

BUDGET ANALYSIS

Ontario: Fall Economic Statement 2026

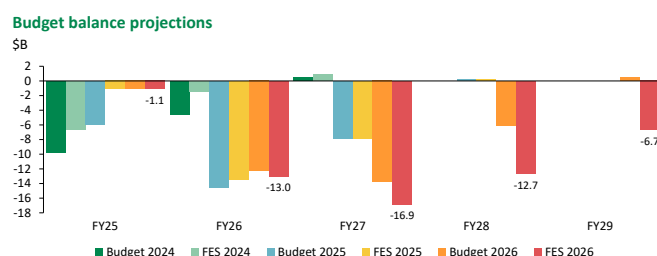
Revenue Headwinds Warrant a Prudent Plan

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

HIGHLIGHTS

- ▶ Ontario's 2026 Fall Economic Statement (FES) widens the deficit projections in every year of the plan and pushes balance back another year to FY29–30 (FY30). The FY27 deficit is now projected to be \$16.9B (1.3% of nominal GDP), up from \$13.8B (1.1%) in Budget 2026. It then narrows to \$12.7B in FY28 and \$6.7B in FY29, before turning a small surplus in FY30 (graph 1). Table 1 on page 2 summarizes the key fiscal indicators.
- ▶ The deterioration is mainly due to increased buffer for future spending and lower-than-expected growth in tax revenues. About \$7.4B of the \$16.9B cumulative deterioration comes from a larger reserve and a top-up to the Contingency Fund. On revenue, a \$2.0B gain this year turns into shortfalls of \$3.9B and \$4.9B in the outer years.
- ▶ Debt ratios are drifting higher despite a stronger nominal GDP starting point. Net debt-to-GDP edges down to 37.4% in FY27 but rises to a peak of 38.9% in FY29, compared with a peak of 38.5% in FY28 in Budget 2026. It is projected to ease in FY30 once the budget is balanced. Interest-to-revenue also climbs, reaching the province's 7.5% ceiling outlined in its Debt Burden Reduction Strategy in FY29.
- ▶ Growth-oriented measures dominate new policy announcements. Matching the federal Productivity Mega Deduction delivers more than \$8B in business tax relief over five years and is expected to attract at least \$11B in additional investment. Its cost is largely covered by a larger reserve. The FES adds expanded R&D credits, wider access to tariff-relief funds and loans, and a joint federal–provincial auto and steel package. New program spending is limited to \$1.4B over three years (FY27 to FY29).
- ▶ Total funding requirements have increased relative to Budget 2026 by \$13.5B over the three fiscal years starting in FY27. Most of the extra funding still comes from the long-term market, where borrowing increased by \$11.5B over the period. FY27 long-term borrowing is forecast at \$51.1B compared with \$47.2B in Budget 2026, and the province had completed \$36.3B, or 71%, of this year's program by October 8. Requirements are also higher than planned in the outer years: \$48.0B in FY28 (vs. \$43.1B) and \$45.4B in FY29 (vs. \$42.7B). Ontario is leaning more on the short end, adding \$8.0B of short-term debt this year compared with \$6.0B planned, and launching a Euro-Commercial Paper programme.

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



FES: Fall Economic Statement
Ontario Ministry of Finance and Desjardins Economic Studies

