



Economic and Budget Outlook

Winter 2026

2026



About this document

Established by the *Financial Accountability Officer Act, 2013*, the Financial Accountability Office of Ontario (FAO) provides independent analysis on the state of the Province's finances, trends in the provincial economy and related matters important to the Legislative Assembly of Ontario.

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This report has been prepared with the benefit of publicly available information and information provided by Treasury Board Secretariat and the Ministries of Children, Community and Social Services; Colleges, Universities, Research Excellence and Security; Economic Development, Job Creation and Trade, Education; Energy and Mines; Finance; Health; Long-Term Care; and the Solicitor General.

In keeping with the FAO's mandate to provide the Legislative Assembly of Ontario with independent economic and financial analysis, this report makes no policy recommendations.



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Table of Contents

1. Summary	1
2. Economic Outlook	3
3. Budget Outlook	7
4. Revenue Outlook	11
5. Spending Outlook	14
6. Risks to the Economic and Budget Outlook	18
7. Appendix	21

1. Summary

This Economic and Budget Outlook (EBO) report provides the FAO's projection for Ontario's economy and the Government of Ontario's (the Province's) finances over the 2025-26 to 2029-30 period.

Slow GDP growth expected to continue

Ontario's real GDP growth slowed to an estimated 1.3 per cent in 2025, down from 1.6 per cent in 2024, as US tariffs led to a contraction in Ontario's exports and business investment. However, despite US tariffs, Ontario's economic growth in 2025 was supported by resilient household spending and an increase in residential investment.

Ontario's economic growth is projected to be little changed in 2026 at 1.4 per cent as lower interest rates continue to provide some relief to households and residential investment, while business investment and exports remain subdued due to trade uncertainty. Over the 2027 to 2030 period, real GDP growth is projected to average 1.9 per cent, close to the long-term trend, supported by trade diversification.

The FAO projects budget deficits over the outlook

Based on the FAO's outlook for the Ontario economy, and current government policies and announced commitments, the FAO projects that Ontario's budget deficit will increase to \$11.1 billion in 2025-26, up from a deficit of \$1.1 billion in 2024-25. The significant increase in the budget deficit results from a projected 3.2 per cent increase in spending combined with a 1.2 per cent decline in revenue, primarily due to lower non-tax revenues.

The budget deficit is projected to reach \$11.8 billion in 2026-27, before improving gradually over the rest of the outlook. Despite the improvement, the budget is expected to remain in deficit over the outlook, with a budget deficit of \$6.3 billion projected in 2029-30.

Compared to the Province's outlook in the 2025 Ontario Economic Outlook and Fiscal Review, the FAO projects a smaller budget deficit in 2025-26 and larger deficits in 2026-27 and 2027-28 (the last year of the Province's outlook). In contrast to the FAO's outlook, the Province projects a balanced budget in 2027-28, with stronger taxation revenue gains and significantly lower program spending growth in both 2026-27 and 2027-28 than projected by the FAO.

Ontario's accumulated deficit, net debt and fiscal sustainability indicators

The FAO projects that the Province's accumulated deficit, a measure of total liabilities minus total assets, will increase by \$44.3 billion (17.9 per cent) over the outlook, rising from \$247.1 billion in 2024-25 to \$291.4 billion in 2029-30, as a result of ongoing budget deficits. The \$44.3 billion increase in accumulated deficits combined with borrowing to finance a projected \$76.5 billion increase in non-financial assets, largely infrastructure assets owned by the Province and the broader public sector, will result in the Province's net debt rising from \$427.1 billion in 2024-25 to \$547.9 billion in 2029-30, an increase of \$120.9 billion (28.3 per cent) over the outlook.

In the 2025 Ontario Budget, the government identified targets for three fiscal sustainability indicators, two related to the debt burden (a net debt-to-GDP ratio below 40.0 per cent and a net debt-to-operating revenue ratio below 200 per cent) and one related to budgetary flexibility (the share of revenue dedicated to debt interest payments below 7.5 per cent). These targets remained unchanged in the 2025 Ontario Economic Outlook and Fiscal Review. Looking forward, the FAO expects that all three fiscal sustainability indicators will deteriorate over the outlook. However, the net debt-to-GDP and the net interest-to-operating revenue ratios are projected to remain below the government's targets and each ratio's 10-year historical average, while the net debt-to-operating revenue ratio is expected to exceed the government's target and its 10-year historical average.



Revenue growth expected to moderate

Over the five-year outlook, revenue growth is expected to average 2.6 per cent per year, well below the 7.6 per cent average annual increase recorded during the previous five years. The slowdown in revenue growth reflects the FAO's expected moderation in economic activity compared to the previous five years. Revenue growth over the outlook is also constrained by declines in interest and investment income and international student tuition revenue in the colleges sector.

Compared to the 2025 Ontario Economic Outlook and Fiscal Review, the FAO's revenue projection is broadly aligned with the government's projection in the first two years of the outlook. However, in 2027-28, the final year of the government's outlook, the FAO expects revenues will be \$2.5 billion lower than the government's projection, primarily due to the FAO's lower forecast for personal income tax revenue.

Spending growth expected to moderate

Over the five-year outlook, spending growth is expected to average 3.0 per cent per year, slower than the 6.5 per cent average annual increase recorded over the previous five years. Spending growth is expected to moderate based on slower projected inflation, slower wage and population growth, and the FAO's analysis of current government policies and announced commitments.

Compared to the 2025 Ontario Economic Outlook and Fiscal Review, the FAO's spending projection is aligned with the government's projection in 2025-26, but exceeds the government's forecast in 2026-27 and 2027-28, by \$5.2 billion and \$8.2 billion, respectively. The gap between the spending forecasts is largely driven by the FAO's higher health sector spending forecast, which the FAO expects to grow at an average of 4.6 per cent annually. By comparison, the 2025 Ontario Economic Outlook and Fiscal Review forecasts a 1.0 per cent average annual increase in health sector spending. The difference results in a health sector funding shortfall of \$10.7 billion in 2027-28. Across all other sectors combined, the FAO's spending forecast is below the Province's forecast, largely due to the Contingency Fund. This results in a projected funding surplus for all other sectors of \$2.5 billion in 2027-28, which could be used to partially address the projected health sector funding shortfall.

Risks and uncertainties

Rising geopolitical tensions, unstable international relations, and uncertainty in global trade pose risks to the FAO's economic and budget outlook. Given this uncertainty, the FAO has developed two alternative economic scenarios, a "high growth" and a "low growth" scenario, based on reasonable assumptions for key economic variables. Under the high growth scenario, the FAO projects a budget deficit of \$2.3 billion by 2029-30, while under the low growth scenario the budget deficit reaches \$10.1 billion in 2029-30.

2. Economic Outlook

Slow GDP growth expected to continue

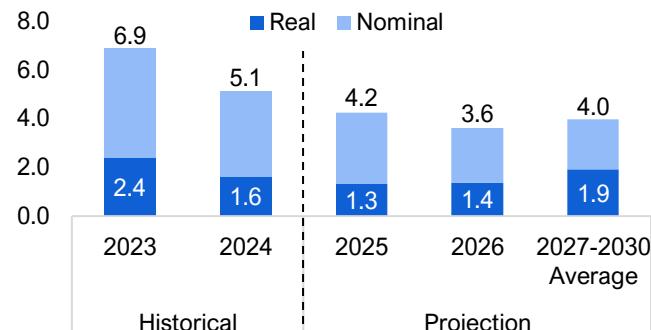
Ontario's real GDP growth slowed to an estimated 1.3 per cent in 2025, down from 1.6 per cent in 2024, as US tariffs led to a contraction in Ontario's exports and business investment. However, despite US tariffs, Ontario's economic growth in 2025 was supported by resilient household spending and an increase in residential investment.

Ontario's economic growth is projected to be little changed in 2026 at 1.4 per cent as lower interest rates continue to provide some relief to households and residential investment. Business investment and exports are projected to remain subdued due to uncertainty in trade relations, particularly with the United States.

Figure 2.1

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

Ontario GDP Growth (Per Cent)



Source: Ontario Economic Accounts and FAO.

Nominal GDP growth decelerated to an estimated 4.2 per cent in 2025, down from 5.1 per cent in 2024, as the impact of US tariffs on the labour market tempered labour income growth. Nominal GDP growth is projected to slow further to 3.6 per cent in 2026, mainly reflecting a further slowdown in labour income growth.

Over the 2027 to 2030 period, real and nominal GDP growth are projected to average 1.9 per cent and 4.0 per cent, respectively, close to their long-term growth trends, supported by trade diversification. However, there is significant uncertainty in the economic outlook stemming from geopolitical risks and US tariffs on Canadian exports, which could have a broad range of impacts on Ontario's economic growth. For a discussion of the current risks to the economic outlook, see Chapter 6.

