The Centre for Civic Engagement



Understanding Myths and Facts about Canadian Debt

Charles Lammam

This study was commissioned by the Centre for Civic Engagement. The CCE is a non-partisan Canadian charity dedicated to conducting original research on public policy issues related to Canadian prosperity, productivity, and national flourishing. The CCE's research informs an active program of policy seminars, events, conferences, and lectures all aimed at providing the policy making community with actionable insights that encourage informed decision making on issues that matter to Canadians.

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Introduction

Governments like to set the narrative heading into a budget. Ottawa's arrives on November 5 and it has already lined up three stories to tell on fiscal policy: 1) revenues are running ahead of forecast, 2) the "operating budget" will balance a year early, and 3) Canada has the lowest net debt in the G7.[1]

Each leaves out the same thing: the debt keeps growing. Half truths can mislead so let's dive into each of the three to separate the fact from spin, based on the latest available data.

FACT 1: Revenues are up, the windfall is spent, and the true deficit is likely higher while interest costs keep rising

Start with the money coming in. In its October outlook, the Parliamentary Budget Officer (PBO) expects $538.7 billion in revenue this year, $9.1 billion more than the spring update did, with $7.2 billion more in 2027/28 and $5.0 billion more in 2028/29.[2]

Much of the revenue uplift is a price effect and the Middle East war is part of it. The U.S.-Iran conflict began in late February and disrupted tanker traffic through the Strait of Hormuz. West Texas Intermediate oil prices jumped from an average of US$65 per barrel in February to US$92 from March through October 20.[3] The PBO estimates that higher prices, not stronger output, lifted the tax base, and that corporate income tax is up partly on stronger oil profits. The PBO puts the energy effect at nearly a third of the upward revision to revenues. It expects the boost to fade after 2028/29 as energy prices ease. And by 2029/30, its revenue forecast is below the spring update's.

The PBO also downgraded its expectations for the real economy. It now projects growth of 0.9 percent this year and 1.5 percent next, estimating the trade measures now in place will leave real GDP 1.4 percent lower after five years than it would otherwise be.[4] In other words, revenues are up because prices rose. The inflation-adjusted economy itself is weaker. The effects across the country are uneven, too.[5] When oil prices rise, Alberta, Saskatchewan, and Newfoundland and Labrador generally benefit, while Ontario and Quebec, with their manufacturing base, face higher energy costs on top of tariffs.

1 Bill Curry, "Federal Budget to Be Released on Nov. 5, Champagne Says," *The Globe and Mail,* October 20, 2026, https://www.theglobeandmail.com/politics/article-federal-budget-released-on-nov-5-champagne-october-20/.

2 Office of the Parliamentary Budget Officer, *Economic and Fiscal Outlook—October 2026* (Ottawa: Office of the Parliamentary Budget Officer, 2026), https://www.pbo-dpb.ca/en/publications/RP-2627-011-S--economic-fiscal-outlook-october-2026--perspectives-economiques-financieres-octobre-2026.

3 Federal Reserve Bank of St. Louis, "Crude Oil Prices: West Texas Intermediate (WTI)—Cushing, Oklahoma," FRED, accessed October 30, 2026, https://fred.stlouisfed.org/series/DCOILWTICO.

4 Office of the Parliamentary Budget Officer, *Economic and Fiscal Outlook Assessment Note: Economic Impact of Recent Canada-U.S. Trade Measures* (Ottawa: Office of the Parliamentary Budget Officer, 2026), https://www.pbo-dpb.ca/en/publications/NT-2627-014-S--economic-fiscal-outlook-assessment-note-economic-impact-recent-canada-us-trade-measures--note-evaluation-perspectives-economiques-financieres-incidence-economique-recentes-mesures-commercia.

5 TD Economics, "Trade Frictions Widen Regional Growth Gaps," September 21, 2026, https://economics.td.com/domains/economics.td.com/documents/reports/pef/ProvincialEconomicForecast_September2026.pdf.

Windfalls have a way of getting spent. In April, the spring update found $60.3 billion in extra room and spent $54.5 billion of it, by Scotiabank Economics' count.[6] Since then, Ottawa has announced a national AI strategy; a food security strategy; a West Coast oil pipeline; a wide-ranging agreement with British Columbia; $10 billion in federal financing for Churchill Falls and Gull Island; and a new "productivity mega-deduction," a business tax measure that will cost $36 billion over five years.[7] Just last week, Ottawa and Ontario unveiled an $8.7 billion plan to support steel, autos, and critical minerals against U.S.[8] tariffs, with an estimated $6 billion coming from Ottawa.

Back in September, before many of these announcements, Desjardins economist Randall Bartlett put the total of new spending since the spring update at more than $100 billion over ten years, and for four of the announcements, found $35.2 billion to $43.7 billion with no clearly outlined source of funding.[9] How much is in the fiscal plan is unclear. We won't know until the budget.

The pattern of ever-higher spending goes back further, as each budget since 2022 has raised the federal spending plan. Planned program spending for 2026/27 alone rose from $463.3 billion in Budget 2022 to $536.1 billion in the spring update, up $72.8 billion or 16 percent. The PBO's October estimate is higher still: $543.1 billion this year. Over six years, the PBO projects a total of $52.2 billion more program spending than the spring update alone, largely because of the new measures announced since spring.

