

ECONOMIC VIEWPOINT

Canadian Provincial Budget 2026 Roundup

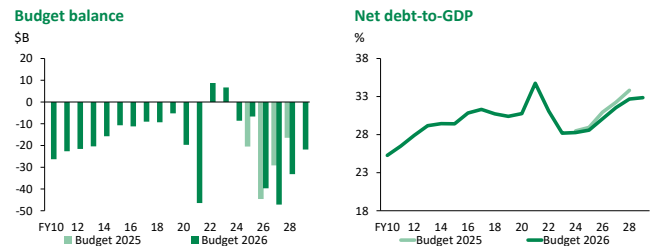
The Easy Gains Are Over

By Laura Gu, Senior Economist

HIGHLIGHTS

- ▶ Despite a better-than-anticipated macro backdrop as compared to a year ago, Canadian provinces experienced varying degrees of deterioration in their bottom lines. Collectively, the nine provinces that have released budgets are projecting a larger combined deficit of \$47B in FY2026–2027 (FY2027), following a slightly smaller \$40B shortfall in FY2026 (graph 1).
- ▶ Upward historical revisions and growth outperformance prompted higher nominal GDP estimates for 2025, boosting provinces' fiscal starting positions and improving overall debt metrics despite larger deficits and higher debt levels.
- ▶ Forecasts continue to point to an economic slowdown in 2026 amid persistent trade risks, with limited revenue upside and material downside risks if the Canada-United States-Mexico Agreement (CUSMA) review sours.
- ▶ Fiscal positions of energy-producing provinces are likely stronger than current projections given the geopolitical-driven oil price surge.
- ▶ Higher planned spending accounts for the bulk of the fiscal strain, with spending pressure expected to persist. Provinces collectively added \$20B planned spending in FY2027, concentrated in healthcare.
- ▶ Past gains in economic momentum provide some near-term support, and the fiscal picture should prove less bleak as the year progresses, supported by surging oil prices. Beyond that, provinces face more challenging conditions, with weak productivity growth compounded by constrained investment under trade uncertainty, leaving provinces with limited fiscal room at a time when spending pressures remain elevated.

Graph 1
2026 Budgets Reveal Bottom-Line Deteriorations



Note: Excludes NL; budgets not yet released.
Provincial budget documents and Desjardins Economic Studies

While Canada's provinces entered the 2026 budget cycle on firmer footing than anticipated a year ago, the outlook is nonetheless deteriorating. Stronger-than-expected economic momentum improved the near-term fiscal picture, but that support is likely to fade in the medium term as spending pressures mount. As a result, combined provincial deficits are projected to climb back toward pandemic-era highs this year, easing only modestly over the subsequent two years.

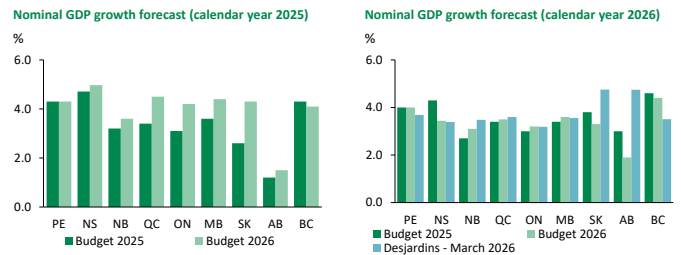
Despite deeper deficit projections, the combined provincial debt outlook is largely unchanged. A better-than-expected starting point and higher nominal GDP have helped nudge the net debt-to-GDP trajectory slightly lower. Nonetheless, debt ratios are set to rise, with net debt-to-GDP projected to increase from just over 30% in FY2026 to nearly 33% by FY2028, approaching the 34.8% peak reached during the pandemic.

An important caveat is that over \$12B of the projected \$47B aggregate deficit consists of contingency reserves. If these buffers are not fully drawn down, deficits could come in closer to last year’s outcomes, though still substantial by historical standards.

Revenue Runs Dry, Spending Rolls On

The deterioration in deficit projections is broad-based and reflects higher spending pressures. All provinces have revised their fiscal paths downward relative to last year’s budget plans with the exception of Quebec, whose projections have improved slightly from an already challenging baseline (graph 2). Energy-producing provinces have seen their revenue outlook materially weakened by softer resource price assumptions, while elsewhere modest revenue upside from stronger-than-expected economic momentum has been entirely offset by lifted spending plans. Since last year’s budgets, provinces have collectively added about \$18B to FY2027 deficit projections, reflecting over \$20B in higher planned spending.

