

BUDGET ANALYSIS

Ontario: Budget 2026–27

Staying in the Defensive Zone for One More Year

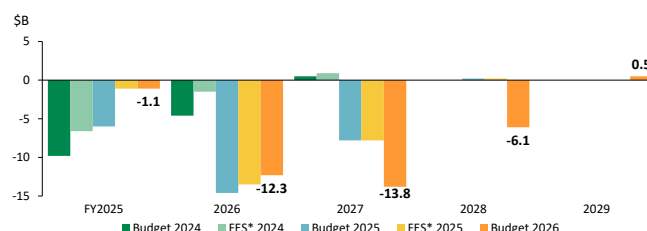
By Laura Gu, Senior Economist, and Kari Norman, Senior Economist

HIGHLIGHTS

- ▶ Ontario's Budget 2026 projects a prolonged path to balance despite near-term improvement. The 2025–26 fiscal year (FY2026) deficit projection has been reduced to \$12.3B (1.0% of nominal GDP) but is expected to widen to \$13.8B (1.1%) in FY2027 as higher spending takes hold, delaying the return to budget surplus to FY2029 (graph 1). Table 1 on page 2 summarizes key fiscal indicators.
- ▶ Despite a weaker bottom line, Ontario's net-debt-to-GDP path remains largely intact. Stronger nominal GDP lowered the FY2026 starting point to 36.8% (vs. 37.7% in the Fall Economic Statement), though the ratio rises over the outlook and reconverges with the prior path at 38.2% by FY2029.
- ▶ The revenue outlook benefits from a stronger-than-expected handoff and firmer near-term growth, allowing higher revenue projections despite more conservative assumptions in the outer years.
- ▶ New policy measures remain targeted. The government delivered on its Tax Action Plan through several material measures, most notably expanding the elimination of the full Harmonized Sales Tax (HST) to all eligible buyers of new homes. Program spending increases are largely driven by health-care cost pressures, absent of a broader fiscal expansion, keeping Ontario relatively restrained compared with peers.
- ▶ FY2026 borrowing requirements were raised significantly relative to the FES (\$58.6B vs \$42.5B), reflecting pre-funding activity and advance borrowing associated with the launch of the \$4B Protect Ontario Account. Borrowing requirements are expected to reach \$47.2B in FY2027, \$43.1B in FY2028, and \$42.7B in FY2029.
- ▶ The budget strikes a balance between spending and consolidation, setting out a well-anchored plan to meet growing healthcare demand and deliver growth-supportive relief without adding to province's debt burden.

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

Budget balance projections



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

TABLE 1
Updated Ontario Fiscal and Economic Forecasts

IN \$B (UNLESS OTHERWISE INDICATED)	2024–25	2025–26			2026–27			2027–28			2028–29
	Actual	Bud 2025	FES* 2025	Bud 2026	Bud 2025	FES* 2025	Bud 2026	Bud 2025	FES* 2025	Bud 2026	Bud 2026
Total Revenues**	226.2	217.9	223.1	226.6	226.1	229.6	231.9	236.1	240.0	243.4	254.1
% change	8.2	-0.5	-1.4	0.2	3.7	2.9	2.3	4.4	4.5	5.0	4.4
Own-Source Revenues	189.6	179.1	184.2	187.5	186.8	190.3	192.1	196.3	200.3	203.3	213.7
% change	8.5	-1.9	-2.8	-1.1	4.3	3.3	2.5	5.1	5.3	5.8	5.1
Federal Transfers	36.6	38.8	38.9	39.1	39.3	39.3	39.8	39.8	39.7	40.1	40.4
Total Spending	227.3	230.5	234.6	238.4	231.9	235.3	244.2	233.9	237.8	247.5	251.1
% change	8.4	2.4	3.2	4.9	0.6	0.3	2.4	0.9	1.1	1.4	1.5
Program Spending	212.1	216.3	218.4	222.4	216.7	218.5	227.0	217.9	220.1	229.0	231.3
% change	8.7	1.8	3.0	4.9	0.2	0.0	2.1	0.6	0.7	0.9	1.0
Debt Servicing (Net)	15.1	14.2	16.2	16.0	15.2	16.9	17.2	16.0	17.7	18.6	19.7
% of revenues	6.7	6.5	7.3	7.1	6.7	7.4	7.4	6.8	7.4	7.6	7.8
Reserve	0.0	2.0	2.0	0.5	2.0	2.0	1.5	2.0	2.0	2.0	2.5
Budget Balance	-1.1	-14.6	-13.5	-12.3	-7.8	-7.8	-13.8	0.2	0.2	-6.1	0.5
% of GDP	-0.1	-1.2	-1.1	-1.0	-0.6	-0.6	-1.1	0.0	0.0	-0.5	0.0
Net Debt (% of GDP)	35.7	37.9	37.7	36.8	38.9	38.7	37.7	38.6	38.4	38.5	38.2
Nominal GDP (% change)	5.1	3.1	3.2	4.2	3.0	3.0	3.2	4.0	4.0	3.9	3.7
Real GDP (% change)	1.6	0.8	0.8	1.2	1.0	0.9	1.0	1.9	1.8	1.7	1.8
Infrastructure Spending	24.5	33.3	33.4	34.7	31.6	31.7	38.6	26.2	26.3	38.0	29.9

