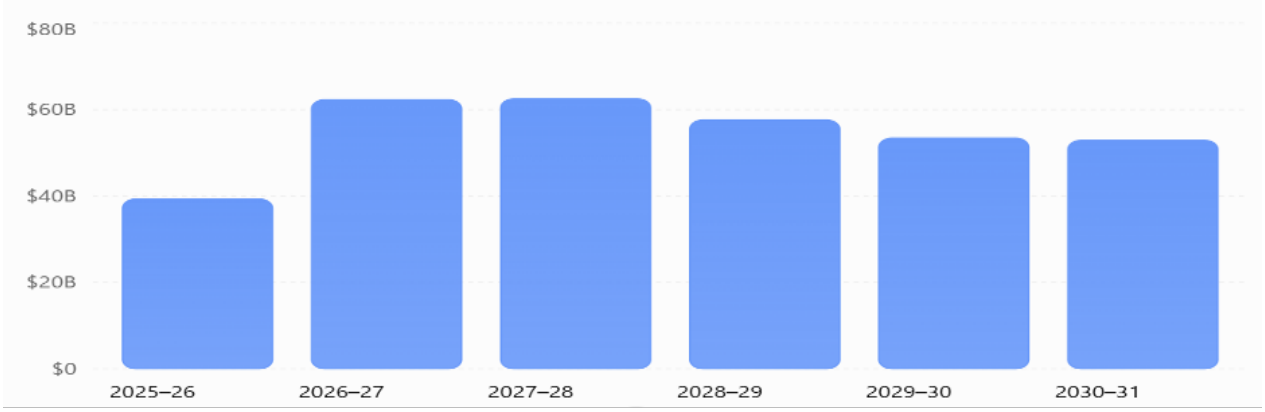
Fiscal outlook: budget balance and deficit path

Budget 2026 projects continuing federal deficits throughout the forecast period, although the annual deficit is expected to decline after 2027–28.

The deficit is projected to increase from $39.3 billion in 2025-26 to approximately $62.5 billion in 2027-28, before declining to $52.9 billion by 2030-31. The deficit-to-GDP ratio is expected to fall from 1.8 per cent in 2026-27 and 2027-28 to 1.3 per cent by 2030-31. The trajectory therefore represents gradual fiscal improvement, rather than a return to budgetary balance. Higher oil prices, stronger-than-expected preliminary fiscal results for 2025-26, and an improved outlook for corporate profits and wages are important contributors. Much of the improved fiscal position is dependent on the economic and revenue assumptions underlying the budget. It is not exclusively the result of permanent structural expenditure reductions or new recurring sources of revenue. The government further expects to balance day-to-day operating spending with revenues by 2027-28, one year earlier than its previous commitment. The operating balance is projected to move from deficits of $2.0 billion in 2025-26 and $3.5 billion in 2026-27 to surpluses of $11.2 billion in 2027-28, $20.3 billion in 2028-29, and $25.2 billion in 2030-31.

The projected decline in the deficit is encouraging, but the federal government remains reliant on continued economic growth and revenue performance to achieve its fiscal targets. A sustained deterioration in the economy could weaken the budget balance even if the government maintains its planned spending controls.

Figure 1: Federal deficit trajectory



Source: Budget 2026 projections ($ billions)

Revenue risks and dependence on economic growth

Federal budgetary revenues are projected to increase from $540.3 billion in 2026-27 to $629.1 billion in 2030-31. Total tax revenues are expected to rise from $449.1 billion to $514.2 billion over the same period. The budget's revenue outlook has improved substantially compared with the Spring Economic Update. The Department of Finance estimates that projected revenues are higher by an average of $23.9 billion annually between 2026-27 and 2030-31. Of this improvement, income tax revenues account for approximately $15.7 billion annually on average. Higher oil prices, stronger corporate profits, higher wages and salaries, and stronger taxable consumption contribute to the revised outlook.

Personal income tax revenues

Personal income tax is the government's largest individual revenue source and an important contributor to the projected fiscal improvement. It is estimated at $258.7 billion for fiscal 2026-27, with an average annual growth of 4.6% in the next several years. The projected increase in personal income tax revenues reflects strong preliminary 2025-26 results, resilience in the labour market, growth in wages and salaries, and elevated investment income.

The real risk is that these assumptions may not be sustained. Slower employment growth, weaker wage increases, rising unemployment, or lower investment income could result in lower-than-projected personal income tax receipts. This is particularly relevant if trade disruptions or weaker global demand affect employment and incomes in manufacturing, natural resources, and other export-oriented industries.

