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Ontario: Staying the course in turbulent times

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Summary

- Ontario's economy may be on shaky footing as it contends with tariff damage and ongoing uncertainty from a disrupted Canada-U.S. trade relationship. But fiscally speaking, the province is persevering as the budgetary blow delivered in 2025-26 is (still) expected to have only temporary impacts. A return to budgetary balance by 2027-28 remains a priority, and the province also reaffirms its commitment to debt sustainability measures/fiscal anchors. We call that staying the course in turbulent times, in contrast with the more meaningful fiscal erosion at the federal level.
- Sector-specific tariffs have resulted in Ontario's outsized exposure to this year's trade conflict. As a result, and despite relative economic resilience, the damage to realized and potential growth is material with the economy contracting in the second quarter of this year. Ontario's FES projections for real GDP growth out the horizon are largely unchanged, though notable upward revisions to the provincial unemployment rate were made (relative to Budget 2025 projections). Consistent with still-elevated uncertainty, two alternative growth scenarios are presented: one in which the Canada-U.S. trade dispute is quickly resolved and one in which tariffs are more punitive and widespread.
- As confirmed in the earlier *Public Accounts*, Ontario closed the books on 2024-25 with a skinnier deficit than was projected in the spring: A modest $1.1 billion shortfall (0.1% of GDP) compares to earlier expectations for a $6.0 billion deficit. A stronger base helped the province trim over $1 billion from the 2025-26 deficit projected in the budget, though this still leaves a shortfall of $13.5 billion (1.1% of GDP). The sharp fiscal deterioration is to be expected given the economic damage inflicted by U.S. trade policy and the persistent uncertainty that continues to weigh. Ontario's commitment to balance the budget in 2027-28 hasn't wavered, though. A $7.7 billion shortfall in 2026-27 gives way to a small surplus in 2027-28.
- Presented in Budget 2025, a '*Plan to Protect Ontario'* remains on course, offering up support to businesses, workers, and communities impacted by the trade conflict. In response to this economic shock, the province communicates its square focus on building the most competitive economy in the G7, bolstered by ambitious infrastructure projects and plans to improve trade and labour mobility throughout the country.
- Ontario's key debt sustainability measures for 2025-26 have improved relative to the budget. In 2026-27, a final year in deficit combined with key capital investments will push the net debt burden a touch higher, though relative leverage is set to ease out the projection period. Net debt-to-GDP, perhaps the most commonly cited indebtedness metric for the provinces, will peak at 38.7% before moderating in the final year of the fiscal framework. Net debt-to-operating revenue is offside of its target in 2025-26 but there's a clear/strong commitment to get this leverage ratio down. Ontario remains well 'onside' of its targeted 'interest bite'. Even with a somewhat larger ratio in the next two fiscal years, debt remains affordable.
- In 2025-26, Ontario's long-term borrowing requirement has edged $300 million lower vs. the spring projection of $42.5 billion. With $32.4 billion (or 76%) of that funding already complete, the program remains well ahead of schedule, steering roughly two thirds of such issuance to the CAD market, as previously outlined. Term borrowing needs are pointed lower in future fiscal years, as Ontario anticipates a $40.7 billion bond program for 2026-27, taking another step lower to $34.5 billion in 2027-28, when the budget is meant to be balanced. In the near-term, short-term outstandings should pick up, designed to take advantage of relatively favourable borrowing rates down the curve. We continue to view the relative balance of domestic bond supply as technically supportive for provincial credit spreads, Ontario being one of our top picks in the sector.

Selected highlights

- **Economic backdrop** ➢ *Down, but not out, as trade tensions continue to weigh*

While Ontario's economy has proved relatively resilient to the U.S. tariff onslaught and related uncertainty, damage is still evident. Real GDP declined in the second quarter of 2025 as sectoral tariffs weighed, straining supply chains and pressuring labour markets. Looking ahead, growth is expected to remain subdued in through 2026 before rebounding closer to potential further out. This outlook is not too dissimilar to Budget 2025's. As always, the fiscal plan sets its growth projections slightly below the private sector consensus as part of prudent fiscal planning.

