

Economic and Budget Outlook

Winter 2026

Briefing Deck

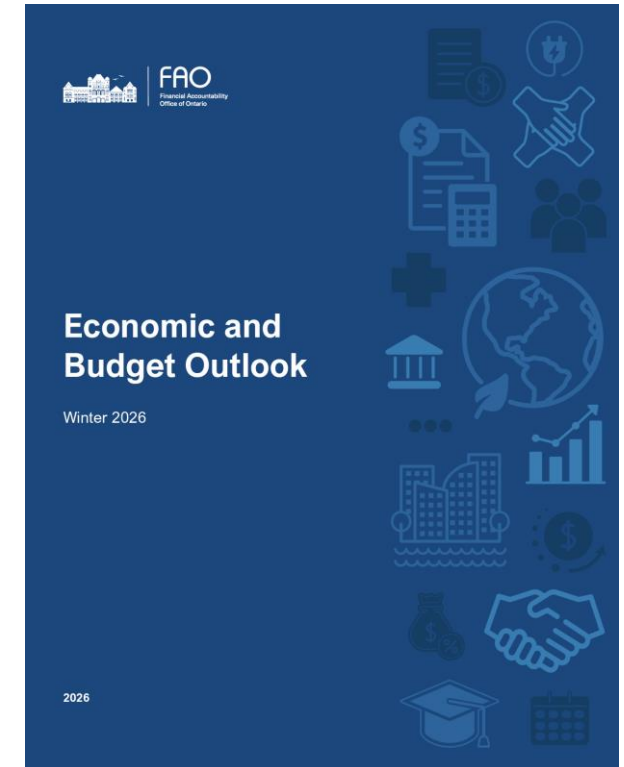


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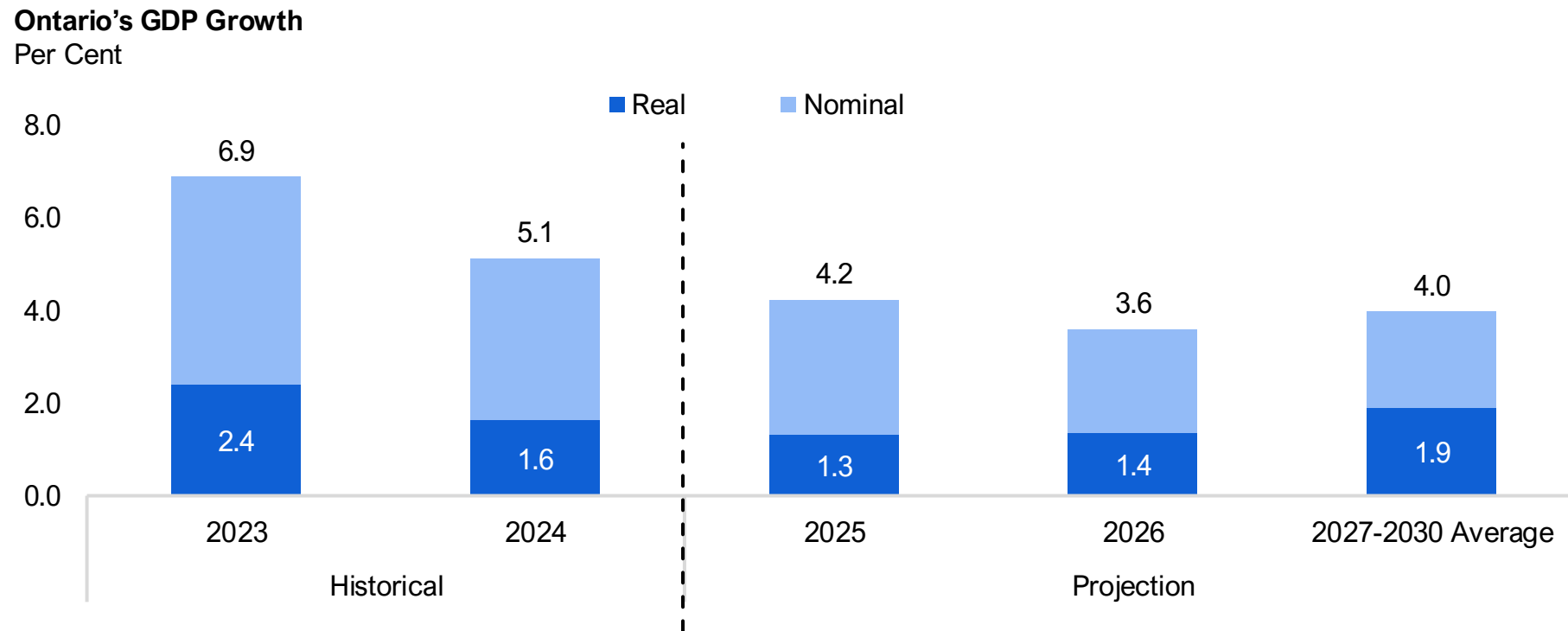
Overview

- The Economic and Budget Outlook (EBO) provides the FAO's projection for Ontario's economy and finances over the 2025-26 to 2029-30 period.
- The presentation will focus on Ontario's:
 1. Economic outlook
 2. Budget outlook
 3. Fiscal sustainability indicators
 4. Revenue outlook
 5. Spending outlook
 6. Risks to the economic and budget outlook