Corporate income tax revenues

Corporate income tax revenues are particularly exposed to changes in economic conditions, commodity prices, business investment, and profitability.

The budget forecasts corporate income tax revenue of $102.7 billion in 2026-27, a decline of 1.5 per cent from the previous year. This reflects weaker year-to-date results and the introduction of the Productivity Mega Deduction, which allows immediate expensing of a broad range of eligible depreciable assets. The measure is expected to reduce corporate tax revenues over the forecast horizon by accelerating the timing of deductions.

There are two distinct fiscal risks:

1. Economic and profit risk: Corporate tax revenues can decline quickly if business profits weaken. This could occur as a result of trade restrictions, weaker global demand, higher financing costs, or lower commodity prices.

2. Tax-policy and timing risk: The Productivity Mega Deduction is intended to encourage investment, but it also reduces tax revenues in the near and medium term. The government is effectively accepting lower immediate tax receipts in anticipation of stronger investment, productivity, and future economic activity.

The budget estimates that the Productivity Mega Deduction alone could raise the level of real GDP by approximately 0.5 per cent by 2030. This is a projected economic benefit, not a guaranteed outcome. If the investment response is weaker than expected, the fiscal cost could be incurred without achieving the full anticipated economic return.

Ultimately, while personal income tax provides a large and relatively broad revenue base, corporate income tax is more cyclical and exposed to profitability and commodity-price volatility. Together, these sources create meaningful downside risk if the economy underperforms.

Expenditures

The expenditure outlook reflects the government's intention to control day-to-day operating costs while expanding investment in defence, infrastructure, energy, industrial capacity, and other strategic priorities. Budget 2026 projects total expenses, rising from $602.6 billion in 2026-27 to $682.1 billion in 2030-31. Capital investment expenses are expected to increase from $48.8 billion to $64.0 billion over the same period.

The main expenditure risks are outlined below.

Major transfer payments

Major transfers to provinces, territories, and municipalities represent a significant and relatively inflexible component of federal expenditure. These transfers support health care, social programs, equalization, and other provincial and territorial responsibilities.

Budget 2026 indicates that major transfers to persons and to provinces, territories, and municipalities are projected to be higher than previously forecast by an average of $1.3 billion annually over 2026-27 to 2030-31. The increase is largely associated with the indexation of selected programs to inflation and nominal GDP. The budget also indicates that major transfers will remain protected and continue to grow, even as the government restrains direct program spending.

The key risks include:

- Health-care cost pressures: Population aging, health-care workforce shortages, demand for hospital services, pharmaceuticals, and long-term care could increase pressure on provincial governments to seek additional federal funding.
- Political and intergovernmental pressures: Provincial governments may seek higher or more flexible federal contributions if existing transfers are insufficient to meet health-system needs.
- Long-term fiscal rigidity: An increase in federal health funding would create recurring expenditure commitments, potentially reducing flexibility to fund other priorities.

The budget's transfer assumptions appear relatively predictable under current legislation, but the fiscal outlook could be exposed to pressure for additional federal health funding. This is a potential policy risk rather than an additional cost explicitly quantified in the budget.

Industrial subsidies and strategic-sector support

Budget 2026 relies heavily on targeted financial support to strengthen domestic industrial capacity and respond to trade-related disruptions. This includes grants, loans, tax incentives, financing arrangements, and direct support to firms in sectors such as automotive, critical minerals, forestry, manufacturing, clean technology, and defence.

The budget identifies nearly $44 billion in tariff-related support, including approximately $20.6 billion for firms to adapt, diversify markets, and maintain industrial capacity. It also identifies a $9 billion Automotive Strategy, building on $2.9 billion in support announced

since August 2025. In addition, it proposes $1 billion over six years for the Strategic Response Fund to support large-scale research, development, and innovation projects.

The main fiscal risks are:

- Additionality and effectiveness: Public support may subsidize investments that companies would have undertaken without government assistance.
- Ongoing support requirements: Firms facing international competition or structural market changes may require repeated assistance, creating pressure to extend or renew programs.
- Sector and company concentration: Large commitments to particular firms or industries can expose the government to concentrated losses if projects fail or market conditions deteriorate.
- Contingent financing exposure: Loans, guarantees, and other financing arrangements may create losses if recipients cannot meet their obligations.
- Market and technology uncertainty: Battery manufacturing, clean technology, AI, and other emerging industries may not achieve the commercial performance assumed when support is approved.

Strategic-sector subsidies may be justified where they address clear market failures, national-security concerns, or supply-chain vulnerabilities. However, they should be subject to transparent performance conditions, regular evaluation, and clear limits on the government's financial exposure. Otherwise, temporary industrial support can become a recurring fiscal commitment.

