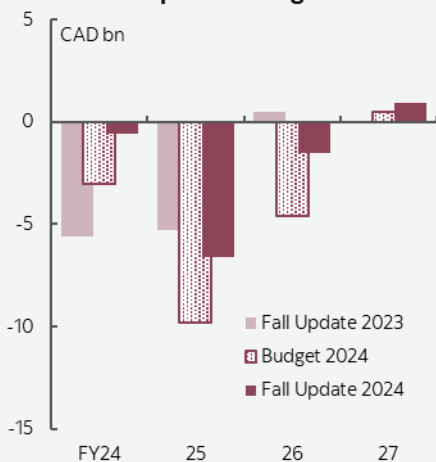


Contributors

Laura Gu
Economist
Scotiabank Economics
416.866.4202
laura.gu@scotiabank.com

Chart 1

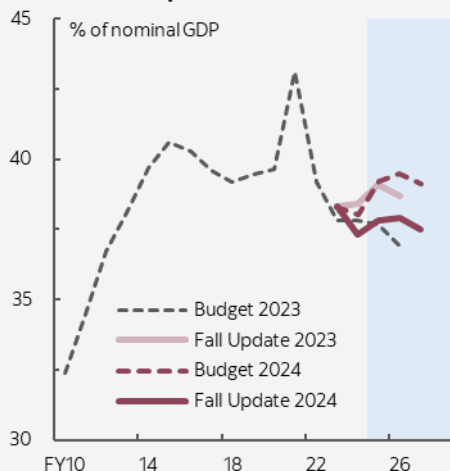
Ontario's Updated Budget Balances



Sources: Scotiabank Economics, Ontario Finance.

Chart 2

Ontario's Updated Net Debt Profile



Sources: Scotiabank Economics, Ontario Finance.

Ontario: 2024–25 Mid-Year Update

CASHING IN ON REVENUE WINDFALLS

- **Budget balance forecasts:** $-\$6.6$ bn (-0.6% of nominal GDP) in FY25, $-\$1.5$ bn (-0.1%) in FY26, $\$0.9$ bn (0.1%) in FY27 (chart 1)—combined improvement of $\$6.7$ bn versus Budget 2024 projections. Return to balance still expected by FY27.
- **Net debt:** expected to remain steady at 37.8% of nominal GDP in FY25, up slightly from 37.3% in FY24, before stabilizing at 37.5% of GDP in FY27. This is 1.6 ppts lower than the trajectory outlined in Budget 2024 and represents the lowest level in a decade (chart 2).
- **GDP growth forecast:** $+0.9\%$ real growth and $+3.8\%$ nominal growth in 2024—stronger than prior projections ($+0.3\%$ and 2.7%). Relative to Budget 2024, the update assumes a slightly weaker 2025 ($+1.7\%$ and $+3.9\%$) and a marginally stronger 2026 ($+2.3\%$ and $+4.4\%$).
- **Borrowing program:** total long-term public borrowing of $\$37.5$ bn in FY25, $\$35$ bn in FY26, and $\$32.6$ bn in FY27; a combined reduction of $-\$3.6$ bn versus Budget 2024 largely reflects lower-than-anticipated deficits.
- In this pre-election fiscal update, the government increased spending in response to an improved fiscal outlook, doling out revenue windfalls and reversing some near-term spending restraints from previous plans. Economic conditions suggest a hold-the-line plan would have passed muster, however, new spending was aligned with the revenue windfall, keeping the medium-term fiscal trajectory largely intact. While the province's debt burden remains well-managed, the medium-term outlook remains highly uncertain due to a volatile macroeconomic environment and no shortage of spending needs. Nonetheless, the government has incorporated conservative assumptions and financial buffers into the plan, suggesting another under-promise, likely over-deliver plan.

OUR TAKE

Ontario kicks off the mid-year update season featuring an improved revenue outlook and a lifted spending plan. Following the narrower deficit reported in the FY24 Public Accounts, attributed to higher revenue and lower debt servicing costs, the province now projects smaller deficits over the next three years. These shortfalls are reduced by a total of $\$6.7$ bn compared to the 2024 Budget, with the return to balance still expected by FY27. The current consolidation plan is still anchored by an optimistic medium-term outlook, which shows a projected increase in total revenue by $+4.2\%$ annually over the next two years, whereas program expenses are expected to grow by $+1.9\%$ per year over the same period, leading to a rapid reduction in the budget deficit and a balanced budget by FY27.

IMPROVED REVENUE OUTLOOK HIGHLIGHTS ECONOMIC STRENGTH

The revenue outlook is bolstered by a favourable starting point from last year and stronger near-term revenue growth (chart 3). The province's own-source revenue projection was increased by $\$6.9$ bn for FY25, driven by stronger-than-anticipated growth in 2024 and the federal government's proposed changes to the capital gains inclusion rate. The federal Budget 2024 increase in the capital gains inclusion rate is expected to add $\$3.3$ bn to Ontario's revenue over the three-year horizon, though this estimate may be optimistic. This year's own-source revenue is expected to come in $+3.3\%$ higher than in FY24 instead of the stalled growth projected at budget time. Growth in own-source revenue is expected to continue at $+3.8\%$ in FY26—below the $+5.7\%$ growth rate initially projected in Budget 2024—before picking up to $+4.5\%$ in FY27.

