

2026 Provincial Budget Season

Key Takeaways



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Key Takeaways from the 2026 Provincial Budget Season

FY 2025-26 Recap: Fiscal Resilience despite the U.S. Trade Conflict

Considering the [elevated level of trade restrictiveness](#) coming from the U.S. administration, the Canadian domestic economic resilience supported by ample fiscal support measures and lower short-term interest rates more than offset the 2% contraction of export volumes registered during 2025.

Economic resilience enables fiscal resilience. Quebec, Ontario, Alberta, and Saskatchewan registered deficits during FY 2025-26 close to 1% of NGDP, a very manageable situation. Nova Scotia (NS) and Manitoba recorded deficits-to-NGDP ratios of 1.8% and 1.7%, respectively. British Columbia (BC) and New Brunswick (NB) stood out with larger shortfalls, north of 2% relative to NGDP.

Quebec and Ontario particularly stood out by registering better fiscal performances during FY 2025-26 than initially projected in their 2025 budgets despite targeted U.S. tariffs on steel, aluminum and lumber. Also, a generalized upside surprise for all provinces was the large income tax intake coming from the extremely solid equity market gains of 2025.

On the spending side, only BC and Alberta did not overrun expenses in FY 2025-26 relative to initial Budget 2025 projections. Total expenses in Quebec, Ontario, Manitoba, and NB were modestly above targets. Overrun costs were material in NS due to additional funding for health care and long-term home care. Expenses also surpassed Budget 2025 projections in Saskatchewan, broad-based across several ministries.

FY 2026-27 Outlook: Constructive Baseline Scenarios Challenged by Global Upheaval

As of writing, all 10 provinces except Newfoundland and Labrador (N&L) have published their 2026 budgets. Aside from NB and BC, proposed baseline scenarios point to a narrowing of annual shortfalls during FY 2026-27 relative to the prior year. Manitoba stands out with the most ambitious target: shrinking the deficit by two-thirds this year and balancing the books in FY 2027-28, before other non-oil producing provinces. Quebec and Ontario target balanced budgets in FY 2029-30 and FY 2028-29, respectively.

Most provincial governments have geared up buffers a year ago in reaction to the unpredictable U.S. tariff regime. They maintain these buffers totaling ~\$13B in their 2026 budget editions as the Middle East war comes on top of crucial CUSMA negotiations. The BC government incorporates an eye-popping FY 2026-27 annual allowance of \$4B representing a large 5% of total annual revenues. Manitoba's buffer representing 2.2% of total revenues is also higher than most peers. Quebec and NS propose annual cushions representing 1.2% of total revenues in FY 2026-27. Ontario's buffer, including the \$2B reserve and \$100M balance in the Contingency Fund, equals less than 1% of revenues. Alberta's \$2B annual contingency equivalent of 2.5% of revenues, will

likely remain unused given the sudden surge in energy prices. Saskatchewan does not incorporate a buffer, although this does not represent an issue, as discussed in the next section.

Excluding N&L and PEI, baseline scenarios point to total provincial bond issuance of \$148.6B during FY 2026-27 and without pre-financing activity, not far off to the completed FY 2025-26 bond program of \$156B. The latter figure was skewed upward by higher-than-usual pre-financing activity of \$17B. We estimate the \$148.6B FY 2026-27 bond issuance figure could vary by about +/- \$10B depending on developments relative to the unstable macroeconomic and geopolitical environment. Transparent alternative downside scenarios exposed in Quebec and Ontario budgets propose real GDP paths cut down by slightly more than 1% over time relative to the baseline scenario. Over the medium term, the annual deficit would turn out to be ~\$2.5B larger in Quebec and ~\$7B worse in Ontario. Other provinces do not offer such detailed fiscal paths under alternative scenarios.

By comparison, the largest provincial bond issuance activity occurred during the pandemic FY 2020-21 (\$162.8B). One positive major difference today, however, relates to the growing number of successfully issued bonds outside of Canada. Statistics Canada's monthly data shows a [substantial acquisition of provincial bonds investment by foreigners](#) during 2025. The Ontario government provided guidance in its 2026 budget to potentially increase a notch further bond issuance activity abroad: the target rate stands at 60%-to-80% in FY 2026-27, instead of 65%-to-80% the year prior.

