BUDGET ANALYSIS

FOCUS ECONOMICS ANALYST FORECAST AWARDS 2017
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#1 BEST OVERALL FORECASTER - CANADA

Ontario: Budget 2019

The New Government Outlines Its Priorities

HIGHLIGHTS

- Budget deficits should gradually decline. A return to balance is projected for 2023–2024, with a surplus of $0.3B.
- Tight control of budget expenditures will be required to restore order to the province's public finances.
- The net debt-to-GDP ratio may begin to shrink by 2021–2022.
- Many new measures have been proposed. For example, families and businesses will enjoy tax relief, and major investments will be made in public transit and the education sector.

A Gradual Return to Fiscal Balance

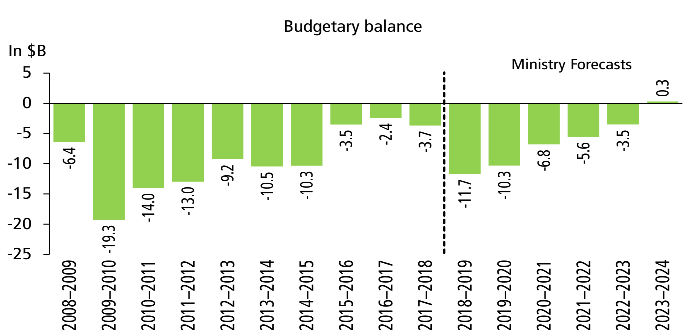
According to the Independent Financial Commission of Inquiry set up by the new government immediately after the election last June, the projected budget deficit for 2018–2019 was $15.0B, not $6.7B as stated in the previous government's March 2018 budget. The fall update by the new Minister of Finance took a first step by reducing that deficit to $14.5B. The projections presented in today's budget are counting on a deficit of $11.7B for the year ended March 31st, 2019, or $5.0B more than announced last year.

Still, the Conservative government plans to attack this deficit seriously and gradually reduce it over the coming years. The return to balance is projected for 2023–2024, with a surplus of $0.3B and a reserve of $1.6B (graph 1). To achieve this, the government will tightly control its budgetary expenditures. After rising 5.4% in 2018–2019, program expenses are expected to increase just 0.1% in 2019–2020, which is a very ambitious target. Subsequently, the growth in program expenses should remain around 1.3% per year, a rate of increase that is clearly lower than revenue growth.

The net debt of the government of Ontario will continue to grow in the years ahead. Not only will deficits continue until 2022–2023, but the many new capital asset expenditures announced in today's budget will also inflate the province's debt. As a result, the net debt-to-GDP ratio, already one of the highest in the country (graph 2 on page 2), is expected to continue to climb before peaking at 40.7% in 2019–2020 and 2020–2021. According to the government's plan, the debt should then grow slower than the economy, leading to a reduction in the net debt-to-GDP ratio.

However, it is important to note that the economic projections used by the Ministry of Finance to prepare the budget are on the conservative side, especially for this year. The 1.4% increase in real GDP predicted by the Ministry of Finance for 2019 is lower than our most recent projection (1.7%) and lower than the consensus among private-sector forecasters (1.8%). Therefore,

GRAPH 1
Slow return to fiscal balance



Source: Ontario Ministry of Finance

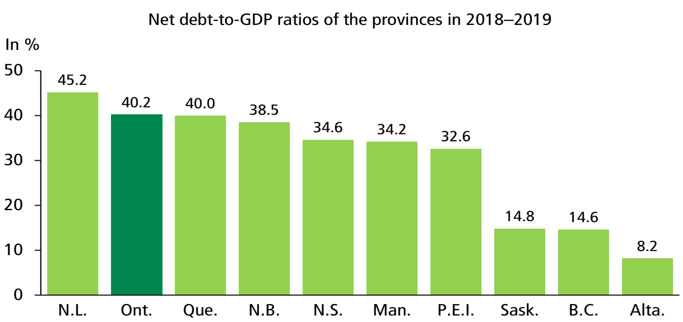
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Benoit P. Durocher, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

