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Protecting Ontario from an extraordinary threat

By Warren Lovely, Taylor Schleich, Daren King and Ethan Currie

Highlights

Nationally, it's an unsettled economic environment and Ontario finds itself at the heart of the uncertainty as one of the provinces most exposed to the protectionist shift in U.S. trade policy. The 2025 budget leans into the threat posed by U.S. tariffs, promising to protect the province by helping workers and businesses weather the storm, unleashing the economy and placing an even greater focus on building infrastructure. Looking back, the 2024-25 deficit ($6.0 billion) was smaller than outlined in Budget 2024. However, the deficit will grow meaningfully in 2025-26 with the province planning for a $14.6 billion shortfall—the largest since 2020-21. Key spending initiatives include (but are not limited to) a $200+ billion infrastructure plan centred on transportation, healthcare, and education, and a series of measures providing relief to and support for businesses, families, workers and communities. With sky-high uncertainty, Ontario's alternative fiscal scenarios are particularly informative, and these imply the 2025-26 deficit could conceivably land between $12.3 billion and $17.3 billion. While protecting Ontario will be costly this year, the province has outlined a plan to quickly tackle the deficit over the next two years. This involves a $7.8 billion shortfall in 2026-27 and a return to balance in 2027-28 but will require restrained spending (<1% growth per year). Notably, considerable prudence is built into the fiscal plan between sub-consensus GDP growth assumptions, a $2 billion/year reserve and a $3 billion contingency fund. Given the larger deficit, it's not surprising there will be marginal net debt this year, and the extra $32.6 billion added in 2025-26 would see Ontario's relative indebtedness measures deteriorate. Nonetheless, the province's net debt load (scaled to GDP) will remain below their 40% anchor throughout the plan horizon. The net debt-to-operating revenue ratio will breach its 200% target in each year of the three-year fiscal plan, and it's not expected to fall below the threshold until 2031-32. Even as borrowing rates rise, Ontario's main core debt affordability metric will remain onside though. Finally, Ontario's long-term borrowing program has been set at $42.8 billion for 2025-26, a manageable tally and aided by pre-funding secured in the prior fiscal year. The province has adjusted the domestic target share of its borrowing to 70-85% (from 75-90%), given demonstrated demand for Canadian issuers in international markets. Look for Ontario to quickly return to the domestic market, with international funding opportunities to be considered following due diligence and as always being calibrated to underlying market conditions and relative funding costs.

- **Economic outlook** — Ontario's real GDP increased by 1.5% in 2024, growth in line with the national average but well above the 0.3% and 0.9% increases expected in the previous Budget and Fall Economic Update, respectively. To the great benefit of public finances, nominal GDP growth for 2024 printed at 5.2%, much higher than the 2.7% expected in the 2024 Budget. For context, the national aggregate grew 4.6% in nominal terms. Ontario's economy has been supported by lower interest rates, lower inflationary pressures and still strong, albeit slower, population growth. However, job creation has not been able to keep pace with population growth. As a result, Ontario's unemployment rate reached 7.8% in April, the second highest across the country (only lower relative to Newfoundland's 9.5%), after rising 2.8% from its low of 5.0% in April 2023. In comparison, the unemployment rate in Canada rose by only 1.8% over the same period, marking Ontario's job market as the one that has deteriorated the most in recent years relative to all other provinces. Looking ahead, the budget is based on a growth forecast that has been cut in half compared to the previous outlook, with real GDP in 2025 expected to grow by 0.8% - a figure which is 0.1%-pt lower than the average forecast of private sector economists. That weaker growth is explained largely by the impact of the current trade conflict with the U.S., Ontario being one of the most impacted provinces, but also to a sharp slowdown in population growth due to the revision of immigration policy since last year. For 2026, real GDP growth should be higher at 1.0% (average private sector forecast at 1.1%), then rise to 1.9% in 2027 and 2028. Even more important for public finances, Ontario's nominal GDP in 2025 is expected to grow by 3.1%, which is roughly in line with the private sector's forecast of 3.2%. Nominal GDP is then expected to grow by 3.0% in 2026 (slightly below the 3.1% expected by the consensus), and 4.0% in 2027 and 2028. As for the labour market, the unemployment rate is forecasted to increase from an annual average of 7.0% in 2024 to a peak of 7.6% in 2025. It should then return to a downward trajectory, reducing to 7.3% in 2026 and 6.6% in 2027.