Slow GDP growth expected to continue

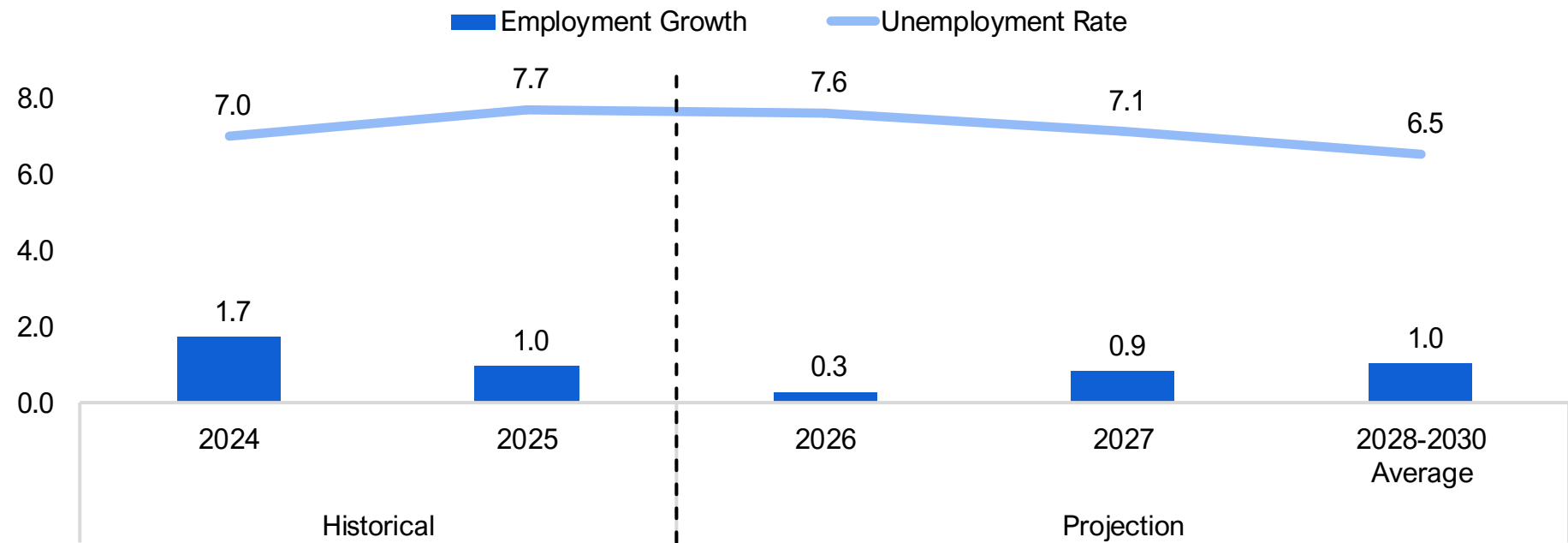
- Ontario's real GDP growth, the broadest measure of economic activity, is projected to slow to 1.3% in 2025 and 1.4% in 2026, as US tariffs cause weakness in the province's exports and business investment.
- Ontario's nominal GDP growth, the broadest measure of the tax base, is projected to moderate to 4.2% in 2025 and slow further to 3.6% in 2026, as the impact of US tariffs on the labour market temper labour income growth.



Ontario's job market expected to slow further in 2026

- Annual employment growth is projected to slow to 0.3% in 2026, then improve to 0.9% 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 as employment gains outpace the growth in Ontario's labour force.

Employment Growth and Unemployment Rate
Per Cent



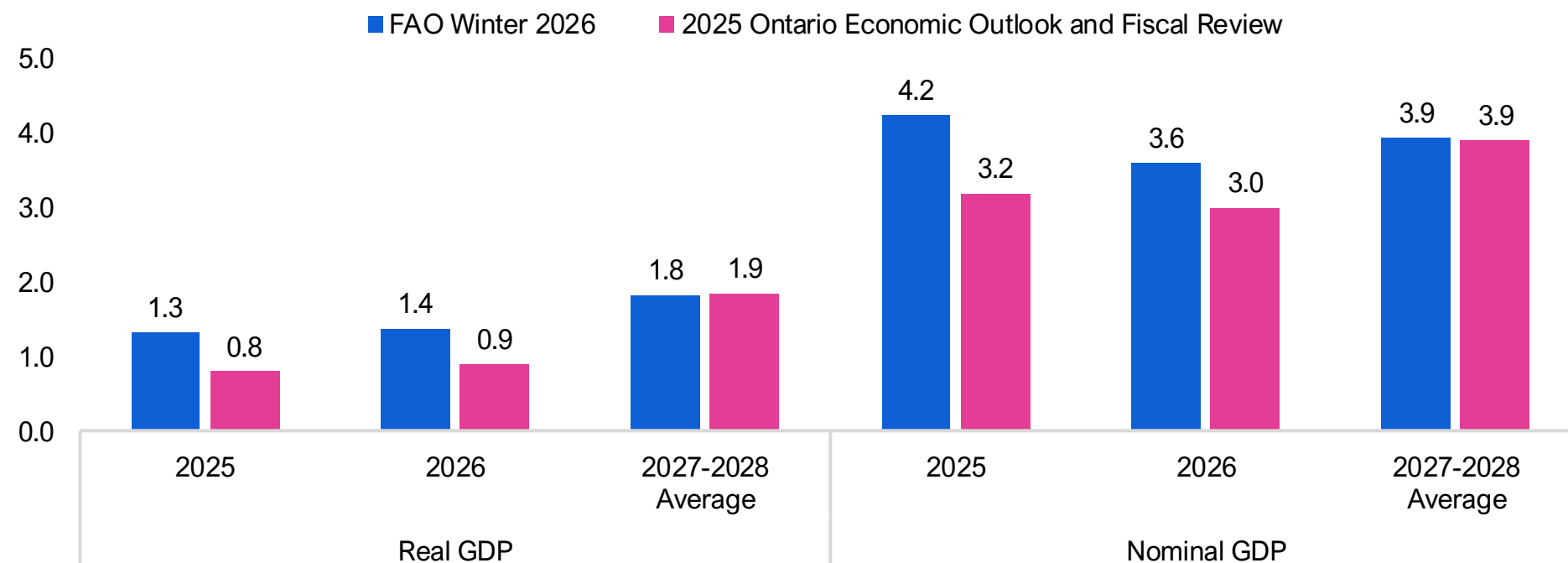
Source: Statistics Canada and FAO.