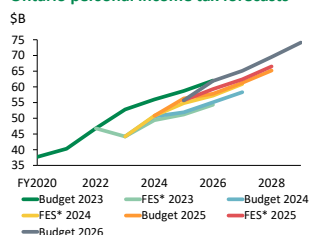
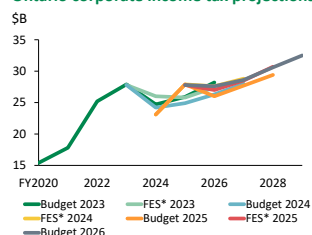
* Fall Economic Statement

** Excludes interest and investment income.

Ontario Ministry of Finance and Desjardins Economic Studies

In line with the prevailing trend among other Canadian jurisdictions, Ontario's 2026 budget pairs a stronger fiscal starting point with increased spending, resulting in wider deficits and a one-year delay in the path back to balance.

As expected, the province benefited from prudent fiscal planning, which led to a better handoff from an economy that has outperformed the government's prior expectations (graph 2). This allowed the province to continue leaning conservative in its updated economic and revenue assumptions while still presenting a modestly stronger topline revenue outlook.

Graph 2
Ontario's Revenue Forecast Revised Higher
Ontario personal income tax forecasts

Ontario corporate income tax projections


* Fall Economic Statement

Ontario Ministry of Finance and Desjardins Economic Studies

by a combined \$5.7B versus the Fall Economic Statement (FES) from FY2027 to FY2029, while spending was raised by a total of \$18.7B for that period. Even so, the budget stops short of a material fiscal expansion, with the government largely keeping its powder dry relative to most of its peers.

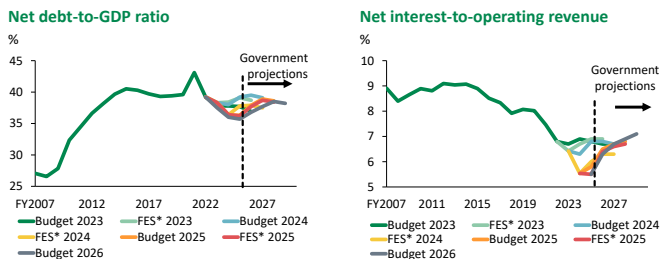
Achieving balance hinges on sustained expenditure discipline. Over the medium term, Ontario plans to hold program spending growth to an average of 1.7% annually from FY2027 to FY2029—well below projected revenue growth of 3.9%—in order to return to balance by FY2029. Delivering on this target will require firm expenditure restraint, a task complicated by ongoing global trade uncertainty and recent geopolitical tensions affecting growth, costs and inflation. Domestically, structural challenges related to sluggish productivity growth and housing affordability further complicate the outlook.

Stronger Growth Keeps Net Debt Trajectory Intact

Despite the deterioration in the bottom line, Ontario retains some fiscal room, with its net debt trajectory largely unchanged from the previous plan. Upward revisions to nominal GDP reduce the projected net-debt-to-GDP ratio relative to the FES, lowering the starting point in FY2026 to 36.8%, compared with 37.7% previously (graph 3 on page 3). The ratio is expected to rise over the projection horizon and ultimately converge back to the pre-revision FES path, reaching 38.2% by the end of the outlook in FY2029. At the same time, the debt service ratio is expected to rise sharply from here and surpass prior projections.

Budget 2026 foresees increases in spending that more than offset revenue gains. Total revenue expectations were lifted

Graph 3
Lower Debt-to-GDP, Higher Debt-Service-Cost Ratios for Ontario

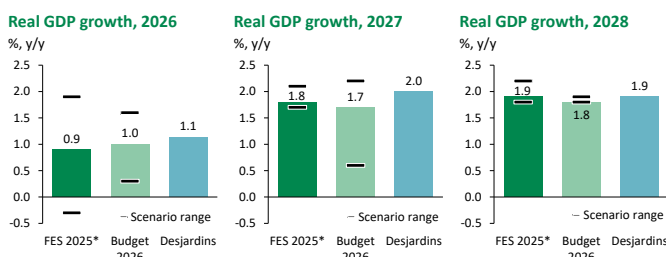


Recent Economic Resilience Gives Way to a Sober Outlook

Conservative assumptions in the FES—most notably a 1.0% real growth forecast for 2025 versus an updated estimate of 1.2%—have translated into revenue upside. The upward revision reflects strong Q3 2025 growth, pointing to greater-than-expected resilience to US trade policy headwinds.

