BUDGET ANALYSIS

Ontario: Budget 2025

Balance Waits on the Bench for Another Year

By Laura Gu, Senior Economist, and Kari Norman, Economist

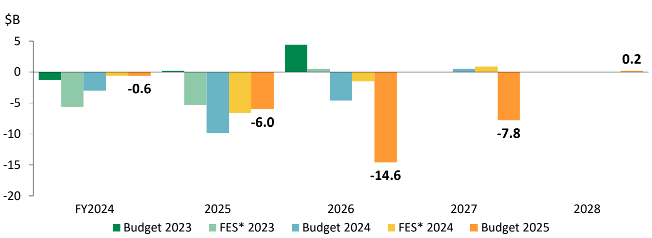
HIGHLIGHTS

- Ontario's fiscal year 2025–26 (FY2026) maintains plans to balance the books but now aims to do so in fiscal year 2027–28 (FY2028) rather than next year. The budget raised this year's deficit projection by $13.2B compared to projected in 2024 Fall Economic Statement (FES) to $14.6B (1.2% of nominal GDP). Net debt is expected to climb from 36.3% of nominal output in FY2025 to 38.9% in FY2027—a slightly higher trajectory than projected in the FES but still sits below the 40% target. Table 1 on page 2 summarizes key fiscal indicators.
- A better handoff from FY2024–25 (FY2025) positioned the province well to weather the slowdown. Previous revenue projections have largely been maintained. Higher spending projections—largely attributable to the carry-over from higher operating expenses in health and education—were responsible for much of the deterioration in the bottom line. Targeted new policy measures also weigh on the bottom-line.
- The signature new policy measures focus on supporting the economy, and include enhancing the Ontario Made Manufacturing Investment Tax Credit ($1.3B), expanding the Skills Development Fund ($1B), and the permanent reduction of gas and fuel taxes.
- The prudent revenue outlook is based on weaker economic growth assumptions, with real growth expected to decelerate to 0.8% in 2025 and 1.0% in 2026. A more pessimistic alternative scenario factoring in prolonged tariff impacts sees the deficit deepen to $17.1B in FY2026.
- Borrowing requirements are now expected to total $42.8B in FY2026, $41.1B in FY2027, and $33B in FY2028. Pre-borrowing activity and more short-term financing are expected to partially offset the effects of larger deficits.
- Budget 2025 reveals a deterioration in Ontario's financial position, yet this does not undermine the government's prudent practice over the past few years. The increased spending is largely warranted, and new policy measures remain targeted and focused on stimulating growth and improving affordability during a period of economic pressure. Amid heightened economic uncertainty, the updated plan remains characteristically conservative with significant prudence built-in, ensuring the debt burden remains manageable.

Main Takeaways

Ontario tabled a post-election budget amid mounting economic headwinds from US trade policies. Budget 2025 undeniably reveals a deterioration in the province's financial position driven by a weaker growth outlook and heightened spending, in line with the prevailing trend among other Canadian jurisdictions (graph 1).

Graph 1
Across the Board Deterioration in Ontario's Budget Balance Outlook



** Fall Economic Statement*
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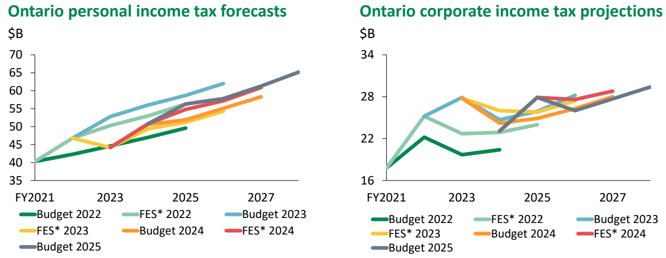
While the revenue forecast remains largely intact due to a stronger handoff offsetting a weaker growth outlook (graph 2), the spending forecast has been significantly increased as the government allocates resources to support growth, particularly in sectors vulnerable to the impact of US tariffs and Canada's countermeasures. Following a slight improvement in FY2025, the province projects larger deficits in the next two fiscal years, with shortfalls increasing by a total of $22B versus the 2024 FES. The return to balance was delayed yet again by one year to FY2028. The projected FY2026 deficit of -$14.6B (-1.2% of nominal GDP) is underpinned by conservative growth assumptions and sizable buffers, and therefore likely represents an upper-bound estimate. The province's debt trajectory was also slightly lifted versus the previous forecast despite a better starting point.

