

BUDGET ANALYSIS

Ontario: Budget 2021

The Fight against the Damaging Effects of COVID-19 Is Still a Priority

HIGHLIGHTS

- ▶ The Ontario government's financial projections have changed little from the 2020 Budget tabled in November.
- ▶ A \$38.5B budget deficit is still projected in 2020–2021, but it should gradually decrease thereafter, paving the way for a balanced budget in 2029–2030.
- ▶ Ontario's net debt will continue to rise to \$503.1B by March 31, 2024, which will account for 50.2% of the province's GDP.
- ▶ The 2021 Budget enhances the Ontario COVID-19 Action Plan by about \$6B, bringing it to \$51B over four years. Launched in March 2020, this plan includes health measures (\$16.3B) and support for the economy (\$23.3B) as well as initiatives to improve cash flow for people and businesses (\$11.3B).

TABLE 1
Summary of transactions

IN \$B (EXCEPT IF INDICATED)	ACTUAL		PROJECTIONS				
	2019–2020	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Total revenues	156.1	151.8	154.0	160.0	167.0	173.5	180.3
Variation (%)	1.6	-2.8	1.4	3.9	4.4	3.9	3.9
Program spending	-152.3	-177.8	-173.0	-172.5	-171.1	-173.6	-176.2
Variation (%)	2.4	16.8	-2.7	-0.3	-0.8	1.5	1.5
Debt charges	-12.5	-12.5	-13.1	-13.7	-14.6	-15.5	-16.8
Variation (%)	0.9	0.0	4.8	4.6	6.6	6.2	8.4
Total expenses	-164.8	-190.3	-186.1	-186.2	-185.6	-189.2	-193.0
Variation (%)	2.3	15.5	-2.2	0.1	-0.3	1.9	2.0
Reserve	---	---	-1.0	-1.5	-1.5	-1.5	-1.5
Budgetary balance	-8.7	-38.5	-33.1	-27.7	-20.2	-17.2	-14.2
Net debt	353.3	399.5	439.8	475.8	503.1	n/a	n/a
In % of GDP	39.6	47.1	48.8	49.6	50.2	50.5	50.5

n/a: not available

Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

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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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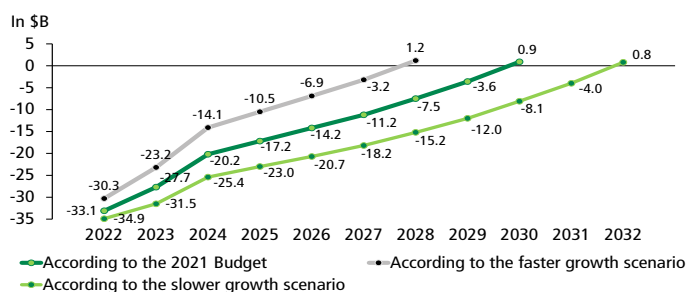
A Possible Return to a Balanced Budget in 2029–2030

The financial projections in the 2021 Budget are fairly similar to those in the 2020 Budget tabled in November. Generally speaking, revenue growth is now slightly more favourable. This improvement is, however, offset by more sustained growth in expenditures, such that the new projections for the Ontario government's budget balance are virtually identical to those presented in November. Therefore, after an \$8.7B deficit in 2019–2020, the 2020–2021 fiscal year should end with a \$38.5B deficit. This significant deterioration obviously stems from the damaging effects of COVID-19 on the provincial government's revenues and expenditures. For example, the measures put in place to offset the impact of COVID-19 caused a temporary \$20.1B increase in program spending in 2020–2021. This is in addition to temporary spending of \$6.7B in 2021–2022 and \$2.8B in 2022–2023. The effect of COVID-19 should therefore gradually fade in the coming years. This will lead to a progressive reduction in the budget deficit. According to current Ministry of Finance projections, however, it will take until the 2029–2030 fiscal year before the budget is balanced. This date could be pushed up or back slightly, as shown by the two alternative scenarios also presented by the Ministry of Finance. It is worth noting that the province has been unable to balance its budget since the 2007–2008 fiscal year.

That said, the Ontario government's financial position could be somewhat more positive than Ministry of Finance projections suggest, particularly in the short term. The budget tabled today calls for Ontario real GDP growth of 4.0% in 2021. Yet, recent data show that the economy has been astonishingly resilient during the second wave of COVID-19. In these circumstances, most forecasters have recently revised their forecasts upward for 2021. For example, our most recent scenario now calls for a 6.1% increase in Ontario's real GDP in 2021. That said, the rising interest rates and, to a lesser extent, Canadian dollar could also

GRAPH

Change in budget balance according to Ministry of Finance scenarios (as of March 31)



Source: Ontario Ministry of Finance

climb faster than budget projections, which will partly offset the benefits of higher economic growth.

