BUDGET ANALYSIS

Ontario: Fall Economic Statement 2025

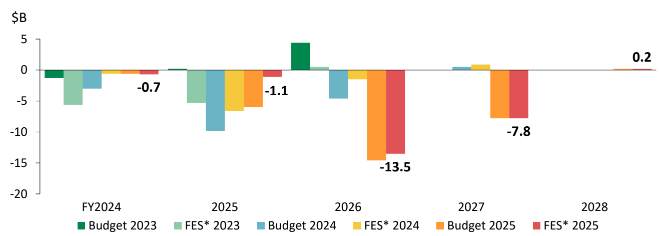
Keeping Calm and Carrying On

By Randall Bartlett, Deputy Chief Economist

HIGHLIGHTS

- The Government of Ontario erred on the side of caution in its Fall Economic Statement 2025 (FES 2025), keeping the outlook for the deficit broadly in line with its Budget 2025 projection (graph 1).
- The prudent economic forecast for Ontario was a big part of what kept the deficit track broadly unchanged. Despite a material improvement in revenues in the 2024–25 fiscal year (FY25), much of this was not passed on to future years as the outlook for real GDP growth was revised lower and nominal GDP was broadly unchanged. That said, the Ontario government managed to find room for some additional modest tax relief in FES 2025, notably for first-time homebuyers of newly built homes and for manufacturers.

Graph 1
Little Change in the Budget Balance Outlook Due to Prudent Planning
Budget balance projections



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- New spending measures were also modest in FES 2025, with new program expenditures largely offsetting the conservative windfall in revenues.
- With the deficit outlook having slightly improved, the net debt-to-GDP ratio was revised lower since Budget 2025, as was net interest-to-operating revenue. This should come as positive news to ratings agencies and investors alike.
- At the same time, total funding requirements have increased relative to Budget 2025 by $4.3B over the three fiscal year starting in FY26. However, much of this is directed toward short-term borrowing to take advantage of falling short-term interest rates. Long-term borrowing is expected to increase by a more modest $0.8B over the same period.

Main Takeaways

As expected, the deficit outlook in Ontario's FES 2025 is improved over the Budget 2025 projection (table 1 on page 2), albeit by less than we had anticipated. This reflects meaningful prudence baked into the fiscal forecast. That is particularly true for the economic projection, which held back still upwardly revised revenues, possibly opening the door to a future upside deficit surprise. Total expenses increased only modestly, largely offsetting the improved revenue outlook. Taken together, the projected path for the debt-to-GDP ratio is reduced slightly when compared to Budget 2025. The same is true for net interest as a percent of operating revenue. This should help to keep Ontario in good stead with rating agencies and markets.

It's the Economy

Probably the most noteworthy highlight in Ontario's FES 2025 is the prudent economic forecast. The Ontario government took a cautious approach, choosing to cut its forecast for real GDP growth slightly in 2026 and 2027, while adjusting the nominal GDP growth outlook up slightly in 2025 only to reduce it

TABLE 1
Updated Ontario Fiscal and Economic Forecasts

IN $B (UNLESS OTHERWISE INDICATED)	2024–25		2025–26		2026–27		2027–28	
	Bud. 2025	**Actual**	**Bud. 2025**	**FES* 2025**	**Bud. 2025**	**FES* 2025**	**Bud. 2025**	**FES* 2025**
Total Revenues	221.6	226.2	219.9	223.1	227.9	229.6	237.9	240.0
% change	*6.0*	*8.2*	*-0.8*	*-1.4*	*3.6*	*2.9*	*4.4*	*5.9*
Own-Source Revenues	185.2	189.6	181.1	184.2	188.6	190.3	198.1	200.3
% change	*6.0*	*8.5*	*-2.2*	*-2.8*	*4.1*	*3.3*	*5.0*	*6.6*
Federal Transfers	36.4	36.6	38.8	38.9	39.3	39.3	39.8	39.7
Total Spending	227.6	227.3	232.5	234.6	233.7	235.3	235.7	237.8
% change	*8.5*	*8.4*	*2.2*	*3.2*	*0.5*	*0.3*	*0.9*	*6.1*
Program Spending	212.4	212.1	216.3	218.4	216.7	218.5	217.9	220.1
% change	*8.8*	*8.7*	*1.8*	*3.0*	*0.2*	*0.0*	*0.6*	*5.4*
Debt Servicing	15.2	15.1	16.2	16.2	17.0	16.9	17.8	17.7
% of revenues	*6.9*	*6.7*	*7.4*	*7.3*	*7.5*	*7.4*	*7.5*	*7.4*
Reserve	—	—	2.0	2.0	2.0	2.0	2.0	2.0
Budget Balance	**-6.0**	**-1.1**	**-14.6**	**-13.5**	**-7.8**	**-7.8**	**0.2**	**0.2**
% of GDP	*-0.5*	*-0.1*	*-1.2*	*-1.1*	*-0.6*	*-0.6*	*0.0*	*0.0*
Net Debt (% of GDP)	*36.3*	*36.2*	*37.9*	*37.7*	*38.9*	*38.7*	*38.6*	*38.4*
Nominal GDP (% change)	*5.2*	*5.3*	*3.1*	*3.2*	*3.0*	*3.0*	*4.0*	*4.0*
Real GDP (% change)	*1.5*	*1.4*	*0.8*	*0.8*	*1.0*	*0.9*	*1.9*	*1.8*
Infrastructure Spending	24.4	24.5	33.3	33.4	31.6	31.7	26.2	26.3

