

Canada: Staff Concluding Statement of the 2025 Article IV Mission

December 5, 2025

A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or 'mission'), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](https://www.imf.org/external/pubs/ft/aa/index.htm) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.

The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision.

Washington, DC - December 5, 2025: An International Monetary Fund (IMF) mission, led by Mr. Ashvin Ahuja, visited Ottawa during November 12-20 and held concluding meetings on December 2-4 for the 2025 Article IV consultation. At the end of the discussions, the mission issued the following statement:

Canada's economy has held up better than expected despite a significant external trade shock. U.S. tariff increases—and Canada's more limited and now largely withdrawn retaliatory measures—have disrupted tightly integrated North American supply chains, raised input costs, and hit trade-exposed sectors hardest. The impact has been mitigated by continued CUSMA exemptions and firms' early adjustments, but output, employment, and investment have still weakened. Lower commodity prices, softer external demand, slowing immigration, and tariff uncertainty have added to the drag, exposing long-standing structural headwinds from weak productivity, slow capital deepening, and lagging innovation. Recent policy actions, including targeted support to affected firms and measures in Budget 2025 to encourage investment, have helped cushion the blow. The priority now is to manage near-term pressures while advancing reforms that strengthen competitiveness, productivity, and resilience within a framework that preserves macro-fiscal sustainability.

I. Recent Economic Outcomes

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 once renewed U.S. tariff hikes took effect. Exports fell back, business investment slowed, and manufacturing, transportation, and other supply-chain-linked sectors contracted. Consumption has held up, supported by accumulated savings, but weaker hiring and slower immigration continue to weigh on momentum.

Inflation has been contained, creating space for monetary easing. Weaker demand, firms' cost absorption, and limited exchange-rate pass-through have kept price pressures at bay. Headline inflation is near 2 percent and core measures are softening. With expectations well anchored and the economy operating below potential, the decision to lower the policy rate to 2¼ percent is well judged.

External and fiscal positions have adjusted to the trade shock. The external current account deficit widened as exports to the United States declined and reorientation toward Europe and Asia only partly offset losses. Fiscal policy provided measured support through 2025—including middle-income tax relief, repeal of the consumer carbon tax, and liquidity, investment, and procurement support for businesses—while preserving space to respond to evolving conditions.

II. Outlook and Risks

The near-term outlook is subdued and uncertainty remains high. Output is expected to remain below potential through 2026 as weak exports, investment and softer hiring continue to restrain activity. Inflation should hover around 2 percent, with softer demand and firms' cost absorption keeping underlying pressures contained. The current account deficit is projected to narrow only gradually, as net exports are expected to recover only gradually and competitiveness gains take time to materialize.

Risks are more balanced than earlier in the year but still tilt to the downside. A renewed escalation of tariffs or tighter global financial conditions are the dominant risks, with potential to weaken investment, hiring, and confidence. A sharper slowdown in China could depress commodity prices and exports. Domestically, elevated household debt leaves consumption vulnerable to labor-market shocks. Upside risks include a more constructive U.S. trade backdrop, faster internal market integration, and stronger execution of supply-side reforms and priority infrastructure investment, all of which could lift demand and improve long-term potential growth. Canada's strong fundamentals, including a positive NIIP and reliable access to external financing, continue to provide important buffers.

III. Macroeconomic Policy Response

Monetary policy should remain focused on keeping inflation low and stable as the Bank navigates heightened trade uncertainty and a more supportive fiscal stance. With inflation contained and the economy operating below potential, the current stance is appropriate. Further easing could be considered if underlying pressures continue to fade and slack widens, while taking account of how fiscal measures shape both demand and supply.

The Bank's communication strategy should continue to support stability. The Bank's recent shift back to publishing a central forecast is welcome. Conditional paths showing how policy would adjust under different economic scenarios, without implying pre-commitment, can improve market understanding of the reaction function and help guide expectations more systematically. Done carefully, these steps can continue to strengthen the clarity of policy signals while preserving flexibility.

