



## ONTARIO BUDGET 2011

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**Overview**

As had been widely flagged in the press prior to the official release of today's budget, the Ontario government has managed to lower the profile of deficit reduction through FY 2012/13. The FY 2010/11 deficit has been revised down to \$16.7 billion (from \$18.7 billion projected in the 2010 Fiscal Review), while the figures for FY 2011/12 and FY 2012/13 have been lowered to \$16.3 billion and \$15.2 billion (from \$17.3 and \$15.9 billion, respectively.) However, beyond that point, the deficit projection returns to the schedule indicated in last year's budget, with the return to surplus still not expected until FY 2017/18. Thus Ontario remains a laggard in terms of eliminating this fiscal imbalance compared to other jurisdictions such as the federal government, which is projecting to do so by FY 2015/16, and the province of Quebec, by FY 2013/14. It is the case that the deficit in Quebec, as a per cent of GDP, did not deteriorate to the same extent as in Ontario (a peak of 1.3% in Quebec versus 3.3% for Ontario) though the federal deficit ballooned to an even greater 3.6% at the height of the recession.

Today's budget introduced only modest new spending initiatives in the near term that appear to be largely funded by the announced "savings of nearly \$1.5 billion over the next three fiscal years." However, there remains the challenge of reducing overall program spending growth to an average of 1.5% over the period FY 2011/12 through FY 2017/18. In the near term through FY 2012/13, spending is being restrained by the ending of one-off factors such as the HST transitional support and infrastructure spending. However, beyond that the government continues to be reliant on annual growth in program spending of only 1.8% through FY 2017/18. In the five years prior to the recession, program spending in Ontario grew by more than four times this rate.

**Analysis**

While the government introduced some modest new initiatives in the budget, overall expenditure growth is projected to be quite restrained in FY 2011/12. Expenditures are budgeted to rise by 1% to \$124 billion, with program expenditures budgeted to rise by 0.4% (debt servicing costs will increase by \$800 million, which accounts for the higher overall expenditure growth rate). The low rate of growth in program expenses is mainly due to a 29% drop in "other expenses", which includes a \$4.5 billion reduction in both HST transitional support (\$1.8 billion) and stimulus-related infrastructure investment. (It should be noted that the HST support is neutral with respect to the deficit, as it shows up in both revenues and expenditures.) Excluding the other expenses component, program expenditure will be up 3.7%. New spending initiatives include a commitment to increase the number of spots for post-secondary students by 60,000 over three years, and new investments in mental health and breast cancer screening. Total spending on these initiatives is relatively low (rising to \$400 million in FY 2013/14) and should be more than offset by \$1.5 billion in other savings identified in the budget.

In the medium term, the government has planned for continued low expenditure growth, with program spending expected to increase by just 0.7% in FY 2012/13 and 1.8% on average through FY 2017/18. This represents a significant deviation from recent trends; in the five years preceding the recession, program expenditures grew by an average of 7.7% per year.

