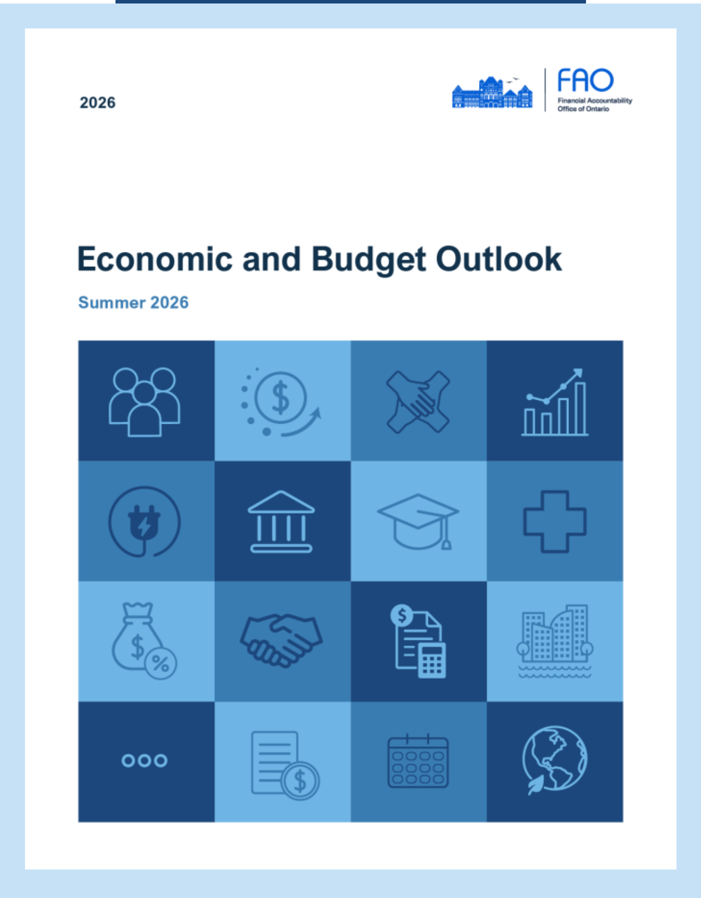
Economic and Budget Outlook

Summer 2026



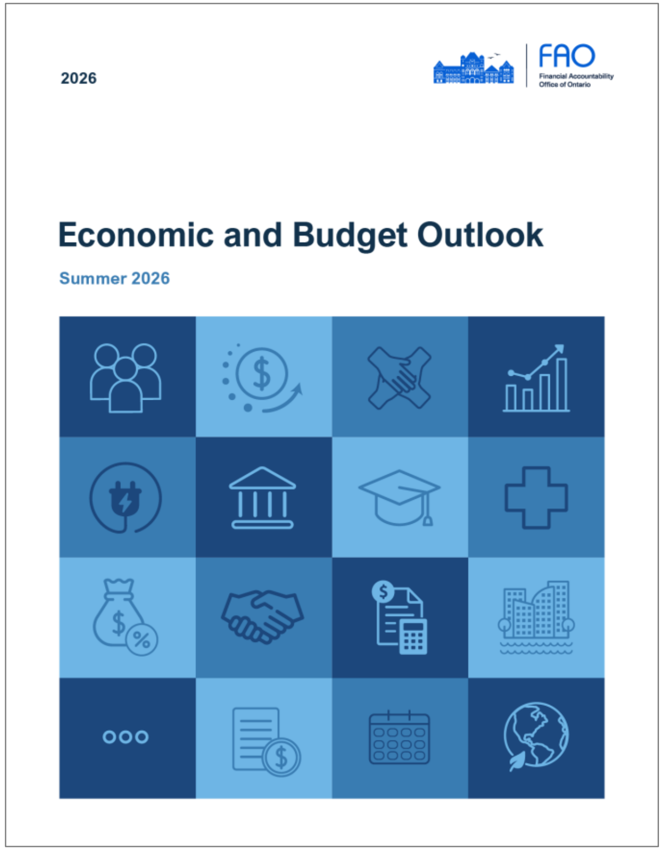
Presentation

FAO
Financial Accountability
Office of Ontario

Overview

- The Economic and Budget Outlook (EBO) provides the FAO's projection for Ontario's economy and finances over the 2025-26 to 2030-31 period.

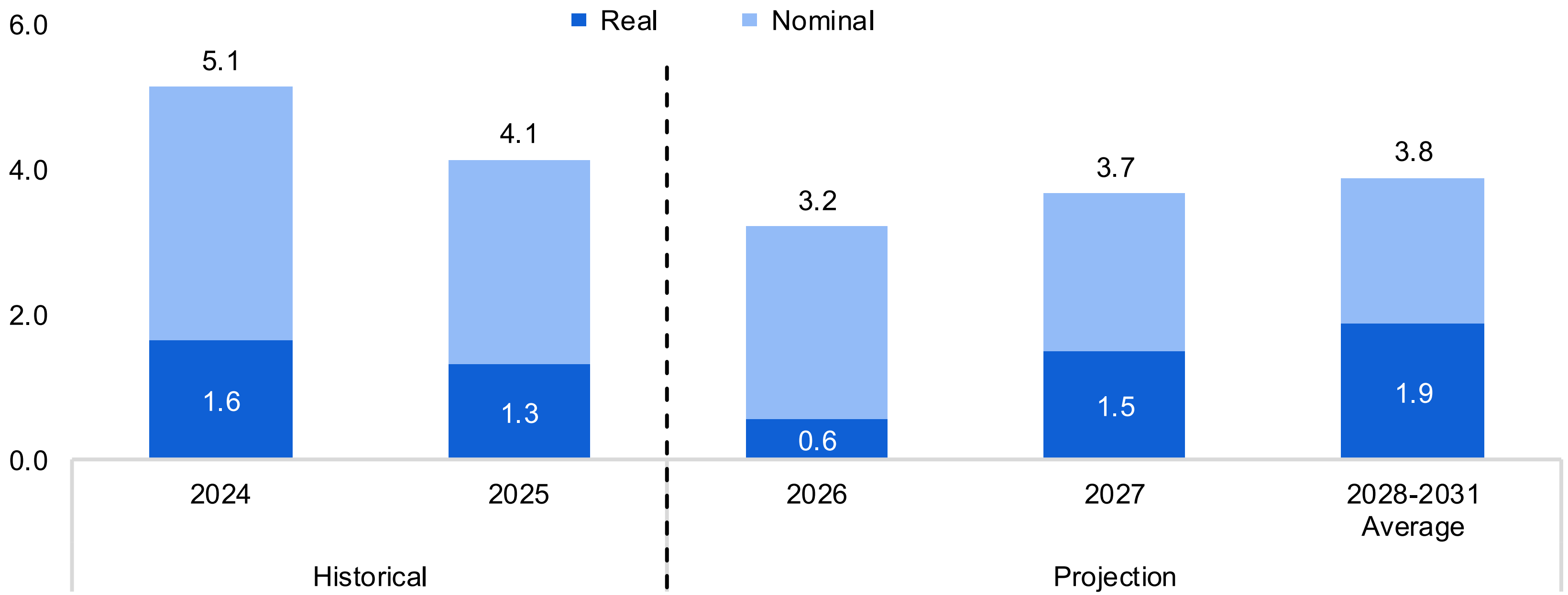
- The presentation will focus on Ontario's:
  1. Economic outlook
  2. Budget outlook
  3. Accumulated deficit, net debt and fiscal sustainability indicators
  4. Revenue outlook
  5. Spending outlook
  6. Risks to the economic and budget outlook



GDP growth to slow further in 2026

- Growth in Ontario's real GDP, the broadest measure of economic activity, is projected to slow further to 0.6% in 2026 as a weak start to the year, a decline in Ontario's population, US tariffs and elevated oil prices weigh on economic activity.
- Growth in nominal GDP, the broadest measure of the tax base, is projected to slow to 3.2% in 2026 as labour income growth moderates.

