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CANADA

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2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Canada, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 16, 2026, consideration of the staff report that concluded the Article IV consultation with Canada.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 16, 2026, following discussions that ended on December 4, 2025, with the officials of Canada on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 18, 2025.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2025 Article IV Consultation with Canada

FOR IMMEDIATE RELEASE

- Canada is adjusting to a significant external trade shock amid heightened global uncertainty, with impacts cushioned by USMCA exemptions, monetary easing, and targeted domestic support.
- Growth is expected to remain moderate in the near term while inflation stays close to target; risks are tilted to the downside amid trade uncertainty, tighter global financial conditions, and elevated household leverage.
- The financial system remains resilient, but strengthening productivity through reforms to boost investment, competition, and innovation is critical to improving medium-term growth and external performance.

Washington, DC – January 21, 2026: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV Consultation for Canada.[1]

Canada is adjusting to a significant external trade shock amid heightened global uncertainty. Higher U.S. tariffs have disrupted tightly integrated North American supply chains and weighed on exports, investment, and confidence. The impact has been less severe than initially feared, reflecting USMCA exemptions, monetary easing, and targeted domestic support, but the shock has reinforced longstanding structural challenges.

Economic activity is expected to remain subdued in the near term, with output below potential as trade adjustment and uncertainty continue to restrain exports and investment, compounded by slower immigration. Inflation is projected to remain close to the 2 percent target, supported by softer demand and firms' absorption of higher costs. The current account deficit is expected to narrow only gradually as trade uncertainty recedes and competitiveness gains take hold.

Risks to the outlook have become more balanced but remain tilted to the downside. Renewed tariff escalation or prolonged trade uncertainty could further weigh on investment and confidence, while tighter global financial conditions or a sharper slowdown in China would pose additional headwinds. Elevated household leverage represents a domestic vulnerability, although Canada's strong policy frameworks and fundamentals—including a positive net international investment position and stable external financing—provide important buffers.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

The financial system is resilient to severe solvency and liquidity shocks, consistent with FSAP findings, though pockets of vulnerability persist, including commercial real estate exposures—particularly among pension funds and insurers—and the expanding role of nonbank financial intermediation.

Over the medium term, strengthening productivity will be critical to improving economic performance and external balance. Weak productivity growth remains a key challenge, underscoring the need for reforms that support investment, competition, and innovation.

Executive Board Assessment[2]

Executive Directors welcomed the Canadian economy's resilience to large trade shocks and ongoing uncertainty, highlighting the authorities' prudent policy response and the country's strong fundamentals. Directors noted that recent trade shocks have accentuated longstanding weaknesses in productivity and competitiveness, while the near-term outlook is subdued and risks are tilted to the downside. Against this backdrop, they underscored that the priority is to prudently manage the near-term adjustment while advancing structural reforms to lift productivity, competitiveness, and resilience. Directors also called for nimble policy making and contingency planning given the uncertain external environment.

Directors supported the targeted, temporary fiscal support to cushion the adjustment stemming from the trade shock, along with ongoing efforts to reorient spending toward public investment and strengthen the medium-term fiscal framework. They welcomed the new capital budgeting framework and the comprehensive expenditure reviews, noting the need for gradual fiscal consolidation over the medium term. Directors encouraged steps to improve the transparency and accountability of public investment and to clarify the debt-to-GDP ratio as a formal fiscal anchor, supported by deficit and operating-balance paths as operational guides.

Directors generally agreed that the current monetary policy stance is appropriate and welcomed the central bank's data-dependent approach to maintaining inflation at target, with flexibility to recalibrate as conditions evolve. They concurred that a continued clear and effective communication strategy is essential to maintain confidence, bolster transparency, and support orderly adjustment.

Directors welcomed that the financial system remains resilient to solvency and liquidity shocks, supported by strong buffers and robust supervision, consistent with the findings of the 2025 Financial System Stability Assessment. They underscored the need for continued vigilance amid household leverage, commercial real estate vulnerabilities, and a growing nonbank financial sector. To further bolster resilience, Directors recommended strengthening data collection, stress testing, and supervisory coordination as well as reinforcing the effectiveness of AML/CFT frameworks. They welcomed ongoing efforts to improve housing affordability and underscored the importance of carefully calibrating demand-side measures and of expanding housing supply through coordinated federal–provincial–municipal action.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors stressed that boosting productivity and external competitiveness remains Canada’s central medium-term challenge. They highlighted the importance of revitalizing business dynamism, strengthening innovation incentives, and deepening internal market integration by decisively advancing the implementation of recent reforms at the provincial level. Noting Canada's vulnerability to climate change, a number of Directors emphasized the importance of maintaining climate-related goals.

Directors agreed that Canada’s trade strategy should remain anchored in openness and predictability, seeking diversification and new opportunities while also deepening continental integration, including through the 2026 USMCA review. They noted that while industrial policy could help support adjustment and resilience, it needs to be tightly targeted and governed by strong guardrails.

Table. Canada: Selected Economic Indicators, 2022–31

Nominal GDP (2024): Can$ 2,934 billion (US$ 2,173 billion) | Quota: SDR 11,023.9 million

GDP per capita (2024): US$ 54,531 | Population (2024): 41.1 million

Main exports: Oil and gas, autos and auto parts, gold, lumber, copper.

				Proj.						
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Output and Demand										
Real GDP	4.7	2.0	2.0	1.6	1.6	1.9	1.7	1.7	1.7	1.7
Total domestic demand	5.6	0.3	2.0	2.3	1.5	1.9	1.6	1.7	1.6	1.6
Private consumption	6.7	2.3	2.2	2.5	1.4	2.3	2.1	2.4	2.0	2.0
Total investment	5.5	-5.8	-0.1	0.9	1.9	2.3	2.2	2.2	2.2	2.2
Net exports, contribution to growth	-0.9	1.7	0.1	-0.7	0.0	-0.1	0.1	0.1	0.1	0.1
Output gap 1/	0.8	0.0	-0.7	-0.9	-0.8	-0.6	-0.4	-0.2	0.0	0.0
Unemployment and Inflation										
Unemployment rate (average) 2/	5.3	5.4	6.4	6.8	6.5	6.3	6.2	6.1	6.0	6.0
CPI inflation (average)	6.8	3.9	2.4	2.0	2.1	2.1	2.0	2.0	2.0	2.0
Saving and Investment 3/										
Gross national saving	24.6	22.9	22.7	22.0	22.4	22.5	22.7	23.0	23.2	23.5
General government	3.8	2.9	0.8	1.5	0.2	0.3	0.6	0.6	0.8	0.8
Private	20.8	20.0	21.9	20.5	22.2	22.2	22.2	22.4	22.5	22.7
Personal	4.0	4.4	9.9	8.7	8.5	8.9	8.1	7.8	6.9	5.8
Business	16.8	15.6	11.9	11.8	13.7	13.3	14.0	14.5	15.6	16.9
Gross domestic	25.0	23.6	23.2	23.2	23.1	23.2	23.3	23.3	23.4	23.5
General Government Fiscal Indicators 2/ (NA basis)										
Revenue	41.0	41.6	42.2	42.4	42.1	41.9	41.8	41.7	41.7	41.8
Expenditures	40.4	41.8	44.3	43.7	44.7	44.2	43.8	43.5	43.2	43.2
Overall balance	0.6	-0.2	-2.1	-1.3	-2.6	-2.3	-1.9	-1.8	-1.6	-1.4
Structural balance 1/	0.1	-0.2	-0.8	-0.7	-2.1	-1.9	-1.7	-1.7	-1.5	-1.4
Gross Debt	103.5	105.0	110.0	110.6	110.9	109.8	108.0	106.3	104.3	102.4
Net debt	13.4	12.8	10.9	9.7	10.3	10.9	11.1	11.2	11.2	11.0
Money and Credit (Annual average)										
Household Credit Growth	9.9	5.0	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Business Credit Growth	6.4	3.4	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Balance of Payments										
Current account balance 3/	-0.5	-0.7	-0.5	-1.2	-0.8	-0.7	-0.5	-0.4	-0.2	0.0
Merchandise Trade balance 3/	0.7	0.0	-0.2	-1.1	-0.7	-0.6	-0.5	-0.5	-0.3	-0.3
Export volume (percent change)	3.0	4.1	0.3	-3.2	1.1	2.0	2.3	2.3	2.4	2.4
Import volume (percent change)	6.1	-1.2	0.1	-0.3	1.2	2.6	2.4	2.4	2.4	2.4
Terms of trade	4.1	-5.9	-1.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0

1/ Percent of potential
2/ Percent.
3/ Percent of GDP.

CANADA

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

December 18, 2025

KEY ISSUES

Context. Canada is adjusting to the largest shift in North American trade policy since NAFTA. The economy has been more resilient than initially feared, supported by USMCA exemptions, resilient consumption, and policy cushioning. Nonetheless, elevated trade uncertainty has weighed on exports, investment, and confidence, reinforcing long-standing weaknesses in productivity and competitiveness.

Outlook and Risks. Growth is expected to remain moderate in the near term, with output below potential through at least 2026 as trade headwinds restrain exports, investment, and hiring. Inflation is projected to remain near target, supported by economic slack and limited tariff pass-through. Risks remain tilted to the downside, notably from renewed escalation of trade tensions, prolonged uncertainty, tighter global financial conditions, or a sharper slowdown in China, while Canada's strong fundamentals provide important buffers.

Policy Mix. The current policy mix is appropriately calibrated. With inflation contained and the economy operating below potential, the monetary stance is appropriate, with scope to recalibrate if disinflationary pressures persist. Fiscal policy is providing targeted support within a framework supported by moderate debt and contained borrowing costs. Clear communication of policy contingencies would reinforce confidence and support orderly adjustment.

Fiscal Framework and Public Investment. Budget 2025 appropriately combines near-term support with a pivot toward higher productivity-enhancing public investment and stronger incentives for private investment. As capital spending scales up, clarifying the role of the debt-to-GDP ratio as the primary anchor, refining the capital-budgeting framework, and maintaining regular expenditure reviews would strengthen discipline, transparency, and credibility while preserving fiscal space for high-return investment.

Financial Stability and Housing. The financial system remains resilient, consistent with recent Financial Stability Assessment Program (FSAP) findings, although pockets of vulnerability persist, including elevated household leverage, commercial real estate exposures, and growing nonbank intermediation. Strong capital and liquidity buffers, robust oversight, effective crisis-management arrangements, and sound federal–provincial coordination provide important safeguards. Housing affordability pressures remain acute despite recent monetary easing, underscoring the need for sustained supply expansion through zoning reform, faster approvals, and coordinated intergovernmental action.

Productivity and Internal Market Integration. Weak productivity growth remains Canada's central medium-term challenge. Deepening internal market integration is among the highest-return reforms. Fully eliminating non-geographic internal trade barriers could raise real GDP substantially over time, largely through efficiency gains. With federal frameworks largely in place, provincial implementation—especially mutual recognition of credentials, aligned standards, and elimination of local-preference procurement—remains the binding constraint.

Structural Reforms, Industrial Policy, and Trade Strategy. Strengthening competition policy, lowering barriers to firm entry and scaling, and enhancing innovation diffusion—supported by human capital depth—are essential to raise productivity and improve Canada's external position (assessed to be weaker than the level implied by medium-term fundamentals and desirable policies), complementing internal market integration. Industrial policy can support adjustment and resilience if tightly targeted to address market failures, and governed by strong guardrails that preserve openness, contestability, and fiscal discipline. Trade strategy should remain anchored in openness and predictability, combining diversification with deep North American integration. The 2026 USMCA review offers a critical opportunity to strengthen rules on digital trade, critical minerals, and clean technologies, supporting investment certainty, resilience, and long-term competitiveness.

Approved By
Luis Cubeddu (WHD) and Guillaume Chabert (SPR)

Discussions were held with Finance Canada, the Bank of Canada, provincial authorities, and non-government counterparts during November 12–20, 2025. Concluding meetings were held with Governor Macklem on December 2 and Minister Champagne on December 4, 2025. The team consists of Ashvin Ahuja (head), Anahit Aghababyan, Federico Diez, Manuk Ghazanchyan, Sandra Lizarazo Ruiz, Tatjana Schulze, Juan Jose Tapia (all WHD), Diego Rodriguez Guzman (ICD), and Thierry Tressel (MCM), with analytical support from Flora Lutz (RES) and Yuanchen Yang (WHD). Messrs. Nigel Chalk and Luis Cubeddu joined the concluding meetings, along with Mr. David Hofman, the FSAP Mission Chief. Messrs. Brad Recker and Michael Francis (OED) participated in the meetings.

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CONTEXT

1. **Canada's economy has held up better than expected despite the largest shift in North American trade policy since NAFTA.** U.S. tariff increases—including on steel, aluminum, autos, energy, and lumber—and Canada's more limited and largely unwound retaliatory measures have disrupted tightly integrated supply chains, raised exporter costs, and hit trade-exposed sectors hardest. While USMCA (or CUSMA in Canada) exemptions continue to shelter most bilateral trade, elevated policy uncertainty has weighed on business investment and kept activity in manufacturing and resource-linked sectors below pre-tariff trends.

2. **The tariff shock has hit an economy already facing structural and cyclical headwinds.** Lower commodity prices, softer external demand, and slowing immigration have compounded longstanding weaknesses in productivity, capital deepening, and business investment, while tariff-related losses in competitiveness have added further pressure. The authorities' response—including monetary easing, temporary firm-level support (Annex I) and investment-supporting measures in Budget 2025—has cushioned the near-term impact but has not closed the broader competitiveness gap. Firms are adjusting supply chains, reallocating production, and absorbing higher costs in a more fragmented trading environment.

3. **Canada's productivity challenges have been brought into sharper relief.** Persistent gaps in innovation, regulatory frictions, and infrastructure constraints continue to weigh on potential growth. With higher input costs, eroding competitiveness, and slowing population growth, lifting productivity—through stronger competition, more agile regulation, and deeper internal market integration—has become critical. The new Carney administration is using this juncture to advance reforms aimed at lowering structural barriers to investment and innovation.

4. **The 2025 Article IV Consultation examined how Canada is managing near-term pressures while advancing its medium-term reform agenda.** Discussions focused on recent macroeconomic developments; the monetary and fiscal response, including key measures in Budget 2025; progress on housing supply and affordability; financial sector resilience and FSAP follow-up; policies to raise productivity, investment, and competition; and efforts to reduce interprovincial trade barriers and prepare for the 2026 USMCA review and trade diversification.

RECENT ECONOMIC OUTCOMES

5. **Activity has softened as the tariff shock moves through integrated supply chains.** A brief front-loading of exports gave way to a sharp mid-2025 adjustment as renewed U.S. tariff hikes—and, to a lesser extent, Chinese tariffs—took effect. Exports fell back, investment slowed, and manufacturing, transportation, and other supply-chain-linked sectors contracted. Consumption has been relatively resilient, supported by accumulated savings, but weaker hiring and slower immigration have weighed on momentum. Outturns for Q3:2025 reflected a steep drop in imports as investment momentum stayed weak.

U.S. and Chinese Tariff Rates Applied on Canadian Goods

(Percent)

	Average rates pre-2025 1/	Effective Date	Average statutory rates as of Dec 1 2025 1/	Effective statutory rates as of Dec 1 2025 2/
Reporting country: United States				
Aggregate	3%		19.2%	18.5%
On Canada	0%		9.7%	8.5%
Energy, Energy Resources and Potash	0%	3/4/2025	10%	
Autos (non-US content)	0%	4/3/2025	25%	
Auto parts (non-US content)	0%	5/3/2025	25%	
Steel and Aluminum	0%	6/4/2025	50%	
Goods traded outside USMCA	0%	7/31/2025	35%	
Semi-finished copper products	0%	8/1/2025	50%	
Softwood timber and lumber	0%	10/14/2025	45%	
Upholstered wooden furniture	0%	10/14/2025	25%	
Medium and heavy trucks	0%	11/1/2025	25%	
Reporting country: China				
Aggregate	6%		5.8%	4.5%
On Canada	8%		7.8%	5.8%
Canola Oil, Oil Cake and Peas	9%	3/20/2025	100%	
Pork and Seafood	7%	3/20/2025	25%	
Reporting country: Canada				
Aggregate	1%		2%	2.2%
On United States	0%		0%	2.6%
Steel and Aluminum 3/	0%	3/13/2025	25%	
Autos (non-USMCA compliant) 3/	0%	4/9/2025	25%	
On China	2%		3%	3.7%
Steel and Aluminum 4/	25%	10/22/2024	25%	

Sources: WTO-IMF Tariff Tracker

1/ Unweighted average of the ad valorem or ad valorem equivalents (AVEs) of MFN applied or preferential tariffs, including tariff actions.

2/ The effective statutory tariff rate is the weighted average of the ad valorem or ad valorem equivalents (AVEs) of MFN applied or preferential tariffs, including tariff actions, based on trade weights and USMCA utilization.

3/ Rates consider removal of additional surtaxes made after initial publication.

4/ As indicated in *China Surtax Order (2024)*.

6. Inflation pressures remain contained, allowing measured monetary easing. Tariffs have had limited pass-through to domestic prices so far, reflecting soft demand, firms' absorption of higher input costs, and modest exchange rate pass-through (Box 1). Headline CPI inflation hovered just above 2 percent in the second half of 2025, while core measures remained in the 2½–3 percent range. With slack widening and inflation expectations well anchored, the Bank of Canada appropriately reduced the policy rate to 2¼ percent in October, bringing it to the lower end of the estimated neutral range and consistent with returning inflation to target.

7. Despite weaker domestic demand, the current account deficit widened in 2025 as exports declined. Goods exports to the United States fell, driven mainly by energy and other commodities, with manufacturing also affected as firms adjusted supply chains to higher trade costs and uncertainty. More recently, the external position has shown signs of stabilization, as export volumes steadied, import growth softened, and the terms of trade improved. Capital flows reflected elevated uncertainty but not broad retrenchment: portfolio flows were volatile over the year, with net resident investment abroad offsetting periods of inflows, while foreign direct investment recorded resilient net inflows overall, concentrated in trade and transportation, finance and insurance, and manufacturing.

Actual Outcomes vs Counterfactual under No Tariff or Retaliation in 2025
(Percent)

Counterfactual analysis indicates that, absent the recent tariff shock, output would have been higher, inflation modestly firmer, and the trade balance stronger through 2025.

Variable	2025Q1		2025Q2		2025Q3	
	Actual	No Tariff	Actual	No Tariff	Actual	No Tariff
Output Gap 1/	–1.2	-0.6	-2.1	–0.4	N.A.	–0.3
Headline Inflation (YoY)	2.3	1.9	1.7	1.9	2.0	2.0
Nominal Interest Rate	3.0	3.0	2.8	2.7	2.7	2.7
Trade Balance to GDP	0.0	0.0	–0.6	0.0	–0.3	-0.1

Sources: Bank of Canada, StatCan, and IMF staff calculations.

1/ Based on the Bank of Canada's Extended Multivariate Filter (EMF) estimates.

The no-tariff scenario provides a direct analytical benchmark for assessing tariff effects on Canada. By holding broader global conditions constant and allowing cross-border spillovers to operate only through trade and financial linkages, the comparison isolates the impact of tariffs on macroeconomic outcomes.

8. **Labor market conditions have softened but remain broadly resilient.** The unemployment rate rose following the tariff shock but has since returned close to its pre-tariff level (about 6½ percent), supported by modest job gains, although hiring has been concentrated in services as goods-producing sectors continue to shed jobs. Declining vacancy rates and a higher unemployed-to-vacancy ratio point to easing labor demand relative to 2022–23. At the same time, slower inflows of temporary foreign workers have tightened labor supply in selected sectors, notably agriculture and hospitality. Nominal wage growth has eased into the mid-3 percent range, leaving real wage gains modest amid weak productivity growth.

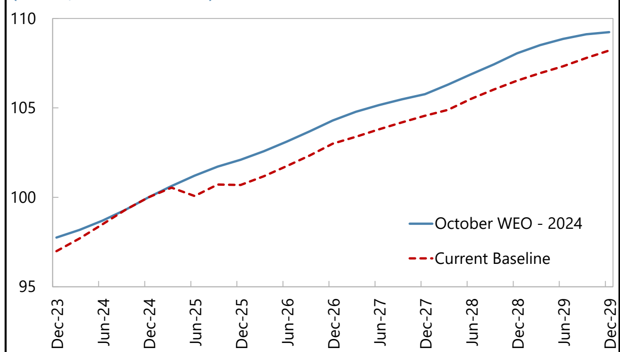
9. **Fiscal policy has remained generally supportive, providing targeted stimulus while preserving space for medium-term adjustment.** The 12-month cumulative general government deficit reached about 1.3 percent of GDP through Q3:2025, compared with 1.9 percent of GDP a year earlier, when spending was temporarily elevated by one-off measures amounting to around 0.8 percent of GDP. The structural balance is expected to remain broadly unchanged at about ¾ percent of GDP in 2025 relative to 2024. Recent support has been driven by middle-income tax cuts (about 0.1 percent of GDP), the repeal of the consumer carbon tax, and higher public investment, which will expand further in line with Budget 2025.

10. **Consistent with the 2025 FSAP findings, systemic financial stability risks are contained, though pockets of vulnerability persist.** Banks maintain strong credit quality, with nonperforming loans below 0.6 percent and capital and liquidity buffers well above regulatory minima; the Domestic Stability Buffer remains at 3.5 percent of risk-weighted assets. Nonbank financial institutions—including pension funds, insurers, and investment funds—have grown rapidly (about 12 percent y/y in 2024) and appear well capitalized, with FSAP stress tests confirming resilience of both banks and

NBFIs to severe solvency and liquidity shocks, including those linked to trade disruptions. Mortgage arrears remain low; nonetheless elevated household debt and debt-service burdens, material commercial real estate (CRE) exposures at pension funds and insurers, and banks' indirect CRE exposures could weigh on credit provision, while rising small-business bankruptcies in trade-exposed sectors warrant continued close monitoring.

OUTLOOK AND RISKS

Quarterly GDP Forecast: Pre and Post 2025 Tariffs
(Index, 2024 Q4=100)



Sources: World Economic Outlook.

11. The baseline assumes persistent near-term trade headwinds and a modest medium-term recovery. Deep integration with U.S. supply chains implies that prevailing tariffs act chiefly as a negative demand shock through 2026, weighing on exports, investment, and hiring, while economic slack and the unwinding of most retaliatory tariffs keep inflation contained. As trade uncertainty recedes, supply chains adjust, and Budget 2025 investment measures gain traction, investment is expected to firm gradually. Nonetheless, output is expected to remain below pre-shock projections, and potential growth—estimated at just above 1½ percent—reflects normalized population growth and does not yet fully incorporate prospective productivity gains. The baseline reflects current tariff settings (consistent with January 2026 WEO assumptions), lower immigration inflows under the 2025–27 Immigration Levels Plan, and a measured rollout of fiscal support starting in late 2025.

- **Real GDP:** Output is projected to grow modestly over the coming quarters, supported by policy easing, but to remain below potential for some time before gradually converging toward trend as uncertainty recedes and investment gains traction. The structural fiscal deficit is projected to widen and peak at around 2 percent of GDP in 2026. Persistent trade uncertainty, slower hiring, and a roughly 1 percentage point slowdown in population growth from recent peaks are expected to weigh on household spending and private investment.

- **Inflation:** Price pressures are expected to remain contained, with CPI inflation hovering near 2 percent as output remains below potential and softer labor demand keeps wage pressures moderate. Exchange rate pass-through is expected to be limited, consistent with well-anchored inflation expectations.

- **Current account**: External balances are projected to remain weak in the near term, then improve gradually as trade headwinds ease and supply-side reforms take effect. The current account deficit is expected to widen temporarily, as subdued exports under prevailing U.S. tariffs and softer global demand outweigh import compression, before narrowing as trade tensions and fiscal support unwind. Trade-policy uncertainty is expected to weigh on foreign direct investment and portfolio flows in the near term, offset by net inflows in other investment. Over the medium term, competitiveness gains from supply-side reforms and recovering external demand are expected to strengthen the external position, which was deemed weaker than implied by medium-term fundamentals and desirable policies in 2025 (Annex II, the assessment is preliminary; the final assessment will be published in the 2026 External Sector Report).

12. Risks have become more balanced than earlier in the year but remain tilted to the downside. Renewed tariff escalation or tighter global financial conditions (including from disorderly asset price corrections) could weigh on investment, hiring, and confidence, while a sharper slowdown in China would weaken commodity prices and exports. Domestically, elevated household debt leaves consumption vulnerable to labor market shocks, and extreme climate events pose additional macroeconomic and fiscal risks. Upside risks include a more constructive trade environment, faster internal market integration, and stronger execution of supply-side reforms and priority infrastructure investment, which could lift demand and potential growth. Canada's strong fundamentals, including a positive net international investment position and reliable access to external financing, provide important buffers.

13. Authorities' Views. The authorities highlighted that the economy was demonstrating resilience but expected near-term growth to remain subdued amid trade-policy uncertainty and soft external demand. The Bank of Canada's October projections place growth near potential (about 1½ percent) in 2026–27, with excess supply narrowing as past easing transmits. Inflation is expected to remain near 2 percent, with temporary fluctuations from base effects and continued moderation in core inflation as shelter pressures ease. They identified continued or additional U.S. tariff actions or uncertain outcomes of a USMCA review as the main external risks, alongside China-related shocks and global financial market volatility. Upside risks include faster business adjustment, stronger execution of supply-side reforms, and renewed momentum on internal market integration.

