Scotiabank

GLOBAL ECONOMICS

FISCAL PULSE

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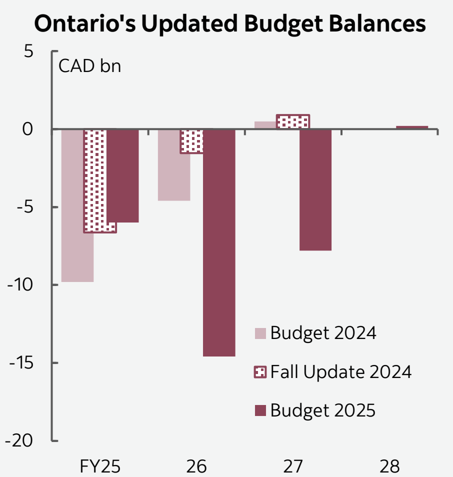
Contributors

Mitch Villeneuve
Director, Economic Policy
Scotiabank Economics
416.350.1175
mitch.villeneuve@scotiabank.com

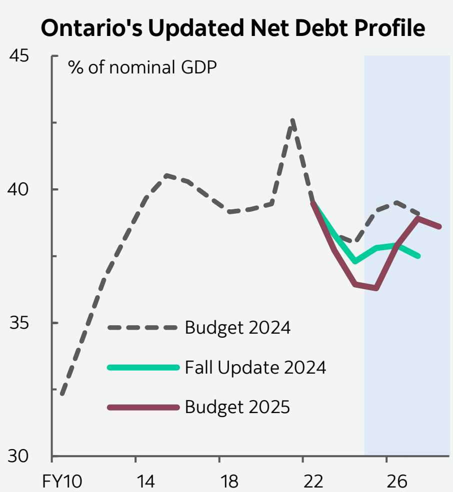
John Fanjoy
Economist
Scotiabank Economics
416.866.4735
john.fanjoy@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Ontario Finance.

Chart 2



Sources: Scotiabank Economics, Ontario Finance.

Ontario: 2025–26 Budget

DEFICITS TO RISE ON WEAKER GROWTH AND NEW MEASURES TO ADDRESS TARIFF IMPACTS

- **As previewed over the last week, the Ontario government is pushing back its planned return to balance by a year with a budget that significantly marks down growth expectations due to the U.S. tariffs, as well as announces a range of tax and spending measures to support workers and businesses. The deficit is projected to double this year, but remain at a manageable level, and net debt is projected to stay below the targeted 40% of GDP—in part due to the stronger-than-expected GDP growth in 2024. In addition, the fiscal plan includes considerable contingency amounts, which could help the government overperform these projections, especially if the tariff war impacts are ultimately more modest.**
- **Budget balance forecasts: deficits are expected to increase from -$6.0 bn (-0.5% of nominal GDP) in FY25 to -$14.6 bn (-1.2%) in FY26 before returning to balance ($0.2 bn, 0%) in FY28 (chart 1).**
- **Economic assumptions: real GDP is expected to increase by 0.8% in 2025 and 1.0% in 2026 as uncertainty and U.S. tariffs weigh on the outlook before improving to 1.9% thereafter, while providing faster and slower growth scenarios.**
- **Net debt: starting from a lower share of nominal GDP at 36.3% in FY25 and increasing to a peak of 38.9% in FY27 before marginally improving to 38.6% in FY28 (chart 2).**
- **Borrowing requirements: expected to be $42.8 bn in FY26, $41.1 bn in FY27, and $33.0 bn in FY28.**

OUR TAKE

Ontario's 2025 budget presents a marginally improved handoff compared to the fall update before expecting the deficit to more than double this year, with plans of reaching a balanced budget two years later through restrained expenditure growth. The budget balance of -$6.0 bn (-0.5% of nominal GDP) for fiscal year 2024–25 (FY25) is marginally improved from the -$6.6 bn (-0.6%) deficit presented in the mid-year update, and is projected to increase to -$14.6 bn (-1.2%) in FY26 as a result from higher spending and weaker total revenue. The deficit is then expected to halve to -$7.8 bn (-0.6%) in FY27 before balancing at $0.2 bn (0% of nominal GDP) in FY28 owing to restrained fiscal spending growth and stronger revenue growth.

Budget 2025 adds $17.6 bn in total expenditure over FY26 and FY27 compared to the mid-year update, of which nearly two thirds ($11.7 bn) is allocated for the current fiscal year. In FY26, total expenditure is expected to be $232.5 bn, a 2.2% increase over the prior year, of which $216.3 bn is program spending and $16.2 bn is servicing debt. Total expenditure is then expected to increase by 0.5% in FY27 and 0.9% in FY28, as program spending grows by 0.2% and 0.6% over the same period. The budget adds $5.4 bn to health spending and $3.8 bn to education spending, as well as $3.7 bn to other program spending across FY26 and FY27 relative to the mid-year update. The budget will allocate $5 bn to what will be the newly created Protecting Ontario Account, which will provide up to $1 bn in immediate support to Ontario businesses and workers affected by tariff-related business disruptions.