Fiscal policy should continue to be measured, counter-cyclical, and flexible. A modestly expansionary stance remains appropriate to cushion softer external demand, given fiscal space supported by low net debt levels and contained deficits. If the trade shock intensifies, automatic stabilizers should operate fully, complemented by temporary, targeted measures and a transparent path back to the anchors once conditions normalize. If conditions improve, support should be withdrawn sooner, with consolidation focused on protecting high-quality investment in productivity, infrastructure, and housing. Clear communication of these contingencies will reinforce credibility and support an orderly adjustment.

A clear debt-to-GDP anchor should remain central to Canada's fiscal framework. Budget 2025 rightly pivots toward higher public investment while maintaining discipline through the new deficit and operating-balance anchors, enabling decisive action in a volatile global environment. Elevating the debt ratio from an indicator to a formal anchor—and positioning the deficit and operating-balance paths as complementary instruments—would create a coherent hierarchy, reinforce accountability, and help ensure investment plans remain sustainable and credible.

A stronger fiscal architecture can reinforce the shift toward higher investment. The new capital-budgeting framework is a significant advance that signals the authorities' intent to emphasize spending that supports long-term growth. As the framework is designed to add to standard statistical classifications, a clearer bridge between the two would improve transparency, ensure comparability over time, and maintain a clear link between borrowing and the debt path. Meanwhile, establishing an independent mechanism to

validate classifications *ex ante* and assess compliance *ex post* would further reinforce accountability and help ensure resources flow to projects that raise potential growth.

Expenditure control will be critical to sustaining the pivot toward higher investment. The commitment to comprehensive expenditure reviews is an important step. Clear targets, transparent reporting, and timely delivery—starting with the upcoming Main Estimates—will help strengthen discipline and accountability as this exercise ramps up. Early progress would bolster credibility and support durable efficiency gains.

IV. Housing Affordability

Affordability pressures remain severe in several major cities despite tentative cooling. Softer labor markets and slower population growth have tempered demand, but structural supply gaps, not cyclical conditions, continue to underpin affordability challenges. The government's renewed focus on boosting supply, alongside actions to better calibrate immigration to more sustainable inflows, should help reduce pressures over time.

The supply push should continue to be well targeted to tackle binding constraints. Build Canada Homes, the Housing Accelerator Fund, expanded CMHC financing, and the Canada Housing Infrastructure Fund are all addressing long-standing bottlenecks—limited land availability, protracted permitting, municipal infrastructure gaps, and low construction-sector productivity—that constrain the pace and scale of new supply. In key metros, reducing development charges could complement these efforts, but sustained zoning reform, streamlined approvals, and coordinated federal-provincial-municipal action will be critical to bring supply online at the scale that Canada requires.

Demand measures should be tightly focused. While incentives for first-time homebuyers can help at the margin, they should be designed carefully to avoid reigniting price pressures before supply expands. The federal foreign-buyer ban and provincial and municipal non-resident taxes are capital-flow management measures under the IMF's Institutional View. Over time, consideration should be given to replacing these measures with broad-based, non-discriminatory taxes on speculative activity to widen participation, reduce compliance burdens, and channel capital to support new supply.

V. Financial Stability

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, non-financial risks, and financial-integrity compliance—and expand monitoring of cross-border exposures and market-based finance. Further efforts are needed to strengthen 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 of the AML/CFT framework.

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. 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'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.

Macroprudential policy should remain alert. Borrower-based tools should continue to help contain leverage and curb excessive risk-taking, especially given elevated household debt and pockets of stretched valuations. Extending the Domestic Stability Buffer to all systemically important DTIs and establishing a positive neutral countercyclical capital buffer for others would further boost resilience. If housing pressures re-emerge, borrower-based limits should be tightened further, especially for higher-risk segments.

VI. Reinvigorating Growth

Canada's productivity shortfall is the principal constraint on long-term growth. Weak business dynamism, slow capital deepening, and lagging innovation have held back output per hour. Entry and scaling have become more difficult, and high market concentration in key service industries continues to dampen competitive pressure and slow reallocation.

Strengthening competition and business dynamism is essential to lifting productivity. Expanding the Competition Bureau's mandate and new telecom measures to cut deployment costs are positive for contestability, but sustained resourcing is needed for effective enforcement and market studies. Lowering barriers to entry and scaling—through simpler licensing, clearer regulatory standards, and reduced burdens on smaller and newer firms—would support reallocation toward more productive businesses. Making it easier for firms and consumers to challenge anti-competitive conduct directly before the Competition Tribunal would enhance deterrence. Routine screening of new regulations to identify provisions that impede entry, raise costs, or entrench incumbents would keep markets contestable and reinforce the broader growth agenda.