Ontario's GDP Growth
Per Cent

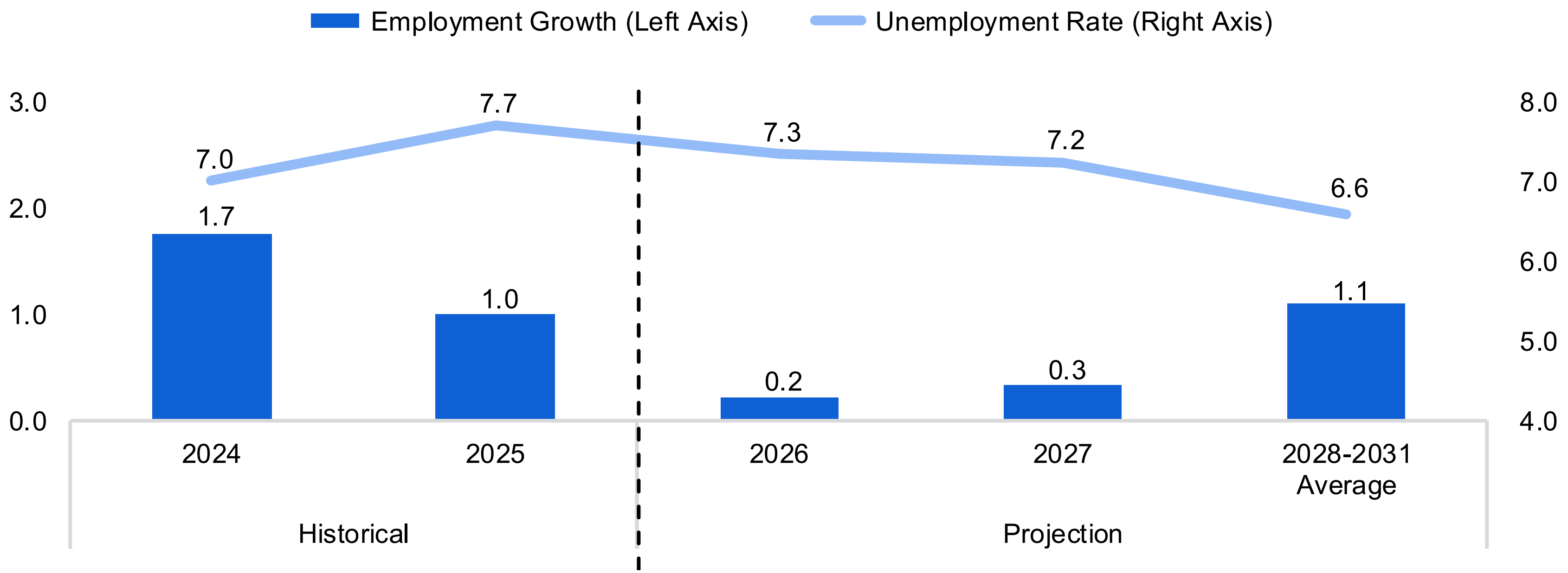


Source: Ontario Economic Accounts and FAO.

Ontario’s job market expected to moderate further in 2026

- Annual employment growth is projected to slow to 0.2% in 2026 and 0.3% in 2027 as Ontario’s labour market adjusts to Canada-US trade pressures and a significant reduction in new immigrants and temporary residents.
- Despite weak employment growth, the annual unemployment rate is projected to decline to 7.3% in 2026 as Ontario’s population decline limits the number of new job seekers.

Employment Growth and Unemployment Rate
Per Cent

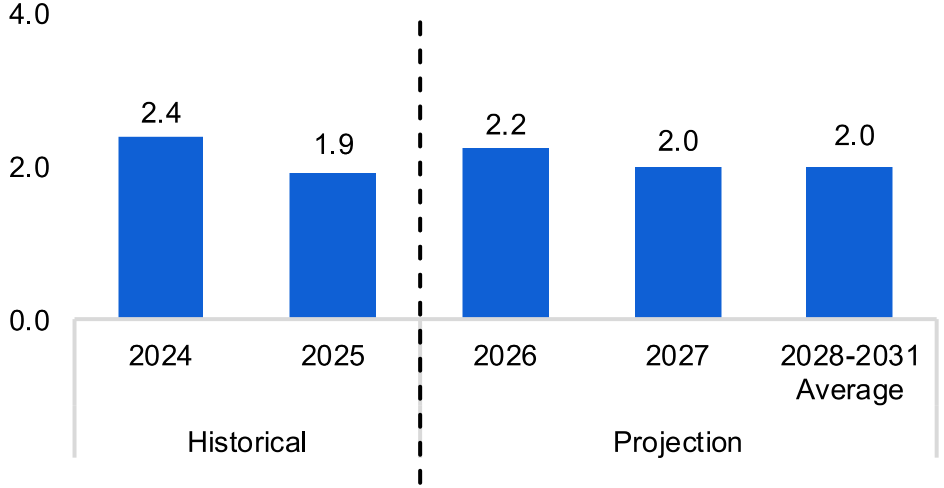


Source: Statistics Canada and FAO.

Inflation and interest rate outlook

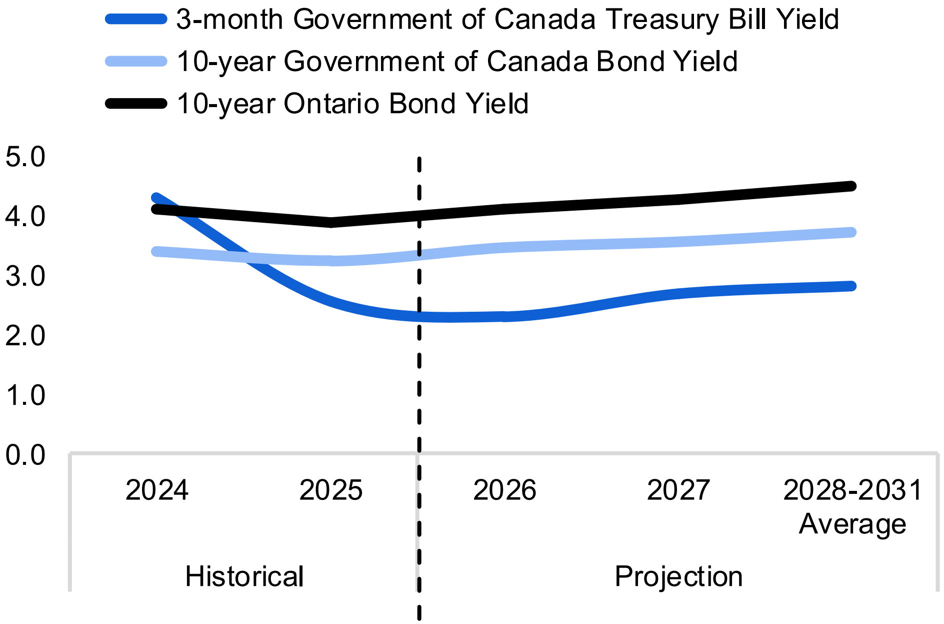
- Ontario's annual inflation rate is projected to increase to 2.2 per cent in 2026 due to elevated fuel costs related to the war in Iran. Over the rest of the outlook, inflation is expected to ease back to the Bank of Canada's 2.0 per cent target as energy prices moderate.
- The FAO projects that interest rates will trend up gradually over the outlook.