POLICY DISCUSSIONS

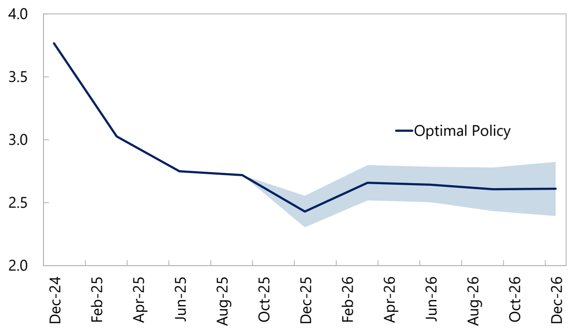
Canada's near-term challenge is to manage trade-induced headwinds while advancing reforms that raise productivity, strengthen resilience, and support economic security. Policy discussions centered on cushioning near-term adjustment while preserving fiscal credibility and price and financial stability, and on advancing reforms to strengthen competitiveness and internal market integration. A trade strategy anchored in openness and predictability—centered on a constructive 2026 USMCA review and gradual diversification—is essential to anchor investment, reduce uncertainty, and bolster resilience. High uncertainty calls for policy flexibility and robust contingency planning.

A. A Counter-Cyclical Monetary and Fiscal Response

Monetary Policy

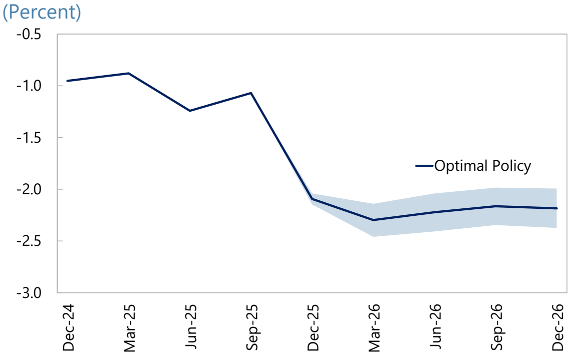
14. Monetary policy should remain focused on maintaining inflation near target. With inflation contained and the economy operating below potential, the current stance is appropriate. Policy easing is beginning to transmit to interest-sensitive sectors, most visibly housing, and some credit conditions, though trade uncertainty continues to weigh on investment. Further easing could be considered if underlying inflation pressures continue to ease and slack widens, taking account of fiscal effects on both demand and supply. Following the end of quantitative tightening, the Bank of Canada has appropriately shifted to steady-state balance sheet operations to maintain stable settlement balances.

Policy Response to Tariff Shocks: Interest Rate
(Percent)



Sources: IMF Staff calculation.

Policy Response to Tariff Shocks: Fiscal Balance to GDP
(Percent)



Sources: IMF Staff calculation.

15. The Bank's communication strategy should continue to reinforce policy credibility and stability. The recent return to publishing a central forecast is a welcome step toward greater transparency. Carefully presented conditional policy rate paths—illustrating how policy would respond under alternative economic scenarios, without implying pre-commitment—could further clarify the reaction function and anchor expectations more systematically. Implemented prudently, these enhancements would strengthen the clarity of policy signals while preserving flexibility.

Fiscal Policy

16. Fiscal policy is appropriately positioned to support near-term adjustment to the trade shock while anchoring medium-term sustainability. With public debt moderate by G7 standards and borrowing costs contained, Budget 2025 uses available fiscal space to combine targeted near-term support with a shift toward higher public investment. Staff simulations suggest that a general government deficit of about 2–2½ percent of GDP in 2025–26, followed by gradual consolidation from 2027 toward around 1½ percent of GDP over the medium term, would strike an appropriate balance between stabilization and debt sustainability (Box 2). Expenditure priorities should continue to emphasize high-multiplier public investment—particularly shovel-ready infrastructure and housing—alongside temporary, targeted support for viable firms affected by trade-related disruption, with new measures remaining focused, transparent, time-bound, and linked to productivity-enhancing objectives.

17. As public investment scales up, a clear debt-to-GDP anchor should remain central to the fiscal framework, extending Canada's strong tradition of fiscal prudence. Budget 2025 appropriately shifts toward higher public investment while strengthening discipline through new deficit and operating-balance anchors, preserving flexibility in a volatile global environment. Elevating the debt ratio from an indicator to a formal anchor—supported by deficit and operating-balance paths as complementary operational guides—would clarify the framework's hierarchy, reinforce accountability, and help ensure scaled-up investment remains sustainable and credible.

18. The new capital-budgeting framework is a welcome step toward sharpening the focus on productive investment, but further refinement is needed. The definition of capital spending remains broad—spanning public investment and measures affecting private capital formation—pointing to the need for closer alignment with national accounts and GFS standards and clearer treatment of grants, tax expenditures, and intangible assets. A clearer bridge to standard statistical classifications would strengthen transparency, comparability, and the link between borrowing and the debt path. Strong discipline—via clear eligibility, staged approvals, and central oversight—would help ensure scaled-up investment delivers durable productivity gains. International experience, including in the United Kingdom, shows that capital-budgeting works best when anchored by a clear debt target. Independent validation of classifications *ex ante* and compliance *ex post* would further bolster accountability and credibility.

19. Effective expenditure control will be critical to sustaining the shift toward higher public investment. Comprehensive expenditure reviews are an important step, including centrally governed, Cabinet-led review. Clear objectives, transparent reporting, and timely implementation—beginning with the upcoming Main Estimates—will be essential to reinforce discipline and accountability. Early, visible progress would strengthen credibility and support efficiency gains.

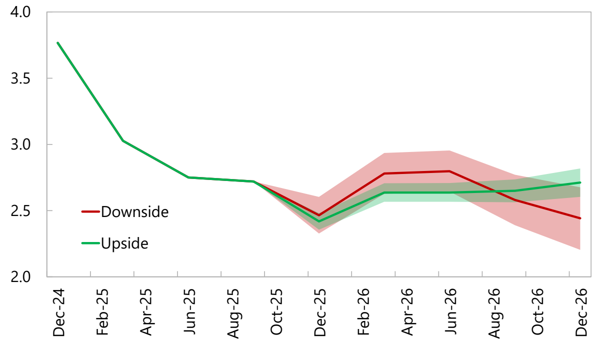
Contingency Plans

20. Policy should continue to be nimble under divergent trade outcomes—easing if renewed trade tensions weaken demand further and withdrawing support as conditions normalize. Clear communication of this state-contingent approach will be essential to anchor expectations. Given elevated uncertainty, staff analyzes two illustrative risk scenarios, drawing on assumptions from the October 2025 WEO and the latest Bank of Canada Monetary Policy Reports, using a small open-economy DSGE model calibrated to Canadian data. Key results are summarized below.

- **Downside scenario and policy response.** A renewed escalation of trade tensions would weaken growth more sharply, with real GDP about ¾ percent below baseline by Q3:2026, while inflation effects would likely remain limited as tariffs continue to operate primarily through demand with modest pass-through to prices. Fiscal policy would provide the primary stabilization response—allowing automatic stabilizers to operate fully and, if needed, deploying slightly larger (around ¼ percent of GDP, text charts), temporary and targeted support, including for viable trade-exposed firms and vulnerable households. Measures would be time-bound, transparently communicated, and paired with a credible path back to the fiscal anchors as conditions normalize. Monetary policy, taking fiscal settings into account, would remain attentive to incoming evidence on tariff effects and labor market dynamics, with further easing warranted only if underlying disinflationary pressures persist.

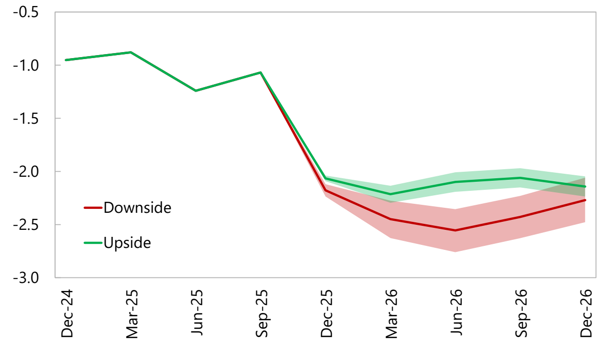
- **Upside scenario and policy response.** If trade frictions ease faster than expected and uncertainty dissipates, demand would strengthen more rapidly, warranting timely withdrawal of policy support. Fiscal policy would pivot earlier toward consolidation while preserving investment in productivity, infrastructure, and housing to support supply capacity and potential growth.

Policies Under Alternative Scenarios: Interest Rate
(Percent)



Sources: IMF Staff calculation.

Policies Under Alternative Scenarios: Fiscal Balance to GDP
(Percent)



Sources: IMF Staff calculation.

Authorities' Views

21. **The Bank of Canada judged the current monetary stance to be appropriate, with easing beginning to support interest-sensitive activity.** Early signs of stabilization are evident in consumption and a gradual firming in housing, with regional variation, while trade uncertainty and demand expectations continue to weigh on business investment. Recent fiscal measures are not expected to add materially to inflation. Monetary policy will remain data-driven, with a risk-based and symmetric reaction function, clear communication, and no pre-commitment.

22. **The authorities emphasized that Canada's fiscal position remains strong by G7 standards, underpinned by a low net debt-to-GDP ratio and sustained investor confidence, allowing fiscal policy to play a stabilizing role amid elevated trade uncertainty.** They viewed the fiscal stance as well calibrated, supporting adjustment to the trade shock while preserving prudence. Budget 2025 reflects this balance through targeted, temporary near-term support and a shift toward higher public investment to address infrastructure gaps, raise capacity, and support competitiveness. Fiscal discipline remains anchored by the new operating-balance and deficit anchors, with debt-to-GDP closely monitored and publicly reported. Achieving the operating-balance objective will require sustained expenditure restraint, underscoring the importance of effective expenditure controls and early progress under the multi-year expenditure review. Elevated uncertainty further underscores the importance of contingency planning.

23. **The new capital-budgeting framework aims to strengthen the quality, transparency, and credibility of public investment decisions.** Developed with feedback from experts, it is intended to support—not relax—fiscal discipline and will evolve with implementation. Clear classification and robust monitoring were seen as essential as multi-year investment plans are rolled out.

B. Preserving Financial Stability

24. The financial system remains resilient, but targeted enhancements would strengthen oversight and preparedness. The 2025 FSAP found banks and major NBFIs resilient to severe liquidity and solvency shocks, and crisis-management and supervisory-coordination frameworks broadly strong. Steps have been taken to intensify supervision—particularly on governance and non-financial risks, and AML/CFT—and expand monitoring of cross-border exposures and market-based finance. Further progress would strengthen federal-provincial coordination, information-sharing arrangements, supervisory autonomy, and prudential oversight. More frequent risk-based onsite inspections, especially for banks and financial integrity risks, would better align practice with international standards, while timely enforcement backed by clearer sanctioning powers would strengthen the credibility and effectiveness of the AML/CFT framework (Annex V).

25. Risks outside the core banking system merit closer attention as interconnectedness deepens. NBFIs continue to grow in size and cross-border linkages. Liquidity mismatches, leverage, and large U.S. hedge-fund positions in Canadian fixed-income and repo markets could amplify stress transmission during bouts of volatility, particularly if leveraged positions unwind abruptly. Continued efforts to strengthen data collection—particularly on cross-border activities—and to expand system-wide stress testing and deepen federal–provincial coordination would enhance oversight. The Bank of Canada's contingent liquidity facility for NBFIs that are material to core funding markets is an important backstop, and ongoing industry initiatives to broaden adoption of central clearing in fixed-income markets could further bolster resilience.

26. Macroprudential policy remains focused on housing-related vulnerabilities, which continue to warrant close attention. Borrower-based measures—including the minimum qualifying rate and loan-to-value (LTV) limits—have helped temper risks, but high household debt and still-stretched valuations in major markets leave vulnerabilities persistent. Should housing-related risks intensify, further tightening of borrower-based limits, particularly for higher-risk segments, should balance default-risk reduction against near-term liquidity risks and possible migration toward nonbanks (Box 3). Recent steps to extend the Domestic Stability Buffer to all systemically important institutions are welcome. Over the medium term, establishing a positive neutral countercyclical capital buffer (CCyB) for other deposit-taking institutions could further strengthen resilience, in line with FSAP recommendations.

27. Work is progressing on the regulatory approach to stablecoins and broader crypto-asset risks. A potential framework under the Bank of Canada's Payments Act would help ensure high-quality, safe products, while cross-border crypto-asset risks remain contained.

Authorities' Views

28. The authorities agreed that the financial system remains resilient, while emphasizing the need to continue strengthening supervision, market oversight, and macroprudential safeguards as risks evolve. Crisis-management arrangements and federal–provincial coordination were viewed as effective, with ongoing efforts focused on improving data reporting, supervision of non-financial risks, and risk-based AML/CFT supervision, consistent with FSAP priorities. Market-based finance and cross-border exposures—including leveraged hedge-fund activity in bond and repo markets—remain a focus: while they support market liquidity, they could amplify stress during periods of volatility. Priorities include closing data gaps, expanding NBFI and system-wide stress testing, strengthening liquidity monitoring for institutional investors, and advancing work to identify potentially systemic entities. In this context, the Contingent Term Repo Facility was viewed as an effective contingent backstop for NBFIs material to core funding markets, supporting market functioning without constituting a standing facility. Borrower-based macroprudential measures continue to mitigate housing-related risks. Plans to extend the Domestic Stability Buffer to all systemically important institutions—including ongoing assessment for Desjardins—were noted, and the authorities viewed the incremental benefits of a positive neutral CCyB for smaller institutions as limited relative to potential costs.

C. Improving Housing Affordability

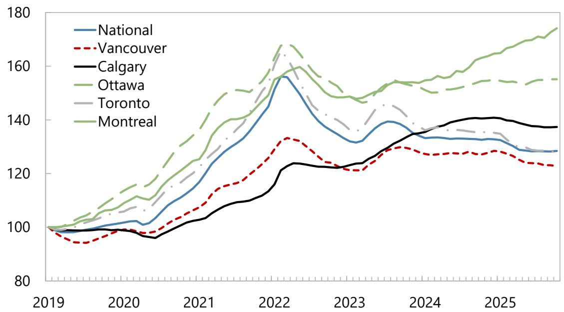
29. Housing affordability pressures remain acute in major cities despite some recent easing. Softer labor market conditions and tighter federal immigration targets have moderated demand—particularly in Toronto and Vancouver—cooling rental and ownership markets. Price growth has slowed, with national prices edging down, including in high-priced metros, while residential construction remains relatively strong nationally but has slowed in the most supply-constrained urban centers. Mortgage rate cuts and mild price corrections have improved affordability from its 2022 peak, yet conditions remain historically strained, as high borrowing costs and a structural supply shortfall—estimated by CMHC at about 2½ million units by 2035—continue to anchor elevated price-to-income ratios in major markets.

30. Decisively improving housing affordability will require sustained progress on both supply expansion and demand management.

- **Efforts should remain focused on easing binding supply constraints.** Programs such as Build Canada Homes, the Housing Accelerator Fund, expanded CMHC financing, and the Canada Housing Infrastructure Fund target key bottlenecks—land availability, lengthy permitting, infrastructure gaps, and low construction-sector productivity—and, in some areas, are beginning to improve project pipelines. However, in major metros, limited serviced land and high development charges continue to weigh on delivery. Sustained zoning reform, faster approvals, and coordinated federal–provincial–municipal action remain essential to expand supply at scale.

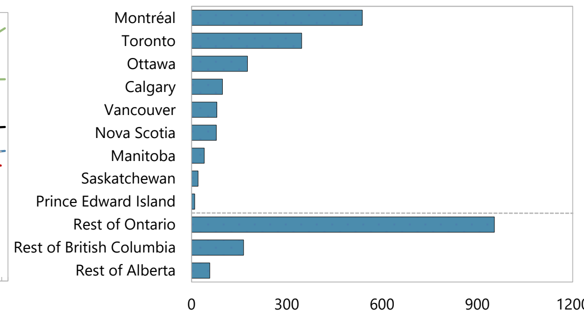
- **Demand measures should be tightly targeted.** Support for first-time homebuyers can improve affordability at the margin but should be calibrated carefully to avoid reigniting price pressures before supply expands meaningfully. The federal foreign-buyer ban and provincial and municipal nonresident taxes constitute capital flow management measures under the IMF's Institutional View and appear to have contributed only modestly to recent cooling. Over time, replacing them with broad-based, non-discriminatory taxes on speculative activity would reduce distortions, simplify administration, and better redirect capital toward new supply rather than existing housing stock.

House Price to Income, National and by City
(Index, 2019=100)



Sources: CREA, and IMF Staff calculation.

Housing Supply Gaps by Regions
(Thousands)



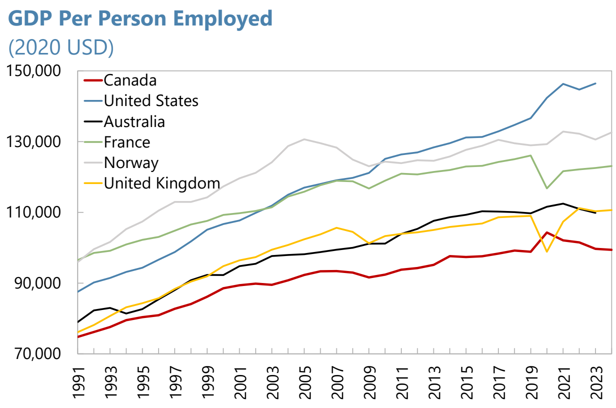
Source: CMHC, Canada's Housing Supply Shortages: Moving to a New Framework, June 19, 2025.

Authorities' Views

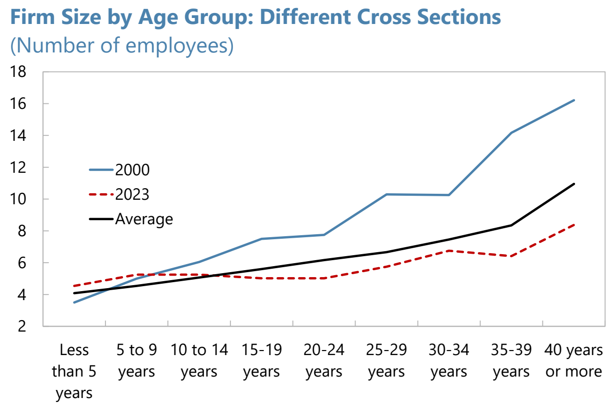
31. The authorities agreed that housing affordability pressures remain acute in major cities and stressed that the government's response is firmly supply-led. They cited early progress under Build Canada Homes, the Housing Accelerator Fund, expanded CMHC financing, and the Canada Housing Infrastructure Fund, while noting that zoning reform and municipal capacity constraints remain binding. Adjustments to immigration streams and temporary resident programs were seen as better aligning housing demand with supply. Demand-side measures—including the foreign-buyer ban and related provincial and municipal nonresident taxes—were described as temporary tools to dampen speculation and support fairness, while acknowledging staff advice to transition over time toward broader, non-discriminatory instruments. Streamlining approvals, easing development bottlenecks, and strengthening intergovernmental coordination were viewed as critical to accelerating supply.

D. Reinvigorating Productivity and Long-Term Growth

32. Canada's productivity slowdown is a defining constraint on long-term growth and living standards. Despite strong institutions, sound macroeconomic management, and deep global integration, labor productivity continues to lag peers, including other commodity-exporting advanced economies such as Australia and Norway. Output per hour worked is now roughly 30 percent lower than in the United States, with the gap having widened over time. Productivity shortfalls are broad-based but particularly pronounced in technology and service sectors.



Sources: OECD



Sources: StatCan and IMF Staff calculation.

33. Canada's productivity slowdown partly reflects declining business dynamism and rising market power among leading firms.

- **Business dynamism**. Firm-level evidence shows a steady decline in entry since 2000, with the share of young firms in output falling from about 30 to 20 percent. New entrants start with wider productivity gaps relative to incumbents and scale more slowly, weakening creative destruction and the reallocation of resources toward more productive firms (Box 4).

- **Market power.** Industrial concentration has risen in around half of industries—particularly in mature service sectors such as retail, finance, and transportation—and markups have increased mainly among top firms. Higher concentration and markups are associated with weaker subsequent productivity growth (a 1 percent increase in markups is linked to about a 0.4 percent decline), pointing to structural barriers to competition. Limited turnover at the top suggests entrenched incumbents and fewer disruptive entrants, weighing on aggregate productivity despite high capital intensity among market leaders.

34. Strengthening competition and business dynamism is critical to raising productivity. Recent steps to expand the Competition Bureau's mandate and reduce telecom deployment costs are positive for contestability, but sustained resourcing and enforcement will be essential. Lowering barriers—through simpler licensing, clearer and more harmonized regulatory standards, and reduced burdens on smaller and newer firms—would support entry, scaling, and exit, facilitating reallocation toward more productive businesses. Expanding private enforcement before the Competition Tribunal and routinely screening new regulations for competition impacts would strengthen deterrence and keep markets contestable.

35. Addressing Canada's productivity shortfall will also require a coordinated, economy-wide reform agenda. Priority pillars include: (i) high-quality public investment in infrastructure, skills, and research, anchored in fiscal discipline; (ii) innovation policies combining predictable incentives with stronger education and research capacity; (iii) labor market and immigration policies that support reallocation through training and credential recognition; and (iv) competition-enhancing reforms, including reduced internal trade barriers, improved access to venture capital, and modernized regulation. Together, these measures would strengthen firm entry and scaling, improve diffusion of innovation, and lift long-term productivity.

A Fiscal Strategy for Medium-Term Growth

36. **Anchored in credible medium-term discipline, fiscal policy can support productivity and higher economic capacity through scaled-up well-targeted public investment.** Maximizing growth payoffs will require stronger spending and revenue efficiency, including rigorous expenditure reviews and rationalization of large income-tax expenditures. Gradual broadening of the GST/HST base would further improve efficiency and help preserve fiscal space for high-return priorities—particularly research, skills, and digital infrastructure—while reinforcing the fiscal framework.

37. **Priority should be given to higher-quality public investment, stronger innovation and skills, and a tax system that catalyzes private investment while supporting capital deepening and firm growth.**

- **Public investment and infrastructure.** Budget 2025 scales up investment in clean electricity and trade-enabling infrastructure—including transport corridors, ports, and grid upgrades—to lower logistics costs, strengthen resilience, and support competitiveness. Delivery risks remain, reflecting permitting delays, coordination gaps, and skilled labor constraints. Stronger project readiness, sequencing, and intergovernmental coordination would improve execution and cost efficiency. Modular housing can ease labor-mobility constraints, while defense procurement would benefit from greater emphasis on efficiency and value for money.

- **Innovation, research, and skills.** Enhanced SR&ED support and advances in Major Projects initiatives should strengthen research infrastructure and accelerate clean-energy and critical-minerals development. Targeted funding for AI and clean-technology platforms and the Venture and Growth Capital Catalyst Initiative can help crowd in private investment, though clearer eligibility and disbursement rules would improve predictability and reinforce the innovation ecosystem. International experience highlights the importance of stable, multi-year incentives combined with evaluation, and staff analysis suggests that reallocating part of R&D support toward advanced education and research infrastructure—expanding the pool of scientists and engineers—would yield larger productivity gains (Box 5).

- **Financial innovation and competition.** Legislation on fiat-backed stablecoins under Bank of Canada oversight and continued rollout of the Consumer-Driven Banking Framework will expand secure data sharing and enable new business models. Easing entry and streamlining regulation would further support choice, competition, and capital deployment.

- **Pro-investment taxation.** The federal corporate tax rate remains internationally competitive, while the Productivity Super-Deduction and Accelerated Investment Incentive reduce the marginal effective tax rate on new capital by over two percentage points, reinforcing Canada's position as one of the most tax-competitive G7 jurisdictions for new business investment. To sustain impact, the tax system should remain simple and broad-based, supported by transparent evaluation of major tax expenditures.

38. While industrial policy can support resilience and economic security, its effectiveness hinges on strong guardrails that preserve openness, efficiency, and fiscal discipline. Broad-based measures—such as expanded employment-insurance benefits, liquidity support through BDC and the Large Enterprise Tariff Loan Facility, reskilling programs, and enhanced trade promotion—help ease factor reallocation rather than shield specific sectors. They should remain temporary and transparent. More selective instruments—including the Strategic Response Fund, the Regional Tariff Response Initiative, biofuel production incentives, Buy Canadian procurement mandates, and temporary regulatory easing for automakers—carry higher fiscal, governance, and efficiency risks and should be used only where clear market failures are demonstrated. Such measures should be narrow, time-bound, and competitively neutral, supported by transparent design and evaluation, and mindful of potential spillovers. Support should remain conditional on firm viability, allowing uncompetitive activities to exit and resources to reallocate toward more productive uses.

Making Immigration a Force Multiplier

39. Immigration policy is central to expanding Canada's labor supply, research capacity, and innovation ecosystem. A well-calibrated framework—better aligning skills with regional and sectoral needs—can complement domestic labor, deepen innovation networks, and spread productivity gains more evenly. Canada has strong foundations, including the Global Talent Stream and Mitacs, which support high-skilled entry and applied research linkages. Further gains would come from closer integration of immigration, education, and innovation policies, alongside strengthened mutual recognition of professional credentials across provinces (¶42), to enable faster reallocation of skilled workers to areas of persistent shortages—notably health care, digital services, and advanced manufacturing.

Deregulating Internal Trade and Labor Services

40. Despite strong external openness, Canada's internal market is fragmented by regulatory barriers. Differences in standards, licensing and credential recognition, procurement rules, and marketing regulations create *de facto* internal borders that restrict the movement of goods and services across provinces. Staff estimates suggest these frictions are equivalent to an average ad valorem tariff of about 9 percent, with barriers particularly high in services—often exceeding 50 percent in sectors such as health, education, and retail (Box 6). These barriers disproportionately affect smaller and more remote provinces by constraining market size and labor mobility.

