

June 19, 2025



Economic and Fiscal Monitor

June 2025



OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report provides a real-time estimate of growth in Canada's gross domestic product (GDP) and the Government of Canada's budgetary balance in 2024-25 based on data released since our March 2025 Economic and Fiscal Outlook, up to and including 13 June 2025. All rates are reported at annual rates unless otherwise noted.

Lead analysts:

Jill Giswold, Advisor-Analyst
Rolande Kpekou Tossou, Senior Analyst
Caroline Nicol, Advisor-Analyst
Jason Stanton, Advisor-Analyst
Matthew McGoey, Analyst

Contributors:

Mark Creighton, Senior Analyst
Matt Dong, Analyst
Ulysse Robert-Lacroix, Analyst
Marianne Laurin, Analyst
Tim Scholz, Advisor-Analyst
Zachary Vrhovsek, Analyst

Prepared under the direction of:

Kristina Grinshpoon, Director
Jason Jacques, Director General
Diarra Sourang, Director

Nathalie Desmarais, Marie-Eve Hamel Laberge, Martine Perreault and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please [contact the Office of the Parliamentary Budget Officer](#).

Yves Giroux
Parliamentary Budget Officer

Table of Contents

Highlights.....	1
Economic developments	2
2024-25 budgetary balance	5
The new fiscal anchor	7
Notes	8

Highlights

Canada's real GDP grew by a stronger-than-expected 2.2 per cent in the first quarter of 2025, as firms increased exports and inventories in anticipation of new U.S. tariffs.

We expect that Canada's real GDP will be flat in the second quarter of 2025. Recent data suggest that the Canadian economy slowed in the second quarter due to the unwinding of pre-tariff stockpiling and the adverse impact of new U.S. tariffs on exports.

The Government's budgetary balance for 2024–25 is estimated to be a deficit of \$46.0 billion (1.5 per cent of GDP). This is \$4.3 billion lower than our projection in the 2025 Election Proposal Costing baseline, which did not include the impact of tariffs or retaliatory measures. The debt-to-GDP ratio is estimated to fall to 41.5 per cent of GDP in 2024-25, from 42.1 per cent in 2023-24.

The Government has introduced a new Operating Budget fiscal anchor and committed to balancing this "budget" by 2028-29. It is currently unclear what would be defined as "operating" or "non-operating/capital" spending. Hence PBO is unable to assess whether the Government's recent fiscal policy initiatives are consistent with achieving its fiscal objective.

Economic developments

The Canadian economy showed resilience in the fourth quarter of 2024 and the first quarter of 2025, as real GDP grew at an annualized rate of 2.1 per cent and 2.2 per cent, respectively, higher than projected in our 2025 Election Proposal Costing baseline (Table 1).

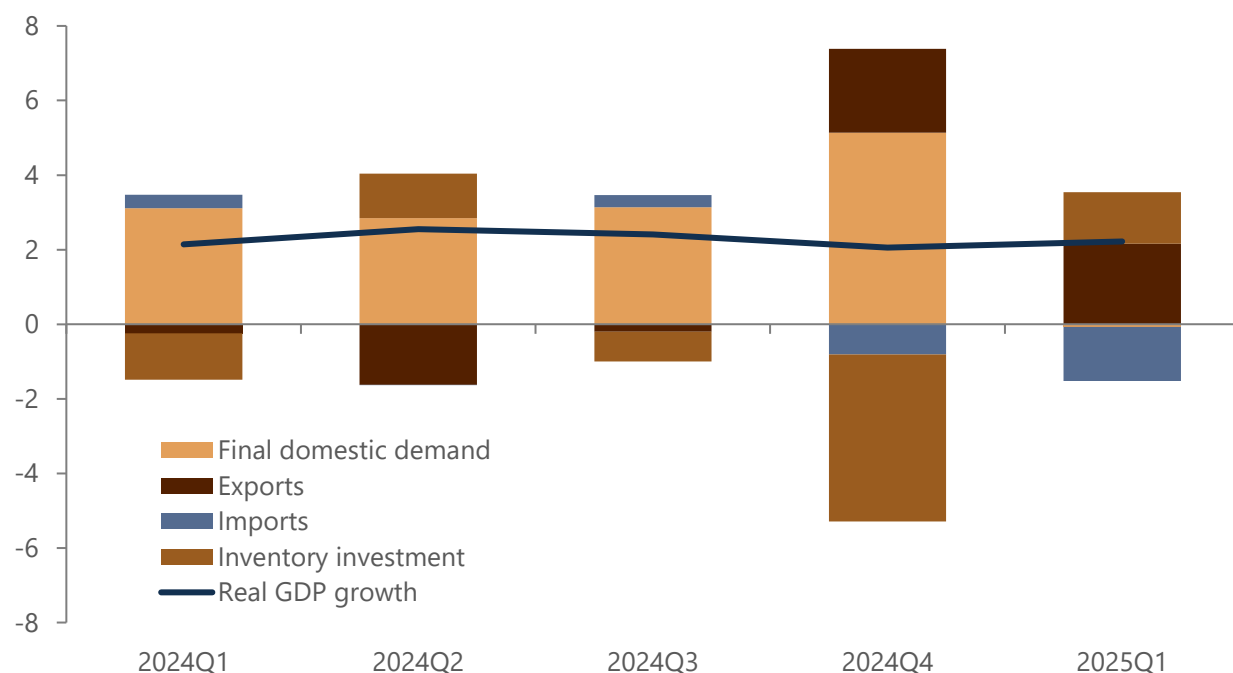
Table 1
Real GDP growth

Quarter-over-quarter percentage change at annual rates	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
PBO EPC Baseline	2.0	2.2	1.0	1.8	1.6
PBO June 2025	2.1	2.5	2.4	2.1	2.2

