

# Economic and Budget Outlook

Summer 2025

**Briefing Deck**

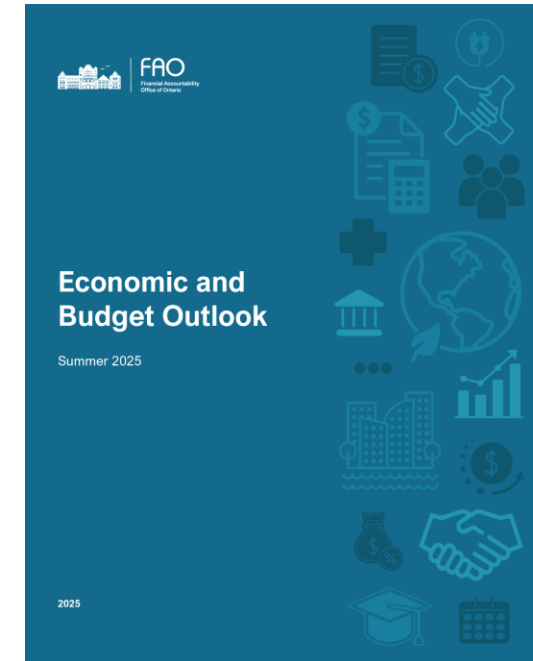


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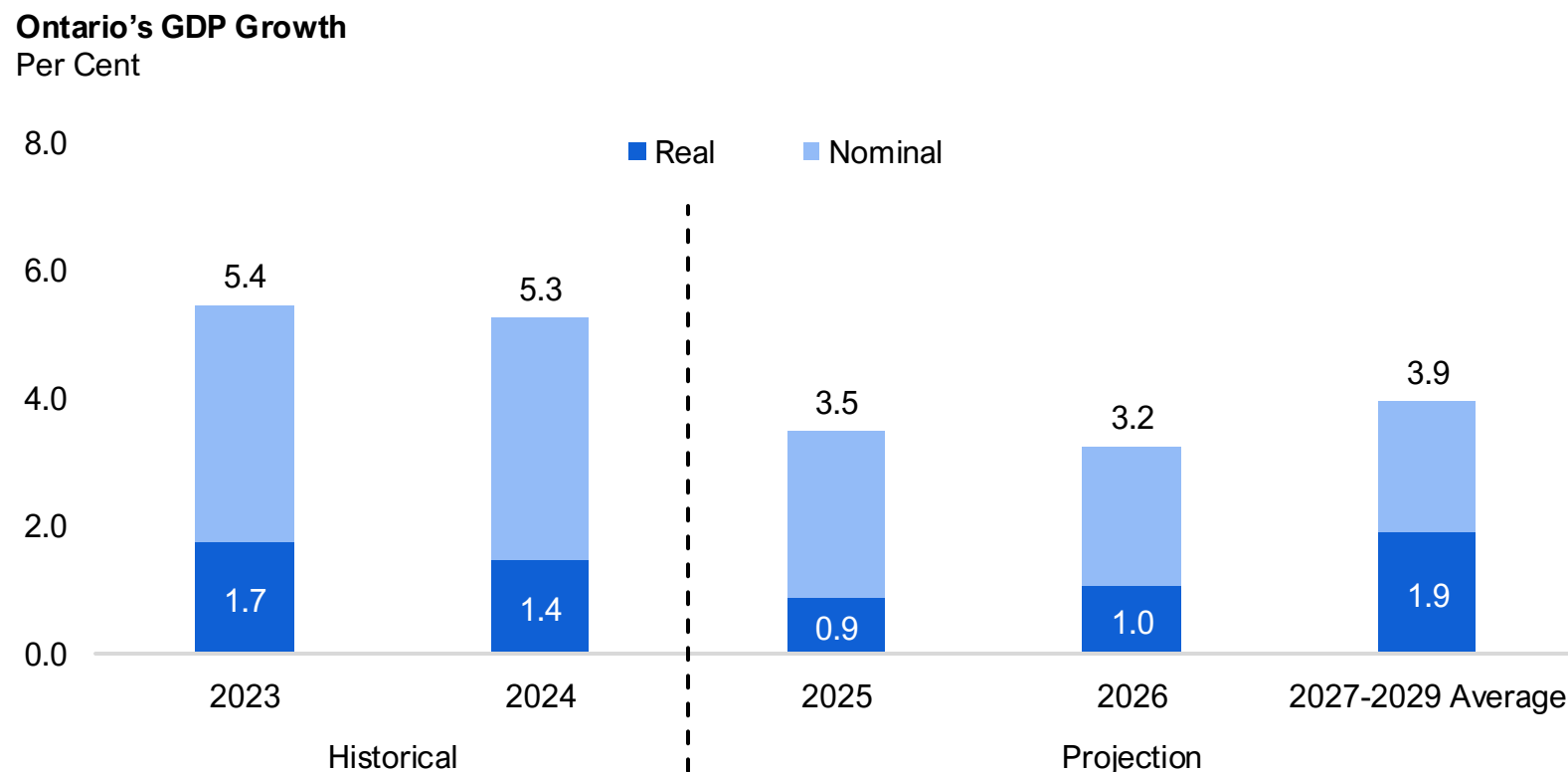
# Overview

- The Economic and Budget Outlook (EBO) provides the FAO's projection for Ontario's economy and the Province's finances over the 2024-25 to 2029-30 period. It also compares the FAO's outlook with the Province's plan presented in the 2025 Ontario Budget.
- The presentation will focus on Ontario's:
  1. Economic outlook
  2. Budget balance outlook
  3. Fiscal sustainability indicators
  4. Revenue outlook
  5. Spending outlook
  6. Risks to the economic and budget outlook



# Ontario's economic growth projected to slow in 2025 and 2026

- Ontario's real GDP growth, the broadest measure of economic activity, is projected to slow to 0.9% in 2025 and 1.0% in 2026 as US tariffs reduce demand for Ontario's exports and businesses cut back on investment and hiring.
- Ontario's nominal GDP growth, the broadest measure of the tax base, is projected to moderate to 3.5% in 2025 and 3.2% in 2026, reflecting slower labour income growth and weak corporate profits.

