Federal Election 2025:
Liberals Win 4th Consecutive Election, but Three-peat on Minority Government

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April 29, 2025

- The Liberal party has won a 3rd consecutive minority government, elected or leading in 168 seats, versus 160 in the 2021 Federal Election and 152 at the dissolution of the 44th session of Parliament – 172 seats were needed for a majority.
- The Conservative party also increased its seat count from 119 to 144 in initial results. The 2025 election set a record for vote shares by the two leading parties.
- Now the big question is who will partner with the new Liberal government to pass legislation? The Liberals and Conservatives have significant alignment in platform objectives to improve Canadian competitiveness, but whether they can vote in alignment would be historically unusual.
- However, a record 84.9% of voting Canadians behind these two parties sent a clear message last night to "get along". This figure eclipsed the 2015 record where 71.4% of voters cast their ballot for either the Liberals or Conservatives.
- We believe that with only a handful of additional votes needed to pass legislation, the Liberals will likely reach across party lines for support on individual bills.

Liberal platform sets tone for guarding against U.S. provocations

- Prime Minister Carney's election platform (effectively a miniature budget) set out nearly $130 billion in new spending initiatives spread over several important themes, including infrastructure building, defense spending, housing affordability, internal trade and economic development, resource project development, among many others. Despite what seems like a scattershot of policies, the central theme is to pivot Canada towards domestic economic resilience, after relying on a deepening U.S. relationship for 80 years. This suggests a more active role for government in both funding and building than in the past.
- **Infrastructure, trade & economic development:** the Liberal platform set out a more distinct east-west & international flavour to infrastructure and trade policies.

Table 1: Liberals Reverse Fortunes to Another Minority

	Election 2025 Outcome	2021 Outcome	Difference
Liberal	168	160	8
Conservative	144	119	25
NDP	7	25	-18
Bloc Québécois	23	32	-9
Green	1	2	-1

Note: Projected seats, subject to change. As of May 2, 2025.
Source: TD Economics via media reports.

    - $11.8 billion for a new nation-building project and trade diversification fund aimed at rail, roads, bridges, and ports. The goal is to turn communities and hubs into trade corridors by deepening interprovincial and non-U.S. international trade.
    - $2 billion Arctic strategy for economic development focused on transportation, trade and energy infrastructure that also builds partnerships with Northern Indigenous communities.
    - $1.5 billion for east-west electricity transmission projects.
- **Tariff response:** Much of Carney's position on retaliation against U.S. tariffs is already in place.
    - Creation of a $2 billion Strategic Response Fund to support the auto industry, including supply chain diversification and worker upskilling.
    - Returning tariff revenue to impacted industries.
- **Resource development:** Permitting timelines, resource development, and the federal role in infrastructure connecting resource deposits to markets were key themes for both major parties. In Canada, the average lead time to bring a mine into operation is 18 years, with some estimates suggesting permitting alone can take about 5 years. Liberal commitments on this front include:
    - A new Major Federal Project Office to act as a single access point for industry and limit permitting timelines to a maximum of 2 years.
    - Eliminating overlap by recognizing provincial, territorial and Indigenous-led assessments.
    - $1.5 billion for a new First and Last Mile Fund to support both the development of local supply chains of resource projects (including processing & refining), as well as connections to international markets.
- **Taxes & Government Spending:** Both the Conservatives and Liberals included tax cuts as part of their platforms with only minor differences between them. The Liberals' specifics include:
    - $28.2 billion by 2030 to reduce the lowest income tax bracket from 15% to 14% ($5.6 billion per year).
    - Eliminating the increase to the capital gains inclusion rate proposed by the previous Liberal government.
    - Reducing annual federal spending growth from 9% to 2% through savings and government efficiencies, including reducing external consultant fees, consolidating service delivery and re-evaluating grants & contributions across departments.
- **Defense spending:** Defense was another key area that all three major parties shared similar policies. The PBO released costing based on request by the Liberal government, which Carney referenced in the Liberal platform:
    - $24.9 billion through 2030 to reach NATO's 2%-of-GDP spending target.
    - Key to this, however, will be how economic growth performs, which changes the absolute dollar figure. In addition, NATO member states are ramping up spending, likely pushing the overall spending target to possibly 3% of GDP or more when they meet in June, leaving Liberals in catch-up mode from the current proposal.
- **Housing affordability:** Housing was naturally a key electoral issue and much of the platform focused on increasing supply and lowering general housing costs while also increasing construction to 500,000 homes per year.
    - Canada has never hit a construction target of 500,000 homes per year, or even come close. Against this tall order, the Liberals have dedicated $25 billion for a new Build Canada Homes initiative where the government would directly purchase prefabricated housing for construction on federal lands. However, this will first require a significant scaling up of Canadian companies in machinery, sourcing and fabrication. Prefab homes make up only 1% of supply, a share that has remained unchanged for decades.
    - $10 billion for affordable housing supports, including those for underrepresented groups, students, seniors, shelters, etc.
    - $6 billion through 2030 to help municipalities reduce development charges, aiming to cut in half those for multi-unit residential buildings for 5 years.

