

ECONOMIC VIEWPOINT

Ontario Budget 2026 Preview: On the Cusp of Surplus?

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HIGHLIGHTS

- ▶ Despite a tough 2025 for the Ontario economy, the province's fiscal position has bucked the national trend by seeing a steady improvement relative to its Budget 2025 outlook.
- ▶ Much of this is because of higher revenues resulting from better-than-expected economic performance and projection. Upward revisions to historical GDP have also helped to reduce the level of deficits and net debt as a share of the economy.
- ▶ When the Government of Ontario releases its 2026 budget on March 26, we think it should capitalize on this tax tailwind by resisting the temptation to materially increase spending, as the federal government and some other provinces have done. Instead, it should keep some fiscal powder dry to contend with potential future shocks, such as the impending Canada-United States-Mexico Agreement (CUSMA) joint review.

It hasn't been easy for Ontario since the province's post-election budget was tabled in May of last year. In Q2 2025 alone, real GDP shrank by 2.7% annualized due to one of the sharpest quarterly drops in export volumes on record. Manufacturing has been particularly challenged, as exorbitant tariffs on steel and auto exports have hit those industries hard. But through it all, the provincial government has not just managed to hold the line on the deficit. Instead, it has actually reduced its near-term deficit with every new fiscal forecast published since [Budget 2025](#) (graph 1). And with Ontario's 2026 budget coming on March 26, we think there is reason to believe this pattern could continue, bucking the trend toward larger deficits observed in other provinces.

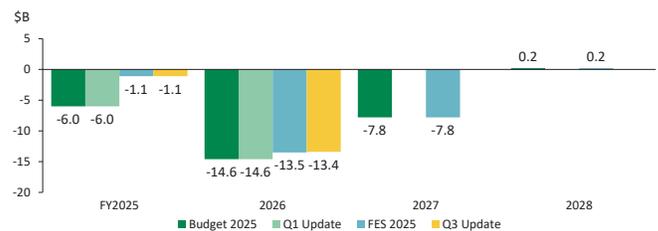
It's the Economy

It goes without saying that the starting point for any fiscal forecast is the economic outlook. While a lot of focus tends to be put on real GDP, nominal GDP is more important from a fiscal perspective, as it's considered the broadest measure of the overall tax base. And Ontario has benefitted from a couple of recent developments in that regard.

Graph 1

Near-Term Ontario Deficits Have Diminished Since Budget 2025

Ontario budget balance projections



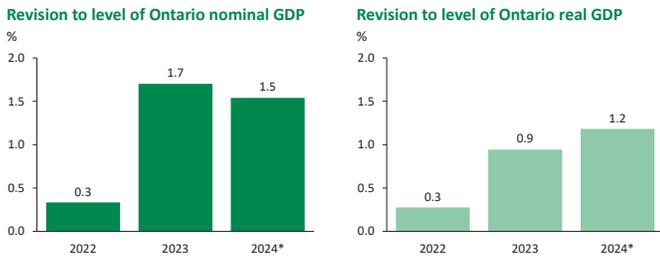
FES: Fall Economic Statement
Government of Ontario and Desjardins Economic Studies

First are the historical revisions to GDP. On November 6, 2025, Statistics Canada published its historical revisions to 2022 and 2023 real and nominal GDP, and first estimate of 2024 GDP. That same day, the Government of Ontario released its [Fall Economic Statement \(FES\)](#), meaning these revisions weren't reflected in its fall fiscal forecasts. As we outlined in our [February 2026 Provincial Economic Outlook](#), every province saw an increase in its historical output, and Ontario was no exception. Both real and nominal GDP were revised higher in the Heartland Province, and

the level of output in 2024 was greater than expected in the FES 2025 as a result (graph 2). While not having an impact on past levels of deficits and debt, it implies that these fiscal indicators were smaller as a share of the economy than previously assumed.

increasing by nearly the same amount as the upward revision to revenues (graph 4, right). That said, the economic data point to the possibility of additional upside for revenues ahead which, if not matched by higher program spending, could lead to smaller-than-planned deficits. It could also increase the odds of returning to surplus in FY28.

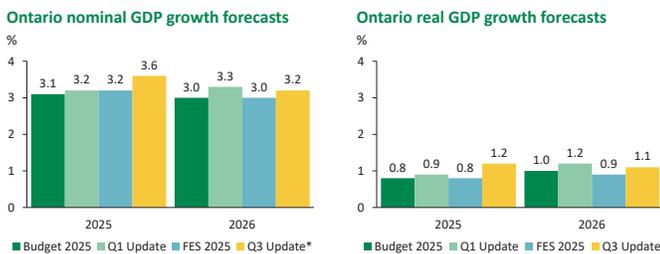
Graph 2
Ontario GDP Was Revised Meaningfully Higher in Recent Years



* Revision is relative to the forecast in the Government of Ontario's Fall Economic Statement 2025
Statistics Canada, Government of Ontario and Desjardins Economic Studies

Second, in addition to an improved starting point for Ontario's economic forecast, the outlook for economic growth has also gradually increased (graph 3). Indeed, Ontario's economy has proven more resilient than anticipated a year ago, as the headwinds of US tariffs and slowing population growth proved less severe than feared. This points to a stronger outlook for revenue growth, all else being equal. And when combined with a higher level of GDP historically, this supports a further improvement in Ontario's fiscal metrics.