- **Update for the fiscal year just ended (2024-25)** — In Budget 2024, the province was forecasting a $9.8 billion deficit, but by the time the Fall Economic Statement was released, the expected shortfall moderated to $6.6 billion (0.6% of GDP). Since then, the bottom line has firmed up ever so slightly as the reserves contained in earlier estimates were released. Officially, the province is flagging a $6.0 billion shortfall (0.5% of GDP) for 2024-25 with the final budget balance to be confirmed via forthcoming public accounts data. While the deficit was little changed versus fall guidance, the same can't be said for the revenues and expenses that underlie the balance. Revenues came in 4.2% higher than mid-year guidance (+7.7% vs. Budget 2024), while spending was 4.3% above the revised plan (+6.1% vs. Budget 2024). Larger inflows were a function of heftier personal income tax receipts and a settlement with tobacco companies. Marginal spending was attributable to investments in health care and post-secondary education.

- **Current fiscal year outlook (2025-26)** — 2024-25's shortfall may have come roughly in line with most recent guidance but that's not the case for 2025-26. The province is now guiding towards a $14.6 billion deficit (1.3% of GDP) in the fiscal year started April 1st, compared to the fall estimate of $1.5 billion. Should it materialize, this would be the largest deficit since the COVID-riddled 2020-21 fiscal year. The deficit does incorporate a larger-than-normal $2 billion reserve, offering the province additional flexibility in a highly uncertain economic environment. As for what's driving the deterioration, it's a double whammy of lower revenues and higher receipts. Receipts will fall 0.7% in 2025-26 as modest tax revenue growth (+0.7%) is insufficient to offset falling non-tax revenues. Meantime, overall expenses are seen rising 2.2%, which includes a 3.2% increase in program spending.

- **Revised medium-term outlook (2026-27 and 2027-28)** — Despite the large shortfall in 2025-26, the province sees an expeditious return to black ink. The deficit this year is seen giving way to a $7.8 billion shortfall (0.7% of GDP) in 2026-27 and by 2027-28, Ontario expects to be back to balance (technically, a small $200 million surplus is being telegraphed). As is the case in 2025-26, the province has set aside a $2 billion reserve for these last two years of the fiscal plan. What's the recipe for returning to balance so quickly after this fiscal year? Tightly controlled spending growth and a healthy pick-up in receipts. Specifically, the final two years of the fiscal plan involve average annual revenue growth of 4.0% while spending on base programs advances only 0.4% per year (a step up in interest charges leaves total expense growth at 0.7% annually).

- **Alternative fiscal scenarios –** In the context of the current trade conflict with the United States, economic uncertainty is reaching new heights. Credit Ontario for once again detailing faster and slower growth scenarios and the impact on key fiscal metrics. In the faster growth scenario, most tariffs and countermeasures imposed between the U.S. and Canada are removed in the near term through negotiated agreements. The slower growth scenario assumes 25% U.S. tariffs on all Canadian goods - except for energy products, which are subject to a 10% tariff – throughout the projection period. It also assumes that Canada maintains targeted 25% retaliatory tariffs on $30 billion worth of American imports. When it comes to the budget balance, a slower growth scenario—characterized by stagnation of real GDP in 2025, a 0.4% contraction in 2026, and 1.9% growth in 2027 and 2028—would see the 2025-26 shortfall rise from a projected $14.6 billion to $17.1 billion. Under this slower growth scenario, Ontario would not return to balance by 2027-28. In the faster growth scenario—characterized by a 1.6% growth in real GDP for 2025, 1.8% in 2026 and 2.0% in 2027 and 2028— would see the 2025-26 shortfall decline from a projected $14.6 billion to $12.3 billion. Ontario would return to balance in 2027-28 in this scenario (as planned also in the baseline projection), though the surplus would rebound sharply to $7.3 billion instead of a more modest $0.2 billion.

