Budget Analysis
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ONTARIO: 2014 BUDGET

On track, but more sacrifices could be needed

The budget tabled today by the Ontario government abides by its commitment to balance the books by fiscal 2017–2018. However, the deficit forecast for fiscal 2014–2015 will be $12.5B, or $2.4B more than anticipated. The deficits for subsequent years will also be higher. Accordingly, getting the deficit to zero will take an even more demanding effort.

HIGHLIGHTS

- Fiscal 2017–2018 is retained as the target for balancing the budget. The 2013–2014 deficit is slightly lower than forecast but, for later years, the deficits have been revised upwards.
- Program spending growth is expected to slow substantially as of March 31, 2015.
- The net debt to GDP ratio could peak at 40.8% on March 31, 2016, then slowly come down.
- The taxable income bracket subject to a 13.16% tax rate will drop from $514,090 to $220,000.
- A 12.16% tax rate has been added for the $150,000 to $220,000 income tax bracket.
- The tobacco tax will go from $24.70 to $27.95 a carton (200 cigarettes).
- A mandatory pension plan—the Ontario Retirement Pension Plan (ORRP)—would be instituted for workers who are not members of an employer pension plan.
- Introduction of a 10-year economic plan that is largely built on $130B in infrastructure investment.

A TOUGHER JOB AHEAD TO BALANCE THE BOOKS BY 2017–2018

The budget tabled today by Minister Charles Sousa retains the goal of balancing the budget by March 31, 2018. However, the road to achieving the target seems somewhat tougher than initially anticipated. Ontario's government has more than exceeded its target for savings on program spending for 2013–2014, which totalled $1.6B compared with the projected $1.0B. The deficit for fiscal 2013–2014 is now estimated to be $11.3B, or $400M less than anticipated last spring.

That being said, the province's economic outlook has eroded somewhat. According to the figures released today by the Ministry of Finance, Ontario's real GDP grew 1.3% in 2013; last year's budget had projected growth of 1.5%. Growth anticipated for 2014 is 2.1%, whereas the projection used in last year's budget called for growth of 2.3%. Factoring in price growth, also weaker than anticipated, nominal GDP growth is well below expectations, with the concomitant adverse impacts on the books.

The many new measures announced in today's budget will also have substantial impacts. For example, the 2014 budget includes a 2.6% increase in program spending for fiscal 2014–2015; last year, growth of just 1.1% was forecast for the same period. It will now be 2015–2016 before we see any substantial slowdown in program spending growth. To maintain its target for balancing the budget as at March 31, 2018, the Ontario government even plans to cut program spending by 0.7% in 2017–2018. Meanwhile,

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all of the budget deficits projected from March 31, 2014 to March 31, 2017 have been increased. The government is now projecting a $12.5B deficit for 2014–2015, $2.4B higher than forecast in last year's budget.

THE FOCUS IS ON INDIVIDUALS FOR AN EXTRA EFFORT

In an environment that features weak economic and inflation growth, government revenues are subject to downside pressures, and Ontario is no exception. The province therefore opted to further tax individuals and businesses, while being careful to minimize the potential impact on the real economy. In terms of individuals, the budget targets those with the most wealth, lowering the taxable income threshold for the 13.16% rate from $514,090 to $220,000. A 12.16% tax rate has been added for the $150,000 to $220,000 income tax bracket. These changes will apply to taxation years ending after December 31, 2013, and bring an additional $700M into government coffers by 2016–2017. The measures only affect 2% of taxpayers. Dividend tax credits will also be modified. Smokers will see the tobacco tax increase from $24.70 to $27.95 per carton of 200 cigarettes, and from 12.350¢ to 13.975¢ per gram of tobacco for other tobacco products, yielding a total contribution of about $100M per year.

For businesses, an amendment to the deduction for Canadian-controlled private corporations (CCPCs) means that large CCPCs will no longer benefit from the 4.5% tax rate on the first $500,000 in revenue. The amounts recouped will go to public transit, transportation infrastructure, and other priority projects. The same goes for amounts garnered from the 1¢ a litre increase to the aviation fuel tax over four years, beginning in 2014.

MAJOR LONG-TERM PROJECTS

The nearly 400-page budget sums up the results of several programs instituted in recent years, and announces that some of the successful programs will be extended. Over the longer term, the budget also introduces a 10-year economic plan, largely built on a $130B investment in infrastructure. Of this, $29B will go to public transit projects, $11B will go to elementary and high school education infrastructure, and $11.4B will be dedicated to expanding or refitting hospitals. The budget also institutes a $2.5B Jobs and Prosperity Fund—to roll out over 10 years—designed to attract investment focused on innovation, productivity, and penetration of international markets; it should also stimulate job creation. An amount of $295M over two years will also be put into the Ontario Youth Jobs Strategy.