41. Deepening internal market integration offers among Canada's highest-return structural reforms. Fully eliminating non-geographic internal trade barriers could raise real GDP by up to 7 percent over time, largely through efficiency gains as resources reallocate toward more productive firms and regions. Gains would be broad-based, with particularly large productivity benefits in smaller provinces. Services liberalization accounts for roughly 90 percent of the total impact, reflecting the central role of finance, telecommunications, and transportation. Model results further suggest that halving internal trade costs could broadly offset the GDP impact of a 10-percentage-point increase in U.S. tariffs, underscoring the role of internal integration in strengthening resilience to external shocks.

42. With federal frameworks largely in place, provincial implementation is now the binding constraint. Exemptions under the Canadian Free Trade Agreement have been substantially reduced, and the One Canadian Economy Act (Bill C-5) supports integration by allowing goods and labor services meeting comparable provincial standards to satisfy federal requirements. Priorities include completing mutual recognition of professional credentials—particularly in construction, health care, and education—phasing out local-preference procurement policies in line with CFTA disciplines, and mutually recognizing safety and inspection certifications (to eliminate duplicative compliance). Publishing regular estimates of GDP and productivity gains from liberalization would strengthen accountability and sustain reform momentum. These steps are consistent with experience in successful internal market reforms, notably in the EU.

Trade Policy and Trade Diversification

43. Canada's trade strategy should remain anchored in openness and predictability, balancing diversification with deep North American integration. In a more fragmented global environment, Canada should continue to work constructively with partners to resolve trade tensions, recognizing that deeper integration can raise welfare even amid unilateral tariff actions. Where trade or investment measures are taken for national or economic security reasons, they should be narrowly targeted and time-bound to limit spillovers. Diversification toward Europe and the Indo-Pacific can strengthen resilience, even if adjustment will likely be gradual given tightly integrated continental supply chains and infrastructure. The 2026 USMCA review will be pivotal: updating rules on critical minerals, digital trade, and clean technologies within a stable, rules-based framework would enhance regional competitiveness and investment certainty. This deeper continental integration should be complementary—not a substitute—to broader market access beyond North America, with trade facilitation and enabling infrastructure supporting a durable path to higher productivity, resilience, and economic security.

Authorities' Views

44. The authorities agreed that boosting productivity and competitiveness is central to Canada's medium-term growth strategy and carries a strong social mandate. Budget 2025 advances a pro-investment agenda, with the Productivity Super-Deduction and Accelerated Investment Incentive reducing the marginal effective tax rate on new investment to the lowest in the G7. These measures are broad-based, time-bound, and designed to crowd in private investment while preserving fiscal discipline through clear guardrails and sunset provisions.

45. They underscored that strong fiscal capacity and credibility underpin this strategy. With low net debt by G7 standards and sustained investor confidence, fiscal policy can support investment, productivity, and growth, while remaining prudent. Budget 2025's pivot toward housing-enabling infrastructure, clean electricity, trade corridors, and other nation-building projects aims to ease structural constraints and enable private sector investment. In this context, the authorities highlighted an emerging energy-security and competitiveness strategy—supported by recent federal–Alberta alignment—to accelerate major projects, strengthen energy- and critical-minerals value chains (including downstream processing and clean technologies), expand east–west trade-enabling infrastructure, and reduce interprovincial barriers.

46. Microeconomic and productivity-enhancing reforms were emphasized as central to delivering higher long-term returns. The authorities pointed to enhanced and more predictable SR&ED support, as well as enhanced investments in research infrastructure, AI capabilities, and clean-technology platforms, and measures to increase competition, alongside strengthened commercialization tools such as the Venture and Growth Capital Catalyst Initiative. Raising innovation outcomes will require faster diffusion and business adoption—including of AI—a deeper pool of highly skilled talent supported by closer alignment of immigration, education, and training systems, and progress on internal market integration, which requires provincial and territorial implementation—particularly mutual recognition and removal of local-preference rules—key to unlocking scale, labor mobility, and productivity gains.

47. On industrial policy, the authorities emphasized targeted tools to support adjustment, resilience, and economic security in a more fragmented global environment. Preserving critical capacity was seen as important, given links to energy, food, and national security. Temporary support for the steel and softwood sectors is intended to manage trade disruptions, safeguard viable capacity, and facilitate worker and firm adjustment as diversification proceeds, complemented by broad-based measures—liquidity support, reskilling, and trade promotion—to support reallocation. Industrial and defense-related initiatives were stressed to remain contestable, subject to clear guardrails, and regularly evaluated.

48. On trade, the authorities emphasized openness and predictability alongside diversification and deep North American integration. A stable USMCA framework was seen as essential for investment and supply-chain planning, complemented by a new trade diversification strategy focused on continued market-opening efforts in the Indo-Pacific and beyond. Recent high-level engagement—including significant investment commitments from the UAE—was highlighted as part of a broader strategy to deepen partnerships beyond traditional markets and strengthen Canada’s economic security. These efforts build on Canada’s status as the only G7 country with free trade agreements in force with all other G7 countries.

STAFF APPRAISAL

49. Canada is adjusting well to a significant external trade shock. U.S. tariff increases—along with more limited and largely unwound retaliatory measures—have disrupted tightly integrated North American supply chains and weighed on exports, investment, and confidence. The impact has been less severe than initially feared, reflecting USMCA exemptions, monetary easing, and targeted domestic support. Nonetheless, the shock has reinforced longstanding structural weaknesses. The priority is to manage near-term adjustment while advancing reforms that lift productivity, competitiveness, and resilience within a credible macro-fiscal framework.

50. The near-term outlook remains subdued and uncertainty elevated. Output is expected to remain below potential for some time, as trade adjustment and uncertainty continue to weigh on exports, investment, and labor markets, compounded by slower immigration. Inflation is projected to remain near 2 percent, with softer demand and firms' cost absorption containing underlying pressures. The current account deficit is expected to narrow only gradually, as trade uncertainties recede and competitiveness gains take hold.

51. Risks remain tilted to the downside. Renewed tariff escalation, prolonged trade uncertainty, or tighter global financial conditions could weigh on investment and confidence, while a sharper slowdown in China would pressure commodity exports. Elevated household leverage remains a domestic vulnerability. Upside risks stem from a more constructive U.S. trade environment and stronger execution of internal market and supply-side reforms. Canada's strong policy frameworks and fundamentals, including a positive NIIP and stable external financing, provide important buffers.

52. The policy mix is appropriately calibrated to support adjustment to the trade shock while preserving stability and credibility. With inflation contained and the economy operating below potential, the current monetary policy stance is appropriate, with scope to recalibrate if underlying inflation pressures continue to ease and slack widens, taking account of fiscal measures. Fiscal policy is providing targeted near-term support within a credible framework, supported by moderate public debt and contained borrowing costs. Keeping a federal government deficit around 2½ percent of GDP in FY2025–26, as currently envisaged, followed by gradual consolidation over the medium term, would appropriately balance stabilization with sustainability objectives. Clear communication of policy contingencies—temporary, targeted fiscal support if conditions weaken; earlier withdrawal if conditions improve; and transparent paths back to the anchors—would reinforce confidence and support an orderly adjustment.

53. Efforts to strengthen the fiscal framework should continue. The new deficit and operating-balance anchors provide useful discipline, but a clearer hierarchy would further reinforce credibility. Clarifying the debt-to-GDP ratio as the primary fiscal anchor—supported by deficit and operating-balance paths as operational guides—would strengthen the framework as public investment scales up. Further refining the capital-budgeting framework, including through a clear bridge to standard statistical classifications and independent validation, would enhance transparency, comparability, and the link between borrowing and the debt path. Sustained, well-reported expenditure reviews remain essential.

54. The financial system remains resilient, consistent with the 2025 FSAP findings, though continued vigilance is warranted. Strong capital and liquidity buffers, robust financial sector oversight frameworks, and effective crisis-management arrangements provide important safeguards. Elevated household debt and ongoing mortgage repricing leave some households exposed to income and employment shocks, and vulnerabilities persist in selected commercial real estate segments. The expanding role of nonbank financial institutions and cross-border activity underscores the need to close data gaps, broaden system-wide stress testing, and strengthen supervisory coordination. Extending the Domestic Stability Buffer to all systemically important deposit-taking institutions, maintaining borrower-based measures, and reinforcing risk-based supervision would further bolster resilience.

55. Restoring housing affordability requires a durable expansion of supply. Federal measures appropriately focus on enabling supply through faster approvals, improved financing for rental and multi-unit construction, and infrastructure support to unlock development, but coordinated federal–provincial–municipal action to align zoning, permitting, infrastructure, and financing will be essential to achieve scale in high-pressure markets. Over time, replacing foreign-buyer restrictions and nonresident taxes with broad, non-discriminatory taxes on speculative activity would improve efficiency and align with the IMF's Institutional View.

56. Raising competitiveness and productivity remains Canada's central medium-term challenge. Weak business dynamism, slow capital deepening, and lagging innovation have restrained output per hour, while declining firm entry, barriers to scaling, and high concentration in key service sectors have dampened competition and slowed resource reallocation. Stronger competitiveness would also improve Canada's external position, which is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies.

57. Strengthening competition and internal market integration offers among Canada's highest-return reforms. Stronger Competition Bureau enforcement, simpler and more harmonized licensing and regulation, and systematic screening of new regulations for competition effects would improve contestability. Removing interprovincial barriers—through mutual recognition of credentials, aligned standards, and CFTA-consistent procurement—would deliver sizable productivity gains, particularly in services, and help cushion external shocks.

58. Efforts to encourage investment and innovation should be deepened. Recent measures lowering the marginal effective tax rate on new capital reinforce Canada as one of the most tax-competitive countries for new business investment in the G7 and improve the timing and cost of investment. Expanded support for research and innovation—alongside progress on major project initiatives—would strengthen research infrastructure. To maximize impact, policy design should remain simple, broad-based, and predictable, supported by transparent evaluation, a deeper pool of scientists and engineers, and stronger commercialization pathways. Over time, assessing options to broaden the GST/HST base would help reinforce fiscal space for high-return investment while preserving medium-term sustainability.

59. Given Canada's deep North American supply-chain integration, industrial policy can facilitate trade adjustment, provided strong guardrails are in place. Priority should remain on broad-based measures that ease factor reallocation—such as liquidity support, reskilling, and trade facilitation—while selective interventions are used sparingly and only to address clearly identified market failures. Measures should be narrow, time-bound, competitively neutral, and conditional on firm viability, with transparent evaluation and attention to potential spillovers, to limit fiscal risks, avoid entrenching incumbents, and support reallocation toward higher-productivity uses as conditions normalize.

60. A coherent trade strategy anchored in openness and predictability remains essential for resilience. Diversification toward Europe and the Indo-Pacific can reduce reliance on a single market, although this adjustment will be gradual given deep continental integration. A predictable, rules-based approach that combines market broadening with deeper North American integration—including modernizing trade rules through the 2026 USMCA review—will best support investment and competitiveness.

61. It is recommended that the next Article IV consultation with Canada take place on the standard 12-month cycle.

Box 1. Exchange Rate Pass-Through in Canada[1]

This box examines how exchange rate movements transmit to import and consumer prices in Canada, where underlying policy fundamentals are strong.

Exchange rate pass-through (ERPT) is shock dependent. The magnitude—and in some cases the sign—of the pass-through varies with the source and persistence of exchange rate movements. Canadian firms adjust pricing strategies accordingly: demand-driven appreciations can raise prices through markup expansion, while monetary policy-driven appreciations tend to compress margins. Conditioning on commodity and trade shocks can materially alter estimated pass-through.

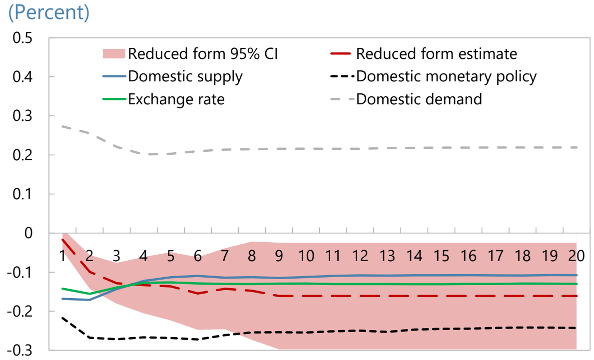
Model framework. A structural VAR identifies domestic and global sources of exchange rate movements. Following Forbes et al. (2018), the model uses sign and zero restrictions and is estimated using Bayesian methods on Canadian quarterly data from 1997Q1–2019Q4. Comparing shock-specific impulse responses with reduced-form estimates shows how shock origins shape price pass-through.

Results. As shown in the box figures, pass-through varies markedly by shock type. Specifically:

- Depreciations driven by domestic monetary easing generate the strongest pass-through to consumer prices, as stronger domestic demand and easier financial conditions allow firms to raise prices rather than absorb cost increases through margins;
- Supply or exogenous exchange rate shocks generate more muted effects, as cost pressures are partly offset by competitive forces and adjustment along supply chains.;
- Demand-driven depreciations are associated with price declines, as firms compress margins under weaker demand, as weaker demand leads firms to compress markups despite a weaker currency.

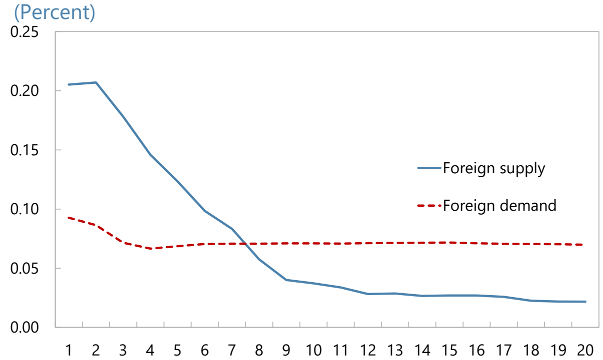
Accordingly, not all depreciations are inflationary, nor all appreciations disinflationary. Variance decompositions indicate that global and domestic demand shocks account for most exchange rate movements, highlighting the importance of trade and commodity shocks. Exchange rate movements should therefore be interpreted in light of their underlying drivers: Demand-driven movements tend to exhibit limited pass-through, while some supply-side shocks—particularly those operating through direct cost or disruption channels—can still amplify inflation pressures and warrant careful policy judgment.

Pass-Through to CPI: Domestic Shocks
(Percent)



Sources: IMF Staff calculation

Pass-Through to CPI: Global Shocks
(Percent)



Sources: IMF Staff calculation

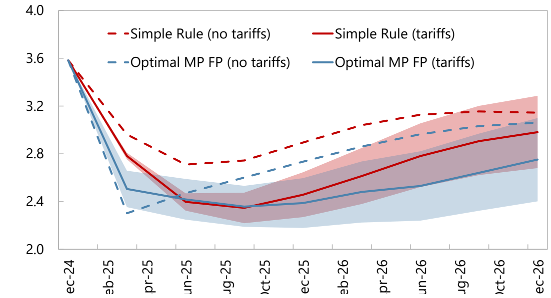
Note: Pass-through is defined as the median ratio of cumulative impulse responses of consumer prices to exchange rate movements.

[1] Prepared by Flora Lutz (RES)

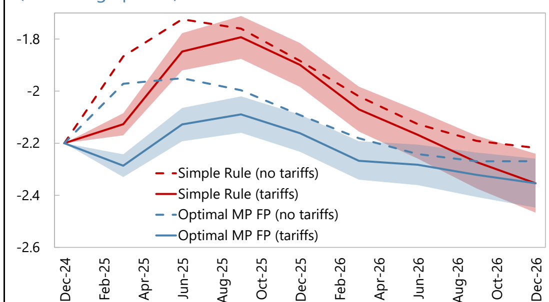
Box 2. Policy Response to Tariff Shocks: Model-Based Assessment

This box discusses the appropriate policy mix in response to U.S. tariff shocks.

Nominal Interest Rate
(Percentage points)

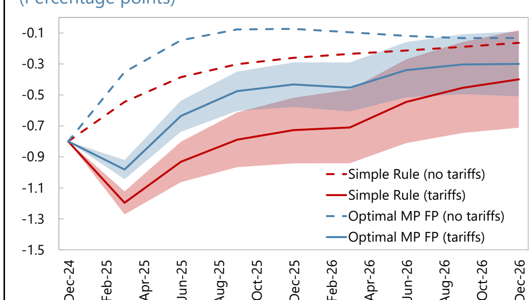


Fiscal Balance to GDP
(Percentage points)



Sources: IMF Staff calculation.

Output Gap
(Percentage points)



Sources: IMF Staff calculation.

Methodology. The analysis uses a small open-economy structural model calibrated to Canada, with nominal and real frictions and an explicit fiscal block. Monetary policy operates through the policy rate. Simulations start from end-2024 conditions, with a modest negative output gap, inflation near target, a restrictive monetary policy stance, and moderate public debt. The tariff shock—a sustained 5 percent increase in foreign prices of Canadian exports—initially reduces external demand, widening the output gap and weakening the trade balance.

Assessment of policy responses. Policy responses span a range in which monetary policy follows a standard Taylor-type reaction function, while fiscal policy is governed by simple debt-stabilizing rules or allows temporarily countercyclical support under a welfare-maximizing (Ramsey-optimal) benchmark that preserves price stability and medium-term debt sustainability.

Monetary policy easing alone supports activity through lower real interest rates and exchange rate depreciation, partially offsetting weaker external demand. Under the simple-rule framework, where most of the adjustment falls on monetary policy, rates would ease by about 100 basis points, supporting consumption and investment, but output and the trade balance recover only gradually.

Allowing fiscal policy to respond countercyclically strengthens stabilization. With public debt at moderate levels, temporary fiscal support can cushion demand—permitting a modest, transient deviation from the long-run debt path—while monetary policy remains accommodative. Fiscal transfers support household income and consumption, reducing the adjustment burden on interest rates. As a result, output stabilizes more rapidly, inflation remains well contained (peaking at about 2¼ percent), and debt dynamics are smoother. As growth strengthens, revenues recover, and gradual consolidation returns debt to its medium-term anchor.

Bottom line. A countercyclical policy mix—temporary, well-anchored fiscal support alongside accommodative monetary policy—delivers stronger stabilization while preserving price stability and fiscal credibility.

Box 3. Monetary and Macroprudential Policy Interaction Amid Affordability Pressures

This box evaluates how borrower-based macroprudential tools interact with monetary policy when housing affordability is stretched and near-term housing supply is inelastic.

Empirical framework. A quarterly, province-level regression assesses demand-side housing dynamics using price-to-income ratios, income growth, mortgage interest rates, and borrower-based LTV limits (IMF iMaPP), with a pandemic dummy.[1]

Dependent Variable: Year-on-Year Growth Rate of Residential Real Estate					
	Ontario	Quebec	British Columbia	Alberta	Nova Scotia
YoY house price growth (t-1)	0.654***	0.639***	0.784***	0.704***	0.651***
YoY Income growth (t)	0.535**	0.488***	0.0933	0.235**	0.512**
Log (Price-to-Income) (t-4)	-0.138***	-0.148***	-0.120***	-0.544***	-0.118***
Log (Interest Rate) (t-1)	-0.0740***	-0.0105	-0.0441*	-0.00883	-0.00318
R2	0.830	0.896	0.846	0.947	0.874

*** p<0.01, ** p<0.05, * p<0.1

Results

- **House price dynamics.** House price growth is persistent and sensitive to income growth, particularly in Ontario, Quebec, and Nova Scotia. Weaker affordability dampens price growth overall, most notably in Alberta. Higher effective mortgage rates reduce house price growth, with stronger effects in Ontario and British Columbia.

- **Policy interactions.** Monetary policy and borrower-based macroprudential tools interact with affordability in shaping price dynamics. The dampening effect of higher interest rates on price growth weakens as affordability deteriorates, reflected in a positive interaction between price-to-income ratios and interest rates. Tighter LTV limits make credit constraints more binding than income constraints, muting the sensitivity of house prices to affordability conditions.

	Ontario	Quebec	British Columbia	Alberta	Nova Scotia
Log (price-to-income) x Log (interest rate) (t-4)	0.124**	0.185***	0.212**	0.144*	0.204***
Log (price-to-income) x LTV limit (t-4)	-0.00961	-0.0118**	-0.0218***	-0.0229***	-0.0137

*** p<0.01, ** p<0.05, * p<0.1

- **Mortgage origination and risk.** Tighter LTV limits reduce the share of newly originated mortgages with LTVs above 80 percent, with stronger effects for primary-residence buyers than for investors. Monetary and macroprudential policies also affect mortgage arrears. Higher interest rates are associated with rising mortgage arrears, reflecting the prevalence of variable-rate mortgages and frequent repricing of fixed-rate loans. Meanwhile, higher LTV caps are linked to higher arrears, especially in Ontario and British Columbia, consistent with greater risk-taking under looser borrowing constraints.

Dependent Variable: Percent of Mortgages in Arrears					
	Ontario	Quebec	British Columbia	Alberta	Nova Scotia
Log(effective interest rates) (t-4)	0.0430***	0.0235***	0.0385***	0.0333**	0.00985
Average LTV limit (t-4)	0.00171**	0.000764	0.00229***	0.000862	0.000292

*** p<0.01, ** p<0.05, * p<0.1

- **Policy implications.** Overall, borrower-based macroprudential tools can complement monetary policy by restraining housing demand during easing cycles and containing household credit risk during tightening phases, supporting macro-financial stability. This is especially important in Canada given the higher share of variable rate mortgages and persistent supply constraints.

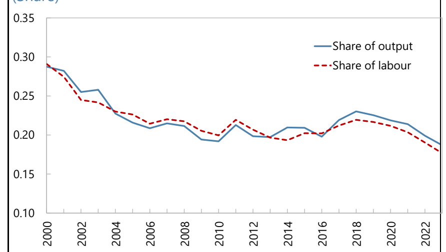
[1] The LTV limit is defined as weighted-average regulatory LTV cap on new mortgage originations.

Box 4. Canada's Productivity Puzzle[1]

This box presents firm-level evidence on the microeconomic channels underlying Canada's productivity shortfall and benchmarks Canadian firms against U.S. peers.

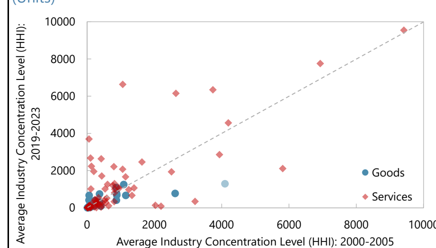
Declining business dynamism. Data from the National Longitudinal Microdata File (NALMF) show a sustained slowdown in firm dynamism. Firm entry declined from 17 percent to 8½ percent between 2001 and 2023, while the output (employment) share of young firms fell from 29 percent to under 20 percent. Entrants' labor productivity relative to incumbents declined by about 10 percent, and firm growth profiles flattened—young firms average about four employees, while aged firms (40+ years) now average about eight employees, down from 16 in 2000. Employment-weighted growth dispersion narrowed by 26 percent, indicating less reallocation across firms, fewer high-growth firms, and less market experimentation.

Young Firms' Footprint
(Share)



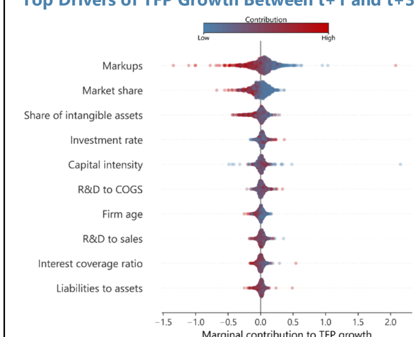
Sources: StatCan

Industry Concentration Level: 2000-2005 vs 2019-2023
(Units)



Sources: StatCan and IMF Staff calculation

Top Drivers of TFP Growth Between t+1 and t+3



Sources: IMF Staff calculation

Rising market power. Measures of concentration and markups point to rising market power, particularly in services. Industrial concentration (Herfindahl-Hirschman index) increased in about half of industries since 2000, notably in retail, finance, and transportation. Markup dispersion widened, driven by the upper decile of firms. Consistent with cross-country evidence, firm-level regressions show that industries with higher markups have weaker subsequent productivity growth.

Benchmarking against U.S. firms. Analysis of listed firms using Worldscope data shows that Canadian firms' total factor productivity (TFP) is about 20 percent lower than that of U.S. counterparts. Industry composition explains part of the gap, but after matching comparable firms using propensity score methods, a residual gap of about 4 percent remains. Lower churn at the top of the firm distribution points to fewer disruptive entrants capable of displacing less productive incumbents.

Linking investment and productivity growth. Supervised machine-learning models identify investment rates and capital intensity as the strongest predictors of future productivity growth, with a smaller role for R&D. While firms with higher market shares and markups tend to be more productive, productivity growth is strongest among firms that sustain high investment and capital deepening, underscoring the importance of entry, scaling, and reallocation dynamics.

[1] Prepared by Federico J. Díez, Flora Lutz, Tatjana Schulze, Juan Jose Tapia (all WHD), and Wulong Gu (StatCan), as part of an ongoing project on firm productivity in Canada, in collaboration with Statistics Canada. See Díez and others (forthcoming) for further details.

Box 5. Innovation[1]

Using a model calibrated to the Canadian economy, this box examines identifies conditions under which innovation support could deliver durable growth.

Stylized facts. Canada's innovation performance has declined over the past 15 years (lowest among the G7), despite generous R&D tax subsidies, suggesting scope for better policy alignment and complementarities.

Analytical framework. An endogenous-innovation, multi-sector model calibrated to Canada links innovation to technology creation, research capital, and researcher productivity. High-skilled workers allocate between R&D and production, generating bottlenecks when scientific talent is scarce. Policy affects innovation through taxes, R&D subsidies, and transfers.