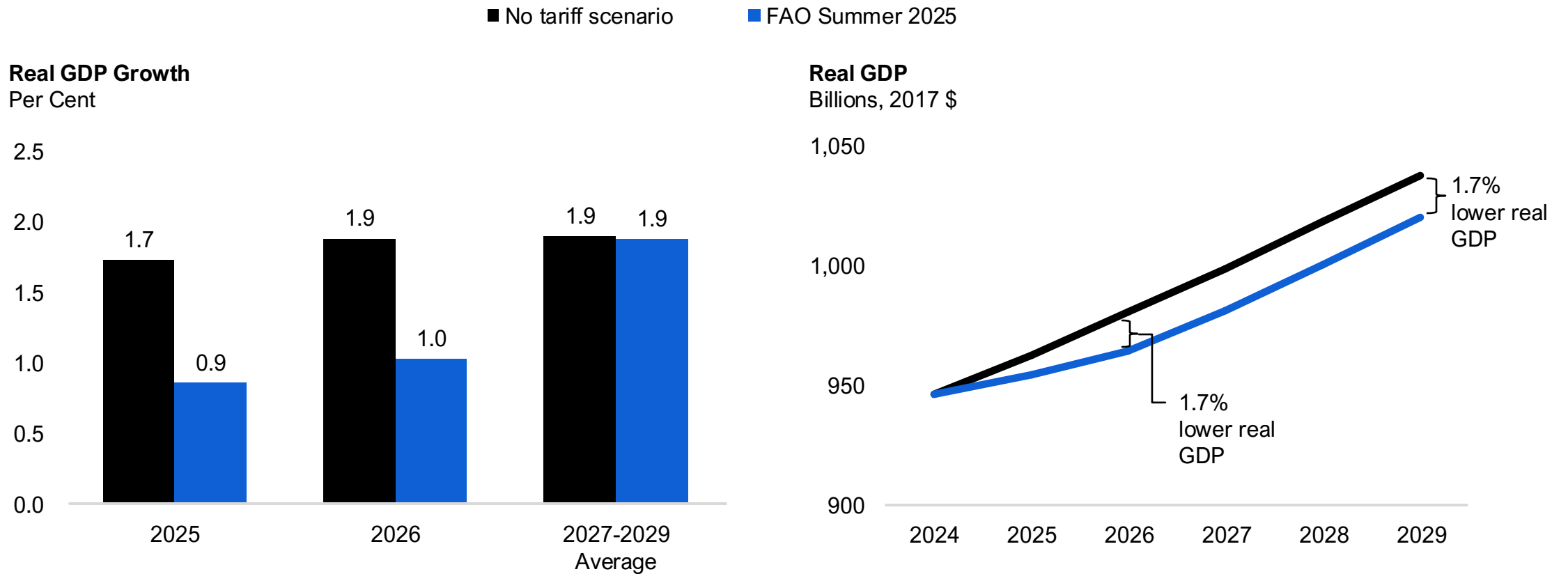


Source: Ontario Economic Accounts and FAO.



# US tariffs projected to lower Ontario's real GDP

- Compared to a no tariff scenario, Ontario's projected real GDP growth is 0.8 percentage points lower in 2025 and 0.9 percentage points lower in 2026.
- The level of Ontario's real GDP is projected to be 1.7% lower than in a no tariff scenario in 2029.



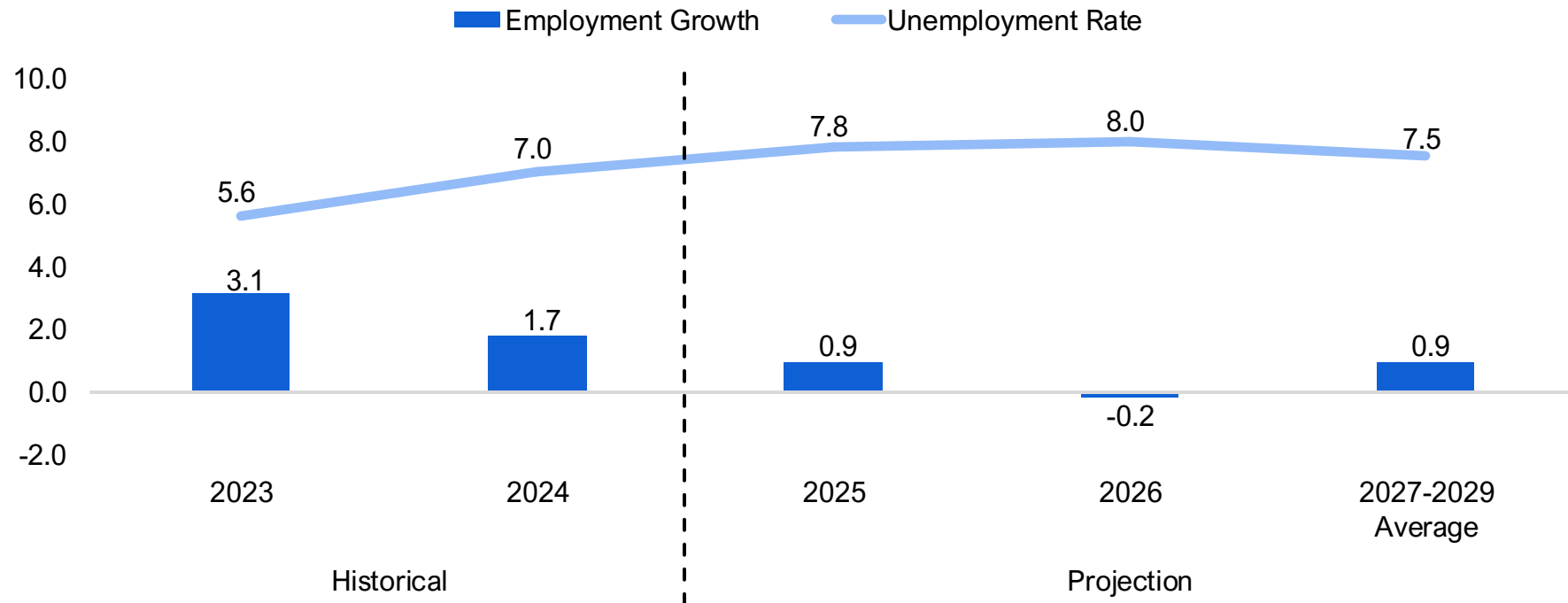
Source: Ontario Economic Accounts and FAO.