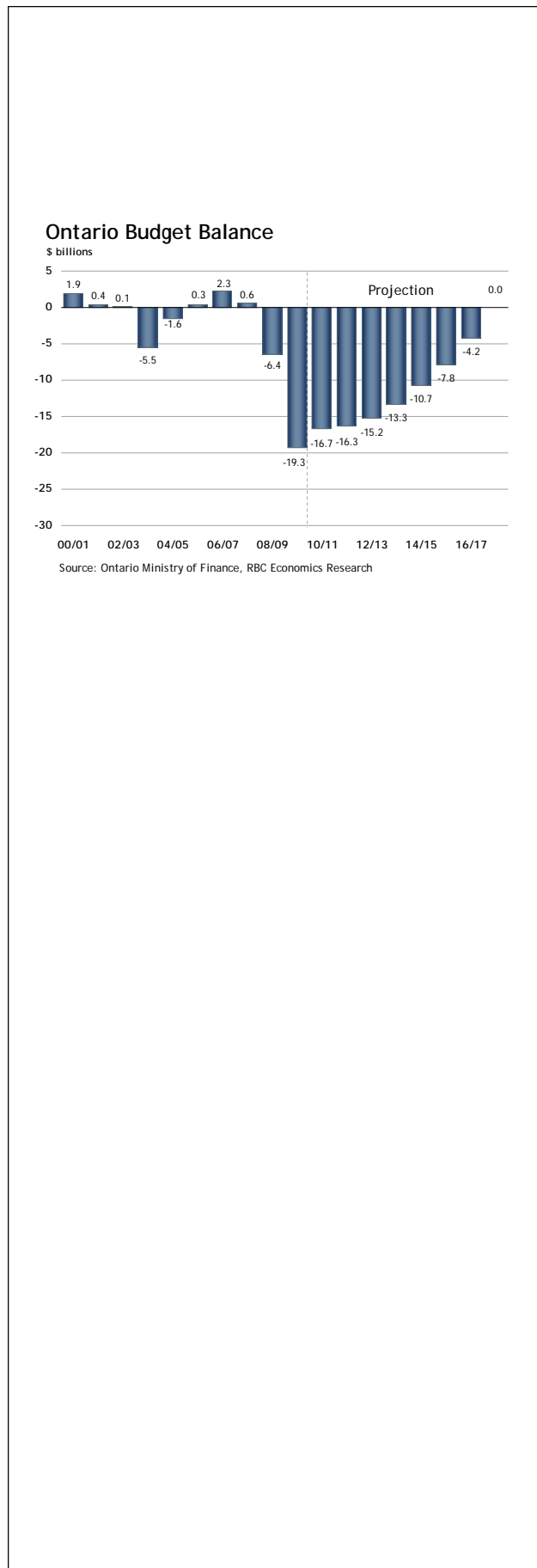
Revenues are expected to grow by 2.1% in FY 2011/12, to \$109 billion. This is driven primarily by large expected increases in revenues from personal income taxes (7.1%) and sales taxes (5.7%), and is offset by an expected \$1.8 billion decline in “other federal payments”, which largely reflects the withdrawal of HST support. Revenue growth is expected to accelerate to 3.0% in FY 2012/13 and 4.6% in FY 2013/14, reflecting continued strong growth in personal and sales tax revenues and the resumption of growth in federal transfers. The strong tax revenue projections are based on government economic growth assumptions, which put real GDP growth at 2.4% in 2011 and 2.7% in 2012. This is below our forecast of 3.1% in both years, which could provide a small upside risk to revenues in both years. Beyond FY 2013/14, government revenues are expected to grow by 5.0% per year through FY 2017/18. In the five years prior to the recession, revenue growth averaged 6.8% per year.

The budget also provided an update for FY 2010/11. The deficit is now expected to be \$16.7 billion, an improvement of \$2 billion relative to the 2010 Fiscal Review. The improvement was the result of lower expenditures (down 2.3% relative to the Review) and slightly lower revenues (down 0.6%.) Approximately half of the reduction in projected expenditures came from a \$1.3 billion unused contingency fund set aside in the 2010 budget. A significant amount (\$916 million) came from lower expenditures in health and post-secondary education, due to lower-than-expected demand and delayed infrastructure projects. The latter factor contributed to higher program spending in FY 2011/12.

Net debt is expected to rise to \$241.5 billion by the end of FY 2011/12, pushing the net debt-to-GDP ratio to 38.4%. Net debt-to-GDP is expected to peak at 40.6% in FY 2014/15 before dropping to 39.5% in FY 2016/17 and approximately 38.5% in 2017/18.

**Public Debt**

The Ontario government expects its total long-term public borrowing program to decrease to \$35.0 billion in FY 2011/12 from \$39.9 billion in FY 2010/11. The government expects to borrow approximately 60% of this domestically, depending on market conditions. Total borrowing is expected to rise again in each of the next two years, to \$38.6 billion in FY 2012/13 and \$42.2 billion in FY 2013/14.



## Ontario's fiscal plan

(\$ billions)	Actual	Interim	Plan	Mid-term Outlook		Extended Outlook			
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Total revenues	95.8	106.2	108.5	111.8	117.0	122.8	129.0	135.4	142.2
Total expenditures	115.1	122.9	124.1	126.0	129.3	132.6	135.8	138.6	141.2
Program spending	106.3	113.3	113.8	114.6	116.7	118.8	121.0	122.9	124.9
Interest on public debt	8.7	9.5	10.3	11.4	12.6	13.7	14.8	15.7	16.3
Reserve	-	-	0.7	1.0	1.0	1.0	1.0	1.0	1.0
Surplus/(Deficit)	(19.3)	(16.7)	(16.3)	(15.2)	(13.3)	(10.7)	(7.8)	(4.2)	0.0

Source: Ontario Ministry of Finance, RBC Economics Research

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