Graph 3 Economic Conditions Have Improved



Provincial budget documents and Desjardins Economic Studies

US trade, including Ontario, Quebec and BC. Provinces generally expect growth to strengthen in the second half of 2026 and into 2027, as the [upcoming CUSMA joint review](#) is assumed to provide greater policy clarity and improve the investment environment. Under current assumptions, however, revenue upside appears limited, while downside risks remain material depending on the outcome of the CUSMA review. Reflecting these risks, both Ontario and Quebec presented alternative scenarios under which the US withdraws from CUSMA, leading economic growth to stall or contract in 2026.

War Risk Widens the Fiscal Range

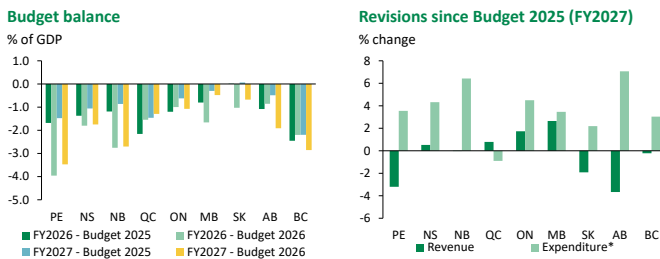
Recent oil price volatility has skewed fiscal risks to the upside for energy-producing provinces. This is particularly true for Alberta, where provincial finances have become increasingly sensitive to oil prices. That’s because a growing share of production has reached payout status and royalties account for an increasing portion of total revenues. Oil-related royalties now exceed 10% of own-source revenues, roughly three times the pre-pandemic share.

At the time of Alberta’s 2026 budget, oil prices were weak and below the province’s prior expectations, contributing to a projected \$9.4B deficit in FY2027. Since then, global oil prices have risen sharply due to geopolitical developments that emerged after the budgets were finalized. Global oil prices remain well above the assumptions embedded in both the Alberta and Saskatchewan budgets (graph 4 on page 3).

Alberta’s fiscal position is therefore likely stronger than suggested in the 2026 budget—a view that has been well received by the investment community. [Our updated oil price projections](#) in April 2026 suggest that Alberta could post a material surplus in FY2027 (graph 5 on page 3). The range of possible fiscal outcomes is wide.

Saskatchewan also stands to benefit from higher oil prices, though to a lesser extent than Alberta. Oil and natural gas revenues account for roughly 4% of provincial revenues, leaving Saskatchewan’s fiscal position far less sensitive to oil price

Graph 2 Broad-based Deterioration Is Driven By Spending



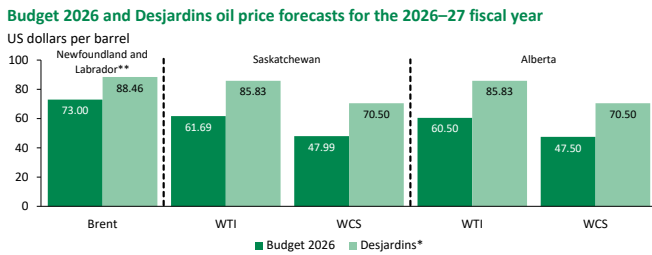
* Total expenditures, excluded contingencies. Provincial budget documents and Desjardins Economic Studies

Macro Tailwinds Fade, Limited Upside Ahead

Economic conditions in 2025 proved challenging, but Canadian provinces ultimately fared better than expected at the last budget. Trade uncertainty persisted but its impact was more muted than feared, while labour markets held up well despite rapidly slowing population growth. All provinces revised up their nominal growth assumptions for 2025, most notably Saskatchewan amid stronger investment activity and a robust labour market (graph 3). While some upward revisions appear somewhat optimistic—particularly in Quebec, given recent data softness—the past year’s economic resilience has nonetheless improved provinces’ fiscal starting points.