# Unemployment rate expected to increase in 2025 and 2026

- Annual employment growth is projected to slow to 0.9% in 2025, followed by a decline of 0.2% in 2026 as US tariffs result in job losses, especially in manufacturing and labour-intensive services industries.
- As a result, the annual unemployment rate is projected to increase to 7.8% in 2025 and 8.0% in 2026. The unemployment rate is expected to improve over the 2027 to 2029 period as Ontario's economy adjusts to the impact of tariffs.

**Employment Growth and Unemployment Rate**  
Per Cent

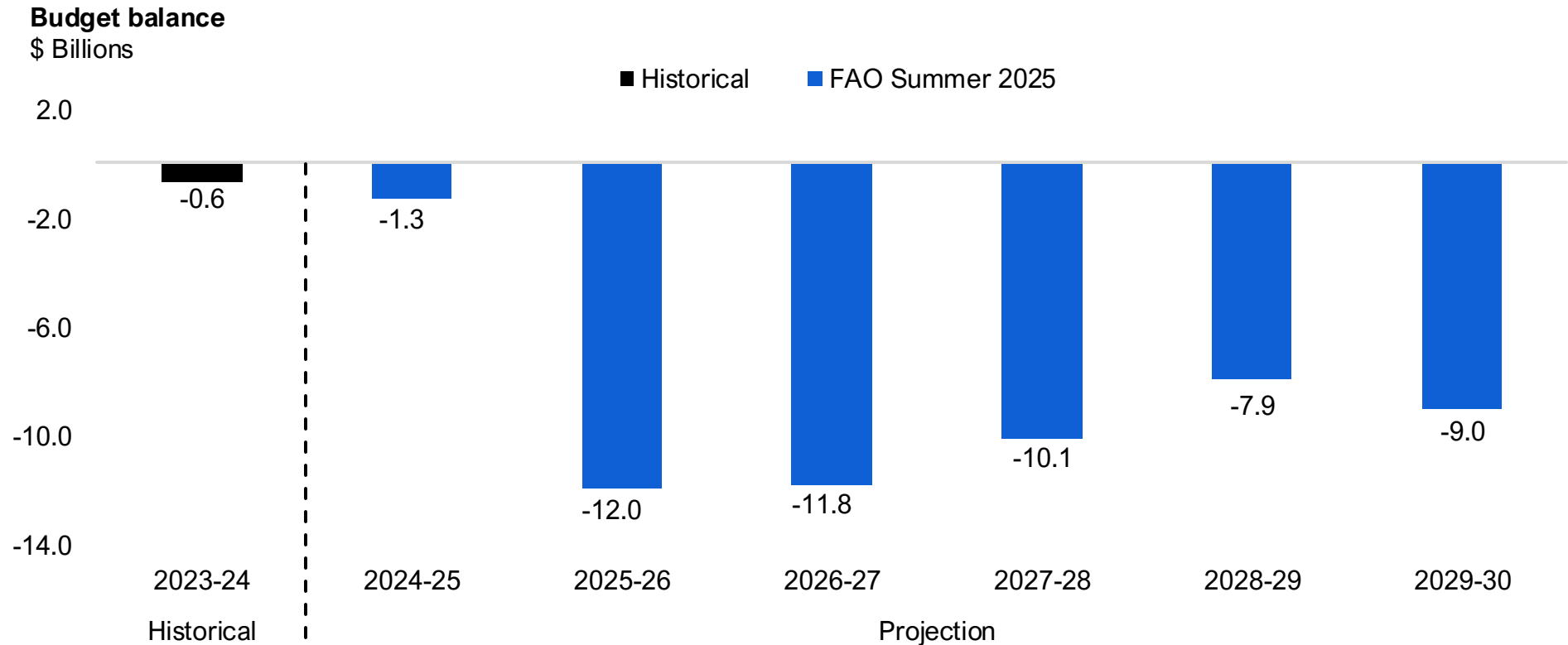


Source: Statistics Canada and FAO.



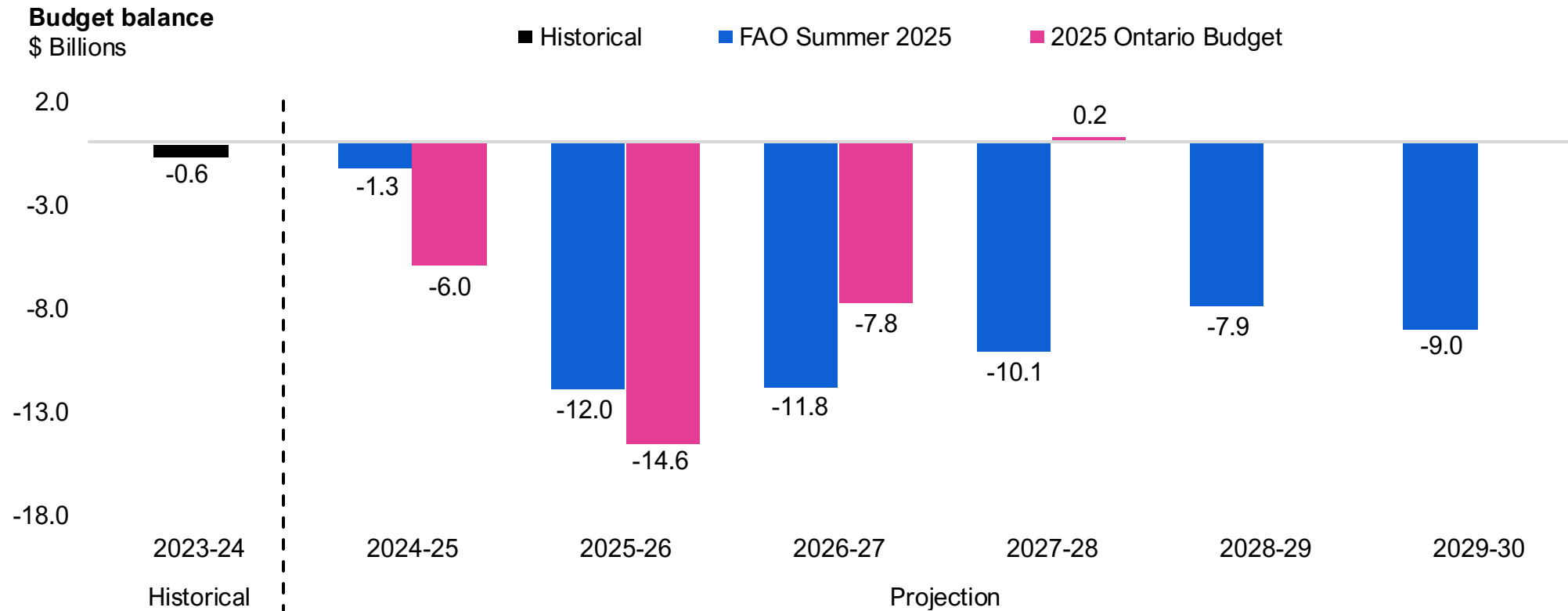
# FAO projects budget deficits over the outlook