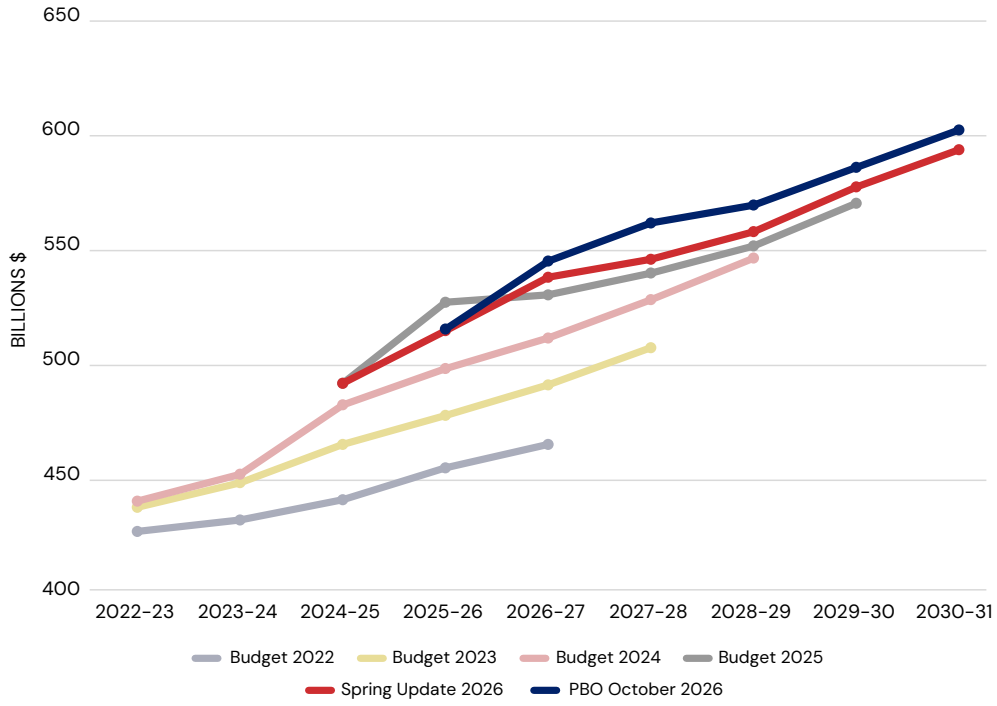
[6] Rebekah Young, "Stay the Course (& Spend the Savings): Canada Tables Its Spring Economic Update," Scotiabank Economics, April 28, 2026, https://www.scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.fiscal-policy.fiscal-pulse.federal.federal-budget-analysis-.cdn-federal-budget--april-28--2026-.html.

[7] Prime Minister of Canada, "Prime Minister Carney Announces New Canada–British Columbia Cooperative Prosperity Agreement," July 2, 2026, https://www.pm.gc.ca/en/videos/2026/07/02/prime-minister-carney-announces-new-canada-british-columbia-cooperative; Prime Minister of Canada, "Prime Minister Carney Announces the Largest Clean Energy Investment in North American History," August 17, 2026, https://www.pm.gc.ca/en/news/news-releases/2026/08/17/prime-minister-carney-announces-largest-clean-energy-investment-north.

[8] Prime Minister of Canada, "Prime Minister Carney and Premier Ford Launch New Action Plan to Protect Workers from Tariffs and Strengthen Ontario Industries," October 21, 2026, https://www.pm.gc.ca/en/news/news-releases/2026/10/21/prime-minister-carney-and-premier-ford-launch-new-action-plan-protect.

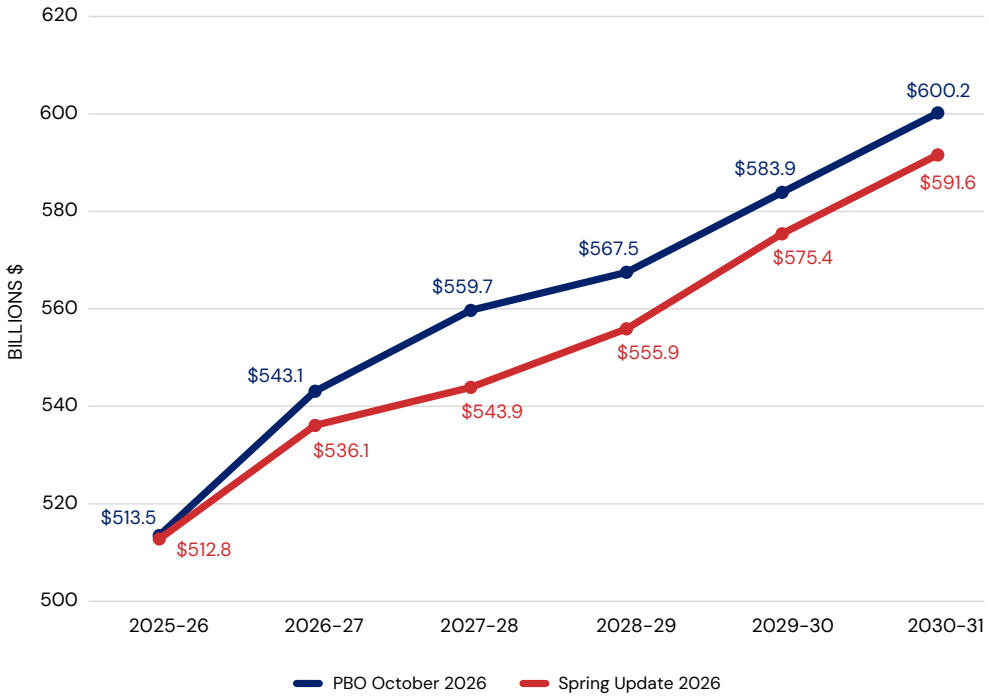
[9] The Canadian Press, "Strong GDP, Oil Prices Boost Federal Fiscal Position," BNN Bloomberg, September 19, 2026, https://www.bnnbloomberg.ca/business/economics/2026/09/19/strong-gdp-oil-prices-boost-federal-fiscal-position/; Spencer Van Dyk, "Economist Raises Concerns about Lack of Government Spending Transparency," CP24, July 29, 2026, https://www.cp24.com/news/canada/2026/07/29/economist-raises-concerns-about-lack-of-government-spending-transparency/.