Infrastructure spending and capital investment

Infrastructure investment is a central component of Budget 2026. The government projects total federal capital investments of $403.9 billion on an accrual basis between 2025-26 and 2030-31, and $676.4 billion on a cash basis. Annual capital investment is expected to rise from $37.4 billion in 2025-26 to $78.2 billion in 2030-31.

The planned investments include:

- Housing and related infrastructure.
- Transportation and trade corridors.
- Electricity generation and transmission.
- Indigenous housing and infrastructure.
- Natural-resource development and critical-mineral infrastructure.
- Defence and security infrastructure.
- Public transit and other community infrastructure.

The scale of the investment program creates several risks.

- Project delivery and cost escalation: Large infrastructure projects are vulnerable to construction-cost inflation, labour shortages, supply-chain constraints, permitting delays, and changing project requirements. These factors can increase costs or delay the economic benefits expected from investment.
- Future operating and maintenance costs: New infrastructure requires ongoing maintenance, renewal, staffing, and operating expenditures. These costs may not be fully reflected in the initial project announcements.
- Revenue and productivity assumptions: The budget's fiscal framework assumes

that capital investment will contribute to stronger productivity, economic growth, and private-sector investment. If these benefits are delayed or fail to materialize, the government may incur significant costs without receiving the expected increase in economic capacity or revenues.

- Cash financing requirements: The difference between the cash and accrual measures is important. Capital investments may be recorded over time in the government's accounts, but the associated cash financing requirements can be substantial. The government must still borrow or otherwise finance these expenditures.

Infrastructure investment can strengthen Canada's long-term productive capacity, but the size of the program increases execution and financing risks. The fiscal value of projects will depend on cost control, timely completion, and demonstrated economic and social returns. The Global Risk Institute has previously highlighted many of the risks associated with large-scale infrastructure investment projects.[i]

Climate spending and clean-economy tax credits

Climate-related spending and tax incentives represent another important source of long-term fiscal exposure. Budget 2026 extends the Clean Technology and Clean Electricity investment tax credits to 2040 and expands eligibility for the Clean Electricity credit to include certain high-voltage intra-provincial transmission lines. The budget estimates that these extensions and changes will cost approximately $2.4 billion between 2027-28 and 2030-31, and $36.1 billion between 2031-32 and 2041-42.

Other climate-related measures include support for clean hydrogen, carbon capture, clean technology manufacturing, industrial efficiency, renewable energy, electricity storage, and the transition to electric technologies.

The main fiscal risks are:

- Long-term tax expenditure commitments: Extending investment tax credits to 2040 creates a substantial fiscal commitment beyond the current budget forecast period.
- Uncertain take-up: The eventual cost of tax credits depends on the volume of eligible investment and the extent to which companies use the incentives.
- Technology and commercial risks: Some supported technologies may not achieve the anticipated cost reductions or commercial viability.
- Policy uncertainty: Changes to climate policy, carbon pricing, eligibility criteria, or international market conditions could affect investment decisions and the expected fiscal cost.
- Potential overlap: Multiple tax credits and funding programs may support similar investments, creating a risk of overlapping public assistance.

Climate-related expenditure also has a risk-management dimension. Failure to invest in adaptation, resilient infrastructure, and climate-risk mitigation could increase future public costs through disaster response, infrastructure repair, and economic disruption. The fiscal challenge is therefore to ensure that climate spending is effective and appropriately targeted, rather than simply reducing support without considering future liabilities.

i Risk Management in Infrastructure Planning and Delivery, (March 16, 2026) Global Risk Institute https://globalriskinstitute.org/publication/risk-management-in-infrastructure-planning-and-delivery/

Disaster preparedness – protecting against catastrophic earthquake risks

Natural disasters and in particular earthquakes can impact the insurance system and cause disruptions in payments and insurance services to those affected. The budget proposes the introduction of legislation establishing *the Canadian Earthquake Insurance Facility*. The Facility would provide up to $50 billion to the property and casualty insurance sector to support victims of an extreme earthquake. This will give insurers the ability to pay the necessary claims and promote financial stability.

