

Canada 2025 Budget Analysis

Aditya Arya¹

¹Independent Researcher

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Abstract: This paper assesses Canada's Budget 2025, evaluating its fiscal and sectoral implications using fiscal data and baseline projections; it highlights likely short-and long-term impacts on investment, employment, and government finances under alternative growth scenarios.

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I. INTRODUCTION

The Canada Budget 2025 aims to address economic and social challenges through a large-scale spending plan. The budget outlines priorities across key sectors, with substantial investment in infrastructure, housing, defence and security, and productivity.

However, the scale and structure of these investments raise concerns about their long-term effectiveness and fiscal sustainability. While increased government spending is intended to stimulate growth, it may also create inefficiencies, crowd out private-sector investment, and place pressure on future public finances.

This paper argues that the Canada 2025 budget relies too heavily on deficit spending and government intervention, limiting its ability to generate sustainable, long-term economic growth.

II. OBJECTIVES

➤ *Building Canada's Future Economy*

- Strengthening industries- A new Defence Investment Agency and a "Buy Canadian" policy (steering ~\$70 billion in federal procurement to domestic suppliers) to boost manufacturing (steel, lumber, tech).
- Innovation and clean growth- Expanded tax credits for clean technology and R&D (e.g. SR&ED enhancements and extended clean energy tax incentives) to raise productivity.
- \$51 billion over 10 years in the new Build Communities Strong Fund including C\$6 billion for regionally significant projects (flood protection,
- Innovation and clean growth- Expanded tax credits for clean technology and R&D (e.g. SR&ED enhancements and extended clean energy tax incentives) to raise productivity.

- clean energy, community and sports centres) and C\$27.8 billion for local infrastructure such as roads, bridges, water systems, and community centres.

➤ *Empowering Canadians:*

• *Health and Education Infrastructure:*

Federal funding for community hospitals, emergency rooms and schools via provincial/territorial streams (\$17.2 billion) including a \$5 billion Health Infrastructure Fund

• *Affordable Housing:*

Building more homes and improving affordability (e.g. by eliminating GST/HST on new first-homes up to \$1 million

• *Workforce Supports:*

New supports for workers and families, such as expanded apprenticeship training (UTIP program) and a refundable Personal Support Workers tax credit (5% of earnings, up to \$1,100)

III. FISCAL PLAN HIGHLIGHTS

For FY2025–26, the federal budget forecasts a \$78 billion deficit, split roughly as a \$33 billion operating shortfall and \$45 billion in net capital spending. Deficits are projected to decline over the next few years, by 2028–29 the total deficit is about projected at \$60 billion, and the operating budget (day-to-day spending) is slated to balance by 2028–29 and maintain a declining deficit-to-GDP ratio. In this plan, the deficit/GDP ratio falls from roughly 2.5% in 2025–26 to about 1.5% by 2029–30, and the federal debt-to-GDP ratio is kept flat (around the low 40%). A \$60 billion Expenditure Review was also tabled expected to contain program spending, helping keep the budget on track.

Tax measures in Budget 2025 are targeted rather than broad. Personal and corporate income tax rates remain unchanged, with most revenue raised by spending decisions and tax credits rather than rate changes. The planned middle-

class tax cut (lowering the first tax bracket) continues as scheduled. New household supports include the *first-time homebuyer GST/HST rebate* (eliminating the federal tax on qualifying new homes up to \$1 million) and the temporary Personal Support Worker credit (up to \$1,100 in annual benefit). The budget also codifies recently announced measures – for example, the federal carbon fuel charge was repealed (ending rebates) and seniors/low-income auto-filing provisions continue. Overall, the fiscal plan relies more on targeted credits and spending shifts (e.g. infrastructure investment) than on sweeping tax cuts or new broad-based revenues.

IV. ECONOMIC CONTEXT

Canada’s economy in 2025 is slowing down but remains resilient. Real GDP growth has moderated, falling from roughly 3% in 2024 to a projected 1–1.5% in 2025–26, well below the G7 average and falling behind many peers. Exports and investment are under pressure from global uncertainties, including U.S. tariffs on steel, aluminum, lumber, and autos, which have raised costs and disrupted

trade. Domestically, job creation continues at a softer pace, with unemployment rising from about 6.6% to roughly 7.1% by late 2025. Inflation has eased toward the Bank of Canada’s 2% target (around 2.4% in September 2025), allowing monetary policy to respond, but high household debt remains a concern that could limit resilience.