  - Since the 2025 Budget was tabled, Ontario now sees nominal GDP growth in 2025 coming in slightly stronger, thanks to stronger expected corporate profits. On the flip side, *real* growth was revised down in 2026 and 2027 by one tick each to 0.9% and 1.8%, respectively. Weaker housing resale market activity was considered to persist throughout the projection period out to 2028.
  - In Ontario's baseline labour market projections, the FES revises up unemployment rate projections throughout the horizon. Peaking at 7.8% in 2025, the jobless rate is set to fall two ticks to 7.6% next year, and to 6.5% by 2028 (up from 7.6%, 7.3%, and 6.2%). CPI inflation, for its part, is seen cooperating at 2.0% between 2026 and 2028, with inflation a bit cooler in 2025 too (2.3% in 2025 Budget vs 1.9% in this FES).
  - Consistent with *lower-but-not-low uncertainty*, the FES presents a faster- and slower-growth scenario around the central tendency projections. Unsurprisingly, both scenarios hinge on the development of Canada-U.S. trade relations and tariff policy. The faster growth scenario assumes the removal of most tariffs (and countermeasures), alleviating uncertainty and renewing business investment and

consumer spending. As a result, real GDP would quickly return to near-2% growth next year, improving slightly in 2027 (2.1%) and 2028 (2.2%). On the contrary, a slower growth scenario pencils in a technical recession in 2026 (-0.3%), with growth rebounding to 1.7% and 1.8% in 2027 and 2028, respectively (both one tick below the planning projection). The slower growth scenario assumes a deterioration in trade relations, with a 25% baseline U.S. tariff applied on all goods throughout the projection period (this includes on sectors that are currently CUSMA-compliant). The FES notes that these alternative projections should not be considered the best or worst case scenarios, but rather an illustration of a broader range of possible outcomes.

- **Fiscal outlook** ➢ *The deficit is still set to deepen in 2025-26 but the path to balance remains intact*

Ontario's finances ended 2024-25 in better shape than expected, momentum that allowed the province to trim its 2025-26 deficit projection to $13.5 billion. To be sure, this is still a sharp deterioration from last fiscal year but it's to be expected given the economic damage inflicted by U.S. trade policy and the persistent uncertainty that continues to weigh. Ontario's commitment to balance the budget in 2027-28 has not wavered, though.

- As was already confirmed in the *Public Accounts*, Ontario closed the books on 2024-25 with a skinnier deficit than they'd projected in the spring. The modest $1.1 billion shortfall (0.1% of GDP) compares to an earlier expectation for a $6.0 billion deficit. The improvement can be mainly attributed to upside revenue, as an additional $4.6 billion (+2.1%) flowed into government coffers.
- A stronger budgetary base acts as tailwind to 2025-26 as the province now sees the current year's shortfall being $1.1 billion smaller than they'd thought in May. Still, a deficit of $13.5 billion (1.1% of GDP) represents a sharp year-on-year fiscal deterioration. The additional red ink is understandable, however. Ontario is arguably the province most impacted by President Trump's tariff tirade which has dulled economic growth and forced the government to protect impacted industries.
- Beyond the current fiscal year, changes to the fiscal plan are minimal. As FinMin Bethlenfalvy reiterated this week, the province is still committed to balancing the budget by 2027-28 and this updated fiscal plan demonstrates that. After running a $13.5 billion shortfall this year, the deficit is seen shrinking to $7.7 billion (0.6% of GDP) in 2026-27. That gives way to a modest $200 million surplus in 2027-28, which would be the province's first since 2021-22. Note that guidance for 2026-27 and 2027-28 is effectively unchanged from the budget.
- The fiscal plan incorporates significant prudence, providing flexibility if revenues disappoint and/or spending pressures mount. A reserve of $2 billion is allocated to all three years of the fiscal plan and the contingency fund sits at $4.5 billion after a $2 billion top-up.
- Amid heightened economic uncertainty, Ontario provided alternative fiscal outlooks for scenarios in which economic growth is faster or slower than expected. The stronger economic scenario involves a $11 billion shortfall in 2025-26, a $0.7 billion deficit in 2026-27 and a $10.2 billion surplus in 2027-28. Alternatively, a weaker economic environment would derail the return to balance. Under this scenario, the province sees deficits of $15.7 billion, $14.5 billion and $8.9 billion in 2025-26, 2026-27 and 2027-28, respectively.