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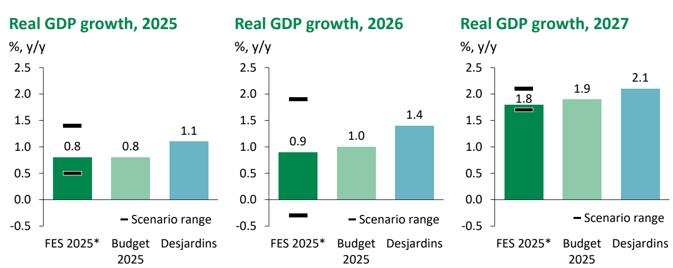
more materially in 2028. Across the board, the growth planning assumptions are set 0.1 percentage point below the private-sector average.

In our latest [Provincial Economic Outlook](), we revised our forecast for Ontario's real and nominal GDP growth materially higher in 2025 and 2026. The reasons for the upward revisions included lower-than-expected import tariffs on both sides of the border, improved interprovincial trade, interest rate cuts and planned fiscal expansion, particularly at the federal level. For that reason, we believe there is upside risk to both the Government of Ontario's economic and revenue forecasts. This may support fiscal outcomes that are ultimately somewhere between the province's planning projection and faster growth scenario (graph 2).

As Goes the Economy, Often Go Revenues

Thanks to better-than-expected own-source revenues last year, the starting point for the revenue projection in FES 2025 was much improved over Budget 2025. This allowed the government

Graph 2
Real GDP Growth Forecast Revised Lower and with Greater Uncertainty



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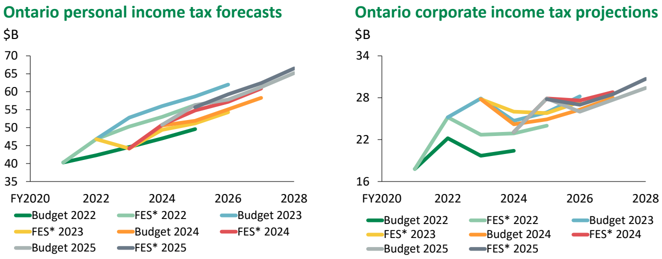
of Ontario to be more prudent in its economic and revenue growth forecasts while still showing an upwardly revised total revenue outlook (graph 3 on page 3). Total revenues are now expected to be $7.0B higher in the three years starting in FY26 than in Budget 2025. The forecast for federal transfers was largely unchanged.

Graph 3
Ontario's Revenue Forecast Has Been Revised up Ever So Slightly



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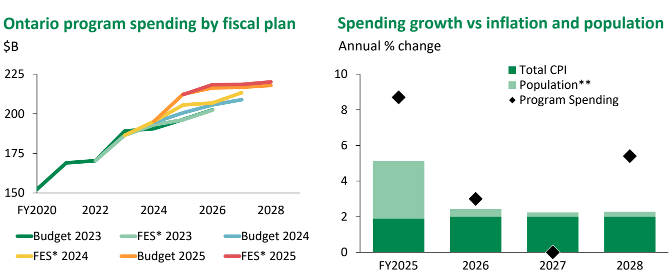
That said, there were some additional tax policy measures in FES 2025 that warrant a nod. First, the Ontario government plans to rebate the full provincial portion of the HST for first-time home buyers for most new homes. On qualifying homes valued up to $1M, that could save home buyers up to $80,000 on the cost of a new home. The Government of Ontario also introduced legislation to enhance and expand the Ontario Made Manufacturing Investment Tax Credit, temporarily enhancing the tax credit from 10% to 15% and making it non-refundable to corporation that are not Canadian-controlled private corporations.