Economic assumptions underpinning the updated plan appear prudent and align with our current view. The update raises real growth from +0.3% to +0.9% for 2024, while bringing down 2025 real growth from +1.9% to +1.7%—the outlook appears slightly softer than Scotiabank Economics’ latest forecasts (+1.1% and +2.1%) and private sector averages. Over the medium term, the province expects real growth to pick up rapidly to +2.3% in 2026 and 2027—a plausible scenario in our view. However, the updated medium-term outlook does not leave much room for downside risks given heightened uncertainty over the horizon. The economy’s response to the Bank of Canada’s interest rate reduction remains uncertain around its landing place, and the results of the US election could alter the path forward significantly.

Further risks arise from uncertainty surrounding the federal government’s immigration policies. Ontario’s current population projection—released ahead of the mid-year update—anticipates a slowdown in population growth to 1.6% in 2025 and 0.9% in 2026, with further deceleration to around 0.5% over 2027–2028. While we expect some execution risk in federal plans, we do expect population growth to slow considerably faster over this horizon. This could potentially lead to a contraction in the labour force and disproportionately affect Ontario compared to its peers.

In light of a highly uncertain environment, the province continues to provide transparency by presenting alternative fiscal paths under higher- and lower-than-baseline growth scenarios. Under the slower growth scenario, which projects weaker real growth of +0.3% in 2025, the deficit could widen to \$8.8 bn in FY25, \$8.4 bn in FY26 and \$8.3 bn in FY27. A more optimistic scenario could see a sizeable surplus in FY26.

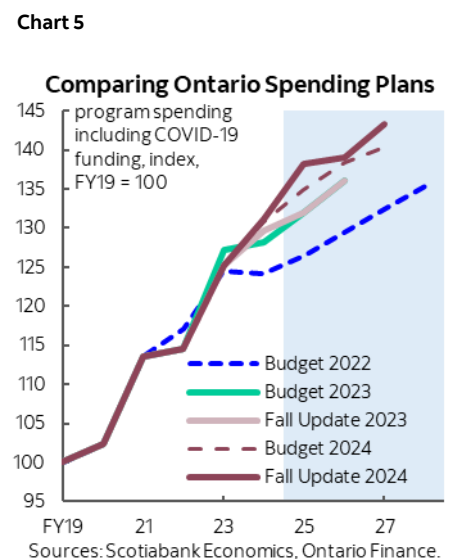
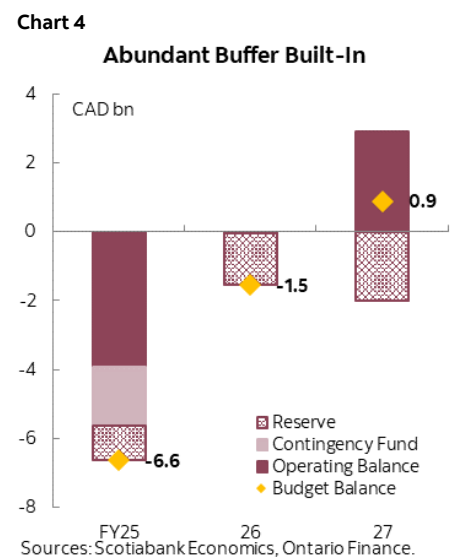
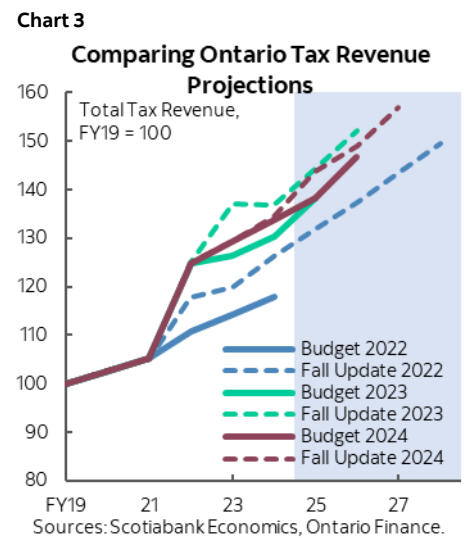
The updated fiscal plan builds in plenty of prudence (chart 4). The update replenished the Contingency Fund by another \$900 mn, bringing the remaining balance of the fund to \$1.7 bn for FY25. The update maintained the \$1 bn reserve for FY25, \$1.5 bn for FY26 (which would effectively see a balanced budget otherwise that year) and \$2 bn for FY27, protecting the province’s finances from more downside risks and setting the stage for outperformance.

LIFTED SPENDING CENTERS ON TEMPORARY HOUSEHOLD RELIEF

With an improved revenue outlook, the province lifted near-term spending (chart 5). Total expenditures are expected to come in \$4.9 bn higher in FY25, with the bulk of the increases allocated to a one-time taxpayer rebate (\$3 bn), some directed towards key programs such as health care (\$1 bn), and the remainder set aside as contingencies (\$0.9 bn). Building on previously committed funding in Budget 2024, this year’s program spending is expected to come in +5.3% higher than in FY24. Program spending projections were lifted only slightly in the update for FY26 and FY27, with an average annual growth rate of +1.9%. Financing costs are expected to come in much lower than previously anticipated, saving \$2.6 bn over three years compared to Budget 2024.

