



November 14, 2025

From: Colin Busby, Don Drummond and Alexandre Laurin
To: Budget Watchers
Re: ROSY FORECASTS AND WEAK FISCAL ANCHORS IN THIS
'GENERATIONAL' BUDGET

Ottawa's budget lands at a pivotal moment. As a *Globe and Mail* [editorial](#) put it, we have reached a fork in the road. The test for this budget was whether it would level with Canadians about the scale of the economic problems and chart a credible path forward.

By that measure, the document does a good job of outlining the serious challenges Canada faces and the need to expand trade. The economic challenges, however, are largely absent from the baseline projections, and together with the weak new fiscal anchors, the document puts Canada on the wrong fork in the road.

Economic projections foresee real GDP growth of 1.1 percent this year, 1.2 percent next year and rebounding to an average of 2.0 percent per year over the rest of the five-year outlook.

That outlook is much stronger than the Bank of Canada projected in its Monetary Policy Report and, apart from some downward revisions to GDP growth in 2025 and 2026, the medium-term economic outlook is nearly identical to that envisioned in the [2024 fall economic update](#). Unemployment returns to the historically low level of 6 percent. Tax revenues are also projected to be strong. Such rosy outcomes suggest Canadians' angst about our economic challenges may be misplaced. But is it?

The budget lists the required areas of focus: To build the economy through major infrastructure projects and through private investment, to grow trade with the world, and to encourage greater competition. Measures to stabilize permanent resident admission targets, increase the share of economic migrants and recruit international academic talent will help raise Canada's skill base.

That said, the expensive plan to spend \$51 billion on local infrastructure – community centres, hospitals, theatres, YMCAs and so on – will do nothing to address our deep-seated economic challenges. And industrial policies to protect Canadian strategic sectors suggest a continued focus on picking winners instead of focusing on getting the fundamentals right.

The Prime Minister had promised a highly competitive corporate tax system. Yet there is no cut to the general corporate tax rate, and the previously announced changes to the Scientific Research and Experimental Development tax credit do little to fix the structural imbalance that encourages small firms to stay small. The suite of enhanced depreciation allowances for manufacturing and clean energy business investments are a step in the right direction, but accentuate the preferential treatment of some sectors over others. Canada missed an opportunity to counter the blunt measures of the US One Big Beautiful Bill.

The government now projects a deficit of \$78.3 billion for 2025/26, roughly 2.5 percent of GDP, and a federal debt-to-GDP ratio climbing to 43.1 percent by 2026/27 and remaining there until the end of the decade. The debt burden hardly comes down in a projection to 2050. The deficit still has no obvious path back to balance.

Attempts to reassure Canadians with a new fiscal anchor that balances the day-to-day operating balance of the government by 2028/29 ring hollow. Plus, the addition of a second fiscal anchor – a declining deficit/GDP ratio – does little to ensure that debt ratios also fall.

The real worry is what lies beyond.

Even if the trade shock fades, Ottawa's books must soon absorb the cost of an aging population, climate impacts on the economy and spending, and a long-overdue expansion of defence capability to meet the 5-percent NATO commitment. Add a continuing productivity slump and the idea that future growth alone or optimistic projections can bring finances back under control are naïve. Canada may be entering an era of permanent fiscal vulnerability with less capacity to respond not if but when the next crisis hits.

Did the government make any serious attempt to reallocate existing spending? The claimed savings of \$13 billion per year by the end of the decade are a decent start, and they specifically target a reduction in the federal government workforce of 10 percent from the 2023/24 peak. Yet program spending is still projected to grow rapidly by an average of 4.5 percent per year from 2019-20 to 2029-30. The overall spending level remains as high as it was projected in last year's economic statement.

Bolder changes are needed to restore credibility, such as deeper and wider expenditure reviews and a broad-based tax reform. Budget 2025 contains promising initiatives for developing major infrastructure projects. Yet Canada cannot borrow its way to competitiveness. Private investment is critical to success. We wish the budget had the ambition to unlock it.

Colin Busby is director of policy engagement at the C.D. Howe Institute, where Alexandre Laurin is vice-president and director of research. Don Drummond is fellow-in-residence at the C.D. Howe Institute and a Stauffer-Dunning Fellow at Queen's University.

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A version of this Memo first [appeared](#) in The Globe and Mail.