Key findings:

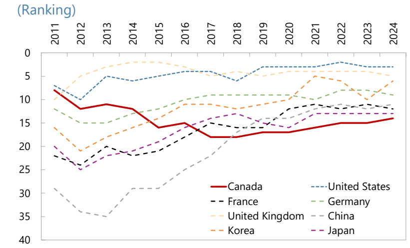
- **R&D subsidies are ineffective when scientific talent is scarce.** With a fixed supply of researchers, higher subsidies mainly bid up wages, offsetting cost advantages and limiting gains in technology creation. Innovation peaks at relatively low subsidy rates.
- **Expanding the supply of scientists makes subsidies effective.** When the high-skilled share responds to wage incentives, R&D subsidies significantly raise innovation and long-run growth. At current subsidy rates, innovation rises only if the scientist pool expands materially (long-term GDP gains could approach 15 percent, before accounting for spillovers). Allowing for social returns to innovation, long-run GDP gains could be much higher (16–45 percent), underscoring the importance of diffusion.
- **Alternative policies differ in effectiveness.** Investment tax cuts can raise growth an innovation, particularly when talent is fixed, but by much less (40 percent) than R&D subsidies, and therefore with smaller spillovers. Personal income tax cuts have very modest effects on innovation. Redirecting resources toward higher education meaningfully expands high-skill supply, boosting innovation and long-term GDP. A targeted immigration policy can have a similar effect, although the immediate impact may be stronger.
- **Fiscal incentives cannot substitute for research talent.** Making Canada's innovation framework effective requires pairing R&D tax support with policies that expand the pool of high-skilled workers—through education, immigration, and skill formation—so that incentives translate into sustained productivity and growth.

Implied Tax Subsidy on R&D Expenditure, 2023

	Successful Scenario	
	SMEs	Large Firms
Canada	31%	13%
G7 average	20%	17%
France	36%	36%
Germany	21%	21%
Italy	9%	9%
Japan	20%	17%
United Kingdom	18%	18%
United States of America	3%	3%
OECD average	18%	15%
EU-27 average	16%	16%

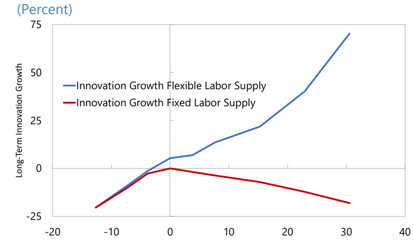
Source: INNOTAX-OECD

Global Innovation Index, 2011-2024, Top 15 countries
(Ranking)



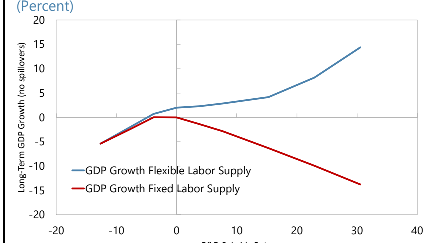
Sources: World Intellectual Property Organization

Long-Term Innovation Growth
(Percent)



Sources: IMF Staff calculation

Long-Term GDP Growth Ignoring Productivity Spillovers
(Percent)



Sources: IMF Staff calculation

These results align well with April 2024 Fiscal Monitor findings on innovation and skills complementarities.

[1]Prepared by Sandra Lizarazo Ruiz (WHD)

Box 6. Toward One Canadian Economy[1]

Given persistent internal trade fragmentation, this box outlines the barriers and sectors that should be prioritized to deliver the largest gains from greater internal integration

Measuring trade costs. An empirical gravity framework, based on the Head-Ries index, translates trade frictions into tariff-equivalent costs by comparing interprovincial with intraprovincial trade flows, controlling for sectoral and regional characteristics. Trade costs are decomposed into geographic and non-geographic components, the latter capturing policy frictions including regulatory divergence and administrative burdens. Estimates for 230 sectors across 13 provinces and territories over 1997-2021 indicate that non-geographic barriers average about 9½ percent tariff equivalents nationally, with higher costs in smaller provinces and in services.

Gains from Fully Eliminating Non-Distance Internal Trade Costs

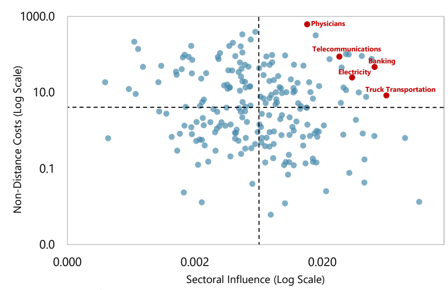
Province	Real GDP per Worker	Employment
British Columbia	5.7	-1.6
Alberta	4.9	-2.8
Saskatchewan	13.9	10.1
Manitoba	12.2	7.6
Ontario	3.6	-4.5
Quebec	6.9	0.0
New Brunswick	26.6	29.1
Nova Scotia	23.7	24.6
Prince Edward Island	39.5	49.1
Newfoundland and Labrador	15.4	12.3
Yukon	37.9	46.6
Northwest Territories	39.1	48.5
Nunavut	76.7	112.8
Canada	6.8	

Note: Displays the percentage point change in labor productivity (real GDP per worker) and employment in all provinces and territories from a complete elimination of measured non-distance internal trade costs.

Macroeconomic gains from liberalization. An Eaton-Kortum-type general equilibrium model is used to quantify the impact of reducing internal trade barriers. Eliminating all non-geographic, non-policy trade barriers could raise Canada's real GDP by roughly 7 percent over the long run—about C$210 billion in 2025. The gains stem from stronger labor productivity, driven by improved resource allocation. All provinces benefit, with proportionally larger gains in smaller jurisdictions.

Sectoral priorities. Services account for roughly 90 percent of the total GDP gains. Given implementation constraints, policymakers should prioritize high-impact sectors—those both heavily traded across provinces and central to the production network through strong input-output linkages. Finance, telecommunications, and transportation emerge as cross-sector enablers whose liberalization would generate larger economy-wide effects, even when trade costs appear modest (Figure 1).

Estimated Trade Costs vs. Economic Influence, by Sector



Sources: IMF Staff calculation

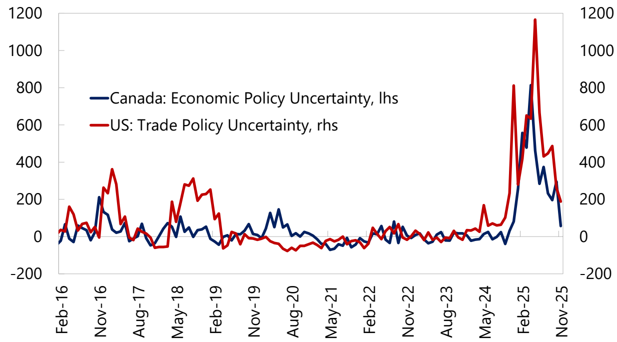
Resilience and implementation. Internal trade liberalization can strengthen resilience to external shocks. Simulations show that a 10-percent rise in trade costs from U.S. tariffs on Canadian goods exports could be offset by a 5 percent reduction in internal trade costs (though tariff impacts would materialize faster than internal liberalization gains). Reducing internal barriers is also expected to support East-West trade and support international trade diversification. Sustained progress, however, will depend on effective intergovernmental coordination, transparent benchmarking of trade barriers, and clear incentives for provincial alignment.

[1]Prepared by Federico J. Díez, Yuanchen Yang (both IMF), and Trevor Tombe (University of Calgary). See Díez, Tombe, and Yang (forthcoming) for further details.

Figure 1. Canada: External

Global trade policy uncertainty has spiked

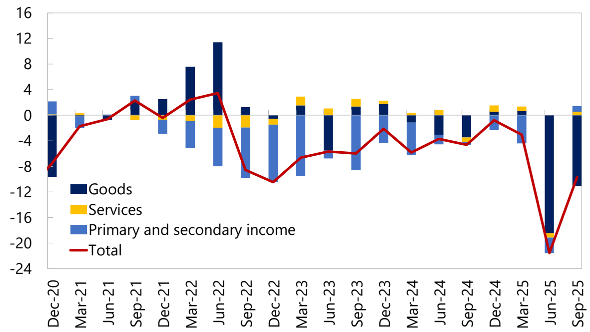
News-Based Policy Uncertainty
(Percent, YoY)



Source: PolicyUncertainty, Iacovello et al, Haver Analytics, and IMF Staff calculation.

... driving a sharp export drop.

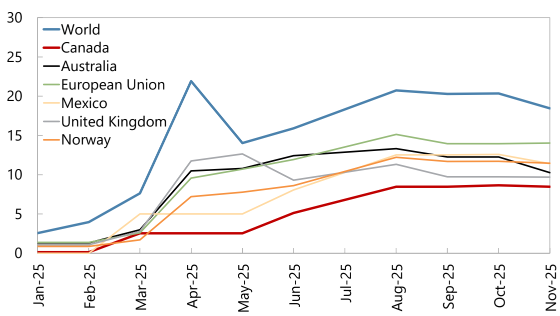
Current Account Balance Compostion
(Billions, CAD)



Source: StatCan, Haver Analytics, and IMF Staff calculation.

USMCA carve-outs cushioned tariff impacts ...

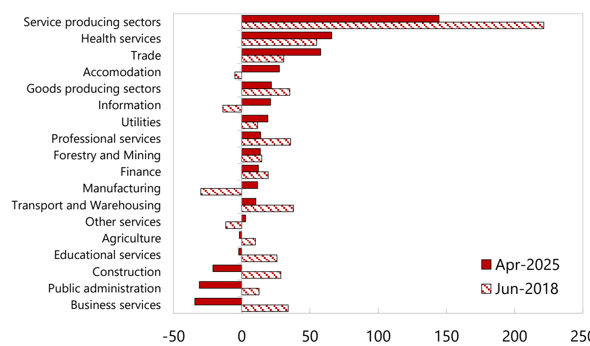
U.S. Trade Weighted Average Tariffs
(EoP, Percent)



Source: WTO-IMF Tariff Tracker.

... as job gains in exposed sectors held up.

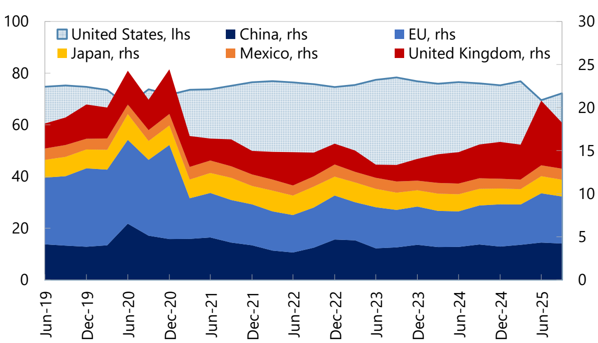
Job Changes: 7 Months After U.S. Tariffs Announcements
(Thousands)



Source: StatCan, Haver Analytics, and IMF Staff calculation.

Export diversification remains limited.

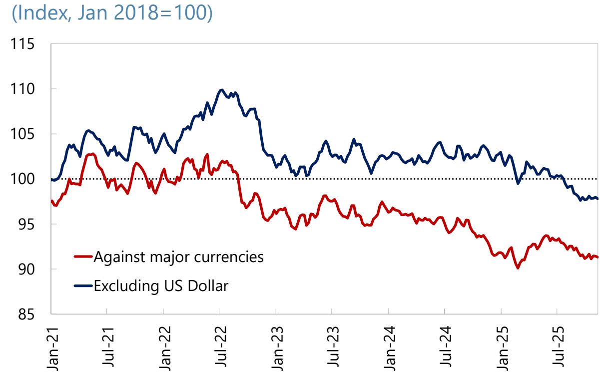
Exports Composition: US vs 5-Top Trading Partners
(Percent)



Source: StatCan, Haver Analytics, and IMF Staff calculation.

Meanwhile, the Canadian dollar has followed a weakening trend.

Nominal Effective Exchange Rate
(Index, Jan 2018=100)

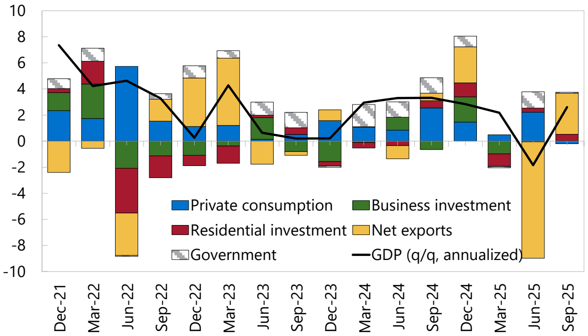


Sources: Source: Bank of Canada, Haver Analytics and IMF Staff calculation.

Figure 2. Canada: Growth

Growth has been volatile as tariffs weighed on exports and manufacturing.

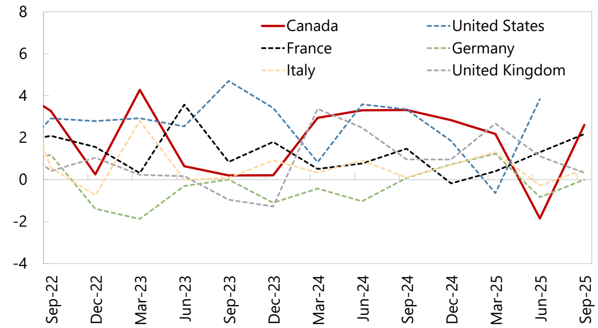
Contributions to Real GDP Growth
(Percent)



Source: StatCan, Haver Analytics and IMF Staff calculation.

...mirroring the outcomes of some peers most exposed to US tariffs.

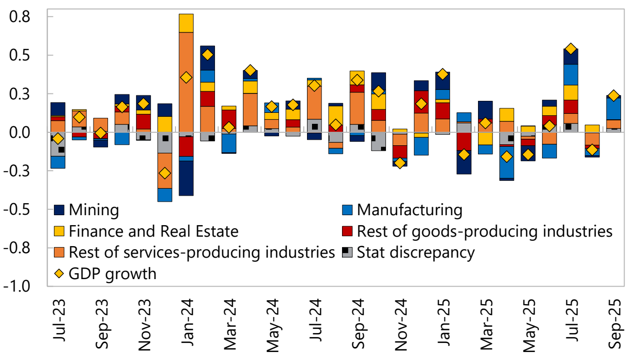
Quarterly GDP Growth
(Percent, SA, QoQ Annualized)



Source: BEA, StatCan, ABS, Deutsche Bundesbank, Statistisk Sentralbyra, and ONS.

Weak manufacturing is weighing on growth.

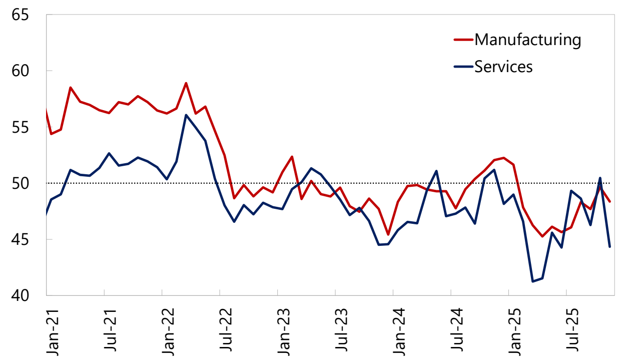
Industry Contribution to Real Monthly GDP Growth
(Percent, MoM, SA)



Sources: StatCan, Haver Analytics, and IMF Staff calculation.

... with high-frequency data signaling weakness in services as well,

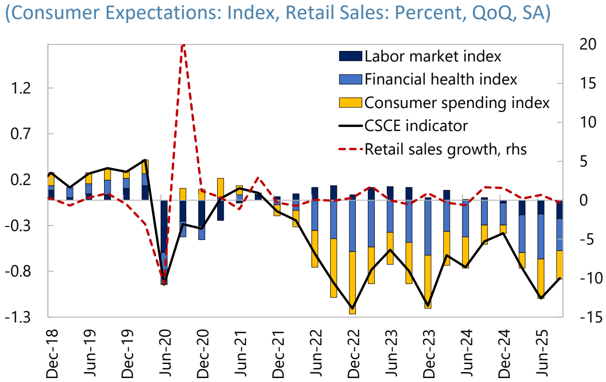
S&P Global Purchasing Managers Survey
(Seasonally Adjusted, Expansion >= 50)



Sources: S&P Global Ratings, and Haver Analytics.

and with confidence subdued,

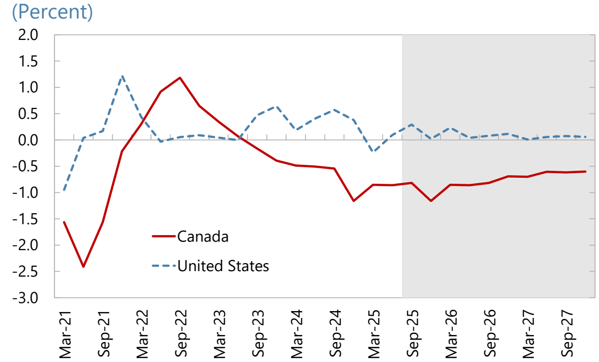
Consumer Expectations and Retail Sales
(Consumer Expectations: Index, Retail Sales: Percent, QoQ, SA)



Sources: Bank of Canada, StatCan, Haver Analytics, and IMF Staff calculation.

..., all of which points to a wider output gap.

Output Gap
(Percent)

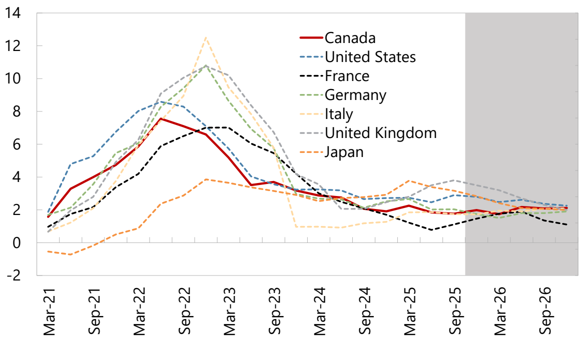


Source: World Economic Outlook, and IMF Staff calculation.

Figure 3. Canada: Inflation

Headline inflation is nearing target…

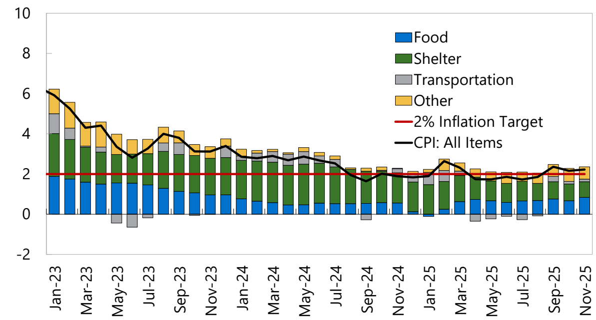
CPI Inflation
(Average, Percent, YoY)



Sources: World Economic Outlook.

…, as shelter and fuel costs ease.

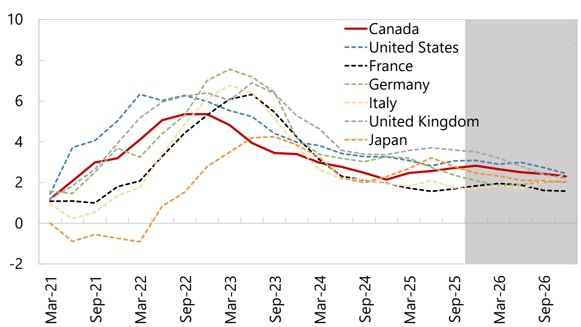
Contributions to Headline Inflation
(Percent)



Source: StatCan, Haver Analytics and IMF Staff calculation.

Core inflation remains sticky at 2½ -3 percent…

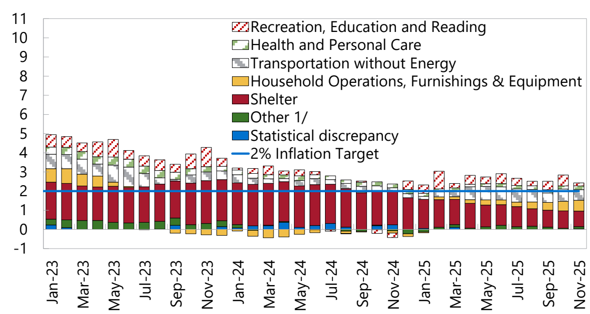
Core Inflation
(Average, Percent, YoY)



Source: World Economic Outlook.

… led by services.

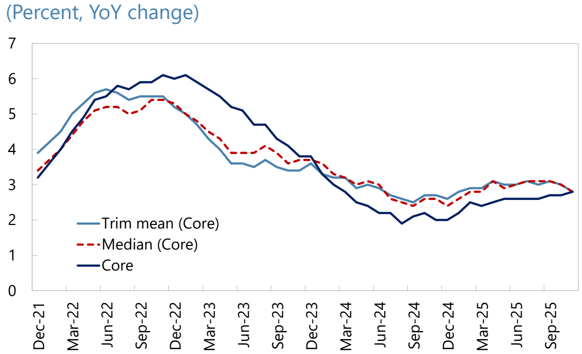
Contributions to Core Inflation
(Percent, Excludes Energy and Food)



Sources: StatCan, Haver Analytics and IMF Staff calculation.
1/ Includes Clothing and Footwear, and Alcoholic Beverages and Tobacco

The BoC's published "two core" measures remain near 3 percent.

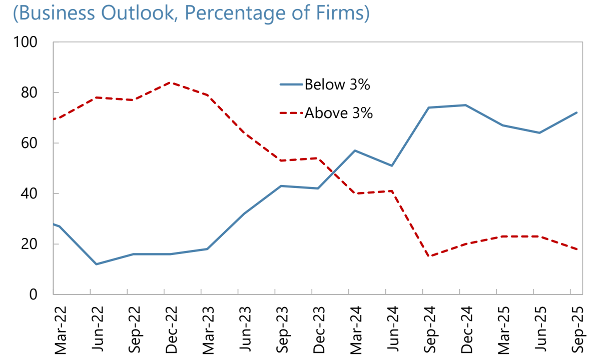
Underlying Inflation
(Percent, YoY change)



Source: Bank of Canada, and Haver Analytics.

Consumer-surveyed expectations are elevated, but most businesses expect inflation below 3 percent.

Inflation Expectations
(Business Outlook, Percentage of Firms)

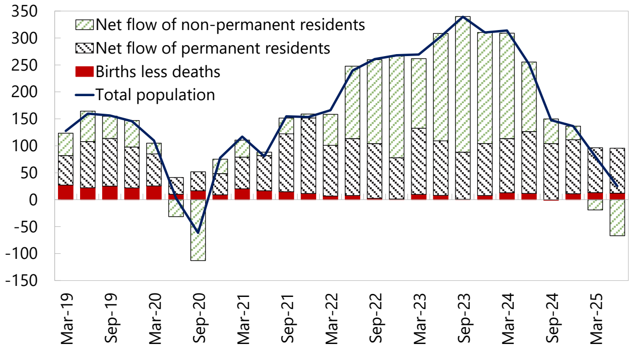


Sources: Bank of Canada, and Haver Analytics.

Figure 4. Canada: Immigration

After peak immigration years, population growth has stalled…

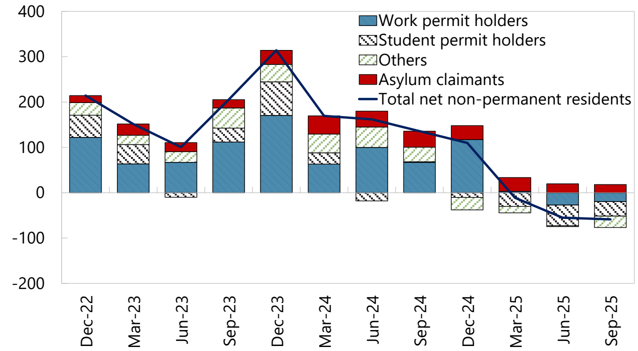
Population Growth and Composition
(Thousand, SA)



Sources: StatCan, and IMF Staff calculation.

… as temporary worker inflows declined sharply.

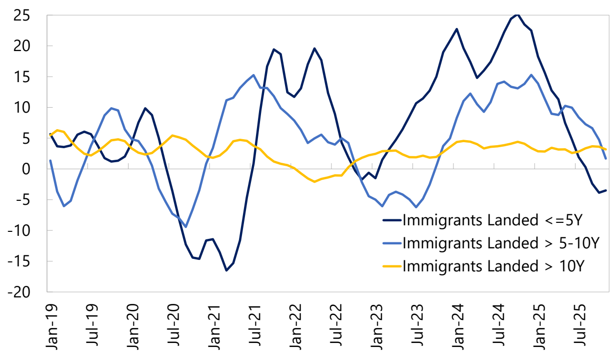
Net Increase in Non-Permanent Residents
(Thousand)



Sources: StatCan, and IMF Staff calculation.

Immigration flows normally helped counter demographic headwinds.

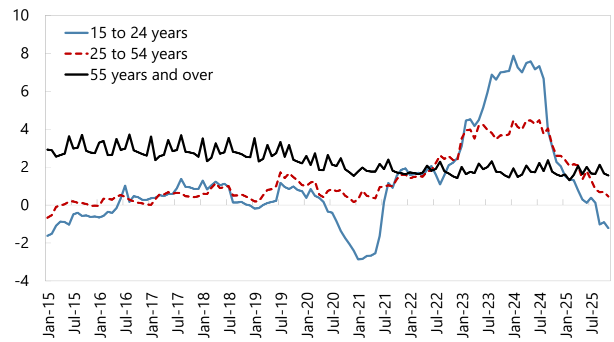
Population Growth by Immigration Status
(Percent, YoY, 15 years and over)



Sources: StatCan. and Haver Analytics.

Now slower immigration is tightening labor supply in some segments, …

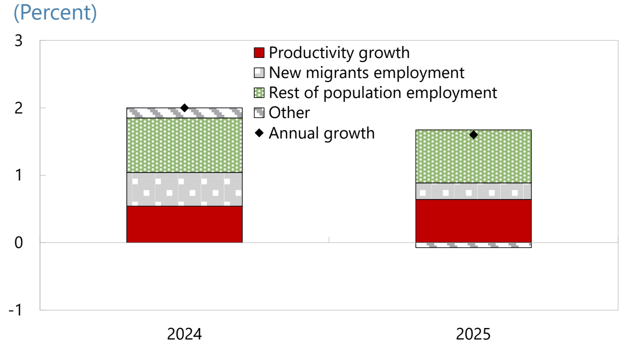
Population Growth by Age
(Percent, MoM, Annualized)



Source: StatCan, Haver Analytics, and IMF Staff calculation.