- **New initiatives** - *A Plan to Protect Ontario* is not a short-winded plan by any measure. Program expenses will sum to $650.9 billion over the next three fiscal years, with a primary focus to (1) grow Ontario's economy by spurring investment and building infrastructure, while (2) simultaneously protecting businesses and workers from the impacts of a trade war. Budget 2025's new measures are laid out as a four-pronged approach, which aims to (1.a) "double down" on the province's efforts to build infrastructure, (2.a) support businesses in the wake of tariff-related fallout, (2.b) invest in workers and community programs, and (2.c) enhance public services. Punchline – Ontario plans to play offense *and* defense.
  - In its plan to '*Unleash Ontario's Economy*', the province outlines infrastructure investments over the next 10 years which total to over $200 billion, $33 billion of which in 2025-26. The "most ambitious capital plan in Ontario's history" includes a ~$30 billion allotment to highway construction, ~$61 billion towards public transit, ~$56 billion to health infrastructure and ~$30 billion in education-related investment. The budget proposes to provide up to an additional $5 billion to the Building Ontario Fund, which aims to invest in priority area projects. The creation of a Protecting Ontario Account—a fund of up to $5 billion—would attempt to provide liquidity relief and strategic funding to sectors facing tariff-related disruptions. Another series of funds—including but not limited to—the 'Invest Ontario Fund', 'Critical Minerals Processing Fund', 'Indigenous Participation Fund', and the 'Venture Ontario Fund', will receive over $1 billion to create or expand existing programs. In response to global trade disruption and a plea from Ottawa, Ontario will invest $50 million over three fiscal years to create the Ontario Together Trade Fund, with a focus on expanding interprovincial trade and enhance province-wide competitiveness.
  - Budget 2025 highlights a series of support measures to '*provide relief and support for businesses*', particularly as it relates to tariff-led economic damage. By enhancing/expanding the Ontario Made Manufacturing Investment Tax Credit, the province aims to support a hard-hit manufacturing sector by lowering input costs to the tune of $1.3 billion over the next three years. Meanwhile, the deferral of select provincially administered taxes for the first six months of the fiscal year will also help businesses weather the tariff turbulence. This measure, which would bolster province-wide cashflows by ~$9 billion, should allow businesses to keep their workers employed in the face of widespread economic/labour market weakness. Ontario also outlines targeted '*support for families, workers and communities*', which, similar to the other budget proposals, has both an 'invest' and 'defend' component. Budget 2025 suggests making the gasoline and fuel tax cuts permanent, which would save the average household about $115 per year, while an additional $1 billion over the medium term will be allocated to helping organizations deliver better training programs/centers for skilled workers across the province. In response to U.S. tariffs, Ontario proposed up to $60 million this fiscal year aimed at supporting laid-off workers or trade-disrupted communities. Lastly, the '*delivering better services*' section of the plan outlines the investment of ~$56 billion over the next ten years in health infrastructure – which includes capital grants and support for over 50 major hospital projects. The plan also seeks to expand publicly funded healthcare procedures, and pledges $400 million in incremental investment to help build local infrastructure related to the elevated demand for new homes.

- **Contingencies, prudence & official sensitivities** – Consistent with past practice, the budget incorporates meaningful prudence across a few dimensions. First, there are forecasts for GDP growth that are conservatively set 0.1%-pt below the consensus forecast. Then, there's reserves. The $6 billion cumulatively set aside over the duration of the fiscal plan ($2 billion per year) is comfortably above what the province has opted for in the past. There's another important buffer in the form of a standard contingency fund, amounting to $3 billion for 2025-26 and increasing further throughout the medium-term outlook. All told, we consider this meaningful prudence outright and by provincial standards. To be treated with caution, official fiscal sensitivity analysis suggests a 1%-pt 'surprise' on nominal GDP growth is worth ~$1.2 billion in total taxation revenue per year. On the expense side, it's believed that a 1%-pt parallel shift up in Ontario borrowing rates adds roughly $780 million to the interest bill in year one.

