

# 2026 Ontario Budget Note



**FAO**

Financial Accountability  
Office of Ontario

2026



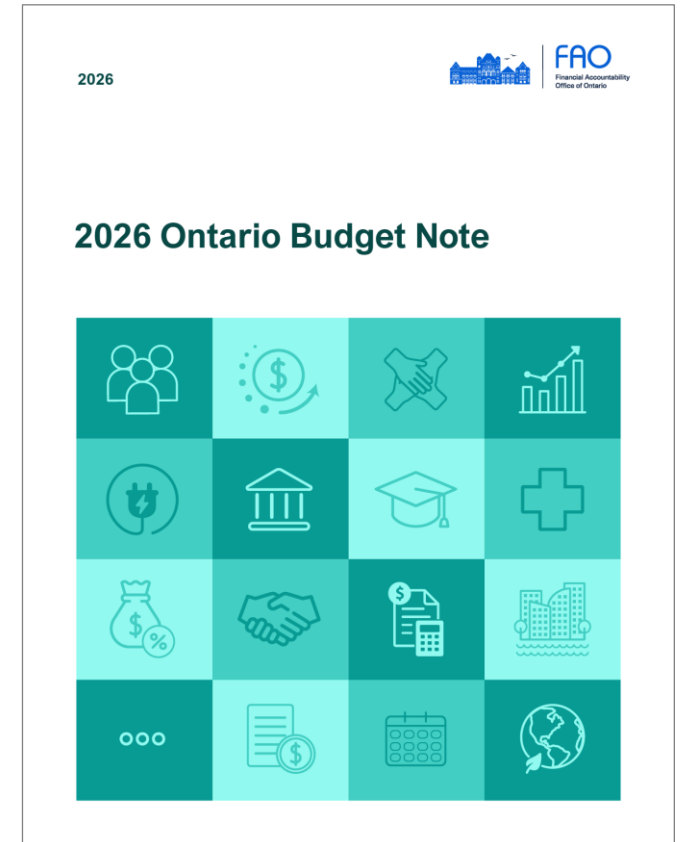
## 2026 Ontario Budget Note



Presentation

# Overview

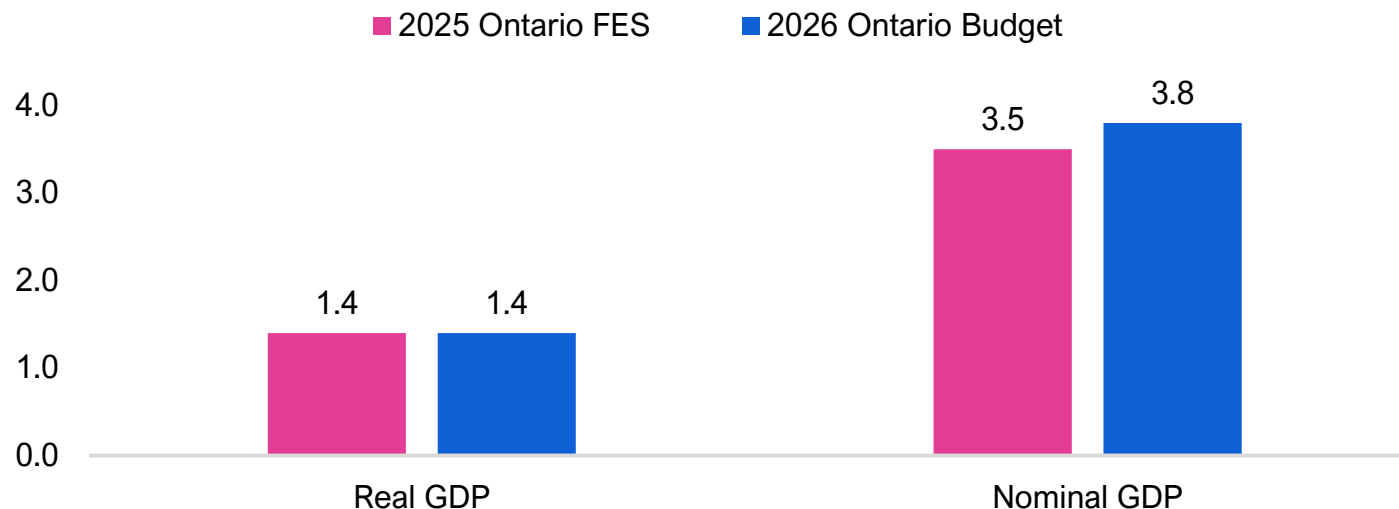
- To support Members of Provincial Parliament in their debate of the 2026 Ontario Budget, this note provides an overview and analysis of the 2026 budget, including the outlook for the economy, budget balance, net debt, revenue and spending.
- The presentation will cover the 2026 budget's:
  1. Economic outlook
  2. Budget balance outlook
  3. Net debt and fiscal sustainability indicators
  4. Revenue outlook
  5. Spending outlook



# The 2026 budget's economic outlook is similar to the 2025 Fall Economic Statement (FES)

- Real GDP, the broadest measure of economic activity, is projected to grow by an average annual rate of 1.4% from 2025 to 2028, the same pace as the government's outlook in the 2025 FES.
- The 2026 budget expects nominal GDP, the broadest measure of Ontario's tax base, to grow by an average of 3.8% a year from 2025 to 2028, 0.3 percentage points higher than the government's outlook in the 2025 FES.

Average Annual Growth, 2025-2028 (Per Cent)



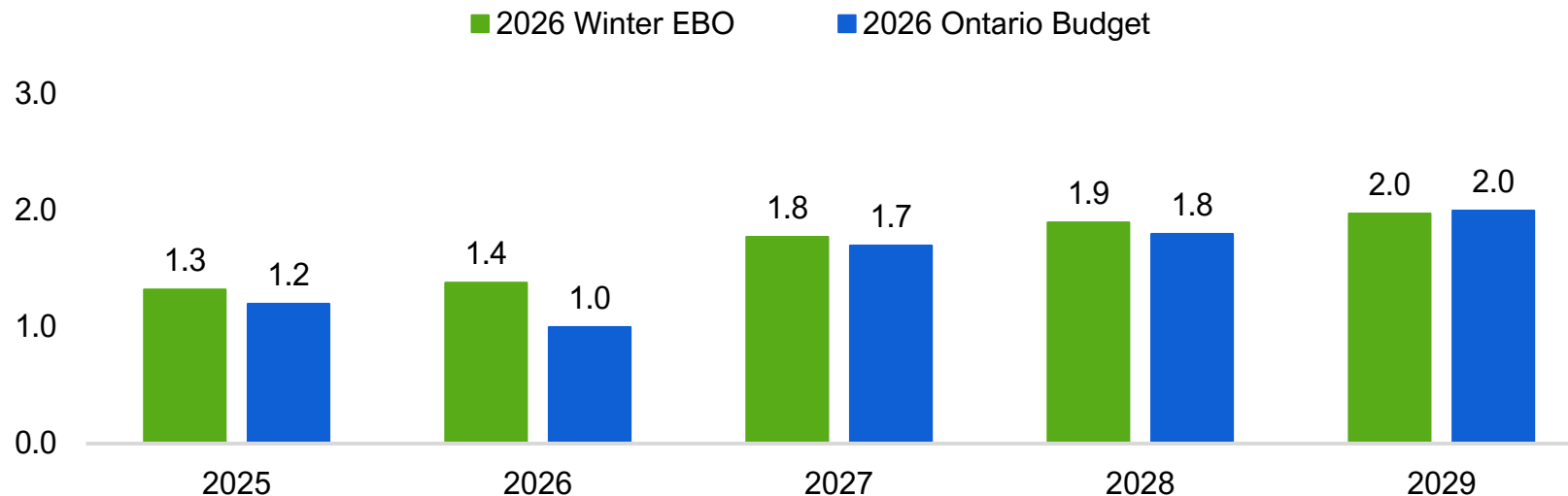
Source: 2026 Ontario Budget and 2025 Ontario Economic Outlook and Fiscal Review.