Annual CPI Inflation
Per Cent



Source: Statistics Canada and FAO.

Interest Rate Outlook
Per Cent

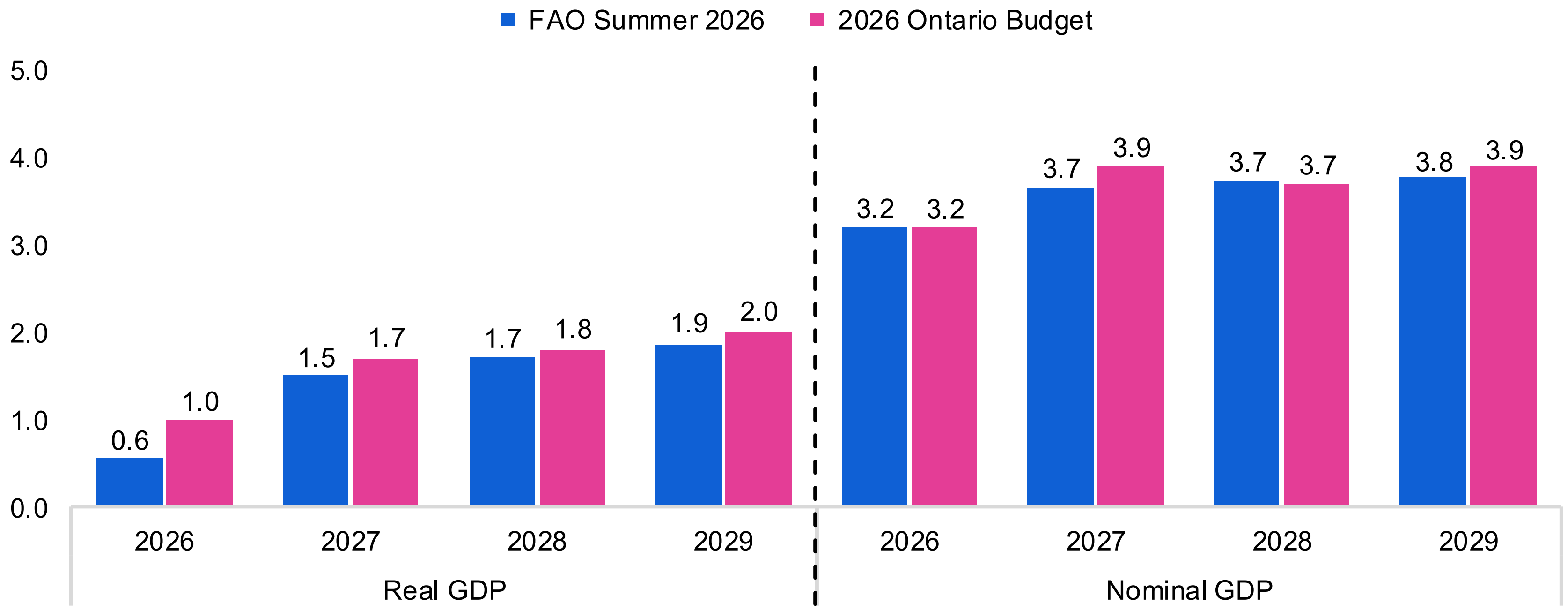


Source: Statistics Canada, Ontario Financing Authority and FAO.

The FAO's economic outlook compared to 2026 Ontario Budget

- Compared to the government's economic outlook in the 2026 Ontario Budget, the FAO's projection for real GDP growth is lower in all years, with the largest gap in 2026 due to more current data and information.
- The FAO's projection for nominal GDP growth is slightly lower than the government's projections in 2027 and 2029, largely due to the FAO's more moderate outlook for corporate profits.

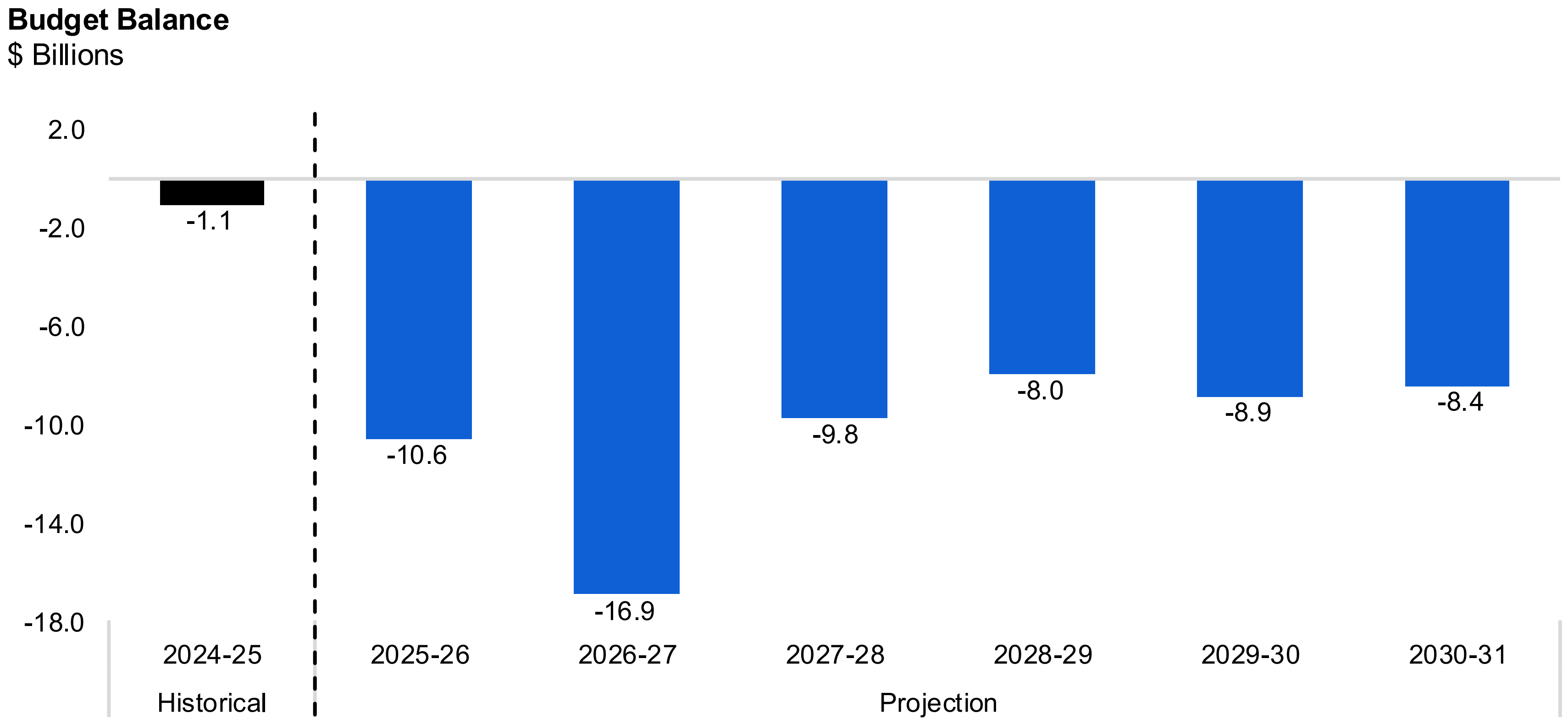
GDP Growth
Per Cent



Source: 2026 Ontario Budget and FAO.