Figure 1: Federal Program Spending Keeps Rising With Each Budget and the PBO Sees More



Source: Federal fiscal documents; PBO; Charles Lammam

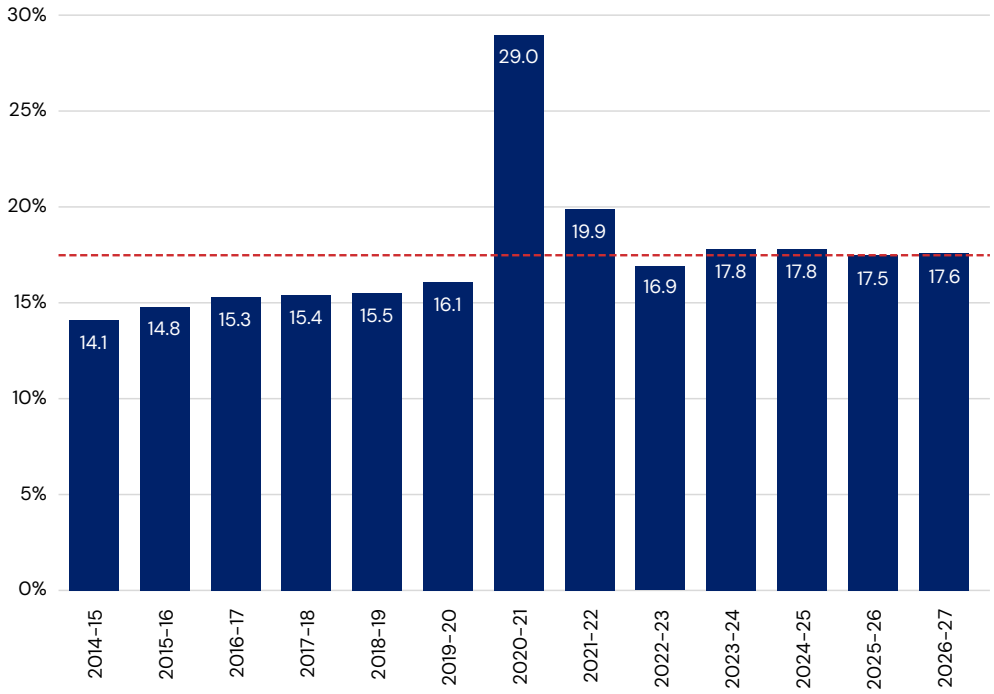
Figure 2: PBO Projects $52.2 Billion More Program Spending Than the Spring Update



Source: PBO, federal spring 2026 update; Charles Lammam

Total federal spending has also risen as a percentage of GDP since 2014/15, the year before the Liberals took office. It's now 3.5 percentage points higher in the current fiscal year. That 3.5-point gap is worth about $120 billion a year in additional federal spending, compared with the 2014/15 share of GDP. While the federal government is bigger today, keep in mind that it's a partial picture, as it excludes spending on the Canada Pension Plan, whose annual outlays would add another two percentage points or so.

Figure 3: Total Federal Spending Is Now 3.5 ppts Higher as Percentage of GDP Than Before the Liberals Came to Office



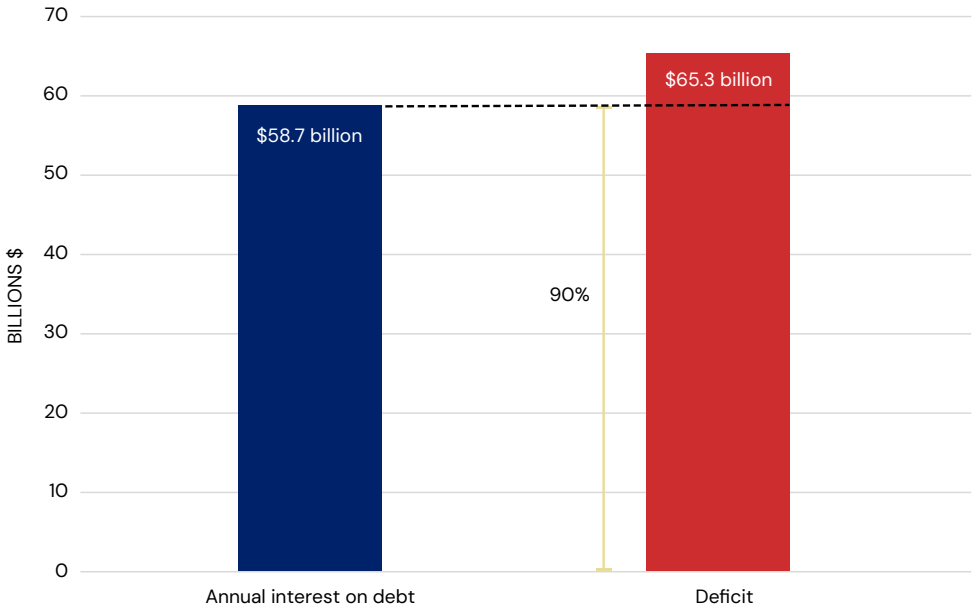
Source: Federal fiscal reference tables; federal spring 2026 update; Charles Lammam