- The FAO projects that the deficit will deteriorate to \$12.0 billion in 2025-26 due to a projected 1.7% decline in revenue (from a loss of one-time revenue and a slowing economic outlook) combined with a 3.1% increase in spending.
- The FAO projects that the budget will not balance over the outlook, with a deficit of \$9.0 billion in 2029-30.



# FAO budget projection compared to 2025 budget outlook

- The FAO's budget deficit projection is lower compared to the Province's deficit projection in the 2025 budget in the first two years of the outlook and larger in the last two years (the Province's forecast ends in 2027-28).
- The 2025 budget projects a balanced budget in 2027-28 due to stronger taxation revenue gains and significantly lower program spending growth compared to the FAO's outlook.



# Ontario's fiscal sustainability indicators to deteriorate

- In the 2025 budget, the Province's debt burden reduction strategy contained targets for three fiscal sustainability indicators.
- The net debt-to-GDP ratio and net interest-to-operating revenue ratio are expected to remain under the Province's targets, while the net debt-to-operating revenue ratio is expected exceed its target.

## Fiscal Sustainability Indicators

Indicator	10-Year Historical Average (%)	Government Target (%)	2023-24 Actual (%)	2029-30 Forecast (%)	Change (ppt)	Over / Under Target in 2029-30
Net debt-to-GDP	39.5	< 40.0	36.4	38.9	up 2.5 ppt	Under
Net debt-to-operating revenue	217.9	< 200.0	198.1	218.4	up 20.3 ppt	Over
Net interest-to-operating revenue	7.6	< 7.5	5.5	7.49	up 2.0 ppt	Under

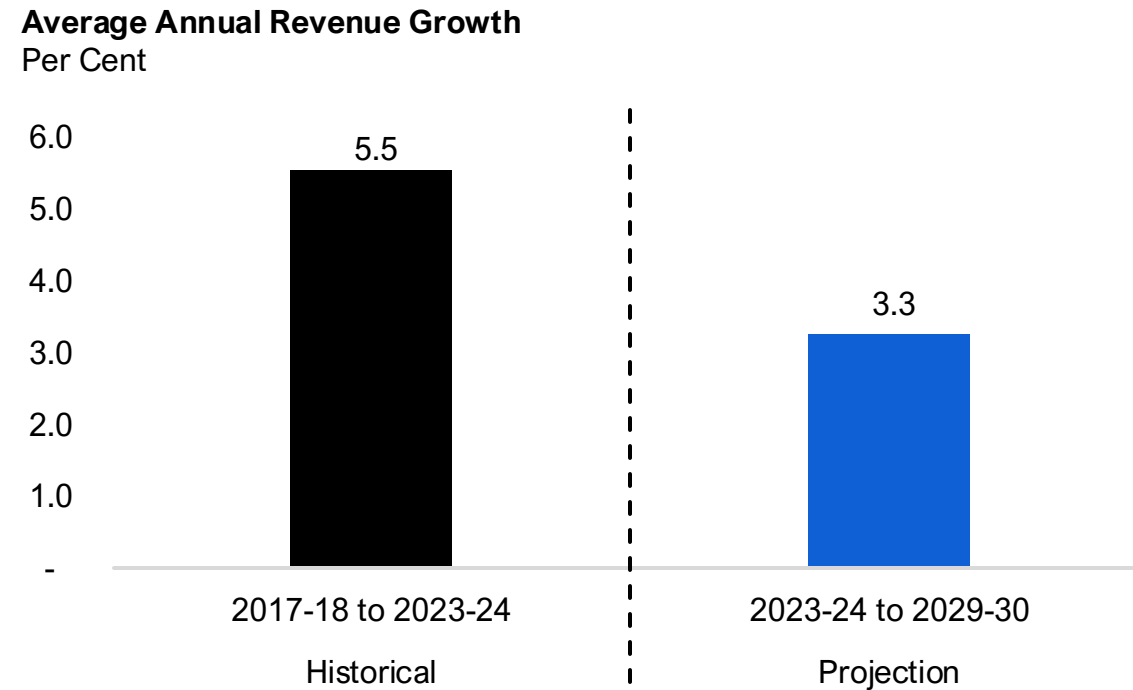
Note: 10-year historical average covers the period 2014-15 to 2023-24.  
Source: Ontario Public Accounts, 2025 Ontario Budget and FAO.





# Ontario's revenue growth to moderate

- From 2023-24 to 2029-30, revenue growth is expected to average 3.3% per year, slower than the 5.5% average annual increase recorded during the 2017-18 to 2023-24 period.
- The moderation in revenue growth reflects the FAO's forecast for slower nominal GDP growth. Revenue growth is also constrained by a projected decline in other non-tax revenue, including international student tuition revenue in the colleges sector and interest and investment income.



Note: Historical revenue has been restated to include revenue from interest and investment income.  
Source: Ontario Public Accounts and FAO.

