

ONTARIO BUDGET 2019

April 11, 2019

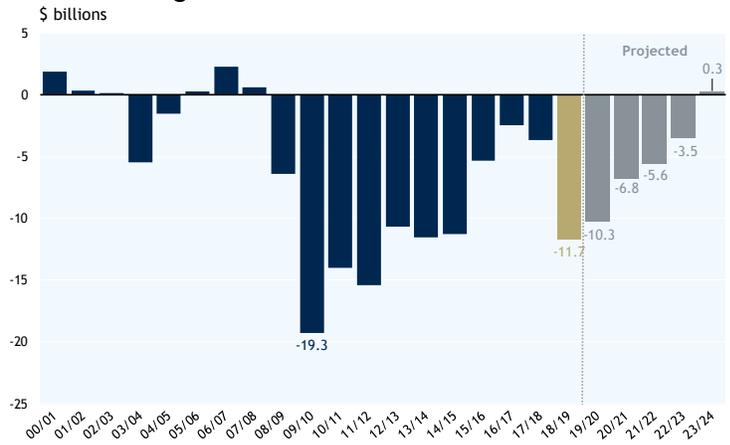
Swinging the axe on the way to balance

- *The Ford government will swing the axe on most expenditure items on its way to balancing its books by 2023-2024.*
- *As promised, it will spare (sort of) health and education though nearly all other ministries will see absolute funding cuts this year.*
- *Budget 2019 projects a deficit of \$10.3 billion deficit in 2019-2020 on the heels of a downwardly-revised \$11.7 billion shortfall in 2018-2019.*
- *The main tax measure targets families—they will get a tax credit of up to 75% of their daycare expenses.*
- *On the province’s debt, the government commits to a soft target: reducing the net debt-to-GDP ratio to “less than the inherited 40.8%”. The ratio will rise from 40.2% in 2018-2019 to 40.7% in 2019-2020, before gradually easing to 38.6% by 2023-2024.*

Promises to cut expenditures made, promises the government intends to keep

The eagerly-awaited first budget of Ontario Premier Doug Ford’s conservative government delivered few surprises. For months his team has been in overdrive looking for ways to cut “red tape”, searching for efficiencies, and reshaping and restructuring government programs. All the while announcing a host of measures to make life better (and cheaper) for Ontarians *and* committing to eliminate the \$13.5 billion deficit within a “reasonable and responsible timeline”. So it was clear all along that the priority of Budget 2019 was going to be reducing government spending. And it definitely delivered. By our count, 20 out of 25 major expenditure items will be cut outright in 2019-2020. Only health care, education, infrastructure, transportation and solicitor general’s office will see increases—though much smaller than in the past couple of years. Swinging the axe on non-core expenditures will keep overall program spending flat this year (up by a marginal 0.1%). The average growth in program spending will be limited to just 1.2% annually over the following four years. In real per capita terms, program spending is set to decline by about 1.6% annually over those four years. That’s what we call fiscal restraint!

Ontario budget balance



Source: Ontario Ministry of Finance, RBC Economics Research

Deficit eliminated in 2023-2024

As far as the deficit is concerned, it is projected to fall to \$10.3 billion in 2019-2020 or \$1.4 billion below the revised estimate of \$11.7 billion in 2018-2019. The downward revision mainly reflects the removal of the \$1 billion contingency reserve. Progress toward eliminating the deficit will accelerate in the coming years with the shortfall projected to decline to \$6.8 billion in 2020-2021, \$5.6 billion in 2021-2022 and \$3.5 billion in 2022-2023, before being completely eliminated in 2023-2024 with a small surplus of \$0.3 billion. The inclusion of a \$1 billion contingency reserve rising to \$1.6 billion by 2023-2024 brings some degree of prudence—as is the use of generally conservative economic assumptions that will keep revenue growth projections to an average of 3.0% over the fiscal plan.

“Protecting what matters most”

Budget 2019’s title—“Protecting what matters most”—tells volumes about the government’s approach. It spares (protects) just a few



priority items from funding cuts and focuses the new spending and tax initiatives on a few others. These include health care, education, families, public transit and businesses. The main initiatives in this budget are the following:

Health care: Hospitals get \$384 million in additional funding and the government will allocate an extra \$267 million toward home and community care to “end hallway health care”; mental health and addiction support gets \$3.8 billion over 10 years; and a new dental program for low-income seniors will be introduced (\$90 million when fully implemented).

