

Economics

PROVINCIAL BUDGET BRIEFS

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Ontario budget 2026

Ontario is projecting a budget deficit of \$13.8bn in the upcoming 2026/27 fiscal year, up slightly from the revised \$12.3bn estimate for fiscal 2025/26. While that's still a fairly modest 1% of GDP, the deficit now projected for the upcoming fiscal year is almost double what was expected in Budget 2025. The budget forecasts are based on fairly modest projections for GDP growth this year, although those forecasts were set before the outbreak of the Middle East conflict and higher oil prices pose a downside risk to real GDP growth in Ontario. Despite a slightly higher budget deficit as well as increased capital spending expected for fiscal 2026/27, lower maturities see overall financing requirements edge down slightly relative to fiscal 2025/26. Those new requirements are projected to be satisfied through a \$6.0bn increase in short-term funding, \$8.0bn from cash, as well as \$47.2bn of long-term funding.

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

| Fiscal measure | 2024/25 Actual | 2025/26 25 Budget | 2025/26 26 Budget | 2025/26 Difference | 2026/27 26 Budget | 2027/28 26 Budget | 2028/29 26 Budget |
|--------------------------|-------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|----------------------|
| Revenue | 226.2 | 219.9 | 226.6 | 6.7 | 231.9 | 243.4 | 254.1 |
| Own source | 189.6 | 181.1 | 187.5 | 6.4 | 192.1 | 203.3 | 213.7 |
| • % change | 8.5 | -2.2 | -1.1 | 1.1 | 2.5 | 5.8 | 5.1 |
| Federal transfers | 36.6 | 38.8 | 39.1 | 0.3 | 39.8 | 40.1 | 40.4 |
| Expenditures | 227.3 | 232.5 | 238.4 | 5.9 | 244.2 | 247.5 | 251.1 |
| Programs | 212.1 | 216.3 | 222.4 | 6.1 | 227.0 | 229.0 | 231.3 |
| % change | 8.7 | 1.8 | 4.9 | 3.0 | 2.1 | 0.9 | 1.0 |
| Public debt charges | 15.1 | 16.2 | 16.0 | -0.2 | 17.2 | 18.6 | 19.7 |
| Less: reserve | 0.0 | 2.0 | 0.5 | -1.5 | 1.5 | 2.0 | 2.5 |
| Budgetary balance | -1.1 | -14.6 | -12.3 | 2.3 | -13.8 | -6.1 | 0.6 |

Tariffs and related uncertainty to keep Ontario economic growth muted

The Ontario economy is expected to slow a little further in 2026, before accelerating again in 2027 and beyond. The 1.0% increase in real GDP projected for this year would be a slight deceleration from an estimated 1.2% in 2025. However, the step down in nominal GDP growth (which normally has a closer link to revenues) is slightly more pronounced, with the 3.2% expected in 2026 down from 4.2% in the prior year. As is standard practice, forecasts for real GDP were set slightly below the private sector average to introduce a degree of conservatism. Those private sector forecasts were taken in January, and so would incorporate all current US tariffs but not any changes that may have been made since the outbreak of the conflict in the Middle East and its impact on energy prices, inflation and potentially real consumer spending. Because the Ontario economy generally has a higher weight than the national average in industries exposed to sector-specific tariffs, near-term growth is slightly weaker than the current consensus projection for Canada as a whole.

In line with recent practice, the province also published alternative upside and downside projections for the economy. Under the more positive scenario, most of the tariffs currently imposed by the US on Canada are withdrawn, resulting in real GDP growing just over 0.5% a year faster in 2026 and 2027 than under the base case scenario. In contrast, the slower growth scenario models the US withdrawing from CUSMA and imposing a broad-based 12% tariff on non-energy goods from Canada, while also maintaining current sectoral tariffs under section 232. This would result in very weak real GDP growth (almost 1% a year slower than the base case) during 2026 and 2027. Under the slower growth scenario, Ontario's fiscal deficit would widen to \$16.6bn in the upcoming fiscal year and the province would remain in deficit through 2028/29.