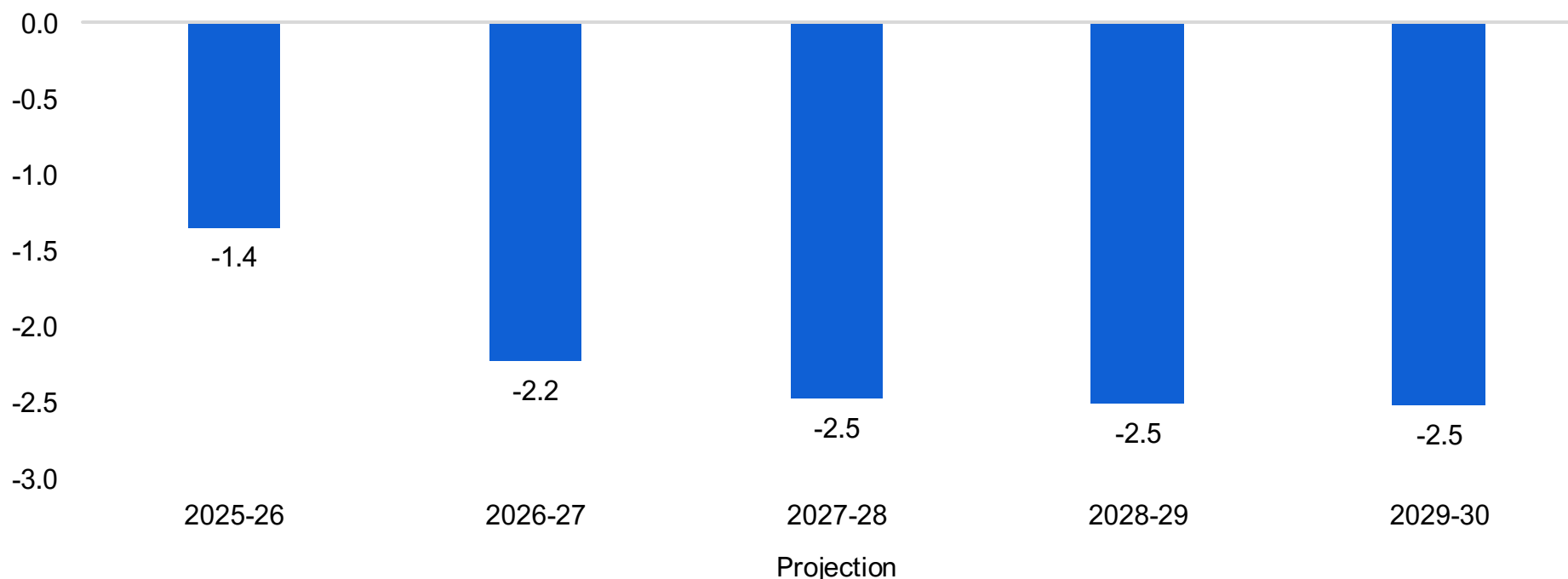


# US tariffs projected to lower Provincial revenue

- Based on US tariff policy as of August 5, 2025, the FAO estimates that in 2026-27, revenues will be \$2.2 billion lower than in the absence of tariffs.
- Over the outlook, US tariffs are expected to lower revenues by a cumulative \$11.1 billion from 2025-26 to 2029-30.

**Revenue impact of US tariff policy**

\$ Billions



Source: FAO.

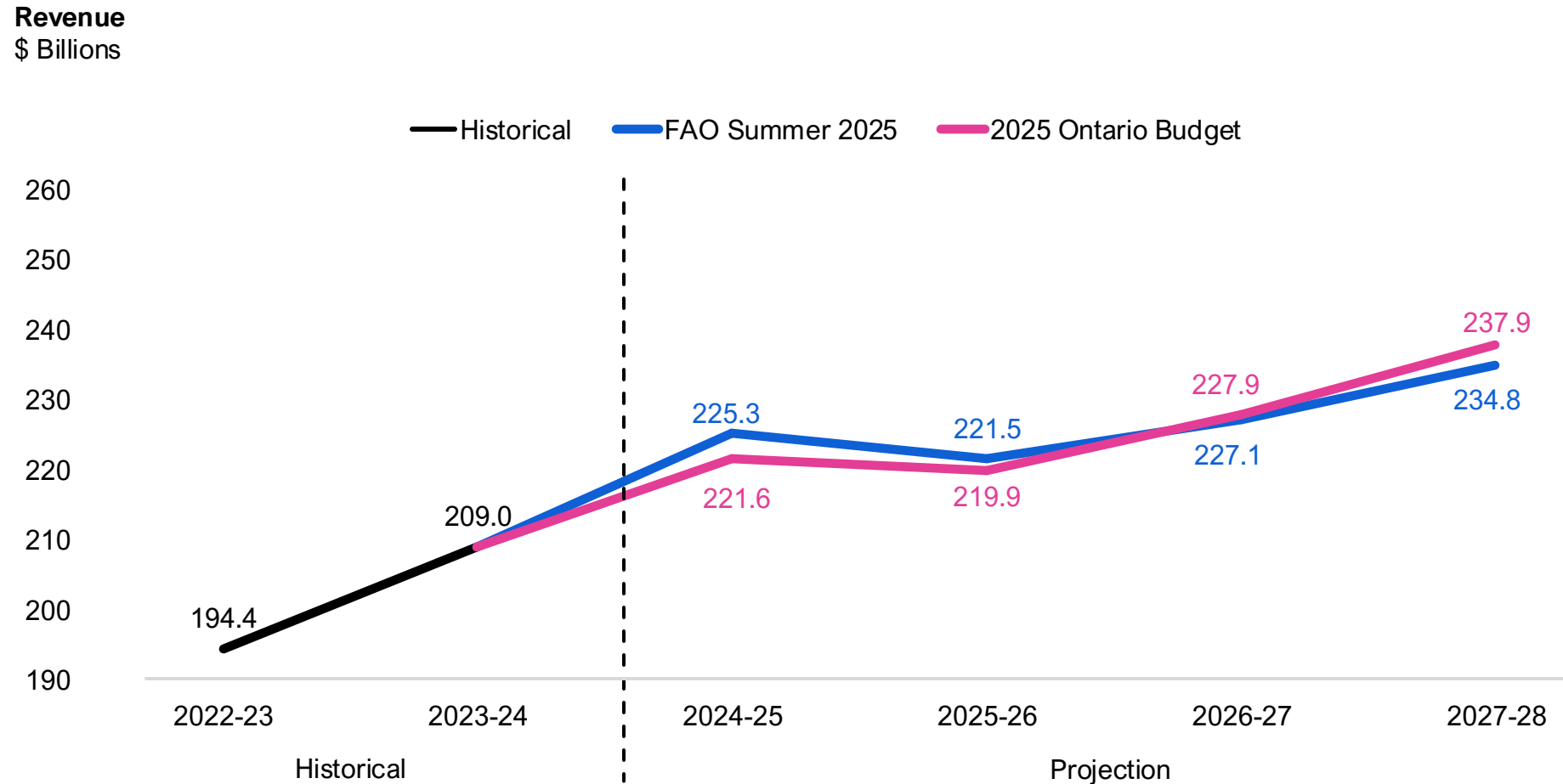


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# FAO revenue projection compared to government outlook

- The FAO projects a cumulative \$1.5 billion in higher revenue than the Province's projection in the 2025 budget.