# The 2026 budget's outlook for real GDP growth is modestly lower than the FAO's

- The government's outlook for real GDP growth in the 2026 budget is modestly lower than the FAO's projection in the Economic and Budget Outlook (EBO) released in February 2026.
- The 2026 budget expects average annual real GDP growth of 1.5% during the 2025 to 2029 period, compared to the FAO's 1.7% average.

Real GDP Growth (Per Cent)



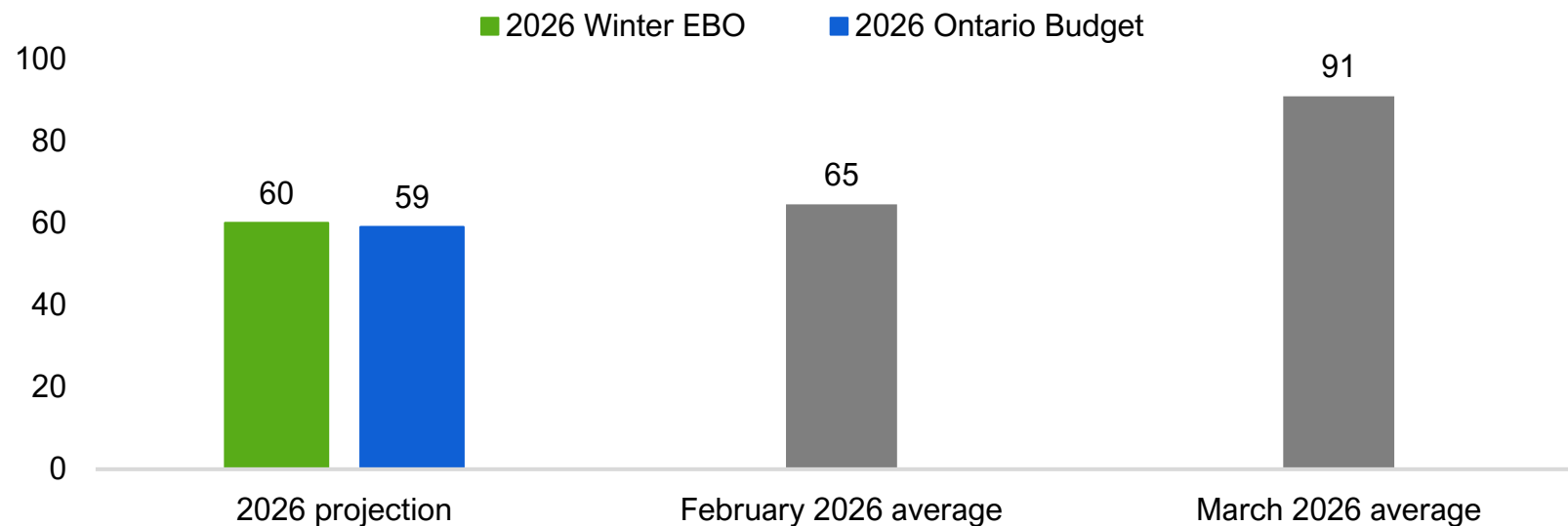
Source: 2026 Ontario Budget and FAO.



# The 2026 budget and FAO economic outlooks are subject to potentially significant downside risks

- Recent data indicate that Ontario's population growth and economic activity were weaker than anticipated in late 2025 and early 2026.
- The war in Iran has disrupted supply chains and raised oil prices. If oil prices remain elevated, Ontario's GDP growth in 2026 could be significantly weaker than projected by both the government and the FAO.

West Texas Intermediate Crude Oil (\$US per Barrel)

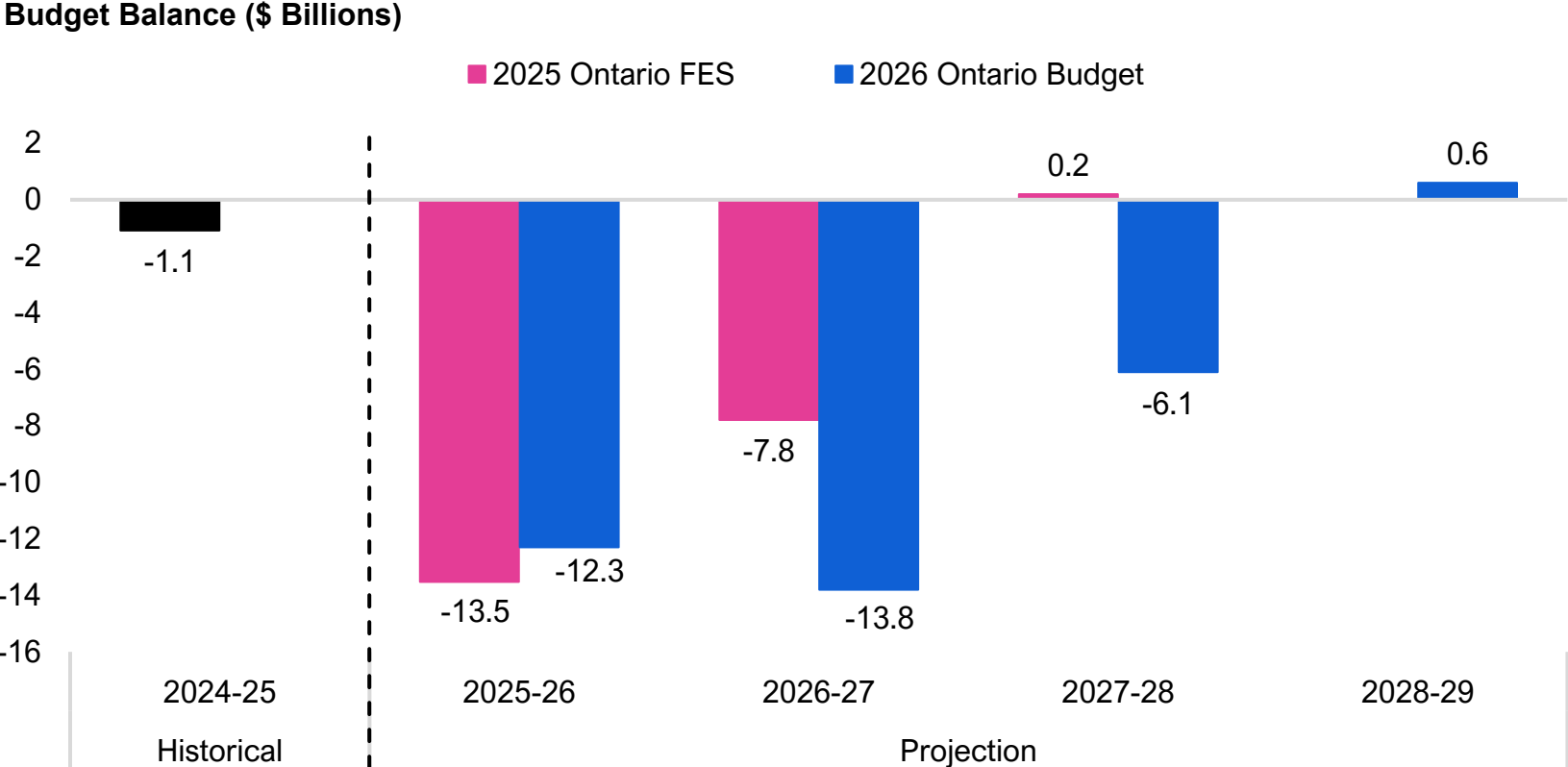


Source: 2026 Ontario Budget, FAO and Federal Reserve Economic Data.



