

# BUDGET ANALYSIS

## Ontario: Budget 2017

### The First Balanced Budget in 10 Years

#### HIGHLIGHTS

- ▶ Revenue growth has picked up significantly.
- ▶ The return to a balanced budget is confirmed for 2017–2018.
- ▶ Program spending will rise faster, especially in health and education.
- ▶ Free prescription medication is being introduced for all children and youth aged 24 and under.
- ▶ Substantial infrastructure spending will continue to run up the province's net debt.
- ▶ A pilot project to provide a guaranteed basic income will be launched in three communities.

#### The Big Increase in Revenue Delivers Some Manoeuvring Room

Ontario has enjoyed fairly robust economic growth since 2014, with real GDP posting increases above the national average. Key factors in this boom are the improved conditions in the manufacturing sector, upswing in exports and lively housing

market. The growth outlook is still very good for Ontario's economy for 2017 and 2018, with real GDP growth remaining among the country's strongest.

This strength is having a positive impact on the Ontario government's revenue growth, which is accelerating sharply.

**TABLE 1**  
Summary of transactions

IN \$B (EXCEPT IF INDICATED)	ACTUAL	PROJECTIONS			
	2015–2016	2016–2017	2017–2018	2018–2019	2019–2020
Total revenues	128.4	133.2	141.7	144.9	149.3
<i>Variation (%)</i>	8.4	3.7	6.4	2.3	3.0
Program spending	-120.9	-123.5	-129.5	-132.3	-135.8
<i>Variation (%)</i>	2.3	2.2	4.9	2.2	2.6
Debt charges	-11.0	-11.3	-11.6	-12.0	-12.6
<i>Variation (%)</i>	3.8	2.7	2.7	3.4	5.0
Total expenses	-131.9	-134.8	-141.1	-144.3	-148.4
<i>Variation (%)</i>	2.3	2.2	4.7	2.3	2.8
Reserve	---	---	-0.6	-0.6	-0.9
Budgetary balance	-3.5	-1.5	0.0	0.0	0.0
Net debt	294.6	301.9	311.9	323.3	335.9
<i>In % of GDP</i>	38.6	37.8	37.5	37.3	37.2

Sources: Ontario Ministry of Finances 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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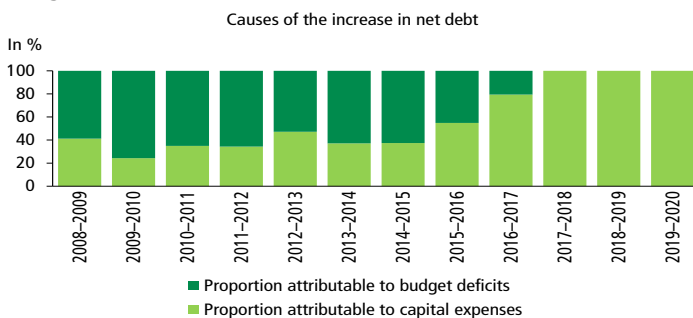
Ontario's total revenues rose 8.4% in 2015–2016. An increase of 3.7% is forecast for 2016–2017, followed by a 6.4% gain in 2017–2018.

The jump in budget revenue has allowed the Ontario government to meet its goal of balancing the budget in 2017–2018, ending a run of nine straight budget deficits. Since 2008–2009, the Ontario government has posted a total deficit of nearly \$88B, taking the province's net debt from \$156.6B on March 31, 2008 to \$301.9B on March 31, 2017. Despite the balanced budget, Ontario's debt will continue to rise in the coming years as it finances infrastructure spending. Ontario's net debt could hit \$335.9B on March 31, 2020, according to Ministry of Finance projections. The debt's relative size in relation to the economy should still wane somewhat, with the net-debt-to-GDP ratio dropping from a peak of 39.1% on March 31, 2015 to 37.2% on March 31, 2020.

In addition to balancing the budget, the faster revenue growth will allow Ontario's government to substantially increase budget expenditures. Program spending is expected to increase 4.9% in 2017–2018 after rising an estimated 2.2% in 2016–2017.

#### GRAPH

##### The debt will rise due to infrastructure spending after the budget has been balanced



Sources: Ontario Ministry of Finance and Desjardins, Economic Studies

**TABLE 2**  
Economic and financial forecasts

VARIATION IN % (EXCEPT IF INDICATED)	2016		2017f		2018f	
	2016 Budget	2017 Budget	2016 Budget	2017 Budget	2016 Budget	2017 Budget
Real GDP	2.2	2.7	2.4	2.3	2.2	2.1
Nominal GDP	4.0	4.6	4.6	4.3	4.2	4.1
Treasury bills—3-month	0.5	0.5	0.8	0.5	2.2	0.8
Federal bonds—10-year	1.6	1.3	2.3	1.9	3.3	2.4
Employment	1.1	1.1	1.2	1.3	1.2	1.2
Exchange rate (US\$/C\$)	72.00	75.40	75.50	74.50	81.00	75.50
Real GDP—United States	2.1	1.6	2.4	2.3	2.4	2.4

f: forecasts

Sources: Ontario Ministry of Finances

#### Health and Education First

The Ontario government's financial leeway allowed it to announce several new measures today while putting the priority on increased health (+\$7B over the next three fiscal years) and education spending (+\$6.4B over the next three fiscal years). Here is a summary of the main initiatives that caught our eye:

- ▶ Starting in January 2018, the new *OHIP+* program will cover the entire cost of all prescription medication for children and youth up to age 24.
- ▶ Several measures to make daycare services more accessible and affordable were announced.
- ▶ A number of initiatives were put forward to expand services in elementary and high schools, as well as at universities.
- ▶ A pilot project is being launched in three communities (Hamilton, Thunder Bay and Lindsay) to provide a guaranteed basic income. People aged 18 to 64 who earn less than a given amount will receive regular payments to help them meet their basic needs.
- ▶ The 2017 budget includes an increase of \$30B by 2027 in infrastructure spending, which will primarily go toward new hospital projects, renovating schools and expanding child care services.
- ▶ Today, the Ontario government confirmed previously announced measures to reduce electricity rates and make housing more affordable for buyers and tenants.

#### What If Things Don't Go As Expected?

After announcing it several years in advance, the Ontario government delivered on its commitment by tabling a balanced budget for the current fiscal year. That said, it also took advantage of improving economic conditions and faster revenue growth to boost spending significantly. And so, despite today's good news, the Ontario government is left with relatively little

financial room to manoeuvre. The budget projections do include a \$600M contingency reserve for fiscal 2017–2018 and 2018–2019 and a \$900M reserve for 2019–2020, but those amounts are less than the Ontario government’s past projections.

While achieving a balanced budget clearly reduces the level of uncertainty, significant economic concerns persist. How will U.S. protectionism affect Ontario’s exports over the coming years? Will the housing market’s anticipated cooling be more sudden and more painful than expected? Clearly, we cannot ignore the possibility that the Ontario economy may not grow as fast as expected in the years ahead. In addition, our medium-term economic forecasts call for a weakening global economy as of 2020, particularly in the United States, following several years in an expansion cycle. However, the budget’s economic projections do not really address these possibilities. As a result, there is some doubt regarding the Ontario government’s ability to maintain a balanced budget as it hopes to do.