Graph 2
Ontario's Revenue Forecast Remains Intact



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Over the medium term, the current consolidation plan continues to rely heavily on aggressively restraining spending growth. Although spending projections were raised relative to forecasts laid out in the FES, the province continues to assume that it will keep growth in program expenditures below the rate of

TABLE 1
Updated Ontario Fiscal and Economic Forecasts

IN $B (UNLESS OTHERWISE INDICATED)	2024–25			2025–26			2026–27			2027–28
	Bud. 2024	**FES* 2024**	**Bud. 2025**	**Bud. 2024**	**FES* 2024**	**Bud. 2025**	**Bud. 2024**	**FES* 2024**	**Bud. 2025**	**Bud. 2025**
Total Revenues**	205.7	212.6	219.1	217.4	220.8	217.9	226.6	230.7	226.1	236.1
% change	*0.7*	*1.7*	*4.8*	*5.7*	*3.9*	*-0.5*	*2.6*	*4.5*	*3.7*	*4.4*
Own-Source Revenues	169.4	176.3	182.7	179.9	183.2	179.1	187.9	192.0	186.8	196.3
% change	*-0.1*	*0.9*	*4.6*	*6.2*	*3.9*	*-1.9*	*2.6*	*4.8*	*4.3*	*5.1*
Federal Transfers	36.3	36.3	36.4	37.5	37.6	38.8	38.7	38.7	39.3	39.8
Total Spending	214.5	218.3	225.1	220.6	220.8	230.5	224.1	227.8	231.9	233.9
% change	*3.5*	*4.1*	*7.3*	*2.8*	*1.1*	*2.4*	*1.5*	*3.2*	*0.6*	*0.9*
Program Spending	200.6	205.6	212.4	205.9	206.8	216.3	208.9	213.3	216.7	217.9
% change	*3.1*	*5.3*	*8.8*	*2.6*	*0.6*	*1.8*	*1.0*	*3.1*	*0.2*	*0.6*
Debt Servicing (Net)	13.9	12.7	12.7	14.7	14.0	14.2	15.2	14.5	15.2	16.0
% of revenues	*6.8*	*6.0*	*5.8*	*6.8*	*6.3*	*6.5*	*6.7*	*6.3*	*6.7*	*6.8*
Reserve	1.0	1.0	0.0	1.5	1.5	2.0	2.0	2.0	2.0	2.0
Budget Balance	**-9.8**	**-6.6**	**-6.0**	**-4.6**	**-1.5**	**-14.6**	**0.5**	**0.9**	**-7.8**	**0.2**
% of GDP	*-0.9*	*-0.6*	*-0.5*	*-0.4*	*-0.1*	*-1.2*	*0.0*	*0.1*	*-0.6*	*0.0*
Net Debt (% of GDP)	*39.2*	*37.8*	*36.3*	*39.5*	*37.9*	*37.9*	*39.1*	*37.5*	*38.9*	*38.6*
Nominal GDP (% change)	*2.7*	*3.8*	*5.2*	*3.9*	*3.9*	*3.1*	*4.3*	*4.4*	*3.0*	*4.0*
Real GDP (% change)	*0.3*	*0.9*	*1.5*	*1.9*	*1.7*	*0.8*	*2.2*	*2.3*	*1.0*	*1.9*
Infrastructure Spending	26.2	26.3	24.4	29.5	30.3	33.3	26.7	27.0	31.6	26.2

** Fall Economic Statement*
** Excludes interest and investment income.
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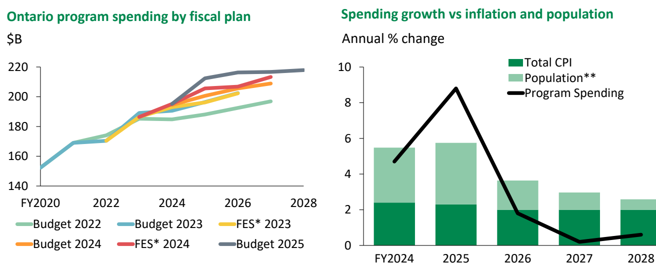
population growth plus inflation (graph 3). That could prove challenging as the government grapple with outsized exposure to the US market and a housing affordability crisis.