Now look at the deficit. On the spring update's numbers, Ottawa expects a $65.3 billion deficit in 2026/27 and $58.7 billion in interest on its debt.[10] In plain terms, Ottawa will borrow through the deficit just to pay interest on money it already owes. That's nearly 90 cents of every deficit dollar. By 2027/28, debt interest ($65.7 billion) is bigger than the whole deficit ($63.1 billion). Call it a fiscal treadmill: we're borrowing billions simply to keep running in place and the speed keeps increasing.[11]

[10] Department of Finance Canada, "Annex 1: Details of Economic and Fiscal Projections," in *Spring Economic Update 2026* (Ottawa: Department of Finance Canada, 2026), https://budget.canada.ca/update-miseajour/2026/report-rapport/anx1-en.html.

[11] Charles Lammam, "Ottawa Is Borrowing to Pay for the Past—and We're All on the Hook," *The Hub*, January 16, 2026, https://thehub.ca/2026/01/16/ottawa-is-borrowing-to-pay-for-the-past-and-were-all-on-the-hook/.

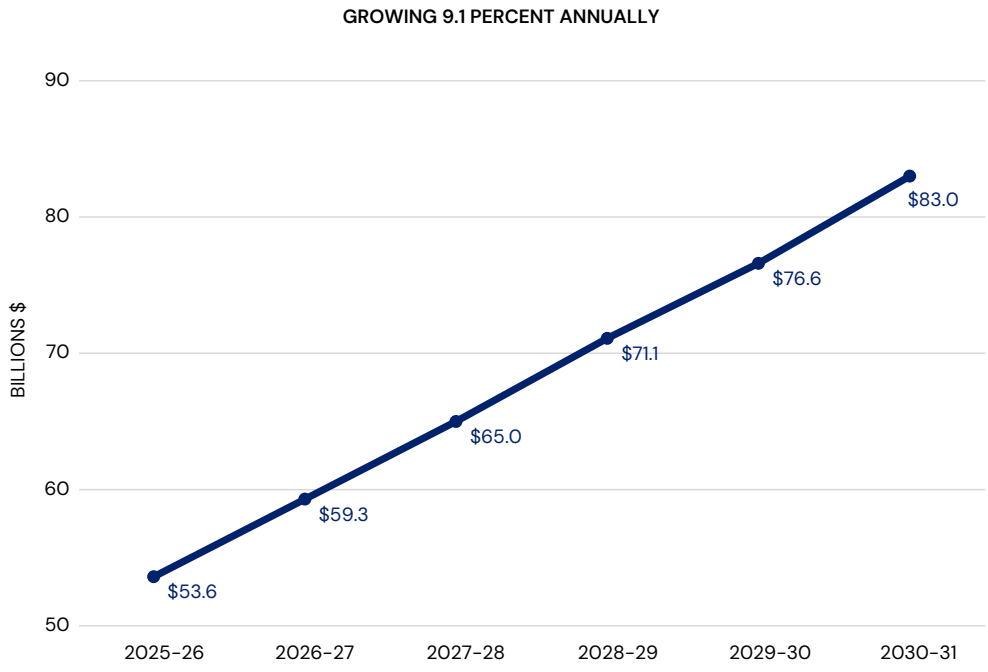
Figure 4: 90% of Ottawa's Deficit in 2026-27 Is Just to Fund Interest on the Federal Debt



Source: Federal spring 2026 update; Charles Lammam

The PBO projects that from 2025/26 to 2030/31, interest charges on past debt will increase 9.1 percent per year, significantly outpacing annual increases of 3.6 percent for program spending.

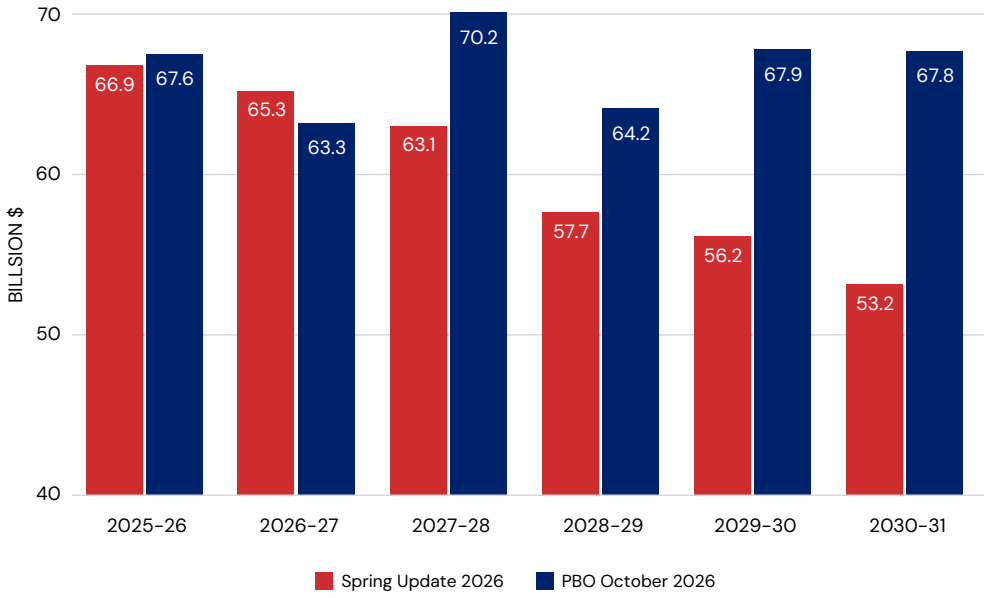
Figure 5: PBO Projects Debt Charges to Hit $83 Billion by 2030-31



