



Ontario Budget 2023

Ontario's government has chosen a path of relative spending restraint despite a rebound in revenues as it looks to keep chart a path to budgets over the coming years according to Budget 2023. Accordingly, there were few new measures announced in the latest fiscal plan.

After projecting a near \$20 billion deficit for fiscal 2022-23 in Budget 2022, interim estimates has pared this to \$2.2 billion. Higher interim revenue estimates of \$20.6 billion, and more than offset higher expenses. Unlike what we have seen in some other provinces, including B.C., the government is looking to hold the line on spending growth amidst a weaker economic growth outlook. Deficits are pegged at \$1.3 billion in 2023/24, \$0.2 billion in 2024/25 and a surplus of \$4.4 billion is projected for 2025/26.

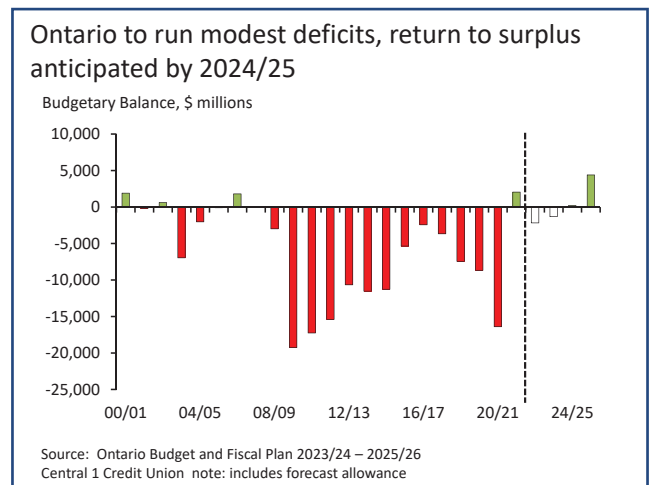
The path to balance reflects the government's choice to restrain spending amidst an expectation that revenue growth slows sharply in 2023/24 and modest increases thereafter. After a 10.7 per cent increase in the current fiscal year, total expenses are budgeted to rise 1.0 per cent in 2023/24, and average three per cent over the following two fiscal years.

Debt measures look to hold steady given near balanced budgets. Net debt-to-GDP is projected hold near 37.8 per cent through 2024/25 and decline to 36.9 per cent in 2025/26.

Key announcements and expenses

Indeed, for anyone expecting a splash in spending due better than expected revenues, there wasn't much. Ontario Budget 2023 was largely an exercise of rehashing previous announcements and critical spending themes already in place.

For the economy, the government re-iterated its commitments to the mining sector including spending funds to support the Critical Minerals Strategy such as \$3 million for the Junior Exploration program. Small businesses saw some expansion of the small business Corporate Income Tax program through an increase of the phase-out range. The government also emphasized capital expenditures on infrastructure. The



Ontario Made Manufacturing Tax Credit would offer a 10 per cent refundable Corporate Income Tax credit on qualifying investments in buildings, machinery and equipment for use in manufacturing or processing in the province.

On the labour front, announced \$224 million in a new capital stream for the Skills Development Fund to expand access to physical training centres to support home building and manufacturing training. The provincial nominee program was also enhanced with funding.

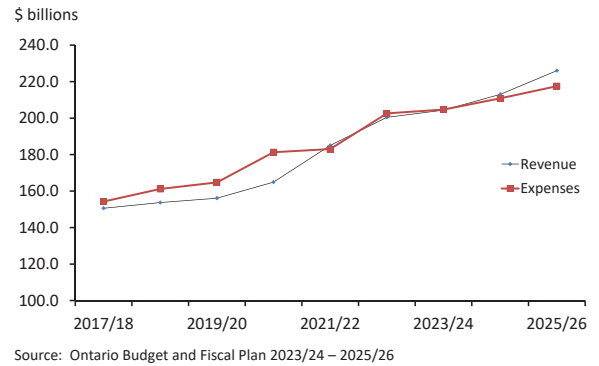
Health was a big winner reflecting higher federal funding. The government allocated \$4.4 billion over three years. This includes additional funding for in-home care services including more care workers (\$1 billion over three years), mental health services (\$425 million over three years), reduced wait times for surgeries, and increase funding to support nurses. On net, health (8.1 per cent) and education (7.1 per cent) accounted for the bulk of expense growth for 2023/24 with both slowing to around 4 per cent thereafter. Program expense growth lags overall expenses in 2023/24 with 0.8 per cent growth. Interest on debt rises up 5.2 per cent in the coming fiscal year before slowing reflecting the higher interest rate environment and structure of debt. On a dollar basis, interest on debt climbs from \$12.6 billion in 2021/22 to \$14.1 in 2023/24, and \$15.1 billion in 2025/26. Nevertheless, overall net increases in services were modest if not underwhelming.