TABLE 1
Updated Ontario Fiscal and Economic Forecasts

IN \$B (UNLESS OTHERWISE INDICATED)	2025–26		2026–27		2027–28		2028–29		2029–30
	Bud 2026	Actual	Bud 2026	FES* 2026	Bud 2026	FES* 2026	Bud 2026	FES* 2026	FES* 2026
Total Revenues	226.6	223.3	231.9	232.6	243.4	238.2	254.1	247.9	257.8
% change	0.2	-1.3	2.3	4.2	5.0	2.4	4.4	4.1	4.0
Own-Source Revenues	187.5	184.2	192.1	191.9	203.3	198.3	213.7	207.7	217.4
% change	-1.1	-2.8	2.5	4.2	5.8	3.3	5.1	4.7	4.7
Federal Transfers	39.1	39.1	39.8	40.7	40.1	39.9	40.4	40.2	40.4
Total Spending	238.4	236.4	244.2	247.3	247.5	247.3	251.1	250.7	253.9
% change	4.9	4.0	2.4	4.6	1.4	0.0	1.5	1.4	1.3
Program Spending	222.4	220.9	227.0	229.9	229.0	228.4	231.3	230.3	232.8
% change	4.9	4.1	2.1	4.1	0.9	-0.7	1.0	0.8	1.1
Debt Servicing	16.0	15.5	17.2	17.4	18.6	18.9	19.7	20.4	21.1
Interest-to-Revenue**	6.3	6.0	6.7	6.7	6.9	7.2	7.1	7.5	7.5
Reserve	0.5	0.0	1.5	2.2	2.0	3.6	2.5	3.8	3.8
Budget Balance	-12.3	-13.1	-13.8	-16.9	-6.1	-12.7	0.5	-6.6	0.1
% of GDP	-1.0	-1.1	-1.1	-1.3	-0.5	-0.9	0.0	-0.5	0.0
Net Debt (% of GDP)	36.8	36.5	37.7	37.4	38.5	38.7	38.2	38.9	38.3
Nominal GDP (% change)	4.2	4.1	3.2	3.7	3.9	3.8	3.7	3.9	4.0
Real GDP (% change)	1.2	1.3	1.0	0.5	1.7	1.5	1.8	1.8	2.0
Infrastructure Spending	34.7	31.1	38.6	38.6	38.0	38.0	29.9	29.9	N/A

* Fall Economic Statement.

** (Interest and Other Debt Servicing Charges - Interest & Investment Income) / (Total Revenue - Interest & Investment Income)

Ontario Ministry of Finance and Desjardins Economic Studies

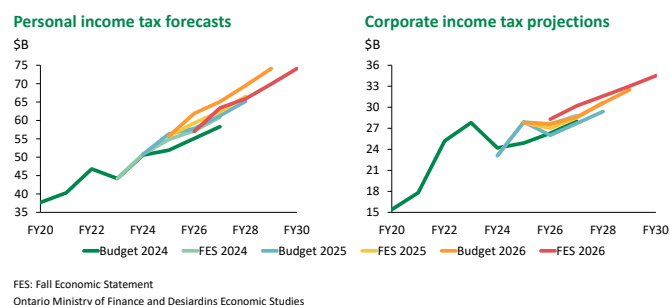
Key Takeaways

Ontario entered more turbulent waters since Budget 2026, and its FES 2026 reflects that. US Section 232 and Section 338 tariffs have hit many of the province's industries, and the Iran war has pushed up energy prices and added to cost pressures. The deficit is wider in every year of the plan, reaching \$16.9B in FY26-27 (FY27), \$12.7B in FY28 and \$6.7B in FY29. Balance has been pushed back a year to FY30.

The current year deterioration is driven by a top-up in the Contingency Fund, likely associated with compensation pressures in the health care sector. Revenue remained largely intact.

In the outer years, weaker revenue explains much of the deterioration (graph 2). Revenue shortfalls of \$3.9B in FY28 and \$4.9B in FY29 come mainly from lower tax revenue. Personal income tax is the main reason. The Canada Revenue Agency's processing of 2025 tax returns came in weaker than expected, which lowers the base the outer-year forecast is built on.

The Productivity Mega Deduction affects the deficit through the reserve rather than the revenue forecast. Compared with Budget 2026, the reserve is \$3.6B higher over three years,

Graph 2
Ontario's Revenue Forecast Revised Lower


covering the estimated cost of matching the proposed federal deduction.