…, and weighing on activity and potential growth.

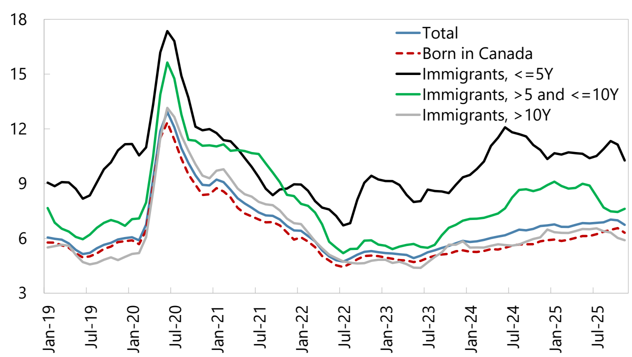
Contribution of New Migrants Employment on GDP Growth
(Percent)



Source: StatCan, World Economic Outlook, Haver Analytics, and IMF Staff calculation

Better integration of new entrants could offset part of the drag.

Unemployment Rate by Immigration Status
(Percent)

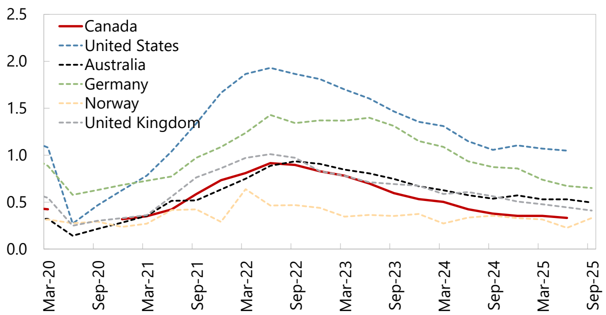


Sources: StatCan, and Haver Analytics.

Figure 5. Canada: Labor Market

Labor conditions are softening, with falling vacancies

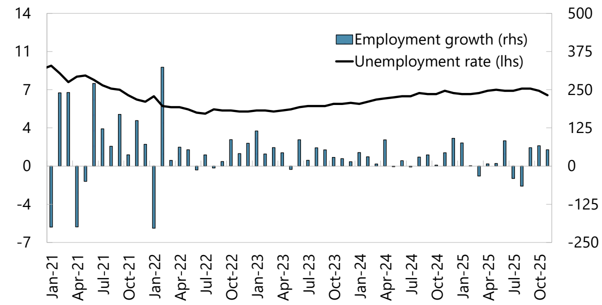
Ratio of Job Vacancies to Unemployment
(Ratio, SA)



Source: BEA, StatCan, ABS, Deutsche Bundesbank, Statistisk Sentralbyra, ONS, and Haver Analytics

Employment recently rose while unemployment started to stabilize.

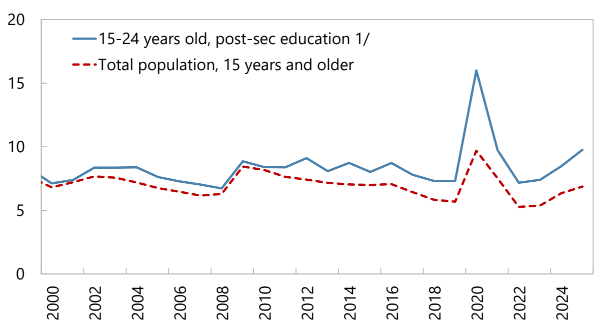
Unemployment Rate and Employment Growth
(SA, Unemployment: Percent, Employment growth: m/m, Thousands)



Source: StatCan, Haver Analytics and IMF Staff calculation.

Youth and new entrants face disproportionate job losses, …

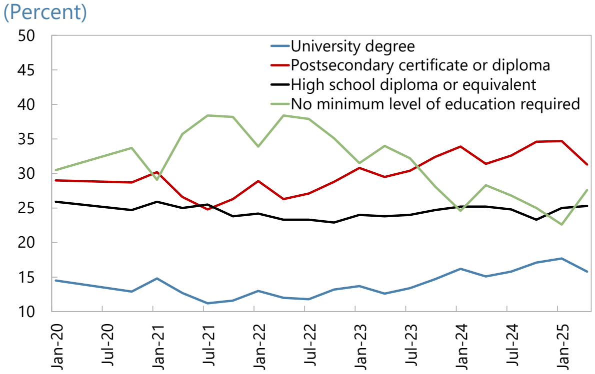
Unemployment Rate in Young Adults
(Percent, Not SA)



Sources: StatCan, and IMF Staff calculation.
1/ Includes trades certificates, community college, CEGEP, and university degree

… although vacancies for the highly-educated have also been rising.

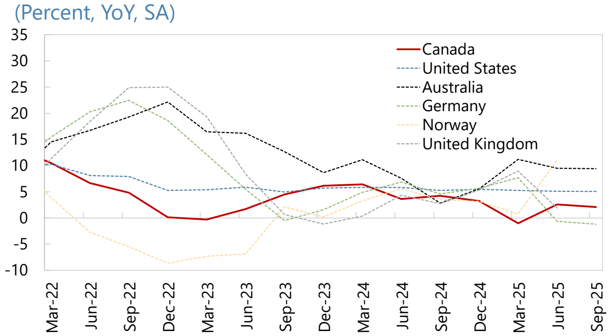
Proportion of Job Vacancies by Educational Degree
(Percent)



Sources: StatCan, and IMF Staff calculation

Wage growth moderated, …

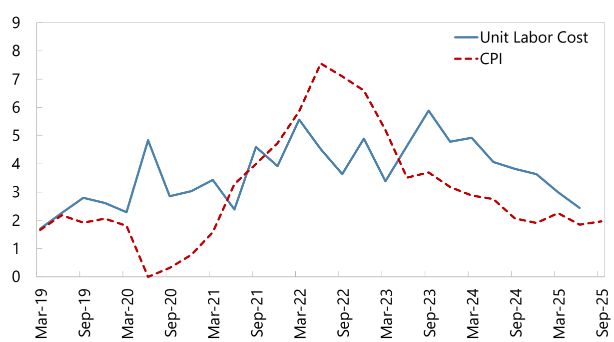
Wage Growth in USD
(Percent, YoY, SA)



Sources: FBR, BEA, StatCan, ABS, Deutsche Bundesbank, Statistisk Sentralbyra, and ONS.

… as unit labor costs normalized.

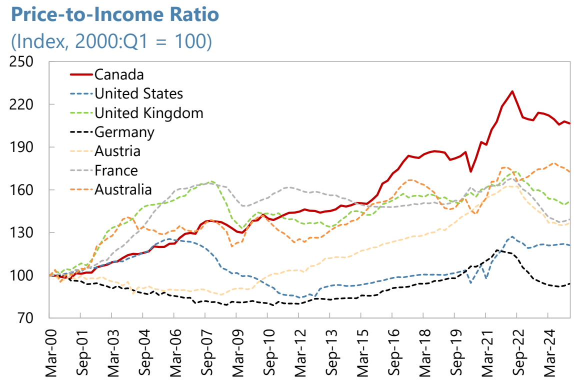
Unit Labor Cost
(Percent, Growth rate, YoY, SA)



Source: StatCan, Haver Analytics.

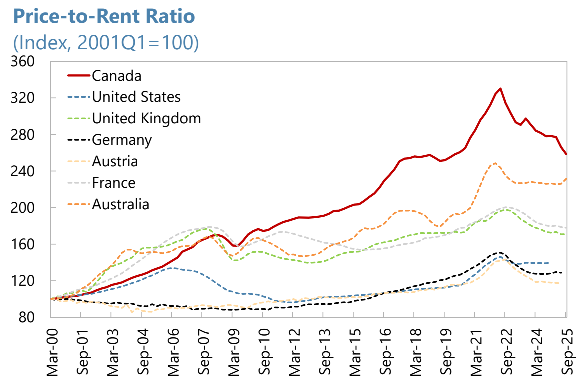
Figure 6. Canada: Real Estate

Housing affordability remains strained.



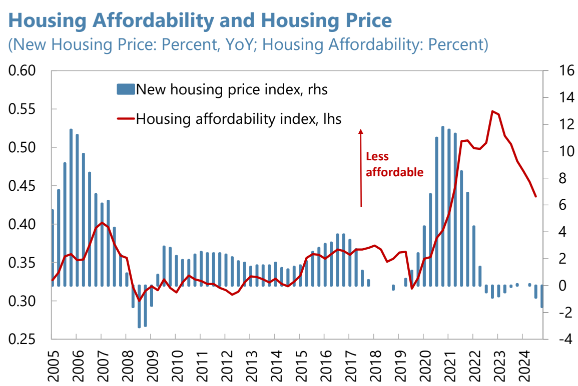
Source: OECD

Price-to-rent is also higher than in peer countries, …



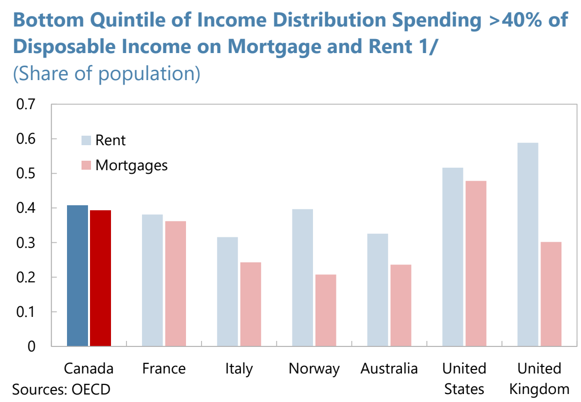
Sources: OECD

…, though ownership affordability recently improved as house prices stabilized.



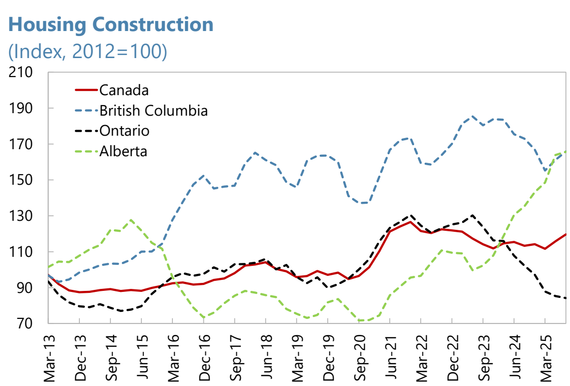
Sources: Bank of Canada

Low-income households are most affected ….



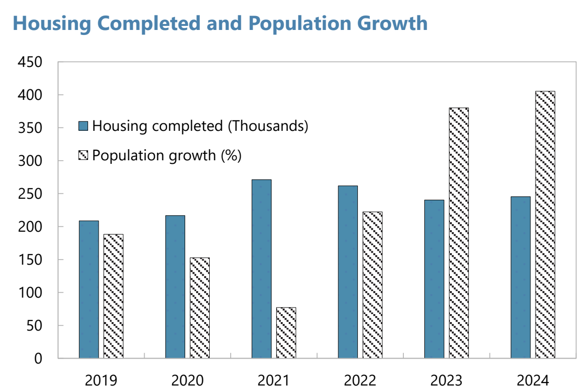
Sources: OECD
1/ 2024 or latest year available

Housing construction varies across provinces …



Sources: StatCan, and Haver Analytics.

… and housing completions lags population growth.



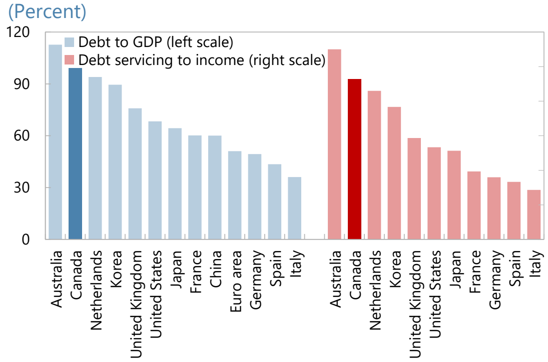
Sources: CMHC, Statistics Canada, Haver Analytics, and IMF Staff calculation.

Figure 7. Canada: Corporate and Household Sector

Household debt is among the highest in industrial countries.

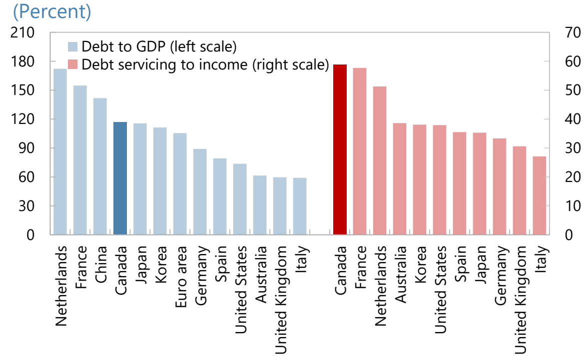
Corporate debt also remains high.

Household Indebtedness and Debt Servicing, 2025Q1
(Percent)



Sources: Bank of International Settlements, and Haver Analytics.

Corporate Indebtedness and Debt Servicing, 2025Q1
(Percent)

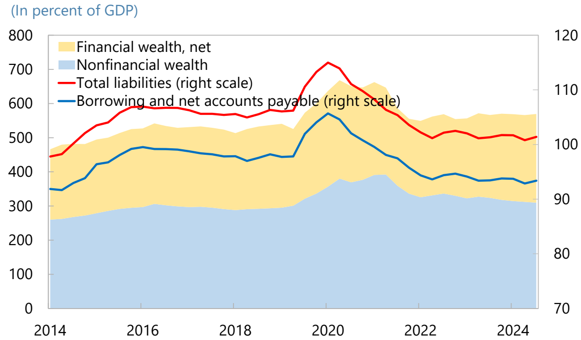


Sources: Bank of International Settlements, and Haver Analytics.

Household wealth and liabilities, relative to GDP, have dropped since the pandemic.

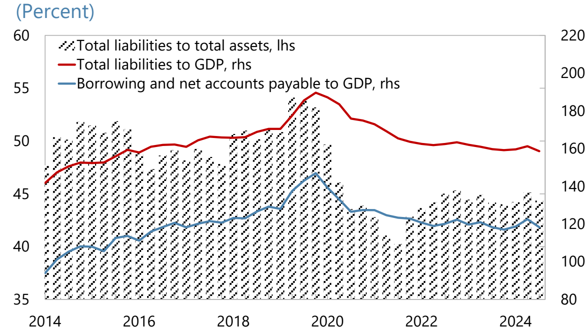
Corporate leverage has stabilized.

Household Indebtedness and Wealth, 2014-25 1/
(In percent of GDP)



Sources: StatCan, Haver Analytics and IMF staff calculations.
1/ Data for 2025 up to second quarter

Corporate Indebtedness and Leverage, 2014-25 1/
(Percent)

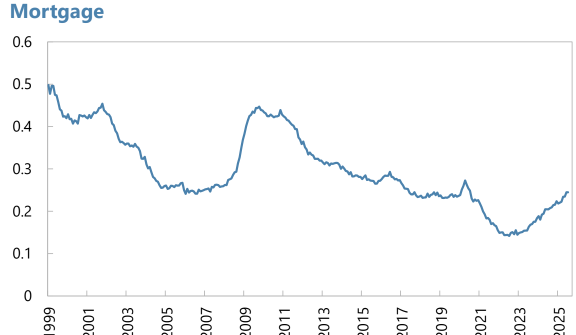


Sources: StatCan, Haver Analytics.
1/ Data for 2025 up to second quarter

Mortgage arrears are low by historical standards but edging up.

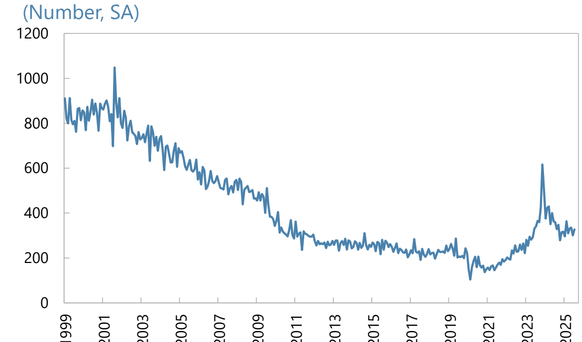
Insolvencies are edging up.

Share of Arrears to Total Number of Residential Mortgage



Sources: Canadian Bankers Association, and Haver Analytics.

Business Bankruptcies
(Number, SA)

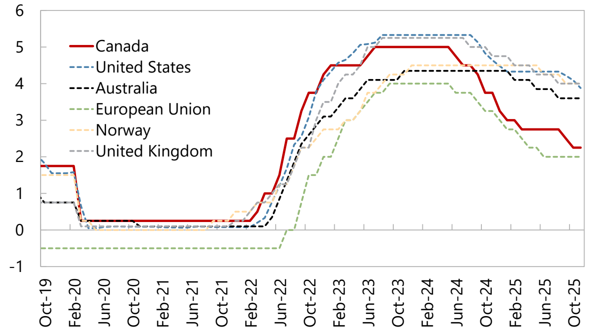


Sources: Innovation, Science and Economic Development (ISED), and Haver Analytics.

Figure 8. Canada: Monetary Policy

The BoC has eased…

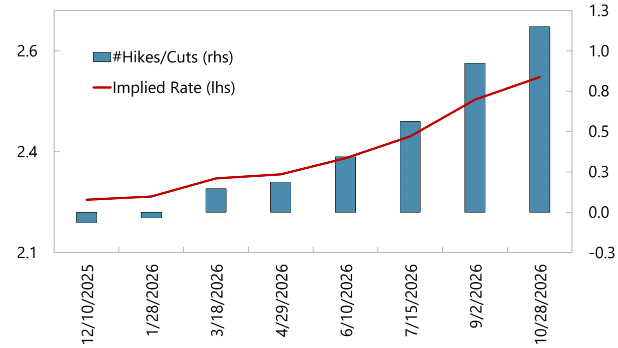
Nominal Policy Rates
(Percent, EoP)



Sources: Bank of Canada, FRB, Reserve Bank of Australia, ECB, Norges Bank, and Bank of England, and Haver Analytics.

…with markets expecting no more rate cuts.

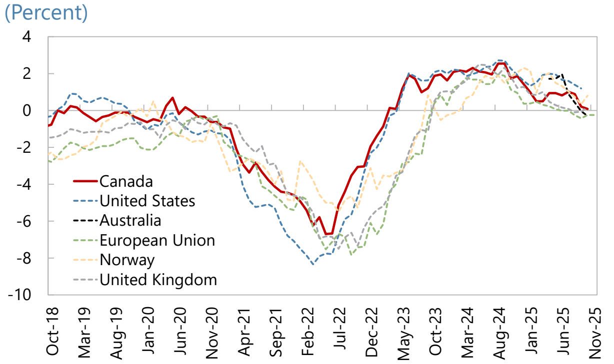
Policy Rate Path (Implied from OIS)
(Number of Hikes/Cuts, and Implied Rate)



Source: World Interest Rate Probability.

The ex-post real rate are falling as inflation and inflation expectations stay firm.

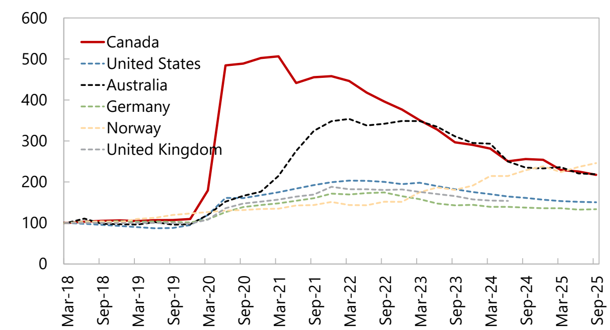
Real Interest Rate
(Percent)



Sources: Bank of Canada, FRB, Reserve Bank of Australia, ECB, Norges Bank, and Bank of England

Quantitative tightening has ended.

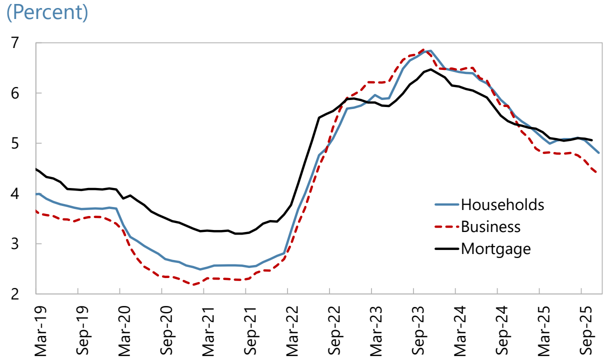
Central Bank Balance Sheets
(Index, Q1 2018=100)



Sources: Bank of Canada, FRB, Reserve Bank of Australia, ECB, Norges Bank, and Bank of England

Effective lending rates have declined.

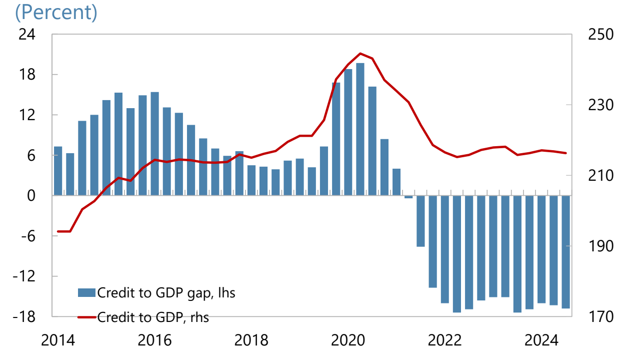
Interest Rates
(Percent)



Sources: Bank of Canada, CMHC, and Haver Analytics.

Credit conditions are easing though still tight by past standards.

Credit to GDP, 2014-25 1/
(Percent)

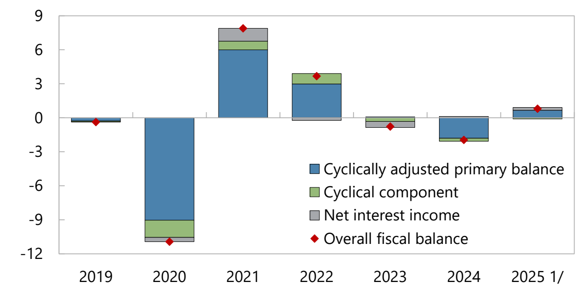


Sources: Bank for International Settlements, and Haver Analytics.
1/ Data up to first quarter of 2025

Figure 9. Canada: Fiscal Policy

Fiscal policy became more expansionary in 2024 and is projected to be less so in 2025…

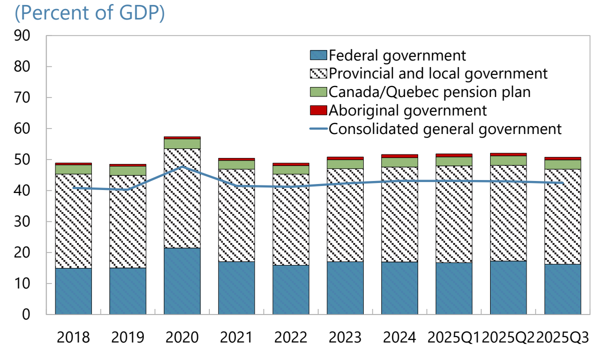
Decomposition of Changes in General Government Fiscal Balance
(Percent of GDP, YoY change)



Source: StatCan, Department of Finance, and IMF staff calculation
1/ Estimated values

… as pickup in spending of the general government will be seen in 2026.

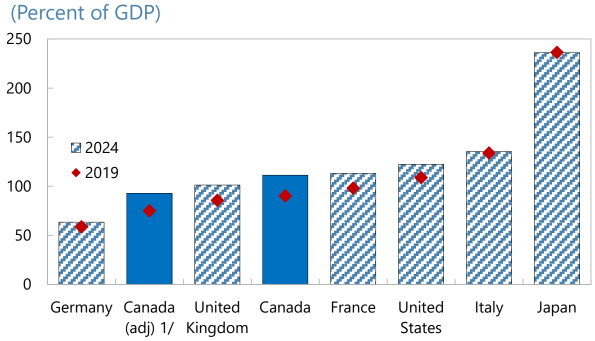
Spending by Levels of Government 1/
(Percent of GDP)



Sources: StatCan, Department of Finance, Haver Analytics, and IMF Staff calculation.
1/ Components exceed total due to transfers across government levels

Gross debt has risen, but remains below peers.