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

| Economic assumptions | 2025 | 2026 | 2027 | 2028 | 2029 |
|------------------------------|------|------|------|------|------|
| Real GDP | 1.2 | 1.0 | 1.7 | 1.8 | 2.0 |
| • Private sector consensus | - | 1.1 | 1.8 | 1.9 | 2.1 |
| Nominal GDP | 4.2 | 3.2 | 3.9 | 3.7 | 3.9 |
| Employment | 1.0 | 0.5 | 0.7 | 0.8 | 1.1 |
| Unemployment rate (%) | 7.7 | 7.4 | 6.9 | 6.4 | 6.2 |
| Nominal HH consumption | 4.0 | 3.3 | 3.4 | 3.6 | 3.7 |
| Housing starts (K) | 65.4 | 64.8 | 70.3 | 76.8 | 80.5 |
| Corporations net op. surplus | 4.4 | 4.7 | 7.2 | 6.1 | 6.0 |
| Consumer price index | 1.9 | 2.1 | 2.0 | 2.0 | 2.0 |

Table 3: Key financial assumptions

| Financial assumptions | 2025 | 2026 | 2027 | 2028 | 2029 |
|---------------------------|------|------|------|------|------|
| 3-month T-Bills (%) | 2.6 | 2.3 | 2.6 | 2.5 | 2.6 |
| 10-year GoC Bonds (%) | 3.2 | 3.3 | 3.5 | 3.5 | 3.5 |
| Exchange rate (US¢ / C\$) | 71.6 | 73.2 | 75.3 | 76.4 | 76.6 |
| WTI (US\$/bbl) | 65.0 | 59.0 | 62.0 | 67.0 | 69.0 |

Deficit to widen slightly, path to balance delayed

The deficit for the outgoing fiscal year is now projected to be \$12.3bn (1.0% GDP), which is roughly \$2.3bn smaller than expected in last year's budget. That largely reflects the partial removal of the previous \$2.0bn reserve to now sit at \$0.5bn. Revenues were \$6.4bn stronger than initially budgeted for, partly linked to prior year adjustments but also to the upturn in equity markets last year which contributed to higher personal income tax receipts. However, that was broadly offset by higher expenditures (\$5.9bn more than Budget 2025's plan), largely due to increased health care spending. As well as maintaining a \$0.5bn reserve, \$100mn is also maintained in the contingency spending fund for the outgoing 2025/26 fiscal year.

For the upcoming 2026/27 fiscal year, the deficit is expected to widen a little further to \$13.8bn (1.1% of nominal GDP), rather than narrow as projected in last year's budget. While program spending is expected to increase fairly modestly, higher debt servicing costs and slow revenue growth contribute to the widening deficit. The projection also includes a \$1.5bn reserve. Tax measures within today's budget come at a cost of \$1.7bn in fiscal 2026/27, with the majority of that (\$1.4bn) coming from the previously announced enhanced housing rebates to fully remove the provincial portion of HST paid for new homes valued up to \$1mn. A reduction in the small business corporate tax rate, effective July 1, would cost \$230mn this year with that cost rising to almost \$500mn by fiscal 2028/29.

Today's budget established a \$4.0bn Protect Ontario Account Investment Fund which, in conjunction with a private sector partner, will invest in high growth industries to help diversify the Ontario economy and increase productivity. This builds upon the previously announced Protect Ontario Financing Program, and the province has already pre-funded \$5.0bn this outgoing year for these programs.

Medium-term projections show the deficit narrowing to \$6.1bn in fiscal 2027/28, with balance achieved the following year. Achieving balance in fiscal 2028/29 would be one year later than expected in Budget 2025, and relies upon stronger revenue growth as the economy recovers as well as fairly muted spending. Own source revenues are expected to rise by roughly 5.5% on average in fiscal 2027/28 and 2028/29, with spending averaging 1.0%.