Middle East Oil Shock Implications for Alberta, N&L and Saskatchewan

Alberta was one of the few provinces initially reporting a FY 2026-27 deficit-to-NGDP projected figure north of 2%. More precisely, Alberta projected a \$9.6B deficit in its budget released only two days before U.S.-Israel air strikes began. The 2026 budget assumes WTI prices averaging US\$60.50 per barrel during FY 2026-27. If WTI prices remain around ~US\$90 per barrel for four quarters under a slow recovery of oil traffic flow through the Strait of Hormuz and insufficient supply alternatives, we estimate that a balanced budget could be within reach.

Like Alberta, N&L also reported worse-than-expected FY 2025-26 fiscal results on the supply-demand easing of global oil conditions that took place in 2025, prior to the Middle East oil shock. The \$948M deficit reported in the mid-year update last December will shrink down modestly because of the March sudden surge in Brent oil prices, tied to the fallout of global oil inventories. Persistently elevated Brent oil prices could lead to a balanced budget during FY 2026-27. The N&L budget will be released on April 29.

Benefiting from a greater mix of natural resources, Saskatchewan's fiscal picture differs from the two other oil-producing provinces. To begin with, the province registered a smaller deficit-to-GDP ratio during FY 2025-26 (1.2%). It also had planned a smaller one in FY 2026-27 (0.9%) assuming WTI prices at US\$59.50 per barrel and a modest 3.5% increase in potash prices. Given the crude oil prices spike and potash prices surge to a 2-year high, Saskatchewan appears closer to a balanced budget position relative to N&L and Alberta. Royalties related to potash could decisively surpass oil revenues during FY 2026-27, even before the large [Jansen mine](#) opening in 2027.

Operational Spending Outlook

Beside geoeconomic developments, the materialization of FY 2026-27 budgetary balance projections will also depend on the ability of provinces to keep spending growth on track with the intended plans. The 2026 budget season exposed a wide range of paths for total expenses reflecting various realities in respect to demographic pressures and priorities.

The 3.8% average annual growth in total expenses proposed in Alberta's three-year outlook is tied to a faster pace of population growth relative to other provinces (+3.7%, cumulatively, over three years). Expenses in BC

are projected to expand at a 3.2% annual clip on average, above the expected modest population increase (+0.6%, cumulatively, over three years). In other words, expenses on a per capita basis are poised to advance faster in BC than in Alberta. Deficits reduction plans incorporate a slower average annual pace of spending growth of 1.8% in Ontario and 2.0% in Quebec. Such targeted figures are ambitious although the quasi-stagnation of population projected over the medium term will help alleviate cost pressures. NB, NS and Manitoba propose a higher pace of spending during FY 2026-27, in the range of 4%-5.7%. In the case of NS and Manitoba, additional health care funding is a recurrent dominant theme. Saskatchewan stands out by planning a modest 0.9% increase in expenses after the robust 4.5% spending increase of FY 2025-26.

The Pros and Cons of Capital Spending Programs

Large capital spending plans are one factor preventing an outright decline in borrowing requirements during FY 2026-27, offsetting the projection of slightly lower operational deficits. A widely used term by governments during the 2026 budget season was “protection”, referring to protecting economic activity and jobs from U.S. trade protectionism and uncertainty. Such protection requires dedicated funding for public infrastructure.

But a more apparent trade-off in capital spending is emerging. Governments have good intentions to improve the offering of public assets to deliver services and unlock future prosperity, notably tied to the launch of major projects. At the same time, governments must not lose sight of long-term financial sustainability, particularly since the S&P credit agency uses after-capital deficits relative to revenues in its credit assessments.