Debt-servicing costs

Debt-servicing costs are a major and growing expenditure pressure. The budget projects public debt charges rising from $60.2 billion in 2026-27 to $85.5 billion in 2030-31. As a share of GDP, they are expected to increase from 1.8 per cent to 2.2 per cent. This increase reflects the projected growth in the stock of federal debt and higher interest rates. While the budget characterizes debt charges as sustainable and below their historical average as a share of GDP, the increase in absolute terms will absorb a growing amount of federal revenue. Higher-than-expected interest rates, inflation, or borrowing requirements could push debt-servicing costs above the baseline. This would reduce the government's ability to respond to economic shocks or fund new policy priorities without increasing borrowing or reducing other expenditures.

Sovereign risks: debt sustainability, market access and creditworthiness

Sovereign risk refers to the government's capacity to meet its financial obligations and maintain confidence in its fiscal position, borrowing capacity, and economic institutions. Budget 2026 does not indicate an immediate sovereign financing problem. However, several developments could weaken Canada's fiscal resilience if they persist.

Federal debt and debt-to-GDP trajectory

The federal debt-to-GDP ratio is projected to remain broadly stable over the forecast horizon. The ratio is expected to peak at approximately 40.4 per cent in 2028-29 and then decline modestly. This suggests that the government expects nominal economic growth to be sufficient to broadly offset the effect of continued deficits and borrowing.

The key sovereign risk is that this trajectory is sensitive to the relationship between economic growth, interest rates, and the primary budget balance. If economic growth is weaker than projected or interest costs rise more rapidly, the debt ratio could increase rather than decline.

Credit ratings and market confidence

The budget reports that Canada has the lowest net debt-to-GDP ratio among G7 countries. It also reports that Canada retains AAA-equivalent ratings from Moody's, S&P, and DBRS, and an AA+ rating from Fitch. Rating agencies cite Canada's stable political institutions, predictable

policymaking, economic resilience, well-regulated financial markets, and monetary and fiscal policy flexibility as strengths supporting its credit profile.

These factors provide a significant buffer against sovereign risk. However, strong credit ratings should not be interpreted as eliminating fiscal vulnerabilities. A persistent deterioration in the deficit, a rising debt ratio, weaker economic growth, or a loss of confidence in the government's ability to control spending could eventually affect the assessment of Canada's creditworthiness.

Sovereign exposure to economic and geopolitical shocks

Canada's sovereign fiscal position is also exposed to external shocks that affect growth, commodity prices, trade, and financial markets. The budget identifies geopolitical tensions, global supply-chain disruptions, energy-market shocks, and rising global bond yields as important risks to the economic outlook. A prolonged disruption could weaken exports, increase inflation, raise borrowing costs, and reduce the government's fiscal room.

Canada's resource base and position as a reliable supplier of energy and critical minerals provide important economic advantages. However, reliance on commodity-related income also exposes corporate profits and government revenues to global price fluctuations. Trade restrictions and disruptions in major export markets could similarly weaken the economic and revenue base supporting federal debt.

Implications for the financial services sector

The federal fiscal outlook has several implications for Canadian financial institutions, investors, and capital markets. Continued deficits and higher borrowing requirements increase the supply of federal securities. If borrowing rises faster than expected, or investors demand higher term premiums, government bond yields could increase. This could affect mortgage rates, corporate borrowing costs, infrastructure financing, and the valuation of fixed-income portfolios.

- Credit and counterparty risk: Government-backed loans, guarantees, industrial support programs, and large infrastructure projects create exposures for financial institutions participating in project financing. Banks and other lenders need to assess the underlying commercial viability of projects rather than relying solely on the presence of government support.
- Infrastructure and project finance: Defence, electricity, critical minerals, transportation, and clean technology investments create opportunities for lending, underwriting, insurance, and institutional investment. However, project delays, construction inflation, changing government policy, and uncertain demand can increase credit and investment risk.
- Institutional investors and sovereign exposure: Pension funds, insurers, and other institutional investors hold federal and

provincial government securities and invest in infrastructure projects. A sustained rise in sovereign borrowing costs could affect portfolio valuations and the cost of long-term capital, even if Canada's sovereign credit standing remains strong.

If revenues weaken while spending commitments remain in place, the government may have less capacity to respond to future economic shocks. This could lead to forced spending restraint, higher taxes, or additional borrowing, each of which could have implications for economic activity and financial-market conditions.

Overall, Canada's sovereign risk remains relatively contained, but its medium-term fiscal vulnerability is elevated. The government's ability to maintain this position will depend on whether it can achieve stronger productivity and investment growth, control the costs and effectiveness of strategic spending, manage long-term commitments, and preserve a credible path for stabilizing federal debt.

TRADE AND INDUSTRIAL STRATEGY

Export diversification strategy

The federal government's export diversification strategy, as set out in Budget 2026, is intended to reduce Canada's dependence on the United States as its principal export market, expand access to international customers, and strengthen the resilience and competitiveness of Canadian businesses.