# Province delays balanced budget until 2028-29

- Following a budget deficit of \$1.1 billion in 2024-25, the budget balance is projected to deteriorate to a deficit of \$13.8 billion in 2026-27 before rapidly returning to balance in 2028-29, one year later than projected in the 2025 FES.

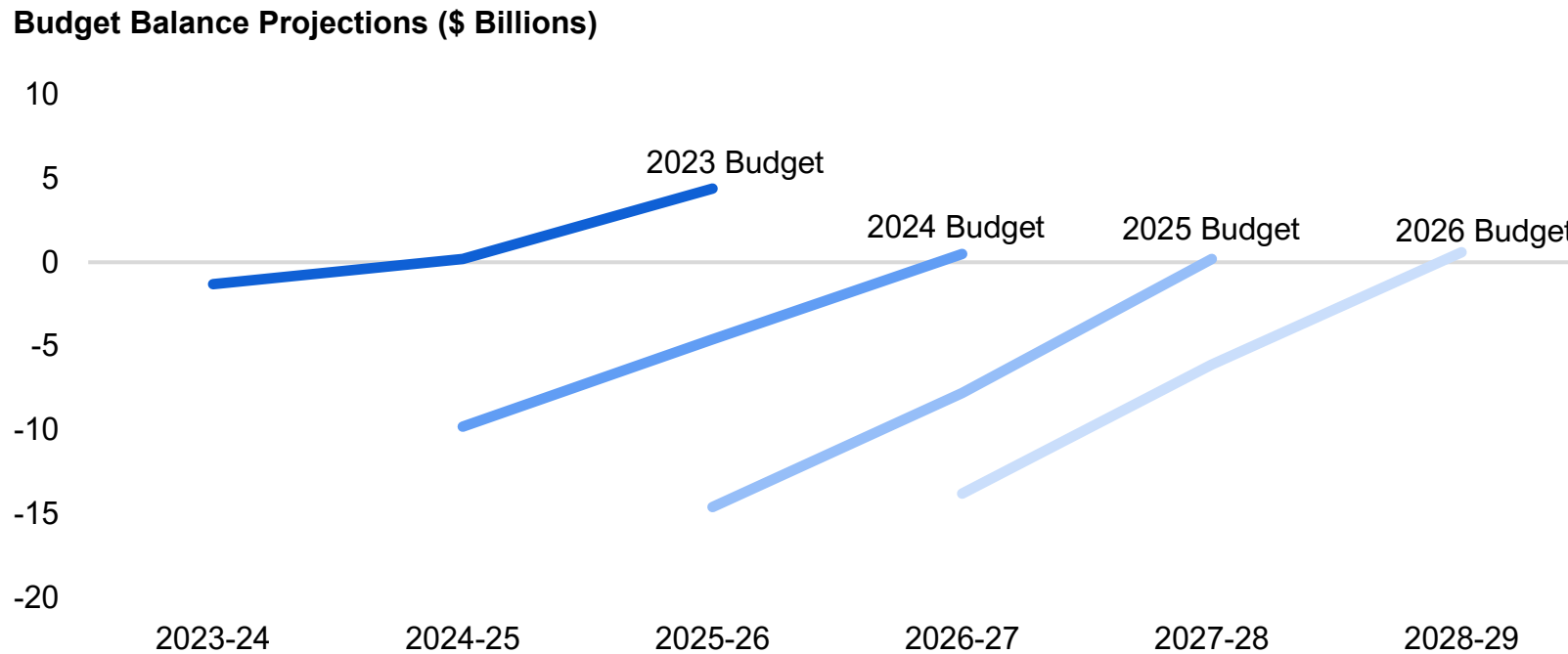


Source: 2026 Ontario Budget and 2025 Ontario Economic Outlook and Fiscal Review.



# Since the pandemic, the government has delayed its target for a balanced budget three times

- Following the post-pandemic 2023 budget, which projected a balanced budget in the 2024-25 fiscal year, this is the third consecutive budget to extend the projected balanced budget date.
- These delays were due to significant upward revisions to the government's spending projections, which were revised up by an average of \$8.4 billion per year across comparable years in each budget.

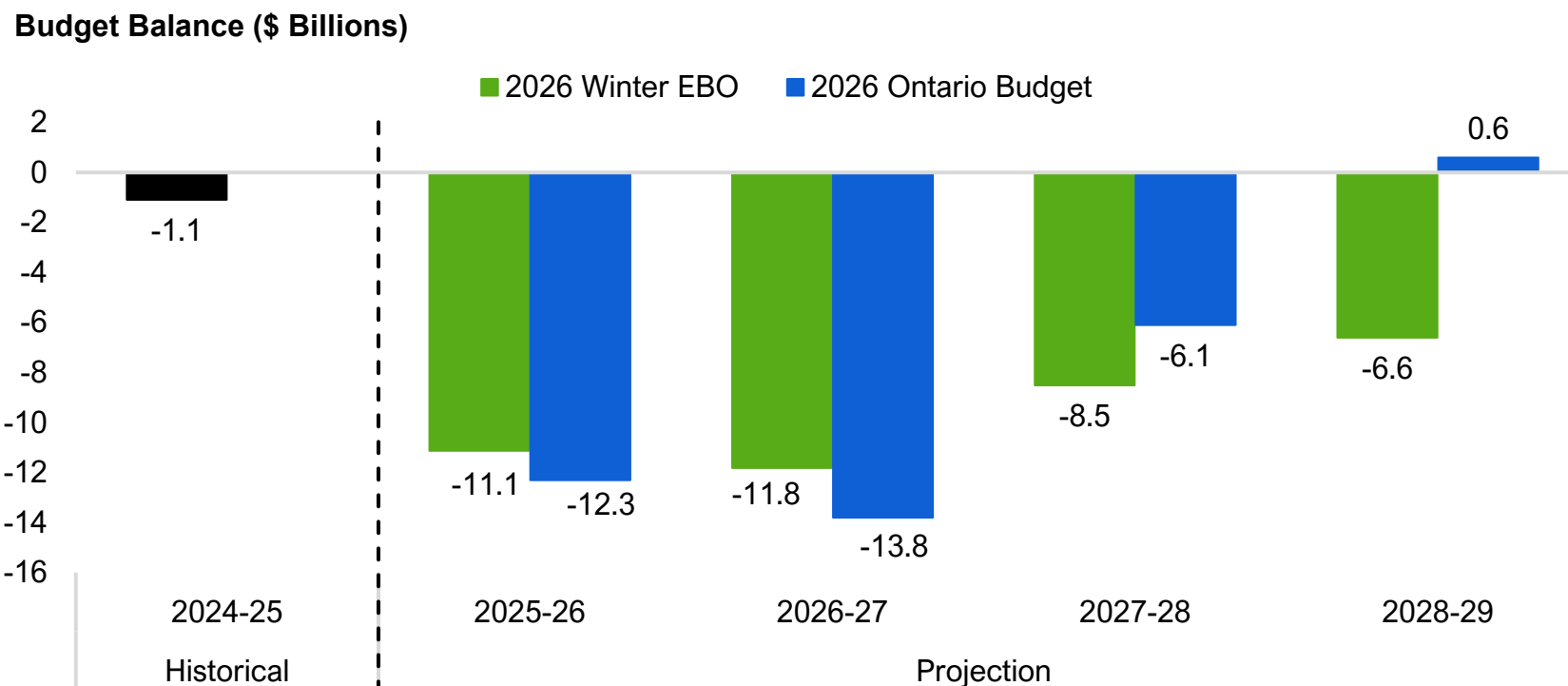


Source: 2023, 2024, 2025 and 2026 Ontario Budgets.