The government is also considering off-loading some assets that do not play a role in providing services, such as the province's interests in General Motors shares, and some property located on choice lots. The net income from selling these assets will help finance the building of a new generation of public infrastructure to improve the province's long-term competitiveness.

Table 1
Summary statement of transactions

	Actual	*Projections*				
In $B	**2012-2013**	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**
Total bud. revenues	**113.4**	**115.7**	**118.9**	**124.5**	**129.4**	**134.8**
- Variation (%)	3.3	2.0	2.8	4.7	3.9	4.2
Program spending	**-112.3**	**-116.4**	**-119.4**	**-120.1**	**-120.2**	**-119.4**
- Variation (%)	-0.3	3.7	2.6	0.6	0.1	-0.7
Debt charges	**-10.3**	**-10.6**	**-11.0**	**-12.0**	**-13.3**	**-14.2**
- Variation (%)	2.2	2.9	3.8	9.1	10.8	6.8
Total expense	**-122.6**	**-127.0**	**-130.4**	**-132.1**	**-133.5**	**-133.6**
- Variation (%)	-0.1	3.6	2.7	1.5	1.2	0.8
Reserve	---	---	-1.0	-1.2	-1.2	-1.2
Budgetary balance	**-9.2**	**-11.3**	**-12.5**	**-8.9**	**-5.3**	**0.0**
Net debt	**252.1**	**269.2**	**289.3**	**305.3**	**317.2**	**n/a**
- In % of GDP	37.4	38.9	40.3	40.8	40.6	39.7

n/a: unavailable
Sources: Ontario Ministry of Finances and Desjardins, Economic Studies

Table 2
Economic and financial forecasts

Variation in %	2013		2014f		2015f	
	Budget 2013	Budget 2014	Budget 2013	Budget 2014	Budget 2013	Budget 2014
Real GDP	1.5	1.3	2.3	2.1	2.4	2.5
Nominal GDP	3.0	2.7	4.1	3.5	4.2	4.4
Employment	1.2	1.4	1.4	1.1	1.5	1.5
U.S. real GDP	2.1	1.9	2.7	2.7	3.1	3.0
Canadian dollar (US¢)	98.0	97.1	99.5	90.0	100.0	91.0
Treasury bills – 3-month	1.0	1.0	1.2	1.0	1.9	1.3
Federal bonds – 10-year	2.0	2.3	2.6	2.8	3.2	3.5

f: forecasts
Source: Ontario Ministry of Finances

Another key component of this budget is the proposal to institute a mandatory pension plan, the ORPP. The idea comes from the fact that, for many Ontarians, benefits from the Old Age Security program and Canada Pension Plan will not be enough to give workers a decent retirement, given the environment of inadequate personal savings. The mandatory plan would target employees who are not participating in an employer pension plan. The program would be publicly run by an organization that is independent from the government; it would also be subject to a stringent governance model.

The numerous measures to help families and the underprivileged give us a sense that achieving fairness was one of this budget's leading priorities. Among other things, the government plans to continue with its reform of the social assistance system. As previously announced, the minimum wage will rise to $11/hour on June 1, 2014, with plans to index it to inflation. The budget also calls for an increase to the Ontario Child Benefit, which would be indexed to inflation.

DEBT WILL KEEP GROWING

Budget deficits and infrastructure investments will trigger a substantial increase in Ontario's debt load. Net debt could go from $252.1B as at March 31, 2013, to $317.2B as at March 31, 2017, for an increase of $65.1B. The net debt to GDP ratio should rise to 40.8% in 2015–2016, and then start to slide gradually. Ontario will remain one of the provinces with the biggest debt load, although Québec is a clear winner there. However, if as forecast Québec manages to get tighter control over debt in the coming years, the spread between the Québec and Ontario debt ratios could narrow substantially in future years. The Couillard government's first budget will naturally give us more information here.

GREATER PRESSURE IN THE YEARS TO COME

It had been evident that the Ontario government's financial situation would remain difficult to manage, especially for a minority government. More lacklustre economic outlooks are putting pressure on the books. Despite this unpropitious environment, the government has found a way to put forward measures that could simultaneously delight much of the population while doing as much as possible to rein in pressure on spending. On the other hand, it makes the job a little tougher for the coming years.