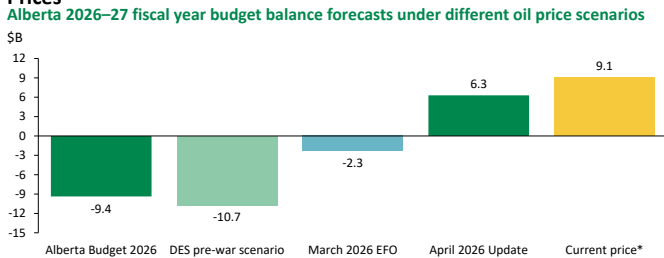
Looking ahead, economic assumptions for 2026 are largely unchanged and continue to reflect a slowdown as key headwinds persist, most notably trade uncertainty. Risks are most pronounced in the provinces with the largest exposure to

Graph 4
Oil Prices Could Come in Above Provincial Government Expectations



WTI: West Texas Intermediate; WCS: Western Canadian Select
* From Desjardins's April 2026 oil price forecast update; ** Latest release before Budget 2026.
Provincial budget documents and Desjardins Economic Studies

Graph 5
The Government of Alberta's Deficit Is Likely to Shrink on Higher Oil Prices



DES: Desjardins Economic Studies; EFO: Economic and Financial Outlook
* As of close of North American markets on April 15, 2026.
Government of Alberta and Desjardins Economic Studies

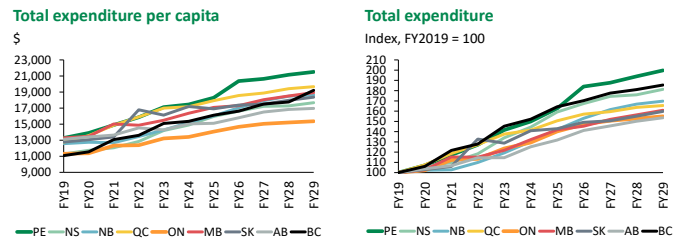
movements. As a rule of thumb, a US\$1 per barrel increase in WTI is estimated to raise oil-related revenues by approximately \$16M in the Land of the Living Skies.

Spending Risks Remain Elevated

Spending growth is expected to ease in FY2027 compared with recent years, but fiscal restraint remains elusive. Alberta and New Brunswick lead this year's spending growth at over 5%, unwinding earlier restraint and closing the gap with peers. British Columbia remains on an expansionary path despite population decline, while Ontario has held per capita spending broadly flat. Quebec stands apart for its planned fiscal restraint, although its per capita spending remains the highest among the provinces amid a stagnating population (graph 6).

Healthcare costs remain the dominant driver of higher spending, accounting for more than half of incremental outlays across provinces. Rising caseloads and persistent backlogs have pushed up costs over those budgeted last year in multiple jurisdictions. Ontario, for instance, revised its healthcare spending projection up by \$5.7B last year and expects an additional \$3.4B increase this year. Similar trends are evident elsewhere, with Alberta, New Brunswick and Nova Scotia projecting double-digit growth in health spending relative to last year's plans. Alberta is responding with system-wide reform, including the creation

Graph 6
Per Capita Spending Continues to Climb Across Provinces

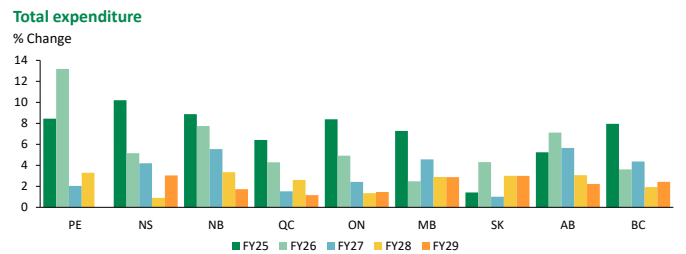


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of Health Shared Services to centralize operations and seek longer-term savings.

As highlighted in our recent research, healthcare-related spending pressures will likely extend into the future. Provinces have anchored their updated fiscal paths on markedly slower growth in outer-year spending, generally assuming increases of less than 3% per year after FY2027 (graph 7). Delivering on these plans will be challenging given persistent cost pressures, particularly in healthcare. Ontario and Alberta are prioritizing healthcare spending, allowing growth in this category to remain elevated while seeking savings elsewhere in their budgets. By contrast, Quebec is planning for more broad-based restraint, targeting spending discipline across all major categories.