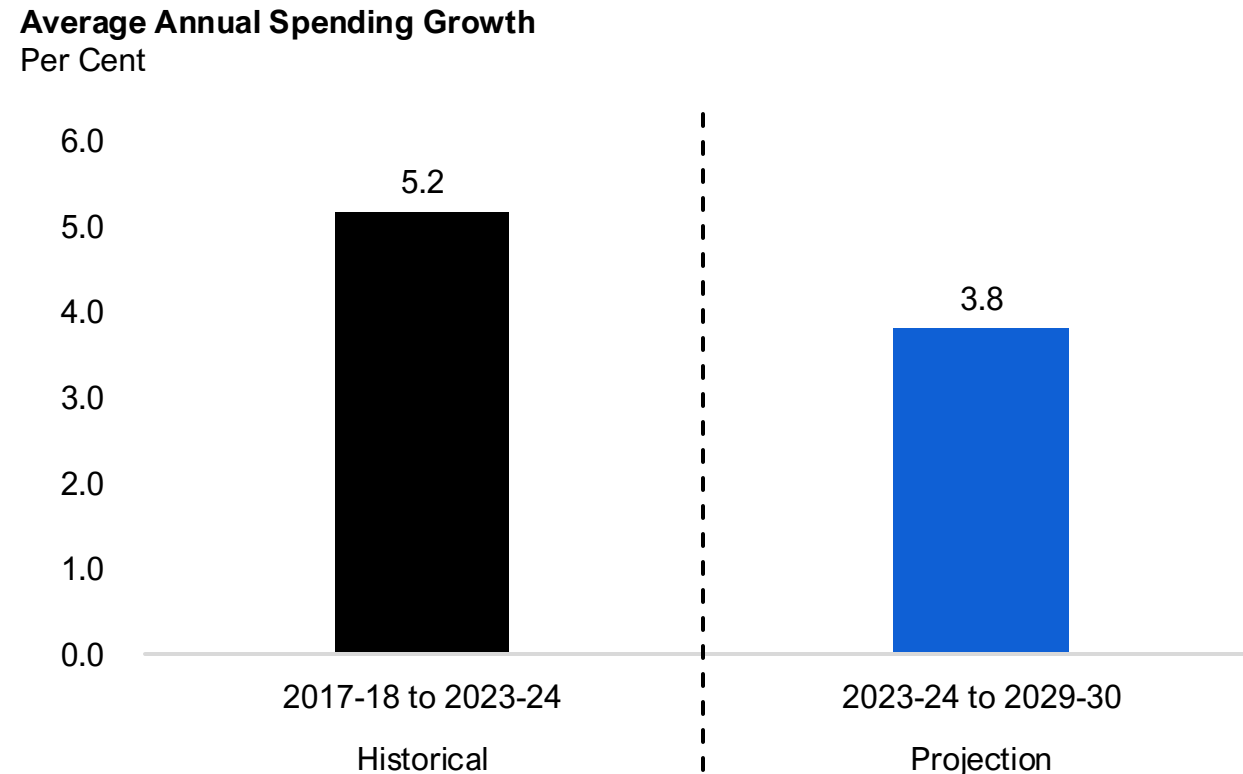


Source: Ontario Public Accounts, 2025 Ontario Budget and FAO.



# Spending growth to moderate over the projection

- The FAO projects that spending will grow at an average annual rate of 3.8%, slower than the 5.2% average annual growth from 2017-18 to 2023-24, a period that included the introduction of new government programs, the expansion of existing programs, and higher spending in response to the COVID-19 pandemic, inflationary pressures and high population growth.



Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: 2025 Ontario Budget and FAO analysis of information provided by the Province.