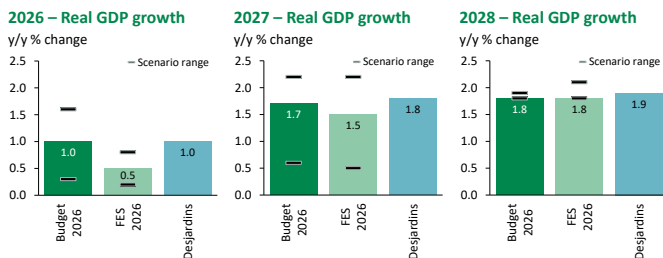
Achieving the path to balance still hinges on aggressive spending discipline. Ontario plans to limit program spending growth to an average of 0.4% a year from FY27 to FY30. That is well below projected revenue growth of 3.5%, and it is what gets the books back to balance by FY30.

Economic Outlook Prudent and Offers Upside

The FES lowers real GDP growth to 0.5% in 2026 and 1.5% in 2027, down from 1.0% and 1.7% in Budget 2026 (graph 3). The outer years are unchanged at 1.8% in 2028 and 2.0% in 2029. Nominal GDP has held up much better. A higher GDP deflator lifts 2026 nominal growth to 3.7% from 3.2%, while 2027–29 is broadly unchanged at 3.8%–4.0%.

Graph 3

Ontario's Lower Real GDP Growth Forecast Provides Potential Upside



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

The real growth assumptions look prudent, especially given how well Ontario's economy has held up. Real GDP was flat in Q1 and then [rose 4.2% q/q annualized in Q2](#), led by a rebound in auto exports along with gains in household spending and business investment. [We have upgraded our outlook](#) since the summer and now expect an investment-led rebound next year supported by new tax deductions on investment and a de-escalation in Canada-US trade tensions. If that momentum holds, there is meaningful upside to the province's revenue.

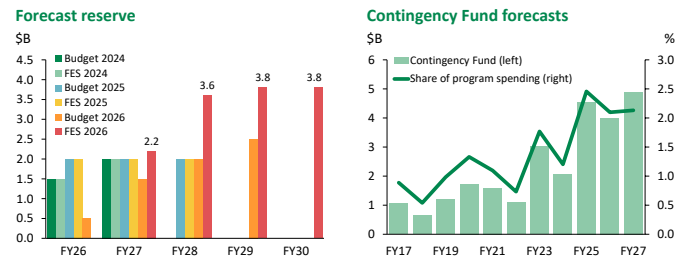
The government shed light on the uncertainty of US trade policy by providing two alternative growth scenarios. The faster-growth scenario assumes that most US tariffs and Canadian countermeasures are removed in the near term, with real growth reaching 2.2% in 2027. The slower-growth scenario assumes a US withdrawal from CUSMA, with the Section 232 tariffs and the newly implemented Section 338 tariffs staying in place and Canada's retaliatory tariffs maintained. Under that scenario, real growth slows to 0.2% in 2026 and 0.5% in 2027. Under the faster-growth scenario, the province would post a \$1.3B surplus in FY29, a year earlier than planned. Under the slower-growth scenario, deficits stay elevated at \$18.5B, \$17.8B and \$14.4B over the three-year horizon, adding \$14.4B in cumulative deficits.

Building Up the Buffer

Ontario has met the more uncertain outlook by setting aside more money (graph 4). Most of this year's increase in spending is a \$3.8B top-up to the Contingency Fund, which brings its FY27

Graph 4

Ontario's 2026 FES Added Additional Fiscal Buffer



FES: Fall Economic Statement
Ontario Ministry of Finance and Desjardins Economic Studies

balance to \$4.9B. The province has earmarked the money for compensation pressures, unforeseen risks and possible support measures if US trade tensions escalate further.