Canada's GDP growth projected to outpace Ontario

Canada's real GDP growth is estimated to have slowed to 1.7 per cent in 2025 from 2.0 per cent in 2024 as US tariffs reduced trade activity between the two countries. Uncertainty in trade relations has negatively impacted Ontario's labour market and exports more than most provinces as key manufacturing industries face significant US tariffs. As a result, Canada's real GDP growth is expected to continue to outpace Ontario's growth in the near term, with an average of 1.6 per cent projected for Canada over the 2025 to 2026 period compared to 1.4 per cent for Ontario.

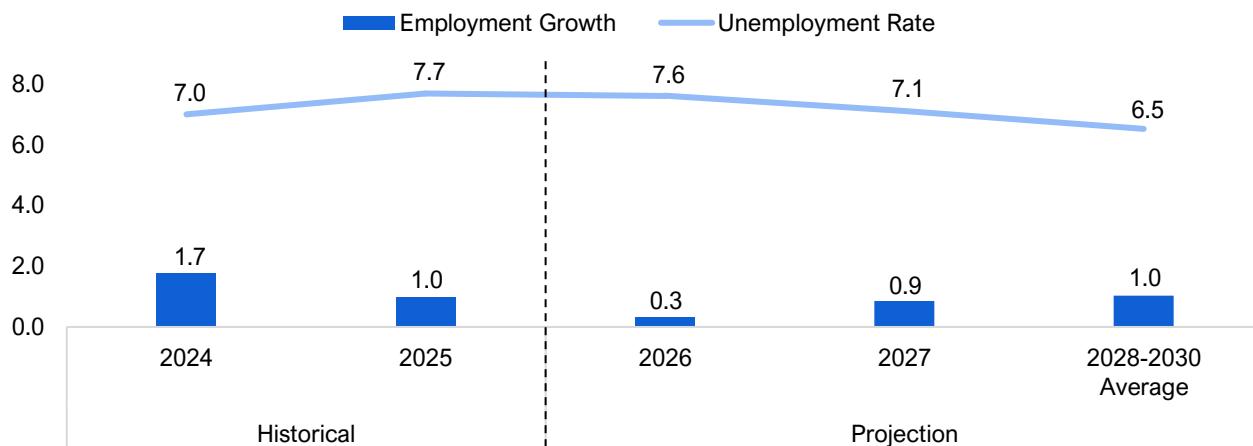
Ontario's job market expected to slow further in 2026

Ontario's job creation moderated in 2025 as employment increased by 80,900 jobs (1.0 per cent) compared to 140,000 jobs (1.7 per cent) created in 2024. Job losses in industries vulnerable to US tariffs such as manufacturing, transportation and warehousing were more than offset by job gains in many of Ontario's largest services industries.¹ As more people entered the labour market (156,300 or 1.8 per cent) than were hired, the annual unemployment rate increased to 7.7 per cent in 2025, up from 7.0 per cent in 2024 and the highest rate since 2012 excluding the COVID-19 pandemic.

Annual employment growth is projected to slow to 0.3 per cent in 2026 and then improve to 0.9 per cent in 2027 as Ontario's labour market adjusts to a new global trade environment, a reduction in new immigrants and temporary residents, and the downsizing of the federal public sector workforce. The annual unemployment rate is projected to improve to 7.6 per cent in 2026 and continue to trend down over the remainder of the outlook.

Figure 2.2
Unemployment rate expected to trend down over the outlook

(Per Cent)



Source: Statistics Canada and FAO.

¹ The FAO will provide a detailed update in its annual labour market report in early 2026.

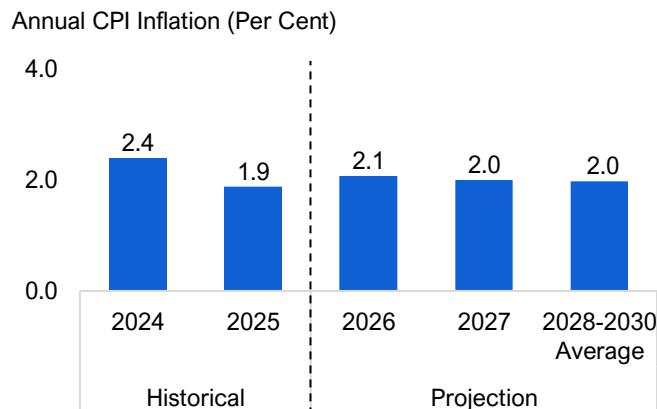
Inflation projected to remain close to the Bank of Canada's target

Ontario's average annual inflation rate fell from 2.4 per cent in 2024 to 1.9 per cent in 2025, led by a 7.4 per cent decline in energy prices.² Food price inflation was the fastest growing major component of Ontario's consumer price index (CPI) in 2025 at 3.2 per cent, while shelter price inflation eased from 5.2 per cent in 2024 to 2.2 per cent in 2025.

Ontario's average annual inflation rate is projected to edge up to 2.1 per cent in 2026 as the pressure of tariffs and trade uncertainty on goods prices persists. This development is partially offset by the impact of subdued economic activity and lower oil prices.

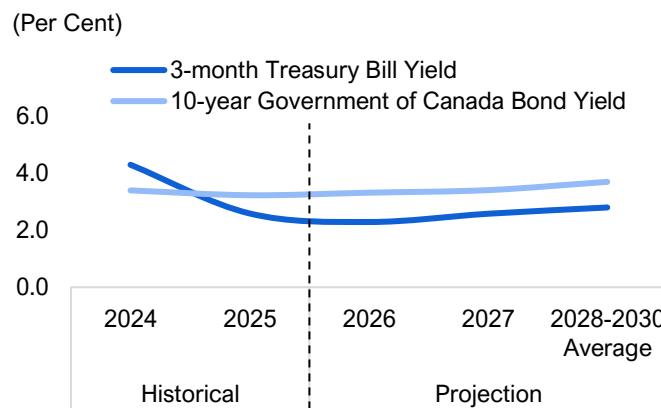
Starting in June 2024, the Bank of Canada has lowered its policy interest rate by a total of 275 basis points to 2.25 per cent. Financial market participants anticipate the Bank of Canada will hold its policy interest rate unchanged in 2026.³ The FAO projects that short-term and long-term interest rates will trend up over the outlook, with the 3-month treasury bill yield projected to average 2.8 per cent and the 10-year Government of Canada bond yield projected to average 3.7 per cent over the 2028 to 2030 period.

Figure 2.3
Ontario's inflation rate outlook



Source: Statistics Canada and FAO.

Figure 2.4
Interest rate outlook



Source: Statistics Canada and FAO.

² Annual CPI inflation excluding energy increased by 2.6 per cent in 2025, slightly above the 2.5 per cent increase in 2024.

³ [Market Participants Survey: Third Quarter of 2025](#), Bank of Canada, November 2025.

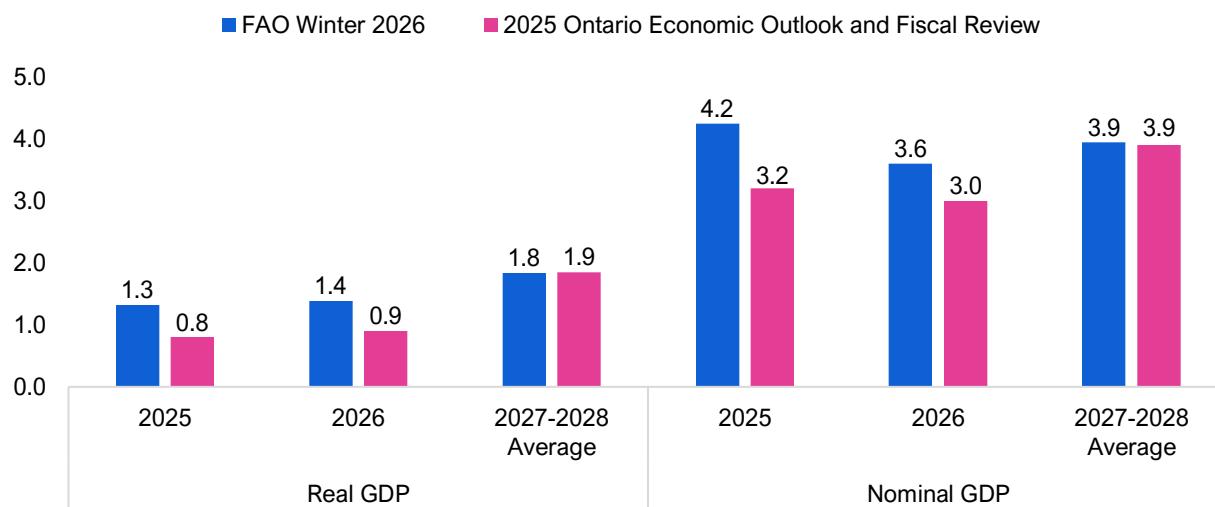
The FAO's economic outlook is higher than the government's projection in the 2025 Ontario Economic Outlook and Fiscal Review

Compared to the government's economic outlook in the 2025 Ontario Economic Outlook and Fiscal Review, the FAO's projections for both real and nominal GDP growth are higher in 2025 and 2026 based on more current economic data that indicate stronger labour income, corporate profits and household consumption. In 2027 and 2028, the FAO's projections for real and nominal GDP growth are similar to the government's projections.

