

BUDGET ANALYSIS

Ontario: Budget 2020

The Pandemic Is Dealing a Tough Blow to the Province's Financial Situation

HIGHLIGHTS

- ▶ The budget tabled today calls for a \$38.5B deficit for 2020–2021.
- ▶ This large deficit is due to a slight drop in revenue (-3.2%) and, in particular, a surge in program spending (+14.6%) because of the many initiatives to deal with the adverse impacts of COVID-19.
- ▶ The Ontario government's net debt will continue to ascend; its debt to GDP ratio could hit a record peak of 49.6% in 2022–2023.
- ▶ The 2020 budget includes a total of \$15B in new measures.

The Ontario Government's Financial Situation Worsens

Unsurprisingly, COVID-19 and the cost of the many measures introduced to mitigate the pandemic's repercussions for Ontarians are having an adverse impact on the Ontario government's financial situation. The new budget tabled today calls for a \$38.5B deficit for 2020–2021. At the time of last spring's update, this very deficit had been estimated to be \$20.5B. The large deficit is due to a slight drop in revenue (-3.2%) and, in particular, a surge in program spending (+14.6%). The budget deficit should gradually shrink as of 2021–2022, but projections from the Ministry of Finance indicate that it could remain high for several more years. Under these conditions, the Ontario government's net debt will continue to ascend in the coming years; its debt to GDP ratio could hit a record 49.6% in 2022–2023.

The economic and financial assumptions used in developing the budget are generally quite similar to our latest forecasts. That said, the outlooks depend heavily on how the pandemic evolves and uncertainty is very elevated. To provide a better idea of the uncertain climate's impact on the financial projections, the Ministry of Finance produced two alternative scenarios in addition to the planning scenario, one that includes higher economic growth, and one that uses slower growth. The two alternative scenarios show the degree to which the evolution of the budgetary balance could diverge from the baseline scenario.

TABLE 1

Summary of transactions

IN \$B (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS		
	2019–2020	2020–2021	2021–2022	2022–2023
Total revenues	156.1	151.1	152.3	160.2
Variation (%)	1.6	-3.2	0.8	5.2
Program spending	-152.3	-174.6	-170.2	-172.4
Variation (%)	2.4	14.6	-2.5	1.3
Debt charges	-12.5	-12.5	-13.2	-13.9
Variation (%)	0.9	0.0	5.6	5.3
Total expenses	-164.8	-187.0	-183.4	-186.3
Variation (%)	2.3	13.5	-1.9	1.6
Reserve	---	-2.5	-2.0	-2.0
Budgetary balance	-8.7	-38.5	-33.1	-28.2
Net debt	353.3	398.0	437.8	472.9
In % of GDP	39.7	47.0	48.5	49.6

Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

For example, in 2022–2023, the budget deficit could fluctuate within a range of \$21.3B to \$33.4B.

Several New Initiatives to Deal with COVID's Repercussions

Today's budget includes a total of \$15B in new measures, in addition to the \$30B in other initiatives that were announced in the last few months. This brings the total assistance to \$45B over three years. According to the Ministry of Finance, the new budgetary measures are built on three pillars:

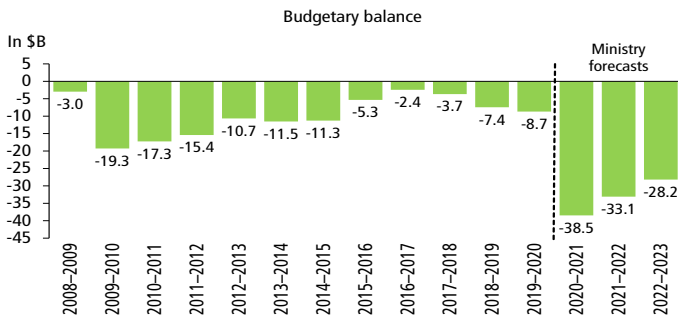
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

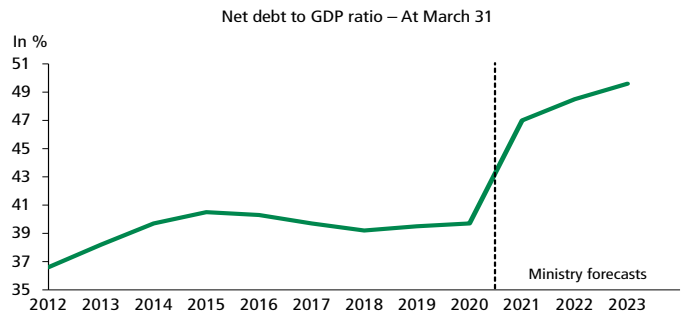
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GRAPH 1
The budget deficit will remain very high in the next few years