    - Eliminate the GST for first-time homebuyers on homes up to $1 million.
- **Climate change:** Climate policy did make an appearance in the Liberal platform, though with much less fanfare than in previous budgets and strategy documents.
    - The platform reiterated eliminating the federal fuel charge in Canada's Greenhouse Gas Pricing Framework, with more focus on the output-based pricing system, or the industrial carbon price.
    - Carney also committed to standing up a national high-risk flood insurance program.
    - Notable is the inclusion of a $500 million revenue line item under a carbon border adjustment mechanism – a policy tool currently in the pilot phase in the EU where imports are charged a carbon price for their emissions content and which Canada expressed an interest several years ago. However, this would surely run afoul with the U.S. administration and might be considered a lofty goal.

Deficits and Economic Impact

- The fiscal restraint expected at the time of the PBO's March Economic and Fiscal Outlooks is now well in the rearview. Moreover, the country's fiscal balance looks set to close 2024-2025 in slightly worse shape with the deficit slightly bigger than the $48 billion cited in the Fall Economic Statement.
- The new spending and investment initiatives imply the federal debt-to-GDP ratio is rising from 42% to roughly 43% over the next three years, before moderately declining thereafter.
- For the economic outlook, some of this additional spending has already been baked into our forecast. At the time of our March forecast, we assumed additional fiscal outlays of roughly 1% of GDP to support the economy through the ongoing trade disruptions. There is some uncertainty about the deficit in the near-term as the economy reacts to the trade shock.

Table 2: Persistent Deficits Through the Forecast Horizon

	2025-26	2026-27	2027-28	2028-29
PBO Baseline	-46.8bn	-32.7bn	-33.1bn	-29.1bn
Net Changes	-15.5bn	-27.2bn	-21.7bn	-18.7bn
Platform Projection	-62.3bn	-59.9bn	-54.8bn	-47.8bn
Platform Debt/GDP	42.3%	42.8%	42.9%	42.7%
Difference, Debt/GDP	0.67pp	1.50pp	2.15pp	2.61pp

Source: Parliamentary Budget Office, Liberal Party of Canada.

- While the new spending plans have a limited impact on our near-term outlook, the platform's deficit-financed investment persists over the medium-term, providing an upside to growth and the debt burden.

Cross-party alignments and collaboration opportunities

- Policies and deficits aside, the critical question is how this minority government will operate and pass legislation, including any trade-related legislation from renewed negotiations with the Trump administration.
- Although the NDP policy alignment makes them more likely to continue to prop up the liberals, another Supply and Confidence agreement is unlikely. More likely is a return to traditional approaches in minority governments, lobbying for the additional votes from various individual opposing party members.
- Minority governments tend to have shorter life spans, but it's crucial that the broader interests of Canada prevail. On the campaign trail, parties were united in the fight against American politics to weaken the Canadian economy, with significant alignment in several areas: defense spending, resource development, tariffs, housing, and some tax policies.
- And now the rubber hits the road on collaboration and negotiations, with Liberals caught between the demands of the U.S. administration and those of domestic politics.