Figure 2.5

The FAO's GDP outlook is higher than the government's projection in 2025 and 2026

Annual Growth (Per Cent)



Source: 2025 Ontario Economic Outlook and Fiscal Review and FAO.

For a comparison of the FAO's and the government's outlook for key revenue drivers and select economic indicators, see Appendix tables 7.1 and 7.2.

3. Budget Outlook

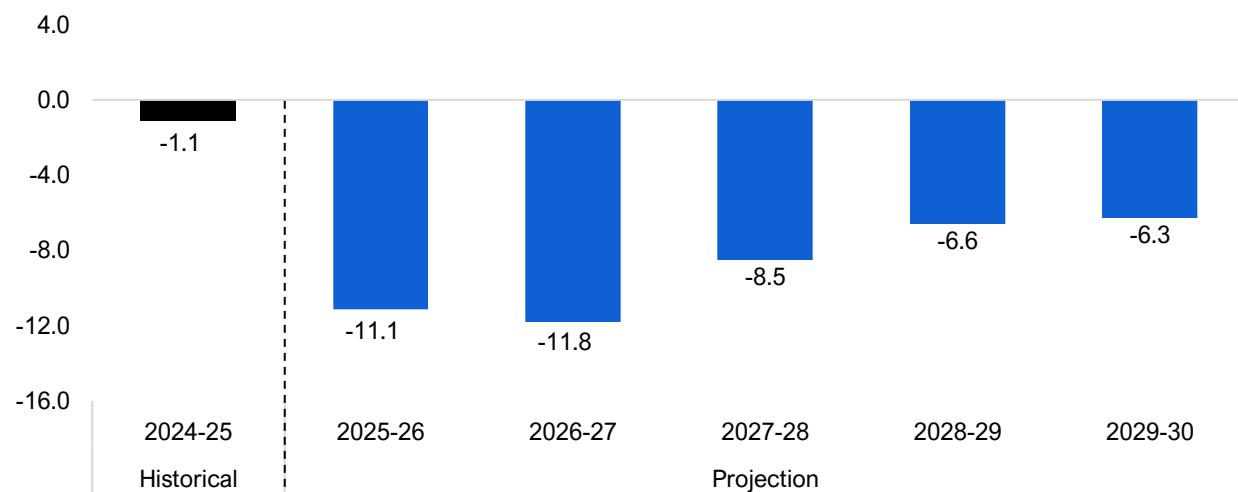
The FAO projects budget deficits over the outlook

Following a budget deficit of \$1.1 billion in 2024-25, the FAO projects that Ontario's budget deficit will increase to \$11.1 billion in 2025-26, as spending growth of 3.2 per cent combines with a 1.2 per cent decline in revenues (see Chapters 4 and 5 for details).

Based on the FAO's outlook for the Ontario economy, and current government policies and announced commitments, the FAO projects that the budget deficit will increase to \$11.8 billion in 2026-27, as spending growth outpaces revenue gains. Beyond 2026-27, the budget deficit is projected to decline gradually over the following three years to a deficit of \$6.3 billion in 2029-30, as average annual revenue growth of 3.9 per cent is projected to exceed average spending growth of 3.0 per cent per year.

Figure 3.1
FAO projects budget deficits over the outlook

Budget Balance (\$ Billions)



Source: Ontario Public Accounts and FAO.

The FAO's budget outlook is subject to significant risks (see Chapter 6 for more details).

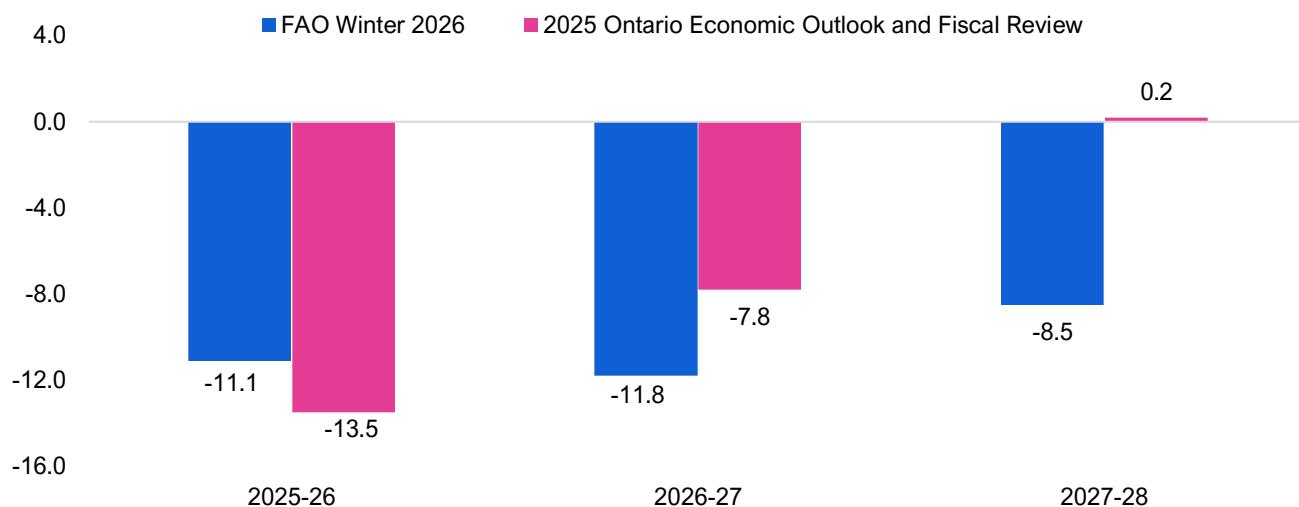
Comparison to the outlook in the 2025 Ontario Economic Outlook and Fiscal Review

The FAO's budget deficit projection is smaller compared to the government's deficit forecast in the 2025 Ontario Economic Outlook and Fiscal Review in the first year of the outlook and larger in the last two years (the Province's forecast ends in 2027-28). The FAO does not project a balanced budget over the outlook, while in the 2025 Ontario Economic Outlook and Fiscal Review, the Province projected a balanced budget in 2027-28.

Figure 3.2

FAO does not expect a balanced budget by 2027-28

Budget Balance (\$ Billions)



Source: FAO and 2025 Ontario Economic Outlook and Fiscal Review.

In 2025-26, the FAO's budget deficit projection is \$2.4 billion smaller than the government's deficit forecast, due to the FAO's \$0.4 billion higher projected revenues and the government's inclusion of a \$2.0 billion reserve.

In contrast, the FAO's budget deficit projection is \$4.0 billion larger than the government's in 2026-27 and \$8.7 billion larger in 2027-28, the year in which the government expects to achieve balance. The 2025 Ontario Economic Outlook and Fiscal Review expects stronger taxation revenue gains and significantly lower program spending growth compared to the FAO's outlook in 2026-27 and 2027-28. (See Chapters 4 and 5 for additional details.)

The *Fiscal Sustainability, Transparency and Accountability Act, 2019* (FSTAA) mandates that the Province plan for a balanced budget in each fiscal year, unless the government determines that extraordinary circumstances require the Province to have a budget deficit for one or more years. Consistent with the 2025 Ontario Budget, the 2025 Ontario Economic Outlook and Fiscal Review projects budget deficits in 2025-26 and 2026-27, with a plan to return to balance in 2027-28. Based on the FAO's outlook for the Ontario economy, and current government policies and announced commitments, the FAO does not expect that the Province will return to a balanced budget by 2027-28 without additional measures to reduce spending and/or increase revenue.

Ontario's accumulated deficit and net debt

The accumulated deficit is a measure of the Province's total liabilities minus total assets. It represents the total of all past annual deficits minus all past annual surpluses. The FAO projects that Ontario's accumulated deficit will increase from \$247.1 billion in 2024-25 to \$291.4 billion in 2029-30, an increase of \$44.3 billion (17.9 per cent), driven by ongoing budget deficits over the outlook.

Net debt is the difference between the Province's total liabilities less financial assets, and excludes non-financial assets, largely infrastructure assets owned by the Province and the broader public sector. The FAO projects that the Province's net debt will rise from \$427.1 billion in 2024-25 to \$547.9 billion in 2029-30, an increase of \$120.9 billion (28.3 per cent). This increase is due to \$44.3 billion in accumulated budget deficits over the outlook and borrowing to finance a \$76.5 billion increase in non-financial assets.

