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GLOBAL ECONOMICS

FISCAL PULSE

April 29, 2025

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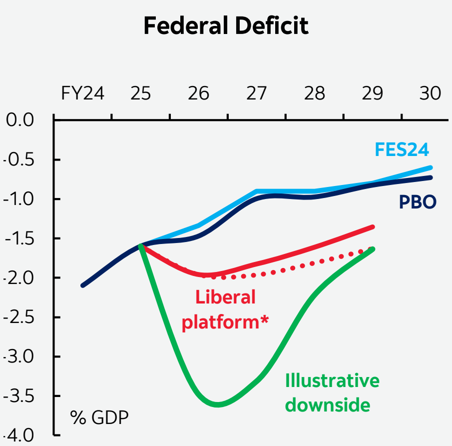
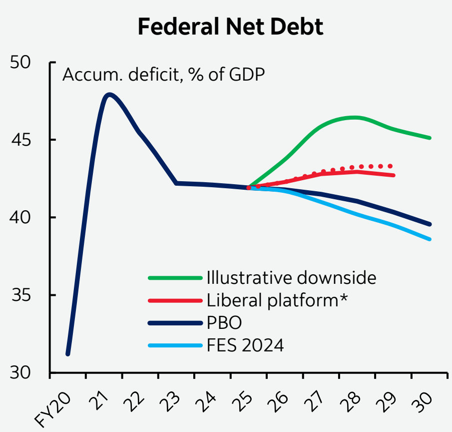
Chart 1



Sources: Scotiabank Economics, Finance Canada, PBO, Liberal platform. **Dotted line shows path if only 25% of efficiency savings achieved.*

Chart 2



Sources: Scotiabank Economics, Finance Canada, PBO, Liberal platform. **Dotted line shows path if only 25% of efficiency savings achieved.*

Elbows Up, Head Down, Eyes Open:

CANADIANS HAND MARK CARNEY'S LIBERALS A MINORITY GOVERNMENT

- **The Liberal Party under Mark Carney will form Canada's next government. The party secured 169 of the 343 Parliamentary seats, just 3 seats shy of a majority. Pierre Poilievre's Conservative Party trailed at 144 seats with the leader losing his own riding.**
- **The Liberals will rely on support from substantially-weakened third parties with the Bloc Quebecois and NDP securing 22 and 7 seats, respectively. Minority governments are typically short-lived in Canada, but the bar may be lower with just 3 additional votes needed to advance its priorities and shared sense of urgency.**
- **Deeper-than-anticipated deficits could be the cost of alliance-building, though the government may wish to hold the line as trailing parties have little interest in heading back to the polls anytime soon.**
- **The Liberals campaigned on a hefty spending package totaling $129 bn in new commitments, offset by $52 bn in savings, adding a net $83 bn in budgetary pressures over four years. The Bloc and NDP parties ran on even more expansive platforms with equally vague revenue plans.**
- **Red ink is clearly here to stay. The Liberal plan projects a deficit of 2% of GDP this year declining to 1.4% over four years. This is roughly 0.5 ppts wider than the pre-election baseline and could be closer to a full percentage point if one conservatively discounts savings expectations. Fiscal plans deteriorate more rapidly if the country finds itself in a moderate recession (charts 1 & 2).**
- **There are big hypotheticals around these numbers. Over half of the planned savings would come from largely-undefined efficiencies, while the plan itself is based on a fairly benign economic outlook. It is also premature to judge if—or how much—a minority government may need to spend to build alliances. Perhaps the biggest question mark is just how far into their mandate the Liberals might get before Canadians are sent back to the polls.**
- **For what it's worth, ambitions are well-placed. The Liberal plan aims to raise capital investment in the Canadian economy by half a trillion dollars over five years by leveraging the public purse, while also tackling a chronically-unpredictable investment landscape. This won't be easy with complicated jurisdictional and institutional frameworks made all the more complex without a majority.**
- **For now, most drivers—global and domestic—are at least directionally suggestive of potentially weaker growth, higher deficits and potentially steeper borrowing costs. Solid fundamentals may not offer much of a safe harbour for Canada right now, but weaker ones could make it worse. A dysfunctional minority government would run the risk of scoring yet another own goal at home.**
- **The Prime Minister has his work cut out for him as issue-by-issue alliance-building likely lay ahead. Canadians will remain on election-watch as the country navigates a particularly turbulent global landscape.**