Graph 3
Spending Expected to Increase but Growth Remains Contained



* *Fall Economic Statement*. ** Outer-year population growth numbers based on 2024 Ontario demographic projections
Statistics Canada, Ontario Ministry of Finance and Desjardins Economic Studies

Amid high uncertainty, the government maintained the practice of prudent budget planning and held the line on spending amid a weaker revenue outlook. Relative to many other provinces, Ontario kept its new spending and policy measures targeted.

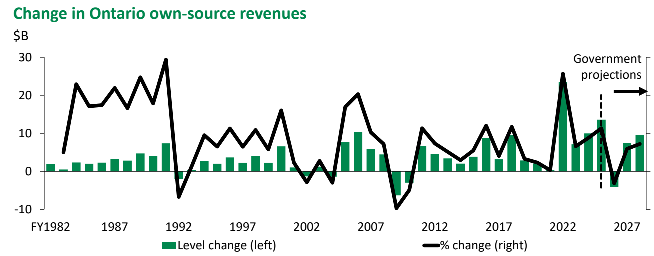
Starting Point Boost Keeps Revenue Projection Largely Intact

Ontario used very conservative assumptions in its Fall Economic Statement (FES), basing the forecast on a real growth assumption of 0.9% for 2024, significantly lower than the actual 1.5% growth recorded by the province. As anticipated, the effect of stronger economic momentum offset the revenue loss from the federal decision to cancel capital gains inclusion rate increases. The own-source revenue forecast increased by $8.9B in FY2025, providing a stronger handoff that positions the province well heading into the downturn.

The government anticipates headwinds from trade tensions to drive revenue projections modestly lower in the near term, offsetting the positive effect of a better starting point. The province's own-source revenue is projected to contract by 2.2% in FY2026, resulting in a $2.1B revenue shortfall relative to what was anticipated in the FES.

Despite short-term challenges, the government remains optimistic further out, projecting robust annual growth rates of 6.2% in Personal Income Tax and 6.3% in Corporate Tax from FY2027 to FY2028. Own-source revenue is expected to rebound by an average of 4.6% over the next two years, in line with the average growth rate observed between the GFC and the pandemic (graph 4). Federal transfers have been adjusted upwards, adding an average of $0.6B over the planning horizon.

Graph 4
Ontario's Fiscal Plan Still Projects Solid Outer-Year Revenue Growth

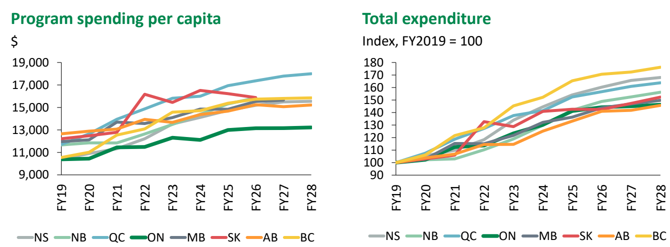


Finance Canada, Ontario Ministry of Finance and Desjardins Economic Studies

Lifted Spending Drove Headline Deteriorations

The province's spending profile stepped up, driving the majority of the deterioration. The increases appear reasonably targeted and partly attributable to carry-over from the previous fiscal year. Program spending is anticipated to exceed the FES projections by $6.8B in FY2025, $9.5B in FY2026 and $3.4B in FY2027, reflecting higher expenses in health, education and compensation-related costs. Interest on debt has been restated to separate interest and investment income and marked down as a result of lower-than-projected interest rates. Ontario still has the lowest program spending per capita and among the lowest expenditure growth compared to pre-pandemic levels (graph 5).

Graph 5
Ontario's Spending Remains Low Relative to Peers



Provincial Budget Documents and Desjardins Economic Studies

Targeted Policy Measures Weigh on Bottom-Line

New policy measures prioritize support and protect the province's economic growth amid uncertainty from US tariffs. The tariff-related support measures are both targeted and temporary. The government recently announced a 6-month deferral of selected corporate taxes, providing $9B in temporary cash flow with minimal impact on this year's fiscal position, as all owed taxes are due by October 1, 2025. Additionally, a $2B rebate through the Workplace Safety and Insurance Board (WSIB) has been introduced to support businesses and help keep workers employed. The government is establishing the Protecting Ontario Account, designating $5B to provide $1B in liquidity relief and $4B in funding for various programs to support businesses affected by tariffs.