Ontario's fiscal sustainability indicators

FSTAA mandates that each Ontario budget include a debt burden reduction strategy that outlines specific objectives for the projected net debt-to-GDP ratio⁴ and a progress report on supporting actions and implementation of the debt burden reduction strategy from the last budget.

The government's 2025 budget debt burden reduction strategy contained targets for three fiscal sustainability indicators, which were unchanged in the 2025 Ontario Economic Outlook and Fiscal Review:

- net debt-to-GDP⁵ to stay below 40.0 per cent;
- net debt-to-operating revenue⁶ to be below 200 per cent; and
- net interest-to-operating revenue⁷ to stay below 7.5 per cent.

In 2024-25, all three of the government's fiscal sustainability indicators were below their 10-year historical average and the government's targets in the 2025 Ontario Economic Outlook and Fiscal Review. Looking forward, the FAO expects that all three fiscal sustainability indicators will deteriorate over the outlook. The net debt-to-GDP ratio is expected to increase from 35.7 per cent in 2024-25 to 37.7 per cent in 2029-30 but remain below the government's target and the ratio's 10-year historical average. The net debt-to-operating revenue ratio is expected to increase from 191.2 per cent in 2024-25 to 215.0 per cent in 2029-30, ending the outlook period over the government's target and over its 10-year historical average. Finally, the net interest-to-operating revenue ratio is projected to increase from 5.5 per cent in 2024-25 to 7.1 per cent in 2029-30, remaining below the government's target and its 10-year historical average.

⁴ Starting in the 2026 Ontario Budget, FSTAA requires that the Province report on net financial liabilities as a share of GDP rather than net debt. Compared to net debt, net financial liabilities excludes non-financial liabilities.

⁵ Net debt as a share of GDP is a measure of the debt burden relative to the size of the economy and provides information on a government's ability to raise funds to manage its debt obligations.

⁶ Net debt-to-operating revenue is a measure of the debt burden and indicates the number of years it would take to eliminate a government's net debt if all operating revenues were used for debt repayment. For example, a net debt-to-operating revenue ratio of 200 per cent means it would take two years to pay off a government's net debt if all operating revenues were dedicated to debt repayment.

⁷ The ratio of net interest-to-operating revenue is an indicator of budgetary flexibility – a higher ratio indicates that a government has a smaller share of revenue available to spend on programs.

Table 3.1
Actual and projected fiscal sustainability indicators

Indicator	2024-25 Actual (%)	2029-30 Forecast (%)	Change (ppt*)	Government Target (%)	Over / Under Target in 2029-30	10-Year Historical Average** (%)
Net debt-to-GDP	35.7	37.7	up 2.0 ppt	< 40.0	Under	38.9
Net debt-to-operating revenue	191.2	215.0	up 23.8 ppt	< 200.0	Over	213.9
Net interest-to-operating revenue	5.5	7.1	up 1.6 ppt	< 7.5	Under	7.3

* “ppt” stands for percentage point.

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

Note: Historical net debt-to-GDP will differ from those presented in the 2025 Ontario Economic Outlook and Fiscal Review due to updated GDP estimates released by Statistics Canada.

Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.

4. Revenue Outlook

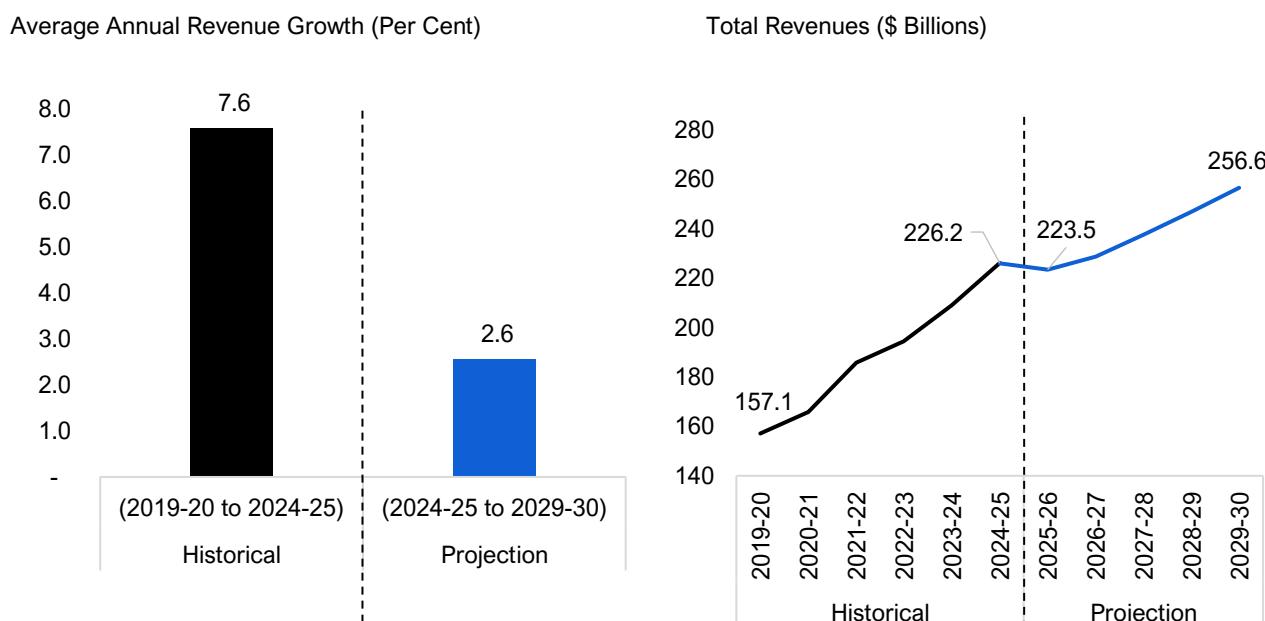
Revenue growth expected to moderate

From 2024-25 to 2029-30, revenue growth is expected to average 2.6 per cent per year, well below the 7.6 per cent average annual increase recorded during the previous five years. The slowdown in revenue growth reflects the FAO's expected moderation in economic activity. Nominal GDP growth, the key driver of overall revenue gains, is projected to slow significantly when compared to the previous five years. Revenue growth over the projection period is also constrained by declines in interest and investment income and international student tuition revenue in the colleges sector.

In the first year of the projection, total revenue is projected to decline from \$226.2 billion in 2024-25 to \$223.5 billion in 2025-26, a drop of \$2.7 billion (-1.2 per cent). This decline results primarily from lower non-tax revenues, reflecting the loss of a one-time \$3.4 billion revenue gain from a tobacco company settlement in 2024-25, as well as declines in revenues from international student college tuition fees, interest and investment income, and recoveries from prior-year expenditures.⁸ Beyond 2025-26, total revenue is expected to grow at an average annual rate of 3.5 per cent over the rest of the projection, generally in line with nominal GDP growth, reaching \$256.6 billion in 2029-30.

Figure 4.1

Ontario's revenue growth to moderate over the projection



Note: Historical revenue has been restated to include revenue from interest and investment income.

Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.

⁸ Recoveries from prior-year expenditures occur when actual spending is lower than what was recorded in a prior fiscal year. For example, if the government receives a refund for an overpayment made in a prior fiscal year, then that refund is recorded as revenue in the current fiscal year.

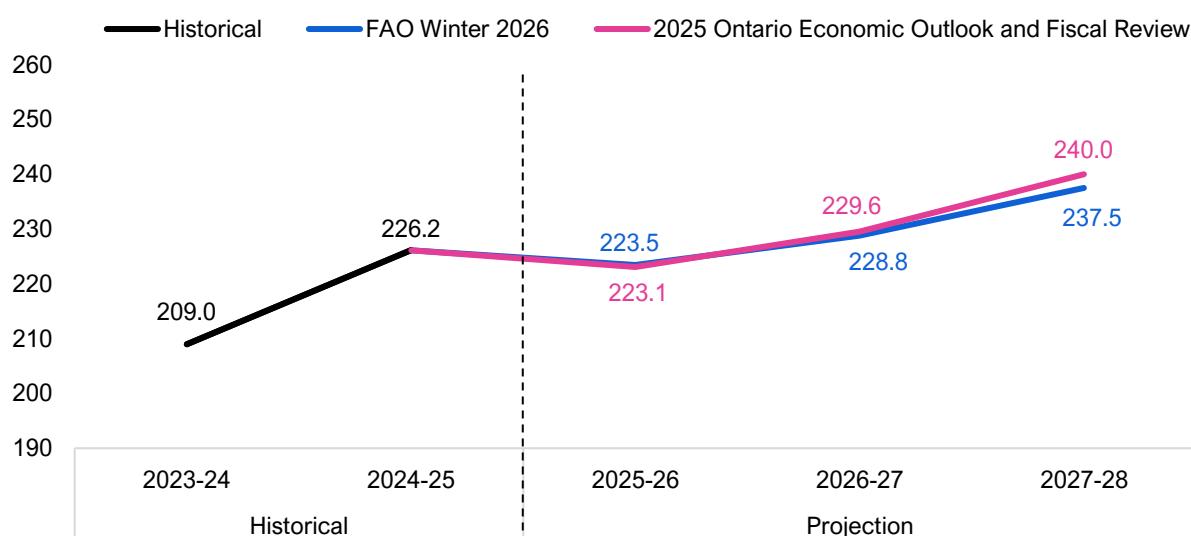
Comparison to revenue projection in the 2025 Ontario Economic Outlook and Fiscal Review

Over the comparable outlook period (2025-26 to 2027-28), the FAO projects a cumulative \$2.9 billion lower revenue than the government. In the first two years of the projection, the FAO's and the government's revenue projections are broadly aligned, with the FAO projecting \$0.4 billion higher revenue in 2025-26, followed by \$0.8 billion lower revenue in 2026-27. However, by 2027-28, the final year of the government's outlook, the FAO expects revenues will be \$2.5 billion lower than the government's projection, primarily due to the FAO's lower forecast for personal income tax revenue.