Source: PBO; Charles Lammam

On the deficit trajectory, the estimates from the spring update and the PBO are close this fiscal year but part ways after it. The spring update has the deficit shrinking every year, to $53.2 billion in 2030/31. By contrast, the PBO has it stuck between $63 billion and $70 billion and at $67.8 billion in 2030/31.

Figure 6: PBO Projects Bigger, Stickier Deficits Totalling $38.6 Billion More Than the Spring Update



Source: PBO; federal spring 2026 udpate; Charles Lammam

The deficit isn't the whole borrowing story, either. Ottawa borrows to pay for loans, investments, and military equipment, but the deficit counts little of that spending when the money goes out. The PBO projects that over the next five years, deficits will total $333 billion while federal borrowing rises $733 billion. Part of the reason, the Globe & Mail reports, is that Ottawa is routing more of its agenda through Crown corporations such as Build Canada Homes and the Canada Strong Fund.[12] Loans to them are recorded as assets, not expenses. The PBO says this "obscures the realities of cash debt" and raises questions about whether the framework gives a "complete and transparent picture" of Canada's fiscal sustainability.[13]

FACT 2: A made-up "operating budget" whose balance relies on thin margins

With a total deficit above $60 billion in 2027/28, how can Ottawa say its operating budget will balance a year early? The answer rests on a budgeting system Ottawa invented last year. Until Budget 2025, the federal government had one bottom line: revenue minus all spending. That's the deficit, which adds to the debt. The Carney government decided to split spending in two: 1) "operating" spending is the day-to-day cost of government and 2) "capital" spending is investment meant to last. Ottawa promises to balance only the operating side.

[12] Bill Curry, "Ottawa's Accounting Obscures True Scale of Borrowing, PBO Says ahead of 2026 Budget," *The Globe and Mail*, October 20, 2026, https://www.theglobeandmail.com/politics/article-parliamentary-budget-office-federal-debt-annette-ryan/.

[13] *Ibid.*

Recently, the Prime Minister said Ottawa is on track to balance its operating budget in 2027/28, a year early.[14] The Finance Minister's office points to that and to Canada's credit rating, as proof the fiscal plan is sound.

Here's the catch. Ottawa decides what counts as capital, using its own tests, and "capital" covers more than roads and ports. It includes grants and tax breaks meant to get businesses to invest. Of the $66.9 billion deficit in 2025/26, Ottawa labelled $40.5 billion as capital and $26.4 billion as operating.[15] This year, capital grows to $54.9 billion of a $65.3 billion deficit. In 2028/29, the year Ottawa first promised balance, the total deficit is still $57.7 billion.

The PBO has checked the work twice. A year ago, it found that Ottawa's count of capital investment through 2029/30 was about $94 billion higher (30 percent) than a standard international method allows.[16] In September, it found that the definition is broader than the one in the federal Public Accounts or the United Kingdom's, and that outsiders can't replicate the sorting or predict how future spending will be labelled.[17] For perspective, film tax credits count as capital.

The PBO's latest projections show how this works. In June, it expected Ottawa to miss its operating target by a year.[18] In October, it expects the target to be met in 2028/29. In between, revenues came in stronger, and $43.8 billion of the $52.6 billion in new measures was labelled capital, which keeps it outside the target. On the Prime Minister's 2027/28 date, the PBO projects a small operating deficit of $0.3 billion, and that relies on $5.3 billion of counter-tariff revenue. Without it, the deficit would be $5.6 billion. The PBO's own verdict is that this and the other fiscal anchor (a declining deficit-to-GDP ratio) have imposed "limited fiscal discipline."[19]

A balance that depends on how Ottawa labels its spending is simply a made-up number. The government can move a program from one column to the other and the deficit shrinks on paper. But the overall borrowing doesn't. The PM's slogan was "spend less to invest more." Whatever the label, the debt continues to grow. Ottawa's own tables have federal debt rising from $1.33 trillion in 2025/26 to $1.63 trillion in 2030/31, and the PBO's latest projection is higher still.[20]

The PBO says a falling debt-to-GDP anchor would work better, while IMF staff have urged Ottawa to "elevate the debt ratio from an indicator to a formal anchor."[21] After all, Mr. Carney did run in 2025 on a platform that promised "debt-to-GDP declines over the budget horizon." Yet the PBO projects federal debt rising from 40.8 percent of GDP in 2026/27 to 42.6 percent in 2030/31.

[14] Stephanie Ha, "Finance Minister Announces Date for New Federal Budget to Be Tabled," BNN Bloomberg, October 20, 2026, https://www.bnnbloomberg.ca/business/politics/2026/10/20/finance-minister-announces-date-for-new-federal-budget-to-be-tabled/.

[15] Department of Finance Canada, *Spring Economic Update 2026* (Ottawa: Department of Finance Canada, 2026), https://budget.canada.ca/update-miseajour/2026/report-rapport/pdf/update-miseajour2026-eng.pdf.