Budget 2025 reinforces the productivity agenda; strong execution can translate higher investment into durable gains in living standards.

- *Innovation and investment.* Expanded support and improved predictability under the Scientific Research and Experimental Development (SR&ED), along with advances in the Major Projects initiatives, will appropriately strengthen research infrastructure and accelerate clean energy and critical minerals development. Strengthening commercialization pathways, advancing a new Venture Capital and Growth Catalyst Initiative, and deepening the pool of scientists and engineers would also help increase long-term returns and complement generous R&D incentives.
- *Financial sector competition and resilience.* Legislation on fiat-backed stablecoin issuance under Bank of Canada oversight and continued rollout of the Consumer-Driven Banking Framework will expand secure data sharing and enable new business models. Parallel efforts to ease entry and streamline regulation will support greater choice, competition, and capital deployment.
- *Pro-growth tax policy.* The Productivity Super-Deduction and Accelerated Investment Incentive will cut the marginal effective tax rate on new capital by over two percentage points, reinforcing Canada as the most tax-competitive country for new business investment in the G7. Sustaining a simple, broad-based system—backed by transparent evaluation of major tax expenditures—and assessing options to strengthen the GST base over time would reinforce fiscal space for high-return investment.

While industrial policy could help build resilience and strategic capacity, strong guardrails will be essential to avoid slowing adjustment and productivity. Support for firms in transition—through liquidity tools and adjustment assistance—should remain conditional on business viability so resources flow to productive uses. Sector-specific subsidies, procurement mandates, or exemptions should be narrow, time-bound, and tied to clear market failures, with careful attention to fiscal risks. Competitive neutrality in eligibility and allocation is key to avoiding incumbent advantage and preserving contestability.

Internal market integration—one of Canada’s highest-return reforms—now requires decisive action across provinces and territories and sustained implementation. The federal government has taken steps to reduce impediments and support a more seamless national economy. Most remaining barriers lie within provincial jurisdiction: differing standards, licensing rules, procurement preferences, and labor mobility restrictions raise costs and hinder efficient reallocation across provinces. Removing these frictions—prioritizing mutual recognition of credentials, CFTA-aligned sub-national procurement, and harmonized inspection and safety certifications—could lift real GDP by up to 7 percent over time, with especially large gains in services.

Canada’s trade strategy should remain anchored in openness and predictability, balancing diversification with deeper North American integration. Diversification toward Europe and the Indo-Pacific can strengthen resilience and reduce over-reliance on a single market, although reorientation will take time given tightly integrated continental supply chains and infrastructure readiness. The 2026 USMCA review will be pivotal: updating rules on critical minerals, digital trade, and clean technology can bolster regional competitiveness, while stable and predictable disciplines support investment and scale. A strategy that broadens market access while deepening continental integration—through investment in trade-enabling infrastructure and transparent, rules-based engagement—offers the most durable path to higher productivity, resilience, and economic security.

The mission thanks the Canadian authorities, provincial governments, and other counterparts for their warm hospitality, close collaboration, and candid discussions. We greatly value the authorities’ commitment to policy transparency and evidence-based dialogue, which have once again contributed to a rich and constructive exchange on Canada’s economic challenges and policy priorities.

Table 1. Canada: Selected Economic Indicators 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	41.6	41.7	41.8
Expenditures	40.4	41.8	44.3	43.7	44.6	44.2	43.7	43.4	43.2	43.2
Overall balance	0.6	-0.2	-2.1	-1.3	-2.6	-2.3	-1.9	-1.8	-1.6	-1.5
Structural balance 1/	0.1	-0.2	-0.8	-0.7	-2.1	-1.9	-1.7	-1.7	-1.6	-1.4
Gross Debt	103.7	106.6	110.0	109.1	109.2	108.1	106.5	104.8	103.2	101.4
Net debt	13.6	14.3	12.3	12.0	12.7	13.2	13.4	13.4	13.3	13.1

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.

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