



June 3, 2026

## DOMESTIC STABILITY BUFFER COUNCIL

### Split Vote as Risks Worsen: Council Recommends Holding Buffer at 3.5 Percent, but Urges Readiness to Act Fast

*Sixth Meeting of the C.D. Howe Institute Domestic Stability Buffer Council*

At its recent meeting, in a split vote, the C.D. Howe Institute's Domestic Stability Buffer Council (DSBC) recommended that the Office of the Superintendent of Financial Institutions (OSFI) maintain its Domestic Stability Buffer (DSB) at 3.5 percent at its upcoming setting. A slim majority of council members – four of the seven – voted to hold the DSB steady, while three members believed economic conditions had worsened enough to justify a cut. However, the Council unanimously emphasized that deteriorating macroeconomic and geopolitical conditions could warrant a rapid and sizeable reduction in the buffer should stress in the financial system begin to materially impair credit provision to the real economy. Members also stressed that, if necessary, OSFI should be prepared to act between its semi-annual schedule.

The DSBC provides OSFI, industry participants, and economic policy leaders with an independent assessment of the appropriate size of the buffer in support of OSFI's mandate to contribute to public confidence in the Canadian financial system. Council members make recommendations ahead of OSFI's upcoming DSB announcement this month. The Council consists of Vivian Abdelmessih, Cathy Cranston, Jamey Hubbs, Peter Levitt, Duncan Munn, Mark Zelmer, and Jeremy Kronick, who is Chair. All members attended.

The Council's debate centred on two competing views. The first held that the current economic environment has deteriorated severely enough to justify releasing part of the DSB as a countercyclical tool to encourage increased bank lending to the broader economy. By contrast, the second was that there is still no evidence that banks are unable to meet current demand.

Members agreed that the macroeconomic and geopolitical backdrop has worsened meaningfully since the Council's previous meeting.<sup>1</sup> Several participants identified the conflict involving Iran and its impact on global energy markets as the single largest change in the external environment. Elevated oil prices, lingering supply-chain concerns, and rising geopolitical uncertainty were seen as adding to inflationary pressure and weakening the growth outlook. While recent price growth data came in somewhat below consensus expectations and did not spread to other sectors such as food as much as expected, members noted that inflation remains above target and continues to pressure household and business balance sheets.

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1 C.D. Howe Institute Domestic Stability Buffer Council. 2025. "Sluggish, Not Stressed, But Elevated Risks': Council Recommends Leaving Buffer at 3.5 Percent." Communiqué. Toronto: C.D. Howe Institute. November 20. <https://cdhowe.org/publication/sluggish-not-stressed-but-elevated-risks-council-recommends-leaving-buffer-at-3-5-percent/>.

The Council also discussed the increasingly uneven nature of economic weakness across Canada. Members cautioned against relying too heavily on aggregate national indicators, arguing that headline averages risk obscuring meaningful pockets of stress. Delinquency rates are rising more quickly in regions and sectors disproportionately exposed to tariffs and trade disruptions, while insolvencies are increasing in several consumer credit categories.

While losses in residential mortgages and broader consumer credit have not yet materialized at scale, many members warned that these pressures could emerge over the coming months if conditions continue to weaken.

The possibility of stagflation featured prominently in the Council's discussion. Members noted that the combination of weak growth, elevated inflation, persistent geopolitical uncertainty, and structurally higher energy prices could create an especially difficult backdrop for households, businesses, and policymakers. Several participants expressed concern that even positive developments, like shovel-ready projects out of the Major Projects Office, take time to show up in the economic data. Members also emphasized that even a rapid de-escalation in geopolitical tensions would not immediately resolve disruptions to global shipping, energy markets, or investment decisions.

On trade, the Council argued that tariffs and a more fragmented global trading environment are likely to persist, at least in part, for the foreseeable future. Some members argued that the environment increasingly resembles a pre-free-trade model in which firms seeking market access may need to establish production domestically.

At the same time, several members pointed to potential opportunities for Canada amid the broader reassessment of global economic relationships. While some investment may continue to flow toward larger markets such as the United States, participants noted that Canada may benefit from its relative institutional stability and reputation as a reliable partner. Members highlighted services, agriculture, and natural resources as sectors where Canada retains meaningful competitive strengths.

