

ECONOMIC RESEARCH AND STRATEGY



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Sébastien Lavoie,
Chief Economist
LavoieS@vmbi.ca
514 350-2931

Salim Zanzana,
Economist
ZanzanaSK@lb-securities.ca
437 219-3304

Ontario 2024 Budget — Queen’s Park, Home of Fiscal Resilience

The province ended FY 2023-24 with a deficit estimate of \$3B, marking an improvement over the \$4.5B shortfall proposed in the *Third Quarter Finances Update* of mid-February. This outcome is positive given the additional \$3.5B in compensation costs attached to the undoing of Bill 124. Last February, the Ontario Court of Appeal found Bill 124, which capped salary increases for Ontario public sector employees, unconstitutional. The impact would have been larger without the risk-mitigating measures taken some time ago by the government. Indeed, the government set aside a contingent liability of \$2.5B in FY 2022-23, according to the Public Accounts. Furthermore, the government almost completely used its Contingency Fund in FY 2023-24 to offset this adverse impact on the bottom line and other changes to expenses and revenues.

Looking over the fiscal outlook unveiled, Budget 2024 reveals resilience in Ontario’s public finances. The revenue outlook path is lower than projected last Fall, while the expenses outlook is revised up, contributing to the projection of a large temporary deficit of \$9.8B in FY 2024-25. Still, over time, the return to a balanced budget has been delayed by only one year, to FY 2025-26. Key financial metrics, including net debt-to-NGDP, net debt-to-revenue, and debt servicing ratio, deteriorate just a touch over 5 years without fundamentally changing Ontario’s long-term picture. The net debt-to-NGDP figure should notably remain slightly below 40%, net debt-to-revenue should stay close to 210%, and the interest on debt-to-revenue ratio should run a touch below 7%.

The large \$9.8B deficit for FY 2024-25 is manageable, far from the \$16.4B shortfall registered during the pandemic. This temporary deterioration versus FY 2023-24 results from expense growth (3.5%) outpacing revenue growth (0.9%). After FY 2024-25, the pace of revenue should surpass spending. Among key details on the revenue side, the assessment of weaker tax receipts prior to FY 2024-25 brings down the base of revenues going forward. Furthermore, the new federal government’s cap on international student study permits will put a dent in Broader Public Sector Colleges revenue relative to previous expectations. Also, the tax break of 5.7 cents a litre on gasoline was extended for an additional 6 month until the end of 2024, contributing to weaker Gas Tax revenue.



The completed \$41.8B borrowing program of FY 2023-24 includes a significant \$14.5B in pre-borrowing for future years as the Province took advantage of attractive market conditions. Ontario has issued a generally stable amount of bonds year-in, year-out, except for the unusual pandemic period. FY 2024-25 borrowing requirements, at \$38.2B, are not staggeringly high, particularly considering the \$26B capital spending plan to build new highways, finance public transit, and assist municipalities in building housing-related infrastructure to fast-track residential homebuilding. Part of the strategy to prevent long-term borrowing requirements from jumping above the \$40B mark was to boost short-term financing by \$5B in FY 2024-25. As a reminder, the government released its new Sustainable Bond Framework last January to notably include nuclear power investments, replacing the former Green Bond Framework. The government is working with Ontario Power Generation to increase clean energy capacity. Also, due in part to major pre-financing activity recently, liquid reserves of the government are back up to \$46B, almost the same level as during the pandemic.

In summary, this Budget is not a major game changer. Temporary upward pressures on spending emerge as the main development of Budget 2024. As such, the larger deficit penciled in FY 2024-25 looks temporary as well. The return to a balance budget does not look far, far away. Furthermore, in contrast to BC and Quebec, Ontario has not revealed a shortfall subject to becoming the largest on record.

Our last comment relates to the fast-changing economic environment. Part of the medium-term 3-year fiscal outlook is subject to change due to the very recent announcement from the federal government planning to reduce temporary foreign workers over 3 years. The objective is to cut the share of temporary residents' share of the total population from 6.2% in 2023 to 5% in 2027. Such a reduction is poised to cut Ontario's population growth significantly, approximately by half relative to 2023 (3.4% year-over-year as of 2023Q4). The federal government's objective to shrink the number of non-permanent residents will materially lower the path of real GDP, labour force, employment, CPI inflation and home prices growth across Canada relative to our previous expectations. At the same time, lower population growth will cap upward pressures in spending costs for the Ontario government. Budget 2024 builds in financial cushions, including the annual reserve ranging from \$1B to \$2B over time and a Contingency Fund set at \$1.5B.

Sébastien Lavoie | Chief Economist
514 213-4571 | LavoieS@vmbi.ca

Salim Zanzana | Economist
437 219-3304 | ZanzanaSK@vmbi.ca