The government's central objective is to double Canadian exports to markets outside the United States by 2035, increasing their annual value from approximately $300 billion to $600 billion. The budget estimates that achieving this objective would generate an additional $300 billion in annual trade. Early progress is encouraging as the share of Canadian exports going to markets beyond the United States has also reached its highest level in four decades. Nevertheless, the budget acknowledges that diversification will take time, given the scale and depth of Canada's existing economic relationship with the United States.

Expanding international market access and trade relationships

A central component of the strategy is to expand Canada's network of trade agreements and deepen relationships with reliable international partners. The budget reports that Canada has preferential access to approximately 1.5 billion consumers through 15 free trade agreements, representing nearly two-thirds of global GDP. The government is working to expand this access to more than 3 billion consumers.

Recent agreements with Ecuador, Indonesia and the United Arab Emirates are part of this effort. The government is also advancing negotiations with the Association of Southeast Asian Nations, the Philippines, India and Mercosur countries, and has begun negotiations with Thailand and Türkiye. In addition, it intends to build on existing agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Canada-European Union Comprehensive Economic and Trade Agreement (CETA).

Strengthening export infrastructure and trade corridors

The government recognizes that trade agreements alone will not produce export growth unless Canadian businesses have the infrastructure and transportation capacity to move goods efficiently to international markets. The strategy therefore places emphasis on ports, rail networks, pipelines and strategic export corridors.

The budget points to improvements in export capacity that have already helped Canadian energy producers reach Indo-Pacific markets, including through increased crude oil and liquefied natural gas exports. Further investment in trade corridors and pipeline infrastructure is intended to connect Canadian resources with growing international demand and improve access to markets offering more competitive prices.

Providing financing and practical support to exporters

The strategy also seeks to improve access to financing and other tools that help Canadian companies enter new markets, undertake larger export transactions and overcome barriers to international expansion.

The budget identifies the following federal instruments:

- Export Development Canada's Canada Account: The government proposes increasing the account's financial limit and modernizing its governance to provide greater flexibility in supporting strategic, high-value export transactions.
- Canadian Commercial Corporation: The corporation helps Canadian businesses sell goods and services to foreign governments and supports international contracting opportunities.
- Trade finance and business financing: Federal financing tools are intended to help companies manage the risks and costs of entering new markets and pursuing international opportunities.
- Digital trade modernization: The government is investing in the modernization of trade systems to make cross-border transactions more efficient for exporters, importers, logistics providers and financial institutions.

The budget also identifies support for businesses affected by U.S. tariffs, including programs intended to help firms pivot, maintain industrial capacity and diversify their markets. It reports nearly $44 billion in tariff-related support, including $20.6 billion directed toward helping affected firms adapt, grow and diversify.

Diversifying export sectors and products

The strategy is not limited to finding new markets for existing exports. It also seeks to broaden the range of Canadian goods and services sold internationally. Energy is expected to remain an important contributor, particularly as expanded infrastructure improves access to international markets for crude oil and liquefied natural gas. Critical minerals and other strategic resources are also positioned to benefit from growing international demand and efforts by trading partners to secure reliable supply chains.

The budget places particular emphasis on services exports, which account for approximately one-third of Canada's non-U.S. exports. Digital services, including

telecommunications, software development, engineering, professional consulting and financial services, are identified as promising areas for growth. These services can reach customers in multiple markets simultaneously and are generally less exposed to tariffs and disruptions affecting physical goods. This makes them an important component of the government's diversification objective, alongside traditional resource and manufactured-goods exports.

Building domestic capacity to support international growth

The export strategy is linked to the government's broader objective of building a more competitive and integrated Canadian economy. The budget recognizes that Canadian businesses need sufficient domestic scale, productive capacity and access to capital before they can compete effectively in international markets.

This includes reducing internal trade barriers between provinces and territories, improving the movement of goods and services across Canada, strengthening domestic supply chains, and supporting investment in strategic industries. The budget argues that a more integrated domestic market will allow businesses to expand, achieve economies of scale and become more competitive internationally. It also identifies the need for better supply-chain data and analysis to monitor bottlenecks and inform decisions on trade diversification and economic security.

Implications and risks for Canada

The federal government's approach is comprehensive in that it combines market access, infrastructure investment, export financing, sectoral diversification and domestic economic reforms. It also recognizes that export diversification is not simply a matter of replacing U.S. customers with customers elsewhere. It requires developing new commercial relationships, adapting supply chains, investing in transportation infrastructure and ensuring that Canadian businesses can compete on price, quality and reliability.