Figure 4.2

Comparison to 2025 Ontario Economic Outlook and Fiscal Review revenue projection

Revenue (\$ Billions)



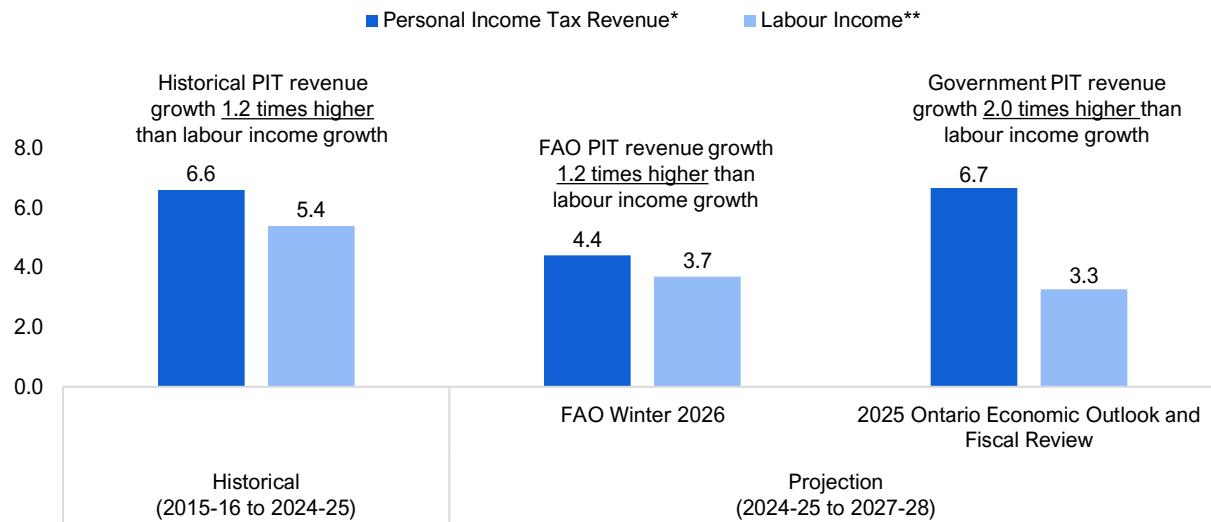
Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.

The FAO projects lower personal income tax (PIT) revenue than the government throughout the comparable outlook, despite the FAO's stronger labour income forecast, which is the primary driver of PIT revenue growth. Historically (from 2015-16 to 2024-25), personal income tax revenue has grown 1.2 times faster than labour income, as income growth pushed taxpayers into higher income brackets.⁹ Over the 2024-25 to 2027-28 outlook, the FAO projects PIT revenue growth of 4.4 per cent, which is 1.2 times faster than the FAO's projected growth in labour income. In contrast, the government projects that PIT revenue will grow at 2.0 times the pace of labour income over the same period, well above the historical relationship.

⁹ In Ontario, the top two income tax brackets are not indexed for inflation.

Figure 4.3
Growth in personal income tax and labour income

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.

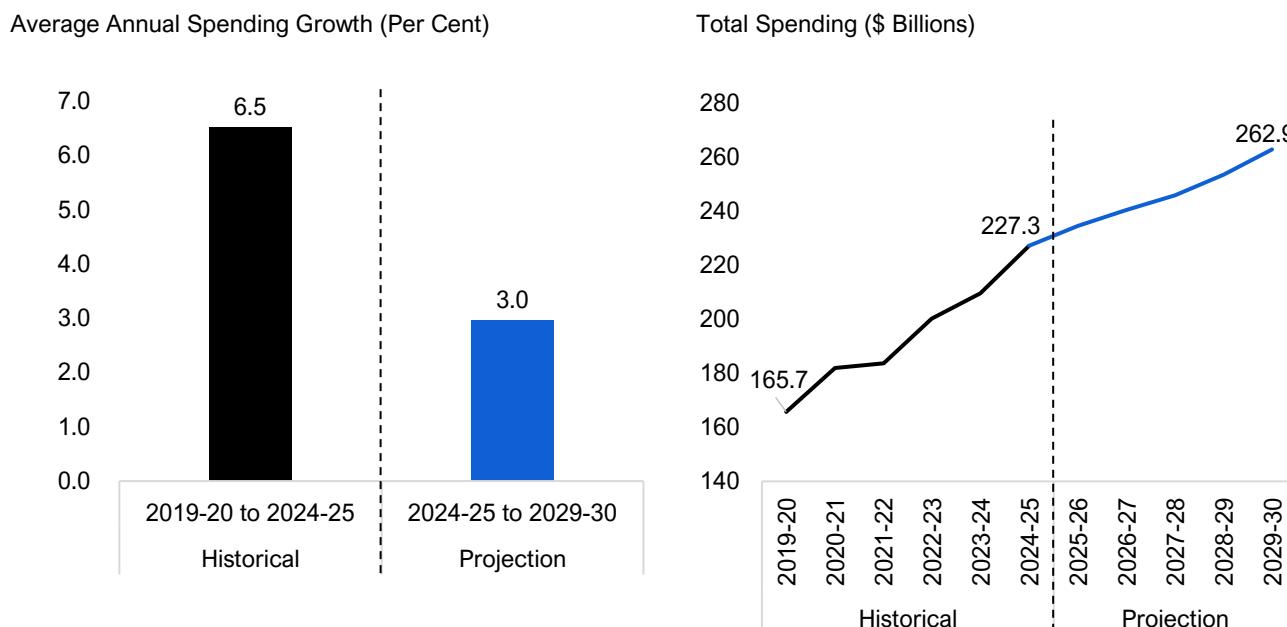
Source: Statistics Canada, Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO analysis.

5. Spending Outlook

Spending growth expected to moderate

The FAO projects that spending will grow at an average annual rate of 3.0 per cent from \$227.3 billion in 2024-25 to \$262.9 billion in 2029-30. This is a slower pace than the 6.5 per cent average annual growth from 2019-20 to 2024-25, a period that included the introduction of new government programs,¹⁰ the expansion of existing programs,¹¹ and higher spending in response to the COVID-19 pandemic, inflationary pressures and high population growth. 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.

Figure 5.1
Ontario's spending growth to moderate over the projection



Note: Historical spending has been restated to exclude revenue from interest and investment income.

Source: 2025 Ontario Economic Outlook and Fiscal Review and FAO analysis of information provided by the Province.

¹⁰ Examples of new programs during this period include the Renewable Cost Shift (2020-21, currently referred to as the Comprehensive Electricity Plan), and the start of the \$10-a-day child care program in 2022-23.

¹¹ Examples of expanded programs include the expansion of hospital beds and the increase in hours of direct care provided to long-term care home residents.

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

By sector, interest and other debt servicing charges; health; and children, community and social services are expected to grow faster or equal to the average total spending growth of 3.0 per cent. Spending on interest and other debt servicing charges is projected to grow by an average of 5.6 per cent per year, driven by borrowing for the Province's accumulated budget deficits and investments in non-financial assets, largely infrastructure assets owned by the Province and the broader public sector. Health sector spending is projected to increase by an average of 4.9 per cent per year, driven by strong spending in long-term care, drug programs, community care, and payments to physicians and practitioners. Spending in the children, community and social services sector is projected to grow at 3.0 per cent per year on average, based on the FAO's projection for social assistance caseloads and the legislated benefit rates for the Ontario Disability Support Program and the Ontario Works program.¹²

In contrast, all other sectors are expected to grow slower than the average total spending growth of 3.0 per cent. Education sector spending is projected to grow at 2.9 per cent per year on average, based on elementary and secondary school enrolment growth and the Province's implementation of the Canada-wide Early Learning and Child Care (CWELCC) agreement. Justice sector spending follows at 1.1 per cent per year, based on the FAO's forecast for increases in corrections capacity and employee compensation, and high 2024-25 spending due to legal settlement costs.¹³ Postsecondary education spending is projected to decline initially but rebound to 2024-25 levels by 2029-30 as declining spending by colleges due to lower international student enrolment is offset by higher spending on student financial assistance programs. Lastly, 'other programs' sector spending is projected to decline at -1.8 per cent per year on average due to a combination of high 2024-25 spending due to one-time expenses,¹⁴ the expiry of time-limited programs¹⁵ and declining spending on electricity subsidy programs.¹⁶

¹² Benefit rates for the Ontario Disability Support Program are indexed to inflation, while benefit rates for the Ontario Works program are currently not scheduled to change.