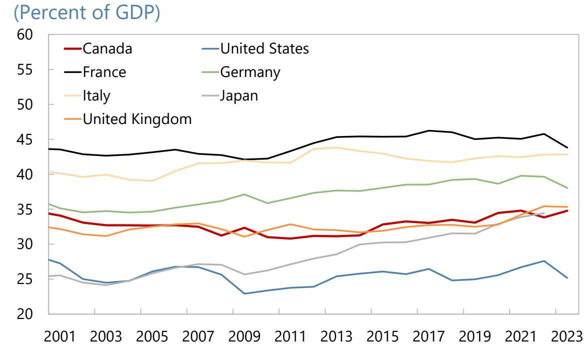
General Government Gross Debt
(Percent of GDP)



Sources: IMF World Economic Outlook
1/ Canada (adj) is general government debt adjusted for accounts payable

Tax revenues have been rising modestly, with room to improve relative to peers…

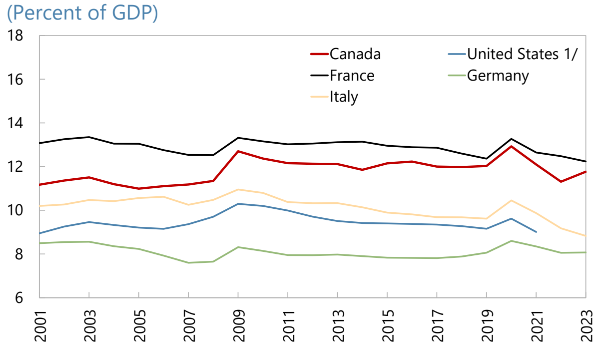
General Government Total Tax Revenue
(Percent of GDP)



Sources: OECD

…wage bill remains relatively high…

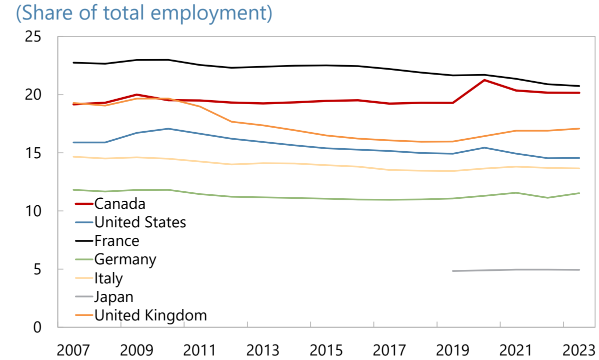
General Government Compensation of Employees
(Percent of GDP)



Sources: World Economic Outlook
1/ Data available until 2021

… given very high share of public employment.

General Government Public Employment
(Share of total employment)

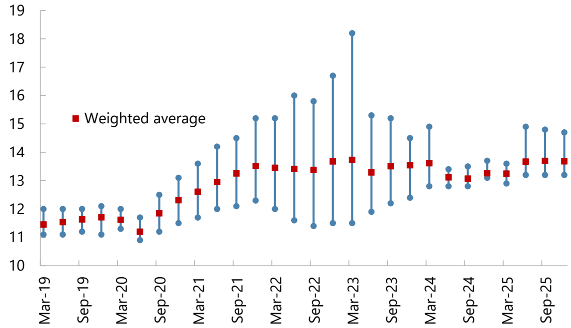


Sources: OECD

Figure 10. Canada: Banking Sector

Banks are well capitalized….

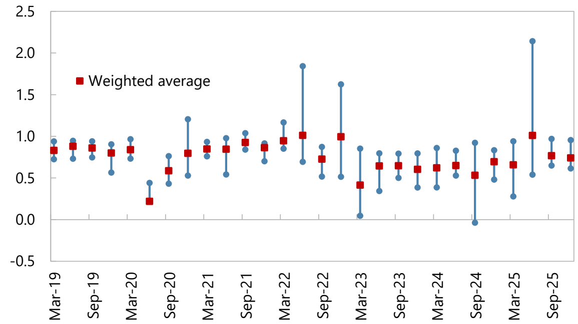
Common Equity Tier 1 Ratio for Six Largest Banks
(Percent)



Sources: Capital IQ and IMF Staff calculation.

ROAs are modest on average….

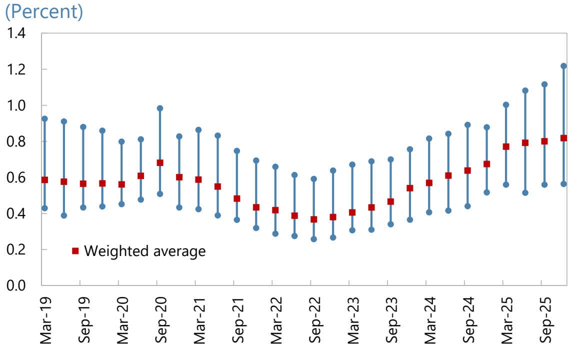
Return on Assets of Big Six Banks
(Percent)



Sources: Capital IQ and IMF Staff calculation.

NPL ratios remain low despite a recent increase….

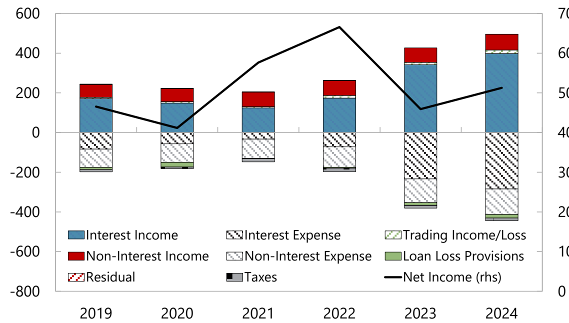
Non-Performing Loan Ratio for Six Largest Banks
(Percent)



Sources: Capital IQ and IMF Staff calculation.

Profitability has softened amid higher funding costs.

Net Income of Six Largest Banks
(Billion CAD)



Sources: Fitch Connect and IMF Staff calculation.

Table 1. Canada: Selected Economic Indicators, 2022–31 1/

(Percentage change, unless otherwise indicated)

Nominal GDP (2024): Can$ 2,934 billion (US$ 2,173 billion) — Quota: SDR 11,023.9 million

GDP per capita (2024): US$ 54,531 — Population (2024): 41.1 million

Main exports: Oil and gas, autos and auto parts, gold, lumber, copper.

				Proj.						
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Output and Demand										
Real GDP	4.7	2.0	2.0	1.6	1.6	1.9	1.7	1.7	1.7	1.7
Total domestic demand	5.6	0.3	2.0	2.3	1.5	1.9	1.6	1.7	1.6	1.6
Private consumption	6.7	2.3	2.2	2.5	1.4	2.3	2.1	2.4	2.0	2.0
Total investment	5.5	-5.8	-0.1	0.9	1.9	2.3	2.2	2.2	2.2	2.2
Net exports, contribution to growth	-0.9	1.7	0.1	-0.7	0.0	-0.1	0.1	0.1	0.1	0.1
Output gap 1/	0.8	0.0	-0.7	-0.9	-0.8	-0.6	-0.4	-0.2	0.0	0.0
Unemployment and Inflation										
Unemployment rate (average) 2/	5.3	5.4	6.4	6.8	6.5	6.3	6.2	6.1	6.0	6.0
CPI inflation (average)	6.8	3.9	2.4	2.0	2.1	2.1	2.0	2.0	2.0	2.0
Saving and Investment 3/										
Gross national saving	24.6	22.9	22.7	22.0	22.4	22.5	22.7	23.0	23.2	23.5
General government	3.8	2.9	0.8	1.5	0.2	0.3	0.6	0.6	0.8	0.8
Private	20.8	20.0	21.9	20.5	22.2	22.2	22.2	22.4	22.5	22.7
Personal	4.0	4.4	9.9	8.7	8.5	8.9	8.1	7.8	6.9	5.8
Business	16.8	15.6	11.9	11.8	13.7	13.3	14.0	14.5	15.6	16.9
Gross domestic investment	25.0	23.6	23.2	23.2	23.1	23.2	23.3	23.3	23.4	23.5
General Government Fiscal Indicators 2/ (NA basis)										
Revenue	41.0	41.6	42.2	42.4	42.1	41.9	41.8	41.7	41.7	41.8
Expenditures	40.4	41.8	44.3	43.7	44.7	44.2	43.8	43.5	43.2	43.2
Overall balance	0.6	-0.2	-2.1	-1.3	-2.6	-2.3	-1.9	-1.8	-1.6	-1.4
Structural balance 1/	0.1	-0.2	-0.8	-0.7	-2.1	-1.9	-1.7	-1.7	-1.5	-1.4
Gross Debt	103.5	105.0	110.0	110.6	110.9	109.8	108.0	106.3	104.3	102.4
Net debt	13.4	12.8	10.9	9.7	10.3	10.9	11.1	11.2	11.2	11.0
Money and Credit (Annual average)										
Household Credit Growth	9.9	5.0	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Business Credit Growth	6.4	3.4	3.6	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Balance of Payments										
Current account balance 3/	-0.5	-0.7	-0.5	-1.2	-0.8	-0.7	-0.5	-0.4	-0.2	0.0
Merchandise Trade balance 3/	0.7	0.0	-0.2	-1.1	-0.7	-0.6	-0.5	-0.5	-0.3	-0.3
Export volume (percent change)	3.0	4.1	0.3	-3.2	1.1	2.0	2.3	2.3	2.4	2.4
Import volume (percent change)	6.1	-1.2	0.1	-0.3	1.2	2.6	2.4	2.4	2.4	2.4
Terms of trade	4.1	-5.9	-1.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Haver Analytics and Fund staff calculations.

1/ Percent of potential GDP.
2/ Percent.
3/ Percent of GDP.

Table 2. Canada: Balance of Payments, 2022–31
(Percent of GDP)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Projections						
Current Account										
Current account balance	-0.5	-0.7	-0.5	-1.2	-0.8	-0.7	-0.5	-0.4	-0.2	0.0
Merchandise trade balance	0.7	0.0	-0.2	-1.1	-0.7	-0.6	-0.5	-0.5	-0.3	-0.3
Exports, goods	27.3	26.0	25.0	23.7	23.5	23.2	22.9	22.7	22.6	22.5
Export volume growth (percentage change)	3.0	4.1	0.3	-3.2	1.1	2.0	2.3	2.3	2.4	2.4
Imports, goods	26.6	26.0	25.2	24.9	24.2	23.8	23.5	23.2	23.0	22.7
Import volume growth (percentage change)	6.1	-1.2	0.1	-0.3	1.2	2.6	2.4	2.4	2.4	2.4
Services balance	-0.2	0.1	0.0	0.1	0.2	0.3	0.5	0.6	0.7	0.8
Primary Income Balance	-0.8	-0.5	-0.2	0.1	-0.1	-0.2	-0.2	-0.3	-0.4	-0.4
Secondary Income Balance	-0.2	-0.3	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Capital and Financial Accounts										
Financial account balance	0.4	0.6	0.7	1.2	0.8	0.7	0.5	0.4	0.2	0.0
Direct investment, net	-1.7	-2.2	-1.2	0.3	-1.7	-0.9	-1.0	-1.0	-1.0	-1.1
Portfolio investment, net	5.2	-0.6	2.6	-1.3	1.2	2.2	2.2	2.0	2.1	2.2
Other investment, net 1/	-2.7	3.7	-0.5	2.3	1.3	-0.7	-0.6	-0.6	-0.8	-1.1
Capital account balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International reserves	-0.5	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	0.1	0.2	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items										
Terms of trade (percent change)	4.1	-5.9	-1.1	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net international investment position 2/	36.8	48.0	62.0	57.6	54.6	51.5	48.9	46.6	44.6	42.8
Assets	275.4	298.8	332.2	326.0	321.4	315.3	310.0	303.2	296.5	292.4
FDI	116.7	128.4	138.3	.	.	.	.	.	.	.
Portfolio 2/	103.9	113.8	134.3	.	.	.	.	.	.	.
Other	49.7	51.2	53.9	.	.	.	.	.	.	.
Reserves	5.1	5.3	5.6	.	.	.	.	.	.	.
Liabilities	238.5	250.7	270.1	268.4	266.8	263.8	261.1	256.6	252.0	249.6
FDI	84.8	89.4	95.2	.	.	.	.	.	.	.
Portfolio 2/	99.4	99.9	111.8	.	.	.	.	.	.	.
Other	54.4	61.4	63.2	.	.	.	.	.	.	.
Gross external debt	130.3	138.0	146.4	150.7	151.5	151.1	150.8	148.9	146.8	146.1
Real effective exchange rate 3/	-0.6	-3.5	-0.9	.	.	.	.	.	.	.

Sources: Haver Analytics and Fund staff calculations.
1/ Includes bank, nonbank, and official transactions other than reserve transactions.
2/ Based on market valuation of portfolio stocks and official international reserves.
3/ Percentage change.

Table 3. Canada: General Government Fiscal Indicators, 2022–31 1/
(Percent of GDP, unless otherwise indicated)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
				Projections						
Federal Government										
Revenue	15.3	15.5	15.7	15.7	15.7	15.7	15.7	15.7	15.8	15.8
Income taxes	10.4	10.3	10.3	10.6	10.5	10.5	10.6	10.6	10.6	10.6
Expenditures	15.6	16.2	18.2	17.2	18.1	17.8	17.6	17.5	17.4	17.4
Program spending	14.6	14.8	16.6	15.6	16.4	16.1	15.9	15.8	15.8	15.6
Transfers	9.7	9.8	10.5	10.2	11.0	10.9	10.8	10.8	10.8	10.7
Capital spending	0.4	0.4	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Budgetary balance	-0.3	-0.7	-2.5	-1.5	-2.4	-2.2	-2.0	-1.8	-1.7	-1.6
Cyclically-adjusted balance 2/	-0.4	-0.7	-2.4	-1.3	-2.3	-2.1	-1.9	-1.8	-1.7	-1.6
Net federal debt	25.7	25.3	27.7	27.7	28.2	28.8	29.3	29.5	29.5	29.4
Gross federal debt	50.6	50.8	53.4	53.7	54.1	54.1	54.0	53.8	53.6	53.2
Provincial and Local Governments										
Revenue	26.6	26.6	27.2	27.1	27.4	27.3	27.2	26.9	26.9	26.8
Income taxes	6.7	6.6	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Expenditures	26.7	27.4	28.2	28.5	28.9	28.7	28.3	28.1	27.9	27.8
Interest payments	1.6	1.7	1.8	1.8	2.1	2.1	2.0	2.0	1.9	1.8
Budgetary balance	0.0	-0.8	-1.0	-1.4	-1.5	-1.4	-1.1	-1.1	-1.0	-0.9
Canada/Quebec Pension Plans										
Revenue	3.6	4.1	4.3	4.4	4.3	4.1	4.1	4.1	4.1	4.1
Total spending	2.7	2.8	2.9	2.8	2.8	2.9	2.9	3.0	3.0	3.1
Budgetary balance	0.9	1.3	1.4	1.6	1.4	1.2	1.2	1.1	1.1	1.1
Consolidated General Government 3/										
Revenue	41.0	41.6	42.2	42.4	42.1	41.9	41.8	41.7	41.7	41.8
Expenditure	40.4	41.8	44.3	43.7	44.7	44.2	43.8	43.5	43.2	43.2
Overall balance	0.6	-0.2	-2.1	-1.3	-2.6	-2.3	-1.9	-1.8	-1.6	-1.4
Primary balance	0.2	0.0	-2.1	-1.6	-2.2	-1.8	-1.4	-1.3	-1.0	-1.0
Cyclically-adjusted balance 2/	0.3	-0.1	-1.8	-0.9	-2.2	-2.0	-1.8	-1.7	-1.5	-1.4
Fiscal impulse	-2.7	0.5	1.7	-0.9	1.3	-0.2	-0.3	0.0	-0.2	-0.1
Net public debt	13.4	12.8	10.9	9.7	10.3	10.9	11.1	11.2	11.2	11.0
Gross public debt	103.5	105.0	110.0	110.6	110.9	109.8	108.0	106.3	104.3	102.4
Memorandum Items										
Three-month treasury bill (percent)	2.3	4.8	4.4	2.7	2.2	2.3	2.3	2.3	2.4	2.4
Ten-year government bond (percent)	2.8	3.4	3.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0

Sources: Statistics Canada; DoF Canada; provincial budget reports; Haver Analytics; and IMF staff estimates.
1/ National Accounts basis. Debt levels based on StatCan definitions.
2/ Percent of potential GDP.
3/ Includes federal, provincial, territorial, and local governments; and Canada and Quebec pension plans.

Table 4. Canada: Statement of General Government Operations and Balance Sheet, 2015–24 1/

(Percent of GDP, unless otherwise indicated)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Government Operations										
Revenue	40.0	40.4	40.4	41.1	40.6	41.5	42.5	41.2	42.2	42.7
Taxes	28.2	28.5	28.6	29.0	28.6	29.8	30.2	29.4	29.8	29.8
Social contributions	4.8	4.8	4.6	4.6	4.6	4.8	4.7	4.6	5.1	5.2
Grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Other revenue	7.0	6.9	7.2	7.4	7.4	6.9	7.5	7.2	7.3	7.7
Total expenditure	40.0	40.8	40.5	40.7	40.6	52.4	45.5	40.6	42.1	44.7
Expense	39.6	40.3	39.8	40.0	40.3	51.9	45.3	40.2	41.7	44.0
Compensation of employees	12.1	12.2	12.0	12.0	12.0	12.9	12.1	11.3	11.8	12.4
Use of goods and services	8.5	8.6	8.6	8.6	8.5	9.3	8.8	8.7	8.9	9.0
Consumption of fixed capital	3.3	3.3	3.3	3.3	3.3	3.5	3.3	3.2	3.2	3.3
Interest	3.1	3.0	2.9	3.0	3.0	3.0	2.7	2.7	3.3	3.6
Subsidies	0.9	1.0	0.9	1.0	1.1	4.7	3.1	1.6	1.4	1.5
Grants	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Social benefits	9.7	10.0	10.0	9.9	10.0	15.6	12.5	10.1	10.2	10.5
Other expense	1.7	1.9	2.0	2.0	2.0	2.6	2.6	2.4	2.6	3.6
Net acquisition of nonfinancial assets	0.4	0.5	0.6	0.6	0.3	0.5	0.2	0.4	0.4	0.7
Gross operating balance	3.7	3.4	3.8	4.3	3.6	-6.9	0.4	4.2	3.8	2.0
Net operating balance	0.4	0.1	0.6	1.1	0.4	-10.4	-2.9	1.0	0.5	-1.3
Net lending or borrowing	0.0	-0.4	-0.1	0.4	0.0	-10.9	-3.0	0.6	0.1	-2.0
Balance Sheet (Market Value)										
Net worth	1.4	4.9	13.2	16.2	14.8	8.9	27.1	37.9	34.7	36.7
Nonfinancial assets	42.4	46.8	47.3	47.5	46.1	53.2	59.8	57.4	56.3	55.8
Net financial worth	-41.0	-41.8	-34.1	-31.3	-31.3	-44.3	-32.7	-19.5	-21.6	-19.1
Financial assets	80.6	81.6	85.5	86.1	89.0	109.8	105.7	97.3	99.9	105.4
Currency and deposits	4.7	5.3	5.4	5.4	5.5	9.8	8.1	7.1	6.9	6.0
Securities other than shares	15.4	14.6	14.6	15.0	16.0	17.9	17.5	15.8	16.2	19.1
Loans	19.3	19.0	18.8	18.9	19.4	23.2	23.1	21.9	22.8	22.2
Shares and other equity	25.4	26.4	28.5	29.0	30.3	35.6	35.2	31.2	32.3	35.8
Insurance technical reserves	2.5	2.7	4.0	3.6	4.1	5.2	7.0	6.3	6.1	6.1
Other accounts receivable	13.3	13.5	14.3	14.1	13.6	18.1	14.8	15.0	15.7	16.2
Financial liabilities 2/	121.6	123.4	119.5	117.4	120.2	154.1	138.5	116.8	121.5	124.5
Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2
Securities other than shares	82.0	83.1	79.3	78.4	80.1	108.6	98.4	79.6	82.8	86.1
Loans	7.5	6.3	7.0	6.9	7.5	7.5	7.2	6.9	7.1	8.3
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	15.5	17.4	16.8	15.7	16.7	18.1	13.9	11.8	11.3	10.5
Other accounts payable	15.7	15.7	15.6	15.6	15.2	19.1	17.5	17.2	19.0	18.4
Memorandum Items:										
Nominal GDP (in billions of Can$)	1,990	2,026	2,141	2,236	2,314	2,221	2,536	2,851	2,934	3,072

Sources: Statistics Canada; and Haver Analytics.

1/ Government Finance Statistics basis.

2/ Includes unfunded public sector pension liabilities.

Table 5. Canada: Financial Soundness Indicators, 2017–25 1/

(Percent, unless otherwise indicated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets									
Total assets 2/	5,291	5,689	6,130	6,971	7,267	8,200	8,596	8,971	9,134
Percent of GDP	247.2	254.5	265.0	314.0	286.6	287.6	293.0	292.0	287.0
Capital Adequacy									
Total capital ratio	14.8	15.2	15.3	16.1	17.2	17.4	17.1	16.8	17.5
Tier 1 ratio	12.9	13.2	13.2	13.9	15.1	15.3	15.2	14.9	15.4
Capital to assets	4.8	4.8	4.7	4.6	4.8	4.8	4.7	4.7	4.8
Credit Risk									
NPLs net of provisions to capital	4.5	4.8	4.5	4.2	2.9	2.6	3.8	5.0	5.7
NPLs to Gross Loans	0.4	0.5	0.5	0.5	0.4	0.3	0.5	0.6	0.7
Profitability									
Return on assets	1.1	1.2	1.1	0.8	1.1	1.2	0.8	0.8	1.1
Return on equity	17.1	17.3	16.2	13.2	17.3	18.2	12.1	12.7	16.6
Interest margin on gross income	53.4	53.5	55.3	56.4	54.0	54.2	56.7	54.6	51.3
Trading income to gross income	3.7	4.7	3.8	4.2	3.4	6.4	5.7	8.0	8.2
Non-interest expenses to gross income	57.8	56.4	57.4	56.1	56.6	53.6	62.1	60.5	54.3
Liquidity									
Liquid assets to total assets	10.7	10.6	9.8	15.4	15.1	13.2	12.1	12.3	12.5
Liquid assets to short-term liabilities	49.4	48.5	44.1	78.0	79.6	58.5	49.6	53.2	53.6
Customer deposits to loans	102.7	101.4	100.7	109.5	113.1	109.5	107.2	108.5	109.9
Real estate markets									
Residential real estate loans to total loai	35.8	34.3	33.3	34.5	36.4	35.0	33.5	32.1	30.7
Commercial real estate loans to total loa	3.4	3.4	3.3	3.4	3.4	3.2	3.0	2.9	2.7
FX and Derivative Risk									
FX Assets to Total Assets	46.5	60.2	47.4	43.9	50.6	51.8	43.6	68.9	48.5
FX loans to total loans	35.5	37.2	38.5	37.8	35.8	38.1	39.5	38.0	37.6
FX liabilities to total liabilities	53.8	54.3	49.0	52.9	42.9	57.0	65.8	67.0	47.0

Sources: IMF FSI database; and IMF staff calculations.

1/ 2nd quarter data for 2025

2/ Billions of Canadian dollars.

Table 6. Canada: Monetary Statistics, 2020–25 1/

(Billions CAD, End of Period, Market Value)

	2020	2021	2022	2023	2024	2025
Monetary Authority						
Net foreign assets	114	134	144	155	174	173
Foreign assets	115	135	145	156	175	174
Foreign liabilities	1	1	1	2	2	2
Deposit-taking corporations						
Net foreign assets	-251	-260	-274	-312	-308	-365
Foreign assets	1360	1462	1717	1960	2175	2092
Foreign liabilities	1611	1721	1991	2273	2483	2457
Chartered Banks						
Net foreign assets	-18	-42	-87	-88	-49	-45
Net domestic assets	4219	4014	4206	5050	3334	3577
Lending to private sector	3077	3354	3645	3822	4011	4108
Residential Mortgages	1324	1472	1565	1607	1667	1708
Business loans (residents and non-residents)	1151	1248	1403	1513	1611	1654
Broad Money M3	2953	3184	3441	3613	3835	3884
Currency outside banks	105	113	117	118	119	121
Personal deposits	1217	1272	1404	1503	1557	1587
Non-personal demand and notice deposits	838	958	900	893	991	1036
Adjustments to M2	-8	-6	-2	0	-1	-22
Non-personal term deposits	358	319	413	457	463	452
Foreign currency deposits of residents	476	549	624	659	727	726
Adjustments to M3	-33	-20	-16	-16	-20	-16
Memorandum items 2/	(percent)					
M3 growth	11.4	7.8	8.1	5.0	6.1	1.3
Chartered bank lending to the private sector growth	2.3	9.0	8.7	4.8	5.0	2.4
Chartered bank loan to deposit ratio	1.3	1.3	1.3	1.3	1.3	1.3

Source: Statistics Canada, Bank of Canada, and IMF staff calculations

1/ 2nd quarter data for 2025

2/ Computed as the ratio of the change in the stock divided by last period's stock and therefore includes valuation changes.