# The 2026 budget projection is more optimistic than the FAO's

- The 2026 budget projects larger deficits than the FAO in 2025-26 and 2026-27. However, the 2026 budget projects a rapid return to balance during 2027-28 and 2028-29 while the FAO projects ongoing deficits.
- The FAO's projection did not expect that the Province would return to a balanced budget by 2028-29 without additional measures to reduce spending and/or increase revenue.



Source: 2026 Ontario Budget and FAO.



# 2026 budget projects net debt will reach \$529.3 billion by 2028-29

- The 2026 Ontario Budget introduced a change to the calculation of net debt to comply with updated public sector accounting standards for the presentation of financial statements. Prior to 2026-27, net debt was calculated as the Province's total liabilities less financial assets, and excluded non-financial assets (largely infrastructure assets owned by the Province and the broader public sector). Starting in 2026-27, net debt also excludes non-financial liabilities, which the FAO estimates reduces net debt by approximately \$11 billion.
- The 2026 Ontario Budget projects that the Province's net debt will rise from \$427.1 billion in 2024-25 to \$529.3 billion in 2028-29, an increase of \$102.2 billion (23.9%).
- This increase is due to \$31.7 billion in accumulated budget deficits and borrowing to finance an \$82.0 billion increase in non-financial assets (largely capital assets), offset by an \$11.5 billion adjustment to remove non-financial liabilities from the calculation of net debt.



# Fiscal sustainability indicators expected to worsen

- In the 2026 budget, the government's debt burden reduction strategy contained three targets, which are unchanged since the 2023 budget: net debt-to-GDP below 40%; net debt-to-revenue below 200%; and net interest-to-revenue below 7.5%.
- All three fiscal sustainability indicators are projected to worsen over the projection. However, only the net debt-to-revenue ratio is expected to exceed the government's 2026 budget target in 2028-29.

## 2026 Ontario Budget actual and projected fiscal sustainability indicators

Indicator	2024-25 Actual (%)	2028-29 Forecast (%)	Change (ppt <sup>**</sup> )	Government Target (%)	Over / Under Target in 2028-29	10-Year Historical Average (%)	Over / Under 10-year Average in 2028-29
Net Debt-to-GDP*	35.7	38.2	2.5	< 40.0	Under	38.9	Under
Net Debt-to-Revenue*	191.2	209.8	18.6	< 200.0	Over	213.8	Under
Net Interest-to-Revenue*	5.5	7.1	1.6	< 7.5	Under	7.3	Under

\* Prior to 2026-27, net debt is calculated as total liabilities less financial assets. Starting in 2026-27, net debt is calculated as financial liabilities less financial assets. For the net debt-to-revenue and net interest-to-revenue ratios, revenue is calculated as total revenue less interest and investment income. For the net interest-to-revenue ratio, net interest is calculated as interest and other debt servicing charges less interest and investment income.

\*\* Represents percentage point (ppt).

Note: 10-year historical average covers the period 2015-16 to 2024-25.

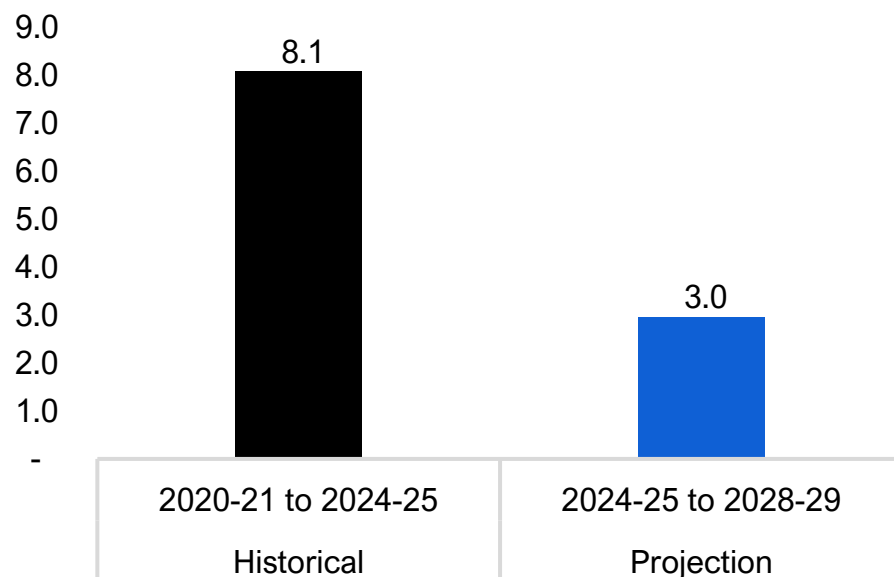
Source: 2026 Ontario Budget and FAO.



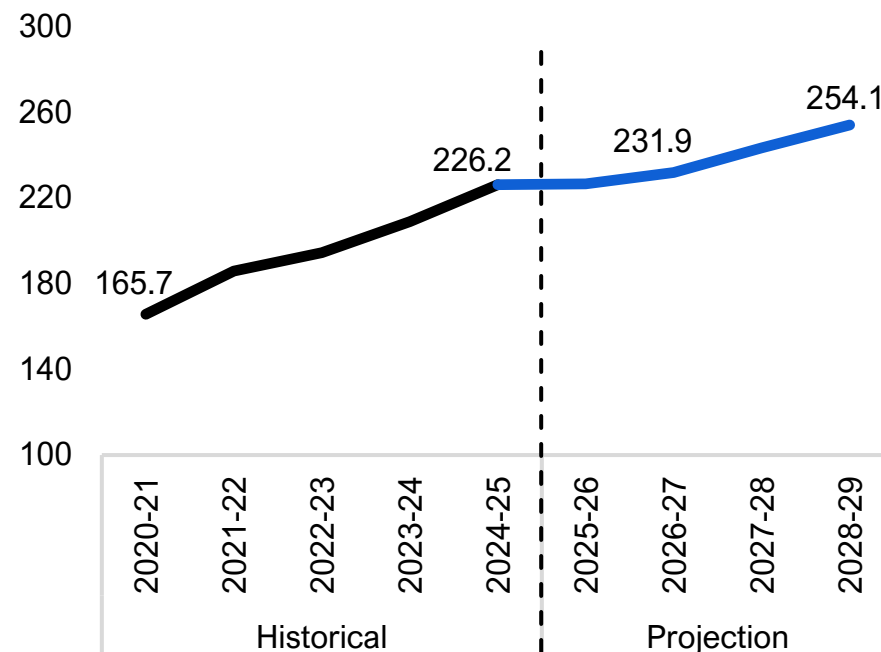
# 2026 budget projects revenue growth to moderate

- The budget projects revenue will grow at an average annual rate of 3.0%, a slower pace than the 8.1% average annual pace over the last four years.
- Growth over the first two years of the projection averages 1.3%, largely reflecting declines in other non-tax revenues, before accelerating to 4.7% over the last two years driven by strong increases in tax revenues.