Beyond tariff support, new spending is spread across various priorities, including investments in education and training, affordability, critical minerals, and public safety. Big-ticket commitments include $1B for skilled trades training, $705M to expand STEM and skilled trades training capacity at postsecondary institutions, and $400M additional funding to the Housing-Enabling Water Systems Fund (HEWSF) and Municipal Housing Infrastructure Fund (MHIP).

New tax measures, notably the permanent cut of gas and fuel taxes and the enhancement of the Ontario Made Manufacturing Investment Tax Credit, reduce revenue by $1.4B in FY2026, $1.9B in FY2027, and $2.0B in FY2028, further weighing on the province's finances.

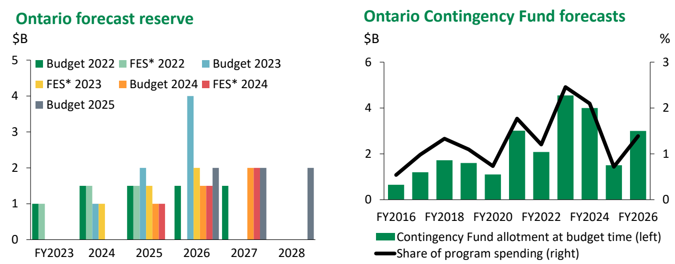
Prudently Forecasting Uncertainty

The economic outlook for Ontario has darkened for this year and next since the FES. The province assumed real growth of 0.8% in 2025 and 1.0% in 2026, slightly below the private-sector average and in line with our latest forecast, which includes a mild trade-induced recession.

In periods of heightened uncertainty, alternative scenarios offer more value than usual as reference points. The budget includes a faster growth scenario, similar to the baseline growth assumed in the FES but slightly weaker, assuming most tariffs and countermeasures are negotiated away in the near term. The slower growth scenario assumes virtually no growth over 2025 and 2026, with the 25% US tariffs on all Canadian goods— except energy products, which are subject to a lower 10% rate—persist throughout the planning horizon. In a faster-than-baseline scenario, the budget would be nearly balanced in FY2027, excluding the $2B forecast reserve. A more pessimistic growth scenario has the province running deep deficits of $17.1B in FY2026 $13.9B in FY2027 and $7.7B in FY2028.

The current plan incorporates appropriate levels of prudence in three ways. First, Ontario's budgets are based on economic projections that are slightly weaker than the private sector average, which appears prudent given the US trade policy at the moment. Second, forecast reserves of $2B over the next three fiscal years are available to cover unexpected shortfalls. Finally, the Operating and Capital Contingency Funds, booked as expenses, total $3B in FY2026—an ample amount compared to recent plans (graph 6).

Graph 6
Budget 2025 Contains Ample Buffer

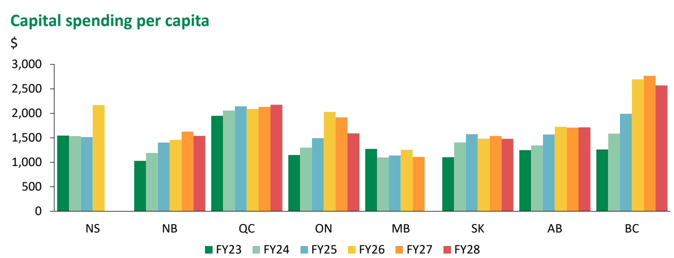


* *Fall Economic Statement*
Ontario Ministry of Finance and Desjardins Economic Studies

Increased Debt and Borrowing

The budget unveiled another record-high capital spending plan, underscoring the government's efforts to address the long-standing infrastructure underinvestment. The upgraded Capital Plan totals $201B over the next decade—$9.5B higher than the previous plan. That includes $33.3B in FY2026—a 37% jump from FY2025. The government remains committed to major highway and transit projects to alleviate gridlock while continuing to build new healthcare facilities. The province is also increasing capital for the Building Ontario Fund by $5B to co-invest in key priority areas such as long-term care, energy infrastructure, and affordable housing. As observed in other provincial budgets, Ontario increased capital spending in these areas this year and next to counter anticipated softness in private sector investment. The ambitious plan allows Ontario to elevate its capital spending to levels more in line with its peers following a history of consistently lagging behind (graph 7).

