

Economics

PROVINCIAL BUDGET BRIEFS

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Ontario budget 2025

Ontario's budget deficit is projected to widen to \$14.6bn in the current fiscal year (1.2% of GDP), from \$6.0bn in fiscal 2024/25. The wider deficit largely reflects expected weakness in revenues, due in part to an expected tariff-led slowdown in economic growth as well as measures to help support households and businesses. The fiscal projections are based on only modest economic growth in both 2025 and 2026, and include greater contingencies than last year's budget. The province expects long-term borrowing of \$42.8bn in fiscal 2025/26, which would be a modest step down compared to last year due to heavy pre-borrowing. That additional pre-funding allows the province to reduce cash and cash-equivalent holdings by \$12.0bn this year, lowering overall funding requirements.

Table 1: Summary of fiscal position: (C\$billions)

Fiscal measure	2023/24 Actual	2024/25 24 Budget	2024/25 25 Budget	2024/25 Difference	2025/26 25 Budget	2026/27 25 Budget	2027/28 25 Budget
Revenue	209.0	208.2	221.6	13.4	219.9	227.9	237.9
Own source	174.7	169.4	185.2	15.8	181.1	188.6	198.1
• % change	8.1	-0.1	6.0	6.1	-2.2	4.1	5.0
Federal transfers	34.3	36.3	36.4	0.1	38.8	39.3	39.8
Expenditures	209.7	217.0	227.6	10.6	232.5	233.7	235.7
Programs	195.2	200.6	212.4	11.8	216.3	216.7	217.9
% change	4.7	3.1	8.8	5.7	1.8	0.2	0.6
Public debt charges	14.5	16.5	15.2	-1.3	16.2	17.0	17.8
Less: reserve	0.0	1.0	0.0	-1.0	2.0	2.0	2.0
Budgetary balance	-0.7	-9.8	-6.0	3.8	-14.6	-7.8	0.2

Ontario growth to slow due to US tariffs

The Ontario economy grew more than initially expected in 2024 and was poised to accelerate further this year before recent tariff uncertainty changed those projections. Ontario is among the most exposed provinces to US trade policy and related uncertainty, particularly due to the auto industry. Because of that, the province is now expecting that real GDP growth will slow to 0.8% this year and remain moderate at 1.0% in 2026, before accelerating again. Nominal GDP is anticipated to be only around 3% this year and next, before recovering to a 4% trend thereafter. While the province's base case forecast for this year is close to our own, we think that growth could be stronger in 2026 if recent progress seen on the tariff front continues. As is customary in Ontario, the economic forecasts were set slightly below the private sector average to ensure prudent planning.

However, the province noted a wider range of opinion within the private sector forecasts than normal, presumably due to different assumptions regarding US tariffs, and offered two alternative scenarios for the economy ahead. The Faster Growth Scenario assumes that most tariffs between the United States and Canada are removed in the near-term, which would bring stronger growth in 2025 and 2026 and also result in the level of GDP being 1.5% higher than the base case forecast by 2028. The Slower Growth Scenario, however, assumes 25 per cent US tariffs on all Canadian goods (10% energy) throughout the entire projection period. This would result in a near-term recession and a level of GDP that is 2% lower than the base case by 2028. Under the faster growth assumption the 2025/26 deficit would be reduced by \$2.3bn to \$12.3bn, meanwhile the slower growth assumption would result in a \$2.5bn larger deficit.

Table 2: Key assumptions (Y/Y % chg)

Economic assumptions	2024	2025	2026	2027	2028
Real GDP	1.5	0.8	1.0	1.9	1.9
• Private sector consensus	-	0.9	1.1	2.0	2.0
Nominal GDP	5.2	3.1	3.0	4.0	4.0
Employment	1.7	0.9	0.4	0.9	0.9
Unemployment rate (%)	7.0	7.6	7.3	6.6	6.2
Nominal HH consumption	4.9	3.5	3.1	3.7	3.8
Housing starts (K)	74.6	71.8	74.8	82.5	85.9
Corporations net op. surplus	-2.0	-3.0	6.4	7.2	5.2
Consumer price index	2.4	2.3	2.0	2.0	2.0

