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Chart 1

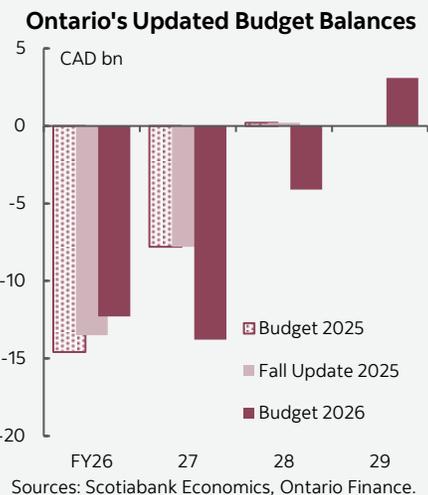
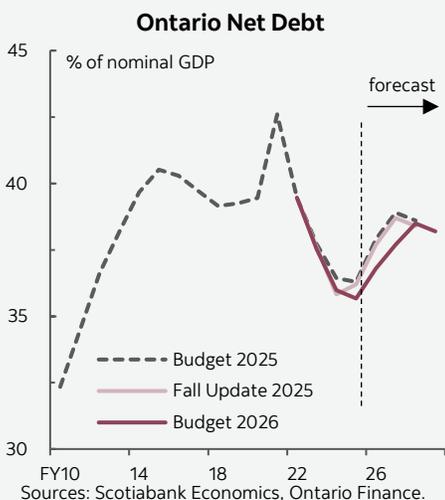


Chart 2



Ontario: 2026–27 Budget

HIGHER HEALTH SPENDING DRIVES INCREASE IN DEFICIT AND DELAY TO BUDGET BALANCE, BUT DEBT PATH IMPROVES

- Bottom line:** Higher health spending growth and a temporary HST holiday on new houses will lead the deficit to grow larger again next year, and the province is pushing back the planned return to balance by a year to FY28. The debt path is somewhat lower due to stronger growth and a lower deficit in the current fiscal year, as well as an accounting change starting next year. However, the economic assumptions pre-date the developments of the past month, and may need to be revised lower. In addition, this budget includes less prudence compared to last year's plan, which leaves it more exposed to downside risk.
- Budget balance:** Deficit of \$12.3 bn (1% of nominal GDP) in FY26, increasing to \$13.8 bn (1.1%) in FY27, before shrinking to \$6.1 bn (0.5%) in FY28 and a small surplus of \$0.6 bn (0%) in FY29 (chart 1).
- Economic assumptions:** Real GDP growth is projected to slow from an estimated 1.2% in 2025 to 1% in 2026, increasing 1.7% in 2027, and improving thereafter.
- Net debt:** A stronger handoff of 36.8% in FY26, increasing to 38.5% in FY28 before marginally declining to 38.2% in FY29 (chart 2).
- Borrowing requirements:** Falling from \$58.6 bn this year to \$47.2 bn in FY27 and \$43 bn in following two years, in part due to considerable pre-funding during the current fiscal year.

OUR TAKE

Stronger-than-expected growth in 2025 provides an improved handoff, but increased healthcare spending weighs on the bottom line. The budget balance for FY26 has improved to -\$12.3 bn (-1.0% of nominal GDP) relative to the fall update (-\$13.5 bn, -1.1%) and last year's budget (-\$14.6 bn, -1.2%). However, the province now expects larger deficits over the next two years with a return to balance pushed out to FY29.

The revenue outlook has been revised higher relative to last year's budget outlook. Total revenue for FY26 is projected to be \$226.6 bn, as stronger-than-expected growth and equity markets raise expected revenues from personal income taxes. Total revenue growth of 2.3% is expected for FY27, accelerating to 5% in FY28 and 4.4% in FY29, as improving economic activity drives a pick-up in revenue from personal income, sales, and corporate taxes. The revenue outlook includes the cost of perhaps the budget's biggest ticket item: the temporary removal of the full 13% HST for buyers of new homes valued up to \$1 mn (with a partial rebate for more expensive homes). The government expects this measure to stimulate 8,000 additional housing starts, and to provide total relief to buyers of new homes of \$2.2 bn—of which Ontario will bear \$1.4 bn in foregone revenue.

Much higher health spending has driven planned expenditures up. Cost pressures have driven health spending for FY26 up by 7% since the mid-year fiscal update. By FY29, planned health spending is 10% (nearly \$10 billion) higher compared to the previous projection (chart 3)—and will reach even higher if the growth rate in health spending doesn't slow to the projected 3% average for the coming years. Growth in other program spending is projected to be much lower (even turning negative in FY28 and FY29) in order to achieve overall expense growth of around 2% on average across the forecast horizon—below the projected roughly 3% growth in annual revenues to order to achieve a declining budgetary balance.

