Economic News

From Central Bank to Centre Block – First Thoughts on Canada's Election Result

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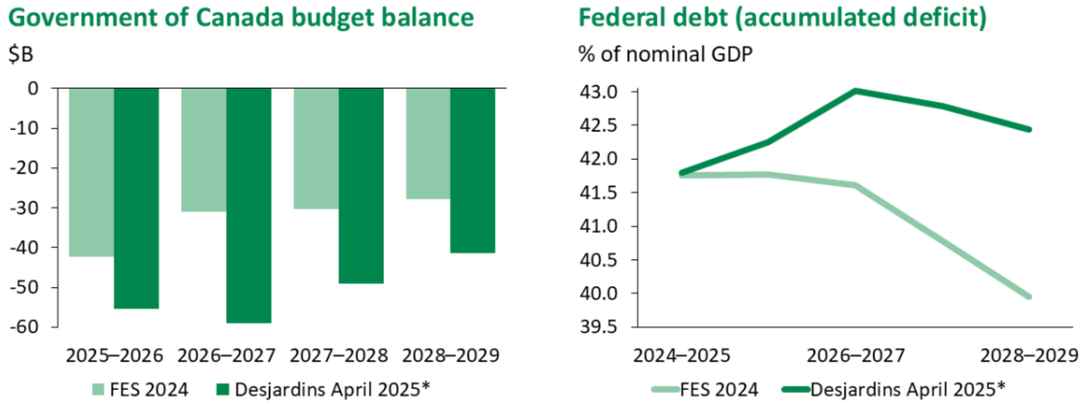
As of first thing on the morning of April 29, the Liberal Party of Canada appears to have won another minority government in Canada's 45th federal election. With only four seats shy of a majority and several tight ridings, the remaining counting of special ballots today will confirm the outcome. If a minority Liberal win is confirmed, Prime Minister Mark Carney will need to negotiate with the opposition parties to implement his policy agenda. As it stands, Liberals would be able to pass legislation with the support of the New Democratic Party, as they did previously. In terms of executing the Liberal Party platform, this configuration could lean towards the social and cultural measures, and against broad tax cuts and fossil-fuel development. Liberals could also seek support from the Bloc Québécois on some issues.

For the better, Canadians now have the certainty of an elected voice representing them in the unpredictable trade war brought on by the Trump administration. And with a fully costed platform presented to voters during the campaign, the new government has a roadmap to advance its agenda. As such, we have a sense of what is likely to be in the upcoming spring budget, regardless of whether or not it is able to get through Parliament.

The costed Liberal plan contained more than 100 proposed policy measures tallying up to about $130B in tax cuts and new spending, with a lack of policy focus characteristic of past platforms. Besides measures intended to meet the moment by investing in trade-supporting infrastructure and defence while reducing barriers to investment, the platform contained a plethora of proposals meant to leave no voter behind. By our tally, that would lead to substantially larger deficits than planned by the previous Liberal government in its Fall Economic Statement 2024 (graph 1). This would also put the debt-to-GDP ratio on a flat to upward trajectory going forward, in contrast to the trend decline projected in the last fiscal forecast. As such, a focus on fiscal sustainability—broadly characterized as a flat to falling forecast for the debt-to-GDP ratio—appears to be a thing of the past, at least for now. And this assumes the federal government finds $28B over three years in undefined "savings from increased government productivity"—an ambitious target, particularly in the absence of cuts to the size of the public service.

Graph 1
Larger Deficits and Higher Debt Expected in the Next Four Years



FES: Fall Economic Statement; *Based on Desjardins Economic Studies' April 2025 Economic and Financial Outlook, the Fall Economic Statement 2024, and the 2025 Liberal Party of Canada election platform.

Government of Canada, Liberal Party of Canada and Desjardins Economic Studies

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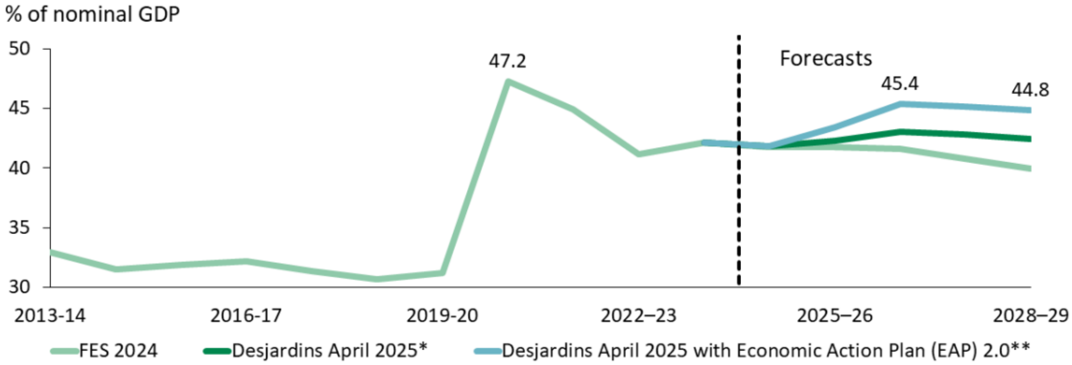
Further, most of the risks to the federal fiscal outlook presented by the Liberal Party of Canada are tilted to the downside. For starters, the PBO's economic and fiscal forecast that forms the starting point for the platform explicitly excludes the impact of US tariffs. Hence, revenues from counter tariffs that were already booked will be offset by still unaccounted for lower revenues from personal and corporate income taxes as well as Employment Insurance (EI) premiums. Greater spending on EI benefits and other cyclical expenditures were also not included in the platform. Additionally, while the Liberal platform included measures to support the transition away from Canada's reliance on trade with the US, this would be insufficient to address a full-blown recession. If expenditures equivalent to what was rolled out in the Economic Action Plan during the Global Financial Crisis were to be implemented today, for instance, that would add up to about an additional $75B over two years. A near-term outlay of that magnitude would push the debt-to-GDP ratio higher, although likely keeping it below the peak reached during the COVID-19 pandemic (graph 2). Given this context, the new government would be wise to keep its powder dry by holding off on some of the planned new spending until it has better visibility over what's in store from the Trump administration on the trade front.

Graph 2
Stimulus of $75B over Two Years Would Leave the Debt-to-GDP Ratio Below the Pandemic Peak
Federal debt (accumulated deficit) forecasts



FES: Fall Economic Statement; *Based on Desjardins Economic Studies' April 2025 Economic and Financial Outlook, the Fall Economic Statement 2024, and the 2025 Liberal Party of Canada election platform; **'Economic Action Plan 2.0' refers to stimulus to the same extent as that during the Global Financial Crisis as a share of GDP spread over two fiscal years.

Government of Canada, Statistics Canada, Liberal Party of Canada and Desjardins Economic Studies

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At the time of writing, Government of Canada yield curve has steepened following the election victory, likely in anticipation of greater issuance to meet election commitments. We expect funding needs to be met by proportionately greater issuance of short-term debt and 5- to 10-year Government of Canada bonds. The Canadian dollar depreciated slightly on the outcome.