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THE FINAL BUZZER

The Liberal Party under Mark Carney has been declared the winner in Canada's elections on April 28th. The Liberals secured 169 of the 343 Parliamentary seats, just 3 seats shy of the 172 seats required for a majority. The Conservatives trailed with 144 seats, with the Bloc Quebecois and NDP parties much further back at 22 and 7 seats, respectively (table 1). Carney had called an election shortly after taking office in early March following Justin Trudeau's resignation. In the ensuing five weeks, US tensions escalated while the Conservatives' wide lead all but evaporated. The Liberal lead, however, was not quite wide enough to secure a majority of seats that will keep Carney on his toes.

Minority governments in Canada tend to have a short shelf-life. They must rely on the support of other parties to stay in power and most last less than two years (chart 3). The recent minority government was among a few exceptions and came at a very steep fiscal price as the Liberals penned a Supply & Confidence Agreement with the NDP that saw dental and pharma, among other programs, rolled out since 2021.

The Prime Minister will need to cobble together a handful of supporters along the way. But the Bloc is a single-province party with less scope for broader alignment and the NDP party has been decimated leaving its 7 seats sitting as independents. The flip side is that Conservatives do not have enough votes to bring down the government without support of these dwindling parties. This suggests a formal coalition would be less-likely than issue-by-issue alliance-building.

For now, we work on the assumption that Prime Minister Mark Carney will move decisively to advance his agenda as set out in his platform, but under a minority government, we would fade much beyond the next year or two as Canadians are likely to head back to the polls before then.

FACEOFF

The Liberal government is expected to hit the ground running despite these additional headwinds. Within weeks, a Speech from the Throne would outline a broader agenda in line with the party's platform. A budget would follow before Summer, setting in motion some of the most pressing priorities. First-year spending plans in the platform hint at early priorities with over $35 bn booked against FY26, suggesting a packed near-term budget (and eventually a Fall update).

Prime Minister Carney is also expected to jump into the negotiating queue with the US. Amidst on-again, off-again trade threats, President Trump had deferred negotiations with Canada until after the election. An accelerated renegotiation of CUSMA is the likely starting point. Prime Minister Carney has so far adopted a pragmatic approach with targeted counter tariffs to those imposed by Trump. His plan promises additional near- and medium-term support to trade-affected business and workers, while also pledging to remove federal barriers to internal trade and boost support for external trade diversification.

The Prime Minister will need to simultaneously balance the urgent and the important in short order. Canada's economy was already in a slow-burning productivity crisis before Trump trade wars emerged, threatening to accelerate the decline in living standards. Carney's platform pledges to lift investment, productivity and growth to this end. He'll now likely have to deftly navigate a divided political landscape at home to execute.

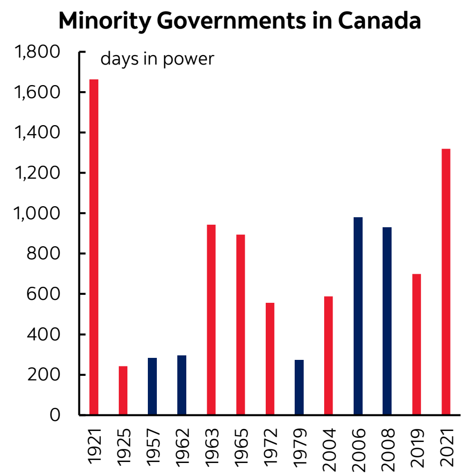
Table 1

2025 Federal Election Results

Party	Seats*	% Votes
LIB	169	43.7%
CON	144	41.3%
BQ	22	6.3%
NDP	7	6.3%
GRN	1	2.4%