- **New measures** ➢ *A tariff-targeted province calls for economic defence (and offence)*

Budget 2025 outlined '*A Plan to Protect Ontario*'. With program expenditures expected to sum to $650 billion over three fiscal years, the primary focus was to (1) grow Ontario's economy by spurring investment and building infrastructure, while (2) simultaneously protecting/supporting businesses and workers from the impacts of a trade war. A focus on community programs and public services was also mentioned. Now halfway through this fiscal year, and with *greater* clarity on tariff policies, how is this ambitious provincial plan shaping up?

- *Protecting workers and businesses from tariffs and economic uncertainty (defence)* → In August, the Ontario government launched the initial $1 billion (of a total of $5 billion) of the *Protect Ontario Financing Program (POFP)*. That program is currently supporting businesses directly impacted by U.S. tariffs imposed on the primary metals and automotive sectors by helping prevent closures and/or layoffs. The remainder of these funds will be allocated to additional streams aimed at fortifying the province's economic resilience and fast-tracking innovation/firm growth. The *Protect Ontario Workers Employment Response (POWER)* program will see continuous investment ($20 million). POWER provides access to training workers affected by, or at risk of layoffs. So far this year, nearly 15,000 workers have benefited. Ontario will also invest an additional $100 million in the *Ontario Together Trade Fund (OTTF)*, which will help SMEs diversify into new markets and build trade-related resilience. Finally, the Trade-Impacted Communities Program (TICP), providing up to $40 million in funding, provides tailored support to community projects that build local resilience, as well as larger-scale projects to grow, develop, and diversify supply chains.
- *Protecting Ontario by building the most competitive economy in the G7 (offence)* → In a similar tone to the '*Canada Strong'* federal budget just released, Ontario plans not only to react to the trade fallout via a defensive posture but also use this shock as an opportunity to spur economic growth and improve competitiveness. The province is focused on 'restoring the dream of home ownership', by seeking to cut the Ontario portion of HST for first-time buyers. Support for municipal housing infrastructure is also outlined. Ontario's *Tax Action Plan* will work on updating personal income taxes to provide relief for individuals and families. An update on this initiative will be provided in the 2026 Budget and will also focus on corporate competitiveness, which receives much attention in this plan. Specifically in the FES, the Ontario government introduced plans to enhance the *Ontario Made Manufacturing Investment Tax Credit (OMMITC)*. These improvements would allow qualifying corporations to receive a tax credit of up to $3 million per year, supporting the competitiveness and resilience of the manufacturing sector. The introduction of several plans to cut down the regulatory burden, improve trade/labour mobility, and reduce interprovincial trade barriers were all introduced previously and remain a focus, with the ultimate goal of 'making Ontario the most competitive place in the G7 to invest, create jobs, and do business'. In other investments, nearly $60 billion is set to be invested in health infrastructure over the next decade. The province also outlines plans to improve primary care and home care services. Infrastructure more broadly remains in the spotlight, as Ontario's 'most ambitious capital plan' will include over $33 billion in 2025-26 allocated towards support for the economy.

- **Debt burden & interest bite** ➢ *Key sustainability measures improve vs. budget, debt burden to peak in 2026-27*

Ontario's key debt sustainability measures for 2025-26 have improved vs. budget. In the near-term, a final year of deficit alongside strategic capital investments will push the net debt burden a touch higher in 2026-27, with relative leverage meant to ease from there. Debt remains affordable.