Budget 2026 marginally raised the growth outlook for 2026 while it prudently cut medium-term projections (graph 4). Real growth is expected to slow to 1.0% in 2026 before recovering to 1.7% in 2027 and 1.8% in 2028, trailing both our expectations and private-sector averages.

Graph 4
Ontario's Real GDP Growth Forecast Revised with Greater Uncertainty



The government shed light on the uncertainty of US trade policy by providing two alternative growth scenarios. The faster-growth scenario assumes a near-term removal of trade barriers, while the slower-growth scenario assumes a US withdrawal from Canada-United States-Mexico Agreement (CUSMA), the imposition of 12% tariffs on Canadian exports, and the continuation of existing Section 232 measures. This closely resembled the adverse CUSMA review scenario [we published recently](#). The faster-growth scenario brings the budget close to balance by FY2028, while the slower-growth

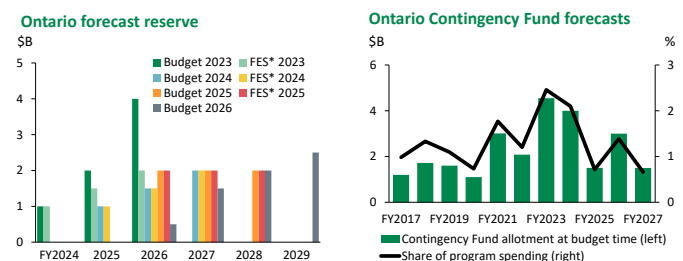
scenario adds \$17.1B in cumulative deficits over the three-year planning horizon. Risks related to geopolitical developments in the Middle East are not reflected in the assumptions and could materially affect the inflation trajectory.

Prudence Remains the Guiding Principle

Prudence embedded in earlier forecasts has proven an effective fiscal buffer, helping to keep Ontario's debt metrics broadly on track despite a higher spending profile. A similar degree of prudence remains in Budget 2026, preserving some fiscal wiggle room and potential upside.

This prudence was embedded in several forms: economic forecasts remain modestly below private-sector averages; forecast reserves totaling \$6B over the next three years provide protection against unforeseen shortfalls; and Operating and Capital Contingency Funds, booked as expenses, amount to \$1.5B in FY2027 (graph 5).

Graph 5
Budget 2026 Contains Ample Buffer



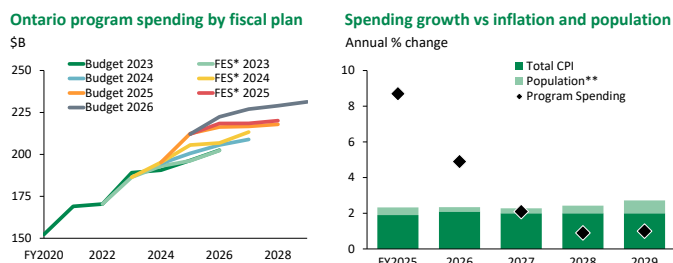
Lifted Spending Centres on Health Care

With an improved revenue outlook, the province lifted near-term spending, driving the majority of the bottom-line deterioration. Program spending is anticipated to exceed the FES projections by \$4.0B in FY2026, \$8.5B in FY2027 and \$8.9B in FY2028, reflecting higher costs in the health care sector. Despite a lower starting point, interest and debt-servicing costs are expected to be \$1.2B higher over FY2027 and FY2028 compared with the FES plan.

While program spending projections have been revised higher, the growth rate remains contained and below the combined pace of population growth and inflation (graph 6 on page 4). Program spending is projected to grow at a 2.2% average annual rate over the three-year horizon from FY2026 to FY2029, driven largely by sustained increases in health care spending, which rises at roughly 4% annually to meet growing demand. This implies continued restraint across other programs.

