

### Highlights

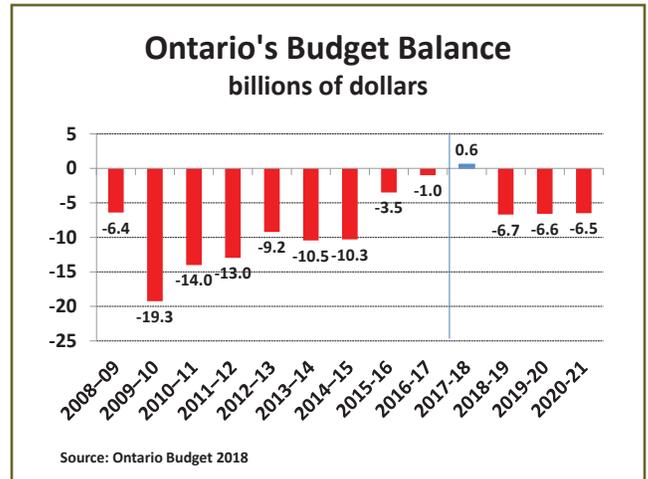
- The Ontario government followed through on its commitment to balance the budget and is projecting a surplus in 2017-18 of \$600 million but significant spending commitments drive fiscal deficits for the foreseeable future
- As expected, given an election year, the government has pledged to run significant deficits beyond the interim 2017-18 aimed at supporting key groups such as families with children, seniors, students, and individuals with mental and/or physical disabilities
- The net debt to GDP ratio is expected to decrease in the interim 2017-18 to 37.1 from 38 per cent due to the expected surplus. Over the next three years the ratio will increase as the government will be running deficits in the range of \$6.5 to 6.7 billion
- Budget 2018 did not mention credit unions

### ANALYSIS

The Ontario budget, *A Plan of Care and Opportunity*, tabled March 28, followed through on the government’s promise to balance the budget and in the interim 2017-18 is expecting a surplus of \$600 million due to significant revenue growth that outpaced expenses given strong economic growth.

Given that voters will head to the polls in June this budget was heavy on expenditures aimed at helping key groups in the economy such as families with children, seniors, students, and, people with physical and mental disabilities. In the years after the interim 2017-18 the government will be running significant deficits in the range of \$6.5 to \$6.7 billion.

In 2018-19, tax revenue growth will fall to 1.5 per cent from 6.7 per cent while total expenditures will climb to six per cent up from 5.5 per cent. As



a result, the debt to GDP ratio will reverse trend and start climbing.

The outlook for the economy calls for moderation. The government is expecting average real GDP growth of 1.9 per cent from 2018-21 due to slowing economic growth in the United States and rest of Canada, rising interest rates, a strengthening Canadian dollar and higher oil prices. Household spending on interest-rate-sensitive items is expected to moderate along with housing market activity as policies put in place last year by this government will keep many prospective buyers on the sidelines.

In establishing their baseline economy projections, the government, as in the past, consulted with private-sector forecasters including Central 1 Credit Union. The government has prudently forecasted the economy to evolve at a lower profile than our latest forecast. Given our expectations of greater growth compared to the province, even in a period of uncertainty that will put downward pressure on growth, the deficits the government expects to run will be shaved off a bit given larger revenues to off-set the expenses.

Ontario’s net debt is projected to be \$308.2 billion as of March 31, 2018; \$3.7 billion lower than forecast in the *2017 Budget*. Net debt was \$301.6 billion as of March 31, 2017.

Accumulated deficit is projected to be \$192.4 billion as of March 31, 2018, compared to a projection of \$193.5 billion in the *2017 Budget*.

**SOME KEY TAX MEASURES**

Ontario proposes to change the Ontario Research and Development Tax Credit to encourage more investment in new technologies and innovation by large businesses.

The Ontario Innovation Tax Credit (OITC) is an eight per cent refundable tax credit for small to

medium-sized companies on eligible R&D expenditures. The government proposes to enhance the

OITC to encourage smaller companies to make investments in R&D that will help them grow.

The government aims to target the Employer Health Tax exemption to small employers. In doing so, proposed changes would result in over 20,000 Ontario employers paying \$2,400 more EHT per year on average. These 20,000 employers would on average pay additional EHT of less than one per cent of their payroll.