  - Ontario targets three specific debt sustainability measures: net debt-to-GDP, net debt-to-operating revenue and net interest-to-operating revenue. In all three cases, the latest estimates for 2025-26 represent a net improvement vs. the budget plan.
  - Net debt-to-GDP is perhaps the most commonly cited leverage metric (at least for most provincial governments). Over $31 billion is being added to the level of net debt in 2025-26, pushing this key ratio higher. Specifically, the latest estimate of 37.7% would be 1.5%-pts above than the prior fiscal year but nonetheless a touch inside of the 37.9% ratio planned for in Budget 2025. Given the projected deficit and capital investment plans for 2026-27, the net debt-to-GDP ratio should edge a bit higher next fiscal year, peaking at 38.7% before starting to head a bit lower in the final year of the fiscal framework. This trajectory remains fully consistent with Ontario's pledge to keep net debt-to-GDP under 40%.
  - At present, Ontario is 'offside' on a second net debt metric, this one scaled to operating revenue. The stated goal is to keep this ratio below 200%. That's not possible in the current operating environment, characterized by heightened uncertainty and associated fiscal pressure. Nonetheless, a net debt-to-operating revenue ratio of 208% for 2025-26 looks better than the budgeted ratio of 211%. Despite peaking at 213% in 2026-27, the government expresses a commitment to getting this specific sustainability ratio back on the right side of its target. Note that Ontario had this leverage ratio below target in both 2023-24 and 2024-25. To us, the province appears genuinely resolute in its approach to budgetary repair and debt containment.
  - Ontario's targeted 'interest bite' is expressed as net interest-to-operating revenue. Like the net debt-to-GDP measure, the province is 'onside' here, the stated limit set at 7.5%. For 2025-26, this interest-to-revenue ratio has improved vs. budget (going from 6.5% to 6.4%). The FES outlines a somewhat larger interest bite over the coming two fiscal years (up to 6.7% by 2027-28), but in all cases there would remain some breathing space vs. the targeted ratio. So even if interest charges are consume a bit more revenue, the province's debt load remains genuinely affordable, with prudent management practices having limited refinancing risk and related FX exposure. Ontario maintains ample liquidity, with liquid reserves amounting to $45 billion at the end of October.

- **Borrowing** ➢ *Borrowing update should elicit sigh of relief, as program well advanced & funding needs pointed lower*

The long-term borrowing requirement for the current fiscal year edging down $300 million vs. budget, while the medium-term plan sees the gross funding tempo slowing in each of the next two fiscal years. Ontario's borrowing program is nicely advanced for 2025-26, the province maintaining excellent domestic liquidity while simultaneously benefiting from solid investor demand in international markets. There's an ongoing commitment to domestic green bonds, the province long a leader in this space.

  - For 2025-26, Ontario's long-term borrowing requirement has edged $300 million lower vs. budget to stand at $42.5 billion. An improved budget balance is more or less offset by incremental loans/investments. But there will be a bit more short-term borrowing, as the province aims to take advantage of the relative decline in short rates vs. longer tenors.
  - Ontario has made good progress against its total funding requirement. With $32.4 billion already in the door, the 2025-26 program is 76% complete and thus ahead of schedule (November 6th being 60% of the way through the fiscal year). Roughly two-thirds of completed borrowing has been steered to the home market (i.e., CAD). That is consistent with the 65-80% domestic funding share earlier outlined in Budget 2025 (that target revised from 70-85% previously). Included in the domestic FYTD tally is yet another green bond, the province's 19th overall and 5th pursuant to the *Ontario Sustainable Bond Framework*. There's a commitment to bring *multiple* greens each fiscal year. International supply has come in USD, EUR and CHF. An increased limit on the U.S. Commercial Paper Program is designed broaden the short-term investor base. As always, Ontario has an ability to be flexible and to respond to shifts in investor demand and underlying market conditions. With the release of the FES, expect a potentially quick return to debt capital markets.
  - Long-term borrowing needs are pointed lower in future fiscal years. Ontario currently anticipates a $40.7 billion gross bond program for 2026-27, with another increase in short-term outstandings designed to take advantage of relatively favourable borrowing rates in the short end of the curve. The long-term requirement eases further to $34.5 billion in 2027-28, which as a reminder is when the budget is meant to be balanced. While these are non-trivial requirements, Ontario's determination to balance the books should put investors (and credit rating agencies) at ease. Ontario's fiscal path and resulting borrowing needs compare relatively favourably to many provincial peers. There's likewise an edge relative to the fiscal plan just set down by the federal government in Ottawa. We continue to view the relative balance of domestic bond supply as technically supportive for provincial credit spreads, Ontario being one of our top picks in the sector.