Education: Schools get \$1.4 billion in 2019-2020 to improve the condition of their premises. (Post-secondary education, however, sees significant a reduction with student financial assistance cut by 33%.)

Families: A new childcare access and relief from expenses (CARE) tax credit will provide families up to 75% tax credit on eligible child care expenses beginning in the 2019 tax year, saving families an estimated \$2 billion; the government commits \$1 billion over five years to create up to 30,000 child care spaces in schools.

Public transit: The Ford government is committing to invest \$11.2 billion on a major public transit expansion in the Toronto area worth an estimated \$28.5 billion (including contributions from the federal and municipal governments).

Businesses: Budget 2019 has very little new of substance that affects business. The most significant initiative—faster write-off of capital investments—was announced in the fall economic statement. It will save businesses an estimated \$3.8 billion in provincial corporate income tax over six years.

Debt-to-GDP ratio stabilizes

While Budget 2019 articulates a path to a balanced budget, it hasn't really set a goal to lower the indebtedness of the province. The Ford government commits only to reducing the net debt-to-GDP ratio to “less than the inherited 40.8%”. That’s a pretty soft target in our view. The previous Liberal government (at one point) targeted a ratio of 28%, which corresponded to the level that prevailed just prior to the 2008-2009 recession. We believe that a long-term target of that order should be reinstated. As it is, Ontario’s net debt-to-GDP ratio will remain above Quebec’s ratio over the entire fiscal plan. Ontario’s ratio will rise from 40.2% in 2018-2019 to 40.7% in 2019-2020, before gradually easing to 38.6% by 2023-2024.

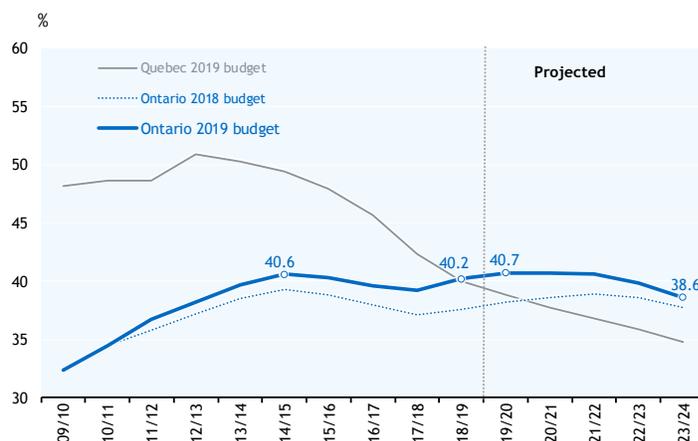
Long-term public borrowing to dip slightly in 2019-2020

The Ontario government expects its total funding requirement to be \$36.0 billion in 2019-2020, down from a revised \$39.6 billion in 2018-2019. It is projected to ease further to \$32.8 billion in 2020-2021 and \$31.5 billion in 2021-2022.

Economic growth assumptions							
	2018	2019	2020	2021	2022	2023	2024
Real GDP growth (%)							
Budget 2019	2.2	1.4	1.6	1.5	1.9	1.9	1.8
Fall Update	2.0	1.8	1.7	1.5	1.7	1.5	-
RBC	2.3	1.7	1.6	-	-	-	-
Nominal GDP growth (%)							
Budget 2019	3.4	3.4	3.4	3.2	3.6	3.9	3.9
Fall Update	3.8	3.8	3.5	3.2	3.5	3.2	3.2
RBC	3.4	3.0	3.6	-	-	-	-

Source: Ontario Ministry of Finance, RBC Economics Research

Net debt as % of GDP



Source: Ontario Ministry of Finance, Ministère des Finances du Québec, RBC Economics Research



Ontario's fiscal plan							
(\$ billions)	Actual	Interim	Medium-term plan			Recovery plan	
	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>
Total revenues	150.6	150.8	154.2	159.8	163.7	168.5	175.1
Total expenditures	154.3	162.5	163.4	165.6	168.2	170.7	173.2
Program spending	142.4	150.0	150.1	151.9	153.8	155.8	157.6
Interest on public debt	11.9	12.5	13.3	13.7	14.4	14.9	15.5
Reserve	-	-	1.0	1.0	1.0	1.3	1.6
Surplus/(Deficit)	(3.7)	(11.7)	(10.3)	(6.8)	(5.6)	(3.5)	0.3
Net debt as % of GDP	39.2	40.2	40.7	40.7	40.6	39.8	38.6

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