Average Annual Revenue Growth (Per Cent)



Total Revenue (\$ Billions)



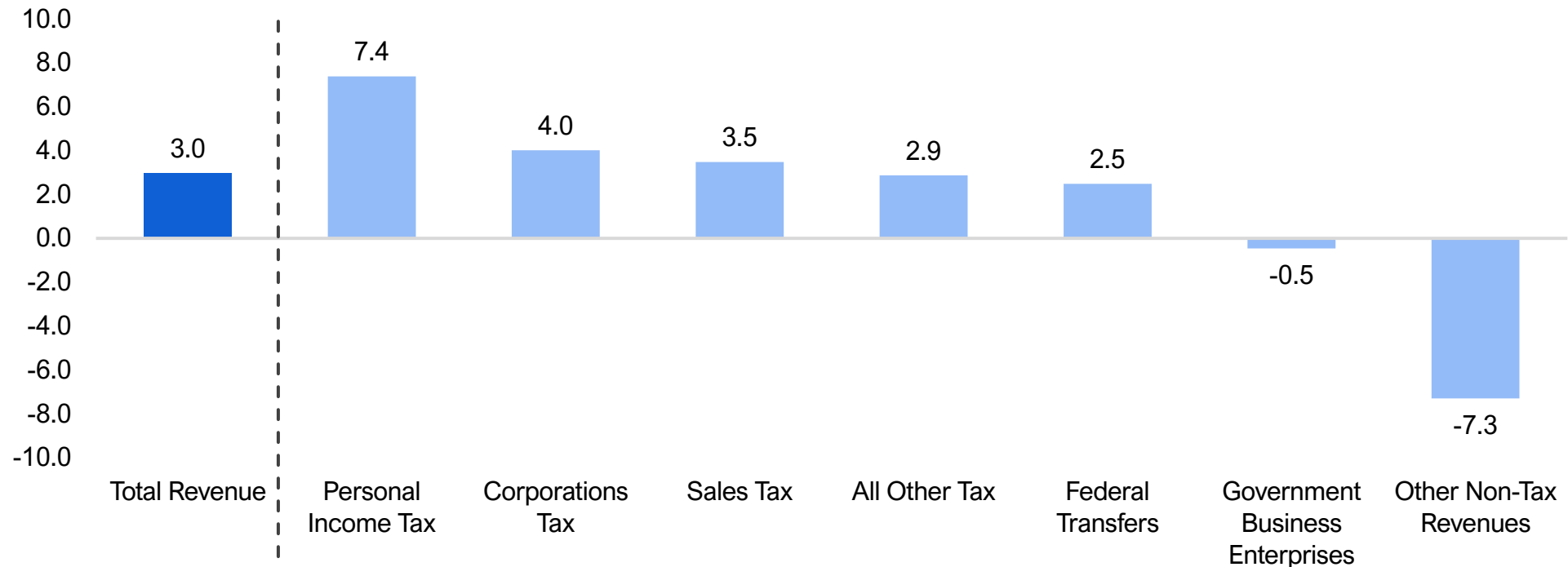
Note: Historical revenue has been restated to include revenue from interest and investment income.  
Source: 2026 Ontario Budget, Ontario Public Accounts and FAO.



# The 2026 budget revenue projection relies on strong growth in personal income tax

- Revenue over the budget projection is driven primarily by 7.4% average annual growth in personal income tax (PIT) revenue, well above the 2026 budget's projected 3.5% annual labour income growth, the primary driver of PIT revenue growth.

Average Annual Revenue Growth, 2024-25 to 2028-29 (Per Cent)

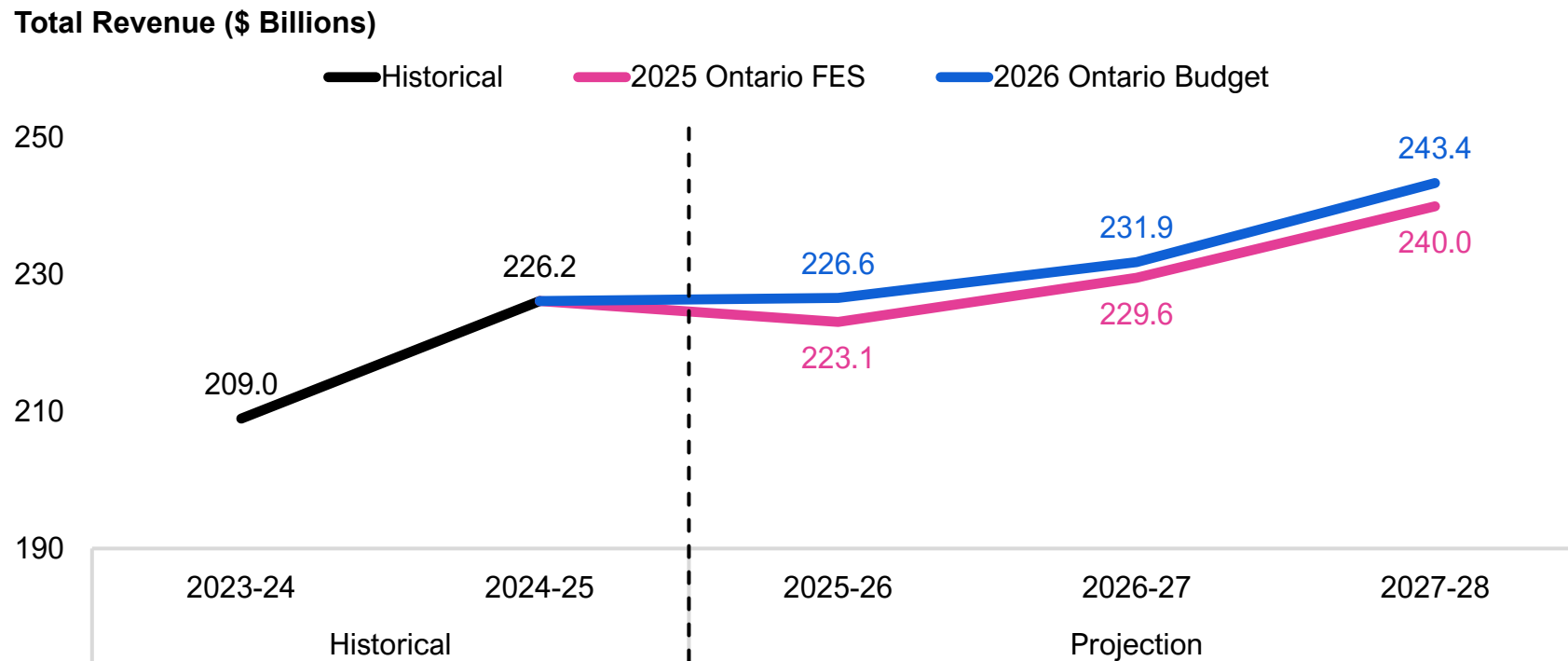


Source: 2026 Ontario Budget, Ontario Public Accounts and FAO.



# 2026 budget projects higher revenue than 2025 FES

- Relative to the 2025 FES, the 2026 budget's projected revenue is higher in each year of the comparable projection period (2025-26 to 2027-28), for a cumulative increase of \$9.2 billion.
- The difference is driven primarily by \$8.3 billion in higher projected PIT revenue. The government notes that 2025 economic growth and equity market performance were stronger than forecast, leading to the higher projected PIT revenue.