NS’ one-year capital plan and Saskatchewan’s four-year capital plan stand out on the upside. Both could reach nearly 5% of NGDP, adjusted on an annual basis. Rising capital spending for energy production and transmission infrastructure at SaskPower is the dominant driver in Saskatchewan. Driven in part by the addition of SkyTrain kilometers, BC’s three-year total capital spending plan expressed as a % of NGDP appears large at 3.8%. But if we take into consideration only taxpayer-supported capital – excluding BC Hydro’s annual capital spending of ~\$4.8B –, BC’s capital spending plan (2.7% of NGDP) is in line with Alberta (2.7% of NGDP) and Quebec (2.6% of NGDP). To foster financial sustainability, the Quebec government indicates a tapering of its [Quebec Infrastructure Plan](#) (QIP) over time. More precisely, the QIP annual funding of \$15.4B in FY 2028-29 is materially lower than the \$19.4B figure of FY 2026-27. Ontario’s 10-year capital plan of \$210B looks big in dollar terms but stands at the low end when compared to its economic size (1.8% of NGDP). More than three-quarters of funding will be dedicated to hospitals, schools, and public transit assets.

The capital spending story does not end here. Another delicate trade-off, or subtlety, for governments to consider relates to prioritizing the building of new assets versus prioritizing repairs on existing assets to taper off growing maintenance deficits. (Over)building new assets will require repairs later and could lead to an unsustainable fiscal position. For example, the Quebec government sends the right signal in its budget: 71% of the 10-year QIP will be used for infrastructure maintenance, up from a year ago (65%). Details of the Manitoba capital plan point to a reasonably elevated percentage share dedicated to repairs, close to 60%. Such orientation is driven by necessary upgrade of infrastructure at Manitoba Hydro. Finally, a 2025 report from the [Financial Accountability Office of Ontario](#) points to almost a 50-50 split for the previous 2025 Ontario 10-year capital spending plan. As of writing, this breakdown does not seem available for all provinces.

Climate Shocks Testing Fiscal Resilience: Possible Return of El Niño during FY 2026-27

Alberta, BC, Saskatchewan, and Manitoba cited adverse weather-related events in their 2026 budget as a factor contributing to negative fiscal surprises during FY 2025-26. 2025 has been [the second worst wildfire season in Canadian history](#) with more than 6K wildfires. Alberta provided \$1.5B in disaster and emergency assistance and agriculture indemnity payments because of wildfires and dry conditions. BC’s wildfire costs of \$0.7B in FY 2025-

26 constitute a large amount even though [forest square footage burned](#) was significantly lower than in 2023. In Saskatchewan, funding for the protection of persons and property was up moderately relative to the 2025 budget while AgriStability benefits paid were slightly higher. The Saskatchewan government will also provide more than \$2M in new funding to replace infrastructure lost in provincial parks because of wildfires. In Manitoba, emergency expenditures during FY 2025-26 were revised up by \$333M over the 2025 budget, as the province was hit by the worst wildfire season in three decades.

Furthermore, the Manitoba government revised down Manitoba Hydro's net financial balance by \$722M due to extremely [low water levels](#), to a net loss of \$502M. The crown corporation is on track to record a third consecutive annual net loss. Hydro-Québec has been able to generate a growing net income in the context of low runoff levels. The latest 2025Q3 [quarterly bulletin](#) nonetheless mentioned reduced export volume and large reservoirs management. Live water flows and levels can be monitored [here](#). Quebec and Manitoba 2026 budgets incorporate a robust revenue recovery coming from their respective hydro crown corporations. The Quebec government projects a \$1B, or 50% increase in revenue coming from HQ over two years. Meanwhile, the Manitoba government assumes a swift swing from a \$502M net loss in FY 2025-26 to a \$140M net income position this year.

In other words, baseline scenario planning seems to incorporate hope for Mother Nature to cooperate in 2026. But experts at the National Oceanic and Atmospheric Administration recently predicted a [very strong El Niño in 2026 and 2027](#). Some warn of the strongest El Niño ever. Experts peg El Niño's chance of occurring slightly above 60%. Such event could translate into a warmer Canadian 2026-27 winter mostly. It could also increase the odds of dry conditions and wildfires for the upcoming 2026 and 2027 summer seasons. Altogether, provinces may have to use fiscal buffers to alleviate financial pressures tied to climate shocks, not only from geoeconomic shocks.