The FAO's economic outlook compared to 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.
- In 2027 and 2028, the FAO's projections for real and nominal GDP growth are similar to the government's projections.

GDP Annual Growth Per Cent

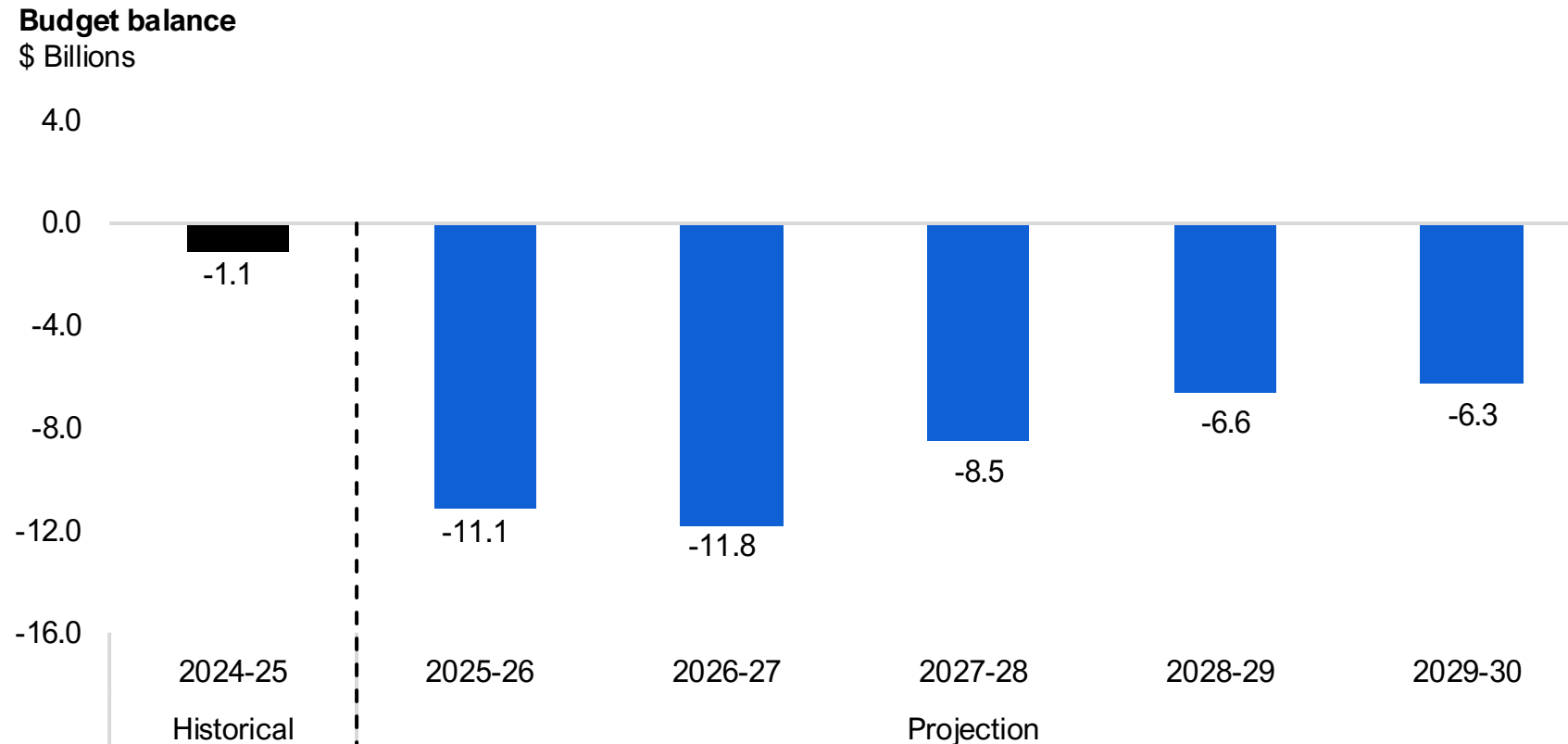


Source: 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



FAO projects budget deficits over the outlook

- The FAO projects that the budget will not balance over the outlook, with a deficit of \$6.3 billion in 2029-30.