FAO projects budget deficits over the outlook

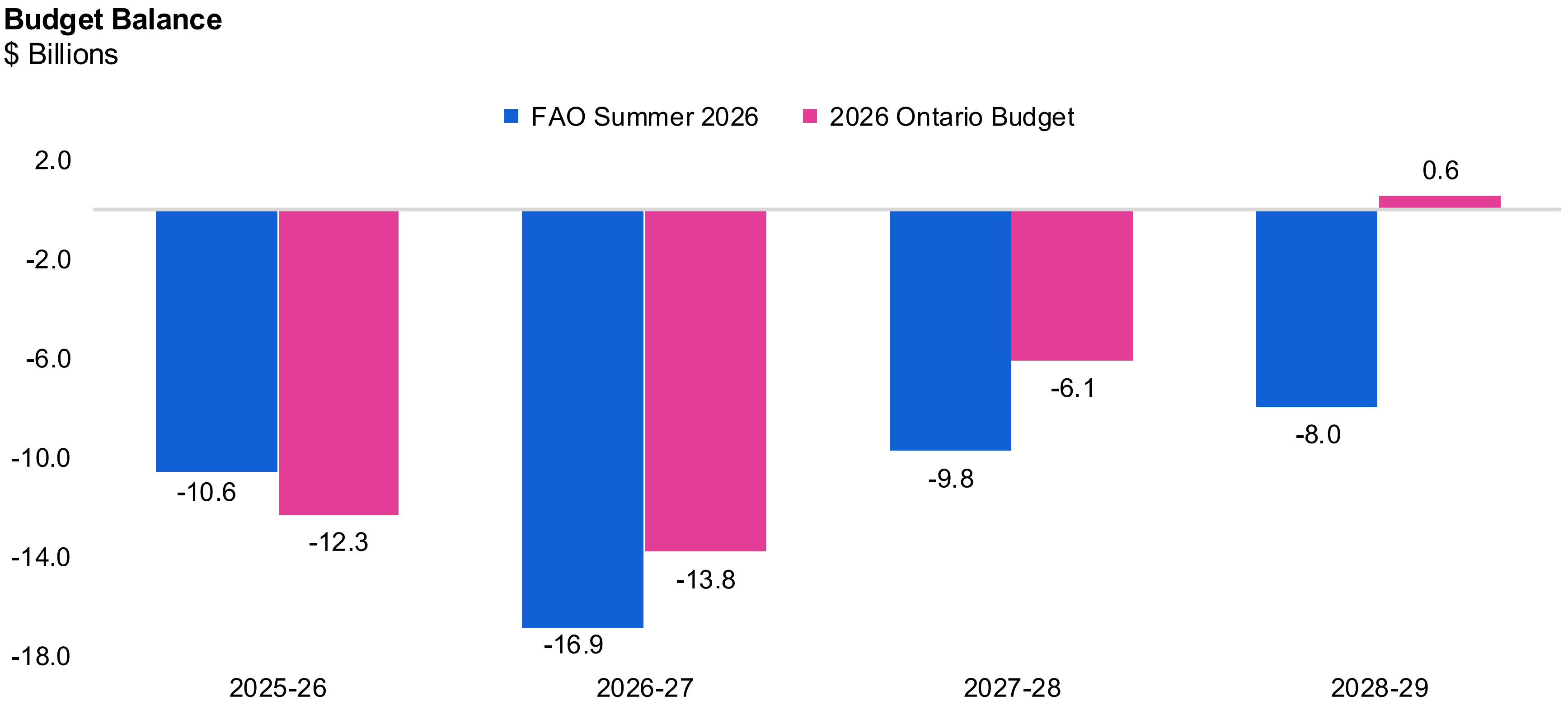
- Over the outlook, the FAO projects that Ontario's budget deficit will peak at $16.9 billion in 2026-27.
- The FAO projects that the budget will not balance over the outlook without additional measures to reduce spending and/or increase revenue.



Source: Ontario Public Accounts and FAO.

FAO budget projection compared to 2026 Ontario Budget

- The FAO's budget deficit projection is smaller than the government's deficit forecast in the first year of the outlook and larger in the last three years of the outlook.
- In contrast with the FAO, the Province projects a balanced budget in 2028-29.



Source: FAO and 2026 Ontario Budget.

Accumulated deficit and net debt

- The FAO projects that Ontario's accumulated deficit and net debt will increase by $62.5 billion (25.3 per cent) and $169.1 billion (39.6 per cent), respectively, over the outlook.

FAO projected accumulated deficit and net debt

($ Billions)	2024-25a	2025-26f	2026-27f	2027-28f	2028-29f	2029-30f	2030-31f	Total Change
Accumulated Deficit	247.1	257.7	274.5	284.3	292.3	301.2	309.6	**62.5**
Net Debt*	427.1	457.6	485.8	520.8	547.8	573.6	596.1	**169.1**

a = Actual, f = Forecast
* 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.
Source: Ontario Public Accounts, 2026 Ontario Budget and FAO.

Ontario's fiscal sustainability indicators

- In accordance with the *Fiscal Sustainability, Transparency and Accountability Act*, the 2026 Ontario Budget included a debt burden reduction strategy with targets for three fiscal sustainability indicators.
- The FAO projects that all three fiscal sustainability indicators will deteriorate over the outlook, with two indicators ending above government targets and all three indicators above their 10-year historical averages.

Actual and Projected Fiscal Sustainability Indicators

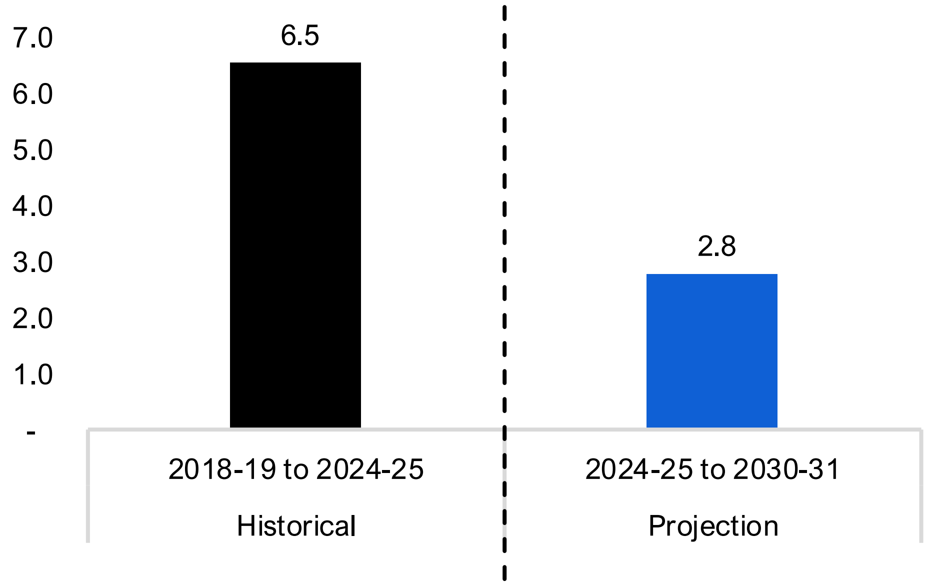
Indicator	2024-25 Actual (%)	2030-31 Forecast (%)	Change (ppt*)	Government Target (%)	Over / Under Target in 2030-31	10-Year Historical Average** (%)	Over / Under 10-Year Historical Average in 2030-31**
Net debt-to-GDP	35.68	39.99	up 4.3 ppt	< 40.0	Under	38.91	Over
Net debt-to-revenue	191.2	226.0	up 34.9 ppt	< 200.0	Over	213.8	Over
Interest-to-revenue	5.5	8.0	up 2.5 ppt	< 7.5	Over	7.3	Over

