

Intelligence MEMOS



From: Don Drummond, Alexandre Laurin and William B. P. Robson
To: Watchers of Federal Red Ink
Date: October 7, 2025
Re: **BEWARE THE FALSE COMFORT IN PBO DEFICIT PROJECTIONS**

The Parliamentary Budget Office is [projecting](#) a federal deficit of \$68.5 billion this fiscal year, with a four-year cumulative total through 2028-29 of \$254.9 billion. That would leave Canada's net debt-to-GDP ratio well above 40 percent. The interim Parliamentary Budget Officer [described](#) that outlook to a House of Commons committee as alarming and unsustainable without changes. It is – but our read of the federal fiscal situation is even worse.

The PBO's approach, in line with its mandate, is to include in its baseline forecast only measures that have been formally enacted or announced. In this case, that means measures implemented as of Aug. 11 and the major spending package [announced](#) on Sept. 5. But that tally leaves out promises made in the Liberal election platform that the government has not yet acted on, and – critically – the government's subsequent commitment to much higher defence spending.

Our own [projections](#) in July, which did include the platform promises and higher defence spending, produced a deficit of \$92.2 billion this year and a cumulative \$342.7 billion over the four years through 2028-29. That is almost \$88 billion higher than the PBO projection.

The biggest gap is in defence spending. Reflecting Canada's NATO commitments, we added \$72.9 billion over four years, compared with just \$28.1 billion in the PBO outlook. Other unimplemented promises amount to more than \$20 billion in additional spending in the 2025/26 fiscal year alone. While the government has also promised some cuts to existing programs, these are small compared with the new spending commitments.

For that reason, it is hard for us to agree with the assessment that accompanied the PBO's projections: That risks to its projection are evenly balanced. While it is easy to foresee policy changes that will add to spending and borrowing, even beyond the platform promises and defence commitments just mentioned, it is hard to foresee any additional spending cuts – or, for that matter, even success in the modest restraint in spending growth the government has talked about already.

The economic assumptions in the PBO outlook also lean on the positive side. The PBO projects growth to be modest this year and next, but assumes that the unemployment rate will return to an average of 5.7 percent between 2028 and 2030. Achieving this outcome would require a stable Canada-US-Mexico trade relationship and early progress in diversifying beyond the US market, if not both.

It would also require a rebound in business investment, which has recently been so weak that the stock of capital per worker in Canada is falling, essentially reducing growth in our productive capacity to zero. Given the confidence-sapping trade frictions Canada already faces, and a federal fiscal stance so oriented toward spending and so little toward growth-enhancing tax changes, the PBO's assumptions look optimistic. Yet the PBO does little to explore the possibility of weaker growth, higher unemployment or setbacks on the trade front.

We should all hope for strong growth and disciplined fiscal management, but good planning also requires preparing for less favourable outcomes. By playing down the risks from unimplemented promises and by relying on a relatively benign economic scenario, the PBO may be giving Canadians too much comfort.

Notwithstanding its warnings about the unsustainability of the outlook, the PBO may also be giving the government unwarranted comfort as it frames the Nov. 4 federal budget. The last thing Canadians need from the coming budget is a fiscal track even more alarming and unsustainable than the one we are now on.

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