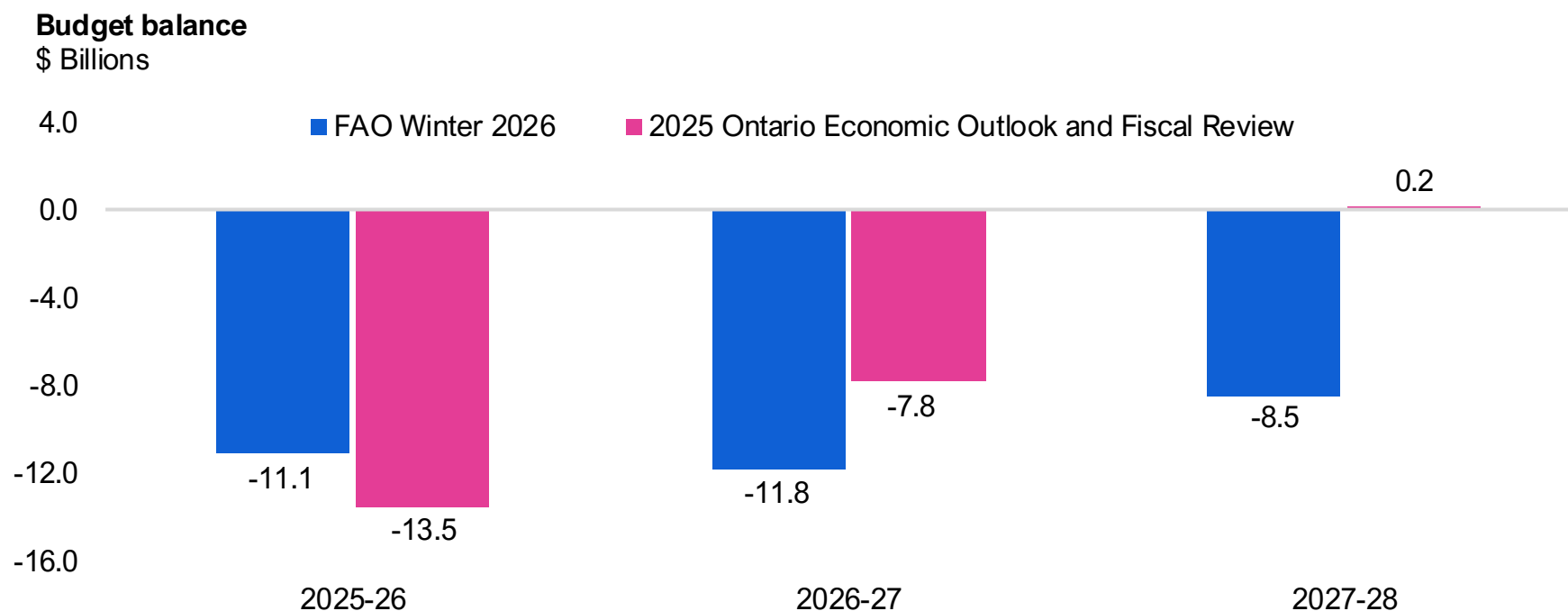


Source: Ontario Public Accounts and FAO.



FAO budget projection compared to 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 of the outlook.
- 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.



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



Ontario's fiscal sustainability indicators

- Net debt-to-GDP and net interest-to-operating revenue ratios projected to deteriorate but remain under the Province's targets and 10-year historical averages.
- Net debt-to-operating revenue ratio to deteriorate and exceed its target and 10-year historical average.

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

* 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.

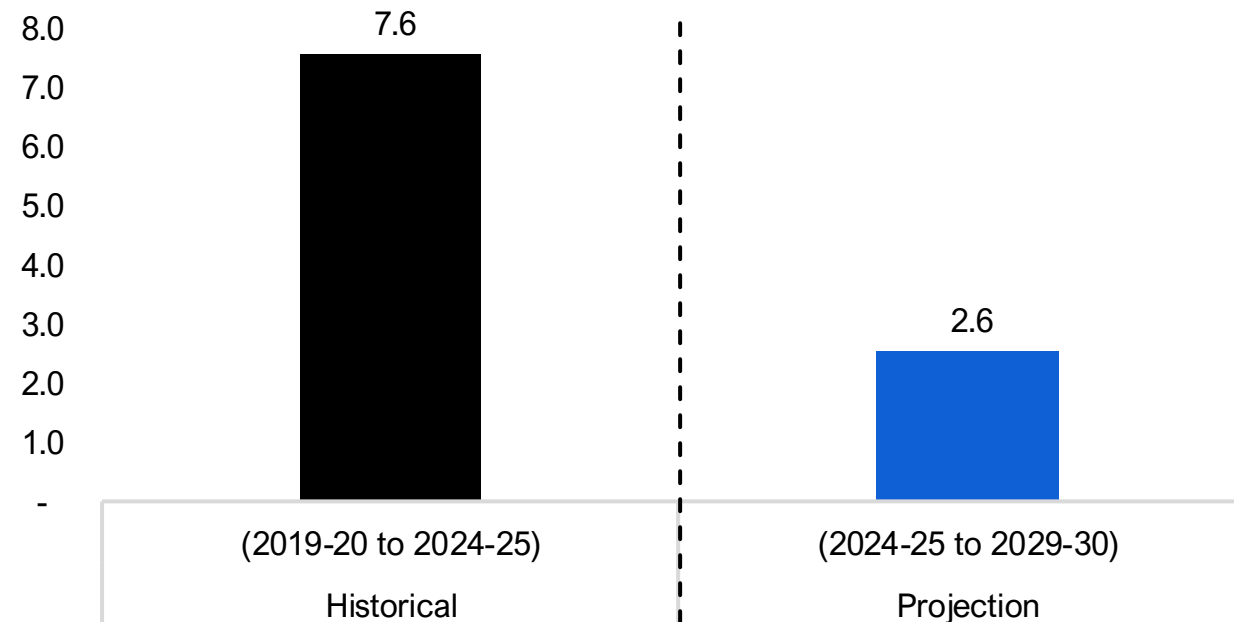
Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



Ontario's revenue growth to moderate

- Revenue growth is expected to average 2.6% per year over the outlook, well below the 7.6% average annual increase recorded during the previous five years.
- The slowdown in revenue growth reflects the FAO's forecast for slower nominal GDP growth. Projected revenue growth is also constrained by declines in interest and investment income and international student tuition revenue in the colleges sector.