* "ppt" stands for percentage point.
** 10-year historical average is from 2015-16 to 2024-25.
Note: According to the debt burden reduction strategy from the 2026 Ontario Budget, prior to 2026-27, 'net debt' is calculated as total liabilities less financial assets, while starting in 2026-27, 'net debt' is calculated as financial liabilities less financial assets; 'revenue' is calculated as total revenue less interest and investment income; and 'interest' is calculated as interest and other debt servicing charges less interest and investment income
Source: Ontario Public Accounts, 2026 Ontario Budget and FAO.

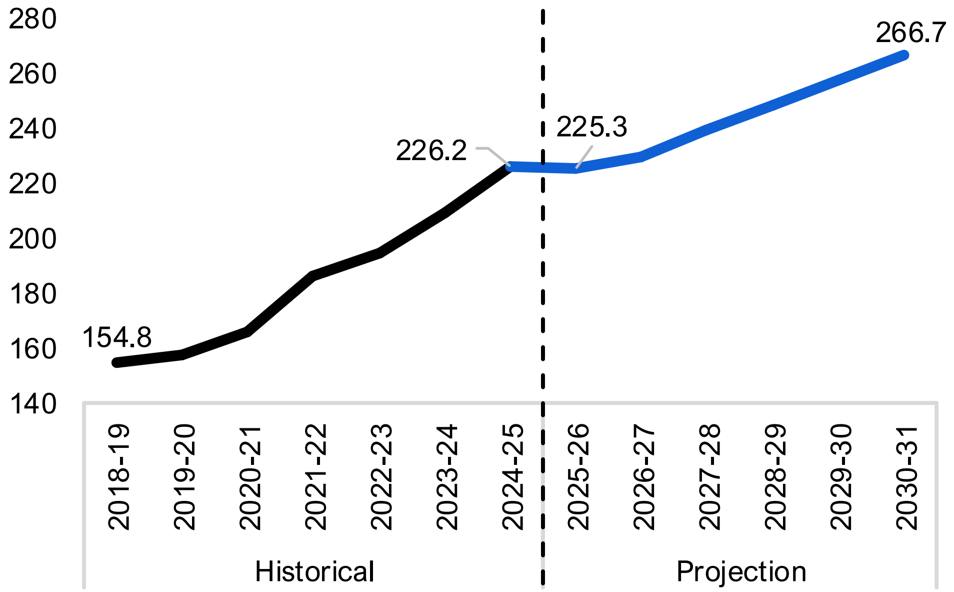
Revenue growth to moderate

- Revenue growth is expected to average 2.8% per year from 2024-25 to 2030-31, below the 6.5% average annual increase recorded during the previous six years.
- The slowdown in revenue growth reflects the FAO's forecast for slower nominal GDP growth, the key driver of overall revenue gains.

Average Annual Revenue Growth
Per Cent



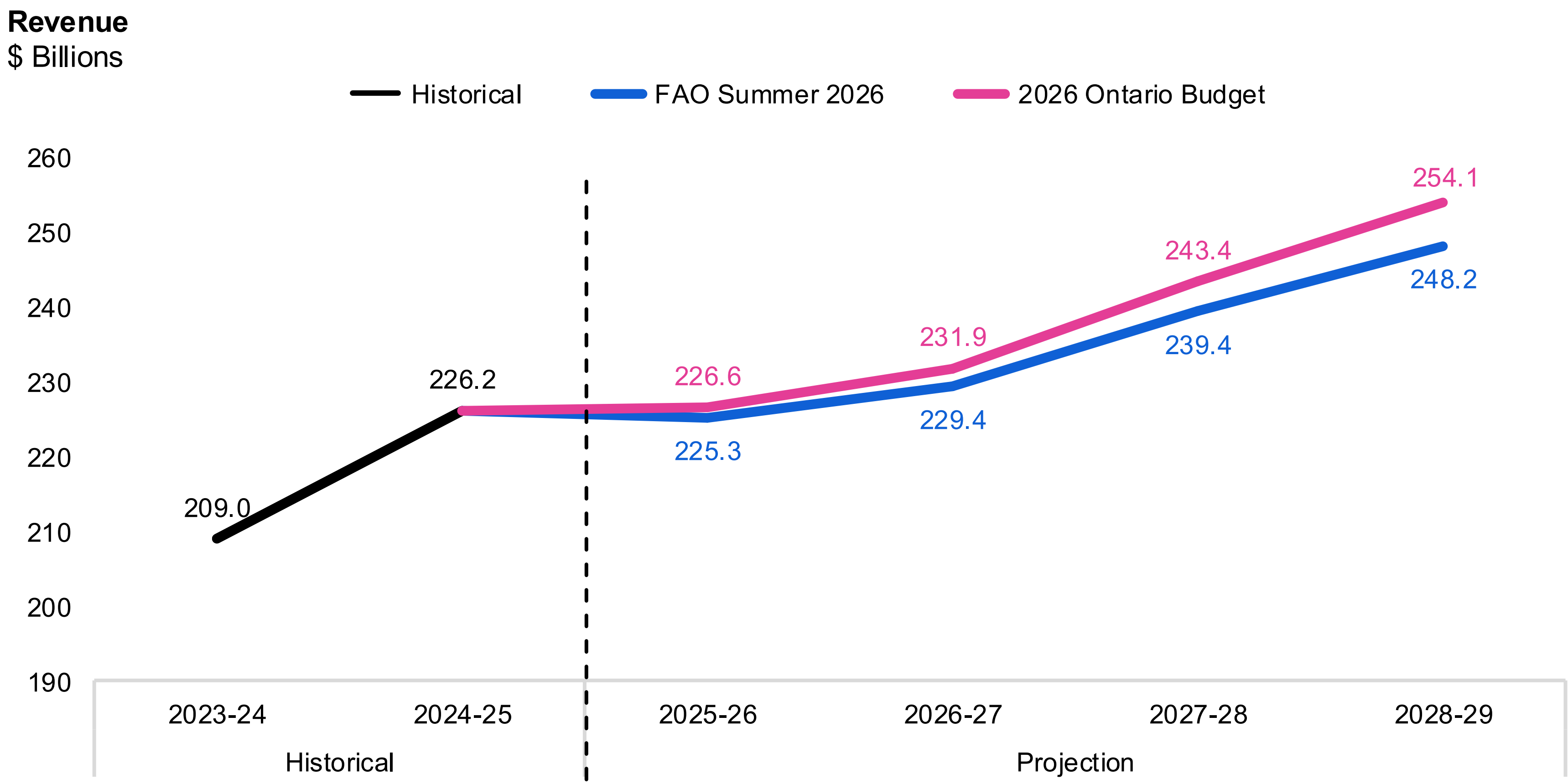
Total Revenue
$ Billions



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

The FAO’s revenue outlook compared to 2026 Ontario Budget

- The FAO projects lower revenue than the government in each year of the comparable outlook period. In 2025-26, the FAO projects $1.3 billion in lower revenue, which widens to $5.9 billion in lower revenue by 2028-29.