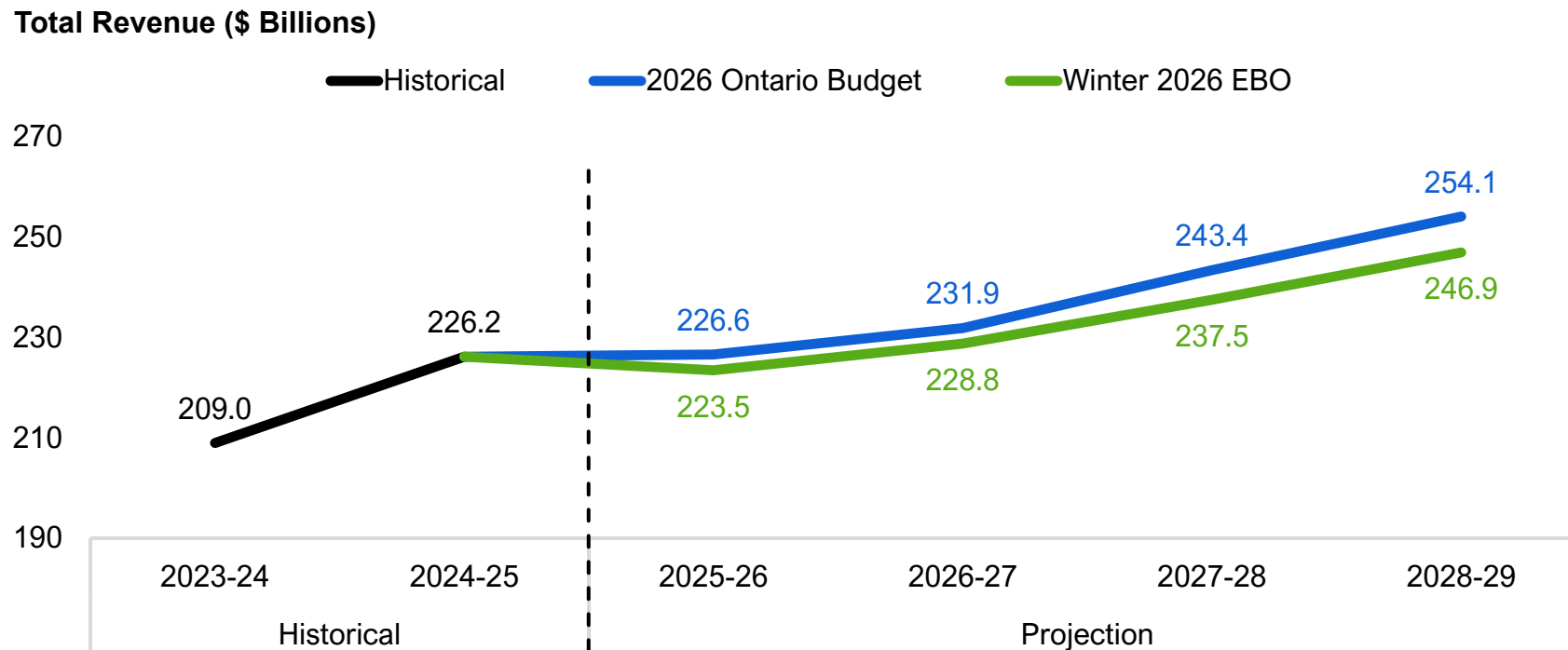


Note: Historical revenue has been restated to include revenue from interest and investment income.  
 Source: 2026 Ontario Budget, 2025 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.



# 2026 budget revenue projection higher than FAO's

- The revenue projection in the 2026 budget is a cumulative \$19.3 billion higher than the FAO's Winter 2026 EBO projection over the comparable forecast period (2025-26 to 2028-29).
- The difference largely results from the 2026 budget's cumulative \$25.7 billion higher PIT revenue projection, somewhat offset by \$4.7 billion in lower projected sales tax revenue.



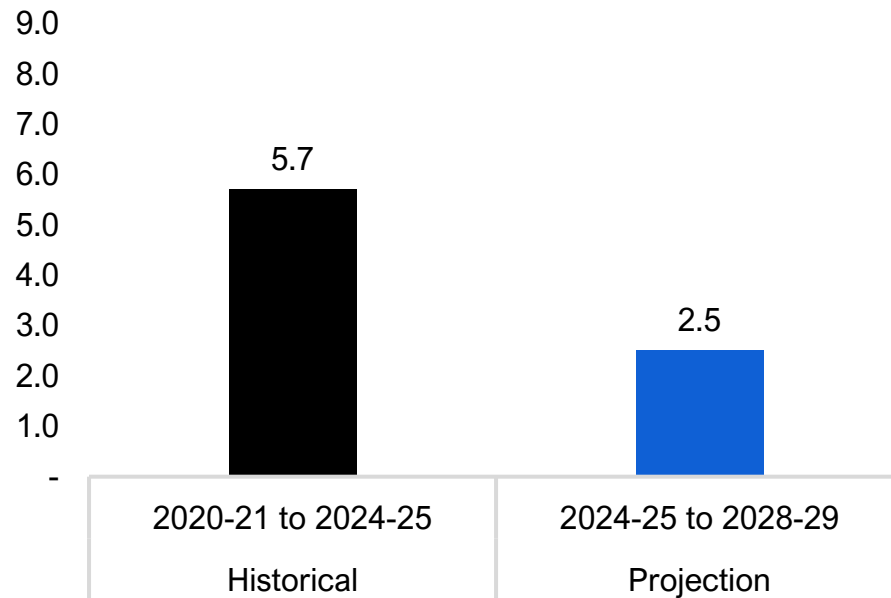
Note: Historical revenue has been restated to include revenue from interest and investment income.  
 Source: 2026 Ontario Budget, Ontario Public Accounts and FAO.



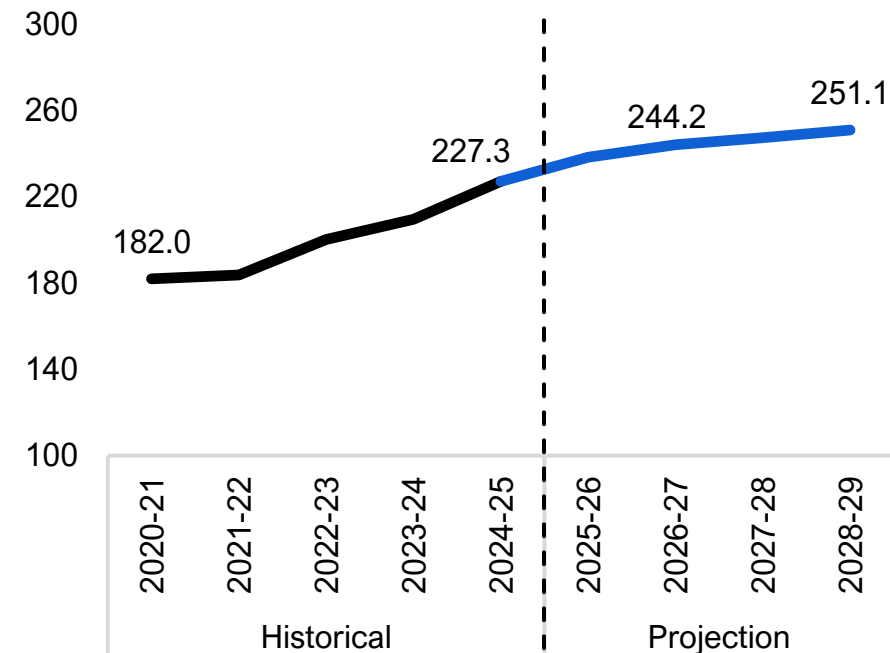
# 2026 budget projects spending growth to slow compared to recent years

- The budget projects spending will grow at an average annual rate of 2.5%, a slower pace than the 5.7% average annual pace over the last four years.
- Growth over the first two years of the projection averages 3.7% before slowing to 1.4% over the last two years.