Against this backdrop, Council members debated whether current conditions justified a reduction in the DSB. Members reiterated that OSFI itself has called the DSB a countercyclical tool designed to support continued credit extension during periods of economic uncertainty. Those favouring a reduction argued that we find ourselves in such a period. Those opposing a reduction made the case that releasing the buffer is not intended to stimulate economic growth directly, but rather to ensure that the major banks can continue lending and prevent any strains in the financial system from amplifying a downturn – a situation that a majority of members believe has yet to materialize.

Members favouring a DSB reduction argued that, alongside deteriorating economic conditions, stress is beginning to emerge at the periphery of the financial system, including in private credit, and is likely to worsen further. These members viewed the current environment as consistent with the framework's countercyclical intent and argued that a modest reduction could reinforce confidence that OSFI stands ready to act proactively as risks crystallize. They also noted that since the Common Equity Tier 1 (CET1) ratios of Canada's six domestic systemically important banks (D-SIBs) moved alongside increases in the DSB, it was reasonable to expect that D-SIBs might follow a cut to the DSB – even a small one – by increasing lending. In their view, concerns about bank planning cycles argue for acting earlier, not waiting longer.

Other Council members argued strongly that credit conditions have not yet deteriorated enough to justify releasing the buffer. These members emphasized that the major banks continue to possess substantial capacity to absorb losses and extend credit. While vulnerabilities are rising and stress is emerging in parts of the economy, members in this camp have not yet seen evidence that banks are contributing materially to procyclicality or restricting credit in a way that would justify reducing capital requirements.

Several members also cautioned that a reduction in the DSB could signal weakening confidence in the resilience of the financial system at a time of heightened uncertainty. Participants noted the importance of clearly articulating the rationale for any change to the buffer, including the evidence showing banks are acting in a procyclical way, and the distinction between worsening economic conditions and stress severe enough to impair financial intermediation.

The Council also debated the appropriate size of any potential reduction. Some members argued that a 25-basis-point adjustment would likely have limited practical effect on bank behaviour and that, if OSFI were to reduce the buffer, it should do so in a larger increment to send a clear signal to markets and institutions. Members also discussed the importance of ensuring that any released capital supports lending and real economic activity rather than being directed primarily toward shareholder distributions.

The Council ultimately coalesced around two conclusions. First, members agreed that the case for further increases in the DSB has effectively closed under current conditions. Second, while a minority of members favoured an immediate reduction, the majority concluded that current stresses have not yet reached the threshold required to justify releasing the buffer. At the same time, the Council stressed that the environment remains highly uncertain and conditions could deteriorate quickly. Members emphasized that OSFI should remain prepared to act decisively should evidence emerge that financial-system stress is materially impairing credit availability to households and businesses. Several participants noted that, if conditions were to worsen substantially, a rapid and significant reduction in the DSB could become appropriate even before the next regularly scheduled review in December.

On balance, the Council therefore recommended maintaining the DSB at 3.5 percent at the upcoming announcement.

Lastly, Council members ended the discussion by once again stressing the importance of clearly communicating how OSFI evaluates changes in the DSB, particularly during periods of heightened uncertainty. Members agreed that clarity around the distinction between – and relative weighting of – economic weakness and financial-system stress remains central to the framework’s credibility and effectiveness.

The Council will meet again in November, ahead of OSFI’s December 2026 announcement.

#### CHAIR OF THE COUNCIL:

- **Jeremy Kronick**, President and CEO, C.D. Howe Institute.

#### MEMBERS OF THE COUNCIL:

- **Vivian Abdelmessih**, Chair of the Board at Export Development Canada.
- **Cathy Cranston**, Former Treasurer at BMO Financial Group.
- **Jamey Hubbs**, Senior Fellow, C.D. Howe Institute, Former Vice Superintendent, OSFI.
- **Peter Levitt**, Co-Chair, Financial Services Research Initiative, C.D. Howe Institute, Former EVP, Treasury & Taxation, CIBC.
- **Duncan Munn**, Chair and CEO, Elevate Export Finance.
- **Mark Zelmer**, Fellow-in-Residence, C.D. Howe Institute, Former Deputy Superintendent of Financial Institutions, OSFI.

*Members of the Council participate in their personal capacities, and the views expressed do not represent those of any institution or client.*