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

Comparison to 2026 Ontario Budget revenue projection by source

- In total, the FAO's revenue forecast is $13.6 billion lower than the government's forecast.
- The FAO's forecast for taxation revenue is $20.5 billion lower than the government's, mainly due to lower projected personal income tax revenue.
- The FAO's outlook for federal transfers ($1.3 billion) and other non-tax revenue ($5.6 billion) is higher than the government's outlook.

Comparison to 2026 Ontario Budget revenue projection by source

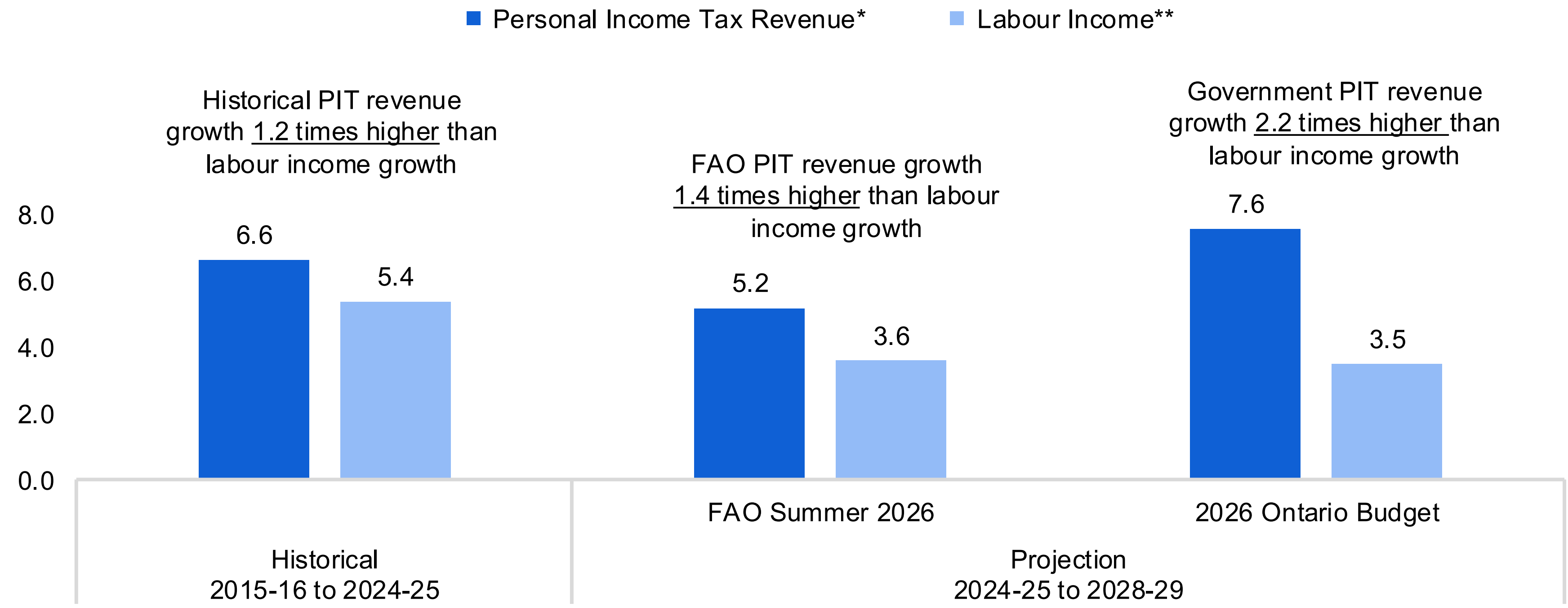
Difference ($ billions)	2025-26	2026-27	2027-28	2028-29	Total
Personal Income Tax	-2.2	-3.3	-4.7	-6.3	-16.6
Sales Tax	0.1	-0.1	-0.5	-0.8	-1.3
Corporations Tax	0.2	0.0	-0.6	-1.1	-1.5
All Other Taxes	-0.1	-0.5	-0.3	-0.3	-1.2
Total Taxation Revenue	**-1.9**	**-3.8**	**-6.1**	**-8.6**	**-20.5**
Transfers from Government of Canada	0.2	0.0	0.4	0.6	1.3
Income from Government Business Enterprises	0.0	0.0	0.0	0.0	0.0
Other Non-Tax Revenue	0.4	1.3	1.7	2.2	5.6
Total Revenue Difference	**-1.3**	**-2.4**	**-4.0**	**-5.9**	**-13.6**

Note: Values are calculated by subtracting 2026 Ontario Budget projections from the FAO's Summer 2026 projections. Positive values indicate that the FAO's projection is above the government's, while negative values indicate that the FAO's projection is below the government's.
Source: FAO.

FAO personal income tax revenue projection compared to the 2026 Ontario Budget

- The government projects $16.6 billion in higher personal income tax (PIT) revenue than the FAO over the comparable outlook, despite the FAO's stronger labour income forecast.

Average Fiscal Year Growth
Per Cent

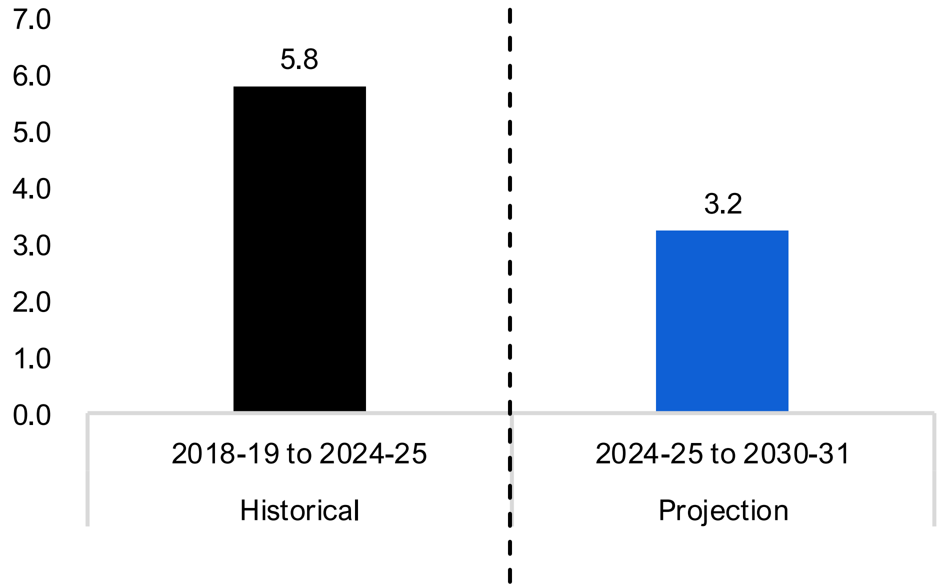


* Personal income tax revenue is adjusted to account for prior-year adjustments and tax measures.
** Calendar year economic activity is fiscalized to calculate fiscal year growth rates.
Source: Statistics Canada, Ontario Public Accounts, 2026 Ontario Budget and FAO analysis.