Average Annual Revenue Growth
Per Cent

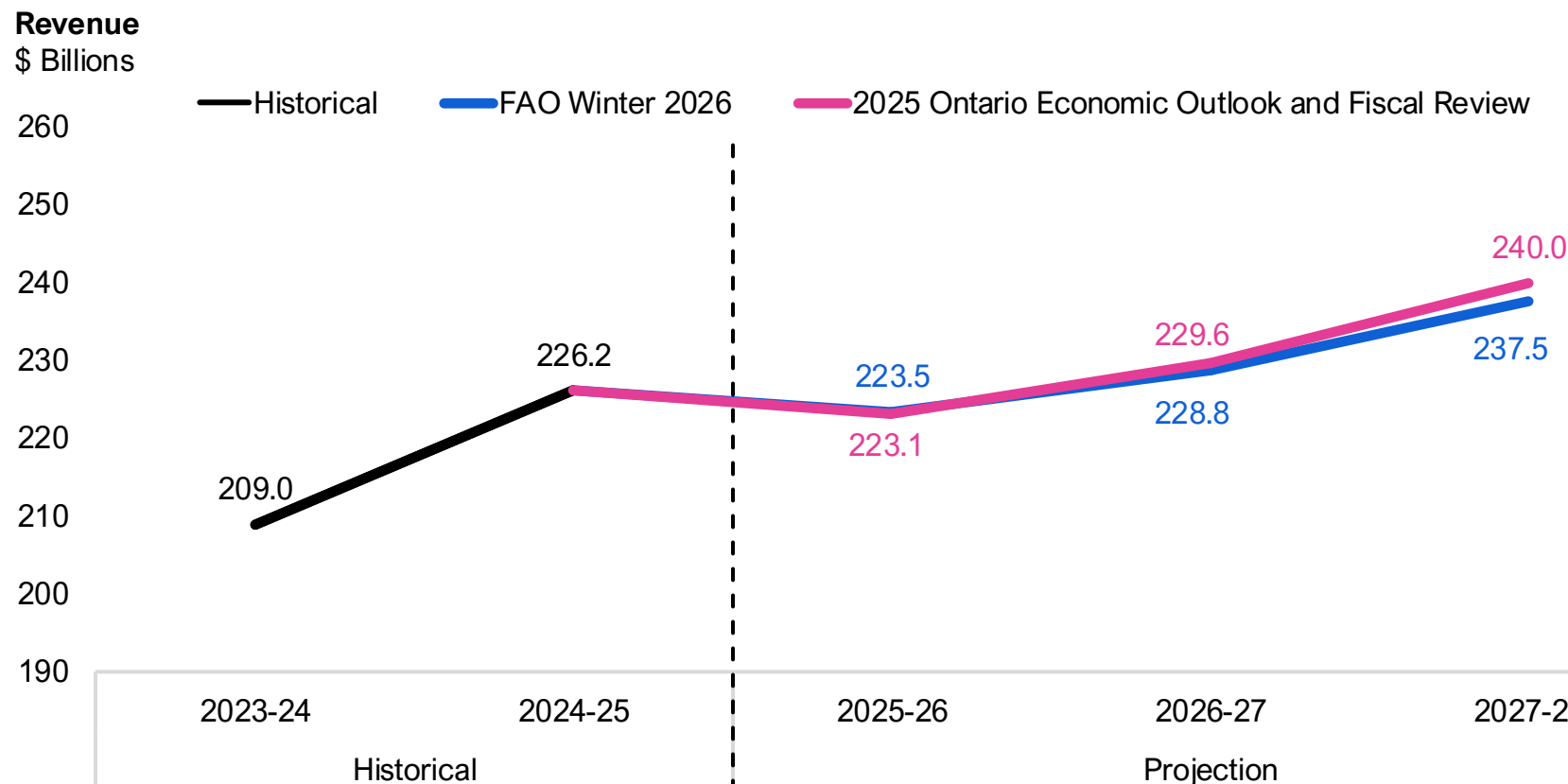


Note: Historical revenue has been restated to include revenue from interest and investment income.
Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



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

- FAO projects \$2.5 billion lower revenue in 2027-28, primarily due to lower outlook for personal income tax revenue.



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

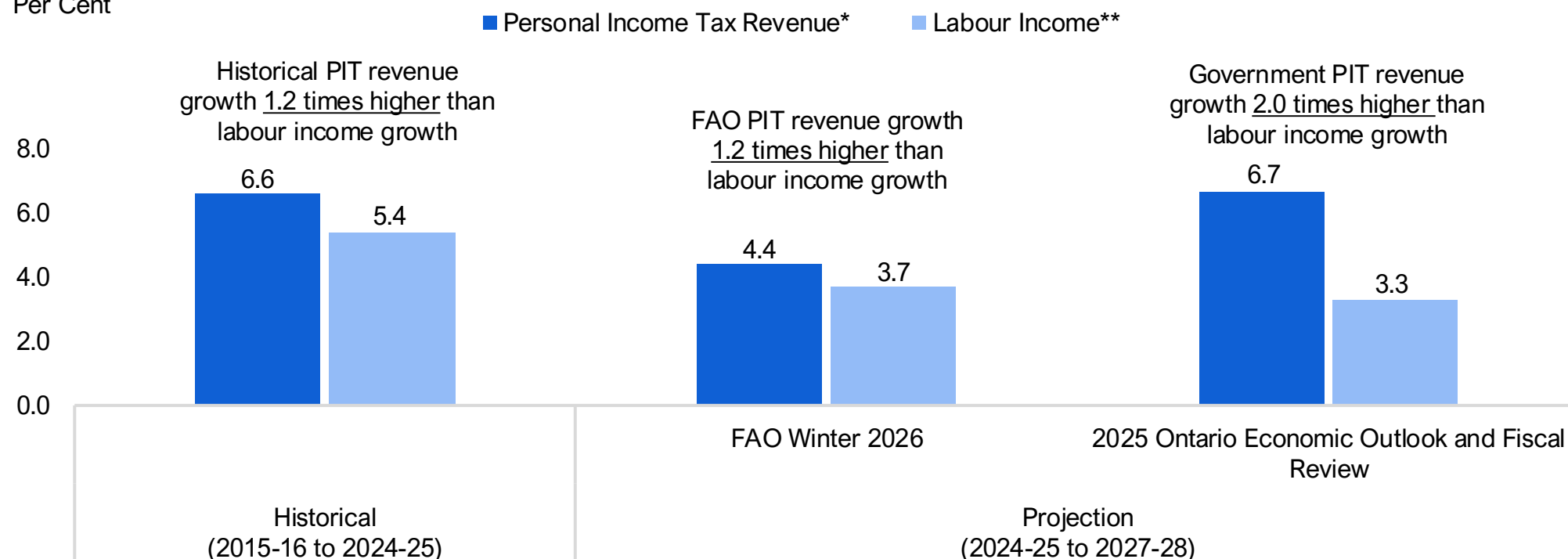


FAO personal income tax revenue projection compared to the 2025 Ontario Economic Outlook and Fiscal Review

- The FAO projects lower personal income tax (PIT) revenue than the government throughout 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.