¹³ In 2024-25, the justice sector recorded a \$602 million expense for statutory payments under the *Crown Liability and Proceedings Act*. Excluding this expense in 2024-25, justice sector spending is projected to increase at an average annual rate of 2.9 per cent through 2029-30.

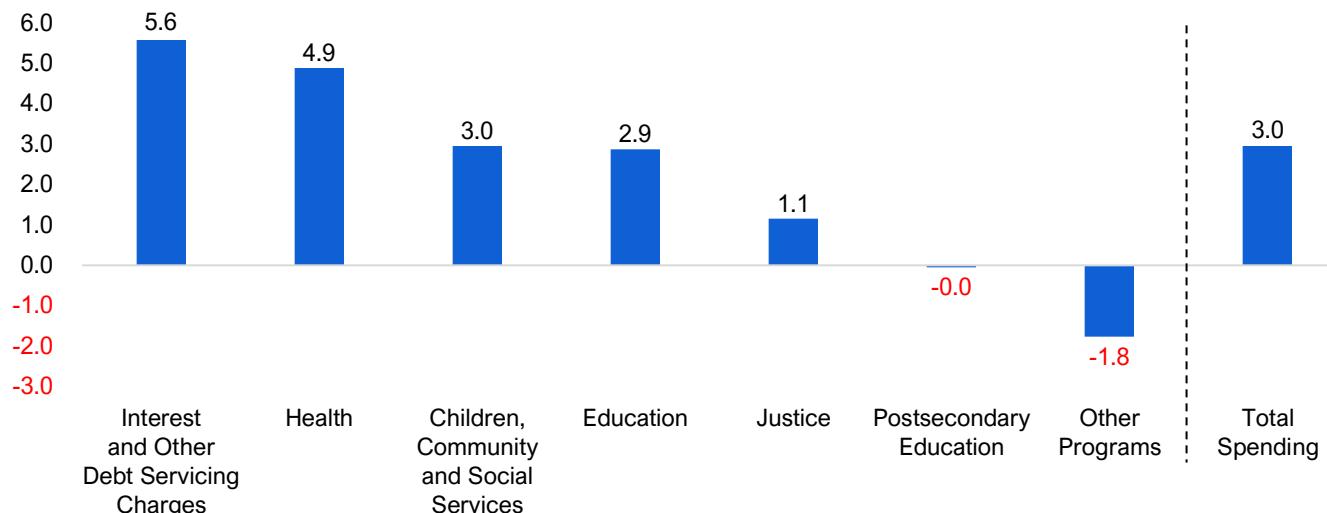
¹⁴ One-time expenses in 2024-25 include \$2.9 billion in spending for the Ontario Taxpayer Rebate and \$0.8 billion in payments to the Mercury Disability Fund.

¹⁵ Time-limited programs include the Housing-Enabling Water Systems Fund and the Building Faster Fund.

¹⁶ In 2024-25, spending on electricity subsidy programs was \$6.5 billion, which the FAO projects will fall to \$5.8 billion in 2029-30.

Figure 5.2
FAO's spending projection by sector from 2024-25 to 2029-30

Average Annual Spending Growth (Per Cent)



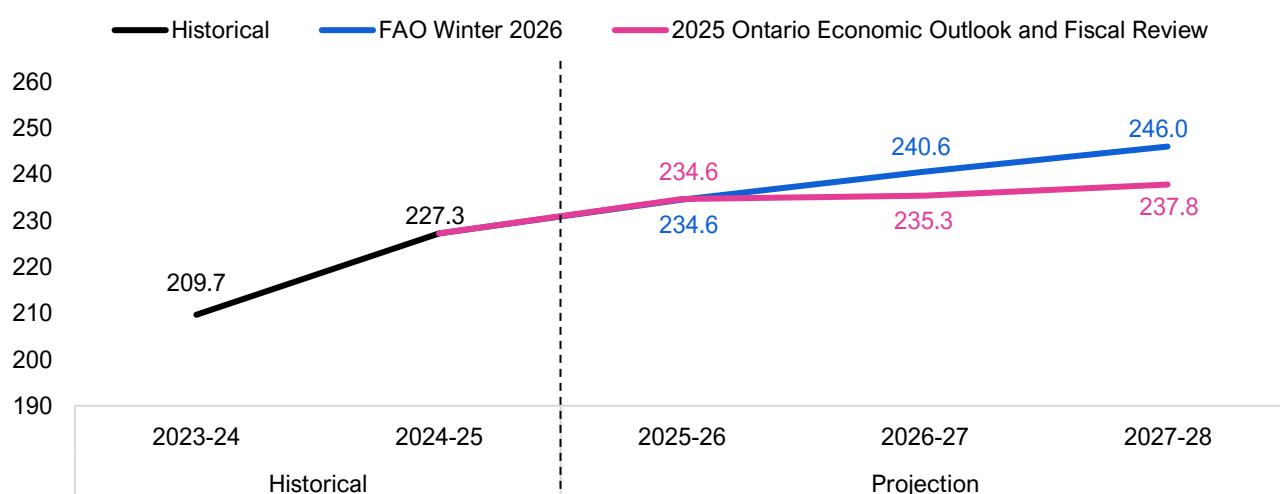
Source: 2025 Ontario Economic Outlook and Fiscal Review and FAO analysis of information provided by the Province.

Comparison to spending projection in the 2025 Ontario Economic Outlook and Fiscal Review

Over the comparable outlook (2025-26 to 2027-28), the FAO projects a cumulative \$13.4 billion in higher spending than the government's projection in the 2025 Ontario Economic Outlook and Fiscal Review. In 2025-26, the first year of the outlook period, the FAO's spending projection is equal to the government's projection. In 2026-27 and 2027-28, the FAO's spending forecast exceeds the government's forecast by \$5.2 billion and \$8.2 billion, respectively.

Figure 5.3
Comparison to 2025 Ontario Economic Outlook and Fiscal Review spending projection

Spending (\$ Billions)



Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.

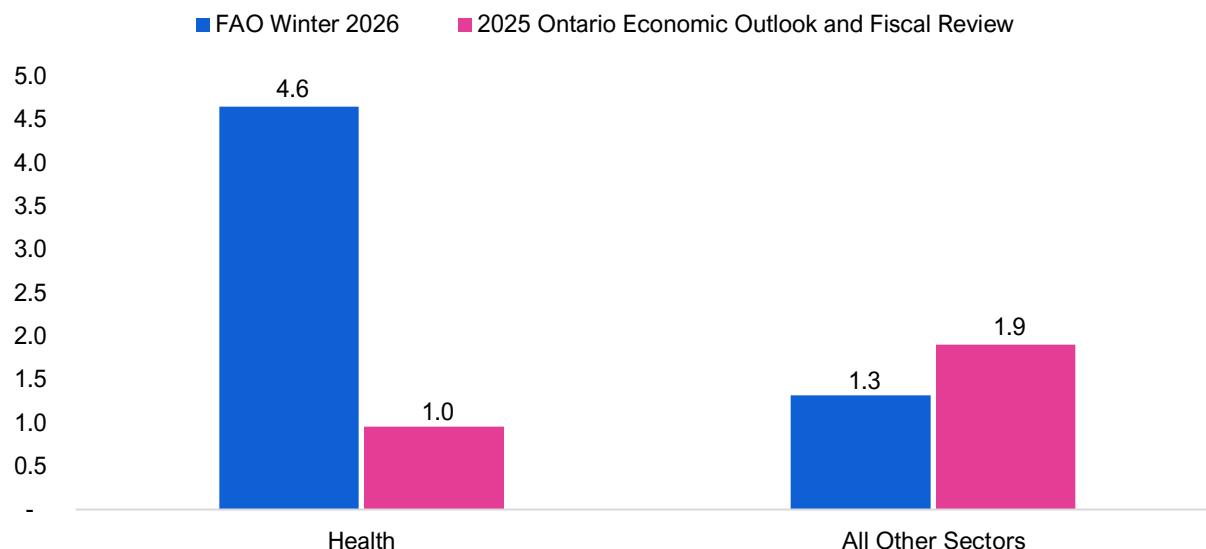
The gap between the spending forecasts is largely driven by the FAO's higher health sector spending forecast. From 2024-25 to 2027-28, the FAO projects health sector spending will grow at an average of 4.6 per cent annually. By comparison, the 2025 Ontario Economic Outlook and Fiscal Review forecasts a 1.0 per cent average annual increase in health sector spending. This results in a projected health sector spending shortfall of \$10.7 billion in 2027-28.¹⁷

Across all other sectors combined, the FAO's spending forecast is below the Province's forecast. The Province projects spending to grow at 1.9 per cent annually, between 2024-25 and 2027-28, higher than the FAO's projection of 1.3 per cent average annual growth, largely due to the Contingency Fund. This results in a projected funding surplus for all other sectors of \$2.5 billion in 2027-28, which could be used to partially address the projected health sector funding shortfall.

