

# Intelligence MEMOS



From: Brian Lewis  
To: Concerned Canadians  
Date: May 9, 2025  
Re: CHARTING CANADA'S POST-ELECTION ECONOMIC COURSE

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The votes are in, and Canada's 45th federal election has delivered a strong minority government that appears stable enough to govern with confidence – though not unchecked – for the next few years.

The timing is critical: With global uncertainty rising and structural reforms urgently needed, the new government must quickly shift from campaigning to governing.

At the top of the economic inbox is managing the fallout from the US-driven global trade war. Canada is hardly alone in facing the consequences, but it is especially exposed. The new government is facing heightened uncertainty, lower growth forecasts, and increased risk of recession. In the short term, its job is to manage this collateral damage. Over the longer term, it must pursue reforms that support economic sustainable growth and reduce the country's heavy economic dependence on the United States.

While CUSMA technically remains in force, Donald Trump's recent remarks – questioning its necessity and repeated references the “51st state” – cannot be dismissed as empty rhetoric. In this climate, Canada needs a sober, realistic trade posture, one that maintains openness while building resilience. That will require urgent diplomacy, strategic industrial policy, and a clear signal to global investors that Canada remains a stable, rules-based economy – even if its largest trading partner does not.

Beyond trade, the domestic agenda is equally demanding. The Liberals campaigned on an expansive government-driven economic program: Accelerating housing supply, scaling up green industrial policy, boosting infrastructure investment, and more. Now comes the harder part – turning campaign promises into workable policy and programs. That bears close examination, given some notable recent federal struggles with policy implementation.

Longer-term structural challenges – population aging, climate adaptation, and rapid technological transformation – all loom large. These are not one-budget problems; they demand sustained, consistent policy action over time. As they say, even the longest journeys start with a single step. The next federal budget will be an opportunity not only to respond to the challenges of the day, but to set out a bold new path for long term growth and prosperity of the Canadian economy.

Budget 2025 will offer the first real indication of how the Carney government intends to reconcile its big policy ambitions with fiscal discipline. The Liberals insisted during the campaign that deficits could grow safely, as long as the debt-to-GDP ratio remained stable. That's a reassuring message – but only partially true. Canada's debt burden remains modest by G7 standards, and its credit rating is solid. Still, the fiscal cushion is much thinner than in the last update, and future debt servicing costs are going to climb due to higher debt levels. Slowing growth and rising program costs will soon collide with fiscal reality.

The Liberal platform included reasonable-looking cost estimates and growth assumptions. But campaign documents are not budgets. Once Finance Canada applies revised revenue forecasts, prudence factors, and stress tests, the numbers may not line up so neatly. Hard choices lie ahead, and trade-offs will be unavoidable.

Even if Ottawa holds to its fiscal targets, provincial finances are deteriorating quickly. British Columbia and Quebec have tabled record deficits, and Ontario's shortfall – due to be revealed in its May 15 budget – will likely be significant. The IMF, OECD, and credit rating agencies correctly draw attention to Canada's consolidated government debt, not just the federal balance sheet. That means the federal government must show leadership: Staying disciplined itself while keeping an eye on the broader fiscal picture.

A new Finance Minister will soon be named – tasked with delivering one of the most consequential budgets in decades, under a unique set of economic conditions and an equally unique boss. With Canada's first “Prime Economist” at the helm, the minister's mandate may come with both high expectations and unusually close oversight.

Fortunately, there is recent experience to draw on. Budgets from Jim Flaherty during the global financial crisis, and from Bill Morneau and Chrystia Freeland in response to COVID-19, offer important lessons. But the current challenge is different. It is not about urgent stimulus. It is about steering through uncertainty, investing wisely, and preserving fiscal credibility.

Ultimately, the test for Mark Carney's new government is to reconcile big ambitions with tough arithmetic. Will Budget 2025 mark a turning point in Canada's economic direction, or will it be yet another missed opportunity to tackle the hard choices?

We should know soon enough.

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