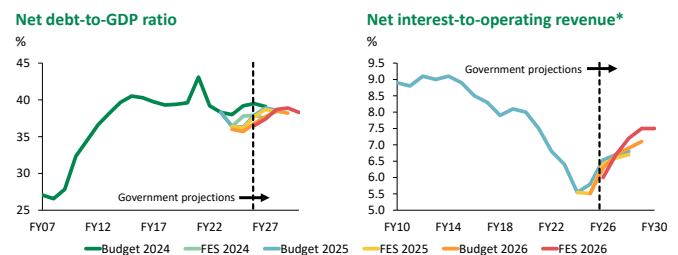
The reserve has also grown, reaching \$2.2B in FY27, \$3.6B in FY28 and \$3.8B in FY29. That is \$3.6B more over three years than in Budget 2026. Part of the increase covers the estimated cost of matching the recently announced federal Productivity Mega Deduction. The deduction depends on federal legislation, so the province has provided for its cost through the reserve instead of building it into the revenue forecast.

Debt Metrics Edge Toward Their Ceilings

The FES points to a higher debt trajectory than Budget 2026. Thanks to stronger nominal GDP, the province starts from a lower base: net debt-to-GDP is forecast at 37.4% in FY27, compared with 37.7% (graph 5). But wider deficits and a capital plan that remains heavy through FY28 push the ratio to 38.7% in FY28 and a peak of 38.9% in FY29. In Budget 2026, the ratio peaked at 38.2%. It then eases to 38.3% in FY30 as the budget returns to balance. The ratio stays below the province's 40% target throughout the outlook, and it is likely an upper bound estimate given prudent planning.

Graph 5

Higher Debt Ratios for Ontario



FES: Fall Economic Statement; * Excludes interest and investment income.
Ontario Ministry of Finance and Desjardins Economic Studies

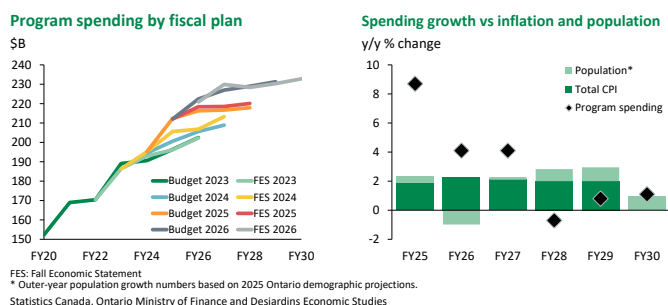
Debt-servicing costs are a more immediate concern. Interest charges are now projected to be \$1.2B higher than in Budget 2026 over three years, partly reflecting higher borrowing rate assumption (4.4% vs. 4.3%). Debt servicing costs grow faster than revenue, which pushes interest-to-revenue higher in the outer years. Interest-to-revenue is projected to climb from 6.7% this year to 7.2% in FY28 and 7.5% in FY29, right at the province's target outlined in its Debt Burden Reduction Strategy.

Holding the Line on Spending, for Now

The FES kept new spending announcements light and kept the program spending plan largely intact. Base program spending is just \$0.4B above the Budget 2026 plan, mostly for the Ontario New Home Affordability Payment and the wildfire response. Most of this year's increase in program spending comes from the one-time \$3.8B top-up to the Contingency Fund. Once that top-up drops out, program spending falls to \$228.4B in FY28 and then rises gradually to \$232.8B in FY30. That works out to average growth of 0.4% a year from FY27 (graph 6).

Graph 6

Program Spending Growth Remains Intact as Spending Pressure Mounts



Health care spending continues to drive expenditure growth. Health spending is projected to grow about 2.7% a year from FY27 to FY29, well ahead of overall program spending. For the overall plan to hold, spending in other areas has to stay flat or shrink.

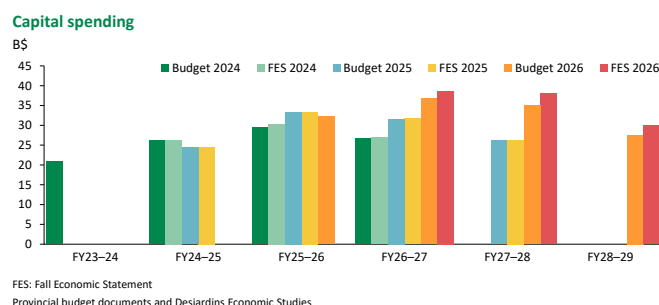
Holding the line won't be easy. Recent revisions show the population slowdown has been milder than first estimated, and higher energy prices have pushed inflation up. Population growth plus CPI inflation is expected to run near 3% a year in FY28 and FY29. Over the same years, program spending falls 0.7% and then rises 0.8%. That implies real per-capita cuts in a period when demand for health care, education and social services is rising.

