

## 2024 Ontario Fall Fiscal Update: Staying the Course on Deficit Reduction

Rishi Sondhi, Economist | 416-983-8806

October 30, 2024

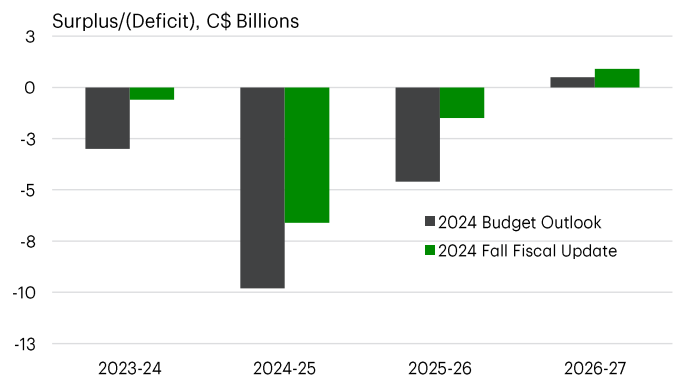
### Highlights

- In its fall fiscal update, the Ontario government maintained its path back to balance and formally announced previously-telegraphed measures (rebate cheques, extension of the gas and fuel tax cuts) that will support household incomes in the coming year. However, the road back to black ink will remain challenging, as it will require spending growth to be held at a very modest pace. Fortunately, the government is benefitting from a better starting point, with this year's deficit now pegged at \$6.6 billion, versus about \$10 billion in the spring budget.
- Net debt-to-GDP is also much improved this fiscal year, although is projected to hold near its current level over the medium term. Capital spending will upwardly pressure the ratio.
- The government expects economic growth to pick up next year. Although the federal government's plan to sharply slow population growth poses a downside risk on consumer spending, weaker immigration could incentivize more investment and could soften fiscal spending demands over the next few years.

Ahead of a potential election next year, the Ontario government is using the windfall from a surprisingly solid 2024 economic performance to roll out supports to household incomes in the province. The marquee measure is a \$200 per-person rebate cheque (billed by the government as cost-of-living relief), set to be mailed to households early in the new year. These funds should lift consumption at a time when it will likely be taking a hit from sharply slower population growth.

Ontario's deficit for this fiscal year is pegged at \$6.6 billion, marking a notable \$3.2 billion improvement from the spring budget and driven by higher-than-anticipated revenues. This shortfall represents 0.6% of GDP, which is on the low side of Ontario's historical shortfalls. Consistent with Budget 2024, the government will maintain its path back to balance, with the province projected to be in the black by FY 2026/27. The more favourable starting point for the deficit helps this projection. Meanwhile, FY 2024/25 net debt-to-GDP is tracking much better than what was anticipated in the spring, thanks to a firmer gain in nominal GDP.

Chart 1: An Easier Path Back to Balance for Ontario



Source: Ontario Fall Fiscal Update 2024, Ontario Ministry of Finance, TD Economics.

## Economic Growth to Pick Up in 2025

The government is expecting real and nominal GDP growth to pick up next year and be even stronger in 2026. These forecasts are a touch firmer than our own, implying some downside risk to revenues if we're more on the mark. In addition, uncertainty exists around the federal government's plan to significantly reduce population growth in 2025 and 2026. This could be another source of downside revenue risk. Note that Ontario could be particularly susceptible to the federal government's tightening in immigration policy, as it targets a large net outflow of non-permanent residents and the Ontario's share of these newcomers is relatively elevated. Next week's U.S. election also looms large as a wildcard for Ontario's economic outlook.

Ontario is forecasting 3.3% revenue growth this fiscal year, backed by a hefty gain in federal health transfers and a solid rise in personal income tax receipts. In contrast, sales tax revenues are expected to be flat (driven by the government's consumption forecast), while "other non-tax revenue" is poised to decline on the back of reduced fees, donations, and other revenues from broader public sector organizations.

Notably, the government will extend its gas tax and fuel cuts by another six months to June 2025, weighing on the provincial revenue intake, but offering drivers continued relief at the pumps. The government is also pledging to ban new tolls on highways and will continue its review of the property assessment and taxation system.

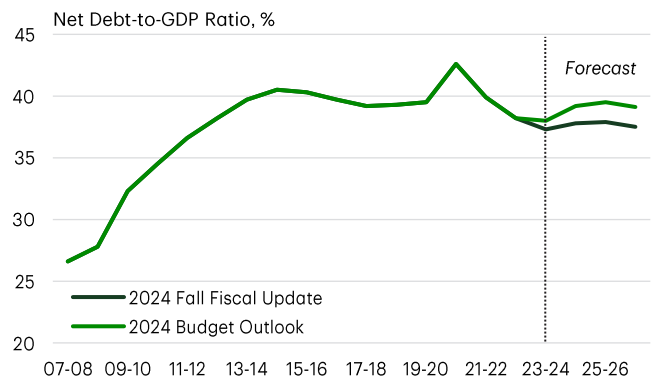
## Weak Healthcare and Education Spending This Fiscal Year

On the other side of the ledger, spending growth is forecast as 5.7% – a steeper gain than what was envisioned in the spring budget – boosted by a large increase in "other programs". This category captures items such as spending on high-speed internet infrastructure, and investments to support housing-enabling infrastructure.