Source:
Statistics Canada and Office of the Parliamentary Budget Officer.

Note:
Highlighted values represent PBO estimates/projections.
Differences in historical values reflect data revisions.

First quarter growth was primarily fueled by a rise in exports and inventory buildup, as firms frontloaded trade orders in anticipation of U.S. tariffs (Figure 1). By contrast, domestic demand stagnated due to a slowdown in the growth of household consumption and a sharp contraction in residential investment.

Figure 1 Contributions to real GDP growth (per cent)

Textual description:

	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Final domestic demand	3.113	2.846	3.136	5.135	-0.076
Exports	-0.242	-1.627	-0.198	2.249	2.158
Imports	0.363	-0.004	0.327	-0.810	-1.444
Inventory investment	-1.246	1.191	-0.803	-4.482	1.387
Real GDP growth	2.145	2.550	2.406	2.055	2.216

Source:

Statistics Canada and Office of the Parliamentary Budget Officer.

Note:

The contribution to growth from the statistical discrepancy is not shown.

Based on recent monthly data,¹ we expect real GDP to be flat in the second quarter of 2025. This is lower than the growth of 2.3 per cent projected in our EPC baseline, which did not include the impact of U.S. tariffs or retaliatory measures from Canada and other countries. Net exports are expected to be a significant drag on growth, reflecting the unwinding of pre-tariff stockpiling from the first quarter and the impact of new U.S. tariffs. Business investment is also expected to remain subdued due to elevated uncertainty.

First quarter GDP inflation was roughly in line with our EPC baseline projection after a significant acceleration in the fourth quarter of 2024, which was largely attributable to higher export prices (Table 2).

Table 2 GDP inflation

Quarter-over-quarter percentage change at annual rates	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
PBO EPC Baseline	-1.0	4.4	2.3	2.2	2.7
PBO June 2025	-1.0	4.2	2.5	3.7	2.6

Source:

Statistics Canada and Office of the Parliamentary Budget Officer.

Note:

Highlighted values represent PBO estimates/projections.

Differences in historical values reflect data revisions.

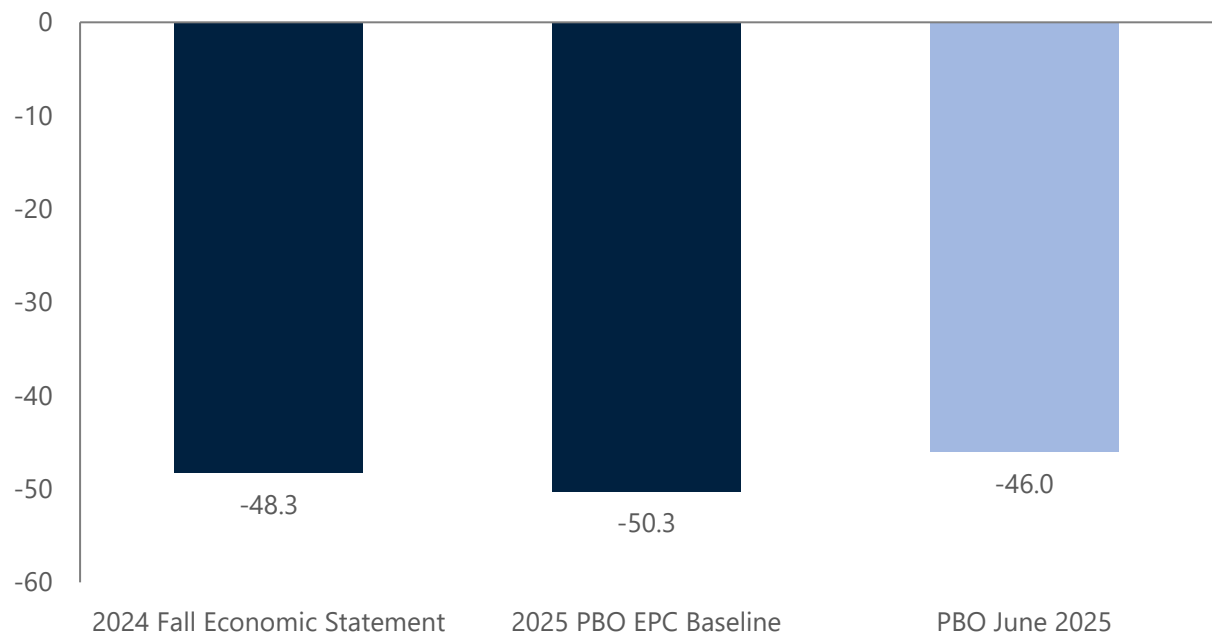
Due to higher-than-expected GDP inflation and real GDP growth in the fourth quarter, nominal GDP—the broadest measure of the government’s tax base—was marginally higher (\$3 billion, 0.1 per cent) in 2024 than projected in our EPC baseline.²