Total revenue is projected to decrease by -0.8% year-over-year to $219.9 bn in FY26, as weaker own-source revenue ($181.1 bn, -2.2% y/y) is only partially offset by higher federal transfers ($38.8 bn, 6.6% y/y). The budget also includes $1.3 bn over three years in support to businesses through the Ontario Made Manufacturing Investment Tax Credit.

Total revenue is then expected to increase by 3.6% y/y and 4.4% in FY27 and FY28 respectively, as the primary driver of the return to a balanced budget by the outer year.

The economic assumptions underpinning the main outlook in the budget expect weaker growth over the next two years from uncertainty and U.S. tariffs. Real GDP is projected to increase by 0.8% in 2025 and 1.0% in 2026, before improving to 1.9% in the outer years. Meanwhile, nominal GDP is projected to grow 3.1% and 3.0% in 2025 and 2026 respectively before increasing 4.0% in the outer years. In the budget's faster growth scenario which assumes that most tariffs and countermeasures are removed in the near term, real GDP is projected to increase by 1.6% in 2025 and 1.8% in 2026 which corresponds with a more favourable budget balance outlook of -$12.3 bn in FY26 and -$2.5 bn in FY27 with a surplus of $7.3 bn in FY28. Whereas the slower growth scenario which assumes the U.S. imposes tariffs 10% on energy products and 25% on all other Canadian goods for the forecast horizon, real GDP growth is expected to be flat (0.0%) in 2025 and -0.4% in 2026, before increasing 1.9% each year thereafter, which would result in bigger deficits of -$17.1 bn in FY26 that shrink to -$7.7 bn by FY28.

Net debt as a share of nominal output starts from a lower handoff point and is projected to increase over most of the horizon to a higher peak compared to the mid-year update, before declining in the outer year. Net debt as a share of nominal GDP is projected to increase from 36.3% in FY25 up to 38.9% in FY27 before marginally declining to 38.6% in FY28, which remains below the province's debt burden reduction strategy target of less than 40 percent. In the slower growth scenario, net debt-to-GDP could increase to 40.5% in FY27 and 40.7% in FY28, whereas in the faster growth scenario net debt-to-GDP could peak at 37.7% in FY27 before declining to 36.9% in FY28. Net debt-to-operating revenue is projected to increase from 195% in FY25 to above the 200% target from the debt burden reduction strategy in all three scenarios, before returning to target by FY32, or FY29 in the faster growth scenario.

Total long-term borrowing for FY25 is complete at $49.5bn, up from $37.5 bn planned in the mid-year update. Total long-term borrowing is expected to be $42.8 bn in FY26, $41.1 bn in FY27, and $33.0 bn in FY28.

Medium-Term Fiscal Projections
$ billions except where noted

	FY25		FY26		FY27		FY28
	Oct. '24	May '25	Oct. '24	May '25	Oct. '24	May '25	May '25
Total Revenue	**212.6**	**221.6**	**220.8**	**219.9**	**230.7**	**227.9**	**237.9**
Own-Source	176.3	185.2	184.5	181.1	193.1	188.6	198.1
Fed. Transfers	36.3	36.4	36.3	38.8	37.6	39.3	39.8
Total Expenditure	**218.3**	**227.6**	**220.8**	**232.5**	**227.8**	**233.7**	**235.7**
Programs	205.5	212.4	206.8	216.3	213.3	216.7	217.9
Health	86.0	89.3	88.1	91.1	90.0	92.4	93.6
Education	37.6	38.4	38.8	41.0	39.5	41.1	41.3
Other	81.9	84.7	79.9	84.2	83.8	83.2	83.0
Debt Service*	12.7	15.2	14.0	16.2	14.5	17.0	17.8
Reserve	**1.0**	—	**1.5**	**2.0**	**2.0**	**2.0**	**2.0**
Balance	**-6.6**	**-6.0**	**-1.5**	**-14.6**	**0.9**	**-7.8**	**0.2**
% of GDP	*-0.6*	*-0.5*	*-0.1*	*-1.2*	*0.1*	*-0.6*	*0.0*
Net Debt	**429.0**	**427.5**	**447.1**	**460.2**	**461.8**	**486.5**	**502.1**
% of GDP	*37.8*	*36.3*	*37.9*	*37.9*	*37.5*	*38.9*	*38.6*
Net Debt Service							
% of Revenue	*6.0*	*5.8*	*6.3*	*6.5*	*6.3*	*6.7*	*6.8*

* Beginning in Budget 2025, debt service charges are reported as gross instead of net due to an accounting change. This also increases reported revenues with the net impact being fiscally neutral.
Sources: Scotiabank Economics, Ontario Finance.