Graph 7
Spending Growth Is Set to Wind Down

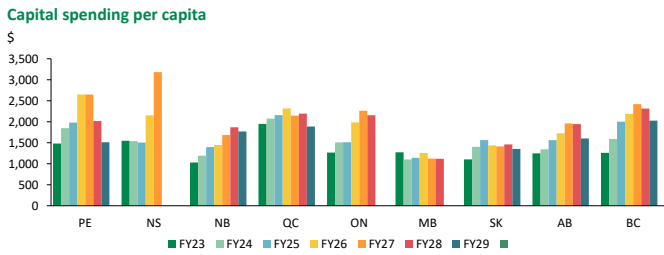


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Market Conditions Remain Favourable

Provinces have once again announced hefty infrastructure spending to address rising demand, collectively lifting planned capital outlays by over 8% in FY2027 on top of already elevated levels in the previous year (graph 8 on page 4). BC and Nova Scotia lead in capital spending on a per capita basis. Ontario plans to raise capital spending per capita by over 14% this year, largely driven by transportation projects, bringing

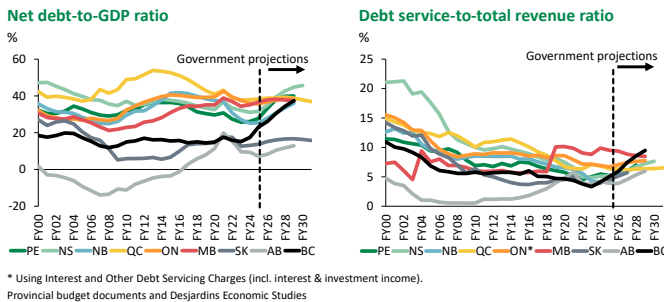
Graph 8
Provinces Are Maintaining High Capital Spending to Support Growth



Ontario closer to peer jurisdictions after a prolonged period of underinvestment relative to other provinces.

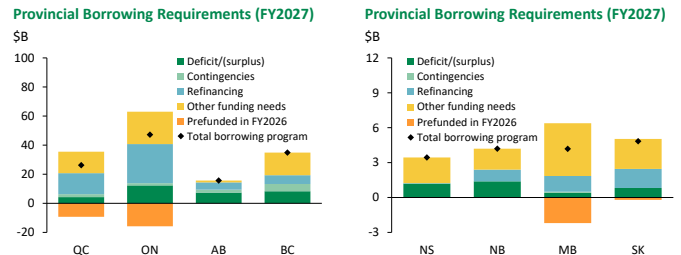
A rising debt burden has emerged as a growing concern for several provinces, particularly BC and Nova Scotia, where larger deficits and elevated capital spending are driving a rapid increase in debt loads (graph 9). As borrowing rises, debt-servicing costs are consuming a growing share of provincial revenue. These pressures have not gone unnoticed by credit markets, with some provinces facing credit rating downgrades in recent weeks, notably Nova Scotia and British Columbia. Despite some moderate improvement in its debt metrics, Quebec's budget still has gaps to fill, and with an election approaching, its fiscal outlook is likely to remain fluid.

Graph 9
The Debt Burden Is Rising



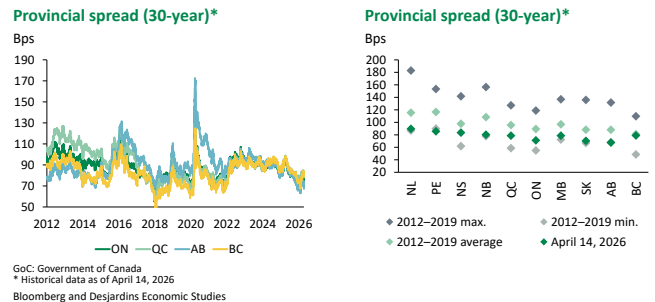
Provinces took advantage of favourable market conditions to pre-finance ahead of rising borrowing needs, helping to keep borrowing programs this year collectively smaller than last year (graph 10). Ontario, Quebec and Manitoba plan smaller borrowing programs this year, while BC, Alberta, Nova Scotia and New Brunswick expect higher issuance. Overall, provinces plan to borrow over \$10B less than last year.

Graph 10
Prefunding in FY2026 Helped Limit FY2027 Borrowing Programs



Spreads on several provincial bonds versus Government of Canada debt reached record lows in early February (graph 11). They have since widened amid heightened global uncertainty, though they remain below pre-pandemic averages for most provinces, with BC an exception. Provinces have also benefited from strong international demand for Canadian sub-sovereign debt, increasing the share of issuance overseas and further helping to contain borrowing costs.

Graph 11
Provincial Bond Spreads Widened Recently but Remain Tight



This budget season sends mixed signals to markets. Provincial finances remain manageable for now, but risks are tilted to the downside amid persistent spending pressures. Slower economic growth or higher borrowing costs could further strain provincial balance sheets. However, with weighted-average debt maturities exceeding 12 years, long-dated debt profiles should help cushion near-term interest rate risks.