Overall, the federal government's export diversification strategy represents a significant structural shift in Canada's trade and economic policy. Its objective is not to abandon the U.S. market, but to reduce Canada's vulnerability to dependence on a single trading partner while developing additional sources of export growth. The target of doubling non-U.S. exports by 2035 is ambitious, and the early growth in exports suggests some progress. However, achieving it will depend on sustained investment, infrastructure development, business competitiveness and the ability to establish durable commercial relationships in new markets. For the financial services sector, the strategy presents opportunities to finance and facilitate international expansion but also creates a need to manage a broader range of cross-border risks.

Industrial strategy

Budget 2026 sets out an industrial strategy centred on increasing domestic productive capacity, attracting large-scale private investment, strengthening supply-chain resilience, and positioning Canada in sectors considered strategically important to its economic security and future competitiveness.

The strategy is presented as part of a broader investment agenda rather than as a single, stand-alone industrial policy. Its central premise is that Canada should use its advantages in natural resources, energy, skilled labour, research, and access to international markets to build more of the industries, infrastructure, and technologies that it will need in the future. The budget identifies advanced manufacturing, defence, aerospace, critical minerals, energy, electricity, clean technology, and artificial intelligence (AI) as important parts of this effort.

The budget also places considerable weight on mobilizing private capital. It reports nearly $500 billion in new investment commitments associated with the Canada Investment Summit and sets a broader ambition to catalyse up to $1 trillion in total investment over five years, including $500 billion in new private-sector investment. These are investment commitments and government targets, not evidence that all the proposed projects have been financed, built, or brought into operation.

Advanced manufacturing: preserving and upgrading domestic industrial capacity

The budget's approach to advanced manufacturing is closely tied to its broader productivity and industrial-resilience agenda. It recognizes that Canada needs to move beyond maintaining existing manufacturing employment and strengthen its capacity to produce higher-value goods, adopt advanced technologies, and participate in strategically important supply chains.

Three policy instruments are particularly relevant:

- Automotive Strategy: The budget identifies approximately $9 billion in support for the automotive sector, building on $2.9 billion announced since August 2025. The stated objective is to strengthen the competitiveness of an industry employing approximately 200,000 Canadians.
- Productivity Mega Deduction: This measure is intended to lower the after-tax cost of business investment by allowing eligible capital expenditures to be deducted more quickly. It is particularly relevant to manufacturers investing in machinery, equipment, automation, robotics, and other productivity-enhancing technologies. The budget presents this as an economy-wide measure, rather than support restricted to particular industries.
- Strategic Response Fund: The budget proposes an additional $1 billion over six years, beginning in 2028-29, for large-scale research, development, and innovation projects. The fund is intended to help companies commercialize and scale technologies in areas including AI, agri-food, bio-manufacturing, and clean technology.

The budget also connects manufacturing capabilities to national security and defence. It argues that existing industrial capabilities, including automotive and steel production, can support the development of future strategic industries. This approach addresses several longstanding constraints on Canadian manufacturing, including weak business investment, limited technology adoption, and difficulty scaling innovative firms. However, the budget's measures are not a comprehensive manufacturing strategy with detailed targets for domestic production, productivity, research commercialization, or the share of strategic supply chains located in Canada. The effectiveness of the approach will depend on whether tax incentives and targeted funding translate into sustained investment, commercially viable production, and stronger domestic supplier networks.

Defence and aerospace: using procurement to build an industrial base

Defence is one of the clearest examples of the budget's effort to connect national security with industrial development. The government intends to increase defence spending while directing a greater share of procurement and related investment toward Canadian firms, workers, and production capabilities.

The budget states that Canada has reached NATO's previous 2 per cent of GDP spending target and has a funded plan to reach 4 per cent by 2030. It also refers to the new NATO Defence Investment Pledge of 5 per cent of GDP by 2035. These commitments imply a substantial expansion of defence-related spending, although the budget's projections distinguish core defence funding from broader defence- and security-related expenditures.

Several measures are intended to ensure that this spending supports domestic industrial capacity:

- Defence Industrial Strategy and procurement reform: The Defence Investment Agency is intended to make procurement faster, more coordinated, and more predictable. Its proposed "Build-Partner-Buy" framework is designed to give Canadian industry a greater role in meeting defence requirements.
- Defence financing: The Business Development Bank of Canada's $6 billion Defence Platform provides financing, investment, and advisory support to help Canadian defence and dual-use companies, particularly small and medium-sized enterprises, expand and compete.
- Defence Drone Initiative: The budget supports accelerated acquisition and deployment of uncrewed and counter-uncrewed capabilities, creating opportunities for Canadian technology and manufacturing firms.
- Major procurement opportunities: The budget identifies program icebreakers to be built in Québec, discussions to acquire six airborne early-warning aircraft, plans to move forward with up to 12 submarines, and investments in Arctic surveillance capabilities.