- **Debt outlook and interest expense -** Ontario's net debt is projected to have ended 2024-25 at $428 billion, coming in a bit below the $429 billion level last telegraphed (via the FES). Given the scale of the overall fiscal response to an undoubtedly challenging geopolitical and economic environment, net debt is slated to grow appreciably in 2025-26. At roughly $461 billion, the extra $32.6 billion in net debt added this fiscal year would lead to a deterioration in Ontario's relative indebtedness measures. Scaled to nominal GDP, the projected level of net debt would be equivalent to 37.9% in 2025-26 (up 1.6%-pts vs. the prior fiscal year), with this key leverage measure seen peaking at 38.9% in 2026-27. Note that under the baseline fiscal scenario, net debt-to-GDP would in all years remain below the 40% threshold the province has established. (An adverse or 'slower growth scenario' could result in a debt burden slightly above 40%.) The net debt-to-operating revenue ratio is another leverage metric the government explicitly targets. This ratio has been held below the 200% target in recent years but is slated to breach the established threshold each year of the three-year fiscal plan (peaking at 215% in 2026-27). Despite this anticipated overshoot, this specific debt metric (one of three targeted variables in the province's debt reduction strategy) is not being abandoned. Rather, Ontario will endeavour to get back onside as the budget balance gradually improves and as the economy (and resulting provincial revenue) grows over time. It is expecte d to take until 2031-32 to get net debt below 200% of operating revenue. An accounting restatement impacts the calculation of the so-called 'interest bite'. Ontario will no longer deduct related income from interest on debt (IOD). It means an upward adjustment to the level of IOD, but with a dollar-for-dollar increase in top-line revenue, this accounting change has no net impact on the budget balance or the level of net debt. The province's core debt affordability metric, now technically renamed the 'net interest-to-operating revenue ratio', is due to remain comfortably below the designated threshold of 7.5%. Simply put, Ontario's debt load should remain relatively affordable, even as the average annual borrowing rate is slated to edge a touch higher (from 3.94% in 2024-25 to 4.0% in 2025-26 and to 4.1% in later years). Refinancing and liquidity risks are likewise well managed in our opinion, which brings us to the borrowing program.…

- **Borrowing program** – Employing a prudent debt management strategy, Ontario opted to borrowing more than was technically needed in fiscal 2024-25, building up excess cash that can be drawn down in 2025-26. Specifically, the $49.5 billion of long-term debt that was issued in 2024-25 stood $11.3 billion higher than originally projected in Budget 2024, despite the deficit coming in less than originally projected. That relatively sizeable bond lift—second only to the $59.8 billion issued in the pandemic-plagued 2020-21—included $34.1 billion of domestic syndicated issues, the traditional bedrock of the funding program. Testifying to the province's well-diversified funding strategy, there were multiple green bonds (three issues summing to $3.5 billion), while a floating rate note for $1.5 billion rounded out domestic supply last fiscal year. In ternational issues, in both USD and AUD, brought in an incremental $10.5 billion, with foreign currency issues accounting for 21% of total borrowings (in line with provincial guidance). Turning to the current 2025-26 fiscal year, Ontario has set out a long-term borrowing requirement of $42.8 billion. We'd emphasize that underlying borrowing needs are considerably higher (nearing $60 billion), but the thoughtful decision to pre-fund combined with an expected increase in short-term outstandings limits the anticipated long-term requirement. Given Ontario's demonstrated market access, broad-based investor following and past funding success, we view the 2025-26 bond program as imminently manageable. The target does not explicitly incorporate any pre-funding for future fiscal years, but here we would note that gross long-term borrowing needs appear to be pointed lower in the final two years of the financial framework (easing to $41.1 billion in 2026-27 before stepping down more significantly to $33 billion in 2027-28). Ontario has $5 billion or more than 10% of the 2025-26 program already completed. Look for the province to re-start its borrowing program quickly, first in the domestic market and then perhaps in internation markets following the necessary due diligence process. Discussions with rating agencies will be conducted in the coming weeks, there being an expectation that ratings could be confirmed somewhat quicker than normal. In terms of the province's borrowing strategy for 2025-26, the domestic market is targeted to receive 70-85% of all supply. This share has been adjusted somewhat from the 75-90% range outlined (and achieved) in 2024-25, reflecting in part the strong demand for Ontario (and other Canadian issuers) witnessed in foreign markets. Successful international offerings can likewise provide relative relief to the domestic market and we anticipate ample scope for Ontario in non-domestic markets. The province has long been successful in securing term on its conventional domestic issues, with the extended term of the debt portfolio helping to manage interest and refi risk. As noted, Ontario remains a le ading issuer of green bonds and once again plans for multiple issuers. The 15-30% international funding target implies the equivalent of $6.5-13 billion could be steered to foreign currencies, where underlying market conditions, anticipated investor receptivity and relative borrowing cost remain considerations.