Average Annual Spending Growth (Per Cent)



Total Spending (\$ Billions)



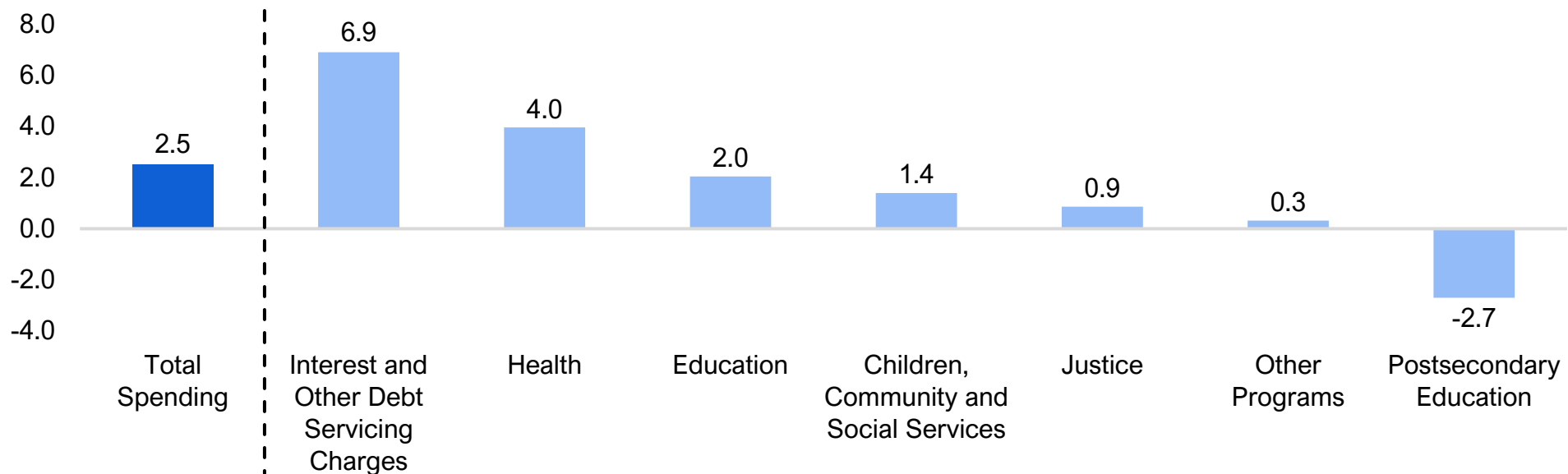
Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: 2026 Ontario Budget, Ontario Public Accounts and FAO.



# Spending growth led by interest and other debt servicing charges and the health sector in the 2026 budget

- Spending growth for interest and other debt servicing charges and the health sector is expected to be faster than the average growth for total spending.
- All other sectors are projected to grow slower than total spending, and postsecondary education spending is projected to decline.

Average Annual Spending Growth from 2024-25 to 2028-29 (Per Cent)



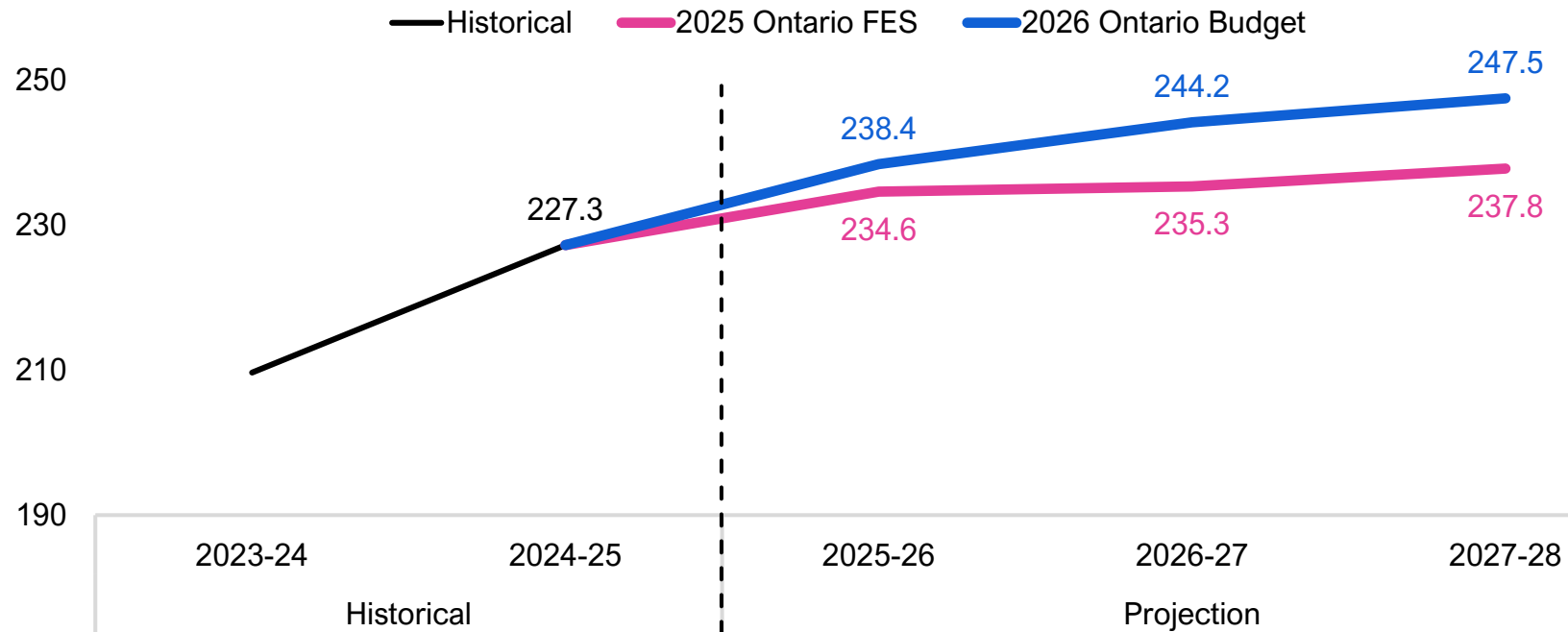
Note: Ontario Teachers' Pension Plan expense is included in the education sector.  
Source: 2026 Ontario Budget and FAO.



# 2026 budget projects higher spending than 2025 FES

- Compared to the 2025 FES, the 2026 budget's spending forecast has increased by a total of \$22.4 billion from 2025-26 to 2027-28.
- This includes \$3.8 billion in 2025-26, \$8.9 billion in 2026-27 and \$9.7 billion in 2027-28.

Total Spending (\$ Billions)



Note: Historical spending has been restated to exclude revenue from interest and investment income.  
Source: 2026 Ontario Budget, 2025 Ontario Economic Outlook and Fiscal Review, Ontario Public Accounts and FAO.



# 2026 budget allocated most new spending to the health sector

- The majority of new spending was allocated to the health sector.
- Two sectors had reductions in planned spending: ‘other programs’ and education.