By international fiscal standards, Canada’s fundamentals remain relatively strong: net federal debt is only ~13% of GDP, the country retains an AAA credit rating, and the banking system is well-capitalized.

Population growth of around 1% annually supports labour supply, and most Canada–U.S. trade remains tariff-free. Nonetheless, ongoing global trade disruptions, structural vulnerabilities in the housing market, elevated household debt, and below-average growth relative to G7 peers present meaningful risks. While most forecasters describe the outlook as subdued but stable, a conservative view cautions that without proper fiscal and monetary management, these headwinds could pressure growth and compromise economic stability over the long term.

Table 1 Budget Allocation by Category

Category	Amount (Billions of \$)	% of Total
Infrastructure	\$115	41.07%
Productivity & Competitiveness	\$110	39.29%
Defense	\$30	10.71%
Housing	\$25	8.93%
Total	\$280	100.0%

V. SECTOR-SPECIFIC COMMITMENTS

The budget introduces specific initiatives for various ministries and sectors:

- Housing (\$25 Billion)
- Defence (\$30 Billion)
- Infrastructure (\$115 Billion)
- Productivity & Competitiveness (\$110 Billion)
- Immigration & Climate Policy
- *Housing*
 - \$13 billion for initial investment in the launch of Build Canada Homes over 5 years starting in 2025-26
 - \$1.5 billion over 5 years to preserve existing affordable rental housing
 - Increase in the annual issuance limit for the Canada Mortgage Bond Program from \$60 billion to \$80 billion, starting in 2026, focused on multi-unit housing.
 - \$2.8 billion for urban, rural, and northern Indigenous housing.
 - First-time homebuyer tax relief — removal of GST/HST on newly built homes for eligible first-time buyers up to \$1 million, and reduced for homes priced up to \$1.5 million.

➤ *Defence*

- \$19.0 billion over five years to repair and sustain the Canadian Armed Forces capabilities and invest in defence infrastructure
- \$10.9 billion over five years for upgrades to the Department of National Defence, CAF, and Communications Security Establishment digital infrastructure
- \$17.9 billion over five years to expand Canada’s military capabilities
- \$6.6 billion over five years to strengthen Canada’s defence industry, starting in 2025–26.
- \$6.2 billion over five years to expand Canada’s defence partnerships, including assistance to Ukraine, increased training, and international policy programming.
- \$805 million over five years for the Canadian Coast Guard, the Communications Security Establishment, and Public Services and Procurement Canada to support complementary initiatives tied to defence capabilities.
- \$182.6 million over three years (starting 2025–26) to establish a sovereign space launch capability.
- \$68.2 million over three years (starting 2025–26) to establish the Bureau of Research, Engineering and Advanced Leadership in Innovation and Science
- \$1.0 billion in 2025–26 to create a new Defence and Security Business Mobilization Program at the Business Development Bank of Canada

➤ *Infrastructure*

- \$51 billion over 10 years (starting 2026-27), followed by \$3 billion per year ongoing, through the Build Communities Strong Fund to revitalize local infrastructure including hospitals, universities/colleges, roads, bridges, water, and transit.
- \$17.2 billion over 10 years for the Provincial and Territorial Stream to support infrastructure projects in housing-enabling, health, and education.
- \$5 billion over three years dedicated to a new Health Infrastructure Fund for upgrading hospitals, emergency rooms, and urgent care centres.
- \$6 billion for the Direct Delivery Stream supporting regionally significant projects
- \$27.8 billion for the Community Stream to improve local roads, bridges, water systems, and community centres.

➤ *Productivity & Competitiveness*

- \$2.7 billion annually through a new Productivity Super-Deduction for investments in machinery, equipment, and technology.
- \$925.6 million over five years (starting 2025-26) for a sovereign AI infrastructure to expand national compute capacity.
- \$1.7 billion for the International Talent Attraction Strategy to recruit top global researchers and innovators.
- \$440 million ongoing to enhance the SR&ED tax incentive program and support private-sector R&D.

- Over \$2 billion over five years to expand critical-minerals production, clean-technology manufacturing, and low-carbon supply chains.

➤ *Immigration Policy*

The government’s pivot toward lower immigration targets in Budget 2025 marks a significant policy shift. While this reduction may help ease housing affordability pressures and stabilize demand, it could also temper growth in sectors such as banking, telecommunications, and retail, which have benefited from rapid population expansion in recent years.

