

BUDGET ANALYSIS

Ontario: Budget 2022

Substantially Improved Revenue Outlook Left Ample Room for New Measures

HIGHLIGHTS

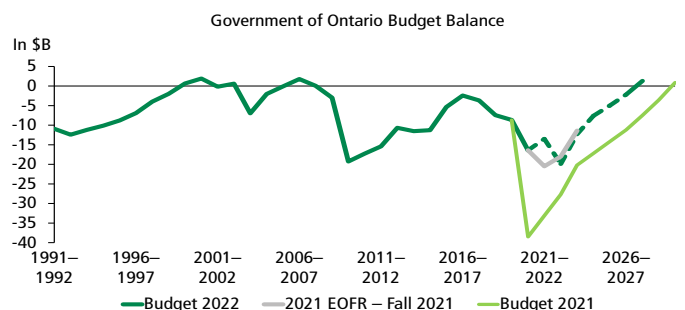
- ▶ Ontario's economic outlook has improved considerably since it was last published, including upward revisions to forecasts for real GDP growth, inflation, and the labour market. The only aspect of the outlook that may give room for pause is the interest rate projection, which is lower than what we forecast, but this is expected to be only a modest blemish on an otherwise clean and clear starting point for fiscal planning.
- ▶ As the economy goes, so go revenues. And Ontario's 2022 Budget is not exception, with better-than-expected economic activity having boosted the starting point for revenues. This freed up room for cuts to taxes and fees, which the Government of Ontario took advantage of, scrapping fees for license renewals and expanding the Low-income Individuals and Families Tax (LIFT) Credit.
- ▶ Not to be forgotten, the Government of Ontario also announced substantial new spending in this year's budget. This included measures to shore up the economy and labour force, invest in highways and other key infrastructure, keep costs down for Ontarians, and keep the economy open by investing in health care staff and infrastructure.
- ▶ As a result of these new measures, the Government of Ontario managed to use up all of the fiscal room freed up by the improved economic outlook. Indeed, the outlook for the deficit track is almost identical to that projected in Fall 2021. This is expected to lead to a return to budget surpluses in the 2027–2028 fiscal year, two years early than was forecasted in Budget 2021.
- ▶ As a result of the better-than-expected economic outlook and a similar deficit track to that published late in 2021, net debt as a share of GDP is expected to remain broadly in line with its estimated 2021–2022 fiscal year level. Indeed, the net debt-to-GDP ratio is expected to only converge to its pre-COVID level by the end of the forecast in the 2027–2028 fiscal year.

As was broadly expected, the Government of Ontario published a much-improved economic forecast in Budget 2022. Helped out by an economy surging back from COVID-19 lockdowns and high inflation, revenues topped expectations, providing fiscal room to introduce cuts to taxes and fees as well as increase spending. The government did both. As a result, the path for the budget balance as a share of GDP is broadly in line with that published in late 2021 (graph 1). This has ensured the outlook for Ontario's net debt-to-GDP ratio remains broadly flat over the forecast, only returning to the pre-COVID level when the provincial government returns to a budget surplus in the 2027–2028 fiscal year.

It's All about the Economy

Ontario's economy has roared back from its COVID-related weakness, with the forecast for real GDP growth, inflation and the labour market posting notable upward revisions when

GRAPH 1
The Government of Ontario hopes to return to surplus in 2028



EOFR: Economic Outlook and Fiscal Review
Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

Jimmy Jean, Vice-President, Chief Economist and Strategist • Randall Bartlett, Senior Director of Canadian Economics

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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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TABLE 1
Economic and financial outlook

IN % (EXCEPT IF INDICATED)	2021	2022 ^f	2023 ^f
Real GDP			
2021 Budget	4.0	4.3	2.5
2022 Budget	4.3	3.7	3.1
Nominal GDP			
2021 Budget	6.2	6.4	4.5
2022 Budget	12.0	6.7	5.1
Treasury bills—3-month			
2021 Budget	0.2	0.2	0.5
2022 Budget	0.1	0.9	1.7
Federal bonds—10-year			
2021 Budget	1.0	1.4	1.8
2022 Budget	1.4	2.0	2.5
Exchange rate (US¢/C\$)			
2021 Budget	78.5	78.5	79.2
2022 Budget	79.8	79.5	79.5

^f: forecasts
Source: Ontario Ministry of Finance

compared to the previous projection (table 1 on page 2). This helped to set the stage for a meaningfully better revenue outlook than was planned for in Budget 2021 or even late last year.

It should be noted that one of the key areas of risk flagged by the Government of Ontario in its outlook is rising interest rates. However, it doesn't anticipate that this will derail the fiscal outlook going forward. We would also emphasize that the provincial government's economic outlook is more optimistic than that published in our latest [Economic & Financial Outlook](#). As such, we believe the risks to the economic outlook are tilted to the downside.

