

Contributors

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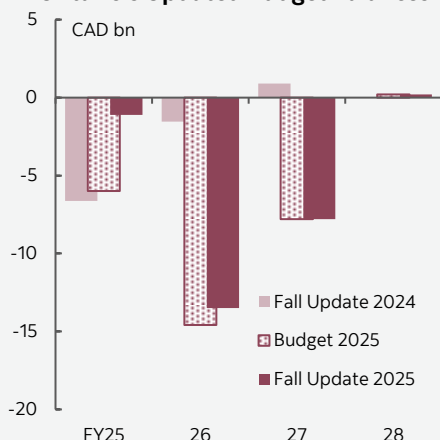
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Chart 1

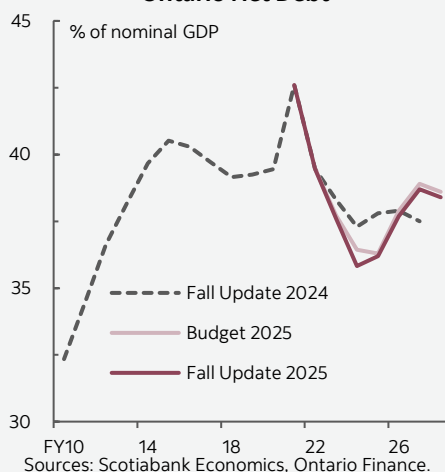
Ontario's Updated Budget Balances



Sources: Scotiabank Economics, Ontario Finance.

Chart 2

Ontario Net Debt



Sources: Scotiabank Economics, Ontario Finance.

Ontario: 2025–26 Mid-Year Update

DEFICIT DOWN DESPITE SLOWER GROWTH AND HIGHER CONTINGENCY BUDGET

- On the heels of beating its FY25 deficit projection, the Ontario government released a lower FY26 deficit projection and improved debt forecast in its mid-year economic and fiscal update, despite lowering some economic growth assumptions, increasing the contingencies budget, and announcing a few new measures. The province continues to roll out supports for workers and businesses affected by the tariffs, funded from envelopes set aside in the spring. Increasing the contingency amounts further will enable it to provide even more support without impacting its bottom line, and/or position it to overperform its deficit projections again—especially given this morning's upward revisions to the province's GDP.
- Budget balance forecasts:** the Fall update expects a smaller deficit in FY26 of **-\$13.5 bn** (-1.1% of nominal GDP) compared to **-\$14.6 bn** (-1.2%) projected in the spring budget, while leaving the outer years essentially unchanged at **-\$7.7 bn** (-0.6%) in FY27 and **\$0.2 bn** (0%) in FY28 (chart 1).
- Economic assumptions:** real GDP growth is expected to be slow but positive over the outlook, unchanged at 0.8% in 2025 and revised down 0.1 ppts to 0.9% in 2026.
- Net debt:** as a share of GDP is revised lower by 0.2 ppts each year of the outlook compared to the spring budget with the path unchanged, increasing from 36.2% in FY25 to a peak of 38.7% in FY27 before declining after (chart 2).
- Borrowing requirements:** revised down this year and next to **\$42.5 bn** in FY26 and **\$40.7 bn** in FY27, and revised up to **\$34.5 bn** in FY28.
- Overall, the Ontario mid-year update sets out an appropriately prudent approach in light of the continuing uncertainty and economic risks.

OUR TAKE

Ontario's mid-year update presents a stronger handoff from fiscal year 2024–25 (FY25) and a marginally smaller deficit this year while still projecting a return to balance by FY28. The deficit in FY25 was revised to **-\$1.1 bn** (-0.1% of nominal GDP), an improvement from **-\$6.0 bn** (-0.5%) estimated in Budget 2025. The mid-year update also now projects a smaller deficit of **-\$13.5 bn** (-1.1%) in FY26 compared to the budget's **-\$14.6 bn** (-1.2%) forecast, while leaving the remainder of the outlook essentially unchanged at **-\$7.7 bn** (-0.6%) in FY27 with a return to balanced budget (**\$0.2 bn**, 0%) in FY28.

Total expenditure was revised up by \$5.8 bn across FY26 through FY28, entirely from higher program spending. The multi-year expenditure outlook anticipates very low program expense growth past this year, which will require discipline to achieve. Program spending is planned to increase to **\$218.4 bn** (3% y/y) in FY26, hold unchanged at **\$218.5 bn** (0% y/y) in FY27, then increase to **\$220.1 bn** (0.7% y/y) in FY28. Some of the major items contributing to this higher spending is support for home care (**\$369 mn** in FY26), an additional **\$100 mn** in support for small and medium-sized enterprises through the Ontario Together Trade Fund, and a top-up of the contingency fund (**\$2 bn** in FY26).