New policy initiatives focus on supporting households amid high cost of living. Key initiatives include a \$200 taxpayer rebate announced earlier, totalling \$3 bn (0.3% of nominal GDP) to over 90% of the province’s population. While this provides immediate relief, the timing may not be ideal given the current economic uncertainty and potential inflationary pressures as interest rates continue to decline early next year, potentially releasing pent-up demand. Additionally, the government is extending gas and fuel tax cuts at a cost of \$309 mn in FY25, offering further financial relief to Ontario residents. The plan also includes additional investments in the health care system, including an \$88 mn investment to expand Learn and Stay grants for 1,360 students in family medicine, aiming at connecting over 8% more of the population to primary care. Furthermore, \$150 mn will be allocated to the Ontario Fertility Program to enhance access to fertility services.

Planned infrastructure outlays—estimated at \$83.6 bn during FY25–27—are slightly higher (+1.3%) than previously committed, representing the most ambitious capital plan in Ontario’s history.

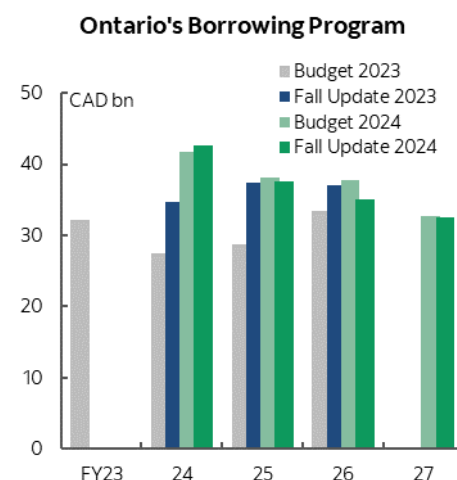


REDUCED DEBT & BORROWING

As the economy grows faster than anticipated, a smaller deficit has placed net debt on a lower trajectory as a share of nominal output. The net debt-to-GDP ratio is expected to remain steady at 37.8% in FY25, slightly up from 37.3% in FY24, before stabilizing at 37.5% in FY27—1.6 ppts lower than projected in Budget 2024. This updated path demonstrates progress towards the Debt Burden Reduction Strategy, which aims to keep the net debt-to-GDP ratio below 40% and the net debt-to-revenue ratio below 200%. While the debt-to-revenue ratio is forecasted to be 202% in FY25, it is projected to meet the 200% target by FY27. However, in the alternative scenario where the economy sees stalled growth in 2025, net debt could go up to 40.2% of nominal GDP by FY27.

Borrowing requirements have been reduced for FY25, FY26 and FY27 to \$37.5 bn, \$35 bn and \$32.6 bn, respectively—a combined increase of \$3.6 bn due to improved deficit projections (chart 6). About 84% of this year’s long-term borrowing requirement has been completed. Ontario issued two \$2.25 bn Green Bonds in FY25, for a total of seventeenth issues totalling \$20.25 bn since the program was launched.

Chart 6



Sources: Scotiabank Economics, Statistics Canada.

Updated Fiscal Forecast								
\$ billions except where noted								
	FY24		FY25		FY26		FY27	
	Mar. '24	Final	Mar. '24	Oct. '24	Mar. '24	Oct. '24	Mar. '24	Oct. '24
Total Revenue	204.3	205.9	205.7	212.6	217.4	220.8	226.6	230.7
Own-Source	169.5	171.6	169.4	176.3	179.9	184.5	187.9	193.1
Fed. Transfers	34.8	34.3	36.3	36.3	37.5	36.3	38.7	37.6
Total Expenditure	207.3	206.6	214.5	218.3	220.6	220.8	224.1	227.8
Programs	194.5	195.2	200.6	205.5	205.8	206.8	208.9	213.3
Health	84.5	85.5	85.0	86.0	88.0	88.1	89.9	90.0
Education	36.6	37.2	37.6	37.6	38.8	38.8	39.4	39.5
Other	73.4	72.5	78.0	81.9	79.0	79.9	79.6	83.8
Debt Service	12.8	11.4	13.9	12.7	14.7	14.0	15.2	14.5
Reserve	—	—	1.0	1.0	1.5	1.5	2.0	2.0
Balance	-3.0	-0.7	-9.8	-6.6	-4.7	-1.5	0.5	0.9
% of GDP	-0.3	-0.1	-0.9	-0.6	-0.4	-0.1	0.0	0.1
Net Debt	414.8	408.0	439.1	429.0	459.8	447.1	474.5	461.8
% of GDP	38.0	37.3	39.2	37.8	39.5	37.9	39.1	37.5
Debt Service								
% of Revenue	6.3	5.5	6.8	6.0	6.8	6.3	6.7	6.3

Sources: Scotiabank Economics, Ontario Finance.

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