## Spending changes by sector, 2026 Ontario Budget less 2025 Fall Economic Statement

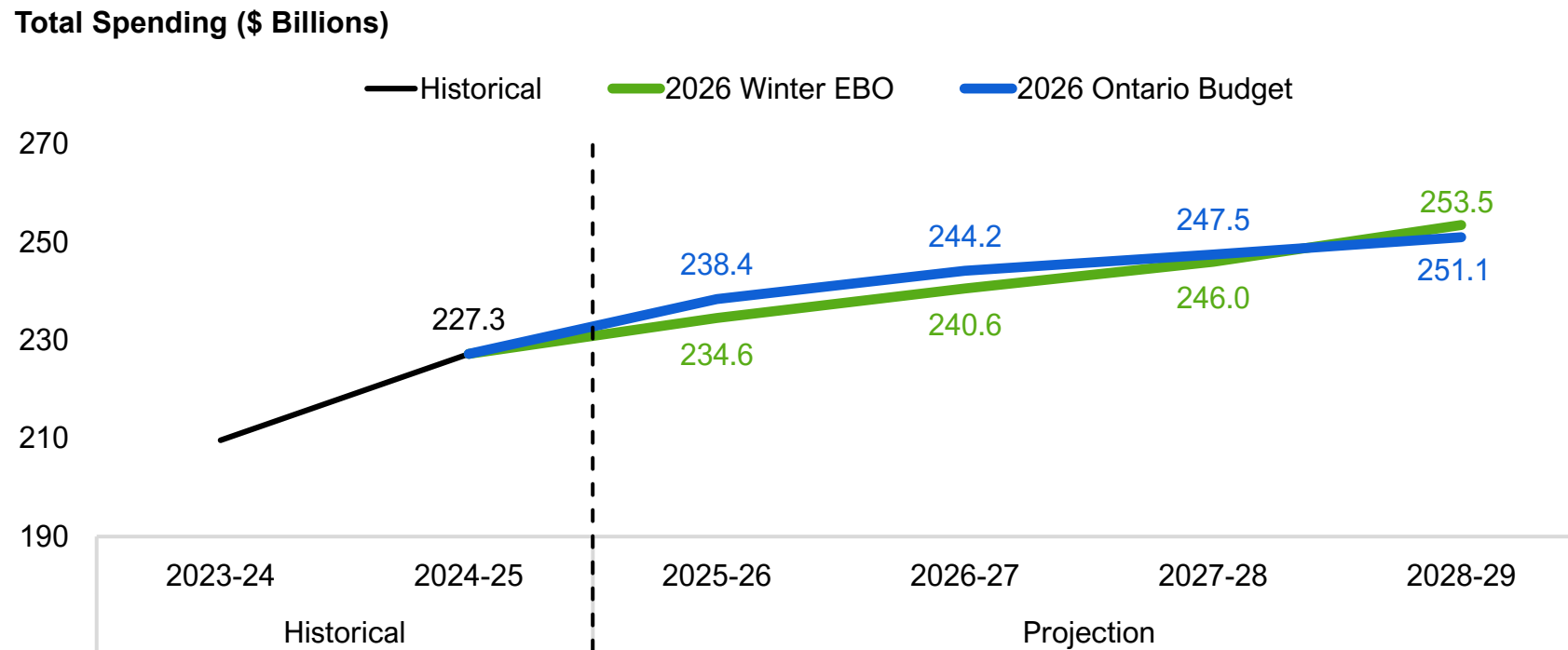
Difference (\$ Billions)	2025-26	2026-27	2027-28	Total
Health	6.3	8.4	9.5	24.2
Education	0.0	-0.3	-0.1	-0.5
Postsecondary Education	1.0	0.9	0.0	1.9
Children, Community, Social Services	1.1	1.0	1.2	3.3
Justice	0.6	0.7	0.9	2.2
Other Programs	-5.1	-2.2	-2.6	-9.9
Interest and Other Debt Servicing Charges	-0.1	0.4	0.8	1.1
<b>Total Spending</b>	<b>3.8</b>	<b>8.9</b>	<b>9.7</b>	<b>22.4</b>

Note: Values are calculated by subtracting the 2025 Fall Economic Statement projections from the 2026 Ontario Budget projections. Positive values indicate that the 2026 budget projection is above the 2025 FES projection, while negative values indicate that the 2026 budget projection is below the 2025 FES projection. Ontario Teachers' Pension Plan expense is included in the education sector.  
 Source: 2026 Ontario Budget, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



# 2026 budget projects higher spending than the FAO

- From 2025-26 to 2028-29 total projected spending in the 2026 budget is higher than the FAO's forecast in the Winter 2026 EBO by a cumulative \$6.5 billion.
- This consists of \$3.8 billion in 2025-26, \$3.6 billion in 2026-27 and \$1.5 billion in 2027-28, partially offset by \$2.5 billion of lower spending in 2028-29.



Note: Historical spending has been restated to exclude revenue from interest and investment income.  
 Source: 2026 Ontario Budget, Ontario Public Accounts and FAO.



# 2026 budget compared to FAO spending projection by sector

- The higher spending projection in the 2026 budget is largely driven by the government's higher 'other programs' forecast.
- Shortfalls remain in the health; children, community and social services; postsecondary education and education sectors.

## 2026 Ontario Budget less FAO Winter 2026 Economic and Budget Outlook spending projections

Difference (\$ Billions)	2025-26	2026-27	2027-28	2028-29	Total
Health	1.6	0.3	-1.2	-3.8	-3.1
Education	0.7	-0.4	-0.8	-1.6	-2.1
Postsecondary Education	0.8	0.8	-0.7	-1.1	-0.3
Children, Community, Social Services	0.0	-0.6	-1.0	-1.5	-3.1
Justice	0.5	0.2	0.2	0.0	0.9
Other Programs*	0.2	3.0	4.7	4.9	12.8
Interest and Other Debt Servicing Charges	0.0	0.3	0.4	0.6	1.3
<b>Total Spending</b>	<b>3.8</b>	<b>3.6</b>	<b>1.5</b>	<b>-2.5</b>	<b>6.5</b>

Note: Values are calculated by subtracting the FAO's Winter 2026 projections from the 2026 Ontario Budget projections. Positive values indicate that the 2026 budget projection is above the FAO's projection, while negative values indicate that the 2026 budget projection is below the FAO's projection. Ontario Teachers' Pension Plan expense is included in the education sector.

\* Contingency funds are included in the government's 'other programs' spending plan but excluded from the FAO's projection as the purpose of the funds has not yet been announced.

Source: 2026 Ontario Budget and FAO.



# Infrastructure plan

- Over the three-year period from 2025-26 to 2027-28 the 2026 budget projects total infrastructure spending of \$111.3 billion, an increase of \$13.6 billion compared to the 2025 FES.

**2026 Ontario Budget and 2025 Fall Economic Statement infrastructure spending projections, 2025-26 to 2027-28, (\$ billions)**

	2025 FES (2025-26 to 2027-28)	2026 Budget (2025-26 to 2027-28)	Difference
Health	21.5	21.8	0.3
Transit	30.2	41.1	11.0
Provincial Highways and Other Transportation	12.8	14.3	1.5
Education	10.6	12.7	2.1
Postsecondary Education	2.1	2.7	0.6
Justice	2.6	2.4	-0.2
Social	1.8	1.7	-0.1
Other	16.1	14.6	-1.4
<b>Total Infrastructure Spending</b>	<b>97.7</b>	<b>111.3</b>	<b>13.6</b>

Source: 2026 Ontario Budget, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



# Thank you!



# FAO

Financial Accountability  
Office of Ontario

2 Bloor Street West, Suite 900  
Toronto, Ontario, M4W 3E2  
416.644.0702

[info@fao-on.org](mailto:info@fao-on.org)

[fao-on.org](http://fao-on.org)