Keeping Some Spending Powder Dry

The modestly improved revenue outlook was almost entirely offset by higher spending, up $5.8B in the three years starting in FY26. This is all the result of greater program spending (up $6.1B) offset by modestly lower interest and other debt servicing charges (down $0.2B). That said, as a result of the sharp reduction in newcomers to Canada due to the changed federal immigration policy, program spending is now expected to outpace growth in population and inflation over much of the fiscal forecast (graph 4).

Graph 4
Spending Expected to Increase but Growth Remains Contained



* *Fall Economic Statement*. ** Outer-year population growth numbers based on 2025 Ontario demographic projections
Statistics Canada, Ontario Ministry of Finance and Desjardins Economic Studies

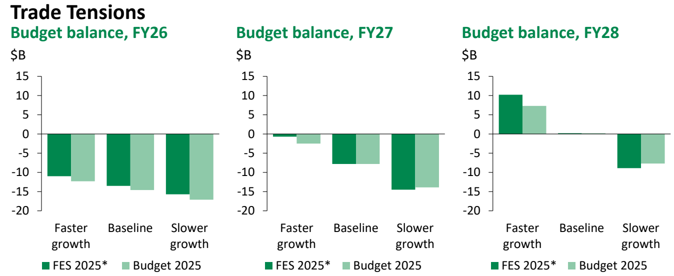
While there was some tinkering on the margins of the forecasts for core program expenditures, much of the change to the total program spending outlook relative to Budget 2025 was in "Other programs." This included a broad suite of modest new measures and extensions to prior ones intended to provide an additional underpinning to Ontario's economy in the face of US tariffs. This included support for workers and companies in impacted industries, such as retraining for the former and measures targeted at the steel and forestry sectors. An additional $100M was invested in the Ontario Together Trade Fund to further help small- and medium-sized enterprises diversify into new markets and strengthen trade resiliency. Additional resources were also provided for the Municipal Housing Infrastructure Program (MHIP) and Ontario Municipal Partnership Fund (OMPF), the latter to the tune of $100M over two years, to help build critical infrastructure and provide needed services.

In contrast, interest and other debt servicing charges were revised slightly lower over the coming few fiscal years. This reflects the largely unchanged outlook for interest rates and a shift toward increased short-term debt issuance (discussed later on) combined with smaller deficits and lower debt than previously planned.

A Surplus Is Within the Government's Grasp

While the outlook for the deficit didn't change substantially because of planning prudence and spending restraint, the breadth of potential deficit outcomes has been widened to reflect the uncertainty of the planning environment (graph 5). However, we are of the view that the balance of risks is tilted toward improved economic activity and smaller deficits than in FES 2025, with the ultimate deficit likely to come in somewhere between the planning projection and faster growth scenario. That's because the proposed re-escalation of the trade war in the slower growth scenario seems less likely given recent developments than it may have earlier in the year.

Graph 5
Range of Potential Deficit Outcomes Has Widened Despite Reduced Trade Tensions



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The Debt's on an Improved Trajectory

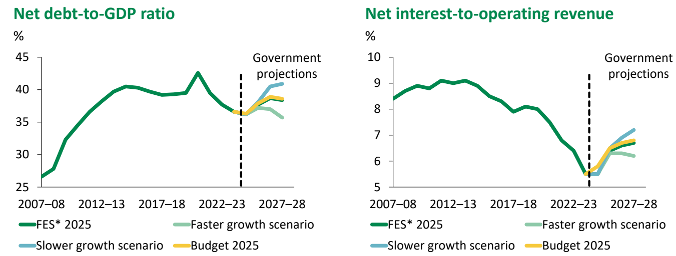
With prior year and projected deficits expected to be lower than previously planned, it comes as no surprise that the outlook for the net debt-to-GDP ratio is now lower than in Budget 2025 (graph 6, left). Anticipated to crest at 38.7% of GDP in FY27, net debt is forecasted to trend lower thereafter. That is unless the Ontario economy comes face-to-face with the slower growth scenario, in which case net debt as a share of GDP could gradually rise. But as previously mentioned, we believe the risks to the economic outlook are tilted to the upside, somewhere between the planning projection and faster growth scenario. That suggests the net debt-to-GDP ratio could be flat to even falling if a trade deal is struck that supports the recovery of Ontario's economy.