Graph 3
GDP Growth Forecasts Have Been Gradually Revised Higher

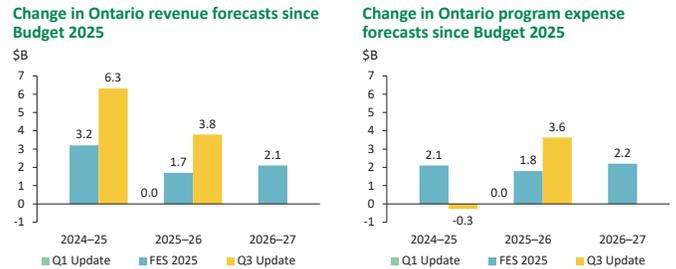


FES: Fall Economic Statement
*Nominal GDP growth assumes GDP inflation remains unchanged from the FES 2025
Government of Ontario and Desjardins Economic Studies

Taxing and Spending

Over the course of the last year, the better-than-expected economic performance of Canada's largest province has helped to propel revenues higher than previously projected (graph 4, left). But while this led to a marked improvement in the estimated budget deficit in the 2024–25 fiscal year (FY25), from -\$6.0B to -\$1.1B, the latest estimate for the FY26 deficit is little changed. That largely reflects the outlook for spending

Graph 4
Revenues Revised Higher but So Was Program Spending This Year

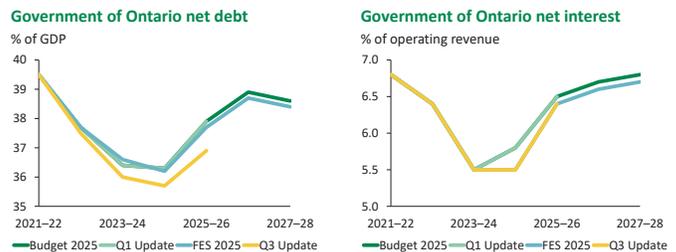


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Don't Take the Bait of Lower Debt Ratios

The higher level of nominal GDP historically and better growth outlook ahead point to a stronger revenue outlook. In addition, deficits and debt as a share of GDP will be smaller even if they are unchanged in dollar terms. Ontario's Q3 finances for FY26 provided a clear illustration of this unexpected denominator effect (graph 5). Largely because of the upward revision to the level of nominal GDP, the province's net debt-to-GDP ratio in FY26 is expected to go from 37.7% as reported in the November 2025 FES to 36.9% in the Q3 Update published in February of this year. And that follows a previously improved outlook for Ontario's debt service costs.

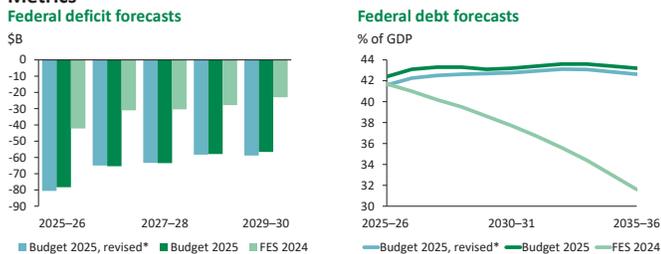
Graph 5
Upward Revisions to GDP Supported an Improvement in Debt Metrics



FES: Fall Economic Statement
Government of Ontario and Desjardins Economic Studies

For many governments, when they receive an unexpected improvement in their deficit and/or debt outlook, there is a temptation to increase expenditures. That could allow them to keep their debt-to-GDP path broadly unchanged or even slightly improved, while still being able to boost spending. Indeed, we've seen this recently at the [federal level](#), with the fiscal room created by the upward revisions to nominal GDP having been largely absorbed by new fiscal commitments (graph 6). These include an increase in the GST/HST Credit (the Canada Groceries and Essentials Benefit) and increased defence spending to reach 2% of GDP by the end of FY26. There has been some evidence of increased spending plans in other provinces as well during the early part of the 2026 budget season.

Graph 6
New Spending Has Largely Reversed the Improvement in Federal Fiscal Metrics



FES: Fall Economic Statement
 *Adjusted for National Accounts revisions, Desjardins's February 2026 Economic and Financial Outlook and the Canada Groceries and Essentials Benefit
 Government of Canada, Office of the Parliamentary Budget Officer and Desjardins Economic Studies

With this in mind, we think the Government of Ontario would be wise to keep some fiscal powder dry after receiving the windfall of upwardly revised nominal GDP. That could help keep the planned surplus in FY28 on track. Maintaining the reduction in the net debt-to-GDP ratio published in the province's Q3 update would set it apart from its peers, who have seen their debt ratios increase or remain unchanged so far this budget season. This could further narrow Ontario's yield spreads with Government of Canada bonds, restraining borrowing costs and further expanding fiscal room to contend with future shocks. The big risk on the horizon for the Ontario economy is the Canada-United States-Mexico Agreement (CUSMA) joint review, and our [analysis](#) suggests the risks to the current trade environment with the US are tilted to the downside. Best to prepare for the worst, even as one hopes for the best.