TD Economics

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Data Release: Ontario Government Retabled its May 1st Budget

- This afternoon, the recently elected majority Ontario Liberal government re-tabled its May 1st budget as had been anticipated following the June 12th election. Highlights from the budget are outlined below. For a more complete analysis, please see our 2014 Ontario Budget Analysis .
- The Ontario government expects to post an $11.3 billion deficit (1.6% of GDP) in fiscal 2013-14, slightly lower than the $11.7 billion shortfall projected in last year's budget. The government has raised its near-term deficit targets. Deficits of $12.5 and $8.9 billion are forecast over the next two fiscal years, respectively, some $1.5-$2.5 billion higher than shown a year ago.
- Thereafter, stronger economic growth is expected to help the Province achieve a balanced budget by fiscal 2017-18 – identical to last year's objective. The net debt-to-GDP ratio is projected to reach a high in fiscal 2015-16 at around 41%, then to edge lower beginning in fiscal 2016-17.
- With respect to the economic outlook, the budget assumes an accelerated real GDP growth profile of 2.1% (TD Economics: 2.0%) in 2014 and 2.5% in 2015 (TD Economics: 2.7%). This is very much in line with our forecast, (see our recent Canadian Provincial Economic Forecast for more details).
- A $29 billion transportation infrastructure plan, a proposal for a new Ontario pension plan, a new Jobs and Prosperity fund and support for low-income families formed the core of the budget.
- In addition to a moderately growing economy, the government's fiscal plan will rely on both significant spending restraint and higher taxes to return to balance over the next several years. Program spending growth is planned to be held to a very lean 1.1% per year on average through fiscal 2017-18. In terms of revenue initiatives, the government announced tax hikes on higher-income individuals, tobacco and aviation fuel. Sales of some public assets were also confirmed, which will provide one-time benefits to coffers.

Key Implications

- The government's path to balance will be a challenging one. As highlighted by yesterday's release of the Ontario Economic Accounts for 2014Q1, the near-term economic outlook is likely to remain relatively soft, with only a gradual pickup in the rate of growth expected on the horizon. And while we have no quibbles with the baseline economic assumptions embedded in the budget, the relatively drawn-out time frame leaves the Province vulnerable to an economic setback along the way.
- Still, the more pronounced uncertainties revolve around the government's spending targets, which are ambitious. During the election campaign, the need for restraint did not receive much attention. Observers will be looking for more details on how the government will meet its difficult spending forecasts as early as the 2014 Fall Update. In the meantime, any developments surrounding government negotiations with key public sector unions will be watched carefully.
- Credit rating agencies have taken notice of the challenging road ahead. On July 2, Moody`s changed the Province`s credit rating outlook to negative from stable though it did reaffirm its Aa2 rating.

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