The budget includes some forecast buffers, but less than last year’s plan. Between the contingency budget in the expense outlook and the overall forecast reserve, this budget includes \$3 bn in explicit prudence for FY26. This represents roughly 1.3% of revenues for the year, and is down from the \$5 bn that was built into the fiscal framework last year.

The economic assumptions underpinning the budget expect soft growth to continue this year before improving in the outer years. Real GDP growth in 2025 is estimated to be 1.2%, up from the 0.8% in last year’s budget—providing a stronger handoff for the forecast horizon. Real GDP is projected to increase 1.0% in 2026 and 1.7% in 2027, and averaging 1.9% each year thereafter. However, the forecasts were finalized in mid-January and therefore did not take into account the developments since then, including the recent spike in oil prices and corresponding expected increase in inflation and interest rates. Our latest forecast anticipates Ontario’s real GDP growth a bit lower at 0.8% for this year, which would suggest that revenues could underperform by roughly \$250 mn.

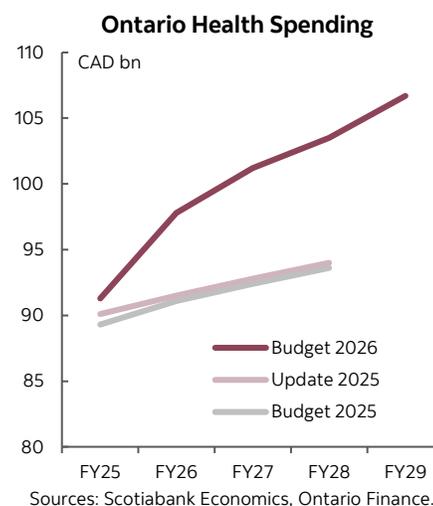
The province continues to make progress on some of its debt sustainability metrics. The net debt-to-GDP ratio for FY26 is now expected to come in nearly a full percentage point lower than projected in the mid-year update, reflecting a somewhat lower deficit and stronger nominal GDP growth. The debt burden is projected to remain below the government’s 40% target but on an upward trajectory—increasing to 38.5% in FY28, before marginally declining to 38.2% in FY29 (though absent a planned accounting change starting in FY27, the net debt numbers would be roughly 0.8 pts higher that year onward). The province’s interest-to-revenue ratio is projected to remain within the 7.5% target, increasing from 6.3% in FY26 to 7.1% in FY29. However, net debt-to-revenue is projected to remain above the province’s 200% target, increasing from 204% in FY26 to 213% in FY28 before declining to 210% in FY29.

The budget continues its good practice of estimating the fiscal impacts of illustrative upside and downside economic scenarios. The downside economic scenario involves the United States withdrawing from CUSMA, and growth therefore slowing considerably. In this scenario, the deficit falls only to \$8 bn by FY29, the debt burden increases to 40.4%, and the interest-to-revenue ratio rises to 7.6%. The faster growth scenario is based on an acceleration in growth driven by the removal of most tariffs. In this case, the province estimates that the budget would be roughly balanced in FY28 (as previously planned), the debt burden would fall to 36.4% by FY29, and the interest-to-revenue ratio would rise to only 6.7%.

Borrowing is slated to fall, following considerable pre-funding in the current fiscal year. Total borrowing for FY26 is complete at \$58.6 bn, \$15.8 bn above planned in last year’s budget primarily owing to the province taking advantage of favourable market conditions to do some considerable pre-borrowing for the

upcoming fiscal year (especially in foreign currency) and \$5 bn in borrowing to capitalize the Protect Ontario Account Investment Fund that was announced last year. As such, borrowing requirements are expected to be lower over the outlook, with plans to borrow \$47.2 bn in FY27, \$43.1 bn in FY28, and \$42.7 bn in FY29. This reflects falling refinancing needs and capital investment plans generally trending higher, and the deficit projected to generally trend lower. Total borrowing over FY27–FY29 is approximately \$18.1 bn more in the slower growth scenario and \$16.1 bn less in the faster growth scenario.

Chart 3



Updated Fiscal Forecast							
\$ billions except where noted							
	FY26		FY27		FY28		FY29
	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'25	Bud.'26	Bud.'26
Total Revenue	219.9	226.6	227.9	231.9	237.9	243.4	254.1
Total Expenses	232.5	238.4	233.7	244.2	235.7	247.5	251.1
Reserve	2.0	0.5	2.0	1.5	2.0	2.0	2.5
Budget Balance	(14.6)	(12.3)	(7.8)	(13.8)	0.2	(6.1)	0.6
% of GDP	(1.2)	(1.0)	(0.6)	(1.1)	0.0	(0.5)	0.0
Net Debt	460.2	459.4	486.5	485.1	502.1	514.4	529.3
% of GDP	37.9	36.8	38.9	37.7	38.6	38.5	38.2
Debt Service	16.2	16.0	17.0	17.2	17.8	18.6	19.7
% of Revenue	6.5	6.3	6.7	6.7	6.8	6.9	7.1

Sources: Scotiabank Economics, Ontario Finance.

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