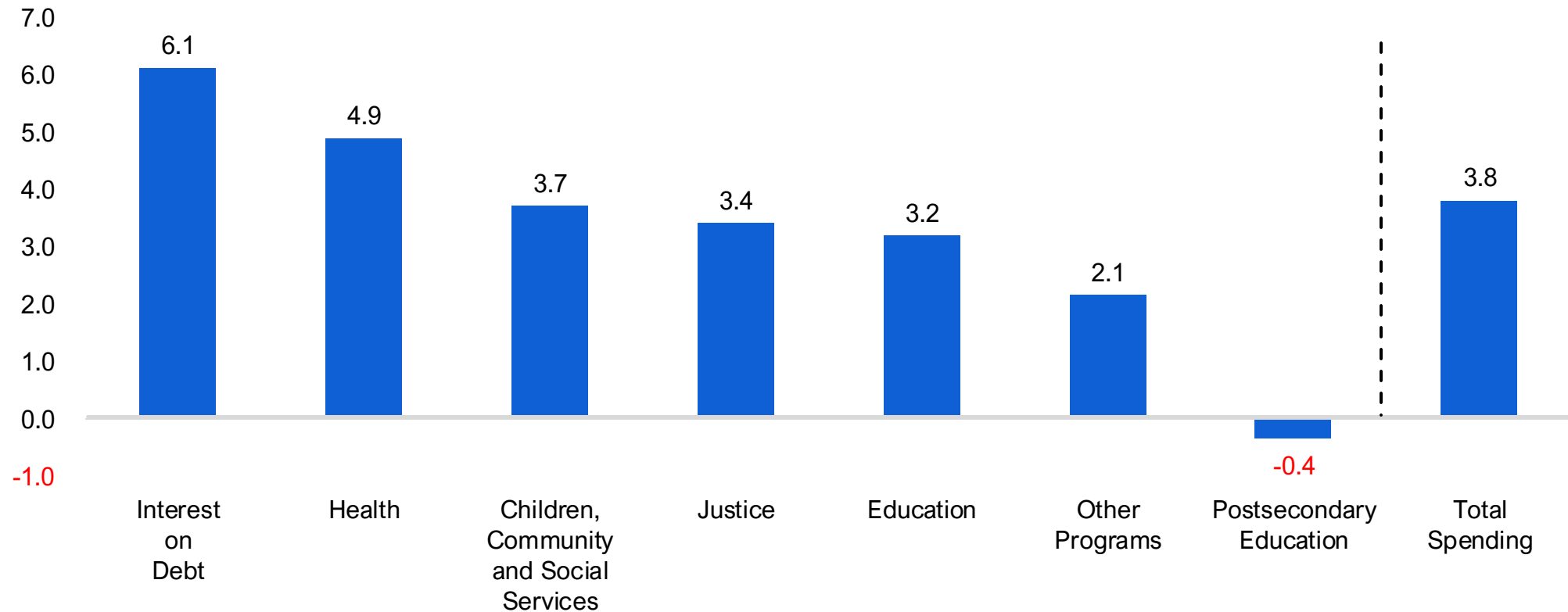


# Spending growth led by interest on debt and health sector

- By sector, interest on debt and health are expected to grow faster than the average total spending growth of 3.8%.

**Average Annual Spending Growth, 2023-24 to 2029-30**

Per Cent

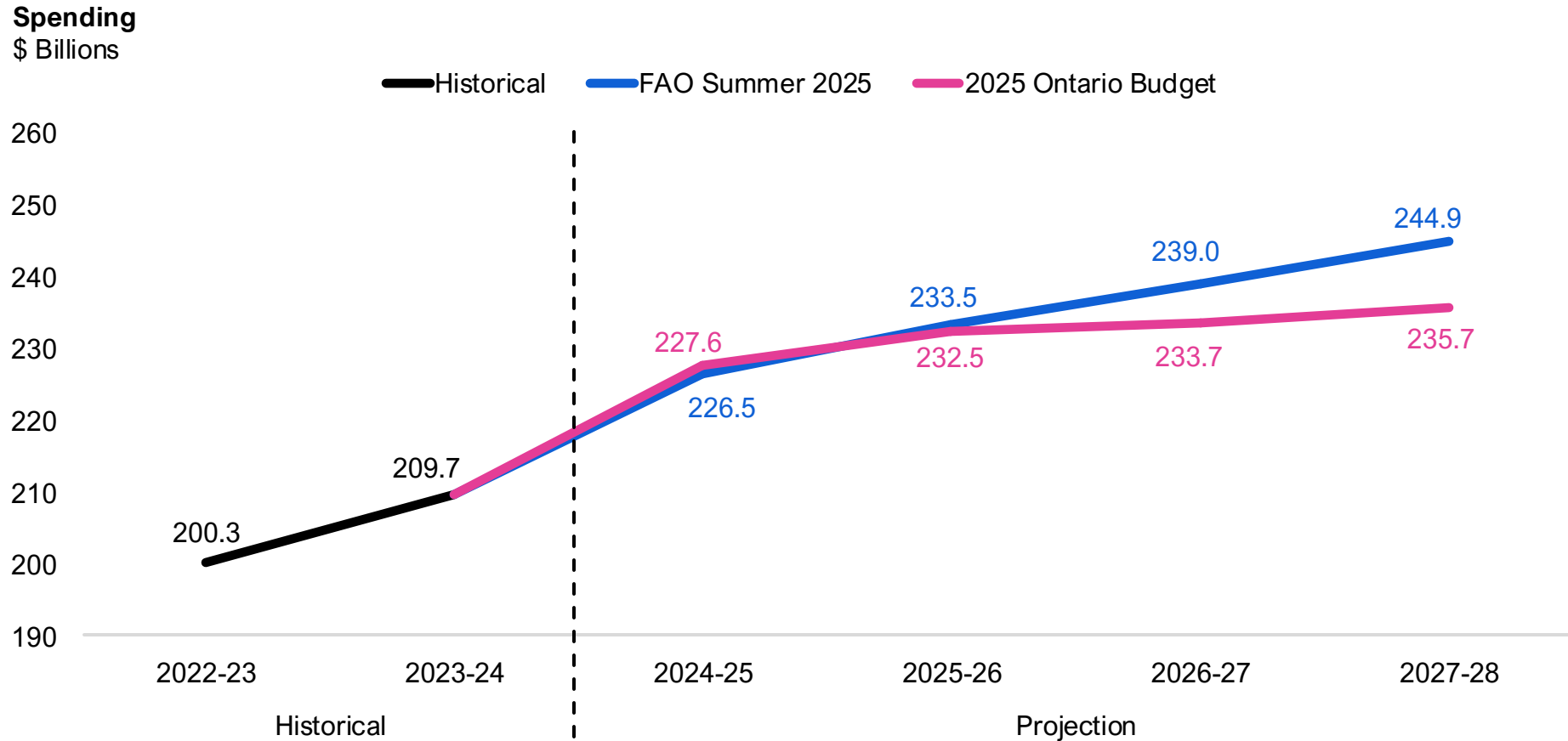


Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: 2025 Ontario Budget and FAO analysis of information provided by the Province.



# FAO spending projection compared to the government outlook

- The FAO projects a cumulative \$14.5 billion in higher spending than the Province's projection in the 2025 budget.