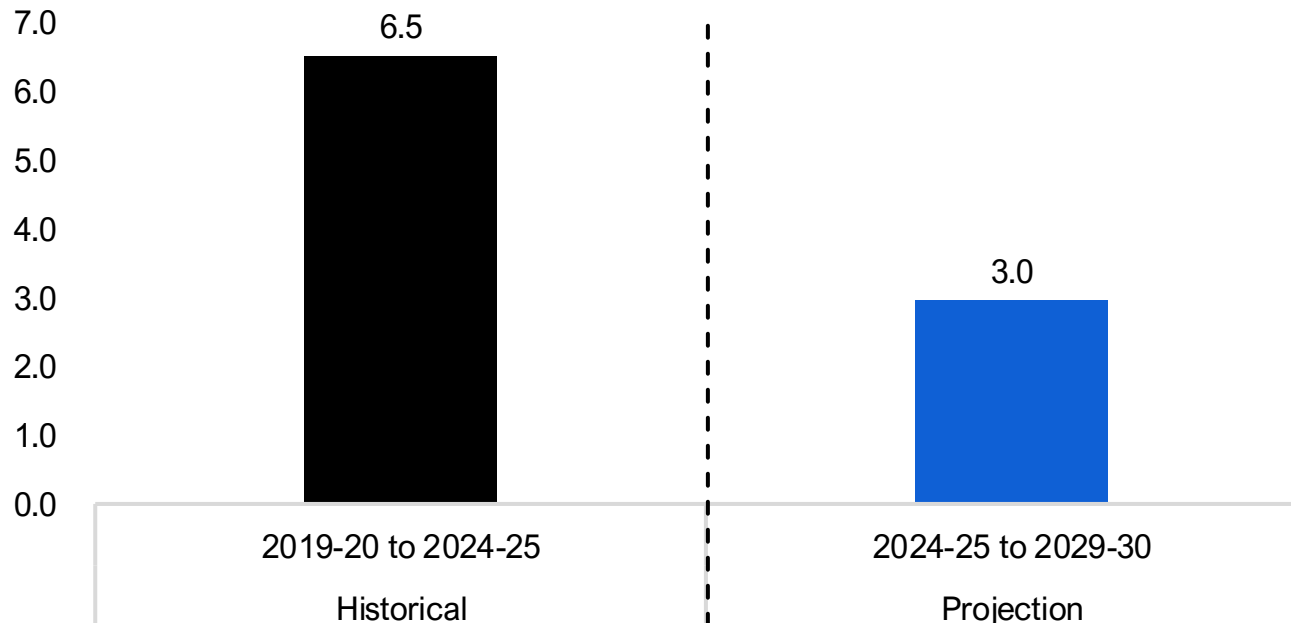
Source: Statistics Canada, Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO analysis.



Spending growth to moderate over the projection

- Spending projected to grow at an average annual rate of 3.0%, slower than the 6.5% average annual growth from 2019-20 to 2024-25.
- 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

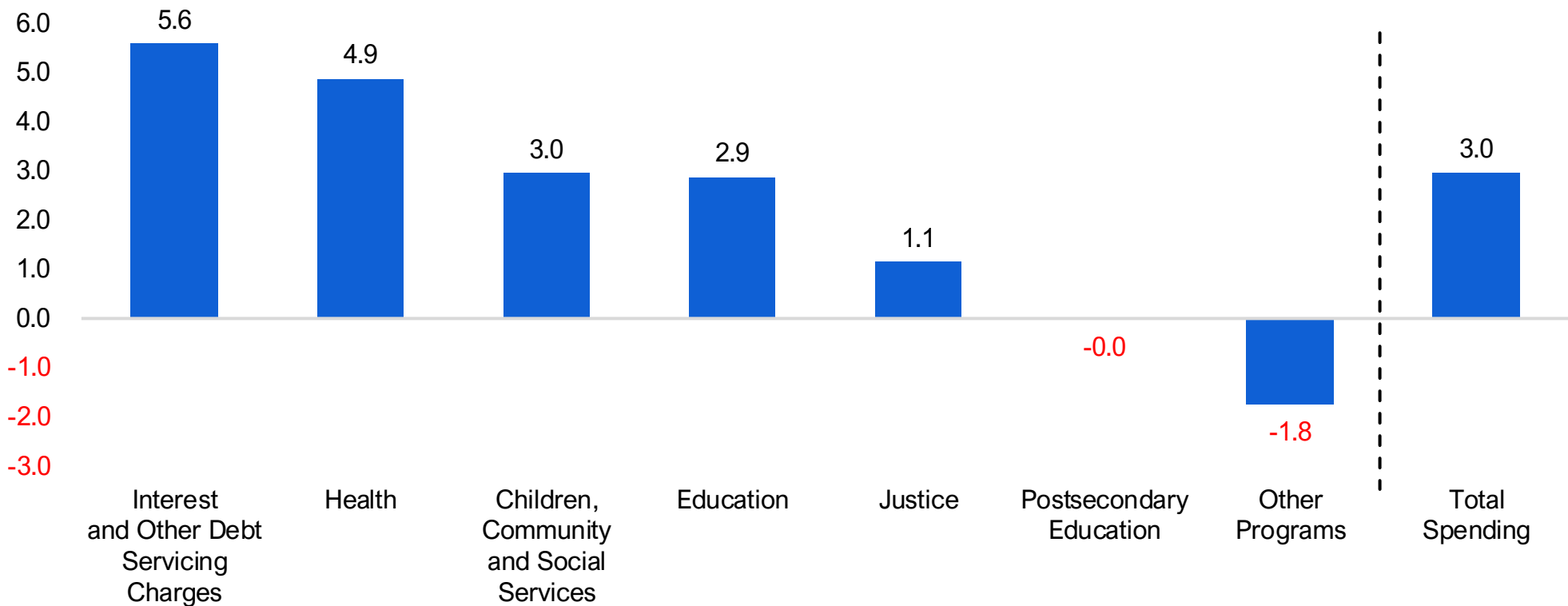


Note: Historical spending has been restated to exclude revenue from interest and investment income.
Source: 2025 Ontario Economic Outlook and Fiscal Review and FAO analysis of information provided by the Province.