Prudence is brought into the fiscal plan through the use of a reserve to protect against unforeseen changes in spending or revenues, as well as a Contingency Fund for spending. Both of these are set at \$1.5bn in the upcoming 2026/27 fiscal year, but increase over the projection horizon. The reserve is set at \$2.0bn and \$2.5bn for fiscal 2027/28 and 2028/29 respectively.

Long-term borrowing estimates are on a downward trend

In fiscal 2025/26, the province completed \$58.6bn of long-term funding, \$7.7bn more than the Q3 updated target of \$50.9bn. That was raised through multiple channels, specifically \$30.2bn of syndicated bonds, \$23.9bn of foreign bonds,

\$3.1bn in floating rate notes (of which \$1.5bn was a green bond), as well as \$1.6bn of a fixed green bond. That translates into 59.3% completed domestically which was outside the province's target range in the budget of 70-85%. That range will be changing this year with the target now set at 60-80%, but will be adjusted if necessary in response to evolving investor demand.

Meanwhile, short-term borrowing was increased by \$5.5bn while \$1.8bn was used from cash to complete the overall funding requirement of \$65.9bn. That long-term borrowing of \$58.6bn this year is up from the \$49.5bn completed in 2024/25, and is the second largest amount borrowed in a single year other than during the pandemic year of 2020/21 when \$59.8bn was funded.

For this new fiscal year, total funding requirements are forecasted to be \$61.2bn. That is projected to be funded through an increase of \$6.0bn in short-term borrowing, a \$8.0bn drawdown from year-end cash and cash equivalents, and \$47.2bn in new long-term borrowing. That is a decrease in long-term borrowing of \$11.4bn from this outgoing year, while \$6.5bn higher than the latest estimate in the economic outlook and fiscal review this past fall.

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 will also 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, 2027/28 is estimated to be \$43.1bn after drawing down \$5.0bn from cash and cash equivalents, as well as increasing short-term debt by \$6.0bn again. That is \$8.6bn higher than the latest update, mostly due to a deficit projection now vs a surplus before. Over the two year horizon, long-term borrowing is \$15.1bn more than the previous projections. We are also seeing funding estimates for 2028/29 for the first time, which are projected to decrease to \$42.7bn. Through the three-year horizon from 2025/26 to 2027/28, long-term borrowing is up a combined \$22.8bn from prior estimates.

The province also provided what borrowing requirements would look like in both a slower and faster growth scenario for 2026/27 through 2028/29. In a slower growth environment, borrowing would be \$50.0bn, \$49.6bn and \$51.5bn, respectively, while a faster growth would see it reduced to \$44.6bn, \$37.6bn and \$34.7bn. .

Table 4: Borrowing requirements (C\$billions)

| Borrowing requirements | 2025/26 Estimate | 2026/27 Forecast | 2027/28 Forecast | 2028/29 Forecast |
|--|---------------------|---------------------|---------------------|---------------------|
| Budget (surplus) / deficit | 12.3 | 13.8 | 6.1 | -0.6 |
| Non-cash and cash timing adjustments | -2.1 | -2.5 | -2.7 | -3.5 |
| Investment in capital assets less amortization | 15.3 | 17.8 | 17.5 | 11.0 |
| Net loans / investments | 2.4 | 5.2 | 5.6 | 4.9 |
| Pre-funding for Protect Ontario Account | 5.0 | - | - | - |
| Net financial requirement | 32.9 | 34.3 | 26.5 | 11.9 |
| Maturities & redemptions | 33.1 | 26.9 | 27.5 | 30.7 |
| Total funding requirement | 65.9 | 61.2 | 54.1 | 42.7 |