Appendix

Agendas	Liberals	Conservatives	NDP
Defence	Increase spending from 1.7% to 2% of GDP by 2029-2030. PBO: $29.9 bn additional spending over five years. 2025–26 defense spending is projected at $52.3 bn; goal is $81.9 bn annually by FY 2032.	~$25 bn + (depending on growth assumptions) Same plan as Liberals, but not costed by PBO.	Increase spending to 2% of GDP by 2032.
U.S. relations, tariffs	Inject $5 bn into a new “trade diversification corridor fund.” Temporarily remove the one-week EI waiting period. A $2-billion "strategic response fund" with the aim of protecting the auto industry and helping workers develop expertise.	Continue to impose counter-tariffs until the U.S. removes all of its tariffs. Direct most of the revenue collected from counter-tariffs toward tax relief. Cut GST from the sale of new Canadian-made cars as long as U.S. tariffs are in place.	In favour of retaliatory tariffs. Direct “every dollar” collected from retaliatory tariffs toward supporting impacted workers. Exempt Canadian-made cars and trucks from the GST.
Interprovincial trade, jobs	Remove federal barriers to interprovincial trade by Canada Day and increase labour mobility for skilled trades people. Create a new training benefit for mid-career workers who want to gain new skills in the manufacturing, health care, construction, technology and artificial intelligence industries, offering up to $15,000 per person.	Reinstate apprenticeship grants of up to $4,000, and fund training halls to help develop 350,000 workers over five years by expanding the Union Training and Innovation Program. Work with provinces to “harmonize health and safety regulations” so tradespeople can work anywhere in Canada without having to repeat training.	Raise the cap on the Wage Earner Protection Program (WEPP) to cover the wages people are owed. WEPP is currently capped at $8,844. Pledge to strengthen and enforce directors’ liability for unpaid compensation and create a mechanism for workers to be made whole through trust-held funds or federal guarantees.
Infrastructure	Create a $1.5bn fund, First and Last Mile Fund, to build transportation networks connecting natural resource extraction sites to rail lines and roads. Put into effect a "one window" approvals process to fast-track approvals for large-scale, national-interest infrastructure projects.	Commit $1 bn over three years to the construction of a road connecting First Nations communities and the critical mineral deposits in the Ring of Fire to the Ontario highway network. Create an office to handle all regulatory approvals across all levels of government with only one application and one environmental review required for each potential resource project. Limit wait times for approvals to 1 year.	Undertake a major construction program and require only Canadian steel to be used in all federally funded infrastructure projects. Prioritize creating an east-west electricity grid. Favour Canadian companies in the bid selection process, as well as suppliers and contractors with a unionized workforce.
Housing	Build Canada Homes (BCH) plan with total housing cost of $35 bn: $25 bn for prefabricated housing financing & $10 bn for affordable homebuilding. Stimulate purpose-built rental housing by bring back the Multi-Unit Rental Building (MURB) from the 1970s. PBO: $6.4 billion through 2029-30 ($1.3 bn per year). The federal government as a developer, includes building on public lands. Cut red tape & improve transparency for the Housing Accelerator Fund. Cut development charges in half. Cut the GST on homes valued at under $1 mn for first-time homebuyers. PBO: ~$2 bn through 2029-30 ($0.4 bn per year)	Build 2.3 million homes in 5 years (mostly indirect cost via incentives). Cost depends on land release and municipal partnerships; federal share could be $10–15 billion. Sell 15% of federal land (~11,000 properties); expected to generate some revenue. Ending Housing Accelerator Fund (PBO: $2.6 bn, frontloaded to 25-27 period) Increase GST/HST New Housing Rebate for all buyers (PBO: $9.8 bn)	Build 3 mn affordable homes in the next five years. Redesign and double the Public Land Acquisition Fund, investing $1 bn over five years to build more rent-controlled homes. Set aside all suitable federal Crown land to build more than 100,000 rent-controlled homes by 2035. Speed up approvals on lands owned by the federal government. $16-bn strategy to support building affordable homes. Replace the Housing Accelerator Fund with permanent funding for two new programs: the Canadian Homes Transfer and the Communities First Fund. Plan to require the CMHC to offer low-interest, public-backed mortgages.
Health	Have expanded eligibility for dental care to include coverage for those 18 to 64. Committed to maintain exisiting pharmacare. $52 mn in funding for 16 projects across Canada through the Foreign Credential Recognition Program, which would allow internationally trained professionals to get jobs in the health-care network and construction. Commit $4 bn to construct and renovate community health care infrastructure.	Maintain access to federal dental care, child care and pharma care programs for those with existing access. Proposed developing a new national standards system that would allow qualified doctors and nurses to work in any province or territory in the country. Reform the disability and caregiver tax credits.	Strengthen public universal health care, expand pharmacare, dental care and mental health supports and ban U.S.-style private health-care clinics. Plans on delivering full public pharmacare within four years, starting with 100 of the most prescribed medications, such as pain medication, antibiotics and antipsychotics at estimated cost of $3.5 bn.
Cost of living*	Reduce lowest income tax bracket from 15% to 14%: PBO estimate of $28.2 bn by 2029-30, $5.6 Eliminating increase in capital gains inclusion rate.	Reduce lowest income tax bracket from 15% to 12.75%: ~$9 bn annually (PBO: $44.3 bn) Capital gains rollover for reinvestments in Canada. Estimated revenue loss: $2–3 bn annually. TFSA increase for Canadian investments (+$5,000): Limited immediate fiscal cost, more long-term tax deferral impact. PBO: $0.4 bn	Raise the amount of untaxed income from $16,129 to $19,500. Keep the proposed increase in the capital gains tax. Wealth tax on people with more than $10 mn in holdings, estimated to raise $22.7 bn this fiscal year. Eliminate GST on essentials (e.g., energy, internet and mobile phone bills).

*Excluding mentions in the other categories.

Source: Party platforms, Parliamentary Budget Office (PBO), media reports, TD Economics.

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