

Ontario Budget 2026



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Ontario Finance Minister Peter Bethlenfalvy presented its sixth budget yesterday.

The trade conflict weighed on the economy and fiscal results during FY 2025-26. Several taxation revenue sources, such as sales tax and corporations tax were virtually unchanged relative to the prior period, FY 2024-25. Personal income tax revenues rose briskly due to the past surge in equity markets boosting investment income of individuals. Altogether, the FY 2025-26 deficit of \$12.3B is a notch better than the previous Fall Update estimate of \$13.5B and represents a manageable 1% of NGDP. As such, the net debt-to-NGDP ratio edged up a touch from the prior year to 36.8%.

The economic outlook underlying Budget 2026 was completed prior to the Middle East war. For instance, the economic outlook incorporates WTI at US\$59 per barrel this year. The 2026 U.S. real GDP growth assumption of 2.4% is a tad higher than the most recent WSJ economists survey (2.3%). 2026 CPI inflation is projected at 2.1% in the budget while our economic team currently tracks 2.5% assuming no return to “normal” oil flows through the Strait of Hormuz and a swift pass-through of fertilizer prices to food prices. February’s 7.6% Ontario unemployment figure is just a notch above the annual 2026 forecast of 7.4%, a fair assumption given the turnaround in immigration that is restraining the pool of available workers. Ontario’s real GDP growth forecasts are 1% in 2026 and 1.7% in 2027.

The new FY 2026-27 deficit projection of \$13.8B, or 1.1% of NGDP, is larger than in the Fall Update (\$7.8B) and larger than in FY 2025-26. What is exactly happening? The revenue breakdown indicates a quasi-stagnation of sales tax revenues and education property tax for a second consecutive year. Federal transfers are also expected to barely increase, while income from crown corporations is poised to fall moderately. At the same time, health care expenses will jump by \$3.4B alone in FY 2026-27 while all the other programs are virtually showing no growth. Interest debt charges will move up at almost the same annual clip of \$1.2B, to \$17.2B.

The FY 2026-27 annual reserve of \$1.5B is \$0.5B lower than in Budget 2025 — representing 0.6% of revenues — but incrementally increases by \$0.5B for the following two years. The three-year fiscal outlook is based on a revenue-compounded annual growth rate of 3%, above expenses at 2.2%. Such thin gap pushes back the return to a balanced budget by one year, to FY 2028-29. The FY 2027-28 deficit is projected at \$6.1B contrasting with the previous balanced budget projection.

Ontario borrowed \$58.6B on the bond market during FY 2025-26, the highest figure since the pandemic (\$59.8B in FY 2020-21). 59% was completed on the domestic market, a lower than usual share reflecting successful transactions abroad. \$16.2B of pre-financing for FY 2026-27 occurred during FY 2025-26, as the Province has been capitalizing on healthy market conditions.

Relative to FY 2025-26, moderately lower debt maturities will contribute to smaller borrowing requirements going forward. Looking through different lenses, FY 2026-27 borrowing requirements of \$47.2B are also higher than

envisioned in the Fall Update (\$40.7B). Such upward revision results from a \$4B incremental increase in capital spending and a higher operational deficit of \$13.8B (versus \$7.8B in the Fall Update). Market participants will notice the guidance to borrow on the domestic market stands in the range of 60%-to-80%, versus the prior guidance of 65%-80% used a year ago and 80%+ in a not-so-distanced past. FY 2026-27 short-term borrowing was revised up a notch by \$0.5B to \$6B relative to the Fall Update. In FY 2027-28, the new bond issuance projected figure of \$43.1B is also higher than what was exposed in the Fall Update (\$34.5B).

The alternative faster growth scenario lifting annual real GDP growth close to 2% would bring down FY 2026-27 borrowing requirements to \$44.6B and below \$40B annually afterward. The alternative slower growth scenario — assuming the U.S. withdrawing from CUSMA — would translate to annual bond issuance averaging close to \$50B over time, still less than what the Province borrowed in FY 2025-26.

One new major initiative taken in Budget 2026 is called the Protect Ontario Account Investment Fund (POAIF). The POAIF is a \$4B fund available to support growth of advanced sectors such as AI, critical minerals, defence and so on. The government will act as a limited partner, looking to unlock promising projects and investment opportunities by attracting capital from pension funds and other institutional investors. The fund will be capped at \$4B. This amount has already been financed through past debt issuance and basically sits as part of the current cash reserves (of \$44B).

To be clear, this new POAIF was created with a totally different purpose than the \$5B Protect Ontario Financing Program Account (POFPA) announced in last year's budget. The POFPA offers liquidity to companies in sectors hit by U.S. tariffs having solid long-term plans but coping with short-term financial pressures.

Takeaway

The slightly-better-than-expected FY 2025-26 results improved the three highly relevant debt sustainability measures relative to Budget 2025, namely the net debt-to-GDP ratio (36.8%), the net debt-to-revenue (204%) and interest-to-debt (6.3%). And even though the FY 2026-27 deficit is now projected to be a notch larger than the prior year, these three financial metrics will likely stay in good shape going forward.

In terms of developments to watch on top of the Middle East situation and CUSMA, market participants will monitor how much capital will be eventually raised through the new promising POAIF, and what potential projects will move on to the construction/production phases. Furthermore, it will be interesting to watch for concrete signals of a rebound in housing activity following the March 25th announcement of a one-year HST rebate for buyers of new homes and builders offering rental units. We expect such policies will contribute to reduce the current large supply gap relative to demand. Budget 2026 assumes a rebound in housing starts in 2027, and a stronger rebound in resale activity beginning this year.