A Tax Cut for You and an Investment for You

In Ontario's Budget 2022, the Ontario Finance Minister identified five key areas for revenue reduction and spending increases. These included Rebuilding Ontario's Economy, Working for Workers, Building Highways and Key Infrastructure, Keeping Costs Down, and A Plan to Stay Open.

[Rebuilding Ontario's Economy](#)

A centrepiece of Budget 2022 is the commitment to spend close to \$1 billion in infrastructure investment to support the development of critical minerals in Ontario, including in the region around the Ring of Fire. This is expected to help to attract investment and support supply chains for Ontario's electric vehicle, battery and renewables manufacturing. It also came with a commitment to invest over \$90 million to make EV chargers more accessible. Also important to Northern communities, the Government of Ontario has also committed to invest nearly \$4 billion to bring high-speed internet to every community in Ontario by the end of 2025.

Importantly, the provincial government has also pledged to increase Venture Ontario's venture capital funding from \$100 million to \$300 million. This will allow the agency to investment an additional \$200 million in key innovation sectors, such as life sciences, clean technology, information technology and artificial intelligence.

[Working for Workers](#)

As part of its commitment in support workers in Ontario, the provincial government has pledged to spending \$114.4 million over three years on the Skilled Trades Strategy, \$268.5 million over three years through Employment Ontario to strengthen skills training and employment programs, \$15.1 million in Ontario Immigrant Nominee Program, \$45.2 million in specialized mental health service for public safety personnel, and \$56.8 million in 2022–2023 to increase capacity in emergency health services in communities across Ontario.

[Building Highways and Key Infrastructure](#)

To shore up and expand Ontario's infrastructure, the provincial government has committed to spending \$25.1 billion over the next ten years to support the planning and/or construction of highway expansion and rehabilitation projects, including \$4 billion in new money in Budget 2022, as well as expand GO Transit routes and frequency. Additionally, the province has pledged with federal government to spend \$632 million to support critical municipal services like public transit, on top of \$1.3 billion in provincial relief since the Safe Restart agreement. Additionally, \$75 million will be spent to support corridor fleet and station upgrades for passenger rail service in Northeastern Ontario.

[Keeping Costs Down](#)

To help keep costs down for Ontarians, the Government of Ontario plans to enhance the LIFT Credit. This is in addition securing \$13.2 billion in new federal investment by the 2026–2027 fiscal year for a new Early Learning and Child Care program, and investing an additional \$395 million to ensure the costs of inflation are covered.

For Ontario drivers, the Government plans to cut the gasoline tax by ¢5.7 per litre and the fuel tax by ¢5.3 per litre for six months starting July 1, 2022. The fiscal impact is expected to be about \$650 million annually. It also plans to reduce tolls on some highways and key transportation arteries. Finally, it plans to reduce the cost of auto insurance. And, of course, this is on top of the reduction in license plate fees, which is expected to have a \$1.1 billion impact on the fiscal balance in the 2022–2023 fiscal year and beyond.

To support homeowners, the Ontario government has committed to investing \$19.2 million over three years to increase capacity at Landlord and tenant Board and the Ontario Land Tribunal. This is in addition to an increase of the non-resident speculation tax to 20% from 15%, and a broadening of it to the entire province,

which could bring in as much as \$235 million annually by the 2024–2025 fiscal year. However, housing advocates may be disappointed by the lack of substantive new measures such as those outlined by the Ontario Housing Affordability Task Force.

A Plan to Stay Open

Finally, in order to keep Ontario’s economy open and humming along, the provincial government has committed to introduce a permanent PSW and DSW wage increase costing roughly \$2.8 billion over the next three years. On top of this, the Government of Ontario plans to spend \$1 billion over the next three years to expand home care, \$764 million over two years for the retention of nurses, \$240 million for mental health, \$124 million over three years to modernize clinical education for nurses, \$110 million for a new, refundable Ontario Seniors Care at Home Tax Credit, and more that \$60 million over two years to continue to expand the Community Paramedicine for Long-Term Care program.

To hospitals specifically, the provincial government intends to invest over \$10 billion more than planned in the previous budget in hospital expansions, taking the total for planned investment to \$40 billion over the next decade. This includes 50 major hospital projects that would add 3,000 additional beds over ten years in additional to the 3,100 in surge-capacity beds added since the pandemic began. To address the dearth of capital investment in Ontario’s hospitals, the Government of Ontario has committed to put an additional \$3.3 billion in 2022–2023 toward hospital investment, for a total of \$8.8 billion invested since 2018–2019.

