2017 ONTARIO BUDGET

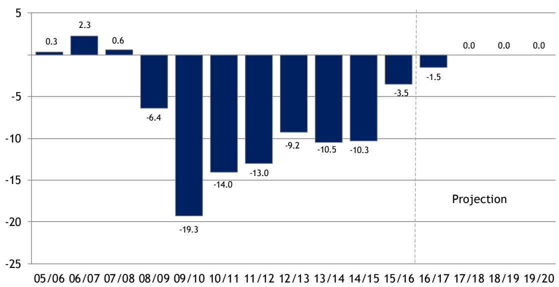
April 27, 2017

Spending the benefits of a growing economy

- For the first time since 2008-09, the Ontario government presented a balanced budget for 2017-18 and each of the two following years.
- The government will use its entire ‘fiscal dividend’ to boost spending.
- The government is further increasing its already substantial capital expenditure plan.
- The provincial debt will continue to rise, although at a slower rate than nominal growth in the economy.
- Budget 2017 for the first time sets a medium-term target for net debt-to-GDP ratio; however, at 35% by 2023-24, the improvement is modest.

Ontario budget balance

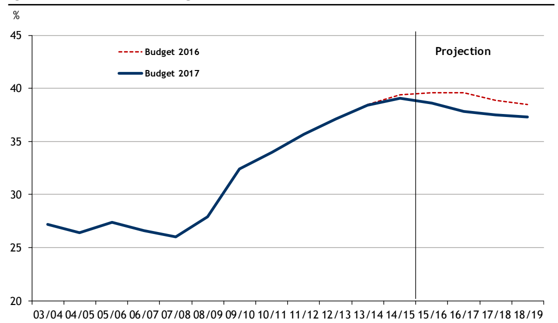
Billions of C$



Source: Ontario Ministry of Finance, RBC Economics Research

Ontario's net debt-to-GDP ratio

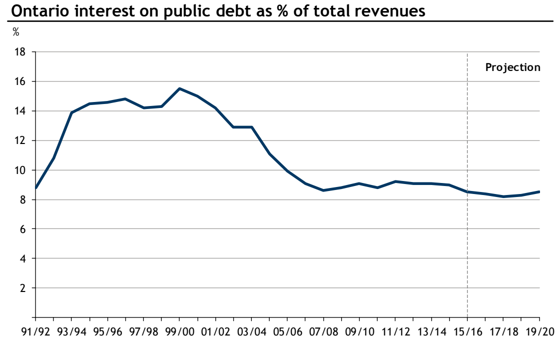
%



Source: Ontario Ministry of Finance, RBC Economics Research

Ontario interest on public debt as % of total revenues

%



Source: Ontario Ministry of Finance, RBC Economics Research

Turning on the spending tap...

After fighting to slay its budget deficit for the past seven years, the Ontario government today opened a new chapter with Budget 2017. With the long-promised balanced budget now in hand for this year as well as the coming two years, the government is turning on the spending tap this year with the biggest increase in program expenditures ($6.0 billion or 4.9%) since 2009-10. Over the three years of the fiscal plan, Ontario Finance Minister Charles Sousa projects program expenditures to rise by more than $12 billion—which is a substantial boost from the $7.7 billion rise over the past three years. The bulk of the new spending will be dedicated to the government’s priority areas—health care ($5.9 billion over three years), education and training ($2.9 billion), and children’s and social services ($1.2 billion)—however, other programs ($1.2 billion) also will get a boost after years of very limited increases at best.

...thanks to a strong economy

Minister Sousa is counting on a strong provincial economy to support his government’s spending spree while keeping the books in balance. The 2017 budget assumes that Ontario’s economy will grow by a solid 4.3% in 2017 on a nominal basis and a further 4.1% on average during the following three years. Such a positive economic environment lay a strong foundation for government revenues, which are forecasted to rise by 6.4% in 2017-18 and an average of 2.6% in the next two years—generating $16.1 billion in added revenues for the government over this three-year period. All revenue sources are expected to contribute to the increase. There were no material new taxes or tax increases in today’s budget.

Expanding OHIP: pharmacare for young Ontarians

While several key policy measures have been announced in recent weeks and months (including on housing and electricity rates), the main new program initiative announced in Budget 2017 is an expansion of the provincial health insurance plan coverage to include the cost of prescription medications for every Ontarian aged 24 and under, regardless of family income. This expansion is set to come into effect in 2018.