Ontario's net debt will continue to grow over the next few years, reaching \$503.1B by March 31, 2024, which will account for 50.2% of the province's GDP. This is a substantial increase from the 39.6% of GDP as at March 31, 2020. With such projections, one might wonder whether Ontario will become the country's most heavily indebted province. It should be remembered that it was only slightly surpassed in this regard by Newfoundland and Labrador in 2019–2020.

An Action Plan Enhanced by Several New Measures

The Ontario government's priority since the start of COVID-19 has been to protect people's health and well-being. As the Ontario's COVID-19 Action Plan was unveiled in March 2020, several measures were announced in this regard. These measures were enhanced for the first time during the 2020 Budget tabled in November 2020. The 2021 Budget announced today adds

TABLE 2

Economic and financial forecasts

VARIATION IN % (EXCEPT IF INDICATED)	2020		2021f		2022f	
	2021 Budget	Desj. Group	2021 Budget	Desj. Group	2021 Budget	Desj. Group
Real GDP	-5.7	-5.7	4.0	6.1	4.3	4.0
Nominal GDP	-4.8	-4.8	6.2	9.2	6.4	6.5
Employment	-4.8	-4.8	4.2	4.1	3.0	2.9
Treasury bills—3-month	0.4	0.4	0.2	0.2	0.2	0.3
Federal bonds—10-year	0.7	0.7	1.0	1.7	1.4	1.9
Exchange rate (US\$/C\$)	74.6	74.6	78.5	80.6	78.5	80.6
Real GDP—United States	-3.5	-3.5	4.9	6.5	3.8	4.0

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

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

close to \$6B to Ontario's Action Plan. The Ontario government's support measures now total close to \$51B over four year in three pillars:

1) *Protecting People's Health (\$16.3B), main measures*

- ▶ Ontario has made more than \$1B available for a province-wide vaccination plan. Ontario is also making it safer to re-engage with our workplaces, businesses and communities with \$2.3B for testing and contact tracing.
- ▶ The province has released \$1.4B for personal protective equipment.
- ▶ The government has invested \$5.1B to support hospitals since the pandemic began.
- ▶ Ontario is investing \$4.9B over four years to increase the average direct daily care to four hours a day in long-term care and hiring more than 27,000 new positions, including personal support workers (PSWs) and nurses.

2) *Protecting the Economy (\$23.3B), main measures*

- ▶ The government is providing a third round of payments to support parents through the Ontario COVID-19 Child Benefit, totalling \$1.8B since last March. The payment will be doubled to \$400 per child for this round and \$500 for each child with special needs.
- ▶ To support parents with the cost of child care and help them get back into the workforce, the government is proposing a 20% enhancement of the CARE tax credit for 2021. This would increase support from \$1,250 to \$1,500, on average.
- ▶ To help small businesses that have been most affected by the necessary restrictions to protect people from COVID-19, Ontario is providing a second round of Ontario Small Business Support Grant payments to eligible recipients. Approximately 120,000 small businesses will automatically benefit from an additional \$1.7B in relief through this second round of support in the form of grants of a minimum of \$10,000 and up to \$20,000, bringing the estimated total support provided through this grant to \$3.4B.
- ▶ Ontario is investing \$2.8B to connect homes, businesses and communities to broadband.
- ▶ To support Ontario's 444 municipalities, the province's key partners in the fight against COVID-19, the government is providing almost \$1B in additional financial relief in 2021 to help preserve vital public services and support economic recovery.

3) In addition to the direct measures in the first two pillars, the Ontario government has put in place a number of initiatives totalling \$11.3B to improve cash flow for people and businesses.

An Ambitious Plan... Full of Pitfalls

To balance the budget in 2029–2030, the Ontario government is counting on a significant slowdown in its program spending. Ministry of Finance projections call for average growth of just 0.6% annually between 2021–2022 and 2029–2030. This is a major change of course from the average increase of 2.6% annually reported between 2011–2012 and 2019–2020. Iron discipline will be needed to achieve this. However, there is still much uncertainty, and many factors could derail the Ministry of Finance projections, especially over a period spanning nearly a decade. Aside from the vagaries associated with COVID-19, this shows just how difficult it will be to eliminate the structural deficit that the province has had since the Great Recession of 2008–2009.