Current long-term credit ratings — S&P: AA-, Stable | Moody's: Aa3, Stable | DBRS: AA, Stable | Fitch: AA-

*[Refer to our **Provincial Ratings Snapshot** for additional colour on specific credit rating drivers/considerations]*

Ontario's Medium-Term Fiscal Plan — Details[1]

($ Billions)

	Actual 2024–25	Current Outlook 2025–26	Medium-Term Outlook 2026–27	Medium-Term Outlook 2027–28
Revenue				
Personal Income Tax	55.7	59.3	62.4	66.5
Sales Tax	39.4	40.1	41.4	43.3
Corporations Tax	27.8	27.0	28.5	30.7
Ontario Health Premium	5.2	5.4	5.6	5.8
Education Property Tax	5.9	5.9	5.9	6.0
All Other Taxes	17.6	17.9	18.3	18.8
Total Taxation Revenue	**151.5**	**155.6**	**162.1**	**171.1**
Government of Canada Transfers	36.6	38.9	39.3	39.7
Income from Government Business Enterprises	7.5	6.5	6.8	7.5
Other Non-Tax Revenue	30.5	22.1	21.4	21.7
Total Revenue	**226.2**	**223.1**	**229.6**	**240.0**
Base Programs				
Health Sector	90.1	91.5	92.8	94.0
Education Sector[2]	38.3	41.0	41.1	41.3
Postsecondary Education Sector	14.2	13.0	13.1	12.8
Children, Community and Social Services Sector	20.5	20.4	20.4	20.4
Justice Sector	6.6	6.8	6.5	6.4
Other Programs	39.7	45.9	44.6	45.1
Total Base Programs	**209.4**	**218.4**	**218.5**	**220.1**
Significant Exceptional Expenses	2.7	–	–	–
Total Programs	**212.1**	**218.4**	**218.5**	**220.1**
Interest and Other Debt Servicing Charges	15.1	16.2	16.9	17.7
Total Expense	**227.3**	**234.6**	**235.3**	**237.8**
Surplus/(Deficit) Before Reserve	**(1.1)**	**(11.5)**	**(5.8)**	**2.2**
Reserve	–	2.0	2.0	2.0
Surplus/(Deficit)	**(1.1)**	**(13.5)**	**(7.8)**	**0.2**
Net Debt as a per cent of GDP	36.2%	37.7%	38.7%	38.4%
Net Debt as a per cent of Operating Revenue	191.2%	207.5%	213.0%	209.8%
Net Interest as a per cent of Operating Revenue	5.5%	6.4%	6.6%	6.7%

[1] Beginning in the *2025 Budget*, the Total Revenue, Interest and Other Debt Servicing Charges (IOD), and Total Expense figures for all years have been restated to report interest and investment income as part of revenue and separate from IOD. These changes are fiscally neutral.
[2] Excludes Teachers' Pension Plan. Teachers' Pension Plan expense is included in Other Programs.
Note: Numbers may not add due to rounding.
Sources: Ontario Treasury Board Secretariat and Ontario Ministry of Finance.

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