Figure 5.4

Comparison to 2025 Ontario Economic Outlook and Fiscal Review spending growth projection, 2024-25 to 2027-28

Average Annual Spending Growth (Per Cent)



Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.

¹⁷ Table 7.5 in the Appendix provides a comparison by sector of the FAO's spending projection to the 2025 Ontario Economic Outlook and Fiscal Review spending forecast.

6. Risks to the Economic and Budget Outlook

Risks and uncertainties

There are numerous risks and uncertainties that could materially impact the FAO's economic and budget outlook over the projection period.

The escalation of geopolitical conflict and deterioration in international relations is straining traditional alliances and weakening global governance institutions, adding uncertainty to the outlook. Shifting global supply chains and more volatile commodity prices could push up inflation and prompt higher interest rates, which would slow Ontario's economic and revenue growth.

The FAO's economic and budget outlook was finalized based on trade policies as of January 15, 2026, while the Canada-United States-Mexico Agreement (CUSMA) will undergo a review process in 2026. Uncertainty surrounding the global trade environment remains a risk to Ontario's exports, business investment and labour market.

The FAO's economic outlook incorporates an updated population projection based on the federal government's new targets that lower temporary resident admissions over the next three years.¹⁸ However, uncertainty remains around the pace of temporary resident outflows, and the federal targets beyond 2026 are still subject to adjustment. If the reduction in temporary residents occurs more slowly than anticipated, economic activity could be stronger than expected, potentially boosting provincial revenues but also adding pressures to program spending.

Ontario's economic growth could outperform current projections if there is a de-escalation of global conflicts, or reduced tariffs from Canada's trade partners. Growth may also exceed projections if stronger US economic growth from fiscal stimulus boosts demand for Ontario's exports, as well as productivity gains from technological innovation and new capital investment. Stronger economic growth could lift Ontario's revenues and improve the Province's fiscal results.

The potential budget impacts of alternative economic scenarios

Given the numerous risks and uncertainties to the outlook, the FAO has developed two alternative economic scenarios, a "high growth" and a "low growth" scenario, based on reasonable assumptions for key economic variables. These scenarios produce a potential range of economic and budget outlooks for Ontario.

Under the high growth scenario, Ontario's nominal GDP growth averages 0.5 percentage points higher and Ontario's unemployment rate averages 0.6 percentage points lower compared to the FAO's EBO base case projection over the 2025 to 2030 period. Under the low growth scenario, Ontario's nominal GDP growth averages 0.7 percentage points lower and Ontario's unemployment rate averages 0.4 percentage points higher compared to the FAO's EBO base case projection over the 2025 to 2030 period.

¹⁸ [Supplementary Information for the 2026-2028 Immigration Levels Plan](#), Immigration, Refugees and Citizenship Canada, November 2025.

Table 6.1
High and low growth scenarios

2025-2030 Average	High Growth Scenario	FAO EBO Winter 2026	Low Growth Scenario
Real GDP growth (per cent)	2.1	1.7	1.3
Nominal GDP growth (per cent)	4.5	4.0	3.3
Unemployment rate (per cent)	6.4	7.0	7.4
Population growth (per cent)	1.0	0.6	0.1
CPI growth (per cent)	2.1	2.0	1.8

Source: FAO.

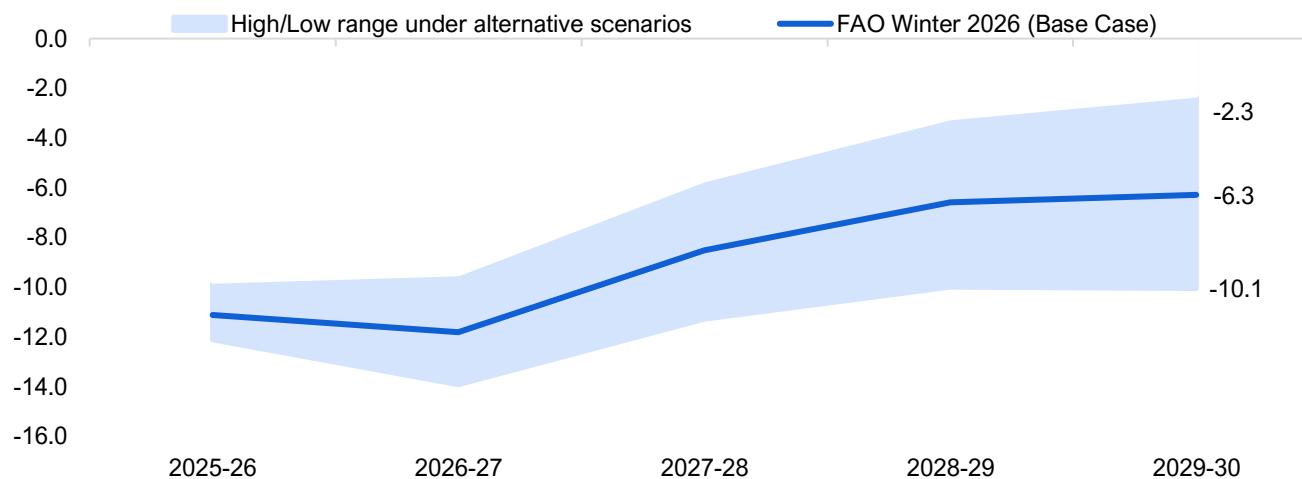
Under the high growth scenario, the FAO projects a budget deficit of \$2.3 billion by 2029-30, a \$4.0 billion improvement compared to the FAO's EBO base case projection. The Province's net debt-to-GDP ratio is also projected to be 35.7 per cent in 2029-30, compared to 37.7 per cent in the base case.

Under the low growth scenario, the budget deficit reaches \$10.1 billion in 2029-30, a \$3.8 billion deterioration from the FAO's EBO base case. Ontario's net debt-to-GDP ratio is also projected to rise to 40.0 per cent in 2029-30, exceeding the government's target to keep Ontario's net debt-to-GDP ratio below 40.0 per cent.

Importantly, the Province's budget balance from 2025-26 to 2029-30 could still fall outside of the FAO's high-low range if there are significant changes to provincial spending or revenue policies, changes to federal policies, or unexpected external shocks that impact Ontario's economy.

Figure 6.1
The impacts of alternative scenarios on Ontario's budget balance

Budget Balance (\$ Billions)



Source: FAO.

Budget balance and net debt sensitivities

To illustrate the impact of potential policy changes on Ontario's budget position, the FAO estimated the sensitivity of key budget indicators to select revenue and spending policy changes. For each policy item, the FAO provides an estimate of the 2026-27 and 2029-30 change in the budget balance, the total change in net debt by 2029-30, and the change in the net debt-to-GDP ratio in 2029-30.

Table 6.2
Budget balance and net debt sensitivities

	Change in Budget Balance in: 2026–27	Change in Budget Balance in: 2029–30	Change in Net Debt by 2029–30	Change in Net Debt-to-GDP Ratio by 2029–30
Revenue				
Increase/decrease in annual personal income taxes payable by \$500 per taxpayer	+/-\$4.9 billion	+/-\$5.7 billion	-/\$21.2 billion	-/+1.5 ppt
A one percentage point increase/decrease to the 11.5 per cent provincial general corporate tax rate	+/-\$2.3 billion	+/-\$2.9 billion	-/\$10.3 billion	-/+0.7 ppt
A one percentage point increase/decrease to the 8 per cent provincial HST rate	+/-\$4.9 billion	+/-\$6.2 billion	-/\$22.2 billion	-/+1.5 ppt
Spending				
A sustained one percentage point increase/decrease in the growth rate of health sector spending	-/\$1.0 billion	-/\$5.0 billion	-/\$11.6 billion	-/-0.8 ppt
A sustained one percentage point increase/decrease in the growth rate of education sector spending	-/\$0.4 billion	-/\$2.0 billion	-/\$4.8 billion	-/-0.3 ppt
A one percentage point increase/decrease in the cost of Provincial borrowing	-/\$0.9 billion	-/\$2.6 billion	-/\$6.7 billion	-/-0.5 ppt

Note: All estimates are full-year impacts.