Table 3: Key financial assumptions

Financial assumptions	2024	2025	2026	2027	2028
3-month T-Bills (%)	4.3	2.4	2.3	2.4	2.6
10-year GoC Bonds (%)	3.4	3.1	3.2	3.4	3.5
Exchange rate (US\$/C\$)	73.0	69.2	71.2	73.0	74.1
WTI (US\$/bbl)	77.0	69.0	69.0	74.0	75.0

Deficit to widen, hopefully only temporarily

For the recently finished 2024/25 fiscal year, the province is now projecting a deficit of \$6.0bn (0.5% of GDP), which is almost \$3bn smaller than projected in Budget 2024 albeit broadly in line with the mid-year update. Revenues were bolstered by a court-approved settlement with tobacco companies for smoking-related health care costs, which contributed to an extra \$4.5bn of "other non-tax revenue". The temporary HST reduction cost the province \$885mn in revenue during the 2024/25 fiscal year. Largely offsetting the improvement in total revenues, spending is expected to be \$10.6bn higher than originally planned, partly due to increases for health and education.

For the current fiscal year the deficit is expected to widen to \$14.6bn (1.2% of nominal GDP), largely due to an anticipated decline in revenues. That's partly a reflection of the weaker economic outlook, but also incorporates some measures (mostly announced prior to the budget) to support the economy in the face of US trade uncertainty. Permanently reducing the gasoline and fuel taxes is expected to cost the province \$930mn in the current fiscal year, rising to \$1.3bn by 2027/28. Changes to expand and enhance the Ontario Made Manufacturing Tax Credit will cost \$325mn this year and \$510mn by fiscal 2027/28. The province also established the Protecting Ontario Account which will provide up to \$5bn of support for businesses facing tariff-related disruptions.

Contingencies incorporated within today's budget are larger than in Budget 2024, which is understandable given the uncertain economic outlook. The Contingency Fund, designed to help mitigate expense risk, is set at \$3bn for fiscal 2025/26 which is double the allowance for fiscal 2024/25 in last year's budget. The \$2bn reserve for the first year of the current fiscal plan is also twice as large as last year.

Over the medium term, a rebound in revenues combined with muted expected spending growth is expected to see the deficit slim to \$7.8bn in fiscal 2026/27 and then return to balance in 2027/28. The return to balance is a year later than projected in last year's budget.

Long-term borrowing estimates are on a downward trend

In fiscal 2024/25, the province completed \$49.5bn of long-term funding, \$12.0bn more than its \$37.5bn target. That was satisfied through multiple channels, specifically \$34.1bn of syndicated bonds, \$10.4bn of foreign bonds, \$1.5bn in floating rate notes, as well as \$3.5bn of green bonds. That translates into 79% completed domestically which was inside the province's target range of 75-90%. That range will be changing this year with the target now set at 70-85%, but will be adjusted if necessary in response to evolving investor demand.

That overall figure is up from the \$42.6bn completed in 2023/24, and is the largest amount borrowed other than in the pandemic year of 2020/21 when \$59.8bn was raised. Meanwhile, short-term borrowing was also increased by \$5.0bn this past year to round out the overall funding requirements.

For this new fiscal year, total funding requirements are forecasted to be \$59.8bn. That is projected to be funded through an increase of \$5.0bn in short-term borrowing, a \$12.0bn drawdown from year-end cash and cash equivalents, and \$42.8bn in new long-term borrowing. That is a decrease in long-term borrowing of \$6.7bn from this outgoing year, while \$7.8bn higher than the latest estimate in the economic outlook and fiscal review this past fall. The province has already funded \$5.0bn of its long-term debt target for this year.

With respect to the increase of short-term funding, the province said it positions them to respond to recent changes in market demand for short-term Ontario debt. They plan to maintain the proportion of short-term debt as a percentage of total debt outstanding within the target range of 5-7%, as it has been over the past 10 years.

As for future long-term borrowing projections, 2026/27 is estimated to be \$41.1bn after drawing down \$2.0bn from cash and cash equivalents, as well as increasing short-term debt by \$2.5bn. That is \$8.5bn higher than the latest update, mostly due to a deficit projection now versus a surplus before. Over the two year horizon, long-term borrowing is \$16.3bn more than the previous projections. We are also seeing funding estimates for 2027/28 for the first time, which are projected to decrease to \$33.0bn.

The province also provided what long-term borrowing requirements would look like in both a slower and faster growth scenario for 2025/26 through 2027/28. In a slower growth environment, borrowing would be \$45.3bn, \$47.2bn and \$40.9bn, respectively, while a faster growth would see it reduced to \$40.5bn, \$35.8bn and \$25.9bn.