Similar to the path of the net debt-to-GDP ratio, the outlook for net interest as a per cent of operating revenue has also improved relative to Budget 2025 (graph 6, right). And while still anticipated to rise over the next few fiscal years, with the risks to the economic and revenue outlooks tilted to the upside, there is the possibility that markets could be surprised by positive events and resulting lower debt service ratios.

Borrowing and Financial Market Developments

Ontario's long-term borrowing requirement for FY26 is now forecast to be $42.5B (table 2), down from $42.8B in Budget 2025 thanks to a better deficit position and corresponding decrease in funding requirements. As of October 30, 2025, Ontario has completed $32.4B in long-term borrowing for FY26. The FY27 long-term public borrowing forecast is $40.7B, revised down from $41.1B in Budget 2025,

Graph 6
Higher Debt-to-GDP and Debt-Service-Cost Ratios Expected for Ontario



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and $34.5B for FY28, revised up from $33.0B previously. Over the three-year outlook period, total long-term borrowing is projected to be $0.8B higher than forecast in Budget 2025. Of note, year-end cash and cash equivalents are forecast to decrease by $12.0B in FY26 and $2.0B in FY27.

Ontario plans to increase short-term borrowing by $5.5B in FY26 and by a further $5.5B in FY27. The combined increase in short-term borrowing over this fiscal year and next fiscal year is $3.5B higher than forecast in Budget 2025. The intent is to allow Ontario to take advantage of the steady decline in short-term interest rates relative to long-term rates. According to the Government of Ontario, increasing short-term borrowing has allowed it to diversify its short-term investor base by re-establishing the US Commercial Paper program. Notably, even with this change, the proportion of short-term debt as a percentage of total outstanding det will be maintained within the target range of 5% to 7%, as it has been over the past 10 years.

TABLE 2
Updated Ontario Borrowing Program

	2025–26			2026–27			2027–28		
IN $B (UNLESS OTHERWISE INDICATED)	Bud. 2024	Bud. 2025	FES* 2025	Bud. 2024	Bud. 2025	FES* 2025	Bud. 2025	FES* 2025	
Deficit/(Surplus)	4.6	14.6	13.5	(0.5)	7.8	7.8	(0.2)	(0.2)	-1.1
Investment in Capital Assets	20.2	23.1	23.1	20.4	23.7	23.8	20.1	20.2	0.2
Amortization of Capital Assets	(12.0)	(9.1)	(9.1)	(13.9)	(9.3)	9.3	(10.1)	(10.1)	
Non-Cash and Cash Timing Adjustments		(3.1)	(3.1)		(3.4)	3.4	(4.3)	(4.3)	6.8
Net Loans and Investments	0.1	1.2	2.6	—	(0.1)	2.4	—	1.4	5.3
Debt Maturities/Redemptions	33.1	33.1	33.1	26.9	26.9	26.9	27.5	27.5	0.0
Total Funding Requirement	**46.0**	**59.8**	**60.0**	**32.8**	**45.6**	**48.2**	**33.0**	**34.5**	4.3
Decrease/(Increase) in Short-Term Borrowing	—	(5.0)	(5.5)	—	(2.5)	(5.5)	—		-3.5
Increase/(Decrease) in Cash and Cash Equivalents	(8.3)	(12.0)	(12.0)	—	(2.0)	(2.0)	—		0.0
Total Long-Term Borrowing	**37.7**	**42.8**	**42.5**	**32.8**	**41.1**	**40.7**	**33.0**	**34.5**	0.8

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-3.6

81 84.2 87.6
8.144192 3.950617284 4.038005

34.7 36.1 37.5
7.098765 4.034582133 3.878116

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To date, approximately 66% of FY26 long-term borrowing was completed in Canadian dollars, through 25 syndicated issuance and one Green Bond. This percentage is within Ontario's new guidance for domestic borrowing of 65% to 80% for FY26, which was adjusted from the 70% to 80% target range in Budget 2025. Approximately $11.0B, or 34%, of this year's long-term borrowing was completed in US dollars, euros and Swiss francs. There is $10.1B in total long-term borrowing remaining for FY26. As of August 31, 2025, the weighted average borrowing term for outstanding debt in FY26 was estimated at 14.2 years, up from an estimated 14.1 years in FY25. That's long enough to help mitigate risks related to refinancing at higher interest rates. Ontario once again committed to "monitor the market and adjust the debt term strategy in response to further changes to interest rates and the yield curve."

Spreads on 30-year Government of Ontario bonds to Government of Canada bonds narrowed slightly relative to the pre-FES read on the news of smaller deficits and reduced borrowing requirements. Spreads to other provincial government bonds remained more stable.