Economic Forecasts					
[ Percent change unless otherwise noted ]					
Economic Forecasts	2023	2024E	2025F	2026	2027F
Real GDP	1.4	0.9	1.7	2.3	2.3
Nominal GDP	4.3	3.8	3.9	4.4	4.4

Source: 2024 Ontario Economic Outlook and Fiscal Review.

Chart 2: Some Improvement in Ontario's Debt Burden Relative to the Spring



Source: Ontario Fall Fiscal Update 2024, Ontario Ministry of Finance, TD Economics.

Health and non-post secondary education spending is seen as advancing a mere 0.8%, on average, this fiscal year while post secondary spending is slated to fall by 8%. The latter area is expected to average a gain of 3.6% over the next two fiscal years, which could capture a period of significantly reduced international student enrolments. The tuition fee freeze will be extended for at least three more years.

The rebate cheques will cost the provincial government about \$3 billion this fiscal year but we estimate that they could boost gross personal household incomes by 0.4 ppts. Given signs of some cautiousness on the part of Ontario's consumers, this bump in incomes should translate to a lower 0.2 ppt lift to real GDP growth in 2025.

Interest costs are seen as totalling \$12.7 billion this year, which is a downgrade from Budget 2024, as the province has benefitted from lower-than-anticipated interest rates. As a share of revenues, these costs are pegged at 6% this year, well below the long-run average and miles away from the threatening levels observed in the 1990s.

## Material Improvement in Net debt-to-GDP

The province is tracking a major improvement in its net debt-to-GDP. This fiscal year, it's pegged at 37.8% – nearly 1.5 ppts below what was expected in the spring budget, and well shy of the 40% sustainability threshold set by the province. If realised, this ratio would be at its lowest level since FY 2011/12.

Net debt-to-GDP is projected to hover around this level over the medium term, lifted by capital spending. Indeed, the delivery of major infrastructure projects, such as highways and hospitals, remains a major pillar of the government's fiscal update. In total, some \$30 billion in overall infrastructure expenditures have been earmarked for this fiscal year, as part of a 10-year \$191 billion infrastructure plan.

Borrowing requirements for this fiscal year are expected to total \$37.5 billion (with 84% of this requirement fulfilled so far), down from \$42.6 billion in FY 2023/24.

### Bottom Line

Outside of the rollout of some new measures to support household incomes, important elements of Ontario's fall update are consistent with the prior fiscal blueprints released this year. The government is retaining its path back to balance, while the heavy focus on infrastructure spending remains. The project-

ed improvement in this year's deficit and debt burden is both a welcome development and an important difference from the spring budget. However, Ontario's debt burden is projected to hold near its current level, which is also similar to Budget 2024.

Rebate cheques, continued tax relief at the pumps and infrastructure spending should deliver some stimulus to Ontario's economy next year. However, given the spending demands associated with an aging population, balancing the province's books by FY 2026/27 will remain a challenge, especially as it will require a very slow pace of spending gains. That said, the prospect of substantially cooler population growth in coming years could ease some of these pressures.

<b>Government of Ontario Fiscal Plan</b>				
[ C\$ Billions Unless Otherwise Noted ]				
Fiscal Year	2024 Fall Fiscal Update			
	23-24	24-25	25-26	26-27
<b>Revenues</b>	205.9	212.6	220.8	230.7
% Change	6.7	3.3	3.9	4.5
<b>Expenditures</b>	206.6	218.3	220.8	227.8
% Change	3.9	5.7	1.1	3.2
<b>Program Spending</b>	195.2	205.5	206.8	213.3
% Change	4.7	5.3	0.6	3.1
<b>Interest Charges</b>	11.4	12.7	14.0	14.5
% Change	-8.1	11.4	10.2	3.6
<b>Reserve</b>	-	1.0	1.5	2.0
<b>Budget Balance</b>	-0.6	-6.6	-1.5	0.9
% of GDP	-0.1	-0.6	-0.1	0.1
<b>Net Debt</b>	407.9	429.0	446.9	461.7
% of GDP	37.3	37.8	37.9	37.5

Note : Numbers may not add up due to rounding.  
Source: 2024 Ontario Economic Outlook and Fiscal Review.

## Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.