Revenues to slow

Restrained spending likely reflects government expectations for a period of lean economic growth and by extension tax revenue. After an 8.3 per cent increase expected for the current fiscal year, projected revenue rises only 2 per cent in 2023/24, before accelerating to 4.2 per cent and 6.1 per cent in 2024/25 and 2025/26. Near-term weakness in revenue growth largely reflects government projections for a decline in sales tax (-1.4 per cent in 2022/23) and a drop in corporate income tax of 11.5 per cent before rebounding thereafter. Personal income tax decelerates but remain moderately strong at 6.1 per cent in 2023/24 and average about 5 per cent thereafter.

Weaker revenue growth projections reflect an expected slowdown in the economy, specifically nominal GDP which is the best proxy for the broader tax base. While labour markets remain strong and support personal income tax revenue growth, the slowdown in economic growth curbs drags on corporate income taxes. Underpinning the revenue outlook is a relatively prudent and conservative economic outlook based on a survey of private sector economists (which includes Central 1). Economic assumptions include real GDP growth of 0.2 per cent for 2023 compared to 3.7 per cent in 2022. Nominal GDP slows to 2.8 per cent from 9.4 per cent. Growth modestly improves through 2026 but remains relatively low with real GDP at 1.3 per cent in 2024 and about 2.5 per cent thereafter. Government forecasts are set slightly below private sector consensus, but for the current year there remains significant uncertainty given recent events.

Ontario government holds spending



The government also publishes alternative scenarios of stronger and weaker economic growth. For 2023-24, the fiscal outcome ranges from a \$5 billion deficit to a \$4.4 billion surplus, with a range of a \$5.8 billion deficit to a surplus of \$8.9 billion in 2024/25.

Capital spending

Government infrastructure spending continues to climb over the budget period. Driven by a concentration in road infrastructure and transit, expenditures rise to \$20.6 billion in 2023/24 and \$25.8 billion in 2024/25 with another modest gain in 2025/26.

Bryan Yu
Chief Economist
Central 1 Credit Union
byu@central1.com
www.central1.com

Appendix - Tables

Table 1					
Ontario's Fiscal Plan	Actual	Interim	Medium Term		
(\$ billions)	2021-22	2022-23	2023-24	2024-25	2025-26
Total revenue	185.1	200.4	204.4	213.0	226.0
Total expense	183.0	202.6	204.7	210.8	217.5
Program	170.4	189.1	190.6	196.4	202.5
Interest on debt	12.6	13.4	14.1	14.4	15.1
Reserve			1.0	2.0	4.0
Surplus/(Deficit)	2.1	-2.2	-1.3	0.2	4.4
Net Debt as a Per Cent of GDP (%)	39.8	37.8	37.8	37.7	36.9
Net Debt as a Per Cent of Revenue (%)	205.6	197.5	198.9	197.3	190.2
Interest on Debt as a Per Cent of Revenue (%)	6.8	6.7	6.9	6.8	6.7

Source: Ontario Budget 2022

Table 2						
Economic Outlook for Ontario	Forecast					
(Per Cent)	2021	2022e	2023p	2024p	2025p	2026p
Real GDP Growth	5.2	3.7	0.2	1.3	2.5	2.4
Nominal GDP Growth	10.3	9.4	2.8	3.6	4.6	4.5
Employment Growth	5.2	4.6	0.5	1.0	1.7	1.7
CPI Inflation	3.5	6.8	3.6	2.1	2	2