Graph 7
Ontario Ramping Up Capital Spending to Support Growth



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Despite a better starting point, deeper deficit projections and increased capital spending pushed Ontario's debt-to-GDP ratio onto a slightly higher trajectory (graph 8 on page 5). Net debt is expected to rise from 36.3% of nominal output in FY2025 to 37.9% in FY2026, before stabilizing at 38.9% in FY2027—still below the 40% target outlined in the province's debt reduction

TABLE 2

Updated Ontario Borrowing Program

	2024–25			2025–26			2026–27			2027–28
IN $B (UNLESS OTHERWISE INDICATED)	Bud. 2024	FES* 2024	Bud. 2025	Bud. 2024	FES* 2024	Bud. 2025	Bud. 2024	FES* 2024	Bud. 2025	Bud. 2025
Deficit/(Surplus)	9.8	6.6	6.0	4.6	1.5	14.6	(0.5)	(0.9)	7.8	(0.2)
Investment in Capital Assets	17.7	17.7	17.2	20.2	20.9	23.1	20.4	20.6	23.7	20.1
Amortization of Capital Assets	(11.0)	(11.0)	(8.6)	(12.0)	(12.0)	(9.1)	(13.9)	(13.9)	(9.3)	(10.1)
Non-Cash and Cash Timing Adjustments			3.6			(3.1)			(3.4)	(4.3)
Net Loans and Investments	(0.3)	0.8	0.5	0.1	(0.2)	1.2	—	—	(0.1)	—
Debt Maturities/Redemptions	28.0	28.0	28.0	33.1	33.1	33.1	26.9	26.9	26.9	27.5
Total Funding Requirement	44.2	42.2	46.7	46.0	43.3	59.8	32.8	32.6	45.6	33.0
Decrease/(Increase) in Short-Term Borrowing	(5.0)	(5.0)	(5.0)	—	—	(5.0)	—	—	(2.5)	—
Increase/(Decrease) in Cash and Cash Equivalents	(1.0)	0.3	7.8	(8.3)	(8.3)	(12.0)	—	—	(2.0)	—
Total Long-Term Borrowing	**38.2**	**37.5**	**49.5**	**37.7**	**35.0**	**42.8**	**32.8**	**32.6**	**41.1**	**33.0**

* *Fall Economic Statement*

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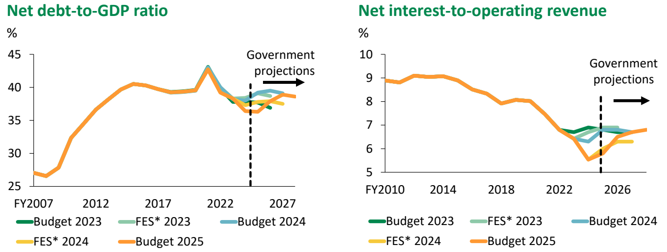
Graph 8

Higher Debt-to-GDP and Debt-Service-Cost Ratios Expected for Ontario



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strategy. The slower growth scenario could see this ratio exceed 40% in FY2027 and FY2028.

Increases to funding requirements are mostly due to larger projected deficits. Total long-term borrowing is now expected to reach $49.5B in FY2025, $42.8B in FY2026, $41.1B in FY2027, and $33B in FY2028. The FY2026 and FY2027 projections represent a combined $16.3B rise versus FES forecasts. FY2025 borrowing was $12B higher than anticipated in the FES as the province takes advantage of market access and pre-borrow in anticipation of higher funding needs in the medium term. The province will also increase short-term borrowing by $5B in FY2026 to respond to recent changes in market demand for short-term Ontario debt. Table 2 updates borrowing program projections.

Nearly 80% of the borrowing completed in FY2025 has been in Canadian dollars, via 36 syndicated issues, one floating note and three Green Bonds. For FY2026, the province lowered the target range for domestic borrowing by 5 percentage points to 70-85%, aiming to reduce borrowing costs by leveraging foreign currency borrowing.

The Budget's late release limits our ability to gauge immediate market reactions, but Ontario bond spreads tightened relative to other major provinces in days preceding the budget release, indicating strong investor confidence in the province's fiscal path amid bottom-line deteriorations and negative credit rating actions in some other provinces. While the notable deterioration reported in the budget could potentially put upward pressure on Ontario's still-tight spreads, the province's prudent approach may signal future improvement if trade tensions are resolved. Going forward, overall risk sentiment will continue to drive spreads in Ontario and other provinces, given Ontario's benchmark status.