Graph 6

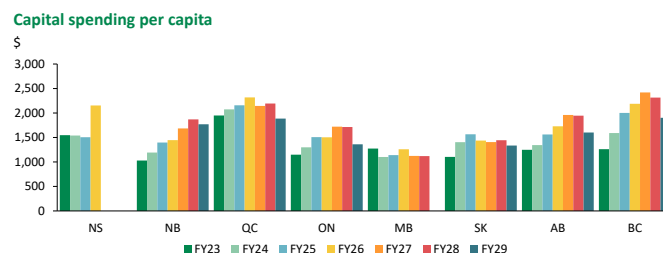
Spending Expected to Increase but Growth Remains Contained



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

Graph 7

Ontario Ramping Up Capital Spending to Support Growth



Provincial Budget Documents and Desjardins Economic Studies

Targeted Policy Measures Weigh on the Bottom-Line

The government delivered on the province's Tax Action Plan through several material tax policy measures. Most significant is expanding the elimination of the full 13% HST to all eligible buyers of new homes valued up to \$1M for a period of one year, before reverting back to first-time buyers only. In total, the measure delivers nearly \$2.2B in tax relief in FY2027, including \$1.4B from the province and \$0.8B from the federal government. The government also reduced the small-business corporate income tax rate, offering an additional \$1.1B relief over the next three years.

The budget unveils another record-high capital spending plan. The upgraded Capital Plan totals \$211B over the next decade, \$10B higher than the previous plan. That includes \$37B in FY2027, marking a further 14% increase from an already elevated FY2026 level. This ambitious build-out lifts Ontario's capital spending closer to peer jurisdictions, following a prolonged period of consistently lagging behind other provinces (graph 7).

The province also launched the previously announced Protect Ontario Account Investment Fund, committing up to \$4B to crowd in investment from pension funds and other private capital. The fund is intended to advance Ontario's long-term economic and strategic priorities, such as artificial intelligence, defence, advanced manufacturing, life sciences, biotechnology and research and development in the critical minerals sector.

Borrowing and Financial Market Developments

Increases to funding requirements are mostly due to larger projected deficits and borrowing for the Protect Ontario Account Investment Fund. Total long-term borrowing is now expected to reach \$58.6B in FY2026, \$47.2B in FY2027, \$43.1B in FY2028, and \$42.7B in FY2029. The FY2027 and FY2028 projections represent a combined \$15.1B increase versus FES forecasts. Table 2 updates borrowing program projections.

FY2026 borrowing exceeded FES projections by \$16.1B despite a lower projected deficit. With Ontario's spreads the among the tightest across provinces, particularly at the long end, favourable

TABLE 2

Updated Ontario Borrowing Program

IN \$B (UNLESS OTHERWISE INDICATED)	2025–26			2026–27			2027–28			2028–29
	Bud 2025	FES* 2025	Bud 2026	Bud 2025	FES* 2025	Bud 2026	Bud 2025	FES* 2025	Bud 2026	Bud 2026
Deficit/(Surplus)	14.6	13.5	12.3	7.8	7.8	13.8	(0.2)	(0.2)	6.1	(0.6)
Investment in Capital Assets	23.1	23.1	24.4	23.7	23.8	28.0	20.1	20.2	28.0	22.4
Pre-funding for Protect Ontario Account	—	—	5.0	—	—	—	—	—	—	—
Amortization of Capital Assets	(9.1)	(9.1)	(9.1)	(9.3)	(9.3)	(10.2)	(10.1)	(10.1)	(10.5)	(11.4)
Non-Cash and Cash Timing Adjustments	(3.1)	(3.1)	(2.1)	(3.4)	(3.4)	(2.5)	(4.3)	(4.3)	(2.7)	(3.5)
Net Loans and Investments	1.2	2.5	2.4	(0.1)	2.4	5.2	—	1.4	5.6	4.9
Debt Maturities/Redemptions	33.1	33.1	33.1	26.9	26.9	26.9	27.5	27.5	27.5	30.7
Total Funding Requirement	59.8	60.0	65.9	45.6	48.2	61.2	33.0	34.5	54.1	42.7
Decrease/(Increase) in Short-Term Borrowing	(5.0)	(5.5)	(5.5)	(2.5)	(5.5)	(6.0)	—	—	(6.0)	—
Increase/(Decrease) in Cash and Cash Equivalents	(12.0)	(12.0)	(1.8)	(2.0)	(2.0)	(8.0)	—	—	(5.0)	—
Total Long-Term Borrowing	42.8	42.5	58.6	41.1	40.7	47.2	33.0	34.5	43.1	42.7

* Fall Economic Statement

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market conditions have enabled the province to pre-fund a portion of its FY2027 borrowing needs, as well as borrowing requirements associated with the Protect Ontario Account. The province also plans to increase short-term borrowing by \$6.0B over FY2027 and FY2028.

The province continues to diversify its debt profile by expanding access to international markets, increasing offshore issuance while fully hedging foreign-currency exposure. In FY2026, 59% of completed borrowing was denominated in Canadian dollars, raised through 35 syndicated offerings, one floating rate note, two Green Bonds, and one floating-rate Green Bond. Reflecting favourable conditions in global capital markets, Ontario has adjusted its domestic borrowing guidance downward to a 60%–80% range for FY2027, allowing greater use of foreign capital to optimize funding costs.