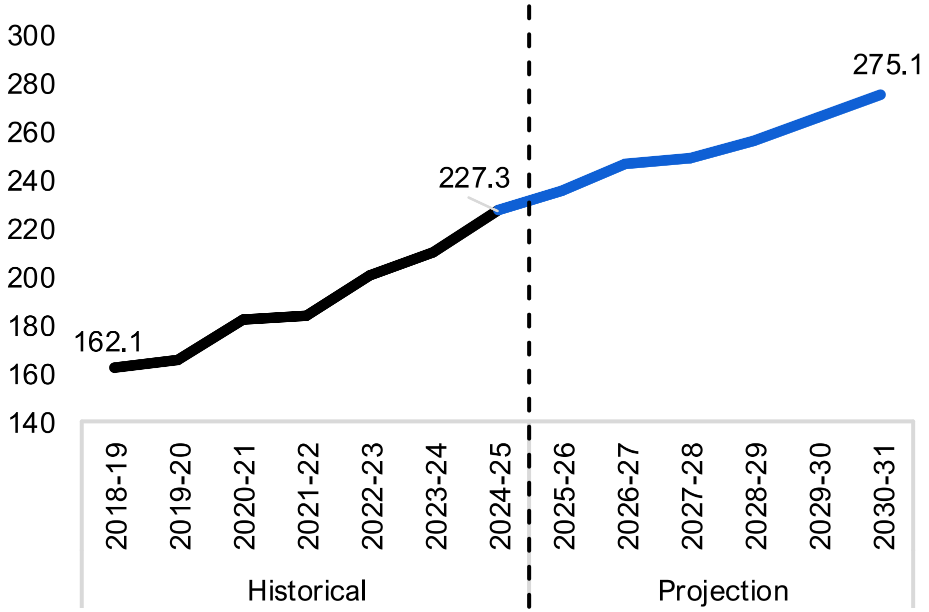
Spending growth to moderate over the projection

- Spending is projected to grow at an average annual rate of 3.2% from 2024-25 to 2030-31, slower than the 5.8% average annual growth recorded over the previous six years.
- The FAO expects spending growth to moderate over the forecast period based on slower projected inflation, slower wage and population growth, and the FAO's analysis of current government policies and announced commitments.

Average Annual Spending Growth
Per Cent



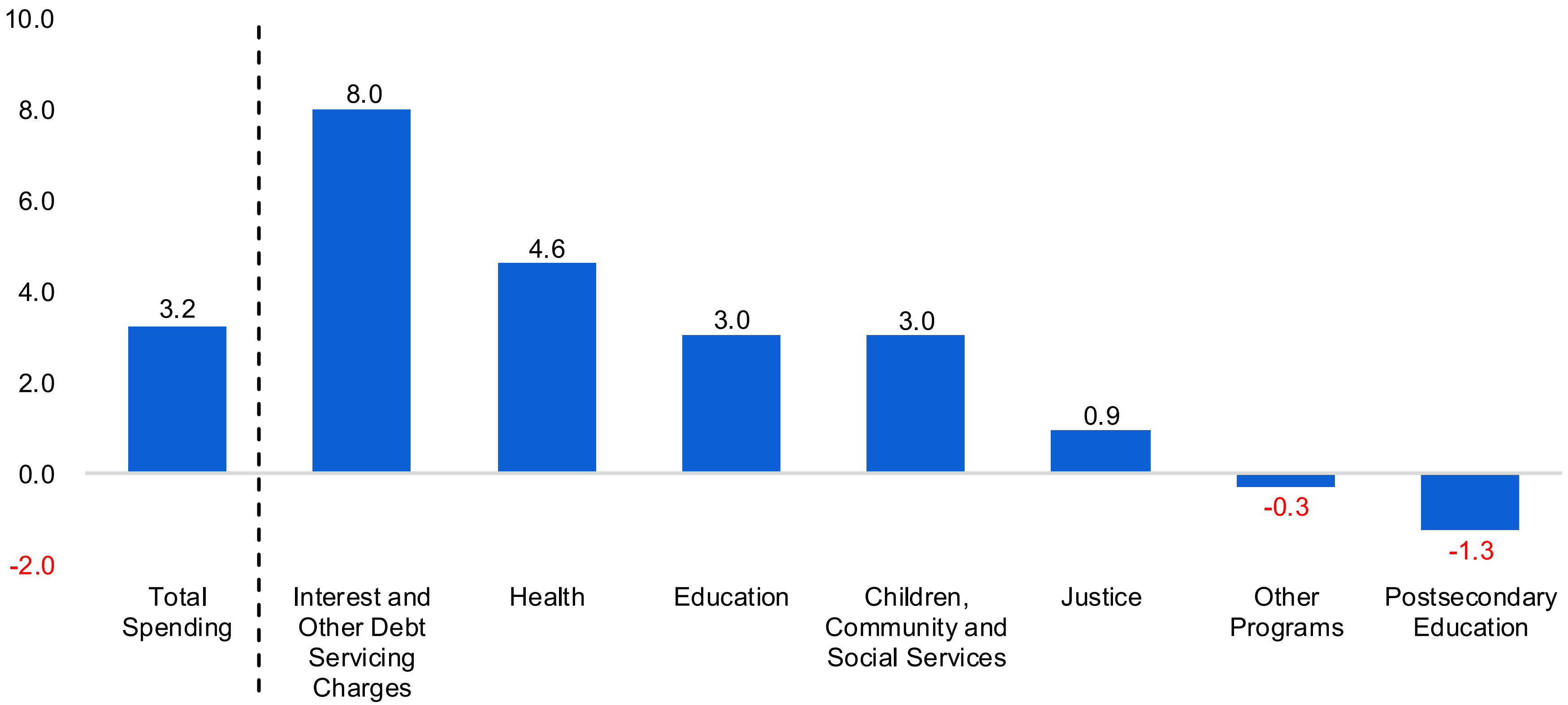
Total Spending
$ Billions



Note: Historical spending has been restated to exclude revenue from interest and investment income.
Source: Ontario Public Accounts, 2026 Ontario Budget and FAO analysis of information provided by the Province.

Spending growth led by interest and other debt servicing charges and the health sector