The Build-Out Continues

The budget unveils another record-high capital spending plan. The upgraded Capital Plan totals \$235.5B over the next decade, \$25B higher than the previous plan. That includes \$39B in FY27, marking a further 20% increase from an already elevated FY26 level (graph 7).

Graph 7

Ontario Ramping Up Capital Spending to Support Growth



Borrowing and Financial Market Developments

Funding needs have increased, but Ontario's borrowing is running ahead of schedule. Long-term borrowing for FY27 is now \$51.1B, \$3.9B more than in Budget 2026. The province had already completed \$36.3B, or 71%, of that program by October 8. Over the three years starting in FY27, long-term borrowing is \$11.5B higher than in the spring plan (table 2 on page 5). Liquidity is also strong, with average liquid reserves of \$49.4B at the end of September.

The province is relying more on short-term debt. It plans to add \$8.0B of short-term borrowing this year, up from \$6.0B in the spring plan, which brings outstanding short-term debt to \$41.5B. A new Euro-Commercial Paper programme will sit alongside its US commercial paper program. With short rates below long rates, this lowers costs today but leaves more debt to refinance if rates move higher. Ontario also continues to broaden its investor base: about 36.5% of this year's borrowing has been in foreign currencies, including its first Australian-dollar deal. Additionally, the province plans a Security and Resilience Bond to fund defence projects, the first of its kind from a Canadian province.

The market reaction was relatively modest. Ontario spreads widened intraday as investors absorbed the larger deficits and higher debt metrics, but they remained among the tightest of the provinces and well below the province's historical averages. Prudent planning and restraint on new policy announcements position the province well in an uncertain environment.

TABLE 2
Updated Ontario Borrowing Program

IN \$B (UNLESS OTHERWISE INDICATED)	2026–27		2027–28		2028–29	
	Bud 2026	FES* 2026	Bud 2026	FES* 2026	Bud 2026	FES* 2026
Deficit/(Surplus)	13.8	16.9	6.1	12.7	-0.6	6.7
Investment in Capital Assets	28.0	28.0	28.0	28.0	22.4	22.4
Pre-funding for Protect Ontario Account	—	—	—	—	—	—
Amortization of Capital Assets	-10.2	-10.2	-10.5	-10.5	-11.4	-11.4
Non-Cash and Cash Timing Adjustments	-2.5	-3.2	-2.7	-4.3	-3.5	-4.8
Net Loans and Investments	5.2	5.7	5.6	5.5	4.9	4.8
Debt Maturities/Redemptions	26.9	26.9	27.5	27.5	30.7	30.7
Total Funding Requirement	61.2	64.1	54.1	59.0	42.7	48.4
Decrease/(Increase) in Short-Term Borrowing	-6.0	-8.0	-6.0	-6.0	—	—
Increase/(Decrease) in Cash and Cash Equivalents	-8.0	-5.0	-5.0	-5.0	—	-3.0
Total Long-Term Borrowing	47.2	51.1	43.1	48.0	42.7	45.4

* Fall Economic Statement

Ontario Ministry of Finance and Desjardins Economic Studies

Bottom Line

The consolidation path has narrowed for Ontario. Wider deficits and higher debt metrics running up against the province's own targets leave Ontario less room for error. Still, the planning assumptions look conservative given the economy's resilience this year, so there's some upside. Outside the matching of the Productivity Mega Deduction, the FES keeps new policy announcements light, which signals the province's continued commitment to consolidation. The province also has a growth-enabling agenda that fits the macro backdrop, including investment tax relief, an enhanced capital plan, faster permitting and the build-out of mining and nuclear projects.