Economic Update

November 2, 2023

Ontario fall fiscal update strikes a more sombre tone

- **Ontario boosted its deficit projection from $1.3 billion to $5.6 billion this fiscal year despite expecting slightly stronger economic growth since Budget 2023.**
- **The higher deficit this year partly reflects a weaker than anticipated result in the last fiscal year.** Indeed, the 2022-23 Public Accounts showed a deficit (-$5.9 billion) that was more than two times deeper (-$2.2 billion) than set out in Budget 2023. This pushed revenues and expenditures to a less advantageous starting point.
- **A number of tax cuts and exemptions are keeping downward pressure on revenues.** These include the HST exemption on purpose-built rental housing, a 6-month extension to the gas tax cut, and the Critical Mineral Exploration Tax Credit – which are slated to cost the province an estimated $333 million in foregone revenue.
- **Expenditure projections for FY 2023-24 have grown $1.7 billion (+0.8%)** from Budget 2023**.** This comes almost exclusively from home and community care, programs for homelessness, and a top up of the Contingency Fund. Expenditures projections are then unchanged from Budget 2023 beyond FY 2023-24.
- **Plans for a balanced budget in FY 2024-25 have been replaced with a $5.3 billion deficit. Ontario now expects to balance the budget (running a small $0.5 billion surplus) a year later in FY 2025-26.**
- **The net debt-to-GDP ratio was revised higher by 0.6 percentage points to 38.4% in FY 2023-24 relative to Budget 2023.** Though abiding by the 40% maximum ratio the government set out for itself, the province has little wiggle room left to maintain this fiscal anchor in the face of any unexpected shock.
- **Ontario's nominal GDP forecasts (3.6% in 2023, 2.9% in 2024, 4.2% in 2025 and 4.8% in 2026) represent a more optimistic outlook compared to our own reading for the province.** A weaker than expected economic environment risks keeping Ontario in the red for longer.

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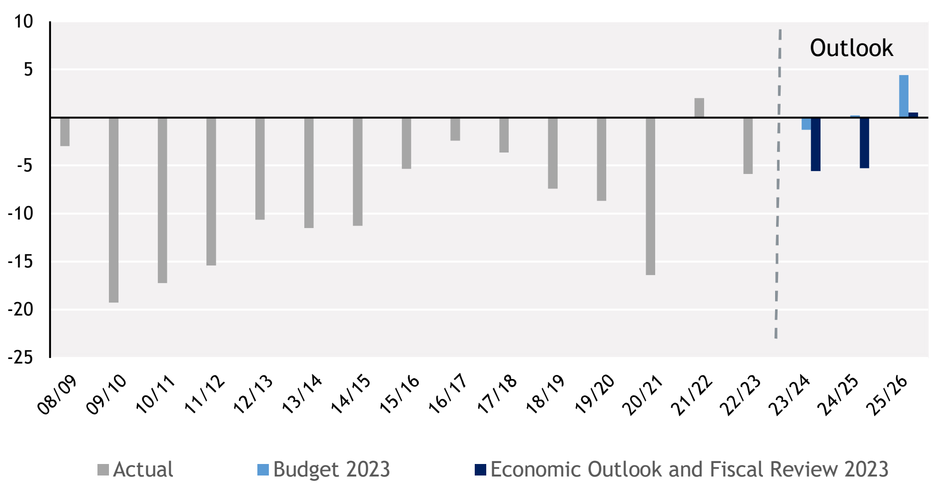
- **Ontario Finance Minister Peter Bethlenfalvy announced efforts to address infrastructure extensions and capacity enhancements with a $3 billion infrastructure bank.** Hoping to attract more private capital to the province, the bank's focus will be on long-term care, energy, housing, and transportation.
- To the relief of Ontario municipalities, **the bank is also set to support municipal infrastructure and transportation.** After freezing development charges (a substantial source of municipal revenue), the fund will doubtlessly come as welcome news - though will still fall short of the $4.9 billion hole the Association of Municipalities of Ontario (AMO) estimates would be required to close the infrastructure gap.
- **<u>Bottom line:</u> Ontario's 2023 Economic Outlook and Fiscal Review paints a slightly weaker fiscal picture for the province than Budget 2023 did this spring.** The deterioration began with a deeper deficit in the 2022-23 Public Accounts, bringing the province's bottom line to a less favourable starting point. With higher deficits in FY 2023-24 and a delayed rebalancing of the books (to FY 2025-26), the latest projections represent a weaker outlook for the province's indebtedness position. This risks leaving Ontario with less fiscal flexibility in the face of an unexpected shock.

Return to budget balance delayed by a year

Ontario budget balance, billions of dollars



Source: Ontario Fall Economic Statement & Budget (2023), RBC Economics

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