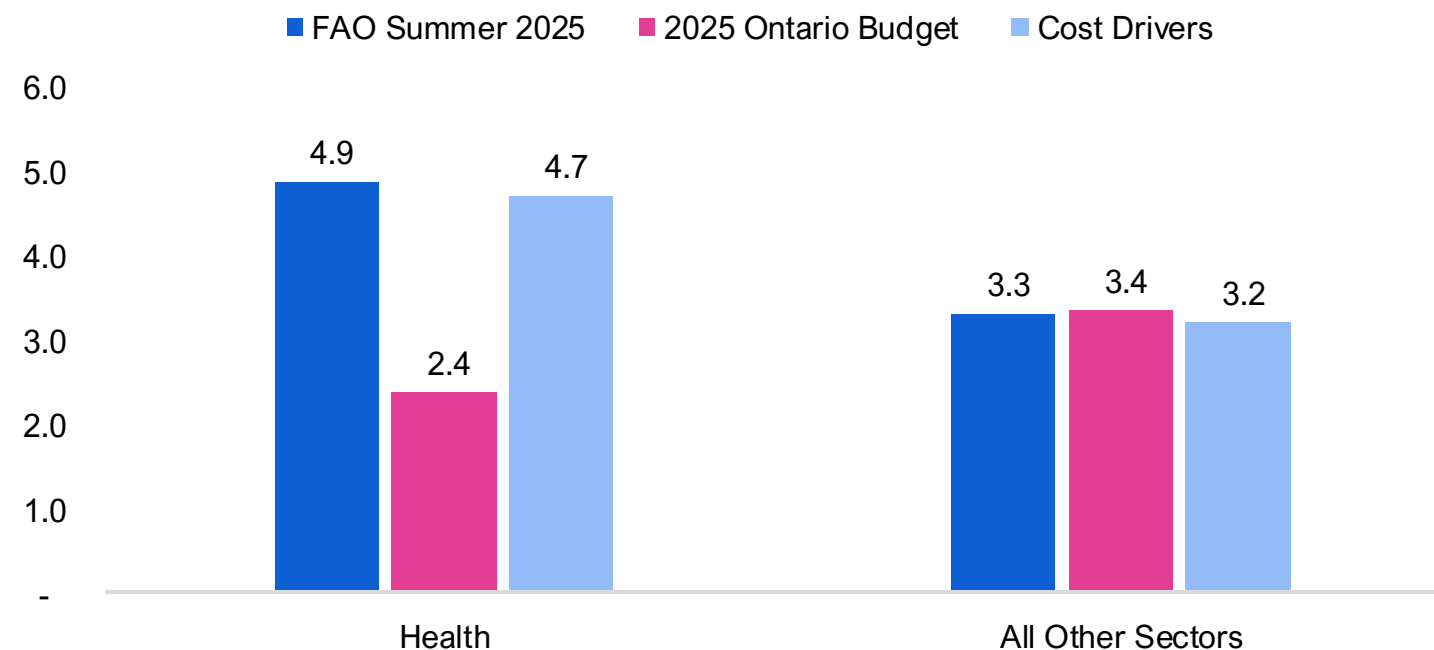
Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: Ontario Public Accounts, 2025 Ontario Budget and FAO.



# FAO's higher health spending forecast drives the gap

- The gap between the spending forecasts is largely driven by the FAO's higher health sector spending forecast.
- Across all other sectors combined, the FAO's spending forecast is consistent with the Province's forecast.

**Average Annual Spending Growth, 2023-24 to 2027-28**  
Per Cent



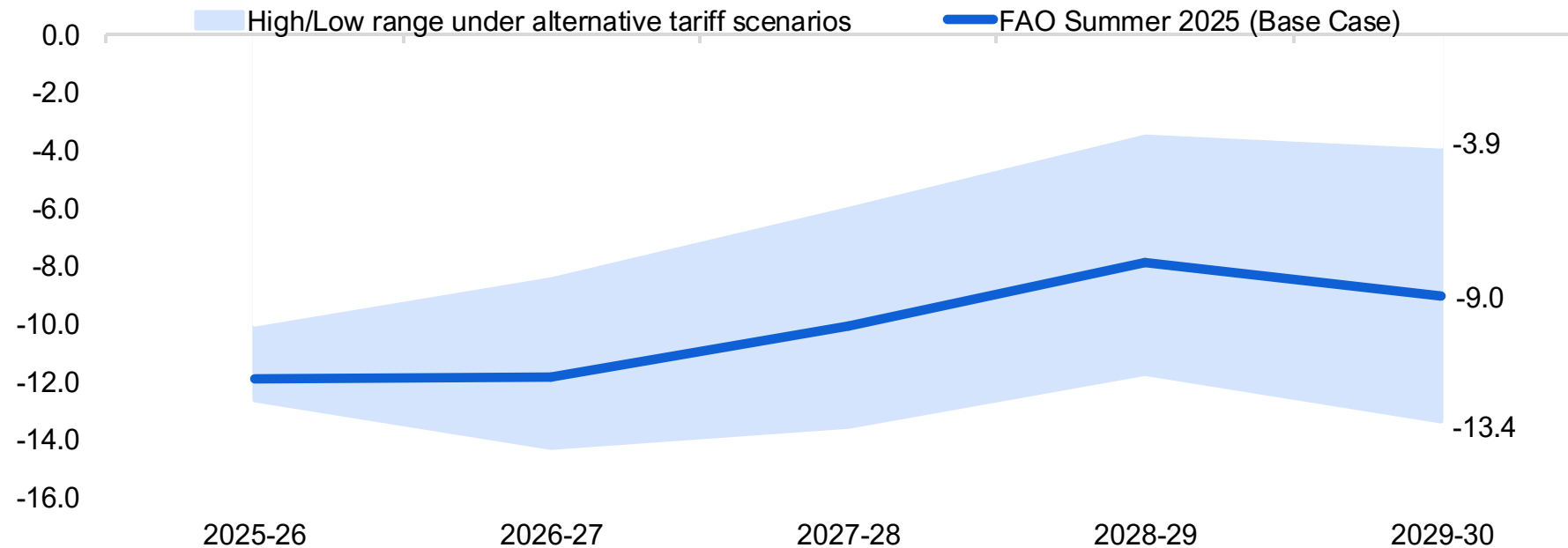
Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: Ontario Public Accounts, 2025 Ontario Budget and FAO.



# US trade policy remains the most significant risk

- The FAO developed two scenarios based on potential changes in US and Canadian tariff policies, to estimate a range of potential economic and budget impacts to Ontario.
  - In the “low impact” scenario, which assumes US tariffs are more favourable than tariff policies as of August 5, the FAO projects a budget deficit of \$3.9 billion by 2029-30.
  - In the “high impact” scenario, which assumes US tariffs are more severe, the budget deficit reaches \$13.4 billion in 2029-30.

**Budget Balance**  
\$ Billions



Source: FAO.





# Thank you!



# FAO

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