TABLE 1
Summary of transactions

IN $B (EXCEPT IF INDICATED)	ACTUAL 2017–2018	PROJECTIONS 2018–2019	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024
Total revenues	150.6	150.8	154.2	159.8	163.7	168.5	175.1
Variation (%)	*7.0*	*0.1*	*2.3*	*3.6*	*2.4*	*2.9*	*3.9*
Program spending	-142.4	-150.0	-150.1	-151.9	-153.8	-155.8	-157.6
Variation (%)	*8.3*	*5.4*	*0.1*	*1.2*	*1.3*	*1.3*	*1.2*
Debt charges	-11.9	-12.5	-13.3	-13.7	-14.4	-14.9	-15.5
Variation (%)	*1.7*	*5.0*	*6.4*	*3.0*	*5.1*	*3.5*	*4.0*
Total expenses	-154.3	-162.5	-163.4	-165.6	-168.2	-170.7	-173.2
Variation (%)	*7.8*	*5.3*	*0.6*	*1.3*	*1.6*	*1.5*	*1.5*
Reserve	---	---	-1.0	-1.0	-1.0	-1.3	-1.6
Budgetary balance	-3.7	-11.7	-10.3	-6.8	-5.6	-3.5	0.3
Net debt	323.8	343.4	359.9	n/a	n/a	n/a	n/a
In % of GDP	*39.2*	*40.2*	*40.7*	*40.7*	*40.6*	*39.8*	*38.6*

n/a: not available
Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

GRAPH 2
Ontario is now one of the most indebted provinces



Source: Ontario Ministry of Finance

the Ontario government's revenue may grow a little faster than the budget projects, which could speed up the reduction of the deficit or provide some flexibility to allow for slightly higher increases in program expenses in 2019–2020.

A Host of New Measures

At 343 pages, the Ministry of Finance budget document contains a significant number of new measures that outline the priorities of the new Ontario government. Naturally, it is difficult to provide a succinct summary, but here are the main initiatives that caught our attention:

- The government of Ontario plans to provide a capital contribution of $11.2B to finance its share of the subway extension project and the construction of new lines, which have a total estimated cost of $28.5B. This includes the new Ontario Line, the Yonge North Subway Extension to Richmond Hill and Markham, the extension of the Eglinton Crosstown Light Rail Transit line to Etobicoke and the completion of the Scarborough Subway Extension by 2029–2030.
- Like the federal government, Ontario will offer provincial tax relief on corporate income amounting to $3.8B over six years thanks to accelerated writeoffs of capital investments through the Ontario Job Creation Investment Incentive.
- The Ministry of Finance is offering a new tax credit for Childcare Access and Relief from Expenses (CARE). With this new personal income tax credit, eligible families will receive a refund of up to 75% of their eligible child care expenses incurred as of January 1st, 2019. Each year, the CARE tax credit will provide up to $6,000 per child under the age of 7, up to $3,750 per child between the ages of 7 and 16, and up to $8,250 per child with a severe disability. The CARE tax credit will cost about $390M annually and provide about $1,250 per family, on average, in new child care support to about 300,000 families.
- Ontario will commit up to $1B over the next five years to create up to 30,000 child care spaces in schools, including approximately 10,000 spaces in new schools.
- The 2019 budget will also improve the condition of schools to encourage better learning and protect the safety of children and students by investing $1.4B in school renewals during the 2019–2020 school year.
- The government also plans to reduce tuition rates by 10% for students in every publicly funded university and college, beginning in the 2019–2020 school year, and to freeze tuition fees for the 2020–2021 school year.

TABLE 2
Economic and financial forecasts

VARIATION IN % (EXCEPT IF INDICATED)	2018		2019f		2020f	
	2019 Budget	Desj. Group	2019 Budget	Desj. Group	2019 Budget	Desj. Group
Real GDP	2.2	2.2	1.4	1.7	1.6	1.7
Nominal GDP	3.4	3.4	3.4	3.9	3.4	3.7
Employment	1.6	1.6	1.3	2.0	1.0	1.2
Treasury bills—3-month	1.4	1.4	1.8	1.7	2.2	1.9
Federal bonds—10-year	2.3	2.3	2.1	1.9	2.6	2.2
Exchange rate (US¢/C$)	77.2	77.2	76.0	75.0	77.3	76.0
Real GDP—United States	2.9	2.9	2.5	2.5	1.8	2.2

f: forecasts; NOTE: Data may not add to totals due to rounding.
Sources: Ontario Ministry of Finance, Statistics Canada and Desjardins, Economic Studies

The Road to Fiscal Balance Will Be Hard

Once again, the contrast between Quebec's budget situation and that of Ontario is glaring. Not only is Quebec's budget balanced, but significant surpluses have also been generated in recent years. This, together with the cushion available in the Generations Fund, provides the Quebec government with a fair bit of room to manoeuvre. Ontario, meanwhile, has had a lot of trouble stabilizing its public finances for many years, leading to a significant increase in the province's debt.

Nevertheless, the new Ontario government appears determined to rectify this situation. However, the task will be hard and there is reason to question whether the government can truly succeed in limiting its increase in spending to the low rate planned in this budget. The challenge is not just to achieve this objective for the next fiscal year, but to also maintain the low pace over several years. A lot of things can happen between now and 2023–2024 due to economic uncertainty and a possible slowdown, which could upset the projections of the Ministry of Finance.