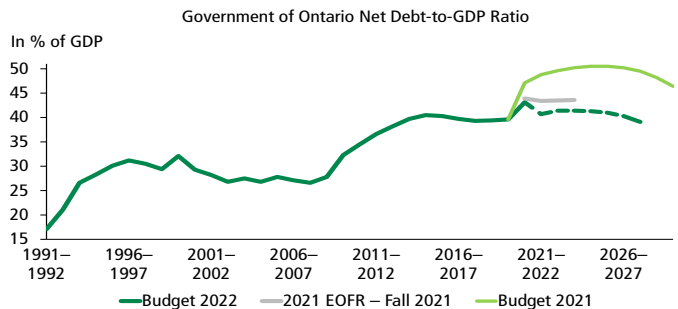
Deficits and Debt Are on the Right Track

But all of these cuts to taxes and fees on top of new spending don’t come cheap. Indeed, the provincial government has used up all of the windfall that came from the more optimistic economic outlook and plowed it into goodies for Ontarians. As a consequence, while the Budget 2022 deficit track is significantly improved over the one the Government of Ontario published in Budget 2021, it is broadly in line with the deficit track published late last year (table 2 on page 4).

It should therefore come as little surprise that the net debt-to-GDP profile is only modestly improved over that published in Fall 2021 (graph 2). Indeed, the net debt-to-GDP ratio is expected to stay broadly flat over the outlook, falling only modestly to its pre-COVID level by the 2027–2028 fiscal year.

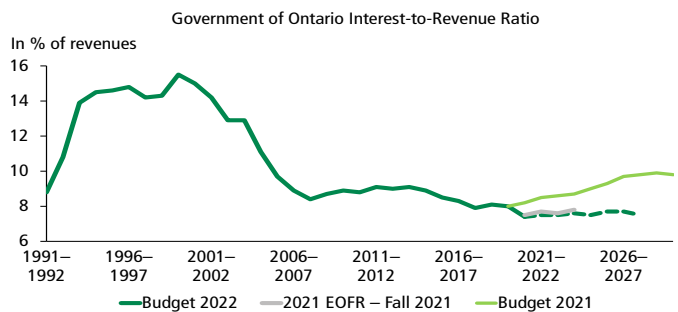
Importantly, this improved deficit and debt projection is predicated on an optimistic economic outlook, which has a stronger nominal GDP forecast and lower interest rate forecast than we published in our recent *Economic & Financial Outlook*. As such, there is the possibility that the outlook for interest as a share of revenues moves higher over the outlook relative to the Government of Ontario’s expectations (graph 3).

GRAPH 2
Ontario’s debt-to-GDP ratio is expected to show a modest decline



EOFR: Economic Outlook and Fiscal Review
Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

GRAPH 3
Debt service costs are expected to stabilize on the improved outlook



EOFR: Economic Outlook and Fiscal Review
Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

Conclusion

Ontario’s Budget 2022 certainly wasn’t without its surprises. While we anticipated an increase in revenues on the back of a substantially improved economic outlook, we didn’t expect that much of the windfall would be used up in tax cuts and new spending. However, the provincial government has still managed to walk the fine line of keeping its deficit and debt outlook on a downward trajectory, which should help to maintain fiscal sustainability in the process barring any major economic surprises.

TABLE 2
Summary of transactions

IN \$B (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS						
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Total revenues	164.9	173.6	179.8	188.2	196.9	204.6	212.6	220.9
<i>Variation (%)</i>	5.6	5.3	3.6	4.7	4.6	3.9	8.0	8.0
Program spending	-169.0	-174.1	-185.2	-184.8	-188.1	-192.5	-196.9	-201.4
<i>Variation (%)</i>	11.0	3.0	6.4	-0.2	1.8	2.3	4.7	4.6
Debt charges	-12.3	-13.0	-13.5	-14.3	-14.9	-15.7	-16.3	-16.6
<i>Variation (%)</i>	-1.6	5.7	3.8	5.9	4.2	5.4	9.4	5.7
Total expenses	-181.3	-187.1	-198.6	-199.1	-203.0	-208.1	-213.2	-218.0
<i>Variation (%)</i>	10.0	3.2	6.1	0.3	2.0	2.5	5.0	4.8
Reserve	---	---	-1.0	-1.5	-1.5	-1.5	-1.5	-1.5
Budgetary balance	-16.4	-13.5	-19.9	-12.3	-7.6	-5.0	-2.2	1.3
Net debt								
<i>In % of GDP</i>	43.1	40.7	41.4	41.4	41.3	41.0	40.3	39.1

Sources: Ontario Ministry of Finance and Desjardins, Economic Studies