Source: FAO.

7. Appendix

Data Tables

Table 7.1

FAO outlook for key revenue drivers

	2023a	2024a	2025f	2026f	2027f-2030f Average*
Nominal GDP (% Change)					
FAO	6.9	5.1	4.2	3.6	4.0
2025 Ontario Economic Outlook and Fiscal Review**	6.9	5.1	3.2	3.0	3.9
Labour Income (% Change)					
FAO	7.2	6.4	4.0	3.4	3.8
2025 Ontario Economic Outlook and Fiscal Review	7.2	6.4	3.7	2.7	3.6
Corporate Profits (% Change)					
FAO	2.8	-1.1	4.4	4.5	4.2
2025 Ontario Economic Outlook and Fiscal Review	2.8	-1.1	3.0	5.0	6.9
Household Consumption (% Change)					
FAO	5.7	4.6	4.0	3.6	3.9
2025 Ontario Economic Outlook and Fiscal Review	5.7	4.6	3.8	3.1	3.6

a = Actual, f = Forecast

* 2025 Ontario Economic Outlook and Fiscal Review average is from 2027 to 2028.

** 2025 Economic Outlook and Fiscal Review was based on information available up to September 12, 2025.

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

Table 7.2

FAO outlook for real GDP and select economic indicators

	2023a	2024a	2025a	2026f	2027f-2030f Average*
Real GDP ** (% Change)					
FAO	2.4	1.6	1.3	1.4	1.9
2025 Ontario Economic Outlook and Fiscal Review ***	2.4	1.6	0.8	0.9	1.9
Employment (% Change)					
FAO	3.1	1.7	1.0	0.3	1.0
2025 Ontario Economic Outlook and Fiscal Review	3.1	1.7	0.9	0.4	0.9
Unemployment Rate (%)					
FAO	5.6	7.0	7.7	7.6	6.7
2025 Ontario Economic Outlook and Fiscal Review	5.6	7.0	7.8	7.6	6.8
CPI Inflation (% Change)					
FAO	3.8	2.4	1.9	2.1	2.0
2025 Ontario Economic Outlook and Fiscal Review	3.8	2.4	1.9	2.0	2.0
3-month Canada Treasury Bill Rate (%)					
FAO	4.8	4.3	2.6	2.3	2.7
2025 Ontario Economic Outlook and Fiscal Review	4.8	4.3	2.6	2.2	2.5
10-year Government of Canada Bond Rate (%)					
FAO	3.3	3.4	3.2	3.3	3.6
2025 Ontario Economic Outlook and Fiscal Review	3.3	3.4	3.2	3.3	3.4

a = Actual, f = Forecast

* 2025 Ontario Economic Outlook and Fiscal Review average is from 2027 to 2028.

** For real GDP growth, 2025 is a projection.

*** 2025 Ontario Economic Outlook and Fiscal Review was based on information available up to September 12, 2025.

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

Table 7.3
FAO budget outlook

(\$ Billions)	2023-24a	2024-25a	2025-26f	2026-27f	2027-28f	2028-29f	2029-30f
Revenue							
Personal Income Tax	50.8	55.7	57.4	59.7	62.3	65.4	68.4
Annual Growth (%)	14.8	9.7	3.1	3.9	4.5	4.9	4.6
Sales Tax	39.9	39.4	40.7	42.1	43.7	45.5	47.3
Annual Growth (%)	10.5	-1.3	3.5	3.5	3.7	4.0	4.0
Corporations Tax	23.1	27.8	28.4	28.9	30.1	31.4	32.7
Annual Growth (%)	-16.9	20.2	2.2	1.7	4.3	4.3	4.2
All Other Taxes	28.1	28.7	29.7	30.6	31.5	32.5	33.6
Annual Growth (%)	-1.2	2.2	3.6	2.8	2.9	3.3	3.3
Total Taxation Revenue	141.8	151.5	156.3	161.2	167.6	174.7	181.9
Annual Growth (%)	3.9	6.8	3.1	3.2	3.9	4.3	4.1
Transfers from Government of Canada	34.3	36.6	38.5	39.1	39.9	41.2	42.8
Annual Growth (%)	9.8	6.7	5.0	1.8	2.0	3.2	3.7
Income from Government Business Enterprises	7.4	7.5	6.5	6.8	7.5	7.8	8.1
Annual Growth (%)	21.1	0.5	-12.5	3.6	11.5	4.0	3.0
Other Non-Tax Revenue	25.4	30.5	22.2	21.6	22.4	23.1	23.8
Annual Growth (%)	23.8	20.3	-27.3	-2.6	3.7	3.0	3.1
Total Revenue	209.0	226.2	223.5	228.8	237.5	246.9	256.6
Annual Growth (%)	7.5	8.2	-1.2	2.4	3.8	4.0	3.9
Spending							
Health	85.2	91.4	96.3	100.8	104.7	110.5	115.9
Annual Growth (%)	9.0	7.2	5.4	4.8	3.8	5.6	4.9
Education	38.8	40.0	42.0	42.9	43.9	45.0	46.1
Annual Growth (%)	7.2	3.2	4.9	2.3	2.2	2.5	2.5
Children, Community and Social Services	19.3	20.5	21.4	22.1	22.7	23.2	23.8
Annual Growth (%)	7.6	6.6	4.2	3.0	2.7	2.3	2.6
Postsecondary Education	13.3	14.2	13.2	13.2	13.5	13.8	14.1
Annual Growth (%)	12.5	6.9	-6.6	-0.3	2.0	2.6	2.4
Justice	6.0	7.2	6.9	7.1	7.2	7.4	7.6
Annual Growth (%)	10.9	19.9	-3.9	2.8	1.3	2.9	2.8
Other Programs	32.7	38.9	38.8	37.6	36.0	34.5	35.6
Annual Growth (%)	-11.4	18.7	-0.1	-3.2	-4.3	-4.1	3.1
Total Program Spending	195.2	212.1	218.6	223.7	227.8	234.3	243.1
Annual Growth (%)	4.7	8.7	3.0	2.3	1.8	2.9	3.7
Interest and Other Debt Servicing Charges	14.5	15.1	16.0	16.9	18.2	19.2	19.8
Annual Growth (%)	3.8	4.6	5.8	5.6	7.7	5.4	3.4
Total Spending	209.7	227.3	234.6	240.6	246.0	253.5	262.9
Annual Growth (%)	4.7	8.4	3.2	2.6	2.3	3.1	3.7
Budget Balance, Accumulated Deficit, Net Debt and Fiscal Sustainability Indicators							
Budget Balance	-0.7	-1.1	-11.1	-11.8	-8.5	-6.6	-6.3
Accumulated Deficit	246.1	247.1	258.2	270.0	278.5	285.1	291.4
Net Debt	409.8	427.1	457.5	487.9	511.4	531.3	547.9
Net Debt-to-GDP (%)	36.0	35.7	36.7	37.7	38.1	38.0	37.7
Net Debt-to-Operating Revenue (%)	199.0	191.2	206.6	215.0	216.9	216.7	215.0
Net Interest-to-Operating Revenue (%)	5.5	5.5	6.3	6.6	7.0	7.1	7.1

a = Actual, f = Forecast

Source: Ontario Public Accounts and FAO.

Table 7.4
FAO Winter 2026 revenue projection compared to 2025 Ontario Economic Outlook and Fiscal Review

Difference (\$ billions)	2025-26	2026-27	2027-28
Personal Income Tax	-1.8	-2.8	-4.2
Sales Tax	0.6	0.7	0.4
Corporations Tax	1.4	0.4	-0.6
All Other Taxes	0.5	0.8	0.9
Total Taxation Revenue	0.7	-0.9	-3.5
Transfers from Government of Canada	-0.4	-0.1	0.2
Income from Government Business Enterprises	0.0	0.0	0.0
Other Non-Tax Revenue	0.1	0.2	0.8
Total Revenue Difference	0.4	-0.8	-2.5

Note: Values are calculated by subtracting 2025 Ontario Economic Outlook and Fiscal Review projections from the FAO's Winter 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.

Table 7.5
FAO Winter 2026 spending projection compared to 2025 Ontario Economic Outlook and Fiscal Review

Difference (\$ billions)	2025-26	2026-27	2027-28
Health	4.8	8.1	10.7
Education	-0.7	0.1	0.7
Postsecondary Education	0.3	0.1	0.7
Children, Community and Social Services	1.1	1.6	2.2
Justice	0.1	0.6	0.7
Other Programs*	-5.3	-5.2	-7.3
Interest and Other Debt Servicing Charges	-0.2	0.0	0.5
Total Spending Difference	0.0	5.2	8.2

Note: Values are calculated by subtracting the 2025 Ontario Economic Outlook and Fiscal Review projections from the FAO's Winter 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.

* 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.