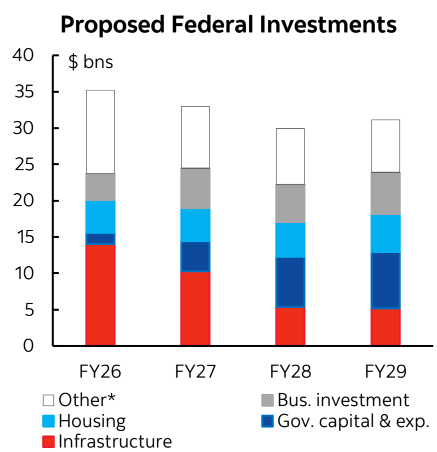
*172 seats required for majority.
Sources: Scotiabank Economics, Elections Canada.

Chart 3



Sources: Scotiabank Economics, Elections Canada.

Chart 4



Sources: Scotiabank Economics, platform.
**Non-investment spending.*

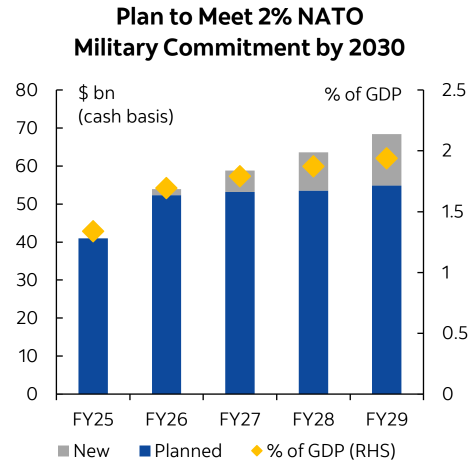
DUMP AND CHASE

The plan *on paper* should provide a boost to longer term growth. It aims to mobilise $500 bn in investment over 5 years by leveraging $150 bn public dollars. Nearly two-thirds of campaign pledges are capital-related. Proposed measures suggest roughly $25 bn annually (0.75% of GDP) would support capital formation. Infrastructure plans are front-loaded while government procurement—notably ramped-up military investments—would take up the rear (charts 4 & 5). Fade incremental incentives for business investment somewhat since the vast majority in dollar terms reflects the reversal of plans to hike the capital gains tax—arguably a preservation of the status quo.

The government also aims to improve Canada's investment landscape with a focus on natural resource sectors. The platform doubles down on existing clean investment tax credits (with a few tweaks) and promises a broader corporate tax review, but the real dividends would come from reducing uncertainty and inefficiencies that deter private investment. Proposed steps include accelerating 'projects of national interest' via "one window" decision-making at the federal level and advancing a "one project, one review" concept with other (willing) orders of government. However, the plan is vague on campaign-trail hot buttons like oil and gas caps and promises more policies to ensure "big polluters pay". The onus will be on the government to ensure policy coherence in a complex landscape with limited coercive powers. The real test will be greater business investment signals and a smoother stakeholder journey.

It would be brash to pencil in full economic effects of the platform with the most obvious risk its shelf life of a minority government. But even deft alliance-building would still warrant caution. Policies are yet to be enacted, infrastructure-related projects are notoriously slow within Canada's complex multi-jurisdictional framework, and energy-related ones even more uncertain in a highly polarized environment. Federal investments risk crowding out other investments, private and/or other orders of government. That said, the fiscal multiplier of stated plans *should* be reasonably high and could improve Canada's growth potential over the medium term. A weakening economic outlook suggests impacts could be even greater, while reducing the risk of monetary policy trade-offs (table 2).

Chart 5



Sources: Scotiabank Economics, DND, platform.

Table 2

Fiscal Multipliers: Timing, Targets and Tools Matter				
% impact on real GDP	Budget 2009 *(weak economy)*		Budget 2016 *(neutral)*	
	Yr 1	Yr 2	Yr 1	Yr 2
	FY10	*FY11*	*FY17*	*FY18*
Infrastructure investment	1.0	1.5	0.2	0.4
Housing investment	1.0	1.4	0.1	0.1
Measures for low-income households	0.8	1.5	0.2	0.4
Personal income tax measures	0.4	0.9	0	0
Corporate income tax measures	0.1	0.2	0	0

Sources: Scotiabank Economics, Finance Canada.