[16] Office of the Parliamentary Budget Officer, *Budget 2025: Issues for Parliamentarians* (Ottawa: Office of the Parliamentary Budget Officer, 2025), https://www.pbo-dpb.ca/en/publications/RP-2526-017-S--budget-2025-issues-parliamentarians--budget-2025-enjeux-parlementaires.

[17] Office of the Parliamentary Budget Officer, *The Government's Operating Budget Fiscal Anchor* (Ottawa: Office of the Parliamentary Budget Officer, 2026), https://www.pbo-dpb.ca/en/publications/RP-2627-010-S--government-operating-budget-fiscal-anchor--cible-budget-fonctionnement-gouvernement.

[18] *Ibid.*

[19] Curry, "Ottawa's Accounting Obscures True Scale of Borrowing, PBO Says ahead of 2026 Budget."

[20] *Ibid.;* International Monetary Fund, "Canada: Staff Concluding Statement of the 2025 Article IV Mission," December 5, 2025, https://www.imf.org/en/news/articles/2025/12/05/cs-canada-staff-concluding-statement-of-the-2025-article-iv-mission.

[21] *Ibid.*

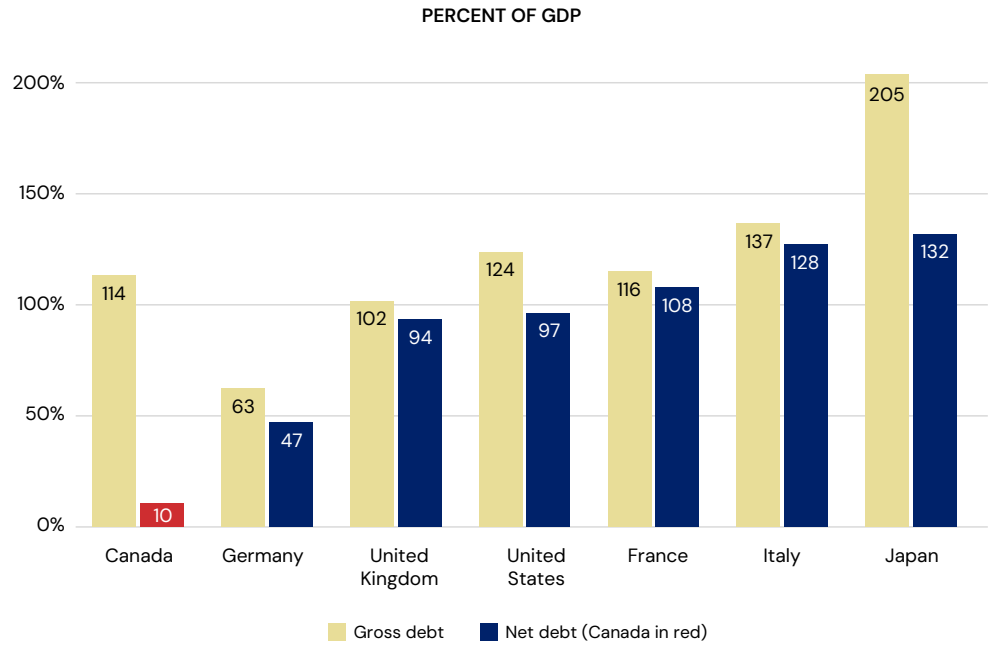
FACT 3: Low debt, but only measured the misleading way

The third story says none of this is cause for worry. On budget day and after, expect to hear that Canada's fiscal position is better than other advanced countries. Citing the International Monetary Fund, the government will say Canada's net debt (what governments owe minus their financial assets) is about 10 percent of GDP, the lowest in the G7.[22] Ottawa has leaned on this line for years; the spring update used it yet again.[23] The figure covers all levels of government: federal, provincial, and local.

The catch is how the IMF gets there. It subtracts the assets of the Canada Pension Plan and the Quebec Pension Plan from the debt.[24] Those assets topped $944 billion at the end of 2025. But the money is there to pay retirees—a finance minister can't spend it on a whim. The funds exist to cover future pensions. And oddly, the pension promises they back are not counted in government debt. Take away the money, ignore the bill, and the ratio looks great. It's like a homeowner who shrinks her mortgage on paper by counting a locked-in retirement fund she can't touch.

Gross debt tells a very different story. It counts what governments owe without subtracting any assets. IMF figures put Canada's total government debt at 113.6 percent of GDP in 2025, fifth highest in the G7. Since 2014, Canada's all government gross debt has climbed 27.8 percentage points, the biggest jump in the G7. Over the same years, Canada's net debt fell from 22 percent of GDP to 10 percent.