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

| Sources of funding | 2025/26 Estimate | 2026/27 Forecast | 2027/28 Forecast | 2028/29 Forecast |
|---|---------------------|---------------------|---------------------|---------------------|
| Decrease / (increase) in short-term borrowing | -5.5 | -6.0 | -6.0 | - |
| Increase / (decrease) in cash and equivalents | -1.8 | -8.0 | -5.0 | - |
| Total long-term public borrowing | 58.6 | 47.2 | 43.1 | 42.7 |

Extending term of debt and ensuring adequate liquidity levels

The province has been extending the term of its debt, which has given them flexibility in managing the borrowing program and has protected interest on debt in the long term against future rate increases. Since 2010/11, Ontario has issued \$160.8bn in bonds, including \$11.1bn in 2025/26 or almost one-third of total debt outstanding, with maturities of 30 years or longer. The province will continue to monitor the market and make changes to debt term strategy in response to the levels of rates and the yield curve.

Ontario's cash reserve in 2025/26 averaged \$44.0bn, which is higher than both the average of \$41.9bn in the previous year and the average of \$30.9bn since 2009/10. The year-over-year increase can be partly explained by not drawing down the \$12.0bn of cash as was originally planned in the budget. The province intends to maintain current liquid reserve levels due to the ongoing market and economic volatility.

Net debt-to-GDP increasing over the next two years, before slightly declining

As a result of the continued deficits and capital spending in infrastructure, net debt is expected to have reached \$459bn as at March 31, 2026, an increase of some \$32bn from the prior year. That would place the net debt-to-GDP ratio at 36.8% for 2025/26, which is a increase of 0.9% from the prior year. With the increase planned in both again this upcoming fiscal year, net debt is projected to increase by almost \$26bn to \$485bn as at March 31, 2027, causing the ratio to increase to 37.7%. That compares to the 38.9% projected for 2026/27 in last year's budget.

Stronger GDP growth than expected and an accounting change were the reasons behind the ratio being lower than previously forecasted. Beginning in 2026/27, the net debt-to-GDP ratio reflects the revised net debt calculation under the new Public Sector Accounting Standard effective April 1, 2026. This methodological change results in the ratio being 0.8% lower in each of the three outlook years compared to what would have been reported under the previous calculation. The province will now use net financial liabilities as opposed to net debt. Net financial liabilities will exclude non-financial liabilities and externally restricted endowments held in perpetuity.

As a result of the deficit forecast and higher capital investments in 2027/28, the ratio is expected to increase to 38.5% before dropping to 38.2% the following year (i.e. 2028/29) when a surplus is expected. Although both 2026/27 and 2027/28 estimates are increasing while 2028/29 slightly drops, all three years remains below the debt sustainability measure target listed below. 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-Revenue to stay below 200%; and
- Interest-to-Revenue to stay below 7.5%;

Budget 2026 projects the net debt-to-revenue target will not be achieved throughout the horizon from 2025/26 through 2028/29, with figures estimated at 204%, 211%, 213%, and 210%, respectively. The methodological change in the calculation of net debt results in the ratio being approximately 4% lower in each of the three outlook years compared to what would have been reported under the previous calculation. Based on the growth trend in net debt and revenue beyond the medium-term outlook, this ratio is expected to meet the target of 200% by 2032/33, or as early as 2028/29 should the faster growth scenario materialize.

At the same time, interest-to-revenue will be achieved every year at 6.3%, 6.7%, 6.9% and 7.1%, respectively. These ratios remain close to the lowest levels it has been at since the 1980s.

10 year capital plan sees over \$210bn of investments

Ontario's capital plan calls for investment of over \$210bn in the next 10yrs, with \$37bn of that total slated for 2026/27. That is higher when compared to last year's plan which totalled \$200bn with \$33bn for 2025/26. The plan calls for \$31bn for highways, \$63bn for public transit, \$64bn for health spending (infrastructure and capital grants), as well as \$30bn in education and child care spaces.

Overall, this capital plan is the largest in Ontario's history, while the government will promote and prioritize Ontario and then Canadian goods and services whenever feasible across all public-sector procurements.

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