There is very little near-term demand stimulus targeting households in the plan yet. The platform is based on a benign economic outlook set out by the PBO in early March before trade tensions escalated. The signature pocketbook measure is a broad-based tax cut—a 1 ppt cut to the lowest income tax bracket—with benefits accruing to all taxpayers. It would start on Canada Day with $4.2 bn earmarked this year. This regressive tax measure would only weakly reach those with a higher propensity to spend in a sharper downturn, and most households are likely left awash once the more progressive redistribution of the consumer carbon rebate is netted out—final cheques went out in mid-April. The $1.1 bn temporary boost to the Guaranteed Income Supplement would be a start, but falls well short of the magnitude potentially needed on the path ahead.

None of this leaves us racing to change our current economic outlook. Rooted in a sharper deterioration south of the border (among other drivers), our mid-month update already incorporated a fiscal policy response of about 1% of GDP in Canada, roughly divided between near-term demand measures and supply-side investments. This was largely a holding assumption against model-driven results pointing to a temporary fiscal stimulus program of about 2.5% to offset current economic headwinds. We are broadly on the mark with supply-side investments, but demand measures warrant a wait-and-see approach. Absent a material de-escalation in the global trade war, fiscal policy is likely going to play a bigger role in Canada's policy response—if Team Canada can rally behind it.

ZONE DEFENSE

Canada's federal housing plan is expected to get another lift…but expectations are pared back. The platform adds a few more tools to the playbook, notably a new entity—Build Canada Homes—that intends to "get back into the business of building houses" with $25 bn in loan financing to pull pre-fabricated units into the market. Additional tax incentives for multi-residential investors and GST cuts for first-time homebuyers, along with lower development charges (in exchange for greater infrastructure funding) are also on offer. The timeline to achieve half a million new homes annually has been extended to a 10-year horizon, but still reflects an incredibly ambitious goal given real-world constraints and trade-offs.

Immigration plans are largely stay-the-course… but also with an adjustment to timelines. An earlier commitment to bring temporary resident numbers to 5% of the total population by 2026 has been extended through 2027, while annual permanent resident population growth would be capped below 1% of the population thereafter. These new projections align with our current assumptions based on recent trends, with population growth expected to be 1% in 2025 and 0.5% in 2026, before reverting to historic levels just below 1%.

THE PLAYBOOK(S)

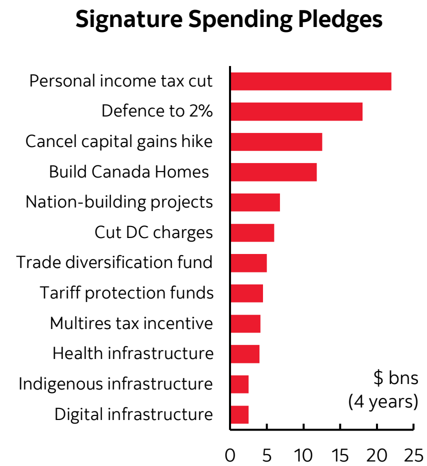
The Liberals' platform is costed at a net $83 bn over 4 years ($77 bn excluding incremental debt charges). Gross new spending amounts to $129 bn across a dizzying list of more than 110 measures, though three-quarters of new spending is concentrated in a dozen items (chart 6). The party pencils in $52 bn in fiscal offsets, including $20 bn in tariff revenues this year, $4 bn in tighter tax collection, and a hefty $28 bn from "savings from increased government productivity" with a step-up in outer years.

It would be premature to bank on those savings just yet. Proposed measures involve a combination of amalgamating service delivery, consolidating programs, reducing the use of external consultants, and leveraging AI. Transfers—to households and other orders of government—are off the table for now which represent half of total government expenditures. They would cap (but not cut) public service employment, along with a capped riser on annual direct program expense growth at 2%.