Annex I. Government Support Measures
(Announced in Autumn 2025)

Measure	Description	Amount/Cost (CAD)
Immediate Relief Measures for Workers		
Employment Insurance for Long-Tenured Workers	Temporarily give long-tenured workers in affected sectors 20 extra weeks of income support, up to a maximum of 65 weeks; expected to support about 190,000 long-tenured workers	C$1.6 billion over 5 years
Extension of certain Employment Insurance (EI) measures	1/ Rules on separation payments will be suspended so that workers can keep severance payments while also receiving EI benefits	C$424 million over 2 years
	2/ The one-week waiting period will be waived for workers to receive benefits for the first week of unemployment, supporting an additional 700,000 claimants	C$418 million over 2 years
Immediate Liquidity Relief Measures for Firms		
Loan Expansion for SMEs by Business Development Bank of Canada (BDC)	Expand Business Development Bank of Canada loans for SMEs	Increase in max. loan size from C$2 to C$5 million per business (loan cap)
Large Enterprise Tariff Loan Facility	Provide more flexible financing (lower interest rates, longer maturities) to large enterprises (revenues > $300 million) impacted by tariffs, based on the applicant's estimated liquidity shortfall for the next 12 months	Loan size of > $60 million
EVAS Adjustment for Auto Sector Flexibility	Waive 2026 model year vehicles from Electric Vehicle Availability Standard (EVAS) requirements; launch 60-day review to reduce auto sector costs	Not specified
Advance Payments Program (APP) – For Agricultural and Canola Producers	Temporarily increase the interest-free limit on liquidity facility for canola producers from $250K to $500K for remainder of 2025 and 2026 program years	Tbc - $500,000 per producer (interest-free advance cap) for 16 months
Other Industrial Policy Measures		
Strategic Response Fund	New flexible fund to help firms in all sectors with projects > *$20 million* impacted by tariffs adapt, diversify & grow	C$5 billion
Regional Tariff Response Initiative (SME)	Expand the previous initiative from $450 million to $1 billion to support SMEs impacted by tariffs with non-repayable contributions up to $1 million per business in all impacted sectors for projects < *$20 million*; total funding over three years	C$1 billion over 3 years
Biofuel Production Incentive	Introduce incentive for domestic biofuel production over 2 years (2026/01-2027/12), by amending Clean Fuel Regulations to assist domestic producers and restructure their value chains	Over $370 million over 2 years
Buy Canadian Policy	Mandate federal procurement from domestic suppliers (initially in steel and softwood lumber, extendable), require local content if unavailable, extend across federal funding streams (for infrastructure, grants, contributions, loans and other federal funding streams reaching additional $70 billion in spending) and all federal agencies and crown corporations	Not quantified
Structural Policies (Trade Facilitation, Active Labor Market Policies etc.)		
Support for Agricultural and Canola Producers	Expand the AgriMarketing Program—a trade promotion scheme to reduce trade barriers—into high-growth areas (e.g., Africa, Middle East, Indo-Pacific)	C$75 million over five years
EVAS Review (as above)	Launch a 60-day review of the Electric Vehicle Availability Standard, potentially adjusting targets (e.g. annual sales targets) beyond 2026 to relief burden on automakers; explore options to bring more affordable electric vehicles to Canadians	

Measure	Description	Amount/Cost (CAD)
Reskilling Package	Introduce a new reskilling package for up to 50,000 workers via Employment Insurance and Labour Market Development Agreements (LMDAs)	C$450 million over 3 years
Recruitment Support through Workforce Alliances & Sectoral Workforce Innovation Fund	Help businesses recruit and retain by coordinating public and private investments in skills development; focus on affected sectors (e.g. auto parts, steel, aluminum) and those with growth potential (e.g. energy, critical minerals, advanced manufacturing)	C$ 382 million over 5 years
Job Search and Matching Initiatives	Launch a national online training platform to help adults find short-duration training courses by skill type, location, and format	C$50 million over five years
Limit foreign steel imports to enhance Canadian steel producers' access to the domestic market	Tighten the tariff rate quota levels for steel products from non-free trade agreement (FTA) partners from 50% to 20% of 2024 levels. For non-CUSMA partners with which we have an FTA, reduce tariff rate quota levels for steel products from 100% to 75% of 2024 levels. Impose a global 25% tariff on targeted imported steel-derivative products such as wind towers, prefabricated buildings, fasteners, and wires.	Together with additional measures, these will unlock over C$1 billion in new domestic demand for Canadian steel.
Enhance the usage of Canadian steel and lumber	Cut freight rates for transporting Canadian steel and lumber interprovincially by 50%, beginning in Spring 2026. Create new demand for wood products in housing. Build Canada Homes will prioritize shovel-ready, multi-year projects that can begin within 12 months and that use Canadian wood products. Implement Buy Canadian Policy later this year, which requires that all contracts worth over $25 million prioritize Canadian materials – including steel and lumber. This will also apply across federal grants and contributions programs.	With a funding allocation of roughly C$700 million next year, creating C$70 to C$140 million of new demand for Canadian wood products – and attract private and provincial capital to multiply its impact.
Increase protections for Canadian steel and lumber workers and businesses	Provide support for eligible employers in all sectors with an active Work-Sharing agreement and who commit to support training for employees working reduced hours. This measure will increase the income replacement for eligible workers, helping up to 26,000 Canadian workers in various sectors, including steel and lumber.	Over C$100 million over two years.
	Help companies maintain and restructure their operations during this period of transformation.	An additional C$500 million to the Business Development Bank of Canada (BDC) Softwood Lumber Guarantee Program
	Support softwood lumber firms facing liquidity pressures, Canada will	About C$500 million in funding under the Large Enterprise Tariff Loan facility.
	Launch a Canadian Forest Sector Transformation Task Force. This Task Force will seek input and recommendations from provinces, territories, and industry on managing the sector's transformation.	Not quantified

Annex II. External Sector Assessment

Overall Assessment: Based on preliminary data, Canada's external position in 2025 is assessed to be weaker than the level implied by medium-term fundamentals and desirable policies. This assessment is subject to uncertainties, including the current account projection, reflecting higher tariffs and trade policy uncertainties, which have weighed heavily on Canada's exports this year. Indeed, Canada's external deficits widened sharply as goods exports to the U.S. plunged in 2025: Q2-Q3. The weaker external position also reflects long-standing competitiveness challenges, highlighting the importance of advancing supply-side reforms. A final assessment will be provided in the 2026 External Sector Report (ESR).

Potential Policy Responses: Policies should aim to strengthen Canada's external competitiveness in the context of a more fragmented global trade and investment landscape. Priority actions include: (i) removing inter-provincial trade barriers to support structural adjustment and reduce resource misallocation; (ii) enhancing labor productivity through targeted skills development and stronger links between training and labor market needs; and (iii) scaling up investment in research and development, innovation, and infrastructure, and fostering technology adoption and firm-level dynamism, especially in the nonfuel tradable sectors. Trade policies should seek to resolve trade tensions, promote clarity and transparency, encourage diversification, and deepen economic integration, including through the forthcoming revisions to the USMCA. Targeted and temporary fiscal support may be necessary to allow businesses and households to adjust to the new trade landscape.

Foreign Asset and Liability Position and Trajectory

Background. Canada's NIIP position remains firmly positive (58.7 percent of GDP as of June 2025). This follows a sharp rise to 61.9 percent of GDP in 2024 (from 49.4 percent in 2023) reflecting valuation gains linked to market price movements and exchange rate depreciation. The position is expected to remain broadly stable during the remainder of the year. That said, gross external debt liabilities reached 145.3 percent of GDP in 2024 (up from 136.5 percent in 2023), with around 37 percent of total debt maturing in the short term.

Assessment. Canada's foreign assets have a higher foreign-currency component than its liabilities do, providing a hedge against currency depreciation. Overall, the NIIP level and trajectory are assessed to be sustainable, supported by strong underlying asset positions and access to stable external financing.

2025 (% GDP)	NIIP: 57.64	Gross Assets: 325.99	Debt Assets[2]: 98.6	Gross Liab.: 268.33	Debt Liab.[2]: 145.32

Current Account

Background. The CA deficit is projected to widen to 1.2 percent of GDP in 2025 (compared to 0.5 percent of GDP in 2024), mainly reflecting a larger trade deficit amid U.S. tariff measures and elevated global trade policy uncertainty that have reduced exports. With national savings dropping below the 2021-24 average to smooth consumption in response to the shock and investment broadly unchanged, supported by construction and public investment, the projected 2025 CA deficit will exceed the average CA deficit of 0.4 percent of GDP recorded during 2021-24. The CA balance is expected to improve slightly over the medium term (and reach a modest deficit), with net exports gradually recovering as trade tensions and fiscal support is unwound and productivity enhancing reforms start to bear fruit.

Assessment. The cyclically adjusted CA is projected at -1.5 percent of GDP in 2025, compared with the EBA CA norm of 2.4 percent of GDP, implying an estimated EBA gap of -3.9 percent of GDP. Part of this gap reflects measurement biases including those related to retained earnings and inflation compensation in the income balance.[1] Taking these factors into account, IMF staff assess the CA gap to lie between -2.8 and -1.8 percent of GDP, with a midpoint of -2.3 percent of GDP.

2025 (% GDP)	CA: -1.2	Cycl. Adj. CA: -1.5	EBA Norm: 2.4	EBA Gap: -3.9	Staff Adj.: 1.6	Staff Gap: -2.3

Real Exchange Rate

Background. The average REER for 2025 (as of November) has depreciated slightly relative to the 2024 average, despite some US dollar weakness relative to the Canadian dollar, reflecting continued depreciation of the Canadian dollar against a broader set of trading partners. From a longer-term perspective, the REER is also more depreciated (by 4 percent) than its 2019-24 average, likely reflecting weak productivity relative to peers, particularly in tradable sectors, which tends to lower relative wages and prices.

Assessment. The EBA REER index model indicates a mild overvaluation of 1.1 percent in 2025, while the REER level model suggests an undervaluation of 16.6 percent. Consistent with the staff-assessed CA gap (applying an estimated elasticity of 0.27), staff assess the REER to be overvalued by between 6.6 and 10.3 percent, with a midpoint of around 8.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Net inflows in 2025 are projected to stem mostly from other investments and FDI, moderated by net portfolio investments outflows. Portfolio investments are projected to record net outflows of 1.3 percent of GDP, primarily driven by equity-related transactions, following net inflows of 2.6 percent of GDP in 2024. These outflows are projected to be offset by other investments net inflows of about 2.3 percent of GDP in 2025, compared with outflows of 0.5 percent of GDP in 2024, and net inflows of 0.3 percent of GDP in FDI in 2025. Errors and omissions are projected to average 0 percent of GDP in 2025.

Assessment. Canada has an open capital account, and external vulnerabilities are limited by a positive NIIP position, along with a credible commitment to a floating exchange rate and well-developed financial markets.

FX Intervention and Reserves Level

Background. Canada has a free-floating exchange rate regime and has not intervened in the FX market since September 1998 (except for participating in joint interventions with other central banks). Canada has limited reserves, but its central bank has standing swap arrangements with the US Federal Reserve and four other major central banks. (The Bank of Canada has not drawn on these swap lines.) Importantly, the private sector's positive external balance sheet position shields the economy from shocks.

Assessment. Policies in this area are appropriate to the circumstances of Canada. The authorities are strongly committed to a floating regime which, together with the swap arrangements, reduces the need for reserve holdings.

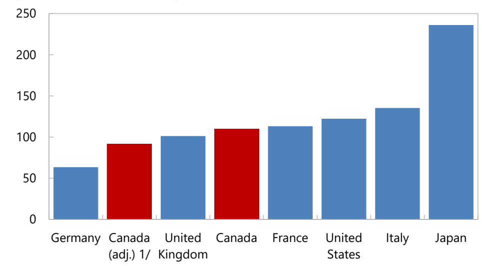
1/ The statistical treatment of retained earnings on portfolio equity and of net interest outflows (which are recorded in nominal terms and thus artificially boosted by higher inflation during the period) is estimated to generate a downward bias in the income balance of 0.6 and 1 percent of GDP, respectively, totaling 1.6 percent of GDP.

2/ Stocks of debt assets and debt liabilities in percent of GDP refer to 2024.

Annex III. Sovereign Risk and Debt Sustainability Assessment

Staff's assessment is that the overall risk of sovereign stress in Canada is low and the country has some fiscal space. Public debt increased to 110.0 percent of GDP in 2024, 5 percentage points higher than in 2023. Under the baseline scenario, the gross debt-to-GDP ratio is projected to decline at a moderate pace, reaching around 104.3 percent by 2030. The medium-term risk assessment indicates moderate debt stress and liquidity risk, but the government's large holdings of financial assets (about 99 percent of GDP at end-2024) would provide a comfortable buffer.

General Government Gross Debt
(Percent of GDP, 2024)



Sources: IMF World Economic Outlook
1/ General government debt adjusted for accounts payable.

1. **Background.** General government consolidated gross debt stood at about 110 percent of GDP at end-2024, increasing for the second year in a row.[1] Excluding accounts payable (in line with common international practice), gross debt was about 91.8 percent of GDP in 2024, among the lowest in the G7. It is also important to note that Canada's general government holds sizable financial assets (about 99 percent of GDP at market value at end-2024), including currency and deposits, debt securities, loans, and equity holdings. Around one-quarter of these assets are highly liquid (currency, deposits, and bonds) and about 30 percent are invested in equity and investment shares, of which more than half relate to pension fund investments. The net debt-to-GDP ratio—calculated as the difference between total liabilities and total financial assets—fell to around 10.9 percent in 2024 from its peak of 16.3 percent in 2020.[2]

2. **Market perceptions.** Confidence in Canada's sovereign debt remains high. Canada had AAA ratings from all 3 major ratings agencies from 2002 until June 2020, when Fitch downgraded it to AA+. As of early October 2025, Canada's benchmark ten-year bond yields were around 3¼ percent, about 88 basis points below U.S. ten-year Treasury yields.

3. **Baseline.** The fiscal stance is expected to ease in 2025-26 followed by moderate tightening over the medium term. The primary balance at the consolidated general government level is projected to worsen in the near term before declining gradually to -1 percent of GDP in 2030.

- *Gross debt dynamics*. The gross debt-to-GDP ratio is projected to decline from its peak of 118.1 percent in 2020 to about 104.3 percent by 2030, reflecting fiscal consolidation, especially in the latter years of the projection horizon, and favorable growth-interest rate differentials.

[1] Gross debt at the general government consolidated level includes debt held by the federal government, provincial and territorial governments, local governments, and social security funds.

[2] Canada's net debt corresponds to net financial liabilities as reported by Statistics Canada and includes sizable equity and investment fund shares (about 30 percent of total financial assets). Statistics Canada introduced a methodological change in December 2022 to value assets at market value instead of book value, which substantially revised down net debt from 1990 to 2022. For further details, see "An overview of revisions to the Financial and Wealth Accounts, 1990 to 2022."

- *Net debt dynamics*. The general government has sizable financial assets, with around one quarter being highly liquid. The net debt ratio is expected to decline to about 11.2 percent by 2030 from its peak of 16.3 percent in 2020.

- *Gross financing needs*. Gross financing needs were 18½ percent of GDP in 2024. As a result of somewhat higher short-term deficits and slower consolidation path, the financing needs are expected to temporarily increase over the projection horizon, while remaining within the range of 21-24 of GDP—higher than the recent historical average but below previous years of distress. As consolidation takes hold, financing needs are expected to decline over the longer term.

4. Realism. Projection errors in recent years for real GDP growth, the primary balance, and inflation were moderate and broadly in line with those in other economies[3]. There is no evidence of a systematic projection bias in the baseline assumptions that could undermine the SRDSA. Projected fiscal adjustment in the near term is realistic, close to the median range of adjustment in historical and cross-country experience. The baseline is conservative in assuming no effects from the capital- and productivity-oriented fiscal expansion on medium-term economic growth.

5. Accounting issues for international comparisons:

- Canada's general government gross debt includes sizable accounts payable (around 18.2 percent of GDP at end-2024), which many advanced economies do not report.

- Canada reports general government net debt as total liabilities less total financial assets, which includes sizable equity and investment fund shares. Most other advanced economies remove both accounts payable and receivable as well as equity holdings.

- Unfunded pension liabilities are included in Statistics Canada's reporting of general government gross debt, but are excluded as reported here, to maintain comparability with other countries.

[3] That said, there were large errors in forecasting the primary balance in 2020 and inflation in 2021, when uncertainty was particularly large.

Annex III. Figure 1. Canada: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	Staff's assessment of the overall risk of sovereign stress is low, as near- and medium-term risks are mitigated by the government's sizeable holdings of financial assets and the strength of institutions.
Near term 1/			
Medium term	Moderate	Low	Medium-term risks are assessed as low, in line with the aggregate mechanical signal. While the debt fanchart and the GFN modules point to mechanical moderate risk signals, risks are mitigated by the government's large liquid asset holdings.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Low	Staff assesses the long-term risk of sovereign stress is low. Debt amortization is expected to remain high in the long run relative to the historical levels, but the expected fiscal consolidation and the government's large holdings of financial assets are expected to mitigate the risk.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: The overall risk of sovereign stress in Canada is low. Despite larger deficits in the near term, partly resulting from trade frictions and greater uncertainty and risks than last year, the gross debt-to-GDP ratio is projected to decline over the medium term under the baseline scenario, reflecting fiscal consolidation and favorable growth-interest rate differentials. While the debt fanchart module indicates a moderate risk signal, the government's sizable financial assets would provide a comfortable buffer. Similarly, medium-term liquidity risks, based on the GFN module, are moderate but these are projected to decline following consolidation. Long-term risk of sovereign stress remains low, as the risks associated with large potential debt amortization are mitigated by expected decline in GFNs and the government's large asset buffers.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex III. Figure 2. Canada: Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

					Subsectors captured in the baseline	Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

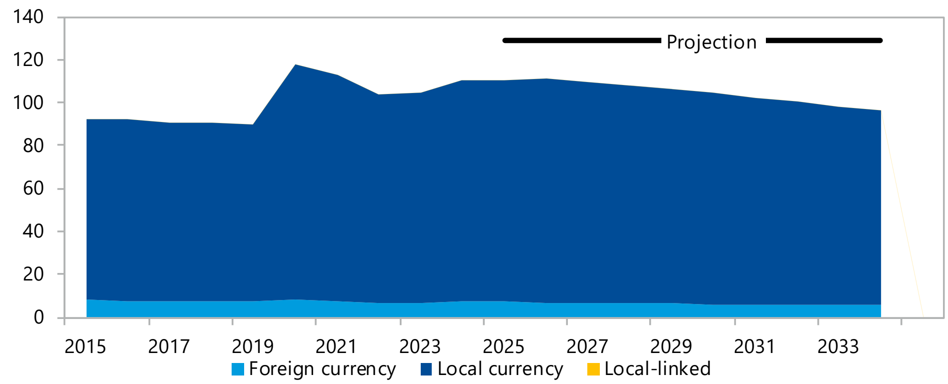
					Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt			24,068	52,849	6,627				83,544
				2	Extra-budget. funds									0
				3	Social security funds	817			1,779	506				3,102
				4	State govt.	337		46,297		13,848				60,482
				5	Local govt.	22		1,039	404					1,465
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	1,176	0	71,404	55,032	20,981	0	0	0	148,593

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is at the general government consolidated level, which includes the federal government, provincial and territorial governments, local governments, and social security funds.

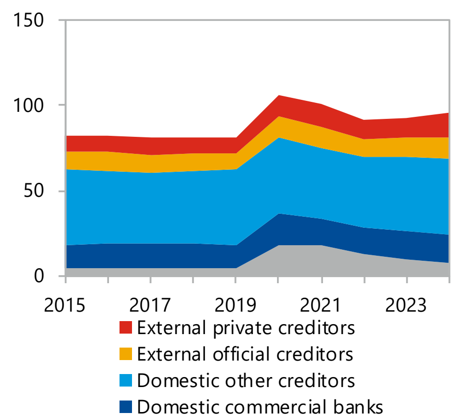
Annex III. Figure 3. Canada: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



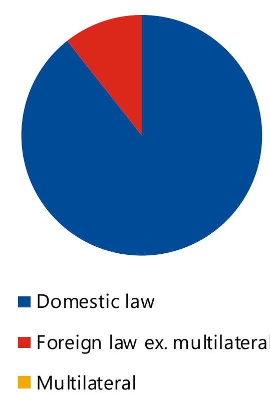
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



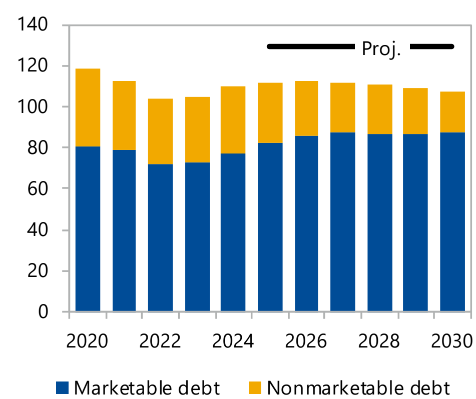
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



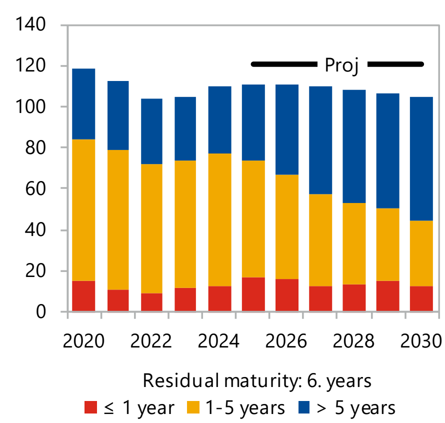
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Commentary: Gross public debt includes sizable accounts payable (about 17.2 percent of GDP at end-2024), and dominated by local-currency instruments. Average debt maturity is assumed to be gradually lengthened over the medium term.

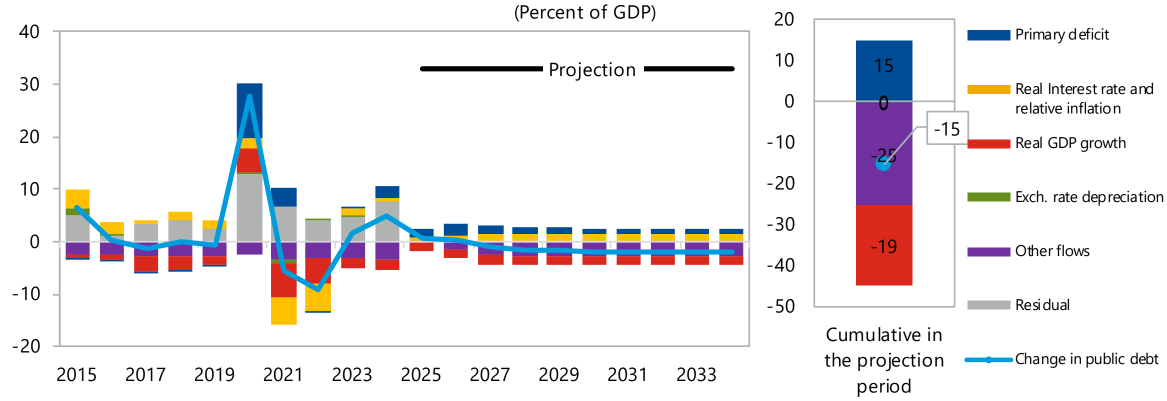
Annex III. Figure 4. Canada: Baseline Scenario

(Percent of GDP Unless Indicated Otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	110.0	110.6	110.9	109.8	108.0	106.3	104.3	102.4	100.4	98.5	96.6
Change in public debt	5.0	0.6	0.3	-1.1	-1.7	-1.8	-1.9	-2.0	-2.0	-1.9	-1.9
Contribution of identified flows	-2.6	0.7	0.3	-1.1	-1.7	-1.7	-1.9	-1.9	-2.0	-1.9	-1.9
Primary balance	2.1	1.6	2.2	1.8	1.4	1.3	1.0	1.0	1.0	1.1	1.2
Noninterest revenues	38.8	38.7	38.6	38.6	38.6	38.6	38.6	38.7	38.7	38.7	38.7
Noninterest expenditures	40.9	40.3	40.8	40.5	40.0	39.8	39.6	39.7	39.7	39.8	39.9
Automatic debt dynamics	-1.3	-1.1	-0.5	-0.7	-0.4	-0.3	-0.3	-0.3	-0.2	-0.2	-0.3
Real interest rate and relative inflat	0.7	0.7	1.2	1.4	1.4	1.5	1.5	1.5	1.5	1.4	1.4
Real interest rate	0.7	0.7	1.2	1.3	1.4	1.5	1.4	1.5	1.5	1.4	1.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-2.1	-1.8	-1.7	-2.0	-1.8	-1.8	-1.7	-1.7	-1.7	-1.7	-1.6
Real exchange rate	0.1	…	…	…	…	…	…	…	…	…	…
Other identified flows	-3.4	0.2	-1.4	-2.2	-2.7	-2.6	-2.6	-2.6	-2.8	-2.8	-2.8
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-3.4	-3.7	-3.5	-3.3	-3.2	-3.1	-3.1	-3.1	-3.1	-3.1	-3.1
Other transactions	0.0	3.9	2.1	1.1	0.5	0.5	0.5	0.4	0.3	0.3	0.3
Contribution of residual	7.6	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0
Gross financing needs	18.5	20.0	22.2	22.9	20.4	21.7	24.1	22.3	21.2	21.4	22.4
of which: debt service	19.8	22.1	23.5	24.4	22.2	23.5	26.1	24.4	23.3	23.4	24.3
Local currency	n.a.	21.1	22.4	23.5	21.6	22.8	25.2	23.8	22.8	22.9	23.8
Foreign currency	0.0	1.0	1.0	0.9	0.6	0.7	0.9	0.6	0.5	0.5	0.6
Memo:											
Real GDP growth (percent)	2.0	1.6	1.6	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Inflation (GDP deflator; percent)	2.7	2.6	2.5	2.3	2.2	2.1	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	4.8	4.2	4.1	4.2	3.9	3.8	3.8	3.8	3.8	3.8	3.8
Effective interest rate (percent)	3.4	3.2	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5

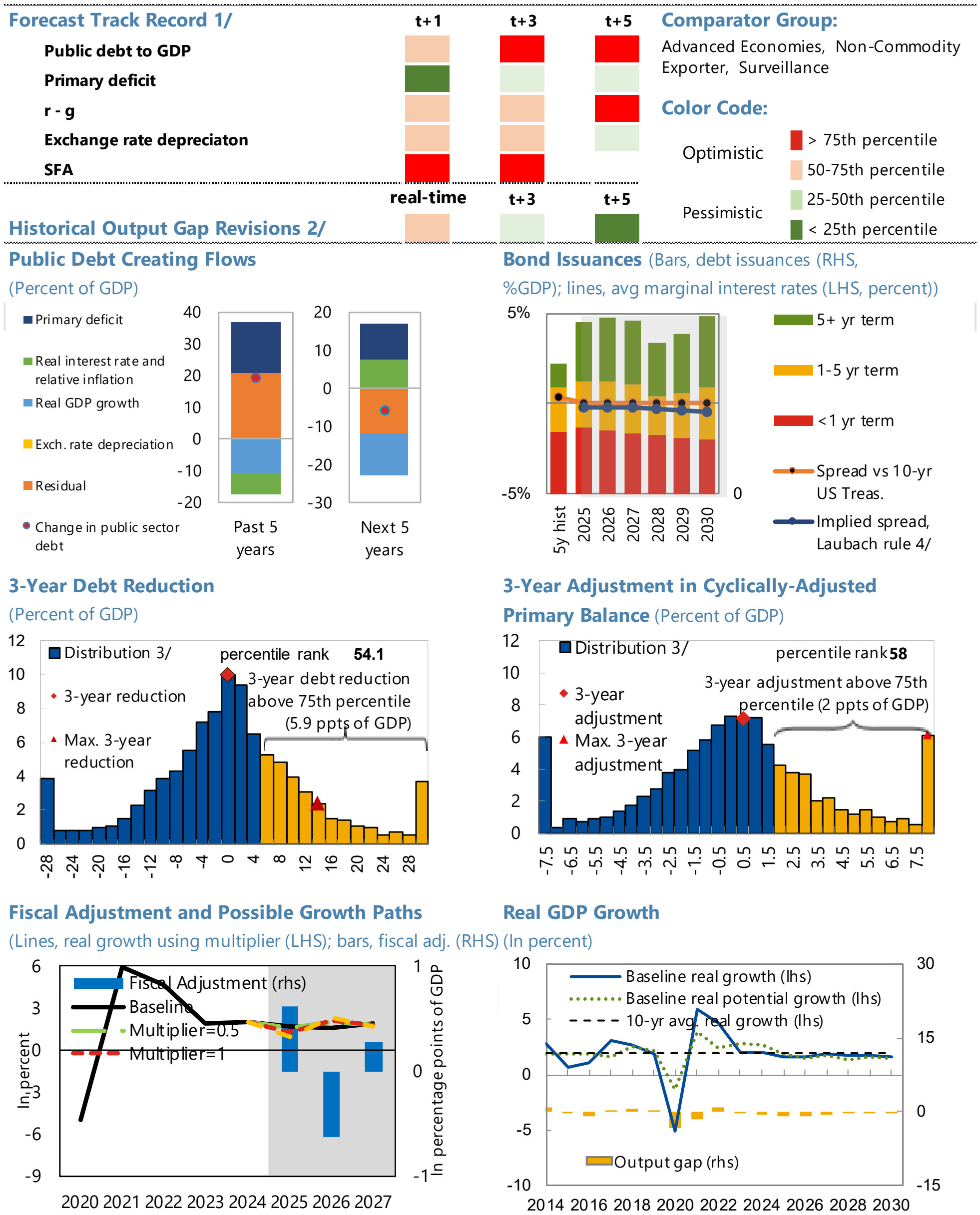
Contribution to Change in Public Debt

(Percent of GDP)



Commentary: Despite the upward pressure from primary deficits, the decline in debt-to-GDP ratio over the medium term is largley driven by real GDP growth and interest revenue and other flows.