- 380,000 permanent resident admissions annually for 2026–28 (down from 395,000 in 2025).
- Temporary resident admissions targeted at 385,000 in 2026 and 370,000 in 2027–28 (down from roughly 673,000 in 2025).
- \$168.2 million over four years (starting 2026–27) in net fee revenue forgone due to lower temporary resident admissions.
- \$120.4 million over four years (starting 2026–27) for a one-time program to recognize eligible protected persons in Canada as permanent residents.
- \$19.4 million over four years (starting 2026–27) to accelerate the transition of up to 33,000 work permit holders to permanent residency in 2026–27.

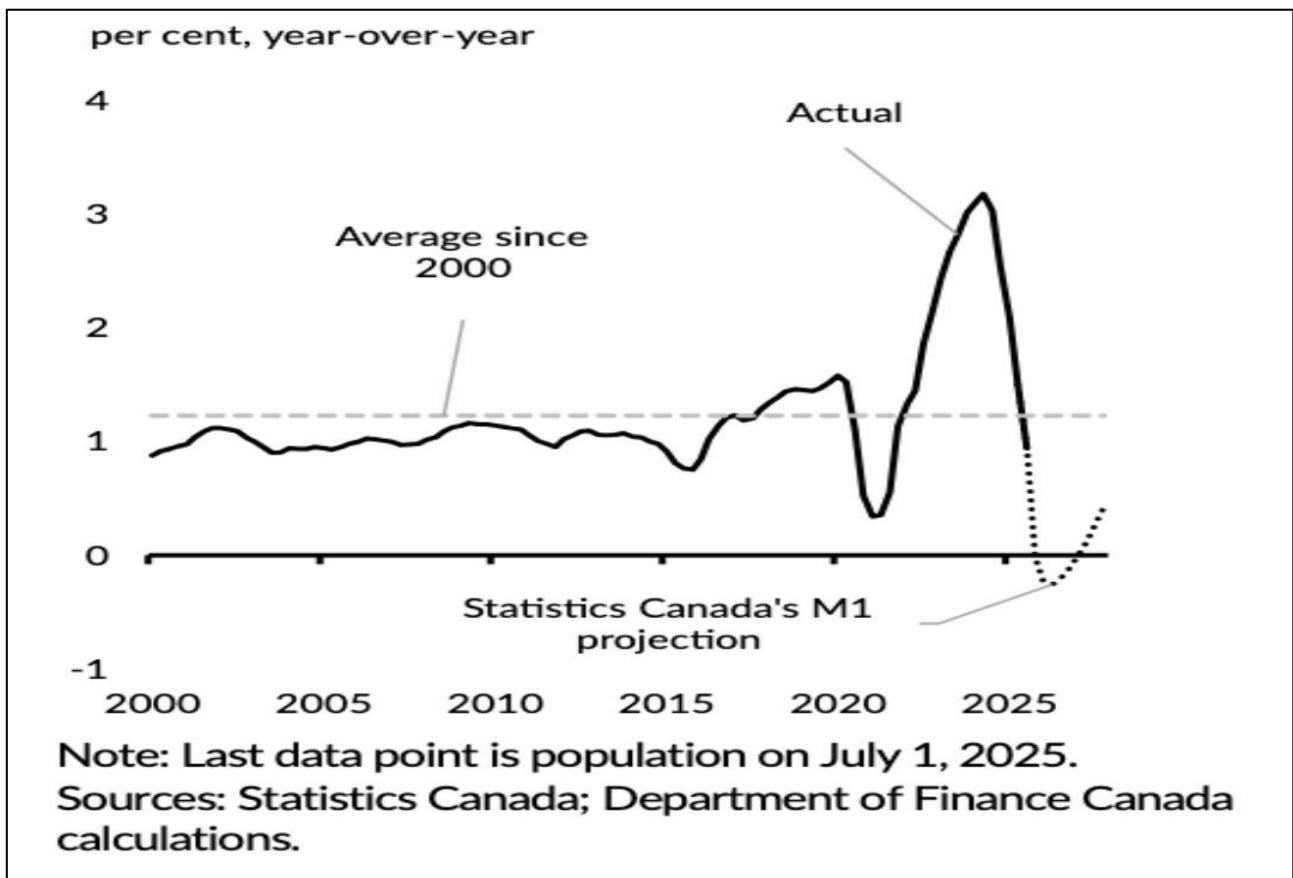


Fig 1 Population Growth in Canada (Adapted from Budget 2025, Chart 17)

➤ *Climate Policy*

On climate policy, Ottawa has avoided making substantive reforms, choosing instead to rely on carbon pricing and credit markets to pursue a 2050 net-zero target. The government continues to prioritize carbon-capture, utilization, and storage (CCUS) initiatives, reflecting a focus on industrial competitiveness rather than addressing the underlying drivers of emissions.