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Economic growth assumptions

	2015	2016	2017	2018	2019	2020
Real GDP growth (%)						
Budget 2017	2.5	2.7	2.3	2.1	2.0	1.7
Private sector average*	-	-	2.4	2.2	2.1	1.8
Fall Update	2.5	2.5	2.2	2.1	1.9	-
RBC	2.5	2.6	2.5	2.0	-	-
Nominal GDP growth (%)						
Budget 2017	4.9	4.6	4.3	4.1	4.2	3.9
Fall Update	4.9	3.4	4.1	4.1	3.9	-
RBC	4.9	4.4	4.3	3.7	-	-

*As of March 29, 2017
Source: Ontario Ministry of Finance, RBC Economics Research

Boosting capital spending

Infrastructure spending has been a hallmark of this government—with a capital plan of $190 billion over 13 years (including spending since 2014-15)—and Budget 2017 further ups the ante for several key priority items. Investment in public transit is set to almost double to $7.2 billion in 2017-18, and spending on provincial highways will get a substantial increase of 41% to $3 billion. Investment in hospitals, the education system (including colleges and universities) and the social sector (including social housing) also will rise significantly. Overall, the Ontario government plans to ramp up its infrastructure expenditures from $14.1 billion in 2016-17 to $20.3 billion in 2017-18.

The government expects a modest rise in provincial debt...

One of the benefits of balancing the books, of course, is that the government no longer needs to increase its debt to fund a deficit. Starting in 2017-18, Ontario's debt is projected to increase solely to fund investment in capital assets. Ontario's net debt is projected to rise by 3.3% in 2017-18 to $312 billion. This rate of increase would be slower than the 4.3% forecasted growth in nominal GDP, thereby helping Ontario's net debt-to-GDP ratio to moderate from 37.8% at March 2017 to 37.5% at March 2018. This would constitute the third consecutive annual decline since the peak of 39.1% in 2014-15.

...and sets a medium-term target for the first time

More importantly is the fact that, for the first time, Budget 2017 set an interim target for the net debt-to-GDP ratio of 35% by 2023-24. While modest—it would remain significantly higher than the ratio of 26.0% that prevailed prior to the 2008-09 recession—it represents a welcome step toward restoring the province's fiscal flexibility. Budget 2017 reiterated the government's commitment to reduce its net debt-to-GDP ratio to its pre-recession level (which the government pegs at 27%) over the long term (currently estimated to be achieved in 2029-30).

Lower borrowing requirements this year

Budget 2017 forecasts the province's long-term borrowing requirements will total $26.4 billion in 2017-18, which would be $0.6 billion lower than the $27.0 billion borrowed in 2016-17. The budget documents indicate that, to date, $0.6 billion in long-term public borrowing has been completed for 2017-18. For the remainder of the fiscal plan, the government expects total long-term public borrowing to rise to $32.2 billion in 2018-19 and $37.8 billion in 2019-20.

Commentary

It has been a very long road (nine years!) to balancing the provincial budget in Ontario and it is set to become a reality this year. With Budget 2017 a new chapter begins. The story is now about what to do with the province's fiscal dividend. Clearly, the government has opted in Budget 2017 to address the many pressing needs in health care, education and other priority areas. We would argue, however, that some of this dividend should be spent on accelerating the restoration the province's fiscal flexibility—and by that, we mean lowering the size of the provincial debt relative to the economy. We commend the government for (finally) putting in place a hard target to lower the province's net debt-to-GDP over the medium term (2023-24); however, this target is quite modest. It is important to remember that a government should prepare for the next downturn by 'reloading' its fiscal tool during good economic times. We hope that Ontario's economy will continue to cooperate until such time that the fiscal tool is fully reloaded.

Ontario's fiscal plan

($ billions)	Actual		Interim	Plan	Outlook	
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Total revenues	118.5	128.4	133.2	141.7	144.9	149.3
Total expenditures	128.9	131.9	134.8	141.1	144.3	148.4
Program spending	118.2	120.9	123.5	129.5	132.3	135.8
Interest on public debt	10.6	11.0	11.3	11.6	12.0	12.3
Reserve	-	-	-	0.6	0.6	0.9
Surplus/(Deficit)	(10.3)	(3.5)	(1.5)	0.0	0.0	0.0

Source: Ontario Ministry of Finance