Source: Ontario Ministry of Finance

GRAPH 2
The debt's relative size is heading for new peaks



Source: Ontario Ministry of Finance

TABLE 2
Economic and financial forecasts

VARIATION IN % (EXCEPT IF INDICATED)	2019		2020f		2021f	
	2020 Budget	Desj. Group	2020 Budget	Desj. Group	2020 Budget	Desj. Group
Real GDP	1.7	1.7	-6.5	-6.0	4.9	4.7
Nominal GDP	3.9	3.9	-5.0	-5.9	6.6	5.9
Employment	2.9	2.9	-5.4	-4.8	5.0	6.0
Treasury bills—3-month	1.7	1.7	0.4	0.5	0.2	0.3
Federal bonds—10-year	1.6	1.6	0.7	0.8	0.8	0.8
Exchange rate (US¢/C\$)	75.4	75.4	74.2	74.3	75.3	76.1
Real GDP—United States	2.2	2.2	-4.0	-3.8	3.9	3.6

f: forecasts; NOTE: Data may not add to totals due to rounding.

Sources: Ontario Ministry of Finance, Statistics Canada and Desjardins, Economic Studies

1) Urgent response measures to protect against COVID-19 (a total of \$7.5B in new funding)

- Increasing average daily direct care from a nurse or personal support worker per long-term care resident to four hours a day over a four-year period.
- Making available \$4B in 2021–2022 and a further \$2B in 2022–2023 in dedicated support to protect people's health and to support the fight against the COVID-19 pandemic.
- Opening the new Cortellucci Vaughan Hospital site.

2) Support for people and jobs (a total of \$2.4B in new funding)

- Providing \$380M to parents through another round of payments, following the \$378M of funding in March of \$200 per child up to 12 years old and \$250 per child and youth with special needs up to 21 years old.
- Proposing the new Seniors' Home Safety Tax Credit for the 2021 taxation year—a 25% credit on eligible

renovations of up to \$10,000—to help seniors stay in their homes longer.

- Investing \$100M over two years for the Community Building Fund to support community tourism, cultural and sport organizations that are experiencing significant financial pressures due to the pandemic.
- Providing one-time emergency funding of \$25M for Ontario's arts institutions to help cover operating losses incurred as a result of COVID-19.
- Providing an additional \$1.8B in the Support for People and Jobs Fund over the next two years, 2021–2022 and 2022–2023.

3) Creating conditions conducive to growth and recovery (a total of \$4.8B in new funding)

- Making additional investments of over \$680M over the next four years in broadband infrastructure.
- Bringing more jobs to Ontario with a comprehensive plan to address the high costs of electricity, saving medium

size and larger industrial and commercial employers about 14% and 16% respectively, on average, on their electricity bills.

- Reducing property taxes on job creators and levelling the playing field by lowering high Business Education Tax rates for over 200,000 employers, or 94% of all business properties in Ontario, to a rate of 0.88%.
- Responding to requests from local governments by proposing to provide municipalities with the ability to cut property tax for small businesses and a provincial commitment to consider matching these reductions.
- Ending a tax on jobs for an additional 30,000 employers by proposing to make permanent the Employer Health Tax exemption increase from \$490,000 to \$1M.
- Committing to provide Ontario residents with support of up to 20% for eligible Ontario tourism expenses to encourage them to safely discover Ontario in 2021, the year of the Ontario staycation.
- Connecting workers in the tourism and hospitality sector and others most affected by the pandemic to training and jobs with an investment of \$180.5M over three years.
- Providing \$500M over four years to make government services more reliable, convenient and accessible through the Ontario Onwards Acceleration Fund.

The Impacts of COVID-19 Will Be Felt for Several Years

How the pandemic will evolve remains highly uncertain and everything suggests its fallout will persist for some time. That said, COVID-19's impact on Ontario's public finances will be felt long after the pandemic has wound down; it will clearly take the province several years to recover from it. However, Ontario is far from alone in this situation. Most of the other governments in Canada, and even elsewhere in the world, were unstinting with new initiatives to tackle COVID-19, and their financial situations have also deteriorated substantially.