- \$2.0 billion over five years to accelerate critical-minerals production, clean-technology manufacturing, and low-carbon supply chains under the Climate Competitiveness Strategy.
- \$500 million over five years through the Strategic Innovation Fund to support the growth of clean technology firms and industrial decarbonization.
- \$776 million over five years to enhance federal clean electricity investments, including grid modernization and interprovincial transmission projects.
- \$400 million over five years to expand the Smart Renewables and Electrification Pathways Program to support solar, wind, and small-scale hydro developments.
- \$200 million over five years for the Clean Growth Hub to accelerate permitting and investment attraction in clean energy and advanced manufacturing projects.
- \$150 million over five years for carbon capture, utilization, and storage (CCUS) innovation and pilot projects.

VI. ANALYSIS

Canada's 2025 budget presents itself as a plan to stimulate growth and spur investment within the country, but in practice it relies heavily on continued aggressive government spending, raising serious concerns about fiscal prudence. The projected C\$78.3 billion deficit for 2025/26, roughly 2.5% of GDP, is the largest in the country's history, unsustainable and contributes to a rising federal debt-to-GDP ratio, expected to reach over 43% by 2027–28. This trajectory locks in a structural deficit that will remain for years, leaving young Canadians to pay the bill. Even if infrastructure and R&D investments yield some growth, the scale of borrowing shown in the budget risks crowding out private-sector investment, limiting the effectiveness of these policies.

The budget adds almost \$320 billion in cumulative deficits over five years, increasing net federal debt from approximately \$1.48 trillion to \$1.80 trillion by 2030. With interest rates rising, debt servicing costs are projected to consume a growing share of revenues, reaching 13% of total federal revenue within a few short years. This means that a significant portion of government funds will go toward paying interest rather than public services. From an everyday Canadian's perspective, this is particularly concerning because the financial burden will fall heavily on younger Canadians, who will face higher taxes or reduced services to manage the accumulated debt, interest payments on the debt could cost up to or more than \$5 400 for each family this year alone.

One positive measure is the complete policy reversal on immigration, which has cut temporary foreign worker targets from 673 000 (2025) to 385 000 in 2026 and further continuing the declining trend with 370 000 in 2027, which has the potential to ease pressure on the housing market and prevent further inflation in home prices. By scaling back immigration from previous record levels, the government has acknowledged the link between population growth and housing affordability. However, other housing measures are insufficient. Programs like Build Canada Homes primarily fund new construction without addressing underlying issues such as zoning, permitting, or regulatory barriers. As a result, housing supply remains constrained, and affordability challenges persist. The budget provides minimal support for renters or immediate relief, which means housing pressures will continue despite slower immigration growth.

The budget's climate policies demonstrate a continuation of Ottawa's preference for spending-heavy incentives rather than meaningful reform. By maintaining the industrial carbon tax, extending CCUS (carbon capture, utilization, and storage) subsidies, and failing to remove the emissions cap, the government continues to prioritize industry support over practical emissions reductions which would unleash the private sector.

These measures provide large subsidies to fossil-fuel companies without guaranteeing meaningful environmental or economic gains. From a growth-focused, standpoint, this approach imposes additional costs on consumers and businesses and fails to stimulate innovation or meaningful reductions in emissions through the private sector.

Across sectors, the budget emphasizes spending as the primary tool to stimulate growth, including investments in defence, infrastructure, innovation, and health. While some investments, such as a new Defence Investment Agency or expanded R&D tax credits, may have long-term benefits, the scale of spending raises questions about efficiency and opportunity cost within the government. Much of the new expenditure is recurring or administrative, rather than transformative capital investment, limiting the impact on productivity and continuing to restrict private-sector growth. Heavy reliance on public funding risks displacing private investment, undermining the very growth the budget claims to support.

VII. CONCLUSION

Overall, the Canada 2025 budget presents itself as a pro-growth, pro-investment framework, but in reality, it relies heavily on deficit spending and government intervention rather than meaningful structural reforms, it should be viewed as an alarming point within Canada's history for its economy. Many of its initiatives prioritize large-scale government funded projects and subsidies over policies that would genuinely enhance productivity, competitiveness, or private-sector-led growth. While some investments could have long-term benefits, the scale of borrowing and ongoing expenditures raises serious concerns about fiscal

sustainability and the economic burden being placed on future Canadians.