**BUDGET NEWS SPECIFICALLY DIRECTED AT CREDIT UNIONS**

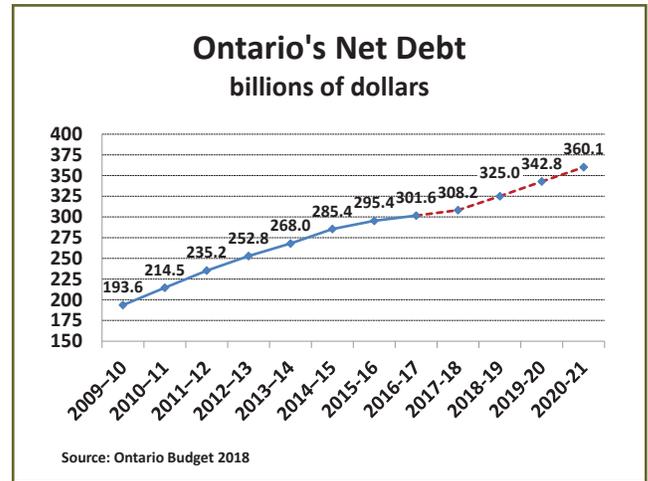
The Ontario budget 2018 made no mention of credit unions.

**NOTE WORTHY PROGRAMS OR EXPENDITURES**

As mentioned, this budget is packed with expenditures aimed at helping key groups in the economy. Below are some highlights of key initiatives set forth by this government.

Making prescriptions completely free for everyone 65 and over through OHIP+, ensuring that no senior citizen ever needs to go without necessary drugs. By eliminating the Ontario Drug Benefit annual deductible and co-pay, this saves the average Ontario senior \$240 per year. This expansion of OHIP+ follows the introduction of free prescriptions for everyone under the age of 25 in the *2017 Ontario Budget*.

Providing more affordable, quality child care by making preschool child care free for children



aged two-and-a-half until they are eligible for kindergarten. This is projected to save a family with one child \$17,000, on average, and builds on the savings families get from full-day kindergarten.

Providing better and faster access to mental health and addictions services for hundreds of thousands more children, young people and adults across Ontario — bringing the total funding to more than \$17 billion over four years.

Improving hospitals by providing better access to care, reducing wait times, addressing capacity issues and better meeting the needs of Ontario's growing and aging population through an additional \$822-million investment in 2018-19 — the largest single government investment in hospitals in almost a decade. The Province is also investing approximately \$19 billion over 10 years to build and renovate hospitals to provide more and faster health care for people.

Creating 30,000 new long-term care beds over the next 10 years — adding 5,000 new beds by 2022 — to help people who can no longer live independently and provide peace of mind for people who care for them. These new beds are in addition to the 30,000 existing beds being redeveloped.

Building a fair society and enhancing choice and independence by investing \$1.8 billion to strengthen services for 47,000 adults with developmental disabilities and reforming the social assistance system to focus on people rather than on rules and regulations.

Making college and university tuition free for more than 225,000 students of all ages. Free or

low tuition is available for students from low- and middle-income families; tuition is free for those earning up to \$90,000, and students from families who earn up to \$175,000 are also eligible for financial aid.

### BOTTOM LINE

This budget sets forth an aggressive spending agenda over the next few years aimed at helping key groups in the economy.

### APPENDIX – TABLES

Table 1

Ontario's Fiscal Plan					Actual	Interim	Plan	Outlook	
(\$ billions)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total revenue	120.3	123.0	126.2	136.1	140.7	150.1	152.5	157.6	163.8
Total expense	129.5	133.4	136.5	139.7	141.7	149.5	158.5	163.5	169.6
Program	118.7	122.3	125.2	128.1	130.0	137.5	145.9	150.4	155.8
Interest on debt	10.9	11.1	11.2	11.6	11.7	12.0	12.5	13.1	13.8
Reserve	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.7
Surplus/(Deficit)	-9.2	-10.5	-10.3	-3.5	-1.0	0.6	-6.7	-6.6	-6.5
Net Debt as a Per Cent of GDP	37.2	38.5	39.3	38.8	38.0	37.1	37.6	38.2	38.6
Accumulated Deficit as a Per Cent of GDP	24.6	25.4	25.8	25.2	24.3	23.2	23.1	22.9	22.7

Source: Ontario Budget 2018. Forecast commences 2018.

Table 2

Economic Outlook for Ontario	Forecast						
(Per Cent)	2015	2016	2017e	2018p	2019p	2020p	2021p
Real GDP Growth	2.9	2.6	2.7	2.2	1.8	1.9	1.7
Nominal GDP Growth	5.0	4.3	4.4	4.1	3.9	4.0	3.9
Employment Growth	0.7	1.1	1.8	1.7	1.1	0.9	0.8
CPI Inflation	1.2	1.8	1.7	2.2	2.2	2.1	1.9

Source: Ontario Budget 2018. Forecast commences 2018.

e = estimated

p = projections