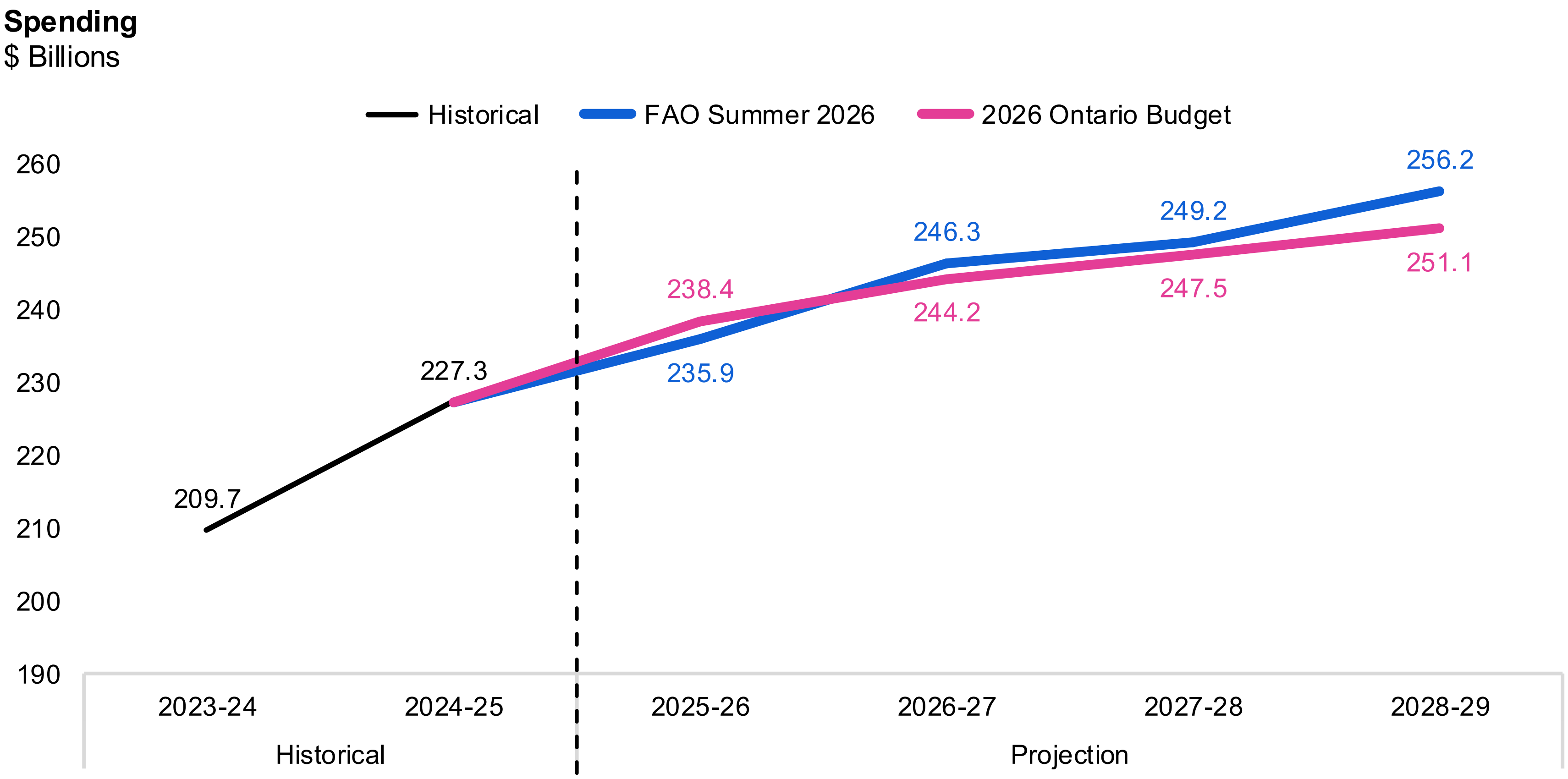
Average Annual Spending Growth, 2024-25 to 2030-31
Per Cent



Source: 2026 Ontario Budget and FAO analysis of information provided by the Province.

The FAO's spending outlook compared to 2026 Ontario Budget

- The FAO's spending projection is below the government's forecast in 2025-26, but exceeds the government's forecast in 2026-27, 2027-28 and 2028-29.



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

Comparison to 2026 Ontario Budget spending projection by sector

- In total, the FAO's spending projection is $6.4 billion higher than the government's forecast.
- The FAO projects shortfalls in the health; education; children, community and social services; interest and other debt servicing charges and justice sectors.
- Shortfalls are partially offset by estimated excess funds in postsecondary education and 'other programs'.

Comparison to 2026 Ontario Budget spending projection by sector

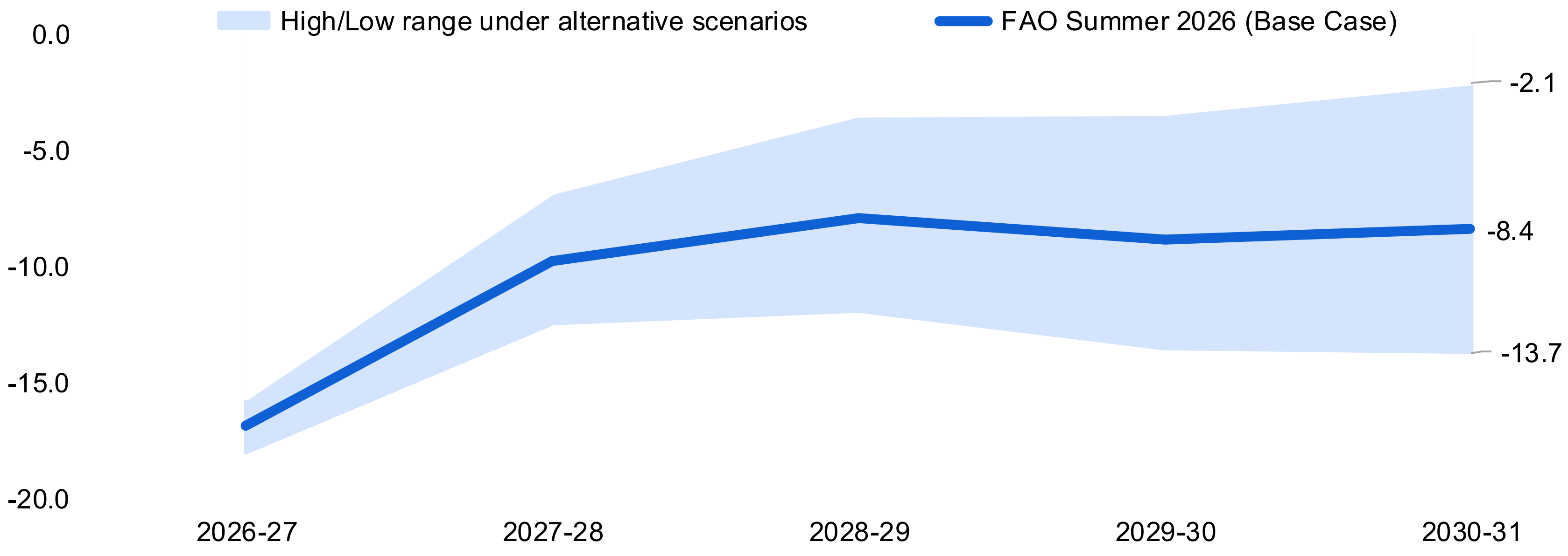
Difference ($ billions)	2025-26	2026-27	2027-28	2028-29	Total
Health	0.7	-0.7	-2.3	-2.9	-5.2
Education	0.0	-0.8	-1.3	-2.1	-4.2
Postsecondary Education	0.5	0.7	0.7	0.5	2.2
Children, Community and Social Services	0.0	-0.8	-1.2	-1.7	-3.7
Justice	0.2	-0.3	-0.1	-0.2	-0.4
Other Programs*	0.7	0.2	3.1	2.2	6.3
Interest and Other Debt Servicing Charges	0.4	-0.3	-0.6	-0.9	-1.4
Total Spending Difference	**2.6**	**-2.1**	**-1.7**	**-5.1**	**-6.4**

Note: Values are calculated by subtracting the FAO's Summer 2026 projections from the 2026 Ontario Budget projections. Positive values indicate that the FAO's projection is below the government's, while negative values indicate that the FAO's projection is above the government's.
* 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: FAO.

Risks and uncertainties

- There are numerous risks and uncertainties that could materially impact the FAO's economic and budget outlook over the projection period, including ongoing geopolitical conflicts and evolving Canada-US trade relations.
- Given this uncertainty, the FAO developed two alternative economic scenarios, a "high growth" and a "low growth" scenario. Under the high growth scenario, the FAO projects a budget deficit of $2.1 billion by 2030-31, while under the low growth scenario the budget deficit reaches $13.7 billion in 2030-31.

Budget Balance
$ Billions



Source: FAO.

Thank you!

Financial Accountability Office of Ontario

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

info@fao-on.org

fao-on.org