The continued, deficit-financed initiatives are steering the country in the wrong direction. While the government emphasizes infrastructure and long-term projects, it neglects critical areas such as affordability, skills development, and healthcare. Financing these programs through continued borrowing risks pushing Canada toward the edge of a dangerous fiscal cliff, there is a limit to how long the bill can be deferred before the consequences become unavoidable. If government spending continues without restraint, essential services could suffer, and future generations may be forced to bear the burden of this unsustainable debt.

Taken together, these factors suggest that the long-term effectiveness of the 2025 budget will depend not on the scale of its spending, but on its ability to generate sustainable economic growth and maintain fiscal discipline. Without a shift toward policies that prioritize productivity, private-sector investment, and efficient allocation of resources, the current approach risks entrenching structural weaknesses within the Canadian economy.

Ultimately, the central issue is not whether government spending can address short-term challenges, but whether it can do so without compromising long-term stability. If these fiscal patterns persist, the 2025 budget may come to represent not a turning point toward economic resilience, but a continuation of policies that delay necessary adjustments while amplifying future economic constraints.

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APPENDICES**Appendix A: Defence Sector Investments**

Program	Investment
Repair and sustain CAF capabilities	\$19 billion over 5 years
Upgrades to DND, CAF, CSE	\$10.9 billion over 5 years
Expand military capabilities	\$17.9 billion over 5 years
Defence Industrial Strategy	\$6.6 billion over 5 years
Expand defence partnerships	\$6.2 billion over 5 years
CCG, CSE, PSPC complementary initiatives	\$805 million over 5 years
Establish sovereign space launch capability	\$182.6 million over 3 years (starting 2025–26)
Establish BOREALIS	\$68.2 million over 3 years (starting 2025–26)
Defence & Security Business Mobilization Program at BDBC	\$1.0 billion in 2025–26

Appendix B: Infrastructure and Community Investments

Program	Investment
Build Communities Strong Fund: regionally significant projects	\$6.0 billion over 10 years
Build Communities Strong Fund: local infrastructure	\$27.8 billion over 10 years
Health & education infrastructure	\$17.2 billion (including \$5 billion Health Insurance Fund)
GST/HST elimination on first homes up to \$1 million	N/A
Workforce supports: expanded UTPI & refundable PSW tax credit	5% of earnings, up to \$1 100

Appendix C: Productivity & Competitiveness Investments

Program	Investment
Large-scale sovereign AI infrastructure	\$925.6 million over 5 years (starting 2025-26)
R&D and innovation incentives: SR&ED and clean energy tax credits	Expanded, total cumulative spending not specified in budget
Climate Competitiveness	Over \$2 billion over 5 years

Appendix D: Immigration Policy Highlights

Policy Area	Measure	Impact
Temporary Foreign Workers	Intake to be reduced by 50% (2025-26)	Aims to ease pressure on housing and public services
Population Management	Slowing population growth through targeted immigration reduction	Intended to balance infrastructure and affordability
Labour Market	Focus shifts toward long-term sustainability rather than short term supply	Could slow certain service-sector growth
Skilled Immigration	Skilled and permanent resident streams maintained	Supports innovation and technology sectors

Appendix E: Climate Policy & Energy Investments

Program	Investment
Carbon Capture, CCUS tax credits & incentives	\$7.2 billion through 2030
Industrial carbon pricing maintained	Multi-decade schedule, oil and gas emissions cap remains in place
Subsidies for energy innovation & clean technology	Varies, part of Climate Competitiveness Strategy

Appendix F: Fiscal Projections

Year	Deficit (C\$ Billion)	Debt-to-GDP Ratio	Interest Payments (C\$ Billion)
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2025-26	78.3	41%	62
2026-27	72.1	42%	64
2027-28	65.0	43%	66.2
2028-29	60.0	44%	70
2029-30	55.0	45%	76.1

Appendix G: Summary of Federal Expenses (in millions of \$)

Category	2023-24 (Actual Expenses)	2024-25 (Main Estimates)	2025-26 (Main Estimates)
Transfer Payments	\$270 160	\$282 970	\$294 750
Operating and Capital	\$151 680	\$119 670	\$143 080
Public Debt Charges	\$42 470	\$46 540	\$49 060
Total Budgetary Expenses	\$464 300	\$449 180	\$486 890