2024-25 budgetary balance

We estimate that the Government will report a deficit of \$46.0 billion (1.5 per cent of GDP) in 2024-25. Consistent with the better-than-anticipated economic results, this is:

- \$4.3 billion lower than our projection in the [2025 Election Proposal Costing baseline](#) (Figure 2); and
- \$2.3 billion lower than Finance Canada projected in its [2024 Fall Economic Statement](#) (FES).

Figure 2
Budgetary balance, billions of dollars



Textual description:

Fiscal Year	2024 Fall Economic Statement	2025 PBO EPC Baseline	PBO June 2025
2024-25 budgetary balance (\$ billions)	-48.3	-50.3	-46.0

Source:
Finance Canada and Office of the Parliamentary Budget Officer.

The revision to our estimated deficit reflects a \$5.2 billion increase in our estimate for revenues in 2024-25, somewhat offset by a \$1.0 billion increase in our estimate for expenses.

Revenues are expected to be higher mostly due to stronger-than-expected year-to-date corporate income tax revenues and yields, as well as incremental customs import duties from the countermeasures responding to U.S. tariffs.³ Program expenses, particularly other transfer payments, are expected to be higher mainly due to larger anticipated contingent liabilities reflected in the [2025 March Fiscal Monitor](#).

It should be noted that these amounts are estimates. Certain categories tend to be adjusted between the March Fiscal Monitor and the final year-end results reported in the Public Accounts of Canada, notably income taxes and contingent liabilities.

Table 3

Fiscal monitoring for 2024-25, billions of dollars

	PBO June 2025	2025 PBO EPC Baseline	Difference (PBO June – EPC)	FES 2024
Total revenues	504.3	499.0	5.2	495.2
Income taxes	338.9	334.5	4.4	332.9
Excise taxes	72.6	71.1	1.4	70.4
All other revenues	92.8	93.4	-0.6	91.8
Total expenses	550.3	549.3	1.0	543.5
Program expenses	492.8	491.5	1.3	485.7
Of which: Direct program expenses	239.9	236.9	3.1	229.3
Public debt charges	53.5	53.8	-0.3	53.7
Actuarial losses	4.0	4.0	0.0	4.0
Budgetary balance	-46.0	-50.3	4.3	-48.3

Source:

Finance Canada and Office of the Parliamentary Budget Officer.

Note:

Totals may not add due to rounding.

The new fiscal anchor

In the Speech from the Throne, the Government introduced a new Operating Budget fiscal anchor.⁴ It committed to:

- Balancing this “budget” by 2028-29 by “cutting waste, capping the public service, ending duplication, and deploying technology to improve public sector productivity”.
- Reducing the annual growth in operating spending to 2 per cent, from the current annual growth rate of 9 per cent.

The new fiscal anchor will replace the previous anchor and fiscal commitment. These pertained to reducing the debt-to-GDP ratio over the medium-term and maintaining annual fiscal deficits below 1 per cent of GDP, respectively.

Unlike the previous fiscal anchor, the Government has not defined how the new Operating Budget targets will be measured. Specifically, there is no commonly accepted definition of what is defined as “operating” or “non-operating/capital” spending. Hence PBO is unable to assess whether the Government’s recent fiscal policy initiatives presented in Parliament (Main Estimates, Supplementary Estimates, Ways and Means motion) are consistent with achieving its new fiscal objective.

PBO also notes that the Government could fulfill its Operating Budget goals, and yet at the same time the federal debt-to-GDP ratio could grow because of additional borrowing for non-operating spending (for example, new acquisitions of weapons systems for the Canadian military). This means that the Government could achieve its fiscal objective and yet be fiscally unsustainable.

Parliamentarians may wish to seek additional clarity regarding how the Government plans to measure its fiscal anchor and how it will ensure federal finances remain sustainable.

Notes

¹ Data on GDP, employment, and manufacturing sales suggest a significant decline in manufacturing output early in the second quarter, although some services-producing industries have demonstrated resilience. The unemployment rate rose to 7 per cent in May.

² Our baseline has been restated for historical revisions.

³ PBO's estimate incorporates the reclassification of certain excise tax revenue amounts, as described in the [December 2024 Fiscal Monitor](#). While there was no overall impact on total revenues, certain individual amounts were reclassified to correct the previously reported amounts for the months of October and November 2024.

⁴ [Speech from the Throne](#). Government of Canada. 2025. Accessed June 10, 2025.

RP-2526-004-S_e

T_RP_3.1.0e

© Office of the Parliamentary Budget Officer, Ottawa, Canada, 2025