Ontario

2025–26 First Quarter Finances

Ontario 2025-26 First Quarter Finances: So Far, So Good Despite Lingering Tariff Uncertainty

Ontario's short-term fiscal outlook remains resilient despite rising U.S. tariffs and related uncertainty. The two key figures from the May 2025 budget—a $14.6 billion deficit and $42.8 billion in long-term borrowing for fiscal year 2025–26—are unchanged in the First Quarter Update.

Generally, there are very few modifications in the First Quarter Update and this year's edition is no exception. Revenue and expenses remain exactly as projected in the budget, at $219.9 billion and $232.5 billion, respectively. Even the breakdown of tax revenues and spending shows no adjustments.

We are somewhat surprised that the personal income tax revenue forecast was not revised downward. While total employment growth for 2025 is on track with the budget assumption of 0.9%, the full- and part-time split has been deteriorating. Additionally, Ontario's unemployment-to-job-posting ratio—the most relevant tracker of future wage growth in our view—has been deteriorating to a larger extent than in other provinces. This recent weakness may be reflected in the Fall Economic Statement, expected by mid-November.

On a more positive note, the Greater Toronto Area saw a strong rebound in home resale activity in July. If sustained, this could support the budget's assumption of a housing market turnaround.

The $2 billion annual reserve, representing 0.9% of revenues , remains in place. This buffer is important given the uncertainty around future U.S. economic policies and the unknown extent of how businesses and households will adjust to tariffs. The update also maintains a cautious real GDP growth forecast of 0.9% for 2025 and 1.2% for 2026.

In its update, the Ontario government rightly put emphasis on the robust growth performance of Ontario's real GDP during the first quarter (0.6% quarter-over-quarter)—partly driven by early activity ahead of tariff implementation.

So far, $20.9 billion, or 49%, of the $42.8 billion long-term bond program for FY 2025–26 has been completed. Last week, Ontario issued a €100 million bond maturing in 2055, in line with its plan to slightly increase foreign bond issuance. The FY2025–26 target is 15%–30%, compared to 10%–25% last year. In FY 2024–25, 21% of bonds were issued abroad, a lower share than most other provinces.

Two weeks ago, Ontario also re-opened its long-term December 2056 benchmark bond for $750 million.

In terms of capital spending that could have implications for borrowing requirements beyond FY2025–26, Ontario Premier, Doug Ford, confirmed plans to build a tunnel under Highway 401. The proposed three-level tunnel would accommodate both vehicles and public transit. A recent report published by the Canadian Center for Economic Analysis estimated that congestion cost Ontario $56 billion last year alone.