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

Average Annual Spending Growth, 2024-25 to 2029-30
Per Cent

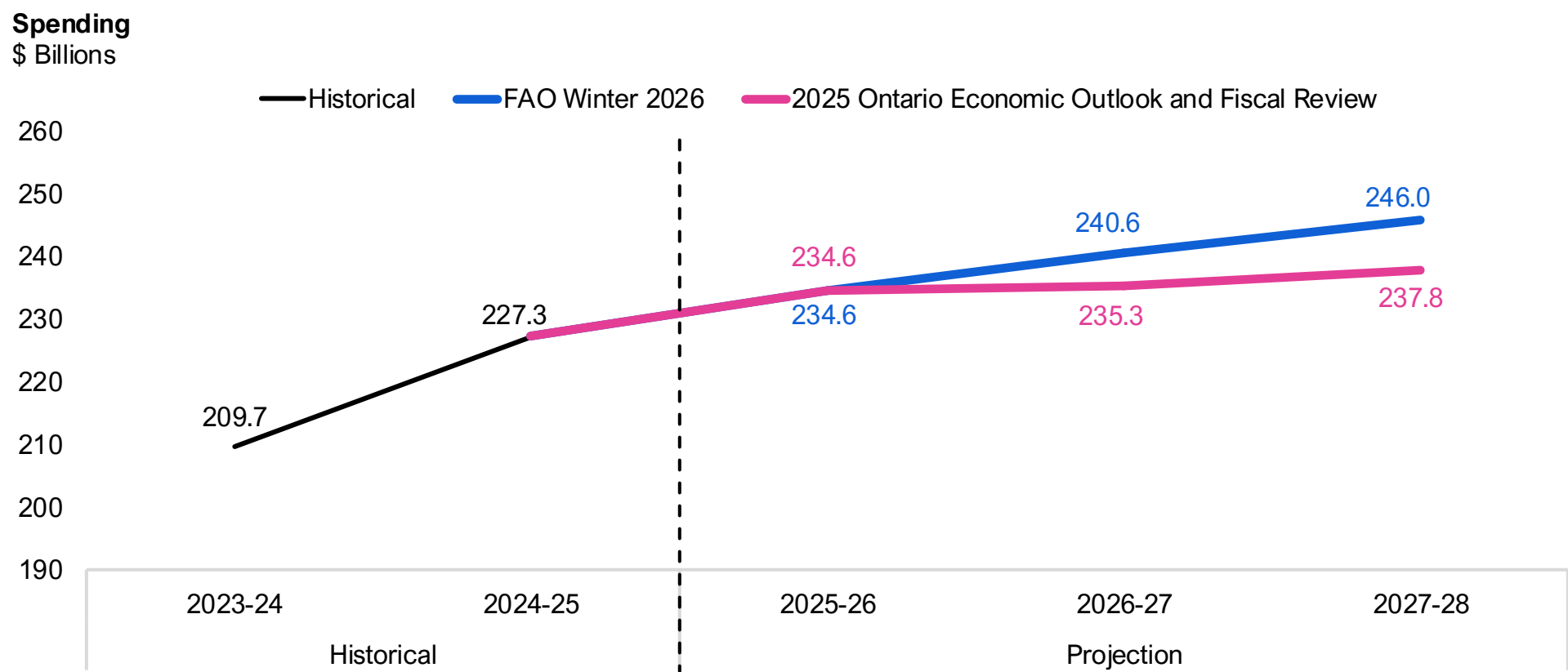


Source: 2025 Ontario Economic Outlook and Fiscal Review and FAO analysis of information provided by the Province.



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

- The FAO's spending forecast exceeds the government's forecast by \$8.2 billion in 2027-28.