Figure 7: Total Government Debt in the G7, 2025



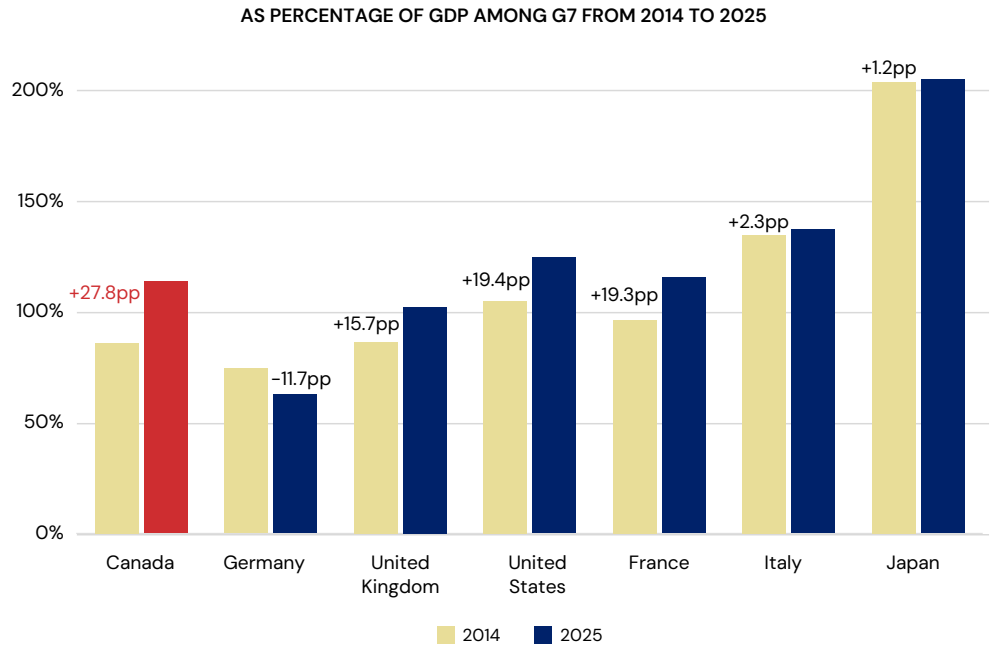
Source: IMF; Charles Lammam

[22] International Monetary Fund, "Fiscal Monitor Datasets," IMF DataMapper, accessed October 30, 2026, https://www.imf.org/external/datamapper/datasets/FM.

[23] Department of Finance Canada, *Spring Economic Update 2026* (Ottawa: Department of Finance Canada, 2026), https://budget.canada.ca/update-miseajour/2026/report-rapport/pdf/update-miseajour2026-eng.pdf.

[24] CPP Investments, "CPP Investments Net Assets Total $780.7 Billion at Third Quarter Fiscal 2026," February 2026, https://www.cppinvestments.com/newsroom/cpp-investments-net-assets-total-780-7-billion-at-third-quarter-fiscal-2026/; CDPQ, "Our Depositors," accessed October 30, 2026, https://www.lacaisse.com/en/about-us/depositors.

Figure 8: Canada Had the Largest ppt Change in Total Government Gross Debt



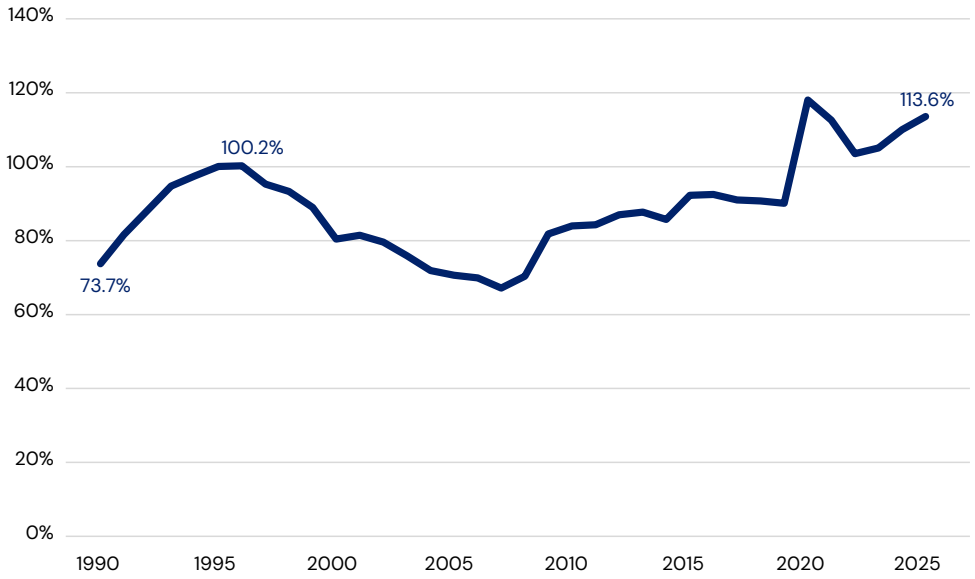
Source: IMF; Charles Lammam:

The historical perspective is also sobering. Canada's all-government gross debt is higher now than it was during the debt crisis in the 1990s.[25] Outside of the 2020 pandemic peak, it's higher than any other level recorded over the past 75 years.[26]

[25] Gordon Thiessen, "Canada's Economic Future: What Have We Learned from the 1990s?" (speech, Bank of Canada, January 22, 2001), https://www.bankofcanada.ca/2001/01/canada-economic-future-what-have-we-learned/.

[26] Charles Lammam, "Ottawa Is Borrowing to Pay for the Past—and We're All on the Hook," *The Hub*, January 16, 2026, https://thehub.ca/2026/01/16/ottawa-is-borrowing-to-pay-for-the-past-and-were-all-on-the-hook/.

Figure 9: Canada's All Government Gross Debt is Higher Today as a Percentage of GDP Than During the 1990s Fiscal Crisis



Source: IMF; Charles Lammam

On their own books, and using conventional public sector accounting, Ottawa and the provinces don't subtract the pension funds. Federal and provincial net debt together comes to almost 74 percent of GDP, up from 65 percent before COVID, as noted by Chris Ragan in a recent C.D.[27] Howe Institute paper. Canada is a federation and provincial net debt alone is just under 30 percent of GDP.