Annex III. Figure 5. Canada: Realism of Baseline Assumptions



Commentary: realism analysis does not point to major concerns, despite some previous errors in debt ratio forecast. Further, the projected deficit and debt reductions are, respectively, close to the median and well within the inter-quartile range of the distribution. The large contribution of the residual to debt accumulation in the past five years was driven mostly by unprecedented support measures implemented in 2020. These are expected to be paid off in the next few years, resulting in large negative contribution of the residual to debt accumulation. Financing terms are stable (Canada has a negative spread vs US) and projected growth is in line with potential and historical average.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

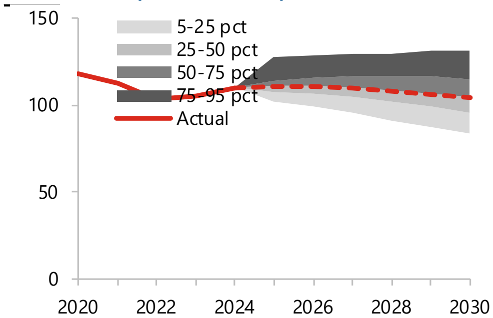
3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. Figure 6. Canada: Medium-Term Risk Analysis

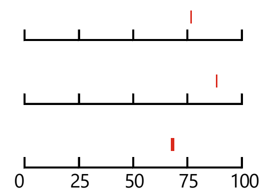
	Value	Contrib 1/	Percentile in peer group 2/

Final Fanchart (Percent of GDP)

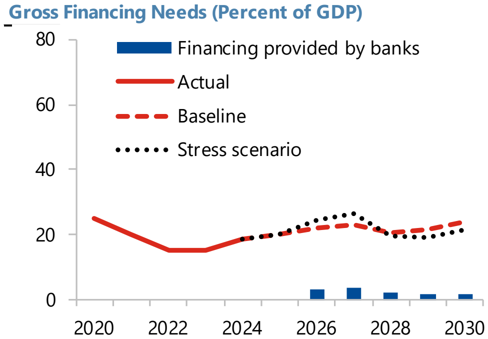


Debt fanchart module

	Value	Contrib 1/
Fanchart width *(percent of GDP)*	47.9	0.7
Probability of debt non-stabilizaiton *(percent)*	68.0	0.6
Terminal debt-to-GDP x institutions index	18.4	0.4
Debt fanchart index (DFI)		1.7
Risk signal: 3/		**Moderate**

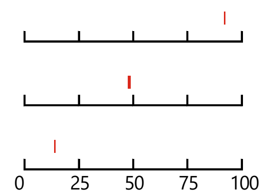


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

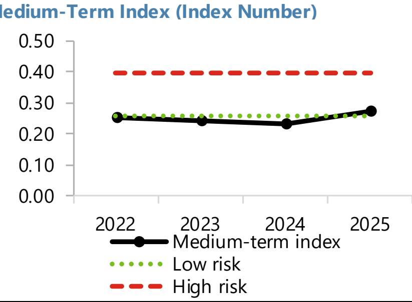
	Value	Contrib 1/
Average baseline GFN *(percent of GDP)*	21.9	7.5
Initial Banks' claims on the gen. govt *(pct bank assets)*	5.4	1.7
Chg. In banks' claims in stress *(pct banks' assets)*	0.8	0.3
GFN financeability index (GFI)		9.5
Risk signal: 4/		**Moderate**



Triggered stress tests (stress tests not activated in gray)

Banking crisis   Commodity prices   Exchange rate   Contingent liab.   Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.7	0.4	0.5	0.2
GFN finaceability index	9.5	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Low**		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 36.4 pct.

Commentary: although the debt fanchart, GFN module and signal suggest a moderate level of risk, the overall medium-term risk level is assesed to be actually low, partly driven by the projected consolidation and the large holding of financial assets by the government.

Source: IMF staff estimates and projections.

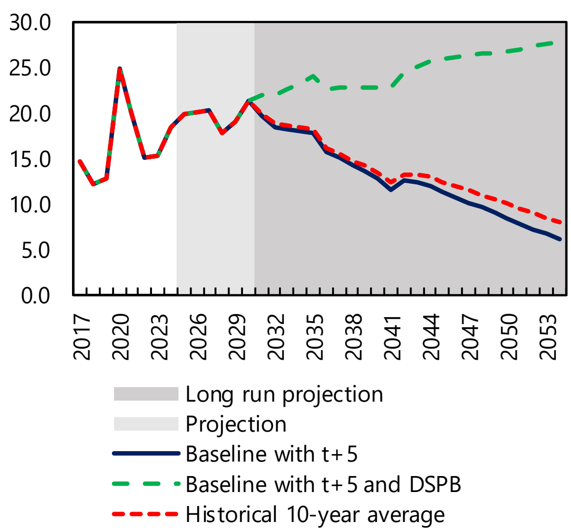
1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex III. Figure 7. Canada: Long-Term Risk Analysis

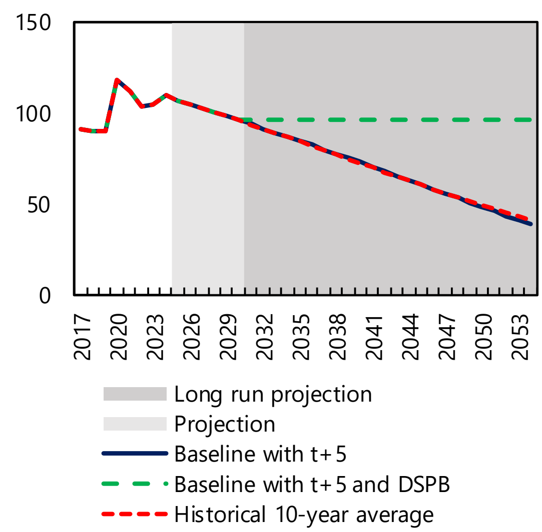
Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary:Long-term risks are assessed as low, supported by declining debt-service burdens over the forecast horizon. The projected secular decline in GFNs reinforces the low overall risk assessment. Canada's strong policy frameworks and fundamentals—including a positive NIIP and stable external financing—also provide important buffers.

Annex IV. Risk Assessment Matrix

(Scale—Low, Medium, and High)

Source of Risks	Relative Likelihood	Impact	Policy Response
Globally Sourced Conjunctural Risks			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	**High**	**High** Heightened tensions would raise uncertainty, disrupt trade and investment, and increase commodity price volatility. For Canada, as a major energy exporter, this would amplify output and fiscal swings, weaken external demand, and temporarily raise inflation, complicating policy trade-offs.	Actively pursue international economic cooperation. Continue to enhance competitiveness and strengthen policy frameworks to manage exposure to commodity-price volatility. Ensure close monetary-fiscal coordination to cushion a global downturn, calibrating the response to inflation and commodity-price developments while advancing structural reforms to boost productivity.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge — especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	**High**	**High** Higher tariffs and uncertainty would weaken external demand, disrupt supply chains, and deter investment. For Canada, as a small open economy deeply integrated with North American value chains, this would lower exports, productivity, and business confidence, while renewed cost pressures could temporarily lift inflation.	Strengthen competitiveness and supply-chain resilience by reducing internal trade barriers and deepening market diversification. Maintain predictable, rules-based trade and investment frameworks, while using macroeconomic policies to support demand and contain inflation if external shocks intensify.
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	**High**	**Medium** A sharp reassessment of risk could trigger global asset price corrections, exchange-rate volatility, and tighter financial conditions. While Canada's financial sector is resilient, negative spillovers and weaker confidence could weigh on domestic activity, and volatility in sovereign bond markets could intensify given the large participation of U.S. hedge funds.	Strengthen supervision and data coverage of NBFIs, expand stress testing to capture cross-sector linkages, and ensure macroprudential buffers remain adequate. Maintain clear policy communication and credible fiscal anchors to preserve market confidence and limit spillovers to sovereign yields and credit conditions.

(Scale—Low, Medium, and High)			
Source of Risks	**Relative Likelihood**	**Impact**	**Policy Response**
		Globally Sourced Structural Risks	
Climate Change. Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.	**Medium**	**Medium** Extreme weather events could disrupt production, damage infrastructure, and strain public finances through disaster-related spending. Transition uncertainty could deter investment and increase financial risks, especially in energy-intensive sectors	Stay committed to climate-mitigation and adaptation goals while ensuring predictable, well-sequenced transition policies that anchor private investment. Strengthen climate-related financial disclosures, integrate physical and transition risks into supervision, and prioritize resilient infrastructure investment.
		Domestically Sourced Risks	
Labor Supply Gaps. Tighter restrictions to migration could worsen labor shortages in aging economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues.	**Medium**	**Medium** Tighter migration limits would exacerbate labor shortages in an aging economy, reducing potential output and productivity, raising wage and price pressures, and straining public finances through lower revenues. In addition, in Canada, lower population growth can further dampen household spending, weighing on domestic activity.	Maintain a predictable immigration framework that addresses sectoral gaps while aligning inflows with housing, infrastructure, and public service capacity. Advance credential recognition and training reforms to improve labor matching and support productivity growth.

Annex V. Key FSAP Recommendations

Recommendations	Timing[1]
Systemic Risk Monitoring, Analysis, and Coordination, Including Climate	
Enhance coordination on stress testing methodologies and results (BOC, OSFI, and AMF)	ST
Continue to closely monitor mortgage refinancing risks, household and corporate liquidity buffers, and enhance RESL data coverage and quality (BOC, OSFI, and AMF)	ST
Expand reporting and monitor LCR for all large pension plans (OSFI, FSRA, FA, PA)	ST
Strengthen data sharing and collaboration with natural hazard and climate experts and establish standard climate data and risk frameworks across provinces (OSFI, AMF, FA, PA)	MT
Financial Oversight	
Provide OSFI, AMF, FSRA with an explicit mandate listing safety and soundness of supervised firms and contribution to financial stability as primary objectives (Federal, Provincial DOF)	ST
Strengthen budgetary autonomy of OSFI, AMF, and FSRA (Federal and Provincial DOF)	ST
Remove barriers for exchange of confidential information and strengthen federal-provincial supervisory cooperation, including on systemic risk issues (DOF, OSFI, PA, AMF, FSRA)	ST
Macroprudential Policy Establish a mechanism for taking action on systemic risks (BOC, other FA and PA)	ST
Extend the Domestic Stability Buffer to all domestically important deposit taking institutions (DTIs) and establish a positive neutral CCyB for remaining DTIs (OSFI, AMF, other PA)	ST
Regulation and Supervision of Banks and Nonbank DTIs Increase bank supervision intrusiveness through more frequent and deeper reviews (OSFI)	I
Align the related-party framework with international standards (FA, PA, OSFI, AMF, FSRA)	ST
Insurance and Pension Oversight Implement consolidated supervision for insurance groups (DOF–Federal and Québec)	ST
Enhance supervision of governance and internal controls at large pension plans (FSRA, OSFI)	ST
Strengthen authorities' powers to get confidential information from pension plans (FA, PA)	ST
Investment Fund Regulation and Supervision Align the liquidity framework with FSB-IOSCO guidance and strengthen stress-testing (CSA)	MT
Strengthen oversight of custodians and broaden related supervisory activities (CSA)	MT
Cyber Resilience Increase legal and regulatory powers over third-party providers (DOF, OSFI, BOC, PA)	MT
Leverage existing structures to set up a process to manage systemic cyber incidents (FA/PA)	I
AML/CFT Deepen understanding of cross-border ML/TF risks (DOF, FINTRAC, OSFI)	I
Ensure effective risk-based supervision of banks through more intrusive engagements, dissuasive sanctions, and adequate supervisory resources (DOF, FINTRAC)	I
Crisis Preparedness and Management	
Financial Safety Nets and Crisis Management Harmonize federal-provincial deposit insurance schemes and update their coverage (FA, PA)	MT
Establish a resolution framework for insurers (DOF, OSFI, PA)	MT
Systemic Liquidity Management Strengthen domestic funding markets and closely monitor foreign funding risks (FA, PA)	ST
Raise ELA minimum rate and grant systemic NBFIs access to bilateral liquidity support (BOC)	ST

[1/] Timing: I = Immediate (within one year); ST = Short Term (within 1–3 years); MT = Medium Term (3–5 years).

Annex VI. Data Issues

Annex VI. Figure 1. Canada: Data Adequacy Assessment Rating 1/

A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	A	A	A	A	B	
Granularity 3/	A		A	A	B	
			A		B	
Consistency			B	A		A
Frequency and Timeliness	A	A	B	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Statistics Canada and the Bank of Canada generally provide timely and adequate data for surveillance. Room for improvement remains with respect to a timelier dissemination of central government operations where Canada currently disseminates monthly data within 60 instead of 30 days after the end of the reference period. Coverage and granularity in MFS data could be enhanced. Data gaps remain with respect to data on NBFIs and detailed data on other depository corporations with breakdowns by financial instrument, currency of denomination, and counterparty -- closing these gaps would improve assessments of macrofinancial linkages. BOC disseminates timely data for the central bank balance sheet, but has not disseminated balance sheet data for other depository corporations or other financial corporations for many years. Discontinuation coincides with the task moving from BOC to StatCan.

Annex VI. Figure 1. Canada: Data Adequacy Assessment Rating (concluded)
Changes since the last Article IV consultation. No relevant changes since last Article IV consultations.
Corrective actions and capacity development priorities. Not relevant for Canada.
Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.
Other data gaps. Progress on closing NBFI liquidity data gaps remains slow, notably for non-federal pension funds where supervisory responsibilities remain unclear, and the exchange of information remains scarce. Given the growing role of NBFIs, resuming balance sheet data reporting for other depository corporations (2SR) and other financial institutions (4SR) would strengthen risk monitoring. Some data gaps remain in assessing some areas of housing supply such as zoning and permitting, land banking, or development charges. In the context of immigration, the number of temporary workers leaving Canada is not well recorded.

Annex VI. Figure 2. Canada: Data Standards Initiatives
Canada adheres to the Special Data Dissemination Standard (SDDS) Plus since April 2017 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VI. Table 1. Canada: Common Indicators Required for Surveillance
(As of December 5, 2025)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Canada[8]	Expected Timeliness[6,7]	Canada[8]
Exchange Rates	Same day	Same day	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	28-Nov-25	04-Dec-25	M	M	M	M	1W	NLT 7D
Reserve/Base Money	30-Sep-25	19-Nov-25	M	M	M	M	2W	2W
Broad Money	30-Sep-25	18-Nov-25	M	M	M	M	1M	NLT 1M
Central Bank Balance Sheet	31-Oct-25	13-Nov-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	31-Oct-25	01-Dec-25	M	M	M	M	1M	NLT 1M
Interest Rates[2]	Same day	Same day	D	D	D	...	...	...
Consumer Price Index	31-Oct-25	17-Nov-25	M	M	M	M	1M	NLT 1M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2025 Q3	28-Nov-25	Q	Q	A/Q	Q	2Q/12M	75D
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	30-Sep-25	28-Nov-25	M	M	M	M	1M	2M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2025 Q2	11-Sep-25	Q	Q	Q	M	1Q	NLT 1Q
External Current Account Balance	2025 Q3	27-Nov-25	Q	Q	Q	Q	1Q	60D
Exports and Imports of Goods and Services	31-Aug-25	07-Oct-25	M	M	M	M	8W	45D
GDP/GNP	2025 Q3	28-Nov-25	Q	Q	Q	Q	1Q	60-75D
Gross External Debt	2025 Q2	10-Sep-25	Q	Q	Q	Q	1Q	75D
International Investment Position	2025 Q2	10-Sep-25	Q	Q	Q	Q	1Q	75D

[1] Includes net market value of derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.
[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.
[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VII. Progress on Past Article IV Policy Recommendations

2024 Article IV Policy Recommendations[1]	Action Taken
Macro Policy Advice	
Monetary Policy: Continue policy normalization as inflation declines, calibrating easing to incoming data and U.S. policy to avoid undue depreciation. Maintain a restrictive stance for now, with rates above neutral, and proceed with quantitative tightening while monitoring liquidity.	The BoC has lowered its policy rate by 275 basis points since June 2024, taking it from 5 per cent to 2.25 per cent to help withstand the tariff shock. Quantitative tightening ended, and the Bank of Canada moved to steady-state balance-sheet operations to maintain stable settlement balances.
Fiscal Policy: Tighten fiscal policy more to rebuild buffers, create room for priority investments, and support disinflation. Consolidation should combine revenue and spending measures – such as strengthening GST revenues and improving public-sector efficiency – and be coordinated with provinces.	In response to the tariff shock, fiscal policy was modestly expansionary, providing targeted support while preserving medium-term adjustment space. The general government deficit narrowed to 1.3 percent of GDP by 2025: Q3, reflecting middle-income tax cuts, the repeal of the consumer carbon tax, and higher public investment; the deficit is projected to increase over the fiscal year.
Financial system: Strengthen monitoring of liquidity risks in large institutional investors, improve federal-provincial coordination to address data gaps and regulatory fragmentation, and enhance supervision of nonbank financial intermediation. Increase focus on cross border money laundering risks to safeguard financial stability.	Efforts are ongoing to improve data reporting, supervision of non-financial risks, and risk-based AML/CFT practices, consistent with FSAP priorities.
Policy Toolkit Reforms	
Fiscal framework: Strengthen fiscal institutions by complementing new quantitative fiscal objectives with a more formal fiscal framework to anchor policy and enhance credibility.	The government shifted the budget cycle to the Fall and updated its fiscal framework by adopting a capital-budgeting-framework approach, distinguishing between operational and long-term investment spending. The operating balance and a declining overall deficit to GDP ratio became the fiscal anchors.

2024 Article IV Policy Recommendations	Action Taken
Policy Toolkit Reforms	
BoC communication: Could provide additional information on the expected policy rate path – such as comparisons to neutral, views on market expectations, or publishing the full rate path- while emphasizing its non-binding nature. Additional steps to improve transparency, including more detailed downloadable data appendices in the Monetary Policy Report and earlier release of internal staff forecasts.	BOC enhanced transparency by recently returning to a central forecast after using scenario analysis to preserve flexibility and limit policy misjudgment risks following the tariff shock. Monetary policy remained data-driven, and communication of the Governing Council considerations continued through post-decision press conferences.
Climate Policy Priorities	
Continued commitment to mitigation policies, centered around carbon pricing; strengthen design of green subsidies	The authorities remain committed to their ambitious mitigation policies, but further efforts are needed to close the "implementation gap".
[1] As a volunteer country, the authorities are encouraged to continue implementing previous recommendations to address risks from supply and facilitation of transnational aspects of corruption.	

Annex VIII. Updates on Transnational Aspects of Corruption

Canada volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption. This annex provides key updates on the implementation of past recommendations under this exercise.

1. Supply side (criminalization and prosecution of foreign bribery):[1] Canada has reported progress in sustaining the public accessibility of concluded foreign bribery cases and in strengthening the compilation and maintenance of statistics, including on foreign bribery detection sources, mutual legal assistance, and enforcement. Additionally, the authorities have highlighted measures to reinforce the pursuit of money laundering and proceeds-of-crime charges alongside foreign bribery offences and to strengthen detection and investigative capacity. Canada should continue its efforts to enhance enforcement against foreign bribery. The authorities have referred to a case example where the corporate liability framework allows the legal entity to be held liable even in the absence of knowledge or participation by the most senior managerial personnel. Furthermore, the Ineligibility and Suspension Policy was revised to enable more responsive and provisional sanctions and expand relevant triggers. Canada is assessing policy considerations and possible approaches to enhance whistleblower protection, and continued efforts will be needed.

2. Facilitation (preventing concealment of foreign corruption proceeds): Canada has continued to progress on its efforts to combat the laundering of foreign proceeds of corruption. The authorities' targeted guidance and outreach to reporting entities on mitigating risks related to the laundering of proceeds of corruption are welcome. Measures to strengthen AML/CFT risk-based supervision are being advanced and should be sustained. The new requirement for obliged entities to report discrepancies in the beneficial ownership information held in the federal beneficial ownership registry is expected to help improve the accuracy of this information. Building on these ongoing initiatives, Canada should aim to advance beneficial ownership transparency reforms at the provincial level and in higher-risk sectors (such as real estate) to reduce the risk of misuse of legal entities to launder foreign proceeds of corruption.

[1] Canadian authorities have provided information the accuracy of which has not been verified by the OECD Working Group on Bribery (WGB) or the OECD Secretariat, and which do not prejudice the WGB's monitoring of the implementation of the OECD Anti-Bribery Convention.

INTERNATIONAL MONETARY FUND

CANADA

December 18, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of October 31, 2025)

Membership Status: Joined 12/27/1945; Article VIII

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	11,023.90	100.00
Fund holdings of currency	8,165.23	74.07
Reserve Tranche Position	2,869.28	24.03
Lending to the Fund[1]		

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	16,553.99	100.00
Holdings	17,013.80	102.78

Outstanding Purchases and Loans: None.

Latest Financial Arrangements: None.

Projected Obligations to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs):

Forthcoming

	2025	2026	2027	2028	2029
Principal					
Charges/Interest		0.08	0.08	0.08	0.08
Total		0.08	0.08	0.08	0.08

Implementation of HIPC Initiative: Not Applicable.

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable.

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable.

Exchange Rate Arrangements: The authorities maintain a "free floating" exchange rate regime. The Canadian authorities do not maintain margins with respect to exchange transactions. However, the authorities may intervene to maintain orderly conditions in the exchange market. There are no taxes

[1] The NAB amount outstanding was zero as of April 30, 2024 while the amount agreed remained unchanged at 7,747.42 (SDRs in millions).

or subsidies on purchases or sales of foreign exchange. Canada has accepted the obligations under Article VIII, Sections 2, 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices. Canada maintains exchange restrictions for security reasons, based on UN Security Council Resolutions, that have been notified to the Fund for approval (most recently in June 10, 2014) under the procedures set forth in Executive Board Decision No. 144–(52/51).

Last Article IV Consultation: The Staff Report for the 2024 consultation with Canada was considered by the Executive Board on July 10, 2024 (IMF Country Report No. 24/128). Canada is on a 12-month consultation cycle. The Financial Sector Assessment Program (FSAP) took place in 2000, was updated in 2008, 2014, and 2019 and again in 2025.

2025 Article IV Consultation: Discussions took place in Ottawa and virtually during November 12–20, 2025. The IMF team consists of A. Ahuja (head), F. Diez, M. Ghazanchyan, S. Lizarazo Ruiz, T. Schulze, J. Tapia (all WHD), D. Rodriguez Guzman (ICD), and T. Tressel (MCM) with analytical support from Y. Yang (WHD) and F. Lutz (RES), and Y. Deng (LEG) on AML/CFT issues. The mission held meetings with Finance Canada, the Bank of Canada, provincial authorities, think tanks, and business leaders. The mission met with Finance Deputy Minister Forbes, followed by concluding meetings with Governor Macklem and Minister Champagne on December 2 and 4, 2025, respectively. Messrs. N. Chalk and L. Cubeddu (WHD), and Mr. D. Hofman (MCM FSAP Mission Chief) participated in these concluding discussions. Messrs. B. Recker and M. Francis (OED) joined the meetings. The concluding statement was issued on December 5, 2025.

Technical Assistance: Not Applicable.

Resident Representative: Not Applicable.