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

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

Details of Ontario's Fiscal Plan[1]

($ Billions)

	Actual	Interim[2]	Medium-Term Outlook		
	2023–24	2024–25	2025–26	2026–27	2027–28
Revenue					
Personal Income Tax	50.8	56.3	57.8	61.3	65.2
Sales Tax	39.9	39.4	40.1	41.6	43.6
Corporations Tax	23.1	27.9	26.0	27.7	29.4
Ontario Health Premium	5.0	5.2	5.4	5.6	5.8
Education Property Tax	5.8	5.8	5.9	5.9	5.9
All Other Taxes	17.3	18.1	18.6	19.2	19.8
Total Taxation Revenue	**141.9**	**152.8**	**153.7**	**161.3**	**169.8**
Government of Canada	34.3	36.4	38.8	39.3	39.8
Income from Government Business Enterprises	7.4	7.4	6.3	6.9	7.7
Other Non-Tax Revenue	25.4	25.0	21.0	20.3	20.6
Total Revenue	**209.0**	**221.6**	**219.9**	**227.9**	**237.9**
Base Programs					
Health Sector	85.2	89.3	91.1	92.4	93.6
Education Sector[3]	37.1	38.4	41.0	41.1	41.3
Postsecondary Education Sector	13.3	14.2	13.0	13.1	12.8
Children, Community and Social Services Sector	19.3	20.6	20.4	20.4	20.4
Justice Sector	6.0	6.5	6.7	6.5	6.4
Other Programs	34.4	40.6	44.1	43.1	43.3
Total Base Programs	**195.2**	**209.7**	**216.3**	**216.7**	**217.9**
Significant Exceptional Expenses	–	2.7	–	–	–
Total Programs	**195.2**	**212.4**	**216.3**	**216.7**	**217.9**
Interest and Other Debt Servicing Charges	14.5	15.2	16.2	17.0	17.8
Total Expense	**209.7**	**227.6**	**232.5**	**233.7**	**235.7**
Surplus/(Deficit) Before Reserve	**(0.6)**	**(6.0)**	**(12.6)**	**(5.8)**	**2.2**
Reserve	–	–	2.0	2.0	2.0
Surplus/(Deficit)	**(0.6)**	**(6.0)**	**(14.6)**	**(7.8)**	**0.2**
Net Debt as a Per Cent of GDP	36.4%	36.3%	37.9%	38.9%	38.6%
Net Debt as a Per Cent of Operating Revenue	198.1%	195.4%	211.4%	215.4%	212.4%
Net Interest as a Per Cent of Operating Revenue	5.5%	5.8%	6.5%	6.7%	6.8%

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 Interim represents the *2025 Budget* projection for the 2024–25 fiscal year.
3 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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