The budget also identifies the proposed Defence, Security and Resilience Bank as a way to mobilize long-term financing for defence production and procurement among participating countries. It is intended to improve access to capital for firms and expand industrial capacity and supply-chain resilience.

However, the expenditure risks are significant:

- Long-term procurement commitments: Submarines, aircraft, ships, surveillance systems, and other major defence acquisitions involve large multi-year costs, including maintenance, personnel, training, and lifecycle support.
- Cost overruns and delays: Complex procurement projects are vulnerable to inflation in equipment costs, supply-chain disruption, foreign-exchange movements, and delays in delivery.
- Operating costs: New military equipment and expanded capabilities create recurring operating and maintenance expenses beyond the initial purchase price.
- Commitment escalation: The 4 per cent target by 2030 and the 5 per cent pledge by 2035 could create further expenditure requirements, particularly if NATO expectations or Canada's security environment change.

This strategy has the potential to create a more durable domestic defence industry by linking procurement commitments with financing, innovation, and production capacity. Its success, however, will depend on the proportion of procurement spending that generates Canadian industrial work, the development of domestic intellectual property and supplier capabilities, and the ability of Canadian firms to deliver complex projects on schedule and at competitive cost.

Critical minerals: moving from resource potential to strategic supply chains

Critical minerals are central to the budget's industrial strategy because they support several other priority sectors, including batteries, electric vehicles, defence technologies, advanced manufacturing, and clean energy. The government seeks to strengthen Canada's position not only as a producer of minerals but also as a supplier of processed materials and inputs for strategic industries.

The budget identifies $2.3 billion in new support for the Critical Minerals Strategy, building on the existing $5 billion strategy. It describes the sector as having contributed $33 billion to Canadian GDP and supported approximately 110,000 jobs, directly and indirectly, in 2024. The strategy's priorities include expanding domestic production and processing and safeguarding critical-mineral supply chains.

The budget's approach includes several complementary elements:

- Mining and processing: Increasing domestic production and processing capacity, with the objective of retaining more value within Canada rather than exporting primarily unprocessed resources.
- Infrastructure connections: The First and Last Mile Fund supports road, transmission, and processing infrastructure needed to connect mines to markets. This is particularly important for projects in remote regions

where infrastructure costs can make otherwise attractive deposits commercially challenging.

- Exploration incentives: The budget identifies the Mineral Exploration Tax Credit and Critical Mineral Exploration Tax Credit as measures intended to encourage additional investment in Canadian mineral exploration.
- Strategic projects and partnerships: The Major Projects Office is intended to coordinate and accelerate projects that can strengthen critical-mineral production, infrastructure, and access to markets.

This strategy appropriately recognizes that mineral security requires more than access to deposits. Processing, refining, transportation, electricity, investment capital, and reliable international markets are all necessary to build competitive supply chains. The main challenge is execution: mining and processing projects have long development timelines and face infrastructure, permitting, financing, environmental, Indigenous partnership, and market-price risks. The budget sets out important enabling measures, but the extent to which Canada can capture downstream manufacturing opportunities will depend on whether mineral production is matched by commercially competitive domestic processing and end-use industries.

Energy and electricity: building the infrastructure for industrial growth

Energy and electricity are not simply sectors within the budget's industrial strategy; they are foundational inputs for almost every other priority sector. The budget explicitly links reliable, affordable electricity to industrial competitiveness, electrification, critical-mineral development, data centres, and Canada's ability to attract investment.

It identifies more than $50 billion in measures under the National Electricity Strategy, with the objective of doubling Canada's electricity capacity by 2050. The strategy is intended to expand generation and transmission, improve grid reliability, support electrification, and strengthen energy security. The budget estimates that the electricity sector, which employs approximately 108,000 Canadians, could add another 60,000 jobs between 2028 and 2050.