It's also not clear how other party priorities may play into the agenda under a minority government. Both the Bloc and NDP ran on fiscally expansive platforms. The NDP pledged $134 bn in new spending, against $92 bn in new revenues, while the Bloc platform's 4-year tally was $107 bn in spending versus $77 bn in offsets (chart 7). The NDP, in particular, is in little position to negotiate having lost its official party status and its Leader. But on balance, this directionally reinforces fiscal expansion as there is no voice of fiscal austerity around the negotiating table, but plenty of outstanding pledges.

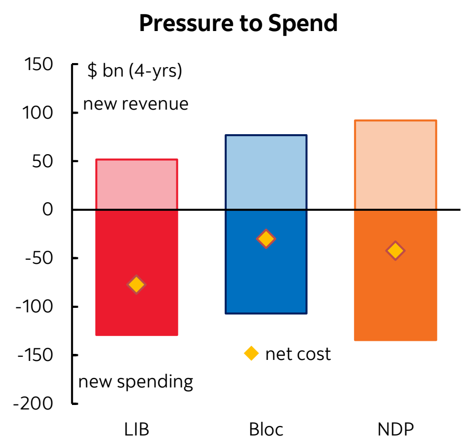
The government by design plans to run larger deficits with a bias towards even bigger ones. The platform projects a deficit of 2% of GDP ($62 bn) this year that would decline modestly to 1.4% ($48 bn) by FY29. This is roughly 0.5 ppts wider than the pre-election baseline and could be closer to a full percentage point if one conservatively discounts savings expectations. The plan would add almost 2.5 ppts to net debt (to 42.7% of GDP) by FY29 relative to PBO's baseline (charts 1 & 2, front). Incremental debt charges are estimated at $5.6 bn—with an assumption the 10-yr GoC bond sits around 3.50%—that would see debt charges as a share of GDP creep up past 2% of GDP in a benign scenario. (Admittedly you have to squint at chart 8 to see the difference, but 'up' is the operative word.)

Chart 6



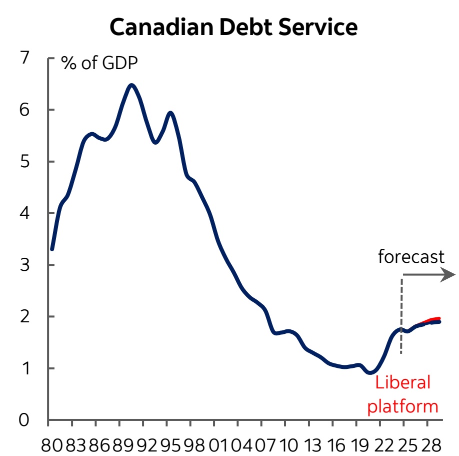
Sources: Scotiabank Economics, Liberal platform.

Chart 7



Sources: Scotiabank Economics, platforms.

Chart 8



Sources: Scotiabank Economics, Finance Canada, PBO, Liberal platform.

The party pledges to balance a new 'operating' budget by 2028. This concept would net out measures that drive capital formation—or "anything that builds an asset" held directly on the government's or others' balance sheets—into a capital deficit. (The headline deficit would be the sum of the new operating and capital deficits.) The platform implies comfort running a capital deficit in the order of ~$50 bn (1.5–2 % of GDP) annually. Details are pending, but the platform estimates the government already spends about 1% on capital-related investments with the platform folding in the balance (chart 9). There is no indication how revenue windfalls might be treated—an opportunity to introduce a degree of counter-cyclicality to these new guardrails—which the plan does not dynamically score.

RESERVE STRATEGY

There is not likely enough near-term support penciled in for weaker economic conditions. This is a sound approach for a party platform, but plans are rewritten in recessions. Should the outlook deteriorate further, it would not be unreasonable to see another percentage point or two added to the bottom line in the near term. The Prime Minister has navigated prior crises and it is expected he would attempt to shore up demand with fiscal levers as warranted by economic conditions, especially given potential nearer-(and medium-)term constraints on monetary policy in the current context.