A Growing Focus on Geostrategic Projects

Critical geostrategic projects under development and promising ones feature more often in 2026 budget documents relative to prior years. Unlocking potential appears imperative to foster future economic growth and stability, on top of possibly translating into upside fiscal surprises along the way.

One nice surprise of the 2026 Budget season relates to the launch of the new Protect Ontario Account Investment Fund (POAIF) by the Ontario government. The next step is to find a private-sector external manager to run the POAIF. Under the POAIF, \$4B will be available for institutional investors looking to deploy capital in the economy of the future including notably AI, critical minerals, and defence sectors.

Speaking of defence, it will be imperative for market participants to monitor how the increasing funding from the federal government to strategic defence trickles down at the provincial level. Canada spent \$60B on defence spending in 2025 [to achieve the 2% NATO target](#) and is poised to allocate closer to [\\$150B annually by 2035](#) according to the C.D. Howe think-tank. Last month for example, the federal [Defence Investment Agency](#) has awarded a contract to a company in Ontario to acquire new assault rifles. Furthermore, the federal government recently selected Nova Scotia to install a [space launch facility](#). [A 2024 report from the federal government](#) provides a valuable provincial breakdown: the lion's share of military vehicle manufacturing jobs is in Ontario, while Quebec benefits from its expertise in manufacturing, maintenance, repair, and overhaul of aircrafts. Meanwhile, the NS government states the province is [home of six of Canada's top 10 defence companies](#).

Beside defence, geopolitics and energy have also become increasingly intertwined. The Alberta government plans to submit a formal [pipeline proposal](#) to the federal government by June. The [Trans Mountain](#) pipeline will soon run at full capacity, about one year earlier than previously estimated. Although the year still has a long way to go, [year-to-date oil production](#) growth of 1.8% for the first two months of 2026 is above the budget assumption of 0.9%.

A major positive milestone in the Canadian oil sector was announced in early March in N&L: the N&L government [reached agreements](#) on benefits, royalties and equity options relative to the promising [Bay du Nord offshore oil project](#). The project is moving closer to a formal authorization and final investment decision. If the project moves ahead, Bay du Nord could add ~160K bbl per day starting in 2031, a material increase in comparison to today's N&L average daily production volume of ~260K bbl, and a game changer for N&L long term fiscal path.

Global LNG supply was supposed to experience an unprecedented surge between now and 2030 according to the International Energy Agency 2025 outlook. Unfortunately, extensive damage to Qatar's LNG facilities may alter, on the downside, the global supply trajectory over a long period. In parallel, the BC budget 2026 highlights the potential of [the LNG Canada second phase](#) – to double existing capacity – and the proposed [KSI Lisims LNG](#) project.

Beyond oil & gas, there are multiple constructive developments catching our attention with respect to energy development. In its 2026 budget, the NS government offers funding for the gradual implementation of the Green Hydrogen Action Plan. The first phase of the multi-decade offshore wind file called "[Wind West](#)" has the potential to power a quarter of the country's electricity needs.

Also, by the end of April, an [independent panel](#) is expected to give recommendations to the new N&L PC government regarding the [MOU](#) reached between Hydro-Québec and Newfoundland and Labrador Hydro in December 2024.

In Ontario, Ontario Power Generation (OPG) reached an agreement with the New York Power Authority, establishing a framework for collaboration on the development of advanced nuclear energy technologies. OPG also signed a [partnership agreement](#) with the Municipality of Port Hope for new nuclear generation last February to add 10KMW of capacity.

In BC, a large [off-grid solar project located in Anahim Lake](#) is moving closer to completion, poised to reduce diesel consumption. Also, [construction of a new generating unit](#) at the Revelstoke station is about to begin.

Finally, in Quebec, HQ launched in April a new wind power call targeting between 1.5K and 3K MW of installed capacity. Also, HQ's first solar farm tender call has ended and was successful with 60 projects received for a combined capacity near 500 MW.