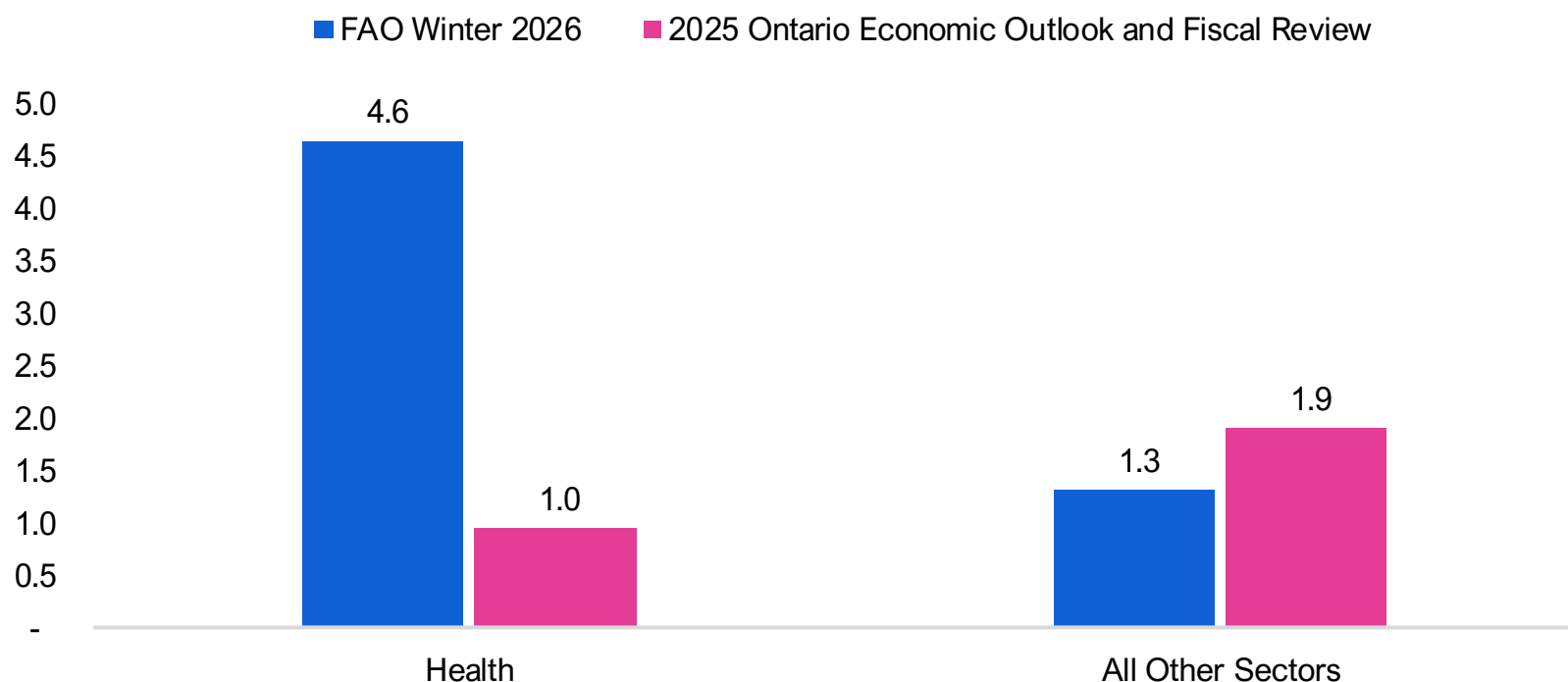
Note: Historical spending has been restated to exclude revenue from interest and investment income.
Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



FAO's higher health spending forecast drives the gap

- The FAO projects a health sector spending shortfall of \$10.7 billion in 2027-28, partially offset by a projected funding surplus for all other sectors of \$2.5 billion.

Average Annual Spending Growth, 2024-25 to 2027-28
Per Cent

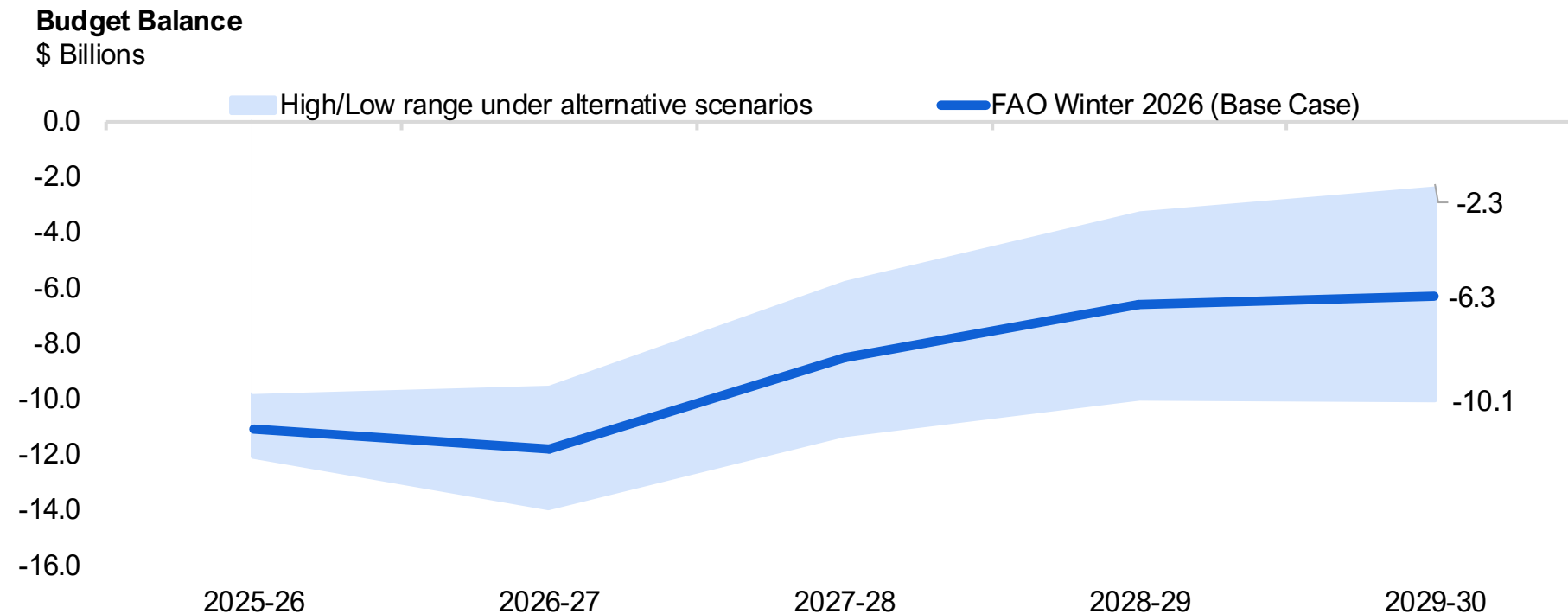


Source: Ontario Public Accounts, 2025 Ontario Economic Outlook and Fiscal Review, and FAO.



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. 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.



Source: FAO.



Thank you!



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