Canada has the space to do so in a sharper downturn but its (market) leash may be short. Its general government net debt is still positioned favourably relative to peers, but its gross debt—more pertinent in times of stress as a proxy for liquidity—is more middling and its economy more trade-exposed (charts 10 & 11). The feds hold only about half of all outstanding government debt, and a number of provinces are under pressure with recent warnings from rating agencies. In line with the pandemic experience, the sovereign could be expected to shoulder a greater share of an eventual fiscal response to a sharper downturn.

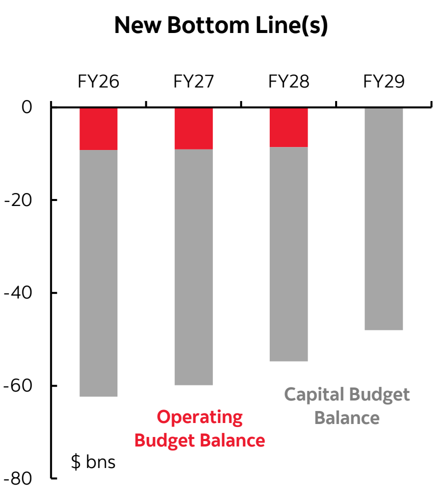
THE REAL PUCK DROPS

The Prime Minister has his work cut out for him. He inherits a weakening economy against uncertain and largely exogenous policy headwinds. He'll be in the hot seat negotiating a smoother path for Canada's highly trade-dependent economy where the rules of the game are not entirely clear. He will simultaneously attempt to execute ambitious structural reforms at home to minimize potentially permanent damage to the Canadian economy. Success is contingent on an aspirational model of cooperative fiscal federalism following an election that has laid bare deep polarization across the country. Success is also contingent on motivating business to go big on Canada amidst unchartered uncertainty. And he will have to do this without a majority.

The country cannot afford complacency let alone domestic dysfunction. The Prime Minister's plan is right to aim high but he has reduced margin for policy missteps. Other federal parties should also be held to account in helping the country cooperatively navigate a particularly turbulent time. The baseline points to weaker growth and higher borrowing needs in a potentially higher-cost environment. There is a reasonable risk of a rapid and disorderly deterioration. A coherent set of growth-enhancing policies should be a goal that all stripes get behind in the coming months.

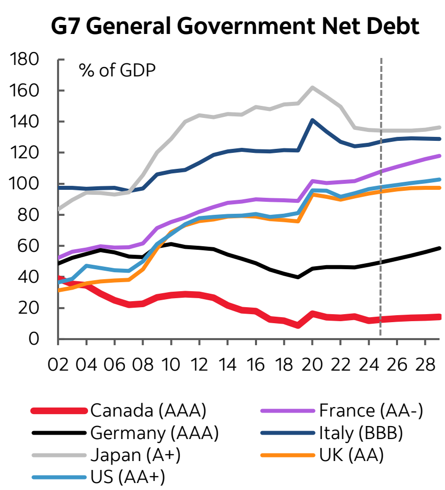
Elbows up, head down, eyes open. And the Prime Minister might have to assist from time to time.

Chart 9



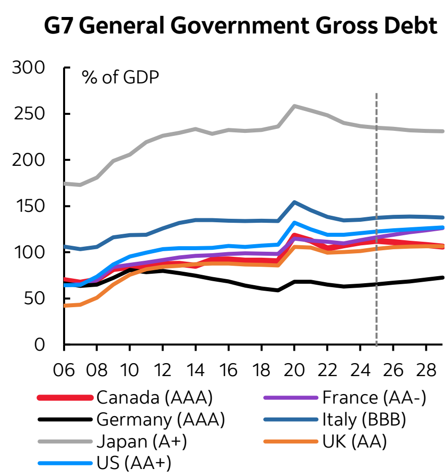
Sources: Scotiabank Economics,Liberal platform.

Chart 10



Sources: Scotiabank Economics, IMF, S&P.

Chart 11



Sources: Scotiabank Economics, IMF, S&P.