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.
• 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.

• Bottom line: 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.

![Graph showing return to budget balance delayed by a year](https://thoughtleadership.rbc.com/economics/)