Ragan calls the range between roughly 67 and 95 percent a zone of "fiscal complacency." Borrowing is still easy, so governments feel little pressure to act. Canada sits in that zone now, but the ratio keeps rising. Above roughly 95 percent, bond investors charge more and governments may be forced to raise taxes or cut spending. And the next shock starts from a higher base.

[27] Christopher Ragan, "Keeping Our Fiscal Powder Dry: Why Rising Public Debt Leaves Canada Less Prepared for the Next Crisis," C.D. Howe Institute, October 8, 2026, https://cdhowe.org/publication/keeping-our-fiscal-powder-dry-why-rising-public-debt-leaves-canada-less-prepared-for-the-next-crisis/.

The Real Story: Rising Debt Matters and Bond Markets Are the Ultimate Arbiter

Canada borrows cheaply today relative to other countries—an advantage that we earned. In 1995, with combined federal and provincial debt near 99 percent of GDP, bond investors balked, yields jumped by more than a percentage point, and Ottawa cut spending hard.[28] The fiscal adjustments that kicked off in 1995 paid off with decades of lower taxes.[29] Canada's top credit grades, AAA at the other major agencies and AA+ at Fitch, reflect that record. Responding to the PBO's latest assessment, Finance Minister François-Philippe Champagne pointed to Ottawa's triple-A credit rating.[30] That leaves out Fitch, which rates Canada a notch lower.

But the agencies are watching. In July, Fitch affirmed Canada at AA+ with a stable outlook but said it doesn't expect real fiscal consolidation over the next two years and that a material rise in debt-to-GDP could start a downgrade discussion.[31]

Meanwhile, bond yields are climbing around the world. Canada's 10-year yield closed at 3.99 percent on September 29, its highest since 2023, and stood at 3.93 percent on October 19, about 0.9 points above a year earlier.[32] Compared to 10 years prior, Canada's rate has risen 2.7 percentage points. Higher rates can hit governments fast. Ottawa plans to borrow $566 billion in 2026/27, and $433 billion of that, or 77 percent, just replaces debt that comes due.[33] Treasury bills, which mature within a year, make up 47 percent of planned issuance, so Ottawa pays whatever the market charges that day.[34]

[28] Christopher Ragan, "Keeping Our Fiscal Powder Dry: Why Rising Public Debt Leaves Canada Less Prepared for the Next Crisis," C.D. Howe Institute, October 8, 2026, https://cdhowe.org/publication/keeping-our-fiscal-powder-dry-why-rising-public-debt-leaves-canada-less-prepared-for-the-next-crisis/.

[29] Don Drummond, William B. P. Robson, and Alexandre Laurin, "The Growth Imperative: The C.D. Howe Institute's 2026 Shadow Budget," C.D. Howe Institute, October 22, 2026, https://cdhowe.org/publication/the-growth-imperative-the-c-d-howe-institutes-2026-shadow-budget/.

[30] Curry, "Ottawa's Accounting Obscures True Scale of Borrowing, PBO Says ahead of 2026 Budget,"

[31] "Fitch Affirms Canada at 'AA+'; Outlook Stable," Fitch Ratings, July 14, 2026, https://www.fitchratings.com/research/sovereigns/fitch-affirms-canada-at-aa-outlook-stable-14-07-2026.

[32] Bank of Canada, "Selected Bond Yields," accessed October 30, 2026, https://www.bankofcanada.ca/rates/interest-rates/canadian-bonds/.

[33] Department of Finance Canada, "Annex 3: Debt Management Strategy," in *Spring Economic Update 2026* (Ottawa: Department of Finance Canada, 2026), https://budget.canada.ca/update-miseajour/2026/report-rapport/anx3-en.html.

[34] *Ibid.*

Figure 10: Government of Canada 10-Year Benchmark Bond Yield is 2.7 ppts Higher Than 10 Years Ago



Source: Bank of Canada; Charles Lammam

Higher borrowing costs for government reach households, too. Lenders price fixed-rate mortgages off government bond yields, so when Ottawa pays more to borrow, Canadians pay more to renew a mortgage or finance a business.[35] And every dollar that goes to interest is a dollar not spent on services or returned in lower taxes.

Foreign investors have been busy buyers of our bonds. Since the start of 2025, they have net bought C$357 billion of Canadian bonds, according to National Bank, with U.S.[36]-based buyers accounting for more than two-thirds of that. It's likely a vote of confidence earned from previous fiscal adjustments—especially as the fiscal pictures in the United States and other advanced economies deteriorates.

If we want to protect that position, Ragan argues that prudence means keeping our fiscal powder dry: bring debt down in good times so there's room to borrow in bad ones. A year of high oil prices and rising tax revenue is that kind of good time. So far, Ottawa seems to be spending it.

When the budget lands on November 5, watch for three things. Does the budget clearly communicate how it spent the revenue windfall, showing all the new spending announced since the spring economic update? Does it display the operating balance under standard accounting rules next to the government's own version? Does it present Canada's debt both ways, with and without the pension funds netted out?

Governments get to set the narrative. The bond market decides whether it holds up.

[35] Matthew Dahlman, "How Fixed Rates and Variable Rates Are Determined," Best Version Media, January 2026, https://www.bestversionmedia.com/article/2026-01-how-fixed-rates-and-variable-rates-are-determined/.

[36] National Bank Financial, Economics and Strategy report, accessed October 30, 2026, https://nbf.bluematrix.com/links2/pdf/7f1e7041-a70b-471d-b413-2b5e83474d1d.

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