Table 4: Borrowing requirements (C\$billions)

Borrowing requirements	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Budget (surplus) / deficit	6.0	14.6	7.8	-0.2
Non-cash and cash timing adjustments	3.6	-3.1	-3.4	-4.3
Investment in capital assets less amortization	8.6	14.0	14.4	10.0
Net loans / investments	0.5	1.2	-0.1	-
Net financial requirement	18.7	26.7	18.7	5.5
Maturities & redemptions	28.0	33.1	26.9	27.5
Total funding requirement	46.7	59.8	45.6	33.0

Table 5: Sources of funding (C\$billions)

Sources of funding	2024/25 Estimate	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
Decrease / (increase) in short-term borrowing	-5.0	-5.0	-2.5	-
Increase / (decrease) in cash and equivalents	7.8	-12.0	-2.0	-
Total long-term public borrowing	49.5	42.8	41.1	33.0

Extending term of debt and ensuring adequate liquidity levels

The province has been extending the term of its debt, which has provided flexibility in managing the borrowing program and has reduced interest on debt in the short- and medium-term due to rising rates. Since 2010/11, Ontario has issued \$149.7bn in bonds including \$12.7bn in 2024/25, or almost one-third of total debt outstanding with maturities of 30 years or longer. The province will continue to monitor the market and makes changes to debt term strategy in response to the levels of rates and the yield curve.

Ontario's cash reserve in 2024/25 averaged \$41.9bn, which is lower than the average of \$46.8bn in the previous year but higher than the average of \$30.1bn since 2009/10. The year-over-year reduction can be partly explained by short-term and long-term rates having normalized. Previously, holding liquid reserves reduced interest on debt as short-term investments earned more income than their cost of borrowing long-term debt. Despite this, the province intends to maintain recent liquid reserve levels due to the ongoing market and economic volatility.

Net debt-to-GDP increasing over the next two years

As a result of the continued deficits and capital spending on infrastructure, net debt is expected to have reached \$428bn as at March 31, 2025, an increase of some \$20bn from the prior year. That would place the net debt-to-GDP ratio at 36.3% for 2024/25, which is a decrease of 0.1% from the prior year. With the increase planned in both again this fiscal year, net debt is projected to rise by almost \$33bn to \$461bn as at March 31, 2026, causing the ratio to increase to 37.9%. That compares to the 39.5% projected for 2025/26 in last year's budget.

As a result of the deficit forecast and higher capital investments in 2026/27, the ratio is expected to increase to 38.9% before dropping to 38.6% the following year (i.e. 2027/28). Although both 2025/26 and 2026/27 estimates are increasing, while 2027/28 drops slightly but still remains elevated, all three ratios are still below the debt sustainability measure target. As in the past, the budget includes a debt burden reduction strategy with specific objectives over the medium-term outlook which include:

- Net debt-to-GDP to stay below 40.0%
- Net Debt-to-Operating Revenue to stay below 200%; and
- Net Interest-to-Operating Revenue to stay below 7.5%;

Budget 2025 projects the net debt-to-operating revenue target will not be achieved throughout the horizon through 2027/28, with figures estimated at 211%, 215%, and 212%, respectively. Based on the growth trend in net debt and revenue beyond the medium-term outlook, that ratio is expected to meet the target of 200% by 2031/32, or as early as 2028/29 should the faster growth scenario materialize. Meanwhile, net interest-to-operating revenue will be achieved every year at 6.5%, 6.7% and 6.8%, respectively.

10 year capital plan sees over \$200bn of investments

Ontario's capital plan calls for investment of over \$200bn in the next 10yrs, with \$33bn of that total slated for 2025/26. Overall, this capital plan is the largest in Ontario's history, while the government will promote and prioritize made-in-Ontario and made-in-Canada products, including making Ontario and Canadian steel, cement, forestry and other construction materials mandatory for provincially funded infrastructure projects.

The plan calls for \$30bn for highways, \$61bn for public transit, \$56bn for health spending (infrastructure and capital grants), \$35bn in education, \$4.0bn in broadband, as well as \$2.3bn in municipal infrastructure. The new capital plan is up from the mid-year update this past October which projected capital spending to total \$191.3bn over the next 10yrs.

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