Total revenue across the outlook was revised up by \$7.0 bn over FY26 through FY28. In FY26, total revenue was revised up by **\$3.2 bn** compared to Budget 2025, of which **\$3.1 bn** is from higher own-source revenue, but is still projected to be **\$3.1 bn** lower (-1.4% y/y) than FY25. Approximately **\$2.5 bn** of the upward revision for the current fiscal year is owing to higher personal income taxes (**\$1.5 bn**), primarily driven by anticipate growth in capital gains and dividend income, and corporate income taxes (**\$1 bn**) from higher

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corporate profit growth. These higher revenues in FY26 are partially offset by lower-than-projected land transfer taxes from lower housing activity. Overall, after declining by 1.4% in FY26, revenues are projected to rebound by 3% and 4.5% in the next two years. The province is also working with the federal government to provide a rebate for eligible first-time homebuyers equal to the province's 8 per cent portion of the HST.

The economic outlook for GDP growth included in the mid-year update is largely unchanged, with only minor downward revisions compared the spring budget. Real GDP is projected to increase 0.8% in 2025, unchanged from Budget 2025, and increase 0.9% in 2026 and 1.8% in 2027, both 0.1 ppts lower than the spring budget. Meanwhile nominal GDP is projected to increase 3.2% in 2025, 0.1 ppts higher than Budget 2025, and unchanged at 3.0% in 2026 and 4.0% in 2027. The Fall update also includes a faster growth scenario that assumes most tariffs imposed by the US are removed, in which the budget balance would improve to -\$0.7 bn in FY27 and \$10.2 bn in FY28, and a slower growth scenario, that assumes the US imposes tariffs of 25% on all Canadian goods, which would see larger and more persistent deficits that shrinks to -\$8.9 bn by FY28.

The outlook for net debt as a share of nominal GDP is mostly unchanged from the spring budget, having been revised down by 0.2 ppts across the outlook from FY26 through FY28. Net debt as a percent of GDP is projected to increase this year and next, reaching a peak of 38.7% in FY27, before declining to 38.4% in FY28. Statistics Canada released annual provincial GDP data the same day as Ontario's Fall update in which the level of GDP was revised up for 2022, 2023, and 2024, higher than assumed in the budget. This implies net debt-to-GDP for FY25 is lower than the 36.2% in the Fall fiscal update.

Total long-term borrowing in FY26 is projected to be \$42.5 bn, approximately \$0.3 bn lower than set out in Budget 2025 owing to the smaller deficit in the same year. The province has completed \$32.4 bn of borrowing as of October 30, 2025, roughly three quarters of borrowing planned for the current fiscal year. Total borrowing requirements are projected to decline over the outlook to \$40.7 bn in FY27 and \$34.5 bn in FY28.

Medium-Term Fiscal Projections								
\$ billions except where noted								
	FY25		FY26		FY27		FY28	
	May '25	Final	May '25	Oct. '25	May '25	Oct. '25	May '25	Oct. '25
Total Revenue	221.6	226.2	219.9	223.1	227.9	229.6	237.9	240.0
Own-Source	185.2	189.6	181.1	184.2	188.6	190.3	198.1	200.3
Fed. Transfers	36.4	36.6	38.8	38.9	39.3	39.3	39.8	39.7
Total Expenditure	227.6	227.3	232.5	234.6	233.7	235.3	235.7	237.8
Programs	212.4	212.1	216.3	218.4	216.7	218.5	217.9	220.1
Health	89.3	90.1	91.1	91.5	92.4	92.8	93.6	94.0
Education	38.4	38.3	41.0	41.0	41.1	41.1	41.3	41.3
Other	84.7	83.7	84.2	85.9	83.2	84.6	83.0	84.8
Debt Service*	15.2	15.1	16.2	16.2	17.0	16.9	17.8	17.7
Reserve	—	—	2.0	2.0	2.0	2.0	2.0	2.0
Balance	-6.0	-1.1	-14.6	-13.5	-7.8	-7.7	0.2	0.2
% of GDP	-0.5	-0.1	-1.2	-1.1	-0.6	-0.6	0.0	0.0
Net Debt	427.5	426.8	460.2	458.7	486.5	485.0	502.1	500.4
% of GDP	36.3	36.2	37.9	37.7	38.9	38.7	38.6	38.4
Net Debt Service								
% of Revenue	5.8	5.5	6.5	6.4	6.7	6.6	6.8	6.7

* 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.

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