The principal measures include:

- Electricity generation and transmission: Extending the Clean Technology and Clean Electricity investment tax credits to 2040 and expanding eligibility for the Clean Electricity credit to include certain high-voltage intra-provincial transmission lines.
- Grid modernization and storage: Continuing support through the Smart Renewables and Electrification Pathways Program for grid modernization, energy storage, and renewable energy projects.
- Emerging generation technologies: Providing $6 billion over six years, beginning in 2028–29, to support deployment of emerging electricity generation technologies.
- Regulatory flexibility: Updating the Clean Electricity Regulations to provide greater flexibility in meeting rising demand, including allowing existing facilities to operate longer where necessary for reliability and providing more certainty for investment in generation. The budget identifies natural gas, hybrid energy systems, and distributed renewables as possible components of this approach, while retaining the stated objective of net-zero electricity by 2050.

The budget gives particular attention to nuclear energy and identifies the nuclear sector as supporting approximately 90,000 direct and indirect jobs and contributing about $22 billion annually to the Canadian economy. It also presents Canada's oil and gas resources as potential sources of energy security, export revenue, and investment, while emphasizing the need to lower emissions intensity and develop infrastructure to reach international markets. Its overall approach is therefore not limited to renewable electricity: it combines expanded electricity supply, nuclear energy, conventional energy development, and measures to reduce emissions.

Artificial intelligence: developing sovereign capabilities and enabling adoption

AI is treated as both a strategic industry in its own right and a technology that can raise productivity across the wider economy. The budget's approach has two main dimensions: building Canadian AI infrastructure and capabilities and encouraging businesses and workers to adopt AI.

The budget notes that Canada has a strong research ecosystem, skilled talent, and access to clean electricity, all of which could support the development of AI infrastructure. It reports that business investment in computer-related assets has increased by 60 per cent since 2023 and that more than 200 data-centre projects are in the pipeline. It also identifies growing exports of information, telecommunications, and computer services.

The main policy measures include:

- Sovereign AI compute capacity: The budget announces that Canada will enable Canadian AI companies to access 500 megawatts of sovereign AI computing capacity through financial tools such as backstops and offtake agreements. The objective is to mobilize private capital and improve domestic access to computing resources.
- AI investment and company development: The budget describes an equity investment commitment of up to $1.6 billion in Cohere, intended to support the development of a Canadian sovereign AI company and create at least 1,000 high-paying technical jobs by 2030.
- Skills and adoption: The AI for All strategy includes AI literacy and workforce initiatives. The budget reports $162 million over five years for Mitacs to support 10,000 co-funded work placements and identifies a broader ambition of up to 90,000 AI-related opportunities by 2031.
- Research and responsible development: The government has established a National Council on Artificial Intelligence and is supporting research partnerships and international cooperation on safe and responsible AI.
- Commercialization and innovation: The Strategic Response Fund's proposed $1 billion allocation would support innovation projects, including AI, while other measures are intended to help Canadian firms commercialize research and retain intellectual property.

The budget also recognizes that AI infrastructure is dependent on other strategic sectors. Data centres require large amounts of reliable electricity, advanced chips and computing equipment, telecommunications networks, and access to critical minerals. AI investment can therefore generate demand for electricity generation and transmission, construction, equipment, and related services.

The principal risks are the cost and speed of infrastructure development, competition for skilled workers and capital, dependence on imported semiconductors and equipment, and uncertainty about the commercial returns from large-scale AI investments. The budget's measures are important steps, but they do not by themselves guarantee that Canada will develop globally competitive AI companies or capture a large share of the value generated by AI.

CONCLUSION

Budget 2026 represents a significant shift toward a more deliberate industrial and strategic-sector policy. Rather than relying primarily on broad-based economic growth and private-sector investment, the government is identifying sectors considered essential to Canada's future economic competitiveness, national security, and resilience, and is using public investment, tax incentives, financing mechanisms, procurement reform, and infrastructure development to encourage their expansion.

The strategy's strongest feature is its recognition that these sectors are interdependent. Critical minerals require energy and infrastructure; advanced manufacturing requires investment, technology, and skilled workers; defence procurement can support aerospace and manufacturing capabilities; and AI development depends on electricity, computing infrastructure, and domestic research and commercial capacity.

The central challenge, however, is converting a substantial collection of funding commitments and policy initiatives into a more productive and competitive domestic industrial base. The ultimate measure of success will not be the amount of public money committed or the number of investment announcements, but whether Canada achieves sustained increases in domestic production, value-added processing, technology commercialization, productivity, exports, and skilled employment.

For the financial services sector, this agenda creates opportunities in project finance, infrastructure lending, equity investment, trade finance, insurance, pension investment, and advisory services. It also creates risks associated with large capital requirements, project delays, technology uncertainty, commodity-price volatility, and government policy exposure. Financial institutions will therefore have an important role in assessing whether strategic projects are commercially viable and whether public support is effectively mobilizing private investment.

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